

»» SMEs are feeling uneasy about the new year

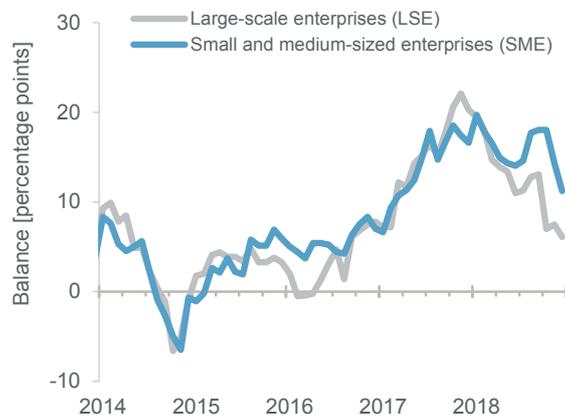
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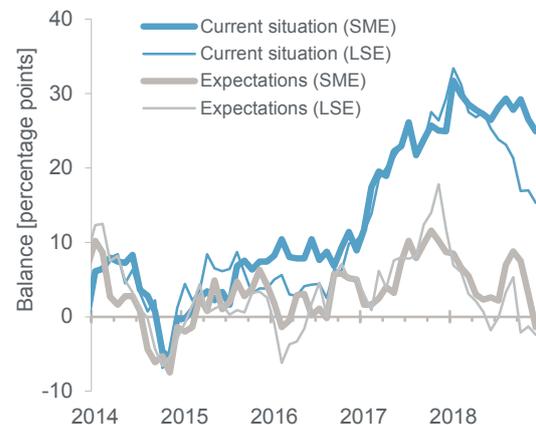
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- SME business sentiment continues downward trend
- Expectations are now below average, situation assessments remain very good despite decline
- Minor downturn in sentiment among large enterprises but construction is still booming
- Steady employment and price expectations indicate strong domestic demand

KfW-ifo business climate



KfW-ifo climate components



Source: KfW Research, ifo Institute

SME business sentiment continues downward trend

In December, SME business sentiment followed a similar trend to the previous month. Situation assessments dipped slightly from a very high level, while business expectations for the coming six months fell sharply. After a decline of 3.1 points, SME business sentiment nevertheless remained well above the average at 11.2 balance points, a level that was hardly ever achieved before the euphoric sentiment of the past two years.

- SMEs' situation assessments in particular have soared so high since the end of 2016 that they can still be regarded as excellent, at 24.9 balance points, even after the most recent correction by 1.6 points.
- Meanwhile, business expectations have dropped significantly. After a decline of 4.5 points to -1.4 balance points, for the first time in more than two years they have now dropped slightly below the long-term average, which is indicated by the zero line. This is likely a reflection of not just the prospect of cyclical normalisation but of the pervasive cyclical risks. With the possibility of the UK Parliament rejecting the Brexit deal, the yellow vests' protests in France and signs of recession in Italy,

old and new risks were present during the survey period.

Sentiment among large enterprises trending downward again

Sentiment among large enterprises resumed the downward trend that has prevailed for more than a year after a cautious recovery in the previous month. It fell by -1.4 points to 6.1 balance points owing to less favourable situation assessments (-1.7 points to 15.3 balance points) and a more pessimistic outlook on the future (-1.1 points to -2.4 balance points). Unlike in SMEs, business expectations among large enterprises, which are typically more reliant on the weakening global trade, have been below average for months already. Signs of a possible easing of the trade conflict between the US and China have not improved business expectations.

SME manufacturers are particularly sceptical

The most recent nosedive of business expectations (-6.6 points to -7.3 balance points) among small and medium-sized manufacturers has been particularly steep. They have also clearly reduced their export expectations (-5.8 points). Both indicators are now on balance in negative terrain, signalling below-average economic expectations. But

situation assessments of medium-sized manufacturers in particular remained stable on a high level (+0.4 points to 22.0 balance points) and are still close to the all-time high of January. Overall, sentiment among manufacturing SMEs dropped by 3.4 points to 6.5 balance points. A possible weakening of European sales markets in particular is likely to contribute to a loss of confidence. France, Italy and the United Kingdom are among the most important export destinations for small and medium-sized enterprises while China, which has been affected by US protectionism, is only an indirect sales market for most SMEs.

Meanwhile, what is unproblematic is the drop in business climate in what continues to be a euphoric construction sector – particularly as only sentiment among SMEs came to a halt (-1.3 points to 36.8 balance points) while large construction firms reached a new all-time high of 39.7 balance points. Small and medium-sized retailers also reported a positive trend in business sentiment (+0.6 points to 12.2 balance points). At 23.9 points, situation assessments in particular indicate a very good Christmas trading period. This is in contrast with large retailers' pessimism. Their most recent sentiment deterioration (-5.4 points to -6.5 balance points) falls into perspective, however, given their high susceptibility to fluctuations. The negative underlying sentiment has likely been affected by car dealerships, which are heavily represented in this segment and are facing problems with the sale of diesel automobiles.

Good prospects for employment and sales prices

Steady hiring plans and rising sales price expectations among enterprises of both size classes delivered positive signals on the future development of the domestic economy in December as well. Most noteworthy is the fact that even manufacturers considerably lifted their expectations for sales prices achievable on the domestic market despite more subdued business expectations.

Decent growth in 2019

At the end of the year, the KfW-ifo SME Barometer confirmed the trend of a continuously widening gap between situation assessments and expectations which has prevailed for some time now. This may signal a loss of cyclical momentum. But because recent situation assessments have often overdrawn the dynamics of the business cycle, the sober business expectations for the first half of 2019 do not necessarily mean slower GDP growth than in the previous year. It cannot be ruled out that business expectations may have been influenced by repeated downward revisions to recent economic forecasts. Stubborn cyclical risks, such as a no-deal Brexit or higher US tariffs on automobile imports from Europe, are also dragging down expectations. But if the most acute risks fail to materialise in the coming months, the German economy should continue to grow at a decent pace on the back of strong domestic demand. KfW Research expects Germany's economy to grow 1.6% in 2019. ■

KfW Research

KfW-ifo SME Barometer: December 2018

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year						m-o-m	y-o-y	3m-o-3m	
		Dec/17	Jul/18	Aug/18	Sep/18	Oct/18	Nov/18				Dec/18
Business climate											
Manufacturing	SME	18.8	12.2	12.7	14.8	11.7	9.9	6.5	-3.4	-12.3	-3.9
	LSE	23.4	9.9	11.0	11.9	5.0	5.5	2.7	-2.8	-20.7	-6.5
Construction	SME	25.2	35.9	37.3	40.5	40.2	38.1	36.8	-1.3	11.6	0.5
	LSE	28.7	32.9	37.8	35.0	38.5	35.3	39.7	4.4	11.0	2.6
Retail trade	SME	15.4	11.6	11.9	14.0	10.6	11.6	12.2	0.6	-3.2	-1.0
	LSE	12.8	-6.8	-4.8	-1.1	-13.3	-1.1	-6.5	-5.4	-19.3	-2.7
Wholesale trade	SME	19.6	10.3	11.6	11.9	10.8	9.2	7.5	-1.7	-12.1	-2.1
	LSE	16.5	7.8	13.0	10.5	7.8	5.4	7.1	1.7	-9.4	-3.7
Services	SME	14.5	12.5	17.3	16.9	17.5	14.5	9.4	-5.1	-5.1	-1.8
	LSE	20.8	19.6	18.6	20.8	15.5	13.4	14.7	1.3	-6.1	-5.1
Germany	SME	16.6	14.6	17.7	18.0	18.0	14.3	11.2	-3.1	-5.4	-2.3
	LSE	20.3	11.3	12.8	13.1	7.0	7.5	6.1	-1.4	-14.2	-5.5
Current situation	SME	24.9	28.1	29.3	27.8	29.2	26.5	24.9	-1.6	0.0	-1.5
	LSE	29.3	23.8	23.1	21.3	16.9	17.0	15.3	-1.7	-14.0	-6.3
Expectations	SME	8.7	2.2	7.0	8.8	7.5	3.1	-1.4	-4.5	-10.1	-2.9
	LSE	11.8	-0.1	3.3	5.3	-2.1	-1.3	-2.4	-1.1	-14.2	-4.8
Employment expectations	SME	12.7	12.4	12.2	12.1	11.2	9.6	9.7	0.1	-3.0	-2.1
	LSE	18.2	19.3	18.3	18.9	14.7	15.8	16.1	0.3	-2.1	-3.3
Sales price expectations	SME	11.1	14.3	14.5	13.8	13.8	14.8	15.9	1.1	4.8	0.6
	LSE	9.2	10.7	9.8	8.6	8.1	11.6	15.1	3.5	5.9	1.9
Export expectations of manufacturing	SME	5.6	3.0	2.0	2.1	0.8	4.4	-1.4	-5.8	-7.0	-1.1
	LSE	14.1	0.4	5.6	1.4	-0.7	-2.0	-1.1	0.9	-15.2	-3.7

Source: KfW Research, ifo Institute

Explanations and abbreviations:

*Seasonally and mean adjusted (long-term mean since January 2005 = 0)

S(mall and) M(edium-sized) E(nterprises).

L(arge-)Scale E(nterprises).

Change in percentage points m(onth)-o(ver)-m(onth).

Change in percentage points y(ear)-o(ver)-y(ear).

Change in percentage points 3 m(onths period)-o(ver)-3 m(onths period).

Revisions relative to previous publications may occur due to seasonal and mean adjustments as well as rounding. The KfW-ifo SME Barometer was fundamentally revised for the reporting month of April 2018 (new aggregation process, inclusion of services, start of time series now 2005 instead of 1991, consideration of sport expectations, discontinuation of regional indicators for western and eastern Germany). Publications prior to and from April 2018 are therefore comparable to a limited extent only.

Construction and interpretation of the KfW-ifo SME Barometer

The KfW-ifo SME Barometer indicator family is based on a scale-of-enterprise evaluation of the ifo economic surveys which are used to calculate, among other things, the well-known ifo Business Climate Index. Each month about 9,500 enterprises from trade and industry, construction, wholesale, retail and services (without the banking and insurance sectors or the state) are polled on their business situation, among them some 8,000 SMEs. Enterprises are generally classed as small to medium-sized if they employ a workforce of not more than 500 and record an annual turnover not exceeding EUR 50 million. For a more accurate analysis, however, these quantitative distinctions have to be drawn more narrowly for retail trade (maximum annual turnover of EUR 12.5 million), the building and the construction industry (up to 200 employees) and services (maximum annual turnover of EUR 25 million). All enterprises that exceed at least one of these thresholds are classed as large-scale enterprises. The KfW-ifo SME Barometer reports the balance of current business assessments (percentage of positive answers less percentage of negative answers), the balance of business expectations for the next six months, ascertained in a similar way, and the inferred mean average value for the business climate. Moreover, the enterprises' employment and domestic sales price expectations and – exclusively for manufacturing – export expectations are also captured as balance figures for the next three months. All time series are seasonally and mean adjusted. The zero line therefore marks the long-term 'cycle-neutral' average since January 2005. Indicators above (or below) zero point to an above average or favourable (below average or negative) business situation.