

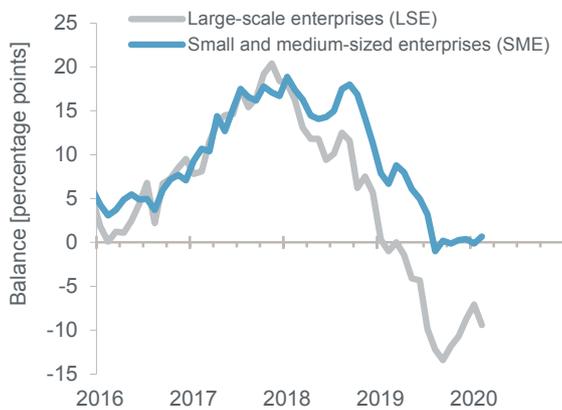
»» SME business confidence not yet affected by coronavirus in February

4 March 2020

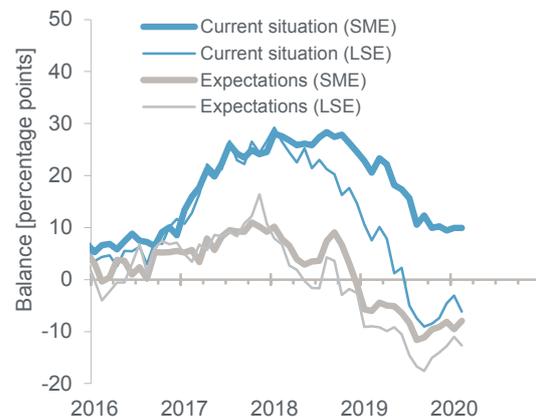
Author: Dr Philipp Scheuermeyer, phone +49 (0)69 7431-4017, philipp.scheuermeyer@kfw.de
Press contact: Christine Volk, phone +49 (0)69 7431-3867, christine.volk@kfw.de

- Improved expectations have slightly lifted SME business sentiment
- Rebound of small and medium-sized industry continues
- Large enterprises suffer setback, especially in the services segment
- Damage from coronavirus outbreak in China will hit Germany with a delay

KfW-ifo business climate



KfW-ifo climate components



Source: KfW Research, ifo Institute

SMEs are slightly more optimistic

SME business sentiment rose again moderately in February, after dipping in the previous month. Rising 0.8 points to 0.7 balance points, it continues to hug the zero line which signals average economic performance. The driver behind the improved sentiment was a rise in expectations:

- Business expectations for the next six months increased by 1.6 points to -7.9 balance points, resuming the moderate upward trend that started in September.
- Business situation assessments, by contrast, are unchanged at 9.9 balance points. The negative trend of the past months flattened on what remains a considerably high level.

Large companies' upward trend interrupted

Large enterprises have suffered a setback after their sentiment was in a clear upward trend from October to January. Their business confidence dropped by -2.3 points to -9.4 balance points. Situation assessments in particular deteriorated (-3.1 points to -6.2 balance points), and so did business expectations, which were already pessimistic anyway (-1.7 points to -12.7 balance points). One reason the

upward trend was interrupted was probably the outbreak of the coronavirus in China, which is currently affecting primarily the sales and supply chains of large industrial firms. Their business climate dropped in February as a result of lower situation assessments. The most recent decline by -0.3 points keeps it on a well below-average level. Besides, large industrial enterprises' export expectations dropped further (-2.3 points to -11.1 balance points). Large service providers, however, reported an even sharper drop in sentiment of -5.3 points. Having fallen by -3.7 balance points, their business climate is much better than that of large manufacturers (-16.4 balance points), but it is still below average. Sentiment among large enterprises in the remaining sectors – construction, retail and wholesale – developed slightly positive. Large enterprises' employment expectations dropped sharply (-4.1 points to -8.9 balance points).

Rebound of small and medium-sized industry continues

Small and medium-sized manufacturers present a completely different picture. Their business sentiment rose noticeably – by 3.7 points to -7.9 balance points – and even accelerated the upward trend since January. This is due to their clearly less pessimistic business expectations. Besides, SMEs' export expectations continue on a path of moderate recovery

KfW Research KfW-ifo SME Barometer: February 2020

(+0.5 points to -9.1 balance points). The wholesale sector, which is closely intertwined with manufacturing, is moving practically sideways, down -0.1 points.

Domestic sectors paint a mixed picture

Small and medium-sized enterprises in the more or less domestically oriented sectors exhibited a mixed picture in February. Sentiment in the building and civil engineering industry dropped for the third consecutive month and is now on a downward trend (-1.4 points to 18.9 balance points). Down from an extremely high starting level, the normalisation of sentiment is mostly driven by expectations and no cause for concern, especially since there are no signs of an abrupt end to the construction boom yet. In contrast to large service providers, the sentiment of small and medium-sized service providers experienced only a moderate drop in February (-0.7 points) and is thus gradually dipping to an average level. Retailers, on the other hand, recorded a moderate increase (+0.6 points to 10.0 balance points), maintaining the above-average confidence level around which they hovered already throughout all of last year. Continuing employment growth and significant rises in real wages have so far been reliable pillars of consumption momentum.

Coronavirus: SMEs are robust but not immune

Vast segments of the Chinese economy have practically stood still since the end of January as a result of drastic measures aimed at containing the coronavirus outbreak. Restrictions have been imposed on public life, significantly limiting consumption. As the virus is increasingly spreading in other countries as well, such as South Korea, and within Europe, particularly in Italy, negative effects on the German economy are foreseeable. A slump in demand is to be expected, as well as shortfalls in deliveries from Chinese suppliers which produce inputs for production in Germany. Last year China was not only the third most important

destination for German exports (7% of exports; 2.8% relative to GDP) but, above all, the main country of origin of German imports (10% of imports; 3.2% relative to GDP). So there was uneasiness about how the coronavirus outbreak would influence sentiment in German enterprises. But in the current KfW-ifo SME Barometer for February, small and medium-sized enterprises still appear to be unconcerned. A coronavirus effect has begun to emerge only among large enterprises. After the slight easing of trade tensions, their sentiment was pointing upward since October, but that trend has now been broken. Stockpiles can likely still be used to cushion any blow, and supplies from China usually spend several weeks at sea anyway, so a lagged impact must be expected that will not be felt until March. SMEs focus more strongly on the German and European internal market, and that makes them less susceptible to global developments. But SMEs are not immune either, especially if the virus should bring Italy's economy to its knees. As the virus outbreak can be expected to prolong Germany's industrial recession, it also threatens indirect contagion effects through business relations with large enterprises. Furthermore, the now clearly negative employment expectations of large enterprises illustrate the threat of impacts on the labour market. Overall, however, further employment growth should nevertheless be expected, which also underscores the relatively stable employment expectations of small and medium-sized enterprises. Experience shows that once an economic shock such as the coronavirus outbreak has subsided, it is followed by a recovery that will make up for at least part of the preceding growth shortfall. We currently expect to see a significant increase in quarterly growth rates in the second half of the year.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year						m-o-m	y-o-y	3m-o-3m	
		Feb/19	Sep/19	Okt/19	Nov/19	Dez/19	Jan/20				Feb/20
Business climate											
Manufacturing	SME	1.3	-13.3	-14.4	-13.3	-13.6	-11.6	-7.9	3.7	-9.2	2.6
	LSE	-4.9	-20.7	-19.5	-20.7	-17.9	-16.1	-16.4	-0.3	-11.5	3.5
Construction	SME	24.8	29.2	28.1	28.7	24.7	20.3	18.9	-1.4	-5.9	-7.4
	LSE	23.7	24.6	19.5	14.4	18.7	15.4	18.3	2.9	-5.4	-2.0
Retail trade	SME	10.5	9.6	8.3	11.9	12.3	9.4	10.0	0.6	-0.5	0.6
	LSE	-5.6	0.1	-2.4	-4.2	-5.0	-3.1	-1.9	1.2	3.7	-1.2
Wholesale trade	SME	2.2	-10.2	-9.1	-9.0	-10.4	-6.9	-7.0	-0.1	-9.2	1.3
	LSE	-1.2	-15.8	-14.0	-9.2	-10.5	-6.5	-5.0	1.5	-3.8	5.7
Services	SME	4.7	4.3	2.9	2.8	4.9	1.6	0.9	-0.7	-3.8	-0.9
	LSE	7.2	-6.2	-4.5	-1.1	0.2	1.6	-3.7	-5.3	-10.9	3.3
Germany	SME	6.7	0.2	-0.1	0.3	0.4	-0.1	0.7	0.8	-6.0	0.2
	LSE	-1.0	-13.4	-11.8	-10.7	-8.7	-7.1	-9.4	-2.3	-8.4	3.6
Current situation	SME	20.5	12.3	9.9	10.2	9.4	9.9	9.9	0.0	-10.6	-1.1
	LSE	7.5	-9.1	-8.5	-7.4	-4.6	-3.1	-6.2	-3.1	-13.7	3.7
Expectations	SME	-6.0	-11.1	-9.6	-9.1	-8.1	-9.5	-7.9	1.6	-1.9	1.4
	LSE	-9.0	-17.6	-15.1	-14.0	-12.8	-11.0	-12.7	-1.7	-3.7	3.4
Employment expectations	SME	8.3	1.0	0.8	3.5	1.7	1.9	1.3	-0.6	-7.0	-0.1
	LSE	9.1	-2.9	-2.2	-2.1	-4.5	-4.8	-8.9	-4.1	-18.0	-3.7
Sales price expectations	SME	8.7	0.8	2.9	3.1	4.6	8.4	4.8	-3.6	-3.9	3.7
	LSE	7.1	-0.6	-0.5	1.8	2.7	3.0	1.2	-1.8	-5.9	2.1
Export expectations of manufacturing	SME	-3.1	-14.2	-13.0	-11.0	-10.1	-9.6	-9.1	0.5	-6.0	3.1
	LSE	-0.2	-19.8	-12.1	-10.0	-4.7	-8.8	-11.1	-2.3	-10.9	5.8

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 export 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 9,000 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 7,500 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.