

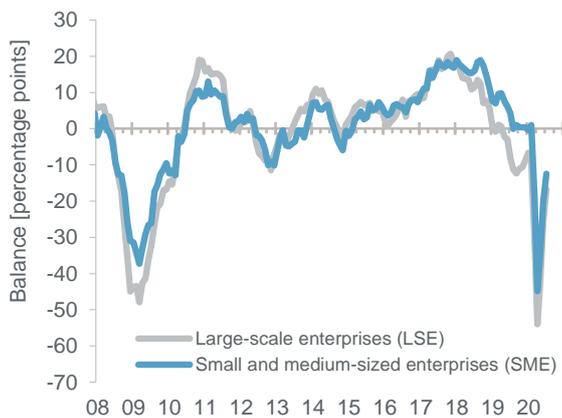
»» SMEs are recovering – everything else depends on how the pandemic evolves

6 August 2020

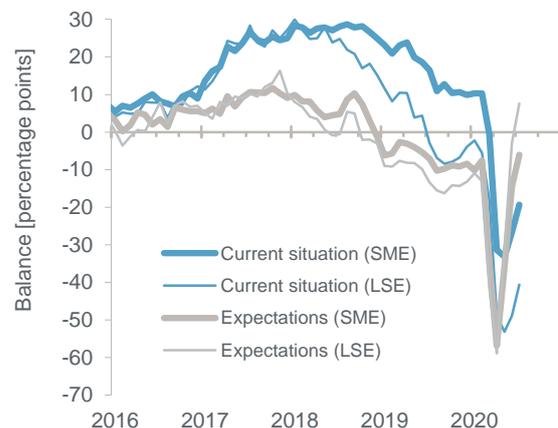
Author: Dr Philipp Scheuermeyer, phone: +49 69 7431-4017, philipp.scheuermeyer@kfw.de
Press contact: Christine Volk, phone +49 69 7431-3867, christine.volk@kfw.de

- SME business confidence continues to brighten, but at a slightly slower pace.
- Situation assessments and expectations have clearly increased.
- Large enterprises have high hopes for improvement.
- The summer quarter is off to a good start. Everything else depends on how the pandemic plays out.

KfW-ifo business climate



KfW-ifo climate components



Source: KfW Research, ifo Institute

SMEs have rebooted successfully

SME business sentiment improved for the third consecutive month in July, rising 7.9 points to -12.5 balance points. This shows that small and medium-sized enterprises were quite successful in relaunching their businesses after the containment of the first wave of infections. They started the summer quarter on a robust path of recovery, if at a slightly slower pace. What is particularly encouraging is that situation assessments also improved. But the road to pre-crisis levels will be a long one:

- Situation assessments improved for only the second time, rising 7.3 points to -19.3 balance points. That was still almost 30 points less than in February. Nevertheless, it was a relatively strong rebound: Compared with the last major recession, situation assessments dropped more steeply during the coronavirus crisis, but so far they have recovered again much more quickly. After the low of March 2009 during the global financial crisis, a clear trend reversal did not start until August.
- Relying on hope, business expectations have already risen to higher levels than situation assessments. In July they

increased by 8.4 points to -6.1 balance points. It is important to note, however, that expectations for the next six months are assessed in relation to the current situation. That means brighter expectations must be seen in light of the poor starting position. A slim majority of businesses is not yet convinced that the coming half year will see an improvement. Nonetheless, after plunging into the abyss in April, the rapid increase in expectations is a success.

For large enterprises, things can only get better

For the most part, large enterprises' expectations are already positive, rising by 10.5 points to now 7.6 balance points. Still, they need to be seen against the background of their particularly low starting levels. Despite a sharp rise by 8.3 points in July, situation assessments remain twice as low as in the SME sector, at -40.6 balance points. Large manufacturing firms in particular have an extremely negative view of their business situation, at -71 balance points. The only reason overall sentiment is still a comparatively moderate -27.3 balance points is because, all the same, they have significantly more hope that things will get better, with expectations sitting at 23.6 points. Correspondingly, export expectations of large manufacturers have also brightened very noticeably

KfW Research

KfW-ifo SME Barometer: July 2020

(+15.7 points to 10.3 balance points), which is also probably due to the surprisingly fast economic recovery in China.

Manufacturing remains a worry

Manufacturing is currently the real problem child, even among SMEs. Situation assessments are at -35.8 balance points, significantly poorer than in all other economic sectors. Besides, the previous low point in the crisis was not reached until June. With now roughly neutral expectations for the future, however, business confidence in July rose by 10.3 points overall to -18.4 balance points. As was expected, small and medium-sized construction and civil engineering firms got through the crisis relatively unscathed. Sentiment here is already slightly above average again, which probably has to do with a high order volume and a stable outlook for residential construction. Retail is experiencing a particularly strong upturn in sentiment. The temporary value-added tax reduction introduced in July appears to have a significant effect on small and medium-sized retailers in particular. Their situation assessments have returned to pre-crisis levels, and business confidence is now back to an above-average +8.2 balance points. However, when the value-added tax rate is lifted again next year, retailers will have to factor in a reversal. Accordingly, their business expectations for the next

six months are moderately negative. Sentiment in the services sector is also on an upward trend but, at -15.6 balance points, remains even much lower than in the retail sector. The two sectors appear to have been hit by the crisis with very different levels of intensity.

Headwinds are gathering strength

So far, SME business confidence exhibits a sharp V-shaped rebound. After the low of April, sentiment recovered relatively quickly. The fact that the deep slump did not lead to broad depressed sentiment is also thanks to the decisive public health and economic policy response. Many small and medium-sized enterprises were able to ride out the lockdown with grants and assistance loans. Furthermore, the brighter sentiment is not driven by expectations alone. Situation assessments have also improved since June, moving away from the historic slump in the first half to a path of strong growth in the summer quarter. But the headwinds are building. Continuing high global infection rates are hurting export-oriented manufacturing in particular. Given the enormous uncertainty and crisis-induced losses, many businesses will spread out or defer their investment plans. The recent rise in new infections in Germany also poses a risk to almost all sectors.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year						m-o-m	y-o-y	3m-o-3m	
		Jul/19	Feb/20	Mrz/20	Apr/20	Mai/20	Jun/20				Jul/20
Business climate											
Manufacturing	SME	-9.5	-7.0	-21.0	-46.6	-41.0	-28.7	-18.4	10.3	-8.9	-4.5
	LSE	-21.4	-15.1	-34.9	-60.5	-51.0	-38.9	-27.3	11.6	-5.9	-2.2
Construction	SME	30.2	18.5	12.4	-9.1	-3.5	1.7	6.5	4.8	-23.7	-5.7
	LSE	25.6	18.9	4.2	-24.5	-20.1	-18.2	-9.9	8.3	-35.5	-15.6
Retail trade	SME	11.1	10.5	-12.7	-43.9	-22.3	-1.3	8.2	9.5	-2.9	10.2
	LSE	-1.5	-1.0	-24.7	-53.2	-28.1	-13.9	-10.8	3.1	-9.3	8.7
Wholesale trade	SME	-3.4	-6.0	-28.3	-56.5	-37.1	-29.8	-15.9	13.9	-12.5	2.7
	LSE	-15.9	-4.3	-28.7	-46.2	-31.1	-23.8	-13.7	10.1	2.2	3.5
Services	SME	5.6	1.7	-24.0	-52.9	-38.3	-23.2	-15.6	7.6	-21.2	-0.6
	LSE	3.3	-2.7	-28.9	-46.5	-38.1	-18.5	-10.1	8.4	-13.4	3.8
Germany	SME	4.2	1.0	-18.7	-44.9	-34.5	-20.4	-12.5	7.9	-16.7	-1.6
	LSE	-8.3	-9.3	-30.6	-54.1	-42.0	-26.2	-16.8	9.4	-8.5	3.0
Current situation	SME	16.5	10.3	-0.6	-31.3	-33.1	-26.6	-19.3	7.3	-35.8	-19.1
	LSE	-2.9	-5.5	-18.2	-48.8	-53.1	-48.9	-40.6	8.3	-37.7	-23.4
Expectations	SME	-7.1	-7.6	-34.6	-56.9	-35.8	-14.5	-6.1	8.4	1.0	14.2
	LSE	-13.4	-13.1	-41.5	-58.9	-31.3	-2.9	7.6	10.5	21.0	29.0
Employment expectations	SME	3.6	1.4	-8.2	-24.5	-17.2	-11.1	-8.5	2.6	-12.1	-1.8
	LSE	-2.8	-8.5	-15.0	-27.2	-26.3	-19.5	-18.9	0.6	-16.1	-4.7
Sales price expectations	SME	2.9	4.4	-4.3	-13.9	-12.1	-8.6	-4.1	4.5	-7.0	-3.7
	LSE	-0.3	1.1	-5.4	-15.9	-15.5	-12.3	-9.2	3.1	-8.9	-5.6
Export expectations of manufacturing	SME	-10.7	-8.3	-25.5	-57.6	-41.4	-20.6	-15.8	4.8	-5.1	4.5
	LSE	-15.9	-13.5	-32.0	-61.1	-29.5	-5.4	10.3	15.7	26.2	27.3

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.