

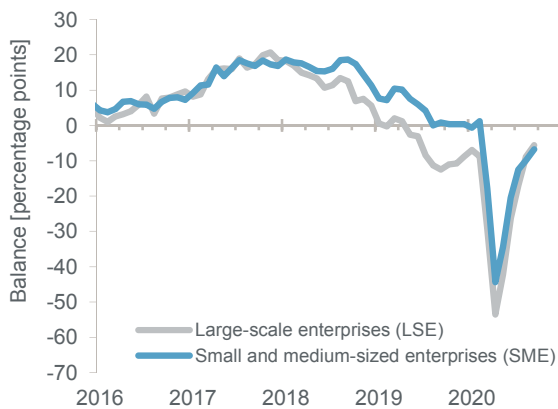
»» SME business confidence has risen again

1 October 2020

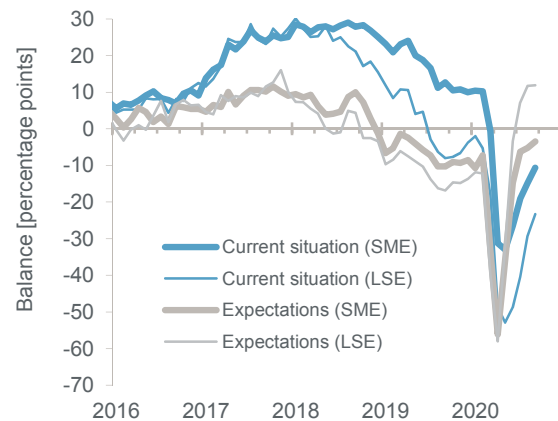
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- SME business climate has improved for the fifth consecutive month
- Situation assessments are much more positive but expectations only marginally higher
- Sentiment in large enterprises improved at a similar rate
- Rise in new infections poses a growing obstacle for further economic recovery

KfW-ifo business climate



KfW-ifo climate components



Source: KfW Research, ifo Institute

SME business sentiment shows signs of calming down

A second wave of new coronavirus infections is building up in Europe and already taking on alarming proportions in some neighbouring countries, jeopardising the economic recovery. Against this backdrop, the fifth rise in the business climate indicator for Germany's SMEs is sending out reassuring signals – even though it has some way to go to reach pre-crisis levels. The most recent improvement by 3.1 points to -6.8 balance points is being driven by the two sub-components of the business climate indicator, if to varying degrees:

- Business expectations rose by a moderate 1.8 points to -3.4 balance points. So despite the improvement, the outlook for the coming six months remains below the zero line, which represents the long-term average. That is understandable, as the easy part of the recovery with initially strong but now clearly fading catch-up growth after the end of the lockdown is over.
- Business situation assessments continued the clear upward trend of previous months and improved by 4.2 points to -10.6 balance points. On average from July to September, they rose by an historically unprecedented 15.4 points on the previous period, underscoring the prospects for record growth in the third quarter.

Sentiment among large enterprises is on a 15-month high

In the large enterprise sector, sentiment in September climbed at a similar rate as in the SME sector, rising by 3.2 points to -5.6 balance points. Large enterprises have thus secured the slight lead in business confidence they have had on SMEs since the previous month, after a long period of significantly lower sentiment levels. Already before the coronavirus crisis struck, large, internationally operating enterprises were clearly feeling the effects of the tensions in global trade relations which were mainly triggered by the US, as well as other uncertainties such as Brexit. As the mood among large enterprises has been very subdued for a long time, the most recent rise has now been enough to lift their business sentiment not just above the pre-crisis level but to the highest level in the past 15 months. But this is exclusively due to now notably optimistic expectations, which improved by 0.2 points to 11.9 balance points, while situation assessments remain a good 20 points lower than at the start of the year before the coronavirus crisis – despite a further noticeable increase of 5.9 points to now -23.3 balance points. So while the reference level for expectations thus remains modest, higher expectations also mean an increased risk of disappointment.

Manufacturing is climbing out of the trough

Hope for a strong recovery from a very low level – such is the basic pattern that is particularly visible in the manufacturing sector and, in part, also among wholesalers, which are the sectors that are very closely integrated into international trade and transboundary value chains. The economic recovery especially in China, an important trading partner, should have a positive impact on them. The sentiment improvement in the wholesale sector is particularly pronounced among large enterprises (+9.7 points to -5.1 balance points). Manufacturing, which has been far behind in recent months, is working its way out of the trough. Manufacturing SMEs reported a strong 6.0-point rise in business confidence to -10.7 balance points, large manufacturers also posted a similar increase (+5.6 points to -10.0 balance points), accompanied by a significant improvement in export expectations. Manufacturing has thus relegated small and medium-sized service providers, where sentiment improvements have nearly come to a standstill at now -11.4 balance points (+0.9 points since August), to last place. That is surely a very clear reflection of the fear of rising new infections. After all, the very heterogeneous services sector comprises many enterprises of the already reeling segments such as hospitality and entertainment, particularly small businesses, which would be severely affected by renewed restrictions, at least on the regional level. Sentiment among SME retailers (-0.1 points to 8.3 balance points) and, above all, construction (+4.7 points to 13.0 balance points) has remained above average and better than in other sectors.

The difficult part of the recovery has begun

The current KfW-ifo SME Barometer highlights the continuing rise in confidence levels in September, which is good news that should allay the biggest fears of an economic setback. Nevertheless, the renewed, considerable increase in the number of new coronavirus infections is becoming a growing obstacle for the economy as the cold season begins. It can still be overcome but the difficult phase of the recovery has begun. The health response and economic support measures must now focus on ensuring that the economic rebound will still continue at a satisfactory pace even after the foreseeable record growth of gross domestic product in the third quarter. To a large extent, the German population itself holds the key to preventing renewed large-scale lockdowns by being sensible and considerate and by consistently complying with infection-control regulations. What is raising growing concerns, however, is the spread of infections in many other important countries around the globe – particularly with a view to the German export industry and its focus on cyclical capital goods. The fact is that uncertainty remains extremely high and is weighing on business investment in Germany and abroad. Overall, we expect Germany's gross domestic product to contract by around 6% in all of 2020, as a result of the historic slump in the first two quarters, and to expand by some 5% next year. It will take until the end of 2021 to return to the pre-crisis level of the final quarter of 2019. The most serious threat to the economy remains a severe second wave of infections. Other risks that also need to be monitored, however, are the possibility of a hard Brexit at the end of this year and the US trade conflicts.

KfW Research

KfW-ifo SME Barometer: September 2020

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Sep/19	Apr/20	May/20	Jun/20	Jul/20	Aug/20	Sep/20			
Business climate											
Manufacturing	SME	-14.0	-45.9	-40.3	-28.1	-18.1	-16.7	-10.7	6.0	3.3	22.9
	LSE	-21.4	-59.7	-50.3	-38.5	-25.3	-15.6	-10.0	5.6	11.4	32.5
Construction	SME	27.5	-8.9	-3.4	2.3	6.3	8.3	13.0	4.7	-14.5	12.5
	LSE	22.8	-23.6	-19.3	-16.6	-10.1	-10.4	-5.7	4.7	-28.5	11.1
Retail trade	SME	8.3	-43.4	-21.7	-1.1	8.7	8.4	8.3	-0.1	0.0	30.5
	LSE	-0.6	-53.0	-27.1	-13.2	-8.2	8.5	-2.1	-10.6	-1.5	30.5
Wholesale trade	SME	-10.2	-55.6	-37.3	-28.3	-15.6	-11.7	-10.3	1.4	-0.1	27.9
	LSE	-16.2	-47.1	-30.4	-22.7	-13.0	-14.8	-5.1	9.7	11.1	22.4
Services	SME	5.1	-52.9	-38.2	-23.1	-15.6	-12.3	-11.4	0.9	-16.5	25.0
	LSE	-5.5	-46.4	-38.0	-18.3	-10.0	-2.5	-2.5	0.0	3.0	29.2
Germany	SME	0.8	-44.4	-34.4	-20.5	-12.5	-9.9	-6.8	3.1	-7.6	23.4
	LSE	-12.5	-53.5	-42.2	-26.3	-16.9	-8.8	-5.6	3.2	6.9	30.2
Current situation	SME	12.7	-31.2	-33.0	-26.5	-19.1	-14.8	-10.6	4.2	-23.3	15.4
	LSE	-8.0	-48.6	-52.9	-48.7	-40.4	-29.2	-23.3	5.9	-15.3	19.1
Expectations	SME	-10.2	-56.1	-35.9	-14.8	-6.2	-5.2	-3.4	1.8	6.8	30.7
	LSE	-16.8	-58.0	-32.0	-3.4	7.2	11.7	11.9	0.2	28.7	41.4
Employment expectations	SME	1.2	-24.3	-16.9	-10.8	-8.5	-5.5	-2.0	3.5	-3.2	12.0
	LSE	-2.7	-26.9	-26.1	-19.2	-18.3	-12.8	-10.8	2.0	-8.1	10.1
Sales price expectations	SME	1.6	-13.6	-12.0	-8.5	-3.9	-2.9	-2.4	0.5	-4.0	8.3
	LSE	0.4	-15.7	-15.4	-12.2	-8.9	-4.9	-2.7	2.2	-3.1	8.9
Export expectations of manufacturing	SME	-14.2	-56.9	-40.7	-19.9	-15.2	-14.7	-9.4	5.3	4.8	26.1
	LSE	-19.2	-60.1	-30.2	-4.5	11.9	5.2	11.8	6.6	31.0	41.2

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.