

Lockdown 2.0 is hitting SMEs harder than large enterprises

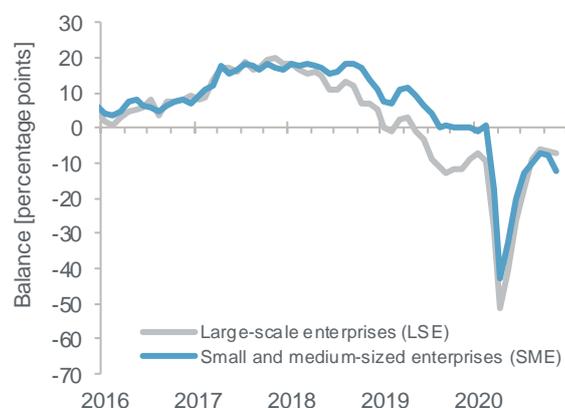
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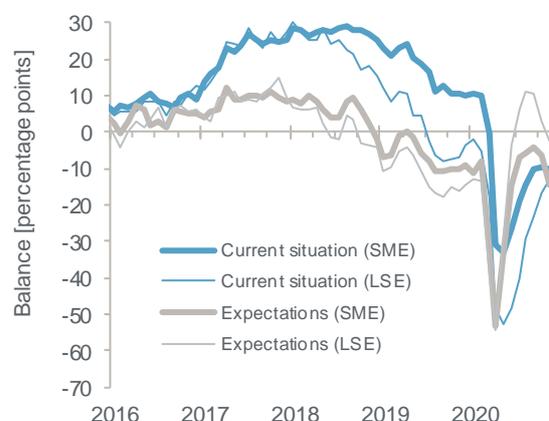
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- SME sentiment has clearly deteriorated with the second lockdown, although much less than in the spring.
- Business expectations have fallen significantly but situation assessments remain relatively steady.
- Sentiment in the large enterprise segment is mainly sustained by the manufacturing sector.
- German economy is set to shrink by around 1% in the present quarter.

KfW-ifo business climate



KfW-ifo climate components



Source: KfW Research, ifo Institute

SME sentiment has clearly deteriorated

The second wave of infections and the partial lockdown in Germany are leaving a deep imprint on small and medium-size enterprises. The SME business climate fell by 4.5 points to -12.2 balance points in November, dropping sharply but still moderately compared to the loss of 18 and 25 points in March and April:

- Situation assessments in particular remained relatively stable. After rising for five consecutive months, they fell by only a moderate 0.8 points despite the lockdown. At -10.3 balance points, situation assessments remain on a level well above the low point of -32.8 points in May. This shows that while the lockdown has almost completely shut down activity in some sectors, most businesses can continue operating relatively well.
- Business expectations in the SME sector, by contrast, fell by a notable 8.0 points to -14.2 balance points. The prospects of a hard winter obviously dominate the positive

news on successful vaccine development. As this question refers to the expectations for the next six months, the light at the end of the tunnel – unlike the stock market – plays only a secondary role here, since it will likely be the second quarter of 2021 before a vaccine contributes significantly to containing the pandemic.

Situation assessments of large enterprises have improved again

As was already the case in the previous month, large enterprises' situation assessments and expectations moved in opposite directions. While situation assessments rose by 3.6 points, expectations fell by 5.1 points. On balance, overall business sentiment changed only little (-0.8 points to -7.4 balance points). The stability, however, is sustained solely by large manufacturing (+3.3 points) and construction firms (+1.2 points). In retail and wholesale (-4.8 and -6.4 points) and service enterprises (-6.7 points) sentiment deteriorated considerably.

Services and now retail too are in a tailspin

Service enterprises are currently the most pessimistic in both size classes. After all, this group – which includes hospitality, entertainment, the arts, sport and most personal services – comprises those industries that have been directly affected by lockdowns since the beginning of November. Small and medium-sized enterprises in particular are likely to represent a large share of the critical industries, which is why a noticeable drop in confidence by 8.5 points to -21.9 balance points is hardly surprising. Small and medium-sized retailers, however, also reported a significant drop in confidence, after navigating on a steady path to recovery up to the previous month. Situation assessments (-13.5 points) and business expectations (-11.4 points) both plummeted in November, leading to a deterioration in sentiment by 12.4 points. High infection rates and official stay-at-home advice are clearly preventing more people from going to the shops. Mobility data show that around 30 to 50% fewer people than usual went to Germany's downtown areas in November. It is therefore rather surprising that the situation assessments in the retail sector remain on an above-average level of 13.5 balance points. This is probably due for the most part to online trade, substitution purchases for other recreational activities and the temporary value-added tax reduction. With a view to the capacity restrictions not yet introduced but perhaps already foreseeable from December and the approaching increase in value added tax from January, it is easy to see that the outlook for the next six months is deteriorating.

Manufacturing – a beacon of hope

Meanwhile, manufacturing firms are the most stable segment in the SME sector (-0.2 points to -8.5 balance points). The

upturn in sentiment that began in May experienced a damper solely from expectations, while situation assessments still improved noticeably. This shows that unlike in the spring, there are currently no significant disruptions to supply chains. Besides, the larger, typically more export-oriented manufacturers are also likely to be benefiting particularly from the strong recovery underway in China. The high catch-up potential after the particularly deep slump in the spring is also playing a role for the current momentum of the business situation of small, medium-sized and large manufacturing firms. However, export expectations are deteriorating rapidly, which is likely a consequence of the lockdown restrictions all across Europe and, increasingly, in many states of the US. The high catch-up rate is also likely to wane in the manufacturing sector in the course of the winter, so that the slump in many service industries can be only partly offset.

Light at the end of the tunnel

As a result of the second wave of infections in Germany and the partial lockdown that was recently extended until at least 20 December, the German economy will likely contract by around 1% this quarter. The current KfW-ifo SME Barometer shows that small and medium-sized enterprises in particular anticipate setbacks, even though these will be less dramatic than in the spring and vary considerably from one industry to another. In the short term, unfortunately, a relatively sweeping ban on business activities with high risk of infection is inevitable. Thus, the announced extension of the November assistance for businesses affected by officially mandated closures is also justified. Fortunately, over the medium term, the successes in vaccine development mean there is much light at the end of the tunnel.

KfW Research

KfW-ifo SME Barometer: November 2020

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year						m-o-m	y-o-y	3m-o-3m	
		Nov/19	Jun/20	Jul/20	Aug/20	Sep/20	Oct/20				Nov/20
Business climate											
Manufacturing	SME	-14.0	-27.7	-17.7	-16.1	-11.0	-8.3	-8.5	-0.2	5.5	11.2
	LSE	-21.5	-37.4	-24.5	-15.5	-11.0	-5.9	-2.6	3.3	18.9	19.3
Construction	SME	27.6	2.5	6.3	8.2	13.3	9.5	8.6	-0.9	-19.0	4.8
	LSE	14.8	-16.4	-10.0	-10.2	-5.6	-8.4	-7.2	1.2	-22.0	5.1
Retail trade	SME	11.3	-0.6	8.7	7.6	8.1	10.5	-1.9	-12.4	-13.2	0.3
	LSE	-4.0	-12.5	-8.6	8.3	-2.3	-3.4	-8.2	-4.8	-4.2	-0.4
Wholesale trade	SME	-9.1	-27.6	-15.1	-11.9	-10.3	-9.4	-10.0	-0.6	-0.9	8.3
	LSE	-9.6	-22.4	-12.8	-14.5	-3.9	-1.6	-8.0	-6.4	1.6	12.1
Services	SME	3.6	-23.1	-15.5	-12.3	-11.4	-13.4	-21.9	-8.5	-25.5	1.4
	LSE	-0.7	-18.3	-10.0	-2.5	-2.4	-6.7	-13.4	-6.7	-12.7	2.8
Germany	SME	-0.1	-20.4	-12.8	-10.0	-7.1	-7.7	-12.2	-4.5	-12.1	5.4
	LSE	-11.5	-26.2	-17.3	-8.9	-6.1	-6.6	-7.4	-0.8	4.1	10.8
Current situation	SME	10.8	-26.4	-19.0	-14.7	-10.4	-9.5	-10.3	-0.8	-21.1	10.0
	LSE	-6.9	-48.5	-40.2	-29.1	-23.1	-16.6	-13.0	3.6	-6.1	21.7
Expectations	SME	-10.1	-14.7	-7.0	-5.6	-4.1	-6.2	-14.2	-8.0	-4.1	0.9
	LSE	-16.1	-3.6	6.2	11.2	10.7	2.7	-2.4	-5.1	13.7	-0.9
Employment expectations	SME	3.0	-10.5	-8.2	-5.3	-2.2	-2.2	-4.2	-2.0	-7.2	5.1
	LSE	-2.0	-18.8	-17.8	-12.9	-10.7	-8.4	-8.2	0.2	-6.2	7.4
Sales price expectations	SME	2.8	-8.4	-4.4	-3.2	-2.5	-2.8	-2.3	0.5	-5.1	2.8
	LSE	1.8	-12.0	-9.4	-5.2	-2.9	-1.3	-3.2	-1.9	-5.0	6.4
Export expectations of manufacturing	SME	-11.6	-19.5	-15.1	-14.7	-9.5	-11.4	-15.9	-4.5	-4.3	4.2
	LSE	-11.8	-5.6	12.0	5.1	10.6	7.0	-6.2	-13.2	5.6	0.0

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.