

## »» SME business confidence was steady before the lockdown

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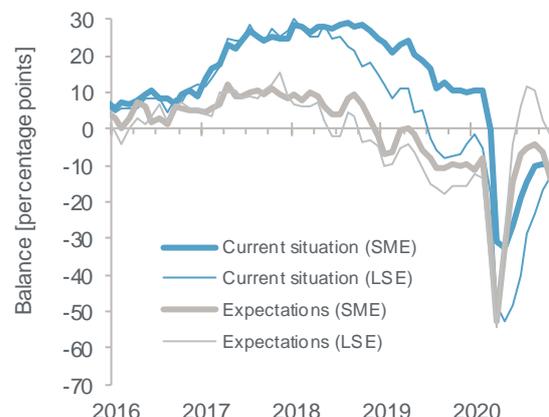
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- SME business confidence rose in December, but most responses had been returned before the hard lockdown began.
- While expectations inched upward only slightly, situation assessments improved noticeably.
- Sentiment among large enterprises improved even more strongly, exhibiting much improved situation assessments and expectations.
- The German economy looks to have contracted only slightly in the final quarter. However, a renewed slump in economic output in the first quarter of the new year is becoming increasingly likely as a result of the worsened pandemic situation.

KfW-ifo business climate



KfW-ifo climate components



Source: KfW Research, ifo Institute

### SME business sentiment has recovered slightly

In the first half of December, SMEs were still relatively unimpressed by rising new infections and the resulting debate about a tougher lockdown. SME business sentiment rose 1.4 points to -10.6 balance points. However, the closure of child daycare centres, schools and many stationary retail shops, which went into effect on 16 December until at least 10 January, was not yet specifically known when most of the responses were returned.

- Assessments of the current business situation, in particular, are improving. After rising by 2.5 points, situation assessments are now at -7.8 balance points. That increase more than offset the minor drop in November.
- But SMEs' expectations are increasing only minimally (+0.4 points to -13.7 balance points). The positive outlook for an easing of the situation in the medium term through

the deployment of effective vaccines is likely being neutralised by an increasingly dismal view of the coming months.

### Large enterprises have clearly become more confident

The mood among large enterprises increasingly diverged from that of SMEs. With a clear increase of 4.7 points to -2.4 balance points, business sentiment moved closer to the zero line, which stands for the long-term average. Situation assessments and expectations both rose sharply. What is particularly remarkable is that confidence is not only continuing to improve in manufacturing (+3.8 points) but also rising again noticeably among large service providers after the setback in November (+5.7 points). Most of this rise has likely come from business-related services such as transport and logistics companies, while sectors affected by the 'lockdown light' such as hospitality have no reason to breathe a sigh of relief. The clear sentiment improvement among

wholesalers also has to do with their links to manufacturers.

### **Recovery continues in SME manufacturing**

In the small and medium-sized enterprise sector it was again manufacturing which improved most in December. Business confidence here improved by 3.3 points, and export expectations also rose substantially. The upturn in manufacturing is proving to be very robust, having likely received additional impetus in December from the cautious easing of lockdown restrictions at some European trading partners. But it was particularly the high backlog of orders and demand from outside Europe that have supported the upturn in manufacturing for some months now.

### **Retailers are still surprisingly optimistic**

Besides service providers, which improved moderately in the SME segment as well, the rise in business confidence among retail businesses was particularly surprising in December (+2.6 points to 1.2 balance points). Among SME retailers, that increase was driven by a clear improvement in business situation assessments, while expectations dimmed. However, the end of the survey period on 17 December was clearly too early to take account of the impact of the hard lockdown since 16 December. Real-time data show, however, that with the exception of a brief rise immediately prior to the entry into force of the lockdown, foot traffic had already dropped significantly in Germany's inner cities since November. The steady sentiment in the retail sector therefore must be attributable to a booming business among online and mail

order retailers or in supermarkets already before the hard lockdown. Traditional high street shops, on the other hand, were already struggling before the 'lockdown light'.

### **A snapshot**

In the final analysis, the current KfW-ifo SME Barometer is merely a snapshot of the first half of December, which points to a generally robust economy so far. Strong growth in manufacturing was probably the main factor that largely stabilised GDP in the final quarter. In the second half of December, economic output is then likely to have dropped significantly, especially as a result of business closures, but also because some businesses extended their company holidays. However, as many enterprises were already closing for the Christmas holiday period, the losses for the economy from a 'rampdown' until early January will be moderate. The situation would become more critical, however, if the measures turned out to be insufficient, forcing an extension of the hard lockdown well into the month of January. However, strong economic downward risks will emerge only if, for example, the mutated variant of the virus were to make additional containment measures necessary and industrial output and construction activity were to decline as a consequence. Still, there remains good reason to hope for broad deployment of highly effective vaccines and the experience of last summer's rapid recovery. Even if the economy should now face a sharper contraction in winter, an even stronger catching-up movement should then be expected from spring.

# KfW Research

## KfW-ifo SME Barometer: December 2020

### KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year						m-o-m	y-o-y	3m-o-3m	
		Dez/19	Jul/20	Aug/20	Sep/20	Okt/20	Nov/20				Dez/20
<b>Business climate</b>											
Manufacturing	SME	-15.5	-17.4	-15.8	-10.9	-8.4	-7.9	-4.6	3.3	10.9	7.7
	LSE	-20.0	-24.3	-15.1	-10.6	-6.6	-2.6	1.2	3.8	21.2	14.0
Construction	SME	23.8	6.2	8.2	13.2	9.0	8.4	7.7	-0.7	-16.1	-0.8
	LSE	18.4	-9.8	-10.2	-5.9	-8.7	-7.6	-7.4	0.2	-25.8	0.7
Retail trade	SME	10.6	9.0	7.8	7.6	9.4	-1.4	1.2	2.6	-9.4	-5.1
	LSE	-4.7	-8.4	8.6	-2.2	-3.9	-8.6	-5.9	2.7	-1.2	-5.5
Wholesale trade	SME	-12.4	-14.6	-11.5	-9.9	-9.5	-10.6	-8.3	2.3	4.1	2.5
	LSE	-12.3	-12.7	-14.6	-3.9	-2.3	-7.2	-3.0	4.2	9.3	6.2
Services	SME	5.6	-15.4	-12.2	-11.3	-13.3	-21.8	-20.3	1.5	-25.9	-5.5
	LSE	0.3	-9.9	-2.5	-2.3	-6.6	-13.4	-7.7	5.7	-8.0	-4.3
<b>Germany</b>	<b>SME</b>	<b>-0.1</b>	<b>-12.8</b>	<b>-9.8</b>	<b>-7.0</b>	<b>-7.5</b>	<b>-12.0</b>	<b>-10.6</b>	<b>1.4</b>	<b>-10.5</b>	<b>-0.2</b>
	<b>LSE</b>	<b>-9.9</b>	<b>-17.2</b>	<b>-8.8</b>	<b>-5.9</b>	<b>-6.8</b>	<b>-7.1</b>	<b>-2.4</b>	<b>4.7</b>	<b>7.5</b>	<b>5.2</b>
Current situation	SME	9.8	-19.0	-14.7	-10.4	-9.4	-10.3	-7.8	2.5	-17.6	5.5
	LSE	-4.1	-40.1	-28.9	-23.0	-16.4	-12.9	-8.7	4.2	-4.6	18.0
Expectations	SME	-9.5	-7.0	-5.5	-4.1	-6.1	-14.1	-13.7	0.4	-4.2	-5.8
	LSE	-15.3	6.2	11.5	10.9	2.3	-1.9	3.5	5.4	18.8	-8.2
<b>Employment expectations</b>	SME	1.3	-8.1	-5.2	-2.1	-2.5	-4.1	-3.8	0.3	-5.1	1.7
	LSE	-4.5	-17.5	-12.8	-10.8	-8.6	-8.5	-8.6	-0.1	-4.1	5.1
<b>Sales price expectations</b>	SME	3.7	-4.1	-3.3	-2.8	-2.8	-2.2	-0.5	1.7	-4.2	1.6
	LSE	1.6	-9.0	-5.2	-2.9	-1.4	-3.1	2.3	5.4	0.7	5.0
<b>Export expectations of manufacturing</b>	SME	-11.5	-14.6	-14.4	-9.4	-11.6	-15.7	-11.8	3.9	-0.3	-0.2
	LSE	-5.5	12.2	4.9	9.8	5.5	-4.5	-2.8	1.7	2.7	-9.6

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.