

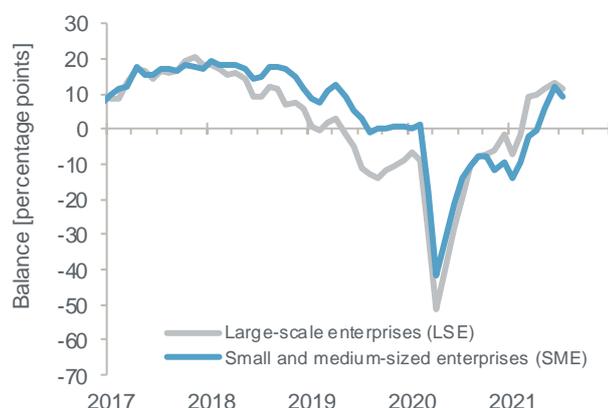
## Positive business situation but renewed concern about the pandemic among SMEs

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- Business sentiment among SMEs falls in July
- Clearly less optimism but slight improvement in the business situation
- Concerns about the pandemic dampen sentiment among service providers
- Virus mutations remain a risk but across-the-board shutdowns unlikely

### KfW-ifo business climate



### KfW-ifo climate components



Source: KfW Research, ifo Institute

### Sentiment among SMEs declines

For a long time, business sentiment among small and medium-sized enterprises (SMEs) knew only one direction – up. This has now suffered a setback and has fallen for the first time since January. The reasons for the drop of 2.6 points (to 9.5 balance points) are primarily concerns about the rapid spread of the Delta variant and the surge in the rate of new infections. Business sentiment among small and medium-sized enterprises is declining solely due to expectations, while the assessment of the business situation is showing a moderate improvement.

- The situation assessment has risen for the sixth time in a row. At +0.6 points, the change is now naturally markedly smaller than in the previous two months, when the lifting of the corona restrictions put some businesses on a steep upward trajectory. At 11.2 points, the situation assessment is well above the long-term zero-line average but far behind past record values (29.6 in August 2018).
- At the same time, the SMEs have scaled back their business expectations for the next six-month period by a

considerable 5.6 points. With a balance of 7.6 points, optimism still has the upper hand but the euphoria from the previous month has evaporated.

### Large enterprises also less optimistic

Among large companies too, waning optimism (-4.6 points) has caused business sentiment to fall slightly by -1.2 points, while the situation assessment has shown an improvement (+2.6 points). At a level of 11.7 points, business sentiment is nevertheless clearly above average. The manufacturing industry, with a score of 27.0 points, exudes great business confidence and also records an improvement over the previous month (+2.1 points). This may well be linked to higher export expectations (+3.3 points). In contrast, business sentiment is easing at large retail enterprises and service providers.

### Service providers in particular are concerned

Looking at the development of the SME business climate in the various sectors of the economy, it is noticeable that the recent deterioration in sentiment is primarily attributable to service companies. Here, business expectations have seen a

## KfW Research

### KfW-ifo SME Barometer: July 2021

sharp drop (-7.8 points), while the situation assessment has improved marginally (+0.7) following a surge in the previous month. As this large segment covers many business sectors that have been especially hard hit by the containment measures in the past, for example the hospitality sector and the travel and leisure industries, concerns about the renewed and rapid increases in new infections in Germany and many other European countries are probably the major cause of weakening business confidence. Retail firms in the SME segment are evidently more relaxed about this. They are once again looking to the future with greater optimism and reporting improvements in their already positive business situation. In the wholesale segment too, business sentiment is on the up, although improvement here is limited to the situation assessment.

Apart from the pandemic, the shortage of materials is currently the other major problem hampering economic growth. This is affecting the manufacturing and construction industries most of all. The SMEs in these areas nevertheless reported renewed improvement in their business situation in July and business sentiment also showed a moderate rise of 1.0 points (manufacturing) and 0.3 points (construction). On the other hand, business expectations, which are weakening in the manufacturing sector in particular, are sending out a negative signal. Sales price expectations among SMEs, which rose to an all-time high in the previous month due to shortages and strong demand, have eased back in July.

#### **Recovery likely to continue**

All in all, the results of the KfW-ifo SME Barometer indicate that the positive business situation for SMEs is set to continue but with business expectations less optimistic than in the previous month. The newly increasing incidence rates in particular are causing concern among service providers, as it is still not clear how policymakers are going to react. With the consistent use of vaccinations, tests and masks, across-the-board closings of shops, hotels and restaurants should now be avoidable. The rate at which businesses continue to open up is likely to slow and the waves of infection in other countries as well as lost working time due to quarantine regulations could further exacerbate supply bottlenecks. Material bottlenecks have been plaguing the manufacturing sector since the beginning of the year and industrial production has tended to fall. However, overflowing order books are evidently more important for the situation assessment, which is why it is extremely difficult to draw conclusions about immediate production developments based on trends in business sentiment. Supply bottlenecks are likely to continue to be an inhibiting factor in the current quarter. But the openings that have already taken place in the service sector in combination with the pent-up demand among consumers will probably be sufficient for solid growth. How things pan out in autumn depends in particular on the progress made on the vaccination front in the coming months.

### KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Jul 2020	Feb 2021	Mar 2021	Apr 2021	May 2021	Jun 2021	Jul 2021			
<b>Business climate</b>											
Manufacturing	SME	-16.7	0.1	6.9	10.1	12.4	17.0	18.0	1.0	34.7	10.1
	LSE	-23.1	10.7	19.4	19.9	21.3	24.9	27.0	2.1	50.1	7.7
Construction	SME	5.5	3.8	8.9	7.7	10.3	11.6	11.9	0.3	6.4	4.5
	LSE	-9.4	-6.0	0.4	-1.4	1.8	1.2	4.8	3.6	14.2	4.9
Retail trade	SME	7.1	-23.1	-8.3	-2.8	5.3	17.3	18.1	0.8	11.0	25.0
	LSE	-8.4	-27.4	-7.2	-5.1	-0.2	8.0	5.5	-2.5	13.9	17.7
Wholesale trade	SME	-14.4	-13.0	-0.8	3.1	11.7	13.8	15.2	1.4	29.6	17.1
	LSE	-11.9	-0.5	4.3	10.0	15.0	15.8	17.1	1.3	29.0	11.4
Services	SME	-16.0	-19.8	-11.8	-14.1	-2.4	8.6	5.1	-3.5	21.1	19.0
	LSE	-14.2	-12.8	-2.5	-2.8	4.7	4.5	2.9	-1.6	17.1	10.1
<b>Germany</b>	<b>SME</b>	<b>-13.9</b>	<b>-9.7</b>	<b>-1.9</b>	<b>-0.4</b>	<b>5.7</b>	<b>12.1</b>	<b>9.5</b>	<b>-2.6</b>	<b>23.4</b>	<b>13.1</b>
	<b>LSE</b>	<b>-19.5</b>	<b>-1.4</b>	<b>9.2</b>	<b>9.7</b>	<b>11.6</b>	<b>12.9</b>	<b>11.7</b>	<b>-1.2</b>	<b>31.2</b>	<b>6.2</b>
Current situation	SME	-20.0	-11.4	-5.3	-3.8	-0.1	10.6	11.2	0.6	31.2	14.1
	LSE	-42.1	-8.9	-1.6	5.6	10.8	14.6	17.2	2.6	59.3	15.8
Expectations	SME	-8.2	-8.4	1.1	2.7	11.1	13.2	7.6	-5.6	15.8	12.2
	LSE	3.7	5.5	19.5	13.3	12.1	11.1	6.5	-4.6	2.8	-2.9
<b>Employment expectations</b>	SME	-8.3	-4.3	1.2	3.6	8.1	14.3	11.7	-2.6	20.0	11.2
	LSE	-18.6	-7.0	-1.2	-0.2	3.8	8.1	12.3	4.2	30.9	10.9
<b>Sales price expectations</b>	SME	-4.7	1.2	9.6	15.4	23.8	30.3	29.3	-1.0	34.0	19.1
	LSE	-9.3	0.8	9.3	14.8	21.0	27.7	28.8	1.1	38.1	17.5
<b>Export expectations of manufacturing</b>	SME	-13.6	-1.8	4.4	7.2	9.5	13.4	10.6	-2.8	24.2	7.9
	LSE	10.8	4.2	22.3	18.9	13.2	13.3	16.6	3.3	5.8	-0.8

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.