

»» SME business sentiment is stabilising, but supply bottlenecks remain a problem

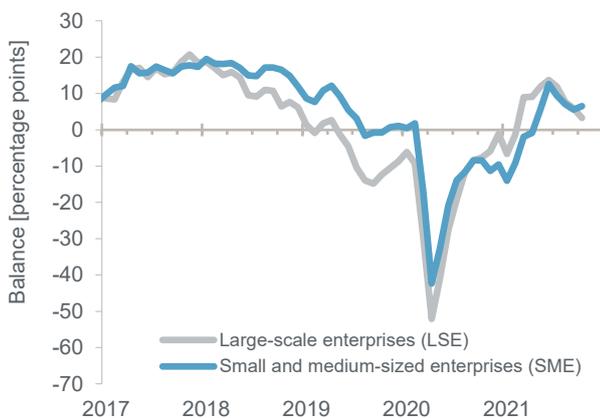
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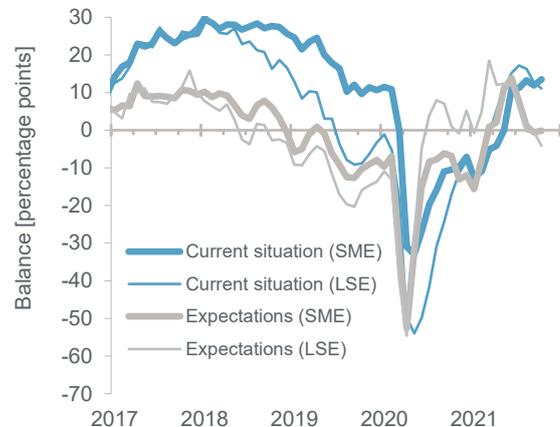
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- After dropping over the past three months, SME business sentiment improved again slightly in October
- Situation assessments and expectations increased marginally
- Among large enterprises, however, confidence continued to slip unabated
- The downward trend has stopped but supply bottlenecks remain a problem

KfW-ifo business climate



KfW-ifo climate components



Source: KfW Research, ifo Institute

SME business sentiment has improved slightly

After dropping over the past three months, SME business sentiment broke its downward trend to improve again slightly in October. It rose by 1.0 points to 6.6 balance points as a result of improved situation assessments as well as slightly more optimistic expectations:

- Business situation assessments improved by 1.6 points to 13.5 balance points. Thus, after a minor setback in the previous month, they are back on the same high level as in August. Despite all problems such as widespread material shortages and rising infection rates, small and medium-sized enterprises are satisfied with their business situation at an above-average level.
- By contrast, expectations for the next six months have already come closer to the zero line, which represents the long-term average level, since mid-summer. They recently improved marginally by 0.4 points to now -0.1 balance points.

Large enterprises remain on a downward trend

Sentiment among large enterprises, however, was much worse than among SMEs, dipping noticeably by 2.7 points. Their situation assessments deteriorated somewhat (-1.6 points) but their expectations in particular became clearly more pessimistic (-3.7 points). This is partly the result of a continued downward trend in sentiment among large manufacturers. But sentiment in the wholesale and retail sector darkened considerably as well. Material shortages and supply bottlenecks, which are disrupting not just manufacturing but downstream sectors of the economy as well, are likely the main reason.

SME manufacturers are showing resilience

A more positive picture emerged from SME manufacturers at the beginning of the autumn quarter. Although a survey by KfW Research revealed that nearly 80% of small and medium-sized enterprises were affected by material shortages or supply bottlenecks in September and energy prices have been rising fast since late summer, they regard their

KfW Research

KfW-ifo SME Barometer: October 2021

business situation as better than average.¹ Besides, situation assessments are now improving again, after a setback in the previous month. Business expectations are no longer buoyed by the euphoria of early summer, to be sure, but the decline in October was so moderate that overall business sentiment rose by 1.0 points overall. Export expectations for the next three months, however, nosedived. One reason for this could be the decline in demand from China, which is now grappling with a dual burden from a real estate crisis and an energy crisis. But supply bottlenecks are also likely affecting export expectations.

However, supply bottlenecks are not just disrupting the manufacturing sector. According to the ifo Institute, 74% of all retailers have been lamenting procurement problems already since September. But the consequences still appear to be very critical primarily for large retailers, whose business climate is now deep in the red. However, the mood among small and medium-sized retailers also dropped in October for the fourth consecutive month, this time by -1.6 points. But it is mainly in the wholesale sector that supply problems appear to have worsened significantly, with SMEs and large enterprises equally reporting a sharp drop in sentiment.

Once again, only in the small and medium-sized construction sector does sentiment appear to be immune to all problems, with their already well above-average business confidence rising by another 1.2 points. The good mood is likely to have been boosted not just by a slightly improved supply situation in this area (with only 36% of construction firms lamenting material shortages in September after 50% in June, according to an ifo Institute survey) but, above all, by high sales price expectations. At 44.6 balance points, price expectations in the construction and civil engineering sector are at multiples of the levels achieved in all previous years.

It is natural for business activity in the sector of other services to be largely independent of inputs. At the beginning of autumn, sentiment among SME service providers stagnated on a level roughly in line with the long-term average. But most survey questionnaires were likely received before the sharp rise in new infections that began in the second half of October.

Bright spots in the SME sector

The generally steady SME business sentiment is bringing a small ray of hope to the otherwise rather dim economic outlook at the beginning of the autumn quarter. But the rapid rise in new infections since the end of October shows that the pandemic is not over in Germany either. As the cold season begins, people are moving indoors again, so some are likely to stay away from contact-intensive services as they pose a higher risk of infection. Besides, the familiar material shortages and high energy prices, which have been rising rapidly since late summer in particular, are affecting SMEs to a similar degree as large enterprises. After moving sideways on a high level, SMEs' sales price expectations also rose strongly again in October (+5.5 points). Passing the cost pressure on to consumers is generally good for companies' earnings, to be sure, but consumers may have to deal with continuing increases in rates of inflation for the time being. According to the supplementary survey we conducted in September, only very few SMEs expect a resolution of the bottlenecks before the end of the year. But otherwise, the expected time horizons are just as mixed as the bottlenecks themselves. However, even if shortages of materials and inputs will most likely remain the limiting production factor for some time yet, any improvement in the supply situation can generate growth. After a dip in economic activity in the winter half-year, we expect a new growth surge in the course of 2022 as soon as the supply-side disruptions subside.

¹ Cf. Abel-Koch, J. (2021): Supply bottlenecks are significantly impacting all areas of the SME sector, Focus on Economics No. 351, KfW Research.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year									
		Oct 2020	May 2021	Jun 2021	Jul 2021	Aug 2021	Sep 2021	Oct 2021	m-o-m	y-o-y	3m-o-3m
Business climate											
Manufacturing	SME	-9.0	12.3	16.2	16.4	14.1	7.7	8.7	1.0	17.7	-4.8
	LSE	-5.2	21.0	23.8	24.2	16.4	12.3	9.4	-2.9	14.6	-10.3
Construction	SME	7.4	10.4	11.5	12.4	13.6	18.1	19.3	1.2	11.9	5.6
	LSE	-8.7	1.8	1.2	5.1	9.8	10.0	12.4	2.4	21.1	8.0
Retail trade	SME	8.5	6.4	15.9	14.5	7.3	6.9	5.3	-1.6	-3.2	-5.8
	LSE	-2.8	0.4	7.8	3.1	0.5	-8.6	-14.1	-5.5	-11.3	-11.2
Wholesale trade	SME	-10.6	12.1	13.7	13.8	9.9	8.3	2.1	-6.2	12.7	-6.4
	LSE	-3.2	14.8	15.0	14.7	7.9	6.4	0.8	-5.6	4.0	-9.8
Services	SME	-13.8	-2.4	8.9	5.2	2.1	3.2	3.2	0.0	17.0	-1.1
	LSE	-11.0	4.9	4.9	2.9	3.5	2.4	3.3	0.9	14.3	-1.2
Germany	SME	-8.4	5.7	12.6	9.5	7.1	5.6	6.6	1.0	15.0	-2.8
	LSE	-7.7	11.8	13.7	11.8	7.6	5.9	3.2	-2.7	10.9	-6.9
Current situation	SME	-10.5	0.0	11.0	11.2	13.3	11.9	13.5	1.6	24.0	5.5
	LSE	-16.9	11.1	15.2	17.2	16.3	12.7	11.1	-1.6	28.0	-1.1
Expectations	SME	-6.8	11.1	13.8	7.5	1.1	-0.5	-0.1	0.4	6.7	-10.6
	LSE	1.0	12.4	12.1	6.6	-0.3	-0.4	-4.1	-3.7	-5.1	-12.0
Employment expectations	SME	-3.1	8.0	14.0	11.2	12.1	12.3	12.8	0.5	15.9	1.3
	LSE	-8.6	3.6	7.8	12.0	11.4	13.9	13.4	-0.5	22.0	5.1
Sales price expectations	SME	-4.3	23.3	29.7	28.8	29.1	28.2	33.7	5.5	38.0	3.1
	LSE	-3.3	20.4	27.3	28.3	32.0	29.6	32.6	3.0	35.9	6.1
Export expectations of manufacturing	SME	-11.1	9.4	12.6	9.3	6.6	5.9	-0.1	-6.0	11.0	-6.3
	LSE	4.0	13.6	12.0	15.4	5.3	14.6	6.6	-8.0	2.6	-4.8

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.