

»»» SME business sentiment is in freefall

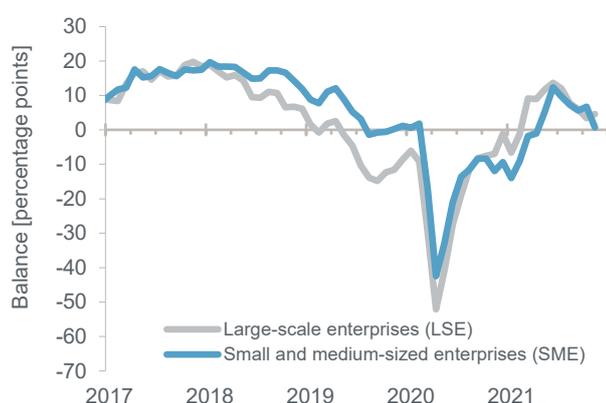
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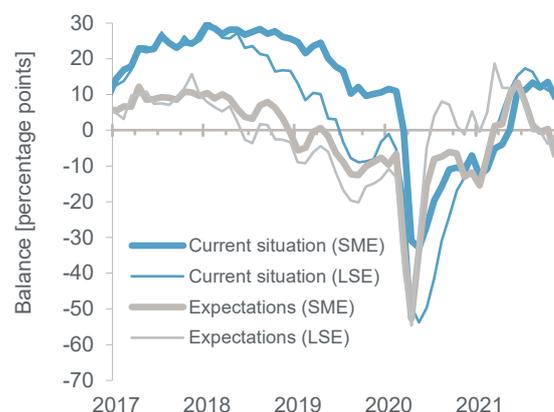
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- SME business sentiment deteriorated significantly in November
- Business expectations nosedived, situation assessments were much weaker than in the previous month
- Large enterprises have become slightly more confident
- Economic output is set to contract slightly in the current quarter

KfW-ifo business climate



KfW-ifo climate components



Source: KfW Research, ifo Institute

SME business confidence has dropped noticeably

Business sentiment in the SME sector took a sharp tumble in November. It fell by 6 points on October and is now a mere 0.8 balance points above the long-term average. While concern over the pandemic is weighing on the services segment and many retailers, manufacturers are bemoaning persistent supply bottlenecks:

- Situation assessments were steady in positive territory for a long time despite some adversities but have now fallen substantially (-4.4 points). At now 9.1 balance points, situation assessments are still better than the long-term average, which is represented by the zero line.
- Business expectations, on the other hand, have trended downward already since mid-summer. Dropping by 7.3 points to -7 balance points, six-month expectations have now entered pessimistic territory.

Downward trend in large enterprises has stopped

Business sentiment among large companies, on the other hand, improved slightly. Their situation assessments also dipped somewhat but expectations improved. However, they were also slightly more pessimistic than SMEs already in October.

Services and retailers particularly pessimistic

In light of the rapidly rising infection rates in the first half of November, a downturn in confidence levels was foreseeable particularly in segments that were heavily affected by the pandemic situation. Sentiment fell most sharply in the segment of SME service businesses which includes, among others, hospitality and the events industry. After an 8.4-point decline, business sentiment here is now slightly below average again, at -5.1 balance points. Situation assessments and expectations are both weighing on sentiment. SME retailers experienced a similar downturn, with business sentiment falling by 6 points to -1.3 balance points. What is remarkable here, however, is that despite worsening in November, current business situation assessments remain above average. Some retailers are likely to benefit from excess savings accumulated during the last lockdown, which are bolstering consumption and cushioning the impact of high energy prices. But stationary retailers fear turnover losses in the months ahead owing to restrictions known as '3G' (vaccinated, recovered or tested) or '2G' (vaccinated or recovered). Even higher turnover losses have to be feared, however, if customers stay home out of fear of breakthrough infections or if another lockdown is imposed. In addition to the pandemic situation, retailers are increasingly being plagued by supply problems. Around 78% of retailers who

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responded to the ifo Institute survey now deplored that not all requested goods can be delivered. Retailers' price expectations are also rising as a result of supply bottlenecks, reaching a new all-time high in November. Specifically, according to the ifo Institute, more than two thirds of retailers plan to raise prices in the next three months. Price expectations have reached a new record high across all sectors. Manufacturing has already been disrupted by material shortages throughout the year and that has also increasingly depressed business sentiment since the summer. Business confidence among SME manufacturers fell again very noticeably. After dropping by 6.1 points in November it is now merely on an average level. Construction and civil engineering is now the only sector where confidence remains good. Amid a continuing excellent business situation, expectations were the only reason for falling sentiment in November.

Omicron: an uncertain risk

The current KfW-ifo SME Barometer reflects a considerable downturn in business confidence. It was foreseeable that the rapidly rising infection rates during the survey period would weigh significantly on sentiment. Business activity obviously continues to be heavily disrupted by supply problems. Given the shortages, many small and medium-sized enterprises of all sectors are planning to increase their prices as never before and increasingly in consumer-oriented segments such as retail. Owing to the critical pandemic situation and

persistent supply bottlenecks, economic output is set to drop slightly or at best stagnate during the current quarter. Looking ahead, what matters most is how dangerous the newly detected Omicron variant turns out to be. Seven-day incidence levels are trending slightly downward, to be sure, and the measures adopted by the most recent conference between the federal and state governments have hit most service sectors much less hard than the broad lockdowns last year. Should Omicron indeed be significantly more contagious than Delta and cause more severe illness even among vaccinated persons, a renewed broad shutdown in many services sectors would have to be expected. Global supply problems could intensify even if the new variant proves to be more contagious but less likely to cause severe illness. As China will probably continue its zero-COVID policy in this case as well, there is a risk of new closures of production facilities or logistics hubs in that country. German policymakers are powerless in that regard. But so long as vaccines continue to provide protection against severe disease progression, which currently appears to be the case, a vaccine mandate for all adults could prevent overcrowded intensive care units and repeated setbacks for many businesses in the long term.

KfW Research

KfW-ifo SME Barometer: November 2021

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Nov 2020	Jun 2021	Jul 2021	Aug 2021	Sep 2021	Oct 2021	Nov 2021			
Business climate											
Manufacturing	SME	-7.8	16.3	16.3	13.8	7.8	8.0	1.9	-6.1	9.7	-9.6
	LSE	-3.3	23.7	23.6	15.9	12.8	8.8	9.5	0.7	12.8	-10.7
Construction	SME	7.4	11.5	12.4	13.5	17.6	19.1	18.0	-1.1	10.6	5.8
	LSE	-8.1	1.0	4.9	9.7	10.3	12.6	16.0	3.4	24.1	7.8
Retail trade	SME	-3.1	16.0	15.1	7.3	6.5	4.7	-1.3	-6.0	1.8	-9.5
	LSE	-10.8	7.9	3.5	0.6	-8.3	-13.4	-10.0	3.4	0.8	-14.6
Wholesale trade	SME	-11.1	13.4	13.6	9.9	8.4	2.3	-1.6	-3.9	9.5	-9.3
	LSE	-9.2	15.0	14.8	7.9	6.4	1.1	-0.4	-1.5	8.8	-10.2
Services	SME	-21.5	8.9	5.2	2.1	3.3	3.3	-5.1	-8.4	16.4	-4.9
	LSE	-15.7	5.0	3.0	3.6	2.5	3.4	-1.8	-5.2	13.9	-2.5
Germany	SME	-11.9	12.4	9.7	7.3	5.7	6.8	0.8	-6.0	12.7	-5.4
	LSE	-7.0	13.7	12.0	7.7	6.0	3.4	4.6	1.2	11.6	-6.5
Current situation	SME	-11.0	11.0	11.2	13.3	11.9	13.5	9.1	-4.4	20.1	-0.3
	LSE	-13.3	15.3	17.3	16.3	12.7	11.2	10.8	-0.4	24.1	-4.7
Expectations	SME	-13.0	13.4	7.9	1.4	-0.5	0.3	-7.0	-7.3	6.0	-10.0
	LSE	-1.2	12.0	6.9	-0.2	-0.3	-3.8	-1.4	2.4	-0.2	-8.1
Employment expectations	SME	-4.6	14.0	11.2	12.1	12.1	12.6	11.4	-1.2	16.0	-0.4
	LSE	-9.2	7.9	12.0	11.4	13.8	13.0	12.6	-0.4	21.8	2.7
Sales price expectations	SME	-3.3	29.3	28.8	28.9	28.2	33.7	37.7	4.0	41.0	4.2
	LSE	-4.7	27.0	28.2	31.8	29.4	32.8	37.3	4.5	42.0	4.2
Export expectations of manufacturing	SME	-16.6	12.8	9.3	6.6	5.8	-0.1	0.4	0.5	17.0	-7.5
	LSE	-5.4	12.5	15.3	5.4	14.4	6.6	8.6	2.0	14.0	-1.2

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.