

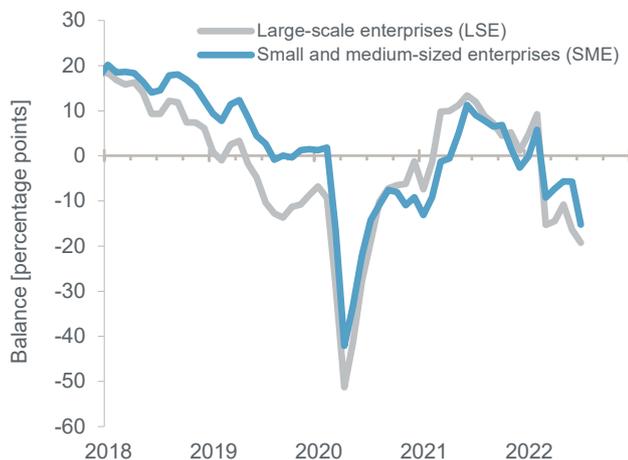
»» Serious recession concerns among SMEs

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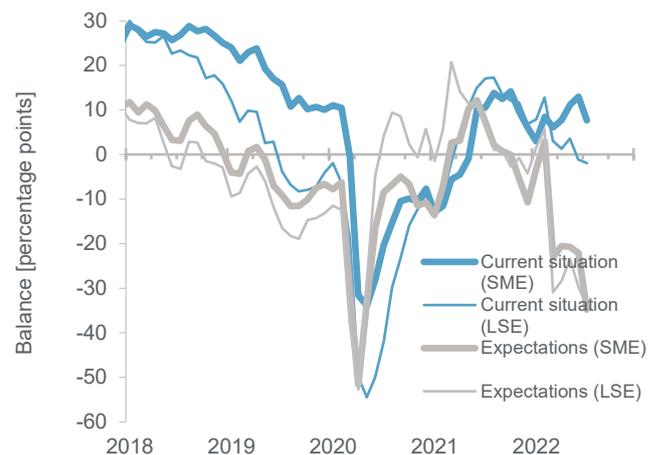
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- Fear of halt to gas supplies causes SME business confidence to plunge.
- Situation assessments have edged down, expectations have dropped further.
- Confidence has deteriorated further in large enterprises.
- A recession is becoming increasingly more likely.

KfW ifo Business Climate Index



KfW ifo sentiment components



Source: KfW Research, ifo Institute

SME business sentiment is nosediving

After a brief phase of stabilisation, SME business confidence took another dive at the start of the summer quarter. In July it plunged 9.5 points to -15.3 balance points, a variation nearly four times the usual monthly rate. The already very pessimistic business expectations continued to fall and situation assessments also deteriorated markedly.

- Six-month business expectations, which have been very pessimistic since the start of the war, fell by another 12.7 points, and at -34.8 per cent overall have reached a negative level previously seen only before major recessions. Above all, fears of a lengthy suspension of gas supplies due to maintenance work on the Nord Stream 1 pipeline are likely to have unsettled many firms at the time of the survey.
- The current business situation has so far been assessed rather positively despite all adversities. However, in July assessments also fell steeply by 5.3 points. At +7.6 balance points, they nevertheless still hovered over the zero line, which marks the long-term average.

Sentiment is down broadly in all sectors

The collapse in confidence in July affects SMEs in all sectors. Even among service providers, which have experienced a significant upswing in recent months thanks to the recovery in formerly pandemic-stricken sectors, business confidence has deteriorated by a considerable 10.5 percentage points. Situation assessments dipped slightly here. Above all, however, business expectations are becoming much more pessimistic. Sentiment is especially dismal in the retail sector. Retailers have already reported a slightly below-average trading situation. In view of the impending further loss in purchasing power as a result of massively increasing heating costs, future expectations are worse than at any time since the survey began. Manufacturers are likely most anxious about the high energy costs and worried about the prospect of gas rationing, along with resulting supply chain issues. The downward trend in order volumes and export expectations, too, which is now quite noticeable (-3.5 points to a level of now just -12.1 balance points), will influence sentiment.

Future inflation development is the only bright spot on the horizon, as market price expectations in July declined from a very high level for the third consecutive month (-4.5 percentage points to 38.2 balance points). The somewhat weaker demand for labour could also dampen prices over the longer term. Employment expectations have fallen by 5.2 points and are now only marginally above average.

Large enterprises showed slightly steadier sentiment in July

With the sharp drop in confidence in July, the mood among SMEs is now more aligned with that of large firms, which had recorded an even greater deterioration in the preceding months. With a decline of 2.9 points to -19.3 balance points overall, however, confidence among large enterprises continues to be even worse than among SMEs.

On the brink of recession?

The KfW-ifo SME Barometer reveals a broad deterioration in business sentiment in companies of all sizes and in all sectors. Above all, fears of a prolonged suspension of gas

supplies due to maintenance work on the Nord Stream 1 pipeline are likely to have clouded the business outlook of many firms at the time of the survey. Although a complete stop has so far failed to materialise, uncertainty about energy supply remains immense. This is weighing on the business outlook in energy- and, in particular, gas-intensive sectors but also in consumer-oriented sectors. Even if gas flows from Russia continue at a low level, the threat of further losses in purchasing power will persist due to the massive increases in heating costs. Currently, the only rays of hope are the still very high order volumes in the manufacturing sector and the easing of global supply bottlenecks revealed by some indicators. However, with a slowing global economy, the risk of cancellations is growing and the supply crisis could be replaced by a weakness in demand. Gas rationing, which could result in almost incalculable production losses across value chains, remains the greatest threat to the economy.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Jul 2021	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	Jul 2022			
Business climate											
Manufacturing	SME	16.9	10.3	-10.5	-9.9	-10.0	-10.9	-18.2	-7.3	-35.1	-9.7
	LSE	23.2	15.9	-11.7	-8.7	0.7	-8.7	-10.5	-1.8	-33.7	-4.7
Construction	SME	11.8	11.5	-4.4	-14.0	-7.9	-3.7	-11.2	-7.5	-23.0	-5.3
	LSE	4.7	14.3	-20.6	-20.4	-10.2	-8.7	-17.3	-8.6	-22.0	-3.2
Retail trade	SME	15.8	10.2	-5.7	-5.3	-8.2	-19.0	-28.5	-9.5	-44.3	-18.3
	LSE	2.1	-3.0	-14.3	-28.1	-27.4	-37.4	-37.7	-0.3	-39.8	-19.0
Wholesale trade	SME	13.2	6.6	-8.9	-6.0	-8.9	-13.8	-20.3	-6.5	-33.5	-11.6
	LSE	13.6	12.3	-10.7	-9.8	-8.6	-17.7	-23.7	-6.0	-37.3	-13.9
Services	SME	4.7	-0.4	-10.2	-5.6	-1.3	0.9	-9.6	-10.5	-14.3	2.1
	LSE	3.3	0.5	-16.4	-19.1	-18.1	-17.8	-22.5	-4.7	-25.8	-7.8
Germany	SME	9.0	5.7	-9.3	-7.3	-5.7	-5.8	-15.3	-9.5	-24.3	-5.3
	LSE	12.0	9.2	-15.3	-14.5	-10.8	-16.4	-19.3	-2.9	-31.3	-8.6
Current situation	SME	10.5	8.4	6.1	7.6	11.1	12.9	7.6	-5.3	-2.9	3.2
	LSE	17.0	12.7	3.0	1.2	3.5	-1.2	-2.0	-0.8	-19.0	-5.5
Expectations	SME	7.4	3.0	-23.0	-20.5	-20.7	-22.1	-34.8	-12.7	-42.2	-12.4
	LSE	7.1	5.7	-30.9	-28.3	-23.4	-29.6	-34.1	-4.5	-41.2	-11.2
Employment expectations	SME	10.8	12.1	9.4	9.8	10.3	9.0	3.8	-5.2	-7.0	-2.7
	LSE	11.7	19.0	11.6	11.3	14.8	11.5	10.7	-0.8	-1.0	-1.6
Sales price expectations	SME	26.2	35.4	47.0	53.7	45.9	42.7	38.2	-4.5	12.0	-3.1
	LSE	25.9	39.6	46.8	52.6	50.4	42.5	35.0	-7.5	9.1	-3.7
Export expectations of manufacturing	SME	8.8	4.0	-13.8	-7.0	-9.4	-8.6	-12.1	-3.5	-20.9	-4.4
	LSE	15.1	6.4	-9.5	-6.7	-1.7	-3.4	-9.3	-5.9	-24.4	-1.5

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 9,500 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 8,000 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.