

»»» SMEs have some hope again

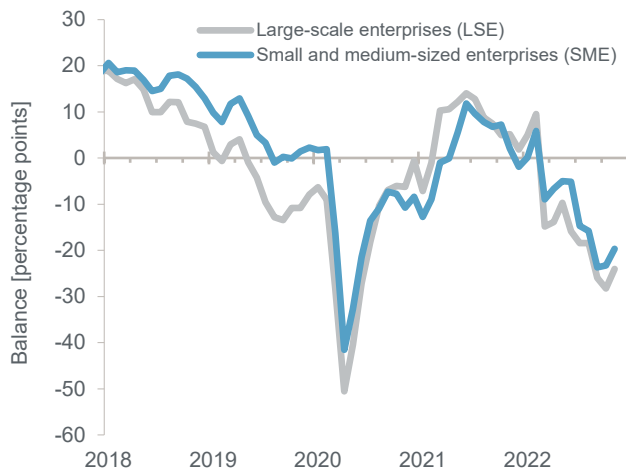
7 December 2022

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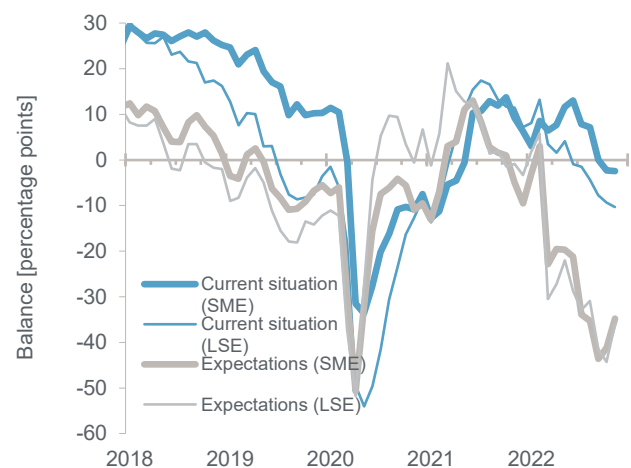
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- Much-improved expectations are driving up SME business sentiment
- Situation assessments continue trending downward
- Sentiment is brightening across all sectors
- Yet business expectations are still much more pessimistic than the economic outlook

KfW ifo Business Climate Index



KfW ifo sentiment components



Source: KfW Research, ifo Institute

SMEs have shaken off some of their gloom

SME business sentiment jumped by 3.6 points to -19.7 balance points in November. The improvement in the gloomy sentiment was solely the result of a strong improvement in expectations, while situation assessments deteriorated again. However, expectations rose from a very low level, so that businesses' outlook on the future must still be described as pessimistic:

- Signs that business sentiment was reversing were already visible in October but the trend now really picked up in November. Six-month business expectations now improved by a substantial 6.4 points. Amid full gas storage tanks, the prospects of relatively mild temperatures this winter and, most of all, considerably lower gas consumption by businesses and households, the main reason was likely that a gas shortage is being priced out. Another reason to be more upbeat is the Federal Government's fiscal support package with a gas and electricity price brake for businesses and households. Despite the clear improvement, however,

expectations still remain more pessimistic, at -34.8 balance points, than at the height of the global financial crisis (December 2008: -33.4 balance points).

- Situation assessments, on the other hand, deteriorated for the fifth consecutive month. Even so, the downward momentum has now weakened substantially to just -0.2 points. Besides, the level of -2.5 balance points is only relatively little below the zero line, which stands for the long-term average.

Pessimism is receding across all sectors

The pessimism that had spread among small and medium-sized enterprises fell across all sectors, with retailers showing a noteworthy rise in business sentiment of +8.0 points. The mood among SMEs in this sector had been particularly negative, at -36.4 balance points, and the shift is likely to be a positive reaction to the relief for consumers provided by the now firmly scheduled energy price brake. While business expectations are clearly brightening in all sectors, situation assessments continue to decline almost everywhere.

Construction, where assessments have already been trending downward since February in light of the rapid interest rate turnaround, was the only sector to report moderate improvements to the business situation.

Sentiment among large enterprises has also improved

Sentiment among large enterprises, too, improved in November on the previous month, rising by 4.2 points to -24.0 balance points. Here as well, the main drivers are significantly less pessimistic business expectations (+8.2 points), while situation assessments fell more steeply than among SMEs (-1.0 points).

Price increase expectations continue to fall

With a view to the development of inflation, it is encouraging that sales price expectations continued to decline even though business prospects have brightened significantly among both SMEs (-5.0 points) and large enterprises (-3.3 points). One reason for this could be the energy price brake, which will reduce the need for price increases due to rising energy costs in the future. However, starting from 34.7 and 36.6 balance points, respectively, the road to the zero line, which stands for the long-term average here as well, is still a long one. Core inflation without energy and food is likely to remain high next year.

Expectations remain on a deep recessionary level

The KfW-ifo SME Barometer of November attests to the fact that many businesses in Germany are pricing out the major risk of a gas shortage this winter and appear to be shaking off their deepest worries, probably in part because of the recent support package by the federal government. Without any further bad news emerging, the trend reversal in business expectations might be reaffirmed in the months ahead. Despite the most recent silver lining, however, business expectations remain roughly as pessimistic as they were at the start of the coronavirus or financial crisis, when GDP contracted by 3.7 and 5.7%, respectively. This likely reflects not just the enormous risks presented by the war in Europe but the deep structural challenges many businesses are facing, including energy prices, which are set to remain very high for the long term. While policymakers must respond to this with a rapid expansion of energy supplies, the onus falls primarily on businesses to invest in their own energy efficiency. Our outlook on the economy is less pessimistic than the business expectations at face value. In our current Business Cycle Compass we expect Germany's economic output to contract by 'just' 1% in 2023, although it could perform better, for example if enough businesses adhere to their investment plans despite the pessimistic mood.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Nov 2021	Jun 2022	Jul 2022	Aug 2022	Sep 2022	Oct 2022	Nov 2022			
Business climate											
Manufacturing	SME	4.6	-10.6	-18.2	-21.0	-26.9	-26.9	-23.5	3.4	-28.1	-9.2
	LSE	10.2	-8.1	-10.4	-14.8	-18.7	-22.3	-19.5	2.8	-29.7	-9.1
Construction	SME	16.3	-3.7	-10.4	-8.8	-15.4	-18.8	-16.1	2.7	-32.4	-9.1
	LSE	14.5	-7.4	-16.0	-8.5	-18.2	-16.0	-14.2	1.8	-28.7	-5.5
Retail trade	SME	-0.1	-18.9	-28.4	-30.6	-36.7	-36.4	-28.4	8.0	-28.3	-7.9
	LSE	-6.7	-36.1	-35.4	-32.2	-38.9	-36.2	-31.6	4.6	-24.9	-1.0
Wholesale trade	SME	-0.5	-14.0	-20.5	-25.8	-29.8	-30.6	-29.1	1.5	-28.6	-9.7
	LSE	3.2	-17.7	-23.7	-27.6	-31.8	-32.5	-35.6	-3.1	-38.8	-10.3
Services	SME	-4.2	1.3	-9.1	-11.2	-18.5	-18.3	-16.3	2.0	-12.1	-11.4
	LSE	-0.4	-17.1	-21.7	-17.9	-30.0	-32.2	-27.0	5.2	-26.6	-10.8
Germany	SME	2.0	-5.2	-14.7	-15.8	-23.7	-23.3	-19.7	3.6	-21.7	-10.3
	LSE	5.2	-15.8	-18.4	-18.4	-25.9	-28.2	-24.0	4.2	-29.2	-8.5
Current situation	SME	9.2	13.0	7.8	7.1	0.0	-2.3	-2.5	-0.2	-11.7	-10.9
	LSE	11.5	-0.9	-1.5	-4.3	-7.7	-9.3	-10.3	-1.0	-21.8	-6.9
Expectations	SME	-4.9	-21.2	-33.9	-35.3	-43.6	-41.2	-34.8	6.4	-29.9	-9.7
	LSE	-0.9	-28.8	-32.9	-30.9	-41.4	-44.3	-36.1	8.2	-35.2	-9.7
Employment expectations	SME	10.7	8.5	4.0	2.6	0.5	-1.8	0.6	2.4	-10.1	-5.3
	LSE	11.8	11.4	10.2	8.4	2.7	2.9	4.6	1.7	-7.2	-6.6
Sales price expectations	SME	35.7	42.0	38.0	37.0	42.8	39.7	34.7	-5.0	-1.0	0.1
	LSE	35.6	41.9	34.9	35.3	39.4	39.9	36.6	-3.3	1.0	1.3
Export expectations of manufacturing	SME	2.8	-8.6	-12.0	-16.1	-19.9	-20.3	-18.8	1.5	-21.6	-7.4
	LSE	8.8	-2.9	-8.6	-8.8	-9.2	-8.2	2.0	10.2	-6.8	1.6

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 9,500 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.