

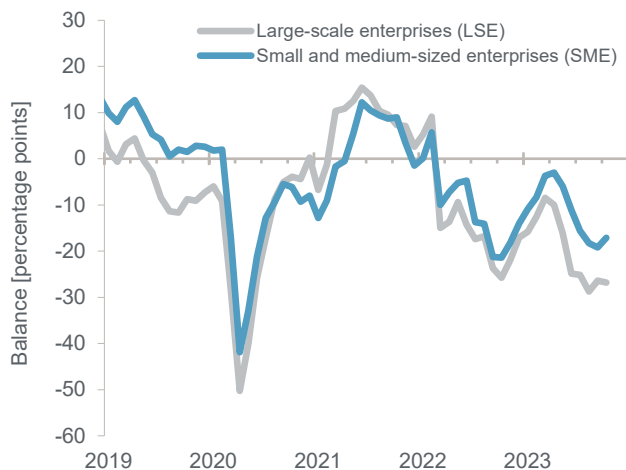
»» SME business sentiment rose again for the first time since the spring

14 November 2023

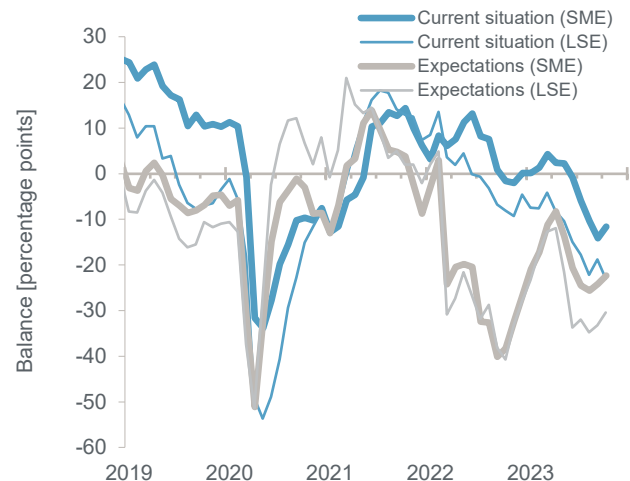
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- SMEs were more confident again for the first time since the spring
- Expectations were slightly less pessimistic and situation assessments improved overall
- Sentiment among large enterprises is trending sideways on a low level
- The economy should be able to turn around in 2024

KfW ifo Business Climate Index



KfW ifo sentiment components



Source: KfW Research, ifo Institute

Business sentiment has finally improved again

After five straight declines, sentiment among small and medium-sized enterprises (SMEs) in Germany finally turned the corner in October, rising by 2.1 points to -17.1 balance points. This was essentially driven by improved situation assessments combined with slightly less pessimistic expectations:

- Specifically, situation assessments improved by 2.5 points to now -11.6 balance points, with the zero line representing the long-term average. In other words, although SMEs' assessments of the situation were still clearly below average in October, they may now be emerging from the trough.
- Expectations rallied in September and improved again by 1.8 points to -22.3 balance points in October. This shows that the pessimism about the coming six months is easing slightly, which is also in line with our prediction of a successive consumption-driven recovery in 2024.

Industry, retail and services are more positive

The main economic sectors in which SMEs operate paint a mixed picture in October. While sentiment fell again among wholesalers and in construction and civil engineering, it rose in manufacturing, retail and services enterprises. The latter, however, is the only segment that also reported an improved business situation. That means most of the improvement in sentiment was carried exclusively by more positive expectations, even if aggregate situation assessments were lifted by the significantly improved situation of the important services segment.

Mood among large enterprises nearly unchanged

In October there was little change in the dismal mood prevailing among large enterprises. Their confidence fell by a minimal 0.4 points to -26.8 balance points but had already risen slightly in the previous month, as opposed to SMEs. Situation assessments and business expectations are currently diverging widely. While the former fell by 4.2 points in October, expectations rose by 2.8 points. What is striking is the significant

deterioration in business sentiment among large retailers, although this subsegment is always exposed to high volatility.

Employment and sales price expectations without a clear direction in October

In recent months, the employment and sales price expectations of SMEs and large enterprises have trended down in virtual synchrony. In October, however, they diverged slightly. While large enterprises' employment expectations continued to fall, those of SMEs moved upward slightly. Sales price expectations also rose moderately among SMEs only but slipped again slightly among large enterprises. All in all, the below-average level of employment expectations in the German economy is pointing to substantially weakening employment growth. Along with sales price expectations, which are hovering around the long-term average, this points to further easing of inflationary pressure.

New evidence of a bottoming out

The rise in SME business sentiment is reinforcing the impression that the economy is finally emerging from its trough. For now, however, it is mostly the expectations that are recovering. It therefore remains uncertain whether the slight contraction in the summer quarter will already be followed by growth in the current autumn quarter. But household consumption provides good reason to hope for an economic recovery next year because sooner or later the renewed increases in real wages will give a boost to the largest expenditure component of gross domestic. As most European trading partners are likely to develop in a similar manner and global consumption will probably shift more towards merchandise again after the post-pandemic services boom, the conditions for renewed external demand and demand for industrial goods are fulfilled. Some of the current difficulties of the German economy are of a temporary nature.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Oct 2022	May 2023	Jun 2023	Jul 2023	Aug 2023	Sep 2023	Oct 2023			
Business climate											
Manufacturing	SME	-23.5	-12.0	-18.3	-21.1	-23.8	-22.1	-21.5	0.6	2.0	-5.3
	LSE	-18.8	-10.2	-22.6	-22.3	-26.7	-24.1	-24.7	-0.6	-5.9	-6.8
Construction	SME	-18.2	-12.7	-16.1	-21.5	-24.7	-27.5	-28.3	-0.8	-10.1	-10.1
	LSE	-16.2	-7.6	-3.2	-4.3	-11.4	-9.3	-8.2	1.1	8.0	-4.6
Retail trade	SME	-31.9	-7.7	-13.9	-16.4	-15.9	-15.7	-15.1	0.6	16.8	-2.9
	LSE	-32.0	-16.1	-21.3	-17.8	-21.5	-14.6	-21.4	-6.8	10.6	-0.8
Wholesale trade	SME	-25.5	-21.5	-25.2	-28.2	-28.8	-26.3	-29.1	-2.8	-3.6	-3.1
	LSE	-27.4	-33.4	-35.1	-36.6	-35.0	-33.8	-35.8	-2.0	-8.4	0.2
Services	SME	-17.5	1.2	-3.1	-5.5	-11.8	-13.0	-9.2	3.8	8.3	-8.9
	LSE	-30.4	-23.2	-27.7	-28.9	-31.0	-29.3	-26.5	2.8	3.9	-2.3
Germany	SME	-21.4	-6.0	-11.1	-15.6	-18.3	-19.2	-17.1	2.1	4.3	-7.3
	LSE	-25.8	-16.2	-24.9	-25.2	-28.8	-26.4	-26.8	-0.4	-1.0	-5.2
Current situation	SME	-1.6	2.3	-0.8	-5.9	-10.4	-14.1	-11.6	2.5	-10.0	-10.6
	LSE	-8.1	-10.4	-15.0	-17.8	-22.2	-18.8	-23.0	-4.2	-14.9	-6.9
Expectations	SME	-38.3	-13.7	-20.6	-24.5	-25.6	-24.1	-22.3	1.8	16.0	-4.4
	LSE	-40.7	-21.5	-33.7	-31.9	-34.7	-33.2	-30.4	2.8	10.3	-3.7
Employment expectations	SME	-1.3	1.6	0.1	-1.9	-4.0	-5.9	-5.3	0.6	-4.0	-5.0
	LSE	3.8	-1.1	-2.6	-5.9	-4.0	-6.5	-10.1	-3.6	-13.9	-3.7
Sales price expectations	SME	38.1	4.2	0.6	-0.1	-0.4	0.9	2.0	1.1	-36.1	-0.7
	LSE	38.5	0.5	-3.1	-0.8	-0.9	-0.4	-0.6	-0.2	-39.1	0.5
Export expectations of manufacturing	SME	-17.6	-11.4	-18.4	-19.0	-18.7	-21.3	-19.2	2.1	-1.6	-3.5
	LSE	-7.4	-4.6	-12.1	-14.6	-11.2	-17.7	-12.2	5.5	-4.8	-3.3

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 timeseries 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 timeseries 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.