

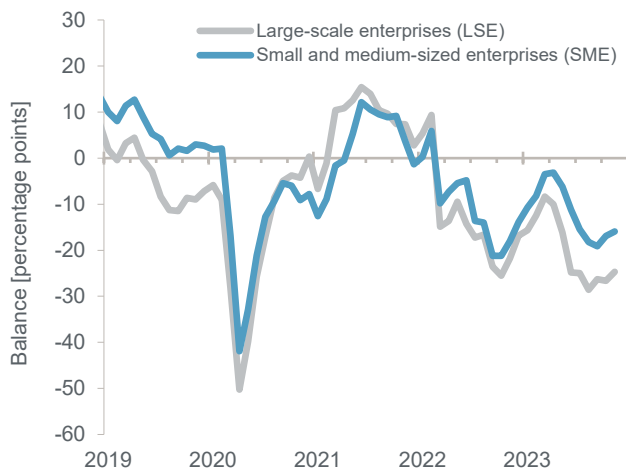
»» SME business sentiment on the path to recovery

6 December 2023

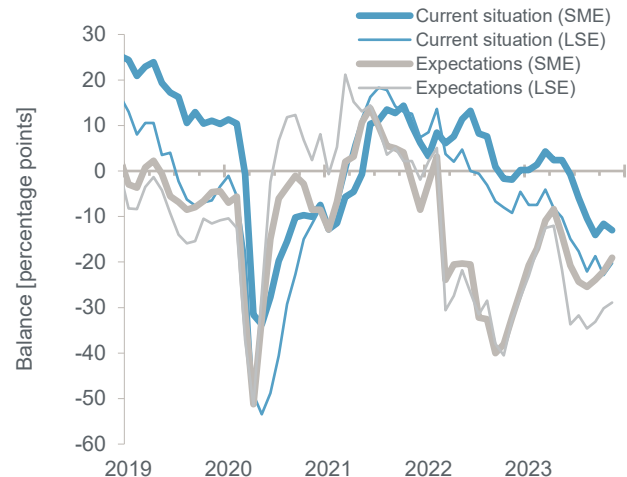
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- SME business sentiment rises for the second straight month
- Expectations have improved but situation assessments worsened again
- Large enterprises are also slightly more optimistic
- Cyclical turnaround likely next year on the back of a spending rebound

KfW ifo Business Climate Index



KfW ifo sentiment components



Source: KfW Research, ifo Institute

Business sentiment improved again slightly

Sentiment among small and medium-sized enterprises (SMEs) in Germany rose by exactly one point to -15.9 balance points in November. Thus, signs are growing that the economic downturn has bottomed out. So far, however, the upturn in sentiment is based only on less pessimistic business expectations:

- Expectations rose quite noticeably by 3.0 points to -19.0 balance points in November. Although they are still well below the zero line, which represents the long-term average, they have pointed in the right direction since September.
- Situation assessments, on the other hand, fell slightly. After rising in October, they dropped by 1.4 points to now -13.0 balance points.

Services are the only negative outlier

The downturn in situation assessments was caused exclusively by the important services segment, however, where

business sentiment also dropped by 1.4 points overall. In all other main economic sectors SMEs reported at least a moderately improved business situation and rising business expectations, so that sentiment picked up there. The increase was most noticeable in the wholesale sector, which recorded a rise of 4.7 points. In manufacturing, the main construction industry and retail, business sentiment rose by around 2.5 points each.

Sentiment among large enterprises has also improved

Confidence among large enterprises rose by 2.0 points. A trend reversal appears to be emerging here as well. However, business sentiment here increased from an even lower level and, at now -24.7 balance points, still remains well below that of SMEs. Nonetheless, business expectations and situation assessments among large enterprises both improved in November.

Sales price expectations increased again among SMEs

SMEs' sales price expectations rose for the third consecutive month in November to now 2.6 points, after completing a long

downward trajectory from record levels last year. On that basis, however, major concerns over a renewed increase in price pressure would be exaggerated because sales price expectations among large enterprises have been moving roughly sideways just barely below the zero line for some months now. Furthermore, employment expectations among large enterprises are still falling and are now clearly negative, while they appear to be stabilising on a slightly below-average level among SMEs.

Downside risks to fiscal position but moderate economic recovery in 2024 remains likely

Business sentiment appears to have bottomed out in the autumn. A glimmer of hope is also gradually emerging among businesses for the year ahead, in which we anticipate a moderate economic recovery that will be driven primarily by

household spending. After all, wage growth will finally sit well above the inflation rate again and employment will probably remain steady. But it is still unclear how the fiscal-policy uncertainty will influence business sentiment after the ruling handed down by the German Federal Constitutional Court led to a funding gap of up to 1.2% of gross domestic product in the budget planning. At any rate, the business uncertainty measured by the Ifo Institute was still moving sideways in November. But most businesses were not yet familiar with or still had to digest the court ruling when they responded to the survey, so that we must await the December survey. In any case, budget consolidation next year is one of the items on the list of economic risks.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year									
		Nov 2022	Jun 2023	Jul 2023	Aug 2023	Sep 2023	Oct 2023	Nov 2023	m-o-m	y-o-y	3m-o-3m
Business climate											
Manufacturing	SME	-20.3	-18.6	-21.2	-23.8	-21.7	-20.9	-18.4	2.5	1.9	0.9
	LSE	-16.0	-22.9	-22.6	-26.7	-23.7	-24.1	-23.3	0.8	-7.3	0.4
Construction	SME	-15.2	-16.1	-21.4	-24.5	-27.2	-27.8	-25.3	2.5	-10.1	-6.1
	LSE	-14.7	-3.2	-4.2	-11.3	-9.1	-7.8	-9.2	-1.4	5.5	-2.5
Retail trade	SME	-23.7	-14.3	-16.6	-15.8	-15.3	-14.1	-11.5	2.6	12.2	1.9
	LSE	-28.2	-21.4	-17.7	-21.3	-14.5	-21.3	-19.6	1.7	8.6	1.7
Wholesale trade	SME	-23.9	-25.3	-28.3	-28.8	-26.1	-28.8	-24.1	4.7	-0.2	1.1
	LSE	-30.7	-35.1	-36.6	-34.9	-33.4	-35.1	-28.0	7.1	2.7	3.4
Services	SME	-15.6	-3.0	-5.5	-11.8	-12.9	-9.2	-10.6	-1.4	5.0	-4.1
	LSE	-25.3	-27.6	-28.7	-30.8	-29.2	-26.4	-26.6	-0.2	-1.3	1.6
Germany	SME	-18.0	-11.2	-15.4	-18.2	-19.1	-16.9	-15.9	1.0	2.1	-2.4
	LSE	-21.8	-24.9	-25.0	-28.6	-26.3	-26.7	-24.7	2.0	-2.9	0.3
Current situation	SME	-1.9	-0.8	-5.9	-10.4	-14.1	-11.6	-13.0	-1.4	-11.1	-7.2
	LSE	-9.2	-14.9	-17.7	-22.1	-18.7	-22.9	-20.3	2.6	-11.1	-2.4
Expectations	SME	-32.1	-20.7	-24.3	-25.4	-23.9	-22.0	-19.0	3.0	13.1	1.8
	LSE	-32.8	-33.7	-31.7	-34.6	-33.1	-30.2	-28.9	1.3	3.9	2.6
Employment expectations	SME	0.7	0.0	-1.9	-4.0	-5.7	-5.1	-4.3	0.8	-5.0	-3.1
	LSE	5.5	-2.4	-5.8	-4.0	-6.6	-10.2	-11.5	-1.3	-17.0	-5.4
Sales price expectations	SME	32.8	0.9	-0.3	-0.3	0.9	2.1	4.7	2.6	-28.1	2.5
	LSE	34.0	-2.7	-0.9	-1.0	-0.5	-0.8	-2.1	-1.3	-36.1	0.4
Export expectations of manufacturing	SME	-16.3	-18.6	-18.9	-18.6	-20.8	-18.5	-15.1	3.4	1.2	0.6
	LSE	1.9	-12.2	-14.7	-11.1	-17.5	-11.7	-12.4	-0.7	-14.3	-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 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.