

»»» A setback at the end of the year

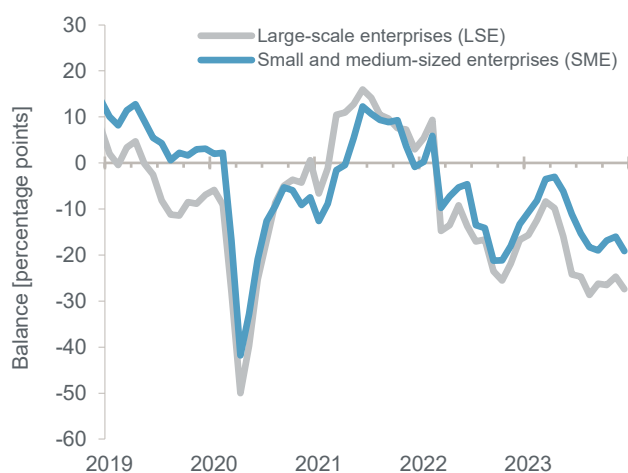
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- SME business sentiment fell in December
- Situation assessments dropped slightly, expectations are now much more sceptical
- The mood among large enterprises has also deteriorated

KfW ifo Business Climate Index



KfW ifo sentiment components



Source: KfW Research, ifo Institute

Setback at the end of the year

SME business sentiment suffered a setback at the end of the year. While a recovery trend could still be observed in the autumn, business sentiment among small and medium-sized enterprises (SMEs) fell by 3.1 points to -19.1 balance points in December. In particular, companies have again become more sceptical about the future:

- Expectations dropped by 5.2 points to now -24.4 balance points. That put an abrupt end to the upward movement experienced since September. Business expectations for the next six months have now dropped to around the level of mid-summer.
- Companies also rate their current situation slightly more negatively. Specifically, situation assessments slipped by 0.7 points to -13.6 balance points.

Sentiment among manufacturers fell most steeply

Sentiment dropped to varying degrees across the main economic sectors. SME manufacturers, however, reported a particularly pronounced setback, with sentiment plunging by 5.3 points in December. Expectations in particular experienced a steep drop. Business sentiment in construction also fell by a significant 3.7 points based on equally lower business situation assessments and expectations. Only the retail sector did not follow the same pattern, with SME business sentiment here improving slightly by 0.6 points. Although expectations deteriorated as well, companies rated their situation more positively than in the previous month. In the meantime, business sentiment in the large services segment dropped by 1.6 points. Situation assessments here were steady, but expectations fell sharply, which may also be linked to the recently decided value added tax increase in hospitality.

Business sentiment among large enterprises is also down

Large enterprises reported a drop in business sentiment by 2.7 points in December, a very similar rate as among SMEs. However, their situation assessments in particular deteriorated while their expectations eased rather moderately.

Sales price expectations increased again among SMEs

The decline in sales price expectations that set in already in mid-2022 was a good indicator of easing price pressures, which are now also reflected in the significant drop in the inflation rate. Nonetheless, sales price expectations among SMEs increased for the fourth consecutive month in December (+2.9 points) and, at +7.5 balance points, are now back slightly above the zero line, which stands for the long-term average in line with the way the barometer is designed. Even if large enterprises are not yet following this upward trend, this could signal that the further path to target inflation is becoming bumpier.

Despite the decline in confidence in December, a moderate recovery is on the cards in 2024

After brightening in the previous months, SME business sentiment in December was a disappointment. Overall, however, strong increases in real wages and growing consumer spending are likely to bring back moderate economic growth in the coming year. The deterioration in sentiment was likely caused by the uncertainty that has emerged around the federal budget in the meantime. The negotiated compromise will probably reduce this uncertainty again, especially since the compromise provides for important programmes that support the transformation of industry to continue. The sharp drop in interest rates in the global capital markets on the back of a decline in inflation that has so far been faster than expected will help bolster business investment in 2024 and thus stabilise economic growth.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Dec 2022	Jul 2023	Aug 2023	Sep 2023	Oct 2023	Nov 2023	Dec 2023			
Business climate											
Manufacturing	SME	-14.6	-21.3	-23.7	-21.8	-20.9	-18.7	-24.0	-5.3	-9.4	1.1
	LSE	-12.6	-22.2	-26.2	-23.5	-23.9	-23.3	-28.3	-5.0	-15.7	-1.2
Construction	SME	-15.0	-21.3	-24.8	-27.0	-27.6	-25.1	-28.8	-3.7	-13.8	-2.8
	LSE	-11.5	-4.1	-11.1	-9.0	-7.9	-9.5	-15.4	-5.9	-3.9	-2.9
Retail trade	SME	-13.5	-16.9	-16.1	-15.6	-13.9	-11.8	-11.2	0.6	2.3	3.9
	LSE	-21.1	-17.4	-21.7	-14.4	-21.3	-19.6	-17.0	2.6	4.1	-1.5
Wholesale trade	SME	-17.3	-28.2	-28.8	-26.2	-29.0	-24.6	-29.2	-4.6	-11.9	0.1
	LSE	-21.7	-36.2	-34.7	-33.3	-35.4	-28.7	-35.8	-7.1	-14.1	1.4
Services	SME	-11.3	-5.3	-11.6	-12.8	-9.0	-10.5	-12.1	-1.6	-0.8	-0.6
	LSE	-21.6	-28.6	-30.7	-29.1	-26.3	-26.5	-29.1	-2.6	-7.5	2.2
Germany	SME	-13.3	-15.3	-18.3	-19.0	-16.8	-16.0	-19.1	-3.1	-5.8	0.2
	LSE	-16.7	-24.7	-28.6	-26.2	-26.5	-24.7	-27.4	-2.7	-10.7	0.3
Current situation	SME	0.4	-5.8	-10.4	-14.0	-11.5	-12.9	-13.6	-0.7	-14.0	-2.6
	LSE	-4.3	-17.6	-22.0	-18.6	-22.9	-20.3	-24.3	-4.0	-20.0	-3.1
Expectations	SME	-25.5	-24.1	-25.7	-23.9	-21.9	-19.2	-24.4	-5.2	1.1	2.7
	LSE	-27.7	-31.4	-34.7	-33.2	-30.2	-29.1	-30.6	-1.5	-2.9	3.1
Employment expectations	SME	1.3	-1.9	-4.0	-5.7	-4.9	-4.1	-3.6	0.5	-4.9	-0.3
	LSE	2.9	-5.9	-4.0	-6.3	-10.0	-11.4	-9.2	2.2	-12.1	-4.8
Sales price expectations	SME	25.5	-0.1	-0.6	0.8	1.8	4.6	7.5	2.9	-18.0	4.6
	LSE	27.6	-0.6	-1.2	-0.6	-1.0	-2.0	0.5	2.5	-27.1	0.0
Export expectations of manufacturing	SME	-9.7	-18.6	-18.4	-20.6	-18.4	-15.2	-18.5	-3.3	-8.8	1.8
	LSE	-0.3	-14.4	-11.0	-17.4	-11.8	-12.6	-13.9	-1.3	-13.6	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 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.