

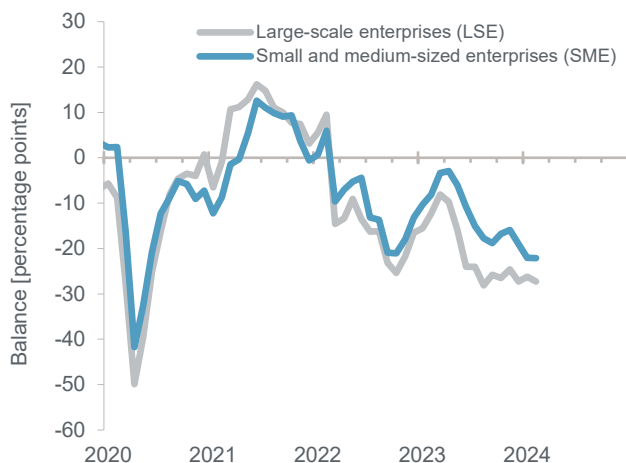
»»» SME business confidence remains in the doldrums

5 March 2024

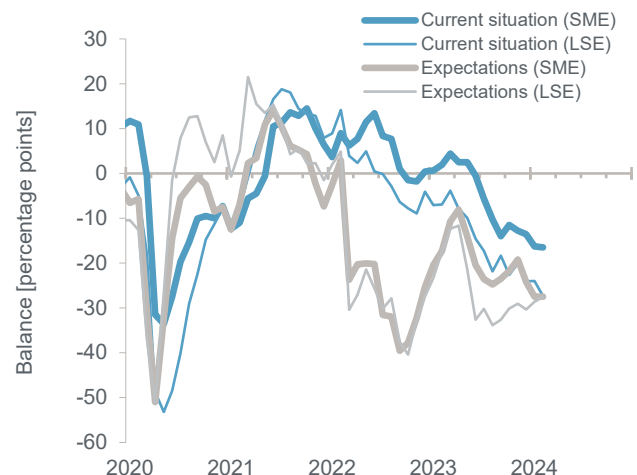
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- SME business sentiment stagnates on a low level
- Situation assessments have deteriorated slightly, while expectations remain unchanged
- Business situation of large enterprises has worsened substantially
- Economic outlook brighter than dim business sentiment

KfW ifo Business Climate Index



KfW ifo sentiment components



Source: KfW Research, ifo Institute

SME business confidence stagnated

The business confidence of small and medium-sized enterprises stagnated on a low level in February. Dropping by a marginal 0.1 points to -22.1 balance points, sentiment was almost exactly as low as in the previous month. Situation assessments and expectations hardly changed:

- Situation assessments dropped slightly by 0.2 points to -16.5 balance points in February. They had already fallen significantly in the previous month and are significantly below that of the previous quarter on average, which in itself suggests a further decline in economic output.
- Business expectations, on the other hand, stagnated on a level of -27.5 balance points, with the zero line representing the long-term average. Thus, SMEs' outlook on the future is and remains very pessimistic.

Sentiment in services and retail trade improves slightly

Whereas SME business sentiment dropped in all economic sectors in the previous month, the development in February

differed from sector to sector. A minor improvement was reported by the service sector (+1.6 points), where situation assessments and expectations both rose. In a sector comparison, services thus exhibited the most positive sentiment, at -13.2 balance points, even if the current levels remain well below the long-term average. Retailers also posted higher levels of confidence, and sentiment in construction and civil engineering at least rose slightly in February – starting from a very low level. But in the manufacturing sector, where the mood was similarly pessimistic, sentiment declined again, and in the particularly pessimistic wholesale sector it even dropped significantly, which among other things may be associated with delivery delays caused by attacks on cargo ships in the red Sea by the Huthi militia.

Large enterprises are even more pessimistic

Sentiment among large enterprises has been fluctuating in a sideways pattern for several months now. Dropping by 1.1 points in February, it offset the rise in the previous month and again ended up at -27.3 balance points, an even slightly lower level than among SMEs. Unlike small and medium-sized

enterprises, large enterprises reported significantly worse situation assessments in the month under review (-3.4 points), while expectations rose slightly (+1.1 points).

Sales price expectations dropped sharply

SMEs' employment expectations hardly changed in February, while those of large enterprises drops further, signalling that the recently strong employment growth will likely come to an end. A positive development, however, was that sales price expectations fell again significantly among SMEs (-5.6 points) and large enterprises (-2.2 points). In the previous months there was an increase particularly in the services sector, which gave rise to doubts as to whether inflation was continuing to decline. As sales price expectations reported under the Ifo survey heralded both the surge in inflation of 2022 and the decline in 2023 at an early stage, it is worthwhile continuing to keep a close eye on this.

Economic outlook better than the gloomy sentiment

The downward spiral of business sentiment practically came to a standstill in February, but sentiment among SMEs remained deep in the doldrums nonetheless. Particularly in manufacturing, there are still hardly any signs of an economic turnaround – neither in the Ifo survey nor in the Purchasing Manager Index (PMI), which also showed a setback in the industrial indicators in February. In the services sector, however, recent economic surveys at least reveal signs of a consumption-driven recovery, which we expect to set in this year. Household consumption grew again slightly in the past quarters already, and strong increases in real wages mean that there should be significantly more to come here. We therefore expect a return to modest economic growth of +0.3% this year. For 2025 we expect solid economic growth of 1.2% as a result of continuing robust growth in consumption and global monetary policy easing, which will begin already this year. The currently very dismal business sentiment is likely shaped primarily by the longer-term structural challenges for the German economy and the persistently high uncertainty, and therefore appears excessively negative from a cyclical perspective. However, the risk is that the lack of confidence may also negatively impact on the business cycle via shrinking business investment, almost like a self-fulfilling prophecy.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Feb 2023	Sep 2023	Oct 2023	Nov 2023	Dec 2023	Jan 2024	Feb 2024			
Business climate											
Manufacturing	SME	-9.6	-21.0	-20.5	-18.8	-24.8	-27.8	-28.1	-0.3	-18.5	-6.8
	LSE	-9.4	-23.0	-23.7	-23.3	-28.5	-25.2	-25.3	-0.1	-15.9	-3.0
Construction	SME	-13.0	-26.8	-27.5	-25.1	-29.1	-31.9	-31.6	0.3	-18.6	-4.4
	LSE	-5.9	-8.9	-7.9	-9.7	-15.9	-20.2	-17.9	2.3	-12.0	-9.2
Retail trade	SME	-3.1	-14.8	-13.5	-12.1	-12.8	-18.1	-16.4	1.7	-13.3	-2.3
	LSE	-10.2	-13.6	-20.9	-19.8	-18.2	-24.8	-27.4	-2.6	-17.2	-5.4
Wholesale trade	SME	-10.0	-25.2	-28.5	-24.9	-30.3	-35.3	-39.0	-3.7	-29.0	-8.7
	LSE	-18.9	-32.5	-34.9	-28.9	-36.7	-38.4	-40.5	-2.1	-21.6	-6.4
Services	SME	-5.5	-12.7	-8.9	-10.4	-12.0	-14.8	-13.2	1.6	-7.7	-2.7
	LSE	-19.2	-28.8	-26.0	-26.2	-28.8	-29.3	-30.8	-1.5	-11.6	-2.6
Germany	SME	-8.1	-18.8	-16.7	-15.9	-19.0	-22.0	-22.1	-0.1	-14.0	-3.9
	LSE	-12.3	-25.8	-26.5	-24.6	-27.3	-26.2	-27.3	-1.1	-15.0	-1.3
Current situation	SME	1.9	-14.0	-11.5	-12.8	-13.6	-16.3	-16.5	-0.2	-18.4	-2.7
	LSE	-7.0	-18.4	-22.7	-20.1	-24.1	-24.0	-27.4	-3.4	-20.4	-4.8
Expectations	SME	-17.3	-23.5	-21.8	-19.2	-24.2	-27.5	-27.5	0.0	-10.2	-4.9
	LSE	-17.4	-32.6	-30.1	-29.0	-30.3	-28.6	-27.5	1.1	-10.1	1.8
Employment expectations	SME	4.3	-5.6	-4.8	-4.1	-3.6	-5.0	-4.6	0.4	-8.9	0.4
	LSE	4.8	-6.2	-10.0	-11.3	-9.1	-10.1	-12.1	-2.0	-16.9	-1.3
Sales price expectations	SME	14.6	0.8	1.5	4.5	7.2	4.5	-1.1	-5.6	-15.7	1.3
	LSE	15.4	-0.6	-1.1	-2.0	0.6	1.8	-0.4	-2.2	-15.8	1.9
Export expectations of manufacturing	SME	-10.8	-20.6	-18.3	-15.3	-18.8	-19.2	-16.2	3.0	-5.4	0.0
	LSE	0.6	-16.9	-11.5	-12.7	-14.4	-17.8	-13.8	4.0	-14.4	-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 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.