

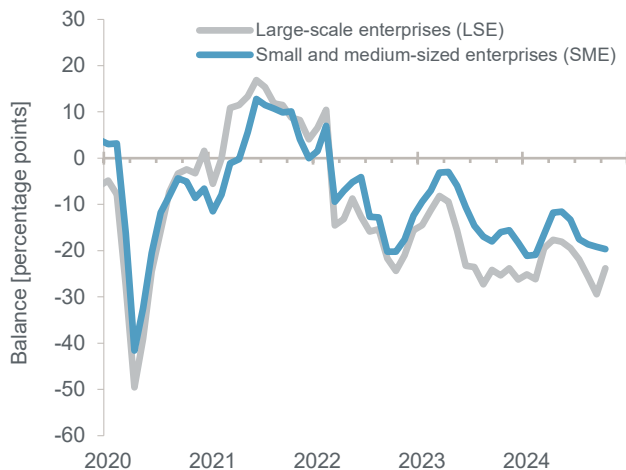
# Confidence falls among SMEs but rises in large enterprises

31 October 2024

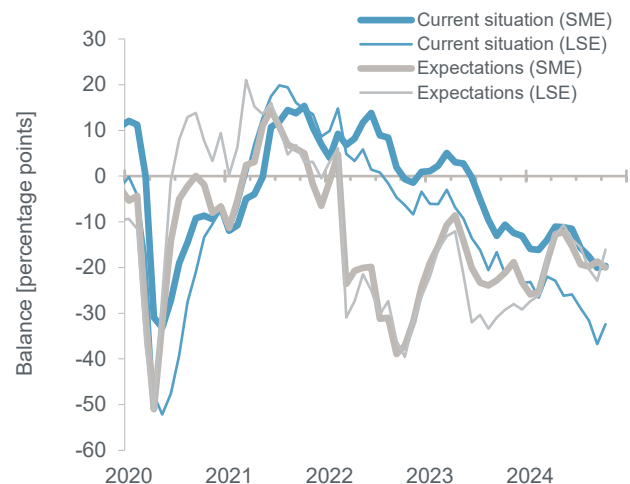
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- SME business sentiment drops for fifth straight month
- Expectations fell to the lowest level since February, but situation assessments improved slightly
- Large enterprises' confidence has brightened significantly, however
- Hope for an economic recovery in the coming year

KfW-ifo Business Climate



KfW-ifo climate components



Source: KfW Research, ifo Institute

## SME business climate dipped slightly

Sentiment among Germany's SMEs has worsened for the fifth consecutive month now. But this time, the business climate fell by only a very moderate 0.5 points to now -19.7 balance points. Furthermore, the renewed drop is due exclusively to the further slight deterioration in SMEs' outlook on the near future:

- Business expectations for the next six months were 1.3 points lower in October than in September and are now at -20.0 balance points, an eight-month low. Even if the link to economic growth has recently been rather loose, the economy is unlikely to gain much strength over the coming winter.
- In contrast, SMEs' assessments of their current business situation improved by 0.4 points to now -19.7 balance points. But this indicator level, too, is historically very low. With the exception of the previous month, the last time it was lower was in the summer of the COVID-19 year 2020. Even so, situation assessments appear to be bottoming out.

## Construction firms and wholesalers in better mood

But there are some bright spots. Bucking the general trend across the SME sector, business sentiment rose among wholesalers (+1.4 points to -30.0 balance points) and – by only a small margin – in the construction industry (+0.3 points to -19.9 balance points). Business sentiment among retailers was measured at -13.4 balance points in October, the same level as in September. This may be an early sign that real household purchasing power, which has been growing strongly for quite some time now, is gradually causing the retail sector to bottom out. At the same time, a moderate deterioration in confidence was reported by the large sector of SME service providers, which even so continue to defend the top position on the sentiment table (-0.4 points to -12.1 balance points). Small and medium-sized manufacturers, on the other hand, suffered a more pronounced drop in sentiment. Their business climate fell to the lowest level since last February (-2.1 points to -26.2 balance points). Weak domestic investment activity and subdued export demand continue to weigh on SME manufacturers in particular.

### **Large enterprises report greatly improved sentiment**

In contrast with SMEs, large enterprises expressed much more confidence in October. Their business climate improved by 5.6 points to -23.8 balance points, nearly twice the normal month-on-month variation. Whereas business expectations among large enterprises are now on a slightly less negative level (+6.8 points to -16.1 balance points), they continue to rate their current business situation much more negatively than SMEs even though it has brightened significantly (+4.4 points to -32.4 balance points). Broken down by economic sectors, large construction firms are the only enterprises to report a deterioration in their business climate (-5.6 points to -12.7 balance points), while sentiment among wholesalers improved moderately (+2.2 points to -30.5 balance points). In manufacturing, on the other hand, sentiment improved very considerably (+4.6 points to -22.6 balance points), as it did in services (+5.4 points to -21.8 balance points) and retail (+7.1 points to -18.2 balance points).

### **Growth not until 2025**

The German economy as a whole showed encouraging signs of life in October, this time coming mainly from large enterprises, while sentiment among SMEs dimmed slightly. In economic terms, the current year is almost over and GDP is likely to more or less stagnate in 2024, as it did already in 2023. But the noticeable growth in household purchasing power and the start of the global interest rate reduction cycle have laid the groundwork for a moderate economic recovery in 2025, which will initially be driven primarily by consumption and is likely to guide annual growth into positive territory again. However, if the labour market were to deteriorate surprisingly sharply or if US tariffs on imported industrial goods were to be raised significantly following the presidential election there, this could jeopardise the economic recovery.

## KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Oct 2023	May 2024	Jun 2024	Jul 2024	Aug 2024	Sep 2024	Oct 2024			
<b>Business climate</b>											
Manufacturing	SME	-18.4	-16.4	-21.4	-22.1	-24.1	-24.1	-26.2	-2.1	-7.8	-4.8
	LSE	-21.7	-17.7	-17.6	-19.9	-22.0	-27.2	-22.6	4.6	-0.9	-5.5
Construction	SME	-26.8	-21.1	-20.3	-21.6	-22.1	-20.2	-19.9	0.3	6.9	0.3
	LSE	-7.7	-4.7	-6.9	-6.3	-3.1	-7.1	-12.7	-5.6	-5.0	-1.7
Retail trade	SME	-10.0	-5.5	-16.3	-18.4	-13.8	-13.4	-13.4	0.0	-3.4	-0.1
	LSE	-20.6	-16.0	-21.8	-22.8	-21.0	-25.3	-18.2	7.1	2.4	-1.3
Wholesale trade	SME	-26.3	-24.4	-29.4	-30.4	-29.1	-31.4	-30.0	1.4	-3.7	-2.1
	LSE	-32.7	-23.7	-34.6	-33.7	-29.4	-32.7	-30.5	2.2	2.2	-0.2
Services	SME	-8.6	-5.9	-4.2	-8.8	-11.0	-11.7	-12.1	-0.4	-3.5	-5.3
	LSE	-25.4	-23.3	-18.3	-21.9	-25.8	-27.2	-21.8	5.4	3.6	-3.8
<b>Germany</b>	<b>SME</b>	<b>-16.0</b>	<b>-11.6</b>	<b>-13.3</b>	<b>-17.5</b>	<b>-18.6</b>	<b>-19.2</b>	<b>-19.7</b>	<b>-0.5</b>	<b>-3.7</b>	<b>-5.0</b>
	<b>LSE</b>	<b>-25.3</b>	<b>-18.0</b>	<b>-19.4</b>	<b>-21.8</b>	<b>-25.6</b>	<b>-29.4</b>	<b>-23.8</b>	<b>5.6</b>	<b>1.5</b>	<b>-6.5</b>
Current situation	SME	-10.7	-11.2	-11.6	-15.8	-17.6	-20.1	-19.7	0.4	-9.0	-6.3
	LSE	-21.4	-26.2	-25.9	-28.9	-31.6	-36.8	-32.4	4.4	-11.0	-6.6
Expectations	SME	-21.1	-12.2	-15.3	-19.3	-19.8	-18.7	-20.0	-1.3	1.1	-3.9
	LSE	-29.3	-10.7	-13.8	-15.6	-20.4	-22.9	-16.1	6.8	13.2	-6.4
<b>Employment expectations</b>	SME	-4.4	-3.7	-5.1	-5.6	-6.5	-8.0	-8.4	-0.4	-4.0	-2.8
	LSE	-9.4	-7.7	-6.8	-9.8	-13.4	-15.3	-16.2	-0.9	-6.8	-6.9
<b>Sales price expectations</b>	SME	1.5	0.6	1.5	2.6	1.8	0.1	0.3	0.2	-1.2	-0.8
	LSE	-1.2	1.4	-0.6	2.9	-1.6	-2.5	-0.3	2.2	0.9	-2.7
<b>Export expectations of manufacturing</b>	SME	-17.0	-14.3	-15.8	-15.4	-15.6	-16.4	-13.6	2.8	3.4	0.0
	LSE	-9.7	-0.2	-4.1	-5.0	-11.7	-14.4	-16.3	-1.9	-6.6	-11.0

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.