

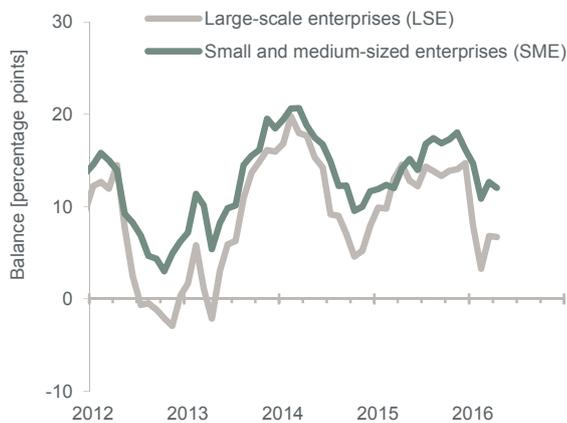
»» Businesses are stuck in a sober mood

9 May 2016

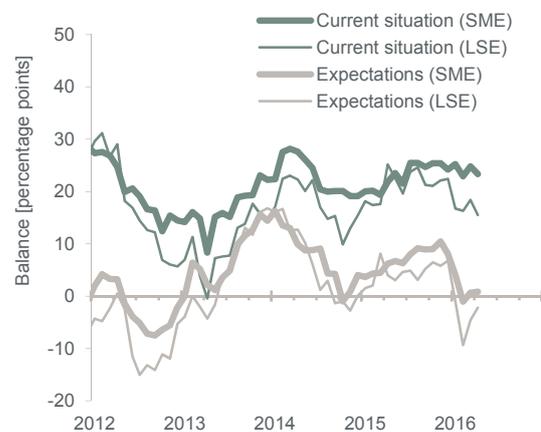
Author: Dr Klaus Borger, +49 69 7431-2455, klaus.borger@kfw.de
Press contact: Christine Volk, +49 69 7431 3867, christine.volk@kfw.de

- Business sentiment among German SMEs drops slightly
- Expectations are virtually unchanged, while situation assessments have deteriorated slightly
- Business sentiment among large enterprises remains stable
- The moderate recovery is not in jeopardy for the time being

KfW-ifo business climate



KfW-ifo climate components



Source: KfW, ifo

SMEs are waiting for a clear direction

Small and medium-sized enterprises are uncertain about where the economy is heading. While domestic demand in Germany is reliable, considerable risks remain in the external environment in particular, with the exception of sporadic positive developments such as the recent recovery of Chinese exports. The main risks are the Brexit referendum, which is probably the most prominent example of increasing centrifugal forces in Europe today, the risk of volatile oil prices due to the failure to come to an agreement for the time being on freezing output, as well as concern over the US economy, which was recently articulated somewhat more clearly again.

In the absence of a clear direction, the fragile improvement in sentiment which began in March already stagnated again in April. Sentiment among SMEs deteriorated slightly by 0.6 points, dropping to 12.1 balance points – but only because the assessments of the current business situation were less positive than in the previous month:

- The business situation component fell moderately by 1.5 points to 23.3 balance points, adding another rather insignificant notch to the minor variations on the high level that has now lasted for a good three quarters of the year. This is indicative of a healthy economy in the spring but does not suggest a further increase in momentum.
- With regard to business expectations, optimists and pessimists cancel each other out almost perfectly. For one thing, expectations have practically stagnated, as the 0.1-point rise was negligible. For another, at 0.8 balance points the indicator is only marginally above the zero line, which represents cyclical neutrality under the concept applied. Expectations continue to be significantly below their good year-end 2015 level as the sense of unease which enterprises began to feel after the turn of the year has so far hardly dissipated.

Similar trend among large enterprises

The trend in sentiment among large enterprises is hardly any different, even if on a clearly lower level. Their business expectations improved by 2.4 points. While this is slightly better than in the SME sector, it is clearly too little to prevent the fourth consecutive negative monthly result (-2.2 balance points). Situation assessments, on the other hand, dropped by 2.9 points to 15.5 balance points. On balance, the business climate among large enterprises remains virtually unchanged (-0.1 points to 6.7 balance points).

Noticeable differences from one sector to another

Economic sectors showed an extremely mixed picture in April. In the manufacturing sector the slight drop in business climate among SMEs practically balanced out the equally moderate improvement among large enterprises. Despite the moderate improvement, large manufacturers, which are particularly sensitive to global variations in demand, remained at the bottom of the table, just as they were in the two preceding months. The business climate in both company size classes deteriorated both in the wholesale and in the retail sector. Nevertheless, there is good reason to remain calm, particularly since this was probably a strong one-off effect caused by this year's early Easter, which provided additional impetus in March that is now followed by a typical counter-reaction. Sentiment among SME retailers in particular continues on a very high level, which underscores the continuing strength of private consumption in Germany.

Construction leaves the pack behind

Construction is the only sector where the mood is even better. Construction firms of both size classes reported tangible improvements in business sentiment in April and are leaving the other sectors behind. The considerable additional need for housing and the government initiatives to expand infrastructure investment allow construction firms to be upbeat about the future.

Recovering from the sober mood will be a challenge

Individual signals such as those coming from construction are encouraging but overall the positive and negative trends in the individual economic sectors nearly cancel each other out. SMEs and large enterprises generally remain stuck in the sober mood into which they had sunk after the turn of the year. Recovering from it is proving to be an unexpectedly slow and laborious process, as the first attempt in March was practically followed by stagnation in April. The continuing economic and, in part, political risks in Europe and the global environment in themselves appear to be exerting a persistent downward pull that should not be underestimated. Stable domestic demand, as well as some already improved indicators closely tied to the world economy, such as German industrial production, however, are still providing just enough lift to prevent a renewed downturn in sentiment.

Moderate recovery will continue for the time being

The April result of the KfW-ifo SME Barometer is therefore no reason for us to rush into revising our current view of the German economy. The 1.7% real growth which we forecast for Germany for 2016 is still possible, not least thanks to an expected very good first quarter. However, given the stubborn risks, our current expectation that the momentum at the beginning of this year can be sustained at least somewhat for the rest of the year and, in particular, into the year 2017, must be reassessed after the new GDP figures are published in May. But from today's perspective the result of that revision is still completely unpredictable. ■

KfW Research

KfW-ifo SME Barometer: April 2016

Attachment: SME business climate in figures

KfW-ifo SME Barometer

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Apr/15	Nov/15	Dec/15	Jan/16	Feb/16	Mar/16	Apr/16			
Business climate											
Manufacturing	SME	12.6	13.7	12.4	10.4	5.2	8.2	6.8	-1.4	-5.8	-5.4
	LSE	14.9	12.9	15.9	6.1	-1.8	2.0	3.5	1.5	-11.4	-10.4
Construction	SME	17.0	25.6	23.4	23.0	22.1	21.0	23.0	2.0	6.0	-2.0
	LSE	20.4	24.0	17.9	18.8	27.2	22.2	25.7	3.5	5.3	4.8
Retail trade	SME	17.6	30.0	24.4	25.3	18.8	20.3	19.0	-1.3	1.4	-7.2
	LSE	9.0	9.5	7.6	4.9	8.6	11.4	5.9	-5.5	-3.1	1.4
Wholesale trade	SME	14.0	19.7	19.5	17.9	14.1	16.4	14.9	-1.5	0.9	-3.9
	LSE	15.6	18.1	16.2	14.1	10.7	16.7	16.3	-0.4	0.7	-1.6
All economic sectors	SME	14.2	18.0	16.2	14.7	10.9	12.7	12.1	-0.6	-2.1	-4.4
	LSE	14.5	14.1	14.7	8.0	3.3	6.8	6.7	-0.1	-7.8	-6.6
Current situation	SME	21.9	25.4	24.2	25.3	22.9	24.8	23.3	-1.5	1.4	-1.3
	LSE	25.2	22.1	22.4	16.7	16.3	18.4	15.5	-2.9	-9.7	-3.7
Expectations	SME	6.2	10.5	8.1	4.1	-1.0	0.7	0.8	0.1	-5.4	-7.4
	LSE	4.0	5.8	6.8	-0.9	-9.4	-4.6	-2.2	2.4	-6.2	-9.3
West Germany	SME	14.4	18.7	16.9	15.1	11.2	13.4	12.6	-0.8	-1.8	-4.5
	LSE	14.7	13.6	14.6	7.7	3.0	6.9	6.9	0.0	-7.8	-6.4
East Germany	SME	13.2	14.3	12.1	12.4	9.5	8.3	9.4	1.1	-3.8	-3.9
	LSE	10.3	25.4	16.7	14.2	10.7	5.1	1.3	-3.8	-9.0	-13.1
Employment expectations	SME	8.2	10.4	11.0	10.1	8.4	8.2	7.4	-0.8	-0.8	-2.5
	LSE	12.5	9.6	11.3	6.8	5.8	6.6	7.2	0.6	-5.3	-2.7
Sales price expectations	SME	-1.0	-0.8	-0.6	-1.8	-4.5	-6.7	-6.3	0.4	-5.3	-4.8
	LSE	-3.7	-4.8	-5.2	-6.1	-9.1	-6.6	-5.5	1.1	-1.8	-1.7

Source: KfW, ifo

Explanations and abbreviations:

*Seasonally and mean adjusted (long-term mean since January 1991 = 0)

S(mall and) M(edium-sized) E(nterprises)

L(arge-) Scale E(nterprises)

Change in percentage points m(onth)-o(ver)-y(ear)

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

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 well-known ifo business climate index for which about 7,000 enterprises from trade and industry (manufacturing, construction, wholesale and retail trades) from western and eastern Germany are polled every month on current and future business, including around 5,600 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 limits have to be drawn more narrowly for retail trade (maximum annual turnover of EUR 12.5 million) and the construction industry (up to 200 employees). 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 are also expressed as balance figures. All time series are seasonally and mean adjusted. The zero line therefore marks the long-term 'cycle-neutral' average. Indicators above (or below) zero point to an above average or favourable (below average or negative) business situation.