

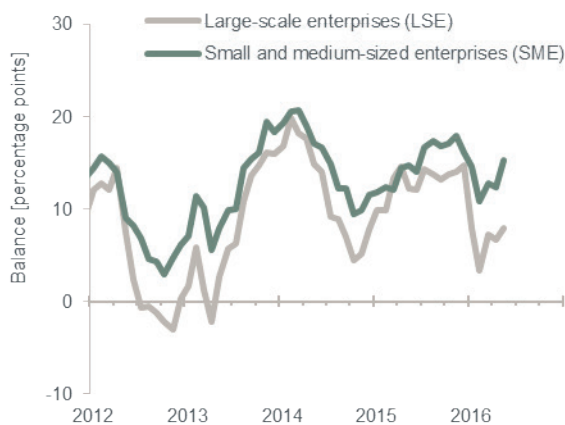
## »» Spring is in the air for German SMEs

10 June 2016

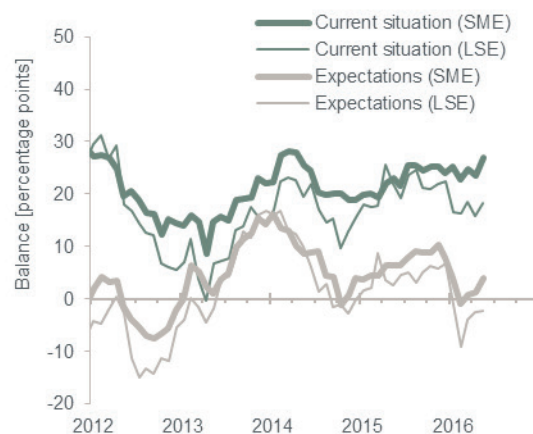
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- SME business climate jumps to annual high
- SMEs' expectations and situation assessments improve noticeably
- Large enterprises' business situation has improved, but outlook remains dim
- The upswing continues – Brexit is a risk

### KfW-ifo business climate



### KfW-ifo climate components



Source: KfW, ifo

### SME business sentiment brightens

Economic risks, particularly the one posed by the upcoming Brexit referendum, do not appear to influence small and medium-sized enterprises enough to spoil their mood. On the contrary, positive sentiment is literally flourishing – in line with the season. In May the SME business climate improved by a strong 3.0 points to reach 15.4 balance points, the highest level this year. Both components of the sentiment indicator are up significantly:

- SMEs' assessments of the current business situation improved by 3.4 points to 27.0 balance points – a two-year high. The very good situation assessment indicates a solid fundamental upward trend of the economy in the second quarter. Nevertheless, real growth is likely to shift down a gear in the spring because GDP growth was unusually high in the first-quarter owing to exceptionally favourable weather conditions (+0.7 % on the previous quarter) and will probably experience a downward correction.

- Another sign that SMEs expect the positive economic trend to continue are their business expectations. They increased by 2.7 points to 3.9 balance points. Thus, optimists are gradually gaining the upper hand again, although they do not yet outnumber the pessimists as clearly as in late 2015. Nevertheless, after the noticeable rise in May the expectations indicator has now recovered almost half of its decline since November 2015 to February 2016. In the face of the numerous impediments, especially in the external environment, it is understandable that they are generally more cautious in their expectations than at the end of 2015. The global situation is characterised not only by the unresolved issues in Europe, but also by the recessions in Russia and Brazil, as well as the economic slowdown in China.

### **Large enterprises remain sceptical for the time being**

The continuing rather difficult situation of the global economy is probably the main reason for the lower sentiment among the more internationally oriented large enterprises. It is true that their situation assessments have also improved on April (up 2.4 points to 18.3 balance points). However, their business expectations were practically unchanged in May, remaining negative for the fifth consecutive month (+0.1 points to -2.4 balance points). In other words, large enterprises remain sceptical for the time being. Their sentiment is generally still significantly more muted than that of SMEs, although the business climate among large enterprises after all did rise by 1.2 points to 7.9 balance points.

### **Sentiment in SME construction industry reaches all-time high**

Across the industries, it is evident that the international environment is currently the primary source of concern while domestic demand fuels economic optimism. Bucking the general trend in May, the business climate indicator of large manufacturers dropped slightly by 0.9 points to 2.5 balance points. Large manufacturers, which are particularly sensitive to global variations in demand, thus remained clearly at the bottom of the table, just as they were in the three preceding months. Large construction firms were also less confident than in the previous month, but this decline is insignificant given the continuing very high level of this volatile sub-indicator. Sentiment among small and medium-sized construction firms, on the other hand, climbed to a new all-time high in May. It rose 4.4 points to 27.2 balance points, primarily because of the extremely good assessment of ongoing business. This underscores the currently outstanding economic position of this industry, which is also illustrated by hard indicators such as incoming orders and building approvals. But the month of May also improved

economic sentiment in the remaining segments – small and medium-sized manufacturers, retail and wholesale. Business climate indicators in trade are now generally much higher than in this year's Easter month of March, after April had brought the expected temporary setback. Consumption continues to be reliable.

### **The upswing continues, but ...**

The KfW-ifo SME Barometer for May can be condensed into the following short formula: the upswing remains on track. It is only around two weeks ago that we performed the routine update to our economic outlook, reaffirming our preliminary forecast of 1.7 % real growth this year and 1.8 % next year, an optimistic one especially with a view to 2017 (see KfW Business Cycle Compass Germany dated 24 May). The sentiment among German businesses as it is now reflected in the KfW-ifo SME Barometer fits into this picture seamlessly. Following a technical pause in the spring, Germany's quarterly growth should clearly regain momentum in the second half of 2016 and continue at a decent pace in 2017 as well. Further down the track we expect a gradually improving external environment in addition to the continuously reliable impulses from domestic demand.

### **... Brexit is a risk**

Nevertheless, we are not oblivious to the continuing economic and, in part, political risks in the European and global environment which manifest themselves in our monthly sentiment survey particularly in the ongoing relative scepticism on the part of export-oriented segments of the German economy (manufacturers, large corporations). The key event in Europe this year will certainly be the referendum on a Brexit. If Britain votes on 23 June to leave the European Union, thereby taking the centrifugal forces in Europe into a new dimension, we would have to fundamentally rethink our economic forecasts. However, we do not expect this to happen. ■

# KfW Research

## KfW-ifo SME Barometer: May 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	
		May/15	Dec/15	Jan/16	Feb/16	Mar/16	Apr/16				May/16
<b>Business climate</b>											
Manufacturing	SME	12.9	12.3	10.4	5.2	8.3	7.0	10.2	3.2	-2.7	-0.8
	LSE	12.2	15.9	6.1	-1.7	2.4	3.4	2.5	-0.9	-9.7	-4.0
Construction	SME	18.2	23.2	22.9	22.1	21.1	22.8	27.2	4.4	9.0	0.9
	LSE	17.9	17.8	18.7	26.9	21.9	26.0	22.7	-3.3	4.8	2.4
Retail trade	SME	20.1	24.2	25.1	18.8	20.5	19.5	24.3	4.8	4.2	-1.3
	LSE	9.4	7.5	4.7	8.6	11.7	6.2	11.4	5.2	2.0	2.8
Wholesale trade	SME	15.6	19.4	17.8	14.1	16.6	15.4	19.3	3.9	3.7	0.0
	LSE	12.3	16.2	14.1	10.9	17.1	16.9	20.3	3.4	8.0	4.4
<b>All economic sectors</b>	<b>SME</b>	<b>14.8</b>	<b>16.1</b>	<b>14.6</b>	<b>10.9</b>	<b>12.8</b>	<b>12.4</b>	<b>15.4</b>	<b>3.0</b>	<b>0.6</b>	<b>-0.4</b>
	<b>LSE</b>	<b>12.3</b>	<b>14.7</b>	<b>7.9</b>	<b>3.4</b>	<b>7.2</b>	<b>6.7</b>	<b>7.9</b>	<b>1.2</b>	<b>-4.4</b>	<b>-1.4</b>
Current situation	SME	22.9	24.1	25.2	22.9	24.9	23.6	27.0	3.4	4.1	1.1
	LSE	21.9	22.5	16.7	16.4	18.5	15.9	18.3	2.4	-3.6	-1.0
Expectations	SME	6.5	7.9	4.1	-1.0	0.8	1.2	3.9	2.7	-2.6	-1.7
	LSE	2.7	6.7	-0.9	-9.1	-3.9	-2.5	-2.4	0.1	-5.1	-1.8
West Germany	SME	15.9	16.8	15.0	11.2	13.5	12.9	16.0	3.1	0.1	-0.2
	LSE	12.2	14.6	7.7	3.2	7.3	6.9	8.1	1.2	-4.1	-1.0
East Germany	SME	8.0	12.0	12.4	9.5	8.2	9.6	11.8	2.2	3.8	-1.4
	LSE	15.8	16.5	14.2	10.7	5.4	1.8	4.5	2.7	-11.3	-9.9
<b>Employment expectations</b>	SME	8.6	11.0	10.0	8.4	8.2	7.4	8.4	1.0	-0.2	-1.8
	LSE	10.7	11.2	6.8	5.8	6.7	7.5	10.5	3.0	-0.2	0.3
<b>Sales price expectations</b>	SME	0.3	-0.6	-1.8	-4.4	-6.7	-6.0	-2.1	3.9	-2.4	-2.7
	LSE	-3.8	-5.2	-6.1	-9.1	-6.5	-5.0	-4.0	1.0	-0.2	1.6

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.