

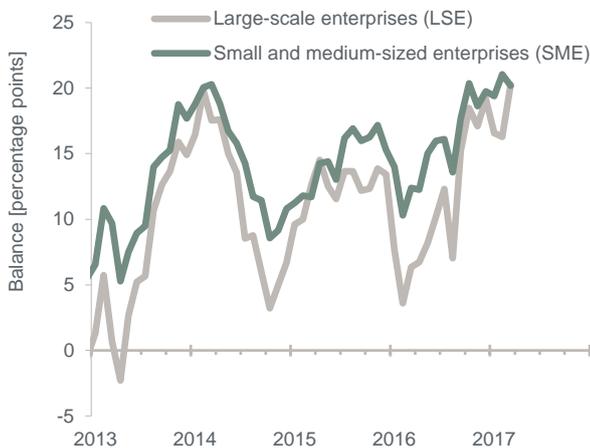
»» SME business sentiment is consolidating on a high level

5 April 2017

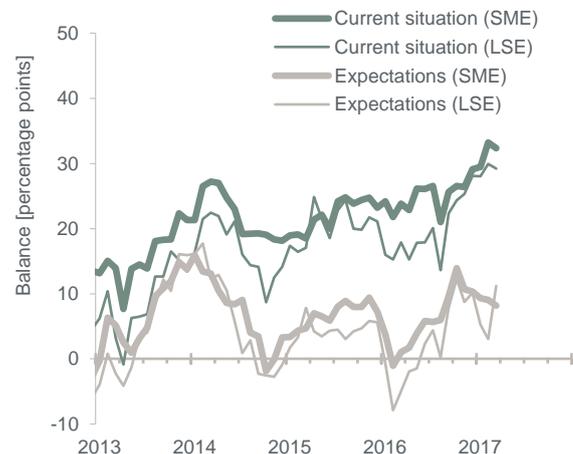
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- Negligible decline in SME business expectations and situation assessments
- Optimism growing fast among large enterprises
- Construction sector euphoric
- Economic outlook good as risks fade

KfW-ifo business climate



KfW-ifo climate components



Source: KfW, ifo

SMEs remain upbeat

Small and medium-sized enterprises are confident going into spring. Their business climate consolidated in March on a high 20.2 balance points, signalling ongoing strong economic momentum. The marginal decline was distributed across the two components, each of which fell by only around one third of a normal month-on-month variation:

- SMEs' business expectations were down 0.8 points to 8.2 balance points. Most of the continuing minor downturn is probably due to the slightly weakening domestic growth drivers. The return of higher inflation rates, in particular, now means that real wage growth this year will not be as strong as in 2016.
- SMEs' assessment of their current business situation dropped by 0.8 points to 32.4 balance points. Combined with the very positive situation assessments in January and February, that yielded the second-best quarterly result since German unification, indicating tangible, strong growth at the start of 2017

Surge in optimism among large enterprises

The situation indicator also dropped slightly for large enterprises but, as with SMEs, remained on a very high level (-0.7 points to 29.2 balance points). This time the difference was due to business expectations. Whereas large enterprises had become increasingly more sceptical since last autumn, their mood turned around completely in March. The expectations indicator jumped by 8.1 points, more than two and a half times an average monthly variation, now overtaking its SME counterpart for the first time in two years, at 11.2 balance points. Large enterprises' overall business confidence rose by 4.0 points to 20.3 balance points, thereby closing the gap in sentiment to SMEs that had opened up since the turn of the year. The export-dependent large manufacturers had a major share in this as their sentiment indicator rose by an impressive 6.5 points to 23.5 balance points. We see this as confirmation that the global economy is picking up while businesses' perceptions of the numerous political risks are fading. These risks had created growing uncertainty especially in the past months.

Construction is again most upbeat

Positive signals are coming not only from exporters, however, but also from the construction industry, one of the main pillars of the domestic economy. After the mood among large construction firms had deteriorated substantially in February without a plausible cause, March brought the anticipated correction. Business sentiment among large construction firms climbed a very substantial 11.1 points to 37.5 balance points, offsetting the preceding decline after just one month. Large construction firms are thus the most buoyant, followed by small and medium-sized construction businesses (+0.2 points to 29.9 balance points).

Sentiment among wholesalers dropped slightly on a high level while the short-term trend among retailers was divided. While sentiment among small and medium-sized retailers was slightly subdued (-2.0 points to 18.2 balance points), it rose by almost the same measure among large retailers (+1.9 points to 2.9 balance points). The aimless trend of the retail climate is likely due to the return of slightly higher consumer price inflation which is eating away at private households' real purchasing power – despite continuing employment growth – and therefore does not permit quite the same level of growth in consumption as last year.

Economic optimism – tempered with caution

The March result of the KfW-ifo SME Barometer has fuelled economic optimism particularly because of the clear upward correction in business expectations of large, heavily export-oriented businesses. With the emerging recovery of global trade, that optimism rests on a solid foundation. Nevertheless, a certain degree of caution remains in order. After the election outcome in the Netherlands the political risks may have faded into the background for the time being, but they have not disappeared. The important election in France is still ahead – and even if there have not yet been any tectonic shifts in the relationship with the USA and the UK, the imponderables continue to smoulder in the background. This is demonstrated not only by the absence of an avowal against protectionism at the G 20 summit in Baden-Baden. With tough and complex negotiations now imminent, the coming months will show where the sticking points lie in the future Europe-UK relationship. In this situation, growing optimism is also a burden should unforeseen conflicts arise. The disappointment would be all the greater. For the time being we therefore maintain our forecast of decent but not overwhelming economic growth of 1.4% for 2017. By now, however, we see the risks to our forecast primarily on the upside. ■

KfW Research

KfW-ifo SME Barometer: March 2017

Annex: SME business climate in figures

KfW-ifo SME Barometer

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Mrz/16	Okt/16	Nov/16	Dez/16	Jan/17	Feb/17	Mrz/17			
Business climate											
Manufacturing	SME	7.8	15.8	13.7	14.3	15.7	18.4	17.2	-1.2	9.4	2.5
	LSE	1.8	18.2	15.1	19.8	16.6	17.0	23.5	6.5	21.7	1.3
Construction	SME	20.8	32.0	31.6	32.4	30.7	29.7	29.9	0.2	9.1	-1.9
	LSE	20.6	30.9	36.8	39.9	37.8	26.4	37.5	11.1	16.9	-2.0
Retail trade	SME	20.3	23.4	23.2	24.6	18.5	20.2	18.2	-2.0	-2.1	-4.8
	LSE	11.0	7.8	15.2	5.6	4.7	1.0	2.9	1.9	-8.1	-6.7
Wholesale trade	SME	16.7	20.1	20.6	23.7	23.8	25.0	22.3	-2.7	5.6	2.2
	LSE	16.8	23.4	21.2	23.1	21.1	22.4	20.0	-2.4	3.2	-1.4
All economic sectors	SME	12.4	20.4	18.6	19.7	19.4	21.1	20.2	-0.9	7.8	0.6
	LSE	6.4	18.5	17.1	19.2	16.6	16.3	20.3	4.0	13.9	-0.5
Current situation	SME	23.9	26.6	26.4	29.1	29.5	33.2	32.4	-0.8	8.5	4.3
	LSE	17.9	24.4	25.3	28.1	28.1	29.9	29.2	-0.7	11.3	3.1
Expectations	SME	1.0	13.9	10.7	10.3	9.3	9.0	8.2	-0.8	7.2	-2.8
	LSE	-5.0	12.3	8.7	10.1	5.2	3.1	11.2	8.1	16.2	-3.9
West Germany	SME	13.1	21.1	19.1	20.3	20.0	22.3	20.9	-1.4	7.8	0.9
	LSE	6.4	19.1	17.6	19.6	16.9	16.2	20.6	4.4	14.2	-0.8
East Germany	SME	8.0	16.0	15.8	16.6	15.9	13.1	15.8	2.7	7.8	-1.2
	LSE	6.0	4.2	5.3	9.3	9.2	18.8	12.0	-6.8	6.0	7.0
Employment expectations	SME	7.9	12.6	12.0	13.3	12.3	14.7	13.6	-1.1	5.7	0.9
	LSE	6.2	15.2	14.6	17.9	16.8	17.8	14.4	-3.4	8.2	0.4
Sales price expectations	SME	-7.0	2.9	4.3	5.2	7.2	8.6	9.8	1.2	16.8	4.4
	LSE	-6.3	1.9	0.6	1.7	5.3	7.0	6.9	-0.1	13.2	5.0

Difference due to rounding possible, 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)-**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

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 building 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.