

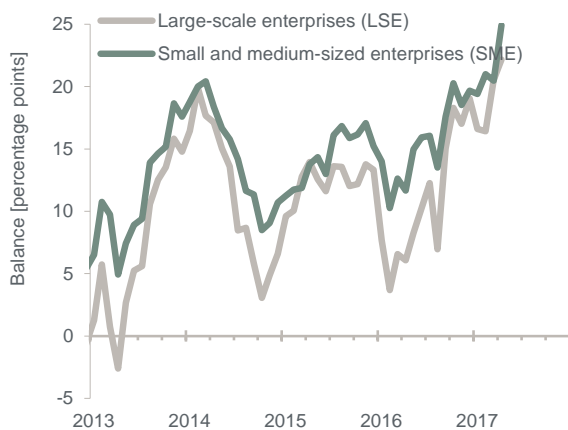
## »» Moving into spring at full speed

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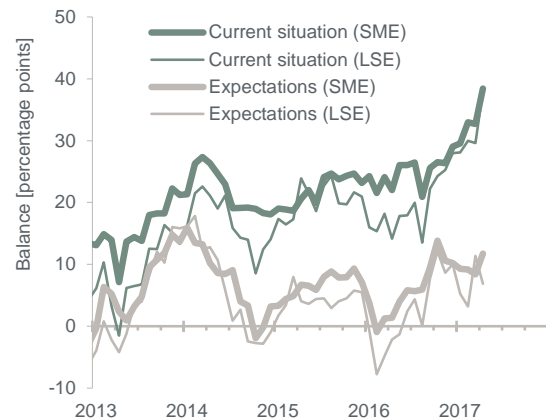
- SME business climate surges to all-time high
- Both situation assessments and expectations have risen significantly
- Large enterprises are much more satisfied with their situation but less optimistic about the future
- Economic outlook for Germany continues to brighten

### KfW-ifo business climate



Source: KfW, ifo

### KfW-ifo climate components



### SME business confidence soars to new heights

The German economy is operating at full steam into spring. The business climate of small and medium-sized enterprises surged by 4.4 points in April to now 24.9 balance points – the highest level the key indicator of the KfW-ifo SME Barometer has ever reached since it was introduced in January 1991. Both sentiment components contributed to the new record confidence level with strong increases.

- SMEs' business expectations improved by 3.3 points to 11.7 balance points. Political uncertainties appear to be increasingly fading into the background as the domestic economy, which is particularly important for SMEs, is already running smoothly.
- In April, SMEs' assessments of their current business situation soared by a sizeable 5.7 points, two and a half times the normal monthly variation, also climbing to a new all-time high of now 38.4 balance points. They clearly started the second quarter on an extraordinarily positive note – after what already appears to have been very strong first-quarter growth.

The business climate among large enterprises improved in April as well, by 1.7 points to 22.2 balance points. The improvement here, however, is exclusively due to their much better assessments of the current business situation, which soared even higher than among SMEs, by 8.5 points to 38.1 balance points. The very high level of the situation indicator in both enterprise size classes gives reason to hope for dynamic and broad-based growth in the second quarter as well.

### Large enterprises are slightly less optimistic

In contrast, large enterprises' expectations dropped by 4.5 points to 6.9 balance points. It has to be kept in mind, however, that their expectations indicator had risen by an extraordinarily high rate in March. The current decline corrects only a good half of the previous increase, so large enterprises nevertheless present themselves much more confident than in January and February. The decline in expectations was mostly driven by export-oriented large manufacturers, whose business confidence fell by 3.0 points to a still high level of 20.7 balance points. In the fraught area of global economic recovery and continuing global risks, we see this as a healthy correction.

### Retailers are much more upbeat

Retail trade was the most optimistic of the domestically oriented sectors in April. The very strong improvement of the business climate among large retailers after four relatively weak months (+15.3 points to 18.6 balance points) by far eclipses the increase among SME retailers, which in itself is already impressive (+7.8 points to 26.1 balance points). The conditions for private consumption are clearly positive and will remain so for the foreseeable future, a trend that is underscored not least by the recent strong increases in employment expectations, which have risen by more than three points in both enterprise size classes. Independently from this, however, we also see special factors operating here, in particular the shift of the Easter holidays from March to April, a factor the seasonal adjustment procedure can only partly account for, making a technical consolidation of the retail climate likely already in the coming month. Wholesalers have also become more optimistic in general, while the construction industry has defended its position as sentiment leader in both size classes, with rather moderate confidence increases. Strong sentiment improvements among SME manufacturers (+4.8 points to 22.3 balance points) round off the positive picture.

### The economy is running smoothly

The April result of the KfW-ifo SME Barometer provides further reasons for economic optimism. Strong and broad-based economic growth appears to be almost certain, at least in the first half of 2017. The outlook for the period after that is also brightening clearly at the moment. A good two months ago we forecast healthy but not exuberant economic growth of 1.4% for both 2017 and 2018. At the same time, we also pointed very clearly to considerable forecast risks on both sides – depending on whether the political risks of rising isolation and nationalism materialise or rather fade. After the election outcome in the Netherlands and the result of the first round of the presidential election in France, our estimate is that the chances of a revival of the European project are growing. Against this background, an upward revision of our scheduled quarterly forecast update in May is likely – even if the imponderables in the relationship with the USA and the UK will continue to smoulder in the background for quite some time. It is therefore too early to give the all-clear but not too early for optimism. As risks fade, businesses' investment backlog should start to ease and provide additional economic impetus. ■

# KfW Research

## KfW-ifo SME Barometer: April 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
		Apr/16	Nov/16	Dez/16	Jan/17	Feb/17	Mrz/17	Apr/17			
<b>Business climate</b>											
Manufacturing	SME	6.5	13.6	14.2	15.8	18.2	17.5	22.3	4.8	15.8	4.8
	LSE	2.9	14.9	19.7	16.7	17.2	23.7	20.7	-3.0	17.8	3.4
Construction	SME	22.4	31.5	32.2	30.5	29.6	29.8	31.3	1.5	8.9	-1.2
	LSE	24.1	36.7	39.9	37.8	26.3	37.5	39.1	1.6	15.0	-3.8
Retail trade	SME	18.8	23.2	24.6	18.4	20.3	18.3	26.1	7.8	7.3	-0.5
	LSE	5.2	15.4	5.3	4.7	1.0	3.3	18.6	15.3	13.4	-0.9
Wholesale trade	SME	14.6	20.5	23.6	23.8	25.2	22.6	27.7	5.1	13.1	2.5
	LSE	15.6	21.0	23.0	21.1	22.6	20.4	26.0	5.6	10.4	1.3
<b>All economic sectors</b>	<b>SME</b>	<b>11.7</b>	<b>18.5</b>	<b>19.7</b>	<b>19.4</b>	<b>21.0</b>	<b>20.5</b>	<b>24.9</b>	<b>4.4</b>	<b>13.2</b>	<b>2.9</b>
	<b>LSE</b>	<b>6.1</b>	<b>17.0</b>	<b>19.0</b>	<b>16.6</b>	<b>16.4</b>	<b>20.5</b>	<b>22.2</b>	<b>1.7</b>	<b>16.1</b>	<b>2.1</b>
Current situation	SME	22.0	26.3	29.1	29.5	33.0	32.7	38.4	5.7	16.4	6.4
	LSE	14.1	25.2	28.0	28.1	30.0	29.6	38.1	8.5	24.0	5.5
Expectations	SME	1.4	10.6	10.2	9.3	9.2	8.4	11.7	3.3	10.3	-0.3
	LSE	-2.1	8.7	10.0	5.3	3.2	11.4	6.9	-4.5	9.0	-0.8
West Germany	SME	12.1	19.1	20.2	20.0	22.3	21.2	25.9	4.7	13.8	3.4
	LSE	6.2	17.5	19.4	16.9	16.3	20.9	22.3	1.4	16.1	1.9
East Germany	SME	9.3	15.7	16.5	15.9	13.1	15.9	18.9	3.0	9.6	-0.1
	LSE	2.0	5.5	9.4	9.2	18.4	11.4	18.1	6.7	16.1	8.0
<b>Employment expectations</b>	<b>SME</b>	<b>6.9</b>	<b>11.9</b>	<b>13.3</b>	<b>12.3</b>	<b>14.5</b>	<b>13.7</b>	<b>17.0</b>	<b>3.3</b>	<b>10.1</b>	<b>2.6</b>
	<b>LSE</b>	<b>7.3</b>	<b>14.5</b>	<b>17.8</b>	<b>16.7</b>	<b>17.7</b>	<b>14.3</b>	<b>17.6</b>	<b>3.3</b>	<b>10.3</b>	<b>0.2</b>
<b>Sales price expectations</b>	<b>SME</b>	<b>-5.7</b>	<b>4.3</b>	<b>5.2</b>	<b>7.2</b>	<b>8.6</b>	<b>9.7</b>	<b>9.8</b>	<b>0.1</b>	<b>15.5</b>	<b>3.8</b>
	<b>LSE</b>	<b>-4.4</b>	<b>0.5</b>	<b>1.7</b>	<b>5.3</b>	<b>7.1</b>	<b>6.6</b>	<b>2.5</b>	<b>-4.1</b>	<b>6.9</b>	<b>2.9</b>

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.