

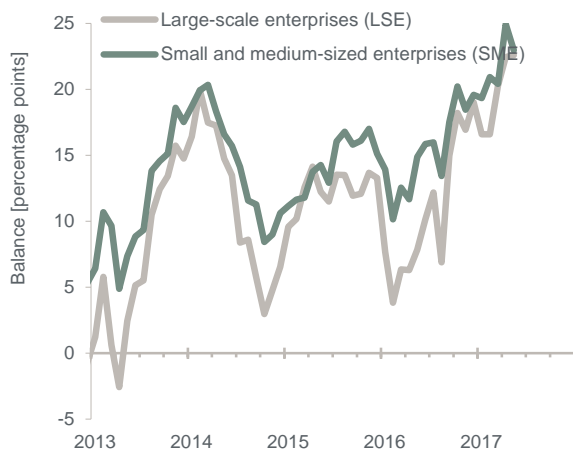
»» SME business sentiment: taking a breather after all-time high

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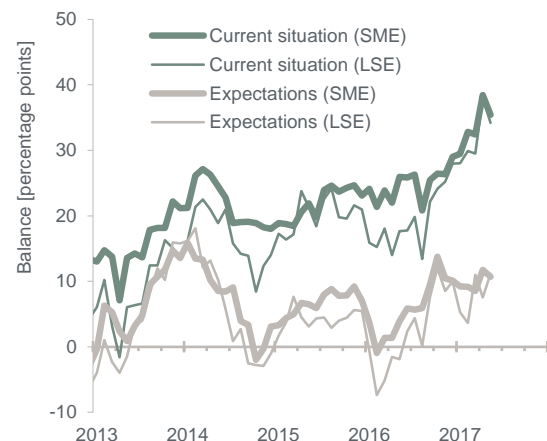
- SME business confidence dips slightly
- Retail climate normalises after temporary positive Easter effect
- Large enterprises are clearly becoming more confident
- German economy continues to run smoothly

KfW-ifo business climate



Source: KfW, ifo

KfW-ifo climate components



Business climate just under record level

The mood on the executive floors of Germany's small and medium-sized enterprises remains excellent even if business sentiment in May fell just short of the previous month's all-time high. The current 23.0 balance points represent a 2.0 point drop on April. But a respectable plus of 2.6 points on March remains, so the upward trend remains intact. The last time the indicator was slightly higher - apart from the previous month - was more than six years ago. Much of the decline is due to the less positive situation assessments:

- Businesses' situation assessments dropped by 3.0 points from the previous month's record level to 35.4 balance points. On average for April and May, SMEs' situation assessments remain clearly above the average of the first quarter, however, which points to similarly positive growth in the spring quarter as in the first quarter, when the German economy grew by 0.6%.
- At the same time, SMEs' business expectations fell by a moderate 1.0 points to 10.7 balance points. In our view, this is no grounds for concern. The significantly lower level of expectations compared with situation assess-

ments is understandable because the current business situation, which is near the all-time-high, is the point of reference in relation to which expectations for future variations were surveyed. As is known, the air gets rather thin near the peak.

Large enterprises are clearly more optimistic

Contrary to SMEs, large enterprises became more optimistic in May, with their expectations indicator rising by 3.7 points to 11.2 balance points. However, they had accumulated a backlog as their expectations had fallen noticeably in April, as opposed to SMEs. We also see this as a sigh of relief for many large businesses that are more export-driven than the average after the election result in France, which now provides the opportunity to place Europe and the currency union on a more stable foundation.

Large enterprises' situation assessments fell by 3.8 points to 34.2 balance points from the month of April but remained very high and noticeably above the March level despite the decline – as was the case in the SME sector. Business sentiment among large enterprises hence moved practically sideways overall in May (+0.1 points to 22.6 balance points).

Retail confidence has dropped to pre-Easter level

In a branch comparison, retailers again stood out in May, although this time with a very clearly negative month-on-month variation in business confidence from April (SME retailers: -8.0 points to 18.2 balance points; large retailers: -9.5 points to 9.1 balance points). The indicator of SME retailers consequently dropped to the still good March level, while sentiment among large retailers was actually significantly better than two months ago. A similar up-and-down can also be observed in the two wholesale segments. We attribute this primarily to technical factors resulting from the shift of the Easter holiday – from March in 2016 to April in 2017 – which the seasonal adjustment procedure could only inadequately account for. But the fundamental outlook for private consumption remains good, not least thanks to businesses' continuing expansive recruitment plans. In the construction sector the moderate upward trend in business sentiment continued on a very high level, and among the large construction firms it is now actually better than ever since the indicator was first surveyed in January 1991. Construction continues to be a reliable pillar of the business cycle.

Large enterprises breathe a sigh of relief

Relief over the result of the election in France and growing optimism over the rebounding global economy became particularly evident in the export-driven large manufacturing

industry, where business confidence climbed noticeably by 3.0 points to 24.3 balance points, the highest level since June 2011. Confidence among manufacturing SMEs did fall moderately by 1.1 points to 21.3 balance points in May. But the trend here continues to point clearly upwards, as the business climate had already improved greatly in April. The current decline corrects just slightly more than one fifth of the previous increase.

Strong business cycle continues

Irrespective of the slight drop in business sentiment among small and medium-sized enterprises, the May result of the KfW-ifo SME Barometer is indicative of a continuing strong business cycle. The drop in confidence was very largely due to the technical correction in the retail and wholesale sector, but which does not affect the fundamental upward trend. Particularly encouraging is the return to stronger global growth and the great opportunity of the presidential election result in France for reviving the European project. Businesses may now go about increasing capital expenditure more vigorously than previously assumed. That is why we recently lifted our growth forecast for Germany by 0.2 percentage points to 1.6% for both 2017 and 2018. Given the ongoing uncertainty in the relationship with the USA and the UK, which is likely to continue for some time to come, these are good prospects. ■

KfW Research

KfW-ifo SME Barometer: May 2017

Annex: SME business cycle in figures

KfW-ifo SME Barometer

| Balance [Percentage points]* | | Month/Year | | | | | | | m-o-m | y-o-y | 3m-o-3m |
|---------------------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|
| | | Mai/16 | Dez/16 | Jan/17 | Feb/17 | Mrz/17 | Apr/17 | Mai/17 | | | |
| Business climate | | | | | | | | | | | |
| Manufacturing | SME | 9.5 | 14.1 | 15.7 | 18.2 | 17.5 | 22.4 | 21.3 | -1.1 | 11.8 | 4.4 |
| | LSE | 2.8 | 19.8 | 16.7 | 17.8 | 22.4 | 21.3 | 24.3 | 3.0 | 21.5 | 4.6 |
| Construction | SME | 26.0 | 32.0 | 30.3 | 29.5 | 29.8 | 31.4 | 31.8 | 0.4 | 5.8 | 0.4 |
| | LSE | 22.6 | 39.6 | 37.5 | 26.2 | 37.4 | 38.9 | 40.3 | 1.4 | 17.7 | 4.4 |
| Retail trade | SME | 23.4 | 24.5 | 18.2 | 20.2 | 18.2 | 26.2 | 18.2 | -8.0 | -5.2 | -0.1 |
| | LSE | 10.2 | 5.2 | 4.7 | 1.1 | 3.7 | 18.6 | 9.1 | -9.5 | -1.1 | 6.8 |
| Wholesale trade | SME | 19.4 | 23.6 | 23.7 | 24.9 | 22.0 | 28.0 | 20.9 | -7.1 | 1.5 | -0.5 |
| | LSE | 20.0 | 23.0 | 21.1 | 22.6 | 20.3 | 25.9 | 23.1 | -2.8 | 3.1 | 0.9 |
| All economic sectors | SME | 14.9 | 19.6 | 19.3 | 20.9 | 20.4 | 25.0 | 23.0 | -2.0 | 8.1 | 2.8 |
| | LSE | 7.8 | 19.0 | 16.6 | 16.6 | 20.3 | 22.5 | 22.6 | 0.1 | 14.8 | 4.4 |
| Current situation | SME | 25.9 | 29.0 | 29.4 | 32.8 | 32.4 | 38.4 | 35.4 | -3.0 | 9.5 | 5.0 |
| | LSE | 17.6 | 28.0 | 28.0 | 29.9 | 29.5 | 38.0 | 34.2 | -3.8 | 16.6 | 5.3 |
| Expectations | SME | 3.9 | 10.1 | 9.2 | 9.2 | 8.5 | 11.7 | 10.7 | -1.0 | 6.8 | 0.8 |
| | LSE | -1.9 | 10.0 | 5.3 | 3.7 | 11.0 | 7.5 | 11.2 | 3.7 | 13.1 | 3.6 |
| West Germany | SME | 15.5 | 20.1 | 19.9 | 22.2 | 21.2 | 26.0 | 23.7 | -2.3 | 8.2 | 2.9 |
| | LSE | 8.0 | 19.4 | 16.9 | 16.5 | 20.6 | 22.6 | 22.5 | -0.1 | 14.5 | 4.3 |
| East Germany | SME | 11.4 | 16.4 | 15.9 | 13.1 | 15.9 | 18.7 | 18.6 | -0.1 | 7.2 | 2.6 |
| | LSE | 3.8 | 9.4 | 9.4 | 18.0 | 12.1 | 18.1 | 24.3 | 6.2 | 20.5 | 5.9 |
| Employment expectations | SME | 8.1 | 13.2 | 12.3 | 14.5 | 13.7 | 17.0 | 15.2 | -1.8 | 7.1 | 2.0 |
| | LSE | 9.4 | 17.8 | 16.6 | 17.6 | 14.2 | 17.6 | 18.9 | 1.3 | 9.5 | -0.4 |
| Sales price expectations | SME | -1.3 | 5.1 | 7.1 | 8.5 | 9.7 | 9.9 | 10.5 | 0.6 | 11.8 | 3.1 |
| | LSE | -3.4 | 1.8 | 5.3 | 7.1 | 6.3 | 2.4 | 3.8 | 1.4 | 7.2 | -0.6 |

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-) **S**cale **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.