KfW Research
KfW-ifo SME Barometer: July 2017

>> Business climate at ever new heights

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

- Improved expectations boost SME climate to new all-time high
- SMEs’ situation assessments stable at record level
- Large-scale enterprises also in an excellent mood
- Economic outlook brightening further

KfW-ifo business climate

SME business climate chasing ever new record highs
The current upward trend in the business sentiment of small and medium-sized enterprises currently seems to know no limits: In July, the business climate rose by 1.1 points to now 29.2 balance points. This new record high – the third one within only four months – is, however, only based on an even more optimistic outlook:

- Business expectations of small and medium-sized enterprises improved by 1.9 points to 16.6 balance points. This should be due to the continued good outlook for domestic demand as well as the broadening European upswing and receding political risks within the euro area.

- At the same time, the current business assessments have remained at the record level of 41.9 balance points reached after a huge leap in the previous month.

Large enterprises join the party
Large enterprises also celebrated the upbeat sentiment in July, their business climate rising by 2.5 points to 27.0 balance points month-on-month and thus even outperforming the increase posted by the SMEs. Both climate components contributed to the increase: While business expectations improved rather moderately (+1.0 points to 12.0 balance points), large firms provided a much better assessment of their current situation than in the previous month (+4.3 points to 42.7 balance points) and in this sub-indicator even came ahead of the SMEs, albeit only slightly. This is the best situation assessment by large-scale enterprises ever since the launch of this survey in January 1991. It is only due to the relatively low level of business expectations that the business climate of large enterprises remains slightly below the all-time high posted when growth was recovering strongly following the great recession in 2009 (December 2010: 29.9 balance points).

Broadly based upturn
The excellent business sentiment among almost all industries and company sizes is based on the fact that - in addition to what has been a reliably good domestic demand for some time already – foreign demand has also been picking up noticeably for a few months now and places Germany’s economic upturn on a broader basis. The global economic revival is particularly noticeable among the large industrial corporations which are active international players and have recorded an improvement in business climate of 2.8 points to 28.0 balance points – the highest level since February 2011. Small and medium-sized manufacturing businesses, however, which include many global hidden champions, have

Note: This paper contains the opinion of the author and does not necessarily represent the position of KfW.
also continued their clear upward trend in sentiment (+1.8 points to 27.9 balance points) and sectors which are more geared towards the domestic market do not need to hide away either. Construction firms of both size classes for instance posted new record highs on the climate indicators in July. Among large-scale construction firms the increase was more than twice as high as the usual month-on-month change and thus stronger than in any other segment. The construction industry continues to be well ahead of the other sectors in the business climate table; the boom of this industry remains unbroken. Wholesalers and retailers also presented themselves in an excellent mood in July. The two declines in climate recorded by large retailers and small and medium-sized wholesalers appear insignificant against this background since they represent only a minor correction to the strong increases recorded by these two segments in the previous month. At the same time, the ongoing substantial employment plans of companies show that the labour market remains the key driver behind consumption and is still in full force – the excellent sentiment in the wholesale and retail segments is therefore not really surprising.

Better growth prospects
The German economy is posting one sentiment high after the other with no industry lagging behind – this is the main upshot of the KfW SME barometer in July. Compared to the latest real growth of a good 2.4% annualised recorded in the first quarter of 2017, this extremely buoyant business climate seems exaggerated. During the last peak in business climate seen in the winter semester 2010/2011, Germany posted annualised growth rates of 5.4% on average. Even if real growth is likely to have accelerated again in the second quarter, such growth rates would be out of reach. To some extent, the current euphoria might also be due to the relief felt when the political risk of a further destabilisation of the euro area did not materialise. At the same time it seems as if large exporting companies are less concerned about the continued uncertainties as regards the relationship with the US and the UK since growth is also picking up the pace in other major economies worldwide. The most important thing, however, is that the excellent business sentiment now also starts to be reflected in hard data such as industrial output. Germany benefits not least from the brighter economic prospects of its European partners. If the positive signals from European politics translate into tangible results, the stronger growth might well be more than a flash in the pan.
### 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, 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.

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<th>Business climate</th>
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<th>Mai'17</th>
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### 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.

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Difference due to rounding possible, Source: KfW, ifo