

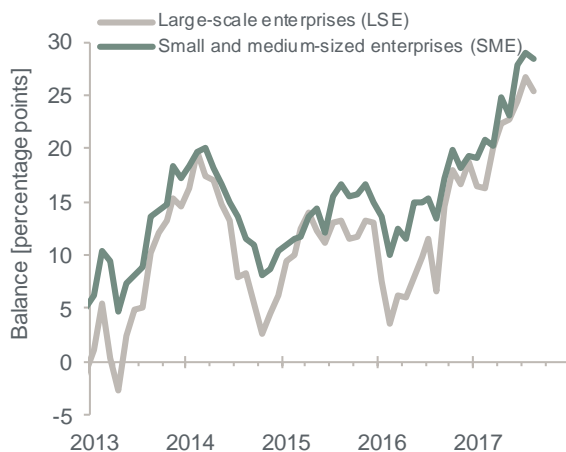
»» SME business confidence reaches a plateau after rising fast

4 September 2017

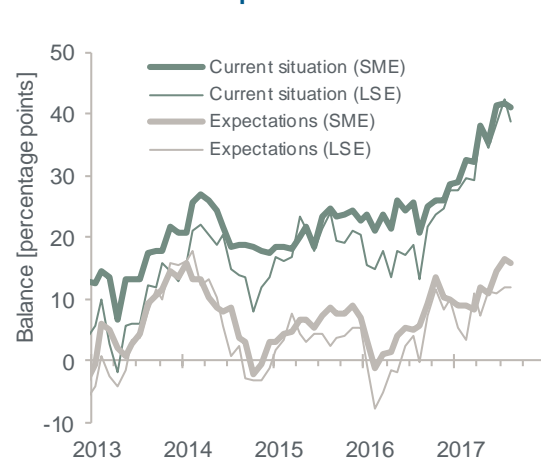
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- SMEs' situation assessments and business expectations dip just slightly
- Large enterprises are marginally more optimistic
- Construction continues to chase records
- Germany's upswing is robust and vigorous

KfW-ifo business climate



KfW-ifo climate components



Source: KfW, ifo

SME business sentiment is consolidating

The steep rise of SME business confidence – with three new all-time highs in the last four months – has reached a plateau for the time being. The key confidence indicator of the KfW-ifo SME Barometer fell slightly by 0.6 points in August to now 28.3 balance points. Both components of business sentiment dipped insignificantly:

- Assessments of the current business situation fell by 0.5 points from the previous record level. Enterprises are nevertheless extraordinarily confident about their current business, with now 41.1 balance points. This indicates continuing robust cyclical momentum as summer draws to a close.
- Business expectations among SMEs declined by 0.8 points to 15.7 balance points. With the exception of the previous month, never has there been more optimism in the past six and a half years than now. Small and medium-sized enterprises evidently expect the vigorous business cycle to continue for the foreseeable future.

Large enterprises slightly more upbeat

Large enterprises have an optimistic outlook on the economy as well; their business expectations rose slightly by 0.3 points to 12.1 balance points, a forty-month high. The increasingly broad international base of the upswing and the reliable strong domestic demand are good motives for such optimism. Despite the improved expectations component, however, overall business sentiment declined (-1.4 points to 25.3 balance points) because large enterprises made somewhat stronger corrections to their business situation assessments than SMEs, by 3.4 points to 38.9 balance points. But we do not see this as a cause for concern. First, the downward correction of situation assessments came on the heels of an all-time high in the previous month and takes away only a portion of the preceding rise. Second, it is essentially due to a strong decrease among large retailers – the segment whose response pattern is by far the most prone to variation. A single monthly value should therefore not be overrated. The outlook for private consumption remains fundamentally excellent, as illustrated by the increase in the GfK Consumer Climate indicator for September, which has reached the highest level since 2001.

Construction hits record levels

The robust state of the German economy is translating into very good business confidence results in almost all areas, from 21.6 balance points in the SME retail sector through 27.3 balance points in manufacturing to an unprecedented 48.3 balance points among large construction firms. The August result for large construction companies is a new all-time high, not just in the history of the sector, but the highest level ever achieved by any industry or size class since surveys were first conducted in January 1991. SME construction firms, which are mostly active in residential construction, as well as large firms that focus on infrastructure and commercial construction are at the top of the list in both size classes, and their lead is widening. Construction investment is and remains a reliable pillar of the domestic economy.

Labour market is still booming

The labour market also remains strong. Businesses' hiring plans have taken an increasingly expansionary course since early 2016 without any visible signs of weakening. SMEs' hiring plans grew by 0.5 points in August to 17.6 balance points and those of large enterprises climbed 1.3 points to 22.5 balance points.

Aiming for two per cent real growth

The German economy is steaming ahead and the negligible dips in confidence levels among SMEs and large enterprises – as illustrated by the KfW-ifo SME Barometer for August – do nothing to change this. Considering the confidence crisis in the automobile industry, the most recent euro appreciation, the continuing geopolitical tensions with North Korea and the stalled Brexit negotiations, there might indeed be some good reasons for enterprises to make significantly more cautious assessments. Consequently, the fact that confidence nevertheless remains on levels close to historic highs is a sign of self-confidence and strength. Even a further consolidation of the business climate in the coming months would have to be seen as an adjustment of the very euphoric sentiment to the hard cyclical data – which are 'just' good to very good overall – and not as a harbinger of an imminent end to the upturn. We expect the external environment in Europe and around the world to continue brightening and domestic demand in Germany to remain steady, buoyant, and able to rely on sustained employment growth, rising real wages and, at last, stronger growth of corporate investment. On that basis, Germany is aiming for real growth of 2.0% for both 2017 and 2018. ■

KfW Research

KfW-ifo SME Barometer: August 2017

Annex: SME business cycle in figures

KfW-ifo SME Barometer

Balance [Percentage points]*		Month/Year						Aug/17	m-o-m	y-o-y	3m-o-3m
		Aug/16	Mrz/17	Apr/17	Mai/17	Jun/17	Jul/17				
Business climate											
Manufacturing	SME	7.9	17.5	22.1	21.6	26.0	27.8	27.3	-0.5	19.4	6.6
	LSE	3.0	22.3	21.3	24.2	25.0	28.0	27.3	-0.7	24.3	4.2
Construction	SME	27.0	29.5	31.1	31.7	33.8	34.6	35.8	1.2	8.8	4.0
	LSE	27.9	37.0	38.6	40.3	36.9	44.2	48.3	4.1	20.4	4.5
Retail trade	SME	20.6	18.0	26.0	18.8	25.3	25.3	21.6	-3.7	1.0	3.1
	LSE	7.4	4.2	17.6	10.0	17.1	12.8	2.7	-10.1	-4.7	0.3
Wholesale trade	SME	15.6	22.2	27.3	20.6	32.8	30.7	28.3	-2.4	12.7	7.2
	LSE	15.1	20.1	25.8	23.5	25.3	31.1	31.9	0.8	16.8	6.3
All economic sectors	SME	13.4	20.3	24.8	23.2	27.8	28.9	28.3	-0.6	14.9	5.6
	LSE	6.6	20.1	22.3	22.8	24.4	26.7	25.3	-1.4	18.7	3.8
Current situation	SME	20.8	32.3	38.0	35.4	41.5	41.6	41.1	-0.5	20.3	6.2
	LSE	13.3	29.2	37.6	34.4	38.3	42.3	38.9	-3.4	25.6	6.1
Expectations	SME	5.8	8.4	11.8	11.1	14.5	16.5	15.7	-0.8	9.9	5.1
	LSE	-0.3	11.0	7.5	11.4	10.9	11.8	12.1	0.3	12.4	1.7
West Germany	SME	14.2	21.0	25.7	23.9	28.5	29.9	29.4	-0.5	15.2	5.7
	LSE	7.1	20.5	22.5	22.8	24.8	27.0	25.5	-1.5	18.4	3.8
East Germany	SME	8.9	15.7	18.9	18.9	24.0	22.9	21.8	-1.1	12.9	5.1
	LSE	-5.4	11.9	17.4	23.7	15.3	20.9	21.6	0.7	27.0	1.6
Employment expectations	SME	9.4	13.5	16.8	15.2	18.9	17.1	17.6	0.5	8.2	2.7
	LSE	10.8	14.0	17.4	18.9	18.1	21.2	22.5	1.3	11.7	3.8
Sales price expectations	SME	0.2	9.6	9.6	9.6	8.3	8.5	7.1	-1.4	6.9	-1.6
	LSE	-3.9	6.2	2.1	3.2	1.9	4.3	1.5	-2.8	5.4	-1.2

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.