

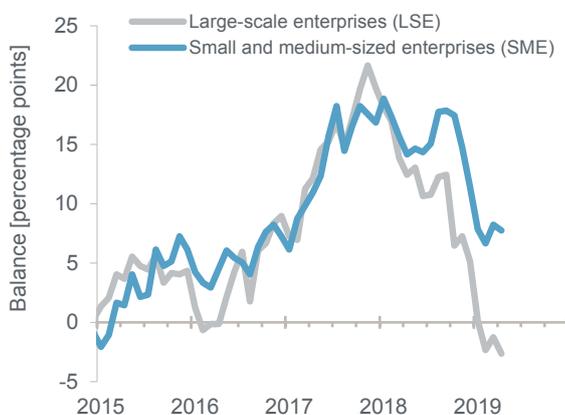
## »» SME business sentiment – as changeable as spring weather

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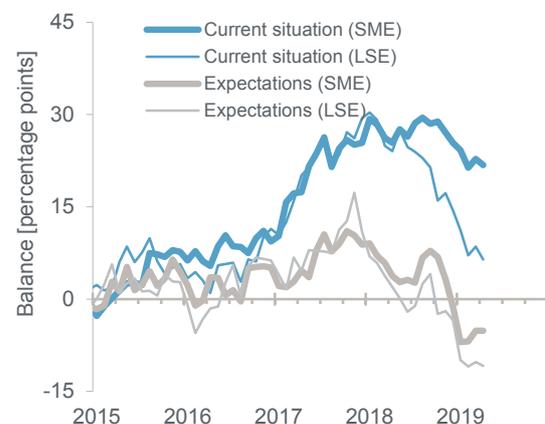
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- SME business sentiment faces setback amid weaker situation assessments
- Large enterprises are increasingly worried
- Manufacturers' confidence continues to tumble
- Pessimistic expectations signal subdued growth dynamic

### KfW-ifo business climate



### KfW-ifo climate components



Source: KfW Research, ifo Institute

### SME business sentiment grows bleaker again

The renewed postponement of the UK's exit from the EU has staved off the threat of a disorderly Brexit for now but failed to lift the spirits of SMEs, dampening business sentiment again slightly in April after it had brightened in the previous month. The indicator is now at 7.7 balance points. That is 0.5 points lower than in the previous month but nevertheless 1.1 points more than in February. This moderate setback is exclusively due to the less favourable assessment of current business:

- Situation assessments by small and medium-sized enterprises dropped by 1.0 points to 21.8 balance points in April. That means the assessments remain quite good at the beginning of the second quarter in a long-term comparison.
- SMEs' business expectations, in turn, stagnated at -5.2 balance points. Steady expectations in times of persistent, deep economic uncertainty may provide a small glimmer of hope. At the same time, the outlook on the future, which has been mostly pessimistic since December, is also an indication of firms' continuing nervousness in light of the ongoing risks to the business cycle.

### Large enterprises' confidence is in the doldrums

Large enterprises have been much more pessimistic than SMEs already since the summer of last year. This rift has widened even further, as large enterprises' business sentiment was negative for the third consecutive month in April with -2.6 balance points (-1.4 points on the previous month). Both sentiment components were weaker than in March. Business expectations fell by 0.6 points to a pessimistic -10.8 balance points and situation assessments dropped even more steeply by 2.1 points to now 6.4 balance points.

### Industrial sector is most subdued

The downward trend is most apparent in those sectors of the economy that compete internationally. Manufacturing has been hit particularly hard and remains at the bottom of the sentiment leaderboard. Manufacturing SMEs were down -3.4 points to -4.9 balance points and large manufacturers fell by -2.9 points to -12.1 balance points. Large manufacturing firms' export expectations recovered, but only moderately, still hovering deep below the zero line (+0.9 points to -12.7 balance points). The progress in the trade talks between China and the US that was rumoured in the meantime might be a reason for this very minor improvement.

### Domestic sectors are not immune

However, the domestic sectors are not entirely immune to the downturn in sentiment. In the wholesale sector, the intermediary between domestic and international markets, large enterprises in particular reported a tangible deterioration in sentiment by 3.2 points to now only 0.1 balance points. But SME wholesalers also experienced a slight drop in confidence (-0.2 points to 0.3 balance points). The indicator, therefore, is moving practically only on the level of the long-term average in both size classes of this sector of the economy. A comparable pattern, albeit on a significantly higher overall confidence level, can be identified in the service sector, where many larger enterprises in particular are closely intertwined with manufacturers in the business cycle (SMEs: -0.4 points to 9.9 balance points; large enterprises: -1.0 points to 8.2 balance points). Only construction firms reported rising confidence in both size classes in April (SMEs: +0.1 points to 28.4 balance points; large enterprises: +2.6 points to 27.4 balance points), defending their position as the unchallenged, leading boom sector of the German economy.

### Consumer spending remains solid

Large retailers recovered slightly (+1.1 points to 1.2 balance points), while sentiment among small and medium-sized fell sharply (-3.8 points to 10.7 balance points). It is possible that a growing number of retailers are gradually becoming concerned that the strong impetus from the labour market on consumption demand, which has been a reliable mainstay for years, may weaken. Such a trend is apparent in the employment expectations captured by the KfW-ifo SME Barometer, for example, which have been trending downwards since around mid-2018. Employment expectations and the sentiment indicator of SME retailers in particular are still on a good level, however, so consumer spending is unlikely to lose its role as a pillar of growth any time soon.

### Muted outlook on the business cycle

The April findings of the KfW-ifo SME Barometer are about as changeable as spring weather. The SME business climate has shed some of the gains of the previous month, while sentiment among large enterprises fell even more steeply than it had risen in March and dropped to the lowest level in four and a half years. The fundamental conditions hardly changed in April. Hopes for a solution in the British exit drama were again dashed as the Brexit date was fast approaching but postponed again and the threat of punitive tariffs by the US on European car imports continues to hang over companies' heads like a sword of Damocles and hampers their planning efforts. How unpredictable American trade policy has become in the meantime can be seen again: After US President Trump surprisingly threatened new tariff increases on the first Sunday in May, just before the start of what was presumably the last round of negotiations with China, he implemented them five days later and thus escalated the trade conflict considerably, despite ongoing negotiations. All of these uncertainties combined with a slowing global economy are a burden on industry and dampen expectations. It is therefore too early to lower the guard. The economic outlook remains subdued, even if Germany's economic growth in the first quarter will likely surprise with a prospective increase – the first estimate from Destatis is due on 15 May – of 0.4% on the previous quarter. Overall, the signs continue to point to a downturn but not to a recession, thanks to the continuing robust domestic economy. ■

# KfW Research

## KfW-ifo SME Barometer: April 2019

### KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Apr/18	Nov/18	Dec/18	Jan/19	Feb/19	Mar/19	Apr/19			
<b>Business climate</b>											
Manufacturing	SME	13.2	9.5	6.4	2.2	0.8	-1.5	-4.9	-3.4	-18.1	-7.9
	LSE	13.9	5.1	1.9	-3.5	-6.1	-9.2	-12.1	-2.9	-26.0	-10.3
Construction	SME	27.9	37.1	35.9	26.4	25.5	28.3	28.4	0.1	0.5	-5.7
	LSE	25.0	35.4	38.0	31.6	24.3	24.8	27.4	2.6	2.4	-9.5
Retail trade	SME	11.4	9.6	11.7	5.8	11.0	14.5	10.7	-3.8	-0.7	3.0
	LSE	0.3	-2.0	-7.3	-8.7	-5.8	0.1	1.2	1.1	0.9	4.5
Wholesale trade	SME	5.8	9.0	6.6	2.7	2.3	0.5	0.3	-0.2	-5.5	-5.1
	LSE	5.4	5.2	6.5	-6.7	-1.2	3.3	0.1	-3.2	-5.3	-0.9
Services	SME	11.8	14.9	9.7	8.2	5.0	10.3	9.9	-0.4	-1.9	-2.5
	LSE	17.0	14.0	15.3	8.2	6.9	9.2	8.2	-1.0	-8.8	-4.4
<b>Germany</b>	<b>SME</b>	<b>14.1</b>	<b>14.7</b>	<b>11.4</b>	<b>7.8</b>	<b>6.6</b>	<b>8.2</b>	<b>7.7</b>	<b>-0.5</b>	<b>-6.4</b>	<b>-3.8</b>
	<b>LSE</b>	<b>12.5</b>	<b>7.3</b>	<b>5.2</b>	<b>0.2</b>	<b>-2.3</b>	<b>-1.2</b>	<b>-2.6</b>	<b>-1.4</b>	<b>-15.1</b>	<b>-6.3</b>
Current situation	SME	25.4	27.1	25.4	24.2	21.4	22.8	21.8	-1.0	-3.6	-3.6
	LSE	24.0	17.2	14.4	11.2	7.1	8.5	6.4	-2.1	-17.6	-6.9
Expectations	SME	3.7	3.2	-1.3	-7.0	-6.9	-5.2	-5.2	0.0	-8.9	-4.1
	LSE	2.0	-1.9	-3.4	-9.9	-10.9	-10.2	-10.8	-0.6	-12.8	-5.6
<b>Employment expectations</b>	SME	12.4	10.5	9.9	9.1	9.0	7.2	5.5	-1.7	-6.9	-2.6
	LSE	15.7	15.2	15.7	10.2	8.4	5.5	4.8	-0.7	-10.9	-7.5
<b>Sales price expectations</b>	SME	9.6	14.6	15.9	14.8	9.5	8.1	6.7	-1.4	-2.9	-7.0
	LSE	9.9	10.6	13.6	12.3	7.2	4.0	3.0	-1.0	-6.9	-7.4
<b>Export expectations of manufacturing</b>	SME	3.6	4.5	-1.5	-3.7	-3.0	-7.8	-8.3	-0.5	-11.9	-6.1
	LSE	7.1	-1.4	-1.5	-6.3	-1.9	-13.6	-12.7	0.9	-19.8	-6.3

Source: KfW Research, ifo Institute

Explanations and abbreviations:

\*Seasonally and mean adjusted (long-term mean since January 2005 = 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. The KfW-ifo SME Barometer was fundamentally revised for the reporting month of April 2018 (new aggregation process, inclusion of services, start of time series now 2005 instead of 1991, consideration of export expectations, discontinuation of regional indicators for western and eastern Germany). Publications prior to and from April 2018 are therefore comparable to a limited extent only.

### 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 ifo economic surveys which are used to calculate, among other things, the well-known ifo Business Climate Index. Each month about 9,500 enterprises from trade and industry, construction, wholesale, retail and services (without the banking and insurance sectors or the state) are polled on their business situation, among them some 8,000 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 distinctions have to be drawn more narrowly for retail trade (maximum annual turnover of EUR 12.5 million), the building and the construction industry (up to 200 employees) and services (maximum annual turnover of EUR 25 million). 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 and – exclusively for manufacturing – export expectations are also captured as balance figures for the next three months. All time series are seasonally and mean adjusted. The zero line therefore marks the long-term 'cycle-neutral' average since January 2005. Indicators above (or below) zero point to an above average or favourable (below average or negative) business situation.