

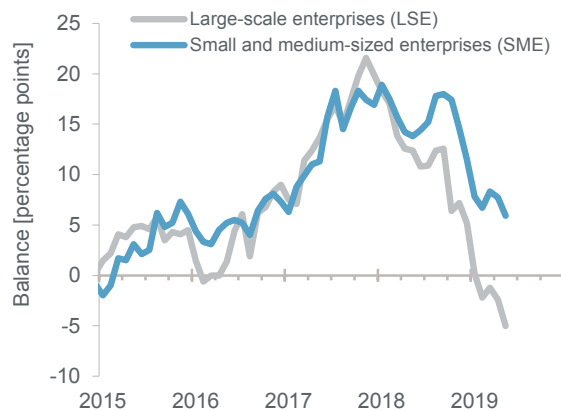
»»» Much gloom weighs on SME business climate but rays of hope can be seen

4 June 2019

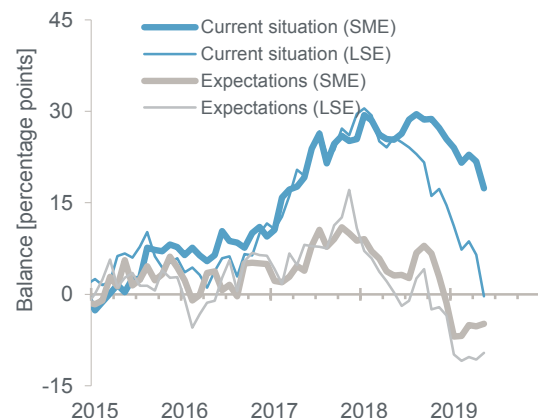
Dr Philipp Scheuermeyer, phone +49 69 7431-4017, philipp.scheuermeyer@kfw.de
Press contact: Wolfram Schweickhardt, +49 69 7431-3266, wolfram.schweickhardt@kfw.de

- SMEs downgrade their situation assessments, expectations have stabilised
- Industry is trending downward, service providers are increasingly worried, construction boom continues unabated
- Large enterprises' situation assessments have plummeted
- Stabilising business expectations may signal a bottoming out

KfW-ifo business climate



KfW-ifo climate components



Source: KfW Research, ifo Institute

SME business confidence continues to trend downward

Business confidence in the small and medium-sized enterprise sector continued its downward trend in May as well. The key indicator of the KfW-ifo SME Barometer dropped by 1.8 points to 5.9 balance points. Situation assessments in particular dropped sharply, while expectations of future business conditions stabilised on a low level. For now, the recent re-escalation of the trade war between the US and China appears to be weighing less on businesses' expectations than the negative reactions on the stock market would suggest.

- SMEs rated their current business situation 4.4 points lower than in the previous month. The decline is roughly 1.8 times an average monthly variation. Based on a long-term comparison, however, situation assessments are still on a very high level of 17.4 balance points, surpassed only by the record sentiment years 2017 and 2018.
- Expectations of future business conditions improved minimally by +0.4 points. However, they remained below average at -4.8 balance points, which shows that a relative majority of SMEs still expect their business situation to deteriorate within the next six months.

Since February, however, business expectations are at least showing a stabilisation trend, which gives reason to be hopeful.

Situation assessments of large enterprises have plummeted

Once again, business confidence among large enterprises fell even more sharply than among SMEs. Dropping by 2.6 points, the indicator is now at -5.0 balance points, very clearly below the zero line which represents the long-term average. The business situation, in particular, has been rated significantly lower by large enterprises than SMEs for some time now. With a renewed plunge, this time by 6.8 points, that gap is increasingly widening. The pessimistic business expectations, on the other hand, stabilised slightly and rose 1.1 points to now -9.6 balance points.

Situation assessments among large industrial firms have dropped very sharply already since spring of 2018, as they are the companies most heavily impacted by the weakness in global trade. In May, large enterprises' situation assessments now nosedived by some 10 points to -15.2 balance points. Based on this low level, their business expectations rose by 5.6 points but remained very pessimistic on balance, at

KfW Research

KfW-ifo SME Barometer: May 2019

-12.6 points. Large enterprises' export expectations clearly remained in negative terrain (-13.4 balance points) after a renewed slight drop.

Business confidence among large service providers also deteriorated significantly in May. It is now merely average at 0.1 balance points. The current decline of 8.2 balance points is roughly 3.6 times an average monthly variation. For the most part, the downward trend is presumably driven by business service providers such as management consultancy firms, whose business is linked to the fate of the industrial sector.

Industrial SMEs are slightly less pessimistic

Manufacturing has been the SME sector's problem child for quite some time now. At -4.4 balance points, manufacturers' below-average business sentiment is primarily the result of pessimistic expectations for the future, whereas their situation assessments are still above average – unlike those of large enterprises. With situation assessments dropping slightly and expectations rising, the trend in SME industry in May roughly reflected the mood expressed by the overall indicator. The business climate of SME industry was up 0.1 points, hardly moving at all. Unlike large-scale industry, SMEs slightly lifted their export expectations, which may be associated with their stronger orientation towards the European internal market.

Confidence has dropped among SME service providers and wholesalers

The most recent trend among small and medium-sized service providers, which operate less often in industry-related sectors, was less negative than among large enterprises. Although both situation assessments and expectations among SMEs dropped, the 3.7 point drop in confidence to 6.2 balance points remains within the range of typical variations in this segment.

A clear downward trend is not yet discernible among service enterprises, even if confidence levels have fallen from the record levels of the previous year.

The mood among SME wholesalers has gradually soured and was down 1.3 points in May. At -1.2 balance points, their confidence is now below average. The wholesale segment comprises both domestically and export-oriented and industry-related enterprises, similar to the services sector.

Purely domestic sectors remain stable

The almost exclusively domestically oriented sectors of the economy are a bright spot. Business confidence improved in both size classes of construction and civil engineering, as well as retail. The renewed boost in confidence in the construction industry is noteworthy, given its strong first-quarter growth, which was partly due to favourable weather.

A rather subdued outlook for the second quarter

The driver of the economy at the start of the year was domestic demand, especially in construction and retail. Based on the findings of the current KfW-ifo SME Barometer, we expect it to remain buoyant in the second quarter as well. Export-oriented industry and related service sectors, which reported a slump in sentiment, will be facing much greater difficulties. As employment expectations among large enterprises are falling (-3.5 points to 1.1 balance points), it is to be hoped that the lull in the manufacturing sector will not drag other sectors down as well. On balance, however, employment expectations are still positive, which points to a continuation of the booming labour market. With their relatively steady hiring plans (-0.1 points to 5.3 balance points), SMEs in particular should act as a stability anchor. The bottoming out of business expectations signals another silver lining and points to a moderate recovery of the business cycle, which we expect for the second half of the year. ■

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KfW-ifo SME Barometer: May 2019

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		May/18	Dec/18	Jan/19	Feb/19	Mar/19	Apr/19	May/19			
Business climate											
Manufacturing	SME	13.0	6.4	2.2	0.9	-1.6	-4.5	-4.4	0.1	-17.4	-6.7
	LSE	11.5	1.9	-3.4	-5.9	-8.8	-11.8	-13.5	-1.7	-25.0	-8.9
Construction	SME	27.4	36.1	26.2	25.4	29.2	28.2	31.2	3.0	3.8	0.3
	LSE	28.3	37.1	31.7	24.8	22.3	28.2	31.7	3.5	3.4	-3.8
Retail trade	SME	12.9	11.7	5.8	11.0	14.5	10.6	11.2	0.6	-1.7	2.6
	LSE	0.5	-7.5	-8.9	-5.9	0.2	1.7	3.9	2.2	3.4	9.4
Wholesale trade	SME	13.1	6.5	2.6	2.1	0.5	0.1	-1.2	-1.3	-14.3	-3.9
	LSE	10.6	6.4	-6.8	-1.3	3.2	0.0	0.2	0.2	-10.4	1.7
Services	SME	11.1	9.7	8.1	5.1	10.3	9.9	6.2	-3.7	-4.9	1.2
	LSE	18.9	15.4	8.2	7.1	9.3	8.3	0.1	-8.2	-18.8	-4.3
Germany	SME	13.8	11.5	7.8	6.7	8.3	7.7	5.9	-1.8	-7.9	-1.4
	LSE	12.4	5.2	0.2	-2.2	-1.2	-2.4	-5.0	-2.6	-17.4	-3.9
Current situation	SME	25.4	25.5	24.1	21.6	22.9	21.8	17.4	-4.4	-8.0	-3.0
	LSE	25.7	14.6	11.2	7.3	8.7	6.5	-0.3	-6.8	-26.0	-6.1
Expectations	SME	3.1	-1.4	-6.9	-6.8	-5.0	-5.2	-4.8	0.4	-7.9	0.0
	LSE	0.3	-3.5	-9.9	-10.9	-10.3	-10.7	-9.6	1.1	-9.9	-2.1
Employment expectations	SME	12.2	9.8	9.0	8.9	7.1	5.4	5.3	-0.1	-6.9	-3.3
	LSE	16.0	15.7	10.1	8.4	5.4	4.6	1.1	-3.5	-14.9	-7.7
Sales price expectations	SME	11.2	15.8	14.9	9.5	8.1	6.5	4.2	-2.3	-7.0	-7.1
	LSE	5.5	13.6	12.3	7.2	4.0	3.0	1.6	-1.4	-3.9	-8.2
Export expectations of manufacturing	SME	1.8	-1.3	-3.5	-2.8	-8.0	-7.9	-6.3	1.6	-8.1	-4.9
	LSE	2.5	-1.4	-6.2	-1.8	-13.4	-12.7	-13.4	-0.7	-15.9	-10.0

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.