

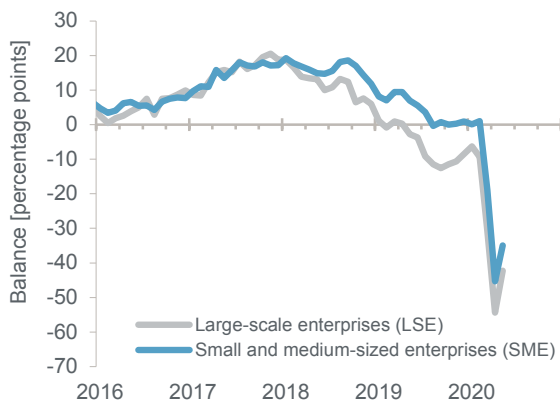
## >>> A sigh of relief!

10 June 2020

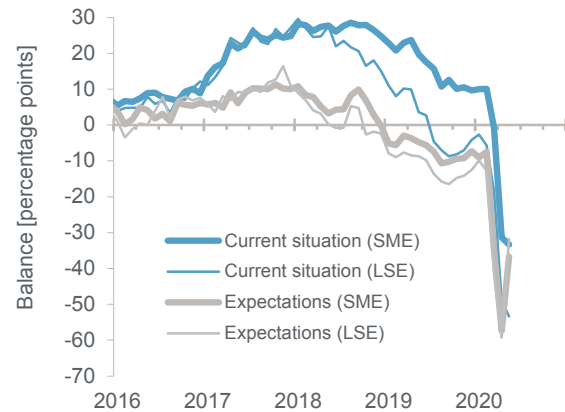
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- SME business confidence rebounds after previous month's all-time low
- Situation assessments down slightly but expectations less pessimistic
- As overall sentiment brightens, retailers are leading the charge
- The recovery from the coronavirus slump will not be a quick one

### KfW-ifo business climate



### KfW-ifo climate components



Source: KfW Research, ifo Institute

### Historic mood swings in the SME sector

The coronavirus pandemic has caused sentiment volatility never seen before in the SME sector. In May, business confidence recovered very sharply from its unprecedented nosedive the month before. But what is noteworthy are the relations. The improvement of 10.3 points, the second strongest since the beginning of the time series in January 2005, to now -35.0 balance points, made up for only a good one fifth of the decreases in March and April. The increase is being carried solely by business expectations:

- Relief over the gradual easing of restrictions caused a historic rise in business expectations by 20.7 points, a good seven times the typical monthly variation. Nonetheless, a great deal of pessimism remains, as the index is still at -36.7 balance points. Only in the previous month were SMEs even more anxious about the future than now.
- Business situation assessments, in contrast, fell moderately by 1.9 points to -33.3 balance points. Despite the roll-back of containment measures, the situation remains extremely difficult for many businesses, even if situation assessments are still slightly better than they were when they hit the lows of the financial crisis in the first half of 2009.

The month of May brought visible progress in slowing the spread of the coronavirus, allowing the measures introduced in the second half of March, such as contact restrictions and comprehensive mandatory business closures, to be relaxed again. This success is owed to the discipline exercised by the population and general acceptance of the restrictions, including by the affected businesses. This applies not just to SMEs but also gives large enterprises hope that the worst is over.

### Lower situation assessments among large enterprises

As was the case for small and medium-sized enterprises, the business expectations of large enterprises also brightened at an unprecedented rate after the previous month's all-time low (+27.4 points to -31.8 balance points). Both the increase and the still very modest level of expectations are comparable to those of the SME sector. In contrast, large enterprises' situation assessments continue to be much worse (-4.4 points to -53.4 balance points), which causes their business climate level of -42.3 balance points (+12.1 points on April) to be noticeably lower than among SMEs. Large-scale industry in particular has long suffered not just from the coronavirus crisis but from weak international demand, simmering trade conflicts and the ongoing uncertainties of Brexit.

### **Retail recorded strongest rise in confidence of all sectors**

Therefore, it is no wonder that large manufacturers remain the least confident of all segments (+8.9 points to -51.7 balance points), followed by manufacturing SMEs (+5.9 points to -40.8 balance points). Manufacturers' export expectations also remain deep below the zero line despite strong increases on April. The very heterogeneous segment of service providers posted the second lowest business confidence level (SMEs: +14.6 points to -38.5 balance points; large enterprises: +8.4 points to -38.3 balance points) – hardly any better than manufacturing SMEs. While many business service providers are suffering from the pronounced manufacturing weakness, personal, tourist and cultural service providers are being hit particularly hard by the social distancing measures. Retail and wholesale trade was the segment with the highest relative increase in confidence in May, benefiting from the reopening of physical stores. Confidence saw a clear double-digit rise in both wholesale trade (SMEs: +18.6 points to -37.9 balance points; large enterprises: +16.1 points to -31.5 balance points) and retail, where the increase was even stronger (SMEs: +21.6 points to -22.2 balance points; large enterprises: +25.9 points to -27.8 balance points). As before, construction clearly remains on top of the sentiment leaderboard. At the same time, a widening gap is opening up here at the expense of large construction firms (+4.8 points to -19.2 balance points), which focus on public and commercial projects, while construction SMEs – most of which build dwellings – are currently faring best (+5.9 points to -3.2 balance points). However, confidence in the construction sector

has also been negative for the past two months. This is exclusively due to the much bleaker expectations, especially among large construction firms. But the construction sector gave the current situation a higher than average score in May as well, which puts it way ahead of other sectors.

### **New confidence in the future is the key**

The findings of the KfW-ifo SME Barometer since March resemble a rollercoaster ride with a steep downward slide followed by a relatively short climb in May. Even if the current sentiment improvement was exceptionally strong from a historic perspective, we do not regard it as more than a sigh of relief in the face of the most recent easing of the coronavirus crisis, which now permits businesses to take a less pessimistic view of the near future. With its comprehensive coronavirus response and the successes achieved in containing the spread of infections, Germany is on a good path. But the path out of the coronavirus slump is a long one, even if the Federal Government's new economic stimulus package will provide welcome impetus. Hygiene requirements, which must remain in place, have to be complied with in order to stay the course. New confidence in the future is the key to a successful outcome. Therefore, it is essential to quickly draw up a growth and investment programme that takes into account the structural challenges of the German economy and conveys a clear idea of sustainable economic performance in order to strengthen and consolidate the coming recovery. Then the chances are good that Germany can find its way to new strength after the inevitable GDP plunge this year, which we forecast to be -6%.

**KfW-ifo SME Barometer in figures**

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		May/19	Dec/19	Jan/20	Feb/20	Mar/20	Apr/20	May/20			
<b>Business climate</b>											
Manufacturing	SME	-1.7	-14.2	-11.9	-7.3	-21.8	-46.7	-40.8	5.9	-39.1	-25.3
	LSE	-9.4	-17.9	-16.3	-15.5	-35.4	-60.6	-51.7	8.9	-42.3	-32.7
Construction	SME	31.4	24.4	19.6	18.5	12.2	-9.1	-3.2	5.9	-34.6	-20.9
	LSE	31.5	18.5	14.6	19.4	0.9	-24.0	-19.2	4.8	-50.7	-31.6
Retail trade	SME	12.5	11.8	8.7	10.5	-13.4	-43.8	-22.2	21.6	-34.7	-36.8
	LSE	7.4	-5.2	-2.2	-1.7	-25.5	-53.7	-27.8	25.9	-35.2	-32.6
Wholesale trade	SME	1.0	-10.9	-6.8	-6.3	-28.5	-56.5	-37.9	18.6	-38.9	-33.0
	LSE	1.8	-10.9	-6.7	-4.4	-28.9	-47.6	-31.5	16.1	-33.3	-28.7
Services	SME	8.0	5.4	2.2	1.5	-24.2	-53.1	-38.5	14.6	-46.5	-41.6
	LSE	2.2	0.9	2.3	-2.9	-29.1	-46.7	-38.3	8.4	-40.5	-38.1
<b>Germany</b>	<b>SME</b>	<b>6.9</b>	<b>0.9</b>	<b>0.1</b>	<b>1.0</b>	<b>-18.9</b>	<b>-45.3</b>	<b>-35.0</b>	<b>10.3</b>	<b>-41.9</b>	<b>-33.7</b>
	<b>LSE</b>	<b>-2.8</b>	<b>-8.5</b>	<b>-6.3</b>	<b>-9.3</b>	<b>-30.7</b>	<b>-54.4</b>	<b>-42.3</b>	<b>12.1</b>	<b>-39.5</b>	<b>-34.4</b>
Current situation	SME	19.7	9.6	10.0	10.1	-0.8	-31.4	-33.3	-1.9	-53.0	-31.7
	LSE	3.6	-4.2	-2.7	-5.7	-18.5	-49.0	-53.4	-4.4	-57.0	-36.1
Expectations	SME	-4.8	-7.3	-9.1	-7.5	-34.7	-57.4	-36.7	20.7	-31.9	-35.0
	LSE	-8.7	-12.5	-9.8	-12.7	-41.4	-59.2	-31.8	27.4	-23.1	-32.5
<b>Employment expectations</b>	SME	5.7	1.6	2.1	1.4	-8.4	-24.6	-17.2	7.4	-22.9	-18.4
	LSE	2.6	-4.5	-5.1	-8.7	-15.3	-27.4	-26.1	1.3	-28.7	-16.8
<b>Sales price expectations</b>	SME	4.5	4.9	8.5	4.6	-4.5	-14.0	-12.4	1.6	-16.9	-16.3
	LSE	2.1	2.7	3.4	1.1	-5.6	-16.2	-15.8	0.4	-17.9	-14.9
<b>Export expectations of manufacturing</b>	SME	-4.5	-10.5	-9.5	-8.7	-26.2	-57.8	-41.3	16.5	-36.8	-32.2
	LSE	-9.6	-4.7	-8.1	-13.8	-32.8	-60.9	-30.5	30.4	-20.9	-32.5

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 9,000 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 7,500 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.