

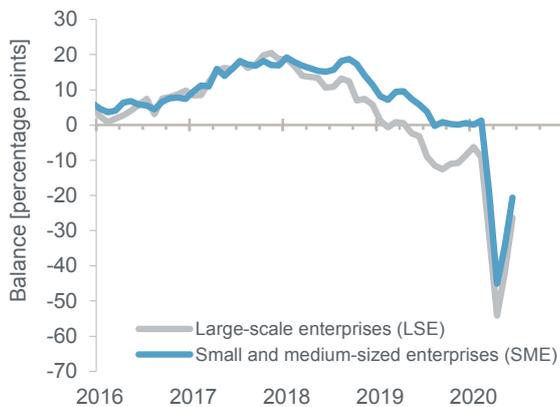
»»» SMEs are hoping for better times

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- SME business sentiment is brightening at a record pace
- Expectations have improved much more than situation assessments
- Sentiment among large enterprises has also seen a historic rise
- Significant downturn risks on path to recovery

KfW-ifo business climate



KfW-ifo climate components



Source: KfW Research, ifo Institute

SMEs are hoping for the best

The low number of new infections and the resulting easing of restrictions combined with strong economic-policy stimulus measures have led to a rapid surge in SME business sentiment at the beginning of summer. The 13.8-point jump in June marks the second consecutive record increase. Nevertheless, SME business confidence still remains far below the pre-coronavirus pandemic level, at now -20.7 balance points. The increase is mainly driven by hope for better times.

- Business expectations clawed their way back to -15.0 balance points, up 20.7 points. That made the June increase nearly as strong as the historic surge in May (a revised +21.3 points). Although there is good reason for confidence to return, given the extensive stabilisation measures and successes in containing the virus, risks remain very high as the further course of the pandemic is virtually impossible to predict.
- Business situation assessments saw a rather hesitant recovery compared with expectations, rising by 6.5 points in June to -26.7 balance points. It appears that the continuing need for restrictions such as social distancing and compulsory mask wearing only permit a gradual relaxation for now.

Large enterprises' expectations on an 18-month high

Large enterprises also believe that the very worst – the comprehensive lockdown in April and massive disruptions to international supply chains – is now over. Sentiment in this segment is going the same direction as among SMEs, if at a more extreme pace. Large enterprises' business confidence also jumped by a historic margin for the second consecutive month in June (+15.6 points to -26.3 balance points), even slightly surpassing the rise among SMEs. While large enterprises reported noticeably more modest increases in their situation assessments (+4.2 points to -49.0 balance points), their business expectations were up even more sharply than those of SMEs, surging to the highest level in one and a half years in one fell swoop (+27.8 points to -3.3 balance points). This explosion of optimism is encouraging and may have to do with the extremely modest benchmark against which expectations are formed. The underlying survey by the ifo Institute examines the expected development over the coming six months relative to the current business situation. But with the pandemic accelerating in many countries outside Europe, internationally operating enterprises in particular must anticipate setbacks as well, especially since risks such as US trade conflicts and the uncertainties of Brexit have not yet been eliminated.

Manufacturing is still lagging behind

The continuing difficult situation of large export-oriented manufacturers in particular is highlighted by the fact that despite a clear increase – driven solely by expectations – their business sentiment is still the weakest of all segments captured in the KfW-ifo SME Barometer (+13.5 points to -38.4 balance points). SME manufacturers show a similar picture, although their business confidence has not been quite as low as that of large industrial firms since the outbreak of the crisis (+12.7 points to -28.4 balance points). The exceptionally strong improvement in manufacturers' export expectations (SMEs: +21.0 points to -20.5 balance points; large enterprises: +26.4 points to -4.5 balance points) only seemingly contradict this. One factor that plays a role in this respect is that the indicator cannot make distinctions based on the magnitude of an expected change. Even in a sputtering recovery of the global economy, exports are very likely to recover at least moderately after collapsing in the spring. Confidence climbed not just in manufacturing but in all other sectors in June. Small and medium-sized construction firms stood out, being the only ones to report a slightly positive business confidence (+4.9 points to 1.7 balance points), as did SME retailers. After shops reopened, their business climate rose by 21.0 points, again more than any other sector, to now -1.2 balance points, almost reaching the zero line again, which represents the long-term average level.

The narrow and risky path out of the slump

The June findings of the KfW-ifo SME Barometer demonstrate that little by little, businesses are climbing out of the deep valley of recession. Their sentiment improved sharply for the second month in a row at the beginning of summer. The trough of the recession which hit Germany, Europe and the world without warning as a result of the coronavirus pandemic now lies behind us with the second quarter. We assume a just about double-digit percentage contraction in economic output from April to June, which will make the 2.2% quarterly decline in real gross domestic product in the first quarter appear comparatively small. Not least, this is indicated by the variations in average quarterly situation assessments reported under the KfW-ifo SME barometer, which were -6.1 points in the first quarter and -27.6 points in the second quarter for SMEs (large enterprises: -5.3 and -25.4 points). Now we need to overcome the inevitable historic collapse in economic output experienced in the spring as quickly and vigorously as possible. But the way out is a narrow path where risks of renewed collapse lurk in spite of massive economic protection measures. The local increase in new infections demonstrates impressively how dangerous the virus still is, not just globally but in Germany as well. It is to be hoped that such local virus outbreaks can be contained in time with local quarantining and lockdown measures before they spread to the rest of the population. At any rate, it is crucially important that we remain vigilant and maintain discipline in complying with hygiene rules to prevent a renewed economic setback from a second wave of infections.

KfW-ifo SME Barometer in figures

		Month/Year									
Balance [Percentage points]*		Jun/19	Jan/20	Feb/20	Mar/20	Apr/20	May/20	Jun/20	m-o-m	y-o-y	3m-o-3m
Business climate											
Manufacturing	SME	-3.9	-11.6	-7.1	-22.0	-46.8	-41.1	-28.4	12.7	-24.5	-25.2
	LSE	-12.4	-16.2	-15.2	-35.1	-60.5	-51.9	-38.4	13.5	-26.0	-28.1
Construction	SME	29.4	19.5	18.4	12.2	-9.2	-3.2	1.7	4.9	-27.7	-20.3
	LSE	28.2	14.4	18.9	4.3	-24.4	-19.6	-18.2	1.4	-46.4	-33.3
Retail trade	SME	14.5	9.0	10.5	-13.3	-44.1	-22.2	-1.2	21.0	-15.7	-24.6
	LSE	11.3	-1.8	-1.3	-25.1	-53.7	-29.1	-12.8	16.3	-24.1	-22.5
Wholesale trade	SME	0.2	-6.6	-6.1	-28.5	-56.5	-37.8	-29.8	8.0	-30.0	-27.6
	LSE	-0.4	-6.5	-4.3	-28.7	-47.7	-31.8	-23.4	8.4	-23.0	-21.1
Services	SME	6.2	2.3	1.6	-24.1	-53.0	-38.4	-23.3	15.1	-29.5	-31.5
	LSE	5.5	2.4	-2.7	-28.9	-46.6	-38.2	-18.6	19.6	-24.1	-24.7
Germany	SME	5.8	0.1	1.2	-18.9	-45.1	-34.5	-20.7	13.8	-26.5	-27.6
	LSE	-3.1	-6.2	-9.1	-30.7	-54.1	-41.9	-26.3	15.6	-23.2	-25.4
Current situation	SME	18.6	10.2	10.2	-0.7	-31.4	-33.2	-26.7	6.5	-45.3	-37.0
	LSE	4.3	-2.4	-5.6	-18.3	-48.9	-53.2	-49.0	4.2	-53.3	-41.6
Expectations	SME	-5.9	-9.3	-7.2	-34.9	-57.0	-35.7	-15.0	20.7	-9.1	-18.8
	LSE	-10.1	-10.1	-12.6	-41.6	-58.9	-31.1	-3.3	27.8	6.8	-9.7
Employment expectations	SME	2.8	2.0	1.3	-8.4	-24.7	-17.0	-11.2	5.8	-14.0	-15.9
	LSE	2.5	-4.9	-8.6	-15.1	-27.3	-26.4	-19.5	6.9	-22.0	-14.9
Sales price expectations	SME	3.9	8.3	4.8	-4.6	-14.0	-12.1	-9.1	3.0	-13.0	-14.6
	LSE	1.4	3.3	1.4	-5.6	-16.0	-15.4	-12.6	2.8	-14.0	-14.4
Export expectations of manufacturing	SME	-7.7	-9.3	-8.4	-25.8	-57.8	-41.5	-20.5	21.0	-12.8	-25.4
	LSE	-10.7	-7.7	-13.3	-33.5	-60.8	-30.9	-4.5	26.4	6.2	-13.9

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.