

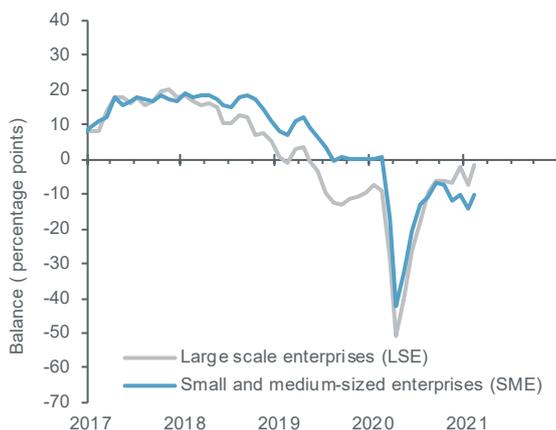
»» SME business confidence: a hint of spring

1 March 2021

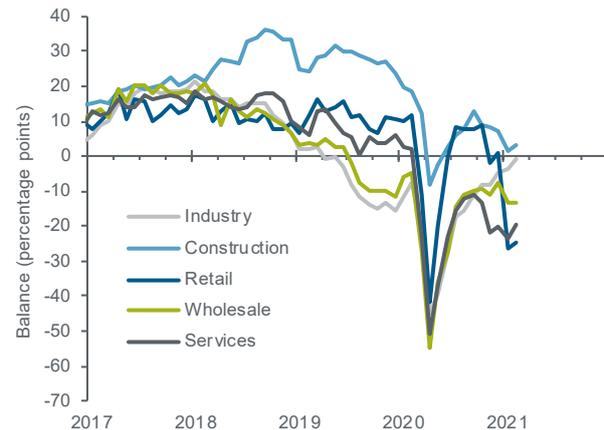
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- SME business confidence improved strongly in February.
- Expectations in particular were higher, situation assessments improved moderately.
- Industry continues on a strong upward trend. Business situation remains difficult for retailers and service providers but pessimism is fading.
- The gap between the producing and the services sector is set to narrow slightly in the spring but mutations are creating great uncertainty.

KfW-ifo business climate



SME business sentiment: sectors



Source: KfW Research, ifo Institute

SMEs are riding a rollercoaster

Since the second wave of infections set in last autumn, SME business sentiment has gone up and down from month to month. After January was spent digesting the hard lockdown, February brought a hint of spring. Business confidence rose again noticeably by 4.2 points to -10.1 balance points:

- Expectations in particular improved. After jumping 6.8 points, they are now on a slightly less pessimistic level of -8.9 balance points. The fall in infection rates during the survey period (1 to 19 February) probably fuelled hope for an end to the long lockdown. And looking somewhat further ahead, the immunisation campaign also promises improvements.
- Assessments of the current business situation also improved moderately by 1.4 points to now -11.5 balance points. The increase was driven mainly by manufacturing, although the diverse group of services businesses also reported a slightly improved situation.

Large enterprises are almost euphoric

Confidence among large enterprises has fluctuated even more than among SMEs. After falling steeply in the previous month, it now increased even more strongly than among SMEs (+5.8 points). At -1.6 balance points it is now almost hugging the zero line again, which stands for the long-term average. The rise is mostly due to a sudden improvement in business confidence among large industrial firms (+8.3 points to 10.1 balance points). Their situation assessments and expectations are both surging. At 24.6 points, business expectations are even within reach of the historic all-time high of 29.6 points recorded in 2010.

Wide gap between sectors

The gap between the services and retail businesses, which were hit hard by the restrictions, and construction and industrial firms has opened wide since autumn. This applies to large enterprises and almost as much to SMEs. Sentiment among small and medium-sized manufacturers continued to rise strongly in February. Business sentiment climbed 3.0 points on the back of an improved business situation and

KfW Research

KfW-ifo SME Barometer: February 2021

significantly more optimistic expectations. Export expectations even rose by 4.2 points, potentially bolstered by prospects for stronger demand from the US market driven by economic stimulus packages. Industry appears to be shrugging off problems such as semiconductor shortages or supply chain disruptions from tighter border restrictions and congested truck routes. Business confidence in small and medium-sized construction and civil engineering firms also remains slightly above average, recording an improvement of 2.0 points.

In small and medium-sized retail businesses, on the other hand, the moderate 1.9-point improvement in business confidence is being driven only by the hope for better times. While situation assessments fell once again and, at -31.2 points, are now nearly as low as during the first lockdown in April 2020 (-32.8), expectations are clearly improving. SME service businesses reported similar sentiment. Their situation assessments also improved slightly. The main driver, however, is the noticeable 3.7 point rise in expectations to -19.8 balance points. What ultimately appears to have fuelled the prospects for an imminent end to the lockdown were the declining infection rates during the survey period. But with a view to mid-summer, the actual survey horizon of six months, SMEs' growing faith in the success of the immunisation campaign might also be a reason.

Mutations are creating great uncertainty

The KfW-ifo SME Barometer has again revealed a deep divide within the SME sector. Unlike last spring, industrial firms have been able to decouple almost completely from pandemic developments and are looking to the future with growing optimism. By contrast, business expectations in the sectors affected by the lockdown are currently rising as well but pessimism still prevails and the situation remains poor. Hopes for a swift end to the lockdown will likely be dashed given the rapid spread of the more contagious virus mutations and the now stagnating infection rates. Gross domestic product will likely contract significantly as a result of the long lockdown at the start of the year but a slump like the one experienced in the spring of 2020 will be prevented primarily by the positive development in the manufacturing industry. After all, even with nothing more than cautious relaxations of restrictions, solid growth is in the cards for the second quarter. However, a real easing of the situation for the critical service industries is not expected until significant vaccination progress is made in the summer. To this end, and until then, policymakers are called upon to prevent a third wave of infections with measures such as properly deployed rapid tests and effective contact tracing. For 2021 we forecast an economic growth rate of 3.3%, which will enable output to return to the pre-crisis level at the end of the year.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year						m-o-m	y-o-y	3m-o-3m	
		Feb/20	Sep/20	Okt/20	Nov/20	Dez/20	Jan/21				Feb/21
Business climate											
Manufacturing	SME	-7.3	-10.7	-8.4	-7.9	-4.5	-3.8	-0.8	3.0	6.5	6.0
	LSE	-17.1	-10.5	-6.7	-2.8	1.1	1.8	10.1	8.3	27.2	11.0
Construction	SME	18.6	13.1	8.9	8.1	7.4	1.5	3.5	2.0	-15.1	-5.9
	LSE	19.3	-5.8	-8.5	-7.4	-7.2	-5.4	-6.8	-1.4	-26.1	0.8
Retail trade	SME	11.6	7.6	9.0	-1.8	1.1	-26.5	-24.6	1.9	-36.2	-21.6
	LSE	-0.3	-2.5	-4.1	-7.8	-7.2	-21.0	-28.1	-7.1	-27.8	-14.0
Wholesale trade	SME	-4.8	-9.8	-9.5	-10.9	-7.6	-13.5	-13.4	0.1	-8.6	-1.4
	LSE	-4.6	-3.7	-2.4	-7.6	-2.6	-4.2	-1.6	2.6	3.0	1.8
Services	SME	2.1	-11.1	-13.1	-21.6	-20.1	-23.5	-19.8	3.7	-21.9	-5.9
	LSE	-3.1	-2.1	-6.3	-13.1	-7.4	-12.8	-10.5	2.3	-7.4	-3.1
Germany	SME	1.0	-6.9	-7.2	-11.9	-10.4	-14.3	-10.1	4.2	-11.1	-2.9
	LSE	-9.3	-6.0	-6.3	-6.8	-2.0	-7.4	-1.6	5.8	7.7	2.7
Current situation	SME	10.7	-10.2	-9.3	-10.1	-7.6	-12.9	-11.5	1.4	-22.2	-0.8
	LSE	-5.6	-22.8	-16.2	-12.6	-8.5	-13.6	-9.0	4.6	-3.4	6.8
Expectations	SME	-8.0	-3.9	-5.5	-13.7	-13.1	-15.7	-8.9	6.8	-0.9	-4.9
	LSE	-12.8	10.6	3.1	-1.5	4.1	-1.6	5.3	6.9	18.1	-1.5
Employment expectations	SME	1.6	-2.1	-2.5	-4.2	-4.0	-4.0	-4.4	-0.4	-6.0	-1.2
	LSE	-8.5	-10.6	-8.5	-8.6	-9.0	-9.8	-7.6	2.2	0.9	0.4
Sales price expectations	SME	3.1	-2.7	-2.7	-2.2	-0.4	0.3	1.1	0.8	-2.0	2.9
	LSE	0.2	-3.0	-1.4	-3.2	2.5	1.5	1.2	-0.3	1.0	4.3
Export expectations of manufacturing	SME	-9.1	-9.4	-11.6	-15.6	-11.2	-7.4	-3.2	4.2	5.9	4.9
	LSE	-15.1	9.0	5.5	-4.1	-1.5	1.3	1.4	0.1	16.5	-3.1

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.