

Business sentiment jumps – a vote of confidence in the coming economic rebound

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Author: Dr Klaus Borger, phone +49 69 7431-2455, klaus.borger@kfw.de

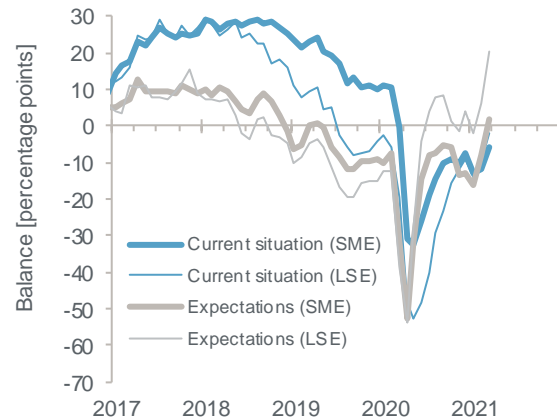
Press contact: Christine Volk, phone +49 69 7431-3867, christine.volk@kfw.de

- SME business sentiment rises strongly with the arrival of spring
- Situation assessments much better, expectations slightly positive for first time since outbreak of pandemic
- Confidence has risen even more strongly among large enterprises
- Amid the third wave of infections, strong improvement in sentiment is not more than a snapshot

KfW-ifo business climate



KfW-ifo climate components



Source: KfW Research, ifo Institute

SME business sentiment has improved greatly

In March, sentiment among small and medium-sized enterprises brightened for the second consecutive month – this time very strongly. With the arrival of spring, SME business confidence rose by 8.1 points, three times the typical monthly variation, to -1.6 balance points. Both sentiment components contributed to the rapid increase:

- Assessments of the current business situation gained a strong 6.0 points despite the coronavirus crisis, but at now -5.5 balance points they still remain clearly below the zero line, which stands for the long-term average.
- SMEs' business expectations surged by 10.1 points and, at 2.0 balance points, were just barely positive again for the first time since the outbreak of the pandemic. The loosening of restrictions – subject to declining incidence rates – announced for retailers and hospitality operators in early March, and the positive outlook for the global economy likely brought the turnaround.

Large enterprises' expectations on a ten-year high

Large enterprises are currently much more upbeat, however. They upgraded their business sentiment by a record-breaking 10.6 points – nearly four times the typical monthly variation – to 9.3 balance points, lifting the indicator to a clearly above-average level in one fell swoop. Business situation assessments climbed 7.2 points to -2.2 balance points. Business expectations of large enterprises picked up even more strongly, as they did in the SME sector. The current 14.1-point rise is the third strongest ever measured since the time series were started in January 2005, after May and June 2020 when the economy began to recover from the massive slump that followed the first coronavirus lockdown. The increase sent expectations in March soaring to a ten-year high of 20.2 balance points.

Sentiment has improved in all sectors

Economic sentiment improved noticeably across all sectors and enterprise size classes in March, although without fundamentally altering the sometimes significant differences in the levels of business confidence of individual segments.

KfW Research KfW-ifo SME Barometer: March 2021

By far the most significant improvements in business sentiment were recorded by retailers of both size classes (SMEs: +15.8 points to -8.3 balance points; large enterprises: +17.6 points to -9.6 balance points). Thus, they narrowly ceded last place on the sentiment leaderboard to small and medium-sized service providers (+8.0 points to -11.7 balance points). This segment combines the bulk of contact-intensive service businesses in the arts and culture, entertainment, hospitality and personal services, which are subject to severe coronavirus restrictions, as are retailers. It is therefore understandable that their sentiment remains mostly negative despite a clear upward trend. By contrast, business sentiment in manufacturing is above-average, especially among large industrial firms, where it improved yet again on a high level in March (+8.0 points to 19.6 balance points). It appears that large industrial firms are not allowing themselves to be deterred by current semiconductor shortages and, presumably also thanks to the USD 1.9 trillion fiscal package announced by the US administration, expect a persistently strong rebound of the global economy. This is reflected in the extremely strong increase in their export expectations by 20.7 points to a new record 23.3 balance points. It remains to be seen to what extent the backlog resulting from the now resolved obstruction of the Suez Canal by the accidental grounding of the 'Ever Given' container vessel will have severe short-term repercussions on global trade. The generally positive manufacturing environment is also spilling over to industrial SMEs (+6.4 points to 6.5 balance points), lifting associated economic sectors at the same time. This is particularly evident in internationally operating wholesale firms (SMEs: +11.2 points to -1.5 balance points; large

enterprises: +4.0 points to 3.0 balance points) and business service providers, which often belong to the class of large service enterprises (+10.3 points to -2.8 balance points). In the construction sector, which was a solid mainstay of the economy already before and during the pandemic, sentiment rose in March as well (SMEs: +4.5 points to 8.2 balance points; large enterprises: +6.7 points to 1.0 balance points).

Surge in sentiment is just a snapshot

The March findings of the KfW-ifo SME Barometer show an improvement in sentiment on all fronts that is very encouraging in itself. The relatively low rates of new infection particularly at the beginning of the survey period and the conditional relaxation of restrictions announced by the government in early March were probably the main drivers of this boost in confidence. But with the surging new wave of infections and the renewed tightening and prolongation of restrictions in response to the more contagious UK virus mutation, this is merely a snapshot. The expected economic recovery will be delayed. Nevertheless, the strong improvements in sentiment across the economy as a whole illustrate the great potential for a rebound once the pandemic has been successfully suppressed – they represent a vote of confidence in the upturn. By September, the six-month horizon for which business expectations were surveyed, a comprehensive recovery is definitely plausible. But this will be contingent on a systematic acceleration of the vaccination rollout combined with a convincing testing strategy. Only then can the economic value creation that is currently taking place primarily in the producing sector successively return to trade and services as well to generate strong growth in the further course of 2021.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Mar 2020	Oct 2020	Nov 2020	Dec 2020	Jan 2021	Feb 2021	Mar 2021			
Business climate											
Manufacturing	SME	-21.2	-8.6	-8.1	-4.6	-3.3	0.1	6.5	6.4	27.7	8.2
	LSE	-35.7	-6.5	-3.1	0.9	2.5	11.6	19.6	8.0	55.3	14.1
Construction	SME	12.3	8.7	8.0	7.3	1.4	3.7	8.2	4.5	-4.1	-3.6
	LSE	0.3	-8.2	-7.5	-7.5	-4.5	-5.7	1.0	6.7	0.7	4.7
Retail trade	SME	-11.1	9.0	-1.7	1.5	-26.5	-24.1	-8.3	15.8	2.8	-22.6
	LSE	-24.8	-3.7	-7.9	-7.2	-21.4	-27.2	-9.6	17.6	15.2	-13.1
Wholesale trade	SME	-27.5	-9.8	-11.0	-7.5	-13.1	-12.7	-1.5	11.2	26.0	0.3
	LSE	-29.9	-2.6	-7.7	-2.3	-4.2	-1.0	3.0	4.0	32.9	3.5
Services	SME	-22.4	-13.0	-21.5	-20.0	-23.4	-19.7	-11.7	8.0	10.7	-0.1
	LSE	-30.5	-10.0	-15.1	-10.3	-14.1	-13.1	-2.8	10.3	27.7	1.8
Germany											
	SME	-16.9	-7.4	-11.8	-10.3	-14.4	-9.7	-1.6	8.1	15.3	1.3
	LSE	-29.2	-6.8	-6.3	-2.1	-7.6	-1.3	9.3	10.6	38.5	5.2
Current situation	SME	-0.5	-9.3	-10.1	-7.6	-12.9	-11.5	-5.5	6.0	-5.0	-1.0
	LSE	-19.2	-15.5	-11.9	-8.9	-14.0	-9.4	-2.2	7.2	17.0	3.6
Expectations	SME	-31.4	-5.8	-13.5	-12.9	-16.0	-8.1	2.0	10.1	33.4	3.4
	LSE	-38.3	1.1	-1.4	4.0	-1.9	6.1	20.2	14.1	58.5	6.9
Employment expectations											
	SME	-8.1	-2.5	-4.3	-4.0	-3.8	-4.2	1.0	5.2	9.1	1.3
	LSE	-15.0	-8.8	-8.8	-9.8	-10.1	-7.5	-0.8	6.7	14.2	3.0
Sales price expectations											
	SME	-4.4	-2.9	-2.2	-0.5	-0.2	1.5	10.6	9.1	15.0	5.8
	LSE	-6.0	-1.7	-3.4	2.5	1.4	1.3	10.1	8.8	16.1	5.1
Export expectations of manufacturing											
	SME	-24.9	-12.1	-15.7	-10.8	-6.8	-2.1	4.2	6.3	29.1	11.3
	LSE	-29.6	4.8	-4.6	-2.4	1.6	2.6	23.3	20.7	52.9	9.9

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.