

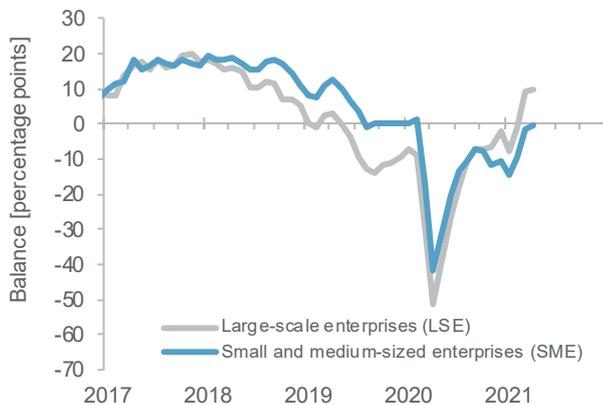
Business sentiment: SMEs are putting up a brave fight

10 May 2021

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 increases for the third consecutive month
- Situation assessments and business expectations have risen moderately
- Expectations of large enterprises slipped again slightly but are still high
- The hope for a recovery is justified – if the pandemic is successfully contained!

KfW-ifo business climate



KfW-ifo climate components



Source: KfW Research, ifo Institute

Sentiment among SMEs has improved

The third coronavirus wave has made tighter lockdowns necessary in many places and there is still a long way to go before broad sections of the population have been immunised. At the same time, the global economy is clearly recovering, driven by the powerhouses US and China. In an environment filled with contradictory signals, SMEs are putting up a good fight. Their business sentiment rose by 1.4 points to -0.3 balance points – the third consecutive increase. Both sentiment components contributed to the most recent increase:

- SMEs' assessments of the business situation improved by 1.3 points but, at -4.2 balance points, they continue to lag behind the historic average, which is understandable given the continuing restrictions, especially in the services sector.
- Business expectations improved by 1.7 points to 3.3 balance points, the highest level in two years. More and more firms appear to be anticipating a successful containment of the pandemic and a recovery later in the year.

Large enterprises slightly less optimistic again

Sentiment improved further among large enterprises in April, this time driven exclusively by significantly better assessments of the current business situation. They increased by 6.8 points to 4.8 balance points, rising above the zero line again for the first time since June 2019. By contrast, large enterprises' expectations fell by an almost equally strong 6.2 points to now 13.9 balance points. With expectations rising by a near-record rate of more than 14 points to a ten-year high in the previous month, however, we regard this as merely a consolidation in which production disruptions resulting from shortages of important supplies such as semiconductors are likely to have played a role. On balance, large enterprises' sentiment improved by a meagre 0.3 points to now 9.6 balance points, establishing it very clearly on the positive side of the scale.

Manufacturing continues to soar

The fact that the majority of large enterprises are currently in a positive mood, in contrast to SMEs, is due to their more pronounced orientation to international markets. As a result, they will now benefit from the global economic recovery to a particular extent. This is most evident in the export-oriented

KfW Research

KfW-ifo SME Barometer: April 2021

manufacturing industry, which continues to soar. Sentiment among SME manufacturers climbed by 3.8 points to 10.6 balance points and among large manufacturers by 1.5 points to 21.3 balance points. That makes manufacturing by far the most optimistic sector in both enterprise size classes. The global economic recovery is also bolstering wholesalers, who offer their services at the intersection of national and international markets (SMEs: +2.3 points to 1.8 balance points; large enterprises: +5.5 points to 9.3 balance points).

Mixed signals from domestic sectors

The domestic sectors sent out mixed signals on sentiment in April. What is encouraging is the continuing improvement in sentiment among retailers despite continuing restrictions, even though the indicators in both size classes remain well below the zero line (SMEs: +3.8 points to -3.9 balance points; large enterprises: +3.8 points to -5.0 balance points). Sentiment in the services sector dropped further on what was already a below-average level. Among large enterprises in this sector, however, the decline is very moderate (-0.4 points to -3.1 balance points). Small and medium-sized service enterprises, on the other hand, reported not just the sharpest downward revision in sentiment of all sectors, at -2.4 points, but the lowest sentiment level with -14.0 balance points. This segment combines the bulk of contact-intensive service businesses in the arts and culture, entertainment,

hospitality and personal services, which are affected by coronavirus restrictions along with retailers. In the construction sector, which, like manufacturing, is complaining about supply shortages, sentiment also dropped in April (SME: -1.4 points to 7.5 balance points; large enterprises: -2.1 points to -1.7 balance points).

The recovery will depend on containing the pandemic

The KfW-ifo SME Barometer for April shows that economic sentiment is rising again in Germany and that is good news. After business confidence already took a giant leap in March amid hopes for a relaxation of restrictions and widespread expectations about the recovery, the continuing difficult pandemic situation in itself would have suggested lower business sentiment in April. Instead, April brought the third consecutive rise and the traditional rule of thumb is that this signals the beginning of an upswing. In order for the hoped-for upswing to now become a reality, new infections must be consistently contained and vaccinations ramped up further. Then there will be a good chance for Germany to experience a strong growth spurt in the second half of the year on the back of catch-up effects in currently banned services and in the retail sector. Manufacturers' order books are already filled to the brim but production continues to be impaired by supply shortages, especially of semiconductors.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Apr 2020	Nov 2020	Dec 2020	Jan 2021	Feb 2021	Mar 2021	Apr 2021			
Business climate											
Manufacturing	SME	-44.7	-8.3	-4.7	-3.4	0.4	6.8	10.6	3.8	55.3	11.4
	LSE	-58.2	-3.4	0.6	2.3	11.6	19.8	21.3	1.5	79.5	17.7
Construction	SME	-8.2	7.8	7.2	1.4	4.0	8.9	7.5	-1.4	15.7	1.3
	LSE	-21.3	-7.5	-7.5	-4.6	-5.9	0.4	-1.7	-2.1	19.6	4.1
Retail trade	SME	-40.9	-2.2	1.2	-26.6	-23.8	-7.7	-3.9	3.8	37.0	-2.6
	LSE	-51.6	-8.0	-7.3	-21.7	-27.9	-8.8	-5.0	3.8	46.6	-1.6
Wholesale trade	SME	-55.0	-11.1	-8.1	-12.6	-12.9	-0.5	1.8	2.3	56.8	6.7
	LSE	-48.3	-8.1	-2.5	-3.5	-0.5	3.8	9.3	5.5	57.6	8.9
Services	SME	-50.5	-21.4	-19.9	-23.3	-19.7	-11.6	-14.0	-2.4	36.5	6.4
	LSE	-47.7	-15.0	-10.2	-14.1	-12.8	-2.7	-3.1	-0.4	44.6	6.9
Germany	SME	-41.8	-11.9	-10.4	-14.4	-9.7	-1.7	-0.3	1.4	41.5	8.3
	LSE	-51.5	-6.5	-2.2	-7.7	-1.3	9.3	9.6	0.3	61.1	11.3
Current situation	SME	-31.3	-10.1	-7.6	-12.9	-11.4	-5.5	-4.2	1.3	27.1	3.2
	LSE	-50.2	-11.9	-8.7	-14.0	-8.9	-2.0	4.8	6.8	55.0	9.5
Expectations	SME	-51.3	-13.8	-13.3	-16.1	-8.3	1.6	3.3	1.7	54.6	13.3
	LSE	-52.8	-1.6	3.8	-2.0	5.7	20.1	13.9	-6.2	66.7	13.2
Employment expectations	SME	-23.7	-4.4	-4.0	-3.6	-4.0	0.7	3.5	2.8	27.2	4.1
	LSE	-27.1	-9.0	-9.9	-10.1	-7.0	-0.8	-1.0	-0.2	26.1	6.7
Sales price expectations	SME	-12.7	-2.3	-0.7	-0.4	1.5	10.5	15.6	5.1	28.3	10.3
	LSE	-14.9	-3.5	2.4	1.1	1.3	10.0	15.2	5.2	30.1	8.8
Export expectations of manufacturing	SME	-56.0	-16.1	-11.0	-6.9	-1.7	4.5	7.3	2.8	63.3	14.7
	LSE	-59.3	-5.4	-2.5	2.1	5.1	23.0	21.0	-2.0	80.3	18.3

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.