

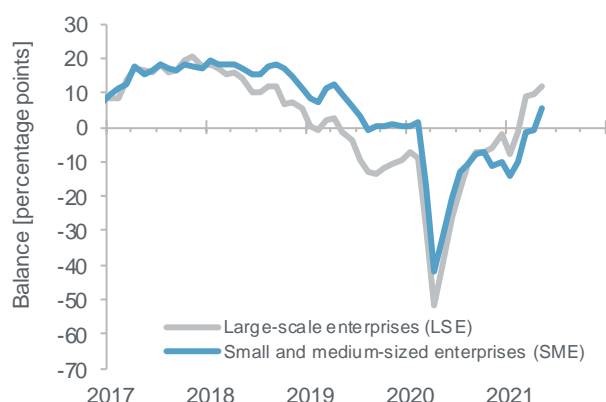
»» SME business sentiment: enterprises are ready for recovery

7 June 2021

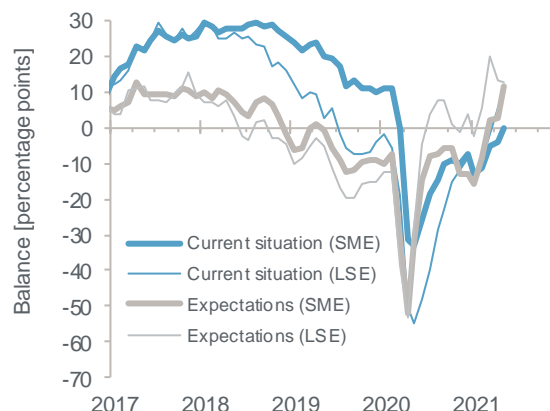
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- SME business sentiment brightens significantly on the back of greatly improved expectations
- Large enterprises see their current business situation much more positively
- For the first time in two years, companies of both size classes are planning to hire more workers
- The economy is poised to bounce back for the remainder of the year

KfW-ifo business climate



KfW-ifo climate components



Source: KfW Research, ifo Institute

SMEs are much more optimistic

The third wave of coronavirus infections has been contained, the vaccination rate is rising and there are genuine prospects for continuing relaxations of lockdown rules in more and more regions. This good news has quickly lifted the spirits of small and medium-sized enterprises. In May their business sentiment rose by 6.3 points to 5.7 balance points, returning to positive territory for the first time since the beginning of the pandemic. The most recent rise is bolstered primarily by a much more optimistic outlook on the coming six months.

- SMEs are increasingly confident about the recovery and have upgraded their business expectations by 8.8 points, nearly three times the average monthly variation. Expectations are now at 11.3 balance points, the highest level in four years.
- At the same time, business situation assessments climbed 3.8 points to -0.3 balance points. This increase is much lower than the expectations component but still significant – especially given the coronavirus restrictions that remained in place in May.

Large enterprises see their situation more positively

Sentiment among large enterprises continued to improve as well, again driven exclusively by significantly better assessments of the current business situation, as was already the case in April. They increased by 5.3 points to 10.5 balance points. By contrast, their business expectations fell by a moderate 1.0 points but continue on a high level, at 12.4 balance points. This consolidation of expectations was probably due to the current shortages of important intermediate goods and raw materials, which is why businesses' output for the time being cannot fully keep up with growing demand. Overall, business sentiment among large enterprises is up by 2.1 points to now 11.7 balance points. It remains much higher than among SMEs, but the gap has almost halved since April.

Confidence levels are rising almost everywhere

Differences in business sentiment between individual economic sectors also tended to shrink in May, with the overall level of confidence rising in nearly all sectors and company size categories. The most confident segments continue to be the ones that benefit directly from the global

KfW Research KfW-ifo SME Barometer: May 2021

upswing because of their pronounced international orientation. At the top of the list are large manufacturers (+1.1 points to 21.7 balance points) and large wholesalers (+7.2 points to 17.0 balance points), followed by SMEs of both sectors (manufacturers: +2.1 points to 12.3 balance points; wholesalers: +9.5 points to 12.2 balance points). Wholesalers, which operate at the junction between national and international markets, experienced a distinct surge in confidence, unlike manufacturers, which were already optimistic. The segments that have suffered heavy restrictions so far as a result of the pandemic also report very significant improvements, albeit starting from a much lower sentiment level. Confidence is bouncing back very strongly in both the services sector (SMEs: +11.7 points to -2.3 balance points; large enterprises: +7.5 points to 4.5 balance points) and the SME retail sector (+6.2 points to 3.5 balance points). Confidence is rising in the construction sector as well, although rather moderately (SMEs: +2.5 points to 10.3 balance points; large enterprises: +3.1 points to 1.8 balance points). Large retailers were the only exception to the generally improving sentiment in May, as their confidence indicator barely stagnated this time (-0.9 points to -5.0 balance points), after rising noticeably in the previous month.

Promising signs from the labour market

The further outlook for domestic segments such as retail is good nevertheless, as the job market is now also showing signs of improvement. Thus, SMEs' employment expectations grew by 5.3 points to 8.6 balance points and those of large enterprises climbed 3.6 points to 3.2 balance points in May. It is the first time in two years that employment

plans are positive again in both company size classes at the same time. Services businesses that rely very much on personal contacts are making a major contribution to this, as they will likely hire more workers again as coronavirus restrictions are relaxed. These favourable signs from the labour market should be viewed very positively as businesses are not likely to hire significantly more workers until they are truly convinced of the prospect of a lasting recovery.

Germany is set for a growth spurt

It's all systems go for the German economy, and businesses are ready for the recovery. That is the key message of the KfW-ifo SME Barometer for the month of May. After business sentiment had already recovered noticeably in March and saw a renewed rise in April despite the difficult pandemic situation, it has now taken another leap higher and improved across a broad front. Companies' employment plans have also switched to growth. That is very promising, but it also means they should not to push down too hard on the accelerator in order to prevent engine damage. Lifting regulations too quickly could still put Germany at risk of gambling away the most recent successes in containing the pandemic. But if the country opens up carefully there is reason to be confident that the economy will experience a strong growth surge in the further course of the year on the back of catch-up effects in the services sector, which have suffered restrictions so far, and a progressive easing of shortages in the manufacturing supply chain. Despite the gloomy start to the year, gross domestic product is set to grow by 3.5% in all of 2021 and then by as much as 4.0% in 2022.

KfW Research

KfW-ifo SME Barometer: May 2021

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		May 2020	Dec 2020	Jan 2021	Feb 2021	Mar 2021	Apr 2021	May 2021			
Business climate											
Manufacturing	SME	-39.3	-4.7	-3.6	0.3	7.1	10.2	12.3	2.1	51.6	12.5
	LSE	-47.7	0.2	1.8	11.1	19.8	20.6	21.7	1.1	69.4	16.3
Construction	SME	-3.0	7.1	1.4	4.1	9.0	7.8	10.3	2.5	13.3	4.8
	LSE	-19.0	-7.5	-4.6	-5.8	0.6	-1.3	1.8	3.1	20.8	6.3
Retail trade	SME	-20.1	1.2	-26.5	-23.3	-8.1	-2.7	3.5	6.2	23.6	13.8
	LSE	-29.9	-7.1	-21.8	-27.8	-7.8	-4.1	-5.0	-0.9	24.9	13.3
Wholesale trade	SME	-36.2	-8.2	-12.7	-12.9	-0.3	2.7	12.2	9.5	48.4	16.1
	LSE	-29.8	-2.6	-4.0	-0.5	4.1	9.8	17.0	7.2	46.8	12.7
Services	SME	-37.1	-19.9	-23.3	-19.7	-11.7	-14.0	-2.3	11.7	34.8	11.6
	LSE	-40.4	-10.1	-14.0	-12.8	-2.6	-3.0	4.5	7.5	44.9	11.9
Germany	SME	-32.5	-10.3	-14.3	-9.8	-1.6	-0.6	5.7	6.3	38.2	12.6
	LSE	-40.9	-2.0	-7.7	-1.3	9.2	9.6	11.7	2.1	52.6	13.8
Current situation	SME	-33.3	-7.5	-12.8	-11.4	-5.4	-4.1	-0.3	3.8	33.0	7.3
	LSE	-54.5	-8.5	-13.7	-8.9	-1.8	5.2	10.5	5.3	65.0	15.0
Expectations	SME	-32.0	-13.2	-16.0	-8.5	1.8	2.5	11.3	8.8	43.3	17.8
	LSE	-27.9	3.8	-2.3	5.6	19.6	13.4	12.4	-1.0	40.3	12.8
Employment expectations											
Sales price expectations	SME	-16.5	-3.9	-3.5	-4.1	1.2	3.3	8.6	5.3	25.1	8.2
	LSE	-26.0	-10.1	-10.1	-6.9	-1.2	-0.4	3.2	3.6	29.2	9.6
Export expectations of manufacturing	SME	-11.1	-0.7	-0.6	1.4	10.2	15.9	24.0	8.1	35.1	16.7
	LSE	-14.2	2.4	0.9	1.1	9.8	15.4	20.9	5.5	35.1	13.9
Export expectations of manufacturing	SME	-39.4	-11.0	-6.9	-1.8	4.4	7.4	9.8	2.4	49.2	13.8
	LSE	-23.7	-3.4	1.8	3.8	22.6	20.0	15.3	-4.7	39.0	18.6

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.