

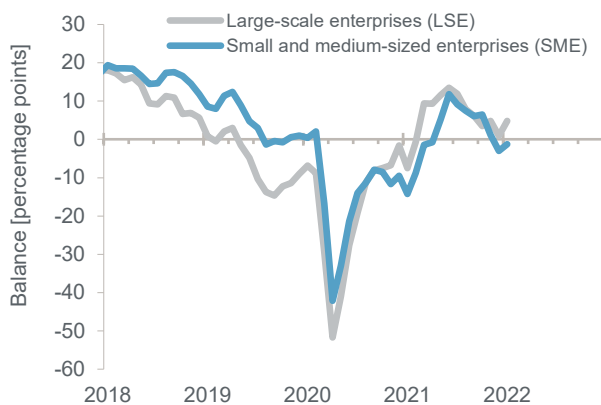
Optimism has grown again in the SME sector

7 February 2022

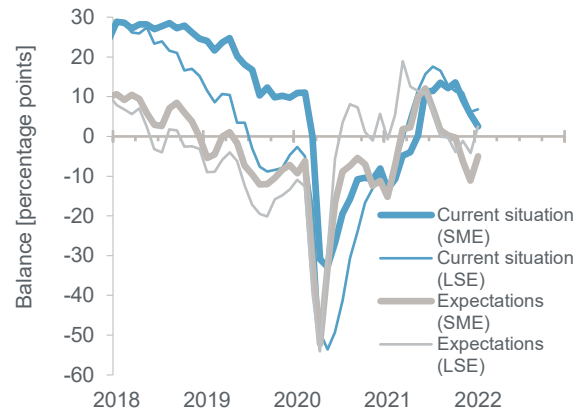
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- SME business sentiment is up at the start of the year
- More optimistic expectations are bolstering sentiment but situation assessments have fallen yet again
- Large enterprises are much more upbeat
- After a weak start to the year, growth will pick up pace again from spring

KfW ifo Business Climate Index



KfW ifo sentiment components



Source: KfW Research, ifo Institute

SMEs have become more optimistic again

The mere hope for better business in the spring and summer drove SME sentiment upward in January. Business sentiment rose by 1.8 points to -1.2 balance points, just under the long-term average marked by the zero line.

- With Omicron, the coronavirus mutations have for the first time executed their intended gameplan: The virus has become more infectious but disease severity has decreased. As a result, there is increasing hope for an end to the pandemic and small and medium-sized enterprises are again taking a somewhat more positive view of the future, also with a view to the typical seasonal slowdown of infections in the spring. After broad pessimism in the previous month, business expectations for the next six months have risen by 6.1 points. However, at -5.0 points they remain below the average.
- Situation assessments deteriorated again compared with December, dropping by 3.1 points to 2.5 balance points. Even so, the indicator for the current business situation remains roughly average, which is much better than during the lockdown of January 2021, when it was -13.3 points.

Large-scale enterprises are much more upbeat

Sentiment among large-scale enterprises improved even more strongly than among SMEs (+3.9 points to 4.8 points). Expectations in particular boosted business sentiment, rising by 6.7 points. But, unlike in the SME sector, situation assessments here also improved slightly (+0.7 points). Particularly in the manufacturing and services sectors, large enterprises are currently much more confident than SMEs. In manufacturing this may have to do with large enterprises' relatively high export expectations, which rose again significantly in January (+3.7 points to 11.6 balance points). Large retailers showed a particularly strong improvement in sentiment in January.

Strong rise in sentiment in the retail sector

Sentiment improved across almost all sectors in January. This was particularly the case in the retail sector, where business sentiment improved very significantly among both SMEs (+7.3 points) and large enterprises (+14.7 points). Situation assessments improved but most of all expectations are now less pessimistic than in December when many still expected a renewed lockdown. The waiver of the full vaccination or recovery requirement in the retail sector by the administrative

courts of several large federal states may also have somewhat improved the business outlook and situation.

Expectations are also improving significantly in the services segment, which comprises particularly affected industries such as hospitality, arts and culture. But unlike in the retail sector, the situation here deteriorated for the third consecutive month. SME business sentiment improved solely on the back of expectations (+3.5 points). At -8.2 balance points it is still below average but even so it has vastly improved since the lockdown a year ago (-22.7 points). SME manufacturers also experienced a moderate rise in confidence (+2.4 points to 5.7 balance points). This could be a reflection that the impact of material bottlenecks eased in January according to the ifo economic survey. Sentiment in the construction sector, by contrast, continues on a high level.

Light at the end of the tunnel

In January many are animated by hope for the summer, especially in times of pandemic. This is particularly true for small and medium-sized enterprises, which are currently grappling with mandated restrictions, consumer restraint or indirect pandemic consequences such as global supply bottlenecks. The current KfW-ifo SME Barometer illustrates that although many of them deplored a further deterioration in the business situation at the start of the year, they also hold a much more optimistic view of the near future again. Overall, the Omicron wave appears to be having less of an impact than was initially feared in December, although worker absenteeism due to infection will still create a burden. Most of all, however, hope is growing that the pandemic situation will end in the course of the year. Various indicators are also suggesting some improvement in the material shortages and supply bottlenecks. To be sure, increased COVID-19 outbreaks in China can be expected to cause setbacks in global supply chains in the coming months. Nevertheless, the supply situation is set to improve overall this year, so that the manufacturing sector will also be able to contribute strongly to growth again.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Jan 2021	Aug 2021	Sep 2021	Oct 2021	Nov 2021	Dec 2021	Jan 2022			
Business climate											
Manufacturing	SME	-4.8	13.5	7.6	8.0	2.9	3.3	5.7	2.4	10.5	-5.7
	LSE	-0.1	15.6	13.1	8.8	9.9	8.0	11.4	3.4	11.5	-2.7
Construction	SME	3.0	13.3	16.9	19.4	17.1	13.5	13.5	0.0	10.5	-1.8
	LSE	-4.8	9.8	9.6	12.2	15.3	10.4	14.5	4.1	19.3	2.9
Retail trade	SME	-27.5	6.7	6.3	4.0	-0.9	-9.4	-2.1	7.3	25.4	-9.8
	LSE	-25.6	0.0	-8.4	-12.8	-7.4	-16.0	-1.3	14.7	24.3	-1.2
Wholesale trade	SME	-13.8	9.3	8.3	2.3	-1.3	-4.5	-2.4	2.1	11.4	-9.4
	LSE	-4.4	7.5	6.2	1.4	1.1	-0.2	1.9	2.1	6.3	-4.1
Services	SME	-22.7	2.4	3.5	3.5	-4.9	-11.7	-8.2	3.5	14.5	-11.4
	LSE	-14.1	3.9	2.8	3.7	-1.5	-10.5	-3.4	7.1	10.7	-8.6
Germany	SME	-14.2	7.5	6.1	6.5	1.2	-3.0	-1.2	1.8	13.0	-7.7
	LSE	-7.5	7.9	6.2	3.5	4.8	0.9	4.8	3.9	12.3	-2.4
Current situation	SME	-13.3	13.5	12.1	13.6	9.2	5.6	2.5	-3.1	15.8	-7.3
	LSE	-15.0	16.5	12.9	11.3	11.0	6.1	6.8	0.7	21.8	-5.6
Expectations	SME	-15.2	1.6	0.3	-0.3	-6.4	-11.1	-5.0	6.1	10.2	-8.0
	LSE	-0.7	-0.1	-0.2	-3.9	-1.1	-4.2	2.5	6.7	3.2	0.5
Employment expectations	SME	-3.6	12.0	11.7	12.4	11.0	8.2	8.5	0.3	12.1	-2.8
	LSE	-11.4	11.1	13.7	12.9	12.8	15.3	15.6	0.3	27.0	2.0
Sales price expectations	SME	-1.1	28.6	28.0	33.6	37.3	35.8	36.7	0.9	37.8	6.5
	LSE	0.3	31.5	29.3	32.6	36.8	35.5	35.1	-0.4	34.8	4.7
Export expectations of manufacturing	SME	-7.2	6.5	5.2	0.2	1.4	-1.8	0.8	2.6	8.0	-3.8
	LSE	0.6	5.1	15.2	7.2	9.5	7.9	11.6	3.7	11.0	0.5

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 9,500 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 8,000 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.