

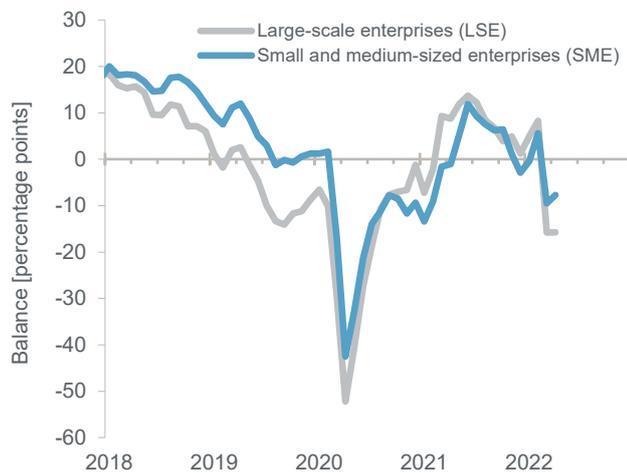
»» SMEs cautiously breathe a sigh of relief after war shock in March

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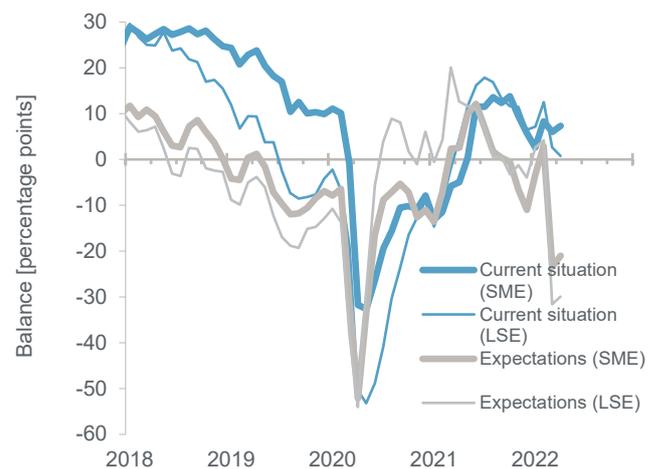
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- SME business confidence has recovered slightly
- Situation assessments have improved moderately, expectations are slightly less pessimistic
- But confidence remains low in large enterprises
- Where the economy is heading depends on many unknowns

KfW ifo Business Climate Index



KfW ifo sentiment components



Source: KfW Research, ifo Institute

SME business sentiment has recovered slightly

For now, German SMEs have overcome the immediate shock of the war. Their business sentiment improved again slightly in April after collapsing the month before as a result of Russia's attack on Ukraine. Still, the rise of 1.8 points to -7.7 balance points makes up for just barely one eighth of the March decline. Both sentiment components are slightly up:

- Assessments of the current business situation rose by 1.3 points to 7.3 balance points, well above the zero line, which stands for the long-term average. The cyclical momentum in the SME segment thus continues to point upwards at the start of the spring quarter.
- At the same time, expectations improved slightly more, rising by 2.4 points to -21.0 balance points. But in light of the previous plunge of 26.3 points, the steepest since the beginning of the time series in January 2005, this is hardly more than the proverbial drop in the ocean. With the exception of the preceding month, the only time expectations were even more pessimistic was immediately after the outbreak of the Covid-19 pandemic.

Sentiment has brightened in services and trade

Wholesale SMEs reported the strongest rise in sentiment (+4.5 points to -4.8 balance points), followed closely by service providers (+4.4 points to -5.9 balance points) and, at a slight distance, retailers (+3.5 points to -3.5 balance points). Trade and services are the economic segments that were hardest hit by the contact restrictions and capacity limits imposed to contain the pandemic, and now, with the end of almost all pandemic restrictions, they are hoping for business to recover. Irrespective of the improvement on the previous month, however, sentiment remains below average in all three segments, with retailers reporting the least negative business confidence level in April. The hope for a vigorous upturn in consumption has now dissipated because of price increases and the resulting loss in purchasing power. Inflation has accelerated once again as a consequence of the war, as shown by the record high sales price expectations (SMEs: +7.2 points to 54.9 balance points; large enterprises: +6.1 points to 53.5 balance points). Business sentiment among SME manufacturers has practically stalled after plunging by more than 20 points in March (+0.1 points to -10.0 balance points). The near impossibility of predicting

economic and foreign trade developments, disrupted supply chains, rapidly rising input prices and concern over energy security currently weigh on manufacturing like lead. At the bottom of the table in April, however, were SME construction firms. For a long time they have provided reliable impetus for the economy but their sentiment has now fallen like a rock because of increasingly scarce – and often energy-intensive – construction materials and associated cost increases. Sentiment in construction firms stood at -12.7 balance points in April, which was 8.5 points lower than in March, a drop more than 4.5 times a typical monthly variation.

Sentiment among large enterprises remains in the doldrums

Business confidence among large enterprises, however, was much more negative than among SMEs. Not only did it slip much lower than among SMEs in the previous month as an immediate response to Russia's invasion of Ukraine. It also showed practically no change in April, remaining deep in negative territory (+0.1 points to -15.7 balance points). While the very pessimistic expectations of large enterprises hardly improved (+1.7 points to -29.9 balance points), their assessments of the current business situation fell even further – unlike among SMEs (-1.9 points to 0.8 balance points). The drop in sentiment was most pronounced among large retailers. They include car dealerships as well as large retail chains, which often compete on price.

Economic outlook marred by many uncertainties

The stabilisation of business sentiment is the core message of the KfW-ifo SME Barometer in April. But businesses are only cautiously breathing a sigh of relief after the sudden collapse from the shock in the previous month – little more. The war which continues to rage unabated, new disruptions to global supply chains caused by strict lockdowns in China and the highest increase in producer prices since the founding of the Federal Republic have been and continue to place a heavy burden on enterprises, as highlighted by the continuing very low business expectation levels. To be sure, despite the most recent downward revisions across the board for 2022, the current economic forecasts on average promise growth of a good 2%, which is still a solid rate for Germany. But the fact is that such forecasts are currently extremely uncertain, as underscored by Russia's recent suspension of natural gas supplies to Poland and Bulgaria. For all of us in Germany and Europe – policymakers, businesses and households – it is preferable to think in scenarios and work hard within the scope of our abilities to make a good scenario a reality. Containing Russia's aggression, effectively mitigating the social burdens from inflation and sanctions, improving energy efficiency, rapidly diversifying energy supply and preparing early and systematically for a possible new coronavirus wave in autumn – a topic that is easily forgotten in view of the horrors of war – are key building blocks for achieving this.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Apr 2021	Nov 2021	Dec 2021	Jan 2022	Feb 2022	Mar 2022	Apr 2022			
Business climate											
Manufacturing	SME	12.0	2.7	3.3	3.9	10.3	-10.1	-10.0	0.1	-22.0	-6.6
	LSE	21.8	9.4	7.7	9.8	15.7	-12.0	-8.6	3.4	-30.4	-10.6
Construction	SME	9.8	17.2	13.4	11.0	11.2	-4.2	-12.7	-8.5	-22.5	-15.8
	LSE	1.5	15.1	9.8	13.1	14.3	-24.0	-19.7	4.3	-21.2	-22.5
Retail trade	SME	1.8	-1.5	-10.4	-1.4	9.9	-7.0	-3.5	3.5	-5.3	4.2
	LSE	-0.6	-6.7	-17.6	-2.4	-5.3	-13.0	-28.2	-15.2	-27.6	-6.6
Wholesale trade	SME	4.9	-1.8	-4.4	-1.5	6.1	-9.3	-4.8	4.5	-9.7	-0.1
	LSE	12.5	1.3	0.1	2.6	11.9	-11.0	-8.7	2.3	-21.2	-3.9
Services	SME	-14.1	-4.7	-11.6	-8.1	-0.5	-10.3	-5.9	4.4	8.2	2.6
	LSE	-2.9	-1.0	-10.1	-2.9	0.1	-16.8	-19.7	-2.9	-16.8	-7.5
Germany	SME	-1.1	1.1	-2.9	-0.4	5.6	-9.5	-7.7	1.8	-6.6	-3.1
	LSE	8.8	4.9	1.2	5.0	8.3	-15.8	-15.7	0.1	-24.5	-11.4
Current situation	SME	-5.0	9.4	5.7	2.6	8.3	6.0	7.3	1.3	12.3	1.3
	LSE	4.5	11.5	6.5	7.2	12.5	2.7	0.8	-1.9	-3.7	-3.1
Expectations	SME	2.5	-6.6	-11.0	-3.4	2.9	-23.4	-21.0	2.4	-23.5	-6.8
	LSE	12.7	-1.2	-3.9	2.7	4.2	-31.6	-29.9	1.7	-42.6	-18.3
Employment expectations	SME	3.4	10.7	8.1	8.6	13.3	9.1	9.6	0.5	6.2	1.5
	LSE	0.2	12.5	15.2	15.0	19.4	12.1	11.5	-0.6	11.3	0.1
Sales price expectations	SME	13.7	36.6	34.9	36.2	35.8	47.7	54.9	7.2	41.2	10.2
	LSE	13.3	36.1	34.7	34.7	40.1	47.4	53.5	6.1	40.2	11.8
Export expectations of manufacturing	SME	9.4	1.9	-1.2	0.1	3.7	-13.6	-6.2	7.4	-15.6	-5.6
	LSE	23.3	9.5	6.6	9.4	6.3	-9.4	-7.2	2.2	-30.5	-11.9

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 9,500 enterprises from manufacturing, 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), construction (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.