

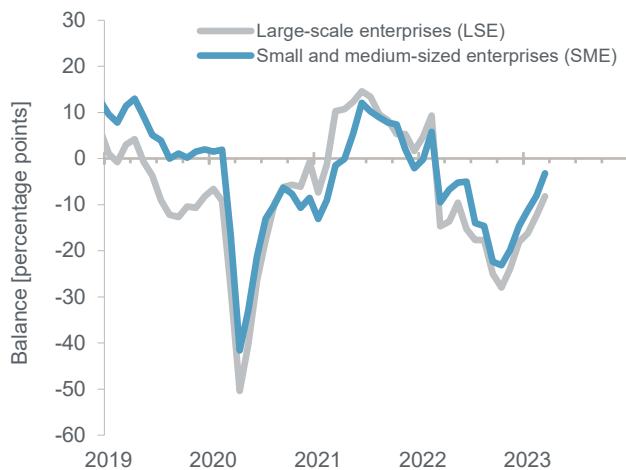
»»» SME business confidence improved further at the start of spring

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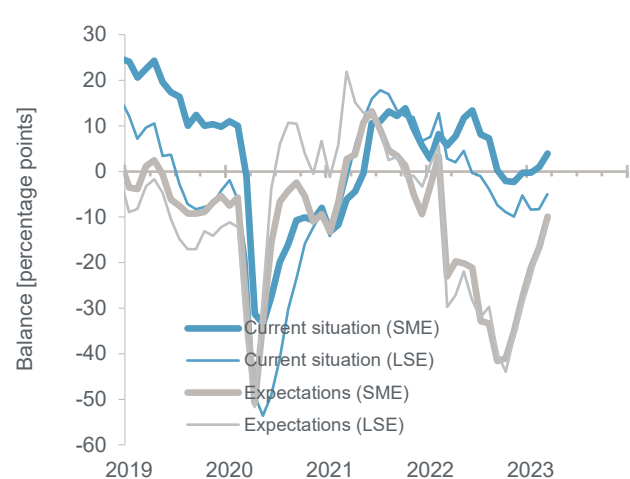
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- SME business confidence rose sharply
- Situation assessments slightly better than the historic average
- Expectations on highest level since the outbreak of the war
- Economy looks set to recover in the course of the year

KfW ifo Business Climate Index



KfW ifo sentiment components



Sources: KfW Research, ifo Institute

Sentiment improved for the fifth month in a row

Sentiment among SMEs continued to brighten with the advent of spring. Business confidence rose to -3.2 balance points in March, up 4.9 points on February. The last time businesses were more optimistic was in January 2022, shortly before Russia's invasion of Ukraine. Both sentiment components have improved significantly:

- Expectations shot up by 6.7 points to now -10.0 balance points. Businesses have not exhibited such a low degree of pessimism since the outbreak of the war. Nevertheless, this indicator remains in clearly negative territory, which underscores the fact that most remain quite sceptical about what the future holds.
- Business situation assessments rose by 2.9 points in March to now 3.9 balance points. That means situation assessments climbed somewhat more clearly above the zero line, which conceptually stands for the long-term average. The last time businesses rated their business situation better was in August 2022, just before the abrupt end of gas supplies from Russia.

All main economic sectors show improved sentiment

Confidence rose yet again without exception in all main SME business sectors. This time, services industries experienced the strongest increase, with sentiment rising by 7.6 points – nearly twice the typical monthly variation – to a slightly positive 1.7 balance points, a 17-month high. SME retailers retained the top rank on the sentiment leaderboard, with a rise of 3.5 points to 3.2 balance points. After disappointing retail turn-overs in February (-1.3% on the previous month), this indicates that despite the losses in private purchasing power, at least the SMEs in this sector are less worried about the future. Tangible improvements in business sentiment were also reported by manufacturers (+3.6 points to -5.4 balance points), SME wholesalers (+2.6 points to -6.8 balance points) and construction firms (+2.4 points to -12.5 balance points). Nevertheless, construction companies continue to occupy the bottom rank among SMEs by a wide margin. The focus of their activities lies on residential construction, which is suffering particularly from the rapid rise in interest rates and high costs of materials.

Large enterprises are dissatisfied with their business situation

The overall sentiment among large enterprises trended upward in March but there were some differences to SMEs. While business expectations were almost comparable (+4.8 points to -11.5 balance points), most large enterprises remained dissatisfied with their current business situation and gave it a clearly negative assessment, unlike SMEs (+3.3 points to -5.0 balance points). Overall business sentiment among large enterprises rose by 4.2 points to -8.2 balance points. Notable trend differences between economic sectors were evident in construction (-6.4 points to -13.1 balance points) and retail (-1.4 points to -9.4 balance points). Contrary to the overall trend, sentiment deteriorated among large enterprises of both sectors. In addition, what stands out in the retail sector is the considerable difference in sentiment in favour of SMEs, and likewise in the services sector, where large enterprises, which last saw an improvement on February, are now more pessimistic than any other segment (+3.1 points to -17.5 balance points) This great discrepancy could be due to the fact that small and medium-sized services businesses in particular were able to benefit from the post-pandemic recovery of services consumption, while large enterprises tend to be dominated by those that are related to the currently difficult overall economic situation, such as business service providers. What is pleasing, by contrast, is the trend in the large-scale manufacturing sector, where business sentiment in March jumped sharply and is no longer very far from the zero line (+7.9 points to -1.7 balance points).

Price pressure is easing gradually

Sales price expectations among businesses of both size classes continued to drop noticeably (SMEs: -3.0 points to 11.1 balance points; large enterprises: -4.3 points to 10.7 balance points). After reaching record highs in April 2022, they dropped noticeably almost every month with the exception of a brief interruption last autumn. Given the fact that inflation measured against the Harmonised Index of Consumer Prices reached 7.8% on the previous year in March, again clearly missing the monetary policy target of 2%, the continuous easing of price pressure is generally good news for the overall economy.

Economy is set for a rebound in the course of 2023

The gravest economic worries have eased and confidence is returning cautiously. Two key indicators of the KfW-ifo SME Barometer, business sentiment and its forward-looking component, business expectations, have been on a relative high in March since the outbreak of the war in Ukraine. Moreover, SMEs' situation assessments are again slightly positive and, after all, have climbed to the highest level in a good six months. But this should not obscure the fact that the economy still faces stiff headwinds. Thus, the full downward effect of monetary policy measures on inflation in particular is likely to be felt only from this year and the impact of real wage losses also continues to reverberate. Nonetheless, on balance we expect that after contracting at the end of last year, the German economy will begin to recover in the course of 2023, albeit most likely at a rather modest pace.

KfW-ifo SME Barometer in figures

| Balance [Percentage points]* | | Month/Year | | | | | | | | | |
|---|------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|------------|------------|-------------|
| | | Mar 2022 | Oct 2022 | Nov 2022 | Dec 2022 | Jan 2023 | Feb 2023 | Mar 2023 | m-o-m | y-o-y | 3m-o-3m |
| Business climate | | | | | | | | | | | |
| Manufacturing | SME | -10.9 | -25.2 | -22.3 | -17.2 | -12.5 | -9.0 | -5.4 | 3.6 | 5.5 | 12.6 |
| | LSE | -14.5 | -21.3 | -17.7 | -15.9 | -11.5 | -9.6 | -1.7 | 7.9 | 12.8 | 10.7 |
| Construction | SME | -4.1 | -18.6 | -15.7 | -16.4 | -16.7 | -14.9 | -12.5 | 2.4 | -8.4 | 2.2 |
| | LSE | -21.6 | -15.9 | -14.0 | -13.0 | -10.6 | -6.7 | -13.1 | -6.4 | 8.5 | 4.2 |
| Retail trade | SME | -4.4 | -34.2 | -26.8 | -17.1 | -10.6 | -0.3 | 3.2 | 3.5 | 7.6 | 23.5 |
| | LSE | -13.6 | -35.1 | -29.4 | -22.2 | -18.2 | -8.0 | -9.4 | -1.4 | 4.2 | 17.0 |
| Wholesale trade | SME | -6.9 | -29.9 | -27.5 | -20.9 | -13.4 | -9.4 | -6.8 | 2.6 | 0.1 | 16.2 |
| | LSE | -11.4 | -31.0 | -33.3 | -25.2 | -21.0 | -18.0 | -15.5 | 2.5 | -4.1 | 11.7 |
| Services | SME | -9.9 | -18.1 | -16.2 | -11.8 | -9.1 | -5.9 | 1.7 | 7.6 | 11.6 | 10.9 |
| | LSE | -15.4 | -31.7 | -26.5 | -22.7 | -22.5 | -20.6 | -17.5 | 3.1 | -2.1 | 6.8 |
| Germany | SME | -9.5 | -23.1 | -19.8 | -14.6 | -11.2 | -8.1 | -3.2 | 4.9 | 6.3 | 11.7 |
| | LSE | -14.7 | -28.0 | -23.9 | -18.1 | -16.2 | -12.4 | -8.2 | 4.2 | 6.5 | 11.1 |
| Current situation | SME | 5.7 | -2.1 | -2.3 | -0.3 | -0.3 | 1.0 | 3.9 | 2.9 | -1.8 | 3.1 |
| | LSE | 2.8 | -8.9 | -9.9 | -5.3 | -8.4 | -8.3 | -5.0 | 3.3 | -7.8 | 0.8 |
| Expectations | SME | -23.1 | -41.1 | -35.1 | -27.4 | -21.1 | -16.7 | -10.0 | 6.7 | 13.1 | 18.6 |
| | LSE | -29.7 | -43.9 | -36.1 | -29.2 | -23.4 | -16.3 | -11.5 | 4.8 | 18.2 | 19.3 |
| Employment expectations | SME | 8.7 | -1.5 | 0.6 | 1.2 | 6.1 | 3.7 | 5.7 | 2.0 | -3.0 | 5.1 |
| | LSE | 12.0 | 2.9 | 4.8 | 3.1 | 4.2 | 4.6 | 4.1 | -0.5 | -7.9 | 0.7 |
| Sales price expectations | SME | 45.2 | 39.4 | 34.2 | 26.3 | 20.9 | 14.1 | 11.1 | -3.0 | -34.1 | -17.9 |
| | LSE | 44.8 | 39.6 | 35.4 | 29.0 | 23.7 | 15.0 | 10.7 | -4.3 | -34.1 | -18.2 |
| Export expectations of manufacturing | SME | -13.2 | -19.1 | -17.0 | -11.4 | -10.2 | -11.2 | -10.4 | 0.8 | 2.8 | 5.2 |
| | LSE | -8.1 | -8.1 | 1.5 | -1.3 | -0.5 | 2.5 | 5.8 | 3.3 | 13.9 | 5.2 |

Sources: 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.