

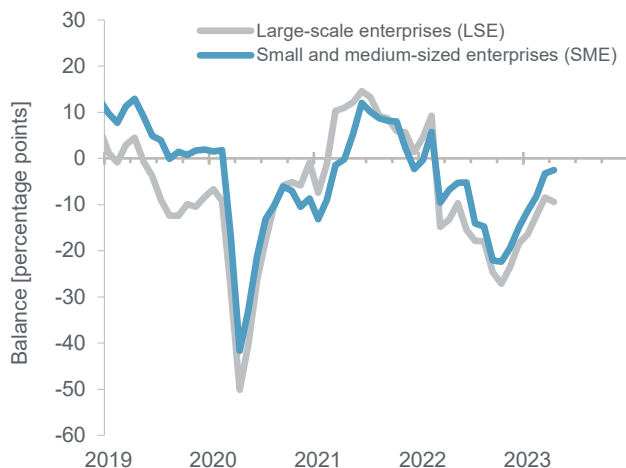
»»» SME sentiment in April: a mix of sunshine and rain

11 May 2023

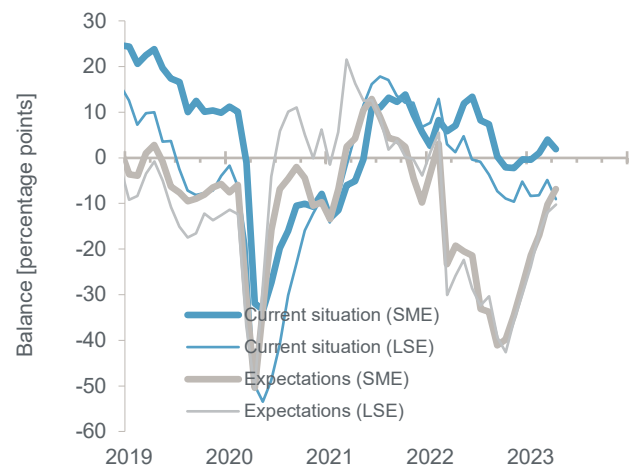
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- SME business sentiment improved for the sixth consecutive month, although only moderately
- Business expectations are better but situation assessments are worse than in the previous month
- Sentiment among large enterprises has clouded over slightly
- Expectations for the 2023 business cycle should be kept low

KfW ifo Business Climate Index



KfW ifo sentiment components



Source: KfW Research, ifo Institute

Business sentiment improved for sixth time in a row

The KfW-ifo SME Barometer for April brings good news overall but also some bad news: On balance, business confidence in the SME sector rose by a moderate 0.8 points on March to now -2.5 balance points. That is the sixth consecutive increase, after the mood last autumn literally collapsed under the acute fear of an energy crisis. The improvement, however, was driven solely by business expectations:

- They rose by 3.4 points to now -6.8 balance points. Businesses have not exhibited such a low degree of pessimism since the outbreak of the war. Nonetheless, scepticism still predominates, as highlighted by the persistently negative level of the expectations indicator.
- Business situation assessments, on the other hand, fell by 2.1 points in March to now 1.9 balance points. That means situation assessments are again approaching the zero line, which conceptually stands for the long-term average. That is an indication of continuing economic pressures, for example from the restrictive monetary policy stance and inflation-induced purchasing power losses.

Sectors show very mixed development

Unlike in the two preceding months, sentiment in the economic sectors in which SMEs operate drifted apart again in April. Retail experienced the strongest increase, with sentiment improving by 4.1 points to 7.1 balance points. That put SME retailers on the top of the sentiment leaderboard, which suggests that household consumption is stabilising after the steep purchasing power losses and the resulting consumption weakness since last autumn. Sentiment is also brightening again in manufacturing, although on a below-average level (+1.6 points to -3.8 balance points). The remaining sectors, however, reported a deterioration in business sentiment. Services industries lost part of the preceding strong gains (-1.5 points to 0.2 balance points) and the mood also deteriorated again slightly among SME wholesalers (-0.8 points to -9.4 balance points) and in the construction sector (-1.1 points to -13.3 balance points). Construction companies continue to occupy the bottom rank among SMEs by a wide margin. They are particularly affected by the difficult situation in residential construction.

Large enterprises reported a slight drop in sentiment

Unlike in the SME sector, sentiment among large enterprises was worse in April, albeit only slightly. Their business confidence fell 1.0 points to -9.4 balance points. The renewed improvement in business expectations (+1.7 points to -10.3 balance points) was too weak to fully offset the sharp downward revision of business situation assessments (-4.2 points to -9.0 balance points). What is striking is that large enterprises continue to struggle much more, especially with their current situation, than SMEs, where the level of situation assessments has even been slightly better than the long-term average for the past three months now. At the sector level, this is caused by stark differences in retail and services, where large enterprises are struggling, while large construction firms, whose focus often lies on commercial construction and public infrastructure, are significantly more satisfied with their business situation than SMEs in this sector and thus created a counterbalance of sorts in the business sentiment of large enterprises.

Price pressure continues to fall sharply

Sales price expectations among businesses of both size classes continued to drop and have returned to single-digit figures for the first time since February 2021 (SMEs: -2.6 points to 8.4 balance points; large enterprises: -5.4 points to 5.2 balance points). As annual consumer price inflation remains well above the medium-term monetary policy objective of 2%, the decreasing pressure on the price pipeline is very welcome. At the same time, employment expectations remain just barely steady on a slightly above-average level (SMEs: -0.1 points to 5.5 balance points; large enterprises: -0.7 points to 2.8 balance points).

Expectations for the 2023 business cycle should be kept low

Overall, sentiment continues to improve and is raising the hope for an economic rebound in the course of 2023. But just like the weather in April, the indicators of the current KfW-ifo SME Barometer offer not just sunshine but quite a bit of rain too. Particularly the renewed deterioration in business situation assessments and the well below-average level of the situation indicator among large enterprises illustrate the fact that significant obstacles still stand in the way of a broad recovery. In the winter half-year Germany just barely avoided a technical recession. After contracting by 0.5% in the final quarter of 2022, GDP stagnated at the start of the new year. Whether a contraction can now be avoided for 2023 as a whole as well, however, is yet to be seen. Monetary policy will only start to unfold its full dampening effect this year and the purchasing power losses experienced by households continue to reverberate. So, in any case, we would be well advised to continue keeping our expectations low.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Apr 2022	Nov 2022	Dec 2022	Jan 2023	Feb 2023	Mar 2023	Apr 2023			
Business climate											
Manufacturing	SME	-9.4	-22.1	-17.1	-12.7	-8.9	-5.4	-3.8	1.6	5.6	11.3
	LSE	-7.9	-17.6	-15.9	-11.3	-10.1	-0.8	-0.7	0.1	7.2	11.1
Construction	SME	-13.6	-15.6	-16.4	-16.4	-15.0	-12.2	-13.3	-1.1	0.3	2.6
	LSE	-21.4	-14.2	-13.0	-10.3	-6.0	-11.8	-0.4	11.4	21.0	6.4
Retail trade	SME	-6.3	-26.4	-17.2	-10.6	-0.4	3.0	7.1	4.1	13.4	21.3
	LSE	-25.3	-29.1	-22.2	-18.3	-8.8	-10.8	-15.0	-4.2	10.3	11.7
Wholesale trade	SME	-4.9	-26.7	-20.6	-13.6	-10.2	-8.6	-9.4	-0.8	-4.5	10.9
	LSE	-9.6	-32.9	-25.0	-20.9	-18.1	-15.7	-16.5	-0.8	-6.9	9.5
Services	SME	-5.7	-16.1	-11.8	-9.2	-5.9	1.7	0.2	-1.5	5.9	11.0
	LSE	-18.3	-26.3	-22.7	-22.5	-20.5	-17.4	-19.6	-2.2	-1.3	4.7
Germany	SME	-6.8	-19.4	-14.9	-11.4	-8.3	-3.3	-2.5	0.8	4.3	10.5
	LSE	-13.2	-23.5	-18.3	-16.4	-12.4	-8.4	-9.4	-1.0	3.8	9.3
Current situation	SME	7.1	-2.2	-0.3	-0.4	1.1	4.0	1.9	-2.1	-5.2	3.3
	LSE	1.3	-9.6	-5.2	-8.3	-8.2	-4.8	-9.0	-4.2	-10.3	0.4
Expectations	SME	-19.2	-34.5	-27.9	-21.3	-16.9	-10.2	-6.8	3.4	12.4	16.6
	LSE	-25.9	-35.6	-29.9	-23.9	-16.6	-12.0	-10.3	1.7	15.6	16.8
Employment expectations	SME	9.3	0.7	1.2	6.1	3.7	5.6	5.5	-0.1	-3.8	2.3
	LSE	11.5	4.9	3.1	4.2	4.4	3.5	2.8	-0.7	-8.7	-0.5
Sales price expectations	SME	52.3	33.8	26.4	20.9	14.1	11.0	8.4	-2.6	-43.9	-15.9
	LSE	50.2	35.0	29.1	23.7	15.1	10.6	5.2	-5.4	-45.0	-19.0
Export expectations of manufacturing	SME	-7.6	-16.8	-11.3	-10.2	-11.1	-10.5	-7.8	2.7	-0.2	3.0
	LSE	-6.3	1.5	-1.5	-0.7	2.1	5.9	4.8	-1.1	11.1	4.5

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.