

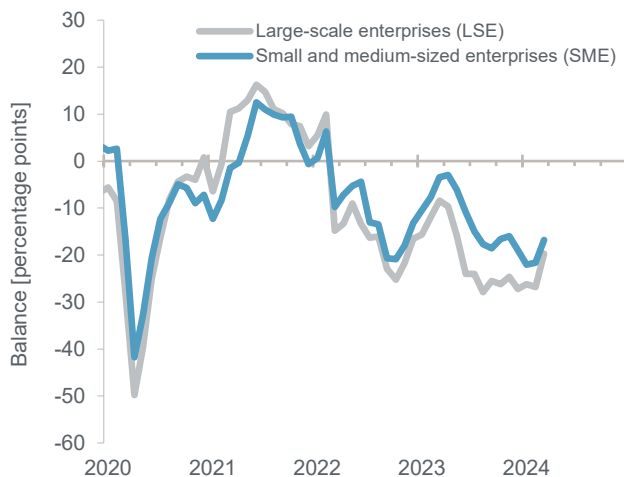
## »»» SMEs feel a hint of spring in the air

3 April 2024

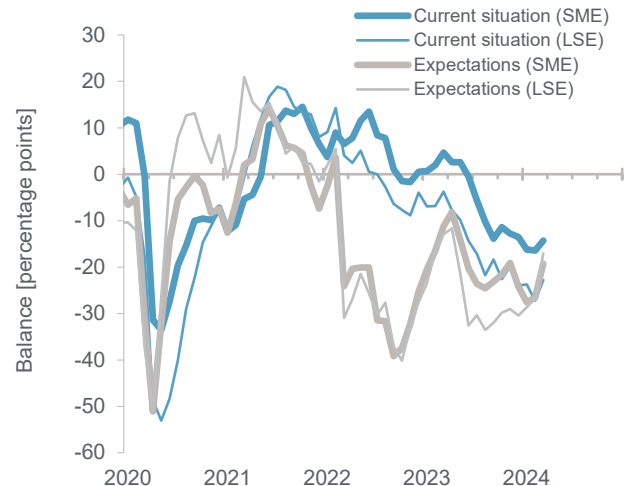
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- SME business confidence has brightened noticeably
- Expectations in particular have improved but so have situation assessments
- Sentiment among large enterprises is catching up
- Businesses are coming out of the doldrums, giving hope that growth will return from the spring

KfW ifo Business Climate Index



KfW ifo sentiment components



Source: KfW Research, ifo Institute

### SME business sentiment clearly improved

At last, SME business sentiment is finding a way up again, making a sizeable leap of 4.9 points in March to -16.8 balance points. This is already the second consecutive increase after a significant upward revision of the data from February. Although this means sentiment is still well below average, the trend is pointing in the right direction in all sectors:

- Situation assessments rose by 2.1 points to -14.3 balance points. This is moderate but nonetheless a departure from the trend, after the situation in previous months had deteriorated continuously.
- Business expectations even shot upwards by 7.3 points, more than twice the typical monthly variation. But at -19.3 balance points, expectations remained well below the zero line, which stands for the long-term average.

### Sentiment has improved in all sectors

Sentiment among small and medium-sized enterprises has improved in all economic sectors. Business confidence rose most sharply among wholesalers- (+9.1 points) and retailers (+4.9 points). This may reflect the fact that businesses have in the meantime adapted to the supply disruptions caused by attacks from the Houthi rebel group in the Red Sea. Most likely, however, it is a reflection of the revival of household consumption. Among SME retailers, expectations and situation assessments both increased substantially, although the latter are now only slightly below average. Business sentiment in the services sector also increased by a noticeable 4.6 points and confidence in SME manufacturing rose by 3.4 points. The lowest sentiment was measured among small and medium-sized construction firms, which are grappling with a slump in demand for new dwellings due to high interest rates and construction costs and are very pessimistic about the future. Business sentiment there at least rose by one point in March.

### **Large enterprises reported a sharp rise in confidence**

Business confidence among large enterprises increased even more noticeably than among SMEs (+7.1 points). It now sits at -19.7 balance points, so that the gap to SMEs which had widened in the course of 2023 has narrowed considerably. In March, sentiment improved greatly among large retailers in particular (+12.8 points), although it must also be noted that confidence in this segment is subject to particular volatility. Also noteworthy was the sharp rise in manufacturers' export expectations, which is also consistent with the revival in demand among Germany's trading partners expressed in other indicators, one example of which are the HCOB PMI Export Conditions (+1.3 points to 50.7 balance points in February, a nine-month high).

### **Sales price expectations dropped again**

Also positive for the overall economy is that SMEs' sales price expectations fell again (-1.7 points) and those of large enterprises rose only moderately (+1.3 points). In both segments, sales price expectations are not far from the zero line – the long-term average – showing that this indicator continues to point towards a normalisation of the inflation rate. At the same time, employment expectations increased significantly, especially among large enterprises, and are now on a very similar but still slightly below-average level in both size classes.

### **Signs of an economic spring**

At last, the long-awaited economic spring appears to have arrived. After many months of excessively dismal business sentiment, March is showing clear signs of a turnaround. Given the considerable increases in real wages, household consumption in particular is becoming a driver of economic activity, improving the outlook for retailers and consumption-related services enterprises. To be sure, the activity indicators for the manufacturing sector are still predominantly negative but the expected resurgence in demand from abroad and the prospects of monetary easing give hope for improvement. This will require inflation to continue trending downward, which is difficult amid high wage growth but plausible given that sales price expectations are now only moderate. The situation assessments and expectations of businesses are still on a very low level but every sentiment upswing starts small.

## KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Mar 2023	Oct 2023	Nov 2023	Dec 2023	Jan 2024	Feb 2024	Mar 2024			
<b>Business climate</b>											
Manufacturing	SME	-8.8	-20.1	-18.4	-24.5	-27.5	-27.5	-24.1	3.4	-15.3	-5.4
	LSE	-6.3	-23.3	-23.1	-28.2	-24.8	-24.5	-21.3	3.2	-15.0	1.3
Construction	SME	-11.2	-27.3	-24.9	-28.9	-31.7	-31.4	-30.4	1.0	-19.2	-4.1
	LSE	-11.8	-7.8	-9.5	-15.5	-20.9	-16.8	-10.1	6.7	1.7	-5.0
Retail trade	SME	-4.5	-12.9	-11.7	-12.4	-17.8	-16.1	-11.2	4.9	-6.7	-2.7
	LSE	-16.4	-20.9	-19.7	-17.6	-23.5	-24.7	-11.9	12.8	4.5	-0.6
Wholesale trade	SME	-12.7	-28.1	-24.5	-29.9	-34.9	-38.2	-29.1	9.1	-16.4	-6.6
	LSE	-18.1	-34.3	-28.6	-36.4	-38.3	-40.6	-42.1	-1.5	-24.0	-7.2
Services	SME	1.9	-8.8	-10.3	-11.9	-14.7	-13.1	-8.5	4.6	-10.4	-1.8
	LSE	-16.2	-25.9	-26.1	-28.7	-29.1	-30.7	-24.6	6.1	-8.4	-1.2
<b>Germany</b>	<b>SME</b>	<b>-3.5</b>	<b>-16.6</b>	<b>-16.0</b>	<b>-19.0</b>	<b>-22.1</b>	<b>-21.7</b>	<b>-16.8</b>	<b>4.9</b>	<b>-13.3</b>	<b>-3.0</b>
	<b>LSE</b>	<b>-8.4</b>	<b>-26.2</b>	<b>-24.6</b>	<b>-27.2</b>	<b>-26.2</b>	<b>-26.8</b>	<b>-19.7</b>	<b>7.1</b>	<b>-11.3</b>	<b>1.8</b>
Current situation	SME	4.7	-11.4	-12.8	-13.5	-16.2	-16.4	-14.3	2.1	-19.0	-3.1
	LSE	-3.8	-22.6	-20.0	-24.0	-23.8	-27.3	-22.8	4.5	-19.0	-2.4
Expectations	SME	-11.2	-21.6	-19.1	-24.2	-27.6	-26.6	-19.3	7.3	-8.1	-2.9
	LSE	-13.0	-29.9	-29.1	-30.5	-28.7	-26.8	-17.1	9.7	-4.1	5.6
<b>Employment expectations</b>	SME	5.1	-4.8	-4.0	-3.6	-4.9	-4.6	-4.0	0.6	-9.1	-0.4
	LSE	2.9	-10.1	-11.4	-9.0	-9.6	-11.7	-4.2	7.5	-7.1	1.7
<b>Sales price expectations</b>	SME	11.2	1.7	4.4	7.2	4.5	-1.1	-2.8	-1.7	-14.0	-4.2
	LSE	11.0	-1.1	-2.1	0.5	1.7	-0.4	0.9	1.3	-10.1	1.6
<b>Export expectations of manufacturing</b>	SME	-12.1	-17.9	-15.0	-18.6	-19.0	-15.6	-13.6	2.0	-1.5	1.1
	LSE	-1.5	-10.9	-12.1	-13.9	-17.3	-13.1	-4.2	8.9	-2.7	0.8

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 timeseries 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 timeseries 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.