

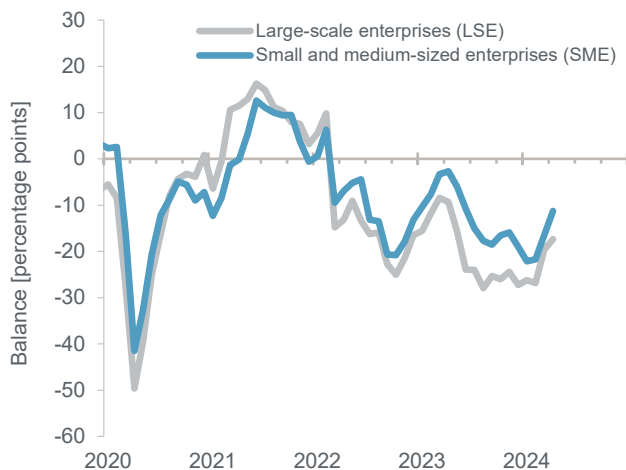
Business sentiment: SMEs have some hope again

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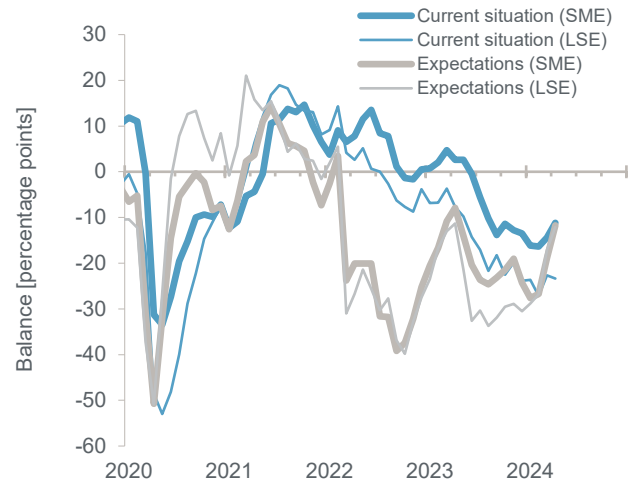
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- SME business sentiment improved for the third consecutive month
- Expectations in particular improved but so did situation assessments
- Large enterprises were also more upbeat than in the previous month
- End of the cyclical trough has almost been reached

KfW-ifo Business Climate



KfW-ifo Climate Components



Source: KfW Research, ifo Institute

SMEs have become much less pessimistic

With the arrival of spring, sentiment among SMEs brightened significantly, albeit still at a low level. Business confidence rose to -11.3 balance points in April, up by 5.2 points on the previous month – twice the typical monthly variation. Both climate components improved but the strongest change was the sharp drop in pessimism about the near future.

- Business expectations for the coming six months rose by a notable 7.1 points to now -11.8 balance points, with the zero-line representing the long-term average. This is the highest level in a year.
- Situation assessments rose by 3.2 points to -11.2 balance points. Compared to the average of the first quarter (-20.1 balance points), situation assessments were on a much higher level in April, indicating that the economy had a good start to the spring quarter.

Sentiment has brightened in almost all economic sectors

Confidence improved among SMEs of almost all main economic sectors with the exception of wholesale, where business sentiment slipped again slightly by -2.8 points to -31.5 balance points in April, after rising very strongly by almost 9 points in March. Confidence among small and medium-sized construction firms, on the other hand, rose by three times an average monthly variation (+5.9 points to -24.0 balance points), leaving wholesalers at the tail end of the field behind the construction sector. Services businesses also continued the upward trend on which they embarked three months ago, with their business sentiment even gradually approaching the long-term average (+3.8 points to -4.7 balance points). Comparatively moderate improvements, however, were reported by retailers (+1.3 points to -8.8 balance points) and manufacturers (+1.3 points to -22.2 balance points).

Sentiment among large enterprises also improved

Large enterprises also showed more optimism in April. Their business confidence rose by 2.3 points to -17.3 balance points, but that level is still lower than that of SMEs. Furthermore, only their expectations improved tangibly (+5.0 points to -12.1 balance points), while large enterprises revised their situation assessments down slightly in April (-0.7 points to -23.4 balance points). Besides, the sentiment improvement among large enterprises rests on a rather narrow base, since increases in two main economic sectors (services and wholesale) were tempered by declines – albeit minor ones – in the three sectors of manufacturing, construction and retail. What stands out here is that the business confidence level among large wholesalers is also the lowest by far, just as it is among SME wholesalers. Geopolitical risks and associated concerns over the stability of global trading routes might play a particular role here, since wholesalers operate at the junction between national and international markets.

Price expectations remain moderate overall

Sales price expectations rose somewhat among both SMEs in April (+2.6 points to 0.1 balance points) and large enterprises (+1.0 points to 2.0 balance points) but stayed near their long-term average and therefore generally remain moderate. Among the main economic sectors, however, some stark differences became evident, but these have opposing impacts on the monetary policy target of consumer price stability. On the one hand, the price expectations of service providers continue to be visibly higher which, given the tight labour market, likely reflects the persistent wage cost pressure in this labour-intensive producing sector. On the other hand, wholesalers'

sales price expectations are well below average, which signals easing price pressure in the upstream stages and, from a business perspective, might also help to explain the particularly dismal mood in this economic sector.

SMEs have experienced a shift in sentiment

It is just like the weather: For a long time, temperatures were cool, but now they are rising. The KfW-ifo SME Barometer for April comes down to this formula. SME business sentiment rose for the third consecutive month, and the rule of thumb says that at least in this segment of the economy there has now been a shift towards more positive sentiment. Among large enterprises, however, a further rise will be required in the coming month in order to satisfy this rule. What enterprises of both size classes do have in common, however, is that they are now looking to the future with much less pessimism than they did at the start of the year. Compared with the long-term standard, the sentiment indicator levels remain subdued, to be sure, but they are going in the right direction. Hard economic indicators such as production and wholesale turnover also picked up somewhat since the start of the year. In its flash estimate at the end of April, Destatis even reported a rise in real GDP in the first quarter (+0.2% on the previous quarter), instead of the initially feared renewed contraction. This reaffirms our expectation that after the minor drop in the previous year (-0.2% according to recently revised figures), which was caused solely by the lower number of working days, we will see a return to moderate growth in 2024 as a whole, which will then accelerate noticeably in 2025. The end of the cyclical trough has almost been reached.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Apr 2023	Nov 2023	Dec 2023	Jan 2024	Feb 2024	Mar 2024	Apr 2024			
Business climate											
Manufacturing	SME	-8.2	-18.2	-24.2	-27.2	-27.0	-23.5	-22.2	1.3	-14.0	-1.0
	LSE	-5.9	-22.6	-27.7	-24.3	-24.1	-20.3	-21.1	-0.8	-15.2	3.0
Construction	SME	-12.8	-24.8	-28.8	-31.6	-30.9	-29.9	-24.0	5.9	-11.2	0.1
	LSE	-1.3	-9.6	-15.5	-21.2	-16.1	-9.0	-9.4	-0.4	-8.1	3.9
Retail trade	SME	-0.4	-11.1	-11.9	-17.1	-15.2	-10.1	-8.8	1.3	-8.4	2.0
	LSE	-17.7	-19.7	-17.6	-23.3	-23.7	-11.4	-12.4	-1.0	5.3	4.4
Wholesale trade	SME	-13.8	-24.1	-29.5	-34.4	-37.4	-28.7	-31.5	-2.8	-17.7	-3.2
	LSE	-19.8	-28.0	-36.1	-38.1	-40.4	-41.6	-41.1	0.5	-21.3	-7.0
Services	SME	0.6	-10.2	-11.8	-14.7	-13.1	-8.5	-4.7	3.8	-5.3	3.5
	LSE	-18.3	-26.0	-28.6	-29.0	-30.5	-24.5	-22.1	2.4	-3.8	2.2
Germany	SME	-2.7	-15.9	-19.0	-22.1	-21.7	-16.5	-11.3	5.2	-8.6	2.5
	LSE	-9.3	-24.4	-27.2	-26.2	-26.8	-19.6	-17.3	2.3	-8.0	4.7
Current situation	SME	2.6	-12.8	-13.5	-16.2	-16.4	-14.4	-11.2	3.2	-13.8	0.2
	LSE	-7.7	-19.9	-23.9	-23.7	-27.2	-22.7	-23.4	-0.7	-15.7	-1.9
Expectations	SME	-7.9	-19.1	-24.3	-27.7	-26.8	-18.9	-11.8	7.1	-3.9	4.5
	LSE	-11.3	-28.9	-30.5	-28.8	-26.8	-17.1	-12.1	5.0	-0.8	10.7
Employment expectations	SME	4.4	-4.0	-3.6	-4.8	-4.6	-4.0	-3.6	0.4	-8.0	0.1
	LSE	2.3	-11.3	-9.0	-9.5	-11.6	-4.4	-6.6	-2.2	-8.9	2.4
Sales price expectations	SME	8.1	4.5	7.2	4.5	-1.3	-2.5	0.1	2.6	-8.0	-6.6
	LSE	5.9	-2.1	0.5	1.6	-0.4	1.0	2.0	1.0	-3.9	0.9
Export expectations of manufacturing	SME	-9.4	-14.8	-18.4	-18.9	-15.6	-13.6	-15.8	-2.2	-6.4	2.4
	LSE	0.3	-12.0	-13.7	-16.9	-12.3	-4.6	-4.7	-0.1	-5.0	7.0

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.