

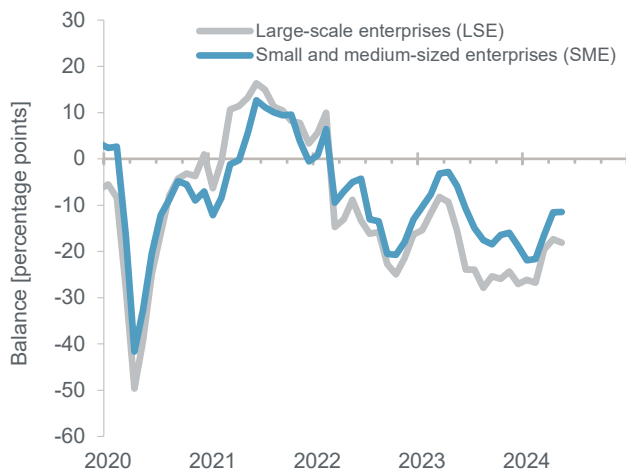
»» SMEs are slightly more confident as optimism rises

5 June 2024

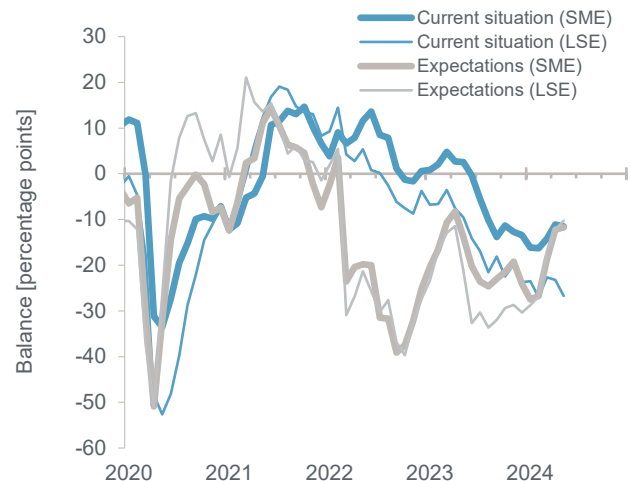
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- SME business sentiment rises for the fourth consecutive month
- Expectations continue to brighten but situation assessments have deteriorated again slightly
- Mood among large enterprises is worse than in the previous month
- Economy should rebound in the course of the year

KfW ifo Business Climate Index



KfW ifo sentiment components



Source: KfW Research, ifo Institute

Business sentiment has brightened slightly thanks to improved expectations

Sentiment among SMEs improved for the fourth straight month in May but only slightly and only because of a somewhat more positive outlook for the near future. After a very strong increase in April, this time business confidence rose by a mere 0.1 points to -11.5 balance points. The slight drop in situation assessments almost neutralised the equally moderate improvement in business expectations:

- Specifically, six-month business expectations rose by 0.5 points to now -11.7 balance points, with the zero line representing the long-term average. The renewed increase gives hope that the economic recovery will continue in the months ahead.
- By contrast, current situation assessments deteriorated by a moderate 0.4 points on April. They now sit at -11.5 balance points and thus continue to be well above the average of the first quarter, which indicates sustained economic growth in the spring.

Services sector stands in the way of a broader sentiment improvement

Sentiment among SMEs improved across almost all sectors. Services are the only sector standing in the way of a higher business sentiment, recording a moderate drop of 1.5 points to -6.2 balance points. But because of services' large structural share, this decline has a relatively strong impact on the result for SMEs as a whole. An opposing trend of sometimes quite pronounced sentiment improvements was recorded by wholesalers (+5.8 points to -24.9 balance points), manufacturers (+4.6 points to -16.6 balance points), construction (+2.3 points to -21.6 balance points) and retailers (+1.7 points to -5.6 balance points). This now makes retail trade the sector where SMEs are the most optimistic, which aligns well with the rebound of consumption we expect to see in the further course of the year. Rising nominal wages coupled with a falling inflation rate are the main drivers of the recovery.

Confidence has fallen among large enterprises

Unlike in SMEs, sentiment among large enterprises was disappointing. Their business confidence fell by 0.8 points to -18.2 balance points in May, which continues to be noticeably lower than that of SMEs. Also worth noting is the divergence between situation assessments and expectations. The latter rose by 2.0 points to -10.3 balance points, so that large enterprises are now even a tad more optimistic about the next six months than SMEs. But this reasonable improvement in expectations is too little to offset the noticeable deterioration in situation assessments (-3.5 points to -26.7 balance points). This decline was driven by large service providers, where sentiment is quite volatile. Although their expectations brightened significantly at the same time, business sentiment among large service providers dropped by 1.8 points to -23.8 balance points. Sentiment among large retailers also fell in May (-2.6 points to -15.0 balance points), unlike in SMEs operating in this sector. Large enterprises in the remaining economic sectors, however, were more upbeat than in April. Healthy sentiment improvements were observable among manufacturers (+2.4 points to -17.5 balance points) and construction firms (+4.1 points to -4.9 balance points), as well as a veritable surge in confidence among wholesalers (+16.1 points to -23.7 balance points). For a long time, wholesale trade was at the bottom of the sentiment leaderboard but it has nearly caught up with the other segments, posting an increase of almost four times the average monthly variation. As it sits at the interface between domestic and foreign markets, this could point to a foreseeable recovery in external trade.

Germany will return to growth in 2024

Things are continuing to improve but overall growth this year will remain meagre. That is the key message of the KfW-ifo SME Barometer in May. Even so, the exceptionally sombre mood seen a few months ago is now making room for slightly more optimism among German enterprises. Thus, business sentiment was on a significantly higher level in both enterprise size classes in May than at the start of the year despite the most recent minor setback among large enterprises. Furthermore, both size classes have in common that business expectations have improved significantly and continuously since the start of the year and are now on a par with situation assessments among SMEs and even noticeably higher among large enterprises. In the past, when expectations about future business were better than assessments of the current business situation, that was a relatively reliable sign of a beginning upswing. Overall, we appear to have approached the end of the economic trough. After the minor contraction of GDP last year, caused exclusively by the reduced number of working days, we expect real growth to return at a moderate pace of +0.3% this year and then accelerate significantly to +1.2% in 2025. However, pressure to address structural issues such as skilled labour shortfalls and the energy transition remains high in order to ensure that such growth rates are also achievable in the subsequent years.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		May 2023	Dec 2023	Jan 2024	Feb 2024	Mar 2024	Apr 2024	May 2024			
Business climate											
Manufacturing	SME	-12.7	-24.3	-27.1	-26.7	-22.9	-21.2	-16.6	4.6	-3.9	5.8
	LSE	-12.5	-27.5	-24.1	-23.6	-19.5	-19.9	-17.5	2.4	-5.0	6.1
Construction	SME	-13.0	-28.8	-31.3	-30.6	-28.9	-23.9	-21.6	2.3	-8.6	5.4
	LSE	-7.2	-15.7	-21.3	-16.0	-8.4	-9.0	-4.9	4.1	2.3	10.2
Retail trade	SME	-10.2	-11.8	-17.0	-15.0	-9.8	-7.3	-5.6	1.7	4.6	7.0
	LSE	-15.4	-17.4	-23.2	-23.6	-11.3	-12.4	-15.0	-2.6	0.4	8.5
Wholesale trade	SME	-22.3	-29.4	-34.2	-36.7	-28.7	-30.7	-24.9	5.8	-2.6	5.3
	LSE	-34.5	-36.2	-38.0	-40.0	-40.2	-39.8	-23.7	16.1	10.8	3.5
Services	SME	1.1	-11.8	-14.7	-13.0	-8.5	-4.7	-6.2	-1.5	-7.3	6.7
	LSE	-22.5	-28.5	-28.9	-30.4	-24.4	-22.0	-23.8	-1.8	-1.3	5.9
Germany	SME	-5.9	-18.9	-22.0	-21.7	-16.5	-11.6	-11.5	0.1	-5.6	7.7
	LSE	-15.6	-27.1	-26.2	-26.8	-19.6	-17.4	-18.2	-0.8	-2.6	8.3
Current situation	SME	2.6	-13.4	-16.1	-16.3	-14.2	-11.1	-11.5	-0.4	-14.1	3.0
	LSE	-9.5	-23.7	-23.5	-27.0	-22.6	-23.2	-26.7	-3.5	-17.2	0.6
Expectations	SME	-13.8	-24.1	-27.5	-26.7	-18.7	-12.2	-11.7	0.5	2.1	11.9
	LSE	-21.3	-30.4	-28.8	-26.9	-17.1	-12.3	-10.3	2.0	11.0	15.5
Employment expectations	SME	1.4	-3.6	-4.8	-4.6	-4.0	-3.6	-3.7	-0.1	-5.1	0.6
	LSE	-0.6	-8.8	-9.3	-11.6	-4.5	-6.7	-7.6	-0.9	-7.0	3.6
Sales price expectations	SME	4.5	7.1	4.5	-1.3	-2.6	0.0	0.6	0.6	-3.9	-4.1
	LSE	1.4	0.5	1.6	-0.5	0.9	1.9	1.5	-0.4	0.1	0.9
Export expectations of manufacturing	SME	-11.8	-18.3	-18.7	-15.4	-13.3	-15.4	-14.1	1.3	-2.3	3.2
	LSE	-5.5	-13.7	-16.8	-12.1	-4.6	-3.9	0.8	4.7	6.3	11.6

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.