4.2 The KfW-ifo SME Barometer

Stefan Sauer

4.2.1 Concept and Objectives

Small and medium-sized enterprises (SMEs) play an important role in the German economy, employing 31.7 million people — a good 70% of the workforce — and generating an annual domestic turnover of around EUR 4,100 billion (Schwartz 2019). For analyses of the current economic developments of SMEs, the ifo Institute, in cooperation with KfW Research, has developed evaluations of the monthly ifo Business Survey based on company size in the sectors manufacturing, construction, wholesale and retail trade, and the service sector. The main indicator of these evaluations is a business climate for Germany's SMEs, which also allows comparisons to larger companies and the development of the overall economy. Together with other results, this indicator is published monthly by KfW Research as the "KfW-ifo SME Barometer" (KfW Research 2022b).

4.2.2 Methodology of the SME Barometer

For the calculation of the KfW-ifo SME Barometer, it is necessary to divide the participating companies into SMEs and large companies. However, there is no generally valid definition for an SME. Mostly qualitative criteria are used, where it's not the size of the company that is decisive, but rather the unity of ownership and management. According to these criteria, the owners exert, for example, a decisive personal influence on management issues and bear entrepreneurial risks, thus maintaining the livelihood and spirit of the enterprise.

Since information on these characteristics is not available for all enterprises, the KfW-ifo SME Barometer is based instead on quantitative company characteristics that are gathered once a year in the ifo Business Survey. Due to sector-specific structures, these characteristics differ by sector. SMEs in the manufacturing sector, by definition, include all enterprises with fewer than 500 employees, while in the wholesale sector they include those with an annual turnover of less than 50 million euros. These limits are lower for retailing companies (less than 12.5 million euros annual turnover), in the service sector (less than 25 million euros annual turnover), and for construction enterprises (up to 199 employees). All companies that exceed the respective limit are classified as large companies (Table 4.5).

The high proportion of SMEs in the German economy is also reflected in the panel of the ifo Business Survey. While participants of the manufacturing sector, wholesale and retail trade, and the service sector are on average 80% SMEs, the percentage is even higher in the construction sector with 90%.

Table 4.5: Classification of SME and large companies

	SME	Large enterprises
Manufacturing	1-499 employees	$\geq$ 500 employees
Construction	1-199 employees	$\geq$ 200 employees
Wholesale	turnover p.a. < 50m €	turnover p.a. $\geq$ 50m €
Retailing	turnover p.a. < 12.5m €	turnover p.a. $\geq$ 12.5m €
Service Sector	turnover p.a. < 25m €	turnover p.a. $\geq$ 25m €

For both groups the aggregations follow the standard methodology used in the ifo Business Survey. The results are first calculated on a two-digit level, then aggregated to the respective sector result, and finally to an overall indicator for Germany as a whole. For more detailed calculations, the number of participants in many industries is too small, especially for larger companies.

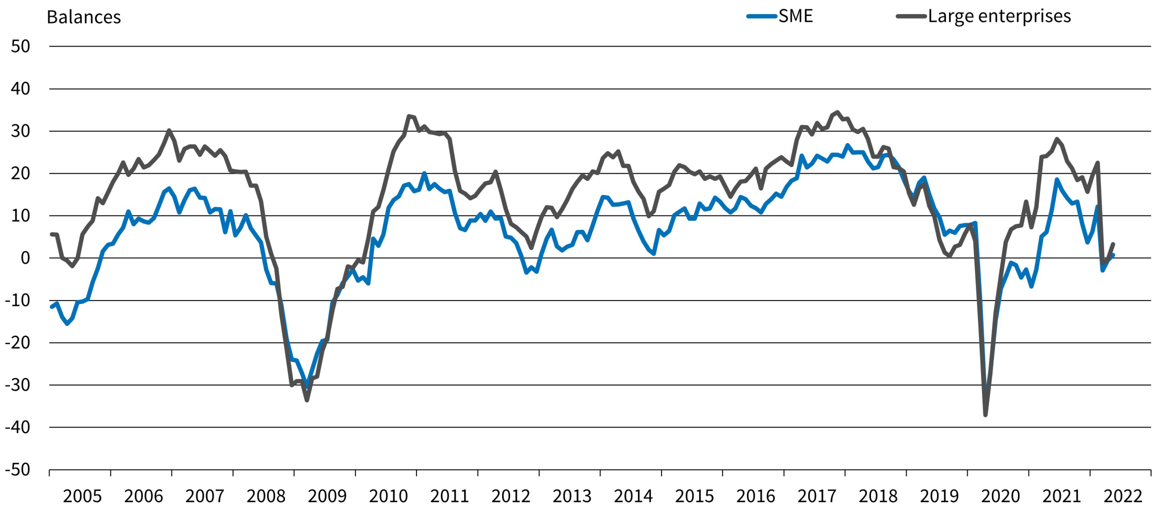
The aggregation weights for manufacturing and wholesale and retail trade are the gross value added shares at the two-digit level, divided proportionally between SMEs and large enterprises according to their shares in turnover. The aggregate weights for construction and the service sector are the turnover shares of the individual branches according to official statistics. The aggregation of the sectors to the results for Germany is done analogously to the other overall indicators from the ifo Business Survey, such as the ifo Business Climate Index, based on their gross value-added shares.

4.2.3 Results of the SME Barometer

Time series for SMEs and large companies start in January 2005 for the overall economy and the service sector. For all other sectors, the time series start in 1991. All time series are also available seasonally adjusted. The main result of the SME Barometer is the ifo Business Climate for SMEs which is calculated as an average of the balances of the current business situation and the business expectations for the next six months.

Figure 4.2 shows the business climate for SMEs compared to large companies. Altogether, both time series show similar business cycles, but the business climate among small and medium-sized enterprises is almost constantly below that for large companies. This can be attributed to SMEs' less optimistic business expectations. However, it can also be seen that the business climate in 2008 and 2009 developed in favor of SMEs. This suggests that they were less affected by the financial and economic crisis than large companies. The same could be seen during the first months of the Covid-19 crisis in 2020, where the business climate for large enterprises plummeted significantly. Nevertheless, large enterprises recovered faster as SMEs were affected more by the second wave of infections and the resulting governmental containment measures.

Figure 4.2: ifo Business Climate for SME and large companies



Source: ifo Business Survey.

In addition to business climate, business situation, and business expectations, the SME barometer also provides time series on various other variables. This includes the future developments of prices, the number of employees, capacity utilization, and credit constraints. For manufacturing, there are additional results for export expectations and the competitive position of companies.