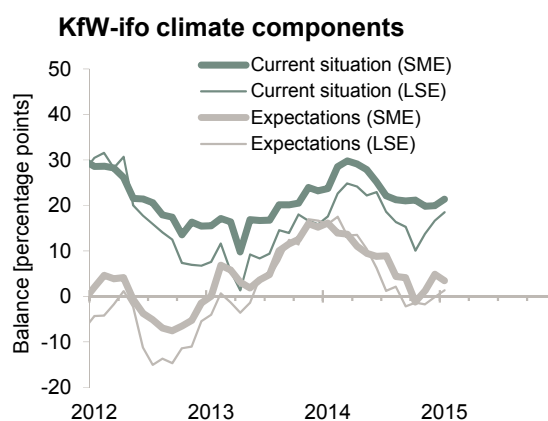
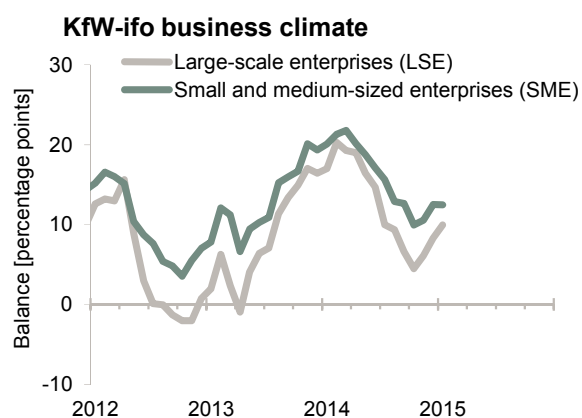


KfW-ifo SME Barometer: January 2015

SMEs realistic at start of year

- *SME business climate stable thanks to improved situation*
- *Low oil price and cheap euro fail to revive expectations for SMEs*
- *Tangible pick-up in sentiment at large enterprises*



Source: KfW Economic Research, ifo Institute Munich

Realism at the start of year

At the beginning of the year, a slight dampener was put on expectations of a swift acceleration in German economic activity, which is currently pointing upwards in many revised forecasts: stagnating at 12.5 balance points, the SME business climate in January 2015 is exactly where it was in December. This is solely thanks to the better assessment of the current business situation. By contrast, the firms' anything but euphoric view on future trends prevented a third consecutive improvement in the business climate, which is commonly seen as a reliable signal for a turnaround in economic activity.

- Business expectations lost 1.5 points, dropping to 3.4 balance points, which is not a dramatic decline because the indicator only ceded part of the sharp increase recorded earlier. However, the result shows that the recovery which was generally expected is not a foregone conclusion. A low oil price and a favourable euro exchange rate might not be enough to significantly increase consumption and investments of German households and enterprises. Instead there is a threat of a renewed increase in the current account surplus.

- By contrast, business assessments have shown moderate improvement, up 1.4 points to 21.4 balance points. In a three-month comparison they fall marginally short of the level in the previous period (-0.8 points), which altogether indicates a rather gradual improvement in economic activity at the beginning of the year.

Large enterprises: lower euro rate noticeably boosts sentiment

In contrast to the SMEs, large enterprises were clearly more confident in January: their business climate increased by 1.7 points to 10.0 balance points, the highest reading since July last year. Large enterprises have revised upwards assessments of their current business situation (+1.9 points to 18.5 balance points) and their expectations (+1.4 points to 1.3 balance points) compared to December. For the first time since August, more enterprises are looking forward to the coming six months with hope instead of fear. The much lower euro rate should play a notable role in this, as it is stimulating the German export industry – as does the healthy US economy. This coincides with the fact that the strongest impulses contributing to the better climate at large enterprises stem from the strongly export oriented manufacturing sector and wholesale.

Ongoing employment gains on the labour market

The labour market continues to be a source of reliable impetus. Employment expectations are pointing upwards at the beginning of the year, reaching a twelve-month high at large enterprises (+1.6 points to 8.7 balance points) and a five-month high at SMEs (+0.3 points to 5.9 balance points). This fits in seamlessly with the encouraging figures from the Federal Employment Agency: According to these numbers, the seasonally adjusted unemployment rate plummeted to an all-time low in united Germany at 6.5% in January, while at the same time the labour market index BA-X, which tracks labour demand and has been available since 2004, climbed to a record high.

Economic activity in 2015: opportunities and risks

The economy is gearing up for a recovery. However, it is not a given that this will be a convincing success. The subdued January results in our survey suggest the possibility that a not insignificant part of the growing disposable incomes and profits derived from low interest rates, a low euro rate and low oil prices could be saved. This would result in an even higher current account surplus. Impulses from the USA and the labour market are reliable but substantial risks remain: The intensity of the conflict with Russia is increasing rather than decreasing, negotiations with Greece need more time and the decline in consumer prices since January – in Germany too – will possibly start to impact soon on the profit expectations of companies and reduce the scope for wage increases. All told, companies find themselves at a crossroads and are likely to think very carefully about whether they dare to invest. Nonetheless, it is possible that we will see somewhat more dynamic economic growth in 2015 than the one percent we have predicted so far but no more than one and a half percent.

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Attachment: SME business climate in figures**KfW-ifo SME Barometer**

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Jan/14	Aug/14	Sep/14	Oct/14	Nov/14	Dec/14	Jan/15			
Business climate											
Manufacturing	SME	18.6	10.8	9.3	6.5	6.7	10.6	9.7	-0.9	-8.9	0.1
	LSE	18.1	9.7	5.8	2.4	5.2	8.1	10.5	2.4	-7.6	2.0
Construction	SME	23.9	21.2	22.7	20.9	21.7	21.0	20.3	-0.7	-3.6	-0.6
	LSE	27.4	12.9	9.6	13.5	11.9	8.1	8.9	0.8	-18.5	-2.4
Retail trade	SME	16.2	12.2	12.9	10.6	11.5	11.8	18.0	6.2	1.8	1.9
	LSE	4.3	6.6	7.6	3.8	4.9	7.9	4.3	-3.6	0.0	-0.3
Wholesale trade	SME	27.5	15.8	12.2	11.3	13.5	13.7	14.9	1.2	-12.6	0.9
	LSE	19.1	7.4	5.9	8.5	6.7	8.7	11.8	3.1	-7.3	1.8
All economic sectors	SME	20.1	12.9	12.6	10.0	10.6	12.5	12.5	0.0	-7.6	0.0
	LSE	17.0	9.4	6.6	4.5	6.1	8.3	10.0	1.7	-7.0	1.3
Current situation	SME	23.7	21.3	21.0	21.2	19.8	20.0	21.4	1.4	-2.3	-0.8
	LSE	17.6	16.3	15.3	10.1	13.8	16.6	18.5	1.9	0.9	2.4
Expectations	SME	16.1	4.4	4.1	-1.3	1.2	4.9	3.4	-1.5	-12.7	0.8
	LSE	15.9	2.1	-2.2	-1.4	-1.8	-0.1	1.3	1.4	-14.6	0.3
West Germany	SME	20.8	13.0	12.7	10.2	11.0	13.0	13.1	0.1	-7.7	0.4
	LSE	16.6	9.0	6.2	4.2	5.7	8.0	9.7	1.7	-6.9	1.3
East Germany	SME	15.5	12.8	12.8	9.1	7.9	9.7	8.8	-0.9	-6.7	-2.8
	LSE	25.8	19.0	16.7	12.2	16.3	16.9	15.4	-1.5	-10.4	0.2
Employment expectations	SME	7.9	5.6	5.9	4.7	3.3	5.6	5.9	0.3	-2.0	-0.4
	LSE	10.8	4.8	5.6	1.8	5.7	7.1	8.7	1.6	-2.1	3.1
Sales price expectations	SME	0.7	-4.3	-4.1	-3.0	-3.8	-5.4	-3.6	1.8	-4.3	-0.5
	LSE	1.2	-3.0	-4.6	-3.0	-3.1	-8.0	-10.4	-2.4	-11.6	-3.6

Explanations and abbreviations:

Differences due to rounding possible, Sources: KfW, ifo

* Seasonally and mean adjusted (long-term mean since January 1991 = 0)

S(mall and) **M**(edium-sized) **E**(nterprises)

L(arge-) **S**cale **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 adjustment as well as rounding.

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 well-known ifo business climate index for which about 7,000 enterprises from trade and industry (manufacturing, construction, wholesale and retail trades) from western and eastern Germany are polled every month on current and future business, including around 5,600 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 limits have to be drawn more narrowly for retail trade (maximum annual turnover of EUR 12.5 million) and the construction industry (up to 200 employees). 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 are also expressed as balance figures. All time series are seasonally and mean adjusted. The zero line therefore marks the long-term 'cycle-neutral' average. Indicators above (or below) zero point to an above average or favourable (below average or negative) business situation.