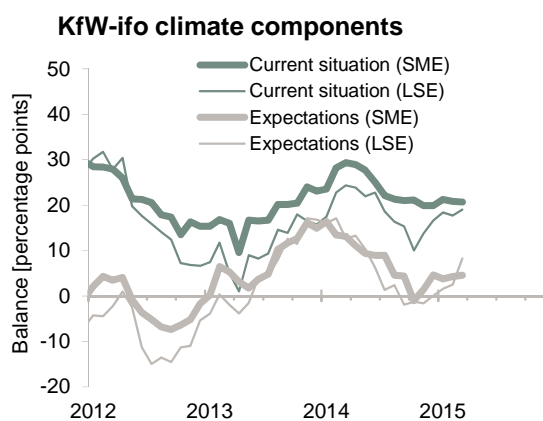
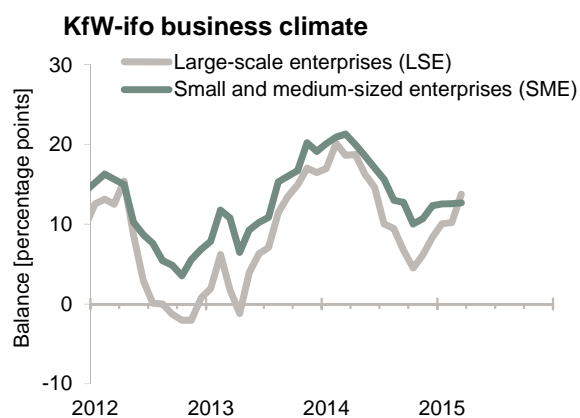


## KfW-ifo SME Barometer: March 2015

### SME business climate marking time

- *SME's current situation just about stable*
- *SME's expectations flat since December*
- *Large enterprises - optimism forging ahead*



Source: KfW Economic Research, Ifo Institute Munich

### Hopes for the economy still leave SMEs cold

Declining oil prices and a weaker euro have given rise to a degree of economic optimism, causing many analysts to revise their growth forecasts for 2015 upwards. However, this could well provide scope for future disappointment. The SME sector – the very backbone of the German economy – is distinctly unimpressed by this new hope for growth. The SME business climate almost stagnates in March (up 0.1 points to 12.7 balance points), with neither element of the index providing any grounds for excitement.

- After falling slightly to 20.7 balance points (down 0.1), situation assessments are now at their lowest point for the year to date.
- Business expectations increased slightly (up 0.4 to 4.6 balance points) – just about enough to compensate for the previous two falls. The bottom line is that expectations have remained flat since December.

## **Large enterprises increasingly optimistic**

It is an entirely different story in the case of large enterprises whose business climate is up by an above-average 3.6 points to 13.8 balance points in the March index. This is the first time in about three years that sentiment within large enterprises has been stronger than in the SME sector. And it is not just the fact that they are more satisfied with their current situation than they were in the previous month (up 1.3 points to 19.0 balance points) – they really do expect a major improvement as well. Their business expectations have shot up by double the amount of a usual monthly change (up 5.7 points to 8.2 balance points) and now stand at a ten-month high.

## **Oil prices and euro devaluation give rise to increasing optimism in export economy**

The major improvement in sentiment has principally been driven by a remarkable rise in optimism in the export-orientated large-scale manufacturing sector – a clear indication that recent developments owe much to the weak euro and falling oil prices. Cheap oil dampens production costs and compensates for higher prices of imported goods for intermediate consumption brought about by the exchange rate changes. Cheap oil puts more money in our pockets and in the pockets of most of our trading partners, while the cheap euro improves export margins. Domestic demand is convincingly strong by German standards, thanks in particular to the labour market. However, it is much less likely that there will be another notable rise in the rate of growth of consumption and residential construction. A look at the climate indicators clearly reveals the first signs of fatigue in the two segments of the economy that are especially dependent on domestic demand. While the SME business climate in the construction industry decreases on a fairly high level, there have been no more than moderate improvements in the positive sentiment experienced for some time recently in the small and mid-sized retail sector, despite the beneficial purchasing power effects caused by the fall in energy prices.

## **The economy in 2015 – don't get too excited!**

The March KfW-ifo SME Barometer suggests we need to take a more differentiated look at the increasing economic growth optimism. The upward trend in consumption and residential construction is good and is likely to remain so. However, it would be wrong to expect any further acceleration in growth – a fact underlined by the continuing lack of significant improvement in the business climate of the more domestically-focused SME sector since the start of the year. The hopes of an economic upturn are principally focused on an appreciable revitalisation of export business. This is clearly underlined by the massive brightening in the expectations of internationally oriented large-scale enterprises. But there is a need for caution here as well: The basic momentum of the global economy is slower than it was before the crisis, while insecurity in Europe remains high, despite improvements in the economic environment compared to the situation a year ago. It is telling that companies are reluctant to step up investments although they feel more positive. This is why we remain sceptical

that we will see the much-awaited "2" in front of the decimal point this year when it comes to real growth. However, the figure may be a little higher than our previous forecast of 1.5%, especially if the first quarter turns out better than expected.

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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
		Mar/14	Oct/14	Nov/14	Dec/14	Jan/15	Feb/15	Mar/15			
<b>Business climate</b>											
Manufacturing	SME	19.2	6.6	6.9	10.4	10.0	10.7	11.8	1.1	-7.4	2.9
	LSE	19.8	2.4	5.3	8.2	10.7	10.8	15.0	4.2	-4.8	6.9
Construction	SME	22.9	20.9	21.6	20.8	19.6	18.4	15.9	-2.5	-7.0	-3.1
	LSE	19.9	13.8	12.2	8.5	9.3	11.7	12.3	0.6	-7.6	-0.4
Retail trade	SME	24.1	10.5	11.5	11.9	18.1	16.7	18.2	1.5	-5.9	6.4
	LSE	10.1	3.8	4.8	8.0	4.4	5.0	9.5	4.5	-0.6	0.7
Wholesale trade	SME	31.5	11.5	13.5	13.5	14.4	10.3	9.2	-1.1	-22.3	-1.5
	LSE	20.1	8.6	6.7	8.6	11.7	10.6	13.1	2.5	-7.0	3.9
<b>All economic sectors</b>	SME	<b>21.3</b>	<b>10.0</b>	<b>10.7</b>	<b>12.3</b>	<b>12.6</b>	<b>12.6</b>	<b>12.7</b>	<b>0.1</b>	<b>-8.6</b>	<b>1.6</b>
	LSE	<b>18.7</b>	<b>4.5</b>	<b>6.1</b>	<b>8.4</b>	<b>10.1</b>	<b>10.2</b>	<b>13.8</b>	<b>3.6</b>	<b>-4.9</b>	<b>5.0</b>
Current situation	SME	29.3	21.1	19.9	19.9	21.2	20.8	20.7	-0.1	-8.6	0.6
	LSE	24.3	10.0	13.7	16.6	18.4	17.7	19.0	1.3	-5.3	4.9
Expectations	SME	13.1	-1.0	1.4	4.6	3.8	4.2	4.6	0.4	-8.5	2.5
	LSE	12.6	-1.3	-1.6	0.1	1.6	2.5	8.2	5.7	-4.4	5.1
West Germany	SME	22.5	10.3	11.2	12.8	13.2	12.8	12.9	0.1	-9.6	1.5
	LSE	18.4	4.2	5.7	8.1	9.8	10.0	13.6	3.6	-4.8	5.1
East Germany	SME	14.3	9.0	7.9	9.8	9.1	12.0	11.8	-0.2	-2.5	2.0
	LSE	23.7	12.0	16.0	16.4	15.3	14.8	18.5	3.7	-5.2	1.4
<b>Employment expectations</b>	SME	9.5	4.7	3.2	5.7	5.9	5.7	5.4	-0.3	-4.1	1.1
	LSE	8.2	1.8	5.7	7.1	8.5	8.7	9.7	1.0	1.5	4.1
<b>Sales price expectations</b>	SME	-0.9	-2.9	-3.7	-5.3	-3.5	-2.2	-2.4	-0.2	-1.5	1.3
	LSE	-3.3	-3.0	-2.8	-7.9	-9.6	-6.6	-5.1	1.5	-1.8	-2.5

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.