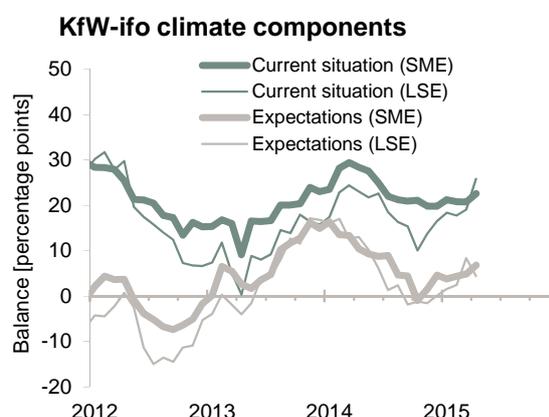
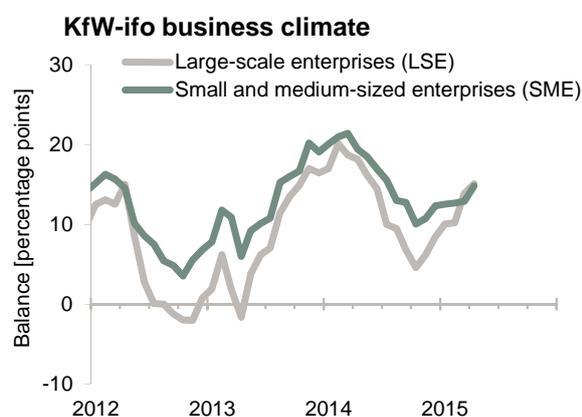


## KfW-ifo SME Barometer: April 2015

### Spring is in the air for German SMEs

- **SMEs – first significant rise in sentiment this year**
- **Large enterprises – situation has improved noticeably but expectations are slightly more subdued**
- **Downward pressure on prices has eased, employment outlook is bright**



Source: KfW Research, ifo Institute Munich

### Business sentiment among SMEs has risen noticeably for the first time this year

The German real economy is benefiting from cheap oil, the weaker euro and the growing signs of a rebound in the euro area. Coinciding with the awakening of spring, this assessment is now being shared by SMEs as well, which have been rather sceptical for a long time. Their business sentiment has risen by 1.9 points to 14.8 balance points, a testament to the first tangible improvement in sentiment this year. From January to March this key indicator of the KfW-ifo SME Barometer barely rose above stagnation. Both sentiment components contribute to the improvement in almost equal measure:

- Situation assessments improved by 1.9 points to 22.6 balance points, reaching the highest level since June 2014. This is a successful start to the second quarter, confirming that the forces driving the economic upturn are gaining strength.
- At the same time, SMEs are correcting their business expectations upwards by 2.0 points to 6.9 balance points – a nine-month high, after all.

### **Situation assessments of large enterprises reach a three-year high**

Large enterprises, on the other hand, again look to the future with somewhat less optimism than in March. Their business expectations dropped by 4.0 points to 4.4 balance points, although with that drop in April the indicator surrendered only two thirds of the very strong previous increase. Given the large companies' pronounced external trade orientation, we take this mainly as proof that while exports will see firm growth this year, they will not explode despite the propitious environment, which includes the budding recovery in the euro area and the cheaper euro. Large enterprises are considerably more satisfied with their current business, however. Their situation indicator improved by 6.7 points, twice the usual monthly variation, to reach a three-year high of 25.8 balance points. So the start to the spring quarter started on a positive note for large enterprises as well, with their business sentiment rising by 1.2 points to 15.1 balance points thanks to very strong situation assessments.

### **Downward pressure on prices is easing, employment continues to grow**

Positive signals are also coming from the indicators of sales price and employment expectations for both company size categories. Price expectations remain in negative territory but compared with their lows they have significantly increased (SMEs: +4.2 points on December 2014 to -1.0 balance points; large enterprises: +6.4 points on January 2015 to -3.1 balance points). The ECB's quantitative easing and the depreciating euro are showing the desired impact. The employment outlook is continuing to improve, even reaching the highest level since April 2012 for large enterprises, at 11.4 balance points. SMEs show the best result since May last year, at 6.0 balance points.

### **2015 will be a good year for the economy – thanks mainly to the job market**

The April result of the KfW-ifo SME Barometer confirms the positive economic outlook for the year. Despite continuing stress factors including, in particular, the uncertainty surrounding the Greek debt drama, we expect real growth of 1.5 to 2 per cent in Germany for 2015. One element which the economy can count on is the job market – regardless of the newly introduced minimum wage. It is likely to slow down employment growth in some regions and industries and some detailed indicators of the KfW-ifo SME Barometer suggest this to be the case. At present, employment expectations are falling behind, particularly in eastern Germany and in the SME retail sector. However, this is not having an impact at macro level, as shown by the generally high levels of our employment indicators. Accordingly, our findings underpin the findings of the German Federal Labour Office, which has identified a maximum willingness to hire among enterprises. It shares our assessment for 2015 that the workforce will reach a new record of some 43 million people and that unemployment will continue declining.

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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
		Apr/14	Nov/14	Dec/14	Jan/15	Feb/15	Mar/15	Apr/15			
<b>Business climate</b>											
Manufacturing	SME	17.5	6.9	10.4	10.0	10.8	12.0	13.4	1.4	-4.1	2.9
	LSE	18.5	5.4	8.2	10.7	10.9	15.2	15.1	-0.1	-3.4	5.6
Construction	SME	18.9	21.6	20.8	19.6	18.4	15.9	17.4	1.5	-1.5	-3.4
	LSE	16.6	12.3	8.6	8.4	12.1	12.6	22.5	9.9	5.9	6.0
Retail trade	SME	22.9	11.6	11.9	18.1	16.6	18.1	18.8	0.7	-4.1	4.0
	LSE	10.2	4.8	8.0	4.4	4.9	9.6	8.1	-1.5	-2.1	1.8
Wholesale trade	SME	28.3	13.6	13.6	14.4	10.5	9.4	14.5	5.1	-13.8	-2.4
	LSE	19.7	6.6	8.6	11.7	10.8	13.3	17.2	3.9	-2.5	4.8
<b>All economic sectors</b>	SME	19.4	10.7	12.3	12.6	12.7	12.9	14.8	1.9	-4.6	1.6
	LSE	18.2	6.2	8.4	10.1	10.2	13.9	15.1	1.2	-3.1	4.9
Current situation	SME	28.3	19.8	19.8	21.2	20.8	20.7	22.6	1.9	-5.7	1.1
	LSE	23.0	13.7	16.5	18.4	17.8	19.1	25.8	6.7	2.8	4.7
Expectations	SME	10.4	1.5	4.6	3.8	4.4	4.9	6.9	2.0	-3.5	2.1
	LSE	13.0	-1.6	0.1	1.6	2.4	8.4	4.4	-4.0	-8.6	5.0
West Germany	SME	20.3	11.2	12.8	13.2	12.9	13.1	15.0	1.9	-5.3	1.3
	LSE	18.1	5.7	8.1	9.9	10.1	13.7	15.3	1.6	-2.8	5.1
East Germany	SME	14.5	7.9	9.8	9.0	12.0	11.8	14.1	2.3	-0.4	3.8
	LSE	20.8	16.3	16.3	15.0	13.6	18.9	10.2	-8.7	-10.6	-1.6
<b>Employment expectations</b>	SME	7.8	3.2	5.7	5.9	5.7	5.4	6.0	0.6	-1.8	0.7
	LSE	8.3	5.7	7.2	8.5	8.5	9.9	11.4	1.5	3.1	2.8
<b>Sales price expectations</b>	SME	-2.6	-3.7	-5.2	-3.4	-2.1	-2.3	-1.0	1.3	1.6	2.3
	LSE	-3.0	-2.9	-7.9	-9.5	-6.4	-4.8	-3.1	1.7	-0.1	2.0

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.