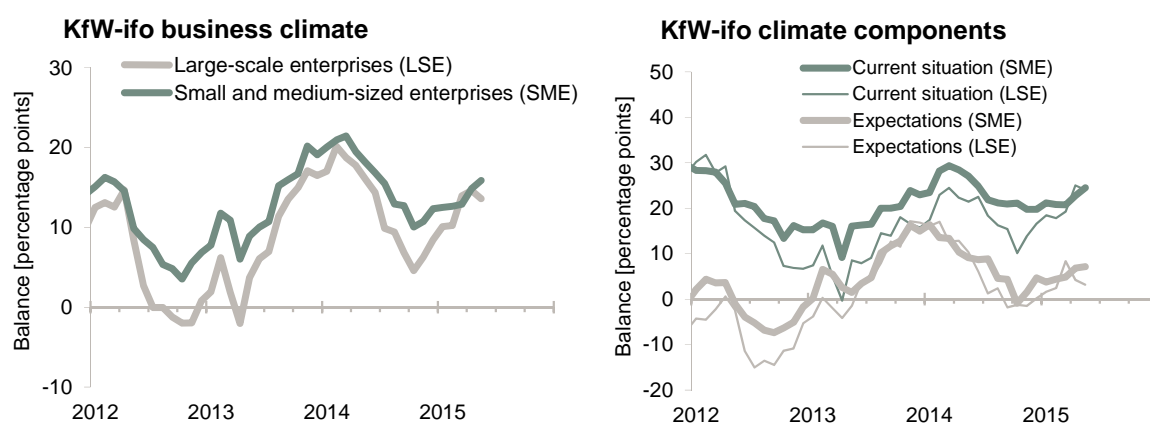


## KfW-ifo SME Barometer: May 2015

### German SMEs' business climate improves further, but only slightly

- *SMEs' assessment of business situation climbs to twelve-month high*
- *Expectations hardly improved*
- *Large firms: expectations and situation assessments deteriorate again*



Source: KfW Research, ifo Institute Munich

### Business sentiment among German SMEs improves slightly

Germany is experiencing a robust economic upswing – at least in the eyes of small and medium-sized enterprises. In May their business sentiment rose by 1.0 points to 15.9 balance points. The KfW-ifo SME Barometer thus shows only a minor increase of this key indicator. Nevertheless, the improvement came on the heels of a strong boost in the previous month, which underlines the generally positive trend in sentiment. Both components are higher:

- In May the assessment of the current business situation improved by a disproportionately strong 1.8 points to reach 24.5 balance points, the highest level in almost a year. Considering the two rail strikes in the survey period, which must have affected sentiment in themselves, that is a surprisingly good result.
- At the same time, however, German SMEs merely look to the coming six months with a marginally higher level of confidence than in April (up 0.3 points to 7.1 balance points). These almost steady and not overly euphoric expectations indicate a sense of realism and thus guard against possible disappointments in the future.

## **Large enterprises more downbeat again**

The responses received from large enterprises document that overall economic expectations are not limitless. They revised their business sentiment downward by 1.0 points to 13.6 balance points – a three-month low, after all. Assessments of their business situation (-0.9 points to 24.1 balance points) and expectations (-1.0 points to 3.2 points to balance points) fell almost in equal measure in May. It is the second consecutive drop in expectations and the indicator is now a good five points below the March high. The relative disenchantment of the large, internationally operating enterprises – particularly noticeable in manufacturing and wholesale trade – is understandable given the sluggish global economy. They probably expected the strong euro depreciation to provide a significant boost in demand from markets outside the monetary union. So far they have only felt a gentle push because the structural slowdown in growth of the key emerging countries such as China, Russia and Brazil is weakening the momentum of world trade as much as the recently disappointing US economy.

## **Excellent consumer sentiment is boosting retail trade**

In contrast, the indicators for retail trade and construction – sectors that are strongly oriented to the domestic economy – again confirm the good state of domestic demand. In May, retail trade was the only sector to report improved sentiment in both company size categories. It benefited from consumers' excellent spending mood, as illustrated by the GfK Consumer Climate indicator, which is now at the highest level since October 2001. Sentiment in the construction industry is also on a very high level, despite a consolidation among the big construction firms. The drivers of the good domestic economy are well-known: continuing growth in employment combined with reasonable wage increases, low inflation and low interest rates translate into tangibly higher real purchasing power for households.

## **Decent growth in 2015 – foreign trade may tip the scales**

The May results of the KfW-ifo SME Barometer confirm the decent outlook for the German economy this year. We expect real growth of 1.5% for 2015, which will be sustained primarily by domestic demand and, on the exports side, by the recovery of the Eurozone economy. We consider the risks to be balanced. What may tip the scales towards slightly more or less growth is the foreign trade sector, as indicated particularly by the latest mood swings among the export-sensitive large enterprises. The indirect effects of the euro depreciation may still bring some positive surprises. Should it revive the economies of important European partner countries more strongly or quickly than we anticipated, their demand for German goods would continue to rise as well. On the other hand, if the Greek debt drama escalates to a "Graccident", a poorer real growth outcome would have to be expected in Europe as well as in Germany.

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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
		May/14	Dec/14	Jan/15	Feb/15	Mar/15	Apr/15	May/15			
<b>Business climate</b>											
Manufacturing	SME	16.3	10.5	10.0	10.8	11.9	13.4	14.0	0.6	-2.3	2.7
	LSE	17.1	8.3	10.7	10.9	15.1	14.9	13.7	-1.2	-3.4	4.6
Construction	SME	20.4	20.7	19.5	18.4	15.9	17.5	18.5	1.0	-1.9	-2.2
	LSE	14.3	8.5	8.3	12.0	12.5	22.4	18.3	-4.1	4.0	8.1
Retail trade	SME	21.3	11.9	18.1	16.6	18.1	18.9	21.2	2.3	-0.1	3.9
	LSE	8.7	7.9	4.3	4.9	9.6	8.3	10.2	1.9	1.5	3.6
Wholesale trade	SME	24.5	13.5	14.3	10.6	9.5	14.9	16.9	2.0	-7.6	1.0
	LSE	18.2	8.6	11.7	10.8	13.1	16.9	13.4	-3.5	-4.8	4.1
<b>All economic sectors</b>	SME	18.1	12.3	12.5	12.7	12.9	14.9	15.9	1.0	-2.2	2.1
	LSE	16.1	8.5	10.1	10.2	13.9	14.6	13.6	-1.0	-2.5	4.5
Current situation	SME	27.1	19.8	21.2	20.8	20.7	22.7	24.5	1.8	-2.6	2.1
	LSE	21.5	16.6	18.4	17.8	19.2	25.0	24.1	-0.9	2.6	5.1
Expectations	SME	9.1	4.7	3.8	4.4	4.9	6.8	7.1	0.3	-2.0	2.0
	LSE	10.3	0.2	1.6	2.4	8.3	4.2	3.2	-1.0	-7.1	3.8
West Germany	SME	18.9	12.8	13.1	12.8	13.2	15.1	17.1	2.0	-1.8	2.2
	LSE	15.7	8.1	9.9	10.1	13.7	14.8	13.4	-1.4	-2.3	4.6
East Germany	SME	13.8	9.8	9.0	12.0	11.7	13.8	8.4	-5.4	-5.4	1.0
	LSE	24.2	16.3	15.0	14.0	18.6	10.9	17.8	6.9	-6.4	0.6
<b>Employment expectations</b>	SME	7.0	5.7	5.9	5.7	5.4	6.0	6.7	0.7	-0.3	0.3
	LSE	6.3	7.2	8.5	8.5	9.7	11.0	9.4	-1.6	3.1	2.0
<b>Sales price expectations</b>	SME	-3.0	-5.2	-3.4	-2.0	-2.1	-0.8	0.7	1.5	3.7	2.8
	LSE	-4.0	-8.0	-9.6	-6.2	-4.6	-3.0	-3.4	-0.4	0.6	4.2

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.