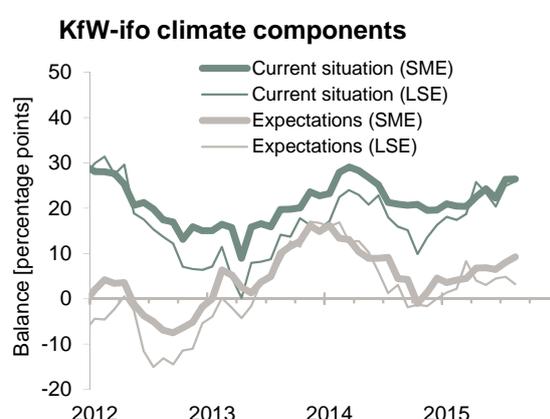
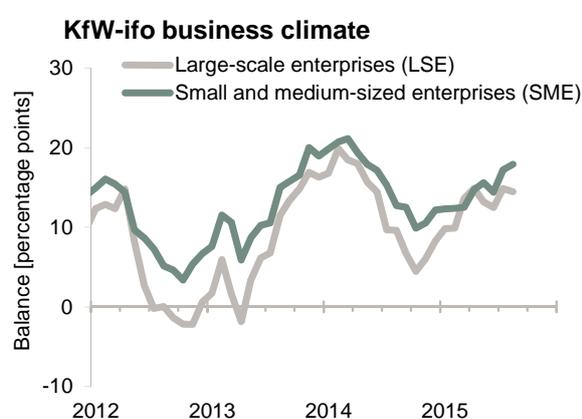


KfW-ifo SME Barometer: August 2015

German SMEs relaxed, large enterprises nervous

- **SMEs confident - situation assessments are stable, expectations further improved**
- **Large enterprises unsettled - situation better but expectations have dropped**



Source: KfW Research, ifo Institute Munich

SMEs expect business to improve

Germany's small and medium-sized enterprises are looking to the autumn with confidence. The euro area has settled down again. SMEs do not believe the turmoil on the financial markets could stall the recovery. These are the findings of the latest KfW-ifo SME Barometer.

For the past two months, sentiment among SMEs has continued the upward trend that began in autumn of last year. In August the SME business climate improved by a further 0.7 points to 17.9 balance points. Expectations in particular continued to brighten.

- At 26.4 balance points, Germany's SMEs are slightly more positive about the current business situation than in July, confirming the previous month's very significant improvement.
- Their expectations have improved more significantly by 1.3 to 9.3 balance points. This shows that SMEs expect the economic recovery to continue.

Export and consumption-oriented SMEs are particularly optimistic

The upbeat mood was shared by the entire SME sector. It was particularly pronounced in the retail sector, which is benefiting from the rising level of employment and the noticeable increase in incomes. Clothing and shoe retailers have enjoyed lively summer clearance sales. But the business climate has also improved significantly in other major sectors of the economy since the spring. Wholesalers and manufacturers are benefiting from more competitive prices which boosted exports to countries outside the euro area in the second quarter. The halving of the oil price has been a boon to business and consumers alike. The improved business climate in the construction industry largely stems from residential construction, which is benefiting from low interest rates, rising purchasing power and high levels of immigration.

Large enterprises unsettled by international turbulence

Large enterprises are less sure of the future. Their business expectations already dropped sharply back in April. In August they deteriorated even further, sliding 1.7 points month-on-month to 3.2 balance points. This was probably due to uncertainty over Greece's membership of the euro area at the start of the survey period and turbulence on the international financial markets at the end of it. Nevertheless, the business assessments remain strong. Large enterprises' assessments of their business situation were a full point higher than in July, at 25.9 balance points. This is also a significantly more positive assessment than in March. The overall business climate fell slightly by 0.4 points to 14.5 balance points in August.

The situation of large construction firms has deteriorated substantially since the spring, however. These companies are more dependent on large construction projects than their SME counterparts. As a result, they are struggling because construction investment by enterprises and the state has dropped to an alarmingly low level. Large retail companies, on the other hand, are brimming with confidence, as are small and medium-sized ones.

Positive climate prevails

Despite all legitimate fears, business so far has developed well this year. The clear skies of the robust economy have prevailed against looming economic storm clouds. The KfW-ifo SME Barometer for August indicates this and confirms our forecast of real GDP growth of 1.8% this year and 2% next year for Germany. However, the storm front has not moved on. In particular, a stronger than anticipated economic downturn in China that could spread to other emerging economies, or new imponderables in Europe, for example in connection with the new elections in Greece, could noticeably disrupt exports and thwart the revival of investment.

Author: Martin Müller, +49 (0) 69 7431-3944, martin.mueller@kfw.de
Press contact: Christine Volk, +49 (0) 69 7431-3867, christine.volk@kfw.de

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

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Aug/14	Mrz/15	Apr/15	Mai/15	Jun/15	Jul/15	Aug/15			
Business climate											
Manufacturing	SME	10.7	11.7	13.1	13.6	11.3	14.6	14.8	0.2	4.1	0.8
	LSE	10.3	14.8	15.3	13.0	11.7	12.9	10.5	-2.4	0.2	-2.7
Construction	SME	20.8	15.6	17.4	18.5	21.1	19.9	21.4	1.5	0.6	3.6
	LSE	12.9	12.0	21.9	17.8	15.1	16.6	15.3	-1.3	2.4	-1.6
Retail trade	SME	11.4	17.7	18.6	21.3	21.4	25.0	29.3	4.3	17.9	6.0
	LSE	5.6	9.7	8.2	10.4	6.2	13.8	21.5	7.7	15.9	4.4
Wholesale trade	SME	16.0	9.2	14.7	16.9	13.0	19.8	18.9	-0.9	2.9	3.6
	LSE	7.8	12.8	16.7	13.5	18.3	21.9	20.9	-1.0	13.1	6.0
All economic sectors	SME	12.7	12.5	14.7	15.6	14.4	17.2	17.9	0.7	5.2	2.2
	LSE	9.6	13.6	14.9	13.2	12.5	14.9	14.5	-0.4	4.9	0.0
Current situation	SME	20.9	20.4	22.5	24.2	22.2	26.3	26.4	0.1	5.5	2.6
	LSE	15.9	18.7	25.8	23.3	20.3	24.9	25.9	1.0	10.0	1.1
Expectations	SME	4.4	4.5	6.8	6.9	6.4	8.0	9.3	1.3	4.9	1.9
	LSE	3.0	8.3	4.1	3.0	4.4	4.9	3.2	-1.7	0.2	-0.9
West Germany	SME	12.9	12.8	14.9	16.8	15.4	18.4	19.0	0.6	6.1	2.8
	LSE	9.3	13.5	15.1	13.0	12.6	15.2	14.7	-0.5	5.4	0.3
East Germany	SME	12.4	11.3	14.0	8.3	8.4	9.8	10.8	1.0	-1.6	-1.5
	LSE	18.3	18.5	10.3	16.9	9.3	7.5	10.6	3.1	-7.7	-6.1
Employment expectations	SME	8.0	7.7	8.4	9.0	8.4	9.4	9.4	0.0	1.4	0.7
	LSE	7.3	12.0	13.2	11.3	11.7	11.6	7.6	-4.0	0.3	-1.9
Sales price expectations	SME	-4.0	-2.2	-1.0	0.8	-0.7	-1.3	-1.6	-0.3	2.4	-0.4
	LSE	-2.7	-4.5	-3.0	-3.6	-2.8	-4.0	-7.1	-3.1	-4.4	-1.0

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.