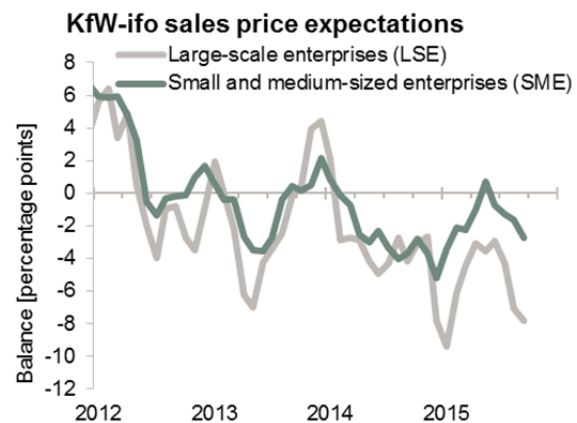
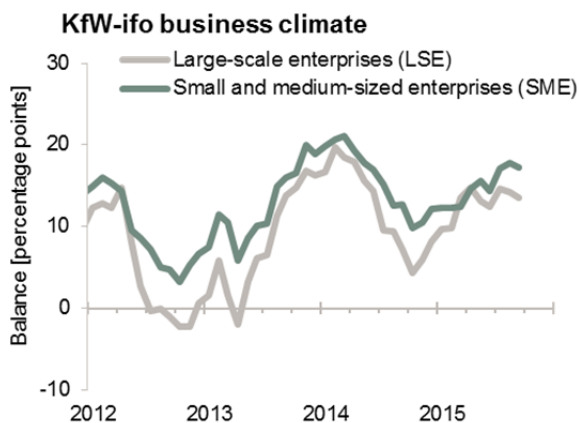


## KfW-ifo SME Barometer: September 2015

### Manufacturing pushes SME business sentiment down

- *Confidence rises yet again in sectors with domestic focus*
- *Price expectations hit rock bottom*
- *Automobile industry – the new unknown in the forecast equation*



Source: KfW Research, ifo Institute Munich

### Business sentiment among German SMEs drops slightly

As autumn began, the SME sector presented itself in a generally robust condition. Although the business sentiment of small and medium-sized enterprises dropped by 0.5 points to 17.3 balance points in September, the mood is still significantly better than average and the downturn on the previous month falls into perspective for several reasons:

- The slightly dimmer view follows a sixteen-month high in August and amounts to merely one quarter of a normal monthly variation – making it almost negligible. The three-month trend, which is less volatile, continues to point clearly upwards.
- The downturn has not spread across all sectors but affects only export-oriented small and medium-sized manufacturers (-1.8 points to 12.8 balance points). Their worries are probably due first and foremost to the weak growth in emerging economies. In the sectors with a domestic focus, on the other hand, the mood has further brightened. At 30.0 balance points, sentiment among SME retailers is already very close to the historic peak values reached during the unification boom 25 years ago.

### **Employment expectations reflect confidence**

In September, business sentiment among large enterprises was similar to that of SMEs, continuing on a positive level with a minimal decline on the previous month (-0.8 points to 13.5 balance points). Yet while both sentiment components fell moderately among SMEs, expectations of large enterprises have improved while their assessments of the current business situation are less positive. Employment expectations are a particularly clear expression of the overall confidence of enterprises from both size categories. After all, only those who believe their business will grow plan to hire new workers. Employment expectations of small and medium-sized enterprises have remained virtually unchanged on the sixteen-month high recorded in August (-0.1 points to 9.3 balance point) and they have risen tangibly among large enterprises (+1.3 points to 8.7 balance points). Job growth in Germany is continuing.

### **Sales price expectations are on an alarmingly low level**

What is worrying, however, is the renewed decline in sales price expectations. They are again approaching the multi-year lows reached at the beginning of the year and have now dropped well below the already low interim high of spring (SMEs: -3.4 points on May to -2.7 balance points; large enterprises: -4.9 points on June to -7.8 balance points). Even though a large portion of today's extremely low rate of inflation is due to the renewed oil price decline, the expansive stance of monetary policy must continue forcefully. Particularly at European level, production capacities are still considerably underutilised, which is also evidenced by the continuing very high unemployment rate in the euro area. Companies have an interest in a stable, positive price trend as it is a key determinant of their nominal sales expectations. Falling prices could thus hamper their investment decisions, so they can also be regarded as an obstacle to economic recovery.

### **Automobile production and sales: a risk factor**

The September result of the KfW-ifo SME Barometer shows that Germany's economic development remains on track. The labour market and domestic economy are running well, and although export industries are feeling the weakness in emerging markets, important markets such as the euro area and the USA are recovering. The production and sales figures of the German automobile industry in the months ahead will show whether the VW scandal will affect the economy as a whole. Cars make up just under one fifth of Germany's goods exports, the automobile industry accounts for a direct proportion of 4% of economic gross value added and employs 841,000 persons, or around 2% of the entire German workforce. Moreover, it is closely linked to other sectors of the economy, which additionally highlights its great macro-economic importance for Germany. For now we maintain our economic forecast: we expect real growth of 1.8% for 2015 and around 2% for 2016.

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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
		Sep/14	Apr/15	Mai/15	Jun/15	Jul/15	Aug/15	Sep/15			
<b>Business climate</b>											
Manufacturing	SME	9.6	12.9	13.5	11.2	14.3	14.6	12.8	-1.8	3.2	1.4
	LSE	6.6	15.2	12.9	11.6	12.7	10.3	9.8	-0.5	3.2	-2.3
Construction	SME	21.9	17.3	18.5	20.9	19.9	21.4	24.3	2.9	2.4	3.0
	LSE	9.1	21.8	17.8	15.2	16.1	15.8	18.7	2.9	9.6	-1.4
Retail trade	SME	12.6	18.4	21.1	21.3	25.0	29.4	30.0	0.6	17.4	7.9
	LSE	8.2	8.0	10.3	6.2	13.5	20.9	16.4	-4.5	8.2	8.8
Wholesale trade	SME	12.5	14.7	16.8	12.9	19.6	18.7	19.2	0.5	6.7	4.4
	LSE	5.9	16.6	13.4	18.3	21.9	20.9	23.1	2.2	17.2	5.9
<b>All economic sectors</b>	SME	<b>12.7</b>	<b>14.6</b>	<b>15.5</b>	<b>14.3</b>	<b>17.1</b>	<b>17.8</b>	<b>17.3</b>	<b>-0.5</b>	<b>4.6</b>	<b>2.6</b>
	LSE	<b>7.3</b>	<b>14.7</b>	<b>13.1</b>	<b>12.4</b>	<b>14.7</b>	<b>14.3</b>	<b>13.5</b>	<b>-0.8</b>	<b>6.2</b>	<b>0.7</b>
Current situation	SME	20.9	22.4	24.1	22.1	26.2	26.2	25.4	-0.8	4.5	3.0
	LSE	16.1	25.6	23.2	20.2	24.6	25.4	22.0	-3.4	5.9	1.0
Expectations	SME	4.4	6.7	6.8	6.3	7.9	9.3	9.0	-0.3	4.6	2.1
	LSE	-1.6	3.9	3.0	4.4	4.7	3.2	4.9	1.7	6.5	0.5
West Germany	SME	12.9	14.8	16.7	15.3	18.2	18.9	17.9	-1.0	5.0	2.7
	LSE	6.9	14.9	13.0	12.5	15.0	14.4	13.6	-0.8	6.7	0.9
East Germany	SME	12.1	13.9	8.2	8.5	9.9	11.1	13.4	2.3	1.3	1.3
	LSE	16.7	10.2	16.8	9.3	7.6	10.8	11.2	0.4	-5.5	-2.2
<b>Employment expectations</b>	SME	8.5	8.3	9.0	8.3	9.3	9.4	9.3	-0.1	0.8	0.8
	LSE	8.4	13.2	11.2	11.6	11.4	7.4	8.7	1.3	0.3	-2.8
<b>Sales price expectations</b>	SME	-3.7	-1.0	0.7	-0.7	-1.3	-1.6	-2.7	-1.1	1.0	-1.6
	LSE	-4.2	-3.1	-3.6	-2.9	-4.3	-7.0	-7.8	-0.8	-3.6	-3.2

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.