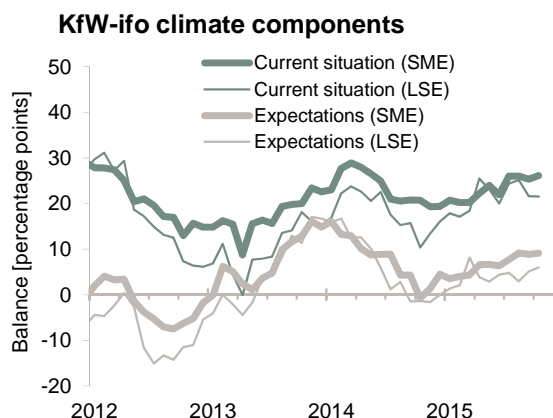
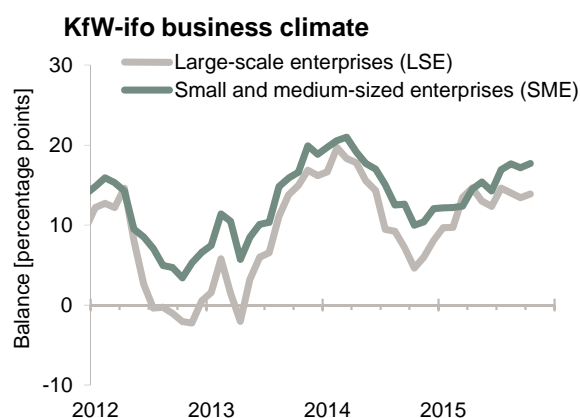


## KfW-ifo SME Barometer October 2015

### SMEs remain calm despite bad news

- *Situation assessments and business expectations are slightly higher*
- *Sentiment among SME retailers is at peak level*
- *Large enterprises are more optimistic*



Source: KfW Research, ifo Institute Munich

### SME business sentiment offsets previous month's decline

At the beginning of the final quarter of 2015, the German economy is robust as companies remain impervious to bad news such as the emissions manipulations at VW or the weakness of the emerging economies. In October the SME business climate rose by 0.5 points, offsetting the decline in the month before. At 17.7 balance points it is now exactly on the level of August. The last time sentiment was better was one and a half years ago. Both climate components are pointing upwards:

- Assessments of the current business situation improved by 0.8 points on the previous month to 26.1 balance points. The moderate upward trend in situation assessments that took hold since the beginning of the year thus continues.
- Business expectations increased slightly by 0.2 points to 9.1 balance points. That is positive given the political disputes in Europe – which have recently been further fuelled by migration pressure – and the remaining uncertainty over the economic strength of the emerging economies.

## **Large enterprises more optimistic**

Just as in the SME sector, the business climate of large enterprises improved in October as well, rising 0.5 points to now 13.9 balance points – a slightly lower level than for SMEs but still better than average. While large enterprises' assessments of their current business situation remained unchanged at 21.6 balance points, their expectations actually improved somewhat more strongly than those of small and medium-sized enterprises, climbing 0.9 points to a level of 6.0 balance points. This increasing optimism is remarkable, especially given the fact that the concerns often voiced during the survey period over Germany' reputation as a business location are likely to have potentially weighed on the mood of the large, internationally active companies in particular. The improved expectations indicate that large enterprises anticipate a further recovery of major export markets in Europe and a foreseeable stabilisation in the emerging economies.

## **Small and medium-sized retailers downright euphoric**

Still, the main driver of the recovery is domestic demand, particularly consumption. The reasons for this – a good labour market and rising nominal wages combined with very low inflation and low interest rates – have long been known and have increasingly improved the business climate in the retail sector for the last two and a half years. Particularly small and medium-sized retailers have now reached a downright euphoric level (+2.6 points to 32.7 balance points in October), which was surpassed only minimally by the elation felt during the unification boom of early 1991.

But the mood is trending upward in the other sectors as well (construction, wholesale trade and manufacturing). All the business climate sub-indicators are clearly above their respective levels last year. The large manufacturing firms are the only companies that have not yet fully regained their footing. Despite the slightly higher sentiment in October, their three-month trend was the only one of all sectors and size classes to remain negative. That is probably primarily due to the rather disappointing performance of the emerging economies so far this year.

## **The upswing continues**

The October result of the KfW-ifo SME Barometer takes the wind out of the sails of all those who have prematurely talked up a crisis; it shows that the enterprises have remained unperturbed. The strong refugee influx means a positive impetus in the form of additional expenditure, particularly on consumption and residential construction. The municipalities' additional expenditure on local accommodation and sustenance of the refugees are also increasing the sales turnover of many SMEs. Overall, we assume that the German economy grew quite reasonably in the third quarter (between 0.3 and 0.5% on the previous quarter) and that this pace will continue in the final quarter. As far as sentiment is concerned, the start to the final quarter was definitely successful.

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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
		Okt/14	Mai/15	Jun/15	Jul/15	Aug/15	Sep/15	Okt/15			
<b>Business climate</b>											
Manufacturing	SME	6.9	13.4	11.1	14.1	14.5	12.7	13.2	0.5	6.3	0.6
	LSE	2.6	12.9	11.5	12.6	10.3	9.7	10.2	0.5	7.6	-2.3
Construction	SME	20.1	18.4	20.9	19.9	21.4	24.3	24.1	-0.2	4.0	3.5
	LSE	13.2	17.6	15.1	16.1	15.9	18.9	20.7	1.8	7.5	2.2
Retail trade	SME	9.9	20.9	21.2	24.9	29.4	30.1	32.7	2.6	22.8	8.4
	LSE	4.2	10.3	6.1	13.4	20.6	15.8	15.6	-0.2	11.4	7.4
Wholesale trade	SME	11.0	16.7	12.8	19.6	18.7	19.2	21.5	2.3	10.5	3.4
	LSE	8.8	13.2	18.1	21.7	20.7	22.9	23.0	0.1	14.2	4.5
<b>All economic sectors</b>	<b>SME</b>	<b>10.0</b>	<b>15.4</b>	<b>14.3</b>	<b>16.9</b>	<b>17.7</b>	<b>17.2</b>	<b>17.7</b>	<b>0.5</b>	<b>7.7</b>	<b>2.0</b>
	<b>LSE</b>	<b>4.6</b>	<b>13.0</b>	<b>12.3</b>	<b>14.6</b>	<b>14.0</b>	<b>13.4</b>	<b>13.9</b>	<b>0.5</b>	<b>9.3</b>	<b>0.5</b>
Current situation	SME	20.8	24.0	22.0	26.0	26.0	25.3	26.1	0.8	5.3	1.8
	LSE	10.4	23.1	20.0	24.4	25.2	21.6	21.6	0.0	11.2	0.3
Expectations	SME	-0.8	6.7	6.4	7.7	9.2	8.9	9.1	0.2	9.9	2.1
	LSE	-1.4	2.9	4.4	4.8	2.9	5.1	6.0	0.9	7.4	0.6
West Germany	SME	10.2	16.6	15.2	18.1	18.7	17.8	18.6	0.8	8.4	1.8
	LSE	4.4	12.9	12.5	14.9	14.2	13.5	14.1	0.6	9.7	0.5
East Germany	SME	9.0	8.1	8.4	9.8	11.1	13.5	12.4	-1.1	3.4	3.6
	LSE	11.1	16.8	9.3	7.6	10.8	11.5	9.3	-2.2	-1.8	-0.7
<b>Employment expectations</b>	<b>SME</b>	<b>6.8</b>	<b>8.9</b>	<b>8.3</b>	<b>9.3</b>	<b>9.4</b>	<b>9.3</b>	<b>10.7</b>	<b>1.4</b>	<b>3.9</b>	<b>1.0</b>
	<b>LSE</b>	<b>4.5</b>	<b>11.2</b>	<b>11.5</b>	<b>11.2</b>	<b>7.4</b>	<b>8.4</b>	<b>6.6</b>	<b>-1.8</b>	<b>2.1</b>	<b>-3.9</b>
<b>Sales price expectations</b>	<b>SME</b>	<b>-2.9</b>	<b>0.7</b>	<b>-0.8</b>	<b>-1.3</b>	<b>-1.6</b>	<b>-2.5</b>	<b>-0.5</b>	<b>2.0</b>	<b>2.4</b>	<b>-1.1</b>
	<b>LSE</b>	<b>-3.1</b>	<b>-3.5</b>	<b>-2.9</b>	<b>-4.3</b>	<b>-7.0</b>	<b>-7.8</b>	<b>-7.1</b>	<b>0.7</b>	<b>-4.0</b>	<b>-3.7</b>

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.