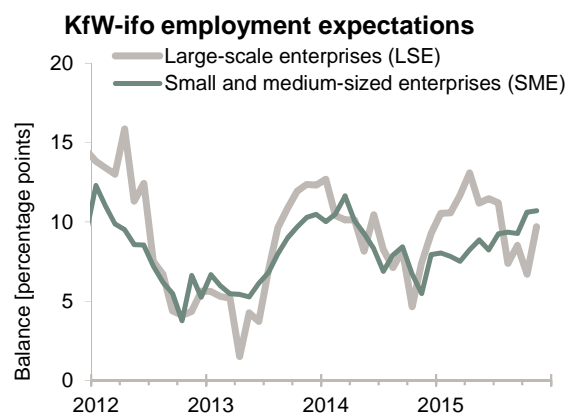
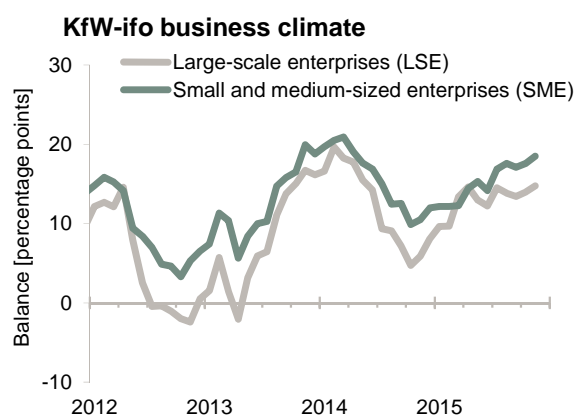


KfW-ifo SME Barometer: November 2015

Optimism is booming

- ***SME business sentiment up thanks to improved expectations***
- ***Large enterprises are also more upbeat***
- ***Hiring plans in general are expanding***



Source: KfW Research, ifo Institute Munich

Upward trend in SME business expectations continues

The economic outlook for 2016 is good. German SMEs are neither being put off by the German and European challenges of migratory pressure nor by the terror attacks in Paris and are looking to the coming year with increasing optimism. In November their business expectations improved by 1.8 points to 10.9 balance points, again confirming the upward trend that has now persisted for a good year. The indicator has now surpassed its October 2014 low by nearly twelve percentage points. At the same time, SMEs continue to be very satisfied with the way their businesses are running:

- The assessments of the current business situation were at 25.9 balance points in November, the same as in the previous month. The last time businesses rated their situation better than now was one and a half years ago.
- All in all, the SME business climate rose by 0.9 points on the previous month to 18.5 balance points. Thus sentiment in November was better than in any of the previous months of this year.

Sentiment among large enterprises reaches annual high

Business sentiment among large enterprises rose by 0.8 points to now 14.8 balance points. As with SMEs, this is the highest level for the year. Both sentiment components contributed to this. While large enterprises' assessments of their current business situation improved by 1.1 points to 22.6 balance points, their expectations rose 0.5 points to 6.7 balance points. Sentiment improvement is particularly pronounced among large construction enterprises (+4.6 points to 25.2 balance points) and manufacturers (+2.7 points to 13.4 balance points).

Large-scale manufacturing, which is so important for the economy, has largely overcome the slump in sentiment of the summer months and returned to the positive mood of last spring. Given the great importance of international business for large industrial firms, we see this as confirmation of our view that the recovery in the euro area will continue at a slightly faster pace next year and the recently weak performance of emerging economies will gradually strengthen.

Labour market remains important driver of domestic economy

Job growth on the labour market, the main driver of the vivid domestic economy, remains strong as evidenced by companies' current employment plans. Large enterprises in particular have made strong upward revisions to their hiring intentions, namely by 3.0 points, which is 1.7 times the usual monthly variation, to now 9.7 balance points, thus offsetting the relatively weak phase of the preceding three months almost completely in one swipe. Although SMEs, by contrast, have increased their employment expectations only minimally by 0.1 points to 10.7 balance points, they have raised them almost continuously in the past twelve months already. The expanding recruitment plans in both enterprise size classes underscore the growing optimism among businesses. After all, only those who believe in the recovery expand their capacities and hire new staff.

KfW's forecast for 2016: a double 'two' is within reach

The November findings of the KfW-ifo SME Barometer corroborate our view of the German economy. We expect that domestic demand – particularly consumption – will remain strong and that the external environment will improve tangibly in 2016. That will benefit exports and boost the recently weak corporate investments as capacity utilisation rises. All in all, we forecast 2.0 % real growth in the coming year (1.7% in 2015). But it is not just for GDP growth that we see a 'two' before the decimal point within reach. Growth should be vigorous enough to close the still negative output gap (underutilisation of economic production capacity) in the course of next year. Combined with the waning deflationary effect of the past oil price decline, that should be sufficient for Germany to reach the ECB's target inflation rate of close to 2% in late 2016 for the first time again since 2012.

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

Balance [Percentage points]*		Year				Month/Year								
		2011	2012	2013	2014	Jun/15	Jul/15	Aug/15	Sep/15	Okt/15	Nov/15	m-o-m	y-o-y	3m-o-3m
Business climate														
Manufacturing	SME	18.6	4.7	9.8	13.3	11.0	14.1	14.5	12.7	13.2	14.1	0.9	7.2	0.2
	LSE	19.7	1.8	8.0	12.4	11.4	12.5	10.0	9.9	10.7	13.4	2.7	8.7	0.0
Construction	SME	17.3	17.9	22.2	20.9	20.8	19.8	21.2	24.2	24.0	26.1	2.1	5.5	4.1
	LSE	10.4	14.1	20.1	15.1	15.1	16.1	15.8	18.8	20.6	25.2	4.6	13.1	5.9
Retail trade	SME	21.3	14.9	10.3	16.0	21.1	24.8	29.3	29.9	32.4	31.4	-1.0	19.9	6.2
	LSE	18.2	3.7	5.0	7.0	6.1	13.4	20.6	15.3	14.7	10.1	-4.6	4.7	0.0
Wholesale trade	SME	27.2	13.2	13.2	20.6	12.7	19.5	18.6	19.1	21.2	20.3	-0.9	6.8	3.3
	LSE	25.2	13.9	6.4	13.3	18.1	21.7	20.5	22.6	22.4	19.7	-2.7	12.4	1.5
All economic sectors	SME	19.6	9.1	12.4	15.6	14.2	16.9	17.6	17.1	17.6	18.5	0.9	8.0	1.5
	LSE	20.0	4.7	7.9	12.2	12.2	14.5	13.9	13.4	14.0	14.8	0.8	8.9	0.5
Current situation	SME	30.7	20.5	17.3	23.3	21.9	25.9	25.9	25.2	25.9	25.9	0.0	6.3	1.1
	LSE	34.0	17.8	10.2	18.0	19.8	24.3	25.1	21.5	21.5	22.6	1.1	9.1	-1.2
Expectations	SME	8.6	-2.2	7.3	7.7	6.3	7.7	9.1	8.9	9.1	10.9	1.8	9.6	2.0
	LSE	6.5	-8.0	5.2	6.1	4.5	4.7	2.7	5.1	6.2	6.7	0.5	8.6	2.1
West Germany	SME	20.4	9.6	12.9	16.1	15.1	18.0	18.7	17.7	18.5	19.2	0.7	8.2	1.2
	LSE	20.3	4.7	7.6	11.9	12.4	14.8	14.0	13.4	14.1	14.4	0.3	8.8	0.2
East Germany	SME	14.7	6.5	9.9	12.6	8.4	9.7	11.0	13.5	12.4	14.6	2.2	7.0	3.8
	LSE	14.3	5.0	14.6	18.9	8.8	7.3	10.9	13.0	10.7	25.0	14.3	11.2	7.2
Employment expectations	SME	14.8	7.9	7.4	8.6	8.2	9.2	9.4	9.3	10.6	10.7	0.1	5.2	1.3
	LSE	20.4	9.4	7.5	8.9	11.5	11.2	7.4	8.5	6.7	9.7	3.0	2.3	-1.7
Sales price expectations	SME	12.4	2.2	-0.8	-2.5	-0.8	-1.3	-1.6	-2.6	-0.4	-0.7	-0.3	2.9	0.0
	LSE	9.7	0.5	-1.2	-3.3	-2.8	-4.2	-6.8	-7.6	-6.6	-5.2	1.4	-1.1	-1.8

Explanations and abbreviations:

Differences due to rounding possible, Sources: KfW, ifo

* Seasonally and mean adjusted (long-term mean since January 1991 = 0)

S(mal and) M(edium-sized) E(nterprises)

L(arge-)Scale 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)

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.