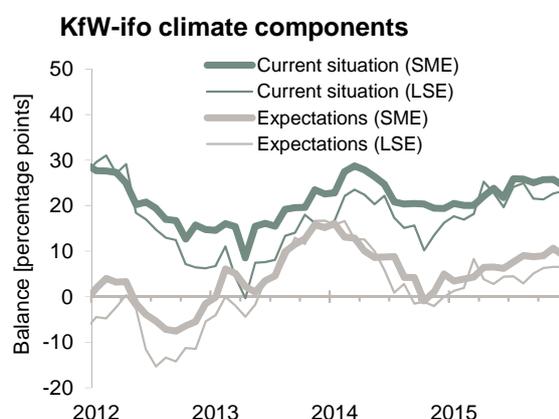
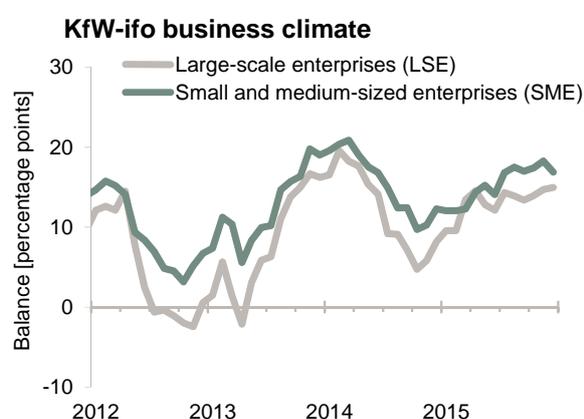


KfW-ifo SME Barometer: December 2015

German SMEs: mood slightly subdued as the year closes

- *SME business sentiment is less positive*
- *Retailers in particular are less satisfied*
- *Large enterprises are more confident*



Source: KfW Research, ifo Institute Munich

SME business expectations and situation assessments are down

Small and medium-sized enterprises start the New Year in a slightly subdued mood. The SME business climate dropped by 1.4 points to 16.9 balance points in December. But as this is a rather minor deterioration on the back of the one-and-a-half-year high recorded in the previous month, however, there is very little reason for concern with regard to the continuing recovery of the German economy. By itself it will not jeopardise the upward trend that began more than a year ago, even if both components of the SME business climate fell slightly:

- The assessments of the current business situation were at 24.4 balance points at the end of 2015, down 1.4 points. In a long-term comparison, that is still a good result which indicates that business is proceeding very smoothly.
- Expectations were down 1.6 points, closing at 9.1 balance points. Thus, even with the decline, a clear majority of companies continues to predict improved business performance for the first half of 2016.

Retailers appear to be somewhat dissatisfied with their Christmas sales

The main contributor to the latest downturn in SME business confidence was the retail sector. In December retailers corrected their business sentiment downward by 6.8 points, nearly twice the usual monthly variation, to 24.3 balance points. Given the continuing very good conditions for private consumption, this result may come as a surprise. Steady employment growth, combined with strong increases in nominal wages and low inflation, has provided a significant boost to real purchasing power, while low interest rates make saving comparatively unappealing. So there are two possible explanations: First, vigorous consumer spending may have pushed up retailers' ambition level from which they rated business as good in the survey. Second, the very mild weather may have ruined the Christmas trading period for retailers. Seasonal items such as winter coats or sturdy footwear threaten to keep warming the shelves and not shoppers. The decline in the retail business climate from the multi-year peak values of the two previous months is plausible particularly in the light of this short-term weather effect – and no disaster provided the mood turns around soon.

Large enterprises close 2015 on a high note

But the continuing improvement in the business sentiment of large enterprises is the main reason optimism is spreading. Because of their international activities, they had recently been hit particularly hard by the emerging economies' weakness. Their expectations remained stable at 6.6 balance points while their situation assessments rose by a modest 0.5 points to 23.2 balance points. Overall, the moderate sentiment improvement by 0.3 points to 15.0 balance points was sufficient for the large enterprises to close the year 2015 on the highest note in the last 19 months. It shows their confidence in the recovery of international demand. This confidence, combined with the renewed rise in employment expectations in both enterprise size classes in December, is cause for us to be optimistic that the economy will remain strong in the New Year 2016.

2016 promises to be a good year for the economy

The December result of the KfW-ifo SME Barometer concludes our monitoring of the economy in 2015, which grew at a rate of presumably 1.7%, significantly more strongly than anticipated a year ago. This is also reflected in the enterprises' business sentiment, which has noticeably brightened across all sectors in the past twelve months. We anticipate that domestic demand will continue to be an economic mainstay across 2016 as well and that the German economy will also benefit from a slight recovery in the emerging countries and the continued upswing in Europe. Our current forecast of 2% for 2016 sees Germany heading for the strongest real growth of the past five years.

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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
		Dec/14	Jul/15	Aug/15	Sep/15	Oct/15	Nov/15	Dec/15			
Business climate											
Manufacturing	SME	10.6	14.1	14.4	12.6	13.0	13.9	13.1	-0.8	2.5	-0.4
	LSE	7.6	12.3	10.1	9.8	10.8	13.8	15.5	1.7	7.9	2.7
Construction	SME	20.1	19.8	21.2	24.1	23.9	26.0	24.6	-1.4	4.5	3.1
	LSE	8.4	16.3	15.9	18.8	20.4	24.7	18.8	-5.9	10.4	4.3
Retail trade	SME	11.6	24.8	29.2	29.7	32.1	31.1	24.3	-6.8	12.7	1.3
	LSE	8.6	12.7	20.8	15.7	14.3	9.6	8.4	-1.2	-0.2	-5.6
Wholesale trade	SME	13.2	19.3	18.8	19.0	20.9	20.0	20.2	0.2	7.0	1.4
	LSE	8.6	21.7	20.5	22.4	22.1	18.9	17.1	-1.8	8.5	-2.2
All economic sectors	SME	12.3	16.8	17.5	17.0	17.4	18.3	16.9	-1.4	4.6	0.4
	LSE	8.2	14.3	13.9	13.4	14.0	14.7	15.0	0.3	6.8	0.7
Current situation	SME	19.4	25.9	25.9	25.0	25.7	25.8	24.4	-1.4	5.0	-0.3
	LSE	16.2	24.2	25.0	21.5	21.4	22.7	23.2	0.5	7.0	-1.1
Expectations	SME	5.0	7.7	9.1	8.8	9.0	10.7	9.1	-1.6	4.1	1.1
	LSE	0.0	4.5	2.9	5.1	6.3	6.6	6.6	0.0	6.6	2.3
West Germany	SME	12.8	18.0	18.6	17.6	18.2	19.0	17.7	-1.3	4.9	0.2
	LSE	7.8	14.6	14.0	13.4	14.1	14.3	14.8	0.5	7.0	0.4
East Germany	SME	9.5	9.7	11.0	13.5	12.4	14.4	12.4	-2.0	2.9	1.6
	LSE	16.5	7.4	10.9	12.8	10.0	25.0	18.2	-6.8	1.7	7.4
Employment expectations	SME	7.8	9.2	9.4	9.3	10.6	10.6	11.3	0.7	3.5	1.6
	LSE	9.2	11.1	7.3	8.5	6.5	9.8	11.5	1.7	2.3	0.3
Sales price expectations	SME	-5.2	-1.3	-1.5	-2.7	-0.5	-0.8	-0.6	0.2	4.6	1.2
	LSE	-7.8	-4.2	-6.8	-7.6	-6.4	-4.6	-5.3	-0.7	2.5	0.8

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.