

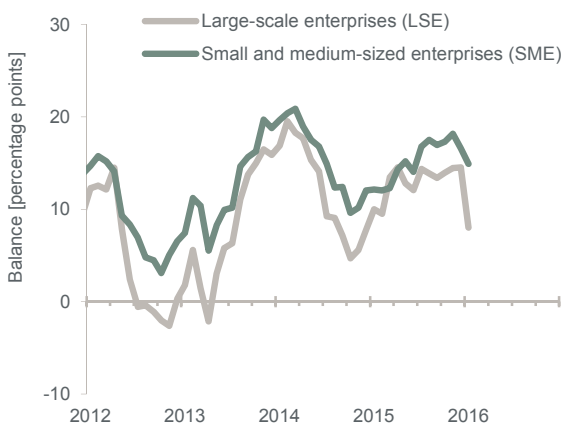
»» German businesses uneasy about world economy

10 February 2016

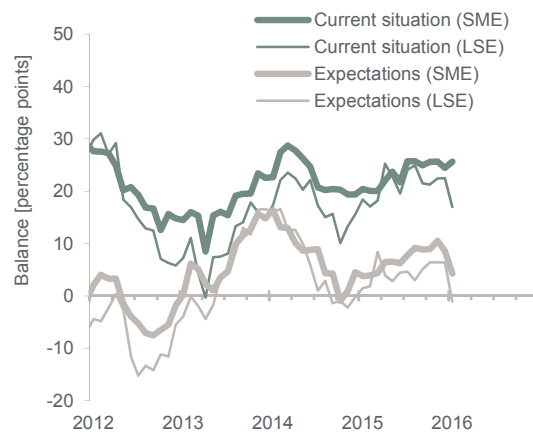
Author: Dr Klaus Borger, phone +49 69 7431-2455, klaus.borger@kfw.de
Press contact: Christine Volk, +49 69 7431 3867, christine.volk@kfw.de

- SME business climate weaker at start of new year
- SMEs' situation assessments better but expectations much lower
- Strong surge of pessimism among large manufacturers

KfW-ifo business climate



KfW-ifo climate components



Source: KfW, ifo

SME business confidence down slightly

German enterprises are unsettled by the unexpectedly intense global stock market turbulence after the turn of the year and by the unease which it expresses about China causing damage to the global economy. The more closely companies are connected to the global market, the more concerned they are. Large manufacturers with their very strong international presence look to the new year with a sudden increase in scepticism. By comparison, the slump in business sentiment among SMEs, which are typically oriented more to the domestic market, is relatively limited.

The SME business climate fell by a modest 1.7 points to 14.9 balance points in early 2016. The significantly more negative expectations for the six-month period ahead were the sole cause for this:

- Expectations fell by 4.4 points to 4.2 balance points, which is now just slightly above the long-term average. The vague fear that developments could dampen what

until recently was an optimistic outlook for 2016 has also spread across parts of the SME sector.

- Current business, however, is still running smoothly and has even been assessed slightly more positively (+1.2 points to 25.6 balance points). The SME situation indicator, which has now been stable on a high level for over six months, contrasts sharply with the nervousness which time and again characterises companies' view of the near future.

Business sentiment among large enterprises drops sharply

In comparison with the relatively relaxed mood among SMEs, the business confidence of large enterprises took a virtual nosedive at the start of the year. Business sentiment among large enterprises dropped quite sharply by 6.5 points on the 19-month high of the previous month, falling to 8.0 balance points in January, the lowest level since December 2014. Firms made a strong downward correction, not only to their

assessments of the current business situation (-5.5 points to 17.0 balance points) but particularly to their expectations (-7.4 points to -1.0 balance points). For the first time since autumn 2014, the pessimists have again gained a slight majority among large enterprises.

Surge of pessimism only among large manufacturers

The downturn in sentiment indicators for SMEs and, in particular, for large enterprises is almost exclusively due to the internationally oriented manufacturing industry and does not otherwise have a broad basis. Sentiment among large manufacturers thus fell by a highly exceptional 9.1 points, or three times a common monthly variation, to 6.3 balance points. The main driver is a very strong surge in pessimism about business expectations, which have dropped by almost 11 points among the large manufacturers. Higher monthly declines have rarely occurred for this sub-indicator in the past. Among manufacturing SMEs, on the other hand, business sentiment dropped by a comparatively moderate 2.1 points to 10.6 balance points, with small and medium-sized manufacturers even rating their current January business somewhat more positively than in December. Besides, their expectations fell by less than half the points than for the large manufacturers.

Remaining sectors are still relaxed

In all other sectors the business sentiment variations were quite unremarkable in January. The slight downturn in both company size classes of the wholesale sector contrasted with comparatively moderate improvements in the construction sector – each on a high level. Furthermore, retail SMEs defended their position as sentiment leaders thanks to a visible business climate improvement, which partly reversed the downturn of the previous month. Among the large retailers, in turn, sentiment dropped slightly once again.

It was a botched start to the year ...

In a nutshell, the key message of the January KfW-ifo SME Barometer is: the very nervous mood in the manufacturing sector thoroughly ruined the start to the year – not less but not more either. Companies allowed themselves to be infected by the sudden turmoil on the financial markets and are therefore deeply concerned but virtually about one thing only and that is the future course of the world economy. Our findings show very clearly that sentiment was dragged down practically exclusively by the manufacturing sector and especially by the decline in expectations of heavily export-oriented large enterprises. These expectations can change quickly once the dust has settled.

... but it will not be a lost year

We see good opportunities here. China is aiming for a more sustainable growth path and declining trend growth is inevitable from a certain level of development. In Europe, by comparison, we expect the recovery to continue. The low oil price has weighed down on investment in the USA and the country's economy. However, its effect on the world economy is small because demand from US consumers still has decent momentum. Germany's domestic economy is well on track in any case – as expressed by the continuing positive and stable sentiment outside the industrial sector – thanks to sustained employment growth and new impetus from additional expenditure caused by the refugee influx. We therefore remain optimistic that 2016 will not be a lost year for the economy. ■

KfW Research

KfW-ifo SME Barometer: January 2016

Attachment: SME business climate in figures

KfW-ifo SME Barometer

Balance [Percentage points]*		Jan/15	Aug/15	Sep/15	Oct/15	Nov/15	Dec/15	Jan/16	m-o-m	y-o-y	3m-o-3m
Business climate											
Manufacturing	SME	9.8	14.4	12.6	12.9	13.8	12.7	10.6	-2.1	0.8	-0.9
	LSE	10.5	10.0	9.8	10.8	13.5	15.4	6.3	-9.1	-4.2	1.5
Construction	SME	20.2	21.2	24.0	23.7	25.6	24.0	24.7	0.7	4.5	1.8
	LSE	9.5	15.9	18.7	20.2	24.4	18.3	19.1	0.8	9.6	2.3
Retail trade	SME	18.1	29.2	29.6	31.7	30.5	24.4	27.1	2.7	9.0	-2.8
	LSE	4.3	20.8	15.7	14.3	9.5	7.3	4.0	-3.3	-0.3	-10.0
Wholesale trade	SME	14.0	18.7	18.9	20.8	19.9	19.9	18.4	-1.5	4.4	-0.1
	LSE	11.5	20.5	22.4	21.9	18.5	16.7	14.3	-2.4	2.8	-5.1
All economic sectors	SME	12.2	17.5	17.0	17.3	18.2	16.6	14.9	-1.7	2.7	-0.7
	LSE	10.0	13.9	13.4	14.0	14.5	14.5	8.0	-6.5	-2.0	-1.4
Current situation	SME	20.4	25.7	24.9	25.6	25.7	24.4	25.6	1.2	5.2	-0.2
	LSE	18.4	24.9	21.5	21.3	22.4	22.5	17.0	-5.5	-1.4	-1.9
Expectations	SME	3.8	9.2	8.9	8.9	10.5	8.6	4.2	-4.4	0.4	-1.2
	LSE	1.5	3.0	5.1	6.4	6.4	6.4	-1.0	-7.4	-2.5	-0.9
West Germany	SME	12.8	18.6	17.6	18.1	18.8	17.3	15.4	-1.9	2.6	-0.9
	LSE	9.8	14.0	13.4	14.1	14.0	14.4	7.8	-6.6	-2.0	-1.8
East Germany	SME	8.5	11.0	13.5	12.3	14.4	12.3	12.6	0.3	4.1	0.8
	LSE	14.1	11.0	12.5	9.9	25.4	17.7	14.3	-3.4	0.2	8.0
Employment expectations	SME	7.9	9.3	9.2	10.6	10.6	11.3	10.5	-0.8	2.6	1.1
	LSE	10.8	7.2	8.5	6.4	9.7	11.4	7.1	-4.3	-3.7	2.0
Sales price expectations	SME	-3.5	-1.4	-2.7	-0.5	-0.7	-0.6	-1.5	-0.9	2.0	0.6
	LSE	-9.1	-6.8	-7.6	-6.4	-4.7	-5.2	-5.7	-0.5	3.4	1.7

Source: KfW, ifo

Explanations and abbreviations:

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

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

L(arge-) Scale E(nterprises)

Change in percentage points m(onth)-o(ver)-y(ear)

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 adjustments 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.