

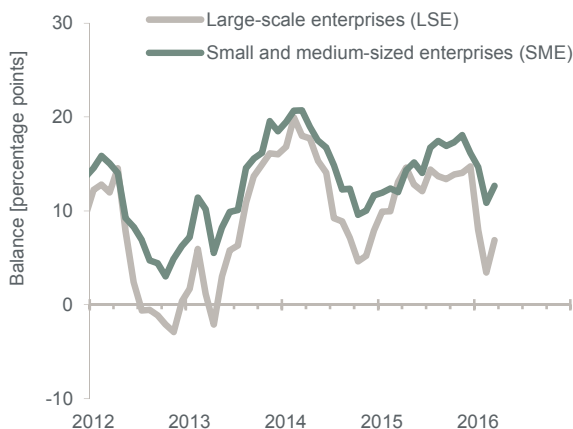
## »» Fears of an economic slowdown are easing slightly

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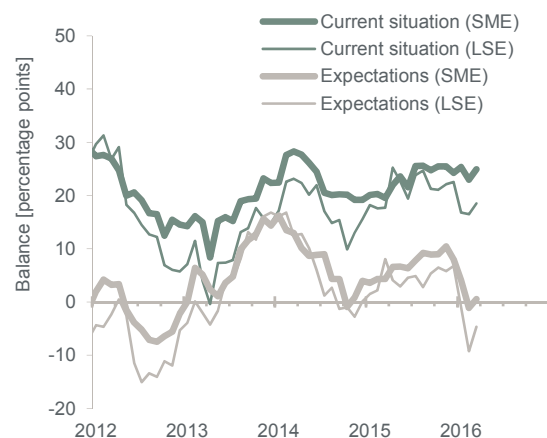
- SME business sentiment is stabilising
- SME's situation assessments and expectations are better
- Large enterprises are less pessimistic than in the previous month
- Recovery continues despite ongoing risks

### KfW-ifo business climate



Source: KfW, ifo

### KfW-ifo climate components



### SMEs are breathing a sigh of relief

In time for the beginning of spring, German SMEs are breathing a sigh of relief for now. The stabilisation of commodity prices has reduced their fear of a global downturn. Their concern over the many challenges Europe has yet to overcome – including the future of open borders within the Schengen area and continued UK membership of the European Union – appears to be fading slightly again as well. Overall, the SME business climate improved by 1.8 points to 12.7 balance points in March, recovering nearly half of the previous decline. Both components had a nearly equal share in the increase:

- In March, assessments of the current business situation improved by 2.0 points on February to 25.0 balance points. They therefore continue on the high level which they had already reached in the middle of last year thanks to the stable upward trend of the domestic economy and have since maintained with little variation.

- The SME sector has also regained some of its confidence. The increase of 1.7 points to 0.6 balance points is strong enough to lift expectations slightly above the long-term average again. Nevertheless, they remain far below their level in the final quarter of 2015, which we rate as a clear sign that the sudden surge in uncertainty so far has subsided only to a relatively minor degree.

### Large enterprises' business expectations still negative despite strong improvement

The trend in sentiment among large enterprises is similar to that in the SME sector. Situation assessments gained 2.0 points to reach 18.5 balance points. Business expectations even improved sharply by 4.6 points but were able to recover only a fraction of the slump of the two previous months. At -4.6 balance points, they remain in negative territory for the third consecutive month. The overall business climate among large enterprises improved by 3.4 points to 6.9 balance points, which is still far below the level in the SME sector.

**Improvements across all sectors except construction, where the very good sentiment dropped slightly**

Encouragingly, the growth in confidence in March was broad and not limited to specific segments. Business sentiment improved on the previous month in almost all sectors and enterprise size classes. The strongest gains were recorded in manufacturing and wholesale – the two sectors most closely integrated with the world economy.

Sentiment is improving in the retail sector as well, especially among large retailers that have recently been overtaken somewhat by their SME competitors. For one thing, the above-average retail climate is due to the continuing positive private consumption environment – growing employment, noticeable increases in nominal income amid low inflation, and low interest rates. For another, the early Easter in March is likely to have been an additional favourable factor which, viewed in isolation, however, can be expected to produce a minor backlash in retail sentiment for April.

Construction is the only sector where confidence has dropped slightly on February, although this decline is easy to live with given the very high confidence level in this sector. Construction remains the sector with the best climate in both business size classes. The persistently excellent sentiment among the construction firms is not surprising in light of the very strong recent increases in order volumes in the sector and the announced expansion of public construction investment.

**Domestic demand ensures ongoing good economic performance**

In March the glass was either half empty or half full, depending on how one reads the current KfW-ifo SME Barometer. It is half full because the mood improved again in March after the very substantial downturn the month before – not only among SMEs but also among large enterprises. It is half empty, on the other hand, because only a small portion of the slump in business expectations, which are important for investment decisions, has been corrected upward again since the beginning of the year. Particularly the expectations of large enterprises, which respond quite sensitively to global economic variations, are still negative. In other words, companies continue to have serious concerns over the numerous risks affecting the European and global environment. These include unexpected disruptions in the realignment of the Chinese economy and fear over a breakup of the EU.

On balance, however, we believe the positive signs prevail. The fear of a slowdown is subsiding again after two increasingly anxious months. Germany's recovery should continue despite ongoing risks. Domestic demand in particular is a mainstay of ongoing good performance. Employment is set to reach a new record level in 2016, real wages are still rising and the integration of refugees is stimulating consumption and creating additional demand for construction investment. We therefore remain confident that we will see decent real growth of 1.7% in 2016 – thanks also to a relatively strong first quarter, evidenced not least by the sharp growth in industrial production at the beginning of the year. ■

# KfW Research

## KfW-ifo SME Barometer March 2016

### Attachment: SME business climate in figures

#### KfW-ifo SME Barometer

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Mrz/15	Okt/15	Nov/15	Dez/15	Jan/16	Feb/16	Mrz/16			
<b>Business climate</b>											
Manufacturing	SME	11,2	13,0	13,6	12,4	10,4	5,2	8,2	3,0	-3,0	-5,0
	LSE	14,5	10,8	12,8	15,9	6,1	-1,7	2,1	3,8	-12,4	-11,0
Construction	SME	15,5	23,5	25,7	23,5	23,3	22,2	21,0	-1,2	5,5	-2,1
	LSE	10,9	20,1	24,3	18,1	18,8	26,9	21,5	-5,4	10,6	1,6
Retail trade	SME	17,1	31,6	30,2	24,5	25,4	18,7	20,2	1,5	3,1	-7,3
	LSE	9,3	14,0	9,5	7,7	5,0	8,7	11,6	2,9	2,3	-1,9
Wholesale trade	SME	8,6	20,8	19,7	19,5	17,9	14,0	16,4	2,4	7,8	-3,9
	LSE	11,2	21,8	18,3	16,4	14,2	10,8	16,3	5,5	5,1	-5,1
<b>All economic sectors</b>	<b>SME</b>	<b>12,0</b>	<b>17,3</b>	<b>18,1</b>	<b>16,2</b>	<b>14,7</b>	<b>10,9</b>	<b>12,7</b>	<b>1,8</b>	<b>0,7</b>	<b>-4,4</b>
	<b>LSE</b>	<b>13,1</b>	<b>13,9</b>	<b>14,1</b>	<b>14,7</b>	<b>8,0</b>	<b>3,5</b>	<b>6,9</b>	<b>3,4</b>	<b>-6,2</b>	<b>-8,1</b>
Current situation	SME	19,5	25,5	25,5	24,2	25,3	23,0	25,0	2,0	5,5	-0,6
	LSE	17,7	21,1	22,1	22,5	16,8	16,5	18,5	2,0	0,8	-4,6
Expectations	SME	4,3	9,0	10,5	8,0	4,1	-1,1	0,6	1,7	-3,7	-8,0
	LSE	8,1	6,5	5,8	6,8	-1,0	-9,2	-4,6	4,6	-12,7	-11,3
West Germany	SME	12,3	18,1	18,7	16,9	15,1	11,2	13,4	2,2	1,1	-4,7
	LSE	12,9	14,1	13,6	14,7	7,7	3,1	6,9	3,8	-6,0	-8,2
East Germany	SME	11,1	12,3	14,3	12,1	12,4	9,5	8,4	-1,1	-2,7	-2,8
	LSE	18,8	9,3	25,4	16,5	14,1	11,3	6,2	-5,1	-12,6	-6,5
<b>Employment expectations</b>	SME	7,4	10,5	10,5	11,1	10,1	8,5	8,3	-0,2	0,9	-1,7
	LSE	11,3	6,4	9,6	11,3	6,8	5,8	6,5	0,7	-4,8	-2,7
<b>Sales price expectations</b>	SME	-2,0	-0,4	-0,7	-0,6	-1,8	-4,5	-6,8	-2,3	-4,8	-3,8
	LSE	-4,2	-6,3	-4,8	-5,3	-6,4	-9,2	-6,8	2,4	-2,6	-2,0

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.