

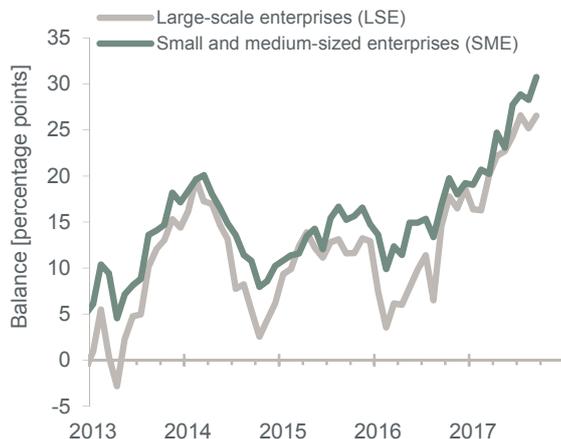
## »» Going into autumn, German SMEs are in the best of moods

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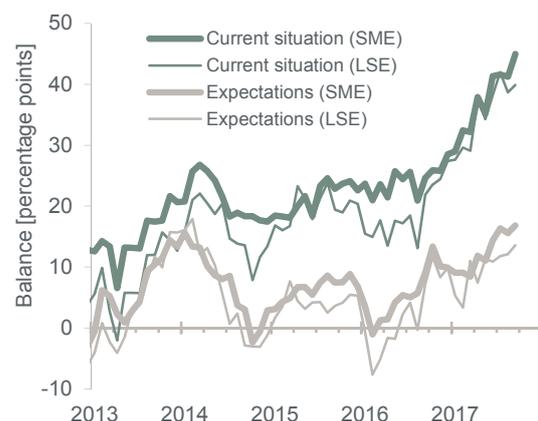
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- SME business confidence climbs to new all-time high
- Situation assessments up more sharply than expectations
- Sentiment brightens in practically all sectors
- Germany's upswing remains robust

### KfW-ifo business climate



### KfW-ifo climate components



Source: KfW, ifo

### SME business sentiment is chasing records again

Germany's SME engine is running at full speed. After taking a breather in the previous month, business confidence is back to chasing records. The key indicator of the KfW-ifo SME Barometer rose by 2.4 points in September to now 30.7 balance points. It is the fourth time the record has been broken this year. Both sentiment components contribute to the new all-time high:

- Situation assessments improved by a strong 3.8 points on August. At now 45.0 balance points, companies rated their current business situation at the end of the third quarter more positively than ever before since surveys were first conducted for unified Germany in January 1991.
- At the same time, business expectations for the next six months increased by a more moderate 1.2 points to 16.8 balance points. The last time SMEs exhibited higher levels of confidence was in early 2011. Businesses appear to be convinced that the business cycle will remain dynamic at least up to the end of winter.

### Confidence among large enterprises up slightly

Large enterprises are entering autumn with more confidence as well, even if their sentiment has brightened not quite as much as among SMEs. Their business confidence rose by 1.3 points in September to now 26.5 balance points. This is backed by nearly equal improvements in situation assessments (+1.3 points to 39.9 balance points) and business expectations (+1.5 points to 13.6 balance points). Large enterprises are very confident but not quite as euphoric as small and medium-sized enterprises, which may be explained by the uncertain foreign and trade policy direction of the USA, the continuing geopolitical tension in the North Korea conflict and Brexit simmering in the background as significant imponderables. Along with the most recent appreciation of the euro, these may generate risks for business operations of large, export-oriented firms in particular.

### Sentiment has improved on a broad basis

Irrespective of these risks, the European and global business cycle has picked up since spring and, together with the reliably strong domestic demand in Germany, is allowing confidence to reach better than average to very high levels

across all sectors. The construction industry defended its position as sentiment leader, with confidence among small and medium-sized construction firms, which operate predominantly in residential construction, climbing to another all-time high (+1.1 points to 36.8 balance points), while large construction firms specialising in infrastructure and commercial construction nearly maintained their undisputed top confidence level from the previous month (-0.3 points to 47.7 balance points). The strongest sentiment improvement was reported by small and medium-sized wholesalers in September (+3.9 points to 32.2 balance points), followed by large retailers (+3.2 points to 6.3 balance points) and medium-sized manufacturers (+3.0 points to 30.3 balance points).

#### **Employment and price expectations are on the move**

Upscale regions show not just the general sentiment indicators, however, but also the specific expectations on employment and sales prices. While the recruitment plans of firms in both size classes have hovered since the middle of the year on a high plateau rarely reached before, price expectations rose on an above-average level. Against this background, the gradual reversal of the extremely loose monetary policy course is likely to move closer.

#### **For the business cycle it's all systems go**

The KfW-ifo SME Barometer for September shows that Germany's upswing is set to continue. On average for the entire third quarter, business confidence among SMEs and large enterprises has improved at almost the same rate as in the second quarter. This indicates that real growth over the summer was about as strong as in the second quarter, when the German economy grew by 0.6 % on the previous quarter. The new federal government will consequently begin the new legislative period with a strong cyclical tailwind that is likely to continue for some time to come. This will make it easier to tackle the tasks it faces. Germany needs not just more investment in infrastructure and affordable housing but an education system that leaves no talent behind, as well as a start-up, innovation and digitalisation initiative. The window for strengthening the European Union together with France and the other partners is currently wide open. This opportunity should now be seized with determination. In order to do this, as well as to minimise political uncertainty that may jeopardise the business cycle, the expeditious formation of a new government would be helpful. ■

## Annex: SME business cycle in figures

## KfW-ifo SME Barometer

| Balance [Percentage points]*    |            | Month/Year  |             |             |             |             |             |             | m-o-m      | y-o-y       | 3m-o-3m    |
|---------------------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|-------------|------------|
|                                 |            | Sep/16      | Apr/17      | Mai/17      | Jun/17      | Jul/17      | Aug/17      | Sep/17      |            |             |            |
| <b>Business climate</b>         |            |             |             |             |             |             |             |             |            |             |            |
| Manufacturing                   | SME        | 11.5        | 22.1        | 21.6        | 25.8        | 27.7        | 27.3        | 30.3        | 3.0        | 18.8        | 5.3        |
|                                 | LSE        | 14.0        | 21.1        | 24.1        | 24.9        | 27.9        | 27.2        | 28.2        | 1.0        | 14.2        | 4.4        |
| Construction                    | SME        | 28.6        | 31.1        | 31.6        | 33.7        | 34.5        | 35.7        | 36.8        | 1.1        | 8.2         | 3.6        |
|                                 | LSE        | 32.0        | 38.5        | 40.1        | 36.7        | 44.1        | 48.0        | 47.7        | -0.3       | 15.7        | 8.2        |
| Retail trade                    | SME        | 22.3        | 26.0        | 18.8        | 25.2        | 25.1        | 21.4        | 22.7        | 1.3        | 0.4         | -0.3       |
|                                 | LSE        | 6.3         | 17.6        | 9.9         | 17.2        | 12.0        | 3.1         | 6.3         | 3.2        | 0.0         | -7.8       |
| Wholesale trade                 | SME        | 22.2        | 27.3        | 20.6        | 32.5        | 30.7        | 28.3        | 32.2        | 3.9        | 10.0        | 3.6        |
|                                 | LSE        | 18.9        | 25.8        | 23.4        | 25.2        | 31.1        | 31.6        | 32.6        | 1.0        | 13.7        | 7.0        |
| <b>All economic sectors</b>     | <b>SME</b> | <b>16.9</b> | <b>24.7</b> | <b>23.1</b> | <b>27.7</b> | <b>28.9</b> | <b>28.3</b> | <b>30.7</b> | <b>2.4</b> | <b>13.8</b> | <b>4.1</b> |
|                                 | <b>LSE</b> | <b>14.6</b> | <b>22.2</b> | <b>22.7</b> | <b>24.3</b> | <b>26.6</b> | <b>25.2</b> | <b>26.5</b> | <b>1.3</b> | <b>11.9</b> | <b>3.0</b> |
| Current situation               | SME        | 24.6        | 37.9        | 35.2        | 41.4        | 41.6        | 41.2        | 45.0        | 3.8        | 20.4        | 4.4        |
|                                 | LSE        | 21.9        | 37.5        | 34.3        | 38.2        | 42.0        | 38.6        | 39.9        | 1.3        | 18.0        | 3.5        |
| Expectations                    | SME        | 9.1         | 11.8        | 11.1        | 14.4        | 16.3        | 15.6        | 16.8        | 1.2        | 7.7         | 3.8        |
|                                 | LSE        | 7.2         | 7.5         | 11.3        | 10.9        | 11.8        | 12.1        | 13.6        | 1.5        | 6.4         | 2.6        |
| West Germany                    | SME        | 17.6        | 25.7        | 23.8        | 28.4        | 29.8        | 29.3        | 31.7        | 2.4        | 14.1        | 4.3        |
|                                 | LSE        | 15.0        | 22.4        | 22.7        | 24.7        | 26.8        | 25.4        | 27.0        | 1.6        | 12.0        | 3.1        |
| East Germany                    | SME        | 13.0        | 18.8        | 18.9        | 23.9        | 22.9        | 21.7        | 25.0        | 3.3        | 12.0        | 2.7        |
|                                 | LSE        | 6.5         | 17.2        | 23.5        | 14.9        | 21.5        | 20.8        | 16.4        | -4.4       | 9.9         | 1.0        |
| <b>Employment expectations</b>  | SME        | 11.3        | 16.7        | 15.1        | 18.8        | 17.0        | 17.4        | 17.4        | 0.0        | 6.1         | 0.4        |
|                                 | LSE        | 12.3        | 17.3        | 18.8        | 18.0        | 21.0        | 22.4        | 21.2        | -1.2       | 8.9         | 3.5        |
| <b>Sales price expectations</b> | SME        | 0.1         | 9.5         | 9.6         | 8.2         | 8.5         | 7.2         | 8.6         | 1.4        | 8.5         | -1.0       |
|                                 | LSE        | -2.1        | 2.0         | 3.1         | 2.0         | 4.5         | 1.9         | 6.9         | 5.0        | 9.0         | 2.1        |

Difference due to rounding possible, 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)-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 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 building 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.