The euphoria continues
Germany’s economic engine is humming along and the mood is literally euphoric. While the business climate among large enterprises reached a record level in October for the first time in nearly seven years, SMEs raised the bar for all-time high business confidence for the fifth time this year. The key indicator of the KfW-ifo SME Barometer rose marginally by 0.2 points to now 30.8 balance points. This is exclusively due to the more optimistic outlook for the future:

- Business expectations for the next six months increased by 1.9 points to 18.7 balance points. SMEs appear to be convinced that the strong business cycle will continue at least until next spring.
- Situation assessments, however, dropped by 1.7 points. With the exception of the previous month, companies rated their current business situation more positively than ever before since surveys were first conducted for unified Germany in January 1991, at now 43.0 balance points.

Record high confidence among large enterprises
In large enterprises, business confidence grew by an unusually strong 3.0 points in October and matched its own record of December 2010 exactly, at currently 29.7 balance points. This is backed by palpable improvements in situation assessments (+3.4 points to 43.5 balance points) and continuously rising business expectations, a trend that has been observable since July (+2.5 points to 16.2 balance points). After December 2010 and December 2006, this is the third time ever that confidence levels among SMEs as well as large enterprises climbed to an all-time high at the same time – although on the two previous occasions part of this rise obviously took place on a much lower level. Not only does this underscore the momentum of the current upswing, it also confirms its very broad basis.

Impressive sectoral results across the board
The indicators of individual sectors also point in the same direction. They broke several records again in October and also presented some otherwise impressive results. Thanks to very clear growth, business confidence among large
manufacturers for its part reached a new all-time high (+4.3 points to 32.7 balance points) and confidence among German manufacturing SMEs remained only marginally below its peak level of the previous month (-0.8 points to 29.3 balance points). This is consistent with the multi-year high of the ifo export expectations in October, which are of great importance for the heavily export-oriented manufacturing sector.

At the same time, small and medium-sized construction firms continued chasing records at high speed (+3.8 points to 40.6 balance points) while large construction enterprises remained by far the most upbeat sector despite a slight drop (-1.1 points to 46.6 balance points). At the beginning of the winter half year, the retail sector reported strong confidence increases in both size classes (SMEs +3.0 points to 25.9 balance points, large enterprises even +8.2 points to 15.5 balance points). By contrast, wholesale trade is the only sector in which the business climate dropped noticeably in both segments in the reporting month (SMEs -3.2 points to 28.6 balance points, large enterprises -5.0 points to 27.0 balance points). But here, too, confidence remains on a historically very high level, thereby contributing to the generally impressive sectoral results.

**Employment boom remains intact**

The strong labour market, a key driver of the robust German business cycle, remains intact. SMEs’ employment expectations in October even reached a new record high (+1.7 points to 19.1 balance points), mostly driven by wholesale and construction with new record levels, but by other sectors as well. Large enterprises are also expecting further employment growth (+1.5 points to 22.7 balance points) and are very close to a new record level for this sub-indicator.

**Strong cyclical tailwind continues unabated**

The KfW-ifo SME Barometer for October signals continuing strong tailwind from domestic and international demand. Neither the appreciation of the euro nor the sluggish Brexit negotiations nor the constitutional crisis in Spain nor the possibly lengthy coalition negotiations at home are capable of clouding German enterprises’ mood. We owe our continuing upswing to the global recovery and growing exports as well as to the continuing growth of employment and wages, which is securing stable domestic momentum. Germany is likely to have grown at a similarly strong pace in the third quarter of 2017 as in the two preceding quarters (0.6 or 0.7 % on the previous quarter). And looking ahead as well, there is no end in sight to the upswing.
KfW Research
KfW-ifo SME Barometer: October 2017

Annex: SME business cycle in figures
KfW-ifo SME Barometer

Source: KfW Research, ifo Institute

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(o-ve)-o-ver-m(o nth)
Change in percentage points y(ear)-o-ver-y(ear)
Change in percentage points 3 m(o nth)-o-ver-3 m(o nth)
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.