

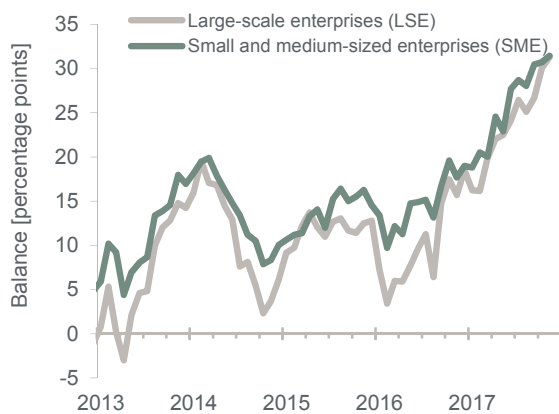
»» Breaking all records

6 December 2017

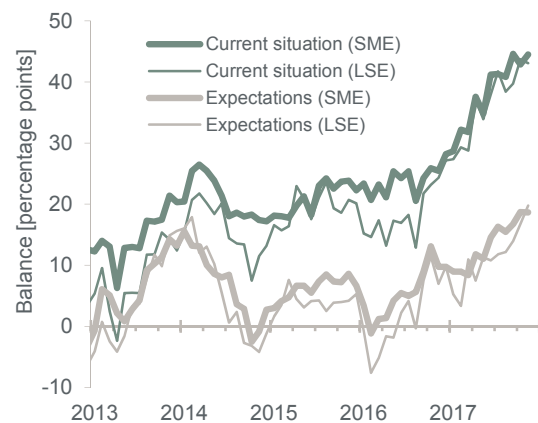
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- SME business climate leaps to sixth all-time high this year
- New record on the back of improved business situation; expectations nearly unchanged
- Large enterprises also on new record high as expectations have risen
- So far, no sign of political uncertainty detectable in Germany's upturn

KfW-ifo business climate



KfW-ifo climate components



Source: KfW Research, ifo Institute

Breaking one record after another

Business confidence in Germany is growing in leaps and bounds. Both small and medium-sized enterprises and large enterprises beat the previous month's record levels again in November. SMEs raised the bar for all-time high confidence for the sixth time in a row this year. The key indicator of the KfW-ifo SME Barometer rose by 0.7 points to now 31.4 balance points. This time, the reason was the improved business situation:

- The business situation improved by 1.6 points and, after a slight decline in the previous month, virtually bounced back to the all-time high of September, at 44.5 balance points.
- Business expectations for the coming six months remain steady at a high level (-0.1 points to 18.6 balance points). The optimistic expectations are probably a response to the accelerating pace of global economic growth and robust domestic demand.

Large enterprises are increasingly optimistic

After an increase of 1.2 points, the business climate among large enterprises reached 31.3 balance points in November, exceeding the previous high of the preceding month. Small, medium-sized and large enterprises' confidence levels are now almost equal. Differences remain, however, in the relative significance situation assessments and expectations have for the most recent variations. While the only indicator that changed for SMEs in November was the business situation, large enterprises reported a clear improvement in business expectations (+3.0 points to 19.8 balance points) while their situation remained largely unchanged (-0.7 points to 43.0 balance points). Thus, the rise in expectations which has been ongoing since July continues.

Construction dips, manufacturing gains

In a sector comparison, the construction industry has enjoyed the highest confidence levels for some time now. Small and medium-sized firms, which are particularly active in residential construction, have repeatedly set new records in

the past months. Although sentiment clearly dropped by -3.3 points in November, at 37.3 balance points it remains on the second highest level since surveys began for unified Germany in January 1991. Confidence among SME manufacturers, on the other hand, climbed further and is slowly catching up with the construction industry (+1.5 points to 30.7 balance points). Only minor changes were reported by SME retailers (-0.9 points to 24.9 balance points) and wholesalers (+1.6 to 30.0 balance points), marking a continuation of the past six months' sideways movement. Remarkable deviations between the various size classes exist particularly in the retail sector, where SME confidence levels developed significantly more positively than among large enterprises since around early 2014. The gap widened further in November as large retailers' confidence fell by -5.4 points to 11.1 balance points. Overall, the business climate in all sectors is on a historically high level, underscoring the strength and durability of the upswing.

Employment growth continues

SMEs' employment expectations exceeded the previous month's record level again in November (+2.4 points to 21.4 balance points). Among large enterprises, the employment indicator remained nearly unchanged on a high level (+0.1 points to 22.7 balance points). SMEs in the

manufacturing and construction industries currently have particularly ambitious workforce expansion plans, at 22.5 and 24.4 balance points, respectively. Construction also tops the list among large enterprises, with 36.9 balance points.

So far, no hint of political uncertainty

The most recent KfW-ifo SME Barometer, whose key indicators have reached new record levels again, underscores Germany's very strong cyclical position. We expect the economy to grow 2.3% this year and predict a similarly high real growth rate of 2.5% for 2018. It is not least the rising employment expectations that point to persistently strong momentum. The KfW-ifo survey so far has revealed no uncertainty resulting from the drawn-out process of forming a new government. It must be noted that around 90% of responses were received before the unexpected collapse of the consultations on a Jamaica coalition. Long-term economic success, however, will be determined by policy decisions for which Germany needs a functioning government. For example, a skills shortage must be averted so that enterprises' hiring plans can continue on a path of expansion. ■

KfW Research

KfW-ifo SME Barometer: November 2017

Annex: SME business cycle in figures

KfW-ifo SME Barometer

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Nov/16	Jun/17	Jul/17	Aug/17	Sep/17	Okt/17	Nov/17			
Business climate											
Manufacturing	SME	13.0	25.7	27.5	27.0	30.0	29.2	30.7	1.5	17.7	3.3
	LSE	13.5	24.7	27.7	27.3	28.5	33.0	35.2	2.2	21.7	5.7
Construction	SME	30.1	33.6	34.4	35.6	36.8	40.6	37.3	-3.3	7.2	3.7
	LSE	35.8	36.5	43.9	47.8	47.3	46.0	41.8	-4.2	6.0	2.3
Retail trade	SME	22.4	25.2	25.0	21.4	22.8	25.8	24.9	-0.9	2.5	0.6
	LSE	13.6	17.0	12.1	3.2	7.1	16.5	11.1	-5.4	-2.5	0.8
Wholesale trade	SME	19.7	32.4	30.5	27.9	31.7	28.4	30.0	1.6	10.3	-0.2
	LSE	20.4	25.1	30.8	30.9	31.9	26.9	31.2	4.3	10.8	1.1
All economic sectors	SME	17.7	27.7	28.7	28.0	30.5	30.7	31.4	0.7	13.7	2.7
	LSE	15.7	24.1	26.4	25.1	26.7	30.1	31.3	1.2	15.6	4.1
Current situation	SME	25.5	41.2	41.3	40.8	44.6	42.9	44.5	1.6	19.0	2.9
	LSE	24.3	37.9	41.7	38.4	39.7	43.7	43.0	-0.7	18.7	2.8
Expectations	SME	9.8	14.5	16.3	15.5	16.7	18.7	18.6	-0.1	8.8	2.6
	LSE	7.0	10.8	11.8	12.2	14.0	16.8	19.8	3.0	12.8	5.3
West Germany	SME	18.2	28.3	29.6	29.1	31.4	32.0	32.8	0.8	14.6	3.1
	LSE	16.1	24.5	26.6	25.3	27.1	30.3	31.7	1.4	15.6	4.2
East Germany	SME	15.2	24.0	22.8	21.5	24.7	22.7	22.6	-0.1	7.4	0.6
	LSE	5.2	14.6	21.4	21.2	17.1	23.5	21.1	-2.4	15.9	1.5
Employment expectations	SME	11.2	18.7	16.9	17.3	17.4	19.0	21.4	2.4	10.2	1.6
	LSE	13.4	17.9	20.9	22.2	21.2	22.6	22.7	0.1	9.3	1.8
Sales price expectations	SME	3.8	8.1	8.5	7.2	8.9	10.8	13.1	2.3	9.3	3.0
	LSE	0.7	1.9	4.4	2.0	7.0	4.2	3.7	-0.5	3.0	2.2

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(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.