

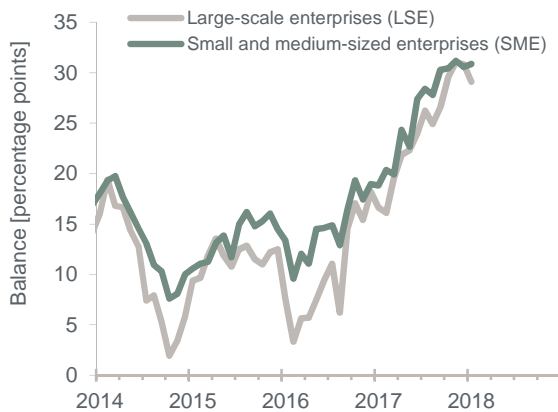
»» SMEs start the new year on a high note

1 February 2018

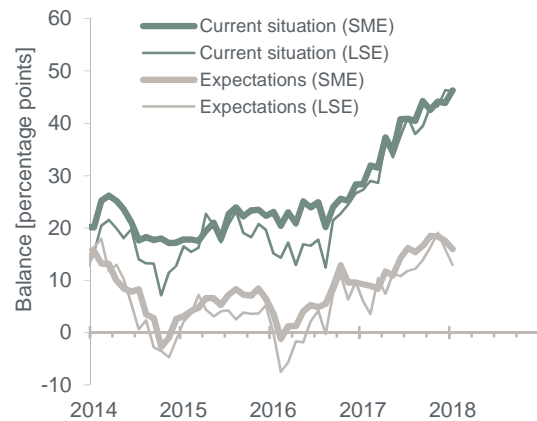
Author: Dr Klaus Borger, phone +49 69 7431-2455, klaus.borger@kfw.de
Press contact: Christine Volk, phone +49 69 7431-3867, christine.volk@kfw.de

- Situation assessments reach new all-time high, driving German SME's business confidence
- SMEs' expectations slip
- Sentiment among large enterprises is down slightly
- Germany's economic growth will remain strong in 2018 as well

KfW-ifo business climate



KfW-ifo climate components



Source: KfW Research, ifo Institute

SME business confidence near all-time high level

German SMEs started the year with enthusiasm and again on a slightly more positive note than large enterprises. The SME business climate rose by 0.3 points to 30.9 balance points in January. The key indicator of the KfW-ifo SME Barometer thus remains very near last November's record level. The minor improvement is due exclusively to their significantly more positive assessment of the current business situation:

- Situation assessments improved by a considerable 2.4 points to reach 46.3 balance points. Never before – since surveys were first conducted for unified Germany in January 1991 – have SMEs rated their current business as positively as at the start of the year 2018.
- Although their expectations fell 1.5 points, a clear majority still expects business to continue improving, at 16.0 balance points. That is a strong result, especially considering that situation assessments, the basis on which expectations are formed, are currently at a new all-time high.

Large enterprises are less optimistic

Sentiment among large enterprises dipped slightly in January; their business climate dropped 1.7 points to 29.1 balance points. But that is still no cause for major concern. Not only is their confidence still on an outstandingly high level but the decrease itself was very moderate – just under two thirds of a normal monthly variation. While large enterprises were nearly as positive about their current business at the start of the year as they were at the end of last year (-0.2 points to 46.1 balance points), they revised their expectations downward by a more significant 3.0 points to 12.9 balance points. Apart from the lower sentiment among large retailers towards the end of the Christmas season, it was mainly wholesalers and manufacturers that were responsible for the somewhat less bullish confidence levels among large enterprises.

These two business areas have strong global links. It is, therefore, safe to assume that exporters are particularly sceptical about the most recent appreciation trends of the euro, since a stronger euro reduces their pricing flexibility in foreign currency. This is consistent with the relatively significant drop in large enterprises' sales price expectations in January, which mostly originated in export-oriented

industrial heavyweights. In our view, however, the rising euro exchange rate is just as much a reflection of Europe's strengthening recovery – in other words, of more vigorous demand in what is by far the most important sales market for Germany's products.

Construction remains the sector with highest confidence

The generally outstanding business climate has only little variation in the individual sectors. Moderate increases in confidence among SME manufacturers and retailers combine with generally moderate decreases in other segments. The highest confidence levels were recorded in construction, followed by manufacturing and wholesale. Even among large retailers, which reported the lowest confidence levels, the climate indicator is clearly above the long-term average. This shows that the economy continues to rest on a broad basis.

Ongoing employment growth

Employment expectations are also pointing in the same direction. They remained nearly unchanged in both enterprise size classes, hovering near the record levels of the previous month, thus reflecting continuing employment growth.

Germany's economy will remain strong in 2018

All in all, the January results of the KfW-ifo SME Barometer point to not just reliably strong cyclical momentum throughout the winter but to a very positive outlook for the further course of the year as well. Real growth should be about as strong in 2018 as it was last year. For the next government, the tailwind could hardly be better to put Germany and – together with France and the other European partners – the EU on a stable foundation in the long term. ■

KfW Research

KfW-ifo SME Barometer: January 2018

Annex: SME business cycle in figures

KfW-ifo SME Barometer

| Balance [Percentage points]* | | Jan/17 | Aug/17 | Sep/17 | Okt/17 | Nov/17 | Dez/17 | Jan/18 | m-o-m | y-o-y | 3m-o-3m |
|---------------------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|
| Business climate | | | | | | | | | | | |
| Manufacturing | SME | 15.3 | 26.7 | 29.8 | 28.9 | 30.5 | 30.0 | 30.5 | 0.5 | 15.2 | 1.8 |
| | LSE | 16.5 | 27.1 | 28.2 | 32.6 | 34.9 | 32.9 | 31.5 | -1.4 | 15.0 | 3.8 |
| Construction | SME | 29.6 | 35.4 | 36.6 | 40.4 | 36.9 | 37.4 | 36.8 | -0.6 | 7.2 | -0.4 |
| | LSE | 37.1 | 47.5 | 47.1 | 45.8 | 41.6 | 45.3 | 43.7 | -1.6 | 6.6 | -3.2 |
| Retail trade | SME | 17.2 | 21.2 | 22.7 | 25.8 | 25.0 | 23.7 | 25.5 | 1.8 | 8.3 | 1.5 |
| | LSE | 6.3 | 2.9 | 7.3 | 15.9 | 12.0 | 17.3 | 11.9 | -5.4 | 5.6 | 5.0 |
| Wholesale trade | SME | 23.3 | 27.6 | 31.5 | 28.2 | 29.8 | 29.0 | 27.4 | -1.6 | 4.1 | -0.3 |
| | LSE | 20.6 | 30.6 | 31.7 | 26.8 | 31.1 | 32.4 | 30.4 | -2.0 | 9.8 | 1.6 |
| All economic sectors | SME | 18.8 | 27.8 | 30.3 | 30.4 | 31.2 | 30.6 | 30.9 | 0.3 | 12.1 | 1.4 |
| | LSE | 16.6 | 24.9 | 26.6 | 29.6 | 31.1 | 30.8 | 29.1 | -1.7 | 12.5 | 3.3 |
| Current situation | SME | 28.4 | 40.5 | 44.3 | 42.6 | 44.2 | 43.9 | 46.3 | 2.4 | 17.9 | 2.4 |
| | LSE | 27.3 | 38.0 | 39.5 | 43.3 | 43.3 | 46.3 | 46.1 | -0.2 | 18.8 | 5.0 |
| Expectations | SME | 9.3 | 15.4 | 16.6 | 18.5 | 18.4 | 17.5 | 16.0 | -1.5 | 6.7 | 0.5 |
| | LSE | 6.0 | 12.2 | 13.9 | 16.3 | 19.1 | 15.9 | 12.9 | -3.0 | 6.9 | 1.8 |
| West Germany | SME | 19.4 | 28.8 | 31.2 | 31.7 | 32.5 | 31.7 | 31.9 | 0.2 | 12.5 | 1.5 |
| | LSE | 17.0 | 25.1 | 27.0 | 29.9 | 31.5 | 31.3 | 29.2 | -2.1 | 12.2 | 3.4 |
| East Germany | SME | 15.4 | 21.4 | 24.6 | 22.6 | 22.5 | 23.2 | 24.3 | 1.1 | 8.9 | 0.5 |
| | LSE | 8.2 | 21.2 | 17.0 | 23.2 | 20.7 | 19.6 | 25.3 | 5.7 | 17.1 | 1.5 |
| Employment expectations | SME | 11.8 | 17.1 | 17.3 | 19.0 | 21.3 | 21.5 | 21.2 | -0.3 | 9.4 | 3.5 |
| | LSE | 15.6 | 22.1 | 21.1 | 22.6 | 22.9 | 25.9 | 25.5 | -0.4 | 9.9 | 2.9 |
| Sales price expectations | SME | 6.9 | 7.3 | 8.9 | 10.9 | 13.0 | 15.6 | 14.5 | -1.1 | 7.6 | 5.3 |
| | LSE | 5.3 | 2.1 | 6.9 | 4.3 | 3.9 | 8.4 | 5.9 | -2.5 | 0.6 | 1.6 |

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.