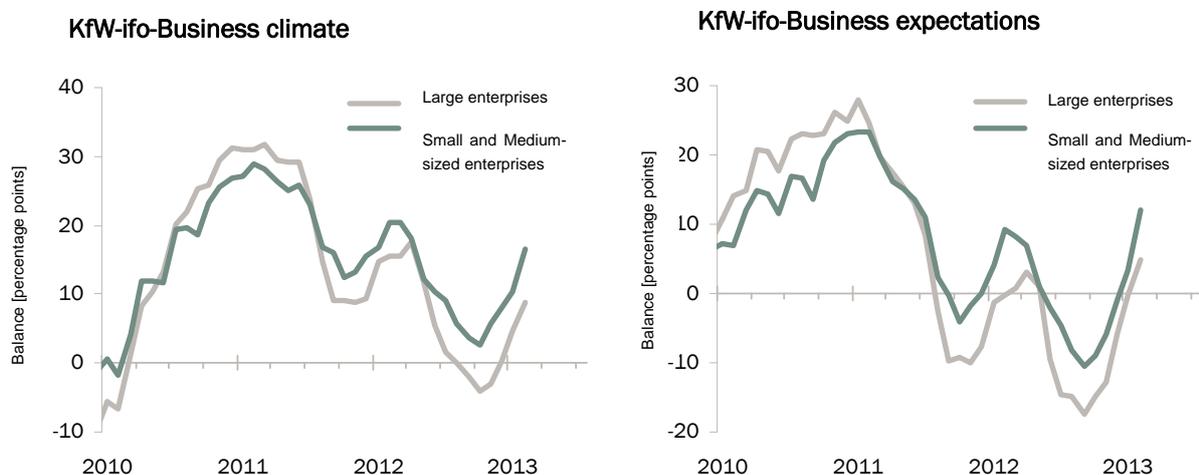


KfW-ifo SME barometer: February 2013

Confidence is growing by leaps and bounds

- *Small and medium-sized enterprises report the third-highest climate improvement since reunification*
- *Expectations explode, situation assessments are also clearly in the plus*
- *Even large companies once more find themselves much more in tune*



Source: KfW, ifo Munich Institute

Optimism breaks new ground

In the first quarter of 2013 the German economy will grow by 0.4 % and quickly make up for the severe slump at the end of the previous year. With this optimistic prognosis we see ourselves well on course after the latest improvements in mood. The anniversary edition of the KfW-ifo SME barometer - the current issue for February 2013 is the one hundredth issue in an uninterrupted series since the first publication in December 2004 - with some impressive results, including a new record.

The most important: The optimism of small and medium-sized enterprises continues to grow rapidly. After two already very sharp increases in the previous months the business expectations for February have truly exploded (+8.8 points to 12.2 percentage points). Only once since the start of the survey, in August 2009 when the state of shock after the great recession was broken, a higher growth was achieved (+9.7 points). In comparison, the quite decent improvement of situation assessments (+3.4 points to 20.3 percentage points) seems quite modest. Thanks to the momentum of both components, at the end of the winter the business climate improved by 6.1 points to 16.4 percentage points. This climate improvement is the third largest since the start of

the time series in January 1991, the climate level which was reached in February is the highest in ten months.

Situation and expectations of large enterprises have also improved, but not as significantly

The large enterprises also judge their position (+3.3 points to 12.3 percentage points) and their expectations (+5.1 points to 4.8 percentage points) as being more favourable than in the previous month. As a result their business climate improved by 4.2 points to 8.8 percentage points - a good result in itself, but compared to the mood elevation in the SMEs it appears rather pale and again increases the recently narrowed climate gap between the two size-classes. The more cautious optimism of large companies is understandable. At present cyclical risks threaten especially from the global economy and Europe, and in case they materialize the export-oriented large enterprises will feel them first and foremost.

New all-time high of the SME construction climate

The rise in sentiment is extensive. Apart from the large (volatile moods) retailers, the climate has improved across the board. Not only is the improvement very strong in the two enterprise size-classes of the important manufacturing sector, but also in wholesale and the small and medium-sized construction sector. It may be true that with +6.1 points the small- and medium-sized construction firms aren't reporting the highest climate improvement of all segments this time around (this is claimed by the SME wholesalers with +10.5 points). But the increase seems to be enough to improve on the already existent excellent mood, to lift the construction climate to 32.5 percentage points - a new all-time high, surpassing even the very good mood from the times of the construction boom following the reunification.

Not to lose grip

The rapid and recently very powerful improvement in business expectations, of which the February results of the KfW-ifo SME barometer testify, is undoubtedly gratifying. However, one shouldn't let oneself be rashly influenced by excellent survey results and rapidly growing optimism: We believe that a large part speaks from relief that the - until recently still high-profile - risks such as the fiscal cliff in the USA or the hard landing in China have in the meanwhile mostly dissipated and from the thought that the strong collapse in the final quarter of 2012 will remain a one-time event. Moreover: Very strong rises in expectations over short periods harbour some setback potential in cases of disappointment. The first litmus test will take place in a month when the companies will re-evaluate the economic future taking into account the challenging election results in Italy. They will also have to recognize that the recession in the Eurozone will still have a dampening effect for some time to come. The policy-mix in the reforming countries still doesn't permit too high expectations with respect to the European business cycle.

Annex: SME business climate in figures**KfW-ifo SME Barometer**

Balance [Percentage points]*		Month/Year						m-o-m	y-o-y	3m-o-3m	
		Feb/12	Sep/12	Oct/12	Nov/12	Dec/12	Jan/13				Feb/13
Business climate											
Manufacturing	SME	16.2	-1.2	-3.8	-0.3	3.4	5.5	11.8	6.3	-4.4	8.7
	LSE	12.8	-6.2	-8.0	-9.5	-5.6	1.6	8.1	6.5	-4.7	9.3
Construction	SME	29.7	16.2	15.8	18.5	20.4	26.4	32.5	6.1	2.8	9.6
	LSE	21.5	11.4	6.9	13.8	15.6	26.3	27.6	1.3	6.1	12.5
Retail trade	SME	22.2	8.0	13.7	13.1	9.7	10.4	11.5	1.1	-10.7	-1.0
	LSE	8.0	-1.3	0.5	-2.8	7.3	6.6	1.1	-5.5	-6.9	6.2
Wholesale trade	SME	27.5	6.0	6.3	10.0	12.9	10.0	20.5	10.5	-7.0	7.1
	LSE	30.8	8.4	2.7	15.2	10.9	7.9	13.2	5.3	-17.6	1.9
All economic sectors	SME	20.5	3.7	2.7	5.6	8.1	10.3	16.4	6.1	-4.1	7.6
	LSE	15.5	-2.1	-4.2	-3.1	0.2	4.6	8.8	4.2	-6.7	7.6
Current situation	SME	31.6	18.2	14.3	17.1	17.1	16.9	20.3	3.4	-11.3	1.6
	LSE	31.9	13.8	6.6	6.6	6.1	9.0	12.3	3.3	-19.6	0.1
Expectations	SME	9.3	-10.6	-9.0	-5.9	-1.0	3.4	12.2	8.8	2.9	13.3
	LSE	-0.3	-17.4	-14.9	-12.9	-6.0	-0.3	4.8	5.1	5.1	14.6
West Germany	SME	21.2	4.2	2.9	5.9	8.6	10.6	16.4	5.8	-4.8	7.5
	LSE	16.0	-2.0	-4.2	-3.5	0.0	4.4	8.4	4.0	-7.6	7.6
East Germany	SME	16.3	0.4	1.9	4.5	6.0	8.4	17.1	8.7	0.8	8.2
	LSE	4.5	-2.0	-1.4	7.5	5.4	9.9	18.7	8.8	14.2	10.0
Employment expectations	SME	14.0	5.7	5.1	8.8	7.9	9.1	9.2	0.1	-4.8	2.2
	LSE	16.2	6.0	5.1	6.5	6.2	7.8	8.1	0.3	-8.1	1.5
Sales price expectations	SME	6.8	-1.3	-1.6	-0.5	0.7	0.0	0.9	0.9	-5.9	1.7
	LSE	7.0	-2.6	-4.1	-4.9	-1.6	1.6	0.8	-0.8	-6.2	4.2

Explanations and abbreviations:

* Seasonally and mean adjusted (long-term mean since January 1991 = 0)

S(mall and) **M**(edium-sized) **E**(nterprises)

L(arge-) **S**(cale) **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 adjustment as well as rounding.

Differences due to rounding possible, Sources: KfW, ifo

For the construction and interpretation of the KfW-ifo SME barometer. The KfW-ifo SME barometer family of indicators is based on a size-class - specific analysis of the ifo business climate index, where the approx. 7000 companies of the commercial sector (Manufacturing enterprises, main construction enterprises, wholesalers, retailers) in West- and East Germany are evaluated with regards to their economic situation, including around 5600 from SME. Here the SME basically includes those companies which have no more than 500 employees and which achieve a maximum of EUR 50 million annual turnover. In order to increase the analytical selectivity, these quantitative limits must however be tightened for retail- (maximum EUR 12.5 million annual turnover) and main construction enterprises (up to 200 employees). All companies which exceed at least one of these limits are classified as large enterprises. The balance of the current business situation (percentage of the positive reports minus the percentage of negative reports), the analog calculated balance of the business expectations for the coming six months, and the business climate calculated as the average of these, are reported. In addition, besides the balance values, the employment expectations as well as the domestic sales price expectations of the enterprise is mentioned. All time-series are seasonal- and average value - adjusted. The zero line thus marks the "cycle neutral" long-term average. Indicator values larger (lower) than zero point to an above-average or positive (below-average or negative) economic situation.

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