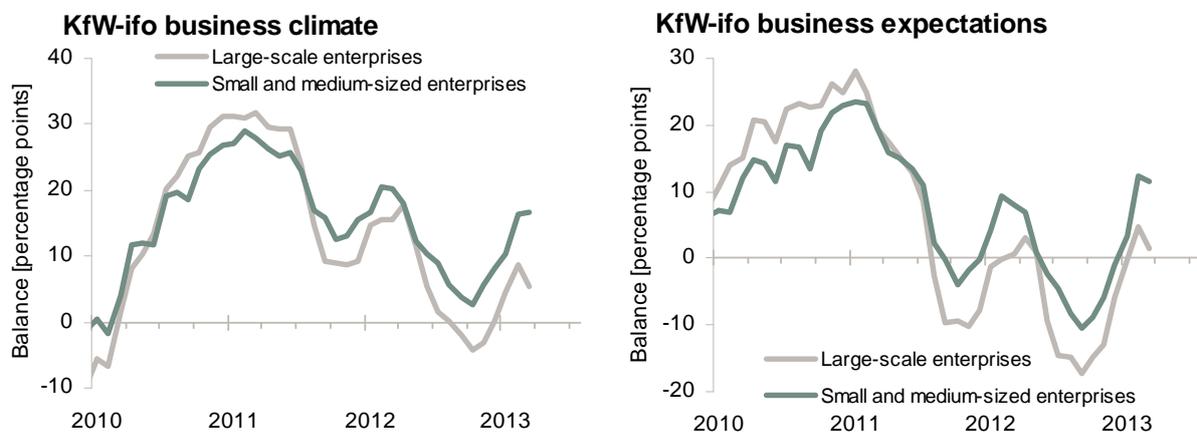


## KfW-ifo SME Barometer: March 2013

### SMEs clearly more confident than large-scale enterprises

- *Business sentiment among SMEs has improved slightly despite rising uncertainty*
- *Situation assessments are moderately higher, expectations almost unchanged*
- *Large-scale enterprises are much less optimistic*



Sources: KfW, ifo

### SMEs are keeping calm

Italy's inconclusive elections, the consolidation of the banking sector in Cyprus through the use of its deposits, the stubborn recession in the eurozone and new doubts over the resilience of Germany's recovery have made little impression on the SME sector. Its business climate, the main index of the KfW-Ifo SME barometer, has remained practically unchanged, increasing minimally by 0.2 points to 16.6 balance points. This is a good result given the enormous rise in sentiment recorded in February which, instead of being revised downward, was actually corroborated in March despite renewed eurozone turbulence. However, the two components send out different signals: while the assessments of the current business climate are improving slightly (+1.2 points to 21.4 balance points), business expectations are declining moderately (-0.8 points to 11.4 balance points). This consolidation of expectations after the very strong increases of the previous months shows a sense of realism. Although Germany will recover quickly from the severe GDP contraction in the fourth quarter of 2012, the further momentum of its recovery very much depends on external conditions, particularly in Europe.

### **Sentiment at large enterprises deteriorates**

Particularly with a view to the eurozone, last month the downward risks increased again, a concern which large-scale enterprises appear to have as well. Unlike SMEs, in March they revised significantly downward both their business expectations (-3.2 points to 1.6 balance points) and their situation assessments (-3.5 points to 8.7 balance points). As a result, their climate index deteriorated by 3.4 points to 5.4 balance points. Large-scale enterprises – particularly manufacturers – are very active exporters, so that their assessments of the business situation and expectations are quite a reliable indicator of the economic outlook in Europe and the world.

### **Sentiment at SMEs in the construction sector is at a second consecutive all-time high**

Consistent with this is the fact that, with large industrial firms and wholesale traders at the interface between the national and international markets, the industries that reported the strongest decline in sentiment in March were the ones for which cross-border demand has comparatively high importance. In contrast, business sentiment among manufacturing SMEs improved slightly while in the retail sector, which mostly targets the domestic market, it remained practically unchanged across both size categories. At the same time, sentiment among small and medium-sized construction firms, which operate primarily in the housing sector and, thus, are likewise mostly oriented to the domestic economy, reached a second consecutive all-time high (+2.5 points to 34.9 balance points). Overall, despite a moderate fall in sentiment among the industry's large firms, the construction industry is currently by far the most optimistic main business sector.

### **Sentiment gap underscores economic risks**

The most prominent result of the March edition of the KfW-ifo SME Barometer is the now wide gap in sentiment between SMEs and large scale enterprises. It is a reflection of the high employment level, real wage increases and the resulting robust shape of the domestic economy on the one hand and external pressures and risks on the other. In the past, only during the recession phases of 1992/93 and 2008/09 did SMEs have a comparatively wide relative lead, when Germany was likewise facing massive external pressures and corporate investment collapsed as a consequence. The latter has now already reached a low point, but the domestic economy is more resilient today than in the episodes mentioned.

Only when the eurozone is successfully stabilised and the reforming countries finally find their way out of recession will enterprises in Germany restart the investment engine and can a genuine upswing take hold that actually deserves this name. Consumption and newly built homes alone cannot achieve this even though they will continue to make reliable growth contributions and thus make Germany's economy look *relatively* good in a European comparison. For all other areas, Germany is too closely integrated with external markets – particularly with the eurozone, which despite declining shares over the past years still absorbs nearly two-fifths of German exports. Unfortunately, in the past weeks external risks have again increased.

## Annex: SME business climate in figures

### KfW-ifo SME Barometer

| Balance [Percentage points]*    |     | Month/Year |        |        |        |        |        |        | m-o-m | y-o-y | 3m-o-3m |
|---------------------------------|-----|------------|--------|--------|--------|--------|--------|--------|-------|-------|---------|
|                                 |     | Mar/12     | Oct/12 | Nov/12 | Dec/12 | Jan/13 | Feb/13 | Mar/13 |       |       |         |
| <b>Business climate</b>         |     |            |        |        |        |        |        |        |       |       |         |
| Manufacturing                   | SME | 15.8       | -3.8   | -0.3   | 3.4    | 5.5    | 11.8   | 12.3   | 0.5   | -3.5  | 10.1    |
|                                 | LSE | 12.9       | -8.0   | -9.5   | -5.6   | 1.6    | 8.1    | 4.1    | -4.0  | -8.8  | 12.3    |
| Construction                    | SME | 28.7       | 15.7   | 18.4   | 20.4   | 26.3   | 32.4   | 34.9   | 2.5   | 6.2   | 13.0    |
|                                 | LSE | 23.2       | 6.9    | 13.7   | 15.5   | 26.2   | 27.5   | 26.5   | -1.0  | 3.3   | 14.7    |
| Retail trade                    | SME | 25.0       | 13.6   | 13.0   | 9.7    | 10.4   | 11.4   | 11.3   | -0.1  | -13.7 | -1.1    |
|                                 | LSE | 11.3       | 0.5    | -2.8   | 7.2    | 6.6    | 1.0    | -0.3   | -1.3  | -11.6 | 0.8     |
| Wholesale trade                 | SME | 26.0       | 6.3    | 9.9    | 12.9   | 10.0   | 20.5   | 15.2   | -5.3  | -10.8 | 5.5     |
|                                 | LSE | 27.0       | 2.7    | 15.2   | 10.8   | 7.8    | 13.1   | 9.6    | -3.5  | -17.4 | 0.6     |
| <b>All economic sectors</b>     | SME | 20.2       | 2.6    | 5.6    | 8.1    | 10.3   | 16.4   | 16.6   | 0.2   | -3.6  | 9.0     |
|                                 | LSE | 15.5       | -4.2   | -3.1   | 0.2    | 4.6    | 8.8    | 5.4    | -3.4  | -10.1 | 8.6     |
| Current situation               | SME | 32.3       | 14.3   | 17.1   | 17.1   | 16.8   | 20.2   | 21.4   | 1.2   | -10.9 | 3.3     |
|                                 | LSE | 30.7       | 6.6    | 6.5    | 6.1    | 8.9    | 12.2   | 8.7    | -3.5  | -22.0 | 3.6     |
| Expectations                    | SME | 8.1        | -9.0   | -5.9   | -1.0   | 3.4    | 12.2   | 11.4   | -0.8  | 3.3   | 14.3    |
|                                 | LSE | 0.7        | -14.9  | -12.9  | -6.0   | -0.2   | 4.8    | 1.6    | -3.2  | 0.9   | 13.3    |
| West Germany                    | SME | 21.0       | 2.9    | 5.9    | 8.5    | 10.6   | 16.4   | 17.0   | 0.6   | -4.0  | 8.9     |
|                                 | LSE | 15.7       | -4.2   | -3.5   | 0.0    | 4.4    | 8.4    | 4.7    | -3.7  | -11.0 | 8.4     |
| East Germany                    | SME | 15.4       | 1.9    | 4.4    | 6.0    | 8.4    | 17.1   | 14.1   | -3.0  | -1.3  | 9.1     |
|                                 | LSE | 11.9       | -1.4   | 7.5    | 5.4    | 9.9    | 18.8   | 23.5   | 4.7   | 11.6  | 13.6    |
| <b>Employment expectations</b>  | SME | 12.2       | 5.1    | 8.8    | 7.9    | 9.0    | 9.1    | 8.2    | -0.9  | -4.0  | 1.5     |
|                                 | LSE | 15.4       | 5.1    | 6.4    | 6.2    | 7.7    | 8.0    | 7.5    | -0.5  | -7.9  | 1.9     |
| <b>Sales price expectations</b> | SME | 6.9        | -1.6   | -0.5   | 0.7    | 0.0    | 0.9    | 1.5    | 0.6   | -5.4  | 1.3     |
|                                 | LSE | 4.6        | -4.1   | -4.9   | -1.6   | 1.6    | 0.8    | -0.3   | -1.1  | -4.9  | 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

**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 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.

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