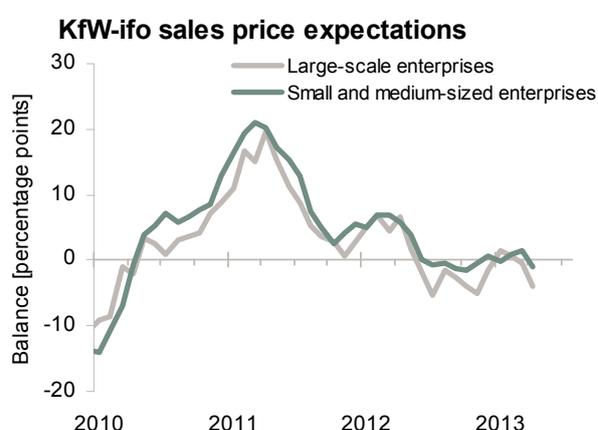
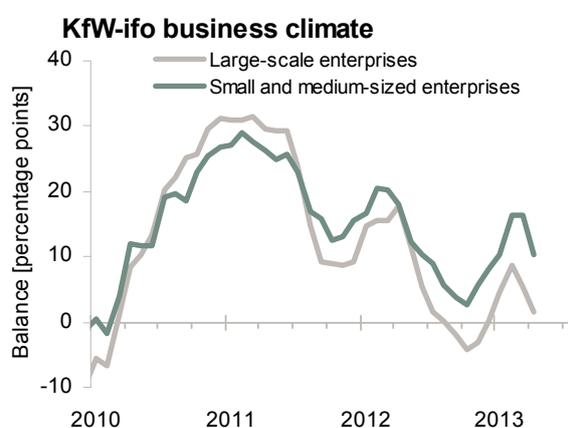


## KfW-ifo SME Barometer: April 2013

### Business climate for SMEs follows the negative trend

- *Expectations and situation assessments drop sharply*
- *Sentiment at large enterprises even lower*
- *Price expectations under increasing pressure*



Source: KfW, ifo institute Munich

### Disillusionment reaches SMEs

Concern over the cyclical outlook of the German economy has reached small and medium-sized enterprises. The business climate, the most important indicator of the KfW-ifo SME Barometer, fell by 6.3 points to 10.2 balance points. Sentiment among SMEs is still above average in a historical comparison. At the same time, however, the drop in April is three times the usual monthly variation and the fourth strongest decline ever since the time series was started in 1991. Both components of the business climate signal disillusionment. Assessments of the current business situation, however, have declined much more strongly (-7.7 points to 13.5 balance points) than business expectations for the half-year ahead (-4.9 points to 6.5 balance points). All the same, this gives hope for stabilisation.

## **Second consecutive drop in sentiment among large-scale enterprises**

Sentiment among large-scale enterprises dropped yet again – although not as steeply as among SMEs – by 3.7 points to 1.6 balance points. Both their situation assessments (-4.8 points to 3.8 balance points) and their business expectations (-2.6 points to -1.0 balance points) are down. Thus, for the first time in three months their expectations dropped again slightly below the zero line, which represents the historical average. It is not just the stubborn recession in the euro area but also the rather more disappointing recent economic indicators from overseas that globally positioned large-scale enterprises are likely to be worried about.

## **All economic sectors are more pessimistic**

The drop in sentiment in April was spread across all industries and business size categories. Declines ranged from a slightly dimmer view among large-scale retailers to steep falls by more than ten points in both wholesale segments. Sentiment is cooling fast even among medium-sized construction firms. Here, however, the decline is no reason to worry because it follows the record high of the prior month. Furthermore, the construction industry continues to be by far the most upbeat sector of the economy.

## **Price expectations under pressure, recruitment plans are nosediving**

The lacklustre economic performance is also reflected in enterprises' specific expectations on sales prices and employment. Price expectations in both size categories have hovered around the zero line for about a year now and fell again in April (SMEs: -2.4 points to -0.9 balance points; large enterprises: -3.7 points to -4.0 balance points). The complete lack of price pressure favours the stimulating course of monetary policy. If prices continue their downward trend, monetary policy increasingly would even have to consider the risk of deflation. Recruitment plans remain positive but in April dropped to the lowest level in three years across both company size categories (SMEs: -1.2 points to 6.9 balance points; large enterprises: -4.3 points to 3.1 balance points).

## **A warning sign, but a recovery is still possible**

It is difficult to read hopeful signs out of the April result of the KfW-ifo SME Barometer. Nevertheless, as inappropriate as it was to become overly optimistic about the leap in sentiment in February, it would be just as wrong now to sink into pessimism. The slump was a warning, but it corrected what was a historically extremely unusual rise in sentiment from October to February only by about half. This rise was one of the strongest improvements in sentiment within four months in the history of the time series, comparable only to the upswing that began in the summer of 2009, after the Great Recession. In particular, enterprises' expectations are still much higher than last fall in spite of the correction. The result can and should therefore be read as follows: exaggerated economic expectations were revised, euphoria has subsided but the hope for a – moderate – recovery remains.

## Annex: SME business climate in figures

### KfW-ifo SME Barometer

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Apr/12	Nov/12	Dec/12	Jan/13	Feb/13	Mar/13	Apr/13			
<b>Business climate</b>											
Manufacturing	SME	14.2	-0.3	3.4	5.5	11.8	12.2	7.3	-4.9	-6.9	7.6
	LSE	18.5	-9.5	-5.6	1.6	8.1	4.1	1.7	-2.4	-16.8	9.1
Construction	SME	22.9	18.3	20.3	26.2	32.3	34.7	28.7	-6.0	5.8	10.3
	LSE	13.5	13.6	15.4	26.1	27.4	26.3	22.0	-4.3	8.5	6.8
Retail trade	SME	26.2	13.0	9.7	10.3	11.4	11.2	2.7	-8.5	-23.5	-2.6
	LSE	10.9	-2.8	7.2	6.5	1.0	-0.3	-1.7	-1.4	-12.6	-4.0
Wholesale trade	SME	24.5	9.9	12.8	9.9	20.4	15.0	3.2	-11.8	-21.3	2.0
	LSE	22.6	15.1	10.7	7.8	13.0	9.5	-1.0	-10.5	-23.6	-4.0
<b>All economic sectors</b>	SME	18.1	5.6	8.1	10.2	16.3	16.5	10.2	-6.3	-7.9	6.4
	LSE	17.7	-3.1	0.2	4.5	8.7	5.3	1.6	-3.7	-16.1	4.7
Current situation	SME	29.4	17.0	17.0	16.7	20.1	21.2	13.5	-7.7	-15.9	1.4
	LSE	32.7	6.5	6.0	8.9	12.1	8.6	3.8	-4.8	-28.9	1.0
Expectations	SME	6.8	-5.9	-1.0	3.4	12.2	11.4	6.5	-4.9	-0.3	11.2
	LSE	3.1	-12.9	-6.0	-0.2	4.8	1.6	-1.0	-2.6	-4.1	8.2
West Germany	SME	19.3	5.8	8.5	10.6	16.4	16.9	10.3	-6.6	-9.0	6.2
	LSE	18.2	-3.5	0.0	4.4	8.4	4.7	1.1	-3.6	-17.1	4.4
East Germany	SME	10.4	4.4	5.9	8.4	17.0	14.1	10.6	-3.5	0.2	7.6
	LSE	6.0	7.4	5.3	9.9	18.7	23.4	15.4	-8.0	9.4	11.6
<b>Employment expectations</b>	SME	10.7	8.7	7.8	9.0	9.1	8.1	6.9	-1.2	-3.8	-0.5
	LSE	17.3	6.4	6.1	7.7	7.9	7.4	3.1	-4.3	-14.2	-0.6
<b>Sales price expectations</b>	SME	5.9	-0.5	0.7	0.0	0.9	1.5	-0.9	-2.4	-6.8	0.5
	LSE	6.6	-4.9	-1.6	1.6	0.8	-0.3	-4.0	-3.7	-10.6	0.5

Explanations and abbreviations:

Differences due to rounding possible. Sources: KfW, ifo

\* 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.

**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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