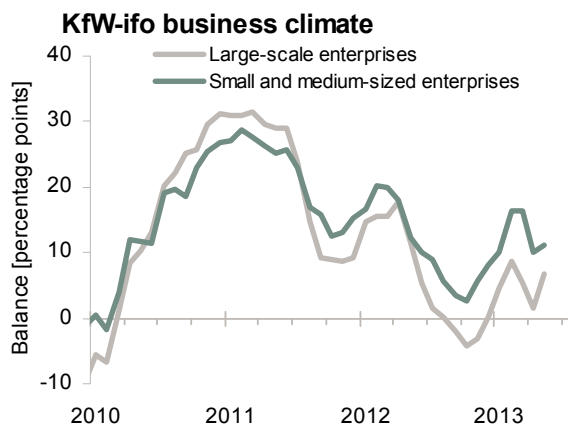


KfW-ifo SME Barometer: May 2013

SMEs: Scepticism sets in

- *SME business expectations deteriorate further*
- *Business climate slightly better, but only due to improved current situation*
- *Sentiment among large companies and trade industries substantially improved*



Sources: KfW, ifo Institute Munich

SME business climate recovers despite poorer expectations

SMEs have returned to a somewhat brighter economic sentiment. The business climate, the most important indicator in the KfW-ifo SME Barometer, recovered from the unusually sharp fall it experienced in April and made modest gains in May, improving by 1.1 points to reach a score of 11.2 balance points. However, the only component where firms reported a significantly higher level of satisfaction than the month before was in their current business situation (up 5.1 points to 18.6 balance points). In contrast, their view of the coming half-year has become even gloomier: business expectations fell by 3.0 points in May to 3.5 balance points. This is only just above the cyclically neutral long-term average. It seems an increasing number of firms fear that the recession in large parts of Europe could also infect the German economy, if the situation in Europe does not improve. We expect that in the second half of the year the euro area will return to positive growth, and that Germany will also be growing more strongly than at the start of the year. But SMEs seem to be waiting to see confirmation first, and this places an additional burden on economic recovery.

Greater confidence among large companies

Large companies, on the other hand, are showing greater confidence. In May they made significant upward adjustments, both to their assessment of the current situation (up 7.6 points to 11.4 balance points) and to their business expectations (up 2.8 points to 1.8 balance points). Their expectations have now returned to just above zero, which represents the historical average. Overall the business climate has improved much more strongly for large companies than for SMEs, climbing by 5.2 points to 6.8 balance points. Given that large companies tend to operate globally, this robust improvement at least offers some hope that international export markets – especially the important markets in Europe – will gradually brighten over the next few quarters, in line with our expectations.

Strong rebound in climate amongst trade industries

This assessment is further supported by the significantly improved business climate reported by export-strong, large industrial firms (up 5.4 points to 7.1 balance points), while sentiment among industrial SMEs was largely unchanged (down 0.2 points to 7.0 balance points). However, the strongest impetus for May's improvement in the business climate came from the trading sector, after the level reported in April for both wholesale and retail somewhat surprisingly dropped to its lowest since the beginning of 2010 – probably as a consequence of the unusually early Easter break this year, which already began in March. The increase ranged from 4.2 points among large retailers to 9.3 points among SME wholesalers. The business climate in all sub-categories within the trading sector has thus returned to positive territory, which is in line with vivid consumption presently seen in Germany. The business climate trend for construction is divided: significant improvements in large companies contrast with a decline among their SME counterparts. Still, sentiment in construction is by far the best among all economic sectors.

Only modest growth in 2013, with a high risk of recession

The most encouraging aspect of May's KfW-ifo SME Barometer is the recovery in the business climate. On the other hand, the details are not convincing, especially in the SME sector: this increase has reversed no more than a fraction of the earlier decline, and expectations have in fact deteriorated. In addition, the marked improvement seen in the current situation (which is the sole factor behind the slight plus in the business climate) may well have been overstated due to a one-off effect in the trading sector, arising as a result of the early Easter break. In contrast, responses from large companies, especially economically important major industrial enterprises, offer a more positive picture. Hence the outlook tends to fall between two stools. In conclusion, we expect to see a more dynamic second quarter, fuelled by construction activity (redressing a backlog), followed by a moderate recovery in the second half of the year. But even on these optimistic assumptions, Germany's real economic growth will not exceed 0.3 % in 2013. It would only take a few negative surprises to drive the figure into negative territory; the risk of recession is correspondingly high. A precondition for any lasting upturn – including a recovery in capital formation – will be that the euro area, being by far the most important export market, also finds its way back to growth.

Annex: SME business climate in figures

KfW-ifo SME Barometer

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		May/12	Dec/12	Jan/13	Feb/13	Mar/13	Apr/13	May/13			
Business climate											
Manufacturing	SME	8.2	3.3	5.5	11.7	12.2	7.2	7.0	-0.2	-1.2	2.0
	LSE	10.6	-5.6	1.6	8.1	4.1	1.7	7.1	5.4	-3.5	2.9
Construction	SME	21.5	20.2	26.1	32.2	34.6	28.5	25.2	-3.3	3.7	3.3
	LSE	17.3	15.3	26.1	27.3	26.2	21.9	28.3	6.4	11.0	2.6
Retail trade	SME	14.9	9.6	10.3	11.3	11.2	2.7	10.6	7.9	-4.3	-2.3
	LSE	5.5	7.2	6.5	1.0	-0.3	-1.7	2.5	4.2	-3.0	-4.7
Wholesale trade	SME	16.5	12.8	9.9	20.4	15.0	3.2	12.5	9.3	-4.0	-4.1
	LSE	17.9	10.7	7.7	13.0	9.4	-1.0	4.1	5.1	-13.8	-6.3
All economic sectors	SME	12.2	8.0	10.2	16.3	16.4	10.1	11.2	1.1	-1.0	1.1
	LSE	11.4	0.2	4.5	8.7	5.3	1.6	6.8	5.2	-4.6	0.1
Current situation	SME	23.2	17.0	16.7	20.1	21.2	13.5	18.6	5.1	-4.6	-0.1
	LSE	21.9	6.0	8.9	12.1	8.6	3.8	11.4	7.6	-10.5	-1.1
Expectations	SME	1.0	-1.0	3.4	12.2	11.4	6.5	3.5	-3.0	2.5	2.3
	LSE	0.8	-6.0	-0.2	4.8	1.6	-1.0	1.8	2.8	1.0	1.3
West Germany	SME	12.7	8.5	10.5	16.3	16.9	10.2	11.2	1.0	-1.5	1.0
	LSE	11.4	0.0	4.3	8.4	4.7	1.1	6.2	5.1	-5.2	-0.3
East Germany	SME	9.3	5.9	8.3	17.0	14.0	10.5	11.9	1.4	2.6	1.8
	LSE	10.3	5.3	9.9	18.7	23.4	15.4	24.3	8.9	14.0	9.8
Employment expectations	SME	9.3	7.8	8.9	9.0	8.1	6.8	5.9	-0.9	-3.4	-1.7
	LSE	13.2	6.1	7.6	7.9	7.4	3.1	6.2	3.1	-7.0	-1.7
Sales price expectations	SME	4.0	0.7	0.0	0.9	1.5	-0.9	-2.6	-1.7	-6.6	-1.1
	LSE	1.8	-1.6	1.6	0.8	-0.4	-4.1	-5.4	-1.3	-7.2	-3.5

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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