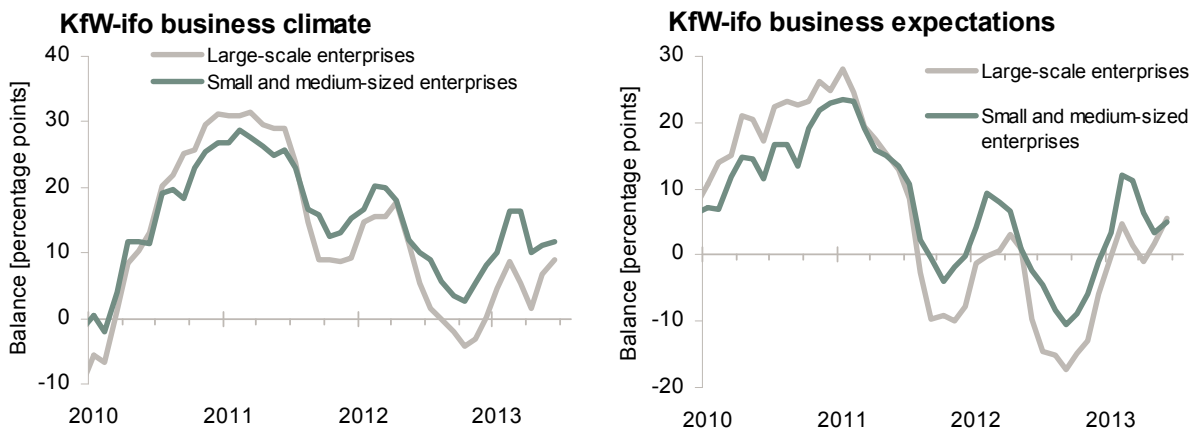


## KfW-ifo SME Barometer: June 2013

### Confidence is returning – guardedly

- *SME sentiment rises slightly on improved business expectations*
- *Assessments of current business situation down only slightly despite flood*
- *Manufacturing and large-scale enterprises show more optimism*



Source: KfW, ifo Institute Munich

### Second moderate improvement in SME business climate

There is a good chance the German economy will gradually recover in the further course of the year as we had expected. The business climate of small and medium-sized enterprises, the most important indicator of the KfW-ifo SME Barometer, improved in June by 0.5 points to 11.7 balance points. The improvement is yet again only moderate. However, in contrast with the prior month it is now the business expectations (up 1.6 points to 5.1 balance points) that carry the second consecutive sentiment improvement. This is a good sign because only when enterprises assess their future business opportunities more positively are they willing to invest and create new jobs. The assessments of the current business situation, on the other hand, dropped slightly to 18.0 balance points in June. This minor deterioration by 0.6 points – which was generated almost entirely by domestically oriented small and medium-sized retail and wholesale enterprises – is negligible. Given the devastating flood damage in southern and eastern Germany, a significantly stronger downward correction of the situation assessments would also have been plausible. In reality, however, only a fraction of the strong prior-month increase (+5.2 points in May) was corrected.

## **Noticeable sentiment improvement among large-scale enterprises**

Sentiment among large-scale enterprises is also rising – even more strongly than among SMEs. In June they assessed their current business situation slightly better than in May (+0.7 points to 12.1 balance points) but rated their business expectations even more positively (+3.7 points to 5.5 balance points). Their business climate consequently improved by 2.2 points to 9.0 balance points. The gap with the SME business climate indicator thus decreased to less than three points, after more than 11 points still in May. With respect to business expectations, for the first time in over two years large-scale enterprises are even slightly more optimistic than SMEs. The last time the expectations indicator of large enterprises with a strong international focus was higher was in July 2011. This suggests that they are increasingly expecting an export recovery.

## **Manufacturing is increasingly becoming a beacon of hope**

This is consistent with the broad improvement in sentiment among the export-oriented manufacturing industry – a sector that strongly influences Germany's economic cycle. The business climate improved both in large-scale manufacturing (+1.6 points to 8.7 balance points) and among manufacturing SMEs (+2.1 points to 9.1 balance points). Manufacturing is thus increasingly becoming a beacon of hope for recovery. In a sector comparison, manufacturing sentiment now ranks second – after construction, which continues to lead by a wide margin despite the dip among the large builders. The business climate among retailers and wholesalers remains on an above-average level in both size categories; however, while sentiment has risen among large enterprises in both segments, their small and medium-sized competitors are less confident.

## **External risks may jeopardise the expected recovery**

The June result of the KfW-ifo SME Barometer is encouraging. In what is a difficult environment, the business climate has shown a further – if moderate – improvement in both company size categories. The important business expectations in particular show a cautious return to optimism. Considering the flood damage, the recession in the euro area and the recent, rather disappointing economic indicators from China, this certainly cannot be taken for granted. We do not regard the flood as a risk to the economy. In the coming quarters the repair of flood damage will actually provide impetus for construction and consumption – as residents repurchase lost and damaged home contents, for example. Domestic demand thus remains a cornerstone of economic performance. The improved sentiment in the export-sensitive segments of the economy is likely due to the fact that companies rate the visible signs of stabilisation in the euro area, as the most important trading partner, higher than the risk of falling demand in China. In conclusion, we expect real growth to pick up already in the second quarter, despite the capricious weather, and a further revival to follow. External risks may jeopardise the expected recovery, however. Particularly for the euro area, the interest boost which was triggered on a global level by the recent announcements of the US Federal Reserve Bank, has come at the wrong time.

## Annex: SME business climate in figures

### KfW-ifo SME Barometer

Balance [Percentage points]*		Month/Year									
		Jun/12	Jan/13	Feb/13	Mrz/13	Apr/13	Mai/13	Jun/13	m-o-m	y-o-y	3m-o-3m
<b>Business climate</b>											
Manufacturing	SME	5,4	5,4	11,7	12,2	7,2	7,0	9,1	2,1	3,7	-2,0
	LSE	4,1	1,6	8,1	4,1	1,7	7,1	8,7	1,6	4,6	1,2
Construction	SME	19,7	26,0	32,1	34,5	28,4	25,0	25,3	0,3	5,6	-4,6
	LSE	19,3	26,0	27,2	26,1	21,8	28,2	24,3	-3,9	5,0	-1,7
Retail trade	SME	19,4	10,3	11,3	11,1	2,7	10,5	8,0	-2,5	-11,4	-3,8
	LSE	2,2	6,5	1,0	-0,3	-1,7	2,6	8,8	6,2	6,6	0,8
Wholesale trade	SME	11,7	9,8	20,3	14,9	3,1	12,5	7,9	-4,6	-3,8	-7,2
	LSE	7,8	7,7	12,9	9,4	-1,0	4,0	6,0	2,0	-1,8	-7,0
<b>All economic sectors</b>	SME	10,2	10,1	16,3	16,4	10,1	11,2	11,7	0,5	1,5	-3,3
	LSE	5,2	4,5	8,7	5,3	1,6	6,8	9,0	2,2	3,8	-0,4
Current situation	SME	22,6	16,6	20,0	21,1	13,4	18,6	18,0	-0,6	-4,6	-2,6
	LSE	20,8	8,8	12,1	8,6	3,7	11,4	12,1	0,7	-8,7	-0,8
Expectations	SME	-2,2	3,4	12,2	11,3	6,4	3,5	5,1	1,6	7,3	-3,9
	LSE	-9,7	-0,2	4,8	1,6	-0,9	1,8	5,5	3,7	15,2	0,0
West Germany	SME	10,4	10,5	16,3	16,8	10,2	11,2	12,3	1,1	1,9	-3,3
	LSE	4,8	4,3	8,3	4,6	1,1	6,2	8,8	2,6	4,0	-0,4
East Germany	SME	9,3	8,3	16,9	14,0	10,5	11,8	8,6	-3,2	-0,7	-2,8
	LSE	18,4	9,8	18,6	23,4	15,3	24,1	15,2	-8,9	-3,2	1,0
<b>Employment expectations</b>	SME	8,9	8,9	9,0	8,0	6,8	5,9	6,2	0,3	-2,7	-2,4
	LSE	13,6	7,6	7,8	7,4	3,1	6,1	4,9	-1,2	-8,7	-2,9
<b>Sales price expectations</b>	SME	0,1	-0,1	0,9	1,5	-0,9	-2,6	-2,8	-0,2	-2,9	-2,9
	LSE	-1,8	1,6	0,8	-0,4	-4,1	-5,4	-4,1	1,3	-2,3	-5,2

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-)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 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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