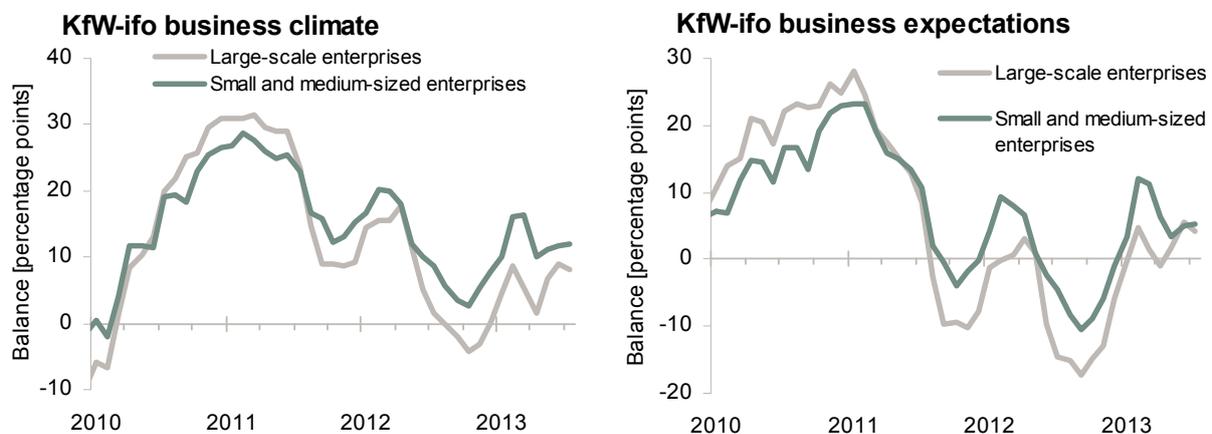


## KfW-ifo SME Barometer: July 2013

### Optimism among SMEs holding up

- *Slight improvement in the climate among SMEs*
- *Both current situation and business expectations making a contribution*
- *Climate among large enterprises consolidated*



Source: KfW, ifo Institute Munich

### Slight improvement in the business climate among SMEs continues

The signals for the upturn we expect in the German economy over the remainder of the year continue to accumulate. The business climate for SMEs increased in July by 0.3 points against the previous month to 12.0 balance points. Thus the increase in the most important indicator of our KfW-ifo SME Barometer is very moderate, but this time it is supported by both components and represents the third consecutive rise. Both the assessment of the current situation (+0.5 to 18.4 balance points) and expectations of future business (+0.2 to 5.3 balance points) improved slightly. The assessment of the current situation has thus recovered from its "flood damage" and returned to May's level. The recovery in the assessment of the development of future business is robust, which is a good sign for business investment in the near future. Moreover, SMEs in Germany are looking ahead with much more optimism than a year ago (+9.9 points compared to the previous year).

### Consolidation of the business climate among large enterprises

By contrast, the business climate among large enterprises was slightly weaker in July than in the previous month (-0.8 points to 8.2 balance points). While the current situation hardly changed, (-0.2 points to 11.8 balance points), business expectations fell by 1.4 points to

4.1 balance points. However, as there had been sharp rises in the two previous months, the slight fall-off this month gives no grounds for concern. Rather, it should be seen as a slight consolidation of the current level. It is possible that the fall in the expectations component represents increased concern about China's economic growth since it is an important trading partner.

### **Large industrial companies and small trade businesses more optimistic**

Despite this concern, large enterprises in the manufacturing sector now assess the business climate to be slightly better, even though the improvement, at 0.6 points (to 9.3 balance points), is significantly weaker than over the past few months. Among SMEs, the improvement in the business climate is driven by wholesalers (+1.5 points to 9.3 balance points) and retailers (+4.6 points to 12.6 balance points). In this regard, the improved weather and replacement purchases following the floods are likely to have played an important role. Large companies in the wholesale and retail sector on the other hand consider the business climate to be weaker (-2.9 points in wholesale, -2.7 points in retail). In the construction sector, the tougher conditions applied by the banks to housing loans appear to be gradually taking effect. The climate deteriorated among both large (-5.9 points) and small enterprises (-0.6 points). However, the business climate remains well above the long-term average in all commercial sectors under review.

### **Recovery within sight, but not free of risks**

The slight upward trend in the business climate for SMEs continues, driven both by the current situation and by expectations for the future. This is a further sign of a gradual but sustained economic recovery in Germany. Nor does the rather weaker result among large enterprises give grounds for concern. Since the autumn of 2012 sentiment in the German economy has improved significantly, so a certain degree of consolidation in the perception of the business climate is not surprising. Appropriate wage and salary increases are also likely to have a positive effect on the willingness to spend and thus on the retail sector for the remainder of the year. Naturally the rising trend is subject to risks. In particular, a more pronounced downturn in demand from China and other emerging economies or a renewed deterioration in the euro crisis would lead to a swing in sentiment and jeopardise the economic recovery in Germany.

## Annex: SME business climate in figures

### KfW-ifo SME Barometer

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Jul/12	Feb/13	Mar/13	Apr/13	May/13	Jun/13	Jul/13			
<b>Business climate</b>											
Manufacturing	SME	3.1	11.7	12.1	7.2	7.0	9.0	8.7	-0.3	5.6	-2.1
	LSE	-3.3	8.1	4.1	1.7	7.1	8.7	9.3	0.6	12.6	3.7
Construction	SME	19.5	32.0	34.4	28.3	24.9	25.2	24.6	-0.6	5.1	-6.7
	LSE	12.0	27.2	26.1	21.7	28.1	24.1	18.2	-5.9	6.2	-1.5
Retail trade	SME	19.9	11.3	11.1	2.6	10.5	8.0	12.6	4.6	-7.3	2.1
	LSE	4.5	1.0	-0.3	-1.7	2.6	8.8	6.1	-2.7	1.6	6.2
Wholesale trade	SME	12.3	20.3	14.9	3.1	12.4	7.8	9.3	1.5	-3.0	-2.9
	LSE	12.9	12.9	9.4	-1.1	4.0	6.0	3.1	-2.9	-9.8	-2.7
<b>All economic sectors</b>	SME	<b>8.8</b>	<b>16.2</b>	<b>16.3</b>	<b>10.1</b>	<b>11.1</b>	<b>11.7</b>	<b>12.0</b>	<b>0.3</b>	<b>3.2</b>	<b>-2.6</b>
	LSE	<b>1.5</b>	<b>8.7</b>	<b>5.3</b>	<b>1.6</b>	<b>6.8</b>	<b>9.0</b>	<b>8.2</b>	<b>-0.8</b>	<b>6.7</b>	<b>2.8</b>
Current situation	SME	22.4	19.9	21.0	13.3	18.5	17.9	18.4	0.5	-4.0	0.2
	LSE	18.3	12.1	8.5	3.7	11.3	12.0	11.8	-0.2	-6.5	3.6
Expectations	SME	-4.6	12.1	11.3	6.4	3.5	5.1	5.3	0.2	9.9	-5.3
	LSE	-14.7	4.8	1.6	-0.9	1.8	5.5	4.1	-1.4	18.8	2.0
West Germany	SME	9.1	16.2	16.8	10.1	11.1	12.2	12.3	0.1	3.2	-2.5
	LSE	1.6	8.3	4.6	1.1	6.2	8.8	7.8	-1.0	6.2	2.9
East Germany	SME	7.7	16.9	13.9	10.4	11.8	8.5	10.8	2.3	3.1	-3.4
	LSE	-2.6	18.6	23.3	15.3	24.1	15.1	20.5	5.4	23.1	0.8
<b>Employment expectations</b>	SME	8.3	9.0	8.0	6.7	5.8	6.2	7.7	1.5	-0.6	-1.3
	LSE	9.1	7.8	7.3	3.1	6.1	4.9	8.4	3.5	-0.7	0.4
<b>Sales price expectations</b>	SME	-0.7	0.9	1.5	-0.9	-2.6	-2.8	-2.2	0.6	-1.5	-3.0
	LSE	-5.1	0.8	-0.3	-4.1	-5.4	-4.1	-4.9	-0.8	0.2	-3.6

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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