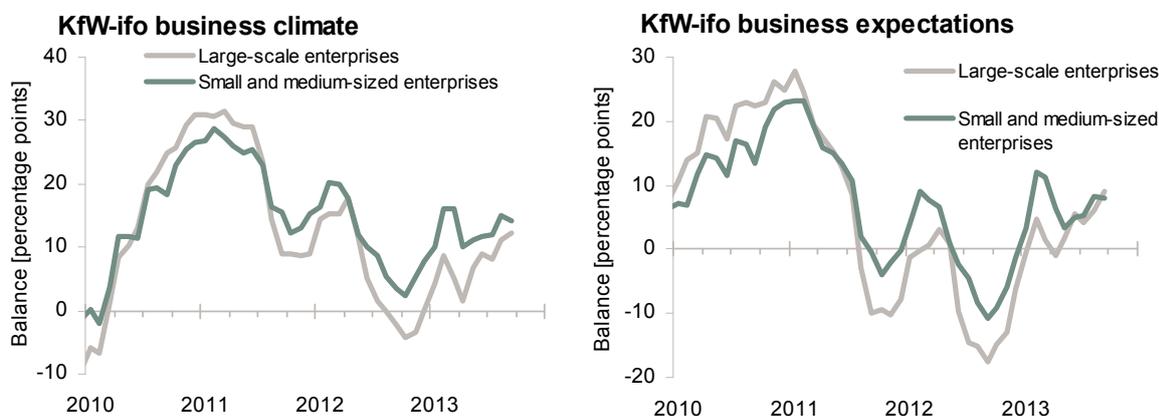


KfW ifo SME Barometer: September 2013

Stable business expectations among SMEs

- *Slight deterioration in business climate due to a somewhat weaker assessment of the current situation*
- *Sentiment continues to pick up among large firms*
- *Companies are increasingly planning to recruit*



Source: KfW, ifo Institute Munich

Sentiment among SMEs consolidates

Sentiment among SMEs is not brightening further for the time being following four successive increases. Instead, the business climate among small and medium-sized enterprises, which is the most important indicator in the KfW ifo SME Barometer, decreased slightly by 0.7 points in September to 14.3 balance points. However, this slight consolidation in sentiment does little to detract from our expectation that the economy will continue to recover, for the following reasons:

- The fall is not only very small – less than one third of the typical month-on-month change – but also reverses only a small part of the strong increase recorded in August. As such, the moderate upward trajectory remains intact.
- The deterioration in the climate is also virtually exclusively attributable to the slightly less positive assessments of the current business situation, which fell by 1.2 points on a high level to 20.3 balance points. By contrast, the expectations component – which is central

to companies' investment decisions – was steady following the sharp rise in the previous month (-0.1 points to 8.1 balance points).

Large enterprises increasingly optimistic

Our hopes for the economy are also supported by large-scale enterprises. Unlike SMEs, the business climate continued to improve for large enterprises in September (up 1.3 points to 12.3 balance points), with the expectations component especially positive here too. Although the assessments of the current business situation deteriorated very slightly (-0.5 points to 15.2 balance points), business expectations for the coming six months increased by a considerable 3.0 points to 9.0 balance points. Large enterprises have not been more optimistic about the future since June 2011, more than two years ago.

Mixed sector results

At sector level, it was particularly apparent in September that the climate development within the individual sectors differs depending on the scale of the enterprises. Wholesale was the only sector in which both size categories reported a significant deterioration, although this only partly detracted from the sharp increases in the previous months and is therefore manageable. In contrast, the climate improved greatly for large retailers, reaching its highest level since January 2012. Changes were only modest in the other segments, however, with positive contributions from the slight pick-up in the business climate for construction SMEs and large manufacturing companies. This is already the fifth consecutive rise for major industrial enterprises, which are strongly export-oriented. Irrespective of the recent changes, sentiment in all sectors and size categories is still significantly better than the historical average.

Employment expectations on the rise

There are also signs of recovery on the labour market. Companies in both size categories plan to increase their headcount once again (SMEs: +0.9 points to 8.8 balance points; large enterprises: +0.9 points to 11.7 balance points). The employment indicators are at their highest level since the start of 2012. We consider the upward trend in employment expectations, which has been apparent since the spring, to be a very positive economic signal, which further puts into perspective September's slight decline in the SME business climate. Companies that intend to create jobs presumably expect better sales prospects in the future.

Signs of moderate recovery

In short, the September KfW ifo SME Barometer found that sentiment is not sky high, but remains good. This fits with the continuing trend towards recovery, albeit at a modest level for the time being, which we expect to remain in place. The international trade environment is gradually improving, one result of which has been a significant pick-up in the business climate in export-sensitive sectors during recent months. Domestic economic conditions, such as the good labour market situation, wage growth, price trends and low interest rates, remain supportive for the economy. The chances that rising capacity utilisation will translate into corporate investment in the near term are therefore good. Nevertheless, one should not lose

sight of the global and European risks. Particularly in Europe, there is still a lack of genuine growth stimuli and there remain doubts over the ability of certain countries to service their debts, despite some real progress on stabilisation in recent times. There is potential for disappointment here.

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Appendix: SME economic climate in figures

KfW-ifo SME Barometer

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m	
		Sep/12	Apr/13	May/13	Jun/13	Jul/13	Aug/13	Sep/13				
Business climate												
Manufacturing	SME	-1.5	7.1	6.9	9.0	8.7	12.9	11.9	-1.0	13.4	3.5	
	LSE	-6.6	1.7	7.0	8.7	9.3	12.8	13.9	1.1	20.5	6.2	
Construction	SME	15.7	28.1	24.7	25.0	24.4	21.1	22.0	0.9	6.3	-3.4	
	LSE	11.2	21.5	27.9	23.9	17.9	15.1	12.8	-2.3	1.6	-9.2	
Retail trade	SME	7.6	2.6	10.5	8.0	12.6	15.0	14.4	-0.6	6.8	7.0	
	LSE	-1.7	-1.7	2.6	8.8	6.1	1.5	11.3	9.8	13.0	3.1	
Wholesale trade	SME	5.6	3.0	12.4	7.8	9.3	18.0	16.0	-2.0	10.4	6.7	
	LSE	8.3	-1.1	4.0	6.0	3.1	11.8	6.4	-5.4	-1.9	4.1	
All economic sectors		SME	3.3	10.0	11.0	11.6	12.0	15.0	14.3	-0.7	11.0	2.9
		LSE	-2.4	1.6	6.8	9.0	8.2	11.0	12.3	1.3	14.7	4.8
Current situation	SME	17.7	13.2	18.4	17.8	18.4	21.5	20.3	-1.2	2.6	3.5	
	LSE	13.5	3.7	11.3	12.0	11.8	15.7	15.2	-0.5	1.7	5.2	
Expectations	SME	-10.7	6.4	3.4	5.1	5.3	8.2	8.1	-0.1	18.8	2.2	
	LSE	-17.6	-1.0	1.8	5.5	4.1	6.0	9.0	3.0	26.6	4.3	
West Germany	SME	3.9	10.0	11.1	12.2	12.2	15.5	14.8	-0.7	10.9	3.1	
	LSE	-2.4	1.1	6.1	8.8	7.8	10.8	12.3	1.5	14.7	5.0	
East Germany	SME	0.2	10.3	11.7	8.5	10.8	11.8	11.2	-0.6	11.0	1.1	
	LSE	-2.1	15.1	24.0	15.0	20.3	16.6	12.3	-4.3	14.4	-1.6	
Employment expectations		SME	5.4	6.7	5.8	6.1	7.6	7.9	8.8	0.9	3.4	1.9
		LSE	5.5	3.0	6.0	4.9	8.4	10.8	11.7	0.9	6.2	5.6
Sales price expectations		SME	-1.3	-0.9	-2.5	-2.8	-2.2	-0.9	-0.9	0.0	0.4	0.7
		LSE	-2.6	-4.0	-5.4	-4.1	-4.9	-3.2	-2.3	0.9	0.3	1.0

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 their economic situation, 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.