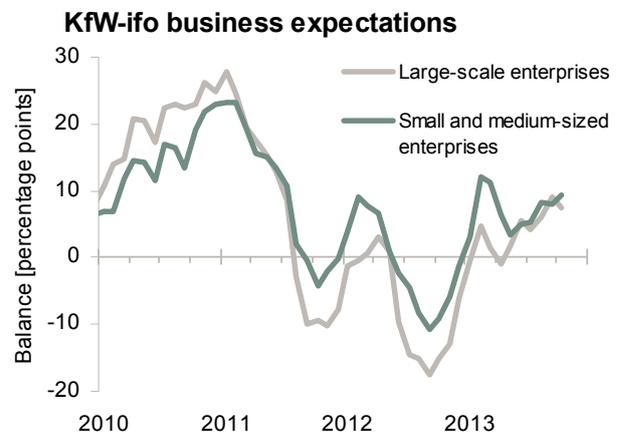
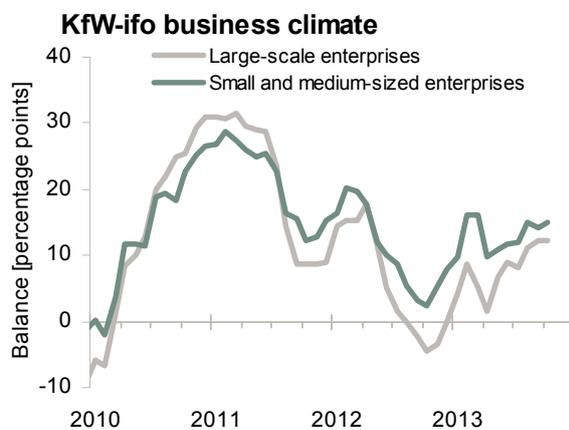


KfW-ifo SME Barometer: October 2013

SME business climate improves further

- *Business expectations rise faster than assessments of the current situation*
- *Slight dip in expectations for large-scale enterprises*
- *Companies once again plan to step up recruitment*



Sources: KfW, ifo Institute Munich

SMEs correct poorer sentiment

The German economy continues to recover. The business climate among small to medium-sized enterprises, the most important indicator of the KfW-ifo SME Barometer, improves by 0.8 points in October to 15.1 balance points. This is a seven-month high and proves more than enough to correct the slight setback from the month prior. Both climate components are in positive territory:

- Business expectations for the next half-year rise by 1.3 points to 9.4 balance points. They are therefore responsible for the lion's share of the increase. The disproportionately high upswing in business expectations is a good sign, given that investment and hiring decisions depend on confidence in the future.
- Assessments of the business situation, on the other hand, improve only slightly, namely by 0.3 points to 20.5 balance points. For some time now, however, assessments of the current situation have been at a historically rather high level, which is indicative of a good economic situation.

A little less optimism among large-scale enterprises

Contrary to SMEs, large-scale enterprises are a little less optimistic in October than in the month prior. Regardless, there is little cause for concern. The expectations indicator deteriorates by 1.5 points to 7.5 balance points, but this decrease reverses only half of the tangible upswing from the previous month, meaning that the upward trend remains intact. Some of the major reasons for the slight drop in optimism on the part of large companies heavily engaged in exporting are believed to be the now resolved government shutdown in the USA, the political turbulence in Italy and the rising euro exchange rate. Assessments of the current situation at large-scale enterprises, in contrast, rise by 1.5 points to 16.6 balance points so, as a result, the business climate remains stagnant (-0.1 points to 12.2 balance points).

Employment expectations at a nineteen-month high

HR departments also send out positive signals. Companies in both size groups step up their hiring efforts. The employment expectations for SMEs improve by a strong 1.8 points to 10.6 balance points. This is the highest figure in a good year and a half. Large-scale enterprises also show an increase on balance, albeit a small one (+0.3 points to 11.9 balance points). There is no foreseeable risk of inflation: sales price expectations are unremarkable, being close to the long-term averages for both sizes of company.

Recovery in Germany with progress in Europe

We believe the October result of the KfW-ifo SME Barometer confirms our economic outlook. Domestic demand, which has been healthy for some time now, is increasingly supported by an improvement in the European and international environment. Germany is on the road to recovery, even if we have to adjust to more moderate quarterly GDP growth rates again for the short term after the weather-related jump in the spring. Economic output in 2014 may grow faster than the long-term trend for the first time in three years. This will cut back on the underutilisation of production capacities. We expect real growth of up to 2 % in the coming year, accompanied by a cyclical revival of investment activity. The risks, however, should not be ignored. In the euro area, increased stabilisation could be hampered by more than just financing bottlenecks. A further appreciation of the euro would come at a bad time for Europe.

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Annex: SME business climate in figures

KfW-ifo SME Barometer

Balance [Percentage points]*		Month/Year									
		Oct/12	May/13	Jun/13	Jul/13	Aug/13	Sep/13	Oct/13	m-o-m	y-o-y	3m-o-3m
Business climate											
Manufacturing	SME	-4.1	6.9	9.0	8.7	12.8	11.9	13.6	1.7	17.7	4.6
	LSE	-8.2	7.0	8.6	9.3	12.8	13.9	12.0	-1.9	20.2	4.6
Construction	SME	15.3	24.6	24.9	24.3	21.0	21.9	19.0	-2.9	3.7	-4.0
	LSE	6.5	27.9	23.9	17.9	15.0	12.8	14.2	1.4	7.7	-9.2
Retail trade	SME	13.4	10.4	8.0	12.6	14.9	14.4	12.4	-2.0	-1.0	3.6
	LSE	0.0	2.5	8.8	6.1	1.5	11.4	13.1	1.7	13.1	2.8
Wholesale trade	SME	5.6	12.3	7.8	9.3	18.0	16.0	21.6	5.6	16.0	8.7
	LSE	2.4	4.0	6.0	3.1	11.8	6.4	10.9	4.5	8.5	5.4
All economic sectors	SME	2.3	11.0	11.6	11.9	14.9	14.3	15.1	0.8	12.8	3.3
	LSE	-4.4	6.7	9.0	8.2	11.0	12.3	12.2	-0.1	16.6	3.9
Current situation	SME	13.8	18.3	17.8	18.3	21.4	20.2	20.5	0.3	6.7	2.6
	LSE	6.2	11.2	12.0	11.8	15.6	15.1	16.6	1.5	10.4	4.1
Expectations	SME	-9.2	3.4	5.1	5.3	8.2	8.1	9.4	1.3	18.6	4.0
	LSE	-15.0	1.8	5.5	4.1	6.0	9.0	7.5	-1.5	22.5	3.7
West Germany	SME	2.5	11.0	12.1	12.2	15.5	14.8	15.6	0.8	13.1	3.5
	LSE	-4.5	6.1	8.7	7.8	10.8	12.3	12.2	-0.1	16.7	4.2
East Germany	SME	1.6	11.7	8.4	10.7	11.8	11.2	12.3	1.1	10.7	1.5
	LSE	-1.7	23.9	14.9	20.2	16.6	12.2	12.8	0.6	14.5	-5.8
Employment expectations	SME	4.7	5.7	6.1	7.6	7.9	8.8	10.6	1.8	5.9	2.6
	LSE	4.7	6.0	4.9	8.3	10.8	11.6	11.9	0.3	7.2	5.0
Sales price expectations	SME	-1.6	-2.5	-2.8	-2.2	-0.9	-0.9	-1.5	-0.6	0.1	1.4
	LSE	-4.1	-5.3	-4.1	-4.8	-3.2	-2.3	-0.9	1.4	3.2	2.6

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.