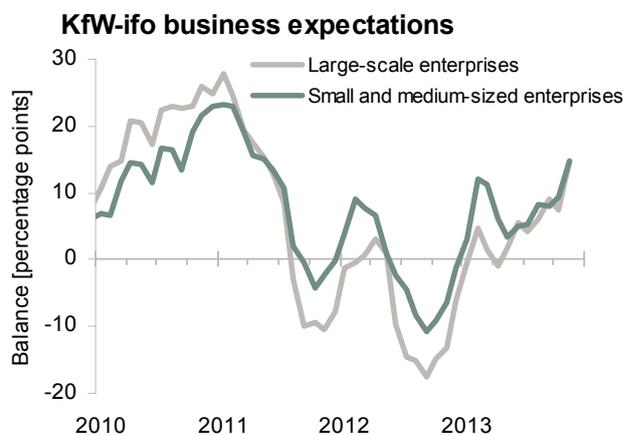
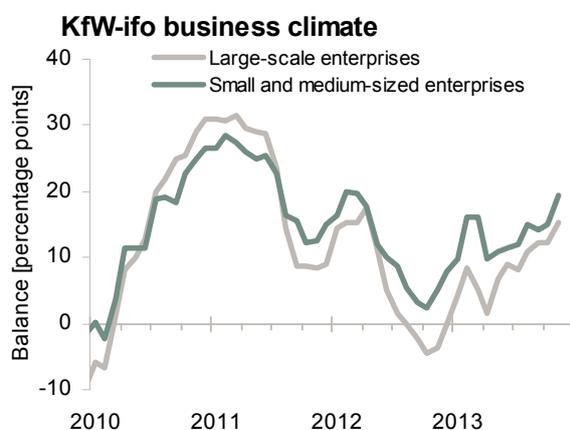


KfW-ifo SME Barometer: November 2013

SME business climate jumps to year high

- *Major improvement in assessments of current situation and expectations*
- *Large companies also increasingly optimistic*
- *Manufacturing makes comeback*



Sources: KfW Economic Research, ifo institute Munich

SMEs on the up and up

The economy is picking up speed. The business climate among small and medium-sized enterprises, which is the most important indicator in the KfW-ifo SME Barometer, improves in November to a new high for the year of 19.4 percentage points – at more than double the average monthly change, the 4.3 point increase is impressive. Both business climate components soar upwards:

- Assessments of the current business situation are up 3.4 points to 23.8 percentage points. The SME sector has been assessing current business as above average for some time now. However, this further significant rise in the business climate indicator points to a very robust economic situation.
- Business expectations, for their part, even rise 5.2 points to a 2½ year high of 14.7 percentage points. The impressive return of confidence in the future is also underlined by companies' hiring intentions; with a climb of 1.4 points to 12.0 percentage points, they reach their highest level since February 2012.

Large companies also increasingly optimistic

Large companies are also much more upbeat than in the previous month: They reset their business expectations even higher than their small and medium-sized counterparts – by 7.2 points. The expectations indicators for both company size categories are now at exactly the same level of 14.7 percentage points. In contrast to the SMEs, however, large enterprises are not reporting any further improvement in their current business. Assessments of current situations consolidate at the same solid level as in the three preceding months (15.5 percentage points). Thanks to the significant improvement in expectations, the business climate for large companies brightens by a respectable 3.1 points, to 15.3 percentage points; the last time it was higher was in March 2012.

Manufacturing climate brightens

The most important driving force behind the improved climate in November is manufacturing. In both size categories, the industrial climate improves rapidly (SMEs: +5.2 points to 18.8 percentage points; large enterprises: +4.8 points to 16.8 percentage points). The long-term trend is also impressive. Large-scale manufacturing is now 27 points higher compared with a year earlier, while the climate for SME manufacturing has improved by an equally impressive 20 points compared to November 2012. Faster year-on-year growth was last seen in 2010, when Germany worked its way out of the Great Recession. This clearly positive trend in manufacturing, a sector sensitive to exports, reveals the considerable improvement in foreign demand, which has been caused in particular by the stabilization of the euro area and of the advanced economies at global level. Things are generally looking good in domestic industries too. Only the large retailers – which tend to be volatile in their response patterns – report a slight clouding of sentiment compared with the previous month. All other sectors are on the up, in some cases markedly so.

Germany to grow by two percent in 2014

The German economy is expanding – and the KfW-ifo SME Barometer from November ties in perfectly with this picture. For 2014 we expect real growth of two percent, much faster than the anaemic GDP growth of roughly half a percent this year. Nothing should basically change in the healthy state of the labour market and of domestic demand in 2014. In addition the further improvements seen in the export outlook will give company investment its first boost in years. The greatest risks lie in both the international and European environments. If there is a serious setback in the European stabilization process, or if the disputes in the USA over the budget and healthcare policy escalate further, this could choke off the upturn.

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Annex: SME business climate in figures

KfW-ifo SME Barometer

Balance [Percentage points]*		Month/Year									
		Nov/12	Jun/13	Jul/13	Aug/13	Sep/13	Oct/13	Nov/13	m-o-m	y-o-y	3m-o-3m
Business climate											
Manufacturing	SME	-0.8	9.0	8.7	12.8	11.9	13.6	18.8	5.2	19.6	4.6
	LSE	-9.9	8.6	9.2	12.8	13.9	12.0	16.8	4.8	26.7	4.0
Construction	SME	17.7	24.9	24.2	20.9	21.9	18.9	22.0	3.1	4.3	-2.4
	LSE	13.1	23.8	17.8	15.0	12.7	14.2	20.2	6.0	7.1	-3.2
Retail trade	SME	12.6	7.9	12.5	14.9	14.3	12.4	14.8	2.4	2.2	2.1
	LSE	-3.0	8.8	6.1	1.5	11.3	13.1	10.0	-3.1	13.0	6.0
Wholesale trade	SME	9.2	7.8	9.3	18.0	16.0	21.6	25.1	3.5	15.9	9.2
	LSE	14.8	6.0	3.1	11.8	6.4	10.9	12.8	1.9	-2.0	3.1
All economic sectors	SME	5.0	11.5	11.9	14.9	14.3	15.1	19.4	4.3	14.4	3.5
	LSE	-3.5	8.9	8.2	11.0	12.3	12.2	15.3	3.1	18.8	3.9
Current situation	SME	16.4	17.7	18.2	21.4	20.2	20.4	23.8	3.4	7.4	2.4
	LSE	6.2	11.9	11.7	15.6	15.1	16.5	15.5	-1.0	9.3	2.6
Expectations	SME	-6.3	5.1	5.3	8.2	8.1	9.5	14.7	5.2	21.0	4.6
	LSE	-13.3	5.5	4.1	6.0	9.0	7.5	14.7	7.2	28.0	5.2
West Germany	SME	5.3	12.1	12.2	15.5	14.8	15.6	20.2	4.6	14.9	3.6
	LSE	-4.0	8.7	7.7	10.8	12.3	12.2	15.5	3.3	19.5	4.3
East Germany	SME	4.0	8.4	10.7	11.7	11.2	12.3	14.9	2.6	10.9	2.5
	LSE	7.4	14.9	20.2	16.5	12.1	12.7	9.2	-3.5	1.8	-5.8
Employment expectations	SME	8.3	6.0	7.6	7.9	8.7	10.6	12.0	1.4	3.7	3.3
	LSE	5.9	4.8	8.3	10.7	11.6	11.9	13.9	2.0	8.0	4.5
Sales price expectations	SME	-0.5	-2.7	-2.2	-0.9	-0.9	-1.5	-1.2	0.3	-0.7	0.7
	LSE	-5.1	-4.0	-4.8	-3.2	-2.3	-0.9	2.3	3.2	7.4	3.7

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-)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.

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.