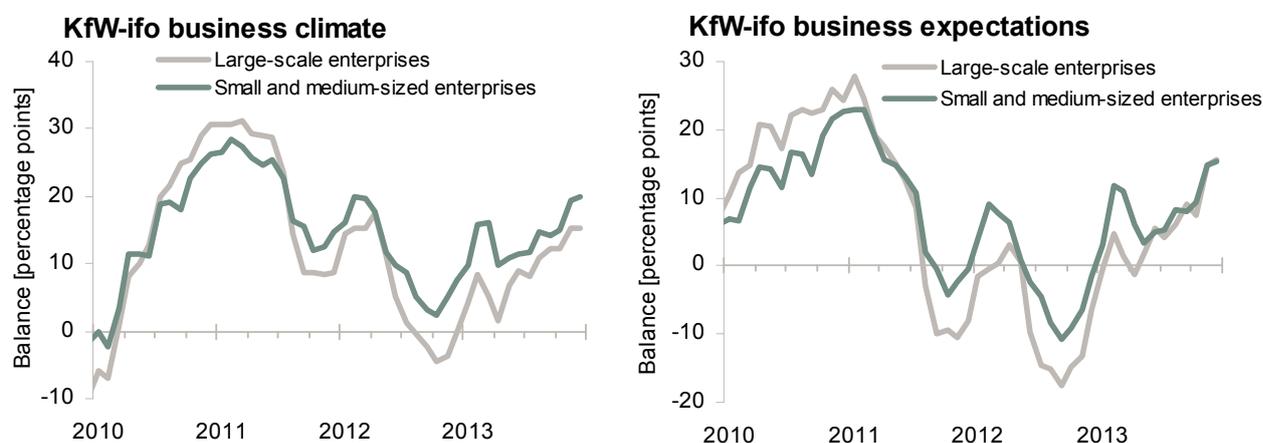


KfW-ifo SME Barometer: December 2013

SMEs confident about 2014

- *Modest improvement in SME assessments of the current situation and expectations*
- *Business climate almost stable for large-scale enterprises*
- *Retail sentiment at an annual high*



Sources: KfW Economic Research, ifo institute Munich

SME business climate at its highest level since February 2012

German companies head into New Year with confidence. At 19.8 percentage points (up 0.4 points on November), the SME business climate finished 2013 at its highest level since February 2012. Both climate components are up slightly once again:

- Assessments of the current business situation rose 0.3 points to 24.1 percentage points in December. This means they were 2.9 points higher on average in Q4 compared with Q3, indicating that economic activity did indeed accelerated in the final quarter of the year.
- Business expectations rose rather more strongly, climbing 0.6 points to 15.3 percentage points. Looking at the quarter as a whole, expectations increased by 6.0 points and thus more than twice as fast as the current situation component. This underlines hopes for the economy in 2014, but also increases the potential for disappointment.

Business climate almost stable among large-scale enterprises

Sentiment remains upbeat in large-scale enterprises too: the business climate held steady on the previous month (-0.1 points to 15.2 percentage points). But as has been more common recently, the current assessment of the business situation (-1.0 points to 14.4 percentage points) underperformed compared to expectations (+0.9 points to 15.6 percentage points). Large-scale enterprises and SMEs are in agreement in the meantime. Their respective expectation indicators, relevant for investment and employment decisions, have reached the same positive level as 2014 gets underway. This is primarily due to the accelerating global economy, driven by industrialized countries, above all the US. Export-oriented sectors are likely to be particularly pleased about this.

Following strong gain, retail sentiment at an annual high

In the main economic sectors, sentiment trends are mixed. The business climate is slightly gloomier for industry and wholesalers, although only a small part of the robust gains previously achieved has been ceded. In contrast, retail trade – which together with construction is currently leading the sentiment indicators – posted some rather considerable gains (SMEs: +5.2 points to 20.0 percentage points; large-scale enterprises: +3.4 points to 13.4 percentage points). This means that not only has retail sentiment finishes 2013 at a new annual high, but also that both company-size categories have considerably surpassed the prior-year value from December 2012, by 11.0 and 6.6 points respectively. All in all, it appears retailers are more than satisfied with this year's business over the festive season.

Germany ready for the upturn

The economy is off to a hopeful start to 2014 – Germany is ready for the upturn. That is the main message from the most recent KfW-ifo SME Barometer. The sweeping improvement in business expectations since the low in May last year is particularly encouraging. For 2014, which has just begun, we expect real growth of 2%. The recovery began in 2013, but has initially proved hesitant – as shown by the rate of improvement in business assessments, which has been no more than gradual. This year it is likely to gain momentum and be more broadly based. Alongside consumer spending and residential construction, exports and corporate investment are also reviving. The largest individual risk remains a potential setback in the European stabilization process. While this is less likely now, it is still conceivable if, for example, key European banks were to find themselves in difficulty again, or new, serious doubts should arise about the sustainability of public finances in individual euro area countries, or if necessary reforms were to drag on in these states. Finally, there is a risk that this positive sentiment may dissipate if expectations are not met in due time. Investment activity would be the main area to suffer if this were to occur.

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Annex: SME business climate in figures

KfW-ifo SME Barometer

Balance [Percentage points]*		Month/Year									
		Dec/12	Jul/13	Aug/13	Sep/13	Oct/13	Nov/13	Dec/13	m-o-m	y-o-y	3m-o-3m
Business climate											
Manufacturing	SME	2.9	8.6	12.8	11.9	13.6	18.8	17.5	-1.3	14.6	5.5
	LSE	-5.9	9.2	12.7	13.8	12.0	16.8	15.9	-0.9	21.8	3.0
Construction	SME	19.5	24.1	20.9	21.8	18.8	21.9	25.9	4.0	6.4	0.0
	LSE	14.4	17.8	15.0	12.7	14.2	20.3	28.4	8.1	14.0	5.8
Retail trade	SME	9.0	12.5	14.8	14.3	12.4	14.8	20.0	5.2	11.0	1.9
	LSE	6.8	6.1	1.5	11.3	13.1	10.0	13.4	3.4	6.6	5.9
Wholesale trade	SME	12.1	9.2	18.0	15.9	21.6	25.1	24.0	-1.1	11.9	9.2
	LSE	10.4	3.0	11.8	6.4	10.9	12.8	10.7	-2.1	0.3	4.4
All economic sectors	SME	7.5	11.8	14.9	14.2	15.1	19.4	19.8	0.4	12.3	4.5
	LSE	-0.2	8.1	11.0	12.3	12.2	15.3	15.2	-0.1	15.4	3.8
Current situation	SME	16.3	18.2	21.3	20.1	20.4	23.8	24.1	0.3	7.8	2.9
	LSE	5.7	11.7	15.5	15.1	16.5	15.4	14.4	-1.0	8.7	1.3
Expectations	SME	-1.5	5.2	8.1	8.1	9.5	14.7	15.3	0.6	16.8	6.0
	LSE	-6.4	4.1	6.0	9.0	7.5	14.7	15.6	0.9	22.0	6.2
West Germany	SME	7.9	12.1	15.4	14.8	15.6	20.1	20.9	0.8	13.0	4.8
	LSE	-0.3	7.7	10.8	12.2	12.2	15.5	15.0	-0.5	15.3	4.0
East Germany	SME	5.6	10.7	11.7	11.1	12.3	14.9	13.3	-1.6	7.7	2.3
	LSE	4.5	20.1	16.5	12.1	12.7	9.2	23.4	14.2	18.9	-1.1
Employment expectations	SME	7.3	7.5	7.8	8.7	10.5	11.9	12.5	0.6	5.2	3.6
	LSE	5.7	8.2	10.7	11.5	11.8	13.8	12.4	-1.4	6.7	2.5
Sales price expectations	SME	0.6	-2.2	-0.9	-0.9	-1.5	-1.2	1.1	2.3	0.5	0.8
	LSE	-1.7	-4.8	-3.1	-2.3	-0.9	2.3	3.5	1.2	5.2	5.1

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.