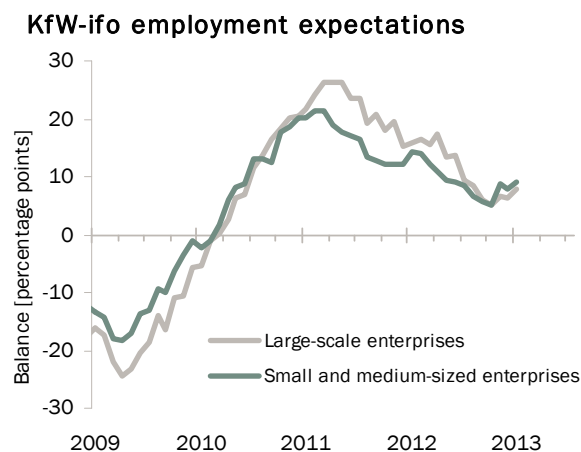
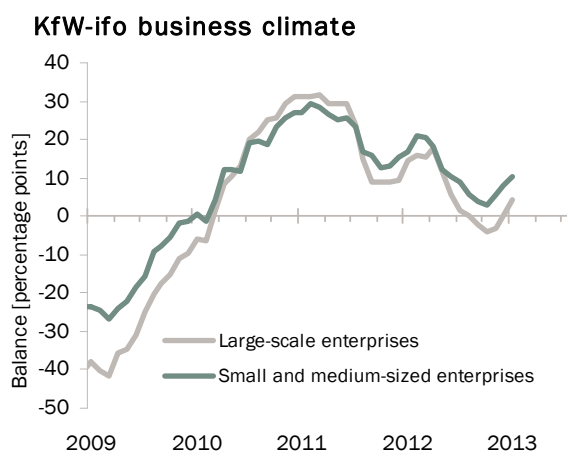


## KfW-ifo SME Barometer January 2013

### Gearing up for a rebound

- *SME sector reports third consecutive improvement in business climate*
- *Current business situation is stable, cautious optimism has returned*
- *Big enterprises are narrowing the gap to SMEs in sentiment*
- *Robust labour market*



Source: KfW, ifo Institute Munich

### SMEs start the year with newfound optimism

The January KfW-ifo SME Barometer confirms that the economic recovery which KfW has predicted for the year 2013 is taking on an increasingly clearer shape. Business expectations of small and medium-sized enterprises improved again very strongly by 4.3 points at the beginning of 2013, after rising sharply already in December. At 3.2 balance points the expectations indicator was again slightly above the zero line for the first time since May of last year, revealing cautious optimism. At the same time, the assessments of the current business situation remained almost unchanged on a positive above-average level in a long-term comparison (-0.3 points to 16.9 balance points). Both components combined show an improvement in business climate by 2.1 points to 10.2 balance points in January. This was the third consecutive business climate improvement in as many months. The traditional rule of thumb is that this is quite a reliable indication that the economy is taking a turn for the better.

## **Big enterprises are narrowing the gap to SMEs in terms of sentiment**

The mood among big enterprises is improving as well. In January they not only strongly revised upward their business expectations (plus 5.7 points to 0.4 balance points). Unlike the SME sector, and for the first time since April 2012, they also rated their current business situation more positively than in the previous month (+2.9 points to 9.0 balance points). The prior surveys had revealed a particularly wide gap between the two enterprise size categories. Their business climate consequently improved by an even stronger 4.3 points to 4.5 balance points. Thus, sentiment among big enterprises at the start of 2013 no longer lags so far behind the SME sector.

## **Large-scale industry and construction sector are much more confident**

Among big enterprises, the recovery is primarily driven by large-scale industry, which reacts sensitively to global demand variations. Their sentiment has improved by more than twice the average monthly variation (+7.1 points to 1.4 balance points). Industrial SMEs have grown more confident as well, albeit more moderately (+2.1 points to 5.4 balance points). The construction sector was almost euphoric in both size categories in January and, with balances slightly above the seldom reached 26 point mark, consolidated its position as the most confident sector. In contrast, sentiment among retail companies remained stable on an above-average level while the positive mood in the wholesale sector deteriorated slightly.

## **Recruitment plans are already pointing moderately upwards again**

The German labour market remains robust even in temporary periods of weakness, thus supporting consumption and the domestic economy. After the latest increase, recruitment plans (SMEs: +1.1 points to 9.1 balance points; big enterprises: plus 1.6 points to 7.8 balance points) have visibly overcome the temporary decline of October (5.1 balance points in both size categories) and thus have reversed already before falling under the zero line.

## **Germany is gearing up for a rebound**

The reversal in sentiment has arrived - Germany is gearing up for a rebound. This is the key message of the January 2013 KfW-ifo SME Barometer. The successful start into the new year gives cause for hope - particularly because the rise in the business climate includes the manufacturing sector, whose output fluctuations strongly shape Germany's business cycle. The fact that big enterprises rate both their situation and their expectations more positively again for the first time indicates that the global economy is on the path to recovery. Export performance will likely regain momentum again, which along with robust consumption will generate additional impetus and stimulate investment over the year as well. With the unquestionable reversal in sentiment, GDP will probably expand slightly already in the first quarter. This would offset the contraction that occurred in the final quarter of 2012, which probably turned out to be more pronounced than anticipated.

**Annex: SME business climate in figures****KfW-ifo SME Barometer**

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Jan/12	Aug/12	Sep/12	Oct/12	Nov/12	Dec/12	Jan/13			
<b>Business climate</b>											
Manufacturing	SME	13.8	0.3	-1.2	-3.8	-0.3	3.3	5.4	2.1	-8.4	4.4
	LSE	12.2	-2.8	-6.3	-8.1	-9.6	-5.7	1.4	7.1	-10.8	1.1
Construction	SME	21.5	19.4	16.3	15.9	18.5	20.5	26.4	5.9	4.9	4.6
	LSE	22.0	15.7	11.4	7.0	13.8	15.6	26.3	10.7	4.3	7.2
Retail trade	SME	19.4	11.7	8.0	13.7	13.1	9.8	10.5	0.7	-8.9	0.0
	LSE	12.4	-2.1	-1.3	0.5	-2.8	7.3	6.6	-0.7	-5.8	4.7
Wholesale trade	SME	22.9	7.9	6.1	6.3	10.0	12.9	10.0	-2.9	-12.9	4.2
	LSE	22.9	7.7	8.4	2.7	15.3	10.9	7.9	-3.0	-15.0	5.1
<b>All economic sectors</b>	SME	<b>16.7</b>	<b>5.8</b>	<b>3.7</b>	<b>2.7</b>	<b>5.6</b>	<b>8.1</b>	<b>10.2</b>	<b>2.1</b>	<b>-6.5</b>	<b>3.9</b>
	LSE	<b>14.6</b>	<b>0.1</b>	<b>-2.1</b>	<b>-4.2</b>	<b>-3.2</b>	<b>0.2</b>	<b>4.5</b>	<b>4.3</b>	<b>-10.1</b>	<b>2.5</b>
Current situation	SME	29.4	20.0	18.2	14.4	17.2	17.2	16.9	-0.3	-12.5	-0.4
	LSE	31.0	15.8	13.9	6.7	6.6	6.1	9.0	2.9	-22.0	-4.9
Expectations	SME	4.1	-8.2	-10.6	-9.0	-6.0	-1.1	3.2	4.3	-0.9	8.0
	LSE	-1.3	-15.0	-17.4	-15.0	-13.0	-6.1	-0.4	5.7	0.9	9.3
West Germany	SME	17.6	5.9	4.3	2.9	5.9	8.5	10.6	2.1	-7.0	4.0
	LSE	14.9	-0.6	-2.1	-4.3	-3.6	0.0	4.3	4.3	-10.6	2.6
East Germany	SME	11.6	5.4	0.5	1.9	4.4	6.0	8.4	2.4	-3.2	3.7
	LSE	7.3	19.4	-2.0	-1.4	7.5	5.3	9.8	4.5	2.5	2.2
<b>Employment expectations</b>	SME	14.5	6.7	5.7	5.1	8.9	8.0	9.1	1.1	-5.4	2.8
	LSE	15.9	8.5	6.0	5.1	6.5	6.2	7.8	1.6	-8.1	0.3
<b>Sales price expectations</b>	SME	4.9	-0.5	-1.3	-1.6	-0.5	0.7	0.0	-0.7	-4.9	1.2
	LSE	5.0	-1.6	-2.7	-4.1	-5.0	-1.6	1.6	3.2	-3.4	1.1

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.

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