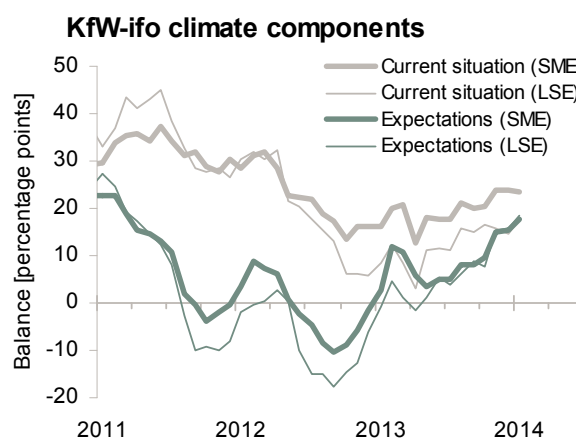
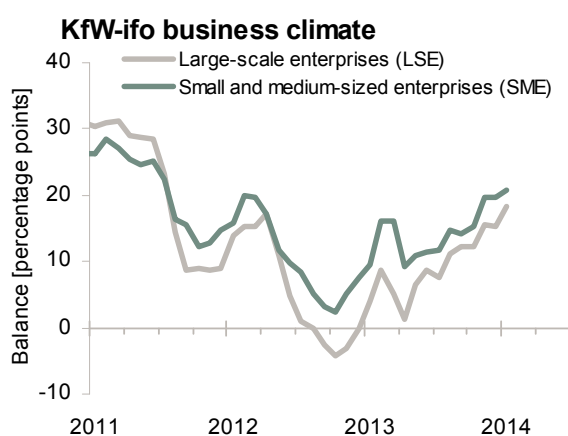


KfW-ifo SME Barometer: January 2014

SMEs optimistic at start of year

- *Expectations among SMEs higher; current situation worsens slightly*
- *Business sentiment in large enterprises shoots upwards*
- *No expectation bubble discernable*



Sources: KfW Economic Research, ifo institute Munich

SME business climate again positive thanks to expectations

The upturn is on course. At the start of 2014, German companies are the most upbeat they have been since July 2011. With a broad base across all sectors – indeed, only the retail trade is slightly less satisfied – the SME business climate saw an improvement to 20.7 balance points (up 0.9 points on December). However, the development differs between the two business climate components:

- This time, only business expectations are helping to better the climate, increasing by 2.4 points to 17.8 balance points. Just like us, the enterprises are anticipating a noticeable economic upturn this year.
- By contrast, assessments of the current business situation were down marginally by 0.6 points to 23.3 balance points. But the slight setback has not called the general upwards trend into doubt. Over the most recent three months, assessments of the current situation have been on average 3.2 points higher than during the previous three months. The prior-year value from January 2013 has even been surpassed by 7.2 points.

Large-scale enterprises far more confident

The sentiment among large enterprises is also improving – and considerably so after stagnating the month before. Unlike the SMEs, large enterprises' assessments of the current situation (+3.1 points to 17.6 balance points) even saw a somewhat stronger increase than their business expectations (+2.7 points to 18.5 balance points). Overall, the business climate rose 2.9 points to 18.3 balance points. Markedly improved sentiment was to be observed in the export-orientated sectors, i. e. among large enterprises within the manufacturing industry and wholesale. The considerable improvement in foreign trade, due to stabilisation in Europe and the growing global economy, is taking ever clearer shape.

No expectation bubble

Since the business climate fell to its lowest point for several years in October 2012, expectations have improved almost three times as much as the assessments of the current situation (SMEs: +27/+10 points; large enterprises: +33/+12 points), and thus finally prompted a discussion as to whether an expectation bubble has already been created. We are not concerned about this risk since despite the far more pronounced improvement, the level of expectations still does not exceed the assessments of the business situation. The SME expectations indicator even remains below the assessments of the current situation, while currently both climate components are roughly similar for large-scale enterprises (see right-hand figure on page 1). We believe this to be driven by two factors:

- First a correction of exaggerated pessimism. In autumn 2012, expectations in both groups had fallen to recession level – a fear that proved to be unjustified with hindsight.
- The hope of a significant economic upturn this year, which we also believe to be well-founded, has been growing consistently since summer 2013.

Finally a return to growth above potential in 2014

The recovery has begun: if initially slowly, nonetheless surely, as shown by the slow-paced but still undeniably positive trend in the assessments of the current situation. This is not altered by temporary marginal setbacks, as can be observed at present in the January SME assessments. The momentum will increase in 2014. It's not only the strong improvement in expectations, which we believe still to have a firm basis in reality that is indicative of this. Other indicators underline this development too, such as ifo export expectations being at a two-and-a-half year high and recently strong new orders from Germany and abroad. Also thanks to what has been relatively mild weather until now, the first quarter could come as a pleasant surprise and presumably compensate for slightly weaker growth than we initially expected in the final quarter of 2013. We are confident. In 2014, which has just begun, Germany is growing above potential for the first time in three years.

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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/13	Aug/13	Sep/13	Oct/13	Nov/13	Dec/13	Jan/14			
Business climate											
Manufacturing	SME	4.9	12.6	11.8	13.6	19.0	17.6	18.9	1.3	14.0	5.8
	LSE	1.0	12.5	13.8	12.2	17.3	16.1	19.6	3.5	18.6	4.9
Construction	SME	24.9	20.9	22.0	19.0	22.1	25.6	25.7	0.1	0.8	3.9
	LSE	24.8	15.2	12.6	14.4	20.4	28.5	31.4	2.9	6.6	12.7
Retail trade	SME	9.9	14.9	14.3	12.6	15.0	20.0	16.3	-3.7	6.4	3.2
	LSE	6.7	2.4	11.1	12.9	10.0	13.2	7.4	-5.8	0.7	1.4
Wholesale trade	SME	9.0	18.2	15.9	21.7	25.3	23.8	28.2	4.4	19.2	7.1
	LSE	6.6	12.4	6.7	11.0	13.2	10.8	20.1	9.3	13.5	4.7
All economic sectors	SME	9.5	14.8	14.2	15.2	19.6	19.8	20.7	0.9	11.2	5.3
	LSE	4.0	11.1	12.2	12.3	15.6	15.4	18.3	2.9	14.3	4.6
Current situation	SME	16.1	21.2	20.0	20.3	23.7	23.9	23.3	-0.6	7.2	3.2
	LSE	8.4	15.6	15.0	16.4	15.6	14.5	17.6	3.1	9.2	0.2
Expectations	SME	2.6	8.1	8.2	9.7	15.1	15.4	17.8	2.4	15.2	7.4
	LSE	-0.9	6.1	9.0	7.8	15.2	15.8	18.5	2.7	19.4	8.9
West Germany	SME	9.8	15.4	14.8	15.6	20.4	20.8	21.7	0.9	11.9	5.7
	LSE	3.8	10.9	12.2	12.3	15.9	15.1	18.0	2.9	14.2	4.5
East Germany	SME	7.9	11.6	11.2	12.5	14.9	13.4	14.3	0.9	6.4	2.5
	LSE	8.7	15.8	12.2	12.9	10.2	23.6	27.4	3.8	18.7	6.8
Employment expectations	SME	8.4	7.8	8.7	10.5	11.9	12.4	11.5	-0.9	3.1	2.9
	LSE	7.1	10.6	11.5	11.8	13.7	12.3	13.9	1.6	6.8	2.1
Sales price expectations	SME	-0.1	-1.0	-0.9	-1.4	-1.1	1.0	-0.4	-1.4	-0.3	0.9
	LSE	1.6	-3.2	-2.1	-0.9	2.3	3.6	1.0	-2.6	-0.6	4.3

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.