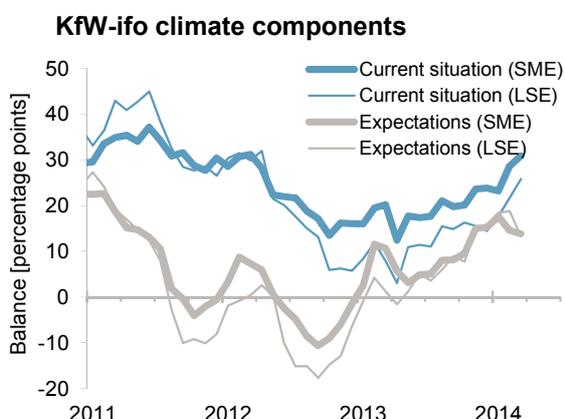
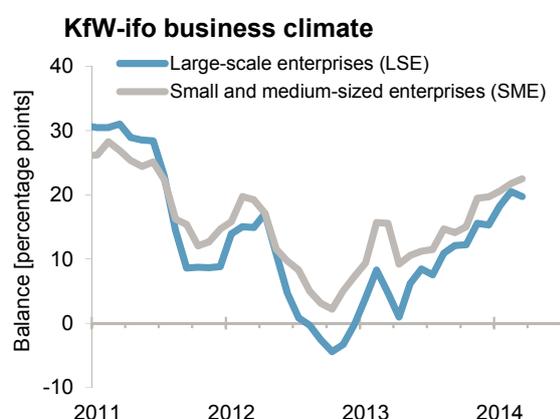


KfW-ifo SME Barometer: March 2014

SMEs relatively unfazed by the Crimean crisis

- *SME business climate continues to brighten despite uncertainty*
- *Satisfaction with current business is growing; expectations are virtually as good*
- *In contrast, large enterprises are noticeably more sceptical about the future*



Sources: KfW Economic Research, ifo institute Munich

SMEs very satisfied with their business

Small and medium-sized enterprises are watching the Crimean crisis with a sense of proportion and continue to focus on recovery. Despite the new economic risk in the international arena, the SME business climate has risen for the sixth time in succession, this time by 0.8 points to 22.5 balance points. The last time the climate indicator reported a higher figure was a little under three years ago in June 2011. SMEs are particularly satisfied with their current business, while they are only slightly more cautious when looking ahead to the future:

- Assessments of the current business situation have improved by 2.3 points to 30.9 balance points, a two-year high. As a result, the current situation indicator for the first quarter is, on average, up by a remarkable 5.0 points compared with the previous quarter.
- Expectations, on the other hand, are virtually as good (-0.7 points to 13.9 balance points). The slight consolidation does not give us cause for concern. This is because as a reference point for expectations current business has already reached a very high level, which will be increasingly difficult to improve upon.

Increased scepticism drags business climate down in large enterprises

In contrast, large enterprises are evidently far more sceptical. They have revised their business expectations downwards by 5.5 points (1.7 times an average monthly change) to 13.3 balance points. This may be partly due to fears that the Crimean crisis could trigger an escalating spiral of sanctions and, as a result, damage global trade, which is particularly important to large companies. In addition, for a while now the fragile environment in terms of monetary and foreign exchange policies in emergent countries as well as the risk not yet averted of a setback in the European stabilisation process have encouraged a degree of caution – especially for firms heavily involved in exports. And finally it is also important to note that the current business of large enterprises, just like that of SMEs, has been greatly revitalised recently, so the bar for further rises is constantly being raised. In March, large enterprises' assessments of the current situation were even rising almost twice as quickly as those of SMEs (up 4.1 points to 25.8 balance points), keeping the deterioration in the business climate within tight limits (down 0.8 points to 19.7 balance points) despite the pronounced adjustment in expectations.

Economically a very successful start to the year

The marked improvement in both company size groups' business assessments over the last few months – with the 6.3-point quarterly gain for large enterprises being even more pronounced than that of SMEs – indicates a successful economic start to the current year. Real economic performance is expected to expand noticeably more strongly in the first quarter of 2014 compared with the closing quarter of 2013 (up 0.4 % on the previous quarter), with consumers also likely to have made a significant contribution. One indication of this is SME retail sentiment, which rose again (up 3.2 points to 26.1 balance points) and posted a three-year high at the end of the first quarter.

Decent rise – but risks not forgotten

In view of this mood, we remain on track with our economic forecast: The growth spurt at the start of the year will provide a good basis for economic activity, so despite more moderate quarterly rates being likely from the summer onwards – as is also indicated by company expectations – Germany can grow by 2.0 % overall in 2014. We still expect 1.6 % real growth for 2015. This is a decent recovery, with which we can be satisfied. However, risks on a global scale, including the more recent Crimean crisis, harbour significant potential for disappointment. This should be mitigated by having a monetary policy capable of resolutely countering deflationary trends in Europe, for instance. Germany would welcome further growth in domestic demand, especially more investments.

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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
		Mrz/13	Okt/13	Nov/13	Dez/13	Jan/14	Feb/14	Mrz/14			
Business climate											
Manufacturing	SME	11,6	13,5	18,9	17,5	18,8	19,1	20,6	1,5	9,0	2,9
	LSE	3,7	12,1	17,2	16,0	19,5	22,6	21,0	-1,6	17,3	6,0
Construction	SME	33,3	18,8	22,0	25,5	25,5	25,9	21,3	-4,6	-12,0	2,1
	LSE	25,4	14,3	20,2	28,3	31,2	26,7	20,6	-6,1	-4,8	5,2
Retail trade	SME	10,2	12,5	14,9	20,0	16,3	22,9	26,1	3,2	15,9	6,0
	LSE	-0,8	12,8	9,9	13,1	7,3	9,8	10,6	0,8	11,4	-2,7
Wholesale trade	SME	13,6	21,6	25,2	23,7	28,1	30,1	33,7	3,6	20,1	7,1
	LSE	8,5	10,9	13,1	10,7	20,1	20,6	22,4	1,8	13,9	9,4
All economic sectors	SME	15,6	15,0	19,5	19,7	20,6	21,7	22,5	0,8	6,9	3,5
	LSE	4,7	12,2	15,5	15,3	18,2	20,5	19,7	-0,8	15,0	5,1
Current situation	SME	20,2	20,1	23,6	23,8	23,2	28,6	30,9	2,3	10,7	5,0
	LSE	7,8	16,3	15,5	14,4	17,6	21,7	25,8	4,1	18,0	6,3
Expectations	SME	10,6	9,6	15,0	15,2	17,6	14,6	13,9	-0,7	3,3	2,1
	LSE	1,2	7,7	15,1	15,7	18,4	18,8	13,3	-5,5	12,1	4,0
West Germany	SME	16,0	15,5	20,2	20,7	21,6	22,1	23,9	1,8	7,9	3,7
	LSE	4,1	12,2	15,8	15,0	17,9	20,3	19,5	-0,8	15,4	4,9
East Germany	SME	13,2	12,4	14,8	13,3	14,2	19,8	13,2	-6,6	0,0	2,2
	LSE	22,3	12,8	10,1	23,5	27,3	25,1	25,4	0,3	3,1	10,5
Employment expectations	SME	7,4	10,3	11,8	12,3	11,4	12,2	12,7	0,5	5,3	0,6
	LSE	6,9	11,6	13,6	12,2	13,8	12,1	11,7	-0,4	4,8	0,1
Sales price expectations	SME	1,3	-1,4	-1,1	1,0	-0,4	-1,1	-1,3	-0,2	-2,6	-0,4
	LSE	-0,4	-0,9	2,3	3,5	0,9	-3,5	-2,8	0,7	-2,4	-3,4

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.