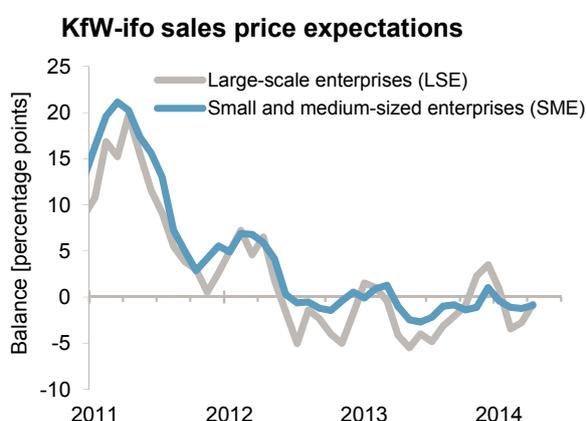
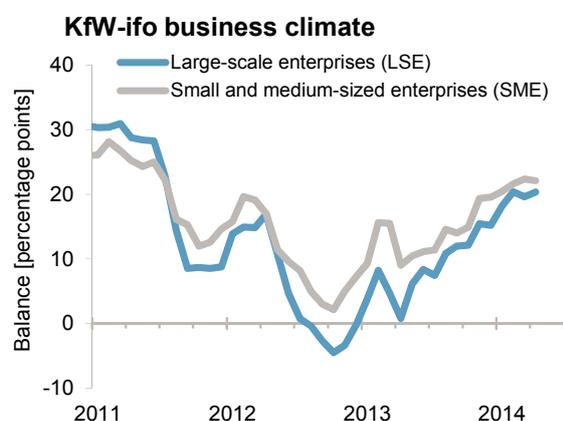


KfW-ifo SME Barometer: April 2014

Buoyant mood amongst SMEs almost unchanged at start of spring

- *Current situation for SMEs marginally improved; expectations slightly worse*
- *Expectations bump sentiment up for large companies*
- *Sales price expectations still very subdued, long-term trend emerging*



Source: KfW Economic Research, ifo Institute Munich

SMEs move positively into second quarter

The upturn is still on track. Neither the conflict in eastern Ukraine, nor the slowdown of growth in China or a possible dip in consumer prices in Europe have really spoiled the mood of small and medium-sized firms so far. At 22.1 balance points, the SME business climate in April was almost unchanged from the 3-year high in the previous month. The minimal decline by 0.3 points is only about one tenth of a normal monthly change and is therefore negligible from an economic perspective. The two climate components also barely moved.

- The current business assessments increased marginally by 0.3 points to 31.1 balance points – a two-and-a-half year high that indicates continued solid economic growth going into the second quarter.
- Expectations, on the other hand, are virtually as good (-0.8 points to 13.0 balance points). This consolidation is plausible given the high level that has already been reached, as further improvements will become increasingly difficult.

Large companies correct decline in sentiment from previous month

Large companies, on the other hand, are noticeably more optimistic than in March. After the significant setback in the previous month, their business expectations in April are up by 1.9 points to 15.1 balance points. Concerns are clearly fading that as a result of escalating sanctions the crisis in Ukraine could considerably damage the global trade flows that are so important for large enterprises. Furthermore, the encouraging economic news (including retail sales and industrial output) published recently in the USA (still the most important export market outside of Europe) will likely have fuelled expectations. By contrast, after the upturn last month the business situation assessments of large companies have essentially trended sideways (-0.5 points to 25.2 balance points), which means the overall business climate recovered by 0.8 points to 20.4 balance points. Not only is this exactly the same indicator reading as February, it is also the highest since July 2011, i. e. for almost three years.

Price expectations unusually subdued

The employment expectations of companies in both size categories suggest a continued creation of jobs, despite the slight downturn in April (SMEs: -1.8 points to 10.8 balance points; large companies: -0.5 points to 11.2 balance points) and are therefore consistent with the above-average economic sentiment. By contrast, sales price expectations are still unusually subdued. While they managed to recover somewhat in April (SMEs: +0.4 points to -0.9 balance points; large companies: +2.0 points to -0.8 points), they are still languishing below the zero line (as seen so often in the last two years), which means despite the encouraging economic outlook they remain below the long-term average. This indicates that the pressure on prices throughout Europe is clearly leaving its mark in Germany too – despite perceptibly better capacity utilisation compared with many other eurozone countries.

Very robust start to the year, growth to stabilise in course of year

Real growth in the first quarter is likely to have been very strong, boosted by the mild weather conditions. Companies have moved successfully into the second quarter, as demonstrated by the high and stable climate indicators for both size categories of enterprise. For the rest of the year we anticipate a clear upwards trend for economic growth, even though the quarterly rates will probably come in lower than in early 2014. This is indicated not least by the expectations of companies which have tended to move roughly sideways since the turn of the year. All told, economic growth this year should at least reach two percent. In the international arena, the US is proving to be a driving force yet again, while China is apparently proceeding very cautiously with respect to converting its national economy. This inspires confidence. Despite the unmistakable return of stability, the persistently weak outlook for Europe coupled with the unhealthy low level of inflation remains a risk. This may well prompt the ECB to take action, and justifiably so.

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KfW-ifo SME Barometer

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m	
		Apr/13	Nov/13	Dez/13	Jan/14	Feb/14	Mrz/14	Apr/14				
Business climate												
Manufacturing	SME	6,2	18,8	17,4	18,7	19,0	20,5	20,1	-0,4	13,9	1,5	
	LSE	0,9	17,1	15,9	19,5	22,5	21,0	22,0	1,0	21,1	4,3	
Construction	SME	27,0	21,9	25,4	25,4	25,8	21,2	22,6	1,4	-4,4	-1,0	
	LSE	20,9	20,1	28,2	31,0	26,6	20,5	18,5	-2,0	-2,4	-4,6	
Retail trade	SME	1,8	14,8	19,9	16,2	22,8	26,0	24,8	-1,2	23,0	7,6	
	LSE	-2,3	9,9	13,1	7,3	9,8	10,6	11,5	0,9	13,8	0,5	
Wholesale trade	SME	1,7	25,0	23,6	28,0	30,0	33,6	32,4	-1,2	30,7	6,5	
	LSE	-2,0	13,1	10,7	20,0	20,6	22,3	22,7	0,4	24,7	7,3	
All economic sectors	SME	9,0	19,4	19,6	20,5	21,6	22,4	22,1	-0,3	13,1	2,2	
	LSE	0,8	15,5	15,2	18,2	20,4	19,6	20,4	0,8	19,6	3,9	
Current situation	SME	12,1	23,5	23,7	23,1	28,5	30,8	31,1	0,3	19,0	6,7	
	LSE	2,8	15,4	14,4	17,6	21,7	25,7	25,2	-0,5	22,4	8,4	
Expectations	SME	5,7	14,9	15,2	17,5	14,5	13,8	13,0	-0,8	7,3	-2,1	
	LSE	-1,6	15,0	15,6	18,3	18,7	13,2	15,1	1,9	16,7	-0,6	
West Germany	SME	9,1	20,1	20,6	21,5	22,0	23,8	23,2	-0,6	14,1	2,3	
	LSE	0,3	15,7	14,9	17,8	20,3	19,4	20,4	1,0	20,1	3,9	
East Germany	SME	9,2	14,8	13,3	14,2	19,8	13,1	15,2	2,1	6,0	2,0	
	LSE	14,2	10,0	23,4	27,2	25,0	25,3	20,3	-5,0	6,1	3,3	
Employment expectations		SME	6,3	11,7	12,2	11,3	12,2	12,6	10,8	-1,8	4,5	0,1
		LSE	2,6	13,5	12,1	13,7	12,0	11,7	11,2	-0,5	8,6	-1,5
Sales price expectations		SME	-1,0	-1,1	1,0	-0,4	-1,1	-1,3	-0,9	0,4	0,1	-0,9
		LSE	-4,2	2,3	3,5	0,9	-3,5	-2,8	-0,8	2,0	3,4	-4,6

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-)Scale **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.