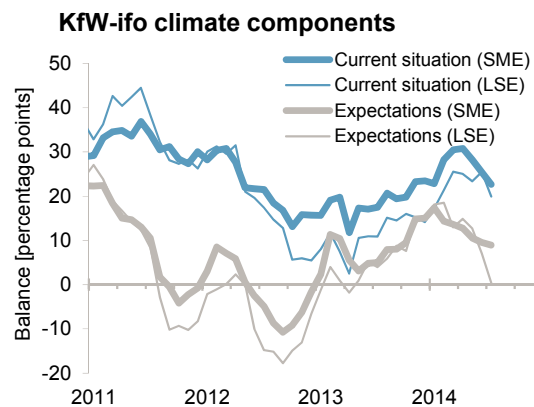
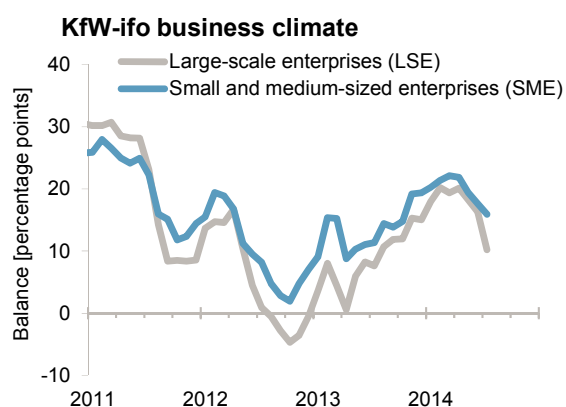


## KfW-ifo SME Barometer: July 2014

### Tensions unsettle SMEs less than large companies

- **SMEs: business situation somewhat worse, expectations nearly stable**
- **Large companies: marked decline in the situation and expectations**
- **Sales price expectations for both size categories at multi-year lows**



Source: KfW Economic Research, ifo Institute Munich

### Assessments of the situation and expectations among SMEs decline slightly

The armed conflicts in the Ukraine, the Gaza Strip and Israel, as well as in Iraq and Syria, are fuelling uncertainty among German companies. The latest escalation in global tensions – including the shooting down of a passenger aircraft over east Ukraine – have not left small and medium-sized enterprises untouched either. Nonetheless, the downturn in sentiment still remains within relatively tight limits: the SME business climate indicator fell 1.7 points in July to 15.9 balance points. Even though this is the weakest level since October of last year, the sentiment when viewed in the long term is still above average. Both climate components decline:

- Assessments of the current situation fell 2.9 points to 22.6 balance points. This is in line with the considerably more moderate quarterly growth rates expected following the growth spurt at the start of the year.
- Expectations decreased marginally by 0.6 points to 8.9 balance points. This relative calmness is probably due to the strong orientation of the broad majority of SMEs to – what is currently very sound – domestic demand.

## **Slump in business climate for large companies**

On the other hand, the managers of the large companies have considerably greater concerns. They revised their expectations downwards by 6.6 points in July, or twice the usual monthly change, to 0.4 balance points. This is already the second very significant drop in a row, bringing the expectations indicator of the large companies down from a healthy level to almost zero in the space of just two months. As the assessments of the current business situation are considerably poorer as well this time (-5.5 points to 19.9 balance points), the business climate literally collapsed in July, falling by 6.1 points to 10.2 balance points, the lowest level in a year. Large companies appear to be increasingly concerned that the escalating geopolitical tensions could noticeably hamper demand in their key international markets, especially as the large home market of Europe is not yet entirely stabilised. The fact that concerns about faltering exports may have been the decisive factor here is also reflected in the particularly sharp downturn in the business climate for the large-scale industry, which is very closely integrated internationally, as well as in the wholesale trade, which is also engaged in cross-border business.

## **Sales price expectations as low as they were in early 2010**

Aside from the acute downturn in sentiment, the very weak sales prices expectations of companies for quite some time now are a cause for concern. This trend intensified once again in July: price indicators both for SMEs (-1.2 points to -2.9 balance points) and for large companies (-0.8 points to -5.7 balance points) fell to their lowest levels since Q1 2010. The pressure on prices throughout Europe has left a noticeable mark in Germany as well, despite the comparably better economy. Monetary policy is responsible for providing a reasonable inflation rate. Bond purchases are the last resort. The scope for distribution should be exhausted when setting wages, without jeopardising jobs both with and without collective wage agreements.

## **July result not to be taken at face value**

The poor July result for the KfW ifo SME Barometer is reasonable in light of the geopolitical tensions. Even if the global consequences are not yet fully clear and German exports to regions experiencing crises are in themselves limited, companies are feeling nervous. Other indicators, by contrast, are encouraging: the PMI index improved noticeably in July, while the GfK consumer confidence index even reached its highest level since December 2006. If the situation soon settles down, growth rates should start to rise again after a breather in Q2. However, it is questionable whether the good growth experienced this year – we anticipate around 2 % – will be repeated again in 2015. Those expecting too much are likely to be disappointed. For this to happen, we would need to see an extensive recovery among our European partners, and above all we must quickly and drastically combat the virulent risks of deflation.

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## KfW-ifo SME Barometer

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Jul/13	Feb/14	Mar/14	Apr/14	May/14	Jun/14	Jul/14			
<b>Business climate</b>											
Manufacturing	SME	8.1	18.8	20.3	19.8	17.6	14.9	14.5	-0.4	6.4	-4.0
	LSE	8.7	22.3	20.7	21.7	19.8	17.0	10.7	-6.3	2.0	-5.7
Construction	SME	23.6	25.5	20.9	22.3	21.0	20.5	20.1	-0.4	-3.5	-2.4
	LSE	17.4	26.3	20.1	18.1	15.2	16.8	11.5	-5.3	-5.9	-7.0
Retail trade	SME	12.0	22.6	25.7	24.5	22.1	22.3	15.5	-6.8	3.5	-4.3
	LSE	5.9	9.7	10.5	11.3	11.8	8.0	4.3	-3.7	-1.6	-2.5
Wholesale trade	SME	8.8	29.6	33.2	32.0	26.3	25.4	18.8	-6.6	10.0	-8.1
	LSE	2.5	20.3	22.1	22.4	18.6	20.5	12.8	-7.7	10.3	-4.3
<b>All economic sectors</b>	SME	11.4	21.4	22.1	21.8	19.4	17.6	15.9	-1.7	4.5	-4.1
	LSE	7.6	20.2	19.4	20.1	18.2	16.3	10.2	-6.1	2.6	-5.0
Current situation	SME	17.5	28.2	30.5	30.8	28.2	25.5	22.6	-2.9	5.1	-4.4
	LSE	10.9	21.4	25.5	25.0	23.4	25.4	19.9	-5.5	9.0	-1.1
Expectations	SME	5.0	14.3	13.6	12.8	10.5	9.5	8.9	-0.6	3.9	-3.9
	LSE	4.0	18.5	13.0	14.9	12.7	7.0	0.4	-6.6	-3.6	-8.7
West Germany	SME	11.6	21.8	23.5	22.9	20.2	18.2	16.3	-1.9	4.7	-4.5
	LSE	7.2	20.0	19.2	20.1	17.9	16.1	10.1	-6.0	2.9	-5.1
East Germany	SME	10.2	19.6	13.0	15.0	14.4	14.4	13.6	-0.8	3.4	-1.7
	LSE	19.6	24.7	25.0	20.0	26.7	22.0	14.0	-8.0	-5.6	-2.3
<b>Employment expectations</b>	SME	7.3	12.0	12.4	10.6	9.3	7.9	7.3	-0.6	0.0	-3.5
	LSE	7.9	11.8	11.5	11.0	9.5	10.9	9.2	-1.7	1.3	-1.6
<b>Sales price expectations</b>	SME	-2.1	-1.1	-1.3	-0.9	-2.0	-1.7	-2.9	-1.2	-0.8	-1.1
	LSE	-4.7	-3.5	-2.8	-0.8	-2.7	-4.9	-5.7	-0.8	-1.0	-2.1

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.