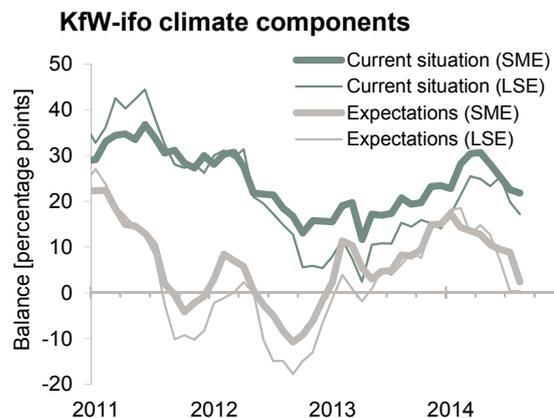
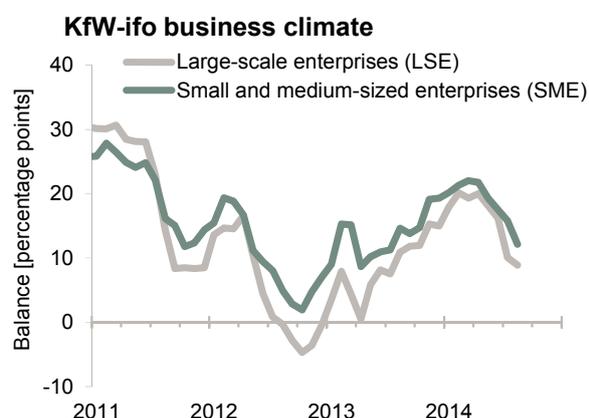


## KfW-ifo SME Barometer: August 2014

### SMEs revise business expectations significantly downwards

- **SMEs: business situation almost stable, slump in expectations**
- **Large enterprises: business situation deteriorates somewhat, expectations stable**
- **Manufacturing industry predominantly expects business activity to slow down**



Source: KfW Economic Research, ifo Institut München

### Business confidence for SMEs slips considerably

The business expectations of SMEs are falling significantly, further deteriorating the business climate. Geopolitical tension is not the sole reason for this. Growth in the eurozone is weaker than expected, particularly in important sales markets such as France and Italy. This is impairing the business expectations of the manufacturing industry in particular, a sector with a strong focus on cross-border trade. Only SMEs operating in the construction industry remain virtually as optimistic as before both in their assessment of the current situation and their expectations.

- In August the situation assessment of SMEs worsened by a further 0.7 points to 21.8 balance points. While the situation therefore remains good for the most part, the euphoria experienced at the start of the year has subsided.
- Business expectations have fallen noticeably by 6.4 points to 2.4 balance points. In the manufacturing industry, negative expectations now predominate slightly.

## **Business sentiment among large enterprises declines slightly again**

The faltering of the economy is also manifesting itself in the situation assessment of large enterprises. After already deteriorating in July, the situation assessment fell by another 2.6 points to 17.2 points in August. At 0.4 balance points following the previous month's drop, business expectations remain just above the zero line, which represents the historical average. Nonetheless, sentiment among large enterprises is still considerably better than during the economic slowdown from mid-2012 to the first quarter of 2013. All told, large enterprises' assessments therefore also provide a picture of the economic trend that remains satisfactory.

## **Stable employment expectations**

The continued rise in employment and the good income trend are boosting both residential construction and demand among consumers. The economic slowdown is until now barely reflected in the labour market. This is also true of employment expectations. At over 7 balance points each, employment expectations among both SMEs and large-scale enterprises have declined somewhat in comparison to the start of the year. But it seems a positive development is still anticipated in the majority of cases. Wage agreements for 2014 of around 3% also lead to expectations of a 1 to 2% increase in real incomes.

## **Sales price expectations stoke fears of deflation**

The sales price expectations of SMEs and major enterprises remain negative. This is fuelling justified fears of deflation and a consequent reluctance to invest and consume. Consumer prices rose by 1% from 2013 to 2014. However, producer prices for industrial products and wholesale prices have fallen almost without interruption since mid-2013, with foreign trade prices also falling. Monetary policy is chiefly responsible for providing a reasonable inflation rate. The parties to collective bargaining agreements, companies and employees, cannot be held responsible for the price trend in the economy as a whole. Over time they can only negotiate salaries and wages that are line with the development of productivity and the scope for price rises in their sectors and companies.

## **1.6 percent economic growth still achievable for 2014**

The poorer business sentiment observed in recent months is reflected in a decrease in the gross domestic product for the second quarter. But the main reason for this is the normalisation of construction activity after a first quarter that benefited substantially from exceptionally good weather. The economy will pick up again in the second half of the year. According to our updated forecast, GDP will probably grow by 1.6% in 2014 as a whole. This, however, depends on the economy in Europe not weakening further.

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## KfW-ifo SME Barometer

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Aug/13	Mrz/14	Apr/14	Mai/14	Jun/14	Jul/14	Aug/14			
<b>Business climate</b>											
Manufacturing	SME	12.5	20.2	19.8	17.5	14.8	14.4	9.5	-4.9	-3.0	-6.3
	LSE	12.3	20.6	21.6	19.7	17.0	10.6	10.6	0.0	-1.7	-7.9
Construction	SME	20.4	20.8	22.2	20.9	20.5	20.0	19.3	-0.7	-1.1	-1.4
	LSE	14.9	20.1	18.1	15.1	16.7	11.4	12.6	1.2	-2.3	-4.2
Retail trade	SME	14.8	25.6	24.4	22.0	22.2	15.3	12.0	-3.3	-2.8	-7.5
	LSE	2.3	10.5	11.3	11.7	8.0	4.2	3.8	-0.4	1.5	-5.8
Wholesale trade	SME	18.0	33.1	31.9	26.2	25.2	18.7	15.8	-2.9	-2.2	-10.5
	LSE	12.5	22.0	22.3	18.5	20.4	12.7	5.9	-6.8	-6.6	-8.0
<b>All economic sectors</b>	SME	14.6	22.1	21.8	19.3	17.5	15.8	12.1	-3.7	-2.5	-5.9
	LSE	10.9	19.3	20.0	18.2	16.2	10.1	8.9	-1.2	-2.0	-7.4
Current situation	SME	20.7	30.4	30.7	28.1	25.4	22.5	21.8	-0.7	1.1	-6.5
	LSE	15.3	25.4	24.9	23.3	25.3	19.8	17.2	-2.6	1.9	-3.8
Expectations	SME	8.2	13.5	12.7	10.5	9.5	8.8	2.4	-6.4	-5.8	-5.3
	LSE	6.2	12.9	14.8	12.7	7.0	0.4	0.4	0.0	-5.8	-10.9
West Germany	SME	15.2	23.4	22.8	20.1	18.1	16.2	12.1	-4.1	-3.1	-6.7
	LSE	10.8	19.1	20.1	17.8	16.0	10.0	8.5	-1.5	-2.3	-7.5
East Germany	SME	11.3	12.9	15.0	14.4	14.4	13.6	13.1	-0.5	1.8	-0.4
	LSE	15.2	24.9	19.9	26.7	21.9	13.9	20.3	6.4	5.1	-5.1
<b>Employment expectations</b>	SME	7.5	12.4	10.6	9.3	7.9	7.3	7.4	0.1	-0.1	-3.2
	LSE	10.3	11.5	11.0	9.5	10.8	9.1	7.6	-1.5	-2.7	-1.5
<b>Sales price expectations</b>	SME	-0.8	-1.3	-0.9	-2.0	-1.7	-2.9	-4.7	-1.8	-3.9	-1.7
	LSE	-3.1	-2.8	-0.8	-2.6	-4.8	-5.7	-3.6	2.1	-0.5	-2.6

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.