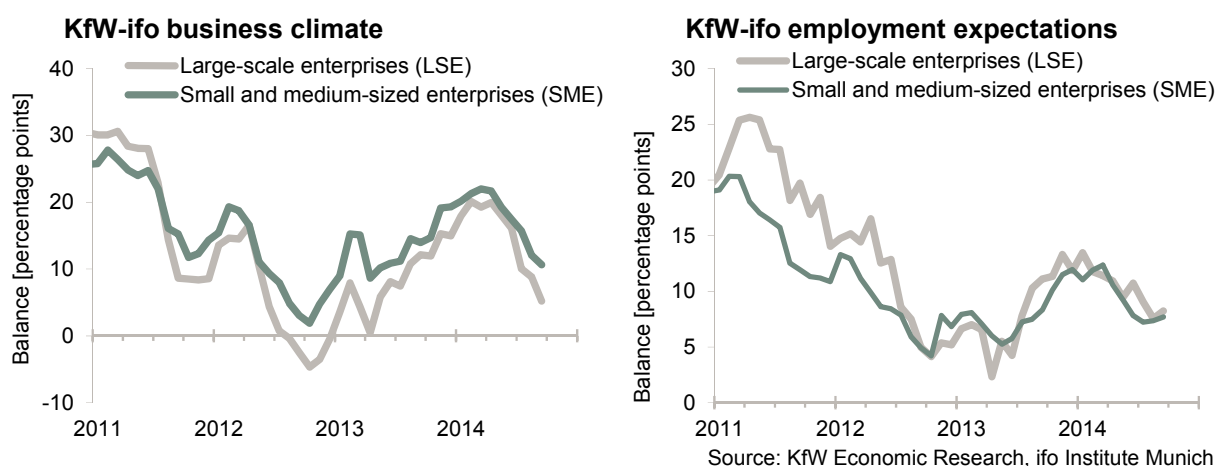


KfW-ifo SME Barometer: September 2014

Economy raising concerns

- **SMEs: downturn in business climate for sixth time in a row**
- **Large companies: fears of slump in business**
- **Employment expectations nonetheless remain stable in both size classes**



SME's business assessments and expectations deteriorate further

Things are no longer running smoothly in the German economy. If companies are correct in their self-assessments, the strong reductions in incoming orders (-5.7% as compared to previous month) and industrial production in August (-4.0%) will not be the last bad news to emerge from the hard economic data. For September, small and medium-sized companies reported a continued downward trend in the business climate, this time by 1.4 points to 10.6 balance points. Sentiment has thus worsened for the sixth month in a row. It is not only the present, but the future too that is looking increasingly bleak.

- Assessments of the current situation fell 1.4 points to 20.2 balance points. On a long-term comparison, SMEs may still perceive their current business situation to be quite good, but far worse than in spring. The situation indicator for the average of the third quarter is 6.5 points behind the second quarter.
- Expectations deteriorated by 1.3 points to 1.0 balance points, meaning that they are only just above the zero line, which represents the historical average.

Large companies' business expectations take a nosedive

However, large companies were plagued by far greater concerns than were SMEs. While their business assessments declined relatively moderately by one point to 16.1 balance points, fears of a collapse in business are increasing rapidly. The expectations of large companies plummeted by 5.9 points, equivalent to almost double a normal monthly change. At -5.6 balance points, the indicator is in negative territory for the first time since the start of 2013. The major exporting firms are most of all increasingly worried about their international markets. Growth in the emerging markets and in global trade has slowed structurally, while there are still no signs of a genuine recovery in Europe. These anxieties are compounded by a great deal of geopolitical uncertainty in the Middle East and Ukraine together with the independence referendum in Scotland, whose outcome was not yet known for most of the survey period and which, according to opinion polls, might have gone either way. By contrast, the domestic economy can still be relied upon. The retail trade is the only economic sector in September to have experienced a slight improvement in the business climate in both size categories. SMEs in the construction and retails sectors currently top the sentiment table.

Employment plans increase moderately

The main driver of the stable domestic economy, namely the good labour market trend, has not run out of steam. It is encouraging that to date the employment plans of enterprises have not also been subject to the deterioration in sentiment. On the contrary: in September they even improved slightly (SMEs: +0.4% points to 7.7 balance points; large companies: +0.7 points to 8.2 balance points). If there continues to be no recovery in Europe though, the employment figures in Germany will probably also soon decrease. Then, at the latest, the domestic economy will also start to splutter. However, as the ageing German society is increasingly affecting the labour market, the demand for specialists will simultaneously remain high.

Outlook for economy darkens noticeably

The weak September result of the KfW-ifo SME Barometer places a question mark over the economic forecasts that were only recently revised downwards across the board. Our GDP forecasts for this year, which were cut from 2.0 to 1.6% in August, will likely prove to be too optimistic from today's perspective. Nevertheless, considering the very unfavourable conditions in particular in Europe, a still fairly satisfactory annual result is not in doubt. Even if the German economy were to stagnate in the second half of 2014, this would result in real term growth of 1.2% for the year as a whole thanks to its successful start. There are, at least, some glimmers of hope. The conflict in east Ukraine has calmed down somewhat and the Scots have, with their clear decision to remain part of the United Kingdom, prevented further political uncertainty in Europe. However, without a broad recovery in the home market of Europe, Germany will not manage a dynamic upturn. All of the risks currently point downwards.

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KfW-ifo SME Barometer

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m	
		Sep/13	Apr/14	Mai/14	Jun/14	Jul/14	Aug/14	Sep/14				
Business climate												
Manufacturing	SME	11.7	19.7	17.5	14.7	14.3	9.5	8.1	-1.4	-3.6	-6.6	
	LSE	13.7	21.6	19.6	16.9	10.5	10.5	5.0	-5.5	-8.7	-10.7	
Construction	SME	21.4	22.2	20.9	20.4	19.9	19.3	19.5	0.2	-1.9	-1.6	
	LSE	12.6	18.0	15.1	16.7	11.4	12.5	5.5	-7.0	-7.1	-6.8	
Retail trade	SME	14.0	24.3	21.9	22.1	15.2	11.9	12.1	0.2	-1.9	-9.7	
	LSE	10.8	11.3	11.7	7.9	4.2	3.8	6.6	2.8	-4.2	-5.4	
Wholesale trade	SME	15.8	31.8	26.1	25.1	18.6	15.7	9.5	-6.2	-6.3	-13.1	
	LSE	6.7	22.3	18.5	20.3	12.6	5.8	3.8	-2.0	-2.9	-13.0	
All economic sectors		SME	14.0	21.7	19.3	17.4	15.7	12.0	10.6	-1.4	-3.4	-6.7
		LSE	12.1	20.0	18.1	16.1	10.0	8.8	5.2	-3.6	-6.9	-10.1
Current situation	SME	19.4	30.6	28.0	25.3	22.4	21.6	20.2	-1.4	0.8	-6.5	
	LSE	14.6	24.8	23.2	25.2	19.7	17.1	16.1	-1.0	1.5	-6.8	
Expectations	SME	8.3	12.7	10.4	9.4	8.8	2.3	1.0	-1.3	-7.3	-6.8	
	LSE	9.2	14.8	12.6	6.9	0.3	0.3	-5.6	-5.9	-14.8	-13.1	
West Germany	SME	14.5	22.8	20.1	18.0	16.1	12.0	10.8	-1.2	-3.7	-7.3	
	LSE	12.1	20.0	17.8	15.9	9.9	8.4	4.8	-3.6	-7.3	-10.2	
East Germany	SME	11.0	14.9	14.3	14.3	13.5	13.0	10.2	-2.8	-0.8	-2.3	
	LSE	11.8	19.9	26.6	21.8	13.8	20.2	15.6	-4.6	3.8	-6.2	
Employment expectations		SME	8.3	10.6	9.2	7.8	7.2	7.3	7.7	0.4	-0.6	-1.8
		LSE	11.1	10.9	9.4	10.7	9.1	7.5	8.2	0.7	-2.9	-2.1
Sales price expectations		SME	-0.7	-0.9	-2.0	-1.7	-2.9	-4.7	-5.0	-0.3	-4.3	-2.7
		LSE	-1.9	-0.7	-2.6	-4.8	-5.7	-3.6	-6.0	-2.4	-4.1	-2.3

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.