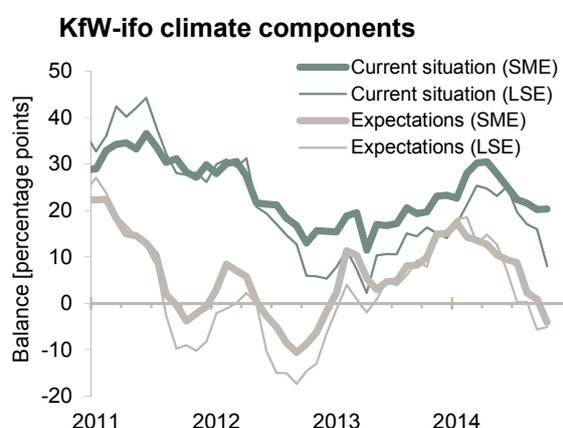
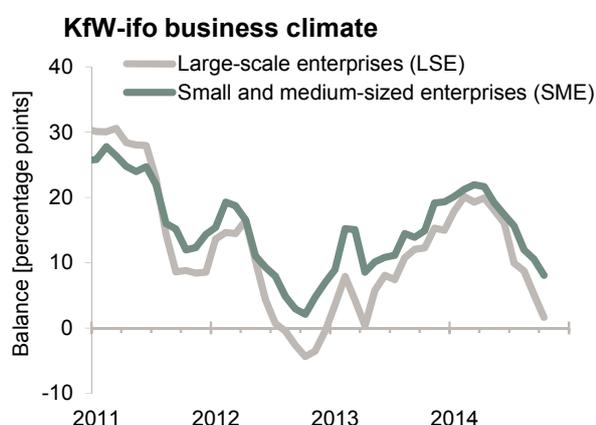


KfW-ifo SME Barometer: October 2014

SMEs facing downswing

- **SMEs: pessimists prevail**
- **Large companies: current situation is deteriorating significantly**
- **Weakness threatens to spread to domestic economy**



Source: KfW Economic Research, ifo Institute Munich

Majority of SMEs now taking a pessimistic view for the first time since the end of 2012

Since grinding to a halt in the spring, the German economy has been in the grip of an increasingly entrenched period of weakness. Conditions at an international level are hitting Germany disproportionately hard on account of its strong focus on exports and industry. In the meantime, the downturn is also spreading to Germany's domestic economy. Companies are concerned and are holding back investments in particular on the back of thwarted growth expectations in Europe and numerous geopolitical risks. Sentiment at the beginning of the fourth quarter is even worse than at the end of the third:

- In October, the business climate among SMEs fell for the seventh time in succession, this time by 2.5 points to 8.1 balance points.
- This coincides with a downturn in sentiment, which means that while companies still take a positive view of their current business situation (+0.1 points to 20.3 balance points), pessimism prevails for the first time since December 2012 when it comes to the expectations for the next six months (-5.0 points to -4.1 balance points).

Business assessments of large companies nosedive

Sentiment among large companies, however, is currently even worse than among SMEs. In this case, their expectations indicator had already fallen below zero back in September as part of a sharp downwards correction that had pushed large companies into a downturn in sentiment. While the expectations of large companies have now stabilised at this below-average level (+0.5 points to -5.1 balance points), business assessments are following the negative trend with a one-month delay and have practically taken a nosedive in October, losing 8.0 points or almost two and a half times their usual monthly fluctuation to put them at 8.0 balance points. This puts the business climate only marginally above its long-term average (-3.5 points to 1.6 balance points), and in the large-scale industrial sector with its strong focus on exports it is even slightly negative again for the first time in almost two years (-5.2 points to -0.3 balance points).

Initial warning signs from the labour market and retail sector

The poor sentiment in the export economy is understandable given the challenging conditions in Europe and current weakness of global trade. The worrying thing, however, is that this weakness is gradually threatening to spread to Germany's labour market and consumption, which until now have served as reliable drivers of domestic demand. First warning signals are the pronounced decline in employment expectations, especially among large companies (SMEs: -0.5 points to 6.9 balance points; large companies: -4.1 points to 3.8 balance points) and the broad and clear drop in retail sentiment (SMEs: -3.7 points to 8.3 balance points; large companies: -5.8 points to 0.8 balance points). Employment expectations and retail sentiment were the worst they had been since spring 2013 about one and a half years ago. Only the climate among SMEs in the construction sector has remained consistently high for some months now.

Little more than stagnation in the second half of the year

The disappointing figures for the KfW-ifo SME Barometer in October fit right into the series of bad results seen in recent months. The state of the global economy is curbing exporters and manufacturers of capital goods, while muted international demand and uncertainty are delaying the boost in investments hoped for here at home. Germany will not be able to achieve a sustainable recovery without Europe, as revealed by the surprisingly poor retail sentiment and employment plans for October. A recipe for growth is yet to be found for Europe in particular. Growth in the region will not materialise by itself. We cannot realistically hope for much more than stagnation going into the new year, either for us or for Europe.

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KfW-ifo SME Barometer

Balance [Percentage points]*	Month/Year								m-o-m	y-o-y	3m-o-3m
	Okt/13	Mai/14	Jun/14	Jul/14	Aug/14	Sep/14	Okt/14				
Business climate											
Manufacturing	SME	13.5	17.4	14.7	14.3	9.4	8.0	4.5	-3.5	-9.0	-8.1
	LSE	12.2	19.6	16.8	10.5	10.4	4.9	-0.3	-5.2	-12.5	-10.6
Construction	SME	18.4	20.8	20.3	19.8	19.2	19.5	19.1	-0.4	0.7	-1.1
	LSE	14.1	15.1	16.7	11.3	12.4	5.5	9.2	3.7	-4.9	-5.3
Retail trade	SME	12.3	21.8	22.0	15.2	11.8	12.0	8.3	-3.7	-4.0	-9.0
	LSE	12.9	11.7	7.9	4.2	3.8	6.6	0.8	-5.8	-12.1	-4.2
Wholesale trade	SME	21.4	26.1	25.0	18.5	15.6	9.4	9.6	0.2	-11.8	-11.7
	LSE	10.8	18.4	20.3	12.5	5.7	3.7	6.7	3.0	-4.1	-11.7
All economic sectors	SME	14.9	19.2	17.4	15.7	12.0	10.6	8.1	-2.5	-6.8	-7.2
	LSE	12.3	18.0	16.1	10.0	8.7	5.1	1.6	-3.5	-10.7	-9.5
Current situation	SME	19.7	27.9	25.2	22.3	21.6	20.2	20.3	0.1	0.6	-4.5
	LSE	16.3	23.1	25.1	19.6	17.0	16.0	8.0	-8.0	-8.3	-8.9
Expectations	SME	9.9	10.4	9.4	8.7	2.3	0.9	-4.1	-5.0	-14.0	-9.8
	LSE	7.9	12.6	6.9	0.3	0.3	-5.6	-5.1	0.5	-13.0	-10.1
West Germany	SME	15.4	20.0	17.9	16.1	11.9	10.7	8.2	-2.5	-7.2	-7.7
	LSE	12.3	17.7	15.9	9.8	8.3	4.8	1.5	-3.3	-10.8	-9.6
East Germany	SME	12.3	14.3	14.3	13.4	12.9	10.1	7.6	-2.5	-4.7	-3.8
	LSE	12.9	26.5	21.7	13.7	20.1	15.4	5.7	-9.7	-7.2	-6.9
Employment expectations	SME	9.8	8.9	7.5	6.9	7.0	7.4	6.9	-0.5	-2.9	-0.7
	LSE	11.2	9.1	10.4	8.7	7.2	7.9	3.8	-4.1	-7.4	-3.1
Sales price expectations	SME	-1.3	-2.0	-1.7	-2.9	-4.7	-5.0	-4.5	0.5	-3.2	-2.5
	LSE	-0.8	-2.6	-4.8	-5.7	-3.6	-5.9	-4.5	1.4	-3.7	-0.3

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.