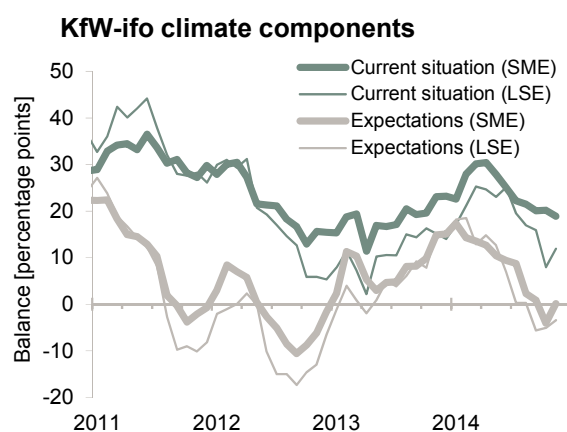
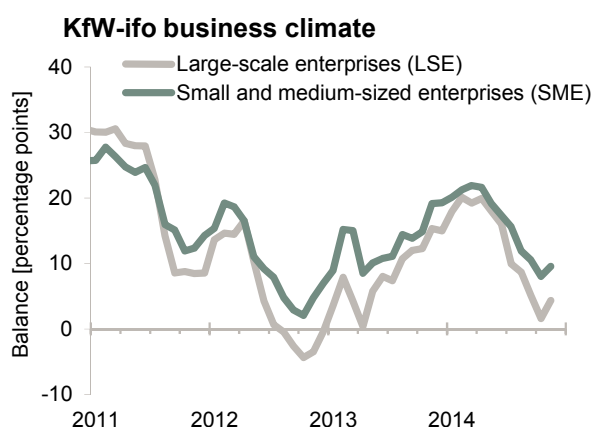


KfW-ifo SME Barometer November 2014

And breathe ...

- **SMEs: expectations improve for first time, but current situation assessment deteriorates**
- **Large companies: climate brightens, but noticeably worse than for SMEs**
- **Retail recovers after weak previous month**



Source: KfW Economic Research, ifo Institute Munich

First improvement in expectations since start of year

SMEs became gradually more pessimistic in the course of 2014, consistently revising their business expectations downwards since the peak in January – unfortunately this is completely understandable because the German economy has not grown since the strong start of the year either, which was boosted by the good weather conditions. But at least the negative trend has been stopped for now. After nine declines in a row, companies finally became more optimistic in November, thereby raising hopes that the lengthy period of weak activity can be overcome during 2015:

- Expectations rose by 4.2 points in November to 0.1 balance points, demonstrating that companies are anticipating a somewhat livelier business environment in early 2015 than is currently the case.
- The improvement in the business climate was less pronounced, however (+1.5 points to 9.5 balance points), as SMEs are not as positive about their current business assessments than in the previous month (-1.3 points to 18.9 balance points).

Large companies: business assessments and expectations pick up again somewhat

Sentiment brightened in November for large companies too. Here there was not only an improvement in expectations (+1.6 points to -3.4 balance points), but also in business assessments (+3.9 points to 11.9 balance points), though the latter component had slumped in the previous month. Overall, the business climate for large companies rose by 2.8 points to 4.4 balance points. What is striking in comparison to SMEs is that sentiment among large companies is currently worse across the board – especially in terms of expectations, which remain below the zero mark for the third consecutive month, despite the recent improvement. These differences are understandable though given the mixed economic stimulus. The economic stagnation seen since the first quarter has primarily been caused by the difficult international conditions: dashed economic hopes in Europe and geopolitical risks have resulted in great uncertainty. This not only hampers German export growth, but also prompts companies to really hang back with investments (as exporters and manufacturers of capital goods, large companies are disproportionately affected here). There is light at the end of the tunnel though: the USA and the United Kingdom, two very important markets for Germany outside the eurozone, are currently experiencing stable upswings, and the falling external value of the euro is good for price competitiveness. The fairly strong export growth in the third quarter (+1.9 % compared to previous quarter) is encouraging in this respect.

Retail recovers after weak previous month, construction records highest sentiment

On the other hand, private consumption and residential building have long since supported the German economy – thanks to the sound labour market, real wage growth and low interest rates – and will probably continue to do so. It is comforting that the retail climate is back on track again after an unexpected fall in the previous month (SMEs: +2.2 points to 10.5 balance points; large companies: +2.9 points to 3.7 balance points) and the employment plans at least of large companies are getting visibly better again (+4.3 points to 8.1 balance points). In November, construction asserted its position as the front-runner in terms of sentiment, in both size categories.

Only moderate growth prospects for 2015

We can now heave a sigh of relief after the November results of the KfW-ifo SME Barometer. The long period of weak growth of the German economy is unlikely to lead to a recession. Just like the companies, we expect to see a recovery in the course of 2015 following a winter that will initially remain weak economically speaking. First and foremost, this assumes there will at least be a modest upturn in the eurozone economy and that relations with Russia will stabilise somewhat. Nevertheless, in light of the weak start to the New Year, Germany will grow by just 0.8 % on average for 2015, adjusted for calendar effects, after 1.4 % in 2014.

Author: Dr Klaus Borger, +49 (0) 69 7431-3944, klaus.borger@kfw.de

Press: Christine Volk, +49 (0) 69 7431-3867, christine.volk@kfw.de

KfW-ifo SME Barometer

| Balance [Percentage points]* | | Month/Year | | | | | | | m-o-m | y-o-y | 3m-o-3m |
|---------------------------------|-----|-------------|-------------|-------------|-------------|-------------|------------|------------|------------|--------------|-------------|
| | | Nov/13 | Jun/14 | Jul/14 | Aug/14 | Sep/14 | Okt/14 | Nov/14 | | | |
| Business climate | | | | | | | | | | | |
| Manufacturing | SME | 18.7 | 14.6 | 14.2 | 9.4 | 8.0 | 4.5 | 5.9 | 1.4 | -12.8 | -6.6 |
| | LSE | 17.0 | 16.8 | 10.4 | 10.4 | 4.8 | -0.3 | 3.4 | 3.7 | -13.6 | -9.9 |
| Construction | SME | 21.4 | 20.3 | 19.8 | 19.1 | 19.4 | 19.0 | 19.1 | 0.1 | -2.3 | -0.6 |
| | LSE | 19.8 | 16.6 | 11.3 | 12.4 | 5.5 | 9.2 | 11.8 | 2.6 | -8.0 | -4.6 |
| Retail trade | SME | 14.6 | 22.0 | 15.1 | 11.7 | 11.9 | 8.3 | 10.5 | 2.2 | -4.1 | -6.1 |
| | LSE | 9.7 | 7.9 | 4.2 | 3.7 | 6.6 | 0.8 | 3.7 | 2.9 | -6.0 | -1.5 |
| Wholesale trade | SME | 24.6 | 25.0 | 18.4 | 15.5 | 9.4 | 9.6 | 13.6 | 4.0 | -11.0 | -8.8 |
| | LSE | 12.9 | 20.2 | 12.5 | 5.7 | 3.7 | 6.7 | 5.8 | -0.9 | -7.1 | -7.4 |
| All economic sectors | SME | 19.2 | 17.3 | 15.6 | 11.9 | 10.5 | 8.0 | 9.5 | 1.5 | -9.7 | -5.6 |
| | LSE | 15.4 | 16.0 | 9.9 | 8.7 | 5.1 | 1.6 | 4.4 | 2.8 | -11.0 | -7.9 |
| Current situation | SME | 23.1 | 25.1 | 22.2 | 21.5 | 20.1 | 20.2 | 18.9 | -1.3 | -4.2 | -3.2 |
| | LSE | 15.2 | 25.1 | 19.5 | 16.9 | 15.9 | 8.0 | 11.9 | 3.9 | -3.3 | -8.6 |
| Expectations | SME | 14.9 | 9.4 | 8.7 | 2.3 | 0.9 | -4.1 | 0.1 | 4.2 | -14.8 | -7.8 |
| | LSE | 15.1 | 6.9 | 0.3 | 0.3 | -5.6 | -5.0 | -3.4 | 1.6 | -18.5 | -7.2 |
| West Germany | SME | 19.9 | 17.9 | 16.0 | 11.9 | 10.7 | 8.2 | 9.9 | 1.7 | -10.0 | -5.7 |
| | LSE | 15.6 | 15.8 | 9.8 | 8.3 | 4.7 | 1.5 | 4.0 | 2.5 | -11.6 | -7.9 |
| East Germany | SME | 14.6 | 14.2 | 13.4 | 12.9 | 10.1 | 7.6 | 7.7 | 0.1 | -6.9 | -5.1 |
| | LSE | 9.5 | 21.7 | 13.7 | 20.0 | 15.4 | 5.7 | 15.6 | 9.9 | 6.1 | -6.3 |
| Employment expectations | SME | 11.2 | 7.5 | 6.9 | 7.0 | 7.3 | 6.8 | 6.5 | -0.3 | -4.7 | -0.2 |
| | LSE | 12.9 | 10.4 | 8.7 | 7.2 | 7.9 | 3.8 | 8.1 | 4.3 | -4.8 | -2.2 |
| Sales price expectations | SME | -1.0 | -1.7 | -2.9 | -4.7 | -5.0 | -4.5 | -5.3 | -0.8 | -4.3 | -1.8 |
| | LSE | 2.4 | -4.8 | -5.7 | -3.5 | -5.9 | -4.5 | -4.2 | 0.3 | -6.6 | -0.2 |

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.