

Credit Constraint Indicator

From the Ifo Business Survey for February 2010

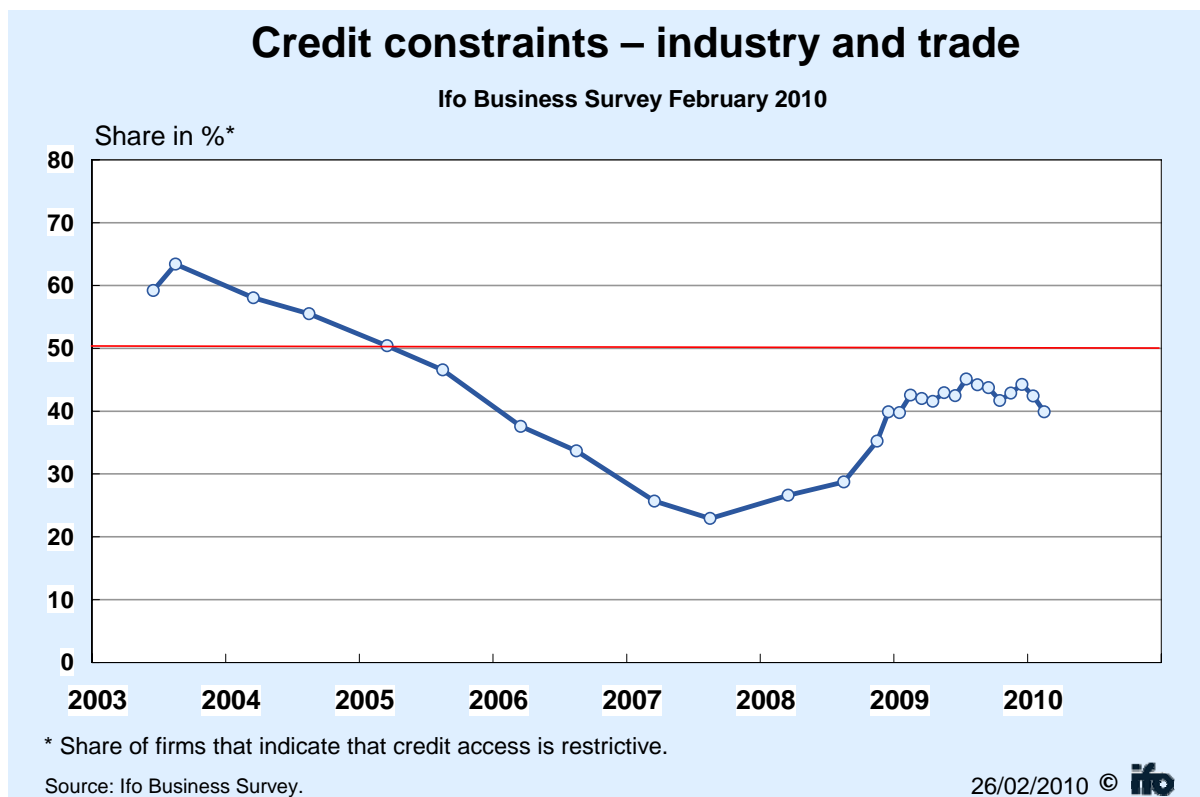
Renewed Weakening of Credit Constraints

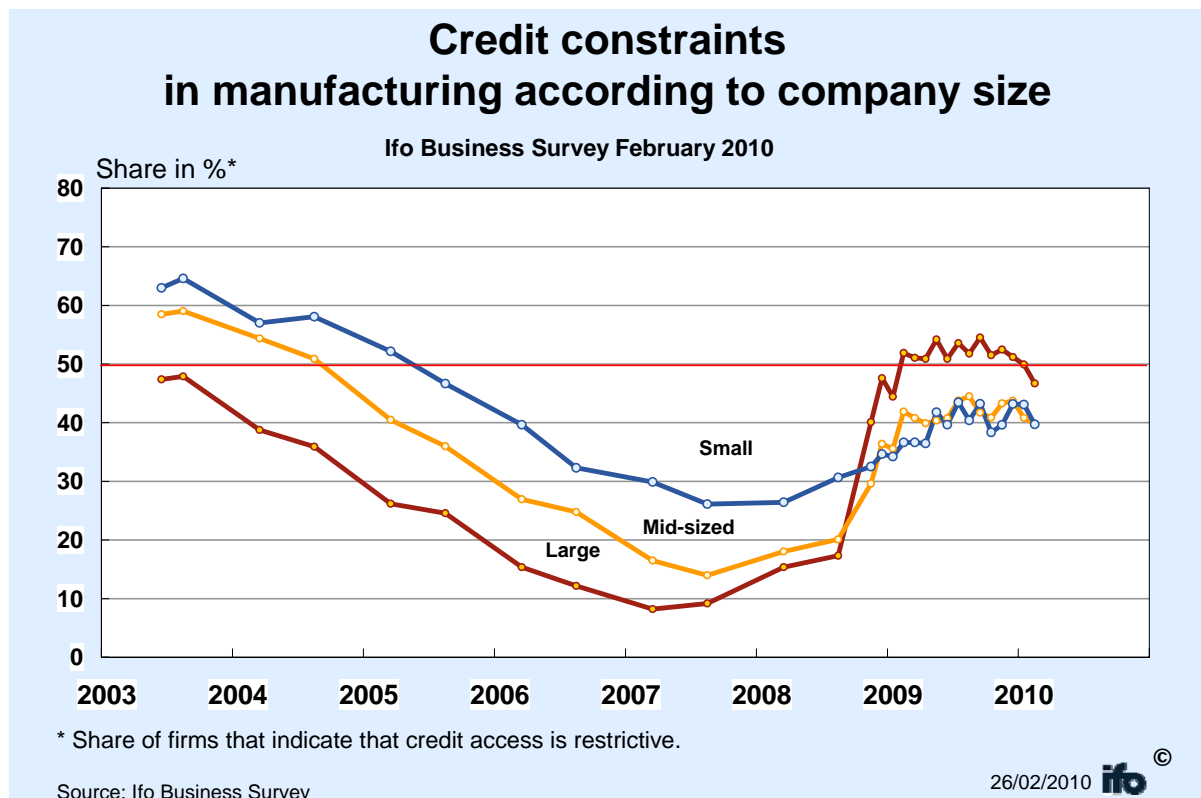
The credit hurdle for German industry and trade in February is clearly lower than in the previous month, having fallen for the second time in succession. Of the survey participants, 39.9% have voiced complaints of banks' restrictive lending policies compared to 42.4% in January. Credit constraints have weakened across all company sizes in manufacturing, in construction and in the distributive trade. This indicates that following the economic recovery in the real economy there are now also clear signs of easing in the credit supply.

The strongest decline in complaints over restrictive lending is in construction, where the credit hurdle has fallen by 5.1 percentage points to 42.7%. In the distributive trade 36.8% of the survey participants assess banks' granting of credit as restrictive – 1.7 percentage points weaker than in January. In manufacturing the credit hurdle is lower for all company size categories. Among the large firms it has fallen 3.2 percentage points to 46.7%, for medium-sized firms by 1.1 percentage points to 39.7% and for small manufacturers by 3.4 percentage points also to 39.7%.

Hans-Werner Sinn

President of the Ifo Institute for Economic Research at the University of Munich





Share of firms indicating that credit access is restrictive

Month/Year	02,09	03,09	04,09	05,09	06,09	07,09	08,09	09,09	10,09	11,09	12,09	01,10	02,10
Industry and trade	42.5	42.0	41.6	42.9	42.4	45.1	44.2	43.7	41.7	42.9	44.3	42.4	39.9
Manufacturing firms													
<i>large</i>	51.9	51.1	50.9	54.2	50.9	53.6	51.8	54.5	51.5	52.5	51.2	49.9	46.7
<i>medium-sized</i>	41.9	40.8	39.9	40.4	40.7	43.8	44.5	41.7	40.8	43.3	43.7	40.8	39.7
<i>small</i>	36.6	36.6	36.5	41.8	39.7	43.5	40.4	43.2	38.3	39.6	43.2	43.1	39.7
Construction	49.1	46.5	45.4	47.2	45.5	47.0	46.5	46.5	47.1	47.4	50.6	47.8	42.7
Trade	38.3	39.0	38.9	38.9	39.9	42.5	41.7	39.9	37.6	38.6	40.0	38.5	36.8

Source: Ifo Business Survey

Legend: The credit constraint indicator is based on ca. 4,000 responses of firms in industry and trade from the sectors manufacturing, construction, wholesaling and retailing. The firms are asked to respond to the following question: "How would you assess the current willingness of banks to extend credit to businesses"? The answers to choose from are "accommodating", "normal" and "restrictive". The credit constraint is calculated from the percentages of the responses to the last of the three categories. For the compilation of the credit constraint indicator for German industry and trade, the percentage shares from manufacturing, construction and retailing are weighted with the average credit volume of these sectors in 2005.

Large firms are those that have more than 249 employees or a turnover of more than €50 million. Small firms are those that have less than 50 employees or a turnover of less than €10 million.