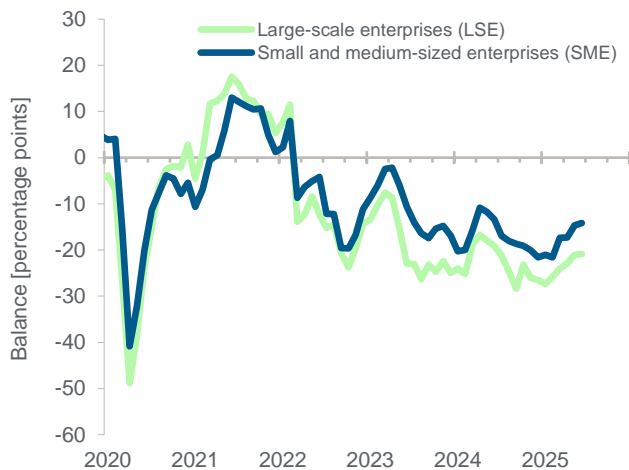


Sentiment continues to improve on expectations

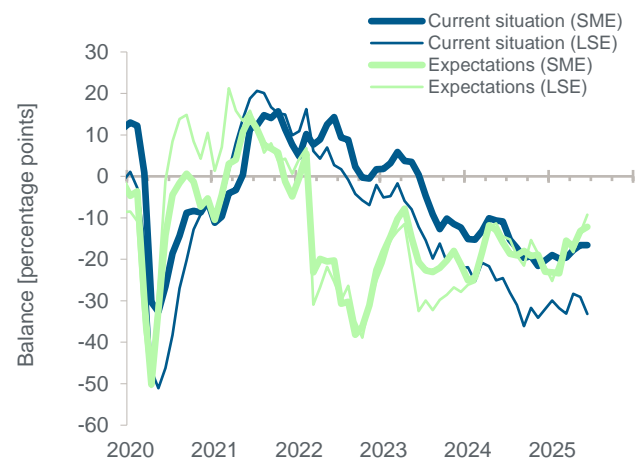
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- Growing confidence drives SME business sentiment higher again
- Construction and services top other sectors
- Sentiment among large enterprises has stagnated on poorer situation assessments
- Germany's economy is poised to gain significant momentum in 2026

KfW-ifo Business Climate Index



KfW-ifo sentiment components



Source: KfW Research, ifo Institute

SME sentiment continues to improve

Despite the simmering trade conflict between the US and the EU and other countries as well as the 12-day war that broke out between Israel and Iran in June, SME sentiment continued to brighten at the beginning of summer. The SME business climate index rose by 0.5 points to -14.2 balance points. This was mostly due to the steadily growing belief in a better economic future, whereas business situation assessments showed that current conditions remain difficult:

- SMEs rated their business situation exactly as they did in the previous month, with the situation indicator stagnating at -16.6 balance points. The briefly stabilising pull-forward effects resulting from efforts to avoid dreaded hefty US tariff increases should gradually begin to dissipate.
- Business expectations, on the other hand, improved by a further 1.0 points in June to now -12.2 balance points. The fact that expectations are now better than situation assessments, as could be observed for several months now, is a typical sign of a beginning recovery.

Service providers and construction firms are the least pessimistic

In June, sentiment was mixed across the main economic sectors in which SMEs operate, with minor drops in confidence in two sectors contrasting with partly sharp increases in three others. Business sentiment improved the most among wholesalers, rising by 4.4 points. Like the industrial sector, wholesale has long been weighed down by trade disputes and the weak global economy, so that despite improving, its sentiment indicator is still well below the long-term average marked by the zero line, at -21.5 balance points. Sentiment also improved noticeably among service providers (+2.2 to -9.2 balance points) and construction firms (+3.4 to -9.9 balance points). With sentiment now only in the negative single digits, these two sectors now top the sentiment leaderboard among SMEs. By contrast, retailers (-0.4 to -14.5 balance points) and manufacturing (-0.2 to -21.3 balance points) suffered minor setbacks. The very low index level among industrial firms is likely due not just to the trade conflict but primarily to the major structural challenges which this sector has to deal with. In addition to the green and digital transformation, the industrial sector must face growing

competition from China even in established markets for high-quality goods.

Large construction firms consolidate their top position on the sentiment leaderboard

Sentiment among large enterprises was virtually treading water in June (+0.1 to -20.9 balance points). Behind this, however, were sharply diverging trends which almost neutralised each other. Whereas expectations of large enterprises were now not just more positive on the previous month but also on a higher level than among SMEs (+4.4 to -9.3 balance points), their business situation assessments remained well below those of SMEs, especially in terms of the level of the indicator (-4.1 to -33.2 balance points). This also explains the still significantly lower business climate among large enterprises overall, which was dragged down primarily by wholesalers and manufacturers – as was the case among SMEs. Even if both sectors reported significant sentiment improvements in June, the mood remains well below that of other sectors among both large manufacturers (+2.8 to -26.2 balance points) and wholesalers (+4.1 to -21.5 balance points). Large construction firms, on the other hand, are developing very positively. In May, they were the first and, so far, the only segment since Russia's invasion of Ukraine where business confidence was somewhat higher than the historic average. Their better than average sentiment continued to improve in June (+2.5 to +4.2 balance points). With their focus on public-sector construction and civil engineering, large construction firms have a particularly promising outlook thanks to the Federal Government's new fiscal package.

Germany will gather steam in 2026

The KfW-ifo SME Barometer for the June reporting month confirms our expectation that things are about to improve for the German economy after what will be a rather weak summer. While business situation assessments remain very bleak given the ongoing tariff dispute with the US and the temporary escalation of the Middle East conflict, particularly among large enterprises, businesses of both size classes are looking to the future with growing optimism. They are likely anticipating a growing willingness on the part of the US to compromise on trade issues. Regardless of this, however, the situation remains complex, and the tariffs in trade with the US will most likely be higher than before President Trump took office. Our economic outlook assumes that US import tariffs on EU products will remain at 10% for the long term. But the ongoing improvement in expectations appears to signal above all increased confidence of businesses in the domestic economy. This is particularly evident in large construction firms, which are hoping for significantly better deals thanks to the public infrastructure initiative, and whose business sentiment is so far the first and only one since the outbreak of the war in Ukraine more than three years ago to be slightly above average again since the previous month and to continue improving in June. All in all, the new fiscal policy decisions on infrastructure and defence spending, which are underpinned by the Federal Government's draft budget for 2025 and the key financial data up to 2029, suggest that the years-long economic weakness will soon be overcome. The very expansionary fiscal policy announced with the draft budget presents an upside risk to our spring forecast published in May, which sees the German economy only stagnate this year and then grow by 1.0% in 2026.

KfW-ifo SME Barometer in figures

Balance [percentage points]*

			Month/Year									
			Jun/24	Jan/25	Feb/25	Mrz/25	Apr/25	Mai/25	Jun/25	m-o-m	y-o-y	3m-o-3m
Business climate												
Manufacturing	SME		-20.8	-30.3	-28.1	-26.9	-26.4	-21.1	-21.3	-0.2	-0.5	5.5
	LSE		-17.8	-35.6	-33.1	-31.9	-33.1	-29.0	-26.2	2.8	-8.4	4.1
Construction	SME		-20.8	-21.3	-21.3	-19.1	-15.5	-13.3	-9.9	3.4	10.9	7.7
	LSE		-7.7	-15.0	-7.8	-0.1	-5.3	1.7	4.2	2.5	11.9	7.8
Retail trade	SME		-14.4	-15.1	-15.1	-15.4	-21.0	-14.1	-14.5	-0.4	-0.1	-1.3
	LSE		-20.3	-23.2	-18.0	-24.0	-20.8	-17.3	-18.0	-0.7	2.3	3.0
Wholesale trade	SME		-29.1	-36.2	-32.5	-30.9	-34.1	-25.9	-21.5	4.4	7.6	6.0
	LSE		-33.4	-33.7	-31.3	-31.8	-30.7	-25.6	-21.5	4.1	11.9	6.3
Services	SME		-4.0	-14.3	-16.5	-10.5	-14.5	-11.4	-9.2	2.2	-5.2	2.1
	LSE		-18.1	-18.2	-20.6	-21.2	-19.0	-17.2	-16.4	0.8	1.7	2.5
Germany	SME		-13.4	-21.1	-21.6	-17.4	-17.3	-14.7	-14.2	0.5	-0.8	4.6
	LSE		-19.1	-27.3	-25.8	-24.0	-22.9	-21.0	-20.9	0.1	-1.8	4.1
Current situation	SME		-10.9	-19.0	-19.8	-19.6	-17.8	-16.6	-16.6	0.0	-5.7	2.5
	LSE		-24.5	-29.9	-31.8	-33.1	-28.3	-29.1	-33.2	-4.1	-8.7	1.4
Expectations	SME		-16.0	-23.2	-23.4	-15.5	-17.0	-13.2	-12.2	1.0	3.8	6.6
	LSE		-14.5	-25.3	-20.6	-15.7	-18.3	-13.7	-9.3	4.4	5.2	6.8
Employment expectations	SME		-5.1	-8.2	-8.1	-9.4	-8.6	-8.8	-9.2	-0.4	-4.1	-0.3
	LSE		-6.1	-16.3	-15.2	-16.6	-13.0	-12.6	-17.0	-4.4	-10.9	1.8
Sales price expectations	SME		1.1	3.9	4.4	3.3	3.7	1.6	1.1	-0.5	0.0	-1.7
	LSE		-0.8	4.3	4.8	2.7	8.2	0.2	-1.6	-1.8	-0.8	-1.7
Export expectations of manufacturing	SME		-14.8	-15.9	-13.8	-10.8	-17.3	-12.5	-12.5	0.0	2.3	-0.6
	LSE		-4.6	-12.1	-9.8	-6.0	-17.5	-7.8	-9.6	-1.8	-5.0	-2.3

Source: KfW Research, ifo Institute

Explanations and abbreviations:

*Seasonally and mean adjusted (long-term mean since January 2005 = 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 adjustments as well as rounding. The KfW-ifo SME Barometer was fundamentally revised for the reporting month of April 2018 (new aggregation process, inclusion of services, start of timeseries now 2005 instead of 1991, consideration of export expectations, discontinuation of regional indicators for western and eastern Germany). Publications prior to and from April 2018 are therefore comparable to a limited extent only.

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 ifo economic surveys which are used to calculate, among other things, the well-known ifo Business Climate Index. Each month about 9,500 enterprises from trade and industry, construction, wholesale, retail and services (without the banking and insurance sectors or the state) are polled on their business situation, among them some 8,000 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 distinctions have to be drawn more narrowly for retail trade (maximum annual turnover of EUR 12.5 million), the building and the construction industry (up to 200 employees) and services (maximum annual turnover of EUR 25 million). 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 and – exclusively for manufacturing – export expectations are also captured as balance figures for the next three months. All timeseries are seasonally and mean adjusted. The zero line therefore marks the long-term 'cycle-neutral' average since January 2005. Indicators above (or below) zero point to an above average or favourable (below average or negative) business situation.