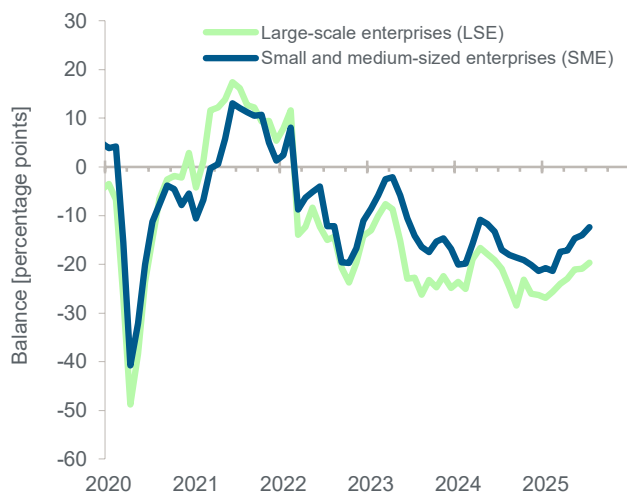


# SME business sentiment continues to improve

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- SME business sentiment moves further out of the doldrums on brighter expectations
- Sentiment in the manufacturing sector has improved the most
- Business confidence among large enterprises has also grown
- Despite trade-policy headwinds, the economic recovery is foreseeable

KfW ifo Business Climate Index



KfW ifo sentiment components



Sources: KfW Research, ifo Institute

## Business sentiment among SMEs continues to improve

In July, the SME business climate improved for the fifth consecutive month. The rise of 1.6 points to now -12.4 balance points was driven by a significant improvement in expectations, while situation assessments of small and medium-sized enterprises improved only marginally:

- Business expectations for the next six months improved by a notable 2.9 points to -9.0 balance points. In particular, the massive increase in public-sector investment expenditure now enshrined in the federal budget and support measures such as the investment booster decided in July are likely to give hope to businesses.
- Situation assessments, however, rose by only a marginal 0.2 points. At -16.3 balance points, they remain well below the zero line, which stands for the long-term average.

## Expectations have improved across a broad front

SMEs' business expectations improved in all main economic sectors in July. However, the sentiment improvement among

service providers (+1.0 points), retailers (+1.6 points) and the main construction industry (+1.2 points) was driven exclusively by higher business expectations, while situation assessments stagnated or worsened slightly. In manufacturing, on the other hand, the rise in confidence in July stood on a broader foundation of situation assessments as well as expectations and is therefore particularly strong at +5.2 points. The picture was similar for wholesalers (+2.6 points), which are closely tied to industrial activity. But these are also the two economic sectors that have experienced the steepest drop in sentiment since 2023. Overall, despite the most recent improvement, they still have the lowest situation assessments and worst business sentiment of all sectors.

## Large construction firms are hoping for public-sector investment

Large construction companies currently boast the highest business confidence of all sectors and size classes, at +4.0 points. The planned increase in public-sector investment with the special infrastructure fund has caused their business expectations

to improve significantly in the past months. In July, however, the improvement was only minor (+0.2 points) thanks to improved situation assessments. Overall, business sentiment among large enterprises continues to move at the same rate as that of SMEs. After a plus of 1.3 points in July, however, it remains significantly worse than among SMEs, at -19.6 balance points. Situation assessments of large enterprises, in particular, remain very poor. This is probably due to the fact that large enterprises on average are influenced more strongly by geopolitical developments than SMEs.

### **Economic recovery remains within reach**

On balance, the KfW-ifo SME Barometer shows that the sentiment upswing in the German economy continued at the beginning of the summer quarter. Another positive is that businesses' employment expectations also stabilised again slightly (+1.4 in SMEs and +1.6 among large enterprises). Business confidence improved slightly more slowly over the past months than during the waves of improvement in the spring of 2023 and 2024 but this time it is likely that it will be more than just a flash in the pan. In particular, the new Federal Government has the funds for a massive fiscal stimulus that is also to be implemented very quickly now according to the

budgetary plan. For example, the newly created diminishing balance method of depreciation could provide a boost to business investment in machinery and equipment already in the second half of the year. The increase in public-sector infrastructure investment and defence spending should then have a positive effect on the German economy by 2026 at the latest. At the same time, the protectionist stance of the US administration is continuing to generate headwinds. The trade agreement between the EU and the US effectively imposes US tariffs at a similar rate as during the second quarter. A look at the trend in sentiment indicators and German industrial output shows that businesses are so far coping with the tariffs quite well. Decreasing exports to the US and increased competitive pressure from industrial overcapacity in China, however, will likely continue to weigh on Germany's foreign trade for some time to come.

## KfW-ifo SME Barometer in figures

Balance [percentage points]\*

|                                      |     |  | Month/Year |        |        |        |        |        |        |       |       |         |
|--------------------------------------|-----|--|------------|--------|--------|--------|--------|--------|--------|-------|-------|---------|
|                                      |     |  | Jul/24     | Feb/25 | Mrz/25 | Apr/25 | Mai/25 | Jun/25 | Jul/25 | m-o-m | y-o-y | 3m-o-3m |
| Business climate                     |     |  |            |        |        |        |        |        |        |       |       |         |
| Manufacturing                        | SME |  | -21.8      | -27.8  | -26.7  | -26.2  | -20.9  | -20.8  | -15.6  | 5.2   | 6.2   | 7.8     |
|                                      | LSE |  | -19.7      | -32.8  | -31.8  | -32.8  | -28.8  | -25.7  | -22.6  | 3.1   | -2.9  | 6.8     |
| Construction                         | SME |  | -21.6      | -21.3  | -19.1  | -15.4  | -13.2  | -9.7   | -8.5   | 1.2   | 13.1  | 8.1     |
|                                      | LSE |  | -6.8       | -7.4   | 0.1    | -5.4   | 1.5    | 3.8    | 4.0    | 0.2   | 10.8  | 7.3     |
| Retail trade                         | SME |  | -16.3      | -15.3  | -15.7  | -21.2  | -14.0  | -14.4  | -12.8  | 1.6   | 3.5   | 3.7     |
|                                      | LSE |  | -20.4      | -17.7  | -23.9  | -20.9  | -17.6  | -18.6  | -23.3  | -4.7  | -2.9  | 1.0     |
| Wholesale trade                      | SME |  | -29.4      | -32.4  | -30.7  | -34.0  | -25.4  | -21.2  | -18.6  | 2.6   | 10.8  | 10.6    |
|                                      | LSE |  | -32.0      | -31.2  | -31.8  | -30.7  | -25.2  | -21.5  | -21.2  | 0.3   | 10.8  | 8.6     |
| Services                             | SME |  | -8.3       | -16.4  | -10.4  | -14.5  | -11.4  | -9.2   | -8.2   | 1.0   | 0.1   | 4.2     |
|                                      | LSE |  | -21.3      | -20.4  | -21.1  | -18.9  | -17.1  | -16.3  | -16.5  | -0.2  | 4.8   | 3.5     |
| Germany                              | SME |  | -17.0      | -21.4  | -17.4  | -17.1  | -14.7  | -14.0  | -12.4  | 1.6   | 4.6   | 4.9     |
|                                      | LSE |  | -20.9      | -25.6  | -24.0  | -22.9  | -21.0  | -20.9  | -19.6  | 1.3   | 1.3   | 3.7     |
| Current situation                    | SME |  | -15.0      | -19.8  | -19.5  | -17.7  | -16.5  | -16.5  | -16.3  | 0.2   | -1.3  | 2.6     |
|                                      | LSE |  | -27.5      | -31.8  | -33.1  | -28.2  | -29.0  | -33.2  | -29.7  | 3.5   | -2.2  | 0.4     |
| Expectations                         | SME |  | -19.0      | -23.1  | -15.6  | -16.8  | -13.1  | -11.9  | -9.0   | 2.9   | 10.0  | 7.2     |
|                                      | LSE |  | -15.1      | -20.2  | -15.8  | -18.3  | -13.7  | -9.5   | -10.2  | -0.7  | 4.9   | 7.0     |
| Employment expectations              | SME |  | -5.6       | -8.1   | -9.4   | -8.6   | -8.7   | -9.0   | -7.6   | 1.4   | -2.0  | 0.3     |
|                                      | LSE |  | -9.5       | -15.2  | -16.5  | -13.0  | -12.6  | -17.1  | -15.5  | 1.6   | -6.0  | -0.2    |
| Sales price expectations             | SME |  | 2.2        | 4.3    | 3.3    | 3.7    | 1.6    | 1.3    | 3.1    | 1.8   | 0.9   | -1.8    |
|                                      | LSE |  | 2.6        | 4.7    | 2.8    | 8.3    | 0.2    | -1.2   | 0.5    | 1.7   | -2.1  | -5.4    |
| Export expectations of manufacturing | SME |  | -14.9      | -13.7  | -10.8  | -17.3  | -12.4  | -12.3  | -9.8   | 2.5   | 5.1   | 2.4     |
|                                      | LSE |  | -5.4       | -9.7   | -5.9   | -17.5  | -7.7   | -9.4   | -6.1   | 3.3   | -0.7  | 3.3     |

Sources: 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.