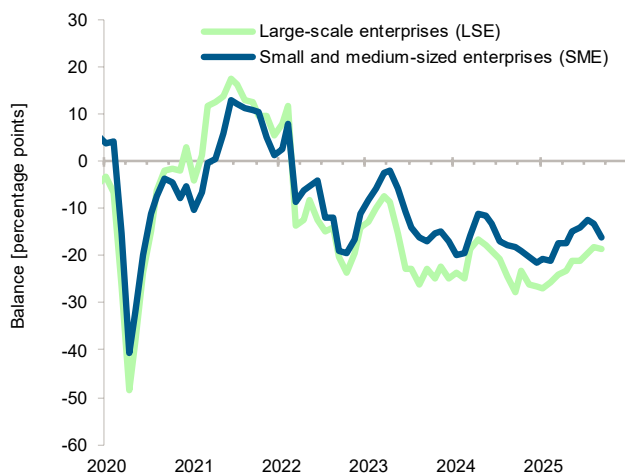


# SMEs headed into autumn on a sour note

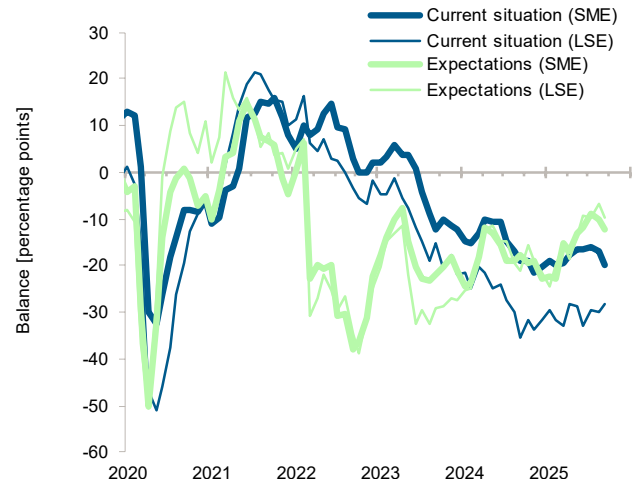
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- SMEs' situation assessments and expectations have dropped for the second straight month. The sentiment upturn that could be observed since the start of the year has begun to stall.
- Small and medium-sized service providers suffered a particularly sharp drop in confidence at the beginning of autumn but sentiment among large enterprises has also dipped this time.
- The wait for the fiscal impetus on which many economic hopes are pinned continues.

KfW ifo Business Climate Index



KfW ifo sentiment components



Sources: KfW Research, ifo Institute

## Sentiment weakened again in September

There was a first downturn in August but now there has even been a significant setback. Business confidence among small and medium-sized enterprises (SMEs) fell for the second consecutive month in September. It dropped by 2.9 points to -16.1 balance points. Its two components developed as follows:

- Expectations for the next six months decreased by 2.4 points to -12.5 balance points.
- Situation assessments declined by a steeper 3.2 points to just -20.0 balance points.

Expectations and situation assessments thus remain clearly below the zero line, which stands for the long-term average.

## Service providers were already miffed heading into autumn

As was the case in the previous month, business sentiment in the individual SME sectors is showing a mixed picture. Minor improvements occurred in the economically significant manufacturing sector and retail. Sentiment trended sideways in the

construction industry, while dropping sharply among wholesalers and service providers (by 4.1 and 3.8 points). It is currently difficult to craft from this a consistent narrative. SME service providers typically rely mostly on domestic demand. If this demand weakens significantly, it should primarily translate into noticeably lower confidence in the retail and construction sector. But that is not the case. Wholesalers, for their part, are closely linked to foreign trade. SMEs' export expectations, however, surged in September against the backdrop of the now secured tariff agreement with the US. The current mood swings among businesses therefore appear to be somewhat erratic, perhaps a reflection of US policies which are still creating much uncertainty and having economic consequences that are obviously being felt not just within the US.

## Sentiment is down among large enterprises too

The second consecutive decline in business sentiment for SMEs in September was accompanied by the first drop in business sentiment of large enterprises this year. It fell by 0.5 points to -18.6 balance points. This development was driven exclusively

by expectations, which decreased by 3.0 points, while situation assessments improved by 1.8 points.

### **Hope for fiscal impetus may tip the scales**

Overall, the second straight decline in the SME business sentiment is a disappointment. It seems a bit as if the hope that the policies of the new government would invigorate the German economy are fading, while at the same time the news from the manufacturing sector is worsening. Expectations for a strong

fiscal impetus, in particular, (still) remain high. But the uncertainty as to when the fiscal impetus will have an effect and whether it will bring a trend reversal is likely growing. The longer this uncertainty continues, the higher the likelihood of not just mood swings but of businesses becoming annoyed. And not just in the services industry.

## KfW-ifo SME Barometer in figures

Balance [percentage points]\*

			Month/Year									
			Sep/24	Apr/25	Mai/25	Jun/25	Jul/25	Aug/25	Sep/25	m-o-m	y-o-y	3m-o-3m
Business climate												
Manufacturing	SME		-23.1	-26.0	-20.8	-20.9	-15.8	-16.8	-16.5	0.3	6.6	6.2
	LSE		-26.2	-32.6	-28.6	-25.5	-22.2	-17.0	-18.4	-1.4	7.8	9.7
Construction	SME		-19.5	-15.1	-13.0	-9.7	-8.6	-8.2	-8.3	-0.1	11.2	4.2
	LSE		-9.2	-5.3	1.4	3.6	3.6	-2.9	2.1	5.0	11.3	1.0
Retail trade	SME		-11.8	-21.2	-14.2	-14.5	-13.1	-13.7	-13.2	0.5	-1.4	3.3
	LSE		-25.0	-20.9	-17.4	-18.2	-22.7	-16.0	-12.6	3.4	12.4	1.7
Wholesale trade	SME		-29.5	-33.8	-25.2	-21.3	-18.9	-17.6	-21.7	-4.1	7.8	7.4
	LSE		-31.6	-30.3	-24.7	-21.2	-21.0	-16.9	-18.5	-1.6	13.1	6.6
Services	SME		-11.1	-14.3	-11.3	-9.1	-8.0	-11.2	-15.0	-3.8	-3.9	0.2
	LSE		-26.4	-18.8	-17.0	-16.2	-16.3	-14.8	-20.0	-5.2	6.4	0.3
Germany	SME		-18.2	-17.2	-14.7	-14.0	-12.4	-13.2	-16.1	-2.9	2.1	1.4
	LSE		-27.8	-23.0	-20.9	-20.9	-19.4	-18.1	-18.6	-0.5	9.2	2.9
Current situation	SME		-19.1	-17.7	-16.4	-16.4	-16.2	-16.8	-20.0	-3.2	-0.9	-0.8
	LSE		-35.3	-28.1	-28.8	-33.0	-29.6	-30.1	-28.3	1.8	7.0	0.6
Expectations	SME		-17.7	-17.1	-13.3	-11.9	-9.1	-10.1	-12.5	-2.4	5.2	3.5
	LSE		-21.1	-18.5	-13.7	-9.6	-10.0	-6.7	-9.7	-3.0	11.4	5.1
Employment expectations												
	SME		-7.1	-8.5	-8.6	-8.9	-7.5	-7.5	-9.8	-2.3	-2.7	0.4
	LSE		-14.3	-12.9	-12.5	-17.0	-15.4	-14.3	-16.1	-1.8	-1.8	-1.1
Sales price expectations												
	SME		0.5	3.7	1.6	1.4	3.2	2.6	-0.5	-3.1	-1.0	-0.5
	LSE		-1.9	8.2	0.3	-1.1	0.3	-0.8	-0.9	-0.1	1.0	-2.9
Export expectations of manufacturing												
	SME		-14.8	-17.3	-12.5	-12.4	-10.0	-13.7	-12.3	1.4	2.5	2.1
	LSE		-13.7	-17.9	-7.9	-9.3	-5.5	-7.1	2.9	10.0	16.6	8.5

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.