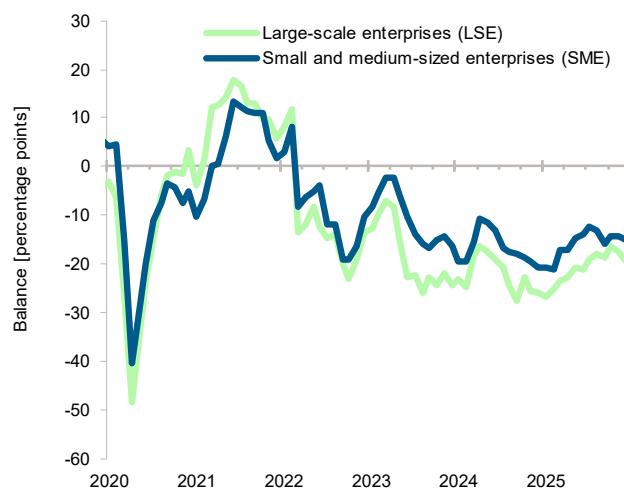


Winter blues instead of Christmas cheer

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- SME business sentiment dipped slightly in December
- Expectations in particular have weakened, situation assessments are steady on a low level
- Mood among large enterprises has deteriorated considerably
- Some things will get better in the new year

KfW ifo Business Climate Index



KfW ifo sentiment components



Sources: KfW Research, ifo Institute

Business confidence has dropped again

The business confidence of small and medium-sized enterprises (SMEs) ended the year 2025 with a drop of 0.5 points to -15.0 balance points. Sentiment thus remains clearly below the zero line, which represents the long-term average. The decline in December was due to more negative business expectations. SMEs' assessments of their business situation improved slightly.

- Six-month expectations fell noticeably from -9.7 points to -11.1 points. Since late summer, the upturn in expectations that began at the start of the year has stalled, and the future prospects for SMEs are now only moving sideways amid fluctuations.
- Situation assessments have been moving virtually sideways on an even lower level for months now. Even so, they rose by 0.5 points to -19.3 balance points in December.

SME business sentiment has dropped in almost all areas

SME business confidence deteriorated in almost all sectors in December. The sharpest drop, however, was in the large services sector (-2.3 points to now -14.6 balance points). Business expectations clouded over significantly here, while situation assessments improved slightly. The only sector where confidence increased towards the end of the year was the main construction industry, even though the 0.2-point rise here was very minor. Confidence in the manufacturing sector dropped by a marginal 0.1 points despite increased export expectations. In the retail sector it deteriorated primarily as a result of situation assessments, dropping by a more significant 1.9 points, suggesting that Christmas sales have been a disappointment.

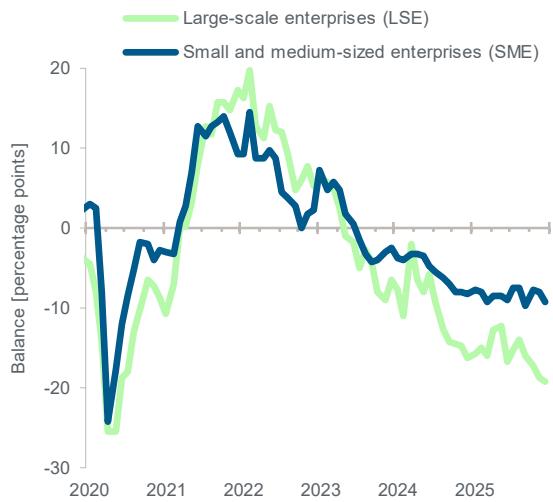
Mood among large enterprises has worsened significantly

The gap between sectors is currently even wider among large enterprises. Confidence among large retailers even fell by a considerable 6.2 points and industrial firms also recorded a significant 2.1-point drop. In the main construction industry, on

the other hand, it improved by 2.4 points. On balance, business sentiment among large enterprises decreased by 2.3 points, so that the gap to SMEs widened again after closing in the previous months. Unfortunately, employment expectations among large enterprises also remain stuck in a steep downward trend (-0.6 points in December). Among SMEs they are generally steadier, although the drop in employment expectations here was slightly steeper in December (-1.1 points).

KfW-ifo employment expectations

(for the next three months)



Sources: KfW Research, ifo Institute

Some things will get better in the new year

The recovery in business sentiment in the first three quarters of the year has given way to broad disenchantment across the German economy since the autumn. In broad segments of manufacturing the problems are too great, especially the China shock. Overall, however, based on the hard and soft economic indicators we still expect moderately positive growth in the current quarter. Whereas sentiment among SMEs as well as the ifo Business Climate Index decreased overall during the final quarter, the Purchasing Managers' Index was quite clearly in the growth range and the weekly activity index of the Deutsche Bundesbank also signals moderately positive momentum. Bolstered by government contracts and multiple incentives for more private investment, as well as by further increases in real incomes, we expect a significant economic recovery in the new year. Risks to our forecast of 1.5% growth in 2026 lie in, among other things, the possibility of weaker household consumption. Among the relevant factors that we are closely monitoring are the persistently decreasing employment expectations and the drop in confidence in the retail sector.

KfW-ifo SME Barometer in figures

Balance [percentage points]*

		Month/Year									
		Dez/24	Jul/25	Aug/25	Sep/25	Okt/25	Nov/25	Dez/25	m-o-m	y-o-y	3m-o-3m
Business climate											
Manufacturing	SME	-28.8	-15.9	-17.2	-16.8	-17.1	-18.0	-18.1	-0.1	10.7	-1.1
	LSE	-28.5	-22.0	-17.6	-18.6	-15.7	-17.9	-20.0	-2.1	8.5	1.5
Construction	SME	-19.1	-8.6	-8.4	-8.5	-6.6	-8.5	-8.3	0.2	10.8	0.7
	LSE	-10.6	2.9	-3.7	2.9	-3.3	-4.5	-2.1	2.4	8.5	-4.0
Retail trade	SME	-12.7	-13.9	-13.7	-13.6	-11.6	-16.8	-18.7	-1.9	-6.0	-2.0
	LSE	-16.1	-22.4	-15.9	-13.3	-12.8	-19.1	-21.5	-2.4	-5.4	-0.6
Wholesale trade	SME	-35.2	-18.6	-17.4	-21.7	-17.6	-19.1	-21.6	-2.5	13.6	-0.2
	LSE	-33.1	-20.9	-17.0	-18.9	-17.2	-21.1	-22.5	-1.4	10.6	-1.3
Services	SME	-16.0	-7.8	-11.0	-14.7	-12.9	-12.3	-14.6	-2.3	1.4	-2.1
	LSE	-24.3	-16.0	-14.5	-19.7	-16.1	-11.7	-17.9	-6.2	6.4	1.5
Germany	SME	-20.9	-12.4	-13.1	-15.9	-14.5	-14.5	-15.0	-0.5	5.9	-0.9
	LSE	-25.9	-19.3	-17.9	-18.7	-16.2	-17.4	-19.7	-2.3	6.2	0.9
Current situation	SME	-19.6	-16.2	-16.7	-20.0	-19.6	-19.8	-19.3	0.5	0.3	-1.9
	LSE	-31.1	-29.5	-30.0	-28.2	-29.7	-26.1	-27.8	-1.7	3.3	1.4
Expectations	SME	-22.3	-9.0	-9.9	-12.3	-9.9	-9.7	-11.1	-1.4	11.2	0.2
	LSE	-21.3	-9.9	-6.4	-9.9	-3.4	-9.3	-12.2	-2.9	9.1	0.4
Employment expectations	SME	-8.2	-7.4	-7.4	-9.7	-7.8	-8.1	-9.2	-1.1	-1.0	-0.2
	LSE	-16.4	-15.2	-14.1	-16.1	-17.4	-18.8	-19.4	-0.6	-3.0	-3.4
Sales price expectations	SME	4.1	3.3	2.7	-0.6	-0.3	3.7	4.0	0.3	-0.1	0.7
	LSE	3.0	0.4	-0.9	-1.0	-1.0	2.2	5.0	2.8	2.0	2.6
Export expectations of manufacturing	SME	-14.3	-9.9	-13.7	-12.4	-9.9	-14.4	-13.3	1.1	1.0	-0.5
	LSE	-12.5	-5.7	-7.5	2.1	-2.8	-8.9	-5.4	3.5	7.1	-2.0

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.