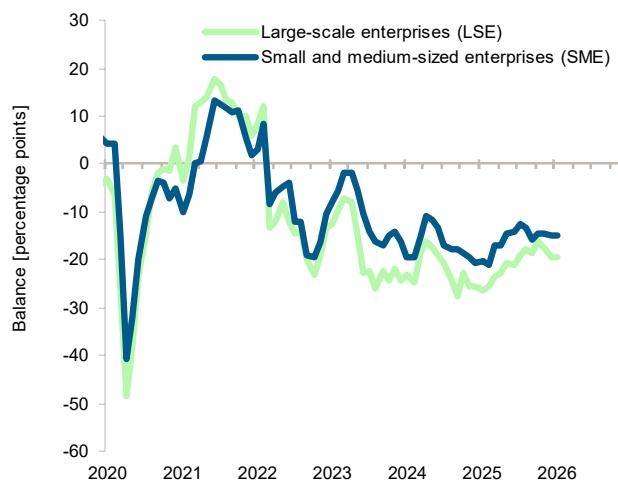


The good news is in the details

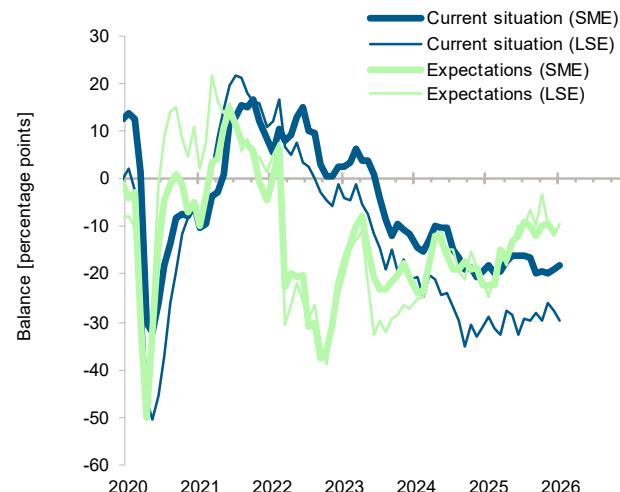
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- SME business sentiment was steady in January despite Greenland turmoil.
- Detailed sectoral data gives even more reason for hope.
- Particularly in the retail sector, sentiment improved again significantly towards the end of the year.

KfW ifo Business Climate Index



KfW ifo sentiment components



Sources: KfW Research, ifo Institute

SME business sentiment remains steady

At the start of 2026, SME business sentiment edged down slightly by 0.1 points to now -15.0 points. The slight decline was due to business expectations. SMEs' assessments of their business situation, on the other hand, improved for the second straight month:

- Six-month business expectations dropped from -11.1 points to -12.1 points.
- Situation assessments rose by 0.8 points to -18.4 balance points.

Detailed sectoral data provides positive signals

At first glance, this trend may be disappointing given the continuing long wait for a genuine recovery of the domestic economy. But it needs to be considered that, first of all, the Greenland turmoil in January and the resulting unease over further US tariffs have likely weighed on sentiment among some SMEs as well. Against this backdrop, the sideways movement of business sentiment is in itself good news that shows how crisis resilient SMEs are. Second, a look at the economic sectors provides

encouragement. Sentiment there has improved almost everywhere, especially in retail, where the indicator rose by 4.2 points to now -14.1 points, followed by wholesale, where business sentiment improved by 3.9 points to -16.8 points. After two weak preceding months in retail, this may point to a delayed upturn of (post-)Christmas sales. Besides, the corresponding indicators for the main construction industry and services rose (see table on page 3). Only in manufacturing did SME business sentiment stagnate on a level of -17.9 points but at least it did not worsen.

So, overall, the sentiment indexes of the individual sectors are pointing upwards – in line with the trend that was observable already last year. The fact that overall business sentiment across the SME sector has not improved is merely due to a technical effect associated with the seasonal adjustment to this time series. Unfortunately, that masks the general improvement in SME sentiment in January.

Large enterprises are not deterred either

The business sentiment of large enterprises shows a similar trend as that of SMEs. The indicator here remains unchanged at -19.4 points. However, their sentiment differs to that of SMEs on

two fronts: First, both sentiment components – situation assessments and business expectations – are diametrically opposed to those of SMEs. Large enterprises had higher expectations despite the Greenland turmoil but viewed their current situation more critically. Second, the picture is more mixed in individual economic sectors than among SMEs. Sentiment among large retailers improved at the highest rate as well, by 4.4 points (-17.1 points) but at the same time there are three sectors in which sentiment deteriorated on the previous month (moderately in wholesale, more sharply among services businesses and in the main construction industry; see table on p. 3). Finally, what is remarkable among large enterprises is the sentiment improvement in manufacturing – which is traditionally of great importance for the German economy (from -20.4 points to -18.6 points).

There is good reason to hope that momentum will finally pick up

Thus, the details of the January survey of the KfW Ifo Business Climate Index illustrate that things are now better for SMEs than the index alone would suggest. And taking into account how the “hard data” has developed, such as the data on order intake in manufacturing most recently published by the Federal Statistical Office, there is now more reason than ever to hope for a

genuine upswing. Specifically, domestic orders received in October and November increased at exceptionally strong rates (by 1.6 and 5.6% on the respective preceding month). The long-awaited fiscal impetus is presenting itself there in the form of large-volume orders. For the time being, these will only reach individual businesses or sectors. But the large-volume orders will flow through to the remaining economy in the form of follow-on orders and further large orders are likely to follow. This will likely lead to a further general improvement in business sentiment. The KfW-Ifo Business Climate Index will reflect these, although there is still a way to go to reach a normalisation, with the zero line representing the long-term average.

After contracting for two years, the German economy has grown moderately in 2025. Given the constant disruptive actions taken on the other side of the Atlantic, that is remarkable. Now, at the start of 2026, a lot of turmoil has been stoked around Greenland, again preventing the economy – which we compare to an airplane cleared for departure – from taking off. Its engines are running and the brakes are locked but the “hard data”, such as incoming orders and the details of the KfW-Ifo SME Barometer, suggest that the thrust is increasing!

KfW-ifo SME Barometer in figures

Balance [percentage points]*

		Month/Year									
		Jan/25	Aug/25	Sep/25	Okt/25	Nov/25	Dez/25	Jan/26	m-o-m	y-o-y	3m-o-3m
Business climate											
Manufacturing	SME	-28.4	-17.5	-17.0	-17.2	-17.9	-17.9	-17.9	0.0	10.5	-0.7
	LSE	-33.8	-17.7	-18.7	-15.7	-17.9	-20.4	-18.6	1.8	15.2	-1.6
Construction	SME	-19.8	-8.5	-8.5	-6.7	-8.4	-8.2	-6.8	1.4	13.0	0.1
	LSE	-13.2	-3.9	2.8	-3.4	-4.5	-2.2	-4.9	-2.7	8.3	-2.4
Retail trade	SME	-15.0	-13.7	-13.6	-11.5	-16.5	-18.3	-14.1	4.2	0.9	-3.4
	LSE	-22.2	-15.8	-13.3	-12.8	-19.1	-21.5	-17.1	4.4	5.1	-5.3
Wholesale trade	SME	-34.7	-17.8	-21.9	-17.7	-18.9	-20.7	-16.8	3.9	17.9	0.3
	LSE	-32.1	-17.0	-18.9	-17.2	-21.1	-22.5	-22.9	-0.4	9.2	-4.5
Services	SME	-13.9	-11.0	-14.7	-12.9	-12.2	-14.6	-13.6	1.0	0.3	-0.6
	LSE	-17.7	-14.4	-19.6	-16.0	-11.5	-17.8	-20.2	-2.4	-2.5	0.2
Germany	SME	-20.1	-13.1	-15.8	-14.4	-14.4	-14.9	-15.0	-0.1	5.1	-0.3
	LSE	-26.5	-17.8	-18.5	-16.2	-17.4	-19.4	-19.4	0.0	7.1	-1.2
Current situation	SME	-18.4	-16.7	-19.9	-19.6	-19.8	-19.2	-18.4	0.8	0.0	-0.4
	LSE	-28.9	-29.9	-28.1	-29.7	-26.1	-27.7	-29.9	-2.2	-1.0	1.3
Expectations	SME	-22.2	-10.0	-12.2	-9.9	-9.6	-11.1	-12.1	-1.0	10.1	-0.2
	LSE	-24.6	-6.4	-9.7	-3.3	-9.3	-11.8	-9.6	2.2	15.0	-3.8
Employment expectations	SME	-7.8	-7.4	-9.8	-7.8	-8.1	-9.1	-7.9	1.2	-0.1	0.0
	LSE	-15.7	-14.0	-16.0	-17.3	-18.7	-19.3	-18.8	0.5	-3.1	-3.2
Sales price expectations	SME	3.9	2.6	-0.5	-0.3	3.8	3.7	1.9	-1.8	-2.0	2.5
	LSE	4.3	-0.9	-1.0	-1.0	2.2	4.8	3.3	-1.5	-1.0	4.4
Export expectations of manufacturing	SME	-15.3	-13.7	-12.4	-9.8	-14.2	-13.0	-12.1	0.9	3.2	-1.1
	LSE	-11.2	-7.7	1.9	-2.9	-9.0	-5.4	-5.7	-0.3	5.5	-3.8

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.