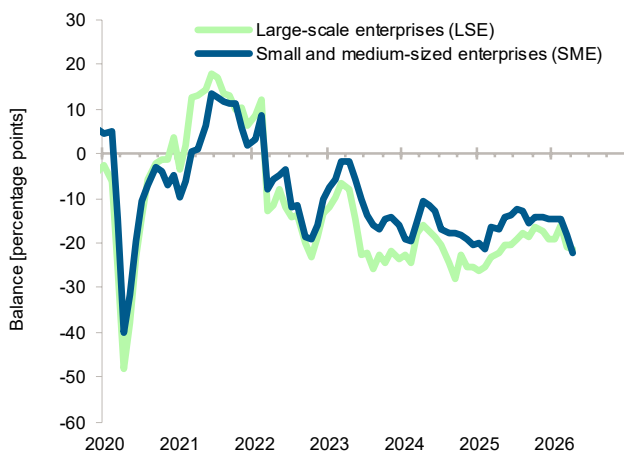


# Energy price shock hits SMEs

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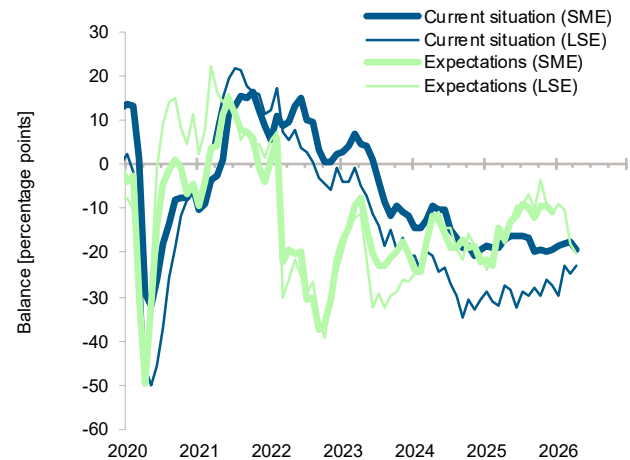
- SME business climate slumps in April: current situation falls markedly, expectations considerably.
- Sentiment among SMEs has deteriorated significantly across all economic sectors, sentiment among LSEs appears more stable.
- Selling price expectations surge.

**KfW-ifo business climate Index**



Source: KfW Research, ifo Institut

**KfW-ifo sentiment components**



## Business climate amid the energy price shock

For the second time in a row, the business climate of small and medium-sized enterprises (SMEs) has deteriorated markedly. In April, it fell by 4.1 points to -22.4 balance points. Compared with the level in February, it has now slumped by 8 points. The war in the Middle East, with its difficult-to-gauge repercussions for energy prices and supply chains, is causing deep concern among German SMEs:

- Above all, six-month business expectations slumped sharply in April, from -19.6 to -25.4 balance points.
- By contrast, the assessment of the current situation was somewhat more stable but also fell by 2 points to -19.4 balance points.

On balance, the business climate is now slightly lower than at the height of the energy crisis in 2022. However, business expectations are currently somewhat less pessimistic, whereas assessments of the current situation are significantly lower today because of the poorer starting position.

## Sentiment slump across all economic sectors

The war in the Middle East is weighing on sentiment among SMEs across all economic sectors. The decline in April was particularly pronounced in the construction sector (-10.4 points), which is being burdened by rising interest rates and possibly also by growing cost pressure on petrochemically produced construction materials. Sentiment also fell sharply in retail (-6.6 points) and the services sectors (-5.2). In both areas, business prospects are being impaired by losses in consumers' purchasing power and in transport and logistics there is the additional burden of higher fuel costs. By contrast, the decline in sentiment in April was relatively moderate in manufacturing (-1.1 points). However, at -25.9 balance points, the level of the business climate in manufacturing is no higher than in the other sectors.

## LSEs somewhat more stable in April

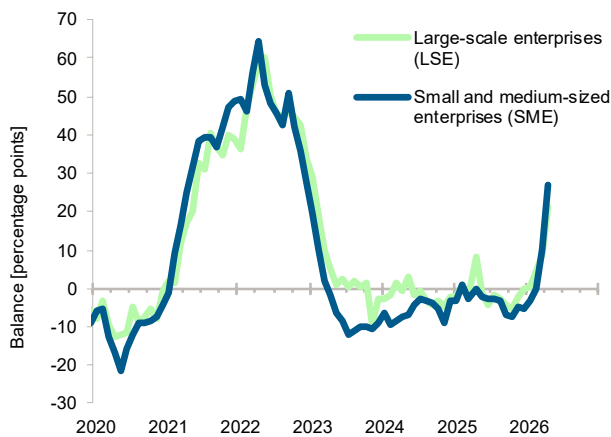
Large-scale enterprises (LSEs) held up somewhat better in April. Here, assessments of the current situation even edged up slightly (+1.8 points), while expectations (-2.3 points) continued to deteriorate. One should not attach too much weight to divergent developments in a single month. However, it is plausible that among large construction companies the business climate is currently (-1.9 points) slipping somewhat less than among small

and medium-sized construction companies. After all, the large firms are more often engaged in civil engineering and thus stand to benefit more from public-sector contracts, which should increase markedly soon despite the war with Iran.

### Selling price expectations continue to surge

Selling price expectations among SMEs (+8.9 points) and among LSEs (+10.5 points) are continuing to surge. Whereas in the previous month it was primarily upstream segments such as manufacturing and wholesale that expected a marked increase in selling prices, retailers are now doing so as well. Admittedly, price expectations are still significantly lower than during the last energy crisis but the increase over the past two months is almost as steep as after the outbreak of the war in Ukraine. The European Central Bank will view this critically and is likely to raise its key interest rates from early summer onwards, which in turn could dampen economic activity next year as well.

### KfW-ifo sales price expectations



Source: KfW Research, ifo Institut

### Justified concerns but an end to the war could also quickly turn sentiment around

Since the start of the war against Iran, corporate sentiment in Germany has deteriorated rapidly. The sharp rise in energy prices since February is weighing on businesses and with market prices for oil and gas still relatively moderate there are justified concerns that further price increases may follow. There are also hard-to-gauge risks in supply chains if the Strait of Hormuz remains blocked. At the same time, it is clearly evident that the US government is seeking a way out of the war it initiated. If negotiations are successful soon and the Strait of Hormuz remains open on a sustained basis, the business climate is likely to turn up again quickly, even though it will certainly take some time for energy prices to return to pre-crisis levels. The recovery has in any case been dented and in our interim forecast published at the end of March we made a substantial downward revision – with downside risks increasing further owing to the poor sentiment indicators in April. If the war ends in the near term, however, there would still be a chance of significant growth this year thanks to the fiscal impulse, as well as a further acceleration in 2027.

## KfW-ifo SME Barometer in figures

Balance [percentage points]\*

		Month/Year									
		Apr/25	Nov/25	Dez/25	Jan/26	Feb/26	Mrz/26	Apr/26	m-o-m	y-o-y	3m-o-3m
<b>Business climate</b>											
Manufacturing	SME	-24.0	-17.7	-17.8	-17.9	-18.6	-24.8	-25.9	-1.1	-1.9	-5.3
	LSE	-31.7	-17.7	-19.9	-18.6	-17.5	-24.6	-20.6	4.0	11.1	-2.2
Construction	SME	-14.6	-8.3	-8.1	-6.6	-6.7	-7.1	-17.5	-10.4	-2.9	-2.8
	LSE	-5.4	-4.7	-2.1	-4.9	-1.2	-5.9	-7.8	-1.9	-2.4	-1.1
Retail trade	SME	-18.2	-16.4	-18.1	-14.2	-18.6	-22.9	-29.5	-6.6	-11.3	-7.4
	LSE	-19.0	-19.0	-21.3	-17.1	-21.1	-26.6	-30.4	-3.8	-11.4	-6.9
Wholesale trade	SME	-30.8	-18.8	-21.2	-16.8	-20.5	-25.1	-28.5	-3.4	2.3	-5.8
	LSE	-27.5	-21.2	-22.4	-22.7	-23.5	-26.8	-28.5	-1.7	-1.0	-4.2
Services	SME	-13.8	-12.1	-14.5	-13.5	-13.0	-16.9	-22.1	-5.2	-8.3	-4.0
	LSE	-18.3	-11.3	-17.5	-19.9	-13.3	-20.0	-25.1	-5.1	-6.8	-3.2
<b>Germany</b>	<b>SME</b>	<b>-16.8</b>	<b>-14.3</b>	<b>-14.6</b>	<b>-14.6</b>	<b>-14.4</b>	<b>-18.3</b>	<b>-22.4</b>	<b>-4.1</b>	<b>-5.6</b>	<b>-3.9</b>
	<b>LSE</b>	<b>-22.4</b>	<b>-17.2</b>	<b>-19.1</b>	<b>-19.0</b>	<b>-16.2</b>	<b>-21.0</b>	<b>-21.3</b>	<b>-0.3</b>	<b>1.1</b>	<b>-1.1</b>
Current situation	SME	-17.0	-19.7	-19.2	-18.4	-18.1	-17.4	-19.4	-2.0	-2.4	0.8
	LSE	-27.4	-25.9	-27.5	-29.7	-22.8	-24.7	-22.9	1.8	4.5	4.2
Expectations	SME	-17.1	-9.4	-10.7	-11.5	-11.3	-19.6	-25.4	-5.8	-8.3	-8.2
	LSE	-17.9	-9.1	-11.2	-9.0	-10.2	-17.8	-20.1	-2.3	-2.2	-6.3
<b>Employment expectations</b>	<b>SME</b>	<b>-7.9</b>	<b>-7.9</b>	<b>-8.9</b>	<b>-7.7</b>	<b>-6.8</b>	<b>-9.2</b>	<b>-12.0</b>	<b>-2.8</b>	<b>-4.1</b>	<b>-1.2</b>
	<b>LSE</b>	<b>-11.9</b>	<b>-18.3</b>	<b>-18.8</b>	<b>-18.1</b>	<b>-18.5</b>	<b>-16.2</b>	<b>-19.0</b>	<b>-2.8</b>	<b>-7.1</b>	<b>0.5</b>
<b>Sales price expectations</b>	<b>SME</b>	<b>2.8</b>	<b>3.7</b>	<b>3.4</b>	<b>1.6</b>	<b>3.4</b>	<b>11.8</b>	<b>20.7</b>	<b>8.9</b>	<b>17.9</b>	<b>9.1</b>
	<b>LSE</b>	<b>7.1</b>	<b>2.1</b>	<b>4.4</b>	<b>3.3</b>	<b>7.7</b>	<b>9.5</b>	<b>20.0</b>	<b>10.5</b>	<b>12.9</b>	<b>9.1</b>
<b>Export expectations of manufacturing</b>	<b>SME</b>	<b>-16.0</b>	<b>-14.1</b>	<b>-12.7</b>	<b>-11.8</b>	<b>-8.8</b>	<b>-14.1</b>	<b>-12.9</b>	<b>1.2</b>	<b>3.1</b>	<b>0.9</b>
	<b>LSE</b>	<b>-17.9</b>	<b>-9.0</b>	<b>-5.2</b>	<b>-5.1</b>	<b>-2.6</b>	<b>-2.0</b>	<b>-3.1</b>	<b>-1.1</b>	<b>14.8</b>	<b>3.9</b>

Source: KfW Research, ifo Institut

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 adjustment as well as rounding. The KfW-ifo SME Barometer underwent a fundamental conceptual reform as of the April 2018 reporting month (new aggregation procedure, inclusion of the services sector, time series now starting in 2005 instead of 1991, inclusion of export expectations, discontinuation of regional indicators for West and East Germany). Publications prior to April 2018 and those from April 2018 onwards are therefore only comparable to a limited extent.

### On the construction and interpretation of the KfW-ifo SME Barometer

The KfW-ifo SME Barometer indicator family is based on a size-class-based evaluation of the ifo Business Surveys, from which, among other things, the well-known ifo Business Climate Index is calculated. Each month, approximately 9,500 enterprises from the sectors manufacturing, the main construction sector, wholesale trade, retail trade and services (excluding banking, insurance and the state) are surveyed, around 8,000 of which are SMEs. As a rule, firms are counted as SMEs if they have no more than 500 employees and generate annual turnover of up to EUR 50 million. To increase analytical precision, however, these quantitative thresholds must be drawn more narrowly in retail trade (annual turnover of up to EUR 12.5 million), in the main construction sector (up to 200 employees) and in services (annual turnover of up to EUR 25 million). All enterprises that exceed at least one of these thresholds are classified as large-scale enterprises (LSE). Reported are the balance of assessments of the current business situation (the percentage of positive responses minus the percentage of negative responses), the likewise determined balance of business expectations for the coming six months, and the business climate computed as the average of the two. In addition, also as balances, employment expectations, domestic sales price expectations, and – for manufacturing only – export expectations for the next three months are reported. All time series are seasonally and mean-adjusted. The zero line thus marks the "cyclically neutral" long-term average since January 2005. Indicator values above (below) zero point to an above-average or positive (below-average or negative) cyclical situation.