Stabilisation with pitfalls

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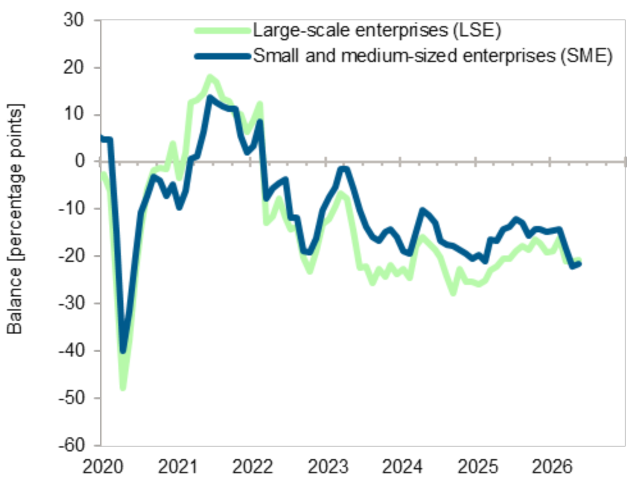
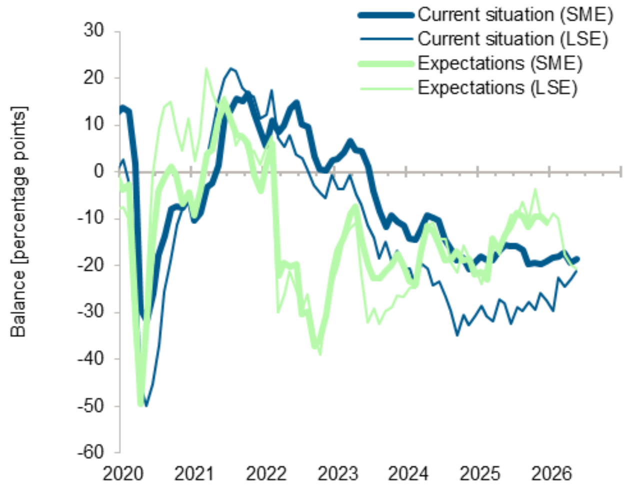
- After two marked declines in succession, the SME business climate stabilises in May: it rises slightly by 0.5 points to now -21.6 points.
- Both the current situation assessment and expectations contribute to the slight improvement in sentiment.
- The increase in the business climate is dominated by service providers. In other areas, especially among LSEs, sentiment stagnates or even continues to fall.

KfW-ifo business climate Index



KfW-ifo sentiment components



Source: KfW Research, ifo Institut

Business climate stabilises after the shock

The business climate of small and medium-sized enterprises (SMEs) rises slightly in May by 0.5 points to -21.6 balance points after two marked declines in a row. Both components improve slightly:

- The assessment of the current situation increases by 0.7 points to -18.7 points.
- Six-month business expectations rise by 0.3 points to -24.6 points.

Service providers noticeably more relaxed

The brightening of the SME business climate is essentially driven by service companies: there, the business climate climbs by 2.2 points to -19.8 points. Apart from retail trade, where sentiment declines to an even lower level of now -30.4 points, improvements are also discernible in the other SME sectors. These are, however, each more moderate. Decisive for the somewhat milder assessments in May is likely the fact that energy prices have recently tended to ease a little or at least not marked new highs. This will have reassured above all those service providers whose costs depend directly and strongly on crude oil and refined product prices, such as in tourism and logistics. Incidentally, firms' selling price expectations, which are likely closely linked to the trend in purchase prices, also fell again (see chart and discussion on p. 2).

LSEs: different developments than among SMEs

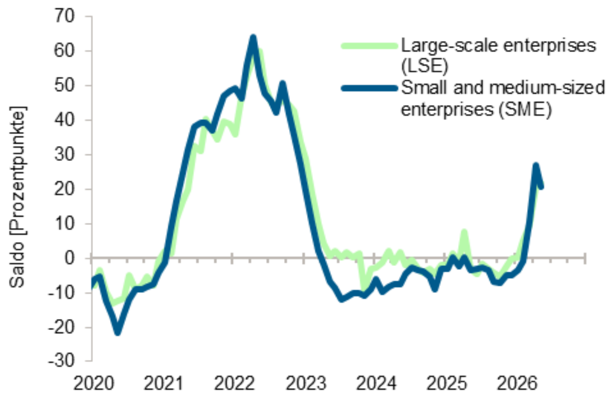
The picture looks somewhat different for LSEs. There, the business climate in May rises by a similar magnitude as among SMEs, namely by 0.4 points to -20.7 points, but the improvement comes exclusively from service providers. Among service providers, the business climate even jumps by 6.2 points to -18.7 points. By contrast, it declines in all other sectors, particularly sharply in construction and retail trade. Among SME construction firms, sentiment had already slumped in the previous month; in May this now shows up among LSEs in this sector.

The fact that sentiment among LSEs has deteriorated further outside services should be taken as a warning sign. This development shows that a sustainable solution to the Iran conflict, including the permanent reopening of the Strait of Hormuz, is needed for positive cyclical momentum to re-emerge here. This assessment is underlined by the collapsed export expectations of LSEs in manufacturing: these fell by 7.2 points to -12.8 points in May. It is possible that problems still lurk here that are less prominent or visible than energy prices – such as supply chain disruptions or a weakening global economy.

Selling price expectations down for the first time since January

Since February, selling price expectations have been rising among both SMEs and LSEs. The reason was price increases for crude oil and natural gas as a result of the Iran war: when the energy input becomes significantly more expensive, the calculation is that one must (at least partially) raise own selling prices. The energy price trends now appear to be causing service-sector firms at least less concern than in April. There, the business climate rose while selling price expectations declined. Particularly sharp in May, however, is the drop in selling price expectations in retail trade and construction. In these sectors, the business climate among LSEs is also clearly weaker. This suggests that these firms expect to be unable to raise their selling prices as much as they had planned a month ago – most likely due to lower real incomes of buyers resulting from higher inflation and/or because demand is already perceptibly weaker. That would be the downside of the renewed decline in the indicator for selling price expectations.

KfW-ifo selling price expectations



Source: KfW Research, ifo Institut

Upswing still awaits the restart

The stabilisation of the KfW-ifo SME Barometer is, all in all, good news as it shows that in the third month of the Iran war, firms have adjusted to the new situation to some extent. A look into the details of the current data, particularly for LSEs, reveals, however, that the shock has not yet been fully digested. For this to happen, the Strait of Hormuz would first have to be reopened to traffic. And the restart of the upswing that emerged at the beginning of the year is likely to occur for SMEs and the economy as a whole only after that, presumably in the course of the second half of the year.

KfW-ifo SME Barometer in figures

Balance [percentage points]*

		Month/Year									
		May/25	Dec/25	Jan/26	Feb/26	Mar/26	Apr/26	May/26	m-o-m	y-o-y	3m-o-3m
Business climate											
Manufacturing	SME	-21,0	-17,6	-17,7	-18,4	-24,6	-25,7	-25,5	0,2	-4,5	-7,4
	LSE	-27,6	-19,8	-18,7	-17,4	-24,8	-20,1	-21,1	-1,0	6,5	-3,4
Construction	SME	-12,6	-8,0	-6,6	-6,8	-7,3	-17,5	-16,4	1,1	-3,8	-6,6
	LSE	0,9	-1,8	-4,7	-1,1	-5,9	-8,0	-14,3	-6,3	-15,2	-6,9
Retail trade	SME	-12,1	-18,0	-14,0	-18,6	-23,2	-29,2	-30,4	-1,2	-18,3	-10,7
	LSE	-15,8	-20,9	-16,9	-21,0	-26,7	-30,8	-34,6	-3,8	-18,8	-11,1
Wholesale trade	SME	-24,2	-20,9	-16,8	-20,5	-25,1	-28,1	-27,1	1,0	-2,9	-7,4
	LSE	-24,2	-22,4	-22,7	-23,4	-26,6	-28,3	-28,7	-0,4	-4,5	-5,0
Services	SME	-10,8	-14,4	-13,4	-12,9	-16,8	-22,0	-19,8	2,2	-9,0	-6,0
	LSE	-16,5	-17,3	-19,8	-13,2	-19,9	-24,9	-18,7	6,2	-2,2	-4,4
Germany	**SME**	**-14,3**	**-14,6**	**-14,4**	**-14,3**	**-18,2**	**-22,1**	**-21,6**	**0,5**	**-7,3**	**-6,2**
	LSE	**-20,4**	**-19,0**	**-18,9**	**-16,1**	**-20,9**	**-21,1**	**-20,7**	**0,4**	**-0,3**	**-2,9**
Current situation	SME	-15,7	-19,1	-18,3	-18,0	-17,4	-19,4	-18,7	0,7	-3,0	0,0
	LSE	-28,1	-27,4	-29,6	-22,7	-24,6	-22,8	-21,1	1,7	7,0	3,7
Expectations	SME	-13,4	-10,7	-11,2	-11,1	-19,4	-24,9	-24,6	0,3	-11,2	-12,0
	LSE	-13,3	-11,2	-8,8	-10,0	-17,7	-19,7	-20,5	-0,8	-7,2	-9,3
Employment expectations	SME	-8,6	-8,9	-7,7	-6,8	-9,1	-12,0	-9,7	2,3	-1,1	-2,5
	LSE	-12,6	-18,8	-18,2	-18,3	-15,7	-18,4	-13,8	4,6	-1,2	2,5
Sales price expectations	SME	1,3	3,2	1,5	3,4	11,6	20,7	16,3	-4,4	15,0	13,5
	LSE	-0,2	4,4	3,2	7,6	9,2	20,1	17,8	-2,3	18,0	10,6
Export expectations of	SME	-12,3	-12,7	-11,7	-8,8	-14,2	-13,1	-13,5	-0,4	-1,2	-2,5
manufacturing	LSE	-6,5	-4,5	-4,6	-2,4	-2,3	-5,6	-12,8	-7,2	-6,3	-3,1

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-)**S**cale **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 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, how ever, 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.