Big bang – and potentially a breakthrough

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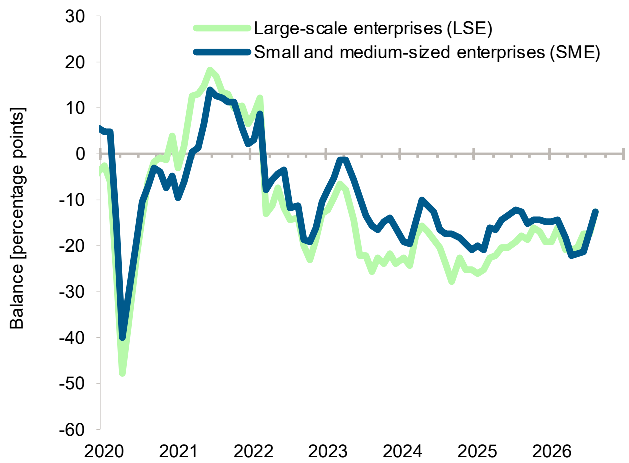
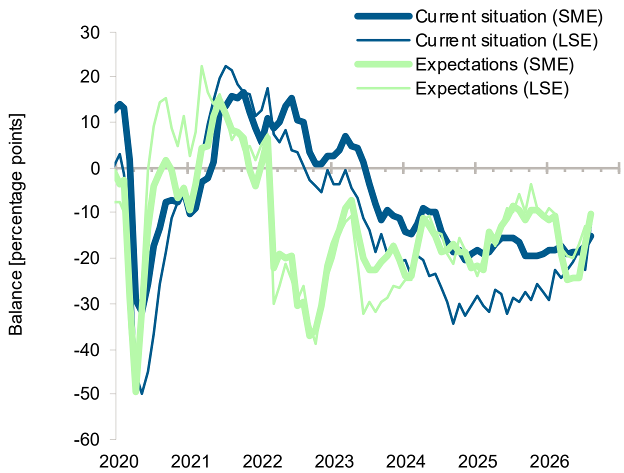
- The business climate among SMEs improved unusually strongly in August, rising by 4.5 points to -12.5. This is the second marked increase in a row and the fourth overall.
- It is remarkable that once again both the assessment of the current situation and expectations have brightened. In addition, export expectations in the manufacturing sector have risen sharply.
- In line with the development of export expectations, the improvement in the business climate is particularly evident in manufacturing and wholesale trade, both of which are strongly export-oriented. Sentiment is also improving in other areas; only in retail trade does it remain virtually unchanged.

KfW-ifo business climate index



KfW-ifo sentiment components



Source: KfW Research, ifo Institute

Business climate clearly on the rise

The business climate among small and medium-sized enterprises (SMEs) has risen for the fourth consecutive month, increasing by a notable 4.5 points in August to -12.5 balance points. As in July, when the upward movement was also pronounced, both components have improved:

- The assessment of the current situation has risen by 2.3 points to -15.2 points.
- Business expectations over a six-month horizon have even climbed by 6.7 points to -10.1 points.

Manufacturing sector shows strongest improvement

The improvement in the SME business climate is being driven by the manufacturing sector and wholesale trade, where increases of 7.1 and 5.5 points respectively are recorded, to levels that now stand at -10.1 and -13.6 points. Noticeable increases in the climate indices can also be observed in the construction industry (+4.6 points) and among service providers (+2.6). Only sentiment in retail trade hardly rises at all in August – also in view of persistently high petrol prices. However, the latter had increased markedly in the previous month. Taken together with the information that growth in gross domestic product (GDP) in the first half-year was driven mainly by foreign trade and that export expectations in the manufacturing sector have shot up in the reporting month (see section and chart below), the following picture emerges: In August – and partly already in the previous months – a strong external impulse has acted on the German economy and the SME sector, from which the export-oriented segments of manufacturing and wholesale trade have benefited first and foremost. At the same time, the fiscal impulse coming from significantly increased government expenditure has probably had positive effects. The latter may explain the recent improvement in sentiment in the construction industry.

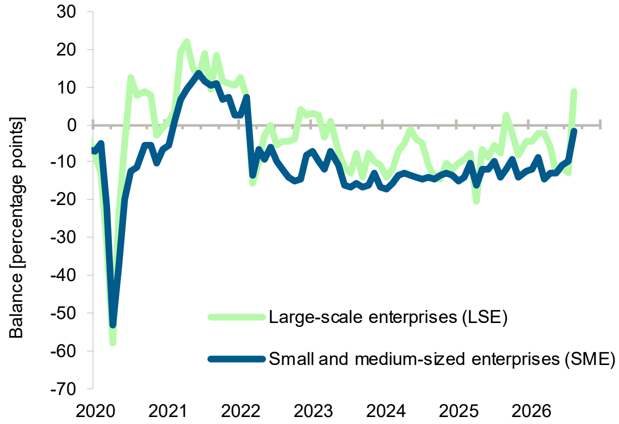
LSEs: current situation assessed significantly better

The business climate index of large enterprises (LSEs) rose even more strongly than that of SMEs, by 4.9 points. It now stands, as in the SME sector, at -12.5 points. A difference from the SME indicator emerges, however, in the components, which in August do not both point upwards for large enterprises: While the assessment of the current situation has jumped by 10.1 points to -12.6 points, business expectations – after an increase in the previous month – are stagnating at -12.8 points.

Export expectations leap sharply upwards

What stands out in August is the enormous improvement in export expectations reported in the ifo survey – which, by the way, are only collected for the manufacturing sector. For small and medium-sized manufacturers, the index has climbed by 8.2 points to -1.7 points and for large enterprises it has virtually exploded, with an increase of 21.4 points to +8.6 points. A change of sign has occurred here. This means that export expectations are now – and quite clearly – above their long-term average, which is normalised to zero. It is difficult to explain this sudden positive development. The ifo Institute points out that exports to the EU are booming and that export optimism is particularly strong among producers of data-processing equipment and electronic and optical products. This is likely to be an indication that the global boom in AI equipment has also reached Germany and is increasingly being felt in the digitalisation sector through an improving order situation. Furthermore, the automotive industry is again more confident regarding its exports and manufacturers of electrical equipment are likewise very optimistic in this respect.[1]

KfW-ifo export expectations



Source: KfW Research, ifo Institute

Is this the breakthrough for the upswing?

The August figures of the KfW-ifo SME Barometer are consistently positively. They are in any case a big bang. Whether they are a breakthrough for the German SME sector – and the economy as a whole – which in recent years has been shaken by various crises and erratic (geo)politics – will become clear in the coming months. Pointing in this direction, first of all, is the fact that German GDP grew noticeably in the first half of the year despite the burdens arising from the Iran war, meaning that the economy has already demonstrated remarkable resilience. In addition, an increasingly strong external impulse now appears to be joining the government's fiscal stimulus. The upswing would then be standing on two legs. And that would be a much more comfortable situation.

[1] Cf. ifo Institute: ifo Export Expectations in Germany Rise Sharply (August 2026).

KfW-ifo SME Barometer in figures

Balance [percentage points]*

		Month/Year									
		Aug/25	Mrz/26	Apr/26	Mai/26	Jun/26	Jul/26	Aug/26	m-o-m	y-o-y	3m-o-3m
Business climate											
Manufacturing	SME	-17.3	-24.4	-25.3	-24.5	-25.6	-17.2	-10.1	7.1	7.2	7.1
	LSE	-18.1	-24.3	-19.4	-20.0	-15.1	-16.2	-6.6	9.6	11.5	8.6
Construction	SME	-8.2	-7.1	-17.2	-16.0	-16.2	-13.7	-9.1	4.6	-0.9	0.4
	LSE	-3.9	-5.8	-7.7	-13.7	-7.1	-4.6	-3.0	1.6	0.9	4.2
Retail trade	SME	-14.2	-23.2	-28.9	-29.4	-27.5	-19.8	-19.6	0.2	-5.4	4.9
	LSE	-16.4	-26.5	-29.9	-32.8	-22.8	-20.0	-17.4	2.6	-1.0	9.7
Wholesale trade	SME	-18.7	-24.8	-27.6	-26.0	-25.0	-19.1	-13.6	5.5	5.1	6.9
	LSE	-18.4	-26.3	-27.8	-27.8	-27.2	-23.8	-15.5	8.3	2.9	5.1
Services	SME	-10.5	-16.6	-21.7	-19.6	-18.7	-16.1	-13.5	2.6	-3.0	3.2
	LSE	-14.1	-19.6	-24.6	-18.4	-20.2	-17.3	-17.1	0.2	-3.0	2.7
Germany	**SME**	**-12.5**	**-18.1**	**-21.9**	**-21.5**	**-21.4**	**-17.0**	**-12.5**	**4.5**	**0.0**	**3.5**
	LSE	**-17.5**	**-20.7**	**-20.9**	**-20.3**	**-17.3**	**-17.4**	**-12.5**	**4.9**	**5.0**	**4.9**
Current situation	SME	-16.2	-17.2	-19.2	-18.6	-18.5	-17.5	-15.2	2.3	1.0	1.3
	LSE	-29.6	-24.3	-22.6	-20.9	-18.1	-22.7	-12.6	10.1	17.0	4.8
Expectations	SME	-9.2	-19.2	-24.6	-24.3	-24.2	-16.8	-10.1	6.7	-0.9	5.7
	LSE	-5.9	-17.6	-19.6	-20.1	-16.8	-12.8	-12.8	0.0	-6.9	5.0
Employment expectations	SME	-7.2	-9.2	-11.9	-9.6	-11.1	-7.7	-5.2	2.5	2.0	2.2
	LSE	-14.3	-15.5	-18.1	-13.6	-14.5	-15.3	-10.6	4.7	3.7	2.3
Sales price expectations	SME	2.1	11.6	20.2	15.8	9.2	7.5	7.1	-0.4	5.0	-7.9
	LSE	-1.1	9.0	19.9	17.6	15.3	8.5	6.0	-2.5	7.1	-5.6
Export expectations of manufacturing	SME	-13.8	-14.4	-13.0	-13.1	-10.8	-9.9	-1.7	8.2	12.1	6.0
	LSE	-7.7	-2.2	-5.9	-13.0	-11.3	-12.8	8.6	21.4	16.3	1.9

Source: 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-)**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, 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.