Sentiment continues to rise

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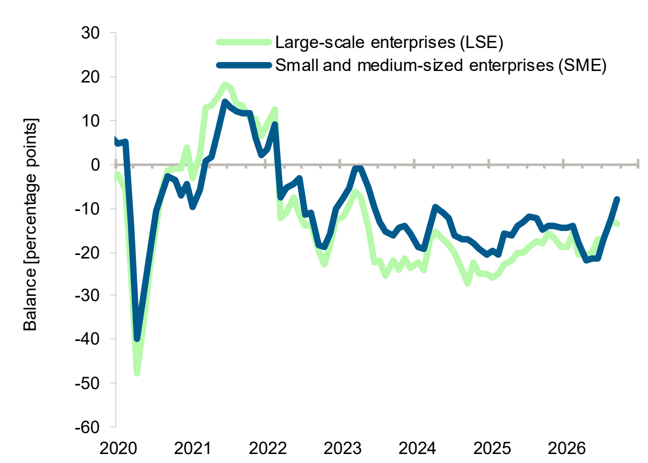
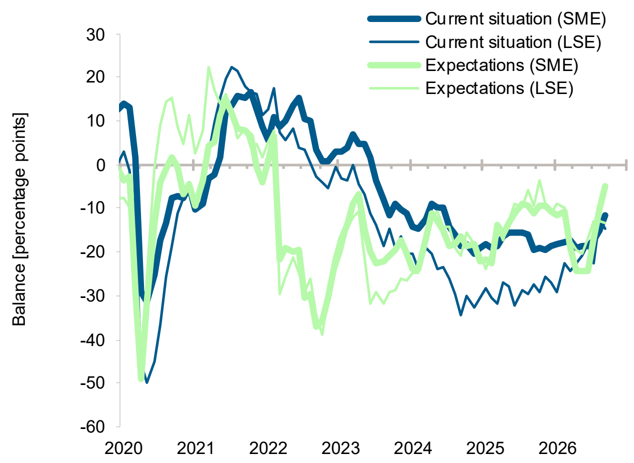
- SME business climate rises for the fifth consecutive month in September, now standing at -8.1 points.
- Both, the assessment of the current situation and business expectations improve once again. Export expectations are now even back in above-average territory, while employment expectations stand only just below this level.
- As in the previous two months, sentiment among SMEs brightens across all economic sectors in September. Once more, business climate is up particularly strongly in manufacturing. The economic recovery is thus virtually unstoppable.

KfW-ifo business climate index



KfW-ifo climate components



Source: KfW Research, ifo institute

Business climate rises for the fifth consecutive month

The business climate among small and medium-sized enterprises (SMEs) rises for the fifth consecutive month. In September, it increases by 4.3 points to -8.1 balance points. For the third consecutive time, both components of the business climate improve noticeably:

- The assessment of the current situation rises by 3.5 points to -11.6 points.
- Business expectations for the next six months climb by 5.0 points to -5.1 points.

The KfW-ifo business climate for SMEs now stands at a level last exceeded in May 2023. At the same time, the still observable negative algebraic sign shows that the sentiment indicator continues to range below its long-term average. However, if the trend of recent months continues, business climate is set to move into positive territory around the turn of the year, for the first time since February 2022 – the month in which Russia began its war against Ukraine.

Manufacturing again shows the strongest improvement

Since July, the improvement has been driven mainly by manufacturing. In September, the business climate in the sector rises by 5.7 points to -5.3 points. Sentiment also improves among service providers (+4.0 points), in wholesale and in retail (+3.5 and +3.3 points, respectively). The only exception is the construction sector, where just a slight increase of 0.8 points is registered. Overall, it has to be noted that sentiment brightens across the board despite a rather elevated number of adverse conditions such as high energy prices, rising interest rates and continued political uncertainty at home and abroad. The economic recovery is therefore proving highly robust.

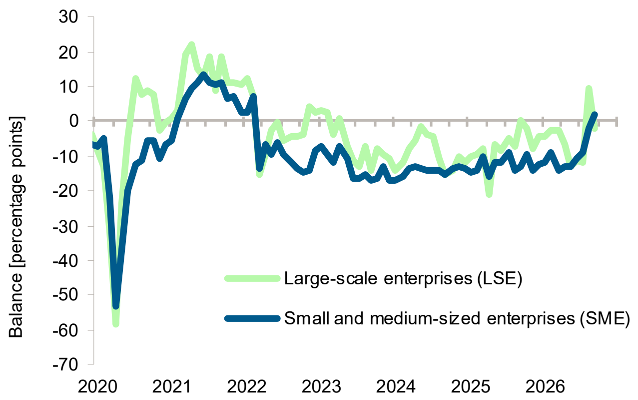
LSEs' sentiment slightly dampened

LSEs take some of the shine off the picture in September: their business climate falls by 1.1 points to -13.8 points following a marked increase in the previous month. Looking at all indices available for the KfW-ifo SME barometer as a whole, this appears to be a temporary correction – particularly as the business climate among LSEs has traditionally been more volatile than that among SMEs. This is presumably due to their broader distribution across sectors and regions and their lower dependence on individual companies.

SMEs' export expectations now above average

One reason for the deterioration in sentiment among LSEs may lie in export business: following an almost explosive rise in export expectations of LSEs in manufacturing (the index is only calculated for this sector) in August, they fall markedly in September. As with the overall business climate among LSEs, this appears to be a temporary correction or normalisation. By contrast, the export expectations of SMEs continue to improve: rising by 3.9 points, they now stand at +1.9 points. They are thus back in positive territory for the first time since February 2022 (the start of the war in Ukraine), and now stand above their long-term average (see chart).

KfW-ifo export expectations

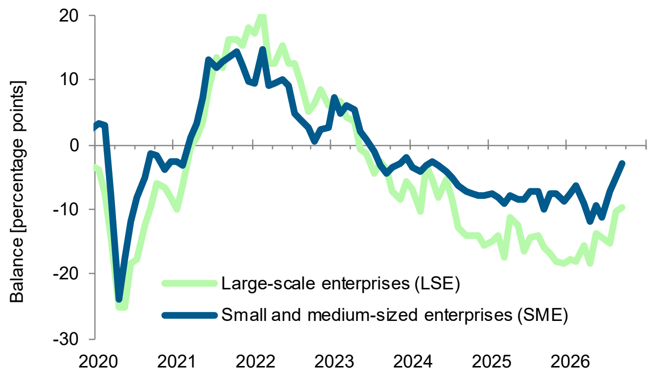


Source: KfW Research, ifo institute

Employment expectations also turn upwards

And there is another positive sign: employment expectations. Until spring, this indicator was looking bleak. It was hovering around levels last recorded at the beginning of the coronavirus pandemic. But in summer, it reached a turning point for both SMEs and LSEs. The marked improvement among SMEs is particularly striking: their employment expectations have risen for three consecutive months. At -3.0 points, they now stand only just below their long-term average, the zero line. This is a sign that companies' capacity utilisation is increasing and that they expect business to pick up going forward. In parallel with employment expectations, companies' investment intentions are likely to increase or become more concrete – this is consistent with the current growth in new orders in mechanical engineering and electrical equipment, as well as anecdotal evidence from the report (press release) on the S&P Purchasing Managers' Indices, for instance.

KfW-ifo employment expectations



Source: KfW Research, ifo institute

Recovery is now almost impossible to stop

The September figures for the KfW-ifo SME barometer reinforce the signs that the recovery has definitely taken hold in Germany as a whole and among SMEs in particular. The fact that the SME business climate, which is less prone to fluctuations than that of LSEs, has now improved for the fifth consecutive time is encouraging. Rising export and employment expectations are also a strong signal. At present, it genuinely looks as if the economic recovery in Germany can no longer be stopped.

KfW-ifo SME Barometer in figures

Balance [percentage points]*

			Month/Year								
		Sep/25	Apr/26	Mai/26	Jun/26	Jul/26	Aug/26	Sep/26	m-o-m	y-o-y	3m-o-3m
Business climate											
Manufacturing	SME	-17.7	-25.0	-24.2	-25.2	-16.4	-11.0	-5.3	5.7	12.4	13.9
	LSE	-18.9	-19.1	-19.9	-15.1	-15.9	-6.6	-10.1	-3.5	8.8	7.2
Construction	SME	-8.7	-16.9	-16.0	-15.8	-13.1	-9.7	-8.9	0.8	-0.2	5.7
	LSE	2.9	-7.7	-13.7	-7.1	-4.6	-2.9	-3.9	-1.0	-6.8	5.7
Retail trade	SME	-14.0	-28.8	-29.2	-27.2	-19.7	-18.9	-15.6	3.3	-1.6	10.3
	LSE	-12.1	-29.6	-32.9	-22.8	-20.0	-17.6	-19.8	-2.2	-7.7	9.3
Wholesale trade	SME	-22.5	-27.5	-25.9	-24.7	-18.5	-13.5	-10.0	3.5	12.5	12.0
	LSE	-20.1	-27.8	-27.6	-26.7	-22.9	-16.2	-10.1	6.1	10.0	11.0
Services	SME	-14.3	-21.7	-19.6	-18.6	-16.1	-13.4	-9.4	4.0	4.9	7.0
	LSE	-19.1	-24.5	-18.3	-20.1	-17.1	-16.9	-16.3	0.6	2.8	4.2
Germany	**SME**	**-15.1**	**-21.8**	**-21.4**	**-21.3**	**-17.0**	**-12.4**	**-8.1**	**4.3**	**7.0**	**9.0**
	LSE	**-18.2**	**-20.8**	**-20.4**	**-17.3**	**-17.4**	**-12.7**	**-13.8**	**-1.1**	**4.4**	**4.9**
Current situation	SME	-19.4	-19.1	-18.5	-18.4	-17.4	-15.1	-11.6	3.5	7.8	4.0
	LSE	-27.6	-22.6	-20.9	-18.1	-22.7	-12.6	-14.8	-2.2	12.8	3.8
Expectations	SME	-11.3	-24.4	-24.4	-24.3	-16.9	-10.1	-5.1	5.0	6.2	13.7
	LSE	-9.4	-19.4	-20.2	-16.8	-12.7	-12.9	-13.1	-0.2	-3.7	5.9
Employment expectations	SME	-10.1	-11.8	-9.5	-11.3	-7.2	-5.2	-3.0	2.2	7.1	5.7
	LSE	-15.8	-18.2	-13.6	-14.4	-15.1	-10.3	-9.8	0.5	6.0	3.7
Sales price expectations	SME	-0.9	20.1	15.9	9.3	7.5	7.5	11.1	3.6	12.0	-6.4
	LSE	-1.0	19.8	17.7	15.3	8.4	6.2	6.0	-0.2	7.0	-10.7
Export expectations of manufacturing	SME	-13.1	-13.0	-13.0	-10.5	-9.1	-2.0	1.9	3.9	15.0	9.1
	LSE	0.6	-6.3	-13.0	-11.0	-11.9	9.3	-1.7	-11.0	-2.3	8.7

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.