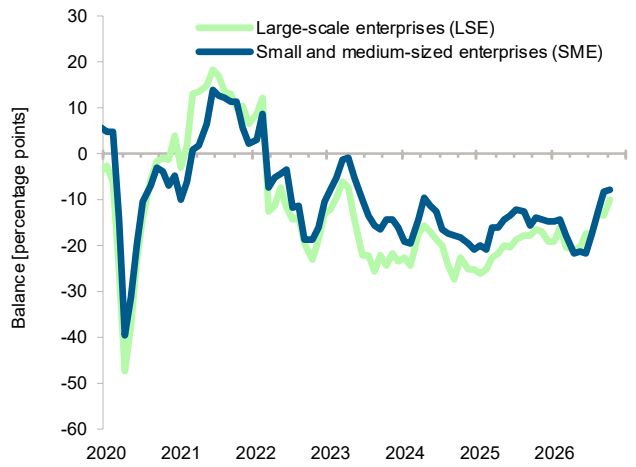
Business climate improves despite challenging conditions

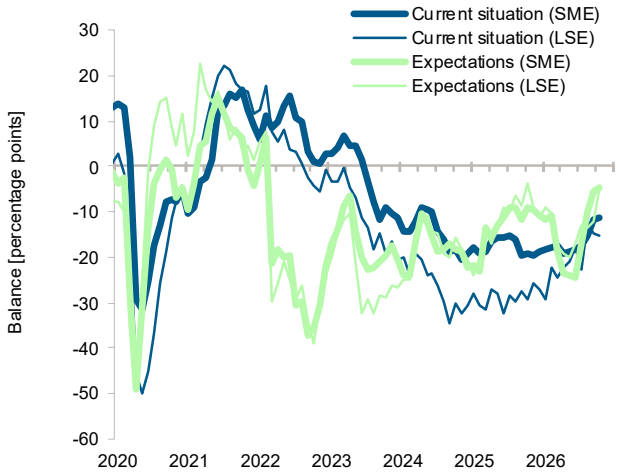
2 November 2026 // Author: Dr Philipp Scheuermeyer, +49 69 7431-9784, philipp.scheuermeyer@kfw.de
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- The SME business climate improves for the sixth consecutive month in October, rising from -8.3 to -7.8 points this time.
- SMEs' assessments of their current situation and business expectations both improve slightly. The business climate picks up somewhat in all sectors of the economy.
- Among large enterprises, assessments of the current situation deteriorate slightly but business expectations rise sharply in October. The industrial sector in particular sees a significant improvement in its current situation.

KfW-ifo business climate



KfW-ifo climate components



Source: KfW Research, ifo Institute

Business climate continues its upward trend

The business climate among small and medium-sized enterprises (SMEs) rises for the sixth consecutive month. In October, it increases slightly by 0.5 points to -7.8 balance points. SMEs' assessments of their current situation and business expectations both improve slightly:

- The assessment of the current situation rises by 0.5 points to -11.1 points.
- Business expectations over the next six months increase by 0.6 points to -4.8 points.

The KfW-ifo Business Climate for SMEs therefore remains below its long-term average, which is marked by the zero line. Despite adverse conditions, including another considerable increase in wholesale oil and gas prices, the upward trend in business sentiment continues.

SME business climate brightens across sectors

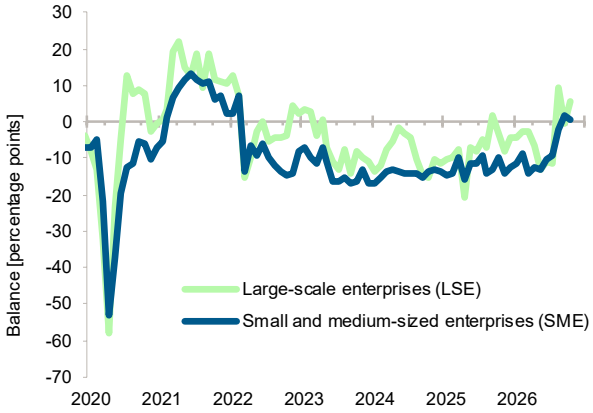
The improvement in sentiment among SMEs is currently broad-based across the various sectors of the economy. As in previous months, the business climate in manufacturing develops positively (+0.5 points), while the service providers also record an increase (+1.3 points). The strongest-performing segment this time is small and medium-sized wholesale enterprises, whose business climate rises by as much as 2.9 points. In retail and the main construction industry – sectors that are particularly affected by the current economic headwinds due to losses in purchasing power and high interest rates – the trend is weakest in October. Even here, however, the business climate rises slightly again, by +0.3 points and +0.1 points respectively.

Expectations brighten markedly among large enterprises

Among large enterprises, sentiment in retail and construction also improves significantly in October. In construction in particular, there is now a considerable divergence between SMEs and

large enterprises, with the latter considerably more optimistic. This is likely attributable in particular to the larger share of civil engineering companies, as this segment is less sensitive to interest rates and benefits substantially from rising government spending on infrastructure. In addition, the increase in the business climate among large industrial enterprises is even more pronounced in October, at +5.9 points, than among medium-sized industrial enterprises. Here, volatile export expectations also rise significantly again (+6.2 points), while they decline among SMEs (-1.0 points). The only setback occurs in the significant large-services segment (-1.2 points). Overall, assessments of the current situation among large enterprises deteriorate slightly (-0.4 points) but business expectations rise so sharply (+7.2 points) that the business climate among large enterprises increases by 3.5 points, to -9.7 balance points.

KfW-ifo export expectations

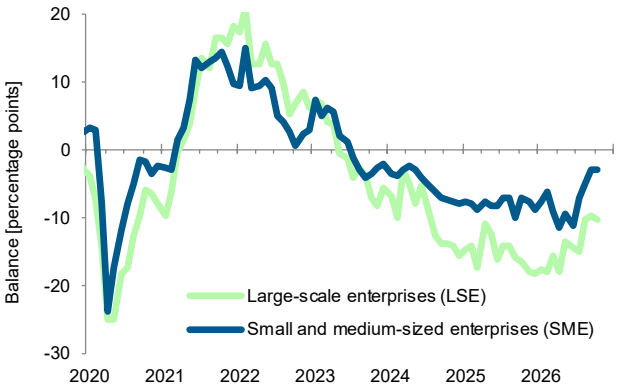


Source: KfW Research, ifo Institute

Slight setback in employment expectations

Employment expectations are somewhat disappointing in October. Unlike the business climate, they decline for both SMEs (-0.2 points) and large enterprises (-0.5 points). Nevertheless, it is encouraging that employment expectations are significantly higher than in early summer. With a slight time lag, the economic upturn is likely to feed through to the labour market.

KfW-ifo employment expectations



Source: KfW Research, ifo Institute

Remarkable resilience of the German economy so far

The renewed improvement in the business climate among SMEs and large enterprises is somewhat surprising. Oil and gas prices are rising sharply again in recent weeks and a solution to the conflict between the US and Iran is still nowhere in sight. Indeed, there is a threat of renewed escalation in the Gulf region following the midterm elections in the US. Against this backdrop, the latest survey results appear even more positive. The fiscal stimulus and demand for German intermediate goods for the global expansion of AI infrastructure are likely to sustain the upturn, while private consumption also appears to be holding up reasonably well. However, the German economy is certainly not completely immune to high energy prices. This means that developments in the Gulf remain the most acute risk to the economic outlook. A slowdown in global AI investment – possibly indicated by the recent falls in the Nasdaq and, above all, in the prices of shares in neo-cloud companies – would also have an immediate negative impact on the German economy.

KfW-ifo SME Barometer in figures

Balance [percentage points]*

		Month/Year								
		Okt/25	Mai/26	Jun/26	Jul/26	Aug/26	Sep/26	Okt/26	m-o-m	y-o-y	3m-o-3m
Business climate											
Manufacturing	SME	-17.5	-24.0	-25.0	-16.2	-10.8	-5.5	-5.0	0.5	12.5	14.6
	LSE	-17.6	-19.7	-14.8	-16.0	-6.4	-9.4	-3.5	5.9	14.1	10.4
Construction	SME	-6.2	-15.9	-15.8	-13.0	-9.7	-8.9	-8.8	0.1	-2.6	5.8
	LSE	-2.8	-13.7	-7.1	-4.6	-2.9	-3.9	-1.8	2.1	1.0	5.6
Retail trade	SME	-11.6	-28.7	-26.9	-19.5	-18.8	-15.7	-15.4	0.3	-3.8	8.4
	LSE	-13.0	-32.5	-22.6	-19.9	-17.7	-20.1	-17.2	2.9	-4.2	6.7
Wholesale trade	SME	-18.6	-25.5	-24.5	-18.3	-13.4	-9.8	-6.9	2.9	11.7	12.7
	LSE	-18.1	-27.3	-26.5	-22.5	-15.6	-10.6	-9.8	0.8	8.3	13.4
Services	SME	-12.6	-19.6	-18.6	-16.1	-13.5	-9.4	-8.1	1.3	4.5	7.8
	LSE	-15.4	-18.3	-20.1	-17.1	-17.0	-16.3	-17.5	-1.2	-2.1	1.6
Germany	**SME**	**-13.9**	**-21.3**	**-21.5**	**-17.1**	**-12.4**	**-8.3**	**-7.8**	**0.5**	**6.1**	**10.5**
	LSE	**-16.2**	**-20.2**	**-17.3**	**-17.4**	**-12.7**	**-13.2**	**-9.7**	**3.5**	**6.5**	**6.4**
Current situation	SME	-19.1	-18.5	-18.4	-17.4	-15.1	-11.6	-11.1	0.5	8.0	5.5
	LSE	-29.1	-20.8	-18.0	-22.6	-12.5	-14.7	-15.1	-0.4	14.0	6.4
Expectations	SME	-9.1	-24.0	-24.5	-16.9	-10.0	-5.4	-4.8	0.6	4.3	15.1
	LSE	-3.8	-20.1	-17.0	-12.8	-13.2	-12.2	-5.0	7.2	-1.2	6.5
Employment expectations	SME	-7.3	-9.5	-11.3	-7.3	-5.2	-3.0	-3.2	-0.2	4.1	5.6
	LSE	-16.6	-13.6	-14.4	-15.1	-10.4	-9.9	-10.4	-0.5	6.2	4.1
Sales price expectations	SME	-0.1	15.5	9.6	7.6	7.6	11.3	11.9	0.6	12.0	-0.6
	LSE	-1.2	17.3	15.4	8.4	6.1	6.5	13.7	7.2	14.9	-4.9
Export expectations of	SME	-9.9	-12.9	-10.4	-9.1	-2.0	1.8	0.8	-1.0	10.7	11.0
manufacturing	LSE	-3.4	-13.2	-11.0	-11.6	9.3	-0.6	5.6	6.2	9.0	16.7

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 un derwent 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.