

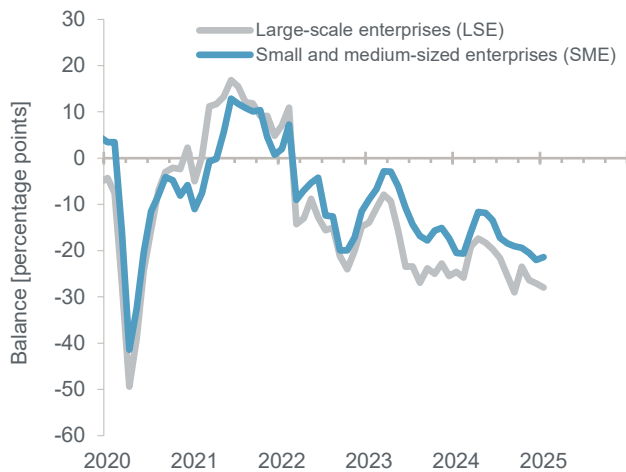
»» Rise in business sentiment little more than a drop in the ocean

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- SME business sentiment rose for the first time since April last year
- Situation assessments improved slightly but expectations remain as bleak as in the previous month
- Even greater pessimism dragged down confidence among large enterprises
- This year will see minimal growth at best

KfW ifo Business Climate Index



KfW ifo climate components



Sources: KfW Research, ifo Institute

SME business sentiment improved at the start of the year

At the start of 2025, confidence among Germany's small and medium-sized enterprises rose again for the first time since April of last year. Their business sentiment rose by a moderate 0.6 points in January to now -21.4 balance points. With the exception of the previous month, however, the only time the mood was worse was at the outbreak of the pandemic in the spring of 2020 and during the 2009 financial crisis. Furthermore, SMEs' outlook on the near future remains decidedly bleak.

- Business expectations for the next six months rose by a minimal 0.1 points and, at now -23.6 balance points, remain very pessimistic. The looming tariff threats from the new US administration as well as the still unclear political situation in Germany obviously continued to unsettle businesses.
- SMEs' assessments of their current business situation, on the other hand, improved by 1.2 points to now -19.3 balance points. This indicator level is historically very low as well. Yet, situation assessments appear to be bottoming out.

Service providers are the only bright spot

With their high structural share in the economy, service providers were clearly a bright spot in January. Business sentiment among small and medium-sized enterprises of this main economic sector rose by 2.2 points to -14.6 balance points, driven by noticeable improvements not just in the situation but also in the expectations component. All other economic sectors were at least slightly more pessimistic than the month before. The drop in sentiment was the steepest among retail SMEs (-1.9 points to -15.7 balance points). Nonetheless, retail sentiment remained on the second-highest level by sector after services. Retailers are feeling the restraint of consumers who, in the light of many uncertainties, are increasingly saving their quite respectable increases in real household incomes instead of spending them. The persistently difficult conditions for the German export industry are reflected in the very low levels of the sentiment indicators in manufacturing (-0.5 points to -31.6 balance points) and wholesale (-0.3 points to -37.7 points), even if the latter recently fell only slightly. The problems in residential construction resulting from

sharp increases in the cost of financing and building materials are likely still reverberating in SME construction firms (-1.4 points to -21.3 balance points). In addition, the creeping increase in the risk of unemployment is likely to hamper the financing of residential construction at least gradually and thereby rather dampen demand for new dwellings, which could also weigh on sentiment in the construction industry. The growing risk of becoming unemployed is also illustrated by the employment expectations of the KfW-ifo SME Barometer, which have been increasingly negative in both enterprise size classes for about one and a half years now.

Large enterprises are significantly more pessimistic

Unlike SMEs, large enterprises were more downbeat in January than the month before. Their business climate index fell by 0.9 points to -28.0 balance points. But this was solely the result of again much more pessimistic business expectations (-3.7 points to -26.1 balance points), while large enterprises had a less negative view of their current business situation than in December (+2.1 points to -30.4 balance points). In a sector comparison, the drivers of the renewed downturn in sentiment were retailers, construction firms and large, heavily export-oriented manufacturing enterprises. By contrast, service providers in the large enterprise segment reported higher business confidence – as did those in the SME sector. With more than twice the usual monthly variation, the improvement was actually particularly strong (+6.5 points to -18.6 balance points).

Minimal growth at best in the year 2025

The situation and outlook of the German economy at the start of the new year remain difficult. That is the key message of the KfW-ifo SME Barometer in January in a nutshell. We should be under no illusions. The slight improvement in sentiment among SMEs is little more than a drop in the ocean after what has now been a five-year stagnation across the broad economy and given the increasingly loud complaints about loss in international competitiveness. This is all the more the case as it is being borne almost exclusively by service providers, while the mood among large export-oriented industrial firms is increasingly worsening. A fundamental change for the better would require cool-headed geopolitics as well as, in particular, coherent responses from policymakers and enterprises to the huge transformative challenges, not only but especially in industry. Without significant progress in managing the structural problems, this year will see a minimal growth rate at best. To achieve this, however, households will need to be willing to direct a slightly larger portion of their growing purchasing power to consumption instead of pushing the saving rate up to ever higher levels in response to persistently high uncertainty about future prospects.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Jan 2024	Aug 2024	Sep 2024	Oct 2024	Nov 2024	Dec 2024	Jan 2025			
Business climate											
Manufacturing	SME	-25.7	-23.7	-23.9	-26.1	-25.3	-31.1	-31.6	-0.5	-5.9	-4.8
	LSE	-22.2	-21.8	-27.2	-23.0	-28.8	-31.5	-36.8	-5.3	-14.6	-8.4
Construction	SME	-29.5	-22.0	-19.9	-19.6	-21.9	-19.9	-21.3	-1.4	8.2	-0.5
	LSE	-17.8	-3.2	-7.5	-13.4	-16.4	-11.7	-16.8	-5.1	1.0	-6.9
Retail trade	SME	-16.7	-13.5	-13.2	-13.6	-11.6	-13.8	-15.7	-1.9	1.0	-0.3
	LSE	-21.6	-20.7	-24.9	-17.9	-22.0	-18.2	-23.7	-5.5	-2.1	-0.1
Wholesale trade	SME	-33.1	-28.7	-31.1	-30.1	-31.6	-37.4	-37.7	-0.3	-4.6	-5.6
	LSE	-37.1	-28.6	-32.2	-30.5	-30.2	-35.2	-34.6	0.6	2.5	-2.9
Services	SME	-14.1	-10.8	-11.5	-11.8	-14.6	-16.8	-14.6	2.2	-0.5	-4.0
	LSE	-28.3	-25.3	-26.8	-21.4	-22.7	-25.1	-18.6	6.5	9.7	2.4
Germany	SME	-20.5	-18.4	-19.0	-19.4	-20.5	-22.0	-21.4	0.6	-0.9	-2.4
	LSE	-24.6	-25.4	-29.0	-23.5	-26.4	-27.1	-28.0	-0.9	-3.4	-1.2
Current situation	SME	-15.3	-17.5	-19.9	-19.5	-21.8	-20.5	-19.3	1.2	-4.0	-1.6
	LSE	-22.5	-31.5	-36.5	-32.1	-34.4	-32.5	-30.4	2.1	-7.9	0.9
Expectations	SME	-25.5	-19.6	-18.3	-19.5	-19.5	-23.7	-23.6	0.1	1.9	-3.1
	LSE	-26.9	-20.0	-22.3	-15.6	-19.1	-22.4	-26.1	-3.7	0.8	-3.2
Employment expectations	SME	-4.5	-6.5	-7.9	-8.2	-8.6	-9.0	-8.6	0.4	-4.1	-1.2
	LSE	-8.7	-13.2	-15.0	-15.8	-16.1	-17.7	-16.8	0.9	-8.1	-2.2
Sales price expectations	SME	4.3	1.9	0.1	0.3	0.1	4.0	4.3	0.3	0.0	2.0
	LSE	1.7	-1.6	-2.4	-0.3	0.2	3.3	4.6	1.3	2.9	4.1
Export expectations of manufacturing	SME	-18.4	-15.3	-16.1	-13.5	-14.6	-15.3	-16.7	-1.4	1.7	-0.6
	LSE	-16.2	-11.6	-14.0	-15.4	-13.8	-14.2	-13.3	0.9	2.9	-0.1

Sources: 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-)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 adjustments as well as rounding. The KfW-ifo SME Barometer was fundamentally revised for the reporting month of April 2018 (new aggregation process, inclusion of services, start of timeseries now 2005 instead of 1991, consideration of export expectations, discontinuation of regional indicators for western and eastern Germany). Publications prior to and from April 2018 are therefore comparable to a limited extent only.

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.