

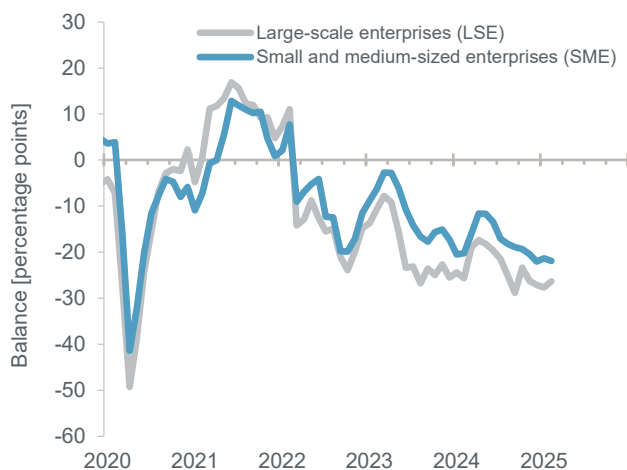
»» Sentiment among SMEs has not improved

5 March 2025

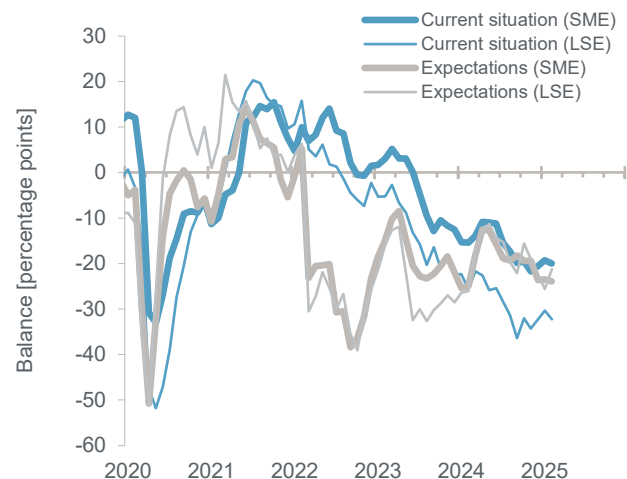
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- SME sentiment has declined again
- Situation assessments and expectations have both deteriorated
- At the same time, expectations among large enterprises have brightened significantly
- Growth opportunities for 2025 hinge mainly on fiscal policy and US trade policy

KfW ifo Business Climate Index



KfW ifo sentiment components



Source: KfW Research, ifo Institute

SMEs continue to lose confidence

The mood improved minimally at the start of the year, but sentiment among small and medium-sized enterprises has now declined again at a similar rate. After falling by 0.6 points, SME sentiment sat at -21.9 points in February. It thus remains well below the historic average represented by the zero line. Situation assessments and business expectations both fell equally.

- Situation assessments dropped by 0.7 points to now -20.0 balance points. The minor upward trend from the previous months has not continued.
- At the same time, expectations for the next six months shed 0.4 points, falling to -23.9 points.

A glimmer of hope in industry and wholesale

There appears to be a glimmer of hope in the economic sectors that have been worst hit by the crisis. SME sentiment improved slightly in both manufacturing (+1.8 points) and the

closely linked wholesale sector (+2.5 points). This was mostly due to improved business expectations, and manufacturers' export expectations are also picking up again. The same is true of large enterprises operating in these sectors. The various protectionist ideas of the new US president thus hardly appear to be having a negative impact on businesses' expectations yet. The threats of tariffs from the US may for the time being even have the positive effect that firms are pulling exports forward. In line with this, the detailed figures of the ifo economic surveys from February show a significant improvement in the stock of orders in manufacturing, which may explain the positive development of short-term business and export expectations. However, this effect would obviously reverse after a tariff increase.

Service providers are more pessimistic

The large segment of small and medium-sized services, on the other hand, reported a deterioration in business confidence by 2.2 points, after an upward movement in the

previous month. Here, situation assessments and business expectations fell equally. The business sentiment of retailers is virtually moving sideways (-0.1 points). In the small and medium-sized main construction industry it dipped moderately (-0.6 points).

Business sentiment among large enterprises has improved

Unlike SMEs, large enterprises reported an overall improvement in business sentiment (+1.3 points to -26.4 points). Large enterprises of the main construction industry in particular turned more confident than their SME counterparts (+6.5 points), as was the segment of large retailers (+6.6 points), where sentiment is consistently more volatile.

February showed a mixed economic picture

On balance, the KfW-ifo SME Barometer in February points toward a renewed deterioration of economic conditions. Thus, the current economic picture is generally mixed: Businesses' situation assessments and consumer confidence are both on the decline, while at the same time the activity index of the composite PMI has returned to growth territory. It would therefore come as no surprise if the sawtooth shape of the business cycle that has prevailed for three years continued and the slight contraction of gross domestic product seen at the end of 2024 were followed by a moderately positive growth rate in the current quarter. However, a genuine economic reversal is rather unlikely, as household consumption can be factored out as a strong driver for 2025 since real wage momentum is already waning again and the household saving rate is likely to remain high. Low capacity utilisation and high trade uncertainty are also providing only little impetus to investment even though monetary easing has begun. Much depends on how foreign demand develops, although we fear that Donald Trump will back his words with action and the EU, too, has to expect substantially higher US tariffs. KfW Research therefore expects GDP to fall again slightly by 0.2% this year.¹ However, if the financing package for defence spending and infrastructure investment agreed in the exploratory talks between the CDU/CSU and SPD on March 4th finds its way through the Bundestag and Bundesrat, growth could also be higher.

¹ Cf. [KfW Business Cycle Compass February 2025: The German economy is struggling to get any wind in its sails](#), KfW Research.

KfW-ifo SME Barometer in figures

Balance [Percentage points]*		Month/Year							m-o-m	y-o-y	3m-o-3m
		Feb 2024	Sep 2024	Oct 2024	Nov 2024	Dec 2024	Jan 2025	Feb 2025			
Business climate											
Manufacturing	SME	-26.5	-23.7	-25.9	-25.1	-30.9	-31.4	-29.6	1.8	-3.1	-5.7
	LSE	-23.3	-27.1	-22.9	-28.6	-31.4	-36.6	-34.5	2.1	-11.2	-8.0
Construction	SME	-28.6	-19.9	-19.6	-22.0	-20.0	-21.5	-22.1	-0.6	6.5	-0.7
	LSE	-16.7	-7.7	-13.5	-16.3	-11.3	-15.9	-9.4	6.5	7.3	0.3
Retail trade	SME	-16.5	-12.9	-13.3	-11.3	-13.7	-15.7	-15.8	-0.1	0.7	-2.6
	LSE	-25.4	-24.7	-17.7	-21.7	-17.8	-23.1	-16.5	6.6	8.9	2.2
Wholesale trade	SME	-37.8	-30.8	-29.8	-31.2	-36.9	-37.0	-34.5	2.5	3.3	-5.5
	LSE	-39.5	-32.2	-30.4	-30.0	-34.9	-34.1	-32.2	1.9	7.3	-2.9
Services	SME	-12.3	-11.4	-11.7	-14.5	-16.7	-14.5	-16.7	-2.2	-4.4	-3.4
	LSE	-29.7	-26.8	-21.4	-22.7	-25.1	-18.5	-21.0	-2.5	8.7	2.1
Germany	SME	-20.2	-18.9	-19.3	-20.4	-22.0	-21.3	-21.9	-0.6	-1.7	-2.2
	LSE	-25.7	-28.9	-23.4	-26.3	-27.1	-27.7	-26.4	1.3	-0.7	-0.9
Current situation	SME	-15.4	-19.9	-19.5	-21.7	-20.5	-19.3	-20.0	-0.7	-4.6	0.4
	LSE	-25.6	-36.4	-32.0	-34.3	-32.3	-30.3	-32.2	-1.9	-6.6	2.6
Expectations	SME	-24.9	-18.2	-19.4	-19.4	-23.6	-23.5	-23.9	-0.4	1.0	-4.7
	LSE	-26.1	-22.1	-15.6	-19.0	-22.4	-25.6	-21.3	4.3	4.8	-4.2
Employment expectations											
	SME	-4.3	-7.9	-8.2	-8.6	-8.9	-8.5	-8.3	0.2	-4.0	-0.3
	LSE	-12.0	-15.0	-15.7	-16.0	-17.5	-16.6	-16.1	0.5	-4.1	-1.2
Sales price expectations											
	SME	-0.7	0.0	0.2	0.0	3.9	4.1	4.5	0.4	5.2	4.1
	LSE	-0.3	-2.3	-0.4	0.2	3.3	4.5	4.8	0.3	5.1	5.0
Export expectations of manufacturing											
	SME	-15.9	-15.9	-13.3	-14.4	-15.1	-16.4	-14.2	2.2	1.7	-0.7
	LSE	-12.6	-13.9	-15.4	-13.6	-13.9	-12.8	-10.1	2.7	2.5	2.0

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-)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.