

Logistics Indicator in Q3 2013:

German logistics business still on an uptrend – positive outlook for the final quarter

The German logistics industry is continuing on its uptrend: this is the finding of the most recent poll (September survey) for the Logistics Indicator computed for the German logistics association BVL International by the Institute for the World Economy in Kiel. The overall climate score in the logistics industry has improved once again, this time by 7.6 points to 122.2 points. While current situation assessments are practically unchanged from the previous quarter at 115 points, expectations for the next 12 months show a clear increase of just under 15 points to a new level of 129.4 points. Whereas the uptrend during the course of the year to date has been driven by the positive development of business on the supply side of the logistics market, the current expansive trend is down to both sides. What is particularly noticeable is the improved climate among the users of logistics services in industry and trade. After a downtrend lasting two years, the corresponding climate indicator has now picked up again for the first time, showing a rise of almost 11 points. The positive trend we have seen on the supply side since the start of the year is still intact, albeit at a more moderate level (up by 4.6 points to 118.9 index points).

The brighter business climate is also underlined by the response to the question on the short-term business trend for the coming quarter; this question was included for the first time in the survey for Q3. The answers indicate that the logistics service providers are considerably more optimistic than the logistics managers in industry and trade, with just under half of the providers (49 percent) and only one in four users expecting to see increased logistics activity during the next three months.

On the *supply side* of the market, the improved climate is driven by more positive expectations for the next 12 months (with an increase of 13.6 points to a level of 128.5 points), which more than offsets the slight downtrend in the assessment scores for the current business situation (down by 4.4 points to 109.3 points). This means current business assessments have now moved closer to the neutral 100 line. Although orders on books are slightly higher than in the previous quarter, incoming domestic orders showed only minimal growth, and the strong improvement in cross-border business seen in the spring has not been sustained. With capacity utilisation on the decline, the assessment of the current business situation is therefore slightly less favourable on the whole. Expectation scores for the next 12 months are up more or less equally for all components – and the improvement in expectations for the business trend is now also more strongly bolstered by plans for increased investment and personnel recruitment.

There are currently signs of a turnaround in sentiment among the *users of logistics services* in industry and trade. Following stagnation in the summer, the current autumn survey shows a clear uptrend in current situation assessments (up by 5.6 points to 120.7 points); the improvement in the expectation score is even more noticeable, now up 15.7 points to 130.3 points. In recent months, the companies in industry and trade were clearly able to meet higher demand for logistics services by increasing utilisation of their own capacities. The expectation scenario for the next 12 months is extremely similar to that on the supply side. What is also particularly noticeable on the demand side of the market is that industrial and trading companies plan to expand their own logistics capacity to meet the forecast growth in demand, especially for cross-border services, and this includes plans to

recruit more personnel for the first time in a year. At the same time, there is also an increased willingness to outsource logistics services, and this can be interpreted as a further indicator for expansion.

The special question this quarter was on innovation, which tends to be of far greater significance for the business fortunes of logistics service providers as specialists in the field. Four in five providers (81 percent) describe innovation as a key growth driver, compared to only just over one in three users of logistics services (36 percent). Although the majority of respondents on both sides of the market have no plans to increase their logistics-related research and development budgets, the minority that does intend to spend more on R&D is more than twice as big (37 percent) among the providers as on the demand side, where only just under 17 percent plan to boost their innovation budgets.

The Logistics Indicator is computed for Bundesvereinigung Logistik e.V. (BVL) by the Institute for the World Economy (IfW) at Kiel University. The design of the indicator allows values between 0 and 200, where a value of 100 characterises a "normal" economic situation (satisfactory and stable business and order situation with normal capacity utilisation levels).

This commentary is based on the currently foreseeable development of the polled survey elements. With the data volume that is available to date, the computation of the profiled overall and sub-indicators is only possible as part of an initial calculation process. Using quarterly figures, the question design on which the indicator concept is based is geared towards assessment of the seasonally "normal" values (after adjustment for seasonal effects). Nevertheless, the possibility that seasonal effects impact response behaviour cannot be ruled out. Once the indicator has been in use for a sufficient period of time, it will be possible to statistically filter out these influences. Moreover, it will in future also be possible to conduct surveys on the lead time characteristics with regard to both the sectoral and the overall economic trend. These surveys will be conducted by the IfW as soon as the necessary volume of data is available.