

## Logistics Indicator in Q4 2014:

### Improved situation but more cautious forecasts in the Germany logistics sector

As the year draws to a close, the business climate in the German logistics industry is once again slightly less favourable than in previous quarters. This trend is primarily driven by the renewed downturn in expectations for the coming year – above all in response to the continued presence of geopolitical risks. In contrast, the business situation in the current quarter is assessed slightly more positively than was the case just three months ago. This is the key finding of the most recent poll (November survey) for the Logistics Indicator computed for Bundesvereinigung Logistik e.V. (BLV) by the Institute for the World Economy in Kiel. The overall climate indicator was down by over four points to a new level of 120.5 index points. The improvement in the score for assessment of the current business situation by 2.6 points to 130 points was more than offset by the 11.5 point decline in the expectations for the next 12 months to a new level of 111 index points. Falling by almost 7 points, the climate score on the supply side (logistics service providers) was down by slightly more than among the users of logistics services in industry and trade (down by over 2 points). With all sub-indicators still above the neutral 100-line, the figures still show an upward trend overall. As is also the case for the economy as a whole, the global hotspots are currently an acute factor negatively impacting business prospects. This means that it is exogenous factors rather than cyclical or structural aspects that constitute the biggest obstacle to stronger growth at the present time. Accordingly, both sides of the market currently forecast a practically unchanged level of business activity at the beginning of next year (neutral business trend).

While their assessment of the current situation is virtually unchanged (134.2 points), the logistics service providers have downgraded their expectations by 14 points to 113.5 points, the lowest score for 18 months. Whereas the prospects for improved business next year have noticeably bottomed out, the plans for capacity expansion have evidently not been adjusted to the same degree. Indeed, there is even a slight increase in the willingness to take on new personnel. This suggests that the respondents view the anticipated slower phase as being of only a temporary nature.

There is a similar gap between current situation assessments (up by almost five points to 115.7 index points) and 12-month forecasts (down by 9.1 points to 108.4 index points) on the demand side of the market. There are also parallels with regard to the expectation components – with a clear downturn in expected logistics activity on the one hand and robust capacity planning on the other.

When asked about the prospects for higher earnings (driven by increased turnover or reduced costs), both sides of the market emphasise the options resulting from greater cooperation along the value added chains (62 percent of providers and 73 percent of users see this as being one of the two most important factors for the coming year). This is followed in second place by opportunities arising from online trading (41 versus 46 percent) and cost-cutting potential in the fields of purchasing and procurement (38 versus 41 percent). In contrast to the unanimity when it comes to these aspects, only the supply side sees digitalisation and Industry 4.0 as being key factors for success (43 percent versus 16 percent).

The respondents on both sides of the market mainly agree on the nature of the main risks: the biggest threat to business success in the coming year is seen as coming from the global hotspots (60 percent of providers and 70 percent of users see this as one of the two biggest risk factors). Whereas the ongoing euro crisis (46 percent versus 32 percent) and the development of personnel costs (41 percent versus 30 percent) are chiefly of concern to the logistics service providers, it is the state of the transport infrastructure that is the second most frequent cause of headaches for the respondents in industry and trade (51 percent versus 35 percent of the logistics service providers).

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.