

Logistics Indicator in Q2 2015:

Uptrend in the logistics sector

– but structural risks pose a threat to growth

Spring 2015 saw further consolidation of the uptrend in the German logistics sector. While the more optimistic mood at the start of the year was driven by business expectations, current situation assessments have now caught up with forecasts. This confirms the overall positive business trend that was identified three months ago. These assessments are based on the findings of the latest Logistics Indicator survey (May poll), conducted for Bundesvereinigung Logistik e.V. by the Institute for the World Economy in Kiel.

The logistics business climate improved by a total of 6.3 points to 135 points. This improvement is equally attributable to better current business assessments in the current quarter and further brightening of expectations for the next 12 months (up by 6.4 and 6.2 points, respectively). This means that both climate components are currently on an uptrend and are both almost exactly the same distance from the neutral 100 line (current situation: 133.1 points; expectations: 136.8 points). One of the factors underpinning this healthy overall picture is that both sides of the market have very similar assessments of the economic situation. At 134.2 points, the climate score measured for the logistics service providers (supply side) is very close to the figure of 135.7 points recorded for the users of logistics services in industry and trade. The short-term business trend is also seen as being positive: on balance, 14 percent of the logistics service providers and 21 percent of logistics users have positive expectations for the coming quarter.

Among the logistics service providers, it was above all the renewed growth in incoming orders that offset the slowdown in current situation assessments from the previous quarter. The supply side of the market is also far more optimistic regarding orders during the next 12 months than was the case at the beginning of the year. The capacity plans of the companies continue to point to significant expansion, but the tempo of expansion is more or less unchanged compared to the previous quarter. In a scenario characterised by a persisting high level of capacity utilisation and increasingly scarce capacity availability in the market, the users of logistics services are responding with a further increase in willingness to expand capacity, in terms of both physical resources and new recruitment.

While there is a noticeable upturn on both sides of the market, Germany also faces risks as a logistics location, in particular structural risks, which pose a threat to the positive business trend. Providers and users of logistics services generally agree on the nature of the various risk factors. The respondents see the biggest challenge as demographic change and the resulting shortage of skilled personnel – followed in equal second place by the obstacles to business due to the inadequate infrastructure and the concern over the increasing willingness to strike in Germany. The users of logistics services takes a slightly more serious view than the logistics service providers of the current economic policy uncertainties (crisis in Greece, stability of the euro) and geopolitical tension (Ukraine, Russia sanctions). As part of their risk management strategy, practically all respondents systematically evaluate losses that have occurred in order to identify relevant weak points. While 82 percent of logistics service providers employ risk avoidance measures (refraining from high-risk activities), the same is true for only 70 percent of logistics users. In contrast, 80 percent of the latter have greater faith in the proactive use of risk management systems than the service providers (71 percent). The spreading of

orders across different suppliers to reduce risk is also a strategy pursued by the majority of respondents on the demand side.

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.