

Logistics Indicator in Q1 2017:

German logistics business still on a six-year high

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Business in the German logistics industry continues on its uptrend. This is the finding of the most recent survey for the Logistics Indicator (February poll), conducted for BVL International by Kiel Institute for the World Economy (IfW). Although the climate score was up by only a modest 1.7 points overall, this nevertheless confirmed the significant upswing recorded in the previous quarter. The new score of 138.2 points is the highest level since the autumn of 2011. Current situation assessments, already at a high level, decreased slightly by 3.7 points, but this was more than offset by the more optimistic expectations (plus 7.1 points). Both sides of the market are now almost on the same line: the 3.8-point increase in the climate score among users of logistics services in industry and trade means they have closed the gap to the supply side (logistics service providers), whose climate score is practically unchanged. When asked about the short-term business trend, a large majority of respondents were optimistic and expect to see growth of logistics activity during the next three months. On both sides of the market, the optimists outweigh those who predict a lower level of activity by more than 40 percentage points.

The climate scores for both sides of the market are roughly 10 points above the 10-year average for the Indicator, confirming that the signposts in the German logistics sector are currently pointing towards clear growth. Since the middle of last year, the indicators for corporate optimism regarding the German economy overall have reflected the greatly improved basic economic trend, and this positive sentiment among companies appears to have been carried over into the logistics industry.

The renewed climate uptrend among *the users of logistics services* in industry and trade is mainly driven by the more favourable assessments of the current business situation (up by 7.2 points). This improved situation is mirrored by the slightly lower availability of logistics capacity in the market and is accompanied by a noticeable increase in logistics costs. Expectations for the next 12 months are almost unchanged overall, as the slightly less positive forecast for future logistics demand at home and abroad is offset by an increased willingness to expand physical and personnel resources. The business trend is still seen as being extremely favourable. The climate score for the *logistics service providers* is more or less unchanged, but there is clear divergence between the trends for current business assessments and expectations on this side of the market. On the heels of the 25-point upswing in the prior quarter, currently situation assessments have now declined by 14.6 points, while the expectation component has more than offset last quarter's slump (minus 12 points) with a renewed increase of 13 points. The main factors in the less favourable assessments of current business are lower capacity utilisation levels and a slightly less positive assessment of orders on books – although the latter are still described as "good" overall. Assessments of the development of incoming orders for domestic and cross-border business are still positive but have lost some of the dynamic pace they showed in Q4 2016. In contrast, confidence in a persisting positive trend for the next 12 months is now more robust

once again. Not only are the expectation scores for the business and order trend significantly higher than in the previous quarter; there is also a marked increase in the willingness to expand physical and personnel resources.

Special topic: digitisation and innovation management

The stimuli and ideas for new digital business models in the logistics sector mainly come from the management of logistics companies or are driven by customers. Over 60 percent of respondents say that the management defines the developmental goals (top-down). It is far less common, above all among the logistics service providers, for ideas to come from employees and for these ideas to be readily taken on board by the management (bottom-up). Roughly one in two companies react to new customer requirements by implementing digital innovations, and in 40 percent of companies employees are encouraged to test-drive new ideas and are given the necessary time and funding. Over one in four companies take advantage of the consulting services offered by digitisation experts ("digital natives").

When it comes to innovation management, the majority of logistics managers say their companies are positioning themselves as error-tolerant and learning organisations. For more than one out of two respondents, mistakes are part and parcel of innovation and belong to the learning process. In the same vein, there are hardly any companies who believe that they can generally not afford to make mistakes. In around 70 percent of surveyed companies, calculated risks in the innovation process are flanked by interdisciplinary teams and suitable cost control measures. Roughly 40 percent also include their customers in these processes in the spirit of "open innovation". In contrast, only a very small percentage of respondents are waiting to see what happens in other companies so that they can avoid pitfalls in their own innovation process.

Technical note: in the current quarter, we have re-aligned the procedure for calculation of the Indicator, with the result that the seasonally adjusted current situation assessments of the logistics service providers differ slightly from the previously reported scores. This does not affect the overall picture for the economic climate, however.

The Logistics Indicator is computed for BVL International by Kiel Institute for the World Economy (IfW). 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). The average indicator values since the survey for the BVL Logistics Indicator began 10 years ago are in the order of 127 points, and this provides added context for what can be considered a "normal" business situation in the logistics sector. 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 seasonal effects still impact response behaviour, and these influences are filtered out from the indicator values using a standard statistical method for seasonal adjustment (Census X12-ARIMA).