

ifo-BVL Logistics Indicator Results of the ifo Business Survey for the second quarter of 2019

Logistics Indicator – less favourable business situation

The business climate indicator for the German **logistics industry** fell again in May following a slight recovery during the previous two months. This is the finding of the monthly survey for the Logistics Indicator conducted by the ifo Institute on behalf of BVL – The Supply Chain Network within the context of the Institute's business surveys. Although expectations for business during the next six months improved for the third time in succession, the overall mood was still more on the sceptical side. Assessments of the current business situation trended downward for the third month running, and the indicator fell to 109.7 points, the lowest value since December 2016. Given this situation, personnel recruitment planning is becoming increasingly cautious. Moreover, a declining share of surveyed companies expects to be increasing prices in the near future. Official figures show that the German economy grew by a tangible 0.4% in the first quarter compared to the previous quarter, when growth was stagnant. What is probably also the case, however, is that temporary factors that drove strong expansion in private consumer spending are continuing to mask a weak overall trend in the German economy. This consumer spending was above all the result of the noticeable reduction in wage stoppages at the beginning of the year and the normalisation of car sales – which virtually collapsed in the final quarter of 2018 following the changeover to the new WLTP measurement method. In contrast, value added in the export-focused manufacturing industry fell for the third quarter running. The trade dispute initiated by the USA and the imminent prospect of Brexit are negatively impacting industrial sentiment worldwide.

Logistics service providers gave a less positive assessment of the current business situation in May. At 106.9 points, the indicator was lower than at any time since February 2017. At the same time, there was some slight optimism with regard to predicted developments during the next six months after the predominantly pessimistic assessments in February and March. The business climate showed a slight downtrend in May, pushing the indicator well below the level it had been at one year ago. Only a small number of surveyed companies said that they had increased their turnover year on year. Responses indicated that, on balance, orders on books are seen as being on the low side, and companies have already been forced to downsize personnel levels. Nevertheless, CEOs are still optimistic about the development of turnover during the next three months – although it is also the case that formerly expansive recruitment plans have now been rolled back even further. Respondents were also less prone to predict higher prices for their services in the market.

In May, the surveyed companies in **trade and industry** who make use of logistics services were still sceptical about the development of business during the next six months. At the same time, the current business situation was still assessed as “good” – although the corresponding indicator fell to 112.7 points, the lowest level for just under three years. The business climate deteriorated for the ninth month in succession and is once again below the long-term mean. The responses to questions about personnel recruitment plans suggest that lay-offs are in the pipeline. Prices are still expected to be increased, however, albeit not across as broad a front as was the case last year. Inventory levels continue to grow, pointing to a downtrend in demand.

Nevertheless, the official figures show that the manufacturing industry significantly increased its exports in the first quarter, above all to other EU member states. However, this also included deliveries of goods to the UK that were brought forward due to the March date originally scheduled for Brexit. Overall, expectations for exports by German industry have fallen to the lowest level since 2012.

The Logistics Indicator is computed for BVL – The Supply Chain Network by the ifo Institute. It is based on the monthly business climate surveys that have been conducted since 2005. More than 4,000 responses from providers of logistics services (60% freight transport (without air freight); 40% freight carriers and logistics) and from companies in the manufacturing industry (66%) and the trading sector (wholesale: 17%; retail: 17%) as users of logistics services are used to calculate the Indicator. The overall Indicator is computed in equal parts based on the findings for the providers and the results for the users. The question design is geared towards the assessment of the current business situation, trends in recent months and expectations for the coming months. Survey respondents are generally given three answer options per question that can be characterised as “positive-expansive”, “average-neutral” and “negative-contractive”. The percentage shares of positive-expansive and negative-contractive answers are balanced out, which means the net scores can lie anywhere between -100 (all companies gave a negative-contractive answer) and +100 (all companies gave a positive-expansive answer). If the net score is 0, this means that negative and positive responses are in equilibrium. All questions refer to seasonally “normal” assessments. Moreover, all the reported figures are adjusted for any residual seasonal pattern using a standard statistical method for seasonal adjustment (X13-ARIMA-SEATS). For the purpose of calculating the index values of the business climate and the two components “business situation” and “expectations”, the balances are each increased by 200 and normalised to the mean value for a base year (currently 2005).