ifo-BVL Logistics Indicator

Results of the ifo Business Survey for the third quarter of 2021

Logistics Indicator – recovery slowing

The business climate in the German **logistics sector** was extremely mild in the third quarter of 2021. Although the corresponding indicator was down slightly in August relative to previous months, it still stood at an excellent 106.4 points. 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. This minor slump was primarily due to the less optimistic expectations of the surveyed companies. In contrast, the current business situation was once again assessed as favourable.

The **providers of logistics services** were far more satisfied with ongoing business, which was underpinned by major momentum on the demand front as well as noticeably fuller order books. The outlook for the next six months remains optimistic, albeit slightly less so than has recently been the case. This resulted in further improvement in the business climate in Q3.

While the respondents in **trade and industry** were extremely satisfied with the current business situation, they are also more sceptical regarding the trend in the coming months. The problems faced in the procurement of intermediate products and raw materials pose major challenges for many companies, as they have also seen a strong fall in stock levels. Rising infection figures are also cause for concern, particularly in the trading sector. Despite all of the above factors, the strong uptrend in the current business indicator nevertheless succeeded in driving a minor improvement in the business climate indicator.

After experiencing a further 2% decline in economic output at the beginning of the year due to the corona crisis, the German economy gradually began to recover in the second quarter of 2021. **Gross domestic product (GDP)** was up by 1.6%[1] on Q1 and therefore only 3.3% below its pre-crisis level in the fourth quarter of 2019. The relaxation of Covid restrictions and the resulting upturn in public activity unleashed a dynamic demand trend. The uptrend was particularly evident in consumer spending, which was up 3.2%[2] on the first quarter, benefiting not just trade and retail but also many service providers in the areas of leisure, entertainment, culture, accommodation and hospitality.

Improving economic activity was also reflected in a significant reduction in **short-time working**. According to the estimates of the ifo institute, for example, the number of employees on short-time work was reduced by 70% between May and August, from just under 2.3 million to 688,000. These reductions were above-average in the sectors that benefited directly from the receding corona crisis. During the same period, the number of employees in the retail sector on short-time work fell by 88% (from over 300,000 to only 36,000) and in the hospitality industry by 79% (from just under 500,000 to 107,000).

[1] Adjusted for price, seasonal and calendar effects
[2] Adjusted for price, seasonal and calendar effects

The tempo at which short-time-work was reduced in the manufacturing industry was considerably slower (-56%, from 424,000 to 187,000). Although incoming orders in the sector have been on an almost uninterrupted uptrend for over a year now, industrial companies were forced to downsize their production output in the second quarter as a result of increasing **bottlenecks** in the supply of **intermediate products**. Whereas 18% of the companies polled by the ifo institute in January said that their production operations were being hampered by a lack of raw materials and intermediate materials, this figure had already risen to 70% by August, the highest figure since all the way back in 1991. The automotive sector and producers of electrical equipment were hardest hit due to the lack of availability of microchips, while the strong rise in prices for plastic granulate were of major concern for manufacturers of rubber and plastic goods.

These developments are also reflected in the indicators used by the Federal Statistical Office to measure economic activity based on transport performance. The **transport index**, which supplies an overall picture of road, rail, air and inland waterway transport, has been stagnating since March and indeed even fell slightly in July. The data from the daily updated **truck toll mileage index** additionally show that the decline in truck transport volume continued in August, likely also as a result of material procurement problems.

This means that, overall, the German economy has succeeded in recovering from the impact of the corona crisis during the course of the year. At the same time, however, many companies are facing growing problems during the second half of 2021. As the summer comes to end, hotels and the tourism sector are especially concerned about rising infection numbers and stagnating vaccination rates, while wholesalers and industry are worried about ongoing delivery bottlenecks and rising prices. The available early indicators suggest that the growth in economic output will not be as strong in the autumn.