

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

Logistics Indicator – slowdown at the end of the year

The climate indicator in the German **logistics sector** was on a clear downtrend in Q4 but nevertheless stood at a still satisfactory 99.4 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. The current business situation was still frequently described as favourable, but not quite as often as was previously the case. In contrast, future business prospects continued to slide, and very few companies are looking to the next six months with any kind of optimism.

Satisfaction with the current business situation among **logistics service providers** was noticeably lower, and this also resulted in a downtrend in the business climate during the fourth quarter. Optimism with regard to business expectations was thin on the ground. Personnel recruitment plans, on the other hand, were slightly upgraded. In addition, a clear majority of companies are looking to increase their prices.

Respondents in **trade and industry** are increasingly sceptical about the business outlook. German industry continues to suffer from difficulties with the procurement of intermediates and raw materials – and more and more companies in the trading sector are also experiencing supply problems. Given this backdrop, positive assessments of the current business situation have declined noticeably. Stocking levels are low for the various segments, and the business climate has cooled further.

Overall, the German economy increasingly succeeded in recovering from the corona crisis during the summer months. After adjustment for price, seasonal and calendar effects, **gross domestic product (GDP)** in Q3 2021 was up by 1.7% against Q2, when quarter-on-quarter growth was slightly stronger at 2.0%. Economic output in autumn 2021 was nevertheless still 1.1% lower than in the pre-crisis final quarter of 2019.

Analysis of the individual sectors of the economy shows a clear two-way trend. While the contact-intensive service segments in particular experienced a strong upturn, industrial companies suffered from **bottlenecks** in the supply of intermediates. In November, 75% of industrial companies polled by the ifo Institute said that these bottlenecks prevented them from increasing their production output to meet the high level of demand. In some segments, the supply shortages were so severe that production output even had to be reduced. Estimates of the ifo Institute suggest that the value added losses caused by supply problems in German industry have totalled just under 40 billion euros since the start of the year, equivalent to over one percent of Germany's total annual economic output. The trading sector has also struggled with supply difficulties. In this most recent survey, roughly 80% of the wholesalers and retailers polled by the ifo Institute complained of problems in this area. Based on the answers from respondents in both trade and industry, we cannot expect to see any major improvement in the situation before the summer of 2022.

Alongside the limited availability of intermediates, the strong increase in the **prices** for these materials posed a further major challenge for companies. According to data from Germany's Federal Statistical Office, import prices have risen by just under 20% since the beginning of the year, while energy prices have indeed doubled over the same period. These higher costs were also reflected in the pricing plans of the logistics sector, with far more companies than in the previous quarter planning to raise prices.

The data of the ifo Institute show that **short-time work** increased in November for the first time since the spring, rising from 598,000 to 608,000 employees. This increase was mainly driven by industry, where the supply problems resulted in more and more employees being registered for short-time hours. There was also renewed growth of short-time work in the hospitality sector, likely due to the first effects of rising infection figures from the autumn onwards.

Germany is meanwhile in the throes of the **fourth corona wave**, which is expected to be especially problematic for retailers, the hospitality industry and other contact-intensive service providers. All of this means that the German economy is not expected to grow to any noticeable degree in the winter of 2021/2022. It is likely that industry will still be unable to drive the economy, as there are still no signs that the supply problems will be resolved any time soon. On the whole, the economic situation is still heavily dependent on developments on the corona front.

The Logistics Indicator is computed for BVL – The Supply Chain Network by the ifo Institute. It is based on the monthly business climate surveys for the period from 2015 onwards. 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 2015).