

ifo-BVL Logistics Indicator

Results of the ifo Business Survey for the second quarter of 2022

Logistics Indicator – sentiment reflects future concerns

Sentiment in the German **logistics sector** has slipped into the negative zone, and the business climate index has taken another hit, sliding to a score of 90.9. 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 downtrend is driven by the significantly more pessimistic expectations for future business. Assessments of the current business situation are also less frequently described as “favourable” than in the prior survey.

Fear for future business prospects has spread quickly among **logistics service providers** and has now driven the business climate indicator into the negative corridor. At the same time, many companies still view the current business situation as positive, with dynamic demand leading to a further increase in orders on books. In terms of pricing, companies are looking to raise prices across the board.

Companies in **trade and industry** are now often voicing their concern regarding the business trend in the next six months. Satisfaction with current business is down slightly, with the result that the climate indicator also fell significantly and the index score slipped into the negative zone. Prices have already been increased markedly and further price rises are predicted in the coming quarter.

The most recent corona wave has had only minor effects on the Germany economy during the first half of the year. Following a 0.3 percent drop in economic output to the end of 2021, GDP once again experienced growth in early 2022 – with Q1 2022 seeing a 0.2% increase on Q4 2021 after adjustment for price, seasonal and calendar effects. The upturn in the economy was mainly underpinned by the service sector, which benefited from the **abatement in new corona infections**. The construction industry also made a strong start to the new year, not least due to the favourable weather.

Since the end of February, however, economic activity has been increasingly impacted by the **war in Ukraine** and the weeks-long lockdown in China. Although German companies have stood by their positive assessment of the economic situation in recent months, what is also true is that growing supply bottlenecks, new sanctions against Russia and the strong increase in energy and food prices have considerably dampened the expectations of companies with regard to future business and driven both producer and consumer prices ever higher. Whereas supply bottlenecks and sanctions negatively impact production output as well as turnover in the manufacturing and construction sectors, high prices are mainly affecting demand. Incoming orders in industry have already been on a downtrend for several months, and the number of order cancellations in the construction sector is increasing. Retail sales have recently also fallen significantly after April saw inflation of over 7% for the first time since 1981. In addition, high costs are likely to negatively impact the profit margins and hence the investments of companies. In the April survey of the ifo institute, for example, industrial companies said they were able to pass on only just over 50 percent of higher costs to their customers, while this figure is even lower for construction companies and service providers at just 25 percent. Last but not least, the pessimistic outlook of the companies is probably also being driven by the ever-growing feeling of uncertainty. As the further course of the war and the associated economic policy and

geopolitical decisions are hard to predict, the companies naturally find it difficult to provide any concrete answers when asked about their business expectations for the medium term.

All of the above translates into a bleaker economic outlook. Although overall economic **growth** in 2022 will be **lower** than was forecast at the beginning of the year, the uptrend factors resulting from the waning of the corona wave will prevent the economy from slipping into recession. This prediction is also supported by the reduced volume of short-time working and the fact that only very few companies are genuinely concerned about their future survival. Inflation is expected to remain high for the remainder of the year, and the overwhelming majority of companies polled by the ifo institute also intend to raise prices even further in the coming months.

The Logistics Indicator is computed for Bundesvereinigung Logistik e.V. (BVL) 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).