Outlook dominated by uncertainty

Commentary on the Logistics Indicator for Q2 2022
by Prof. Dr.-Ing. Thomas Wimmer, Chairman of the BVL Board

A collage made up of four photos of legendary actor Jack Nicholson is circulating on the Internet, showing Jack in moods ranging from irritated to teeth-gnarling to resigned – and featuring the caption “Supply Chain Managers, 2019 to 2022”. How true! The economic impacts of the pandemic, the war in Ukraine, or perhaps both of these things together, have prompted a clear downturn in the expectations of logistics managers for future business during the next six months. But their assessments of the current business situation are illuminating, with the index score still hovering above “normal” level, albeit only marginally.

So, is the future outlook really that bleak? Geopolitical shifts are affecting the underlying structures of the European economy, and we are experiencing a watershed period that is creating a new world order and a new value system. The potential formation of economic blocs (USA, Europe, China) holds risks for the worldwide exchange of goods and services. A clear-cut demarcation of political systems would have serious consequences, particularly given the critical interdependences in the global value added chains. And persisting supply bottlenecks will result in a deepening recession.

Readers might well have seen the new maxims for procurement, production and logistics – slogans like “Flexibility before costs” and “Availability is the new currency”. What was still deemed uneconomical yesterday is today viewed as economically expedient. Indeed, in some sectors every product has to be available not only via at least “dual sourcing” but also at every location. This is a major cost driver. Moreover, it seems that the disruptions in the supply chains are not just of a temporary nature. This means that the best way to prepare for future uncertainties in value added processes is to make globally interconnected supply chains more resilient to negative future scenarios.

There is no relief in sight in the short term. The container tailbacks and delays have now also reached the North Sea and the ports in Germany, the Netherlands and Belgium. “Just under two percent of global freight capacity is currently stuck here and the vessels cannot be loaded or unloaded”, says the Kiel Institute for the World Economy (IfW). According to the latest figures, a dozen or so big container ships with a capacity of around 150,000 standard containers are currently waiting to enter the ports of Hamburg or Bremerhaven in the Germany Bight alone. And the situation is said to be even more dramatic in Rotterdam and Antwerp.

This results not only in delays but also a shortage of containers, which are currently just as scarce as pallets and cardboard packaging. While trade and industry are waiting for raw and semi-processed materials or are finding it difficult to ship their finished goods, logistics service providers are unable to top up their capacities, also due to massive personnel shortages. These problems will be with us for months to come and well into the year 2023. The situation is further exacerbated by higher prices in all areas that can only partly be passed on to the customer. It will be interesting to see whether high prices and labour costs will negatively impact the competitiveness of European companies.

So does this mean the outlook is poor everywhere? Not necessarily. Many companies are positioning themselves for the future; they are becoming more resilient and more sustainable. As so often, the crisis has not only produced many losers but has also fuelled faster innovation cycles. This is a trend from which the countries of Europe are traditionally well-placed to benefit, and it is entirely possible that we will emerge from the current scenario with renewed strength.

Supply chains matter! So please stay resolute, agile and proactive!