

ifo-BVL Logistics Indicator

Results of the ifo Business Survey for the first quarter of 2023

Logistics Indicator – sentiment significantly less pessimistic

The business climate in the German **logistics industry** showed a slight improvement on the previous quarter and recorded a score of 92.1 index points in Q1 2023. This is the finding of the monthly survey for the Logistics Indicator conducted by the ifo Institute on behalf of Bundesvereinigung Logistik e.V. (BVL) within the context of the Institute's business surveys. Although the business outlook was significantly better, pessimism was still the order of the day in many quarters. Moreover, positive assessments of the current business situation were slightly more frequent.

The **logistics service providers** expressed noticeably fewer fears with regard to the business trend for the next six months, although many of them still expect a downtrend. Assessments of the current business situation were slightly better than in the prior quarter. As a result, the overall business climate indicator climbed to 89.9 index points. Only few respondents described the demand trend as dynamic, and some providers are still unhappy with the volume of orders on books. Respondents expect to see stable demand in the coming months, and – for the third time in a row – the number of companies intending to raise prices has decreased.

Respondents in **trade and industry** were more frequently satisfied with current business; and although the outlook for future business continued to reflect the fears of many companies, these fears were far less pronounced than was recently the case. These factors drove a significant improvement in the climate indicator compared to the prior quarter to a new level of 93.5 index points. The business climate was still described as unfavourable by individual companies, while warehouse stocking levels were once again up slightly. In contrast to recent months, some companies are now planning to recruit more personnel. Last but not least, a far lower number of the polled companies expect to be able to force through higher prices.

After adjustment for price, seasonal and calendar effects, **gross domestic product** grew continuously during the first three quarters of 2022 but then fell by 0.4% in Q4. This resulted in net annual growth of 1.8%. The downtrend at the end of the year was mainly due to lower investment in buildings and equipment. The strong rise in interest rates has likely had a negative impact on the profitability of many investment projects. Both imports and exports were also down, most probably as a result of slower demand from abroad as well as supply bottlenecks. Although these bottlenecks pose less of a problem than was previously the case, they are still causing headaches for many companies. Private consumer spending also decreased due to high inflation and the energy crisis. In addition, some of the preferential pricing schemes such as the car fuel rebate and the 9-euro rail ticket were discontinued. Inflation remained at 8.7 percent in February, only slightly below the October 2022 high of 8.8%. Although energy prices did not play as great a role in Q1 2023 – mainly thanks to the electricity and gas price “brakes” in Germany – prices for food as well as other goods and services continued to rise, with the result that inflation factors have become more broadly based in recent months.

Most of the **early economic indicators** bottomed out in the autumn of 2022 and have since shown a slight improvement. Whereas the assessments of the current business situation among the companies polled by the ifo Institute were more or less unchanged, the expectations for future business have been on a clear uptrend since October 2022. Companies in the construction sector said there had been a slight reduction in the number of order cancellations, while

respondents in the manufacturing industry said that orders on books were down – although they are still at an above-average level as companies are only gradually servicing their backed-up orders. Consumer sentiment (based on the HDE consumer barometer) fell to a new low in the autumn of 2022; it has since improved but is still not back at the level it was at before the war in Ukraine. The loss in purchasing power due to high inflation and general uncertainty over the future trend will likely continue to negatively impact sentiment. At the same time, however, the employment market remained stable and unemployment was even down year on year at the beginning of 2023. The ifo employment barometer also fell only slightly in February 2023 and remained at a high level with a score of 99.4 points.

Inflation is expected to fall slowly in the coming months. This prediction is supported by the fact that the price expectations computed by the ifo Institute showed a downtrend in February for the fifth month in succession. Although the majority of companies still intend to increase their prices in the near future, the share of companies with these plans is steadily decreasing. As a result, consumption of private households is likely to fall further at the beginning of the year. Investments and exports are also expected to decline further – albeit less markedly than in the prior quarter. Overall, therefore, GDP will probably continue to shrink in the first quarter of 2023, which means that the German economy will be in **recession**. The economy is expected to gradually recover during the further course of the year and to grow more strongly in the second six months as soon as income growth once again begins to outstrip the growth in prices. All in all, however, gross domestic product for 2023 as a whole will probably show no year-on-year improvement.

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).