ifo-BVL Logistics Indicator
Results of the ifo Business Survey for the second quarter of 2023

Logistics Indicator – business climate continues to cool

The business climate in the German **logistics sector** was noticeably cooler than in the prior quarter, with the corresponding index for Q2 standing at 89.1 points. 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. The current situation was also less frequently seen by respondents as being positive. The business outlook continued to look bleaker and was dominated by pessimism in many quarters.

Concerns regarding the business trend for the next six months were once again slightly less prevalent among the **logistics service providers**, even though the majority of respondents in this segment still predict a downturn in business volumes. In contrast, assessments of the current business situation were considerably bleaker than in the previous quarter and were only sporadically rated as "positive". This trend also drove the index score for the central business climate indicator down to 88.8 points from 89.5 points. Demand levels have recently continued to decline, and there is widespread dissatisfaction with the volume of orders on books. A small number of respondents said they expect to see falling demand in the coming months, and – for the fourth quarter in a row – companies are less likely to increase their prices.

Companies in **trade and industry** were once again less frequently satisfied with current business than in the prior quarter. Moreover, many respondents voiced their concern with regard to the business outlook, resulting in a fall in the climate indicator to 90.5 index points. Some respondents spoke of an "unfriendly" business climate. Stocking levels increased, as was also the case in the prior quarter. Personnel recruitment plans were once again less frequent, and far fewer companies expect to be able to increase their prices.

The German economy was in **recession** in the winter months of 2022/23. GDP fell by 0.3% in the first quarter of 2023 – after adjustment for price, seasonal and calendar effects – having already slipped by 0.5% in Q4 2022 relative to the prior quarter. High inflation and a loss in real incomes primarily affected private consumption during the winter months. In contrast, the manufacturing industry succeeded in holding its own in the early part of the year and significantly grew its value added. While industrial companies profited from full order books and considerably reduced energy prices, the construction industry benefited from the extremely mild weather.

The **economic trend** is expected to remain **weak** in the coming months. While it is true that the supply-side problems on the production front are gradually being overcome, that fewer and fewer companies are reporting supply bottlenecks for intermediate products and commercial goods, that the number of days lost due to illness among employees fell significantly in April following the record figures for March, and that, finally, energy is now once again being traded in the markets at prices that were last seen before the outbreak of the Ukraine war – it is also true that the level of demand in the manufacturing industry continues to fall. This means that the noticeably tighter monetary policy in Europe and many other countries is gradually having an effect, resulting in a worldwide slowdown in the demand for goods and services. The marked decrease in new orders in the German manufacturing industry is a first sign that an export-focused economy like Germany will not go unscathed. The downtrend will likely also continue in the construction sector, where the wave of cancelled orders persists unabated. All in all, the

strong decline in the ifo business climate index in May suggests that a further reduction in GDP in the second quarter of 2023 has become more probable.

There are initial positive signs when it comes to rising consumer prices, however. Although **inflation** was still unusually high in April at 7.2%, it is already 1.6 percentage points lower than at the start of the year – indicating that inflation has likely peaked and is on the way down. While the decline in inflation to date is solely due to the significantly slower rise in energy prices, we also expect to see a gradual downtrend in price increases for all other goods and services. This is at least suggested by the price plans of the companies in the consumer goods and related sectors polled by the ifo Institute, with prices haven fallen slowly but continuously since October 2022. This means that consumer spending will likely also gradually pick up during the second half of the year, provided that the incomes of private households once again increase faster than prices – also as a result of significant wage increases.

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).