

ifo-BVL Logistics Indicator

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

Logistics Indicator – sentiment remains on the pessimistic side

The business climate in the **German logistics industry** was once again noticeably bleaker in the third quarter, continuing on its unfriendly trendline. The corresponding index stood at 83.2 index points in Q3. 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. Some companies now view the current business situation as being unfavourable. In addition, the outlook for future business is poorer, and respondents are concerned about the future.

The business expectations of the **logistics service providers** are once again bleaker, and these providers are therefore sceptical about the trend for the next six months. At the same time, the current business situation was seen as being significantly less positive than in the prior quarter and is now widely viewed as unfavourable. This drove the central business climate index down to a level of 80.5 index points. More companies are reporting sinking demand as well as a decreasing volume of orders on books across a broad front. Respondents also expect to see a downtrend in demand in the coming months. Companies are once again looking to increase prices, albeit less frequently than was the case in the previous quarter.

In contrast to the findings in Q2, some of the companies in **trade and industry** said they were unsatisfied with current business. Moreover, expectations for future business paint a pessimistic picture. This resulted in a drop in the climate index to 86 points – the lowest score for any quarter since the outbreak of the corona crisis in the second quarter of 2020. Warehouse inventories rose further, and personnel recruitment plans were once again restrictive in some cases. Companies currently expect to be able to push through higher sales prices only on a case-by-case basis.

The **German economy** was marking time in the first half of 2023. High inflation ate away at the purchasing power of private households, prompting the European Central Bank to significantly increase key interest rates. Real household incomes fell and financing costs increased, and this negatively affected both consumer spending and the construction sector. Industry also faced a difficult situation: although the supply-side bottlenecks that significantly impacted production volumes last year were increasingly less relevant, the slowdown in the global economy on the demand side made itself more and more noticeable. This was because many central banks hiked up key interest rates to keep inflation under control, which in turn acted as a brake on the economy. Moreover, we have still not seen any major turnaround in production volumes in Germany's energy-intensive industries despite the strong fall in energy prices. The main beneficiaries of lower energy prices were the consumers, which is the main reason for the slower increase in consumer prices in recent months. In contrast, inflation pressure in the segment of other goods and services has persisted, and the strong increase in labour costs has likely prevented a more rapid downtrend in the overall inflation rate.

Sentiment in the German economy has become noticeably bleaker in recent months. This has affected virtually all sectors of the economy, and the **slowdown** is therefore expected to continue during the second half of the year. It is likely that construction companies will gradually run out of orders – particularly in the residential construction segment – as the widespread cancellation of orders on books and the decline in new orders show no signs of abating. This

means that construction volumes are expected to fall in the coming quarters. Neither are we likely to see any economic stimuli from the manufacturing industry, at least for the time being, as demand for industrial goods in key sales markets is set to stay weak and will only pick up once again towards year end. Private consumption is expected to gradually recover during the second half. The increase in disposable household income will remain strong and will also boost purchasing power as inflation slowly falls.

All in all, GDP for the current quarter is expected to fall by 0.2% compared to the prior quarter. Only towards the end of the year can we expect to see slight growth once again, after which we should see a recovery in GDP in the coming year. Overall, price-adjusted **gross domestic product** for 2023 will be down 0.4% year on year but will then grow by 1.4% and 1.2% in the next two years. Inflation will continue to fall from the average 6% this year to 2.6% next year and 1.9% in 2025. Gas and electricity in particular will become cheaper for consumers and will fall below the price cap set by the German government as we enter the new year. Lower energy prices will probably therefore drive inflation down during the forecasting period. At the same time, rising labour costs are keeping price pressure high, so that the rate of price increases for labour-intensive services will only gradually recede.

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).