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

Logistics Indicator – sentiment remains bleak

The business climate in the German **logistics industry** recently showed a slight improvement. The corresponding index rose marginally to 83.9 index points in Q4. 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 improvement was driven by the uptrend in the expectation indicator, although business expectations remained unfavourable. Assessments of the current business situation were once again poorer than in the prior quarter.

The current business situation of the **logistics service providers** was once again significantly bleaker. Although we saw a minor improvement in business expectations, the service providers were still concerned about the trend for the next six months. As the downtrend in the indicator for the current business situation was the dominant factor, the overall business climate index fell to a level of 79.7 index points. Companies once again reported declining demand and, in many cases, a lower volume of orders on books more frequently than in the prior quarter. Overall demand expectations for the coming months were noticeably better, however, but are still trending downwards in some quarters. Personnel recruitment plans are still on the restrictive sign. At the same time, a far higher number of companies are looking to further increase prices than was the case in the third quarter.

Companies in **trade and industry** were once again less happy with the current business situation. They were still concerned about the business trend for the next six months, albeit less so than in the prior quarter. The climate index score for Q4 overall rose to a new level of 88.1 points. Stocking levels were on a par with those in Q3. Even more companies are now downsizing their personal recruitment planning, and some companies said they intend to cut their prices.

Gross domestic product for Q3 was down by 0.1% quarter on quarter, indicating that the German economy has more or less been marking time since the beginning of 2023. Although inflation has fallen during the course of the year and the pace of wage increases is up on the previous year, there are still no signs of recovery in consumer spending – partly due to the fact that some of the higher purchasing power has been used to bolster personal savings. Neither did we see any stimuli from the global trading of goods or global industrial production. Numerous central banks stepped in to cool the economy in order to combat inflation, and the recovery in the wake of the corona crisis was primarily driven worldwide by demand for services. As a result, German exports have continued on their downtrend.

The underlying signs are pointing towards **recovery** in the coming quarters. Inflation continues to fall, wage growth is strong, and employment is higher than it ever has been in reunified Germany. This is fuelling higher purchasing power, which should in turn drive macroeconomic demand. Moreover, lower inflation should mean that interest rates have peaked. Capital market and credit interest rates have already been falling since mid-October, and the European Central Bank is likely to reduce key rates in the early summer of 2024 for the first time. This should also stimulate German sales markets, particularly as we will likely see an increase in purchasing power. Global trade in goods and private consumption are therefore expected to increase further and should help to drive economic growth in 2024. Both the manufacturing industry and the trading sector will benefit from these developments.

Overall, however, year-end performance is still also expected to be weak, as shown by most of the early indicators. Sentiment is bleak among both private households and companies. At the same time, we are not seeing any continuation of the downtrend of recent months, and there have even been encouraging signs with slight improvements in many areas. The trend will also be impacted by **economic policy uncertainty** in Germany, where this uncertainty is considerably greater than in other countries. The plans of the German government are mainly small-scale, often contradictory and less than dependable, particularly when it comes to the energy transition. The recent ruling of Germany's Constitutional Court on the financing of projects through the Climate and Transformation Fund is just one of many examples. The recovery is being hampered by this uncertainty, with consumers deciding to save more, companies less willing to make major investments and private households postponing big-ticket purchases.

All in all, economic output for the final quarter is likely to be only 0.1% up on Q3, but the economy is expected to gradually recover from 2024 and to record stronger growth. This means that price-adjusted GDP will shrink by 0.3% this year and then increase by 0.9% next year. As the German government will probably try to consolidate its spending so that it can draw up a budget for 2024 that is in compliance with the constitutional rules, growth rates are expected to be slightly lower in the coming year.

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).