ifo-BVL Logistics Indicator
Results of the ifo Business Survey for the second quarter of 2024

Logistics Indicator – sentiment slightly more positive

The business climate in the German **logistics industry** showed a slight improvement in Q2 compared to the first quarter of the year, with the corresponding index climbing from 83 to 85.6 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. Respondents also viewed the current business situation as being better than in Q1, although they are still unhappy with orders on books. The expectation indicator improved noticeably, but scepticism over the next six months is still widespread.

The business climate score for the **logistics service providers** improved noticeably, increasing to 84.1 index points from 80.7 points in the prior quarter. This uptick is mainly due to the less pessimistic business expectations, and the corresponding indicator rose markedly to a level not seen since the first quarter of 2023. All the same, there are still concerns regarding the next six months. Respondents continue to view the current business situation as unfavourable, albeit less so than at the beginning of the year. Demand was once again down, but far less frequently than in recent quarters. Moreover, demand predictions for the coming months are not nearly as poor as they have been. Orders on books, however, continued to decline across a broad front. Respondents said there were hardly any plans to downsize personnel levels.

Companies in **trade and industry** take a similarly unfavourable view of the current business situation as in the first quarter. Business expectations on the other hand were noticeably brighter, although respondents are still concerned about the next six months. Overall, the business climate showed an improvement, but the corresponding climate indicator is still at an unsatisfactory 87.3 index points. There was no change in stocking levels. Prices are set to increase once again, and companies are also looking to reduce personnel.

The German economy is gradually working its way out of the crisis. After falling by 0.5 percent quarter on quarter at the end of 2023, GDP grew by 0.2 percent during the first three months of the current year. This upswing was primarily driven by the construction sector, where the mild weather paved the way for more building activity than is the norm at this time of the year. Manufacturing, trade and some service sectors also succeeded in marginally improving their output levels, although the unfavourable order situation continued to hinder stronger growth. Up to the current point in time, the companies polled by the ifo Institute said that insufficient demand for their goods was the biggest obstacle to production growth. Consumer spending and company investments fell accordingly during the early part of the year. The only parameters that showed an improvement were foreign demand, investment in new housing and government investment. Overall, production capacities in the economy as a whole are still tangibly under-utilised, with the ifo business surveys recording utilisation at roughly 1 percent below the long-term average.

The decline in consumer spending came as a surprise, particularly after the extremely strong growth in wage levels at the beginning of the year. These higher incomes were above all driven by the payout of inflation compensation bonuses negotiated in a number of collective agreements that were exempt from both tax and social insurance contributions. As inflation continued to fall at the same time and was down to just above two percent in March, private households experienced a noticeable boost in purchasing power. It appears, however, that a

significant part of this income growth was initially left on current accounts, resulting in an increase of over one percent in the saving rate in Q1 to a new level of 12.4 percent. Had there been no change in the saving rate compared to the prior quarter, consumer spending could have grown by almost one percent in Q1 instead of shrinking by 0.4 percent.

The signs seem to point to recovery during the further course of the year, and sentiment among consumers and companies has gradually picked up since the beginning of 2024. The climate has also improved in the German sales markets, and this should boost demand for goods and services. Wage dynamics remain strong for the time being, and inflation will fall below two percent this summer for the first time since March 2021. This prediction is supported by, among other things, ifo's price forecasts, which show that fewer and fewer companies in consumer services and retail intend to raise their prices in the coming months. Although strong wage increases will maintain the high price pressure – above all in the service sector – the under-utilisation of capacity restricts the ability of companies to pass on higher costs, which in turn means that profits are likely to be lower. The decision of the European Central Bank to reduce interest rates in June will probably be followed by two further interest rate moves this year. Lower interest rates, the stable employment market and strong wage increases will also help the construction sector to gradually get back on its feet.