



Logistics sector decouples from industrial recession – but for how long?

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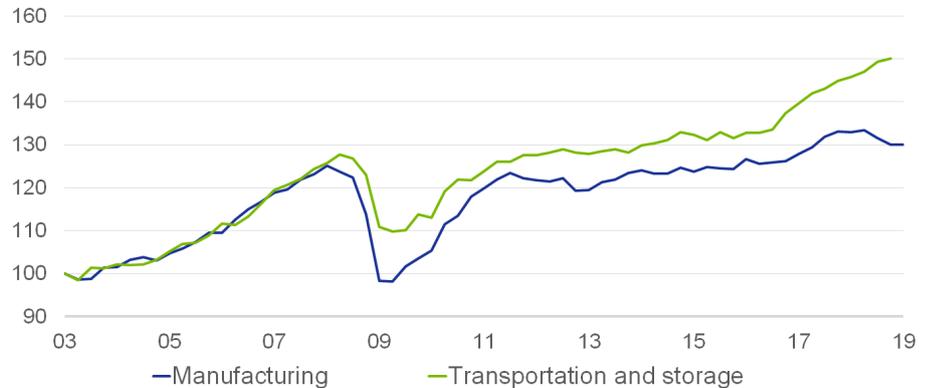
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The German logistics sector has continued to increase its overall turnover, despite the industrial recession. Logistics, one of the biggest sectors in Germany, seems to have decoupled from the industry to some extent. This is quite unusual. However, revenue growth in the logistics sector is supported by several developments: the boom in construction, a larger number of smaller deliveries due to the uptrend in e-commerce, the growing importance of value-added services and price effects. Nevertheless, the industrial recession is likely to have an impact on the logistics sector in the first half of 2019. We expect nominal revenues in the sector to stag-nate or even decline during the first half of 2019.

Logistics sector has recently decoupled from industrial business cycle

Real manufacturing output and nominal revenues in the transportation and storage sector, sa, DE, Q1 2003=100



Sources: Federal Statistical Office, Deutsche Bank Research



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German manufacturing output declined for the third time in a row in Q1 2019, by 0.1% qoq in real terms. The most recent sentiment indicators and the disappointing order intake figures at the beginning of the year (Q1: -4.1% qoq in real terms) suggest that the weak spell will continue for now.

While the industrial sector is undergoing a recession, the transportation and storage sector has seen its revenues increase further, even though the rate of growth slowed somewhat towards the end of 2018 (figures for Q1 2019 are not available yet). Still, nominal logistics revenues rose by almost 4% in 2018 as a whole (2017: +5.8%), whereas industrial output was up by just 1.2% – and that only thanks to healthy growth at the beginning of the year.

About 80% of total revenues in the transportation and storage sector are generated by logistics services (goods transports and handling, storage, freight forwarding, postal, courier and express services). The remaining 20% stem from passenger transport (public transport services, trains, taxis, aviation). Total sector turnover probably amounted to almost EUR 350 bn in 2018, making logistics one of the largest sectors in Germany. Thus, trends in logistics have an impact on the economy as a whole.

Due to the importance of logistics services, nominal transportation and storage turnover has been closely correlated with industrial output in Germany during the last few years. After all, industry, with its sophisticated division of labour, is the most important client of the logistics sector and has outsourced related services to external suppliers in the last few years. That is why the recent decoupling of logistics revenues and industrial output is highly unusual.

What may be behind this development? The logistics sector benefited from the boom in construction, as the transport of building materials and construction waste makes up a large share of overall transport services. Demand for postal, courier and express delivery services rose due to the steady expansion of private consumption and the rising importance of e-commerce, which leads to a larger number of small deliveries. In addition, logistics companies increasingly offer contract logistics services to their industrial clients, which include value-added services such as inventory management, processing financial transactions with clients, quality control, additional assembly work, product labelling, shelf service or the establishment of call centres. While such value-added services are not uniformly accounted for in the official statistics, they have probably contributed to revenue growth. And finally, much of the nominal increase in logistics revenues is due to price effects. High wage agreements, higher prices for diesel and shortages of transport capacities drove prices upwards.

Despite the increase in transportation and storage revenues, the industrial recession is likely to have an impact on logistics companies. We expect nominal revenues in the sector to stagnate or even decline during the first half of 2019. For example, the logistics indicator, which is calculated jointly by the ifo institute and Bundesvereinigung Logistik (BVL; the association of the German logistics industry), points to more subdued growth; in fact, it has declined in the last few quarters. The ifo expectations component for the logistics sector is considerably



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below the long-term average, too. Despite the likely cyclical setback, the logistics sector will remain a growth sector in the medium term. At the same time, competition in this sector will remain intense.

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