



# China Logistics Prosperity Index

June 2013

## China Federation of Logistics Purchasing

China Federation of Logistics & Purchasing (CFLP) is the logistics and purchasing industry association approved by the State Council. CFLP's mission is to push forward the development of the logistics industry and the procurement businesses of both government and enterprises, as well as the circulation of factors of production in China. The government authorizes the CFLP to produce industry statistics and set industry standards. CFLP is also China's representative in the Asian-Pacific Logistics Federation (APLF) and the International Federation of Purchasing and Supply Management (IFPSM).

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### The Fung Business Intelligence Centre

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**China Logistics Prosperity Index (LPI) came in at 53.2 in May, compared to 54.8 in April. All sub-indices were lower than their respective levels in the previous month. 10 of the 12 sub-indices still stayed in the expansionary zone in May. The exceptions were the average inventory index and the logistics services charge index.**

### 1. Slower growth in logistics activities

The demand for logistics services moderated in May. The new orders index was 53.1 in May, down from 55.5 in April. Meanwhile, the business volume index was 55.8 in May, dropping by 1.3 pts from the previous month. The figure indicates the slower growth in logistics activities in the month. This can be viewed as a sign that the growth of the real economy is still weak.

Against this backdrop, the employment index declined by 1.9 pts from the previous month to 50.2 in May, decreasing for two consecutive months. The figure was only marginally above the critical 50-mark, showing slight growth in employment. On the other hand, though the capacity utilization index fell in May, the May reading was still relatively high at 54.3. Quite a number of logistics enterprises have continued to see enhanced utilization of their facilities.

### 2. Decelerating growth in warehousing activities

Warehousing activities witnessed a deceleration in growth. The inventory turnover index fell from 51.6 in April to 50.9 in May. The decline reflected the softening demand for warehousing services by manufacturers. Meanwhile, the average inventory index came in at 49.3 in May, staying in the contractionary zone for two consecutive months. The index reading indicates a further drop in the inventory of the logistics companies surveyed.

### 3. Sharp drop in the cash flow index

The cash flow index dropped markedly by 3.0 pts from the previous month to 50.2 in May. This may suggest the credit conditions in China have become tighter lately. That being said, the index reading still stayed above the neutral 50-mark, indicating that logistics enterprises reported slightly faster turnover of cash in May, compared to the previous month.

### 4. Falling service charges

The logistics services charge index slid from 52.7 in April to 49.9 in May, dipping into the contractionary zone. This indicates that the logistics enterprises have started to reduce their services charges lately. Meanwhile, the operating cost index fell sharply by 4.6 pts from the previous month, but remained high at 58.3 in May. These two indices suggest that logistics enterprises have been unable to pass on the higher costs to their customers.

Nevertheless, logistics enterprises still managed to increase their profits in May, as indicated by the operating profit index. The index came in at 51.6 in May, staying above the neutral level of 50.

### 5. Optimistic business outlook by logistics enterprises

The investment in fixed asset index stayed high at 55.3 in May, after registering 55.7 in April. The May reading shows that logistic enterprises have continued to increase their investment in fixed assets, implying an optimistic business outlook by logistics enterprises. Indeed, the business expectations index remained high at 60.6 in May, showing that many enterprises in the logistics industry still foresee good business in the next three months.

### China Logistics at a Glance – May 2013

	LPI and sub-indices	Index	Index Compared with the Previous Month	Direction
	LPI	53.2	Lower	Expanding
1	Business Volume	55.8	Lower	Expanding
2	New Orders	53.1	Lower	Expanding
3	Average Inventory	49.3	Lower	Contracting
4	Inventory Turnover	50.9	Lower	Accelerating
5	Cash Flow	50.2	Lower	Accelerating
6	Capacity Utilization	54.3	Lower	Rising
7	Logistics Services Charge	49.9	Lower	Falling
8	Operating Profit	51.6	Lower	Rising
9	Operating Cost	58.3	Lower	Rising
10	Investment in Fixed Asset	55.3	Lower	Expanding
11	Employment	50.2	Lower	Expanding
12	Business Expectations	60.6	Lower	Optimistic

For the Chinese version, please refer to the website of China Federation of Logistics & Purchasing at <http://www.clic.org.cn>

## About China Logistics Prosperity Index, LPI:

China Logistics Prosperity Index (LPI) provides an early indication each month of logistics activities in the Chinese logistics sector. The LPI is useful as a fore-indicator of economic and business conditions in China. It is published by China Federation of Logistics & Purchasing (CFLP). And the Fung Business Intelligence Centre is responsible for drafting and disseminating the English LPI report. The first LPI was launched in March 2013.

Every month questionnaires are sent to over 300 logistics enterprises all over China. The data presented herein is compiled from the enterprises' responses about their logistics activities and inventory situations. No data of individual enterprises should be disclosed. The LPI should be compared to other economic data sources when used in decision-making.

Over 300 logistics enterprises in China are surveyed. The sampling of the enterprises involves the use of Probability Proportional to Size Sampling (PPS), which means the selection of enterprises surveyed is largely based on each sub-sector's contribution to the operating revenue of logistics sector, and the representation of each geographical region.

Survey responses reflect the change of each indicator, if any, in the current month compared to the previous month. There are 12 indicators in the survey: Business Volume, New Orders, Average Inventory, Inventory Turnover, Cash Flow, Capacity Utilization, Logistics Services Charge, Operating Profit, Operating Cost, Investment in Fixed Asset, Employment and Business Expectations. For each of the indicators, this report shows the percentage of enterprises reporting each response, the difference between the percentage of responses in the positive economic direction and the negative economic direction, and the diffusion index.

The diffusion index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indices have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. An index reading above 50% indicates an overall positive change in that variable; below 50%, an overall negative change.

The LPI is a composite index based on the diffusion indices for five of the indicators with varying weights: New Orders—30%; Business Volume—25%; Employment—20%; Capacity Utilization—15%; and Inventory Turnover—10%. A LPI reading above 50% indicates an overall expansion in the logistics sector; below 50, an overall contraction.