



# China Logistics Prosperity Index

May 2014

## 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).

## The Fung Business Intelligence Centre

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### The Fung Business Intelligence Centre

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The business volume index of China Logistics Prosperity Index (LPI) came in at 57.7 in April, up from 55.8 in March.<sup>1</sup> 9 of the 12 sub-indices stayed in the expansionary zone in April. Inventory turnover index, cash flow index and logistics service charges index were the exceptions.

### 1. Accelerating growth in logistics activities

The business volume index was 57.7 in April, up from 55.8 in March. The figure suggests an accelerating growth in logistics activities. The new orders index also rose from 53.0 in March to 55.4 in April, indicating stronger demand for logistics services.

Amid the increasing demand, the employment index gained 1.1 pts from the previous month to 51.2 in April, continuing to show a modest increase in employment. Meanwhile, the capacity utilization index went up sharply by 3.5 pts from the previous month to 55.4 in April. Logistics enterprises saw enhanced utilization of their facilities.

### 2. Inventories are piling up in warehouses

The April survey reflects a slowdown in inventory turnover and an increase in inventories. The inventory turnover index declined by 3.6 pts from the previous month to 49.4 in April, dipping into the contractionary zone. The average inventory index was 56.1 in April, up by 4.4 pts from the previous month. More inventories were stacked up in the warehouses of the logistics enterprises surveyed.

### 3. Drop in the cash flow index

The cash flow index dropped from 52.7 in March to 47.6 in April, reflecting slower turnover of cash for the logistics enterprises surveyed. This may suggest the credit conditions in China have become tighter lately.

### 4. Slightly faster growth in profits

The logistics service charges index fell to 49.5 in April, compared to 52.7 in March. Meanwhile, the operating cost index dropped by 2.9 pts from the previous month to 55.6 in April. The figure indicates that cost pressure on logistics enterprises has eased, but was still high. It is noteworthy that the operating cost index was higher than the logistics service charges index, hinting that logistics enterprises found it difficult to pass on the higher costs to their customers.

Nevertheless, the operating profit index improved slightly from 52.0 in March to 52.1 in April, showing that logistics enterprises witnessed a slightly faster growth in profits in the month.

### 5. Optimistic business outlook by logistics enterprises

The investment in fixed asset index came in at 50.6 in April, up slightly by 0.5 pts from the previous month. The reading shows that more logistics

<sup>1</sup> From this month, the 'composite index' of the LPI will no longer be used as an indicator for the overall performance of the logistics sector. Instead, the business volume index will be used as the overall indicator. The business volume index indicates the direction and rate of change in the level of business volume in the logistics sector.



enterprises have increased their investment in fixed assets. The business expectations index stayed high at 61.7 in April. Enterprises in the logistics industry remain optimistic about the business outlook in the next three months.

### China Logistics at a Glance – April 2014

	LPI and sub-indices	Index	Index Compared with the Previous Month	Direction
1	Business Volume	57.7	Higher	Expanding
2	New Orders	55.4	Higher	Expanding
3	Average Inventory	56.1	Higher	Expanding
4	Inventory Turnover	49.4	Lower	Decelerating
5	Cash Flow	47.6	Lower	Decelerating
6	Capacity Utilization	55.4	Higher	Rising
7	Logistics Service Charges	49.5	Lower	Falling
8	Operating Profit	52.1	Higher	Rising
9	Operating Cost	55.6	Lower	Rising
10	Investment in Fixed Asset	50.6	Higher	Expanding
11	Employment	51.2	Higher	Expanding
12	Business Expectations	61.7	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 Service Charges, 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.