# China Logistics Prosperity Index

## 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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Through exceptional relationships and deep networks, the Fung Business Intelligence Centre (formerly known as the Li & Fung Research Centre) collects and analyses market data on China's economy, with special reference to sourcing, supply chains, distribution and retail. It also produces reports on sourcing and trading in other Asian countries. Serving as a knowledge bank for the Fung Group, the Centre makes its market data and analysis available to businesses, scholars and governments around the world. It has become an impartial thought leader on issues shaping the future of manufacturing, distribution, logistics and retailing in China, and regularly provides advice and consultancy services to internal and external clients.

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**China Logistics Prosperity Index (LPI) fell to 52.4 in December from 53.0 in November. 11 of the 12 sub-indices stayed in the expansionary zone in December. The employment index was an exception.**

### 1. Improvement in demand for logistics services

The new orders index increased slightly from 52.2 in November to 52.5 in December, indicating an improvement in demand for logistics services. Nevertheless, the business volume index dropped from 57.0 in November to 55.7 in December, suggesting slower growth in logistics activities.

The employment index was 50.0 in December, reflecting stable employment situation in the logistics industry. Besides, the capacity utilization index fell by 0.9 pts from November to 50.1 in December. Logistics enterprises saw only slight change in utilization of their facilities.

### 2. Moderate growth in warehousing activities

In December, warehousing activities showed moderate growth. The inventory turnover index edged up from 51.5 in November to 51.6 in December, pointing to slightly faster inventory turnover. Meanwhile, the average inventory index came in at 50.3 in December, the same as in November.

### 3. Drop in the cash flow index

The cash flow index dropped sharply from 53.6 in November to 50.3 in December. 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. Logistics enterprises reported slightly faster turnover of cash in December.

### 4. Mounting cost pressure on logistics enterprises

The logistics service charges index was 50.3 in December, down from 51.4 in November. Meanwhile, the operating cost index rose by 1.3 pts from the previous month to 59.4 in December, pointing to mounting cost pressure on logistics enterprises. The operating cost index was much higher than the logistics service charges index, hinting that logistics enterprises found it difficult to pass on the higher costs to their customers.

The operating profit index went up slightly from 50.1 in November to 50.3 in December. The figure remained close to the neutral level of 50, indicating that logistics enterprises witnessed relatively stable profits in the month.

### 5. Logistics enterprises have become less optimistic about the business outlook

The investment in fixed asset index came in at 52.8 in December, up from 51.2 in November. The reading shows that more logistics enterprises have increased their investment in fixed assets. However, the business expectations index dropped from 54.8 in November to 53.4 in December, meaning that enterprises in the logistics industry have become less optimistic about the business outlook in the next three months.

## 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.

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.