



China Logistics Prosperity Index

June 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

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.

The Fung Business Intelligence Centre

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The business volume index of China Logistics Prosperity Index (LPI) came in at 55.2 in May, down from 57.7 in April.¹ 10 of the 12 sub-indices stayed in the expansionary zone in May. Logistics service charges index and operating profit index were the exceptions.

1. Strong growth in logistics activities

The business volume index stayed high at 55.2 in May. The figure suggests a strong growth in logistics activities. The new orders index fell from 55.4 in April to 53.7 in May, indicating moderating growth in demand for logistics services.

The employment index went down slightly from 51.2 in April to 51.0 in May, continuing to show a modest increase in employment. Meanwhile, the capacity utilization index dropped by 2.0 pts from the previous month to 53.4 in May, but was still above the neutral 50 mark. Logistics enterprises saw enhanced utilization of their facilities.

2. Weak growth in warehousing activities

In May, warehousing activities showed a weak growth. The inventory turnover index rebounded from 49.4 in April to 50.1 in May, pointing to slightly faster inventory turnover. The average inventory index came in at 54.6 in May, falling by 1.5 pts from the previous month. Inventories have continued to pile up in the warehouses.

3. Faster turnover of cash

The cash flow index climbed from 47.6 in April to 50.8 in May, reflecting faster turnover of cash for the logistics enterprises surveyed. This may suggest the credit conditions in China have improved lately.

4. More logistics enterprises witnessed a reduction in profits

The operating cost index stayed high at 55.6 in May, the same as in April. The figure indicates that cost pressure on logistics enterprises was still intense. However, the logistics service charges index remained below 50 in May, implying that logistics enterprises have reduced their service charges. Corresponding to the increase in costs and the reduction in charges, logistics enterprises have seen a decline in profits. The operating profit index fell from 52.1 in April to 49.5 in May.

5. Optimistic business outlook by logistics enterprises

The investment in fixed asset index came in at 53.0 in May, up by 2.4 pts from the previous month. The reading shows that more logistics enterprises have increased their investment in fixed assets. The business expectations index was 57.4 in May, well above the critical 50 mark. Enterprises in the logistics industry remain optimistic about the business outlook in the next three months.

¹As from May 2014, the 'composite index' of the LPI has no longer been used as an indicator for the overall performance of the logistics sector. Instead, the business volume index is now 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.



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.