



China Logistics Prosperity Index

November 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

The Fung Business Intelligence Centre, through its unique relationships, 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 and has recently expanded its research services on the global retail industry, where unprecedented change is being driven by technological innovation, the advent of multi-sales channels and greater supply chain efficiency.

Serving as a knowledge bank for the Fung Group, the Centre also makes its market data and analysis available to businesses, scholars and governments around the world. It is an impartial thought leader on issues shaping the future of manufacturing, distribution, logistics and retailing in China, and retailing globally. It 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 54.9 in October, down from 56.4 in September.¹ 10 of the 12 sub-indices stayed in the expansionary zone in October.

1. Moderation in demand for logistics activities

The business volume index fell to 54.9 in October from 56.4 in September. The October reading suggests a deceleration in the growth of logistics activities. In the meantime, demand for logistics services moderated in the month: The new orders index went down from 58.1 in September to 53.5 in October, the lowest level since April this year.

The employment index improved from 51.4 in September to 53.8 in October, showing a faster increase in employment. The capacity utilization index came in at 53.1 in October, staying above the critical 50-mark. Logistics enterprises have continued to see enhanced utilization of their facilities.

2. Decelerating growth of warehousing activities

Growth of warehousing activities decelerated markedly in October. The inventory turnover index plunged to 51.5 in October from 58.6 in September. Meanwhile, the average inventory index rose above the neutral level of 50, registering 51.8 in October. Inventories in warehouses have started to increase.

3. Slower turnover of cash

The cash flow index dropped from 52.5 in September to 49.0 in October, below the neutral 50-mark. The October reading reflects that turnover of cash for the logistics enterprises surveyed slowed in the month.

4. Intense cost pressures on logistics enterprises

After registering 56.7 in September, the operating cost index remained high at 56.2 in October, indicating intense cost pressures on logistics enterprises. Against this backdrop, logistics enterprises raised their service charges in October: The logistics service charges index rose above the neutral 50-line, registering 50.8 in the month. That being said, the logistics service charges index was still much lower than the operating cost index, suggesting that logistics enterprises were unable to fully pass on the higher costs to their customers. The operating profit index fell from 53.9 in September to 50.0 in October. Profits made by logistics enterprises have stopped growing.

5. Logistics enterprises become less optimistic about the business outlook

The investment in fixed asset index rebounded to 52.7 in October from 47.3 in September, returning to the expansionary zone. The latest reading shows an increase in fixed asset investment by logistics enterprises in October.

The business expectations index dropped to 57.2 in October from 62.1 in September. Enterprises in the logistics industry have become less optimistic

¹ From May 2014 onwards, the 'composite index' of the LPI is no longer 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 business volume of the logistics sector.



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.