



# China Logistics Prosperity Index

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## 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 56.4 in September, up from 54.1 in August.<sup>1</sup> 9 of the 12 sub-indices stayed in the expansionary zone in September.

### 1. Reacceleration in the growth of logistics activities

The business volume index rebounded to 56.4 in September, after falling from 56.8 in July to 54.1 in August. The September reading suggests a reacceleration in the growth of logistics activities. Besides, the new orders index went up from 54.2 in August to 58.1 in September, indicating stronger demand for logistics services.

The employment index improved from 50.6 in August to 51.4 in September, showing a faster increase in employment. Meanwhile, the capacity utilization index gained 3.7 pts to 58.7 in September, well above the neutral 50 mark. Logistics enterprises have continued to see enhanced utilization of their facilities.

### 2. Inventories in warehouses shrank at a quicker pace

Warehousing activities showed robust growth in September. The inventory turnover index picked up to 58.6 in September from 56.4 in August, pointing to faster inventory turnover. Meanwhile, inventories in warehouses shrank at a quicker pace in the month. The average inventory index fell by 3.8 pts from the previous month to 44.4 in September, well below the neutral level of 50.

### 3. Faster turnover of cash

The cash flow index edged down from 52.8 in August to 52.5 in September. The index reading was still above 50, reflecting faster turnover of cash for the logistics enterprises surveyed.

### 4. Lower service charges for logistics services

The operating cost index went up from 54.6 in August to 56.7 in September, indicating greater cost pressures on logistics enterprises. Nevertheless, logistics enterprises lowered their service charges in September. The logistics service charges index dipped below the neutral 50-line, registering 49.2 in September.

The operating profit index picked up to 53.9 in September from 49.2 in August, showing that logistics enterprises saw an increase in profits.

### 5. Logistics enterprises become more optimistic about the business outlook

The investment in fixed asset index dropped to 47.3 in September, dipping into the contractionary zone. The reading shows a decrease in fixed asset investment by logistics enterprises in September. Nevertheless, the business expectations index reached 62.1 in September, up from 54.8 in August. Enterprises in the logistics industry become more optimistic about the business outlook in the next three months.

<sup>1</sup> 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 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.