



DHL Hong Kong Air Trade Leading Index (DTI)

2015 Q2 REPORT

Commissioned by DHL Express (Hong Kong) Limited, DTI is implemented independently by Hong Kong Productivity Council to measure air trader's forward-looking business outlook and presented in a form of Index. Please visit u.hkpc.org/dti_eng for details.

Background

Hong Kong is one of the major regional and aviation hubs in Asia Pacific and Hong Kong International Airport is globally recognized as one of the busiest airports in terms of international cargo throughput. The city's dynamic air trade industry generates income of over HK\$120bn annually and employs nearly 25,000 people ^(1,2,3) in the territory.

In the absence of a leading performance indicator for the industry, DHL Express (Hong Kong) Limited (DHL) has commissioned Hong Kong Productivity Council (HKPC) to conduct independent air trade research – the result of which is the DHL Hong Kong Air Trade Leading Index (DTI).

DTI, compiled after months of preparation and pilot studies, contains quarterly findings on air trade and its related attributes, market sentiment and key types of commodities.

DTI is the first of its kind in Hong Kong, offering publicly available market intelligence for local enterprises, especially SMEs which typically have limited resources or access to information, enabling all to take reference from a comprehensive business review of the sector in which they operate.

DTI was first conducted for Q2 of 2014 and will continue to be published on a quarterly basis.

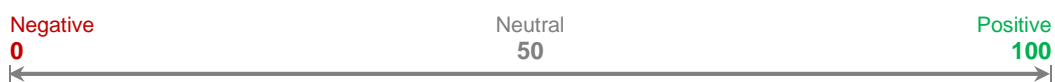
Methodology

$DTI = [100 \times (\text{Percentage of samples responded "Positive"})] + [50 \times (\text{Percentage of samples responded "Neutral"})] + [0 \times (\text{Percentage of samples responded "Negative"})]$

Readings

An index of 50 or above indicates a positive outlook while a reading of 50 or below represents a negative outlook for the surveyed quarter against the same period last year.

As such, the further the reading is from 50, the more positive or negative the outlook.



Demographics

Respondents are Hong Kong based companies with either in- or out- bound air trade. Sectors include Watches, Clocks & Jewelry, Apparel & Clothing Accessories, Electronics Products &

¹ Hong Kong Trade Development Council Research

² Quarterly Report of Employment and Vacancies Statistics, Census and Statistics Department, March 2013

³ Key Statistics on Business Performance and Operating Characteristics of the Transportation, Storage and Courier Services Sector in 2011, Census and Statistics Department

Parts, Gifts, Toys & Houseware, Food & Beverage and Others (including courier services and other items which do not belong to the categories listed above).

Since the first reading in March 2014, each quarter 600 samples are randomly selected from over 10,000 entries. The survey is conducted in telephone format. Each of the 600 samples represents a combination of company and product type which has need of air trade. Each sample has the same weighting in calculating the index, regardless of the size of the company.

Air traders remained cautiously conservative in their outlook this quarter, consistent with the findings since the index was launched, reflected in the overall index score which dropped from 49.6 in Q1 to 46.6 in Q2, below the 50 neutral line.

Air traders however, appeared to be more optimistic about import trade across commodities.

- Compared to the index score of 49.6 in 2015 Q1, Air traders are becoming more conservative in their outlook in the second quarter. Air Traders are conservative towards the European market and they expect stable markets in other areas.
- Marketwise, despite a downward trend observed in the quarter, index scores for the Americas and the Rest of the World stayed along the 50 neutral line, while Asia Pacific was rated as the fastest growing region. The index score for Europe dropped to 44 – the lowest since the index was launched - owing to relatively weak purchasing of luxury goods in these markets which was also reflected in the commodities sub-index.
- The effects of current issues affecting air trade including the strong U.S. dollar, slower economic growth in China and the traditional peak of the pre-Labour Day Golden Week season were also studied. The index scores of these factors suggested a mildly negative influence over air trade yet respondents did not consider them as determinants of the overall outlook.
- Mr. Kim Chan, General Manager (Enterprise Innovation) of HKPC said, “Concern on the economy of Europe and the Euro is expected to adversely impact the export sales orders to the region. Americas and Asia Pacific are expected to have a stronger sales order growth. Traders should adopt a diversified market strategy in different regions and products to mitigate the risk of sudden market fluctuations.”

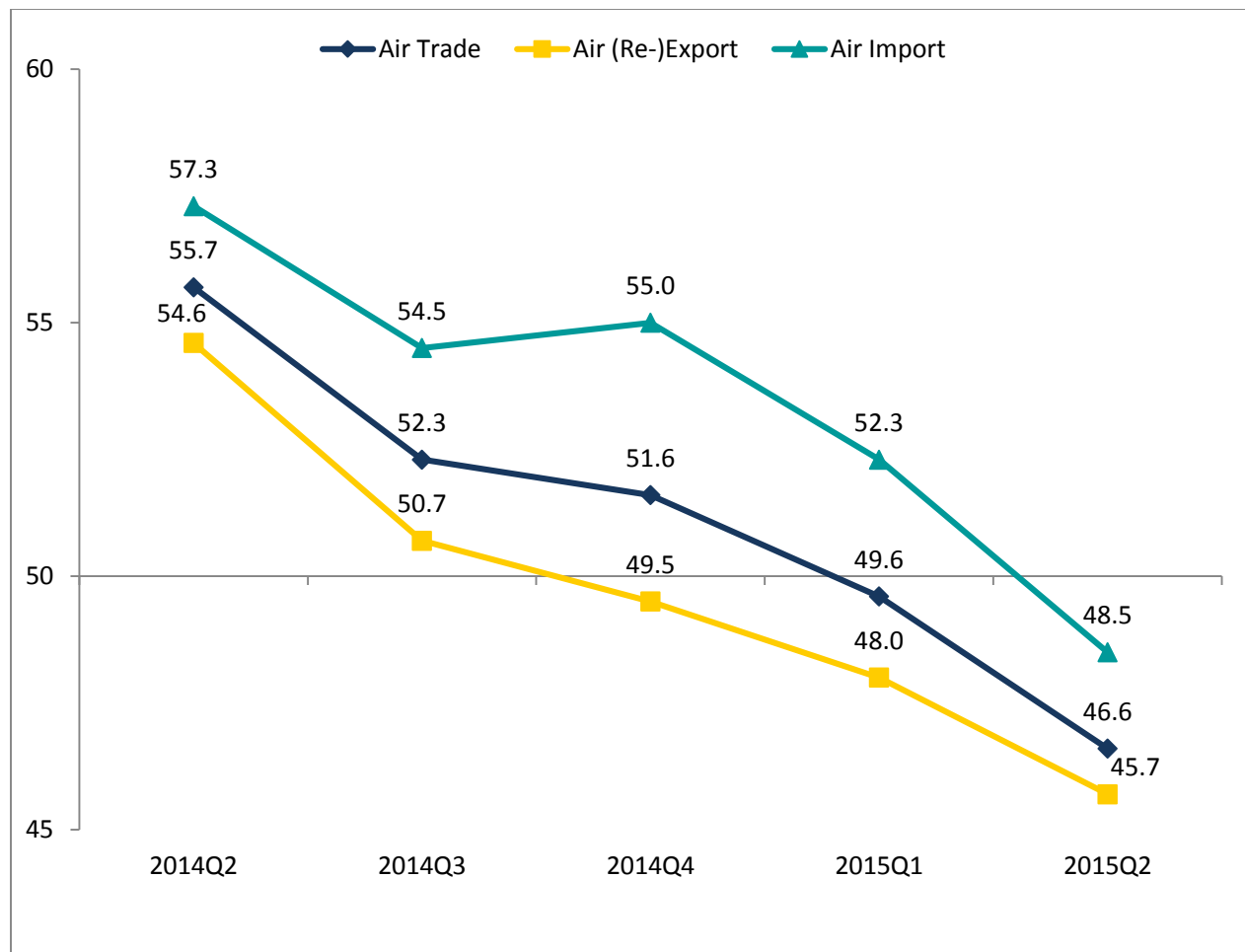
Air Trade Volume Index

Air traders are cautiously conservative compared to the generally positive outlook recorded at the same time last year, with all major index scores dropping below the 50 neutral line. This was possibly due to lackluster trade flows with the EU markets.

Overall index for 2015 Q2 is 46.6, down from 49.6 points in the previous quarter, below the 50 neutral line.

(Re-)Export index fell to 45.7, indicating a similar outlook with a drop in exports to Europe, while the Americas and Asia Pacific remained stable.

Despite weaker demand for Apparel and Clothing Accessories observed in the Asia Pacific market, reflected in the **Import index** dropping to 48.5, air traders also expected an uptrend on imports from Americas and Europe in the coming quarters.



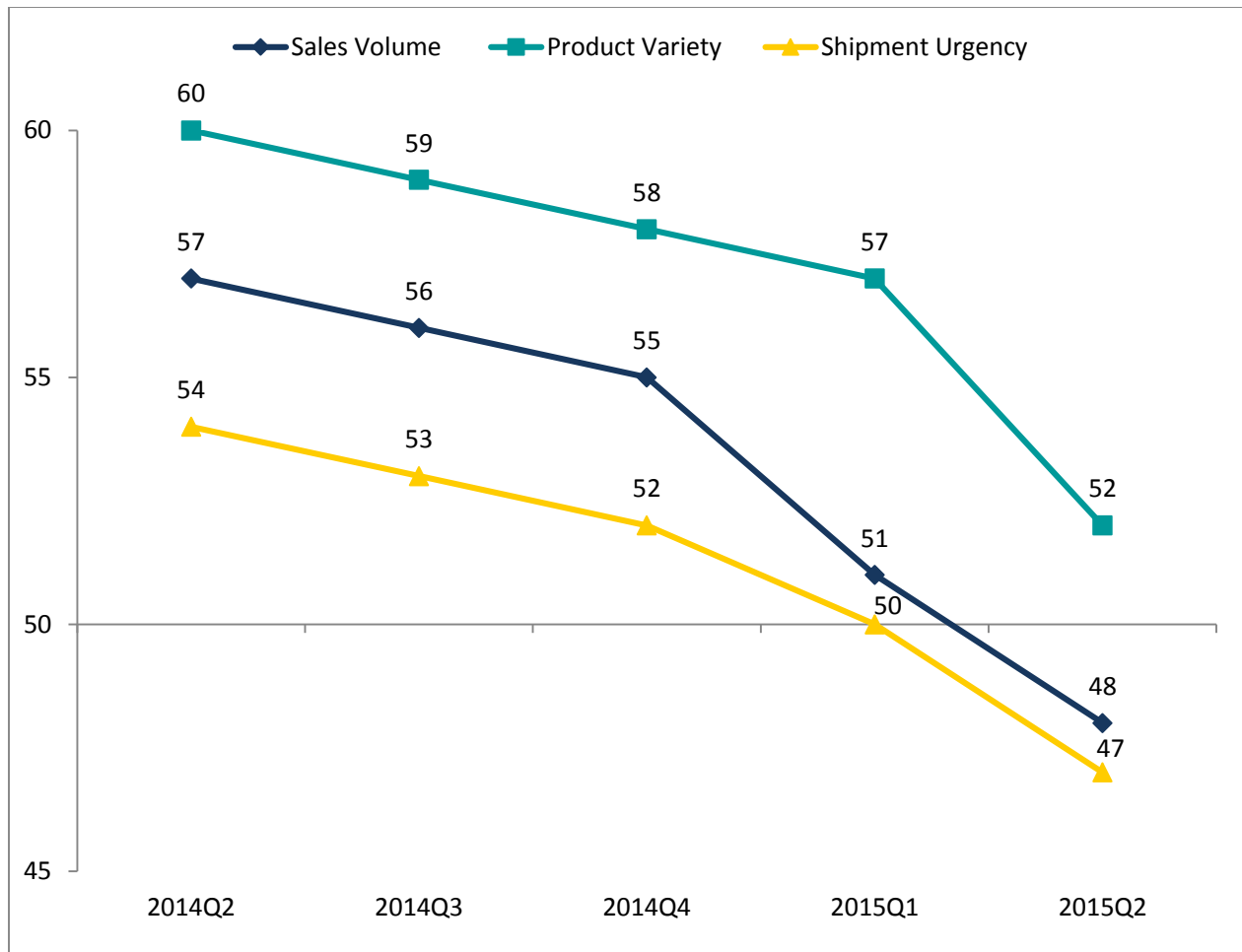
Attributes

Air traders saw a need to enhance product variety especially in Food & Beverage and Watches, Clocks and Jewelry sectors, despite being less positive on sales volumes and shipment urgency.

Sales volume index scores dropped from 51 in 2015 Q1 to 48 in this quarter, the first time it was recorded below the 50 neutral line. This less positive outlook was mainly associated with weaker export trade to the European Market.

Shipment urgency also dropped from 50 in the previous quarter to 47 in 2015 Q2, also the first time it was recorded below the 50 neutral line.

Product Variety was the only attribute with a score above the neutral line this quarter despite sustaining the biggest drop among all attributes, from 57 in 2015 Q1 to 52 in this quarter.



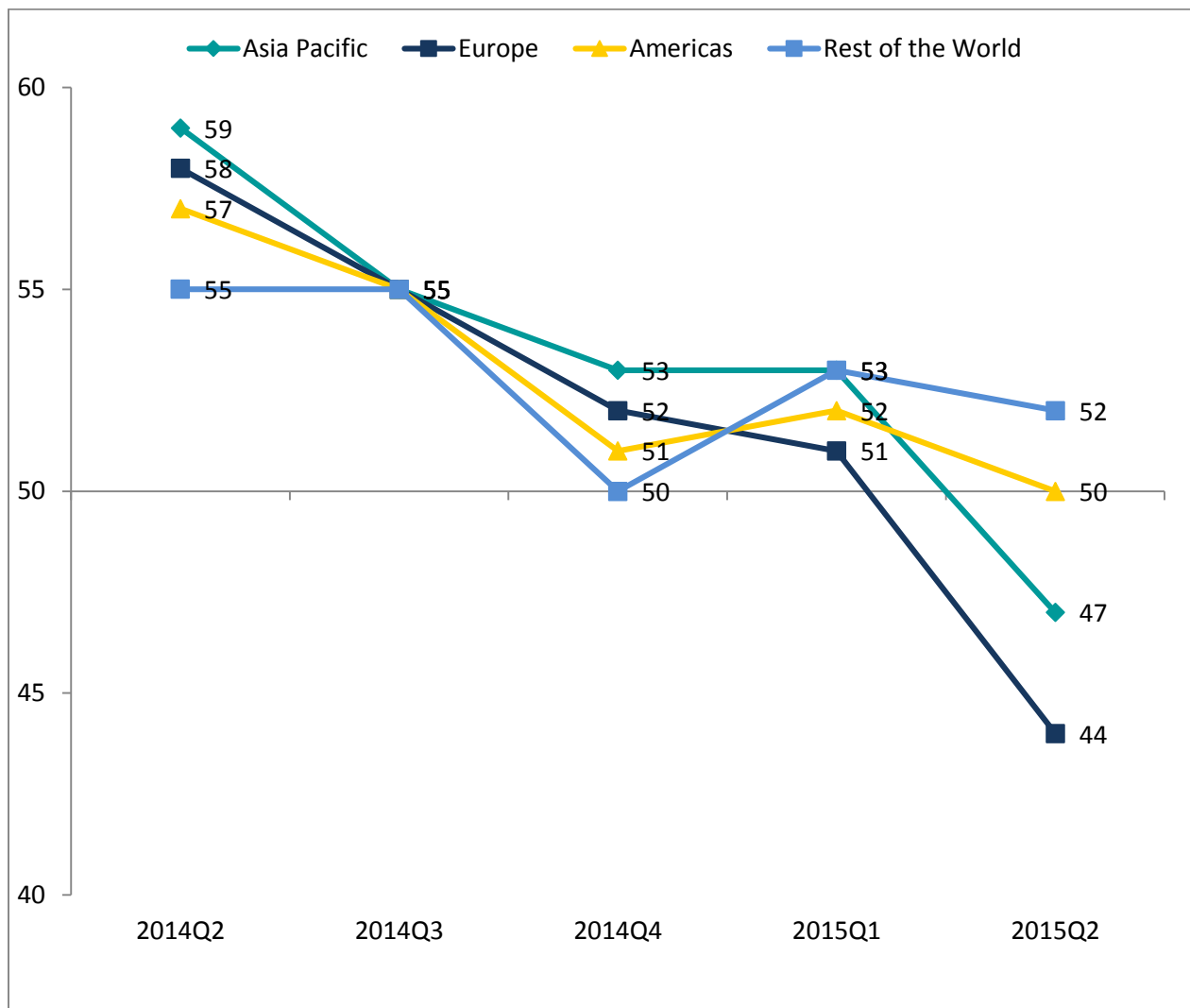
Market

The outlook for the European market dropped to a new low as the general momentum in most attributes remained weak. Index scores across the markets also recorded drops despite a general upswing in the previous quarter.

The index score for **European markets** recorded the biggest drop from 51 in Q1 to 44 in Q2, the lowest among all markets studied and well below the neutral line.

The Americas and the **Rest of the World** however stayed along the 50 neutral line. Both scores dropped in Q2 to 50 and 52 respectively, after an upswing in the previous quarter, with outlook for the former remaining neutral and the latter being slightly positive.

Air traders are, however, also conservative about the **Asia Pacific** market, which dropped below the neutral line for the first time, to 47, reflected in expectedly lower sales volumes and lower demand on Apparel and Clothing Accessories.



Air-Freighted Commodities

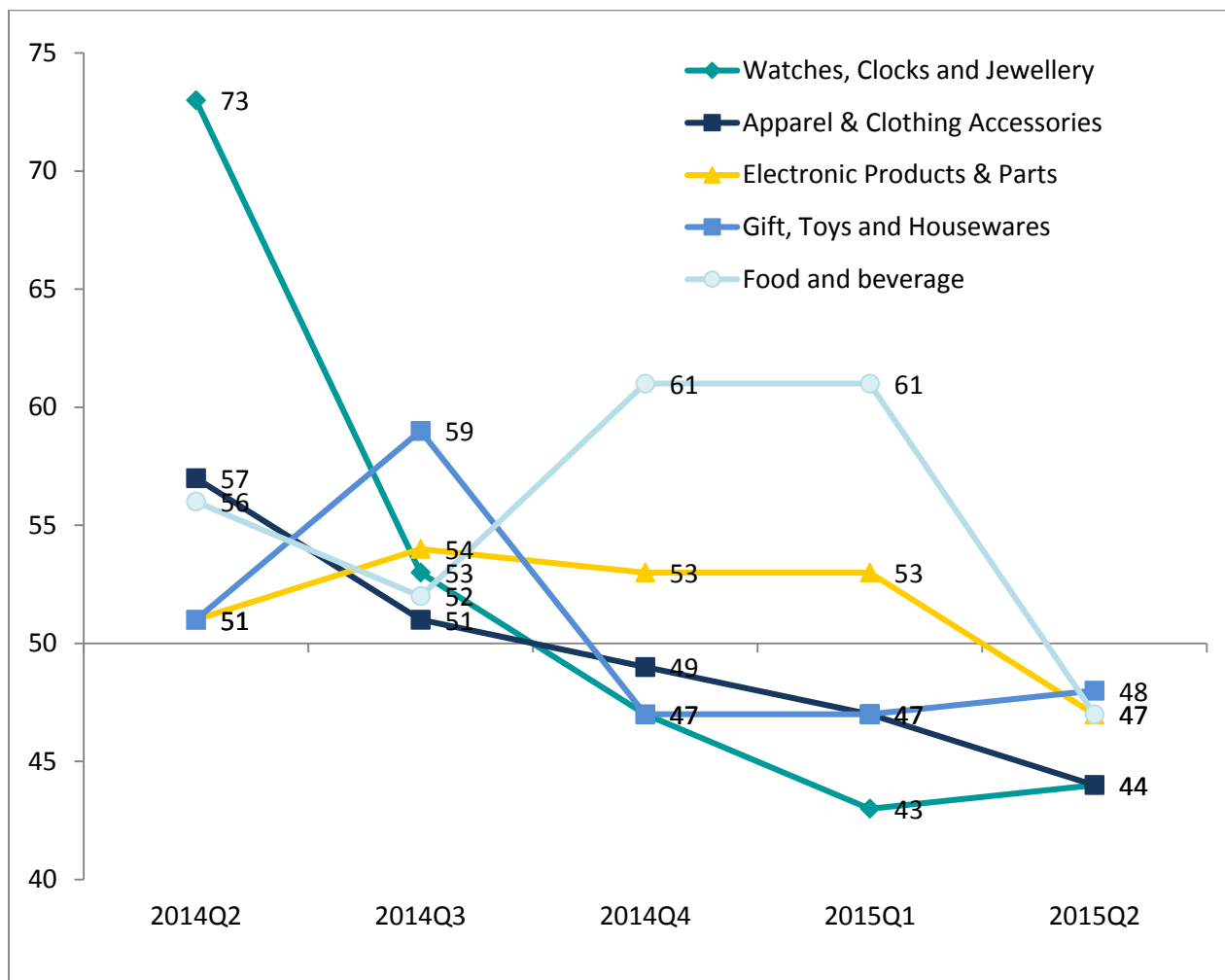
Across all the sub-indices the outlook for commodities was generally pessimistic, suggesting a weaker trade flow and falling demand for luxury products from the European and Asia Pacific markets.

Luxury products, mainly **Watches, Clocks and Jewelry**, recorded the most significant drop year-on-year from 73 in 2014 Q2, when the index was launched, to 44 in this quarter – the lowest among all commodities.

Gift, Toys and Housewares recorded a slight upswing with the highest reading across all commodities at 48, slightly increased from 47 in the previous quarter.

Optimistic traders also expected a better outlook for **Electronic Products & Parts**, despite a drop on the index score, from 53 in 2015 Q1 to 48 in this quarter.

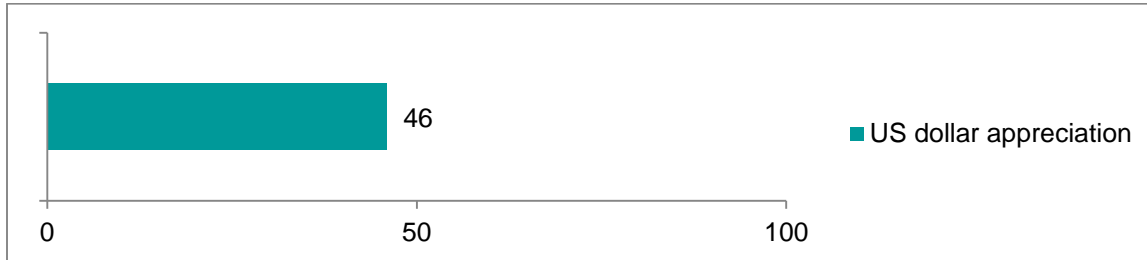
The index score for **Food and Beverage** also saw a drop from 61 in the previous quarter to 47 in this quarter.



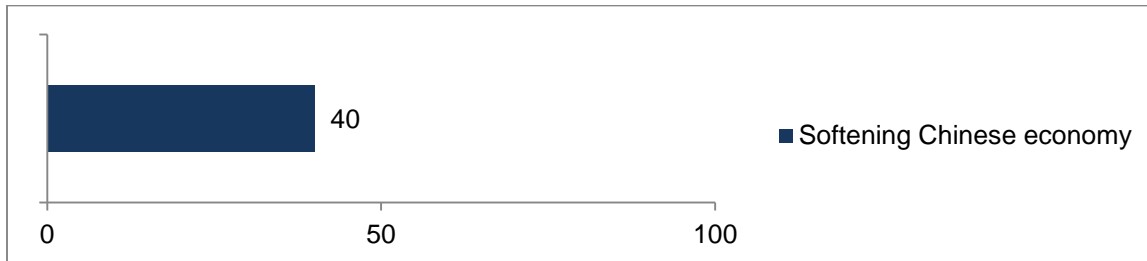
Effect of recent market news on air trade

This quarter's report also looks into the effect of market news and peak seasons towards the overall outlook, including US dollar appreciation, softening Chinese economy and pre-labour holiday period.

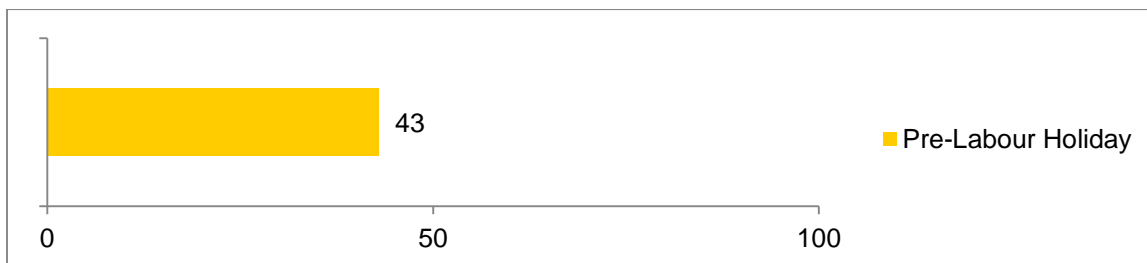
While a stronger US dollar will theoretically undermine the competitiveness of local products, air traders only foresee a mildly negative impact and two-thirds of the respondents said their outlook remained the same.



The same also applies to the softening Chinese economy. While this was reflected as an unfavorable factor to the market – still two-thirds of the respondents said they did not foresee a change in their overall air trade outlook.



The pre-labor holiday period, which is widely regarded as growth stimulation, was also evaluated in this quarter's report. However it was not an apparent factor influencing the air traders' outlook.



About Hong Kong Productivity Council

The Hong Kong Productivity Council (HKPC) is a multi-disciplinary organization established by statute in 1967. HKPC's mission is to promote productivity excellence through the provision of integrated support across the value chain of Hong Kong firms, in order to achieve a more effective utilization of resources, to enhance the value-added content of products and services, and to increase international competitiveness. For more information, please visit the HKPC website at www.hkpc.org.

Enquiry

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