



DHL Hong Kong Air Trade Leading Index (DTI)

2016 Q3 REPORT

Commissioned by DHL Express (Hong Kong) Limited, DTI is implemented independently by the Hong Kong Productivity Council to measure air traders' forward-looking business outlook, presented in the form of an 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.

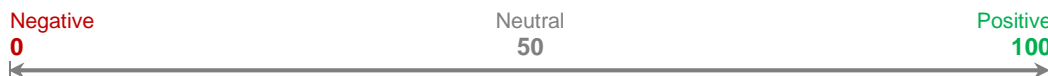
Methodology

DTI = [100 x (Percentage of samples responded “Positive”)] + [50 x (Percentage of samples responded “Neutral”)] + [0 x (Percentage of samples responded “Negative”)]

Readings

An index value above 50 indicates a positive outlook while a reading below 50 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.



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

Demographics

Respondents are Hong Kong based companies with either in- or out-bound air trade. Sectors include Watches, Clocks & Jewellery, Apparel & Clothing Accessories, Electronics Products & Parts, Gifts, Toys & Houseware, Food & Beverage and Others (including courier services and other items which do not belong to the categories listed above).

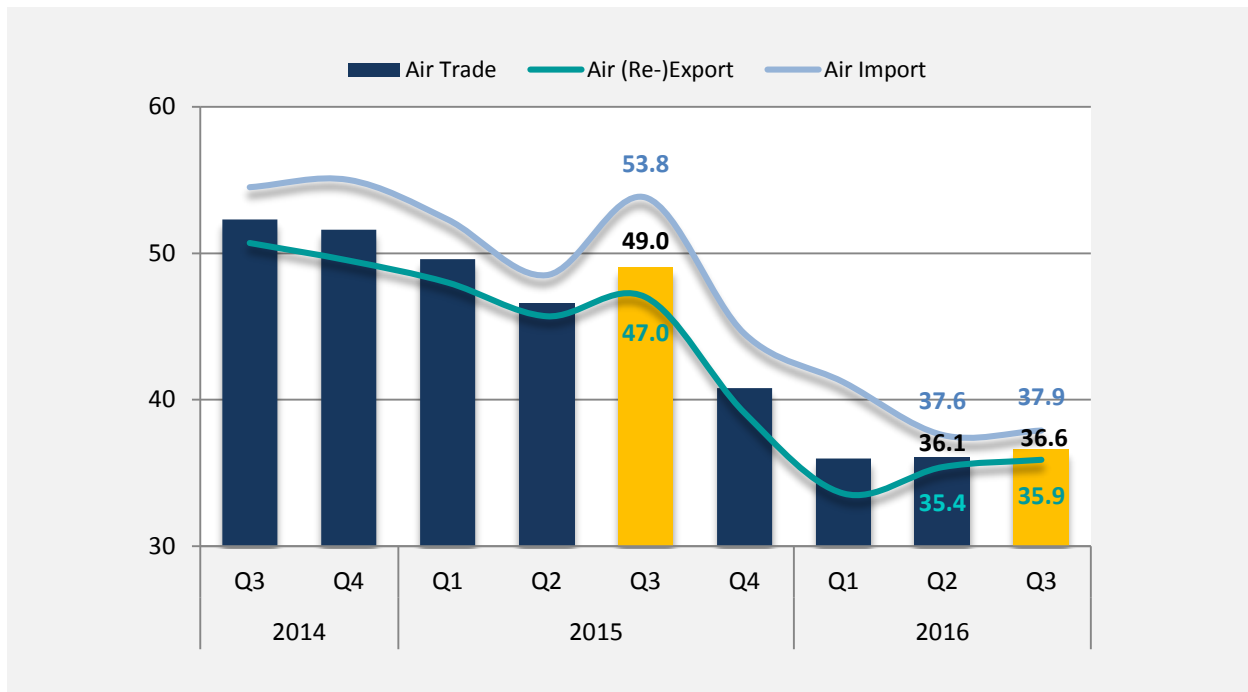
Since the first reading in March 2014, every quarter 600 samples are randomly selected from over 10,000 entries. The survey is conducted by telephone. Each of the 600 samples represents a combination of company and product type which has need of air trade. Each sample has the same weighting in calculating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

2016 Q3 survey was conducted at the time when Brexit Poll was held. Britain's exit from the European Union has cast a shadow over the quarterly index due to the uncertainty on global economy. Air trade sentiment in the local market remains conservative, nevertheless improvements in overall outlook has resulted in better prospects for the Americas and European markets.

- Despite a slower recovery compared with Q2, Air (Re-) Exports made further recovery in Q3, mainly due to the rebound in demand for Apparel & Clothing Accessories across markets.
- Trade to the Americas and European markets show signs of recovery and gain momentum. The markets saw increased sales volume in both imports and exports, coupled with improvements in most of the commodities.
- Mr Gordon Lo, Director (Business Management) of Hong Kong Productivity Council, said, "The market sentiment remains cautious. Enterprises are advised to have plans on different business scenarios to get prepared for the volatile market situations. 'Smart Enterprise' will be the future development trend for enterprises, covering functions of marketing, product development and logistics optimization. Through collection and analysis of market, customers and internal processes data, companies can shorten the product development and production cycle, speed up the response time to the market, expand the customer base and reduce costs, subsequently enhancing overall competitiveness."

Air Trade Volume Index

Despite a broadly conservative sentiment, air trade outlook saw further improvement in 2016 Q3. Exports continued to pick up and the improved outlook brought positive impact on the imports in this quarter, backed by strengthened sales volume and demands from Americas.



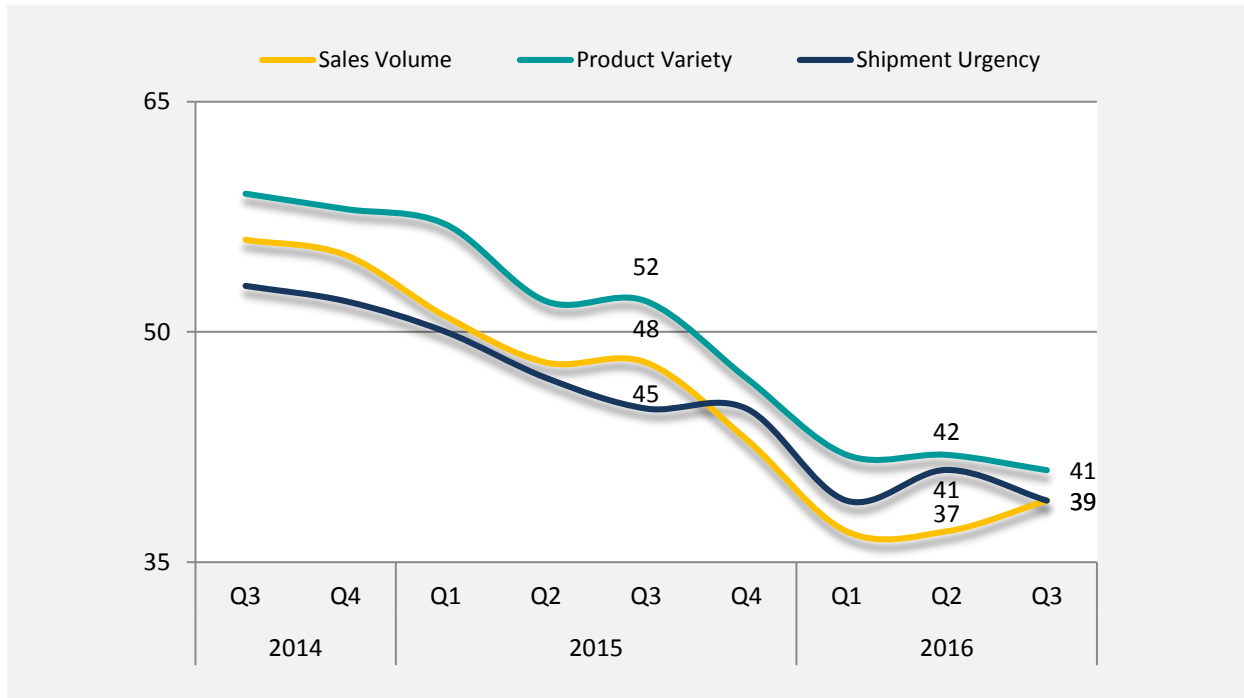
The **Overall index** further rose to 36.6 in 2016 Q3 from 36.1 in 2016 Q2, showing a rise for two consecutive quarters of the year.

Despite a slower uptrend, **(Re-) Export Index** continued to rise to 35.9 in Q3. Air traders foresaw strengthened demands from the Americas and Europe.

Air imports began to pick up with the **Import Index** edging up to 37.9 in Q3 from 37.6 in Q2. It is expected the increased sales volume would support the demand for imports.

Attributes

Different degrees of improvements on sales volume across markets were observed, with the Americas taking lead. Product variety and shipment urgency, however, fluctuate at 40-point level with marginal fall in the third quarter.



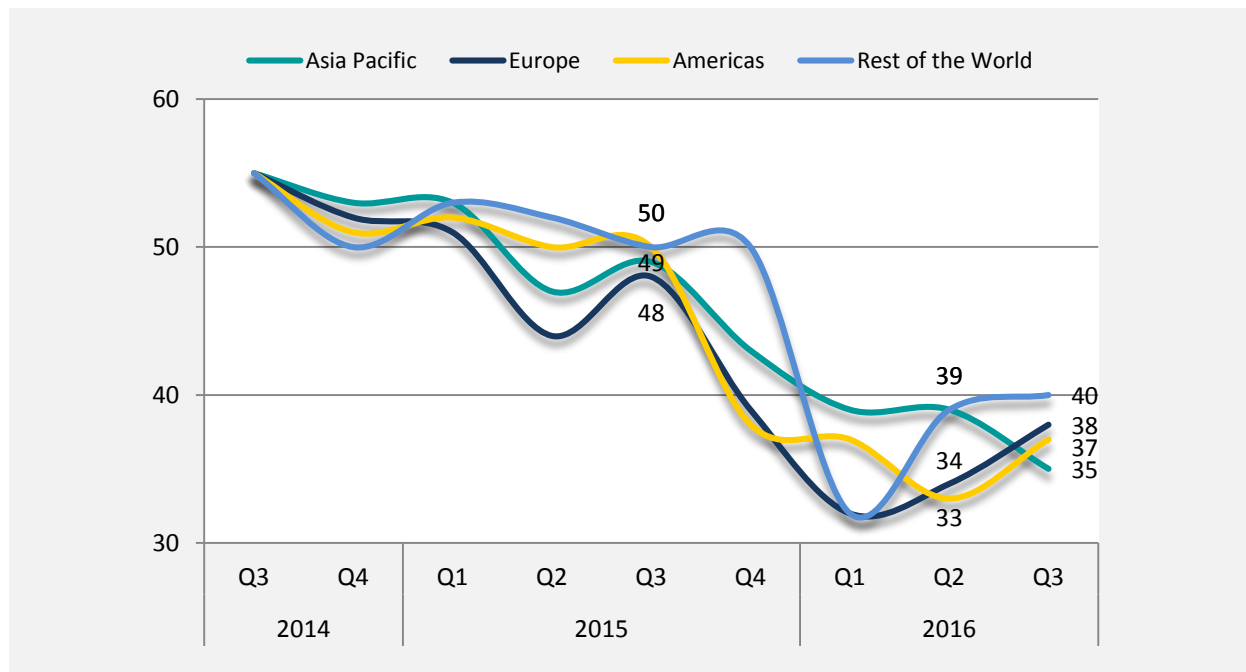
Confidence in **Sales Volume** improved for the first time since same quarter last year, with the index score rose to 39 in the third quarter. Air traders anticipate increased demand for both air exports and imports across all markets.

Product Variety fell marginally from 42 in Q2 to 41 in Q3, mainly due to a drop in air imports.

Shipment Urgency went down to first quarter's level at 39 in Q3, owing to reduced demand for urgent export orders while urgent import orders is expected to maintain at similar level as previous quarter.

Markets

Air traders foresee a generally less conservative outlook in markets owing to strengthening demand from the Americas and European markets.



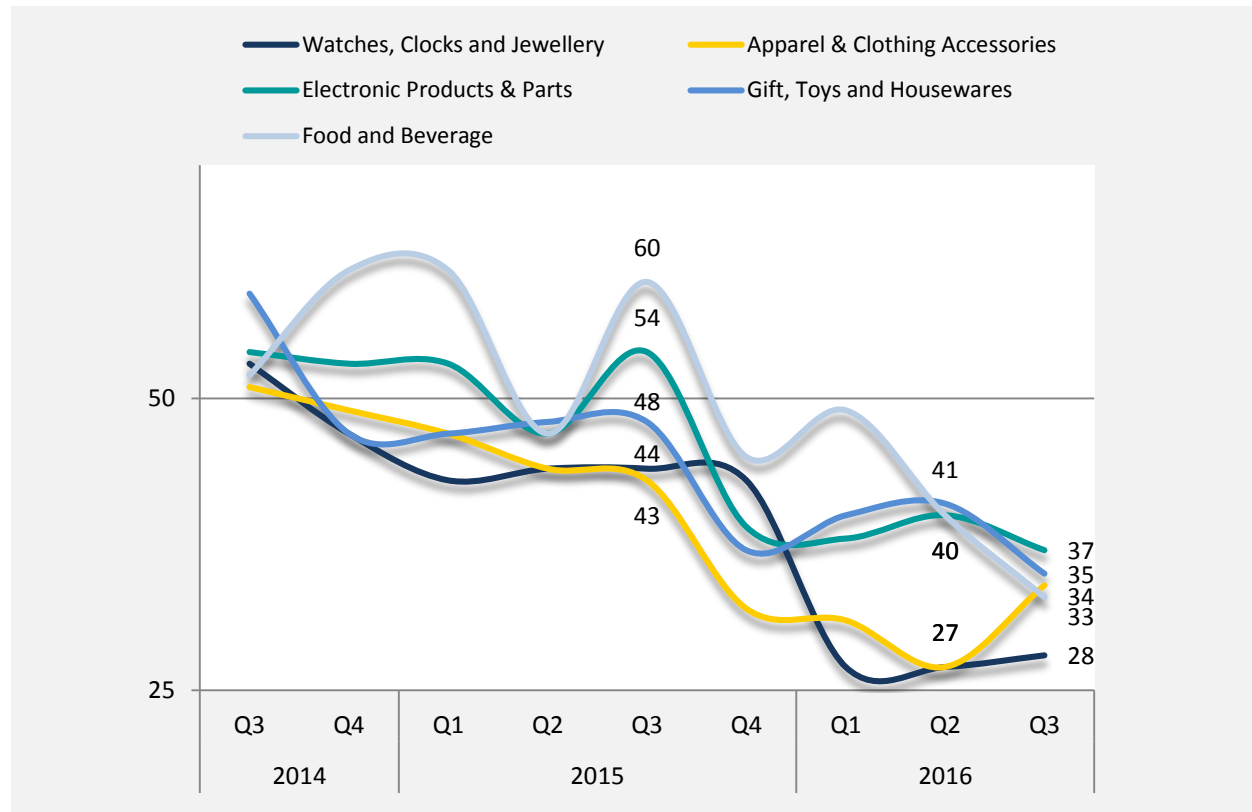
Trade to the advanced economies improved. **Americas** picked up and returned to same level as Q1 while recovery in **European** market accelerated. Both index scores rose by 4 points to 37 and 38 respectively in Q3, supported by strengthened sales volume.

The **Rest of the World** index edged up to 40 in Q3, mainly due to better prospect in air imports.

Asia Pacific is the only market with a more conservative outlook compared to the previous quarter, as the index score dropped to 35 in Q3. Respondents generally foresaw less urgent orders to affect air trade volume.

Air-Freighted Commodities

This quarter's index scores showed a mixed outlook on commodities. Prospect for Apparel improved, fuelled by demand from the Americas, while the demand for Electronic products and Houseware is expected to subdue.



Apparel & Clothing Accessories saw signs of recovery after an extended period of contraction, recording a notable increase from 27 in Q2 to 34 in Q3. The better prospect is triggered by a surge in demand from the Americas.

Outlook on **Watches, Clocks & Jewellery** remained the most conservative among all commodities, with an index score of 28 in Q3. Respondents expected the soft demand from European market to continue.

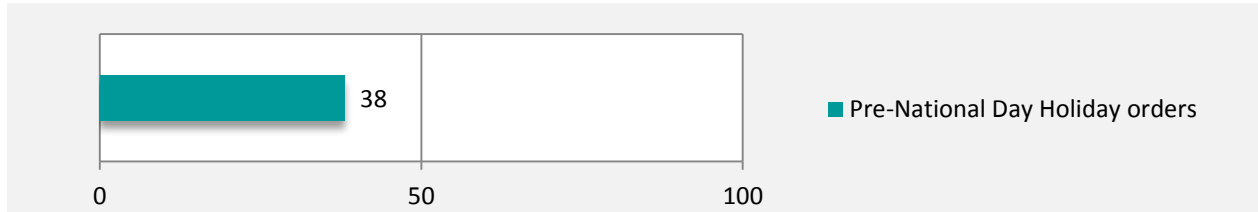
Air traders foresaw softening demand from Asia Pacific market for **Gift, Toys & Housewares** and **Food & Beverage**, as indicated from the lower index scores of 35 and 33 in the third quarter.

Electronic Product & Parts has been fluctuating this year with the score falling to 37 in Q3 from 40 in Q2, due to the suppressed demand from Asia Pacific market.

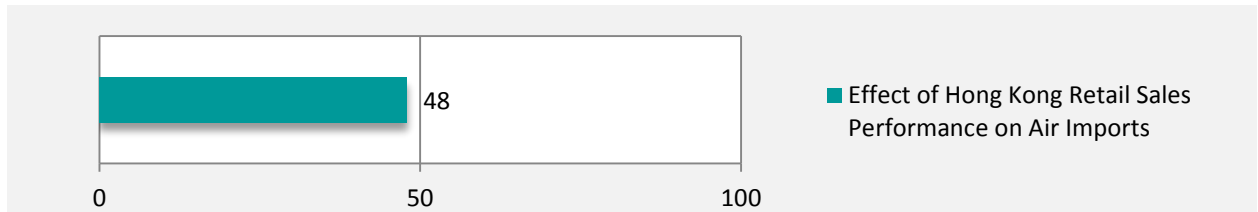
Effect of Recent Market News on Air Trade

Featured topics for this quarter surveyed the effect of pre-holiday orders, Hong Kong's retail sales performance and US Federal Reserve (Fed) interest rate hike.

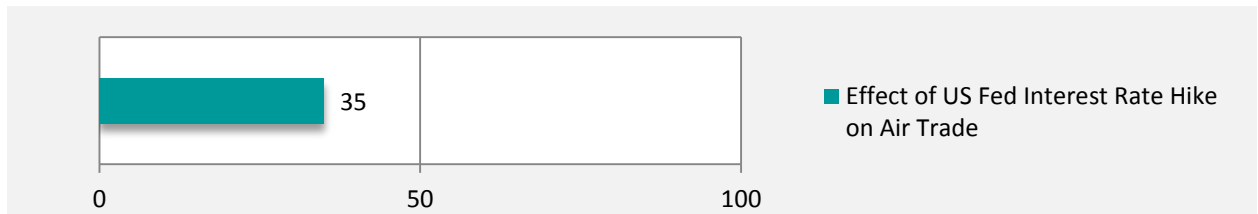
Air traders do not expect increase in orders during the traditional peak season prior to the National Day holiday in October compared to last year.



When asked about the effect of local retail sales performance, respondents generally expected limited impact on air imports. This reflected increased confidence compared to previous quarter while respondents foresaw retail sales to pose negative impact on air trade volume.



On the contrary, air traders foresaw pressure on air trade as Fed heads into interest rate hike cycle. 24% of the respondents expected negative impact on their trade volume in the third quarter.



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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