



DHL Hong Kong Air Trade Leading Index (DTI)

2017 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.

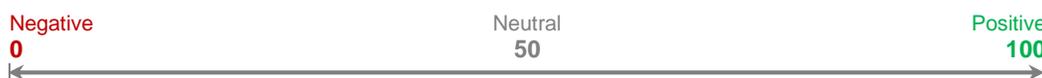
Methodology

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

Readings

An index value above 50 indicates an overall positive outlook while a reading below 50 represents an overall negative outlook for the surveyed quarter.

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).

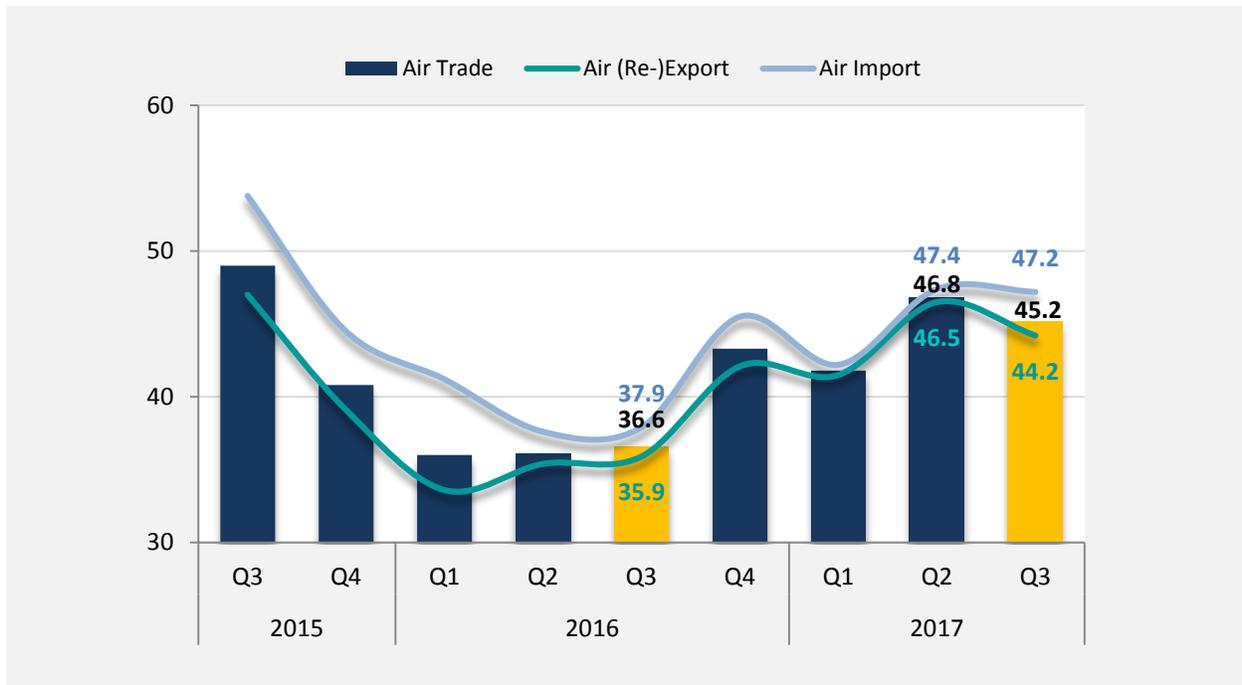
Since the first reading for Q2 2014, every quarter over 600 samples are randomly selected from over 10,000 entries. The survey is conducted by telephone. Each of the 600 samples represents a combination of company and product type which has need of air trade. Each sample has the same weighting in calculating the index, regardless of the size of the company.

As we shift into the second half of 2017, numerous major political events across the world are beginning to settle, particularly in Europe. The third quarter saw a relatively favourable outlook over the past 2 years, bolstered by a gradual recovery in key markets in Asia Pacific.

- The first two quarters of 2017 saw a number of elections take place in Europe. As the results of these elections were revealed and the political climate settled, market sentiment likewise stabilized. The overall index score for Q3 2017 is one of the highest in the past 2 years, reflecting an encouraging trend since the downturn.
- Demand for air exports to Europe remained at one of the recent peaks since the downtrend following Q3 2015. Markets in Asia Pacific have also shown signs of picking up, with both air imports and air exports showing better prospects due to greater product variety.
- For air imports, the outlook for the period under review remains similar to that of the previous quarters. Optimism has carried over in the Electronics and Food & Beverage sectors, and more than half the respondents who are positive about the air import outlook for Q3 2017 expect a recovery in local retail sales to provide support.
- Mr Gordon Lo, Director (Business Management) of Hong Kong Productivity Council, said, “In view of the current economic and competition landscape, enterprises and startups should constantly look for innovation ideas for growth. Startups should keep abreast of technologies and business support that suit their strategic needs, for example, 3D printing prototyping, market testing, and research on innovative product ideas. On the other hand, enterprises are advised to broaden their exposure on new ideas brought by these startups, and look for collaboration. Innovation is the future key to success.”

Air Trade Volume Index

Growing demand across key markets and product variety in Asia Pacific will help offset softened demand in Western markets.



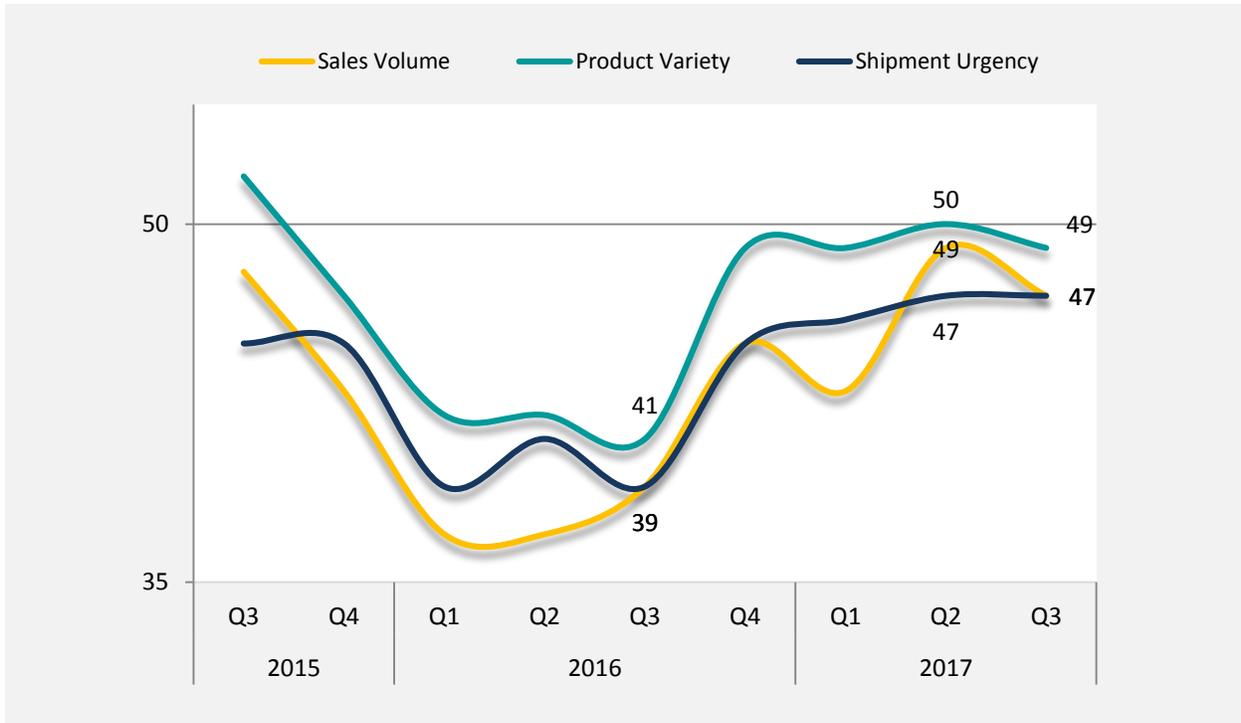
The **Overall index** score for Air Trade is 45.2, down 1.6 points from 46.8 in the previous quarter. This marginal dip can be attributed to slightly weakened demand from the European and American markets, offsetting the strengthened markets of Asia Pacific and the Rest of the World. Nevertheless, this is the second-highest score over the past two years – a full 8.6 points higher than the same period year on year.

Air Exports are forecast to dip slightly by 2.3 points during Q3 2017, giving a score of 44.2 compared with 46.5 posted in the previous quarter. This is the result of softened demand mainly from the Americas offsetting the bolstering effect of increased demand from the Asia Pacific markets.

As for **Air Imports**, air traders became more cautious about demand from Europe in Q3 2017, but foresee strengthened trade in Asia Pacific thanks to optimism about demand for Japanese products. This has led to a score of 47.2, edged down very slightly by 0.2 points from 47.4 in the previous quarter.

Attributes

The outlook for key attributes remains steady for Q3 2017, with only a marginal change in Sales Volume and Product Variety.



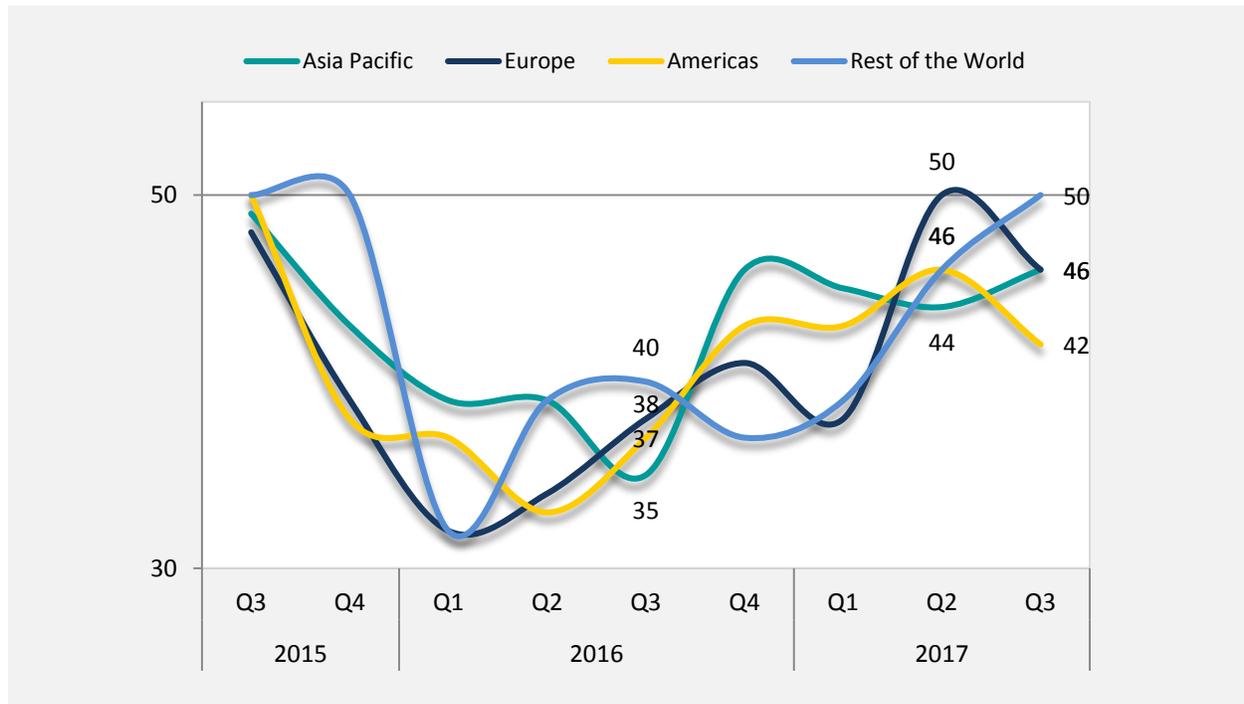
In Q3 2017, subdued export demand to the Americas has led respondents to post a score of 47 for **Sales Volume**, down by 2 points from 49 in the previous quarter, yet up 8 points on the same period a year ago.

Product Variety posted at 49, moderated from 50 in Q2 2017. This is attributable to a downturn in the Americas and Europe, despite the better prospects expected in the markets of Asia Pacific and the Rest of the World.

Shipment Urgency sustained a score of 47 from the last quarter. This reflects a slight uptick in need to fulfil urgent import orders, though this was dampened by diminished export orders.

Markets

While there appears to be growing optimism in Asia Pacific and an uptick in the Rest of the World, this has been restrained by a slight downturn in the Americas and Europe, giving an overall steady outlook.



In the west, an overall drop in demand is expected across several sectors in Q3 2017. Diminished apparel sales in the **Americas** have led traders to post a score of 42, down from 46 in the previous quarter.

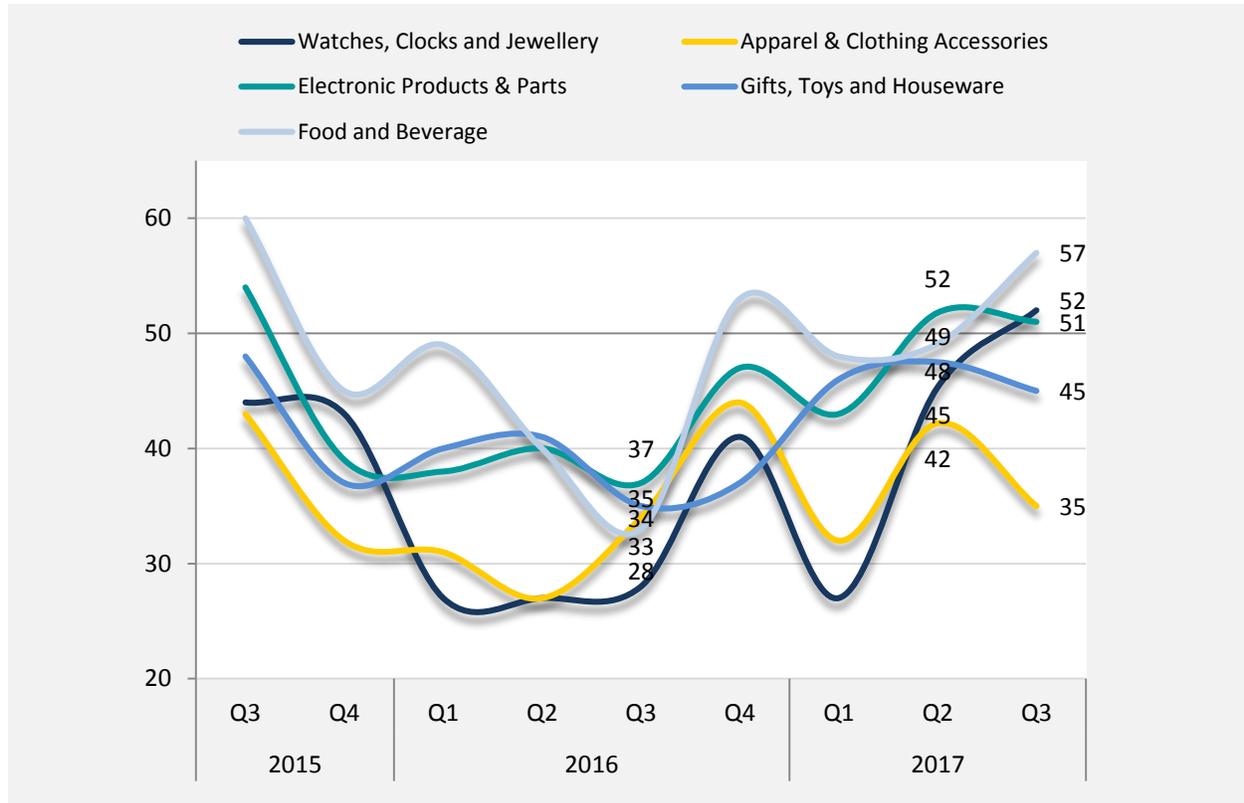
Europe saw a decline for similar reasons. While demand has grown for Electronic Products, respondents felt that this has been largely offset by apparel and Gift, Toys & Houseware, leading to a drop to 46 for Q3 2017, compared with 50 in Q2 2017.

Nevertheless, signs of growing optimism have been gathering for **Asia Pacific**, which is up 2 points to 46 from 44 in the last quarter. This increase can be attributed to demand for Japanese imports and Chinese exports.

Markets in the **Rest of the World** also saw a notable uptick with a neutral score of 50, which is up 4 points from the 46 posted for Q2 2016. Air traders expect an increase in sales volume and product variety expansion in this market.

Air-Freighted Commodities

The outlook on Food & Beverage and luxury goods are expected to substantially improve, amidst some downturns in other commodities.



For **Apparel & Clothing Accessories**, the outlook for Q3 2017 is somewhat lacking in confidence because of sluggish demand from the western markets. The score for this segment is 35, down 7 points from 42 in the previous quarter.

Electronic Products & Parts dipped ever so slightly by 1 point, though the outlook remains positive with a score of 51 due to sustained optimism in Europe.

In a show of positivity, the **Food & Beverage** climbed 8 points to 57 for the period under review, displaying growing strength in both import and export demand.

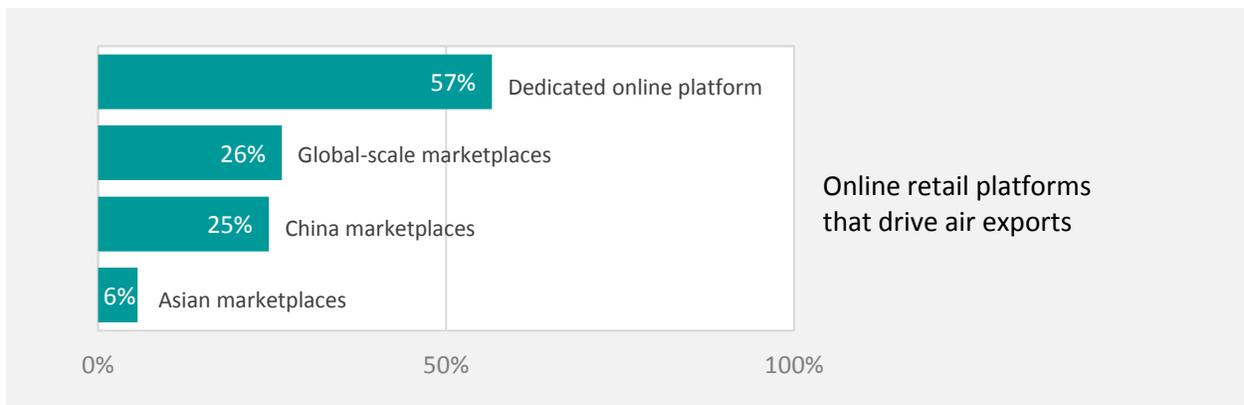
Gifts, Toys & Houseware dipped by 3 points from 48 in the previous quarter to 45, mainly as a result of softened air exports. Finally, **Watches, Clocks & Jewellery** climbed steeply by 7 points from 45 in the previous quarter to 52 in Q3 2017, attributable to continued demand growth from the Americas.

Effect of Recent Market News on Air Trade

Greater visitor numbers are expected to boost retail sales, while air traders embrace different platforms to target global customers.



In Hong Kong, local retail sales are showing signs of bottoming out thanks to a return to greater visitor numbers as well as a low unemployment rate. More than half of the importers surveyed who are positive about outlook for Q3 2017 anticipates growth driven by a recovery in retail sales.



When asked which sales platform can help capturing anticipated online B2C growth, over half of the air exporters engaged in online retail said their air export volumes are driven by their own dedicated platform. More than 40% of respondents find that global or Chinese marketplaces attracts these volumes, including some who use these channels in conjunction with their own platform.

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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