



DHL Hong Kong Air Trade Leading Index (DTI)

2018 Q1 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.

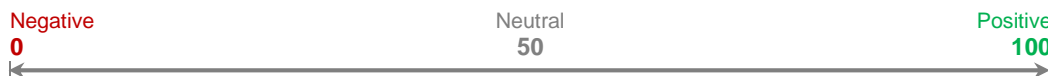
Methodology

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

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

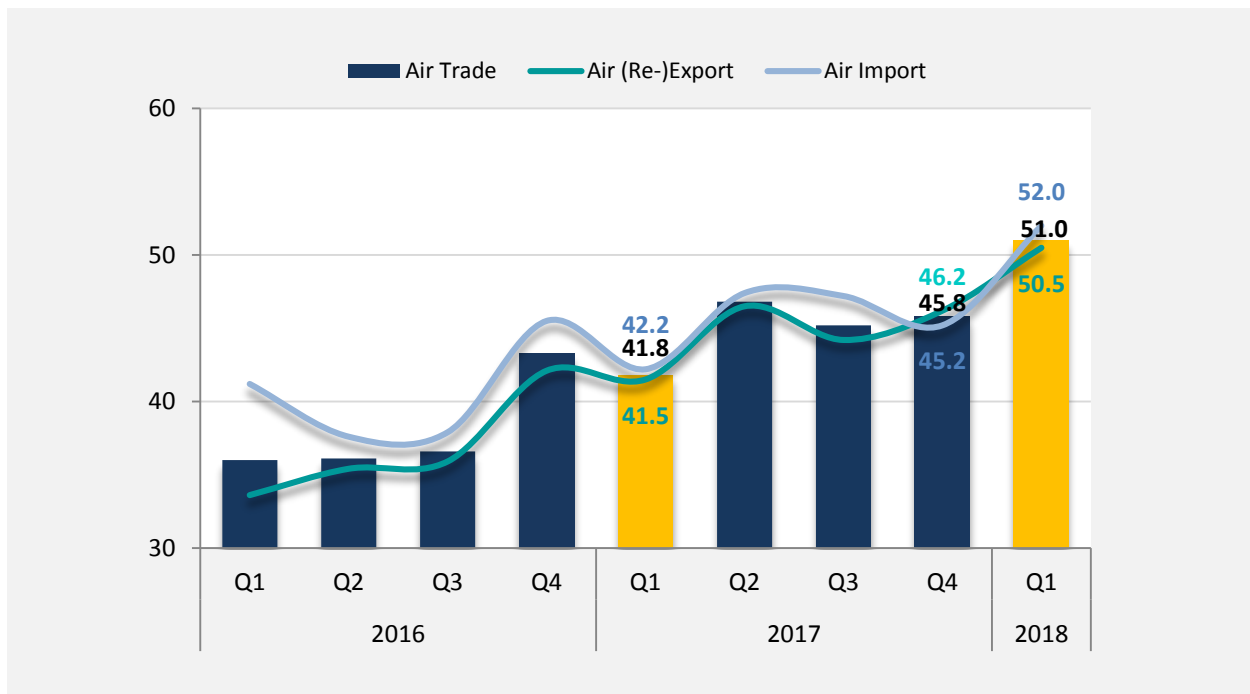
Since the first reading for Q2 2014, every quarter over 600 samples are randomly selected from over 10,000 entries. The survey is conducted by telephone. Each of the 600 samples represents a combination of company and product type which has need of air trade. Each sample has the same weighting in calculating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

A series of improvements in the last year have resulted in a generally positive outlook for air trade in Q1 2018. The DTI index has moved into positive territory, sub-indices are performing well and important markets have displayed renewed strength, pleasing local air traders.

- Local air trade outlook for Q1 2018 is cautiously optimistic, thanks to gradual improvements seen throughout 2017. Air traders believe imports and exports will both grow.
- Building upon expectations for continued recovery, the DTI index reached 51.0 during the quarter. This represents a substantial uptick of 5.2 points, and the first move into positive territory in three years.
- Nearly all sub-indices have reached 50 or above, and are stronger than they were during the same quarter of last year, suggesting growing market optimism across the board.
- Key markets continued to show improvement in Q1, the respective scores have risen to 52 and air traders expect to see growth in the European and Asia Pacific markets.
- Mr Gordon Lo, Director (Business Management) of the Hong Kong Productivity Council, said, “With a more optimistic market outlook in the first quarter of 2018, companies should seek to enhance their customer experience in order to establish quality brands. By regularly collecting customer opinions through various channels, they can understand the ‘pain points’ of different customers. For example, some mature markets are looking for mass customization, while mobile technologies and ‘Internet of Things’ can make customers more convenient. Based on these ‘pain points’, companies can apply new technology, improve their process and train their professional staff to enhance customer experience.”

Air Trade Volume Index

On the back of healthy global economic performance in 2017, the overall air trade outlook is positive, though caution prevails. Local air traders believe exports and imports will both increase in the first quarter.



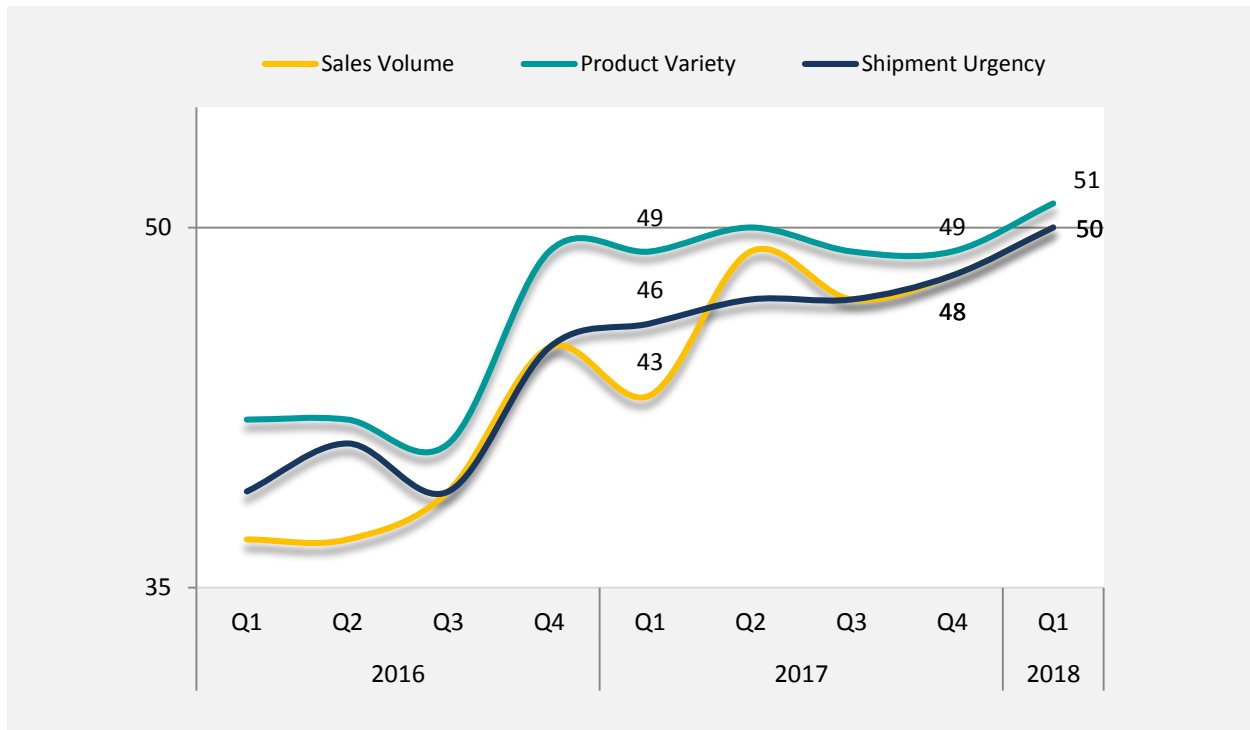
In Q1 2018, **Overall Air Trade** rose to 51.0, a 5.2-point increase from the last quarter, when it only reached 45.8. Marking the first time it has turned positive since 2014, this is a noteworthy development. Key attributes are also steadily improving, and the European and Asia Pacific markets are predicted to experience growth.

During the period under review, **Air Exports** climbed 4.3 points to 50.5, compared with 46.2 in the previous quarter. This accelerated increase is largely attributable to the Asia Pacific region, where demand from China is expected to make solid recovery.

Additionally, **Air Imports** demonstrated a considerable improvement over the last quarter, soaring to 52.0 from 45.2 for a 6.8-point increase. As this occurred after a drop in Q4 2017, it indicates renewed vigor in the sector, which has seen the American market leading growth.

Attributes

The outlook is growing positive for key attributes, thanks to balanced improvements across different areas. Scores have risen to 50 or above.

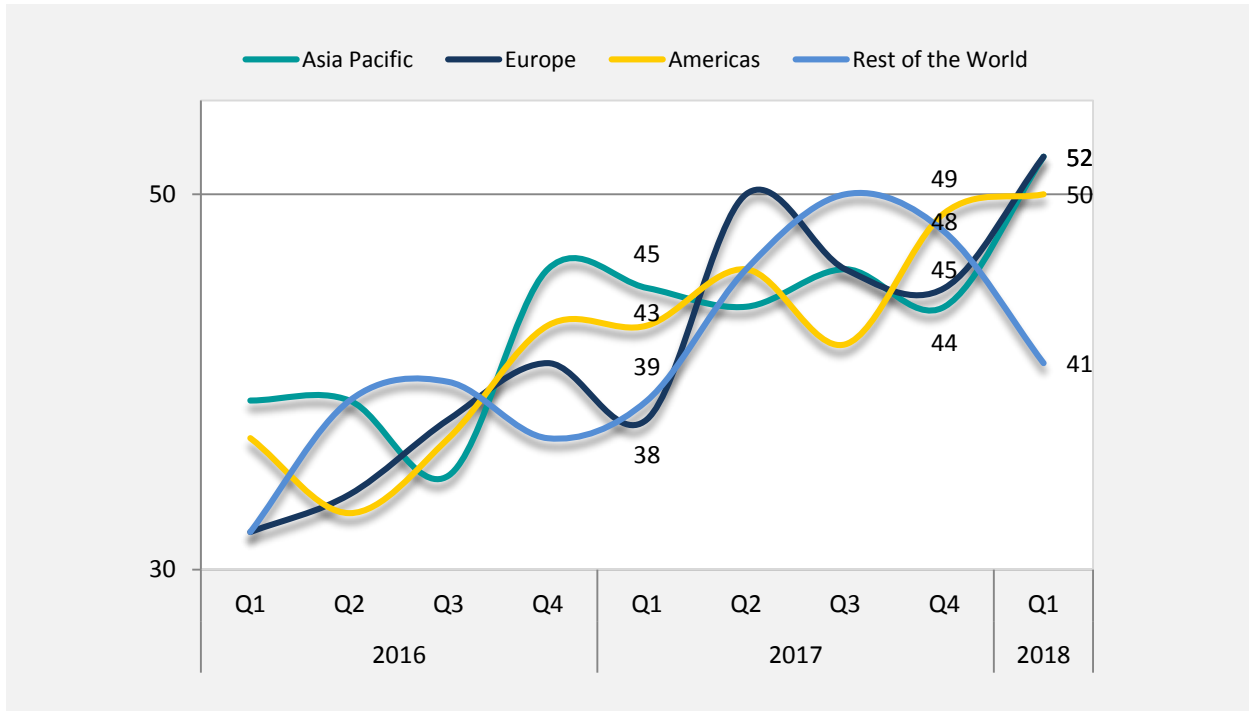


During the period under review, **Sales Volume** has risen 2 points since the last quarter, reaching 50. **Product Variety** moved up 2 points from the previous quarter, reaching 51. Respondents demonstrated a positive sentiment regarding demand from western markets in both of these attributes.

Shipment Urgency also increased by 2 points, jumping from 48 to 50, due to an expected growing demand to fulfill urgent import orders for western markets.

Markets

In Q1, markets generally saw improvements, and the outlook regarding the European and Asian Pacific markets turned positive.



The index score in the **Americas** reached 50, moving up 1 point since the last quarter. Air traders expect this market to enjoy solid growth in import sales volume, and the outlook on air imports is the strongest amongst all key markets.

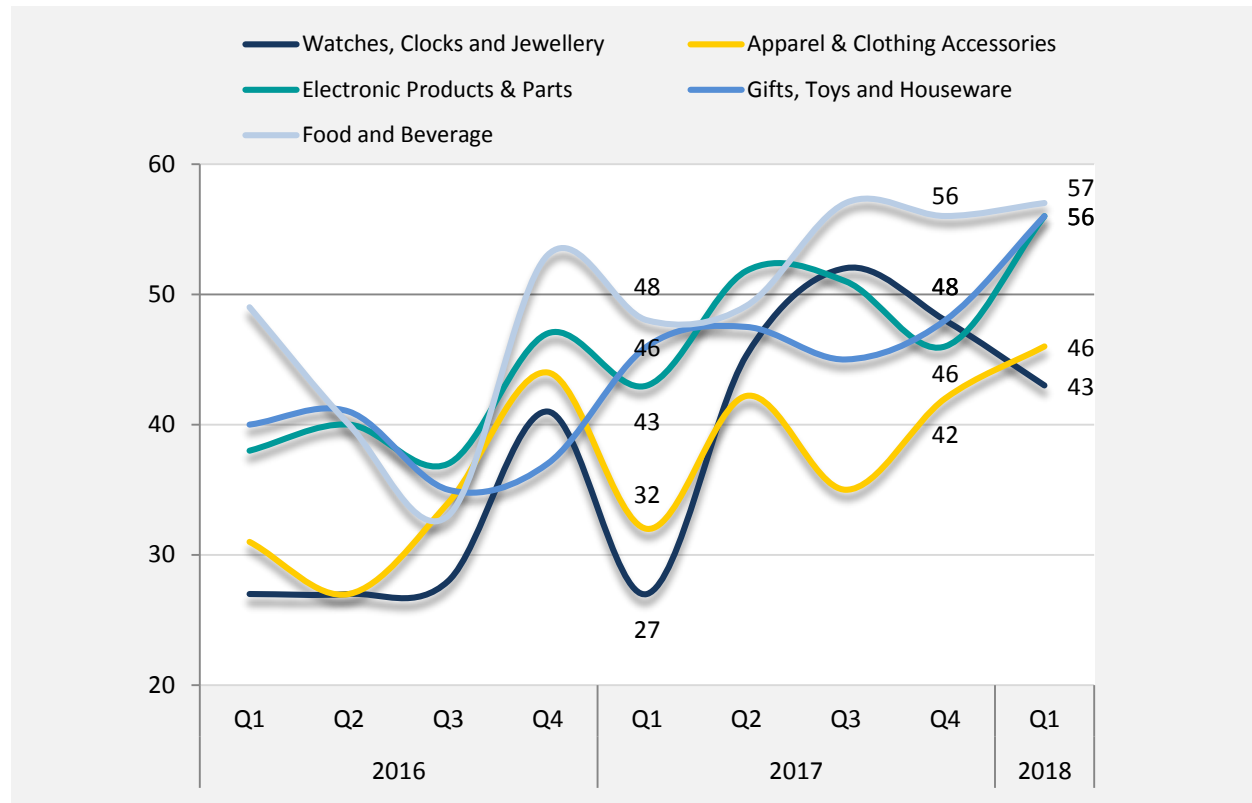
In **Europe**, the index score rose dramatically to 52, increasing by 7 points from the previous quarter. Air imports is likely to experience notable improvement due to a combination of urgency and sales volume.

An 8-point gain in the **Asia Pacific** index score saw it move to 52 from 44 in the last quarter, a move that was supported by rebounding export demand to China.

The **Rest of the World** fell from 48 in the previous quarter to 41. A larger dip in sales volume is expected to offset growth in product variety and urgency.

Air-Freighted Commodities

Key commodities enjoyed improved prospects and growing optimism. Local air traders are particularly positive about the potential for Electronics, as well as Gifts, Toys & Housewares, as air exports have boosted demand for these sectors.



The **Apparel & Clothing Accessories** index score climbed an additional 4 points, rising from 42 in the last quarter to 46. A drop in air imports is offset by a greater improvement in exports. **Electronic Products & Parts** experienced an even greater rise, moving up 10 points to reach 56. This was driven by surging demand from western markets, particularly those of Europe, which displayed healthy optimism.

The **Food & Beverage** sector moved up 1 point from the last quarter, reaching 57 and enjoying a steady performance due to optimism regarding import demand.

The score of **Gifts, Toys & Housewares** registered at 56, surging 8 points from 48 in the previous quarter, thanks to export prospects to European and Asian Pacific markets.

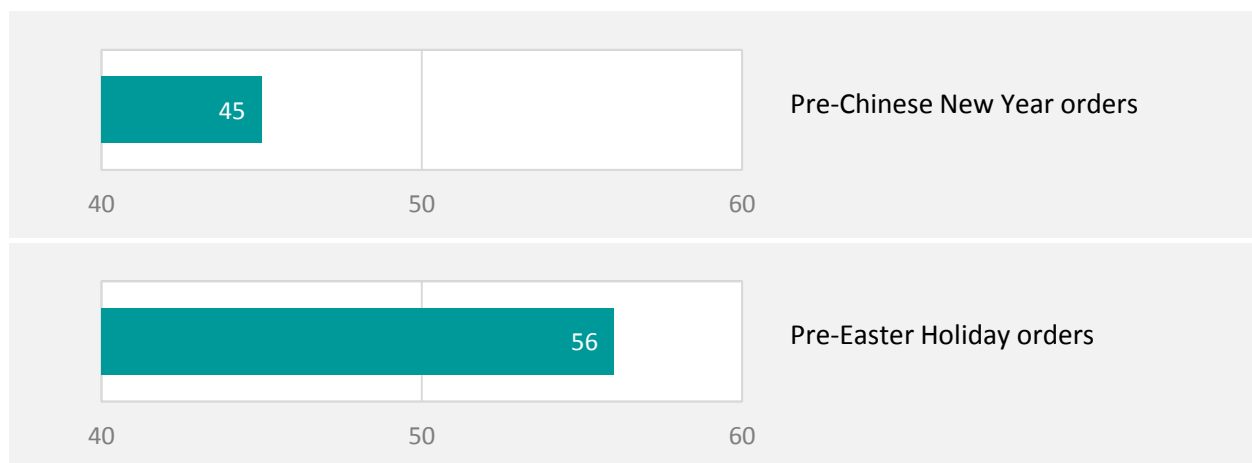
However, **Watches, Clocks & Jewellery** fell 5 points, to 43, due to a decrease in demand for both imports and exports.

Effect of Recent Market News on Air Trade

The pre-Easter holiday outlook appears promising and new infrastructure developments may offer future benefits by facilitating cross-border business.

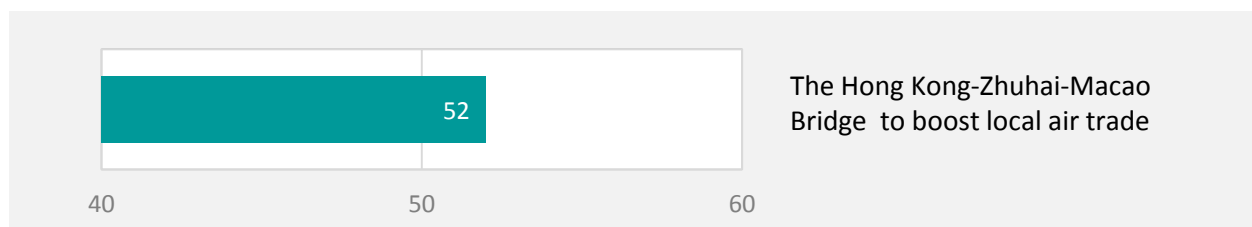
The survey asked about the period prior to Chinese New Year, and found that respondents generally are not predicting surging growth in these orders when compared to same period last year, with the score registered at 45.

On the contrary, the pre-Easter holiday order score registered at 56, with optimism spreading across all key markets.



The Hong Kong-Zhuhai-Macao Bridge is due to complete in 2018, serving as a new road link connecting Hong Kong and Pearl River Delta West. 24% of respondents indicated they will consider using the Bridge once it opens.

When asked if they expected air trade to increase due to the new cross-boundary channel, respondents posted a mildly positive score of 52.



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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