



DHL Hong Kong Air Trade Leading Index (DTI)

2018 Q2 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).

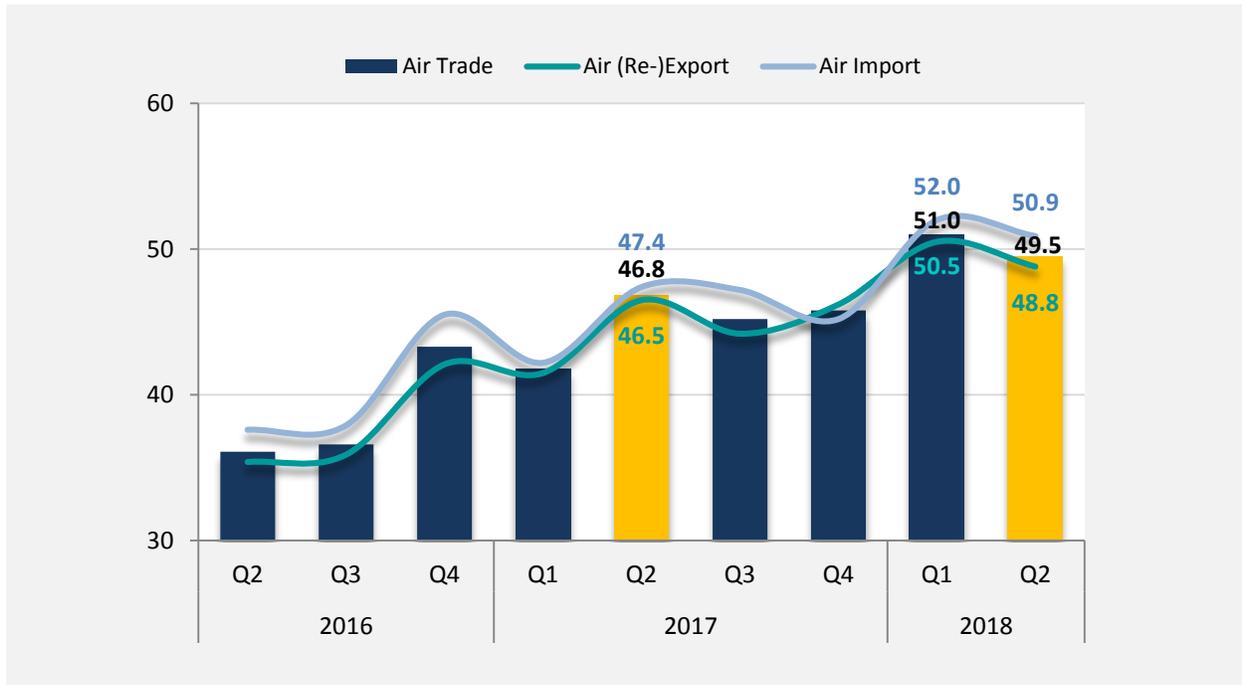
Since the first reading for Q2 2014, every quarter over 600 samples are randomly selected from over 10,000 entries. The survey is conducted by telephone. Each of the 600 samples represents a combination of company and product type which has need of air trade. Each sample has the same weighting in calculating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

Various concerns have made Q2 a challenging period. However, fears over the negative impact of geopolitical tensions have given way to a series of positive developments.

- When the 2018 Q2 survey was conducted, President Donald Trump announced tariffs aimed at China, launching an escalating conflict and fueling concerns over a global trade war. Despite this, the latest DTI survey found widespread worry about air trade has been limited so far. In Q2, there was a downward adjustment in the overall air trade outlook to 49.5, which is slightly below the neutral point. Nonetheless, this figure is still higher than that seen in the same period last year.
- Presently, air imports are still in optimistic territory and they continue bolstering the overall outlook for air trade. The current score is 50.9 despite friction between the US and China.
- Hong Kong's considerable surplus will be used to better the lives of residents. It is generally believed that these measures will boost air imports, underlining domestic demand.
- Air exports are predicted to encounter challenges, and their score has fallen to 48.8. In the US, the Federal Reserve System is expected to hasten the pace of interest rate hikes, raising borrowing costs for businesses.
- Mr Gordon Lo, Director (Business Management) of the Hong Kong Productivity Council, said, "After notable growth in the last quarter, the Index has fallen back to the neutral level in this quarter. However, the market is still affected by various factors such as changes in monetary or tariff policies of different countries, evolving customer needs, and rising operating cost. Companies must avoid overfocusing on a single area or business, and formulate appropriate business strategies and countermeasures to cope with market changes. Riding on the trends of intelligent automation, advanced technologies should be introduced to enhance operation efficiency and customer service experience. Companies must also make use of big data to analyze market trend and launch innovative services whenever necessary. In addition, companies should strengthen workers' skills and knowledge and strive to become learning organizations for continuous growth."

Air Trade Volume Index

Demand in the Americas has climbed into positive territory, giving air trade a solid boost. The sector has experienced recent difficulties though, but positivity in air import demand provides support.



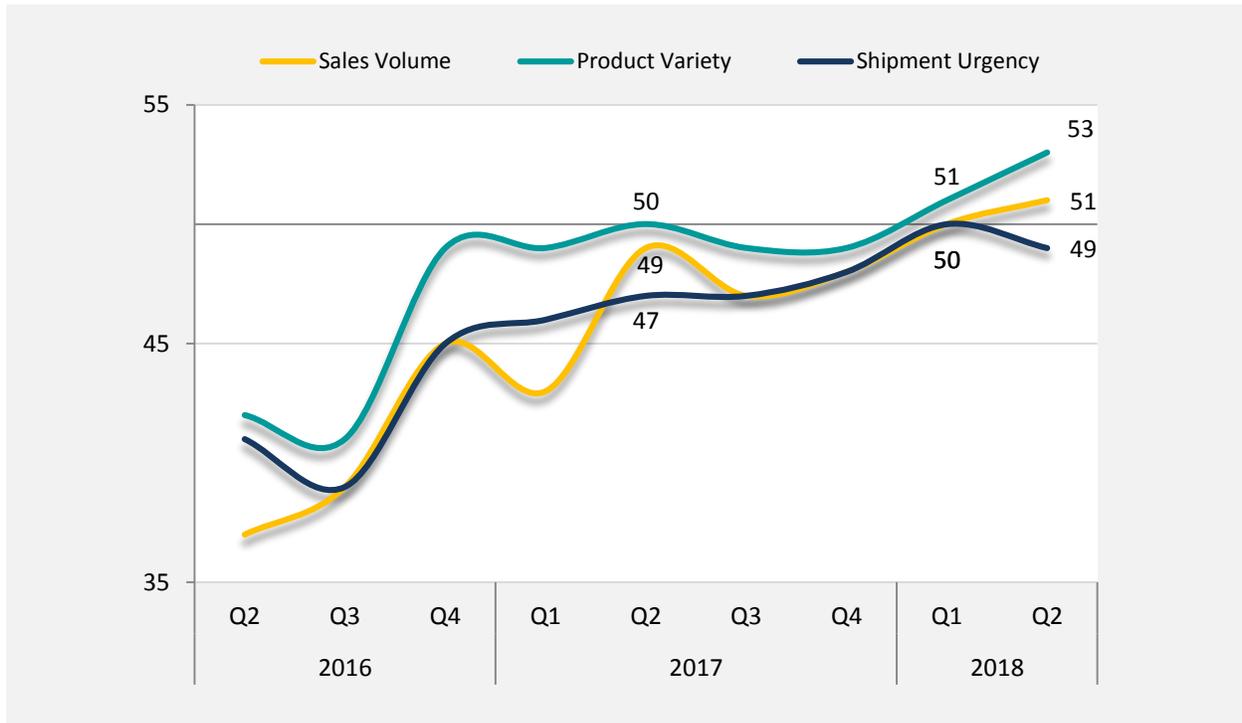
During the period under review, overall **Air Trade** fell to 49.5, representing a 1.5-point decrease from the previous quarter, when it reached 51. Demand for urgent orders is expected to weaken.

Air (Re-) Exports slid to 48.8, dropping 1.7 points from 50.5 during the last quarter. In the Americas, market demand gained strength and turned positive, but this gain was countered by issues in the Asia Pacific and European markets.

Finally, **Air Imports** experienced a modest dip from the previous quarter, falling 1.1 points to 50.9. Though demand lessened in Western markets, optimism prevailed, and Asian markets continued gaining strength.

Attributes

Presently, key attributes are enjoying a healthy outlook. Sales volume and product variety have experienced gains over the previous quarter, creating a brighter perspective for Q2.



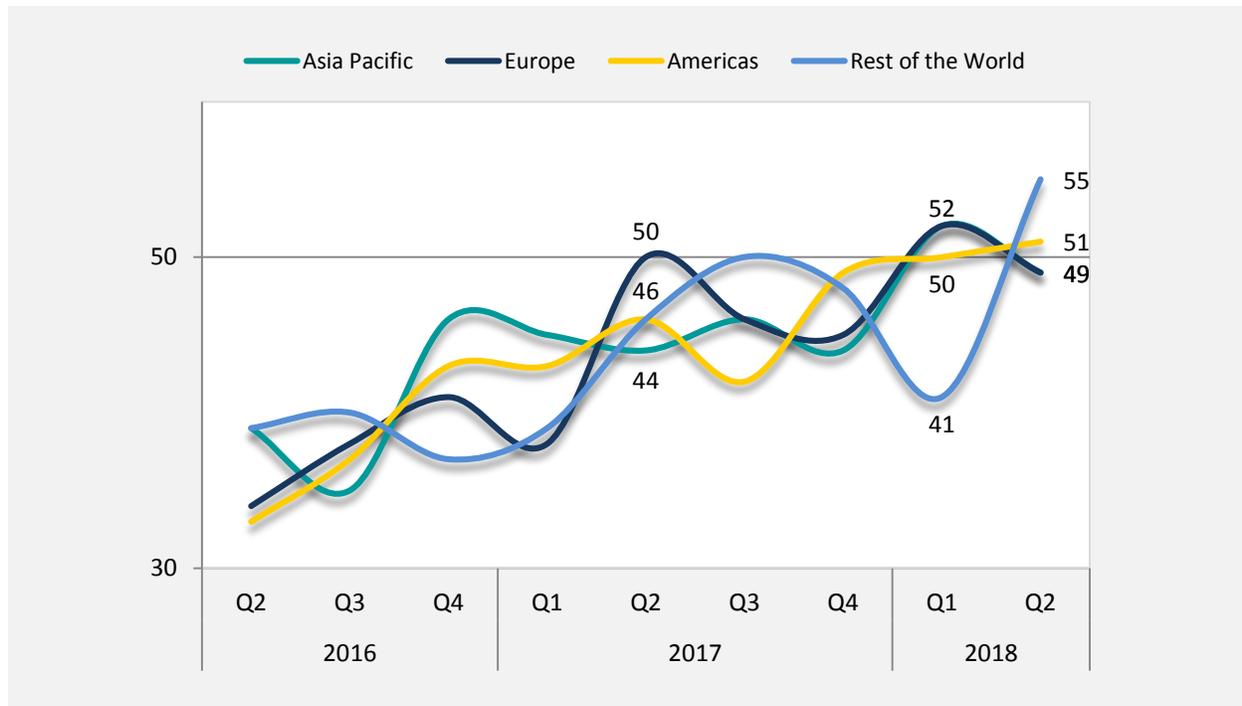
Since the previous quarter, **Sales Volume** has climbed 1 point and now stands at 51. Rising demand from the Americas has strengthened this segment while bolstering positivity.

Also, **Product Variety** rose by 2 points to 53 during the period under review, moving up from 51 in the last quarter. All key markets are expecting better prospect in this segment.

Shipment Urgency is down slightly at 49, dropping from 50 in the last quarter. The weaker demand for urgent orders is primarily limited to air imports.

Markets

During Q2, major markets are expected to experience challenging conditions, but enjoyed some notable gains.



In the **Americas**, the index score rose 1 point to 51, a slight increase over the previous quarter, when it was 50. Though exports drove this gain, imports is expected to soften, but remain optimistic.

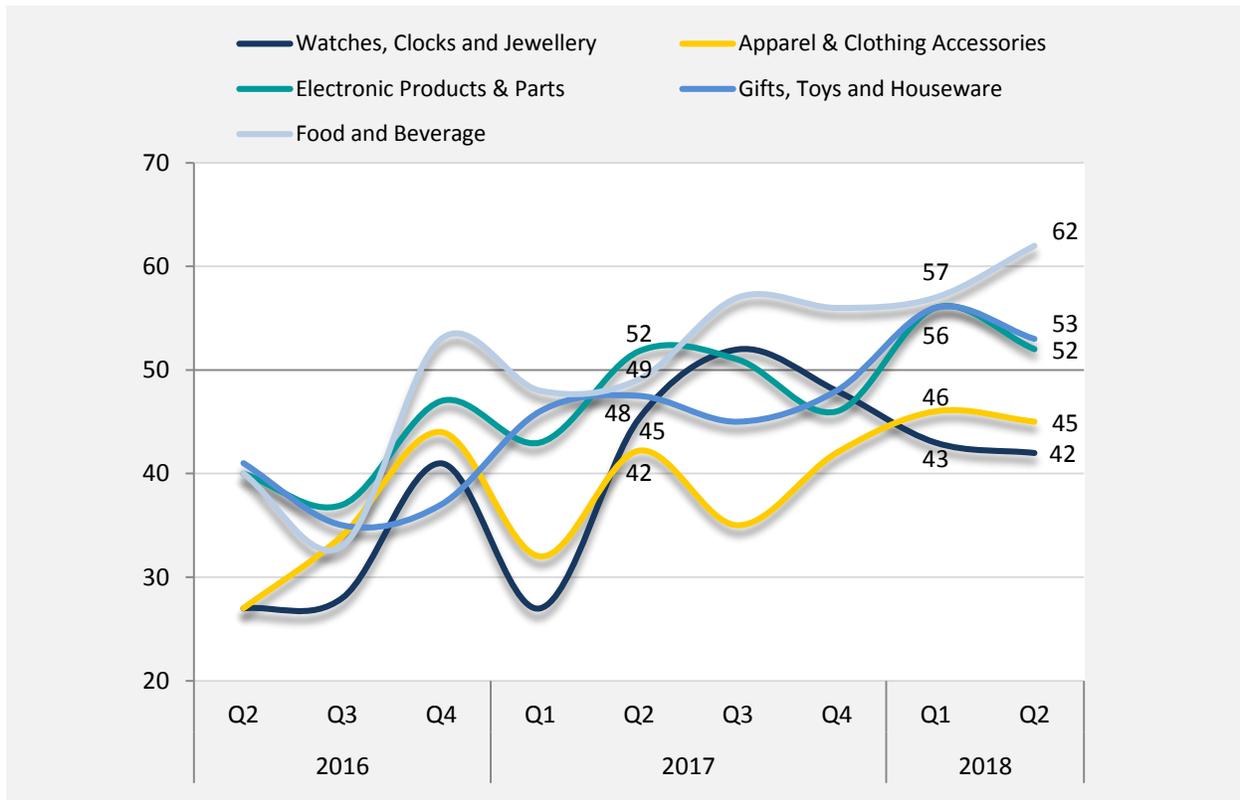
The markets in **Europe** fell 3 points, shifting from 52 in the last quarter to 49 as the demand for air exports tapered off, particularly in the apparel sector.

The score in **Asia Pacific** also decreased 3 points, moving from 52 to 49. Improvement in China is expected to be offset by weakness in other Asian markets.

The **Rest of the World** shot up 14 points to 55, a dramatic increase from 41 in the last quarter. Recovered sales volume was the primary driver behind this climb.

Air-Freighted Commodities

Q2 saw a generally weaker demand in key air-freighted commodities. However, there are pockets of optimism and some areas are performing well, including the food and beverage sector.



Apparel & Clothing Accessories fell to 45, down by 1 point from 46 in the previous quarter. Although improvements were seen in the Americas, a decrease in demand across Asia Pacific and Europe had a negative effect.

Electronic Products & Parts also saw a drop in points largely due to weakened confidence in European markets, falling from 56 in the previous quarter to 52 during the period under review. However, the outlook remains somewhat optimistic.

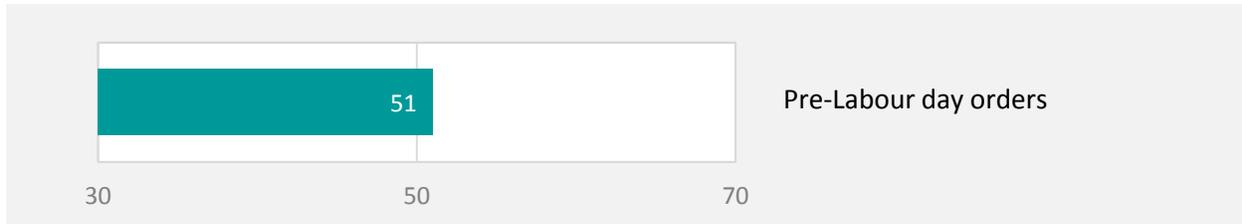
On a positive note, **Food and Beverage** is benefitting from sustained strength and is now at 62 points, which represents a 5-point rise from the previous quarter, when it only reached 57. Optimism is growing in this area as well, especially in regards to imports.

Gifts, Toys and Housewares lost 3 points, falling to 53 from 56 last quarter. There is a positive outlook in this area, but reduced demand from European markets is predicted in Q2. **Watches, Clocks and Jewellery** are down slightly, falling 1 point to 42, and a cautious outlook prevails, due largely to low demand from the European markets.

Effect of Recent Market News on Air Trade

While faster pace in US interest rate hike is believed to put pressure on local air traders, E-commerce is likely to give this quarter's air trade volume a boost.

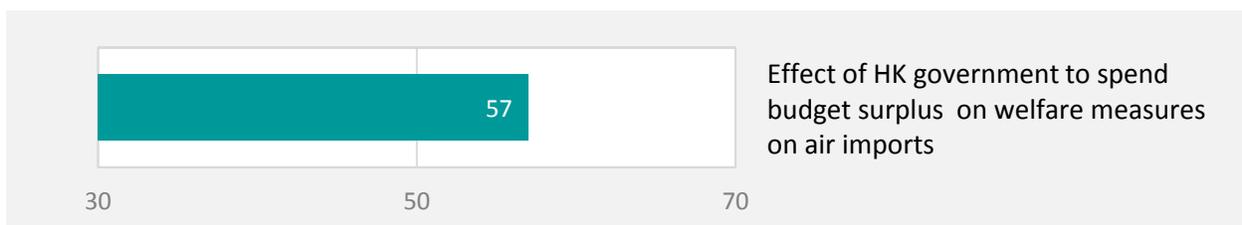
Respondents reported modest growth in pre-Labour Day orders this year for a mildly positive score of 51. One-third of respondents with an optimistic view believe these orders will provide a positive boost to air trade volume in Q2.



In the US, Jerome Powell, chairman of the Federal Reserve, has indicated he will tighten American monetary policy and quicken the pace of interest rate hikes. Local air traders generally believe this will negatively impact the sector, despite their positive sentiment regarding Q2, and the score is 39.



The latest government budget announcement in Hong Kong included a corporate tax rate cut designed to support SMEs while using the city's surplus to improve the lives of locals. According to a survey, over half of the respondents think the tax cut will enhance their global trade competitiveness. There is also a strong belief that spending the surplus on social welfare programmes will support air imports demand, leading to a score of 57.



Cross-border e-commerce has entered the mainstream and online retailers are using shopping festivals to lift sales. Some are centered around holidays, like Mother’s Day and Father’s Day, while others are the invention of retailers, like Amazon Prime Day. Currently, 46% of respondents think events like these in Q2 will positively impact air trade volume.



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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