



DHL Hong Kong Air Trade Leading Index (DTI)

2018 Q4 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.

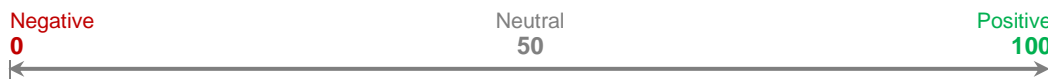
Methodology

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 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).

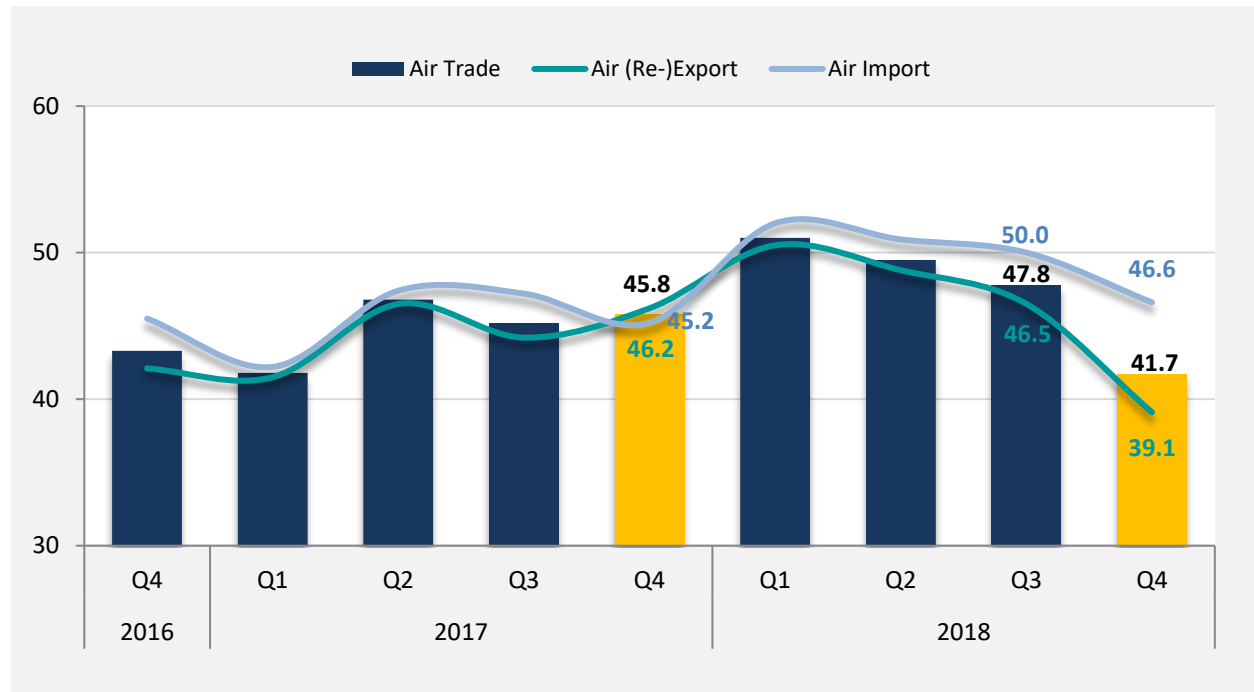
Since the first reading in March 2014, every quarter over 600 samples are randomly selected from over 10,000 entries. The survey is conducted by telephone. Each of the 600 samples represents a combination of company and product type which has need of air trade. Each sample has the same weighting in calculating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

The general outlook for Q4 2018 is characterized by caution. Since the last quarter, an increase in trade friction has dampened sentiment among air traders during what is traditionally regarded as the peak season. Nevertheless, there is cause for optimism, as the emergence of new markets creates potential opportunities.

- The outlook for Q4 2018 has been noticeably hampered by the escalation in trade tension between the United States and China. Despite this, air traders are confident about new opportunities in Asia Pacific and the Rest of the World markets.
- The survey was conducted as the United States imposed its new wave of trade tariffs on China in September. This prompted traders to give an overall score of 41.7, representing a general decline, and which is in-line with the score given when the United Kingdom voted to leave the European Union back in 2016.
- Approximately two thirds of those surveyed are cautious about the prospects in Q4. However, a large number of traders unveiled that there may be new opportunities in new markets away from China, the Americas and Europe.
- The most stable and positive segment for the quarter remains in Online Retailing, likely attributable to the lower-value items not being subject to additional tariffs.
- Mr Gordon Lo, Director (Business Management) of the Hong Kong Productivity Council, said, “The impact of the strained trade relations between China and the U.S. on Hong Kong economy has started to surface. The overall index continued to drop in this quarter with significant retraction in the U.S. and the European markets though the impact has been less in Asia Pacific region. As the economic policies of different countries and consumer sentiments may change in the short run, companies should consider shifting their manufacturing and operation from single-region to multi-regions to minimise the impact and assist with their long-term development. They should also make use of the Hong Kong government's various support programmes launched in response to the latest market situation, in developing new markets and businesses and exploring further opportunities.”

Air Trade Volume Index

Global trade tensions have left a mark on traders' optimism for the quarter, but opportunities in new markets are poised to help balance the deficit.



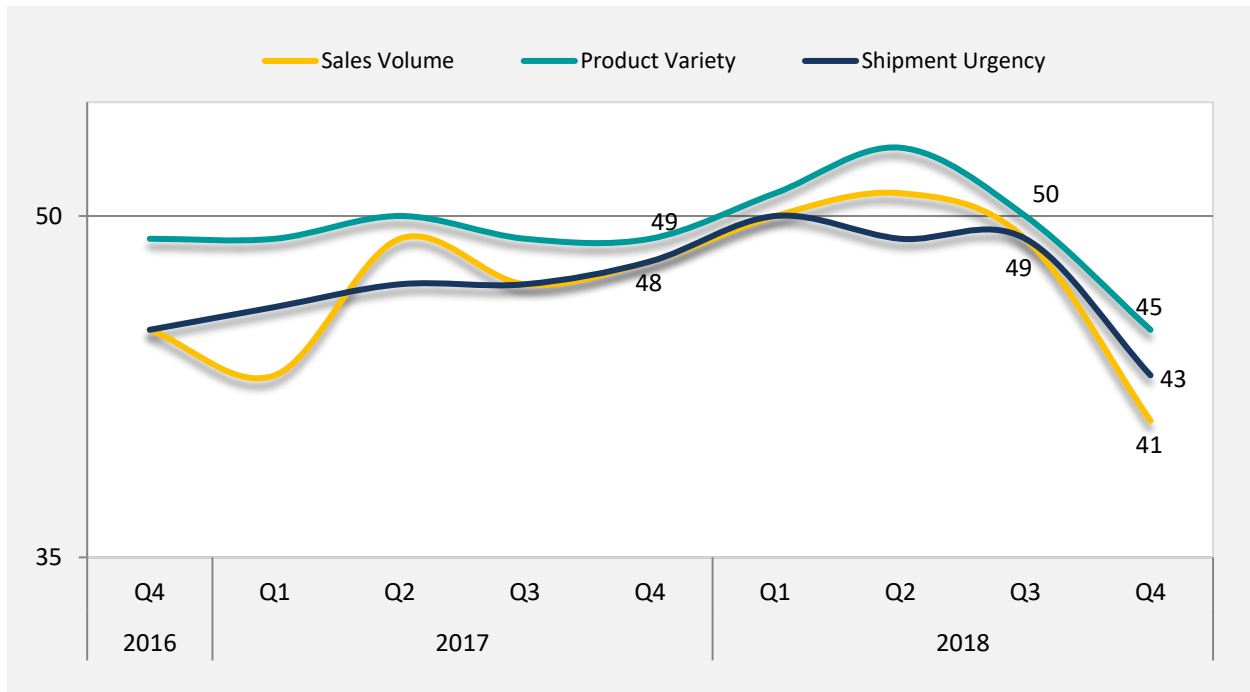
The outlook for Q4 has been affected by tensions over global trade. Air traders expect momentum to slow, resulting in an **Air Trade** score of 41.7, 6.1 points lower than in Q3 2018. However, there is hope this downturn will be offset by opportunities in emerging markets in Asia Pacific and the rest of the World.

The outlook for **Air Exports** remains cautiously conservative due to a drop in exports to many western markets, resulting in a score of 39.1, a full 7.4 points lower than in Q4 2017. While caution remains, traders expect that by relying less on China, exports will improve during what is a period of instability for traditional markets.

The picture for **Air Imports** is more positive, with traders posting only a moderate decline to 46.6 for Q4 2018, up 0.8 points during the same period last year but down a marginal 3.4 points from Q3 2018.

Attributes

Inbound sales orders from China and the Americas generally remain stable, but this is tempered by a decrease in outbound sales to these two major markets.

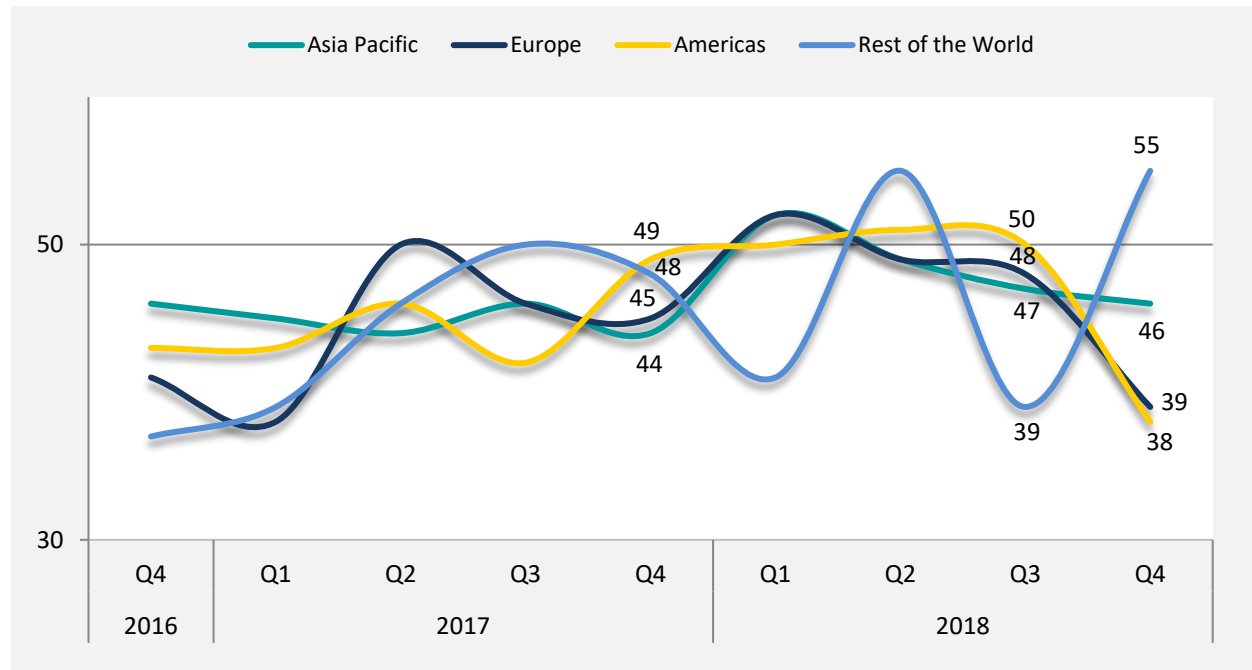


For air traders, the biggest concern for Q4 2018 centers on **Sales Volume**, which is down 8 points to 41, compared with a score of 49 in Q3 2018. This concern is largely caused by outward sales to the Americas and China, but inward sales orders from these two markets remained at the same level as in Q4 2017.

Product Variety and **Shipment Urgency** also witnessed a decline, with air traders awarding them 45 points and 43 points respectively in their projection for Q4 2018.

Markets

Confidence increases markedly in the Rest of the World, but this is dampened by conditions among other regions.



Air traders envisage air trade in both the Americas and China may slow in the coming quarter, similar to figures from the same quarter two years ago. Happily, this is offset by expectations for markets in the Rest of the World, which are at a record high of 55.

Air traders foresee a 12-point dip in the markets for **the Americas**, falling from 50 in the last quarter, to 38. Nevertheless, this mainly represents a downturn in exports, and it is expected that imports will remain buoyant.

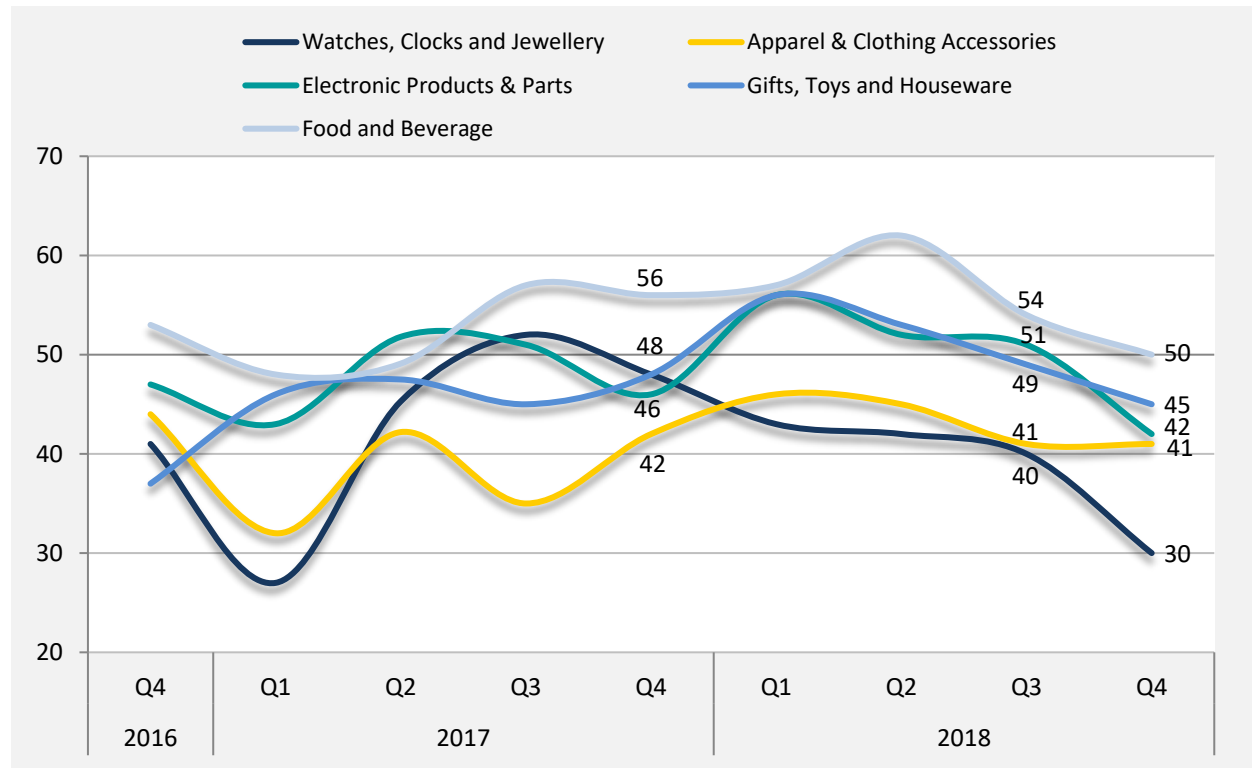
Other markets experiencing a temporary downturn are in **Europe**, a region which has decreased from 48 points in last quarter to 39 in Q4 2018. This is largely attributable to sluggish exports in the Watches, Clocks & Jewellery segment.

For **Asia Pacific**, there is only a slight downtick, from 47 in Q3 2018 to 46 in Q4 2018. This is mainly the result of reduced export trade, but imports to markets in the region are a stabilizing trend.

The success story for the period under consideration is **The Rest of the World**, which saw air traders' confidence soar by 16 points, from 39 in the previous quarter to 55 in Q4 2018. This has been caused by strengthening Sales Volume and Product Variety within the region.

Air-Freighted Commodities

Overall sentiment across all segments is cautious, with commodities like Food & Beverage remain relatively most stable.



The highest scoring commodity remains Food & Beverage, as it has been over successive quarters. Nevertheless, Electronic products & Parts, and Watches, Clocks & Jewellery are not performing as well as usual. This is a clear indication that market demand is shifting, as well as of diminishing consumption power.

Apparel & Clothing Accessories remains unchanged from Q3 2018 to Q4 2018 at 41 points.

Electronic Products & Parts dropped 9 points, from 51 in Q3 2018 to 42 in Q4 2018, which can be attributed to weakened demand in America.

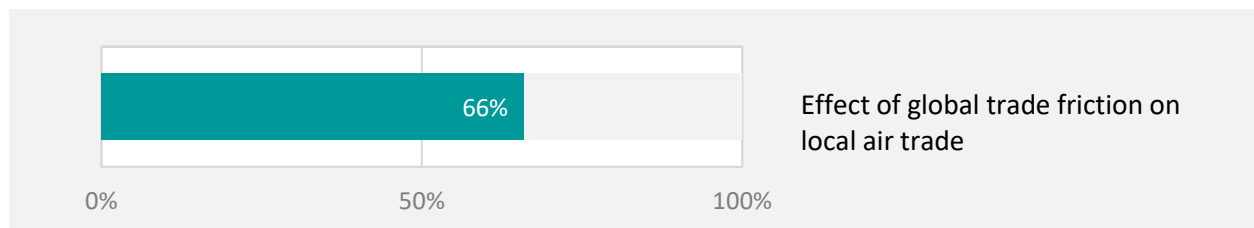
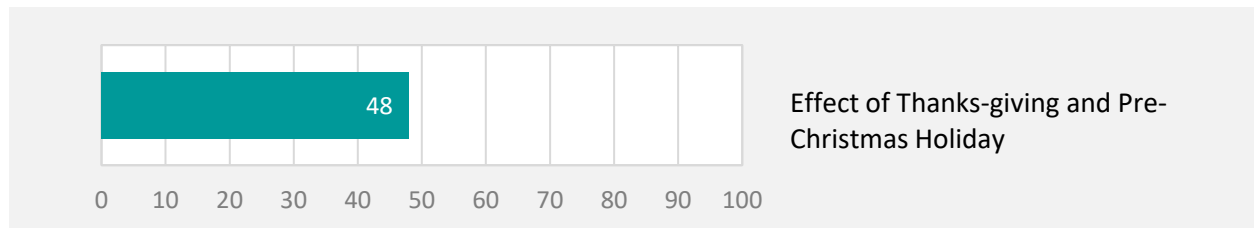
The highest-scoring segment is **Food & Beverage**, which received a neutral score of 50, down 4 points from the previous quarter and 6 points from the same period in 2017.

Gifts, Toys & Houseware saw a slight 4-point dip to 45, compared with 49 in Q3 2018. However, optimism remains high among respondents about the prospects for this segment in Asia Pacific.

The lowest-performing segment is **Watches, Clocks & Jewellery**, which posted a score of 30 points for the quarter. This is attributable to slack demand in Europe, although there are signs of overall improvement in the Americas.

Effect of Recent Market News on Air Trade

The ongoing trade tensions between the United States and China have unsettled air traders' outlook for the quarter, despite it being peak season.



Over the last quarter, global trade friction has grown in the form of the ongoing trade dispute between the world's two largest economies. In fact, 66% of air traders feel that global trade friction will affect local air trade.

Air traders believe that these will detract from higher scores seen in the previous quarter, and it will be difficult to gain traction, despite it being peak season. A score of 48 has been posted for the effect of Thanks-giving and the pre-Christmas holiday, highlighting the cautious sentiment deemed necessary by respondents.

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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