



DHL Hong Kong Air Trade Leading Index (DTI)

2019 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 aviation hubs in Asia Pacific. 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 the 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.

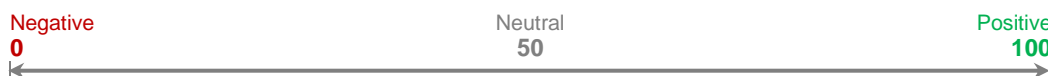
Methodology

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

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).

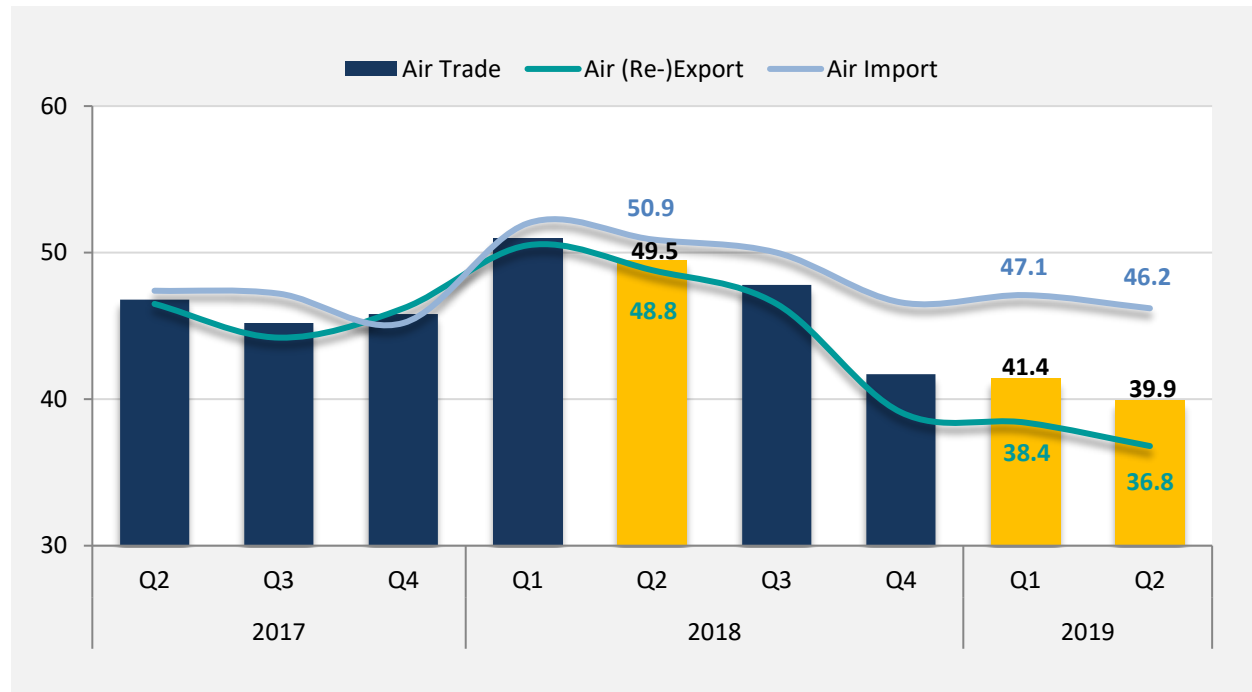
Since the first reading in March 2014, every quarter over 600 samples are randomly selected from over 10,000 entries. The survey is conducted by telephone. Each of the 600 samples represents a combination of company and product type which has need of air trade. Each sample has the same weighting in calculating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

Overall, trader's outlook remains cautious for the quarter, with index contracted to 39.9 due to the Sino-US trade friction. However, there is optimism that the situation will be resolved during the next quarter. Positive sentiment is also buoyed by an increase in demand for European imports. Furthermore, traders relish the prospect of the advantages brought about by integrating further into the Greater Bay Area.

- Traders remain conservative for the quarter after what has been the softest start to the year in a decade. This is despite a growing sense of optimism that there could be a settlement in the Sino-US trade friction during the next quarter.
- In the UK, the Brexit process is still fraught with confusion, leading to uncertainties among traders as to how the final outcome will effect duty, tax, and customs clearance. However, only a small proportion of local air traders, around 11%, are concerned about Brexit. Rather, they look forward to the benefits that becoming part of the Greater Bay Area will bring them, in terms of infrastructure, innovation and technology, and trade.
- Since the Sino-US trade friction erupted in March 2018, the overall DTI score has fallen for the fifth successive quarter. For Q2 2019, the score is 39.9.
- For exports, the outlook remains conservative due to trade with the Americas, with a score of 36.8 being posited by traders. For imports, an increase in demand for European products has boosted the score to 46.2, which has helped overall trade figures.
- Dr Lawrence Cheung, Chief Innovation Officer of the Hong Kong Productivity Council, said, "Though the latest indices are pointing to a cautious outlook which has yet to see substantial improvement in industry performance, we actually see some rays of hope shining through for the Air Trade Industry. This is the right time for air freight operators to identify new business directions, so as to prepare for and accommodate customers' needs in face of the ever-changing market. Innovation and digitalisation in areas of operation, business and product development, workflow and manpower development will help business scale new heights. We also strongly encourage companies to make good use of the government's 'Dedicated Fund on Branding, Upgrading and Domestic Sales' (BUD FUND). An advanced version of which has been launched in 2018, providing more advantageous measures to help up-and-coming companies to tap into markets with great development potential. Leveraging on the government's vigorous support, companies can increase competitiveness and seize business opportunities in mainland China, ASEAN countries and other emerging markets."

Air Trade Volume Index

Sentiment remains muted for now although there are signs of positivity in Asia Pacific.

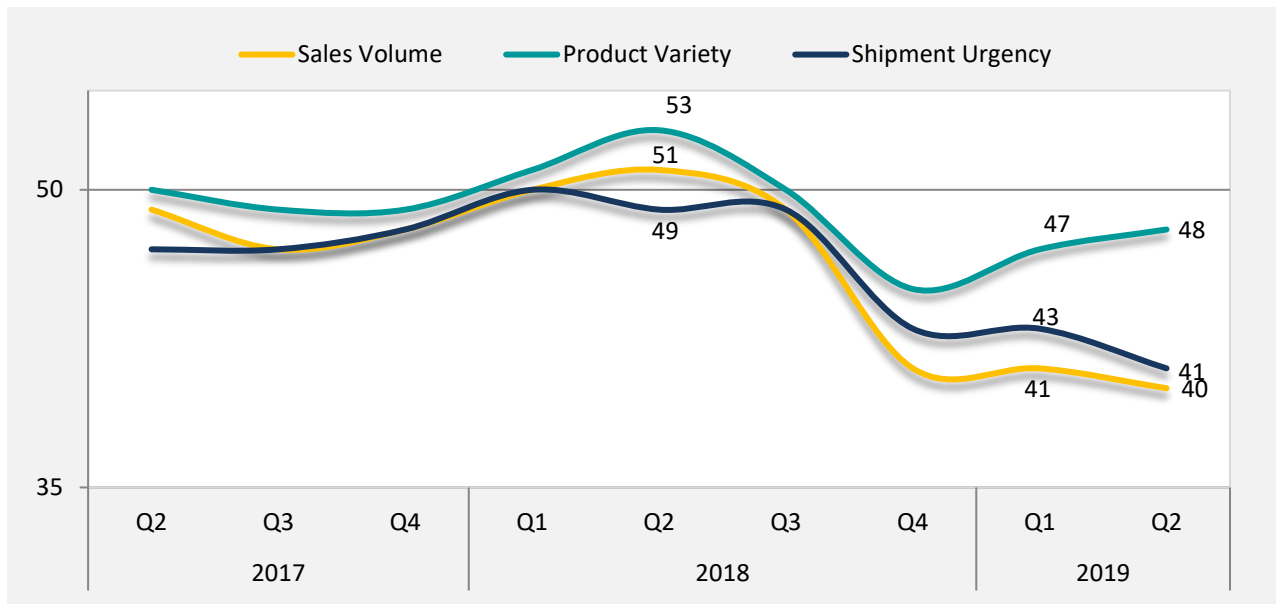


For the last five quarters, local trade volume has dampened with each passing quarter. This remains the case in Q2 2019, despite the 90-day truce enacted at the end of 2018 when both the US and Mainland China rolled back large-scale trade tariffs on each other's imports. The effect can be seen in the minor change in overall **Air Trade**, which is now down 1.5 points to 39.9, compared with Q1 2019's posting of 41.4.

For **Air Exports**, there is little change from the figure of 38.4 posted in Q1 2019, with traders indicating a slight downturn of 1.6 points to 36.8 in Q2 2019. Confidence in **Air imports**, although significantly higher than the Air Exports sub-index, also have a slightly lower index score of 46.2 compared with 47.1 in Q1 2019. These changes are attributable to lower demand from the Americas and Europe, which has tempered stronger demand in Asia Pacific.

Attributes

Sales Volume for the quarter is on par with the overall DTI score. Although this is a contraction of a point compared with the previous quarter, greater competition as a result of the softening market has increased the Product Variety score by a point.



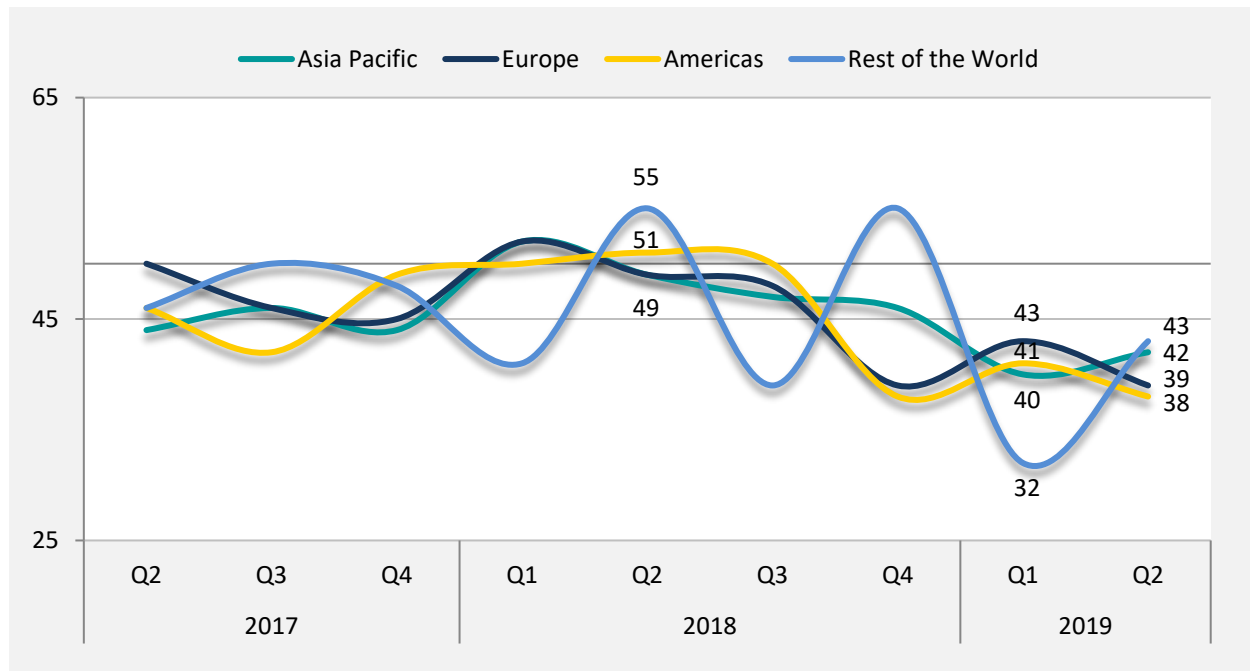
For the period under consideration, weakening import trade from markets in the Americas has caused **Sales Volume** to fall by a single point to give score of 40.

Nevertheless, there is growing confidence among traders as they raise their **Product Variety** score to 48, an increase of 1 point from Q1 2019, which is largely due to increased appetite in European and Asia-Pacific markets.

There was a small decrease in **Shipment Urgency**, from 43 in Q1 2019 to 41 in Q2 2019, because there has been a decline in urgent orders from European customers.

Markets

Tensions around trade with the US, particularly exports, have led to a lower score of 38 being posited for the Americas. Demand in Europe is also expected to fall due to the euro trading at its lowest level since 2018, which lowers purchasing power within the region.



For Q2 2019, the **Americas** sub-index has been given a score of 38, which is a 3-point decline from Q1 2019. Air traders not only attribute this to current trade tensions, but also because demand for Watches, Clocks and Jewellery has reduced noticeably in this market.

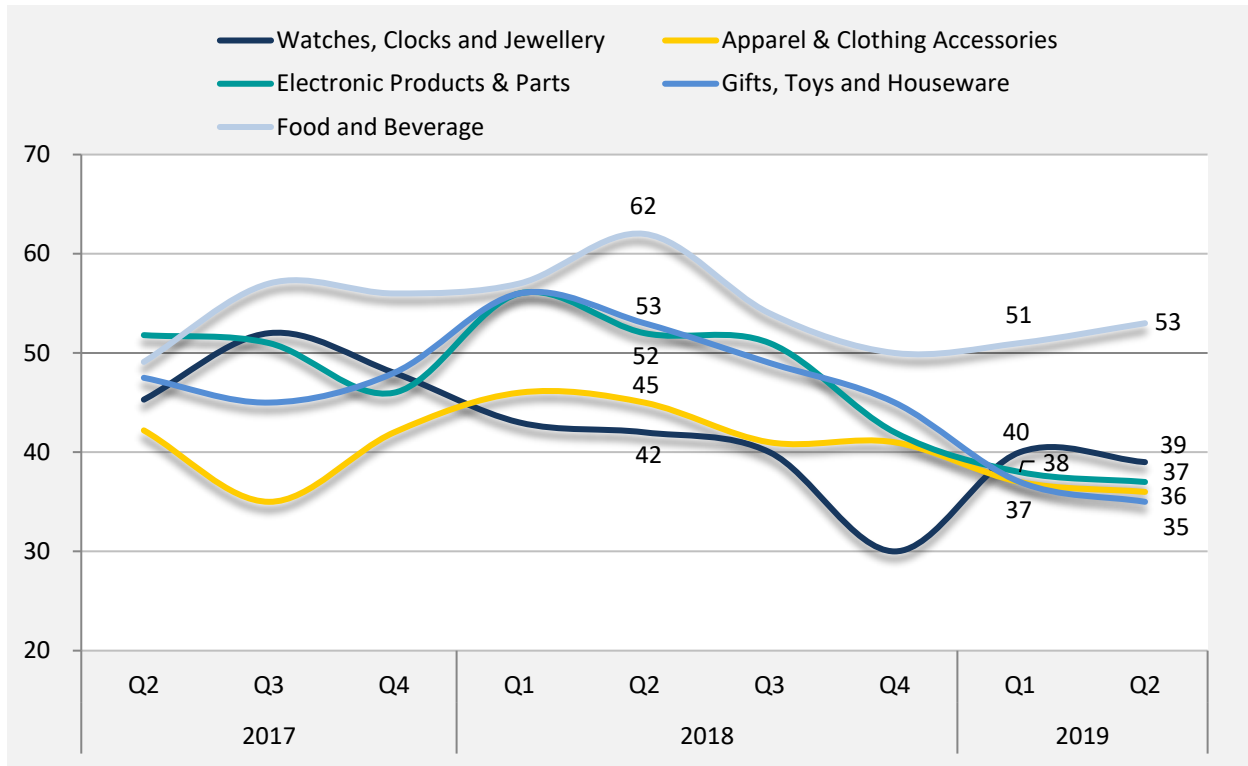
The **Europe** sub-index has dropped 4 points from the previous quarter to 39 in Q2 2019 because of a weaker euro affecting purchasing power in the single currency zone, which has in turn led to lower urgent orders.

Nevertheless, the index score for markets in **Asia Pacific** showed signs of growing confidence among traders, thanks to better prospects in air exports within the region. Traders posted a score of 42 for Q2 2019, which is an uptick of 2 points on the previous quarter.

Sub-index points for the **Rest of the World** surged by 11 points for Q2 2019, leading to a much-improved score of 43 compared with the previous quarter. A sharp recovery in Product Variety is the main driving force behind this new-found buoyancy.

Air-Freighted Commodities

The two main trading commodities – Electronic Products & Parts, and Apparel & Clothing Accessories – remain stable, while Food and Beverages continues to outperform other commodities.



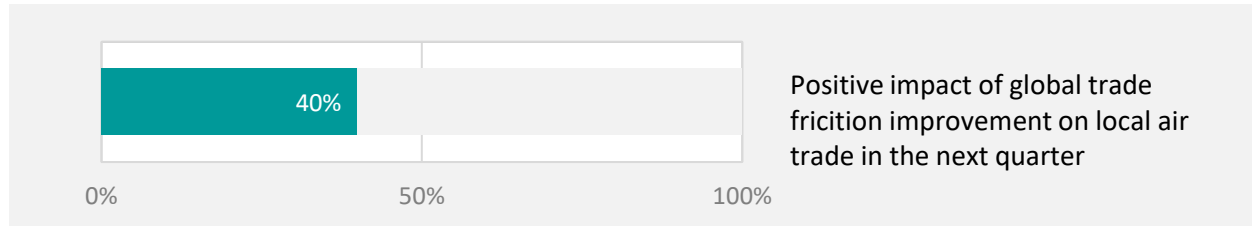
The **Food and Beverage** index score for Q2 2019 represents a strengthening of demands for both imports and exports. It remains the top commodity for the period under review, with traders awarding a score of 53, up 2 points from the previous quarter.

A slackening of demand in the Americas and Europe lead to a marginal drop of 1 point for both **Apparel & Clothing Accessories** and **Electronic Products & Parts**, each scoring 36 and 37 points, respectively. Similarly, **Watches, Clocks & Jewellery** also fell by a point in Q2 2019 to 39, compared with 40 the previous quarter. This occurred due to slacker demand in the Americas, despite improvements in markets in Europe and Asia-Pacific.

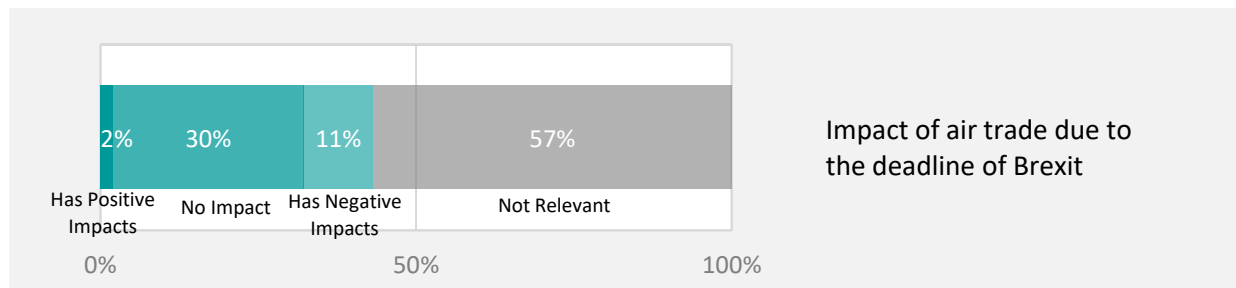
The **Gifts, Toys & Houseware** sub-index fell by 2 points, from 37 in Q1 2019 to 35 in Q2 2019, which stems from an overall conservative outlook among traders, and because of curtailed demand for the commodity sector in Europe.

Effect of Recent Market News on Air Trade

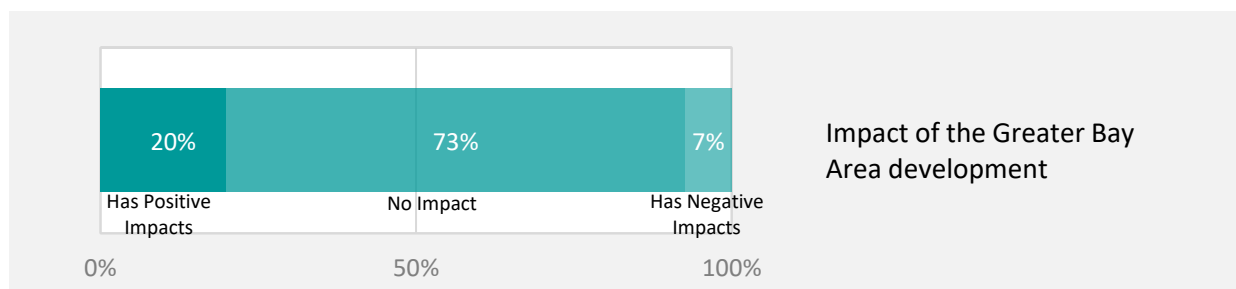
Traders see cause for concern over the Sino-US trade friction but are hopeful of a resolution in the near future. Closer to home, further integration into the Greater Bay Area offers tremendous business opportunities.



It is expected that air traders’ attitudes towards the Sino-US trade friction will become more positive, as long as no additional tariffs are imposed, and Mainland China and the US continue trading during the quarter. 40% of the respondents agreeing with “positive impact” felt any upcoming settlement will benefit their businesses in the next quarter.



Furthermore, there has still been no clear agreement between the UK and the EU member states regarding a Brexit deal. However, this is not a major area of concern for air traders, as only 11% predicted that the situation would have a negative impact on their businesses in Q2 2019.



One development that air traders are very optimistic about is the Greater Bay Area. 20% of respondents felt that the initiative would have a positive effect on their businesses, thanks to closer infrastructure, innovation and technology, and trade within the region. 73% of respondents remained neutral outlook.

About Hong Kong Productivity Council

The Hong Kong Productivity Council (HKPC), established by statute in 1967, supports Hong Kong enterprises by offering integrated and advanced technological solutions. We are the champion of and expert in, facilitating Hong Kong's reindustrialisation powered by Industry 4.0 (i4.0) and Enterprise 4.0 (e4.0) strategies. We inspire disruption in businesses as well as in the consumer sector, facilitating the development of smart cities and smart living to improve our everyday lives.

We are focused on advanced manufacturing tools such as IoT, Big Data analytics, digital manufacturing, AI and robotics. We act as a technical advisor to companies and drive awareness and education around funding schemes.

HKPC is a trusted partner for many different Hong Kong industries and enterprises, enabling them to achieve better resource and productivity utilisation, become more efficient and enhance their competitiveness in both local and international markets.

We partner and collaborate with local industries and enterprises to develop applied technology solutions for value creation. We also benefit various sectors through our product innovation and technology transfer. We commercialise market-driven patents and technologies, bringing enormous opportunities for licensing and technology transfer, both locally and internationally.

For more information, please visit www.hkpc.org.

Enquiry

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