DHL Hong Kong Air Trade Leading Index (DTI)

2019 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 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 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.

Negative	Neutral	Positive
0	**50**	**100**

[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 the second quarter of 2014, over 600 samples are randomly selected from over 10,000 entries every quarter to reveal the respondents' expectation on air trade. The survey is conducted by telephone. Each sample has the same weighting in calculating the index, regardless of the size of the company.

The outlook for the quarter remains uncertain. However, sentiment on exports to the US contracted only moderately, as only one third of the total traders subject to the fresh wave of tariffs. Of those are affected, half said additional tax were shared among the sellers and buyers. Exports to Mainland China and other Asia Pacific are also under pressure.

- The current survey took place before the G20 summit in Osaka, and after the US introduced its latest 25% tariffs on US$200bn worth of Mainland Chinese goods. The market continued to take a wait-and-watch approach, with traders awaiting the resumption of talks between the presidents of the world's two largest economies.

- The outlook for Q3 2019 continued to dampen, as market was stuck in conservative mode ahead of trade talks between Xi and Trump.

- In spite of the total trade tariffs effective across US$250bn worth of Mainland Chinese goods, only about one third of respondents said their own trade would be subject to additional taxes.

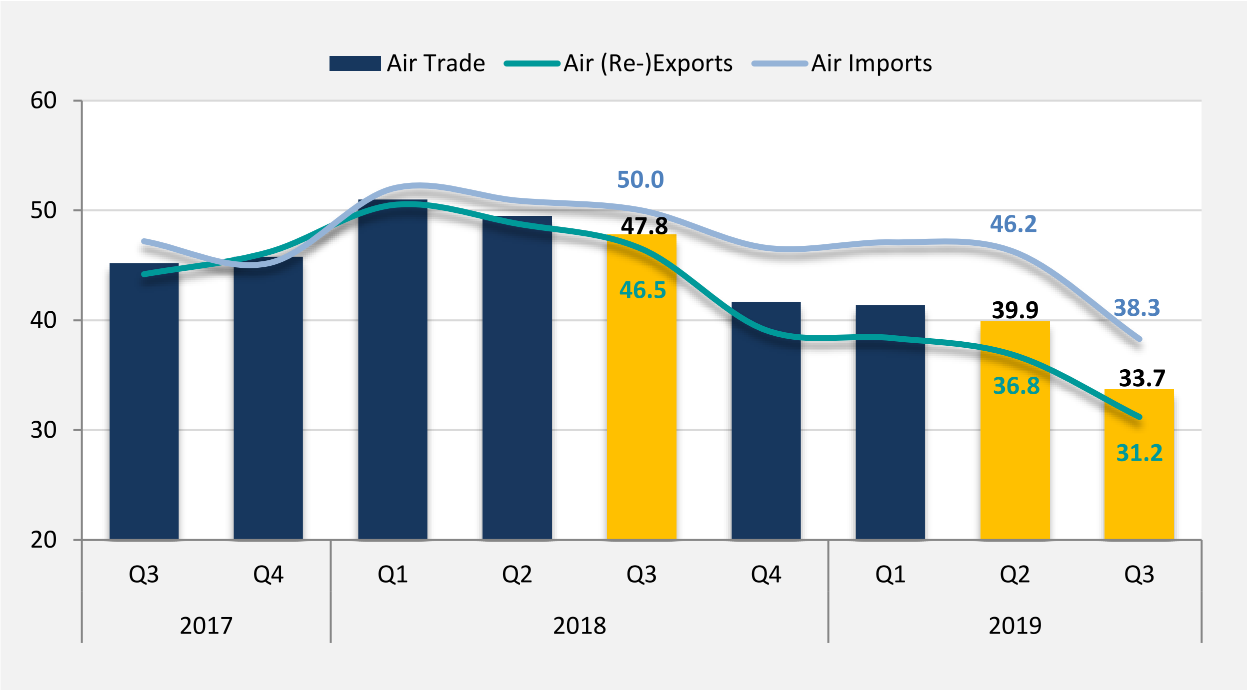
- About half (51%) of respondents affected by US additional tariff of US$250bn Mainland Chinese goods (Section 301) the tax would be shared between sellers and buyers, while 46% said buyers would bear the full cost. Only 3% said the full cost would be borne by sellers.

- Exports to Mainland China and other markets in Asia Pacific are under greater pressure, due to softened demand.

- Dr Lawrence Cheung, Chief Innovation Officer of the Hong Kong Productivity Council (HKPC), shared, "With the persistent uncertainty in the global economy, the industry hence reacts with caution to the outlook of growth in trade. With such changeable business environment, enterprises are advised to be prepared for the challenges from the trade issues such as diversifying their target markets to mitigate risks. The Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) then comes in as an effective support from the Government to help local enterprises in domestic or external market expansion and development."

Air Trade Volume Index

Overall sentiment showed further dampening under US-Mainland China trade tensions, but Asia Pacific is more resilient.



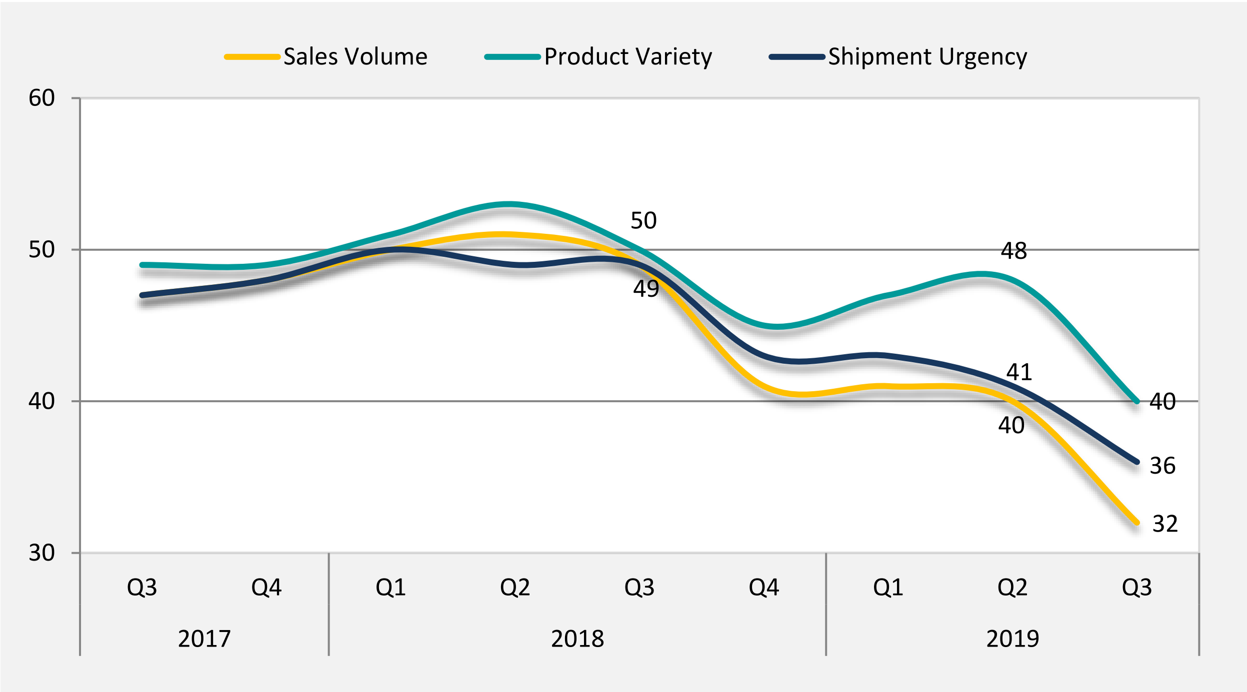
The muted outlook for Q3 2019 reflects concerns over the latest wave of US trade tariffs, which stand in contrast to the relatively gradual shifts of the previous three quarters.

The **Air Trade** outlook remained cautiously conservative: following a drop in all regions, it posted 33.7 points, or 6.2 points lower than in Q2 2019. The **Air Exports** outlook recorded a slight downturn of 5.6 points to 31.2 in Q3 2019.

While significantly higher than the Air Export sub-index, **Air Imports** also posted a slower index score, recording 38.3 points, or 7.9 down from Q2 2019. Compared with other markets, import demand from Japan and other Asia-Pacific countries is expected to be more resilient.

Attributes

Sales Volume for the quarter remains the area of biggest concern, especially as it applies to exports from Asia-Pacific markets. Shipment Urgency, however, shows less vulnerability to the tariff market.

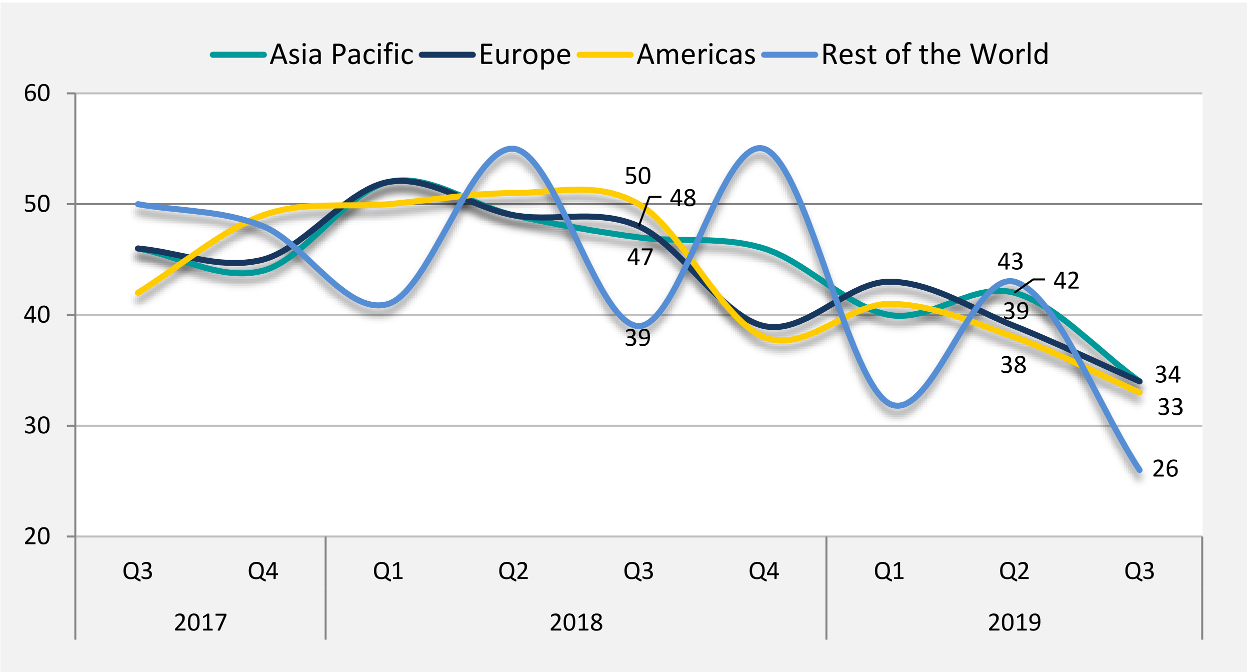


In Q3 2019, **Sales Volume** and **Product Variety** are down 8 points to 32 and 40, respectively. This is due to an expected softening in demand from all markets, albeit to varying degrees.

Shipment Urgency decreased 5 points on Q2 2019, to 36. This reflects concerns over slackening demand in outward sales across all markets except Europe.

Markets

In the face of slackening demand across markets, the Asia Pacific, Europe and Americas sub-indices have all declined to a similar level this quarter. When it comes to the latest bilateral trade tensions, demand for American products appears to be the most exposed.



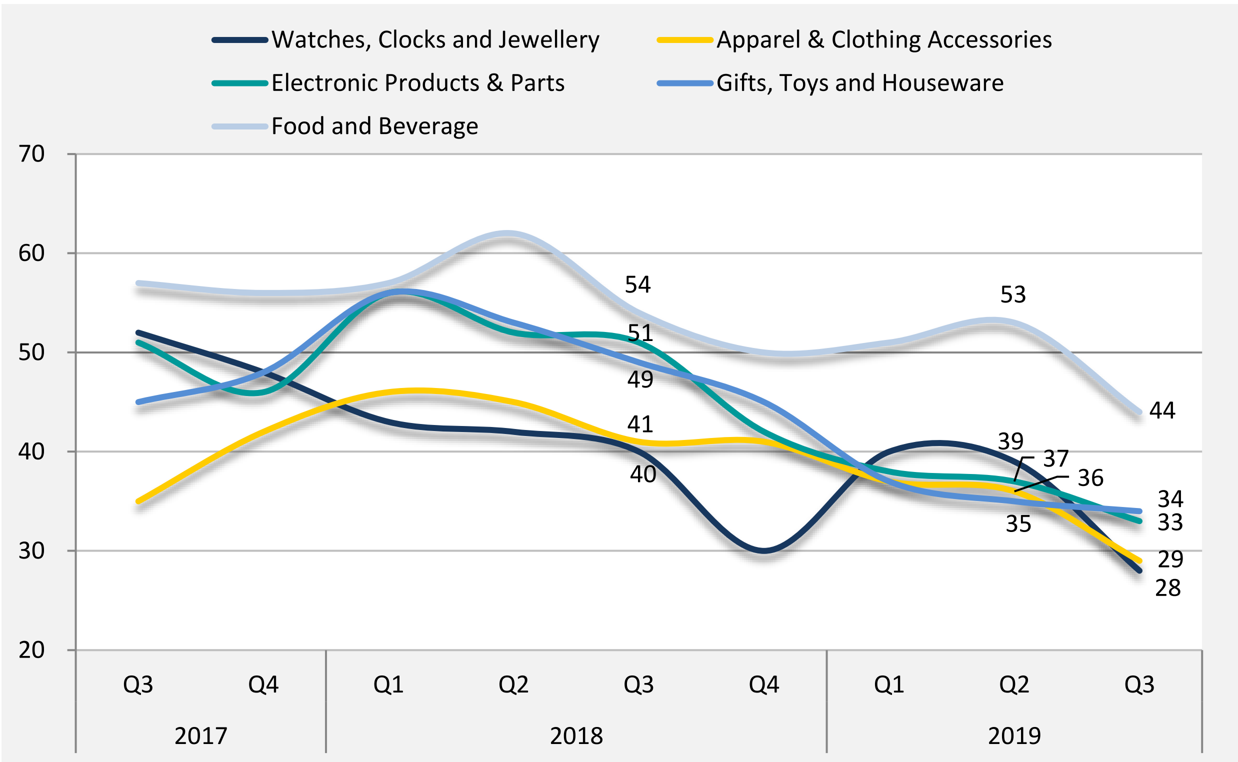
Regarding import forecasts for Q3 2019, the **Americas** and **Europe** sub-indices each dropped 5 points, to 33 and 34, respectively.

In **Asia Pacific**, the index score for the quarter was down by 8 points on Q2 2019 to reach 34. This reflected overall declines in Sales Volume and Shipment Urgency, as compared with the previous quarter.

A drop of 17 points was seen in the **Rest of the World**. Here, an index score of 26 reflects considerable dragging by the export trade.

Air-Freighted Commodities

Watches, Clocks & Jewellery remain the commodities most vulnerable to the global economy. The segment fell the most in Q3 2019, just as it did during the 2016 Brexit shock. Consumer goods trading is faring better, including Food & Beverage imports, and exports of Electronic Products & Parts.



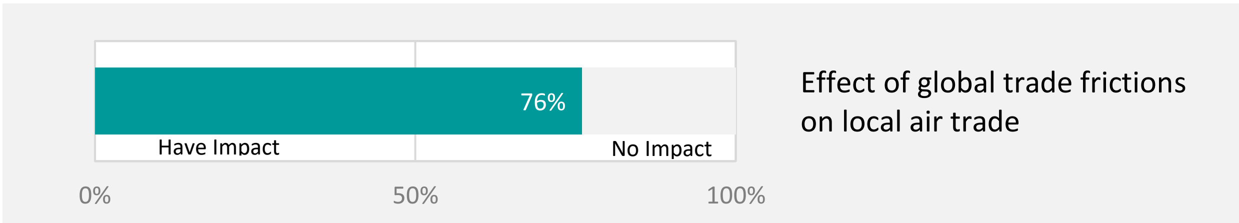
The **Gifts, Toys & Houseware** index score saw a slight 1-point dip to 34 in Q3 2019. When it comes to exports to the American and European markets, respondents remain optimistic about the prospects for this segment.

Electronic Products & Parts dropped 4 points to 33, due to softening demand in the Americas and Asia Pacific. **Apparel & Clothing Accessories** decreased by 7 points to post 29. **Food & Beverage** experienced a 9-point slide to 44; however, its score remains the highest among the commodities this quarter.

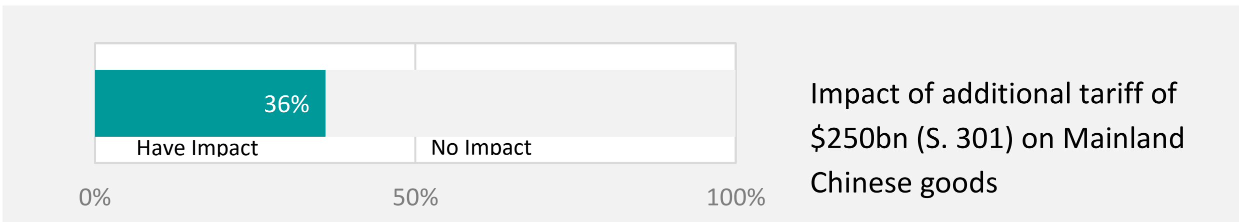
Watches, Clocks & Jewellery was the lowest-performing segment in Q3 2019, dropping 11 points to 28. This was consistent with the weakening demand for luxury goods around the world.

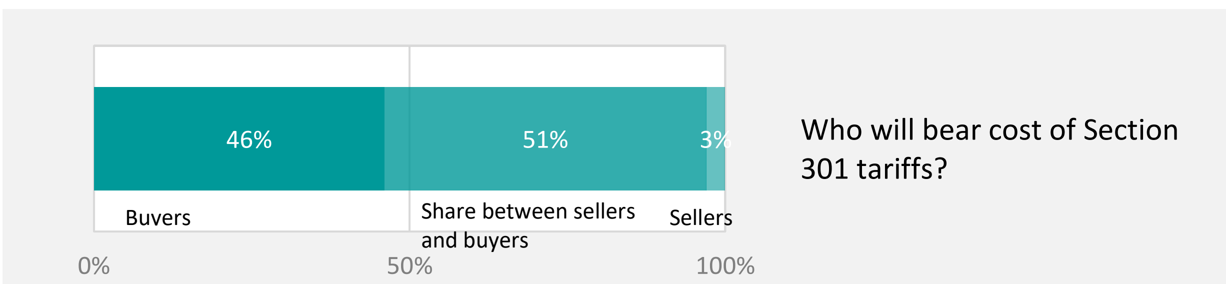
Effect of Recent Market News on Air Trade

Traders are stuck in conservative mode, following the sudden introduction of fresh tariffs between the US and Mainland China in May. The mood is similar to that of last year, when the bilateral trade tensions began.



Following the US latest imposition of 25% tariffs on US$200bn of Mainland Chinese goods, and ahead of the G20 summit in Osaka, 76% of air traders felt that frictions in global trade would affect the local air trade in Q3 2019.





In spite of the additional trade tariffs, only 36% of respondents said their trade would be affected by the new tax. About half (51%) said the extra cost would be shared between sellers and buyers.

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.

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Enquiry

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