



DHL Hong Kong Air Trade Leading Index (DTI)

2019 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 aviation hubs in Asia Pacific. Hong Kong International Airport is globally recognised as one of the busiest airports in terms of international cargo throughput. The city's dynamic air trade industry generates a total revenue of over HK\$150bn annually, with HK\$32bn from freight revenue, and creates nearly 29,000 job opportunities ⁽¹⁾ in the territory.

DHL Express (Hong Kong) Limited (DHL) has commissioned the Hong Kong Productivity Council (HKPC) to conduct an 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 preliminary studies, contained quarterly findings on air trade, and its related attributes, market sentiment, as well as key types of commodities.

DTI is the first of its kind in Hong Kong, offering publicly available market intelligence for local enterprises, especially SMEs that 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 in the second quarter of 2014 and has been publishing on a quarterly basis since then.

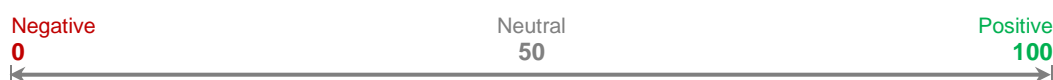
Methodology

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

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.



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.

REPORT SUMMARY

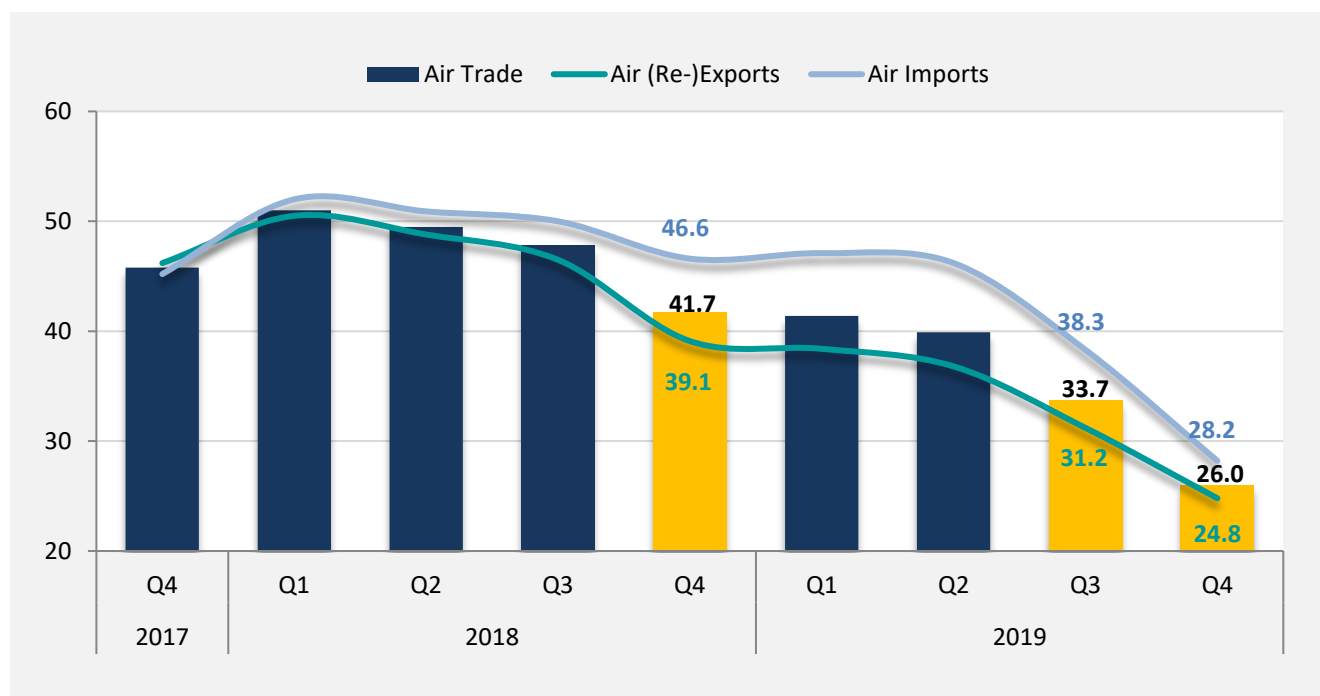
As more tariffs were imposed by the US, their full weight was being felt by local exporters. Furthermore, ongoing global economic uncertainty added to what was a muted outlook for 2019 Q4.

- Air Trade outlook for 2019 Q4 stayed weak. The indices for Air Trade, Air Imports and Air (Re-) Exports all recorded a downward trend, reading 26.0, 28.2 and 24.8 respectively. The Air Imports index recorded an even deeper drop by 10.1 points in this quarter, reflecting a more conservative view from the industry.
- In the Air-Freighted Commodities aspect, the index for Watches, Clocks & Jewellery increased by 1 point, reaching 29 points in the quarter, being the only index that showed an upward trend.
- The outlook for 2019 Q4 was considerably dampened by uncertainty over the global economy and the trade dispute between Mainland China and the US. However, there is a good news for many local exporters, that is, the US government announced the delay on tariffs of consumer goods until mid December this year.
- As the US government continued to impose tariffs on Mainland Chinese goods, it was expected that around 60% of local exporters would be directly impacted, up from 36% in the previous quarter.
- As the US government decided to defer tariffs on consumer goods in the wake of the online shopping season, local exporters predict that demand for e-tail will increase greatly.
- Among all local export goods affected by the new tariffs, approximately two thirds of it are electronic goods, which already has been imposed 15% tariff in September 2019.
- There are 16% of local exporters said they would bear all the new tariffs, such expectation climbed up from 3% from last quarter.

Dr Lawrence Cheung, Chief Innovation Officer of the Hong Kong Productivity Council (HKPC), shared, “Global and local economic factors constitute a strong headwind for air trade industry, which was reflected in the Index. In hope to alleviate impact brought from the tough business environment among the air trade sector, as well as other industry runners, HKPC has recently introduced four concession measures for SMEs and startups, enabling them to improve business efficiency, increase productivity, and retain their edges. What is more, HKPC’s SME One performs as an information exchange and facilitator for the industry. Joining hands with three other SME service centres in town, SME One provides one-stop services for SMEs about various HKSAR Government funding details. These are essential in facilitating SMEs’ development leveraging existing resources in the market, loosening their financial constraints.”

Air Trade Volume Index

According to the survey results, all key indicators of the Air Trade Index dropped in 2019, following a downward trend in the recent quarters. Affected by trade dispute and global economic downturn, air traders remained cautious outlook.



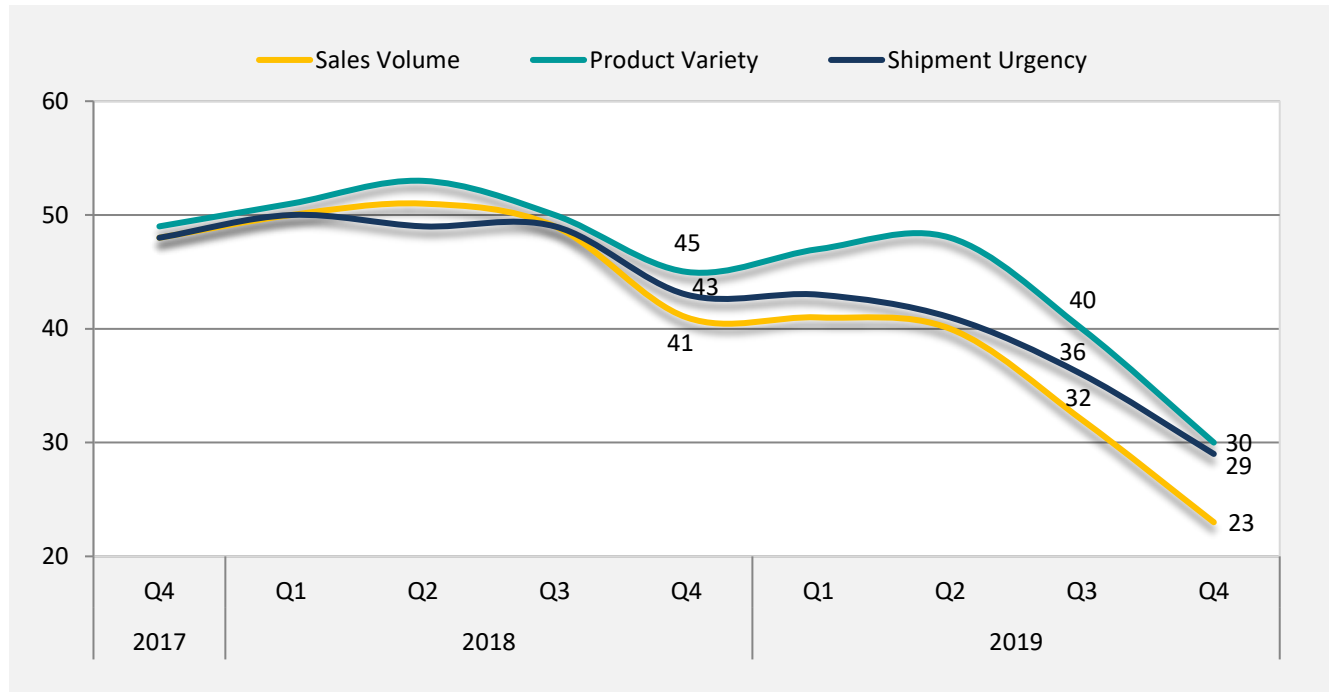
The **Air Trade** index recorded a drop of 7.7 points from last quarter to 26 points.

The **Air (Re-) Exports** and the **Air Imports** indices dropped to a record low simultaneously, recorded downturns of 6.4 and 10.1 points, to 24.8 and 28.2 points, respectively.

Regarding the outlook for Q4, 58% of respondents were deeply concerned about the ongoing trade dispute between Mainland China and the US and global economic uncertainty.

Attributes

The outlook across all three key attributes showed significant downward trend in this quarter.



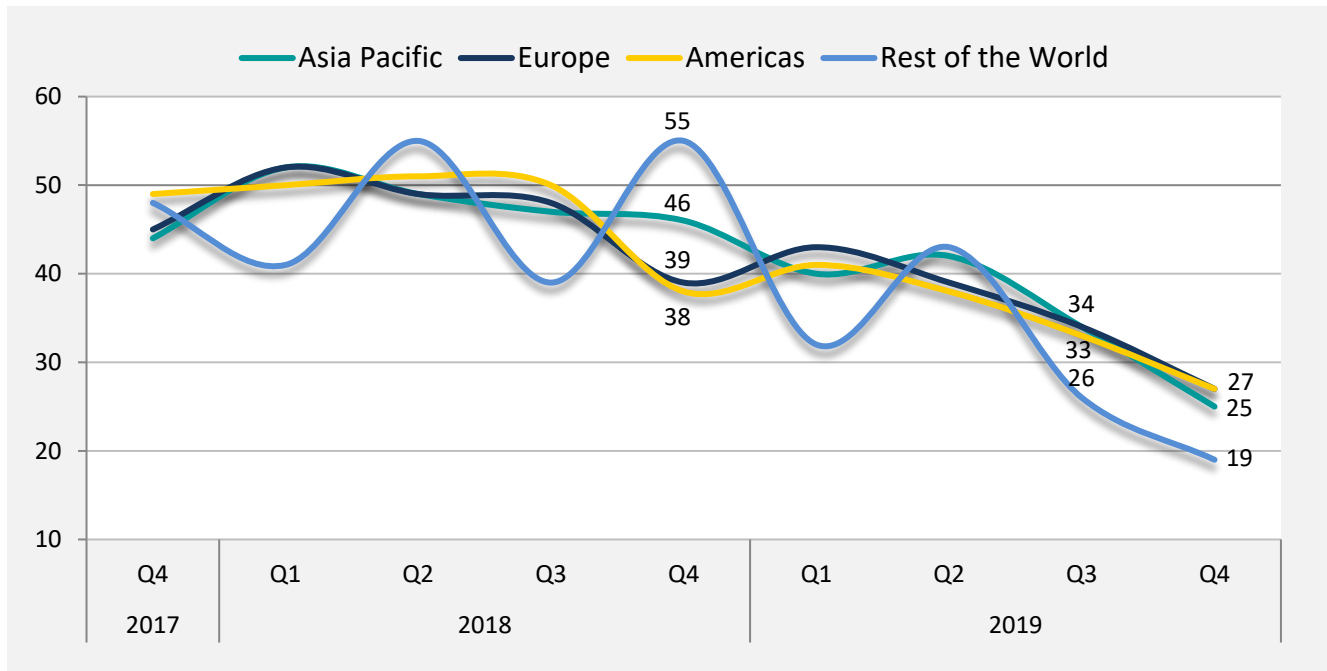
Sales Volume index dropped by 9 points this quarter, from 32 points in last quarter to 23 points this quarter.

Product Variety index fell from 40 points in Q3 to 30 points in Q4. The data showed that demand for trade in Europe and Asia Pacific has softened noticeably in this quarter when compared with last quarter.

There was also a decline in **Shipment Urgency** index, which decreased by 7 points from 36 to 29 points in this quarter, indicating that traders expected lower demand for urgent shipment services.

Markets

Air traders across all markets remained conservative outlook this quarter, particularly for exports to The Americas due to the trade dispute. On the other hand, the export outlook of Japan become more pessimistic since the increase of domestic consumption tax came into effect on 1 October 2019.



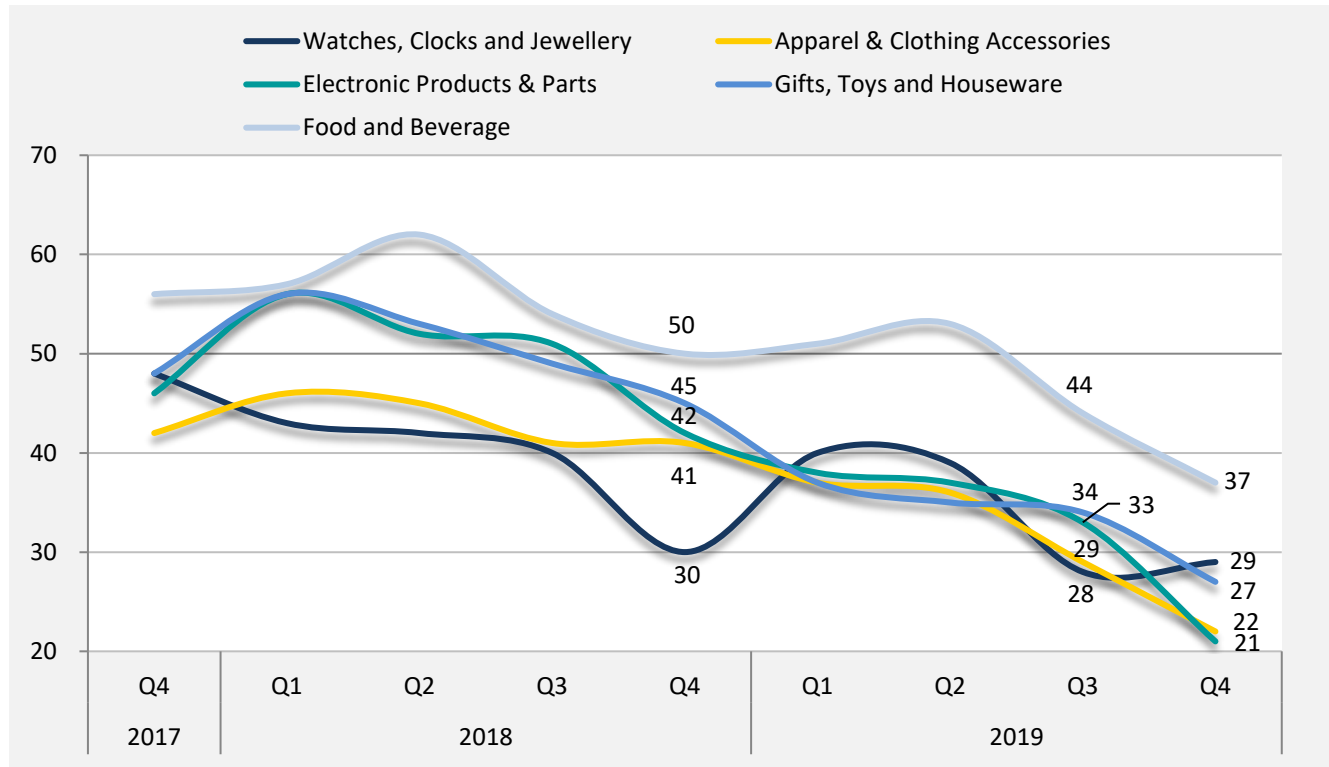
For **Asia Pacific** region, the index dropped by 9 points to 25 points, reflecting a more conservative outlook from traders in the region, particularly for the areas affected by the US's new tariffs.

Indices for the **Americas** and **Europe** followed the downward trend and both dropped to 27 points.

The **Rest of the World** index decreased by 7 points from last quarter's 26 points to 19 points this quarter, sank to a record low.

Air-Freighted Commodities

The index of Watches, Clocks & Jewellery recorded a slight increase and was the only index recorded an upward trend among all indices.

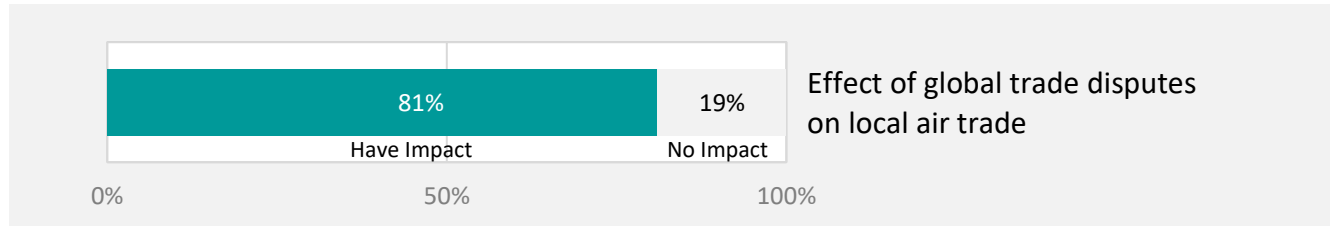


Due to weakened demand in the Americas and Asia Pacific regions, the index of **Gifts, Toys & Houseware** to fell from 34 points to 27 points this quarter. **Electronic Products & Parts** index fell by 12 points to 21 points this quarter, and **Apparel & Clothing Accessories** index dropped by 7 points to 22 points.

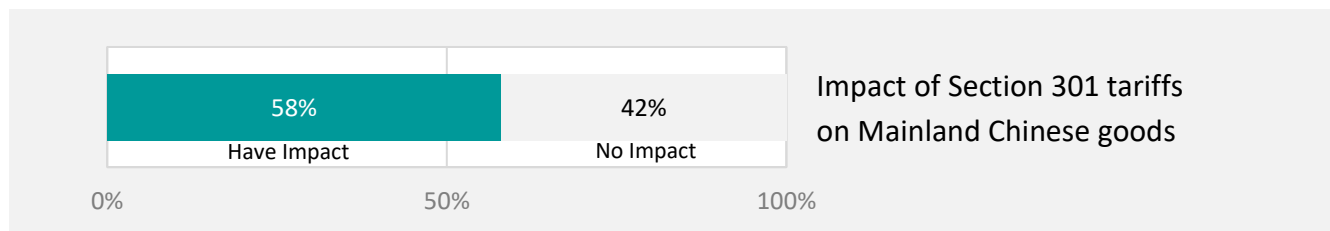
Although **Food & Beverage** index declined by 7 points to 37 points, it remained the strongest among all commodities.

Air Trade Outlook Affected by Recent Market News

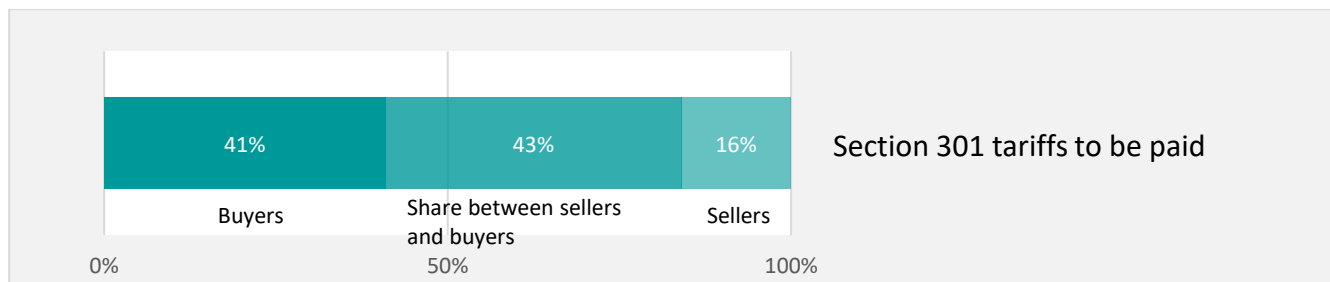
US-China trade dispute continues to affect the Air Trade outlook, as 81% of respondents felt the impact in this quarter, revealing an upward trend from last quarter's 76%.



In view of the newly imposed US tariffs on Mainland Chinese products, 81% of air traders felt that trade disputes would affect local air trade.



58% of respondents felt that their business would be directly affected by the new tax arrangement.



43% of the respondents 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.

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

Enquiry

For more details about the Index, please contact HKPC at tel. (852) 2788 5306.

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