



DHL Hong Kong Air Trade Leading Index (DTI)

2015 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.

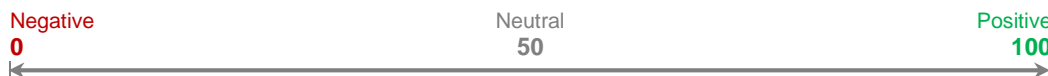
Methodology

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 of 50 or above indicates a positive outlook while a reading of 50 or below represents a negative outlook for the surveyed quarter against the same period last year.

As such, the further the reading is from 50, the more positive or negative the outlook.



Demographics

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

Respondents are Hong Kong based companies with either in- or out-bound air trade. Sectors include Watches, Clocks & Jewelry, Apparel & Clothing Accessories, Electronics Products & Parts, Gifts, Toys & Houseware, Food & Beverage and Others (including courier services and other items which do not belong to the categories listed above).

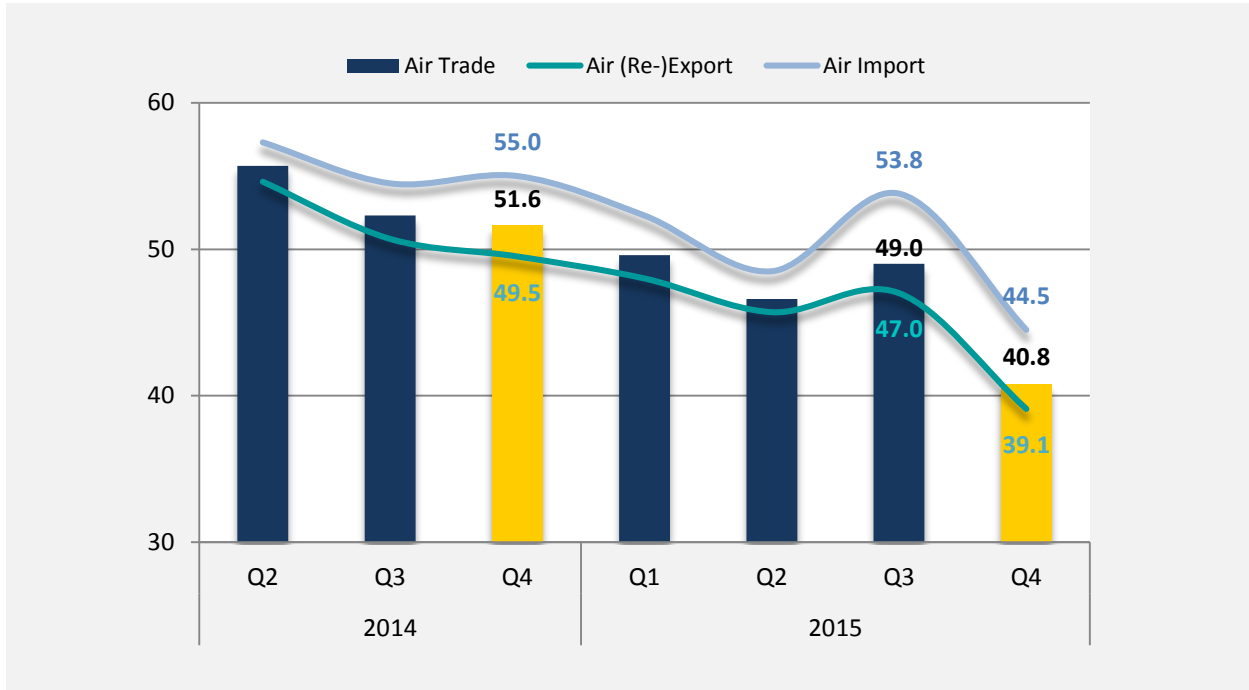
Since the first reading in March 2014, every quarter 600 samples are randomly selected from over 10,000 entries. The survey is conducted by telephone. Each of the 600 samples represents a combination of company and product type which has need of air trade. Each sample has the same weighting in calculating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

The fourth quarter 2015 survey comes after a period of uncertainty caused by the global financial market turmoil, including concern over China's economic slowdown. Air traders are becoming concerned about global economic conditions and, as such, expect overall air trade conditions to be less buoyant. Both import and export indices are at their lowest since it was launched.

- Under the influence of a downbeat outlook on global economic growth, air traders were cautiously conservative about air trade for the quarter. This led to lower ratings for different attributes, markets and commodities than in earlier quarters of the year.
- The survey also began to explore a new area – online Business to Consumer (B2C) air trade, which is growing rapidly and playing a large role in air trade. The B2C Air Trade Volume Index scored 61.3 in Q4, indicating that online retail sales remain resilient and one where traders' optimism goes against the general air of conservatism.
- Commenting on this positive development, Mr. Gordon Lo, Director of Business Management at Hong Kong Productivity Council, said, "Online business has been providing new opportunities for growth. As competition in the online market is ever-increasing, innovation and market niche are definitely the keys to success. Furthermore, compared to the traditional US, Europe, and Asia Pacific markets, demand from Rest of the World has become an attractive growth engine."

Air Trade Volume Index

After the increased confidence seen in Q3, air traders are growing significantly more cautious in their outlook for the fourth quarter. Global economic uncertainties have possibly suppressed air traders' confidence in import and export conditions.



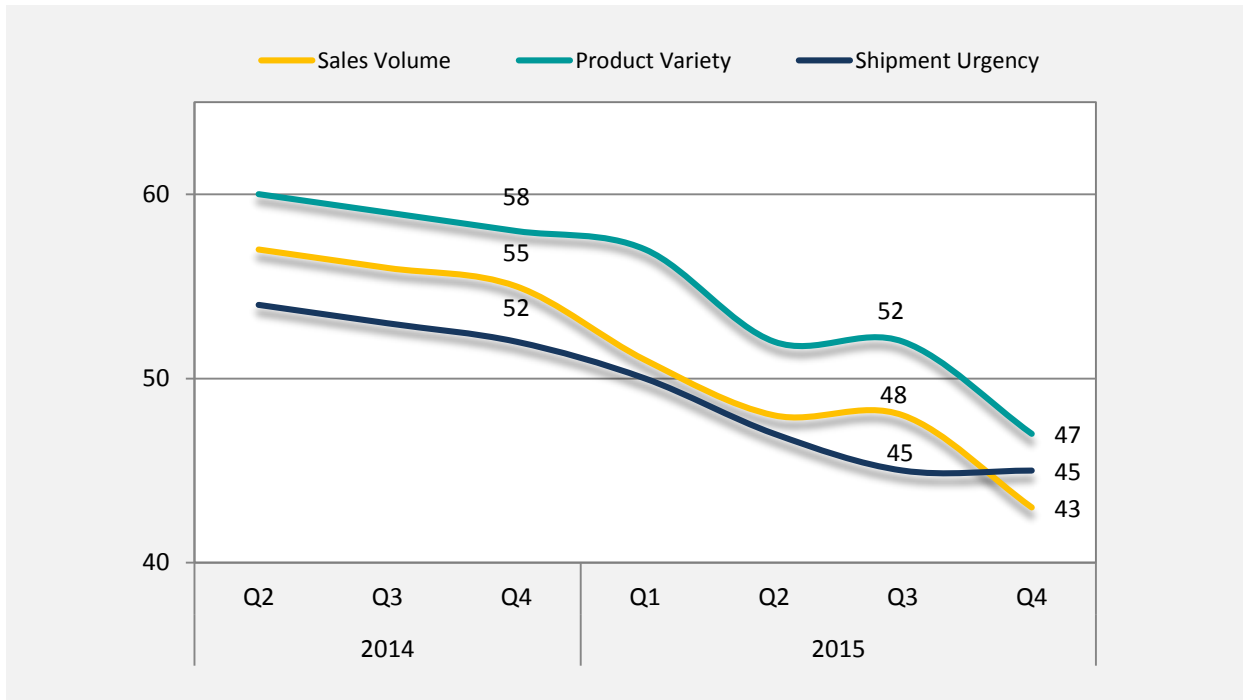
The **Overall index** for 2015 Q4 dropped from 49.0 to 40.8 between now and Q3.

The reading of **(Re-) Export Index** fell to 39.1 in the fourth quarter. Export to the Americas has suffered a notable slip in confidence.

Air traders' confidence in the air import outlook for Q4 is more moderate compared to last quarter's optimism, as the **Import Index** slid to below the 50-point neutral line at 44.5. While a general decline in confidence can be observed across markets, demand for European imports is expected to slow considerably when compared to the previous quarter.

Attributes

Air traders foresee a similar outlook for Shipment Urgency, as its score remained unchanged between the third and fourth quarters. The outlook for Sales Volume and Product Variety is, however, in line with the overall cautious view.

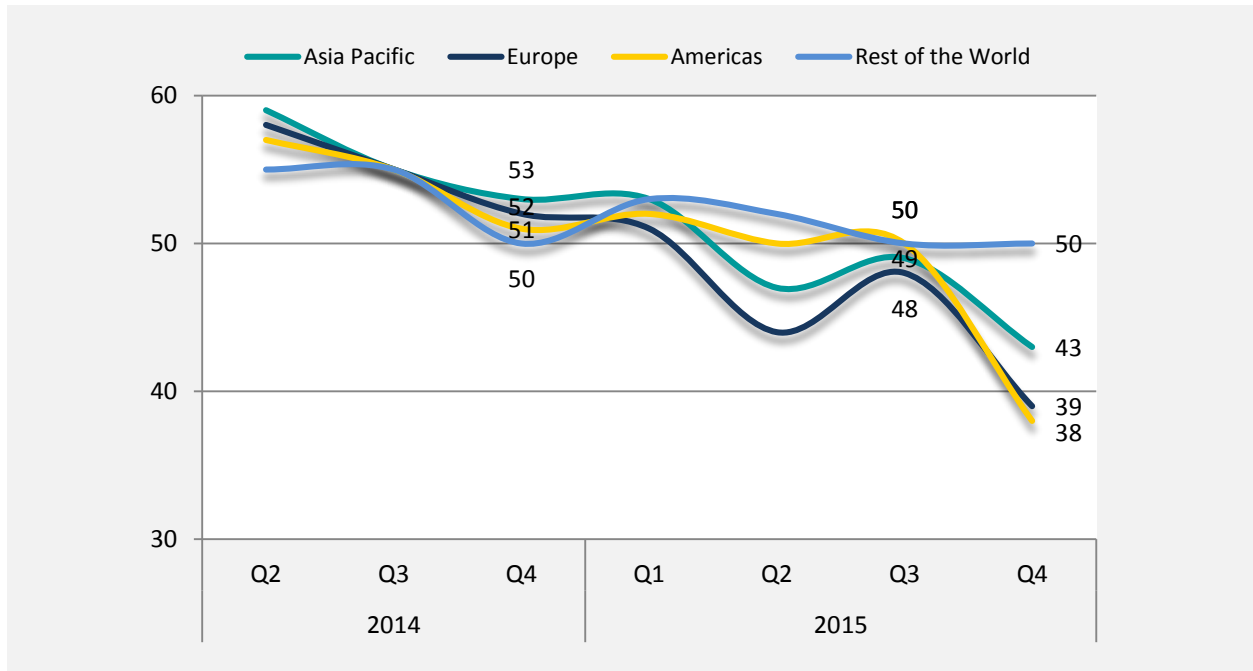


Shipment Urgency maintained an index score of 45 for Q4. Respondents indicated that the need to satisfy urgent export orders will be higher in Q4, despite the steady index score.

Both **Product Variety** and **Sales Volume** received subdued index scores of 47 and 43 respectively. Softened demand from the Americas and Europe is responsible for this restrained outlook.

Markets

Market outlook for the fourth quarter is generally more subdued than it has been. While the Rest of World maintains a steady and neutral outlook, demand from the Americas, Asia Pacific and Europe is expected to decline.



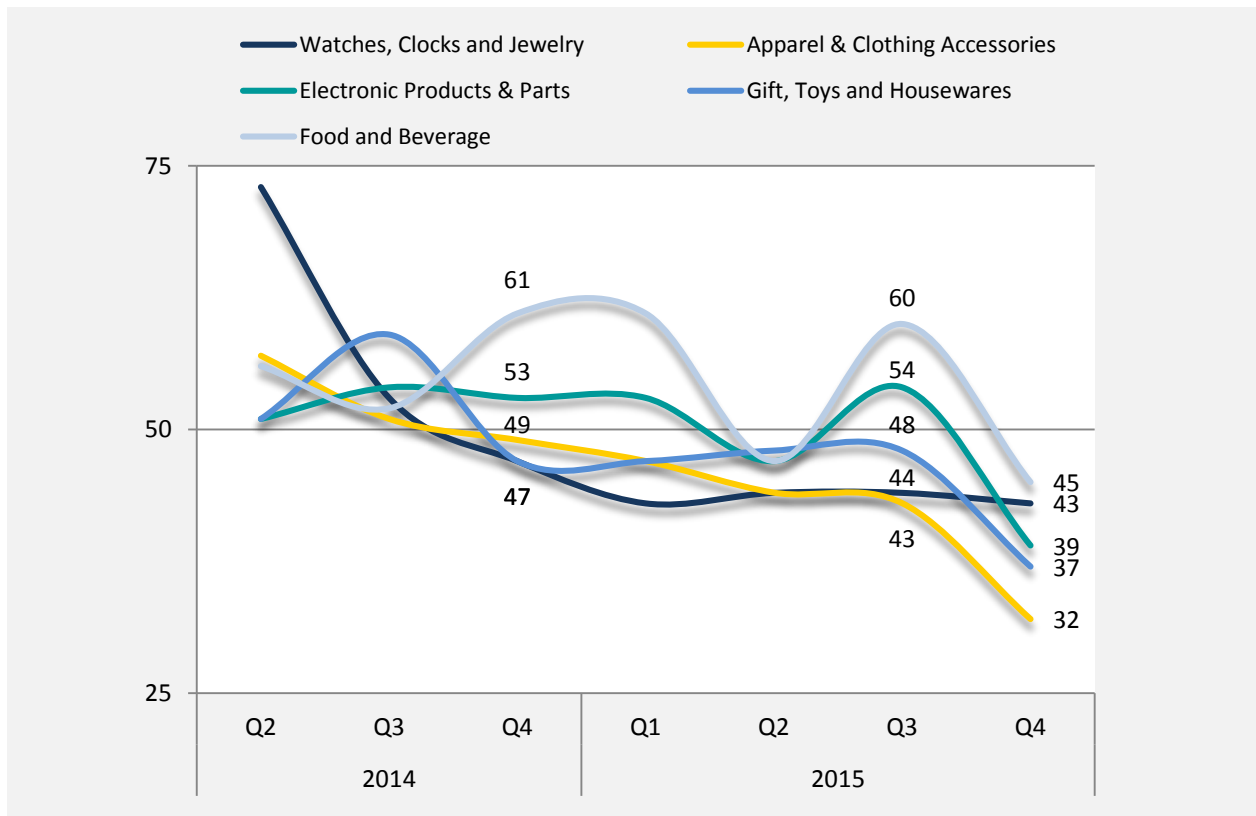
Air traders sustained a neutral outlook over market prospects for the **Rest of the World**, giving an index score of 50, which was the same as in Q3.

The forecast for imports from the **European** markets and exports to the **Americas** is less encouraging. After rising to near neutral level in Q3, indices of the two respective markets have dipped to a low of 39 and 38 points in Q4.

Trade with the **Asia Pacific** market is also expected to slow in Q4, down from 49 in Q3 to 43 points in Q4. However this is to a lesser extent compared to Western markets, which fell below 40 points.

Air-Freighted Commodities

The general trend of diminished confidence in the fourth quarter is also reflected in commodities. Apart from luxury items, the scores of all other commodities converged at lower levels after some recoveries in the previous quarter.



The level of demand for luxury goods has been at a steady, if conservative, level throughout the year. **Watches, Clocks & Jewelry** recorded an index score of 43 in the fourth quarter, which is only a very minor change from the third quarter.

After the upswing seen in Q3, **Electronic Product & Parts** decreased from 54 to 39 points in Q4. Demand from the Asia Pacific markets is unlikely to be sustained in the near-term amid the general conservatism prevalent in the region.

Air traders also foresee a change in outlook for **Food & Beverage**. Its index score has dropped to 45 points, as the positive outlook in Q3 turned to one of cautiousness in Q4.

Demand has lessened in American and European markets for **Apparel & Clothing Accessories** and **Gift, Toys & Housewares**, with their index scores falling to 32 and 37 points respectively.

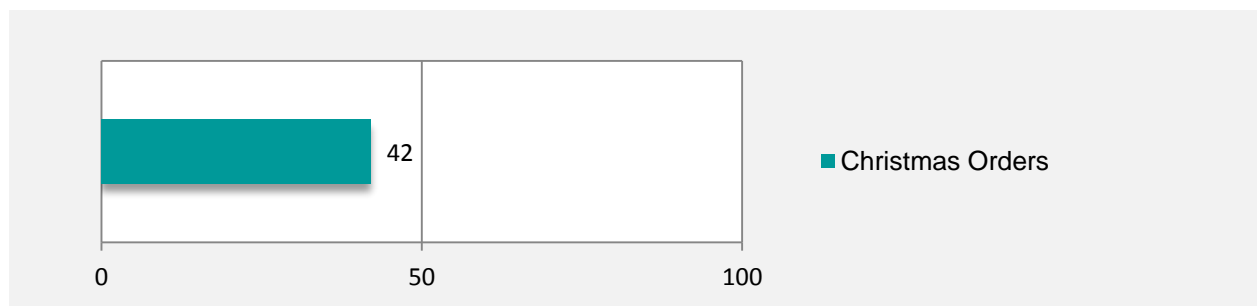
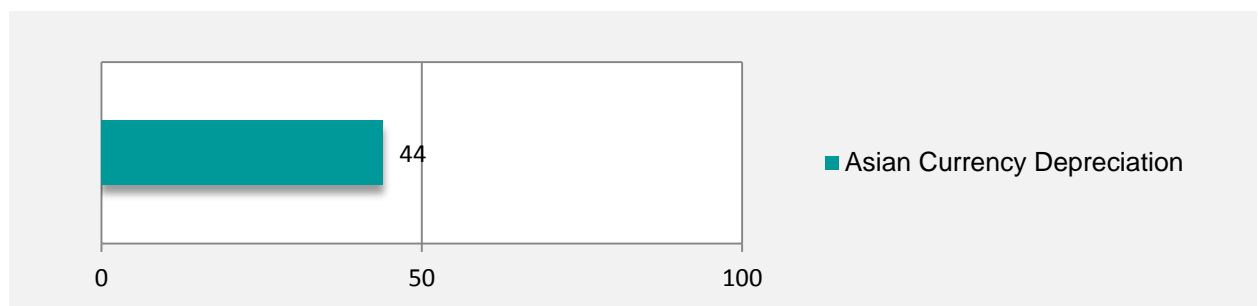
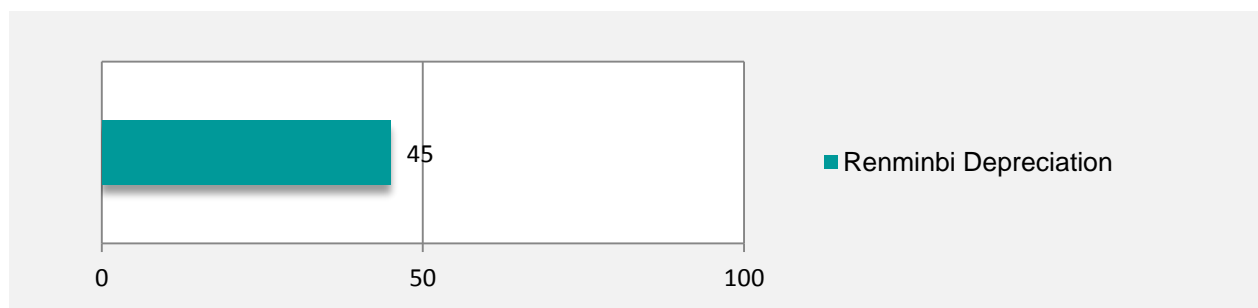
Effect of Recent Market News on Air Trade

In this quarter the report asked about the effect of the Chinese renminbi and Asian currency depreciation, as well as Christmas orders, on air exports.

While regional currency depreciation continues to overshadow air trade, respondents expect the size of this year's Christmas order to weigh more on their export outlook.

Air traders generally predict this year's Christmas export orders to be smaller than last year's.

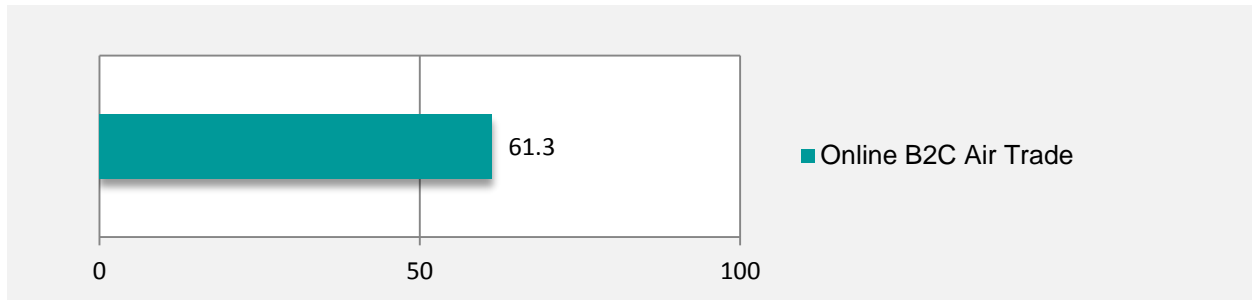
Air traders are not very encouraged by the depreciated renminbi and Asian currencies which are traditionally favorable for exports.



Online Business to Consumer (B2C) Air Trade Volume Index

As a rapidly growing market with an increasing presence in air trade, this quarter's research also includes B2C air trade in its overall outlook assessment.

The B2C Air Trade Volume Index scored 61.3 in Q4, which indicates solid optimism in online retail sales, even against the general conservatism. Over 80% of the respondents foresee their B2C air trade strengthening or at least maintaining a similar level during this quarter.



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

For more details about the Index, please contact Mr. Eric Cheung at tel. (852) 2788 6008 or email: ericcheung@hkpc.org

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