



DHL Hong Kong Air Trade Leading Index (DTI)

2017 Q1 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.

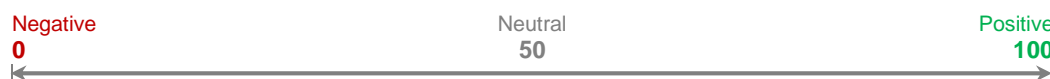
Methodology

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).

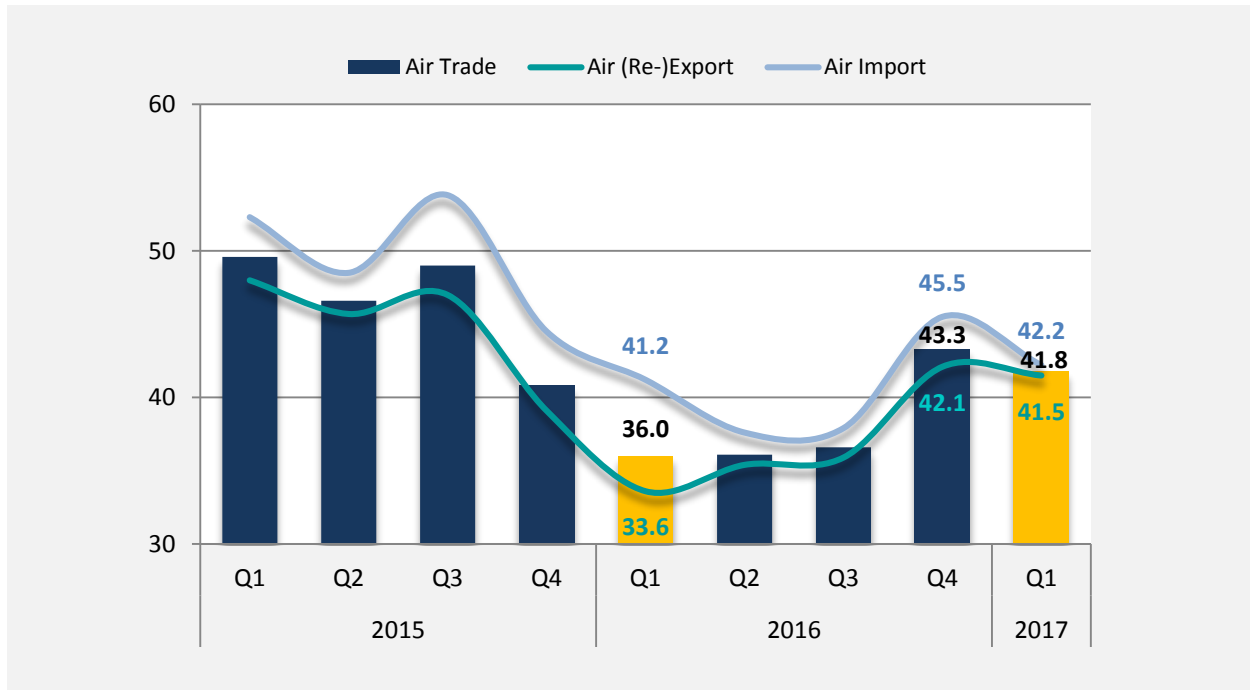
Since the first reading in March 2014, every quarter over 600 samples are randomly selected from over 10,000 entries. The survey is conducted by telephone. Each of the samples represents a combination of company and product type which has need of air trade. Each sample has the same weighting in calculating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

Donald Trump's victory in the U.S. presidential election in November 2016 surprised the market, as did his outspoken approach. As a result of Mr. Trump's unpredictable position on a range of economic and political issues, the air trade industry's market outlook is characterized by uncertainty.

- The overall DTI index reading is 41.8 for Q1 2017. Although this represents a marginal drop of 1.5 points compared with Q4 2016, this index score is the second highest across the previous five consecutive quarters.
- For the period under review, the survey featured specific questions to gauge air traders' views on "Trumponomics" – the anticipated economic policies of Mr. Trump. Aspects of this include monetary policies, mega regional trade deals, and policies towards China. Accordingly, the majority of respondents reported that they have yet to see any impact of "Trumponomics" on their businesses. Notwithstanding this, air traders who do think there will be an impact, whether positive or negative, are concerned with two main issues: the influence of the Federal Reserve Bank's policies – including the pace of its interest rate hike – and Mr. Trump's policies toward China.
- In light of these observations, the slightly lower index score of 41.8 in Q1 2017 is attributable to air imports as sales volumes are expected to be lower and demand for luxury goods and apparel somewhat subdued. Nevertheless, as the traditional air trade business peaks before Chinese New Year and the Easter holidays draw near, the responses for Q1 2017 reflect a more confident outlook than for the same period in 2016.
- Mr. Gordon Lo, Director (Business Management) of the Hong Kong Productivity Council, said, "The market is still cautious about the outlook. Enterprises can make use of big data analytics to formulate future development plans and innovative marketing strategies. By analysing big data, such as company business data, market intelligence, and social media information, enterprises can understand the impact of external changes on turnover. Accordingly, they can deploy flexible and appropriate promotions to address the needs of customers in different situations."

Air Trade Volume Index

Despite uncertain global economic conditions, air trade maintained a steady position compared with the last quarter and has made considerable progress since the same period in 2016, suggesting continued confidence.



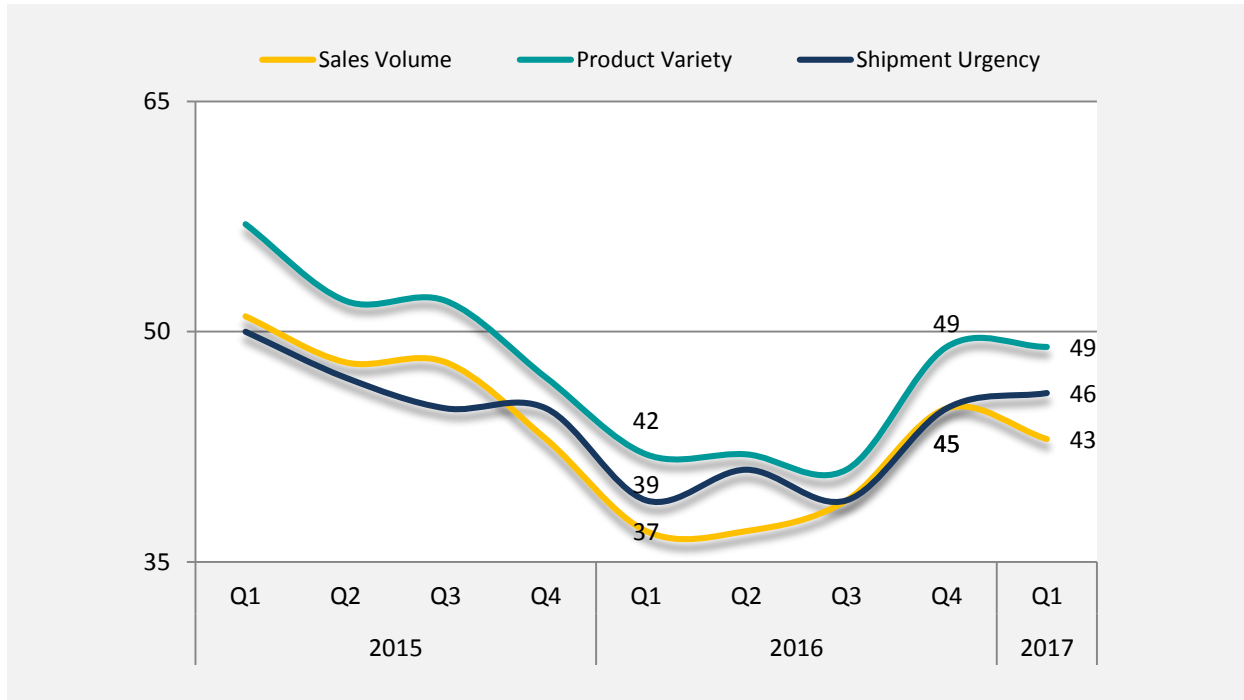
In Q1 2017, **Overall Air Trade** lowered marginally to 41.8, down from 43.3, representing a 1.5-point drop compared with Q4 2016. Nevertheless, this is still substantially higher than Q1 2016, when the index score stood at 36.

During the period under review, demand for **Air (Re-) Exports** in Asia Pacific was generally sustained. However, demand in the Americas eased slightly, which is reflected in the very slight drop of 0.6 points, from 42.1 in Q4 2016 to 41.5 in Q1 2017.

Another dip in Q1 2017 came in the form of **Air Imports**, which had an index score of 42.2 compared with 45.5 in Q4 2016, representing a swing of 3.3 points. This is mainly due to subdued sales volumes, especially orders from the European markets.

Attributes

Respondents posited a broadly steady outlook for key attributes, with shipment urgency showing further improvement.



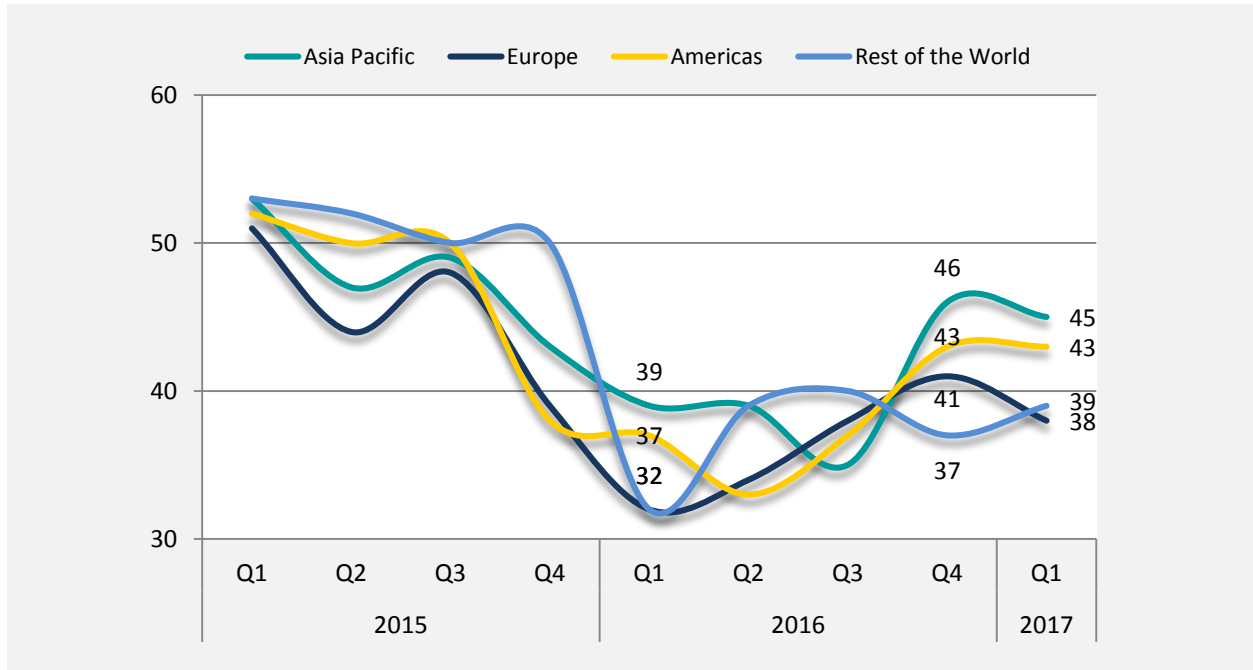
In Q1 2017, the index score for **Product Variety** remained unchanged from 49 in Q4 2016, which represented a 7-point climb from the same period a year ago. This is attributable to increased market demand from the Americas and Asia Pacific.

Sales Volume dipped slightly by 2 points to 43, compared with 45 in Q4 2016, due to a marginal decrease in demand in Europe.

Air traders remained optimistic in their outlook for **Shipment Urgency**, which was up 1 point from 45 in Q4 2016 to 46 in Q1 2017. Respondents felt that demand for urgent orders will continue to improve across all markets, except Asia Pacific.

Markets

The overall picture for global markets was one of marginal change compared with the last quarter, and markets in the Americas are set to maintain a steady outlook.



In the **Americas**, the index score in Q1 2017 remained unchanged at 43 compared with the previous quarter. There is continued improvement in imports, but this is tempered by a downturn in exports, resulting in the steady index score across the two quarters.

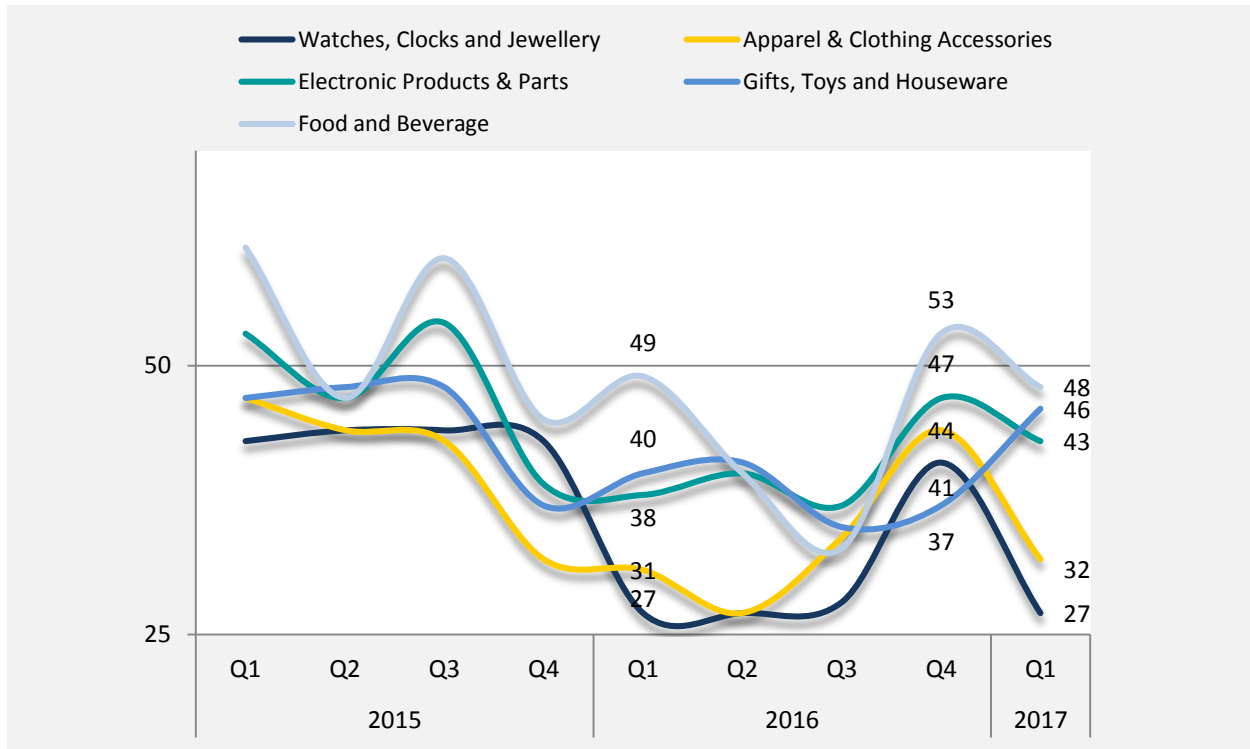
The index score for the **Asia Pacific** markets slipped by a single point from 46 in Q4 2016 to 45 in Q1 2017. Although prospects for Japan have improved, these have been offset by a more conservative outlook in China.

A further drop was seen in **Europe** where the index score for the quarter was down by 3 points from 41 in Q4 2016 to 38 in Q1 2017. This can be explained by a general fall in demand for imports to the region. Also, sales volume and product variety were lower than the last quarter, further contributing to air traders' more conservative outlook.

Nevertheless, the **Rest of the World** was given an index score of 39, 2 points up from 37 in Q4 2016, suggesting growing confidence in these diverse markets.

Air-Freighted Commodities

The outlook was somewhat subdued after the pre-Christmas peak last quarter, and demand for several segments has lessened. However, there is a general improvement compared with the same period last year.



The index score for **Apparel & Clothing Accessories** dropped to 32, compared with 44 in Q4 2016. This is caused by subdued demand in Asia Pacific and Europe, although the score is slightly higher than Q1 2016. Similarly, the **Electronic Products & Parts** fell from a score of 47 in Q4 2016 to 43 in Q1 2017, largely due to a slackening of demand in the Americas and Asia Pacific, although this is still higher than the corresponding period at the beginning of last year.

Demand for **Food & Beverage** dropped in Europe, undergoing a 5-point slide from 53 in Q4 2016 to 48 in Q1 2017. Nevertheless, it received the highest score among surveyed commodities this quarter.

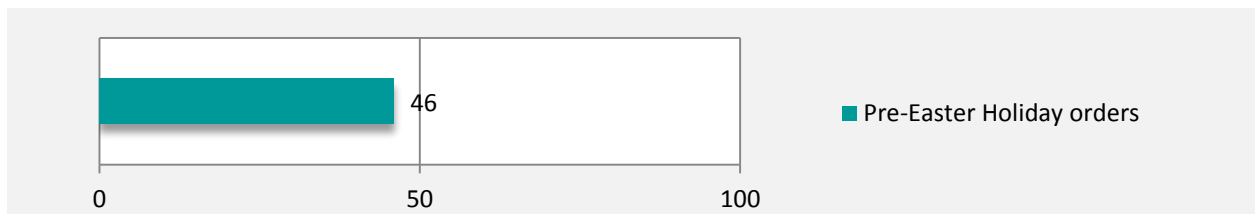
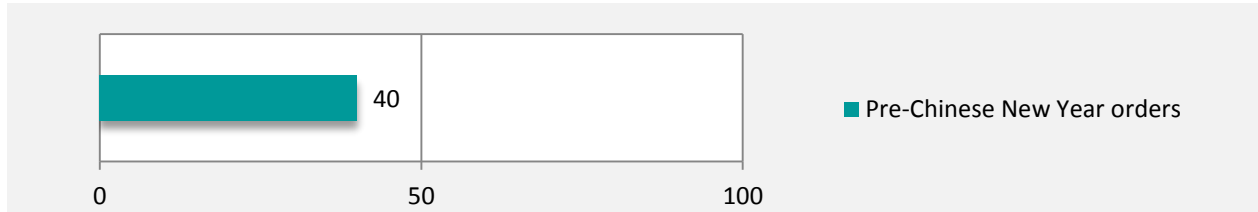
This quarter saw greater confidence in **Gifts, Toys & Houseware** thanks to better prospects in the Asia Pacific markets. The index score for this segment rose by 9 points to 46 compared with last quarter's score of 37.

For **Watches, Clocks & Jewellery** the index score fell to 27 in Q1 2017, largely due to weakened demand in Asia Pacific and Europe.

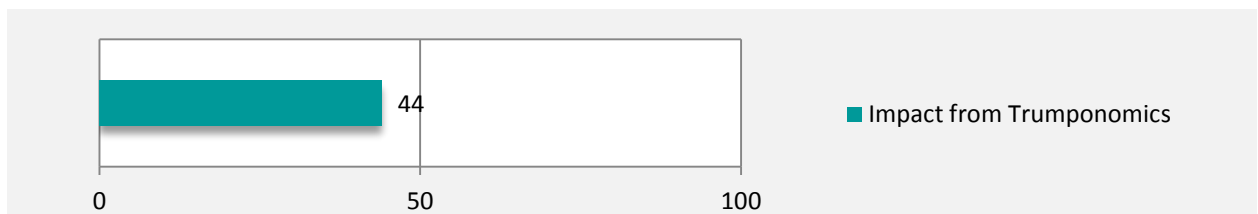
Effect of Recent Market News on Air Trade

Featured topics for this quarter’s survey included the periods prior to Chinese New Year and Easter holiday, plus the anticipated impact of Mr. Trump’s nascent presidency.

The survey has found that the outlook for pre-holiday orders in Q1 2017 is better than the corresponding period in 2016. The Chinese New Year and Easter holidays both scored higher at 40 and 46 respectively, reflecting greater confidence.



The anticipated effect of Mr. Trump’s presidency is scored at 44, with 77% of respondents indicating that they expect no immediate shockwaves as a result of his election. Of the remaining respondents, only 6% anticipate a positive impact, while 17% think the new president will affect air trade negatively. Regardless of whether the impact is positive or negative, the majority of these air traders were concerned about Mr. Trump’s potential influence over the Federal Reserve Bank’s policies and the pace of its interest rate hike, followed by his policies towards China.



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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