



DHL Hong Kong Air Trade Leading Index (DTI)

2020 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 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\$37bn 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.



¹ Key Statistics on Business Performance and Operating Characteristics of the Transportation, Storage and Courier Services Sector in 2018, 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 that 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

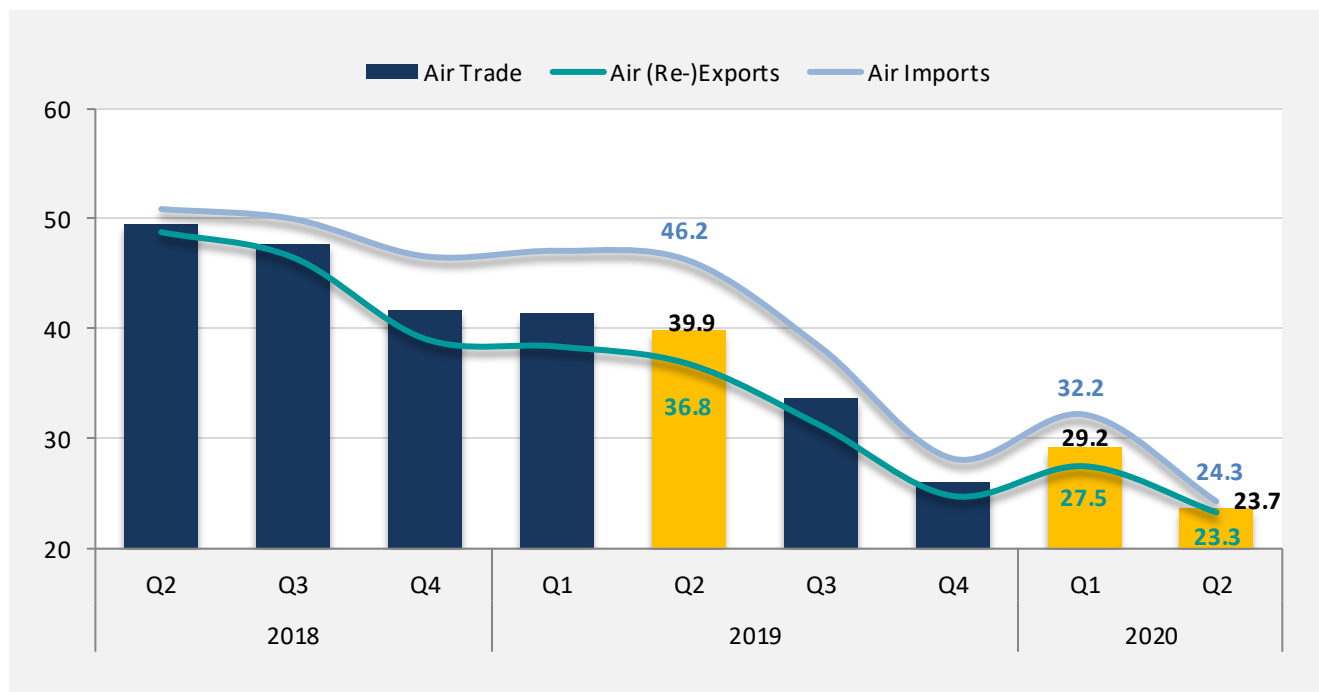
This quarter's survey was conducted in early to mid-March 2020, after the COVID-19 moving its epicenter from Mainland China to Europe. As a result, air traders' outlook on the industry remained cautious, with the index dropping to 23.7 points - lowest since the launch of the report in 2014.

- Air Trade outlook for the quarter fell by 5.5 points to 23.7. Both the indices for Air Imports and Air (Re-) Exports recorded a downward trend, reading at 24.3 points and 23.3 points respectively.
- The survey took place when World Health Organization declared COVID-19 as a pandemic and with few reported infection cases in the US. Air Trade indices dropped in all markets, except Americas, showing air traders then were relatively optimistic towards the America market over other regions.
- The survey for this quarter also assessed the impact of the COVID-19 outbreak on the respondents' business during February 2020. Here, 68% of them reported a loss when compared with the same period last year, with only 10% making a profit.
- With China lowering the tariffs on US-made goods in February as part of the progressing trade deal, 26% of the respondents viewed this as a positive development to their businesses.

Mr Edmond Lai, Chief Digital Officer of the Hong Kong Productivity Council (HKPC), shared, "Air traders are currently facing the adverse economies and operational difficulties from the COVID-19 outbreak, despite signs of improvement in China-US trade relations during the survey period for this quarter. Already, 68% of them are running at a loss in February, with worsening situation expected in the months that follow as the pandemic engulfs two key export markets - North America and Europe. In this challenging time, HKPC pledges to partner with local businesses to weather the storm, offering assistance to ease their immediate burden, and for them to transit with the most appropriate operating model after the pandemic."

Air Trade Volume Index

Reversing the brief upward trend in the last quarter, all key indicators of the Air Trade Index in the 2020 Q2 survey showed a subsiding movement.



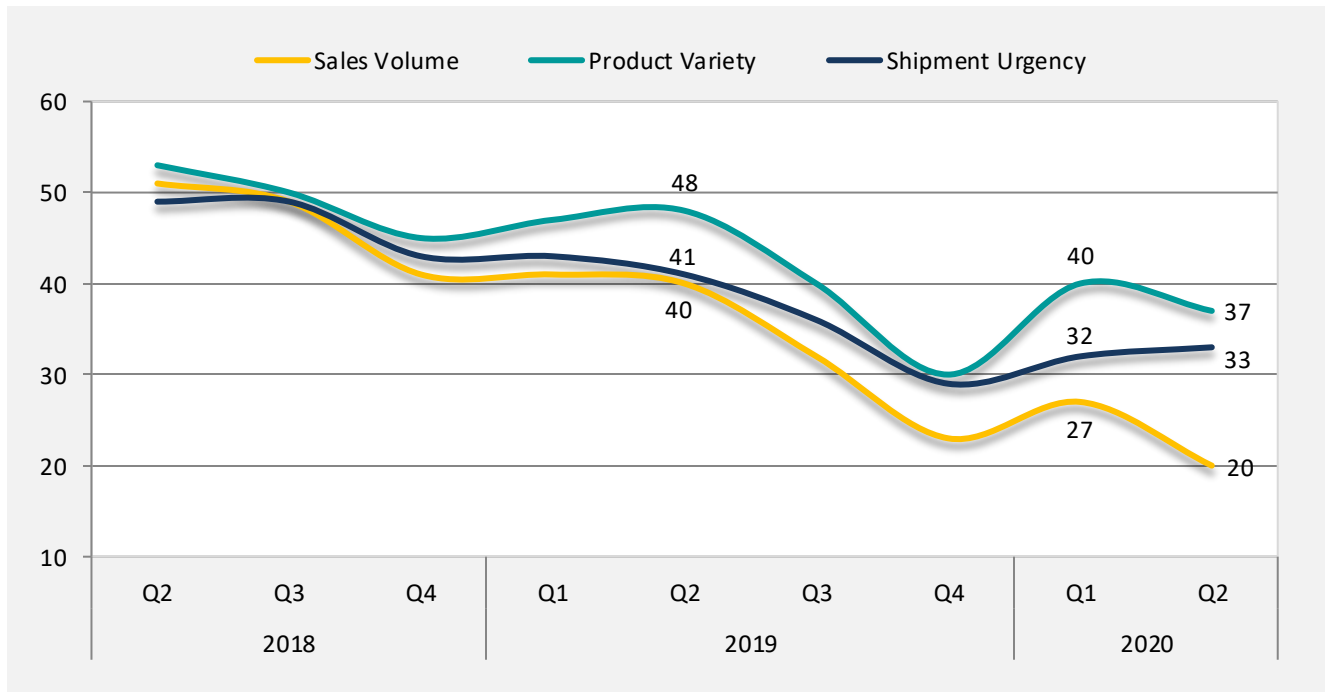
The **Air Trade** index dropped 5.5 points from last quarter's 29.2 points to 23.7 points.

The **Air (Re-) Exports** index fell 4.2 points to 23.3 points, mainly due to falling demand in most markets, particularly Mainland China.

The **Air Imports** index plunged 7.9 points to 24.3 points, reflecting a sharp decline in trade demand in Europe and Japan.

Attributes

Both Sales Volume and Product Variety were affected due to weakened demand under the COVID-19 outbreak while Shipment Urgency revealed an anticipation of increase in urgent orders after production resumption in Mainland China.



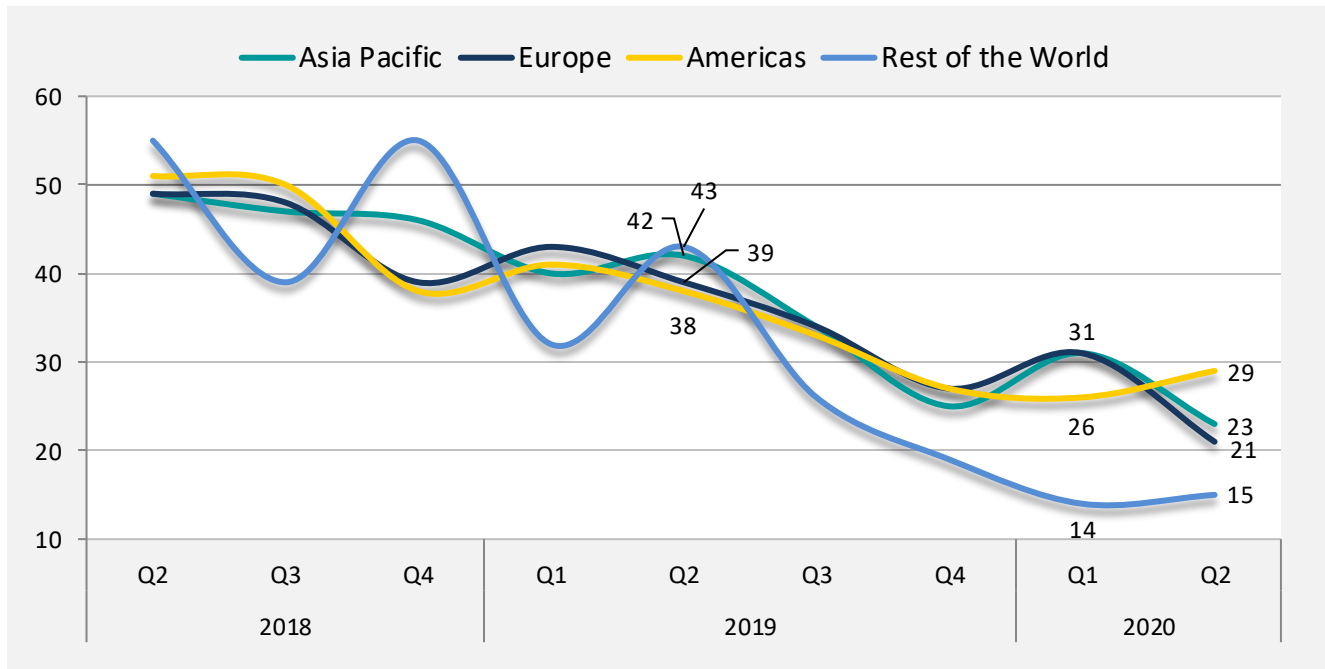
The **Sales Volume** index fell by 7 points to 20 points due to the concerns of a full resumption of work in Mainland China after the production slowdown in Mainland China under the extended Chinese New Year holiday.

The **Product Variety** index dropped 3 points to 37 points. This is due to a softening demand from Mainland China and Asia Pacific.

The **Shipment Urgency** index rose slightly by 1 point to 33 points, showing an expectation of increase in demand on rush shipment service.

Markets

Amid COVID-19 pandemic, air traders held pessimistic view towards trading in all markets, except Americas market, with positive news on China-US trade and with few infected COVID-19 cases in Americas during the survey period.



The **Americas** index increased 3 points to 29 points, as the impact of the COVID-19 outbreak on the region was yet to be reflected during the survey period.

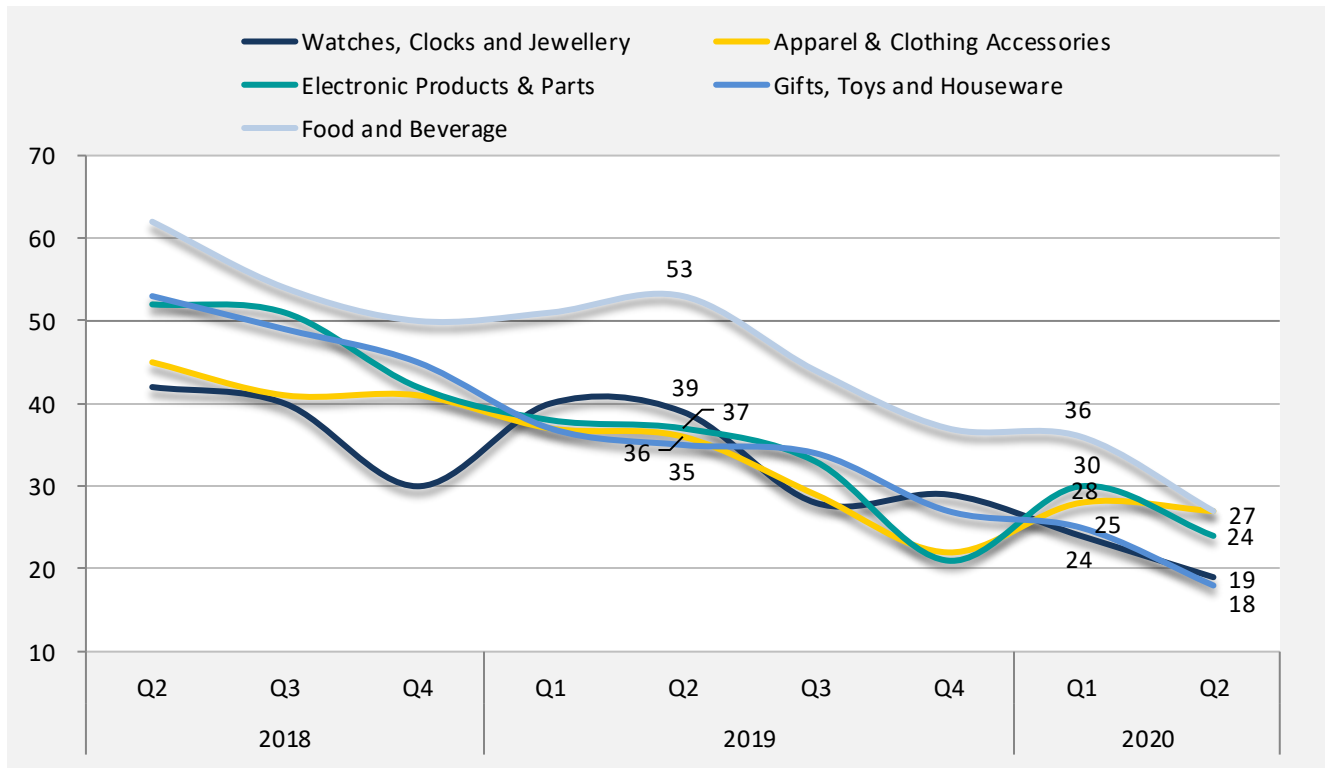
The **Asia Pacific** index dropped 8 points to 23 points, as COVID-19 had been affecting trades in the region since late January.

The **Europe** index dropped 10 points to 21 points, as COVID-19 outbreak started to spread in the region from early March.

The **Rest of the World** index slightly increased 1 point to 15 points.

Air-Freighted Commodities

Food & Beverage and Apparel & Clothing Accessories indexes were the strongest among all commodities, having had the biggest and smallest drop in this quarter respectively.



The **Watches, Clocks and Jewellery** index dropped 5 points to 19 points due to the weakened demand from China.

The **Apparel & Clothing Accessories** index dropped 1 point to 27 points, which was 5 points higher than the reading in 2019 Q4.

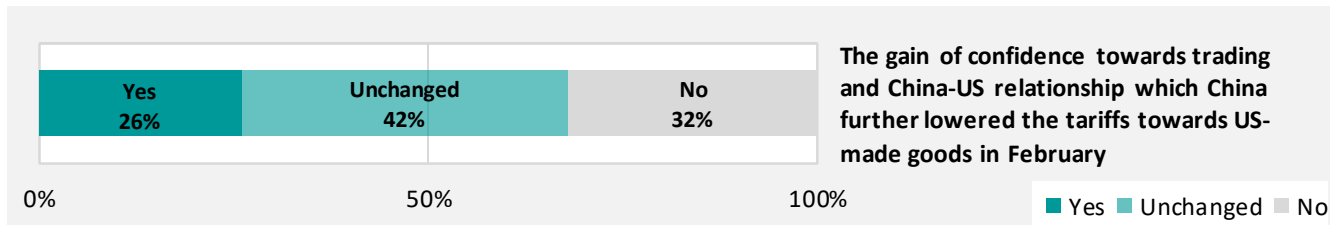
The **Electronic Products & Parts** index dropped 6 points to 24 points.

The **Gifts, Toys and Houseware** index dropped 7 points to 18 points.

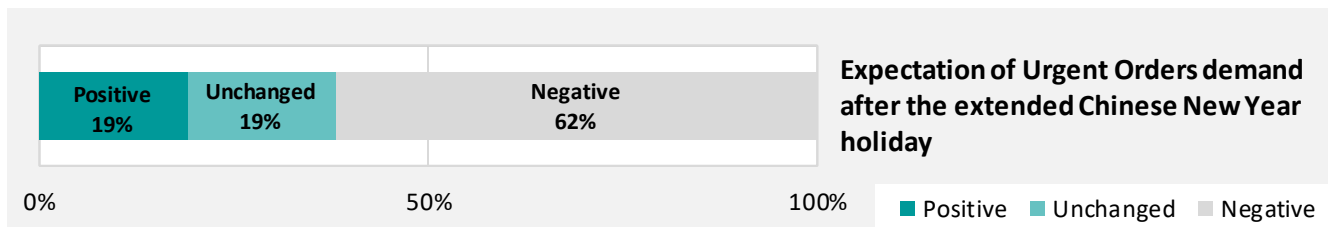
The **Food and Beverage** index dropped 9 points to 27 points, showing a significant decline that brought it closer to the level of other commodities.

Air Trade Outlook Affected by Recent Market News

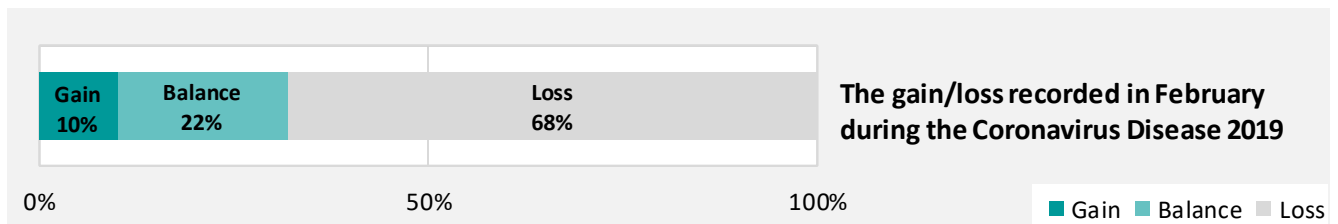
Although the industry generally carried a more positive outlook following the signing of the China-US trade agreement phase one in January 2020, the COVID-19 pandemic had stirred uncertainties across countries.



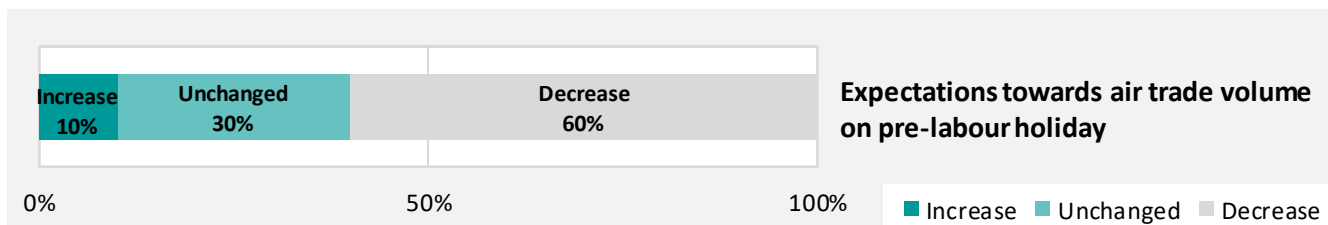
After the signing of the China-US trade deal, Mainland China further lowered the tariffs toward US-made goods in February. 26% of respondents expressed higher confidence towards the positive trade relationship between the two countries.



19% of respondents envisaged high amount of urgent order after China's gradual work resumption from the extended Chinese New Year holiday.



68% of respondents reported a loss in February, as compared with the same period last year; whereas 10% reflected that a profit was recorded.



Regarding the traditional peak before the Labour Day holiday, 60% of respondents foresee a softening demand in air trade; whereas only 10% of respondents are expecting growth.

About Hong Kong Productivity Council

The Hong Kong Productivity Council (HKPC) is a multi-disciplinary organisation established by statute in 1967, to promote productivity excellence through integrated advanced technologies and innovative service offerings to support Hong Kong enterprises. HKPC is the champion and expert in facilitating Hong Kong's reindustrialisation empowered by i4.0 and e4.0 – focusing on R&D, IoT, big data analytics, AI and Robotic technology development, digital manufacturing, etc., to help enterprises and industries upgrade their business performance, lower operating costs, increase productivity and enhance competitiveness.

The Council is a trusted partner with comprehensive innovative solutions for Hong Kong industries and enterprises, enabling them to achieve resources and productivity utilisation, effectiveness and cost reduction, and enhanced competitiveness in both local and international marketplace. It offers SMEs and startups immediate and timely assistance in coping with the ever-changing business environment, accompanying them on their innovation and transformation journey.

In addition, HKPC partners and collaborates with local industries and enterprises to develop applied technology solutions for value creation. It also benefits a variety of sectors through product innovation and technology transfer, with commercialisation of multiple market-driven patents and technologies, bringing enormous opportunities abound for licensing and technology transfer, both locally and internationally.

For more information, please visit HKPC's website: www.hkpc.org.

Enquiry

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

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