



DHL Hong Kong Air Trade Leading Index (DTI)

2020 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 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.

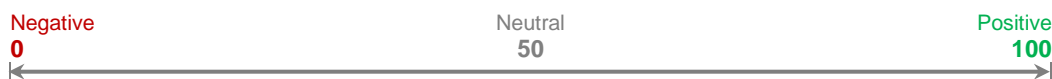
Methodology

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

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

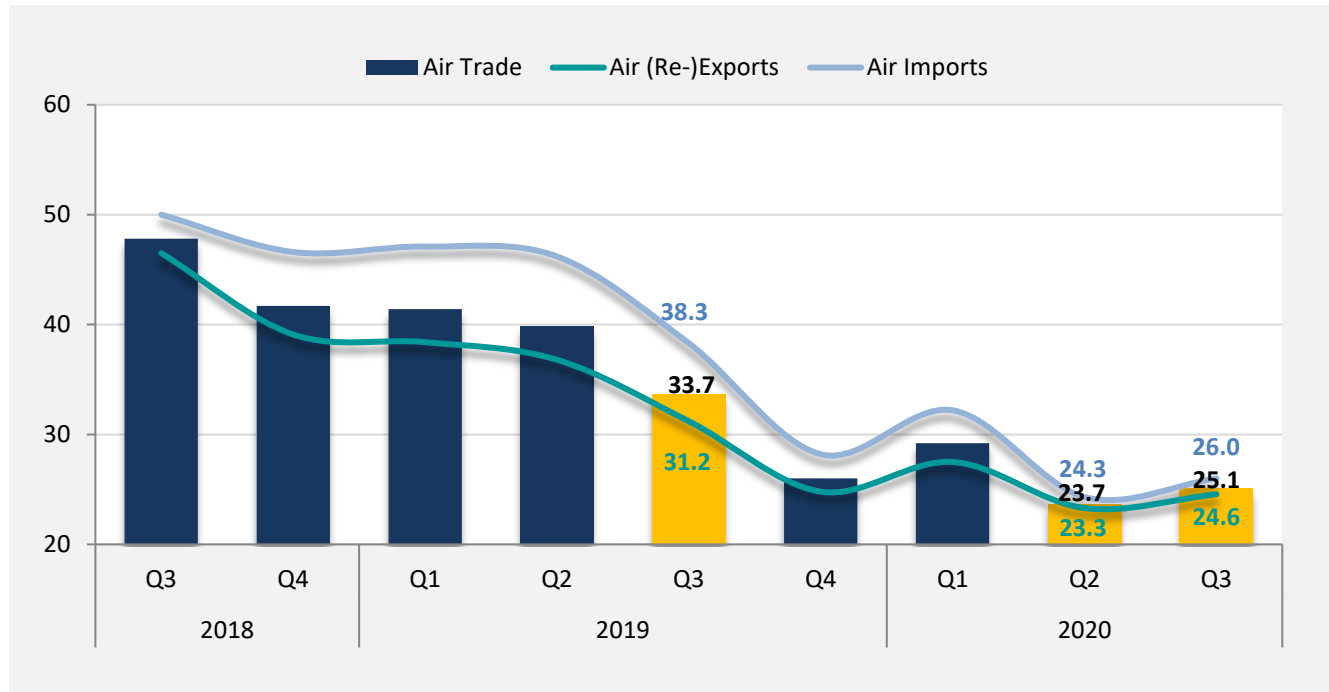
According to the phone interviews conducted at early June, many markets are still carrying out different levels of lockdown, Air Traders expected trading in Q3 to be maintained at similar level as Q2.

- Since COVID-19 became a global pandemic, 60% of Air Traders reported loss with 58% of them reflecting their operation fare worse than the previous quarter.
- As many markets are still implementing social-distancing policy, brick & mortar stores have remained close. Falling consumption demand continues to impose pressure on Air Exporters.
- Due to reduction in passenger flights leading to continuous tightness in air freight capacity, market tightness has led to higher Air Freight costs, about half of the Air traders have opted to let end customers absorb most of the additional cost.
- With crisis also comes opportunity. Over one-third of the respondents expected growth in online retail business, especially in the European and Asia Pacific markets, with 60% of them expecting the current momentum to continue.

Mr Edmond Lai, Chief Digital Officer of the Hong Kong Productivity Council (HKPC), shared, “Despite a minor rebound in air trade outlook for Q3, it is still premature to suggest a full-scale recovery to be just around the corner. The air freight market has remained sluggish as the COVID-19 pandemic continues to contract physical consumption in some of the air traders’ major markets. Also, the re-escalation of China-US tensions is fuelling the uncertainties. To address the situation, more local air traders are using various distance business solutions to continue their business and service with some reporting growth in online retail business. Amid this difficult period, HKPC is committed to offer prompt and timely support to local enterprises to overcome adversity and gear themselves up for new business opportunities.”

Air Trade Volume Index

In 2020 Q3 survey, the index increased slightly from previous quarter.



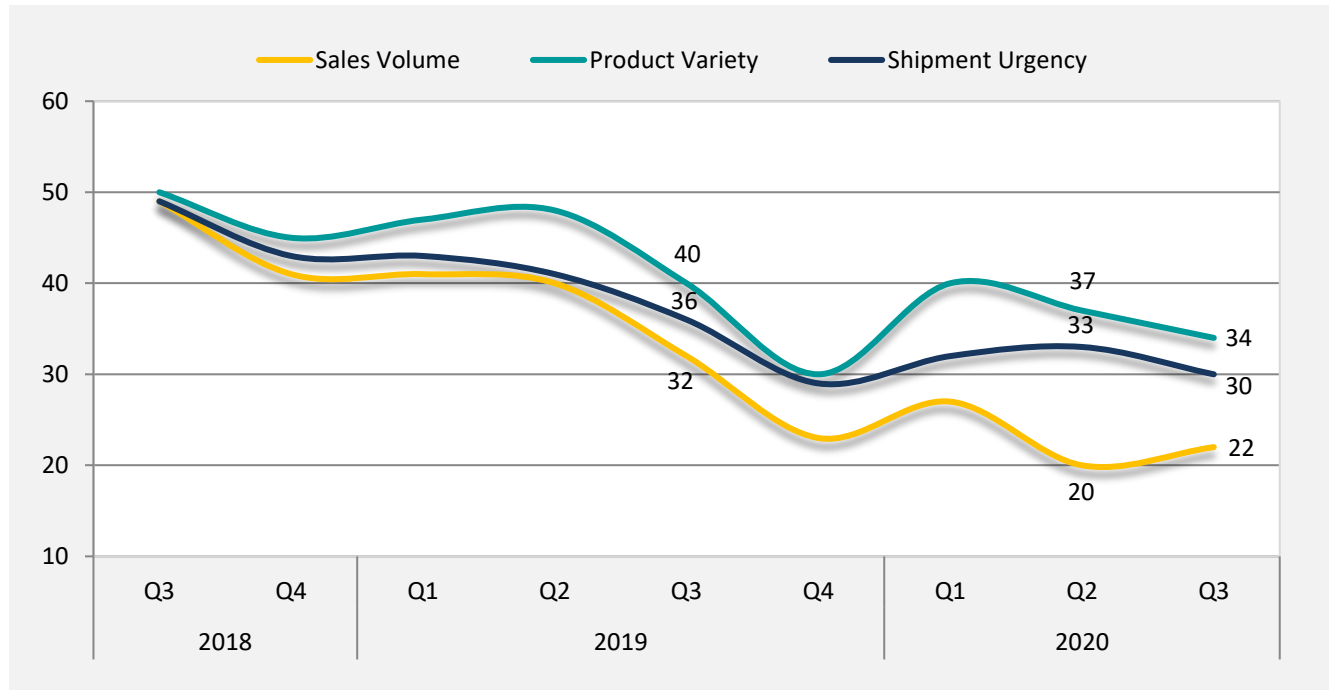
The overall **Air Trade** index for Q3 went up 1.4 points from the previous quarter of 23.7 points to 25.1 points.

The **Air (Re-) Exports** index rose 1.3 points to 24.6 points, with demand from the European market the greatest.

The **Air Imports** index also increased 1.7 points to 26 points. Most of the markets rose with Japan posting the biggest jump.

Attributes

Both Product Variety and Shipment Urgency dropped due to a lower demand under COVID-19 outbreak.



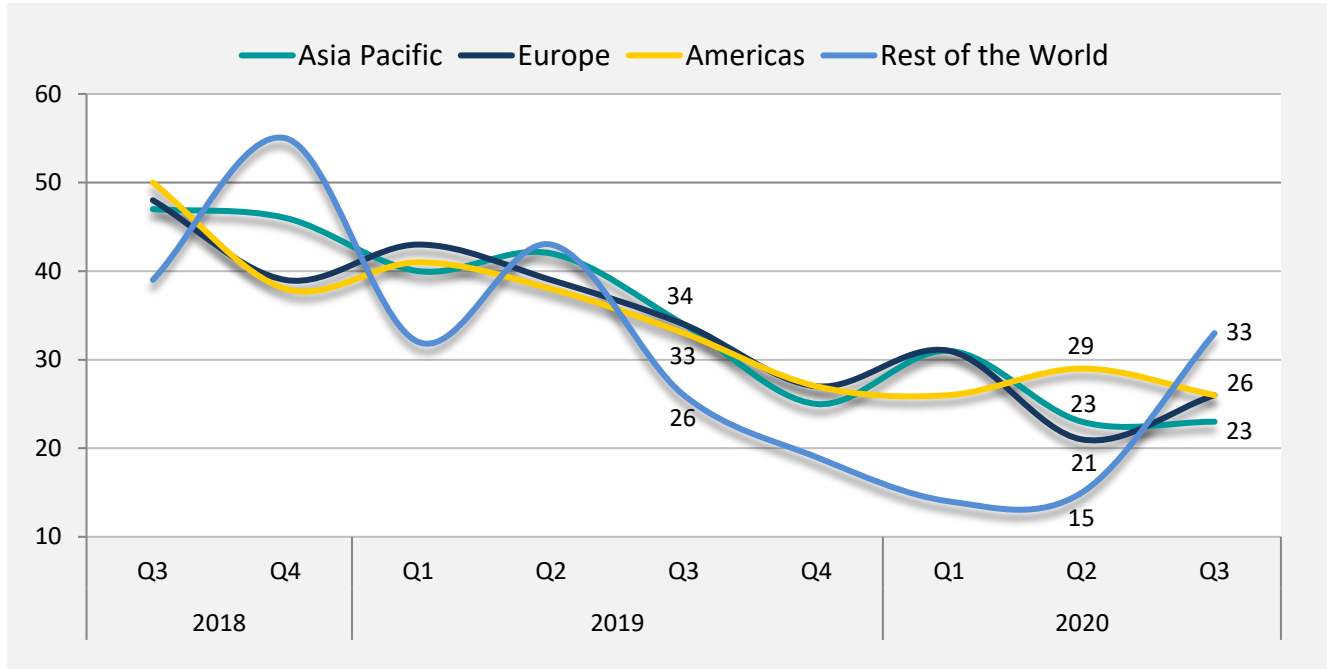
The **Sales Volume** index rose 2 points to 22 points as Air Traders expected the volume of both air exports and air imports will be higher.

The **Product Variety** index fell 3 points to 34 points, mainly dragged down by falling product variety of air exports, even though product of air imports remain unchanged.

The **Shipment Urgency** index dropped 3 points to 30 points due to decline in the demand of both air exports and air imports.

Markets

The overall market was affected by COVID-19. Asia Pacific, Europe and Americas maintained below 30.



The **Asia Pacific** index remained at 23 as decline in exports was offset by growth in imports.

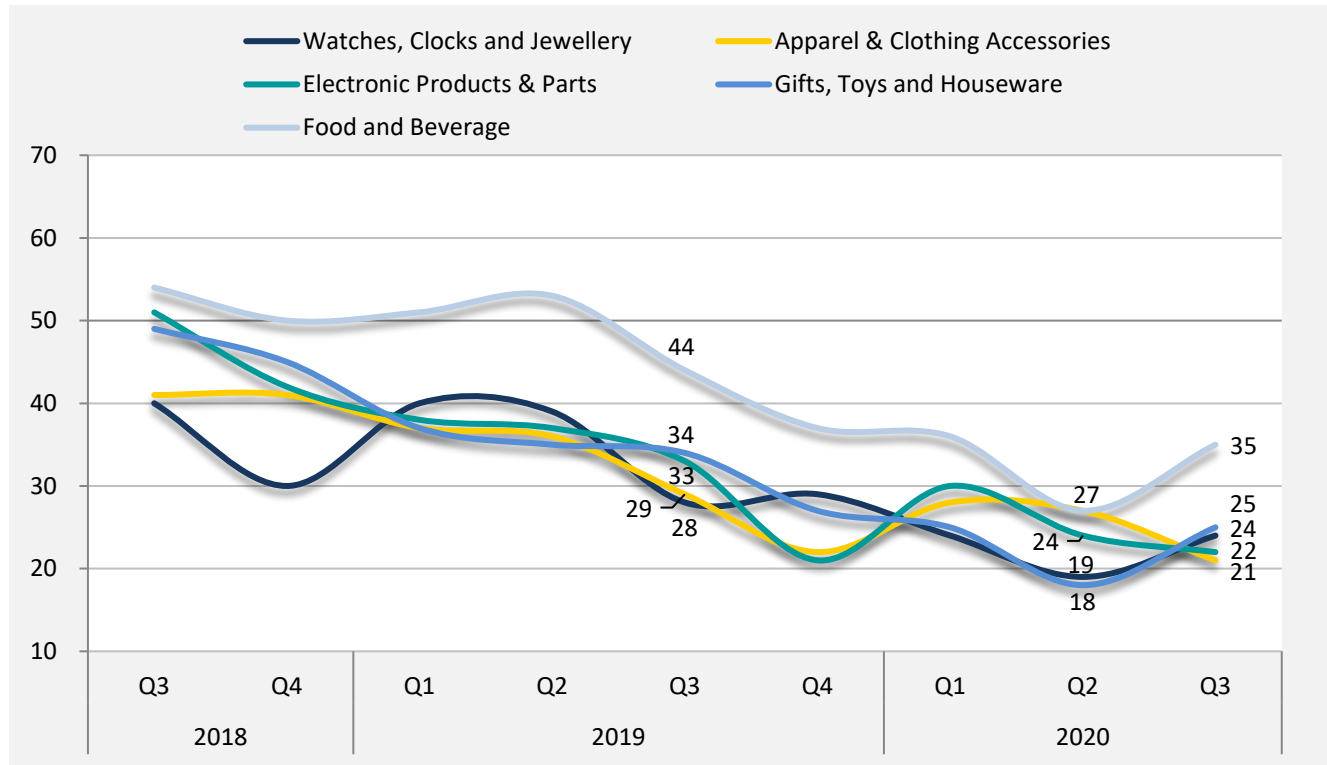
The **Europe** index increased 5 points to 26 points with strong growth in air exports.

The **Americas** index fell 3 points to 26 points, due to a drop in its air imports.

The **Rest of the World** index jumped 18 points to 33 points.

Air-Freighted Commodities

Food & Beverages reported as the strongest commodity with the biggest increase while Apparel & Clothing Accessories reported the biggest drop and hit its record low.



The **Watches, Clocks and Jewellery** index rose by 5 points to 24 points, driven by strong growth in air exports. All markets reported growth in Luxury exports, except Americas.

The **Apparel & Clothing Accessories** index fell 6 points to 21 points, which was severely affected by the drop in air exports.

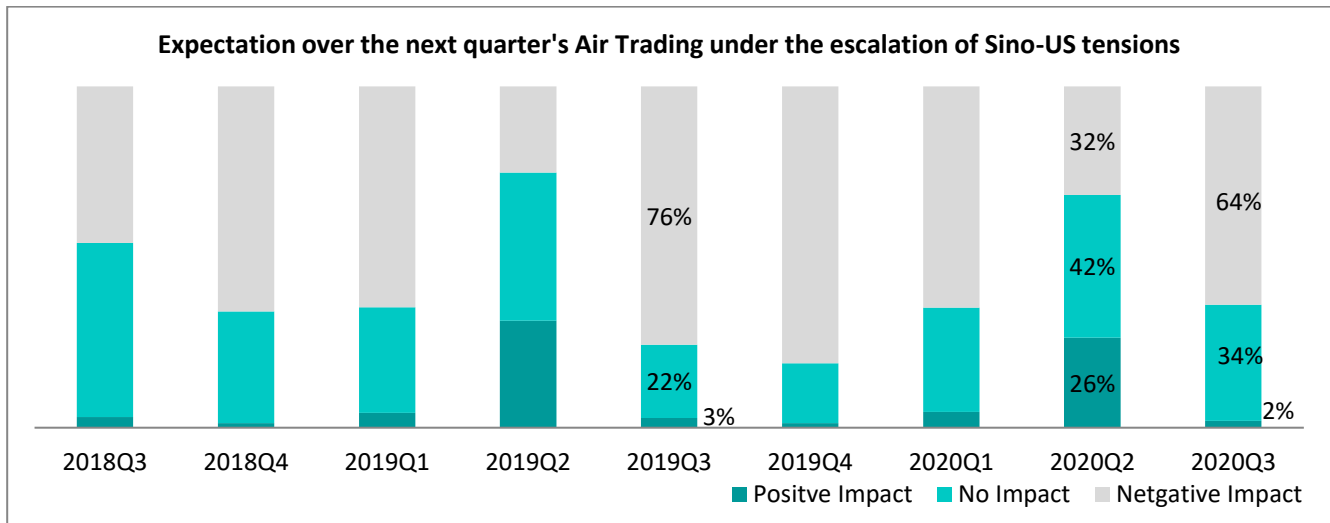
The **Electronic Products & Parts** index dropped 2 points to 22 points as a result of falling air imports.

The **Gifts, Toys and Houseware** index increased 7 points to 25 points with all markets showing relatively strong demand.

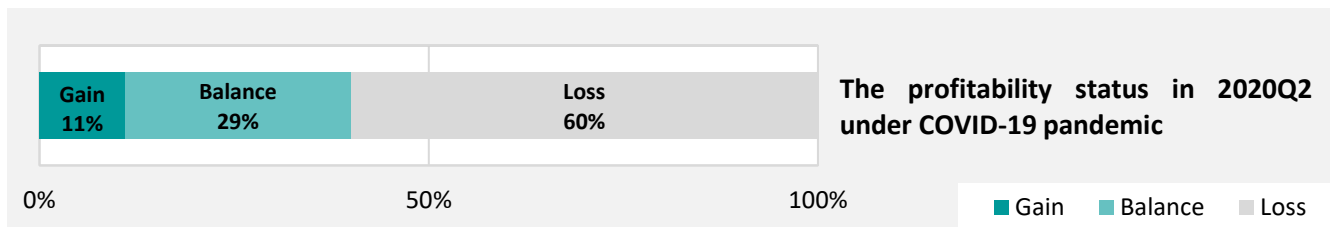
The **Food and Beverage** index went up 8 points to 35 points - the highest among all commodities.

Air Trade Outlook Affected by Recent Market News

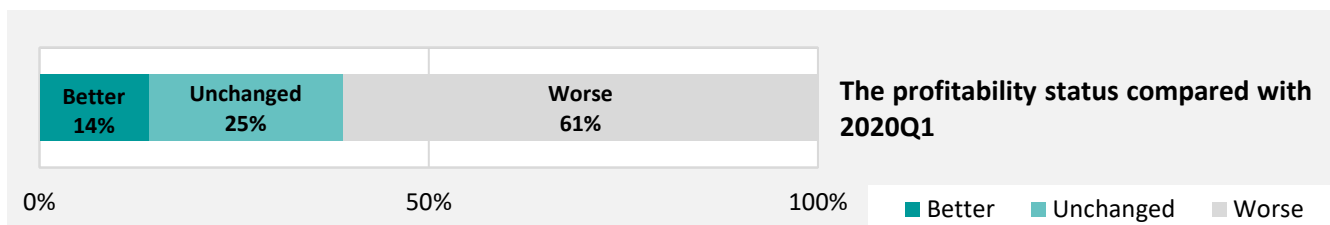
Undoubtedly, the COVID-19 pandemic and the worsening of Sino-US relations have added uncertainties to the global market; yet air traders were relatively more optimistic towards online business development.



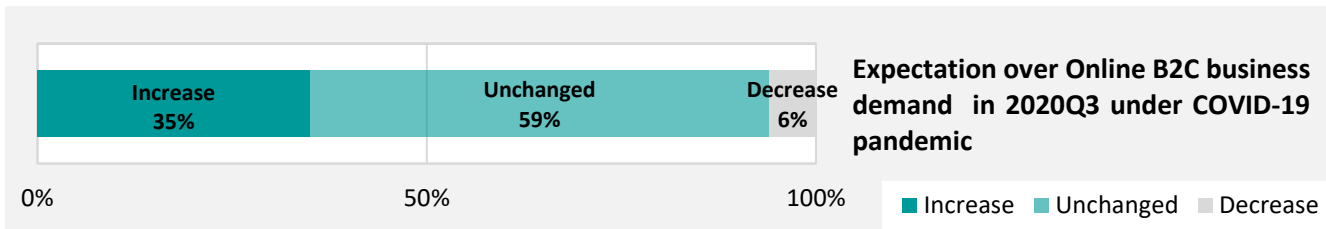
64% of air traders held the view that deteriorating Sino-US relation would have adverse impact on trading in Q3 2020 whereas 34% of them expected no change in air trade.



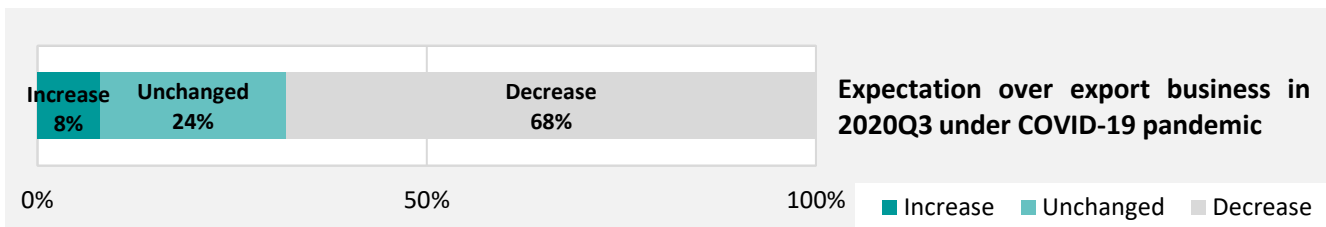
With business stagnation caused by many countries in lockdown state in Q2 2020, 60% of respondents have reported a loss. However, 11% and 29% still reported a profit or to have been break-even respectively.



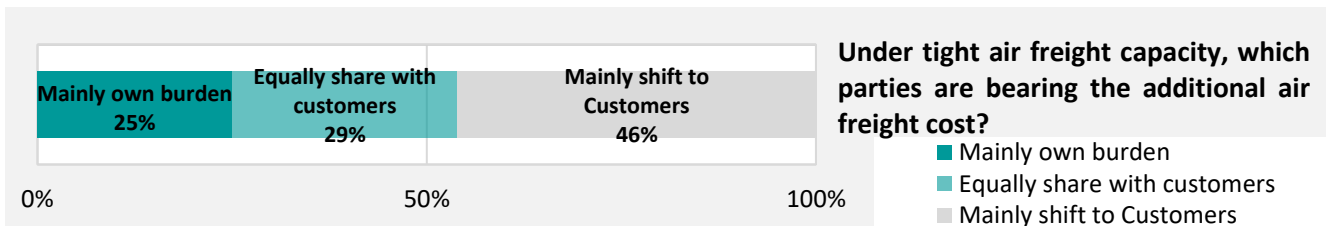
Under the COVID-19 pandemic, 61% of respondents performed poorer profit-wise in Q2 than Q1 whereas 14% saw an improvement.



With consumers being encouraged to stay at home and some physical stores still being closed, 35% of respondents expected a rise in demand on online purchases. Only 6% predicted to decrease.



Foreseeing short-term pressure on the global economy due to COVID-19 pandemic, 69% of respondents would expect a drop in demand in exports. Only 8% predicted growth.



The cost of air trading has continued to escalate. Part of the reason may have to do with reduction in passenger flights leading to continuous tightness in air freight capacity. 46% of air traders has shifted the major cost to end customers while 29% would equally share the cost with customers and 25% would bear the cost themselves.

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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