



DHL Hong Kong Air Trade Leading Index (DTI)

Q2 2022 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 some 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 scarce resources or limited access to information, enabling all to take reference from a comprehensive business review of the sector in which they operate.

First conducted in the second quarter of 2014, DTI has been published on a quarterly basis since then.

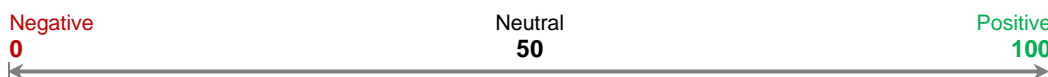
Methodology

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

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-bound 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

Affected by the latest wave of COVID-19 pandemic in Hong Kong, the overall trade index continued to drop. Most local air traders reflected that the road freight disruptions between Mainland China and Hong Kong have adversely affected their business while only one-tenth would opt to suspend new orders under high logistics costs.

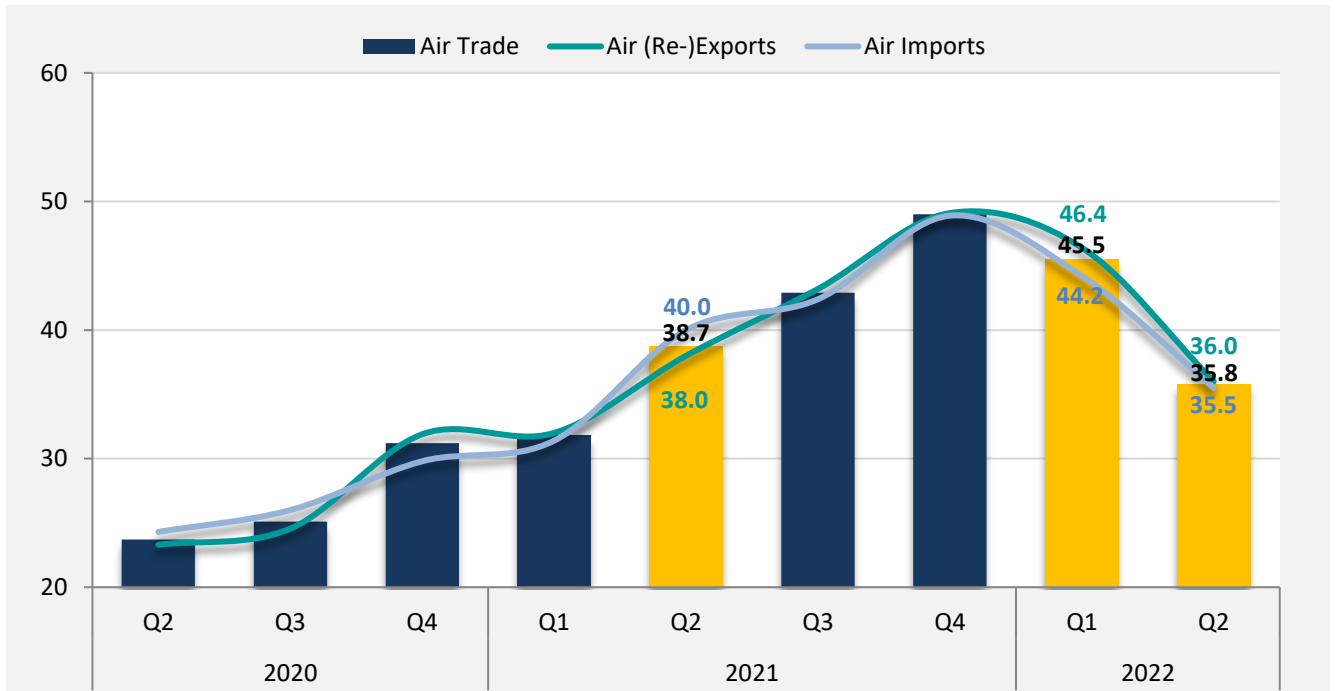
- The overall air trade index witnessed a steep drop to 35.8 points with sharp declines in both exports and imports indices, showing a more conservative market outlook. The resurgence of the pandemic in Hong Kong, along with the rise in fuel prices and geopolitical tensions in Europe, posed challenges on business environment in general this quarter. Declines were noted across all key indicators of the Air Trade Index in Q2 2022.
- Sales Volume index dropped to 35 points, likely due to the slowdown of market activities. Shipment Urgency and Product Variety indices also dropped to 40 and 43 points respectively, presumably due to transport disruptions and softened product demand.
- After a gradual improvement in profitability over the past two years, the profitability level retreated to Q4 2020 level, with around half reporting loss in Q1 2022, 42% reporting balance and only 9% reporting gain.
- More than half of the local air traders reported delays in shipment and lower shipment volume amid disrupted manufacturing arising from the omicron outbreak. 42% of local air traders expressed that the lower-than-expected overseas consumption intention had an adverse impact on their business this quarter.
- The further-tightened air capacity in Hong Kong led to challenges to the air trade environment, according to 48% of local air traders. With the gap between air and sea freight costs became narrowed, one-third of respondents used more air freight in the first quarter of 2022.

Mr Edmond Lai, Chief Digital Officer of HKPC, shared, “With the local anti-pandemic measures being further tightened as a result of a new round of COVID-19 outbreak in Hong Kong since the beginning of the year, coupled with rising international oil prices and geopolitical tension in Europe, the impact on production processes and transportation networks has intensified, especially on product delivery and frontline operation. All indices fell sharply this quarter, and the profitability fell back to the pre-2021 level, reflecting that local air operators are not optimistic about the short-term business environment. However, since the emergence of COVID-19 globally in early 2020, companies have become better prepared to deal with different situations. These include building a firm foundation in

e-commerce and business digitalisation. As the epidemic slows down, normal operation of the supply chain will gradually resume, and product demand will rebound, allowing local air cargo activity to pick up again. Therefore, in addition to making good use of existing support to overcome current challenges, Hong Kong enterprises should regularly review their workflow and formulate long-term strategies to further utilise new technologies, such as artificial intelligence, blockchain, cloud technology, and big data analytics, robotics, etc., to enhance competitiveness and prepare for the recovery of the global economy after the pandemic.”

Air Trade Volume Index

Owing to the resurgence of COVID-19 and tightening of social distancing measures, all indices dropped below 40 points, which were lower than the same period last year.



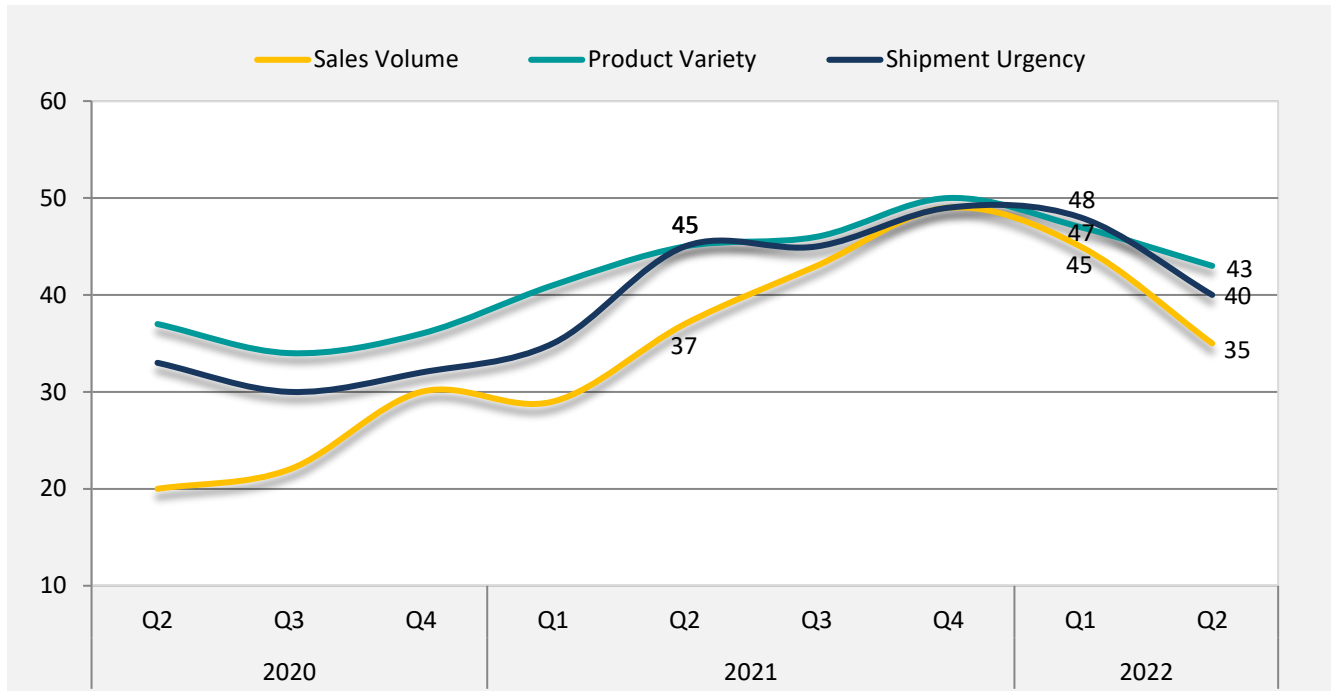
The overall **Air Trade** index dropped by 9.7 points to 35.8 points in Q2 2022. Both Air Imports and Air (Re-) Exports indices deteriorated.

The **Air (Re-)Exports** index slid down 10.4 points to 36.0 points. While drops in index were noted across all regions, such drop was less significant for Mainland China.

The **Air Imports** index slipped by 8.7 points to 35.5 points. All regions recorded declines except Mainland China, which saw a slight increase.

Attributes

Sales volume and shipment urgency recorded a notable decline in this quarter. These falls were probably induced by the slowdown of market activities amid the fifth wave of COVID-19 outbreak in Hong Kong.



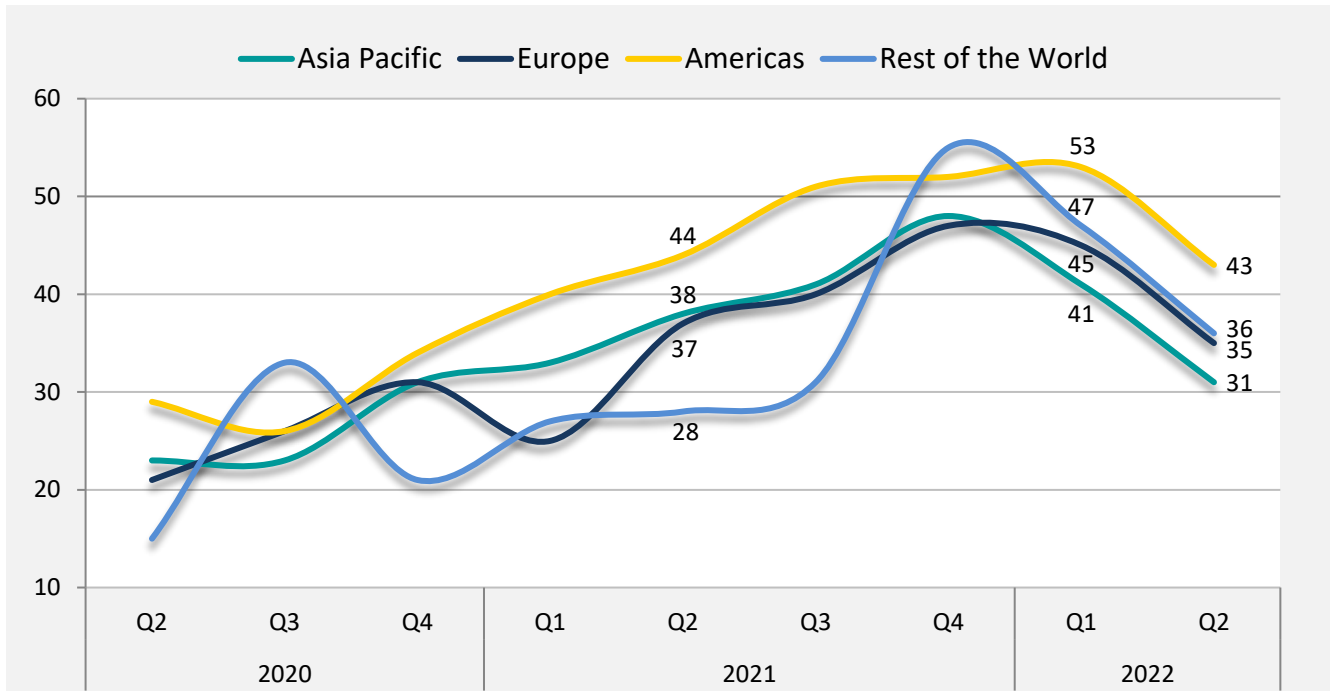
Sales Volume index went down by 10 points to 35 points. Similarly, the drop was less obvious in Mainland China.

Shipment Urgency index dropped by 8 points to 40 points in Q2 2022. Such drop was mainly from Americas and Japan. It is worth noting that a slight improvement was observed in Mainland China.

Product Variety index fell by 4 points to 43 points, also mainly coming from Americas and Japan.

Markets

All market indices recorded a drop of 10 points or more amid the fifth wave of the COVID-19 outbreak, with only the Americas index staying above the 40-point level.



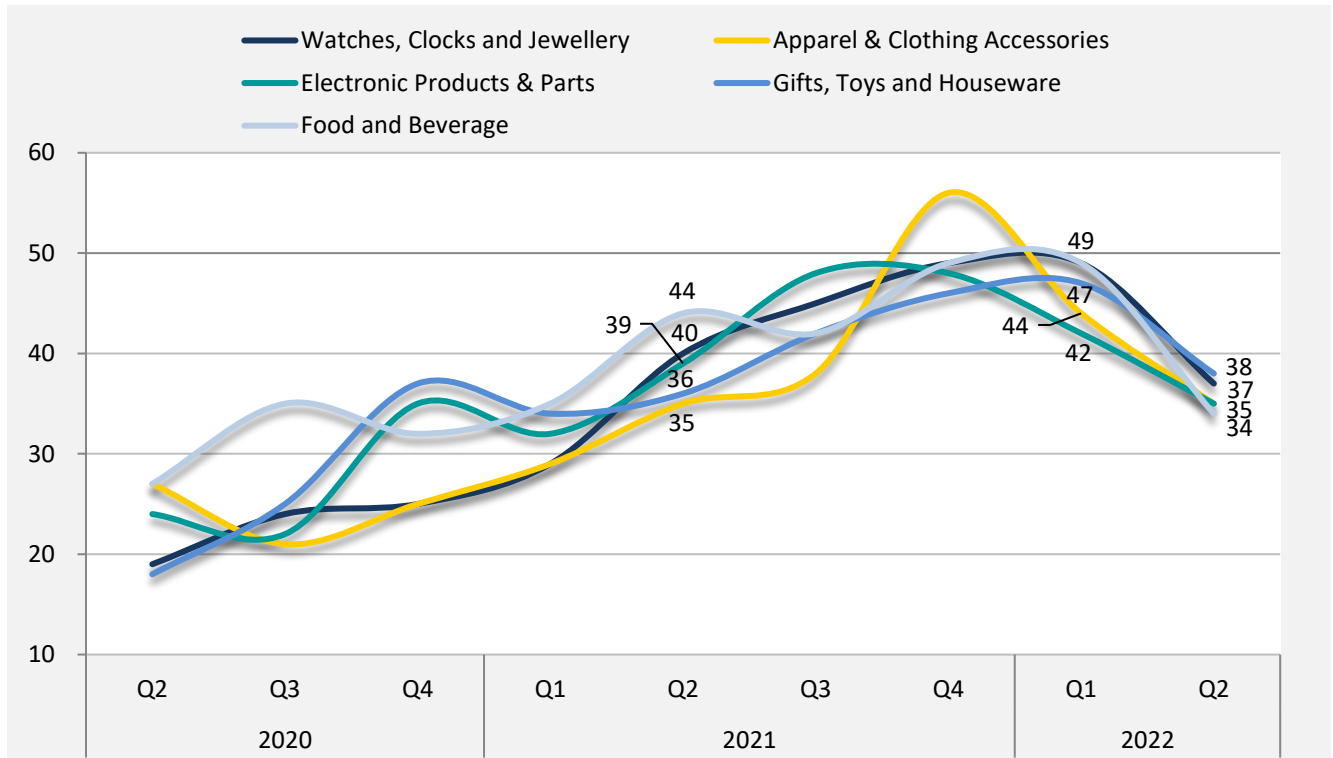
The **Americas** index dropped by 10 points to 43 points in Q2 2022. While it was the only market above the 40-point level, it reversed the previous upward trend. The difference between import and export indices was minimal.

The **Europe** and **Asia Pacific** indices dropped by 10 points to 35 points and 31 points respectively. For Europe, the drop was more obvious in the import index, while for Asia Pacific, the drop in export index was more prominent.

The **Rest of World** index dropped by 11 points to 36 points.

Air-Freighted Commodities

All commodities dropped below 40 points. Despite the steady trend in the past two quarters, the Food and Beverage index recorded a significant drop in Q2 2022.



Gifts, Toys and Houseware index dropped by 9 points to 38 points in Q2 2022. Americas was the market recorded the most significant drop.

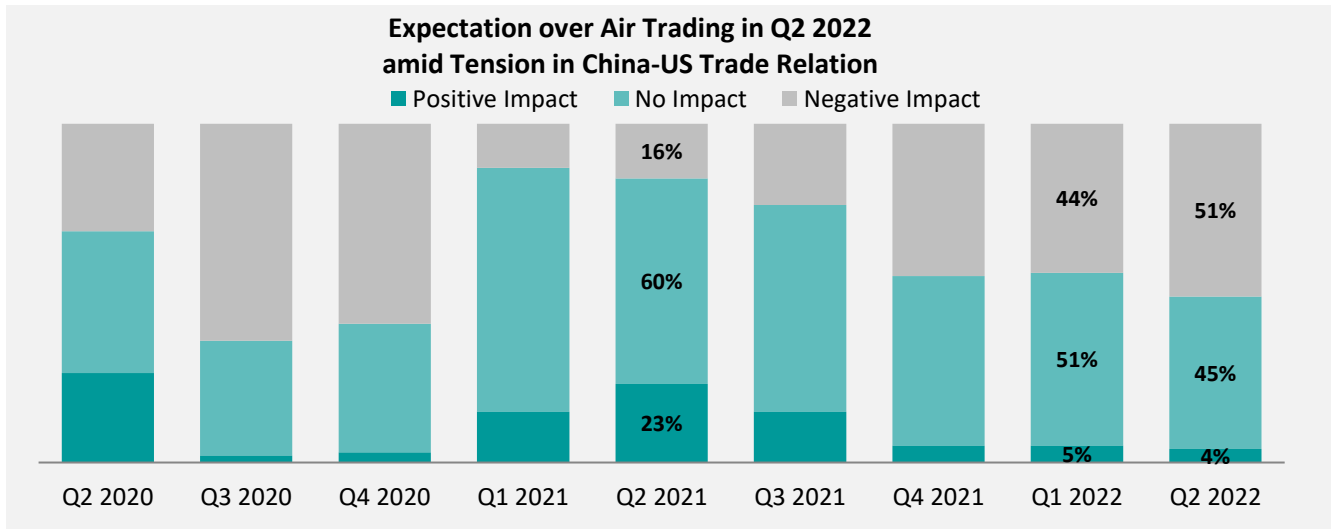
Watches, Clocks and Jewellery index dropped by 12 points to 37 points. Similarly, the drop in Americas index was the most obvious, while a slight decline was noted in Asia Pacific and Europe indices.

Electronic Products and Parts and **Apparel and Clothing Accessories** indices dropped by 7 points and 9 points respectively to 35 points. It was observed that the drop in Americas index was less significant among these 2 commodities, and a slight increment was noted in Electronic Products and Parts index.

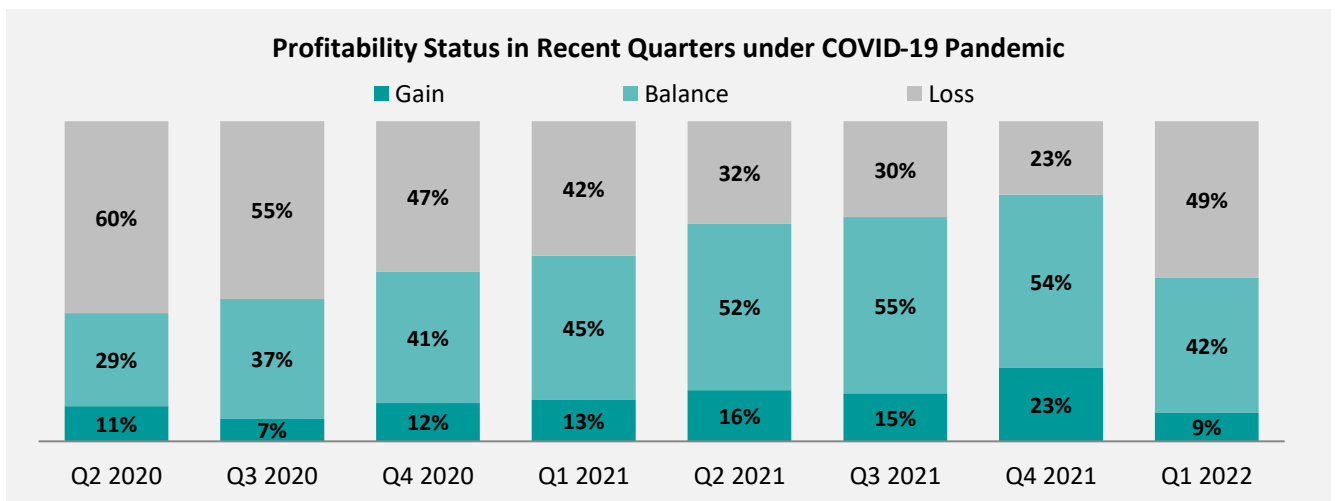
Food and Beverage index dropped by 15 points to 34 points this quarter, recording the largest drop among all commodities. This drop was more significant in Europe index.

Air Trade Outlook Affected by Recent Market News

The omicron outbreak in Hong Kong has been severe since the beginning of 2022. Social distancing measures as well as border control measures have been tightened, bringing a gloomy outlook to traders.

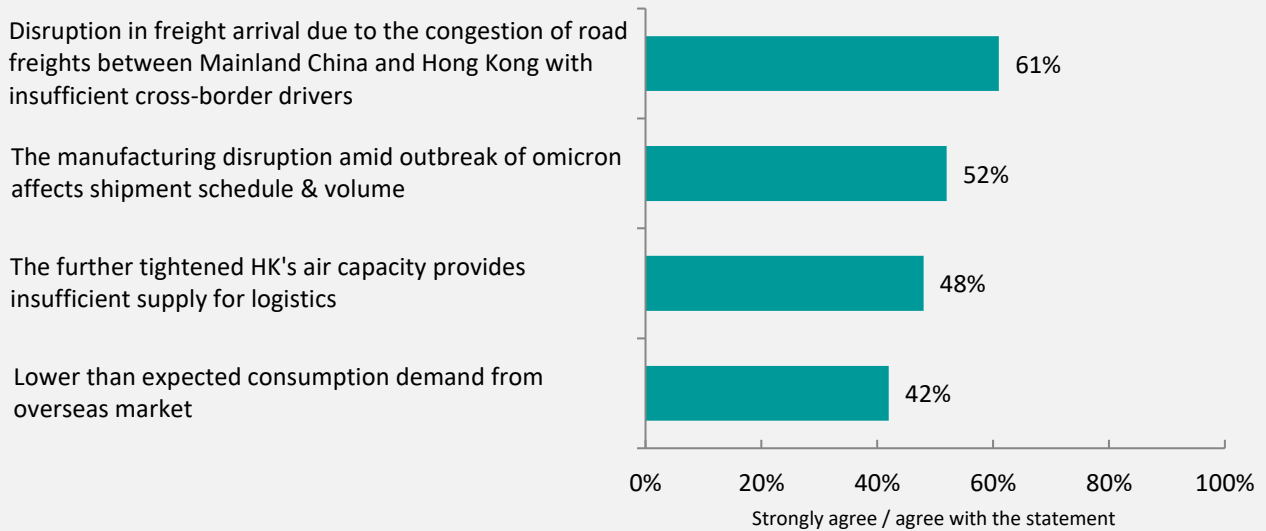


A continuous downward trend on expectation on air trade amid China-US tension has been observed since Q2 2021. It continued to deteriorate in Q2 2022 with additional 7% traders expecting a negative impact, surpassing 50% for the first time since Q4 2020.



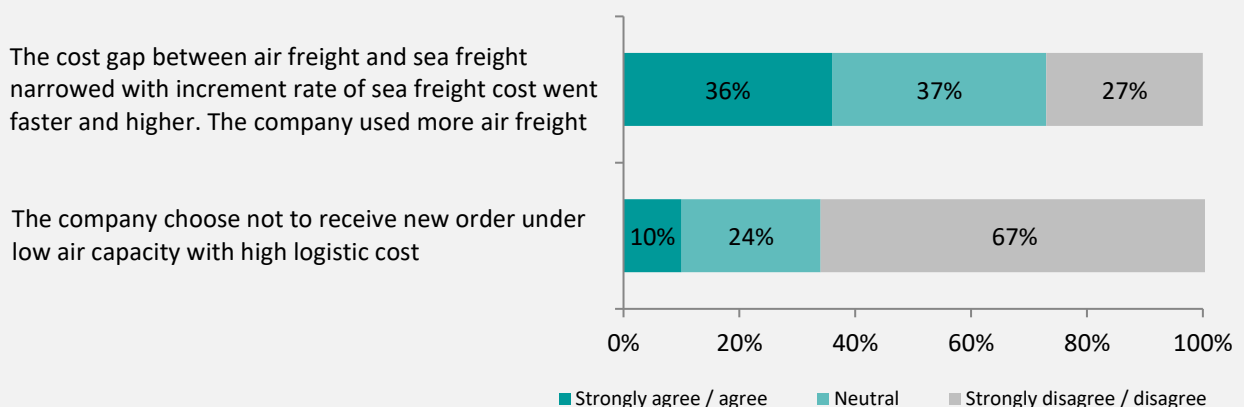
The business environment under pandemic deteriorated in Q1 2022 again despite the recovery in previous quarters. The proportion of respondents reporting loss rose sharply from 23% to 49%. On the other hand, those reporting “gain” decreased from 23% to 9%, representing a record-low since Q4 2020. This was possibly led by the resurgence of COVID-19 and the tightening of social distancing measures.

% of Local air traders agreed the following recent matter brought significant negative impact to their businesses in Q1 2022



61% of respondents agreed that the road freight disruptions in Mainland China-Hong Kong brought negative impact on their businesses. In addition, more than half of the local air traders reported delays in shipment and lower shipment volume amid disrupted manufacturing amid the omicron outbreak (52%). 48% of air traders witnessed challenges from the tightening air freight capacity in Hong Kong while 42% expressed that the lower-than-expected overseas consumption intention has negative impact on their businesses this quarter.

View of Local air traders on the recent market development in Q1 2022



With the narrowing of the gap between sea and air freight cost, 36% of respondents used more air freight in Q1 2022 while 27% denied using more as a result. Although the logistics cost increased significantly owing to the shortage of freight capacity, only 10% of the respondents chose not to receive new orders.

Note: Percentages may not add up to 100% due to rounding.

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 relentless drive of world-class advanced technologies and innovative service offerings to support Hong Kong enterprises. Being a key enabler and catalyst of innovation, applied technology and value creation, HKPC facilitates Hong Kong's reindustrialisation empowered by Industry 4.0 and Enterprise 4.0, as well as to develop smart and green living applications for bolstering Hong Kong as an international innovation and technology hub and a smart city.

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 enhance 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. Moreover, a variety of FutureSkills training are offered for enterprises to upskill and nurture talents with digital capabilities and STEM competencies to enhance their competitive edge.

In addition, HKPC partners and collaborates with local industries and enterprises and world-class R&D institutes 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. HKPC's world-class R&D achievements have been widely recognised over the years, winning an array of local and international accolades.

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

Enquiry

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

Disclaimer

This report contains survey results based on research findings. HKPC will not be liable for any loss, mistake, delay, action or non-action by viewers of this report.