



DHL Hong Kong Air Trade Leading Index (DTI)

Q3 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.

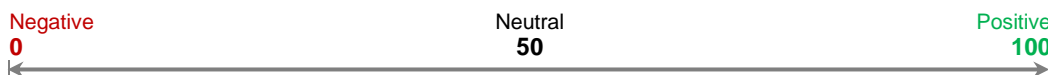
Methodology

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

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

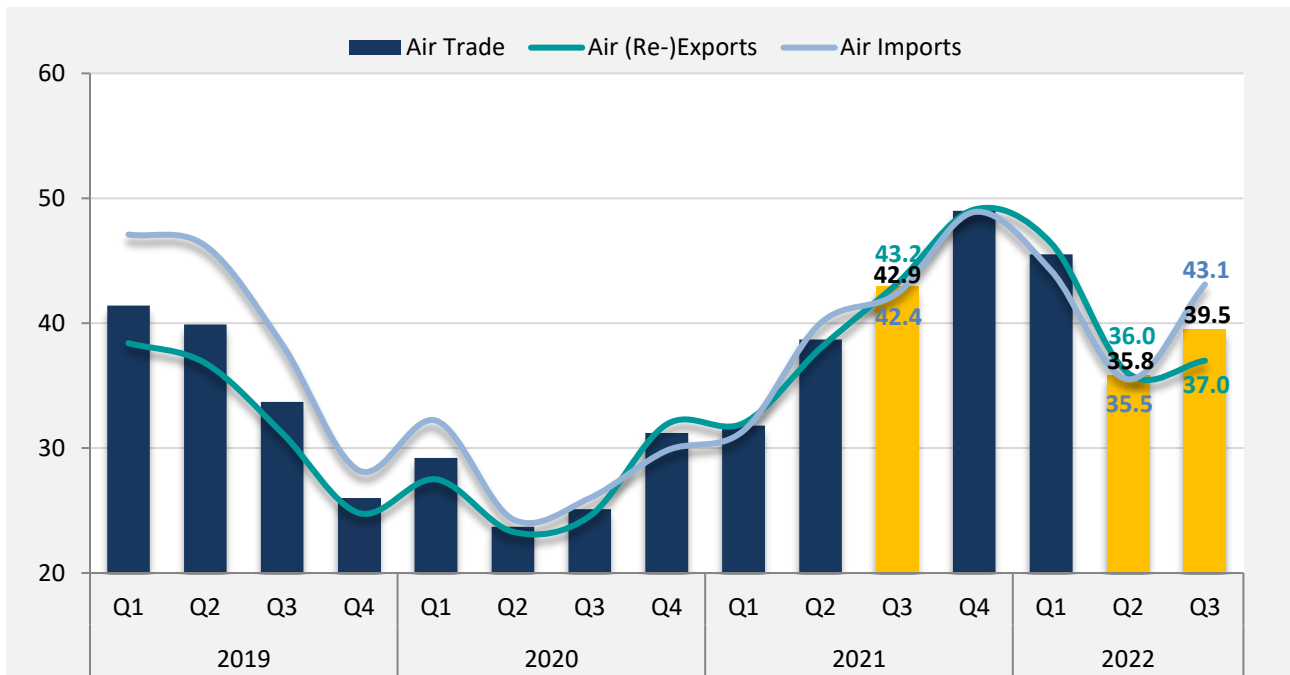
Amid a mixed business environment – continuous soaring fuel prices against a relaxation of anti-pandemic measures in Eastern China and Hong Kong, the Overall Trade Index has rebounded in this quarter.

- The Overall Air Trade Index recovered to 39.5 points, mainly driven by a significant rebound in the Air Imports Index to 43.1 points, similar to the level prior to the fifth wave of the pandemic. On the other hand, Air (Re-)Exports Index recovered at a slower pace to 37.0 points. Non-US currency markets showed an obvious improvement in imports while **Americas** was the only market with a dip.
- The recovery in Overall Air Trade Index was mainly driven by the rebound in Sales Volume Sub-index, while Shipment Urgency Sub-index recorded a mild growth and Product Variety Sub-index remained the same. In addition, a promising outlook on B2C business in Q3 2022 was observed.
- Profitability level improved in Q2 2022 after the difficult business environment during which social distancing measures were tightened with high infection numbers in Hong Kong. However, it was still some distance behind the pre-fifth wave of Q4 2021.
- Only one-fifth of local air traders respectively reported that their current businesses (i.e. June 2022) have grown better than that of the previous month after the improvement of the situation of the cross-boundary land transport of goods or the relaxation of social distancing measures in Eastern China. Although recovery in June 2022 showed slow momentum, a more optimistic outlook for overall air trade to and from China in Q3 2022 was observed with a 9-point jump compared to the previous quarter.
- With shipping costs continuing to rise along with surging fuel prices, 39% of local air traders claimed they were inclined to share such additional cost with customers equally, while 40% of them would shift a higher proportion of such additional costs to their customers. Compared with the findings two years ago, more local air traders were willing to share such burden with customers.

Mr Edmond Lai, Chief Digital Officer of HKPC, commented, “The survey results suggest that the worst time of the air trade business due to the fifth wave of the pandemic might be over, as better profitability was reported for 2022 Q2. The positive outlook in air trade is expected to continue in 2022 Q3 as a result of the rebound in Air Trade Index, together with the optimism in online B2C business. Such findings indicate a recovery in consumer demand generated from the relaxation in social distancing measures coupled with another round of Consumption Voucher release. However, the city is still vulnerable to the impact of another wave of the pandemic that will again pose a significant disruption to business operations and the supply chain.”

Air Trade Index

Overall Air Trade Index in Q3 2022 improved as the fifth wave of the COVID-19 pandemic stabilised. However, the index still lagged behind the pre-fifth wave level of Q1 2022 since Air (Re-)Exports Index was recovering at a slower pace.



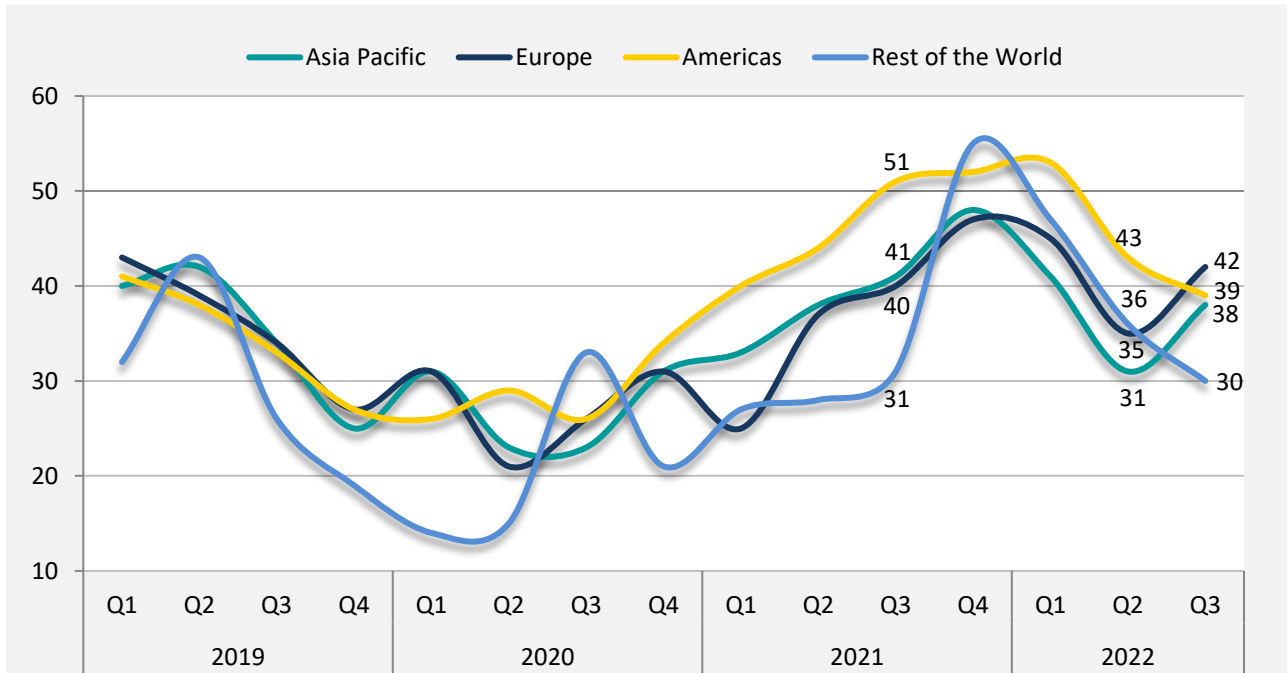
The overall **Air Trade** Index recovered by 3.7 points to 39.5 points in Q3 2022. Recovery in both Air Imports and Air (Re-)Exports Indices were observed.

The **Air Imports** Index rebounded significantly by 7.6 points to 43.1 points, slightly lower than the level prior to the fifth wave of the pandemic (44.2 points in Q1 2022).

However, **Air (Re-)Exports** Index recovered at a slower pace with a 1.5-point increment to 37.0 points, which was lower than Q1 2022 (46.4 points).

Markets

Index performance varied by market. While Europe and Asia Pacific recovered at a similar pace to the pre-fifth wave level, the indices for Americas and the Rest of the World further declined in this quarter.



Index for **Europe** rebounded by 7 points to 42 points, taking the lead with the highest index in this quarter. In particular, the upturn was mainly driven by the rebound in imports (+13 points) to the pre-fifth wave level while slight recovery (+2 points) was observed for exports.

Asia Pacific also had its index rebounded by 7 points to 38 points. Looking into the development within the region:

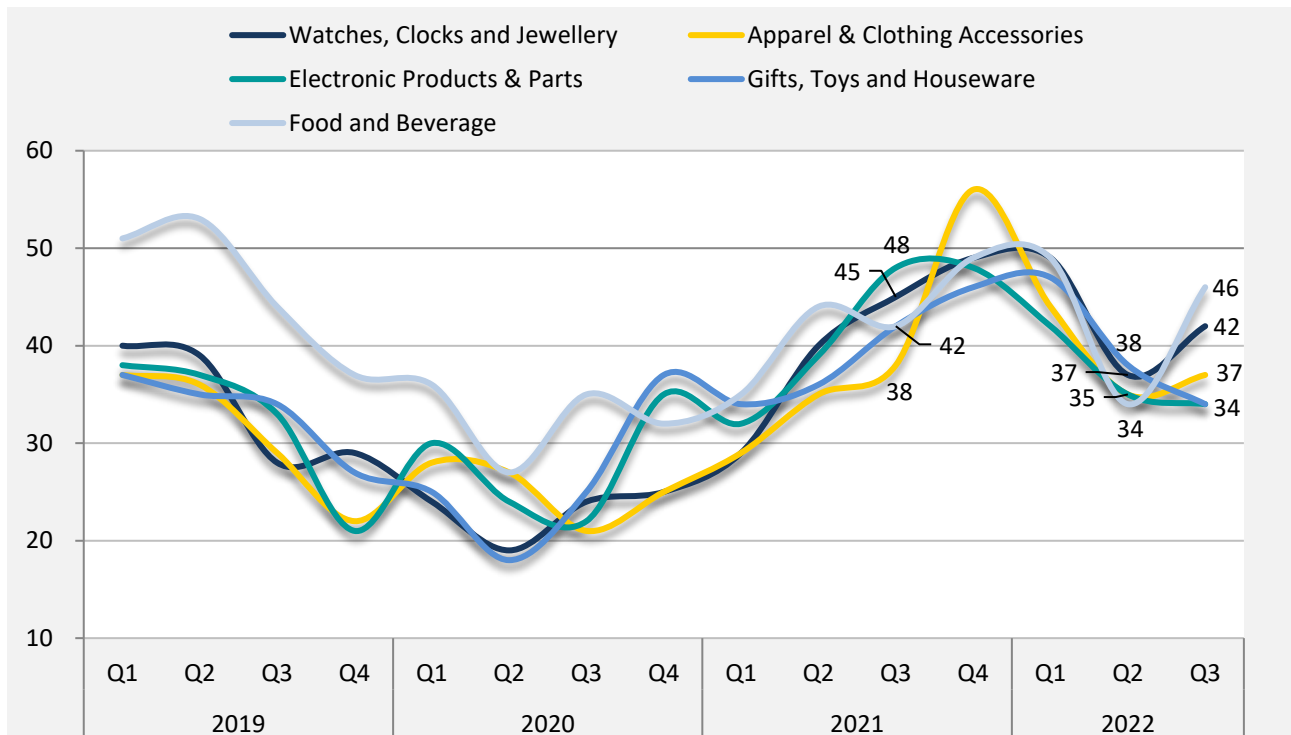
- **China's** recovery (+9 points) was more significant which had surpassed the level prior to the fifth wave of the pandemic. Unlike other markets where rebound in the index was mainly driven by imports, China's rebound was driven by exports (+14 points).
- **Japan's** index improved by 5 points, with a worsening export performance.
- Index for **Other Asia Pacific** markets also improved by 7 points with improvements in both imports (+9 points) and exports (+6 points).

Index for **Americas** further declined by 4 points to 39 points in Q3 2022, where declines in both imports (-5 points) and (re-)exports (-4 points) were observed. It was also worth noting that Americas was the only market with a drop in Air Imports Index.

On the other hand, index for the **Rest of the World** recorded a further drop of 6 points to 30 points.

Air-Freighted Commodities

Not all air-freighted commodities were benefited from the recovery in both Air Imports and Air (Re-)Exports Indices. After recording a severe drop last quarter, the Food & Beverage index saw a significant rebound in Q3 2022 and became the commodity with the highest index this quarter. On the other hand, indices for Gifts, Toys and Houseware as well as Electronic Products and Parts dipped further.



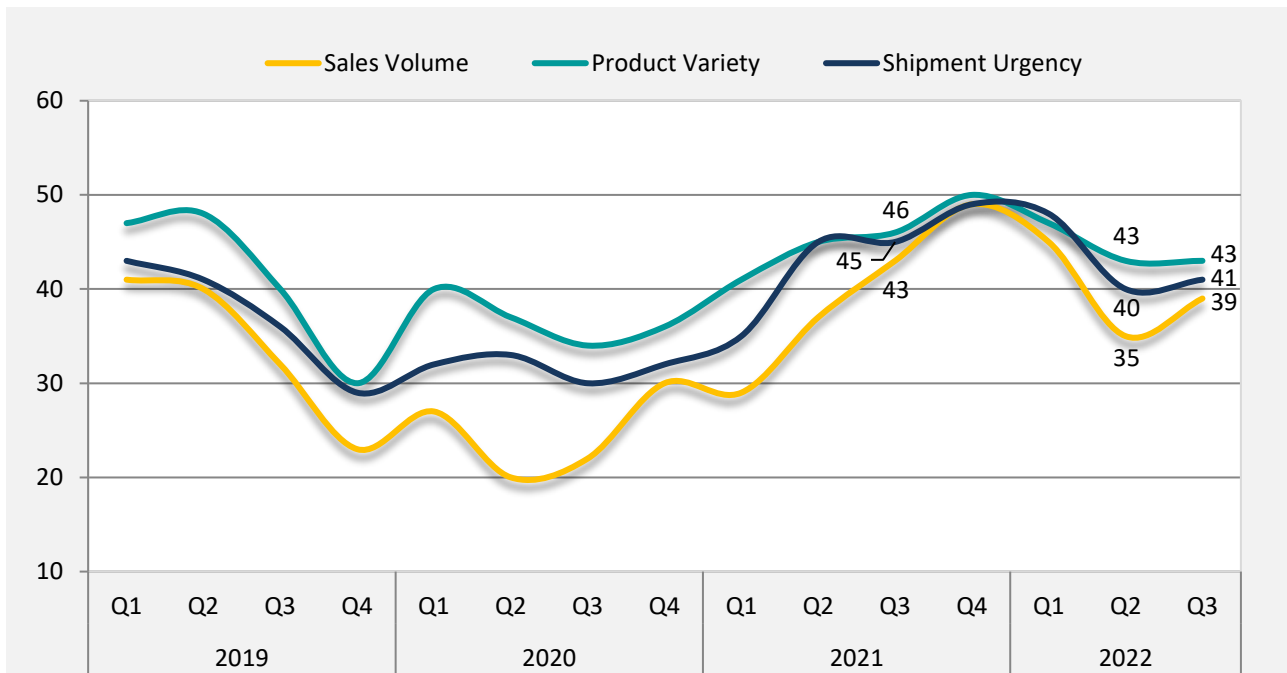
Index for **Food and Beverage** marked a significant rebound by 12 points to 46 points, returning to the level similar before the fifth wave of the pandemic. Its index ranking also rose from the lowest to the top within these 2 quarters.

Meanwhile, indices for **Watches, Clocks and Jewellery** and **Apparel and Clothing Accessories** increased by 4 points and 2 points to 42 points and 37 points respectively.

On the other hand, indices for **Gifts, Toys and Houseware** and **Electronic Products and Parts** indices dropped by 4 points and 1 point respectively to 34 points.

Sub-Indices

Although all the key sub-indices (i.e. Sales Volume, Product Variety and Shipment Urgency) were still lower than the level prior to the fifth wave of the pandemic, the declining trend for all key sub-indices has halted in Q3 2022; and a rebound in Sales Volume Index was observed.



Sales Volume Sub-index rebounded by 4 points to 39 points. In particular, such rebound was mainly driven by imports, while a slight recovery in (re)-exports was also seen.

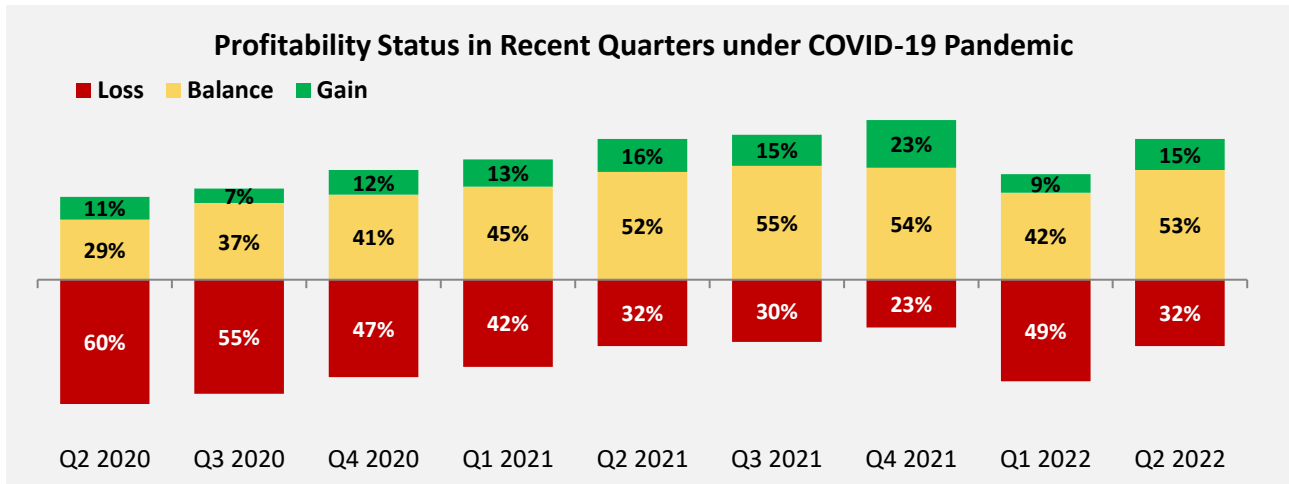
Shipment Urgency Sub-index marked a slight recovery of 1 point to 41 points, while **Product Variety** Sub-index stayed at 43 points. Despite the recovery of both sub-indices for imports, worsened performance was observed for (re)-exports.

Looking into the development of the sub-indices by markets:

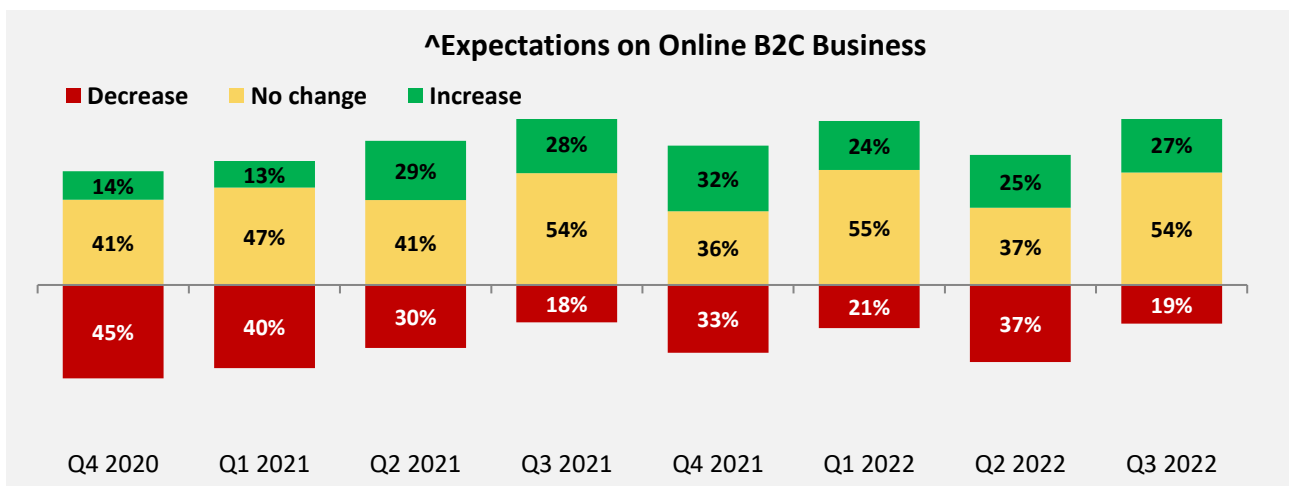
- **Asia Pacific:** Uplift in Sales Volume Sub-index was observed for both **Japan** and **Other Asia Pacific** markets. Slight recovery in both Shipment Urgency and Product Variety Sub-indices were also observed. On the other hand, **China's** recovery was mainly driven by the uplift in Sales Volume Sub-index (+8 points), while drops in both Shipment Urgency (-6 points) and Product Variety Sub-indices (-6 points) were observed.
- **Europe:** Rebounds in Sales Volume Sub-index (+8 points) and Shipment Urgency Sub-index (+4 points) were observed, while Product Variety Sub-index remained stable over the past three quarters.
- **Americas:** Sales Volume Sub-index (-6 points) continued to drop, while further slight declines were recorded for Shipment Urgency (-2 points) and Product Variety Sub-indices (-1 point).

Air Trade Outlook Affected by Recent Market News

Amid the continuously soaring fuel prices as well as a more relaxed anti-pandemic measures, air traders reported a better profitability in Q2 2022 and expected a more optimistic market outlook for Q3 2022. However, it will take more time to resume to the pre-fifth wave level.



Business environment improved in this quarter, but there was still some distance behind Q4 2021. In particular, the proportion of respondents reporting “Balanced” profitability rebounded from 42% to 53% while those reporting “Loss” dropped significantly to 32%. Such results reflected that the most difficult business environment seemed to be over but was still vulnerable to the development of the pandemic.



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

^ Based on air traders with B2C Business Operations only

A more optimistic outlook was also observed from the business expectations of those air traders with B2C business operations for Q3 2022 which were found to be returning to the level prior to the fifth wave of the pandemic in Hong Kong (with only around 20% expecting a loss).

Business situation of Local Air Traders in June 2022

■ Strongly disagree / Disagree ■ Neutral ■ Strongly agree / Agree

Business improved vs. May 2022 with current situation of the cross-boundary land transport of goods improved.



Orders received improved vs. May 2022 with pandemic situation in Eastern China gradually resuming to normal.



^ Import orders increased with Hong Kong dollar appreciates.



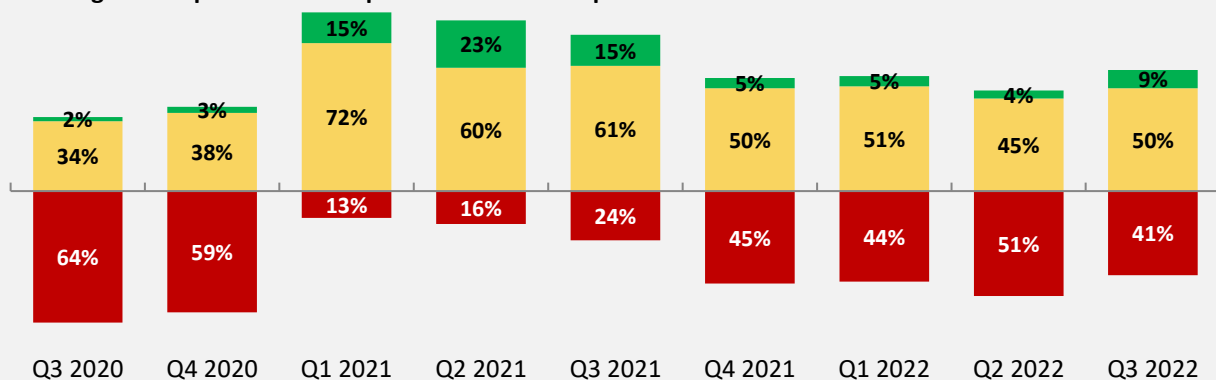
Note: Percentages may not add up to 100% due to rounding.

^ Based on importers only

Only one-fifth of local air traders reported that their current businesses have grown after the improvement of the situation of the cross-boundary land transport of goods and pandemic in Eastern China. It will take longer to see the effects of such developments. On the other hand, close to half (47%) of the importers considered the appreciation of Hong Kong currency had no significant impact on their import orders received.

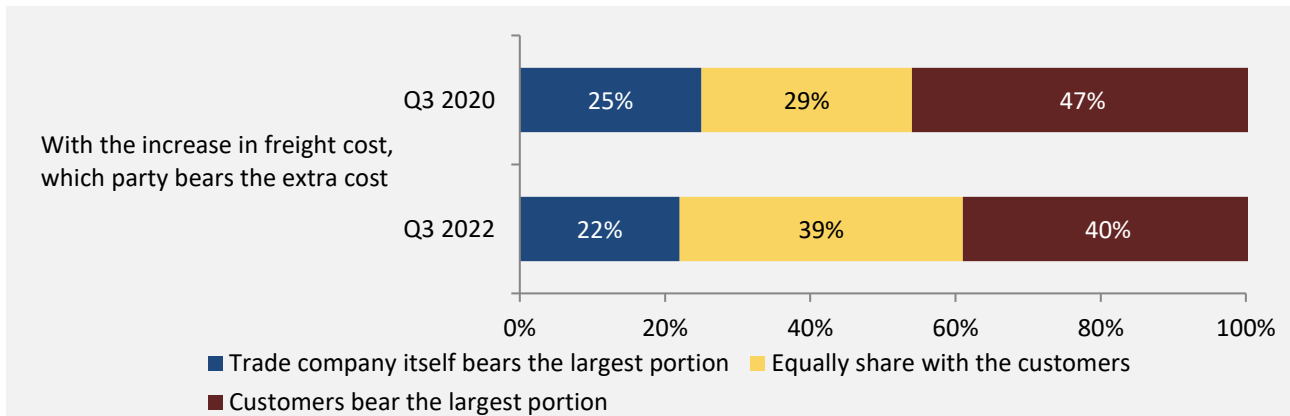
Expectation on Air Trading Business next quarter amid Tension in China-US Trade Relation

■ Negative Impact ■ No Impact ■ Positive Impact



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

Amid the China-US tension, slight improvement on the air trade business outlook was observed this quarter. In particular, there was a 10%-point decrease on those who expected negative impacts to their business to 41% in Q3 2022, while half (50%) expected no impacts on air trade business. However, the impacts associated with China-US tension have been more intensified than last year.



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

Owing to limited capacity, freight cost continued to rise along with surging fuel prices since the outbreak of the pandemic. Compared with two years ago, the proportion of air traders who inclined to share such additional cost with customers equally increased by 10%-point to 39%, while at the same time fewer air traders would have customers bearing the largest portion.

Looking into the results in Q3 2022, air traders were more inclined to share the increasing cost equally with customers in **Asia Pacific** region (46%) but having customers in **Americas** (47%) and **Europe** (44%) bearing the largest proportion of cost.

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 of Industry 4.0 and Enterprise 4.0, HKPC strives to facilitate Hong Kong's reindustrialisation, as well as bolstering Hong Kong to be an international innovation and technology hub and a smart city. The Council offers 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 overseas marketplace. The Council 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, technology transfer, and commercialisation, bringing enormous business opportunities ahead. HKPC's world-class R&D achievements have been widely recognised over the years, winning an array of local and overseas accolades.

In addition, HKPC offers SMEs and startups immediate and timely assistance in coping with the ever-changing business environment, as well as enhancing their competitive edge by providing a variety of FutureSkills trainings to upskill and nurture talents with digital capabilities and STEM competencies.

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.

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