



DHL Hong Kong Air Trade Leading Index (DTI)

Q2 2024 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\$87.4 billion annually, with HK\$52.6 billion from freight revenue, and creates over 28,000 job opportunities ⁽¹⁾ in the city.

DHL Express (Hong Kong) Limited (DHL) has commissioned the 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 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.

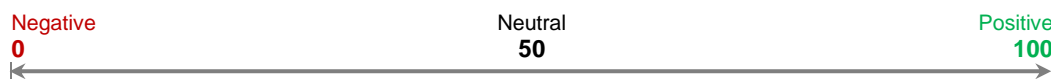
Methodology

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

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 2022, Census and Statistics Department

Demographics

Respondents are Hong Kong-based companies with either in-bound or out-bound air trade. Sectors cover air-freighted commodities including Watches, Clocks & Jewellery, Apparel & Clothing Accessories, Electronic Products & Parts, Gifts, Toys & Houseware, Food & Beverage and Others (including courier items 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 have been randomly selected from over 10,000 targeted entries every quarter to reveal the respondents' expectations on air trade. The survey is conducted by telephone. Completed samples are based on company and air-freighted commodity; and each sample has the same weighting in calculating the index, regardless of the size of the company.

REPORT SUMMARY

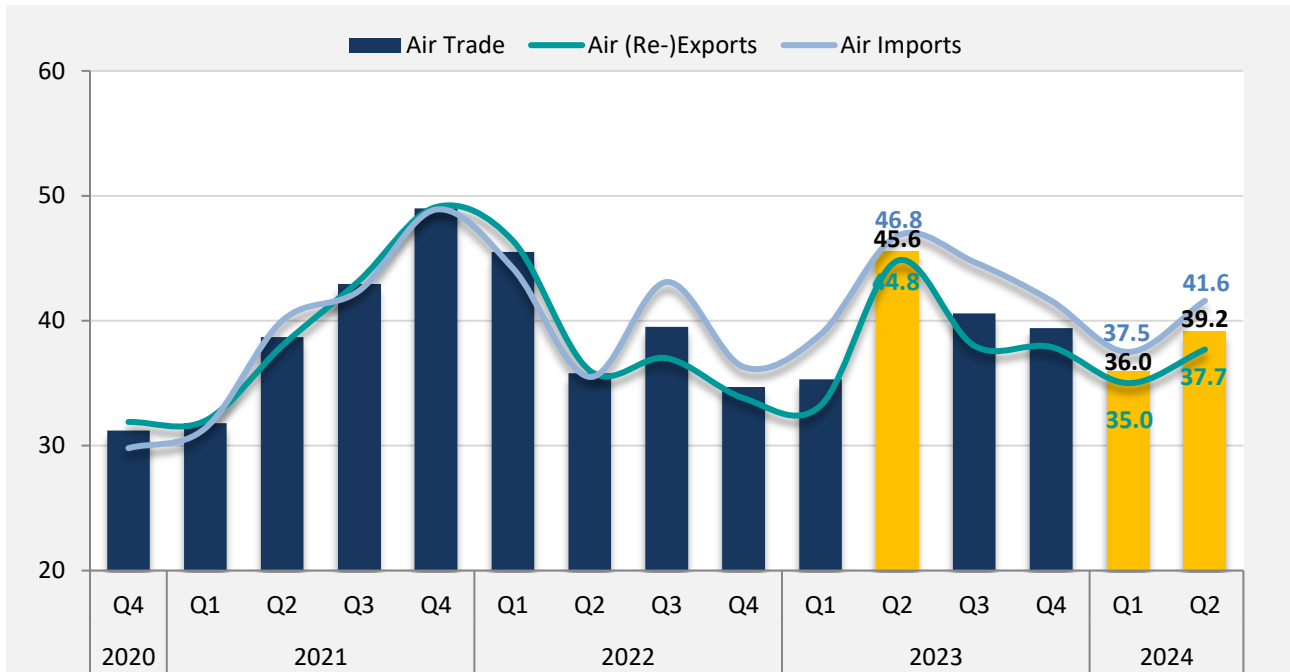
The Overall Air Trade Index forecasted a modest improvement in Q2 2024, halting a continuous decline observed since Q3 2023. In the meantime, around 40% of traders transitioned freight from ocean to air at varying levels in Q1 2024 in response to the ongoing Red Sea incident, and they expect this shipping arrangement to remain similar in Q2 2024.

- Overall Air Trade Index rose by 3.2 points to 39.2 points in Q2 2024, with both Air Imports and Air (Re-) Exports indices recording an upward trend, reading at 41.6 points and 37.7 points respectively.
- Air traders were more optimistic about Sales Volume which increased by 4 points to 40 points this quarter, while both Product Variety and Shipment Urgency remained stable.
- A significant decline (-3.9 points) in Online B2C business outlook was observed, heavily influenced by a decrease in Product Variety, which retreated by 4.3 points.
- Asia Pacific, Europe and Americas markets witnessed a recovery in their index performance in Q2 2024, especially in their Sales Volume. Despite the imminent Labour Day holiday and the 2024 Paris Olympics, only one-tenth of surveyed traders observed an increase in demand for air-freight goods.
- In light of Red Sea incident, around 40% of traders transitioned freight from sea to air in Q1 2024. A similar pattern of transition is also expected this quarter. Traders who did not transition from sea to air shipping in Q1 demonstrate behaviour changes in Q2, with a notable shift towards both the Europe and Americas markets.
- A growing number of air traders are expressing willingness to reduce carbon emission, reaching a peak level of 77% this quarter. Among these traders, over 90% are willing to allocate up to 10% of their logistical costs towards achieving this goal.

Mr Edmond Lai, Chief Digital Officer of HKPC, commented, “The Overall Air Trade Index improved by 3.2 points this quarter, reaching 39.2 points. However, it remains relatively weak due to uncertain economic factors. Only about 10% of air freight users expect increased demand during the upcoming Labor Day holiday and the Olympic Games Paris 2024. Air freight users should be prepared for long-term challenges caused by economic uncertainties. Despite the economic impact, over 75% of air freight users are willing to actively participating in carbon reduction initiatives. HKPC encourages businesses to review their operational processes for potential carbon footprint reductions. We will support sectors in establishing carbon reduction targets and adopting low-carbon technologies to promote industry-wide green transformation.”

Air Trade Index

The Overall Air Trade Index experienced a modest improvement, recording a positive uplift of 3.2 points to 39.2 points in Q2 2024 and rebounding to the level seen in Q4 2023. This development halted the continuous decline that had been observed since Q3 2023. However, it remains weakened compared to the level reported in Q2 2023 (45.6 points).



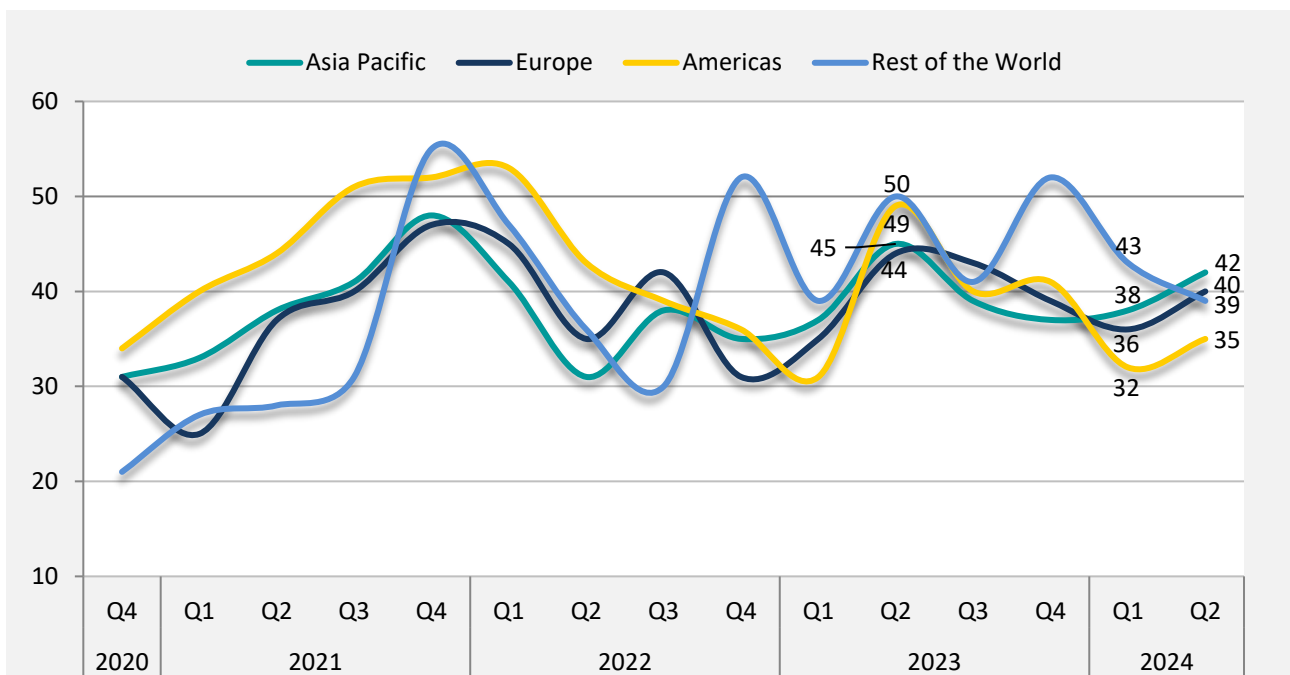
Overall Air Trade Index was boosted by 3.2 points, reaching 39.2 points in Q2 2024. This was primarily due to a significant increase in Air Imports Index which rebounded to the level observed in Q4 2023.

After experiencing a substantial reduction of 4.1 points in Q1 2024, **Air Imports Index** made a remarkable recovery, increasing 4.1 points and returning to the level observed in Q4 2023 (41.6 points).

Air (Re-)Exports Index also saw a positive impact, but to a lesser extent, it recorded an increase of 2.7 points, reaching 37.7 points in Q2 2024.

Markets

Index performances across all the key markets recovered in Q2 2024, with both import and (re-)export performances showing varying degrees of improvement across different markets. Europe's Index rebounded to 40 points from its recent low, while the Asia Pacific's Index outperformed all other markets. This was primarily due to the robust performance in imports from China and Japan. Although the America's Index saw an uplift in Q2 2024, it continued to be ranked lowest among all markets since Q1 2024, suffering a total decline of 14 points compared to the same quarter last year (Q2 2023).



Europe's Index (40 points) rebounded by 4 points from its recent low, mainly due to the upswing in (re-)export performance (+6 points). In contrast, import performance (+2 points) showed a relatively mild improvement.

Asia Pacific's Index (42 points) also rebounded by 4 points, largely due to the strengthened performance in imports observed in China and Japan:

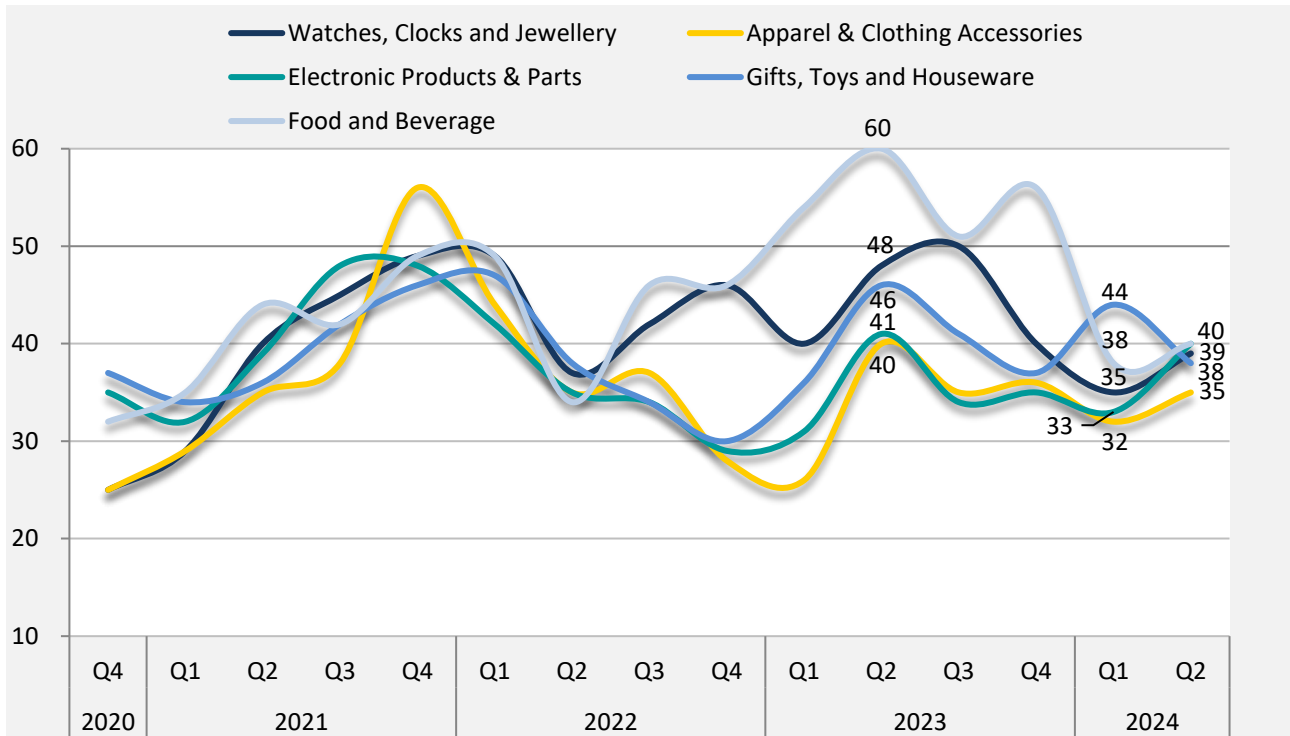
- **China's** Index (46 points) has reached the highest level since Q1 2022, mainly attributed to the robust performance in Imports (+25 points). There was also a relatively modest increase in (re-)exports (+5 points).
- **Japan's** Index (41 points) rebounded by 4 points. The market saw a remarkable uplift in imports performance (+13 points), offsetting the decline in (re-)export performance (-8 points).
- The Index for **Other Asia Pacific regions** (40 points) experienced a slight retreat by 1 point. An upswing in (re-)export performance (+5 points) partially mitigated the impact of a weakened performance in imports (-12 points).

Despite a bounce back in the **Americas'** Index (35 points) by 3 points in Q2 2024, its market index continued to rank bottom among other markets since last quarter. Moreover, it experienced the largest continuous drop among markets, accumulating a total decline of 14 points since Q2 2023. Both imports (-10 points) and (re-)exports (-16 points) are dropping at a similar level.

The Index for the **Rest of the World** experienced another drop to 39 points (-4 points).

Air-Freighted Commodities

Except for Gifts, Toys, and Houseware, which suffered drops by 6 points, all air-freighted commodities enjoyed varying degrees of increment in their indices. Distinctively, Electronic Products and Parts registered a big leap forward owing to a notable improvement in its import performance.



Gifts, Toys, and Houseware (38 points) was the only air-freighted commodity to register a decline (-6 points). Both imports and (re-)exports experienced drops, with imports showing a more significant drop (-14 points).

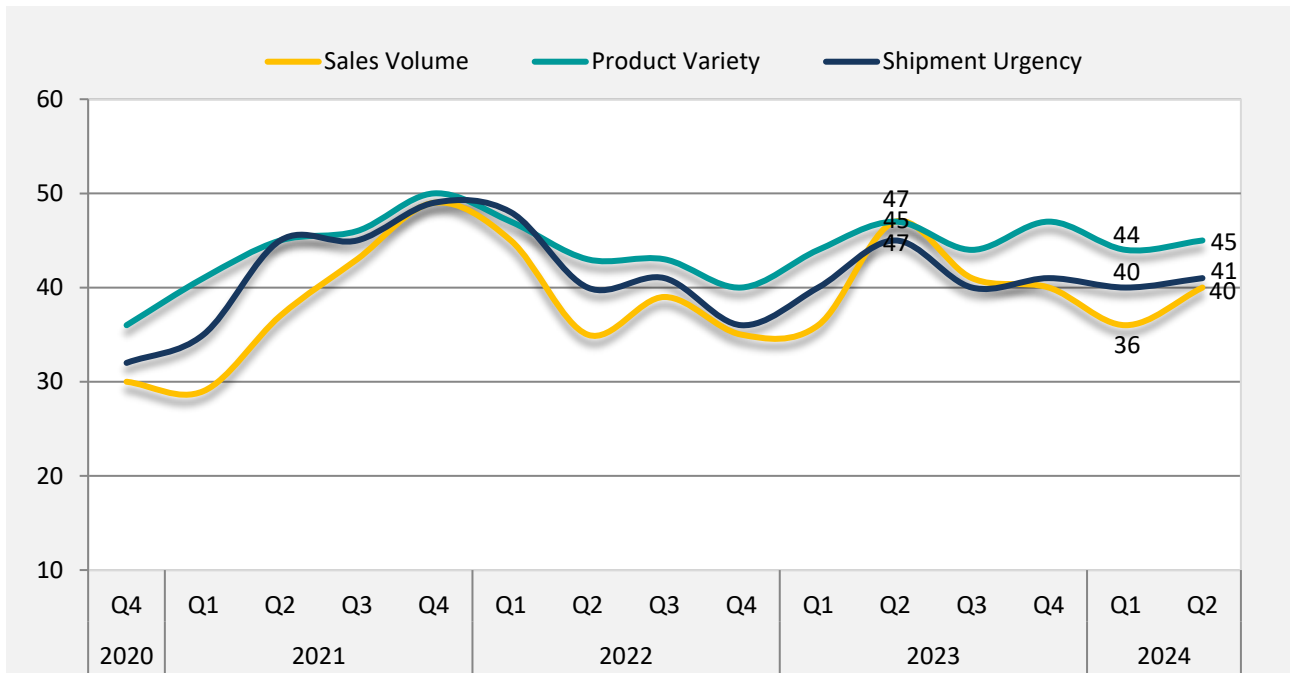
The Index of **Electronic Products and Parts** experienced a substantial improvement among all air-freighted commodities, leaping 7 points to 40 points. This was largely due to the positive impacts from both imports and (re-)exports, with imports notably improving (+12 points).

Similarly, **Apparel and Clothing Accessories** (35 points) saw a 3-point uplift driven by an increment in imports (+9 points). **Watches, Clocks and Jewellery** (39 points) also recorded an upturn of 4 points, primarily attributed to improved (re-)export performance (+7 points).

Food and Beverage improved slightly by 2 points to 40 points. This was primarily driven by the recovery in imports (+5 points), which offset the further weakened performance in (re-)exports (-12 points). However, it is noteworthy that there was an accumulated drop of 20 points since Q2 2023, where both imports and (re-)exports also retreated at a similar magnitude.

Sub-Indices

All sub-indices recovered after a drop in the previous quarter. Notably, Sales Volume had a significant upward trend, while both indices of Product Variety and Urgent Shipment remained stable. Except the Rest of the World, all key markets experienced varying degrees of increment in Sales Volume Index.



Sales Volume Index recovered by 4 points to 40 points with both imports and (re-)exports contributing positively to strengthen performance.

The Index for **Product Variety** (45 points) remained stable, with a slight increment of 1 point. A similar magnitude of movement was also observed in both imports and (re-)exports.

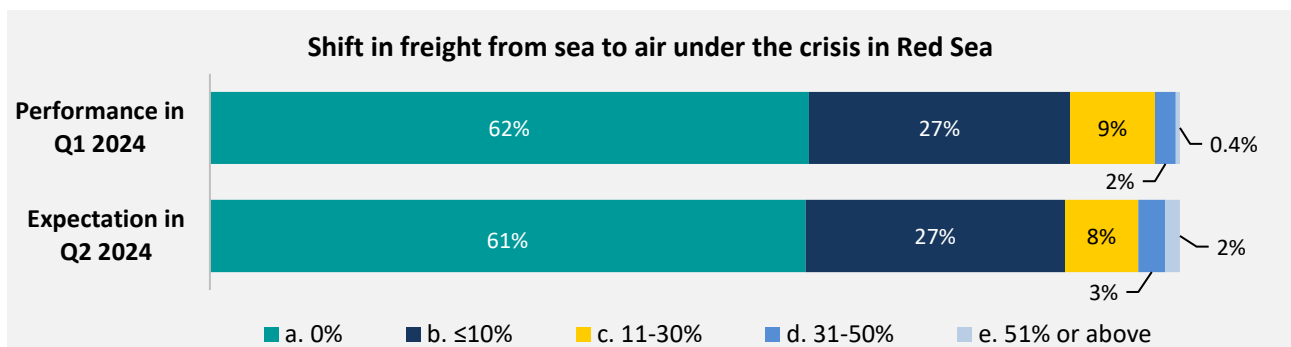
On the other hand, **Shipment Urgency** Index (41 points) remained stable over the past four quarters.

Looking into the sub-index development by market:

- All sub-indices in **Europe** recovered by 3 to 4 points after a drop in Q1 2024.
- The **Americas'** Product Variety Index improved by 4 points, followed by a slight increment in both the Urgent Shipment Index (+3 points) and the Sales Volume Index (+2 points).
- All markets in **Asia Pacific** saw an increment in the Sales Volume Index, while both China (+14 points) and Japan (+8 points) experiencing a particularly robust upswing. Notably, China's Sales Volume Index has reached its record high since Q1 2022. Both China and Japan also registered increments in the Product Variety Index, while their Urgent Shipment Index remained stable.
- The decline in the **Rest of the World** was primarily driven by a significant drop in its Product Variety Index (-16 points).

Air Trade Outlook Affected by Recent Market News

Following the outbreak of the Red Sea incident starting from October 2023, it has been posing challenges that have resulted in shipment delays and additional costs in sea freight. Around 40% of surveyed traders have transitioned varying degrees from sea to air freight in Q1 2024. The pattern is expected to continue in Q2 2024 until there is a change in the status quo of the incident. On the other hand, only around one-tenth of surveyed traders anticipate growth in the demand for commodities for the upcoming Labour Day holidays and the 2024 Summer Olympics in Paris, indicating that economic uncertainty remains prevalent.



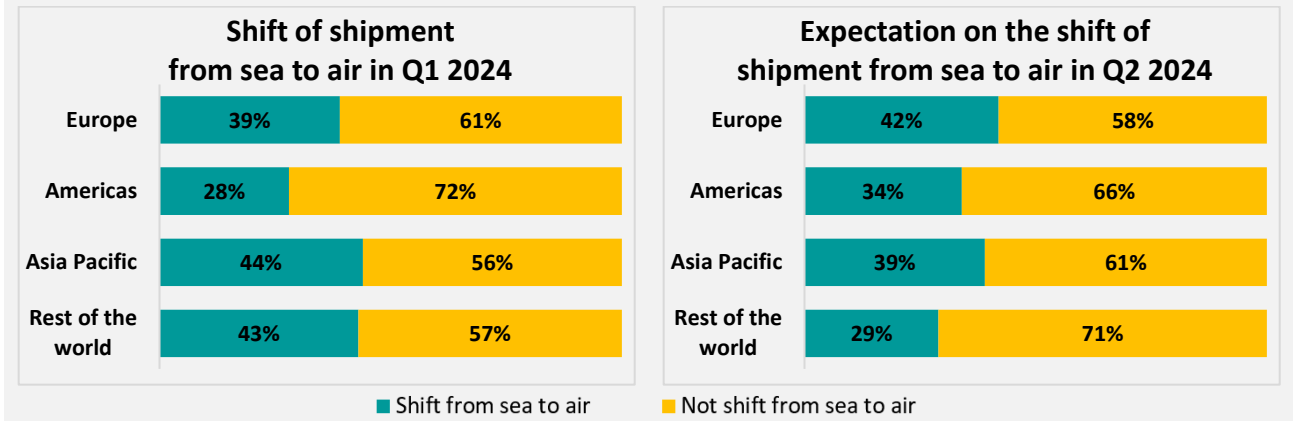
Note: Percentages may not add up to 100% due to rounding.

Note: Percentages excluded those who did not use sea freight shipment.

Moving on to the recent event of Red Sea incident, over 60% of the surveyed traders (62%) did not shift their shipping process from sea to air in Q1 2024. More than one-fifth (27%) of traders made a partial shift of up to 10% towards air freight, while 9% of them opted for a more substantial transition, shifting between 11%-30%. In the forthcoming quarter, it is anticipated that the trend of shifting from sea to air freight will persist.

It is noteworthy that over half of traders (55%), who made a transition in their shipping process, were operating in the Europe and Americas market.

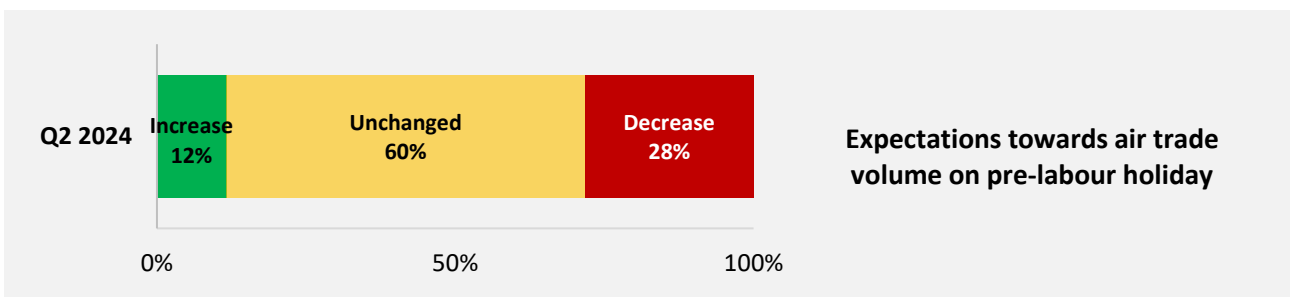
Shift from sea freight shipment to air shipment under Red Sea Crisis persists



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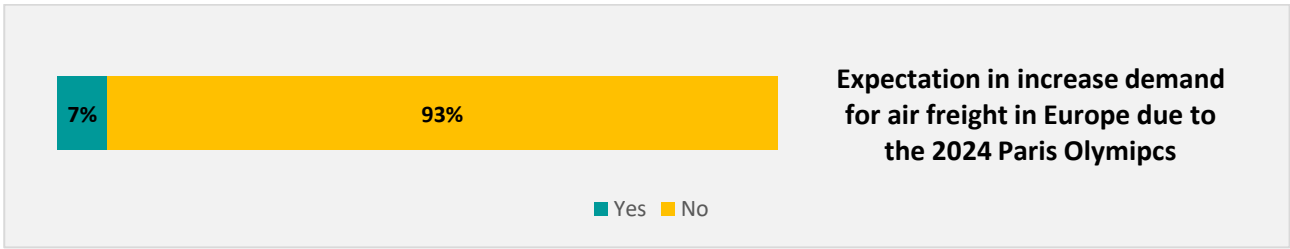
Traders who did not transition from sea to air shipping in Q1 showed changes in behaviour in Q2, with a notable shift towards the markets in both Europe and the Americas.



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

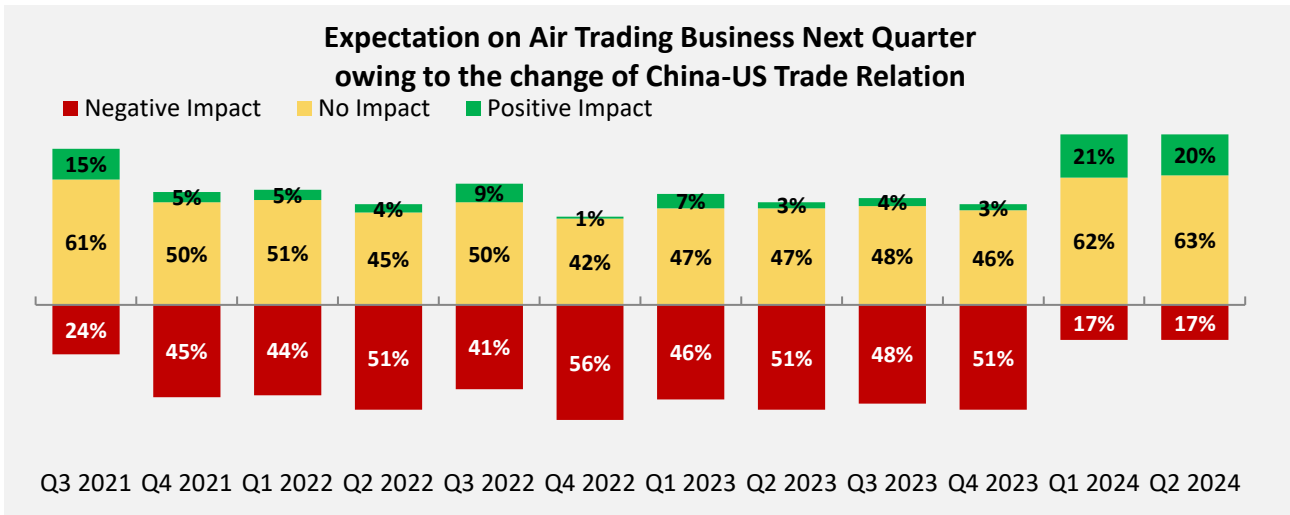
Looking at forecast from air traders regarding the volume of air-freighted commodities prior to the Labour Day holiday, 60% of surveyed air traders predict the volume will remain at last year's level. Conversely, less than one-third (28%) of them anticipate a softening demand in air trade, with only 12% of them expecting growth.

When comparing different commodities, it was observed that air traders who shipped Gifts, Toys & Houseware (36%), and Apparel & Clothing Accessories (33%) were more pessimistic about the forthcoming Labour Day. In contrast, air traders who shipped Watches, Clocks & Jewellery had comparatively fewer negative expectations (20%).



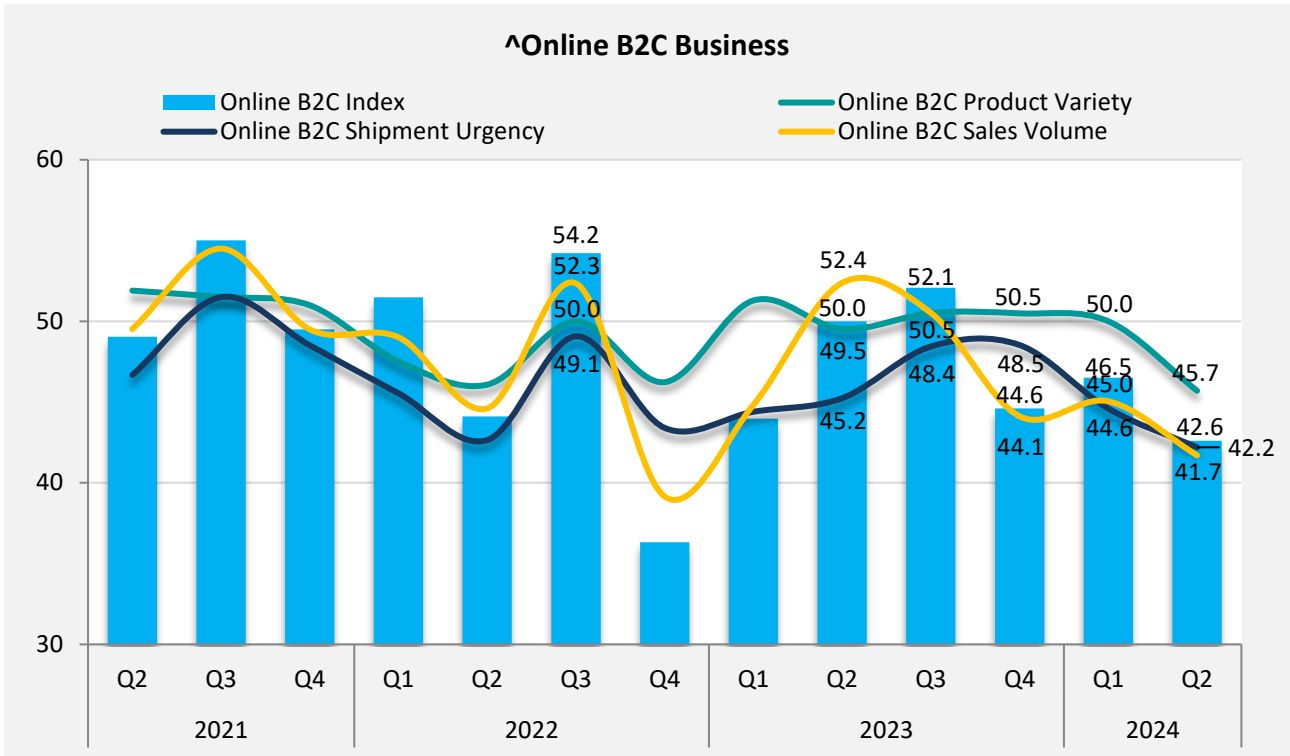
Note: Percentages may not add up to 100% due to rounding.
 Note: Percentages excluded NA.

Other than the Labour Day holiday, most surveyed air traders (93%) reported that they did not observe a notable increase in demand for commodities for the upcoming 2024 Summer Olympics in Paris. Meanwhile, among air traders primarily operating in the European market, 96% of them shared the same observation.



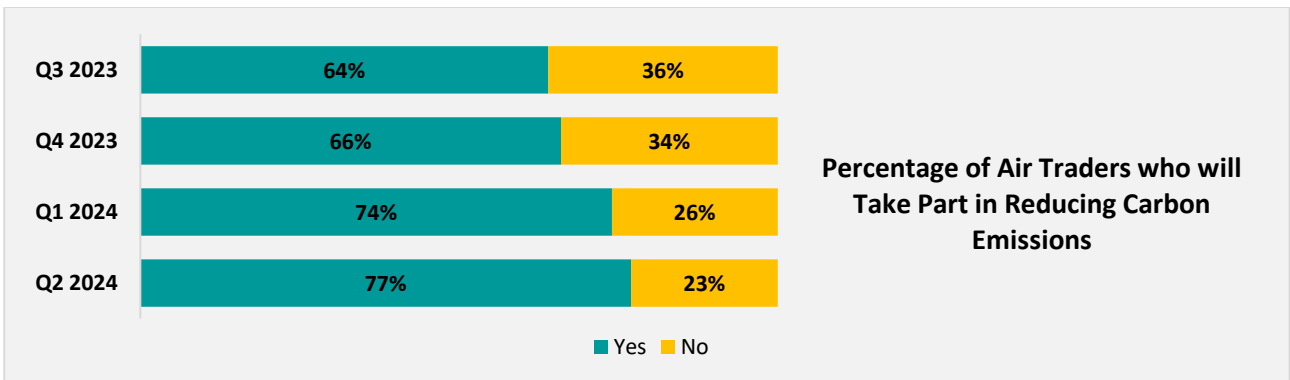
Note: Percentages may not add up to 100% due to rounding.

With China-US trade relations slightly alleviated, the proportion of air traders expecting a positive impact on their businesses slightly declined 1%-point to 20% in Q2 2024. However, the worsening business expectation remained steady compared to the previous quarter, showing a stable trend in terms of the potential challenges arising from the tensions between China and the US.



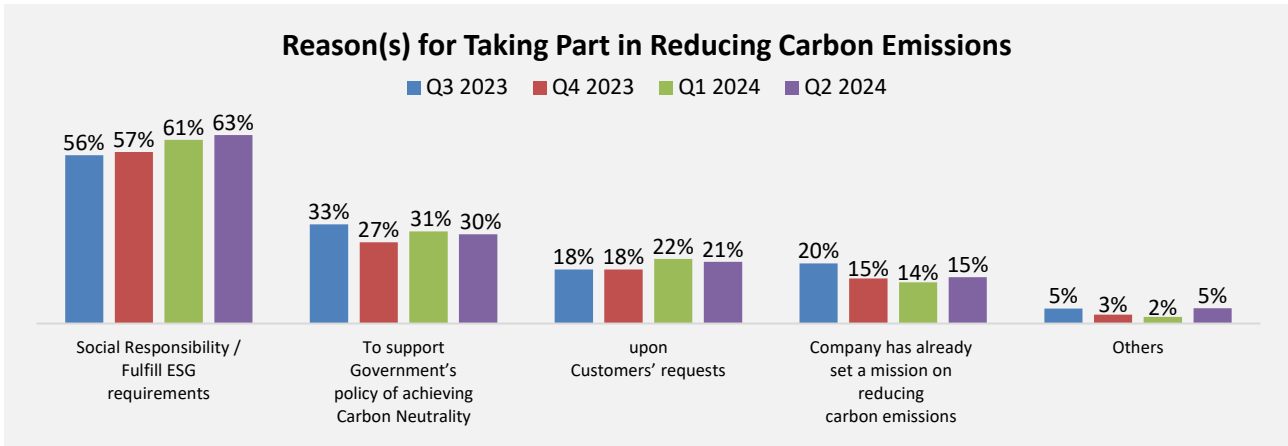
^ Based on air traders with online B2C business

Despite the improvement in Overall Air Trade Index, the Online B2C Index has further declined by 3.9 points to 42.6 points. The decrease is primarily influenced by the drop in Product Variety (-4.3 points), which had been stable since Q3 2023 before this recent plunge. Notably, there were also decreases in both Sales Volume (-3.3 points) and Shipment Urgency (-2.4 points).



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

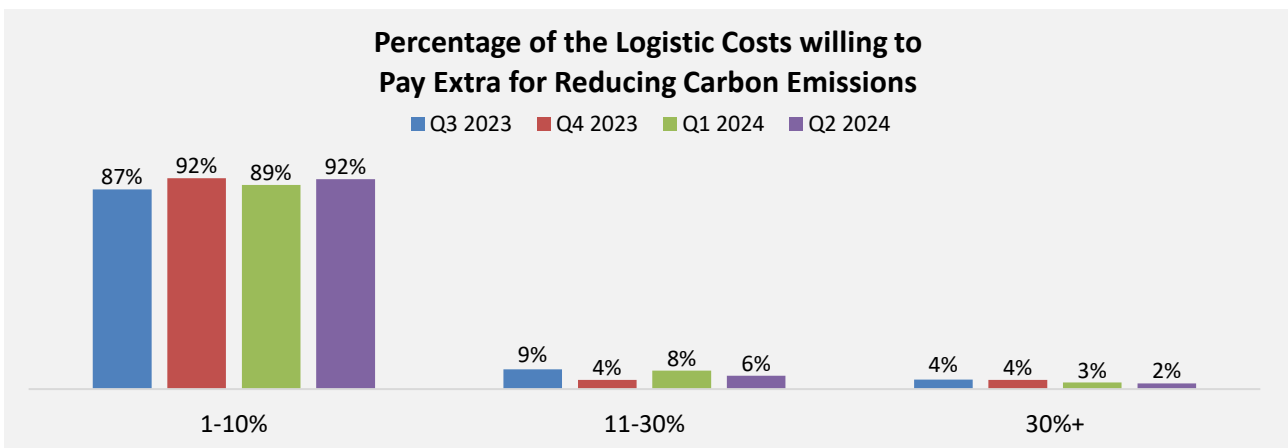
The proportion of surveyed air traders who are willing to contribute to reducing carbon emission has reached its highest level at 77% since Q3 2023, with an additional 3%-point increment this quarter.



Note: Based on air traders willing to take part in reducing carbon emissions

Note: Multiple answers allowed

“Social responsibility / Fulfilling ESG requirement” (63%) and “Supporting Government’s policy of achieving carbon neutrality” (30%) continue to be the key drivers among air traders who are willing to participate in reducing carbon emissions.

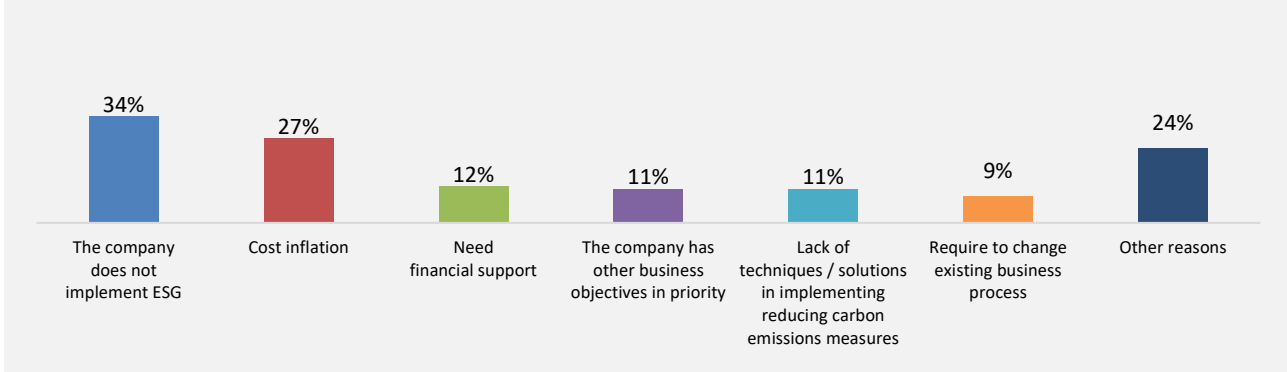


Note: Based on air traders willing to take part in reducing carbon emissions

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

Among these air traders who are willing to take part in reducing carbon emission, the majority (92%) of them are willing to pay up to 10% of their logistics costs to achieve this goal, while 6% of them are willing to pay an additional of 11-30%.

Reason(s) for Not Taking Part in Reducing Carbon Emissions



Note: Based on air traders not willing to take part in reducing carbon emissions

Note: Multiple answers allowed

On the contrary, the key barriers preventing air traders from participating in carbon emission reduction are “The company does not implement ESG” (34%) and “Cost inflation” (27%). Additionally, among the air traders who cited “Other reasons”, 42% of them stated that their obstacle in reducing carbon emissions is the "Lack of resources due to small business size".

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. HKPC promotes new industrialisation in Hong Kong and the Greater Bay Area and facilitates the development of new quality productive forces, leveraging innovation and technology (I&T), as well as bolstering Hong Kong to be an international I&T centre 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 marketplaces. 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, and strengthens talent nurturing and Hong Kong's competitiveness with FutureSkills training for enterprises and academia to enhance digital capabilities and STEM competencies.

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

Enquiry

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

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