

Hong Kong Freight Report Q4 2010

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Abstracts

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Hong Kong's airfreight boomed in May but growth rates softened in July with fears that the economic recovery is slowing down. Hactl handled a total of 245,352 tonnes in June, up 30.5% but this was a fall on the May figures, when a total of 257,315 tonnes were handled during the month. Such short-term fluctuations in freight are to be expected and it is hard to say how much of the slowdown in the growth rate in June represents a real weakening of the global economic recovery.

The Hong Kong authorities believe that in the first quarter of 2010, there was a swift period of economic recovery with GDP at a remarkable 8.2% year-on-year in real terms. The improvement in the first quarter of 2010 was broadly based. Private consumption increased by 7.1% year-on-year in real terms in the first quarter of 2010, following a 1.8% decline in 2009. Fixed investment surged 22.7% in the first quarter of 2010 after a slight increase of 2% in 2009. As for the external sector, exports of goods and services also surged by 25% in the first quarter of 2010, after dropping by -12.3% in 2009. The government maintained its forecast for economic growth this year of 4-5% in real terms in the latest round of forecast exercise in May 2010 which is above the BMI forecast of 2.4%. Total exports contracted by 10.1% in 2009 amid the global economic downturn. Exports recovered notably in 2010, with total exports expanding strongly by 25.1% year-on-year in the first half of 2010. BMI believes that the real growth in exports for the year will be 7%.

Hong Kong's major export markets are the Chinese mainland, the EU, the USA, ASEAN countries and Japan and in the first five months of 2010, export growth to the above markets was 33%, 3%, 10%, 32% and 18%, respectively. Imports dropped by 11% in 2009, but rebounded a remarkable 31.9% year-on-year in the first half of 2010. A visible trade deficit of almost US\$23bn, equivalent to a 11.3% value share of the

imports of goods, was recorded in the first six months of 2010, compared to 8.3% in 2009. In line with the gradual recovery of the world economy, Hong Kong's merchandise exports have recently rebounded. However, this recovery is dependent on no further shocks or relapses in the world economy. Consumers across the globe have cut back on their spending or shifted down to cheaper products. Hong Kong exporters are facing rising labour shortages and surging labour costs, their profit margins will be further sliced if the renminbi appreciates. Competition from other Asian suppliers is expected to grow.

Across the main freight modes, the current picture is one of fairly clear recovery, with the medium-term outlook set at moderate-to-good. As mentioned, the short-term outlook for airfreight is strong. We now forecast air cargo volume to grow by 5.8% in 2010 to 3.543mn tonnes and to remain in the 4-5% growth range in the next few years. Fastest growth will come on the roads, as Hong Kong integrates its trucking industry more closely with mainland China. In the five years to 2014, we expect annual road freight volume to expand by an average of 15.6%. Railfreight will grow from a very low base, as the sector begins to develop at an average of 62.5% over the forecast period. Maritime trade is expected to grow solidly at 3.5% to 251.5mn tonnes in 2010. Given strong competition from ports in the Chinese mainland, our medium-term forecast is for tonnage to grow by an annual average of 2.77%. Asian carriers are in a strong long-term position as a result of the exploding demand in China and India.

The prospects for airfreight over the forecast period are strong, particularly the regional trade in electronics, IT products and express/parcel delivery. A number of companies outside Hong Kong including Malaysia Airlines, Air Maleo have increased their operations in line with what is occurring in Hong Kong and so future competition will increase. Future infrastructure projects mean that over the long-term Hong Kong's links with China will be improved and more freight will use Hong Kong as a gateway. Although, Hong Kong will never re-establish the position it held in the 1990s as the single 'gateway' for trade into China. Private investment in airport cargo facilities and aircraft will also allow a greater flow of airfreight and reinforce Hong Kong's position as a regional hub in the long-term.

The main risk to our freight forecasts over 2010 for Hong Kong is the threat of a 'double-dip' recession in global terms. Such a downturn could be led by one, or by a combination, of the world economy's leading power centres such as in Asia that could overheat followed by an enforced slowdown in China. Europe where eurozone debt worries could trigger a further downturn or the USA where there are potential problems with the unwinding of the current fiscal and monetary incentives.

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