



STATE OF THE REGION: ASIA-PACIFIC

APRIL 2016

Economy

GDP growth, selected countries

| %change on a yr ago | 2015 | 2015Q2 | 2015Q3 | 2015Q4 |
|---------------------|------------|------------|------------|------------|
| India | 7.3 | 7.6 | 7.7 | 7.3 |
| Japan | 0.5 | 0.7 | 1.7 | 0.8 |
| Indonesia | 4.8 | 4.7 | 4.7 | 5.0 |
| Korea | 2.6 | 2.2 | 2.8 | 3.1 |
| Australia | 2.5 | 2.0 | 2.7 | 3.0 |
| Thailand | 2.8 | 2.7 | 2.8 | 2.7 |
| Malaysia | 5.0 | 4.9 | 4.7 | 4.5 |
| World* | 2.4 | 2.5 | 2.5 | 2.3 |

* Market exchange rate basis † Estimate Source: Datastream

Exchange rates

| end of period, # per US\$ | 2015 | Jan-16 | Feb-16 | Mar-16 |
|---------------------------|-------|--------|--------|--------|
| US\$ broad index | 122.4 | 125.2 | 124.0 | 121.5 |
| Japanese yen (JPY) | 120.2 | 121.1 | 112.9 | 112.4 |
| Australian dollar (AUD) | 1.37 | 1.41 | 1.40 | 1.30 |
| Sth Korean won (KRW) | 1176 | 1211 | 1240 | 1140 |
| Indian rupee (INR) | 66.2 | 67.9 | 68.2 | 66.2 |
| Indonesian rupiah (IDR) | 13840 | 13804 | 13389 | 13236 |
| Thai baht (THB) | 36.0 | 35.7 | 35.6 | 35.1 |
| Malaysian ringgit (MYR) | 4.29 | 4.15 | 4.20 | 3.90 |

Source: Datastream, XE

World oil and jet fuel price

| US\$/barrel | 2015 | Jan-16 | Feb-16 | Mar-16 |
|-------------------|------|--------|--------|--------|
| Crude oil (Brent) | 52.4 | 30.7 | 32.2 | 38.2 |
| Jet fuel | 64.0 | 39.1 | 40.9 | 44.9 |

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

| %change on a yr ago | 2015 | Dec-15 | Jan-16 | Feb-16 |
|------------------------------------|------|--------|--------|--------|
| Region (registration basis) | | | | |
| Asia Pacific | 8.7 | 8.0 | 10.6 | 9.8 |
| World | 6.5 | 5.7 | 7.1 | 8.6 |
| Routes (segment basis) | | | | |
| India domestic | 19.8 | 20.4 | 22.9 | 24.6 |
| Japan domestic | 1.9 | 1.2 | 1.1 | 1.4 |
| Australia domestic | 0.3 | 1.7 | 3.0 | 4.6 |
| Asia - Europe | 3.4 | 0.6 | 2.8 | 4.0 |
| Within Asia | 8.6 | 5.6 | 10.4 | 8.4 |
| Asia - Nth America | 5.8 | 5.6 | 9.1 | 9.3 |
| Asia - Middle East | 9.8 | 10.5 | 7.5 | 9.0 |
| S/w Pacific - N/S America | 8.1 | 13.7 | 16.1 | 13.8 |
| Asia - Africa | -1.2 | 6.9 | 11.3 | 11.5 |

Source: IATA Statistics

→ RPK growth for the Asia-Pac airlines eased a little in Feb, to a still strong 9.8%yoy. Even so, the regional growth rate remained above the global industry average figure of 8.6%. Note that the leap year, along with Lunar New Year, will have impacted the Feb pax data.

→ Passenger volumes in the India domestic market ticked

Business confidence - manufacturing PMIs



→ Business confidence trended higher in both Indonesia & India, buoyed by generally favourable economic conditions. The converse applies for Japan where confidence eased further this month.

→ The US\$ fell by just over 2% in March, dipping below the level at which it ended 2015. Regionally, the main mover was the KRW which gained 8%, followed by the AUD & MYR which ended the month up ~7% against the US\$.

→ World oil & jet fuel prices surged in March, the former rising almost 20% (US\$6) to US\$38/bbl & the latter up 10% (US\$4) to US\$45/bbl. The upwards move was buoyed by speculation that agreement on production cuts may be reached amongst key oil producers.

higher again, registering growth of almost 25% over the past year. Growth in the Australia domestic market continued its gradual trend increase this month, rising to a solid 4.6%, while RPKs in the Japan domestic market were steady at a modest 1.4%yoy.

→ Of the key inter-regional markets, the gradual recovery in Asia-Europe traffic is a positive development. However, at a moderate 4%yoy growth rate, it lags – by a considerable margin – developments on other routes.

Growth in air passenger volumes



Freight tonne kilometers (FTKs)

| %change on a yr ago | 2015 | Dec-15 | Jan-16 | Feb-16 |
|------------------------------------|------|--------|--------|--------|
| Region (registration basis) | | | | |
| Asia Pacific | 2.4 | 0.7 | 0.7 | -12.4 |
| World | 2.2 | 1.0 | 2.3 | -5.6 |
| Routes (segment basis) | | | | |
| Asia - Europe | -5.4 | -1.7 | 1.5 | -8.5 |
| Asia - Nth America | 5.1 | -4.4 | -8.5 | -19.8 |
| Within Asia | -0.3 | -0.4 | 1.8 | -7.6 |
| Asia - Middle East | 7.0 | 1.4 | 6.5 | -2.3 |
| S/w Pacific - N/S America | 12.5 | 17.9 | 19.0 | 6.7 |
| Asia - Africa | 1.3 | -1.3 | 17.7 | 5.6 |

Source: IATA Statistics

- Freight volumes fell sharply at both the global & regional level over the year to Feb. For Asia-Pac carriers, FTKs are down 12.4%yoy, more than double the pace of decline at the industry level (-5.6%yoy).
- We caution that freight volumes are significantly impacted at this time of the year by the Lunar New Year. On this occasion, the data are also affected by the one-off boost to air freight volumes a year ago following the disruption at sea ports on the US west coast.

Industry

Capacity growth and load factors

| ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK | 2015 | Dec-15 | Jan-16 | Feb-16 |
|---|------|--------|--------|--------|
| Passenger | | | | |
| Asia Pacific ASK | 6.7 | 7.0 | 7.9 | 9.6 |
| Asia Pacific PLF | 78.6 | 78.0 | 78.7 | 79.0 |
| World ASK | 5.6 | 5.3 | 5.6 | 9.6 |
| World PLF | 80.2 | 78.9 | 78.9 | 77.8 |
| Freight | | | | |
| Asia/Pacific AFTK | 5.7 | 4.6 | 5.0 | 3.7 |
| Asia/Pacific FLF | 54.0 | 54.1 | 49.9 | 46.2 |
| World AFTK | 6.2 | 6.8 | 6.2 | 7.5 |
| World FLF | 44.2 | 43.8 | 41.5 | 41.0 |

Source: IATA Statistics. Note: LF=seasonally adjusted load factor. ASK=available seat kilometers. AFTK=available freight tonne kilometers

- Asia-Pac airlines have grown pax capacity strongly over the past year, in line with the global average, at 9.6%yoy. But at 79.0% in Feb, the regional PLF sits a little above the overall industry figure (77.8%).
- Regional AFTKs are up 3.7%yoy, half the rate of the industry overall – a strong 7.5%. The regional FLF trended lower again in Feb but remains 5pp higher than the industry rate of 41%.
- The latest Q4 financial data show the EBIT margin for Asia-Pac carriers is robust at 9.5%, well up on a year ago & similar to the global industry outcome of 9.7%.

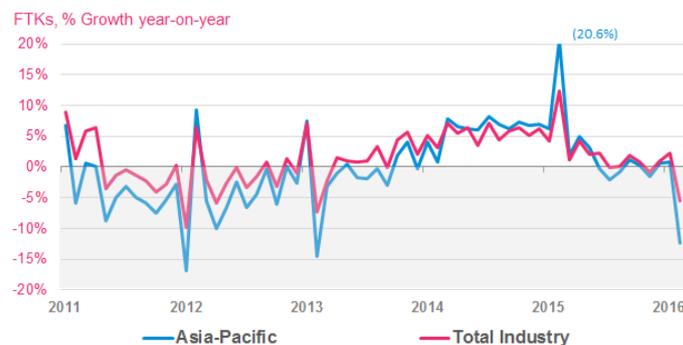
Airline EBIT margins*

| %revenues | 2013 | 2014 | 2014Q4 | 2015Q4 |
|--------------|------|------|--------|--------|
| Asia Pacific | 2.3 | 2.8 | 5.6 | 9.5 |
| Industry | 4.1 | 5.2 | 6.3 | 9.7 |

Source: Airline Analyst * constant sample basis, not seasonally adjusted

- These effects are most noticeable in the 10+pp deterioration in the Asia-NthAm growth rate for Feb.
- Such disruptions make it difficult to draw many firm conclusions about the underlying state of the regional freight market. That said, it remains the case that the fundamental demand drivers for the global air freight industry remain relatively subdued, pointing to challenging conditions continuing for some time.

Growth in air freight volumes



Source: IATA Statistics

- Passenger yields in the main domestic markets & on key regional routes continue to show widespread declines. With the exception of Japan domestic, yields are still down by a double-digit rate, influenced by developments in fuel prices & the US\$.

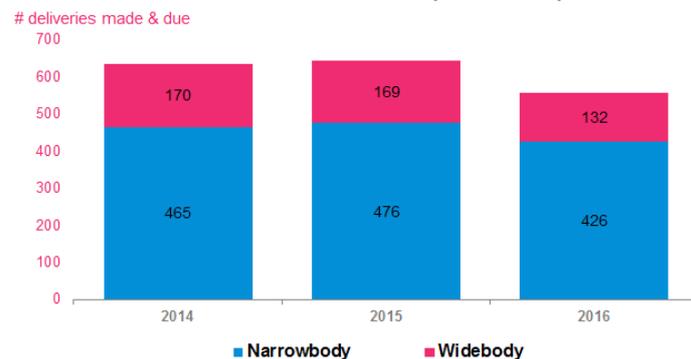
Passenger yields, excl. surcharges & ancillaries

| %change on a yr ago | 2015 | Dec-15 | Jan-16 | Feb-16 |
|---------------------|-------|--------|--------|--------|
| India domestic | -13.3 | -16.2 | -20.0 | -20.7 |
| Japan domestic | -9.3 | -4.9 | -6.4 | -6.7 |
| Australia domestic | -8.9 | -15.7 | -18.7 | -19.7 |
| Asia - Europe | -19.1 | -15.0 | -15.9 | -12.5 |
| Within Asia | -7.7 | -9.5 | -9.2 | -11.0 |
| Asia - Nth America | -15.1 | -11.0 | -11.0 | -11.1 |
| Asia - Middle East | -7.6 | -6.7 | -8.3 | -10.1 |
| Asia - Sth America | -18.0 | -13.5 | -12.8 | -11.0 |
| Asia - Africa | -17.8 | -13.5 | -11.9 | -14.1 |

Source: IATA PaxIS

- Current data point to a slowing in the number of wide & narrowbody aircraft deliveries to the region this year, compared with both 2014 & 2015.

Aircraft deliveries to the Asia Pacific (latest data)



Source: Ascend