

State of the region: Asia Pacific

August 2019

Economy

GDP growth, selected countries

| % change on a yr ago | 2018 | Q4 2018 | Q1 2019 | Q2 2019 |
|----------------------|------------|------------|------------|------------|
| India | 7.4 | 6.6 | 5.8 | -- |
| Japan | 0.8 | 0.3 | 1.0 | 1.1 |
| Indonesia | 5.2 | 5.2 | 5.1 | 5.0 |
| Korea | 2.7 | 3.0 | 1.6 | 2.1 |
| Australia | 2.8 | 2.4 | 1.8 | -- |
| Thailand | 4.1 | 3.7 | 2.8 | -- |
| Malaysia | 4.7 | 4.7 | 4.5 | 4.9 |
| World* | 3.2 | 2.8 | 2.7 | 2.5 |

* Market exchange rate basis † Estimate Source: Datastream

Exchange rates

| end of period, # per US\$ | 2018 | May-19 | Jun-19 | Jul-19 |
|---------------------------|-------|--------|--------|--------|
| US\$ broad index | 128.5 | 128.7 | 128.3 | 127.8 |
| Japanese yen (JPY) | 110.0 | 108.6 | 107.8 | 108.6 |
| Australian dollar (AUD) | 1.42 | 1.44 | 1.43 | 1.45 |
| Sth Korean won (KRW) | 1115 | 1190 | 1157 | 1182 |
| Indian rupee (INR) | 69.8 | 69.7 | 69.0 | 68.8 |
| Indonesian rupiah (IDR) | 14380 | 14273 | 14128 | 14017 |
| Thai baht (THB) | 32.6 | 31.6 | 30.7 | 30.8 |
| Malaysian ringgit (MYR) | 4.13 | 4.19 | 4.13 | 4.13 |

Source: Datastream

World oil and jet fuel price

| US\$/barrel (period ave.) | 2018 | May-19 | Jun-19 | Jul-19 |
|---------------------------|------|--------|--------|--------|
| Crude oil (Brent) | 71.7 | 70.4 | 63.2 | 64.3 |
| Jet fuel | 86.4 | 84.4 | 76.5 | 80.4 |

Source: Platts, Datastream (monthly average data)

Market

Revenue passenger kilometers (RPKs)

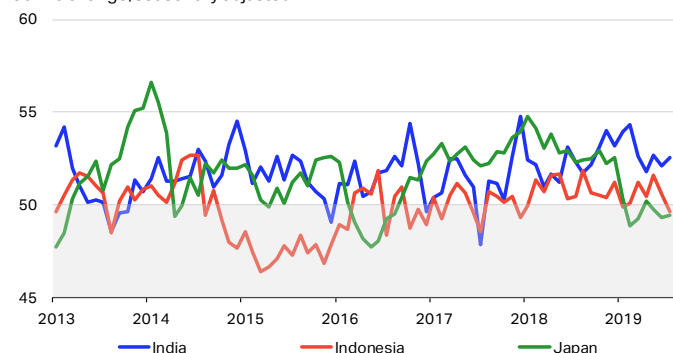
| % change on a yr ago | 2018 | Apr-19 | May-19 | Jun-19 |
|------------------------------------|------|--------|--------|--------|
| Region (registration basis) | | | | |
| Asia Pacific | 9.1 | 2.7 | 5.0 | 4.7 |
| World | 6.9 | 4.3 | 4.7 | 5.0 |
| Routes (segment basis) | | | | |
| India domestic | 19.0 | -2.0 | 5.1 | 7.9 |
| Japan domestic | 2.0 | 4.4 | 7.6 | 2.4 |
| Australia domestic | 1.5 | 0.9 | -0.1 | -1.2 |
| Asia - Europe | 7.1 | 8.5 | 10.4 | 6.8 |
| Within Asia | 10.2 | 7.2 | 6.9 | 7.3 |
| Asia - Nth America | 3.9 | 3.2 | 5.2 | 2.1 |
| Asia - Middle East | 4.4 | 3.6 | 1.6 | 8.1 |
| S/w Pacific - N/S America | 6.9 | 5.2 | 8.9 | 3.3 |
| Asia - Africa | 9.4 | -0.5 | 2.5 | 9.8 |

Source: IATA Statistics Note: historical data may be subject to revision

- Industry-wide revenue passenger kilometres (RPKs) increased by an even 5.0% over the 12 months to June, the best outcome since February. That said, the pace remained a little slower than the 20-year average growth rate of around 5.5%.
- In Asia Pacific, the pace of RPK growth (4.7%) is slightly lower than overall industry growth rate. The growth rate

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

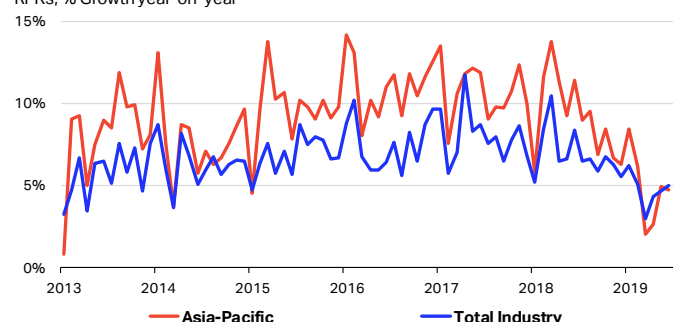
- US-China trade tensions together with escalations of tensions with South Korea continued to affect the business environment in Japan as the business confidence index remained below the 50 threshold level. In Indonesia, business sentiment fell sharply on subdued domestic conditions. On the other hand, in India, business confidence recovered with the support of a pick-up in domestic demand.
- On a trade-weighted basis, the US\$ eased by 0.3%, its second consecutive monthly decrease. Among regional currencies, the KRW depreciated with the increased worries of China-US trade war on growth.
- Jet fuel and crude oil prices continued to be volatile following signs of a weakening in the global economy and tensions in the Middle East oil supply.

eased compared to the previous month as the growth in some of main international markets lost momentum.

- In India, y-o-y growth in RPKs rose to ~8% as the domestic market is adjusting quickly to the Jet Airways demise. While RPK growth eased in Japan, RPKs in Australia continue to trend downwards. Across the key international markets in the region, RPK growth remained solid in the largest Asia-Europe despite the moderation compared to the previous month.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

| % change on a yr ago | 2018 | Apr-19 | May-19 | Jun-19 |
|------------------------------------|------|--------|--------|--------|
| Region (registration basis) | | | | |
| Asia Pacific | 1.4 | -10.2 | -6.4 | -5.4 |
| World | 3.6 | -5.6 | -3.5 | -4.8 |
| Routes (segment basis) | | | | |
| Asia - Europe | 1.1 | -6.0 | 1.9 | -4.0 |
| Asia - Nth America | 3.7 | -7.8 | -5.2 | -4.3 |
| Within Asia | 0.6 | -11.1 | -10.7 | -7.0 |
| Asia - Middle East | 4.8 | -4.0 | -6.7 | -4.7 |
| S/w Pacific - N/S America | 8.7 | -2.4 | -9.1 | -8.6 |
| Asia - Africa | -4.0 | 10.9 | 12.0 | 7.3 |

Source: IATA Statistics Note: historical data may be subject to revision

- Additional tariff increases in the ongoing US-China trade dispute that came into effect on June 1st are likely to have contributed to the further fall in annual FTK growth rate in June (volumes down 4.8% y-o-y).
- For Asia Pacific carriers, FTKs fell by 5.4% vs the same period a year ago. The aforementioned tariff increases, along with increased expectations of further slowing in GDP growth are both likely to have played a role in this.

Industry

Capacity growth and load factors

| ASK/AFTK: %ch on a yr ago, | | 2018 | Apr-19 | May-19 | Jun-19 |
|----------------------------|------|------|--------|--------|--------|
| LF: % of ASK/AFTK | | | | | |
| Passenger | | | | | |
| Asia Pacific | ASK | 8.5 | 3.7 | 3.9 | 4.0 |
| | PLF | 81.5 | 81.7 | 80.2 | 82.1 |
| World | ASK | 6.5 | 3.3 | 2.7 | 3.3 |
| | PLF | 81.9 | 83.0 | 81.6 | 84.4 |
| Freight | | | | | |
| Asia/Pacific | AFTK | 4.0 | -1.3 | 0.0 | 1.8 |
| | FLF | 55.8 | 50.9 | 52.4 | 52.2 |
| World | AFTK | 4.9 | 1.7 | 1.4 | 2.6 |
| | FLF | 49.3 | 46.3 | 46.8 | 45.4 |

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

- The industry saw a record-high passenger load factor (PLF) for the month of June as the pace of capacity growth continued to be slower than that of demand. The story was less positive on the freight side with the FLF well below that of June 2018 (48.9%).
- In Asia Pacific, the PLF improved compared to the previous month and jumped to record-high (82.1%) outcome for any June month. By contrast, the FLF remained subdued, almost 4ppt lower vs a year ago.
- The initial releases of airline financial data for Q2 2019 (limited sample of 25 airlines) point to an improved industry-wide profitability compared to the prior year.

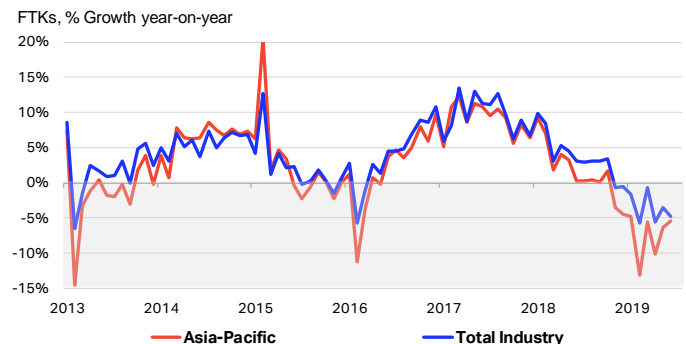
Airline operating (EBIT) margins*

| % revenues | 2017 | 2018 | 2018Q2 | 2019Q2 |
|--------------|------|------|--------|--------|
| Asia Pacific | 6.3 | 4.5 | 4.2 | 5.3 |
| Industry | 7.5 | 5.8 | 10.3 | 10.9 |

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

- Apart from Africa-Asia routes, volumes declined in annual terms on all key markets. Within Asia routes and S/w Pacific – N/S America routes posted the weakest growth.
- Growth for the largest Asia-Europe market eased following a temporary rebound in May. The smallest Africa-Asia is the only growing market, posting a positive outcome for the fourth consecutive month.

Growth in air freight volumes



Source: IATA Statistics

- In Asia Pacific, overall profitability improved by 1.1 ppt compared to Q2 2018 driven by performance in India, notwithstanding the disruption of recent events.
- Passenger yields showed mixed results across the region's key markets. While domestic India continued to post increasing yield growth, Australia showed the opposite, with yields ~6% lower y-o-y. Yield growth remained negative in most of the international markets with the exception of Asia-Middle East (up 10% y-o-y).

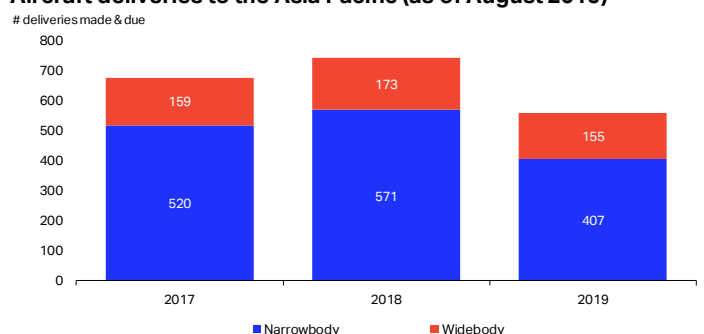
Passenger yields (US\$, excl. surcharges & ancillaries)

| % change on a yr ago | 2018 | Apr-19 | May-19 | Jun-19 |
|----------------------|------|--------|--------|--------|
| India domestic | -4.1 | 3.3 | 1.6 | 5.5 |
| Australia domestic | 0.0 | -4.1 | -4.1 | -5.7 |
| Asia - Europe | -1.9 | -6.9 | -3.1 | -10.3 |
| Within Asia | -1.9 | -4.9 | -3.9 | -6.2 |
| Asia - Nth America | -2.7 | -1.4 | -1.2 | -3.8 |
| Asia - Middle East | -1.7 | 14.3 | 14.8 | 10.0 |
| Asia - Sth America | 0.7 | -7.7 | -11.2 | -11.7 |
| Asia - Africa | 0.8 | -3.8 | -5.4 | -7.1 |

Source: IATA Travel Intelligence Note: historical data may be subject to revision

- The latest data show a decline in the number of jet aircraft deliveries (mostly narrow body) that are scheduled for Asia Pacific carriers in 2019 vs 2018.

Aircraft deliveries to the Asia Pacific (as of August 2019)



Source: Ascend