

State of the region: Asia-Pacific

February 2019

Economy

GDP growth, selected countries

% change on a yr ago	2017	Q2 2018	Q3 2018	Q4 2018
India	6.2	8.2	7.1	--
Japan	1.9	1.4	0.1	0.0
Indonesia	5.1	5.3	5.2	5.2
Korea	3.1	2.8	2.0	3.2
Australia	2.4	3.1	2.8	--
Thailand	3.9	4.6	3.2	3.7
Malaysia	5.9	4.5	4.4	4.7
World*	3.1	3.2	2.9	2.8

* Market exchange rate basis † Estimate Source: Datastream

Exchange rates

end of period, # per US\$	2018	Nov-18	Dec-18	Jan-19
US\$ broad index	128.5	128.3	128.5	126.7
Japanese yen (JPY)	110.0	113.5	110.0	108.8
Australian dollar (AUD)	1.42	1.37	1.42	1.37
Sth Korean won (KRW)	1115	1121	1115	1112
Indian rupee (INR)	69.8	69.7	69.8	71.1
Indonesian rupiah (IDR)	14380	14303	14380	13973
Thai baht (THB)	32.6	32.9	32.6	31.2
Malaysian ringgit (MYR)	4.13	4.18	4.13	4.10

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel (period ave.)	2018	Nov-18	Dec-18	Jan-19
Crude oil (Brent)	71.1	64.8	57.4	59.4
Jet fuel	84.7	81.7	71.2	74.9

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

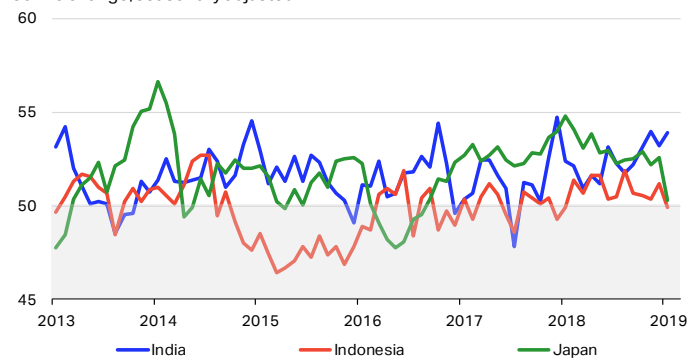
% change on a yr ago	2017	Oct-18	Nov-18	Dec-18
Region (registration basis)				
Asia Pacific	10.8	7.6	6.5	6.4
World	8.0	6.3	6.1	5.3
Routes (segment basis)				
India domestic	17.5	15.2	13.2	10.0
Japan domestic	5.8	1.7	2.7	4.7
Australia domestic	0.4	1.3	-0.7	-1.8
Asia - Europe	10.5	7.5	7.6	6.7
Within Asia	11.4	6.3	6.1	6.2
Asia - Nth America	7.2	1.7	3.4	2.2
Asia - Middle East	7.0	5.9	4.7	1.4
S/w Pacific - N/S America	6.5	7.1	8.4	9.1
Asia - Africa	3.7	5.8	10.0	9.7

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

- The upward trend in industry-wide revenue passenger kilometres (RPKs) has softened over the past 6 months alongside signs of slowing global economic expansion. This translated into passenger growth moderating to 5.3%yoy in Dec, the slowest pace since early-2018.
- At the regional level, RPK growth for the AsiaPac carriers outperformed the industry-wide average by ~1pp and showed the second strongest growth in

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



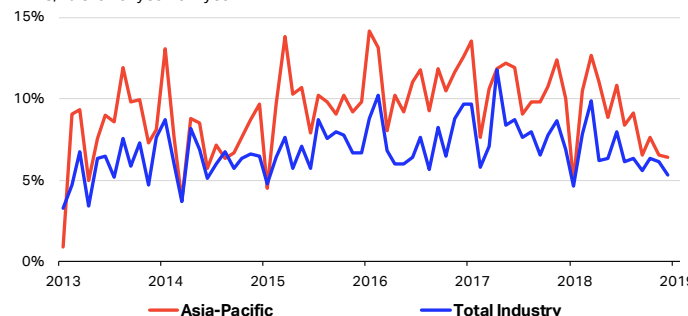
- Despite some recovery in Q4 GDP in Japan, the yoy rate was flat and businesses remain weary regarding the economic outlook. Sentiment dipped in Indonesia but recovered in India, underpinned by an increase in factory orders.
- On a trade-weighted basis, the US\$ ticked down by 1.4%, falling for the first time since early-2018. Of the main regional currencies, the THB & AUD rose by 3-4% against the \$US while the INR fell by 2%.
- Brent crude and jet fuel prices have been volatile in recent months; after the sharp fall in Q4 2018, they picked up again in January, reacting to supply cuts from OPEC countries.

passenger demand of all regions in Dec (6.4%yoy).

- Although RPK growth ticked down a little in the India domestic market, it sustained a strong double-digit growth rate of 10% vs a year ago. For Japan domestic, pax demand growth soared to a healthy 4.7%yoy.
- Traffic remains solid across the larger international markets in the region; volumes for the Asia-Europe & Within Asia were 6.7% and 6.2% higher vs a year ago, respectively.
- Smaller S/wPac-N/SAm & Asia-Africa remain the fastest growing international markets in the region with RPK growth between 9-10%yoy in Dec.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Freight tonne kilometers (FTKs)

% change on a yr ago	2017	Oct-18	Nov-18	Dec-18
Region (registration basis)				
Asia Pacific	9.0	2.0	-3.3	-4.5
World	9.7	3.3	-0.3	-0.5
Routes (segment basis)				
Asia - Europe	12.2	2.0	-1.0	-1.4
Asia - Nth America	10.1	4.8	-1.2	-1.0
Within Asia	8.6	1.7	-6.0	-8.5
Asia - Middle East	8.1	7.1	3.9	2.4
S/w Pacific - N/S America	24.6	12.0	18.6	4.7
Asia - Africa	57.8	-3.8	-17.6	-4.2

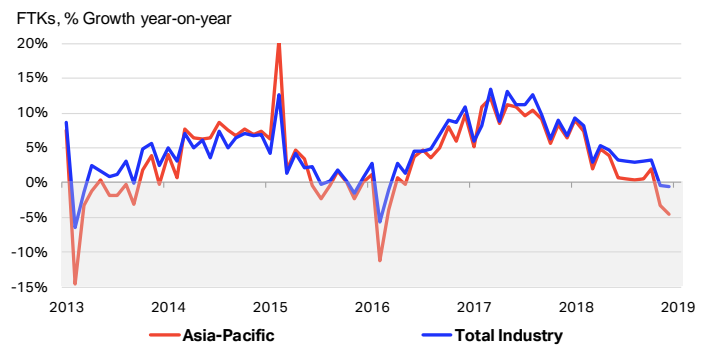
Source: IATA Statistics Note: historical data may be subject to revision

- Industry-wide freight tonne kilometres (FTKs) ended 2018 on a soft note, with year-on-year volumes down 0.5% compared to their level of Dec 2017. The moderation appears to reflect the end of the global restocking cycle as well as signs of weakness in key demand drivers.
- Annual growth in FTKs deteriorated this month for the Asia Pacific airlines amidst increasing signs of China economic slowdown and ongoing concerns about the development of the global trade war tensions.
- FTK growth remains negative for the region's larger

international markets this month. Within-Asia became the key underperformer, recording an 8.5% decline in freight volumes. The other two larger markets, Europe & NthAm, had volumes down ~1% vs last year, not a significant change from November.

- Of the smaller markets, Asia-Africa volumes also fell vs a year ago, although its underperformance was less 'dramatic' compared to Nov (-17.6% vs -4.2%). Demand growth on S/wPac-N/SAm routes ended the year on a soft note, falling sharply to 4.7%yoy, more than 4pp below the year's average.

Growth in air freight volumes



Source: IATA Statistics

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago,		2017	Oct-18	Nov-18	Dec-18
LF: % of ASK/AFTK					
Passenger					
Asia Pacific	ASK	9.0	7.2	7.5	6.7
	PLF	81.0	80.6	80.3	81.0
World	ASK	6.6	6.4	6.7	6.1
	PLF	81.5	81.0	80.0	80.4
Freight					
Asia/Pacific	AFTK	5.6	4.7	3.7	2.6
	FLF	57.2	56.7	56.3	54.0
World	AFTK	5.9	5.6	4.4	3.8
	FLF	49.9	50.4	51.3	48.8

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

- While the industry-wide passenger load factor (PLF) ticked up to 80.4% this month, a modest improvement vs Nov, the freight load factor (FLF) eased to 48.8%.
- The PLF for the AsiaPac airlines outperformed the industry-wide outcome by 0.6pp this month. The region's FLF eased to 54.0%, from 56.3% in Nov.
- First releases of financial data from the final quarter of 2018 indicate that the industry-wide EBIT margin fell modestly compared to Q4 2017, to a still robust 8.2%. At the regional level, the EBIT margin eased to 9.5%, from 11.6% a year ago.

Airline operating (EBIT) margins*

% revenues	2016	2017	2017Q4	2018Q4
Asia Pacific	7.4	5.5	11.6	9.5
Industry	8.5	7.5	9.4	8.2

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

- Developments in passenger yields were mixed in Dec across key markets in the region. While yield growth recovered in India domestic to 5.5%yoy, it remained negative in Within Asia & Asia-Europe, at -7.2% & -2.4%yoy, respectively.

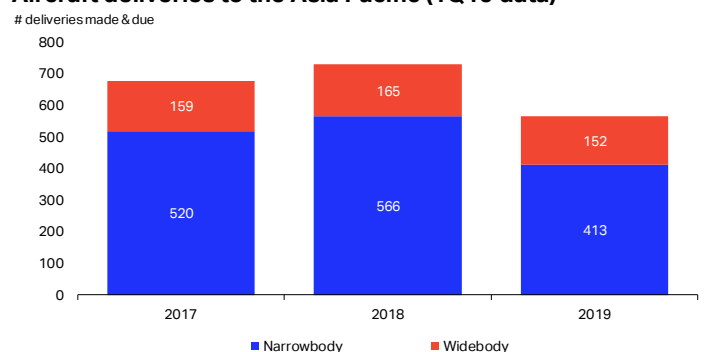
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2017	Oct-18	Nov-18	Dec-18
India domestic	-2.3	-8.8	-1.0	5.5
Australia domestic	5.5	4.0	2.0	2.0
Asia - Europe	1.9	-1.0	-3.4	-2.4
Within Asia	-5.6	-4.5	-6.2	-7.2
Asia - Nth America	-3.2	4.4	3.9	5.1
Asia - Middle East	-3.5	-1.9	1.5	1.4
Asia - Sth America	-4.2	-3.0	-2.1	-2.4
Asia - Africa	-0.1	0.8	-1.8	0.6

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

- The latest data show a moderate decline in the number of jet aircraft deliveries that are expected to be delivered to Asia Pac carriers in 2019 vs 2018 following 2 years of strong growth.

Aircraft deliveries to the Asia Pacific (1Q19 data)



Source: Ascend