



STATE OF THE REGION: ASIA-PACIFIC

FEBRUARY 2017

Economy

GDP growth, selected countries

%change on a yr ago	2015	2016Q2	2016Q3	2016Q4
India	7.5	7.2	7.4	7.0
Japan	1.3	0.9	1.1	1.6
Indonesia	4.9	5.2	5.0	4.9
Korea	2.6	3.2	2.6	2.3
Australia	2.4	3.1	1.9	2.4
Thailand	2.8	3.5	3.2	2.7
Malaysia	5.0	4.0	4.3	4.5
World*	2.3	2.1	2.2	2.4

* Market exchange rate basis † Estimate Source: Datastream

Exchange rates

end of period, # per US\$	2016	Nov-16	Dec-16	Jan-17
US\$ broad index	127.7	125.8	127.7	127.6
Japanese yen (JPY)	116.8	114.4	116.8	112.7
Australian dollar (AUD)	1.38	1.35	1.38	1.32
Sth Korean won (KRW)	1209	1178	1209	1152
Indian rupee (INR)	67.9	68.6	67.9	67.5
Indonesian rupiah (IDR)	13427	13562	13427	13296
Thai baht (THB)	35.9	35.7	35.9	35.1
Malaysian ringgit (MYR)	4.49	4.47	4.49	4.43

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel	2016	Nov-16	Dec-16	Jan-17
Crude oil (Brent)	52.4	44.7	53.3	54.6
Jet fuel	64.0	57.0	62.6	63.6

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

%change on a yr ago	2016	Oct-16	Nov-16	Dec-16
Region (registration basis)				
Asia Pacific	9.2	9.3	10.0	11.2
World	6.3	5.8	7.8	8.8
Routes (segment basis)				
India domestic	23.3	22.7	22.1	23.7
Japan domestic	0.7	1.0	-0.5	4.7
Australia domestic	1.6	1.2	1.8	0.9
Asia - Europe	1.8	1.5	4.5	9.3
Within Asia	7.5	5.9	4.9	7.7
Asia - Nth America	6.4	6.0	7.0	8.2
Asia - Middle East	6.7	0.2	9.5	9.8
S/w Pacific - N/S America	15.5	19.5	25.2	13.5
Asia - Africa	6.8	9.3	4.0	0.9

Source: IATA Statistics

→ Industry-wide traffic volumes increased to a 10-month high of 8.8%yoy in Dec, up from 7.8%yoy in Nov. For 2016 as a whole, volumes increased by 6.3%, well ahead of the long-run average growth rate, even allowing for the additional trading day from the leap year.

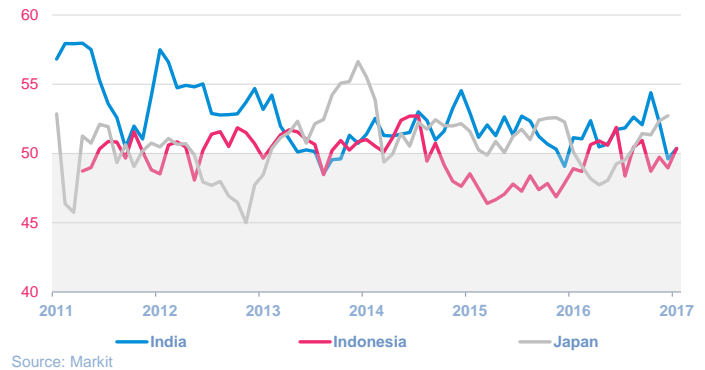
→ Even so, pax traffic volumes for the Asia-Pac carriers exceeded the strong industry performance, with a

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Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



→ The main business confidence measures for the region moved moderately higher this month. However, the indicators for both India & Indonesia remain relatively subdued despite generally robust economic outcomes.

→ The US\$ was broadly unchanged on a trade-weighted basis in Jan. Amongst the main regional currencies, the JPY, KRW & AUD all rebounded this month following solid falls in Dec, rising ~3.5-4.5% vs the USD in Jan. The THB gained a little over 2% mom.

→ Oil & jet fuel prices edged higher in Jan, consolidating the outsized gain observed in Dec. The price of Brent crude rose 2.4% in Jan to average US\$54.60 & jet rose 1.5% to US\$63.60.

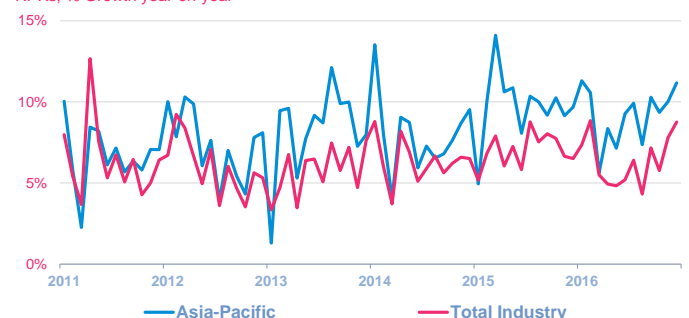
double-digit increase of 11.2% over the past 12 months and a 9.2% gain for 2016 as a whole.

→ Unsurprisingly, India domestic RPKs ended the year strongly, with growth of 23% for the year overall. This is in stark contrast with Japan domestic pax volumes which grew by less than 1% in 2016 compared with 2015.

→ Apart from Asia-Europe, 2016 generally saw robust RPK growth in the order of 6.5-7.5% on key markets.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Oct-16	Nov-16	Dec-16
Region (registration basis)				
Asia Pacific	2.1	8.2	5.8	9.8
World	3.8	8.4	7.2	9.8
Routes (segment basis)				
Asia - Europe	3.9	10.8	6.2	15.4
Asia - Nth America	-1.2	6.9	6.3	9.1
Within Asia	7.0	12.5	12.6	17.5
Asia - Middle East	4.8	9.6	5.2	10.0
S/w Pacific - N/S America	18.6	34.0	23.9	30.2
Asia - Africa	30.1	40.3	57.7	57.2

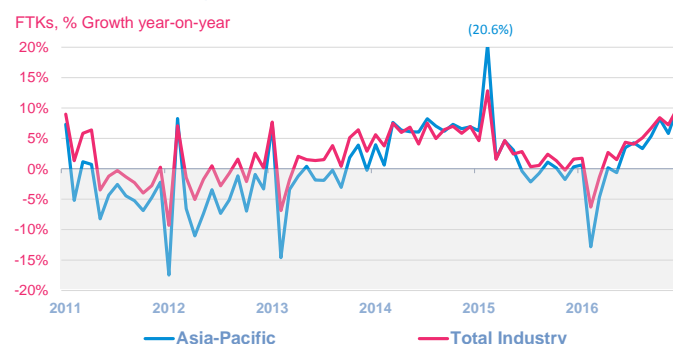
Source: IATA Statistics

- ➔ Growth in global FTKs increased to 9.8%yoy in Dec, following a strong second half performance. The soft start to the year, however, weighed upon the annual average growth rate of 3.8%. Even so, the latter is almost double its five-year average pace of 2.0%.
- ➔ A similar pattern is evident for the Asia-Pac carriers where FTKs also increased by almost 10% in year-on-year terms to Dec, but the annual growth rate was more

subdued, at a relatively modest 2.1%.

- ➔ Amongst the main markets, & despite a generally strong end to the year, the annual FTK growth rates were varied. Within Asia delivered the strongest annual growth rate, with freight volumes up 7% on 2015. In contrast, FTKs *contracted* on routes between Asia & Nth America in 2016, down 1.2% for the year as a whole.

Growth in air freight volumes



Source: IATA Statistics

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK	2016	Oct-16	Nov-16	Dec-16
Passenger				
Asia Pacific ASK	8.1	8.4	8.6	8.0
Asia Pacific PLF	79.7	79.6	79.2	80.8
World ASK	6.2	6.2	6.5	6.6
World PLF	80.5	80.1	79.1	80.6
Freight				
Asia/Pacific AFTK	3.6	3.7	4.0	5.7
Asia/Pacific FLF	52.8	55.9	56.8	55.1
World AFTK	5.3	3.8	4.7	3.2
World FLF	43.0	46.2	47.2	46.1

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

- ➔ Over the 12mths to Dec16, Asia-Pac carriers increased both pax & freight capacity at a faster rate than the industry average; ASKs are up 8.0% (vs 6.6%) & AFTKs are up 5.7% (vs 3.2%). However, reflecting the slow start to 2016, the growth in Asia-Pac AFTKs for the year overall are lower than the industry figure (3.6% vs 5.3%).
- ➔ Notwithstanding the faster yoy capacity growth, the region's load factors are higher than the industry figures for Dec; only just in the case of the PLF, but – as we've come to expect – significantly in the case of the FLF (almost 10pp higher in the latter case).

- ➔ The initial Q4 financials show a modest improvement in

Airline operating (EBIT) margins*

%revenues	2014	2015	2015Q4	2016Q4
Asia Pacific	2.5	7.7	9.0	10.1
Industry	4.7	8.3	14.7	9.7

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

the EBIT margin for the Asia-Pac carriers, up 1pp vs a year ago, to 10.1%. This figure is ~0.5pp above the latest industry figure (9.7%, down 5pp on Q4 2015).

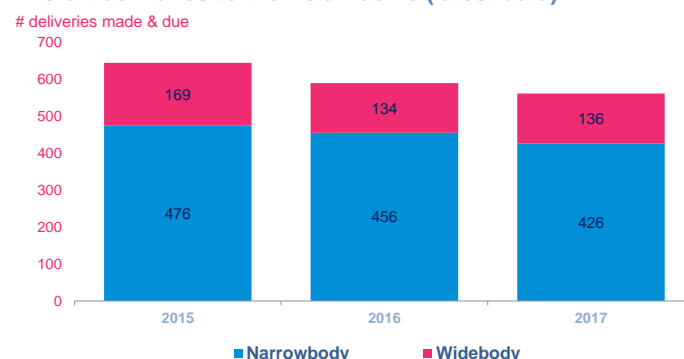
- ➔ With the exception of Japan domestic, passenger yields on key markets for the region are all lower than their level of a year ago. Many are in double-digit decline. This comes despite the upward trend in oil and jet fuel prices over 2016.

Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2016	Oct-16	Nov-16	Dec-16
India domestic	-14.9	-13.3	-16.8	-18.0
Japan domestic	2.3	3.8	5.2	5.4
Australia domestic	-9.0	-0.3	-12.8	-3.9
Asia - Europe	-10.3	-9.4	-10.0	-8.1
Within Asia	-10.0	-8.9	-11.4	-11.1
Asia - Nth America	-7.2	-4.7	-4.4	-4.3
Asia - Middle East	-10.5	-11.7	-12.0	-13.9
Asia - Sth America	-9.1	-11.6	-5.9	-10.3
Asia - Africa	-8.8	-9.2	-5.4	-10.5

Source: IATA PaxIS

Aircraft deliveries to the Asia Pacific (latest data)



Source: Ascend