

State of the region: Asia-Pacific

May 2019

Economy

GDP growth, selected countries

% change on a yr ago	2018	Q3 2018	Q4 2018	Q1 2019
India	7.4	7.0	6.6	--
Japan	0.8	0.1	0.2	0.8
Indonesia	5.2	5.2	5.2	5.1
Korea	2.7	2.0	3.2	1.8
Australia	2.8	2.7	2.3	--
Thailand	4.1	3.2	3.7	2.8
Malaysia	4.7	4.4	4.7	4.5
World*	3.2	3.1	2.9	2.9

* Market exchange rate basis † Estimate Source: Datastream

Exchange rates

end of period, # per US\$	2018	Feb-19	Mar-19	Apr-19
US\$ broad index	128.5	126.8	127.2	127.4
Japanese yen (JPY)	110.0	111.3	110.7	111.4
Australian dollar (AUD)	1.42	1.41	1.41	1.42
Sth Korean won (KRW)	1115	1125	1137	1166
Indian rupee (INR)	69.8	71.1	69.3	69.6
Indonesian rupiah (IDR)	14380	14068	14240	14250
Thai baht (THB)	32.6	31.5	31.7	31.9
Malaysian ringgit (MYR)	4.13	4.07	4.08	4.13

Source: Datastream

World oil and jet fuel price

US\$/barrel (period ave.)	2018	Feb-19	Mar-19	Apr-19
Crude oil (Brent)	71.7	64.4	66.9	71.5
Jet fuel	86.4	80.1	81.1	84.2

Source: Platts, Datastream (monthly average data)

Market

Revenue passenger kilometers (RPKs)

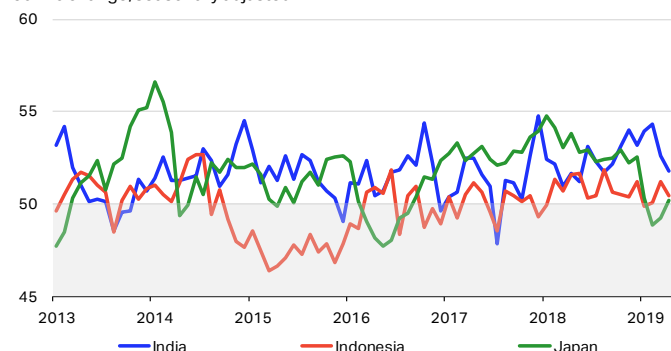
% change on a yr ago	2018	Jan-19	Feb-19	Mar-19
Region (registration basis)				
Asia Pacific	8.4	8.5	5.9	1.9
World	6.5	6.2	5.1	3.1
Routes (segment basis)				
India domestic	19.0	12.3	8.3	3.1
Japan domestic	2.0	3.3	2.6	4.2
Australia domestic	1.5	-0.4	-1.6	-3.2
Asia - Europe	7.0	8.8	5.5	4.3
Within Asia	8.4	8.5	4.2	4.0
Asia - Nth America	3.9	6.3	-0.5	-0.6
Asia - Middle East	4.4	0.7	1.3	0.6
S/w Pacific - N/S America	6.9	8.6	8.7	7.6
Asia - Africa	9.4	11.6	-1.1	-0.1

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

- Year-on-year growth in industry-wide revenue passenger kilometres (RPKs) eased to 3.1%; the weakest annual outcome since early-2010. That said, this month's result was affected by the earlier timing of the 2018 Easter holiday, which boosted demand in March last year; a rebound is likely next month
- The growth in Asia Pacific eased for a second consecutive month and was the weakest in six years or

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

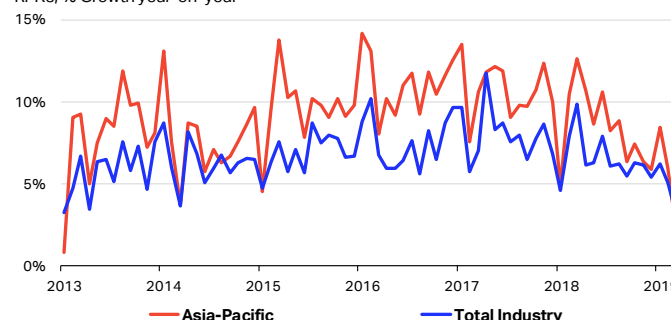
- Although net exports boosted Japan's Q1 2019 GDP, the country's economy remains fragile, reflected in the low business confidence. Business sentiment eased in India, amidst disruptions caused by country's general elections, and also ticked-down in Indonesia after a short-lived improvement in March.
- On a trade-weighted basis, the US\$ rose by 0.1% in April, marking the 3rd consecutive month of modest growth. Of the key regional currencies, the KRW fell by 2.5% against the US\$ partly due to softer Q1 GDP data. The remaining currencies also ended the month lower.
- Oil and jet fuel prices remain under upward pressure amidst fears of supply disruption augmented by heightened tensions in the Middle East.

so. That said, the slowdown was not enough to disrupt a modest upward trend in seasonally adjusted RPKs.

- India domestic RPK growth fell sharply in March, following the disruption of flight operations for Jet Airways and construction works at Mumbai airport. By contrast, Japan posted a robust 4.2% growth while in Australia, passenger volumes remained lower than a year ago for the fifth consecutive month.
- Of the key international markets, growth eased further in the larger Asia-Europe and remained generally unchanged for Within Asia. The smaller S/wPac-N/SA was the strongest performer in March (7.6%yoy).

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

% change on a yr ago	2018	Jan-19	Feb-19	Mar-19
Region (registration basis)				
Asia Pacific	2.3	-4.8	-12.0	-3.4
World	3.8	-1.6	-4.9	0.1
Routes (segment basis)				
Asia - Europe	1.1	-4.5	-6.5	1.6
Asia - Nth America	3.7	-3.7	-7.5	-1.1
Within Asia	0.6	-5.8	-15.5	-10.9
Asia - Middle East	4.8	1.5	-4.0	4.7
S/w Pacific - N/S America	8.7	-0.9	-3.3	0.7
Asia - Africa	-4.0	-4.3	-22.0	4.9

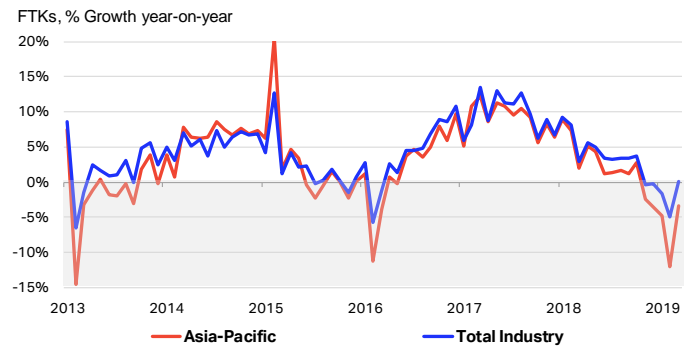
Source: IATA Statistics Note: historical data may be subject to revision

- Industry-wide FTK growth returned to positive territory in March, albeit only just. FTKs were up 0.1% vs their level a year ago, following a fall of 4.9%yoy in Feb. Given the data volatility early in the year, and based on fundamentals, we suspect this gain may be shortlived.
- Despite a sizeable improvement in March, FTKs flown by Asia Pacific carriers were still 3.4% lower than in March 2018. The FTK growth outcomes reflect various factors, notably the sharp unwind in global trade activity as well as indications of a broad-based slowing

in global economic activity

- The FTK growth performance was mixed on the larger international markets. While Asia-Europe recovered from 4-month-long run of negative (yoy) growth, the other two larger markets (Asia-NthAm & Within Asia) continued to see volumes falling vs a year ago.
- Growth in FTKs picked up on all of the three smaller international markets in the region, most notably with a sharp rebound for the Asia-Africa market.

Growth in air freight volumes



Source: IATA Statistics

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago		2018	Jan-19	Feb-19	Mar-19
LF: % of ASK/AFTK					
Passenger					
Asia Pacific	ASK	7.8	7.4	5.5	3.5
	PLF	81.5	81.1	82.5	81.2
World	ASK	6.1	6.2	5.3	4.2
	PLF	81.9	79.6	80.5	81.7
Freight					
Asia/Pacific	AFTK	5.0	3.4	1.6	-1.0
	FLF	55.7	49.8	44.6	55.6
World	AFTK	3.2	3.7	2.9	3.1
	FLF	49.2	45.3	44.5	49.5

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

- At 81.7%, the industry-wide passenger load factor (PLF) was down 0.9ppt from its record high March 2018 but remained elevated in historical terms. For freight, the load factor (FLF) increased to 49.5%, slightly above its average for 2018 overall.
- While the PLF eased modestly for Asia Pacific to 81.2%, the FLF performed strongly this month, outperforming the industry-wide outcome by 6ppt.
- The initial financial data from Q1 2019 point to a moderate decline in industry profitability relative to the same period a year ago; the EBIT margin fell to 3.6%, from 4.1% in Q1 2018. At the regional level, the EBIT

Airline operating (EBIT) margins*

% revenues	2016	2017	2018Q1	2019Q1
Asia Pacific	7.4	6.7	2.7	5.0
Industry	8.5	7.7	4.1	3.6

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

margin lifted to 5% of revenues, a 2.3ppt improvement vs the same quarter a year ago.

- Growth in pax yields was negative on the majority of the key domestic and international routes in the region as airlines struggle to recover rising operating costs. Australia domestic was the notable underperformer this month, with yields down 13.3% vs a year ago.

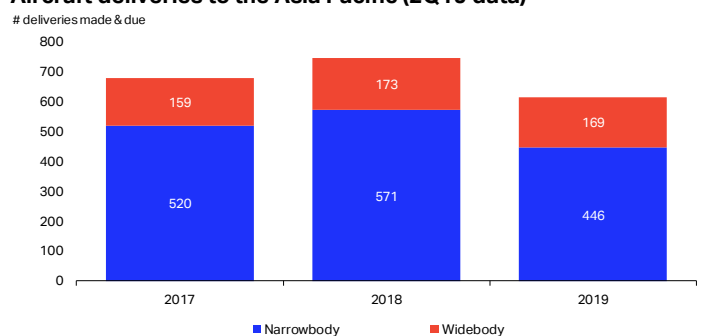
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2018	Jan-19	Feb-19	Mar-19
India domestic	-2.8	-2.8	-2.1	-2.3
Australia domestic	-0.8	-9.1	-9.3	-13.3
Asia - Europe	-1.9	-3.6	-9.7	-9.8
Within Asia	-1.8	-2.2	-9.0	-9.5
Asia - Nth America	-2.7	5.2	-4.3	-2.4
Asia - Middle East	-1.5	3.2	3.1	6.8
Asia - Sth America	0.7	-7.6	-9.5	-9.7
Asia - Africa	0.8	-2.5	-6.2	-7.3

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

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

Aircraft deliveries to the Asia Pacific (2Q19 data)



Source: Ascend