



# STATE OF THE REGION: ASIA-PACIFIC

NOVEMBER 2018

## Economy

### GDP growth, selected countries

| %change on a yr ago | 2017 | 2018Q1 | 2018Q2 | 2018Q3 |
|---------------------|------|--------|--------|--------|
| India               | 6.2  | 7.7    | 8.2    | --     |
| Japan               | 1.7  | 1.1    | 1.4    | 0.4    |
| Indonesia           | 5.1  | 5.1    | 5.3    | 5.2    |
| Korea               | 3.1  | 2.8    | 2.8    | 2.0    |
| Australia           | 2.2  | 3.2    | 3.4    | --     |
| Thailand            | 3.9  | 4.9    | 4.6    | 3.4    |
| Malaysia            | 5.9  | 5.4    | 4.5    | 4.4    |
| World*              | 3.1  | 3.2    | 3.2    | 3.2    |

\* Market exchange rate basis † Estimate Source: Datastream

### Exchange rates

| end of period, # per US\$ | 2017  | Aug-18 | Sep-18 | Oct-18 |
|---------------------------|-------|--------|--------|--------|
| US\$ broad index          | 120.0 | 125.3  | 126.0  | 126.9  |
| Japanese yen (JPY)        | 112.6 | 110.9  | 113.6  | 113.1  |
| Australian dollar (AUD)   | 1.28  | 1.39   | 1.38   | 1.41   |
| Sth Korean won (KRW)      | 1068  | 1117   | 1110   | 1141   |
| Indian rupee (INR)        | 63.9  | 71.0   | 72.5   | 74.0   |
| Indonesian rupiah (IDR)   | 13636 | 14669  | 14879  | 15281  |
| Thai baht (THB)           | 32.6  | 32.8   | 32.3   | 33.1   |
| Malaysian ringgit (MYR)   | 4.05  | 4.11   | 4.14   | 4.18   |

Source: Datastream, XE

### World oil and jet fuel price

| US\$/barrel (period ave.) | 2017 | Aug-18 | Sep-18 | Oct-18 |
|---------------------------|------|--------|--------|--------|
| Crude oil (Brent)         | 54.2 | 72.5   | 78.9   | 81.0   |
| Jet fuel                  | 65.6 | 89.0   | 91.9   | 94.4   |

Source: Platts, EIA Monthly average data

## Market

### Revenue passenger kilometers (RPKs)

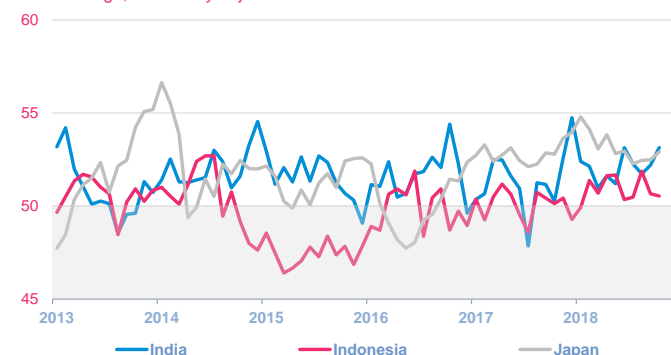
| %change on a yr ago         | 2017 | Jul-18 | Aug-18 | Sep-18 |
|-----------------------------|------|--------|--------|--------|
| Region (registration basis) |      |        |        |        |
| Asia Pacific                | 10.2 | 8.6    | 9.3    | 6.7    |
| World                       | 7.6  | 6.2    | 6.4    | 5.5    |
| Routes (segment basis)      |      |        |        |        |
| India domestic              | 17.5 | 21.5   | 18.3   | 19.8   |
| Japan domestic              | 5.8  | 0.9    | 1.3    | -5.0   |
| Australia domestic          | 0.4  | 2.1    | 1.7    | 0.9    |
| Asia - Europe               | 9.5  | 5.8    | 9.2    | 7.1    |
| Within Asia                 | 11.2 | 9.0    | 7.7    | 5.6    |
| Asia - Nth America          | 4.9  | 3.1    | 2.5    | 2.0    |
| Asia - Middle East          | 7.3  | 4.7    | 3.6    | 3.5    |
| S/w Pacific - N/S America   | 5.9  | 5.7    | 3.8    | 5.4    |
| Asia - Africa               | 4.1  | 11.9   | 10.6   | 9.7    |

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

- Annual growth in industry-wide RPKs eased to 5.5% in Sept, the slowest rate in 8mths. The monthly outcome was impacted in part by adverse weather disruptions, although the upward traffic trend also slowed in Q3.
- Pax volume growth for the AsiaPac airlines dipped to 6.7% in Sept, down from 9.3% in Aug, in part due to severe disruptions that typhoon Jebi caused, notably in

### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



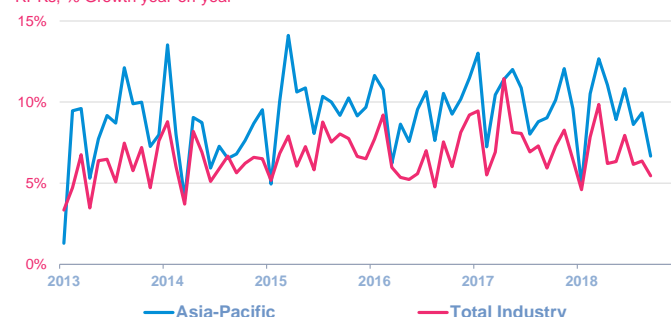
- Japan's Q3 GDP contracted as natural disasters affected both spending & exports. Stronger demand & production lifted India's business confidence to a 2018-high, while sentiment in Indonesia was largely unchanged.
- On a trade-weighted basis, the US\$ strengthened by 0.7% in Oct, rising for the 9<sup>th</sup> consecutive month. Amongst the main regional currencies, the IDR, KRW & THB all fell by 2.5-3% vs the US\$ this month while the JPY went against the trend, rising by 0.4%mom.
- The monthly average Brent crude oil & jet fuel price rose further in Oct, mainly due to supply cut announcements from Saudi Arabia. In recent weeks, however, the oil & jet fuel price has corrected sharply lower.

Japan including the complete closure of Kansai airport for an extended period. As a result, Japan's domestic RPKs fell sharply, down an even 5%yoy in Sept.

- By contrast the India domestic market sustained its very strong growth performance, with passenger volumes up 19.8%yoy.
- Of the region's main international markets, Africa & Europe remain the strongest performers, with growth of 9.7% and 7.1%yoy, respectively.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



## Freight tonne kilometers (FTKs)

| %change on a yr ago                | 2017 | Jul-18 | Aug-18 | Sep-18 |
|------------------------------------|------|--------|--------|--------|
| <b>Region (registration basis)</b> |      |        |        |        |
| Asia Pacific                       | 7.8  | 0.6    | 0.9    | 1.2    |
| World                              | 9.1  | 2.2    | 1.9    | 2.0    |
| <b>Routes (segment basis)</b>      |      |        |        |        |
| Asia - Europe                      | 11.0 | 0.9    | 0.8    | -0.7   |
| Asia - Nth America                 | 8.7  | 0.2    | 1.3    | 2.9    |
| Within Asia                        | 13.0 | -0.2   | -1.0   | -5.1   |
| Asia - Middle East                 | 6.3  | 6.2    | 3.3    | 5.5    |
| S/w Pacific - N/S America          | 28.4 | 6.7    | 12.6   | 17.5   |
| Asia - Africa                      | 58.6 | -9.1   | -9.4   | -11.8  |

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

- Annual industry-wide FTKs increased by 2.0%yoy in Sept, more than 3pp below the five-year average pace. The moderation in annual growth is consistent with the typical pattern seen after inventory-led upturns (as we saw in 2017) in the past.
- At the regional level, FTK volumes for the Asia Pacific carriers continued to grow modestly in Sept, rising to 1.2% from 0.9% in August and 0.6% in July.

## Industry

### Capacity growth and load factors

| ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK | 2017 | Jul-18 | Aug-18 | Sep-18 |
|---|------|--------|--------|--------|
| <b>Passenger</b>                            |      |        |        |        |
| Asia Pacific ASK                            | 8.4  | 7.2    | 7.3    | 6.0    |
| World ASK                                   | 81.0 | 82.9   | 84.2   | 80.8   |
| Asia Pacific PLF                            | 81.5 | 85.3   | 85.3   | 81.4   |
| World PLF                                   | 81.5 | 85.3   | 85.3   | 81.4   |
| <b>Freight</b>                              |      |        |        |        |
| Asia/Pacific AFTK                           | 3.0  | 3.6    | 3.6    | 1.2    |
| World AFTK                                  | 55.2 | 53.4   | 52.9   | 55.4   |
| Asia/Pacific FLF                            | 45.2 | 42.7   | 42.1   | 44.8   |
| World FLF                                   | 45.2 | 42.7   | 42.1   | 44.8   |

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

- The industry-wide PLF dropped to 81.4% in Sept, down from 85.3% in Aug. In contrast, the FLF lifted by almost 3pp this month to 44.8%.
- The PLF for the Asia Pacific airlines eased to 80.8% in Sept, which was still a 0.5pp improvement compared to Sept 2017. By contrast, the region's FLF increased this month, to 55.4%, the same level as a year ago.
- The initial Q3 financial data confirm that the squeeze on airline profit margins has continued, both at the industry & regional level. The EBIT margin is currently 13.5% of revenues both industry-wide and at the regional level

### Airline operating (EBIT) margins\*

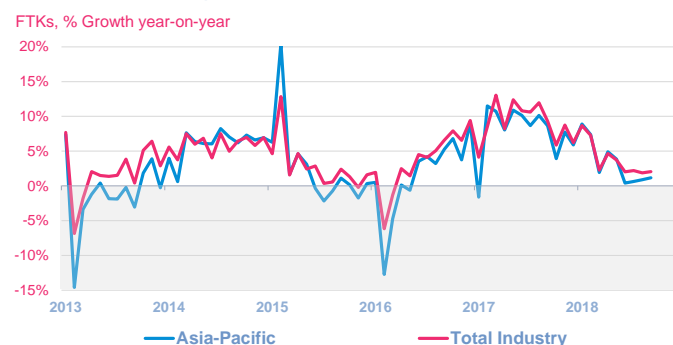
| %revenues    | 2016 | 2017 | 2017Q3 | 2018Q3 |
|--------------|------|------|--------|--------|
| Asia Pacific | 7.4  | 5.5  | 17.4   | 13.5   |
| Industry     | 8.5  | 7.5  | 16.5   | 13.5   |

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

- Across the region's largest international markets, Within Asia & Asia-Europe FTKs fell by 5.1% and 0.7%yoy respectively in Sept. By contrast, growth in FTKs in Asia-Nth America increased for the 2<sup>nd</sup> consecutive month, to 2.9%yoy currently.

- Of the smaller markets, Africa freight volumes fell by 11.8%yoy, while FTKs gained almost 20% vs a year ago for the Southwest Pacific-Nth/Sth America market.

### Growth in air freight volumes



Source: IATA Statistics

compared to 16.5% and 17.4% a year ago respectively.

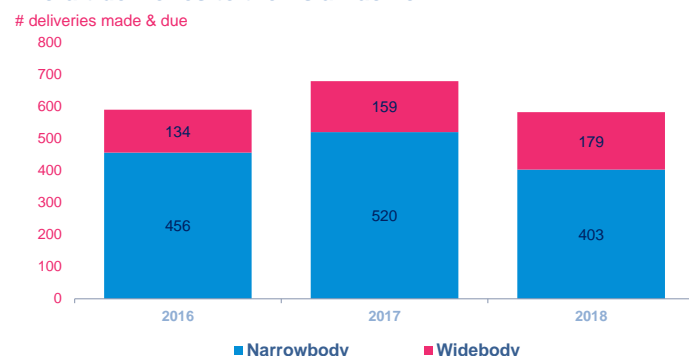
- Most of the region's key markets experienced a yoy decline in passenger yields in Sept 2018, with Australia domestic & Asia-Nth America being the main exceptions. India domestic yields are down 11.0% vs a year ago followed by Asia-ME and Within Asia, down 4.9% and 3.3%yoy, respectively. (Recall that these yields are in US\$ terms & large currency swings can impact the reported yield outcomes.)

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

| %change on a yr ago | 2017 | Jul-18 | Aug-18 | Sep-18 |
|---------------------|------|--------|--------|--------|
| India domestic      | -2.3 | -2.3   | -10.5  | -11.0  |
| Australia domestic  | 5.5  | 5.8    | 5.1    | 4.6    |
| Asia - Europe       | 1.9  | 0.9    | 0.1    | -2.7   |
| Within Asia         | -5.6 | -1.0   | -2.1   | -3.3   |
| Asia - Nth America  | -3.2 | 5.1    | 3.9    | 4.1    |
| Asia - Middle East  | -3.5 | -3.2   | -0.1   | -4.9   |
| Asia - Sth America  | -4.2 | -2.8   | -0.6   | -3.0   |
| Asia - Africa       | -0.1 | 3.3    | 6.9    | 1.7    |

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

### Aircraft deliveries to the Asia Pacific



Source: Ascend