



STATE OF THE REGION: NORTH ASIA

APRIL 2016

Economy

GDP growth, selected countries

%change on a yr ago	2015	2015Q2	2015Q3	2015Q4
China	6.9	7.0	6.9	6.9
Chinese Taipei	0.7	0.6	-0.8	-0.5
Hong Kong	2.4	2.9	2.2	1.9
Mongolia	2.3 [†]	3.0	2.5	--
Emerging Asia	6.6	--	--	--
World*	2.4	2.5	2.5	2.3

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2015	Jan-16	Feb-16	Mar-16
US\$ broad index	122.4	125.2	124.0	121.5
Chinese renminbi (CNY)	6.49	6.58	6.56	6.45
Taiwanese dollar (TWD)	32.9	33.4	33.2	32.2
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	1993	2003	2030	2046

Source: Datastream, XE

World oil and jet fuel price

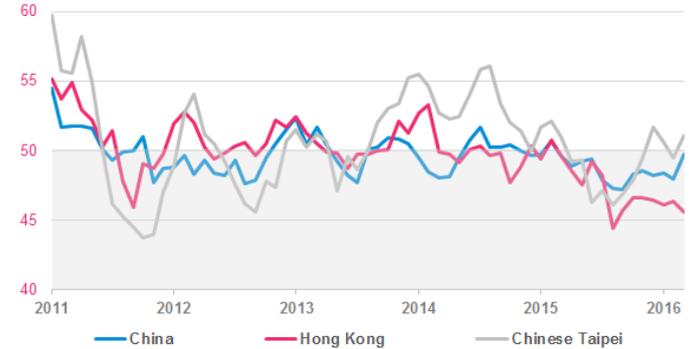
US\$/barrel	2015	Jan-16	Feb-16	Mar-16
Crude oil (Brent)	52.4	30.7	32.2	38.2
Jet fuel	64.0	39.1	40.9	44.9

Source: Platts, EIA Monthly average data

→ The latest business confidence data for North Asia was mixed. In Hong Kong, little in the way of good economic news saw confidence drift lower this month. However, an interest rate cut in Chinese Taipei appears to have had a favourable impact on business confidence.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

→ Similarly, additional policy measures to support activity, along with some recent positive data outcomes has broken the mainland China confidence measure out of its sideways drift of recent months.

→ The US\$ fell by just over 2% in March, dipping below the level at which it ended 2015. Regionally, the TWD outperformed this month, rising 3.2% against the US\$. The CNY gained 1.6% & the MNT eased slightly, down 0.8% mom.

→ World oil & jet fuel prices surged in March, the former rising almost 20% (US\$6) to US\$38/bbl & the latter up 10% (US\$4) to US\$45/bbl. The upwards move was buoyed by speculation that agreement on production cuts may be reached amongst key oil producers.

Market

Revenue passenger kilometers (RPKs)

%change on a yr ago	2015	Dec-15	Jan-16	Feb-16
Region (registration basis)				
Asia Pacific	8.7	8.0	10.6	9.8
World	6.5	5.7	7.1	8.6
Routes (segment basis)				
China domestic	11.0	9.8	12.5	8.2
Asia - Europe	3.4	0.6	2.8	4.0
Within Asia	8.6	5.6	10.4	8.4
Asia - Nth America	5.8	5.6	9.1	9.3
Asia - Middle East	9.8	10.5	7.5	9.0
Asia - S/w Pacific	6.1	4.2	4.1	5.3
Asia - Africa	-1.2	6.9	11.3	11.5

Source: IATA Statistics NB Asia-Pac incl North Asia

→ RPK growth for the Asia-Pac airlines eased a little in Feb, to a still strong 9.8% yoy. Even so, the regional growth rate remained above the global industry average figure of 8.6%.

→ Note that the leap year, along with Lunar New Year, will both have impacted the Feb passenger volume data.

→ For the China domestic market, passenger traffic volumes also moderated this month, from a double-digit pace of 12.5% yoy in Jan, to 8.2% currently.

→ Of the key inter-regional markets, the gradual recovery in Asia-Europe traffic is a positive development. However, at a moderate 4% yoy rate, it lags – by a considerable margin – developments on the other large routes of Within Asia, & Asia to both NthAm & ME.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2014	Dec-15	Jan-16	Feb-16
Region (registration basis)				
Asia Pacific	2.4	0.7	0.7	-12.4
World	2.2	1.0	2.3	-5.6
Routes (segment basis)				
Asia - Europe	-5.4	-1.7	1.5	-8.5
Asia - Nth America	5.1	-4.4	-8.5	-19.8
Within Asia	-0.3	-0.4	1.8	-7.6
Asia - Middle East	7.0	1.4	6.5	-2.3
Asia - S/w Pacific	8.7	9.4	7.1	-8.7
Asia - Africa	1.3	-1.3	17.7	5.6

Source: IATA Statistics NB Asia-Pac incl North Asia

- Freight volumes fell sharply at both the global & regional level over the year to Feb. For Asia-Pac carriers, FTKs are down 12.4%yoy, more than double the pace of deterioration in the industry-wide figure (-5.6%yoy).
- We caution that freight volumes are significantly impacted at this time of the year by the Lunar New Year. On this occasion, the data are also affected by the one-off boost to air freight volumes a year ago following the disruption at sea ports on the US west coast.

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK	2015	Dec-15	Jan-16	Feb-16
Passenger				
Asia Pacific ASK	6.7	7.0	7.9	9.6
PLF	78.6	78.0	78.7	79.0
World ASK	5.6	5.3	5.6	9.6
PLF	80.2	78.9	78.9	77.8
Freight				
Asia Pacific AFTK	6.7	4.6	5.0	3.7
FLF	54.0	54.1	49.9	46.2
World AFTK	6.2	6.8	6.2	7.5
FLF	44.2	43.8	41.5	41.0

Source: IATA Statistics. Asia-Pac incl North Asia. LF=seasonally adjusted load factor. ASK=available seat kms. AFTK=available freight tonne kms,

- Asia-Pac airlines have grown passenger capacity strongly over the past year, in line with the global average, at 9.6%yoy. At 79.0% in Feb, the regional PLF sits a little above the overall industry figure (77.8%).
- Regional AFTKs are up 3.7%yoy, half the rate of the industry overall – a strong 7.5%. The regional FLF trended lower again in Feb but remains 5pp higher than the industry rate of 41%.
- The latest Q4 financial data show the EBIT margin for Asia-Pac carriers is robust at 9.5%, well up on a year ago & similar to the global industry outcome of 9.7%.

Airline EBIT margins*

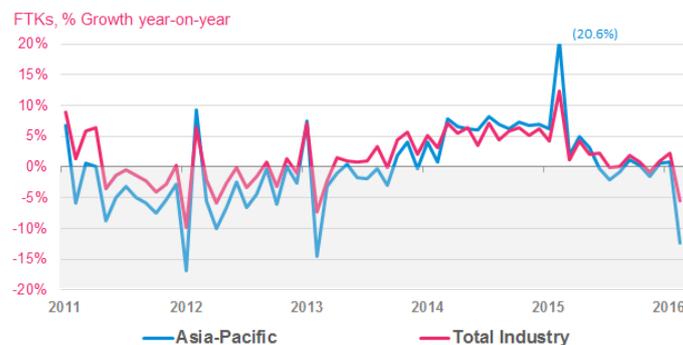
%revenues	2013	2014	2014Q4	2015Q4
Asia Pacific	2.3	2.8	5.6	9.5
Industry	4.1	5.2	6.3	9.7

Source: Airline Analyst * constant sample basis, not seasonally adjusted Asia-Pac incl Nth Asia

IATA Economics: www.iata.org/economics

- These effects are most noticeable in the 10+pp deterioration in the Asia-NthAm growth rate for Feb.
- Such disruptions make it difficult to draw many firm conclusions about the underlying state of the regional freight market. That said, it remains the case that the fundamental demand drivers for the global air freight industry remain relatively subdued, pointing to challenging conditions continuing for some time.

Growth in air freight volumes



Source: IATA Statistics

- Passenger yields in the main domestic markets & on key regional routes continue to show widespread declines. With the exception of China domestic, yields are still down by a double-digit rate, influenced by developments in fuel prices & the US\$.

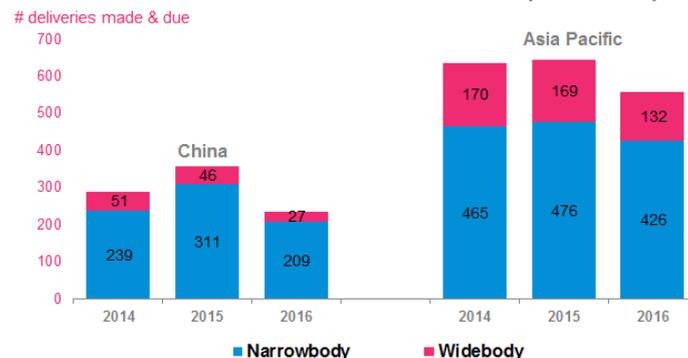
Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2015	Dec-15	Jan-16	Feb-16
China domestic	1.8	-1.3	2.7	1.6
Asia - Europe	-19.1	-15.0	-15.9	-12.5
Within Asia	-7.7	-9.5	-9.2	-11.0
Asia - Nth America	-15.1	-11.0	-11.0	-11.1
Asia - Middle East	-7.6	-6.7	-8.3	-10.1
Asia - Sth America	-18.0	-13.5	-12.8	-11.0
Asia - Africa	-17.8	-13.5	-11.9	-14.1

Source: IATA PaxIS

- Current data point to a slowing in the number of wide & narrowbody aircraft deliveries to both China & the Asia-Pac region in 2016 compared with both 2014 & 2015.

Aircraft deliveries to China & the Asia Pacific (latest data)



Source: Ascend

Asia-Pac incl North Asia

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