



STATE OF THE REGION: NORTH ASIA

AUGUST 2016

Economy

GDP growth, selected countries

%change on a yr ago	2015	2015Q4	2016Q1	2016Q2
China	6.9	6.8	6.7	6.7
Chinese Taipei	0.6	-0.9	-0.7	0.7
Hong Kong	2.4	1.9	0.8	1.7
Mongolia	2.3	2.3	3.1	--
Emerging Asia	6.6	--	--	--
World*	2.5	2.3	2.2	2.1

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2015	May-16	Jun-16	Jul-16
US\$ broad index	122.4	120.8	121.2	121.9
Chinese renminbi (CNY)	6.49	6.58	6.65	6.64
Taiwanese dollar (TWD)	32.9	32.6	32.2	31.8
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	1993	1991	1980	2067

Source: Datastream, XE

World oil and jet fuel price

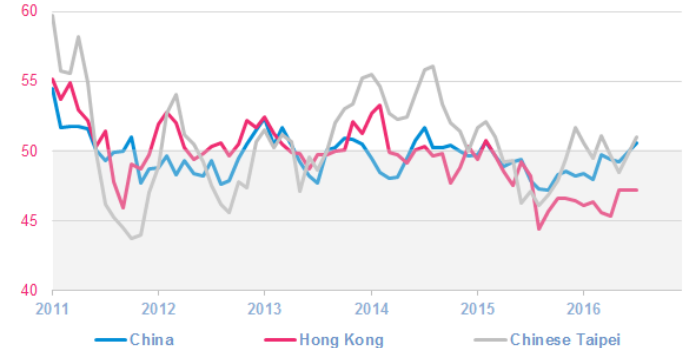
US\$/barrel	2015	May-16	Jun-16	Jul-16
Crude oil (Brent)	52.4	46.7	48.3	45.0
Jet fuel	64.0	54.6	58.0	53.4

Source: Platts, EIA Monthly average data

- Q2 GDP growth improved in both Hong Kong & Chinese Taipei, with the latter returning to positive territory for the first time in a year. Even so, the growth rates remain subdued, at just 1.7%yoy & 0.7%yoy, respectively.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



- The latest business confidence data surged in both China & Chinese Taipei, but moved sideways in Hong Kong despite the positive economic news.
- The (trade-weighted) US\$ ticked up a little again in Jul, gaining 0.6%. Amongst the main regional currencies, the TWD rose by 1.2% against the US\$ in the month, while the MNT fell by a sizeable 4.4%. For the latter, weak commodity prices, combined with recent policy decisions & fiscal concerns have all weighed upon the currency.
- The world price of oil & jet fuel fell in Jul – the first month since Jan when oil prices reached a 12-year low. Prices fell 7-8% in the month on the back of rising inventories, to US\$45 & US\$53 for oil & jet respectively.

Market

Revenue passenger kilometers (RPKs)

%change on a yr ago	2015	Apr-16	May-16	Jun-16
Region (registration basis)				
Asia Pacific	8.7	8.0	6.8	9.0
World	6.5	4.8	4.8	5.2
Routes (segment basis)				
China domestic	11.0	10.8	10.8	11.3
Asia - Europe	4.0	1.0	-2.9	-0.9
Within Asia	7.5	5.0	2.8	8.1
Asia - Nth America	5.8	5.7	3.5	7.5
Asia - Middle East	6.9	6.5	5.9	0.7
Asia - S/w Pacific	6.1	-0.4	1.3	0.1
Asia - Africa	-1.2	7.8	5.5	5.7

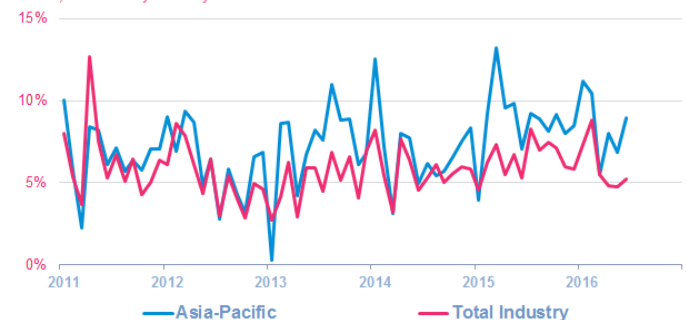
Source: IATA Statistics Asia-Pac incl North Asia

- RPK growth for the Asia-Pac airlines stepped back up this month, rising to a hefty 9.0% rate – the strongest across the five IATA regions currently. Industry-wide RPK growth also lifted, but to a more subdued 5.2%.
- RPK growth in the China domestic market ticked up to a strong 11.3% pace in Jun, second only to India in terms of the fastest growing main domestic pax markets.

- This domestic market growth has been supported primarily by robust growth in consumer spending & an increase in the number of airport pairs.
- Within Asia & Asia-Nth America are the strongest performing international markets, with RPK growth of 7.5-8%yoy. In contrast, Asia-Europe is struggling (down 0.9%yoy), with indications that the string of terrorist attacks in Europe may be weighing upon demand for this market in particular.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Freight tonne kilometers (FTKs)

%change on a yr ago	2014	Apr-16	May-16	Jun-16
Region (registration basis)				
Asia Pacific	2.3	0.2	-0.8	3.5
World	2.2	2.7	1.5	4.3
Routes (segment basis)				
Asia - Europe	-4.9	5.9	1.5	2.4
Asia - Nth America	5.1	-6.3	-2.7	2.5
Within Asia	-0.4	4.6	4.5	9.8
Asia - Middle East	9.8	7.8	3.3	3.8
Asia - S/w Pacific	8.6	4.4	-1.5	-5.1
Asia - Africa	1.3	18.0	18.5	21.8

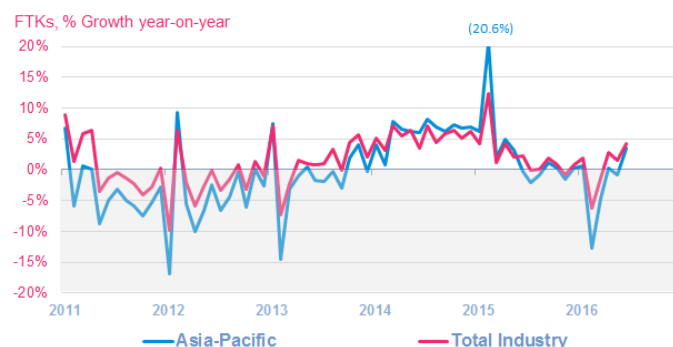
Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide air freight growth accelerated in Jun to 4.3%yoy – its fastest pace in more than a year. Asia-Pac carriers saw a return to positive (yoy) FTK growth after a short-lived decline last month. Regional FTKs are now a modest 3.5% higher than their level of a year ago.
- Despite this pick-up in growth, the outlook for air freight continues to face the now familiar headwinds including

ongoing sluggish & patchy global economic growth, as well as broader weakness in world trade.

- Of the largest air freight markets, Within Asia stepped up to almost 10%yoy growth in Jun & Asia-NthAm turned around its recent soft performance, registering positive growth (2.5%yoy) for the first time in almost a year.

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	2015	Apr-16	May-16	Jun-16
Passenger				
Asia Pacific ASK	6.7	7.3	7.0	7.2
Asia Pacific PLF	78.6	78.6	76.9	79.1
World ASK	5.6	5.1	5.6	5.6
World PLF	80.2	79.2	78.8	80.7
Freight				
Asia Pacific AFTK	6.7	3.0	2.7	3.6
Asia Pacific FLF	53.9	52.4	52.1	54.5
World AFTK	6.3	5.7	4.5	4.9
World FLF	44.1	43.6	42.4	43.1

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

- Pax capacity growth by Asia-Pac airlines (currently 7.2%yoy) continues to outpace the overall industry rate (unchanged at 5.6%yoy). The pax load factor for the region's airlines moved higher in Jun, to 79.1%, but remains below the industry average of 80.7%.
- For freight, the Asia-Pac carriers have increased AFTKs by a moderate 3.6% over the past year, ~1½pp lower than the industry overall (4.9%yoy). Like their pax counterpart, the freight load factors also both improved in Jun, to 54.5% for the region's airlines & 43.1% for the industry.
- The Asia-Pac carrier FLF remains easily the highest amongst all IATA regions.

Airline EBIT margins*

%revenues	2014	2015	2015Q2	2016Q2
Asia Pacific	2.5	7.7	3.0	5.3
Industry	4.7	8.3	13.0	13.6

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

IATA Economics: www.iata.org/economics

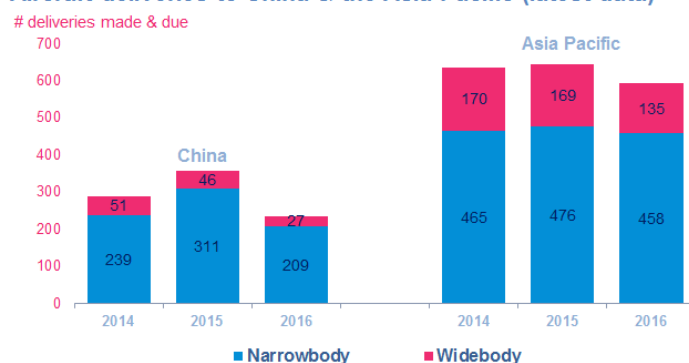
- The initial Q2 data show a solid EBIT margin of 5.3% for the Asia-Pac airlines, up from 3.0% in the same period a year ago. At the industry level, the operating margin is currently 13.6%, dragged higher by the very strong performance of the Nth American carriers.
- Passenger yields in the domestic China & main international markets are all well down on a year ago, either in, or very close to, double-digit decline. This comes despite the recent reversal of trends in both oil/jet fuel prices & the US\$ exchange rate.

Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2015	Apr-16	May-16	Jun-16
China domestic	1.7	-9.5	-10.0	-9.5
Asia - Europe	-19.1	-8.0	-8.6	-8.9
Within Asia	-7.7	-11.6	-12.2	-11.2
Asia - Nth America	-15.1	-10.0	-9.4	-8.4
Asia - Middle East	-7.6	-11.6	-12.0	-12.6
Asia - Sth America	-18.0	-14.0	-13.4	-13.4
Asia - Africa	-17.8	-7.4	-8.6	-9.7

Source: IATA PaxIS

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



Source: Ascend

Asia-Pac incl North Asia

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