



STATE OF THE REGION: NORTH ASIA

DECEMBER 2016

Economy

GDP growth, selected countries

| %change on a yr ago | 2015 | 2016Q1 | 2016Q2 | 2016Q3 |
|---------------------|------|--------|--------|--------|
| China | 7.0 | 6.7 | 6.7 | 6.7 |
| Chinese Taipei | 0.7 | -0.6 | 1.3 | 2.2 |
| Hong Kong | 2.4 | 0.8 | 1.7 | 1.9 |
| Mongolia | 2.5 | 3.0 | -0.3 | -6.3 |
| Emerging Asia | 6.6 | -- | -- | -- |
| World* | 2.3 | 2.2 | 2.1 | 2.2 |

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

| end of period, # per US\$ | 2015 | Sep-16 | Oct-16 | Nov-16 |
|---------------------------|-------|--------|--------|--------|
| US\$ broad index | 122.4 | 121.8 | 122.9 | 125.8 |
| Chinese renminbi (CNY) | 6.49 | 6.67 | 6.78 | 6.89 |
| Taiwanese dollar (TWD) | 32.9 | 31.4 | 31.6 | 31.9 |
| Hong Kong dollar (HKD) | 7.8 | 7.8 | 7.8 | 7.8 |
| Mongolian tugrik (MNT) | 1993 | 2278 | 2263 | 2465 |

Source: Datastream, XE

World oil and jet fuel price

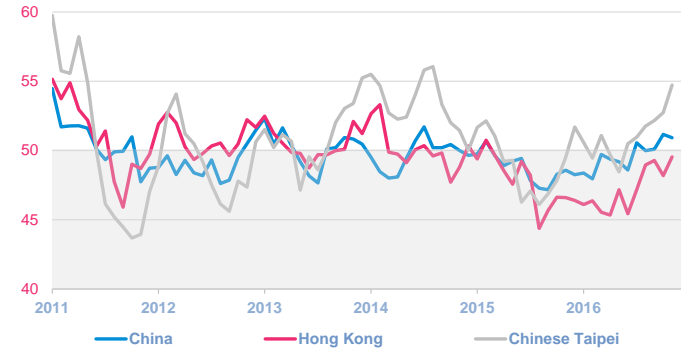
| US\$/barrel | 2015 | Sep-16 | Oct-16 | Nov-16 |
|-------------------|------|--------|--------|--------|
| Crude oil (Brent) | 52.4 | 46.6 | 49.5 | 44.7 |
| Jet fuel | 64.0 | 55.4 | 61.2 | 57.0 |

Source: Platts, EIA Monthly average data

- ➔ Buoyed by generally favourable economic & policy developments this month, the upwards trend in business confidence amongst the main North Asian countries remains intact. This is particularly so for Chinese Taipei

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



which has seen a very steep rise in sentiment in recent months, taking the index to its highest level in ~2 years.

- ➔ In Mongolia, Moody's downgraded the sovereign debt rating from "B3" to "Caa1" adding to the country's economic woes.
- ➔ The US\$ surged in Nov, rising a sizeable 2.4% on a trade-weighted basis. Amongst the main regional currencies, the CNY fell by 1.6% against the US\$ in the month while the MNT was down a sizeable 8.9%.
- ➔ Oil prices were unsettled in Nov ahead of the OPEC meeting, ending the mth down ~US\$5/bbl. The fall was short-lived, however; prices swiftly moved back above US\$50 following the OPEC agreement on production.

Market

Revenue passenger kilometers (RPKs)

| %change on a yr ago | 2015 | Aug-16 | Sep-16 | Oct-16 |
|-----------------------------|------|--------|--------|--------|
| Region (registration basis) | | | | |
| Asia Pacific | 8.7 | 7.4 | 10.3 | 9.2 |
| World | 6.5 | 4.3 | 7.1 | 5.8 |
| Routes (segment basis) | | | | |
| China domestic | 11.0 | 11.2 | 14.0 | 14.1 |
| Asia - Europe | 4.0 | -1.5 | 3.2 | 1.4 |
| Within Asia | 7.5 | 3.4 | 7.1 | 4.5 |
| Asia - Nth America | 5.8 | 4.3 | 7.6 | 5.9 |
| Asia - Middle East | 6.9 | 3.8 | 5.8 | -0.8 |
| Asia - S/w Pacific | 6.1 | -0.5 | 3.5 | 3.0 |
| Asia - Africa | -1.2 | 4.5 | 6.9 | 9.3 |

Source: IATA Statistics Asia-Pac incl North Asia

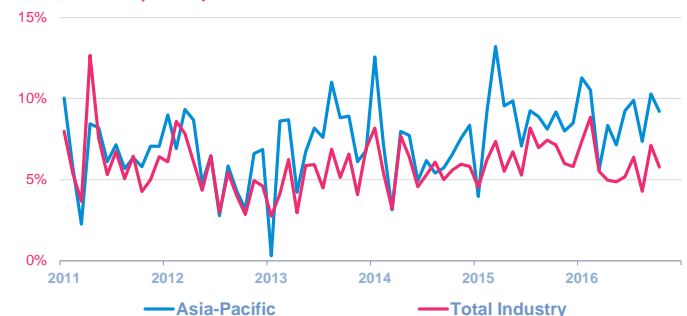
- ➔ Annual growth in industry-wide RPKs eased back to 5.8%yoy in Oct, from above 7% in Sep. For Asia-Pac airlines, RPK growth also eased a little, returning to a single digit rate. However, at 9.2%yoy it remains well above the global average rate & is the fastest growing IATA region at present.
- ➔ RPK growth in the China domestic market was essentially unchanged in Oct, at 14.1%yoy. Continued

growth in household incomes & consumer spending, along with an increase in the number of airport pairs served has underpinned this strong RPK growth outcome, despite a reduction in average flight frequencies in 2016.

- ➔ Growth across most of the main markets for Asia-Pac airlines moderated in Oct, with Asia-Middle East slipping into negative territory. The exception was the smaller Asia-Africa market which saw a modest acceleration in growth, to 9.3%.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Freight tonne kilometers (FTKs)

| %change on a yr ago | 2014 | Aug-16 | Sep-16 | Oct-16 |
|------------------------------------|------|--------|--------|--------|
| Region (registration basis) | | | | |
| Asia Pacific | 2.3 | 3.3 | 5.4 | 7.8 |
| World | 2.2 | 4.7 | 6.6 | 8.2 |
| Routes (segment basis) | | | | |
| Asia - Europe | -4.9 | 2.3 | 7.4 | 10.7 |
| Asia - Nth America | 5.1 | 5.6 | 4.9 | 6.8 |
| Within Asia | -0.4 | 7.2 | 8.3 | 12.5 |
| Asia - Middle East | 9.8 | -3.6 | 2.1 | 9.5 |
| Asia - S/w Pacific | 8.6 | 2.9 | -1.6 | 3.7 |
| Asia - Africa | 1.3 | 34.1 | 40.9 | 39.9 |

Source: IATA Statistics Asia-Pac incl North Asia

- ➔ At odds with passenger volumes, growth in industry-wide freight volumes moved higher in Oct, building on last month's gain. Global FTKs are now a hefty 8.2% higher than a year ago; the strongest rate in more than 18mths.
- ➔ FTK growth for the Asia-Pac carriers also rose in Oct, to 7.8%yoy, further closing the gap to the industry-wide rate. A number of airports incl. Hong Kong & Shanghai reported strong gains in cargo tonnage for the yr to Oct.

Industry

Capacity growth and load factors

| ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK | | 2015 | Aug-16 | Sep-16 | Oct-16 |
|---|------|------|--------|--------|--------|
| Passenger | | | | | |
| Asia Pacific | ASK | 6.7 | 7.4 | 8.6 | 8.5 |
| | PLF | 78.6 | 82.0 | 79.5 | 79.3 |
| World | ASK | 5.6 | 5.6 | 6.6 | 6.3 |
| | PLF | 80.2 | 83.7 | 81.2 | 80.1 |
| Freight | | | | | |
| Asia Pacific | AFTK | 6.7 | 1.7 | 3.7 | 3.9 |
| | FLF | 53.9 | 51.9 | 54.5 | 56.1 |
| World | AFTK | 7.0 | 4.6 | 4.4 | 3.6 |
| | FLF | 43.8 | 40.6 | 43.7 | 46.2 |

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

- ➔ Asia-Pac carriers have increased both pax & freight capacity at a faster pace than the industry average over the past year. ASKs are up 8.5%yoy for the region's airlines vs 6.3% for the industry. For AFTKs, the equivalent rates are 3.9% & 3.6% respectively.
- ➔ The Asia-Pac airlines continue to set the benchmark for freight loads, at 56.1% in Oct, 10pp above the industry average. The PLF, however, sits a little lower than the average, at 79.3% vs the industry 80.1%.
- ➔ The latest Q3 financials show a solid improvement in operating margin for the Asia-Pac carriers, up 2pp on the level of a year ago, to 10.6% currently. The industry-

Airline operating (EBIT) margins*

| %revenues | 2014 | 2015 | 2015Q3 | 2016Q3 |
|--------------|------|------|--------|--------|
| Asia Pacific | 2.5 | 7.7 | 8.4 | 10.6 |
| Industry | 4.7 | 8.3 | 16.1 | 15.9 |

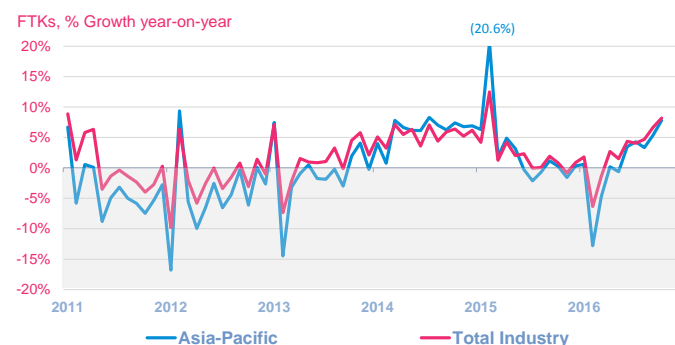
Source: Airline Analyst * constant sample basis, not seasonally adjusted Asia-Pac incl Nth Asia

IATA Economics: www.iata.org/economics

- ➔ At the segment level, FTK growth rates lifted across all of the key markets, with both Asia-Europe & Within Asia rates moving into double-digit territory, at 10.7% & 12.5% respectively.

- ➔ The resurgence in freight volume growth continued on routes between Asia & the Middle East, rising to 9.5%yoy in Oct, having contracted in yoy terms only two months ago.

Growth in air freight volumes



Source: IATA Statistics

wide margin is broadly unchanged over the year, ticking down slightly, to 15.9%.

- ➔ Pax yields for the China domestic & all key international markets remain solidly lower than their level of a year ago, despite the trend increase in world oil prices.

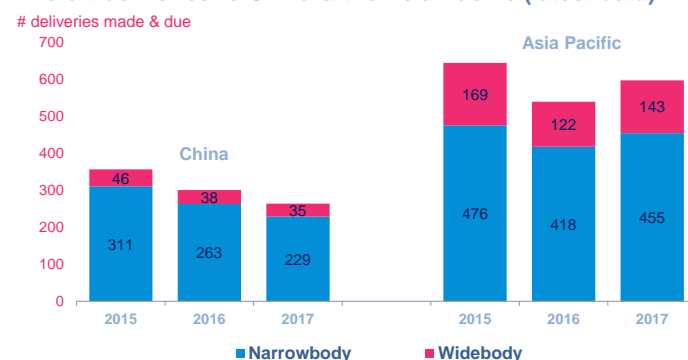
Passenger yields, excl. surcharges & ancillaries

| %change on a yr ago | 2015 | Aug-16 | Sep-16 | Oct-16 |
|---------------------|-------|--------|--------|--------|
| China domestic | 1.7 | -10.4 | -8.1 | -7.4 |
| Asia - Europe | -19.1 | -10.2 | -8.4 | -9.4 |
| Within Asia | -7.7 | -9.3 | -8.1 | -8.9 |
| Asia - Nth America | -15.1 | -4.7 | -1.8 | -4.7 |
| Asia - Middle East | -7.6 | -10.5 | -8.5 | -11.7 |
| Asia - Sth America | -18.0 | 5.1 | -4.9 | -11.6 |
| Asia - Africa | -17.8 | -5.6 | -8.8 | -9.2 |

Source: IATA PaxIS

- ➔ Aircraft deliveries to the region are currently expected to be a little higher in 2017 than in 2016, indicating a modest degree of optimism for the industry outlook. However, the number scheduled for China alone is currently expected to ease again in 2017.

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



Source: Ascend

Asia-Pac incl North Asia

Contact: Andrew Matters – mattersa@iata.org