



# STATE OF THE REGION: NORTH ASIA

DECEMBER 2017

## Economy

### GDP growth, selected countries

%change on a yr ago	2016	2017Q1	2017Q2	2017Q3
China	6.7	6.9	6.9	6.9
Chinese Taipei	1.4	2.4	2.4	3.1
Hong Kong	2.0	4.3	3.9	3.6
Mongolia	1.4	4.1	6.0	6.5
Emerging Asia	6.4	--	--	--
World*	2.3	2.6	2.8	2.8

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

end of period, # per US\$	2016	Sep-17	Oct-17	Nov-17
US\$ broad index	127.7	117.9	120.0	120.3
Chinese renminbi (CNY)	6.96	6.65	6.64	6.61
Taiwanese dollar (TWD)	32.3	30.4	30.1	30.0
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	2488	2463	2455	2444

Source: Datastream, XE

### World oil and jet fuel price

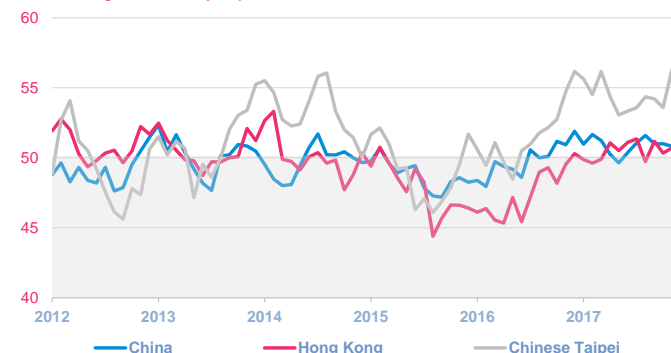
US\$/barrel	2016	Sep-17	Oct-17	Nov-17
Crude oil (Brent)	52.4	56.2	57.5	62.7
Jet fuel	64.0	75.6	69.7	73.9

Source: Platts, EIA Monthly average data

- ➔ A sharp improvement in business confidence in Chinese Taipei this month took the measure to its highest level since mid-2014. More subdued outcomes were evident for both Hong Kong and China where confidence has been generally trending sideways over recent months.

### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



- ➔ For China, recent broad-based increases in input costs have weighed upon business sentiment, largely offsetting the positive impacts of modest gains in production and new orders.
- ➔ On a trade-weighted basis, the US\$ gained a modest 0.2% in Nov. Of the main regional currencies, movements were again relatively subdued this month, with the TWD & MNT gaining 0.4% against the US\$, and the CNY up 0.3%.
- ➔ Brent crude oil prices averaged \$62.70/bbl in Nov, up 5% for the month & reaching a 17-month high along the way. Jet fuel prices rose by around 4%, to \$74. The agreement between OPEC members & Russia to extend production cuts supported prices this month.

## Market

### Revenue passenger kilometers (RPKs)

%change on a yr ago	2016	Aug-17	Sep-17	Oct-17
<b>Region (registration basis)</b>				
Asia Pacific	9.5	8.9	9.1	10.1
World	6.7	7.3	6.0	7.2
<b>Routes (segment basis)</b>				
China domestic	11.7	8.8	11.1	10.0
Asia - Europe	1.8	5.8	7.5	6.3
Within Asia	9.2	9.6	9.2	11.2
Asia - Nth America	9.6	4.6	1.5	4.2
Asia - Middle East	9.3	8.3	4.9	9.2
Asia - S/w Pacific	4.0	9.9	7.5	9.6
Asia - Africa	6.8	2.4	3.2	4.7

Source: IATA Statistics Asia-Pac incl North Asia

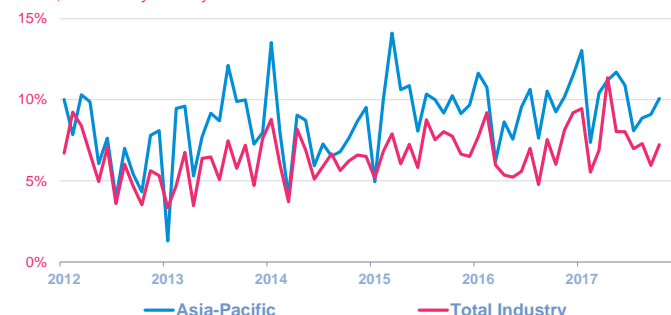
- ➔ Industry-wide RPKs grew by a robust 7.2%yoy in Oct, rebounding, as expected, from the hurricane-disrupted outcome in Sep. Overall, 2017 remains on track to be another year of above-trend passenger growth.
- ➔ Growth in pax volumes for the AsiaPac carriers also moved higher this month, returning to a double-digit pace, at 10.1%yoy. AsiaPac remained the fastest

growing region for yoy pax volumes in Oct.

- ➔ China domestic RPK growth maintained its double-digit pace in Oct, with pax volumes up an even 10% vs their level of a year ago. Almost 20% more domestic routes are scheduled to be operated in China in 2017 vs 2016.
- ➔ Of the larger international markets, Within Asia is the standout with growth in pax volumes of 11.2%yoy, followed by Asia-S/west Pacific (up 9.6%yoy) and Asia-Middle East (up 9.2%yoy) respectively.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



## Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Aug-17	Sep-17	Oct-17
<b>Region (registration basis)</b>				
Asia Pacific	1.6	10.4	9.0	4.4
World	3.6	11.8	9.2	5.9
<b>Routes (segment basis)</b>				
Asia - Europe	3.9	11.8	8.7	2.4
Asia - Nth America	0.2	10.2	8.5	4.2
Within Asia	6.6	15.2	14.7	4.8
Asia - Middle East	3.7	14.3	10.7	3.0
Asia - S/w Pacific	1.1	9.6	10.8	14.3
Asia - Africa	30.1	66.0	63.8	63.3

Source: IATA Statistics Asia-Pac incl North Asia

- ➔ Global FTK growth eased further in Oct, to 5.9%yoy, but remains well above its five & ten year average rates. Indeed, freight volumes look set to record their strongest year of growth since the post-GFC rebound in 2010.
- ➔ For the AsiaPac carriers, the pace of FTK growth halved in Oct, dropping to a 4.4%yoy pace & remaining below the overall industry-wide performance.

## Industry

### Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK	2016	Aug-17	Sep-17	Oct-17
<b>Passenger</b>				
Asia Pacific ASK	8.4	8.4	8.3	8.9
PLF	79.7	82.6	80.2	80.2
World ASK	6.7	6.4	5.4	6.2
PLF	80.5	84.6	81.7	80.8
<b>Freight</b>				
Asia Pacific AFTK	3.2	4.8	5.9	3.9
FLF	52.8	54.3	55.8	56.0
World AFTK	5.4	4.4	4.3	3.7
FLF	42.9	43.2	45.4	46.9

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

- ➔ The AsiaPac carriers have increased both pax & freight capacity faster than the industry-wide rate over the past year; ASKs are up a strong 8.9%yoy (vs 6.2%) & AFTKs are up 3.9%yoy (vs 3.7%).
- ➔ For the Oct load factors, it is a mixed performance from the region's airlines. On the passenger side, despite the gap narrowing in recent months, the PLF for the AsiaPac carriers continues to lag the industry average, at 80.2% vs 80.8%. For freight, the region remains easily the strongest performer, with a FLF of 56%, currently around 9pp above the industry aggregate of 47%.
- ➔ The latest Q3 data show a modest improvement in the region's financial performance compared with the same

### Airline operating (EBIT) margins\*

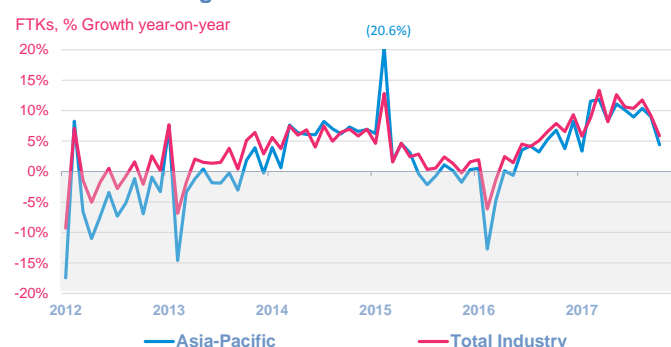
%revenues	2015	2016	2016Q3	2017Q3
Asia Pacific	8.0	10.0	10.8	11.3
Industry	8.5	8.8	15.9	15.7

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

IATA Economics: [www.iata.org/economics](http://www.iata.org/economics)

- ➔ The moderation in yoy growth in freight volumes this month was evident across all of the key markets for the region's carriers. Within Asia remains the pick of the larger markets, despite growth easing to 4.8%yoy in Oct.
- ➔ In contrast, the smaller markets of Asia-S/west Pacific and Asia-Africa continue to perform strongly, with growth of 14% & 63%yoy respectively.

### Growth in air freight volumes



Source: IATA Statistics

period last year. The EBIT margin for the AsiaPac carriers is up 0.5pp to 11.3% currently. Even so, it remains below the industry-wide outcome of 15.7%.

- ➔ The upward trend in global pax yields (in US\$ terms) has paused in the past few months, with a stronger US\$ & weather-related disruption both impacting recent outcomes. Amongst the key regional markets, the yield performance over the past year is mixed, with only the Europe & Africa markets showing positive yield growth. In yoy terms, yields in the China domestic market have been steady in recent months, down ~3.5%.

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

%change on a yr ago	2016	Aug-17	Sep-17	Oct-17
China domestic	-7.6	-3.6	-3.6	-3.5
Asia - Europe	-10.3	11.3	5.7	3.2
Within Asia	-10.0	-5.5	-5.1	-5.2
Asia - Nth America	-7.2	-0.7	-5.7	-3.4
Asia - Middle East	-10.5	6.4	-2.3	-2.1
Asia - Sth America	-9.1	-8.7	-2.0	-0.3
Asia - Africa	-8.8	8.2	0.6	3.7

Source: IATA PaxIS

Note: historical data may be subject to revision

### Aircraft deliveries to China & the Asia Pacific (4Q17 data)



Source: Ascend

Asia-Pac incl North Asia

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