

# State of the region: North Asia

February 2019

## Economy

### GDP growth, selected countries

% change on a yr ago	2017	Q2 2018	Q3 2018	Q4 2018
China	6.8	6.7	6.5	6.4
Chinese Taipei	3.1	3.1	2.3	1.9
Hong Kong	3.8	3.5	2.8	1.3
Mongolia	5.2	6.1	6.6	7.7
Emerging Asia	6.5	--	--	--
<b>World*</b>	<b>3.1</b>	<b>3.2</b>	<b>2.9</b>	<b>2.8</b>

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

end of period, # per US\$	2018	Nov-18	Dec-18	Jan-19
US\$ broad index	128.5	128.3	128.5	126.7
Chinese renminbi (CNY)	6.9	7.0	6.9	6.7
Taiwanese dollar (TWD)	30.7	30.8	30.7	30.7
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	2640	2613	2640	2627

Source: Datastream, XE

### World oil and jet fuel price

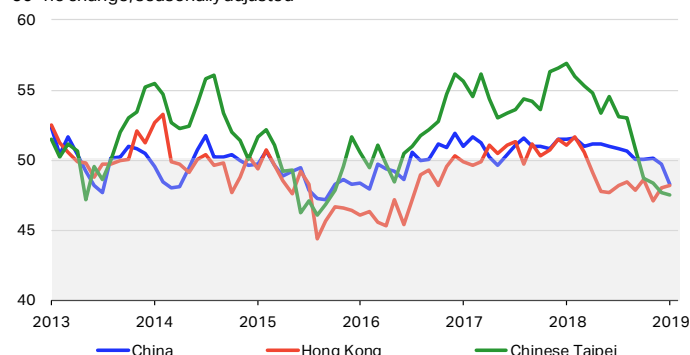
US\$/barrel (period ave.)	2018	Nov-18	Dec-18	Jan-19
Crude oil (Brent)	71.1	64.8	57.4	59.4
Jet fuel	84.7	81.7	71.2	74.9

Source: Platts, EIA Monthly average data

- China Q4 GDP growth eased to 6.4%yoy, facing the headwinds from falling business confidence, weaker investment and ongoing uncertainty about the future US – China trade agreements.

### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

- Sentiment in Chinese Taipei continued its recent sideways trend amidst falling production and export sales. In Hong Kong, business confidence remains weak, with lower exports and fall in new orders weighing on this month's outcome.
- On a trade-weighted basis, the US\$ ticked down by 1.4%, falling for the first time since early-2018. Amongst the main regional currencies, the CNY gained 2.6% against the US\$ this month. Other FX movements were relatively muted on this occasion.
- Brent crude and jet fuel prices have been volatile in recent months; after the sharp fall in Q4 2018, they picked up again in January, reacting to supply cuts imposed by OPEC countries.

## Market

### Revenue passenger kilometers (RPKs)

% change on a yr ago	2017	Oct-18	Nov-18	Dec-18
<b>Region (registration basis)</b>				
Asia Pacific	10.8	7.6	6.5	6.4
World	8.0	6.3	6.1	5.3
<b>Routes (segment basis)</b>				
China domestic	13.4	12.5	7.5	7.3
Asia - Europe	10.5	7.5	7.6	6.7
Within Asia	11.4	6.3	6.1	6.2
Asia - Nth America	7.2	1.7	3.4	2.2
Asia - Middle East	7.0	5.9	4.7	1.4
Asia - S/w Pacific	10.1	7.4	8.4	5.9
Asia - Africa	3.7	5.8	10.0	9.7

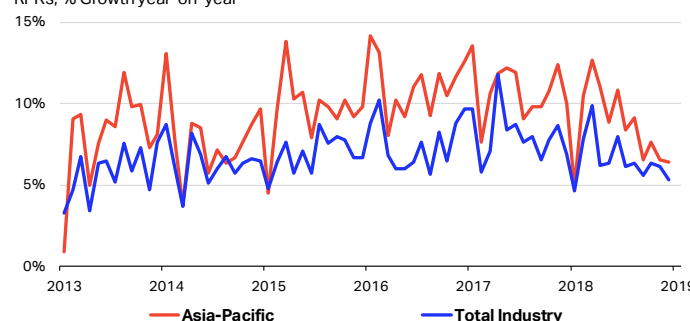
Source: IATA Statistics Asia-Pac incl North Asia

- The upward trend in industry-wide revenue passenger kilometres (RPKs) has softened over the past 6 months alongside signs of slowing global economic expansion. This translated into passenger growth moderating to 5.3%yoy in Dec, the slowest pace since early-2018.
- RPK growth for the AsiaPac carriers outperformed the industry-wide average by ~1pp, with the region retaining its position as the second fastest growing in terms of passenger volumes.

- Annual growth in domestic China RPKs eased slightly this month and is down from double-digit growth seen earlier in 2018. The moderation in passenger demand continues to reflect the broader economic backdrop.
- Amongst the region's larger international markets, Asia-Europe & Within Asia both maintained strong growth in Dec, with RPKs up 6-7% in annual terms.
- The smaller Asia-Africa had the fastest growth again this month, with a robust 9.7% increase in passenger volumes vs a year ago.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

## Freight tonne kilometers (FTKs)

% change on a yr ago	2017	Oct-18	Nov-18	Dec-18
<b>Region (registration basis)</b>				
Asia Pacific	9.0	2.0	-3.3	-4.5
World	9.7	3.3	-0.3	-0.5
<b>Routes (segment basis)</b>				
Asia - Europe	12.2	2.0	-1.0	-1.4
Asia - Nth America	10.1	4.8	-1.2	-1.0
Within Asia	8.6	1.7	-6.0	-8.5
Asia - Middle East	8.1	7.1	3.9	2.4
Asia - S/w Pacific	10.7	3.1	0.3	-2.1
Asia - Africa	57.8	-3.8	-17.6	-4.2

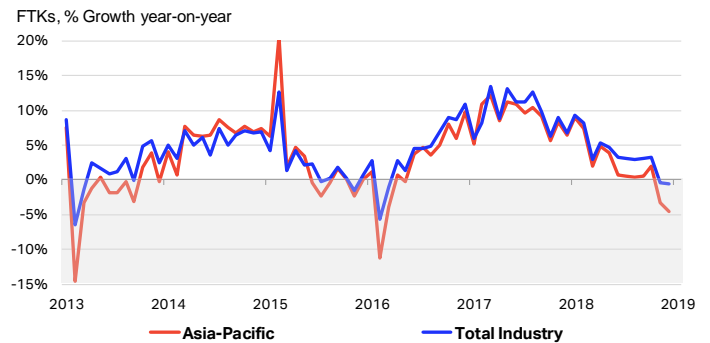
Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide freight tonne kilometres (FTKs) ended 2018 on a soft note, with year-on-year volumes down 0.5% compared to their level of Dec 2017. The moderation appears to reflect the end of the global restocking cycle as well as signs of weakness in key demand drivers.
- Annual growth in FTKs deteriorated this month for the Asia Pacific airlines amidst increasing signs of China economic slowdown and ongoing concerns about the development of the global trade war tensions.
- FTK growth remains negative for the region's larger

international markets this month. Within-Asia became the key underperformer, recording an 8.5% decline in freight volumes. The other two larger markets, the Europe & NthAm, had volumes down ~1% vs last year, not a significant change from November.

- Of the smaller markets, Asia-Africa FTK growth remained in negative territory, although its underperformance was less distinct compared to the previous month (-17.6% vs -4.2%). Demand growth in Asia-S/w Pacific routes ended the year on a soft note, with freight volumes 2.1% lower compared to Dec 2017, the slowest pace since March 2018.

### 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		2017	Oct-18	Nov-18	Dec-18
<b>Passenger</b>					
Asia Pacific	ASK	9.0	7.2	7.5	6.7
	PLF	81.0	80.6	80.3	81.0
World	ASK	6.6	6.4	6.7	6.1
	PLF	81.5	81.0	80.0	80.4
<b>Freight</b>					
Asia Pacific	AFTK	5.6	4.7	3.7	2.6
	FLF	57.2	56.7	56.3	54.0
World	AFTK	5.0	5.6	4.4	3.8
	FLF	49.9	50.4	51.3	48.8

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

- While the industry-wide passenger load factor (PLF) ticked up to 80.4% this month, a modest improvement vs Nov, the freight load factor (FLF) eased to 48.8%.
- The PLF for the AsiaPac airlines outperformed the industry-wide outcome by 0.6pp this month. The region's FLF eased to 54.0%, from 56.3% in Nov.
- First releases of financial data from the final quarter of 2018 indicate that the industry-wide EBIT margin fell modestly compared to Q4 2017, to a still robust 8.2%. At the regional level, the EBIT margin eased to 9.5%, from 11.6% a year ago.

### Airline operating (EBIT) margins\*

% revenues	2016	2017	2017Q4	2018Q4
Asia Pacific	7.4	5.5	11.6	9.5
Industry	8.5	7.5	9.4	8.2

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)

- Developments in passenger yields showed mixed results across the key markets in the region. Yields softened further in the China domestic market and are now 10% lower than their level a year ago, while they remained solid for the Asia-NthAm market (5.1%yo).

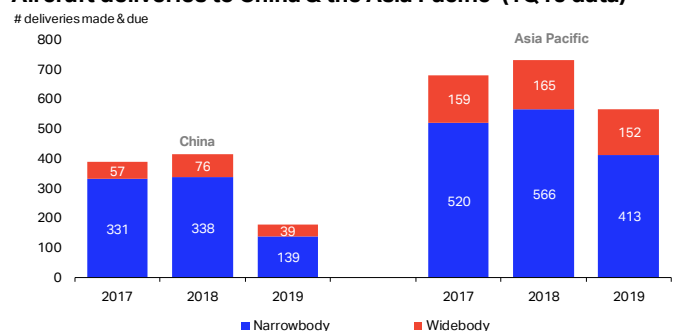
### Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2017	Oct-18	Nov-18	Dec-18
China domestic	-5.3	-1.9	-5.2	-10.3
Asia - Europe	1.9	-1.0	-3.4	-2.4
Within Asia	-5.6	-4.5	-6.2	-7.2
Asia - Nth America	-3.2	4.4	3.9	5.1
Asia - Middle East	-3.5	-1.9	1.5	1.4
Asia - Sth America	-4.2	-3.0	-2.1	-2.4
Asia - Africa	-0.1	0.8	-1.8	0.6

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

- Latest data show an expected reduction in the number of jet aircraft deliveries to both Asia Pac and Chinese airlines in 2019 vs 2018.

### Aircraft deliveries to China & the Asia Pacific (1Q19 data)



Source: Ascend

Note: Asia-Pac incl North Asia