



# STATE OF THE REGION: NORTH ASIA

FEBRUARY 2017

## Economy

### GDP growth, selected countries

%change on a yr ago	2015	2016Q2	2016Q3	2016Q4
China	7.0	6.7	6.7	6.7
Chinese Taipei	0.7	1.4	2.4	2.8
Hong Kong	2.4	1.7	2.0	3.1
Mongolia	2.5	-0.3	-6.3	--
Emerging Asia	6.6	--	--	--
<b>World*</b>	<b>2.3</b>	<b>2.1</b>	<b>2.2</b>	<b>2.4</b>

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

end of period, # per US\$	2016	Nov-16	Dec-16	Jan-17
US\$ broad index	127.7	125.8	127.7	127.6
Chinese renminbi (CNY)	6.96	6.89	6.96	6.88
Taiwanese dollar (TWD)	32.3	31.9	32.3	31.2
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	2488	2465	2488	2455

Source: Datastream, XE

### World oil and jet fuel price

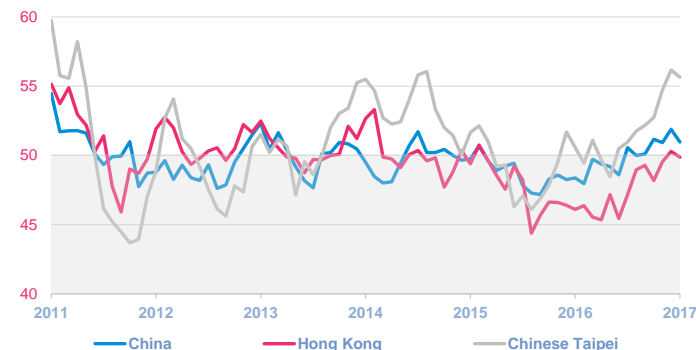
US\$/barrel	2016	Nov-16	Dec-16	Jan-17
Crude oil (Brent)	52.4	44.7	53.3	54.6
Jet fuel	64.0	57.0	62.6	63.6

Source: Platts, EIA Monthly average data

- ➔ Business confidence in the main Nth Asia countries slipped back a little this month, but the broad upwards trend remains in place. In Hong Kong, the index was

### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

unable to hold last month's rise to above the key 50 index level. Despite this month's modest pull-back, sentiment in Chinese Taipei remains elevated.

- ➔ The US\$ was broadly unchanged on a trade-weighted basis in Jan. The main regional bilateral exchange rates generally moved higher against the US\$ in the month, with the TWD up a solid 3.4%, more than unwinding the fall observed in Dec, while the CNY & MNT were both up a little more than 1%.
- ➔ Oil & jet fuel prices edged higher in Jan, consolidating the outsized gain observed in Dec. The price of Brent crude rose 2.4% in Jan to average US\$54.60 & jet rose 1.5% to US\$63.60.

## Market

### Revenue passenger kilometers (RPKs)

%change on a yr ago	2016	Oct-16	Nov-16	Dec-16
<b>Region (registration basis)</b>				
Asia Pacific	9.2	9.3	10.0	11.2
World	6.3	5.8	7.8	8.8
<b>Routes (segment basis)</b>				
China domestic	11.7	14.5	14.9	16.9
Asia - Europe	1.8	1.5	4.5	9.3
Within Asia	7.5	5.9	4.9	7.7
Asia - Nth America	6.4	6.0	7.0	8.2
Asia - Middle East	6.7	0.2	9.5	9.8
Asia - S/w Pacific	3.8	4.3	4.5	5.5
Asia - Africa	6.8	9.3	4.0	0.9

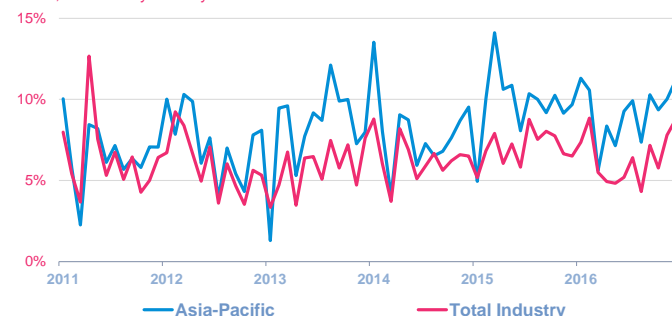
Source: IATA Statistics Asia-Pac incl North Asia

- ➔ Industry-wide traffic volumes increased to a 10-month high of 8.8%yoy in Dec, up from 7.8%yoy in Nov. For 2016 as a whole, volumes increased by 6.3%, well ahead of the long-run average growth rate, even allowing for the additional trading day from the leap year.
- ➔ Even so, pax traffic volumes for the Asia-Pac carriers exceeded the strong industry performance, with a double-digit increase of 11.2% over the past 12 months and a 9.2% gain for 2016 as a whole.

- ➔ Unsurprisingly, the China domestic market ended the year on a strong note, with yoy growth of almost 17% in Dec & 11.7% for 2016 overall.
- ➔ Apart from Asia-Europe (where annual growth was a modest 1.8%), 2016 generally saw robust RPK growth on the key Asia-Pac markets. Growth rates for the year overall were relatively tightly clustered in the range of 6.5-7.5% & led by Within Asia where growth has been supported by a broadly favourable economic backdrop.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

## Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Oct-16	Nov-16	Dec-16
<b>Region (registration basis)</b>				
Asia Pacific	2.1	8.2	5.8	9.8
World	3.8	8.4	7.2	9.8
<b>Routes (segment basis)</b>				
Asia - Europe	3.9	10.8	6.2	15.4
Asia - Nth America	-1.2	6.9	6.3	9.1
Within Asia	7.0	12.5	12.6	17.5
Asia - Middle East	4.8	9.6	5.2	10.0
Asia - S/w Pacific	1.1	4.1	4.9	-1.5
Asia - Africa	30.1	40.3	57.7	57.2

Source: IATA Statistics Asia-Pac incl North Asia

→ Growth in global FTKs increased to 9.8%yoy in Dec, following a strong second half performance. The soft start to the year, however, weighed upon the annual average growth rate of 3.8%. Even so, the latter is almost double its five-year average pace of 2.0%.

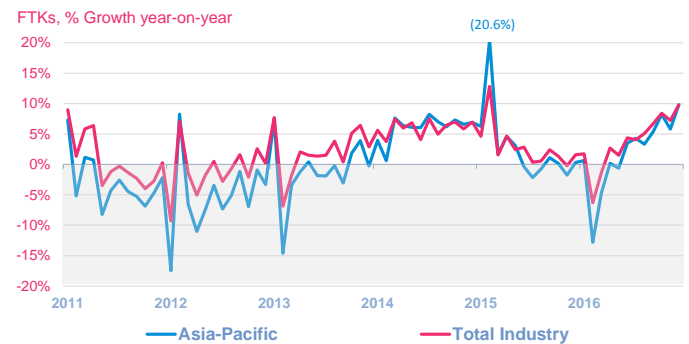
→ A similar pattern is evident for the Asia-Pac carriers where FTKs also increased by almost 10% in year-on-year terms to Dec, but the annual growth rate was more

subdued, at a relatively modest 2.1%.

→ Amongst the main markets - & despite a generally strong end to the year – the annual FTK growth rates were varied. Within Asia delivered the strongest annual growth rate, with freight volumes up 7% on 2015.

→ In contrast, FTKs *contracted* on routes between Asia & Nth America in 2016, down 1.2% for the year as a whole.

### 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		2016	Oct-16	Nov-16	Dec-16
<b>Passenger</b>					
Asia Pacific	ASK	8.1	8.4	8.6	8.0
	PLF	79.7	79.6	79.2	80.8
World	ASK	6.2	6.2	6.5	6.6
	PLF	80.5	80.1	79.1	80.6
<b>Freight</b>					
Asia/Pacific	AFTK	3.6	3.7	4.0	5.7
	FLF	52.8	55.9	56.8	55.1
World	AFTK	5.3	3.8	4.7	3.2
	FLF	43.0	46.2	47.2	46.1

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

→ Over the 12mths to Dec16, Asia-Pac carriers increased both pax & freight capacity at a faster rate than the industry average; ASKs are up 8.0% (vs 6.6%) & AFTKs are up 5.7% (vs 3.2%). However, reflecting the slow start to 2016, the growth in Asia-Pac AFTKs for the year overall are lower than the industry figure (3.6% vs 5.3%).

→ Notwithstanding the faster yoy capacity growth, the region's load factors are higher than the industry figures for Dec; only just in the case of the PLF, but – as we've come to expect – significantly in the case of the FLF (almost 10pp higher in the latter case).

→ The initial Q4 financials show a modest improvement in

### Airline operating (EBIT) margins\*

%revenues	2014	2015	2015Q4	2016Q4
Asia Pacific	2.5	7.7	9.0	10.1
Industry	4.7	8.3	14.7	9.7

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 EBIT margin for the Asia-Pac carriers, up 1pp vs a year ago, to 10.1%. This figure is ~0.5pp above the latest industry figure (9.7%, down 5pp on Q4 2015).

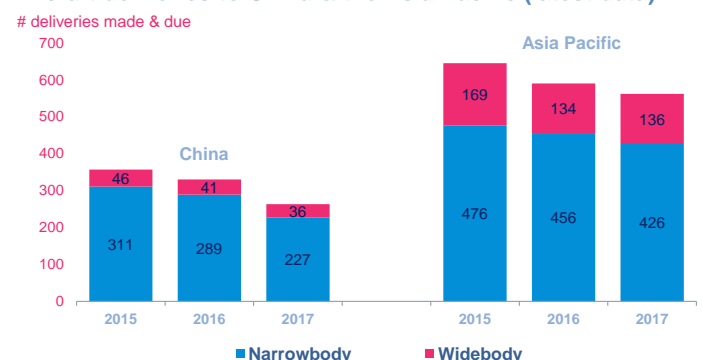
→ Passenger yields (in US\$-terms) for the main Nth Asia markets all remain lower than their level of a year ago, with double-digit declines (or close thereto) commonplace. This continued downward pressure on yields comes despite the upwards trend in oil & jet fuel prices over the course of 2016 as well as labour cost pressures emerging in some key markets.

### Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2016	Oct-16	Nov-16	Dec-16
China domestic	-7.4	-7.4	-11.2	-12.1
Asia - Europe	-10.3	-9.4	-10.0	-8.1
Within Asia	-10.0	-8.9	-11.4	-11.1
Asia - Nth America	-7.2	-4.7	-4.4	-4.3
Asia - Middle East	-10.5	-11.7	-12.0	-13.9
Asia - Sth America	-9.1	-11.6	-5.9	-10.3
Asia - Africa	-8.8	-9.2	-5.4	-10.5

Source: IATA PaxIS

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



Source: Ascend

Asia-Pac incl North Asia

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