



# STATE OF THE REGION: NORTH ASIA

FEBRUARY 2018

## Economy

### GDP growth, selected countries

%change on a yr ago	2016	2017Q2	2017Q3	2017Q4
China	6.7	6.9	6.9	6.9
Chinese Taipei	1.4	2.5	2.9	3.3
Hong Kong	2.0	3.9	3.6	--
Mongolia	1.4	6.0	6.5	3.7
Emerging Asia	6.4	--	--	--
World*	2.4	2.9	3.2	3.2

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

end of period, # per US\$	2017	Nov-17	Dec-17	Jan-18
US\$ broad index	120.0	120.3	120.0	117.2
Chinese renminbi (CNY)	6.51	6.61	6.51	6.29
Taiwanese dollar (TWD)	29.7	30.0	29.7	29.2
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	2429	2444	2429	2415

Source: Datastream, XE

### World oil and jet fuel price

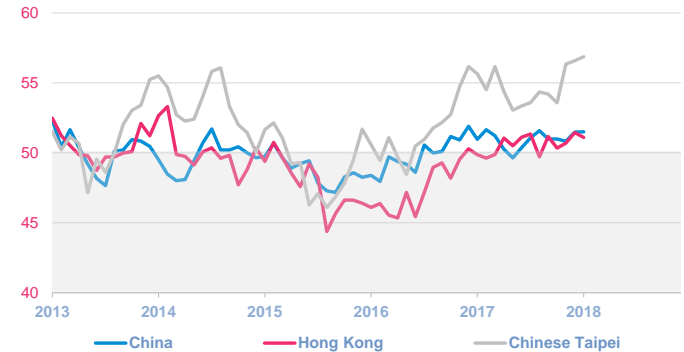
US\$/barrel (period ave.)	2017	Nov-17	Dec-17	Jan-18
Crude oil (Brent)	54.2	62.7	64.4	69.1
Jet fuel	65.6	73.9	76.3	82.0

Source: Platts, EIA Monthly average data

- Q4 GDP growth for China was unchanged at 6.9%yoy, a result reflected in a steady business confidence outcome this month, despite a slowing in new business orders.
- An improvement in economic activity in Chinese Taipei (where GDP growth lifted to 3.3%yoy in Q4), drove a

### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



solid gain in business confidence, with new export sales posting their strongest increase in 7 years. Confidence ticked down slightly in Hong Kong this month, but the latest reading remains consistent with GDP growth lifting to ~4%, building on the momentum of 2017.

- On a trade-weighted basis, the US\$ eased again in Jan, down 2.3% in the month. Of the key regional currencies, the CNY gained a further 3.4% against the US\$ this month, while the TWD was up 1.7% & the MNT increased by a modest 0.6%.
- Brent crude oil prices reached a 3yr high in Jan, supported by OPEC-led production cuts and a weaker US dollar. Oil & jet fuel prices both rose by ~7.5% in the month, to around US\$70 & US\$80 respectively.

## Market

### Revenue passenger kilometers (RPKs)

%change on a yr ago	2017	Oct-17	Nov-17	Dec-17
Region (registration basis)				
Asia Pacific	10.1	9.9	11.7	9.1
World	7.6	7.2	8.2	6.2
Routes (segment basis)				
China domestic	13.3	10.0	15.7	13.5
Asia - Europe	9.5	6.1	9.8	7.1
Within Asia	9.2	11.3	12.9	8.6
Asia - Nth America	4.9	4.2	5.4	3.3
Asia - Middle East	7.4	9.2	9.3	4.0
Asia - S/w Pacific	9.3	9.6	8.5	8.0
Asia - Africa	4.1	4.7	2.0	7.3

Source: IATA Statistics Asia-Pac incl North Asia

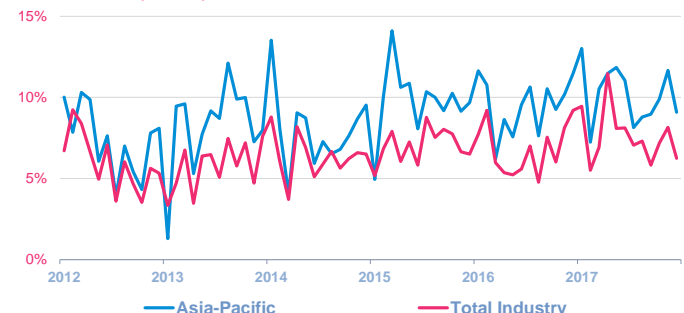
- Industry-wide RPKs grew by 7.6% in 2017; another year of above-trend passenger growth, well ahead of the 10yr average pace of 5.5%. Growth was supported by a broad-based lift in global economic conditions as well as stimulus from lower airfares (mainly earlier in the year).
- Pax volumes for the AsiaPac carriers increased by a strong 10.1% in 2017, the fastest pace amongst all of

the IATA regions, by a clear margin.

- China domestic RPKs recorded growth of 13.3% in 2017, increasing by 2pp over 2016. A combination of additional airport pairs underpinned by a robust economic expansion supported the 2017 result.
- Of the larger international markets for Asia, Europe posted the strongest growth (9.5%) in 2017, closely followed by Within Asia & the (smaller) S/west Pacific.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



## Freight tonne kilometers (FTKs)

%change on a yr ago	2017	Oct-17	Nov-17	Dec-17
<b>Region (registration basis)</b>				
Asia Pacific	7.8	3.6	6.9	5.6
World	9.0	5.4	8.2	5.7
<b>Routes (segment basis)</b>				
Asia - Europe	11.0	2.3	8.2	6.4
Asia - Nth America	8.7	3.5	8.0	6.0
Within Asia	12.2	4.8	11.0	8.3
Asia - Middle East	6.3	3.1	6.9	12.9
Asia - S/w Pacific	9.4	14.3	9.2	11.3
Asia - Africa	58.6	63.3	45.8	22.5

Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide FTKs grew by 9.0% in 2017, up from 3.6% in 2016 & the strongest annual result since 2010. Air freight outperformed global goods trade by the widest margin since 2010, driven by the inventory restocking cycle & buoyant demand for manufactured exports.
- AsiaPac carriers increased FTKs by 7.8% last year, somewhat below the industry-wide pace. The region still accounts for the largest share of internat. FTKs, at 37%.

## Industry

### Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK	2017	Oct-17	Nov-17	Dec-17
<b>Passenger</b>				
Asia Pacific ASK	8.4	8.6	8.8	8.3
Asia Pacific PLF	81.0	80.3	81.0	81.1
World ASK	6.3	6.0	6.3	5.8
World PLF	81.4	80.9	80.3	80.7
<b>Freight</b>				
Asia/Pacific AFTK	1.3	1.2	2.2	2.2
Asia/Pacific FLF	56.1	57.1	58.9	57.1
World AFTK	3.0	2.7	4.2	3.3
World FLF	45.5	47.1	48.7	46.8

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

- The industry-wide pax load factor increased by 0.9pp in 2017, taking it to a record calendar-year high of 81.4%. The PLF for AsiaPac carriers was broadly in-line with the industry outcome, at 81.0% for the year.
- With air freight demand growing 3x faster than capacity in 2017, the freight load factor for the industry increased by a sizeable 2.5pp in 2017. However, the FLF performance of the region's carriers easily outperformed the industry, by more than 10pp. At 56.1%, the AsiaPac FLF remains the benchmark for the other regions.

- The initial financial data for Q4 show a modest

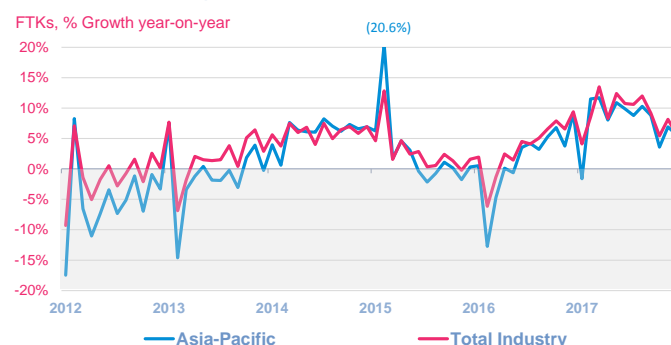
### Airline operating (EBIT) margins\*

%revenues	2015	2016	2016Q4	2017Q4
Asia Pacific	8.0	10.0	10.6	11.6
Industry	8.5	8.8	10.9	10.7

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

- Of the key markets, Within Asia & Asia-Europe both showed strong growth (of 12.2% & 11.0%) in 2017.
- However, the strongest growth in freight volumes overall came from the smaller market of Asia-Africa with FTK growth of ~60% for the year. This performance was underpinned by ongoing foreign investment flows into Africa, which in turn, contributed to an increase in the demand for direct services between the two continents.

### Growth in air freight volumes



Source: IATA Statistics

improvement in the region's financial performance vs the same period last year. The EBIT margin for the AsiaPac carriers is up 1.0pp to 11.6% currently, outperforming the overall industry figure by a similar margin.

- Industry-wide passenger yields remain broadly unchanged compared with a year ago. Across the region's key markets, yields are generally higher in yoy terms. Nth America is the key exception with yields still down 3.6%yoy.

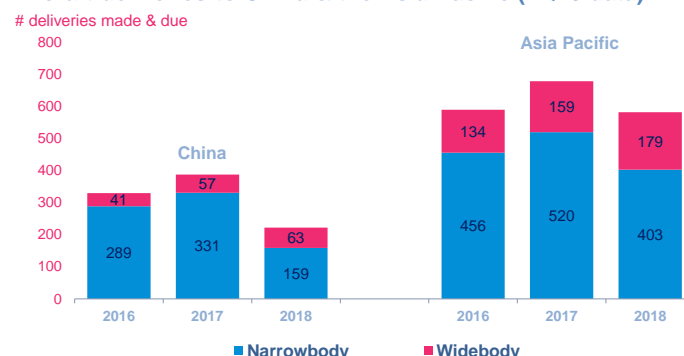
### Passenger yields (US\$, excl. surcharges & ancillaries)

%change on a yr ago	2016	Oct-17	Nov-17	Dec-17
China domestic	-7.6	-3.5	-1.1	4.9
Asia - Europe	-10.8	3.2	6.6	7.0
Within Asia	-10.3	-5.2	-2.3	0.2
Asia - Nth America	-7.3	-3.4	-2.9	-3.6
Asia - Middle East	-10.7	-2.1	-1.8	0.5
Asia - Sth America	-9.2	-0.3	-4.0	3.7
Asia - Africa	-8.9	3.7	2.3	7.4

Source: IATA PaxIS

Note: historical data may be subject to revision

### Aircraft deliveries to China & the Asia Pacific (1Q18 data)



Source: Ascend

Note: Asia-Pac incl North Asia