



STATE OF THE REGION: NORTH ASIA

JANUARY 2017

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	Oct-16	Nov-16	Dec-16
US\$ broad index	122.4	122.9	125.8	127.7
Chinese renminbi (CNY)	6.49	6.78	6.89	6.96
Taiwanese dollar (TWD)	32.9	31.6	31.9	32.3
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	1993	2263	2465	2488

Source: Datastream, XE

World oil and jet fuel price

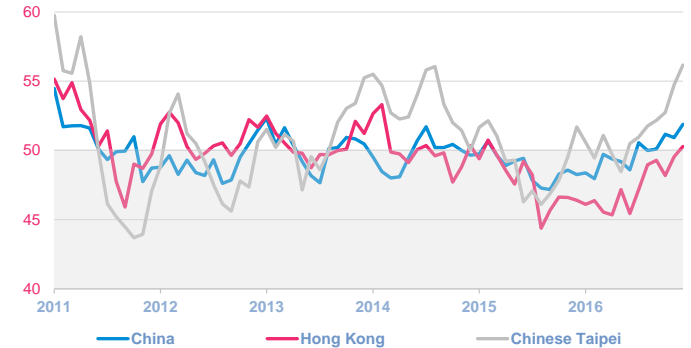
US\$/barrel	2015	Oct-16	Nov-16	Dec-16
Crude oil (Brent)	52.4	49.5	44.7	53.3
Jet fuel	64.0	61.2	57.0	62.6

Source: Platts, EIA Monthly average data

- Business confidence data for the main Nth Asia countries extended their recent upwards trend into the year-end. The index for Chinese Taipei in particular is at its highest level since 2011 & that for Hong Kong has

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

finally returned to above the key 50 index level. The improvement in sentiment in China since mid-2015 is also a notable & positive development.

- The US\$ gained a further 1.5% in Dec, to end the year up 4.5% on a trade-weighted basis. Movements in the key regional currencies (vs the US\$) were subdued over the month, with the TWD down 1.2% & both the CNY & MNT down 1%. The CNY ended the year 7% lower against the US\$ & the MNT was down 25%. In contrast, the TWD rose by 2% in yoy terms vs the US\$.
- Oil & jet fuel prices surged in Dec, on the back of the commitment by the major oil producers to limit production. Despite the strong monthly gain, prices ended year broadly similar to their levels of a year ago.

Market

Revenue passenger kilometers (RPKs)

%change on a yr ago	2015	Sep-16	Oct-16	Nov-16
Region (registration basis)				
Asia Pacific	9.8	10.3	9.3	9.9
World	7.1	7.2	5.8	7.6
Routes (segment basis)				
China domestic	11.0	14.0	14.5	14.9
Asia - Europe	4.0	3.3	1.5	4.5
Within Asia	10.2	8.5	6.0	4.3
Asia - Nth America	5.8	7.6	6.0	7.0
Asia - Middle East	6.9	6.6	0.2	9.5
Asia - S/w Pacific	6.1	5.4	4.3	4.4
Asia - Africa	-1.2	6.9	9.3	4.0

Source: IATA Statistics Asia-Pac incl North Asia

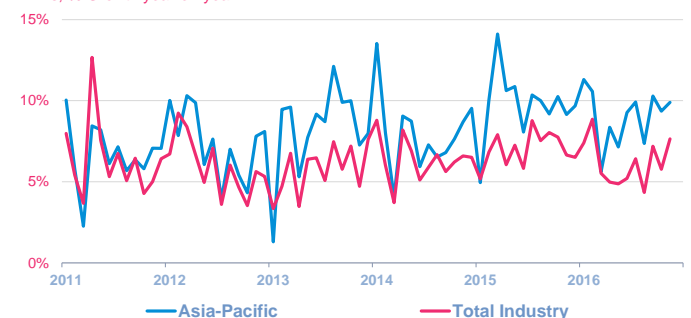
- Following a modest easing in yoy growth in Oct, RPKs rebounded in Nov, with the global measure reaching a 9mth-high of 7.6%yoy. Gains, albeit more subdued, were also observed at the regional level, with growth amongst Asia-Pac carriers lifting to 9.9%yoy.
- In the China domestic market, growth in pax traffic continues apace, with RPKs now almost 15% higher than their level of a year ago; the fastest rate since

March 2015. As we have noted previously this growth is underpinned by rising incomes & an increase in the network size (the number of airport pairs served).

- Across the main markets, Asia-NthAm & Asia-Middle East are the notable performers at present, with RPK growth of 7.0% & 9.5%yoy, respectively.
- Growth rates for the other main markets are currently quite tightly clustered, with RPKs up between 4-4.5% compared with 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	2014	Sep-16	Oct-16	Nov-16
Region (registration basis)				
Asia Pacific	2.3	5.4	8.2	6.1
World	2.7	6.7	8.4	6.8
Routes (segment basis)				
Asia - Europe	-4.9	7.6	10.8	6.2
Asia - Nth America	5.1	5.0	6.9	6.2
Within Asia	-0.4	8.4	12.6	12.6
Asia - Middle East	9.8	2.2	9.6	5.2
Asia - S/w Pacific	8.6	-1.3	4.1	4.9
Asia - Africa	1.3	40.9	40.3	59.3

Source: IATA Statistics Asia-Pac incl North Asia

- Global FTKs grew by a robust 6.8%yoy in Nov, easing from 8.4% in Oct. but still well above the average pace over the past decade. Similarly, growth in freight volumes eased for the Asia-Pac carriers, dipping from 8.2%yoy last month to 6.1%.
- That said, in seas-adj terms, Asia-Pac volumes have risen strongly over the past 6mths, returning to the levels reached in the aftermath of the global crisis in 2010.

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2015	Sep-16	Oct-16	Nov-16
Passenger					
Asia Pacific	ASK	7.7	8.6	8.4	8.6
	PLF	78.9	79.7	79.6	79.1
World	ASK	6.2	6.7	6.2	6.5
	PLF	80.3	81.3	80.1	78.9
Freight					
Asia Pacific	AFTK	7.7	3.6	3.8	4.0
	FLF	53.6	54.1	55.9	56.9
World	AFTK	7.7	4.6	3.7	4.4
	FLF	43.7	43.6	46.2	47.2

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

- Over the past year, Asia-Pac carriers have increased pax capacity by a hefty 8.6%, a full 2pp faster than the overall industry average. For freight, the growth rates are broadly similar, with AFTKs up 4.0%yoy for the region's carriers, slightly below the industry pace of 4.4%.
- The Nov pax load outcomes are also similar, with 79.1% for the region's carriers just exceeding the 78.9% industry average. The Asia-Pac airlines are the clear benchmark for freight loads; the FLF of 56.9% in Nov, is almost 10pp above the industry average.
- The latest Q3 financial data show a solid improvement in operating (EBIT) margin for the Asia-Pac carriers, up

Airline operating (EBIT) margins*

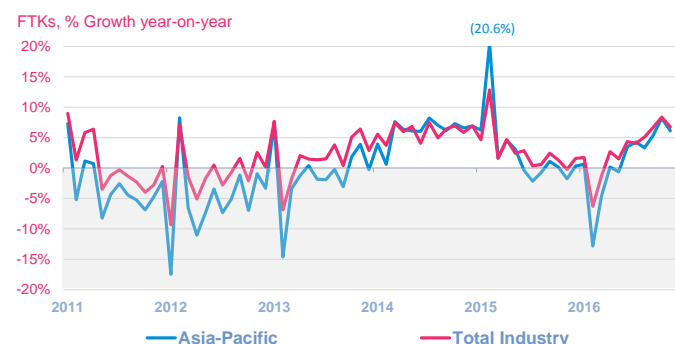
%revenues	2014	2015	2015Q3	2016Q3
Asia Pacific	2.5	7.7	8.1	10.7
Industry	4.7	8.3	15.3	14.8

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

IATA Economics: www.iata.org/economics

- This development is consistent with robust business survey outcomes observed in a number of countries, incl. Taiwan, Korea & Vietnam, in recent months.
- Amongst key routes, the main freight lanes to/from Asia (Europe, Nth America, Middle East) are all performing solidly, with FTK growth of 5-6% over the past year. Within Asia traffic remains the standout amongst the large markets, with volumes up a strong 12.6%yoy,

Growth in air freight volumes



Source: IATA Statistics

a solid 2½pp on the level of a year ago, to 10.7% currently. Over the same period, the industry-wide margin has slipped a little, to 14.8% at present, down from 15.3% in Q3 2015.

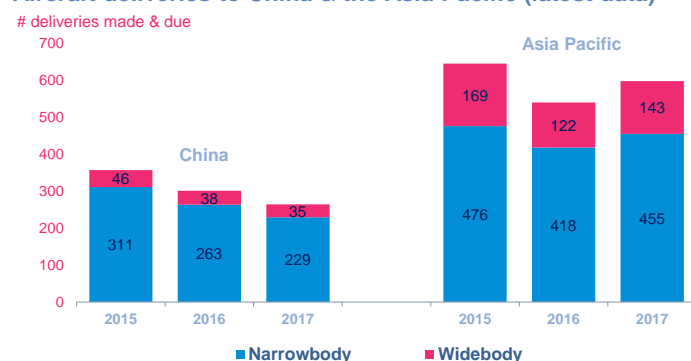
- Despite the upward trend observed in oil and fuel prices over 2016, airline yields remain under some pressure. Pax yields for both the China domestic & all key international markets for the region remain solidly lower than their level of a year ago. Many markets continue to show a double-digit yoy decline.

Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2015	Sep-16	Oct-16	Nov-16
China domestic	1.7	-8.1	-7.4	-11.2
Asia - Europe	-19.1	-8.4	-9.4	-10.0
Within Asia	-7.7	-8.1	-8.9	-11.4
Asia - Nth America	-15.1	-1.8	-4.7	-4.4
Asia - Middle East	-7.6	-8.5	-11.7	-12.0
Asia - Sth America	-18.0	-4.9	-11.6	-5.9
Asia - Africa	-17.8	-8.8	-9.2	-5.4

Source: IATA PaxIS

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



Source: Ascend

Asia-Pac incl North Asia

Contact: Andrew Matters – economics@iata.org