

STATE OF THE REGION: NORTH ASIA

JULY 2016

Economy

GDP growth, selected countries

%change on a yr ago	2015	2015Q3	2015Q4	2016Q1
China	6.9	6.9	6.9	6.7
Chinese Taipei	0.6	-0.8	-0.9	-0.7
Hong Kong	2.4	2.3	1.9	0.8
Mongolia	2.3	2.5	2.3	3.1
Emerging Asia	6.6	--	--	--
World*	2.5	2.6	2.3	2.3

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2015	Apr-16	May-16	Jun-16
US\$ broad index	122.4	119.5	120.8	121.2
Chinese renminbi (CNY)	6.49	6.48	6.58	6.65
Taiwanese dollar (TWD)	32.9	32.3	32.6	32.2
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	1993	2013	1991	1980

Source: Datastream, XE

World oil and jet fuel price

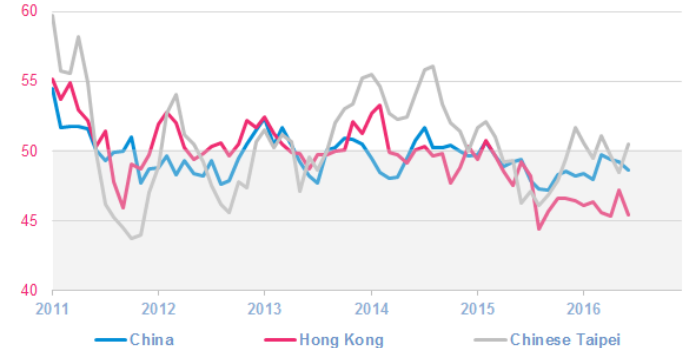
US\$/barrel	2015	Apr-16	May-16	Jun-16
Crude oil (Brent)	52.4	41.6	46.7	48.3
Jet fuel	64.0	48.2	54.6	58.0

Source: Platts, EIA Monthly average data

- In China, Q2 GDP pointed to an expansion of 6.7%yoy over the first half of 2016, comfortably within the government's target range of 6.5-7%.
- Despite indications that the services sector is performing

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



strongly, business confidence has been impacted by the rapid slowdown in capex spending, which is up just 2.8%yoy in 1H16, compared with 10.1% in 2015 overall.

- Last month's jump in business confidence in Hong Kong proved to be short-lived, with the index giving up virtually all of its gain in this month's reading.
- The (trade-weighted) US\$ edged higher in June, up 0.3%. Regionally, the CNY fell by 1.0% against the US\$ in the month, while the TWD rose by a similar amount.
- The world price of oil & jet fuel moved higher again in June, up 1.5% & 3.5%, respectively, to US\$48.30 & US\$58 on concerns of supply outages. Even so, daily oil prices ended the month slightly below their starting level.

Market

Revenue passenger kilometers (RPKs)

%change on a yr ago	2015	Mar-16	Apr-16	May-16
Region (registration basis)				
Asia Pacific	8.7	5.1	7.6	6.6
World	6.5	5.3	4.6	4.6
Routes (segment basis)				
China domestic	11.0	3.3	9.5	9.8
Asia - Europe	4.0	0.1	1.0	-2.6
Within Asia	7.5	4.3	5.0	2.8
Asia - Nth America	5.8	1.5	5.7	3.5
Asia - Middle East	6.9	7.2	6.5	5.9
Asia - S/w Pacific	6.1	-0.7	-0.4	1.4
Asia - Africa	-1.2	7.3	7.8	5.2

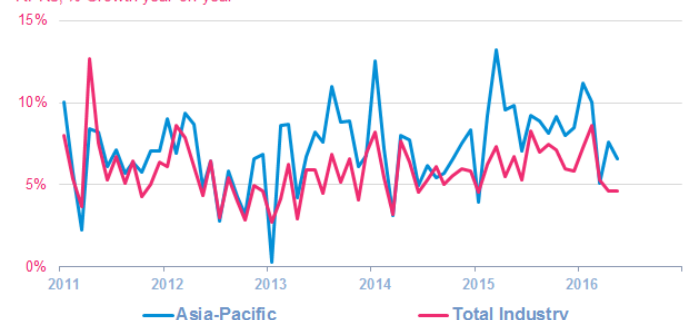
Source: IATA Statistics Asia-Pac incl North Asia

- RPK growth for the Asia-Pac airlines eased a little this month, but at a brisk 6.6% higher than the level of a year ago, the regional outcome is an even 2pp above the overall industry rate.
- At the industry level, the current pace of growth is in line with the 10yr average rate, however, it is noteworthy that it is also the slowest pace since Jan 2015.

- RPK growth in the China domestic market increased a little this month, up 0.3pp to 9.8%yoy, supported by receding fears regarding the economic outlook as well as increased flight frequencies.
- Amongst the larger inter-regional markets, the story is generally positive, led by Asia-Middle East (up ~6%yoy), & with the exception of the significant Asia-Europe market where RPKs are down 2.6%yoy.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Freight tonne kilometers (FTKs)

%change on a yr ago	2014	Mar-16	Apr-16	May-16
Region (registration basis)				
Asia Pacific	2.3	-4.7	0.2	-0.7
World	2.2	-1.5	2.6	0.9
Routes (segment basis)				
Asia - Europe	-4.9	-4.7	5.9	1.5
Asia - Nth America	5.1	-11.7	-4.7	-3.2
Within Asia	-0.4	5.1	4.6	4.1
Asia - Middle East	9.8	6.1	7.8	3.3
Asia - S/w Pacific	8.6	3.4	4.4	-2.5
Asia - Africa	1.3	19.8	18.0	18.1

Source: IATA Statistics Asia-Pac incl North Asia

- The return to positive growth in air freight volumes in Apr was short-lived for the region's airlines, with FTKs now 0.7% lower yoy. Industry-wide, FTK growth also slowed, but remained positive, up 0.9%yoy.
- As we have noted previously, the headwinds to the cargo performance include the broadly sideways trend in world trade growth & a very patchy global economic

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2015	Mar-16	Apr-16	May-16
Passenger					
Asia Pacific	ASK	6.7	6.5	7.0	6.9
	PLF	78.6	78.5	78.6	76.9
World	ASK	5.6	5.7	4.9	5.5
	PLF	80.2	79.8	79.2	78.7
Freight					
Asia Pacific	AFTK	6.7	4.4	3.0	3.7
	FLF	53.9	52.4	52.4	51.6
World	AFTK	6.3	6.9	6.1	4.9
	FLF	44.1	43.7	43.4	41.9

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

- A strong 6.9% increase in pax capacity by Asia-Pac airlines over the past year outstrips the industry-wide ASK growth rate of 5.5%yoy. The pax load factor for the region's airlines eased to ~77% in May, remaining below the industry 78.7%.
- For freight, however, the situation looks very different. A more moderate increase in freight capacity at the regional level over the past year (3.7%yoy vs 4.9%) contributes to a higher freight load factor (51.6% vs 41.9%). The Asia-Pac carrier FLF remains easily the highest amongst all IATA regions, notwithstanding the modest easing this month.

- The latest Q1 data show a robust EBIT margin of 7.4%

Airline EBIT margins*

%revenues	2014	2015	2015Q1	2016Q1
Asia Pacific	2.5	7.7	6.4	7.4
Industry	4.7	8.3	5.8	8.0

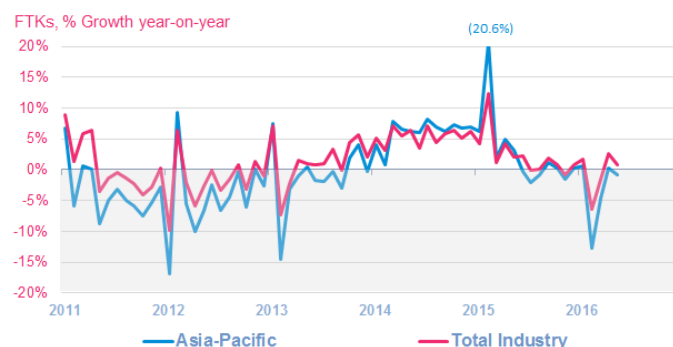
Source: Airline Analyst * constant sample basis, not seasonally adjusted Asia-Pac incl Nth Asia

IATA Economics: www.iata.org/economics

performance. Business surveys continue to offer little encouragement of immediate turnaround.

- The weak performance on the main inter-regional freight routes (Asia-Europe is up just 1.5%yoy & Asia-NthAm is down 3.2%) is offsetting the strong, double-digit growth performance on some of the smaller markets.

Growth in air freight volumes



Source: IATA Statistics

for the Asia-Pac airlines, 1pp higher than the same period a year ago. Even so, the regional outcome sits below the industry-wide 8.0% margin, which continues to be driven by the performance of Nth American carriers.

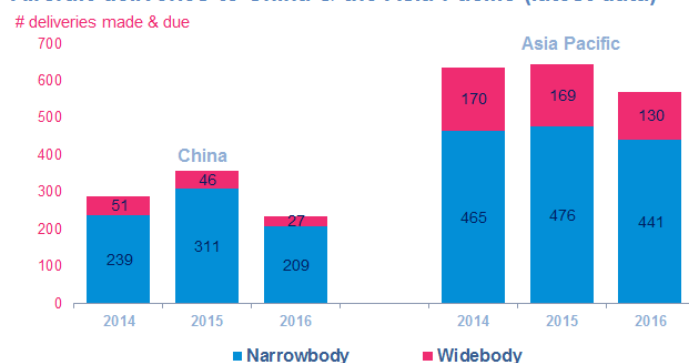
- Developments in (yoy) pax yields were mixed again this month. Nonetheless, yields in both the China domestic market & on key regional routes continue to show sizeable widespread declines compared with a year ago. This comes despite the recent reversal of trends in both oil/jet fuel prices & the US\$ exchange rate.

Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2015	Mar-16	Apr-16	May-16
China domestic	1.7	-7.6	-9.5	-10.0
Asia - Europe	-19.1	-15.3	-8.0	-8.6
Within Asia	-7.7	-11.8	-11.6	-12.2
Asia - Nth America	-15.1	-9.7	-10.0	-9.4
Asia - Middle East	-7.6	-9.8	-11.6	-12.0
Asia - Sth America	-18.0	-10.9	-14.0	-13.4
Asia - Africa	-17.8	-10.3	-7.4	-8.6

Source: IATA PaxIS

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



Source: Ascend

Asia-Pac incl North Asia

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