

State of the region: North Asia

July 2019

Economy

GDP growth, selected economies

% change on a yr ago	2018	Q3 2018	Q4 2018	Q1 2019
People's Republic of China	6.6	6.5	6.4	6.4
Chinese Taipei	2.6	2.3	1.8	1.7
Hong Kong (SAR), China	3.0	2.8	1.2	0.6
Mongolia	6.7	6.6	7.7	8.6
Emerging Asia	6.4	--	--	--
World*	3.2	3.1	2.9	2.9

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2018	Apr-19	May-19	Jun-19
US\$ broad index	128.5	127.4	128.7	128.3
Chinese renminbi (CNY)	6.9	6.7	6.9	6.9
Taiwanese dollar (TWD)	30.7	30.9	31.6	31.1
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	2640	2649	2649	2662

Source: Datastream

World oil and jet fuel price

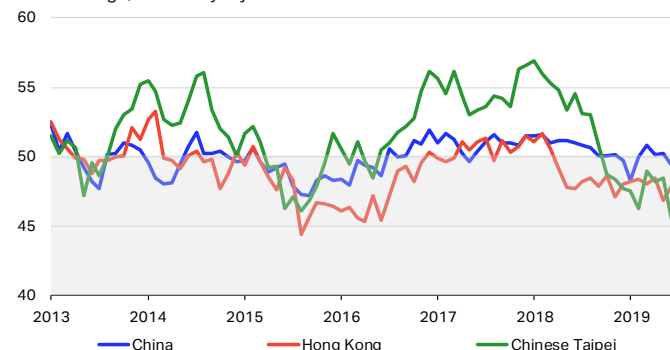
US\$/barrel (period ave.)	2018	Apr-19	May-19	Jun-19
Crude oil (Brent)	71.7	71.5	70.4	63.2
Jet fuel	86.4	84.2	84.4	76.5

Source: Platts, Datastream (monthly average data)

- The fall in Chinese business confidence into territory often associated with contraction highlights the challenges for businesses impacted by ongoing trade conflict with the US.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

- Trade tensions remain a common driver of weaker business sentiment in the region's two other markets that we regularly track. In addition, Hong Kong's business environment has been impacted by the recent public unrest.
- On a trade-weighted basis, the US\$ fell by a modest 0.4% in June, after four consecutive monthly increases. Of the main regional currencies, the TWD gained 1.7% against the US\$.
- The average crude oil and jet fuel price for June hides high data volatility; while prices eased early in the month on economic growth uncertainty, they recovered later amid concerns about tighter oil supply.

Market

Revenue passenger kilometers (RPKs)

% change on a yr ago	2018	Mar-19	Apr-19	May-19
Region (registration basis)				
Asia Pacific	8.4	2.1	2.4	4.5
World	6.5	3.1	4.4	4.5
Routes (segment basis)				
China domestic	11.7	3.6	4.3	7.6
Asia - Europe	7.1	4.4	8.5	10.4
Within Asia	8.2	3.9	5.1	4.9
Asia - Nth America	3.9	-0.4	3.2	5.2
Asia - Middle East	4.4	0.5	3.6	1.5
Asia - S/w Pacific	7.2	0.4	7.1	10.6
Asia - Africa	9.4	0.1	-0.5	2.5

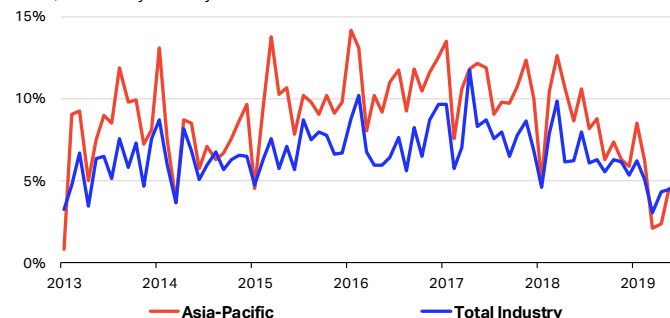
Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide revenue passenger kilometres (RPKs) ticked marginally higher in May, up 4.5% in year-on-year terms. Although this represents a solid outcome – following a short-lived dip in activity in March – RPK growth remained below the long-term average (5.5%).
- Although the Asia Pacific pace of RPK growth almost doubled compared to April – supported by improved performance in some of its domestic markets – the rate remained well below that seen earlier in the year.

- Following two modest y-o-y growth outturns in March and April, passenger demand rebounded solidly in China, with annual growth lifting to 7.6% in May.
- Of the key international markets in the region, the largest Asia-Europe remained one of the best performers this month with RPK volumes up by more than 10%, being overtaken only by the smaller Asia-S/w Pacific market (up 10.6% y-o-y).

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

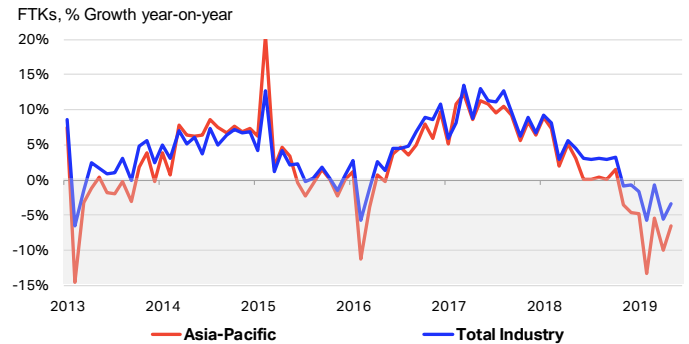
% change on a yr ago	2018	Mar-19	Apr-19	May-19
Region (registration basis)				
Asia Pacific	1.5	-5.5	-10.0	-6.4
World	3.5	-0.6	-5.6	-3.4
Routes (segment basis)				
Asia - Europe	1.1	1.4	-6.0	1.9
Asia - Nth America	3.7	-0.8	-7.8	-5.2
Within Asia	0.6	-8.8	-11.1	-10.7
Asia - Middle East	4.8	5.2	-4.0	-6.5
Asia - S/w Pacific	3.0	-2.0	0.6	-4.0
Asia - Africa	-4.0	5.7	10.9	12.0

Source: IATA Statistics Asia-Pac incl North Asia

- Global trade tensions continued to weigh on air freight demand in May; annual growth in industry-wide FTKs remained in negative territory with Asia Pacific and the Middle East being the main contributors to the decline.
- For Asia Pacific carriers, FTKs fell by more than 6% vs the same period a year ago, partly reflecting the impact of tariffs and trade restrictions in the US-China trade war. That said, seasonally adjusted volumes have been rising modestly since February.

- The regional aggregate hides differences in performance at the international market level. Although volumes continued to decline in annual terms on Asia-NthAm and Within Asia routes, growth recovered sharply in the largest Asia-Europe market to ~2% y-o-y.
- The smallest Africa-Asia remained the fastest growing market, posting a brisk double-digit growth pace for the second consecutive month.

Growth in air freight volumes



Source: IATA Statistics

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago,		2018	Mar-19	Apr-19	May-19
LF: % of ASK/AFTK					
Passenger					
Asia Pacific	ASK	7.7	3.6	3.4	3.5
	PLF	81.5	81.3	81.8	80.2
World	ASK	6.1	4.0	3.6	2.7
	PLF	81.9	81.9	82.9	81.5
Freight					
Asia Pacific	AFTK	4.5	-1.8	-1.2	0.3
	FLF	55.6	54.8	50.9	52.0
World	AFTK	5.2	2.5	2.0	1.3
	FLF	49.1	49.5	46.1	46.8

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

- The industry-wide passenger load factor (PLF) remained robust at 81.5% in May. The story was less positive for freight; despite the modest uptick this month, the LF has maintained its downward trend.
- Although the Asia Pacific PLF eased compared to the previous month, 80.2% was a still record-high outcome for the month of May. By contrast, the FLF remained subdued, almost 4ppt lower vs a year ago.
- Our final data for Q1 2019 (sample of 81 airlines) confirm the industry-wide decline in profitability vs a year ago. Asia Pacific carriers however saw the most significant improvement in the EBIT margin

Airline operating (EBIT) margins*

% revenues	2017	2018	2018Q1	2019Q1
Asia Pacific	6.3	4.5	3.9	5.1
Industry	7.5	5.8	4.6	2.9

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

of all regions for the first quarter; up 1.2ppt compared to Q1 2018.

- Growth in pax yields remained negative in the majority of the key domestic and international markets in May. That said, the downward pressure continued to ease on the larger routes, including Asia-Europe. Asia-Middle East again significantly outperformed the remaining markets with yields up almost 15% y-o-y.

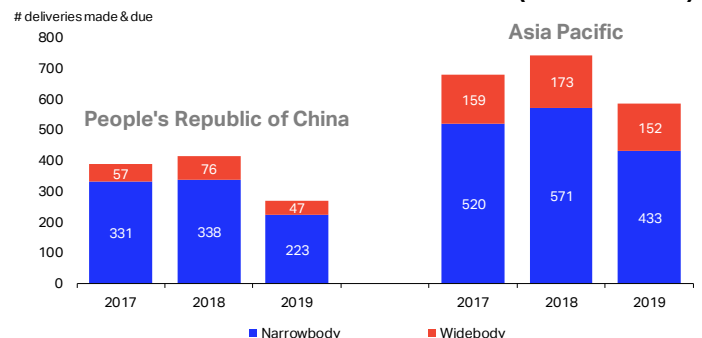
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2018	Mar-19	Apr-19	May-19
China domestic	-0.3	-10.9	-9.3	-6.6
Asia - Europe	-1.9	-10.2	-6.8	-2.7
Within Asia	-1.9	-8.5	-4.8	-3.6
Asia - Nth America	-2.7	-2.6	-1.4	-1.1
Asia - Middle East	-1.7	8.3	14.3	14.9
Asia - Sth America	0.7	-9.8	-7.7	-11.1
Asia - Africa	0.8	-7.3	-3.7	-5.5

Source: IATA Travel Intelligence Note: historical data may be subject to revision

- The latest data show a reduction in the number of jet aircraft deliveries to both Asia Pacific and Chinese airlines in 2019 vs 2018.

Aircraft deliveries to China & the Asia Pacific (as of Jul. 2019)



Source: Ascend

Note: Asia Pacific includes North Asia