

State of the region: North Asia

July 2021

Economy

GDP growth, selected economies

% change on a yr ago	2020	Q3 2020	Q4 2020	Q1 2021
People's Republic of China	2.0	4.9	6.5	18.3
Chinese Taipei	3.1	4.6	4.9	8.9
Hong Kong (SAR), China	-6.1	-3.6	-2.8	7.9
Mongolia	-5.4	-2.7	-0.9	15.5
Emerging Asia	-1.0	--	--	--
World*	-3.6	-2.6	-1.3	2.6

Source: Eikon Datastream * Market exchange rate basis

Exchange rates

end of period, # per US\$	2020	Apr-21	May-21	Jun-21
US\$ broad index	112.1	112.9	111.5	111.9
Chinese renminbi (CNY)	6.52	6.47	6.38	6.46
Taiwanese dollar (TWD)	28.1	27.9	27.6	27.9
Hong Kong dollar (HKD)	7.75	7.77	7.76	7.77
Mongolian tugrik (MNT)	2855	2845	2861	2858

Source: Board of Governors of the Federal Reserve System (US), Eikon Datastream

World oil and jet fuel price

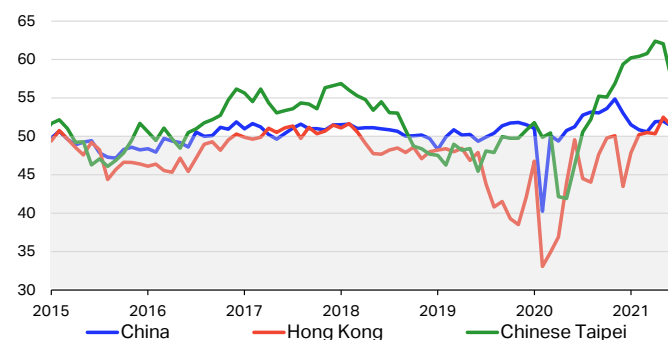
US\$/barrel (period ave.)	2020	Apr-21	May-21	Jun-21
Crude oil (Brent)	43.4	65.5	68.4	73.5
Jet fuel	46.3	69.1	73.4	77.6

Source: Platts, Eikon Datastream (monthly average data)

- Growth in the manufacturing sector eased in June across the three key economies that we regularly track for the North Asia region because the resurgence of

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



COVID-19 in the area weighed on manufacturing production. Disrupted supply chains have also contributed to the softer outcome compared with the previous month.

- The trade-weighted US dollar index rose by 0.3% in June. Of the key regional currencies, the CNY was the main mover, losing 1.2% against the US\$. The TWD followed, ending the month down by 0.9%.
- Oil and jet fuel prices trended upwards in June amidst improving economic fundamentals. Looking ahead, rising fuel bill might shadow airlines' recovery as air travel restarts.

Market

Revenue passenger-kilometers (RPKs)

To aid understanding, we make % comparisons with pre-crisis 2019 period.

% ch vs. the same period in 2019	2020	Mar-21	Apr-21	May-21
Region (registration basis)				
Asia Pacific	-62.0	-59.8	-57.2	-59.5
World	-65.9	-66.8	-65.2	-62.7
Routes (segment basis)				
China domestic	-30.8	0.0	6.8	6.3
Asia - Europe	-79.0	-92.1	-92.3	-92.7
Within Asia	-84.1	-98.0	-97.4	-97.4
Asia - Nth America	-80.1	-93.3	-93.0	-92.9
Asia - Middle East	-73.6	-81.8	-83.3	-83.8
Asia - S/w Pacific	-79.4	-98.0	-98.0	-97.7
Asia - Africa	-79.7	-91.0	-90.9	-91.2

Source: IATA Economics. Asia-Pac incl North Asia

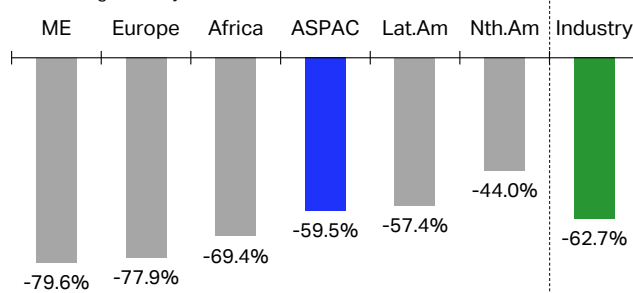
- Air passenger demand continued to slowly recover in May. Industry-wide revenue passenger-kilometers (RPKs) fell by 62.7% compared with May 2019 – a modest improvement on the 65.2% decline in the previous month.
- The developments were less positive at the regional level. Passenger volumes flown by Asia Pacific airlines fell by 59.5% in May compared with the same month in 2019 – a deterioration from the 57.2% decline in the previous month. The region's international traffic

remains the weakest in the industry due to high stringency in cross-border travel restrictions. Indeed, Asia Pacific international RPKs were on average down by more than 94% in May compared with the pre-crisis levels – just a 4ppts improvement from the peak of the crisis last year in April.

- That said, some of the region's domestic markets that managed to contain the virus have been showing a robust recovery. One of the best examples is domestic China, where RPKs were 6.3% higher in May compared with the pre-crisis levels – the second-best outcome amongst the key domestic markets after Russia.

Growth in passenger volumes, by region

RPKs, % change vs. May 2019



Cargo tonne-kilometers (CTKs)

To aid understanding, we make % comparisons with pre-crisis 2019 period.

% ch vs. the same period in 2019	2020	Mar-21	Apr-21	May-21
Region (registration basis)				
Asia Pacific	-13.8	-4.6	2.5	2.7
World	-8.7	4.6	11.3	9.4
Routes (segment basis)				
Asia - Europe	-10.6	3.7	11.4	1.3
Asia - Nth America	7.6	25.4	28.2	26.5
Within Asia	-19.6	-5.1	-2.8	-8.3
Asia - Middle East	-7.0	16.9	20.5	15.7
Asia - S/w Pacific	-30.4	-37.2	-39.6	-36.5
Asia - Africa	9.0	39.9	28.9	19.1

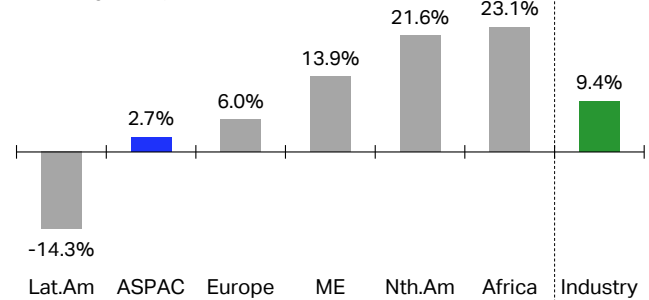
Source: IATA Economics. Asia-Pacific incl. North Asia

- Air cargo continued to perform well in May 2021, with industry-wide cargo tonne-kilometres (CTKs) rising by 9.4% compared to pre-crisis levels. Supply-chain conditions and economic activity remain supportive for air cargo developments.
- At the regional level, Asia Pacific CTKs rose 2.7% above the pre-crisis levels – a broadly unchanged outcome from the previous month.

- CTK growth slowed across the key regional segment-based trade lanes. This is consistent with PMI's easing off somewhat in certain manufacturing intensive countries in Asia such as China and South Korea. The larger Asia-Europe market showed the most significant slowdown in CTK expansion in May vs. April (down ~10ppts at 1.3%).

Growth in cargo volumes, by region

CTKs, % change vs. May 2019



Source: IATA Economics

Industry

Capacity growth and load factors

To aid understanding, we make % comparisons with pre-crisis 2019 period.

ASK/ACTK: %ch vs. the same period in 2019, LF: % of ASK/ACTK		2020	Mar-21	Apr-21	May-21
Passenger					
Asia Pacific	ASK	-54.1	-50.7	-48.2	-52.0
	PLF	67.7	66.7	67.8	67.8
World	ASK	-56.7	-56.4	-54.6	-53.7
	PLF	65.1	62.3	63.7	65.8
Cargo					
Asia Pacific	ACTK	-27.1	-19.2	-15.3	-15.7
	CLF	61.9	65.5	62.7	64.6
World	ACTK	-21.2	-11.5	-10.4	-9.7
	CLF	54.2	58.8	57.9	57.2

Source: IATA Economics. Asia-Pac incl North Asia. LF= load factor. ASK=available seat kms. ACTK=available cargo tonne kms.

- Contraction in global seat capacity (ASKs) was broadly unchanged from the previous month at -53.7%. Passenger load factors (PLF) continued to improve with the strength in domestic demand. The industry-wide metric was at 65.8% in May. Asia Pacific airlines posted the PLF at 67.8%.
- Cargo load factors (CLF) remained well-above their pre-pandemic levels amidst ongoing shortage in cargo capacity. The industry-wide CLF was 10ppts above May 2019, at 57.2%. Asia Pacific airlines reported the load factor at 64.6% - the second highest after European carriers.
- In Q1 2021, the industry-wide operating EBIT margin was at -58% of revenues – broadly unchanged outcome from Q4 2020 since passenger demand remained muted. In Asia Pacific, EBIT margins deteriorated vs. Q4 since some countries in the region faced new COVID-19 waves that weighed on air travel recovery.

Airline operating (EBIT) margins*

% revenues	2019	2020	2020Q1	2021Q1
Asia Pacific	4.7	-27.0	-18.9	-36
Industry	5.2	-28.0	-12.3	-58

Source: Airline Analyst * constant sample basis, not seasonally adjusted

- Airlines continued to burn cash in Q1 due to low air travel volumes but there was some variation. Some markets, such as the US, started to benefit from swift vaccine rollout followed by rising bookings. In Asia Pacific, airlines reported cash outflow broadly in line with the industry average.

Airline cash flow*

% revenues	Q1 2020		Q1 2021	
	Net cash flow ¹	Free cash flow	Net cash flow ¹	Free cash flow
Asia Pacific	-22.2	-38.2	-9.2	-20.2
Industry	-1.5	-17.3	-8.2	-22.1

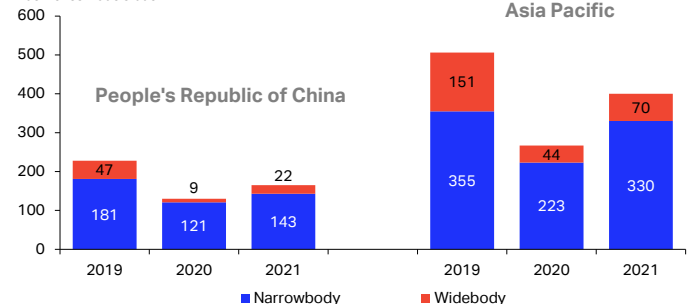
¹From operating activities

Source: Airline Analyst, *constant sample basis, not seasonally adjusted

- As of July, aircraft deliveries scheduled by Asia Pacific carriers are expected to increase by 50% in 2021 vs. 2020 but will remain 21% below deliveries in 2019. In China, airlines should receive 27% more deliveries vs. last year but 28% fewer than in 2019.

Aircraft deliveries to China & the Asia Pacific (as of July 2021)

deliveries made & due



Source: Cirium Fleet Analyzer

Note: Asia Pacific includes North Asia