



# STATE OF THE REGION: NORTH ASIA

JUNE 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	--	--	--
<b>World*</b>	<b>2.6</b>	<b>2.6</b>	<b>2.3</b>	<b>2.2</b>

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

end of period, # per US\$	2015	Mar-16	Apr-16	May-16
US\$ broad index	122.4	121.5	119.5	120.8
Chinese renminbi (CNY)	6.49	6.45	6.48	6.58
Taiwanese dollar (TWD)	32.9	32.2	32.3	32.6
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	1993	2046	2013	1991

Source: Datastream, XE

### World oil and jet fuel price

US\$/barrel	2015	Mar-16	Apr-16	May-16
Crude oil (Brent)	52.4	38.2	41.6	46.9
Jet fuel	64.0	44.9	48.2	54.6

Source: Platts, EIA Monthly average data

→ In China, economic indicators have shown some signs of stability or improvement, in some cases, over recent months, helping to ease concerns amongst market analysts & businesses alike. The PBoC has forecast GDP growth of 6.8% for 2016 overall, a little above the latest IMF forecasts (6.5%) but broadly in line with the

### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

pace of the current expansion. Even so, issues around declining corporate profits & the level of (public & private) indebtedness remain watchpoints.

- Despite a further easing in Q1 GDP to just 0.8%yoy, business confidence in Hong Kong rose to its highest level in almost a year; it remains to be seen if this can be sustained or is a temporary development.
- The US\$ recovered some of its April decline, rising an even 1.0% on a trade-weighted basis. Regionally, the CNY fell by 1.7% against the US\$ in the month, while the MNT rose by just over 1%.
- The world price of oil & jet fuel continued its recent resurgence in May. The monthly average price (for both) rose by 12-13% (US\$5-6/bbl).

## Market

### Revenue passenger kilometers (RPKs)

%change on a yr ago	2015	Feb-16	Mar-16	Apr-16
<b>Region (registration basis)</b>				
Asia Pacific	8.7	10.1	5.1	7.3
World	6.5	8.6	5.3	4.6
<b>Routes (segment basis)</b>				
China domestic	11.0	8.2	3.3	9.5
Asia - Europe	3.4	4.0	0.1	1.0
Within Asia	8.5	8.8	4.6	5.1
Asia - Nth America	5.8	9.3	1.5	5.7
Asia - Middle East	8.3	9.8	7.2	7.0
Asia - S/w Pacific	6.1	5.4	-0.7	-0.4
Asia - Africa	-1.2	11.5	7.3	7.8

Source: IATA Statistics NB Asia-Pac incl North Asia

- RPK growth for the Asia-Pac airlines moved higher in Apr, bucking the global trend of further easing. RPKs are up a brisk 7.3%yoy for the region's carriers, well above the 4.6% growth rate of the global industry average.
- As expected, RPK growth in the China domestic market rebounded sharply in Apr, to 9.5%yoy, as the impact of

events in early 2015 dropped out of the calculation.

- Amongst the larger inter-regional markets, both Within Asia & Asia-NthAm are showing healthy growth above 5%yoy; the size of the rebound in the latter is notable.
- However, the key Asia-Europe market is up just 1% on a year ago; part of this weakness may be being reflected in the strong 7%yoy growth on Asia-Middle East routes.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

## Freight tonne kilometers (FTKs)

%change on a yr ago	2014	Feb-16	Mar-16	Apr-16
<b>Region (registration basis)</b>				
Asia Pacific	2.4	-12.7	-4.6	0.1
World	2.3	-6.3	-1.7	3.2
<b>Routes (segment basis)</b>				
Asia - Europe	-5.0	-8.0	-4.7	5.9
Asia - Nth America	5.1	-20.5	-12.0	-6.0
Within Asia	-0.4	-7.8	5.1	4.6
Asia - Middle East	7.0	-2.3	2.9	4.5
Asia - S/w Pacific	8.6	-8.5	3.4	4.4
Asia - Africa	1.3	5.0	19.8	18.0

Source: IATA Statistics NB Asia-Pac incl North Asia

- Growth in air freight volumes returned to positive territory in Apr, after two consecutive months of yoy contraction. FTKs are up 3.2%yoy industry-wide & a marginal 0.1% for Asia-Pac carriers.
- The rebound in both global & regional carrier FTK volumes partly reflects some of the disruptions from early 2015 (incl. the US west coast seaport disruption) dropping out of the yoy calculation. That said, there

appears to be some residual distortion at the route level – particularly for Asia-NthAm – from early 2015.

- With such disruptions moving aside, a clearer picture of the underlying fundamentals for cargo will emerge. But against a generally soft demand backdrop & with global trade volumes remaining subdued, this picture may not be a particularly upbeat one.

## Growth in air freight volumes



Source: IATA Statistics

## Industry

### Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK	2015	Feb-16	Mar-16	Apr-16
<b>Passenger</b>				
Asia Pacific ASK	6.7	9.9	6.5	7.0
Asia Pacific PLF	78.6	79.0	78.5	78.4
World ASK	5.6	9.7	5.8	4.9
World PLF	80.2	77.7	79.8	79.1
<b>Freight</b>				
Asia Pacific AFTK	6.7	4.0	4.1	2.8
Asia Pacific FLF	54.0	45.9	52.6	52.5
World AFTK	6.2	7.5	6.8	6.6
World FLF	44.2	40.6	43.7	43.5

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

- Asia-Pac airlines have grown pax capacity by 7.0% over the past year, well up on the industry average of 4.9%. the industry PLF eased a little in Apr, to 79.1% & remains above the regional outcome which was broadly unchanged, at 78.4% this month.
- The converse applies on the freight side of the industry. Freight capacity for the Asia-Pac carriers is up a modest 2.8%yoy, well below the robust 6.6% growth at the industry-wide level. The regional FLF was also effectively unchanged at 52.5% this month, retaining the 9pp gap above the industry outcome of 43.5%.

- The latest Q1 data show an EBIT margin of 7.4% for

### Airline EBIT margins\*

%revenues	2013	2014	2015Q1	2016Q1
Asia Pacific	2.3	2.8	6.4	7.4
Industry	4.1	5.2	5.9	8.1

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

- Asia-Pac carriers, a full 1pp improvement on the same time a year ago. Even so, the regional outcome sits below the industry-wide 8.1% margin, which continues to be driven by the performance of Nth American carriers.

- Developments in (yoy) pax yields were mixed this month. However, yields in both the China domestic market & on key regional routes continue to show 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	Feb-16	Mar-16	Apr-16
China domestic	1.7	2.0	-7.6	-9.6
Asia - Europe	-19.1	-11.9	-15.3	-8.1
Within Asia	-7.7	-7.7	-11.8	-11.8
Asia - Nth America	-15.1	-11.1	-9.7	-10.0
Asia - Middle East	-7.6	-8.8	-9.8	-11.7
Asia - Sth America	-18.0	-11.0	-10.9	-14.0
Asia - Africa	-17.8	-13.8	-10.3	-7.4

Source: IATA PaxIS

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



Source: Ascend

Asia-Pac incl North Asia