

# State of the region: North Asia

June 2019

## Economy

### GDP growth, selected countries

% change on a yr ago	2018	Q3 2018	Q4 2018	Q1 2019
China	6.6	6.5	6.4	6.4
Chinese Taipei	2.6	2.3	1.8	1.7
Hong Kong	3.0	2.8	1.2	0.6
Mongolia	6.7	6.6	7.7	8.6
Emerging Asia	6.5	--	--	--
<b>World*</b>	<b>3.2</b>	<b>3.1</b>	<b>2.9</b>	<b>2.9</b>

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

end of period, # per US\$	2018	Mar-19	Apr-19	May-19
US\$ broad index	128.5	127.2	127.4	128.7
Chinese renminbi (CNY)	6.9	6.7	6.7	6.9
Taiwanese dollar (TWD)	30.7	30.8	30.9	31.6
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	2640	2630	2649	2649

Source: Datastream

### World oil and jet fuel price

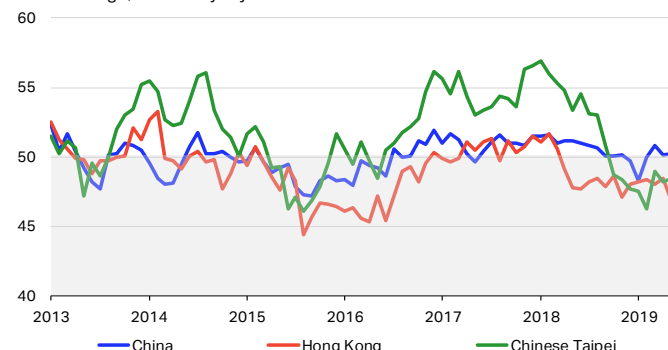
US\$/barrel (period ave.)	2018	Mar-19	Apr-19	May-19
Crude oil (Brent)	71.7	66.9	71.5	70.4
Jet fuel	86.4	81.1	84.2	84.4

Source: Platts, Datastream (monthly average data)

- Business confidence in China remained unchanged from the previous month, at just above 50-mark. US-China trade tensions continue to be one of the key factors weighing upon business confidence.

### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

- Business operating conditions continue to deteriorate in Hong Kong amidst weaker demand from China, its largest export partner. Sentiment remains under pressure for the same reasons also in Chinese Taipei.
- On a trade-weighted basis, the US\$ rose by 1.1%, in May, its 4<sup>th</sup> consecutive monthly increase. Of the key regional currencies, the CNY and TWD lost ~2.5% against the US\$. Other FX movements were muted on this occasion.
- Brent crude oil and jet fuel prices lost their strong upward momentum at the end of May as escalating US-China trade tensions reinforced concerns over a slowdown in global oil demand.

## Market

### Revenue passenger kilometers (RPKs)

% change on a yr ago	2018	Feb-19	Mar-19	Apr-19
<b>Region (registration basis)</b>				
Asia Pacific	8.4	6.0	1.9	2.1
World	6.5	5.1	3.1	4.3
<b>Routes (segment basis)</b>				
China domestic	11.7	11.3	2.8	3.4
Asia - Europe	7.1	5.7	4.5	8.1
Within Asia	8.2	4.1	3.7	5.2
Asia - Nth America	3.9	-0.5	-0.6	3.1
Asia - Middle East	4.4	1.3	0.5	3.6
Asia - S/w Pacific	7.2	5.7	1.9	6.8
Asia - Africa	9.4	-1.1	-0.1	-0.8

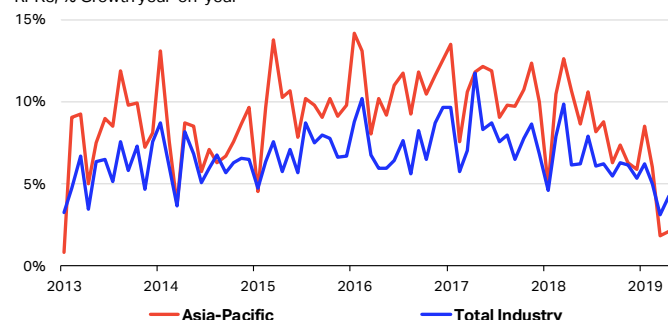
Source: IATA Statistics Asia-Pac incl North Asia

- Annual growth in industry-wide revenue passenger kilometres (RPKs) recovered to 4.3% in April, up from 3.1% in the previous month. The pace of demand remains steady but is well below the long-run average of around 5%.
- The RPK growth in Asia Pacific picked up slightly to 2.1% year-on-year. That said, it remains well below the long-term average as escalating US-China trade tensions weigh upon the business environment in the region.

- Growth in domestic China RPKs increased slightly in April, to 3.4% y-o-y, but remained much softer than in the 2016-2018 period, during which it averaged ~12%. Escalation in the US-China trade war and a softening in a number of the country's key economic indicators have contributed to the pax demand slowdown.
- The RPK growth outcome is more optimistic on the international side; RPK volumes are higher vs a year ago on 5 out of 6 key international markets for the region. The largest Asia-Europe market was the best performer this month with volumes up by ~8%.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

## Freight tonne kilometers (FTKs)

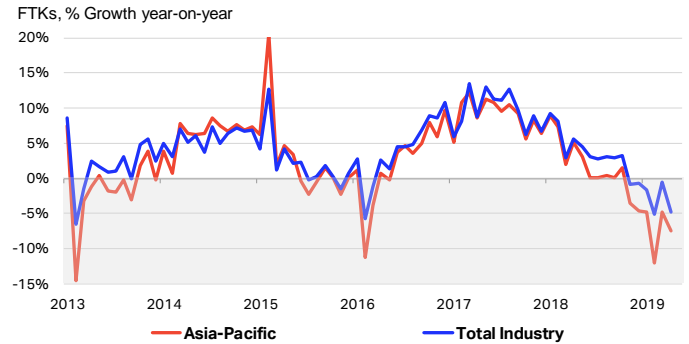
% change on a yr ago	2018	Feb-19	Mar-19	Apr-19
<b>Region (registration basis)</b>				
Asia Pacific	1.5	-12.0	-4.7	-7.4
World	3.5	-5.1	-0.5	-4.7
<b>Routes (segment basis)</b>				
Asia - Europe	1.1	-6.5	1.6	-6.0
Asia - Nth America	3.7	-7.5	-1.1	-7.9
Within Asia	0.6	-15.5	-10.9	-12.1
Asia - Middle East	4.8	-4.0	4.8	-4.3
Asia - S/w Pacific	3.0	-5.9	-4.2	0.1
Asia - Africa	-4.0	-22.0	4.9	10.2

Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide FTK growth declined again in April, remaining in negative territory for the sixth consecutive month. Air freight volumes are currently 4.7% lower than their year-ago level.
- Following a short-lived improvement in March, annual FTK growth fell further into negative territory in April for carriers based in Asia Pacific. Similarly as on the passenger side, the recent slowdown in part reflects the impact of trade tensions on business activity and sentiment in the region.

- FTK growth performance was under pressure on the majority of the region's key international routes. Asia-Europe & Asia-NthAm, the two largest markets for Asia Pacific, saw volumes down 6% and 8%, respectively. Within Asia remained the key underperformer with FTKs 12% lower vs last year.
- This month's best performer, Africa-Asia, has shown high volatility over the recent months, not a surprising outcome given its relatively small market size.

### 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		2018	Feb-19	Mar-19	Apr-19
<b>Passenger</b>					
Asia Pacific	ASK	7.7	5.5	3.3	3.2
	PLF	81.5	82.6	81.3	81.7
World	ASK	6.1	5.2	4.2	3.6
	PLF	81.9	80.6	81.8	82.8
<b>Freight</b>					
Asia Pacific	AFTK	4.5	1.8	-1.3	-0.1
	FLF	55.6	44.6	55.0	51.8
World	AFTK	5.1	2.7	2.9	2.6
	FLF	49.1	44.5	49.4	46.3

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

- Industry-wide passenger load factor (PLF) picked-up to 82.8%, a record high outcome for the month of April. By contrast, the freight load factor (FLF) eased to 46.3%, following strong performance in March (49.4%).
- The PLF rose slightly in Asia Pacific but remained more than 1ppt below the industry-wide outcome, at 81.7%. For freight, the LF eased by a sizeable 3pp this month, but remains well above the industry average.
- The latest financial data for Q1 2019 confirm a decline in industry profitability vs the same period a year ago; the EBIT margin fell to 2.3%, from 4.2% in Q1 2018. The story is more upbeat at the regional level where the

margin picked up by more than 2ppt vs a year ago.

- Growth in pax yields remained negative on the majority of the key domestic and international routes in April. That said, the downward pressure has been less intensive vs the previous months, which is consistent with our latest data on airline profitability. Asia-Middle East market remains the best performer this month.

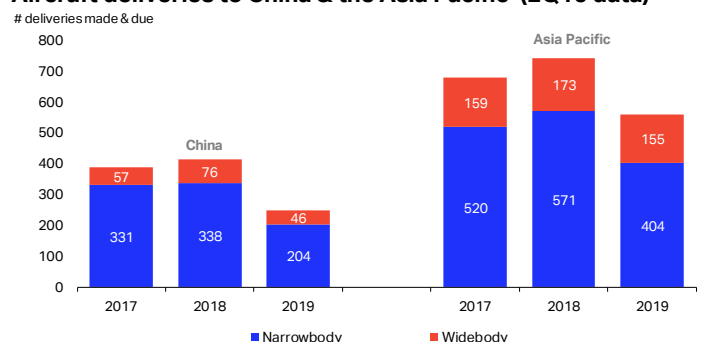
### Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2018	Feb-19	Mar-19	Apr-19
China domestic	-0.3	-13.0	-10.9	-9.3
Asia - Europe	-1.9	-9.8	-10.2	-6.8
Within Asia	-1.8	-8.6	-8.5	-4.8
Asia - Nth America	-2.7	-4.3	-2.6	-1.4
Asia - Middle East	-1.5	4.5	8.1	14.1
Asia - Sth America	0.7	-9.5	-9.8	-7.7
Asia - Africa	0.8	-6.2	-7.3	-3.7

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 (2Q19 data)



Source: Ascend

Note: Asia-Pacific includes North Asia

### Airline operating (EBIT) margins\*

% revenues	2016	2017	2018Q1	2019Q1
Asia Pacific	7.4	6.7	3.4	5.7
Industry	8.5	7.5	4.2	2.3

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