

# State of the region: North Asia

March 2019

## Economy

### GDP growth, selected countries

% change on a yr ago	2017	Q2 2018	Q3 2018	Q4 2018
China	6.8	6.7	6.5	6.4
Chinese Taipei	3.1	3.1	2.3	1.9
Hong Kong	3.8	3.5	2.8	1.3
Mongolia	5.2	6.1	6.6	7.7
Emerging Asia	6.5	--	--	--
<b>World*</b>	<b>3.1</b>	<b>3.2</b>	<b>2.9</b>	<b>2.7</b>

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

end of period, # per US\$	2018	Dec-18	Jan-19	Feb-19
US\$ broad index	128.5	128.5	126.7	126.8
Chinese renminbi (CNY)	6.9	6.9	6.7	6.7
Taiwanese dollar (TWD)	30.7	30.7	30.7	30.8
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	2640	2640	2627	2634

Source: Datastream, XE

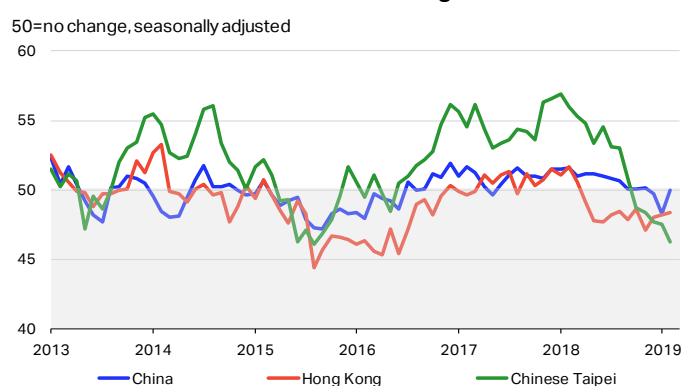
### World oil and jet fuel price

US\$/barrel (period ave.)	2018	Dec-18	Jan-19	Feb-19
Crude oil (Brent)	71.1	57.4	59.4	64.0
Jet fuel	84.7	71.2	74.9	80.4

Source: Platts, EIA Monthly average data

- Although China's business confidence ticked up in Jan, supported by a modest increase in new orders and output, it remains below 50 (the region associated with contraction) for a third consecutive month.

### Business confidence - manufacturing PMIs



- Sentiment fell further in Chinese Taipei amidst decreasing output and faltering export sales. Similarly, Hong Kong's business confidence remains at low levels, despite ticking up modestly compared to the previous month.
- On a trade-weighted basis, the US\$ rose by 0.1% this month, following a sharp decline in Jan. FX movements were generally muted with the MNT and TWD ending the month down by 0.3% & 0.2% against the US\$.
- Brent crude and jet fuel prices trended upwards for a second consecutive month amidst OPEC's supply cuts and sanctions imposed on Iran and Venezuela.

## Market

### Revenue passenger kilometers (RPKs)

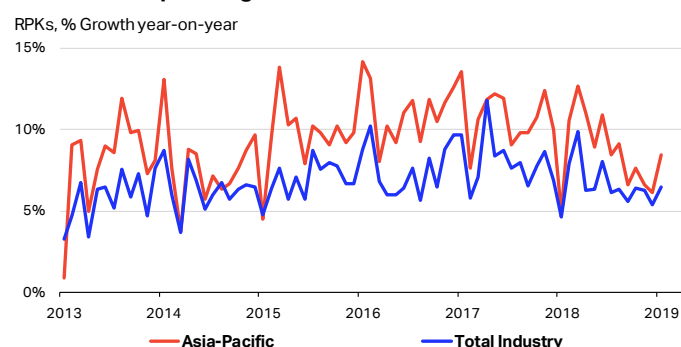
% change on a yr ago	2018	Nov-18	Dec-18	Jan-19
<b>Region (registration basis)</b>				
Asia Pacific	8.6	6.6	6.1	8.5
World	6.6	6.2	5.4	6.5
<b>Routes (segment basis)</b>				
China domestic	11.8	7.8	7.9	14.1
Asia - Europe	7.0	7.8	6.8	8.8
Within Asia	8.4	6.0	6.5	8.2
Asia - Nth America	3.9	3.4	1.4	6.3
Asia - Middle East	4.4	4.7	1.4	0.6
Asia - S/w Pacific	7.2	8.4	5.6	9.5
Asia - Africa	9.4	10.0	9.7	11.6

Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide revenue passenger kilometers (RPKs) started the year on a positive note, increasing by 6.5% year-on-year, the fastest pace since mid-2018. That said, it is too soon to think that this month's pick-up represents a shift in the growth moderation seen over the second half of last year.
- Pax volumes for the carriers based in Asia Pacific increased by a solid 8.5% in Jan vs a year ago, the fastest pace since mid-2018 and the best performance of all regions.

- Domestic China topped the RPK growth chart amongst our domestic markets this month (14.1%yoy), the first time since July 2017. This comes despite ongoing concerns regarding the possible impacts of the China-US trade tensions and country's slowing economy.
- Of the key international markets, the smaller Asia-Africa remains the key performer in the region, posting a solid double-digit growth at 11.6%yoy. The Asia-S/w Pacific & Asia-Europe markets followed with 9.5% & 8.8%yoy growth, respectively.

### Growth in air passenger volumes



## Freight tonne kilometers (FTKs)

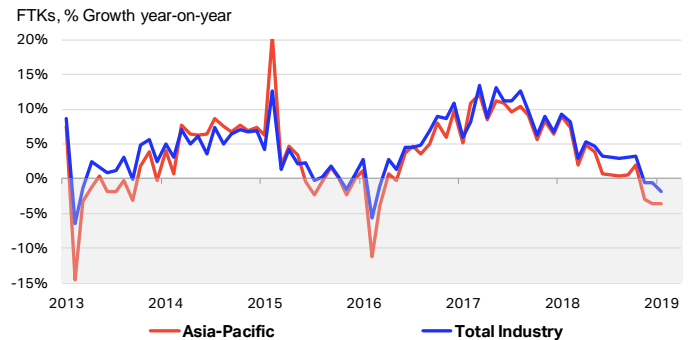
% change on a yr ago	2018	Nov-18	Dec-18	Jan-19
<b>Region (registration basis)</b>				
Asia Pacific	1.8	-3.0	-3.6	-3.6
World	3.5	-0.5	-0.5	-1.8
<b>Routes (segment basis)</b>				
Asia - Europe	1.1	-1.0	-1.4	-4.5
Asia - Nth America	3.7	-1.2	-1.1	-3.7
Within Asia	0.6	-6.1	-8.5	-5.8
Asia - Middle East	4.8	3.9	2.5	1.3
Asia - S/w Pacific	3.0	0.3	-3.1	1.3
Asia - Africa	-4.0	-17.6	-4.2	-4.3

Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide FTK growth started 2019 where it ended last year, on a soft note. Air cargo volumes in January were 1.8% lower than their level of a year ago, posting the slowest pace in about three years.
- FTKs for airlines based in Asia Pacific, the market with the largest FTK share (35.5%), fell by 3.6% vs a year ago, the second-slowest rate of growth amongst all regions this month. Ongoing trade tensions continue to weigh upon the air cargo segment in the region.

- FTK demand growth remains negative on the majority of the key international routes in the region. Both largest markets, Asia-Europe & Asia-NthAm, saw growth rates declining at a faster pace than in the previous month.
- The smaller Asia-Middle East & Asia-S/w Pacific were the only markets that saw volumes increase vs a year ago, although only by a modest 1.3%yoy.

### 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	Nov-18	Dec-18	Jan-19
<b>Passenger</b>					
Asia Pacific	ASK	7.9	7.6	6.8	7.5
	PLF	81.5	80.3	80.7	81.0
World	ASK	6.1	6.9	6.3	6.4
	PLF	81.9	80.0	80.3	79.6
<b>Freight</b>					
Asia Pacific	AFTK	4.9	3.9	2.0	4.1
	FLF	55.5	56.4	54.8	50.1
World	AFTK	5.4	3.8	3.6	4.0
	FLF	49.1	51.5	48.9	45.1

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

- The industry-wide passenger load factor (PLF) eased slightly vs Dec, to 79.6%. For freight, the load factor (FLF) fell more sharply to 45.1%, from 48.9% in Dec.
- The PLF for the AsiaPac remained around 81% in Jan, outperforming the industry-wide outcome by a modest 1.4pp. The result was less solid on the freight side, with the FLF falling by ~5pp vs Dec 2018, to 50.1%. That said, the FLF remains well above the global average.
- The latest airline financial data from the final quarter of 2018 indicate that the intense downward pressure on industry-wide EBIT margin has moderated recently. However, the profit squeeze is broadly unchanged

### Airline operating (EBIT) margins\*

% revenues	2016	2017	2017Q4	2018Q4
Asia Pacific	7.4	5.5	10.2	6.0
Industry	8.5	7.5	8.4	6.0

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

from Q3 at the regional level, with profit margins about 4.2ppt lower compared to the same quarter a year ago.

- Passenger yields improved sharply for China Domestic this month, although they remain lower vs the same period a year ago. Amongst the main international markets, Asia-NthAm performed strongly in Jan, with yields up by 5.2%. However, yields remain lower in year-on-year terms for Asia-Europe and Within Asia, the largest international markets in the region.

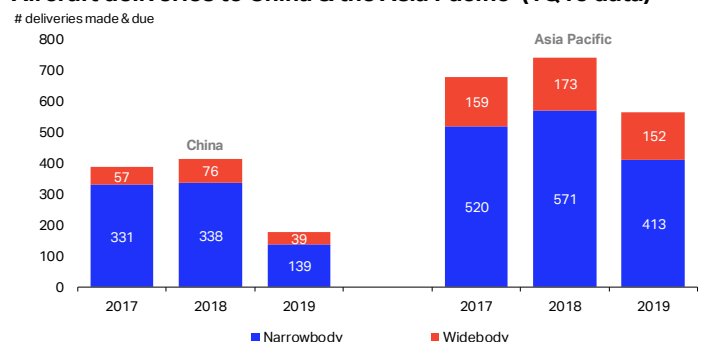
### Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2018	Nov-18	Dec-18	Jan-19
China domestic	0.1	-12.4	-12.1	-1.7
Asia - Europe	-1.9	-5.7	-4.1	-3.6
Within Asia	-1.7	-7.3	-6.9	-1.4
Asia - Nth America	-2.7	0.9	1.6	5.2
Asia - Middle East	-1.4	1.3	0.5	3.6
Asia - Sth America	0.7	-2.2	-6.7	-7.6
Asia - Africa	0.8	-2.5	0.1	-2.6

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

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

### Aircraft deliveries to China & the Asia Pacific (1Q19 data)



Source: Ascend

Note: Asia-Pac incl North Asia