# State of the region: North Asia

March 2020

## Economy

### GDP growth, selected economies

| *% change on a yr ago* | 2018 | Q2 2019 | Q3 2019 | Q4 2019 |
|---|---|---|---|---|
| People's Republic of China | 6.8 | 6.2 | 6.0 | 6.0 |
| Chinese Taipei | 2.7 | 2.4 | 2.7 | 3.8 |
| Hong Kong (SAR), China | 2.9 | 0.1 | -3.2 | -2.9 |
| Mongolia | 7.0 | 6.3 | 4.2 | 1.8 |
| Emerging Asia | 6.4 | -- | -- | -- |
| **World*** | **3.2** | **2.6** | **2.5** | **2.5** |

Source: Datastream * Market exchange rate basis † Estimate

### Exchange rates

| *end of period, # per US$* | 2019 | Dec-19 | Jan-20 | Feb-20 |
|---|---|---|---|---|
| US$ broad index | 114.7 | 114.7 | 115.8 | 117.8 |
| Chinese renminbi (CNY) | 6.96 | 6.96 | 6.94 | 6.99 |
| Taiwanese dollar (TWD) | 30.0 | 30.0 | 30.2 | 30.3 |
| Hong Kong dollar (HKD) | 7.79 | 7.79 | 7.76 | 7.79 |
| Mongolian tughrik (MNT) | 2740 | 2740 | 2748 | 2755 |

Source: Datastream

### World oil and jet fuel price

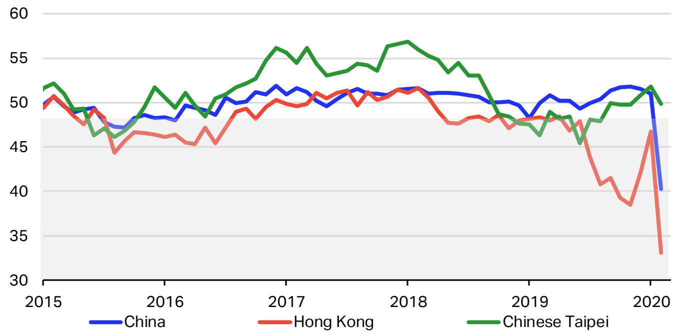
| *US$/barrel (period ave.)* | 2019 | Dec-19 | Jan-20 | Feb-20 |
|---|---|---|---|---|
| Crude oil (Brent) | 64.2 | 65.3 | 63.9 | 55.7 |
| Jet fuel | 79.6 | 80.1 | 76.2 | 65.1 |

Source: Platts, Datastream (monthly average data)

- Business confidence was significantly disrupted across the three key economies that we regularly track for the region amidst radical measures taken to stop the spread of COVID-19. The impact was particularly striking in China and Hong Kong where sentiment plunged beyond the levels seen during the Global Financial Crisis.
- The US$ rose again in Feb, up ~1.7% overall. Despite the virus crisis, FX movements in the region were relatively muted this month; the CNY and HKD gained 0.8% and 0.4% against the US$, respectively.
- The monthly average jet fuel and crude oil price also collapsed abruptly in the wake of the COVID-19 outbreak. The jet fuel crack spread also narrowed as fuel demand from aviation was hit particularly hard by the crisis.

**Business confidence - manufacturing PMIs**

50=no change, seasonally adjusted




Source: Markit

## Market

### Revenue passenger kilometers (RPKs)

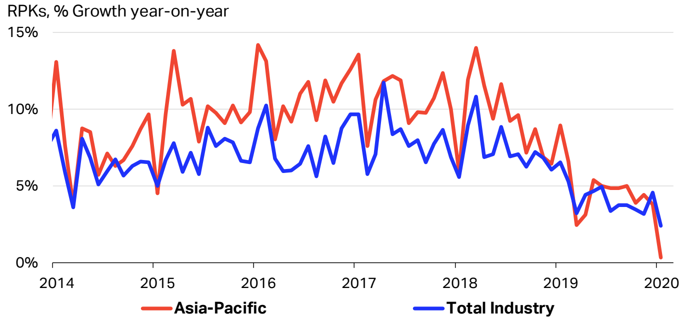
| *% change on a yr ago* | 2019 | Nov-19 | Dec-19 | Jan-20 |
|---|---|---|---|---|
| **Region (registration basis)** | | | | |
| Asia Pacific | 4.8 | 4.4 | 3.8 | 0.4 |
| World | 4.2 | 3.2 | 4.6 | 2.4 |
| **Routes (segment basis)** | | | | |
| China domestic | 8.0 | 5.3 | 4.6 | -6.8 |
| Asia - Europe | 6.6 | 6.2 | 5.1 | 4.1 |
| Within Asia | 6.4 | 6.5 | 5.2 | 4.7 |
| Asia - Nth America | 2.0 | 0.9 | 6.0 | 3.0 |
| Asia - Middle East | 3.5 | 7.5 | 5.2 | 5.2 |
| Asia - S/w Pacific | 6.0 | 5.8 | 6.0 | 3.6 |
| Asia - Africa | 5.0 | 10.7 | 7.9 | 4.3 |

Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide revenue passenger kilometres (RPKs) rose by 2.4% year-on-year in Jan. This is the slowest growth outturn since Apr 2010 when European airspace was partly closed due to volcanic ash clouds.
- RPKs of airlines registered in Asia Pacific expanded by just 0.4%yoy in Jan, a solid 3.4ppt decline compared with the pace of Dec. The slowdown was driven by the negative impact of the COVID-19 on air travel in the region, exacerbated by a soft economic backdrop in several key economies.
- Unsurprisingly, the industry in China bore the brunt of the coronavirus impact in Jan. Cancelled flights and travel restrictions saw the country’s domestic passenger volumes fall by sharply, 6.8%yoy.
- YoY growth was less affected across the other key regional markets, although a softening is generally evident. The main mover was the smaller Asia-Africa market, where growth eased by ~3.5ppts to 4.3%yoy.

**Growth in air passenger volumes**

RPKs, % Growth year-on-year




Source: IATA Statistics

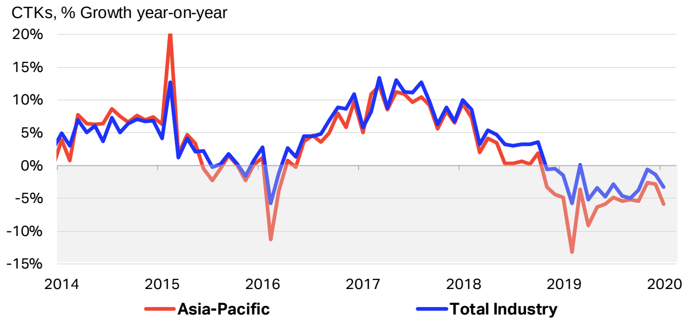
## Cargo tonne kilometers (CTKs)

| *% change on a yr ago* | 2019 | Nov-19 | Dec-19 | Jan-20 |
|---|---|---|---|---|
| **Region (registration basis)** | | | | |
| Asia Pacific | -5.7 | -2.7 | -2.8 | -5.9 |
| World | -3.2 | -0.6 | -1.4 | -3.3 |
| **Routes (segment basis)** | | | | |
| Asia - Europe | -1.9 | 1.9 | -1.5 | -3.8 |
| Asia - Nth America | -3.7 | -1.0 | -2.3 | -3.0 |
| Within Asia | -7.4 | -2.4 | -0.2 | -9.4 |
| Asia - Middle East | -2.7 | 0.6 | 1.0 | -1.7 |
| Asia - S/w Pacific | -5.2 | -5.7 | -1.3 | -13.1 |
| Asia - Africa | 12.4 | 38.9 | 17.0 | 2.3 |

Source: IATA Statistics    Asia-Pac incl North Asia

- Industry-wide air cargo tonne kilometres (CTKs) contracted by 3.3%yoy in Jan. Since disruptions from COVID-19 partly coincided with Chinese New Year holiday when factories in China are typically closed, the initial impact of the virus on air cargo was muted.
- The impact, however, is more evident for the Asia Pacific region where CTKs contracted by 5.9%yoy, ~3ppts faster than in Dec. While partly reflecting the change in timing of the New Year celebrations, the virus outbreak has also played a part in this month's outcome.
- Amongst the region's main air cargo markets, significant shifts are evident in the Within Asia market (unsurprisingly), as well as the Asia-Africa market. The latter grew at a strong, double-digit pace in 2019 supported by trade and investment flows.

**Growth in air cargo volumes**




Source: IATA Statistics

# Industry

## Capacity growth and load factors

| *ASK/ACTK: %ch on a yr ago, LF: % of ASK/ACTK* | | 2019 | Nov-19 | Dec-19 | Jan-20 |
|---|---|---|---|---|---|
| **Passenger** | | | | | |
| Asia Pacific | ASK | 4.6 | 3.1 | 2.8 | 2.2 |
| | *PLF* | *81.9* | *81.3* | *81.6* | *79.9* |
| World | ASK | 3.4 | 1.9 | 2.2 | 1.7 |
| | *PLF* | *82.6* | *80.9* | *82.2* | *80.3* |
| **Cargo** | | | | | |
| Asia Pacific | ACTK | 1.1 | 2.0 | 2.7 | 0.0 |
| | *CLF* | *52.2* | *54.3* | *52.3* | *47.4* |
| World | ACTK | 2.2 | 3.2 | 3.8 | 0.9 |
| | *CLF* | *46.7* | *49.7* | *46.9* | *45.0* |

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

- Growth in industry-wide seat and cargo-tonne capacity (ASK/ACTK) slowed significantly in Jan amidst volatility around the Chinese New Year holiday and some preliminary COVID-19 related disruptions.
- With demand outpacing capacity, the passenger load factor (PLF) reached a record-high outcome for the month of Jan. On the cargo side, the industry-wide LF eased by 1.9ppts vs a year ago.
- At the regional level, Asia Pacific airlines recorded a PLF and CLF both below Jan 2019 levels, down 1.5ppts and 3ppts respectively.
- Airline financial data for Q4 2019 point to a moderate improvement in industry-wide profitability (up 1.4ppts vs Q4 2018) ahead of the global COVID-19 crisis. For Asia Pacific carriers, the EBIT margin improved by ~1ppts to 7.1% of revenues.
- Pax yields improved on most of the main regional routes in Jan. Notably, in the China domestic market, year-on-year yields picked up by almost 9pp this month, although this cannot be sustained in light of the recent developments.

## Airline operating (EBIT) margins*

| *% revenues* | 2018 | 2019E | 2018Q4 | 2019Q4 |
|---|---|---|---|---|
| Asia Pacific | 4.7 | 3.5 | 6.0 | 7.1 |
| Industry | 5.7 | 5.1 | 7.0 | 8.4 |

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

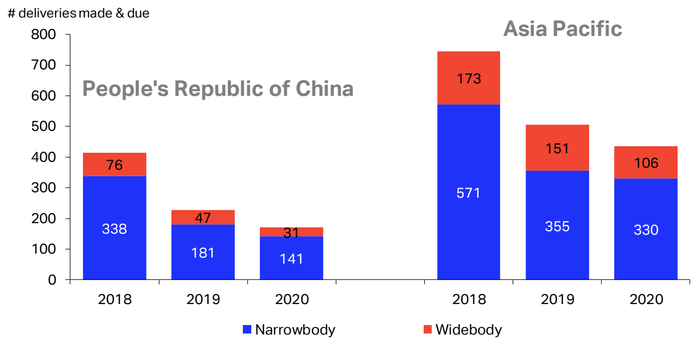
## Passenger yields (US$, excl. surcharges & ancillaries)

| *% change on a yr ago* | 2019 | Nov-19 | Dec-19 | Jan-20 |
|---|---|---|---|---|
| China domestic | -6.2 | 3.3 | 0.0 | 8.7 |
| Asia - Europe | -7.7 | -6.6 | -6.7 | -3.9 |
| Within Asia | -4.5 | -2.0 | -2.8 | 3.6 |
| Asia - Nth America | -2.6 | -1.1 | -4.6 | 2.6 |
| Asia - Middle East | 7.8 | 5.7 | 5.8 | 5.7 |
| Asia - Sth America | -7.8 | -6.8 | -4.1 | -2.1 |
| Asia - Africa | -5.8 | -5.1 | -4.5 | 1.6 |

Source: DDS    Note: historical data may be subject to revision

- The latest data point to a fall in the number of jet aircraft deliveries scheduled for both Chinese and the Asia Pacific airlines in 2020 compared to 2019.

**Aircraft deliveries to China & the Asia Pacific (Mar 2020)**




Note: Asia Pacific includes North Asia