



STATE OF THE REGION: NORTH ASIA

MARCH 2017

Economy

GDP growth, selected countries

%change on a yr ago	2015	2016Q2	2016Q3	2016Q4
China	7.0	6.7	6.7	6.7
Chinese Taipei	0.7	1.4	2.4	2.8
Hong Kong	2.4	1.7	2.0	3.1
Mongolia	2.5	-0.3	-7.3	9.8
Emerging Asia	6.6	--	--	--
World*	2.3	2.1	2.2	2.4

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2016	Dec-16	Jan-17	Feb-17
US\$ broad index	127.7	127.7	127.6	125.8
Chinese renminbi (CNY)	6.96	6.96	6.88	6.87
Taiwanese dollar (TWD)	32.3	32.3	31.2	30.6
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	2488	2488	2455	2468

Source: Datastream, XE

World oil and jet fuel price

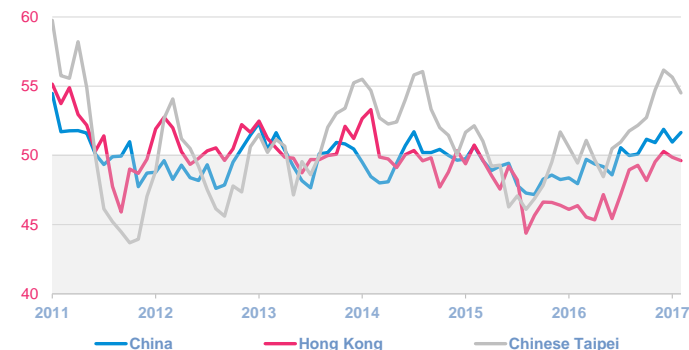
US\$/barrel	2016	Dec-16	Jan-17	Feb-17
Crude oil (Brent)	52.4	53.3	54.6	54.9
Jet fuel	64.0	62.6	63.6	65.0

Source: Platts, EIA Monthly average data

- ➔ Business confidence in the main Nth Asia countries delivered mixed outcomes this month, with the measure for China improving, against developments elsewhere.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



The modest falls in sentiment in Hong Kong & Chinese Taipei are yet to break the broad upwards trend.

- ➔ The US\$ eased a little in Feb, down ~1.5% on a trade-weighted basis. The main regional bilateral exchange rates were little moved against the US\$ in Feb; the TWD built on last month's gain, rising another 2% while the MNT lost a modest 0.5% despite a sizeable rebound in yoy GDP growth in Q4.
- ➔ Until recently, Brent crude oil prices have been relatively stable in the months following their Dec surge, rising just 0.5% in Feb to US\$55/bbl. Jet fuel prices increased by 2.2% in the month, to US\$65/bbl.

Market

Revenue passenger kilometers (RPKs)

%change on a yr ago	2016	Nov-16	Dec-16	Jan-17
Region (registration basis)				
Asia Pacific	9.1	9.7	11.0	14.3
World	6.3	7.7	8.7	9.6
Routes (segment basis)				
China domestic	11.7	14.9	16.9	23.2
Asia - Europe	1.8	4.5	9.3	6.4
Within Asia	7.3	4.4	7.4	8.8
Asia - Nth America	6.4	7.0	8.2	7.2
Asia - Middle East	9.0	12.0	11.9	9.8
Asia - S/w Pacific	3.8	4.5	5.5	7.4
Asia - Africa	6.8	4.0	0.9	2.1

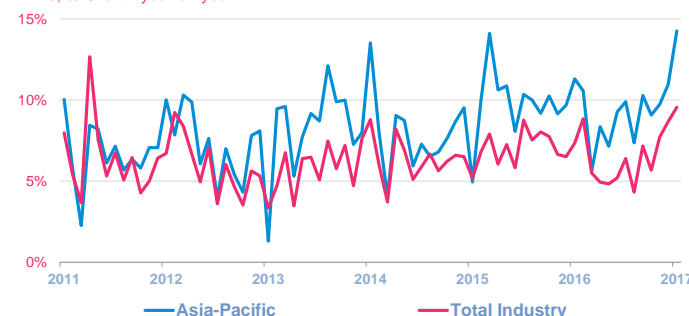
Source: IATA Statistics Asia-Pac incl North Asia

- ➔ Industry-wide traffic volumes began the year strongly, with RPK growth lifting to 9.6%yoy in Jan, the strongest start to a year since 2005. As usual at this time, we note that Chinese New Year can impact the data; potentially adding ½pp to annual growth on this occasion.
- ➔ Any such holiday impact is likely to be most obviously felt in the Asia-Pac region, where the annual rate of growth accelerated to 14.3%yoy in Jan – the fastest pace of all the IATA regions.

- ➔ The China domestic market made an important contribution to the pick-up in the regional aggregate this month, with growth rising to 23%yoy & challenging India for the fastest growing of the key domestic markets.
- ➔ The Within Asia market also experienced a solid gain this month, with the annual rate of growth lifting to almost 9%yoy. These increases more than offset small moderations in the growth rates for the two other primary markets of Asia-Europe & Asia-Nth America, to (still strong rates of) 6.4% & 7.2%, respectively.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Nov-16	Dec-16	Jan-17
Region (registration basis)				
Asia Pacific	2.1	5.8	10.0	6.0
World	3.8	7.3	10.0	6.9
Routes (segment basis)				
Asia - Europe	3.9	6.2	15.4	8.8
Asia - Nth America	-1.2	6.7	8.6	5.7
Within Asia	7.0	12.6	17.5	9.1
Asia - Middle East	3.7	4.7	4.1	-0.8
Asia - S/w Pacific	1.1	4.9	-1.5	-6.9
Asia - Africa	30.1	57.7	57.2	48.4

Source: IATA Statistics Asia-Pac incl North Asia

- The 6.9% annual increase in global FTKs in Jan marked an easing from the double-digit pace of Dec, but was still well ahead of the 5yr average rate (3.0%). The impact of Chinese New Year is again a relevant consideration in Jan & Feb data.
- FTK growth also eased for the Asia-Pac carriers this month, & ended almost 1pp below the industry figure, at 6.0%yoy.

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2016	Nov-16	Dec-16	Jan-17
Passenger					
Asia Pacific	ASK	8.1	8.6	8.1	11.1
	PLF	79.6	79.0	80.5	81.5
World	ASK	6.3	6.5	6.7	8.0
	PLF	80.5	79.0	80.5	80.2
Freight					
Asia Pacific	AFTK	3.6	4.0	5.4	6.6
	FLF	52.8	56.8	55.3	49.4
World	AFTK	5.3	4.8	3.3	3.5
	FLF	43.0	47.3	46.2	42.1

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

- Capacity growth by the Asia-Pac carriers has easily outpaced the industry-wide outcomes over the past year – by ~3pp for both pax & freight. The region's airlines have registered a very strong 11% growth in ASKs & 6.6% growth in AFTKs over this period.
- At the same time, the Asia-Pac carriers have generated pax & freight load factors which exceed the industry average; a PLF of 81.5% in Jan vs 80.2% for the industry & a FLF of 49.4% vs 42.1%.
- The latest Q4 financials show a modest easing in the EBIT margin for the Asia-Pac carriers compared with the same period last year; 12.3% in 2016Q4, down from

Airline operating (EBIT) margins*

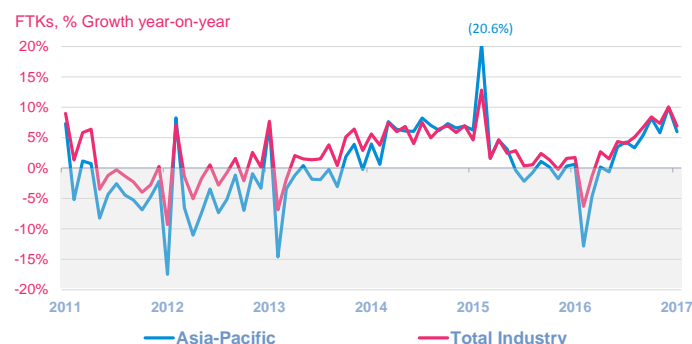
%revenues	2014	2015	2015Q4	2016Q4
Asia Pacific	2.5	7.7	13.2	12.3
Industry	4.7	8.3	12.3	10.2

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

IATA Economics: www.iata.org/economics

- Growth rates for all of the larger markets moderated in Jan, with cargo volumes on routes between Asia & the Middle East slipping into negative territory. FTKs for that market are currently 0.8% lower over the past year.
- Despite a sizeable easing in growth, Within Asia remains the fastest growing large market with FTKs up 9.1%yoy, closely followed by Asia-Europe at 8.8%. The much smaller Asia-Africa market is growing at ~50%yoy.

Growth in air freight volumes



Source: IATA Statistics

13.2%. Even so, this represents the strongest EBIT margin performance of all the regions. At the industry-level the EBIT margin is currently 10.2%, down modestly from 12.3% in 2015Q4.

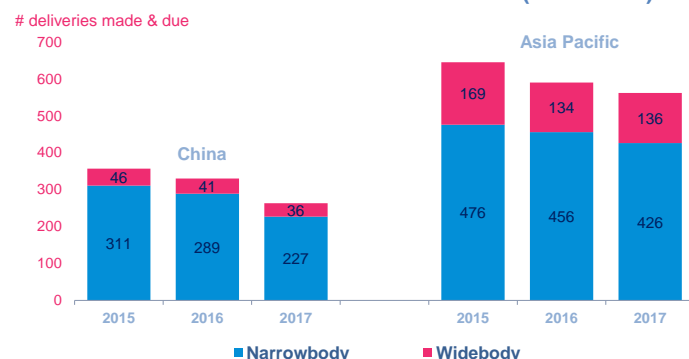
- Passenger yields on key markets for the region are all still lower than their level of a year ago – many continue to show double-digit declines or close thereto. However, in constant exchange rate terms, there are emerging signs that industry-wide yields may have bottomed.

Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2016	Nov-16	Dec-16	Jan-17
China domestic	0.0	-11.2	-12.1	-8.6
Asia - Europe	-10.3	-10.0	-8.1	-8.5
Within Asia	-10.0	-11.4	-11.1	-9.2
Asia - Nth America	-7.2	-4.4	-4.3	-5.3
Asia - Middle East	-10.5	-12.0	-13.9	-15.5
Asia - Sth America	-9.1	-5.9	-10.3	-10.7
Asia - Africa	-8.8	-5.4	-10.5	-7.3

Source: IATA PaxIS

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



Source: Ascend

Asia-Pac incl North Asia

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