

State of the region: North Asia

November 2019

Economy

GDP growth, selected economies

% change on a yr ago	2018	Q1 2019	Q2 2019	Q3 2019
People's Republic of China	6.6	6.4	6.2	6.0
Chinese Taipei	2.6	1.9	2.2	--
Hong Kong (SAR), China	3.0	0.6	0.4	-2.9
Mongolia	6.8	8.6	6.2	4.2
Emerging Asia	6.4	--	--	--
World*	3.2	2.8	2.6	2.5

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2018	Aug-19	Sep-19	Oct-19
US\$ broad index	128.5	130.4	130.8	130.2
Chinese renminbi (CNY)	6.88	7.15	7.14	7.04
Taiwanese dollar (TWD)	30.7	31.4	31.0	30.4
Hong Kong dollar (HKD)	7.83	7.84	7.84	7.84
Mongolian tugrik (MNT)	2640	2670	2668	2690

Source: Datastream

World oil and jet fuel price

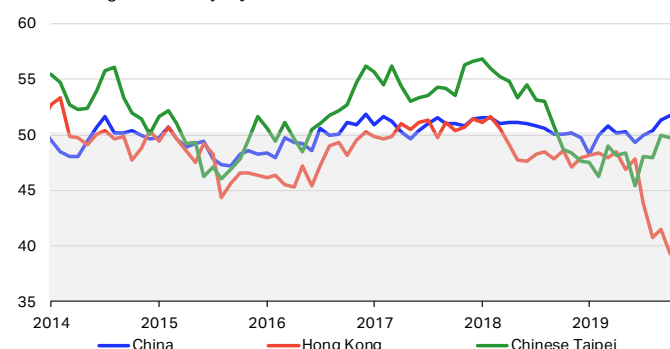
US\$/barrel (period ave.)	2018	Aug-19	Sep-19	Oct-19
Crude oil (Brent)	71.7	59.6	62.4	59.6
Jet fuel	86.4	76.1	79.8	78.7

Source: Platts, Datastream (monthly average data)

- Hong Kong's business confidence declined again amid ongoing political unrest, the US-China trade war and the resulting decline in the country's economic activity.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

- Chinese GDP growth eased to 6% in Q3 2019, also reflecting the negative impact of the trade war with the US. Despite that, business confidence ticked up as the US temporarily exempted 400 types of Chinese products from tariffs that were imposed last year.
- The trade weighted US\$ index eased modestly in October, down 0.5% vs the previous month. Of the key regional currencies, the TWD and CNY gained 1.9% and 1.5% against the US\$, respectively.
- The average monthly jet and crude oil price eased in October on the back of robust global oil supply and softening demand.

Market

Revenue passenger kilometers (RPKs)

% change on a yr ago	2018	Jul-19	Aug-19	Sep-19
Region (registration basis)				
Asia Pacific	9.3	4.6	4.8	4.8
World	7.3	3.3	3.9	3.8
Routes (segment basis)				
China domestic	12.1	11.4	9.8	8.9
Asia - Europe	7.1	6.0	6.0	5.2
Within Asia	10.5	7.0	7.1	8.1
Asia - Nth America	3.9	0.4	0.3	0.8
Asia - Middle East	4.4	1.4	1.1	2.1
Asia - S/w Pacific	7.2	3.6	6.6	5.7
Asia - Africa	9.4	1.4	3.4	6.2

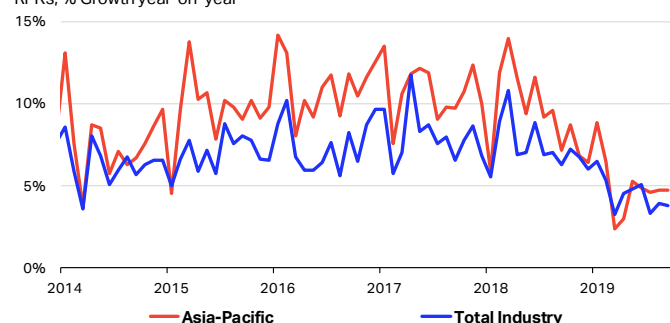
Source: IATA Statistics Asia-Pac incl North Asia

- Industry-wide revenue passenger kilometres (RPKs) rose by 3.8% over the year to September, a broadly unchanged pace from August. The moderate upward trend in underlying demand remains firmly in place.
- RPK growth for Asia Pacific carriers was unchanged from the previous month at 4.8%yoy. The pace remained well below that of 2018 amidst a weaker economic backdrop in some of the region's key economies, combined with the negative impact of the trade wars and Hong Kong protests.

- Despite slowing from the double-digit pace recorded earlier in the year, the China domestic market remains in good shape. RPKs increased by 8.9% year-on-year, supported by improved network connectivity and business confidence.
- Amongst the key international routes in the region, RPK growth eased by 0.8ppt to 5.2%yoy on the larger Asia-Europe routes, while it increased by a similar amount in this month's best performing Within Asia market (volumes up 8.1%yoy).

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

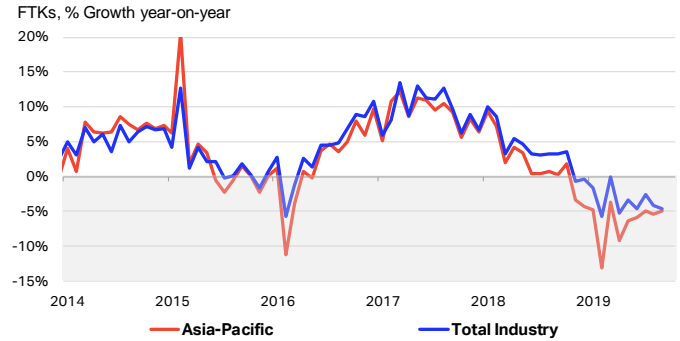
% change on a yr ago	2018	Jul-19	Aug-19	Sep-19
Region (registration basis)				
Asia Pacific	1.6	-4.9	-5.4	-4.9
World	3.7	-2.6	-4.2	-4.5
Routes (segment basis)				
Asia - Europe	1.1	-1.3	-3.4	-0.8
Asia - Nth America	3.7	-3.0	-2.5	-4.0
Within Asia	0.6	-6.7	-7.5	-5.3
Asia - Middle East	4.8	-3.6	-5.2	-4.6
Asia - S/w Pacific	3.0	-7.0	-8.0	-9.5
Asia - Africa	-4.0	14.6	17.7	22.8

Source: IATA Statistics Asia-Pac incl North Asia

- Growth in industry-wide air freight tonne kilometres (FTKs) remained weak in September, declining by 4.5% in annual terms. The contraction was widespread, with annual FTKs falling in all regions except Africa.
- As a key global manufacturing and distribution hub, Asia Pacific has borne the brunt of the weakness in trade and air freight volumes over the past year. This month, the region's FTKs declined by ~5%yoy – the 2nd weakest outcome of all regions after the Middle East.

- Indeed, air freight volumes continued to shrink in annual terms on five of the six key international routes. That said, the speed of contraction eased in the largest Asia-Europe market from -3.4%yoy in August, to -0.8% in September.
- The smaller Asia-Africa market continues to significantly outperform the remaining key international trade lanes, posting almost 23% annual growth in September – the fastest pace since early-2018, underpinned by foreign investment flows.

Growth in air freight volumes



Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK		2018	Jul-19	Aug-19	Sep-19
Passenger					
Asia Pacific	ASK	8.7	4.9	5.4	5.7
	PLF	81.7	82.8	83.9	80.1
World	ASK	6.8	3.1	3.6	3.3
	PLF	82.0	85.6	85.7	81.9
Freight					
Asia Pacific	AFTK	3.5	2.5	2.5	2.7
	FLF	56.0	51.8	51.3	53.9
World	AFTK	5.2	3.3	2.2	2.1
	FLF	49.3	44.9	44.3	46.4

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

- The industry-wide passenger load factor (PLF) reached a new record high for the month of September as RPKs continued to grow faster than ASKs. The story was less positive on the freight side with the load factor (FLF) 3.2ppt below the level of a year ago.
- Asia Pacific carriers posted PLF at 80.1%, a robust outcome for the month of September albeit still 0.7ppt below that of a year ago. Although the FLF improved compared to August to 53.9%, it remained more than 4% below September 2018 outcome.
- The initial Q3 2019 airline financial data indicate a slight improvement in industry-wide profitability compared to Q3 2018 (13.7% vs 13.1%). At the regional level,

Airline operating (EBIT) margins*

% revenues	2017	2018	2018Q3	2019Q3
Asia Pacific	6.3	4.5	13.4	10.7
Industry	7.5	5.8	13.1	13.7

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

the EBIT margin eased to 10.7%, from 13.4% a year ago, as unit revenues declined faster than unit costs.

- Passenger yields shrank in annual terms across most of the key international routes. Asia-Middle East remained the only exception with yield growth recovering to 7.7%yoy. The China domestic market recorded another month of contracting yields (-9.4%).

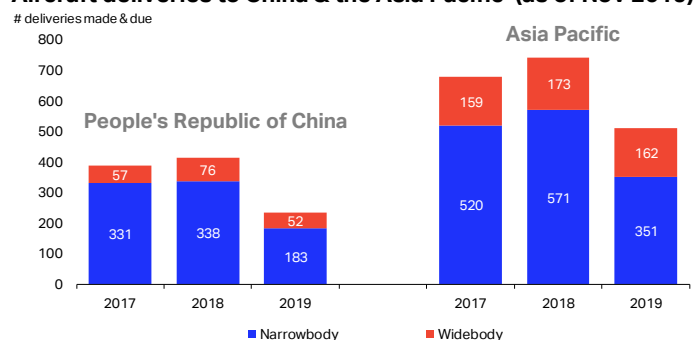
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2018	Jul-19	Aug-19	Sep-19
China domestic	-0.3	-5.3	-4.9	-9.4
Asia - Europe	-1.9	-9.5	-7.7	-8.2
Within Asia	-1.9	-4.0	-3.4	-6.1
Asia - Nth America	-2.7	-4.4	-1.4	-4.9
Asia - Middle East	-1.8	15.3	2.1	7.7
Asia - Sth America	0.7	-10.3	-0.7	-5.3
Asia - Africa	0.8	-9.6	-4.1	-6.4

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

- The latest data confirm 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 (as of Nov 2019)



Source: Ascend

Note: Asia Pacific includes North Asia