



# STATE OF THE REGION: NORTH ASIA

NOVEMBER 2016

## Economy

### GDP growth, selected countries

%change on a yr ago	2015	2016Q1	2016Q2	2016Q3
China	6.9	6.7	6.7	6.7
Chinese Taipei	0.6	-0.2	1.1	2.0
Hong Kong	2.0	0.8	1.7	1.9
Mongolia	2.3	3.1	1.4	-1.6
Emerging Asia	6.6	--	--	--
<b>World*</b>	<b>2.3</b>	<b>2.2</b>	<b>2.1</b>	<b>2.2</b>

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

end of period, # per US\$	2015	Aug-16	Sep-16	Oct-16
US\$ broad index	122.4	120.8	121.8	122.9
Chinese renminbi (CNY)	6.49	6.68	6.67	6.78
Taiwanese dollar (TWD)	32.9	31.8	31.4	31.6
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	1993	2214	2278	2263

Source: Datastream, XE

### World oil and jet fuel price

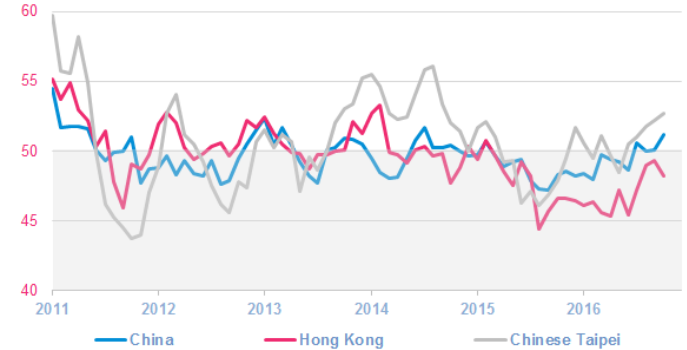
US\$/barrel	2015	Aug-16	Sep-16	Oct-16
Crude oil (Brent)	52.4	45.8	46.6	49.5
Jet fuel	64.0	54.4	55.4	61.2

Source: Platts, EIA Monthly average data

→ Q3 GDP data was mixed across the region. Growth in China was in line with expectations at a robust 6.7%yoy. The pace of growth in Chinese Taipei continued to improve, lifting to a moderate 2.0%, from 1.1% in Q2. Both of these outcomes contributed to a rise in business

### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

confidence in the respective countries. Growth also rose in Hong Kong (to 1.9%yoy), but higher labor costs & signs of easing demand, combined with tensions with the mainland, weighed upon business confidence.

- The Mongolian economy contracted yoy to Q3, as public policy concerns added to the country's economic woes.
- The US\$ moved a little higher in Oct, rising 0.9% on a trade-weighted basis. Amongst the main regional currencies, the CNY fell by 1.6% against the US\$ in the month while the MNT recovered slightly, up 0.7%.
- The world price of oil & jet fuel both rose substantially in Oct, up 6% & 10% respectively (or \$3 & \$6/bbl). Prices were lifted by declining US oil inventories & discussions to bring forward market rebalancing.

## Market

### Revenue passenger kilometers (RPKs)

%change on a yr ago	2015	Jul-16	Aug-16	Sep-16
<b>Region (registration basis)</b>				
Asia Pacific	8.7	9.8	7.3	10.2
World	6.5	6.4	4.3	7.0
<b>Routes (segment basis)</b>				
China domestic	11.0	9.9	11.2	14.0
Asia - Europe	4.0	1.5	-1.5	3.2
Within Asia	7.5	9.3	2.4	6.4
Asia - Nth America	5.8	7.4	4.3	7.6
Asia - Middle East	6.9	8.9	3.8	5.8
Asia - S/w Pacific	6.1	2.1	-0.5	3.5
Asia - Africa	-1.2	7.6	4.5	6.9

Source: IATA Statistics Asia-Pac incl North Asia

→ After a moderation last month, industry-wide RPKs stepped up in Sep, growing by a strong 7.0%yoy – its fastest pace in 7mths. A similar pattern was observed for the Asia Pacific-registered carriers, with the growth rate moving into double-digits, at 10.2%.

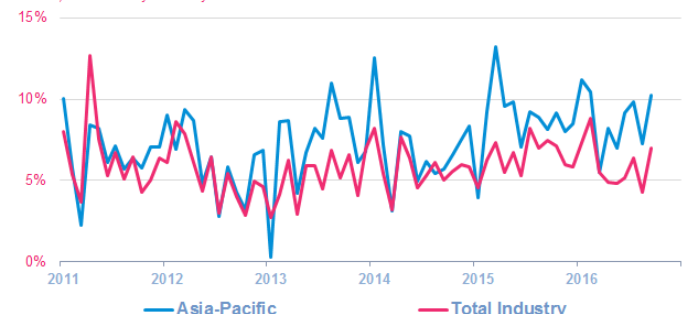
→ RPK growth in the China domestic market also moved higher this month, maintaining its double-digit growth

rate, at 14.0%yoy. This growth has been supported by increases in both real consumer spending & the number of airport pairs served over the past year.

- Of the larger markets, Asia-Nth America and Within Asia are the strongest performers, with yoy RPK growth of 7.6% & 6.4%, respectively. The Asia-Europe market recovered in Sep, with growth returning to a positive, if modest, 3.2%yoy pace, following a contraction in Aug.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

## Freight tonne kilometers (FTKs)

%change on a yr ago	2014	Jul-16	Aug-16	Sep-16
<b>Region (registration basis)</b>				
Asia Pacific	2.3	4.3	3.3	5.5
World	2.2	4.1	4.5	6.1
<b>Routes (segment basis)</b>				
Asia - Europe	-4.9	3.0	2.3	7.4
Asia - Nth America	5.1	2.4	4.7	4.8
Within Asia	-0.4	6.5	7.2	8.3
Asia - Middle East	9.8	0.5	-3.6	2.1
Asia - S/w Pacific	8.6	1.9	2.9	-1.6
Asia - Africa	1.3	20.7	34.1	40.9

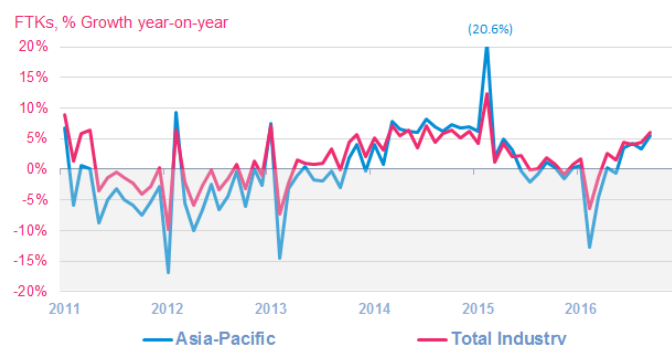
Source: IATA Statistics Asia-Pac incl North Asia

- As with its pax counterpart, growth in industry-wide freight volumes moved higher in Sep, up 1½pp to 6.1%yoy. FTK growth for the Asia-Pac carriers also rose, but at 5.5%yoy it remains below the overall industry rate.
- At the segment level, much of the improvement in the region-level aggregate is a result of the 5pp increase (to 7.4%yoy) in the growth rate for Asia-Europe – the largest

freight market. A 1pp increase for Within Asia, along with a turnaround in the growth fortunes for Asia-Middle East (from a yoy contraction to a modest 2.1% rate) also contributed to the region-level gain.

- The FTK growth performance of the smaller Asia-Africa market continued unabated in Sep. with FTKs up ~40% over the past year.

### 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	2015	Jul-16	Aug-16	Sep-16
<b>Passenger</b>				
Asia Pacific ASK	6.7	8.1	7.2	8.3
PLF	78.6	81.5	82.1	79.6
World ASK	5.6	6.0	5.6	6.6
PLF	80.2	84.1	83.7	81.1
<b>Freight</b>				
Asia Pacific AFTK	6.7	2.6	1.6	3.4
FLF	53.9	52.8	51.9	54.7
World AFTK	6.4	5.0	4.9	4.7
FLF	44.1	41.1	40.7	43.7

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

- Mixed outcomes for the Asia-Pac carriers in terms of capacity growth over the past year. ASK growth, at 8.3%, has easily outpaced the industry rate of 6.6%, contributing to the region's pax loads slipping below 80% in Sep & lagging the industry performance of 81%.
- On freight, the converse holds, with modest AFTK growth of 3.4% sitting below the industry rate of 4.7%. In Sep, the FLF for Asia-Pac carriers lifted to 54.7%, a full 11pp above the industry average & easily the strongest performing region.
- The initial Q3 financials show a solid improvement in operating margin for the Asia-Pac carriers, up 3pp on the

level of a year ago to 12.2% currently. The industry-wide margin has eased a little over the same period, dipping to 15.2%, from 16%, in large part reflecting the still strong but moderating performance from the Nth American carriers.

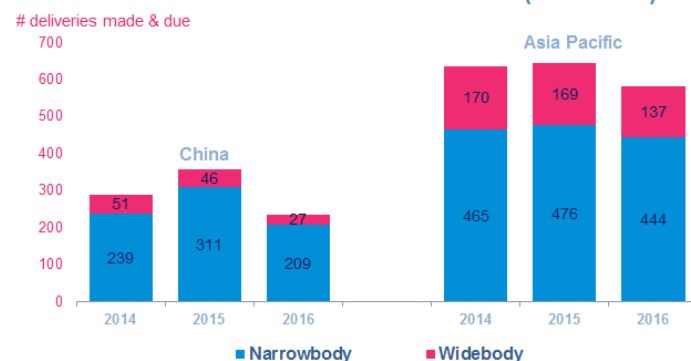
- Pax yields for the China domestic & all key international markets remain lower than their level of a year ago. Many remain close to double-digit rates of decline, despite the trend increase observed in world oil prices over 2016 to date.

### Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2015	Jul-16	Aug-16	Sep-16
China domestic	1.7	-7.2	-10.4	-8.1
Asia - Europe	-19.1	-10.0	-10.2	-8.4
Within Asia	-7.7	-9.6	-9.3	-8.1
Asia - Nth America	-15.1	-7.9	-4.7	-1.8
Asia - Middle East	-7.6	-8.8	-10.5	-8.5
Asia - Sth America	-18.0	-11.2	5.1	-4.9
Asia - Africa	-17.8	-6.0	-5.6	-8.8

Source: IATA PaxIS

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



Source: Ascend

Asia-Pac incl North Asia

### Airline operating (EBIT) margins\*

%revenues	2014	2015	2015Q3	2016Q3
Asia Pacific	2.5	7.7	9.3	12.2
Industry	4.7	8.3	16.0	15.2

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