



# STATE OF THE REGION: NORTH ASIA

NOVEMBER 2018

## Economy

### GDP growth, selected countries

%change on a yr ago	2017	2018Q1	2018Q2	2018Q3
China	6.9	6.8	6.8	6.7
Chinese Taipei	2.9	3.2	2.9	--
Hong Kong	3.8	4.6	3.5	2.9
Mongolia	5.2	6.3	6.1	6.6
Emerging Asia	6.5	--	--	--
World*	3.1	3.2	3.2	3.2

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

end of period, # per US\$	2017	Aug-18	Sep-18	Oct-18
US\$ broad index	120.0	125.3	126.0	126.9
Chinese renminbi (CNY)	6.51	6.83	6.87	6.98
Taiwanese dollar (TWD)	29.7	30.7	30.5	31.0
Hong Kong dollar (HKD)	7.8	7.9	7.8	7.8
Mongolian tugrik (MNT)	2429	2475	2543	2566

Source: Datastream, XE

### World oil and jet fuel price

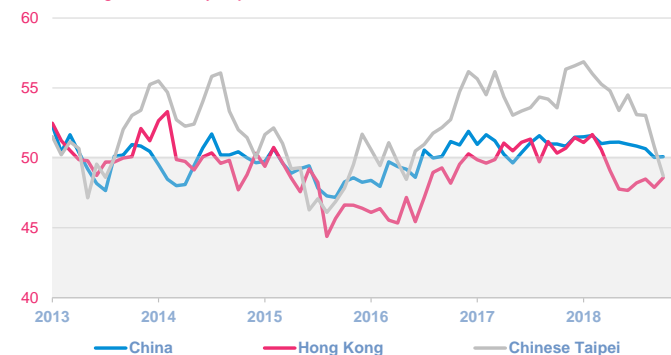
US\$/barrel (period ave.)	2017	Aug-18	Sep-18	Oct-18
Crude oil (Brent)	54.2	72.5	78.9	81.0
Jet fuel	65.6	89.0	91.9	94.4

Source: Platts, EIA Monthly average data

- China's GDP growth in Q3 was 6.7%yoy, broadly in line with market expectations. The latest business confidence outcome for China was largely unchanged, with trade wars & protectionism remaining a key concern

### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

for businesses throughout the region.

- Business sentiment in Chinese Taipei fell sharply for the 2<sup>nd</sup> consecutive month (to levels last seen ~2½ years ago), joining Hong Kong in the zone typically associated with declining output.
- On a trade-weighted basis, the US\$ rose by 0.7% in Oct, rising for the 9<sup>th</sup> consecutive month. The main regional currencies moved lower vs the US\$ this month; the TWD & CNY fell by 1.5%, while the MNT eased by 0.9%.
- The monthly average Brent crude oil & jet fuel price rose further in Oct, mainly due to supply cut announcements from Saudi Arabia. In recent weeks, however, the oil & jet fuel price has corrected sharply lower.

## Market

### Revenue passenger kilometers (RPKs)

%change on a yr ago	2017	Jul-18	Aug-18	Sep-18
<b>Region (registration basis)</b>				
Asia Pacific	10.2	8.6	9.3	6.7
World	7.6	6.2	6.4	5.5
<b>Routes (segment basis)</b>				
China domestic	13.4	12.3	14.7	9.3
Asia - Europe	9.5	5.8	9.2	7.1
Within Asia	11.2	9.0	7.7	5.6
Asia - Nth America	4.9	3.1	2.5	2.0
Asia - Middle East	7.3	4.7	3.6	3.5
Asia - S/w Pacific	9.2	7.3	11.1	6.0
Asia - Africa	4.1	11.9	10.6	9.7

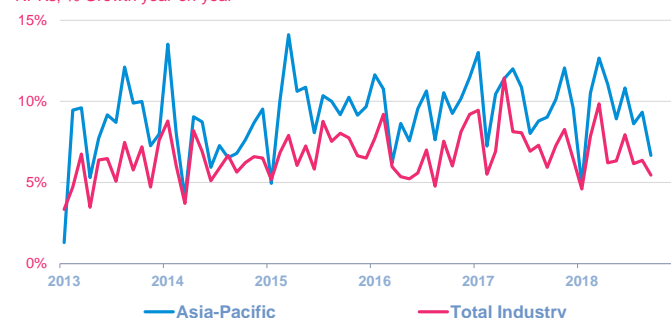
Source: IATA Statistics Asia-Pac incl North Asia

- Annual growth in industry-wide RPKs eased to 5.5% in Sept, the slowest rate in 8mths. The monthly outcome was impacted in part by adverse weather disruptions, although the upward traffic trend also slowed in Q3.
- Pax volume growth for the AsiaPac airlines dipped to 6.7% in Sept, impacted by the severe disruptions that typhoon Jebi caused, notably in Japan including the complete closure of Kansai airport for a period.

- The growth in pax volumes for the China domestic market slowed to (a still strong) 9.3%yoy pace in Sept, returning to a single-figure growth rate for the first time since January.
- RPK growth in all the main international markets in the region slowed this month. Asia-Europe and Asia-Africa are currently the strongest performers, with robust RPK growth of 7.1% and 9.7%, respectively. Asia-Southwest Pacific is next, with growth of 6.0%yoy.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

## Freight tonne kilometers (FTKs)

%change on a yr ago	2017	Jul-18	Aug-18	Sep-18
<b>Region (registration basis)</b>				
Asia Pacific	7.8	0.6	0.9	1.2
World	9.1	2.2	1.9	2.0
<b>Routes (segment basis)</b>				
Asia - Europe	11.0	0.9	0.8	-0.7
Asia - Nth America	8.7	0.2	1.3	2.9
Within Asia	13.0	-0.2	-1.0	-5.1
Asia - Middle East	6.3	6.2	3.3	5.5
Asia - S/w Pacific	9.4	6.1	6.5	5.7
Asia - Africa	58.6	-9.1	-9.4	-11.8

Source: IATA Statistics Asia-Pac incl North Asia

- ➔ Annual industry-wide FTKs increased by 2.0%yoy in Sept, more than 3pp below the five-year average pace. The moderation in annual growth is consistent with the typical pattern seen after inventory-led upturns (as we saw in 2017) in the past.
- ➔ At the regional level, FTK volumes for the Asia Pacific carriers continued to grow modestly in Sept, rising to 1.2% from 0.9% in August and 0.6% in July.

## Industry

### Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2017	Jul-18	Aug-18	Sep-18
<b>Passenger</b>					
Asia Pacific	ASK	8.4	7.2	7.3	6.0
	PLF	81.0	82.9	84.2	80.8
World	ASK	6.3	5.3	5.5	5.8
	PLF	81.5	85.3	85.3	81.4
<b>Freight</b>					
Asia Pacific	AFTK	3.0	3.6	3.6	1.2
	FLF	55.2	53.4	52.9	55.4
World	AFTK	3.6	4.0	4.5	3.2
	FLF	45.2	42.7	42.1	44.8

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 PLF dropped to 81.4% in Sept, down from 85.3% in Aug. In contrast, the FLF lifted by almost 3pp this month to 44.8%.
- ➔ The PLF for the Asia Pacific airlines eased to 80.8% in Sept, which was still a 0.5pp improvement compared to Sept 2017. By contrast, the region's FLF increased this month, to 55.4%, the same level as a year ago.
- ➔ The initial Q3 financial data confirm that the squeeze on airline profit margins has continued, both at the industry & regional level. The EBIT margin is currently 13.5% of revenues both industry-wide and at the regional level

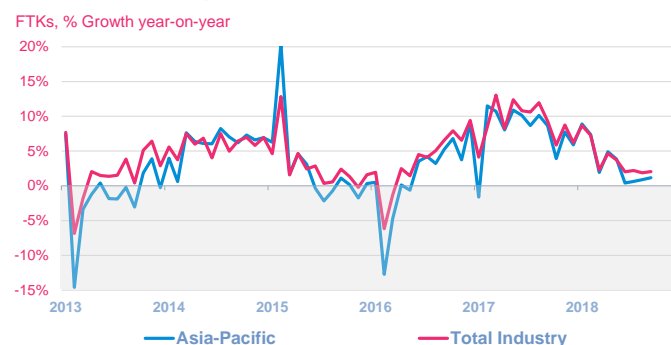
### Airline operating (EBIT) margins\*

%revenues	2016	2017	2017Q3	2018Q3
Asia Pacific	7.4	5.5	17.4	13.5
Industry	8.5	7.5	16.5	13.5

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

- ➔ Of the region's larger markets, Within Asia & Asia-Europe FTKs fell by 5.1% & 0.7%yoy, respectively in Sept. In contrast, FTK growth for Asia-Nth America increased for the 2<sup>nd</sup> consecutive month, to 2.9%yoy.
- ➔ Across the smaller international markets, Africa freight volumes fell by a sizeable 11.8% vs last year, while Asia-Middle East & Asia-Southwest Pacific FTK growth recorded a solid 5.5-5.7% pace.

### Growth in air freight volumes



Source: IATA Statistics

compared to 16.5% and 17.4% a year ago respectively.

- ➔ Passenger yield developments across the region's key markets remained mixed in Sept. Growth in China domestic & Nth America pax yields ticked up a little to 1.7% and 4.1% vs a year ago. However, many of the important markets for the region registered lower yields vs last year; most notably Asia-ME, with yields down 4.9%yoy, followed by Within Asia where yields are 3.3% lower compared to Sept 2017.

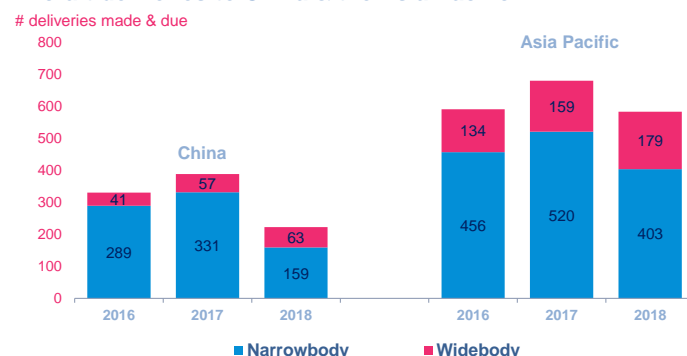
### Passenger yields (US\$, excl. surcharges & ancillaries)

%change on a yr ago	2017	Jul-18	Aug-18	Sep-18
China domestic	-5.3	2.0	1.5	1.7
Asia - Europe	1.9	0.9	0.1	-2.7
Within Asia	-5.6	-1.0	-2.1	-3.3
Asia - Nth America	-3.2	5.1	3.9	4.1
Asia - Middle East	-3.5	-3.2	-0.1	-4.9
Asia - Sth America	-4.2	-2.8	-0.6	-3.0
Asia - Africa	-0.1	3.3	6.9	1.7

Source: IATA PaxIS

Note: historical data may be subject to revision

### Aircraft deliveries to China & the Asia Pacific



Source: Ascend

Note: Asia-Pac incl North Asia