



# STATE OF THE REGION: NORTH ASIA

OCTOBER 2018

## Economy

### GDP growth, selected countries

%change on a yr ago	2017	2017Q4	2018Q1	2018Q2
China	6.9	6.9	6.8	6.8
Chinese Taipei	2.9	3.4	3.2	2.9
Hong Kong	3.8	3.4	4.6	3.5
Mongolia	5.2	6.3	6.3	6.1
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	Jul-18	Aug-18	Sep-18
US\$ broad index	120.0	124.1	125.3	126.0
Chinese renminbi (CNY)	6.51	6.82	6.83	6.87
Taiwanese dollar (TWD)	29.7	30.6	30.7	30.5
Hong Kong dollar (HKD)	7.8	7.9	7.9	7.8
Mongolian tugrik (MNT)	2429	2464	2475	2543

Source: Datastream, XE

### World oil and jet fuel price

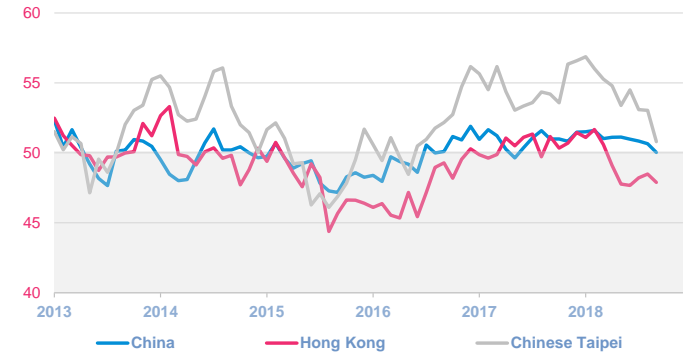
US\$/barrel (period ave.)	2017	Jul-18	Aug-18	Sep-18
Crude oil (Brent)	54.2	74.3	72.5	78.9
Jet fuel	65.6	88.1	89.0	91.9

Source: Platts, EIA Monthly average data

- Business confidence across the region trended down this month, most pronounced in Chinese Taipei. The main driver is rising concerns about the impacts of increasing trade tensions & protectionism for the region.

### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



- Sentiment in Hong Kong remains firmly in the zone typically associated with declining output, while the index measures for both China & Chinese Taipei are now also approaching that same zone.
- On a trade-weighted basis, the US\$ rose by 0.6% in Sep, up 5% since the start of the year. Regional currency movements this month were muted, with the exception of the MNT which fell by 2.7% vs the US\$. The TWD & HKD made modest gains against the US\$.
- The Brent crude oil price surged in Sep, up ~9% to its highest level since 2014 on OPEC comments that it will not increase supply. The jet fuel price moved through the US\$90/bbl level to average US\$92 for the month.

## Market

### Revenue passenger kilometers (RPKs)

%change on a yr ago	2017	Jun-18	Jul-18	Aug-18
Region (registration basis)				
Asia Pacific	10.2	10.8	8.5	9.5
World	7.6	7.9	6.1	6.4
Routes (segment basis)				
China domestic	13.4	13.8	12.6	14.9
Asia - Europe	9.5	8.2	5.8	9.2
Within Asia	11.2	13.2	9.4	8.2
Asia - Nth America	4.9	4.2	3.1	2.5
Asia - Middle East	7.3	8.1	4.7	3.6
Asia - S/w Pacific	9.2	8.0	7.3	11.1
Asia - Africa	4.1	7.4	11.9	10.6

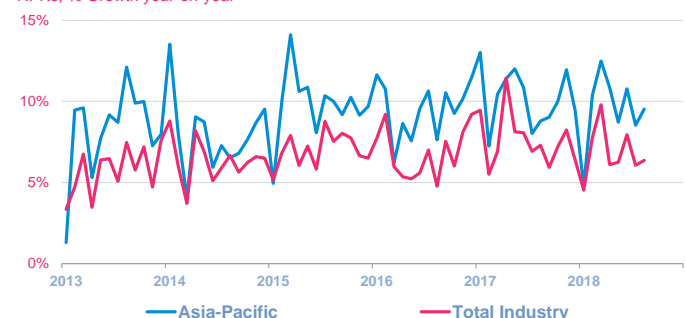
Source: IATA Statistics Asia-Pac incl North Asia

- Annual growth in industry-wide RPKs increased to 6.4%yoy in Aug, up from 6.1% in July. The latest data provide further evidence of solid RPK growth in the peak period of passenger demand, over the northern hemisphere summer.
- Pax volume growth for the AsiaPac carriers increased solidly this month, up 1pp, to a brisk 9.5%yoy & remaining well above the industry average rate.

- The pace of China domestic RPK growth remains very strong & also increased on this occasion, to almost 15%yoy.
- Of the region's largest international markets, Within Asia & Asia-Europe both continue to grow strongly, with RPKs up 8-9%yoy. The smaller Africa market sustained its double-digit growth rate in Aug, & was joined by the Southwest Pacific, with growth in pax volumes of 10.6%yoy and 11.1%yoy, respectively.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



## Freight tonne kilometers (FTKs)

%change on a yr ago	2017	Jun-18	Jul-18	Aug-18
<b>Region (registration basis)</b>				
Asia Pacific	7.7	1.2	1.1	1.6
World	9.1	2.4	2.3	2.3
<b>Routes (segment basis)</b>				
Asia - Europe	11.0	0.3	1.8	1.8
Asia - Nth America	8.7	1.4	0.2	1.1
Within Asia	13.0	0.5	0.6	-0.3
Asia - Middle East	6.3	4.9	6.2	3.2
Asia - S/w Pacific	9.4	-1.0	6.8	7.3
Asia - Africa	58.6	-14.6	-9.1	-9.4

Source: IATA Statistics Asia-Pac incl North Asia

- ➔ Annual growth in industry-wide FTKs grew by 2.3%yoy in Aug, unchanged from the rate in July & less than half the 5yr average pace. Cargo volumes continue to trend modestly upward, despite mixed drivers.
- ➔ At the regional level, FTK growth for the Asia-Pacific airlines also improved this month, lifting to a modest 1.6%yoy pace but remaining below the growth rate of the industry overall.

## Industry

### Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2017	Jun-18	Jul-18	Aug-18
<b>Passenger</b>					
Asia Pacific	ASK	8.4	9.3	7.2	7.3
	PLF	81.0	81.8	82.8	84.3
World	ASK	6.3	6.5	5.3	5.5
	PLF	81.5	82.9	85.2	85.3
<b>Freight</b>					
Asia Pacific	AFTK	3.0	5.2	3.6	3.4
	FLF	55.2	54.3	53.7	53.4
World	AFTK	3.6	3.8	3.9	4.5
	FLF	45.2	44.3	42.8	42.2

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 reached a record high in Aug, at 85.3%, up 0.7pp on a year ago. In contrast, the FLF has fallen by 0.9pp, to 42.2% currently.
- ➔ AsiaPac airlines recorded a PLF of 84.3% overall in Aug, an improvement of 1.7pp compared with a year ago, but 1pp below the industry average. The region's FLF is 0.9pp lower than the same time a year ago, but is still the industry benchmark, at 53.4%.
- ➔ The final Q2 financial data confirm a decline in industry & regional performance vs a year ago. The industry-wide EBIT margin has slipped to 7.8% from 10.3%, & the

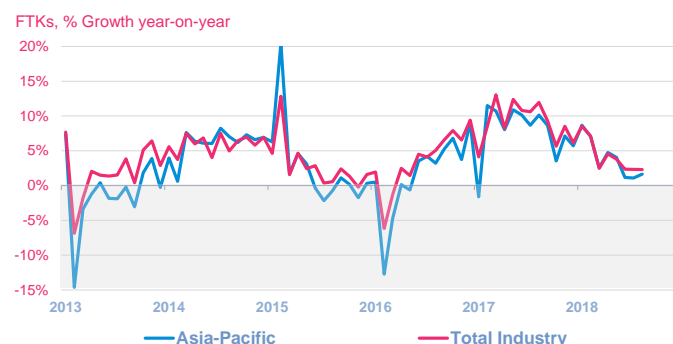
### Airline operating (EBIT) margins\*

%revenues	2016	2017	2017Q2	2018Q2
Asia Pacific	7.4	5.5	5.0	2.8
Industry	8.5	7.5	10.3	7.8

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

- ➔ FTK growth remains weak across the three largest markets for the region. Growth is 1.8%yoy for Europe & 1.1% for Nth America & freight volumes have *fallen* by 0.3%yoy for the Within Asia market vs a year ago.
- ➔ Following very strong growth in 2017, the smaller Asia-Africa market has retraced some of those gains more recently, with FTKs currently down a sizeable 9.4% lower than a year ago.

### Growth in air freight volumes



Source: IATA Statistics

regional outcome is currently 2.8%, down from 5.0% in 2Q17.

- ➔ Passenger yield developments across the region's key markets over the past year are mixed. Africa & Nth America yields are up ~7% & ~4%, respectively, & domestic China is up 1.5% over the past year.
- ➔ However, yields are lower than their level of a year ago for a number of important markets, most notably Within Asia (down 2.1%).

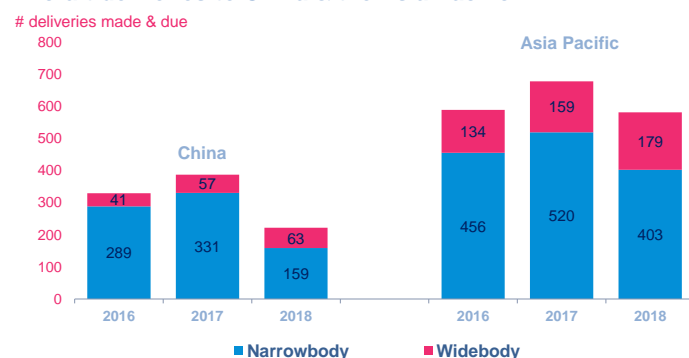
### Passenger yields (US\$, excl. surcharges & ancillaries)

%change on a yr ago	2017	Jun-18	Jul-18	Aug-18
China domestic	-5.3	6.4	2.0	1.5
Asia - Europe	1.9	1.9	0.9	0.1
Within Asia	-5.6	1.7	-1.0	-2.1
Asia - Nth America	-3.2	4.3	5.1	3.9
Asia - Middle East	-3.5	-4.0	-3.2	-0.1
Asia - Sth America	-4.2	5.1	-2.8	-0.6
Asia - Africa	-0.1	4.2	3.3	6.9

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