



STATE OF THE REGION: NORTH ASIA

SEPTEMBER 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*	3.2	3.2	3.2	3.2

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2017	Jun-18	Jul-18	Aug-18
US\$ broad index	120.0	123.4	124.1	125.3
Chinese renminbi (CNY)	6.51	6.62	6.82	6.83
Taiwanese dollar (TWD)	29.7	30.5	30.6	30.7
Hong Kong dollar (HKD)	7.8	7.8	7.9	7.9
Mongolian tugrik (MNT)	2429	2460	2464	2475

Source: Datastream, XE

World oil and jet fuel price

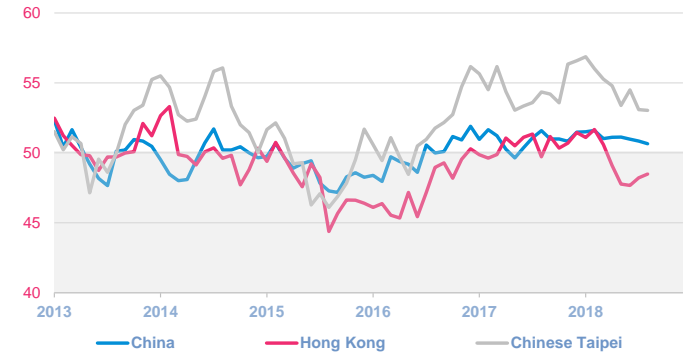
US\$/barrel (period ave.)	2017	Jun-18	Jul-18	Aug-18
Crude oil (Brent)	54.2	74.4	74.3	72.5
Jet fuel	65.6	87.8	88.1	89.0

Source: Platts, EIA Monthly average data

- ➔ Business confidence in China softened a little this month on signs of weaker demand conditions & ongoing concerns over a possible escalation of trade tensions.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

- ➔ Again this month, sentiment in Hong Kong ticked up modestly, but remains firmly in the region typically associated with declining output. For Chinese Taipei, the index remains elevated, despite falling to a two-year low.
- ➔ On a trade-weighted basis, the US\$ rose by 1.0% in Aug. to a level last seen in early 2017. Regional currency movements this month were muted, with the TWD & MNT both easing slightly (by ~0.5%) vs the US\$.
- ➔ Brent crude oil prices fell by 2.3% in Aug while the price of jet fuel increased by 1%, reflecting a widening in the crack spread. The crude oil price averaged US\$72.5/bbl for the month & jet US\$89/bbl.

Market

Revenue passenger kilometers (RPKs)

%change on a yr ago	2017	May-18	Jun-18	Jul-18
Region (registration basis)				
Asia Pacific	10.2	8.8	11.4	9.4
World	7.6	6.3	8.1	6.2
Routes (segment basis)				
China domestic	13.4	12.5	16.0	14.8
Asia - Europe	9.5	4.4	7.9	5.6
Within Asia	11.2	9.3	12.6	9.6
Asia - Nth America	4.9	4.2	4.0	3.3
Asia - Middle East	7.3	-0.8	8.2	4.7
Asia - S/w Pacific	9.2	8.4	8.6	7.6
Asia - Africa	4.1	4.7	7.4	11.9

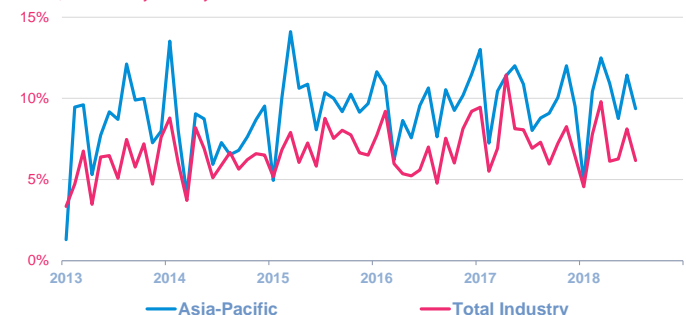
Source: IATA Statistics Asia-Pac incl North Asia

- ➔ Annual growth in industry-wide RPKs eased a little in July, to 6.2%yoy – down from 8.1% last month & returning to around the pace of growth in May. The July outcome marked a solid start to this year's peak passenger demand season.
- ➔ Pax volume growth for the AsiaPac carriers also slowed this month, down 2pp to 9.4%yoy. Even so, AsiaPac easily retained its position as the fastest growing region in terms of pax volumes this month.

- ➔ The pace of China domestic RPK growth remains brisk, despite a modest easing to 14.8%yoy. This growth continues to be supported by ongoing increases in living standards & the number of domestic airport connections.
- ➔ Amongst the region's main international markets, Within Asia continues to grow strongly, with pax volumes up 9.6%yoy. FTKs for the European market are up a solid 5.6%yoy. Africa is the fastest growing market overall, with RPKs up 12%yoy, supported by business and investment flows.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2017	May-18	Jun-18	Jul-18
Region (registration basis)				
Asia Pacific	7.7	4.0	1.4	0.9
World	9.1	3.8	2.5	2.1
Routes (segment basis)				
Asia - Europe	11.0	-0.8	-0.5	0.9
Asia - Nth America	8.7	4.7	1.5	0.1
Within Asia	13.0	6.1	0.4	0.4
Asia - Middle East	6.3	2.8	4.9	6.2
Asia - S/w Pacific	9.4	6.1	-0.6	6.8
Asia - Africa	58.6	-0.7	-14.6	-9.1

Source: IATA Statistics Asia-Pac incl North Asia

- ➔ Annual growth in industry-wide FTKs eased to 2.1% in July, down from 2.5% in June, to its slowest pace since May 2016. In year-to-date terms, industry-wide FTKs have grown by a solid 4.3% in the first 7 months of the year vs the same period a year ago.
- ➔ At the regional level, FTK growth for the Asia-Pacific airlines also slowed again this month, to a modest 0.9%yoy, from 1.4%yoy in June.

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2017	May-18	Jun-18	Jul-18
Passenger					
Asia Pacific	ASK	8.4	8.7	9.9	7.9
	PLF	81.0	79.5	81.8	82.9
World	ASK	6.3	6.1	6.7	5.5
	PLF	81.5	80.0	82.9	85.2
Freight					
Asia Pacific	AFTK	3.0	7.5	5.4	3.9
	FLF	55.2	54.8	54.3	53.4
World	AFTK	3.6	5.0	3.8	3.8
	FLF	45.2	44.9	44.3	42.7

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

- ➔ With annual growth in passenger demand outstripping capacity, the industry-wide PLF has increased by 0.6pp, to 85.2% currently. The converse holds for freight, with the FLF down 0.7pp over the past year, to 42.7%.
- ➔ For the region's airlines, a PLF of 82.9% currently – despite being a 1.1pp improvement on a year ago – remains below the industry figure. The region's FLF is 1.6pp lower than the same time a year ago, but continues to set the benchmark across regions.
- ➔ The latest data for Q2 confirm a decline in industry financial performance vs a year ago. The EBIT margin is currently 7.5% industry-wide (from 10.6% a year ago) &

Airline operating (EBIT) margins*

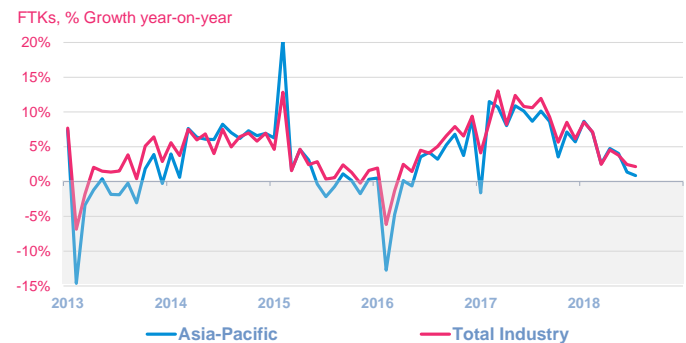
%revenues	2016	2017	2017Q2	2018Q2
Asia Pacific	7.4	5.5	5.0	2.8
Industry	8.5	7.5	10.6	7.5

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

IATA Economics: www.iata.org/economics

- ➔ The soft growth outcomes are generally widespread across the region's main markets; Europe, Nth America & Within Asia. And FTKs have fallen over the past year for the smaller Africa market, down a sizeable 9%yoy.
- ➔ Partly offsetting this weakness, growth in freight volumes remains healthy for both the Middle East & Southwest Pacific markets, with FTKs up 6.2% & 6.8%yoy, respectively.

Growth in air freight volumes



Source: IATA Statistics

2.8% for the region's carriers (down from 5.0% in 2Q17). Recall that these data are not adjusted for seasonal influences.

- ➔ Passenger yield developments across the region's key markets over the past year are mixed. Asia-Nth America yields (up 5.1%) are showing the strongest gain over the past year & China domestic yields are up 2.0%.
- ➔ However, yields are lower than their level of a year ago for a number of important markets, including Within Asia.

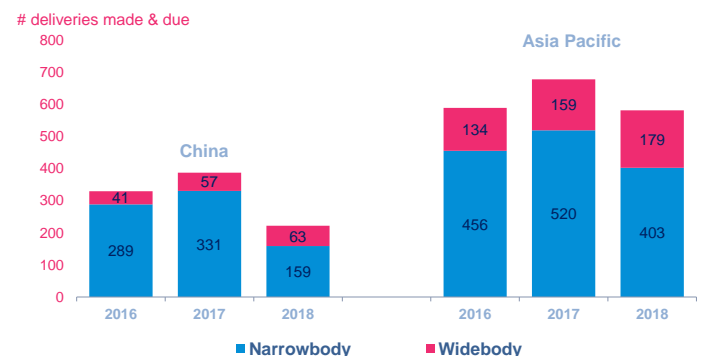
Passenger yields (US\$, excl. surcharges & ancillaries)

%change on a yr ago	2017	May-18	Jun-18	Jul-18
China domestic	-5.3	11.4	6.4	2.0
Asia - Europe	1.9	2.5	1.9	0.9
Within Asia	-5.6	4.4	1.7	-1.0
Asia - Nth America	-3.2	2.8	4.3	5.1
Asia - Middle East	-3.5	-6.9	-4.0	-3.2
Asia - Sth America	-4.2	3.2	5.1	-2.8
Asia - Africa	-0.1	0.6	4.2	3.3

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

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