Economy

GDP growth, selected countries

<table>
<thead>
<tr>
<th>% change on a yr ago</th>
<th>2015</th>
<th>2016Q1</th>
<th>2016Q2</th>
<th>2016Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>7.0</td>
<td>6.7</td>
<td>6.7</td>
<td>6.7</td>
</tr>
<tr>
<td>Chinese Taipei</td>
<td>0.7</td>
<td>-0.6</td>
<td>1.3</td>
<td>2.2</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>2.4</td>
<td>0.8</td>
<td>1.7</td>
<td>1.9</td>
</tr>
<tr>
<td>Mongolia</td>
<td>2.5</td>
<td>3.0</td>
<td>-0.3</td>
<td>-6.3</td>
</tr>
<tr>
<td>Emerging Asia</td>
<td>6.6</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

World* 2.3 2.2 2.1 2.2

Source: Datastream. * Market exchange rate basis. † Estimate.

Exchange rates

<table>
<thead>
<tr>
<th>end of period, # per US$</th>
<th>2015</th>
<th>Sep-16</th>
<th>Oct-16</th>
<th>Nov-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$ broad index</td>
<td>122.4</td>
<td>121.8</td>
<td>122.9</td>
<td>125.8</td>
</tr>
<tr>
<td>Chinese renminbi (CNY)</td>
<td>6.49</td>
<td>6.67</td>
<td>6.78</td>
<td>6.89</td>
</tr>
<tr>
<td>Taiwanese dollar (TWD)</td>
<td>32.9</td>
<td>31.4</td>
<td>31.6</td>
<td>31.9</td>
</tr>
<tr>
<td>Hong Kong dollar (HKD)</td>
<td>7.8</td>
<td>7.8</td>
<td>7.8</td>
<td>7.8</td>
</tr>
<tr>
<td>Mongolian tughrik (MNT)</td>
<td>1993</td>
<td>2278</td>
<td>2263</td>
<td>2465</td>
</tr>
</tbody>
</table>

Source: Datastream, XE.

World oil and jet fuel price

<table>
<thead>
<tr>
<th>US$/barrel</th>
<th>2015</th>
<th>Sep-16</th>
<th>Oct-16</th>
<th>Nov-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil (Brent)</td>
<td>52.4</td>
<td>46.6</td>
<td>49.5</td>
<td>44.7</td>
</tr>
<tr>
<td>Jet fuel</td>
<td>64.0</td>
<td>55.4</td>
<td>61.2</td>
<td>57.0</td>
</tr>
</tbody>
</table>

Source: Platts, EIA. Monthly average data.

- Buoyed by generally favourable economic & policy developments this month, the upwards trend in business confidence amongst the main North Asian countries remains intact. This is particularly so for Chinese Taipei.

- In Mongolia, Moody’s downgraded the sovereign debt rating from “B3” to “Caa1” adding to the country’s economic woes.

- The US$ surged in Nov, rising a sizeable 2.4% 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 was down a sizeable 8.9%.

- Oil prices were unsettled in Nov ahead of the OPEC meeting, ending the mth down ~US$5/bbl. The fall was short-lived; however; prices swiftly moved back above US$50 following the OPEC agreement on production.

Market

Revenue passenger kilometers (RPKs)

<table>
<thead>
<tr>
<th>% change on a yr ago</th>
<th>2015</th>
<th>Aug-16</th>
<th>Sep-16</th>
<th>Oct-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region (registration basis)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>8.7</td>
<td>7.4</td>
<td>10.3</td>
<td>9.2</td>
</tr>
<tr>
<td>World</td>
<td>6.5</td>
<td>4.3</td>
<td>7.1</td>
<td>5.8</td>
</tr>
<tr>
<td>Routes (segment basis)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China domestic</td>
<td>11.0</td>
<td>11.2</td>
<td>14.0</td>
<td>14.1</td>
</tr>
<tr>
<td>Asia - Europe</td>
<td>4.0</td>
<td>-1.5</td>
<td>3.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Within Asia</td>
<td>7.5</td>
<td>3.4</td>
<td>7.1</td>
<td>4.5</td>
</tr>
<tr>
<td>Asia - Nth America</td>
<td>5.8</td>
<td>4.3</td>
<td>7.6</td>
<td>5.9</td>
</tr>
<tr>
<td>Asia - Middle East</td>
<td>6.9</td>
<td>3.8</td>
<td>5.8</td>
<td>-0.8</td>
</tr>
<tr>
<td>Asia - S/W Pacific</td>
<td>6.1</td>
<td>-0.5</td>
<td>3.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Asia - Africa</td>
<td>-1.2</td>
<td>4.5</td>
<td>6.9</td>
<td>9.3</td>
</tr>
</tbody>
</table>


- Annual growth in industry-wide RPKs eased back to 5.8%yoy in Oct, from above 7% in Sep. For Asia-Pac airlines, RPK growth also eased a little, returning to a single digit rate. However, at 9.2%yoy it remains well above the global average rate & is the fastest growing IATA region at present.

- RPK growth in the China domestic market was essentially unchanged in Oct, at 14.1%yoy. Continued growth in household incomes & consumer spending, along with an increase in the number of airport pairs served has underpinned this strong RPK growth outcome, despite a reduction in average flight frequencies in 2016.

- Growth across most of the main markets for Asia-Pac airlines moderated in Oct, with Asia-Middle East slipping into negative territory. The exception was the smaller Asia-Africa market which saw a modest acceleration in growth, to 9.3%.

Growth in air passenger volumes

| RPKs, % Growth year-on-year |

Source: IATA Statistics.

IATA Economics: www.iata.org/economics

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At the segment level, FTK growth rates lifted across all of the key markets, with both Asia-Europe & Within Asia rates moving into double-digit territory, at 10.7% & 12.5% respectively.

The resurgence in freight volume growth continued on routes between Asia & the Middle East, rising to 9.5% yoy in Oct, having contracted in yoy terms only two months ago.

### Freight tonne kilometers (FTKs)

<table>
<thead>
<tr>
<th>Region (registration basis)</th>
<th>% change on a yr ago</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia Pacific</td>
<td>7.8</td>
</tr>
<tr>
<td>World</td>
<td>8.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Routes (segment basis)</th>
<th>% change on a yr ago</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia - Europe</td>
<td>10.7</td>
</tr>
<tr>
<td>Asia - Nth America</td>
<td>6.8</td>
</tr>
<tr>
<td>Within Asia</td>
<td>12.5</td>
</tr>
<tr>
<td>Asia - Middle East</td>
<td>9.5</td>
</tr>
<tr>
<td>Asia - S/w Pacific</td>
<td>3.7</td>
</tr>
<tr>
<td>Asia - Africa</td>
<td>39.9</td>
</tr>
</tbody>
</table>

> At odds with passenger volumes, growth in industry-wide freight volumes moved higher in Oct, building on last month’s gain. Global FTKs are now a hefty 8.2% higher than a year ago; the strongest rate in more than 18mths.

> FTK growth for the Asia-Pac carriers also rose in Oct, to 7.8% yoy, further closing the gap to the industry-wide rate. A number of airports incl. Hong Kong & Shanghai reported strong gains in cargo tonnage for the yr to Oct.

### Industry

#### Capacity growth and load factors

<table>
<thead>
<tr>
<th>ASK/AFTK: % ch on a yr ago, LF: % of ASK/AFTK</th>
<th>2015</th>
<th>Aug-16</th>
<th>Sep-16</th>
<th>Oct-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia Pacific ASK</td>
<td>8.5</td>
<td>8.6</td>
<td>8.8</td>
<td>8.5</td>
</tr>
<tr>
<td>PLF</td>
<td>79.3</td>
<td>79.5</td>
<td>82.0</td>
<td>78.6</td>
</tr>
<tr>
<td>World ASK</td>
<td>6.3</td>
<td>6.6</td>
<td>5.6</td>
<td>5.6</td>
</tr>
<tr>
<td>PLF</td>
<td>80.1</td>
<td>81.2</td>
<td>83.7</td>
<td>80.2</td>
</tr>
<tr>
<td>Freight</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia Pacific AFTK</td>
<td>3.9</td>
<td>3.7</td>
<td>1.7</td>
<td>6.7</td>
</tr>
<tr>
<td>FLF</td>
<td>56.1</td>
<td>54.5</td>
<td>51.9</td>
<td>53.9</td>
</tr>
<tr>
<td>World AFTK</td>
<td>4.6</td>
<td>4.4</td>
<td>4.6</td>
<td>7.0</td>
</tr>
<tr>
<td>FLF</td>
<td>46.2</td>
<td>43.7</td>
<td>40.6</td>
<td>43.8</td>
</tr>
</tbody>
</table>

> Asia-Pac carriers have increased both pax & freight capacity at a faster pace than the industry average over the past year. ASKs are up 8.5% yoy for the region’s airlines vs 6.3% for the industry. For AFTKs, the equivalent rates are 3.9% & 3.6% respectively.

> The Asia-Pac airlines continue to set the benchmark for freight loads, at 56.1% in Oct, 10pp above the industry average. The PLF, however, sits a little lower than the average, at 79.3% vs the industry 80.1%.

> The latest Q3 financials show a solid improvement in operating margin for the Asia-Pac carriers, up 2pp on the level of a year ago, to 10.6% currently. The industry-wide margin is broadly unchanged over the year, ticking down slightly, to 15.9%.

> Pax yields for the China domestic & all key international markets remain lower than their level of a year ago, despite the trend increase in world oil prices.

#### Passenger yields, excl. surcharges & ancillaries

<table>
<thead>
<tr>
<th>% change on a yr ago</th>
<th>2015</th>
<th>Aug-16</th>
<th>Sep-16</th>
<th>Oct-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>China domestic</td>
<td>0.6</td>
<td>-8.1</td>
<td>-10.4</td>
<td>-15.1</td>
</tr>
<tr>
<td>Asia - Europe</td>
<td>-9.4</td>
<td>-8.4</td>
<td>-10.2</td>
<td>-19.1</td>
</tr>
<tr>
<td>Within Asia</td>
<td>-8.9</td>
<td>-1.8</td>
<td>-8.1</td>
<td>-7.7</td>
</tr>
<tr>
<td>Asia - Nth America</td>
<td>-4.7</td>
<td>-1.8</td>
<td>-8.4</td>
<td>-15.1</td>
</tr>
<tr>
<td>Asia - Middle East</td>
<td>-11.7</td>
<td>-8.5</td>
<td>-10.5</td>
<td>-7.6</td>
</tr>
<tr>
<td>Asia - Sth America</td>
<td>-4.9</td>
<td>-11.6</td>
<td>-5.1</td>
<td>-18.0</td>
</tr>
<tr>
<td>Asia - Africa</td>
<td>-9.2</td>
<td>-8.8</td>
<td>-5.6</td>
<td>-17.8</td>
</tr>
</tbody>
</table>

> Aircraft deliveries to the region are currently expected to be a little higher in 2017 than in 2016, indicating a modest degree of optimism for the industry outlook. However, the number scheduled for China alone is currently expected to ease again in 2017.

### Airline operating (EBIT) margins*

<table>
<thead>
<tr>
<th>% revenues</th>
<th>2014</th>
<th>2015</th>
<th>2015Q3</th>
<th>2016Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia Pacific</td>
<td>2.5</td>
<td>7.7</td>
<td>8.4</td>
<td>10.6</td>
</tr>
<tr>
<td>Industry</td>
<td>4.7</td>
<td>8.3</td>
<td>8.3</td>
<td>16.1</td>
</tr>
</tbody>
</table>

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> Frequent

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