



STATE OF THE REGION: NORTH ASIA

MAY 2016

Economy

GDP growth, selected countries

%change on a yr ago	2015	2015Q2	2015Q3	2015Q4
China	6.9	7.0	6.9	6.9
Chinese Taipei	0.7	0.6	-0.8	-0.5
Hong Kong	2.4	2.9	2.2	1.9
Mongolia	2.3 [†]	3.0	2.5	2.3
Emerging Asia	6.6	--	--	--
World*	2.4	2.5	2.5	2.3

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2015	Feb-16	Mar-16	Apr-16
US\$ broad index	122.4	124.0	121.5	119.5
Chinese renminbi (CNY)	6.49	6.56	6.45	6.48
Taiwanese dollar (TWD)	32.9	33.2	32.2	32.3
Hong Kong dollar (HKD)	7.8	7.8	7.8	7.8
Mongolian tugrik (MNT)	1993	2030	2046	2013

Source: Datastream, XE

World oil and jet fuel price

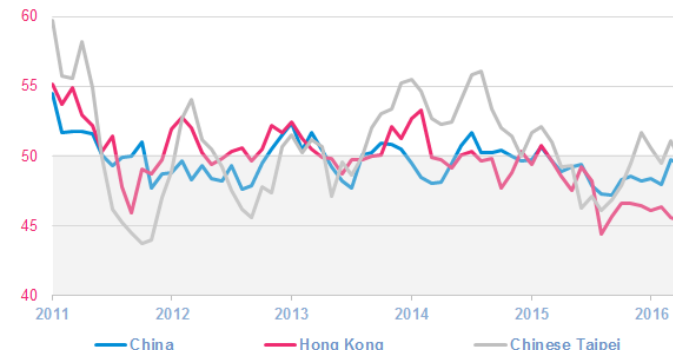
US\$/barrel	2015	Feb-16	Mar-16	Apr-16
Crude oil (Brent)	52.4	32.2	38.2	41.6
Jet fuel	64.0	40.9	44.9	48.2

Source: Platts, EIA Monthly average data

- In Hong Kong, the downward slide in business sentiment continued this month, with the measure looking set to test its 2015 lows. Soft economic & demand conditions continue to weigh on business confidence readings in Chinese Taipei.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



- For mainland China, despite a small retracing, confidence held onto most of the gains from last month as concerns about the economic outlook ease.
- The US\$ eased further in April, down another 1½% on a trade-weighted basis & down almost 2½%ytd. Regionally, the TWD gave back some of its March gain, easing by 0.4% vs the USD in the month. The CNY also dipped by a similar amount.
- World oil & jet fuel prices continued their upwards movement in April, with the monthly average price of both rising by a little over US\$3/bbl. Analysts pointed to the decline in the US\$ & speculation that the glut of oil supply will ease as contributing factors.

Market

Revenue passenger kilometers (RPKs)

%change on a yr ago	2015	Jan-16	Feb-16	Mar-16
Region (registration basis)				
Asia Pacific	8.7	11.0	9.8	5.1
World	6.5	7.2	8.6	5.3
Routes (segment basis)				
China domestic	11.0	12.5	8.2	3.3
Asia - Europe	3.4	2.8	4.0	0.1
Within Asia	8.6	10.4	8.7	4.8
Asia - Nth America	5.8	9.1	9.3	1.5
Asia - Middle East	8.3	8.1	9.8	7.2
Asia - S/w Pacific	6.1	4.1	5.4	-0.7
Asia - Africa	-1.2	11.3	11.5	7.3

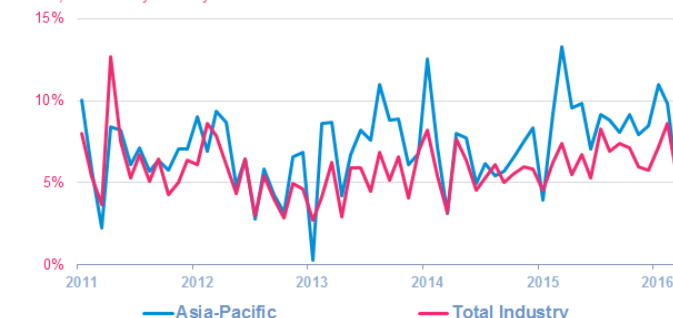
Source: IATA Statistics NB Asia-Pac incl North Asia

- RPK growth for the Asia-Pac airlines eased further in March, to 5.1%yoy, broadly in line with the global average growth rate (5.3%).
- The growth of the China domestic market has slowed quickly, now 3.3% higher than a year ago. However, this relates more to developments in early 2015 (than a pronounced change in the current trend) & a rebound is likely next month.

- Despite the slowdown in economic activity in China & the fitful economic performance in Japan, passenger volumes on Within Asia routes continue to show robust, albeit moderating, growth, currently up ~5%yoy.
- The tentative recent improvement in Asia-Europe traffic was not maintained in March. Notwithstanding the disruptions usually observed in the early part of the year, this development – along with the sharp slowing in Asia-Nth America traffic – bears watching in coming months.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Freight tonne kilometers (FTKs)

%change on a yr ago	2014	Jan-16	Feb-16	Mar-16
Region (registration basis)				
Asia Pacific	2.4	0.7	-12.7	-5.2
World	2.2	1.7	-6.0	-2.0
Routes (segment basis)				
Asia - Europe	-5.0	2.2	-7.2	-3.5
Asia - Nth America	5.1	-8.5	-20.5	-11.8
Within Asia	-0.3	1.8	-7.1	4.9
Asia - Middle East	7.0	6.5	-2.2	3.1
Asia - S/w Pacific	8.7	7.1	-7.3	5.3
Asia - Africa	1.3	17.7	5.0	19.8

Source: IATA Statistics NB Asia-Pac incl North Asia

- In yoy terms, industry-wide air freight growth declined for the 2nd consecutive month in March, down 2.0%. FTKs for the region's carriers are also lower than a year ago, down a hefty 5.2%yoy.
- On key inter-regional routes, performance is mixed, with freight volumes on the relatively small Asia-Africa market up almost 20%yoy, but for the (much larger) Asia-Nth America market volumes are down almost 12%.

Industry

Capacity growth and load factors

%change on a yr ago, LF: %of ASK/AFTK		2015	Jan-16	Feb-16	Mar-16
Passenger					
Asia Pacific	ASK	6.7	8.3	10.0	6.7
	PLF	78.6	78.7	78.7	78.3
World	ASK	5.6	5.6	9.8	5.9
	PLF	80.2	78.9	77.6	79.6
Freight					
Asia Pacific	AFTK	6.7	5.0	4.0	3.8
	FLF	54.0	49.9	45.9	52.5
World	AFTK	6.2	5.9	7.4	6.9
	FLF	44.2	41.3	40.8	43.5

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

- Asia-Pac airlines have grown pax capacity by a solid 6.7% over the past year, ¾pp above the industry rate of 5.9%. The PLF for March dipped slightly, to 78.3% & has fallen below the industry-wide figure of 79.6%.
- Regional carrier AFTKs slowed further this month, now up 3.8%yoy – well below the industry rate of ~7%. The regional freight load factor returned to above 50% in March & is a full 9pp above the global average.
- The initial Q1 financial data show the EBIT margin for Asia-Pac carriers is robust at 9.8%, a percentage point higher than the performance of a year ago, & broadly in-line with the overall industry figure of 9.9%.

Airline EBIT margins*

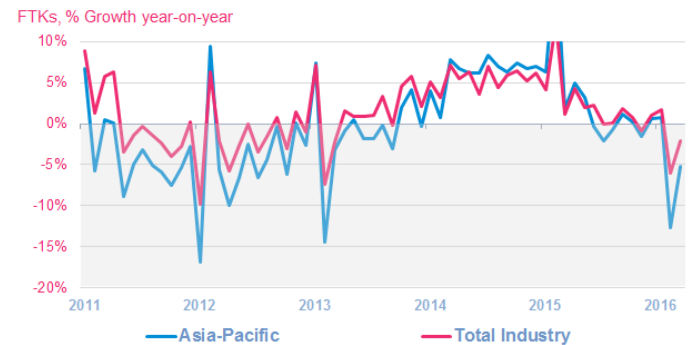
%revenues	2013	2014	2015Q1	2016Q1
Asia Pacific	2.3	2.8	8.8	9.8
Industry	4.1	5.2	6.8	9.9

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

IATA Economics: www.iata.org/economics

- Global & Asia-Pac carrier growth should pick up in the coming months as the effect of the US west coast port disruption from early 2015 drops out of the calculations. This should also boost Asia-NthAm growth, in particular.
- Even so, with a soft demand backdrop & global trade volumes remaining subdued, wholesale improvement in the air freight market appears unlikely anytime soon.

Growth in air freight volumes



Source: IATA Statistics

- Despite some recent reversal in fuel prices & the US\$, passenger yields on key regional routes continue to show widespread declines in the order of 10-15%yoy.
- China domestic yields are now also lower than their level of a year ago, down 7.5%yoy.

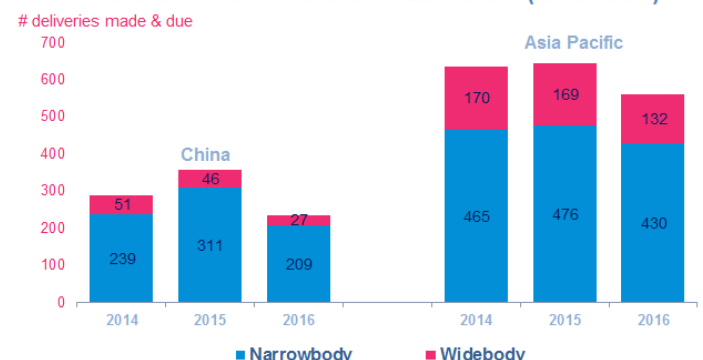
Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2015	Jan-16	Feb-16	Mar-16
China domestic	1.7	3.3	2.0	-7.5
Asia - Europe	-19.1	-15.0	-11.7	-15.2
Within Asia	-7.7	-6.8	-7.6	-11.7
Asia - Nth America	-15.1	-11.0	-11.2	-9.8
Asia - Middle East	-7.6	-6.5	-8.7	-9.9
Asia - Sth America	-18.0	-12.4	-10.4	-10.6
Asia - Africa	-17.8	-11.4	-13.7	-10.1

Source: IATA PaxIS

- The latest deliveries data are little changed from last month & point to a slowing in the number of wide & narrowbody aircraft intended for both China & the broader Asia-Pac region this year, compared with both 2014 & 2015.

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



Source: Ascend

Asia-Pac incl North Asia

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