

State of the region: Europe

January 2019

Economy

GDP growth, selected countries

% change on a yr ago	2017	Q1 2018	Q2 2018	Q3 2018
Germany	2.5	2.0	1.9	1.2
Russia	-0.2	1.3	1.9	1.5
France	2.3	2.2	1.7	1.4
UK	1.8	1.3	1.4	1.5
Italy	1.6	1.4	1.2	0.7
Spain	3.0	2.8	2.5	2.4
Turkey	7.4	7.2	5.3	1.6
Israel	3.5	4.3	3.5	2.9
Euro zone	2.5	2.4	2.2	1.6
World*	1.3	3.2	3.2	2.9

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2017	Oct-18	Nov-18	Dec-18
US\$ broad index	120.0	126.86	128.31	128.51
European euro (EUR)	0.83	0.88	0.88	0.87
Russian ruble (RUB)	57.57	65.74	66.95	69.37
British pound (GBP)	0.74	0.78	0.78	0.79
Turkish lira (TRY)	3.78	5.60	5.24	5.29
Israeli shekel (ILS)	3.47	3.72	3.73	3.74

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel (period ave.)	2017	Oct-18	Nov-18	Dec-18
Crude oil (Brent)	54.2	81.0	64.8	57.4
Jet fuel	65.6	94.4	81.7	71.2

Source: Platts, EIA Monthly average data

Market

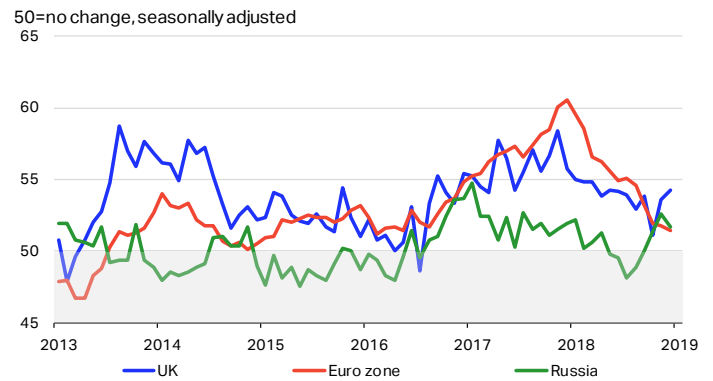
Revenue passenger kilometers (RPKs)

% change on a yr ago	2017	Sep-18	Oct-18	Nov-18
Region (registration basis)				
Europe	9.1	5.3	7.3	8.8
World	8.0	5.5	6.3	6.2
Routes (segment basis)				
Russia domestic	10.4	11.1	11.7	13.8
Within Europe	11.1	7.1	7.9	9.5
Europe - North America	7.1	4.5	8.1	8.5
Europe - Asia	10.5	7.1	7.5	7.6
Europe - Middle East	8.9	0.5	2.9	3.8
Europe - Africa	10.0	6.4	10.0	6.7
Europe - South America	7.0	7.6	6.9	7.2

Source: IATA Statistics Note: historical data may be subject to revision

- Industry-wide revenue passenger kilometers (RPK) grew by 6.2% year-on-year in Nov, a slight deceleration from 6.3% in the previous month. While the result remains above the 10-year average RPK growth rate (6.0%), some slowing is evident in recent months.
- RPK growth for the European carriers showed a clear improvement this month, rising to 8.8%yoy, 2.6pp above the industry-wide outcome.

Business confidence - manufacturing PMIs

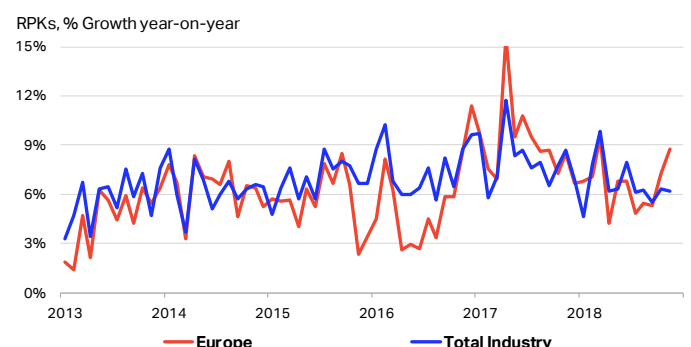


Source: Markit

- Russia's business confidence ticked down this month, although it remains at elevated levels. In Europe, 'gilets jaunes' unrest in France along with softer growth elsewhere prompted a further fall in sentiment. In contrast, the UK's confidence lifted, notwithstanding the ongoing Brexit uncertainty.
- The US\$ rose by 0.2% in Dec, up ~7% over the course of the year. Most of the main regional currencies ended the month lower vs the US\$, with the exception of the EUR which gained 1.1% this month.
- Brent crude oil & jet fuel prices plunged in Q4 as market concerns moved to oversupply, but have recovered partially since then amid signs of new supply cuts.

- Growth in passenger volumes for the Russia domestic market maintained its double-digit pace, rising further to 13.8% in annual terms.
- Of the region's main international markets, Within Europe was the fastest growing, with RPKs 9.5% higher vs a year ago. The larger NthAm & Asia markets also maintained a robust pace this month; 8.5% & 7.6%yoy, respectively.
- The smaller Europe-Africa was the only market where growth eased compared to October, to 6.7%yoy

Growth in air passenger volumes



Source: IATA Statistics

Freight tonne kilometers (FTKs)

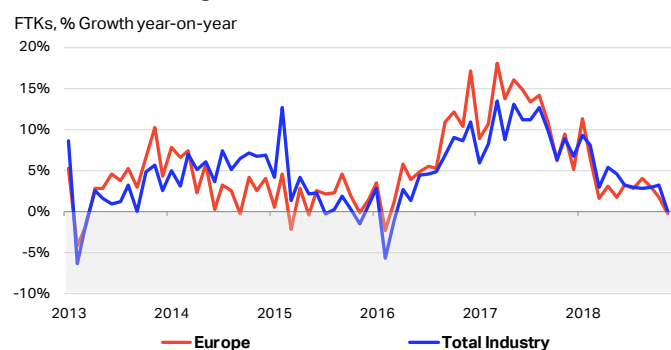
% change on a yr ago	2017	Sep-18	Oct-18	Nov-18
Region (registration basis)				
Europe	11.7	2.9	1.7	-0.2
World	9.7	3.0	3.2	0.0
Routes (segment basis)				
Europe - Asia	12.2	0.2	2.0	-1.0
Europe - North America	10.4	4.5	1.7	1.5
Europe - Middle East	12.2	6.6	3.5	4.3
Europe - Africa	2.8	4.7	-3.0	-2.2
Europe - South America	7.3	0.3	-1.0	-0.9
Within Europe	16.4	9.6	16.3	6.1

Source: IATA Statistics Note: historical data may be subject to revision

- Industry-wide FTKs were unchanged in annual terms in Nov, marking the slowest growth rate since early 2016. All told, freight volumes rose by 3.9% year-on-year between Jan and Nov, compared to 10% over the same period a year ago.
- At the regional level, FTK growth fell into negative territory for the first time since early-2016, which corresponds with broader weakness in European manufacturers' export order books, particularly for Germany.

- Freight volumes for Asia, the largest European market, declined this month to -1.0%yoy. In contrast, Nov saw an improved performance for the third largest Europe-Middle East, where FTKs are now up 4.3%yoy from 3.5% in Oct. Annual growth in the Africa & SthAm markets remains in negative territory, at -2.2% & -0.9%, respectively.
- Although smaller, the Within Europe market remains the strongest performer this month with a robust 6.1%yoy growth rate currently.

Growth in air freight volumes



Source: IATA Statistics

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago		2017	Sep-18	Oct-18	Nov-18
LF: % of ASK/AFTK					
Passenger					
Europe	ASK	6.9	5.1	6.8	8.8
	PLF	83.9	86.2	84.7	81.7
World	ASK	6.6	5.9	6.3	6.8
	PLF	81.5	81.4	81.0	80.0
Freight					
Europe	AFTK	6.7	1.9	2.3	3.1
	FLF	54.9	53.5	55.8	57.9
World	AFTK	5.0	4.6	5.5	4.3
	FLF	49.9	49.5	50.4	51.5

Source: IATA Statistics. Note: LF=seasonally adjusted load factor. ASK=available seat kilometers. AFTK=available freight tonne kilometers

- The industry-wide passenger load factor eased to 80% in Nov as capacity continues to trend upwards at a faster pace than demand. In contrast, the freight load factor lifted by 1pp to 51.5% this month.
- At the regional level, the European airlines continue to outperform the industry-wide outcome, with a PLF of 81.7% and a FLF of 57.9% this month.
- The final Q3 financial data confirm the squeeze on industry financial performance, with an EBIT margin of 10.7% vs 14.2% a year ago.

Airline operating (EBIT) margins*

% revenues	2016	2017	2017Q3	2018Q3
Europe	6.1	6.8	20.2	17.4
Industry	8.5	7.5	14.2	10.7

Source: Airline Analyst * constant sample basis, not seasonally adjusted

- At the regional level, the EBIT margin also showed a decline to 17.4% vs 20.2% in Q3 2017.
- Across the region's main markets, pax yields remain generally lower vs last year. Most notable is still the Russia domestic market, where yields are currently more than 18% below the levels seen in Nov 2017. Declines are also evident for the SthAm & Asia markets.

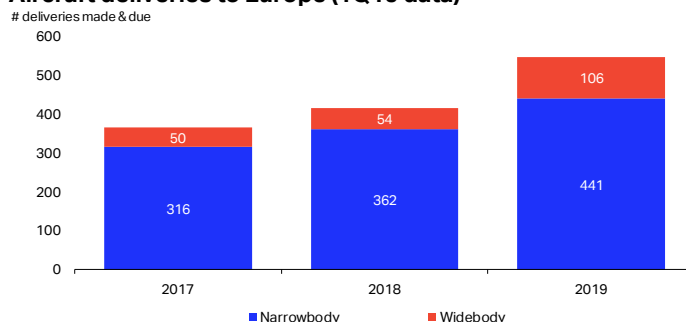
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2017	Sep-18	Oct-18	Nov-18
Russia domestic	12.5	-16.8	-16.2	-18.4
Within Europe	-1.6	-0.3	-1.0	-0.8
Europe - North America	-1.9	5.8	3.0	0.5
Europe - Asia	1.9	-2.7	-1.0	-3.4
Europe - Middle East	-2.3	-4.0	-2.8	-2.7
Europe - Africa	-5.3	1.0	1.1	-1.6
Europe - South America	7.5	-5.2	-7.4	-9.7

Source: IATA PaxIS Note: historical data may be subject to revision

- The latest data indicate a 32% increase in the number of jet aircraft deliveries scheduled for the European carriers in 2019 vs 2018.

Aircraft deliveries to Europe (1Q19 data)



Source: Ascend