

# State of the region: Africa & Middle East

January 2019

## Economy

### GDP growth, selected countries

| % change on a yr ago | 2017             | Q1 2018    | Q2 2018    | Q3 2018    |
|----------------------|------------------|------------|------------|------------|
| Saudi Arabia         | -0.9             | 1.2        | 1.6        | 2.5        |
| Nigeria              | 0.8              | 2.0        | 1.5        | --         |
| Egypt                | 4.2              | 5.3        | 5.3        | 5.3        |
| South Africa         | 1.2              | 1.5        | 0.6        | 0.6        |
| UAE                  | 0.5 <sup>†</sup> | --         | --         | --         |
| Kenya                | 4.8 <sup>†</sup> | 5.9        | 6.2        | 5.9        |
| Jordan               | 2.4              | 2.2        | 2.5        | --         |
| <b>World*</b>        | <b>3.1</b>       | <b>3.2</b> | <b>3.2</b> | <b>2.9</b> |

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 | 126.9  | 128.3  | 128.5  |
| Saudi Arabian riyal (SAR) | 3.75  | 3.75   | 3.75   | 3.75   |
| Nigerian naira (NGN)      | 360.0 | 363.0  | 364.0  | 363.5  |
| Egyptian pound (EGP)      | 17.8  | 17.9   | 17.9   | 17.9   |
| Sth African rand (ZAR)    | 12.3  | 14.8   | 13.9   | 14.4   |
| UAE dirham (AED)          | 3.67  | 3.67   | 3.67   | 3.67   |
| Kenyan shilling (KES)     | 103.3 | 102.1  | 102.5  | 101.9  |
| Jordanian dinar (JOD)     | 0.71  | 0.71   | 0.71   | 0.71   |

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)

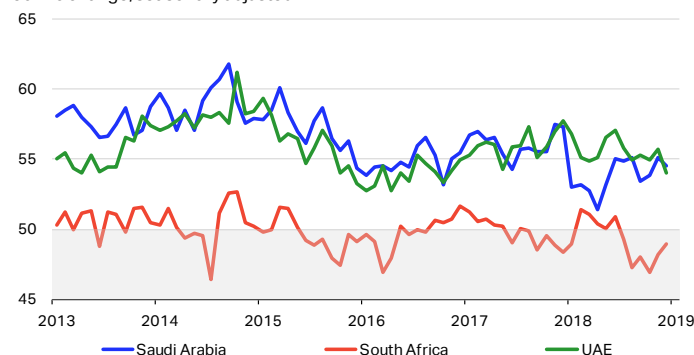
| % change on a yr ago               | 2017 | Sep-18 | Oct-18 | Nov-18 |
|------------------------------------|------|--------|--------|--------|
| <b>Region (registration basis)</b> |      |        |        |        |
| Middle East                        | 6.8  | 2.9    | 4.0    | 2.6    |
| Africa                             | 5.5  | 2.1    | 1.3    | 2.2    |
| World                              | 8.0  | 5.5    | 6.3    | 6.2    |
| <b>Routes (segment basis)</b>      |      |        |        |        |
| Middle East - Asia                 | 7.0  | 3.5    | 5.9    | 4.7    |
| Middle East - Europe               | 8.9  | 0.5    | 2.9    | 3.8    |
| Africa - Europe                    | 10.0 | 6.4    | 10.0   | 6.7    |
| Middle East - Nth America          | -1.1 | 4.0    | 3.1    | -5.8   |
| Africa - Middle East               | 3.3  | 2.4    | 6.4    | 2.4    |
| Africa - Asia                      | 3.7  | 9.7    | 5.8    | 9.9    |

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.
- At the regional level, growth in pax volumes bounced back modestly for African airlines, to 2.2%yoy in Nov. By contrast, RPKs in the Middle East slowed to 2.6% amid ongoing geopolitical tensions in the region.

### Business confidence - economy-wide PMIs

50=no change, seasonally adjusted

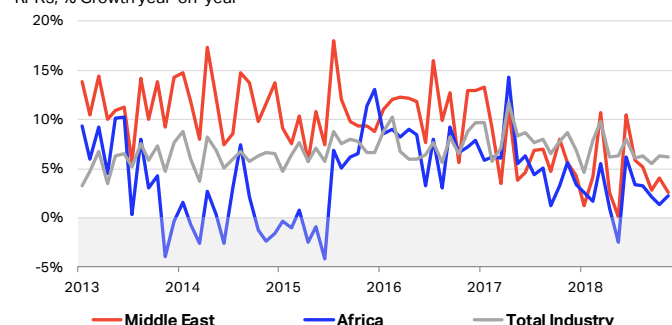


- Business confidence fell in the UAE and also ticked down in Saudi Arabia, notwithstanding a recent surge in oil prices. In South Africa, despite an improvement this month, sentiment remains at a level typically associated with decreasing output.
- The US\$ rose by 0.2% in Dec, up ~7% over the course of the year. The ZAR lost some of last month's gain, falling 3.8% in the month vs the \$US and ~17% for the year overall. Other FX movements were relatively muted on this occasion.
- 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.

- The RPK growth performance is mixed across the key international markets for the region. The smaller Africa-Asia recovered from a slowdown in Oct, and became the best performer in Nov, growing 10%yoy. Africa-Europe & Middle East-Asia followed with 6.7% and 4.7% annual growth, respectively.
- Passenger volumes fell to below their level of a year ago for the Middle East-North America market, although this more reflects monthly data volatility than any clear shift in trend.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



## Freight tonne kilometers (FTKs)

| % change on a yr ago               | 2017 | Sep-18 | Oct-18 | Nov-18 |
|------------------------------------|------|--------|--------|--------|
| <b>Region (registration basis)</b> |      |        |        |        |
| Middle East                        | 8.6  | 6.3    | 5.0    | 1.7    |
| Africa                             | 22.9 | -2.1   | -4.3   | -7.8   |
| World                              | 9.7  | 3.0    | 3.2    | 0.0    |
| <b>Routes (segment basis)</b>      |      |        |        |        |
| Middle East - Asia                 | 8.1  | 5.7    | 7.1    | 3.7    |
| Middle East - Europe               | 12.2 | 6.6    | 3.5    | 4.3    |
| Africa - Europe                    | 2.8  | 4.7    | -3.0   | -2.2   |
| Middle East - Nth America          | 8.9  | -1.5   | 0.2    | -3.7   |
| Africa - Middle East               | 1.2  | -4.5   | -8.0   | -7.9   |
| Africa - Asia                      | 57.8 | -11.8  | -3.6   | -15.9  |

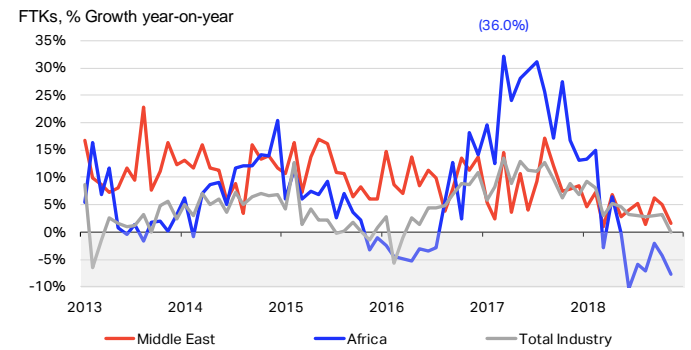
Source: IATA Statistics Note: historical data may be subject to revision

- 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, annual FTK growth for African carriers remained in negative territory (-7.8%) for the

seventh month in a row. For the Middle East carriers, freight volumes dropped further to 1.7%yoy, down from 5.0% in Oct.

- The two largest markets for ME carriers (Asia & Europe) showed relatively solid FTK growth of ~4%yoy in Nov. That said, the remaining international markets have volumes lower than a year ago with the smaller Africa-Asia being the key underperformer (-16% vs last year).

### Growth in air freight volumes



## Industry

### Capacity growth and load factors

| ASK/AFTK: %ch on a yr ago,<br>LF: % of ASK/AFTK |      | 2017 | Sep-18 | Oct-18 | Nov-18 |
|---|------|------|--------|--------|--------|
| <b>Passenger</b>                                |      |      |        |        |        |
| Middle East                                     | ASK  | 6.2  | 4.6    | 5.8    | 5.2    |
|   | PLF  | 75.4 | 74.1   | 70.0   | 69.4   |
| Africa  | ASK  | 2.2  | 1.4    | 1.1    | 1.2    |
|   | PLF  | 70.5 | 73.3   | 70.9   | 69.8   |
| World   | ASK  | 6.6  | 5.9    | 6.3    | 6.8    |
|   | PLF  | 81.5 | 81.4   | 81.0   | 80.0   |
| <b>Freight</b>                                  |      |      |        |        |        |
| Middle East                                     | AFTK | 4.3  | 8.1    | 8.8    | 7.8    |
|   | FLF  | 49.9 | 49.2   | 50.6   | 51.4   |
| Africa  | AFTK | 5.2  | 5.5    | 5.3    | -7.4   |
|   | FLF  | 38.8 | 35.6   | 36.8   | 39.0   |
| 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 PLF for both Africa and Middle East carriers eased a little vs last month, remaining ~10pp below the industry rate. The FLF for the ME is broadly in line with the industry wide outcome (51.4%) and it lifted modestly for the African carriers to 39%, but is still well below the overall industry rate.

### Airline operating (EBIT) margins\*

| % revenues           | 2016 | 2017 | 2017Q3 | 2018Q3 |
|----------------------|------|------|--------|--------|
| Africa & Middle East | 1.9  | 3.1  | 5.7    | 1.8    |
| Industry             | 8.5  | 7.5  | 14.2   | 10.7   |

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

- 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. At the regional level, the outcome is 1.8%, down from 5.7% in Q3 2017.

- Passenger yield developments over the past year across region's key markets are mixed. Middle East-NthAm and Within Middle East show a solid yield growth; 9.2% & 6.7%yoy, respectively. In contrast, yields in Middle East-SthAm remain 10% lower vs last year.

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

| % change on a yr ago      | 2017 | Sep-18 | Oct-18 | Nov-18 |
|---------------------------|------|--------|--------|--------|
| Middle East - Asia        | -3.5 | -4.9   | -1.9   | 1.5    |
| Middle East - Europe      | -2.7 | -2.5   | -0.9   | -2.9   |
| Africa - Europe           | -5.0 | 2.5    | 0.4    | -1.2   |
| Middle East - Nth America | -2.5 | 3.0    | 3.0    | 9.2    |
| Middle East - Sth America | 4.8  | -8.9   | -10.1  | -10.1  |
| Africa - Middle East      | -5.8 | 0.6    | -4.4   | -2.4   |
| Africa - Nth America      | 2.2  | 6.6    | -1.8   | -2.0   |
| Within Middle East        | -6.0 | 4.5    | 5.8    | 6.7    |
| Within Africa             | 1.5  | 3.8    | 2.4    | -1.4   |

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

- The latest data indicate a pick-up in jet aircraft deliveries for the region's airlines in 2019 vs 2018.

### Aircraft deliveries to Africa & the Middle East (1Q19 data)

