



STATE OF THE REGION: THE AMERICAS

FEBRUARY 2018

Economy

GDP growth, selected countries

| %change on a yr ago | 2016 | 2017Q2 | 2017Q3 | 2017Q4 |
|---------------------|------------|------------|------------|------------|
| United States | 1.5 | 2.2 | 2.3 | 2.5 |
| Brazil | -3.5 | 0.4 | 1.4 | -- |
| Mexico | 2.7 | 3.1 | 1.6 | -- |
| Canada | 1.4 | 3.6 | 3.0 | -- |
| Argentina | -2.2 | 2.9 | 4.2 | -- |
| Colombia | 2.0 | 1.7 | 2.3 | 1.6 |
| Chile | 1.5 | 1.4 | 2.2 | -- |
| Peru | 4.0 | 2.4 | 2.5 | -- |
| World* | 2.4 | 2.9 | 3.2 | 3.2 |

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

| end of period, # per US\$ | 2017 | Nov-17 | Dec-17 | Jan-18 |
|---------------------------|-------|--------|--------|--------|
| US\$ broad index | 120.0 | 120.3 | 120.0 | 117.2 |
| Brazilian real (BRL) | 3.31 | 3.27 | 3.31 | 3.18 |
| Mexican peso (MXN) | 19.66 | 18.61 | 19.66 | 18.62 |
| Argentine peso (ARS) | 18.62 | 17.31 | 18.62 | 19.64 |
| Colombian peso (COP) | 2985 | 3016 | 2985 | 2831 |
| Chilean peso (CLP) | 615 | 649 | 615 | 601 |

Source: Datastream, XE

World oil and jet fuel price

| US\$/barrel (period ave.) | 2017 | Nov-17 | Dec-17 | Jan-18 |
|---------------------------|------|--------|--------|--------|
| Crude oil (Brent) | 54.2 | 62.7 | 64.4 | 69.1 |
| Jet fuel | 65.6 | 73.9 | 76.3 | 82.0 |

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

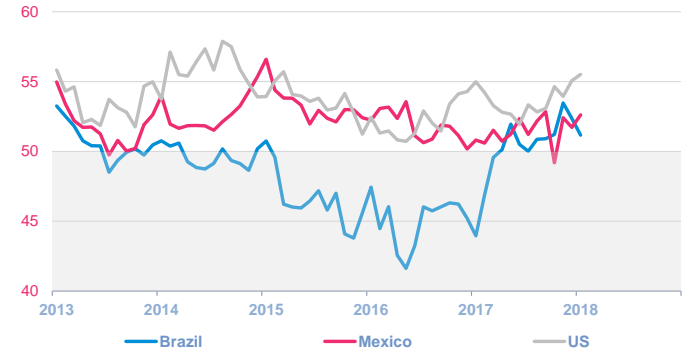
| %change on a yr ago | 2017 | Oct-17 | Nov-17 | Dec-17 |
|------------------------------------|------|--------|--------|--------|
| Region (registration basis) | | | | |
| N America | 4.2 | 4.7 | 5.5 | 4.0 |
| Latin America | 7.0 | 5.4 | 5.7 | 5.4 |
| World | 7.6 | 7.2 | 8.2 | 6.2 |
| Routes (segment basis) | | | | |
| US domestic | 3.8 | 5.2 | 4.9 | 3.9 |
| Brazil domestic | 3.5 | 8.0 | 5.8 | 5.4 |
| Nth America-Europe | 4.1 | 1.9 | 2.7 | 0.4 |
| Nth America-Asia | 4.9 | 4.2 | 5.4 | 3.3 |
| Nth-Sth America | 0.9 | 0.6 | 2.8 | 1.6 |
| Sth America-Europe | 6.0 | 3.4 | 8.3 | 8.8 |
| Within Sth America | 8.4 | 3.5 | 4.7 | 6.5 |

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

- Industry-wide RPKs grew by 7.6% in 2017; another year of above-trend passenger growth, well ahead of the 10yr average pace of 5.5%. Growth was supported by a broad-based lift in global economic conditions as well as stimulus from lower airfares (mainly earlier in the year).
- At the regional level, RPKs increased by 7.0% for Latin American carriers, broadly in line with the industry figure, but a more modest 4.2% for the North American carriers.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



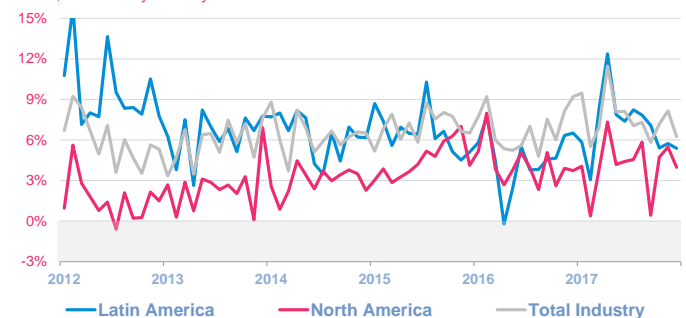
Source: Markit

- Business confidence moved higher this month in both the US & Mexico, but dipped again in Brazil where output slowed & new export orders contracted for the first time in 3mths.
- On a trade-weighted basis, the US\$ eased again in Jan, down 2.3% in the month. The MXN & COP both gained ~5% vs the US\$, with the BRL up 4%. The ARS, however, fell by ~5.5% in Jan following the central bank interest rate cut.
- Brent crude oil prices reached a 3yr high in Jan, supported by OPEC-led production cuts and a weaker US dollar. Oil & jet fuel prices both rose by ~7.5% in the month, to around US\$70 & US\$80 respectively.

- Having fallen by 5.5% in 2016, domestic Brazil RPKs returned to growth last year, up 3.5%, in line with the economic recovery & despite a 4.5% reduction in the number of airport pairs. The key US domestic market posted growth of 3.8% in 2017, down from 4.6% in 2016.
- Of the key international markets for the region, RPKs for NthAm-Asia increased by ~5%, with NthAm-Europe up a solid ~4% for the year as a whole. The smaller Within Sth America market was the overall strongest performer with pax volumes up 8.4% in 2017.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

| %change on a yr ago | 2017 | Oct-17 | Nov-17 | Dec-17 |
|------------------------------------|------|--------|--------|--------|
| Region (registration basis) | | | | |
| Nth America | 7.9 | 7.0 | 8.8 | 5.4 |
| Latin America | 5.7 | 4.8 | 6.4 | 4.9 |
| World | 9.0 | 5.4 | 8.2 | 5.7 |
| Routes (segment basis) | | | | |
| Nth America-Asia | 8.7 | 3.5 | 8.0 | 6.0 |
| Nth America-Europe | 10.2 | 7.5 | 9.4 | 3.2 |
| Nth-Sth America | 0.3 | 0.7 | 0.7 | 4.2 |
| Sth America-Europe | 7.8 | 7.1 | 11.6 | 13.3 |
| Within Sth America | 2.4 | -2.9 | -4.8 | -6.8 |

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

→ Industry-wide FTKs grew by 9.0% in 2017, up from 3.6% in 2016 & the strongest annual result since 2010. Air freight outperformed global goods trade by the widest margin since 2010, driven by the inventory restocking cycle & buoyant demand for manufactured exports.

→ At the regional level, FTKs grew more slowly than the global aggregate, at 7.9% for the Nth American airlines & 5.7% for the Lat.Am carriers.

Industry

Capacity growth and load factors

| ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK | 2017 | Oct-17 | Nov-17 | Dec-17 |
|---|------|--------|--------|--------|
| Passenger | | | | |
| Nth America ASK | 4.1 | 5.1 | 4.7 | 4.2 |
| Nth America PLF | 83.6 | 83.4 | 83.5 | 82.7 |
| Latin America ASK | 5.5 | 3.4 | 4.6 | 5.0 |
| Latin America PLF | 81.8 | 82.7 | 82.3 | 81.5 |
| World ASK | 6.3 | 6.0 | 6.3 | 5.8 |
| World PLF | 81.4 | 80.9 | 80.3 | 80.7 |
| Freight | | | | |
| Nth America AFTK | 1.6 | 3.5 | 3.7 | 2.2 |
| Nth America FLF | 36.5 | 38.1 | 40.1 | 37.1 |
| Latin America AFTK | 3.1 | 0.2 | 4.6 | 11.6 |
| Latin America FLF | 34.2 | 38.2 | 37.8 | 34.8 |
| World AFTK | 3.0 | 2.7 | 4.2 | 3.3 |
| World FLF | 45.5 | 47.1 | 48.7 | 46.8 |

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

→ The industry-wide pax load factor increased by 0.9% in 2017, taking it to a record calendar-year high of 81.4%. Even so, the PLF for both NthAm & Lat.Am carriers was higher, at 83.6% & 81.8%, respectively.

→ With air freight demand growing 3x faster than capacity in 2017, the freight load factor for the industry increased by a sizeable 2.5pp in 2017. The FLF performance of the region's carriers underperformed the industry by ~10pp.

Airline operating (EBIT) margins*

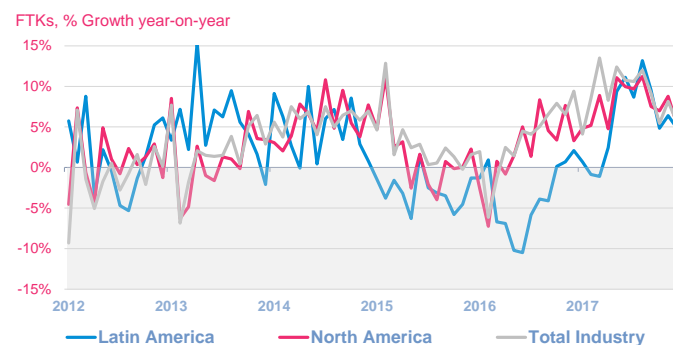
| %revenues | 2015 | 2016 | 2016Q4 | 2017Q4 |
|---------------|------|------|--------|--------|
| Nth America | 14.8 | 13.2 | 11.1 | 10.6 |
| Latin America | 1.5 | 4.2 | -- | -- |
| Industry | 8.5 | 8.8 | 10.9 | 10.7 |

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

→ That said, the performance of the Lat.Am carriers in 2017 represents a turnaround in fortunes after two consecutive years of decline in international FTKs.

→ Europe was a key market for both Nth & Lat.Am carriers last year, with FTKs growing by 10.2% & 7.8%, respectively. In contrast, the Nth-Sth America and Within Sth America markets showed more modest growth, of 0.3% & 2.4%, respectively.

Growth in air freight volumes



Source: IATA Statistics

→ The initial financial data for Q4 show a slight moderation in the EBIT margin outcome for the NthAm airlines vs a year ago; down 0.5pp to 10.6% & in line with the industry average. No data were available for the Lat.Am airlines at the time of writing.

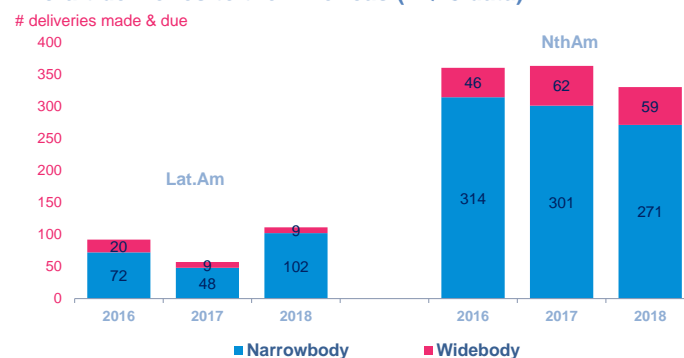
→ Industry-wide passenger yields remain broadly unchanged compared with a year ago. For the region's key markets, most yields have risen over the past year, notably SthAm-Europe (up ~15%yoy). The main exception is the NthAm-Asia market where yields are still down 3.6% vs a year ago.

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

| %change on a yr ago | 2016 | Oct-17 | Nov-17 | Dec-17 |
|---------------------|-------|--------|--------|--------|
| Nth America-Europe | -8.5 | 6.3 | 5.6 | 6.2 |
| Nth America-Asia | -7.3 | -3.4 | -2.9 | -3.6 |
| Nth-Sth America | -17.5 | 10.4 | 12.2 | 9.3 |
| Sth America-Europe | -17.2 | 16.3 | 14.0 | 14.8 |
| Sth America-Asia | -9.2 | -0.3 | -4.0 | 3.7 |
| Within Sth America | -13.4 | 1.2 | 2.7 | 3.4 |

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

Aircraft deliveries to the Americas (1Q18 data)



Source: Ascend