

State of the region: The Americas

March 2019

Economy

GDP growth, selected countries

| % change on a yr ago | 2017 | Q2 2018 | Q3 2018 | Q4 2018 |
|----------------------|------------|------------|------------|------------|
| United States | 2.2 | 2.9 | 3.0 | 3.1 |
| Brazil | 1.1 | 0.9 | 1.3 | 1.1 |
| Mexico | 2.3 | 1.5 | 2.5 | 1.7 |
| Canada | 3.0 | 1.7 | 1.9 | 1.6 |
| Argentina | 2.7 | -3.8 | -3.7 | -6.2 |
| Colombia | 1.4 | 2.6 | 2.9 | 2.9 |
| Chile | 1.5 | 5.0 | 2.8 | 3.3 |
| Peru | 2.5 | 5.5 | 2.4 | 4.8 |
| World* | 3.1 | 3.2 | 2.9 | 2.7 |

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

| end of period, # per US\$ | 2018 | Dec-18 | Jan-19 | Feb-19 |
|---------------------------|-------|--------|--------|--------|
| US\$ broad index | 128.5 | 128.5 | 126.7 | 126.8 |
| Brazilian real (BRL) | 3.88 | 3.88 | 3.64 | 3.75 |
| Mexican peso (MXN) | 19.69 | 19.69 | 19.03 | 19.27 |
| Argentine peso (ARS) | 37.66 | 37.66 | 37.02 | 39.02 |
| Colombian peso (COP) | 3248 | 3248 | 3106 | 3079 |
| Chilean peso (CLP) | 694 | 694 | 653 | 655 |

Source: Datastream, XE

World oil and jet fuel price

| US\$/barrel (period ave.) | 2018 | Dec-18 | Jan-19 | Feb-19 |
|---------------------------|------|--------|--------|--------|
| Crude oil (Brent) | 71.1 | 57.4 | 59.4 | 64.0 |
| Jet fuel | 84.7 | 71.2 | 74.9 | 80.4 |

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

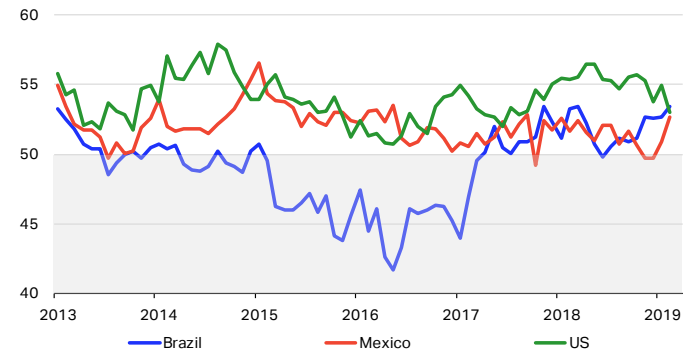
| % change on a yr ago | 2018 | Nov-18 | Dec-18 | Jan-19 |
|------------------------------------|------|--------|--------|--------|
| Region (registration basis) | | | | |
| N America | 5.0 | 5.1 | 3.8 | 5.2 |
| Latin America | 6.2 | 6.5 | 6.0 | 4.8 |
| World | 6.6 | 6.2 | 5.4 | 6.5 |
| Routes (segment basis) | | | | |
| US domestic | 5.1 | 4.9 | 4.0 | 5.8 |
| Brazil domestic | 4.8 | 5.3 | 3.4 | 0.3 |
| Nth America-Europe | 4.4 | 8.5 | 5.9 | 6.0 |
| Nth America-Asia | 3.9 | 3.4 | 1.4 | 6.3 |
| Nth-Sth America | 4.6 | 4.7 | 2.2 | -0.4 |
| Sth America-Europe | 9.3 | 7.2 | 11.0 | 6.9 |
| Within Sth America | 0.6 | -0.3 | -1.6 | 0.8 |

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

- Industry-wide revenue passenger kilometers (RPKs) started the year on a positive note, increasing by 6.5% year-on-year, the fastest pace since mid-2018. That said, it is too soon to think that this month's pick-up represents a shift in the growth moderation seen over the second half of last year.
- At the regional level, RPK growth recovered for carriers based in NthAm after a short-lived slowdown in December, although it remains more than 1pp below the industry-wide outcome. By contrast, growth eased

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

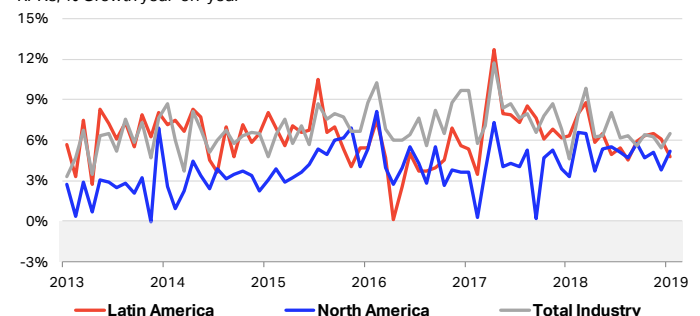
- US GDP grew at a healthy 3.1% rate in Q4, supported by low unemployment, solid investment, and elevated business confidence. By contrast, the economy slowed in both Brazil and Mexico, with the latter driven by a contraction in the industrial sector.
- On a trade-weighted basis, the US\$ rose by 0.1% this month, following a sharp decline in Jan. Of the regional currencies, the ARS was the main mover, falling by 5.4% vs the US\$, followed by the BRL & MXN which ended the month down 2.9% & 1.3%, respectively.
- Brent crude and jet fuel prices trended upwards for a second consecutive month amidst OPEC's supply cuts and sanctions imposed on Iran and Venezuela.

to a 5-month low for Lat.Am airlines, in part reflecting developments in the Brazil domestic market.

- Pax volumes picked up in the US domestic market, posting a healthy 5.8%yoy growth this month. By contrast, Brazilian carriers recorded the slowest pace of annual growth in about two years, up just 0.3%yoy.
- Of the region's key international markets, the smaller SthAm-Europe was the strongest performer in Jan, with volumes up 6.9% vs a year ago, followed by the Asia & Europe markets (6.3% & 6.0%, respectively).
- The smaller NthAm-SthAm was the only market that saw volumes falling vs a year ago, posting a negative growth rate for the first time since Sep 2017.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

| % change on a yr ago | 2018 | Nov-18 | Dec-18 | Jan-19 |
|------------------------------------|------|--------|--------|--------|
| Region (registration basis) | | | | |
| Nth America | 6.4 | 0.7 | 1.2 | 3.3 |
| Latin America | 5.9 | 3.1 | 1.5 | 0.0 |
| World | 3.5 | -0.5 | -0.5 | -1.8 |
| Routes (segment basis) | | | | |
| Nth America-Asia | 3.7 | -1.2 | -1.1 | -3.7 |
| Nth America-Europe | 3.2 | 1.6 | 5.3 | 1.2 |
| Nth-Sth America | 8.7 | 1.6 | 0.2 | -3.7 |
| Sth America-Europe | 7.7 | -0.9 | 1.3 | -2.3 |
| Within Sth America | 17.2 | 9.9 | 3.7 | -4.0 |

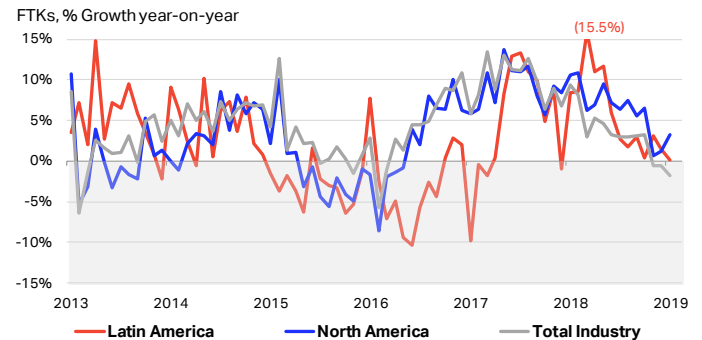
Source: IATA Statistics Note: historical data may be subject to revision

- Industry-wide FTK growth started 2019 where it ended last year, on a soft note. Air cargo volumes in January were 1.8% lower than their level of a year ago, posting the slowest pace in about three years.
- Airlines based in North America were the strongest performers in January, despite posting modest growth in freight volumes of 3.3% year-on-year. For Lat.Am carriers, FTK growth fell further down and became flat

in January, partly reflecting the political and economic uncertainty in the region.

- FTK growth fell into negative territory for the majority of the key international markets in the region this month, with the exception of NthAm-Europe, which recorded a positive growth of 1.2% year-on-year. That said, this was still the second-slowest pace on the route in the past 12 months.

Growth in air freight volumes



Source: IATA Statistics

Industry

Capacity growth and load factors

| ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK | | 2018 | Nov-18 | Dec-18 | Jan-19 |
|--|------|------|--------|--------|--------|
| Passenger | | | | | |
| Nth America | ASK | 4.7 | 5.0 | 4.1 | 4.7 |
| | PLF | 83.8 | 83.6 | 82.5 | 79.5 |
| Latin America | ASK | 6.6 | 6.2 | 5.4 | 5.4 |
| | PLF | 81.6 | 82.1 | 81.9 | 82.5 |
| World | ASK | 6.1 | 6.9 | 6.3 | 6.4 |
| | PLF | 81.9 | 80.0 | 80.3 | 79.6 |
| Freight | | | | | |
| Nth America | AFTK | 6.7 | 2.9 | 3.3 | 5.0 |
| | FLF | 41.0 | 43.6 | 41.2 | 40.0 |
| Latin America | AFTK | 3.5 | 2.1 | 6.9 | -0.7 |
| | FLF | 33.9 | 37.9 | 29.3 | 29.9 |
| World | AFTK | 5.4 | 3.8 | 3.6 | 4.0 |
| | FLF | 49.1 | 51.5 | 48.9 | 45.1 |

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

- The industry-wide passenger load factor (PLF) eased slightly vs Dec, to 79.6%. For freight, the load factor (FLF) fell more sharply to 45.1%, from 48.9% in Dec.
- While the PLF for NthAm carriers was broadly in line with the industry average, Lat.Am airlines outperformed the industry outcome in early-2019, by around 3pp. The FLF softened for NthAm carriers to an even 40.0% this month and remained broadly unchanged for Lat.Am at around 30%.
- The latest airline financial data from the final quarter of

Airline operating (EBIT) margins*

| % revenues | 2016 | 2017 | 2017Q4 | 2018Q4 |
|---------------|------|------|--------|--------|
| Nth America | 13.7 | 11.1 | 9.7 | 9.2 |
| Latin America | 5.6 | 6.9 | 5.0 | 2.6 |
| Industry | 8.5 | 7.5 | 8.4 | 6.0 |

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

2018 indicate that the intense downward pressure on industry-wide EBIT margin has moderated recently. The signs of improvement have also been observed at the regional level with both Lat.Am and NthAm recording a lower profit squeeze compared to the previous quarter.

- Within SthAm was clearly the main underperformer in pax yields development in Jan, with yields down by 30% vs the same period a year ago. The decline can be partly explained by the conversion of deflating Lat.Am currencies (e.g. the VEF) in 2018 to the US\$. All told, none of the region's main international markets saw an increase in Jan yields compared to a year ago.

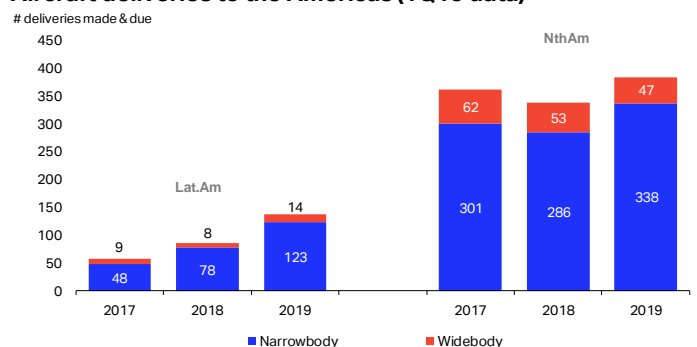
Passenger yields (US\$, excl. surcharges & ancillaries)

| % change on a yr ago | 2018 | Nov-18 | Dec-18 | Jan-19 |
|----------------------|-------|--------|--------|--------|
| Nth America-Europe | 4.5 | -0.1 | -1.2 | -4.0 |
| Nth America-Asia | -0.3 | 1.7 | 3.6 | -1.0 |
| Nth-Sth America | -38.8 | -8.6 | -6.7 | -15.1 |
| Sth America-Europe | -1.2 | -11.1 | -12.1 | -11.7 |
| Sth America-Asia | -0.3 | -3.2 | -7.2 | -6.2 |
| Within Sth America | -26.8 | -24.5 | -28.2 | -30.5 |

Source: IATA Travel Intelligence Note: historical data may be subject to revision

- The latest data indicate a rise in jet aircraft deliveries for both the Lat.Am and NthAm carriers in 2019 vs 2018.

Aircraft deliveries to the Americas (1Q19 data)



Source: Ascend