

State of the region: Europe

Economy

GDP growth, selected countries

% change on a yr ago	2017	Q2 2018	Q3 2018	Q4 2018
Germany	2.5	2.0	1.2	0.6
Russia	1.6	2.2	2.2	2.7
France	2.3	1.7	1.4	1.0
UK	1.8	1.4	1.6	1.4
Italy	1.7	1.1	0.6	0.0
Spain	3.0	2.6	2.5	2.3
Turkey	7.4	5.3	1.8	-3.0
Israel	3.5	3.5	3.0	2.7
Euro zone	2.5	2.2	1.6	1.2
World*	3.2	3.4	3.1	2.9

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2018	Jan-19	Feb-19	Mar-19
US\$ broad index	128.5	126.7	126.8	127.2
European euro (EUR)	0.87	0.87	0.88	0.89
Russian ruble (RUB)	69.37	65.48	65.90	65.70
British pound (GBP)	0.79	0.76	0.75	0.77
Turkish lira (TRY)	5.29	5.17	5.33	5.65
Israeli shekel (ILS)	3.74	3.63	3.62	3.63

Source: Datastream

World oil and jet fuel price

US\$/barrel (period ave.)	2018	Jan-19	Feb-19	Mar-19
Crude oil (Brent)	71.7	59.9	64.4	66.9
Jet fuel	86.4	75.7	80.1	81.1

Source: Platts, Datastream (monthly average data)

Market

Revenue passenger kilometers (RPKs)

% change on a yr ago	2018	Dec-18	Jan-19	Feb-19
Region (registration basis)				
Europe	6.7	8.7	7.3	7.3
World	6.6	5.5	6.5	5.3
Routes (segment basis)				
Russia domestic	10.1	12.4	10.5	10.1
Within Europe	8.3	9.9	8.3	9.7
Europe - North America	4.4	5.9	6.0	9.4
Europe - Asia	7.0	6.8	8.8	5.5
Europe - Middle East	4.9	2.9	2.8	2.4
Europe - Africa	6.7	6.3	5.3	6.1
Europe - South America	9.3	11.0	6.9	5.2

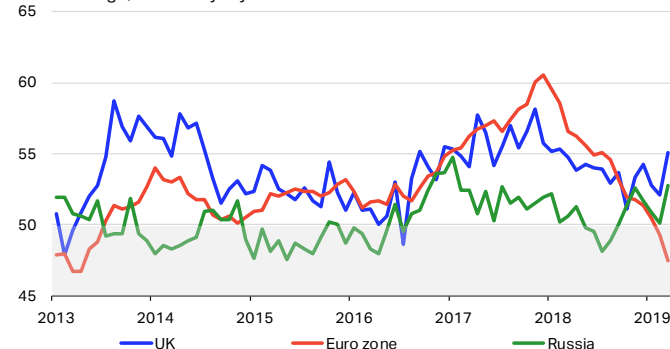
Source: IATA Statistics Note: historical data may be subject to revision

- Following a short-lived uptick to 6.5% last month, annual growth in industry-wide revenue passenger kilometres (RPKs) eased to 5.3% in February, marking the slowest year-on-year growth rate in passenger volumes in more than a year.
- Notwithstanding the Brexit uncertainty and faltering business confidence in the region's key economies, pax volumes rose by 7.3%yoy for European airlines, the fastest pace of all regions this month.

April 2019

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



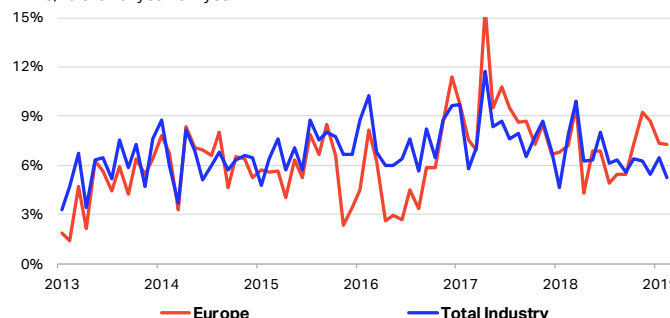
Source: Markit

- Business confidence lifted both in Russia and the UK, supported by solid growth in new orders and output. By contrast, sentiment fell further in the Eurozone, amidst worsening operating conditions in the intermediate & investment goods sectors.
- On a trade-weighted basis, the US\$ rose by 0.3% in March, marking the 2nd consecutive month of modest growth. Of the regional currencies, the TRY ended the month down 5.9% against the US\$, followed by the GBP which lost 2.1%.
- OPEC supply cuts along with US sanctions imposed on Venezuela and Iran pushed oil and jet fuel prices higher for a third consecutive month.

- The domestic passenger market in Russia continued to perform strongly, recording double-digit growth for the seventh consecutive month.
- Of the region's key international markets, the largest Within Europe was the main mover in Feb, posting a robust 9.7% rise in passenger volumes vs a year ago, followed closely by Europe-NthAm (9.4%yoy).
- For the smaller markets, RPK growth recovered after a modest slowdown in Jan on the Europe-Africa routes while it continued to ease further in Europe-SthAm.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

% change on a yr ago	2018	Dec-18	Jan-19	Feb-19
Region (registration basis)				
Europe	3.3	2.0	-2.7	-1.0
World	3.5	-0.5	-1.6	-4.7
Routes (segment basis)				
Europe - Asia	1.1	-1.4	-4.5	-7.1
Europe - North America	3.2	5.3	1.2	-0.1
Europe - Middle East	3.6	-0.6	1.7	4.4
Europe - Africa	-0.8	-2.2	-1.6	0.1
Europe - South America	7.7	1.3	-2.3	-0.2
Within Europe	9.0	5.8	7.5	10.9

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

- Industry-wide freight tonne kilometres (FTKs) for February were 4.7% below their level of a year ago, reflecting the weakness observed in world trade, and an easing in some global economic indicators and key air freight demand drivers.
- Growth in FTKs remained negative for carriers based in Europe amidst deteriorating manufacturing conditions in the region. That said, the magnitude of decline was notably smaller than that observed in either Asia Pacific (-11.6%) or Africa (-8.5%).

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago,		2018	Dec-18	Jan-19	Feb-19
LF: % of ASK/AFTK					
Passenger					
Europe	ASK	5.9	9.6	8.3	7.7
	PLF	84.6	81.1	79.7	81.5
World	ASK	6.1	6.4	6.4	5.4
	PLF	81.9	80.3	79.6	80.6
Freight					
Europe	AFTK	4.5	4.8	3.5	4.0
	FLF	54.3	56.2	50.0	53.0
World	AFTK	5.2	3.8	4.7	2.7
	FLF	49.1	48.8	44.9	44.7

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) ticked-up to 80.6% in Feb, up from 79.6% in the previous month. In contrast, the freight load factor (FLF) eased to 44.7%, the lowest level in about 3.5 years.
- The latest load factor data show that European airlines outperformed the industry average on both the pax and freight side, albeit by a modest ~1ppt in the PLF case.
- The latest airline financial data from the final quarter of 2018 indicate a decline in industry & regional performance vs a year ago. The industry-wide EBIT margin slipped to 4.7% from 7.2% while the regional outcome is close to 0%, down from 4.6% in Q4 2017.

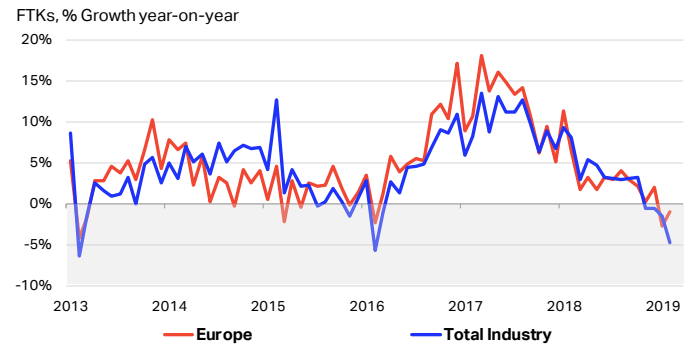
Airline operating (EBIT) margins*

% revenues	2016	2017	2017Q4	2018Q4
Europe	6.1	6.9	4.6	0.05
Industry	8.5	7.7	7.2	4.7

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

- Freight volumes for the largest European market (Asia) contracted in annual terms for a fourth consecutive month (-7.1%). Cargo volumes were also down compared to a year ago for the second largest North America market, although by a modest 0.1%.
- FTK growth improved on the remaining key markets compared to Jan. Overall, the smaller Within Europe market remained the strongest in Feb, with double-digit growth of 10.9%yoy.

Growth in air freight volumes



Source: IATA Statistics

- Annual growth in passenger yields remains weak; five out of the seven key markets recorded a double-digit decline in yields this month vs a year ago, including domestic Russia and the largest Within Europe market. Note that the data are not adjusted for exchange rate fluctuations.

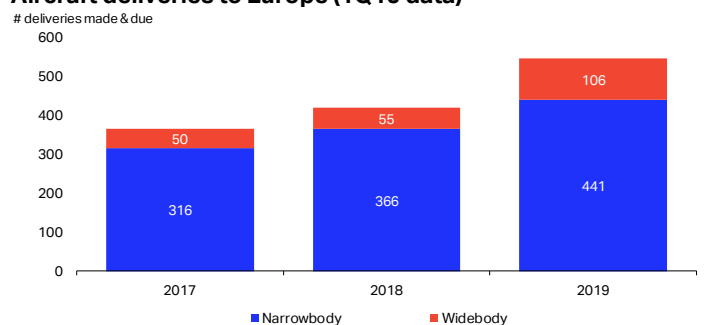
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2018	Dec-18	Jan-19	Feb-19
Russia domestic	-6.2	-15.9	-15.2	-13.4
Within Europe	4.3	-6.3	-9.9	-13.5
Europe - North America	5.2	-2.5	-4.2	-5.1
Europe - Asia	1.0	-3.7	-6.1	-7.8
Europe - Middle East	2.7	-3.4	-4.0	-10.2
Europe - Africa	3.8	-4.7	-10.8	-13.0
Europe - South America	-1.4	-9.3	-15.2	-21.0

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

- The latest data indicate a 30% 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