



STATE OF THE REGION: EUROPE

APRIL 2016

Economy

GDP growth, selected countries

%change on a yr ago	2015	2015Q2	2015Q3	2015Q4
Germany	1.4	1.6	1.7	1.3
Russia	-3.7	-4.5	-3.7	-3.8
France	1.2	1.1	1.2	1.4
UK	2.3	2.4	2.2	2.1
Italy	0.6	0.6	0.8	1.0
Turkey	4.0	3.7	3.9	5.7
Israel	2.5	2.2	2.6	2.2
Euro zone	1.5	1.6	1.6	1.6
World*	2.4	2.5	2.5	2.3

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2015	Jan-16	Feb-16	Mar-16
US\$ broad index	122.4	125.2	124.0	121.5
European euro (EUR)	0.92	0.92	0.92	0.88
Russian ruble (RUB)	73.2	75.7	75.1	67.2
British pound (GBP)	0.68	0.71	0.72	0.70
Turkish lira (TRY)	2.92	2.96	2.96	2.82
Israeli shekel (ILS)	3.90	3.96	3.91	3.76

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel	2015	Jan-16	Feb-16	Mar-16
Crude oil (Brent)	52.4	30.7	32.2	38.2
Jet fuel	64.0	39.1	40.9	44.9

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

%change on a yr ago	2015	Dec-15	Jan-16	Feb-16
Region (registration basis)				
Europe	5.1	2.6	3.9	7.5
World	6.5	5.7	7.1	8.6
Routes (segment basis)				
Russia domestic	6.2	-3.4	-0.1	3.4
Within Europe	8.6	8.9	11.0	14.8
Europe - North America	3.8	3.4	4.3	5.3
Europe - Asia	3.4	0.6	2.8	4.0
Europe - Middle East	12.3	8.8	9.1	10.6
Europe - Africa	-0.1	2.5	2.6	6.8
Europe - South America	2.0	-0.1	0.1	6.2

Source: IATA Statistics

- RPK growth for European airlines stepped up in Feb, to a strong 7.5%yoy. Even so, the regional growth rate remains below the industry figure of 8.6%yoy. Note that the leap year will have positively impacted the Feb data.
- At the segment level, growth rates have returned to positive territory (in yoy terms) across all key routes & markets, including domestic Russia.
- The standout routes continue to be Within Europe & Middle East-Europe where RPKs have risen at a brisk

Business confidence - manufacturing PMIs



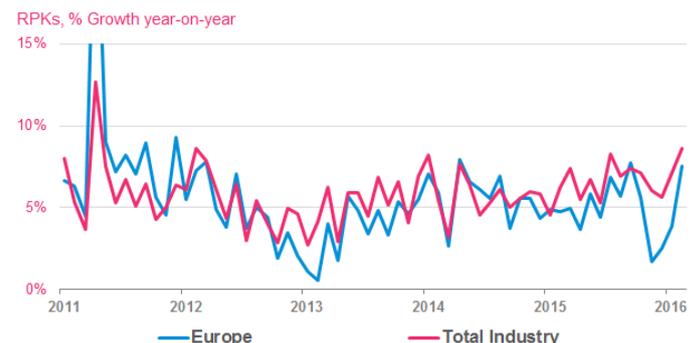
Source: Markit

- The ECB's latest stimulus package had little apparent impact on euro zone business confidence. In the UK, the Brexit debate remains a central issue for businesses.
- The US\$ fell by just over 2% in March, dipping below the level at which it ended 2015. All key regional currencies rose by 3-5% against the US\$ in the month, with the exception of the RUB which gained more than 10%.
- World oil & jet fuel prices surged in March, the former rising almost 20% (US\$6) to US\$38/bbl & the latter up 10% (US\$4) to US\$45/bbl. The upwards move was buoyed by speculation that agreement on production cuts may be reached amongst key oil producers.

double-digit pace of 14.8% & 10.6%yoy, respectively

- Russia domestic RPKs continued the trend improvement of recent months & are now a moderate 3.4% higher than a year ago. Across the other main inter-regional routes, traffic volumes are all up a solid 4-7%yoy.
- The European economy remains fragile & patchy, but recent passenger volumes point to underlying demand conditions remaining supportive for the industry ahead of the peak summer travel season.

Growth in air passenger volumes



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2015	Dec-15	Jan-16	Feb-16
Region (registration basis)				
Europe	-0.2	-0.3	4.3	-2.4
World	2.2	1.0	2.3	-5.6
Routes (segment basis)				
Europe - Asia	-5.4	-1.7	1.5	-8.5
Europe - North America	-2.1	-1.8	0.1	-2.7
Europe - Middle East	11.2	14.4	6.4	4.7
Europe - Africa	0.2	-4.4	-6.9	-1.0
Europe - South America	-2.9	-13.2	-2.3	1.4
Within Europe	-5.4	-14.5	12.0	14.6

Source: IATA Statistics

- European carrier FTKs remain weak, returning to negative (yoy) territory in Feb, down 2.4% compared with the same time a year ago. Global FTKs also unwound their recent improvement, down 5.6%yoy.
- We caution that freight volumes are significantly impacted at this time of the year by the Lunar New Year. This is readily apparent in the 10pp turnaround in growth rates for Europe-Asia in Feb.
- On this occasion, the global figure is also adversely

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2015	Dec-15	Jan-16	Feb-16
Passenger					
Europe	ASK	3.9	2.8	1.9	7.3
	PLF	81.3	77.7	78.0	77.7
World	ASK	5.6	5.3	5.6	9.6
	PLF	80.2	78.9	78.9	77.8
Freight					
Europe	AFTK	4.4	6.5	5.3	7.3
	FLF	45.0	45.4	42.8	44.6
World	AFTK	6.2	6.8	6.2	7.5
	FLF	44.2	43.8	41.5	41.0

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

- Pax capacity growth amongst European carriers stepped up in Feb, to 7.3%yoy, remaining below, but closing the gap to, the global rate of 9.6%. The regional PLF eased slightly, but is on par with the industry level of 77.8%.
- For freight, yoy AFTK growth at the regional and global level is similar (7.3% vs 7.5%). The Feb FLF for the European carriers (44.6%) exceeds the industry average by a sizeable 3.6pp.
- The operating margin for the region's airlines was a subdued 2.6% in Q4, up from the level of a year ago, but well down on the overall industry figure of 9.7%.

Airline EBIT margins*

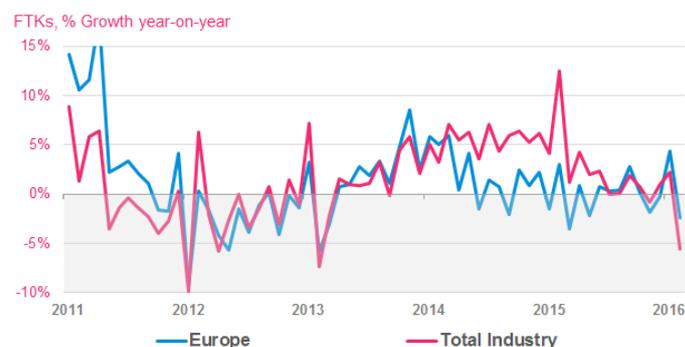
%revenues	2013	2014	2014Q4	2015Q4
Europe	3.5	3.4	0.9	2.6
Industry	4.1	5.2	6.3	9.7

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

affected by the one-off boost to air freight volumes a year ago following the disruption at sea ports on the US west coast.

- Such disruptions make it difficult to draw many firm conclusions about the underlying state of the regional freight market. That said, it remains the case that the fundamental demand drivers for the global air freight industry remain subdued, pointing to challenging conditions continuing for some time.

Growth in air freight volumes



Source: IATA Statistics

- Pax yields on most key routes show a small improvement on last month, but all remain lower than a year ago, most in double-digit decline.
- Developments in oil prices and the US\$ have been key contributing factors to the weakness in yields.

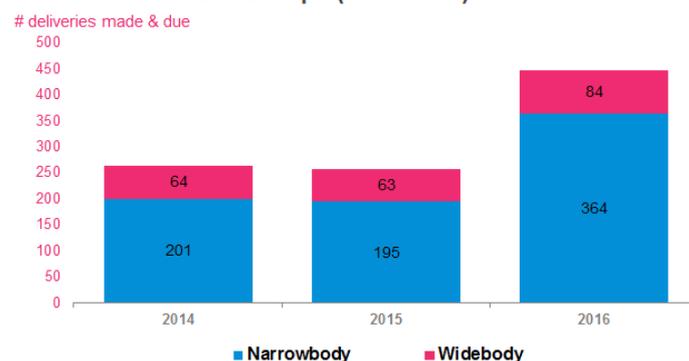
Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2015	Dec-15	Jan-16	Feb-16
Russia domestic	-39.1	-17.9	-15.0	-2.7
Within Europe	-16.3	-15.2	-15.5	-14.7
Europe - North America	-8.5	-9.8	-4.7	-4.1
Europe - Asia	-0.2	-15.0	-15.9	-12.5
Europe - Middle East	-11.8	-11.1	-10.1	-10.5
Europe - Africa	-17.2	-11.7	-11.6	-11.1
Europe - South America	-19.5	-24.4	-26.3	-22.3

Source: IATA PaxIS

- Aircraft deliveries data (actual & expected) show a strong increase in 2016, driven by a sharp pick-up in the number of narrowbody aircraft deliveries.

Aircraft deliveries to Europe (latest data)



Source: Ascend