



STATE OF THE REGION: EUROPE

APRIL 2017

Economy

GDP growth, selected countries

%change on a yr ago	2015	2016Q2	2016Q3	2016Q4
Germany	1.5	1.8	1.7	1.8
Russia	-2.8	-0.5	-0.4	0.3
France	1.2	1.1	0.9	1.1
UK	2.2	1.7	2.0	1.9
Italy	0.7	0.8	1.0	1.0
Spain	3.2	3.4	3.2	3.0
Turkey	6.1	5.3	-1.3	3.5
Israel	2.6	3.7	4.0	4.8
Euro zone	1.9	1.6	1.8	1.8
World*	2.3	2.1	2.2	2.4

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2016	Jan-17	Feb-17	Mar-17
US\$ broad index	127.7	127.6	125.8	125.3
European euro (EUR)	0.95	0.93	0.94	0.93
Russian ruble (RUB)	60.4	60.1	58.4	56.4
British pound (GBP)	0.81	0.79	0.80	0.80
Turkish lira (TRY)	3.52	3.78	3.63	3.65
Israeli shekel (ILS)	3.84	3.77	3.64	3.63

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel	2016	Jan-17	Feb-17	Mar-17
Crude oil (Brent)	52.4	54.6	54.9	51.6
Jet fuel	64.0	63.6	65.0	60.7

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

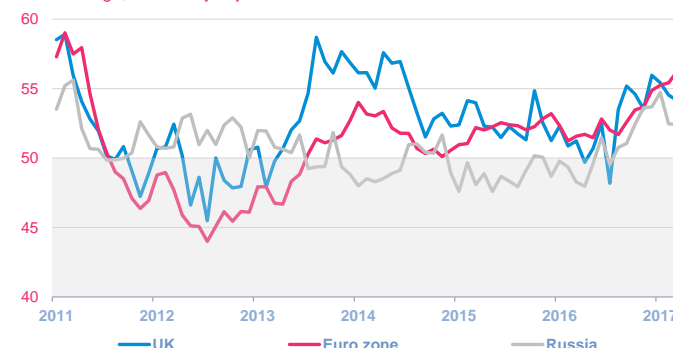
%change on a yr ago	2016	Dec-16	Jan-17	Feb-17
Region (registration basis)				
Europe	4.6	10.7	8.3	6.3
World	6.3	8.6	8.9	4.8
Routes (segment basis)				
Russia domestic	2.5	13.4	15.0	13.3
Within Europe	7.8	13.9	11.5	8.4
Europe - North America	2.6	3.2	1.2	0.0
Europe - Asia	1.8	9.3	6.9	7.8
Europe - Middle East	9.9	12.7	10.3	7.7
Europe - Africa	1.8	6.8	3.3	4.7
Europe - South America	3.5	4.6	3.5	1.2

Source: IATA Statistics

- ➔ Growth in global RPKs fell sharply in Feb, to 4.8%yoy, from last month's 5yr high of 8.9%. Recall that at this time of year the data are more volatile than usual due to the impact of Chinese New Year &, on this occasion, the 2016 leap year.
- ➔ A similar pattern was observed at the regional level; European RPK growth eased, albeit more moderately than the industry total, by 2pp, to a still strong 6.3%yoy.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



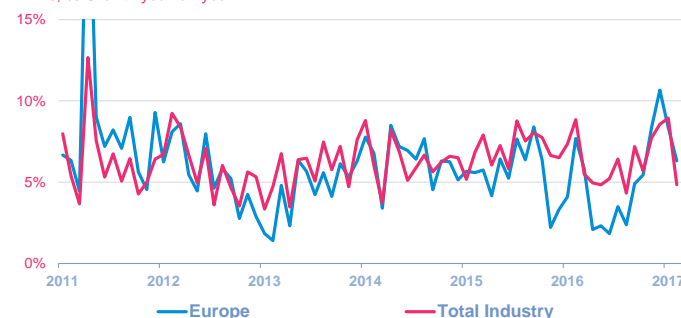
Source: Markit

- ➔ The Eurozone business confidence indicator continued its strong performance this month. Despite modest recent easing in the UK & Russian indices, they both remain elevated. (Note that the UK survey was taken ahead of the election announcement.)
- ➔ The US\$ eased slightly again in Mar, down 0.4% on a trade-weighted basis. Amongst the main regional currencies, the RUB was the main mover, up a hefty 3.4% against the US\$ in the month, & up 6.5% over the year to date. The TRY went against the trend of modest increases vs the US\$, falling 0.4%.
- ➔ Both Brent crude oil & jet fuel prices corrected sharply downwards in Mar, falling 6-6.5%, to US\$51.60/bbl & US\$60.70/bbl, respectively.

- ➔ Of the key domestic markets that we track, Russia has joined India & China in the top-3 fastest growing domestic markets in the past six months. With RPK growth of 13.3%yoy, the Russia domestic market is currently outpacing China (9.1%yoy).
- ➔ Within Europe is the strongest performer amongst the main international markets, with 8.4% RPK growth over the past year. Europe-Asia & Europe-Middle East follow closely, up 7.8% & 7.7% respectively.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Dec-16	Jan-17	Feb-17
Region (registration basis)				
Europe	7.6	16.5	8.7	10.5
World	3.8	10.0	6.1	8.4
Routes (segment basis)				
Europe - Asia	3.9	15.4	9.2	10.6
Europe - North America	2.6	9.2	8.6	7.6
Europe - Middle East	7.1	19.5	17.9	11.4
Europe - Africa	-5.5	-1.2	-0.4	-0.9
Europe - South America	1.2	6.5	1.6	1.5
Within Europe	23.8	47.2	37.0	29.8

Source: IATA Statistics

- Global FTKs grew by a brisk 8.4%yoy in Feb, up from 6% last month & well above the 5yr average pace of ~3%, even without adjusting for the leap year or Chinese New Year impacts.
- For European carriers, FTKs also lifted in Feb, with growth returning to a double-digit pace of 10.5%yoy & remaining solidly above the overall industry result. The weaker euro has helped to support this performance & is reflected in the very healthy order books for European exporters, particularly Germany.

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2016	Dec-16	Jan-17	Feb-17
Passenger					
Europe	ASK	4.4	7.2	6.9	3.6
	PLF	82.4	80.6	79.4	80.2
World	ASK	6.3	6.6	7.4	2.7
	PLF	80.5	80.6	80.2	79.5
Freight					
Europe	AFTK	6.7	5.9	3.2	1.4
	FLF	44.5	49.7	44.0	47.7
World	AFTK	5.3	3.5	2.9	-0.4
	FLF	43.0	46.1	42.0	43.5

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

- European carriers have increased both pax & freight capacity at a faster rate than the industry in aggregate over the past year. European carrier ASKs are up 3.6%yoy vs the 2.7% industry-wide rate while AFTKs are up 1.4%yoy vs a fall of 0.4%.
- The European carriers also have higher load factor outcomes than the industry this month. The European PLF is back above 80% vs the 79.5% industry figure, while a 47.7% FLF is more than 4pp higher than the 43.5% industry rate.

- The updated Q4 financial data show an EBIT margin of

Airline operating (EBIT) margins*

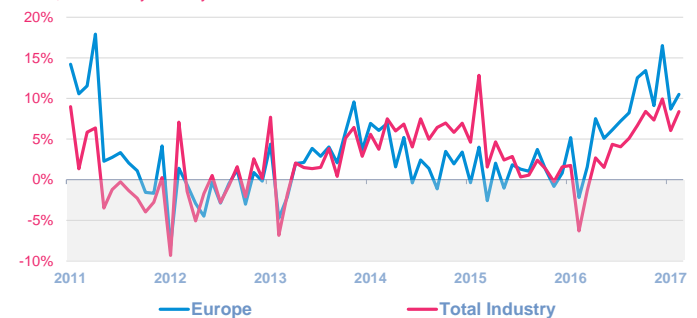
%revenues	2014	2015	2015Q4	2016Q4
Europe	2.0	5.3	3.1	1.3
Industry	4.7	8.3	9.3	8.3

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

- Two of the three largest freight markets for Europe (Asia & the Middle East) are also growing at a double-digit pace, with the third (North America) still growing at a robust 7.6%yoy, despite the pace of growth easing over recent months.
- The fastest growing market is (the smaller) Within Europe, where FTKs are up ~30%yoy. In contrast, growth on routes between Europe & Africa remains in (slightly) negative territory compared with a year ago, with freight volumes down 0.9%yoy.

Growth in air freight volumes

FTKs, % Growth year-on-year



Source: IATA Statistics

just 1.3% for the European carriers, down from 3.1% for the same sample of airlines a year previous. The corresponding industry figure has also eased – slipping 1pp to 8.3%.

- Despite being 8-9%yoy lower, global average pax yields continue to show tentative indications of having possibly bottomed. At the regional level, with the exception of Russia domestic, yields are still well down on a year ago.

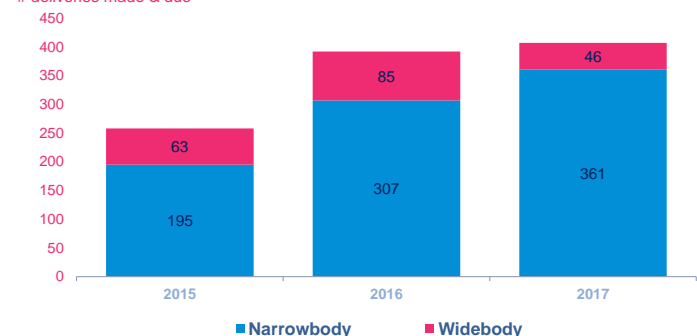
Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2016	Dec-16	Jan-17	Feb-17
Russia domestic	6.1	-5.2	10.4	18.5
Within Europe	-7.6	-10.4	-10.4	-9.6
Europe - North America	-8.3	-10.5	-9.7	-12.3
Europe - Asia	-10.3	-8.1	-8.5	-3.7
Europe - Middle East	-11.5	-11.2	-14.4	-10.6
Europe - Africa	-8.3	-12.5	-13.3	-14.8
Europe - South America	-17.5	-6.9	-6.6	-6.0

Source: IATA PaxIS

Aircraft deliveries to Europe (latest data)

deliveries made & due



Source: Ascend