

STATE OF THE REGION: EUROPE

APRIL 2018

Economy

GDP growth, selected countries

%change on a yr ago	2016	2017Q2	2017Q3	2017Q4
Germany	1.9	2.3	2.7	2.9
Russia	-0.2	2.5	2.2	0.9
France	1.1	1.9	2.3	2.5
UK	1.9	1.9	1.8	1.4
Italy	1.0	1.6	1.7	1.6
Spain	3.3	3.1	3.1	3.1
Turkey	3.2	5.4	11.3	7.3
Israel	3.9	3.1	3.2	3.0
Euro zone	1.8	2.4	2.7	2.8
World*	2.5	2.9	3.2	3.2

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2017	Jan-18	Feb-18	Mar-18
US\$ broad index	120.0	117.2	117.6	118.1
European euro (EUR)	0.83	0.80	0.82	0.81
Russian ruble (RUB)	57.7	56.3	56.2	57.4
British pound (GBP)	0.74	0.71	0.73	0.71
Turkish lira (TRY)	3.79	3.75	3.80	3.96
Israeli shekel (ILS)	3.48	3.42	3.48	3.51

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel (period ave.)	2017	Jan-18	Feb-18	Mar-18
Crude oil (Brent)	54.2	69.1	65.3	66.0
Jet fuel	65.6	82.0	77.7	78.0

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

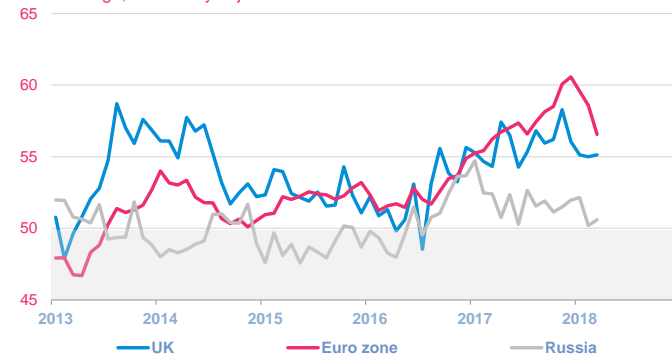
%change on a yr ago	2017	Dec-17	Jan-18	Feb-18
Region (registration basis)				
Europe	8.2	6.2	6.4	7.0
World	7.6	6.5	4.5	7.6
Routes (segment basis)				
Russia domestic	10.1	9.0	8.1	6.6
Within Europe	10.8	8.4	10.0	9.0
Europe - North America	4.1	0.4	0.1	1.4
Europe - Asia	9.5	7.0	4.8	7.1
Europe - Middle East	6.6	3.4	2.3	5.0
Europe - Africa	6.5	6.9	7.1	5.2
Europe - South America	6.1	8.7	9.3	9.8

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

- As expected, industry-wide RPKs rebounded strongly this month, following the Lunar New Year (LNY) disruption last month. Global RPKs are up 7.6%yoy in Feb, a full 3pp higher than the Jan outcome.
- The European carriers – which, overall, didn't experience a dip in growth last month – delivered a further moderate rise in the RPK growth rate in Feb, up 0.6pp to an even 7.0%yoy.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



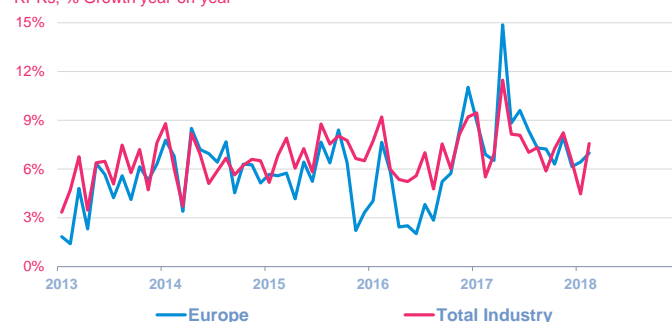
Source: Markit

- Business confidence in the Eurozone fell solidly again this month, to an 8mth low. While the slowdown was broad-based, the level of confidence nonetheless remains high by historical standards. Sentiment ticked up a little in Russia, while the latest reading for the UK was essentially unchanged again this month.
- On a trade-weighted basis, the US\$ rose again in Mar, up 0.4%. Of the main regional currencies, the TRY & RUB both fell substantially vs the US\$, by 4.1% & 2.2% respectively, while the GBP gained a solid 1.8%mom.
- Brent crude oil & jet fuel prices moved modestly higher in Mar, up around 1% & 0.5%mom, respectively. Prices stepped up in the latter part of the month & into April on OPEC production cuts & renewed geopolitical concerns.

- Annual growth in passenger volumes for the Russia domestic market eased again in Feb, but remain robust, at 6.6%yoy.
- Of the region's larger international markets, Within Europe continues to be the standout performer, with RPK growth of 9.0%, followed by Europe-Asia (where a noticeable LNY impact in both Jan & Feb is evident) at 7.1%. Overall, the smaller Europe-Sth America market has the strongest growth currently, at 9.8%yoy.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2017	Dec-17	Jan-18	Feb-18
Region (registration basis)				
Europe	11.9	5.7	10.5	5.7
World	9.0	6.2	8.5	6.8
Routes (segment basis)				
Europe - Asia	11.0	6.3	11.4	8.5
Europe - North America	9.9	2.8	6.2	6.8
Europe - Middle East	11.0	-0.1	2.4	3.9
Europe - Africa	2.4	6.6	4.2	0.9
Europe - South America	6.9	11.7	16.5	16.1
Within Europe	32.9	25.5	22.9	13.8

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

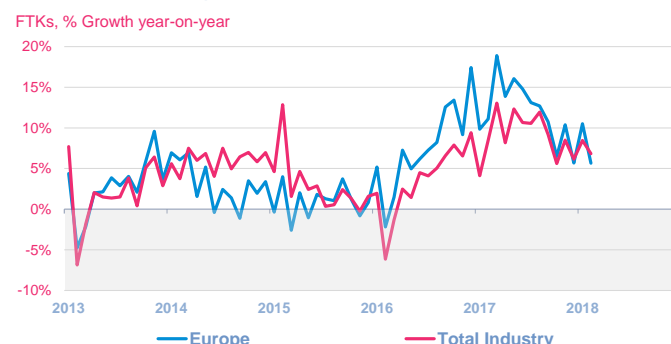
→ Following a bring-forward in activity in Jan ahead of LNY, industry-wide FTK growth eased somewhat in Feb, to 6.8%yoy, from 8.5%. Taking Jan & Feb together, freight volumes are up 7.7%yoy, the fastest start to a year since 2015.

→ The same pattern played out at the regional level; FTK growth for the European carriers returned to its Dec17 pace of 5.7%, a little below the current industry rate.

→ The two largest freight markets for the region (Asia & NthAm) continue to show a healthy pace of growth (8.5% & 6.8%yoy, respectively), underpinning the overall regional outcome. This is in contrast to softness in both the ME (3.9%) & Africa (just 0.9%) markets.

→ The two smaller markets of Eur-SthAm & Within Europe continue to register the strongest freight volume growth, at a double-digit pace of 16% & 14%yoy, respectively.

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		2017	Dec-17	Jan-18	Feb-18
Passenger					
Europe	ASK	6.2	4.4	5.1	4.9
	PLF	83.9	81.6	80.0	81.6
World	ASK	6.3	5.8	5.2	6.3
	PLF	81.5	80.9	79.6	80.4
Freight					
Europe	AFTK	5.9	4.2	5.7	3.8
	FLF	46.5	49.6	45.3	47.5
World	AFTK	3.0	4.1	4.4	5.6
	FLF	45.4	46.6	43.4	44.4

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

→ Over the past year, growth in industry-wide pax & freight capacity has lagged that of demand, with ASKs up 6.3% & AFTKs up 5.6%. The industry PLF moved back above 80% in Feb to 80.4% while the FLF also lifted, to 44.4%.

→ The load factor performance of the European carriers continues to outpace that of the industry overall, with a PLF of 81.6% & FLF of 47.5%. On both measures, the European result is second only to the performance of the Asia Pacific airlines this month.

→ The final data for Q4 point to an industry-wide financial performance that is broadly on par with that of a year ago, with an EBIT margin of 8.6% currently. For the region's carriers, Q4 2017 shows a clear improvement

Airline operating (EBIT) margins*

%revenues	2015	2016	2016Q4	2017Q4
Europe	5.4	6.1	1.2	4.6
Industry	8.5	8.8	8.8	8.7

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

vs a year ago (4.6% vs 1.2% in Q4 2016), but one which nonetheless remains well down on the overall industry outcome. As usual, we caution that these data are not adjusted for seasonal variations.

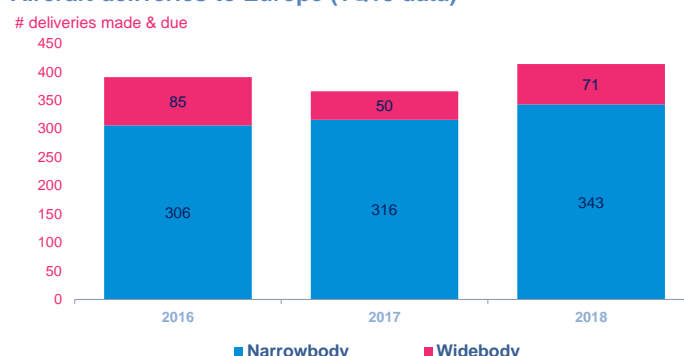
→ Passenger yields amongst the region's key markets are all showing solid – if not strong – increases compared with a year ago. Yields for the Asia & Middle East markets are up around 6%yoy, with the other main markets showing double-digit yoy gains. The strongest performer currently is the Within Europe market where yields are up a strong 19%yoy in Feb.

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

%change on a yr ago	2016	Dec-17	Jan-18	Feb-18
Russia domestic	5.2	18.4	11.1	10.0
Within Europe	-8.5	6.3	13.7	19.0
Europe - North America	-8.5	8.3	10.7	12.6
Europe - Asia	-10.8	7.0	9.5	6.0
Europe - Middle East	-12.2	4.3	7.7	5.7
Europe - Africa	-8.8	2.9	9.1	11.2
Europe - South America	-17.4	15.9	15.9	15.4

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

Aircraft deliveries to Europe (1Q18 data)



Source: Ascend