



# STATE OF THE REGION: EUROPE

AUGUST 2017

## Economy

### GDP growth, selected countries

%change on a yr ago	2016	2016Q4	2017Q1	2017Q2
Germany	1.9	1.9	1.9	2.1
Russia	-0.2	0.3	0.5	2.5
France	1.1	1.2	1.1	1.8
UK	1.8	1.9	2.0	1.7
Italy	1.0	1.1	1.2	1.5
Spain	3.2	3.0	3.0	--
Turkey	2.9	3.5	5.0	--
Israel	3.9	4.6	3.6	3.0
Euro zone	1.7	1.9	1.9	2.2
<b>World*</b>	<b>2.3</b>	<b>2.6</b>	<b>2.6</b>	<b>2.8</b>

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

end of period, # per US\$	2016	May-17	Jun-17	Jul-17
US\$ broad index	127.7	123.8	122.3	120.7
European euro (EUR)	0.95	0.89	0.88	0.85
Russian ruble (RUB)	60.4	56.8	59.1	60.1
British pound (GBP)	0.81	0.78	0.77	0.76
Turkish lira (TRY)	3.52	3.53	3.52	3.52
Israeli shekel (ILS)	3.84	3.54	3.49	3.56

Source: Datastream, XE

### World oil and jet fuel price

US\$/barrel	2016	May-17	Jun-17	Jul-17
Crude oil (Brent)	52.4	50.3	46.4	48.5
Jet fuel	64.0	59.3	54.4	59.5

Source: Platts, EIA Monthly average data

## Market

### Revenue passenger kilometers (RPKs)

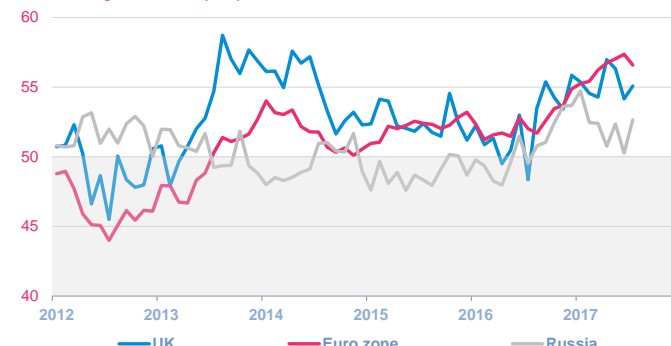
%change on a yr ago	2016	Apr-17	May-17	Jun-17
<b>Region (registration basis)</b>				
Europe	4.6	14.1	8.2	8.8
World	6.4	11.0	7.7	7.8
<b>Routes (segment basis)</b>				
Russia domestic	2.5	16.7	12.6	9.7
Within Europe	7.7	15.8	9.5	10.2
Europe - North America	2.5	12.3	4.7	5.3
Europe - Asia	1.8	14.5	15.3	10.6
Europe - Middle East	9.9	13.2	1.1	7.0
Europe - Africa	1.8	14.5	3.5	8.0
Europe - South America	3.5	11.7	7.5	8.4

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

- At the industry-wide level, RPKs grew by a brisk 7.8%yoy in June & by a similar rate (7.9%) in 1H17 as a whole – the fastest first half in 12 years (since 2005).
- Yoy growth in passenger volumes for the region's carriers lifted modestly in June, to 8.8% – an even percentage point above the overall industry pace.
- Russia domestic RPK growth slipped below 10% in June (albeit only just) for the first time in 8mths, at 9.7%yoy.

### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



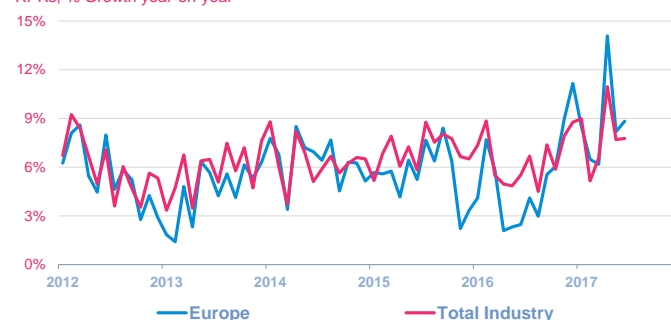
Source: Markit

- Business confidence remains elevated in both the Eurozone & UK, with a solid uptick observed in Russia this month. All were supported by generally solid Q2 GDP data, & Russia benefitted from higher oil prices.
- The US\$ repeated last month's performance, ending July 1.3% lower on a trade-weighted basis. Of the main regional currencies, the EUR gained a further 3.2% & the GBP 1.3% vs the US\$. Conversely, the RUB & ILS both fell 1.5-2% in the month.
- Brent crude oil & jet fuel prices both rose in July, the former up 4.5% to US\$48.50/bbl, & the latter up a hefty 9.4%, back to almost US\$60/bbl. The market continues to be strongly influenced by supply-side considerations.

- Amongst the main international markets for the region's carriers, Europe-Asia & Within Europe are the two standouts, with double-digit RPK growth of 10.6% & 10.2%yoy respectively. Notably, Europe-Middle East RPK growth rebounded strongly in June, to 7.0%yoy.
- Traffic growth on the sizeable Europe-North America market has more than halved in the last two months. At (a still healthy), 5.3%yoy currently, it is the weakest performer of all the key markets.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

## Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Apr-17	May-17	Jun-17
<b>Region (registration basis)</b>				
Europe	7.9	13.2	15.1	14.3
World	3.9	8.6	12.7	11.0
<b>Routes (segment basis)</b>				
Europe - Asia	3.9	13.9	15.1	13.8
Europe - North America	2.5	9.3	13.1	12.9
Europe - Middle East	7.1	9.3	14.5	13.5
Europe - Africa	-5.5	-1.7	6.0	4.2
Europe - South America	1.2	4.3	0.5	6.7
Within Europe	23.8	41.3	48.3	33.6

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

- Global FTK growth slowed a little in June, but maintained its double-digit pace, up 11.0%yoy. For 1H17 overall, FTKs grew by 10.4%yoy – the strongest 1<sup>st</sup> half-year since the rebound from the financial crisis in 2010.
- At the regional level, FTK growth also eased a little this month. But at a very strong 14.3%yoy pace Europe remains the fastest growing region, maintaining its clear margin above the industry growth rate.

## Industry

### Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2016	Apr-17	May-17	Jun-17
<b>Passenger</b>					
Europe	ASK	4.8	8.1	6.1	6.7
	PLF	82.4	84.6	82.2	85.4
World	ASK	6.4	7.2	6.2	6.5
	PLF	80.5	82.1	80.0	81.9
<b>Freight</b>					
Europe	AFTK	7.3	6.8	5.6	6.1
	FLF	44.4	48.0	46.6	45.9
World	AFTK	5.4	3.7	4.8	5.2
	FLF	43.0	45.1	45.3	45.0

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

- Even with solid capacity growth, the industry-wide load factor outcomes remain robust, indeed the PLF posted an all-time high for the first half of a year (at 80.7%).
- European carriers have increased pax capacity in line with the overall industry rate over the past year (6.7% vs 6.5%). Freight capacity has, however, risen moderately quicker in the region, at 6.1% vs 5.2%.
- Load factors for the European carriers continued to outperform the industry average in June, with a PLF of 85.4% & FLF of 45.9% (vs 81.9% & 45.0% for the industry overall).

- The initial financial data for Q2 provide the first signs of

### Airline operating (EBIT) margins\*

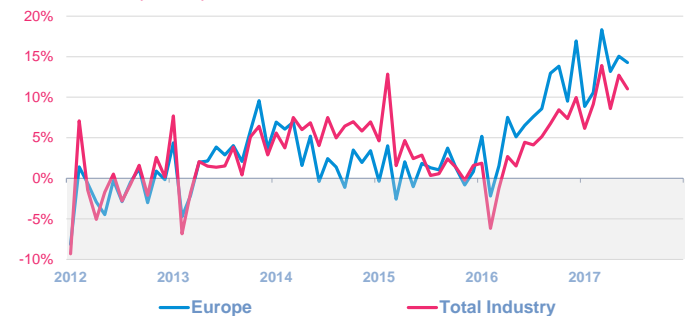
%revenues	2015	2016	2016Q2	2017Q2
Europe	5.4	6.1	6.4	9.0
Industry	8.5	8.8	12.7	13.2

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

- Each of the three largest international markets for the region are currently showing double-digit FTK growth. Europe-Asia is currently the standout, at 13.8%yoy, only slightly ahead of Europe-Middle East (13.5%).
- The fastest growing market continues to be (the smaller) Within Europe, where freight volumes are up more than 30% compared with a year ago. This growth appears to be linked to big gains by carriers incl. Turkish Airlines.

### Growth in air freight volumes

FTKs, % Growth year-on-year



Source: IATA Statistics

of an easing in the margin squeeze that was particularly evident in Q1. The EBIT margin for European airlines is currently 9.0%, up from 6.4% in 2Q16, but still solidly below the industry figure of 13.2% (which continues to be driven by the strong performance in Nth America).

- Global pax yields are currently around their level of a year ago. At the regional level, yoy yields have shown a general narrowing & have now risen in a number of markets. Europe-SthAm and Domestic Russia are the current standouts, with yields up 8.7% & 7.1% respectively in these two markets.

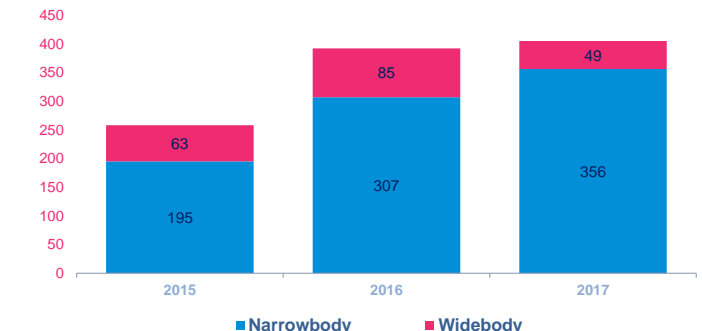
### Passenger yields (US\$, excl. surcharges & ancillaries)

%change on a yr ago	2016	Apr-17	May-17	Jun-17
Russia domestic	5.2	7.3	10.0	7.1
Within Europe	-7.6	-8.9	-3.0	-2.5
Europe - North America	-8.3	-15.9	-3.1	-3.5
Europe - Asia	-10.3	-5.4	1.5	1.7
Europe - Middle East	-11.5	-7.5	1.2	-5.7
Europe - Africa	-8.3	-12.4	-6.9	-5.0
Europe - South America	-17.5	-3.3	3.9	8.7

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

### Aircraft deliveries to Europe (2Q17 data)

# deliveries made & due



Source: Ascend