



STATE OF THE REGION: EUROPE

DECEMBER 2017

Economy

GDP growth, selected countries

%change on a yr ago	2016	2017Q1	2017Q2	2017Q3
Germany	1.9	2.1	2.3	2.8
Russia	-0.2	0.5	2.5	1.8
France	1.1	1.1	1.8	2.2
UK	1.8	1.8	1.5	1.5
Italy	1.1	1.3	1.5	1.7
Spain	3.3	3.0	3.1	3.1
Turkey	3.2	5.3	5.4	11.1
Israel	3.9	3.8	3.0	3.0
Euro zone	1.8	2.1	2.4	2.6
World*	2.3	2.6	2.8	2.8

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2016	Sep-17	Oct-17	Nov-17
US\$ broad index	127.7	117.9	120.0	120.3
European euro (EUR)	0.95	0.85	0.86	0.84
Russian ruble (RUB)	60.4	57.6	58.4	58.4
British pound (GBP)	0.81	0.75	0.75	0.74
Turkish lira (TRY)	3.52	3.56	3.80	3.93
Israeli shekel (ILS)	3.84	3.53	3.52	3.49

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel	2016	Sep-17	Oct-17	Nov-17
Crude oil (Brent)	52.4	56.2	57.5	62.7
Jet fuel	64.0	75.6	69.7	73.9

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

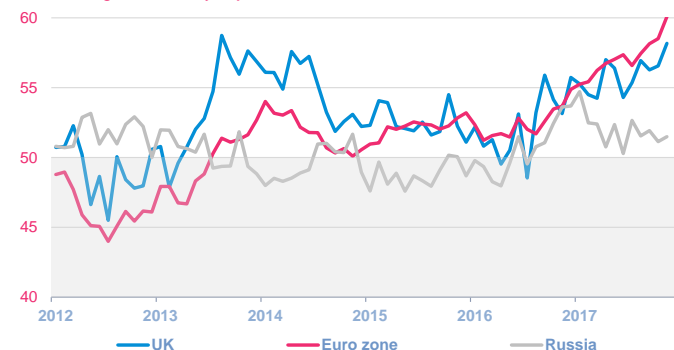
%change on a yr ago	2016	Aug-17	Sep-17	Oct-17
Region (registration basis)				
Europe	4.6	7.2	7.2	6.3
World	6.7	7.3	6.0	7.2
Routes (segment basis)				
Russia domestic	2.5	7.8	7.3	6.1
Within Europe	8.2	9.7	11.6	10.2
Europe - North America	2.5	4.7	3.3	1.6
Europe - Asia	1.8	5.8	7.5	6.3
Europe - Middle East	9.9	8.5	6.4	6.5
Europe - Africa	1.8	6.6	6.5	6.5
Europe - South America	3.5	-0.8	4.7	3.4

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

- Industry-wide RPKs grew by a robust 7.2%yoy in Oct, rebounding, as expected, from the hurricane-disrupted outcome in Sep. Overall, 2017 remains on track to be another year of above-average passenger growth.
- For European carriers, RPK growth went against the industry-wide trend this month, moderating to (a still robust) 6.3%yoy. As we have noted elsewhere previously, the upward trend in (seasonally-adjusted)

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

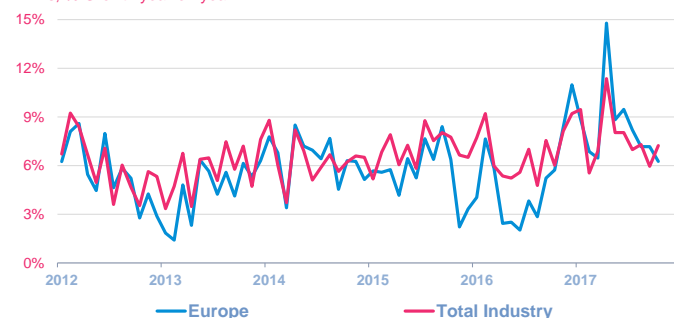
- Business confidence in both the Eurozone & UK was buoyed this month by progress in the Brexit negotiations. In Russia, confidence continues to broadly trend sideways, despite further oil price increases.
- On a trade-weighted basis, the US\$ gained a modest 0.2% in Nov. Of the key regional currencies, the EUR & GBP both increased by ~2% vs the US\$ in the month, but the TRY fell further, by a solid 3.4%. The TRY is now down almost 12% over the course of the year.
- Brent crude oil prices averaged \$62.70/bbl in Nov, up 5% for the month & reaching a 17-month high along the way. Jet fuel prices rose by around 4%, to \$74. The agreement between OPEC members & Russia to extend production cuts supported prices this month.

RPKs has slowed somewhat over the past 6 months or so, notwithstanding the broad-based improvement in economic conditions.

- Russia domestic RPK growth eased further this month, broadly matching the region-wide outcome, at 6.1%yoy.
- Amongst the key international markets, Within Europe continues to be the strongest performer, maintaining its double-digit yoy growth rate this month, at 10.2%.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Aug-17	Sep-17	Oct-17
Region (registration basis)				
Europe	7.6	11.9	10.4	6.4
World	3.6	11.8	9.2	5.9
Routes (segment basis)				
Europe - Asia	3.9	11.8	8.7	2.4
Europe - North America	2.5	14.6	8.0	6.8
Europe - Middle East	7.1	20.1	13.9	8.8
Europe - Africa	-5.5	3.5	1.3	3.6
Europe - South America	1.2	5.8	12.0	4.6
Within Europe	23.3	36.4	28.2	16.2

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

- Global FTK growth eased further in Oct, to 5.9%yoy, but even so it remains well above both its five & ten year average rates of growth. Indeed, freight volumes look set to record their strongest year of growth since the post-GFC rebound in 2010.
- FTK growth for the European airlines also eased this month, but at a robust 6.4%yoy rate, it continues to outpace the overall industry-wide performance.

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK		2016	Aug-17	Sep-17	Oct-17
Passenger					
Europe	ASK	4.7	5.8	5.4	4.5
	PLF	82.4	88.1	86.3	84.3
World	ASK	6.7	6.4	5.4	6.2
	PLF	80.5	84.6	81.7	80.8
Freight					
Europe	AFTK	8.0	5.2	5.6	2.5
	FLF	44.0	43.0	45.0	48.7
World	AFTK	5.4	4.4	4.3	3.7
	FLF	42.9	43.2	45.4	46.9

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

- The European carriers have increased both pax & freight capacity more slowly than the industry-wide rate over the past year, with ASKs up 4.5%yoy (vs 6.2%) & AFTKs up 2.5%yoy (vs 3.7%).
- The Oct load factors for the region's airlines bettered the industry average; at 84.3% vs 80.8% for the PLF & 48.7% vs 46.9% for the FLF.
- The latest financial data for Q3 show a moderate improvement in the region's performance compared with the same period last year. The EBIT margin is up 1pp to 19.7%, outpacing a largely unchanged industry-wide outcome of 15.7%. Recall that these data are not seasonally adjusted, and Q3 is typically a seasonally-

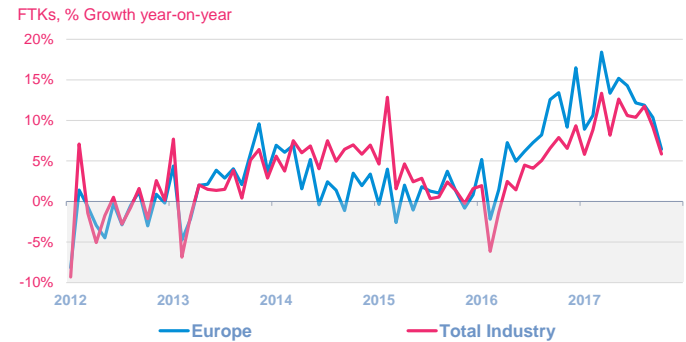
Airline operating (EBIT) margins*

%revenues	2015	2016	2016Q3	2017Q3
Europe	5.4	6.1	18.6	19.7
Industry	8.5	8.8	15.9	15.7

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

- Manufacturing export order books are still growing at a brisk pace, supporting growth in freight volumes, despite the appreciation of the euro.
- Of the larger markets, North America & the Middle East are the strongest performers currently, with FTKs up 6.8% & 8.8%yoy, respectively. The smaller Within Europe market continues to be the fastest growing market, with freight volumes up a hefty 16%yoy in Oct.

Growth in air freight volumes



Source: IATA Statistics

strong period for the European airlines.

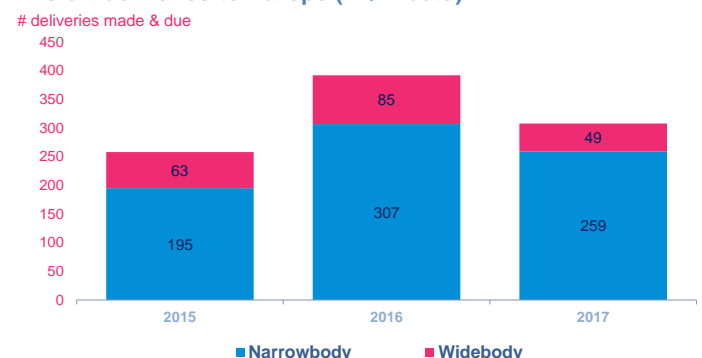
- The upward trend in global pax yields (in US\$ terms) has paused in the past few months, with a stronger US\$ & weather-related disruption both having an impact on recent outcomes.
- Nonetheless, for key regional markets moderate yield increases are commonplace, with Europe-Sth America & Russia domestic showing the strongest yield increases vs a year ago. Yields between Europe and both the ME & Africa are currently lower in yoy terms.

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

%change on a yr ago	2016	Aug-17	Sep-17	Oct-17
Russia domestic	5.2	13.8	10.8	9.6
Within Europe	-7.6	4.1	3.1	2.4
Europe - North America	-8.3	12.0	1.9	4.7
Europe - Asia	-10.3	11.3	5.7	3.2
Europe - Middle East	-11.5	5.1	2.9	-2.1
Europe - Africa	-8.3	3.5	-0.6	-2.3
Europe - South America	-17.5	21.9	14.6	16.1

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

Aircraft deliveries to Europe (4Q17 data)



Source: Ascend