

State of the region: Europe

Economy

GDP growth, selected countries

% change on a yr ago	2017	Q2 2018	Q3 2018	Q4 2018
Germany	2.5	2.0	1.2	0.6
Russia	-0.2	1.9	1.5	--
France	2.3	1.7	1.3	0.9
UK	1.8	1.4	1.6	1.3
Italy	1.6	1.2	0.6	0.1
Spain	3.0	2.5	2.4	2.4
Turkey	7.4	5.3	1.6	--
Israel	3.5	3.5	3.0	2.7
Euro zone	2.5	2.2	1.6	1.2
World*	3.1	3.2	2.9	2.8

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2018	Nov-18	Dec-18	Jan-19
US\$ broad index	128.5	128.3	128.5	126.7
European euro (EUR)	0.87	0.88	0.87	0.87
Russian ruble (RUB)	69.37	66.95	69.37	65.48
British pound (GBP)	0.79	0.78	0.79	0.76
Turkish lira (TRY)	5.29	5.24	5.29	5.17
Israeli shekel (ILS)	3.74	3.73	3.74	3.63

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel (period ave.)	2018	Nov-18	Dec-18	Jan-19
Crude oil (Brent)	71.1	64.8	57.4	59.4
Jet fuel	84.7	81.7	71.2	74.9

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

% change on a yr ago	2017	Oct-18	Nov-18	Dec-18
Region (registration basis)				
Europe	9.1	7.3	8.8	7.8
World	8.0	6.3	6.1	5.3
Routes (segment basis)				
Russia domestic	10.4	11.7	13.8	11.4
Within Europe	11.1	7.8	9.3	8.5
Europe - North America	7.1	8.1	8.5	5.9
Europe - Asia	10.5	7.5	7.6	6.7
Europe - Middle East	8.9	2.9	3.8	2.9
Europe - Africa	10.0	10.0	6.7	6.3
Europe - South America	7.0	6.9	7.2	10.8

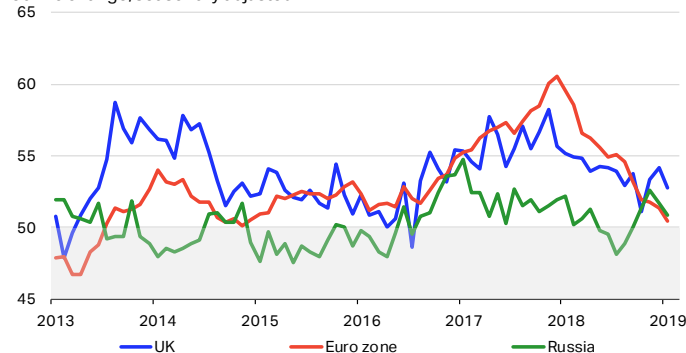
Source: IATA Statistics Note: historical data may be subject to revision

- The upward trend in industry-wide revenue passenger kilometres (RPKs) has softened over the past 6 months alongside signs of slowing global economic expansion. This translated into passenger growth moderating to 5.3%yoy in Dec, the slowest pace since early-2018.
- With 7.8% year-on-year growth in RPKs, carriers based in Europe showed the fastest growing passenger demand of all regions in Dec.

February 2019

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



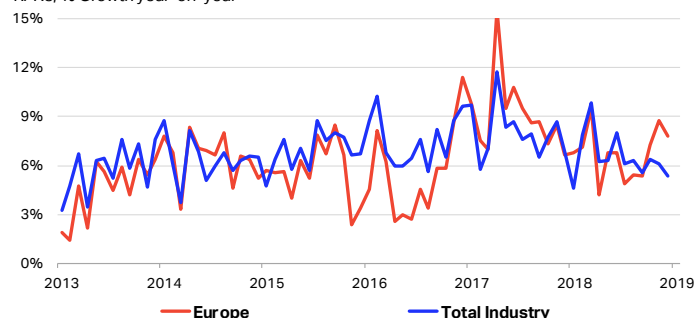
Source: Markit

- The Q4 2018 GDP data show some economic slowdown for G7 countries based in Europe amidst Brexit uncertainty, US-China trade tensions as well as Yellow Vests unrests in France. Business confidence continues to fall across the region's key markets.
- On a trade-weighted basis, the US\$ ticked down by 1.4%, falling for the first time since early-2018. Of the main regional currencies, the RUB recovered sharply, gaining 5.6% against the US\$ this month, followed by the GBP & ILS that rose 3.2% & 2.8%, respectively.
- Brent crude and jet fuel prices have been volatile in recent months; after the sharp fall in Q4 2018, they picked up again in January, reacting to supply cuts from OPEC countries.

- Although growth in traffic volumes softened a little for the Russia domestic market in late-2018, it sustained its solid double-digit pace (11.4%) into the year-end.
- Slowing RPK growth was also evident across region's main international markets in late-2018, except for the smaller Europe-SthAm whose passenger volumes increased by brisk 10.8% vs a year ago, up from 7.2% in November.
- The larger Europe-NthAm recorded the most noticeable RPK growth slowdown in Dec, easing from 8.5%yoy in Nov to a 5.9%yoy pace.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

% change on a yr ago	2017	Oct-18	Nov-18	Dec-18
Region (registration basis)				
Europe	11.7	1.7	-0.2	1.9
World	9.7	3.3	-0.3	-0.5
Routes (segment basis)				
Europe - Asia	12.2	2.0	-1.0	-1.4
Europe - North America	10.4	1.7	1.5	5.3
Europe - Middle East	12.2	3.5	4.2	-0.6
Europe - Africa	2.8	-4.2	-1.6	-1.8
Europe - South America	7.3	-1.0	-0.9	0.2
Within Europe	16.4	16.3	6.1	5.8

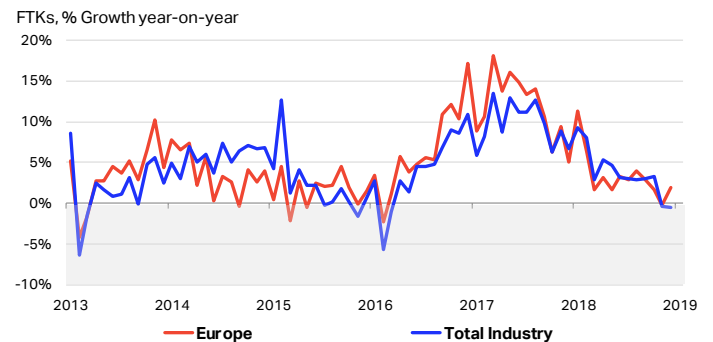
Source: IATA Statistics Note: historical data may be subject to revision

- Industry-wide freight tonne kilometres (FTKs) ended 2018 on a soft note, with year-on-year volumes down 0.5% compared to their level of Dec 2017. The moderation appears to reflect the end of the global restocking cycle as well as signs of weakness in key demand drivers.
- For the European airlines, FTK growth recovered from a slowdown in November to a relatively solid 1.9%yoy and outperformed the industry-wide average by ~2.5pp. That said, the pace remained well below levels

seen in early-2018.

- Key international markets showed mixed FTK growth performance in the last month of 2018. While freight volumes for the larger Europe-NthAm increased by a solid 5.3% vs a year ago, growth dropped into negative territory for the Europe-ME for the first time in ~3 years.
- Although smaller, the Within Europe market remains the strongest performer this month, with a robust 5.8%yoy growth rate. That said, the current pace lies well below the 2018 average on the route: 9.3%yoy.

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	Oct-18	Nov-18	Dec-18
Passenger					
Europe	ASK	6.9	6.8	8.8	8.8
	PLF	83.9	84.7	81.7	81.0
World	ASK	6.6	6.4	6.7	6.1
	PLF	81.5	81.0	80.0	80.4
Freight					
Europe	AFTK	6.7	2.3	3.1	3.7
	FLF	54.9	55.8	57.9	56.7
World	AFTK	5.0	5.6	4.4	3.8
	FLF	49.9	50.4	51.3	48.8

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

- While the industry-wide passenger load factor (PLF) ticked up to 80.4% this month, a modest improvement vs Nov, the freight load factor (FLF) eased to 48.8%.
- At the regional level, the European carriers continue to outperform the industry-wide outcome, with a PLF of 81.0% and a FLF of 56.7% in Dec.
- First releases of financial data from the final quarter of 2018 indicate that the industry-wide EBIT margin fell slightly compared to Q4 2017, to a still robust 8.2%. At the regional level, the EBIT margin declined by ~3pp vs the same period a year ago, indicating the challenging operating conditions for the airlines based in Europe.

Airline operating (EBIT) margins*

% revenues	2016	2017	2017Q4	2018Q4
Europe	6.1	6.8	-1.2	-4.1
Industry	8.5	7.5	9.4	8.2

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

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- Across the region's main markets, yield growth remained generally negative. The Russia domestic market stands out again, with yields ~17% lower compared to the same period a year ago. SthAm has also consistently underperformed; yields were ~10% down vs a year ago for the second consecutive month.
- The only market that showed positive yield growth in Dec was Europe-NthAm (2.3%yoy).

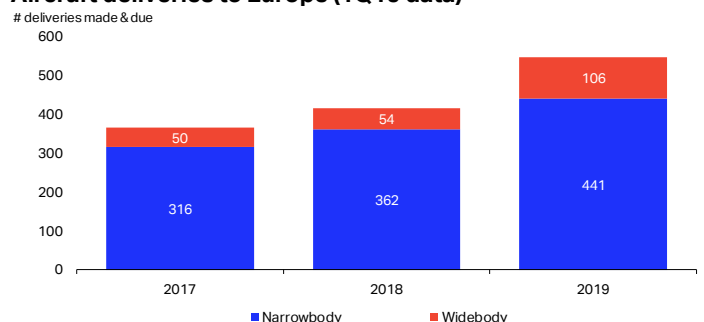
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2017	Oct-18	Nov-18	Dec-18
Russia domestic	12.5	-16.2	-18.4	-17.3
Within Europe	-1.6	-1.0	-0.8	-3.4
Europe - North America	-1.9	3.0	0.5	2.3
Europe - Asia	1.9	-1.0	-3.4	-2.4
Europe - Middle East	-2.3	-2.8	-2.7	-3.1
Europe - Africa	-5.3	1.1	-1.6	-3.9
Europe - South America	7.5	-7.4	-9.7	-9.8

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

- The latest data indicate a 31.5% increase in the number of jet aircraft deliveries scheduled for the European carriers in 2019 vs 2018.

Aircraft deliveries to Europe (1Q19 data)



Source: Ascend

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