



STATE OF THE REGION: EUROPE

FEBRUARY 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	-3.7	-0.6	-0.4	--
France	1.2	1.1	1.0	1.2
UK	2.2	1.7	2.0	2.0
Italy	0.7	0.8	1.0	1.0
Spain	3.2	3.4	3.2	3.0
Turkey	4.0	3.1	--	--
Israel	2.6	3.6	4.0	4.8
Euro zone	1.9	1.6	1.8	1.7
World*	2.3	2.1	2.2	2.4

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2016	Nov-16	Dec-16	Jan-17
US\$ broad index	127.7	125.8	127.7	127.6
European euro (EUR)	0.95	0.95	0.95	0.93
Russian ruble (RUB)	60.4	64.2	60.4	60.1
British pound (GBP)	0.81	0.80	0.81	0.79
Turkish lira (TRY)	3.52	3.44	3.52	3.78
Israeli shekel (ILS)	3.84	3.84	3.84	3.77

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel	2016	Nov-16	Dec-16	Jan-17
Crude oil (Brent)	52.4	44.7	53.3	54.6
Jet fuel	64.0	57.0	62.6	63.6

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

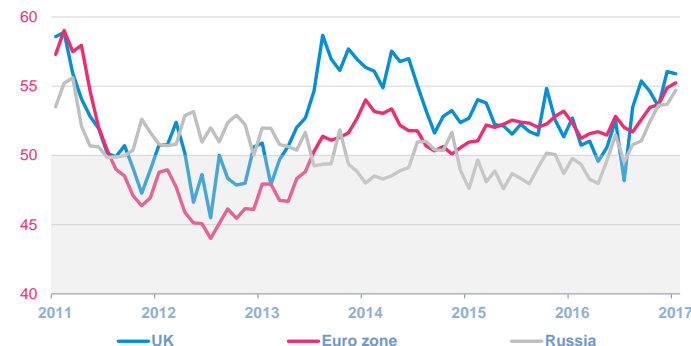
%change on a yr ago	2016	Oct-16	Nov-16	Dec-16
Region (registration basis)				
Europe	4.6	5.4	8.4	10.7
World	6.3	5.8	7.8	8.8
Routes (segment basis)				
Russia domestic	2.5	3.8	15.5	13.4
Within Europe	7.8	7.8	8.5	13.9
Europe - North America	2.6	0.6	0.9	3.2
Europe - Asia	1.8	1.5	4.5	9.3
Europe - Middle East	8.0	3.9	9.8	10.6
Europe - Africa	1.8	1.9	5.0	6.8
Europe - South America	3.5	2.4	4.1	4.6

Source: IATA Statistics

- Industry-wide traffic volumes increased to a 10-month high of 8.8%yoy in Dec, up from 7.8%yoy in Nov. For 2016 as a whole, volumes increased by 6.3%, well ahead of the long-run average growth rate, even allowing for the additional trading day from the leap year.
- The performance of European airlines exceeded that of the industry in yoy terms, with RPKs increasing by a strong 10.7% over the 12mths to Dec. However,

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

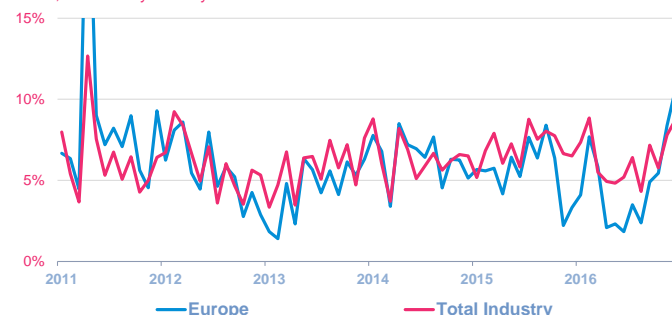
- Despite a slight pull-back in the UK measure this month, business confidence in the main European countries remains elevated, supported by a general improvement in the economic backdrop.
- The US\$ was broadly unchanged on a trade-weighted basis in Jan. Amongst the main regional currencies, the TRY fell further this month, down a significant 7.5% vs the US\$ and now ~28% lower over the past year. Other key currencies tended to move higher against the US\$, with the ILS, GBP & EUR all up 2-2.5% in the month.
- Oil & jet fuel prices edged higher in Jan, consolidating the outsized gain observed in Dec. The price of Brent crude rose by 2.4% in Jan to average US\$54.60 & jet rose 1.5% to US\$63.60.

reflecting the soft, terrorism-affected start to the year & the impact of the collapse of Transaero, the overall growth rate for 2016 was lower, but still robust, at 4.6%.

- The 'Transaero effect' is clear in the Russia domestic outcomes, where a double-digit finish to the year delivered only a modest 2.5% RPK outcome for 2016 as a whole. Growth in pax volumes was strongest on the Within Europe & Europe-Middle East markets at 7.8% and 8.0% respectively.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Oct-16	Nov-16	Dec-16
Region (registration basis)				
Europe	7.6	13.4	9.1	16.4
World	3.8	8.4	7.2	9.8
Routes (segment basis)				
Europe - Asia	3.9	10.8	6.2	15.4
Europe - North America	2.6	8.9	7.6	9.3
Europe - Middle East	6.8	16.1	16.3	21.9
Europe - Africa	-5.5	-4.4	-2.5	-1.2
Europe - South America	1.2	13.6	2.9	6.5
Within Europe	23.8	64.1	33.1	47.2

Source: IATA Statistics

- ➔ Growth in global FTKs increased to 9.8%yoy in Dec, following a strong second half performance. The soft start to the year, however, weighed upon the annual average growth rate of 3.8%. Even so, the latter is almost double its five-year average pace of 2.0%.
- ➔ For the European carriers, FTK growth ended the year up a very strong 16.4%yoy, which translated into a 7.6% growth rate for the year as whole – double the pace of the industry overall.

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK		2016	Oct-16	Nov-16	Dec-16
Passenger					
Europe	ASK	4.4	6.0	7.1	7.2
	PLF	82.4	83.0	80.0	80.6
World	ASK	6.2	6.2	6.5	6.6
	PLF	80.5	80.1	79.1	80.6
Freight					
Europe	AFTK	6.7	6.1	4.9	5.9
	FLF	44.5	47.8	48.3	49.7
World	AFTK	5.3	3.8	4.7	3.2
	FLF	43.0	46.2	47.2	46.1

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 by more than the overall industry rate over the past year. For pax, ASKs of the European airlines have grown by 7.2%yoy to Dec vs 6.6% for the industry. For freight, AFTKs are up 5.9% for the region's carriers, compared with the industrywide 3.2%.
- ➔ The pax load factor ended the year in line with the industry average at 80.6%, but the freight load factor – notwithstanding the stronger growth in capacity over the year – is ~3.5pp above the industry outcome.
- ➔ The initial Q4 financials show a solid EBIT margin of 7.2% by the European carriers. However, this figure is

Airline operating (EBIT) margins*

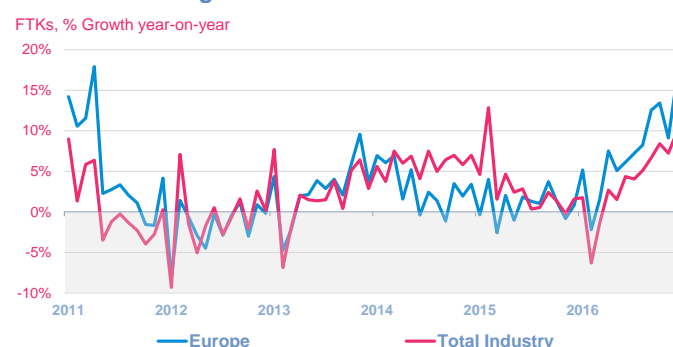
%revenues	2014	2015	2015Q4	2016Q4
Europe	2.0	5.3	10.5	7.2
Industry	4.7	8.3	14.7	9.7

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

- ➔ Amongst the key markets, routes between Europe & the Middle East showed the strongest annual growth, up a strong 6.8% in 2016 overall, followed by the largest market of Europe-Asia. Both of these markets also ended the year with double-digit yoy growth, at 21.9% & 15.4%, respectively.

- ➔ In contrast, freight volumes *contracted* on routes between Europe & Africa, down a sizeable 5.5% in 2016 overall.

Growth in air freight volumes



Source: IATA Statistics

2.5pp below the industry average for the quarter & down from 10.5% a year ago.

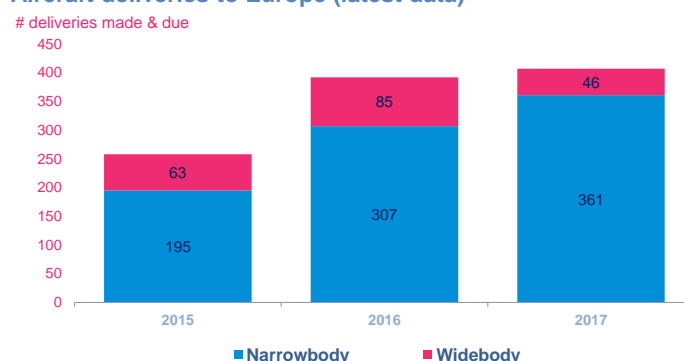
- ➔ Passenger yields (in US\$-terms) for the main European markets all remain lower than their level of a year ago, with double-digit declines (or close thereto) not uncommon.
- ➔ This continued downward pressure on yields comes despite the upwards trend in oil & jet fuel prices over the course of 2016 as well as labour cost pressures emerging in some key markets.

Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2016	Oct-16	Nov-16	Dec-16
Russia domestic	6.1	13.0	-2.5	-5.2
Within Europe	-7.6	-10.0	-9.4	-10.4
Europe - North America	-8.3	-9.5	-13.3	-10.5
Europe - Asia	-10.3	-9.4	-10.0	-8.1
Europe - Middle East	-11.5	-13.2	-12.4	-11.2
Europe - Africa	-8.3	-9.2	-12.6	-12.5
Europe - South America	-17.5	-14.3	-11.4	-6.9

Source: IATA PaxIS

Aircraft deliveries to Europe (latest data)



Source: Ascend