



STATE OF THE REGION: EUROPE

JANUARY 2017

Economy

GDP growth, selected countries

%change on a yr ago	2015	2016Q1	2016Q2	2016Q3
Germany	1.5	1.8	1.7	1.7
Russia	-3.7	-1.2	-0.6	-0.4
France	1.2	1.2	1.1	1.0
UK	2.2	1.8	2.0	2.2
Italy	0.6	1.0	0.8	1.0
Spain	3.2	3.4	3.4	3.2
Turkey	4.0	4.7	3.1	--
Israel	2.6	2.3	3.6	4.0
Euro zone	1.9	1.7	1.6	1.7
World*	2.3	2.2	2.1	2.2

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2015	Oct-16	Nov-16	Dec-16
US\$ broad index	122.4	122.9	125.8	127.7
European euro (EUR)	0.92	0.91	0.95	0.95
Russian ruble (RUB)	73.2	63.4	64.2	60.4
British pound (GBP)	0.68	0.82	0.80	0.81
Turkish lira (TRY)	2.92	3.10	3.44	3.52
Israeli shekel (ILS)	3.90	3.83	3.84	3.84

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel	2015	Oct-16	Nov-16	Dec-16
Crude oil (Brent)	52.4	49.5	44.7	53.3
Jet fuel	64.0	61.2	57.0	62.6

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

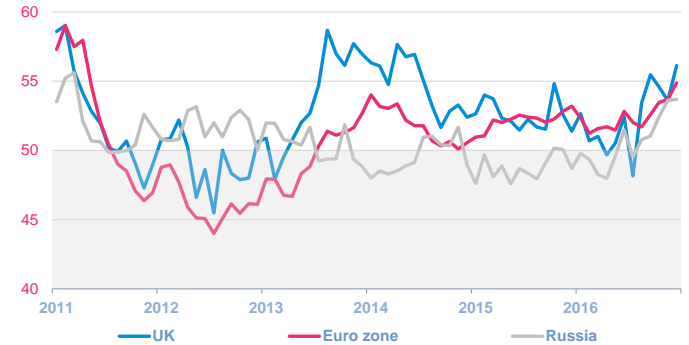
%change on a yr ago	2015	Sep-16	Oct-16	Nov-16
Region (registration basis)				
Europe	5.7	5.0	5.5	8.4
World	7.1	7.2	5.8	7.6
Routes (segment basis)				
Russia domestic	6.2	2.8	3.9	15.5
Within Europe	8.6	6.9	7.7	8.4
Europe - North America	3.8	2.6	0.6	0.9
Europe - Asia	4.0	3.3	1.5	4.5
Europe - Middle East	11.3	9.2	3.9	9.8
Europe - Africa	-1.1	2.8	1.9	5.0
Europe - South America	2.0	4.8	2.4	4.1

Source: IATA Statistics

- Following a modest easing in yoy growth in Oct, RPKs rebounded in Nov, with the global measure reaching a 9mth-high of 7.6%yoy. Gains were also observed at the regional level, with RPKs of European airlines increasing by 3pp, to a brisk 8.4%yoy.
- Conditions for European carriers appear to have adjusted to the disruption caused by terrorism & political instability in early-2016 & the recent performance is set

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

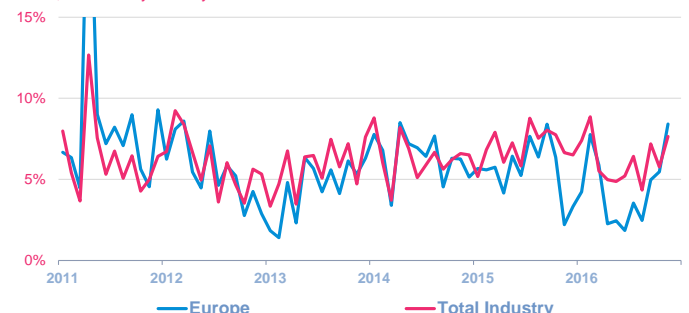
- Business confidence in the main European countries generally moved higher this month. The UK measure is at its highest level in more than two years, while both Russia & the EZ data are at more than 5-year highs.
- The US\$ gained a further 1.5% in Dec, to end the year up 4.5% on a trade-weighted basis. Of the main regional currencies, the RUB rose 6% in the month vs the US\$ & is up almost 20% over the year. In contrast, the GBP & TRY both eased further in Dec, to be down by around 20% compared with the level of a year ago.
- Oil & jet fuel prices surged in Dec, on the back of the commitment by the major oil producers to limit production. Despite the strong monthly gain, prices ended year broadly similar to their levels of a year ago.

against the backdrop of a growing Eurozone economy.

- As noted last month, with the passing of the one-year anniversary of the collapse of Transaero, Russia domestic RPKs stepped up markedly in Nov, to a double-digit rate of 15.5%yoy.
- Amongst key markets, Europe-Middle East & Within Europe are the two standout performers, with growth of 9.8% & 8.4%yoy, respectively; the former rebounding quickly after a weak outturn last month.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2015	Sep-16	Oct-16	Nov-16
Region (registration basis)				
Europe	0.9	12.6	13.4	9.0
World	2.7	6.7	8.4	6.8
Routes (segment basis)				
Europe - Asia	-4.9	7.6	10.8	6.2
Europe - North America	-2.1	10.0	8.9	7.6
Europe - Middle East	8.2	4.6	16.1	16.3
Europe - Africa	0.4	-4.4	-4.4	-0.4
Europe - South America	-2.9	4.5	13.6	2.9
Within Europe	-2.5	34.0	63.9	33.0

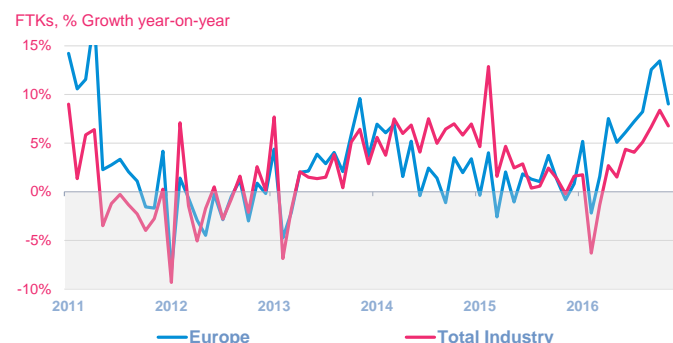
Source: IATA Statistics

- Global FTKs grew by a robust 6.8%yoy in Nov, easing from 8.4% in Oct. but still well above the average pace over the past decade.
- For the European carriers, FTK growth also moderated – possibly affected by strikes at Lufthansa during the month – albeit to a still strong 9.0%yoy. The overall strength is consistent with recent gains in the export orders component of the German PMI & is supported by

some recent softness in the EUR.

- Amongst the largest markets, Europe-Middle East traffic continues to expand at a double-digit pace, up 16.3%yoy. The top two markets (Eur-Asia & Eur-NthAm) also continue to perform well, with FTKs up a healthy 6.2%yoy & 7.6% respectively.
- The performance of the smaller Within Europe market cannot go unremarked, with FTKs up 33%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		2015	Sep-16	Oct-16	Nov-16
Passenger					
Europe	ASK	4.4	5.1	6.0	7.1
	PLF	81.8	84.9	83.0	80.1
World	ASK	6.2	6.7	6.2	6.5
	PLF	80.3	81.3	80.1	78.9
Freight					
Europe	AFTK	6.3	6.7	6.1	4.8
	FLF	44.2	43.9	47.8	48.3
World	AFTK	7.7	4.6	3.7	4.4
	FLF	43.7	43.6	46.2	47.2

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 7.1% vs 6.5% for the industry. For freight, AFTKs are up 4.8% for the region's carriers, just above the 4.4% pace of the industry.
- At the same time, the region's carriers continue to post load factors in excess of the industry average; 80.1% vs 78.9% for the PLF & 48.3% vs 47.2% for the FLF in Nov.
- The latest Q3 financials show a strong operating (EBIT) margin performance (18.5%) by the European carriers; currently the strongest across all IATA regions. This

Airline operating (EBIT) margins*

%revenues	2014	2015	2015Q3	2016Q3
Europe	2.0	5.3	18.6	18.5
Industry	4.7	8.3	15.3	14.8

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

(seasonally strong) outcome is on par with the performance of a year ago & sits above the industry figure of 14.8%.

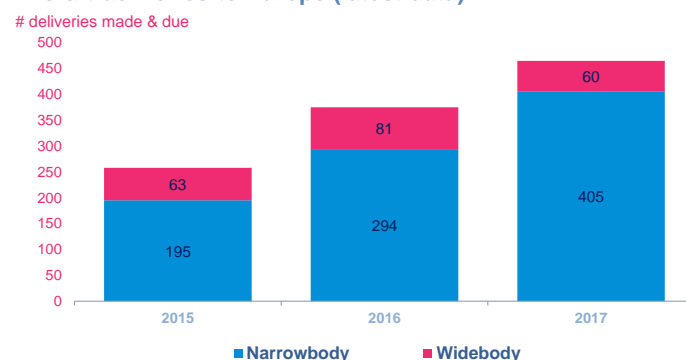
- Passenger yields for the main European markets are now all lower than their level of a year ago with Russia domestic yields slipping back into negative territory this month. Most yields are in or very close to double-digit decline, partly reflecting recent exchange rate movements & despite the rise in oil prices in 2016.

Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2015	Sep-16	Oct-16	Nov-16
Russia domestic	-38.9	23.0	13.0	-2.5
Within Europe	-16.3	-8.5	-10.0	-9.4
Europe - North America	-8.5	-10.0	-9.5	-13.3
Europe - Asia	-0.2	-8.4	-9.4	-10.0
Europe - Middle East	-11.8	-13.7	-13.2	-12.4
Europe - Africa	-17.2	-7.9	-9.2	-12.6
Europe - South America	-19.5	-14.8	-14.3	-11.4

Source: IATA PaxIS

Aircraft deliveries to Europe (latest data)



Source: Ascend