



STATE OF THE REGION: EUROPE

JULY 2016

Economy

GDP growth, selected countries

%change on a yr ago	2015	2015Q3	2015Q4	2016Q1
Germany	1.4	1.7	1.3	1.6
Russia	-3.7 [†]	-3.7	--	--
France	1.2	1.1	1.3	1.3
UK	2.2	2.0	1.8	2.0
Italy	0.6	0.8	1.1	1.0
Turkey	4.0	3.9	5.7	4.8
Israel	2.5	2.7	2.2	1.9
Euro zone	1.6	1.6	1.7	1.7
World*	2.5	2.6	2.3	2.3

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2015	Apr-16	May-16	Jun-16
US\$ broad index	122.4	119.5	120.8	121.2
European euro (EUR)	0.92	0.87	0.90	0.91
Russian ruble (RUB)	73.2	64.7	66.2	64.0
British pound (GBP)	0.68	0.68	0.69	0.76
Turkish lira (TRY)	2.92	2.80	2.95	2.88
Israeli shekel (ILS)	3.90	3.74	3.85	3.86

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel	2015	Apr-16	May-16	Jun-16
Crude oil (Brent)	52.4	41.6	46.7	48.3
Jet fuel	64.0	48.2	54.6	58.0

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

%change on a yr ago	2015	Mar-16	Apr-16	May-16
Region (registration basis)				
Europe	5.0	5.5	1.9	2.0
World	6.5	5.3	4.6	4.6
Routes (segment basis)				
Russia domestic	6.2	1.5	1.9	-3.5
Within Europe	8.6	12.4	3.6	5.2
Europe - North America	3.8	4.7	1.5	0.8
Europe - Asia	4.0	0.1	1.0	-2.6
Europe - Middle East	11.3	11.8	8.1	7.2
Europe - Africa	-1.2	2.2	-0.2	-0.4
Europe - South America	2.0	2.5	2.7	2.0

Source: IATA Statistics

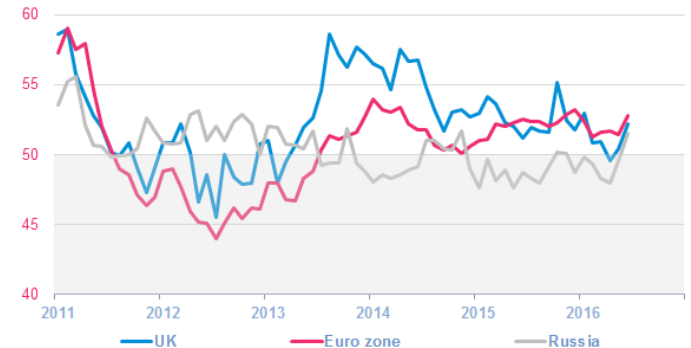
- RPK growth was broadly unchanged in May, at both the regional & industry-wide level. For European airlines, pax volumes were up a modest 2.0%yoy, less than half the solid pace of the industry overall, at 4.6%.
- At the industry level, the current pace of growth is in line with the 10yr average rate, however, it is noteworthy that it is also the slowest pace since Jan 2015.
- Russia domestic RPKs slipped back into negative yoy territory in May, down 3.5% on a year ago. Interestingly,

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Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

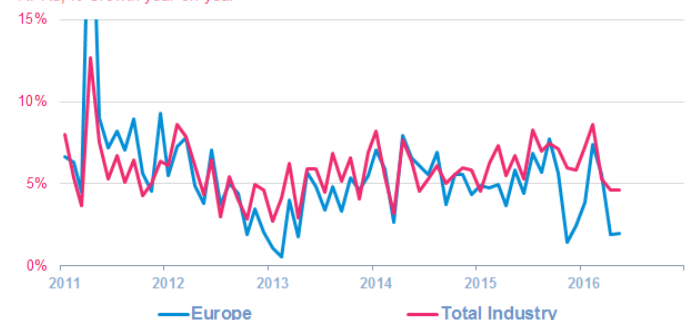
- The UK's vote to leave the EU ('Brexit') dominated news in Europe this month. While not reflected in the latest survey outcomes depicted above (the vote occurred towards the end of June) initial indicators point to a sizeable fall in both business & consumer confidence.
- The GBP fell sharply in the aftermath of the Brexit vote, ending the month ~10% lower vs the US\$. The RUB recovered ground lost in May, gaining 3.3%. Overall, the (trade-weighted) US\$ edged higher in June, up 0.3%.
- The world price of oil & jet fuel moved higher again in June, up 1.5% & 3.5%, respectively, to US\$48.30 & US\$58 on concerns of supply outages. Even so, daily oil prices ended the month slightly below their starting level.

the fall in RPKs has been accompanied by a significant 8% decline in capacity which has pushed Russia domestic load factors up by 3.5pp yoy.

- Europe-Asia RPKs also fell below their level of a year ago in May (down 2.6%yoy), joining Europe-Africa (down 0.4%).
- Pax volumes for Middle East-Europe & Within Europe are the best performers, despite signs that the latter is still affected by the Brussels terrorist attacks in March.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2015	Mar-16	Apr-16	May-16
Region (registration basis)				
Europe	-0.2	0.7	7.0	4.5
World	2.2	-1.5	2.6	0.9
Routes (segment basis)				
Europe - Asia	-4.9	-4.7	5.9	1.5
Europe - North America	-2.1	-5.1	1.1	-1.7
Europe - Middle East	8.2	-3.9	7.8	2.7
Europe - Africa	0.4	-5.9	-4.7	-10.4
Europe - South America	-2.9	-13.3	5.8	3.6
Within Europe	-2.5	13.9	13.8	8.8

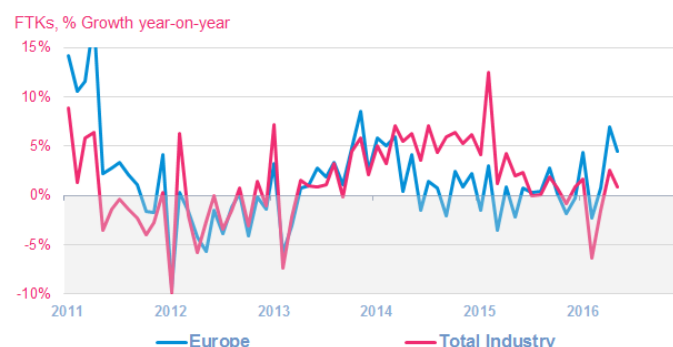
Source: IATA Statistics

- ➔ At the global level, air freight growth remains subdued, with the annual growth in industry-wide FTKs slipping to just 0.9%yoy in May. European carrier FTKs are showing a stronger performance, up a solid 4.5% on the level of a year ago. This coincides with an improvement in the export orders component of the PMI in Germany, one of the world's largest exporters.
- ➔ As we have noted previously, the headwinds to the industry-wide cargo performance include the broadly sideways trend in world trade growth & a very patchy

global economic performance. There are few indications that a near-term turnaround is in the offing.

- ➔ After some very large swings in Apr, growth rates at the inter-regional level generally settled back somewhat in May. Amongst the largest freight markets, Europe-Asia FTKs are up 1.5%yoy, but Europe-NthAm are down by a similar amount. Cargo volumes on Europe-Middle East routes are up a moderate 2.7%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	Mar-16	Apr-16	May-16
Passenger					
Europe	ASK	3.9	4.5	1.8	2.8
	PLF	81.3	80.5	79.8	80.2
World	ASK	5.6	5.7	4.9	5.5
	PLF	80.2	79.8	79.2	78.7
Freight					
Europe	AFTK	4.9	5.8	5.6	5.7
	FLF	44.8	46.6	46.0	43.9
World	AFTK	6.3	6.9	6.1	4.9
	FLF	44.1	43.7	43.4	41.9

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

- ➔ At 2.8%yoy pax capacity growth for the European carriers is currently running at around half the rate of the industry overall (5.5%). The regional PLF returned to above 80%, remaining above the industry rate of 78.7%.
- ➔ European carriers maintained a steady pace of growth in AFTKs in May (5.7%), moving ahead of the industry-wide rate which slowed to 4.9%yoy. The region's FLF eased a little to 43.9%, but remains 2pp ahead of the industry-wide figure.
- ➔ The latest Q1 operating margin for the region's airlines was a seasonally-soft -2.0%. Although an improvement

on a year ago, it is well below the 8.0% industry figure.

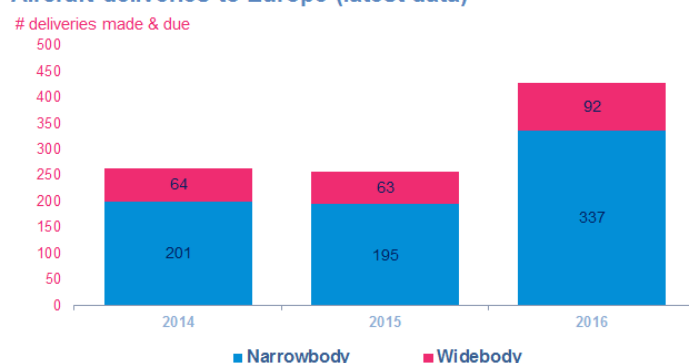
- ➔ Passenger yield developments on key routes were mixed this month. Widespread yoy declines remain in place, despite recent shifts in fuel prices & the US\$.
- ➔ Only Russia domestic yields are higher than their level of a year ago, now up 8.6%yoy. But despite the recent gains, Russia domestic yields remain at much lower levels compared with the 2012-14 period.

Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2015	Mar-16	Apr-16	May-16
Russia domestic	-39.2	1.9	5.9	8.6
Within Europe	-16.3	-11.2	-4.0	-3.3
Europe - North America	-8.5	-12.8	-2.5	-4.2
Europe - Asia	-0.2	-15.3	-8.0	-8.6
Europe - Middle East	-11.8	-13.0	-7.8	-9.3
Europe - Africa	-17.2	-12.3	-4.2	-3.3
Europe - South America	-19.5	-25.2	-19.9	-19.0

Source: IATA PaxIS

Aircraft deliveries to Europe (latest data)



Source: Ascend

Airline EBIT margins*

%revenues	2014	2015	2015Q1	2016Q1
Europe	2.0	5.3	-3.3	-2.0
Industry	4.7	8.3	5.8	8.0

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