



STATE OF THE REGION: EUROPE

JULY 2017

Economy

GDP growth, selected countries

%change on a yr ago	2016	2016Q3	2016Q4	2017Q1
Germany	1.8	1.7	1.8	1.7
Russia	-0.2	-0.4	0.3	0.5
France	1.1	0.9	1.2	1.1
UK	1.8	2.0	1.9	2.0
Italy	1.0	1.0	1.1	1.2
Spain	3.2	3.2	3.0	3.0
Turkey	2.9	-1.3	3.5	5.0
Israel	4.0	4.6	4.7	3.9
Euro zone	1.7	1.7	1.9	1.9
World*	2.3	2.3	2.6	2.6

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2016	Apr-17	May-17	Jun-17
US\$ broad index	127.7	124.3	123.8	122.3
European euro (EUR)	0.95	0.92	0.89	0.88
Russian ruble (RUB)	60.4	57.0	56.8	59.1
British pound (GBP)	0.81	0.77	0.78	0.77
Turkish lira (TRY)	3.52	3.55	3.53	3.52
Israeli shekel (ILS)	3.84	3.62	3.54	3.49

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel	2016	Apr-17	May-17	Jun-17
Crude oil (Brent)	52.4	52.3	50.3	46.4
Jet fuel	64.0	63.4	59.3	54.4

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

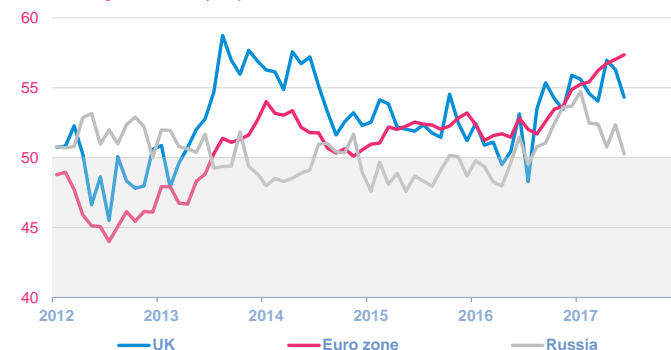
%change on a yr ago	2016	Mar-17	Apr-17	May-17
Region (registration basis)				
Europe	4.6	6.2	14.1	7.7
World	6.4	6.7	10.9	7.7
Routes (segment basis)				
Russia domestic	2.5	14.8	16.7	12.8
Within Europe	7.7	7.1	15.8	9.5
Europe - North America	2.5	-0.7	12.3	4.8
Europe - Asia	1.8	11.1	14.5	15.3
Europe - Middle East	9.9	0.6	13.2	1.1
Europe - Africa	1.8	3.6	14.5	3.5
Europe - South America	3.5	8.9	11.7	7.5

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

- ➔ After reaching a six-year high of 10.9% in April, growth in global RPKs slowed to (a still robust) 7.7%yoy pace in May. A similar pattern is evident in the regional data, where RPK growth moderated to the same pace for the European carriers, but from a higher starting point (14.1% in Apr).
- ➔ Russia domestic RPKs recorded their 7th consecutive month of double-digit growth in May, at 12.8%. While

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

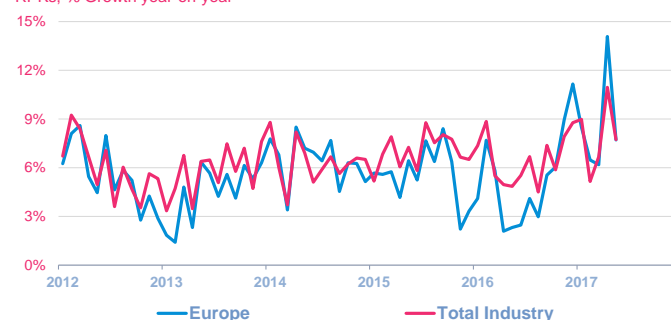
- ➔ Business confidence in the Eurozone moved higher again this month, against a generally positive economic backdrop. In the UK, Brexit uncertainty returned to the fore, weighing upon business sentiment. Oil price developments similarly impacted Russian businesses.
- ➔ On a trade-weighted basis, the US\$ slipped further in June, ending the month 1.3% lower. Of the main regional currencies, the RUB was the key mover, falling 4% vs the US\$ in the month. The EUR & ILS both gained 1.5%.
- ➔ Brent crude oil & jet fuel prices fell by 4-5% in June, with the former returning to below US\$50/bbl. Once again this month, supply-side considerations were the primary price drivers.

down a little from the pace of recent months, domestic RPKs have fully recovered in line with their (seas-adj) trend of prior to the collapse of Transaero.

- ➔ Europe-Asia remains the pick of the main international markets, with RPKs currently 15% higher than their level of a year ago. Within Europe is also performing strongly, with 9.5%yoy growth. In contrast, Europe-ME is the weakest performer at present with pax volumes up just 1.1%in yoy terms.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Mar-17	Apr-17	May-17
Region (registration basis)				
Europe	7.9	18.3	13.1	15.0
World	3.9	13.8	8.7	12.7
Routes (segment basis)				
Europe - Asia	3.9	20.0	11.9	13.4
Europe - North America	2.5	12.4	8.7	12.8
Europe - Middle East	7.1	30.4	15.5	20.4
Europe - Africa	-5.5	4.2	-1.8	5.5
Europe - South America	1.2	8.2	6.7	3.7
Within Europe	23.8	46.5	40.8	48.1

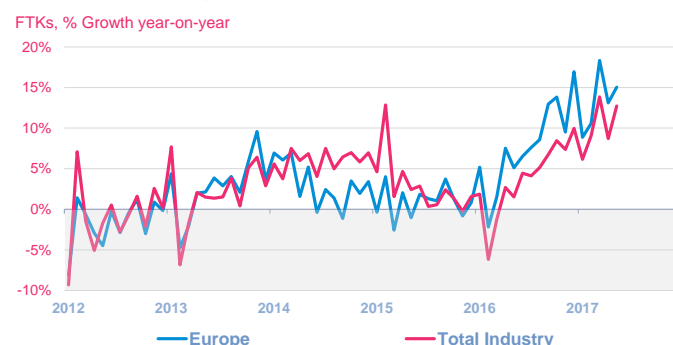
Source: IATA Statistics Note: historical data may be subject to revision

- Global FTKs bounced-back in May, returning to a brisk double-digit pace of growth, at 12.7%yoy; more than three times the 5-year average growth rate.
- Again, developments in the global aggregate were mirrored in the regional results, with FTK growth for the European carriers stepping up to a hefty 15.0%yoy pace & maintaining a solid gap above the industry rate.
- Europe-SthAm was the only (key) market where the yoy

pace of growth moderated this month. Each of the three largest freight markets for Europe, are growing at a double-digit pace – the pick being Europe-Middle East, up 20%yoy & in sharp contrast to its RPK performance.

- Europe-Africa FTKs continued their recent choppy growth outcomes, returning to positive territory in May.
- The fastest growing market continues to be (the smaller) Within Europe, where FTKs are now up almost 50%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		2016	Mar-17	Apr-17	May-17
Passenger					
Europe	ASK	4.8	5.5	8.1	5.6
	PLF	82.4	81.4	84.6	82.2
World	ASK	6.4	6.3	7.2	6.1
	PLF	80.5	80.2	82.1	80.1
Freight					
Europe	AFTK	7.3	6.7	7.0	5.7
	FLF	44.4	50.8	47.9	46.5
World	AFTK	5.4	3.9	4.0	5.2
	FLF	43.0	47.4	45.1	45.2

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

- At the industry level, robust demand conditions combined with moderate capacity increases have resulted in a strong performance for both pax & freight load factors over the course of the year so far.
- In broad terms, European carriers have increased pax & freight capacity at a similar rate to the overall industry over the past year. (European ASKs are up 5.6%yoy vs 6.1% for the industry & AFTKs are up 5.7%yoy vs 5.2%).
- Load factors for the European carriers continued to outperform the industry average in May, with a PLF of 82.2% & FLF of 46.5% (vs 80.1% & 45.2% for the industry overall).

Airline operating (EBIT) margins*

%revenues	2015	2016	2016Q1	2017Q1
Europe	5.4	6.1	-1.7	-2.8
Industry	8.5	8.8	8.7	4.5

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

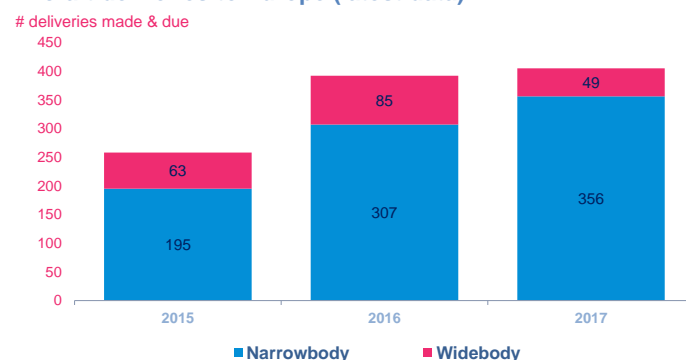
- The latest Q1 data confirm the softer EBIT margin outcomes vs a year ago from earlier readings. Industry-wide, the margin is now 4.5% (down from 8.7%) & for European carriers is now -2.8% (from -1.7%). (Note that Q1 is seasonally weak for European carriers.)
- Global pax yields are ~4.5% lower than a year ago, but are showing signs of having possibly bottomed. At the regional level, yoy yields have now risen in the Russia domestic market, along with the international European markets of Sth America, Asia & the Middle East.

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

%change on a yr ago	2016	Mar-17	Apr-17	May-17
Russia domestic	5.2	18.5	7.3	10.0
Within Europe	-7.6	-4.3	-8.9	-3.0
Europe - North America	-8.3	1.7	-15.9	-3.1
Europe - Asia	-10.3	1.1	-5.4	1.5
Europe - Middle East	-11.5	-4.1	-7.5	1.2
Europe - Africa	-8.3	-9.0	-12.4	-6.9
Europe - South America	-17.5	-0.4	-3.3	3.9

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

Aircraft deliveries to Europe (latest data)



Source: Ascend