

# STATE OF THE REGION: EUROPE

JULY 2018

## Economy

### GDP growth, selected countries

%change on a yr ago	2017	2017Q3	2017Q4	2018Q1
Germany	2.5	2.7	2.9	2.3
Russia	-0.2	2.2	0.9	1.3
France	2.3	2.7	2.8	2.2
UK	1.7	1.7	1.3	1.2
Italy	1.6	1.7	1.6	1.4
Spain	3.1	3.1	3.1	3.0
Turkey	7.4	11.3	7.3	7.4
Israel	3.3	3.1	3.1	4.1
Euro zone	2.5	2.8	2.8	2.5
<b>World*</b>	<b>3.2</b>	<b>3.2</b>	<b>3.3</b>	<b>3.2</b>

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

end of period, # per US\$	2017	Apr-18	May-18	Jun-18
US\$ broad index	120.0	118.2	121.5	123.4
European euro (EUR)	0.83	0.83	0.86	0.86
Russian ruble (RUB)	57.7	62.9	62.3	62.8
British pound (GBP)	0.74	0.73	0.75	0.76
Turkish lira (TRY)	3.79	4.06	4.52	4.59
Israeli shekel (ILS)	3.48	3.60	3.56	3.66

Source: Datastream, XE

### World oil and jet fuel price

US\$/barrel (period ave.)	2017	Apr-18	May-18	Jun-18
Crude oil (Brent)	54.2	72.1	77.0	74.4
Jet fuel	65.6	84.6	90.5	87.8

Source: Platts, EIA Monthly average data

## Market

### Revenue passenger kilometers (RPKs)

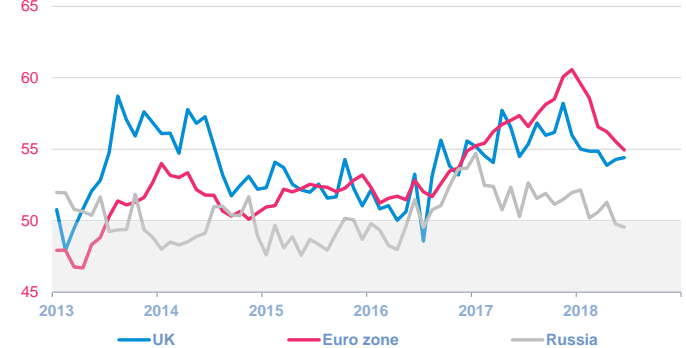
%change on a yr ago	2017	Mar-18	Apr-18	May-18
<b>Region (registration basis)</b>				
Europe	8.2	9.5	3.7	6.0
World	7.6	9.8	6.0	6.1
<b>Routes (segment basis)</b>				
Russia domestic	10.4	5.9	6.7	8.6
Within Europe	10.8	10.8	5.0	7.4
Europe - North America	4.1	7.8	-1.8	4.2
Europe - Asia	9.5	8.5	5.0	4.4
Europe - Middle East	6.6	13.2	2.8	0.6
Europe - Africa	6.5	10.6	2.2	3.6
Europe - South America	6.1	10.4	8.7	11.2

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

- Annual growth in industry-wide RPKs was broadly unchanged in May, at a solid 6.1%. While yoy growth remains above its long-run average rate, this year to date has seen a moderate slowing compared with the same period a year ago (6.3% vs 8.3% last year).
- RPK growth for the European carriers showed a clear improvement this month, lifting to 6.0%, broadly in line with the overall industry pace.

### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



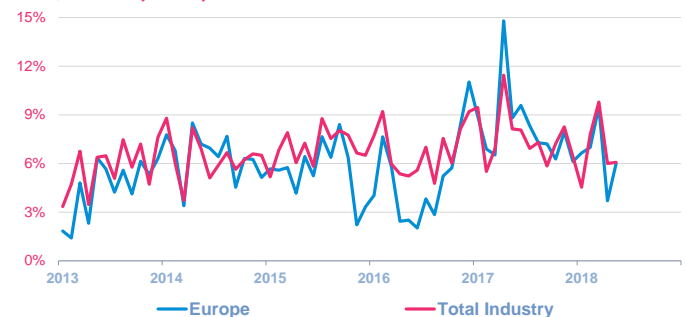
Source: Markit

- Business confidence in Russia softened slightly again this month, on weaker new orders. In Europe, concern over a possible trade war prompted a fall in sentiment to its lowest level in 18mths, but UK businesses shrugged off Brexit & trade war concerns to register a small rise.
- On a trade-weighted basis, the US\$ rose by 1.6% in June, a second consecutive solid monthly gain. The main regional currencies all ended the month modestly lower vs the US\$, with the TRY down 1.4% & the ILS down 2.6% the most notable changes.
- Brent crude oil & jet fuel prices both fell in June, by 3-3.5%, but only partly unwound the sizeable increase in May. Oil & jet fuel prices are still ~60% higher than their level of a year ago.

- Growth in pax volumes for the Russia domestic market lifted to a brisk 8.6%yoy in May, with demand supported by revenues from the higher world oil price.
- Of the main international markets, (the smaller) Europe-Sth America continues to be the strongest performer, with RPKs returning to a double-digit pace of 11.2%yoy. Notwithstanding recent ATC strikes across the region, the Within Europe market remains robust, with growth recovering to a robust 7.4%yoy in May.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

## Freight tonne kilometers (FTKs)

%change on a yr ago	2017	Mar-18	Apr-18	May-18
<b>Region (registration basis)</b>				
Europe	12.1	1.2	3.5	2.3
World	9.1	2.5	5.2	4.2
<b>Routes (segment basis)</b>				
Europe - Asia	11.0	-1.2	0.8	1.0
Europe - North America	9.9	6.8	6.4	3.5
Europe - Middle East	11.0	0.5	9.9	4.1
Europe - Africa	2.4	-0.1	-0.6	-4.8
Europe - South America	6.9	17.0	13.9	9.9
Within Europe	32.9	3.9	5.0	4.8

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

- ➔ Annual growth in industry-wide FTKs slowed to 4.2% in May, from 5.2% in Apr. Against a weaker world trade backdrop, demand momentum has also softened; FTKs have risen at an annualized pace of ~4% over the past 6mths or so, around ⅓ the pace of mid-2017.
- ➔ At the regional level, FTK growth also slowed for the European carriers, to 2.3%yoy, remaining solidly below the pace of overall industry growth.

## Industry

### Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2017	Mar-18	Apr-18	May-18
<b>Passenger</b>					
Europe	ASK	6.2	6.1	4.1	5.0
	PLF	83.9	83.9	84.0	83.0
World	ASK	6.3	6.6	5.9	5.9
	PLF	81.5	82.5	82.2	80.1
<b>Freight</b>					
Europe	AFTK	5.8	3.8	5.1	6.0
	FLF	46.6	49.1	46.7	44.5
World	AFTK	3.5	5.4	6.1	6.2
	FLF	45.2	46.3	44.9	44.6

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

- ➔ The latest industry PLF marked the first time on record that the 80% level was exceeded in a month of May. This outcome was, however, bested by the European carriers again this month, who delivered a PLF of 83.0%.
- ➔ On the freight side, the performance of the European carriers essentially matches that of the industry overall, in terms of both capacity growth (AFTKs are up ~6%yoy) & load factor (around 44.5%).
- ➔ The latest financial data for Q1 show an improved EBIT margin outcome compared with that of a year ago both for the industry overall & the European airlines. At the industry level, the EBIT margin is up 0.7pp to a

### Airline operating (EBIT) margins\*

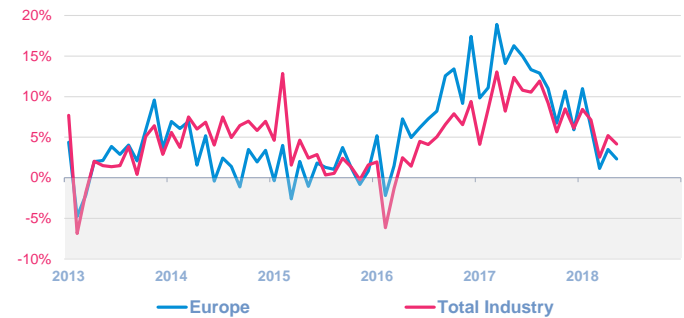
%revenues	2016	2017	2017Q1	2018Q1
Europe	6.1	6.8	-2.3	1.9
Industry	8.5	7.5	4.9	5.6

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

- ➔ Outcomes are generally positive for freight volume growth across the region's main international markets, with the exception of Europe-Africa, where FTKs are down a solid 4.8%yoy.
- ➔ In contrast, FTKs have *increased* by a similar magnitude for the Within Europe market & are up by almost 10% in the strongest growing Europe-South America market on this occasion.

### Growth in air freight volumes

FTKs, % Growth year-on-year



Source: IATA Statistics

moderate 5.6% while the European airlines are showing a 4.2pp turnaround, to 1.9% in Q1 2018.

- ➔ The passenger yield developments amongst the region's key markets (vs a year ago) appear more mixed this month. Both Russia domestic & Europe-ME yields are down 2-3%yoy, although for both this reflects a strong yield improvement 12mths ago rather than any recent softening. The Within Europe & Europe-NthAm markets remain the strongest performers at present, with yields up strongly (14.5% & 9.6%, respectively) vs a year ago.

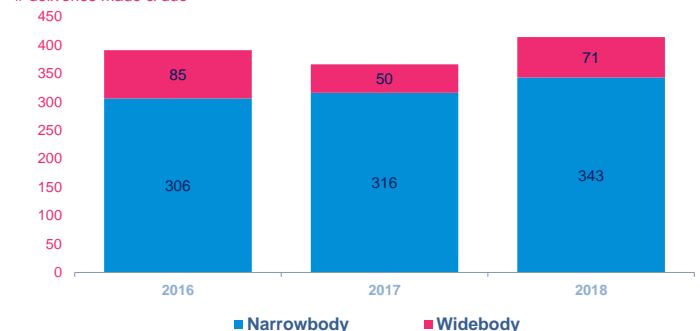
### Passenger yields (US\$, excl. surcharges & ancillaries)

%change on a yr ago	2017	Mar-18	Apr-18	May-18
Russia domestic	12.5	6.7	5.8	-2.9
Within Europe	-1.6	17.4	23.0	14.5
Europe - North America	-1.9	6.4	24.7	9.6
Europe - Asia	1.9	6.3	9.5	2.5
Europe - Middle East	-2.3	5.5	5.6	-2.0
Europe - Africa	-5.3	12.2	16.0	6.9
Europe - South America	7.5	8.5	13.1	7.3

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

### Aircraft deliveries to Europe

# deliveries made & due



Source: Ascend