

State of the region: Europe

Economy

GDP growth, selected countries

% change on a yr ago	2018	Q3 2018	Q4 2018	Q1 2019
Germany	1.4	1.2	0.6	0.7
Russia	2.3	2.2	2.7	0.5
France	1.7	1.5	1.2	1.2
UK	1.4	1.6	1.4	1.8
Italy	0.7	0.5	0.0	-0.1
Spain	2.6	2.5	2.3	2.4
Turkey	2.6	1.8	-3.0	-2.6
Israel	3.4	2.9	2.9	3.2
Euro zone	1.9	1.7	1.2	1.2
World*	3.2	3.1	2.9	2.9

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2018	Apr-19	May-19	Jun-19
US\$ broad index	128.5	127.4	128.7	128.3
European euro (EUR)	0.87	0.89	0.90	0.88
Russian ruble (RUB)	69.37	64.58	65.14	63.08
British pound (GBP)	0.79	0.77	0.79	0.79
Turkish lira (TRY)	5.29	5.97	5.84	5.78
Israeli shekel (ILS)	3.74	3.60	3.63	3.57

Source: Datastream

World oil and jet fuel price

US\$/barrel (period ave.)	2018	Apr-19	May-19	Jun-19
Crude oil (Brent)	71.7	71.5	70.4	63.2
Jet fuel	86.4	84.2	84.4	76.5

Source: Platts, Datastream (monthly average data)

Market

Revenue passenger kilometers (RPKs)

% change on a yr ago	2018	Mar-19	Apr-19	May-19
Region (registration basis)				
Europe	6.8	5.1	7.4	5.4
World	6.5	3.1	4.4	4.5
Routes (segment basis)				
Russia domestic	10.1	14.3	10.4	10.6
Within Europe	8.3	8.0	9.4	8.4
Europe - North America	4.4	3.3	7.5	6.9
Europe - Asia	7.1	4.4	8.5	10.4
Europe - Middle East	4.9	-2.0	4.6	-0.7
Europe - Africa	6.7	5.5	9.6	8.0
Europe - South America	8.5	7.5	7.6	7.2

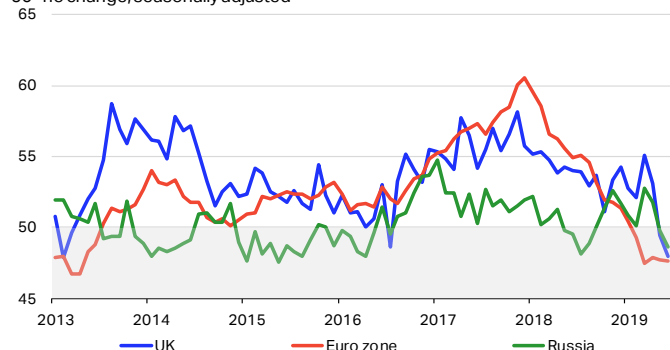
Source: IATA Statistics Note: historical data may be subject to revision

- Industry-wide revenue passenger kilometres (RPKs) ticked marginally higher in May, up 4.5% in year-on-year terms. Although this represents a solid outcome – following a short-lived dip in activity in March – RPK growth remained below the long-term average (5.5%).
- Airlines based in Europe continued to outperform the industry-wide outcome in terms of RPK growth for the ninth consecutive month. That said, the pace of growth has been moderating since mid-2017.

July 2019

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



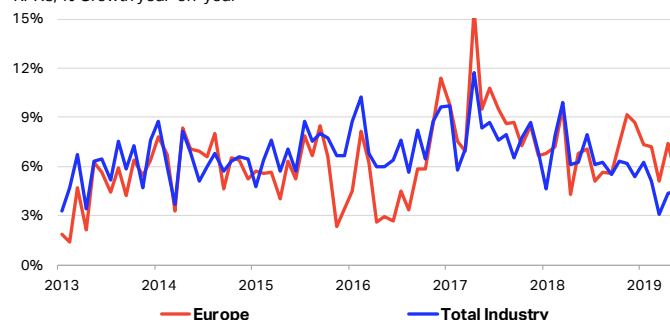
Source: Markit

- Business confidence deteriorated further across all three markets that we regularly track. Brexit uncertainty and concerns about future economic backdrop continued to weigh upon operating conditions in both the UK and the Eurozone while weaker demand contributed to further fall in sentiment in Russia.
- On a trade-weighted basis, the US\$ fell by a modest 0.4% in June, after 4 consecutive monthly increases. All of the key regional currencies ended the month up vs the US\$, most notably the RUB (3.2%) & EUR (2.2%).
- The average crude oil and jet fuel price for June hides high data volatility; while prices eased early in the month on economic growth uncertainty, they recovered later amid concerns about tighter oil supply.

- A generally solid economic backdrop along with lower fares continue to support passenger demand in the domestic Russia market; May marked the tenth consecutive month of double-digit growth in RPKs.
- Demand growth also remained robust across the region's key international markets. The only exception was Europe-Middle East that recorded volumes declining by ~1% vs a year ago, following a short-lived improvement in April.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

% change on a yr ago	2018	Mar-19	Apr-19	May-19
Region (registration basis)				
Europe	3.3	3.0	-6.9	-0.2
World	3.5	-0.6	-5.6	-3.4
Routes (segment basis)				
Europe - Asia	1.1	1.4	-6.0	1.9
Europe - North America	3.3	0.0	-7.1	-2.9
Europe - Middle East	3.7	5.3	-7.4	-7.2
Europe - Africa	-0.4	1.0	-0.1	3.4
Europe - South America	9.1	0.3	-2.8	2.3
Within Europe	8.5	13.8	-23.6	3.8

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

- Global trade tensions continued to weigh on air freight demand in May; annual growth in industry-wide FTKs remained in negative territory with Asia Pacific and the Middle East being the main contributors to the decline.
- For Europe, freight volumes remained lower vs a year ago, although to a smaller extent than in the previous month. Moderating economic activity along with faltering business confidence continue to be the main drivers of the region's weaker performance.

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago,		2018	Mar-19	Apr-19	May-19
LF: % of ASK/AFTK					
Passenger					
Europe	ASK	6.0	5.4	6.1	4.6
	PLF	84.6	83.7	85.1	83.7
World	ASK	6.1	4.0	3.6	2.7
	PLF	81.9	81.9	82.9	81.5
Freight					
Europe	AFTK	4.5	5.5	2.9	2.5
	FLF	54.3	56.1	49.9	51.3
World	AFTK	5.2	2.5	2.0	1.3
	FLF	49.1	49.5	46.1	46.8

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

- The industry-wide passenger load factor (PLF) remained robust at 81.5% in May. The story was less positive for freight; despite the modest uptick this month, the LF has maintained its downward trend.
- Despite modest decline vs the previous month, European airlines posted a record high PLF for May, up 0.6ppt vs a year ago. For freight, the load factor ticked up slightly, partly unwinding the fall observed in April.
- Our final data for Q1 2019 (sample of 81 airlines) confirm the industry-wide decline in profitability vs a year ago, with clear differences at the regional level. Profitability remains under pressure for European

Airline operating (EBIT) margins*

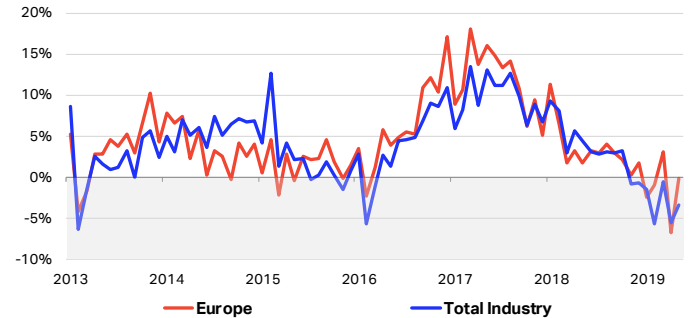
% revenues	2017	2018	2018Q1	2019Q1
Europe	7.9	6.2	1.8	-5.3
Industry	7.5	5.8	4.6	2.9

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

- Although downward pressure on FTKs eased across the key international markets in the region this month, volumes continue to decline vs a year ago on the larger Europe-NthAm & Europe-Middle East routes.
- While Europe-Asia was the main mover amongst the larger markets this month, with growth improving by almost 8ppt to ~2% y-o-y, Within Europe was the best performing smaller market.

Growth in air freight volumes

FTKs, % Growth year-on-year



Source: IATA Statistics

carriers with EBIT margin ~7ppt lower vs Q1 2018.

- Passenger yields remained lower compared to the same period a year ago on the majority of the key international and domestic routes in the region – a result consistent with regional profit outcome. The smallest Europe-SthAm market remained the key underperformer this month with yields down ~19%.

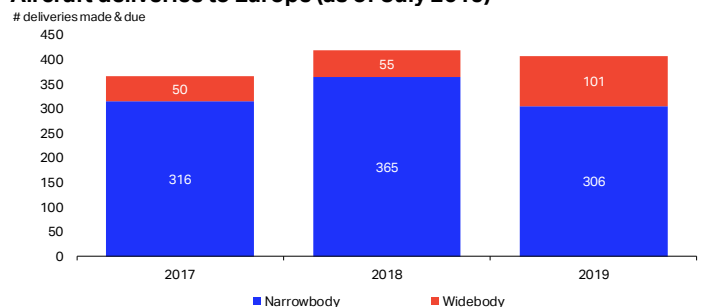
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2018	Mar-19	Apr-19	May-19
Russia domestic	-6.1	-9.8	-2.8	-3.9
Within Europe	4.4	-13.0	-8.5	-10.3
Europe - North America	5.3	-6.6	-7.4	0.2
Europe - Asia	0.9	-9.6	-10.0	-1.0
Europe - Middle East	2.5	-11.0	-2.4	-2.8
Europe - Africa	3.7	-12.3	-7.4	-11.7
Europe - South America	-1.5	-13.4	-22.7	-18.8

Source: IATA Travel Intelligence Note: historical data may be subject to revision

- The latest data indicate a modest decline in the number of jet aircraft deliveries scheduled for the European carriers in 2019 vs 2018.

Aircraft deliveries to Europe (as of July 2019)



Source: Ascend