



STATE OF THE REGION: EUROPE

JUNE 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	0.3
France	1.1	0.9	1.2	1.0
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	1.8	1.8	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	Mar-17	Apr-17	May-17
US\$ broad index	127.7	125.3	124.3	123.8
European euro (EUR)	0.95	0.93	0.92	0.89
Russian ruble (RUB)	60.4	56.4	57.0	56.8
British pound (GBP)	0.81	0.80	0.77	0.78
Turkish lira (TRY)	3.52	3.65	3.55	3.53
Israeli shekel (ILS)	3.84	3.63	3.62	3.54

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel	2016	Mar-17	Apr-17	May-17
Crude oil (Brent)	52.4	51.6	52.3	50.3
Jet fuel	64.0	60.7	63.4	59.3

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

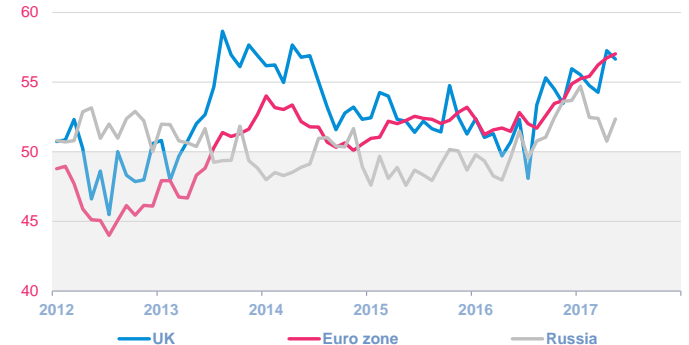
%change on a yr ago	2016	Feb-17	Mar-17	Apr-17
Region (registration basis)				
Europe	4.6	6.3	6.0	14.0
World	6.3	5.1	6.5	10.7
Routes (segment basis)				
Russia domestic	2.5	13.3	14.8	16.7
Within Europe	7.7	8.8	7.1	15.9
Europe - North America	2.5	-0.3	-0.7	12.3
Europe - Asia	1.8	9.5	11.2	14.5
Europe - Middle East	9.9	7.4	0.6	13.2
Europe - Africa	1.8	4.6	3.6	14.5
Europe - South America	3.5	2.9	8.9	11.7

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

- Global RPKs stepped up in Apr, growing by a brisk 10.7%yoy – the fastest rate in six years. The performance at the regional level was even stronger, with European carrier RPKs surging to a very strong 14.0%yoy pace. Putting this into context, the long-run average growth rate is around 5.5%yoy.
- Russia domestic RPKs maintained their strong recent performance & are now up 16.7%yoy; the fastest pace

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

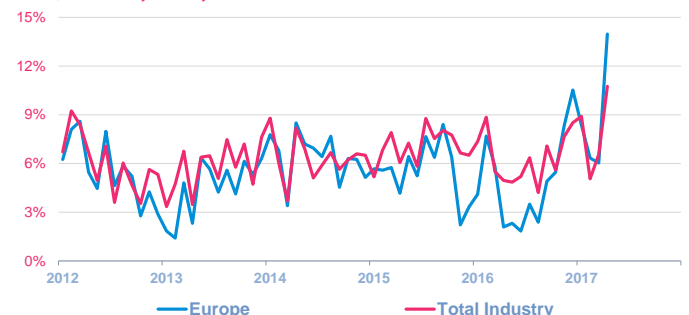
- The Eurozone business confidence indicator moved to a new six year high this month. The UK measure dipped slightly, but remains elevated, & sentiment in Russia unwound all of last month's decline.
- On a trade-weighted basis, the US\$ eased a little in May, down 0.4%, & is now 3% lower than the start of the year. Of the main regional currencies, the EUR jumped 3% & the ILS a solid 2.3% vs the US\$. The GBP went against the trend, falling 0.4%.
- Brent crude oil & jet fuel prices fell by US\$2 & US\$4/bbl in May, reaching their lowest level in ~5mths & both more than unwinding the April gain. The moves were mainly driven by strong supply & inventories data.

amongst all the domestic markets we consistently monitor for the first time since Aug 2014.

- All of the main international markets, are currently growing at a double-digit (yoy) pace. The uplift this month in the Europe-NthAm & Europe-ME growth rate is particularly notable.
- Within Europe remains the strongest performing market with RPKs up 16% on their level of a year ago, closely followed by Europe-Asia & Europe-Africa at 14.5%.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Feb-17	Mar-17	Apr-17
Region (registration basis)				
Europe	7.6	10.5	18.2	12.9
World	3.8	8.7	13.4	8.5
Routes (segment basis)				
Europe - Asia	3.9	10.9	20.0	11.9
Europe - North America	2.5	7.2	12.3	9.3
Europe - Middle East	7.1	11.3	30.4	15.5
Europe - Africa	-5.5	-1.0	4.2	-1.8
Europe - South America	1.2	2.7	8.2	0.0
Within Europe	23.8	29.3	46.5	40.8

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

- Global FTKs grew by 8.5%yoy in Apr, dipping from the very strong 13.4% pace of last month. Despite the robust start to 2017, the upward trend in the seasonally adjusted data has slowed to a more modest 4% annualized pace since the end of last year.
- For European carriers, FTKs retraced some of last month's surge, to be up 12.9%yoy, still well above the industry rate.
- The pace of growth moderated in each of the top three

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2016	Feb-17	Mar-17	Apr-17
Passenger					
Europe	ASK	4.4	3.6	5.3	8.0
	PLF	82.4	80.2	81.4	84.6
World	ASK	6.2	2.8	6.2	7.1
	PLF	80.5	79.6	80.1	82.0
Freight					
Europe	AFTK	6.8	2.3	6.7	6.9
	FLF	44.5	47.3	50.8	47.9
World	AFTK	5.3	0.2	4.1	3.9
	FLF	43.0	43.4	47.2	45.0

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 at a faster rate than the overall industry over the past year. Europe ASKs are up a strong 8.0%yoy & AFTKs are up 6.9%yoy compared with 7.1% & 3.9%, respectively, for the industry.
- Notwithstanding the strong capacity growth, European carriers continue to deliver load factors which exceed the industry average; 84.6% vs 82.0% for the PLF in April & 47.9% vs 45.0% for the FLF.
- The latest Q1 financial data highlight the degree of margin squeeze in the industry; with lower EBIT margins

Airline operating (EBIT) margins*

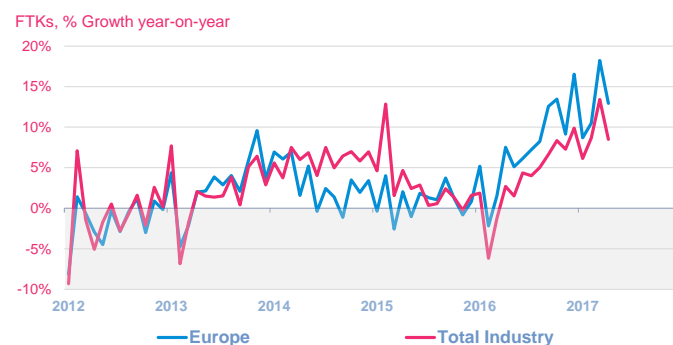
%revenues	2015	2016	2016Q1	2017Q1
Europe	5.4	6.1	-1.7	-2.7
Industry	8.5	8.8	8.3	4.0

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

largest freight markets for Europe, which nonetheless continue to grow at or close to a double-digit pace.

- Freight volumes for Europe-Africa were unable to remain in positive territory for a consecutive month in Apr, & are now 2% below their level of a year ago. Europe-Sth America volumes also fell away this month & are unchanged over the past year.
- The fastest growing market continues to be (the smaller) Within Europe, where FTKs are up 40%yoy.

Growth in air freight volumes



Source: IATA Statistics

at both the regional & industry level compared with the first quarter of 2016. Recall that these data are not seasonally adjusted & Q1 is seasonally weak for European carriers.

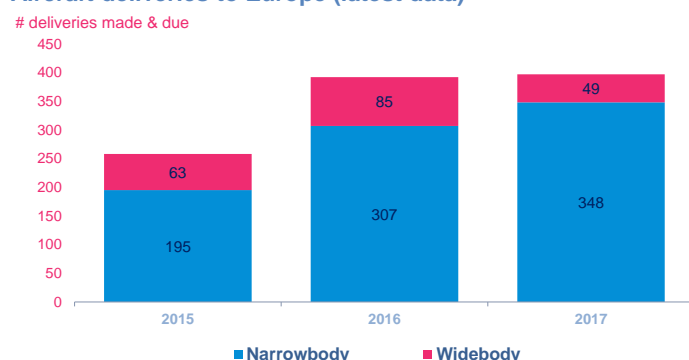
- Global pax yields are still down 3-5%yoy, but continue to show signs of having possibly bottomed. Yield developments on key routes for Europe are generally still well down on their year ago level, with Russia domestic the exception, where yields are up 6.2%yoy.

Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2016	Feb-17	Mar-17	Apr-17
Russia domestic	6.1	18.5	17.0	6.2
Within Europe	-7.6	-9.6	-5.2	-9.9
Europe - North America	-8.3	-12.3	1.3	-16.2
Europe - Asia	-10.3	-3.7	0.6	-6.3
Europe - Middle East	-11.5	-10.6	-5.3	-8.2
Europe - Africa	-8.3	-14.8	-9.4	-12.8
Europe - South America	-17.5	-6.0	-0.2	-3.0

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

Aircraft deliveries to Europe (latest data)



Source: Ascend