

STATE OF THE REGION: EUROPE

JUNE 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	1.8	1.8	1.4	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	2.6	2.8	2.8	2.5
World*	3.1	3.2	3.2	3.3

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2017	Mar-18	Apr-18	May-18
US\$ broad index	120.0	118.1	118.2	121.5
European euro (EUR)	0.83	0.81	0.83	0.86
Russian ruble (RUB)	57.7	57.4	62.9	62.3
British pound (GBP)	0.74	0.71	0.73	0.75
Turkish lira (TRY)	3.79	3.96	4.06	4.52
Israeli shekel (ILS)	3.48	3.51	3.60	3.56

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel (period ave.)	2017	Mar-18	Apr-18	May-18
Crude oil (Brent)	54.2	66.0	72.1	77.0
Jet fuel	65.6	78.0	84.6	90.5

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

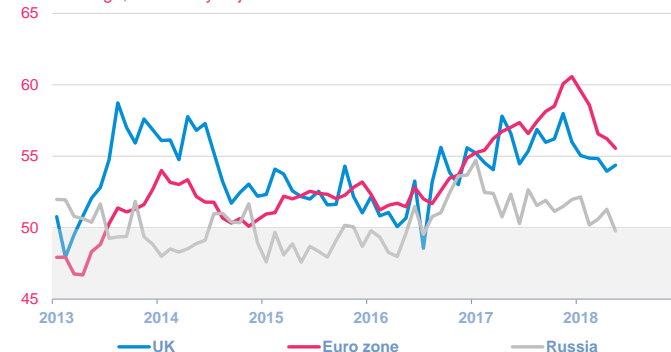
%change on a yr ago	2017	Feb-18	Mar-18	Apr-18
Region (registration basis)				
Europe	8.2	7.0	9.5	3.7
World	7.6	7.8	9.7	6.2
Routes (segment basis)				
Russia domestic	10.4	5.9	5.9	6.7
Within Europe	10.8	8.9	10.9	5.0
Europe - North America	4.1	1.4	7.8	-1.8
Europe - Asia	9.5	7.1	8.5	5.0
Europe - Middle East	6.6	5.3	13.2	2.8
Europe - Africa	6.5	6.9	10.6	2.2
Europe - South America	6.1	9.8	10.4	8.7

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

- ➔ Annual growth in industry-wide RPKs slowed to 6.2% in April, from a 12-month high of 9.7% in Mar. The slowdown largely reflects developments a year ago – incl. the late timing of Easter in 2017. Even so, the rate of growth remains above its long-run average pace.
- ➔ RPK growth for the European carriers also slowed in Apr – more dramatically than observed at the industry-level – to a moderate 3.7%yoy pace.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



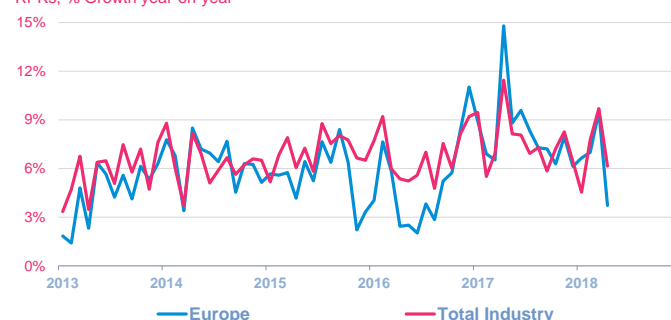
Source: Markit

- ➔ Business confidence in Russia dipped below the key index level of 50 for the first time since mid-2016 on higher costs & softer demand. Sentiment in both the Eurozone & UK remains elevated, notwithstanding ongoing uncertainties around the Brexit negotiations.
- ➔ On a trade-weighted basis, the US\$ rose by ~3% in May, benefitting from safe-haven inflows. Most of the main regional currencies were lower in the month, with the TRY down a sizeable 11.5%. The RUB & ILS went against the trend rising modestly, by 1% vs the US\$.
- ➔ Brent crude oil & jet fuel prices both rose further in May, by US\$5-6/bbl. Geopolitical concerns & supply tightening were key factors again this month. Prices are now more than 50% higher compared with a year ago.

- ➔ In part this reflects the impact of industrial action (labour strikes) in the region, notably in France.
- ➔ The Russia domestic market went against the broad trend, with growth in pax volumes increasing in Apr, to a robust 6.7%yoy.
- ➔ Of the main international markets, the smaller Europe-Sth America is the strongest performer this month, with RPKs up 8.7%yoy, followed by Within Europe & Europe-Asia at 5.0%.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2017	Feb-18	Mar-18	Apr-18
Region (registration basis)				
Europe	12.1	5.9	0.9	2.4
World	9.1	6.8	1.8	4.1
Routes (segment basis)				
Europe - Asia	11.0	8.7	-1.2	0.8
Europe - North America	9.9	6.9	6.8	6.4
Europe - Middle East	11.0	4.1	0.5	9.6
Europe - Africa	2.4	0.2	-0.1	-0.6
Europe - South America	6.9	15.8	17.0	13.9
Within Europe	32.9	14.0	3.9	5.0

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

- ➔ After falling to a 23-month low in Mar, annual growth in industry-wide FTKs recovered to a solid 4.1% in Apr. In seasonally-adjusted terms, global FTK volumes have been trending broadly sideways since August last year.
- ➔ A similar pattern is evident this month at the regional level, where annual FTK growth improved to a modest 2.4% (from just 0.9% in Mar), remaining solidly below the pace of industry growth.

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2017	Feb-18	Mar-18	Apr-18
Passenger					
Europe	ASK	6.2	4.9	6.1	4.1
	PLF	83.9	81.6	83.9	84.1
World	ASK	6.3	6.4	6.5	5.9
	PLF	81.5	80.5	82.5	82.3
Freight					
Europe	AFTK	5.8	4.4	3.3	4.0
	FLF	46.6	47.4	49.2	46.7
World	AFTK	3.0	6.7	4.8	5.1
	FLF	45.5	43.9	46.3	44.8

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

- ➔ Over the past year, the European carriers have increased both pax and freight capacity at a slower rate than the industry as a whole. ASKs are up 4.1% vs 5.9% & AFTKs are up 4.0% vs 5.1% at the industry level.
- ➔ The latest load factor data show the European airlines continue to outperform the industry overall. On the pax side, the European airlines recorded a load factor of 84.1% in Apr vs 82.3% industry-wide. For freight, the figures are 46.7% vs 44.8% industry wide.
- ➔ The latest financial data for Q1 show a 1pp improvement in the overall industry EBIT margin compared with a year ago, to 5.7% currently. For the region's carriers, the Q1

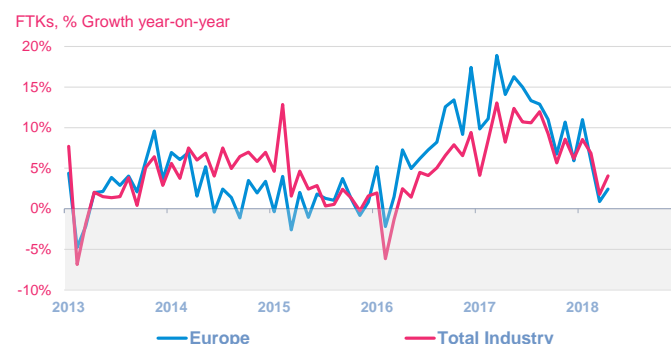
Airline operating (EBIT) margins*

%revenues	2016	2017	2017Q1	2018Q1
Europe	6.1	6.8	-2.2	2.0
Industry	8.5	7.5	4.7	5.7

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

- ➔ Outcomes are mixed for the region's main international markets. FTK growth returned to a positive annual rate in Apr for the (largest) Asia market, but slipped further for Africa. The #3 ranked Middle East market delivered a sharp jump in growth, to 9.6%yoy from 0.5% in Mar.
- ➔ The smaller Sth America market remains the strongest performer this month, with freight volume growth continuing at a brisk double-digit pace of 13.9%yoy.

Growth in air freight volumes



Source: IATA Statistics

margin shows a sizeable improvement vs 1Q17, currently +2.0% vs -2.2% a year ago. Recall that these data are not adjusted for seasonal variations.

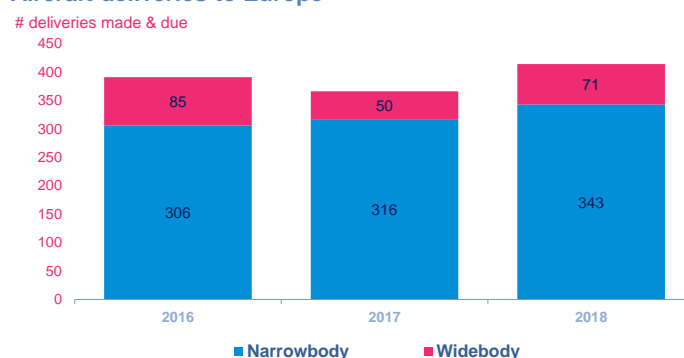
- ➔ Passenger yields amongst the region's key markets continue to show generally strong increases compared with a year ago. The Within Europe & Europe-NthAm markets are the strongest performers currently, with yields up more than 20%yoy. The smaller Africa & SthAm markets are also showing double-digit yield increases vs a year ago.

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

%change on a yr ago	2017	Feb-18	Mar-18	Apr-18
Russia domestic	12.5	10.0	6.7	5.8
Within Europe	-1.6	19.0	17.8	23.0
Europe - North America	-1.9	12.6	5.9	24.7
Europe - Asia	1.9	6.0	6.4	9.6
Europe - Middle East	-2.3	5.7	4.9	5.1
Europe - Africa	-5.3	11.2	12.2	16.0
Europe - South America	7.5	15.4	8.9	13.2

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

Aircraft deliveries to Europe



Source: Ascend