

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	Mar-19	Apr-19	May-19
US\$ broad index	128.5	127.2	127.4	128.7
European euro (EUR)	0.87	0.89	0.89	0.90
Russian ruble (RUB)	69.37	65.70	64.58	65.14
British pound (GBP)	0.79	0.77	0.77	0.79
Turkish lira (TRY)	5.29	5.65	5.97	5.84
Israeli shekel (ILS)	3.74	3.63	3.60	3.63

Source: Datastream

World oil and jet fuel price

US\$/barrel (period ave.)	2018	Mar-19	Apr-19	May-19
Crude oil (Brent)	71.7	66.9	71.5	70.4
Jet fuel	86.4	81.1	84.2	84.4

Source: Platts, Datastream (monthly average data)

Market

Revenue passenger kilometers (RPKs)

% change on a yr ago	2018	Feb-19	Mar-19	Apr-19
Region (registration basis)				
Europe	6.7	7.3	5.2	7.6
World	6.5	5.1	3.1	4.3
Routes (segment basis)				
Russia domestic	10.1	10.1	14.2	10.4
Within Europe	8.3	9.9	7.8	9.3
Europe - North America	4.4	9.4	3.3	7.4
Europe - Asia	7.1	5.7	4.5	8.1
Europe - Middle East	4.9	2.4	-2.0	4.5
Europe - Africa	6.7	6.1	5.4	9.6
Europe - South America	9.3	5.2	6.7	6.8

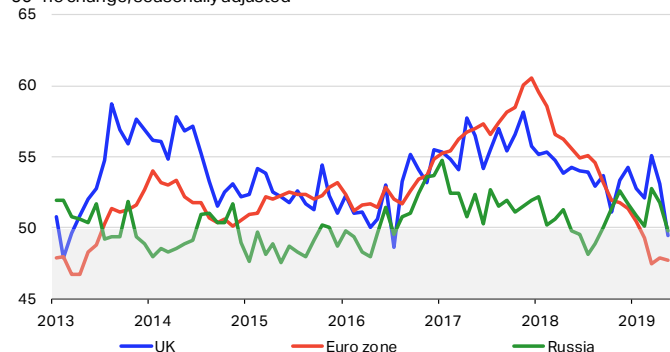
Source: IATA Statistics Note: historical data may be subject to revision

- Annual growth in industry-wide revenue passenger kilometres (RPKs) recovered to 4.3% in April, up from 3.1% in the previous month. The pace of demand remains steady but is well below the long-run average of around 5%.
- Carriers based in Europe posted the fastest year-on-year RPK growth of all regions in April, following a trough in March. The 7.6% increase in passenger

June 2019

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

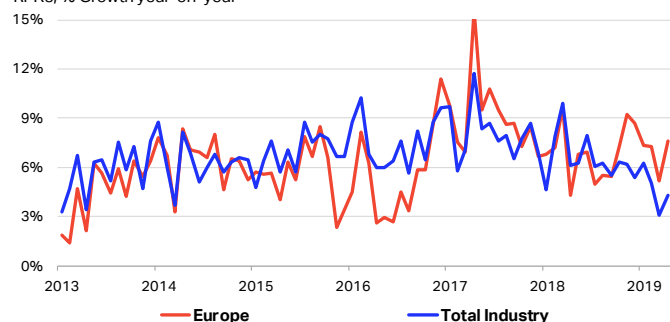
- Business confidence dipped below the 50-mark into the territory associated with contraction for both the UK and Russia in April. In the Eurozone, sentiment remains subdued amidst softer economic outcomes, as well as political uncertainties including Brexit.
- On a trade-weighted basis, the US\$ rose by 1.1%, in May, its 4th consecutive monthly increase. Of the main regional currencies that we regularly track, the TRY gained 2.2% against the US\$, while the GBP ended the month down by 3.4%.
- Brent crude oil and jet fuel prices lost their strong upward momentum at the end of May as escalating US-China trade tensions reinforced concerns over a slowdown in global oil demand.

volumes represents the strongest outcome for the region since the end of 2018.

- Domestic Russia continues to post strong double-digit growth (10.4%), which has been supported by generally solid economic conditions, lower fares and improving air-connectivity.
- Annual RPK growth performance improved across all key international routes in April vs the previous month. The largest Within Europe remained among the best performers with RPKs up almost 10% vs a year ago.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

% change on a yr ago	2018	Feb-19	Mar-19	Apr-19
Region (registration basis)				
Europe	3.3	-0.8	3.6	-6.2
World	3.5	-5.1	-0.5	-4.7
Routes (segment basis)				
Europe - Asia	1.1	-6.5	1.6	-6.0
Europe - North America	3.2	-0.1	-0.3	-7.3
Europe - Middle East	3.6	4.5	5.3	-8.3
Europe - Africa	-0.8	0.1	1.3	0.0
Europe - South America	7.7	-0.2	1.6	-1.5
Within Europe	9.0	10.9	12.6	-24.2

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

- Industry-wide FTK growth declined again in April, remaining in negative territory for the sixth consecutive month. Air freight volumes are currently 4.7% lower than their year-ago level.
- FTKs for carriers based in Europe fell sharply vs a year ago (down 6.2%) amidst weaker German export orders, subdued economic data and activity in a number of region's key economies and ongoing Brexit uncertainty.

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago		2018	Feb-19	Mar-19	Apr-19
LF: % of ASK/AFTK					
Passenger					
Europe	ASK	5.9	7.7	5.5	6.3
	PLF	84.6	81.6	83.7	85.1
World	ASK	6.1	5.2	4.2	3.6
	PLF	81.9	80.6	81.8	82.8
Freight					
Europe	AFTK	4.4	4.1	6.3	4.2
	FLF	54.3	53.0	56.0	49.6
World	AFTK	5.1	2.7	2.9	2.6
	FLF	49.1	44.5	49.4	46.3

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

- Industry-wide passenger load factor (PLF) picked-up to 82.8%, a record high outcome for the month of April. By contrast, the freight load factor (FLF) eased to 46.3%, following strong performance in March (49.4%).
- Carriers based in Europe posted a record high PLF for April (based on data since 1990), up 1ppt vs a year ago. For freight, the load factor fell sharply but remained above the industry-wide outcome.
- The latest financial data for Q1 2019 confirm a decline in industry profitability vs the same period a year ago; the EBIT margin fell to 2.3%, from 4.2% in Q1 2018.

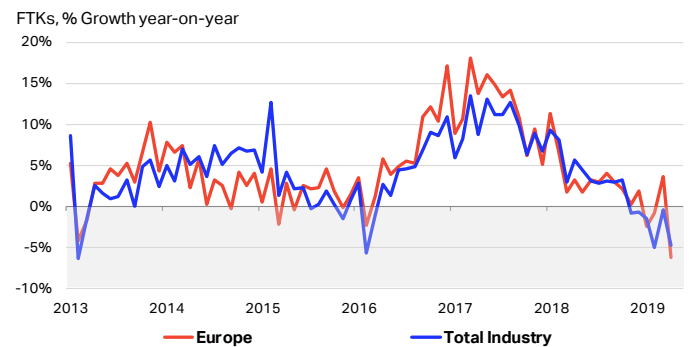
Airline operating (EBIT) margins*

% revenues	2016	2017	2018Q1	2019Q1
Europe	6.1	7.9	1.8	-5.2
Industry	8.5	7.5	4.2	2.3

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

- Of the key international markets in the region, FTK growth for the largest European market (Asia) dipped, after a short-lived improvement in March, to -6% y-o-y. Freight demand was weaker also in the second largest Europe-NthAm market, recording volumes down more than 7% vs the same period a year ago.
- As mentioned in last month's note, slowing growth in these two markets partly reflects the indirect effects of the US-China trade tensions, two of Europe's major export partners.

Growth in air freight volumes



Source: IATA Statistics

At the regional level, the EBIT margin fell by ~7ppt vs Q1 2018, to -5.2% of revenues.

- Growth in pax yields remained under pressure on all of the key regional routes in April – an outcome consistent with the observed squeeze in profit margins. The smallest Europe-SthAm was the key underperformer this month, posting yields down almost 23% vs a year ago.

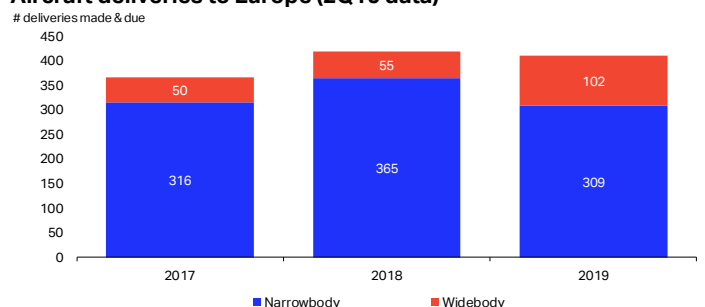
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2018	Feb-19	Mar-19	Apr-19
Russia domestic	-6.1	-12.2	-9.8	-2.8
Within Europe	4.3	-12.5	-12.9	-8.4
Europe - North America	5.2	-6.0	-6.6	-7.4
Europe - Asia	1.0	-7.9	-9.7	-10.1
Europe - Middle East	2.7	-10.2	-10.9	-3.3
Europe - Africa	3.8	-12.6	-12.3	-7.4
Europe - South America	-1.4	-21.2	-13.4	-22.7

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

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

Aircraft deliveries to Europe (2Q19 data)



Source: Ascend