



STATE OF THE REGION: EUROPE

MARCH 2016

Economy

GDP growth, selected countries

%change on a yr ago	2014	2015Q2	2015Q3	2015Q4
Germany	1.6	1.6	1.7	1.3
Russia	0.7	-3.8	-3.7	--
France	0.2	1.1	1.1	1.4
UK	2.8	2.4	2.1	1.9
Italy	-0.4	0.6	0.8	1.0
Turkey	2.9	3.8	4.0	--
Israel	2.7	2.2	2.7	2.3
Euro zone	0.9	1.6	1.6	1.6
World*	2.7	2.6	2.5	2.3

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2014	Dec-15	Jan-16	Feb-16
US\$ broad index	111.3	122.4	125.2	124.0
European euro (EUR)	0.83	0.92	0.92	0.92
Russian ruble (RUB)	58.4	73.2	75.7	75.1
British pound (GBP)	0.64	0.68	0.71	0.72
Turkish lira (TRY)	2.34	2.92	2.96	2.96
Israeli shekel (ILS)	3.91	3.90	3.96	3.91

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel	2014	Dec-15	Jan-16	Feb-16
Crude oil (Brent)	99.0	44.3	38.0	30.7
Jet fuel	113.3	55.7	45.4	39.1

Source: Platts, EIA

Market

Revenue passenger kilometers (RPKs)

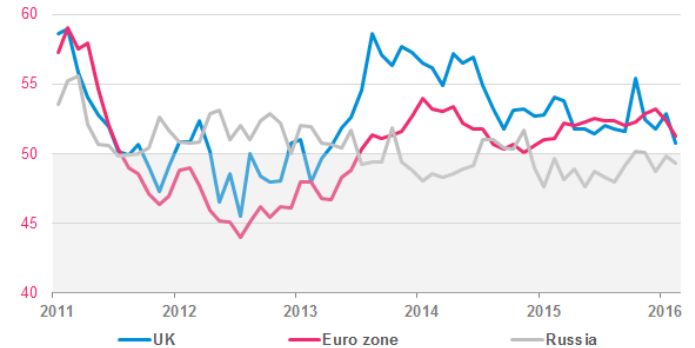
%change on a yr ago	2014	Nov-15	Dec-15	Jan-16
Region (registration basis)				
Europe	5.7	1.7	2.6	4.0
World	5.7	6.0	5.7	7.1
Routes (segment basis)				
Russia domestic	9.8	-7.1	-3.3	-2.0
Within Europe	6.9	9.1	8.9	11.0
Europe - North America	2.7	4.2	3.4	4.3
Europe - Asia	2.6	1.8	0.6	3.1
Europe - Middle East	8.9	8.0	8.8	9.1
Europe - Africa	0.4	1.4	2.5	2.6
Europe - South America	3.0	1.0	-0.1	0.1

Source: IATA Statistics

- RPK growth for European airlines lifted to a moderate 4.0% over the year to Jan, continuing the trend rise seen over recent months. Even so, the regional growth rate remains well down on the industry figure of 7.1%yoy.
- At the segment level, performance is mixed but, with the main exception of Russia dom. traffic, broadly positive.
- Although RPKs for Russia domestic are down 2% on a year ago, this is up from -7%yoy just a couple of months ago following the demise of Transaero.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



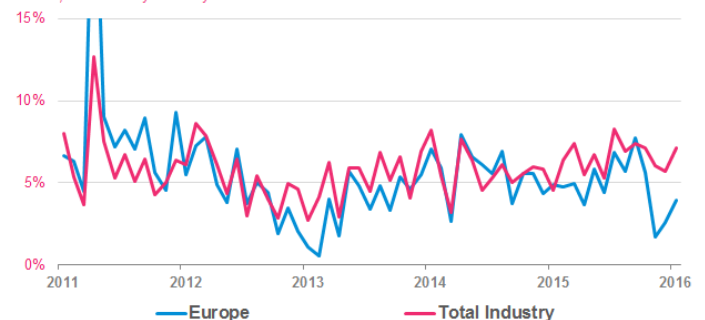
Source: Markit

- Business confidence in the UK & Eurozone drifted lower again in Feb, while sentiment in Russia remained around its recent (low) levels.
- The US\$ eased a little in Feb, down ~1% overall. Regionally, the GBP fell ~2% against the US\$, while the RUB & ILS gained 1% & 1.5%, respectively, both retracing some of last month's decline.
- World oil & jet fuel prices ended Feb down 6-7%, having dipped below the US\$30 & US\$40 benchmarks respectively. Prices have rebounded somewhat over recent weeks on expectations of tighter supply, but it remains to be seen whether the gains can be sustained.

- Within Europe traffic remains the standout, now growing at a double-digit pace of 11%yoy. A strong performance from the NMA carriers has underpinned this growth.
- RPKs for Europe-Middle East are not far behind, up 9%yoy, reflecting a combination of both expansion of ME carrier networks but also the improved economic backdrop within Europe.
- That same backdrop is supporting continued solid RPK growth for Europe-NthAm & the pick-up in traffic for the Europe-Asia market.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2014	Nov-15	Dec-15	Jan-16
Region (registration basis)				
Europe	2.0	-1.9	-0.3	2.5
World	5.5	-0.9	1.4	2.7
Routes (segment basis)				
Europe - Asia	-0.6	-5.5	-1.7	1.6
Europe - North America	2.5	-5.1	-1.8	-0.3
Europe - Middle East	2.7	9.0	14.4	6.4
Europe - Africa	6.4	-9.7	-4.4	-7.9
Europe - South America	0.6	-12.3	-13.2	-2.3
Within Europe	7.2	-10.0	-14.5	12.0

Source: IATA Statistics

- European carrier FTKs are growing broadly in line with the industry rate, at 2.5%yoy compared with 2.7%.
- While the global air freight market remains challenging, volumes have improved over the second half of 2015 & into the start of 2016.
- At the segment level, outcomes remain patchy, with no clear broad-based improvement evident to date.

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK		2014	Nov-15	Dec-15	Jan-16
Passenger					
Europe	ASK	5.1	-0.6	2.8	2.1
	PLF	80.4	78.8	77.7	77.9
World	ASK	5.5	4.3	5.4	5.6
	PLF	79.6	78.0	78.9	78.8
Freight					
Europe	AFTK	3.0	2.1	6.5	6.3
	FLF	47.0	49.2	45.4	41.6
World	AFTK	4.4	4.5	6.9	7.0
	FLF	45.8	47.0	44.0	41.3

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

- Pax capacity growth amongst European carriers remains subdued, up a modest 2.1%yoy to Jan, & well below the global industry rate of 5.6%. The regional pax load factor for Jan, is ~1pp below the industry level of 78.8%.
- The region's carriers have increased freight capacity at a faster rate (than ASKs), up 6.3%yoy. Again, this sits below the industry rate of 7%, however, at 46.3%, the freight load factor of European airlines is slightly above the industry level.
- The operating margin for the region's airlines is 5.0% in Q4, a healthy improvement on the level of a year ago, but only around half the overall industry figure of 10.9%.

Airline EBIT margins*

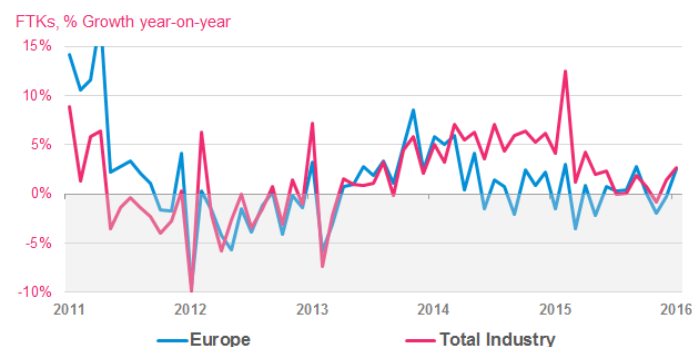
%revenues	2013	2014	2014Q4	2015Q4
Europe	3.5	3.4	0.1	5.0
Industry	4.1	5.2	7.1	10.9

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

- Europe-Middle East FTKs are up a robust 6.4%yoy, the best performer amongst the key freight markets. The trend improvement in FTK growth in the two largest markets of Europe-Asia & Europe-NthAm is a pleasing development, with the former returning to a positive yoy growth rate this month.

- In contrast, weakness remains for Europe-Africa (down a hefty 8%yoy) & Europe-SthAm (down 2.3%yoy).

Growth in air freight volumes



Source: IATA Statistics

- Pax yields on key routes are all down on a year ago, with falls ranging from ~5% (Eur-NthAm) to ~25% (Eur-SthAm). Russia domestic yields are down 15%yoy; a sizeable improvement from just a few months ago.
- Developments in oil prices and the US\$ have been key contributing factors to the weakness in yields.

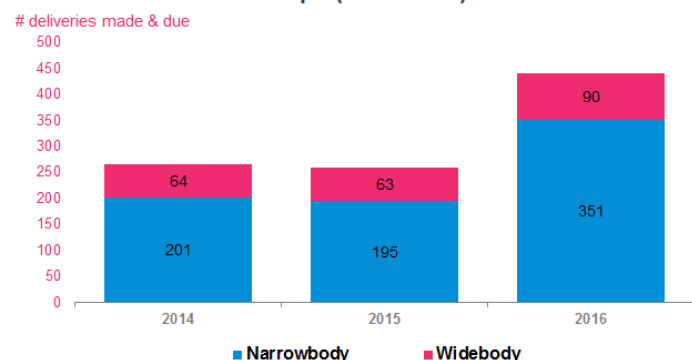
Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2014	Nov-15	Dec-15	Jan-16
Russia domestic	-14.4	-27.0	-17.9	-15.0
Within Europe	-4.2	-14.1	-15.2	-15.5
Europe - North America	-2.3	-7.2	-9.8	-4.7
Europe - Asia	-0.1	-16.3	-15.0	-15.9
Europe - Middle East	-5.6	-11.3	-11.1	-10.1
Europe - Africa	-2.7	-15.4	-11.7	-11.6
Europe - South America	-2.9	-22.1	-24.4	-26.3

Source: IATA PaxIS

- Aircraft deliveries data show a strong increase in 2016, compared with 2015 & 2014. The step-up is primarily due to a strong rise in the number of narrowbody deliveries, with widebodies also contributing.

Aircraft deliveries to Europe (latest data)



Source: Ascend