



STATE OF THE REGION: EUROPE

MARCH 2018

Economy

GDP growth, selected countries

%change on a yr ago	2016	2017Q2	2017Q3	2017Q4
Germany	1.9	2.3	2.7	2.9
Russia	-0.2	2.5	1.8	--
France	1.1	1.9	2.3	2.5
UK	1.9	1.8	1.8	1.4
Italy	1.0	1.6	1.7	1.6
Spain	3.3	3.1	3.1	3.1
Turkey	3.2	5.4	11.1	--
Israel	3.9	3.3	3.3	2.9
Euro zone	1.8	2.4	2.7	2.7
World*	2.4	2.9	3.2	3.2

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2017	Dec-17	Jan-18	Feb-18
US\$ broad index	120.0	120.0	117.2	117.6
European euro (EUR)	0.83	0.83	0.80	0.82
Russian ruble (RUB)	57.7	57.7	56.3	56.2
British pound (GBP)	0.74	0.74	0.71	0.73
Turkish lira (TRY)	3.79	3.79	3.75	3.80
Israeli shekel (ILS)	3.48	3.48	3.42	3.48

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel (period ave.)	2017	Dec-17	Jan-18	Feb-18
Crude oil (Brent)	54.2	64.4	69.1	65.3
Jet fuel	65.6	76.3	82.0	77.7

Source: Platts, EIA Monthly average data

Market

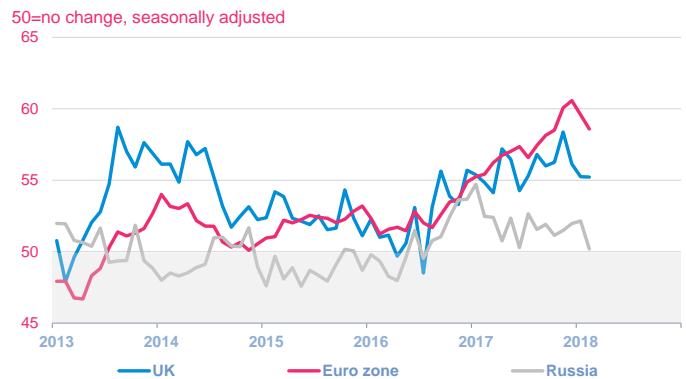
Revenue passenger kilometers (RPKs)

%change on a yr ago	2017	Nov-17	Dec-17	Jan-18
Region (registration basis)				
Europe	8.2	7.9	6.1	6.4
World	7.6	8.3	6.4	4.6
Routes (segment basis)				
Russia domestic	10.1	7.6	8.6	7.9
Within Europe	10.8	10.7	8.4	9.9
Europe - North America	4.1	2.7	0.4	0.4
Europe - Asia	9.5	9.8	7.0	4.8
Europe - Middle East	6.6	3.1	3.6	2.5
Europe - Africa	6.5	9.6	6.9	6.8
Europe - South America	6.1	8.1	8.7	8.7

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

- Industry-wide RPKs grew by 4.6%yoy in Jan, down almost 2pp from Dec & its slowest pace in nearly four years. However, the later timing of Lunar New Year (LNY) appears to account for a good part of this result & a rebound could reasonably be expected next month.
- For the European carriers, RPK growth went against the overall industry trend, accelerating modestly to a robust 6.4%yoy in Jan, from 6.1% last month.

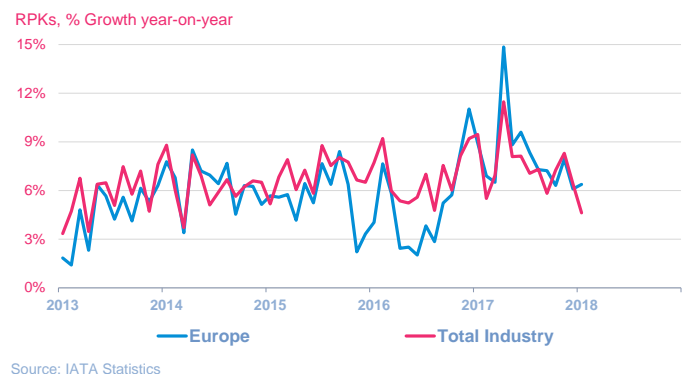
Business confidence - manufacturing PMIs



- Business confidence in Russia fell to its lowest level since mid-2016 on signs of fragile demand conditions. In the Eurozone, confidence also eased this month, but remains at an elevated level, consistent with robust activity. The latest UK data were essentially unchanged.
- On a trade-weighted basis, the US\$ rose a modest 0.3% in Feb, after consecutive monthly declines. Aside from the RUB (steady), the key regional currencies all eased against the US\$ this month, with the GBP the biggest mover, down ~3%, mostly unwinding a strong Jan gain.
- Brent crude oil & jet fuel prices retraced some of their recent gains in Feb, easing by close to 5.5% in the month. However, the broader picture is that both are currently ~20% higher than their level of a year ago.

- Russia domestic RPK growth remains strong, with pax volumes up 8% vs a year ago on an improved economic backdrop & higher oil prices.
- Of the region's key international markets, Within Europe continues to be the standout performer, followed by the (considerably smaller) Europe-Sth America market, with RPK growth of 9.9% & 8.7%yoy respectively. In contrast, the sizeable Europe-NthAm market remains relatively subdued, with growth of just 0.4%yoy in Jan.

Growth in air passenger volumes



Freight tonne kilometers (FTKs)

%change on a yr ago	2017	Nov-17	Dec-17	Jan-18
Region (registration basis)				
Europe	11.9	10.4	5.7	10.5
World	9.0	8.5	5.8	8.0
Routes (segment basis)				
Europe - Asia	11.0	8.2	6.3	11.3
Europe - North America	9.9	9.2	2.8	6.1
Europe - Middle East	11.0	1.8	-0.1	2.2
Europe - Africa	2.4	6.3	6.6	3.5
Europe - South America	6.9	11.6	11.7	15.6
Within Europe	32.9	25.5	25.5	22.6

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

- Although mindful of the potential LNY distortions for annual air freight outcomes also at year-start, industry-wide FTKs stepped up in Jan, increasing to a robust 8.0%yoy, from 5.8% in Dec.
- European airlines returned to a double-digit pace of yoy growth in Jan, with air freight volumes up a brisk 10.5% (second only to Africa, at 13%yoy).

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK		2017	Nov-17	Dec-17	Jan-18
Passenger					
Europe	ASK	6.2	5.8	4.4	5.1
	PLF	83.9	81.6	81.5	80.0
World	ASK	6.4	6.4	5.8	5.3
	PLF	81.5	80.4	80.8	79.6
Freight					
Europe	AFTK	5.9	5.5	3.7	5.3
	FLF	46.5	49.8	49.8	45.4
World	AFTK	3.0	4.4	3.6	4.2
	FLF	45.5	48.8	46.7	43.3

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

- Industry-wide, annual pax capacity grew faster than demand for the first time in 15 months in Jan. The industry-wide pax load factor eased slightly this month, to 79.6%, a little below the even 80.0% outcome for the European carriers.
- On the freight side, the overall industry freight load factor also eased somewhat in Jan, down ~3.5pp to 43.3%, & remaining ~2pp lower than the 45.4% outcome for the European airlines.
- The latest financial data for Q4 show an EBIT margin for the region's carriers that is solidly lower than a year ago, at 3.8% vs 4.6% in Q4 2016. The performance of the industry in aggregate is also lower – albeit only slightly –

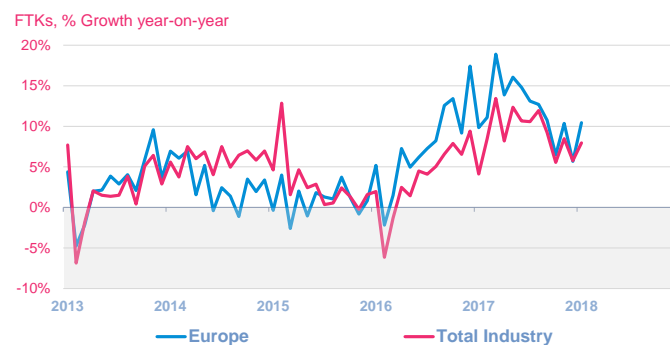
Airline operating (EBIT) margins*

%revenues	2015	2016	2016Q4	2017Q4
Europe	5.4	6.1	4.6	3.8
Industry	8.5	8.8	8.9	8.6

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

- The largest international freight market for European airlines (Asia) continues to perform strongly, with FTKs currently 11.3% higher than a year ago. The smaller Europe-SthAm & Within Europe markets are also growing at a double-digit pace.
- The ME & Africa markets are showing a more subdued gain in FTKs, up 2.2% & 3.5%yoy, respectively.

Growth in air freight volumes



Source: IATA Statistics

at 8.6%, down from 8.9% a year ago. (Recall that these data are not adjusted for seasonal variations.)

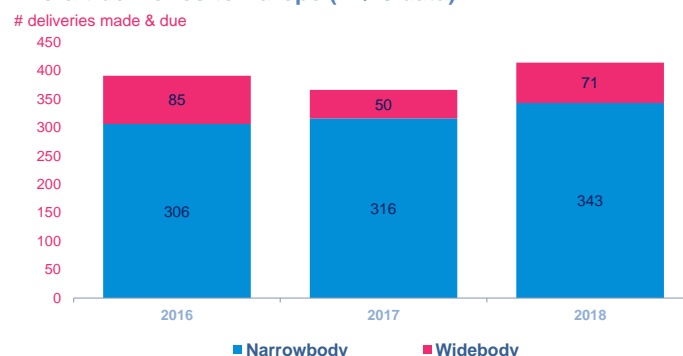
- Industry-wide passenger yields (US\$-terms) continue to broadly trend sideways – as they have done for more than 12 months now.
- For the region's key markets, however, all pax yields are clearly higher than their level of a year ago. Indeed, many are now in double-digit growth or close thereto.
- The Europe-SthAmerica & Within Europe markets are currently the two strongest performers, with pax yields up 15.9% & 13.7%, respectively.

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

%change on a yr ago	2016	Nov-17	Dec-17	Jan-18
Russia domestic	5.2	14.3	18.4	11.0
Within Europe	-8.5	5.2	6.3	13.7
Europe - North America	-8.5	7.5	8.3	10.7
Europe - Asia	-10.8	6.6	7.0	9.5
Europe - Middle East	-12.2	1.0	4.3	7.7
Europe - Africa	-8.8	1.3	2.9	9.1
Europe - South America	-17.4	15.2	15.9	15.9

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

Aircraft deliveries to Europe (1Q18 data)



Source: Ascend