

STATE OF THE REGION: EUROPE

MAY 2017

Economy

GDP growth, selected countries

%change on a yr ago	2015	2016Q3	2016Q4	2017Q1
Germany	1.5	1.7	1.8	1.7
Russia	-2.8	-0.4	0.3	--
France	1.2	0.9	1.2	0.8
UK	2.2	2.0	1.9	2.1
Italy	0.7	1.0	1.0	0.8
Spain	3.2	3.2	3.0	--
Turkey	6.1	-1.3	3.5	--
Israel	2.6	4.6	4.7	3.9
Euro zone	1.9	1.8	1.8	1.7
World*	2.4	2.2	2.5	2.6

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2016	Feb-17	Mar-17	Apr-17
US\$ broad index	127.7	125.8	125.3	124.3
European euro (EUR)	0.95	0.94	0.93	0.92
Russian ruble (RUB)	60.4	58.4	56.4	57.0
British pound (GBP)	0.81	0.80	0.80	0.77
Turkish lira (TRY)	3.52	3.63	3.65	3.55
Israeli shekel (ILS)	3.84	3.64	3.63	3.62

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel	2016	Feb-17	Mar-17	Apr-17
Crude oil (Brent)	52.4	54.9	51.6	52.3
Jet fuel	64.0	65.0	60.7	63.4

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

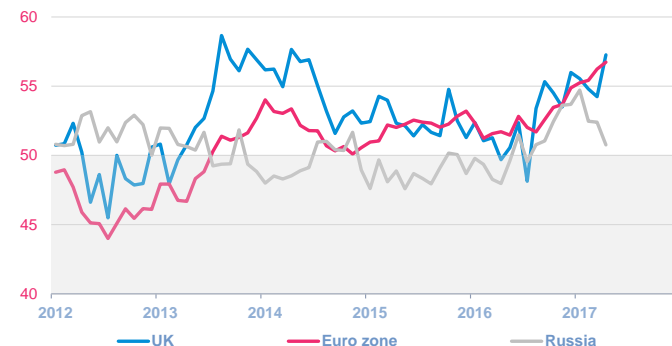
%change on a yr ago	2016	Jan-17	Feb-17	Mar-17
Region (registration basis)				
Europe	4.6	8.4	6.3	6.0
World	6.3	9.0	4.9	6.8
Routes (segment basis)				
Russia domestic	2.5	15.0	13.3	14.8
Within Europe	7.7	11.5	8.4	7.4
Europe - North America	2.5	1.2	-0.2	-0.1
Europe - Asia	1.8	6.9	7.8	9.5
Europe - Middle East	9.9	10.3	7.7	0.9
Europe - Africa	1.8	3.3	4.7	4.0
Europe - South America	3.5	3.5	1.2	7.3

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

- Growth in global RPKs retraced some of last month's fall, recovering to be 6.8% higher yoy in Mar. This completes a robust first quarter – industry-wide RPKs were 7.0% higher than in the same period a year ago, well ahead of the long-run average rate of ~5.5%.
- At the regional level, however, European RPK growth eased again in Mar, down 0.3pp to a (still robust) 6.0%yoy pace.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



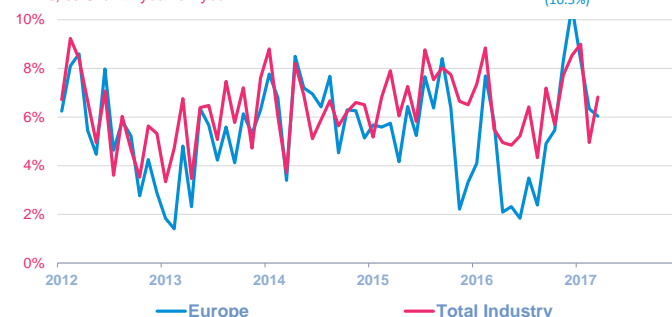
Source: Markit

- The Eurozone business confidence indicator continued its strong upward trajectory this month, joined by a sharp rebound in the UK measure. Sentiment in Russia however, slipped back again on this occasion.
- The US\$ eased further on a trade-weighted basis in April, down 0.7%. The main regional currencies generally moved higher vs the US\$ with the GBP & TRY both up 2.5-3%. The RUB, however, fell 1% in the month, consistent with the slide in business confidence.
- Brent crude oil & jet fuel prices ended the month higher (the latter up a sizeable 4.5%), buoyed by statements of support from Russia & Saudi Arabia to extend the production cuts.

- Russia domestic RPKs maintained their strong recent performance, up 14.8%yoy, supported by a general improvement in economic conditions as oil prices have risen & despite the recent dip in business confidence.
- Of the main international markets, Europe-Asia has risen to the fore with RPKs up a hefty 9.5%yoy. Within Europe & Europe-SthAm are also performing strongly, in contrast with Europe-NthAm where RPKs have fallen – albeit only just – over the past year.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Jan-17	Feb-17	Mar-17
Region (registration basis)				
Europe	7.6	8.7	10.5	18.2
World	3.8	6.2	8.4	14.0
Routes (segment basis)				
Europe - Asia	3.9	9.2	10.6	19.5
Europe - North America	2.5	8.4	7.1	12.2
Europe - Middle East	7.1	17.9	11.4	30.6
Europe - Africa	-5.5	-0.4	-1.0	4.0
Europe - South America	1.2	1.6	1.5	6.7
Within Europe	23.8	37.1	29.8	46.9

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

- Global FTKs lifted to a double-digit rate in Mar, growing by 14.0% in yoy terms – the fastest pace since October 2010. For Q1 overall, freight volumes rose almost 10% on the same period last year.
- For European carriers, FTKs also surged this month, rising to a very strong 18.2%yoy pace – the fastest in ~6yrs – & continuing to outperform the industry rate.
- All of the top 3 largest freight markets for Europe are growing at a double-digit yoy pace. Europe-Middle East

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2016	Jan-17	Feb-17	Mar-17
Passenger					
Europe	ASK	4.4	7.0	3.6	5.3
	PLF	82.4	79.4	80.2	81.4
World	ASK	6.3	7.3	2.8	6.1
	PLF	80.5	80.3	79.5	80.4
Freight					
Europe	AFTK	6.8	4.1	2.3	6.7
	FLF	44.5	43.7	47.3	50.8
World	AFTK	5.3	3.3	0.1	4.2
	FLF	43.0	41.9	43.4	47.4

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

- European carriers have increased pax capacity at a slower rate than the industry in aggregate over the past year (5.3% vs 6.1%) &, at 81.4%, delivered a PLF 1pp higher than the industry in Mar.
- The FLF for the region's carriers also outperformed (50.8% vs 47.4%), even with AFTKs rising by a strong 6.7%yoy, well above the 4.2% pace of the industry overall.
- The initial Q1 financial data show a negative EBIT margin of 0.3%, a slight improvement on the -0.5% margin for this same sample of airlines a year ago.

Airline operating (EBIT) margins*

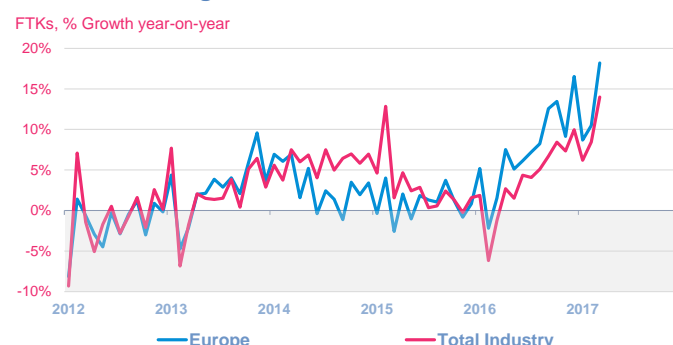
%revenues	2015	2016	2016Q1	2017Q1
Europe	5.4	6.1	-0.5	-0.3
Industry	8.5	8.8	9.6	4.8

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

FTK growth is now up 30%yoy, contrasting with the softer performance of RPKs on this market. Europe-Asia freight volumes are just under 20% higher than their level of a year ago, while Europe-NthAm FTKs are up more than 12%yoy.

- Volume growth for the Europe-Africa market remains modest, up 4.0%yoy, but has at least returned to a positive yoy rate this month.
- The fastest growing market continues to be (the smaller) Within Europe, where FTKs are up a whopping 47%yoy.

Growth in air freight volumes



Source: IATA Statistics

Recall that these data are not seasonally adjusted & Q1 is seasonally weak for European carriers. At the industry level, the EBIT margin has halved compared with Q1 last year, currently 4.8%.

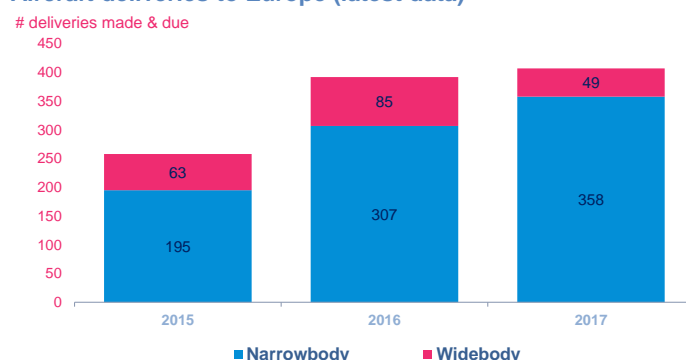
- Despite being 8-9%yoy lower, global average pax yields continue to show tentative indications of having possibly bottomed. At the regional level yoy yields have clearly narrowed & have now *risen* in some markets – Russia domestic being the standout.

Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2016	Jan-17	Feb-17	Mar-17
Russia domestic	6.1	10.4	18.5	17.0
Within Europe	-7.6	-10.4	-9.6	-5.2
Europe - North America	-8.3	-9.7	-12.3	1.3
Europe - Asia	-10.3	-8.5	-3.7	0.6
Europe - Middle East	-11.5	-14.4	-10.6	-5.3
Europe - Africa	-8.3	-13.3	-14.8	-9.4
Europe - South America	-17.5	-6.6	-6.0	-0.2

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

Aircraft deliveries to Europe (latest data)



Source: Ascend