

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	--
France	1.6	1.4	1.0	1.1
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	--
Israel	3.4	2.9	2.9	3.2
Euro zone	1.8	1.6	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	Feb-19	Mar-19	Apr-19
US\$ broad index	128.5	126.8	127.2	127.4
European euro (EUR)	0.87	0.88	0.89	0.89
Russian ruble (RUB)	69.37	65.90	65.70	64.58
British pound (GBP)	0.79	0.75	0.77	0.77
Turkish lira (TRY)	5.29	5.33	5.65	5.97
Israeli shekel (ILS)	3.74	3.62	3.63	3.60

Source: Datastream

World oil and jet fuel price

US\$/barrel (period ave.)	2018	Feb-19	Mar-19	Apr-19
Crude oil (Brent)	71.7	64.4	66.9	71.5
Jet fuel	86.4	80.1	81.1	84.2

Source: Platts, Datastream (monthly average data)

Market

Revenue passenger kilometers (RPKs)

% change on a yr ago	2018	Jan-19	Feb-19	Mar-19
Region (registration basis)				
Europe	6.7	7.3	7.2	4.9
World	6.5	6.2	5.1	3.1
Routes (segment basis)				
Russia domestic	10.1	10.5	10.1	14.2
Within Europe	8.3	8.1	9.5	7.4
Europe - North America	4.4	6.0	9.4	3.3
Europe - Asia	7.0	8.8	5.5	4.3
Europe - Middle East	4.9	2.7	2.4	-2.0
Europe - Africa	6.7	5.3	6.1	5.4
Europe - South America	9.3	6.9	5.2	6.7

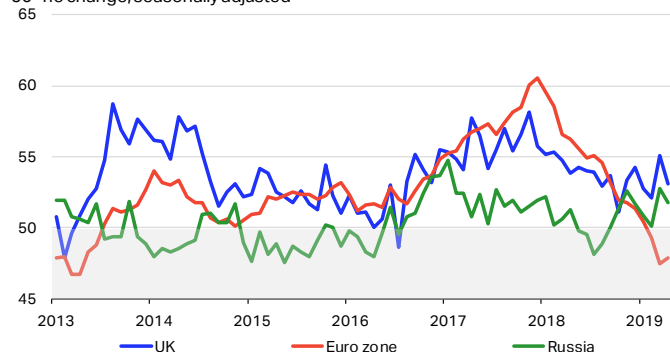
Source: IATA Statistics Note: historical data may be subject to revision

- Year-on-year growth in industry-wide revenue passenger kilometres (RPKs) eased to 3.1%; the weakest annual outcome since early-2010. That said, this month's result was affected by the earlier timing of the 2018 Easter holiday, which boosted demand in March last year; a rebound is likely next month.
- Despite a solid upward trend in seasonally adjusted RPKs, the annual growth rate for European carriers eased to a 11-month low, partly reflecting escalating

May 2019

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

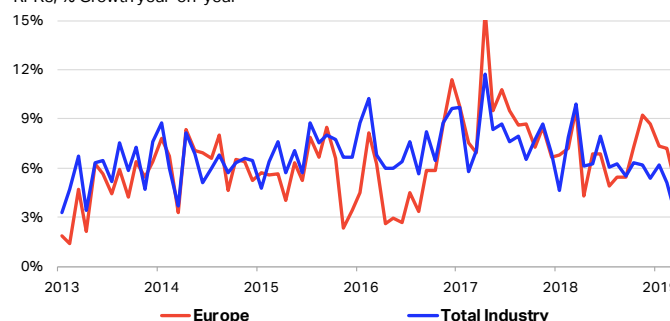
- Business confidence ticked down in both Russia and the UK in April. For the latter, the dip reflected slower inventory accumulation following the Brexit delay. In the Eurozone, sentiment remained subdued as businesses continue to face challenges associated with slowing economic activity & global trade tensions.
- On a trade-weighted basis, the US\$ rose by 0.1% in April, marking the 3rd consecutive month of modest growth. Of the regional currencies, the TRY was the key mover, losing 5.7% against the US\$ as Turkey's central bank refrained from monetary tightening pledge.
- Oil and jet fuel prices remain under upward pressure amidst fears of supply disruption augmented by heightened tensions in the Middle East.

Brexit uncertainty, as the original deadline of 29 March passed without any agreement on the way forward.

- Growth in domestic Russia RPKs continued to perform strongly in March. The market's recent brisk performance has been underpinned by lower airfares & a solid economic backdrop including high oil prices.
- The Within Europe market remained the strongest performer in March with a robust 7.4% rise in pax volumes vs a year ago. Europe-NthAm experienced a slowdown in growth to 3.3%yoy which, for now, mainly appears to reflect volatility in the monthly data.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

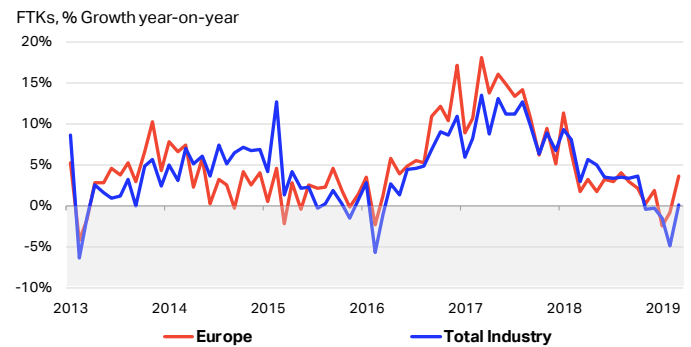
% change on a yr ago	2018	Jan-19	Feb-19	Mar-19
Region (registration basis)				
Europe	3.3	-2.5	-0.8	3.6
World	3.8	-1.6	-4.9	0.1
Routes (segment basis)				
Europe - Asia	1.1	-4.5	-6.5	1.6
Europe - North America	3.2	1.2	-0.1	-0.3
Europe - Middle East	3.6	1.8	4.5	5.3
Europe - Africa	-0.8	-1.6	0.1	1.3
Europe - South America	7.7	-2.3	-0.2	1.6
Within Europe	9.0	7.5	10.9	12.6

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

- Industry-wide FTK growth returned to positive territory in March, albeit only just. FTKs were up 0.1% vs their level a year ago, following a fall of 4.9%yoy in Feb. Given the data volatility early in the year, and based on fundamentals, we suspect this gain may be shortlived.
- After a modest decline in Feb, air freight volumes rebounded in March, to a solid 3.6% year-on-year pace for carriers based in Europe. However, the subdued pace of activity in some of the region's key economies, raises doubts as to whether this can be sustained.

- Of the key international markets in the region, FTK growth for the largest European market (Asia) recovered to a modest 1.6%yoy following four consecutive months of decline. The second largest market, Europe-NthAm, saw freight volumes down vs a year ago, albeit by modest 0.3%.
- The slowing in 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

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago		2018	Jan-19	Feb-19	Mar-19
LF: % of ASK/AFTK					
Passenger					
Europe	ASK	5.9	8.3	7.7	5.4
	PLF	84.6	79.7	81.5	83.7
World	ASK	6.1	6.2	5.3	4.2
	PLF	81.9	79.6	80.5	81.7
Freight					
Europe	AFTK	4.4	3.7	4.1	6.4
	FLF	54.3	50.0	53.0	56.0
World	AFTK	5.3	3.7	2.9	3.1
	FLF	49.2	45.3	44.5	49.5

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

- At 81.7%, the industry-wide passenger load factor (PLF) was down 0.9ppt from its record high March 2018 but remained elevated in historical terms. For freight, the load factor (FLF) increased to 49.5%, slightly above its average for 2018 overall.
- The latest load factor data show that European airlines outperformed the industry average on both the passenger (83.7%) and freight side (56%) this month.
- The initial financial results from Q1 2019 point to a moderate decline in industry profitability relative to the same period a year ago; the EBIT margin fell to 3.6%, from 4.1% in Q1 2018.

Airline operating (EBIT) margins*

% revenues	2016	2017	2018Q1	2019Q1
Europe	6.1	6.9	-2.1	-6.0
Industry	8.5	7.7	4.1	3.6

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

At the regional level, the EBIT margin fell by ~4ppt vs Q1 2018, to -6% of revenues.

- Growth in passenger yields remained negative on all of the key domestic and international routes in the region as airlines struggle to recover rising operating costs. Within Europe was the key underperformer this month with yields down 13.5% vs the same period ago.

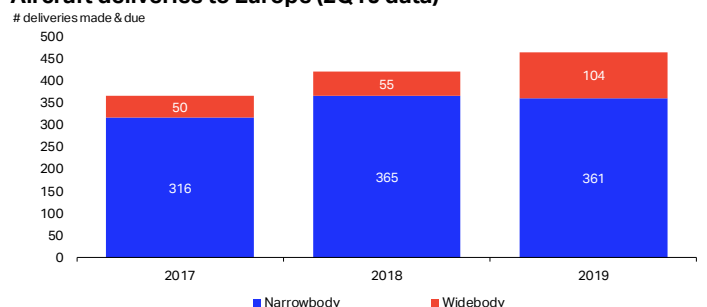
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2018	Jan-19	Feb-19	Mar-19
Russia domestic	-6.2	-15.2	-13.4	-10.7
Within Europe	4.3	-10.0	-13.2	-13.5
Europe - North America	5.2	-4.1	-5.9	-6.3
Europe - Asia	1.0	-6.2	-7.8	-9.4
Europe - Middle East	2.7	-4.2	-10.3	-11.3
Europe - Africa	3.8	-10.9	-13.1	-13.3
Europe - South America	-1.4	-15.2	-21.0	-13.2

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

- The latest data indicate a 11% increase in the number of jet aircraft deliveries scheduled for the European carriers in 2019 vs 2018.

Aircraft deliveries to Europe (2Q19 data)



Source: Ascend