

State of the region: Europe

Economy

GDP growth, selected economies

% change on a yr ago	2018	Q1 2019	Q2 2019	Q3 2019
Germany	1.5	1.0	0.3	0.5
Russia	2.3	0.5	0.9	--
France	1.7	1.3	1.4	1.3
UK	1.4	2.1	1.3	1.0
Italy	0.7	0.0	0.1	0.3
Spain	2.4	2.2	2.0	2.0
Turkey	2.8	-2.4	-1.5	--
Israel	3.7	3.2	3.0	3.3
Euro zone	1.9	1.3	1.2	1.2
World*	3.2	2.8	2.6	2.5

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2018	Aug-19	Sep-19	Oct-19
US\$ broad index	128.5	130.4	130.8	130.2
European euro (EUR)	0.87	0.91	0.92	0.90
Russian ruble (RUB)	69.37	66.61	64.88	64.07
British pound (GBP)	0.79	0.82	0.81	0.77
Turkish lira (TRY)	5.29	5.83	5.65	5.71
Israeli shekel (ILS)	3.74	3.53	3.48	3.52

Source: Datastream

World oil and jet fuel price

US\$/barrel (period ave.)	2018	Aug-19	Sep-19	Oct-19
Crude oil (Brent)	71.7	59.6	62.4	59.6
Jet fuel	86.4	76.1	79.8	78.7

Source: Platts, Datastream (monthly average data)

Market

Revenue passenger kilometers (RPKs)

% change on a yr ago	2018	Jul-19	Aug-19	Sep-19
Region (registration basis)				
Europe	7.5	3.5	4.0	2.6
World	7.3	3.3	3.9	3.8
Routes (segment basis)				
Russia domestic	10.6	6.8	6.0	3.2
Within Europe	8.3	5.3	6.4	5.6
Europe - North America	4.4	4.2	4.7	5.2
Europe - Asia	7.1	6.0	6.0	5.2
Europe - Middle East	4.9	3.6	4.7	4.9
Europe - Africa	7.4	7.4	6.4	5.3
Europe - South America	8.5	9.0	8.9	8.2

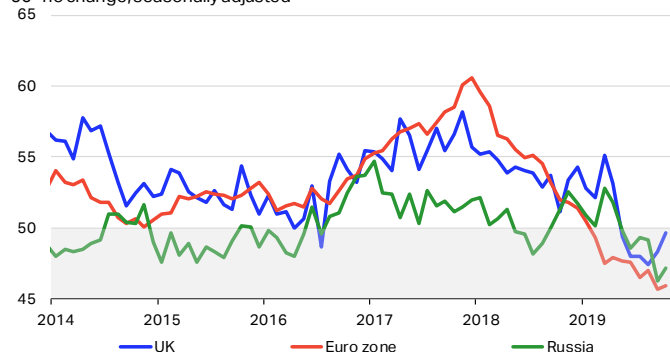
Source: IATA Statistics Note: historical data may be subject to revision

- Industry-wide revenue passenger kilometres (RPKs) rose by 3.8% over the year to September, a broadly unchanged pace from August. The moderate upward trend in underlying demand remains firmly in place.
- Following a modest uptick in August, RPK growth eased to 2.6%yoy for European carriers – the weakest outcome this year. In addition to slowing economic activity and faltering business confidence in many of the key European economies, this month's result was

November 2019

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

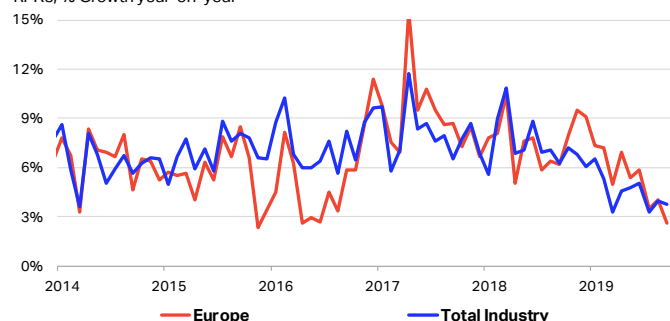
- Despite a modest uptick this month, the PMI remained in the territory associated with contraction in the manufacturing sector across the three markets that we track. Economic uncertainty and Brexit continue to weigh on sentiment in Eurozone and the UK while falling demand impacted confidence in Russia.
- The trade weighted US\$ index eased modestly in October, down 0.5%. Amongst the main regional currencies, the GBP gained almost 5% against the US\$ following progress on a Brexit deal.
- The average monthly jet and crude oil price eased in October on the back of robust global oil supply and softening demand.

also affected by the demise of a number of airlines, along with labour disputes.

- Annual growth in Russian domestic RPKs eased further to 3.2%yoy. This corresponds with moderation in the underlying RPK trend observed since Q4 2018. That said, the recent easing of visa requirements is likely to provide some impetus for the period ahead.
- RPK growth hovered around 5-6%yoy across the larger international routes. This represents a solid outcome for Europe-NthAm but underperformance for Within Europe which expanded by 8.3% in 2018.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

% change on a yr ago	2018	Jul-19	Aug-19	Sep-19
Region (registration basis)				
Europe	3.2	-1.4	-3.3	-3.3
World	3.7	-2.6	-4.2	-4.5
Routes (segment basis)				
Europe - Asia	1.1	-1.3	-3.4	-0.8
Europe - North America	3.3	-3.0	-3.9	-5.5
Europe - Middle East	3.7	-5.5	-7.7	-10.1
Europe - Africa	0.0	0.0	-1.6	-7.0
Europe - South America	9.1	-3.6	-6.0	-1.7
Within Europe	8.5	1.7	1.6	5.6

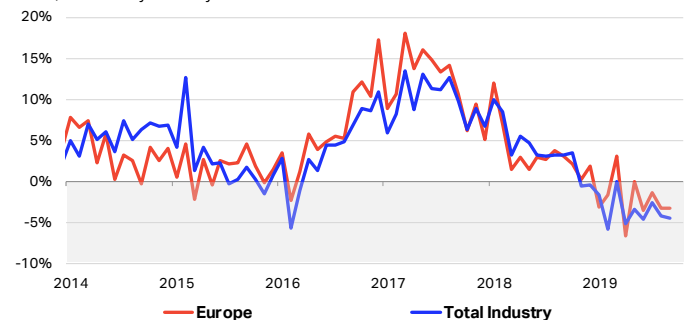
Source: IATA Statistics Note: historical data may be subject to revision

- Growth in industry-wide air freight tonne kilometres (FTKs) remained weak in September, declining by 4.5% in annual terms. The contraction was widespread, with annual FTKs falling in all regions except Africa.
- Freight volumes contracted by 3.3%yoy in September for carriers based in Europe – an unchanged pace from August. A weaker economy and Brexit uncertainty, along with contraction in the manufacturing sector continue to weigh on the region's performance.

- All of the larger international air freight markets in the region continue to shrink in annual terms. That said, the speed of decline eased for the larger Europe-Asia market from -3.4% in the previous month, to -0.8%yoy currently.
- Although the smaller Within Europe market continues to outperform the remaining routes that we regularly track (up 5.6% in Sept), its current speed of growth is still below the 2018 average (8.5%).

Growth in air freight volumes

FTKs, % Growth year-on-year



Source: IATA Statistics

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago,		2018	Jul-19	Aug-19	Sep-19
LF: % of ASK/AFTK					
Passenger					
Europe	ASK	6.5	3.3	3.7	2.3
	PLF	84.7	89.0	89.0	86.6
World	ASK	6.8	3.1	3.6	3.3
	PLF	82.0	85.6	85.7	81.9
Freight					
Europe	AFTK	3.3	4.6	3.6	3.3
	FLF	54.4	48.5	47.6	50.1
World	AFTK	5.2	3.3	2.2	2.1
	FLF	49.3	44.9	44.3	46.4

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

- The industry-wide passenger load factor (PLF) reached a new record high for the month of September as RPKs continued to grow faster than ASKs. The story was less positive on the freight side with the load factor (FLF) 3.2ppt below the level of a year ago.
- As was the case at the industry level, European carriers posted a record high PLF for the month, at 86.6%. For freight, the load factor picked up compared to August but is still 3.4ppt below the level a year ago.
- The initial releases of airline financial data for Q3 2019 indicate a moderate improvement in industry-wide profitability compared to Q3 2018 (up 0.6ppt).

Airline operating (EBIT) margins*

% revenues	2017	2018	2018Q3	2019Q3
Europe	7.9	6.2	19.0	17.3
Industry	7.5	5.8	13.1	13.7

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

The EBIT margin eased modestly for airlines based in Europe – a trend consistent with Q2 observations.

- Passenger yields excluding ancillaries and surcharges remained under pressure across the key domestic and international routes. That said, the speed of contraction slowed further for Russia domestic (from -2.8% in August, to -0.2% in September) as well as in the larger Within Europe market (-3.1% vs -3.8%).

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

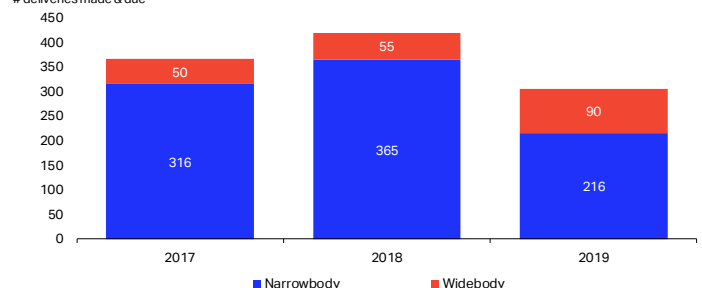
% change on a yr ago	2018	Jul-19	Aug-19	Sep-19
Russia domestic	-5.9	-9.0	-2.8	-0.2
Within Europe	4.3	-7.4	-3.8	-3.1
Europe - North America	5.3	-5.1	-5.0	-2.8
Europe - Asia	0.9	-9.7	-7.6	-8.0
Europe - Middle East	3.2	-4.4	-4.8	-7.2
Europe - Africa	3.7	-8.2	-4.8	-7.2
Europe - South America	-1.2	-19.7	-15.4	-11.7

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

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

Aircraft deliveries to Europe (as of November 2019)

deliveries made & due



Source: Ascend