



# STATE OF THE REGION: EUROPE

NOVEMBER 2016

## Economy

### GDP growth, selected countries

%change on a yr ago	2015	2016Q1	2016Q2	2016Q3
Germany	1.4	1.8	1.7	1.7
Russia	-3.7 <sup>†</sup>	-1.2	-0.6	-0.4
France	1.2	1.4	1.3	1.1
UK	2.2	1.9	2.1	2.3
Italy	0.6	0.9	0.7	0.9
Turkey	4.0	4.7	3.1	--
Israel	2.5	2.3	3.6	3.8
Euro zone	1.6	1.7	1.6	--
<b>World*</b>	<b>2.3</b>	<b>2.2</b>	<b>2.1</b>	<b>2.2</b>

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

end of period, # per US\$	2015	Aug-16	Sep-16	Oct-16
US\$ broad index	122.4	120.8	121.8	122.9
European euro (EUR)	0.92	0.90	0.89	0.91
Russian ruble (RUB)	73.2	65.3	63.0	63.4
British pound (GBP)	0.68	0.76	0.77	0.82
Turkish lira (TRY)	2.92	2.96	3.00	3.10
Israeli shekel (ILS)	3.90	3.78	3.75	3.83

Source: Datastream, XE

### World oil and jet fuel price

US\$/barrel	2015	Aug-16	Sep-16	Oct-16
Crude oil (Brent)	52.4	45.8	46.6	49.5
Jet fuel	64.0	54.4	55.4	61.2

Source: Platts, EIA Monthly average data

## Market

### Revenue passenger kilometers (RPKs)

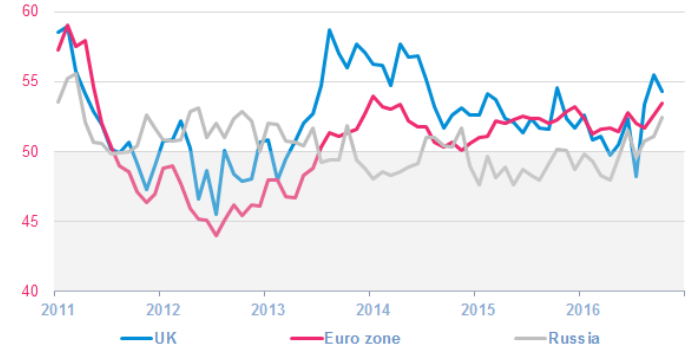
%change on a yr ago	2015	Jul-16	Aug-16	Sep-16
<b>Region (registration basis)</b>				
Europe	5.0	3.5	2.4	5.0
World	6.5	6.4	4.3	7.0
<b>Routes (segment basis)</b>				
Russia domestic	6.2	-2.4	-2.7	3.6
Within Europe	8.6	6.9	5.6	7.2
Europe - North America	3.8	4.3	2.4	2.6
Europe - Asia	4.0	1.5	-1.5	3.2
Europe - Middle East	11.3	10.8	5.0	9.2
Europe - Africa	-1.1	2.8	-1.9	2.8
Europe - South America	2.0	5.7	5.8	4.8

Source: IATA Statistics

- ➔ After a moderation last month, industry-wide RPKs stepped up in Sep, growing by a strong 7.0%yoy – its fastest pace in 7mths. A similar pattern was observed for the European-registered carriers, with the growth rate doubling to a solid 5%yoy.
- ➔ Russia domestic RPKs returned to positive yoy growth in Sep, with a 6pp turnaround taking the rate to a moderate 3.6%yoy. Notwithstanding further signs of recovery in the Russian economy, the improvement, in part, reflects the 'base effect' of developments a year ago.

### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



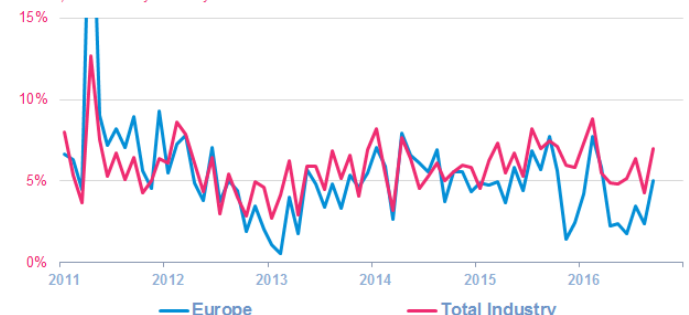
Source: Markit

- ➔ Solid Q3 GDP data was well received, supporting business confidence. Israel leads the way with growth of 3.8%yoy currently, followed by the UK at 2.3%yoy.
- ➔ The US\$ moved a little higher in Sep, rising 0.9% on a trade-weighted basis. Amongst the main regional currencies, the GBP fell a sizeable 6.5% against the US\$ in the month & the TRY lost 3.5%. The RUB was the most stable currency, down just 0.6%mom.
- ➔ The world price of oil & jet fuel both rose substantially in Oct, up 6% & 10% respectively (or \$3 & \$6/bbl). Prices were lifted by declining US oil inventories & discussions to bring forward market rebalancing.

- ➔ That said, the traffic growth has been accompanied by capacity reductions, leading to an improvement of ~4pp in the domestic Russia load factor vs a year ago.
- ➔ With the exception of Europe-Sth America, pax growth improved across all of the key markets, including a return to positive growth on routes between Europe & both Asia & Africa.
- ➔ The Within Europe market, with robust RPK growth of 7.2%yoy, has been overtaken by Europe-Middle East (9.2%yoy growth) as the standout performer this month.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

## Freight tonne kilometers (FTKs)

%change on a yr ago	2015	Jul-16	Aug-16	Sep-16
<b>Region (registration basis)</b>				
Europe	-0.2	7.2	6.6	12.6
World	2.2	4.1	4.5	6.1
<b>Routes (segment basis)</b>				
Europe - Asia	-4.9	3.0	2.3	7.4
Europe - North America	-2.1	3.9	2.8	10.2
Europe - Middle East	8.2	4.7	3.8	4.6
Europe - Africa	0.4	-10.7	-5.6	-4.4
Europe - South America	-2.9	1.6	1.7	4.5
Within Europe	-2.5	14.1	16.9	34.0

Source: IATA Statistics

- As with its pax counterpart, growth in industry-wide freight volumes moved higher in Sep, up 1½pp to 6.1%yoy. At the same time, however, growth for the European carriers surged by 6pp, to a very strong 12.6%yoy & easily the strongest rate of all regions.
- Across-the-board increases were seen in FTK growth for the main freight markets, although for Europe-Africa, volumes remain solidly down on their level of a year ago.

## Industry

### Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK		2015	Jul-16	Aug-16	Sep-16
<b>Passenger</b>					
Europe	ASK	3.9	3.5	3.7	5.1
	PLF	81.3	86.7	86.3	84.3
World	ASK	5.6	6.0	5.6	6.6
	PLF	80.2	84.1	83.7	81.1
<b>Freight</b>					
Europe	AFTK	4.9	5.2	5.4	6.4
	FLF	44.8	42.8	41.8	44.9
World	AFTK	6.4	5.0	4.9	4.7
	FLF	44.1	41.1	40.7	43.7

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

- Following a modest growth performance over recent months, ASKs for European carriers lifted to 5.1%yoy in Sep. However, it still lags the industry-wide rate of 6.6%. The converse holds for freight where European AFTKs are up 6.4%yoy vs the industry rate of 4.7%.
- Despite an easing in Sep, the PLF for European carriers, at 84.3%, is ~3pp above the industry average & is the highest across all regions currently. The FLF, at 44.9%, also exceeds the industry average (43.7%), supported by the recent pick-up in volumes.
- The initial Q3 financials are slightly down on those of a year ago but remain very healthy. For the European

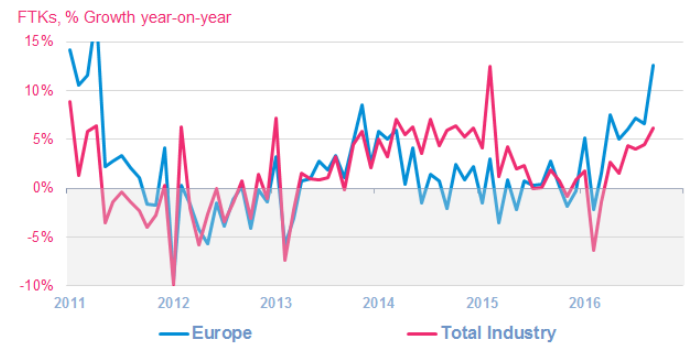
### Airline operating (EBIT) margins\*

%revenues	2014	2015	2015Q3	2016Q3
Europe	2.0	5.3	14.0	13.8
Industry	4.7	8.3	16.0	15.2

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

- Strong increases in the two largest markets of Asia (up ~5pp to 7.4%yoy) & Nth America (up ~7½pp to 10.2%) drove the overall increase for the European carriers. This improvement is consistent with recent gains in the 'new export orders' component of the German PMI.
- The fastest growing market (but much smaller in size) is that of Within Europe, where the rate of growth doubled in the month, to 34%yoy.

### Growth in air freight volumes



Source: IATA Statistics

carriers, the operating margin of 13.8% is ~1½pp below the industry-wide figure of 15.2%. The latter continues to be bolstered by the performance from Nth America, where margins are around 17% currently.

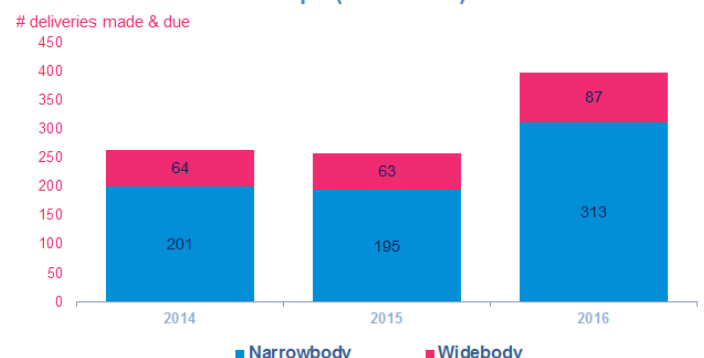
- Across the main markets for European airlines, pax yields remain well down on their level of year ago, typically in, or very close to, double-digit decline.
- The exception continues to be Russia domestic, where the translation effect of the recent RUB appreciation vs the USD has positively impacted yield developments.

### Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2015	Jul-16	Aug-16	Sep-16
Russia domestic	-38.9	12.4	18.3	23.0
Within Europe	-16.3	-5.8	-7.1	-8.5
Europe - North America	-8.5	-8.3	-11.5	-10.0
Europe - Asia	-0.2	-10.0	-10.2	-8.4
Europe - Middle East	-11.8	-9.9	-14.3	-13.7
Europe - Africa	-17.2	-3.9	-6.9	-7.9
Europe - South America	-19.5	-16.2	-15.8	-14.8

Source: IATA PaxIS

### Aircraft deliveries to Europe (latest data)



Source: Ascend