



STATE OF THE REGION: EUROPE

NOVEMBER 2017

Economy

GDP growth, selected countries

| %change on a yr ago | 2016 | 2017Q1 | 2017Q2 | 2017Q3 |
|---------------------|------------|------------|------------|------------|
| Germany | 1.9 | 2.1 | 2.3 | 2.8 |
| Russia | -0.2 | 0.5 | 2.5 | -- |
| France | 1.1 | 1.1 | 1.8 | 2.2 |
| UK | 1.8 | 1.8 | 1.5 | 1.5 |
| Italy | 1.1 | 1.3 | 1.5 | 1.8 |
| Spain | 3.3 | 3.0 | 3.1 | -- |
| Turkey | 3.2 | 5.2 | 5.1 | -- |
| Israel | 3.9 | 3.8 | 3.0 | 3.0 |
| Euro zone | 1.8 | 2.0 | 2.3 | 2.5 |
| World* | 2.3 | 2.6 | 2.8 | 2.8 |

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

| end of period, # per US\$ | 2016 | Aug-17 | Sep-17 | Oct-17 |
|---------------------------|-------|--------|--------|--------|
| US\$ broad index | 127.7 | 119.3 | 118.1 | 120.2 |
| European euro (EUR) | 0.95 | 0.84 | 0.85 | 0.86 |
| Russian ruble (RUB) | 60.4 | 58.1 | 57.6 | 58.4 |
| British pound (GBP) | 0.81 | 0.78 | 0.75 | 0.75 |
| Turkish lira (TRY) | 3.52 | 3.46 | 3.56 | 3.80 |
| Israeli shekel (ILS) | 3.84 | 3.58 | 3.53 | 3.52 |

Source: Datastream, XE

World oil and jet fuel price

| US\$/barrel | 2016 | Aug-17 | Sep-17 | Oct-17 |
|-------------------|------|--------|--------|--------|
| Crude oil (Brent) | 52.4 | 51.7 | 56.2 | 57.3 |
| Jet fuel | 64.0 | 65.6 | 75.6 | 69.6 |

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

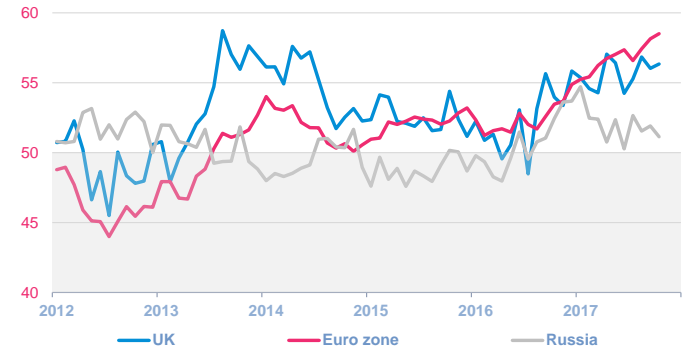
| %change on a yr ago | 2016 | Jul-17 | Aug-17 | Sep-17 |
|------------------------------------|------|--------|--------|--------|
| Region (registration basis) | | | | |
| Europe | 4.6 | 8.1 | 7.1 | 7.1 |
| World | 6.7 | 7.0 | 7.3 | 5.7 |
| Routes (segment basis) | | | | |
| Russia domestic | 2.5 | 9.3 | 7.8 | 7.3 |
| Within Europe | 8.2 | 10.0 | 9.7 | 11.5 |
| Europe - North America | 2.5 | 3.2 | 4.7 | 3.3 |
| Europe - Asia | 1.8 | 6.5 | 5.4 | 7.1 |
| Europe - Middle East | 9.9 | 7.8 | 8.5 | 6.4 |
| Europe - Africa | 1.8 | 7.5 | 6.5 | 6.4 |
| Europe - South America | 3.5 | 3.8 | -0.8 | 4.7 |

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

- Industry-wide RPKs grew by a solid 5.7%yoy in Sep, easing somewhat from the pace of recent months but adversely impacted by hurricane-related disruption in a number of markets, notably the US. We would expect this impact to be temporary & unwound next month.
- For European carriers, RPK growth was unchanged in Sep at a robust 7.1%yoy, although recent months have seen a slowing in the seasonally-adjusted trend.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



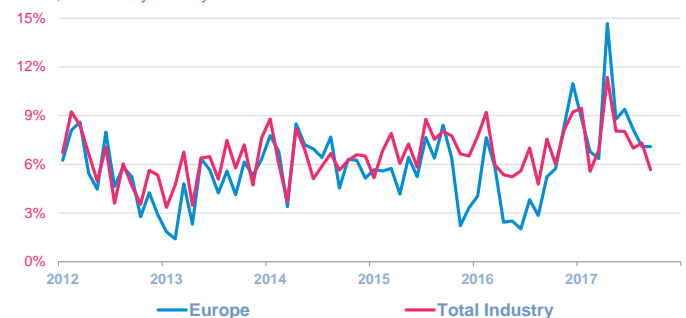
Source: Markit

- Business confidence in the Eurozone rose to its highest level in 80 months. In Russia, slower increases in production & new orders, along with higher input costs, dampened business sentiment this month. The UK measure was largely unchanged on this occasion.
- On a trade-weighted basis, the US\$ reversed some of its recent decline in Oct, rising by 1.8%. Of the key regional currencies, falls were generally in the order of 1-1.5% vs the US\$; the TRY was the outlier, down a sharp 6.7%.
- Brent crude oil prices moved above US\$60/bbl in Oct to average \$57.30 for the month. Jet fuel retraced some of its Sep surge, falling \$6 to average \$69.60 & narrowing the crack spread substantially. Tensions between Saudi Arabia & Iran continue to weigh on the market.

- Russia domestic RPK growth eased a little again this month, but are still up a healthy 7.3% compared with a year ago. Of the main domestic markets that we track, Russia has the highest pax load factor, at almost 85%.
- Amongst the key international markets for the region's carriers, Within Europe has returned to a double-digit pace of growth, leading the way at 11.5%yoy. Europe-Asia follows, with growth stepping up to 7.1%yoy in Sep.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

| %change on a yr ago | 2016 | Jul-17 | Aug-17 | Sep-17 |
|------------------------------------|------|--------|--------|--------|
| Region (registration basis) | | | | |
| Europe | 7.6 | 12.2 | 11.9 | 10.3 |
| World | 3.7 | 10.3 | 11.6 | 9.2 |
| Routes (segment basis) | | | | |
| Europe - Asia | 3.9 | 11.1 | 11.8 | 8.6 |
| Europe - North America | 2.5 | 12.9 | 14.6 | 8.1 |
| Europe - Middle East | 7.1 | 18.0 | 20.7 | 14.5 |
| Europe - Africa | -5.5 | 7.9 | 3.5 | 1.3 |
| Europe - South America | 1.2 | 4.1 | 5.7 | 11.9 |
| Within Europe | 23.3 | 40.1 | 36.7 | 28.6 |

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

- Global FTK growth slowed to a 5-month low of 9.2%yoy in Sep, but remains well above its 5 & 10-year average rates of growth. While weather may have also impacted freight outcomes, this comes amidst broader & ongoing signs that FTKs have passed the cyclical growth peak.
- Nonetheless, FTK growth for the European airlines remained in double-digits this month (10.3%), continuing to outperform the overall industry-wide outcome.

Industry

Capacity growth and load factors

| ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK | | 2016 | Jul-17 | Aug-17 | Sep-17 |
|--|------|------|--------|--------|--------|
| Passenger | | | | | |
| Europe | ASK | 4.7 | 6.7 | 5.8 | 5.3 |
| | PLF | 82.4 | 88.5 | 88.1 | 86.4 |
| World | ASK | 6.7 | 6.4 | 6.4 | 5.3 |
| | PLF | 80.5 | 84.7 | 84.6 | 81.6 |
| Freight | | | | | |
| Europe | AFTK | 7.9 | 5.7 | 5.1 | 5.6 |
| | FLF | 44.0 | 43.6 | 43.0 | 45.0 |
| World | AFTK | 5.4 | 3.1 | 4.2 | 3.9 |
| | FLF | 42.9 | 43.4 | 43.2 | 45.5 |

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

- A mixed performance in load factors this month, with the PLF falling moderately but a gain of broadly similar magnitude for the FLF, at both the industry-wide level and for the European carriers.
- The industry-wide PLF was 81.6%, remaining below the very strong 86.4% performance from the European carriers. For freight, the European carrier FLF is a little below that of the industry, at 45.0% vs 45.5%.
- The increase in pax capacity by European carriers over the past year matches that of the overall industry, at 5.3%. European AFTKs, however, have increased by 5.6%, outpacing the industry-wide 3.9%.

- The initial Q3 financial data show a modest decline in

Airline operating (EBIT) margins*

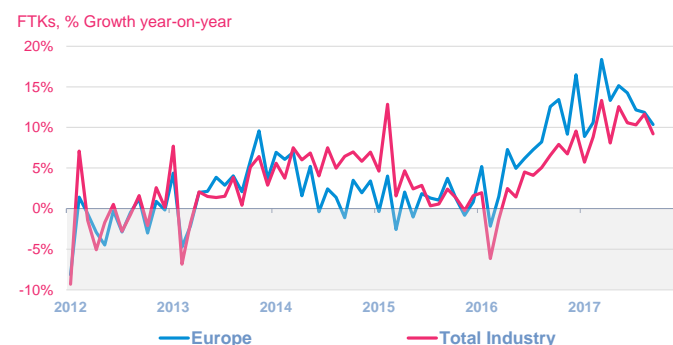
| %revenues | 2015 | 2016 | 2016Q3 | 2017Q3 |
|-----------|------|------|--------|--------|
| Europe | 5.4 | 6.1 | 22.2 | 20.3 |
| Industry | 8.5 | 8.8 | 18.2 | 16.3 |

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

IATA Economics: www.iata.org/economics

- Supported by an improved economic backdrop & solid export orders, European carriers have so far shrugged off headwinds from the recent euro appreciation.
- The robust growth performance is widespread across key international markets, with the exception Europe-Africa. FTKs in the two largest markets (Asia & NthAm) are growing by 8-8.5%yoy. The smaller Within Europe market is still the fastest growing, up 29%yoy in Sep.

Growth in air freight volumes



Source: IATA Statistics

the EBIT margin of ~2pp for both the industry overall & the European airlines compared with a year ago. The seasonally strong quarter for the region shows an initial EBIT margin outcome of 20.3%, outperforming the industry-wide figure of 16.3%.

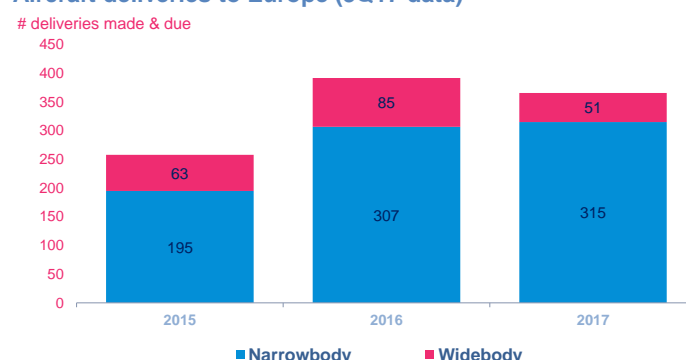
- The upward trend in global pax yields (in US\$ terms) paused in Sep, although for key regional markets the up-trend was generally maintained. Europe-Sth America & Russia domestic are the strongest performing markets, with double-digit yield increases vs a year ago. Only for Europe-Africa are yields lower than a year ago.

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

| %change on a yr ago | 2016 | Jul-17 | Aug-17 | Sep-17 |
|------------------------|-------|--------|--------|--------|
| Russia domestic | 5.2 | 11.9 | 13.1 | 10.8 |
| Within Europe | -7.6 | 3.0 | 2.9 | 3.1 |
| Europe - North America | -8.3 | -2.3 | -1.1 | 1.9 |
| Europe - Asia | -10.3 | 4.7 | 4.8 | 5.7 |
| Europe - Middle East | -11.5 | 2.5 | 0.6 | 2.9 |
| Europe - Africa | -8.3 | -1.4 | -2.2 | -0.6 |
| Europe - South America | -17.5 | 10.0 | 12.1 | 14.6 |

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

Aircraft deliveries to Europe (3Q17 data)



Source: Ascend

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