



STATE OF THE REGION: EUROPE

NOVEMBER 2018

Economy

GDP growth, selected countries

%change on a yr ago	2017	2018Q1	2018Q2	2018Q3
Germany	2.5	2.0	1.9	1.2
Russia	-0.2	1.3	1.9	--
France	2.3	2.1	1.7	1.5
UK	1.7	1.1	1.2	1.5
Italy	1.6	1.3	1.2	0.8
Spain	3.0	2.8	2.5	2.5
Turkey	7.4	7.3	5.2	--
Israel	3.5	4.4	3.7	3.1
Euro zone	2.5	2.4	2.2	1.7
World*	3.1	3.2	3.2	3.2

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2017	Aug-18	Sep-18	Oct-18
US\$ broad index	120.0	125.3	126.0	126.9
European euro (EUR)	0.83	0.86	0.86	0.88
Russian ruble (RUB)	57.7	67.6	65.6	65.7
British pound (GBP)	0.74	0.77	0.77	0.78
Turkish lira (TRY)	3.79	6.59	6.04	5.58
Israeli shekel (ILS)	3.48	3.60	3.61	3.72

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel (period ave.)	2017	Aug-18	Sep-18	Oct-18
Crude oil (Brent)	54.2	72.5	78.9	81.0
Jet fuel	65.6	89.0	91.9	94.4

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

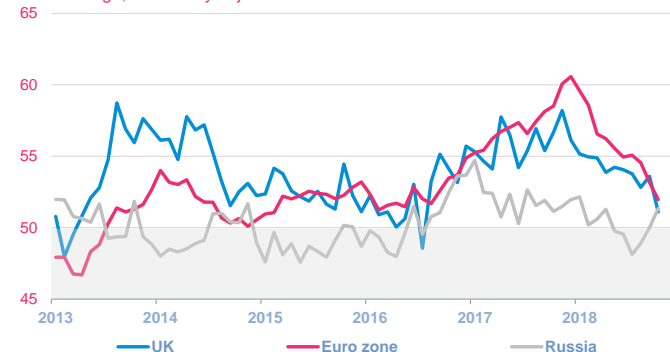
%change on a yr ago	2017	Jul-18	Aug-18	Sep-18
Region (registration basis)				
Europe	8.2	4.8	5.5	5.4
World	7.6	6.2	6.4	5.5
Routes (segment basis)				
Russia domestic	10.4	8.2	11.4	11.1
Within Europe	10.8	6.9	6.9	6.6
Europe - North America	4.1	4.1	3.9	4.5
Europe - Asia	9.5	5.8	9.2	7.1
Europe - Middle East	6.6	6.8	6.8	0.5
Europe - Africa	6.5	4.2	4.7	6.5
Europe - South America	6.1	8.7	10.4	7.6

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

- ➔ Annual growth in industry-wide RPKs eased to 5.5% in Sept, the slowest rate in 8mths. The monthly outcome was impacted in part by adverse weather disruptions, although the upward traffic trend also slowed in Q3.
- ➔ The European carriers saw almost unchanged RPK growth of 5.4%yoy this month, in line with the industry-wide average rate of growth.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



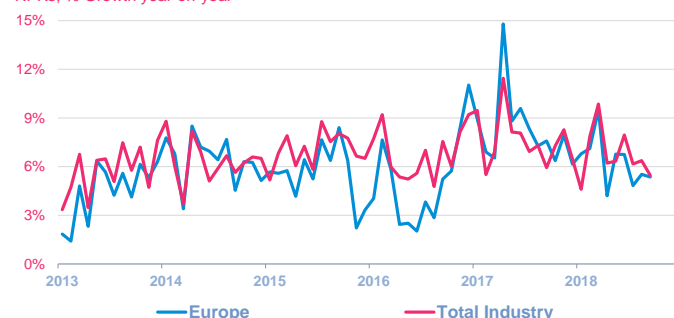
Source: Markit

- ➔ Russia's business confidence surged for the third month in a row due to stronger new order & production growth, returning to a level typically associated with increasing output for the first time since June. Brexit uncertainty reportedly weighted upon business sentiment in both the UK & Eurozone this month.
- ➔ On a trade-weighted basis, the US\$ rose by 0.7% in Oct, the 9th consecutive monthly gain. Amongst the main regional currencies, the TRY rebounded sharply, gaining 7.6% vs the US\$ this month, while each of the GBP, EUR & ILS were down 2-3%mom.
- ➔ The monthly average Brent crude oil & jet fuel price rose further in Oct, mainly due to supply cut announcements from Saudi Arabia. In recent weeks, however, the oil & jet fuel price has corrected sharply lower.

- ➔ Annual growth in passenger volumes for the Russia domestic market maintained its double-digit pace this month despite easing slightly to 11.1%yoy.
- ➔ RPK growth across the region's larger international markets remained robust in Sept, with the exception of Europe-Middle East where growth slipped to just 0.5%yoy. Elsewhere, RPKs have generally increased by a healthy 6.5-7.5% over the past year, with the Nth American market having grown a little more slowly, at (a still respectable) 4.5%yoy.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2017	Jul-18	Aug-18	Sep-18
Region (registration basis)				
Europe	12.0	2.6	3.4	1.5
World	9.1	2.2	1.9	2.0
Routes (segment basis)				
Europe - Asia	11.0	0.9	0.8	-0.7
Europe - North America	9.9	-1.2	1.9	4.2
Europe - Middle East	11.0	4.3	0.2	6.3
Europe - Africa	2.4	-1.2	-2.0	4.5
Europe - South America	6.9	6.8	12.1	0.3
Within Europe	32.9	5.7	9.3	9.5

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

→ Annual industry-wide FTKs increased by 2.0%yoy in Sept, more than 3pp below the five-year average pace. The moderation in annual growth is consistent with the typical pattern seen after inventory-led upturns (as we saw in 2017) in the past.

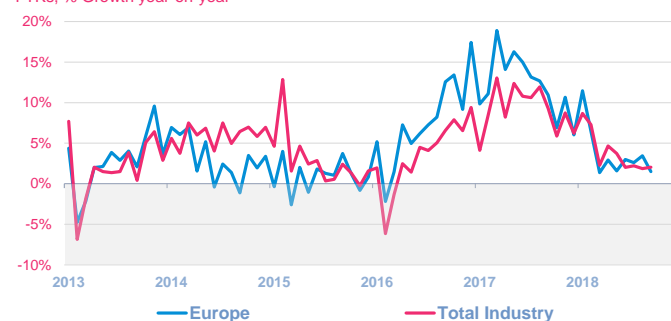
→ At the regional level, the pace of annual FTK growth more than halved in Sept, slowing to a modest 1.5%yoy; its slowest rate in 6 months.

→ After a soft recent performance, freight volumes for Asia, Europe's largest market, slipped below their year-ago levels in Sept (down 0.7%yoy) & weighing on the regional aggregate. In contrast, recent months have seen an improved performance from the Nth America market (Europe's 2nd largest) where FTKs are now up 4.2%yoy.

→ The strongest performer in Sept was the smaller Within Europe market, with freight volume growth of 9.5%yoy.

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, LF: %of ASK/AFTK		2017	Jul-18	Aug-18	Sep-18
Passenger					
Europe	ASK	6.3	4.2	4.7	4.9
	PLF	83.9	89.0	88.8	86.7
World	ASK	6.3	5.3	5.5	5.8
	PLF	81.5	85.3	85.3	81.4
Freight					
Europe	AFTK	6.0	4.1	4.8	0.9
	FLF	46.5	43.0	42.5	45.3
World	AFTK	3.6	4.0	4.5	3.2
	FLF	45.2	42.7	42.1	44.8

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

→ The industry-wide PLF dropped to 81.4% in Sept, down from 85.3% in Aug. In contrast, the FLF lifted by almost 3pp this month to 44.8%.

→ The most recent load factor outcomes for the region show that European carriers continue to outperform the overall industry results, with a PLF of 86.7% this month (a sizeable 5pp above the overall industry figure) and a FLF of 45.3%.

→ The initial Q3 financial data confirm that a squeeze on airline profit margins has continued, both at the industry & regional level. The EBIT margin is currently 13.5% of revenues industry-wide vs 16.5% a year ago. For the

Airline operating (EBIT) margins*

%revenues	2016	2017	2017Q3	2018Q3
Europe	6.1	6.8	19.0	16.6
Industry	8.5	7.5	16.5	13.5

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

region's airlines, the Q3 margin also showed a decline of 16.6% currently vs 19.0% in Q32017.

→ Many of the region's major markets are showing lower yields compared with a year ago, most clearly the Russia domestic market where yields are down ~17%yoy. Yields for the Within Europe, Asia & Middle East markets are also currently lower than they were a year ago.

→ The Nth America market remains the strongest performer (and the exception) for the region with a solid 5.8%yoy improvement in yields.

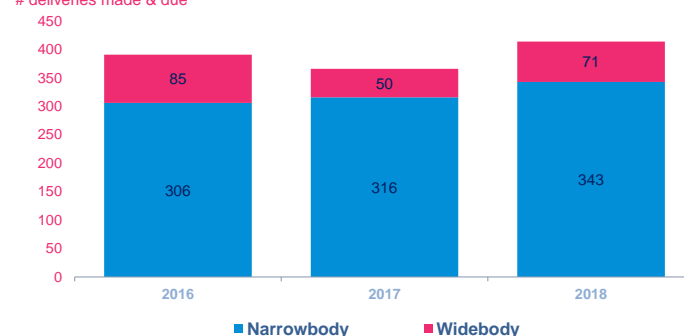
Passenger yields (US\$, excl. surcharges & ancillaries)

%change on a yr ago	2017	Jul-18	Aug-18	Sep-18
Russia domestic	12.5	-8.5	-13.0	-16.8
Within Europe	-1.6	6.2	3.1	-0.3
Europe - North America	-1.9	8.5	8.7	5.8
Europe - Asia	1.9	0.9	0.1	-2.7
Europe - Middle East	-2.3	0.9	2.4	-4.0
Europe - Africa	-5.3	4.7	3.5	1.0
Europe - South America	7.5	4.9	-0.6	-5.2

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

Aircraft deliveries to Europe

deliveries made & due



Source: Ascend