

State of the region: Europe

Economy

GDP growth, selected economies

% change on a yr ago	2018	Q4 2018	Q1 2019	Q2 2019
Germany	1.5	0.6	0.9	0.4
Russia	2.3	2.7	0.5	0.9
France	1.7	1.2	1.3	1.4
UK	1.4	1.5	2.1	1.3
Italy	0.7	0.0	0.0	0.1
Spain	2.4	2.1	2.2	2.0
Turkey	2.8	-2.8	-2.4	-1.5
Israel	3.6	3.1	3.2	3.0
Euro zone	1.9	1.2	1.3	1.2
World*	3.2	2.8	2.8	2.6

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2018	Jul-19	Aug-19	Sep-19
US\$ broad index	128.5	127.8	130.4	130.8
European euro (EUR)	0.87	0.90	0.91	0.92
Russian ruble (RUB)	69.37	63.43	66.61	64.88
British pound (GBP)	0.79	0.82	0.82	0.81
Turkish lira (TRY)	5.29	5.56	5.83	5.65
Israeli shekel (ILS)	3.74	3.50	3.53	3.48

Source: Datastream

World oil and jet fuel price

US\$/barrel (period ave.)	2018	Jul-19	Aug-19	Sep-19
Crude oil (Brent)	71.7	64.3	59.6	62.4
Jet fuel	86.4	80.4	76.1	79.8

Source: Platts, Datastream (monthly average data)

Market

Revenue passenger kilometers (RPKs)

% change on a yr ago	2018	Jun-19	Jul-19	Aug-19
Region (registration basis)				
Europe	7.5	5.8	3.5	3.6
World	7.3	5.1	3.5	3.8
Routes (segment basis)				
Russia domestic	10.6	8.8	6.8	6.0
Within Europe	8.3	8.6	5.2	6.4
Europe - North America	4.4	6.5	4.2	4.7
Europe - Asia	7.1	6.8	6.0	6.0
Europe - Middle East	4.9	11.1	3.6	4.7
Europe - Africa	7.4	14.2	7.4	6.4
Europe - South America	8.5	5.8	9.0	8.9

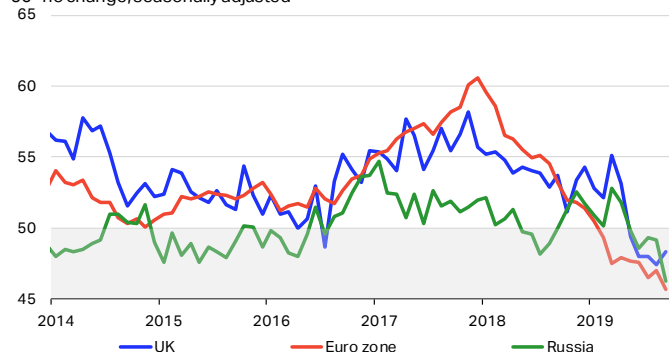
Source: IATA Statistics Note: historical data may be subject to revision

- Year-on-year growth in industry-wide revenue passenger kilometres (RPKs) edged up to 3.8% in August. Despite difficult economic conditions in several key markets, the moderate upward trend in passenger traffic remains in place.
- The RPK growth rate for European airlines was broadly unchanged from July, at 3.6% year-on-year – that is well below the pace seen throughout 2018. Slowing economic growth along with political uncertainties

October 2019

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



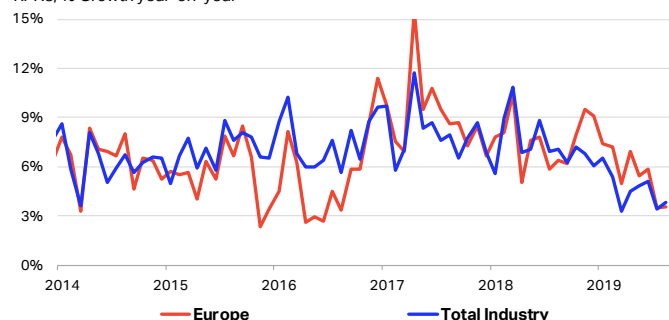
- The manufacturing sector remained under pressure across Europe amidst slowing economic growth, weak trade outcomes, and rising political uncertainty. Russian business confidence reached the lowest level since the global financial crisis. Eurozone sentiment also deteriorated, driven by PMI downturns across most of the key economies, notably Germany
- The trade weighted US\$ index rose slightly in September, up 0.3%. Of the main regional currencies, the TRY and RUB gained 3.1% and 2.6% against the US\$, respectively, while the EUR lost 1%.
- The average monthly jet and crude oil price ticked up in September as attacks on oil fields in Saudi Arabia temporarily halted about 5% of global oil supply.

continue to weigh on the latest demand outcomes.

- Year-on-year growth in domestic Russia RPKs slowed to an even 6% in August, down from 6.8% in July. While this is still a robust result, it is well below the long-term average growth rate of ~10%.
- Year-on-year RPK growth picked up across the larger international markets; volumes are 6.4% and 4.7% higher compared to a year ago for Within Europe and Europe-NthAm, respectively.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Freight tonne kilometers (FTKs)

% change on a yr ago	2018	Jun-19	Jul-19	Aug-19
Region (registration basis)				
Europe	3.2	-3.6	-1.4	-3.3
World	3.7	-4.6	-2.4	-3.9
Routes (segment basis)				
Europe - Asia	1.1	-4.0	-1.3	-3.4
Europe - North America	3.3	-5.1	-3.0	-3.9
Europe - Middle East	3.7	-6.9	-5.5	-7.9
Europe - Africa	0.0	-0.6	0.0	-1.6
Europe - South America	9.1	-5.5	-3.6	-6.0
Within Europe	8.5	-3.5	1.7	1.6

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

- Industry-wide air freight tonne kilometres (FTKs) declined further in August (-3.9%yoy), facing headwinds from weakening global trade and softness in a number of key economic indicators.
- The downward pressure on FTKs intensified in August for European airlines which recorded a 3.3% year-on-year contraction. The weak demand outcome has reflected softer economic growth and weaker support from new export orders in some of the key economies.

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago,		2018	Jun-19	Jul-19	Aug-19
LF: % of ASK/AFTK					
Passenger					
Europe	ASK	6.5	4.7	3.3	3.3
	PLF	84.7	87.6	89.0	88.9
World	ASK	6.8	3.4	3.2	3.5
	PLF	82.0	84.4	85.6	85.7
Freight					
Europe	AFTK	3.3	2.6	4.6	3.3
	FLF	54.4	49.8	48.5	47.7
World	AFTK	5.2	2.0	3.2	2.0
	FLF	49.3	45.8	45.1	44.6

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 all-time high for the month of August as passenger demand continues to grow faster than capacity. On the freight side, the load factor (FLF) eased by 2.7ppt vs a year ago to 44.6%.
- LF developments for European airlines copied that of the previous month. The region posted a record high PLF for the August month (although only 0.2ppt better vs a year ago) while the FLF fell close to its historical minimum for the month.
- The final Q2 2019 airline financial data showed that industry-wide profitability was steady compared to the same quarter a year ago. At the regional level,

Airline operating (EBIT) margins*

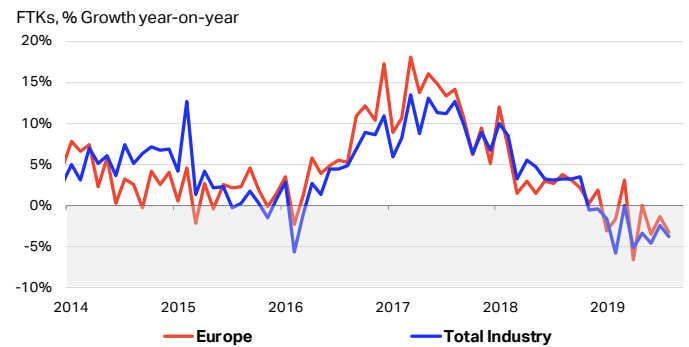
% revenues	2017	2018	2018Q2	2019Q2
Europe	7.9	6.2	9.1	7.6
Industry	7.5	5.8	7.6	7.6

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

IATA Economics: www.iata.org/economics

- All of the largest international trade lanes remained under pressure in August. Europe-Asia saw volumes down 3.4% vs a year ago compared to the 1.3% decline in July. RPKs also deteriorated further in Europe-NthAm, down ~4% vs the 3% contraction in the previous month.
- The smaller Within Europe remains the only key international market with expanding volumes, albeit by only a modest 1.6% year-on-year.

Growth in air freight volumes



Source: IATA Statistics

the EBIT margin fell to 7.6% of revenues in Q2, down from the robust 9.1% outcome in the same quarter a year ago.

- Passenger yields excluding ancillaries and surcharges remained under pressure across the key domestic and international routes. That said, the speed of contraction slowed significantly for Russia domestic (from -8.8% in July to -2.6% in August) as well as in the larger Within Europe market (-6.6% vs -3.0%).

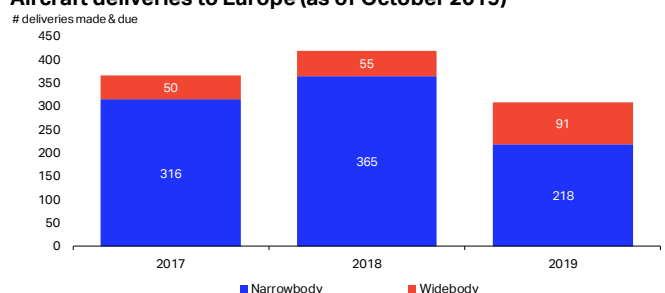
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2018	Jun-19	Jul-19	Aug-19
Russia domestic	-6.1	-22.5	-8.8	-2.6
Within Europe	4.3	-8.1	-6.6	-3.0
Europe - North America	5.3	-3.3	-5.4	-5.2
Europe - Asia	0.9	-8.6	-9.8	-7.6
Europe - Middle East	3.2	-3.2	-4.8	-5.4
Europe - Africa	3.7	-6.7	-8.2	-4.4
Europe - South America	-1.2	-20.2	-19.8	-15.5

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 October 2019)



Source: Ascend

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