

# STATE OF THE REGION: EUROPE

OCTOBER 2016

## Economy

### GDP growth, selected countries

%change on a yr ago	2015	2015Q4	2016Q1	2016Q2
Germany	1.4	1.3	1.8	1.7
Russia	-3.7 <sup>†</sup>	-3.8	-1.2	-0.6
France	1.2	1.3	1.4	1.3
UK	2.2	1.7	1.9	2.1
Italy	0.6	0.9	0.9	0.7
Turkey	4.0	5.7	4.7	3.1
Israel	2.5	2.1	2.0	3.2
Euro zone	1.6	2.0	1.7	1.6
<b>World*</b>	<b>2.3</b>	<b>2.4</b>	<b>2.2</b>	<b>2.2</b>

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

end of period, # per US\$	2015	Jul-16	Aug-16	Sep-16
US\$ broad index	122.4	122.0	120.8	121.8
European euro (EUR)	0.92	0.90	0.90	0.89
Russian ruble (RUB)	73.2	66.1	65.3	63.0
British pound (GBP)	0.68	0.75	0.76	0.77
Turkish lira (TRY)	2.92	2.99	2.96	3.00
Israeli shekel (ILS)	3.90	3.81	3.78	3.75

Source: Datastream, XE

### World oil and jet fuel price

US\$/barrel	2015	Jul-16	Aug-16	Sep-16
Crude oil (Brent)	52.4	45.0	45.8	46.6
Jet fuel	64.0	53.4	54.4	55.4

Source: Platts, EIA Monthly average data

## Market

### Revenue passenger kilometers (RPKs)

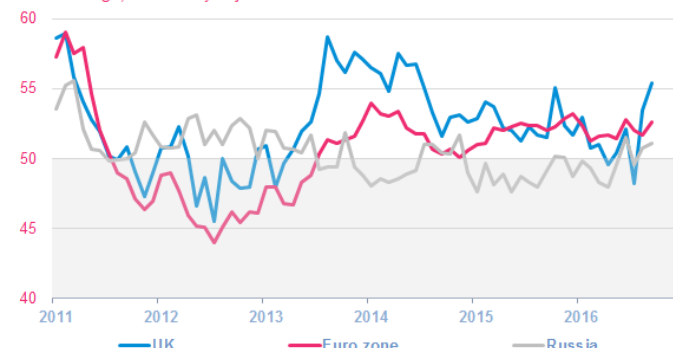
%change on a yr ago	2015	Jun-16	Jul-16	Aug-16
<b>Region (registration basis)</b>				
Europe	5.0	1.8	3.5	2.7
World	6.5	5.2	6.4	4.6
<b>Routes (segment basis)</b>				
Russia domestic	6.2	-1.3	-2.4	-2.7
Within Europe	8.6	5.3	7.0	5.8
Europe - North America	3.8	2.0	4.3	2.4
Europe - Asia	4.0	-0.9	1.5	-1.5
Europe - Middle East	11.3	0.0	10.8	5.0
Europe - Africa	-1.1	-7.2	2.8	-1.9
Europe - South America	2.0	1.7	5.7	5.8

Source: IATA Statistics

- RPK growth for the European-registered carriers eased somewhat in Aug, broadly in line with the industry-wide movement. The moderate pace of European carrier RPK growth (2.7%yoy) remains solidly below the 4.6% industry rate.
- Despite signs of economic recovery in Russia, domestic passenger volumes remain weak, softening further in yoy terms in Aug. Domestic RPKs are now 2.7% lower than their level of a year ago. That said, it is notable

### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

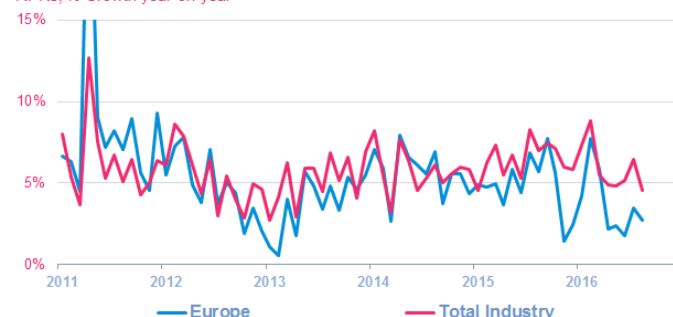
- UK business confidence surged again, with the index rising to its highest level in more than two years & overshadowing further gains in both the EZ & Russia.
- The US\$ drifted slightly higher in Sep, rising 0.8% on a trade-weighted basis. Amongst the main bilateral rates, the RUB gained 3.6% vs the US\$ in the month (up 14%yoy) & the TRY & GBP lost 1.2% & 0.9%mom respectively. The GBP is down more than 13%yoy.
- The world price of oil & jet fuel both rose by another 1½-2% in Sep. Markets remain cautious, sensitive to issues of global oversupply as well as discussions taking place within OPEC & elsewhere to limit production.

that, despite the yoy fall in RPKs, capacity has been cut by more, resulting in a record Aug load factor of 86.5%.

- RPKs are also lower over the past year on routes between Europe-Asia (down 1.5%yoy) & Europe-Africa (down 1.9%yoy). The former is yet to fully recover from the terrorism-related concerns which emerged in the early part of 2016.
- Of the largest international markets, Within Europe remains the strongest performer this month, with RPKs up 5.8%yoy, followed by Europe-Middle East at 5.0%.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

## Freight tonne kilometers (FTKs)

%change on a yr ago	2015	Jun-16	Jul-16	Aug-16
<b>Region (registration basis)</b>				
Europe	-0.2	6.1	7.2	6.6
World	2.2	4.4	4.0	3.9
<b>Routes (segment basis)</b>				
Europe - Asia	-4.9	2.4	3.0	2.3
Europe - North America	-2.1	0.2	4.1	2.9
Europe - Middle East	8.2	0.8	4.7	3.8
Europe - Africa	0.4	-9.0	-10.7	-6.6
Europe - South America	-2.9	-2.3	1.6	1.7
Within Europe	-2.5	12.3	14.1	16.9

Source: IATA Statistics

- Industry-wide air freight growth was steady in Aug, with FTKs up a solid 3.9%yoy. While the pace of growth for European carriers eased this month, it remains well above the industry rate &, at a strong 6.6%yoy, is the fastest growing of all regions.
- FTK growth in each of the three main freight markets for Europe (those with Asia, Nth America & the Middle East) eased this month, partly unwinding the gains seen in Jul.

## Industry

### Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2015	Jun-16	Jul-16	Aug-16
<b>Passenger</b>					
Europe	ASK	3.9	2.4	3.5	4.1
	PLF	81.3	83.0	86.7	86.3
World	ASK	5.6	5.5	6.0	5.8
	PLF	80.2	80.8	84.1	83.8
<b>Freight</b>					
Europe	AFTK	4.9	5.4	3.9	4.7
	FLF	44.8	44.5	43.2	42.0
World	AFTK	6.3	5.0	4.4	4.1
	FLF	44.1	43.1	41.3	40.8

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

- ASK growth for European carriers lagged the industry average over the past year, at 4.1% vs 5.8%yoy. For freight, the converse holds with the region's capacity growth outpacing that of the industry (4.7% vs 4.1%).
- In both cases, the load factors for EUR carriers are higher than the overall industry-wide outcomes. Indeed, at 86.3% in Aug, the region's pax load factor is the highest across all IATA regions.
- The latest Q2 financials are similar to those of a year ago; for EUR carriers, a 6.2% EBIT (operating) margin is down slightly (from 6.8% a year ago) while the industry-level figure is essentially unchanged at 10.8%. The latter

### Airline EBIT margins\*

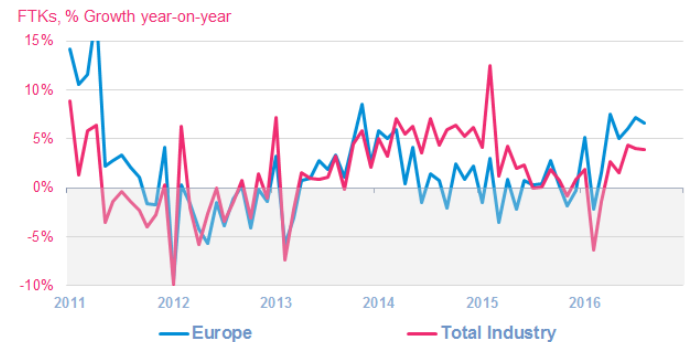
%revenues	2014	2015	2015Q2	2016Q2
Europe	2.0	5.3	6.8	6.2
Industry	4.7	8.3	10.7	10.8

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

Nonetheless, growth for these markets remains firm at 2.3%, 2.9% & 3.8%, respectively.

- The (much smaller) Within Europe market, which faces very strong competition from other modes of transport, remains easily the fastest growing at present, with FTKs up ~17%yoy.
- In contrast, freight volumes have *fallen* by 6.6% over the past year on routes between Europe & Africa.

### Growth in air freight volumes



Source: IATA Statistics

continues to be bolstered by the ongoing strong financial performance of the Nth American carriers, where margins are around 15% currently.

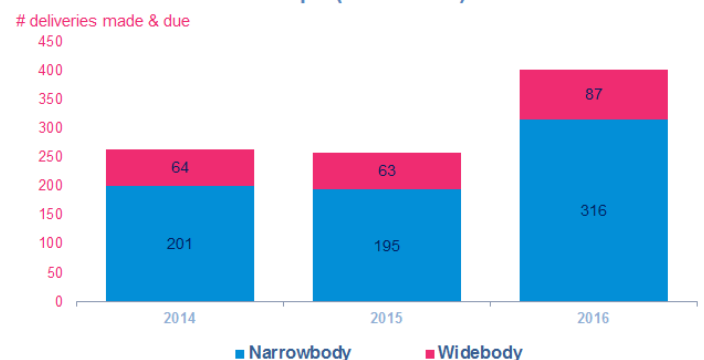
- With the exception of Russia domestic, where recent exchange rate shifts have played a key part, passenger yields remain under considerable pressure.
- Across the main international markets for EUR, yields are all lower than their level of a year ago, many remaining in, or returning to, double-digit decline. This comes despite recent increases in oil & jet fuel prices.

### Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2015	Jun-16	Jul-16	Aug-16
Russia domestic	-38.9	11.0	12.4	18.3
Within Europe	-16.3	-4.1	-5.8	-7.1
Europe - North America	-8.5	-6.8	-8.3	-11.5
Europe - Asia	-0.2	-8.8	-10.0	-10.2
Europe - Middle East	-11.8	-12.6	-9.9	-14.3
Europe - Africa	-17.2	-7.5	-3.9	-6.9
Europe - South America	-19.5	-18.8	-16.2	-15.8

Source: IATA PaxIS

### Aircraft deliveries to Europe (latest data)



Source: Ascend