



# STATE OF THE REGION: EUROPE

OCTOBER 2017

## Economy

### GDP growth, selected countries

%change on a yr ago	2016	2016Q4	2017Q1	2017Q2
Germany	1.9	1.9	1.9	2.1
Russia	-0.2	0.3	0.5	2.5
France	1.1	1.2	1.1	1.8
UK	1.8	1.6	1.8	1.5
Italy	1.1	1.0	1.3	1.5
Spain	3.3	3.0	3.0	3.1
Turkey	3.2	4.2	5.2	5.1
Israel	3.9	4.7	3.7	3.0
Euro zone	1.8	1.9	2.0	2.3
<b>World*</b>	<b>2.3</b>	<b>2.6</b>	<b>2.6</b>	<b>2.8</b>

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

end of period, # per US\$	2016	Jul-17	Aug-17	Sep-17
US\$ broad index	127.7	120.7	119.3	118.1
European euro (EUR)	0.95	0.85	0.84	0.85
Russian ruble (RUB)	60.4	60.1	58.1	57.6
British pound (GBP)	0.81	0.76	0.78	0.75
Turkish lira (TRY)	3.52	3.52	3.46	3.56
Israeli shekel (ILS)	3.84	3.56	3.58	3.53

Source: Datastream, XE

### World oil and jet fuel price

US\$/barrel	2016	Jul-17	Aug-17	Sep-17
Crude oil (Brent)	52.4	48.5	51.7	56.2
Jet fuel	64.0	59.5	65.6	75.6

Source: Platts, EIA Monthly average data

## Market

### Revenue passenger kilometers (RPKs)

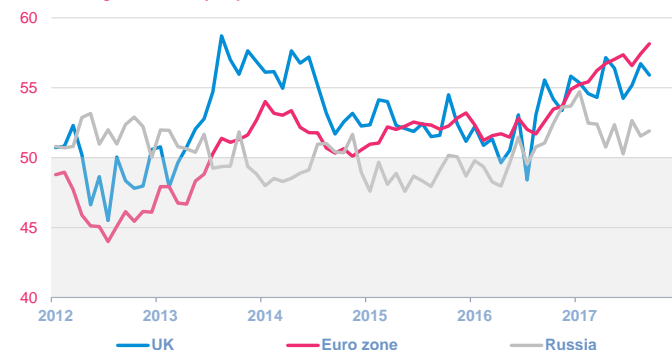
%change on a yr ago	2016	Jun-17	Jul-17	Aug-17
<b>Region (registration basis)</b>				
Europe	4.6	9.3	8.1	7.0
World	6.5	8.0	7.0	7.2
<b>Routes (segment basis)</b>				
Russia domestic	2.5	10.9	9.3	8.3
Within Europe	8.2	11.3	9.9	9.4
Europe - North America	2.5	5.3	2.7	4.5
Europe - Asia	1.8	10.6	6.5	5.4
Europe - Middle East	9.9	7.4	7.8	8.5
Europe - Africa	1.8	8.0	7.5	6.5
Europe - South America	3.5	8.4	3.7	-0.7

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

- Industry-wide RPKs grew by a robust 7.2%yoy in Aug, up slightly from July, & completing a solid performance during the peak northern-hemisphere summer period.
- For the European carriers, pax volume growth went against the trend this month; the only region where the yoy growth rate eased. However, at 7.0%, the pace remains robust & aligned with that of the overall industry.

### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



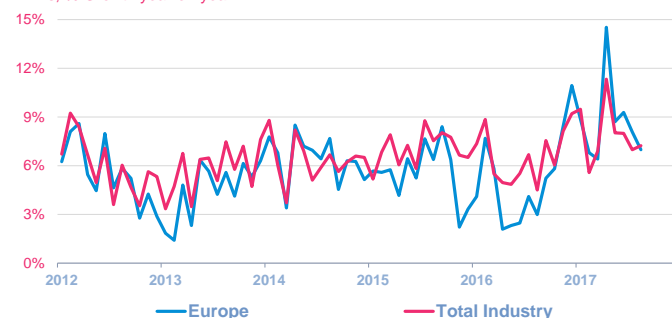
Source: Markit

- Business confidence remains elevated in both the Eurozone & UK, however the latter saw a dip this month, on renewed concerns about Brexit. Confidence in Russia ticked higher this month, supported by the higher world oil price (see below).
- On a trade-weighted basis, the US\$ eased by another 1% in Sep, continuing its recent downtrend. UK financial markets obviously didn't share the business concerns about Brexit, as the GBP gained almost 4% in the month against the US\$. In contrast, the TRY fell by 3%.
- Brent crude oil & jet fuel prices surged in Sep, the former up 9% (reaching a 26mth high in the process), the latter up 15% & leading to a sharp widening in the crack spread. Supply-side issues again drove the movements.

- Russia domestic RPK growth slowed again this month, & despite growing by a brisk 8.3%yoy, this is the slowest pace in 10 months.
- Amongst the main international markets for the region's carriers, Within Europe remains the strongest performer at present, with yoy growth in pax volumes of 9.4%, followed by Europe-Middle East, at 8.5%. Europe-SthAm is the only market where RPKs are currently lower than their level of a year ago, with volumes down 0.7%.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

## Freight tonne kilometers (FTKs)

%change on a yr ago	2016	Jun-17	Jul-17	Aug-17
<b>Region (registration basis)</b>				
Europe	7.7	14.2	12.1	11.8
World	3.8	10.8	10.9	12.1
<b>Routes (segment basis)</b>				
Europe - Asia	3.9	13.8	11.1	11.8
Europe - North America	2.5	12.9	12.9	14.6
Europe - Middle East	7.1	14.3	18.0	20.9
Europe - Africa	-5.5	4.2	7.9	3.5
Europe - South America	1.2	6.7	4.1	5.7
Within Europe	23.3	33.5	40.1	36.7

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

→ Global FTK growth stepped up again in Aug, rising to 12.1%yoy, the 5<sup>th</sup> month of double-digit annual growth in the past 6 months. Growth in freight volumes for the European carriers was broadly unchanged this month, easing by 0.3pp to 11.8%, & again consistent with the industry-wide performance.

→ The strong demand backdrop for European airlines reflects buoyant export order books for the region's

## Industry

### Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK		2016	Jun-17	Jul-17	Aug-17
<b>Passenger</b>					
Europe	ASK	4.7	7.4	6.7	5.7
	PLF	82.4	85.2	88.5	88.0
World	ASK	6.5	6.8	6.4	6.3
	PLF	80.5	81.8	84.6	84.5
<b>Freight</b>					
Europe	AFTK	7.5	6.3	5.6	5.1
	FLF	44.2	45.8	44.1	43.5
World	AFTK	5.4	4.9	3.5	4.7
	FLF	42.9	45.0	43.5	43.3

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

→ The industry-wide load factors were relatively stable this month; the PLF held its ground at 84.5% & the FLF dipped only slightly, to 43.3%.

→ Both the pax & freight load factors for the European airlines fell by around 0.5pp in Aug, to 88.0% & 43.5%, respectively. Despite the modest easing this month, Europe currently leads the PLF ranking.

→ The European carriers have increased ASKs by 5.7%yoy, below the industry rate of 6.3%. The converse applies for freight with European ATKs up 5.1% & outpacing the industry-wide 4.7%.

→ The latest Q2 financial data show a modest decline in

### Airline operating (EBIT) margins\*

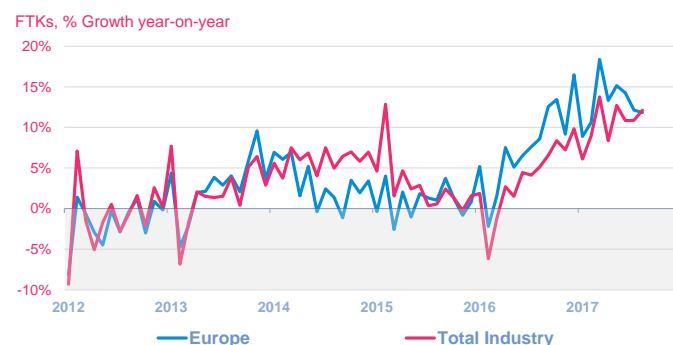
%revenues	2015	2016	2016Q2	2017Q2
Europe	5.4	6.1	4.2	7.0
Industry	8.5	8.8	9.8	9.0

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

manufacturers who appear to have shrugged off any headwinds from the recent appreciation of the euro.

→ The region's three largest international freight markets – Asia, Nth America & the Middle East – continue to post double-digit growth in FTKs between 12-20%yoy, with a clear performance gulf to the Africa & Sth America markets. The smaller Within Europe market is still the fastest growing, at 37%yoy.

### Growth in air freight volumes



Source: IATA Statistics

the EBIT margin for the industry overall, at 9.0% currently vs 9.8% in 2Q16. The European carriers went against this trend, posting an improved margin outcome, currently 7.0%, up from 4.2% a year ago.

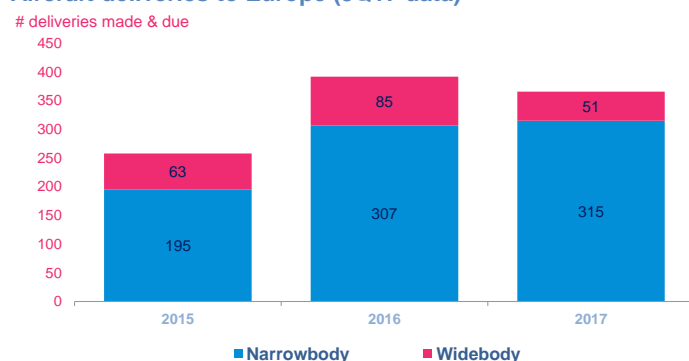
→ Global pax yields (in US\$ terms) have continued to trend modestly upwards in recent months. This trend is broadly reflected at the regional level, with only the Europe-Nth America & Europe-Africa markets still reporting lower yields (in yoy terms) currently. Russia domestic is the strongest performer, with yields now up 40% compared with their low level of a year ago.

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

%change on a yr ago	2016	Jun-17	Jul-17	Aug-17
Russia domestic	5.2	7.1	11.9	40.4
Within Europe	-7.6	-2.5	3.0	2.9
Europe - North America	-8.3	-3.5	-2.3	-1.1
Europe - Asia	-10.3	1.7	4.7	4.8
Europe - Middle East	-11.5	-5.7	2.5	0.6
Europe - Africa	-8.3	-5.0	-1.4	-2.2
Europe - South America	-17.5	8.7	10.0	12.1

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

### Aircraft deliveries to Europe (3Q17 data)



Source: Ascend