



STATE OF THE REGION: EUROPE

OCTOBER 2018

Economy

GDP growth, selected countries

%change on a yr ago	2017	2017Q4	2018Q1	2018Q2
Germany	2.5	2.8	2.0	1.9
Russia	-0.2	0.9	1.3	1.9
France	2.3	2.8	2.2	1.7
UK	1.7	1.4	1.1	1.2
Italy	1.6	1.6	1.3	1.2
Spain	3.0	3.1	2.8	2.5
Turkey	7.4	7.3	7.3	5.2
Israel	3.5	3.4	4.5	4.0
Euro zone	2.5	2.7	2.4	2.2
World*	3.1	3.2	3.2	3.2

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2017	Jul-18	Aug-18	Sep-18
US\$ broad index	120.0	124.1	125.3	126.0
European euro (EUR)	0.83	0.85	0.86	0.86
Russian ruble (RUB)	57.7	62.4	67.6	65.6
British pound (GBP)	0.74	0.76	0.77	0.77
Turkish lira (TRY)	3.79	4.91	6.59	6.04
Israeli shekel (ILS)	3.48	3.64	3.60	3.61

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel (period ave.)	2017	Jul-18	Aug-18	Sep-18
Crude oil (Brent)	54.2	74.3	72.5	78.9
Jet fuel	65.6	88.1	89.0	91.9

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

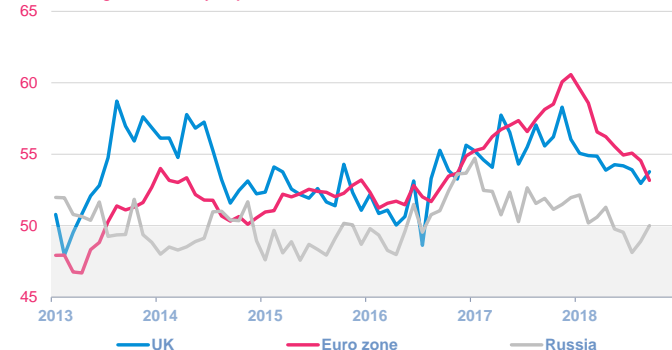
%change on a yr ago	2017	Jun-18	Jul-18	Aug-18
Region (registration basis)				
Europe	8.2	6.8	4.7	5.4
World	7.6	7.9	6.1	6.4
Routes (segment basis)				
Russia domestic	10.4	6.3	10.8	13.2
Within Europe	10.8	8.2	6.1	5.9
Europe - North America	4.1	4.3	4.1	3.9
Europe - Asia	9.5	8.2	5.8	9.2
Europe - Middle East	6.6	11.7	6.8	6.8
Europe - Africa	6.5	12.7	4.2	4.7
Europe - South America	6.1	10.9	8.7	10.4

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

- Annual growth in industry-wide RPKs increased to 6.4%yoy in Aug, up from 6.1% in July. The latest data provide further evidence of solid RPK growth in the peak period of passenger demand, over the northern hemisphere summer.
- RPK growth for the European carriers also increased in Aug, lifting to a solid 5.4%yoy, but remaining below the overall industry-wide pace of growth.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



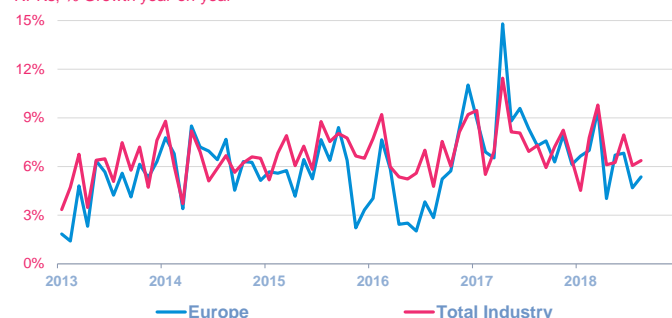
Source: Markit

- Business confidence lifted sharply in Russia this month, but remains at a low level. Global trade concerns continue to weigh upon European business confidence, while UK businesses shrugged off ongoing Brexit uncertainty, with sentiment ticking up on this occasion.
- On a trade-weighted basis, the US\$ rose by 0.6% in Sep, up 5% since the start of the year. Of the main regional currencies, the TRY & RUB recovered some of the ground lost last month, up 8% & 3%, respectively vs the US\$. Other movements were subdued this month.
- The Brent crude oil price surged in Sep, up ~9% to its highest level since 2014 on OPEC comments that it will not increase supply. The jet fuel price moved through the US\$90/bbl level to average US\$92 for the month.

- Growth in pax volumes for the Russia domestic market maintained its double-digit pace this month, lifting further to 13.2%yoy.
- Of the region's main international markets, Asia is the fastest growing of the larger markets, with RPKs up just over 9%yoy. Within Europe maintained last month's robust pace of ~6%yoy. The smaller Sth America market is currently growing the fastest overall, at a brisk 10.4%yoy.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2017	Jun-18	Jul-18	Aug-18
Region (registration basis)				
Europe	12.0	3.2	2.7	3.7
World	9.1	2.4	2.3	2.3
Routes (segment basis)				
Europe - Asia	11.0	0.3	1.8	1.8
Europe - North America	9.9	4.8	-1.2	1.6
Europe - Middle East	11.0	5.6	4.3	0.1
Europe - Africa	2.4	-2.9	-1.2	-2.0
Europe - South America	6.9	8.1	6.8	12.1
Within Europe	32.9	8.6	5.7	9.3

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

- ➔ Annual growth in industry-wide FTKs grew by 2.3%yoy in Aug, unchanged from the rate in July & less than half the 5yr average pace. Cargo volumes continue to trend modestly upward, despite mixed drivers.
- ➔ At the regional level, FTK growth for the European carriers increased moderately this month, up 1pp, to a 3.7%yoy pace. While unspectacular, this is the strongest growth performance currently across all regions.

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2017	Jun-18	Jul-18	Aug-18
Passenger					
Europe	ASK	6.3	5.3	4.1	4.6
	PLF	83.9	86.6	89.0	88.7
World	ASK	6.3	6.5	5.3	5.5
	PLF	81.5	82.9	85.2	85.3
Freight					
Europe	AFTK	6.0	5.2	3.9	5.2
	FLF	46.5	44.7	43.1	42.4
World	AFTK	3.6	3.8	3.9	4.5
	FLF	45.2	44.3	42.8	42.2

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

- ➔ The industry-wide PLF reached a record high in Aug, at 85.3%, up 0.7pp on a year ago. In contrast, the FLF has fallen by 0.9pp, to 42.2% currently.
- ➔ The European airlines continue to outperform the industry PLF outcome, at 88.7% this month, the strongest performing region again on this occasion. The region's FLF was broadly in line with the industry average at 42.4%, down 0.6pp on its year-ago level.
- ➔ The latest data for Q2 confirm a decline in both industry & regional performance vs a year ago. The industry-wide EBIT margin has slipped to 7.8% from 10.3%, meaning

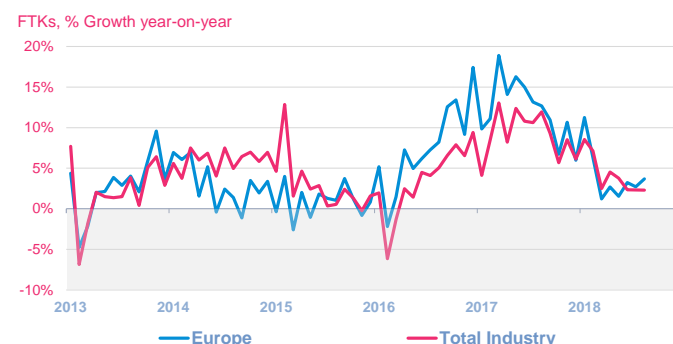
Airline operating (EBIT) margins*

%revenues	2016	2017	2017Q2	2018Q2
Europe	6.1	6.8	9.7	8.3
Industry	8.5	7.5	10.3	7.8

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

- ➔ Freight volumes for the largest European market (Asia) were unchanged this month at 1.8%yoy, while the Nth America market returned to positive growth at 1.6%yoy.
- ➔ Growth lifted in the smaller Sth America & Within Europe markets this month & they remain the strongest performers, with FTK growth of 12.1% & 9.3%yoy, respectively. Freight volumes are 2% lower than a year ago for Europe-Africa routes.

Growth in air freight volumes



Source: IATA Statistics

that the current 8.3% margin for the European carriers (down from 9.7% a year ago) now exceeds that of the industry overall.

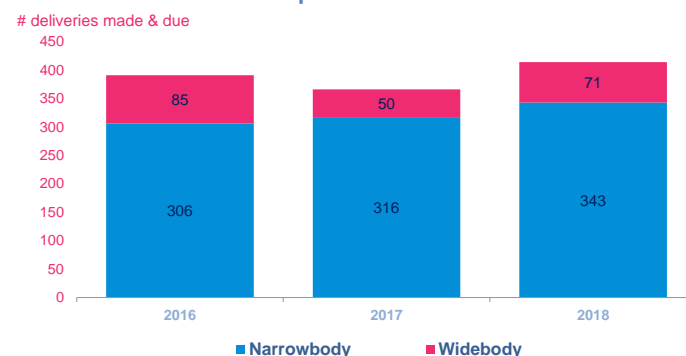
- ➔ Passenger yield developments amongst the region's major markets are mixed. Yields are now 13% lower than their level of a year ago for the Russia domestic market, down 0.6%yoy for Sth America & flat for the Asia market. (Recall that these yields are in US\$ terms & large currency swings can impact outcomes.)
- ➔ The strongest performer is the key Nth America market, where yields are almost 9% higher in yoy terms.

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

%change on a yr ago	2017	Jun-18	Jul-18	Aug-18
Russia domestic	12.5	-2.0	-8.5	-13.0
Within Europe	-1.6	12.7	6.2	3.1
Europe - North America	-1.9	13.8	8.5	8.7
Europe - Asia	1.9	1.9	0.9	0.1
Europe - Middle East	-2.3	3.3	0.9	2.4
Europe - Africa	-5.3	9.3	4.7	3.5
Europe - South America	7.5	5.2	4.9	-0.6

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

Aircraft deliveries to Europe



Source: Ascend