

# 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	1.4	1.8	1.2
Italy	0.7	0.0	-0.1	-0.1
Spain	2.4	2.1	2.1	2.1
Turkey	2.8	-2.8	-2.4	-1.5
Israel	3.6	3.1	3.3	3.2
Euro zone	1.9	1.2	1.3	1.2
<b>World*</b>	<b>3.2</b>	<b>2.8</b>	<b>2.8</b>	<b>2.6</b>

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

end of period, # per US\$	2018	Jun-19	Jul-19	Aug-19
US\$ broad index	128.5	128.3	127.8	130.4
European euro (EUR)	0.87	0.88	0.90	0.91
Russian ruble (RUB)	69.37	63.08	63.43	66.61
British pound (GBP)	0.79	0.79	0.82	0.82
Turkish lira (TRY)	5.29	5.78	5.56	5.83
Israeli shekel (ILS)	3.74	3.57	3.50	3.53

Source: Datastream

### World oil and jet fuel price

US\$/barrel (period ave.)	2018	Jun-19	Jul-19	Aug-19
Crude oil (Brent)	71.7	63.2	64.3	59.6
Jet fuel	86.4	76.5	80.4	76.1

Source: Platts, Datastream (monthly average data)

## Market

### Revenue passenger kilometers (RPKs)

% change on a yr ago	2018	May-19	Jun-19	Jul-19
<b>Region (registration basis)</b>				
Europe	7.5	5.3	5.6	3.3
World	7.3	4.8	5.1	3.6
<b>Routes (segment basis)</b>				
Russia domestic	10.6	8.6	8.8	6.8
Within Europe	8.3	8.1	8.6	5.2
Europe - North America	4.4	6.9	6.5	4.2
Europe - Asia	7.1	10.4	6.8	6.0
Europe - Middle East	4.9	-0.7	11.1	4.2
Europe - Africa	6.7	8.0	14.6	7.8
Europe - South America	8.5	7.2	5.8	9.0

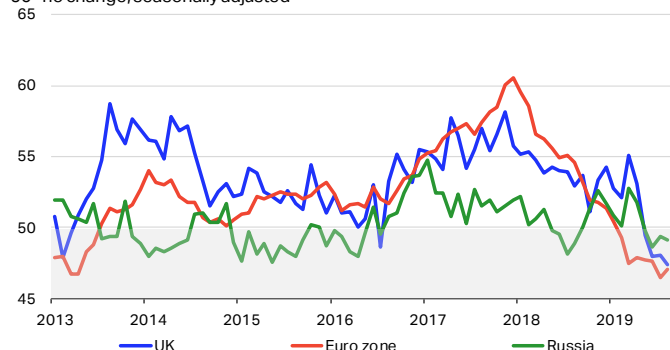
Source: IATA Statistics Note: historical data may be subject to revision

- Year-on-year growth in industry-wide revenue passenger kilometres (RPKs) slowed to 3.6% in July, down from the 5.1% growth observed in June. The outcome marks a continuation of the weaker growth trend observed in recent months.
- Annual RPK growth for European airlines eased by ~2ppt to 3.3% in July amidst growing concerns regarding the health of the European economy.

September 2019

### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



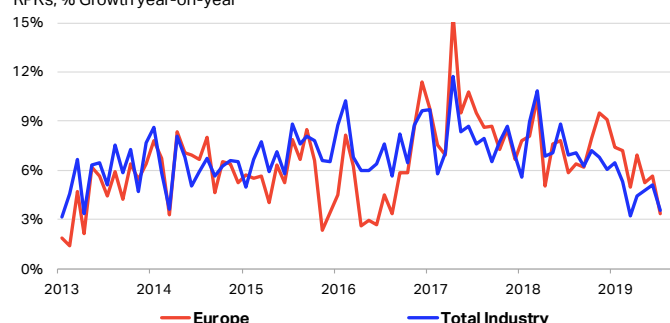
Source: Markit

- Business confidence remained subdued in Europe this month. Concerns about the expansion of US trade conflict dragged down sentiment in the Eurozone, while Brexit and political uncertainty weighed on the PMI outcome in the UK. In Russia, signs of softer domestic demand negatively impacted confidence.
- The trade weighted US\$ index rose by 2% in August, marking the fastest m-o-m growth this year. All of the main regional currencies ended the month down against the US\$, most notably the RUB and TRY (~5%).
- Average monthly jet and crude oil prices fell in August due to US-China trade war escalation and from the resulting concerns about oil demand and the broader global economic outlook.

- Russia domestic RPKs grew by 6.8% y-o-y in July, down from 8.8% in June. Although still robust, 2019 monthly growth rates have been generally lower compared to that of 2018, partly as a result of the moderation in economic activity in Q1 and Q2 2019.
- Demand also eased on most of the key international routes, particularly in Europe-Middle East. The only exception this month was the smaller Europe-SthAm market, where RPK growth picked up to 9% y-o-y.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

## Freight tonne kilometers (FTKs)

% change on a yr ago	2018	May-19	Jun-19	Jul-19
<b>Region (registration basis)</b>				
Europe	3.2	-0.1	-3.7	-2.0
World	3.7	-3.4	-4.8	-3.2
<b>Routes (segment basis)</b>				
Europe - Asia	1.1	1.9	-4.0	-1.3
Europe - North America	3.3	-2.8	-5.1	-3.0
Europe - Middle East	3.7	-7.1	-6.9	-5.6
Europe - Africa	-0.4	3.4	-0.6	0.0
Europe - South America	9.1	2.3	-5.5	-3.6
Within Europe	8.5	3.8	-3.5	1.7

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

- Industry-wide freight tonne kilometres (FTKs) declined by 3.2% year-on-year in July, reflecting the widespread weakness in world trade and a number of broader global economic indicators.
- European FTK volumes continued to decline in annual terms in July amidst weak manufacturing PMI outcomes in some of the key economies, including Germany, and heightened recession fears.

## Industry

### Capacity growth and load factors

ASK/AFTK: %ch on a yr ago,		2018	May-19	Jun-19	Jul-19
LF: % of ASK/AFTK					
<b>Passenger</b>					
Europe	ASK	6.5	4.5	4.5	3.1
	PLF	84.7	83.7	87.6	89.0
World	ASK	6.8	2.7	3.4	3.2
	PLF	82.0	81.8	84.4	85.7
<b>Freight</b>					
Europe	AFTK	3.3	3.2	2.5	4.2
	FLF	54.4	51.3	49.7	48.5
World	AFTK	5.2	1.0	1.8	2.6
	FLF	49.3	47.1	45.8	45.0

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

- The industry-wide passenger load factor reached a new all-time high of 85.7% in July. The story was less positive on the freight side with the load factor almost 3ppt below the level seen in July 2018.
- European airlines also posted a record high PLF for the month of July, although the result was only 0.2ppt better than a year ago. With capacity growing against contracting demand, the European freight load factor fell close to its historical minimum for the month.
- The latest Q2 financial results point to a modest improvement (0.3ppt) in industry-wide profitability compared to Q2 2018. In contrast, for the European

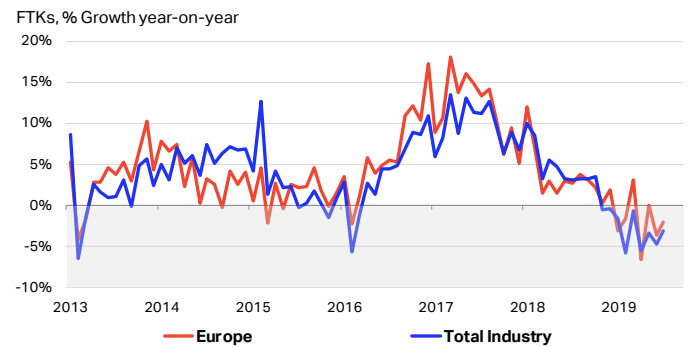
### Airline operating (EBIT) margins\*

% revenues	2017	2018	2018Q2	2019Q2
Europe	7.9	6.2	8.9	7.4
Industry	7.5	5.8	8.0	8.3

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

- Although downward pressure on freight demand eased across the largest international markets in the region, FTK volumes continued to decline in annual terms, most notably on the Europe-ME routes (-5.6%y-o-y).
- Notwithstanding volatility in recent months, Within Europe was the only main market that saw volumes increase vs a year ago, albeit only by a modest 1.7%.

### Growth in air freight volumes



Source: IATA Statistics

airlines, the EBIT margin fell moderately, to 7.4% of revenues in Q2, down from the robust 8.9% outcome in the same quarter a year ago.

- In line with the European profit result, passenger yields remained under pressure in July across all of the key domestic and international markets. The Russia domestic market was the main mover, recovering from the double-digit decline in June, to a still negative ~9% year-on-year growth.

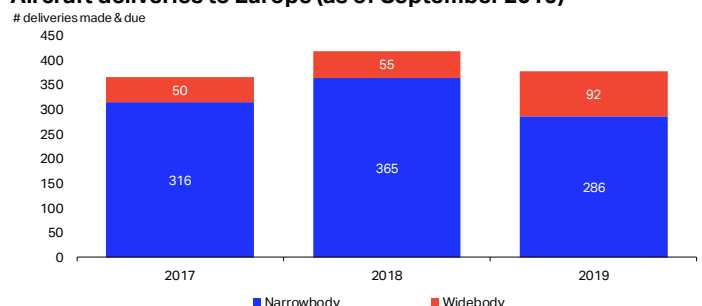
### Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2018	May-19	Jun-19	Jul-19
Russia domestic	-6.1	-3.9	-22.5	-8.8
Within Europe	4.4	-10.6	-9.0	-7.7
Europe - North America	5.3	0.3	-3.1	-5.4
Europe - Asia	0.9	-1.2	-8.7	-9.9
Europe - Middle East	2.5	-3.3	-2.9	-3.7
Europe - Africa	3.7	-11.7	-7.2	-8.5
Europe - South America	-1.5	-19.2	-20.5	-20.1

Source: IATA Travel Intelligence Note: historical data may be subject to revision

- The latest data from September 2019 confirm a modest decline in the number of jet aircraft deliveries scheduled for the European carriers in 2019 vs 2018.

### Aircraft deliveries to Europe (as of September 2019)



Source: Ascend