

STATE OF THE REGION: EUROPE

SEPTEMBER 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 [†]	-3.8	-1.2	-0.6
France	1.2	1.3	1.3	1.4
UK	2.2	1.8	2.0	2.2
Italy	0.6	1.1	1.0	0.7
Turkey	4.0	5.7	4.8	--
Israel	2.5	2.2	2.0	--
Euro zone	1.6	1.7	1.7	1.6
World*	2.5	2.3	2.2	2.1

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2015	Jun-16	Jul-16	Aug-16
US\$ broad index	122.4	121.2	121.9	120.8
European euro (EUR)	0.92	0.91	0.90	0.90
Russian ruble (RUB)	73.2	64.0	66.1	65.3
British pound (GBP)	0.68	0.76	0.75	0.76
Turkish lira (TRY)	2.92	2.88	2.99	2.96
Israeli shekel (ILS)	3.90	3.86	3.81	3.78

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel	2015	Jun-16	Jul-16	Aug-16
Crude oil (Brent)	52.4	48.3	45.0	45.8
Jet fuel	64.0	58.0	53.4	54.4

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

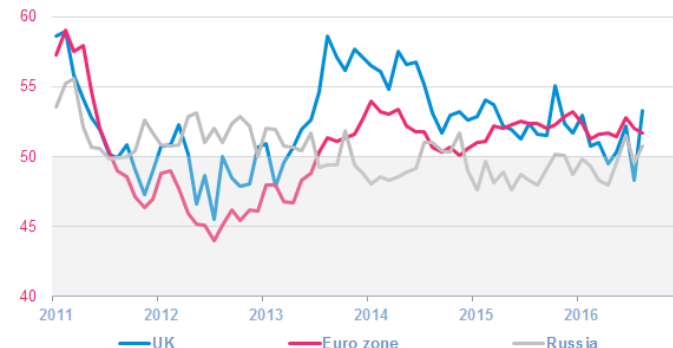
%change on a yr ago	2015	May-16	Jun-16	Jul-16
Region (registration basis)				
Europe	5.0	2.4	1.8	3.4
World	6.5	4.8	5.2	5.9
Routes (segment basis)				
Russia domestic	6.2	-3.5	-1.3	-3.2
Within Europe	8.6	6.3	5.5	7.1
Europe - North America	3.8	0.8	1.9	3.8
Europe - Asia	4.0	-2.9	-0.9	1.5
Europe - Middle East	11.3	7.2	-0.1	10.7
Europe - Africa	-1.2	-0.2	-7.2	2.8
Europe - South America	2.0	2.0	1.7	5.7

Source: IATA Statistics

- RPK growth for the European-registered carriers bounced back in July, rising to a solid 3.4%. Even so, they remain well below the robust 5.9% rate of the industry overall.
- After averaging just 2%yoy over Q2, the lift in RPK growth for Europe is a welcome development, coming on the back of a number of recent events which have adversely impacted both confidence & demand across various parts of the region.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



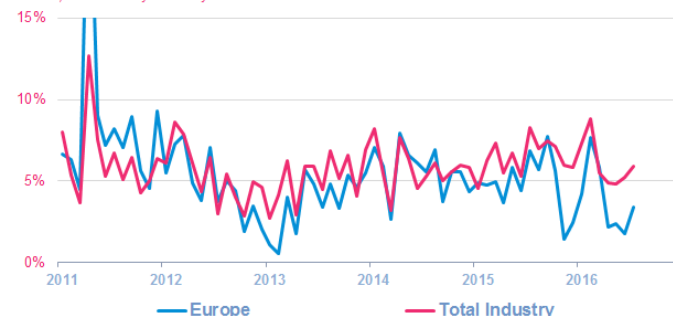
Source: Markit

- Business confidence in the UK rebounded sharply this month, following an initial post-Brexit vote plunge. The gradual improvement in Russian sentiment continued, consistent with developments in the economic backdrop.
- The US\$ continued its broadly sideways trend of 2016, easing 1% & giving back its July gain. With the exception of the GBP (down 1%) & EUR (steady), key regional currencies moved up a little against the US\$ this month.
- The world price of oil & jet fuel ticked higher in Aug, both up ~2% in the month. In terms of key price drivers, the prospect of OPEC nations agreeing to production cuts was broadly offset by lingering concerns of oversupply & few signs of an improved demand outlook.

- For the Russia domestic market, pax volumes slipped back this month, now 3.2% lower than a year ago & with downward revisions to previous data.
- The Within Europe market remains in fine form, with RPKs now up just over 7% yoy in July. Eur-ME traffic rebounded after a sharp but short-lived fall last month, to be 10% higher yoy. The sizeable Eur-NthAm & Eur-Asia markets both continued their recent trend improvement, the former is now up a solid 3.8%yoy, the latter has returned to positive growth, at a modest 1.5%yoy.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2015	May-16	Jun-16	Jul-16
Region (registration basis)				
Europe	-0.2	5.1	6.1	7.2
World	2.2	1.5	4.5	5.0
Routes (segment basis)				
Europe - Asia	-4.9	1.5	2.4	2.9
Europe - North America	-2.1	-1.3	0.1	3.4
Europe - Middle East	8.2	2.7	0.8	4.7
Europe - Africa	0.4	-11.7	-9.0	-10.7
Europe - South America	-2.9	3.6	-2.3	1.6
Within Europe	-2.5	8.8	12.4	14.3

Source: IATA Statistics

- Growth in air freight volumes moved higher this month, with the industry-wide rate rising to a healthy 5.0%yoy, but still trailing the brisk performance of the European-registered carriers where RPKs have increased by 7.2% over the past year.
- For the region's carriers, the more broad-based nature of the improvement was a pleasing development; increases in the rate of (yoy) growth were observed across each of the 3 largest markets for Europe (Asia, NthAM & ME).

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: % of ASK/AFTK		2015	May-16	Jun-16	Jul-16
Passenger					
Europe	ASK	3.9	3.1	2.6	3.6
	PLF	81.3	80.3	82.9	86.5
World	ASK	5.6	5.6	5.6	6.0
	PLF	80.2	78.8	80.7	83.7
Freight					
Europe	AFTK	4.9	6.0	5.4	3.8
	FLF	44.8	44.0	44.5	43.2
World	AFTK	6.3	4.4	5.0	5.2
	FLF	44.1	42.4	43.2	41.3

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

- At 3.6% & 3.8%yoy, respectively, the pax & freight capacity growth for the European carriers is below that of the industry overall (6.0% & 5.2%).
- The slower rate of capacity growth has contributed to load factors being a little higher for the region's airlines compared with the industry-wide outcomes. For pax, a strong 86.5% vs 83.7% & for freight 43.2% vs 41.3%.
- The latest financial data for Q2 show an operating (EBIT) margin for the region's airlines of 6.3%, slightly down on the 6.6% performance of a year ago. At the industry level, the margin is slightly higher currently

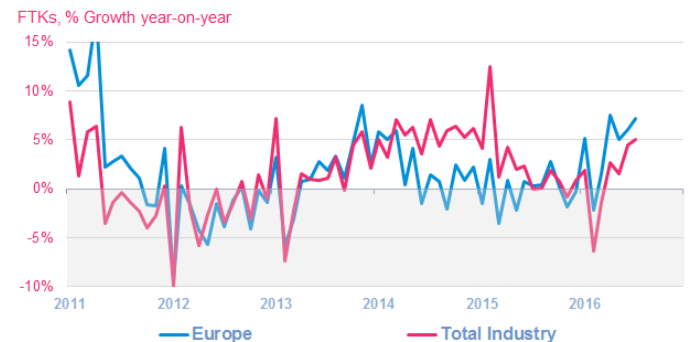
Airline EBIT margins*

%revenues	2014	2015	2015Q2	2016Q2
Europe	2.0	5.3	6.6	6.3
Industry	4.7	8.3	9.7	9.9

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

- Of these largest markets, Eur-ME is the strongest performer, with FTK growth jumping to a robust 4.7%yoy this month. Eur-NthAm also stepped up, to a 3.4%yoy pace, while a more modest gain for Eur-Asia lifted the growth rate to a moderate 2.9%yoy rate.
- The overall strongest pace of growth is evident on the much smaller Within Europe market, at 14.3%yoy. In contrast, FTKs on routes between Eur & Africa have *fallen* at a double-digit pace, now more than 10% lower compared with their level of a year ago.

Growth in air freight volumes



Source: IATA Statistics

(9.9%) than a year ago (9.7%). The industry figure continues to be bolstered by the ongoing strong financial performance of the Nth American carriers.

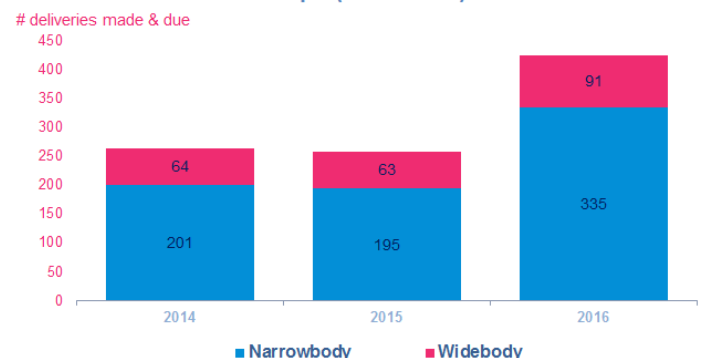
- Passenger yields remain under pressure, despite more recent developments in oil prices & the US\$. With the exception of Russia domestic traffic – where yields are up 12%yoy but remain at low levels – yields in the main markets are all lower than a year ago, with Eur-SthAm & Eur-Asia both still in double-digit yoy decline.

Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2015	May-16	Jun-16	Jul-16
Russia domestic	-38.9	8.8	11.0	12.4
Within Europe	-16.3	-3.4	-4.1	-5.8
Europe - North America	-8.5	-4.3	-6.8	-8.3
Europe - Asia	-0.2	-8.5	-8.8	-10.0
Europe - Middle East	-11.8	-8.8	-12.6	-9.9
Europe - Africa	-17.2	-2.7	-7.5	-3.9
Europe - South America	-19.5	-18.5	-18.8	-16.2

Source: IATA PaxIS

Aircraft deliveries to Europe (latest data)



Source: Ascend