



STATE OF THE REGION: EUROPE

SEPTEMBER 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	1.3	1.2	1.3
Italy	1.6	1.6	1.4	1.2
Spain	3.1	3.1	3.0	2.7
Turkey	7.4	7.3	7.3	5.2
Israel	3.5	3.4	4.4	4.0
Euro zone	2.5	2.7	2.4	2.1
World*	3.2	3.2	3.2	3.2

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2017	Jun-18	Jul-18	Aug-18
US\$ broad index	120.0	123.4	124.1	125.3
European euro (EUR)	0.83	0.86	0.85	0.86
Russian ruble (RUB)	57.7	62.8	62.4	67.6
British pound (GBP)	0.74	0.76	0.76	0.77
Turkish lira (TRY)	3.79	4.59	4.91	6.59
Israeli shekel (ILS)	3.48	3.66	3.64	3.60

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel (period ave.)	2017	Jun-18	Jul-18	Aug-18
Crude oil (Brent)	54.2	74.4	74.3	72.5
Jet fuel	65.6	87.8	88.1	89.0

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

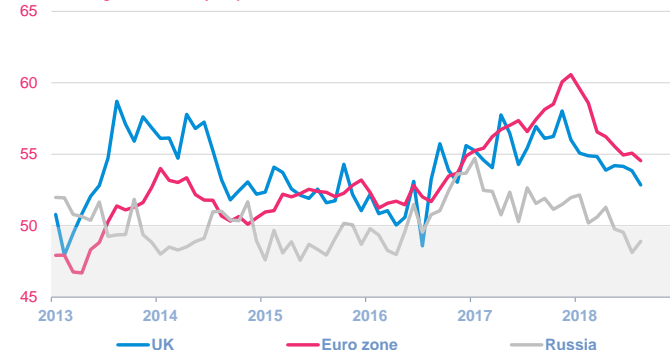
%change on a yr ago	2017	May-18	Jun-18	Jul-18
Region (registration basis)				
Europe	8.2	6.7	6.7	4.6
World	7.6	6.3	8.1	6.2
Routes (segment basis)				
Russia domestic	10.4	8.6	6.3	10.8
Within Europe	10.8	8.4	8.2	6.1
Europe - North America	4.1	4.1	4.9	4.6
Europe - Asia	9.5	4.4	7.9	5.6
Europe - Middle East	6.6	0.6	11.7	6.8
Europe - Africa	6.5	3.6	12.7	5.3
Europe - South America	6.1	11.2	10.9	8.7

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

- ➔ Annual growth in industry-wide RPKs eased a little in July, to 6.2%yoy – down from 8.1% last month & returning to around the pace of growth in May. The July outcome marked a solid start to this year's peak passenger demand season.
- ➔ RPK growth for the European carriers also moderated this month, to 4.6%yoy, from 6.7% in June, remaining below the overall industry rate.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



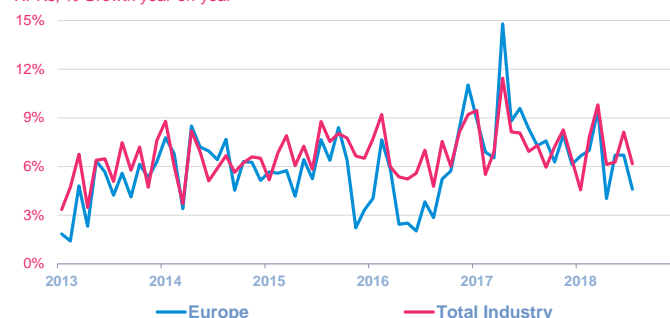
Source: Markit

- ➔ Business confidence continued to ease in both the UK & Europe, weighed down by the ongoing Brexit confusion. In Russia, confidence lifted this month after three consecutive declines, but remains in the territory typically associated with a contraction in activity.
- ➔ On a trade-weighted basis, the US\$ rose by 1.0% in Aug to a level last seen in early 2017. Of the main regional currencies, the TRY fell sharply, by more than 30% in the month vs the US\$, & the RUB was down more than 8%. Only the ILS showed a (slight) gain this month.
- ➔ Brent crude oil prices fell by 2.3% in Aug while the price of jet fuel increased by 1%, reflecting a widening in the crack spread. The crude oil price averaged US\$72.5/bbl for the month & jet US\$89/bbl.

- ➔ Growth in pax volumes for the Russia domestic market went against the regional trend, lifting to a double-digit rate of 10.8%yoy; its fastest pace in more than a year.
- ➔ Of the main international markets, annual growth in passenger volumes is quite tightly clustered this month. The strongest growth is 8.7%yoy for the (smaller) Sth America market. Pax volumes for the larger Within Europe & Nth America markets are growing at a solid 6.1% & 4.6%yoy respectively.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2017	May-18	Jun-18	Jul-18
Region (registration basis)				
Europe	12.0	1.5	3.4	2.6
World	9.1	3.8	2.5	2.1
Routes (segment basis)				
Europe - Asia	11.0	-0.8	-0.5	0.9
Europe - North America	9.9	3.3	5.3	-0.5
Europe - Middle East	11.0	4.1	5.6	4.3
Europe - Africa	2.4	-4.8	-2.9	-3.6
Europe - South America	6.9	9.9	8.1	6.8
Within Europe	32.9	4.7	8.6	5.7

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

- ➔ Annual growth in industry-wide FTKs eased to 2.1% in July, down from 2.5% in June, to its slowest pace since May 2016. In year-to-date terms, industry-wide FTKs have grown by a solid 4.3% in the first 7 months of the year vs the same period a year ago.
- ➔ At the regional level, FTK growth for the European carriers also slowed moderately this month, to a 2.6%yoy pace, from 3.4% in June.

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2017	May-18	Jun-18	Jul-18
Passenger					
Europe	ASK	6.3	5.6	5.2	4.0
	PLF	83.9	83.1	86.6	89.0
World	ASK	6.3	6.1	6.7	5.5
	PLF	81.5	80.0	82.9	85.2
Freight					
Europe	AFTK	6.0	4.9	5.1	4.4
	FLF	46.5	44.6	44.8	42.9
World	AFTK	3.6	5.0	3.8	3.8
	FLF	45.2	44.9	44.3	42.7

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

- ➔ With annual growth in passenger demand outstripping capacity, the industry-wide PLF has increased by 0.6pp, to 85.2% currently. The converse holds for freight, with the FLF down 0.7pp over the past year, to 42.7%.
- ➔ For the European airlines, the 89.0% PLF was the highest monthly outcome on record, for any region. The region's FLF outcome this month is down 0.8pp on that of a year ago, but is slightly above the overall industry-wide performance.
- ➔ The latest data for Q2 confirm a decline in industry financial performance vs a year ago. The EBIT margin is

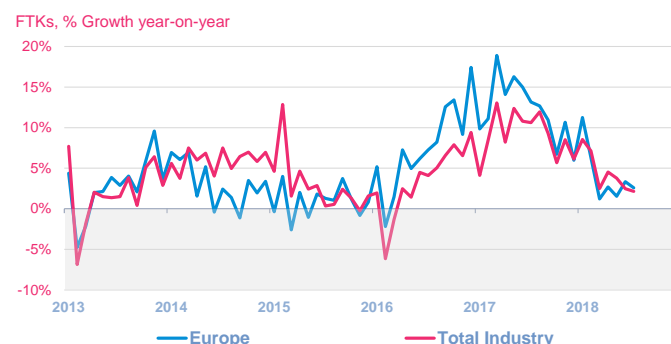
Airline operating (EBIT) margins*

%revenues	2016	2017	2017Q2	2018Q2
Europe	6.1	6.8	9.7	8.3
Industry	8.5	7.5	10.6	7.5

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

- ➔ Freight volumes for the largest European market (Asia) returned to positive growth in July, albeit only just, up 0.9%yoy. However, the Nth America market saw volumes fall below their year-ago level, with FTKs down 0.5%yoy, joining Africa in negative territory this month.
- ➔ The Sth America & Within Europe markets remain the strongest performers, with FTK growth of 6.8% & 5.7%yoy, respectively.

Growth in air freight volumes



Source: IATA Statistics

currently 7.5% industry-wide (from 10.6% a year ago) & 8.3% for the region's carriers (from 9.7% in 2Q17). Note that these data are not adjusted for seasonal influences.

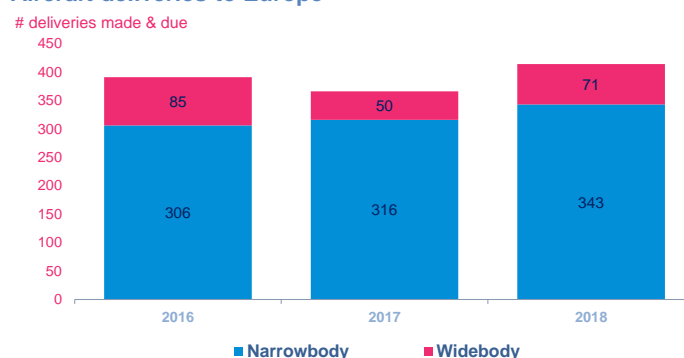
- ➔ Passenger yield developments amongst the region's key markets are broadly positive compared with a year ago. The main exception is the Russia domestic market where yields are down a sizeable 8.5%yoy.
- ➔ The Within Europe & Europe-Nth America markets are showing the strongest yield increases, at 6.2% & 8.5%yoy respectively.

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

%change on a yr ago	2017	May-18	Jun-18	Jul-18
Russia domestic	12.5	-2.9	-2.0	-8.5
Within Europe	-1.6	14.5	12.7	6.2
Europe - North America	-1.9	9.6	13.8	8.5
Europe - Asia	1.9	2.5	1.9	0.9
Europe - Middle East	-2.3	-2.0	3.3	0.9
Europe - Africa	-5.3	6.9	9.3	4.7
Europe - South America	7.5	7.3	5.2	4.9

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

Aircraft deliveries to Europe



Source: Ascend