

# STATE OF THE REGION: EUROPE

AUGUST 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	--
France	2.3	2.8	2.1	1.7
UK	1.7	1.3	1.2	1.3
Italy	1.6	1.6	1.4	1.1
Spain	3.1	3.1	3.0	2.7
Turkey	7.4	7.3	7.4	--
Israel	3.5	3.4	4.4	4.0
Euro zone	2.5	2.8	2.5	2.2
<b>World*</b>	<b>3.2</b>	<b>3.2</b>	<b>3.2</b>	<b>3.1</b>

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

end of period, # per US\$	2017	May-18	Jun-18	Jul-18
US\$ broad index	120.0	121.5	123.4	124.1
European euro (EUR)	0.83	0.86	0.86	0.85
Russian ruble (RUB)	57.7	62.3	62.8	62.4
British pound (GBP)	0.74	0.75	0.76	0.76
Turkish lira (TRY)	3.79	4.52	4.59	4.91
Israeli shekel (ILS)	3.48	3.56	3.66	3.64

Source: Datastream, XE

### World oil and jet fuel price

US\$/barrel (period ave.)	2017	May-18	Jun-18	Jul-18
Crude oil (Brent)	54.2	77.0	74.4	74.3
Jet fuel	65.6	90.5	87.8	88.1

Source: Platts, EIA Monthly average data

## Market

### Revenue passenger kilometers (RPKs)

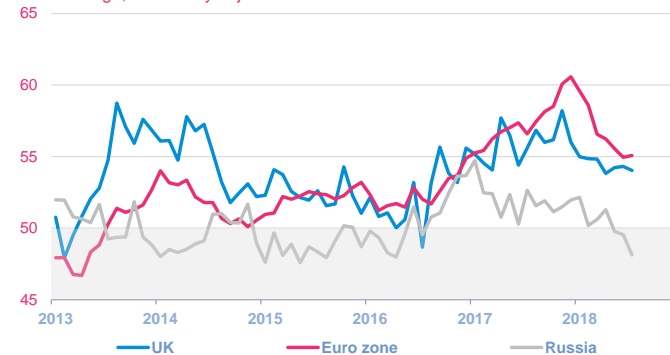
%change on a yr ago	2017	Apr-18	May-18	Jun-18
<b>Region (registration basis)</b>				
Europe	8.2	3.8	6.1	5.8
World	7.6	6.0	6.0	7.8
<b>Routes (segment basis)</b>				
Russia domestic	10.4	6.7	8.6	6.0
Within Europe	10.8	5.7	8.4	8.2
Europe - North America	4.1	-1.8	4.1	4.9
Europe - Asia	9.5	5.0	4.4	7.9
Europe - Middle East	6.6	2.8	0.6	11.7
Europe - Africa	6.5	2.2	3.6	12.7
Europe - South America	6.1	8.7	11.2	10.9

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

- Industry-wide RPKs stepped up to a brisk 7.8% year-on-year pace in June, from an even 6.0% in both April and May. The first 6mths of the year produced RPK growth of 7.0% – a robust, above-trend performance, but down somewhat on the 8.3% pace of the same period in 2017.
- RPK growth for the European carriers didn't share the same uplift recorded at the industry level, easing slightly to 5.8%, from 6.1% in May.

### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



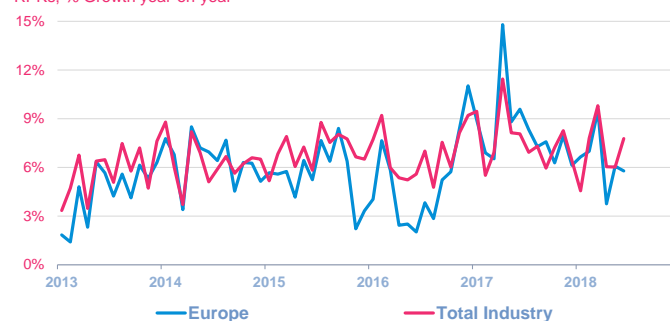
Source: Markit

- Business confidence drifted sideways in both the euro zone and the UK, but fell sharply in Russia this month. The latter reflected softer demand conditions – with declines in output, employment and new orders – taking the index to its lowest level since early 2016.
- On a trade-weighted basis, the US\$ rose by a modest 0.5% in June, its 6th consecutive monthly increase. Most of the main regional currencies moved slightly higher against the US\$. However, the GBP was down a little (0.4%) and the TRY declined sharply, ending the month down a sizeable 7%.
- Brent crude oil & jet fuel prices were largely unchanged across July, consolidating their moderate June decline. Oil & jet fuel prices are ~50% higher than a year ago.

- Growth in pax volumes for the Russia domestic market also eased this month, to an even 6.0%yoy from their 6-month high (of 8.6%) in May.
- Of the main international markets, three are currently showing double-digit RPK growth (Africa, the Middle East & Latin America).
- Pax volumes for the larger Asia & Within Europe markets are both growing at a strong rate of ~ 8%yoy.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

## Freight tonne kilometers (FTKs)

%change on a yr ago	2017	Apr-18	May-18	Jun-18
<b>Region (registration basis)</b>				
Europe	12.0	2.7	1.5	3.3
World	9.1	4.5	3.8	2.7
<b>Routes (segment basis)</b>				
Europe - Asia	11.0	-1.1	-0.8	-0.5
Europe - North America	9.9	6.0	3.4	5.4
Europe - Middle East	11.0	9.9	4.1	5.5
Europe - Africa	2.4	-0.6	-4.8	-2.9
Europe - South America	6.9	13.9	9.9	8.1
Within Europe	32.9	5.0	4.7	8.6

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

- ➔ Annual growth in industry-wide FTKs slowed further in June, to 2.7% from 3.8% in May, and are only around half the 5yr-year average rate. The loss of momentum in air freight demand is consistent with the broad moderation in export orders since the start of the year.
- ➔ At the regional level, FTK growth for the European carriers went against the global trend, increasing to a modest 3.3%yoy pace.

## Industry

### Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2017	Apr-18	May-18	Jun-18
<b>Passenger</b>					
Europe	ASK	6.3	4.2	5.0	4.5
	PLF	83.9	84.0	83.0	86.4
World	ASK	6.3	6.0	5.9	6.5
	PLF	81.5	82.2	80.0	82.8
<b>Freight</b>					
Europe	AFTK	6.0	4.2	5.1	5.4
	FLF	46.5	46.7	44.5	44.6
World	AFTK	3.6	4.7	5.0	4.1
	FLF	45.2	45.2	44.9	44.3

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

- ➔ The industry-wide passenger load factor (PLF) is 1pp higher than its year ago level, at 82.8%. However, the freight load factor (FLF) has eased moderately, down 0.6pp vs a year ago to 44.3% currently.
- ➔ For the European airlines, 2pp slower ASK growth has helped to position the region's PLF (at 86.4%) above the industry average for June. The FLF outcome is broadly aligned with the industry-wide outcome, at 44.6% for the region's carriers this month, even with slightly higher AFTK growth over the past year.
- ➔ The latest financial data for Q2 show a modest easing in the industry EBIT margin outcome compared with that

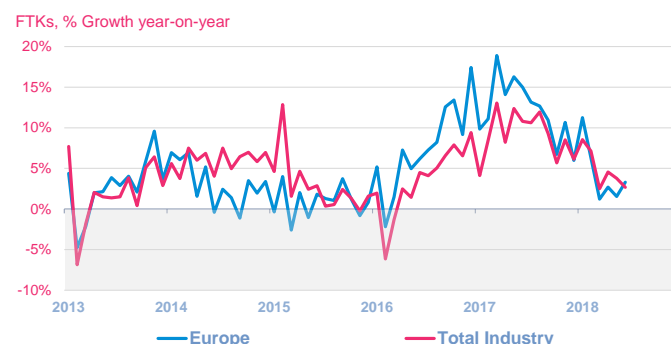
### Airline operating (EBIT) margins\*

%revenues	2016	2017	2017Q2	2018Q2
Europe	6.1	6.8	10.4	10.2
Industry	8.5	7.5	11.6	9.2

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

- ➔ Freight volumes for the largest European market (Asia) continue to struggle, with annual growth remaining in negative territory this month (down 0.5%yoy). Freight volumes are also lower vs a year ago for the smaller Africa market (down 3%yoy).
- ➔ The Within Europe and Sth America markets are the strongest performers currently, both with FTK growth above 8%yoy.

### Growth in air freight volumes



Source: IATA Statistics

of a year ago; 9.2% currently vs 11.6% in 2Q17. For the European airlines, the outcome is essentially unchanged at 10.2% currently vs 10.4% a year ago.

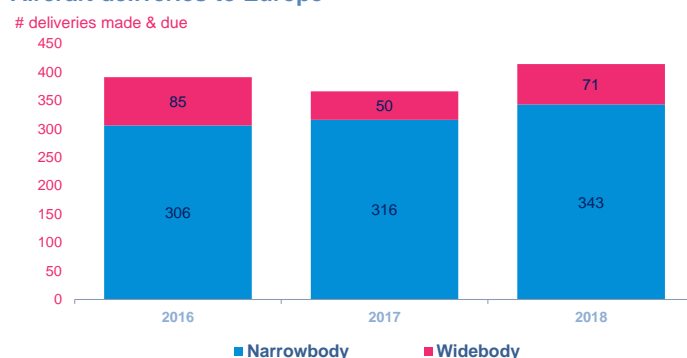
- ➔ Passenger yield developments amongst the region's key markets are broadly positive compared with a year ago. The main exception is the Russia domestic market where yields are down an even 2%yoy.
- ➔ The Within Europe & Europe-Nth America markets are showing the strongest yield increases, at a double-digit pace of 12.7% & 13.8%yoy respectively.

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

%change on a yr ago	2017	Apr-18	May-18	Jun-18
Russia domestic	12.5	5.8	-2.9	-2.0
Within Europe	-1.6	23.0	14.5	12.7
Europe - North America	-1.9	24.7	9.6	13.8
Europe - Asia	1.9	9.5	2.5	1.9
Europe - Middle East	-2.3	5.6	-2.0	3.3
Europe - Africa	-5.3	16.0	6.9	9.3
Europe - South America	7.5	13.1	7.3	5.2

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

### Aircraft deliveries to Europe



Source: Ascend