



# STATE OF THE REGION: EUROPE

MAY 2016

## Economy

### GDP growth, selected countries

%change on a yr ago	2015	2015Q2	2015Q3	2015Q4
Germany	1.4	1.6	1.7	1.3
Russia	-3.7	-3.8	-3.7	-3.8
France	1.2	1.1	1.2	1.4
UK	2.3	2.4	2.2	2.1
Italy	0.6	0.6	0.8	1.0
Turkey	4.0	3.7	3.9	5.7
Israel	2.5	2.2	2.6	2.2
Euro zone	1.5	1.6	1.6	1.6
<b>World*</b>	<b>2.4</b>	<b>2.5</b>	<b>2.5</b>	<b>2.3</b>

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

end of period, # per US\$	2015	Feb-16	Mar-16	Apr-16
US\$ broad index	122.4	124.0	121.5	119.5
European euro (EUR)	0.92	0.92	0.88	0.87
Russian ruble (RUB)	73.2	75.1	67.2	64.7
British pound (GBP)	0.68	0.72	0.70	0.68
Turkish lira (TRY)	2.92	2.96	2.82	2.80
Israeli shekel (ILS)	3.90	3.91	3.76	3.74

Source: Datastream, XE

### World oil and jet fuel price

US\$/barrel	2015	Feb-16	Mar-16	Apr-16
Crude oil (Brent)	52.4	32.2	38.2	41.6
Jet fuel	64.0	40.9	44.9	48.2

Source: Platts, EIA Monthly average data

## Market

### Revenue passenger kilometers (RPKs)

%change on a yr ago	2015	Jan-16	Feb-16	Mar-16
<b>Region (registration basis)</b>				
Europe	5.0	3.8	7.4	5.3
World	6.5	7.2	8.6	5.3
<b>Routes (segment basis)</b>				
Russia domestic	6.2	-0.1	2.2	4.0
Within Europe	8.6	12.3	14.4	12.4
Europe - North America	3.8	4.3	5.3	4.7
Europe - Asia	3.4	2.8	4.0	0.1
Europe - Middle East	11.9	9.1	10.4	11.6
Europe - Africa	-0.1	2.6	6.8	2.1
Europe - South America	2.0	0.1	6.2	2.5

Source: IATA Statistics

- RPKs for European airlines are a robust 5.3% higher than a year ago & now consistent with the growth rate of the industry globally.
- The terrorist attacks in Brussels may, at the margin, have affected travel & travel plans at the end of March & potentially into April also. However, we do not expect a significant or enduring impact from these tragic events.
- Russia domestic RPKs continued their trend

### Business confidence - manufacturing PMIs



Source: Markit

- The uncertainty around the upcoming Brexit vote is weighing on business sentiment in the UK. Confidence in Russia remains at low levels.
- The US\$ eased further in April, down another 1½% on a trade-weighted basis. Amongst the key regional bilateral rates, the RUB recovered another ~4% vs the US\$ in the month, despite the challenging economic backdrop in that country.
- World oil & jet fuel prices continued their upwards movement in April, with the monthly average price of both rising by a little over US\$3/bbl. Analysts pointed to the decline in the US\$ & speculation that the glut of oil supply will ease as contributing factors.

improvement of recent months & are now up 4%yoy.

- The standout routes continue to be Within Europe & Middle East-Europe where RPKs have increased in double-digit terms (12.4% & 11.6%yoy, respectively) over the past year. In part this reflects the growth of low cost/NMA carriers & expansion of the ME carriers.
- Despite the usual disruptions in the early part of the year, the slowdown in RPK growth on routes between Europe & Asia bears watching in coming months.

### Growth in air passenger volumes



Source: IATA Statistics

## Freight tonne kilometers (FTKs)

%change on a yr ago	2015	Jan-16	Feb-16	Mar-16
<b>Region (registration basis)</b>				
Europe	-0.2	4.3	-2.5	1.3
World	2.2	1.7	-6.0	-2.0
<b>Routes (segment basis)</b>				
Europe - Asia	-5.0	2.2	-7.2	-3.5
Europe - North America	-2.1	0.4	-2.0	-6.1
Europe - Middle East	11.3	6.3	4.8	-0.5
Europe - Africa	0.4	-7.0	0.8	-5.9
Europe - South America	-2.9	-5.2	-5.5	-13.3
Within Europe	-2.5	13.0	9.1	13.9

Source: IATA Statistics

- European carrier FTKs returned to positive growth this month, rising to +1.3%yoy. There was a similar improvement in the global growth rate, but industry-wide FTKs remain 2% lower than their level of a year ago.
- With the exception of the relatively small Within Europe market, which is showing double-digit growth, FTKs on key routes are all lower in yoy terms. For the two largest European air freight markets – Asia & Nth America – FTKs are down 3.5% & 6.1%yoy, respectively.

## Industry

### Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK	2015	Jan-16	Feb-16	Mar-16
<b>Passenger</b>				
Europe ASK	3.9	1.8	7.2	4.6
Europe PLF	81.3	78.0	77.7	80.2
World ASK	5.6	5.6	9.8	5.9
World PLF	80.2	78.9	77.6	79.6
<b>Freight</b>				
Europe AFTK	4.4	5.3	7.3	7.9
Europe FLF	45.0	42.8	44.5	46.0
World AFTK	6.2	5.9	7.4	6.9
World FLF	44.2	41.3	40.8	43.5

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

- Pax capacity growth for the European carriers settled back in March, to a solid 4.6%yoy, moderately below the industry rate of ~6%. The pax load factor for the region moved above 80%, besting the industry-wide 79.6%.
- For freight, both capacity growth and the freight load factor for the region's carriers (7.9% growth & a FLF of 46.0%) exceeds the industry average (6.9%yoy & 43.5%, respectively).
- The Q1 operating margin for the region's airlines was a seasonally-soft -0.2%, solidly up on a year ago, but below the overall industry figure of 9.9%.

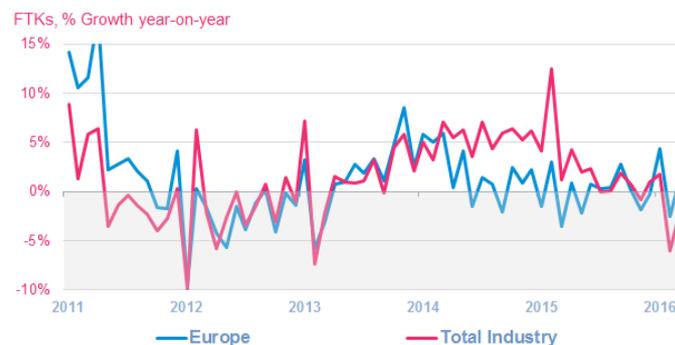
### Airline EBIT margins\*

%revenues	2013	2014	2015Q1	2016Q1
Europe	3.5	3.4	-3.4	-0.2
Industry	4.1	5.2	6.8	9.9

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

- As the effect of the US west coast port strikes from early 2015 drops out of the calculations (boosting the global FTK growth figure in the process) & we move beyond the Lunar New Year disruption, a clearer picture of the underlying state of the air freight segment will emerge.
- Even so, with a soft demand backdrop & global trade volumes remaining subdued, wholesale improvement in the air freight market appears unlikely anytime soon.

### Growth in air freight volumes



Source: IATA Statistics

- Despite some recent reversal in fuel prices & the US\$, pax yields on most key routes show yoy declines in the order of 10-15%. Russia domestic yields are the exception, showing a 2% increase compared with a year ago. That said, in a levels sense, yields in the Russia domestic market remain low.

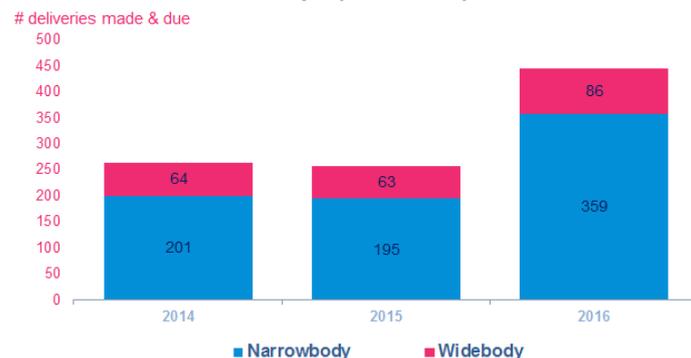
### Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2015	Jan-16	Feb-16	Mar-16
Russia domestic	-38.9	-14.9	-1.9	2.1
Within Europe	-16.3	-11.2	-10.4	-11.2
Europe - North America	-8.5	-4.0	-3.8	-12.6
Europe - Asia	-0.2	-15.0	-11.7	-15.2
Europe - Middle East	-11.8	-9.1	-10.1	-12.6
Europe - Africa	-17.2	-10.2	-9.0	-11.6
Europe - South America	-19.5	-25.9	-22.1	-24.8

Source: IATA PaxIS

- Aircraft deliveries data (actual & expected) show a strong increase in 2016, driven by a sharp pick-up in the number of narrowbody aircraft deliveries.

### Aircraft deliveries to Europe (latest data)



Source: Ascend