



STATE OF THE REGION: EUROPE

DECEMBER 2018

Economy

GDP growth, selected countries

%change on a yr ago	2017	2018Q1	2018Q2	2018Q3
Germany	2.5	2.0	1.9	1.2
Russia	-0.2	1.3	1.9	1.5
France	2.3	2.2	1.6	1.4
UK	1.7	1.1	1.2	1.5
Italy	1.6	1.4	1.2	0.7
Spain	3.0	2.8	2.5	2.5
Turkey	7.4	7.2	5.3	1.6
Israel	3.5	4.4	3.7	3.1
Euro zone	2.5	2.4	2.2	1.6
World*	3.1	3.2	3.2	3.0

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2017	Sep-18	Oct-18	Nov-18
US\$ broad index	120.0	126.0	126.9	128.3
European euro (EUR)	0.83	0.86	0.88	0.88
Russian ruble (RUB)	57.7	65.6	65.7	67.0
British pound (GBP)	0.74	0.77	0.78	0.78
Turkish lira (TRY)	3.79	6.04	5.58	5.22
Israeli shekel (ILS)	3.48	3.61	3.72	3.72

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel (period ave.)	2017	Sep-18	Oct-18	Nov-18
Crude oil (Brent)	54.2	78.9	81.0	64.8
Jet fuel	65.6	91.9	94.4	81.7

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

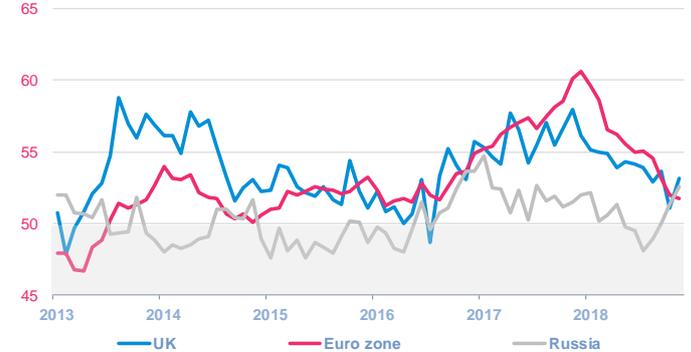
%change on a yr ago	2017	Aug-18	Sep-18	Oct-18
Region (registration basis)				
Europe	9.1	5.4	5.4	7.4
World	8.0	6.3	5.5	6.3
Routes (segment basis)				
Russia domestic	10.4	11.4	11.1	11.7
Within Europe	11.1	6.9	7.1	8.0
Europe - North America	7.1	3.9	4.5	8.1
Europe - Asia	10.5	9.2	7.1	7.5
Europe - Middle East	8.9	6.8	0.5	2.9
Europe - Africa	10.0	4.7	6.4	10.0
Europe - South America	7.0	10.4	7.6	6.9

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

- Annual growth in industry-wide RPKs recovered to 6.3% in Oct, up from an eight-month low of 5.5% in Sep. That said, the upward passenger demand trend has softened over the past six months.
- RPK growth for the European carriers accelerated to a brisk 7.4%yoy pace in October, helping to underpin the gain observed in the industry-wide RPK growth rate between Sept and Oct.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

- Business confidence improved sharply in both the UK and Russia this month, in the latter case taking the index to its highest level since mid-2017. By contrast, business sentiment eased further in the Euro zone, returning to levels last seen in 2016.
- On a trade-weighted basis, the US\$ rose by 1.1% in Nov, and is up 9% since the start of the year. Of the main regional currencies, the TRY rose further this month, gaining a sizeable 6.5% vs the US\$, while the GBP, EUR & ILS remained steady this month.
- Brent crude oil & jet fuel prices both fell sharply in November, by ~20% and 13.5%, respectively following increased concerns of oversupply.

- Growth in pax volumes for the Russia domestic market remained in double-digit territory, lifting modestly to 11.7% in Oct, up from 11.1% in the previous month.
- Four out of the five main international markets saw faster annual RPK growth in Oct compared to Sep, with Europe-Africa being the strongest performer, lifting sharply to 10%yoy. The larger Europe-NthAm and Europe-Asia markets closely followed with 8.1% and 7.5%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	Aug-18	Sep-18	Oct-18
Region (registration basis)				
Europe	11.7	3.7	1.6	1.4
World	9.7	2.8	2.5	3.1
Routes (segment basis)				
Europe - Asia	12.2	1.9	0.2	2.0
Europe - North America	10.4	1.7	4.5	1.7
Europe - Middle East	12.2	0.2	6.6	3.5
Europe - Africa	2.8	-1.9	4.7	-3.0
Europe - South America	7.3	12.1	0.3	-1.0
Within Europe	16.4	9.3	9.6	16.3

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

- Annual industry-wide growth in FTKs recovered to 3.1% in Oct, reflecting traditionally stronger demand for air freight in Q4. That said, the growth rate remains markedly slower vs last year, which is consistent with the typical pattern seen after inventory restocking cycles.
- At the regional level, FTK growth softened further to 1.4%yoy, consistent with the recent weakening seen in European manufacturers' export order books.

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2017	Aug-18	Sep-18	Oct-18
Passenger					
Europe	ASK	6.9	4.7	5.1	6.8
	PLF	83.9	88.6	86.2	84.8
World	ASK	6.6	5.4	5.9	6.3
	PLF	81.5	85.3	81.4	81.1
Freight					
Europe	AFTK	6.7	4.9	0.8	1.9
	FLF	54.9	50.6	53.4	55.8
World	AFTK	5.0	5.4	4.1	5.4
	FLF	49.9	46.9	49.5	50.4

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

- The industry-wide PLF eased to 81.1% in Oct, the lowest level since May 2018. In contrast, the FLF rose for the second month in a row to 50.4%, up from 49.5% in Sep.
- For the European airlines, the load factor performance continues to exceed that of the industry overall, with a PLF of almost 85% (the highest amongst all regions on this occasion) & a FLF of around 56% in Oct.
- The latest Q3 financial data confirm a decline in both industry & regional performance compared with a year ago. The industry-wide EBIT margin softened to (a still healthy) 11.5% in Q3 from 15.1% last year. As for the European carriers, the Q3 margin continued to outpace

Airline operating (EBIT) margins*

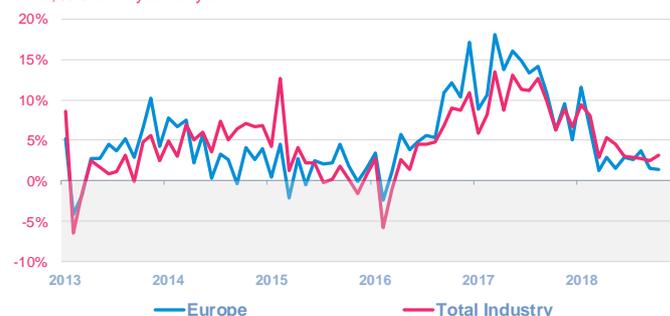
%revenues	2016	2017	2017Q3	2018Q3
Europe	6.1	6.8	20.2	17.4
Industry	8.5	7.5	15.1	11.5

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

- Growth in annual freight volumes slowed for many of the key international markets in Oct, most notably Europe-Africa, where it fell into negative territory (-3.0%). Only Europe-Asia saw an improved performance vs last month, growing by 2.0%yoy, up from just 0.2% in Sep.
- The strongest performer this month remains Within-Europe with double-digit growth of 16.3%yoy.

Growth in air freight volumes

FTKs, % Growth year-on-year



Source: IATA Statistics

the industry overall, despite easing to 17.4% from 20.2% in 2017 Q3.

- Passenger yields across the region's main markets are generally lower over the past year. Most notable is still the Russia domestic market, where yields remain ~16% lower than a year ago. Softness is also evident for both the Europe-Sth America & Europe-Middle East markets.
- Europe-Nth America and Europe-Africa were the only markets where yields have increased (modestly) over the past year, up 3.0% and 1.1%, respectively.

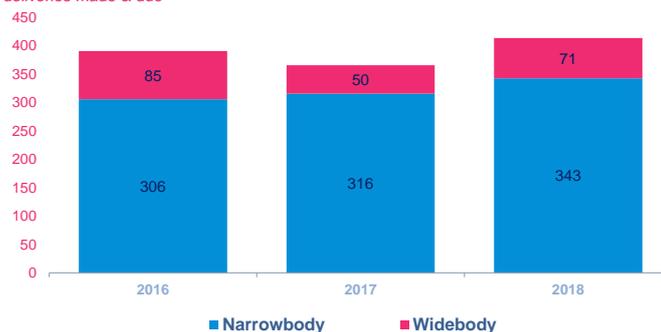
Passenger yields (US\$, excl. surcharges & ancillaries)

%change on a yr ago	2017	Aug-18	Sep-18	Oct-18
Russia domestic	12.5	-13.0	-16.8	-16.2
Within Europe	-1.6	3.1	-0.3	-1.0
Europe - North America	-1.9	8.7	5.8	3.0
Europe - Asia	1.9	0.1	-2.7	-1.0
Europe - Middle East	-2.3	2.4	-4.0	-2.8
Europe - Africa	-5.3	3.5	1.0	1.1
Europe - South America	7.5	-0.6	-5.2	-7.4

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

Aircraft deliveries to Europe

deliveries made & due



Source: Ascend