

State of the region: Europe

Economy

GDP growth, selected countries

% change on a yr ago	2017	Q2 2018	Q3 2018	Q4 2018
Germany	2.5	2.0	1.2	0.6
Russia	1.5	1.9	1.5	--
France	2.3	1.7	1.4	1.0
UK	1.8	1.4	1.6	1.3
Italy	1.7	1.1	0.6	0.0
Spain	3.0	2.5	2.4	2.4
Turkey	7.4	5.3	1.8	-3.0
Israel	3.5	3.5	3.0	2.7
Euro zone	2.5	2.1	1.6	1.1
World*	3.1	3.2	2.9	2.7

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2018	Dec-18	Jan-19	Feb-19
US\$ broad index	128.5	128.5	126.7	126.8
European euro (EUR)	0.87	0.87	0.87	0.88
Russian ruble (RUB)	69.37	69.37	65.48	65.90
British pound (GBP)	0.79	0.79	0.76	0.75
Turkish lira (TRY)	5.29	5.29	5.17	5.33
Israeli shekel (ILS)	3.74	3.74	3.63	3.62

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel (period ave.)	2018	Dec-18	Jan-19	Feb-19
Crude oil (Brent)	71.1	57.4	59.4	64.0
Jet fuel	84.7	71.2	74.9	80.4

Source: Platts, EIA Monthly average data

Market

Revenue passenger kilometers (RPKs)

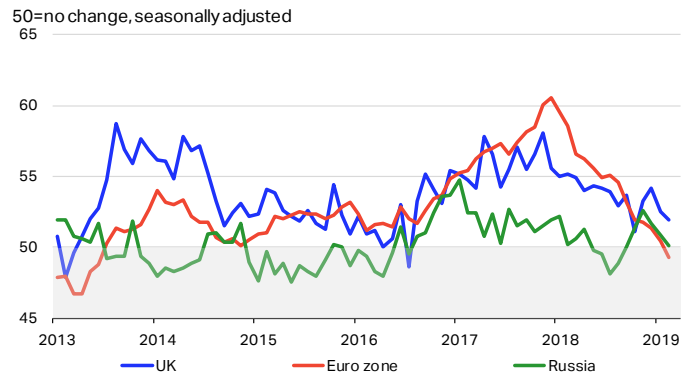
% change on a yr ago	2018	Nov-18	Dec-18	Jan-19
Region (registration basis)				
Europe	6.7	9.1	8.4	7.4
World	6.6	6.2	5.4	6.5
Routes (segment basis)				
Russia domestic	10.1	14.9	12.4	10.4
Within Europe	8.3	10.1	10.0	8.3
Europe - North America	4.4	8.5	5.9	6.0
Europe - Asia	7.0	7.8	6.8	8.8
Europe - Middle East	4.9	3.8	2.9	2.8
Europe - Africa	6.7	6.7	6.3	5.3
Europe - South America	9.3	7.2	11.0	6.9

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

- Industry-wide revenue passenger kilometers (RPKs) started the year on a positive note, increasing by 6.5% year-on-year, the fastest pace since mid-2018. That said, it is too soon to think that this month's pick-up represents a shift in the growth moderation seen over the second half of last year.
- For airlines based in Europe, RPK growth outperformed the industry-wide outcome by 1pp, rising by a solid 7.4% - the second-fastest pace of all regions.

March 2019

Business confidence - manufacturing PMIs

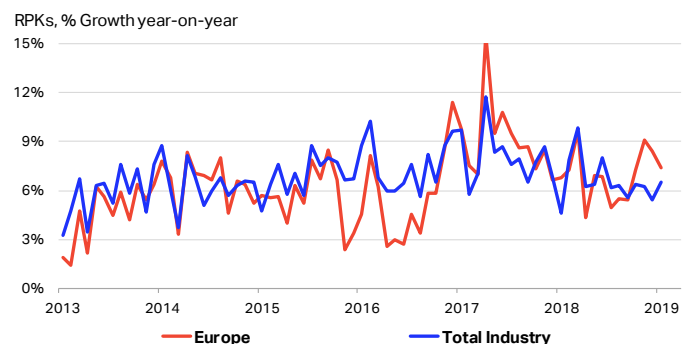


Source: Markit

- In the Euro zone, a fall in new export orders and output drove the PMI below 50, into territory associated with contraction for the first time since mid-2013. Business confidence also fell further for both the UK and Russia, in the former case reflecting Brexit uncertainty and in the latter a decline in new export orders.
- On a trade-weighted basis, the US\$ rose by 0.1% this month, following a sharp decline in Jan. Of the main regional currencies, the TRY was down ~3% against the US\$ after a short-lived improvement in Jan, followed by the EUR & RUB which both lost ~0.7%.
- Brent crude and jet fuel prices trended upwards for a second consecutive month amidst OPEC's supply cuts and sanctions imposed by Iran and Venezuela.

- Russian carriers sustained solid double-digit demand growth in early-2019, flying 10.4% more RPKs on domestic routes than they did in Jan 2018.
- Of the region's key international markets, the larger Europe-Asia was the key performer in Jan, delivering a robust 8.8% increase in RPKs vs a year ago, followed closely by the largest Within-Europe market (8.3%yoy).
- Growth in the smaller Europe-Africa & Europe-SthAm market has moderated somewhat this month, in both cases underperforming the 12-month average pace.

Growth in air passenger volumes



Source: IATA Statistics

Freight tonne kilometers (FTKs)

% change on a yr ago	2018	Nov-18	Dec-18	Jan-19
Region (registration basis)				
Europe	3.3	0.1	1.9	-3.1
World	3.5	-0.5	-0.5	-1.8
Routes (segment basis)				
Europe - Asia	1.1	-1.0	-1.4	-4.5
Europe - North America	3.2	1.6	5.3	1.2
Europe - Middle East	3.6	4.2	-0.6	1.6
Europe - Africa	-0.8	-1.6	-2.2	-1.6
Europe - South America	7.7	-0.9	1.3	-2.3
Within Europe	9.0	6.1	5.8	7.5

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

- Industry-wide FTK growth started 2019 where it ended last year, on a soft note. Air cargo volumes in January were 1.8% lower than their level of a year ago, posting the slowest pace in about three years.
- Freight volumes fell sharply for carriers based in Europe, down 3.1% compared to Jan 2018, posting a negative rate of growth for the first time in around three years. The recent development is consistent with signs of slowing growth in key European economies as well as faltering business confidence in the region.

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago,		2018	Nov-18	Dec-18	Jan-19
LF: % of ASK/AFTK					
Passenger					
Europe	ASK	5.9	9.1	9.4	8.5
	PLF	84.5	81.7	81.1	79.6
World	ASK	6.1	6.9	6.3	6.4
	PLF	81.9	80.0	80.3	79.6
Freight					
Europe	AFTK	4.4	3.5	4.4	2.8
	FLF	54.3	58.0	56.3	50.1
World	AFTK	5.4	3.8	3.6	4.0
	FLF	49.1	51.5	48.9	45.1

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) eased slightly vs Dec, to 79.6%. For freight, the load factor (FLF) fell more sharply to 45.1%, from 48.9% in Dec.
- At the regional level, the PLF moved broadly in line with the industry-wide outcome. For freight, the load factor fell sharply compared to Dec, to 50.1%. However, it continues to outperform the industry average by a solid margin of 5pp.
- The latest airline financial data from the final quarter of 2018 indicate that the intense downward pressure on the industry-wide EBIT margin has moderated compared to Q3. That said, the trend does not hold for European carriers, with the downward pressure

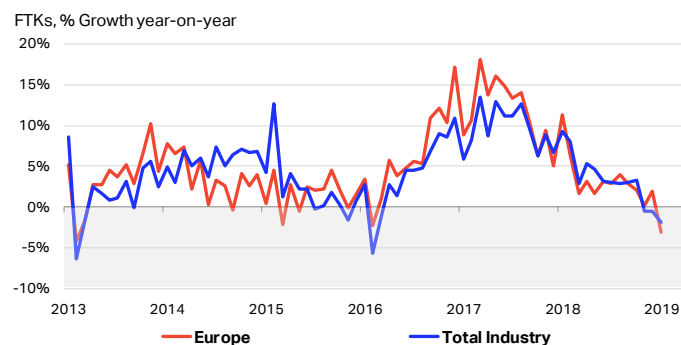
Airline operating (EBIT) margins*

% revenues	2016	2017	2017Q4	2018Q4
Europe	6.1	6.8	4.3	-0.4
Industry	8.5	7.5	8.4	6.0

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

- FTK growth has shown mixed results across the region's key international markets. While freight demand continues to decline vs a year ago on the largest Europe-Asia market, FTKs in Europe-Middle East recovered from a temporary negative growth in late-2018, to 1.6%yoy.
- Overall, the smaller Within-Europe market remains the fastest growing in the region, with freight volumes up 7.5% compared to a year ago.

Growth in air freight volumes



Source: IATA Statistics

increasing over recent months (down 4.7pp vs a year ago in Q4 compared with 2.8pp in Q3).

- Pax yields in Russia domestic continue to fall sharply vs a year ago, posting a double-digit percentage decline for the fifth consecutive month. All told, developments in annual yields were negative on all other key international routes with Europe-SthAm being the key underperformer this month (-15.2%yoy).

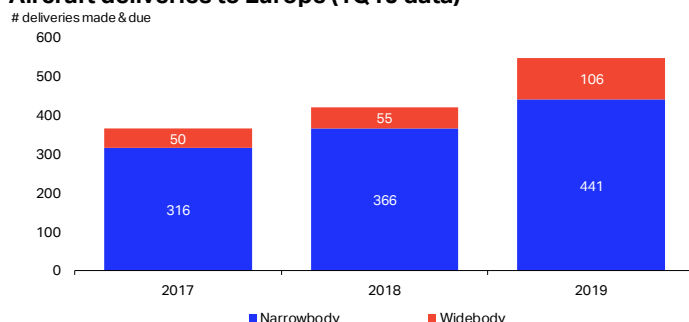
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2018	Nov-18	Dec-18	Jan-19
Russia domestic	-6.1	-15.3	-14.2	-12.9
Within Europe	4.4	-5.0	-5.6	-9.1
Europe - North America	5.2	-0.4	-2.5	-4.2
Europe - Asia	1.0	-3.3	-3.6	-6.1
Europe - Middle East	2.7	-0.5	-3.3	-3.8
Europe - Africa	3.8	-4.1	-4.1	-9.8
Europe - South America	-1.4	-12.1	-9.3	-15.2

Source: IATA Travel Intelligence Note: historical data may be subject to revision

- The latest data indicate a 31.5% increase in the number of jet aircraft deliveries scheduled for the European carriers in 2019 vs 2018.

Aircraft deliveries to Europe (1Q19 data)



Source: Ascend