



STATE OF THE REGION: EUROPE

JANUARY 2016

Economy

GDP growth, selected countries

%change on a yr ago	2014	2015Q1	2015Q2	2015Q3
Germany	1.6	1.1	1.6	1.7
Russia	0.7	-2.1	-3.8	-3.7
France	0.2	0.9	1.1	1.1
UK	2.8	2.5	2.3	2.1
Italy	-0.4	0.1	0.6	0.8
Turkey	2.9	2.5	3.8	4.0
Israel	2.7	3.2	2.3	2.5
Euro zone	0.9	1.3	1.6	1.6
World*	2.7	2.6	2.7	2.5

Source: Datastream * Market exchange rate basis † Estimate

Exchange rates

end of period, # per US\$	2014	Oct-15	Nov-15	Dec-15
US\$ broad index	111.3	119.3	121.1	122.4
European euro (EUR)	0.83	0.91	0.95	0.92
Russian ruble (RUB)	58.4	63.8	66.2	73.2
British pound (GBP)	0.64	0.65	0.66	0.68
Turkish lira (TRY)	2.34	2.91	2.91	2.92
Israeli shekel (ILS)	3.91	3.87	3.87	3.90

Source: Datastream, XE

World oil and jet fuel price

US\$/barrel	2014	Oct-15	Nov-15	Dec-15
Crude oil (Brent)	99.0	48.4	44.3	38.0
Jet fuel	113.3	58.4	55.7	45.4

Source: Platts, EIA

Market

Revenue passenger kilometers (RPKs)

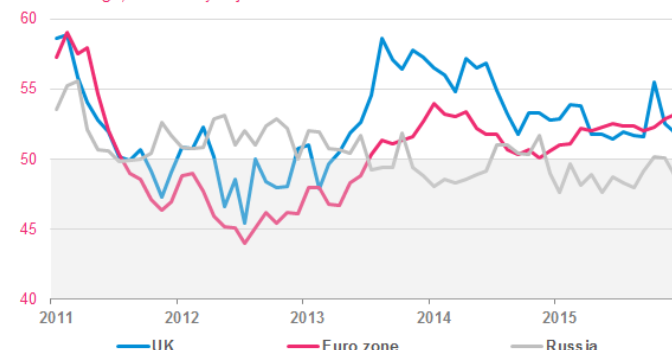
%change on a yr ago	2014	Sep-15	Oct-15	Nov-15
Region (registration basis)				
Europe	5.7	7.7	5.7	1.5
World	5.7	7.4	7.1	5.9
Routes (segment basis)				
Russia domestic	9.8	11.7	6.8	-7.1
Within Europe	6.9	8.2	9.6	6.7
Europe - North America	2.7	5.7	6.4	4.2
Europe - Asia	2.6	5.6	6.9	1.8
Europe - Middle East	8.9	12.6	11.1	7.9
Europe - Africa	0.4	4.3	2.0	0.7
Europe - South America	3.0	0.8	2.0	1.0

Source: IATA Statistics

- RPK growth for European airlines dropped substantially in Nov, to 1.5%yoy, from almost 6%yoy in Oct.
- The regional data for Nov were adversely affected by both the strikes at Lufthansa & the developments with Transaero. These temporary effects are expected to be unwound in coming months.
- At the global industry level, RPK growth also eased in yoy terms in Nov, down ~1pp, to just under 6%. Part of this moderation reflects the developments in Europe.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



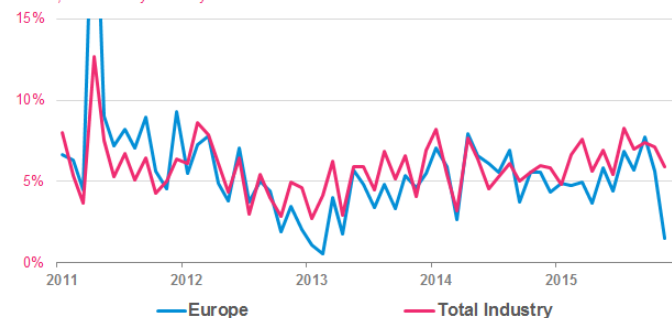
Source: Markit

- Eurozone business confidence lifted again in Dec, despite the patchy economic data across the zone. Confidence in Russia, unsurprisingly, remains weak.
- The US\$ rose 1.1% in Dec, finishing the year up an even 10%yoy. Regionally, the euro recovered much of its Nov fall, while the RUB fell a further 10% in Dec. The EUR ended 2015 down 11% vs the USD, while the RUB & TRY were both down 25%yoy.
- World oil & jet fuel prices fell sharply in Dec, down 16-18%mom & ~40%yoy. Concerns of oversupply & softer demand both contributed to the mom decline which left crude & jet fuel prices < the 2008/09 crisis-related lows.

- Russia domestic RPKs fell away sharply in Nov – again largely Transaero-related – & are now down a hefty 7% compared with their level of a year ago.
- On a segment (inter-region) basis, Europe-ME and Within Europe continue to lead the way, with RPK growth of 7.9% & 6.7%yoy respectively.
- At the other end of the spectrum, soft growth (of just ¾-1%yoy) is evident on (the smaller) routes between Europe & both Africa & Sth America.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Freight tonne kilometers (FTKs)

%change on a yr ago	2014	Sep-15	Oct-15	Nov-15
Region (registration basis)				
Europe	2.0	2.8	0.0	-2.0
World	5.5	1.9	0.4	-1.2
Routes (segment basis)				
Europe - Asia	-0.6	-3.0	-3.5	-5.5
Europe - North America	2.5	-3.3	-2.4	-4.5
Europe - Middle East	2.7	9.2	9.6	9.0
Europe - Africa	6.4	2.4	-4.1	-9.7
Europe - South America	0.6	1.5	-11.4	-12.3
Within Europe	7.2	-6.4	-11.9	-10.0

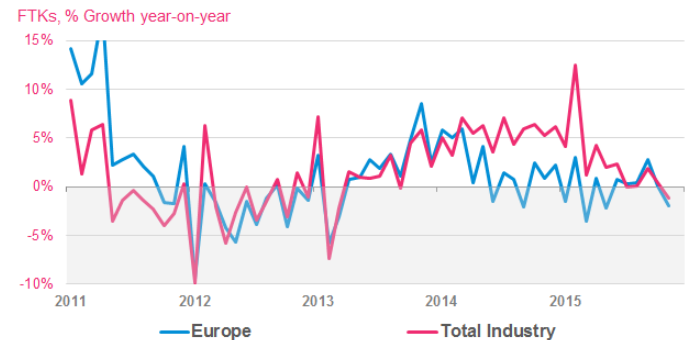
Source: IATA Statistics

- As with ASKs, FTKs for European airlines were also disrupted in Nov & are now down 2%yoy. Even so, the region's carriers have not been immune from the broad-based softness in the air freight market over the course of 2015. At the industry level, FTKs are down 1.2% on their level of a year ago.
- At the segment level, unsurprisingly, the weakness in freight volumes is widespread. The exception is routes

between Europe- ME, where FTKs are up 9.0%yoy.

- FTK growth on the major European routes to NthAmerica & Asia is down 4.5% & 5.5%yoy, respectively. Double-digit declines are evident for Europe-SthAmerica & for the Within Europe market.
- Expectations for continued gradual economic recovery in both Europe & NthAmerica should help to support volumes on the major freight routes going forward.

Growth in air freight volumes



Source: IATA Statistics

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2014	Sep-15	Oct-15	Nov-15
Passenger					
Europe	ASK	5.1	7.0	3.4	-0.8
	PLF	80.4	84.5	82.9	78.8
World	ASK	5.5	6.5	5.4	4.2
	PLF	79.6	80.9	80.4	78.0
Freight					
Europe	AFTK	3.0	7.6	5.6	2.2
	FLF	47.0	42.4	44.9	49.2
World	AFTK	4.4	7.0	6.3	4.5
	FLF	45.8	43.2	44.5	46.8

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

- The Nov disruptions outlined previously mean that European carriers have reduced pax capacity by 0.8% over the year, while the overall industry has grown ASKs by a solid 4.2%yoy. The pax load factor for the region's carriers, at 78.8% in Nov, is a little above that of the industry overall, at 78.0%.
- For freight, capacity growth for European carriers slipped to 2.2%yoy, around half the rate of the industry. But at 49.2% in Nov, the regional freight load factor sits well above that of the industry (46.8%).
- The Q3 operating margin for European carriers is very healthy at 17.4%, well up on the 12.8% figure of a year ago & above the current industry level of 14.2%.

Airline EBIT margins*

%revenues	2013	2014	2014Q3	2015Q3
Europe	3.5	3.4	12.8	17.4
Industry	4.1	5.2	10.5	14.2

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

IATA Economics: www.iata.org/economics

- Passenger yields on key routes generally show modest improvement in yoy terms compared with last month. All remain well down on a year ago, but we continue to caution that the sizable appreciation of the US\$ over this period is an important contributing factor.

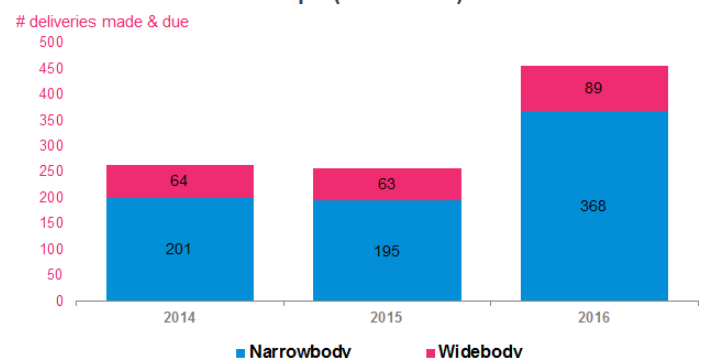
Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2014	Sep-15	Oct-15	Nov-15
Russia domestic	-14.4	-44.0	-38.0	-26.7
Within Europe	-4.0	-16.2	-14.4	-14.2
Europe - North America	-1.9	-11.4	-9.9	-7.2
Europe - Asia	-0.1	-19.6	-16.9	-16.0
Europe - Middle East	-5.8	-10.6	-10.2	-11.2
Europe - Africa	-2.4	-19.8	-16.9	-15.2
Europe - South America	-2.6	-20.7	-20.3	-22.0

Source: IATA PaxIS

- The latest aircraft delivery schedules data indicate a strong increase in 2016, pointing to general industry confidence regarding the outlook. The step-up in 2016 is primarily being driven by a strong rise in the number of narrowbody deliveries, with widebodies also making a positive contribution.

Aircraft deliveries to Europe (latest data)



Source: Ascend

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