



# STATE OF THE REGION: EUROPE

JUNE 2016

## Economy

### GDP growth, selected countries

%change on a yr ago	2015	2015Q3	2015Q4	2016Q1
Germany	1.4	1.7	1.3	1.6
Russia	-3.7 <sup>†</sup>	-3.7	--	--
France	1.2	1.1	1.4	1.4
UK	2.3	2.2	2.1	2.0
Italy	0.6	0.8	1.1	1.0
Turkey	4.0	3.9	5.7	4.8
Israel	2.5	2.7	2.2	1.9
Euro zone	1.6	1.6	1.7	1.7
<b>World*</b>	<b>2.6</b>	<b>2.6</b>	<b>2.3</b>	<b>2.2</b>

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

end of period, # per US\$	2015	Mar-16	Apr-16	May-16
US\$ broad index	122.4	121.5	119.5	120.8
European euro (EUR)	0.92	0.88	0.87	0.90
Russian ruble (RUB)	73.2	67.2	64.7	66.2
British pound (GBP)	0.68	0.70	0.68	0.69
Turkish lira (TRY)	2.92	2.82	2.80	2.95
Israeli shekel (ILS)	3.90	3.76	3.74	3.85

Source: Datastream, XE

### World oil and jet fuel price

US\$/barrel	2015	Mar-16	Apr-16	May-16
Crude oil (Brent)	52.4	38.2	41.6	46.9
Jet fuel	64.0	44.9	48.2	54.6

Source: Platts, EIA Monthly average data

## Market

### Revenue passenger kilometers (RPKs)

%change on a yr ago	2015	Feb-16	Mar-16	Apr-16
<b>Region (registration basis)</b>				
Europe	5.0	7.4	5.5	1.9
World	6.5	8.6	5.3	4.6
<b>Routes (segment basis)</b>				
Russia domestic	6.2	2.2	1.5	1.9
Within Europe	8.6	14.4	12.4	3.6
Europe - North America	3.8	5.3	4.7	1.5
Europe - Asia	3.4	4.0	0.1	1.0
Europe - Middle East	11.9	10.4	11.6	8.4
Europe - Africa	-1.2	7.0	2.2	-0.2
Europe - South America	2.0	6.2	2.5	2.7

Source: IATA Statistics

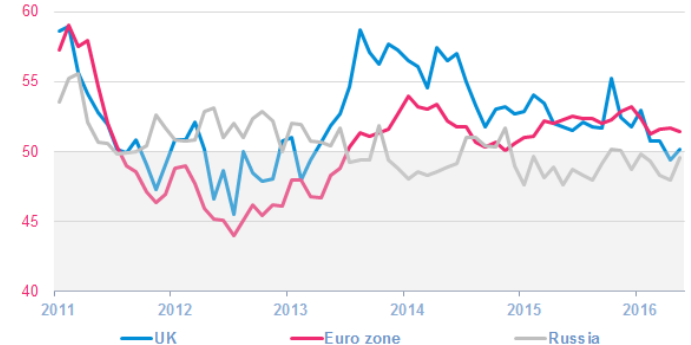
- RPKs for European airlines slipped back in Apr, to be a modest 1.9% higher than their level of a year ago. For the industry overall, RPKs are up 4.6%yoy.
- RPK growth for the significant Within Europe market slowed dramatically, from above 12%yoy to just 3.6%. A large part of this easing appears to relate to the impact of the terrorist attacks in Brussels in mid-March.
- However, based on the usual pattern following such 'shocks' to the industry, we would expect to see a

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### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

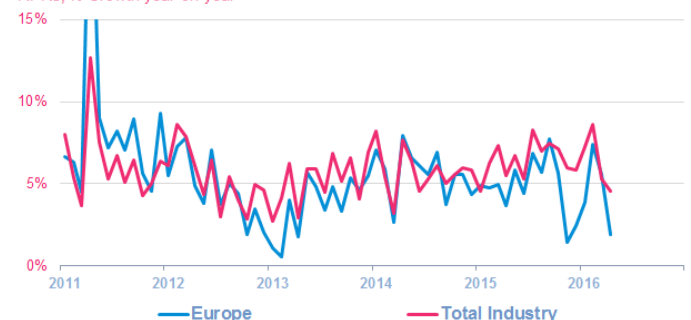
- Modest Q1 economic outcomes across the major European countries was broadly in line with expectations. Turkey remains the strongest performer, with output increasing by a brisk 4.8%yoy in Q1.
- The US\$ recovered some of its April decline, rising an even 1.0% on a trade-weighted basis. Amongst the key regional bilateral rates, the EUR & ILS both fell ~3% against the US\$ in the month, while – its strong economic performance notwithstanding – the TRY was down ~5%.
- The world price of oil & jet fuel continued its recent resurgence in May. The monthly average price (for both) rose by 12-13% (US\$5-6/bbl).

recovery in coming months & for the solid uptrend from Q1 to re-establish itself.

- Russia domestic RPKs moved higher in Apr (notwithstanding the downward revision to historical data) & in seasonally adjusted terms surpassed its Oct 2015 (pre-Transaero closure) peak this month.
- Pax traffic on routes between the Middle East & Europe continue to be the standout, with RPK growth of 8.4% over the year to April.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

## Freight tonne kilometers (FTKs)

%change on a yr ago	2015	Feb-16	Mar-16	Apr-16
<b>Region (registration basis)</b>				
Europe	0.2	-2.3	0.7	6.8
World	2.3	-6.3	-1.7	3.2
<b>Routes (segment basis)</b>				
Europe - Asia	-5.0	-8.0	-4.7	5.9
Europe - North America	-2.1	-2.0	-5.1	-0.7
Europe - Middle East	11.3	4.8	-0.5	11.4
Europe - Africa	0.4	0.8	-5.9	-2.9
Europe - South America	-2.9	-5.5	-13.3	5.8
Within Europe	-2.5	9.1	13.9	13.8

Source: IATA Statistics

- European carrier FTKs rebounded strongly in Apr & are now up 6.8% on their level of a year ago – more than double the rate of the industry overall (up 3.2%yoy).
- The rebound in both global & regional carrier FTK volumes appears more to do with the disruptions evident in early 2015 (incl. the US west coast seaport disruption) dropping out of the yoy calculation than any sharp improvement in fortunes for the cargo segment.
- At the inter-regional level, Apr saw some very large

## Industry

### Capacity growth and load factors

ASK/AFTK: %ch on a yr ago, LF: %of ASK/AFTK		2015	Feb-16	Mar-16	Apr-16
<b>Passenger</b>					
Europe	ASK	3.9	7.3	4.5	1.8
	PLF	81.3	77.6	80.5	79.8
World	ASK	5.6	9.7	5.8	4.9
	PLF	80.2	77.7	79.8	79.1
<b>Freight</b>					
Europe	AFTK	4.4	7.3	5.8	5.6
	FLF	45.2	44.6	46.6	45.9
World	AFTK	6.2	7.5	6.8	6.6
	FLF	44.2	40.6	43.7	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 is currently up just 1.8% compared with a year ago, well down on the ~5% rate of the industry overall. The regional PLF dipped back (just) below 80% but remains a little above the industry figure of 79.1%.
- In contrast, freight capacity is growing at a brisk 5.6% rate for the European carriers, although this is still a full percentage point lower than the industry rate. At 45.9%, the regional FLF sits 2.5pp above the global figure.
- The latest Q1 operating margin for the region's airlines was a seasonally-soft -1.9%. Although an improvement

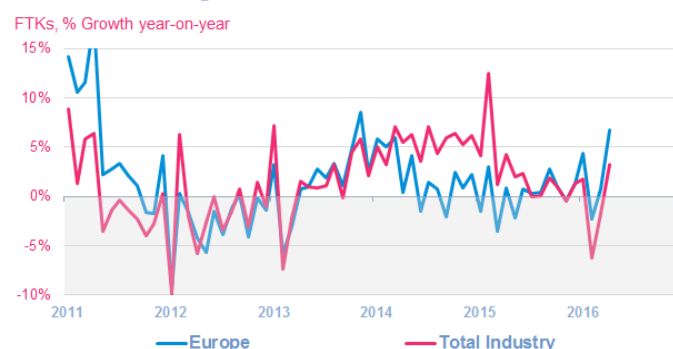
### Airline EBIT margins\*

%revenues	2013	2014	2015Q1	2016Q1
Europe	3.5	3.4	-3.2	-1.9
Industry	4.1	5.2	5.9	8.1

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

- shifts in growth rates, with a double-digit turnaround on routes between Europe & each of Asia, the Middle East & Sth America. A more modest gain was seen in Europe-NthAm & Europe-Africa FTKs.
- With the data disruptions of early 2015 moving aside, a clearer picture of the underlying market fundamentals for cargo will emerge. But against a generally soft demand backdrop & with global trade volumes still subdued, this picture may not be a particularly upbeat one.

### Growth in air freight volumes



Source: IATA Statistics

on the performance of a year ago, it is well down on the Q1 industry figure of 8.1%.

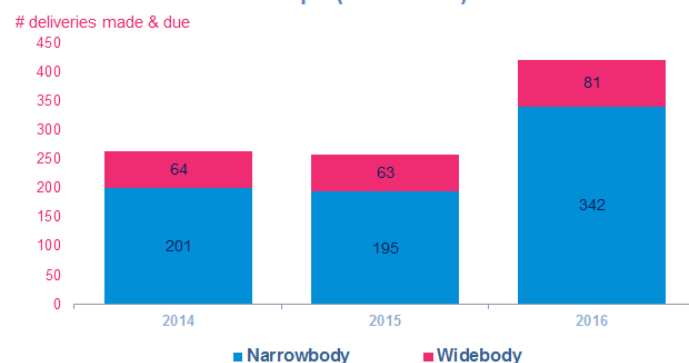
- Pax yields on key routes all improved this month, however, it is still only Russia domestic yields which are higher than their level of a year ago.
- This general yield improvement, albeit modest to date, has been supported by the recent reversal in trend for both world fuel prices & the US\$.

### Passenger yields, excl. surcharges & ancillaries

%change on a yr ago	2015	Feb-16	Mar-16	Apr-16
Russia domestic	-39.2	-1.8	1.9	5.5
Within Europe	-16.3	-10.4	-11.2	-2.9
Europe - North America	-8.5	-3.6	-12.8	-2.4
Europe - Asia	-0.2	-11.9	-15.3	-8.1
Europe - Middle East	-11.8	-10.3	-13.0	-7.9
Europe - Africa	-17.2	-9.5	-12.3	-4.0
Europe - South America	-19.5	-22.2	-25.2	-19.9

Source: IATA PaxIS

### Aircraft deliveries to Europe (latest data)



Source: Ascend