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The EUROCONTROL bulletin on air transport trends

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- **European flights increased by 3.3% in April and were towards the high forecast updated in February. Preliminary data for May show an increase of 4.6% in flights on May 2016.**
- **Four out of nine European airlines listed in this bulletin recorded worse operating losses during 1Q2017 than 1Q2016 owing mainly to increasing fuel prices, adverse currency effect and the shift of Easter.**
- **IATA anticipates European airlines to post profit for 2017 of €6.6 billion, an upward revision compared with €5 billion in its previous forecast but still down from €7.7 billion profit in 2016.**
- **Oil prices were down to €47 per barrel in May from €51 per barrel in April. For 2017 IATA forecasts an average oil price of €48 per barrel (vs. €40 per barrel in 2016).**

EUROCONTROL Statistics and Forecasts

European flights (ECAC – European Civil Aviation Conference area) increased by 3.3% in April 2017 (vs. April 2016) and were towards the high forecast updated in February. Preliminary data for May 2017 show an increase of 4.6% in flights on May 2016 (Figure 1).

The low-cost segment was the main driver of growth and accelerated from 5.9% in March to 7.9% in April. The charter segment which has been showing signs of recovery since the beginning of the year moved to the positive for the first time since January 2014 and recorded a monthly growth rate of 5.8%. Resumption of flights between the Russian Federation and Turkey (ban on charter flights lifted in August 2016) along with a significant increase in flights between Ukraine and Egypt accounted the overall growth. The traditional scheduled and business aviation segments increased by 1.9% and 1.3% respectively. On the other hand, the all-cargo segment slumped to a 1.4% decrease in April from a 10% increase in March.

The airlines which added the most flights to the European network on a daily basis were Ryanair (+182 flights/day), Eurowings (+145 flts/day), Norwegian International (+104 flts/day), easyJet UK (+101 flts/day) and Wizzair (+78 flts/day).

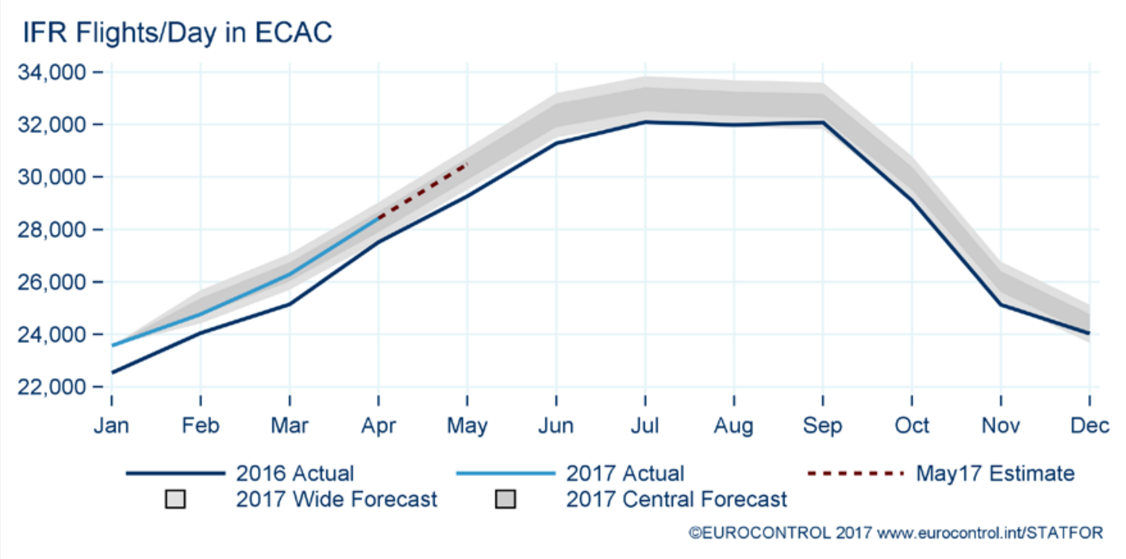

Figure 1: Monthly European Traffic and Forecast **(based on the 7-year forecast Feb 17).**

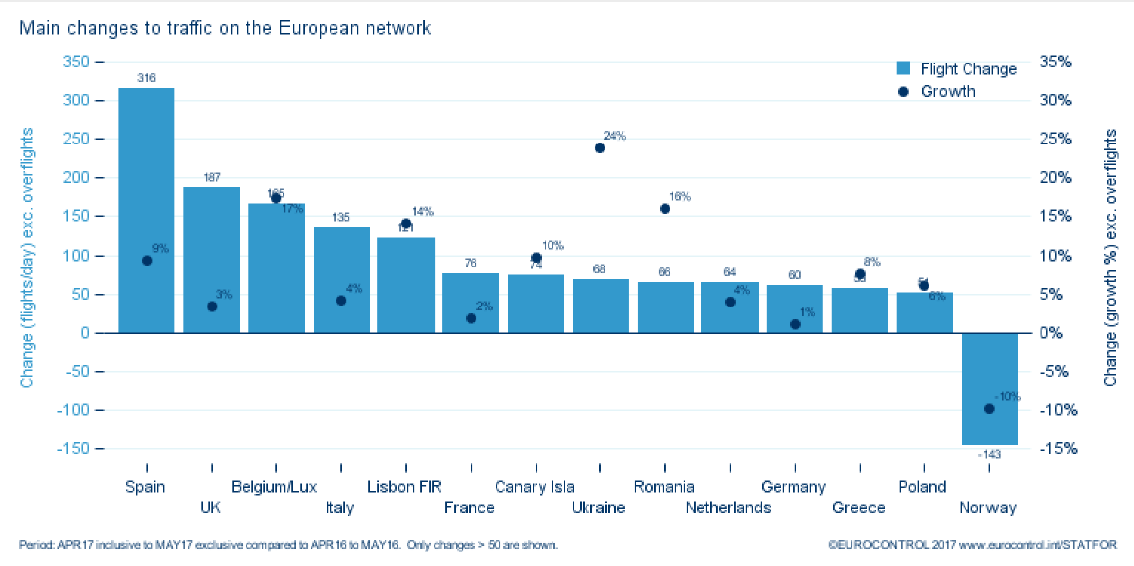

Figure 2: Main changes to traffic on the European network in April 2017.

In April 2017 13 states (Figure 2) contributed the most to the growth of local traffic (excluding overflights) in Europe by adding more than 50 daily flights to the network. Benefiting from Easter school holidays, Spain took over from the United Kingdom as the top contributor and added 316 flights per day vs. 187 daily flights for UK. Belgium/Luxembourg ranked third with 165 extra daily flights although this number remained inflated due to Brussels airport closure until 3 April last year. Italy came next with 136 additional daily flights thanks to a dynamic international arrivals/departures flow which increased by 5.3% in April. Portugal (excl. Azores) completed the top five states and added 121 daily flights. France, Canary Islands, Ukraine and Romania added together 284 daily flights whereas the Netherlands, Germany, Greece and Poland completed the list and altogether added 233 flights to the network. It is worth mentioning that Turkey significantly reduced its decrease from 157 fewer daily flights in March to just 10 fewer daily flights in April thanks to its flow to/from the Russian Federation (+51 flights/day) and to/from Israel (+12 flights/day). At the other end of the scale, Norway saw 143 fewer daily flights owing to its domestic flow which declined 15% in April 2017 (vs. April 2016. (EUROCONTROL, May).

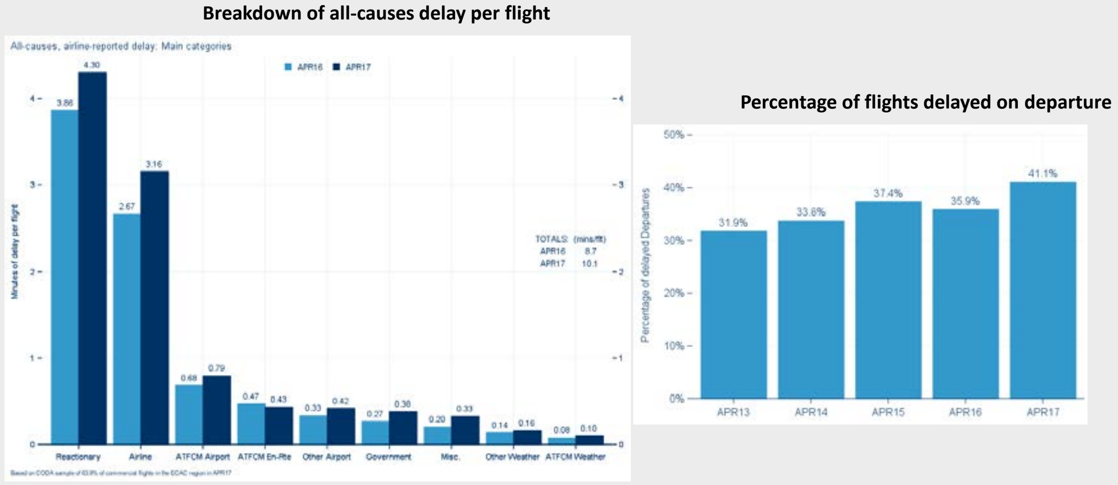

Figure 3: Delay statistics (all-causes, airline-reported delay – April 2017).

The top three extra-European partners in average daily flights on flows in both directions were the United States (920 flights, up 1.2%), the Russian Federation (703 flights, up 17.5% although not yet back to 2014 levels) and the United Arab Emirates (330 flights, up 0.3%).

European flights to or from Egypt and to or from Tunisia slowly picking up since the end of last year accelerated in April and surged to a growth rate of 46% and 14% respectively boosted by charter traffic during Easter, although traffic levels for both countries are still far below 2010.

Based on data from airlines for delays from all causes, the average departure delay per flight in April 2017 increased by 1.4 minutes to 10.1 minutes per flight. . Further analysis of the delay reasons shows that reactionary and airline-related delay increased respectively by 0.4 minutes and 0.5 minutes per flight. (Figure 3). In April 2017, the percentage of delayed flights on departure (>=5 minutes) was 41%, an increase of 5 percentage points compared with April 2016. Seasonal weather impacted several airports, especially Oslo Gardermoen and London Gatwick, and to a lesser extent Amsterdam Schiphol, Istanbul Atatürk, Zurich and London Heathrow airports. (EUROCONTROL, May).

Other Statistics and Forecasts

IATA reported that European scheduled passenger traffic (RPK) increased by 14.4% in April 2017 (vs. April 2016) from 5.7% in March 2017 and was the fastest growth rate in nearly 13 years; capacity was up by 7.9%and the total passenger load factor hit 85.4% compared with 80.5% in April last year. For the first quarter of 2017 European scheduled passenger traffic climbed 6.8% and capacity was up by 4.9% and the total passenger load factor was 81.2%; a good performance attributable to lower fares and a broad-based upturn in global economic conditions. IATA reported that the price of air travel has decreased by circa 10% compared to last year which has contributed to record load factors (IATA, 4 May & 1 June).

ACI reported overall passenger counts at European airports to be up 14.1% in April 2017 (vs. April 2016) whereas overall aircraft movements increased by 4.2%. During the first quarter of 2017 (vs. same quarter last year), overall passenger counts at European airports increased by 7.2% with overall aircraft movements up 3%. Freight traffic across the European airport network improved significantly during the first quarter and was up 8% with March posting the best monthly performance since April 2011 (+13.7%) (ACI, 8 May & 6 June).

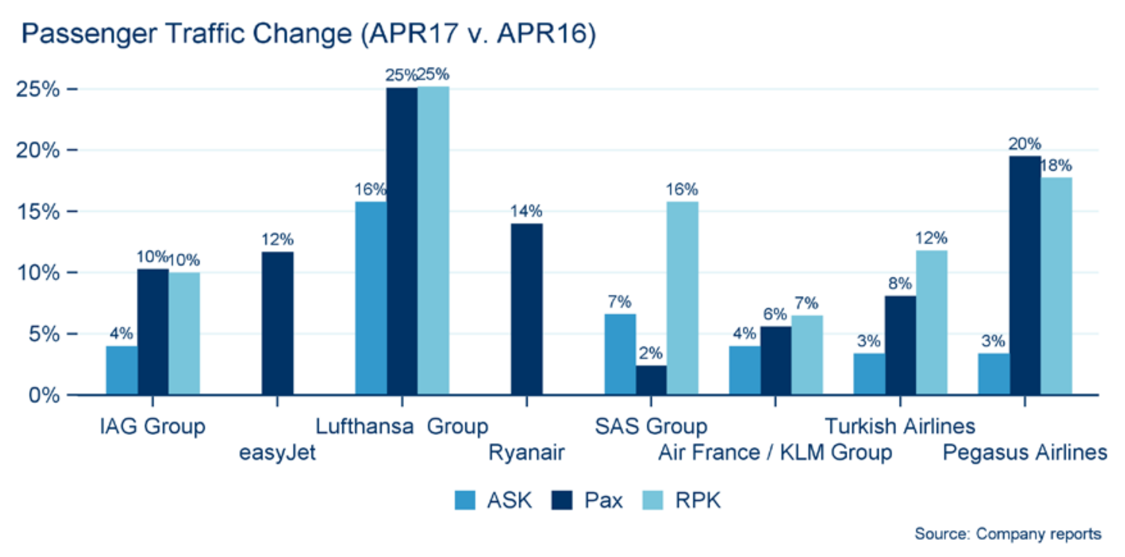

Figure 4: Main carriers' traffic statistics.

IATA estimated that European airlines reduced 2016 revenue by approximately €2.2 billion following terrorist attacks in Paris (November 2015) and Brussels (March 2016) whereas European international passenger traffic fell 1.6% in the year after the attacks. IATA reported that European airlines international traffic started recovering in June 2016 and recovered above its trend level by the end of 2016 sustained by lower airfares and good economic conditions (IATA, May).

Passenger airlines

Capacity, costs and jobs

Alitalia's administrators have launched the sale process to save the insolvent flag carrier from bankruptcy. Bids have to be submitted by 5 June. Last month the Italian government granted Alitalia a bridging loan to keep the airline operating (IM193). Alitalia has also announced the technical unemployment of 1,358 staff comprising 828 ground staff, 190 pilots and 340 cabin crew with a view to reduce costs. (Alitalia, 17 & 24 May).

Lufthansa is reportedly in talk with Etihad to take over airberlin provided that Etihad which owns a 29% stake in the loss-making carrier resolves its debt. In 2016 airberlin in the process of restructuring into a network carrier posted circa €800 million losses. Lufthansa already leases 38 aircraft from airberlin's fleet (Reuters, 5 May).

Air France has submitted an updated agreement to its pilot unions for the creation of a new airline in the Boost project (IM191). The new airline will use Air France pilots operating a fleet limited to 28 aircraft (18 medium-haul and 10 long-haul aircraft). The ex-fuel unit cost target will be 15% to 18% below that of Air France owing mainly to a new cabin agreement. The new airline is scheduled to launch in winter 2017 (Air France, 3 May).

easyJet will convert 30 of its Airbus A320neo orders into A321neo aircraft with a 235-seat configuration, a 30% increase compared with an A320 aircraft. The first delivery will take place in summer 2018 (easyJet, 16 May).

easyJet plans to recruit 450 pilots and focusses on hiring more female recruits. In 2016 the carrier hired 426 pilots and currently employs 3,000 pilots among them 164 female. By 2020 easyJet aims at 20% of new pilots to be female (easyJet, 16 May).

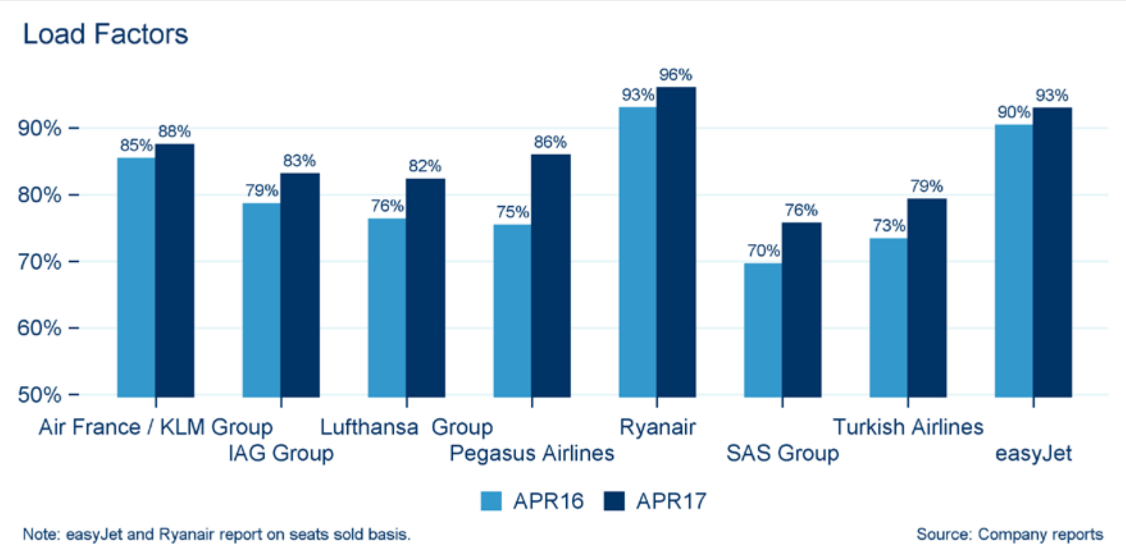

Figure 5: Main carriers' load factors.

New Cyprus Airways will start operations at the end of June with four routes from its Larnaca base to Rhodes, Heraklion, St Petersburg and Tel Aviv using one Airbus A319 aircraft. The former Cyprus Airways went bankrupt in 2015 (Cyprus Airways, May).

Brussels Airlines will replace its fleet of A330-200/300 aircraft with seven Airbus A330-300CEO aircraft to be delivered between 2018 and 2019 (Brussels Airlines, 22 May).

Icelandic leisure airline, Primera Air has placed an order for eight Boeing B737 MAX9 aircraft and purchase rights on four additional units. The new aircraft will allow the carrier to start long-haul routes from Europe to the east coast of the U.S. Primera Air currently operates scheduled and charter flights from its Scandinavian hubs to Europe with a fleet of nine Boeing B737 family aircraft (Boeing & Primera Air, 11 May).

Lufthansa's low-cost subsidiary, Eurowings has opened its new base at Palma de Mallorca, the first in Spain with 23 destinations and four Airbus A320 based at the airport (Eurowings, 24 May).

Ryanair has launched its first connecting flights on 10 routes operating via Rome Fiumicino to Alicante, Barcelona, Bari, Brussels, Catania, Comiso, Malta & Palermo. (Ryanair 17 May).

IAG is reportedly planning to add Paris and Rome as bases for Level, its new long-haul low-cost airline which will start operations from Barcelona on 1 June (ATW, 10 May).

Norwegian plans to launch Norwegian Air Argentina and has applied for an Argentinian Air Operator's Certificate (AOC). The low-cost carrier has outlined plans for a considerable operation including domestic and international flights. Recruitment of crew will start in late summer and pending government approval, the first new routes will be announced by the end of 2017 (Norwegian, 9 May).

German leisure airline, Azur Air based in Düsseldorf will now reportedly start operations in June (delayed from April) and fly to Palma de Mallorca, destinations in Turkey and Greece along with long haul flights to Punta Cana. Azur Air will operate two Boeing B767-300ER aircraft (ATW, 3 May).

The Albanian government is in talks with Turkish Airlines to start its own national airline within a year. Turkish Airlines will provide technical assistance to the project. The initial plan is to launch flights connecting countries of the eastern Balkans (Kryeministra, Albania, 8 May)

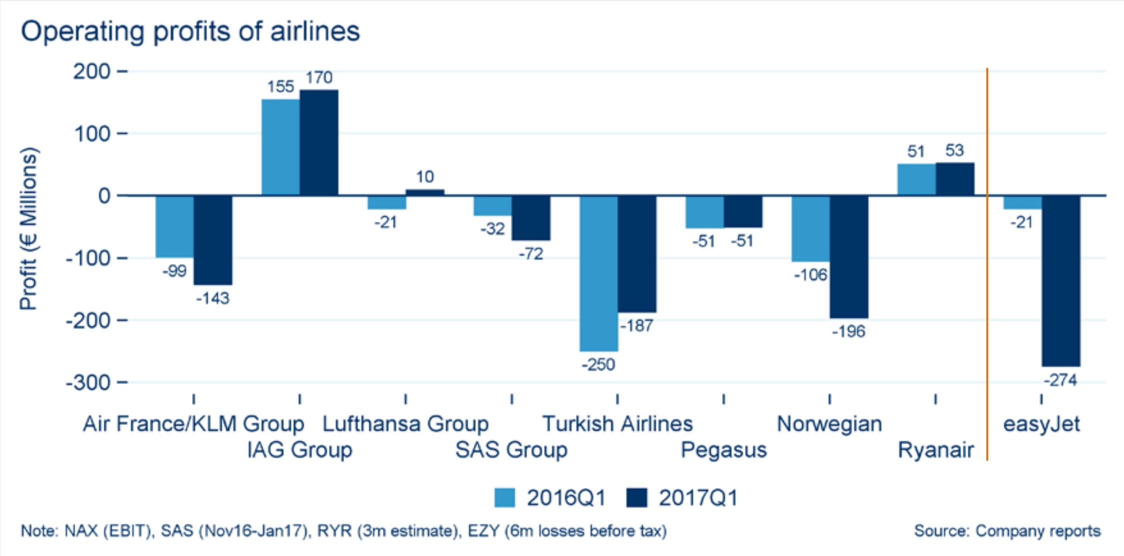

Figure 6: Financial results of airlines in 1Q2017.

Failures

Start-up Fly Kiss ceased operations in May. The French airline started flights in November last year between five regional airports in France and to London Luton with a fleet of Embraer E145 aircraft (Fly Kiss, May).

Traffic Statistics: April Update

Figure 4 and Figure 5 compare April 2017 figures with April 2016 figures for the European carriers. In addition to the number of passengers (PAX), passenger capacity is measured in available seat kilometres (ASK), traffic is measured in revenue passenger kilometres (RPK) and load factor as a percentage (%). Following airberlin restructuring, we have stopped including them in the traffic statistics and have introduced Pegasus Airlines, the Turkish low-cost operator standing as the 10th busiest carrier in 2016. Note:Lufthansa Group recorded 25% more passengers in April year-on-year thanks to the good performance of its point-to-point airlines (Eurowings and Brussels Airlines).

Routes, Alliances, Codeshares

easyJet will base a 12th Airbus A320 aircraft at Berlin Schönefeld and will launch three new routes to Bastia, Pula and Varna bringing to 48 the number of destinations from the German airport (easyJet, May).

Ryanair has entered into a connecting flight partnership with Air Europa whereby Ryanair's customers are now able to book 20 of Air Europa's long-haul flights from Madrid at Ryanair's website. Later this year, travellers will be able to connect from Ryanair services onto the Spanish carrier's hub at Madrid to 16 countries in North, Central and South America (Ryanair, 23 May).

Wizz Air will be the first foreign low-cost carrier to serve St Petersburg when it starts operations in August from Budapest. This will be the airline's second destination in the Russian Federation after Moscow Vnukovo launched in 2013 (Wizz Air, 5 May).

Wizz Air expands in Serbia as it bases a second Airbus A320 aircraft at Belgrade and launches four new routes from the Serbian capital to Friedrichshafen, Nuremberg, Hanover and Malta (Wizz Air, 19 May).

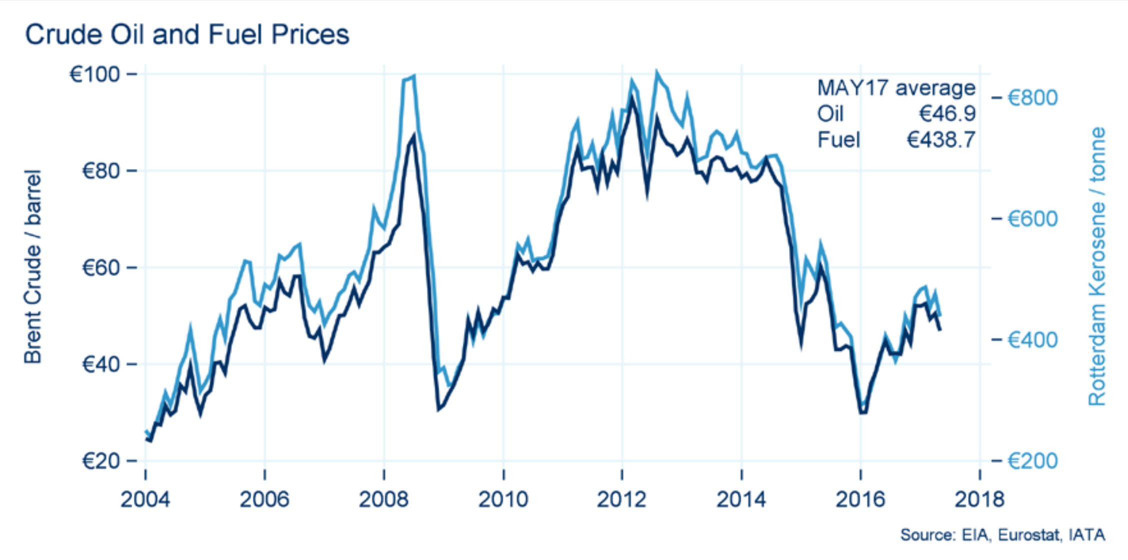

Figure 7: Brent and Kerosene prices.

Norwegian has started long-haul flights from Barcelona to Los Angeles, New York (Newark), San Francisco (Oakland) and Fort Lauderdale (from August onwards) with two Boeing B787-8 aircraft. Norwegian will compete with IAG's new low-cost carrier LEVEL on destinations to California. Norwegian also plans to launch transatlantic flights from Rome Fiumicino during the last quarter of 2017 (Norwegian, 5 June & 31 May).

Financial Results of Airlines

Four out of nine European airlines listed in this bulletin recorded operating losses during the first quarter of 2017 owing mainly to increasing fuel prices, adverse currency effect and the shift of Easter.

Figure 6 compares the first quarter of 2017 financial results with the first quarter of 2016 for nine of the top ten European airlines (based on 2016 traffic shares – Alitalia results were not available). During the January – March 2017 period, IAG Group and Lufthansa Group posted a record performance profit from operating results for a traditionally loss-making quarter and were followed by Ryanair (source: company reports).

IATA anticipates European airlines to post profit for 2017 of €6.6 billion, an upward revision compared with €5 billion in its previous forecast but still down from €7.7 billion profit in 2016 (IATA, 5 June).

Airports

Passenger traffic and aircraft movements in April 2017 at top five European airports (based on the number of flights) were as follows (growth on April 2016):

	Passenger traffic	Aircraft movements
1. Amsterdam Schiphol	5.8 million (+ 11.3%)	42K* (+ 5.3%)
2. Paris CDG	6.0 million (+ 7.8%)	40K (+ 2.1%)
3. London Heathrow	6.7 million (+ 11.3%)	40K (- 0.1%)
4. Frankfurt	5.4 million (+ 10.0%)	40K (+ 1.5%)
5. Istanbul Atatürk	5.4 million (+ 7.9%)	38K (0.0%)

***** excluding general aviation
(source: airport reports, May)

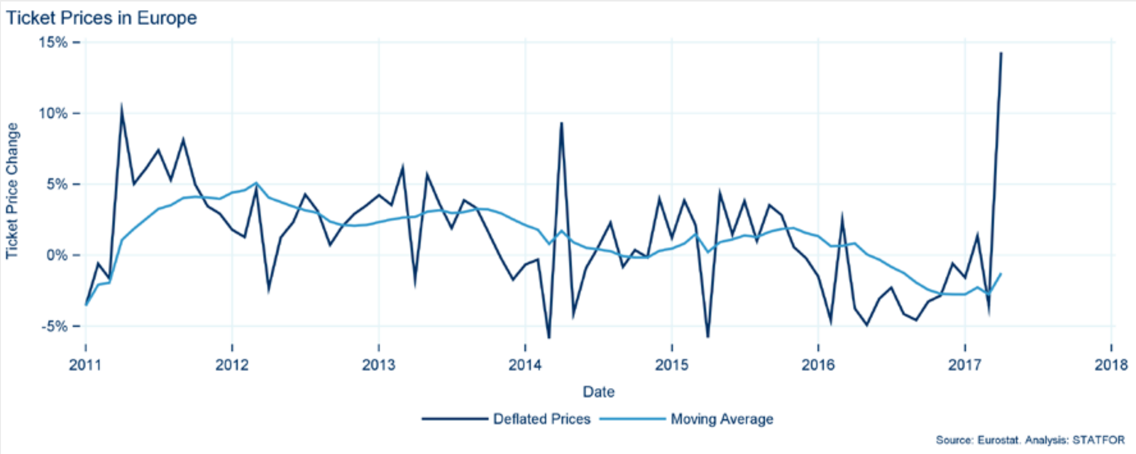

Figure 8: Deflated ticket prices in Europe.

London City will be the first UK airport to build and operate a digital air traffic control tower which will be operational in 2019 when aircraft will be directed from Hampshire by controllers watching live footage from high-definition video cameras (London City Airport, 19 May).

Aircraft Manufacturing

Commercial Aircraft Corporation of China (COMAC) C919 narrow-body aircraft completed its maiden flight on 5 May in Shanghai. The aircraft which was supposed to enter into service in 2016 will have China Eastern Airlines as its launch customer. In size, the C919 aircraft is comparable to the Airbus A320 and the Boeing B737-800 (COMAC, 5 May).

Russian United Aircraft Corporation (UAC) completed the first flights of its new MC-21-300 medium-range aircraft on 28 May. UAC reported firm orders for 175 MC-21 aircraft (UAC, 28 May).

COMAC (Commercial Aircraft Corporation of China) and UAC (United Aircraft Corporation) have set up a joint venture agreement, China –Russia Commercial Aircraft International (CRAIC) aiming at developing a new wide-body commercial aircraft with a range of 12,000km and 280 seats (UAC, 22 May).

Cargo

Cargolux and Emirates SkyCargo have entered into a partnership agreement. The operational cooperation will include 1) aircraft capacity – Emirates SkyCargo will use Cargolux nose-loading Boeing 747F aircraft for heavy and outsized cargo to complement its fleet of Boeing B777F; 2) block space and interline agreements on each other's networks and 3) hub connectivity and cargo handling (Cargolux, 9 May).

Oil

Oil prices were down to €47 per barrel in May from €51 per barrel in April. For 2017 IATA forecasts an average oil price of €48 per barrel (vs. €40 per barrel in 2016). Converted indices for Kerosene and Brent are shown in Figure 7 (IATA, 5 June).

Fares

Ticket prices in Europe increased by 14.3% in April 2017 vs. April 2016. This is significantly above the trend (12-month trailing average) shown in Figure 8 but reflects seasonal pricing linked to Easter (Eurostat, 19 May).

Note: to eliminate the influence of inflation on euro figures, the ticket price is deflated with a price index. The STATFOR deflated ticket prices are estimated in 2015 constant euros. A detailed explanation of the mechanism can be found here.

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