ERA Monthly Market Analysis

April 2014

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Introduction

For the production of these statistics in the following report, ERA has teamed up with partners Seabury and Innovata to provide a comprehensive analysis of ERA's members' performance.

The analysis performed by Seabury, is based on schedule data that has been provided by Innovata and gives a comprehensive overview of the sector.

This report examines the performance of ERA members carriers (and in some cases the wider European regional airline network) who report schedule data to Innovata as well as market dynamics and outlook for the Summer 2014 schedule.

Seabury is a global advisory and investment banking firm. The firm provides information covering aviation, air cargo and maritime industry with a depth of analytics to support rapid decision making.

Innovata specialises in travel content management and distribution solutions. The firm maintains and markets an industry standard flight schedules database with over 800 participating airlines.

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Summary

It has been a challenging time for regional airlines: between 2008 and 2013, the Intra-European market[1] dropped by 2% (in terms of seats). The domestic markets particularly suffered (-13% over the period, with the biggest reductions in Spain, the UK, Italy and Germany) while international capacity grew slightly by +4%. Over the same period, regional carriers respectively withdrew 6% and 1% of their capacity on domestic and international markets, while Low Cost Carriers (LCCs) added 29% and 26% respectively.

ERA members have also adjusted their operations this winter: In winter 2014 (Jan-Apr), ERA members served more routes (+4% on average), but had less flights (-4%) and capacity (-5%) than in the previous year. They particularly withdrew from domestic markets (-8%), with international markets seeing a smaller decline (-2%). Average sector length, block times and aircraft seat capacity remained stable.

When focusing on the current season (Summer 2014), the same trends can be seen: Regional carriers are exiting domestic routes (-7%) while maintaining their international presence compared to Summer 2013. Meanwhile, LCCs are expected to grow both domestically and internationally (+8% and +9% respectively). The domestic market is expected to be recaptured by large Full Service Carriers (FSCs) as they deploy 4% more capacity year over year (international market will remain stable at -0%).

At this stage, a new trend visible across all carrier types is to focus more on main / trunk routes (with higher capacity and / or frequency), but this still has to be considered with caution as some carriers are still expected to adjust their Summer 2014 schedules.

Note: [1]Operated by European airlines only.

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Part 1: ERA Performance

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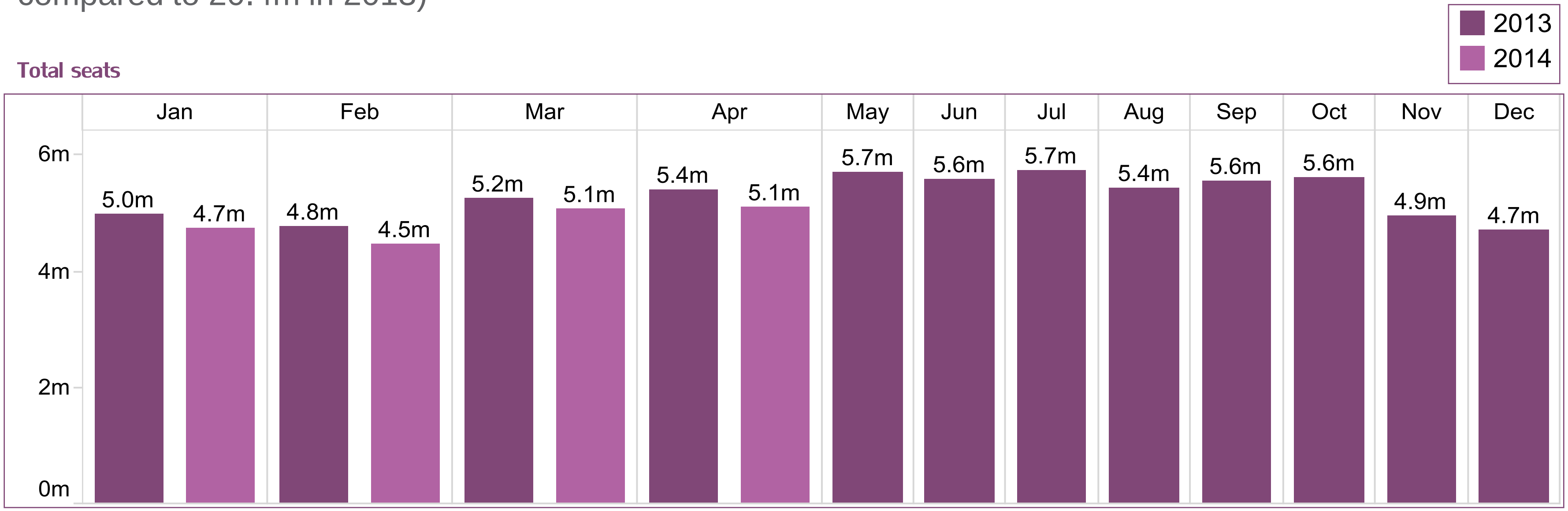
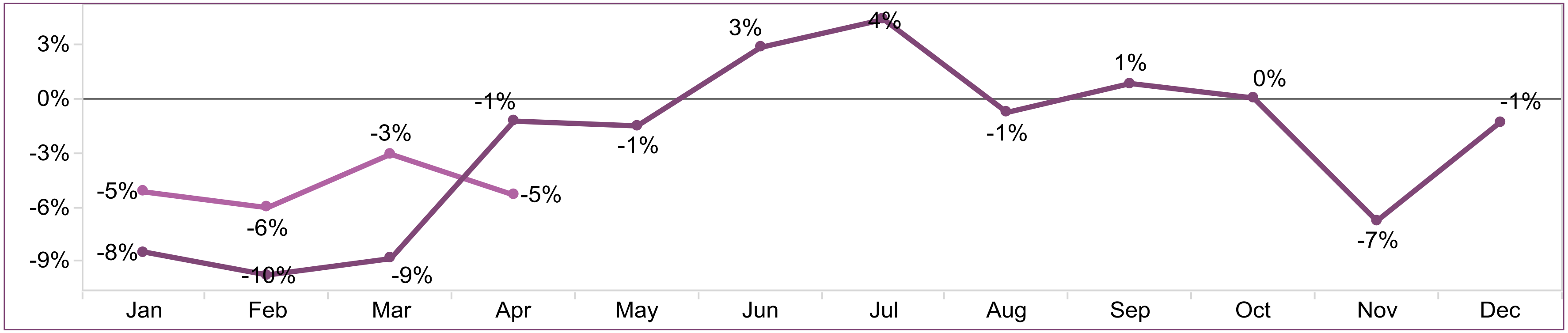
Deployed capacity

Between Jan-Apr 2014, ERA members deployed 5% less seats than in the same period in 2013 (19.4m compared to 20.4m in 2013)

Total seats



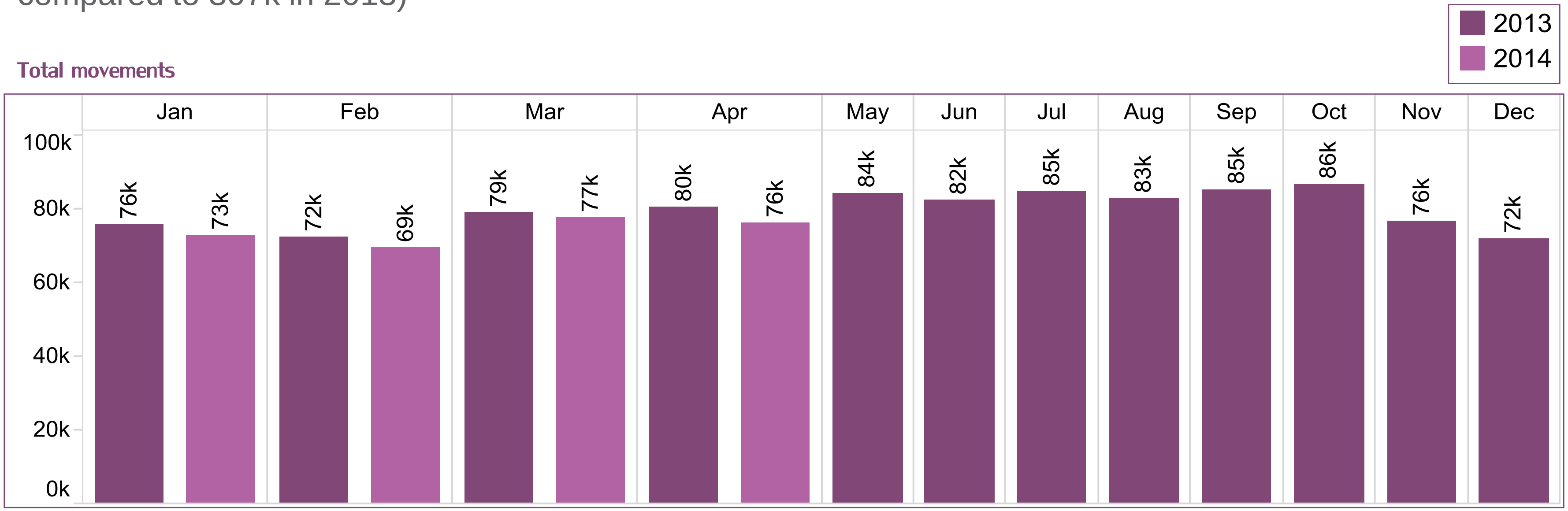
Year-on-Year % change

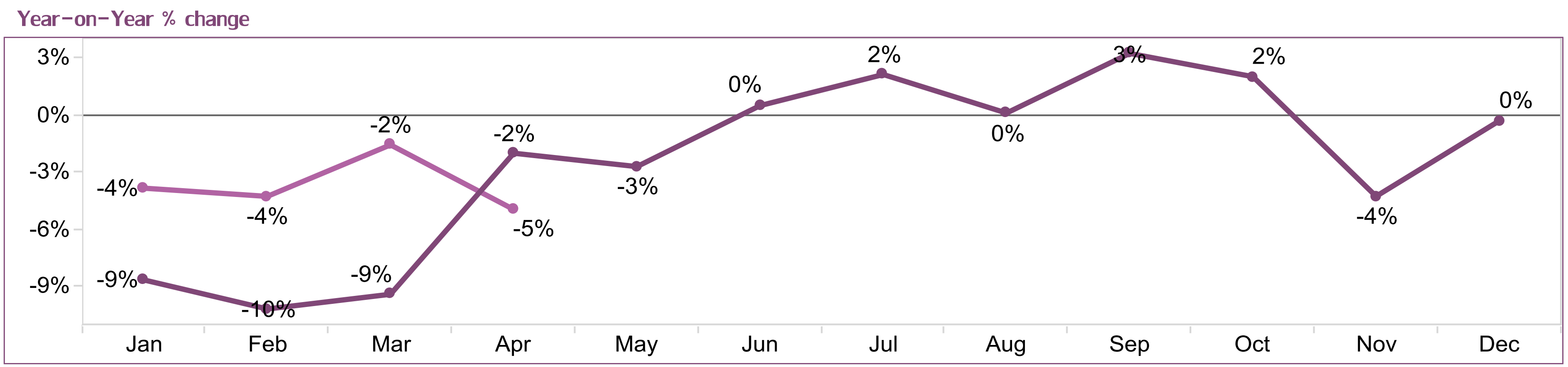


Note: Intra-European market operated by ERA members only.
Source: Innovata, March 2014 load, surface transportation excluded.

Total movements

Between Jan-Apr 2014, ERA members operated 4% less flights than in the same period in 2013 (296k compared to 307k in 2013)



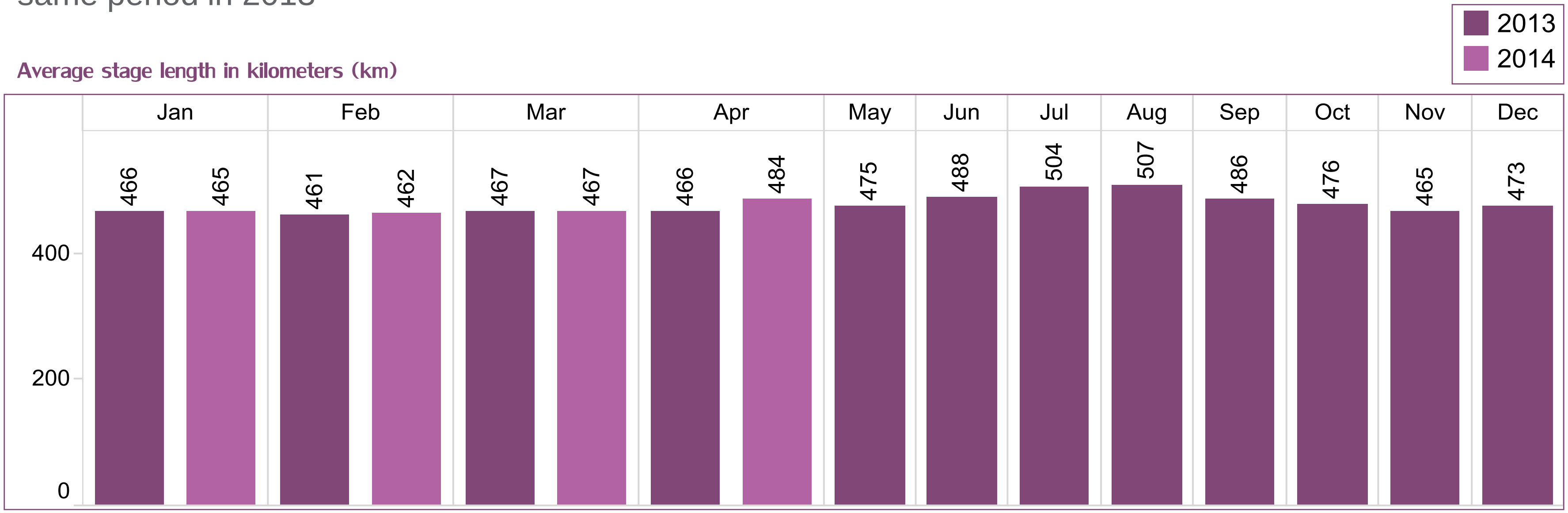


Note: Intra-European market operated by ERA members only.
Source: Innovata, March 2014 load, surface transportation excluded.

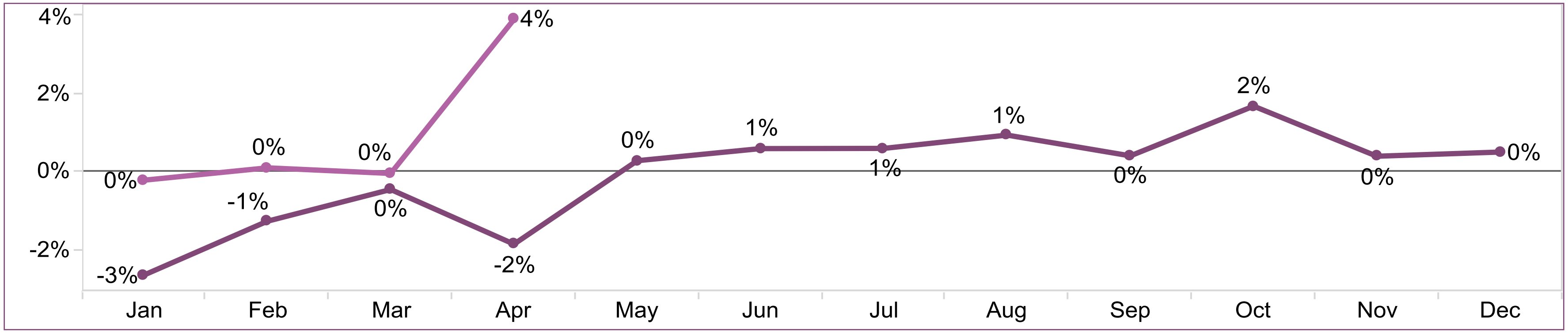
Stage length

In Jan-Mar 2014, sector length remained unchanged; April 2014 shows a 4% increase compared to the same period in 2013

Average stage length in kilometers (km)



Year-on-Year % change

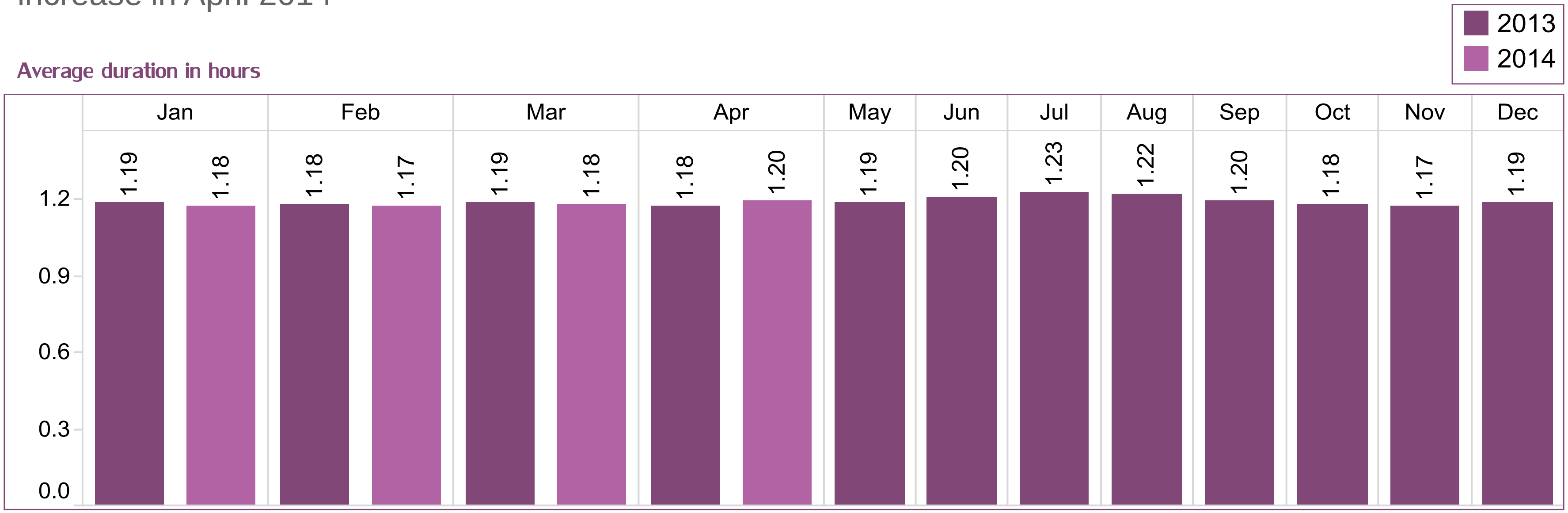


Note: Intra-European market operated by ERA members only.
Source: Innovata, March 2014 load, surface transportation excluded.

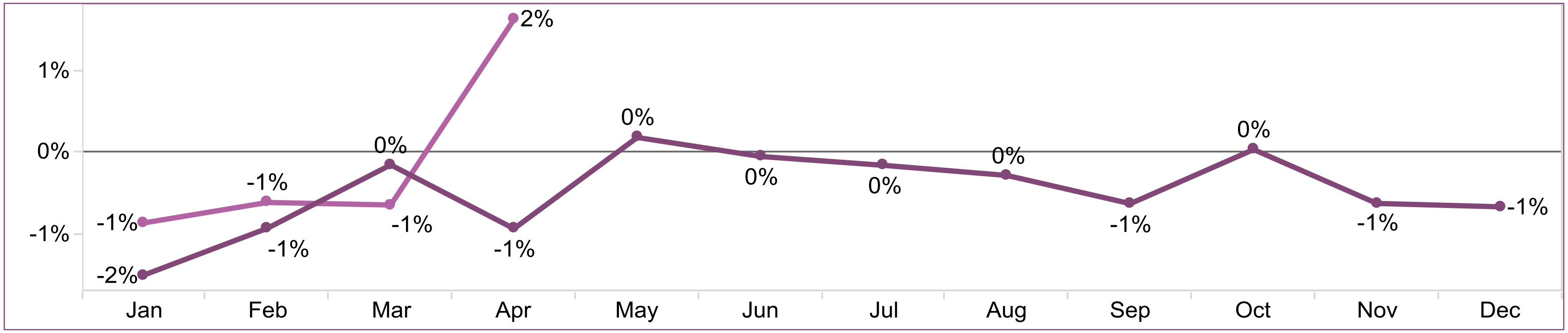
Sector duration

Sector duration remained relatively static during 2013 and this trend also continues in 2014 with a slight increase in April 2014

Average duration in hours



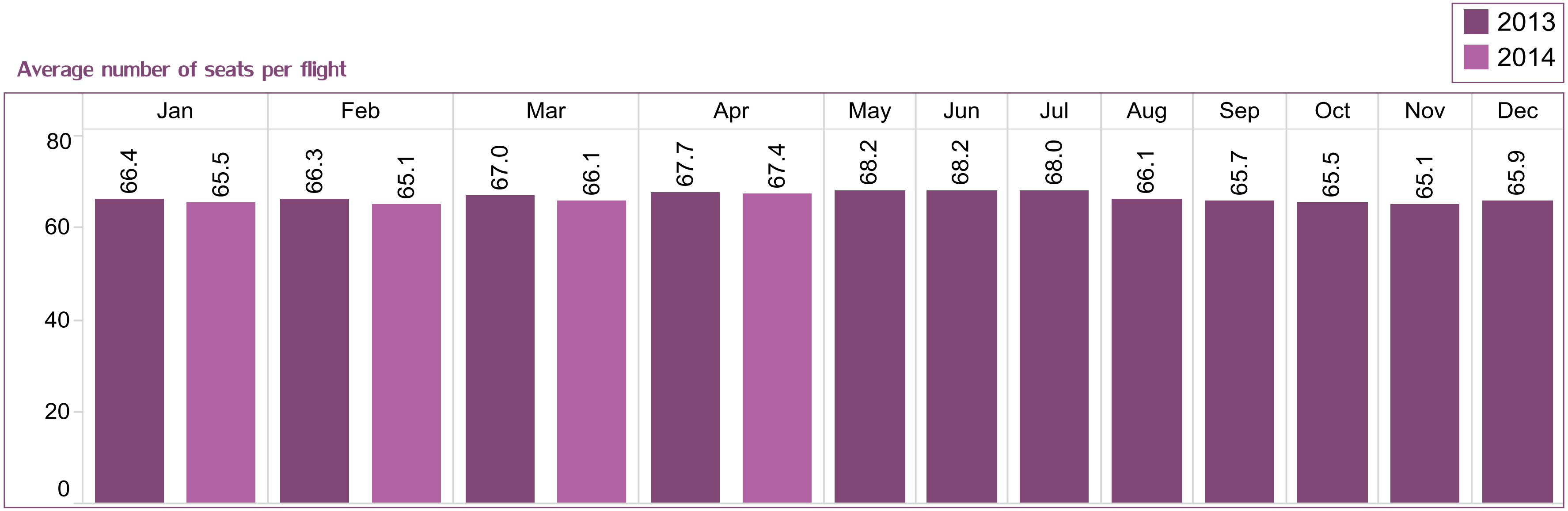
Year-on-Year % change

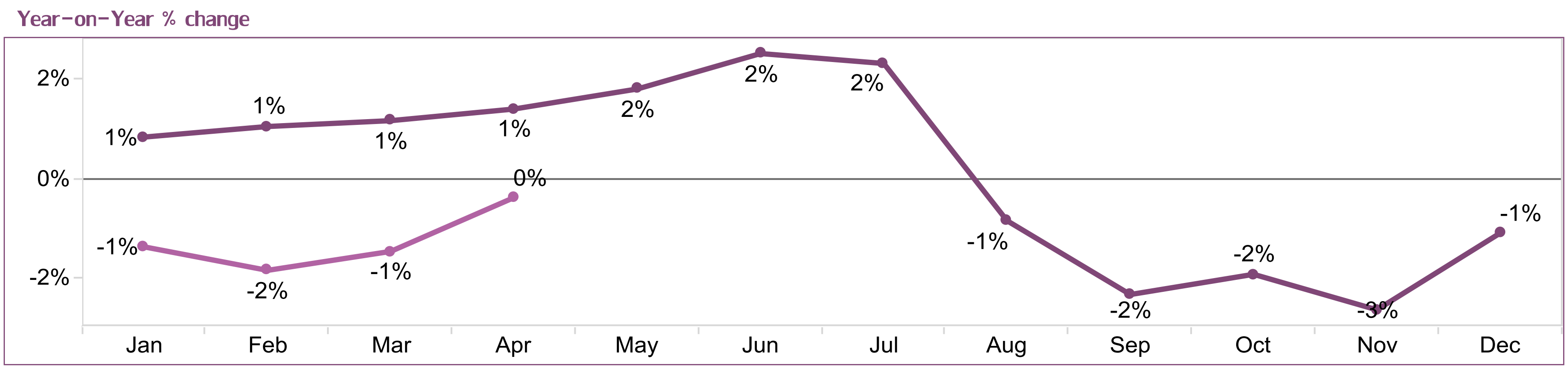


Note: Intra-European market operated by ERA members only.
Source: Innovata, March 2014 load, surface transportation excluded.

Aircraft seating capacity

Average number of seats deployed between Jan-Apr 2014 is 1% lower across the same period in 2013

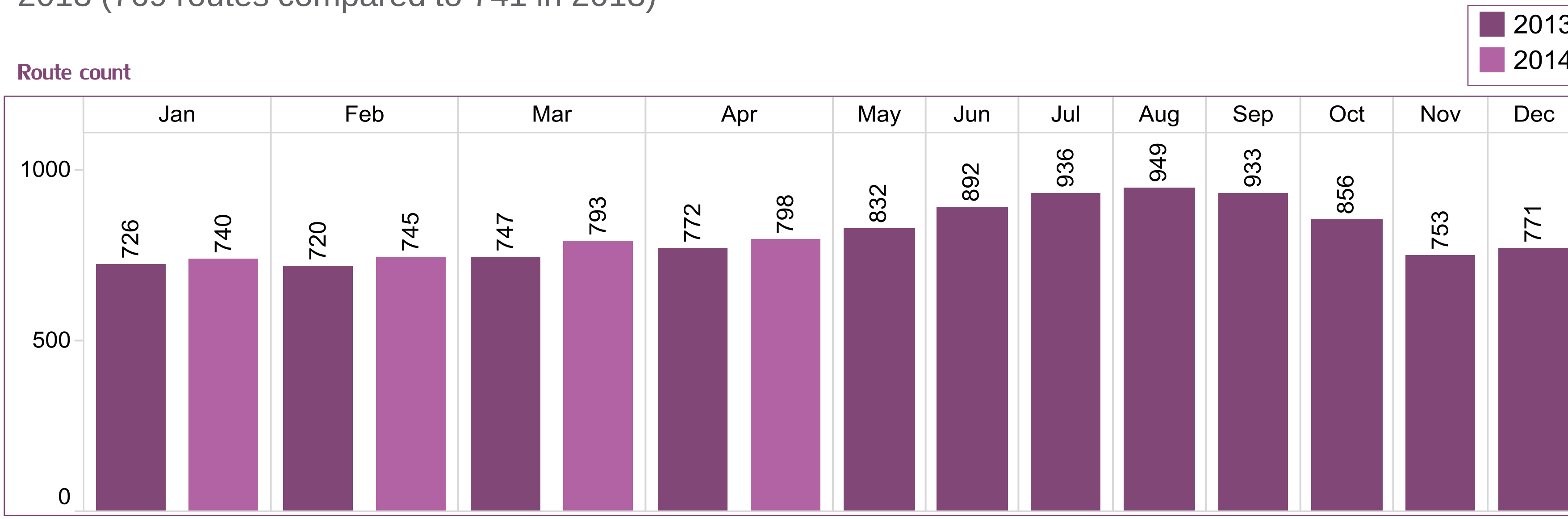


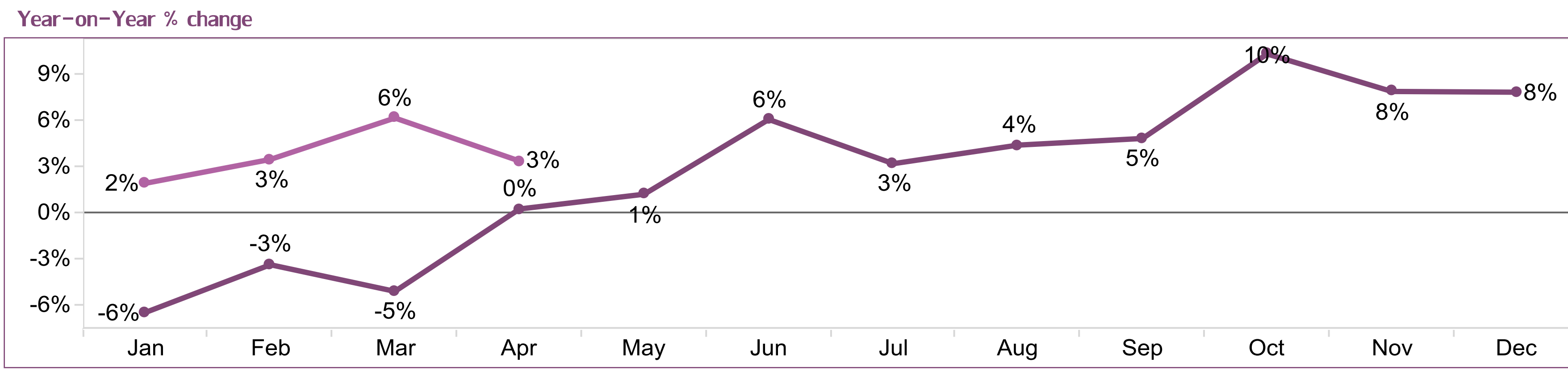


Note: Intra-European market operated by ERA members only; cargo flights excluded.
Source: Innovata, March 2014 load, surface transportation excluded.

Route count

On average, ERA members have served 4% more routes since January 2014 than in the same period in 2013 (769 routes compared to 741 in 2013)





Note: Intra-European market operated by ERA members only; routes counted bi-directionally.
Source: Innovata, March 2014 load, surface transportation excluded.

Part 2: Market Dynamics

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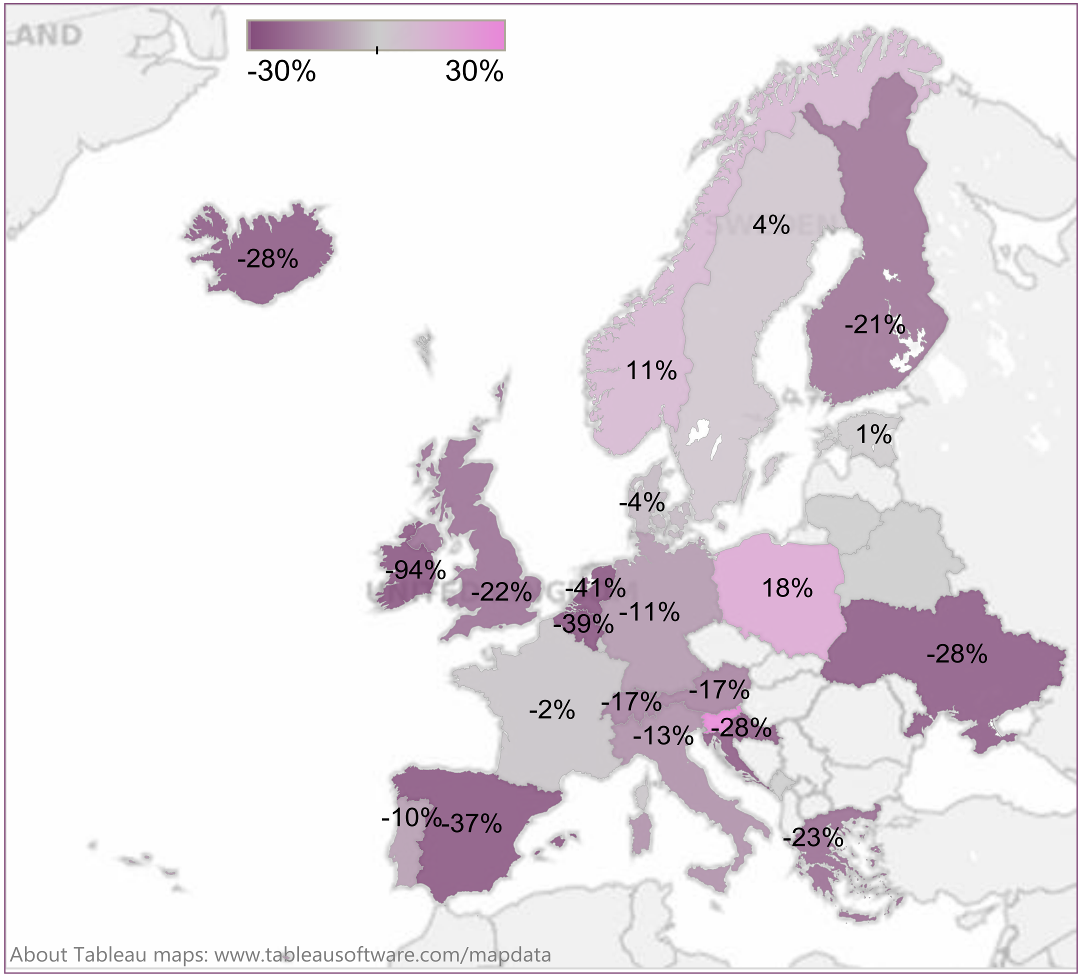
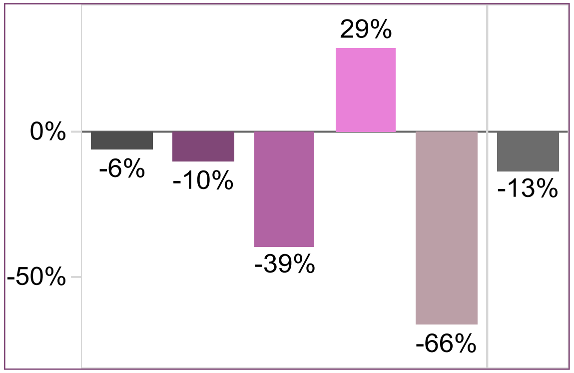
Contraction of Intra-European domestic market

Between 2008 and 2013, domestic seat capacity decreased by 13% with the biggest reductions taking place in Spain, the UK, Italy and Germany; Russia, Norway and Sweden experienced the largest gains

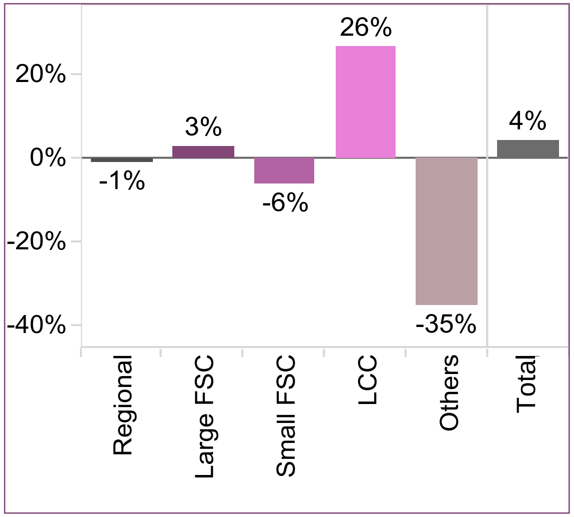
Domestic capacity % changes (2008 vs. 2013)



Domestic



International

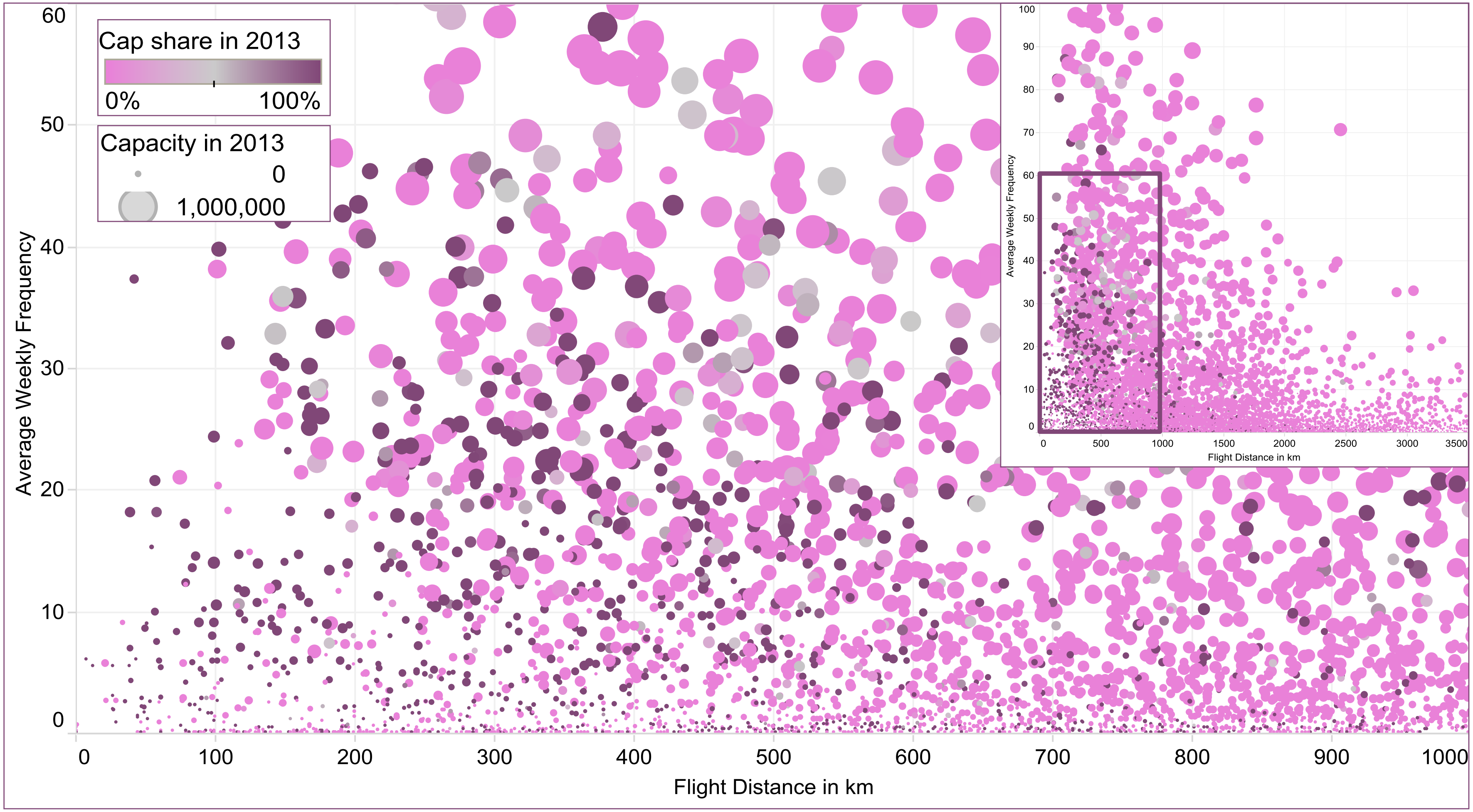


Note: Intra-European market operated by European airlines only.
Source: Innovata, March 2014 load, surface transportation excluded.

Regional carrier focus continues to be on shorter, thinner routes

Regional carriers higher frequency profile differentiates them from competitor models

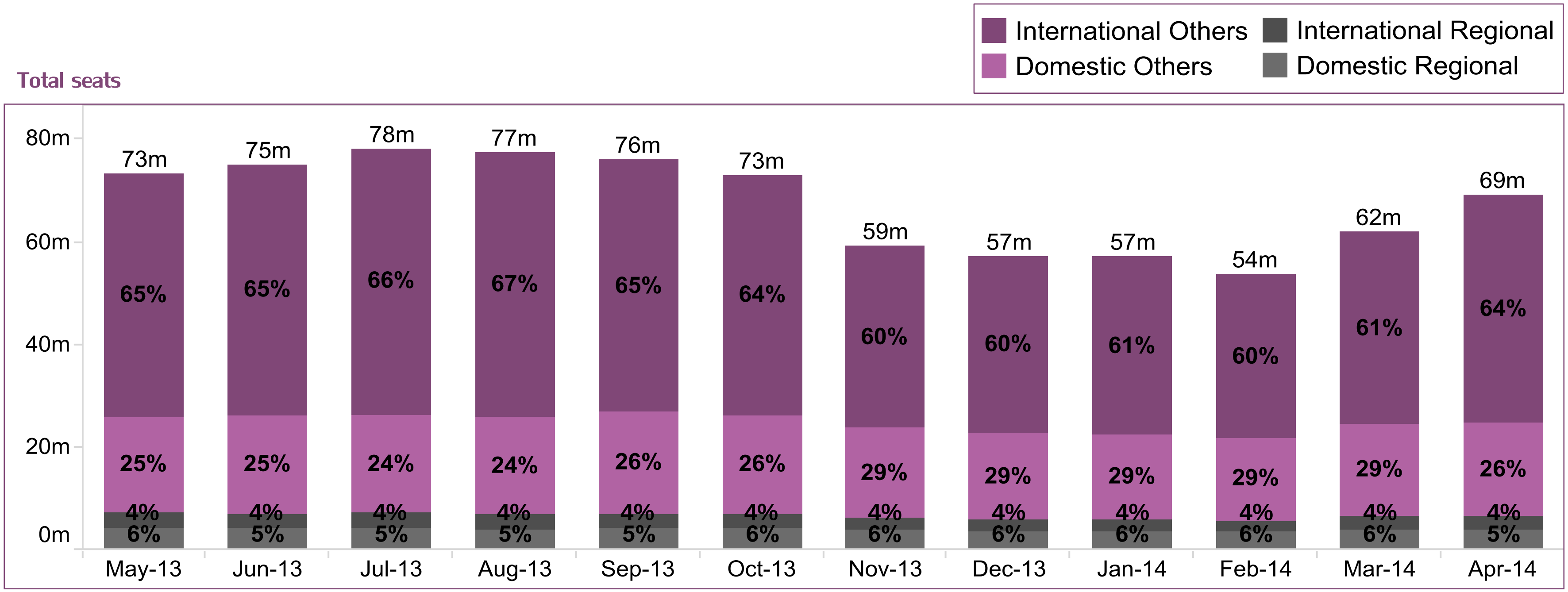
Regionals capacity share in 2013

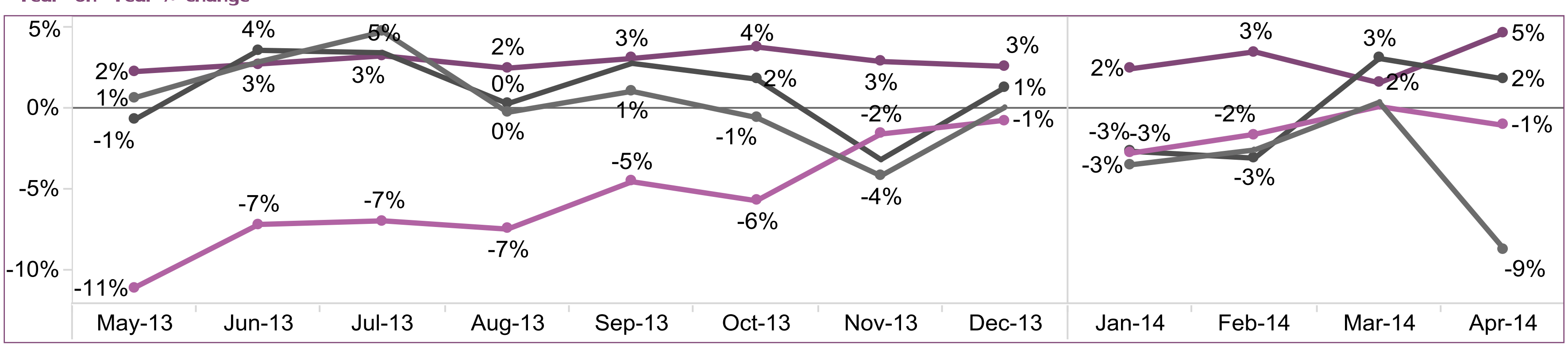


Note: Intra-European market operated by European airlines only.
Source: Innovata, March 2014 load, surface transportation excluded.

Seasonality profile of Regionals appears stable

Regional carriers achieve slightly higher international seat shares (9-10%) in the winter season

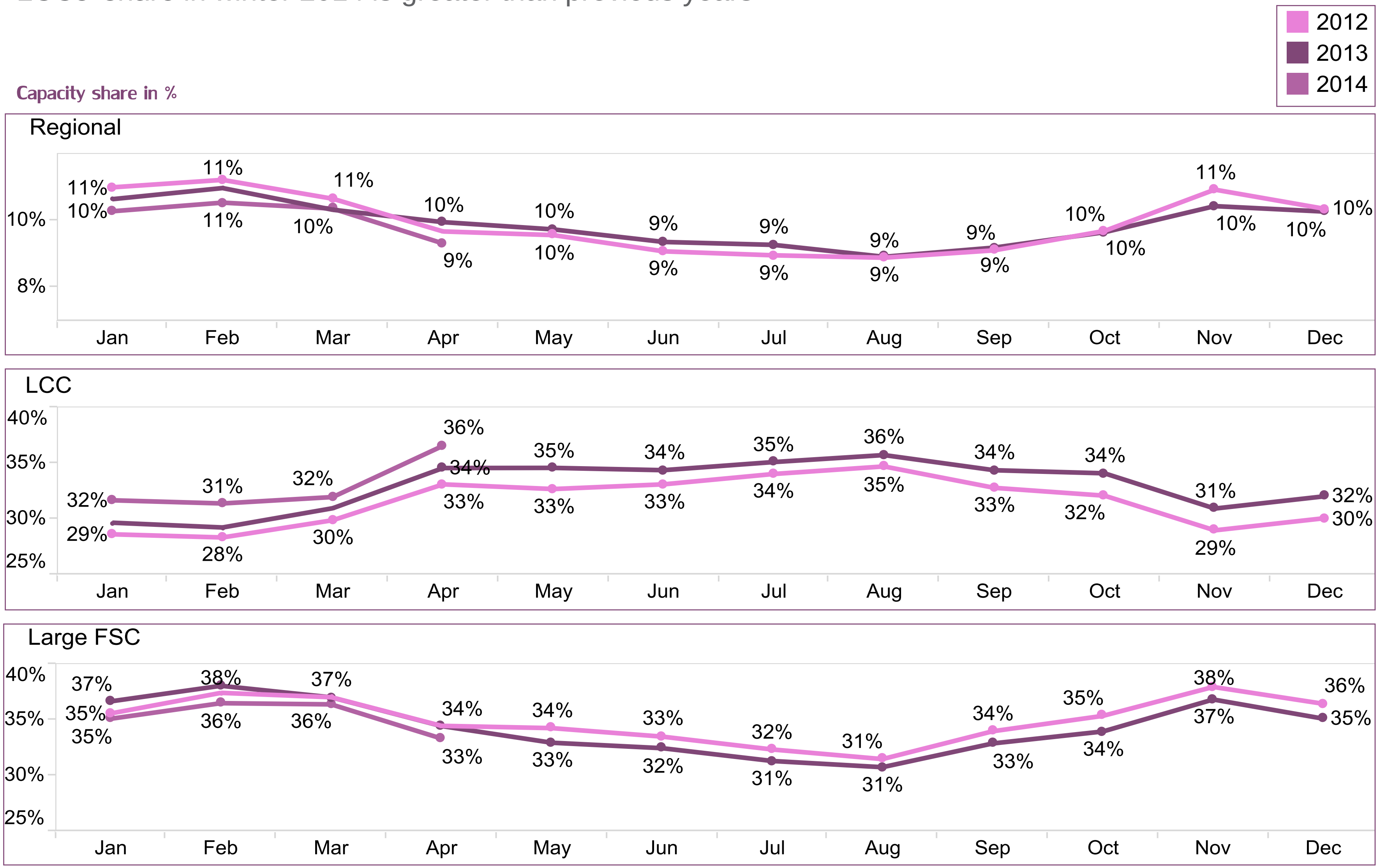




Note: Intra-European market operated by European airlines only.
Source: Innovata, March 2014 load, surface transportation excluded.

Regionals' relative share of winter seats are being diluted

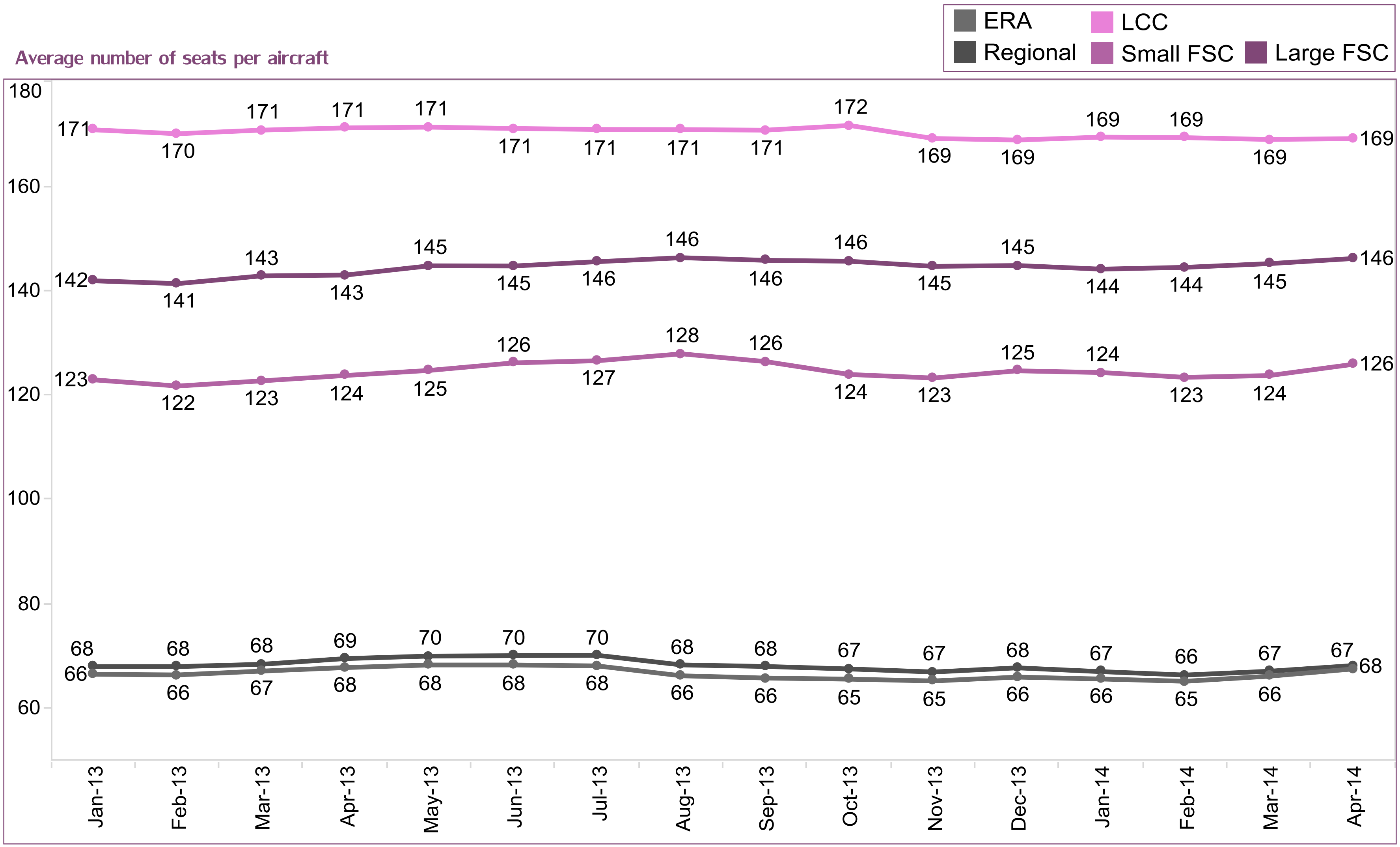
LCCs' share in winter 2014 is greater than previous years



Note: Intra-European market operated by European airlines only.
Source: Innovata, March 2014 load, surface transportation excluded.

Smaller aircraft gauge deployed by regionals and ERA carriers

Regional carriers continue to offer significantly lower gauge aircraft compared to other business models

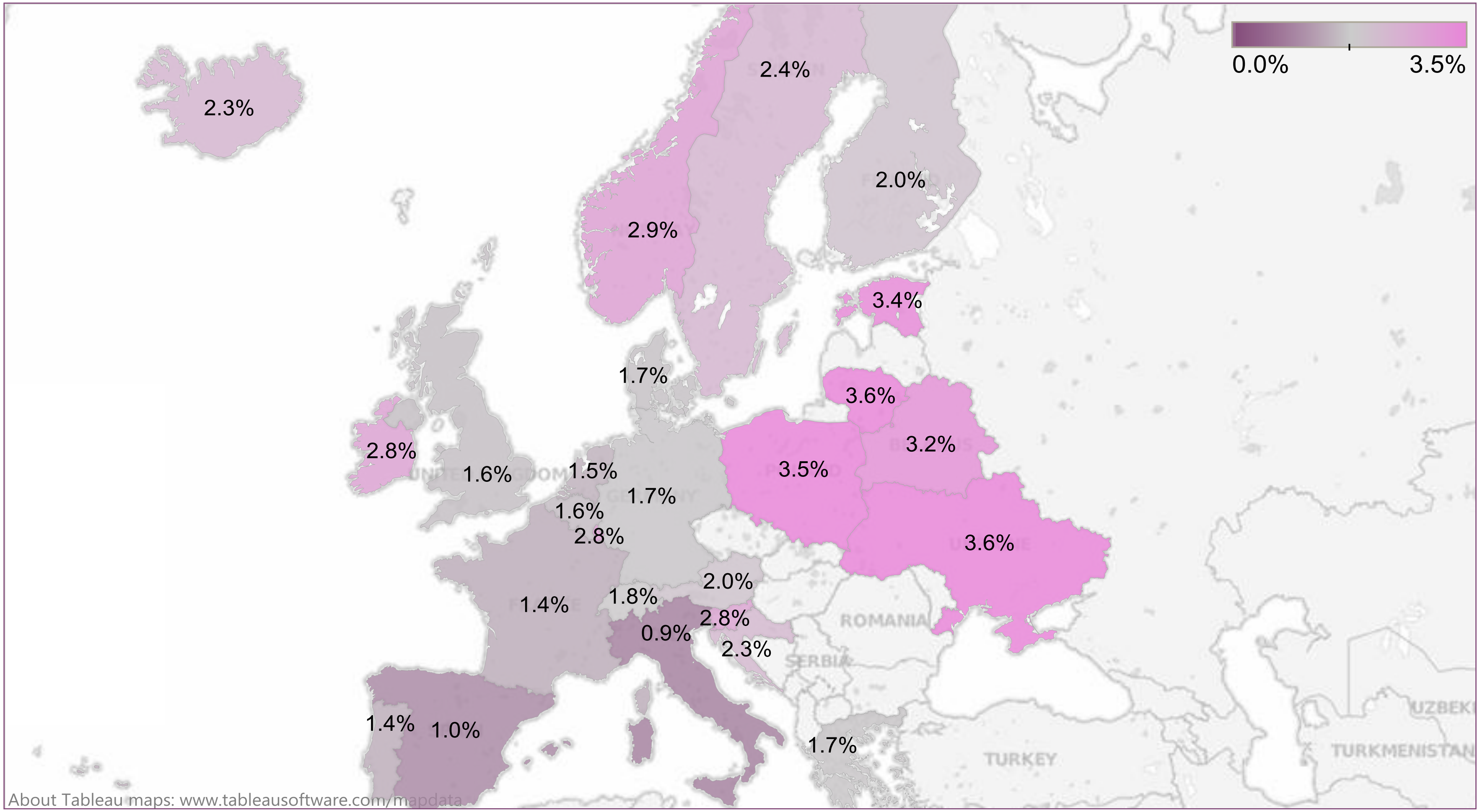


Note: Intra-European market operated by European airlines only; cargo flights excluded.
Source: Innovata, March 2014 load, surface transportation excluded.

Growth outlook in ERA's members' countries

Between 2013 and 2021, the European economy is forecasted to grow at 2% Compounded Annual Growth Rate (CAGR); the fastest growth is expected in Eastern Europe

GDP CAGR (2013 – 2021)



Note: Belarus GDP CAGR has been calculated based on 2013 - 2014 and Luxembourg and Iceland CAGR based on 2013 – 2017 available data.
Source: EIU - Real GDP (US$ at 2005 prices) forecast of 2013 - 2021.

Part 3: Summer 2014 Outlook

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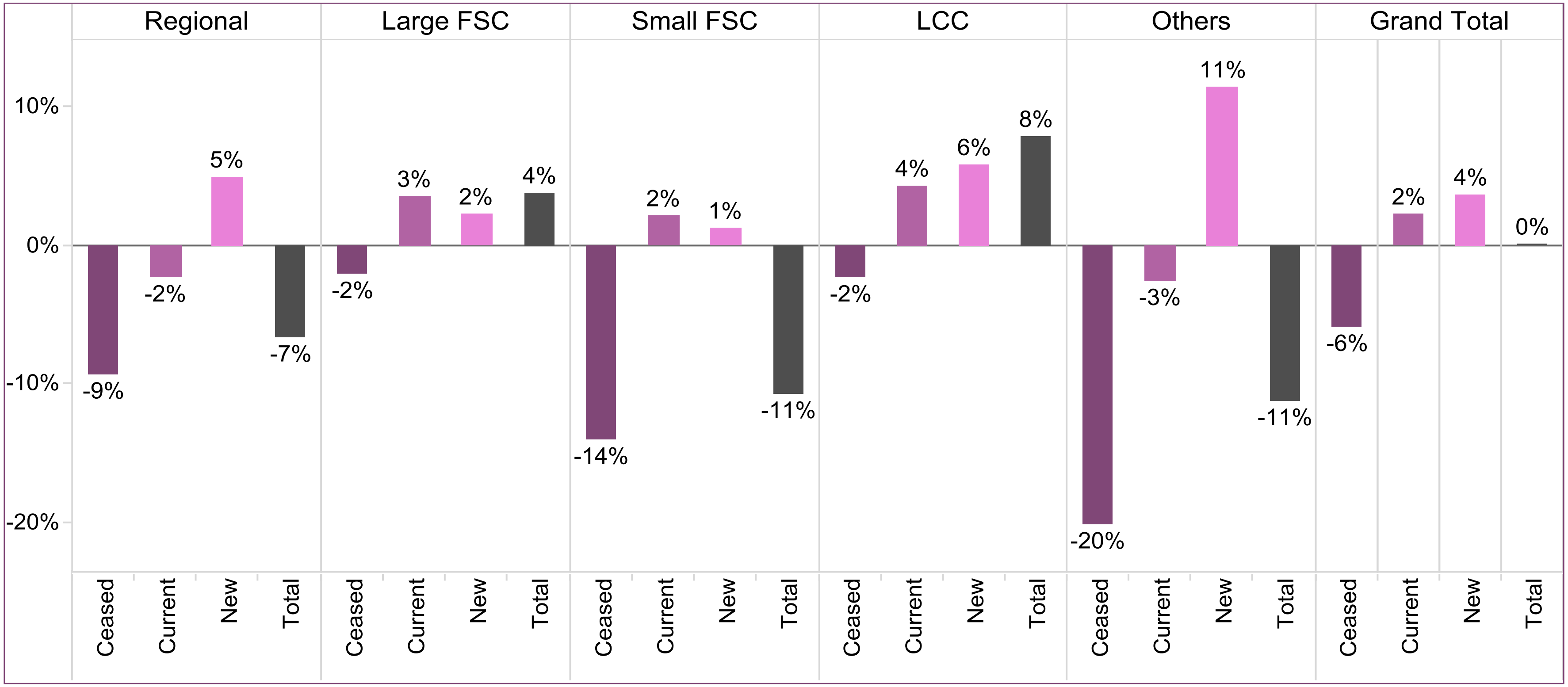
Intra-European domestic market maintains its capacity

Regionals and small FSCs are planning reduced capacity in Summer 2014; large FSCs and LCCs are growing by 4% and 8% respectively.

Domestic capacity % changes (Summer 2013 versus Summer 2014)



Seats Summer 2014

26m	64m	25m	43m	3m	161m

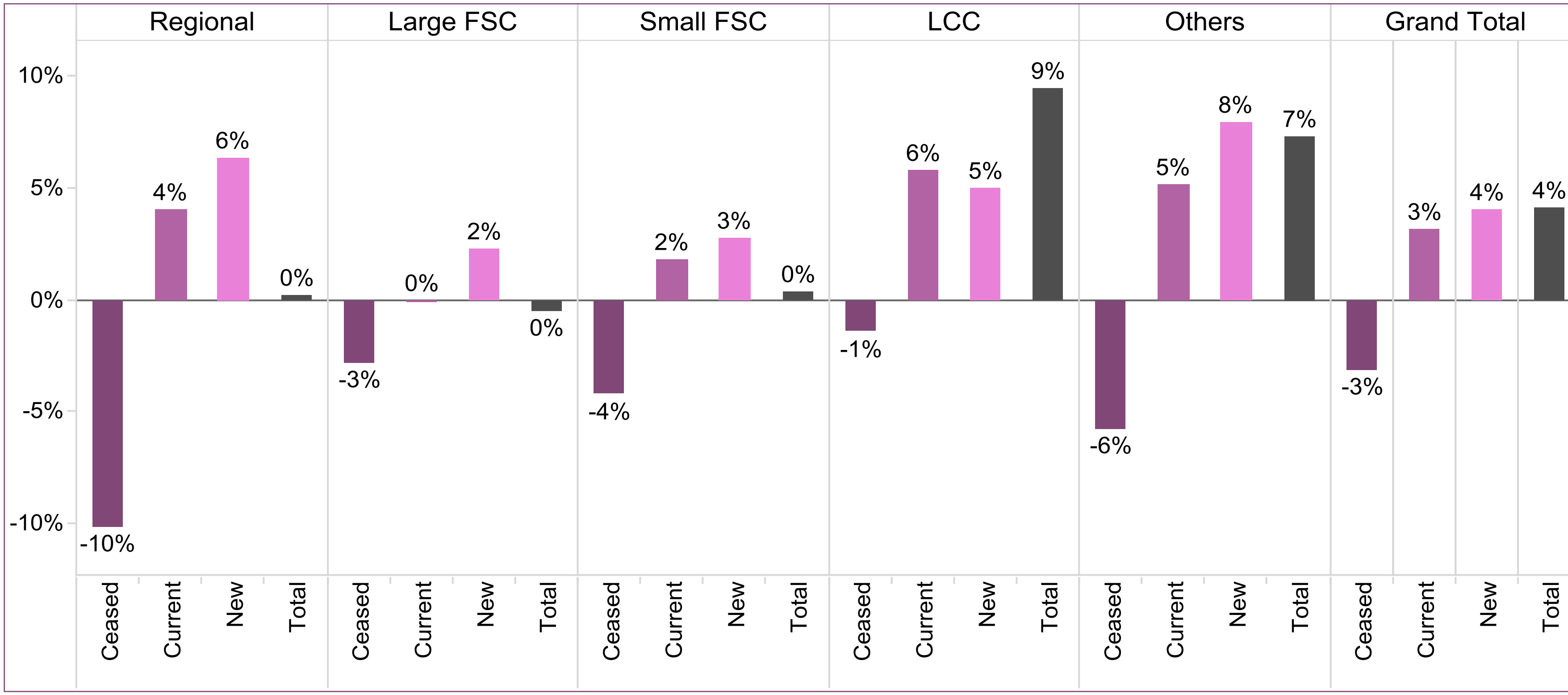
Note: Intra-European market operated by European airlines only. Further publication of off-peak operations is anticipated so these figures are subject to change
Source: Innovata, March 2014 load, surface transportation excluded; Ryanair Jun-Dec 2014 schedule corrected with LY schedules.

Intra-European international market grows by 4%

INDICATIVE

Capacity for regional and full service carriers remain essentially unchanged in Summer 2014 versus Summer 2013; LCCs are increasing their international capacity by 9%.

International capacity % changes (Summer 2013 versus Summer 2014)



Seats Summer 2014

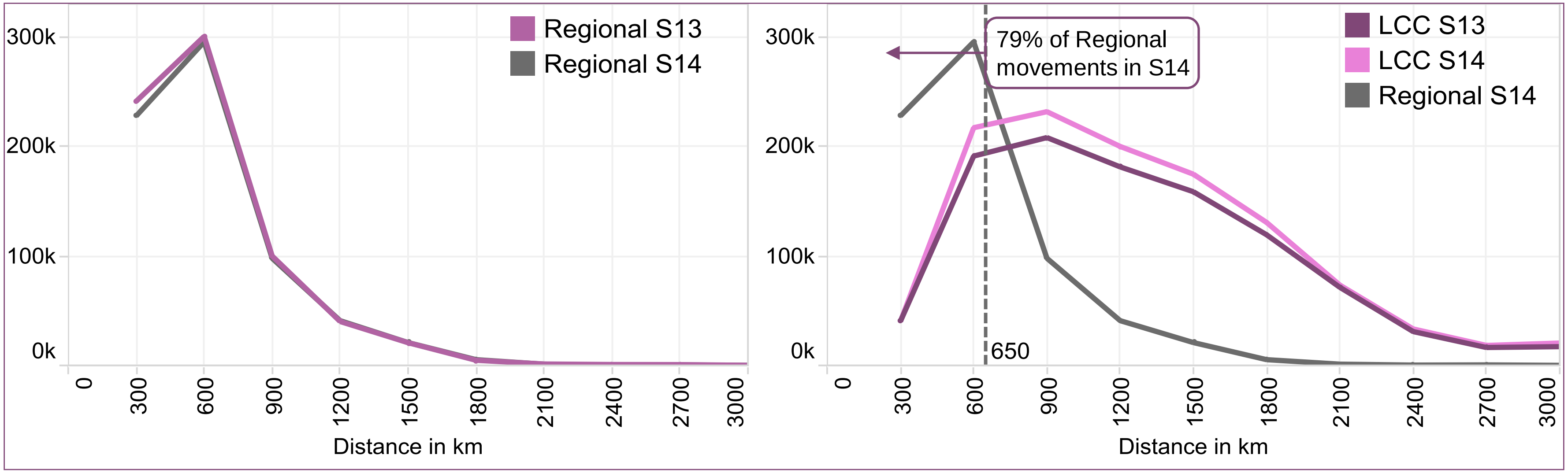
21m	107m	68m	153m	25m	374m

Note: Intra-European market operated by European airlines only. Further publication of off-peak operations is anticipated so these figures are subject to change
Source: Innovata, March 2014 load, surface transportation excluded; Ryanair Jun-Dec 2014 schedule corrected with LY schedules.

Regionals' and LCCs' flight distribution are unchanged

In Summer 2014, LCCs are planning to expand evenly on shorter as well as longer sectors (+11% and +10% respectively in terms of flights).

Total movements per sector length



		% share (flights)				% growth (flights)	
		Regionals S13	LCC S13	Regionals S14	LCC S14	Reg'ls S13 - S14	LCC S13 - S14
<= 650 km	0 - 300 km	34%	4%	33%	3%	-6%	0%
	300 - 650 km	45%	20%	46%	21%	-1%	13%
	Total	79%	24%	79%	24%	-3%	11%
Above 650 km	650 - 900 km	11%	17%	11%	18%	-3%	11%
	900 - 1200 km	6%	17%	6%	17%	2%	10%
	1200 - 1500 km	3%	15%	3%	15%	0%	10%
	> 1500 km	1%	26%	1%	26%	-6%	9%
	Total	21%	76%	21%	76%	-2%	10%

Note: Intra-European market operated by European airlines only. Further publication of off-peak operations is anticipated so these figures are subject to change
Source: Innovata, March 2014 load, surface transportation excluded; Ryanair Jun-Dec 2014 schedule corrected with LY schedules.

INDICATIVE

Competitive overview

Currently loaded Summer 2014 schedules indicate reductions in routes

% changes (S13 vs. S14)

	Regional	ERA	LCC	Large FSC
Routes	-11%	-11%	-1%	-7%
Seats	-4%	-5%	9%	1%
Flights	-3%	-6%	10%	0%
Avg. Route Capacity	8%	7%	10%	9%
Avg. Route Frequency	9%	7%	11%	8%
Gauge	-1%	1%	-1%	1%

Routes with capacity share ≥ 75%

	Regional	ERA	LCC	Large FSC
S13	73%	69%	71%	50%
S14	74%	69%	70%	48%

Seats with capacity share ≥ 75%

	Regional	ERA	LCC	Large FSC
S13	69%	65%	58%	43%
S14	71%	68%	56%	42%

Regional / ERA members

- Decrease in number of routes, less significant drop in seats and frequencies
- Routes are thicker than before in seats and frequencies terms
- Higher number of routes and seats in monopoly, might be caused by Regionals leaving routes with high competition and strengthening routes with dominant position

LCC

- LCCs are strengthening their current operations; routes are thicker in terms of frequencies and seats
- Competitive mix is similar to regionals, but is slightly dropping (probably due to reinforcing current routes with higher level of competition)

Large FSC

- FSCs have reduced size of their portfolios keeping the same number of seats, flights and aircraft gauge
- Large FSCs are still in the process of reinforcing and consolidating

Note: Intra-European market operated by European airlines only. Further publication of operations is anticipated so these figures are subject to change
Source: Innovata, March 2014 load, surface transportation excluded; Ryanair Jun-Dec 2014 schedule corrected with LY schedules.

Country-to-country seat capacity forecast

INDICATIVE

Top 15 country-to-country flows based on total seat capacity in Summer 2014

Cap Growth
-30% 30%

Capacity growth (Summer 2013 versus Summer 2014)

	United Kingdom	Spain	Germany	Italy	France	Russia - European	Norway	Greece	Netherlands	Sweden	Switzerland	Portugal	Denmark	Belgium	Austria	Others
United Kingdom	-10%	4%	-3%	6%	2%	-3%	-2%	10%	4%	-2%	6%	8%	2%	2%	20%	4%
Spain	4%	3%	6%	4%	10%	-2%	-1%	21%	4%	5%	3%	-3%	3%	29%	9%	3%
Germany	-3%	6%	3%	4%	-2%	0%	-5%	17%	3%	-5%	-2%	4%	11%	-4%	3%	0%
Italy	6%	4%	4%	0%	5%	-3%	-4%	17%	10%	-6%	1%	-4%	-8%	12%	13%	-2%
France	2%	10%	-2%	5%	-6%	0%	2%	43%	0%	-3%	3%	8%	-1%	11%	-8%	8%
Russia - European	5%	-2%	0%	-3%	0%	5%	7%	-10%	37%	12%	4%	-1%	12%	6%	1%	-4%
Norway	-2%	-1%	-5%	-4%	2%	7%	4%	13%	0%	9%	-5%	7%	-4%	1%	-5%	-3%
Greece	10%	22%	17%	17%	39%	-10%	14%	2%	12%	29%	21%		18%	75%	16%	14%
Netherlands	4%	3%	3%	10%	0%	37%	0%	15%	-12%	2%	2%	-6%	4%	20%	5%	7%
Sweden	-1%	6%	-5%	-6%	-3%	12%	10%	27%	2%	6%	9%	12%	11%	2%	-17%	6%
Switzerland	6%	3%	-3%	2%	3%	4%	-5%	21%	2%	9%	13%	3%	13%	1%	-3%	7%
Portugal	8%	-3%	3%	-4%	8%	-2%	7%		-5%	13%	3%	-1%	-11%	27%	13%	6%
Denmark	2%	4%	11%	-8%	-1%	12%	-4%	13%	4%	11%	13%	-11%	4%	-9%	-2%	2%
Belgium	2%	30%	-4%	12%	11%	6%	0%	68%	20%	2%	1%	28%	-5%	1263%	11%	12%
Austria	20%	9%	3%	13%	-8%	1%	-5%	16%	5%	-17%	-3%	13%	-2%	11%	-10%	5%
Others	4%	4%	0%	-2%	8%	-4%	-3%	13%	7%	6%	7%	5%	2%	12%	5%	4%

Note: Intra-European market operated by European airlines only; countries are ordered as per total capacity in S14. Further publication of operations is anticipated so these figures are subject to change
Source: Innovata, March 2014 load, surface transportation excluded; Ryanair Jun-Dec 2014 schedule corrected with LY schedules.

Glossary

european regions airline association

Regional carrier	Carrier with an average stage length less than 500 km or fleet without narrow-body and wide-body aircraft (turboprops and / or regional jets only)
Large full service carrier (Large FSC)	Carrier whose fleet has more than 50 wide-body aircraft or more than 100 aircraft, including at least 1 wide-body
Small full service carrier (Small FSC)	Carrier whose fleet contains at least one wide-body aircraft but less than 100 total aircraft
Low cost carrier (LCC)	Any other carrier operating scheduled services with low-emphasis on its product
Domestic market	Origin and destination are located inside the same country
International market	Origin and destination are situated in different countries
CAGR	Compounded Annual Growth Rate
ERA member	All current ERA members who report data to Innovata (full list available on request)

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