

State of the region: Europe

April 2020

Economy

GDP growth, selected economies

% change on a year ago	2019	Q2 2019	Q3 2019	Q4 2019
Germany	0.6	0.3	0.6	0.5
Russia	1.3	1.1	1.5	2.1
France	1.3	1.5	1.5	0.9
UK	1.4	1.3	1.3	1.1
Italy	0.3	0.4	0.5	0.1
Spain	2.0	2.0	1.9	1.8
Turkey	0.9	-1.6	1.0	6.0
Israel	3.4	3.2	3.5	3.7
Euro zone	1.2	1.2	1.3	1.0
Eastern Europe†	2.8	2.8	2.8	3.0
World*	2.6	2.6	2.5	2.5

Source: Datastream * Market exchange rate basis † Forecast since Q1 2019

Exchange rates

end of period, # per US\$	2019	Jan-20	Feb-20	Mar-20
US\$ broad index	114.7	115.8	117.8	122.8
European euro (EUR)	0.89	0.90	0.91	0.91
Russian ruble (RUB)	62.11	63.91	67.20	78.13
British pound (GBP)	0.75	0.76	0.78	0.81
Turkish lira (TRY)	5.95	5.98	6.25	6.59
Israeli shekel (ILS)	3.45	3.45	3.49	3.54

Source: Datastream

World oil and jet fuel price

US\$/barrel (period ave.)	2019	Jan-20	Feb-20	Mar-20
Crude oil (Brent)	64.2	63.9	55.7	33.9
Jet fuel	79.6	76.2	65.1	40.1

Source: Platts, Datastream (monthly average data)

Market

Revenue passenger kilometers (RPKs)

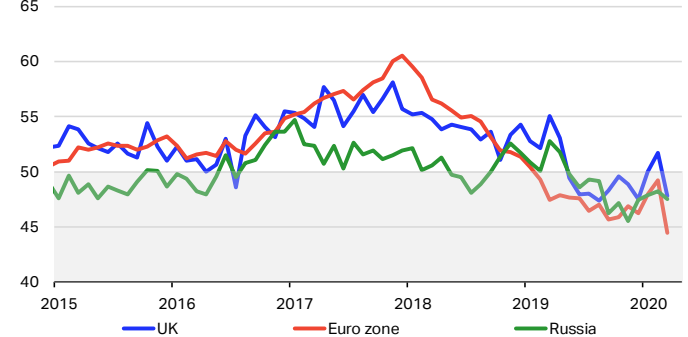
% change on a yr ago	2019	Dec-19	Jan-20	Feb-20
Region (registration basis)				
Europe	4.3	2.5	1.6	0.7
World	4.2	4.5	2.5	-14.1
Routes (segment basis)				
Russia domestic	6.7	3.0	4.3	7.7
Within Europe	5.6	4.9	3.8	6.2
Europe - North America	4.3	8.0	6.3	8.6
Europe - Asia	6.6	5.1	4.1	-20.4
Europe - Middle East	4.4	9.0	7.2	4.4
Europe - Africa	4.5	-3.3	1.3	2.4
Europe - South America	8.0	3.3	3.2	5.1

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

- Industry-wide revenue passenger kilometres (RPKs) contracted by 14.1%yoy in February as the COVID-19 outbreak weighed significantly on the China and Asia-Pacific markets in particular.
- The European carriers posted year-on-year growth of just 0.7% in February – the worst outcome in a decade.

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



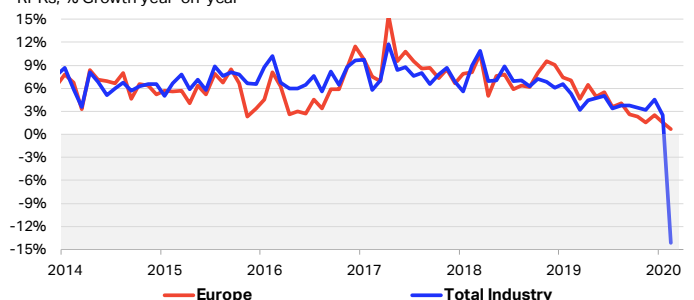
Source: Markit

- Business confidence deteriorated across the three key economies that we regularly track for the region as manufacturers struggled with restrictive measures resulting from the COVID-19 crisis.
- The virus also impacted March's FX movements. The US\$ strengthened by a significant 4.3%, reflecting high demand for dollar liquidity. All of the key regional currencies fell against the US\$, most notably the RUB (down 16.3%).
- The monthly average jet fuel and crude oil price plunged by ~40% in March amidst the negative impact of COVID-19 on global demand along with the oil price war between Saudi Arabia and Russia.

- The slowdown was driven by routes to/from Asia, where the growth rate slowed by 25ppts compared with January. The Within Europe market expanded solidly (+6.2%yoy) despite initial flight suspensions on routes to/from Italy.
- Of the other key routes for the region, Russian domestic RPKs increased by 7.7%yoy (an 8-month high) and passenger volumes picked up by a robust 8.6% on Europe-Nth.Am routes.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Cargo tonne kilometers (CTKs)

% change on a yr ago	2019	Dec-19	Jan-20	Feb-20
Region (registration basis)				
Europe	-1.9	-1.4	-4.2	-4.1
World	-3.2	-1.6	-3.9	-1.4
Routes (segment basis)				
Europe - Asia	-1.6	0.6	-2.7	-6.4
Europe - North America	-2.5	-4.4	-1.6	5.8
Europe - Middle East	-5.2	-2.4	-3.2	3.7
Europe - Africa	-1.7	-5.3	-6.4	-0.1
Europe - South America	-3.1	-7.0	-1.9	2.5
Within Europe	-0.9	2.6	-1.9	-7.8

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

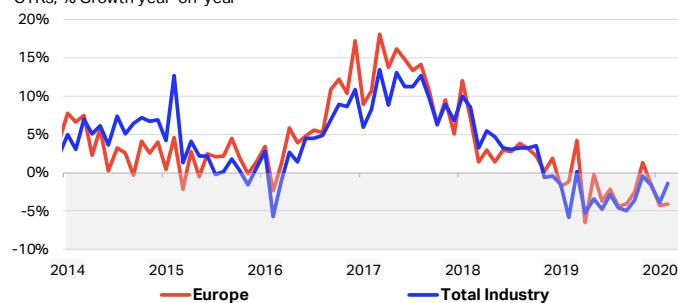
- Industry-wide cargo tonne kilometres were 1.4% lower than their level of February 2019. However, this relatively moderate decline largely reflects the weak outcome observed a year ago. Indeed, in month-on-month terms, CTKs fell by 9.1% amid the virus crisis.
- European carriers reported a 4.1% annual drop in cargo volumes in February, similar to the outcome for

January. The European airlines were amongst the first to cancel flights to and from Asia (down 6.4%yoy), which contributed to the weaker performance – along with disrupted global supply chains.

- Growth developments were mixed across the remaining regional markets. CTKs recovered on Europe-Nth.Am (5.8%yoy) and Europe-ME routes (3.7%yoy) while CTKs in the smaller Within Europe market declined further (down 6ppts to -7.8%yoy).

Growth in air cargo volumes

CTKs, % Growth year-on-year



Source: IATA Statistics

Industry

Capacity growth and load factors

ASK/ACTK: %ch on a yr ago,		2019	Dec-19	Jan-20	Feb-20
LF: % of ASK/ACTK					
Passenger					
Europe	ASK	3.6	0.2	-0.6	1.2
	PLF	85.2	83.0	81.6	81.3
World	ASK	3.4	2.2	1.7	-8.7
	PLF	82.6	82.2	80.4	75.9
Cargo					
Europe	ACTK	3.4	3.9	-1.7	-3.8
	CLF	51.6	53.3	49.2	53.1
World	ACTK	2.3	4.2	0.8	-4.4
	CLF	46.7	46.6	44.7	46.4

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

- With RPKs falling at almost twice the rate of capacity, the industry-wide passenger load factor (PLF) dropped by 4.8ppts yoy, to 75.9%. That said, the PLF recorded by European airlines in March seemed largely unaffected by the outbreak, remaining close to the record-high outcome for the month of February.
- The cancellation of passenger flights due to COVID-19 removed considerable bellyhold capacity from the cargo market. With ACTKs falling faster than CTKs, the industry-wide cargo LF picked up by 1.5ppts vs a year ago. European carriers posted a CLF 0.2ppts lower than the level of a year ago.

Airline operating (EBIT) margins*

% revenues	2018	2019E	2018Q4	2019Q4
Europe	6.2	4.7	2.5	3.7
Industry	5.7	5.1	5.9	7.0

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

- The Q4 2019 airline financial data show a slightly higher industry-wide profit result ahead of the COVID-19 outbreak. At the regional level, the EBIT margin rose by 1.2ppts to 3.7% of revenues.
- Annual growth in base passenger yields either slowed or remained negative in February across the key markets for the region. Yield growth halved for both the Russia domestic and Within Europe markets compared with January, and turned negative for the Europe-Nth.Am routes (down 1.5%yoy).

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

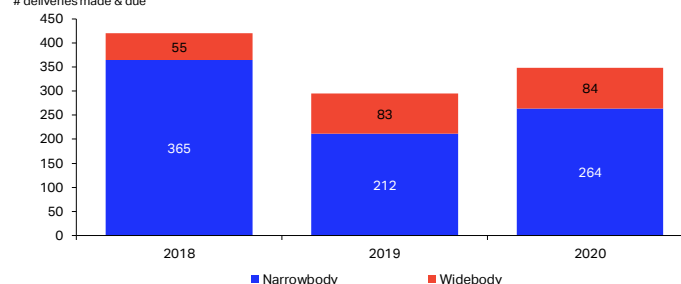
% change on a yr ago	2019	Dec-19	Jan-20	Feb-20
Russia domestic	-5.4	8.7	8.3	3.9
Within Europe	-6.7	1.6	1.5	0.8
Europe - North America	-3.9	-0.4	0.5	-1.5
Europe - Asia	-7.9	-6.0	-4.3	-5.2
Europe - Middle East	-5.8	-7.3	-2.2	-1.9
Europe - Africa	-7.3	-0.9	-1.4	-1.0
Europe - South America	-15.1	-5.3	-5.5	-2.1

Source: DDS Note: historical data may be subject to revision

- The latest data point to an increase in scheduled jet aircraft deliveries for European carriers in 2020 vs 2019, driven by orders of narrow-body aircraft.

Aircraft deliveries to Europe (as of Apr 2020)

deliveries made & due



Source: Cirium