

# State of the region: Europe

December 2019

## Economy

### GDP growth, selected economies

| % change on a yr ago | 2018       | Q1 2019    | Q2 2019    | Q3 2019    |
|----------------------|------------|------------|------------|------------|
| Germany              | 1.5        | 1.0        | 0.3        | 0.5        |
| Russia               | 2.3        | 0.5        | 0.9        | 1.7        |
| France               | 1.7        | 1.3        | 1.4        | 1.4        |
| UK                   | 1.4        | 2.1        | 1.3        | 1.0        |
| Italy                | 0.7        | 0.0        | 0.1        | 0.3        |
| Spain                | 2.4        | 2.2        | 2.0        | 2.0        |
| Turkey               | 2.8        | -2.3       | -1.6       | 0.9        |
| Israel               | 3.7        | 3.2        | 3.0        | 3.3        |
| Euro zone            | 1.9        | 1.4        | 1.2        | 1.2        |
| <b>World*</b>        | <b>3.2</b> | <b>2.7</b> | <b>2.5</b> | <b>2.5</b> |

Source: Datastream \* Market exchange rate basis † Estimate

### Exchange rates

| end of period, # per US\$ | 2018  | Sep-19 | Oct-19 | Nov-19 |
|---------------------------|-------|--------|--------|--------|
| US\$ broad index          | 128.5 | 130.8  | 130.2  | 129.9  |
| European euro (EUR)       | 0.87  | 0.92   | 0.90   | 0.91   |
| Russian ruble (RUB)       | 69.37 | 64.88  | 64.07  | 64.27  |
| British pound (GBP)       | 0.79  | 0.81   | 0.77   | 0.77   |
| Turkish lira (TRY)        | 5.29  | 5.65   | 5.71   | 5.74   |
| Israeli shekel (ILS)      | 3.74  | 3.48   | 3.52   | 3.47   |

Source: Datastream

### World oil and jet fuel price

| US\$/barrel (period ave.) | 2018 | Sep-19 | Oct-19 | Nov-19 |
|---------------------------|------|--------|--------|--------|
| Crude oil (Brent)         | 71.7 | 62.4   | 59.6   | 62.7   |
| Jet fuel                  | 86.4 | 79.8   | 78.7   | 78.2   |

Source: Platts, Datastream (monthly average data)

## Market

### Revenue passenger kilometers (RPKs)

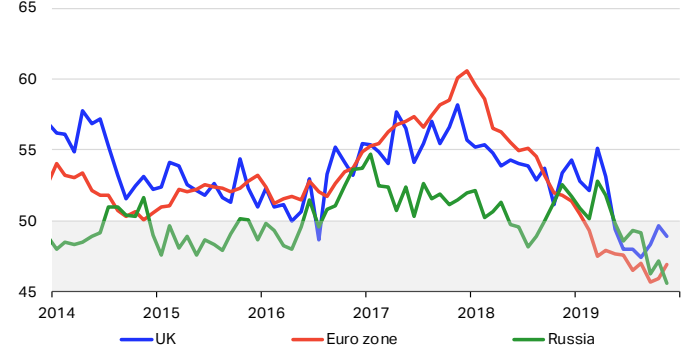
| % change on a yr ago               | 2018 | Aug-19 | Sep-19 | Oct-19 |
|------------------------------------|------|--------|--------|--------|
| <b>Region (registration basis)</b> |      |        |        |        |
| Europe                             | 7.5  | 4.1    | 2.9    | 2.2    |
| World                              | 7.3  | 3.8    | 3.9    | 3.4    |
| <b>Routes (segment basis)</b>      |      |        |        |        |
| Russia domestic                    | 10.6 | 6.0    | 3.2    | 5.6    |
| Within Europe                      | 8.4  | 6.4    | 5.4    | 5.4    |
| Europe - North America             | 4.5  | 4.8    | 5.2    | 6.2    |
| Europe - Asia                      | 7.1  | 6.0    | 5.2    | 6.6    |
| Europe - Middle East               | 4.9  | 4.7    | 4.9    | 9.0    |
| Europe - Africa                    | 7.4  | 6.4    | 5.3    | 4.2    |
| Europe - South America             | 8.5  | 8.9    | 8.2    | 7.3    |

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

- Industry-wide revenue passenger kilometres (RPKs) grew by 3.4% year-on-year in October – down from 3.9% in September due to a weaker performance from domestic markets.
- Airlines based in Europe flew 2.2% more RPKs than in October 2018, which represents the weakest outcome in more than six years. In part, this reflects faltering business confidence compounded with recent labor disputes and the collapse of a number of airlines.

### Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



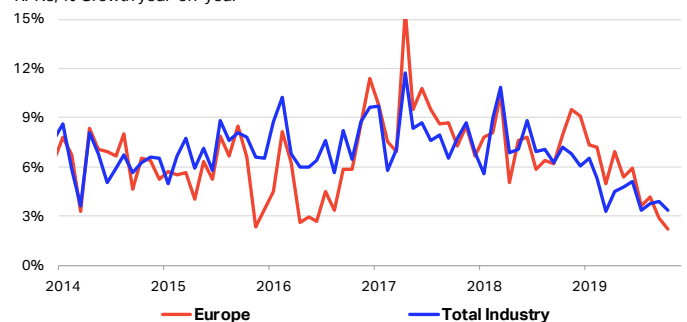
Source: Markit

- Business confidence remained weak in November for the three key regional markets we regularly track. While Russia's business sentiment reflected weaker demand, the UK's outcome mainly stemmed from uncertainty around the general election. Despite improvement in some recent indicators, the business environment continues to be challenging in the Eurozone.
- The trade weighted US\$ index eased for the second consecutive month, down 0.2%. Of the main regional currencies, the ILS gained 1.5% against the US\$ while the EUR ended the month down 1.2%.
- While the average monthly jet fuel price stabilized in November, the crude oil price picked up a little, ahead of the recent OPEC meeting.

- Ongoing network expansion continues to support passenger volumes in domestic Russia where RPKs grew by 5.6% year-on-year in October.
- Despite the slowdown recorded by European carriers, overall, RPK growth picked up on a number of the key international routes for the region. The Europe-Middle East market was the best performer this month with RPKs up by 9%yoy – almost double the pace recorded in September.

### Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

## Freight tonne kilometers (FTKs)

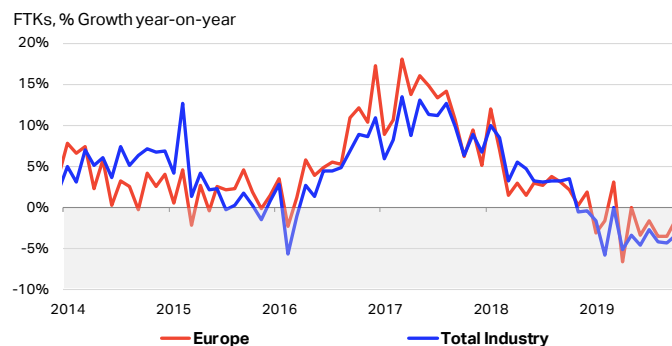
| % change on a yr ago               | 2018 | Aug-19 | Sep-19 | Oct-19 |
|------------------------------------|------|--------|--------|--------|
| <b>Region (registration basis)</b> |      |        |        |        |
| Europe                             | 3.2  | -3.5   | -3.5   | -1.5   |
| World                              | 3.7  | -4.3   | -4.4   | -3.5   |
| <b>Routes (segment basis)</b>      |      |        |        |        |
| Europe - Asia                      | 1.1  | -3.4   | -0.8   | -1.1   |
| Europe - North America             | 3.3  | -3.9   | -5.5   | -2.4   |
| Europe - Middle East               | 3.7  | -7.7   | -9.8   | -7.9   |
| Europe - Africa                    | 0.0  | -2.1   | -7.2   | -3.3   |
| Europe - South America             | 9.1  | -6.0   | -1.7   | -4.7   |
| Within Europe                      | 8.5  | 1.6    | 5.6    | 7.9    |

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

- Industry-wide freight tonne kilometres (FTKs) decreased by 3.5% in October 2019 compared to a year ago. This represents the 12th consecutive month of annual decline. That said, recent monthly outcomes show a stabilization in air freight volumes.
- For Europe, freight volumes remained lower compared to a year ago (-1.5%yoy), although to a lesser extent than previously. This is partly due to the better-than-expected Q3 GDP figures in several large economies.

- The slower pace of annual decline was reflected in stabilization or improvement across the larger international routes. Indeed, the Europe-Asia market contracted by 1.1%yoy, broadly unchanged from Sept, while Eur-NthAm reported a 2.4% annual decline – the slowest contraction in the past six months.
- The smaller Within Europe market remained the best performer this month, with FTK growth improving by 2.3ppt in October, to 7.9% year-on-year.

## Growth in air freight volumes



Source: IATA Statistics

## Industry

### Capacity growth and load factors

| ASK/AFTK: %ch on a yr ago, |      | 2018 | Aug-19 | Sep-19 | Oct-19 |
|----------------------------|------|------|--------|--------|--------|
| LF: % of ASK/AFTK          |      |      |        |        |        |
| <b>Passenger</b>           |      |      |        |        |        |
| Europe                     | ASK  | 6.5  | 3.9    | 3.0    | 1.4    |
|                            | PLF  | 84.7 | 88.9   | 86.3   | 85.5   |
| World                      | ASK  | 6.8  | 3.5    | 3.4    | 2.2    |
|                            | PLF  | 82.0 | 85.6   | 81.9   | 82.0   |
| <b>Freight</b>             |      |      |        |        |        |
| Europe                     | AFTK | 3.3  | 3.5    | 3.5    | 2.8    |
|                            | FLF  | 54.4 | 47.5   | 49.8   | 53.3   |
| World                      | AFTK | 5.2  | 2.4    | 2.6    | 2.2    |
|                            | FLF  | 49.3 | 44.2   | 46.3   | 47.7   |

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

- The industry-wide passenger load factor (PLF) reached a new all-time October high as RPKs continued to grow faster than capacity. On the freight side, the load factor (FLF) eased by 2.8ppt vs a year ago, to 47.7%.
- Carriers based in Europe posted a record high PLF for the month, up 0.7ppt vs a year ago. For freight, the load factor outperformed the industry-wide outcome but remained more than 2ppt below the last year's result.
- The latest Q3 2019 airline financial data point to a modest improvement in industry-wide financial performance on the back of better performance in North America. At the regional level, the EBIT margin fell modestly by 0.5ppt vs Q3 2018, to 17%.

### Airline operating (EBIT) margins\*

| % revenues | 2017 | 2018 | 2018Q3 | 2019Q3 |
|------------|------|------|--------|--------|
| Europe     | 7.9  | 6.2  | 17.5   | 17.0   |
| Industry   | 7.5  | 5.7  | 12.7   | 13.2   |

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

- Developments in passenger yields were mixed across the key markets in the region. Growth in yields picked up sharply (by 6.6ppt) in the domestic Russia market, supported by improving demand, and returned to positive territory for the Within-Europe market. By contrast, yields contracted further in annual terms on Europe-Asia routes (now down 8.7%).

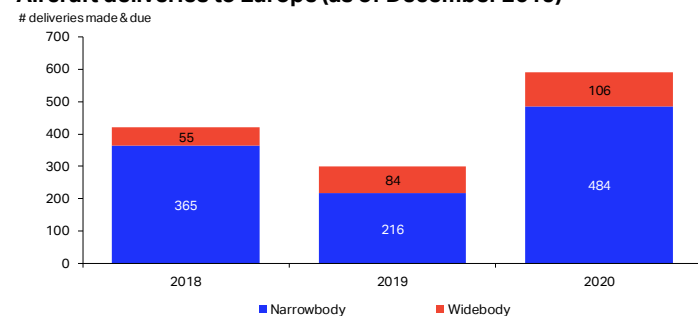
### Passenger yields (US\$, excl. surcharges & ancillaries)

| % change on a yr ago   | 2018 | Aug-19 | Sep-19 | Oct-19 |
|------------------------|------|--------|--------|--------|
| Russia domestic        | -5.9 | -2.7   | -0.2   | 6.4    |
| Within Europe          | 4.3  | -2.4   | -1.5   | 0.3    |
| Europe - North America | 5.3  | -4.4   | -2.4   | -3.9   |
| Europe - Asia          | 0.9  | -7.9   | -8.4   | -8.7   |
| Europe - Middle East   | 3.2  | -5.0   | -7.9   | -5.4   |
| Europe - Africa        | 3.7  | -5.0   | -6.9   | -4.0   |
| Europe - South America | -1.2 | -15.4  | -11.7  | -10.0  |

Source: IATA Travel Intelligence Note: historical data may be subject to revision

- The latest data point to a near-doubling of scheduled jet aircraft deliveries for European carriers in 2020 vs 2019, which will be driven by orders of narrowbody aircraft (up 124% vs 2019).

### Aircraft deliveries to Europe (as of December 2019)



Source: Ascend