

# State of the region: Europe

February 2020

## Economy

### GDP growth, selected economies

% change on a yr ago	2018	Q2 2019	Q3 2019	Q4 2019
Germany	1.5	0.3	0.6	0.5
Russia	2.3	0.9	1.7	--
France	1.7	1.5	1.4	0.8
UK	1.3	1.3	1.2	1.1
Italy	0.7	0.2	0.5	0.0
Spain	2.4	2.0	1.9	1.8
Turkey	2.8	-1.6	0.9	--
Israel	3.7	3.1	3.5	3.8
Euro zone	1.9	1.2	1.2	0.9
<b>Eastern Europe†</b>	<b>3.4</b>	<b>2.7</b>	<b>2.9</b>	<b>2.7</b>
<b>World*</b>	<b>3.2</b>	<b>2.6</b>	<b>2.5</b>	<b>2.5</b>

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

### Exchange rates

end of period, # per US\$	2019	Nov-19	Dec-19	Jan-20
US\$ broad index	114.7	117.1	114.7	115.8
European euro (EUR)	0.89	0.91	0.89	0.90
Russian ruble (RUB)	62.11	64.27	62.11	63.91
British pound (GBP)	0.75	0.77	0.75	0.76
Turkish lira (TRY)	5.95	5.74	5.95	5.98
Israeli shekel (ILS)	3.45	3.47	3.45	3.45

Source: Datastream

### World oil and jet fuel price

US\$/barrel (period ave.)	2019	Nov-19	Dec-19	Jan-20
Crude oil (Brent)	64.2	62.7	65.3	63.9
Jet fuel	79.6	78.2	80.1	76.2

Source: Platts, Datastream (monthly average data)

## Market

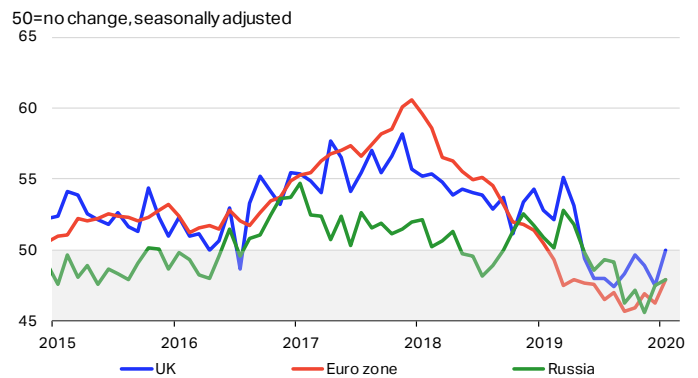
### Revenue passenger kilometers (RPKs)

% change on a yr ago	2019	Oct-19	Nov-19	Dec-19
<b>Region (registration basis)</b>				
Europe	4.2	2.0	1.4	2.5
World	4.2	3.4	3.3	4.5
<b>Routes (segment basis)</b>				
Russia domestic	6.7	5.6	2.4	3.0
Within Europe	5.7	3.2	4.1	5.6
Europe - North America	4.3	3.4	4.1	8.0
Europe - Asia	6.6	6.3	6.2	5.1
Europe - Middle East	4.3	8.2	9.4	9.0
Europe - Africa	4.5	-1.7	0.2	-3.3
Europe - South America	8.0	7.4	6.7	3.3

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

- Industry-wide revenue passenger kilometres (RPKs) expanded by 4.2% in 2019 as a whole, down from 7.3% in the previous year amidst slower economic growth and weaker international trade.
- European airlines posted a significant slowdown in RPK growth this year (4.2% vs 7.5% in 2018) amid weaker economic backdrop, declining business confidence, industrial disputes (strikes), and airline collapses.

### Business confidence - manufacturing PMIs

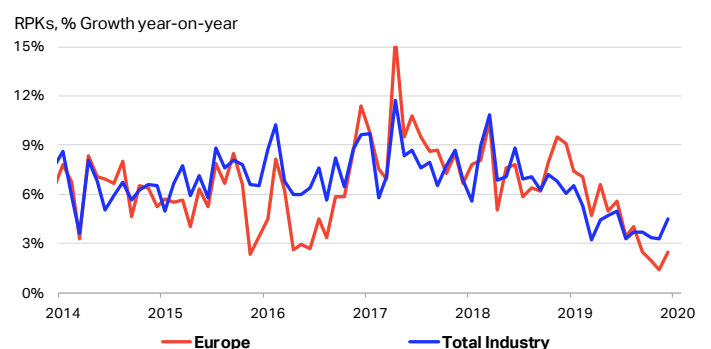


Source: Markit

- Business confidence in Europe started the year on a positive note, ticking up across the three key markets that we regularly track. Despite that, it remained firmly in the territory associated with deterioration in manufacturing sector for Eurozone and Russia.
- The US\$ broad index ended the month up ~1%. Of the key regional currencies, the RUB was the main mover, losing almost 3% against the US\$, followed by the EUR (down 1.4%).
- Following the uptick in December, the average jet fuel and crude oil price declined again last month due to the concerns about the impact of the coronavirus outbreak on global oil demand.

- Although Russian carriers recorded the second fastest RPK expansion of the key domestic markets that we track this year (6.7%), the pace was still 4ppt slower compared to 2018.
- Pax demand growth slowed also across the other key regional markets in 2019, most notably in the smaller Europe-Africa market (down ~3.5ppt vs 2018). By contrast, the larger Eur-NthAm and Eur-Asia markets expanded still solidly (pace slower by modest ~0.5ppt).

### Growth in air passenger volumes



Source: IATA Statistics

## Freight tonne kilometers (FTKs)

% change on a yr ago	2019	Oct-19	Nov-19	Dec-19
<b>Region (registration basis)</b>				
Europe	-1.8	-2.4	1.4	-1.1
World	-3.3	-3.7	-1.1	-2.7
<b>Routes (segment basis)</b>				
Europe - Asia	-1.9	-1.1	1.9	-1.5
Europe - North America	-3.1	-2.4	-1.0	-6.2
Europe - Middle East	-5.2	-7.9	-5.7	-2.2
Europe - Africa	-1.9	-3.3	-4.9	-8.3
Europe - South America	-3.1	-4.6	-6.2	-7.0
Within Europe	3.0	8.2	6.6	4.2

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

- Industry-wide freight tonne kilometres (FTKs) contracted by 3.3% in 2019. This represents the worst performance since the Global Financial Crisis and could be largely attributed to global weakness in trade.
- European airlines saw FTKs contract by 1.8% in 2019 – the weakest result since 2012. Softer activity, including in the manufacturing-intensive German economy, combined with ongoing Brexit uncertainty contributed to the 2019 result.

## Industry

### Capacity growth and load factors

ASK/AFTK: %ch on a yr ago,		2019	Oct-19	Nov-19	Dec-19
LF: % of ASK/AFTK					
<b>Passenger</b>					
Europe	ASK	3.6	0.9	-0.6	0.5
	PLF	85.2	85.6	83.3	82.8
World	ASK	3.4	2.2	1.8	2.1
	PLF	82.6	82.0	81.1	82.3
<b>Freight</b>					
Europe	AFTK	3.4	1.5	2.8	4.9
	FLF	51.7	53.5	56.9	53.0
World	AFTK	2.1	2.4	2.6	2.8
	FLF	46.7	47.5	49.8	46.7

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

- Industry-wide seat capacity (ASKs) increased by 3.4% in 2019 – about 1ppt slower pace than that of RPKs. As a result, the industry passenger load factor (PLF) reached a record-high 82.6% last year.
- For freight, capacity (AFTKs) expanded by 2.1% against contracting demand. This has driven 2019 freight load factor down by 2.6ppt compared to the previous year.
- As was the case at the industry level, European carriers saw their highest annual PLF in the history of our time series (85.2%). However, they performed less strongly on the freight side with FLF 2.8ppt lower vs 2018.
- The initial financial data for Q4 2019 point to a higher

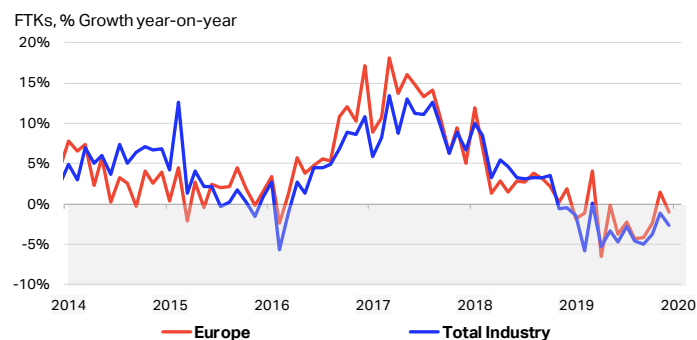
### Airline operating (EBIT) margins\*

% revenues	2018	2019E	2018Q4	2019Q4
Europe	6.2	4.7	-6.6	-0.2
Industry	5.7	5.1	8.3	9.0

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

- Across the region's key markets, only the smaller Within Europe posted positive air freight growth in 2019 (3.0%). Its pace was however still well below that of 2018 (8.5%).
- Of the other markets, Europe-Middle East was the key underperformer in 2019 with FTKs down more than 5%, followed by Europe to NthAm & SthAm markets (down 3.1%).

### Growth in air freight volumes



Source: IATA Statistics

industry-wide operating EBIT margin vs the same period a year ago. For Europe, the squeeze on margins eased (-0.2% vs -6.6%) but the business environment remained challenging for airlines.

- Base passenger yields (excluding surcharges and ancillaries, denominated in US\$) declined across all key markets in the region in 2019. Europe-SthAm market posted the sharpest contraction (yields down 15%) driven by a fall in base revenues.

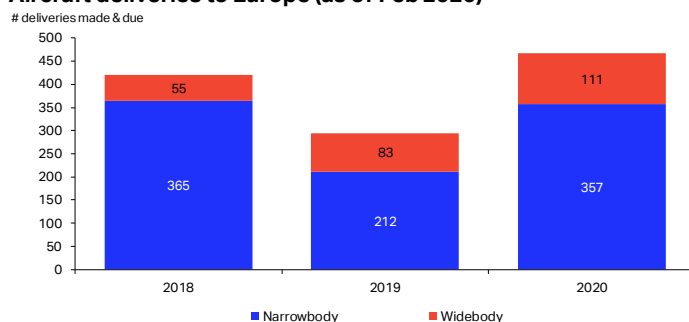
### Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2019	Oct-19	Nov-19	Dec-19
Russia domestic	-5.3	6.4	12.5	8.7
Within Europe	-6.7	-2.3	-1.7	0.8
Europe - North America	-3.9	-4.4	-2.7	-0.4
Europe - Asia	-7.9	-8.3	-7.5	-6.1
Europe - Middle East	-5.8	-5.3	-8.1	-8.1
Europe - Africa	-7.3	-4.9	-2.9	-0.8
Europe - South America	-15.1	-10.0	-8.1	-5.3

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 Feb 2020)



Source: Ascend