

State of the region: Europe

February 2021

Economy

GDP growth, selected economies

% change on a year ago	2020	Q2 2020	Q3 2020	Q4 2020
Germany	-5.3	-11.3	-4.0	-3.9
Russia	--	-8.0	-3.4	--
France	-8.3	-18.8	-3.9	-5.0
UK	-9.9	-21.0	-8.7	-7.8
Italy	-8.9	-18.1	-5.1	-6.6
Spain	-11.0	-21.6	-9.0	-9.1
Turkey	--	-9.9	6.7	--
Israel	-2.2	-8.1	-0.8	-0.4
Euro zone	-6.8	-14.7	-4.3	-5.0
Eastern Europe	-3.6	-7.5	-3.4	-4.3
World*	-3.7	-8.9	-2.7	-1.8

Source: Datastream * Market exchange rate basis

Exchange rates

end of period, # per US\$	2020	Nov-20	Dec-20	Jan-21
US\$ broad index	111.7	113.6	111.7	112.2
European euro (EUR)	0.81	0.84	0.81	0.82
Russian ruble (RUB)	74.0	76.5	74.0	75.5
British pound (GBP)	0.73	0.75	0.73	0.73
Turkish lira (TRY)	7.36	7.82	7.36	7.30
Israeli shekel (ILS)	3.21	3.30	3.21	3.28

Source: Datastream

World oil and jet fuel price

US\$/barrel (period ave.)	2020	Nov-20	Dec-20	Jan-21
Crude oil (Brent)	43.4	44.1	50.4	55.2
Jet fuel	46.3	47.7	55.4	59.6

Source: Platts, Datastream (monthly average data)

Market

Revenue passenger-kilometers (RPKs)

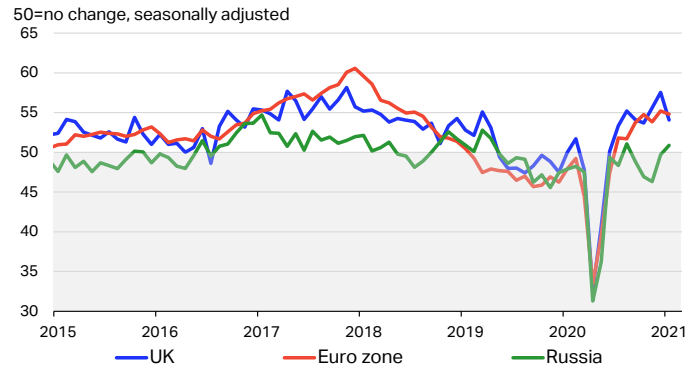
% change on a yr ago	2020	Oct-20	Nov-20	Dec-20
Region (registration basis)				
Europe	-69.9	-77.7	-82.3	-77.5
World	-65.9	-70.6	-70.4	-69.7
Routes (segment basis)				
Russia domestic	-23.5	-10.0	-23.0	-12.0
Within Europe	-70.7	-76.5	-84.7	-82.4
Europe - North America	-80.4	-92.0	-90.3	-86.9
Europe - Asia	-79.0	-92.9	-93.2	-91.9
Europe - Middle East	-73.2	-87.5	-87.0	-80.0
Europe - Africa	-68.4	-75.8	-78.5	-66.8
Europe - South America	-71.5	-87.8	-85.8	-76.5

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

- Industry-wide revenue passenger-kilometres (RPKs) fell by 69.7% year-on-year in Dec – confirming that the recovery in air travel had been stalling in Q4. In 2020 as a whole, passenger traffic plunged by 66%, which was by far the sharpest decline in aviation history.
- The contraction in European RPKs eased to -77.5%yoy since increased flows ahead of the holiday season offset falls from new travel bans later in the month.

IATA Economics: www.iata.org/economics

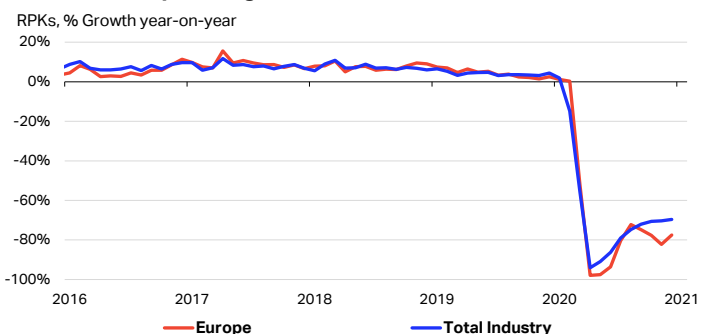
Business confidence - manufacturing PMIs



- The UK and Eurozone GDP fell by 7.8% and 5%yoy, respectively in the fourth quarter – both better than expected outcomes. However, deterioration is expected in Q1 amidst renewed lockdowns. In Russia, operating conditions improved on the back of rising domestic demand.
- The trade-weighted US dollar index ticked up by 0.5% in January, following three consecutive monthly falls. Of the key regional currencies, the RUB and ILS lost 2% against the US\$.
- Brent Crude oil and jet fuel prices increased in January, reflecting Saudi Arabia's supply cuts and hopes that the new US stimulus package will boost oil demand.

- In 2020 as a whole, European carriers saw a ~70% traffic decline vs. 2019 – the second weakest outcome amongst the regions after the Middle East. In the summer period, airlines benefitted from looser travel restrictions on Within Europe routes, but the promising recovery was later reversed amidst new virus waves.
- Despite a sharp RPK deterioration in Q4 amidst virus spikes, Russia became the most resilient key domestic market in 2020 (RPKs down 23.5% vs. 2019). The country's domestic PLF in December reached 2019 levels (77.1%), pointing to a solid appetite for flying.

Growth in air passenger volumes



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Cargo tonne-kilometers (CTKs)

% change on a yr ago	2020	Oct-20	Nov-20	Dec-20
Region (registration basis)				
Europe	-16.0	-10.1	-12.7	-5.3
World	-10.6	-6.1	-6.2	-0.5
Routes (segment basis)				
Europe - Asia	-15.0	-14.1	-13.1	-4.7
Europe - North America	-21.0	-16.6	-16.5	-15.8
Europe - Middle East	-18.1	-8.8	-12.5	-10.6
Europe - Africa	-23.4	-12.9	-15.1	-12.2
Europe - South America	-23.9	-15.7	-18.9	-14.7
Within Europe	-24.4	-26.1	-27.6	-18.7

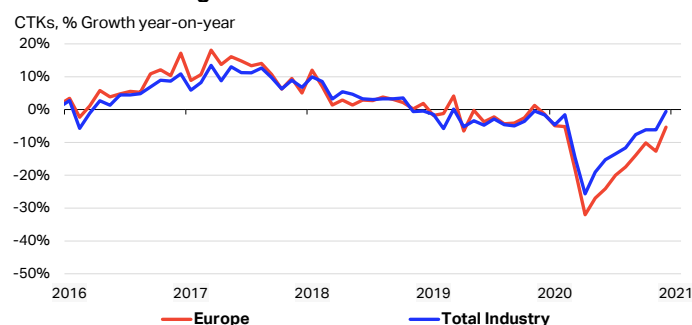
Source: IATA Economics Note: historical data may be subject to revision

- Air cargo experienced a robust year-end, with industry-wide cargo tonne-kilometres (CTKs) down by only 0.5% in December compared with December 2019. In 2020 as a whole, CTKs fell by 10.6%.
- European CTKs declined by 16%yoy in 2020 and by 5.3%yoy in December. New lockdowns and adverse

economic conditions in the region will be a challenge for further recovery.

- Amongst the key regional routes, Europe-Asia was the most resilient in December (-4.7%yoy) and also in 2020 as a whole (-15%yoy), benefitting from a strong trade connection between the two regions.

Growth in air cargo volumes



Source: IATA Economics

Industry

Capacity growth and load factors

ASK/ACTK: %ch on a yr ago,		2020	Oct-20	Nov-20	Dec-20
LF: % of ASK/ACTK					
Passenger					
Europe	ASK	-62.1	-65.2	-71.7	-67.7
	PLF	67.8	55.0	52.2	57.8
World	ASK	-56.5	-59.7	-58.6	-56.7
	PLF	64.8	60.0	57.9	57.5
Cargo					
Europe	ACTK	-27.1	-26.2	-22.5	-19.6
	CLF	59.7	64.9	64.0	65.3
World	ACTK	-23.3	-22.2	-19.3	-17.7
	CLF	54.5	57.4	57.9	57.3

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

- Overall, 2020 was a weak year for passenger load factors since many carriers struggled to adjust their capacity fast enough to rapidly changing regulations and virus outbreaks. On average, the global PLF was 17.8ppts lower vs. 2019, at 64.8%. At the regional level, the load factor decreased 17.4ppts, to 67.8%.
- In contrast, air cargo load factors were elevated last year due to the lack of belly cargo capacity. The industry-wide cargo load factor picked up by 7.7ppts vs. 2019, to 54.5%. European carriers posted the CLF at 59.7%.
- The initial sample of 4Q20 financial results showed that airlines' EBIT margins remained deep in contractionary territory. That said, the sample also indicated that the

Airline operating (EBIT) margins*

% revenues	2018	2019	2019Q4	2020Q4
Europe	6.2	4.8	2.4	-5.4
Industry	5.7	5.2	8.7	-5.1

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

incurred losses were smaller than in Q3 due to drastic cost-cutting measures and robust cargo revenues.

- Looking forward, we expect air travel demand to gradually revive in the second half of 2021 following a weak first half of the year. Hence, airlines will continue to focus on limiting losses by implementing cost cutting measures and preserving cash balances.
- Note that the passenger yield data should be interpreted with caution due to the small number of tickets being sold amidst the pandemic crisis.

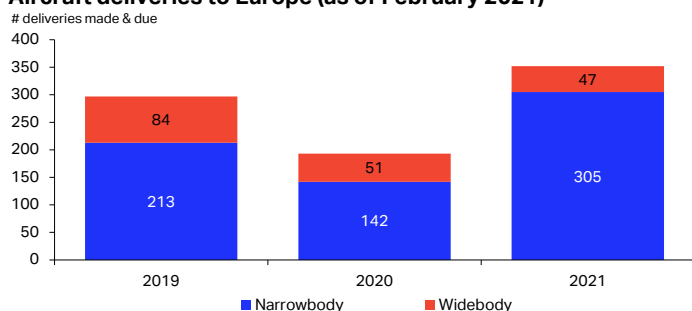
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2020	Oct-20	Nov-20	Dec-20
Russia domestic	-21.5	-27.2	-25.3	-21.6
Within Europe	-13.2	-22.1	-22.4	-11.2
Europe - North America	-3.6	-25.3	-27.1	-25.1
Europe - Asia	-4.5	3.9	4.2	12.5
Europe - Middle East	12.6	76.0	68.5	44.5
Europe - Africa	-7.4	-1.2	4.2	3.5
Europe - South America	-12.1	-23.5	-18.2	-19.9

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

- In 2021, European airlines are expected to receive almost double the number of deliveries compared with 2020. That said, this figure will be most likely revised during the year, depending on the speed of air travel recovery and the rate of cash burn.

Aircraft deliveries to Europe (as of February 2021)



Source: Ascend