



State of the region: Europe

January 2020

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	1.3	2.0	1.2	1.1
Italy	0.7	0.0	0.1	0.3
Spain	2.4	2.2	2.0	1.9
Turkey	2.8	-2.3	-1.6	0.9
Israel	3.7	3.2	3.1	3.4
Euro zone	1.9	1.4	1.2	1.2
Eastern Europe†	3.4	2.8	2.7	2.9
World*	3.2	2.7	2.5	2.5

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

Exchange rates

end of period, # per US\$	2018	Oct-19	Nov-19	Dec-19
US\$ broad index	128.5	130.2	129.9	129.4
European euro (EUR)	0.87	0.90	0.91	0.89
Russian ruble (RUB)	69.37	64.07	64.27	62.11
British pound (GBP)	0.79	0.77	0.77	0.75
Turkish lira (TRY)	5.29	5.71	5.74	5.95
Israeli shekel (ILS)	3.74	3.52	3.47	3.45

Source: Datastream

World oil and jet fuel price

US\$/barrel (period ave.)	2018	Oct-19	Nov-19	Dec-19
Crude oil (Brent)	71.7	59.6	62.7	65.3
Jet fuel	86.4	78.7	78.2	80.1

Source: Platts, Datastream (monthly average data)

Market

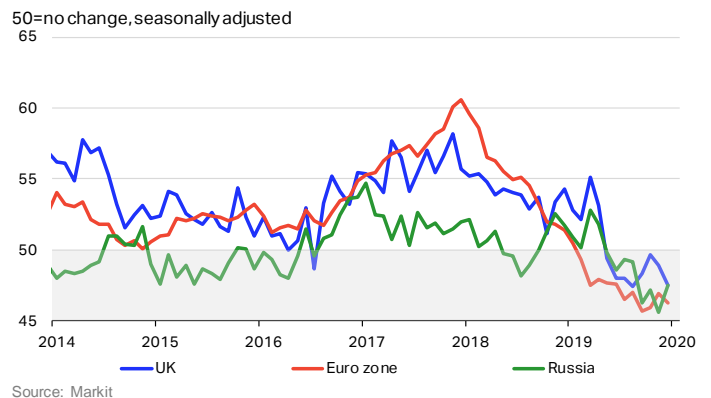
Revenue passenger kilometers (RPKs)

% change on a yr ago	2018	Sep-19	Oct-19	Nov-19
Region (registration basis)				
Europe	7.5	2.1	1.7	1.3
World	7.3	3.6	3.3	3.3
Routes (segment basis)				
Russia domestic	10.6	3.2	5.6	2.4
Within Europe	7.3	3.3	1.9	3.1
Europe - North America	4.9	2.7	3.4	4.1
Europe - Asia	7.2	5.1	6.3	6.2
Europe - Middle East	5.0	4.1	8.1	9.3
Europe - Africa	8.2	3.1	-1.7	0.2
Europe - South America	8.9	7.5	6.3	5.5

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

- Industry-wide RPKs increased by 3.3% year-on-year in November. This latest outcome signals another month of only moderate performance for passenger demand.
- RPKs flown by European airlines increased by a modest 1.3%yoy – the weakest outcome in ten years or so. Demand growth in the region continues to be impacted by industrial strikes and faltering business confidence, compounded with a softer economic backdrop.

Business confidence - manufacturing PMIs

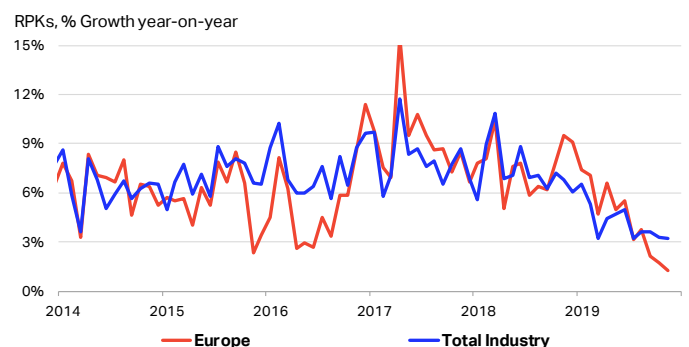


Source: Markit

- The end-year results confirmed challenging operating conditions across all of the three key European markets that we regularly track amidst a global economic slowdown and Brexit uncertainty.
- Although the trade weighted US\$ index eased for the third consecutive month in Dec, it was still 0.7% higher vs a year ago. Of the main regional currencies, the TRY was the main mover, ending the year down 12.5% against the US\$ (compared with Dec 2018), followed by the RUB which gained 10.5% over the same period.
- Average oil and jet fuel prices ticked higher in December amidst OPEC production cuts and optimism around US-China trade deal progress.

- The Russian domestic market recorded a sharp slowdown in year-on-year RPK growth in Nov (2.4% vs 5.6% in October). However, this month's result was driven mainly by a stronger outcome a year ago.
- A majority of the key international routes for the region recorded a faster rate of RPK growth in November vs October. The Europe-Middle East market was the strongest performer, posting passenger volumes growth of 9.3%yoy.

Growth in air passenger volumes



Source: IATA Statistics

Freight tonne kilometers (FTKs)

% change on a yr ago	2018	Sep-19	Oct-19	Nov-19
Region (registration basis)				
Europe	3.2	-3.6	-1.5	2.6
World	3.7	-4.8	-3.8	-1.1
Routes (segment basis)				
Europe - Asia	1.1	-0.8	-1.1	1.9
Europe - North America	3.3	-5.5	-2.4	-1.0
Europe - Middle East	3.0	-11.8	-8.1	-5.3
Europe - Africa	0.0	-7.2	-3.3	-4.9
Europe - South America	9.1	-1.7	-4.7	-6.9
Within Europe	8.5	5.6	7.9	6.1

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

- Industry-wide freight tonne kilometres (FTKs) were 1.1% lower in November compared with their level of a year ago. The monthly data are, however, showing some modest improvement in freight volumes.
- FTKs recorded by European carriers increased to 2.6% year-on-year in November – the first positive growth rate in eight months. Growth in the international air freight market segment underpinned this reversal of fortune for the region's carriers.

Industry

Capacity growth and load factors

ASK/AFTK: %ch on a yr ago,		2018	Sep-19	Oct-19	Nov-19
LF: % of ASK/AFTK					
Passenger					
Europe	ASK	6.5	2.1	0.7	-0.7
	PLF	84.7	86.4	85.6	83.3
World	ASK	6.8	3.2	2.1	1.8
	PLF	82.0	81.9	82.1	81.1
Freight					
Europe	AFTK	3.3	3.2	2.6	4.0
	FLF	54.4	49.9	53.4	56.9
World	AFTK	5.2	2.4	2.2	2.9
	FLF	49.3	46.1	47.5	49.6

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

- As was the case in recent months, the industry-wide passenger load factor (PLF) achieved a record monthly high, at 81.1%. By contrast, the industry freight LF fell by a sizeable 2ppt vs a year ago as capacity continued to grow (2.9%yoy) against contracting FTKs.
- As with the industry aggregate, European airlines recorded a new all-time high PLF for the month of Nov, up 1.6ppt vs a year ago. By contrast, the FLF was lower than a year ago, as the expansion in FTKs was surpassed by the growth in AFTKs.
- The final airline financial data for Q3 confirmed that industry-wide operating profitability improved

Airline operating (EBIT) margins*

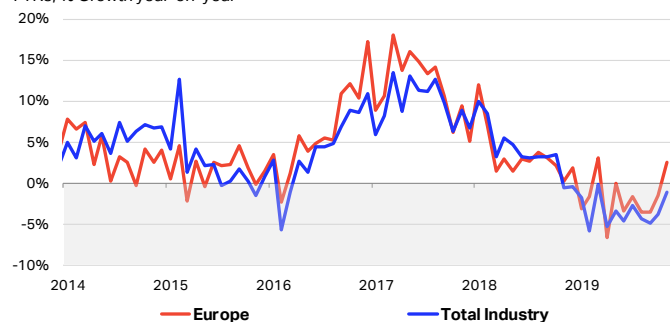
% revenues	2017	2018	2018Q3	2019Q3
Europe	7.9	6.2	17.6	16.9
Industry	7.5	5.7	11.7	11.9

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

- Indeed, air freight growth returned to positive territory in the larger Europe-Asia market after five consecutive months of contraction and remained robust also in the Within Europe market (6.1%yoy).
- Even so, many of the other key cargo markets continue to show a contraction in FTKs compared with their level of a year ago, including the sizeable North American market.

Growth in air freight volumes

FTKs, % Growth year-on-year



Source: IATA Statistics

modestly. At the European level, EBIT margins fell vs a year ago mainly due to rising operating expenses.

- Passenger yields (denominated in US\$) continued to decline in annual terms across the key international markets in the region, most notably on Europe-SthAm and Europe-Middle East routes (down ~8%yoy). The Russia domestic market was the key outlier again this month with yields up 12.5% vs a year ago.

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

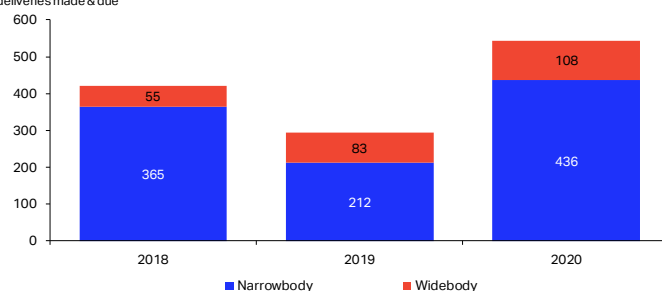
% change on a yr ago	2018	Sep-19	Oct-19	Nov-19
Russia domestic	-5.9	-0.1	6.4	12.5
Within Europe	4.3	-3.4	-1.8	-1.3
Europe - North America	5.3	-2.6	-4.4	-2.7
Europe - Asia	0.9	-8.2	-8.3	-7.5
Europe - Middle East	3.2	-8.2	-5.4	-7.9
Europe - Africa	3.7	-7.6	-4.8	-2.7
Europe - South America	-1.2	-11.8	-10.0	-8.0

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 narrow-body aircraft.

Aircraft deliveries to Europe (as of January 2020)

deliveries made & due



Source: Ascend