

State of the region: Europe

July 2020

Economy

GDP growth, selected economies

% change on a year ago	2019	Q3 2019	Q4 2019	Q1 2020
Germany	0.6	0.7	0.4	-2.3
Russia	1.3	1.5	2.1	1.6
France	1.5	1.6	0.9	-5.0
UK	1.5	1.3	1.1	-1.7
Italy	0.3	0.5	0.1	-5.4
Spain	2.0	1.9	1.8	-4.1
Turkey	0.9	1.0	6.0	4.5
Israel	3.4	3.5	3.7	0.7
Euro zone	1.2	1.3	1.0	-3.1
Eastern Europe	2.8	2.9	2.7	1.1
World*	2.5	2.5	2.4	-1.7

Source: Datastream * Market exchange rate basis

Exchange rates

end of period, # per US\$	2019	Apr-20	May-20	Jun-20
US\$ broad index	114.7	122.7	121.3	120.9
European euro (EUR)	0.89	0.92	0.90	0.89
Russian ruble (RUB)	62.1	73.9	70.6	71.3
British pound (GBP)	0.75	0.79	0.81	0.81
Turkish lira (TRY)	5.95	6.96	6.82	6.85
Israeli shekel (ILS)	3.45	3.47	3.50	3.46

Source: Datastream

World oil and jet fuel price

US\$/barrel (period ave.)	2019	Apr-20	May-20	Jun-20
Crude oil (Brent)	64.2	26.8	32.4	40.9
Jet fuel	79.6	23.1	29.6	41.8

Source: Platts, Datastream (monthly average data)

Market

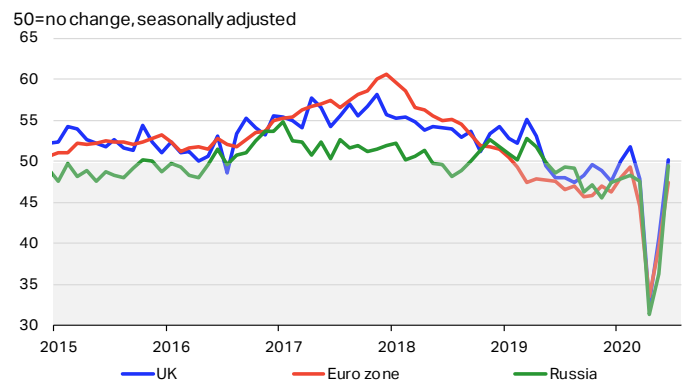
Revenue passenger kilometers (RPKs)

% change on a yr ago	2019	Mar-20	Apr-20	May-20
Region (registration basis)				
Europe	4.1	-51.8	-98.0	-97.7
World	4.1	-55.5	-94.0	-91.3
Routes (segment basis)				
Russia domestic	6.7	-15.4	-82.7	-82.7
Within Europe	5.4	-54.6	-99.2	-98.9
Europe - North America	4.3	-55.9	-98.8	-98.5
Europe - Asia	6.6	-63.6	-98.2	-98.1
Europe - Middle East	4.4	-49.3	-97.7	-98.2
Europe - Africa	4.5	-45.6	-98.6	-98.5
Europe - South America	8.0	-43.5	-97.2	-96.1

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

- Industry-wide revenue passenger-kilometres (RPKs) contracted by 91% year-on-year in May, compared to the 94% annual decline observed in April. The modest improvement this month was driven by developments in domestic markets.
- Airlines based in Europe recorded a broadly unchanged pace of contraction from April, with passenger volumes down 97.7% year-on-year.

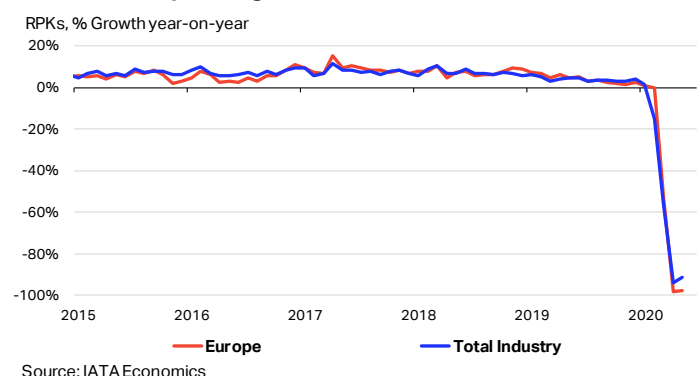
Business confidence - manufacturing PMIs



- Business sentiment rebounded sharply in June across the three economies that we regularly track as restrictions related to COVID-19 began to be lifted.
- The trade-weighted US dollar index eased modestly in June, down 0.3%. Of the key regional currencies, both the EUR and ILS ended the month up ~1% against the US\$ while the RUB lost 0.9%.
- Oil and jet fuel prices rose further in June amidst expectations about demand recovery with the reopening of markets. Sharp production cuts from OPEC and Russia also provided support to the price increase.

- The majority of the region's key routes continued to record declines close to 100% year-on-year. The ongoing exception was the Russia domestic market where RPKs declined by 83% annually.
- Looking forward, improvement in demand is expected in the region as countries started to ease their lockdowns and airlines have been restoring some of their seat capacity.

Growth in air passenger volumes



Cargo tonne kilometers (CTKs)

% change on a yr ago	2019	Mar-20	Apr-20	May-20
Region (registration basis)				
Europe	-1.9	-18.2	-32.9	-29.5
World	-3.2	-14.6	-25.6	-20.3
Routes (segment basis)				
Europe - Asia	-1.6	-16.5	-27.5	-23.9
Europe - North America	-2.5	-20.5	-43.2	-38.0
Europe - Middle East	-5.2	-18.1	-44.0	-34.9
Europe - Africa	-1.9	-22.8	-59.7	-49.4
Europe - South America	-3.1	-19.7	-52.7	-46.3
Within Europe	-0.9	-32.3	-31.3	-33.1

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

- Industry-wide cargo tonne-kilometres (CTKs) fell by 20.3% year-on-year in May, a slight improvement from the 25.6% decline seen in April. This initial recovery partly comes on the back of stabilizing manufacturing output and new export orders.
- European carriers reported an almost 30% year-on-year drop in air cargo volumes, the weakest outcome amongst the regions. Despite the rebound in business

sentiment, operating conditions remained weaker compared to the pre-COVID period which contributed to the weak results.

- Amongst Europe's key markets, Europe-Asia routes posted the smallest CTK contraction (-23.9%), benefitting from shipments of personal protective equipment (PPE). The Europe-Africa market remained the main underperformer, with cargo volumes down 50% over the year.

Growth in air cargo volumes



Source: IATA Economics

Industry

Capacity growth and load factors

ASK/ACTK: %ch on a yr ago,		2019	Mar-20	Apr-20	May-20
LF: % of ASK/ACTK					
Passenger					
Europe	ASK	3.5	-40.6	-95.0	-95.5
	PLF	85.2	68.0	34.6	42.7
World	ASK	3.3	-38.6	-86.6	-86.0
	PLF	82.6	59.4	37.2	50.7
Cargo					
Europe	ACTK	3.4	-22.5	-48.9	-41.9
	CLF	51.7	59.4	65.6	62.5
World	ACTK	2.2	-20.8	-41.6	-34.7
	CLF	46.7	53.6	59.4	57.6

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

- Despite widespread aircraft grounding and flight cancellations, passenger demand fell faster than capacity. As a result, the industry-wide passenger load factor dropped by 31 ppts year-on-year to 50.7%. The PLF for European carriers fell by 41ppts.
- Cargo belly capacity increased in May, hinting that the capacity crunch observed since March might start to unwind soon. The industry-wide cargo load factor was 10.4ppts higher vs a year ago, while the CLF for European carriers was up 11ppts.
- Q1 2020 airline financial results show the start of the severe negative impact of the pandemic on airline profitability. The industry-wide EBIT margin was -10.8% of revenues, down from 4.6% in Q1 2019.

Airline operating (EBIT) margins*

% revenues	2018	2019	2019Q1	2020Q1
Europe	6.2	4.8	-5.9	-16.3
Industry	5.7	5.2	4.6	-10.8

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

At the regional level, European carriers posted an EBIT margin of -16.3%, compared to -5.9% in the same quarter a year ago.

- Note that the yield data during the lockdown period should be interpreted with caution as the number of tickets being sold declined dramatically and part of the sales were arising from repatriation flights.

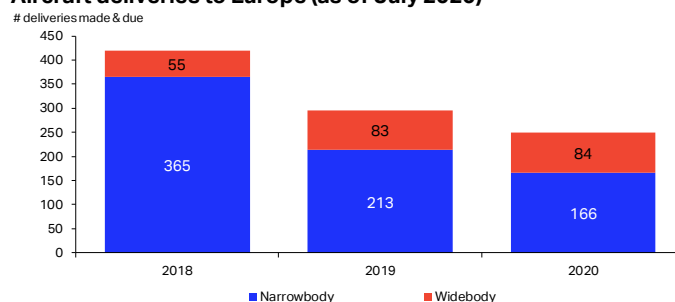
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2019	Mar-20	Apr-20	May-20
Russia domestic	-5.4	-16.2	-23.4	-8.3
Within Europe	-6.7	-13.4	0.6	-16.2
Europe - North America	-3.9	-14.5	-18.4	-23.3
Europe - Asia	-7.9	-5.1	28.4	43.2
Europe - Middle East	-5.8	-9.4	38.0	27.2
Europe - Africa	-7.3	-11.4	-13.5	-22.6
Europe - South America	-15.1	-10.7	-1.8	-13.1

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

- The latest data indicate a 16% fall in scheduled jet aircraft deliveries for carriers based in Europe in 2020 vs. 2019. This fall is expected to be driven by orders of narrow-body aircraft.

Aircraft deliveries to Europe (as of July 2020)



Source: Ascend