

State of the region: Europe

July 2021

Economy

GDP growth, selected economies

% change on a year ago	2020	Q3 2020	Q4 2020	Q1 2021
Germany	-5.1	-3.8	-3.3	-3.1
Russia	-3.0	-3.5	-1.8	-0.7
France	-8.0	-3.5	-4.6	1.2
UK	-9.8	-8.5	-7.3	-6.1
Italy	-8.9	-5.2	-6.5	-0.8
Spain	-10.8	-8.6	-8.9	-4.2
Turkey	1.8	6.3	5.9	7.0
Israel	-2.4	-1.1	-0.7	-0.4
Euro zone	-6.7	-4.1	-4.7	-1.3
Eastern Europe	-3.1	-3.4	-2.9	-1.0
World*	-3.6	-2.6	-1.3	2.6

Source: Eikon Datastream * Market exchange rate basis

Exchange rates

end of period, # per US\$	2020	Apr-21	May-21	Jun-21
US\$ broad index	112.1	112.9	111.5	111.9
European euro (EUR)	0.81	0.83	0.82	0.84
Russian ruble (RUB)	74.0	75.1	73.4	73.1
British pound (GBP)	0.73	0.72	0.70	0.72
Turkish lira (TRY)	7.36	8.22	8.50	8.69
Israeli shekel (ILS)	3.21	3.24	3.25	3.26

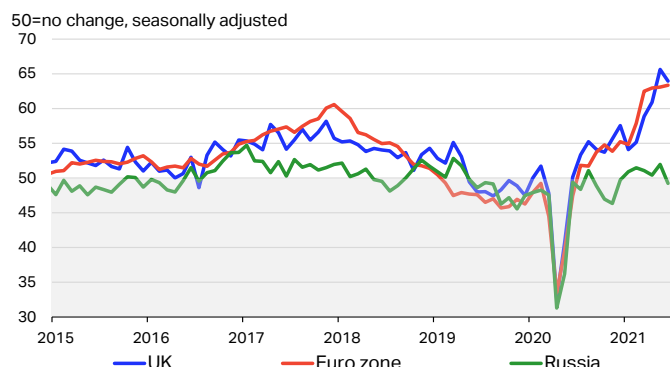
Source: Board of Governors of the Federal Reserve System (US), Eikon Datastream

World oil and jet fuel price

US\$/barrel (period ave.)	2020	Apr-21	May-21	Jun-21
Crude oil (Brent)	43.4	65.5	68.4	73.5
Jet fuel	46.3	69.1	73.4	77.6

Source: Platts, Eikon Datastream (monthly average data)

Business confidence - manufacturing PMIs



- The manufacturing sector in the UK and Eurozone continues to expand robustly as markets emerge from the pandemic but supply chain constraints have led to significant increases in input costs. In Russia, manufacturing conditions worsened due to subdued demand.
- The trade-weighted US dollar index rose by 0.3% in June. Amongst the key regional currencies, both the GBP and EUR ended the month down ~2.9%.
- Oil and jet fuel prices trended upwards in June amidst improving economic fundamentals. Looking ahead, the rising fuel bill might shadow the expected summer rebound in travel demand in some markets.

Market

Revenue passenger-kilometers (RPKs)

To aid understanding, we make % comparisons with pre-crisis 2019 period.

% ch vs. the same period in 2019	2020	Mar-21	Apr-21	May-21
Region (registration basis)				
Europe	-69.8	-81.6	-81.5	-77.9
World	-65.9	-66.8	-65.2	-62.7
Routes (segment basis)				
Russia domestic	-23.5	8.5	11.0	22.6
Within Europe	-70.7	-90.2	-89.0	-85.2
Europe - North America	-80.4	-90.0	-89.8	-88.0
Europe - Asia	-79.0	-92.1	-92.3	-92.7
Europe - Middle East	-73.2	-84.2	-85.8	-82.4
Europe - Africa	-68.4	-77.0	-75.1	-71.5
Europe - South America	-71.8	-88.6	-89.0	-89.4

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

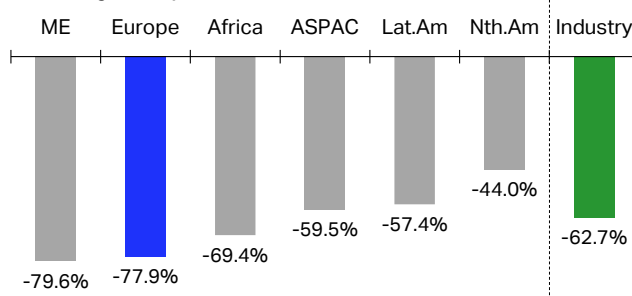
- Air passenger demand continued to slowly recover in May. Industry-wide revenue passenger-kilometers (RPKs) fell by 62.7% compared with May 2019 – a modest improvement on the 65.2% contraction in the previous month.
- European airlines flew 77.9% fewer RPKs in May compared with the same month two years ago – the

second weakest outcome amongst regions after the Middle East. International restrictions in Europe remain tight despite successful vaccine rollout, which has been hindering faster air travel recovery.

- Russia domestic market showed the fastest expansion amongst the key domestic markets (RPKs up 22.6% vs. May 2019) amidst booming domestic tourism as most of the international destinations remain closed.

Growth in passenger volumes, by region

RPKs, % change vs. May 2019



Cargo tonne-kilometers (CTKs)

To aid understanding, we make % comparisons with pre-crisis 2019 period.

% ch vs. the same period in 2019	2020	Mar-21	Apr-21	May-21
Region (registration basis)				
Europe	-13.9	1.3	11.6	6.0
World	-8.7	4.6	11.3	9.4
Routes (segment basis)				
Europe - Asia	-10.6	3.7	11.4	1.3
Europe - North America	-17.6	-9.1	1.2	-1.3
Europe - Middle East	-18.1	-10.6	0.6	-1.5
Europe - Africa	-20.2	-8.8	-8.9	-10.4
Europe - South America	-23.4	-14.7	-14.5	-3.7
Within Europe	-23.0	-14.5	-2.2	-18.7

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

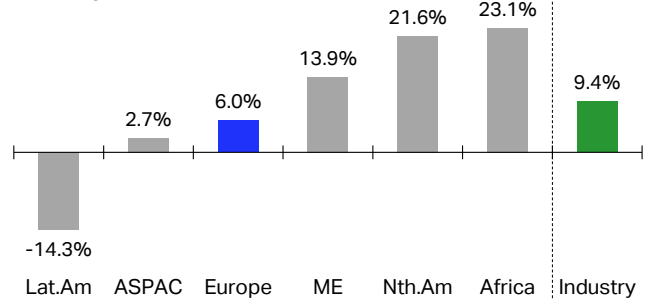
- Air cargo continued to perform well in May 2021, with industry-wide cargo tonne-kilometres (CTKs) rising by 9.4% compared to pre-crisis levels. Supply-chain conditions and economic activity remain supportive for air cargo developments.
- CTK growth reported by European airlines slowed to 6.0% in May, from 11.6% in April. The slowdown was

widespread on most of the region's key segment-based trade lanes.

- One of the main movers this month was the larger Europe-Asia market where the CTK expansion slowed by ~10ppts, to 1.3%. This is consistent with easing in PMIs in certain manufacturing intensive countries in Asia such as China and South Korea.

Growth in cargo volumes, by region

CTKs, % change vs. May 2019



Source: IATA Economics

Industry

Capacity growth and load factors

To aid understanding, we make % comparisons with pre-crisis 2019 period.

ASK/ACTK: %ch vs. the same period in 2019, LF: % of ASK/ACTK		2020	Mar-21	Apr-21	May-21
Passenger					
Europe	ASK	-62.4	-73.7	-72.1	-68.8
	PLF	68.3	58.6	56.3	59.3
World	ASK	-56.7	-56.4	-54.6	-53.7
	PLF	65.1	62.3	63.7	65.8
Cargo					
Europe	ACTK	-24.9	-16.4	-18.1	-16.9
	CLF	59.4	68.2	68.1	65.6
World	ACTK	-21.2	-11.5	-10.4	-9.7
	CLF	54.2	58.8	57.9	57.2

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

- Contraction in global seat capacity (ASKs) was broadly unchanged in May, at -53.7%. Passenger load factors (PLF) continued to improve with the strength in domestic demand. The industry-wide metric was at 65.8% this month. European airlines posted the PLF 6.5ppts below the industry average at 59.3% due to the region's high reliance on still muted international travel.
- Air cargo capacity continues to slowly improve despite the lack of international passenger traffic. However, the market remains tight, with no clear decline in cargo load factors (CLF). The industry-wide CLF was 10ppts above May 2019, at 57.2%. At the regional level, European airlines reported the CLF at 65.6% – the highest amongst regions.
- In Q1 2021, the industry-wide operating EBIT margin was at -58% of revenues – broadly unchanged from the final quarter of 2020 since passenger demand remained muted. European operating margins were broadly in line with the industry average.

Airline operating (EBIT) margins*

% revenues	2019	2020	2020Q1	2021Q1
Europe	4.8	-30	-16.9	-57
Industry	5.2	-28.0	-12.3	-58

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

- Airlines continued to burn cash in Q1 due to low air travel volumes but there was some regional variation. European carriers reported the most significant cash outflow amongst regions as rising COVID-19 cases affected air passenger demand in the area.

Airline cash flow*

% revenues	Q1 2020		Q1 2021	
	Net cash flow ¹	Free cash flow	Net cash flow ¹	Free cash flow
Europe	5.0	-15.4	-39.7	-54.4
Industry	-1.5	-17.3	-8.2	-22.1

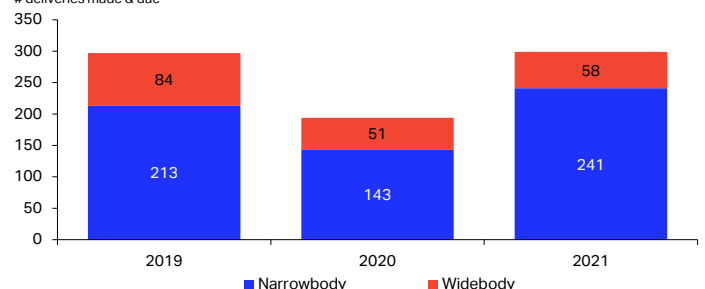
¹From operating activities

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

- As of July 2021, the number of 2021 aircraft deliveries received by European carriers is expected to be 54% higher than in 2020 and broadly unchanged from 2019. Note, that these figures will most likely change throughout the rest of the year, depending on the speed of air travel recovery.

Aircraft deliveries to Europe (as of July 2021)

deliveries made & due



Source: Cirium Fleet Analyzer