

State of the region: Europe

March 2020

Economy

GDP growth, selected economies

% change on a year 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	1.5	0.9
UK	1.3	1.3	1.2	1.1
Italy	0.7	0.4	0.5	0.1
Spain	2.4	2.0	1.9	1.8
Turkey	2.8	-1.6	1.0	6.0
Israel	3.7	3.2	3.5	3.6
Euro zone	1.9	1.2	1.3	1.0
Eastern Europe†	3.5	2.7	2.9	2.8
World*	3.2	2.6	2.5	2.5

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

Exchange rates

end of period, # per US\$	2019	Dec-19	Jan-20	Feb-20
US\$ broad index	114.7	114.7	115.8	117.8
European euro (EUR)	0.89	0.89	0.90	0.91
Russian ruble (RUB)	62.11	62.11	63.91	67.20
British pound (GBP)	0.75	0.75	0.76	0.78
Turkish lira (TRY)	5.95	5.95	5.98	6.25
Israeli shekel (ILS)	3.45	3.45	3.45	3.49

Source: Datastream

World oil and jet fuel price

US\$/barrel (period ave.)	2019	Dec-19	Jan-20	Feb-20
Crude oil (Brent)	64.2	65.3	63.9	55.7
Jet fuel	79.6	80.1	76.2	65.1

Source: Platts, Datastream (monthly average data)

Market

Revenue passenger kilometers (RPKs)

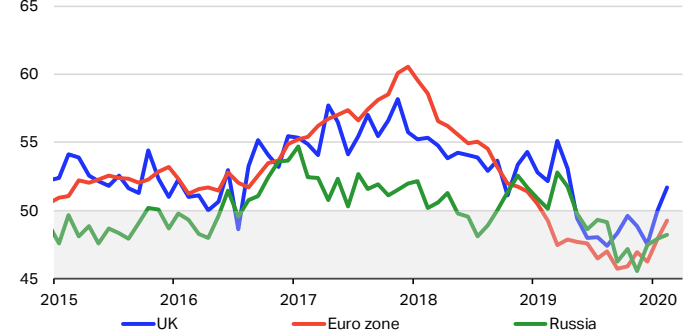
% change on a yr ago	2019	Nov-19	Dec-19	Jan-20
Region (registration basis)				
Europe	4.3	1.6	2.6	1.6
World	4.2	3.2	4.6	2.4
Routes (segment basis)				
Russia domestic	6.7	2.4	3.0	3.9
Within Europe	5.6	4.1	4.9	3.7
Europe - North America	4.3	4.1	8.0	6.3
Europe - Asia	6.6	6.2	5.1	4.1
Europe - Middle East	4.4	9.4	9.0	7.2
Europe - Africa	4.5	0.2	-3.3	1.3
Europe - South America	8.0	6.7	3.3	3.2

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

- Industry-wide revenue passenger kilometres (RPKs) rose by 2.4% year-on-year in Jan. This is the slowest growth outturn since Apr 2010 when European airspace was partly closed due to volcanic ash clouds.
- European airlines saw RPKs increase by a modest 1.6%yoy in Jan. A softer economic backdrop and some initial flight cancellations to China late in the

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted



Source: Markit

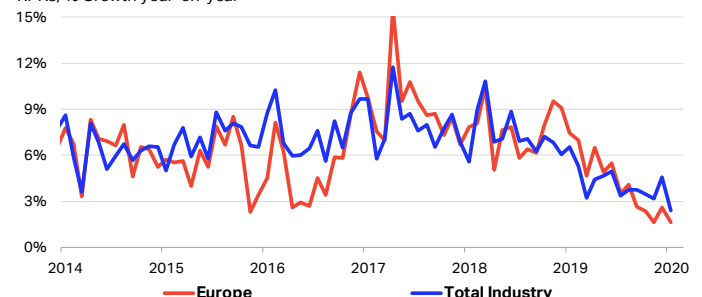
- The UK's business confidence stepped up as reduced political uncertainty countered initial COVID-19 related disruptions in Feb. Business sentiment also improved in the Eurozone and Russia, although it remained in the territory typically associated with slower activity.
- The US\$ rose again this month, up ~1.7% overall. Of the key currencies, the RUB was the main mover in Jan, losing ~5% against the US\$ amid concerns about the economic impact of lower oil prices.
- The monthly average jet fuel and crude oil price collapsed following the COVID-19 outbreak in China. The jet fuel crack spread also narrowed as fuel demand from aviation was hit particularly hard by the crisis.

month both contributed to the slowdown.

- Domestic RPK growth in Russia picked up to 3.9%yoy in Jan. That said, the pace of passenger demand has softened since early-2019, amidst a waning boost from both lower fares and increased city-pair connectivity.
- RPK growth eased across the majority of the remaining key markets in Jan. Within Europe saw RPKs up 3.7%, vs 5% in Dec, while Europe-Nth.Am posted a 6.3% expansion, down from 8% in the previous month.

Growth in air passenger volumes

RPKs, % Growth year-on-year



Source: IATA Statistics

Cargo tonne kilometers (CTKs)

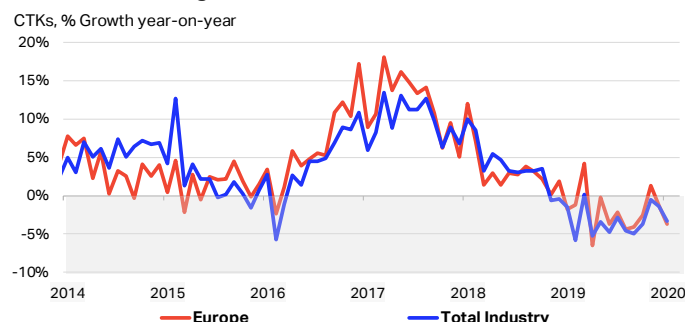
% change on a yr ago	2019	Nov-19	Dec-19	Jan-20
Region (registration basis)				
Europe	-1.9	1.3	-1.3	-3.7
World	-3.2	-0.6	-1.4	-3.3
Routes (segment basis)				
Europe - Asia	-1.9	1.9	-1.5	-3.8
Europe - North America	-3.1	-1.0	-6.2	-3.0
Europe - Middle East	-5.2	-5.7	-2.4	-3.2
Europe - Africa	-1.7	-4.9	-5.3	-6.4
Europe - South America	-3.1	-6.2	-7.0	-1.9
Within Europe	3.0	6.6	4.2	4.7

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

- Industry-wide air cargo tonne kilometres (CTKs) contracted by 3.3%yoy in Jan. Since disruptions from COVID-19 partly coincided with Chinese New Year holiday when factories in China are typically closed, the initial impact of the virus on air cargo was muted.
- European carriers were among the weakest performers in Jan, posting a 3.7%yoy decline in air cargo – almost three times the pace of Dec (at -1.3%).

- Of the key international CTK markets, Europe-Asia contracted by 3.8% – the fastest pace of decline since June 2019. By contrast, the pressure on cargo volumes eased on Europe-Nth.Am routes (-3% vs -6.2%yoy).
- The rising prevalence of the coronavirus in the region will exacerbate the weakness in both the European economy and the manufacturing sector, putting more pressure on the region's CTKs in the near-term.

Growth in air cargo volumes



Source: IATA Statistics

Industry

Capacity growth and load factors

ASK/ACTK: %ch on a yr ago,		2019	Nov-19	Dec-19	Jan-20
LF: % of ASK/ACTK					
Passenger					
Europe	ASK	3.6	-0.5	0.4	-0.5
	PLF	85.2	83.5	83.0	81.6
World	ASK	3.4	1.9	2.2	1.7
	PLF	82.6	80.9	82.2	80.3
Cargo					
Europe	ACTK	3.4	2.9	4.1	-3.0
	CLF	51.6	56.8	53.3	50.1
World	ACTK	2.2	3.2	3.8	0.9
	CLF	46.7	49.7	46.9	45.0

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

- Growth in industry-wide seat and cargo-tonne capacity (ASK/ACTK) slowed significantly in Jan amidst volatility around the Chinese New Year holiday and some preliminary COVID-19 related disruptions.
- With demand outpacing capacity, the passenger load factor (PLF) reached a record-high outcome for the month of Jan. On the cargo side, the industry-wide LF eased by 1.9ppts vs a year ago.
- Regional LF developments were similar to that of the industry overall; European carriers posted a record high PLF for the month of Jan while the airlines' CLF was lower than year ago (down 0.3ppt).

Airline operating (EBIT) margins*

% revenues	2018	2019E	2018Q4	2019Q4
Europe	6.2	4.7	3.0	5.2
Industry	5.7	5.1	7.0	8.4

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

- Airline financial data for Q4 2019 point to a moderate improvement in industry-wide profitability vs a year ago ahead of global disruptions from COVID-19. For European airlines, the EBIT margin lifted to 5.2%.
- Developments in base passenger yields remained mixed in Jan. While the Russia domestic market posted another month of solid expansion due to a swift increase in base revenues, yields contracted for the Eur-Asia and Eur-ME markets.

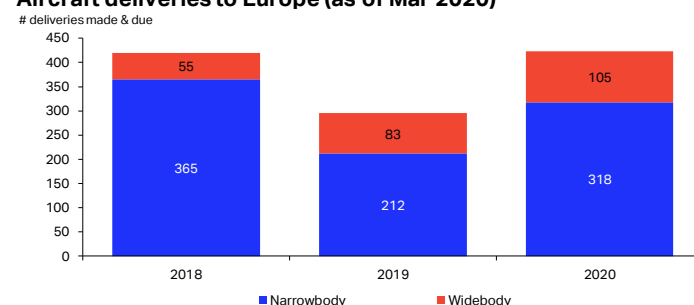
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2019	Nov-19	Dec-19	Jan-20
Russia domestic	-5.3	12.5	8.8	8.2
Within Europe	-6.7	-4.9	-2.1	-1.7
Europe - North America	-3.9	-3.2	-0.9	0.5
Europe - Asia	-7.9	-7.6	-6.2	-5.9
Europe - Middle East	-5.8	-7.6	-7.6	-2.6
Europe - Africa	-7.3	-3.9	-1.6	-2.1
Europe - South America	-15.1	-8.1	-5.3	-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 Mar 2020)



Source: Ascend