

# State of the region: Europe

May 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        | --          |
| France                 | 1.5        | 1.6        | 0.9        | -5.0        |
| UK                     | 1.4        | 1.3        | 1.1        | -1.6        |
| 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        | 0.6         |
| Euro zone              | 1.2        | 1.3        | 1.0        | -3.2        |
| <b>Eastern Europe</b>  | <b>2.8</b> | <b>2.8</b> | <b>2.8</b> | <b>1.1</b>  |
| <b>World*</b>          | <b>2.6</b> | <b>2.6</b> | <b>2.5</b> | <b>-1.7</b> |

Source: Datastream \* Market exchange rate basis

### Exchange rates

| end of period, # per US\$ | 2019  | Feb-20 | Mar-20 | Apr-20 |
|---------------------------|-------|--------|--------|--------|
| US\$ broad index          | 114.7 | 117.8  | 122.8  | 122.7  |
| European euro (EUR)       | 0.89  | 0.91   | 0.91   | 0.92   |
| Russian ruble (RUB)       | 62.1  | 67.2   | 78.1   | 73.9   |
| British pound (GBP)       | 0.75  | 0.78   | 0.81   | 0.79   |
| Turkish lira (TRY)        | 5.95  | 6.25   | 6.59   | 6.96   |
| Israeli shekel (ILS)      | 3.45  | 3.49   | 3.54   | 3.47   |

Source: Datastream

### World oil and jet fuel price

| US\$/barrel (period ave.) | 2019 | Feb-20 | Mar-20 | Apr-20 |
|---------------------------|------|--------|--------|--------|
| Crude oil (Brent)         | 64.2 | 55.7   | 33.9   | 26.8   |
| Jet fuel                  | 79.6 | 65.1   | 40.1   | 23.1   |

Source: Platts, Datastream (monthly average data)

## Market

### Revenue passenger kilometers (RPKs)

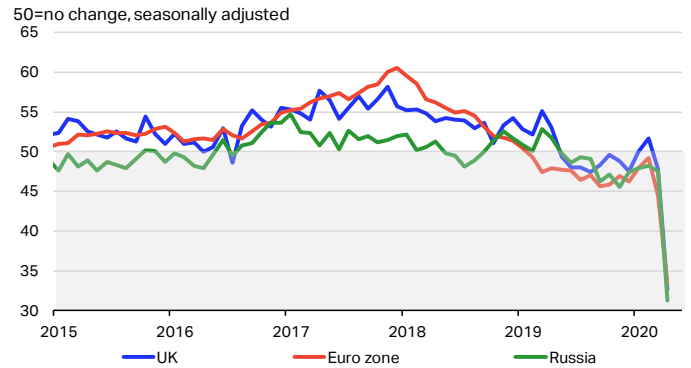
| % change on a yr ago               | 2019 | Jan-20 | Feb-20 | Mar-20 |
|------------------------------------|------|--------|--------|--------|
| <b>Region (registration basis)</b> |      |        |        |        |
| Europe                             | 4.2  | 1.3    | 0.4    | -51.8  |
| World                              | 4.2  | 2.2    | -14.4  | -52.9  |
| <b>Routes (segment basis)</b>      |      |        |        |        |
| Russia domestic                    | 6.7  | 4.3    | 7.7    | -15.4  |
| Within Europe                      | 5.6  | 3.8    | 6.4    | -54.8  |
| Europe - North America             | 4.3  | 6.3    | 8.5    | -57.3  |
| Europe - Asia                      | 6.6  | 4.5    | -20.4  | -64.0  |
| Europe - Middle East               | 4.4  | 7.2    | 4.4    | -49.1  |
| Europe - Africa                    | 4.5  | 1.3    | 2.4    | -44.9  |
| Europe - South America             | 8.0  | 3.2    | 5.1    | -43.5  |

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

- Industry-wide revenue passenger kilometres (RPKs) fell by an unprecedented 52.9% year-on-year in March, as the spread of the virus and related containment measures accelerated in most parts of the world.
- RPKs flown by European carriers shrank by more than half (51.8%) over the year to March – a contraction broadly in line with the industry average.

IATA Economics: [www.iata.org/economics](http://www.iata.org/economics)

### Business confidence - manufacturing PMIs

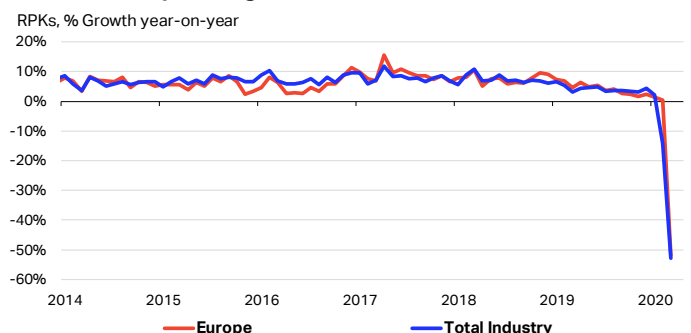


Source: Markit

- Business confidence fell to the lowest level in the recent history in Europe reflecting widespread lockdowns, and other strict measures introduced to limit the spread of COVID-19. Economic activity in the region significantly deteriorated in Q1.
- Trade weighted US\$ index moved sideways in April, after a 4.3% gain in the previous month. Of the key regional currencies, the RUB gained 5.4% against the US\$, partly offsetting a 16% loss from the previous month, while the TRY depreciated further, by 5.6%.
- Jet and crude oil price continued to fall sharply in April amidst a decline in global fuel consumption and concerns about the global economic outlook.

- Some countries in the region, notably Italy, were in lockdown from the start of March, with other countries following throughout the month. Within Europe traffic was down around 55% in year-on-year terms. The Europe-US travel ban from mid-March led to a 57.3% decline in this key market.
- Europe-Asia was the main mover this month, posting almost 65%yoy fall in passenger volumes.

### Growth in air passenger volumes



Source: IATA Economics

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## Cargo tonne kilometers (CTKs)

| % change on a yr ago               | 2019 | Jan-20 | Feb-20 | Mar-20 |
|------------------------------------|------|--------|--------|--------|
| <b>Region (registration basis)</b> |      |        |        |        |
| Europe                             | -1.9 | -4.2   | -5.1   | -18.5  |
| World                              | -3.2 | -4.5   | -1.7   | -15.2  |
| <b>Routes (segment basis)</b>      |      |        |        |        |
| Europe - Asia                      | -1.6 | -2.9   | -6.3   | -16.2  |
| Europe - North America             | -2.5 | -1.6   | 5.6    | -22.0  |
| Europe - Middle East               | -5.2 | -3.2   | 3.7    | -18.2  |
| Europe - Africa                    | -1.9 | -6.4   | -1.2   | -22.2  |
| Europe - South America             | -3.1 | -1.9   | 2.2    | -19.7  |
| Within Europe                      | -0.9 | -1.9   | -7.8   | -32.6  |

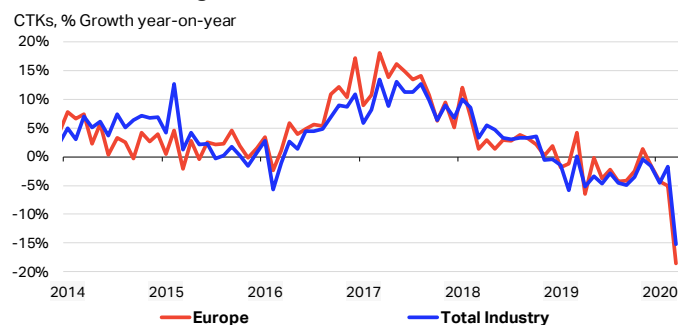
Source: IATA Statistics Note: historical data may be subject to revision

- Industry-wide cargo tonne kilometres (CTKs) contracted by 15.2%yoy in March – the worst outcome since 2009. Air cargo business was impacted to a lesser extent than the passenger side due to its crucial role in keeping global supply chains functioning.
- European carriers reported an 18.5% annual drop in cargo volumes this month, a significantly faster

contraction than in February (-5.1%). The decline was driven by a sharp deterioration in operating conditions in the region along with slumping global demand.

- Of the key regional markets, the smaller Within Europe contracted the most significantly, with CTKs down 32.6%yoy. The larger Europe-Asia and Europe-North America routes registered -16% and -22%yoy declines, respectively.

## Growth in air cargo volumes



Source: IATA Economics

## Industry

### Capacity growth and load factors

| ASK/ACTK: %ch on a yr ago, |      | 2019 | Jan-20 | Feb-20 | Mar-20 |
|----------------------------|------|------|--------|--------|--------|
| LF: % of ASK/ACTK          |      |      |        |        |        |
| <b>Passenger</b>           |      |      |        |        |        |
| Europe                     | ASK  | 3.6  | -0.8   | 1.1    | -39.7  |
|                            | PLF  | 85.2 | 81.6   | 81.2   | 67.0   |
| World                      | ASK  | 3.4  | 1.7    | -9.0   | -36.2  |
|                            | PLF  | 82.6 | 80.1   | 75.9   | 60.6   |
| <b>Cargo</b>               |      |      |        |        |        |
| Europe                     | ACTK | 3.4  | -1.9   | -4.8   | -27.2  |
|                            | CLF  | 51.7 | 49.3   | 53.0   | 63.0   |
| World                      | ACTK | 2.2  | 0.5    | -5.1   | -22.7  |
|                            | CLF  | 46.7 | 44.6   | 46.5   | 54.5   |

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

- Despite large-scale flight cancellations and aircraft groundings, RPKs continued to decline faster than ASKs. As a result, the industry-wide passenger load factor fell by 21.4ppts year-on-year. European carriers saw PLF down almost 17ppts.
- By contrast, air cargo load factor picked up both at the industry (+4.8ppts) and at the regional level (+6.7ppts) as capacity (ACTKs) fell faster than demand amidst significant reductions in bellyhold capacity.
- Despite strict mitigation measures and cost reductions to limit the impact of COVID-19 outbreak, the industry-wide EBIT margin turned negative at -10.5% of revenues in Q1 2020. At the regional level, the margin

### Airline operating (EBIT) margins\*

| % revenues | 2018 | 2019E | 2019Q1 | 2020Q1 |
|------------|------|-------|--------|--------|
| Europe     | 6.2  | 4.7   | -1.8   | -14.7  |
| Industry   | 5.7  | 5.1   | 5.9    | -10.5  |

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

fell to -14.7% of revenues, down from -1.8% in the same quarter a year ago.

- Base passenger yields denominated in US\$ declined across all key regional markets amid collapsing air travel demand and falling load factors. Yields contracted most significantly on Russia domestic routes (-15.7%yoy) and the larger Within Europe & Eur-Nth.Am markets (-13%yoy).

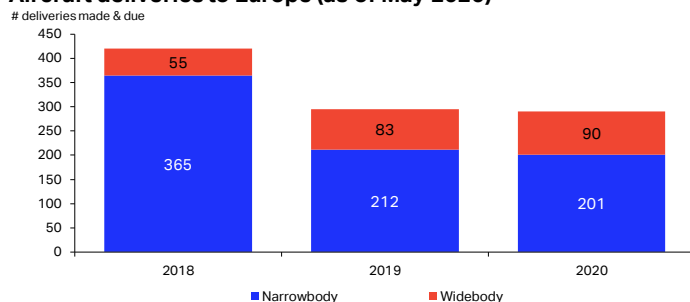
### Passenger yields (US\$, excl. surcharges & ancillaries)

| % change on a yr ago   | 2019  | Jan-20 | Feb-20 | Mar-20 |
|------------------------|-------|--------|--------|--------|
| Russia domestic        | -5.4  | 8.4    | 3.9    | -15.7  |
| Within Europe          | -6.7  | 1.4    | 0.7    | -13.1  |
| Europe - North America | -3.9  | 0.6    | -1.5   | -13.3  |
| Europe - Asia          | -7.9  | -4.3   | -5.4   | -5.4   |
| Europe - Middle East   | -5.8  | -2.2   | -2.0   | -8.7   |
| Europe - Africa        | -7.3  | -1.3   | -1.1   | -12.5  |
| Europe - South America | -15.1 | -6.6   | -2.5   | -10.7  |

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

- The latest data point to a stabilization in scheduled jet aircraft deliveries for carriers based in Europe in 2020 vs. 2019.

### Aircraft deliveries to Europe (as of May 2020)



Source: Cirium