State of the region: Europe

Economy

GDP growth, selected economies

<table>
<thead>
<tr>
<th>% change on a year ago</th>
<th>2019 Q4</th>
<th>2019 Q1</th>
<th>2020 Q1</th>
<th>2020 Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>0.6</td>
<td>0.4</td>
<td>-2.2</td>
<td>-11.3</td>
</tr>
<tr>
<td>Russia</td>
<td>1.3</td>
<td>2.1</td>
<td>1.6</td>
<td>-8.0</td>
</tr>
<tr>
<td>France</td>
<td>1.5</td>
<td>0.8</td>
<td>-5.7</td>
<td>-18.9</td>
</tr>
<tr>
<td>UK</td>
<td>1.3</td>
<td>1.0</td>
<td>-2.1</td>
<td>-21.5</td>
</tr>
<tr>
<td>Italy</td>
<td>0.3</td>
<td>0.1</td>
<td>-5.6</td>
<td>-18.0</td>
</tr>
<tr>
<td>Spain</td>
<td>2.0</td>
<td>1.7</td>
<td>-4.2</td>
<td>-21.5</td>
</tr>
<tr>
<td>Turkey</td>
<td>0.9</td>
<td>6.4</td>
<td>4.4</td>
<td>-9.9</td>
</tr>
<tr>
<td>Israel</td>
<td>3.3</td>
<td>3.7</td>
<td>0.6</td>
<td>-7.8</td>
</tr>
<tr>
<td>Euro zone</td>
<td>1.3</td>
<td>1.0</td>
<td>-3.3</td>
<td>-14.8</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>2.8</td>
<td>2.2</td>
<td>0.6</td>
<td>-7.6</td>
</tr>
<tr>
<td>World*</td>
<td>2.5</td>
<td>2.4</td>
<td>-1.7</td>
<td>-9.0</td>
</tr>
</tbody>
</table>

Source: Datastream * Market exchange rate basis

Exchange rates

<table>
<thead>
<tr>
<th>end of period, # per US$</th>
<th>2019</th>
<th>Jul-20</th>
<th>Aug-20</th>
<th>Sep-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$ broad index</td>
<td>114.7</td>
<td>117.6</td>
<td>116.1</td>
<td>117.3</td>
</tr>
<tr>
<td>European euro (EUR)</td>
<td>0.89</td>
<td>0.85</td>
<td>0.85</td>
<td>0.85</td>
</tr>
<tr>
<td>Russian rouble (RUB)</td>
<td>62.1</td>
<td>74.2</td>
<td>74.1</td>
<td>77.6</td>
</tr>
<tr>
<td>British pound (GBP)</td>
<td>0.75</td>
<td>0.76</td>
<td>0.75</td>
<td>0.77</td>
</tr>
<tr>
<td>Turkish lira (TRY)</td>
<td>5.95</td>
<td>6.97</td>
<td>7.37</td>
<td>7.70</td>
</tr>
<tr>
<td>Israeli shekel (ILS)</td>
<td>3.45</td>
<td>3.40</td>
<td>3.35</td>
<td>3.42</td>
</tr>
</tbody>
</table>

Source: Datastream

World oil and jet fuel price

<table>
<thead>
<tr>
<th>USD/barrel (period ave.)</th>
<th>2019</th>
<th>Jul-20</th>
<th>Aug-20</th>
<th>Sep-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil (Brent)</td>
<td>64.2</td>
<td>43.3</td>
<td>45.1</td>
<td>41.9</td>
</tr>
<tr>
<td>Jet fuel</td>
<td>79.6</td>
<td>45.5</td>
<td>45.4</td>
<td>41.1</td>
</tr>
</tbody>
</table>

Source: Platts, Datastream (monthly average data)

Market

Revenue passenger kilometers (RPKs)

<table>
<thead>
<tr>
<th>% change on a year ago</th>
<th>2019</th>
<th>Jun-20</th>
<th>Jul-20</th>
<th>Aug-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region (registration basis)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>4.2</td>
<td>-93.6</td>
<td>-81.2</td>
<td>-73.0</td>
</tr>
<tr>
<td>World</td>
<td>4.1</td>
<td>-86.3</td>
<td>-79.5</td>
<td>-75.3</td>
</tr>
<tr>
<td>Routes (segment basis)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russia domestic</td>
<td>6.7</td>
<td>-58.0</td>
<td>-17.8</td>
<td>3.8</td>
</tr>
<tr>
<td>Within Europe</td>
<td>5.5</td>
<td>-95.8</td>
<td>-78.9</td>
<td>-67.7</td>
</tr>
<tr>
<td>Europe - North America</td>
<td>4.3</td>
<td>-97.2</td>
<td>-94.8</td>
<td>-92.9</td>
</tr>
<tr>
<td>Europe - Asia</td>
<td>6.7</td>
<td>-97.2</td>
<td>-95.7</td>
<td>-94.5</td>
</tr>
<tr>
<td>Europe - Middle East</td>
<td>4.4</td>
<td>-96.9</td>
<td>-93.7</td>
<td>-92.1</td>
</tr>
<tr>
<td>Europe - Africa</td>
<td>4.5</td>
<td>-97.0</td>
<td>-92.9</td>
<td>-87.7</td>
</tr>
<tr>
<td>Europe - South America</td>
<td>8.0</td>
<td>-95.0</td>
<td>-94.4</td>
<td>-91.1</td>
</tr>
</tbody>
</table>

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

- Industry-wide revenue passenger-kilometres (RPKs) contracted by 75.3% year-on-year in August, compared with a 79.5% decline in July. Domestic markets continued to drive the industry rebound.
- At the regional level, European carriers recorded 73% annual contraction in passenger volumes, compared with 81.2% yoy fall in July.

Business confidence - manufacturing PMIs

Source: Markit

- Business confidence in Eurozone and the UK was solid in September as countries continued to recover from the COVID-19 crisis. However, the economic outlook is uncertain amid the second waves of the virus and Brexit. In Russia, business sentiment fell back into the contraction territory due to softer customer demand.
- The resurgence of COVID-19 and concerns about its impact on the global economy contributed to the rise in the trade-weighted US dollar index (+1%) in Sept. Of the regional currencies, the RUB lost ~5% vs. the US$. The average jet and crude oil price fell in September as spikes in COVID-19 cases led to pessimism amongst investors about future demand recovery.
- Domestic Russia became the first key domestic market where RPKs returned to expansion (+3.8% yoy) this year. Falling fares along with a boom in domestic tourism were amongst the main contributors to the swift demand recovery.
- Of the main international markets, only Within Europe showed a significant slowdown in RPK contraction compared with the previous month (~68% yoy vs. -79% yoy). The market’s performance has been improving since mid-June when COVID-19 related restrictions were lifted in the Schengen Area.

Growth in air passenger volumes

Source: IATA Economics

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Industry

Capacity growth and load factors

Cargo tonne kilometers (CTKs)

<table>
<thead>
<tr>
<th>% change on a yr ago</th>
<th>2019</th>
<th>Jun-20</th>
<th>Jul-20</th>
<th>Aug-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe (registration basis)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>1.9</td>
<td>27.0</td>
<td>21.9</td>
<td>18.9</td>
</tr>
<tr>
<td>World</td>
<td>3.2</td>
<td>16.1</td>
<td>14.4</td>
<td>12.6</td>
</tr>
<tr>
<td>Routes (segment basis)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe - Asia</td>
<td>1.5</td>
<td>21.9</td>
<td>19.7</td>
<td>18.6</td>
</tr>
<tr>
<td>Europe - North America</td>
<td>2.5</td>
<td>35.6</td>
<td>30.3</td>
<td>26.6</td>
</tr>
<tr>
<td>Europe - Middle East</td>
<td>2.6</td>
<td>26.7</td>
<td>21.0</td>
<td>16.4</td>
</tr>
<tr>
<td>Europe - Africa</td>
<td>1.9</td>
<td>38.2</td>
<td>31.1</td>
<td>29.8</td>
</tr>
<tr>
<td>Europe - South America</td>
<td>3.1</td>
<td>38.3</td>
<td>38.0</td>
<td>31.9</td>
</tr>
<tr>
<td>Within Europe</td>
<td>0.9</td>
<td>30.9</td>
<td>30.1</td>
<td>22.5</td>
</tr>
</tbody>
</table>

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

- Industry-wide cargo tonne-kilometres (CTKs) fell by 12.6% year-on-year in August compared with a 14.4% annual decline in the previous month.
- The recovery in cargo volumes has been slower than the rebound in leading economic indicators partly due to insufficient cargo capacity on some routes.

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- Note that the passenger yield data should be interpreted with caution due to the small number of tickets being sold amidst the pandemic crisis.

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Industry-wide capacity (ASks) continued to recover faster than RPKs. As a result, the global passenger load factor reached an all-time low for August, at 58.5%. European airlines recorded load factor down 25.5ppts vs. a year ago, at 63.5%.

In contrast, the industry-wide cargo load factor reached a new maximum this month (54.8%), amidst the ongoing lack of belly cargo capacity. European carriers recorded the CLF at 56.8%, up 9.3ppts compared with a year ago.

The latest data indicate a 31% 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.

The final sample of Q2 2020 financial results confirmed the severe impact of the pandemic on airlines’ businesses as passenger demand collapsed.

Aircraft operating (EBIT) margins*

<table>
<thead>
<tr>
<th>% revenues</th>
<th>2018</th>
<th>2019</th>
<th>2019Q2</th>
<th>2020Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>6.2</td>
<td>4.8</td>
<td>8.2</td>
<td>-113</td>
</tr>
<tr>
<td>Industry</td>
<td>5.7</td>
<td>5.2</td>
<td>9.7</td>
<td>-71</td>
</tr>
</tbody>
</table>

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