

State of the region: Europe

October 2020

Economy

GDP growth, selected economies

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

Source: Datastream * Market exchange rate basis

Exchange rates

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

Source: Datastream

World oil and jet fuel price

US\$/barrel (period ave.)	2019	Jul-20	Aug-20	Sep-20
Crude oil (Brent)	64.2	43.3	45.1	41.9
Jet fuel	79.6	45.5	45.4	41.1

Source: Platts, Datastream (monthly average data)

Market

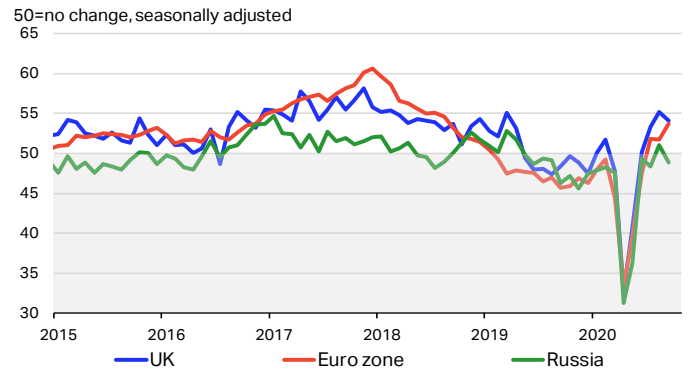
Revenue passenger kilometers (RPKs)

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

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

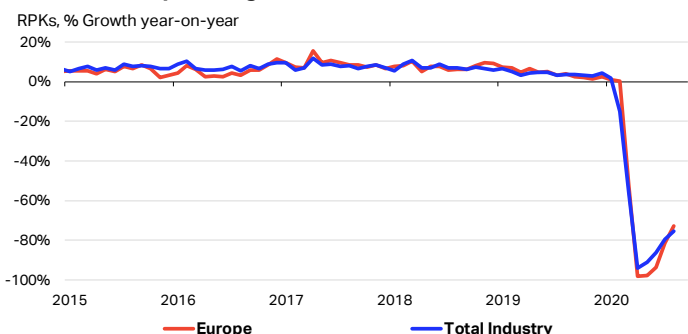


Source: Markit

- 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

Cargo tonne kilometers (CTKs)

% change on a yr ago	2019	Jun-20	Jul-20	Aug-20
Region (registration basis)				
Europe	-1.9	-27.0	-21.9	-18.9
World	-3.2	-16.1	-14.4	-12.6
Routes (segment basis)				
Europe - Asia	-1.5	-21.9	-19.7	-18.6
Europe - North America	-2.5	-35.6	-30.3	-26.6
Europe - Middle East	-5.2	-26.7	-21.0	-16.4
Europe - Africa	-1.9	-38.2	-31.1	-29.8
Europe - South America	-3.1	-38.3	-38.0	-31.9
Within Europe	-0.9	-30.9	-30.1	-22.5

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.

- CTKs flown by European airlines dropped by 18.9% annually in August. Improvements have been slow but regular since April (-33%yoy).
- All of the key international routes for the region showed a slower annual CTK fall compared with July. The larger Europe-Asia routes recorded one of the strongest outcomes (-18.6%yoy), benefitting from robust demand for goods manufactured in Asia.

Growth in air cargo volumes



Source: IATA Economics

Industry

Capacity growth and load factors

ASK/ACTK: %ch on a yr ago,		2019	Jun-20	Jul-20	Aug-20
LF: % of ASK/ACTK					
Passenger					
Europe	ASK	3.5	-89.4	-72.9	-62.1
	PLF	85.2	52.3	61.6	63.5
World	ASK	3.3	-80.2	-69.8	-63.8
	PLF	82.6	58.2	58.2	58.5
Cargo					
Europe	ACTK	3.1	-41.6	-36.4	-32.1
	CLF	51.8	62.3	59.5	56.8
World	ACTK	2.1	-32.6	-31.8	-29.4
	CLF	46.8	57.1	56.4	54.8

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

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

Airline operating (EBIT) margins*

% revenues	2018	2019	2019Q2	2020Q2
Europe	6.2	4.8	8.2	-113
Industry	5.7	5.2	9.7	-71

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

- Cargo revenues improved for some carriers due to support from lucrative cargo yields. However, this was not enough to offset the revenue loss on the passenger side since the share of cargo in the overall business is relatively small for most airlines.
- Note that the passenger yield data should be interpreted with caution due to the small number of tickets being sold amidst the pandemic crisis.

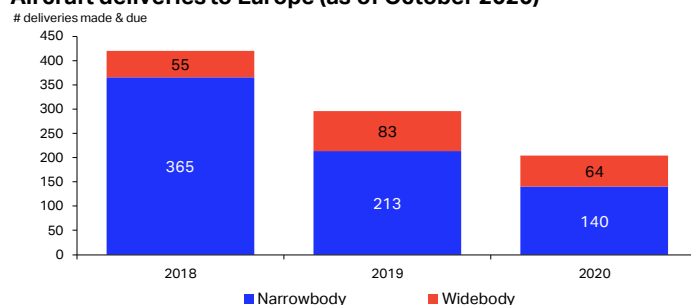
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2019	Jun-20	Jul-20	Aug-20
Russia domestic	-5.4	-23.9	-33.9	-30.7
Within Europe	-6.7	-6.2	-17.9	-21.2
Europe - North America	-3.9	-21.5	-20.1	-18.8
Europe - Asia	-7.9	19.1	2.9	8.7
Europe - Middle East	-5.8	31.0	65.4	57.2
Europe - Africa	-7.3	-4.2	12.3	5.2
Europe - South America	-15.1	-18.7	-21.9	-12.0

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

- 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.

Aircraft deliveries to Europe (as of October 2020)



Source: Ascend