

State of the region: Europe

September 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	1.5	1.1	-1.7	-21.7
Italy	0.3	0.1	-5.6	-17.7
Spain	2.0	1.8	-4.1	-22.1
Turkey	0.9	6.0	4.9	-9.2
Israel	3.3	3.7	0.5	-7.9
Euro zone	1.3	1.0	-3.2	-14.7
Eastern Europe	2.8	2.7	1.3	-9.3
World*	2.5	2.4	-1.7	-9.3

Source: Datastream * Market exchange rate basis

Exchange rates

end of period, # per US\$	2019	Jun-20	Jul-20	Aug-20
US\$ broad index	114.7	120.9	117.6	116.1
European euro (EUR)	0.89	0.89	0.85	0.85
Russian ruble (RUB)	62.1	71.3	74.2	74.1
British pound (GBP)	0.75	0.81	0.76	0.75
Turkish lira (TRY)	5.95	6.85	6.97	7.37
Israeli shekel (ILS)	3.45	3.46	3.40	3.35

Source: Datastream

World oil and jet fuel price

US\$/barrel (period ave.)	2019	Jun-20	Jul-20	Aug-20
Crude oil (Brent)	64.2	40.9	43.3	45.1
Jet fuel	79.6	41.8	45.5	45.4

Source: Platts, Datastream (monthly average data)

Market

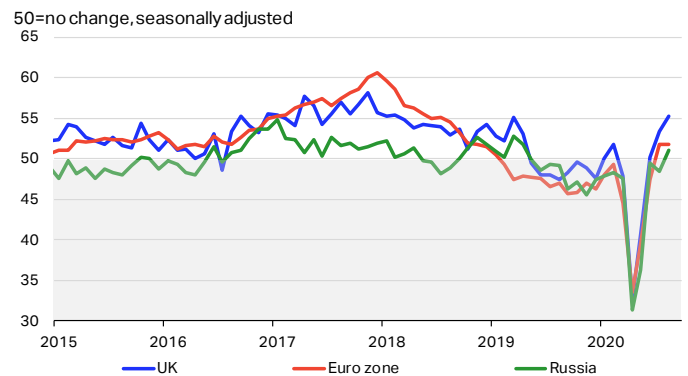
Revenue passenger kilometers (RPKs)

% change on a yr ago	2019	May-20	Jun-20	Jul-20
Region (registration basis)				
Europe	4.2	-97.7	-93.7	-81.3
World	4.1	-91.0	-86.6	-79.8
Routes (segment basis)				
Russia domestic	6.7	-82.7	-58.0	-17.7
Within Europe	5.5	-98.8	-95.8	-79.2
Europe - North America	4.3	-98.5	-97.2	-94.8
Europe - Asia	6.7	-98.2	-97.2	-95.8
Europe - Middle East	4.4	-98.2	-96.8	-93.6
Europe - Africa	4.5	-98.5	-97.0	-92.9
Europe - South America	8.0	-96.1	-95.0	-94.4

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

- Industry-wide revenue passenger-kilometres (RPKs) contracted by 79.8% year-on-year in July vs. an 86.6% fall in June. The gradual rise in demand continued to be largely driven by domestic markets.
- Passenger volumes flown by European carriers declined by 81.3%yoy in July, compared with a 93.7% annual contraction in the previous month.
- Russia domestic was the best performing market for

Business confidence - manufacturing PMIs



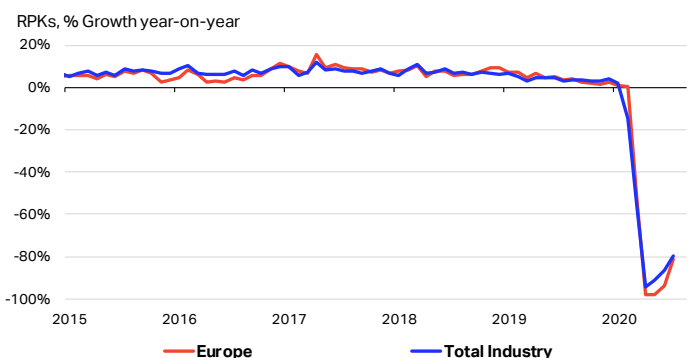
Source: Markit

- Operating conditions improved in August for the key economies that we track in Europe as business resumed and demand continued to recover from the lockdowns. However, the outlook remains uncertain amid virus developments and Brexit negotiations.
- The trade-weighted US dollar depreciated further in August, down 1.2%. Of the key regional currencies, the TRY was the main mover this month, losing 5.7% against the US\$.
- Oil and jet fuel prices were stable in August, averaging ~45US\$/bbl. The average jet fuel crack spread narrowed as the second wave of COVID-19 in several regions raised concerns about air travel outlook.

the region, with RPKs down 17.7% year-on-year, an improvement of 40ppts vs June. Demand in the market has been underpinned by falling domestic airfares and a boom in domestic tourism as options for vacations abroad were restricted.

- Within Europe was the only international market that posted notable improvement vs. the previous month (-79.2%yoy currently vs. -95.8%yoy). The uptick was driven by the opening of the Schengen Area in June.

Growth in air passenger volumes



Source: IATA Economics

Cargo tonne kilometers (CTKs)

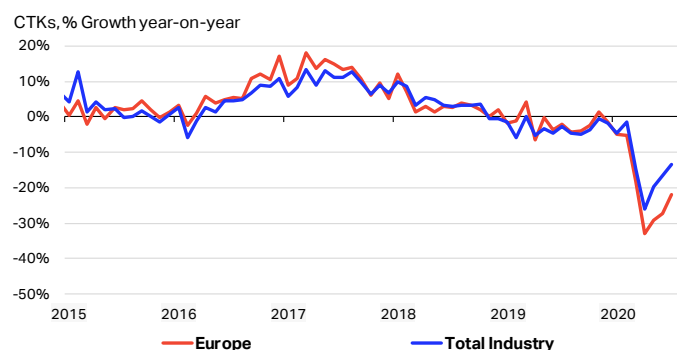
% change on a yr ago	2019	May-20	Jun-20	Jul-20
Region (registration basis)				
Europe	-1.9	-29.2	-27.2	-22.0
World	-3.2	-19.8	-16.6	-13.5
Routes (segment basis)				
Europe - Asia	-1.5	-22.4	-21.9	-20.0
Europe - North America	-2.5	-38.1	-35.6	-30.3
Europe - Middle East	-5.2	-33.2	-26.5	-20.8
Europe - Africa	-1.9	-49.4	-38.2	-31.1
Europe - South America	-3.1	-46.3	-38.3	-38.0
Within Europe	-0.9	-32.5	-30.9	-30.1

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

- Industry-wide cargo tonne-kilometres (CTKs) fell by 13.5% year-on-year in July 2020, the slowest rate of annual decline since February.
- The overall recovery in the air cargo business has been slower than the rebound in economic indicators such as manufacturing output and new export orders so far. The weak outcome can partly be explained by the ongoing shortage in air cargo capacity.

- European airlines experienced a 22%yoy fall in CTKs in July – the second weakest performance of all regions after Latin America (-33.2%yoy).
- Volumes on most key trade lanes to/from the region remain weak, with the large Europe-Asia and Europe-North America markets down 20% & 30%yoy, respectively.

Growth in air cargo volumes



Source: IATA Economics

Industry

Capacity growth and load factors

ASK/ACTK: %ch on a yr ago,		2019	May-20	Jun-20	Jul-20
LF: % of ASK/ACTK					
Passenger					
Europe	ASK	3.5	-95.2	-89.3	-72.7
	PLF	85.2	39.8	51.9	60.9
World	ASK	3.3	-85.9	-80.3	-70.1
	PLF	82.6	52.0	57.7	57.9
Cargo					
Europe	ACTK	3.1	-42.2	-42.6	-36.5
	CLF	51.8	63.0	63.3	59.4
World	ACTK	2.0	-33.8	-33.4	-31.2
	CLF	46.8	57.2	57.5	56.4

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

- Since recovery in demand (RPKs) remained slower than the rebound in capacity (ASKs), passenger load factors stayed at or close to record lows at the industry level (57.9%) as well as for European carriers (60.9%).
- In contrast, the industry-wide air cargo load factor (CLF) reached a new record high in July, as available capacity in the market remained limited. European carriers posted a CLF at 59.4%, up 11ppts compared with a year ago.
- The latest financial results from the second quarter of 2020 confirmed the severe impact of the pandemic on the airline industry. Losses were widespread across

Airline operating (EBIT) margins*

% revenues	2018	2019	2019Q2	2020Q2
Europe	6.2	4.8	8.2	-113
Industry	5.7	5.2	10.0	-97

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

all regions despite the implementation of stringent cost cutting programs. The quarterly net post-tax loss (US\$31.6bn) surpassed the annual industry-wide loss in the 2008 financial crisis.

- Note that the passenger yield data during the lockdown period should be interpreted with caution due to the dramatic fall in the number of tickets being sold.

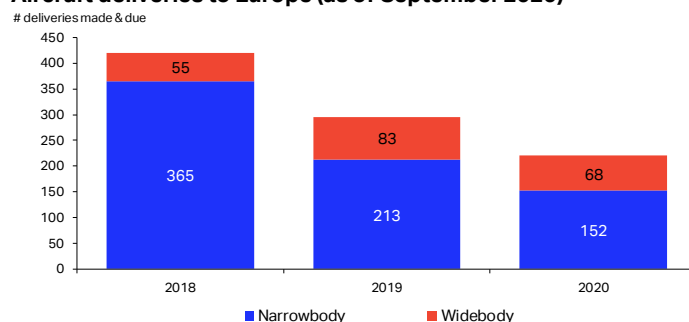
Passenger yields (US\$, excl. surcharges & ancillaries)

% change on a yr ago	2019	May-20	Jun-20	Jul-20
Russia domestic	-5.4	-8.8	-23.8	-33.9
Within Europe	-6.7	-18.9	-9.6	-18.3
Europe - North America	-3.9	-22.6	-25.0	-21.4
Europe - Asia	-7.9	38.2	19.4	3.0
Europe - Middle East	-5.8	28.2	27.3	68.8
Europe - Africa	-7.3	-23.9	-9.6	8.6
Europe - South America	-15.1	-20.4	-22.1	-20.4

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

- The latest data indicate a 26% 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 September 2020)



Source: Ascend