

The OEMs Enmeshed in the Great Tariff Folly

PRESIDENT Trump's tariff tirades have greatly disturbed the global ecosphere but reports of the death of globalisation are premature. Economic logic will surely prevail, we hope.

At the time of writing, President Trump had pulled back from his initial swingeing tariffs, announced on Liberation Day, (April 2), bizarrely calculated to try to equalise trade in goods between the USA and other countries regardless of the actual tariffs in place or the production specialisms of different countries. He has reduced the standard tariff to 10%, to be paid by US importers, but had retained the threat of imposing the original tariffs in a couple of months (August 8 is the dreaded date). China has called his bluff, matching 145% super tariffs with similar taxes on US imports — in effect killing US-PRC trade.

The tariff policy has collided with economic reality, much as mainstream economists predicted it would. Stock markets slumped, the dollar weakened, US GDP forecasts were downgraded and, perhaps most importantly, yields on US government bonds jumped. All this was explained away as short-term pain which would lead to long-term gain as the global economy rebalanced in the US's favour.

In the apparent absence of constitutional checks and balances, behind-the-scenes lobbying by leading US industrialists and financiers seem to have had an effect on the Administration's thinking, at least resulting in from key exemptions from tariffs, as in electronic components for iPhones.

A recovery in share prices sug-

gests that the market expects that the tariff policy will be modified. It might even be nullified if the Administration can be made to understand the complexities of the modern global economy; that simplistic populist solutions to deep-rooted problems like regional de-industrialisation, the fall-out from the introduction of new technology, the fentanyl scourge, Intellectual Property theft and the national security threat from foreign movies, will not work. The tariff strategy is likely to exacerbate these problems.

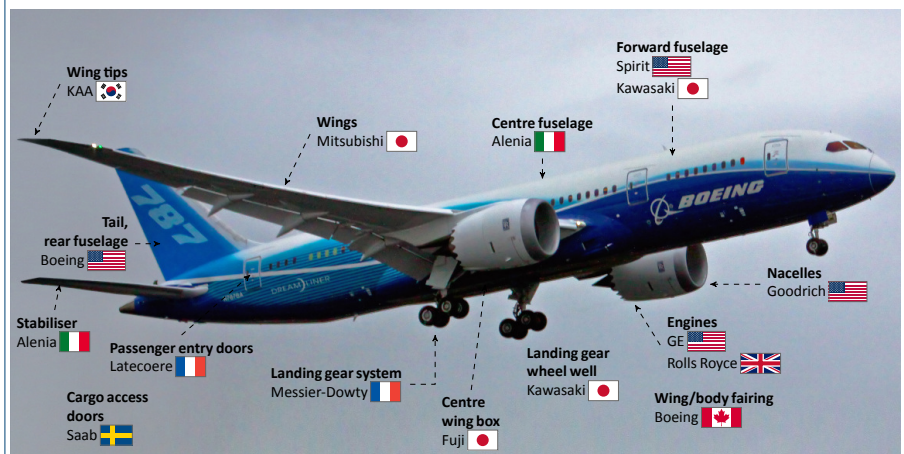
Aerospace is one of the sectors put most at risk from tariff policy — ironic, as the US industry has a strong trade surplus, about \$136bn total export sales and a \$113bn trade surplus

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in 2023 according to the Aerospace Industries Association. Kelly Ortberg, appointed as CEO of Boeing in the middle of last year, has been on quiet missions to Washington and perhaps Mar-a-Lago. At Boeing's first quarter results presentation he commented:

BOEING 787: Made in the USA (with help from the rest of the world)



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“We continue to work this situation proactively with the Administration and it’s clear that they understand the importance of the aerospace industry to the US economy on the role that Boeing plays”.

More interesting was his reply to the inevitable tariff question during the Q&A session:

“I don’t think a day goes by when we aren’t engaged with someone in the Administration including cabinet secretaries and up to POTUS. We have had the luxury of operating for decades since the 1979 Civil Aviation agreement on Large Aircraft in a tariff-free environment, so we’re spending a lot of time making sure the Administration understands the implications of either short term or long term’s tariffs on not just our company but the overall aviation industry in the US. I would just tell you that they understand. They know this is extremely important to our trade, to the trade balance. Aircraft are such a significant part of our trade surplus. And if we see markets closing that’s going to be a big challenge.”

He concluded by commenting on the uncertainty created by the tariff war: “I can’t predict where this is going ... we do hear signs that indicate that [there are opportunities for negotiated settlements]. I just don’t know the timing and so again we’re going to take the actions we need to make sure if this takes a while we don’t get in a situation where it impacts our recovery”.

Real world supply and relocation complexities

Perhaps Mr Ortberg was able to plonk this picture (on the preceding page) on the POTUS’s desk, illustrating that the 787 Dreamliner is not an all-American product; in fact, about one third of its components come from

European or Japanese suppliers, with the value percentage in the total cost of the 787 being somewhat higher. This is the result of Boeing’s established strategy of sourcing components from the most efficient suppliers worldwide, not some nasty conspiracy on the part of foreign manufacturers.

Presumably US Customs will have to come up with an assessment of the foreign produced components in 787 and all other Boeing products in order to exempt them from taxes. Otherwise, the US tariffs will inflate the price of the 787 for both domestic and foreign purchasers.

Exempting these foreign components then undermines one of the stated aims of the tariff policy — to force foreign manufacturers to relocate production to the US. This relocation idea seems to be particularly economically naive, an attempt to regulate corporate decisions by an Administration that is supposed to be removing regulation on industry.

One of the many practical issues is timing. Establishing offshore production facilities is a long and complicated process, stretching beyond the US political horizons set by congressional or presidential elections. An awkward detail is that the FAA has indicated that it would take up to two years for any new component production facility set up in the US by a foreign entity to be certified.

Airbus’s assembly plant at Mobile Alabama is the most important example of offshoring production to the US. This facility was originally proposed back in 2005 with the target of up to producing 50 A320 Family aircraft a year by 2015, but at present output is seven A320s a year (with a pre-Trump plan to double output). Plans to develop further A220 assembly at Mobile were also in place

pre-Trump, but with the majority of the components being imported from Canada there is no clarity on the future direction for this operation as President Trump's bewildering economic and political attacks on the neighbour threaten to completely undermine the free trade principles of the USMCA.

There are some obvious prerequisites for investing in an offshore country, such as an efficient, flexible construction sector and a relevantly skilled labour force, and the US has problems in both these areas, which will certainly not be solved by tariffs. Then there is an inherent contradiction in the tariff policy: for a foreign company to be persuaded to invest in the US, presumably a higher cost location, the US tariff barriers would have to be maintained, but the Administration seems to be offering an easing in tariffs as a reward for investing.

In short, investors need a stable and predictable regulatory regime, the opposite of that created by the tariff wars.

Chinese 5,000 year miscalculations

It has to be said that the US Administration appears to have miscalculated badly by launching its 145% tariffs against China, with the aim of punishing China for "hollowing out" US industry, on the assumption that because China exported over twice as much to the US as the US exported to China it would be forced to capitulate.

China shows no signs of doing so, the contrary in fact. In an interview with the BBC the highly articulate Victor Gao, from the Center for China and Globalization, a think-tank closely linked to the Beijing leadership, summarised China's attitude with the bald statement: "We don't



care". China, he observed, has a 5,000 year history under enlightened or repressive regimes but with all of its rulers being autocratic. President Xi, unlike President Trump, is not subject to democratic pressures when his people suffer.

The direct consequence of the US tariffs will be to reinforce Airbus's advantage in this market, the single most important country market for new aircraft demand. As at the end of last year Airbus's Chinese orderbook, which we estimated at \$21bn, was more than double that of Boeing, \$9bn. China is simply refusing to take the 45-50 Boeing aircraft due for delivery this year, and has returned aircraft from the completion centres in Zhoushan, leaving Boeing trying to place the aircraft in other markets like India, unfortunately another country subject to Trumpian tariff attacks.

In the aerospace sphere China has been trying to break into the commercial manufacturing market for over 20 years but certification of the C919 by EASA, let alone the FAA, is still some years off. COMAC currently reports a total of over 700 orders for the C919, about 230 from Chinese carriers, the rest "undisclosed". The

commercial aircraft industry in the PRC is a direct target for the US Administration — collateral damage will be felt by US manufacturers.

The C919 is sometimes described as a A320 clone but what the picture on the facing page illustrates is that here is a major US involvement in this aircraft from companies such as Arconic, GE, Rockwell Collins, Honeywell. Safran, which in partnership with GE, manufactures the CFM LEAP engines for the C919, has said that its has been assured by the Chinese that no tariffs will be applied to its supplies for the aircraft, but it is unknown whether other American components will be taxed. In short, the tariff policy threatens the US aerospace industry as well as the Chinese.

An unintended consequence of the tariff war is that China will intensify its sales efforts and joint venture projects in Asia, Africa and Latin America, where it gained ground rapidly after the first wave of tariffs in the late 2010s curtailed business in the US. There may also be a little complacency about the C919, and future Chinese models, with Western observers underesti-

maturing the potential of the Chinese commercial aircraft manufacturing business. Note that the BYD (Build Your Dreams) electric vehicle corporation is competing very effectively with Tesla especially in developing markets. Taking a longer term perspective: in the 1990s it seemed inconceivable that China would become a player in the commercial shipbuilding industry, dominated by Europe and Japan, but it brought in technology and in 2024 delivered over half the global newbuilding tonnage.

Michael O'Leary, CEO of Ryanair, perhaps Boeing's most important customer, has stated that Ryanair would buy the C919 if it were about 10% below the price for which it could get an A320. A typically provocative statement, but one which might not seem so ludicrous in 5-10 years' time.

The vicious circle

According to mainstream economists, the best response to the imposition of tariffs is not to retaliate. This seems to be the UK's policy at present, instead inviting President Trump for a shooting weekend at Balmoral with King Charles (or something similar). For the other European countries, which are not fortunate enough to have an accessible monarch or grouse, the political pressure to match US tariffs will be irresistible. The EU has already strongly hinted at full-scale retaliation. This is the vicious circle of tariffs that David Ricardo warned about in the 19th century.

Guillaume Faury, CEO of Airbus has remained philosophical, accepting the inevitability of US and European tariffs in the short-term, while hoping to bring back at the first opportunity the 1980 Agreement on Trade in Civil Aircraft which elimi-

nated import duties on all aircraft, engines and components. Airbus, at its first quarter results presentation, explicitly refused to factor tariff impacts into its 2025 financial outlook, claiming it was too early to make an assessment.

Faury also commented that "that there will be only losers in the aerospace industry, in particular in the US". He added that Airbus was in talks with US airline customers as to how to mitigate the impact of tariffs, but indicated that Airbus would not be making concessions on the delivery prices, that it was up to US airlines to pay US import taxes on Airbus.

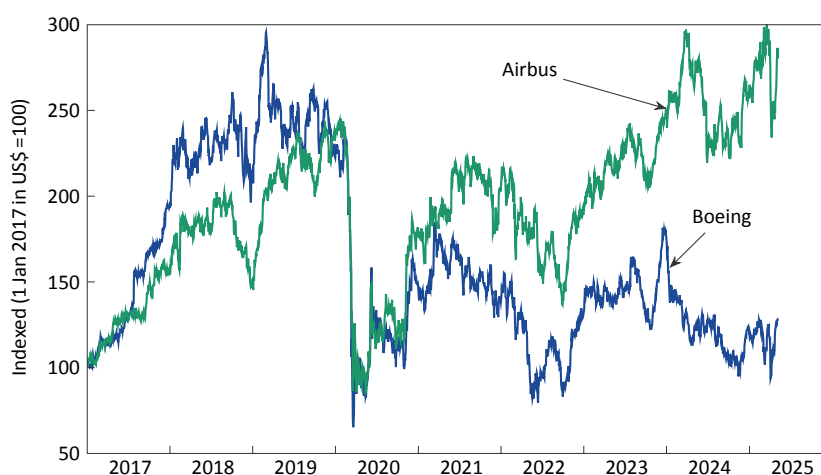
The cost of the tariffs will somehow be split between the OEMs/suppliers and the airlines/lessors, and will eventually be passed on to shareholders and passengers, but it is the airlines that are most directly exposed in the short term. Delta has bluntly stated that it will not accept its ten A320s and A350s due this year if it has to pay tariffs on imports from Europe. China is refusing delivery of up to 50 Boeings scheduled for delivery this

year. Aengus Kelly, CEO of Dublin-based AerCap, the world's largest operating lessor, was quoted in the *Financial Times* as warning that "if this tariff situation is to continue and the Europeans will be forced to put tariffs on Boeing aircraft... it will be far more challenging for Boeing to sell into Europe and China".

Ryanair has said that it will delay MAX deliveries until 2026 if tariffs are imposed by the EU, and has even threatened to cancel its 184 unit order completely. This is MOL hyperbole to be sure, but could orders actually be cancelled because of tariffs? The 10%-plus price increases unexpectedly added to final sale prices because of tariffs might or might not be covered by the escalation clauses in the sale and purchase contracts, questions for corporate lawyers to argue over and earn large fees from.

Airlines are facing a particularly problematic situation when it comes to accepting new aircraft, one that the US Administration patently did not have a clue about. Deposits and PDPs are paid at regular intervals during an aircraft production process to the OEM; by the schedule delivery

OEM SHARE PRICE PERFORMANCE



date about 80% of the price will have been paid, but these payments are calculated on the list price of the aircraft not the discounted price negotiated by the airline. So it is often the case that the airline will have paid more pre-delivery than the total cost of its aircraft, with the result that when the aircraft is delivered the airline also receives a financial credit. Sadly in the new world of tariffs instead of a cash-back the airline will be facing an unexpected invoice for, say, \$14m for an A321NEO.

The best outcome would be for the President to declare that tariffs have been a HUMONGOUS SUCCESS — then abandon the policy . Unfortunately, the likelihood is that the US will retain minimum 10% barriers, maybe 20%. This may seem like a relief, but to the civil aircraft industry, that has operated tariff-free for most of the past 25 years, this in theory could equate \$8-16bn in extra costs on European imports to the US and a further \$8-16 bn on retaliatory tariffs imposed by the Europeans on US exports (based on the respective backlog tables on page 5, 10% or 20% tariff rates, using list, not actual, prices, and ignoring possible exemptions). For perspective , over the past 10 years Boeing's cumulative net result was \$(1.4)bn, while Airbus's net profit totalled \$27.5bn.

This \$16-32bn represents a tax transfer from the two manufacturers (and/or airlines) to their respective governments: so instead of Boeing and Airbus and the airlines using these funds productively they will be absorbed in government spending. That is the meaning of tariffs.

AIRBUS'S US ORDERBOOK

	Total Aircraft	Value (\$bn)
United	191	13.1
Delta	185	10.7
Air Lease Corp	180	9.0
Frontier	168	8.7
American	146	7.6
JetBlue	103	4.3
NAS Aviation Services	81	4.2
Spirit	53	2.6
Jackson Square	50	2.5
Aviation Capital	55	2.5
Breeze	56	1.8
Azorra	18	0.6
Total	1,286	67.6

BOEING EUROPEAN ORDERBOOK

	Total Aircraft	Value (\$bn)
Lufthansa	101	10.3
Ryanair	184	8.6
AerCap	128	7.0
Avolon	113	5.4
Pegasus	100	4.7
British Airways	25	3.8
SMBC	81	3.8
SunExpress	73	3.4
IAG	50	2.3
Norwegian	50	2.3
Avia Solutions	40	1.9
Macquarie AirFinance	40	1.9
Cargolux	10	1.6
TUI Travel	34	1.6
Turkish	11	1.4
Air Europa	20	0.9
Timaero Ireland	17	0.8
Air France-KLM	4	0.5
Luxair	10	0.5
SkyUp	7	0.3
Enter Air	6	0.3
TAROM	5	0.2
CMA CGM	1	0.2
TOTAL	1,110	63.8

Note: value based on estimated (not list) prices

Boeing and Airbus: The Financials

HAVING appeared to be on a road to recovery in 2023, Boeing reported a massive net loss in 2024, \$(11.8)bn, a -17.7% net margin, while Airbus was again profitable, \$4.1bn or a 5.9% margin on revenues. Over the past ten years (2014-24) Boeing has accumulated a net loss of \$24.1bn while Airbus has achieved a total net profit of \$27.5bn.

The stockmarkets' verdict on the two OEMs is indicated by the graph on the facing page. Up to the end of 2020, including the period when the MAX crisis emerged and the whole market plummeted when the implications of the pandemic became clear, the share prices of the two OEMs more or less tracked each other. Then they diverged, with Airbus strongly outperforming Boeing. Still, the equity market value of Boeing is now about \$140bn while Airbus is capitalised at the equivalent of \$125bn; back in 2017 Boeing was valued at \$175bn almost two and half times Airbus's \$73bn.

Boeing brought in a new CEO, Kelly Ortberg, in August, replacing the beleaguered Dave Calhoun. Ortberg had previously headed Rockwell Collins. He may have decided to push as much bad news as possible into 2024, and indeed there was a lot of bad news. On top of the ongoing MAX and 778 production problems, which cut deliveries to just 348 units from 528 in 2023 and caused total revenue to decline to \$66.5bn from \$77.8bn in 2023, the company highlighted these factors:

✈ The IAM strike impacted production and reduced revenue by \$15.2bn

in the fourth quarter.

✈ One-off charges of \$1.7bn were recorded for defence programmes and \$1.1bn for the 777X and 767 programmes.

✈ Unspecified costs associated with workforce cuts.

Boeing had one vital success in 2024 — the equity raise of \$23.8bn which has gone a long way to repairing the company's balance sheet, and should have provided a platform for financial recovery, until tariffs created such uncertainty. Understandably, Boeing no longer provides financial guidance. Its key target had been to reach \$100bn in revenues by 2026, which would have returned it to the record sum reached back in 2018. It

still officially has the \$100bn target but no commitment to a specific year.

Boeing's strategy is to continue to "go slow" reviewing all its processes and supply chains for safety quality — in the process changing the culture of the company, according to Ortberg. The FAA continues to scrutinise, and maintains its cap on 737 MAX production of 38 units a month (the 2022 plan was for 52) per month. Boeing expects to be able to ramp up from the low 30s currently to 38 a month by the end of the year. 787 production is expected to go up to at least seven a month by the end of 2025, compared an average of five in 2024.

At least in the short term the effect of tariffs is manageable, accord-

BOEING OPERATING RESULTS BY SEGMENT, 2024

	\$bn	Revenues	Operating Result	Margin
Commercial Airplanes	22.9		-8.0	-34.9%
Defense	23.9		-5.4	-22.6%
Global Services	20.0		3.6	18.0%
Others and Eliminations	(0.3)		(0.9)	na
TOTAL	66.5		(10.7)	-16.1%

AIRBUS OPERATING RESULTS BY SEGMENT 2024

	€bn	Revenues	Operating Result	Margin
Airbus (Commercial)	50.6		5.1	10.1%
Defence	12.1		(0.7)	-5.8%
Helicopters	7.9		0.8	10.1%
Others and Eliminations	(1.4)		0.1	na
TOTAL	69.2		5.3	7.7%

BOEING CASH FLOWS

	\$bn	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Revenue		90.7	96.1	93.4	94.0	101.1	76.6	58.2	62.2	66.6	77.8	66.5
Net Result		5.4	5.2	5.0	8.4	10.5	(0.6)	(11.9)	(4.3)	(5.1)	(2.2)	(11.8)
Operating Cashflow		8.8	9.4	10.4	13.3	15.3	(2.4)	(18.4)	(3.4)	3.5	6.0	(12.1)
Capex/Acquisitions (net)		(2.4)	(2.4)	(2.9)	(2.0)	(4.8)	(1.5)	(1.0)	(0.5)	(1.2)	(1.6)	(2.2)
Free Cashflow		6.4	7.0	7.5	11.3	10.5	(3.9)	(19.4)	(3.9)	2.3	4.4	(14.3)
Net Investment Inflow/Outflow†		4.9	0.6	(0.5)	(0.1)	0.2	0.0	(17.4)	9.8	5.5	(0.7)	(9.8)
Net Increase/(Decrease) in Debt		(0.4)	1.3	0.2	1.4	1.3	13.0	36.2	(5.6)	(1.3)	(5.5)	1.4
Stock Issue												23.8
Share Buy Backs & Dividends		(8.1)	(9.2)	(9.8)	(12.7)	(13.0)	(7.3)	(1.2)				
Total financial Flows		(3.6)	(7.3)	(10.1)	(11.4)	(11.5)	5.7	17.6	4.2	4.2	(6.2)	15.4
Net Change in Cash		2.8	(0.3)	(2.6)	(0.1)	(1.0)	1.8	(1.8)	0.3	6.5	(1.8)	1.1
Cash Balance (end period)		11.9	11.6	9.0	8.9	7.9	9.6	7.7	8.0	14.6	12.7	13.8

Note: † Refers mostly to the purchase/sale of financial instruments.

ing to management, the biggest problem being finding new customers for the 50 aircraft that China is refusing. Various cost pressures are emerging on imported components, either directly or via US suppliers, but Boeing thinks that these can be passed on.

Airbus's 2024 revenues rose by 6% to the equivalent of \$73.7bn, on the back of an increase in commer-

cial deliveries to 766 units from 735 in 2023. Airbus too has suffered supply chain and production problems, especially regarding the GTF engines fitted to A320 NEOs, though in this case it is P&W that is bearing the direct costs.

Airbus is giving financial guidance. Its target is 820 commercial aircraft deliveries in 2025, and it

expects adjusted EBIT of \$7.5bn compared to \$5.7bn in 2024. But Airbus in its first quarter presentation added that has yet not made any adjustments to its financial forecasts to account for tariffs because it was too early to quantify the impacts.

Its medium term planned output for the A320 Family is roughly twice that of the MAX programme — 75

AIRBUS CASH FLOWS

	€bn	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Revenue		60.7	64.5	66.5	59.0	63.7	70.5	49.9	52.1	58.8	65.4	69.2
Net Result		2.3	2.7	1.0	2.4	3.1	(1.3)	(1.7)	4.2	4.1	3.6	4.1
Operating Cashflow		2.6	2.9	4.4	4.4	2.3	3.8	(5.4)	4.6	6.3	6.3	7.4
Capex/Acquisitions (net)		(2.7)	(3.1)	(3.0)	(2.3)	(2.0)	(2.2)	(1.5)	(1.7)	(2.6)	(3.3)	(4.0)
Free Cashflow		(0.1)	(0.2)	1.4	2.1	0.3	1.6	(6.9)	2.9	3.7	3.0	3.4
Net Investment Inflow/Outflow†		(0.6)	(0.4)	2.2	(0.2)	0.4	(0.7)	5.6	(1.0)	0.2	(0.8)	(2.3)
Net Increase/(Decrease) in Debt		1.3	1.5	1.7	0.0	(2.0)	0.3	6.4	(2.0)	(1.1)	(0.1)	(0.4)
Share Buy Backs & Dividends		(0.6)	(1.3)	(1.8)	(1.0)	(1.2)	(1.3)	0.0	0.0	(1.0)	(1.4)	(2.2)
Total financial Flows		0.1	(0.2)	2.1	(1.2)	(2.8)	(1.7)	12.0	(3.0)	(1.9)	(2.3)	(4.5)
Net Change in Cash		0.0	(0.4)	3.5	0.9	(2.5)	(0.1)	5.1	(0.1)	1.8	0.7	(1.5)
Cash Balance (end period)		7.8	7.4	10.9	11.8	9.3	9.2	14.3	14.2	15.9	16.5	15.0

Note: † Refers mostly to the purchase/sale of financial instruments.

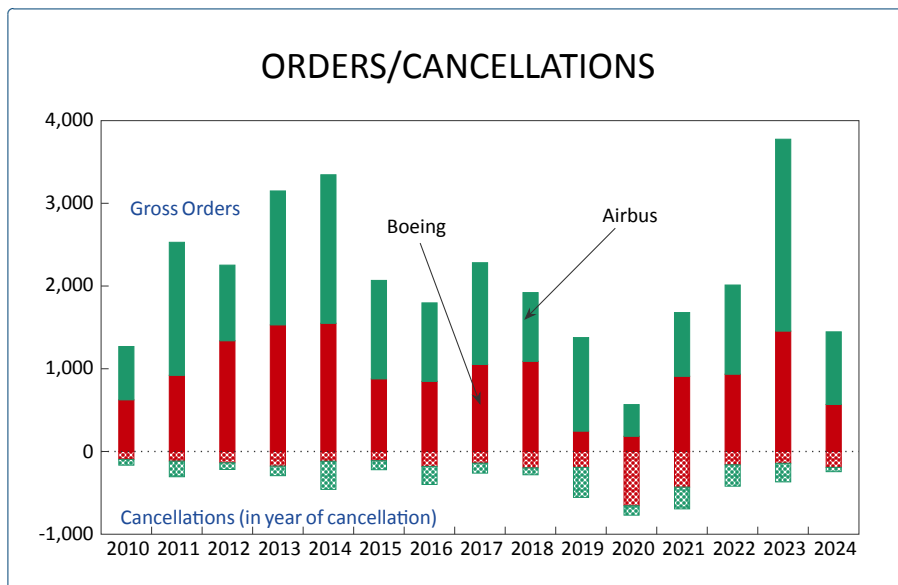
units a month by 2027. Airbus's plan for the A350s is 12 units a month by 2028 and for the A220s, 14 units a month by 2026.

How did Boeing, America's premier manufacturer, get itself into this financial state? Our thesis is that policies instigated by CEOs, James McNerney and Dennis Muilenburg, undermined the corporation. They succumbed to the obsession with quarterly results and share price momentum, resulting in unsustainable amounts of cash being returned to shareholders. This phenomenon was prevalent in many industrial sectors in the 2010s, and to a certain extent was also followed by Airbus, but the impact on Boeing was especially harsh, with too little capital being allocated for investment in new products or to ensure production quality or simply to bolster reserves.

The financial tables and the graphs on these pages trace the longer term financial fortunes of the two OEMs and provide some interesting insights into their current positions.

Boeing had historically been a more profitable company than Airbus, with a net result totalling \$34.5bn during 2014-18, more than three times that of its European rival. Since suffering the various shocks, ranging from the MAX crises to COVID to the 2024 strike, Boeing has produced major losses, \$(35.9)bn during 2019-24 compared to a resilient cumulative profit of \$14.0 at Airbus.

Historically, Boeing's Commercial division has been firmly supported by the Defense and Global Services divisions. But, for the past two years, Defense has been loss-making, which the company blames on fixed-price government development programmes. Airbus is predominantly a civil aircraft manufacturer, but its De-

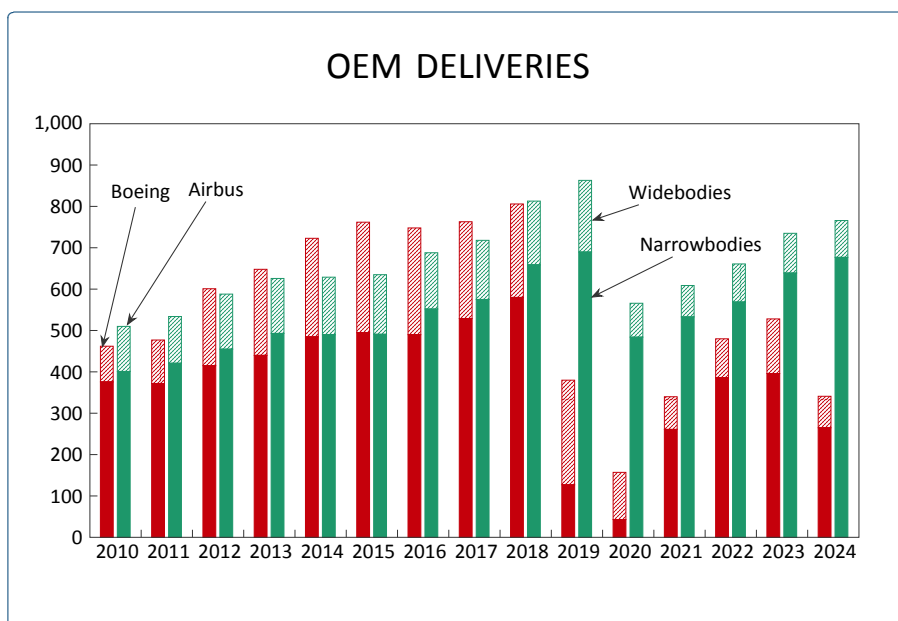


fence and Helicopter divisions have contributed marginally to overall profits for the past two years

A major difference between the two OEMs used to be Boeing's greatly superior ability to generate cash. Operating Cashflow — ie, profits plus depreciation and amortisation, adjustments for deposits and PDPs (these are paid to the manufacturer usually in three or four tranches, based on the list price not the negotiated discounted price, before the airline takes delivery of the aircraft which is when

the manufacturer records the revenue), changes in inventories, creditor/debtor balance, etc — was huge at Boeing: \$57.2bn during 2014-18, in contrast to just \$19.2bn at Airbus. Then everything went wrong — for the period 2019-2024 Boeing's operating outflow totalled \$(35.9)bn, while Airbus managed to generate positive cash of \$24.8bn during this period.

Subtracting Capex — which includes new and replacement manufacturing equipment, R&D, invest-



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ments in or divestment from other companies — from Operating Cashflow gets us to Free Cashflow, which again was historically much stronger at Boeing than Airbus. In 2014-2018 Boeing generated \$42.7bn, dwarfing Airbus's \$3.9bn.

In startling contrast, during 2019-2024 Boeing's Free Cashflow went negative to the tune of \$(34.8)bn, despite a near halving in net Capex. Airbus was positive, \$8.1bn, on this measure. (These calculations of Free Cashflow are taken directly from the published accounts; the OEMs may have different definitions.)

Coming into the crises of 2019/20, first the MAX grounding, then Covid-19, Boeing found itself with inadequate liquidity, which led to a huge surge in borrowing to cover liabilities and contingencies: during 2019-24 Boeing increased its net debt by a total of \$38.2bn, Airbus by a much more modest \$3.5bn. (The OEMs did not take industry-specific state loans, but they have benefited from implicit state support.)

By the end of 2023 Boeing's balance sheet was distressed; its debt (long and short term) stood at \$52.3bn as at the end of 2023, meaning that its balance sheet showed negative net equity of \$(17.2bn). Moreover, debt was easily manageable in the era of ultra-low interest rates 1-2% pa, but Boeing is now paying around 5.4% pa, Airbus around 4.5% on its new debt. Both OEMs currently have investment grade ratings, but Fitch rates Boeing's long-term debt at BBB-, two grades lower than Airbus's at A-.

The equity raise of \$23.8bn in the third quarter of last year has partly restored Boeing's balance sheet. Long and short term debt still totalled \$53.9bn at the end of 2024, but, importantly, its negative net equity has been reduced to \$(3.9)bn. Long term debt totalled \$27.2bn at Airbus at the end of 2024; it has positive net equity of \$19.0bn.

Boeing has not paid dividends since 2020 and there is little prospect of any in the foreseeable future. Air-

bus, on the other hand, has restored shareholder payments, and has proposed a dividend of \$3.5bn for this year.

It is worth recalling what happened to all that cash generated during the good times, 2014-18. During this period Boeing generated \$42.7bn in Free Cashflow but then returned \$52.8bn to shareholders in dividends and, especially, through share re-purchases — in other words it paid out more to shareholders than it was generating internally; it was in effect borrowing in order to fund its generosity to shareholders (and to senior management whose bonuses were related to the soaring share price). Airbus followed the same policy, albeit on a much smaller scale — generating a total of \$3.9bn and paying out \$6.8bn. Such a financial strategy was dubious during the good times. It proved to be calamitous when things went wrong.

BOEING'S BALANCE SHEET

	\$bn	End 2024
Property and Plant	11.4	
Intangibles (inc Goodwill)	10.0	
Inventories	87.6	
Cash etc	13.8	
Other Assets	33.5	
TOTAL ASSETS	156.3	
Advances and PDPs	60.3	
Accrued Liabilities	24.1	
Pension/Health Plans	8.2	
Accounts payable	11.4	
Short-term debt	1.3	
Long-term debt	52.6	
Other	2.3	
TOTAL LIABILITIES	160.2	
EQUITY (DEFICIT)	(3.9)	

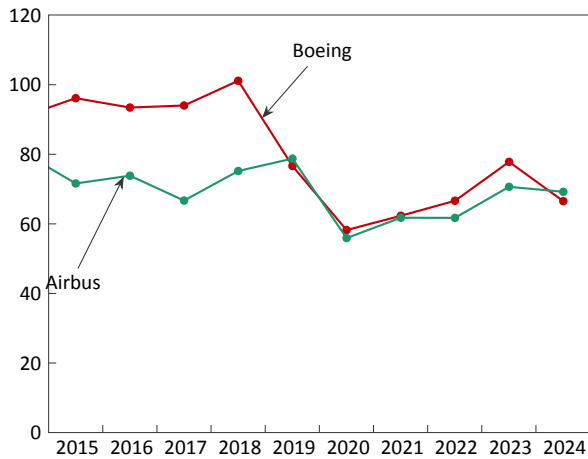
AIRBUS'S BALANCE SHEET

	€bn	End 2024
Property and Plant	19.1	
Intangibles (inc Goodwill)	17.1	
Inventories	37.7	
Cash etc	15.0	
Other Assets	40.3	
TOTAL ASSETS	129.2	
Advances and PDPs	55.0	
Other Short Term Liabilities	5.4	
Other Liabilities/Provisions	23.6	
Long term debt	25.5	
TOTAL LIABILITIES	109.5	
EQUITY (DEFICIT)	19.7	

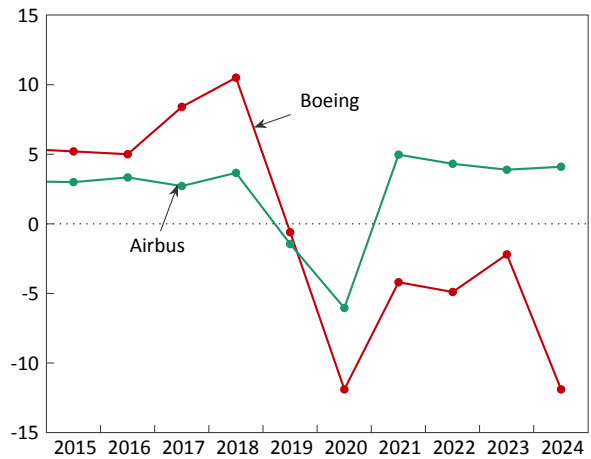
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OEM FINANCIAL DATA (US\$bn)

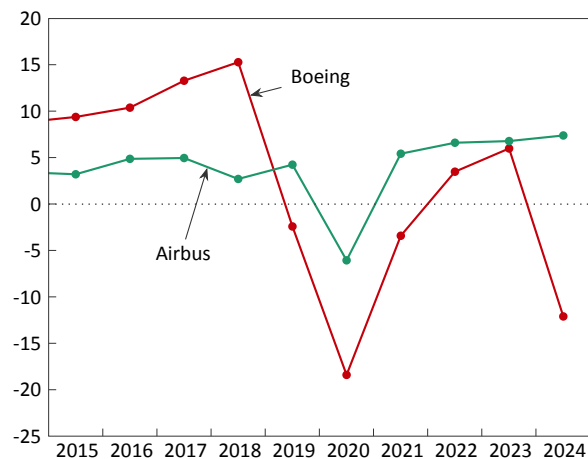
Total Revenues



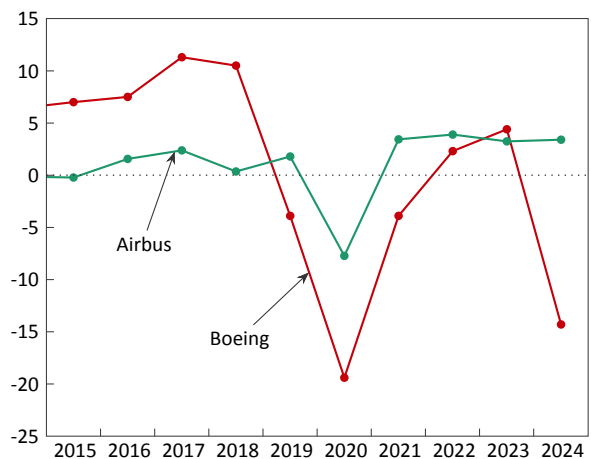
Net Result



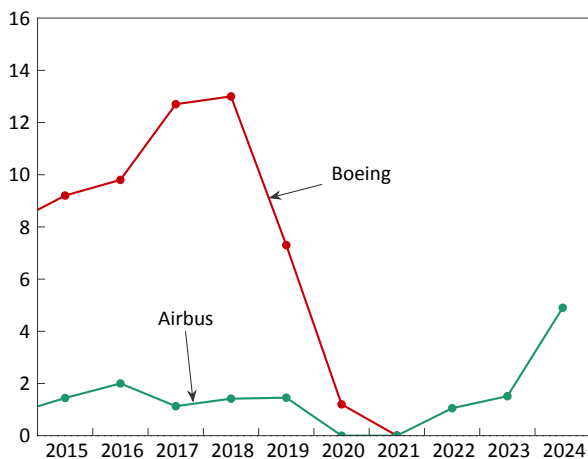
Operating Cashflow



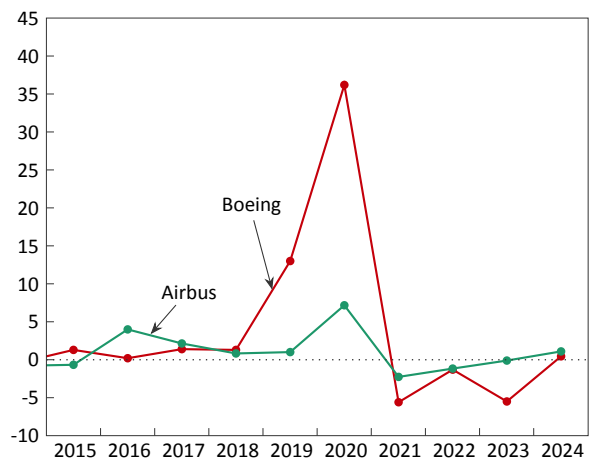
Free Cashflow



Dividends paid plus share buybacks



Change in Net Debt



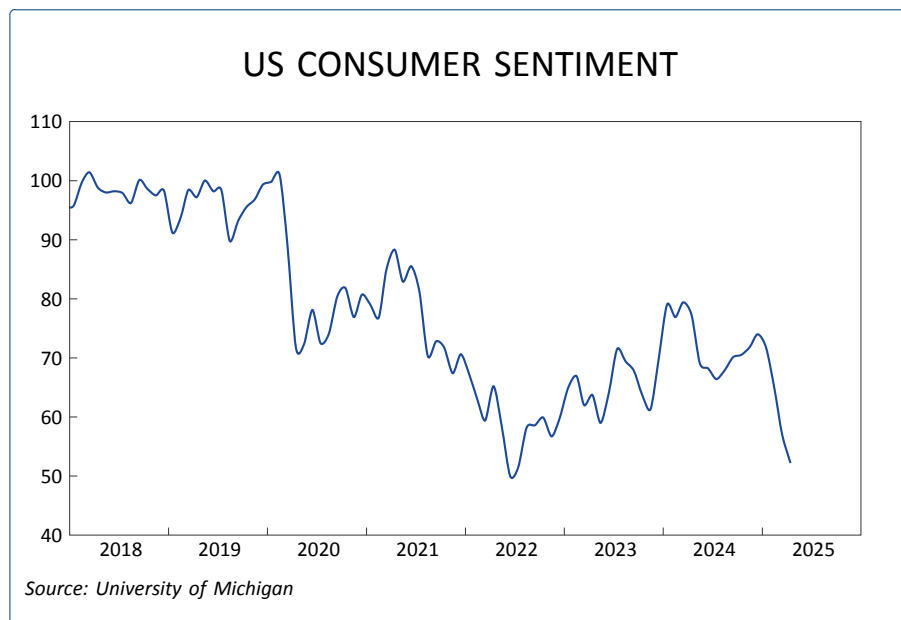
There may be Trouble Ahead: US Airlines into a Downturn?

FIRST quarter results from the major US airlines disappointed the markets: all highlighted weakening domestic demand and, amid fears of a possible recession, removed full year guidance, though they still expect to be profitable.

2025 had started positively — until that is (although none of the airlines dare say it) the installation of the new Administration in Washington. To quote Ed Bastian, Delta's CEO: "February and March reflected a much more challenging macro environment than anyone initially planned for. Coming into 2025, we were positioned for another year of strong growth. However, given broad economic uncertainty around global trade, growth has largely stalled. The impact has been most pronounced in domestic and specifically in the main cabin, with softness in both consumer and corporate travel." Equally Southwest saw a sudden shift: January load factors were down a couple of points, but the other two months of the quarter showed a 5.5pt decline.

The softness of demand at the back of the bus is not surprising. US consumer confidence has weakened significantly since the beginning of the year. As shown in the graph on page 11, the Michigan Consumer Sentiment index has seen the largest sustained decline since 2022, dropping more than 20 points since December — although this is not (yet) quite as large as the 30 point fall in 2020 as Covid hit.

It makes some sense that this lack of confidence could lead to reduc-

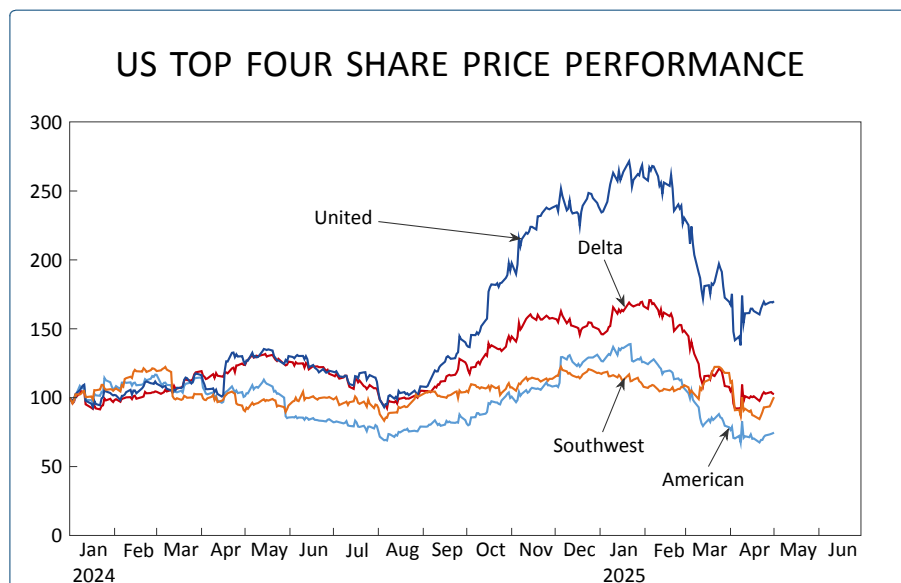


tion in discretionary spending (such as taking a flight or going to McDonald's).

On its results conference call United Airlines highlighted that domestic business traffic trends had slumped suddenly during the quarter. Having seen business revenues

growing at around 15% year-on-year in Q4 2024, this rate of growth slowed to 7% in Q1 2025. COO Andrew Nocella commented that "contracted business sales for all future travel are currently up low-single-digits year-over-year".

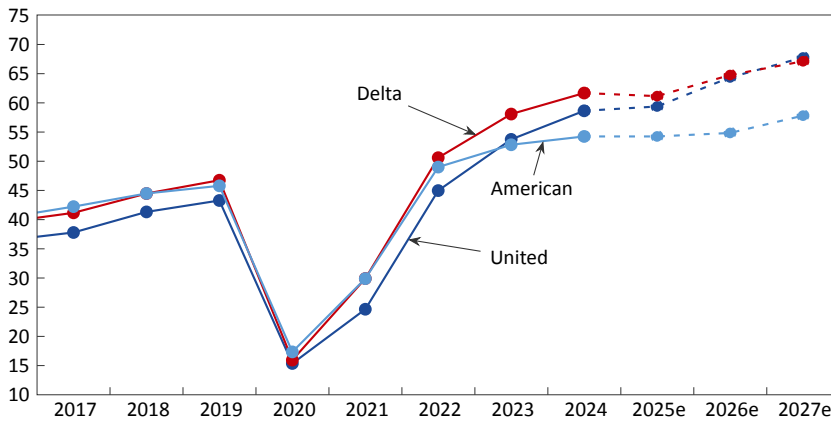
Southwest seemed a bit more



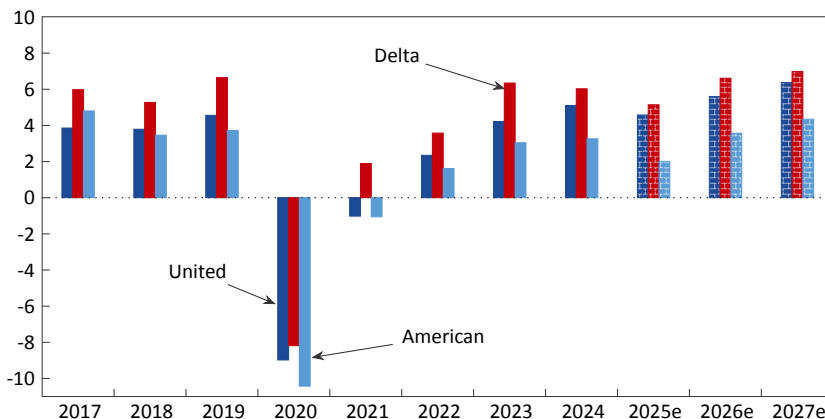
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US MAJORS FINANCIAL RESULTS

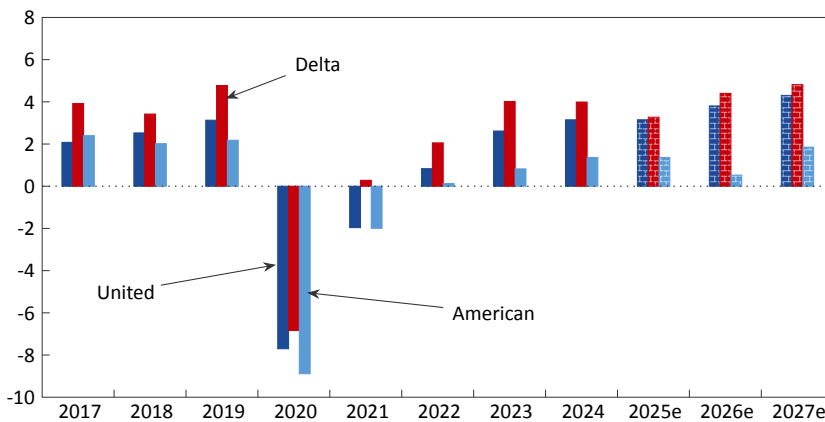
Revenues



Operating Profits



Net Profits



Source: company filings. Forecast: Barclays

positive stating that its managed business bookings were still seeing growth and were stable.

To quote Southwest's COO, Andrew Waterson (speaking on the Southwest results call): "... you always have geographies or industries that are plus or minus one quarter or the other. Insurance, technology, banking were up this quarter; manufacturing and healthcare were down a little bit. I would consider those just the normal vagaries..."

"So what's kind of different about this environment is that if you have kind of any kind of macro weakness usually it shows up in business first. And business travel is highly correlated with corporate earnings. Corporate earnings have held up." And, he continued: "It's the customers' discretionary travel that is really the crux of the slowdown".

However, he explicitly excluded government business travel (both state, local and federal) which saw "a marked slowdown starting in January".

This had been echoed by United Airlines. At a conference presentation in March the airline's CEO, Scott Kirby, mentioned that 2-3% of the carrier's business comes from the US government — including accompanying consultants and contracts. He said: "That's running down about 50% right now".

The reaction to this marked slowdown in demand, from all four top airlines, has been to reduce capacity through the rest of this year — and particularly off-peak capacity. And there seems to have been a move to open the revenue management systems to deeper discounts — attempting to restore load factors at the expense of yields.

Interestingly, none of the players in their Q1 results made much

US MAJORS Q1 RESULTS BY GEOGRAPHICAL REGION

		Domestic	Atlantic	Latin America	Pacific
American	Revenues•	8,127	965	1,906	393
	Pct of total	71%	8%	17%	3%
	Y-on-Y %ch	-1.6%	-2.7%	0.2%	30.1%
	Unit Revenue‡	-0.7%	10.5%	na*	4.9%
	Demand§		-1.9%†		
Delta	Revenues•	8,101	1,372	1,334	673
	Pct of total	71%	12%	12%	6%
	Y-on-Y %ch	1.5%	5.1%	5.5%	16.4%
	Unit Revenue‡	-3.0%	8.0%	-2.0%	1.0%
	Demand§	0.0%	0.0%	6.0%	25.0%
United	Revenues•	8,034	1,899	1,577	1,722
	Pct of total	61%	14%	12%	13%
	Y-on-Y %ch	4.7%	3.6%	9.1%	8.4%
	Unit Revenue‡	-3.9%	4.7%	1.9%	8.5%
	Demand§	3.6%	-2.3%	4.6%	9.3%

Notes: • US\$m; * up “for the first time in more than a year”; † System: geographical segments not separately disclosed; ‡ (P)RASM y-y %ch; § RPM y-y %ch

mention of Canada: tourist arrivals from there into the US fell noticeably after President Trump’s suggestion to annex the country as the USA’s 51st State (see next article on page 16). Half of those incoming tourists fly; each of the three major US network carriers serve the major cities in Canada; their revenues for accounting purposes are treated as “domestic”. United did however reveal that Canadian originating passenger bookings for the second quarter were down 9% year on year.

Premium and International performing reasonably well

Delta is the only one of the three major network carriers to segment passenger revenues by broad class of travel. In the quarter it saw “Main Cabin” revenues fall by 1% to \$5.3bn — 49% of passenger revenues, and 2ppts lower than the same period in the prior year. In contrast “Premium” revenues were up by 7% to \$4.7bn; and loyalty awards grew by 11% to \$0.9bn.

International operations account for 30% of passenger revenues at American and Delta; and 40% at United.

Of the three United is the largest player on the Atlantic, and in the quarter while demand in revenue passenger miles fell by 2.3% (on seat capacity 1% lower), unit revenues grew by nearly 5% and revenues grew by 4% overall to \$1.9bn. United is also the largest of the three on the Pacific — boosted by its operations in Micronesia. Here the post-pandemic recovery had only really started at the beginning of 2024, but it continued

a-pace in the first quarter: traffic was up by over 9% year on year (on virtually static capacity), yields down slightly and passenger revenues up by 9% to \$1.7bn. The company noted that unit revenues in its International Polaris (business class) were up by 8% year-on-year; and those in international Premium Plus up by over 5%. Loyalty revenue meanwhile grew by 9% to \$1.5bn.

United’s Andrew Nocella noted that bookings for international passengers originating in Europe for travel in the current quarter are 6% lower than last year, but that growth

US MAJORS Q1 RESULTS

	American		Delta		United	
	\$m	%ch	\$m	%ch	\$m	%ch
Revenues	12,551	-0.2%	14,040	2.1%	13,213	5%
Operating profit	(270)	nm	569	-7.3%	607	513%
Net Income	(473)	51.6%	240	548.6%	387	-412.1%
Operating margin	-2.2%	-2.2pts	4.1%	-0.4pts	4.6%	+3.8pts

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in US originating demand has more than compensated these reductions. Similar to American and Delta, 75-80% of United's international demand originates in the US.

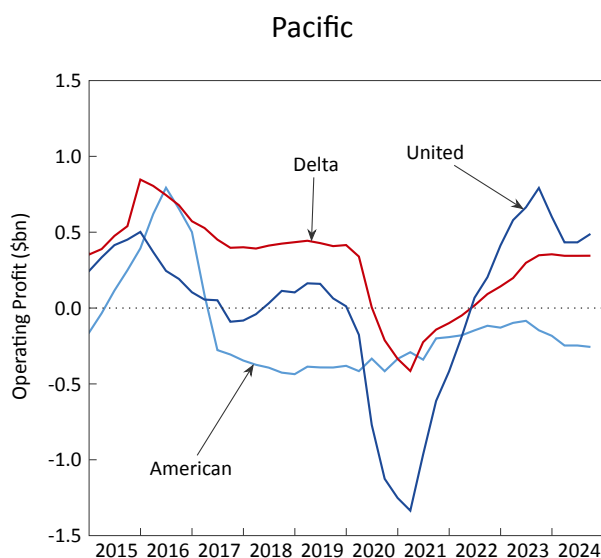
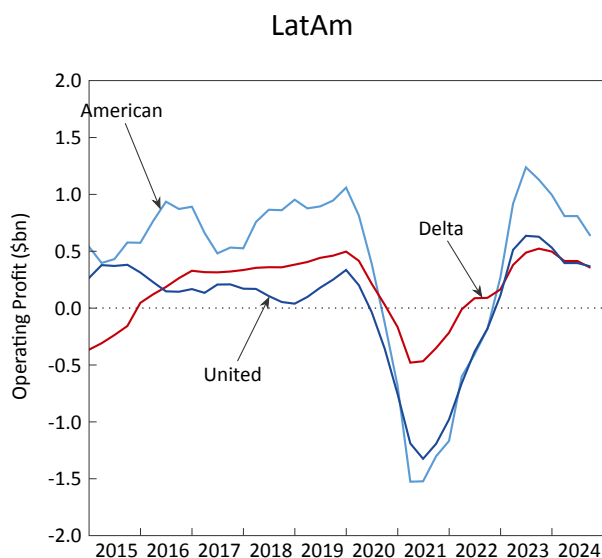
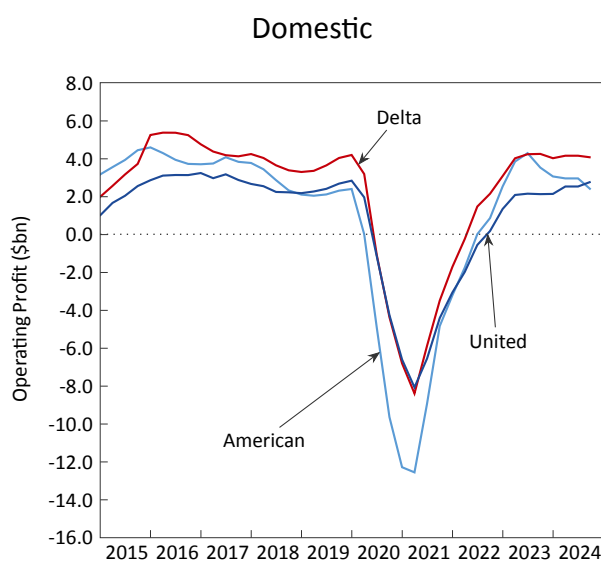
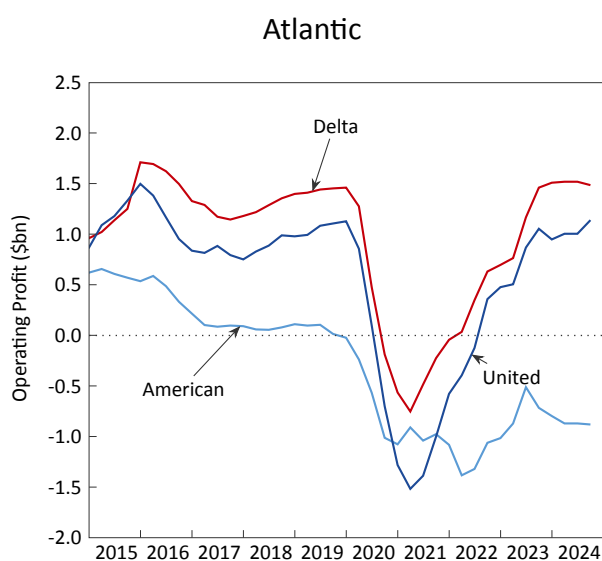
He also stated: "As we think about the impact that potential recessions could have on business

traffic, it is important to note that relative to pre-pandemic, our revenue makeup is less reliant on this revenue source. Business revenue now makes up 8 points less of our passenger revenue and contributes 4.4 points less to our load factor. So far, we've seen no deterioration

in high-end consumers' willingness to purchase a premium experience. We attribute this to the fact that the economic uncertainty has a larger impact on more budget minded discretionary travelers than those seeking a premium experience."

Delta generates less than a third

US MAJORS: RESULTS BY REGION



Source: DoT Form 41

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the revenues achieved by United on the Pacific — serving a handful of destinations in North East Asia and Australasia. But in the quarter it saw a 25% growth in traffic against a 16% increase in capacity which resulted in a 16% increase in revenues to \$673m. Its operations on the Atlantic and to Latin America each generated \$1.3bn in the period — each 5% higher than the prior year period: Atlantic demand was flat year-on-year although capacity fell 3%; LatAm routes saw demand up by 6% while load factors dipped by 1ppt.

American Airlines in contrast has the largest exposure to Latin America with revenues in the quarter up slightly at \$1.9bn — the route area accounting for 17% of passenger revenues. The operating details provided are sparse, although CEO Robert Isom did say that there was an increase in unit revenues “for the first time in more than a year” (Central America and the Caribbean had been

under heavy competitive pressure, particularly from the LCCs) “and remains one of the most profitable regions on an absolute basis”.

Some of the year-on-year comparisons for American are a bit invidious: last year it had started pursuing a misguided strategy to force corporate customers to book direct. The architect of the strategy (the then CCO) Vasu Raja was booted out (see *Aviation Strategy* May/Jun 2024), and American is in the process of restoring customer confidence.

It noted that unit revenues on the Atlantic grew by 10.5%, although total revenues fell by 3% to \$965m. On the Pacific there was a near 5% improvement in unit revenues on a 24% increase in capacity (primarily driven by strength in Japan) and a 30% surge in total revenues to \$393m. (But if the DoT Form 41 filings are to be believed, American makes an operating loss on both the Atlantic and Pacific.)

During the results’ calls little was said directly about Trump’s tariffs. Delta said it would defer any Airbus deliveries that attract tariffs — it has six A330s and 29 A350s on order — “the numbers just don’t add up”. United didn’t seem too concerned, saying: “Boeing accounts for the majority of our future total order book, and most of our Airbus 321neos are produced in Alabama”. (But it too has 45 A350s on order).

Kudos however should go to Robert Isom at American who stated: “Anything that spurs demand for travel, both domestically and abroad is something we will support. This starts with making America a welcoming destination for international travelers, especially in advance of major events like FIFA World Cup 2026 of which were a sponsor and later, the 2028 Olympic Games in Los Angeles.”

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US Tourism: Making America Unwelcoming?

PRELIMINARY data from UN Tourism suggests that the world’s international tourist volumes in 2024 had almost recovered to pre-pandemic levels. Its data suggests there were 1,445m international tourist arrivals worldwide last year, 11% higher than in 2023, compared with 1,465m in 2019. International tourist receipts it estimates reached US\$1.6tn, 4% higher than in 2019.

The USA features as the third largest country ranked by inbound tourists (behind France and Spain — see table on page 16). In 2024 the numbers of visitors rose by 9% year-on-year to 72.4m. The USA also ranks as the largest country in the world for tourism exports with tourist receipts last year of \$215bn — and it maintained a healthy trade balance of \$37bn in the sector.

This increase in visitor numbers was not quite a recovery to prepan-

demic levels, being still some 9% below the numbers for 2019, but there were expectations that this milestone would be achieved in 2025.

Canada is the largest source of tourist arrivals to the US accounting for 28% of the total in 2024: just over half of the 20m Canadian tourists come by surface transport, the re-

mainder by air. Mexico accounted for 24% of the total at 17m tourists, only 20% of whom fly. The ITA categorises all other foreign visitors as “overseas”. The next largest source origin of tourists is the UK at 6% of the total, while visitors from Western Europe as a whole account for 18% of the total.

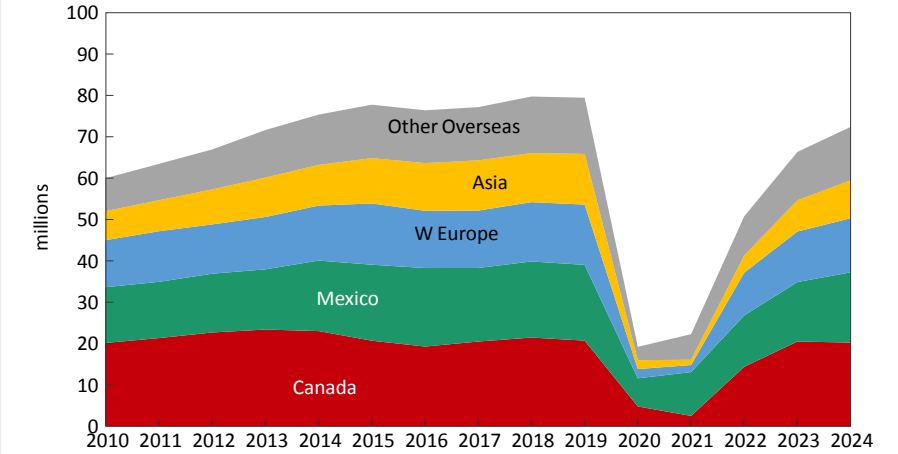
The year started on trend with international arrivals up by 5% year over year in January. But then preliminary figures from the governmental International Trade Administration (ITA) for February and March showed overseas visitors down by 2% and 12% respectively. There were some dramatic declines in some of the more important source areas in March. Tourist arrivals by air from Canada and Mexico fell by 13.5% and 22.9% respectively. Visitors from Western Europe, the next largest source, were down by 17% (and within that, visitors from Germany down by 28%). The preliminary numbers from the ITA exclude visitors arriving by land across the north-

INTERNATIONAL TOURISM TOP TEN (2024)

	Arrivals	m	Receipts	\$bn	Expenditure	\$bn
1	France	102.0	USA	215.0	China	250.7
2	Spain	93.8	Spain	106.5	USA	177.8
3	USA	72.4	UK	84.5	Germany	120.3
4	Turkey	60.6	France	77.1	UK	119.2
5	Italy	57.8	Italy	64.3	France	60.1
6	Mexico	45.0	UAE	58.7	Australia	45.6
7	UK	41.2	Turkey	56.3	Canada	43.6
8	Germany	37.5	Australia	53.3	Russia	38.8
9	Greece	36.0	Canada	51.8	India	36.7+
10	Thailand	35.6	Japan	49.4	Italy	35.7

Source: UN Tourism Barometer

US TOURIST ARRIVALS



CANADIANS DRIVING HOME FROM THE USA



Source: Statistics Canada.

Note: Canadian-plated cars entering Canada by land. 7-day moving average year on year change.

ern and southern borders (the ITA ironically relies on information from Canadian and Mexican governments for the data), but figures from Statistics Canada suggest that Canadian residents' trips by car returning from the USA fell by 23% and 32% year on year in February and March respectively.

The press on both sides of the

Atlantic have been quick to suggest that the primary cause behind these disappointing numbers is the Trump Administration's aggressive immigration and trade policies.

The Canadian figures may well have something to do with Trump's imposition of tariffs as much as his suggestion that the USA should annex Canada as the Federation's 51st

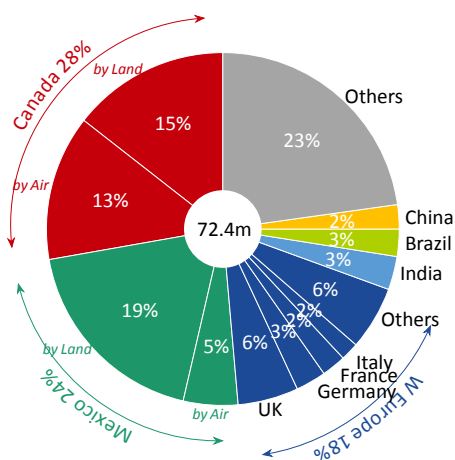
state. Polls suggest that Canadians overwhelmingly oppose the idea, with only 10% in favour (even in Alberta), and there was a splurge of anti-American reaction — including removing American produce from supermarket shelves, and selling Canadianos rather than Americanos in coffee shops. Interestingly, polls south of the 49th parallel suggest that 60-70% of Americans are also against the idea of annexation. Ironically, this spat had the unintended consequences of pushing the Liberals back into power under Prime Minister Mark Carney.

Equally, the decline in European visitors has in part been attributed to a more aggressive approach to border controls. Headline-grabbing reports of tourists being denied entry, strip-searched and detained in prison facilities, do not necessarily suggest there is any change in immigration policy, but do not help in promoting the US as an attractive tourist destination.

But they have also led to travel advisory statements from various European governments warning their citizens that they may be liable to arrest or detention should they not adhere to the USA's strict entry rules.

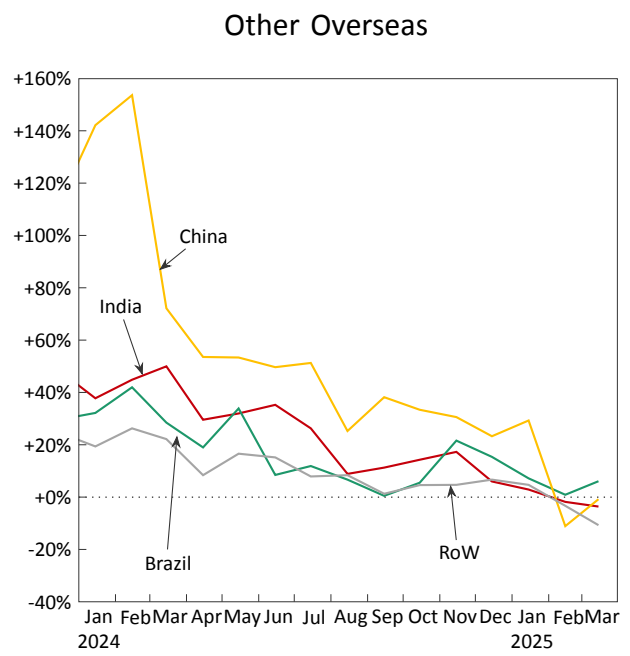
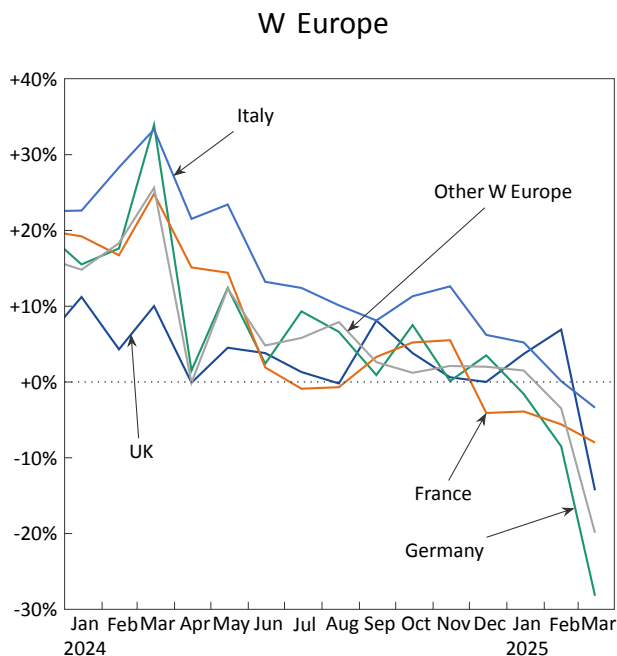
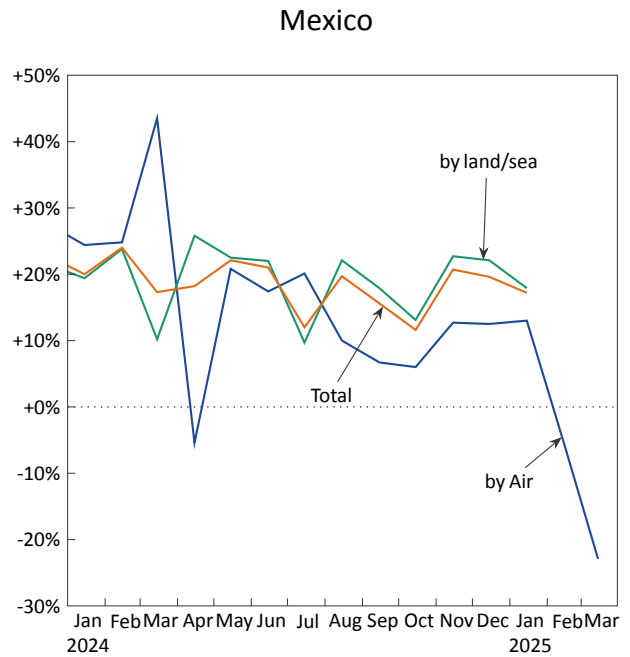
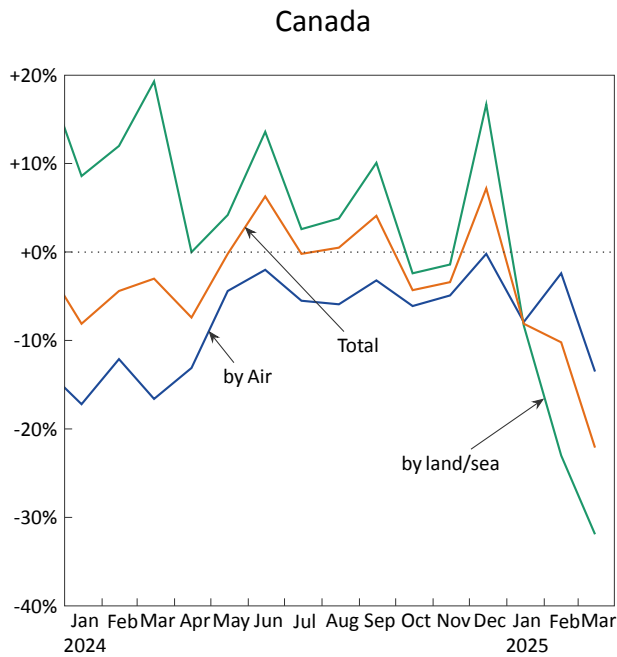
There have also been news reports of visitors being turned away at the border because of data held on personal devices. In March, a French scientist was reportedly denied entry to the US on his way to a conference in Houston after immigration officers at an airport searched his phone and found messages in which he had supposedly expressed criticism of the Trump Administration. US Customs and Border Protection (CBP) in FY 2024 scanned 47,000 devices and says that "less than 0.01% of arriving international travelers encountered by CBP at a port of entry had their electronic devices searched" —

USA VISITOR ARRIVALS 2024



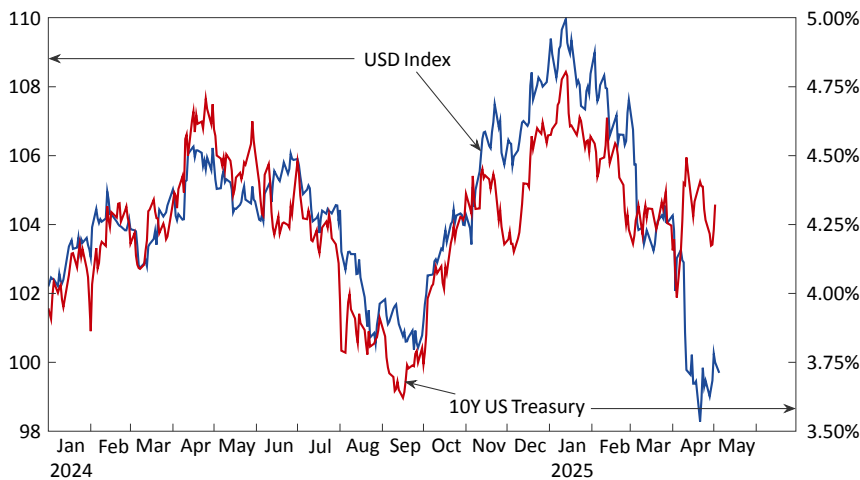
Source: International Trade Administration. Visitors to the USA staying at least one night by country of residence.

USA: INBOUND TOURISTS BY ORIGIN (year on year % ch)



Source: International Trade Administration

US\$ and Treasury Yields



and there is little to show that this rate of investigation has changed.

Tourism Basics

These scare stories ignore some of the basic economics of tourism. For someone planning to go on holiday, the prime considerations are:

- ✈ can I afford a holiday?
- ✈ when is it practible to go?
- ✈ where can I afford to go?
- ✈ how long can I afford to be away?

Generally, a long-haul trip will be booked well in advance.

This year the Easter festival (on April 20th), and spring school holidays, were nearly a month later than they were in 2024. So, for many, it would not have been practible to book a family holiday to the US in March.

Since September, the US dollar index (reflecting the exchange rate against a basket of currencies) strengthened by 10% reaching a peak in January (a week before Trump's inauguration) at 110, the highest level in three years. So in the crucial period leading up to the end of the year, when travellers might have decided to book a holiday in the US

in March, the destination cost could have seemed to have been much higher than expected. For those who had the time available to take a holiday, other destinations could well have appeared more attractively affordable.

Canadian citizens' apparent reticence to visit the US may be an understandable reaction to Trump's idea of buying their country. But the year on year comparisons of Canadian tourist arrivals by air had fallen in each month since September 2023. Some reason behind that may have been increases in air fares, but it could as equally be because in 2022 and 2023 there was a strong recovery from the pandemic: the numbers of Canadian visitors increased eight-fold from the nadir of 2021.

The strength of the dollar up to February, in contrast, helps to explain comments from the major US network carriers that weakness in bookings from Western Europe has been more than offset by increases in US originating transAtlantic bookings.

However, since then the dollar has fallen by 10%, and the converse of the economic pressures on tourism

may now come into play.

Recent comments from Virgin Atlantic, for example, suggest a slow-down in bookings for the Summer from the US to the UK, while bookings from the UK to the US "remain strong" (Sterling has strengthened 10% against the dollar since January). A recent article in *The Telegraph* stated: "From the front lines of the global travel industry, airlines and package tour operators are reporting a surprise fillip in US travel from British tourists."

The US is an attractive and welcoming tourist destination. The most popular destinations for foreign visitors are New York (29% share of visitors in 2023), Florida (25%) and California (20%), with Nevada, Texas and Hawaii a little way behind (at 7%, 6% and 5% shares respectively). The country is vast, and offers superlative iconic attractions from Central Park to the Golden Gate Bridge, Washington Monument, and the family-holiday favourite of Disneyland. Maybe this year will turn out to be a blip.



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