



2025 Record Profitability, Now What?

ACCORDING to the latest Global Outlook publication from IATA, the World's airline industry is estimated to have ended 2025 with its most profitable year. The trade association estimates that total revenues will have exceeded the psychologically important \$1tn mark, and with post-pandemic recovery continuing in all regions of the world operating profits could have reached \$67bn. It estimates the industry's net profits to have been \$39.5bn, equivalent to \$7.90 per passenger.

It looks as if passenger numbers increased in 2025 by 4.3% to a record 5bn. There was a modest growth in the length of haul — back to the peak of 1,900km last seen in 2019 — and passenger demand in revenue passenger kilometres showed a higher increase of 5.2%, marginally above the rate of growth in seat capacity, and a figure broadly consistent with the long-term historical annual average. Load factors possibly reached an all-time high of 83.7% — in August 2025 IATA reported the highest monthly load factor on record of 86%.

On a regional basis IATA estimates for 2025:

✈ **Asia/Pacific** provided the highest rate of growth of 8% in passenger demand. China particularly was late in opening its borders in the post-pandemic recovery, but this rate of growth suggests a return to normality. China and India lead the regional expansion, but restrictions on flights, and trade tensions between China and the USA continue to limit market access. IATA estimates an operating profit for 2025 of \$12.6bn (a 4.7% margin), and net profits of \$6.2bn — a modest \$3.30 per passenger.

✈ **Latin America** recorded a 7.1% growth in RPK. There have been mixed financial performances in

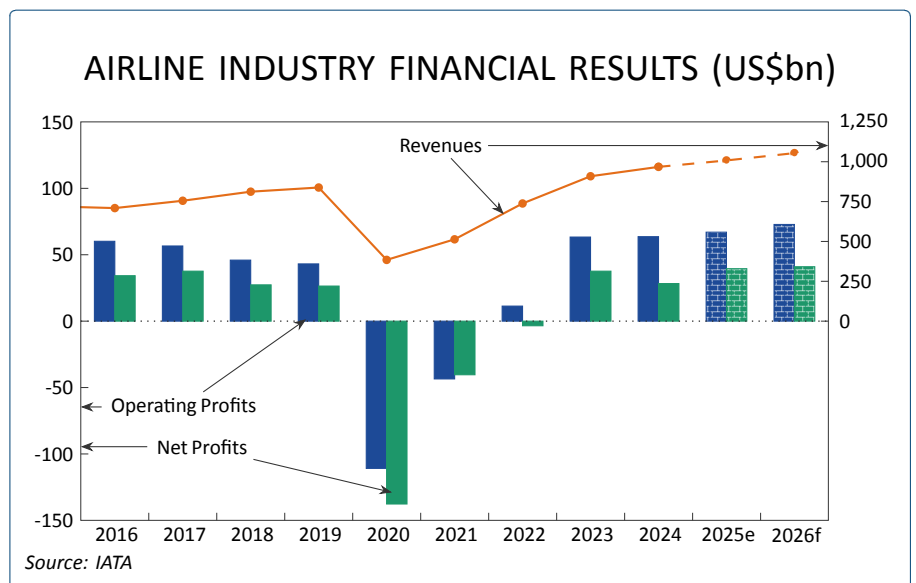
the region as various carriers have entered and exited Chapter 11 restructuring to wipe out pandemic era debts. Benefiting from US dollar weakness through the year, It estimates the region generated operating profits of a record \$6.2bn (an extraordinary 14% margin) and net profits of \$2.5bn — \$7.30 per passenger.

✈ **Middle East** carriers are estimated to have seen a 6% growth in passenger demand, and another year of unusual profits: \$9.4bn at the operating level (a 13% margin) and \$6.6bn net (\$28.90 per passenger). This shows a dramatic change in the

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region's performance compared with the status pre-pandemic. At that time, the Superconnectors were in full competitive mode and Etihad was still irrationally chasing market



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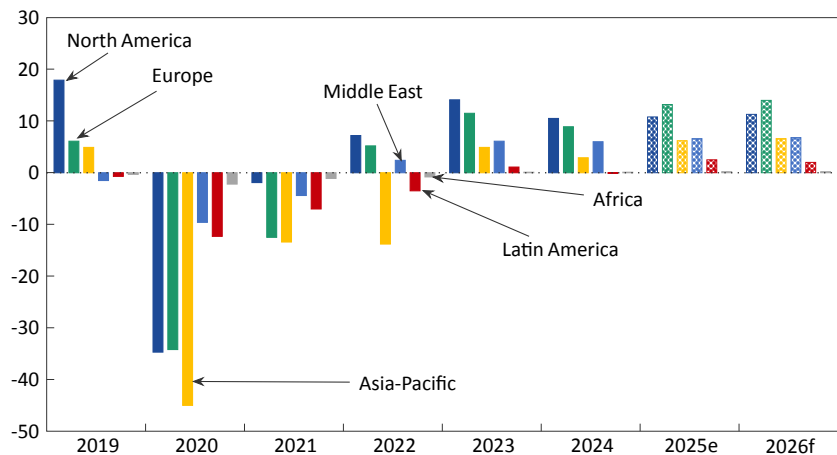
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AIRLINE NET PROFITS BY REGION (US\$bn)

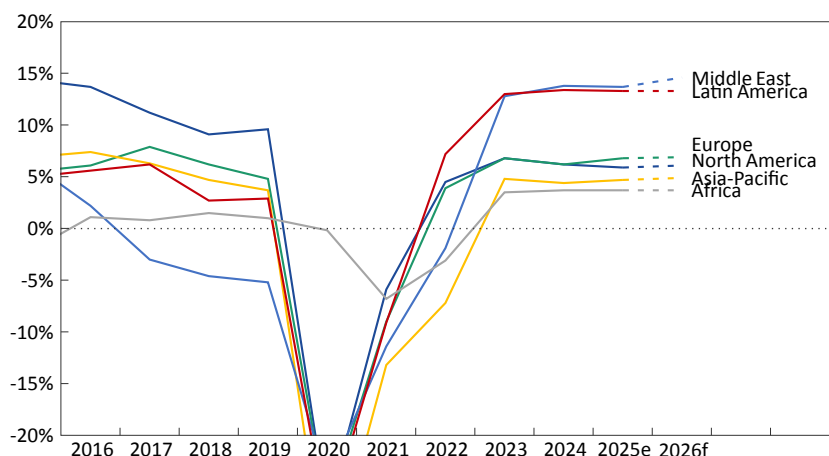


share: in 2019 the region generated \$(1.5)bn in net losses, equivalent to paying \$7.90 to each passenger to get them to fly.

✈ **Europe** settled down to a 5% growth in demand and capacity, with a slight dip in load factors to 84.7% that was slightly short of the 2019 peak of 85.2%. The region is expected to have produced the highest nominal level of net profits, overtaking North America for once, at \$13.2bn (a 4.8% margin, and equivalent to \$10.60 per passenger). Operating

profits are expected to come in at \$18.7bn (a margin of 6.8%). The organisation points out that the LCCs are performing particularly well, growing at double-digit rates and outperforming FSCs on net profit margin. With a luke-warm economic environment, headwinds from the SAF mandates, and a saturated airspace controlled by perennially striking personnel, traffic growth for the region's airlines is expected to moderate in 2026 to 3.8%. But it could well maintain its position

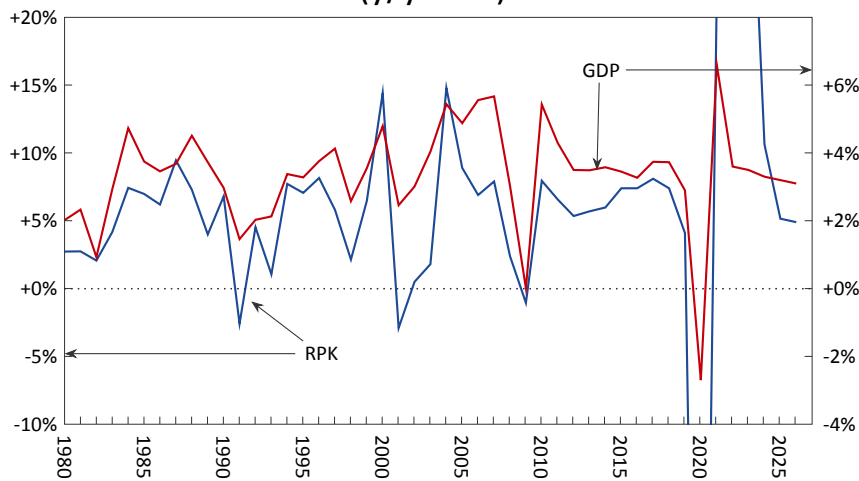
AIRLINE OPERATING PROFIT MARGINS BY REGION



Source: IATA

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WORLD RPK AND GDP GROWTH
(y/y %ch)



as the most profitable region with operating profits of \$19.9bn (6.9% margin) and \$14bn net.

✈ **North America** had a difficult year, particularly in the USA. Passenger demand stagnated with full year RPK growth of 0.2% and a drop in load factors of one percentage point to 83.4%: the US domestic — 60% of the total — market contracted. A series of headwinds weighed on demand: policy uncertainty around tariffs, and tighter immigration rules dampened both inbound and domestic travel.

The situation worsened with the longest government shutdown in history, which amplified air traffic controller shortages. Demand on cross-border routes over the 49th parallel was particularly affected by the political spat between the USA and Canada. LCCs in the US have been weak, heavily exposed to the widening wealth inequality between the “haves” and the “have-nots” amid the backdrop of weak consumer confidence and the very successful use of unbundled “basic” fares by

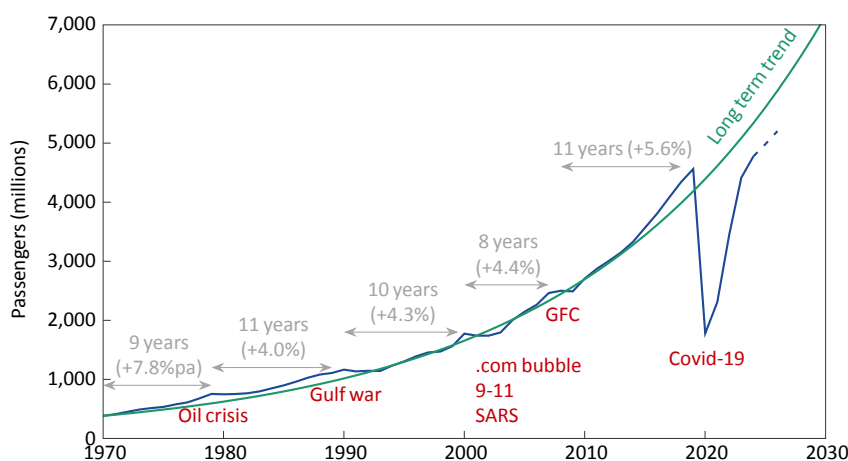
the network carriers. Their reliance on single-type fleets, IATA suggests, has proven inflexible amid supply chain disruptions. Nevertheless this increasingly consolidated market possibly generated \$19.2bn of operating profits (5.9% margin) and net profits of \$10.8bn (a margin of 3.3%, and equivalent to \$9.50 per passenger). The trade organisation is suggesting a modest uptick in growth for 2026 — to 1.5% — operating profits of \$20.5bn and net profits of \$11.3bn (still only a 3% margin).

✈ **Africa**, as the smallest region, tends to get ignored. But it too saw a 7.4% growth in passenger demand in 2025 and, remarkably an operating profit margin of 3.5% giving profits of \$0.6bn. For most of the decade leading up to 2019, the region had generated negative margins at the operating level. Net profits are expected of \$0.2bn, or \$1.40 per passenger. IATA expects further demand growth of 6% in 2026 and stable profit margins, but points out that African carriers suffer the highest unit costs in the world, almost double the world average: aircraft are five years older on average than the global norm boosting maintenance costs and limiting utilisation; lack of supplier competition provides some of the highest in plane fuel costs in the world (into the older planes that burn more fuel). It expects the region will continue to operate on extremely thin margins.

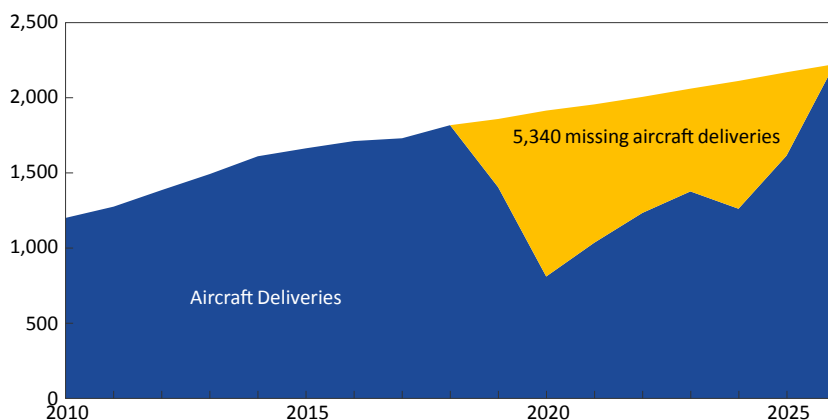
Constraints on growth

IATA points to several areas that are likely to continue to act as a restriction on growth for the global airline industry. A major factor since the pandemic has been a shortage of aircraft and engine deliveries. On top of the particular problems faced by Boeing over its 737 and 787 programmes,

AIRLINE PASSENGERS AND PEAK-TO-PEAK CYCLES



AIRCRAFT DELIVERIES



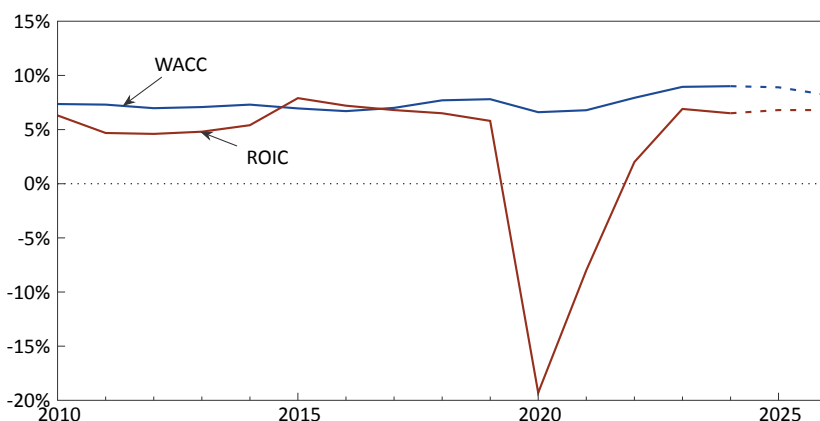
all the OEMs have had to face supply chain difficulties. This has then been exacerbated by the engine problems at Pratt and Whitney, and congestion at MRO facilities.

Aircraft have been kept in passenger service longer and worked harder. The average age of the world's aircraft fleet is rising and in 2025 reached over 15 years old. The average age of widebody equipment in passenger service touched 14.5 years compared with under 12 years old in 2019. IATA points out that fuel efficiency, which historically had improved by 2-2.5%

a year, stagnated in 2025 and is only 1.1% better than it had been in 2019 — and the increasing use of new generation aircraft and continuing fuel efficiency progress is an important part of the industry's plan to achieve Net Zero emissions by 2025.

Airlines want new aircraft, but have not been able to get them, so the industry aircraft backlog has risen to a record of over 17,000 aircraft — equivalent to nearly 60% of the active fleet (see chart on page 17) and over ten years of production. The problem is not going to go away soon.

IATA'S CALCULATION OF RETURN ON AND COST OF CAPITAL



Source: IATA

Further, labour shortages are growing — particularly as pilots and maintenance engineers approach retirement. In the US the median age of active commercial pilots, 45-49 in 2019, had risen to 50-54 in 2024. Those approaching mandatory retirement (aged 60-64) accounted for 13% of the cohort up from 6% in 2019 — despite covid related early retirements. Boeing estimates that over the next 20 years there is a global need for 600,000 new pilots, 700,000 engineers and 1m cabin crew. This is not an area that can be replaced by artificial intelligence.

The result has been wage pressure — particularly seen in the US and Europe — which has pushed staff costs to become the highest proportion of operating costs (28% in 2025, five points higher than in 2019).

IATA also points to a slow down in the perceived relationship between real growth in World GDP and the rate of growth in revenue passenger kilometres (see chart on the previous page). This historically may have been treated by some as a causal relationship — for a 1% growth in GDP you get a 2-2.5% growth in traffic — but in reality it is more likely a reflection of the complex interplay between the passengers' incomes, propensity to travel, and sensitivity to the cost of travel (and particularly the total trip cost).

Cost pressures are intensifying — and especially the costs of emission compliance in the quest for net zero. CORSIA costs are forecast to reach \$1.7bn in 2026, while IATA expects blended SAF prices of \$2,490 per tonne (nearly four times the price of jet fuel elevated partly by the EU and UK mandates). As fundamental operating costs rise, it may be impossible for the industry to maintain the historic real 2% annual decline in fares.

The Sudden Spotlight on Greenland and its Flag-carrier

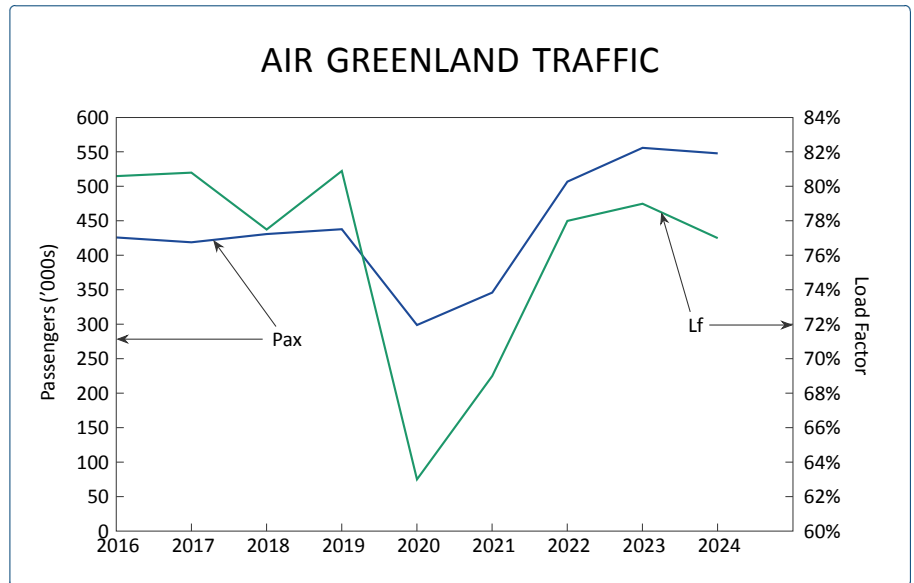
GREENLAND is a fascinating country. It was discovered by Erik the Red, a fugitive from Iceland, in c985AD and given the soubriquet “Green”, an early example of positive deterministic branding.

It is the largest non-continental island in the world with a surface area of 2.2m km². It has a population of only 57,000, giving it a population density of 1 person per 36km² (if that ratio applied to New York City, there would only be 243 people living in the metropolitan area).

But it also has an ice sheet that forms the second largest body of ice in the world (behind Antarctica) and which covers 80% of the island. 3km deep at its thickest, it is 2,900km long and 1,100km broad at its widest, and is estimated to contain 2.9m cubic kilometres of ice (2.7 million billion tonnes).

If the whole ice sheet were to melt, it is estimated that global sea levels would rise by over 4 metres. Largely stable for thousands of years, the ice cap started shrinking noticeably from 1995. In 2025 it is estimated to have shrunk by a further 120bn tonnes.

The capital city, Nuuk, is home to a third of the population; the remainder live in around 70 small towns and settlements, mostly on the south and south west coasts. There are no roads connecting towns and settlements — except for the 5km between Ivittuut (an abandoned mining town near Cape Desolation) and Kangilinnguit (a former Danish military base, population 3); and,

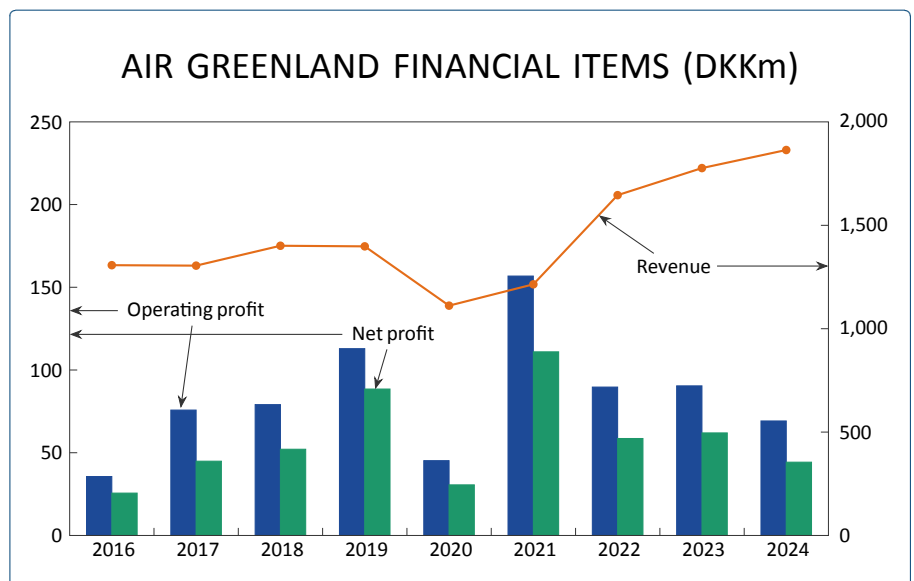


currently under construction, a 6km stretch connecting Qaqortoq to its new airport, both due to open in April 2026. There is a subsidised ferry service (just one ship) plying connections between settlements along the south west coast from April to December.

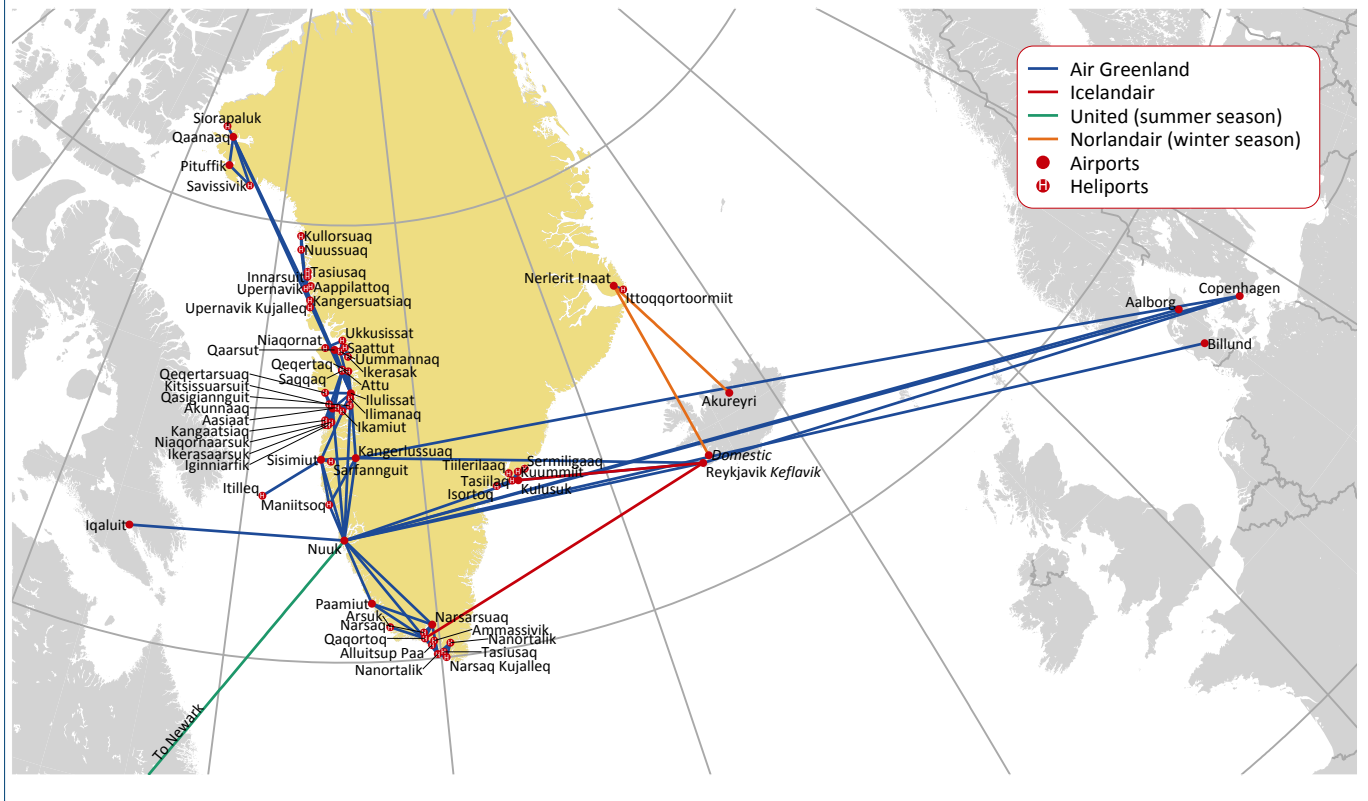
Air transport is essential

The country has 13 airports and 45 heliports. Some airports have no road connections to the population they serve and require helicopter transfers.

One such is Nerlerit Inaat (Constable Point) which provides access



GREENLAND AIR ROUTES



to Ittoqqortoormiit 40km away (population 325), the only settlement on the east coast Scoresby Sound. Described as one of the remotest villages on earth — the nearest neighbouring settlement in Greenland is Kulusuk (pop. 241) over 800km away — it nevertheless has a small guest house for adventurous tourists who want to experience the whales, seals, walruses, narwhals and arctic foxes (and the increasingly aggressive polar bears). Air Greenland provides the Helicopter link, but the only flights from Nerlerit Inaat are to Akeyruri and Reykjavik in Iceland. There are no domestic air connections: it is seemingly totally isolated in Greenland.

For many years the main international airport was at Kangerlussuaq (pop. 399), some 300km north of the capital Nuuk. Originally built by the US Air Force in the 1940s (and oper-

ated as Søndre Strømfjord air base) it is one of the few airports on the island that could handle widebody jets and became the hub of operations for Air Greenland.

Pressure to improve access for the capital city led to a decision in 2016 to substantially rebuild the airport at Nuuk. Originally constructed as a STOLport in 1979, the runway was extended to 2.2km (from 950 metres) and a new terminal building built. Air Greenland moved its hub of operations to Nuuk in November 2024.

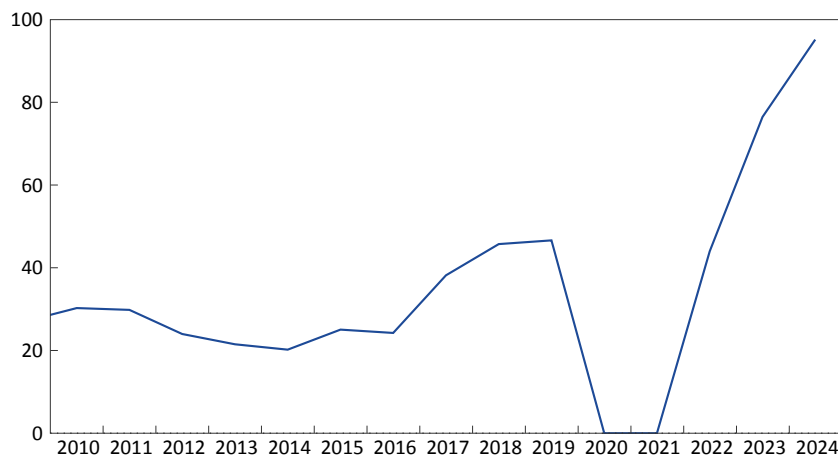
There are two other new airports currently under construction and due to open in 2026. Ilulissat (pop. 5,000), a popular tourist destination 560km north of Nuuk, is getting a new terminal and 2.2km runway allowing it to operate as a new international airport (and converting the old 900 metre runway into an access road) that is

scheduled to open in October. Qaqortoq (pop. 3,055), the largest city in South Greenland is getting a new regional airport planned to open in April, with a new 1,500 metre runway to replace its heliport and the airport at Narsarsuaq (pop. 150), a former US air base that had previously acted as its gateway. There are also plans to provide Ittoqqortoormiit with its own new airport, removing the need for the helicopter shuttle.

Tourism trends

Greenland's tourism industry is relatively small by world standards, but growing. In 2024, Visit Greenland (the government agency responsible for promoting inbound sustainable tourism) estimates that there were c150,000 foreign tourist visitors, and that the tourist industry contributes nearly 5% of GDP, and employs 6% of

GREENLAND: CRUISE PASSENGERS ('000s)



Source: Visit Greenland

the working population. It has an ambitious plan to double tourist arrivals over the next ten years, targeting the adventurous and eco-conscious traveller, extolling the unspoilt natural beauty of the country, Aurora Borealis displays in winter, midnight sun in summer, dog-sled hikes and arctic fauna.

Two thirds of tourists came on cruise ships. This sector has ballooned post-pandemic: the 95,000 welcomed in 2024 were 24% higher than the numbers for the previous year and more than double the

previous peak of 47,000 in 2019. The agency's report for 2023 show that passengers from the USA dominated representing 44% of the total, closely followed by visitors from Germany, the UK, Canada and Australia. Roughly half of the 183 cruise sailings in 2023 were on relatively small ships with capacity of less than 250pax. Visit Greenland noted that on the occasion that two or more cruises docked at a settlement the town could be overwhelmed: eg on one day in Aug 2023 Iltoqqortoormiit (pop. 334) saw three ships dock to

disgorge 522 passengers; Qaqqortoq (pop. 3,055) received two with a total capacity of 4,377 passengers.

Air travel accounted for the other third of visitors. Two thirds of the foreign visitors in overnight accommodation came from Denmark; the next largest cohorts coming from the USA, Germany, the UK and Iceland.

The opening of the new international airport in Nuuk, and of those in Ilulissat and Qaqqortoq will help. United initiated a twice-weekly flight from New York to Nuuk for the Summer of 2025; SAS and Icelandair provide connections from Copenhagen and Reykjavik. There have been some press comments suggesting that Trump's second term has ironically led to a further strong boost to inbound tourism in 2025.

Air Greenland

Founded in 1960 (as Grønlandsfly) by SAS to serve the American air bases, Air Greenland is the country's flag carrier (and only airline). Up to 2019 ownership was shared between the Greenlandic Government (37.5%), SAS (37.5%) and Denmark (25%). In that year the Government of Greenland bought out its co-shareholders to take full control, considering ownership of the company to be of critical importance for "coherent air transport in, to and from Greenland".

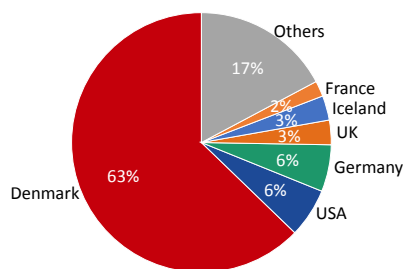
In addition to scheduled flights to Denmark (Copenhagen, Billund and Aalborg), Iceland (Keflavik) and Canada (Iqaluit), it operates a route network to Greenland's 13 airports and 45 heliports.

It also handles extensive chartered special tasks including long line helicopter slings, heli-skiing operations, air ambulance services (medevac), SAR (search and rescue) ad hoc and on long-term contracts.

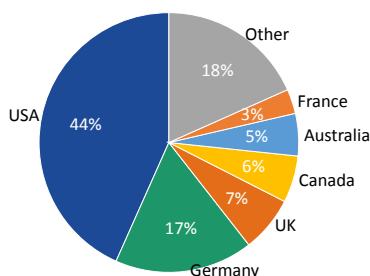
Air Greenland also owns a 39%

GREENLAND: TOURISTS BY NATIONALITY 2023

Accommodated Guests



Cruise Passengers



Source: Visit Greenland

AIR GREENLAND FLEET

	Seats	In service	Avg age (y)	Future
Fixed wing				
A320	tba			1*
A330-800	305	1	3.2	
Dash 8	37	8	28.7	
Beechcraft B250GT†	8	1	6.5	
		10	23.9	
Helicopters				
Airbus H155	12	7		
Airbus H225‡	6§	2		
Airbus H125	5	9		
		18		

Notes: * Due end 2026; † Air ambulance on permanent lease to health service; ‡ Search and rescue; § Can carry 19 pax, normally configured for six stretchers

stake in the Icelandic charter carrier Norlandair, based at Akureyri and operating a fleet of three 19-seat DHC Twin Otters and three nine-seat Beechcraft B200s. It is said to be profitable, producing a 6% operating margin on revenues of DKK125m in 2024.

In addition it owns Ilulissat-based Arctic Hospitality Corporation which operates Arctic Hotel (Greenland's only four-star "Superior" hotel, with its unique "Northern Lights Cabins", as well as a five-star conference centre) and World of Greenland (an in-bound tour operator that aims to deliver the customer's "reason-to-go"). The latter is primarily focused on the sale, operation and development of the company's lodges — Glacier Lodge, Igloo Lodge (giving guests the opportunity to experience the Greenlandic winter "in the best way"), and Ilimanaq Lodge (which combines an authentic Inuit experience with gastronomic pampering).

The many different operational tasks result in a complicated organisation, fleet and sets of regulations. The company describes itself as hav-

ing the most complex AOC in Europe. It does not help that flight operation conditions in Greenland can be extremely hazardous: sudden, severe weather shifts, intense winds, foehns, blizzards, fogs, intense cold (record low for the northern hemisphere of -69.6°C recorded in 1991) and aircraft icing, let alone turbulence from the mountainous icy terrain.

It has a small fleet of ten fixed-wing aircraft and 18 helicopters. Since 2019 it has replaced its 25 year old A330 with a brand new A330-800, upgraded its Beechcraft air ambulance, and replaced its entire helicopter fleet with new Airbus H155s for domestic passenger services, H255s for search and rescue operations and H125s for charter, medical and survey work.

The backbone of the domestic fixed wing fleet are the eight aged Dash 8s — for which there is no realistic replacement. But to take advantage of the opening of the new airport in Ilulissat the company will be taking delivery of a new A320neo for services thence to Copenhagen in 2027.

Perhaps surprisingly, Air Greenland has been profitable — and even during the COVID-19 crisis years. In the first year of the pandemic, passenger traffic dropped by 30% year on year, revenues dipped by 20% and profits fell by 60%: but the company remained profitable. By 2023 passenger traffic was 25% higher than the previous 2019 peak. Indeed the results for 2021 showed its highest level of profitability in nominal terms and ratios: a 13% operating margin and 10% at the net level net. In 2022 and 2023, operating margins turned out a more normal 5-6%.

2024 proved a little more challenging. Revenues increased, but profits slumped by 23%. Firstly there was the costly disruption of moving its operations to the new airport in Nuuk. Secondly, it encountered a higher level of weather related disruption to flights than normal (Air Greenland prides itself on covering food, hotel and rebooking costs for all its passengers): it noted "irregularity" costs exceeded DKK100m. In its annual report the company was hopeful that these irregularity costs would come down in 2025 "provided that Nuuk Airport can be kept open and is not affected by slippery runways and that the morning fog in the summer does not disrupt flights".

And then both of its H225 search and rescue helicopters developed engine problems requiring unexpected and heavy maintenance costs. Airbus and Safran apparently claimed that the "special sand conditions" around Kangerlussuaq (where they were based) "destroyed the engines". Air Greenland plans to move the helicopter base to Ilulissat when its new airport and runway open.

Air Greenland's problems continued into 2025. For the first half of the year revenue was up 3% mostly

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driven by international passenger traffic, but operating losses increased to DKK (76)m from DKK (14)m in the prior year period. Poor runway conditions and adverse weather significantly disrupted operations: it had to cancel 59 jet flights compared with three in the first half of 2024; the fixed wing completion rate fell to 72% from 84%; on time performance was a mere 46% down from 71%. Direct “irregularity costs” rose to DKK71m from DKK37m.

Possibly the greatest disruption arose from the teething problems related to the move to Nuuk Airport. Passenger and feeder flights between Nuuk and the old hub at Kangerlussuaq are no longer needed, reducing the number of international transfer passengers by half. The remaining passengers on the network are flying 50% further, primarily those connecting from Northern Greenland having longer flights to Nuuk than to Kangerlussuaq previously. The company states that these longer flights have not fully been reflected in ticket prices. When it published the half year figures, the group expected that it would post a full year pre-tax loss of DKK (30)m.

Since then further teething problems emerged at Nuuk airport. Persistent staff absence in passenger security (blamed by some on the deer hunting season) caused some annoyance and cancellations in the late Summer. But then in September, under instruction from the Danish Transport Authority, Greenland Airports introduced restrictions on movements in the airspace surrounding Nuuk.

Currently the upper airspace (above 6,000 metres) is controlled by ATC centres in Canada and Iceland handling international flights between North America and Europe. The lower airspace under that flight level had been uncontrolled — meaning that pilots were responsible for maintaining safe separation from other aircraft, based on information from the Danish Flight Information Center Naviar.

Greenland Airports in December announced that it is finally getting around to introducing a terminal control area (TMA) in the lower airspace around Nuuk, where air traffic controllers manage traffic before aircraft are handed over to the airport’s flight information service closer to the air-

port. It expects the TMA to be operational by summer 2026.

In the meantime, the airport is limited to a maximum of four movements an hour on a “2-4-4” model: a maximum of two arrivals, four departures and four operations in total. In addition there has to be at least five minutes separation between aircraft movements, and 20 minutes between two arrivals, and no more than one helicopter operating within 20km of the airport. (Search and rescue and air ambulance services are exempted.)

This regime severely upsets Air Greenland’s domestic and feeder network. Before the restrictions its Dash-8 aircraft could depart early from their home bases, arrive collectively in Nuuk, and create coordinated connections to transatlantic flights and regional destinations: it had been operating eight flight operations an hour in connection with its flights to and from Denmark.

It looks as if 2026 is also going to be an unprofitable year. But that will hardly matter if President Trump follows through on his threat/promise to spend hundreds of billions of dollars to purchase the island.

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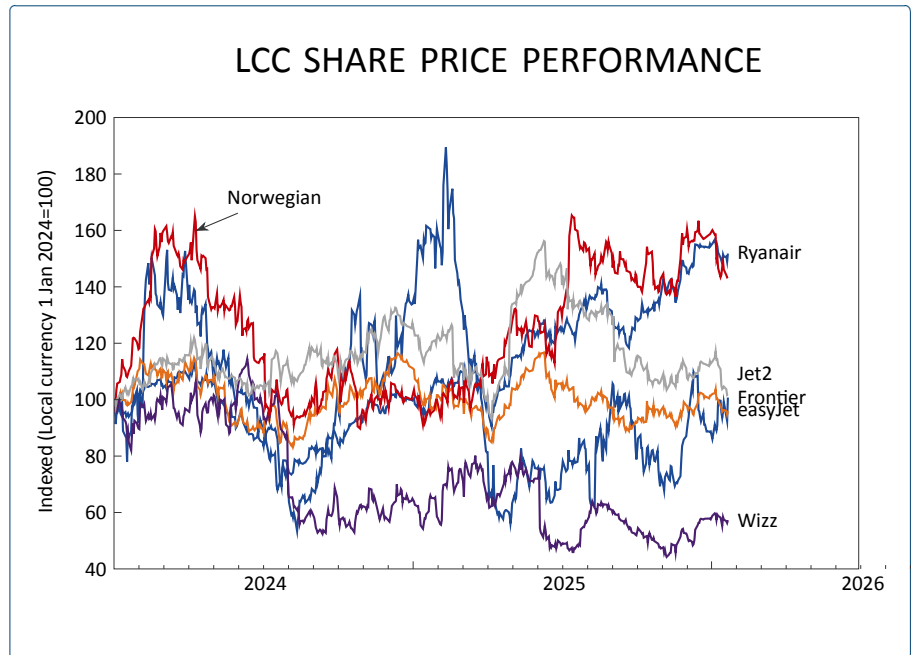
Musings of an Aviation Investor: Profitability and Over-ordering

THE KEY summer period for Northern hemisphere airlines was muted and financial performance mixed. Domestic US, the largest global sub-market, remained weak as capacity levels remained excessive despite some earlier signals of restraint.

This led to the second bankruptcy filing of ULCC Spirit Airlines after what can only be considered a bungled Chapter 11 restructuring in late 2024/early 2025 when it singly failed to deal with excess capacity and labour costs. So, although there was modest domestic ASM control over the summer (Southwest flat and Frontier -4%), after earlier capacity additions this was insufficient to restore profitable flying. The LCCs' margins were even worse than the poor 2024, with Spirit at minus -25% (adjusted to remove a \$114m gain in the disposal of assets) and Frontier at -16% (adjusted to remove sale and leaseback profits).

Spirit is finally addressing labour costs and is now cutting capacity aggressively, this may be too late and a forced liquidation of Spirit may transpire. Frontier must also consider its long term sustainability as it has only filled liquidity gaps in recent years from selling new aircraft to lessors and pocketing the upside cash profits. These subsidies cannot continue indefinitely and Frontier needs to grasp the nettle to deal with loss-making flying.

In Europe, the LCC performances over the peak summer months was a mixed bag for a variety of disparate reasons. Behemoth Ryanair im-



proved year-on-year but very much as a result of weak comps against 2024 when its spat with Online Travel Agents (OTAs) meant it lost material bookings to easyJet, Jet2 and TUI. In 2025, armed with new agreements with the OTAs, Ryanair's booking profile was earlier, and reduced fleet deliveries caused by Boeing's troubles, resulted in improved pricing. Revenue per passenger was up 6% on 3% capacity growth. With costs held in check driven by good fuel hedges (flat unit costs YoY), its operating margin rose to an admirable 36% from 33% in the corresponding period in the prior year.

Wizz also did pretty well given its various headwinds. It managed to retain flat yields while boosting capacity by 7%. Encouragingly it reduced unit costs, meaning it made improved operating margins of 22% for the summer quarter (up from 17% in 2024).

It still faced a material level of aircraft groundings given the Pratt & Whitney Geared Turbofan maintenance problems; 16% of its fleet was AOG leaving scope for improved fleet utilisation and efficiency into the medium term. However, a good portion of its flying was curtailed due to the Israel situation with this capacity re-deployed to lower yielding routes. It finally gave up on its Middle East ambitions and decided to close the loss-making Abu Dhabi base, which had only opened in 2022. Perhaps a turning point for Wizz: with a major fleet deferral agreed with Airbus, and a change in CFO, hopefully József Váradi, Wizz's CEO and Founder, has bitten the bullet to make the necessary changes for longer term viability.

Another standout in this summer was Norwegian. Its capacity was restrained at +1.8% YoY, like Ryanair held back by late MAX deliveries. Rev-

AIRCRAFT ORDERS & BACKLOG (at end Dec. 2020)

Airline	Order backlog	Existing fleet	Orders as % of fleet
Frontier	156	104	150%
Spirit	126	157	80%
JetBlue	159	267	60%
Volaris Airlines	98	86	114%
Ryanair	210	457	46%
Wizz	250	121	207%
easyJet	158	330	48%
Jet2	0	95	0%
Southwest	249	718	35%

tributed to carrying an excess of pilots and other labour versus its productive serviceable fleet. It benefited materially in compensation from Pratt & Whitney in the form of a “free” spare GTF engine, which it was able to capitalise and book as an exceptional profit of \$20m.

Spare engine provision in lieu of cash compensation was apparent in other cases; for example Frontier took six “spare” GTF engines in the third quarter with another ten planned for the fourth quarter. Frontier has been able to strike Sale and Leasebacks as well as agree new borrowings secured by spares to bolster much needed liquidity.

A lot of the performance shortcomings experienced in 2025 particularly in North America can be viewed from the classic industry perspective of “over-ordering”, the often repeated cycle experienced from the 1970s, fundamentally caused by delays in manufacturers being able to build aircraft to-order, causing backlogs to develop during the “good times”. Airlines become paranoid about missing out and Corporate Boards’ myopic preoccupation with pursuing growth to stimulate share price momentum fuel irrational bulk ordering. Delivery backlogs then stretch out even further. This pattern has been exacerbated post-Covid by supply chain disruptions, with OEMs simply unable to produce aircraft at previously pledged rates.

In recent years, earlier over-ordering has been evidenced by high-scale deliveries into North America. Spirit (100 A320 NEOs order plus 50 options placed in January 2020 plus additional leases) and Frontier, both with already sizeable fleets, had ordered on the basis of compound annual passenger growth rates for 2020 to 2030 of greater

enue was up 6% with a respectable operating profit of \$282m (adjusted to remove an earnings bump from a purchase of leased planes) — an adjusted operating margin of 23% up from the 18% in summer 2024. Norwegian has successfully refocused strategy to short-haul after its disastrous foray into long-haul and has created an effective competitive niche on its principal north-south leisure routes, increasingly reinforced by a corporate customer base on shorter-haul Nordic city-pairs, assisted by its acquisition of Widerøe.

Other European LCCs fared worse, with pricing and costs bearing down on margins. Jet2’s yields and unit revenues were down over the summer and it has reduced winter capacity as a result. Likewise, easyJet had a negative change in RASK, -2% RASK for the summer quarter. easyJet’s operating margin in the period was just about flat but would have been negative if not for a one-off £54m maintenance provision release from purchasing back leased aircraft. Pegasus in Turkey faced fares which were down double digit (-14% YoY) with too much new capacity in

summer 2025, up 17% vs 2024. The latter’s 25% operating margin, while respectable, was down from 33% a year ago.

All European airlines are facing above inflation cost pressures, notably from Eurocontrol navigation charge rises as well as increasing environmental expenses for meeting Sustainable Aviation Fuel (SAF) mandates alongside the phase-out of Emission Trading System (ETS) allowances. These costs offset the tailwind of lower oil prices and a softer US dollar this summer.

Outside the US and Europe, LCCs also benefited from a lower dollar and softer oil prices. Volaris was hit by the Trump impact with its home market in Mexico at the centre of both trade and immigration anxieties. Its operating margin halved versus summer 2024, while it managed to break even at a net level, which was encouraging given the adverse circumstances. Cebu Pacific in the Philippines the fast growing Asian LCC, was also hit by Pratt & Whitney GTF groundings at a level above what it had expected. It incurred a small operating loss in what is its lean season, partially at-

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than 15%, which was simply too optimistic. Other US carriers also had high rates of deliveries of single aisle aircraft, such as Southwest and JetBlue, which contributed to burgeoning seat capacity, while Majors redeployed widebodies from international markets to domestic in the period after Covid struck.

Something had to give and with spiralling financial losses a material rescheduling of these deliveries has now occurred. Spirit, Frontier and Jet-Blue exemplify US airlines entering formal deferrals, while Wizz in Europe is another prime recent illustration. The manufacturers are the only winners from these deferrals benefiting from multi-year extended price escalation which ultimately means that they will receive a price premium for the aircraft once delivery occurs at a level above the prevailing market value. Highly skilled OEMs

hit by past cycles now put buffers in place and are astutely able to re-jig positions toward other airlines, thus avoiding the problem encountered in the 1970s and 80s of “white-tails” littering the parking aprons of their assembly sites.

From an investor perspective it is important to judge which airlines have over-ordered because an enforced deferral can be significantly value destructive. It is better from this perspective for airlines to be cautious and, if demand suddenly dictates, a better option is to secure aircraft (either new or used) from the lease market. Sustainable and manageable new aircraft delivery profiles are less risky in a volatile aviation space with the likes of Ryanair, Southwest, easyJet, Jet2 and Norwegian better examples of management protecting precious capital while still growing at controllable tempos.

By The Irrational Investor.

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The 2026 European Aviation Outlook: What Markets Are Getting Right (And Wrong)

Daniel Röska, formerly Bernstein's Head of Transport Research in London and New York, has returned to Frankfurt where he is now a Partner in the strategic advisory firm FGS Global. Here are his thoughts on capital markets and European airlines.

FOR MOST of the past three years, valuation has been anchored to recovery: traffic returning, balance sheets repairing, and capacity rebuilding. That chapter is now largely closed. In 2026, the market's frame shifts from "reopening" to "steady state". This matters because steady states are where investors decide what is structural and what is temporary.

For leadership teams, this is a subtle but important change. They are no longer being priced against 2019 or 2022. Companies will need to provide a confident outlook of what "normal" aviation looks like in Europe. The narratives forming now will provide the basis for multiples for the remainder of this cycle.

Key shifts in investor focus:

➔ **From recovery to equilibrium:** UBS writes, "The recovery phase is largely complete; focus now turns to earnings sustainability". Investors are no longer paying for optionality — they're paying for proof.

➔ **Margins under scrutiny:** Growth assumptions compress as the sector normalises. What was acceptable in recovery mode won't pass in steady state.

➔ **Structural vs cyclical debate intensifies:** Every earnings driver now gets tested: Is this durable or temporary? Markets will reward clarity on this question.

➔ **Regulatory and cost dynamics elevated:** Issues previously treated as background noise (tariff resets, supplier inflation, environmental policy) will now feature more prominently in valuation.

➔ **Multiples shaped by narrative, not quarters:** The story you tell about constraints, pricing power, and cost structure will matter more than any single quarterly beat in the long-run.

➔ **European-specific framing required:** Companies will be valued against a European "normal", not global aerospace trends or US comparables.

Where markets broadly agree

There is unusually high alignment across banks on the baseline for 2026. Investors broadly assume aircraft supply remains constrained, demand grows modestly, pricing holds, and the cycle has normalised. This consensus anchors earnings expectations and explains why valuation dispersion within the sector has narrowed. Markets are no longer paying for recovery optionality; they are paying for perceived durability. The debate has shifted from whether aviation returns to how sustainable the current equilibrium really is.

Consensus assumptions shaping 2026 models:

➔ **Capacity stays structurally tight:** Bernstein notes "European short-haul remains structurally under

supplied versus 2019". JP Morgan adds "aircraft availability is the binding constraint on industry growth through at least 2026".

➔ **Growth normalises to mid-single digits:** Airlines are modelling around 5% traffic growth; airports expect 2.5–3% — both well below what unconstrained capacity would support.

➔ **Pricing does not collapse:** UBS expects "yields broadly flat, with outcomes mixed by market". Bernstein argues "elevated fares persist as long as supply cannot respond".

➔ **The recovery narrative is over:** JP Morgan describes global capacity growth as "back to a normal 5% run-rate". This is treated as a steady year, not a rebound year.

➔ **Valuation dispersion narrows:** With recovery priced out, the sector trades on durability assumptions. Companies are valued on margin quality, not growth optionality.

➔ **Fuel provides modest tailwind:** UBS highlights "fuel should be a material tailwind into 2026", though this is increasingly contested (see cost debate below).

Where narratives diverge

Agreement on outcomes masks meaningful disagreement on mechanisms. Three fault lines matter. The first is why capacity is tight: strategic discipline versus physical aircraft shortages. The second is how durable pricing really is: cyclical and consumer-sensitive versus structurally protected by supply scarcity. The third is what happens to costs: fuel relief and easing inflation versus rising spare-parts prices,

maintenance bottlenecks, and SAF mandates. These are not academic differences. They drive how investors think about margin sustainability, competitive behaviour, and whether today's earnings represent a peak or a plateau.

Critical fault lines shaping valuation debates:

➔ **Why capacity is constrained: strategy or shortage?** UBS argues "capacity discipline remains the defining feature of the sector". Bernstein counters: "This is not discipline; it is a shortage of usable aircraft". I tend to agree with my Bernstein successor.

➔ **Yield durability: fragile or structural?** UBS cautions "pricing remains sensitive to consumer confidence". Bernstein sees it differently: "The only meaningful release valve is a demand shock". Both may be true: resilient demand and supply shortage. For earnings forecasts in 2026 the difference is moot, but longer-term valuations would need confidence supply discipline and consumer confidence holds.

➔ **Cost trajectory: tailwind or headwind?** UBS focuses on fuel relief. JP Morgan warns "OEM spare-parts pricing power and shop-visit backlogs create perfect conditions for aftermarket inflation".

➔ **Demand risk: macro-driven or structurally fragile?** UBS links downside to recession. Bernstein assumes short booking windows amplify volatility even without macro shocks.

➔ **Delivery ramps: achievable or over-optimistic?** JPMorgan warns "2026 delivery targets may be too optimistic given persistent OEM execution risk". UBS models rely on published schedules.

➔ **Environmental policy: cyclical headwind or structural cap?**

UBS treats taxes as manageable near-term costs. Bernstein frames persistent policy tightening as a long-term growth limiter.

What markets are underestimating

Two areas appear less fully internalised. First, supplier power. Spare-parts pricing, engine shop capacity, and sustainability mandates are moving upstream costs higher. Fuel may fall, but maintenance and compliance costs are rising quietly. This is visible in manufacturer and MRO disclosures, but only partially reflected in airline valuation debates. Second, airport regulation. For airports, 2026 is less about passengers and more about regulators. Tariff resets and allowed returns will shape cash flow more than traffic growth. This is well understood by specialists, but still under weighted in broader market narratives. By contrast, environmental taxes and flight restrictions are frequently cited but weakly quantified for 2026 earnings. They matter structurally, but near-term financial impact is often asserted more than demonstrated.

Underappreciated dynamics with material earnings impact:

➔ **OEM pricing power is documented and rising:** OEMs have announced catalogue price increases across LEAP, CFM56, and GTF platforms. JPMorgan describes "perfect conditions for aftermarket inflation through H1 2027".

➔ **GTF groundings extend into 2027, not 2026:** Bernstein notes relief is "only modest into summer 2026, with bigger relief pushed to 2027+". Hundreds of aircraft remain grounded (FlightGlobal/Cirium data).

➔ **Airport earnings driven by regulation, not traffic:** Major tariff decisions expected in Paris (AdP), Madrid

(Aena DORA III), and Zürich in 2026. Bernstein: "2026 is a regulation-led year, not a traffic-led year".

➔ **Delivery forecasts may be too optimistic:** JPMorgan warns supply relief "may not materialise" due to OEM execution risk and supplier bottlenecks — meaning capacity assumptions could be overstated.

➔ **Environmental policy impact remains uncertain:** A recent German academic study (Helmert & Van der Werf, *Ruhr Economic Papers* 1136, 2024) found the 2011 introduction of aviation passenger taxes in Germany initially had the impact of 6 – 11% fewer passenger departures in the first two years; the impact on later years was more ambiguous. The impact on 2026 earnings depends on the ability to pass through elevated environment costs, and demand elasticity — both uncertain.

Markets are settling on a story of "tight supply, steady demand, stable pricing". That story is coherent, but fragile. It relies on several quiet assumptions: that aircraft remain scarce, that consumers absorb higher fares, that supplier inflation stays manageable, and that regulators behave predictably. Having seen this in previous cycles, higher valuations will only be awarded to companies that can demonstrate long-term resilience. Otherwise, the market will pocket the beat and move on.

For leadership teams, the opportunity is not to argue the cycle, but to explain which parts of this story you control and which you do not. In 2026, credibility will come less from optimism and more from clarity on constraints. The companies that are valued as durable will be those that can show where their economics are anchored in strategy, not just where the cycle happens to be.

What separates durable valua-

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tions from cyclical ones:

✈ **Clarity on what you control:** Investors reward teams that separate strategic choices (capacity discipline, cost management) from external constraints (GTF groundings, regulatory outcomes).

✈ **Transparency on cost structure:** Companies that can show how supplier inflation, fuel, and compliance costs net out will command more credible margin guidance than those relying on headline fuel assumptions.

✈ **Regulatory positioning matters:** For airports especially, demonstrating preparedness for tariff negotiations and regulatory resets is now a valuation driver, not a footnote.

✈ **Demand assumptions need stress-testing:** Short booking cycles and consumer sensitivity mean demand stability is conditional — not structural. Show investors you've modelled the downside.

✈ **Supply constraint timeline is critical:** Distinguish between 2026 and

2027+ dynamics. GTF relief, delivery ramps, and aftermarket normalisation are multi-year stories, not 2026 unlocks.

✈ **Evidence over narrative:** The companies that sustain premium multiples will be those that anchor claims in observable data (fleet composition, contract structures, regulatory calendars) not market consensus.

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Boeing and Airbus: Orders, Deliveries and Production 2025

AIRBUS maintained its delivery lead in 2025, continuing to benefit from relatively steadier production and a strong backlog of orders. The European manufacturer delivered a total 793 aircraft, a 4% increase year-on-year, slightly above its revised guidance after late-year supplier disruptions. Airbus recorded 1,000 gross orders with 889 net orders, pushing the company's overall backlog to record levels at year-end. Supply-chain challenges — especially around fuselage panels and engine availability — persisted but did not prevent Airbus from growing deliveries and maintaining a book-to-bill ratio above one.

Boeing's 2025 performance reflected a strong recovery after several years of operational disruption. The US manufacturer delivered 600 aircraft, its highest annual total since 2018, supported by improved output across the 737 MAX and 787 Dreamliner programmes. This marked a near doubling in output as Boeing continued to normalise production after the quality, regulatory, and labour challenges over the previous few years. Notably, Boeing surpassed Airbus in the order race. It recorded gross orders of 1,175 units and net orders of 1,075.

Supply-chain bottlenecks continued to affect both companies. Airbus still cited engine and aero-structure constraints that limited faster production growth, particularly for the A320 family. Boeing's production environment improved but remained below its pre-crisis peaks, with regulatory caps on MAX output and certifi-

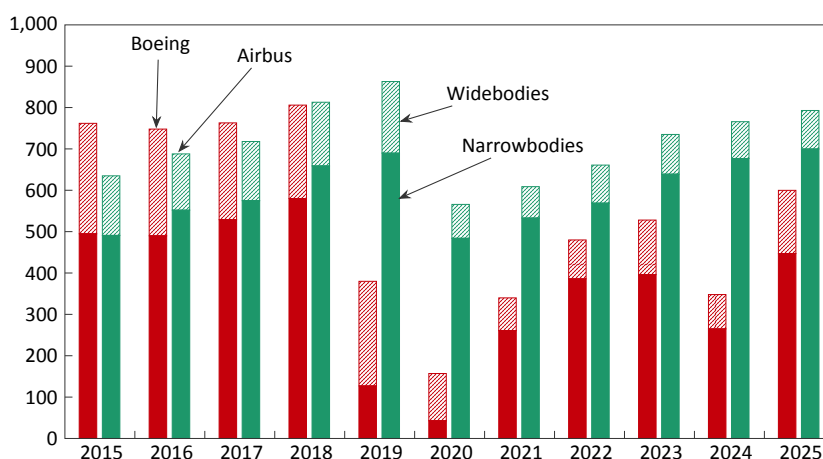
BOEING DELIVERIES 2025

Region	737	767	777	787	Total	
Asia/Pacific	84		6	25	115	20%
Europe	49		5	14	68	12%
Latin America	19				19	3%
MEA	19		8	17	44	8%
North America	162	15	10	22	209	36%
Lessors	107		6	10	123	21%
Commercial deliveries	440	15	35	88	578	100%
Government	7	15			22	
Total	447	30	35	88	600	

AIRBUS DELIVERIES 2024

Region	A220	A320	A330	A350	Total	
Asia/Pacific	6	208	5	9	228	29%
Europe	15	121	3	19	158	20%
Latin America		33			33	4%
MEA		23	8	24	50	6%
North America	45	71	7	5	128	16%
Lessors	26	148	10		184	24%
Commercial deliveries	92	604	33	57	786	100%
Airbus Defence and Space			2		2	
Private	1	3	1		5	
Total	93	607	36	57	793	

OEM DELIVERIES

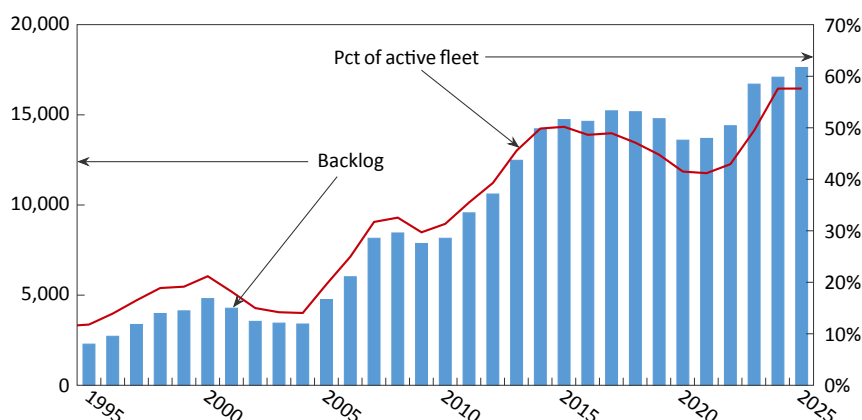


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cation delays for new models still factors.

Both OEMs are striving to increase production levels. But the order backlog is the highest its ever been — both nominally and as a percentage of the world's active fleet. And the active fleet — which needs to get younger to fulfil Net Zero ambitions — is ageing, currently averaging 15 years old. At current rates the backlog represents ten years of production for either manufacturer.

WORLD'S COMMERCIAL AIRCRAFT: RECORD BACKLOG



BOEING ORDERS 2025

	Customer	737	767	777	787	Total
Asia/Pacific	Air New Zealand				2	2
	Cathay Pacific Airways			14		14
	China Airlines			23		23
	Japan Airlines	17				17
	Korean Air			20	20	40
	Uzbekistan Airways				22	22
	Asia/Pacific Total	17		57	44	118
Europe	British Airways			6	32	38
	Norwegian Air	30				30
	TUI Travel PLC	10				10
	Turkish Airlines				50	50
	Europe Total	40		6	82	128
MEAF	Emirates			65		65
	Ethiopian Airlines Group	11				11
	Etihad Airways				6	6
	Gulf Air				15	15
	Qatar Airways			31	130	161
	MEAF Total	11		96	151	258
N America	Alaska Airlines	117			5	122
	FedEx Express			8		8
	WestJet	67			7	74
	N America Total	184		8	12	204
Lessors	AviLease	20				20
	BOC Aviation Limited	55				55
	Macquarie AirFinance Limited	30				30
	Lessors Total	105				105
	Unidentified	234		11	92	337
	Government/Military	10	15			25
	Gross Orders	601	15	178	381	1,175
	Changes/Cancelled	63		24	13	100
	Net Orders	538	15	154	368	1,075
	Backlog	4,869	94	681	1,076	6,720

AIRBUS ORDERS 2025

	Customer	A220	A320	A330	A350	A350F	Total
Asia/Pacific	Air China		60				60
	Air China Cargo					6	6
	All Nippon Airways		27				27
	China Airlines				15		15
	Eva Air		3		6		9
	Indigo				30		30
	Korean Air		6				6
	Qantas Airways		20				20
	Silk Way West Airlines					2	2
	Starlux Airlines				10	5	15
	Vietjet Air		100	20			120
	Asia/Pacific Total		216	20	61	13	310
Europe	Aegean Airlines		8				8
	Air Europa Lineas Aereas				20		20
	British Airways				6		6
	Condor			4			4
	Iberia				6		6
	IAG			21			21
	LOT Polish Airlines	40					40
	Lufthansa				5		5
	MNG Airlines Cargo					2	2
	Europe Total	40	8	25	37	2	112
	Abra Group		25				25
	Total Latin America		25				25
MEAF	Egyptair				6		6
	Emirates				8		8
	Ethiopian Airlines				6		6
	Etihad Airways			6	7	3	16
	Riyadh Air				25		25
	Saudia			10			10
	MEAF Total			16	52	3	71
N America	American Airlines		8				8
	United Airlines		40				40
	N America Total		48				48
Lessors	Av lease		30			10	40
	Avolon		75	15			90
	BOC Aviation		70				70
	CALC		30				30
	Jackson Square Aviation		50				50
	MAB Leasing			20			20
	Lessors Total		255	35		10	300
	Airbus Defence And Space			2			2
	Private Customer		4		2		6
	Undisclosed customer	9	100	4	13		126
	Gross Orders	49	656	102	165	28	1,000
	Changes/Cancellations	5	96	2		8	111
	Net Orders	44	560	100	165	20	889
	Backlog	467	7,163	294	749	81	8,754

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