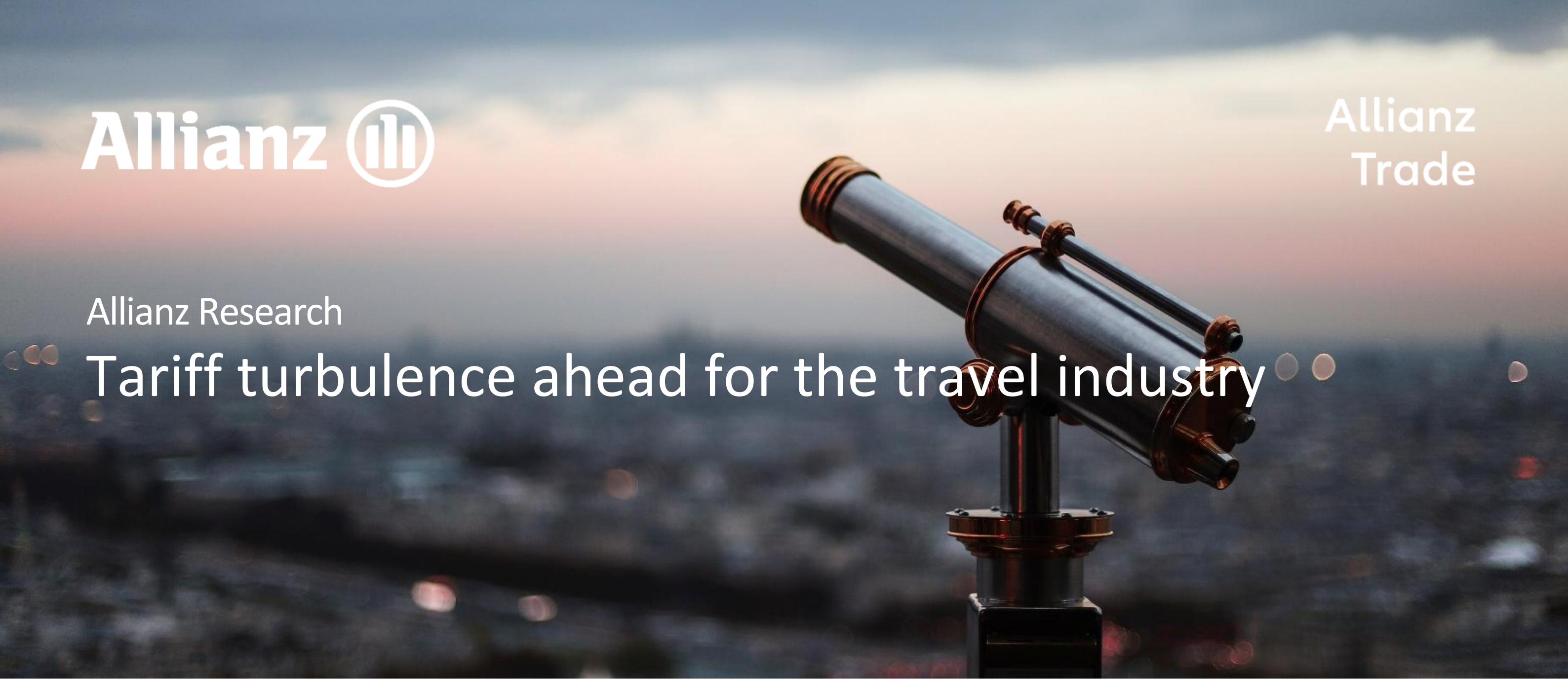

Allianz Research

Tariff turbulence ahead for the travel industry

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In summary

Turbulence ahead: Tariffs will send aircraft costs soaring while grounding travel demand. President Trump's renewed tariff push is casting fresh clouds over the airline industry, threatening to derail its fragile post-pandemic recovery. After strong revenue rebounds in 2023 (+23% y/y) and 2024 (+7%), airlines now face soaring aircraft costs (+16%) and limited supply, with deliveries still 10% below pre-pandemic levels and a record 17,000-plane backlog further worsening delays. The new tariffs threaten to make Boeing and Airbus's complex supply-chains more expensive, with both having production facilities in the US and more than half of suppliers located abroad. At the same time, US-bound tourism – a key revenue driver – is cooling, with a -17% y/y drop from Western Europe in March and early Q1 airline load factors falling to 78% (from 84%). North American airlines now project the weakest 2025 revenue growth globally (+1% y/y) and are already reporting a -10% q/q decline in Q1 revenues. However, cooling jet fuel prices (-22% y/y) should cushion some of the blow.

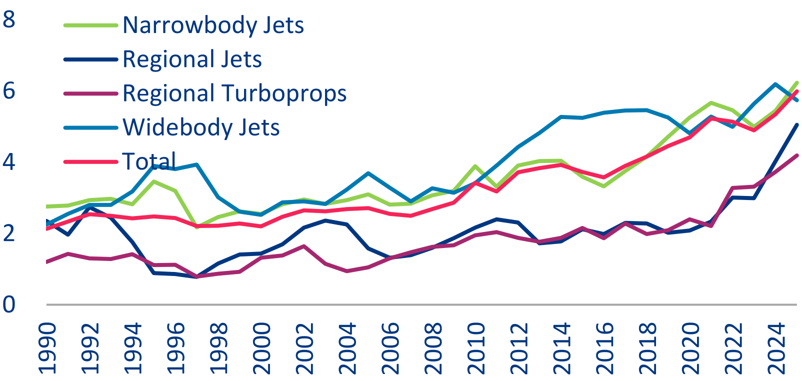
Turbulence ahead: Tariffs will send aircraft costs soaring while grounding travel demand

Cloudy skies for airlines. Following a pandemic that devastated the tourism industry and left airlines with profit losses for three consecutive years, the sector now faces another turbulent period, triggered by rising tariffs that risk inflating aircraft costs (exacerbating existing production challenges), and potentially dampening inbound tourism to the US. Certainly, the current trade war has brought to a halt the financial rebound that airlines enjoyed in 2023-2024 (when revenues jumped by +23% and +7% y/y, respectively, and bottom lines went positive). Among all current headwinds, the most worrying is the limited capacity. While the sector's capacity, measured by ATK[1], grew by around +21% y/y in 2022 and 2023, in 2024 global ATK went up only by +8% and it should remain capped at around +5% this year.

[1] *ATK, or available ton kilometers, is a capacity measure that combines both passenger and cargo capacity. It is calculated by multiplying the capacity for the transport of passengers and cargo (converted to tons) by the distance flown.*

Aircraft and key component manufacturers are still struggling to return to pre-pandemic production levels, hindering deliveries. In 2024, the two biggest plane-makers – Boeing and Airbus – delivered only 90% of what they used to provide to the market. With demand for new planes soaring, the global order backlog reached an unprecedented 17,000 aircraft at the end of 2024, making it very difficult for the duopoly to meet demand and increasing the aircraft delivery times to levels never seen in history (Figure 9), particularly for narrowbody (short-haul) and widebody (long-haul) planes.

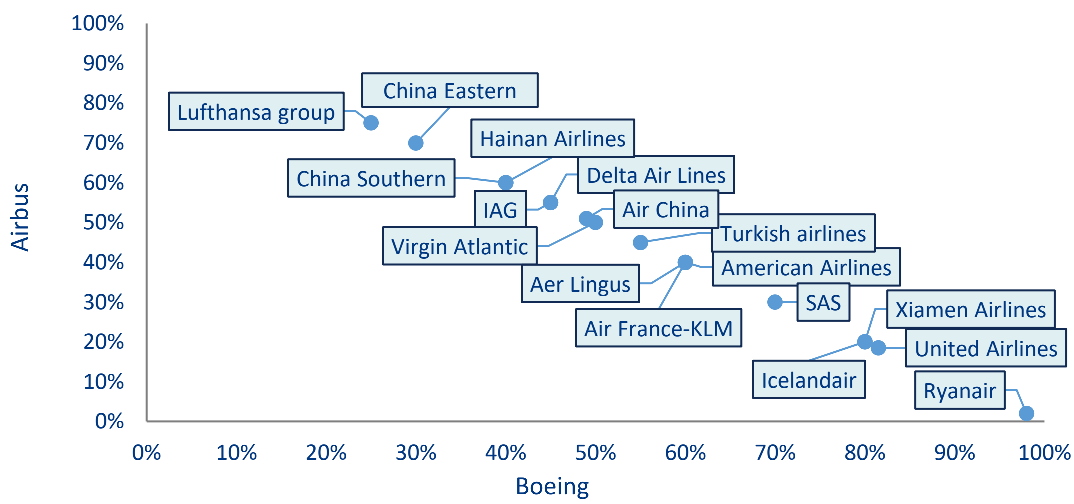
Figure 1: Aircraft average delivery times in years, by the year of delivery



Source: IATA, Cirium, Allianz Research

The current trade war is expected to exacerbate the ongoing disruptions in global supply chains, as well as specific issues at the manufacturer level, making airplanes more expensive. Although Boeing's supply chain is less complex and vast than that of Airbus (345 vs 2,398 suppliers), 54% of Boeing's suppliers are located abroad. This will roughly translate into more than half of the company's production costs being at least 10% more expensive once higher tariffs come into effect (with Safran being the main non-US supplier). For Airbus, the US is the largest single country supplier (2,000 suppliers across 40 states), with key manufacturing facilities in Alabama, Mississippi and Florida. As a result, it will also face higher tariffs on the components it needs to build jets there. Aircraft have become +16% more expensive in the past five years and prices should continue to increase by around +20% by 2030. These tariff-induced price increases could shift market dynamics in favor of Airbus as airlines might turn to the European player as a more affordable and reliable option. Additionally, governments such as China, which recently instructed its airlines to halt Boeing deliveries, may influence other governments to follow suit (nearly 8% of Boeing's client base is located in China). However, for Airbus to capture a greater share of the global market and reduce its vulnerability, it must not only invest decisively and at scale, but also adopt a strategically forward-thinking approach to supplier selection.

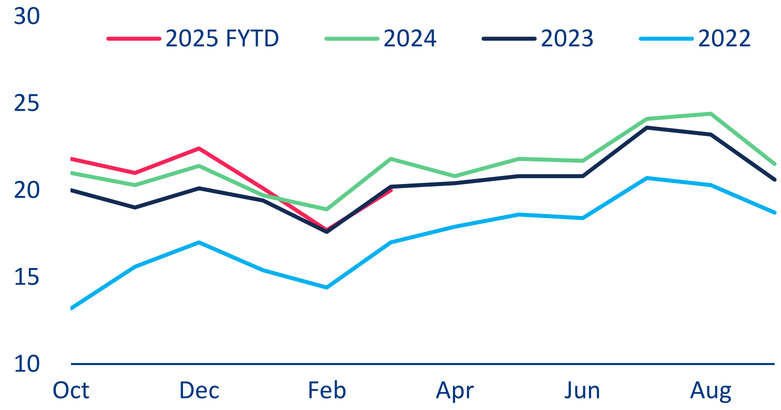
Figure 2: Airlines' fleet exposure to Boeing vs Airbus aircraft supply



Sources: Bloomberg Intelligence, Company filings, Allianz Research.

The flight path of US tourism is also shifting and should weigh on airlines highly exposed to this market. The US ranks third globally in international tourism, after France and Spain. Last year, the country received over 72mn international visitors (+9% y/y). This surge contributed to a record-breaking USD215bn (+14% y/y) in tourism receipts, making this sector (and all sub-industries related to leisure services) important for the US economy. Therefore, inflationary fears and uncertainties related to the deterioration of diplomatic relations with neighboring countries could leave a dent in tourism. Indeed, Canada and Mexico represent 52% (37mn) of total tourists visiting the US yearly, and according to the US Customs and Border Protection (Figure 11), the number of visitors crossing the northern and southern borders already decreased by -6% y/y in February and by -8% in March.

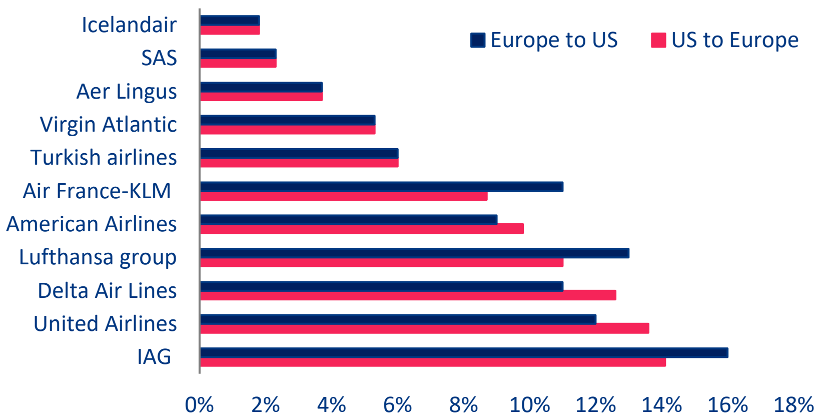
Figure 3: US arrivals by month, through northern and southern borders, all transportation means



Sources: US Customs and Border Protection, Allianz Research.

Although American airlines will be more affected, transatlantic carriers should also brace for a booking slowdown to the US. By air-passenger volume, North America as a region is key for the airlines industry as it represents around 23% of global market share, just after Asia-Pacific (36%) and Europe (27%). Therefore, a slowdown in tourism will impact not only American and regional carriers like Air Canada and Aeroméxico, but also all airline groups with revenue exposure to the US market, albeit to a lesser extent. This includes British Airways (IAG) and Lufthansa, European firms that have a market share of seats on the transatlantic route ranging between 12%-15% (Figure 12). Another concern is that transatlantic tourism represents a key profit driver for airlines as long-haul routes typically carry a higher share of first-class and business travelers, segments that generate the highest margins. Recent data from the National Travel and Tourism Office (NTTO) showed that US inbound tourism from Western Europe fell by -17% y/y in March and -7% y/y in the first three months of 2025, with Germany (-28% y/y) and Spain (-25% y/y) registering the biggest drops last month.

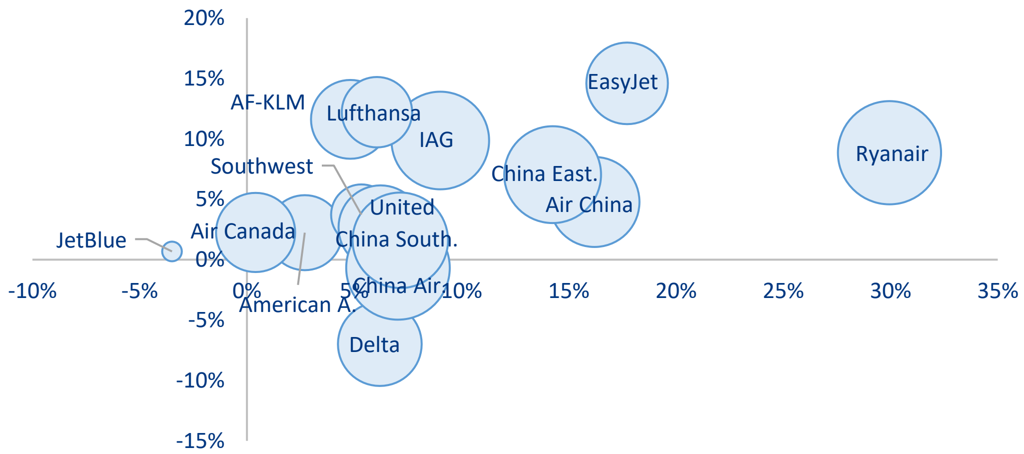
Figure 4: Market share of seats in the US <> Europe route, by airline



Sources: Bloomberg, Company data, Allianz Research.

Early Q1 2025 results underscore the declining demand for US travel, with North American carriers heading for the weakest revenue growth in 2025. Load factors[2] for airlines flying within and to the US are currently at around 78% on average, while prior to Trump's tariff announcements they were around 84%. For major US airlines, this has represented a revenue decline of -10% q/q, on average, for the January-March period. As shown in Figure 13, North American carriers are projected to post the weakest revenue growth among global peers in 2025, with only a +1% y/y increase. In comparison, European airlines are expected to see average top-line growth of +10%, while Chinese carriers are forecast to grow by +3%. Admittedly, the outlook is challenging, and turbulence lies ahead, but this is far from a crash landing. Airlines today operate with stronger margins – the average EBITDA margin stands at 11% for US carriers, 16% for European ones and 20% for Chinese ones – thanks in large part to a significant drop in jet fuel prices (-22% y/y and -56% below the peak observed in mid-2022). Kerosene prices are a major driver for airlines' earnings as fuel represents their largest operating cost (29% of total) so cheaper fuel is a tailwind that compensates for declines in revenue.

Figure 5: y/y revenue growth in 2024 (X axis), revenue growth expected for 2025 (Y axis) and current EBITDA margin of each airline (bubble size)



Sources: Bloomberg, Allianz Research

[2] *Load factor is a metric used by the airline industry to measure the percentage of available seating capacity filled with passengers. Airlines with high load factors sell most of their available seats. The higher the load factor, the more an airline can spread its fixed costs among passengers.*

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