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TRANSPORT & LOGISTICS

Geopolitical turbulence complicates airlines' flight paths for 2027

Global air travel growth is set to rebound to 5% in 2027, but airlines face tougher conditions. Demand remains resilient, but the fuel price shock will spill over into 2027, while new aircraft supply remains constrained. This creates divergent fortunes across airlines, segments and regions



The aviation industry now faces a growing challenge to deliver profitable growth as capacity remains constrained, costs rise, and geopolitical risks intensify

- **The fuel-price shock will continue into 2027.** Jet fuel could account for close to 35% of airlines' operating costs in 2026, up from 27% in 2025. Tight refinery capacity and low inventories are likely to keep prices elevated even if oil prices ease.
- **European air fares will have further to rise.** Hedging initially protected many European airlines, but that cover will progressively expire during 2027. US fares have already adjusted more quickly because American carriers tend to hedge less.
- **Budget airlines are particularly exposed.** Fuel represents a larger share of their costs, while price-sensitive passengers make it harder to pass on the full increase. Premium carriers have more scope to raise fares without significantly

weakening demand.

- **Ticket prices are unlikely to return to early-2026 levels**. Even if fuel becomes cheaper, resilient demand, limited aircraft availability and wider inflationary pressures should keep fares relatively high.
- **The Middle East disruption has reshaped global traffic flows.** Traffic in the region halved in March and April 2026 and was still 15% lower year-on-year in August, knocking an estimated 2-3 percentage points off global passenger growth. This will also still impact 2027. European airlines have benefited from some traffic shifting away from Middle Eastern hubs.
- **Aircraft shortages will continue to constrain capacity.** Airbus and Boeing had a combined backlog of around 15,000 aircraft by mid-2026. Scarcity is keeping aircraft values and leasing rates high and forcing airlines to operate older, less fuel-efficient planes for longer.
- **Asia is becoming the industry's main long-term growth engine, and India in particular stands out.** Asia's share of the global aircraft fleet is expected to rise from roughly one-third to around 45%, with India standing out: its fleet could grow by approximately 8% a year over the next two decades.

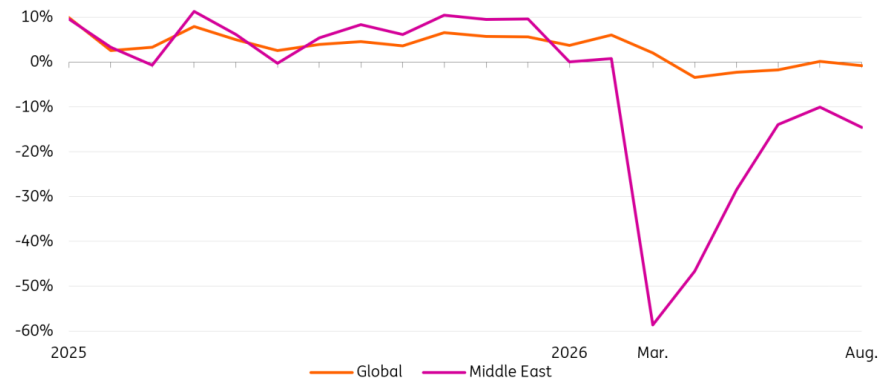
Volume and demand developments in 2026 and 2027

Airlines faced their most turbulent year since the pandemic and effects will linger

2026 has turned into the most turbulent year for the airline industry since the pandemic. Once again, pressure came from a supply shock, with the Middle East war leading to disruption, including the blockade of the Gulf of Hormuz. This affected the industry throughout the rest of the year and its effects will spill over into 2027, too.

Middle East disruption wiped out growth but didn't derail global traffic

Monthly global passenger passenger km (PLF) in %



Source: IATA, ING Research

Cost shock from Middle East disruption most impactful

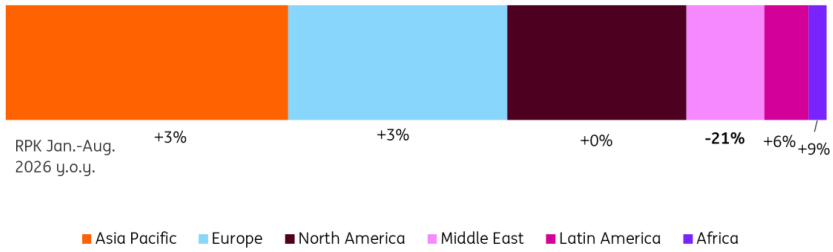
Air traffic to and from the Middle East has taken a significant hit as a result of the war, which has led to airspace closures and passengers shifting to other destinations due to safety concerns. And this comes on top of the Russian airspace, which complicates operations. Traffic in this pivotal region on the East-West corridor halved in March and April and was still 15% lower year-on-year in August 2026. Before the war, the Middle East accounted for 9.5% of global revenue passenger kilometres (RPKs). On balance, the setback in the region shaved some 2-3 percentage points off global growth with additional impacts elsewhere.

Despite a sharp increase in jet fuel prices, airline response remained constrained, with most measures limited to cancelling certain unprofitable routes rather than undertaking broader capacity reductions. All in all, we still expect around 1% global passenger growth in 2026, but this obviously falls short of the structural 4-5%.

It remains unclear when sustainable peace and stability will return to the Middle East, but Gulf countries retain ambitious growth plans for hubs such as Dubai and Abu Dhabi, anticipating strong feeder growth from the expanding middle class in India, the world's most populous country.

Middle-East fall-out rattled the airline industry, but the impact on global passenger volumes is limited

Market shares global regions (revenue passenger kilometer) and growth jan-aug. 2026 y.o.y.



Source: IATA, ING Research

Rebound to 5% growth expected in 2027, but it needs to be profitable growth

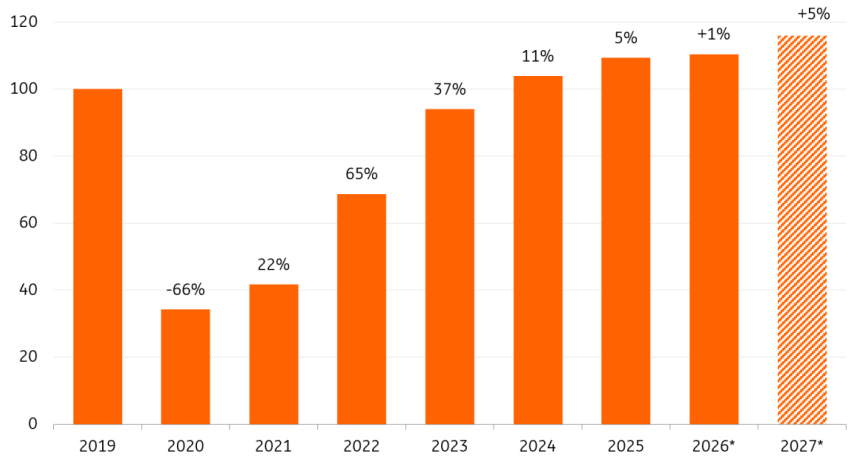
Airlines enter 2027 in a much more difficult operating environment. Jet fuel prices remain elevated, geopolitical and security risks persist, and aircraft maintenance and delivery constraints continue to limit growth. Disruptions are also becoming more frequent, partly due to more extreme weather. In this environment, the performance gap between airlines is widening.

Yet air travel demand has proved remarkably resilient despite the turmoil and higher ticket prices. You might think geopolitical and safety concerns would keep travellers on the ground, but it appears they more often opt to switch destinations. In Europe, flight traffic had already moved out of contraction before the summer, pushed by countries like Spain and Italy. This resilience was evident across all global regions outside the Middle East, with particularly strong growth in emerging aviation markets such as Africa and Latin America.

Economic growth is expected to pick up in 2027, while the propensity to travel remains strong. Against this backdrop, we expect global passenger growth to rebound to around 5% in our base case.

Air travel growth resumes after Middle East-incurred slowdown

Index global passenger revenue kilometer (2019 = 100) and volume growth %



Source: IATA, *ING Research (base case)

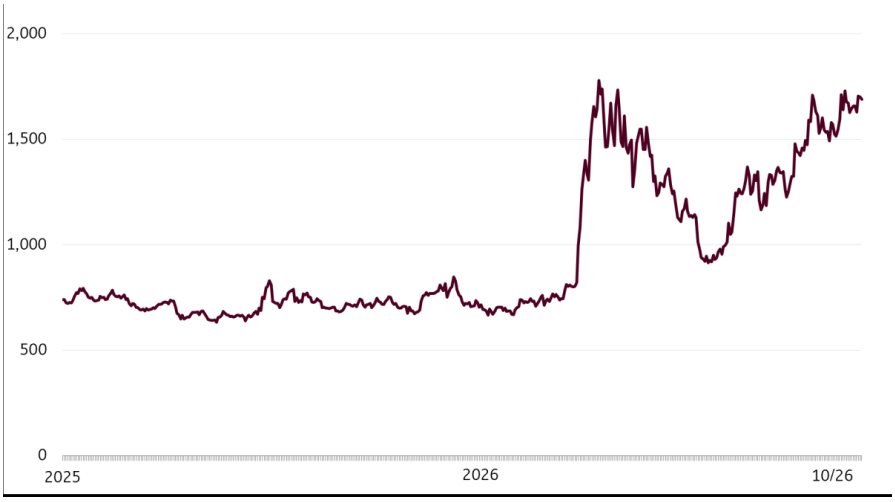
European carriers benefited from the setback on the Middle East-Asia corridor

Travel patterns changed after the Iran war started, while Middle Eastern carriers and transfer hubs were hit hardest by airspace closures. European carriers such as Lufthansa and Air France-KLM benefited from the disruption, partly cushioning the impact of surging fuel prices.

Traffic in the Europe-Asia corridor was still up more than 12% year-on-year in August, while the Middle East-Asia corridor was down almost 12% following much steeper declines in March-May. But with the conflict persisting and renewed security incidents, the impact could extend into 2027.

Jet fuel continues to trade high in Q4 2026

European jet fuel prices in $ per tonne (ARA)



Source: Refinitiv, ING Research

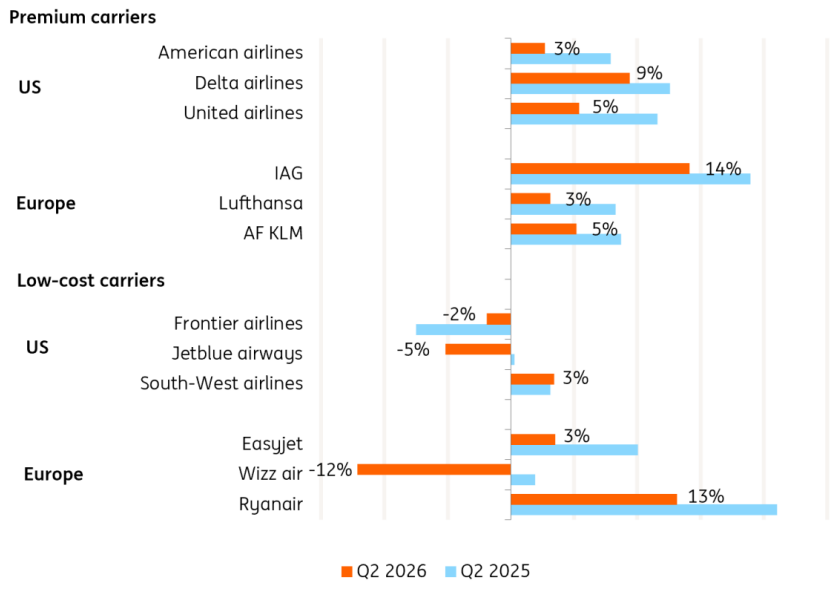
Cost shock hit profitability, but for some airlines more than others

Jet fuel is often the largest or second-largest cost item for airlines. In 2025, it accounted for 27% of total operational costs on average. This share could move towards 35% in 2026 as a result of persistently high jet fuel prices and elevated crack spreads, caused by the loss of Middle Eastern supplies and tight global availability.

Further geopolitical developments remain highly uncertain. Even if the Middle East conflict is resolved and oil prices retreat, tight refinery capacity and depleted inventories are likely to keep middle-distillate prices, including jet fuel, elevated well into 2027.

High fuel prices impact profits in US and Europe, low cost carriers most vulnerable

Operational profit (EBIT) in % per peiod



Source: Company reports, ING Research

Fuel hedging provides less cushioning in 2027; fares must respond

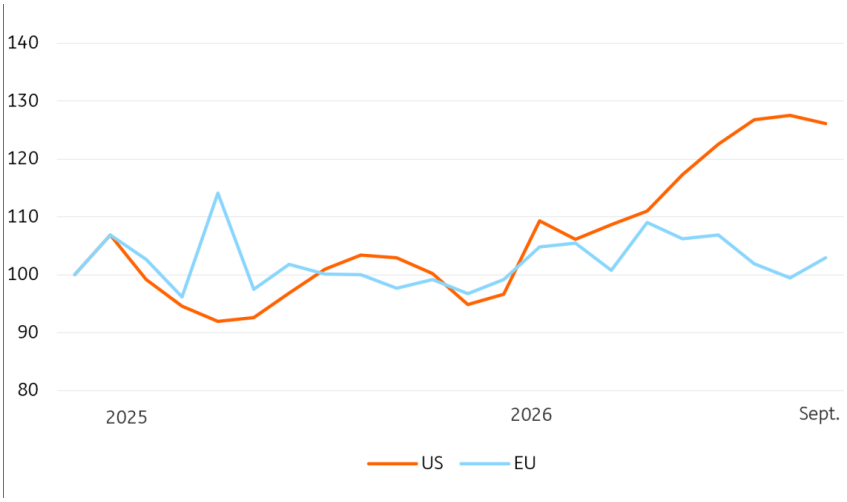
Airlines employ very different strategies to protect themselves against fuel price shocks, using derivatives based on crude oil or jet fuel. European airlines generally hedged 40-90% of their jet fuel consumption, cushioning the initial impact of the price shock.

However, the Middle East conflict has lasted too long to avoid a significant impact. Existing hedges gradually roll off, increasing exposure to prevailing market prices. Ryanair, which remains (80%) hedged until the second quarter of 2027, has already warned of significantly higher fares.

Outside, the picture is mixed, but hedge ratios are generally lower, and airlines in the US and China, for instance, don't hedge at all. This means that two airlines operating similar routes can face very different fuel bills.

Airline tickets in the US responded much faster to the cost shock than in Europe

Index ticket prices vs consumer price index (CPI, seasonally adjusted) in the US and EU (Jan 2 = 100)



Source: St. Louis FED, Eurostat, ING Research

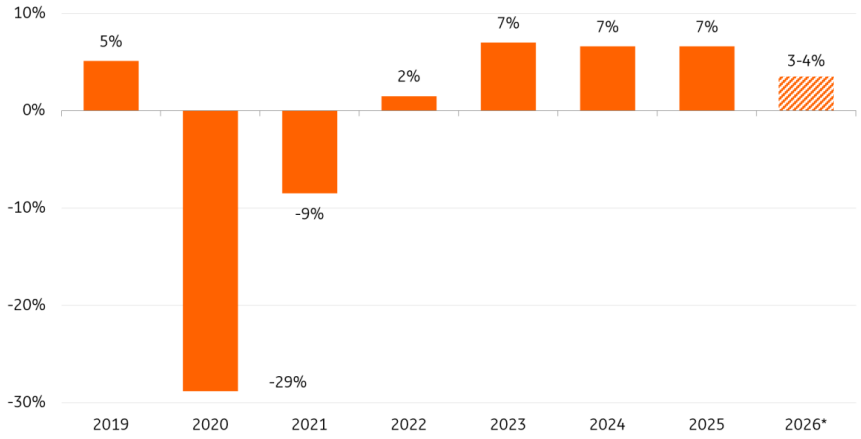
Fares already sharply higher in the US, less so in Europe

The fuel price shock will increasingly feed through into higher fares. US airlines' practice of retaining relatively high exposure to fuel price volatility resulted in an almost immediate pass-through, with ticket prices rising solidly in the months after jet fuel prices started to rise. It is also easier to raise prices when domestic competitors face a similar cost shock.

The situation is different in Europe, where hedging provided more initial protection. This also means fares may still need to rise significantly if fuel prices fail to fall. Coverage gradually expires as 2027 progresses, leaving airlines increasingly exposed to higher spot prices.

Airline profits hit, but industry remains profitable

Global development of operational profits (EBIT) per year



Source: IATA, *ING Research based on IATA

More factors are driving up costs, particularly in Europe

Jet fuel is the clear outlier this year, but wage and maintenance costs are also rising faster than the average price level. Borrowing costs and aircraft leasing rates remain another factor, although the impact depends on individual airlines' strategies and financial structures.

European airlines also face rising costs from the European Union Emissions Trading System (ETS) for flights within the European Economic Area. In addition, fuel suppliers are required to blend sustainable aviation fuel (SAF) under ReFuelEU Aviation, starting at 2% and rising to 6% by 2030*. SAF still trades at a significant premium. This puts a price on emissions, and in combination, this adds some $300 per tonne of jet fuel in 2026 (BNEF, ING Research).

Meanwhile, France and the Netherlands have either raised or plan to raise ticket taxes, particularly on long-haul flying, while Germany has scaled its levy back and Sweden has abolished it.

*A revision proposal is in progress for aviation, drawing a circle of 5,000 km around Frankfurt for application of ETS, which would hit Middle East airlines most as they will then be in scope. **In 2025, the blend rate stood at 2.8%

High fuel prices put more pressure on low-cost carriers

Low-cost carriers are particularly exposed because fuel accounts for a larger share of their cost base, and profit bases are more vulnerable. High hedge ratios initially cushion volatility, but these hedges gradually roll off. The more challenging environment is already visible in the performance of several European low-cost carriers and will remain an important theme in 2027 if fuel prices stay elevated.

Premium carriers have more room to manoeuvre. Demand for premium seats (business, premium economy) is less price-sensitive, providing airlines with greater scope to pass on higher costs. Both United Airlines and Delta Airlines reported little impact after price increases of 15-20% in the second to third quarters.

Passengers are booking later, but airlines continue to indicate a strong propensity to fly, especially in premium and premium-economy classes. A minority also accounts for a large share of flights. In the Netherlands, for example, 25% of people account for 75% of journeys. These frequent travellers tend to be less price-sensitive.

There has therefore been some demand destruction wiping out part of the underlying growth. So far, though, the propensity to travel has remained resilient.

Aviation remains profitable, but margins hit a post-pandemic low

The fuel shock has significantly affected margins. On average, profits in the global industry are expected to drop meaningfully below 5%. Airlines including Ryanair, Southwest Airlines and AirAsia have scaled back capacity on unprofitable routes as elevated fuel prices persisted longer than expected.

According to global aviation consultancy Cirium, around 1% of global air travel capacity will be removed heading into the Northern Hemisphere winter of 2026-27. In less mature markets, maintaining volumes while passing on the higher fuel bill is more difficult. Airlines may also prioritise less fuel-efficient, older-generation aircraft over capacity growth.

Industry headwinds could become a catalyst for further consolidation, ranging from minority stakes to full takeovers.

Fares could retreat if fuel prices ease, but don't expect too much

Dynamic and algorithm-based pricing is becoming increasingly common. This helps airlines optimise already historically high load factors (84% in 2026 so far) but can also contribute to greater fare volatility, especially as passengers book later amid uncertainty.

If fuel prices ease in 2027, fares could drop back. Yet relatively strong demand, constrained aircraft availability and general inflation mean a return to early-2026 fare levels looks unlikely.

Cargo benefits from high-tech demand and supply-chain volatility

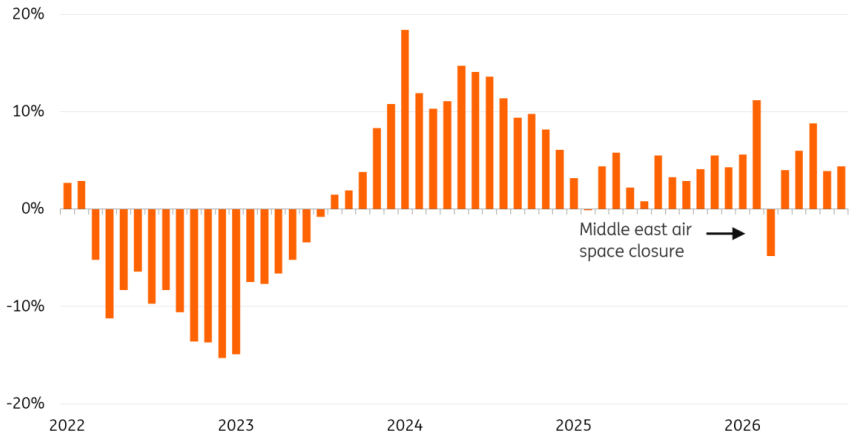
Air cargo continues to perform well as a fast transport option in an increasingly volatile and less predictable world. Volume growth remained almost 5% year-to-date, while freight rates remained attractive for carriers.

While e-commerce drove much of the growth in recent years, digitalisation and large-scale AI investment increasingly support shipments of high-value technology products. Strong cargo performance helped cushion pressure on airline results in 2026. European carriers also benefited from reduced available freight capacity from Middle Eastern competitors.

Freighter capacity received a boost during the pandemic through passenger-to-freighter conversions, but that boost has largely run its course. New-generation A350 and Boeing 777 freighters should add capacity in the coming years.

Aircargo volume resilient in disruptive geopolitical environment

Global development of air cargo volume in tonne/km (CTK) y.o.y.



Source: IATA, ING Research

Future demand 2027 and onwards

Aviation's centre of gravity is increasingly shifting eastwards

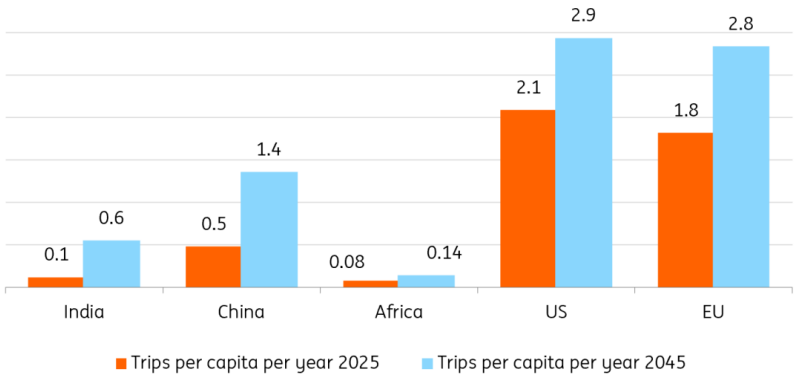
The centre of gravity of global aviation is increasingly shifting eastwards. Trips per capita are expected to see strong increases over the next two decades, particularly in Asia. This matters even more because these markets are far more populous.

Until recently, around 90% of the world's population did not fly in a given year, but this is

gradually changing. As a result, fleet growth is expected to be strongest in Asia, with its share of the global aircraft fleet increasing from around 33% to approximately 45%.

People still expected to fly more, especially in India

Trips per capita per year in various countries



Source: S&P, Airbus, ING Research

India is becoming a powerhouse for future airline growth

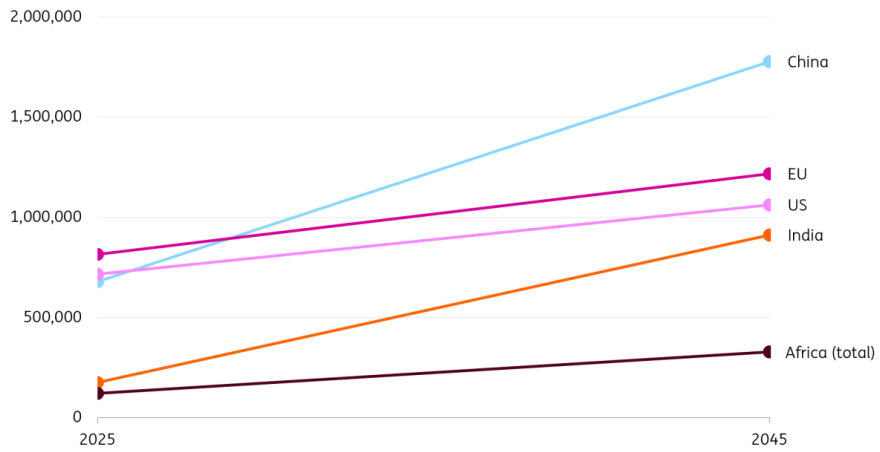
Air travel is strongly correlated with GDP and household income. As Asia's middle class expands, the potential customer base for air travel swells. For future aviation demand, this income effect is even more important than population growth alone.

Younger generations also appear keen to travel, adding to the potential in countries such as India and Indonesia. Increasingly internationally dispersed families provide another structural source of demand.

India stands out here. Strong economic growth, rising household incomes and a huge population offer strong potential. Airlines are positioning themselves accordingly, illustrated by historically large aircraft orders from IndiGo and Air India. India's aircraft fleet is expected to grow by around 8% annually on average over the next two decades.

China and India are the growth engines of global aviation in the decades ahead

Forecasted growth in number of trips per year, per country/bloc (*1,000)



Source: S&P Global, Airbus, ING Research

Supply-side developments

Aircraft scarcity keeps capacity tight and lease rates elevated

Supply constraints have been curbing aviation growth since the post-pandemic recovery and remain a major factor. The share of stored aircraft dropped below 10% by the end of 2025, its lowest level since 2019. Even several A380s (the largest aircraft) have returned to service.

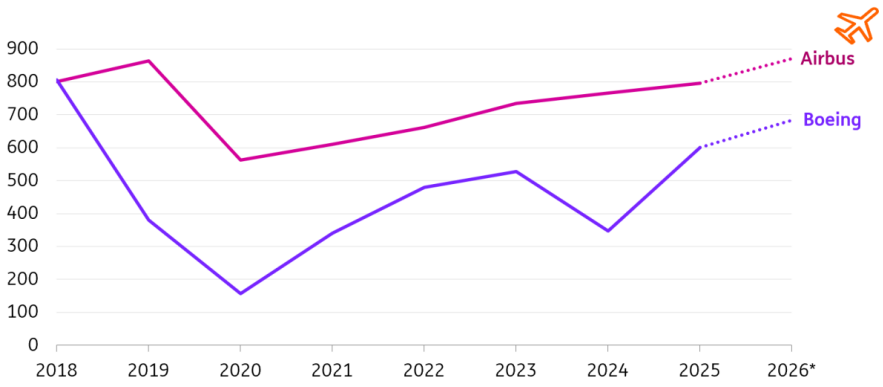
More than half of the global commercial aircraft fleet is leased. Tight capacity is consequently reflected in relatively high used-aircraft values and lease rates.

Airbus and Boeing had a combined record backlog of around 15,000 aircraft by mid-2026. Production and deliveries continue to lag order intake after seven consecutive years of subdued deliveries from 2019 onwards. Demand for new-generation aircraft remains strong, as illustrated by major recent orders from Avolon and Turkish Airlines.

Production could finally return to pre-pandemic levels in 2027. Chinese manufacturer COMAC, meanwhile, is making progress in China in Asia, but Western certification remains distant.

New airplane deliveries continue on a recovery track now with Boeing rebounding

Number of delivered commercial airplanes by manufacturers Airbus & Boeing per year



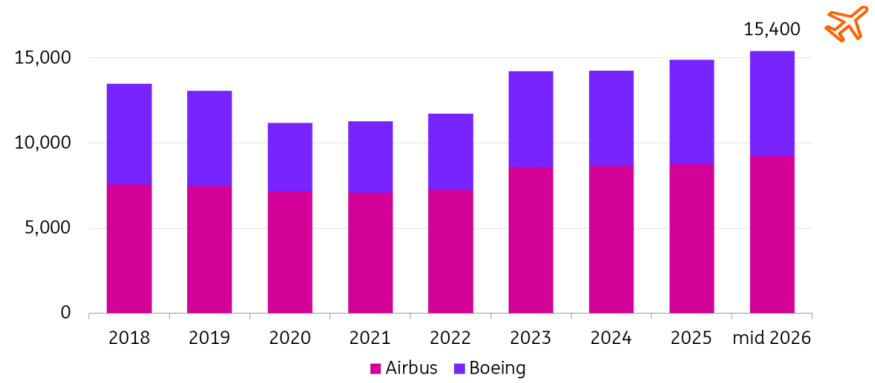
Source: Company reports *Company forecast

Why aircraft supply remains constrained

- **Production has still not caught up with pre-pandemic levels** and is unlikely to do so in the next five years**.** Aircraft manufacturing is recovering, but delays and large backlogs push delivery dates into the 2030s. Airlines are therefore forced to keep older aircraft flying for longer.
- **Suppliers are still struggling to ramp up.** Six years after the sharp pandemic downturn, aviation supply chains have still not fully normalised. Stringent safety and certification requirements mean manufacturers rely on a limited number of specialised suppliers. Engines and sophisticated cabin components still have long lead times, while skilled workers remain scarce.
- **Engine issues continue to affect available capacity.** The peak impact of the Pratt & Whitney inspection programme after an identified production issue has passed, but checks and maintenance continue to constrain parts of the A320neo-family fleet and absorb scarce maintenance capacity.

Aircraft production still has a long way to go catching up: backlog hit fresh record in 2026

Orderbook Airbus & Boeing: number of commercial airplanes



Source: Company reports

Delivery catch-up is crucial for both capacity and efficiency

New aircraft are critical not only to accommodate growth, but also to improve efficiency. The average age of the global fleet has increased from around 13 to 15 years since 2019 due to production constraints.

This matters increasingly as older units require more maintenance at a time when skilled personnel and maintenance capacity are scarce; they also consume significantly more fuel and therefore emit more.

Boeing is finally regaining altitude supporting deliveries

Boeing is finally making a sustained comeback following an unprecedented period of disruption stemming from the 737 MAX accidents, the pandemic and subsequent production and quality problems. It received certification for its 737 MAX 7 and also the 737 MAX 10 recently. Boeing plans to increase production for the family from 38 to 47 a month.

Higher 737 production should support deliveries in 2027 and gradually bring pre-pandemic production levels back into sight. This is hugely important for Boeing-dependent airlines such as Ryanair and Southwest. Progress on certification of the 777-9 is also important for long-haul fleet renewal.

Fleet renewal is currently the most important decarbonisation lever

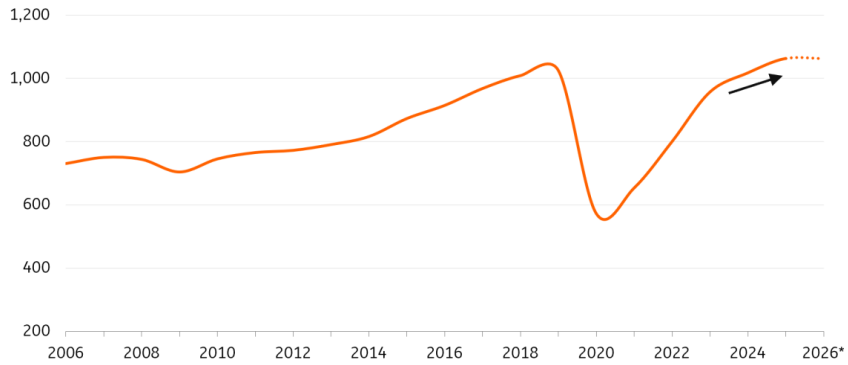
Air travel continues to grow, and associated emissions tend to continue to rise further as well. Sustainable aviation fuels are labelled as an important industry pathway to decarbonise, but globally, blend rates still hover below 1% in 2026.

The closure of airspaces, too, has created inefficiencies and extra emissions over the last few years, undermining gains elsewhere. Around 63% of the global fleet still consists of previous-

generation aircraft. Replacing them can reduce fuel consumption by 10-25% or more, making fleet renewal one of the most effective near-term decarbonisation levers available to airlines.

Global CO2-emissions in aviation bounced back

CO_2-emissions in aviation (in MT), excl. non-CO2 effects



Source: IEA, ING Research *estimate forecast

The challenge is to deliver profitable growth in a more disruptive world

For airlines, the challenge heading into 2027 is therefore not simply finding sufficient demand. Relatively poor punctuality, with only around 61% of flights departing on time in 2026 year-to-date, is a signal.

The globally operating industry faces more turbulence and uncertainty amid intensified geopolitical risks. The challenge is to deliver profitable growth in a world of persistently constrained capacity, higher costs and more frequent disruption.

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