Sirius Aviation Capital

Air Transport Industry Update Q2 2025

- **SPECIAL TOPIC – Engine Market Update**
- Macro-Economic Background
- Traffic and Aircraft Demand
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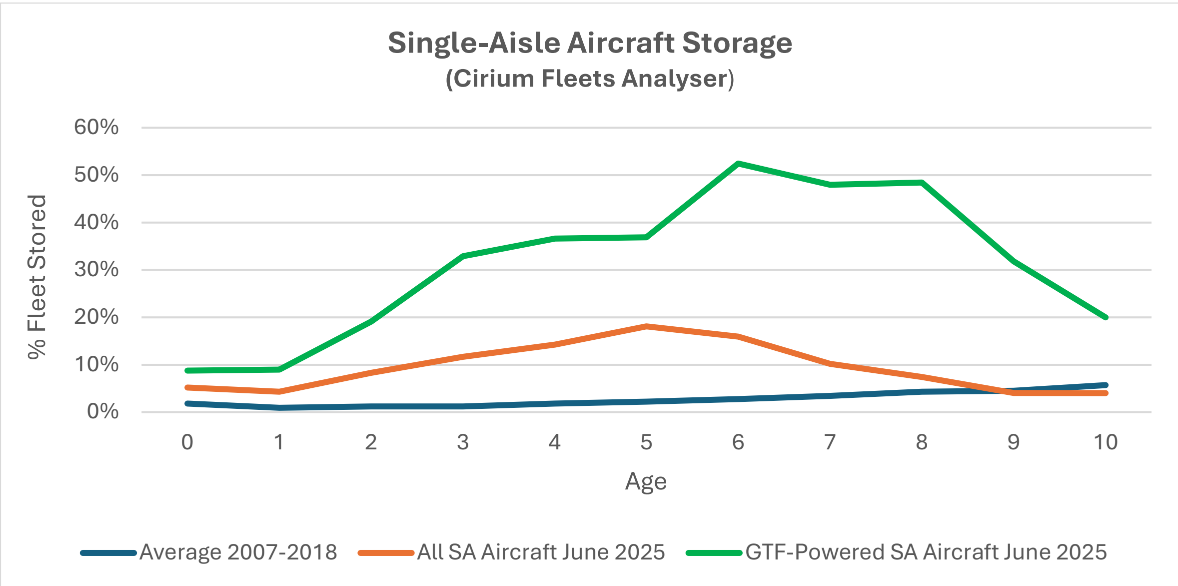
Engine Market Update

One of the most striking industry developments in 2025 has been the retirement of 13 A320 Neo and A321 Neo aircraft manufactured in 2016 and 2019. The age at which these aircraft have been scrapped (6.3 to 8.5 years old[i]) is dramatically less than normal estimates of an aircraft's economic life of between 20 and 25 years. Several industry sources have reported that this was driven by the attractive relative economics of leasing out the engines associated with these aircraft and selling the airframe compared to leasing the aircraft with the engines.

Part of the story here is the impact of higher levels of regular maintenance required by both the Pratt & Whitney GTF and CFM International Leap engines compared to their predecessors, the V2500 and CFM 56 respectively. In the case of the GTF there have been additional maintenance requirements because of the need to rectify manufacturing defects associated with faulty powdered metal used to make some engine parts. This has led to a sharp increase in the demand for spare engines so aircraft can keep flying while this maintenance is carried out.

The extent of the problem is demonstrated by the level of young aircraft in storage. The engines discussed above all serve single-aisle aircraft, and the chart below compares the levels of single-aisle aircraft in storage by age as of June 2025, with the average level of aircraft in storage during the period 2007-2018[ii] when most single-aisle aircraft were powered by the predecessor types.

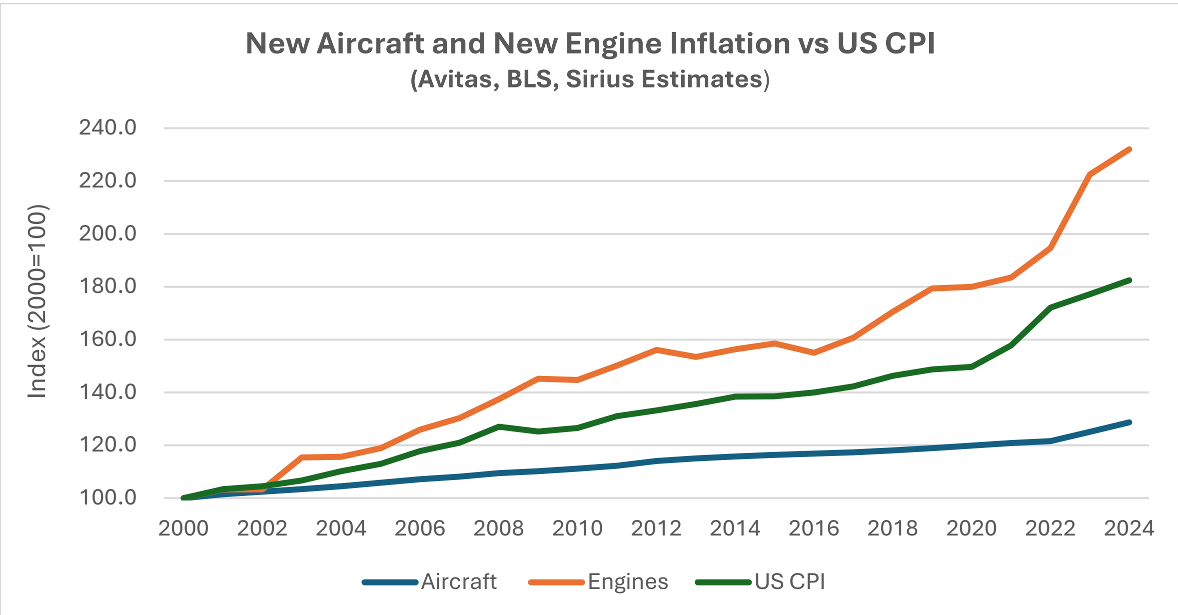


As of June 2025, there were 976 single-aisle aircraft in storage of which 747 were GTF-powered. The vast majority of these aircraft would be flying if there were enough spare engines.

As well as these extreme short-term pressures there are some important long-term trends underlying the relative values of aircraft and engines that feed into these early part-outs. Before discussing the specifics, it is worth outlining some key characteristics of the engine market for non-specialist readers. Aircraft engines from different manufacturers are not interchangeable – for example, the A320 Neo can use either the Leap or GTF engine, but one cannot fit a GTF engine to an aircraft configured for the Leap and vice versa. This means that engine manufacturers compete very aggressively to capture market share on new aircraft which they can then exploit by having an effective monopoly on the supply of new spare engines and spare parts (engines consume spares worth a multiple of their original cost over their lives). There is very limited competition in the supply of new spare parts because engines with non-OEM parts are considered less marketable by lessors who impose contractual restrictions on their use by airlines.

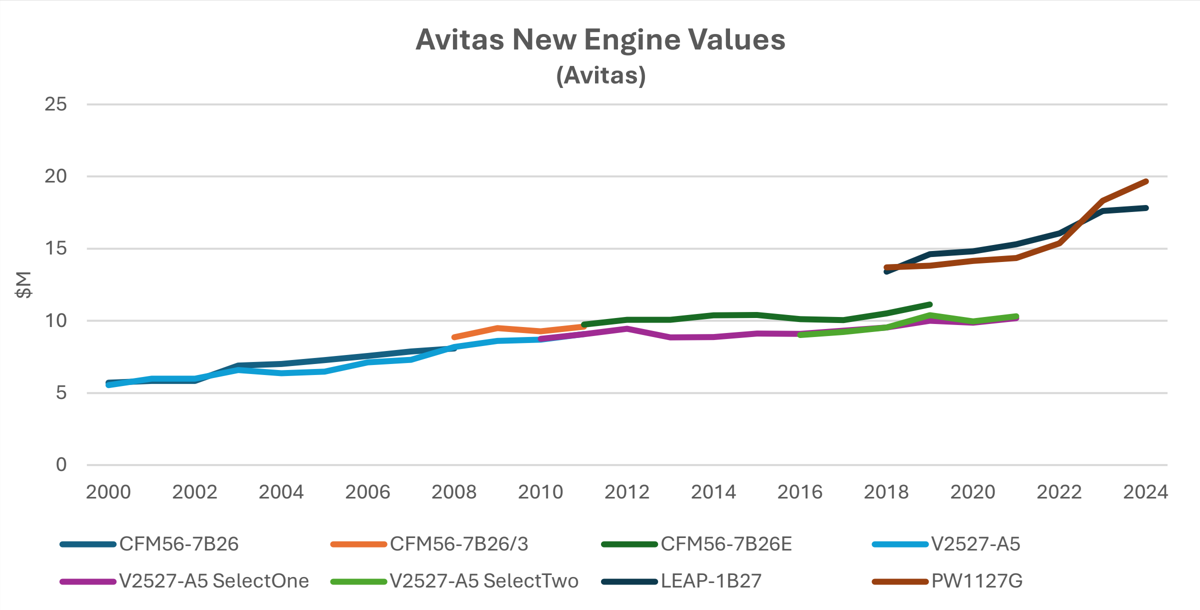
Not all the spare parts used in an engine overhaul are new. This is because not all spare parts need to be replaced at the same time and because every engine overhaul is planned to achieve a specific "build life" that may be shorter than the life that could be achieved by installing all new parts. This becomes more common with older aircraft. The engine OEMs' pricing power only goes away when enough aircraft have been retired that there is an abundant supply of used spare parts.

The discussion below is focused on engines for single-aisle aircraft. This is because there is an active secondary market for used engines and engine spares for these aircraft as there are multiple maintenance providers with a need to source used engines and engine spares. This is not necessarily true for twin-aisle aircraft. For example, Rolls-Royce dominates the provision of maintenance for its twin-aisle aircraft engines to the extent that the secondary market is typically limited to airlines willing to pay for "green time[iii]" rather than engine maintenance providers.

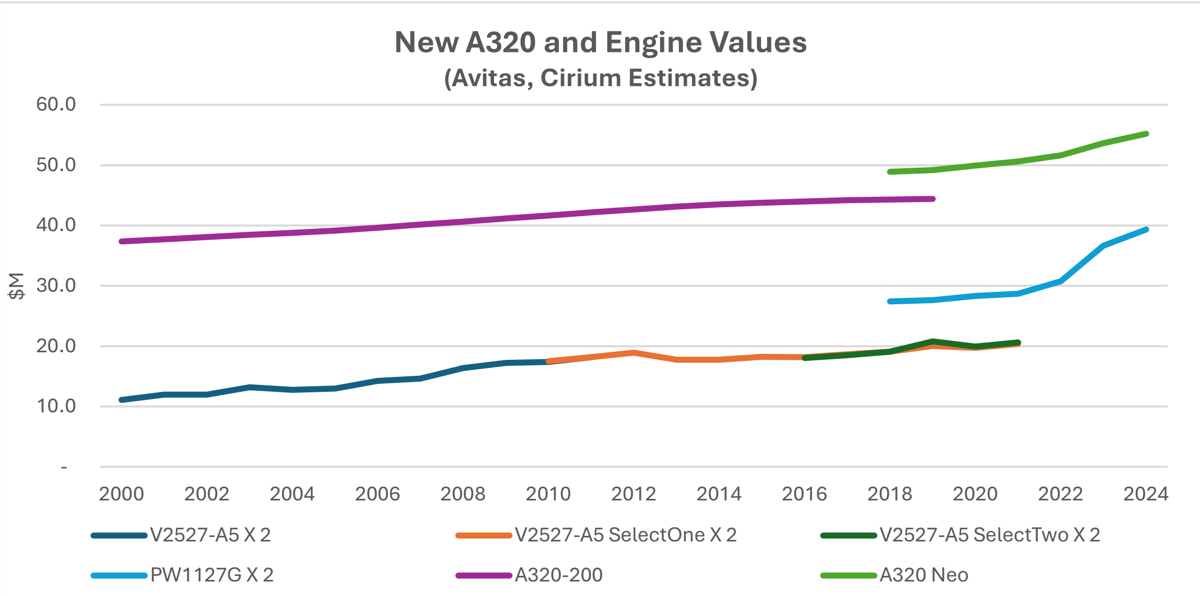


One consequence of this market structure is that the price of spare engines has increased much more quickly than the price of aircraft for an extended period. The chart above compares inflation indices for new aircraft and spare engines from 2000 with the US CPI. The engine values used are the Avitas Engine Blue Book new engine values for the JT8D-217/219, CFM56-

3/5/7, V2500, Leap and GTF engine families. We take a simple average and only include engine types where we can make a like-for-like comparison from one year to another. This means that there is no increase in values where there is retrofitting of new technology to upgrade engine efficiency. The aircraft values used are proprietary estimates based on appraiser new aircraft value estimates and analysis of aircraft OEM financial statements, and the index is constructed on a value-weighted basis. The chart below shows Avitas new engine values for a selection of the most popular single-aisle aircraft types.

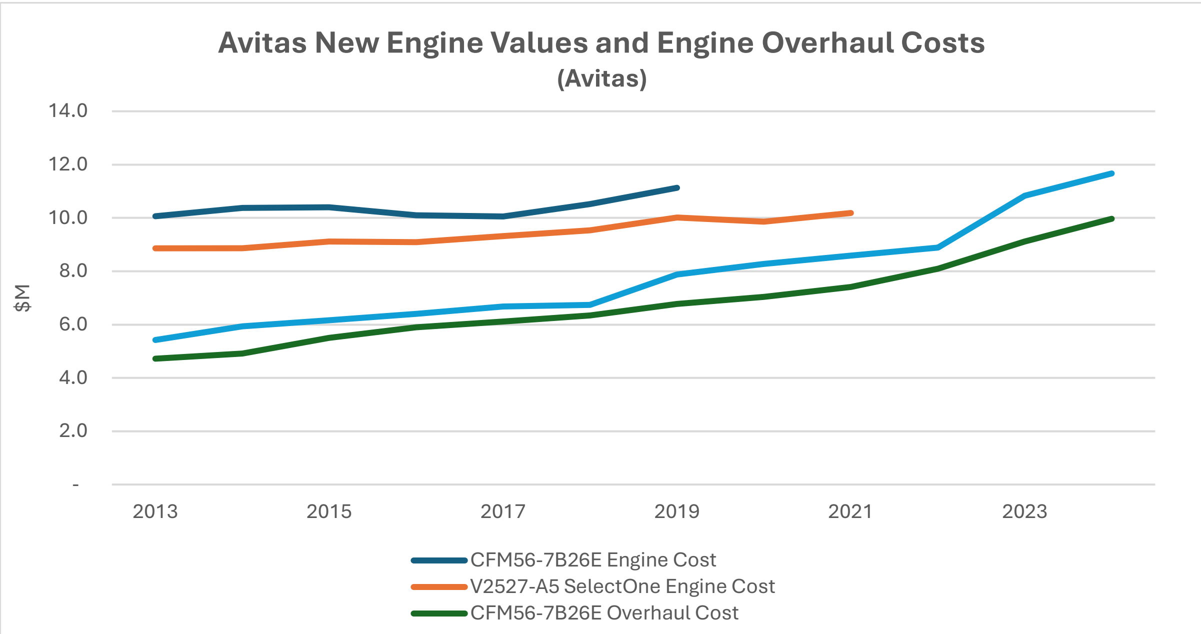


The differences between aircraft, engine and general inflation are significant with CAGRs of 1.1%, 2.5% and 3.6% respectively from 2000 to 2024. They are most readily explained by the competitive dynamics that prevail when aircraft and spare engines are sold. Every new aircraft sale is a competition whereas a new spare engine is often sold to a buyer that does not have a choice. We should bear in mind that most new spare engines are sold as part of an order for new aircraft and thus benefit from a significant discount although there are meaningful sales to airlines and other customers such as engine lessors where such a discount would not apply.



When we look at historic prices for a new A320 and its associated engines there has been a clear trend towards engine value accounting for an increasing proportion of overall aircraft value which has accelerated since 2018. We believe this acceleration is mainly down to the market dynamics discussed above and not down to the shortage of GTF spare engines (there has been a comparable increase in the CFM Leap) and the spike in general inflation has probably provided some cover. Whatever the causes this convergence in value makes the economics of breaking up an aircraft attractive at an ever-decreasing age and helps to explain recent transactions.

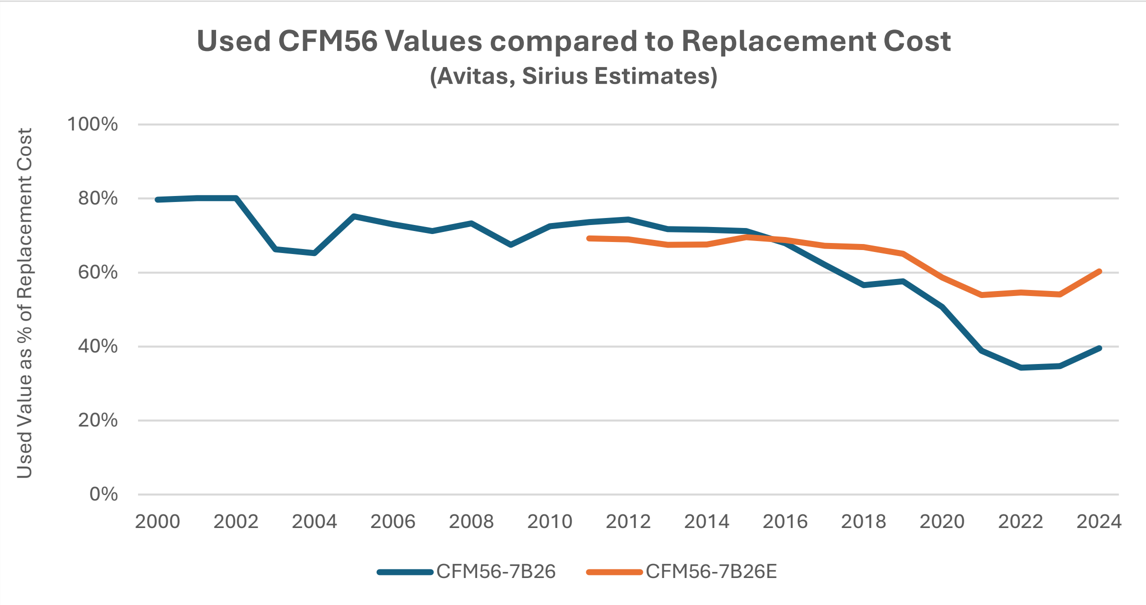
This update would not be complete without discussing a fourth inflation rate, which is the inflation rate for new engine spare parts. We can approximate this by looking at total engine overhaul costs because 80% of engine overhaul cost is accounted for by spare parts. As the chart below shows this has been significantly higher than the inflation rate for new spare engines (Avitas does not provide new engine values for spare engines when the associated aircraft type has ceased production). It is clearly more beneficial to engine OEMs to increase spare parts prices than spare engine prices because all engines need spares, but not all engines are sold on a stend-alone basis rather than as part of an aircraft order.



The market impact of this well-established trend has created some interesting phenomena. For example, some lessors include spare engines in their new aircraft orders even though they do not have the same natural requirement for them as an airline does. The benefit of doing this can be realised by leasing the engines which will provide a very high return compared to the typical lease of a new aircraft or by selling on to a specialist engine lessor at a number much closer to the new spare engine value. An alternative would be to sell the engine to an engine maintenance provider who would be able to break it up for spare parts – this is often characterised as the optimal economic choice, but it hardly ever happens because of pressure from the engine OEMs who would not like to indirectly cannibalise their customer base. Unsurprisingly, there are very few market participants who will go "on the record" about this.

There is also a developing conceptual issue for aircraft and engine valuers which is how they should assess the relative value of a half-life and a full-life engine.[iv] Normally the gap would reflect the cost of bringing an engine's maintenance status from half-life to full life and vice versa but this becomes tricky when the total cost of maintenance starts to approach the value of a new engine, which is by definition full life. Applying this approach mechanically may lead to appraisers marking down the value of used engines relative their replacement cost until the used engine valuation becomes very conservative and does not take account some significant components of value such as the parts of an engine that do not need to be overhauled or replaced.

We can see some possible evidence of this when we compare used engine values over time with their replacement cost. The replacement cost used when an engine ceases production is a percentage of its successor type – this is normally a reasonably objective number as the two engines are often sold side by side for several years. For the engines in the chart below the CFM56-7B26 is c. 90% of a CFM56-7B26E and a CFM56-7B26E is c. 78% of a Leap-1B27.



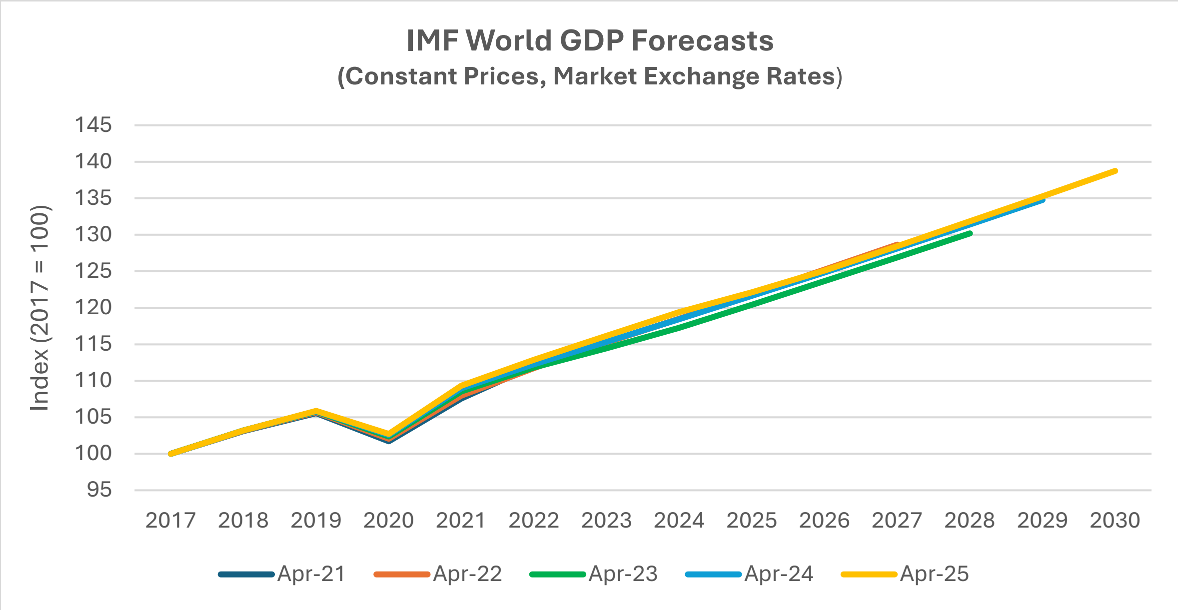
In both cases there is a clear reduction in the relative value of the used engine. This is not due to age as engine values are not driven by age but rather by maintenance condition. One could make the case that there is an impact from the engine and associated aircraft type going out of production but there is already a moderate downward trend before the late 2010s.

These long-run trends create arbitrage opportunities, particularly when market participants can exploit break-up values rather than value as an operating asset and a reasonable observer might wonder how sustainable this market structure will be in the future. Two forces are likely to help it persist. First both the aircraft and engine OEMs are overwhelmingly motivated to sell new aircraft, albeit for different reasons, and large engine discounts for new aircraft orders are perceived as vital for success. Second lessors remain likely to act as the engine OEMs policemen and to insist on only OEM parts being used in overhauls. If there was to a change of business model it is hard to see how this could be done without big reductions in up-front engine discounts, which would increase replacement costs for aircraft and would thus be good for owners but as business models go this one has proved very durable. It follows from these conclusions that lessors will need be to increasingly diligent in making sure that they are properly compensated for the maintenance utility consumed by their airline customers.

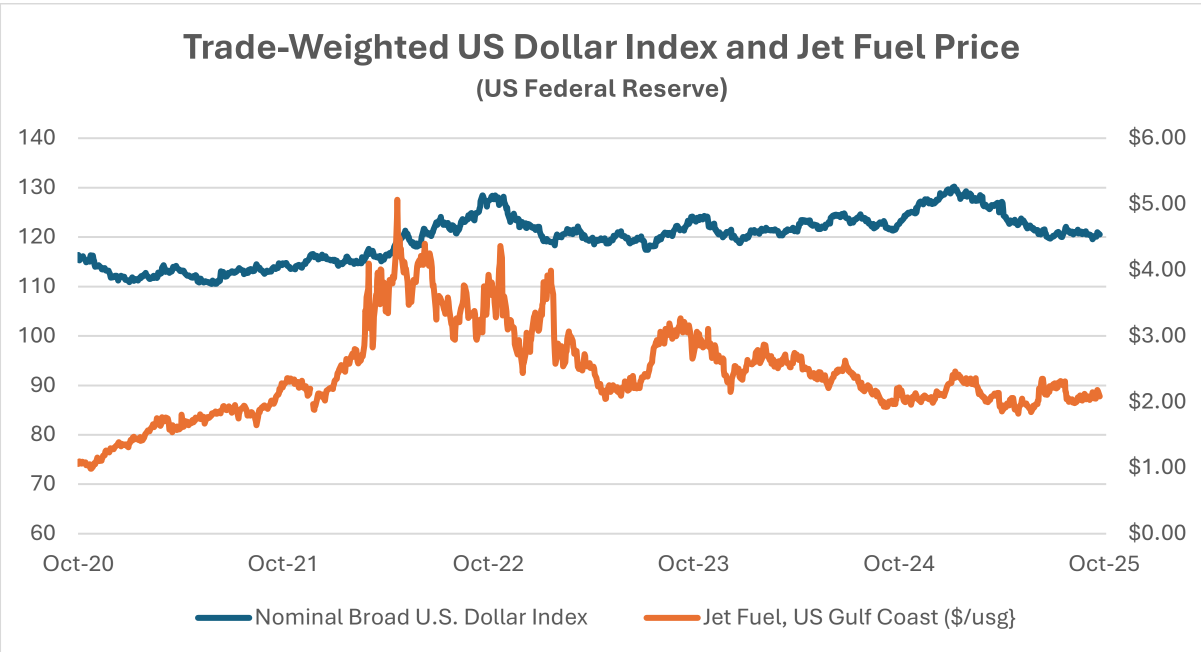
Regular Topics

Macro-Economic Background

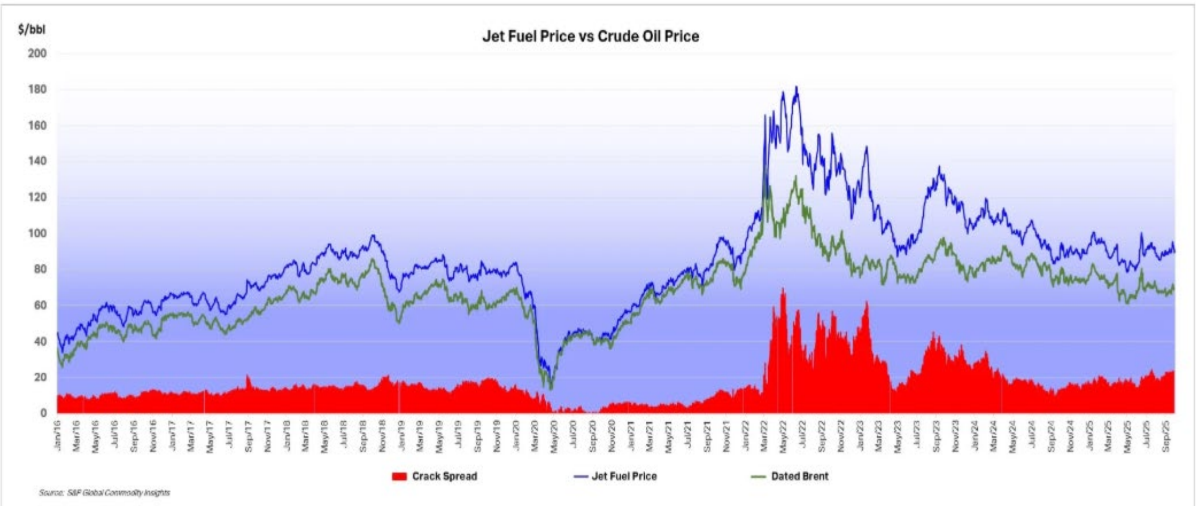
Despite the "trade wars" initiated by the US this year the IMF has not materially changed its World GDP forecast in its latest World Economic Outlook published in April 2025, and its first forecast for 2030 shows a similar level of growth to prior years. In its July update the IMF tweaked its forecast for 2025 and 2026 slightly upwards, by 0.2% and 0.1% respectively.



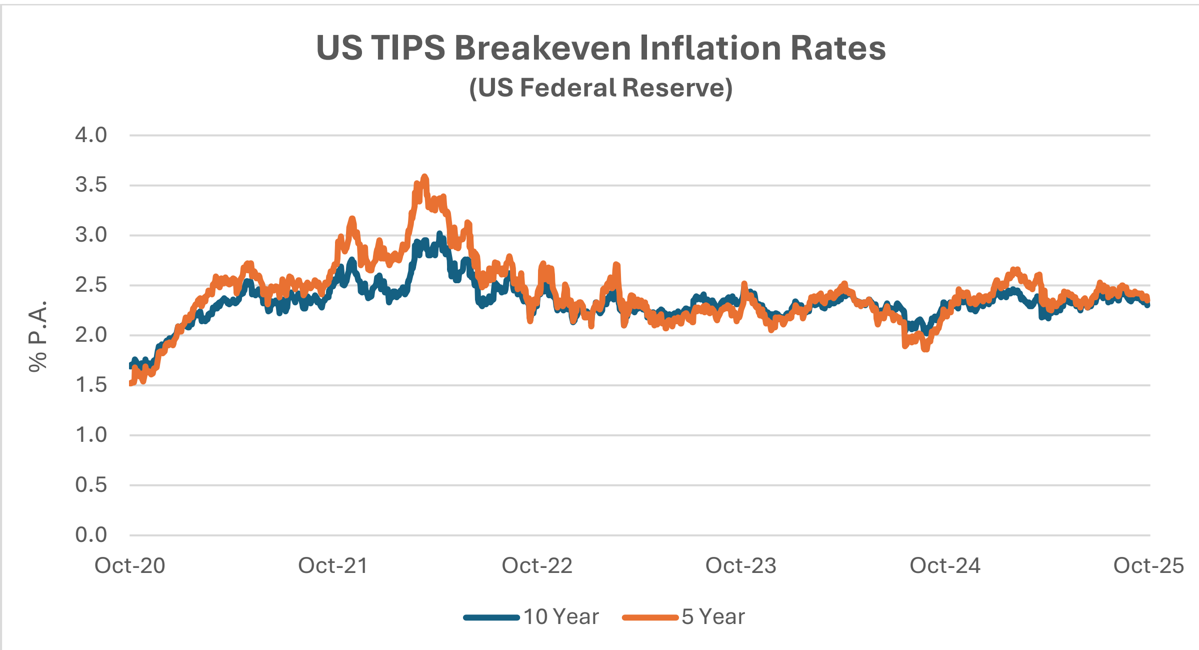
Economic growth is a key driver of long-term growth of air travel. However, since early 2020 its impact has been overshadowed by the fall and recovery in traffic associated with the pandemic. In time the influence of overall economic conditions on air travel is likely to reassert itself, but industry forecasts published by Airbus, Boeing and IATA assume much higher rates of traffic growth than GDP growth over the rest of the 2020s as the former catches up to its long-term trend (see our Q1 2024 Industry Update for a more detailed discussion).



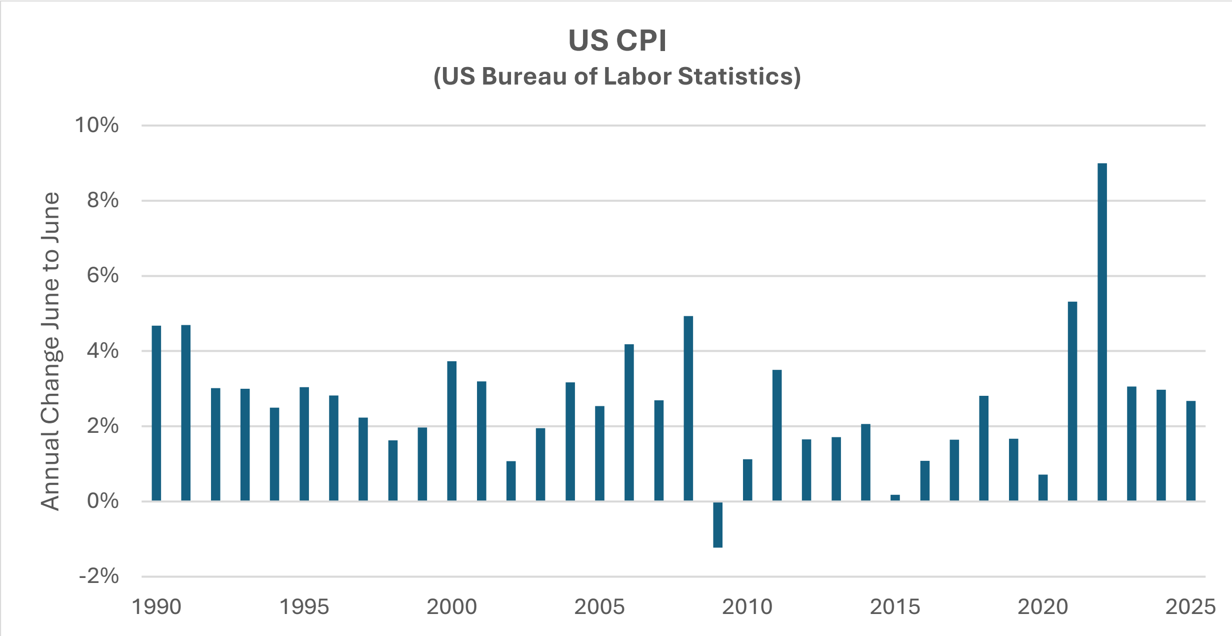
Two key macro variables have been moving in favour of the airline industry in recent months. The cost of jet fuel has recently increased to a little over $2.0 per gallon, as weak crude oil prices are outweighed by the high level of the “crack spread” which is nearly $22 per barrel. IATA estimates that fuel accounted for 29% of total industry costs in 2024, and the current prices is c.8% below the average for 2024 so this remains a welcome change. There will probably be a lag for many airlines in seeing the impact of cheaper fuel in their financial results as they will have hedged their costs forward for periods of up to around a year. The US Dollar has also weakened which also helps airlines outside the US for dollar-denominated costs such as fuel, aircraft rents and aircraft spares.



Another indicator that is potentially important to aircraft investors is the breakeven inflation rate on US Treasury Inflation-Protected Securities (TIPS). This indicator measures inflation expectations and it matters because used aircraft values are strongly influenced by the cost of new aircraft and over time this cost is linked to US Dollar inflation. In the short term this linkage is driven by escalation clauses in aircraft purchase contracts and in the long term by the general input cost environment for the aircraft manufacturers. The chart below compares the breakeven rate for 10-year and 5-year TIPS.

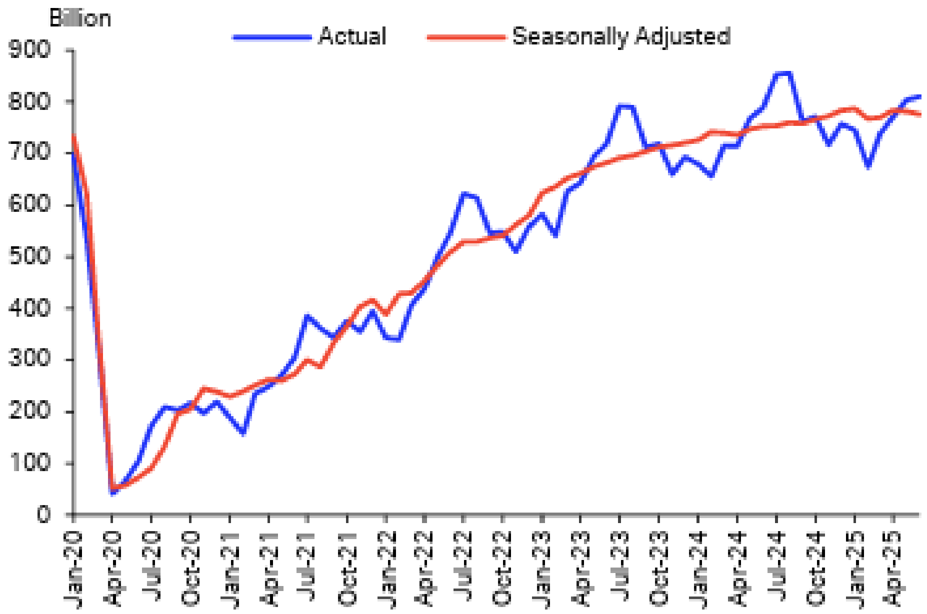


Although medium or long-term inflation expectations have never gone higher than 3.5%, actual inflation experience has been much higher in the last few years. This has led to higher appraised values for new aircraft. If tariffs are applied to aircraft and/or aircraft components tis is likely to increase the cost of new aircraft.



Traffic and Aircraft Demand

Monthly Aggregate Industry RPKs



Source: IATA Sustainability and Economics, IATA Information and Data - Monthly Statistics

After a very strong start traffic growth weakened throughout the first half of 2025. Year on year growth for the month of June was only 2.6%, although RPKs[v] for the first half overall were up

5.1% and a slightly lower increase in ASKs[vi] allowed for a modest improvement in load factor. The key growth driver was international traffic in Asia-Pacific which has lagged other markets in its post-pandemic recovery. This was significantly offset by weakness in both domestic and international North American traffic where volatile economic policy in the US appears to have had a negative impact on consumer confidence.

Total Market 2025 vs 2024 – IATA Data (all figures in %)

	H1 2025 vs H1 2024		
	RPK Change	Load Factor Change	Load Factor Level (2025)
World	5.1	0.2	82.5
Africa	7.3	0.8	74.4
Asia-Pacific	8.7	1.5	84.0
Europe	4.5	0.0	82.5
Latin America	7.6	-1.0	82.2
Middle East	5.0	0.7	80.4
North America	-0.1	-1.6	82.2
Total Domestic	2.0	-0.2	82.9
Total International	7.0	0.4	82.3

Total Market 2025 vs 2024 and 2019 – IATA Data (all figures in %)

	June 2025 vs June 2024			June 2025 vs June 2019		
	RPK Change	Load Factor Change	Load Factor Level (2025)	RPK Change	Load Factor Change	Load Factor Level (2019)
World	2.6	-0.6	84.5	5.4	0.1	84.4
Africa	0.8	-0.6	74.6	5.7	4.0	70.6
Asia-Pacific	5.0	0.3	83.0	3.5	0.9	82.1
Europe	2.2	-0.3	87.8	5.1	0.3	87.5
Latin America	7.9	-1.3	82.9	20.8	-0.3	83.2
Middle East	-0.2	-1.4	78.3	4.7	1.6	76.7
North America	0.1	-1.7	86.4	6.1	-2.3	88.7

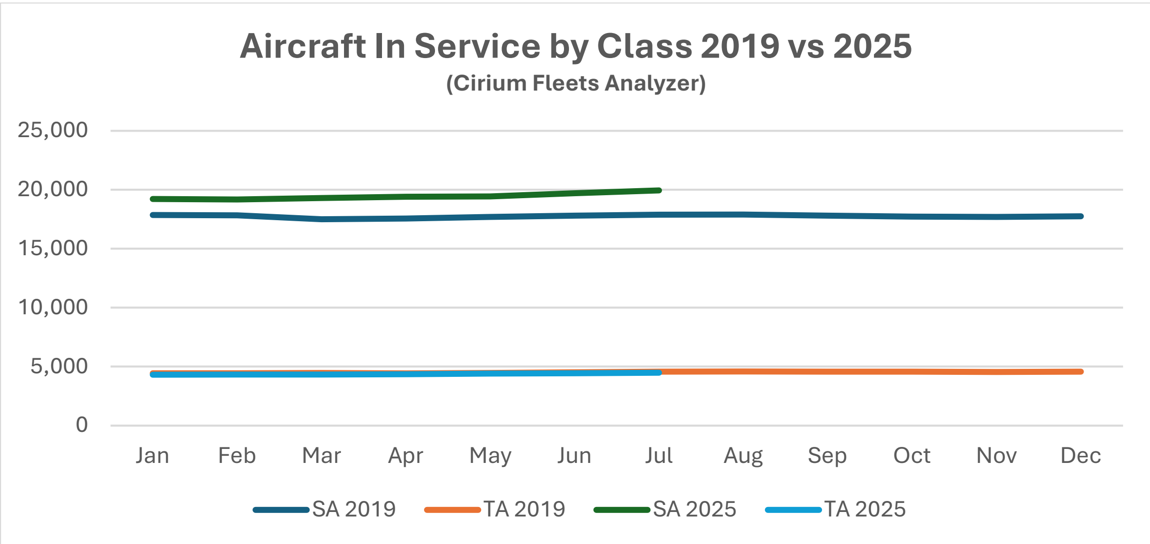
International Markets 2025 vs 2024 and 2019 – IATA Data (all figures in %)

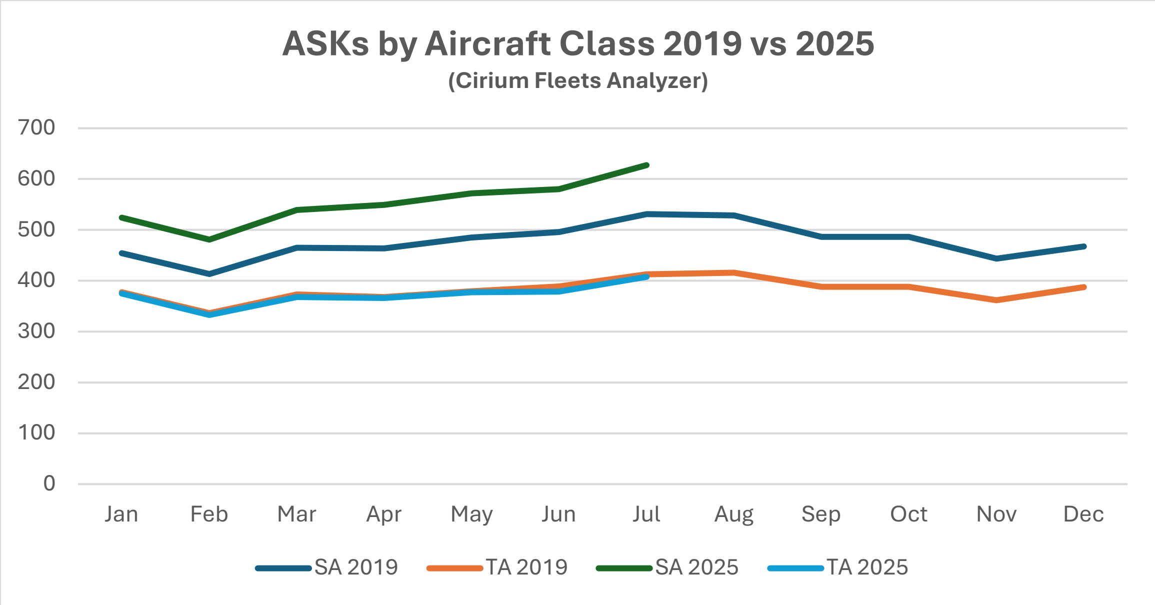
	June 2025 vs June 2024			June 2025 vs June 2019		
	RPK Change	Load Factor Change	Load Factor Level (2025)	RPK Change	Load Factor Change	Load Factor Level (2019)
World	3.2	-0.8	84.4	2.2	0.6	83.8
Africa	-0.3	-0.5	74.6	1.9	4.1	70.5
Asia-Pacific	7.2	-0.2	82.9	-6.7	1.5	81.4
Europe	2.8	-0.4	87.4	4.2	-0.5	87.9
Latin America	9.3	-1.9	83.3	18.3	-0.7	84.0
Middle East	-0.4	-1.2	78.7	4.6	2.1	76.6
North America	-0.3	-2.2	86.9	8.4	-1.0	87.9

Select Domestic Markets 2025 vs 2024 and 2019 – IATA Data (all figures in %)						
	June 2025 vs June 2024			June 2025 vs June 2019		
	RPK Change	Load Factor Change	Load Factor Level (2025)	RPK Change	Load Factor Change	Load Factor Level (2019)
World	1.6	-0.4	84.7	11.4	-0.8	85.5
Australia	0.9	-0.5	81.1	3.8	3.1	78.0
Brazil	14.7	-1.7	83.0	33.9	1.3	81.7
China	3.8	0.6	83.1	26.2	-0.9	84.0
India	5.4	-2.9	84.3	12.3	-5.1	89.4
Japan	2.9	2.3	75.3	6.7	5.1	70.2
US	0.1	-1.5	86.0	5.4	-3.4	89.4

Although some short-haul aircraft serve international routes nearly all long-haul aircraft do so, and this is reflected in the relative demand for single-aisle (narrowbody) and twin-aisle (widebody) aircraft. Aircraft demand can be measured in terms of aircraft in service and ASKs, the standard measure of aircraft capacity deployed by airlines which indicates how intensively aircraft are being flown. Single aisle aircraft demand on both metrics is higher so far in 2025 than in 2019 whereas twin-aisle aircraft are in line.

The softer recovery for twin-aisle aircraft is mainly due to weak traffic to and from, and within the Asia-Pacific region. The figures by region in the tables above are based on airline domicile, so weak Europe to Asia traffic reduces recorded international RPKs in other regions. This short-term effect is accompanied by a very gradual long-term increase in single-aisle aircrafts' share of global airline capacity at the expense of twin-aisle aircraft, which is caused by better operator economics and an increase in the number of markets where single-aisle aircraft can be deployed because of the greater range of new technology aircraft such as the A320 Neo and the B737 Max.





New Aircraft Supply

Airbus Deliveries	First Half							
Aircraft Family	2018	2019	2020	2021	2022	2023	2024	2025
A220	13	21	11	21	25	25	28	41
A320	239	294	157	237	230	256	261	232
A330	18	17	5	7	13	14	13	12
A350	40	53	23	30	29	21	21	21
A380	6	4	-	2	-	-	-	-
Total	316	389	196	297	297	316	323	306

Airbus delivered slightly fewer aircraft in H1 2025 than in H1 2024 mainly due to continuing supply chain constraints which were aggravated by the acceleration of some CFM International LEAP engine deliveries into Q4 2024 to meet last year's delivery target. Airbus stated that they had roughly 60 A320 family "gliders" at the end of June, that is to say airframes that had been completed but with no engines available to allow them to be delivered. Despite these problems Airbus has maintained its guidance at 820 deliveries in 2025.

Aircraft Family	Current Announced Monthly Rate[vii]	Actual H1-2025 Monthly Rate	Target Rate	Target Timeframe
A220	7	7.6	14	2026
A320	50	47.6	75	2027
A330	4	2.3	5	2029
A350	6	4.5	12	2028

There has been no change in Airbus's medium-term production plans (the current production figures in the table above include some external estimates as well as official Airbus guidance).

Boeing Deliveries	First Half							
Aircraft Family	2018	2019	2020	2021	2022	2023	2024	2025
B737	269	113	9	113	189	216	137	209
B747	3	4	1	2	3	1	-	-
B767	9	22	14	13	12	9	9	14
B777	25	22	10	14	12	9	7	20
B787	72	78	36	14	-	31	22	37
Total	378	239	70	156	216	266	175	280

Boeing's deliveries increased significantly year-on-year across all aircraft programs. Also, there is a lot more clarity around actual production rates, so we have stopped estimating production rates adjusted for movements in inventory. At the end of June, the B737 rate was at its target level of 38 and aircraft in inventory were 20 in production variants due for delivery to Chinese airlines by year end 2025 and c. 35 -7 and -10 variants awaiting certification sometime in 2026.Further increases in the B737 production rate are subject to FAA approval and Boeing has not provided a definite timeframe for when they will occur, but management has said they expect future increases to come in increments of 5 aircraft per month.

The production target for the B787 is an increase from 5 to 7 by the end of 2025 with a further increase to 10 in 2026. By the end of Q2 production was over 5 per month and inventory had reduced to 15 aircraft of which 3 are contracted for delivery to Chinese airlines.

Boeing confirmed that it plans entry into service for the B777-9 in 2026 with the B777-8 freighter to follow in 2028 and the B777-8 passenger version in 2030.

Aircraft Family	Current Announced Monthly Rate	Actual H1-2025 Monthly Rate	Target Rate	Target Timeframe
B737	38	34.8	38	2026
B767	3	2.3	3	-
B777	3	3.3	4	2026
B787	5	6.1	10	2026

The threat of tariffs and other trade disruptions for commercial aircraft appears to have receded for the time being with a favourable EU-US trade deal agreed in July 2025 and public discussion of a large order for Boeing aircraft from China.

Other Jet Deliveries	First Half							
Aircraft Type	2018	2019	2020	2021	2022	2023	2024	2025
C909/ARJ 21	1	3	10	10	2	7	17	9
C919	-	-	-	-	-	-	3	5
CRJ 700/900/1000	12	14	5	3	-	-	-	-
E-Jet/ E-Jet E2	42	37	8	23	17	24	26	26
Superjet 100	22	4	5	5	3	2	-	-
Total	77	58	28	41	22	33	46	40

The number of deliveries by other aircraft manufacturers fell in H1 2025 compared to H1 2024, mainly due to a fall in deliveries by COMAC. Cirium reports informal guidance that COMAC plans to deliver 30 C919s in 2025 compared to 13 in 2024 but this looks to be a challenge after only five deliveries in H1.

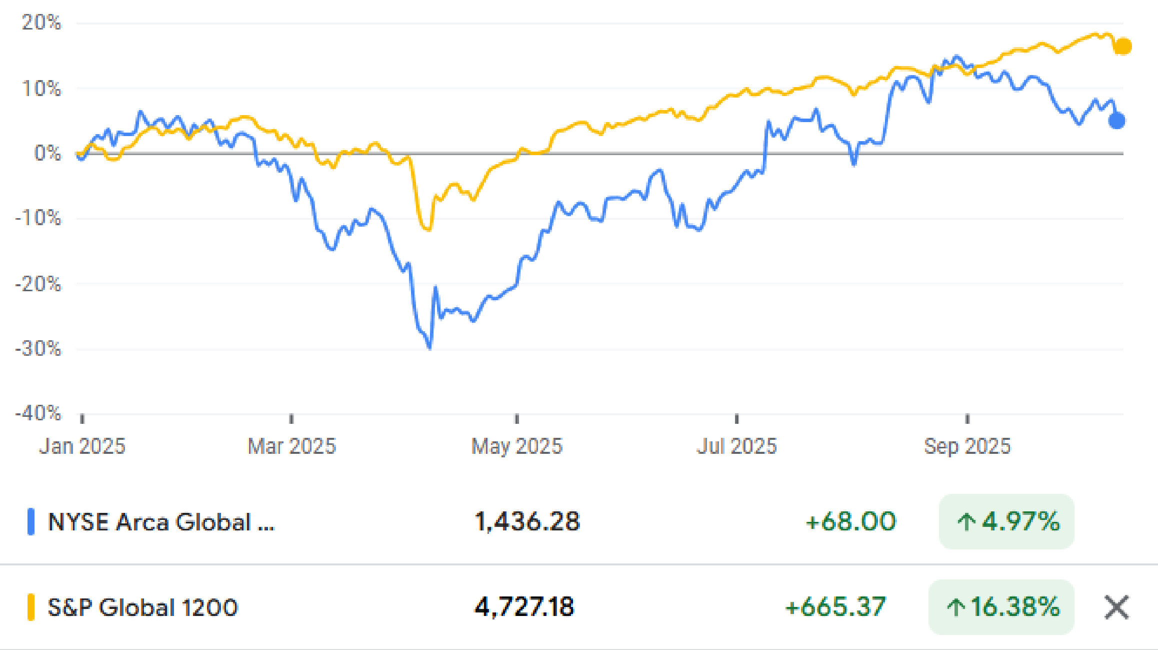
Airline Industry Financial Performance

IATA released a new airline industry financial forecast in June 2025 as part of its semi-annual Global Outlook for Air Transport. The table below compares key forecast outputs for 2025 with IATA's previous forecast published in December 2024.

Forecast Date	December 2023	June 2024
Forecast Period	Year to December 2025	Year to December 2025
RPKs (BN)	9,814	9,565
RPK Growth	8.0%	5.8%
Passenger Load Factor	83.4%	84.0%
Airline Industry Revenue ($BN)	1,007	979
Change in Passenger Total Yield	-3.4%	-3.2%
Jet Fuel Price $/b	87	86
EBITDAR ($BN)	177.7	160.0
EBITDAR Margin	17.6%	16.3%
Net Profit ($BN)	36.6	30.5
Net Profit Margin	3.6%	3.7%

The main change between the two forecasts is a modest downgrading of the outlook for RPK growth and profitability based on actual industry performance in the first half of this year. By historical standards the global financial outturn for 2025 is likely to be quite good absent any major external shocks.

NYSE Arca Global Airline Index vs S&P Global 1200 Index **(Google Finance)**



Airline stocks fell more heavily than the overall market in April, which is not surprising as the NYSE Arca Global Airline Index is heavily weighted towards US airlines, and the latter had published several profit warnings on the back of weak travel demand. Since April there has been a gradual recovery as the worst-case scenarios have failed to materialise.

The two big airline failures so far in 2025 have been Azul and Spirit Airlines. Azul's bankruptcy is another example of how difficult it is to avoid this procedure if all one's competitors have availed of it (GOL emerged from bankruptcy in June). Spirit has been the victim of a continuing adverse market for US low-cost airlines and its own failure to use its first bankruptcy to do more than just buy time (Spirit filed for bankruptcy in November 2024 and emerged from bankruptcy in March 2025). This time around management have said they plan to significantly shrink the airline to improve its future viability.

Very few small airlines have failed so far this year, and our historical analysis suggests that there will be more financial distress over the rest of 2025 for this category of airline than has occurred to date. The table below omits two very small airlines that were reported as failing, Bees Airlines of Romania (January) and RAVN Alaska (August). In neither case was it possible to identify any aircraft they operated as of year-end 2024.

Airline Failures in 2025 (various sources)				
Airline	**Country**	**Month**	**Aircraft Types**	**# Aircraft**[viii]
SKS Airways	Malaysia	January	DHC-6-300	2
Air Belgium	Belgium	April	A330-200, B747-8	4
Cityjet	Ireland	May	CRJ-900	6
Azul	Brazil	May	A321-200F, A320 Neo, A321 Neo, A330-200, A330-300, A330-900, ATR-72-600, B737-400F, E195, E195-E2	193
Spirit Airlines	US	August	A319-100, A320-200, A321-200, A320 Neo, A321 Neo	213
PLAY	Iceland	September	A320 Neo, A321 Neo, B737-800	10

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End Notes

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[i] Source: Cirium Fleets Analyser
[ii] We use the period 2007-2018 because it is the most recent full period between industry cycle peaks with no one-off events such as the grounding of the B737 Max.
[iii] “Engine green time’’ refers to the remaining operational life of an engine, particularly its life-limited parts, before it requires a major overhaul/
[iv] A half-life engine is on average halfway through the overhaul interval for each of its main components. This is the generic assumption for the valuation of used engines. A full-life engine is either new or a used engine where all the major components are fresh from overhaul.
[v] RPKs is the acronym for revenue passenger kilometres, which is the product of the number of paying passengers times distance flown.
[vi] ASKs is the acronym for available seat kilometres, which is the product of the number of available seats flown times distance flown.
[vii] Airbus normally quotes its production rates based on an 11.5-month year for single-aisle aircraft.
[viii] Fleet numbers are as of December 31st, 2024.