Revenues—And Costs—Are Rising

Air Travel Demand Outlook 2026

JANUARY 2026

Five trends to watch for in 2026 and beyond

1

Macro factors driving volatility

Geopolitical turbulence (e.g., tariffs), economic uncertainty, and infrastructure reliability (e.g., air traffic controller shortages, IT outages) continue to affect supply and demand patterns, driving volatility for airlines worldwide

2

Divergence in margins

The airline industry is in a period of profitability, although profits are not distributed evenly, as FSC and LCC performance diverges in North America and Asia-Pacific

3

Cost focus and emerging AI use cases

Growth in CASK is outpacing RASK, leading airlines to explore permanent shifts in cost structure, such as consolidation or leveraging AI to help cut costs

4

Easing OEM delays

While there is cautious optimism that aircraft production will ramp up, any growth remains vulnerable to raw material and labor shortages, supply chain disruptions, and increasing regionalization

5

New fleet types

Fleet types such as the A321XLR are entering the market at scale, and networks are being reshaped with new cost structures as a result. For example, XLR aircraft can open transatlantic narrowbody routes, and A350-1000 ULR aircraft will enable ultra-long-haul flights

Source: BCG analysis.
Note: Reflects information available as of November 2025. FSC = full-service carrier; LCC = low-cost carrier; CASK = cost per average seat kilometer; RASK = revenue per average seat kilometer; OEM = original equipment manufacturer; XLR = extra-long range; ULR = ultra-long range.

Three macro factors create volatility for aviation by shifting supply and demand patterns

Air Travel Demand Shifts
Changes to passenger buying patterns

Air Travel Supply Shifts
Changes to flight availability

Lower leisure demand, declining business travel

Travel visa restrictions

Airspace or airport closures

ATC staffing shortages, IT outages

Economic uncertainty

- **Consumer sentiment and spending power** Changes in GDP growth, the job market, recession risks, or consumer discretionary spending
- **Unclear business outlook** Uncertainty affects business and investor confidence, decreasing cross-border business and investment activity (e.g., accessing credit becomes more difficult)

Note: Fuel price is currently stable, but in other years may be a source of uncertainty

Geopolitical turbulence

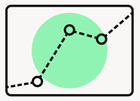
- **Trade and tariff realignments** Policy shifts, tariffs, and export controls disrupt global supply chains and corporate planning
- **Regional conflicts** Ongoing or emerging conflict zones threaten infrastructure and create defense risks
- **Fragmentation of alliances and global institutions** Weakening of multilateral frameworks and competing blocs increases unpredictability in regulation and cross-border operations

Infrastructure reliability

- **Governance and oversight** High public debt and government disruptions constrain ability to make decisions or investments in infrastructure
- **Labor shortage** Public infrastructure is understaffed, leading to service gaps
- **Aging IT/cyber attacks** IT infrastructure is built on aging technology, highly dependent on a few key players, and vulnerable to cyber offensives

Source: BCG analysis.
Note: Reflects information available as of November 2025. ATC = air traffic controller.

Macro factors will likely continue shaping air travel in 2026 and beyond



Economic uncertainty

- **International business travel spending to decrease** as companies reduce travel and localize operations
- **Premium economy and business class flights** will make up a greater share of all flights as **population growth slows and GDP per capita rises** (e.g., China's population is projected to remain flat while GDP per capita rises about 50% to 60% over the next ten years)
- **US consumer demand for premium products will grow**, with tax reforms favoring upper-income households while reducing benefits (e.g., SNAP and Medicaid) for lower-income groups, potentially impacting the market for budget fares

Geopolitical turbulence

- **Airspace closures in the Middle East, Pakistan, and Europe** are likely to persist and may worsen, **making routes unviable, increasing stage length, and requiring greater operating flexibility** to respond to sudden changes
- **An ~6x increase in tariffs on imported goods to the US**—especially on parts, FF&E, and infrastructure materials—will raise costs and increase pressure throughout the supply chain; in addition, the outcome of the **US Section 232 probe into commercial aircraft** is pending and may result in tariffs and/or quotas
- **Canada/US transborder demand** will likely not recover to 2024 levels; however, overall North American demand will remain steady, with Canada/US transborder travel spending shifting to Mexico, APAC, and the EU

Infrastructure reliability

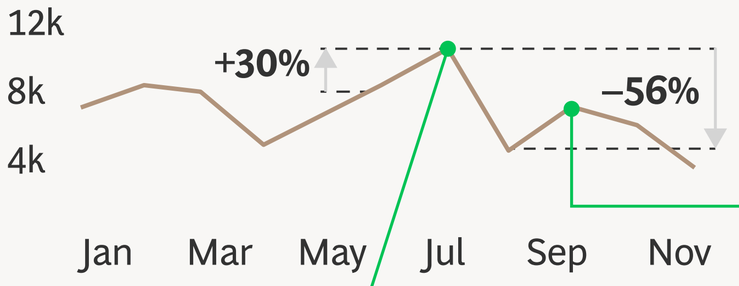
- **Across all regions, airport reliability issues will likely persist**
  - **Airport delays and closures** (e.g., due to ATC shortages across the EU and North America) may increase, constraining airport throughput
- Day-of disruptions due to **ATC staffing shortages** in peak months or during **airport construction** may increase
- **IT systems may become more vulnerable** to cyber attacks and outages from individual vendors

Source: BCG analysis.
Note: Reflects information available as of November 2025. SNAP = US Supplemental Nutrition Assistance Program; FF&E = furniture, fixtures, and equipment; APAC = Asia-Pacific; ATC = air traffic controller.

Airport disruption rates can shift rapidly due to seasonality and unforeseen macro shocks

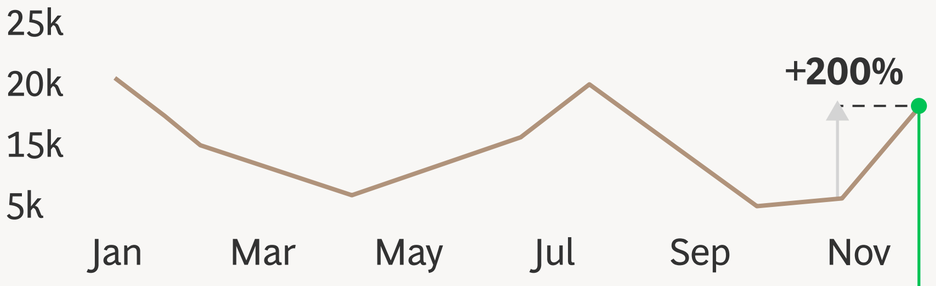
Europe: About 7K cancellations per month, shifting around 50% to 60% between months

MONTHLY FLIGHT CANCELLATIONS 2025



North America: About 11K cancellations per month, up 200% in November due to staffing shortages during the US government shutdown

MONTHLY FLIGHT CANCELLATIONS 2025



"Helsinki ground services strike…led to cancellation of more than 1,200 Finnair flights since early spring"
—*Helsinki Times (July 13, 2025)*

"France ATC strike July 3–4…across Europe, 1,422 flights were cancelled (4.7% of all scheduled flights) each day on average, affecting more than 1 million passengers"
—*EUROCONTROL (July 10, 2025)*

"Sightings of 2–3 large drones in Denmark…halted all takeoffs and landings for nearly four hours at Copenhagen airport in what prime minister called a serious attack on Danish critical infrastructure. Aalborg and Billund airports also closed later in the week due to drone activity"
—*CNN (September 26, 2025)*

"Since US government shutdown …as many as 53% of airport delays are due to ATC staffing shortages, compared to an average of about 5%. Since the shutdown began, 222 staffing shortages have been reported, more than 4x the same dates last year"
—*CNN (October 24, 2025)*

Aside from macro shocks, four systemic factors will continue to affect airport reliability in 2026

- Capacity constraints (e.g., limited gates)
- Construction (e.g., buildouts causing gate and runway closures)
- Structural staffing shortages (e.g., persistent ATC shortages in many countries)
- Aviation authority technology (e.g., IT outages affecting ATCs)

Sources: Cirium; Helsinki Times; CNN; EUROCONTROL; BCG analysis.
Note: Reflects information available as of November 2025. ATC = air traffic controller.

Profits are not being realized evenly, as FSC and LCC margins diverge in North America and Asia-Pacific

		AVERAGE LTM OPERATING MARGIN[1]	
		FSC	**LCC**
Global[2]	FSCs and LCCs are both able to realize positive margins, with FSCs outperforming overall	**8.4%** *outperform*	**4.6%**
North America	FSCs outperform by capturing a range of demand using premiumization and fare segmentation, while LCCs struggle and start to explore hybrid models	**3.6%** *outperform*	**–2.2%**
Europe	LCCs slightly outperform, though leading players in both categories operate at margins of 15%+	**7.4%**	**8.2%** *outperform*
Asia-Pacific	Performance varies widely as FSCs capitalize on long-haul and premium fares, while LCCs respond more quickly to rising demand from the growing emerging-market middle class	**7.5%** *outperform*	**2.8%**

Sources: S&P Capital IQ; company filings; BCG analysis.
Note: Reflects information available as of November 2025. FSC = full-service carrier; LCC = low-cost carrier; LTM = last twelve months.
[1]Measured from Q4 2024 to Q3 2025. [2]Based on a group of 52 full-service carriers and 36 low-cost carriers across Europe, North America, Asia-Pacific, Latin America, and the Middle East.

Full-service carriers maintain profitability across regions despite rising costs

		AVERAGE LTM OPERATING MARGIN[1]
North America	· **Legacy carriers capture the full demand spectrum**, with ongoing premiumization supporting revenue mix · **Loyalty and co-brand monetization** (e.g., co-branded credit cards) continue to stabilize US big-three airlines' margins · **Canada underperforms**, pressured by soft demand and high costs	**3.6%** *(across 7 FSCs)*
Europe	· **Capacity discipline and premium demand** (especially transatlantic) underpin margins for leading carriers · **Airspace disruptions and higher ATC costs** continue to weigh on margins, especially for Europe-Asia routes · **Ongoing consolidation and joint ventures** (e.g., Lufthansa–ITA) expected to drive future scale and margin upside	**7.4%** *(across 18 FSCs)*
Asia-Pacific	· **Regional recovery uneven**, with Japan and India performing well, but Chinese FSCs still below pre-COVID profitability · **Re-opening tailwinds fading as yields normalize**; competition from Gulf carriers on long-haul flights remains a structural challenge · **FSCs leaning on partnerships and joint ventures** to rebuild long-haul profitability	**7.5%** *(across 20 FSCs)*
Latin America	· **FSC margins recovering strongly** as carriers maintain discipline on capacity and yield management	**17.0%** *(across 4 FSCs)*
Middle East	· **Capacity expansion and fleet renewal** continue to support strong margins, although exposure to geopolitics remains a risk	**14.4%** *(across 3 FSCs)*

Sources: S&P Capital IQ; company filings; BCG analysis.
Note: Reflects information available as of November 2025. LTM = last twelve months; FSC = full-service carrier; ATC = air traffic controller.
[1]Measured from Q4 2024 to Q3 2025 for select FSCs by region.

LCC performance is steady in Europe, while North America and APAC have both stronger and weaker performers

		AVERAGE LTM OPERATING MARGIN[1] FOR GLOBAL FSC PEER SET
North America	· **LCC margins lag sharply** as cost inflation (e.g., wage increases) and pricing pressures erode short-haul profitability · Business model strain is evident as several carriers move toward **hybrid models** (e.g., FSC loyalty partnerships, service upgrades) · **Fleet utilization and industrywide labor cost headwinds** limit competitiveness versus larger FSCs	**–2.2%** *(across 7 LCCs)*
Europe	· **Strongest LCC region globally**; top carriers continue to grow share while maintaining a conservative balance sheet · **Point-to-point leisure demand remains resilient**; yields stabilizing after exceptional 2023 highs	**8.2%** *(across 8 LCCs)*
Asia-Pacific	· **Robust domestic growth in India and Philippines** creating opportunities for scale and network expansion · **Competitive intensity rising** as multiple carriers expand simultaneously, leading to yield compression in select markets · Market is **sensitive to currency fluctuations** (e.g., current traffic increase in Japan due to low Yen)	**2.8%** *(across 13 LCCs)*
Latin America	· **LCCs facing financial strain** as multiple carriers operate under restructuring amid persistent cost inflation and FX weakness	**7.0%** *(across 3 LCCs)*
Middle East	· **LCC profitability among highest globally**, benefiting from government-backed tourism initiatives	**14.0%** *(across 2 LCCs)*

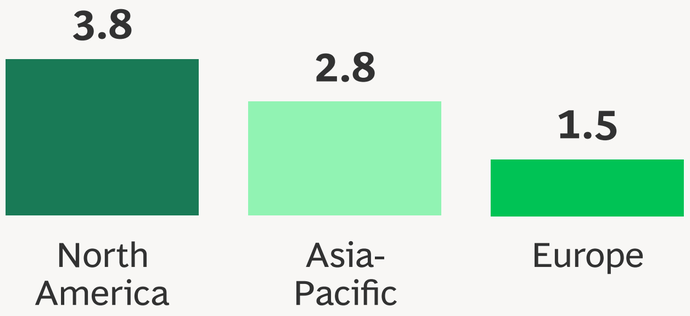
Sources: S&P Capital IQ; company filings; BCG analysis.
Note: Reflects information available as of November 2025. LTM – last twelve months; LCC = low-cost carrier; FSC = full-service carrier; FX = foreign exchange.
[1]Measured from Q4 2024 to Q3 2025.

Margins are under pressure globally as CASK increases outpace PRASK

Includes FSCs and LCCs

All regions see modest yield growth, with North America leading

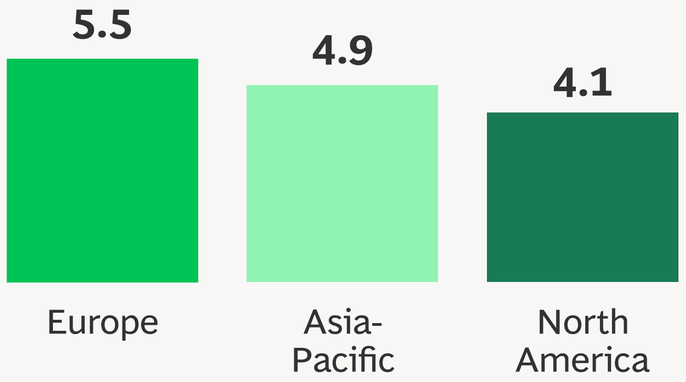
LTM YOY% CHANGE IN PRASK[1]



- **LCCs and aggressive capacity increases** are pressuring yields, especially in short- and medium-haul markets
- **Fuel surcharges and COVID-era ancillary revenue** (e.g., flexible ticket fees) have eased, stalling total unit revenue growth

However, CASK growth outpaces PRASK across the board

LTM YOY% CHANGE IN CASK EXCL. FUEL[1]



- **Europe:** Labor negotiations and inflation-driven airport and handling costs are inflating CASK
- **North America:** Cost base pressured by crew and handling cost inflation, partly offset by easing inflation within other cost buckets

CASK deep dive: increase in CASK, driven by MX, crew, and other costs

LTM YOY% INCREASE IN COST PER ASK[1]

	MX[2]	Crew[3]	Fuel	GH	Other[4]
Europe	1%	5%	–11%	4%	7%
Asia-Pacific	1%	6%	–15%	7%	3%
North America	5%	7%	–13%	5%	5%

Increase >5% | Increase <5% | Decrease

- **Crew costs** remain a key inflation driver, up 5% to 7% YoY in 2025, following major contract renewals across Europe and North America
- **Ground handling costs** continue to increase (4% to 7% YoY in 2025) as airport and third-party providers pass through wage and inflation adjustments
- **Maintenance costs** stable overall, with some pressure in APAC

Sources: S&P Capital IQ; company annual reports; BCG analysis.
Note: Reflects information available as of November 2025. Regional CASK trends are based on sample of ~100 airlines globally, stage-length adjusted. CASK = costs per average seat kilometer; PRASK = passenger revenue per available seat kilometer; MX = maintenance; GH = ground handling; ASK = average seat kilometer; LTM = last twelve months; YoY = year-on-year; APAC = Asia-Pacific.
[1]Measures change between Q4 2023–Q3 2024 and Q4 2024–Q3 2025. [2]Maintenance includes both materials and labor. [3]Crew includes pilots and flight attendants. [4]Other includes A/C ownership, marketing, sales and airport fees.

As cost pressure mounts and carrier performance diverges, airlines look to permanently shift cost structures

Returning to fundamentals with holistic cost-out programs

Identify levers to drive savings, including maintenance, fuel, crew, airport operations, IT, guest experience, and corporate

Find the optimal sequence for cost initiatives by prioritizing early quick wins to showcase early impact

Realize savings with successful implementation and governance (e.g., maintain central roadmap and conduct rigorous tracking)

Sustain cost leadership position over the long term by articulating an organization-wide cost culture and aligning incentives with cost goals

BCG experience suggests a 5% to 10% savings opportunity with full airline cost transformations

Incorporating AI for structural 5% to 6% margin advantage over peers

Airline AI leaders[1] have higher IT budgets and invest more in AI…

1.2x
IT budget 2025[2]

2x
Share of IT budget for AI 2025[3]

…fueling revenue growth and cost efficiency…

4.9%
Expected revenue increases from AI[3]

5.8%
Expected unit cost decreases from AI[4]

…meaning sustained advantage for margin leaders

5.4% Projected operating margin benefit for AI leaders

Exploring consolidation to find margin through scale

- Combine overlapping networks to get scale in mainline network, cargo, and/or LCCs (e.g., Air Busan–Air Seoul–Jin Air merger)
- Join complementary networks, fleets, and loyalty programs to improve ability to compete on product and network depth (e.g., Alaska Airlines acquisition of Hawaiian Airlines)
- Increase negotiation power with OEMs (e.g., better discounts and after-market service conditions)
- Stabilize airlines that have weaker financial performance

Sources: Company annual reports and press releases; BCG analysis.
Note: Reflects information available as of November 2025. LCC = low-cost carrier.
[1]Airline AI leaders were determined through an August 2025 survey. [2]What is your company's approximate IT budget (as percentage of annual revenue in 2025)? [3]What percentage of your company's overall IT budget in 2025 is dedicated to AI? [4]What percentage of revenue growth did you achieve or project in 2028 (as percentage of annual revenue) through AI efficiency gains? [4]What percentage of cost reduction did you achieve or project in 2028 (as percent of total operating expenses) through AI efficiency gains?

AI USE CASE

AI-based recommendations for operations and network control can result in more efficient utilization of fleet and 30% to 40% reduction in delays

Today

Predictive insights in the ops center

- Centralized control decisions must be made quickly leading into and during “day-of” operations
- Vast data is available, but difficult to combine and meaningfully synthesize
- Data governance and capture have not evolved, meaning data either not present, not well-segmented, or unreliable

Innovative case study
Pathfinder fleet assignment tool

- Who: KLM Royal Dutch Airlines (in partnership with BCG)
- Tool for operations control to optimize fleet and tail assignments based on predictive factors for optimizing cost, robustness, and OTP
- Considers multitude of factors to make OCC predictions and recommendations, including operating rules, maintenance planning, crew rosters, passenger behavior, delay predictions, and potential cost/revenue
- Shown to rapidly improve multiple target KPIs after model is used, including fuel burn, carbon emissions, delays, and OTP

Tomorrow

AI-built, holistically integrated operations control

	Integrated and predictive operations	People and organization enablement	Disruption recovery
Signature capabilities	Schedule robustness simulations	Pilots + FA crew scheduling	Optimized (re)routing and schedule moves
	Facilities (e.g., gating) utilization forecasts	Integrated ground planning (internal and external)	Dynamic resource dispatching
	Customer and resource risk assessments	Real-time risk visibility and prioritization	Seamless, specific customer comms
Foundational capabilities	Data products		
	Data foundations		
	Data platforms		

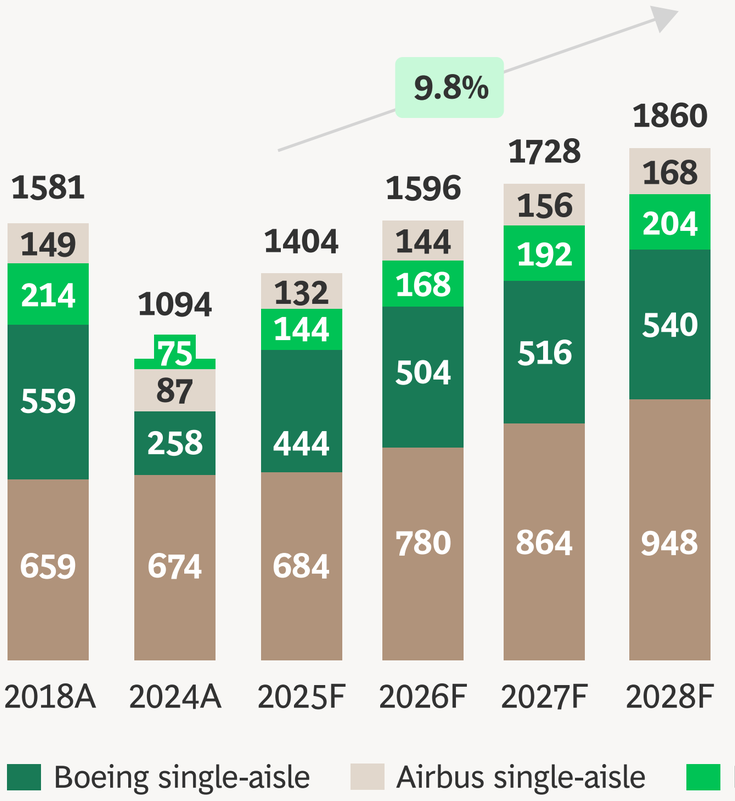
Real-time, integrated data products offering visibility into risk, available levers, and recommendations to operate robust schedules balancing reliability, service, and profitability through more precise buffer allocation

Source: BCG analysis.
Note: Reflects information available as of November 2025. OTP = on-time performance; OCC = operations control center.

OEM production in 2026 is expected to surpass 2018 peak as delays ease

Delivery outlook signals ramp-up across OEMs and fleet types

BCG FORECAST OF ANNUAL AIRCRAFT DELIVERIES AS OF OCTOBER 2025



2026 forecast of 1,596 aircraft deliveries would surpass 2018 historical peak of 1,581 deliveries

Boeing expected to see ~120% increase in annual deliveries from 2024 to 2028, driven by an increase in single-aisle aircraft deliveries (from 258 to 540)

Airbus projected to have more modest growth of ~45% from 2024 to 2028, starting from a higher baseline of deliveries than Boeing, given fewer production challenges

Airbus and Boeing delays caused by many factors that could continue into 2026

- Certification challenges and technical refinements (e.g., 777X, 737 MAX 10)
- Factory labor strikes interrupted production
- Supply chain challenges delayed engine and part delivery times (e.g., A320neo)
- Quality-control issues triggered hold-backs and inventory buildups (e.g., 737 MAX, 787)

However, the industry remains optimistic as production ramps up

- FAA raised Boeing 737 MAX monthly production cap from 38 to 42 on October 17, 2025, after an intensive review
- Industry leaders expressed optimism that OEMs can meet forecasts and ramp up deliveries by 130–190 aircraft per year, gradually addressing the backlog of 15K+ orders and paving the way for future passenger traffic growth

Sources: Reports from Cirium, JPMorgan, Barclays, and Jefferies; FAA; Boeing and Airbus public disclosures; BCG analysis.
Note: Reflects information available as of November 2025. YearF = forecast.

OEM production forecast is fragile, with four types of potential disruptions

	Raw materials shortage	Supply chain challenges	Limited human capital	Push for regionalization
Description	Limited availability of **aerospace-grade titanium, silicon** for semiconductors, and **rare-earth metals** (e.g., 98% of dysprosium is produced by China), among other key inputs	**Shortage of quality part deliveries** for engines (e.g., Pratt and Whitney), fuselage defects, and cabin interiors can delay production	Many experienced workers retired or left the industry, especially during COVID; across the industry, the share of **MRO staff with <3 yrs experience is double that of pre-COVID**	Pushing production (including final assembly) into **localized areas** to reduce footprints and reliance on long supply chains
Emerging risks	Additional trade sanctions could **disrupt sourcing networks**, and environmental pressures could **slow extraction output**	**Few suppliers** (e.g., largest 3 players have 75%+ share for castings) leads to **high switching costs** **Defaults of niche suppliers** create bottlenecks	**Competition** from retail and warehousing in addition to long **training time** (3–6+ months) Structural industry **shortage of ~10% for skilled AMT labor**	**Border closures, long shipping lead times, and export license issues** will increase likelihood of regionalization
2026 outlook	(=) Aircraft demand increasing in a tough geopolitical environment would **keep lead times long**	(=) Suppliers become **more confident with ramp-up**, but demand continues to rise	(↑) **Generally stabilizing** across the industry, with improved hiring and retention	(↓) Continued **intensification of regional efforts** could lengthen timelines and impact ambitious delivery goals

(↑) Situation likely to improve (=) Situation likely to remain the same (↓) Situation likely to worsen

Sources: International Air Transport Association; BCG Henderson Institute; BCG analysis.
Note: Reflects information available as of November 2025. MRO = maintenance, repair, and overhaul; AMT = aircraft maintenance technicians.

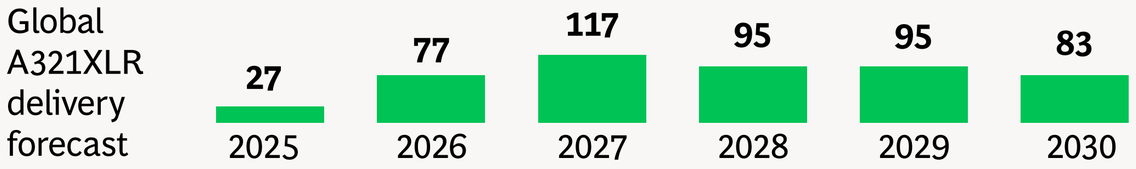
New fleet types are entering service and beginning to reshape networks at scale

A321XLR: Around 500 deliveries in the next five years will reshape transatlantic routes

Iberia *(launch customer)*
"The A321XLR will allow us to reach new destinations, operating transoceanic routes, and doing so in a more efficient way."
—*CEO of Iberia via Airbus website*

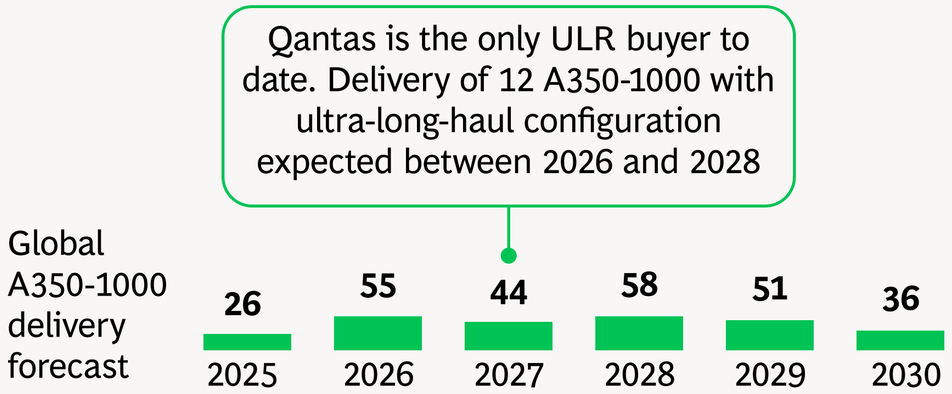
American Airlines
FSCs opening routes: "…the first US carrier to take delivery of the A321XLR, with 50 on order…its 4,700-nautical-mile range opens up long and thin routes…at operating frequencies widebody aircraft have no hope of sustaining"
—*Simple Flying*

IndiGo
LCCs extending reach: "…largest customer for the A321XLR [with 69 on order], using its additional range to reach new destinations across Europe, East Asia, and Africa… plans to commence service from Mumbai to Athens in January 2026."
—*Simple Flying*



A350-1000 ULR: Qantas is committing to an ultra-long-haul configuration capable of flying 20+ hours

Qantas Airways
"In 2017, we announced direct flights from Sydney to Europe and New York… which would revolutionize Australian air travel and code-named Project Sunrise for our long history of endurance flying. The Airbus A350-1000 was chosen… and 12 aircraft were ordered …the first aircraft is scheduled to arrive in October 2026, which will operate flights from Sydney to London and New York."
—*via Qantas website*



Sources: Airbus; Qantas; Simple Flying; Cirium fleet forecast 2025; BCG analysis.
Note: Reflects information available as of November 2025. ULR = ultra-long range.

Implications and considerations

Network/Marketing and Sales

- **Plan actively for geopolitical turbulence:** Regularly update, refine, and engage experts on geopolitical scenario-planning to be ready to shift capacity profitably as the operating landscape evolves (e.g., new trade announcements, changing visa requirements)
- **Capture upside in fast-growing regions:** Target growth in high-momentum markets (e.g., India, Africa, ASEAN) to capture demand from the emerging middle class
- **Target RASK premium:** To gain an edge in an unpredictable market, evaluate a wider range of indicators—such as loyalty data trends or flight-pattern changes due to geopolitical turbulence—to look for opportunities
- **Evaluate new fleet types:** Consider new fleet types (e.g., XLR) to capture demand from long and thin[1] routes not viable for widebodies or to expand the range for low-cost carriers
- **Turn tech into a source of value and invest in AI foundations:** Upgrade older systems with the buildout of AI use cases in mind to create future-ready data products, platforms, and foundations

Operations

- **Proactively plan for disruptions:** Build additional flexibility into the schedule and improve two-way dialogue with airports to get ahead of potential disruptions (e.g., ATC shortage in peak months, closures from construction) weeks or months in advance
- **Manage cost fundamentals:** Consider department-level or holistic cost-out programs that target key expense levers (e.g., fuel, crew, maintenance) with the governance to sustain changes long-term
- **Find margin through scale:** Consider consolidation or alliances to unlock network scale, enhance negotiation power, and build financial stability through improved margins
- **Increase aircraft utilization with AI:** Implement AI-driven predictive maintenance to reduce out-of-service times for aircraft, especially for older fleets

Sources: BCG analysis.
Note: Reflects information available as of November 2025. ASEAN = Association of Southeast Asian Nations; RASK = revenue per average seat kilometer; XLR = extra-long range; ATC = air traffic controller.
[1]A route with low passenger demand.