BW

AVIATION INSIGHTS · REPORT TWO OF THREE

The Capacity Airlines Actually Cut

At its deepest the contraction removed 2.9 per cent of global capacity, for a single month. Why so little of it was voluntary, and where the pricing power really came from.

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ABOUT THIS REPORT

The restraint was imposed on the industry, not chosen by it

Yields rose seven per cent while the fuel bill rose forty. That is usually read as restraint rewarded. The schedule data does not support that reading.

4
MONTHS OF GLOBAL CAPACITY CONTRACTION, AND IT IS ALREADY REVERSING

1
REGION THAT ACCOUNTS FOR ALMOST ALL OF IT

+1.2%
APRIL DEMAND GROWTH EXCLUDING THE MIDDLE EAST

48%
OF SPIRIT'S SUMMER SEATS REPLACED BY COMPETITORS

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SECTION 01

Foreword: whose restraint was it?

The most repeated explanation of this year is that airlines held their nerve, cut capacity and were rewarded with pricing power. It is a good story. The schedules do not support it.

In the first report of this series we set out where the cost of the Strait of Hormuz has landed. Two thirds of the increase in the jet fuel price sat outside crude, the regional ranking inverted, and the cost was passed to passengers incompletely and with a hard limit. That report described the operational response as the removal of capacity, and said the second report would map it. Having now mapped it, we have to qualify our own sentence. Capacity was removed, but far less of it than the industry's commentary implies, for a shorter period, in fewer places, and for reasons that mostly have nothing to do with the price of fuel.

Global capacity fell for four months. It fell by 2.9 per cent at the worst, in April, against a 2025 in which it grew 5.2 per cent. By June the decline was 1.3 per cent and narrowing. Strip out one region and global demand was *growing* through the worst month of the contraction. In no month of the shock did European capacity fall on the regional aggregate. North America moved by 1.1 per cent at the deepest. The three carriers that grew fastest through the shock were the three most exposed to it on an unhedged fuel bill, and all three cut their fares while doing it.

This matters more than a correction to a narrative. If the industry exercised restraint, then the restraint can be withdrawn, and the pricing power created this year decays as soon as somebody defects. Capacity discipline is a prisoner's dilemma and prisoners' dilemmas do not hold. But if the industry did not choose the restraint, if it ran into a wall it did not build, then the pricing power is a function of the wall, not of anybody's nerve, and it lasts exactly as long as the wall does. Those are two entirely different investment cases and they are being quoted at the same price.

> **Yields rose seven per cent against a fuel bill up forty. The question is not whether that is restraint. The question is whose restraint, and whether it was chosen.**
>
> BOSTON WARWICK — HEADLINE IMPLICATION

Our conclusion is that the second reading is the right one. The industry entered 2026 already unable to grow at will. It ended 2025 with a record load factor, a delivery shortfall it had been complaining about publicly for two years, and a fleet held together by extending the service life of aircraft it had expected to retire. Willie Walsh said so, on the record, five weeks before the first missile flew. Then a war closed a region's airspace, one American carrier failed, and the industry discovered it had pricing power. The industry had not arranged that outcome. Events handed it over.

The distinction is not academic for anyone setting a schedule this winter. A carrier that believes its competitors are exercising restraint will hold its own capacity back and expect to be rewarded for it. A

SECTION 02

Executive summary

The capacity story of 2026 is smaller, shorter and more regionally concentrated than the industry's own account of it, and the pricing power is better explained by what the industry could not do than by what it chose not to do.

The contraction lasted four months and is already reversing. Global capacity measured in available seat kilometres fell 1.7 per cent in March, 2.9 per cent in April, 2.3 per cent in May and 1.3 per cent in June, against full-year 2025 growth of 5.2 per cent. Demand grew 2.1 per cent in March and then fell 3.4, 2.2 and 1.7 per cent, so the demand contraction is three months long and the capacity contraction four. For the first half as a whole, capacity was *up* 0.1 per cent and demand up 0.6 per cent. Capacity returned to growth in July at 0.3 per cent, on the release of 31 August. On any reading, this is a shallow dip in a growing market, not a structural withdrawal.

Almost all of it was one region, and the cause there was closed airspace, not expensive fuel. Middle East capacity fell 54.7 per cent in March, 37.2 per cent in April and 11.3 per cent in June. No other region fell by more than 2.1 per cent in any month. Excluding the Middle East, global demand *rose* 1.2 per cent in April, the worst month of the global contraction. A capacity cut caused by a closed airspace is not a commercial decision and should not be counted as one.

Europe never contracted, and that fact conceals the only European capacity story worth having. European capacity grew in every month of the shock: 0.4 per cent in April, 1.8 in May, 1.4 in June. The aggregate grew because Ryanair, Wizz Air, easyJet, Pegasus, KLM and Turkish more than offset the network carriers. On August scheduled seats, Wizz is up 27.7 per cent and Ryanair up 6.1, while Lufthansa is down 4.2 per cent and Air France down 3.8. Lufthansa's first-half capacity fell 2 per cent. The composition moved; the total did not. Any reader shown only the aggregate will dismiss this report in a line, and any reader shown only the carriers will over-read it.

The industry was supply-constrained before the shock, and said so. IATA's release of 29 January 2026, five weeks before the first strike, was titled *Strong 2025 Passenger Demand Masks Ongoing Capacity Constraints*. Full-year load factor was 83.6 per cent, a record. Walsh named unreliable aircraft and engine deliveries and maintenance capacity as the biggest headache of the year, at a cost he put above eleven billion dollars. That figure is the industry-wide cost of the supply constraint in 2025 and has nothing to do with fuel. The mitigations were already exhausted: extended service lives and maximised load factors. This is the single most important piece of evidence in the report, and it is dated before the event it is usually used to explain.

The delivery shortfall continued through the shock. Airbus delivered 351 commercial aircraft in the first half against reaffirmed full-year guidance of about 870, which requires 519 in the second half. Boeing delivered 314. Airbus names Pratt & Whitney engine supply as the main constraint on commercial output, with engineless airframes accumulating outside final assembly at an undisclosed count. An industry that cannot take delivery of the aircraft it has ordered does not need to agree to restrain capacity.

Pricing power was real, partial, and unevenly distributed. Industry yields rose 7.0 per cent against a fuel bill up 39.7 per cent. Net profit was cut from a forecast $41.0 billion to $23.0 billion, and net margin from 3.9 per cent to 2.0. Reported fuel recapture ranges from around half at the large US network

SECTION 03

What was actually removed

Before asking why the industry cut capacity, the question is how much it cut, and the answer is a good deal less than the commentary suggests.

Available seat kilometres are the industry's measure of capacity: one seat flown one kilometre, whether or not anybody sits in it. Revenue passenger kilometres are the same measurement applied to seats that were sold. The ratio between them is the passenger load factor. The three together are the only way to distinguish an airline that is flying less from an airline that is selling less, and in 2026 that distinction is the whole argument.

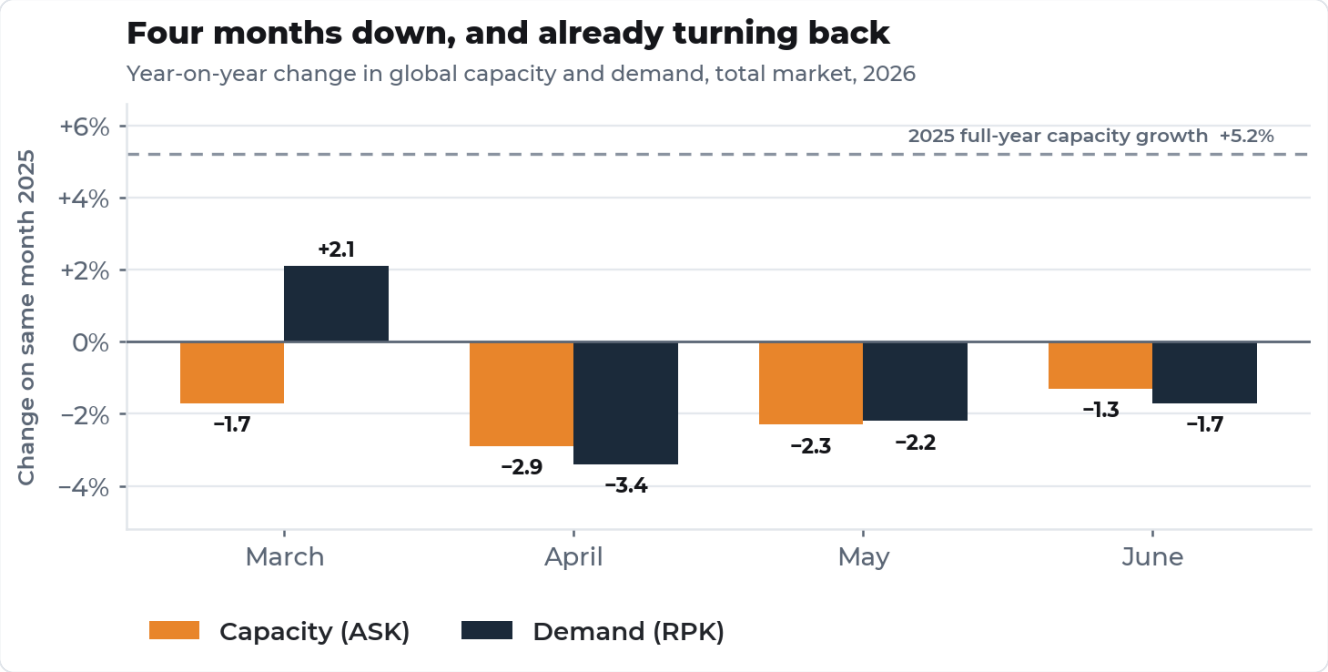


Figure 1 — Four months down, and already turning back. Year-on-year change in global available seat kilometres and revenue passenger kilometres, total market. The dashed reference is full-year 2025 capacity growth. March demand grew while capacity fell, which is the signature of a market absorbing a shock, not one losing customers. Sources: IATA monthly passenger market analyses, releases of 29 April, 28 May, 30 June, 30 July and 31 August 2026.

The record is four months long and it is shallow. Capacity fell 1.7 per cent in March, 2.9 per cent in April, 2.3 per cent in May and 1.3 per cent in June. Demand grew 2.1 per cent in March, then fell 3.4, 2.2 and 1.7 per cent. Set against a 2025 in which capacity grew 5.2 per cent and demand 5.3 per cent to a record full-year load factor of 83.6 per cent, the peak of the contraction removed less than three per cent of the industry's flying for a single month.

The half-year position is the number that should govern how this episode is described. To the end of June, capacity was up 0.1 per cent and demand up 0.6 per cent on the same period of 2025. The industry flew marginally more in the first half of 2026 than in the first half of 2025. Whatever happened between April and June, it did not remove capacity from the year.

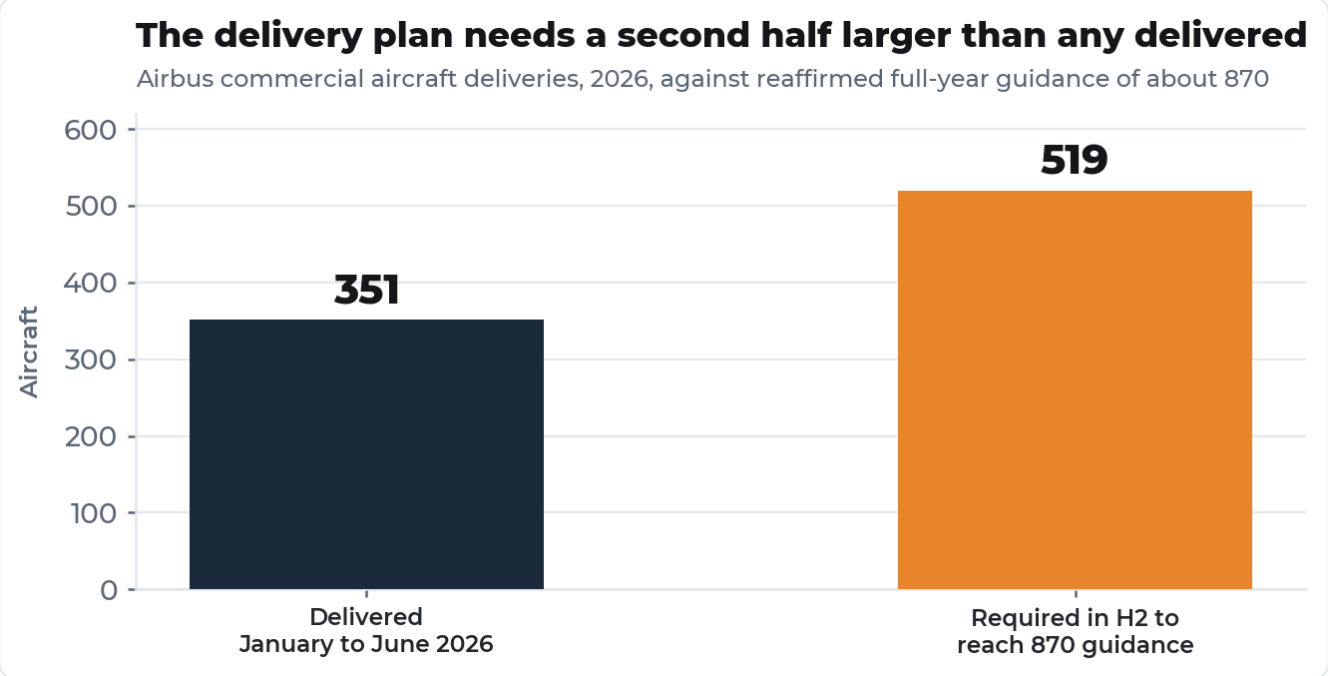


Figure 6 — The delivery plan needs a second half larger than any Airbus has delivered. Airbus commercial aircraft deliveries in the first half of 2026, and the number required in the second half to reach the reaffirmed full-year guidance of about 870. For reference, Airbus delivered 793 aircraft across the whole of 2025. Sources: Airbus H1 2026 results, 29 July 2026, and company guidance.

Airbus delivered 351 aircraft in the first half against full-year guidance of about 870, reaffirmed. Meeting it requires 519 deliveries in the second half, which is two thirds of what the company managed in the whole of 2025. First-quarter deliveries were 114 against 136 in the same quarter of 2025, with revenue down 7 per cent and adjusted earnings down 52 per cent. The company names Pratt & Whitney engine supply as the main constraint on commercial output, and acknowledges engineless airframes accumulating outside final assembly without disclosing the count.

Boeing delivered 314 in the first half. Neither airframer is in a position to relieve a capacity constraint in 2026, and both have been in this position since well before February.

WHY AN UNDELIVERED AIRCRAFT IS A CAPACITY CONSTRAINT AND A PARKED ONE IS NOT

A carrier that grounds an aircraft can return it to service in weeks. A carrier waiting for an aircraft that has not been built waits for the airframer's production system, which moves in years. The two look identical in a capacity table and behave completely differently. In 2026 the industry has both: aircraft parked for want of serviceable engines, and aircraft never delivered for want of the same engines at the factory. That is one constraint appearing twice, and it is the subject of the third report in this series.

The engine position compounds it. As at the end of October 2025, 835 aircraft powered by the Pratt & Whitney geared turbofan family had been grounded for thirty days or more, of which 720 were A320neo-family aircraft, 38 per cent of that sub-fleet, with an average of 350 aircraft on ground guided through the end of 2026. The ground-day rate on that engine family runs at about 35 per cent against 10 to 15 per cent for its competitor. Carrier-level data shows the position improving: Wizz Air went from 41 grounded aircraft to 27 year on year and guided to 15 to 20 by the end of its current financial year,

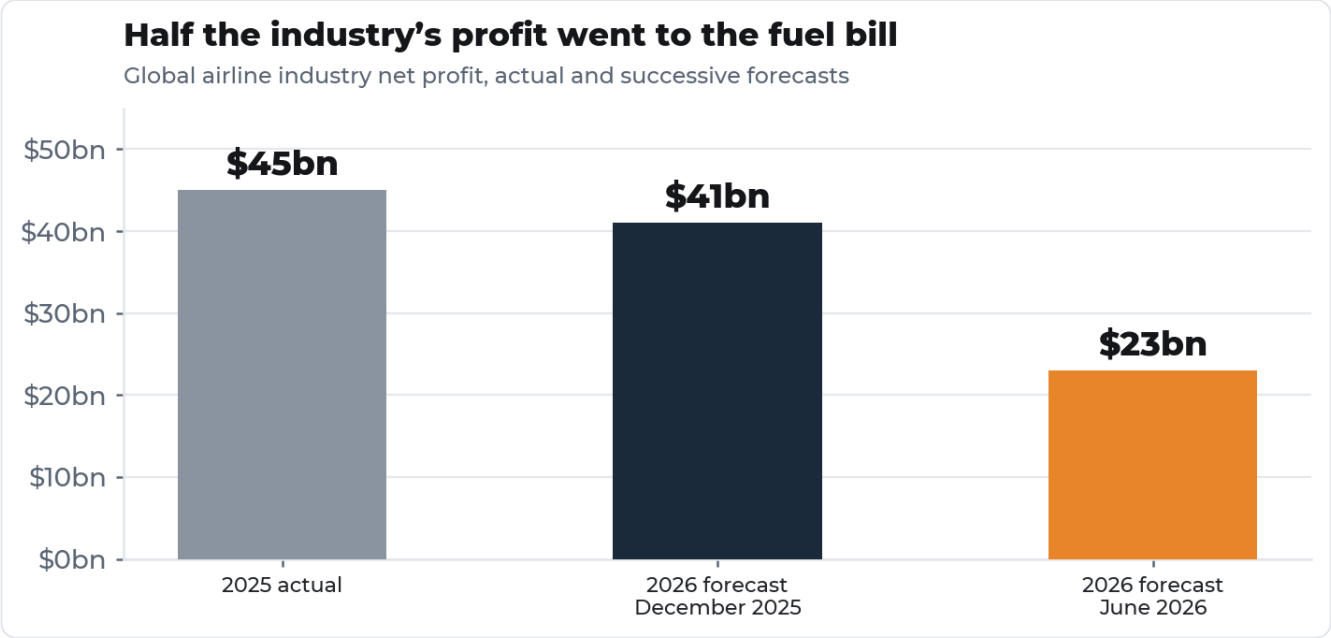


Figure 10 — Half the industry's profit went to the fuel bill. Global airline industry net profit. The December 2025 forecast was made before the shock; the June 2026 forecast after it. Net margin falls from 3.9 per cent to 2.0, and net profit per passenger from $9.10 to $4.50. Sources: IATA industry outlook, 7 June 2026, and the December 2025 outlook.

An industry earning $4.50 per passenger carried is passing on what it can and absorbing the rest, not exercising pricing power in any strong sense of the term. That is what the first report predicted and what the elasticity literature says happens in war-driven supply shocks.

Three series, three questions

The United States is where fare inflation has been most visible and most misquoted. Three separate official or industry series are in circulation and they do not measure the same thing.

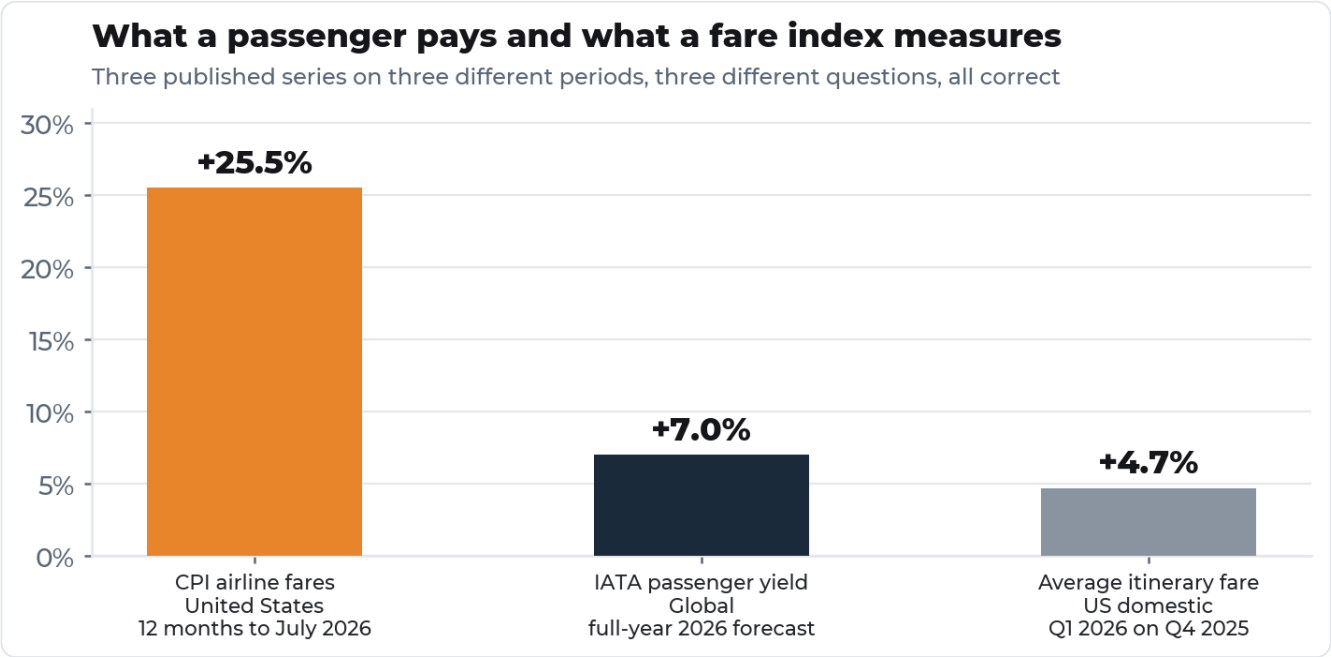


Figure 11 — What a passenger pays and what a fare index measures. Three published series, three different questions, all correct. The consumer price index measures the price of a constant basket of tickets. The average itinerary fare measures what passengers actually paid across whatever they chose to buy. Sources: US Bureau of Labor Statistics, July 2026 release, 12 August 2026; US Bureau of Transportation Statistics, Q1 2026; IATA industry outlook, 7 June 2026.