Trade war impacting global aviation

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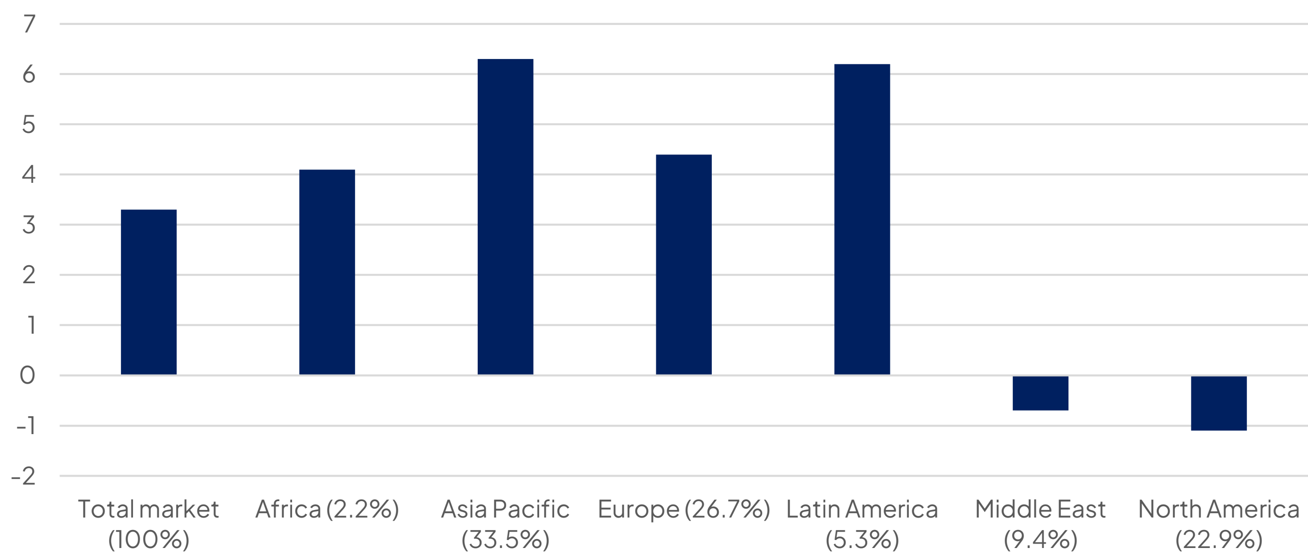
There is mounting evidence of a downturn in air travel and tourism across some key markets, while air freight volumes are also seeing a slowdown in some areas. Part of this will be due to base effects following the remarkable recovery in the aviation sector over the past several years post the Covid-19 shutdown: many airports and routes have seen passenger records broken, while strong demand for airfreighted consumer goods was bolstered by disruptions to global shipping. As such, with a higher nominal base, maintaining the same levels of growth will be more difficult. However, the slowdown is likely also being driven by the more uncertain outlook for the global economy in 2025, and the impact the tariffs being imposed by the US government on trading partners around the world will have on both businesses and consumers. With uncertainty likely to remain prevalent through the rest of the year and the risk of a global economic downturn rising, the aviation sector is set to come under pressure in 2025.

Middle East and North America saw a fall in air travel in March (RPK % y/y)



Source: IATA, Emirates NBD Research

While the effect of the US tariffs and the heightened uncertainty around the future pathway of the levies haven't yet fed through into hard data, it is very apparent that they have already had a material impact on consumer and business confidence. The Global Consumer Confidence Index from Ipsos fell to 47.7 in April, down from 48.2 the previous month and 48.9 a year earlier, taking it deeper into negative territory. With tourism and leisure travel a perfect example of a discretionary spend, a protracted slump in confidence will likely see holidaymakers increasingly think twice about flying for their holiday this year.

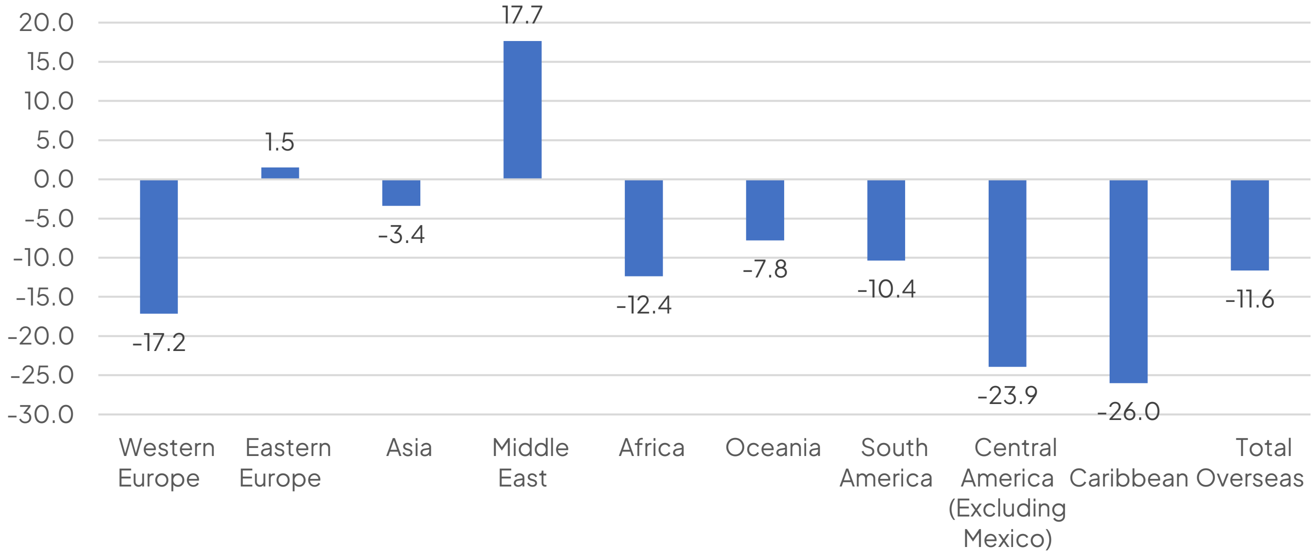
IATA global air travel data for March held up relatively well, with y/y global growth in revenue passenger km (RPK) up 3.3% y/y, up from 2.7% in February. International demand remained robust as it expanded by 4.9%, although this was down from 5.6% in February. Global domestic demand was up 0.9% compared with a 1.9% fall in February. Most regions saw an expansion on the March 2024 performance save the Middle East and North America, which shrank by 0.7% and 1.1% respectively. Given the deteriorating outlook for the year ahead (the IMF was only the latest international body to revise down its 2025 forecasts when it published its quarterly World Economic Outlook last week), we expect that the growth in global air travel will slow through the coming months.

US tourism slump has wider implications

The US has seen a very sharp decline in overseas visitor arrivals so far this year in a trend that is likely to worsen through the rest of 2025. March overseas arrivals (not including land arrivals from Canada and Mexico so likely almost all coming by air) were down 11.6% y/y, with visitors seemingly deterred by the actions of the US government since the start of the second Trump presidency and the risk of a frostier welcome at immigration. The US is the third-most visited country in the world, and while many of these visitors come by land over the southern or northern borders, millions will arrive by air. Combined with a sharp decline in US consumer confidence that will weigh on domestic air travel – the US Conference Board measure of consumer confidence fell to a near five-year low in April, declining to a value of 86.0 from 93.9 in March – the major US airlines have revised down their guidance for this year already.

Other global airlines will also be affected by this slowdown in US tourism given that North America accounted for 22.9% of global air travel in 2024. Visitors to the US from Western Europe were down 17.2% y/y in March, with visitors from the UK down 14.3%. The Heathrow-JFK route was the 10th busiest globally last year, with significant transit passengers passing through the London airport on their way to the US and in March, Heathrow passenger numbers were down 7.5% y/y. Visitors from Germany to the US were down 28.2%, while arrivals from South Korea were down 14.5% y/y. Notably for Middle Eastern airlines, visitors to the US from India were down 3.6% y/y in March. This is a transit connection that has been lucrative for Gulf-based carriers in recent years.

US overseas arrivals, March, % y/y



Source: US International Trade Administration, Emirates NBD Research

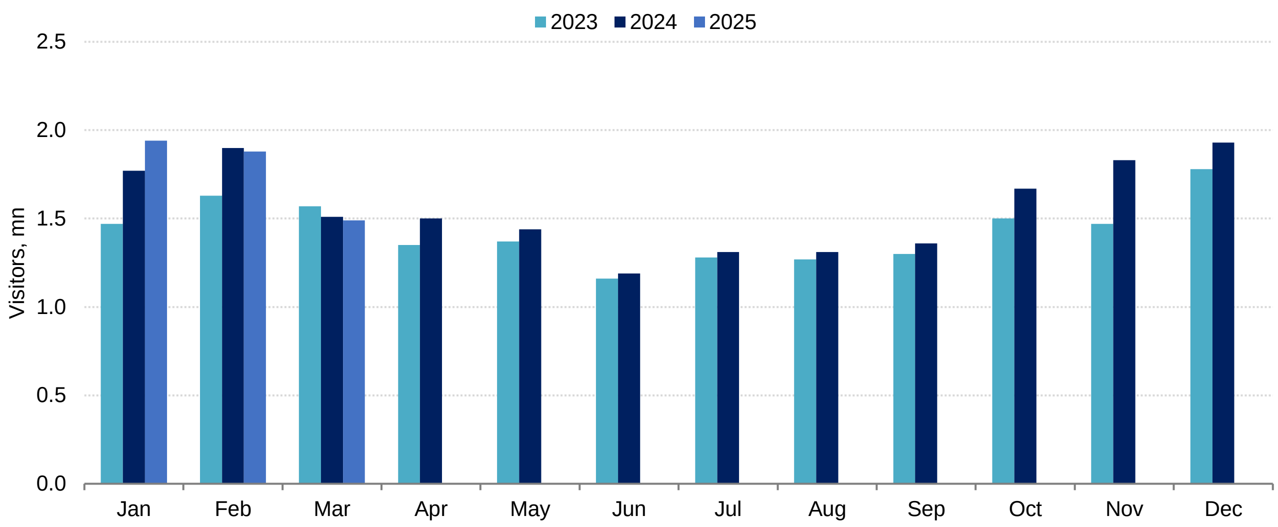
Dubai sees a y/y fall in visitors in February and March

Dubai has not proved immune from the global pressures so far. While visitor arrivals to Dubai over the first quarter saw positive y/y growth of 2.5% (5.31mn, up from 5.18mn in Q1 2024), this was driven by a strong January, when there was a 9.6% rise in visitor numbers – an impressive performance given that there was a 9.7% decline in visitors from South Asia that month, traditionally one of the largest source markets for visitors to Dubai. This was likely driven in part by a fall in Indian visitors on the back of more stringent visa rules recently introduced, while other key source markets continued to hold up well – visitors from Western Europe were up 15.7% y/y in January.

Over February and March, however, there has been a more widespread downturn, and total visitors in those two months were down by 1.1% and 1.3% y/y respectively. In March, visitors from South Asia were down by 15.8% y/y to 223,000, while Western Europe arrivals were down 6.8% to 340,000. The later Easter in 2025 (falling in April rather than at the close of March like in 2024) will have made an impact, but February arrivals from Western Europe were also down, albeit by a lesser 2.2%. These two markets are the two largest sources of visitors to Dubai, accounting for around 35% of the total in recent years, so a slowdown here affects the sector more than other source markets might. Visitors from Africa were also down in March, falling 2.5% y/y, but these account for a far smaller share of tourists (around 4% on average).

There was more positive activity elsewhere, with visitors from the GCC up 16.5% y/y in March, Russia and the CIS up 12.2%, and visitors from the rest of MENA up 8.3%. The still strong growth in visitors from Russia and the rest of the GCC will be supportive of the tourism sector overall, given that these two source markets are those with the highest spenders, according to Issam Kazim, CEO of Dubai Corporation for Tourism and Commerce Marketing. He was speaking at the recent Arabian Travel Market (ATM) show, where he stressed that Dubai was focused on attracting high quality visitors, not solely boosting total numbers. The decline in visitors from Western Europe, which also provides some of the highest-spending visitors, will likely be a notable drag on the tourism sector, while the impact on hotels from the fall in South Asian visitors will be more nuanced. The recently introduced more stringent visa application process for Indian visitors included the need for documentation related to staying with friends or relatives in private homes, with the impact of the fall in visitors on hotels and restaurants therefore likely less acute.

Dubai visitors fell in February and March

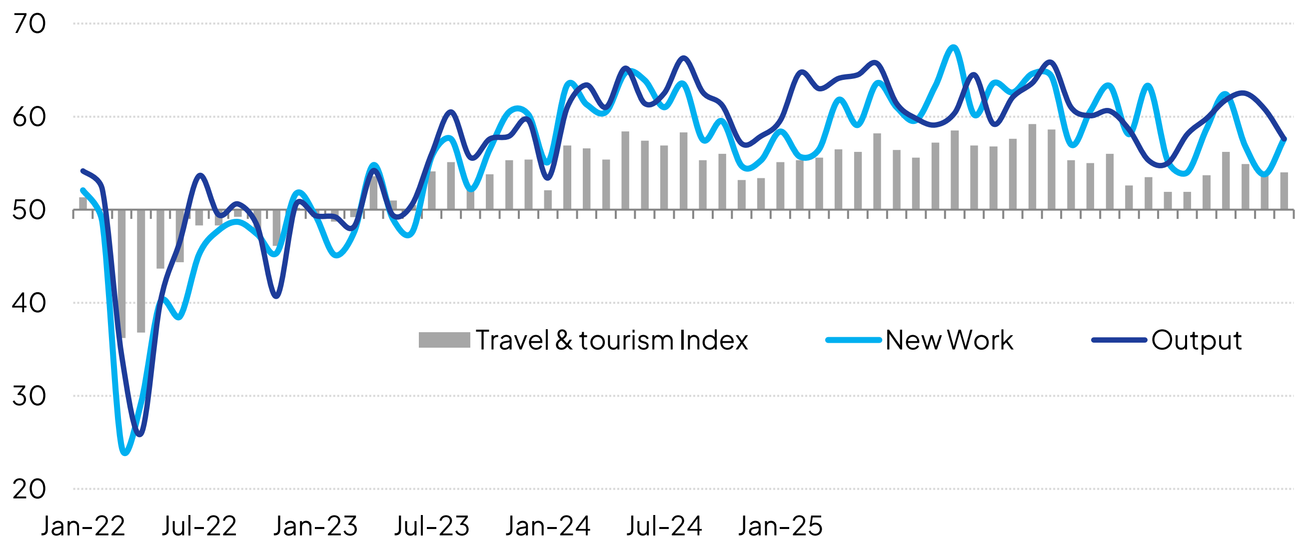


Source: DTCM, Emirates NBD Research

Hotels have held up well over the first quarter, with virtually no change in occupied room nights which stood at 11.19mn in Q1 2025, compared with 11.20 in Q1 2024. March showed a more pronounced slowdown with a y/y drop of 2.9% but pricing power has been maintained nonetheless with the average room rate up 1.4% at AED 647, while RevPAR was all but flat at AED 528, up from AED 527 in Q1 last year. Average occupancy was at 81.5%, down marginally from the 82.6% seen last year.

Looking at the Tourism sub-index of the S&P Global PMI survey for Dubai, there has been a clear slowdown in the first quarter which averaged 54.2, down from 58.5 in the corresponding period last year. This is still comfortably above the neutral 50.0 line which delineates expansion and contraction, and new orders continue to grow at a robust clip. Nevertheless, it appears that respondents to the survey are less bullish about the coming months given the dip in headcount recorded in March, with the business expectations subcomponent ticking up from a January low but remaining down on 2024 levels.

Dubai tourism PMI still positive



Source: S&P Global, Emirates NBD Research

We still see scope for positive growth in the tourism sector this year. The cheaper dollar will make Dubai and the wider UAE more affordable for many holidaymakers following several years of erosion of purchasing power for visitors from almost every country globally, while the busy calendar of events and continued launch of new cultural and entertainment spaces in the country – the Guggenheim Abu Dhabi is set to open this year – will be supportive. The pace of growth will almost certainly be slower than that seen over the past several years, however. This has been reflected at Dubai International Airport statistics for the first quarter where y/y growth in passengers was 1.5% y/y with 23.4mn passengers passing through the airport. This compares with full-year 2024 growth of 6.1%.

Air freight

While growth in global air freight volumes has held up strongly to date, there is likely an element of importers and exporters looking to get ahead of incoming tariffs that have supported this expansion. In March, global cargo-tonne km (CTK) were up 4.4% y/y, a record growth rate for March. Asia Pacific volumes were up 9.6% while there was a 3.7% rise in North America CTK. The Middle East saw a 3.3% y/y decline, though this was likely related to the boost to regional air freight in the same period in 2024 when disruption to Red Sea shipping drove logistics firms to seek other routes.

The UAE stands in a fairly strong position to withstand some of the expected fall in demand across the global industry. The advantage given by the UAE's central geographical location has been further bolstered by the government's pursuit of trade deals, or Comprehensive Economic Partnership Agreements (CEPAs) in recent years, which now cover nearly 40% of exports and a quarter of imports with countries as diverse as Costa Rica, Congo-Brazzaville, and Cambodia. Nevertheless, the pace of growth in the sector will likely slow this year after Dubai International handled 2.2mn tonnes of cargo in 2024, y/y growth of 20.5%. Full-year 2024/5 results for Emirates are not yet available, likely coming in the next several weeks, but H1 figures showed 1.2mn tonnes of cargo transported over the six-month period, y/y growth of 16%. While we remain positive on the outlook, Emirates noted that Chinese eCommerce traffic was a notable driver of that rapid expansion last year, and with the elevated US tariffs imposed on Chinese imports this is one revenue source that will likely take a hit.

Input costs lower on balance

In terms of input costs for the aviation sector, the outlook is somewhat mixed, but on balance the lower oil price environment means that costs should be lower this year even if a protracted global trade war would push up the cost of other inputs down the line. Fuel is the largest single component of airlines' operating costs (around a third for Emirates in recent years) and with global fuel costs tracking lower, in large part a response to the heightened uncertainty around trade, this will soften any impact of weaker demand. The global average jet fuel price in the week to April 25 stood at USD 84.6/b, down 4.8% m/m and 14.6% y/y. While there has been a substantial y/y decline in the crack spread (down 7.3%), we would expect average 2025 prices to track lower in tandem with our expectation of a lower Brent crude price this year, which we forecast at USD 68/b, compared with USD 80/b in 2024.

The longer that tariffs remain in place, barring a carve-out for aviation as the sector is lobbying for, the greater the risk that the price of aircraft will see a substantial increase. Key US producers of aircraft and engines including

Boeing, GE Aerospace, and RTX have all stated that they expect to see a substantial rise in additional costs on the back of the current tariffs, with metals in particular set to feed through, and RTX estimates a hit of USD 850mn. These extra costs for manufacturers would inevitably feed through the value chain to airlines, as while they might be tempted to delay or defer their aircraft orders if prices rise, this would only exacerbate the existing backlog in orders for many companies.

It appears that customers in China will not take delivery of aircraft they had ordered from Boeing in a development that could free some up for other customers, though this would not necessarily entail a significantly cheaper purchase cost for other airlines, with Emirates' chair Sheikh Ahmed bin Saeed al-Maktoum pointing out at the ATM event that these aircraft would already be configured to the Chinese customers' specification and livery.

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