



The Spirit Airlines check-in area at Luis Muñoz Marín International Airport in Puerto Rico after the airline announced it was ceasing operations earlier in May. The writer thinks the environment for the airline industry will remain challenging. Even if the Iran conflict subsides, which is unlikely, uncertainty about supply chains and volatility in fuel prices may persist. PHOTO: REUTERS

Airlines are making money again. But that might not last

The Iran war has created multiple challenges for the air travel industry.

Nitin Pangarkar

The airline industry is at a crossroads today. In December 2025, the International Air Transport Association (IATA), whose members include most major airlines, predicted that airlines would earn record total net profits of US\$41 billion (S\$52

billion) in 2026. Yet that glowing forecast came with a caveat: net profit margin and net profit per passenger would remain the same as the previous year at 3.9 per cent and US\$7.90.

The industry appears to have emerged strongly from the pandemic. Singapore Airlines announced record quarterly revenues and healthy profits for the quarter ending December 2025, supported by robust year-end traffic demand and stronger yields.

Yet assumptions underpinning that recovery are now being tested. The Iran war has raised oil prices sharply and renewed concerns over fuel supply disruptions. Several airlines are

already warning of mounting pressure from higher fuel costs and geopolitical uncertainty. Air France-KLM cut its capacity outlook in April and warned that the Middle East conflict would inflict a €940 million (S\$1.4 billion) fuel shock on the group in the second quarter alone. Air Canada has also suspended some routes to North Africa amid operational uncertainty.

At the same time, several airlines were already facing structural weaknesses before the latest geopolitical tensions erupted. US-based Spirit Airlines recently ceased operations after struggling for the last couple of years, prompting talk of a US government bailout package for

budget airlines. In Asia, several Chinese and Philippine airlines continue to face pressures.

The key question is whether these challenges are temporary or whether the industry is entering a more prolonged period of turbulence, and how this will impact Singapore Airlines.

I think the environment will remain challenging. Even if the Iran conflict subsides, which is unlikely, uncertainty about supply chains and volatility in fuel prices may persist. Airlines are especially vulnerable because fuel remains one of the largest operating costs, and because geopolitical instability can quickly disrupt routes and travel demand.

A COMPLICATED SITUATION

What makes the situation more complicated is that airlines may have become overly optimistic after the surprisingly strong post-pandemic recovery. Consumer demand has remained remarkably resilient since Covid-19. Though many analysts, including myself, had expected that rising interest rates would dampen travel spending, instead, estimated passenger revenues for IATA members grew from US\$416 billion to US\$737 billion between 2022 and 2025.

But it is unclear whether this level of demand can be sustained. Slowing global growth, geopolitical uncertainty and signs

of weakening consumer confidence owing to huge job cuts by even well-performing tech firms like Meta and Microsoft, could eventually weigh on travel spending, particularly for premium and long-haul travel.

Many airlines are responding by trying to squeeze more revenue from passengers, with several full-service airlines even eliminating free perks or charging for services once bundled into ticket prices, including checked baggage, seat selection options, and even the ability to earn frequent flyer points at higher

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rates.

Such ancillary income can be an important source of revenue considering the industry's thin margins, but there are limits to how far airlines can push this strategy without incurring a backlash from customers. One analysis even suggests that imposing these charges could have led to the demise of Spirit Airlines.

As somebody who has reluctantly paid for some of these ancillary services over the last year or two, I would advise airlines to curb such instincts, lest passengers get annoyed with being charged extra for basic conveniences and turn to another airline company instead.

The other conundrum is that many airlines have pursued aggressive fleet expansion plans and raised debt financing after struggling with aircraft shortages and supply chain uncertainties after Covid-19. Airbus received as many as 321 orders in March 2026 alone.

Some expansion plans appear ambitious given market conditions, including the US\$21 billion order by China Southern Airlines and its subsidiary Xiamen Airlines, and Biman Bangladesh Airline's largest order for new planes in its history. Debt can multiply the effect of a demand downturn as interest payments must be met even when revenues fall. It's precisely in these environments where balance-sheet strength and cost discipline become critical.

PROSPECTS FOR SINGAPORE AIRLINES

Meanwhile, SIA appears relatively well positioned compared to many competitors. It is managing its debt well. As at December 2025, its debt-to-equity ratio had improved to 0.66, from 0.82 in March 2025. It may also benefit from passengers choosing to avoid Middle East transit hubs and carriers including Emirates and Qatar Airways while travelling from Europe to Asia.

Historically, SIA has also demonstrated strong cost management while maintaining a premium service reputation – a balance that will become increasingly important if the operating environment deteriorates further.

But SIA will not be immune to the broader pressures facing the industry. I expect SIA's results for the quarter ending June to be significantly impacted by the Iran war. And like its peers, it must now navigate uncertainty over whether premium travel demand can remain strong, how quickly to renew its fleet and how to manage cost without eroding service quality.

The post-pandemic recovery gave airlines reason for optimism. The danger now is that some carriers may have mistaken a post-pandemic cyclical rebound for a permanently more resilient industry.

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