

WHITE PAPER

Is Commercial Aerospace Ready for a Demand Reckoning?

New survey reveals a widening gap between airline sentiment and the rest of the value chain.

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Introduction

The commercial aerospace industry has operated with a kind of hard-won confidence since the pandemic. The demand was clear, and the industry needed to deliver. The production ramp became the defining challenge.

That assumption is now being tested.

In its third annual survey^{*} conducted in partnership with Aviation Week, McKinsey & Company polled more than 150 commercial aerospace leaders across the value chain—airlines, airframe and engine OEMs, suppliers, MROs, and lessors—about their outlook for demand over the next two to three years and their readiness to respond if conditions deteriorate. What the data reveals is an industry at an inflection point: airlines are already feeling pressure that the rest of the supply chain has not yet registered, incentives are pushing different segments in conflicting directions, and confidence in the ability to adapt may be significantly overstated.

The question is not simply whether a slowdown is coming. It is whether the industry will recognize it in time to act.

^{*}Survey was run in May 2026



From Supply Risk to Demand Risk

The first McKinsey/Aviation Week survey, conducted in 2024, found surprising optimism on timing: 84% of respondents expected a Next Generation Single Aisle (NGSA) aircraft to enter service by 2035 or sooner. The second survey, conducted in 2025, told a different story. As the production ramp for current-generation aircraft slipped, confidence in that NGSA timeline eroded substantially, and the survey turned to a harder question: did the economics of a next-generation aircraft work?

The answer, in short, was that it had not. The technologies being contemplated for an NGSA would deliver roughly 15% fuel efficiency improvement, while the cost drivers, such as inflation, extended certification timelines, and the supply chain's ability to structurally reprice, were running at a far higher order of magnitude.

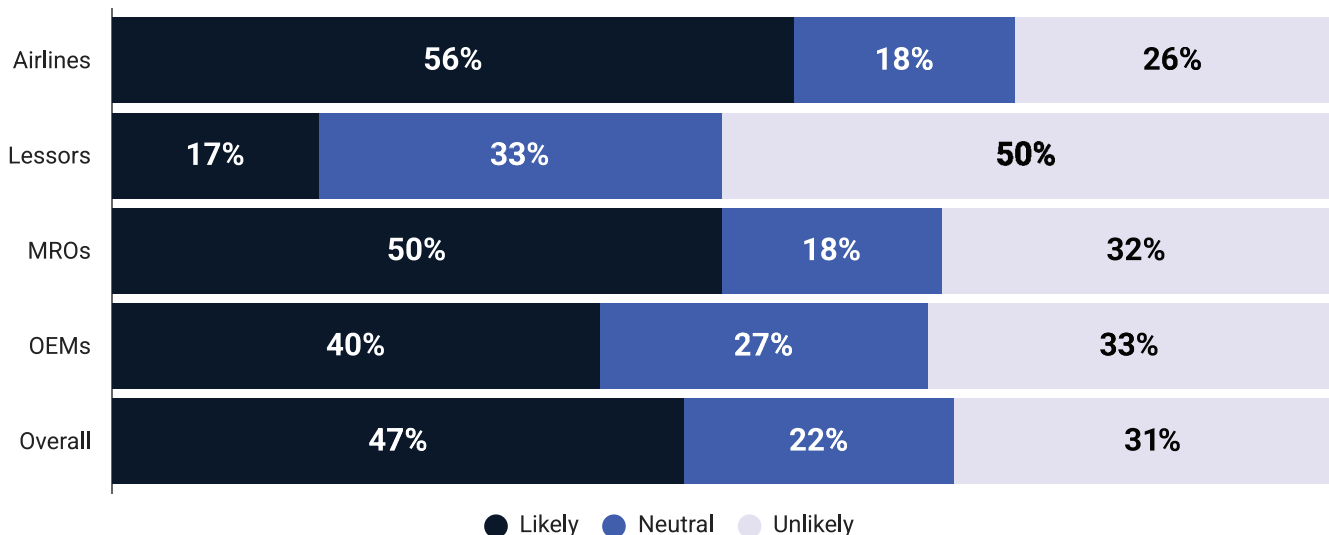
By a wide margin, the industry expects **growth to slow**.

This year, the frame shifts again. The supply chain issues that defined the prior two surveys have not been resolved. Specifically, 94% of respondents expect the aircraft and engine shortage to persist for at least one more year, and 41% expect it to last three or more. But those familiar constraints are now layered over a more unsettling question: what happens if the end market softens?

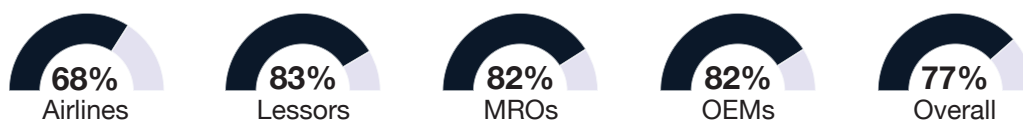
That question has already started to answer itself. Global air passenger traffic is now forecast to grow just 2.1% in 2026, less than half the growth rate projected at the start of the year, according to IATA's Global Outlook for Air Transport.

The financial picture reinforces the concern: airline net profit in 2025 reached \$45 billion, but IATA's Annual Review 2026 projects that the rapid escalation of fuel costs will halve both profits and margins in 2026, cutting net profit to approximately \$23 billion and the industry's net margin to around 2%, the weakest outcome since the pandemic years.

Air travel slowdown likelihood in the next 2-3 years, % of respondents



Percentage that can respond in less than 6 months, %



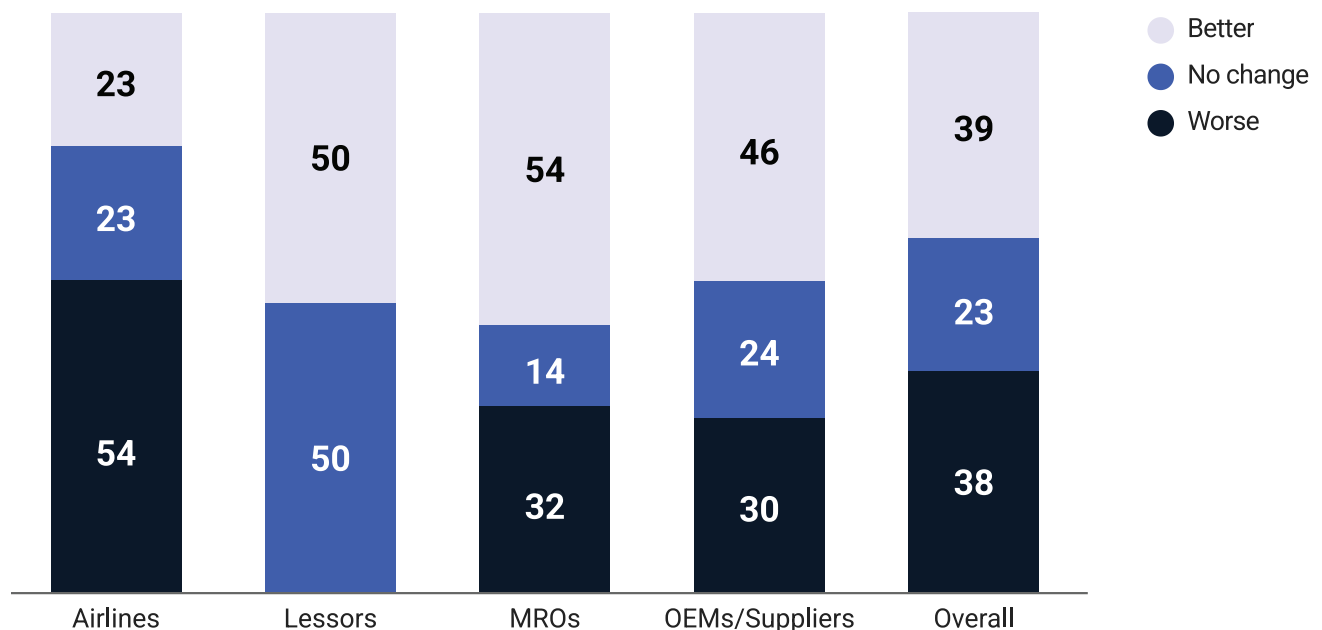
47% of respondents believe a demand slowdown, defined as growth below the historical 3 to 5% RPK CAGR baseline, is likely. **77%** expect below-baseline growth over the next two to three years, even among many who stop short of calling it a slowdown.

By a wide margin, the industry expects growth to slow. But many players are reluctant to label what they expect as a slowdown—perhaps because doing so would demand a response they are not yet prepared to make.

The Misaligned Value Chain

The most telling finding in this year's survey is the divergence across segments. Airlines report the highest likelihood of a slowdown at 56%. Lessors report the lowest at 17%. That 39-point gap reflects something more consequential than differing opinions: it reflects an industry whose incentives are pointed in different directions, without consequence for those furthest from the pressure.

How demand outlook has changed over the past 6 months, overall and by segment, % of respondents



54% of airlines report that business conditions are worse than six months ago. **30% of OEMs** and suppliers say the same. MROs come in at 32%.

Airlines sit closest to the passenger, and they are feeling real pressure—on yields, on load factors, on the profitability of individual routes. But because the OEM backlog is large and aircraft orders are difficult to defer or cancel without consequence, airframers continue to ramp. The orders now being fulfilled were placed five and 10 years ago, and no amount of near-term demand softness easily reverses them. For OEMs, the incentive structure is unambiguous: each delivery generates revenue, cash flow, and, for some, debt relief. Wall Street rewards build rate.

The supply base faces its own version of this calculus. A rational supplier in a capital-intensive segment—forging, casting, precision machining—looks at the investment required to support an OEM production ramp that may last only a few years before changeover to a next-

generation platform and sees numbers that are difficult to justify. There is no new platform imminent enough to function as a credible threat in contract negotiations, and OEMs cannot easily increase sourced supply of critical components in a constrained market. Rather than refuse a ramp outright, a rational supplier may simply attempt it and fall short—a kind of quiet resistance, reasoning that if other suppliers are unlikely to succeed either, there is little point committing the capital alone.

MROs, meanwhile, are riding a wave. Roughly 2,000 narrowbodies and another 1,000 widebody and regional aircraft are overdue to retire based on pre-pandemic retirement rates, but new deliveries haven't arrived to replace them, so they remain in service. That overhang has created an aftermarket environment that is both high volume and high margin. Even if airlines wanted to delay that retirement further, doing so is not necessarily easy. Maintenance visits on aging aircraft are found money. Constrained capacity means pricing power. Suppliers with significant aftermarket exposure have, for the past several years, been in an unusually favorable position.

That position is contingent on the aging fleet staying in service.

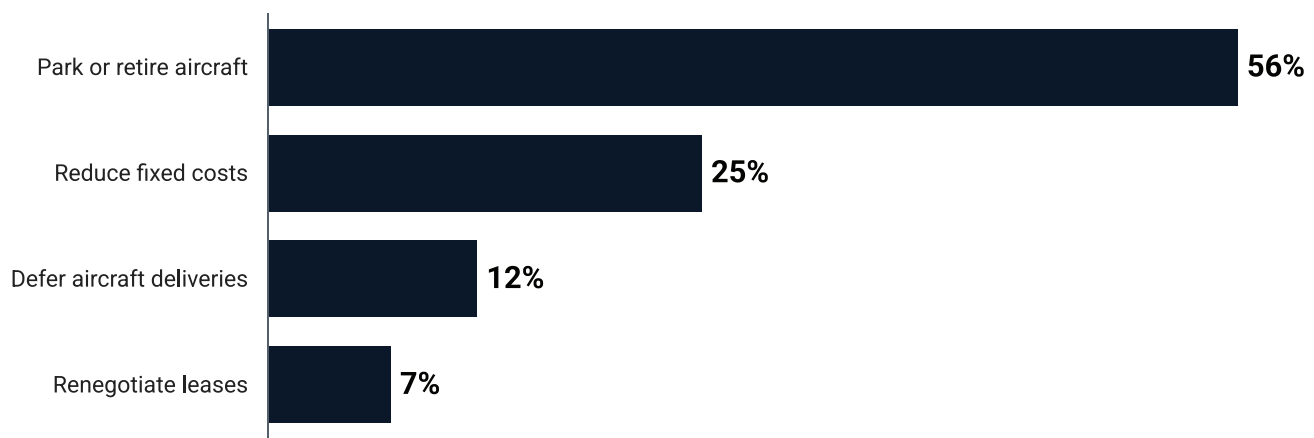
The Retirement Cliff

When airlines are asked what they would do first in response to a demand slowdown, their answer is unambiguous: park or retire aircraft. Fifty-six percent of respondents identified that as their primary lever—4.5 times the number that would prioritize deferring new deliveries. Airlines want new jets. Deferring deliveries, even when the economics might argue for it, is rarely simple. It is the old fleet they are prepared to release.

That preference reflects fuel burn economics as much as anything else. New-generation aircraft are meaningfully more fuel-efficient and deliver a passenger experience that matters in a competitive market. But the scale and speed at which retirements could occur is what distinguishes this scenario from a normal fleet transition.

For MROs and aftermarket suppliers, the implications are asymmetric and potentially severe. Aftermarket work tends to carry better margins than OEM production work, with less channel control from OEMs and more open competition among providers. A step-change retirement wave erodes that advantage almost overnight. A supplier whose major customer retires the

Top airline first response levers to a demand slowdown, % of respondents ranked #1



The aftermarket profitability that suppliers depend on today is the same profitability most exposed to a retirement cliff.

fleet it has been maintaining does not receive gradual notice; the business may simply no longer be needed.

The challenge is compounded for MROs with concentrated exposure to legacy platforms. Companies focused primarily on engines like the CFM56 or V2500 face a strategic urgency that their current profitability may obscure: the portfolio that is generating strong returns today is the same portfolio most exposed to a retirement cliff. Transitioning to next-generation platforms—the LEAP, the GTF—takes time, investment, and a deliberate decision to begin before the legacy business begins to contract.

The broader question for the aftermarket is commercial as well as operational. As older aircraft become scarcer and more expensive to support, the pricing dynamic between operators and service providers could tip in ways that make continued operation irrational for airlines. The industry will need to work through what contract structures look like in a transition environment, one where both parties need the assets to remain viable without prices spiraling beyond what the market can bear.

The Lessor Wildcard

Of all the segments surveyed, lessors expressed the least concern about a potential slowdown—just 17%, as noted previously. It’s a surprising figure, because lessors may face a more complex exposure than their confidence suggests.

Lessors participate in the aviation market very differently than they did a decade ago. The widespread use of sale-leasebacks, the growth of used serviceable material, and entry into MRO by some lessors reflect a business model that has become deeply integrated with the economics of fleet management across the value chain. Roughly 50% of the narrowbody and widebody fleet is held by lessors. That concentration creates significant influence and significant exposure.

Legacy asset values, including V2500-equipped narrowbodies and aging widebodies leased for record monthly rates in a supply-constrained market, do not decline on a smooth curve when market conditions change. They can drop sharply, and the parts market for those assets follows closely behind. A lessor with a heavily legacy-weighted portfolio could be facing a step change in market values in a scenario where retirements catch up all at once—a scenario that may be more likely than the headline confidence figures suggest. There are already examples of this dynamic visible today: spare engine markets for current-generation platforms like the GTF and LEAP show signs of being oversubscribed, a preview of how quickly asset values can move once a segment tips.

The flip side is that lessors are among the best data owners in the industry. They have visibility into airline demand, fleet utilization, and delivery schedules that gives them, in theory, an early-warning capability that other segments lack. How aggressively they choose to act on that advantage, through pricing, lease terms, or divestiture, may be one of the more consequential variables in how this cycle plays out.

The Preparedness Gap

Seventy-seven percent of survey respondents said they could adjust their strategies within six months in response to a demand slowdown. Our view is that the industry may be overconfident in its agility, and that the absence of visible preparation today makes that overconfidence more acute, not less.

The businesses positioned to weather variability are those that have **engineered it in deliberately**, not those that have assumed the environment will remain stable.

The evidence from the last five years does not support the confidence. The pace at which the production ramp has unfolded, or failed to, reflects an industry for which rapid change is genuinely difficult to execute, not simply unwanted. Slowing the production rate ramp carries its own costs and disruptions, and it risks sending mixed signals to the supply chain about long-term commitments. The industry can adjust; it has done so before. But the complexity of that adjustment is routinely underestimated.

The more actionable question, particularly for suppliers, is not whether they can respond; it is how to build the flexibility to respond with minimum exposure. Labor planning, materials strategy, supply chain integration—the businesses positioned to weather variability are those that have engineered it in deliberately, not those that have assumed the environment will remain stable.

There is also a structural dimension to the preparedness question that runs beyond any individual company's planning. The incentive misalignments described throughout this report, such as OEMs rewarded for delivery volume, suppliers rationally resisting ramp demands they feel are unachievable or lessors under-weighting demand risk, mean that the industry may be slower to register a turning point than any individual segment would be on its own.

A Playbook by Segment

Regardless of whether demand moves sharply downward, continues at a slow-growth pace, or proves more resilient than the current outlook suggests, the survey findings point to a set of actions each segment should be taking now.

Airframers should continue their production ramp, but with eyes open to the ceiling. The backlog is real, and the business case for sustained delivery rate is sound. What requires more careful examination is the pace at which rate increases are pursued, particularly considering what the supply chain can realistically support and what the operator base can absorb without further diluting load factors and yields. If an NGSA is announced, suppliers and OEMs may be less willing to make capex investments required for production rate hikes for current generation narrowbodies. If current-generation narrowbodies will remain in production longer, airframers can bolster the supply chain by committing to that plan rather than leaving it as an element of uncertainty.

Airlines are already pulling the levers available to them: reassessing route profitability, reviewing fleet plans, and divesting lower-value capacity when the market calls for it rather than trying to ride out the downturn. The discipline to follow through on those plans, even when market share pressure creates incentives to keep adding capacity, will differentiate operators who emerge from a slowdown in good position from those who repeat prior cycles.



Suppliers should use this moment to build flexibility into their operations rather than optimizing purely for volume. Commercial leverage with OEMs is real right now. And though the dynamics favor incumbents, that window may not last. On the commercial side, locking in favorable contract terms before the NGSA timeline comes back into focus is a genuine opportunity. On the operational side, suppliers currently well-positioned on aftermarket profitability should use that cash flow now to fund the cost and capability improvements needed on new-generation programs, rather than waiting until the legacy business contracts and the capital is no longer there to make the shift.

MROs face the most time-sensitive strategic decision. The profitability of the current environment is real, but it is not permanent in the face of a potential retirement cliff. Understanding the specific exposure of a given MRO's portfolio to a retirement scenario—which airlines, which platforms, what share of revenue—is the essential first step. From there, the investment and capability-building required to service next-generation aircraft needs to begin well before legacy demand contracts. Companies focused primarily on older platforms, such as the CFM56 or V2500, should treat portfolio diversification toward the LEAP and GTF as a near-term priority.

Lessors should approach the next two to three years as a stress-testing exercise. Running scenarios against base-case demand assumptions, modeling the implications of accelerated retirements for legacy asset values, and maintaining active dialogue with airline customers about fleet plans and delivery schedules are the tools that would allow lessors to act ahead of a turning point rather than after it. They should also look for pockets of growth in supply-constrained segments of the market, including consolidation opportunities in a fragmented field, and consider scaling back exposure in areas where the demand-supply imbalance appears to have peaked. Because lessors are often the first to know when an airline plans to retire a subfleet, the segment has a genuine first-mover advantage if it chooses to use it.

Conclusion

The 2026 McKinsey/Aviation Week survey reveals slower growth ahead—not contraction—but a growth path in which the expectations and likely outcomes diverge sharply by segment. OEMs and suppliers may find the next several years considerably more favorable than airlines, MROs, and potentially lessors, even though all five segments are exposed to the same underlying shift.

The commercial aerospace industry has navigated significant disruptions before. What distinguishes this moment is the combination of factors that make the usual response mechanisms slower to engage: a supply backlog that insulates OEMs from near-term demand signals, an aging fleet overhang that amplifies the downside risk for MROs and aftermarket suppliers when retirements accelerate, and a financial environment in which executive teams are managing to near-term earnings rather than long-horizon positioning.

The players who will navigate this well are those who are asking the hard questions now, about their portfolio exposure, their cost structure, their commercial relationships, and their strategic flexibility, rather than waiting for the turning point to become obvious.

In a value chain as interconnected as this one, preparation is the only early warning system that works.