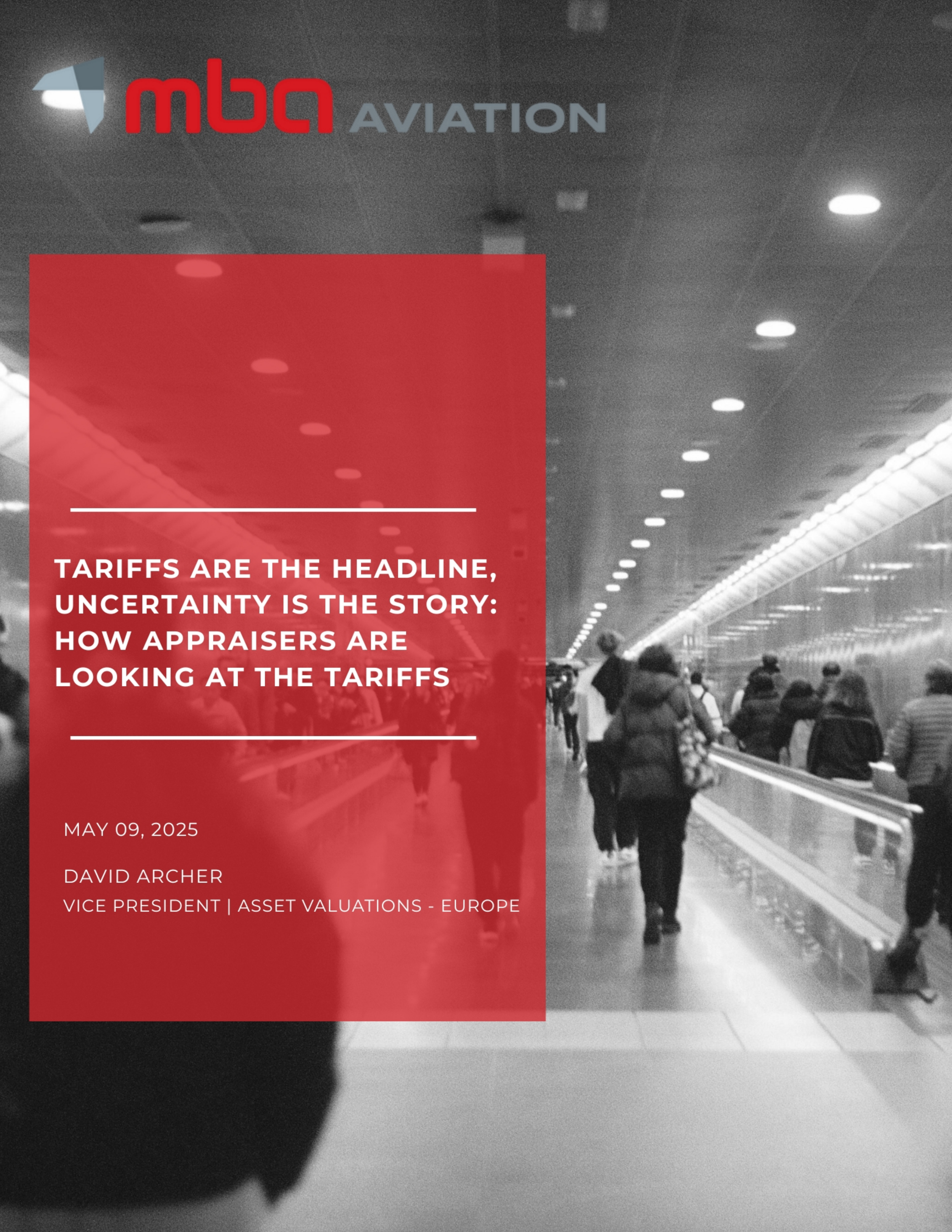

TARIFFS ARE THE HEADLINE, UNCERTAINTY IS THE STORY: HOW APPRAISERS ARE LOOKING AT THE TARIFFS

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Tariffs are the Headline, Uncertainty is the Story: How Appraisers Are Looking at the Tariffs

Tariffs have become the latest focal point of the aviation landscape, and as the industry tries to sort through the potential impacts, the more uncertainty there seems to be. mba Aviation continues to develop its view on the market, but based on what is known today, we have opined on the following points.

Market Sentiment: Uncertainty, But Not (Yet) Instability

Across aircraft and engine trading and leasing markets, uncertainty is the dominant feeling.

After four years of strong recovery coming out of the height of the pandemic and record passenger traffic demand, the news of renewed U.S. tariffs has caught many by surprise. Meetings across the U.S., Europe, and Asia confirm that it is the main topic of conversation; yet, there is no clear consensus on how it will ultimately play out.

- OEMs have not yet revised delivery forecasts for 2025, but the longer tariffs stay in place, the more delivery risk accumulates.
- Willie Walsh (IATA) compared the potential disruption to “the aftermath of 9/11,” although he noted it is unlikely to be as long-lived as the COVID-19 shock.
- In April, JP Morgan revised its recession risk probability for 2025 to 60.0%, up from 40.0%.

At this stage, activity levels remain stable, and values have not softened. However, the market appears apprehensive, and trade volume may be impacted.

Value Implications: New Aircraft and Engines

mba is monitoring the cost pressures building under the surface, as new aircraft and engines could be impacted by tariffs via raw materials and cross-border deliveries.

List Prices and Cost Inflation

There are already signals that tariff impacts are being considered in discussions:

- Angus Kelly (AerCap) warned that tariffs could add *“tens of millions of dollars”* to each aircraft delivery.
- While largely symbolic, China's retaliatory 125.0% tariffs make new Boeing deliveries in China a challenging proposition, along with the spares needed to service the existing fleet. At the end of April, three new delivery Boeing aircraft were turned away by China due to the trade war. Boeing stated that 50 aircraft are due to be delivered to Chinese airlines this year, but the airlines have declined delivery due to current tariffs.
- Airbus is in the best position in the short term, though it still faces setbacks on U.S. deliveries and supplying its U.S. production lines.

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- GE Aerospace and RTX (Pratt & Whitney) have both flagged significant financial impacts from tariffs—US$500 million and US$850 million, respectively—and have hinted at passing those costs on to customers where possible.

Meanwhile, ambiguity continues to swirl around critical questions. For example, would a European-built A320neo powered by a Pratt & Whitney (U.S.-built) engine be exempt from tariffs if sold to China?

Spare Parts, Engines, and FTZ Strategies

- New strategies may be implemented to limit exposure to tariffs. GE Aerospace has increased the use of Foreign Trade Zones (FTZs) to avoid direct tariff exposure on imported parts.
- Used Serviceable Material (USM) is becoming increasingly attractive, particularly for engine parts like life-limited parts (LLPs), where original equipment manufacturer (OEM) cost escalation is already significant.
- Airlines may be incentivized to stockpile spare parts ahead of any further material cost increases.

U.S. government policy on tariffs has been quick and non-uniform, with relief given to sectors that drive growth and are of strategic importance. So while tariffs are the headline, uncertainty is the story. Irrespective of whether uncertainty persists into late 2025 or beyond, mba expects OEM policies will be updated to pass on these tariffs for final assemblies through contractual provisions, like those recently amended to account for inflation.

Leasing and Secondary Market Dynamics

The leasing market's strength and dynamic capabilities continue to play a vital role in absorbing shocks, just as they did during the COVID-19 recovery.

Secondary Market Behavior

- Airlines are continuing to extend existing leases to retain access to capacity.
- Boeing has stated it will be remarketing dozens of 737 MAX aircraft originally destined for China, reportedly with strong demand from India, Southeast Asia, and Latin America.
- Competition among lessors remains strong. The general tone seems to be that the tariffs will continue to be resolved or softened before materially impacting their strategies.

In a market still driven by aircraft and engine shortages, paired with high utilization, the incentive remains to stay active, not to slow down, based on what remains a speculative risk.

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MRO and Supply Chain Pressures

Tariffs are adding further strain to an already stretched maintenance and repair ecosystem.

- MROs are actively seeking non-U.S. sourcing alternatives for material where reciprocal tariffs hit.
- China has deliberately targeted U.S. parts and services to maximize political pressure.
- On the extreme side, suppliers like Howmet Aerospace, a parts supplier to the engine industry, have warned they may halt component deliveries if tariffs make transactions unviable.

Even modest disruptions to parts supply could worsen aftermarket congestion, pushing airlines to extend the life of current fleets and inflating values further.

Broader Industry Implications: Airlines, COMAC, and Global Travel

Demand and Order Behavior

- Airline forecasts are beginning to factor in global economic uncertainty and the dampening effects of tariffs on travel demand. Major U.S. airlines have pulled guidance for the year in their Q1 earnings as unclear potential economic impacts continue to underpin the discussion.
- Deferrals of new aircraft orders are possible, but there remains no shortage of carriers willing to step into early delivery slots if needed.

COMAC and Domestic Substitution

- COMAC does not benefit as may have otherwise been expected from the standoff, despite the pressure for homegrown aircraft. COMAC still relies on Western technology, particularly within the U.S., including engines from GE and Safran, and is constrained by its slower production rates.
- The CJ-1000A domestic engine project could accelerate but remains a longer-term prospect.

Europe Watching Closely: Retaliation becoming a possibility

- The EU is preparing tariffs on Boeing aircraft as part of a €100B response plan, with a temporary pause on existing measures extended until July 14.
- Airbus and French aerospace leaders are publicly urging reciprocal tariffs if talks fail, warning of competitive harm to the European sector.
- EU Trade Commissioner confirms all options are open, including legal action via the WTO, if the U.S. imposes lasting unilateral tariffs.

Final Thoughts: Appraiser's View

mba emphasizes that market uncertainty does not automatically translate into value shifts and continues to monitor transaction data across all aircraft and engine types closely. At this time, aircraft and engine values remain strong, with underlying value stability still evident despite geopolitical tensions.

While the environment could change quickly if tariffs or monetary policy remain volatile and opaque, and though uncertainty may turn to pessimism, mba's outlook on aircraft values remains cautiously optimistic.

For our latest Q2 value updates or to discuss specific appraisal needs, please reach out to: appraisals@mba.aero

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