

737 MAX shutdown big blow to Boeing, US economy

December 17 2019, by John Biers, Delphine Touitou



A worker leaves the Boeing 737 factory in Renton, Washington the same day the company announced a temporary shutdown of the plane's production

Boeing's temporary halt in production of its 737 MAX jet lays bare a deepening crisis that could soon weigh even more heavily on the American economy.

The aviation giant's announcement late Monday put no timeframe on the stoppage. But Wall Street analysts immediately began accounting for a bigger earnings hit—with effects that could extend well into the 2020s as Boeing remains stuck in crisis mode after two deadly crashes.

Analysts said the halt will be a blow to key MAX suppliers, potentially dooming some companies, and will mar US growth through the loss of investment and exports on the macroeconomic ledger.

Boeing's announcement "creates more questions than answers," Bank of America analyst Ronald Epstein said in a client note, adding that both the length of the shutdown and its effects on the [supply chain](#) were crucial but unanswered questions.

Gregory Daco, chief US economist at Oxford Economics, put the hit to first-quarter growth at about 0.5 percent.

Such a drag is "relatively large for one specific company," Daco told AFP in an interview.

"The US is facing a number of headwinds and the US economy is cooling as we head into 2020," he said.

"So this is a shock."



Southwest Airlines's Boeing 737 MAX fleet has been grounded since mid-March

Shutdown floated in July

Halting production puts into effect a scenario the company first floated in July as a contingency measure.

A stoppage "is not something we want to do but it is an alternative we have to prepare for as a smart part of our thorough and disciplined process here to make sure we're covering all scenarios," Chief Executive Dennis Muilenburg said at the time.

Boeing in April cut production on the plane to 42 from 52, weeks after

the second of two deadly crashes that together killed 346 people.

Since mentioning the possibility of the halt, Muilenburg and other executives had indicated a strong preference against the idea because of its effect on the Boeing supply chain.

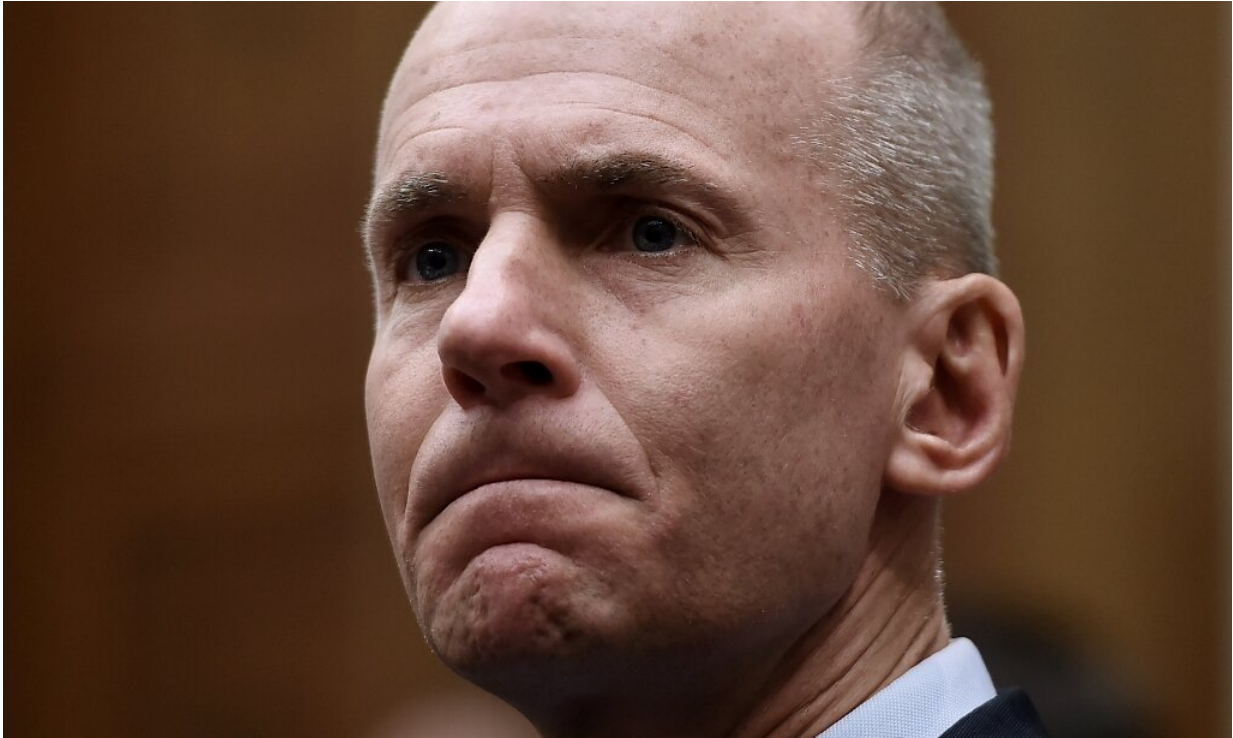
In October, Muilenburg said the company was in close contact with more than 600 US suppliers for the 737 program, many of the them "small and medium-sized businesses that have also been affected by the 737 grounding."

But Boeing on Monday opted for the temporary shutdown, saying the move was necessary because of a lengthier-than-expected regulatory process and the need to safely deliver some 400 airplanes that have been built and stored since the grounding in March.

"It is our plan that affected employees will continue 737-related work or be temporarily assigned to other teams in Puget Sound," Boeing said.

The company said it will continue to keep "our customers, employees and supply chain top of mind as we continue to assess appropriate actions."

The announcement came four days after Boeing conceded that the MAX would not return to the skies before 2020, an acknowledgement that came only after the Federal Aviation Administration publicly criticized Boeing's return-to-service schedule as unrealistic.



Boeing CEO Dennis Muilenburg at an October 2019 congressional hearing

Drag on 2023 earnings?

For Boeing itself, analysts at JPMorgan Chase estimated a potential impact at more than \$1 billion per month to maintain staff and supply chain resources throughout the production halt.

But there will be a bigger overall drag to revenues from the pushing out of new plane deliveries, an action that likely also increasing Boeing compensation payments to airlines, analysts said.

On Tuesday, Southwest Airlines again extended its grounding of the MAX due to regulatory uncertainty, this time through April 13, 2020.

The stoppage also almost certainly scotches Boeing's plan—confirmed as recently as October—to fully restore output on the MAX to 52 per month before raising production to 57 per month by the end of 2020.

Morningstar said such a ramp-up was "unlikely" and that MAX profit margins would be negatively affected by the crisis through 2023.

"We believe the supply chain will be unable to easily increase production to its highest-ever levels after a total shutdown," Morningstar said in the note.

A key question concerns supply companies, especially if there is a prolonged shutdown. These include Spirit Aerosystems, which builds fuselage systems for the MAX.

"We estimate that the supply chain could begin to lose players after three months of no orders from Boeing," said Ernest Arvai of Air Insight.

"It may be the case that some smaller suppliers will either need financial assistance from Boeing or face insolvency, which would mean that Boeing would need to find new suppliers on the return to production."

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