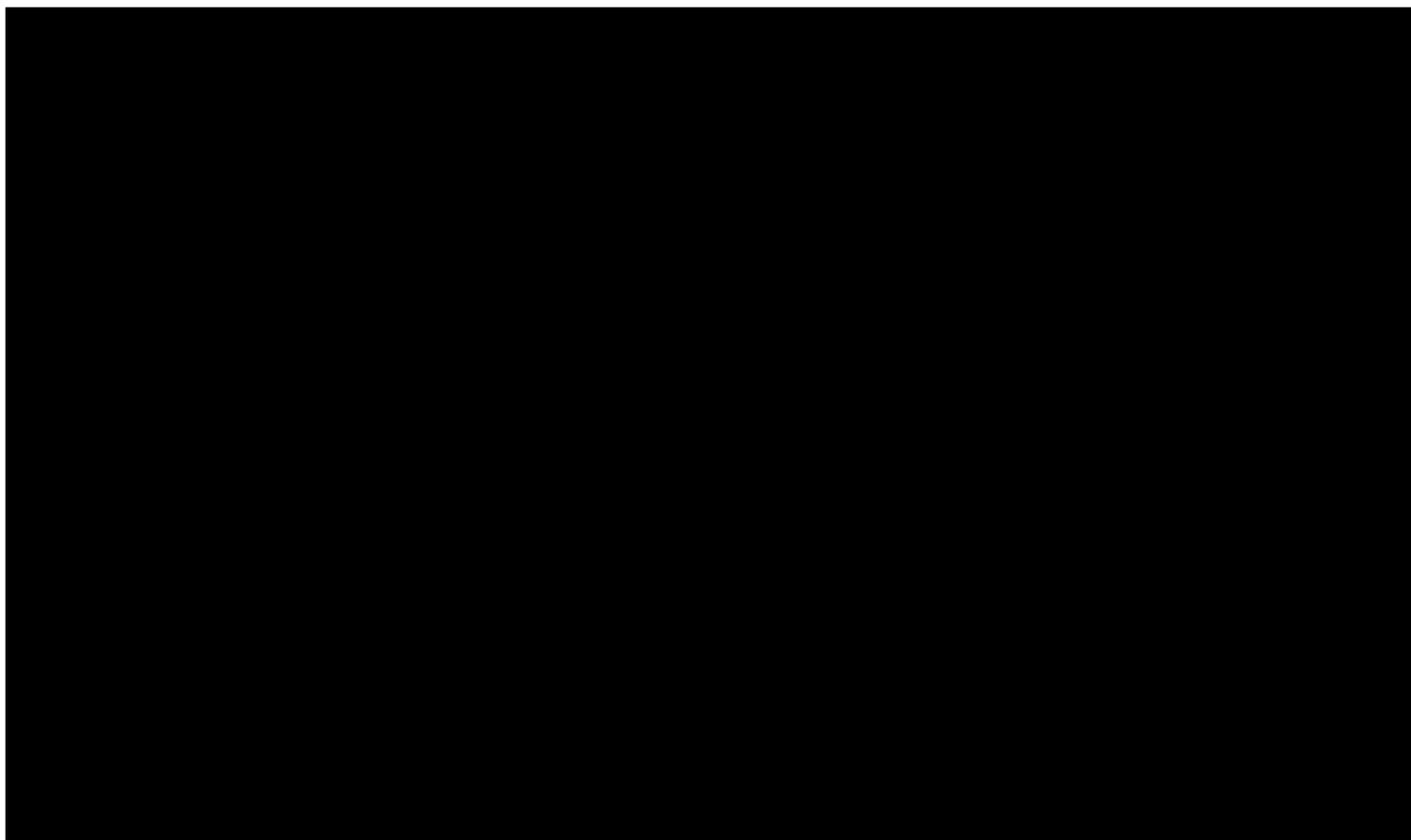




# Analysts divided over U.S. aviation prospects — and worried about Boeing's future in the Pacific Northwest

By Dominic Gates

The Seattle Times Feb 20, 2021





A Boeing 737 MAX airplane lands after a test flight at Boeing Field in Seattle in June.

Reuters file photo/Karen Ducey

SEATTLE — Speakers at a major local aviation suppliers conference Feb. 10 were sharply divided over how quickly the aerospace industry can climb out of the depths of the current pandemic-driven downturn.

“We are at exactly the low point and it will get better from here,” predicted Richard Aboulafia, an aviation analyst with the Teal Group for 30 years. “Good times begin to come back in late 2021 and are really back in late 2022.”

But Adam Pilarski, aviation analyst and economist with Avitas, who has 40 years in the industry, responded with disbelief.

“I can’t see that,” Pilarski said. At airlines, “fleets in a year or two will be much smaller. They didn’t retire the planes yet. But it will be happening.”

And whatever the pace of recovery from the impact of COVID-19, another analyst outlined a

bleak future for Washington state aerospace if Boeing decides to build its next new airplane elsewhere.

In that case, said Michel Merluzeau, an analyst with Bellevue-based AirInsight Research, Boeing production from its Everett and Renton assembly plants would dwindle rapidly after 2026, plummeting to only about 48 jets per year a decade later — down from 741 jets delivered at the 2018 peak.

## Optimism vs. pessimism

The annual Pacific Northwest Aerospace Alliance suppliers conference, held virtually this year with about 480 industry and local government participants, convened at a crisis point no one could have predicted at the 2020 conference.

Global air traffic last year was one-third of the level in 2019. Almost one-third of the worldwide fleet of commercial jets remains parked.

Yet Aboulafia argued the economy is in much better shape than anyone expected when the pandemic took hold last spring.

Multiple COVID-19 vaccines with high efficacy rates are being rolled out. Government cash has kept afloat entire industries, including the airline sector. Share prices of companies are riding high and consumers have record savings rates.

He anticipates a U.S. airline recovery similar to that in China, which returned almost to pre-COVID levels within a few months of getting the spread of the virus under control.

He anticipates people rushing back to air travel late this year and next. “When they can fly again, they have the cash,” said Aboulafia.

He concedes that large widebody jets will not be in demand for years. “It’ll be a long time before anyone really needs a widebody,” he said.

Ron Epstein, industry analyst with Bank of America, agreed and predicted that Boeing will have to further cut production of its 787 Dreamliner, from five jets per month down to four.

Analysts all agree that the recovery will be led by narrowbody models, chiefly the Airbus

A320neo and Boeing's 737 MAX.

Yet Boeing won't reap a big cash benefit until next year, despite a rush of MAX deliveries this year. Most of those will be from the store of more than 400 MAXs built earlier, and another 100 or so partially built MAXs, with fuselages that have been sitting in Wichita, Kansas, for about a year.

Still, Aboulafia assured the suppliers in the audience: "We have suffered a terrible slide. We are going to grow out of it."

Epstein, the Wall Street financial analyst, was more restrained in his prediction.

"It's a disrupted world," said Epstein. "It's anybody's guess where we will be economically in a year."

And Pilarski's take is darker. He said airlines that probably should have gone out of business in this crisis have been held up artificially only by government cash.

"I don't think that can continue forever," he said. Once it ends, he anticipates a rash of bankruptcies and consolidation among airlines and smaller aerospace suppliers.

Bill Alderman, who advises on mergers and acquisitions of aerospace suppliers, agreed that a consolidation wave is likely to hit the industry when government support eventually ends.

Pilarski projects it will take about five years for global air traffic to recover to 2019 levels. "So how many additional planes do you need?" he asked rhetorically.

## The big question for Washington state

All the experts at the conference agreed that sooner or later the fundamentals that have driven the rise of air travel for decades will bring the industry back to its previous robust growth trend.

They were also unanimous on two key points for this region: To maintain its competitive position against Airbus, Boeing must launch a new plane within a couple of years to go up against the A321neo. And to avoid a serious decline of this region's aerospace industry, Boeing must build that jet in Washington state.

While Boeing spent 18 months throwing resources at fixing the MAX, Airbus moved ahead with new products and established a clear market advantage with the A321neo.

Then the COVID-19 pandemic hit Boeing hard, draining its cash and requiring a focus on survival.

Yet Aboulafia said the case for launching a plane that would essentially be a modernized 757 in size — about 230-plus seats with a range of about 5,800 miles — is a slam dunk.

He said the A321 is not even a terrific airplane. It's an old design with a less-than-perfect wing. Airbus's success in selling more than 3,000 of them is a matter of "right place, right time," he said.

Boeing has no competitive model and that size and range of airplane is suddenly in high demand as airlines favor taking expensive widebodies off regional international routes and replacing them with such a narrowbody.

Aboulafia said Boeing could do it. It would have to spend a couple of extra billion dollars a year to develop it, but that "wouldn't move the needle much" given the company's current debt of \$64 billion.

"If Boeing does nothing, this is an enormous chunk of the market lost to them," he said. He projects that would mean Airbus taking 60% of overall market share, consigning Boeing to permanent second fiddle status.

In his presentation, Merluzeau focused on the impact of Boeing choosing to build its next plane somewhere outside Washington, the "worst possible case for the Pacific Northwest."

His analysis shows that Boeing employment in the state would collapse to between 15,000 and 20,000 jobs by 2035, as production essentially disappeared.

The remaining jobs would be high-end engineering jobs, designing airplanes and manufacturing systems that would be deployed in other states.

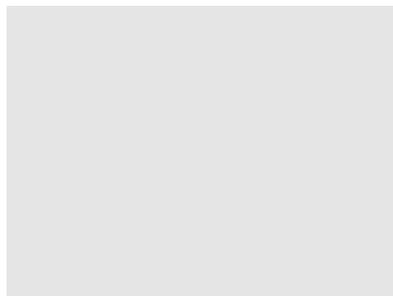
An AirlInsight Research survey found that industry professionals consider Charleston, South Carolina, and Huntsville, Alabama, as just as likely to be the assembly site for Boeing's next new jet as the Seattle area.

"The issue of cost and taxation will be a driving element," said Merluzeau.

Vago Muradian, editor-in-chief of Defense and Aerospace Report, moderating a panel that included Epstein and Aboulafia, closed by emphasizing the stakes for the local conference participants and for Boeing.

"A healthy Boeing is not just good for the Pacific Northwest but for the United States," said Muradian. "Folks are rooting for Boeing to get it right."

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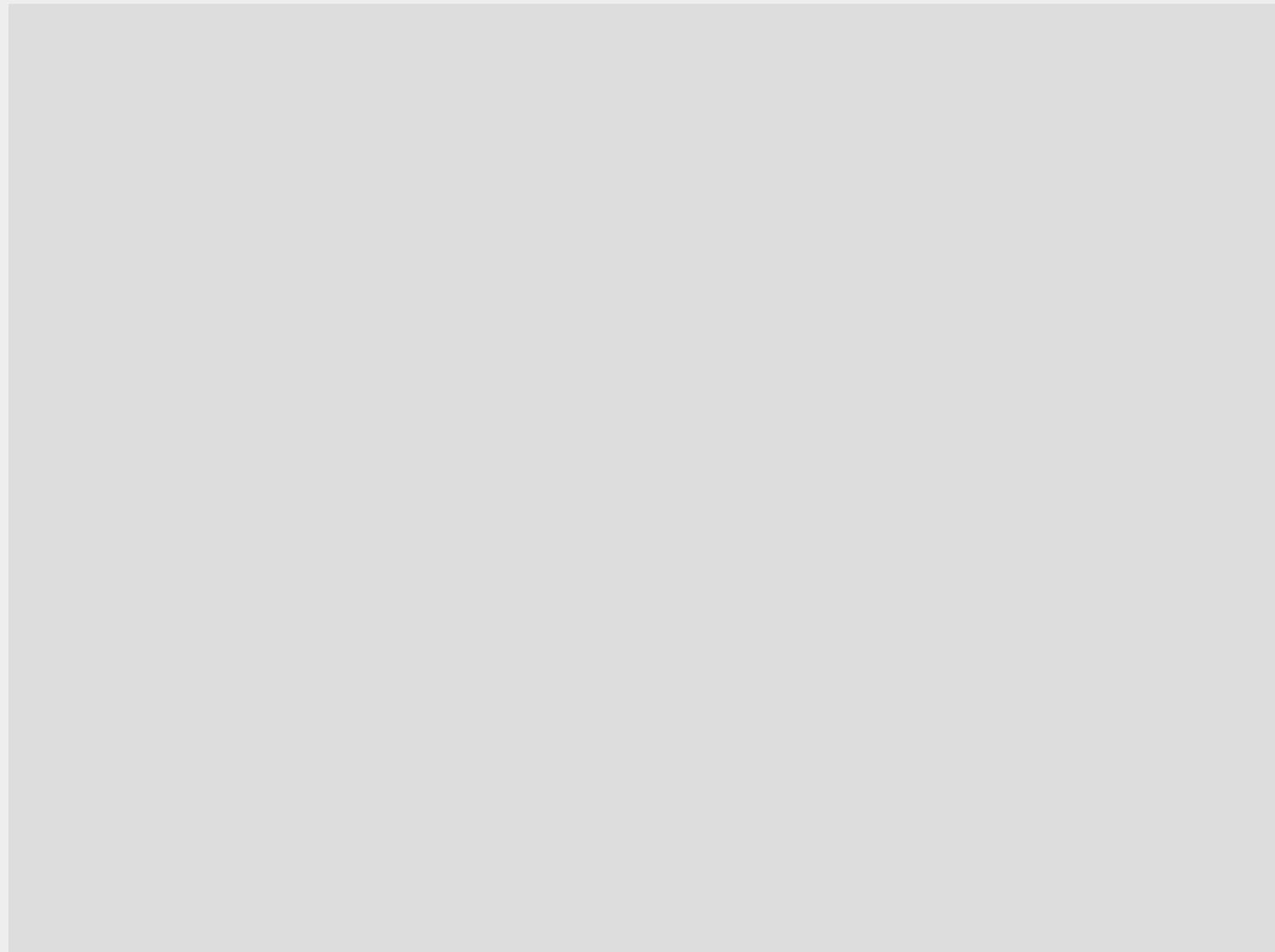
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