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Analysis: Boeing's latest production problem compounds operational headache for US carriers

By Rajesh Kumar Singh and Valerie Insinna

A Boeing 737 Max aircraft during a display at the Farnborough International Airshow, in Farnborough, Britain, July 20, 2022. REUTERS/Peter Cziborra

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CHICAGO/WASHINGTON, April 17 (Reuters) - A manufacturing problem with Boeing Co's (BA.N) 737 MAX jets that led to a pause in some deliveries threatens to disrupt plans by U.S. carriers to boost capacity to capitalize on a busy summer travel season.

It is expected to result not just in lost revenue, but will likely also drive up airlines' operating costs, industry experts said.

Carriers are already grappling with shortages of pilots, **air traffic controllers** and new planes, making it harder to **add more flights**. They are leaning on bigger planes that can accommodate more passengers to get around operational challenges.

Boeing's **latest problem**, identified last week, affects a portion of the 737 MAX family of airplanes, including the bestselling **MAX 8**.

The MAX 737-8 planes tend to have higher seating capacity compared with jets of previous generations. The delays in their delivery will only compound airlines' operational headaches, said Addison Schonland, partner at consulting firm AirInsight.

"The timing is awkward," Schonland said. "You're going into the peak (travel) season. They need the bigger capacity."

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While it is not deemed to be a safety of flight issue and in-service planes can continue to operate, aircraft will need to be fixed before delivery.

The impact on airlines could be even more pronounced if the FAA mandates an emergency fix to in-service planes as opposed to allowing jets to be modified during scheduled maintenance, said Vertical Research Partners analyst Robert Stallard.

Airlines are still scrambling to get all the details and assess the impact on delivery schedules.

Boeing declined to comment on how many planes will be affected. CEO David Calhoun is expected to provide further details at the company's **annual shareholder meeting** on Tuesday.

Bank of America analyst Ron Epstein, who estimated 690 MAX 8s have been produced since 2019, believes "upwards of two-thirds" could be impacted.

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Boeing was scheduled to deliver 199 MAX planes to Southwest Airlines **(LUV.N)**, United Airlines **(UAL.O)** and American Airlines **(AAL.O)** this year. Just 50 have been delivered so far.

Data from ch-Aviation & AirInsight Group shows the MAX-8 planes account for 7.6% of fleets at U.S. carriers. At Southwest, that rises to more than 21%.

The Dallas-based carrier, aiming to increase capacity by at least 15% this year, had expected to receive 90 MAX planes in 2023. Boeing has delivered just 29.

A Southwest spokesperson said Boeing's production issue will **impact** the airline's current delivery schedule, but added the company has no plans to adjust flight schedules.

But Tom Nekouei, a vice president at the Southwest Airlines Pilots Association, is not sure the company can operate its schedule. Since the low-cost carrier flies only 737s, its flight plans are the most vulnerable to Boeing's delivery delays, he said.

Nekouei and some analysts expect Southwest to delay retirement of 27 older-generation Boeing 737-700 planes. Not only do those planes burn more fuel, they also have 18% fewer seats than MAX 8 jets at Southwest.

That could mean higher operating costs and lower revenue for Southwest, which is recovering from a more than $1 billion hit due to an operational disruption around last Christmas.

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Jefferies analysts estimate each MAX plane is worth 0.1% of Southwest's capacity in the second half of 2023. The delivery delays could also dent its full-year profit by 3%.

Boeing's production problem could also have implications for United, which is planning to increase capacity and has yet to receive nearly three-fourths of its MAX jet order this year.

Last year, CEO Scott Kirby called Boeing's deliveries the biggest risk to the airline's capacity growth plans.

While a United spokesperson said the company does not expect "significant" impact on 2023 capacity plans, Jefferies sees a 0.1% impact on second-half domestic capacity and a 2% hit on full-year profit.

Unlike Southwest, United has a mixed fleet, which can be leveraged to offset the impact of delays in MAX deliveries.

Reporting by Rajesh Kumar Singh in Chicago and Valerie Insinna in Washington Editing by Ben Klayman and Matthew Lewis

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