Boeing will cut 10 percent of workforce, says federal support “critical”

Enlarge / A Garuda Indonesia 737-800. The airline is moving to cancel orders for the 737 MAX after the Lion Air and Ethiopian Airlines crashes.

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Boeing released its financial results for the first quarter of 2020, and as one might expect for a company that manufactures aircraft amid the COVID-19 pandemic, the numbers were not good.

The company reported revenues of $16.9 billion, down from $22.9 billion in the first quarter of 2019, and Boeing’s operating cash flow was a negative $4.3 billion. Boeing officials attributed the losses to the dual whammy of the effects of the global pandemic and the 737 Max aircraft grounding after two fatal accidents. US passenger volumes are down 95 percent compared to this time in 2019.

“We’re in an unprecedented period for the industry and the world,” chief executive David Calhoun said Wednesday during a call with investors. The global economic recovery will take years, not months, Calhoun said. “The COVID-19 pandemic is affecting every aspect of our business, including airline customer demand, production continuity, and supply chain stability.”

Help needed

In dealing with the pandemic, Boeing is in similar straits to its main competitor, the European plane maker Airbus. On Wednesday, The Wall Street Journal reported that Airbus is also focused on “cash preservation” as it deals with a sharp decline in demand for new jet liners.

During his call, Calhoun noted that 26 countries have announced support packages worth more than $100 billion, specifically targeting the aerospace and airline industries. The aerospace industry, he said, supports 3.6 percent of the global GDP and 65 million jobs worldwide.

“We believe that government support will be critical to ensuring our industry’s access to liquidity,” Calhoun said. “We continue to evaluate options in the capital markets as well a funding options via the US Treasury and various Federal Reserve programs.”

Boeing has also taken other “aggressive” steps to ensure its financial stability, Calhoun said, including drawing down on loans, suspending dividend payments, ending share repurchasing, and deferring spending. Significantly, Calhoun said Boeing will reduce its workforce of 160,000 people by 10 percent through layoffs and attrition by the end of 2020. Cuts will be deeper in its commercial airlines division and less so in defense and space, where the company’s financial numbers were less dire. The company’s stock value rose Wednesday after the announcement.

Space losses

Boeing will seek to begin recovering this year by resuming production of the 737 Max jet and reaching rates of 31 per month in 2021 as demand returns. Calhoun said Boeing anticipates that regulatory approvals will allow Boeing to

resume delivering the fuel-efficient jet to customers by the third quarter of 2020.

Boeing’s defense and space segment, which accounts for one-third of its portfolio, also saw losses in the first quarter of the year due to an $827 million charge on the KC-46A Pegasus tanker, largely due to costs associated with its vision system. Boeing also set aside $410 million early this year to refly its Starliner spacecraft, without crew, after a number of problems with the vehicle’s initial test flight last December.

“It is the right thing to do for our NASA customer and the astronauts who ultimately fly on it,” Calhoun said of a second Starliner test flight, although he did not set a date for the second mission. It is unlikely to occur before the fourth quarter of 2020.

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