

# Is It the End of Market Dominance for Boeing?

As one-half of the duopoly in the large jetliner industry, US aerospace giant Boeing has dominated the market along with the EU-based Airbus. However, recent events may put an end to the position Boeing has enjoyed for years.

The company's woes started with two fatal 737 MAX aircraft crashes in Indonesia and Ethiopia. One suspected cause, according to a recent investigation, is flawed software. For four months and counting, all MAX 737 aircraft have been grounded internationally while Boeing re-engineers the aircraft. As the massive costs linked to the tragic events escalate, Boeing said it is thinking of dropping the MAX 737s altogether.

## **Boeing's financials enter tailspin**

Boeing's fall from grace is all the more remarkable given that its shares had posted a record high of \$440.62 on March 1, just over a week before the tragic Ethiopian Airlines crash, and have since fallen by over 20%.

In its second-quarter earnings report, Boeing took a \$5.6 billion pretax charge on the MAX 737 grounding and related concerns such as lawsuits started by the crash victims' families. The company reported negative cash flow for the second quarter of 2019, burning through over \$1 billion in cash during this period.

On top of that, Boeing delivered 90 commercial aircraft in Q2 compared to 194 in the same period last year, a dramatic drop of 54%. Boeing's Q2 earnings showed a record loss of \$2.9 billion versus \$2.2 billion net profit for the second quarter in 2018, while its debt levels rose from \$14.7 billion to \$19.2 billion by the end of Q2. However, the company has cash and investments in marketable securities amounting to \$9.6 billion and says this ensures strong liquidity.

## **Boeing's woes may spill over into broader US economy**

Due to its sheer size, Boeing is systemic to the US jetliner industry and its weakened state may even have a slight knock-on effect on the American economy.

Boeing currently has a waiting list of 4,415 orders that have yet to be met, which is disrupting industry players plans. Southwest Airlines and Fly Dubai have ordered the most 737 MAX aircraft, expecting a combined 531 Boeing aircraft between them, out of which around 30 have been delivered but are now grounded.

Southwest Airlines has been heavily impacted, most recently announcing that it is ceasing operations at Newark Liberty Airport because of the delays in the 737 MAX deliveries. Large airlines like United have decided to cancel 5000 more Boeing 737 MAX flights until the beginning of November. American Airlines confirmed it also lost \$400 million in revenue in the second quarter because of the 737 MAX grounding and foresees more flight

cancellations well into the third quarter.

### **Will the turbulence end soon?**

Although demand for the 737 Max is still evident in the industry, judging by commitments from the likes of British Airways and Southwest, Boeing's near-term fortunes are however in the hands of regulators who will have to decide whether the jetliner can return to the skies in Q4.

Should the global flying ban on the model remain in place going into 2020, Boeing CEO Dennis Muilenburg warned that the company may be forced to temporarily stop producing the 737 Max. Such a scenario could trigger cost-cutting and consolidation, noting that Boeing and its subsidiaries employ just over 153,000 people, a percentage of which could face unemployment.

As Boeing continues to wrestle with such challenges, perhaps the clear winner here is Airbus, which is set to overtake its US counterpart to become the world's biggest planemaker for the first time since 2012.

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