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# THE BOEING MACHINIST STRIKE

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KONRAD BLOCHER  
VP | STRATEGY & SUSTAINABILITY



## The Boeing Machinist Strike

On September 13, 2024, more than 33,000 machinists at Boeing went on strike, the first by the union since 2008. According to the International Association of Machinists and Aerospace Workers, 95% of workers voted to reject a contract promising a 25% pay raise over 4 years and 96% voted to approve the strike, surpassing the two-thirds threshold required for industrial action. The strike has halted the production of Boeing's commercial aircraft.

At 2024 delivery rates, estimated using REDBOOK Fleet+ data, the current work stoppage costs Boeing between 6 and 7 B737MAX and 1 B787 delivery each week. This exacerbates the aircraft shortage problems facing the industry now and in the future – a topic discussed in some of our previous insights.

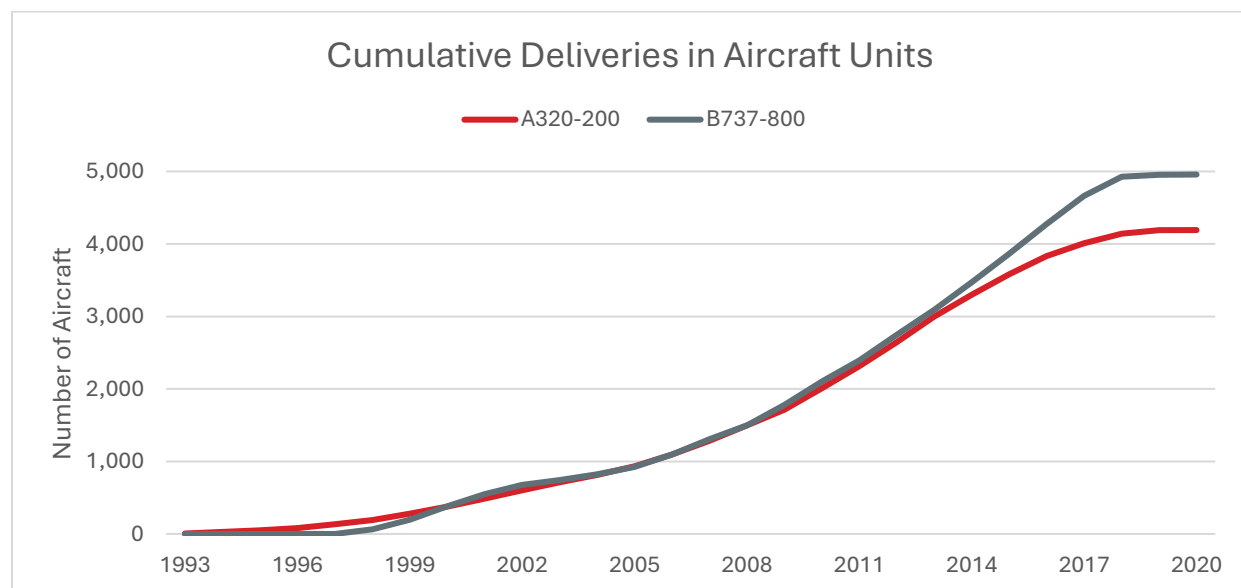
### 2008 Strike

The strike is similar to the 2008 strike by about 27,000 machinists at Boeing over outsourcing, job security, pay, and benefits that began on September 7, 2008, and lasted for 8 weeks, costing the company ca. 64 B737-NGs (mostly -800s) and 16 B777s (mostly -300ERs) that ended up never being built.

The 80 aircraft did not have a significant impact on the industry as a whole as the economy was in the midst of the Global Financial Crisis and lower aircraft deliveries helped Boeing manage their skyline. The industry delivered 1,036 aircraft in 2007, 1,044 in 2008, and 1,105 in 2009 – the NG went on to deliver another 4,100 units from 2009 to the end of production in 2020. While there has been no impact on long-term values or rentals for the types affected, there was an interesting impact to market rents a few years later.

Overall, the market considered the A320-200 and B737-800 as very similar aircraft in terms of their operating abilities as utility to the industry. After making up for the A320's production head start, the -800 was delivered at the same pace until about 3,000 units each in 2014 when the production mix at Airbus shifted from 15% A321 to 50% A321 giving the -800 an advantage in the overall sales.

The airlines treated them similarly and consequently, the investors did too, regardless of the differentiation tactics employed by the manufacturers trying to highlight how one was better than the other. From the point of view of market liquidity and long-term behaviour of base values and rentals, the A320-200 and the B737-800 were similar aircraft from 2004 to 2017.

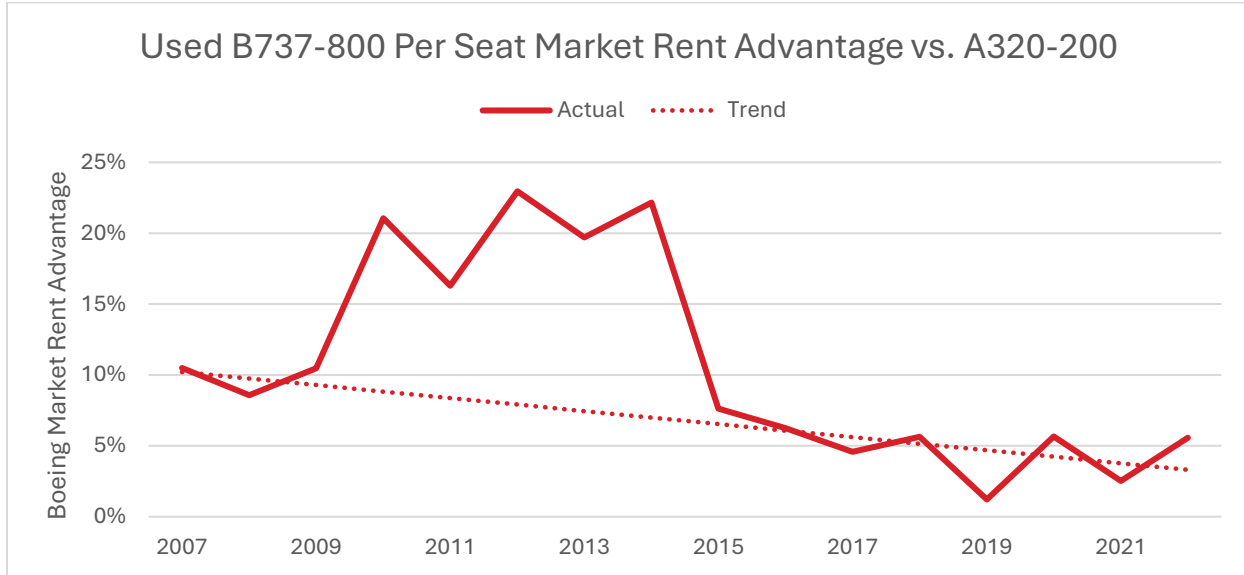


Source: mba analysis, Redbook Fleet+

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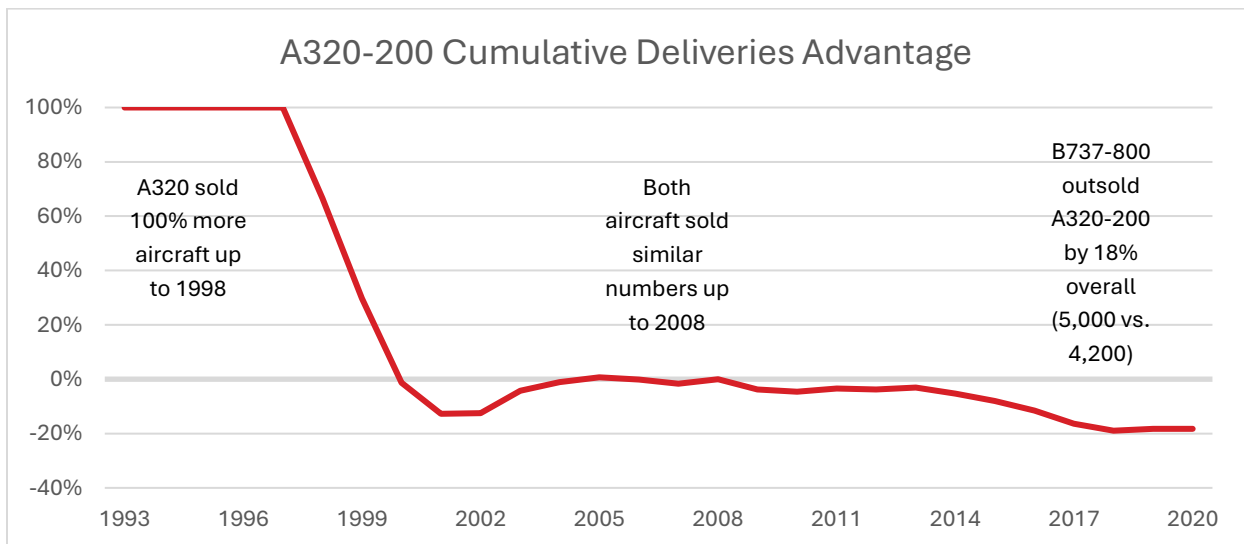
## Rental Differences

But something else was happening to market rent front. From 2009 to 2015 there was a noticeable difference between how much Boeing 737-800 was yielding in market rents vs. the A320-200 and that difference could not be explained by the size of the aircraft.



Source: mba analysis, Redbook

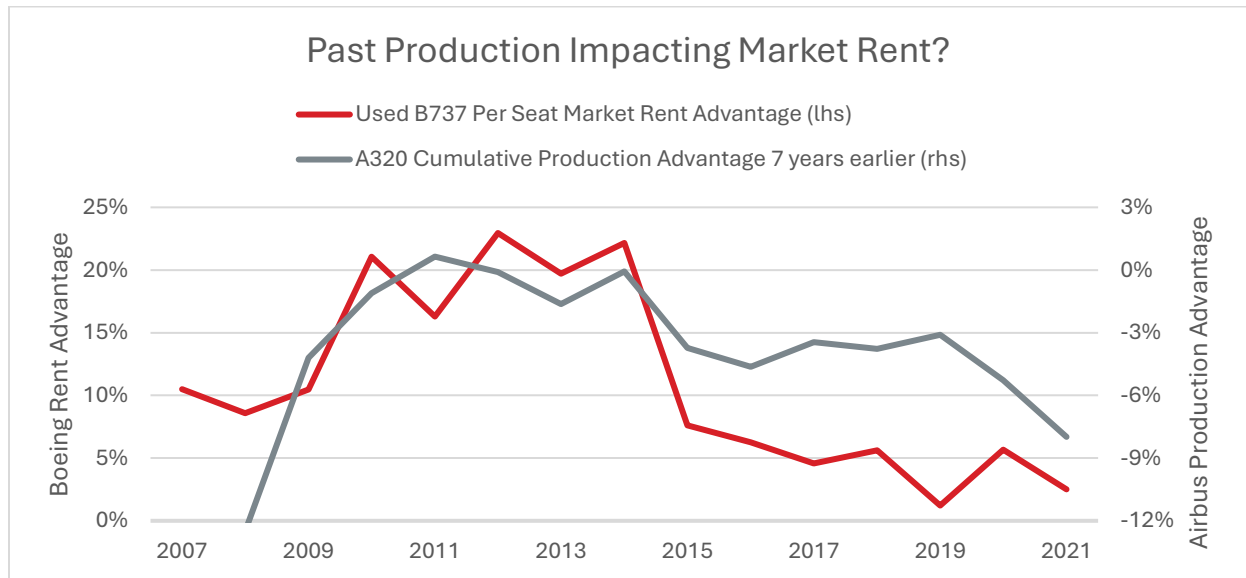
That difference was being highlighted in weekly marketing meetings within leasing companies and salespeople struggling to place used assets in a slowly recovering market would quote the fact that there was less competition among lessors with B737-800s vs. the A320-200 – there were less used Boeing aircraft being on offer then. Were they correct in their anecdotal assessments?



Source: mba analysis, Redbook

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The average age after the first lease at the time was 7 years old. This was a time of shorter leases than what we have been seeing since ca. 2016 when the average lease term became 12 years. So, would it make sense to look at cumulative production from 7 years earlier to explain market conditions now?



Source: mba analysis, Redbook, Fleet+

### Findings

There is a clear relationship between those two phenomena with a correlation of 62%; there also seems to be at least a hint of a theoretical causal relationship – after all less deliveries means less used aircraft and less competition between lessors. The overall trend of Boeing selling more aircraft in total coincides with the -800 per seat rent advantage eroding over time as well, further strengthening the case that past production drives future market rents – at least to some extent.

We can summarise that the 2008 strike had a non-obvious impact on B737-800 from the perspective of an aircraft investor – if they were able to get their hands on the aircraft in the first place, they faced lower competition in re-leasing and were able to achieve slightly better returns because of that.

There are significant differences between the market in 2010-15 and now. Firstly, 2010 saw a systematic oversupply of aircraft that lasted for a long period of time after the 2008 strike. We saw useful economic lives declining and lessor returns compressing. This is the opposite of what we are seeing now – the post-COVID surplus has been wiped away by relative lack of deliveries and that undersupply will continue well into the end of this decade. Boeing is currently missing out on significant revenue potential in a market hungry for deliveries. Secondly, the market never lost faith in the long-term viability of the B737-800 as an asset (including as an investment). The strike was a blip in an otherwise stellar performance of the asset. A blip that lasted 8 weeks and went away. This is not the case today. The neo family has significantly outdelivered the MAX family by 3,500 to 1,600 units to date. Both the A320neo and the A321neo have delivered more units than the MAX-8 (2,050 and 1,475 vs. 1,400 units, respectively). If there is a marked difference between neo aircraft and MAX-8 in terms of liquidity, this will have long-term consequences on base values and lease rentals. The unresolved work stoppage is not helping, and we will see its impact for years to come.

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**mba Aviation HQ - Washington D.C.**

2101 Wilson Boulevard, Suite 1001

Arlington, Virginia 22201

+1 703-276-3200

[www.mba.aero](http://www.mba.aero)

[mba@mba.aero](mailto:mba@mba.aero)

**mba Aviation Europe - London**

Berkeley Square House

Berkeley Square

+44 207 887 6010

[www.mba.aero](http://www.mba.aero)

[mbaeurope@mba.aero](mailto:mbaeurope@mba.aero)