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BRACE FOR A HUGE AEROSPACE HIRING CRUNCH

Firing workers during the pandemic was hard; getting them back for the recovery will be harder and more expensive for companies from Boeing to GE.

By Brooke Sutherland
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Aerospace manufacturers need to start preparing for a labor crunch.

This time last year, the biggest makers of planes and their components were in layoff mode as the Covid-19 pandemic brought air travel to a virtual standstill and crippled demand for new jets. But with more than 2 billion vaccines now administered worldwide, passenger demand has rebounded and airlines have renewed interest in expanding their fleets to accommodate the snapback.

Southwest Airlines Co. this week topped up its order for the smallest version of Boeing Co.'s 737 Max and said it now expects to spend about $1.5 billion on aircraft next year, more than double its previous projection. United Airlines Holdings Inc., meanwhile, is eyeing a revamp of its fleet that may include an order of at least 100 Max jets, Bloomberg News reported Thursday. Boeing recorded its fourth consecutive month of orders outpacing cancellations in May, even as the company continues to struggle with delivery pauses.

Airbus SE, Boeing's main competitor, has laid out plans to exceed its pre-Covid production pace for its best-selling A320 series by 2023. That aggressive timeline raised eyebrows among analysts but may reflect a desire to kick the supply chain into gear. It's easier said than done. Aerospace suppliers – particularly engine manufacturers – already struggled to keep up with ever-increasing production targets from Airbus and Boeing before Covid, and airlines regularly complained about quality control hiccups and delivery delays. Those issues will be compounded by the pandemic whiplash effect, particularly when it comes to rehiring workers.

While government aid helped keep thousands of airline employees on the payroll, factory workers weren't granted the same protections, so aerospace companies relied heavily on layoffs to cut costs and preserve cash during the rout in air travel. U.S.-based aerospace and defense companies have announced more than 115,000 job cuts since the World Health Organization declared the Covid-19 outbreak a pandemic last March, according to data compiled by Challenger, Gray and Christmas Inc. With the debate in the aerospace market now shifting from whether there will be enough passengers to whether there will be enough planes, there's a risk that companies cut too close to the bone.

Boeing and engine manufacturers General Electric Co. and Raytheon Technologies Corp. alone targeted about 65,000 jobs for elimination during the pandemic. The companies have signaled that a good chunk of those cuts will be permanent as they improve manufacturing processes and invest in automation. But they will inevitably need to hire engineers and factory workers again. Raytheon, for example, has previously said about half of the jobs it eliminated in its commercial aerospace divisions will come back. And when these industrial giants do return to the labor market, they'll face stiff competition not only from other manufacturers but also from other corners of the economy.

U.S. job openings surged to a record 9.29 million in April, almost enough for each one of the 9.81 million unemployed people in America as of the same month, according to Bureau of Labor Statistics data released this week. In the manufacturing industry in particular, unfilled postings have been steadily climbing and reached 851,000 in April – also a record. Companies including ITT Inc., Carrier Global Corp. and Dover Corp. complained of difficulty hiring people on the most recent round of earnings calls. With so many options, some 284,000 manufacturing workers quit their jobs in April, the most since January 2001, BLS data show.

Against that backdrop, it's tough to imagine many qualified employees being keen to favor the aerospace manufacturers that dumped them when the going got tough. It doesn't help the sales pitch that Raytheon prioritized a $2 billion share buyback this year over keeping more workers on the payroll and GE rejiggered the terms of CEO Larry Culp's pay package to make it easier for him to access a one-time equity award worth as much as $230 million.

To draw back workers, aerospace companies are going to have to pay up. Wages in the manufacturing industry climbed 4.8 percent in March compared with those a year earlier – but they jumped nearly 6 percent for those who were changing jobs, according to the ADP Workforce Vitality Report. With so many positions that will need to be filled and skilled labor in high demand elsewhere, aerospace manufacturers may be more vulnerable to wage inflation than others who were more surgical with their cuts. In the scheme of things, this is a good problem for the industry to have; after all, a recovery definitely beats the darker days of the pandemic. But the path back to prosperity will have its own set of challenges. Companies don't seem worried enough yet about the looming hiring pinch.