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# Leaving on a Jet Plane: The post-Boeing economy

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Leaving on a Jet Plane: The post-Boeing economy

It's time to contemplate what a diminished Boeing presence will look like — and whether we're prepared for it.

Bill Virgin

Roberto A. Sanchez

 [boeing.jpg](#)

Every time the state's biggest private employer has gone into one of its periodic slumps, the Puget Sound region has reassured itself with this comforting mantra: We're not as dependent on Boeing as we used to be.

For several decades, it has proven to be true. While the "last person out of Seattle" Boeing bust of the early 1970s resulted in double-digit-percentage unemployment in the region, subsequent downturns have been muted by growth in other industries, so the overall economy tends to stall or plateau, rather than plunge into full-blown recession.

Now the region is about to test that reassuring mantra again — but this time on a permanent basis.

In ways prominent and small — moving corporate headquarters to Chicago, setting up a second 787 assembly line in South Carolina, dispersing engineering work on the 777X — Boeing has been distancing itself (figuratively and literally) from its corporate birthplace. The threatened move of the 777X program from Everett to somewhere else, significant as it might have been, is but one piece of a broader trend in which what was once unthinkable has now moved beyond possible and is headed rapidly toward probable.

Boeing may not be around to prop up the economy. And if that happens, what kind of economy are we left with?

It's not as though the region hasn't been warned before, and the recent travail over the 777X was the latest and bluntest reminder that aerospace's dominance in the region is not permanent. As far back as 1991, former CEO Frank Shrontz warned the Seattle Chamber of Commerce of an "aerospace Rust Belt, complete with padlocked factories, unemployment lines and urban blight."

While manufacture of a new composite wing on the 777X may actually spur some hiring locally, that uptick shouldn't obscure the possibility that what has happened in other industrial cities could happen here.

Bruce Mann, economics professor at the University of Puget Sound in Tacoma, says Seattle should have recognized the possibility of a Boeing-less economic future simply by looking around. "These things happen all the time," Mann says. "Transitions occur."

The city need look no further than its municipal neighbor one county to the south. "Seattle will be transformed just as Tacoma was transformed when it lost the aluminum industry, the timber manufacturing industry, the smelter," Mann explains.

Or this area could look to the Southeast, a region that lost traditional industries like textile manufacturing but gradually replaced them with automobile assembly (to Detroit's consternation) and, more recently, aircraft manufacturing (to Seattle's consternation).

No one predicts a Detroit-like future for the Puget Sound region — yet. "Can we survive?" asks Mann. "Absolutely."

Michael Luis, a former mayor of Medina and economic development official who last year published an economic history of the region, *Century 21 City*, adds that it's "not a question of are we going to grow, because we're going to grow. It's a question of what kind of economy do we want to have. What kind of place do we want to be?"

Thus, the underlying and most significant part of the story about the Northwest's post-Boeing future is not whether it's going to occur or why it's occurring, but what the consequences will be.

There will be consequences, but they won't be uniform geographically or across the area.

"Seattle" — a term that tends to be used interchangeably to mean the city itself as well as the region — should do well, as far as the immediate city is concerned. So should the Eastside tech corridor. A combination of professional services, high tech and health care/biotech should keep those local economies healthy.

The problem is that those industries don't generate the sorts of jobs that Boeing does. The transformation "will hurt in the short run," Mann predicts. "Boeing will leave behind many workers who are skilled in a particular industry that won't be here anymore." This is not good news for subregions like the Kent Valley or Everett and south Snohomish County, which are heavily populated with employees of Boeing and its suppliers.

Peter Glidden, regional president of BMO Private Bank in Seattle and a longtime follower of the regional economy, says we're hardly alone. "Both Seattle and the Eastside have become pretty pure reflections of the so-called service economy, which has been the trend in this country for 40 years," Glidden notes. While the Puget Sound economy in the aggregate may continue to appear prosperous and growing, that situation won't be the case for workers, families and areas reliant upon what has traditionally been



thought of as blue-collar work. “Behind the scenes,” Glidden says, “the survival of good manufacturing jobs is critical to the vibrancy of the economy.”

Wrenching Decision. A Boeing mechanic checks the GE engine on a 777 aircraft in Everett.

Employment Security Department data show that in the first quarter of 2013, transportation equipment manufacturing not only generated a lot of jobs at a lot of companies — more than 106,000 at more than 400 firms, although the data would likely include more than just airplanes — but also a lot of income for those workers, an average weekly wage of \$2,110. The average for all retail trade sectors: \$648 a week.

“There will be a transition period of reabsorbing those people,” Mann says. “There will be a transition period of people gaining access to the labor force, of people realizing they’re going for the wrong set of skills and moving over to get more general education or whatever the computer industry needs or the biomedical industry needs. There’ll be a transition cost.”

Mann continues: “There will be a different income distribution. That’ll be the biggest hit over time. Middle-class, middle-wage, the better-skilled blue-collar jobs will be disappearing fairly rapidly at that point.”

That development will make transitions in the labor market fairly difficult. “You could start as an apprentice machinist at Boeing and make real good money in 10 or 15 years and be in great shape,” Mann explains. “You can’t do that at Microsoft. You can’t go in as the mail boy and go out as the supervisor of the Office coding group. It doesn’t work that way. It changes the dynamics of the labor market and that will be a problem.”

What results from the loss of those jobs that pay well, Luis says, is that Seattle becomes “a junior San Francisco, or to some extent, what Vancouver (B.C.) has become: a very nice place to live, a great place for knowledge industries but not a great place for manufacturing. ... You lose that middle where Boeing can afford to pay machinists well because each machinist produces a lot of value. A restaurant can’t afford to pay that much because each person isn’t producing that much value.”

Luis adds: “It’s going to be a different kind of place, more San Francisco or Boston-ish than what we’ve been accustomed to, because we’ve been fortunate to have this layer of really well-paid employment for people who would not be classified as ‘knowledge workers.’”

Just how this plays out and how dramatic those consequences turn out to be depend on several factors. One is how long it takes Boeing to shift the bulk of its production elsewhere, and how much of it goes away. While the decision on the 777X is good news, it’s a short-term fix. Scott Hamilton, managing director of Leeham Co. and the region’s leading analyst on the aerospace industry, published a chart on his blog tracking the production timelines for Boeing’s current and prospective commercial jet models. His read on Boeing’s future in the Puget Sound region, as summarized in the blog post headline: “Bleak.”

Production of the 737 Max, which will be built in Renton, and the 787, which is built in Everett and in South Carolina, is scheduled to run to 2030. Hamilton says industry consensus is that the 737’s replacement will be built elsewhere and that as demand wanes for the 787, the brunt of production curtailments will fall on Everett.

That prediction is not good news for Boeing workers, nor for its supplier firms or the people who rely on them, even if they’re not in aerospace. Randy Gardiner is president of Red Dot Corporation, a Tukwila manufacturer of HVAC systems for heavy-duty vehicles. “Red Dot has

zero Boeing business but we have Boeing suppliers,” Gardiner notes. Some of those Boeing suppliers have half or more of their business tied up with Boeing. “Our interest,” Gardiner says, “is that our supply base remains healthy.”

Suppliers are feeling the pressure because they have to decide whether to go where Boeing goes, try to serve it from their current locations or go look for other work entirely, all of which have implications for the local economy and workers. As Gardiner frames the dilemma for suppliers: “Growth with Boeing is questionable in this region; how does a regional supplier to Boeing protect itself and grow its business? If you’re not there [where Boeing moves to], guess what? There’s going to be a supplier that does exactly what you do for them.”

Not everyone is convinced that a post-Boeing economy sounds the death knell for aerospace-related manufacturing in this region. “We can’t all just pick up and leave,” says Rosemary Brester, president of Hobart Machined Products. “The work is still going to be there. It’s not going to happen overnight. We’ve got plenty of time to plan if they choose to leave.”

One reason for her optimism is a belief that aerospace is far more than Boeing. Between military work, satellites and rockets, aerospace “is still going to be strong in the United States. That isn’t all going to go away,” and companies like Hobart can get it. “I’m optimistic,” Brester says, “but I’m optimistic in the sense that you have to do your own outreach to find out who needs your services. It doesn’t matter where you’re located, you just have to be connected to the right companies.”

She also believes this area still has an advantage in its years of cumulative training, experience and skills built up at aerospace suppliers and machine shops. Would-be aerospace regions like South Carolina “need to develop educated people to go to work at companies like ours,” she points out. “The skill sets aren’t there.”

Those skill sets in aerospace, she adds, can be utilized across all industries for manufacturing. Hobart Machined Products has a medical division that exports to South Korea. “We have a diverse customer base,” she says.

This situation gets to the larger question of whether not just workers and companies but the region as a whole can backfill the economic hole created by a diminished Boeing presence — and what that backfill would be.

Some wonder if manufacturing will even be part of the picture. “If you look at industries that have that profile of a Boeing machinist, I’m not sure we can find one,” Luis says. “We have this dilemma that manufacturing is expanding in this country with very few workers. There’s huge amounts of automation.” The corollary message may be to “take good care of the ports because they’re the second bulwark of that part of the economy.”

“It’s just a reminder that it’s very difficult for Washington state to be competitive for heavy manufacturing,” adds John Boyd, a principal of The Boyd Co., Princeton, New Jersey-based location consultants. “The competition from right-to-work states is just very intense.”



Staying Home. The 777, which is assembled in Everett, is expected to have a lifespan of at least 12 more years. Recent union concessions seem to have assured that production of its next iteration — the 777X — will continue in Everett.

Gardiner, however, thinks the region's manufacturers will still be in demand, especially for the high-precision, high-tech expertise that years with aerospace helped generate. But, he adds, "I can't predict where that's going to be and how that's going to evolve."

Nor can anyone else, beyond tossing out some of the usual and not-so-usual suspects for driving growth and generating employment, many of which have challenges of their own — the ports (competition from other ports), Microsoft (competition from Google, Apple, Amazon, etc.) mobile applications and gaming (prone to boom and bust cycles), leveraging the educational cluster (other regions like Boston, the Bay Area and Research Triangle Park have bigger concentrations of higher ed), Amazon and even Paul Allen's various ventures. "Given our location, it's going to be hard coming up with something large scale," Luis says. "It's going to be more specialized stuff."

"Seattle can't be all things to all industries," notes Boyd. "You've had great success in identifying target industries in recent years," especially in information technology. He recommends recruiting more corporate headquarters, particularly from Canada.

Beyond all those other issues is a big one: Does the region even, or finally, recognize what is coming? There's some doubt of that, given the number of times the phrase "wake-up call" has been used in the wake of successive Boeing announcements. "There's a real problem with crying wolf," says Luis, who was at the Shrontz speech in 1991 and still has a copy of it. Boeing continued to grow locally despite Shrontz's warnings. "How many times can you go through that," he muses, "before there's a lot of skepticism?"

But history, industry realities and Boeing's own pronouncements suggest the trends are not on the Puget Sound region's side. Notes Mann, "The forces keeping them here are incredibly weak and the forces pushing them out are growing stronger."

Can Boeing be replaced? "No. Nothing can replace Boeing. It is a world-class company and a world-class marquee," Glidden says. "The move of the headquarters was hugely impactful to the psyche of Puget Sound, as was the decision to move manufacturing."

Can we cushion the impact?

Glidden says yes, we can. For hundreds of thousands of workers and their families, in and out of aerospace, how soft the cushion is will depend on whether the region can come up with answers to this question: "What do we want our economy to look like and be based on?"

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## Manufacturing

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