Signal From Noise

August 24, 2023

Stock Prices During Recent Labor Strikes

On Tuesday, August 22, 2023, UPS workers – specifically, members of the Teamsters union – formally voted to approve a new contract that would include significant pay raises, an end to forced overtime, and air conditioning or cooling gear installed in all trucks. (The last one was a major objective for the employees, as delivery-van interior temperatures during summer months can routinely exceed 120°F, or 48.9°C). The five-year deal, tentatively reached on July 25, definitively puts an end to a serious potential risk to the U.S. supply chain. Federal statistics suggest that UPS is responsible for shipping approximately 5% of US GDP. On a daily basis, it handles about $3.8 billion worth of goods. By the end of the contract in five years, the average UPS driver will be earning $170,000 in compensation a year, including pay and benefits.

It has been a busy year for labor action. At the time of publication, Hollywood remained shut down amidst dual strikes by the actors' union (SAG-AFTRA) and the writers' union (Writers Guild of America). This is the first time both unions have struck at the same time since 1960. (The head of SAG at the time was future President Ronald Reagan.)

Meanwhile, with their existing contract set to expire on September 14, 2023, employees of General Motors ($GM), Ford ($F), and Stellantis ($STLA) cast votes this week on the issue of whether to authorize United Autoworkers to call strikes if negotiations fail before then. The UAW has demanded 46% pay increases, the restoration of pensions for new hires, and additional benefits. They are also seeking promises that manufacturing jobs will continue to be done by UAW members as the companies transition to electric vehicles. Assuming strikes are authorized by members, UAW could opt to target just one company or call for work stoppages at all three. The UAW represents about 146,000 workers at the three carmakers.

The Bureau of Labor Statistics reported that at the end of July, more than 201,000 Americans were on strike or work stoppage. (Note that the BLS only tracks work stoppages involving 1,000 workers or more.)

Month	Number of stoppages beginning in the month	Number of stoppages in effect in the month	Number of workers beginning in the month [1]	Number of workers in effect in the month [1]	Days idle beginning in the month [1]	Days idle in effect in the month [1] [2]	Days idle as a percentage of total
January	1	2	7,000	8,000	21,000	34,000	[4]
February	0	0	0	0	0	0	[4]
March	2	2	67,200	67,200	199,400	199,400	0.01%
April	3	4	11,450	13,650	52,450	96,450	[4]
May	3	4	16,200	18,400	271,000	319,400	0.01%
June	5	8	13,600	29,000	71,800	376,500	0.01%
July	2	6	179,950	201,050	1,965,000	2,273,000	0.07%
Footnotes:							
[1] The figures are rounded to the nearest hundred. Figures provided by organizations involved may be rounded prior to publication by BLS.							
[2] The cumulative length of the work stoppage as measured in weekdays, Monday through Friday, excluding weekends and Federal holidays.							
[3] Calculated by dividing total work days in month by days idle, in effect (column G).							
[4] Less than 0.005 percent of total estimated working time.							
Source: U.S. Bureau of Labor Statistics, Work Stoppages Program.							

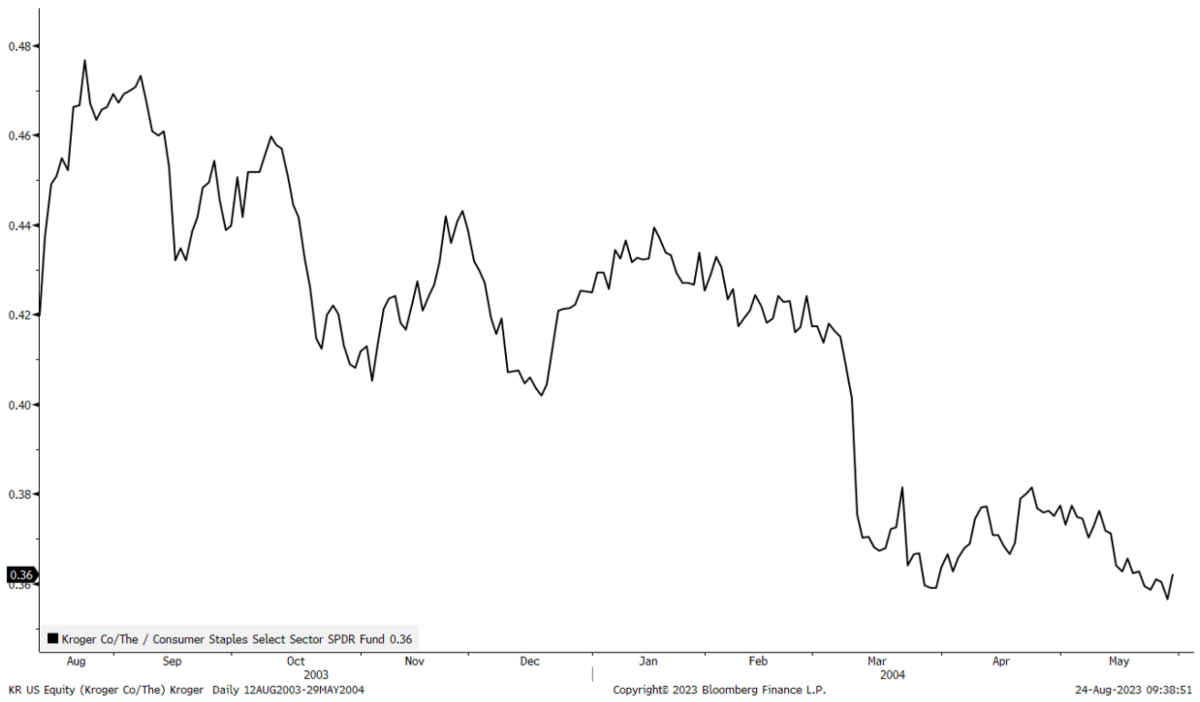
Recently, Head of Research Tom Lee wondered aloud about whether the UPS agreement – with pay increases that were bigger than expected – might affect future PPI numbers, as well as consumer and Fed expectations about inflation. That is not a question we are prepared to answer at the moment, but the number of high-profile labor-union actions this summer led some of us to wonder how the stock prices of companies affected by major labor strikes fluctuate in the months before and after the strike and its resolution.

Here are nine of the largest major labor strikes that directly targeted publicly traded U.S. companies in the past 20 years, as measured by days of work affected by the work stoppage. This is calculated by multiplying the number of workers participating in the strike by the number of days they would have worked if not on strike. Often, this does not actually reflect lost productivity at the company, as non-union workers are often brought in to help cushion or even reverse the impact to operations during such work stoppages.

Kroger ($KR), Albertsons, and Safeway – 2003-2004.

From October 12, 2003 to February 29, 2004, roughly 67,300 employees at Southern California locations of several supermarket chains owned and operated by Kroger ($KR), Albertsons ($ACI) and Safeway, went on strike or were locked out. The dispute began when employees at Safeway's Vons and Pavilions grocery chains walked out over pay- and benefits-related disagreements. Albertsons and Kroger's Ralphs stores then locked out UFCW workers as part of a joint negotiating strategy. The strike ended when the workers agreed to lower base salaries, lower holiday pay, and no personal days in exchange for the establishment of a pension fund and only nominal employee-contribution increases for health benefits. Observers noted an unexpectedly high level of public support for the striking workers, with many shoppers opting to boycott the affected stores and buy groceries elsewhere. Relative to other companies in the Consumer Staples sector, Kroger shares performed better leading up to the strike and worse after it ended. [*Editor's note: Albertsons acquired Safeway in 2015. In 2022, Albertsons ($ACI) agreed to be acquired by Kroger, but as of this writing, officials from at least seven states have asked the FTC to block the merger based on its potentially negative impact on wages and workforce competition.*]

Kroger ($KR) / Consumer Staples ($XLP) Relative Performance
08/12/2003 – 05/29/2004

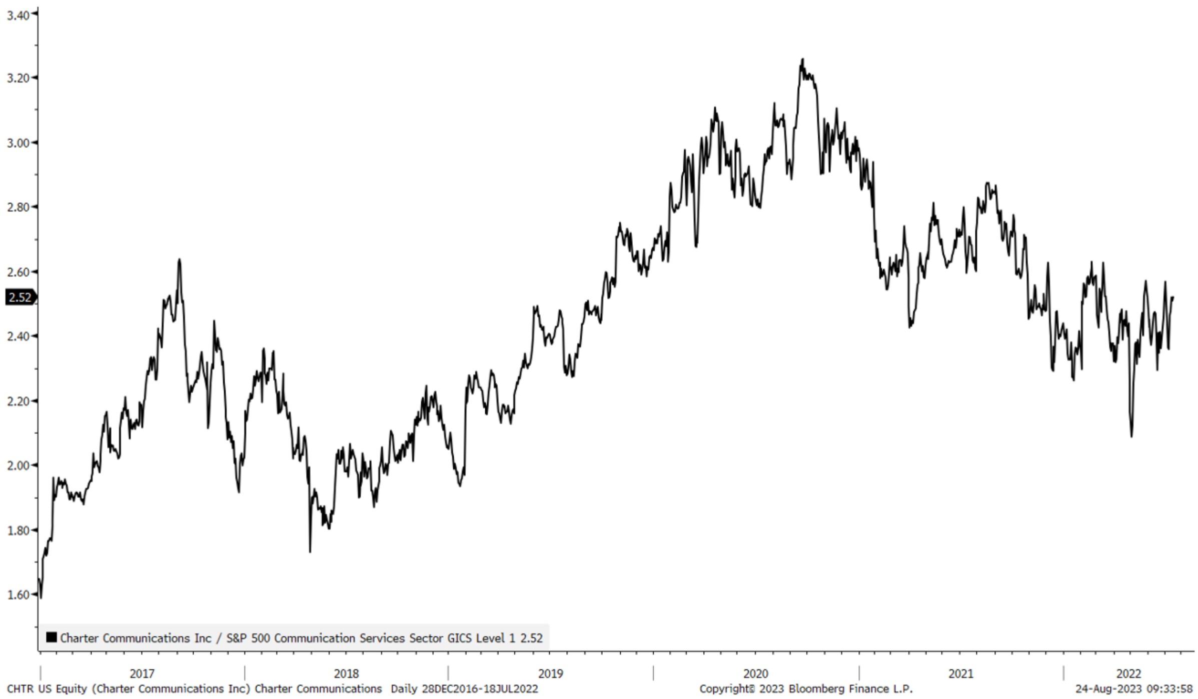


Source: Fundstrat, Bloomberg

Charter Communications ($CHTR) – 2017-2022

After Charter Communications' 2016 acquisition of Time Warner Cable (now known as Spectrum), the company sought to take over management of unionized workers' health-insurance and pension plans, over the objection of the International Brotherhood of Electrical Workers, which was overseeing them. After the takeover, Time Warner employees became disgruntled, alleging that Charter had instituted unfairly harsh disciplinary rules in violation of their existing contract. On March 28, 2017, 1,800 IBEW members walked off the job. Officially, the strike did not end until five years later, and Charter claimed that 2,284,200 days of work were impacted – though this number does not reflect how readily the striking workers were replaced. During most of the strike, few if any negotiations took place, and many employees complained that their own union had kept them in the dark about the progress of the talks. By the time the strike officially ended on April 18, 2022, most strikers had either returned to work or found other employment due to economic hardship. The only significant result of the strike was that the IBEW agreed it would no longer represent Spectrum employees. On an absolute basis Charter shares rose steadily during this period, and they generally improved their performance relative to the Communication Services sector.

Charter Communications ($CHTR) / Comm Services Relative Performance
12/28/2016 – 07/18/2022



Source: Fundstrat, Bloomberg

General Motors ($GM) – 2019

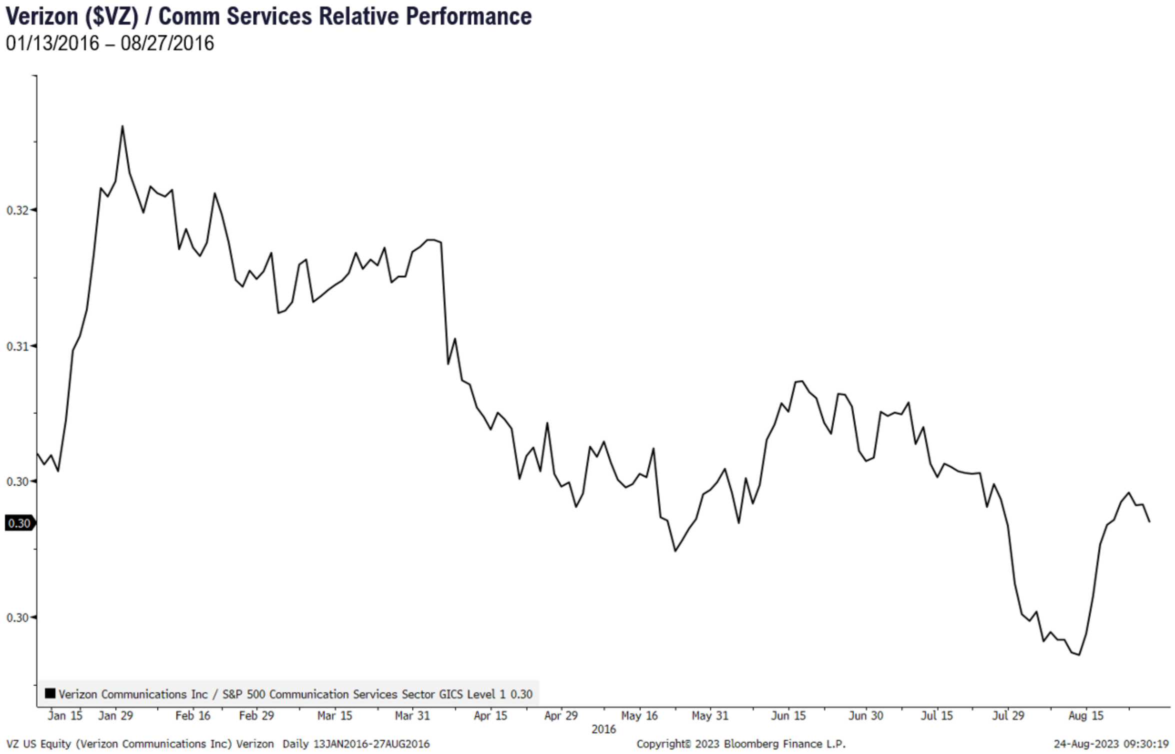
Approximately 1,334,000 days of work were affected after roughly 46,000 GM employees walked off the job between September 16, 2019 and October 25, 2019. Workers sought redress for concessions they had made to help the automaker secure a government bailout and survive the 2008 Global Financial Crisis. With the company having recovered, employees wanted increased job security, a pathway for temporary workers to become permanent, better pay, and healthcare benefits to be maintained rather than reduced. GM reportedly lost $2 billion due to the strikes. Relative to the Consumer Discretionary sector, GM shares performance generally fell before, during, and immediately after the strike. On an absolute basis, the stock fell sharply during the first half of the strike, retraced that decline over the next few weeks, and then resumed falling.

General Motors ($GM) / Consumer Discretionary ($XLY) Relative Performance
06/16/2019 – 01/25/2020

Source: Fundstrat, Bloomberg

Verizon Communications ($VZ) – 2016

In 2016, about 40,000 Verizon employees, part of the landline and Fios Internet divisions, went on strike. The strike began on April 13, 2016 when members of the International Brotherhood of Electrical Workers and the Communications Workers of America walked out over support services being outsourced to overseas call centers and proposed cuts to pensions and benefits – the last being an issue carried over from a strike in 2011 (see below). It ended May 27, 2016, resulting in 1,204,500 workdays affected. Verizon agreed to create more domestic call-center and network technician jobs and to maintain pension and disability benefits at existing levels. However, it won concessions in the restructuring of healthcare benefits for employees and retirees. Analysts estimated that the strike cost the company approximately $200 million in earnings. Relative to the Communications Services sector, Verizon shares declined during this period.

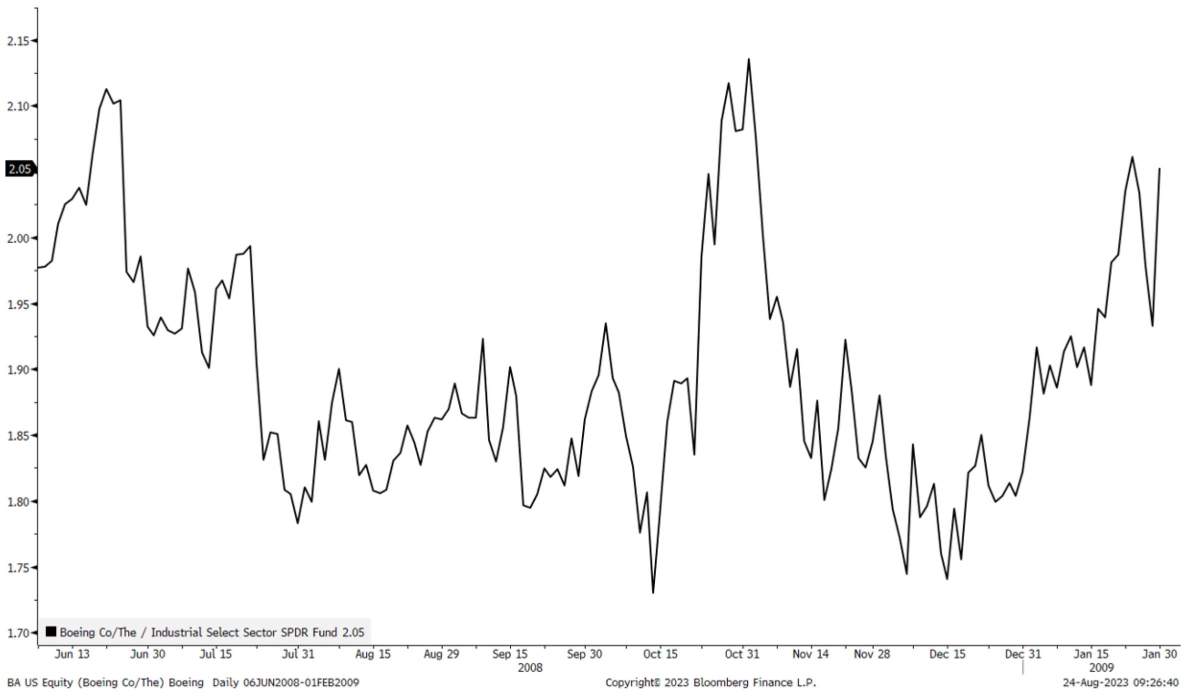


Source: Fundstrat, Bloomberg

Boeing Company ($BA) – 2008

From September 6, 2008 to November 1, 2008, 27,000 workers went on strike at Boeing Airlines, leading to 1,053,000 workdays affected. The work stoppage cost Boeing an estimated $1.5 billion, pushing it to agree to give the workers pay raises and modify its outsourcing plans. The strike surprised many observers, as Boeing was already offering generous pay raises, bonuses, and improved pension benefits. But the aircraft manufacturer had an extensive back order, and employees thought this would give them leverage. It was the fourth strike to hit the aircraft manufacturer in 20 years, something that then-Boeing CEO Jim McNerney pointed out when warning that “this track record of repeated union work stoppages is earning us a reputation as an unreliable supplier.” Although Boeing’s stock relative to the Industrials sector declined sharply in the weeks before and after a deal was reached, it resumed climbing afterwards and displayed a general uptrend during this period.

Boeing ($BA) / Industrials ($XLI) Relative Performance
06/06/2008 – 02/01/2009

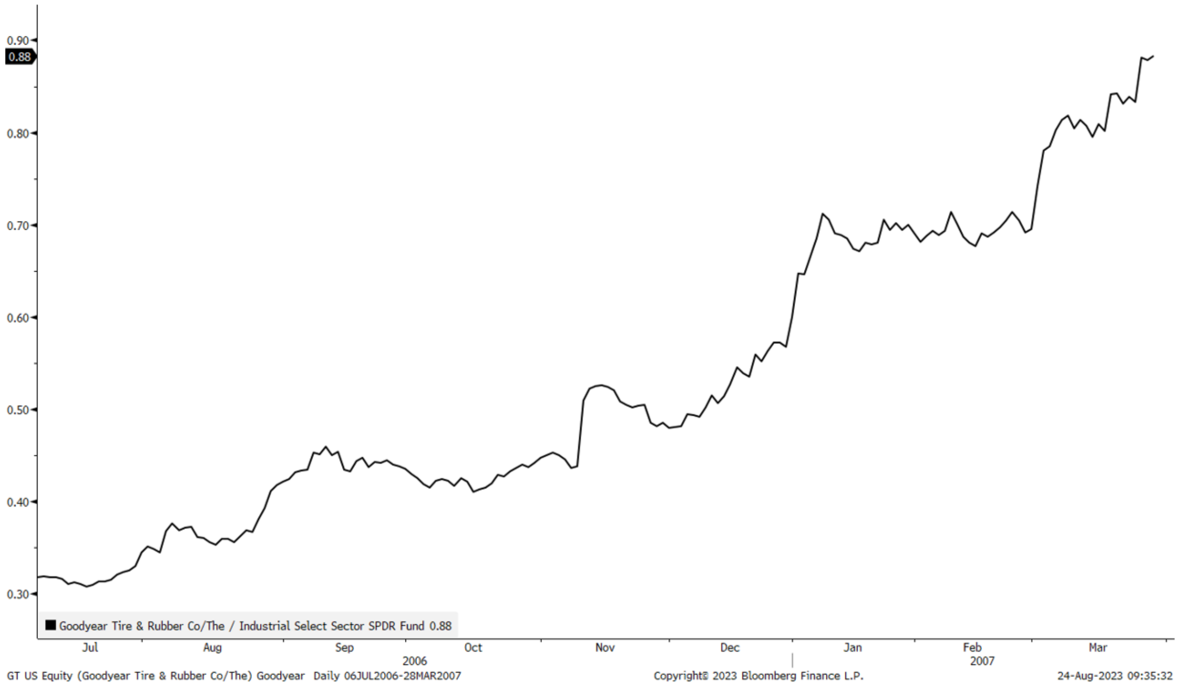


Source: Fundstrat, Bloomberg

Goodyear Tire and Rubber ($GT) – 2006

On October 6, 2006, the United Steelworkers called for a strike after the tire company announced plans to close a factory in Tyler, Texas. About 12,600 workers in 16 factories walked off the job until December 29, 2006. To end the strike, Goodyear agreed to set aside $1 billion to secure medical and prescription drug benefits for current and future retirees. It also agreed to keep the Tyler factory open for another six months. In exchange, Goodyear won the right to restructure its compensation structure for all new hires. Goodyear stock performance relative to the Industrials sector improved fairly consistently throughout this period, and its absolute performance during this period was strong as well – up nearly 185%. The strike impacted approximately 718,200 workdays.

Goodyear Tire ($GT) / Industrials ($XLI) Relative Performance
07/06/2006 – 03/29/2007

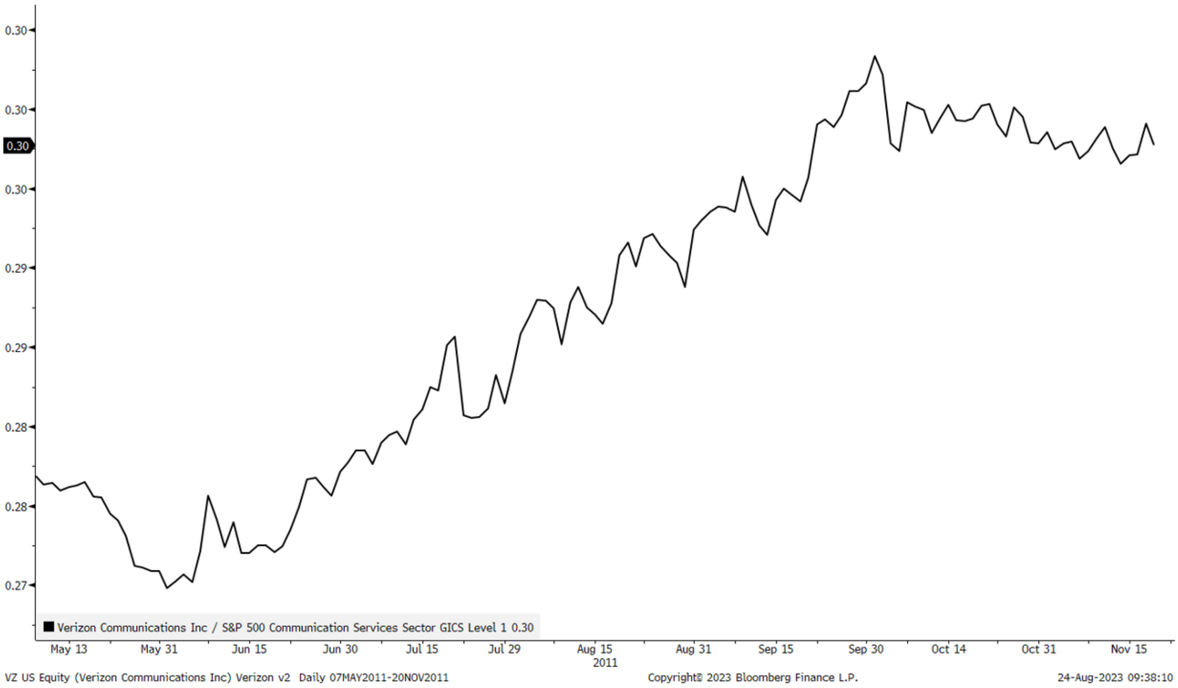


Source: Fundstrat, Bloomberg

Verizon Communications ($VZ) – 2011

About 45,000 members of the Communications Workers of America and the International Brotherhood of Electrical workers went on strike from August 7, 2011 to August 20, 2011. The two-week strike affected 450,000 days of work. Verizon was seeking to reduce costs at its shrinking landline business by cutting pensions and healthcare benefits. Negotiations remained deadlocked after two weeks, and the unions ultimately agreed to have members return to work under the terms of the old contract. The dispute would remain unresolved until 2016 (see above.) Meanwhile, Verizon stock's relative performance improved slightly during this period, including before and during the strike. On an absolute basis, the stock gained steadily until the overall market began to express growing concerns about what would become the GFC.

Verizon ($VZ) / Comm Services Relative Performance
05/07/2011 – 11/20/2011

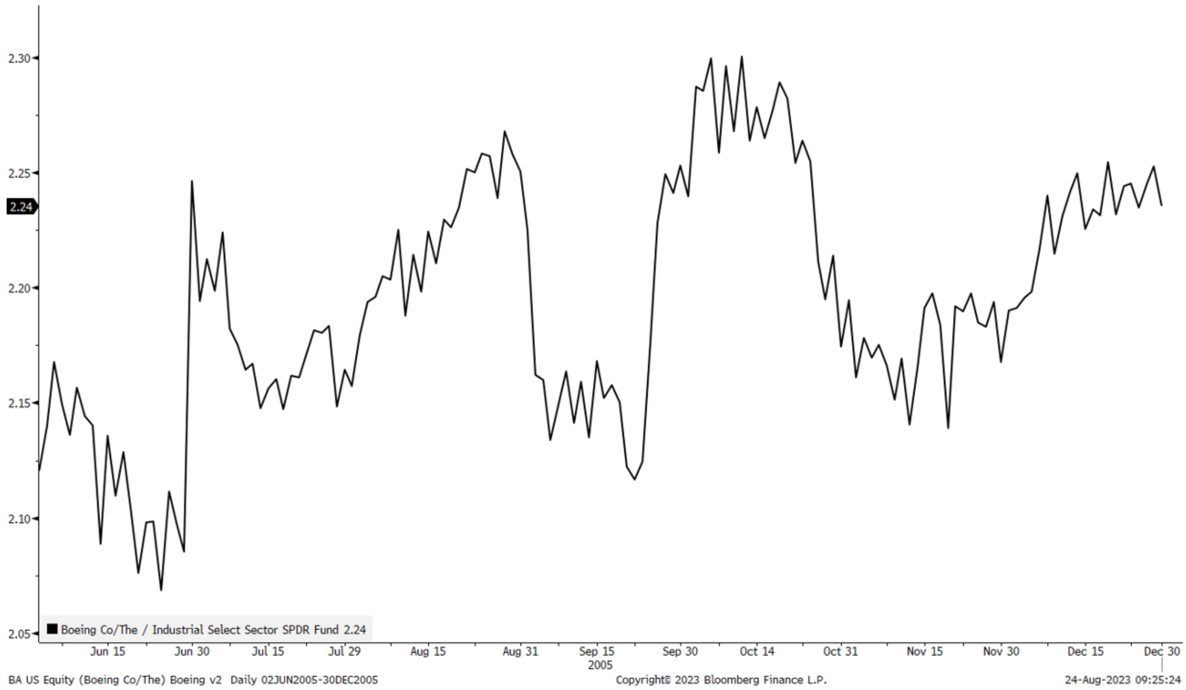


Source: Fundstrat, Bloomberg

Boeing ($BA) – 2005

Employees at Boeing’s Puget Sound, Washington, Grensham, Oregon, and Wichita, Kansas facilities walked off the job on September 2, 2005, forcing a halt to production just as orders were beginning to recover from an earlier slump. The International Association of Machinists and Aerospace Workers was seeking a larger wage increase than what had been offered and a reduction in employee contributions to the company’s health benefits. The strike ended with the machinists winning improved pension benefits and increased pay for Wichita employees (who had previously been paid less due to the area’s lower cost of living.) They were unsuccessful in their quest for better health benefits. Boeing shares’ relative performance versus the Industrials sector was somewhat choppy during this period. However, on an absolute basis, the shares rose more or less steadily. During this labor action, 366,000 days of work were affected.

Boeing ($BA) / Industrials ($XLI) Relative Performance
06/02/2005 – 12/30/2005

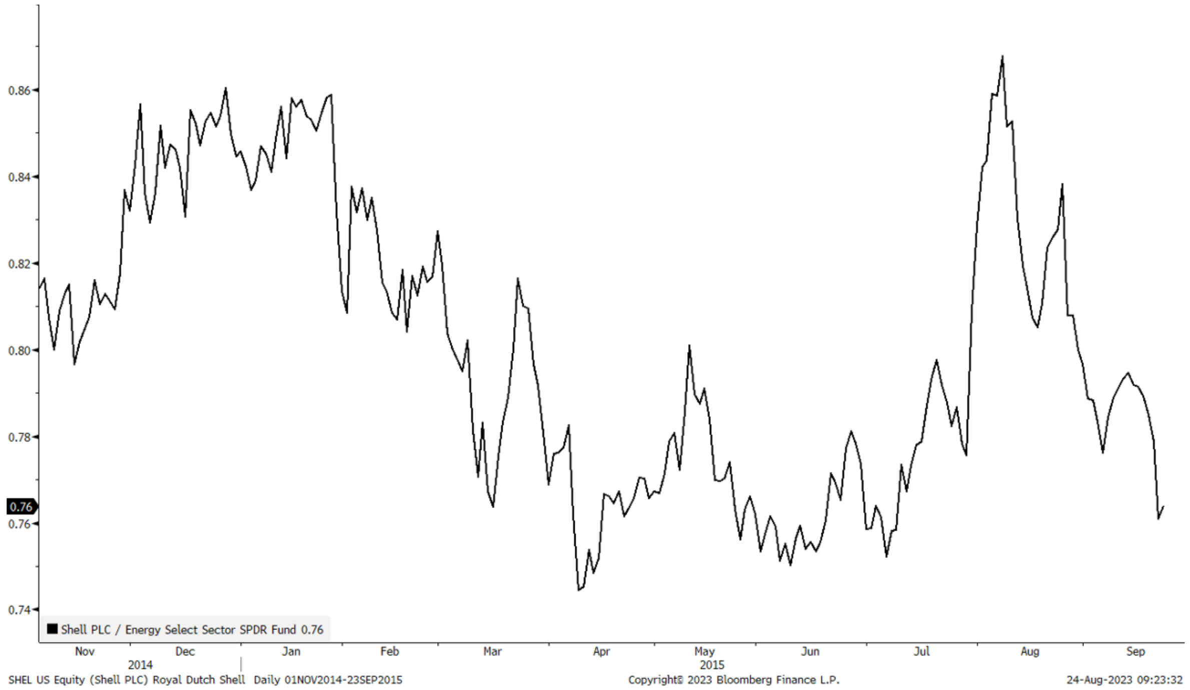


Source: Fundstrat, Bloomberg

Royal Dutch Shell ($SHEL) – 2015

From February 1, 2015 to June 23, 2015, 6,600 oil-refinery employees at eight different companies went on strike. The four-month work stoppage was ended after negotiations between Shell, which negotiated on behalf of the seven other companies, and the United Steelworkers Union. The employees had been seeking 6% pay raises, while the companies cited then-declining oil prices in their refusal. Other companies affected by the labor dispute included Exxon Mobil, BP, Chevron, Motiva Enterprises, LyondellBassell, Tesoro, and Marathon Oil. Approximately 322,210 workdays were affected by the strike. Shell shares' performance relative to the Energy sector displayed small variations during this period, but generally stayed quite steady.

Royal Dutch Shell ($SHELL) / Energy ($XLE) Relative Performance
11/01/2014 – 09/23/2015



Source: Fundstrat, Bloomberg

The sample size used in this brief inquiry is too small to come to any substantive conclusions, and we have not controlled for a number of potentially confounding factors. Nevertheless, it seems that a major work stoppage need not spell disaster for a company's stock performance, on an absolute or relative basis. While three of the companies showed a decline in relative performance during the general time period when a strike took place, two of the companies appear to have steadily improved their stock performance throughout the strike-related time periods examined – both on a relative and absolute basis.

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