The Current Sentiment of the Global Electronics Manufacturing Supply Chain

*Monitoring the Pulse of the Global Electronics Industry*

March 2024
Electronics Industry Sentiment Rose in March

Demand rose notably in the last month, reaching the highest level in a year
- The New Orders Index rose to the highest level since July 2022.
- Capacity Utilization sentiment rose to a 14-month high.
- The Shipment Index hit its highest level since June 2022.

Cost Pressures remain persistent
- The Materials Cost Index rose 3 points this month but was offset by a 3-point decline in the Labor Costs Index

Industry Outlook also improved this month
- The Demand Outlook Index approached an all-time high.
- The outlook for Capacity Utilization and Shipments both hit all-time highs.
- The outlook for Profit Margin also hit an all-time high.

This month IPC asked industry executives how the current interest rate environment impacts their businesses. Respondents noted:
- “it adds to the cost of doing business”
- “limited capital expenditures”
- “adding considerable cost”
Current Conditions for the Electronics Supply Chain

There are no significant differences in current conditions across all geographic regions.

Three-fifths (62%) of electronics manufacturers are currently experiencing rising labor costs, while nearly half (47%) report rising material costs. At the same time, ease of recruitment, profit margins, and backlogs are presently declining.

Current Direction of Key Business Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Rising</th>
<th>Remaining Flat / No Change</th>
<th>Declining</th>
<th>Diffusion Index</th>
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<tbody>
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<td>Labor costs</td>
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<tr>
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<tr>
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<td>32%</td>
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<tr>
<td>Orders</td>
<td>40%</td>
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<tr>
<td>Capacity utilization</td>
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<td>Backlogs</td>
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<td>Profit margins</td>
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<tr>
<td>Ease of recruiting/finding skilled talent</td>
<td>13%</td>
<td>55%</td>
<td>32%</td>
<td>90</td>
</tr>
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</table>

*A diffusion index is a statistical measure used to detect economic turning points.
## Current Direction of Key Business Indicators

**Primary Region: North America**

<table>
<thead>
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<td>38%</td>
<td>16%</td>
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<td>Inventory available to you from your suppliers</td>
<td>34%</td>
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<td>Capacity utilization</td>
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<td>53%</td>
<td>34%</td>
</tr>
</tbody>
</table>

**Diffusion Index**:
- Labor costs: 132
- Material costs: 122
- Inventory available to your customers: 116
- Orders: 115
- Inventory available to you from your suppliers: 111
- Capacity utilization: 111
- Shipments: 110
- Backlogs: 100
- Profit margins: 94
- Ease of recruiting/finding skilled talent: 90

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**BUILD ELECTRONICS BETTER**
**Current Direction of Key Business Indicators**

*Primary Region: Europe*

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<tr>
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<td>46%</td>
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<td>Inventory available to you from your suppliers</td>
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<td>Profit margins</td>
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<tr>
<td>Ease of recruiting/finding skilled talent</td>
<td>4%</td>
<td>62%</td>
<td>35%</td>
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</table>

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**The View From Companies Primarily Operating in Europe**
### Current Direction of Key Business Indicators

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**Primary Region: APAC**

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</tr>
<tr>
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<td>7%</td>
<td>50%</td>
<td>43%</td>
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</table>

**Diffusion Index**

- Labor costs: 132
- Shipments: 125
- Material costs: 118
- Capacity utilization: 114
- Inventory available to your customers: 114
- Orders: 107
- Inventory available to you from your suppliers: 107
- Profit margins: 104
- Backlogs: 93
- Ease of recruiting/finding skilled talent: 82

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**BUILD ELECTRONICS BETTER**
Current Direction of Key Business Indicators

-- Primary Region: Global --

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<td>10%</td>
</tr>
<tr>
<td>Shipments</td>
<td>30%</td>
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<td>5%</td>
</tr>
<tr>
<td>Inventory available to your customers</td>
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<tr>
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<td>55%</td>
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<tr>
<td>Backlogs</td>
<td>25%</td>
<td>65%</td>
<td>10%</td>
</tr>
<tr>
<td>Ease of recruiting/finding skilled talent</td>
<td>25%</td>
<td>55%</td>
<td>20%</td>
</tr>
<tr>
<td>Profit margins</td>
<td>15%</td>
<td>65%</td>
<td>20%</td>
</tr>
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</table>

Diffusion Index*

Material costs: 125
Labor costs: 118
Orders: 115
Capacity utilization: 115
Shipments: 113
Inventory available to your customers: 111
Inventory available to you from your suppliers: 108
Backlogs: 108
Ease of recruiting/finding skilled talent: 103
Profit margins: 98

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The Outlook for the Next 6 Months

There are no significant differences in the outlook across all geographic regions.

Anticipated Direction of Key Business Indicators – Next Six Months

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Rise</th>
<th>Remain Flat / No Change</th>
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<tr>
<td>Labor costs</td>
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<td>Shipments</td>
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<td>11%</td>
</tr>
<tr>
<td>Material costs</td>
<td>45%</td>
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</tr>
<tr>
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<tr>
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<td>28%</td>
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<tr>
<td>Backlogs</td>
<td>32%</td>
<td>48%</td>
<td>20%</td>
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<tr>
<td>Ease of recruiting/finding skilled talent</td>
<td>12%</td>
<td>60%</td>
<td>28%</td>
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</table>

Diffusion Index:

- Labor costs: 127
- Orders: 127
- Capacity utilization: 124
- Shipments: 124
- Material costs: 119
- Inventory available to your customers: 114
- Inventory available to you from your suppliers: 111
- Profit margins: 106
- Backlogs: 106
- Ease of recruiting/finding skilled talent: 92

Over the next six months, electronics manufacturers expect labor costs to come down slightly, with material costs holding steady. While profit margins and backlogs are expected to improve, ease of recruitment is likely to remain challenging.

Notably, orders, shipments, and capacity utilization are all expected to rise significantly in the near-term.

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## Anticipated Direction of Key Business Indicators – Next Six Months

**Primary Region: North America**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Rise</th>
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<tbody>
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<td>5%</td>
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<td>Material costs</td>
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<td>6%</td>
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<td>Backlogs</td>
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<td>Profit margins</td>
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<td>13%</td>
</tr>
<tr>
<td>Ease of recruiting/finding skilled talent</td>
<td>13%</td>
<td>57%</td>
<td>30%</td>
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</table>

### Diffusion Index

- **Orders**: 131
- **Labor costs**: 128
- **Capacity utilization**: 127
- **Shipments**: 126
- **Material costs**: 120
- **Inventory available to your customers**: 115
- **Backlogs**: 110
- **Inventory available to you from your suppliers**: 110
- **Profit margins**: 106
- **Ease of recruiting/finding skilled talent**: 92

*Diffusion index is a statistical measure used to detect economic turning points.*
The View From Companies Primarily Operating in Europe

Anticipated Direction of Key Business Indicators – Next Six Months

-- Primary Region: Europe --

<table>
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<tr>
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<tr>
<td>Ease of recruiting/finding skilled talent</td>
<td>4%</td>
<td>69%</td>
<td>27%</td>
</tr>
</tbody>
</table>

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Diffusion Index:
- Labor costs: 127
- Orders: 119
- Shipments: 116
- Inventory available to you from your suppliers: 113
- Material costs: 110
- Capacity utilization: 110
- Inventory available to your customers: 108
- Profit margins: 106
- Backlogs: 94
- Ease of recruiting/finding skilled talent: 88

Expanding: 127
Contracting: 88

BUILD ELECTRONICS BETTER
# The View From Companies Primarily Operating in APAC

## Anticipated Direction of Key Business Indicators – Next Six Months

**Primary Region: APAC**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Rise</th>
<th>Remain Flat / No Change</th>
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<td>114</td>
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<td>111</td>
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<tr>
<td>Backlogs</td>
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<td>50%</td>
<td>29%</td>
<td>96</td>
</tr>
<tr>
<td>Ease of recruiting/finding skilled talent</td>
<td>14%</td>
<td>50%</td>
<td>36%</td>
<td>89</td>
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**Build Electronics Better**
Anticipated Direction of Key Business Indicators – Next Six Months

-- Primary Region: Global --

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</tr>
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<td>Ease of recruiting/finding skilled talent</td>
<td>20%</td>
<td>60%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Diffusion Index^:
- Capacity utilization: 128
- Orders: 125
- Material costs: 125
- Labor costs: 125
- Shipments: 123
- Backlogs: 115
- Inventory available to you from your suppliers: 113
- Inventory available to your customers: 113
- Profit margins: 100
- Ease of recruiting/finding skilled talent: 100

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Capacity Utilization, Orders, Shipments, Profit Margins, and Backlogs are Expected to Rise Over the Next Six Months

All other key business indicators are expected to remain relatively stable.

Direction of Key Business Indicators – Diffusion Index

A diffusion index is a statistical measure used to detect economic turning points.
The View From Companies Primarily Operating in North America

Direction of Key Business Indicators – Diffusion Index

-- Primary Region: North America --

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Build electronics better

Current Direction

Expected Direction

Gap: -4 -2 -1 +16 -1 +16 +16 +10 +12 +2
The View From Companies Primarily Operating in Europe

Direction of Key Business Indicators – Diffusion Index

-- Primary Region: Europe --

- Labor costs
- Shipments
- Material costs
- Orders
- Inventory available to your customers
- Inventory available to you from your suppliers
- Capacity utilization
- Profit margins
- Backlogs
- Ease of recruiting/finding skilled talent

Current Direction: Expanding
Expected Direction: Contracting

Gap: -10

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BUILD ELECTRONICS BETTER
The View From Companies Primarily Operating in APAC

Direction of Key Business Indicators – Diffusion Index

-- Primary Region: APAC --

A diffusion index is a statistical measure used to detect economic turning points.

B U I L D  E L E C T R O N I C S  B E T T E R
Direction of Key Business Indicators – Diffusion Index

-- Primary Region: Global --

- Material costs: 125
- Labor costs: 125
- Orders: 128
- Capacity utilization: 123
- Shipments: 113
- Inventory available to your customers: 111
- Backlogs: 108
- Inventory available from your suppliers: 108
- Ease of recruiting/finding skilled talent: 103
- Profit margins: 100

Gap: +/-0  +7  +10  +13  +10  +2  +7  +5  -3  +2

A diffusion index is a statistical measure used to detect economic turning points.

BUILD ELECTRONICS BETTER
March 2024 Special Questions
Current Interest Rates are Impacting the Cost of Financing for Many Electronics Manufacturers, Which Ultimately Increases the Cost of Doing Business and Drives Down Overall Profit Margins

Firms that rely on borrowed capital indicate they are seeing an impact on material costs, inventories, and orders as a result of higher interest rates, which then filters down to reduced CAPEX spend and ability to grow and invest in other areas of the business. Among firms operating in markets outside of the U.S., exchange rates can also be negatively impacted by higher U.S. interest rates.

**Impact of Current Interest Rates on Business**

“**It adds to the cost of doing business. We buy inventory against our letter of credit.**”
North America, Wire Harness and Cable Assembly Manufacturer

“**They are adding considerable cost to our products as the cost to finance our working capital is so much more expensive now (due to standard imbalance between AR and AP). The problem is compounded by our YOY growth these past few years, which puts extra pressure on AP/AR, as well as high CAPEX, to support the growth.**”
North America, Component Supplier

“**I am confident it affects our ability to reinvest into our processes and personnel.**”
North America, Contract Electronics Manufacturing Services

“**Affects loans on capital equipment, which increases cost.**”
North America, Contract Electronics Manufacturing Services

“**Higher rates increase customers’ finance costs slightly, and potentially delays their investments.**”
North America, Original Equipment Manufacturer

“**We have little debt, so direct impact is negligible. However, we believe that high interest rates are limiting capital expenditures which is slowing orders.**”
North America, Equipment Supplier

“**They affect material purchase negotiations, and therefore, define my need to seek to maintain minimally safe stock for operations.**”
North America, Contract Electronics Manufacturing Services

“**We are delaying capital equipment purchases and have put off expansions. We are also reducing our stocking inventory.**”
North America, Contract Electronics Manufacturing Services

“**Increasing pressure from customers to extend longer payment terms. Difficulty justifying acquisitions due to higher cost of capital.**”
Global, PCB Board Fabricator/Supplier

“**We are located in Japan and import product from the US. With higher interest rates higher in the US and negative interest rates in Japan, the JPY is very week and that is hurting our profitability.**”
APAC, Other Industry Segment

Q. How, if at all, are current interest rates affecting your business?
Appendix
# Current Conditions Diffusion Indices

*Past 12 Month Comparisons (TOTAL)*

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**Notes:**

- △: +5 points or more vs. previous month
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**Outlook Diffusion Indices**

*Past 12 Month Comparisons (TOTAL)*

△ +5 points or more vs. previous month
△ -5 points or more vs. previous month
Each month, IPC surveys executives in the electronics manufacturing sector across the globe with the goal of assessing the current state of the industry.

The results contained herein are based upon the findings of IPC’s The Current State of Electronics Manufacturing Survey, which was fielded between the dates of February 14 and February 29, 2024.
Questions? Please contact:
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IPC Chief Economist
ShawnDuBravac@ipc.org