BUILD ELECTRONICS BETTER

The Current Sentiment of the Global Electronics Manufacturing Supply Chain

Monitoring the Pulse of the Global Electronics Industry

August 2024

ipc.org

Executive Summary

> **Electronics Industry Sentiment Rebounds in August After Three-Month Decline**

- Sentiment in the electronics industry saw a modest uptick in August, though it remains below the peak observed in April 2024. The improvement was driven by stronger demand and reduced costs.

> **Industry Demand on the Rise**

- The Demand Index increased 3.3% in August. This rise was fueled by better, albeit still contracting, backlog, capacity utilization that shifted to expansion, and heightened order sentiment. Specifically, the New Orders Index and the Backlog Index both climbed by 3 points, while the Shipment Index improved by 2 points. The Capacity Utilization Index saw a significant rise of 5 points, reaching 104.

> **Easing Cost Pressures**

- Cost pressures eased slightly in August, with both the Labor Costs Index and the Material Costs Index dropping by 1 point. Despite this decline, both indexes remain in expansionary territory, indicating that a majority of businesses continue to face cost challenges. Notably, the Labor Costs Index hit a new low for the year.

> **Industry Outlook Improves in August**

- The overall industry outlook remained robust in August, although demand sentiment has cooled from earlier highs this year.

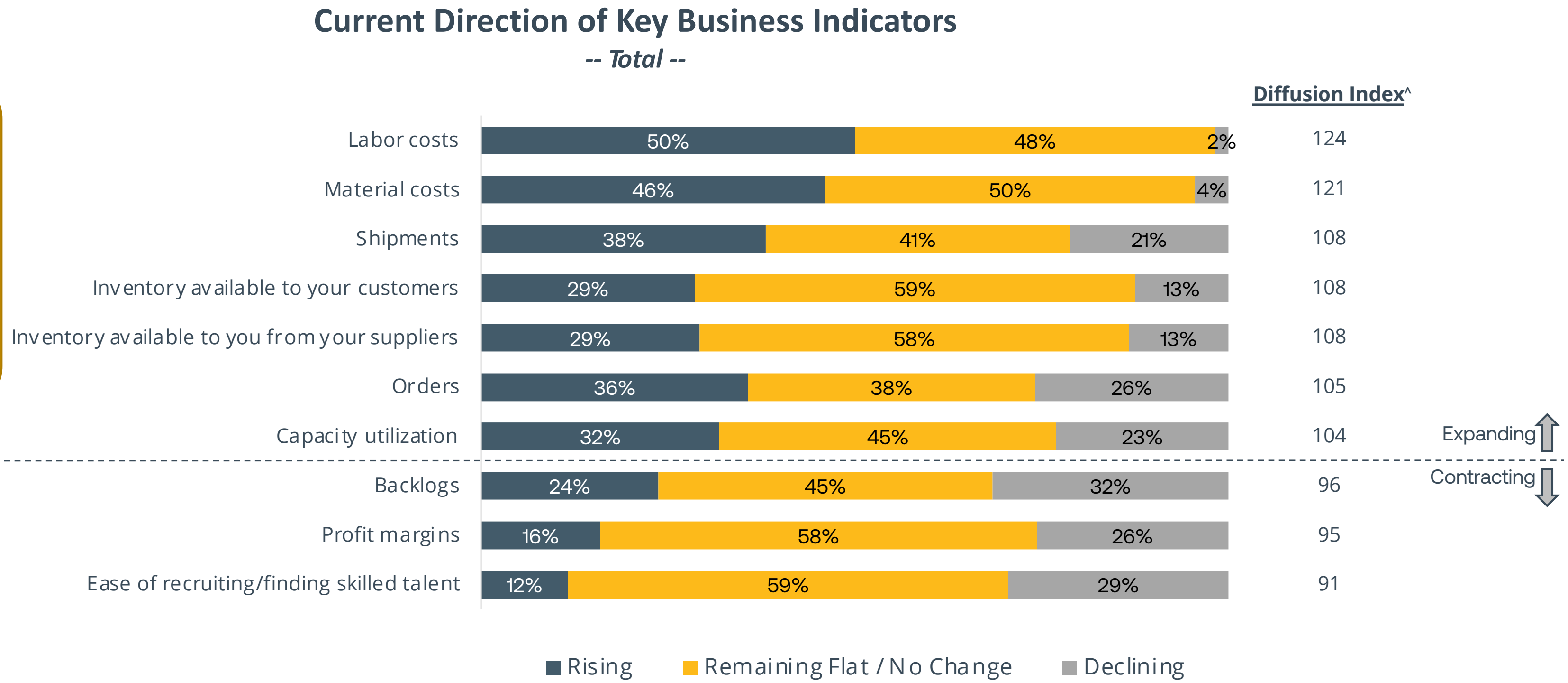
> **Geopolitical Risks and Trade Policy Concerns**

- This month's special survey highlighted that over 40% of electronics manufacturers are "Very" or "Extremely" concerned about geopolitical risks (42%) and the impact of trade policies and tariffs (44%) on their operations.

Current Conditions for the Electronics Supply Chain

Half (50%) of electronics manufacturers are currently experiencing rising labor costs, with 46% reporting increased material costs.

At the same time, ease of recruitment, profit margins, and backlogs are presently declining.

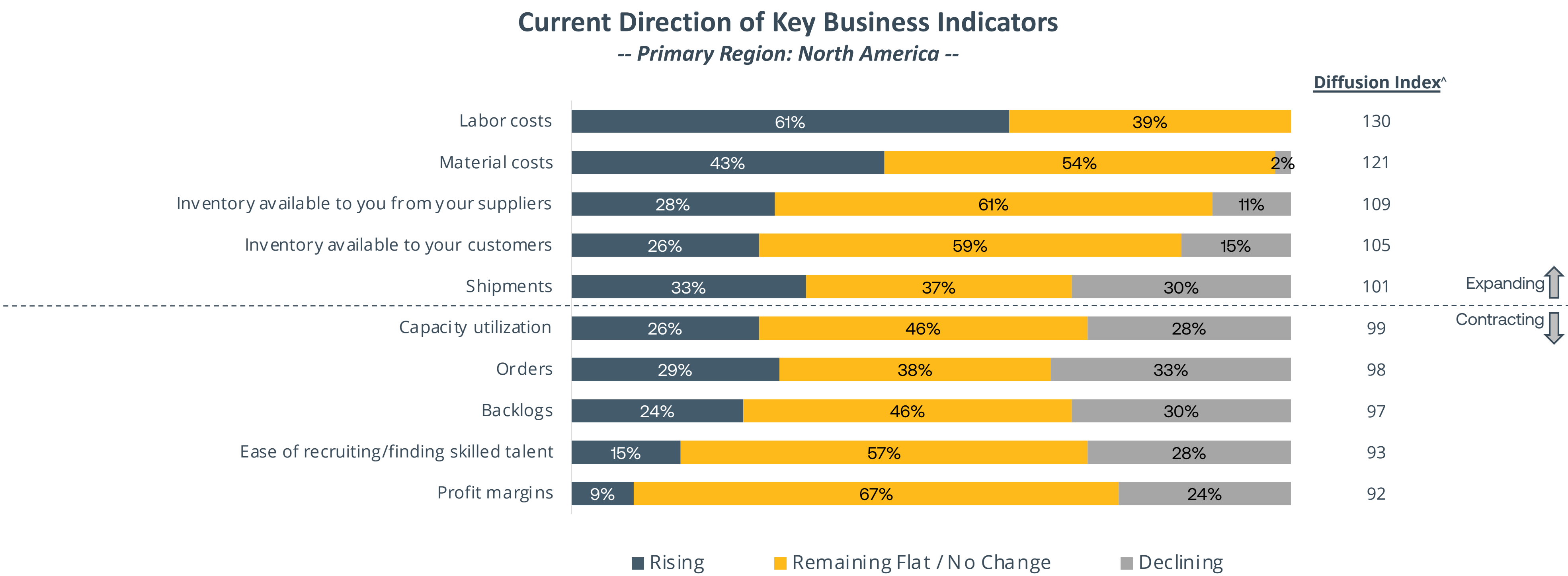


^A diffusion index is a statistical measure used to detect economic turning points.

Regional Differences in Current Conditions

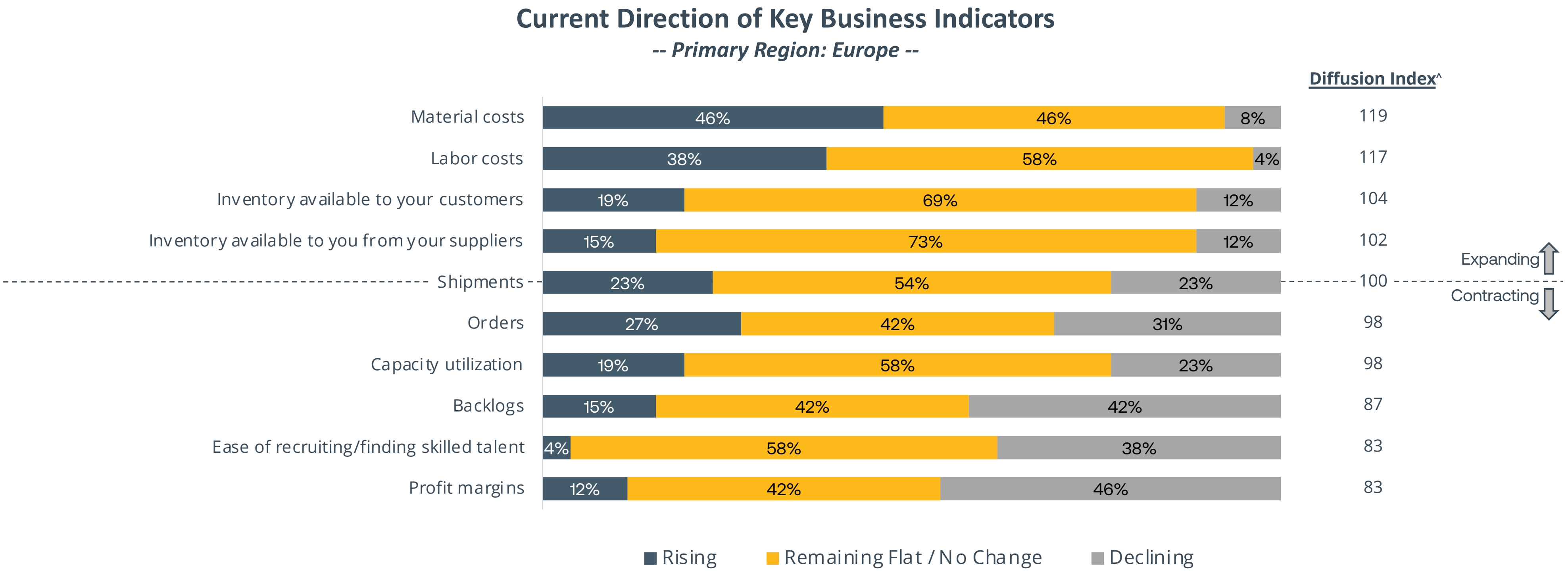
- **Profit margins are declining more so among firms in Europe when compared to those operating globally.**
  - Nearly half (46%) of electronics manufacturers in Europe are currently experiencing a decline in profit margins, which compares to a significantly lower 5% among global firms.

The View From Companies Primarily Operating in North America



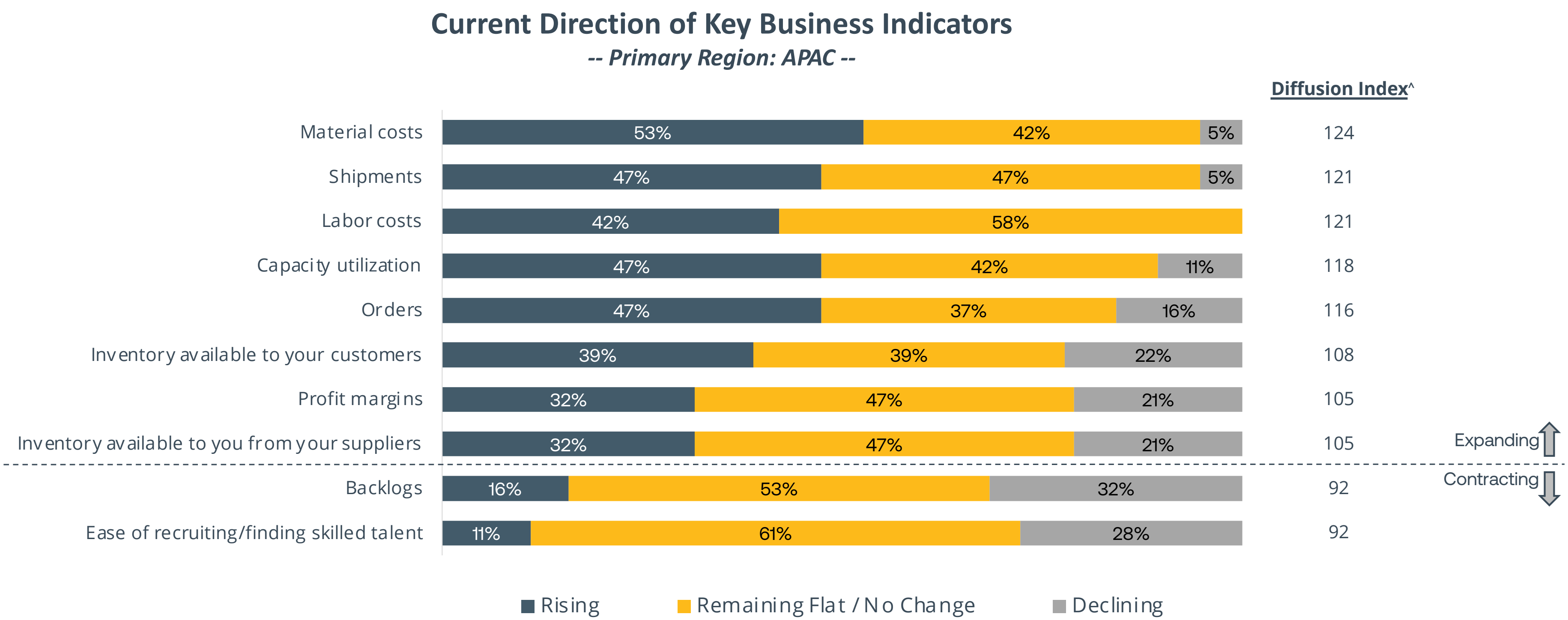
^A diffusion index is a statistical measure used to detect economic turning points.

The View From Companies Primarily Operating in Europe



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

The View From Companies Primarily Operating in APAC

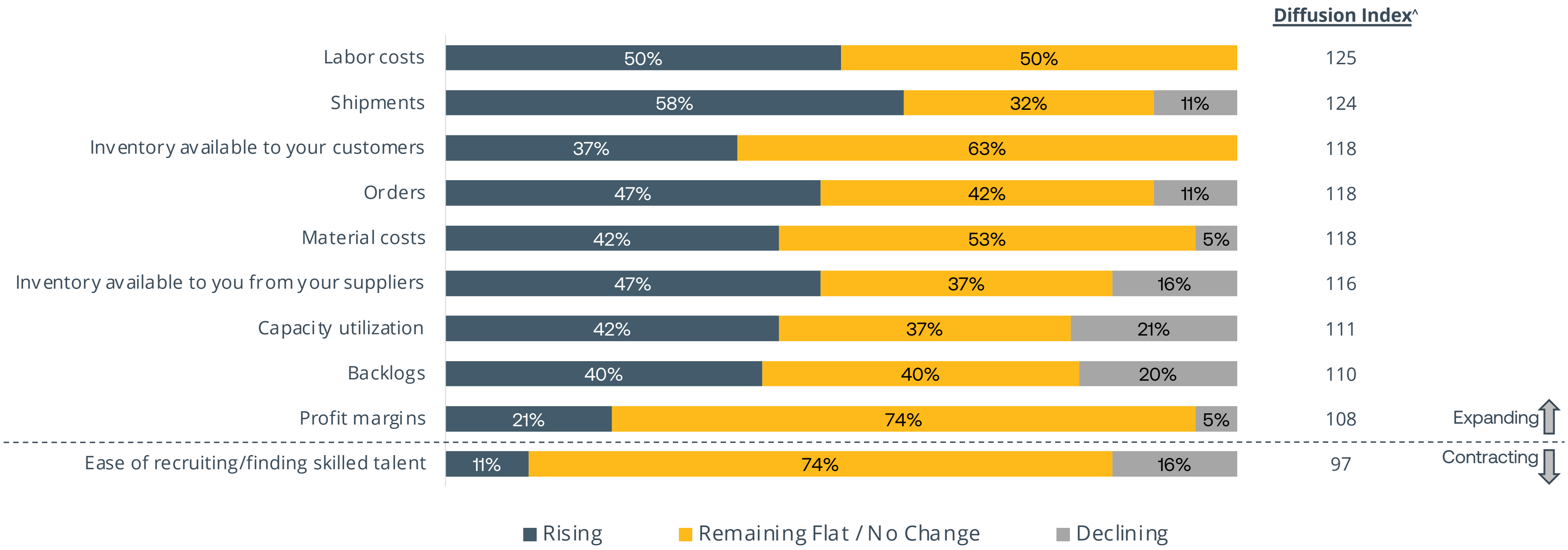


^A diffusion index is a statistical measure used to detect economic turning points.

The View From Companies Primarily Operating Globally

Current Direction of Key Business Indicators

-- Primary Region: Global --

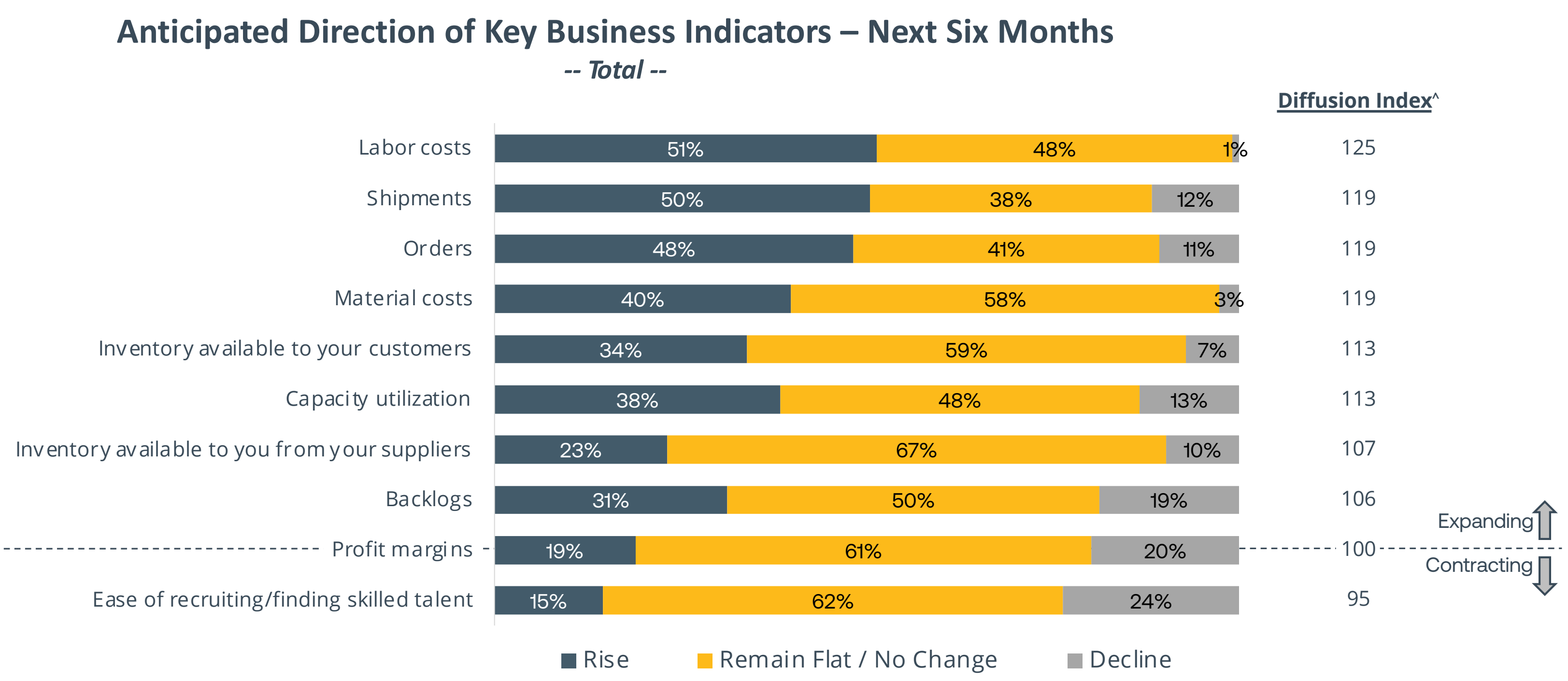


^A diffusion index is a statistical measure used to detect economic turning points.

The Outlook for the Next 6 Months

Over the next six months, electronics manufacturers expect labor and material costs to remain high, although relatively stable.

At the same time, profit margins and backlogs are expected to rise, with recruitment challenges continuing to persist.

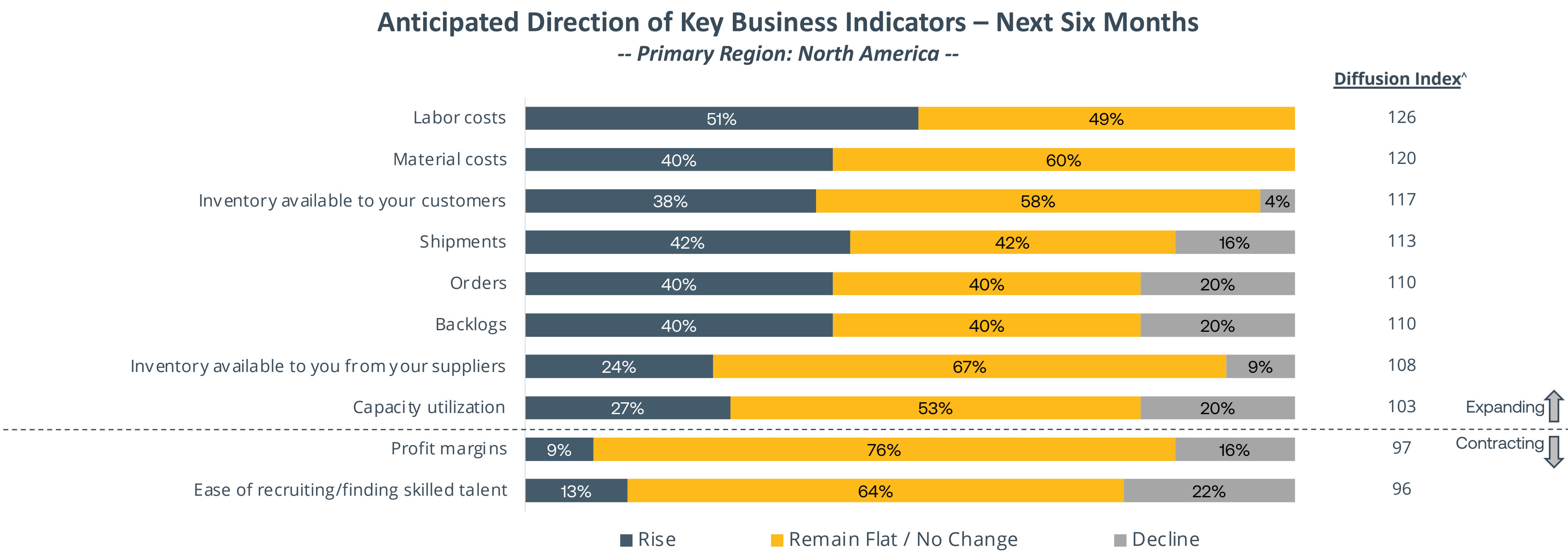


^A diffusion index is a statistical measure used to detect economic turning points.

Regional Differences in the Outlook

- **Electronics manufacturers in both Europe and APAC expect profit margins to decline more so over the next six months when compared to firms operating globally, while those in North America are more likely expecting profit margins to hold steady.**
    - More than a quarter (27%) of electronics manufacturers in Europe, along with nearly two-fifths (37%) of firms in APAC, anticipate profit margins to decline over the next six months, which compares to 0% of firms that operate globally.
    - At the same time, manufacturers in North America are more likely anticipating profit margins to remain flat (76%) vs. those in APAC (32%).

The View From Companies Primarily Operating in North America

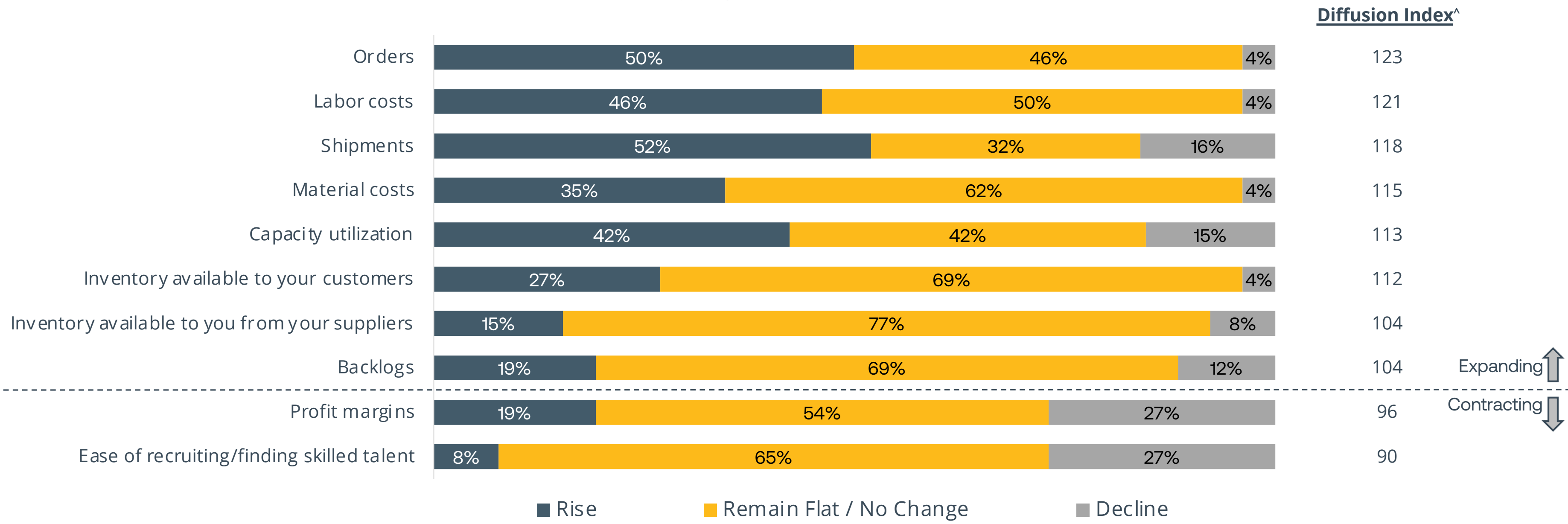


^A diffusion index is a statistical measure used to detect economic turning points.

The View From Companies Primarily Operating in Europe

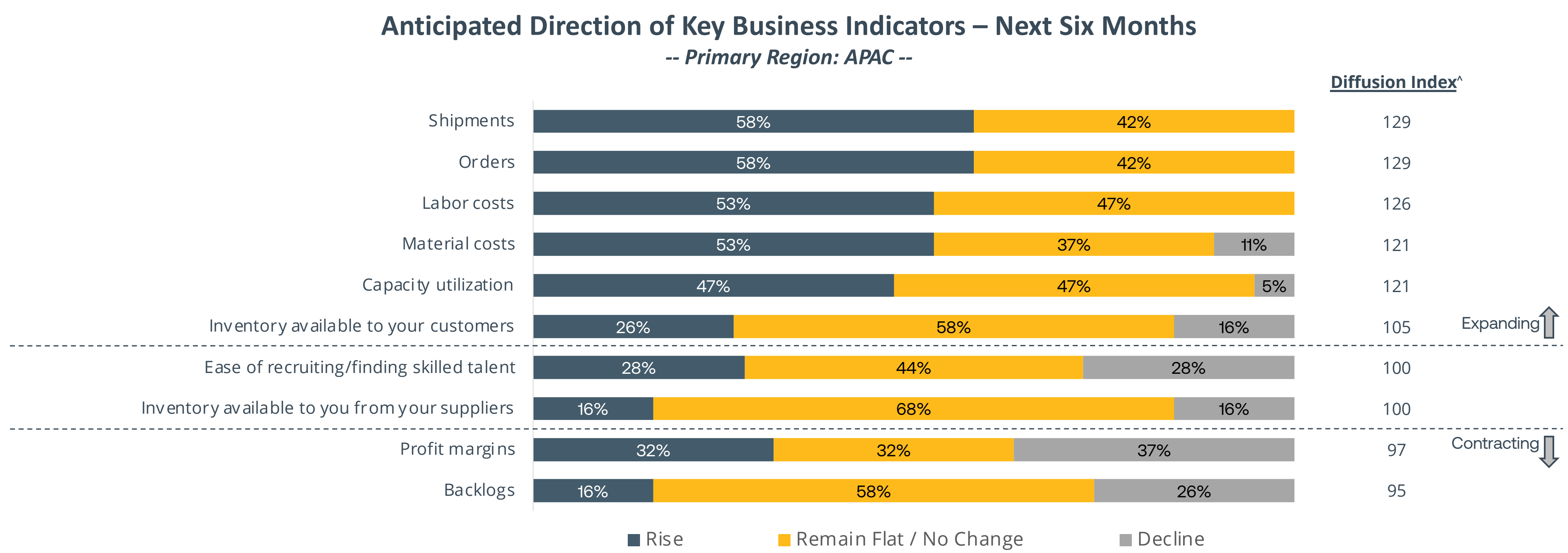
Anticipated Direction of Key Business Indicators – Next Six Months

-- Primary Region: Europe --



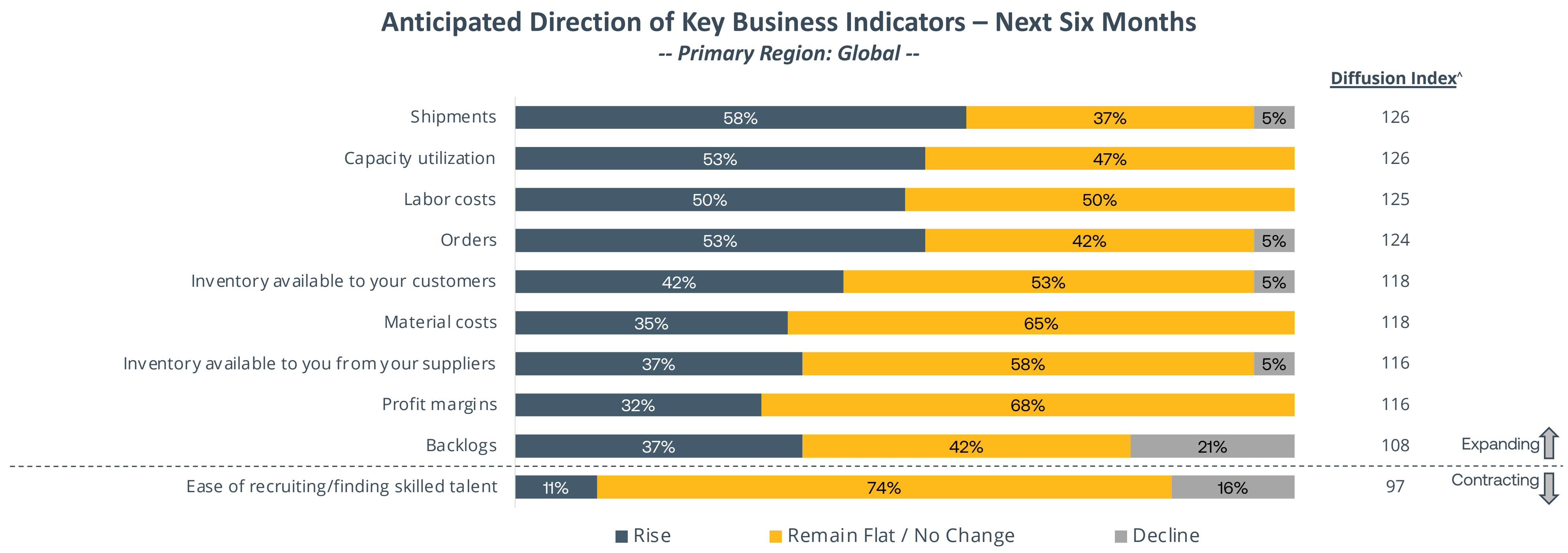
^A diffusion index is a statistical measure used to detect economic turning points.

The View From Companies Primarily Operating in APAC



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

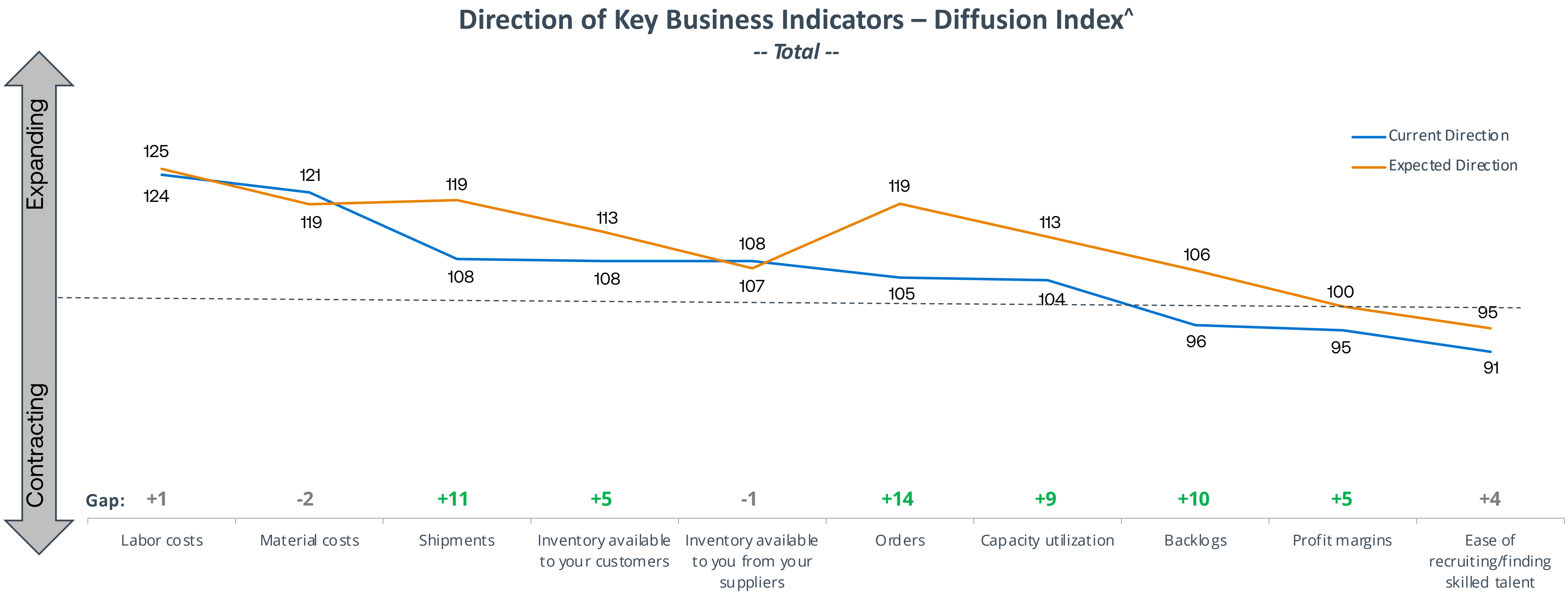
The View From Companies Primarily Operating Globally



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

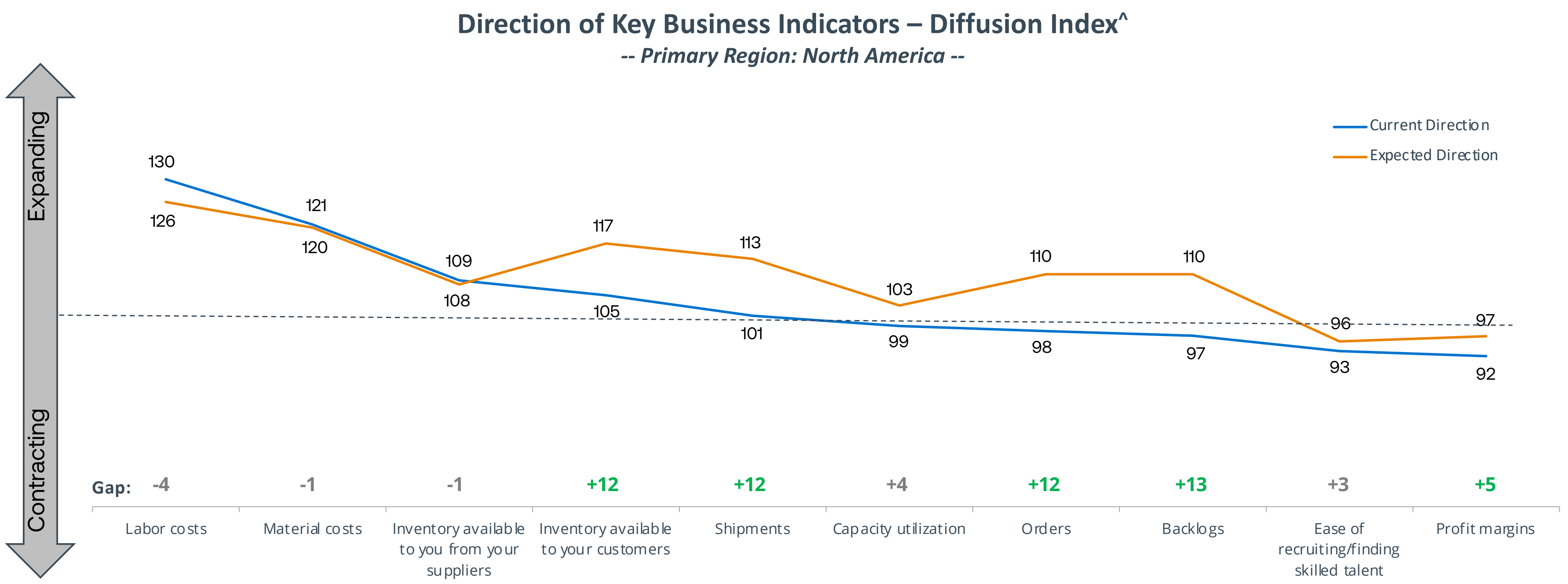
Orders, Shipments, Backlogs, Capacity Utilization, Profit Margins, and Customer Inventory are Expected to Rise Over the Next Six Months

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



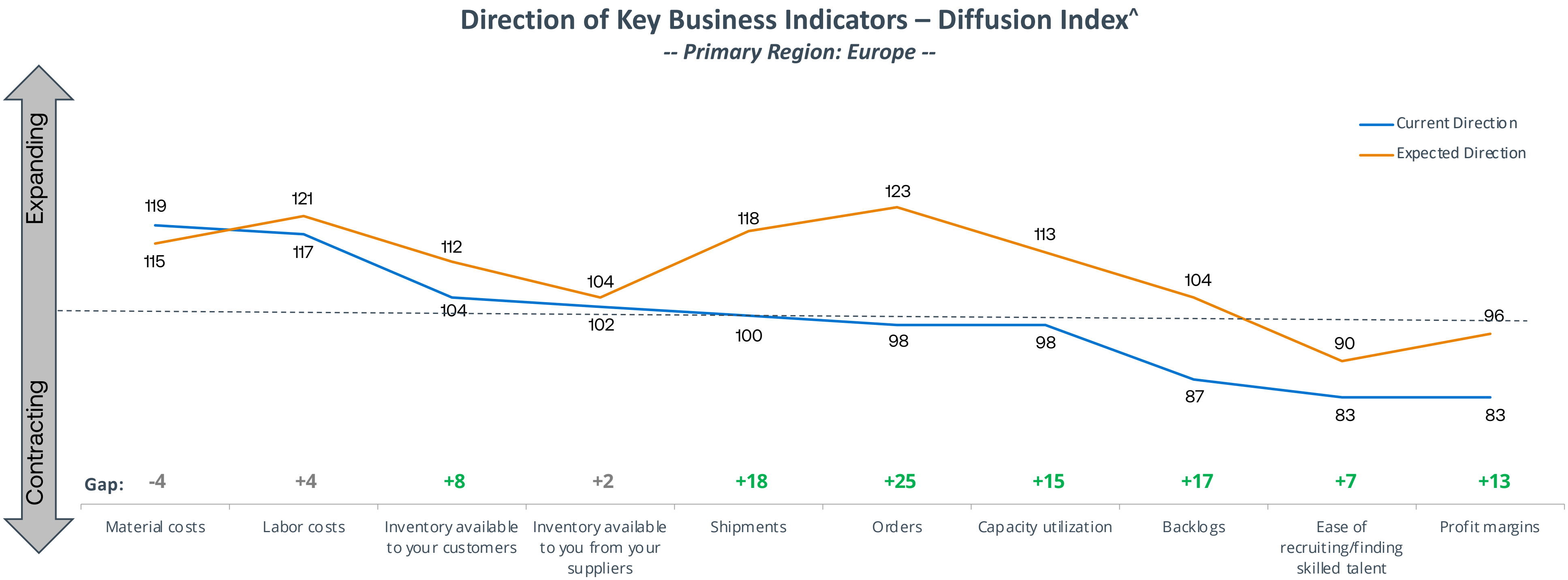
^A diffusion index is a statistical measure used to detect economic turning points.

The View From Companies Primarily Operating in North America



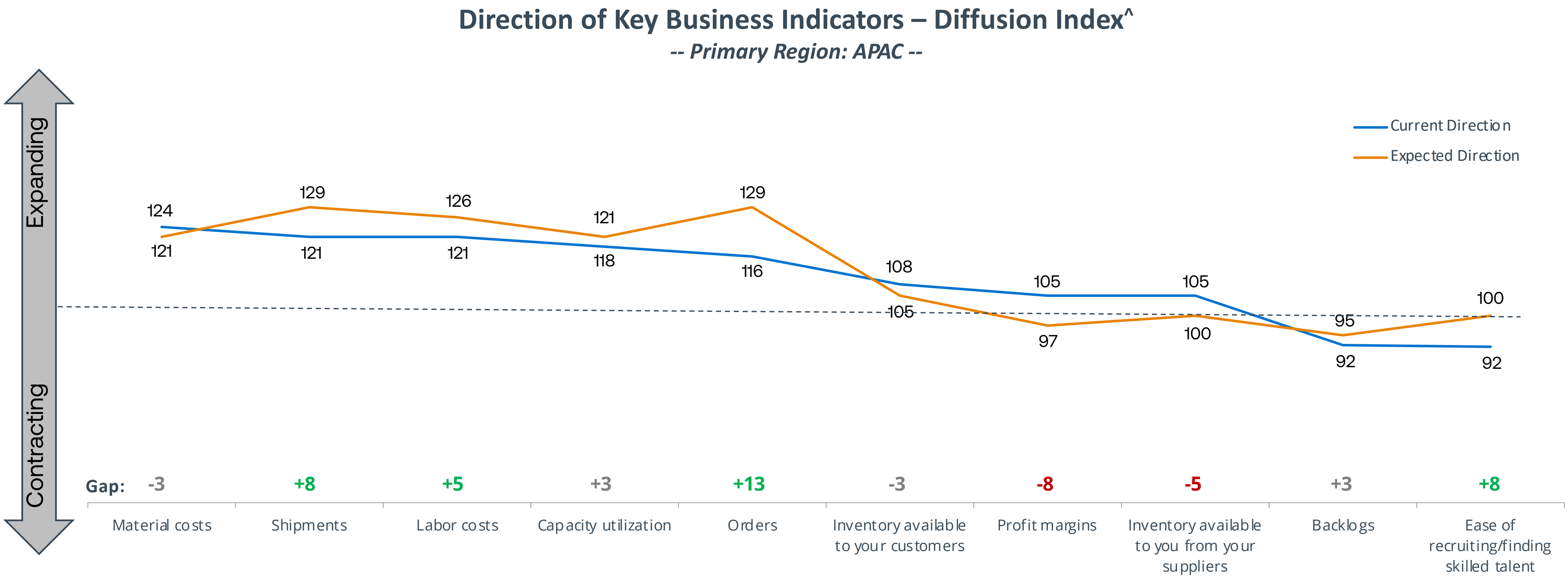
^A diffusion index is a statistical measure used to detect economic turning points.

The View From Companies Primarily Operating in Europe



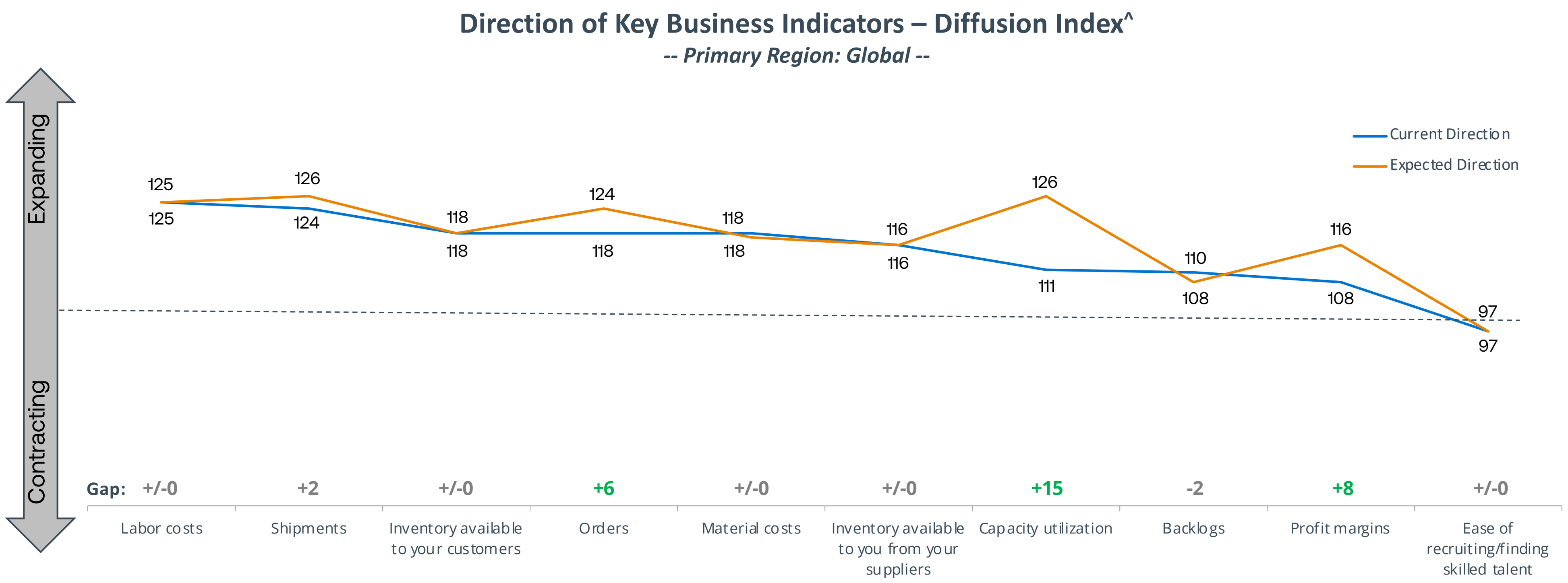
^A diffusion index is a statistical measure used to detect economic turning points.

The View From Companies Primarily Operating in APAC



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

The View From Companies Primarily Operating Globally

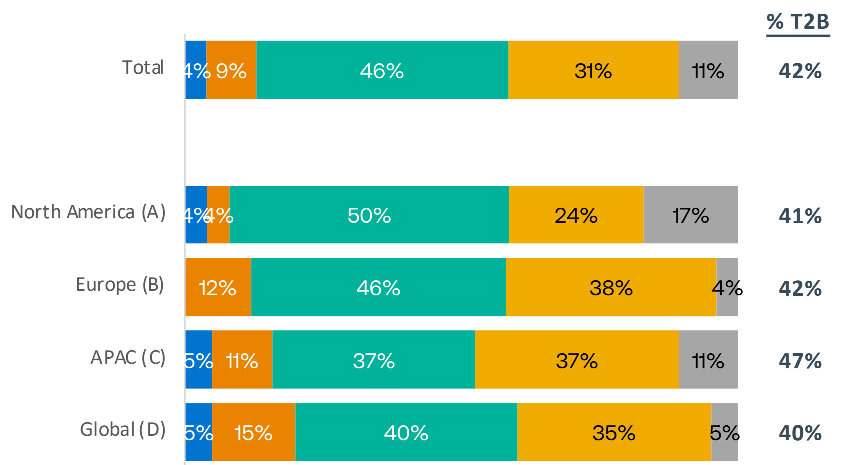


^A diffusion index is a statistical measure used to detect economic turning points.

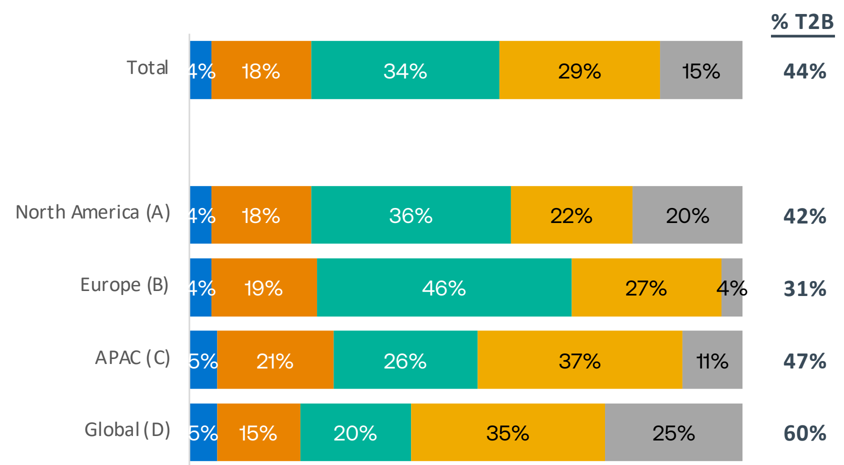
August 2024 Special Questions

More Than Two-Fifths of Manufacturers are "Very" or "Extremely" Concerned About Geopolitical Risks (42%) and the Impact of Trade Policies and Tariffs (44%) on Their Business, With No Significant Differences by Geographical Region

Level of Concern About Geopolitical Risks Affecting Business in Next 6 Months



Level of Concern About the Impact of Trade Policies and Tariffs on Business Operations Over the Next Year



■ Not concerned at all ■ Slightly concerned ■ Moderately concerned ■ Very concerned ■ Extremely concerned

Q. How concerned are you about geopolitical risks affecting your business in the next six months?
Q. How concerned are you about the impact of trade policies and tariffs on your business operations over the next year?

A/B/C/D Statistically significant at 90% confidence interval

Appendix

Current Conditions Diffusion Indices

Past 12 Month Comparisons (TOTAL)

	August 2023	September 2023	October 2023	November 2023	December 2023	January 2024	February 2024	March 2024	April 2024	May 2024	June 2024	July 2024	August 2024
Shipments	110	106	104	107	105	110	105	113	112	107	106	105	108
Orders	104	101	100	105	101	102	105	113	111	106	104	102	105
Profit margins	96	93	92	94	95	96	95	96	97	89	90	95	95
Backlogs	98	90	91	96	94	94	94	98	101	99	97	93	96
Ease of recruiting/finding skilled talent	92	89	88	87	88	88	89	90	92	92	91	92	91
Material costs	128	124	122	118	119	119	118	121	117	121	127	122	121
Labor costs	133	131	129	130	128	128	133	130	126	129	127	125	124
Capacity utilization	108	104	102	106	106	106	104	109	108	107	99	99	104
Inventory available to you from your suppliers	110	109	111	112	111	116	113	108	116	112	112	103	108
Inventory available to your customers	109	108	108	107	110	118	110	113	114	115	111	108	108

△+5 points or more vs. previous month

△-5 points or more vs. previous month

Outlook Diffusion Indices

Past 12 Month Comparisons (TOTAL)

	August 2023	September 2023	October 2023	November 2023	December 2023	January 2024	February 2024	March 2024	April 2024	May 2024	June 2024	July 2024	August 2024
Shipments	117	110	114	116	116	117	123	124	121	122	116	115	119
Orders	117	113	114	114	116	120	121	127	122	125	117	117	119
Profit margins	104	100	100	102	100	105	103	106	101	101	100	96	100
Backlogs	100	95	97	104	97	97	102	106	104	101	97	98	106
Ease of recruiting/finding skilled talent	95	91	91	89	93	94	95	92	93	90	98	92	95
Material costs	123	122	120	116	116	116	116	119	119	118	122	120	119
Labor costs	126	129	128	132	130	129	129	127	128	124	122	121	125
Capacity utilization	115	114	111	114	114	117	116	124	117	117	115	113	113
Inventory available to you from your suppliers	113	113	113	112	114	116	113	111	110	112	110	106	107
Inventory available to your customers	112	112	112	111	115	117	114	114	115	112	110	106	113

∆+5 points or more vs. previous month

∆-5 points or more vs. previous month

Methodology

- 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 July 18 and July 31, 2024.

Questions? Please contact:

Shawn DuBravac,
IPC Chief Economist

ShawnDuBravac@ipc.org