BUILD ELECTRONICS BETTER

The Current Sentiment of the Global Electronics Manufacturing Supply Chain

Monitoring the Pulse of the Global Electronics Industry

July 2023

ipc.org

Executive Summary

> **Current conditions have receded, but industry outlook remains upbeat**

- The Shipments Index, the Orders Index, and the Capacity Utilization Index all weakened this month, but remain narrowly in expansionary territory.
- At the same time, the outlook for shipments, orders, and utilization all improved.

> **Cost pressures continue to decline and the outlook for inventory availability continues to improve**

- The majority of respondents are still reporting that labor costs and material costs are rising, but the number of companies experiencing rising costs declined again this month. The outlook for costs also improved this month.
- Both outlook indexes looking at inventory availability improved this month.

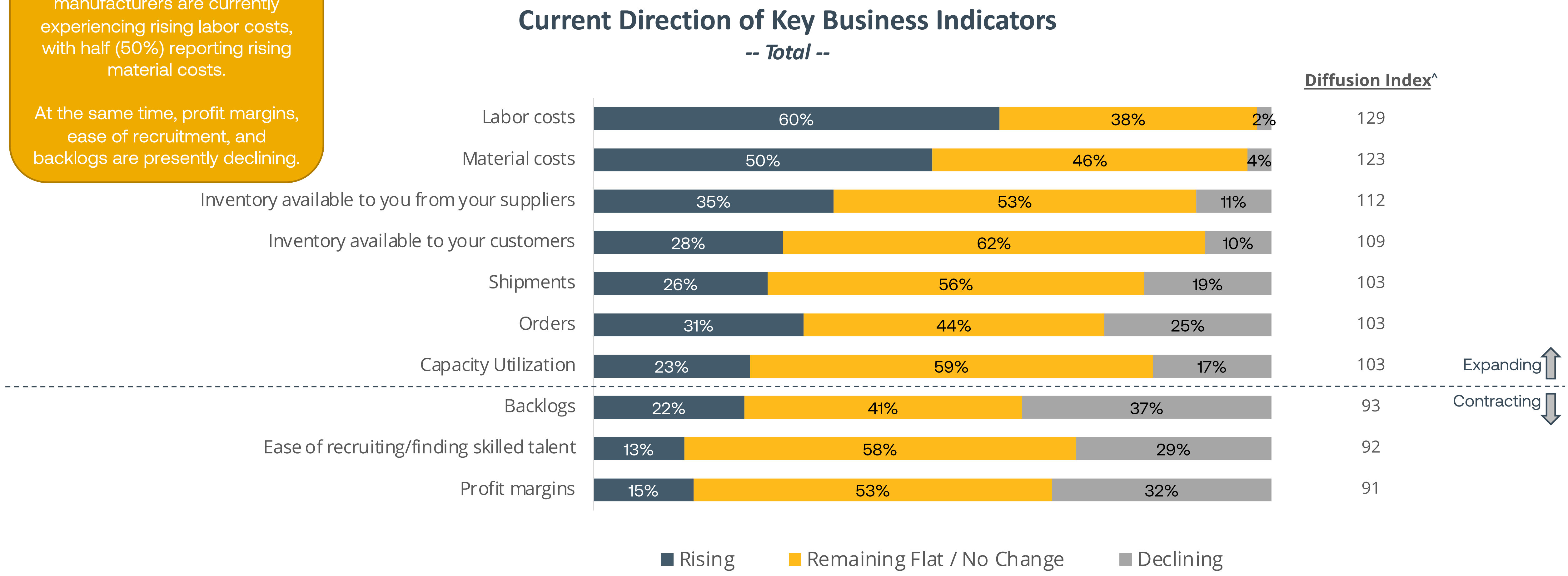
> **Industry expects Mexico's EMS market share to grow in the coming years**

- Over the next 10 years, manufacturers expect North American EMS market share in the USA to steadily decline, while increasing in Mexico and remaining relatively stable in Canada
- Industry executives expect the global EMS share in North America will increase somewhat over the next 10 years. It is expected to increase significantly in Mexico, while declining across 'Other' markets
- Of interest, North American manufacturers anticipate a significantly higher 10-year increase in global EMS share in the North American market, with European manufacturers expecting a significantly higher 10-year increase in 'other' markets.

Current Conditions for the Electronics Supply Chain

Six in ten (60%) electronics manufacturers are currently experiencing rising labor costs, with half (50%) reporting rising material costs.

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



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

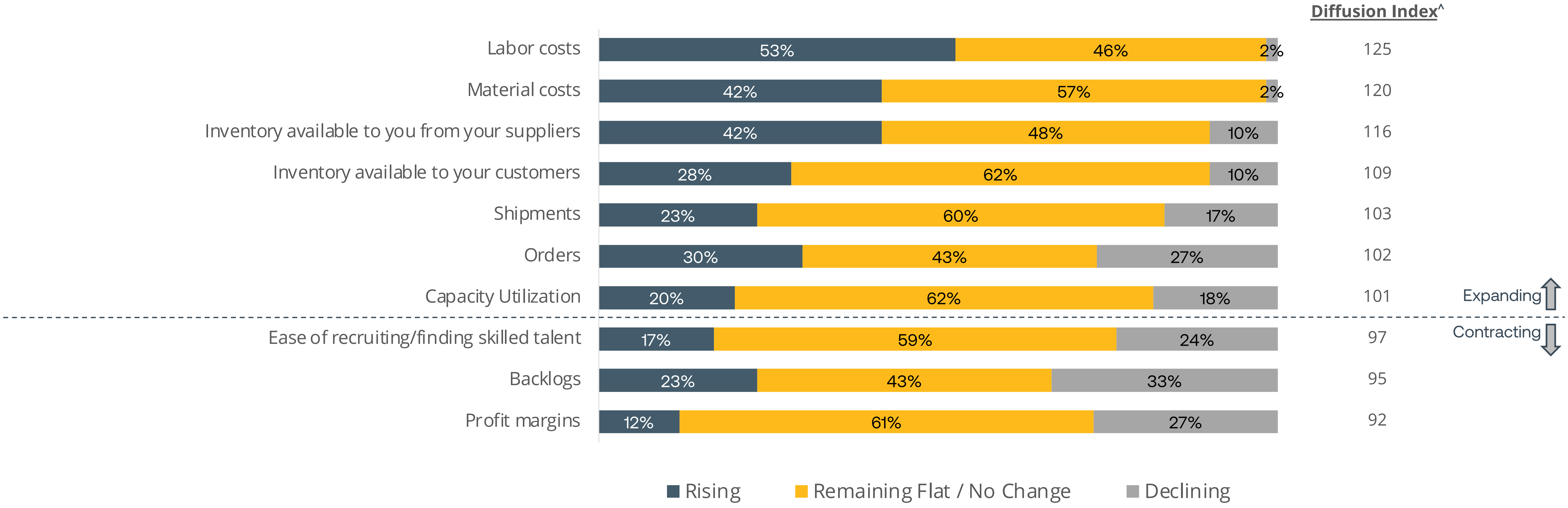
Regional Differences in Current Conditions

- **Profit margins are declining more so among firms in APAC when compared to North American, European, and Global firms.**
  - Nearly two-thirds (63%) of firms in APAC are currently experiencing a decline in profit margins, which compares to 27% in North America, 24% in Europe, and 13% among firms operating Globally.
  - At the same time, Global manufacturers are more likely to indicate profit margins are holding steady vs. manufacturers in APAC (81% vs. 37%, respectively).

The View From Companies Primarily Operating in North America

Current Direction of Key Business Indicators

-- Primary Region: North America --



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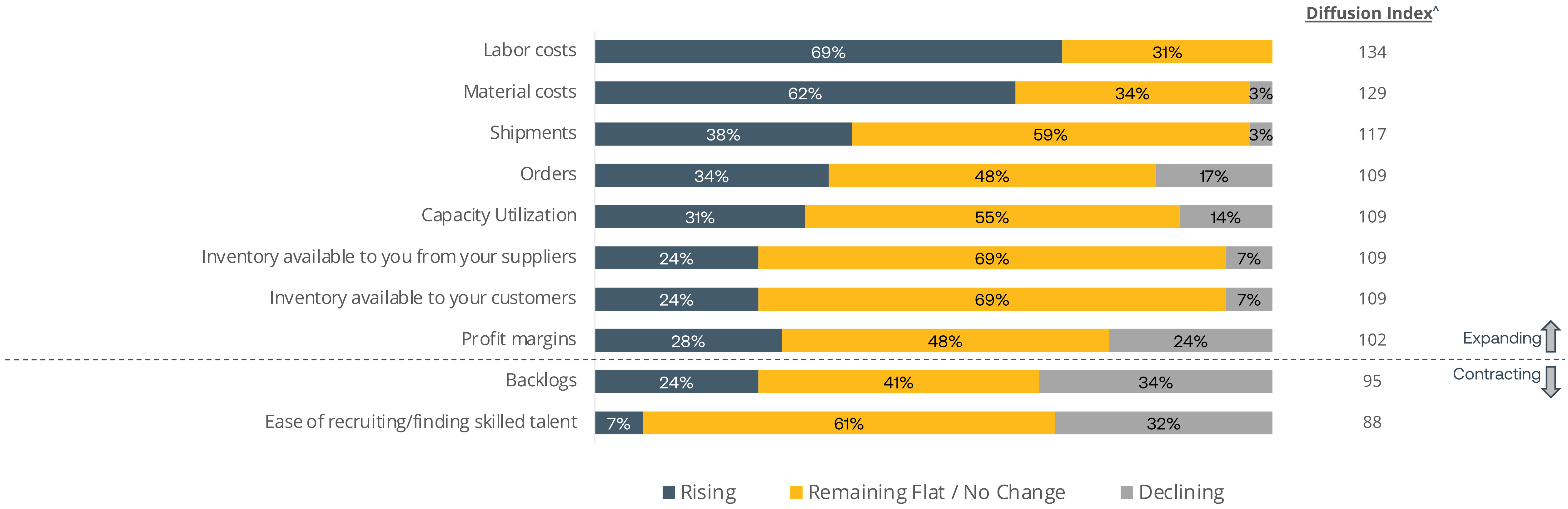
The View From Companies Primarily Operating in Europe

Current Direction of Key Business Indicators

-- Primary Region: Europe --



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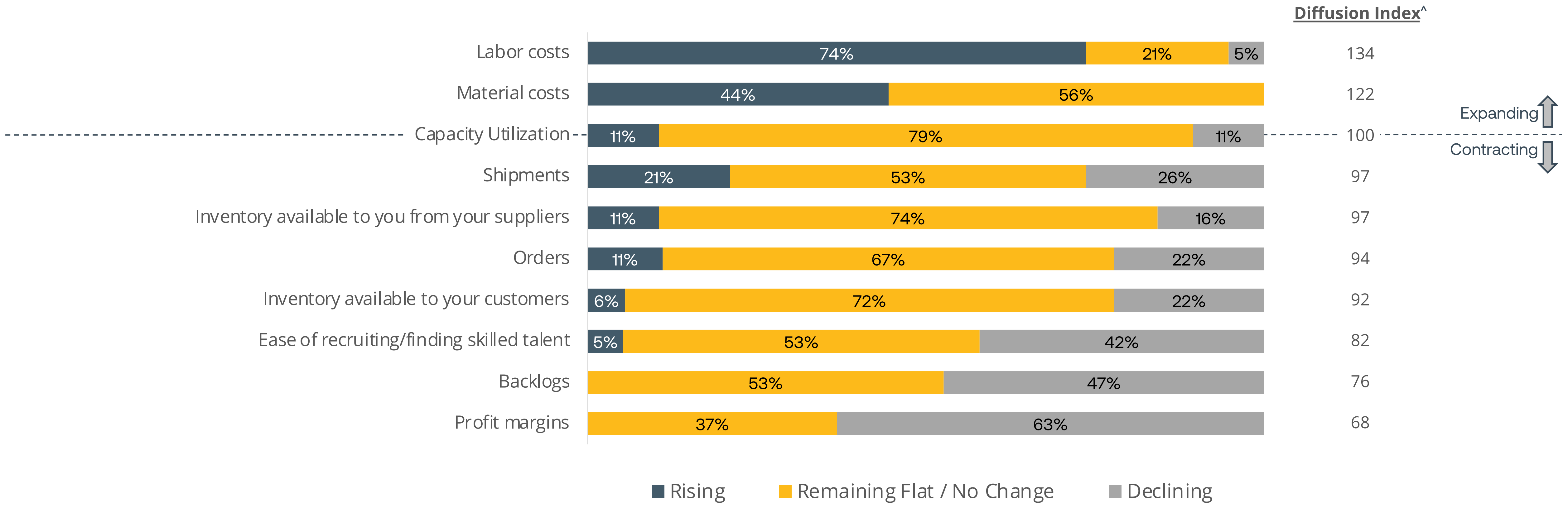
The View From Companies Primarily Operating in APAC

Current Direction of Key Business Indicators

-- Primary Region: APAC --



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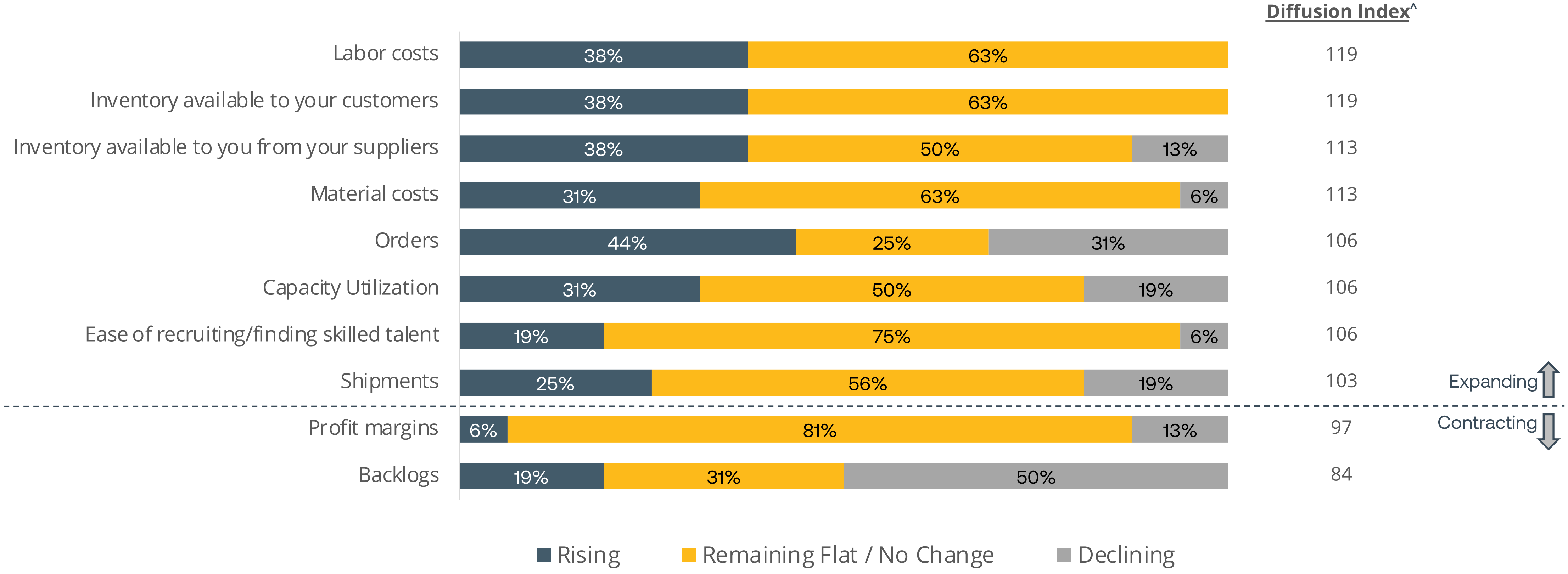
The View From Companies Primarily Operating Globally

Current Direction of Key Business Indicators

-- Primary Region: Global --



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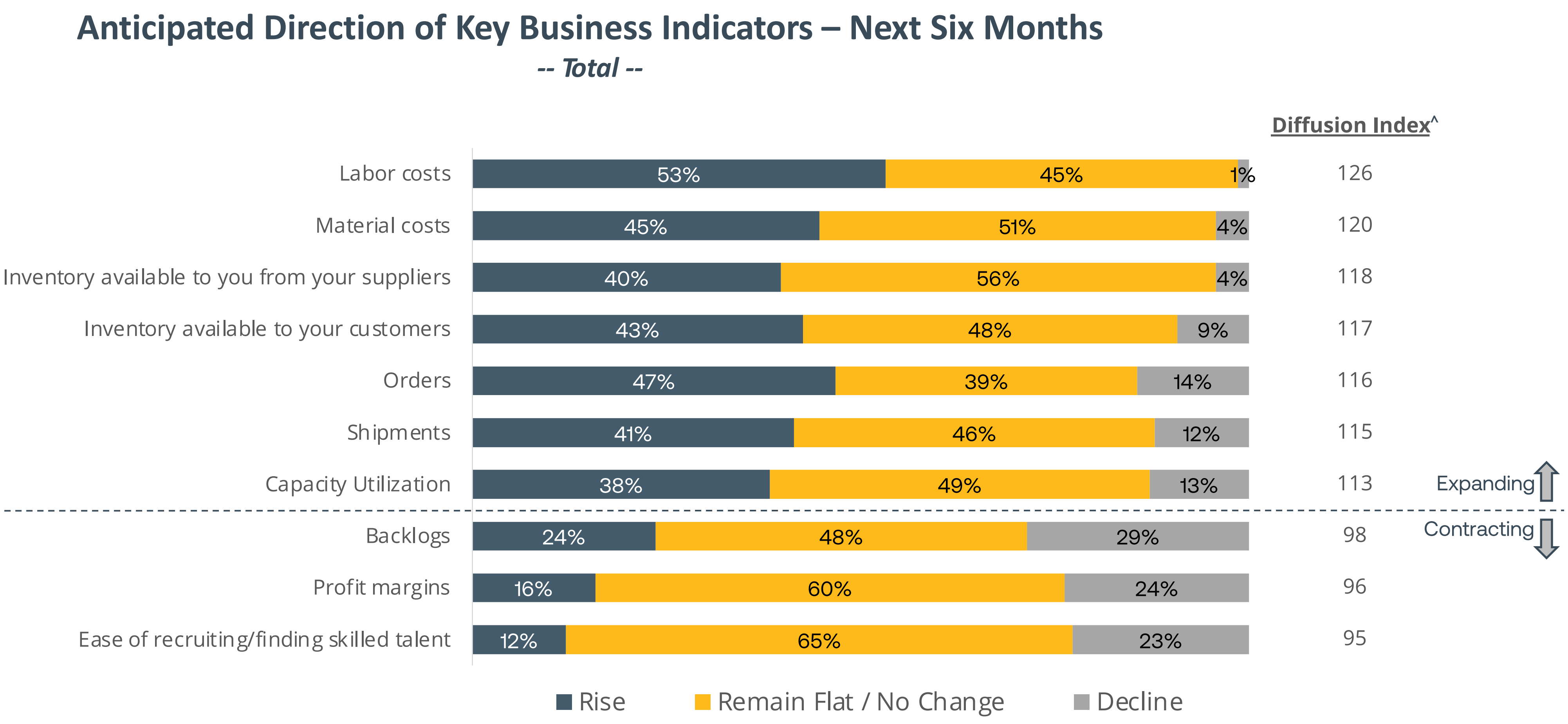
The Outlook for the Next 6 Months

Over the next six months, electronics manufacturers expect to see continued increase in both labor and material costs, although down slightly from current levels.

Conversely, ease of recruitment, profit margins, and backlogs are expected remain challenging.



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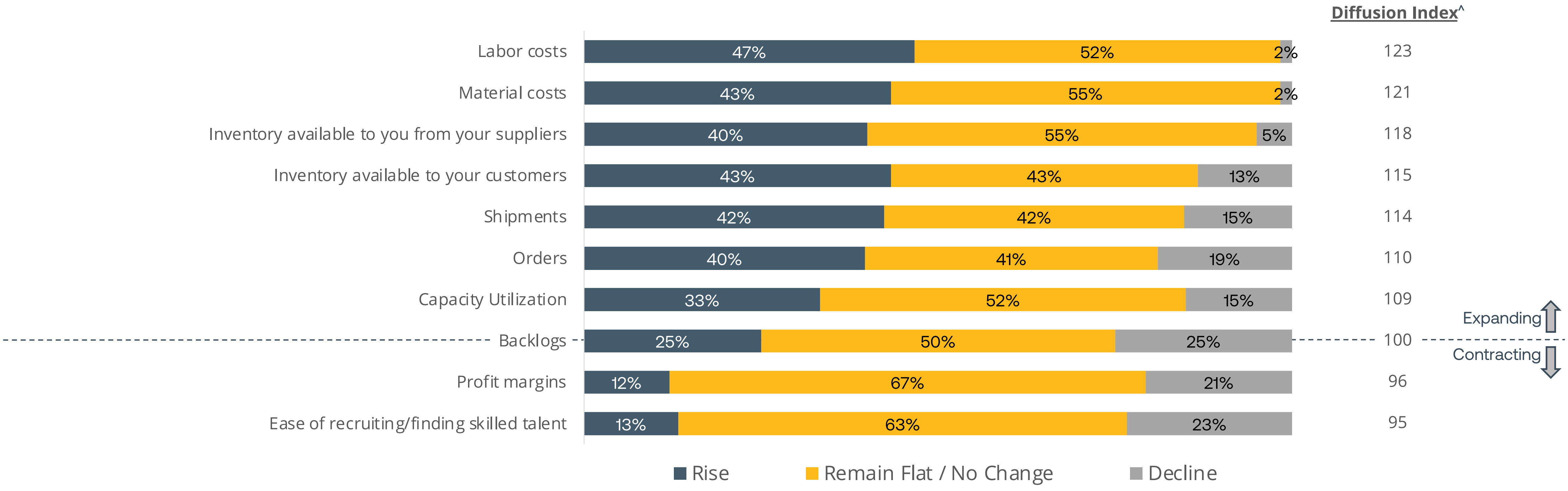
Regional Differences in the Outlook

- **Material costs are expected to decline more so among Global manufacturers when compared to expectations among North American manufacturers.**
  - One-fifth (19%) of Global firms expect material costs to decline over the next six months, which is significantly higher vs. 2% reported by North American firms.

The View From Companies Primarily Operating in North America

Anticipated Direction of Key Business Indicators – Next Six Months

-- Primary Region: North America --



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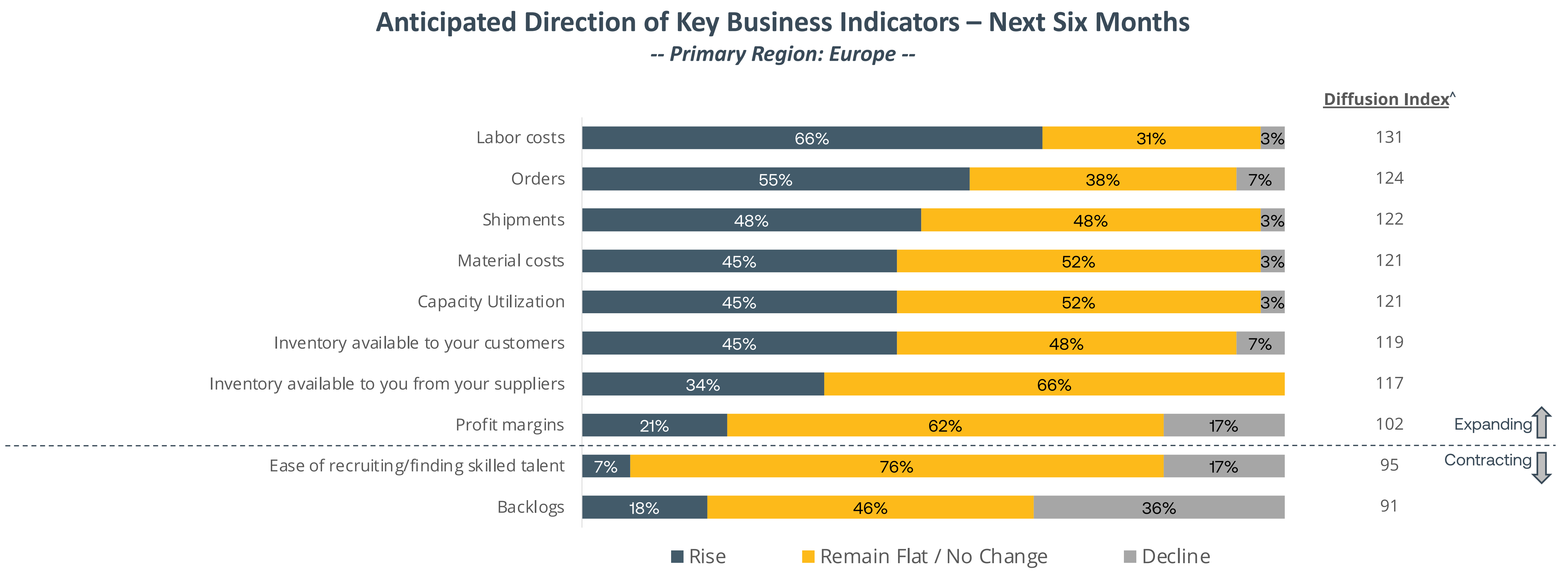
The View From Companies Primarily Operating in Europe



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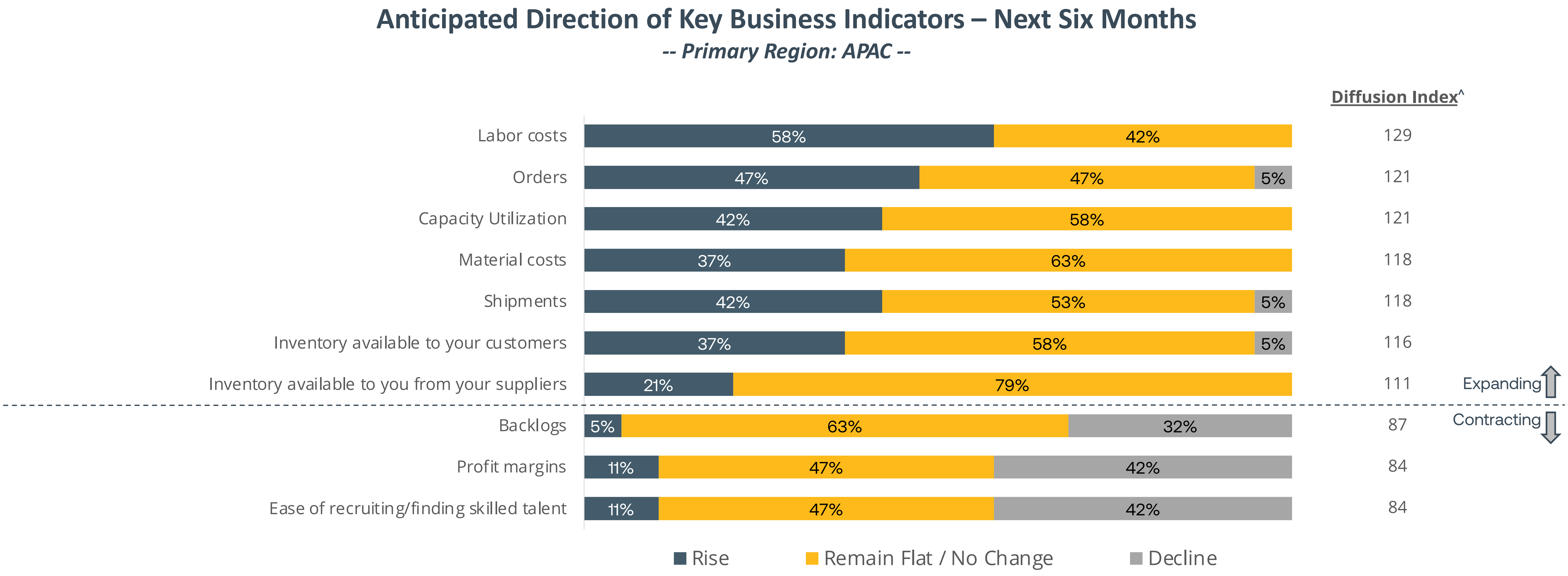
The View From Companies Primarily Operating in APAC



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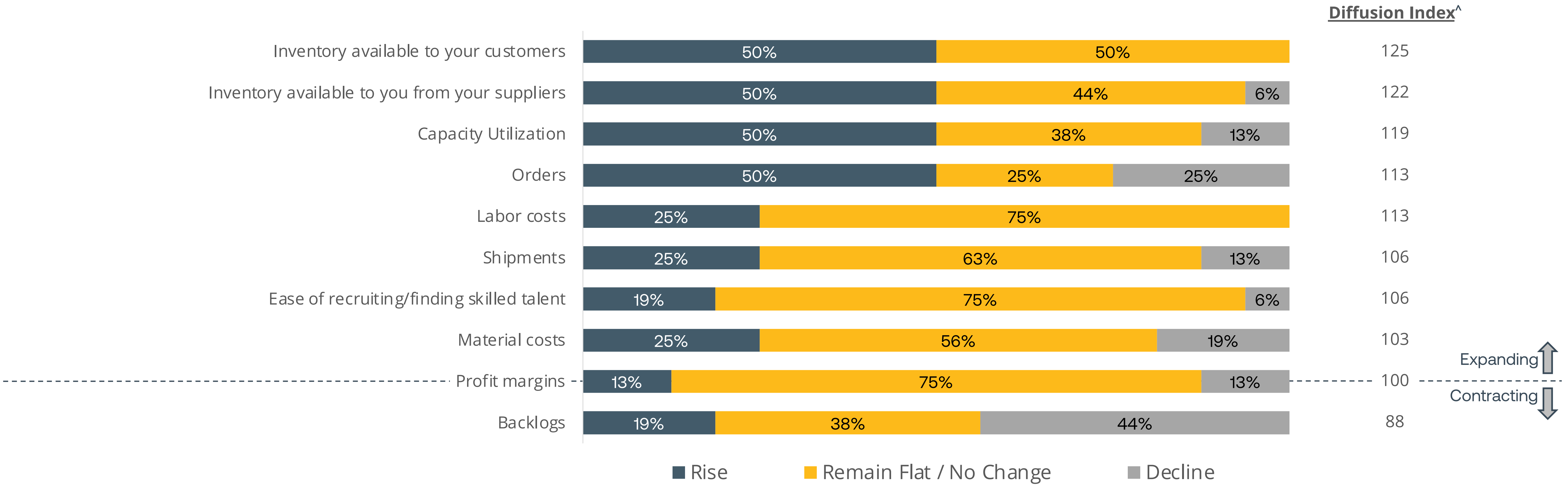
The View From Companies Primarily Operating Globally

Anticipated Direction of Key Business Indicators – Next Six Months

-- Primary Region: Global --



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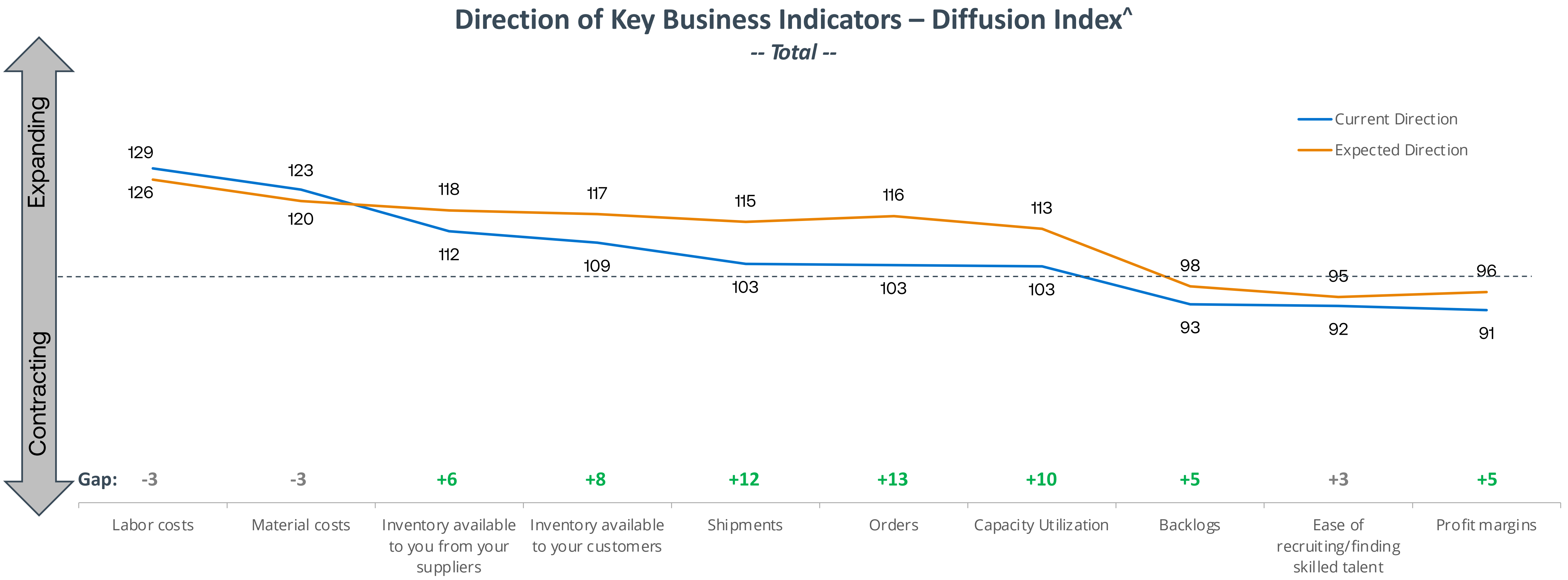
Orders, Shipments, Capacity Utilization, Inventories, Backlogs, and Profit Margins are Expected to Rise Over the Next Six Months

At the same, labor costs, material costs, and ease of recruitment are expected to remain relatively stable.



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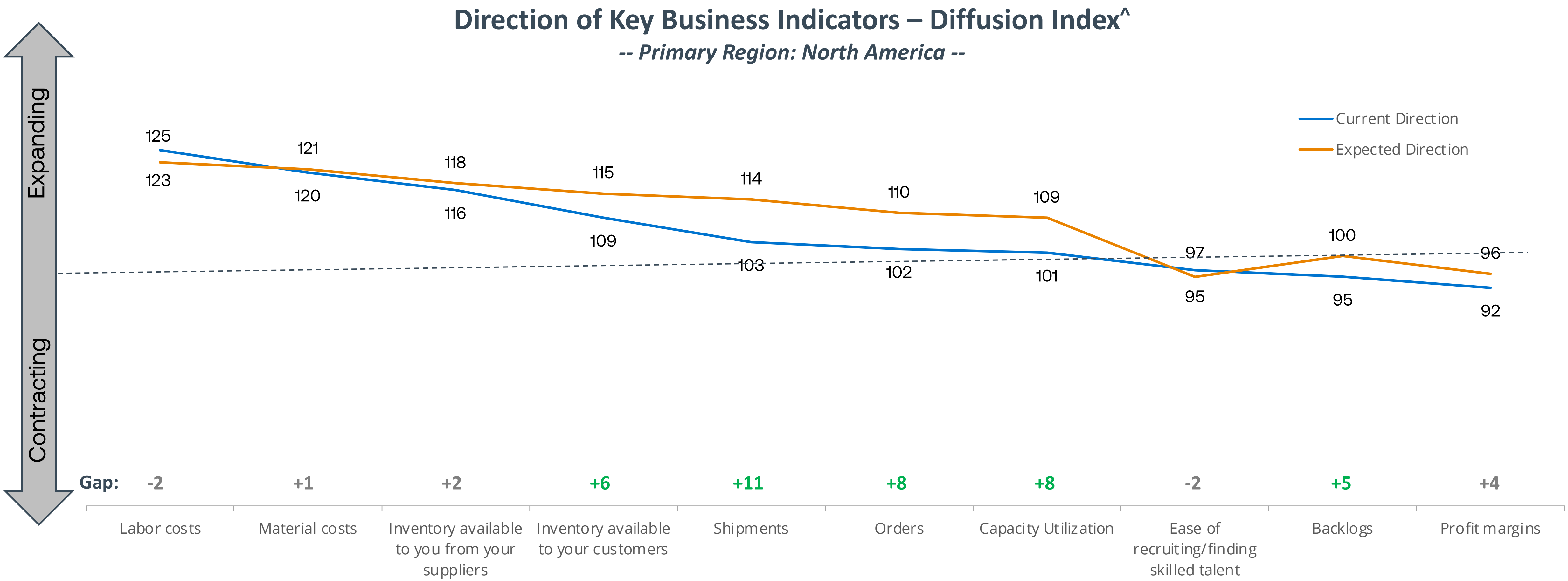
The View From Companies Primarily Operating in North America



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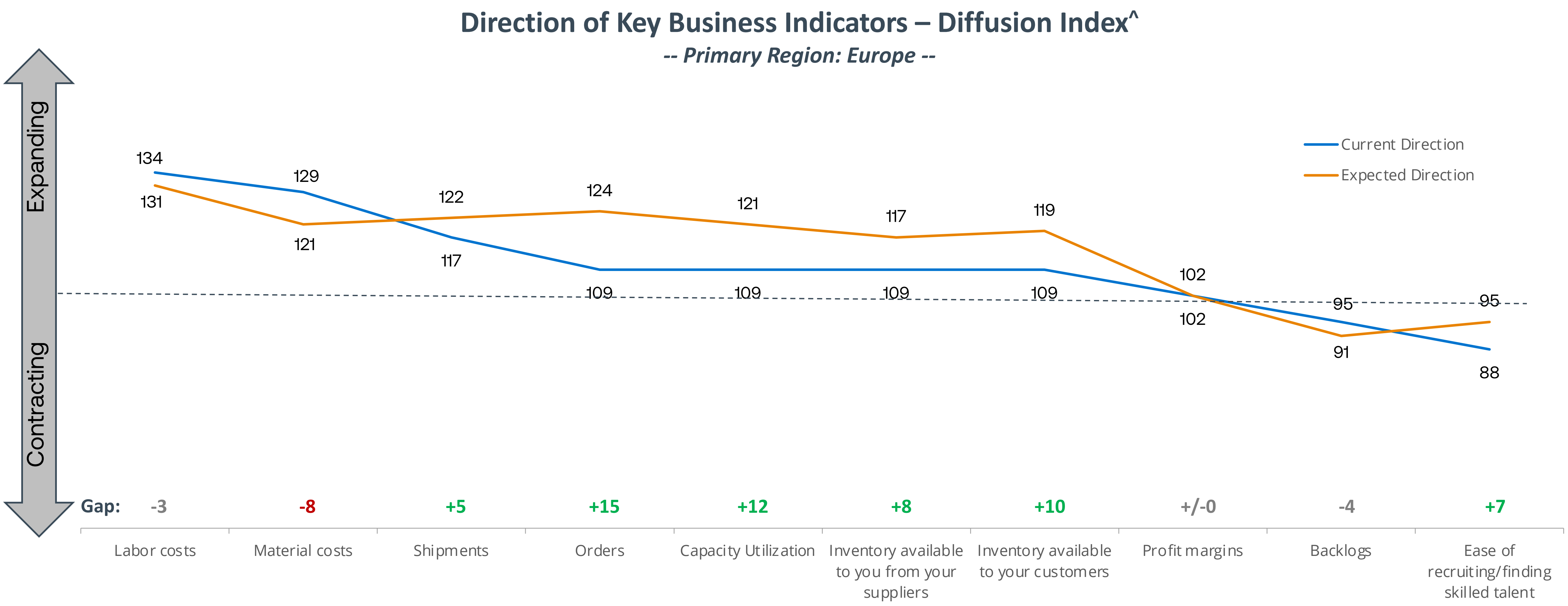
The View From Companies Primarily Operating in Europe



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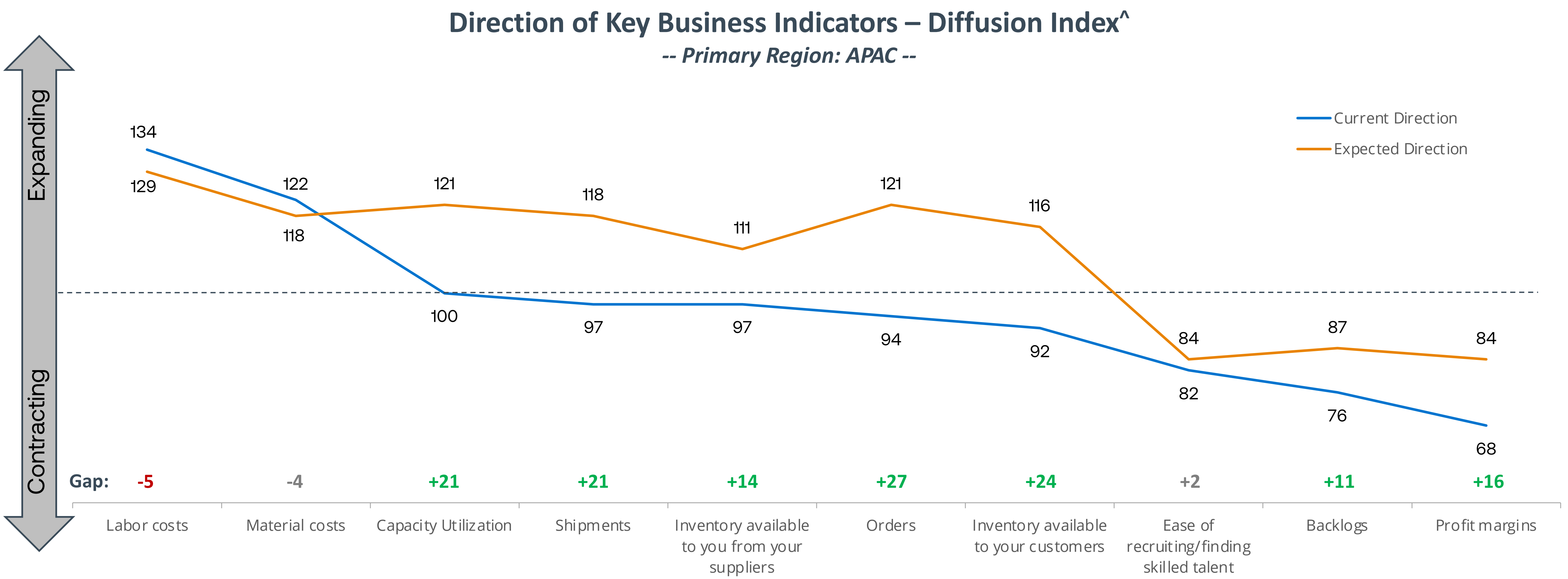
The View From Companies Primarily Operating in APAC



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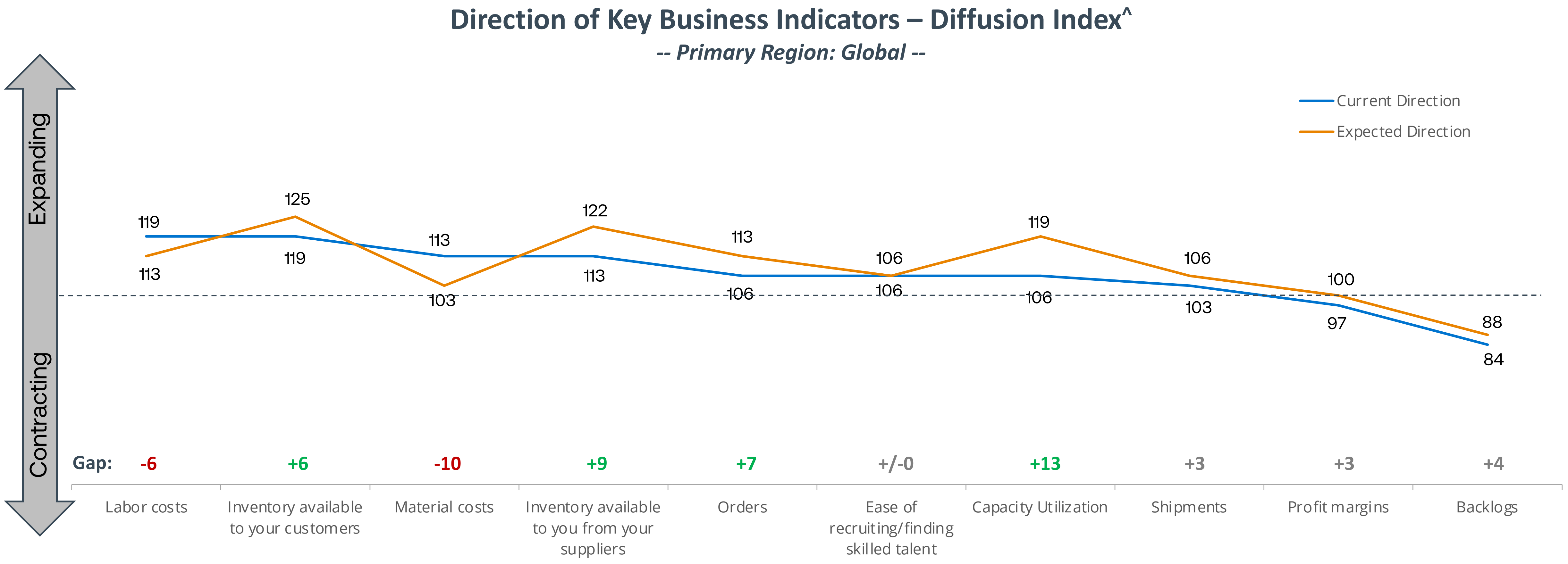
The View From Companies Primarily Operating Globally



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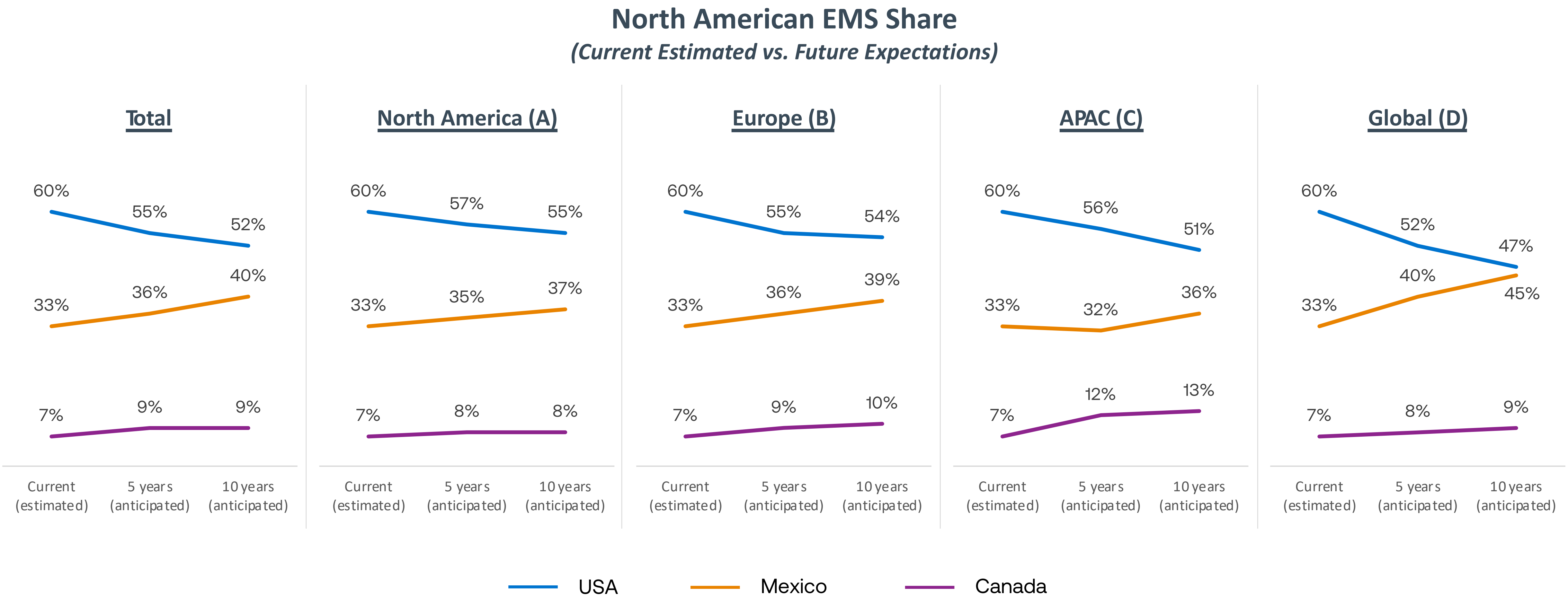
July 2023 Special Questions

Over the Next 10 Years, Manufacturers Expect North American EMS Share in the USA to Steadily Decline, While Increasing in Mexico and Remaining Relatively Stable in Canada

Notably, there are no significant differences in anticipated 5- or 10-year market share within each market, nor across all regions.



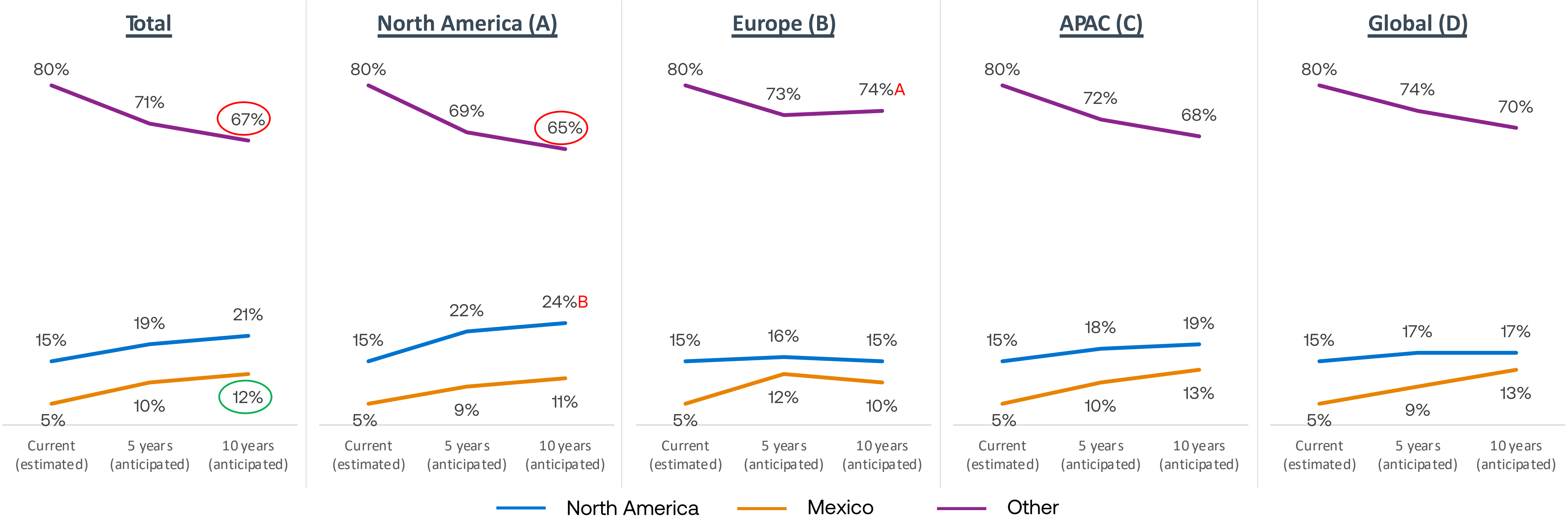
Statistically higher / lower at 90% confidence interval (within markets)
A/B/C/D Statistically significant at 90% confidence interval (across markets)

While Global EMS Share is Expected to Increase Somewhat in North America Over the Next 10 Years, it is Expected to Increase Significantly in Mexico, While Declining Significantly Across 'Other' Markets

Of interest, North American manufacturers anticipate a significantly higher 10-year increase in global EMS share in the North American market, with European manufacturers expecting a significantly higher 10-year increase in 'other' markets.

Global EMS Share

(Current Estimated vs. Future Expectations)



Statistically higher / lower at 90% confidence interval (within markets)

A/B/C/D Statistically significant at 90% confidence interval (across markets)

Appendix

Current Conditions Diffusion Indices

Past 12 Month Comparisons (TOTAL)

	July 2022	August 2022	September 2022	October 2022	November 2022	December 2022	January 2023	February 2023	March 2023	April 2023	May 2023	June 2023	July 2023
Shipments	111	110	112	111	106	109	112	110	111	110	109	108	103
Orders	115	112	109	112	109	107	112	111	112	105	101	107	103
Profit margins	84	86	86	89	87	90	89	86	90	93	95	96	91
Backlogs	114	111	107	110	108	105	99	101	104	97	99	95	93
Ease of recruiting/finding skilled talent	80	85	85	84	84	88	87	84	91	89	92	90	92
Material costs	144	142	139	141	139	138	136	135	133	130	128	126	123
Labor costs	139	138	136	136	139	136	136	137	136	131	128	129	129
Capacity utilization	107	110	109	110	107	105	111	108	110	105	103	108	103
Inventory available to you from your suppliers	86	94	96	99	98	102	104	102	106	108	110	112	112
Inventory available to your customers	96	102	106	101	102	105	111	106	108	111	116	115	109

△+5 points or more vs. previous month

△-5 points or more vs. previous month

Outlook Diffusion Indices

Past 12 Month Comparisons (TOTAL)

	July 2022	August 2022	September 2022	October 2022	November 2022	December 2022	January 2023	February 2023	March 2023	April 2023	May 2023	June 2023	July 2023
Shipments	120	117	116	114	112	112	120	119	116	118	118	112	115
Orders	120	117	113	108	110	113	116	116	114	118	111	111	116
Profit margins	92	95	93	95	94	98	97	100	98	98	99	99	96
Backlogs	103	104	99	100	100	99	100	97	100	95	93	92	98
Ease of recruiting/finding skilled talent	88	88	92	86	90	93	95	95	93	95	95	93	95
Material costs	138	136	131	134	131	131	130	127	128	126	122	123	120
Labor costs	139	136	134	136	135	133	135	133	134	132	124	128	126
Capacity utilization	115	114	117	112	111	111	118	115	115	112	110	111	113
Inventory available to you from your suppliers	102	104	107	108	110	108	113	113	112	113	113	113	118
Inventory available to your customers	105	107	111	114	106	109	117	114	111	110	114	111	117

△+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 June 14 and June 30, 2023.

Questions? Please contact:

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