BUILD ELECTRONICS BETTER

The Current Sentiment of the Global Electronics Manufacturing Supply Chain

Monitoring the Pulse of the Global Electronics Industry

August 2023

ipc.org

Executive Summary

> **Cost pressures continue**

- The Labor Costs Index rose 4 points this month. The index remains extremely elevated. The electronics industry has yet to see a break in the trend of raising labor costs.
- The Material Costs Index rose 5 points this month. This is the first monthly increase since October 2022. Future months will help determine if this rise was driven by data volatility or a more meaningful trend.

> **Demand remains positive**

- The Shipment Index rose solidly this month and remains in expansionary territory. The Orders Index rose one point and also remains in expansionary territory.
- The Backlog Index rose this month by remains in contraction territory, though just barely. New orders and shipments seem well balanced in the electronics industry right now which has likely weakened backlogs.

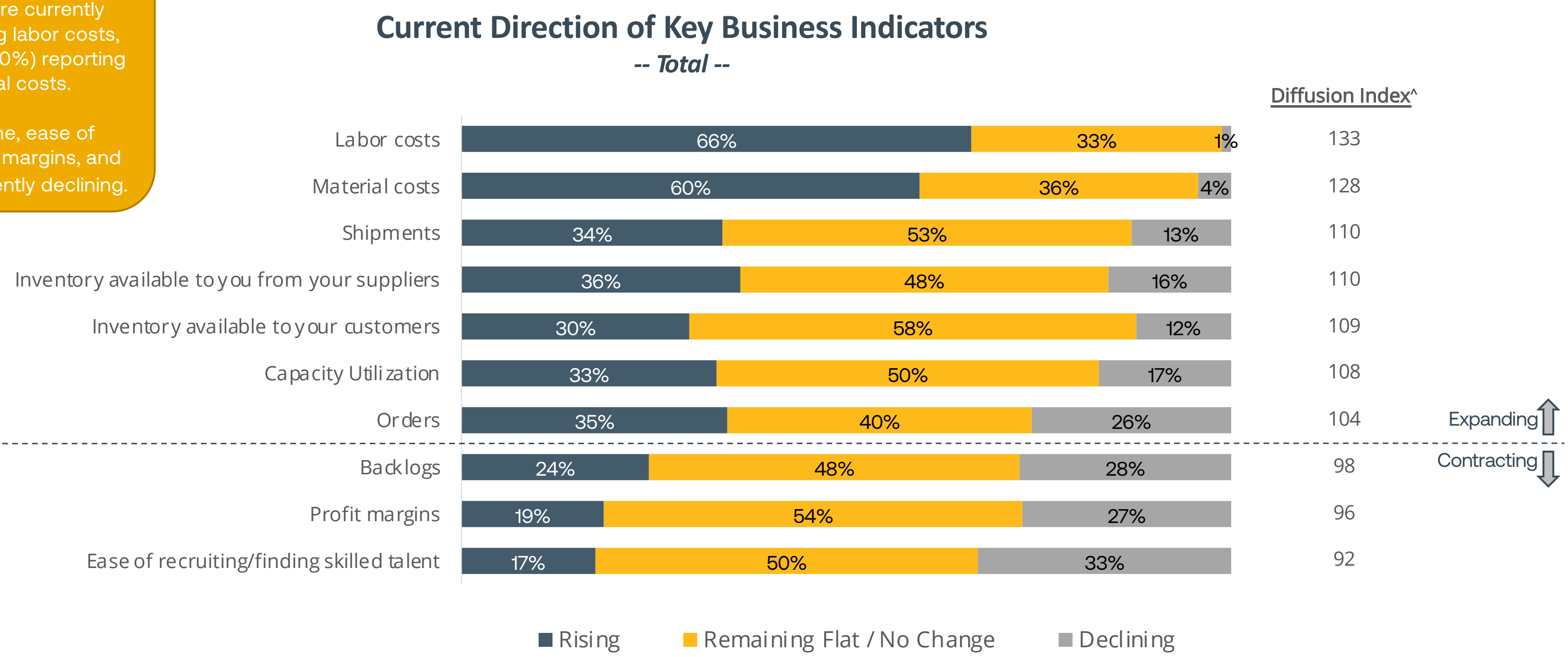
> **Supply chains continue to look healthy**

- Both inventory measures remain in expansionary territory.

Current Conditions for the Electronics Supply Chain

Two-thirds (66%) of electronics manufacturers are currently experiencing rising labor costs, with three-fifths (60%) reporting rising material costs.

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

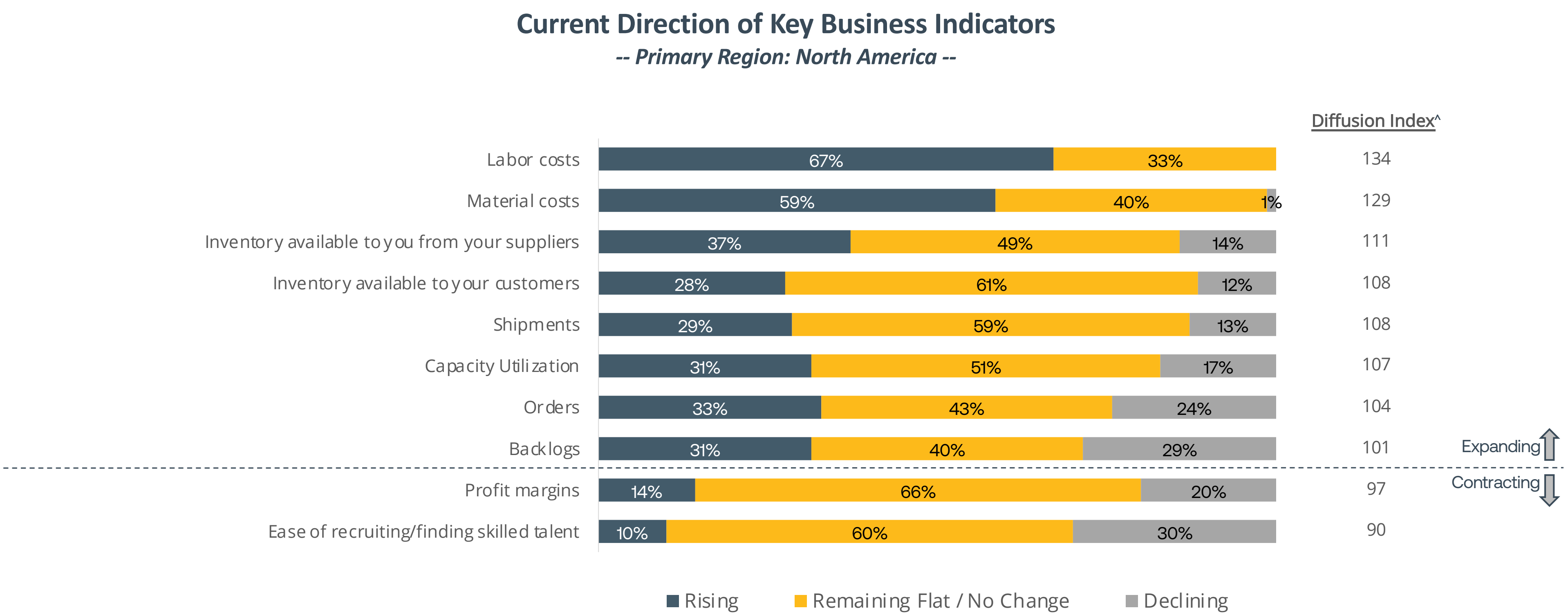


^A diffusion index is a statistical measure used to detect economic turning points.

Regional Differences in Current Conditions

- **Profit margins are declining more so among firms in Europe when compared to North American and Global firms, where profit margins are remaining stable.**
  - Nearly half (45%) of firms in Europe are currently experiencing a decline in profit margins, which compares to 20% in North America and 6% among firms operating Globally.
  - At the same time, North American (66%) and Global (82%) manufacturers are more likely to indicate profit margins are holding steady vs. manufacturers in both Europe (41%) and APAC (39%).

The View From Companies Primarily Operating in North America



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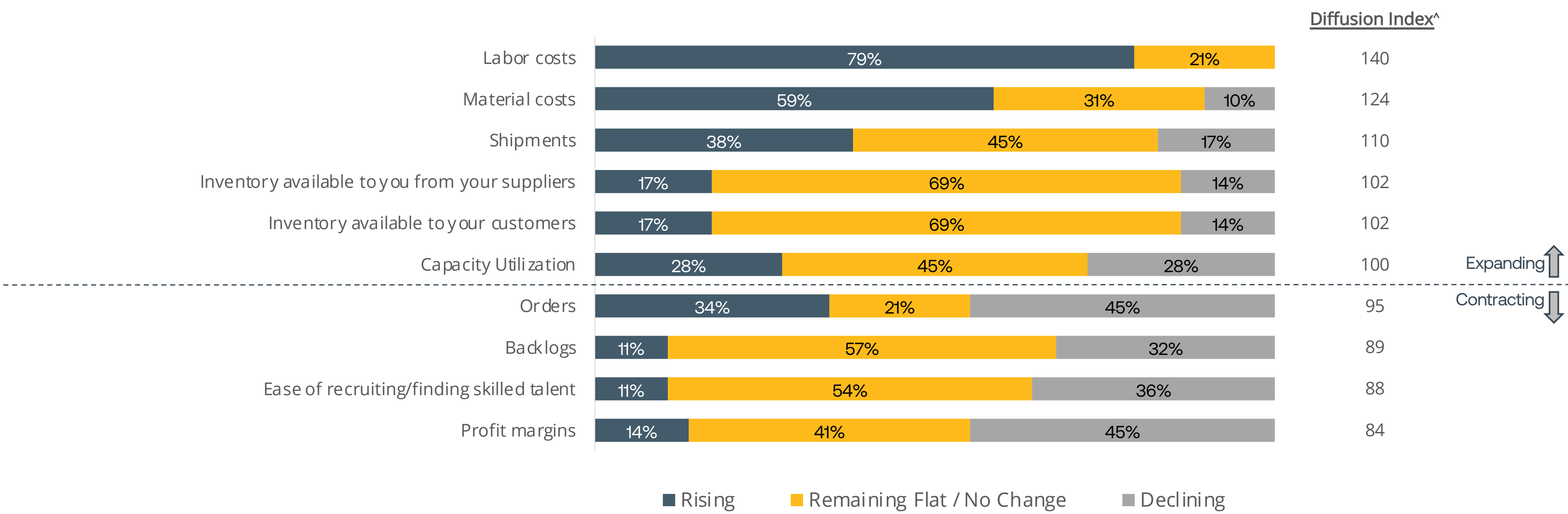
The View From Companies Primarily Operating in Europe

Current Direction of Key Business Indicators

-- Primary Region: Europe --



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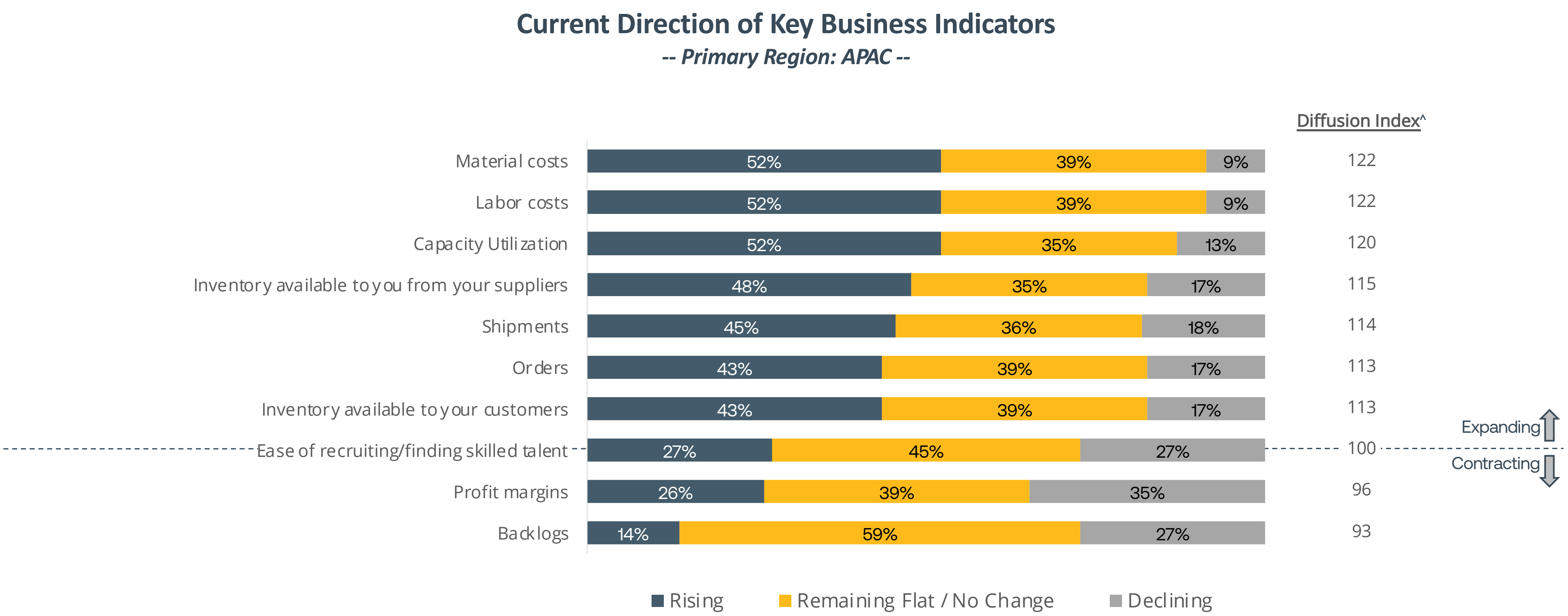
The View From Companies Primarily Operating in APAC



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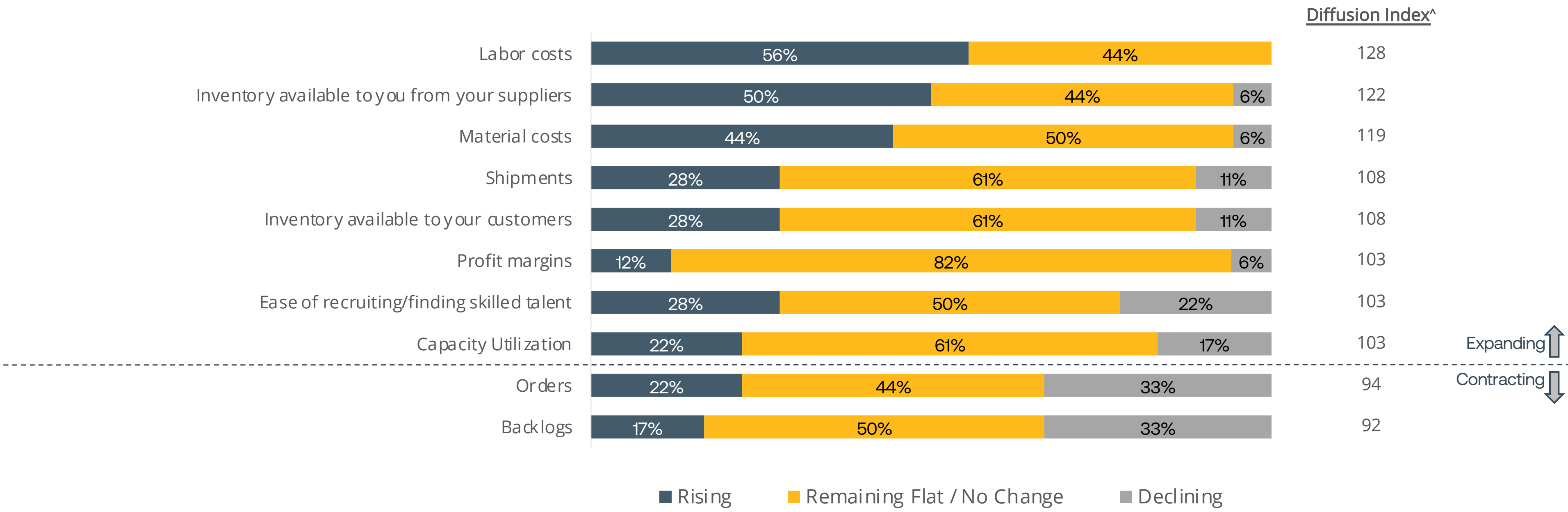
The View From Companies Primarily Operating Globally

Current Direction of Key Business Indicators

-- Primary Region: Global --



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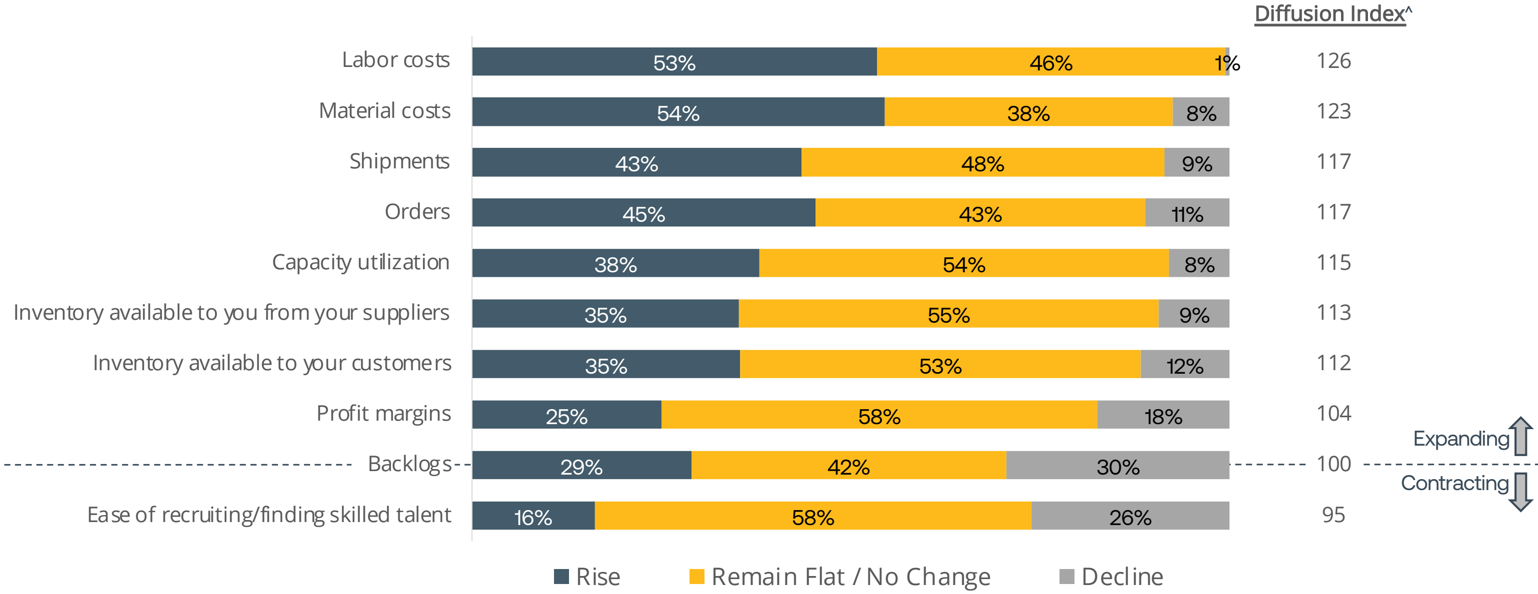
The Outlook for the Next 6 Months

Anticipated Direction of Key Business Indicators – Next Six Months

-- Total --

Over the next six months, electronics manufacturers expect to see continued increase in both labor and material costs, although to a lesser extent than current conditions

Conversely, while backlogs and profit margins are expected to improve, ease of recruitment is likely to remain challenging.



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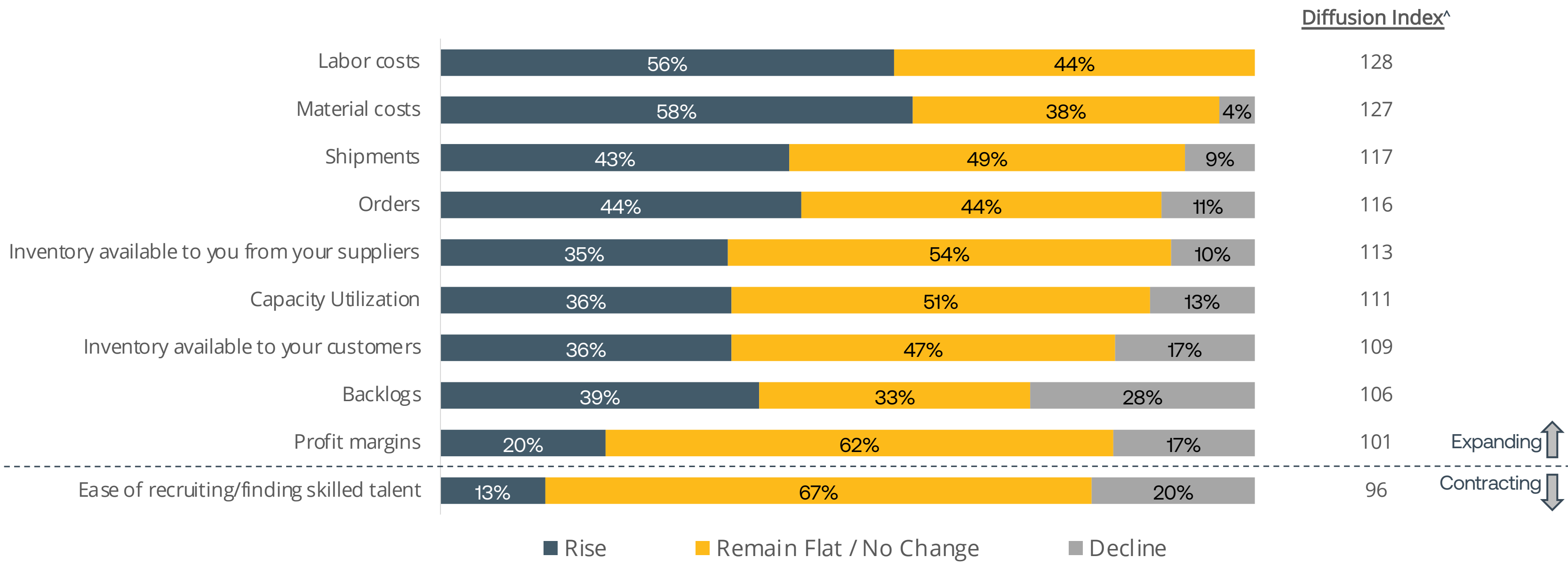
Regional Differences in the Outlook

- **Capacity utilization is expected to rise more so among APAC manufacturers when compared to expectations among European manufacturers.**
  - Three-fifths (57%) of APAC firms expect capacity utilization to rise over the next six months, which is significantly higher vs. 21% reported by European 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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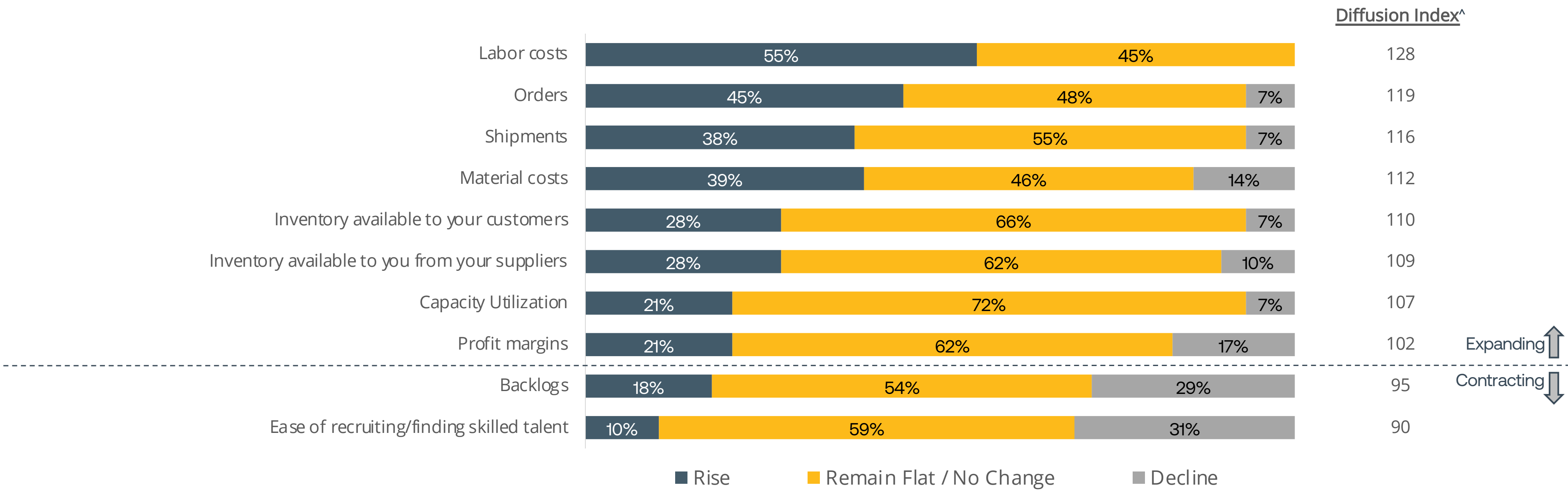
The View From Companies Primarily Operating in Europe

Anticipated Direction of Key Business Indicators – Next Six Months

-- Primary Region: Europe --



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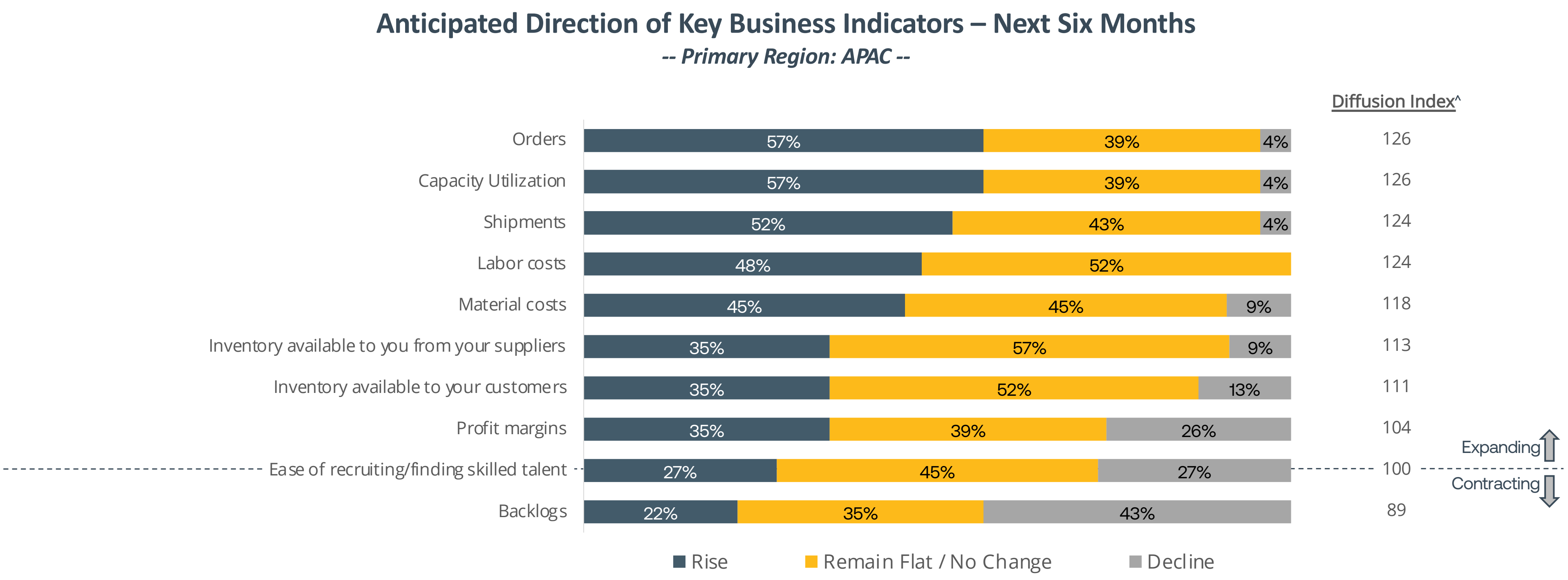
The View From Companies Primarily Operating in APAC



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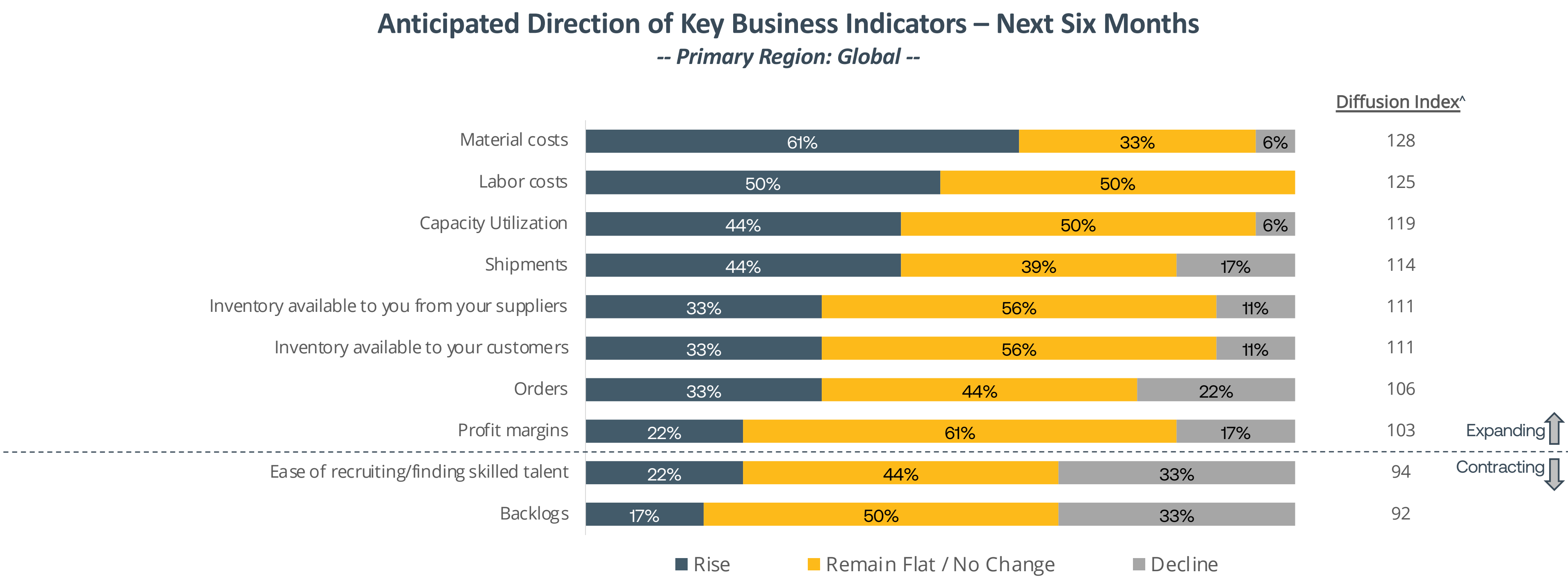
The View From Companies Primarily Operating Globally



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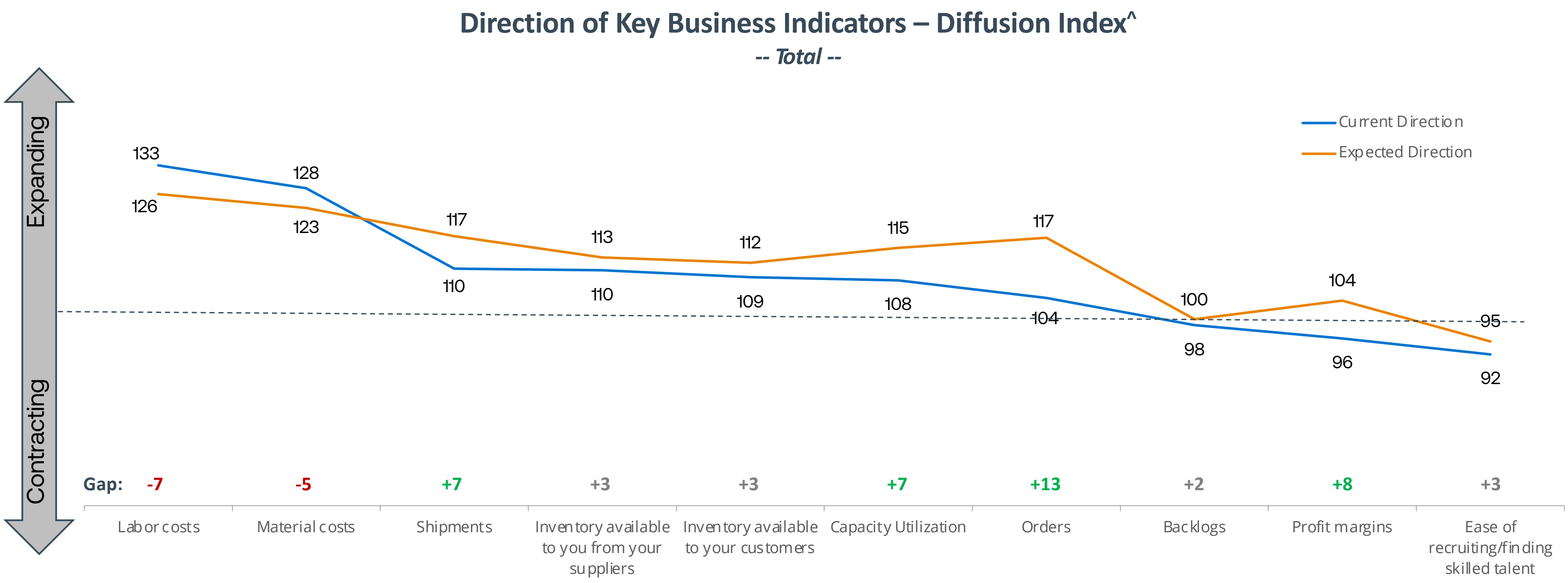
Orders, Profit Margins, Shipments, and Capacity Utilization are Expected to Rise Over the Next Six Months, While Labor and Material Costs are Expected to Decline

At the same time, ease of recruitment, inventories, and backlogs are expected to remain stable.



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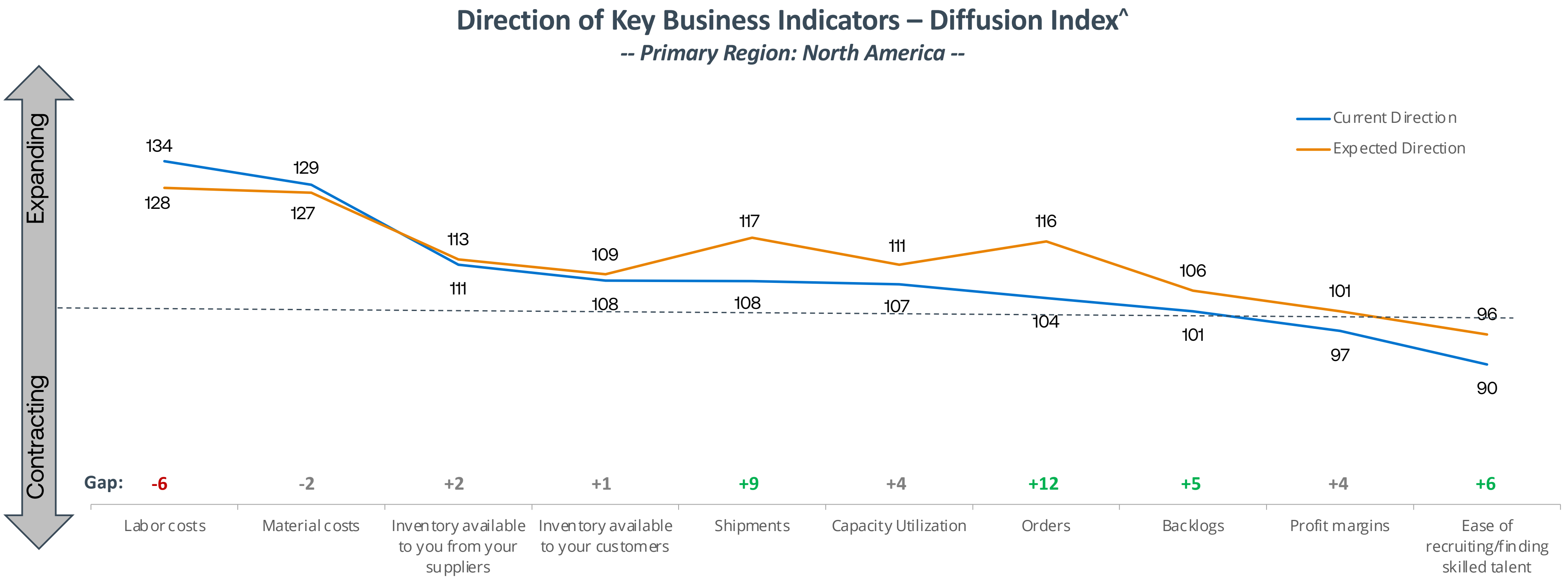
The View From Companies Primarily Operating in North America



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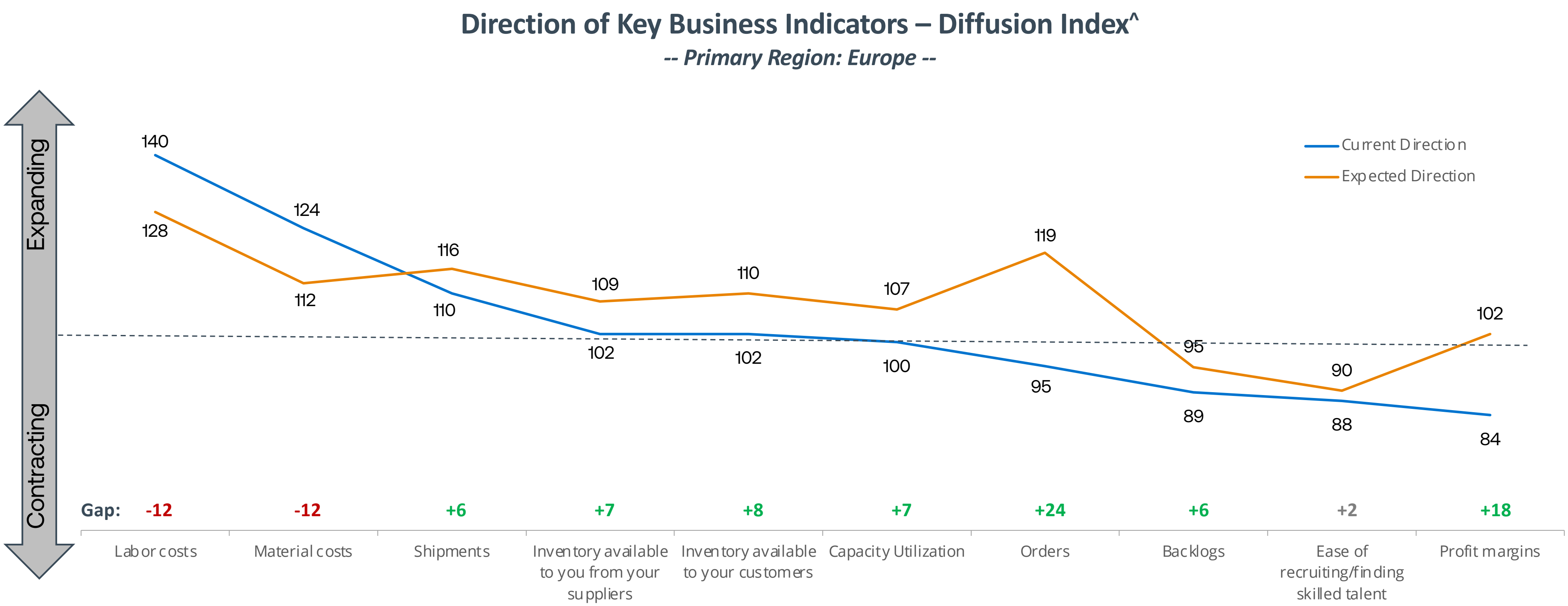
The View From Companies Primarily Operating in Europe



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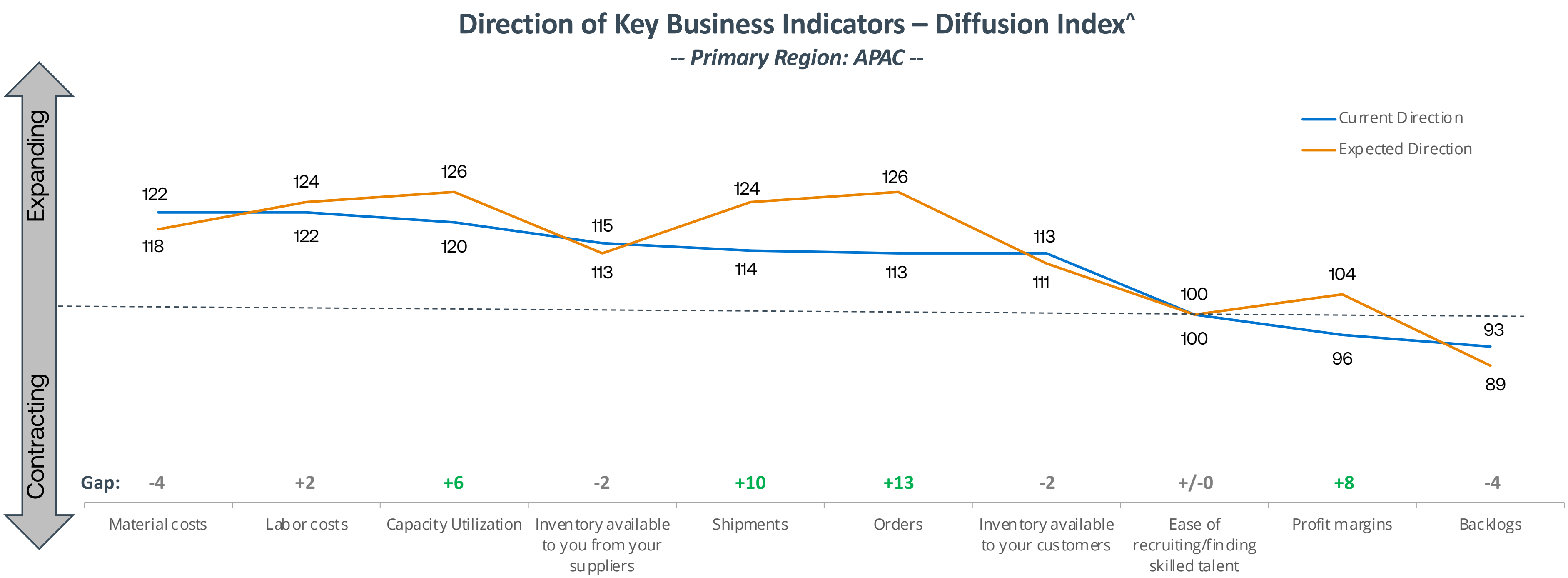
The View From Companies Primarily Operating in APAC



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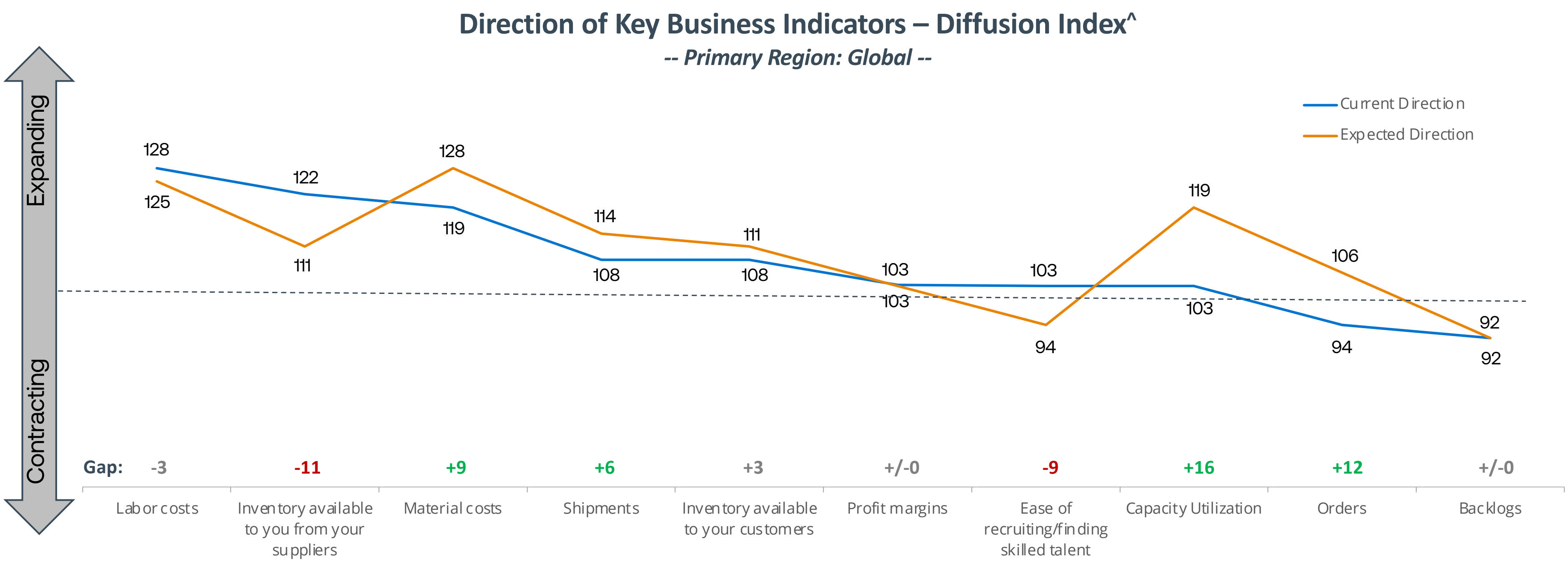
The View From Companies Primarily Operating Globally



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Appendix

Current Conditions Diffusion Indices

Past 12 Month Comparisons (TOTAL)

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

Δ+5 points or more vs. previous month

Δ-5 points or more vs. previous month

Outlook Diffusion Indices

Past 12 Month Comparisons (TOTAL)

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

∆+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 14 and July 31, 2023.

Questions? Please contact:

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