The Current Sentiment of the Global Electronics Manufacturing Supply Chain

Monitoring the Pulse of the Global Electronics Industry

September 2022

ipc.org

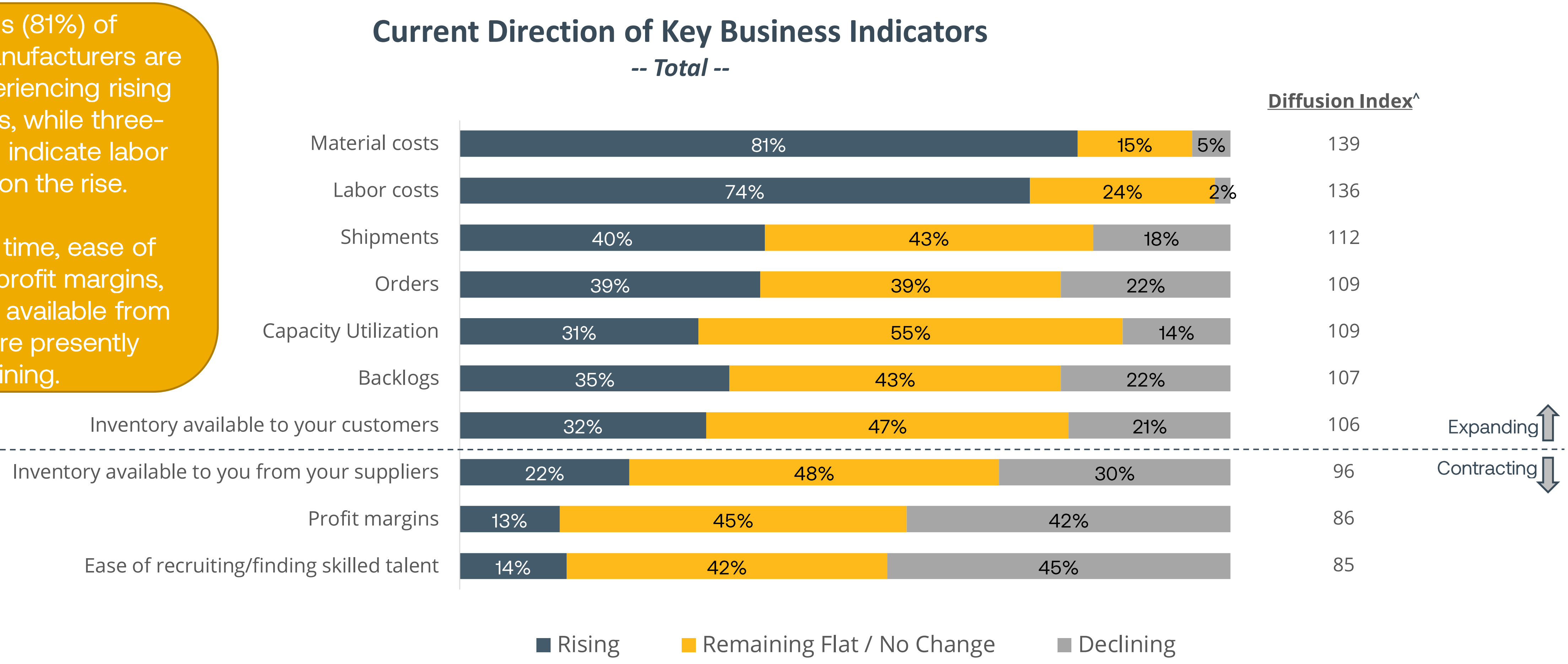
Executive Summary

- **Cost pressures appear to be easing slowly**
  - The Materials Cost Index declined three points, but remains in expansionary territory. The Materials Cost Outlook Index declined five points.
  - The Labor Cost Index and the Labor Cost Outlook Index both declined in September, each falling 2 points.
- **Demand, while still positive, is showing some signs of a slowdown**
  - The Orders Index fell three points and the Backlog Index fell four points. Both remain in expansionary territory, but both are indexes are at the lowest point since the survey began
  - The Order Outlook Index fell 4 points to the lowest point in the history of the survey and the Backlog Outlook Index dipped to 99, the first time the index has been in contractionary territory.
- **Lead-times are improving and much of the electronics supply chain expects lead-times to decline in the coming months and the recovery appears to be unevenly distributed**
  - Two-Fifths (37%) of electronics manufacturers indicate lead times have improved over the past month
    - Notably, manufacturers are more likely to say that lead times have “improved considerably” in the past month among those primarily operating in APAC (20%) and Globally (13%) when compared to manufacturers primarily operating in North America (1%).
  - Looking forward, half (48%) of manufacturers expect lead times to improve over the next six months
    - Manufacturers primarily operating globally are more likely to anticipate lead times to “improve considerably” over the next six months when compared to manufacturers primarily operating in North America (29% and 7%, respectively).

Current Conditions for the Electronics Supply Chain

Four-fifths (81%) of electronics manufacturers are currently experiencing rising material costs, while three-fourths (74%) indicate labor costs are on the rise.

At the same time, ease of recruitment, profit margins, and inventory available from suppliers are presently declining.

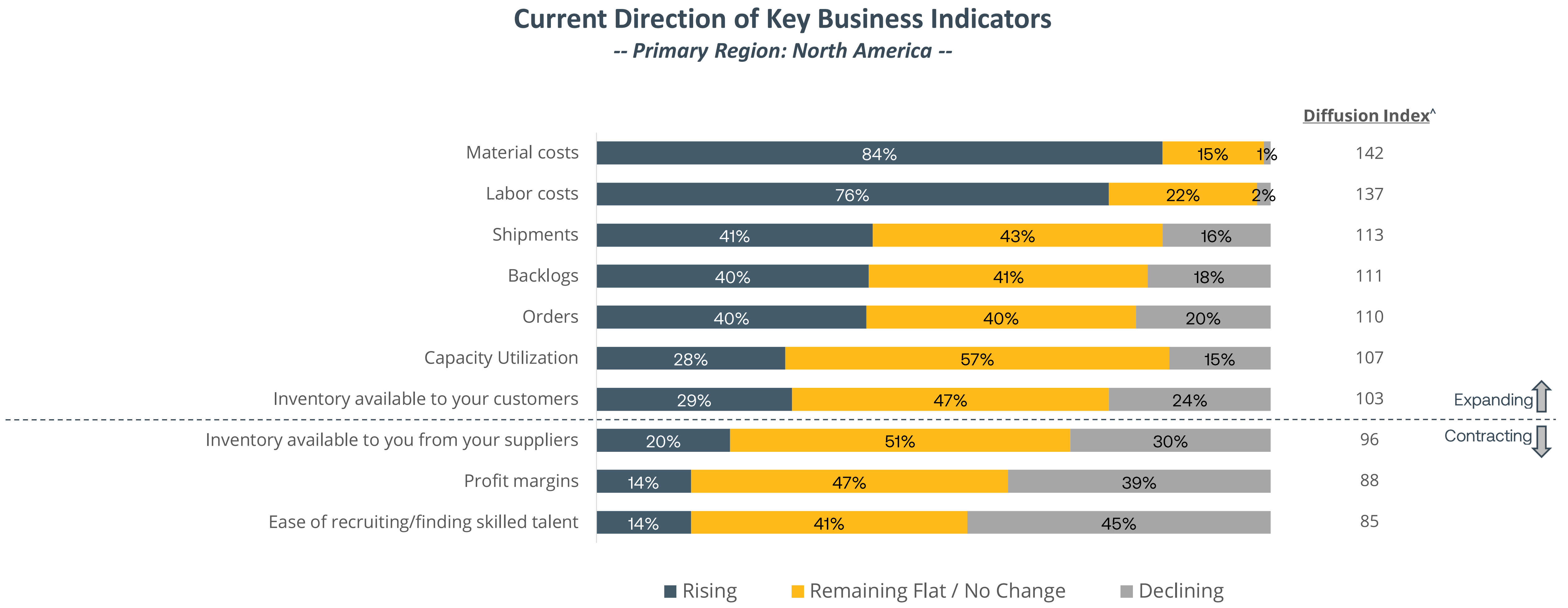


^A diffusion index is a statistical measure used to detect economic turning points.

Regional Differences in Current Conditions

- **Ease of recruitment is declining more so in Europe vs. APAC.**
  - While 61% of European manufacturers report ease of recruitment/finding skilled talent to be declining, only 24% of manufacturers in APAC indicate the same.
- **More Global manufacturers are experiencing a decline in material costs when compared to North America.**
  - While 13% of Global manufacturers report material costs to be declining, only 1% of manufacturers in North America are experiencing a current decline.

The View From Companies Primarily Operating in North America



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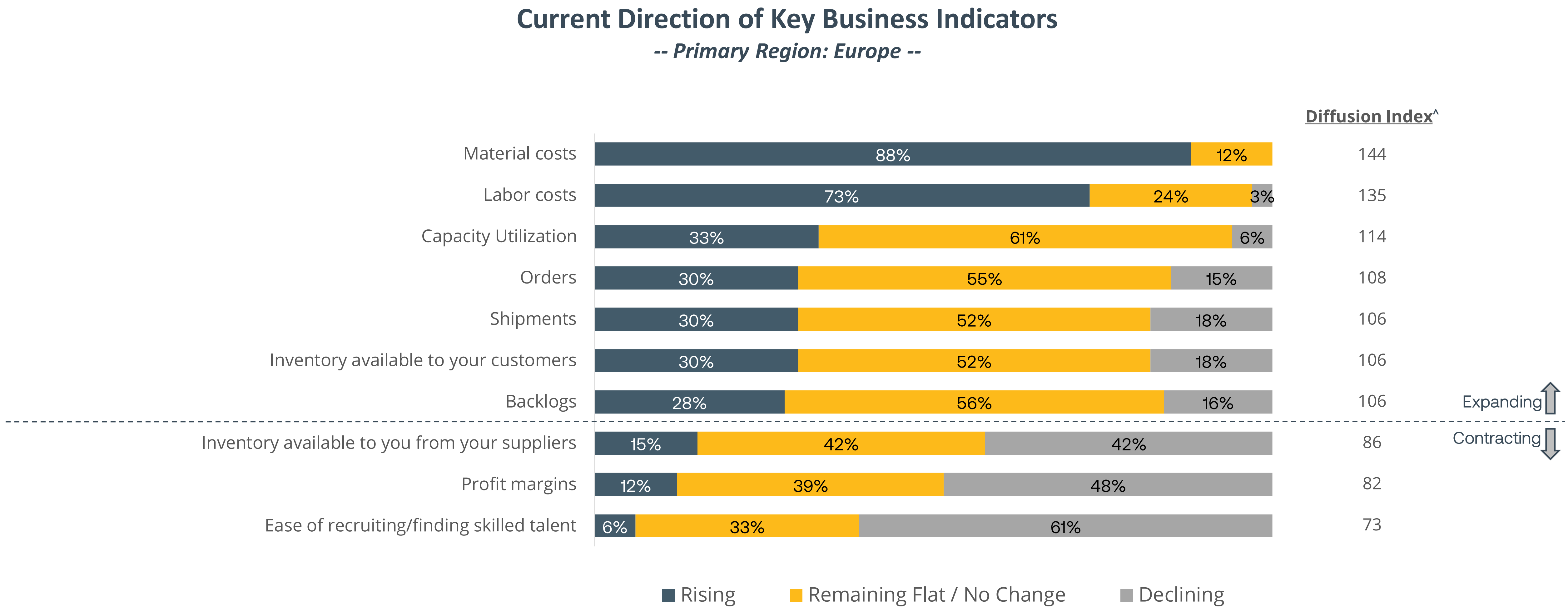
The View From Companies Primarily Operating in Europe



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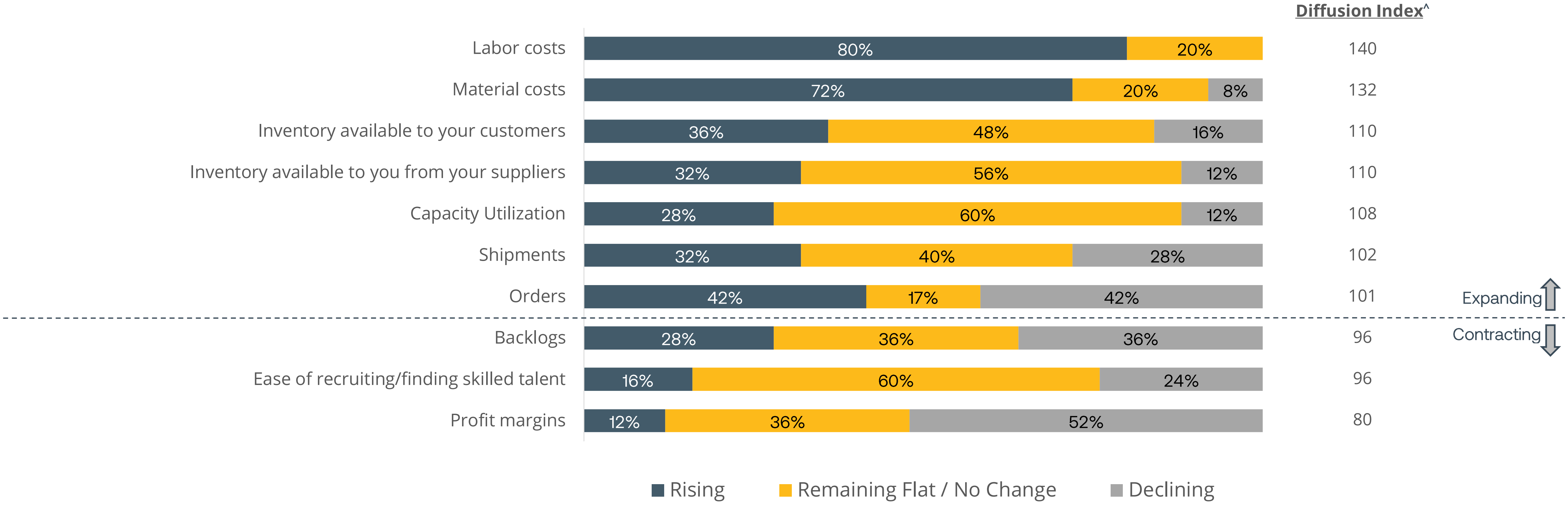
The View From Companies Primarily Operating in APAC

Current Direction of Key Business Indicators

-- Primary Region: APAC --



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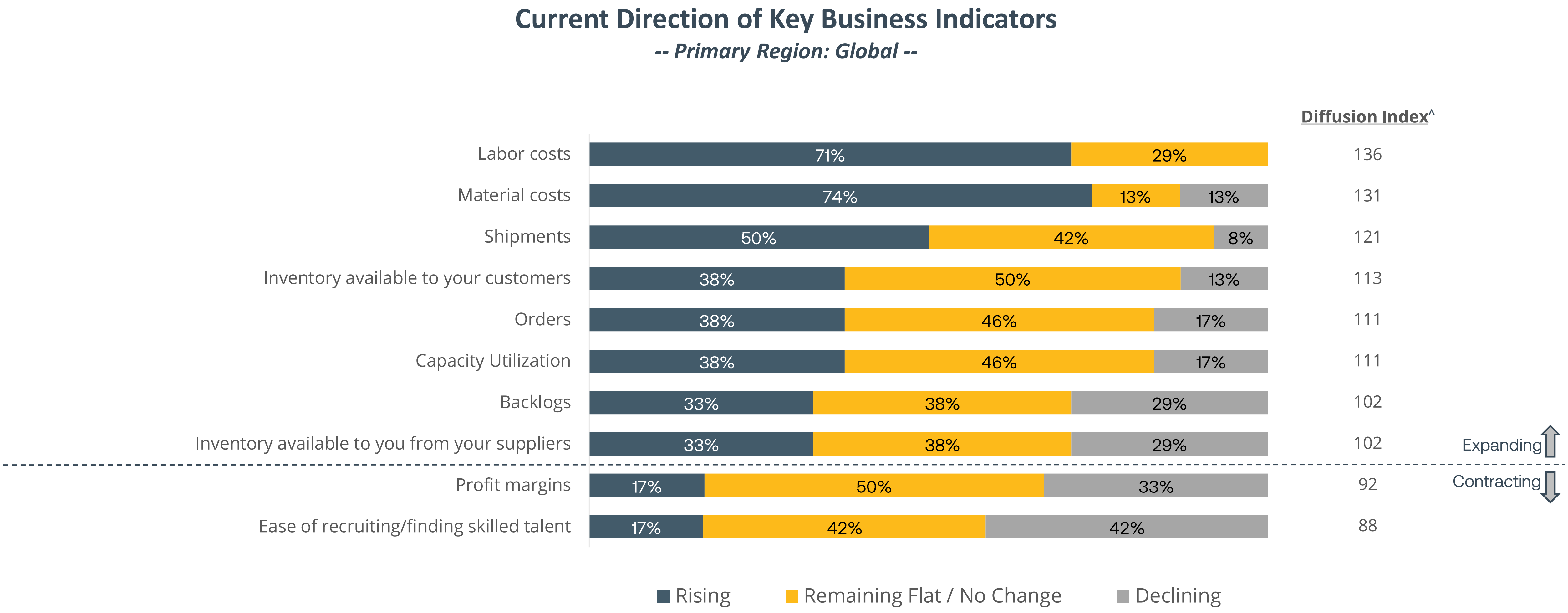
The View From Companies Primarily Operating Globally



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The Outlook for the Next 6 Months: Continued Challenging Conditions

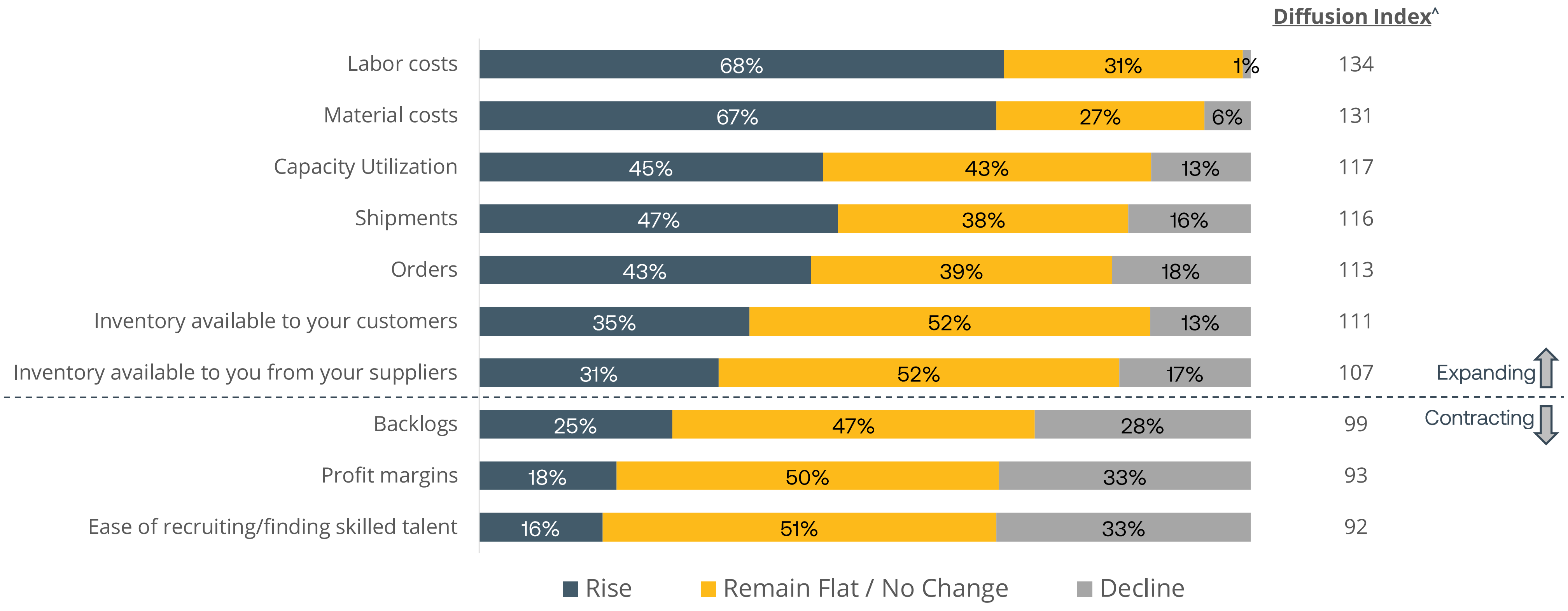
Over the next six months, manufacturers expect to see continued increase in both labor and material costs, although to a lesser extent than what they are currently experiencing, especially as it relates to material costs.

While inventory available from suppliers is expected to improve, ease of recruiting/finding skilled talent and profit margins are likely to remain challenging.

Positively, though, manufacturers are anticipating a decline in backlogs over the next six months.

Anticipated Direction of Key Business Indicators – Next Six Months

-- Total --



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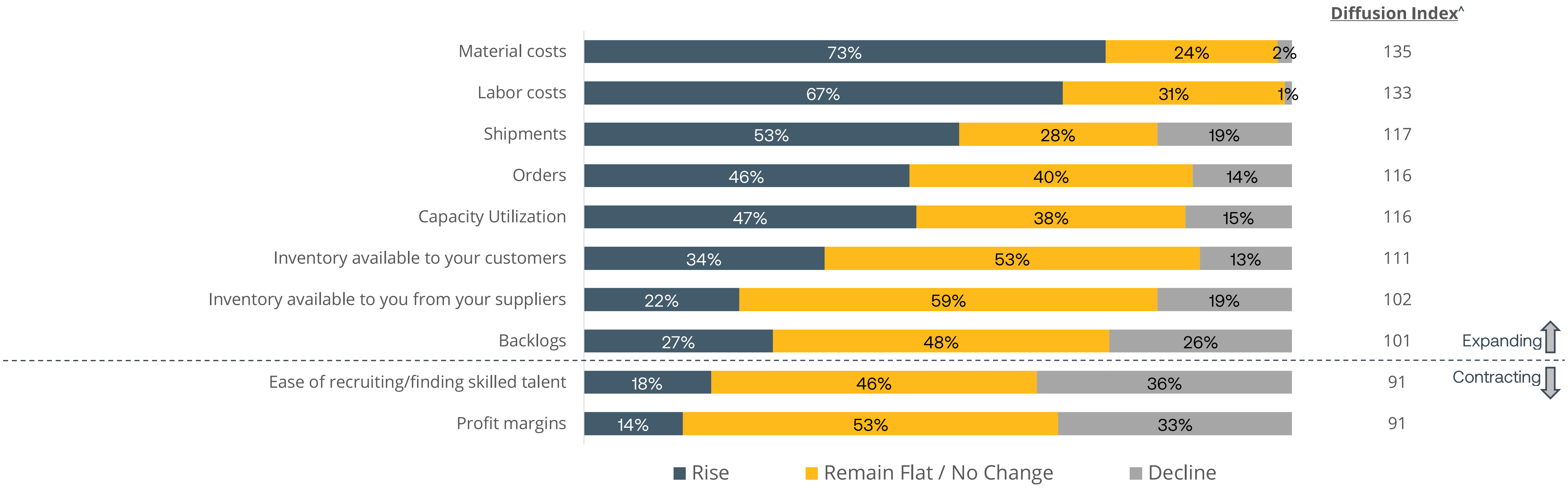
Regional Differences in the Outlook

- **Inventory available from suppliers is expected to increase more among firms operating in APAC or Globally than those in North America.**
  - While 48% of APAC manufacturers and 50% of those operating Globally anticipate an increase in inventory available from suppliers, a significantly lower 22% of North American firms are expecting the same.

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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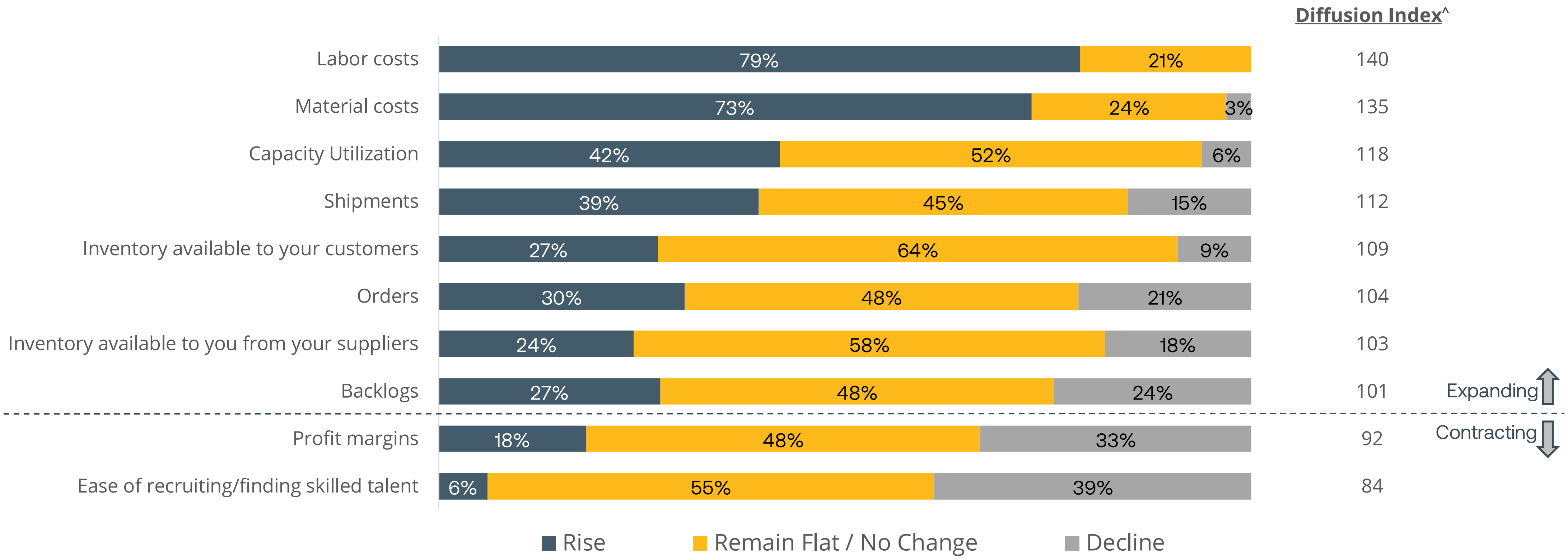
The View From Companies Primarily Operating in Europe

Anticipated Direction of Key Business Indicators – Next Six Months

-- Primary Region: Europe --



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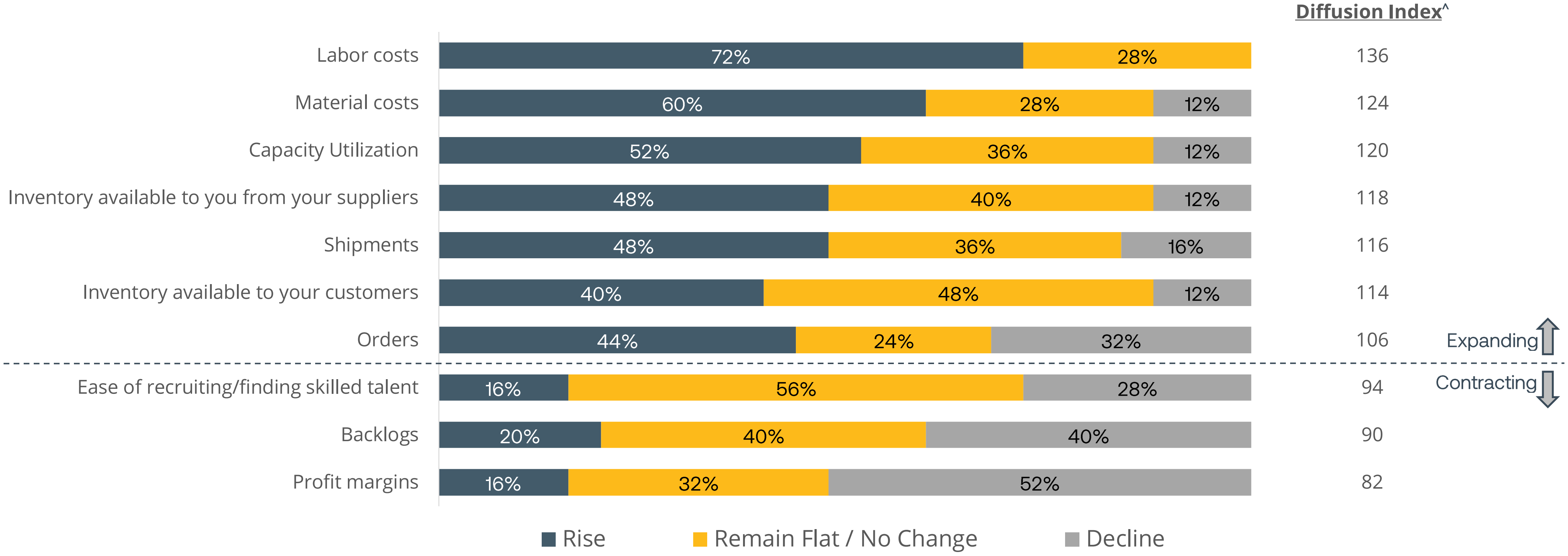
The View From Companies Primarily Operating in APAC

Anticipated Direction of Key Business Indicators – Next Six Months

-- Primary Region: APAC --



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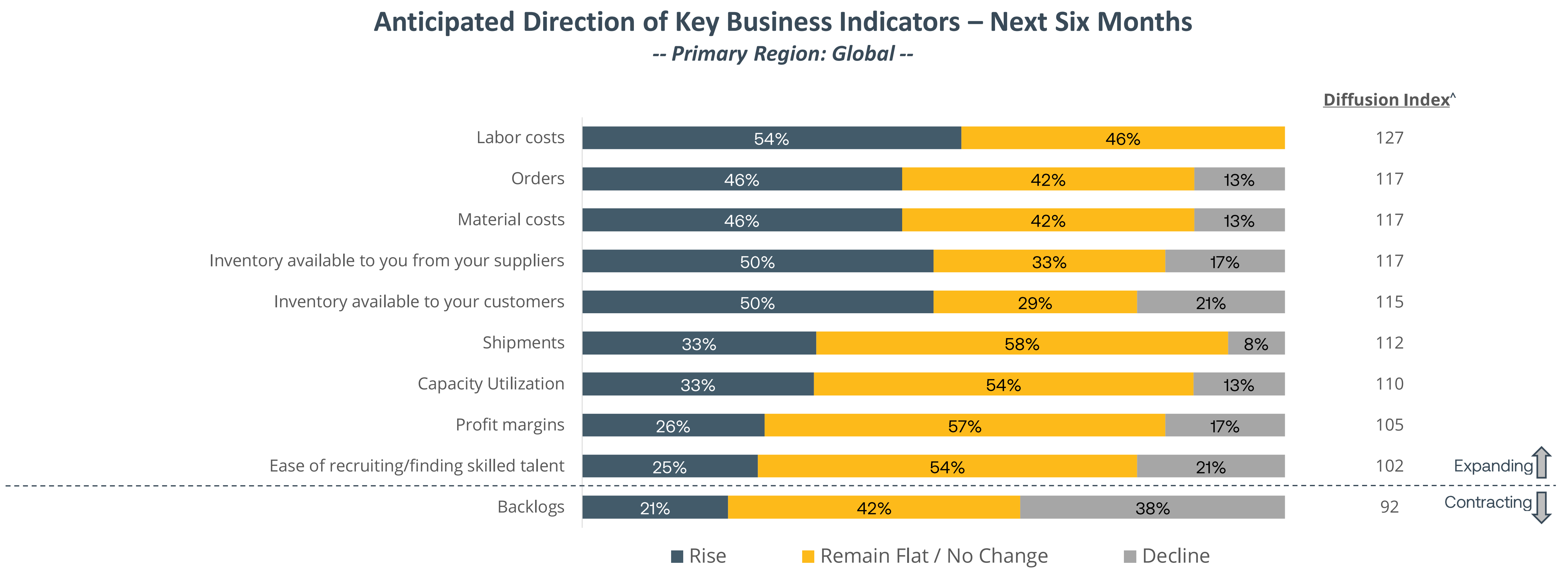
The View From Companies Primarily Operating Globally



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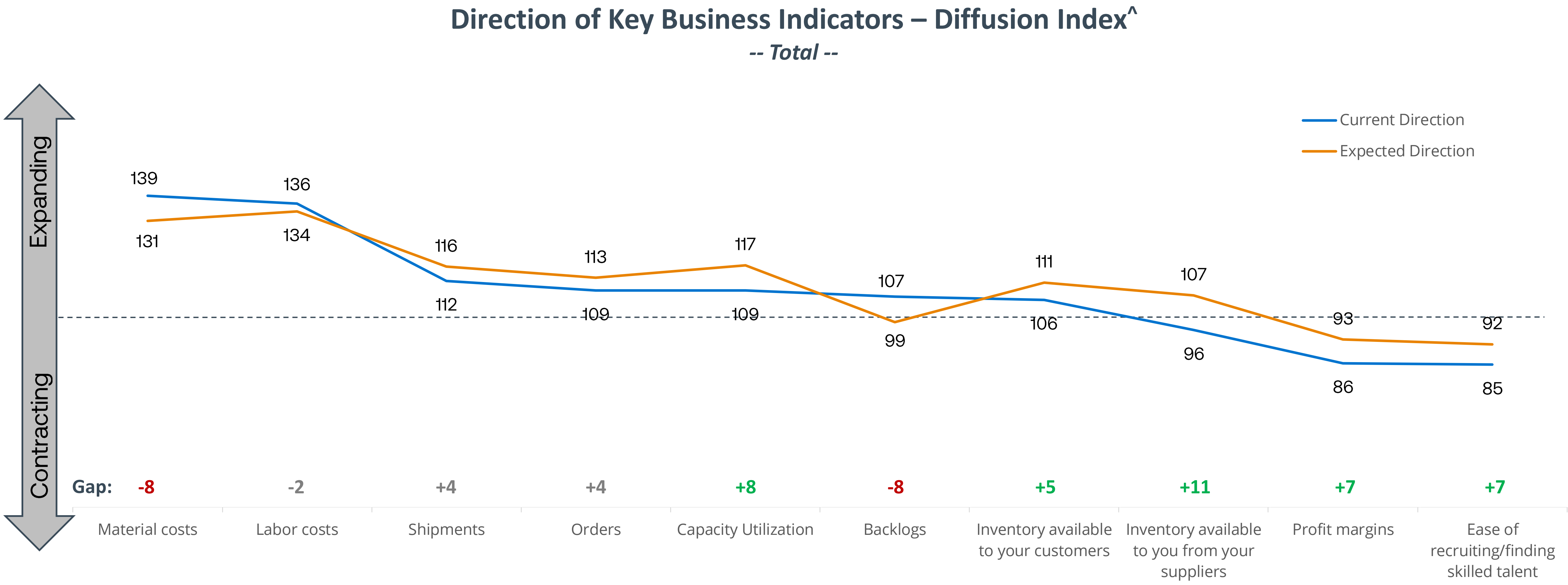
Labor Costs, Shipments, and Orders are Expected to Remain Relatively Stable Over the Next Six Months

Manufacturers anticipate material costs and backlogs will decline, while also expecting to see improvement as it relates to inventories, capacity utilization, profit margins, and ease of recruitment.



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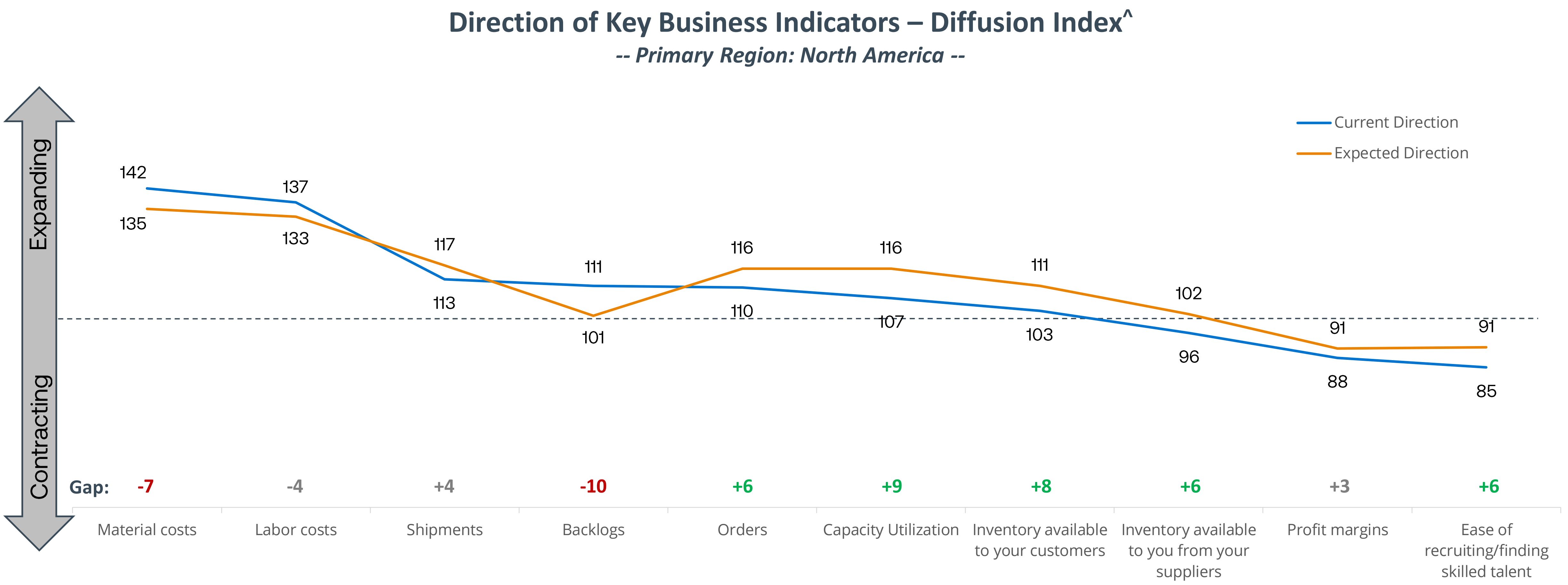
The View From Companies Primarily Operating in North America



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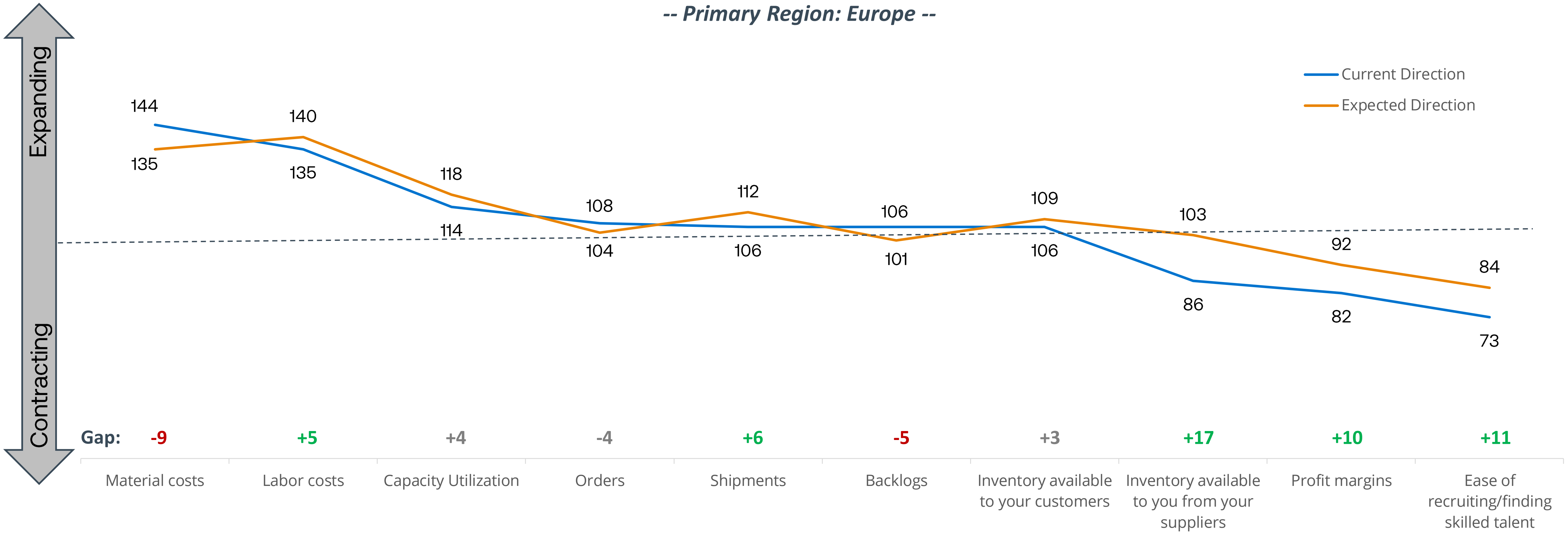
The View From Companies Primarily Operating in Europe

Direction of Key Business Indicators – Diffusion Index^

-- Primary Region: Europe --



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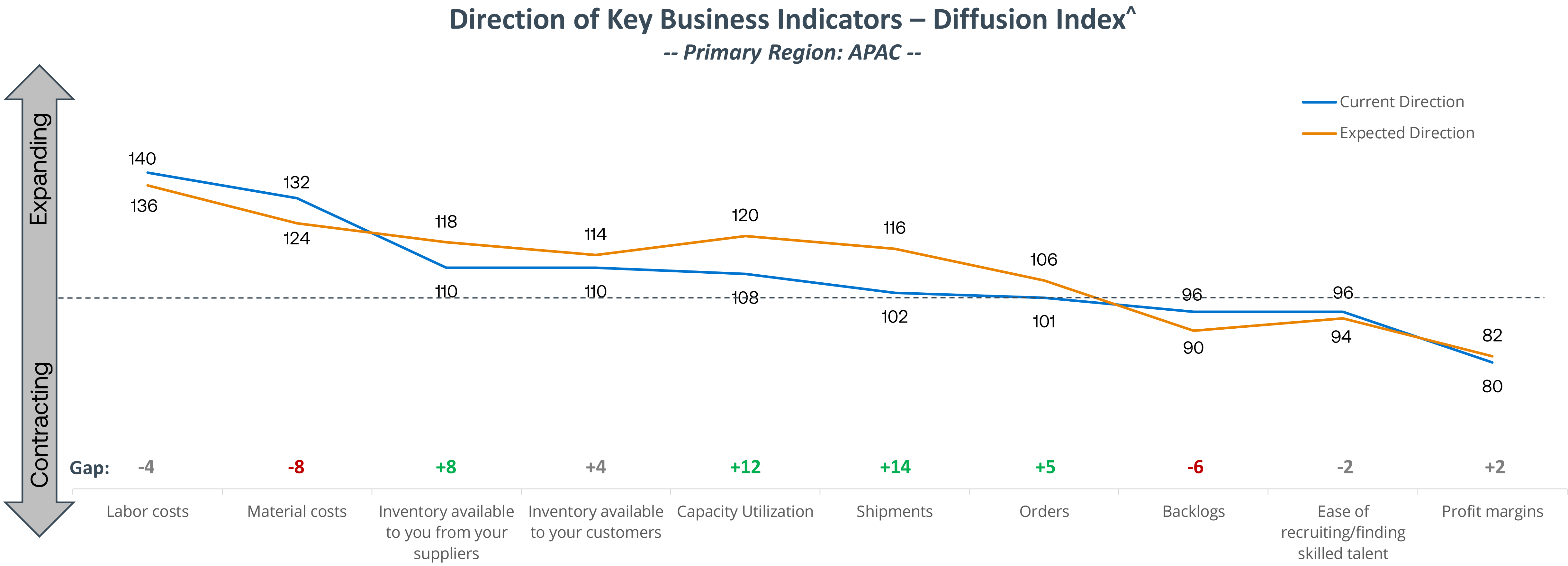
The View From Companies Primarily Operating in APAC



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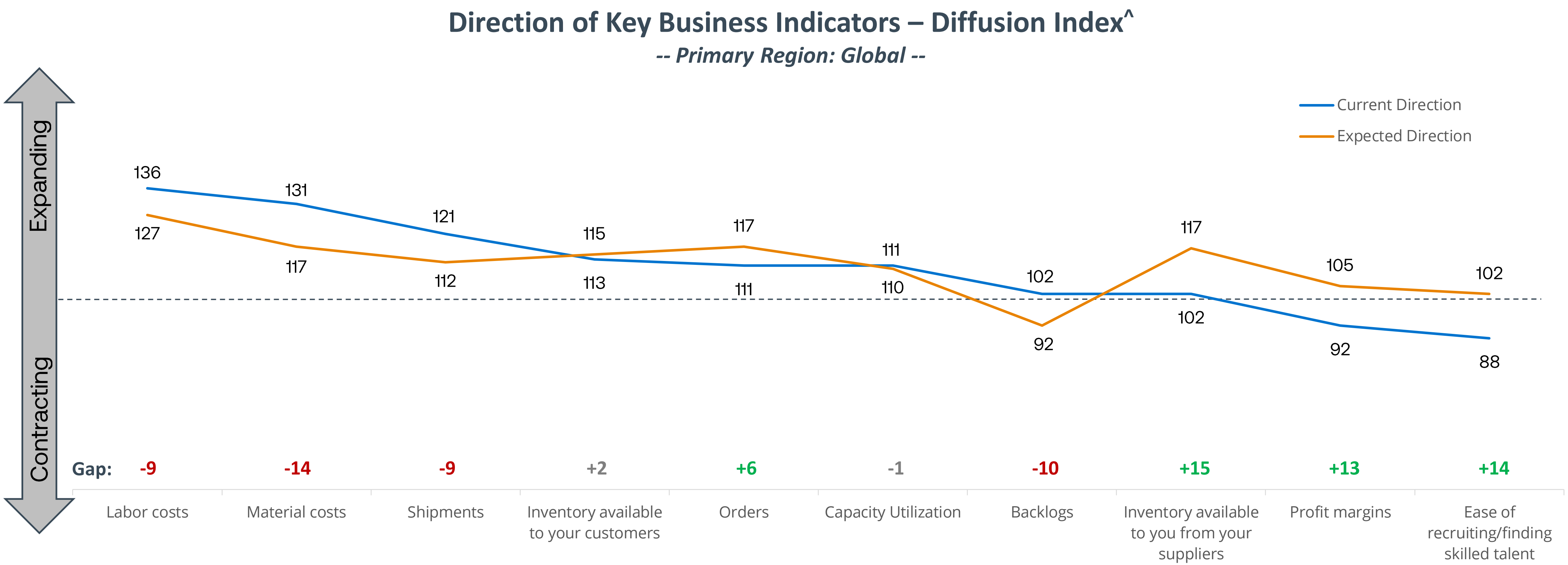
The View From Companies Primarily Operating Globally



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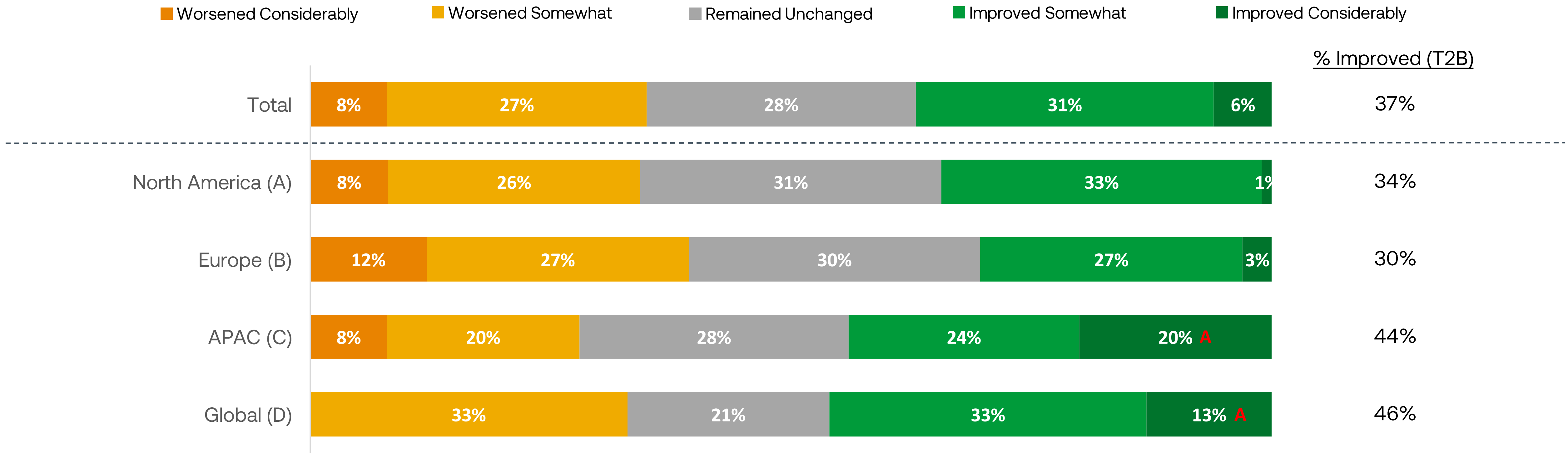
September 2022 Special Questions

Two-Fifths (37%) of Manufacturers Indicate Lead Times Have Improved Over the Past Month

Notably, manufacturers are more likely to say that lead times have "improved considerably" in the past month among those primarily operating in APAC (20%) and Globally (13%) when compared to manufacturers primarily operating in North America (1%).

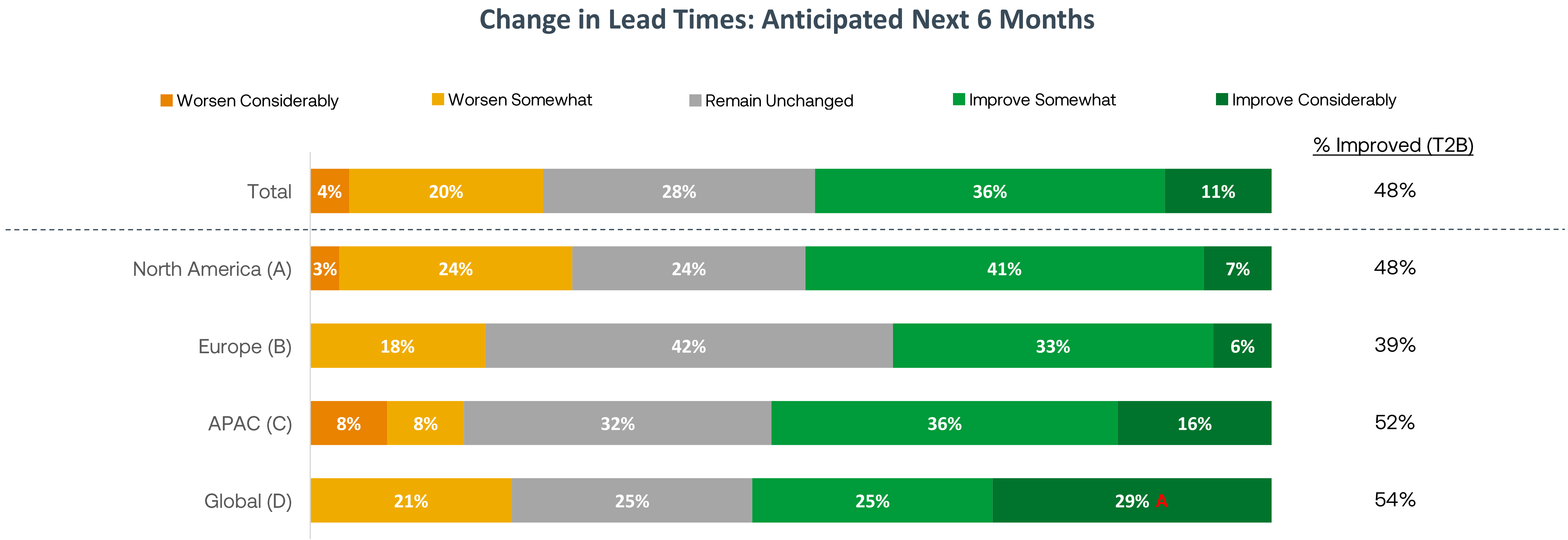
Change in Lead Times: Past Month



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

Looking Forward, Half (48%) of Manufacturers Expect Lead Times to Improve Over the Next Six Months

Manufacturers primarily operating Globally are more likely to anticipate lead times to "improve considerably" over the next six months when compared to manufacturers primarily operating in North America (29% and 7%, respectively).



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

Appendix

Current Conditions Diffusion Indices

Month-to-Month Comparisons

	October 2021	November 2021	December 2021	January 2022	February 2022	March 2022	April 2022	May 2022	June 2022	July 2022	August 2022	September 2022
Material costs	144	144	145	145	143	142	146	145	146	144	142	139
Labor costs	133	136	135	137	138	138	134	138	137	139	138	136
Orders	127	124	123	123	120	124	121	119	118	115	112	109
Backlogs	125	122	124	124	122	119	114	120	119	114	111	107
Sales*	124	123	122	--	--	--	--	--	--	--	--	--
Shipments^	--	--	--	117	112	115	115	114	114	111	110	112
Capacity utilization	114	115	110	114	111	113	114	110	104	107	110	109
Profit margins	96	91	90	87	82	86	85	89	85	84	86	86
Inventory available to your customers	89	92	87	91	88	109	94	94	91	96	102	106
Ease of recruiting/finding skilled talent	77	80	77	78	80	78	79	81	79	80	85	85
Inventory available to you from your suppliers	73	78	73	77	78	78	83	79	82	86	94	96

△+5 points or more vs. previous month

△-5 points or more vs. previous month

*Removed January 2022
^Added January 2022

Outlook Diffusion Indices

Month-to-Month Comparisons

	October 2021	November 2021	December 2021	January 2022	February 2022	March 2022	April 2022	May 2022	June 2022	July 2022	August 2022	September 2022
Material costs	136	139	138	139	142	139	140	138	140	138	136	131
Labor costs	131	135	133	133	137	136	135	134	135	139	136	134
Orders	126	128	126	125	121	123	121	122	119	120	117	113
Backlogs	112	116	116	120	113	110	109	114	112	103	104	99
Sales*	128	129	127	--	--	--	--	--	--	--	--	--
Shipments^	--	--	--	120	119	121	117	119	115	120	117	116
Capacity utilization	119	118	116	118	118	116	116	116	112	115	114	117
Profit margins	103	100	96	92	94	97	94	97	90	92	95	93
Inventory available to your customers	100	100	99	97	99	103	101	100	102	105	107	111
Ease of recruiting/finding skilled talent	91	88	86	82	87	86	88	86	90	88	88	92
Inventory available to you from your suppliers	95	92	88	90	93	94	93	92	92	102	104	107

△+5 points or more vs. previous month

△-5 points or more vs. previous month

*Removed January 2022
^Added January 2022

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 August 10 to August 26, 2022.

Questions? Please contact:

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