BUILD ELECTRONICS BETTER

The Current Sentiment of the Global Electronics Manufacturing Supply Chain

Monitoring the Pulse of the Global Electronics Industry

August 2022

ipc.org

Executive Summary

> Supply Chain Constraints Continue to Ease

- This month saw important improvements in the inventory-related variables IPC tracks. The Inventory Available to your Customers (IAC) Index rose to 102, the first time the index has been above 100 since March 2021. This suggests the majority of companies are seeing an expansion in available inventories for the first time in five months. The Inventory Available to you from your Suppliers (IAS) Index also rose, increasing over 9% to 94. This remains in contractionary territory, but is the highest level recorded in the history of the research. The outlook for both indexes suggests companies expect inventory availability to further improve over the next 6 months.

> The Labor Picture is Becoming Less Bad

- The Ease of Recruiting and Finding Skilled Talent (ERFST) Index rose over 6% to 85 in August. While this remains in contractionary territory, it is the highest the index has been in the history of the survey. The outlook is unchanged, suggesting companies expect it to remain difficult to find skilled labor.

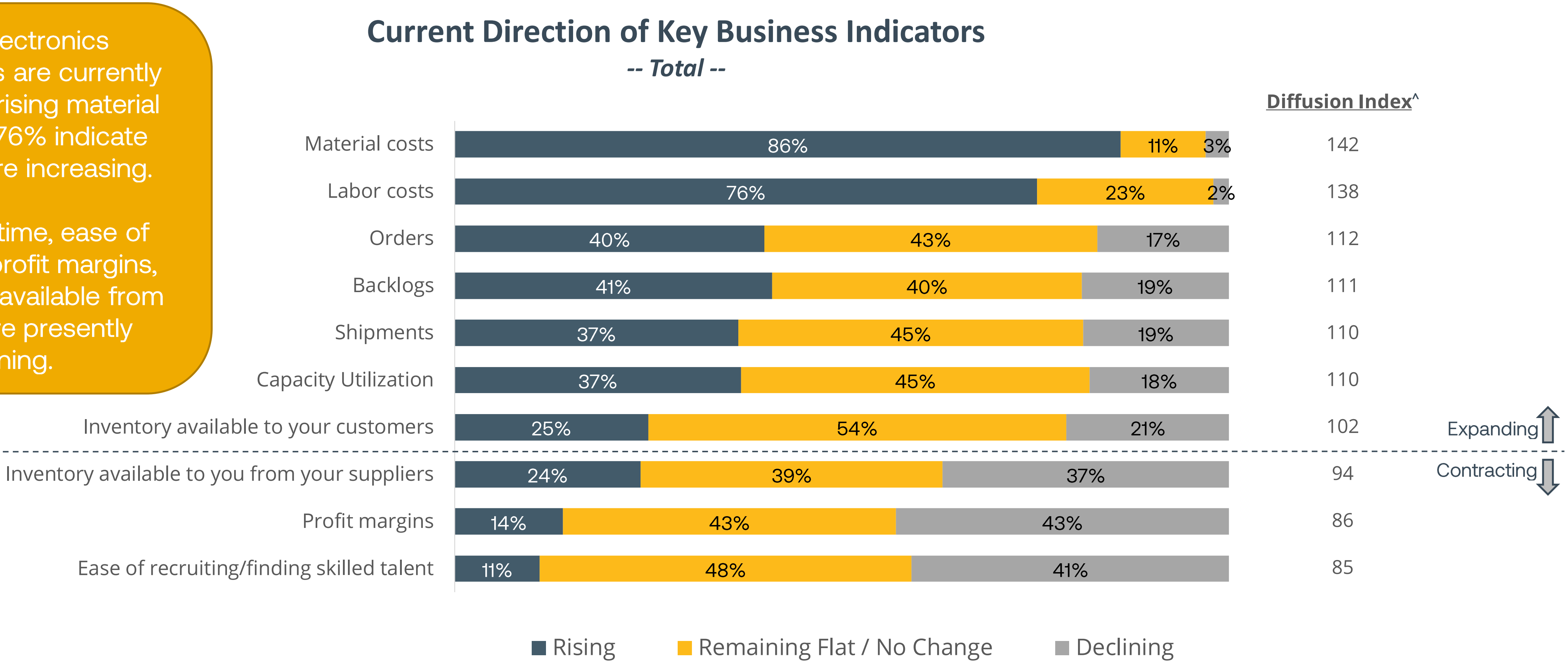
> Demand Remains Strong, but Profit Margins Still Hurting from High Costs

- Operational variables continue to look strong. Both the Orders Index and the Capacity Utilization Index remain in expansionary territory this month and the outlook is for more of the same. But higher costs have hurt profitability. The Material Costs Index remains extremely high. The Profit Index remains in contractionary territory. Respondents expect profit margins to improve over the next 6 months but the index is expected to remain below neutral, suggesting the majority of respondents expect profit margins to decline further in the coming months.

Current Conditions for the Electronics Supply Chain Remain Challenging

86% of electronics manufacturers are currently experiencing rising material costs, while 76% indicate labor costs are increasing.

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

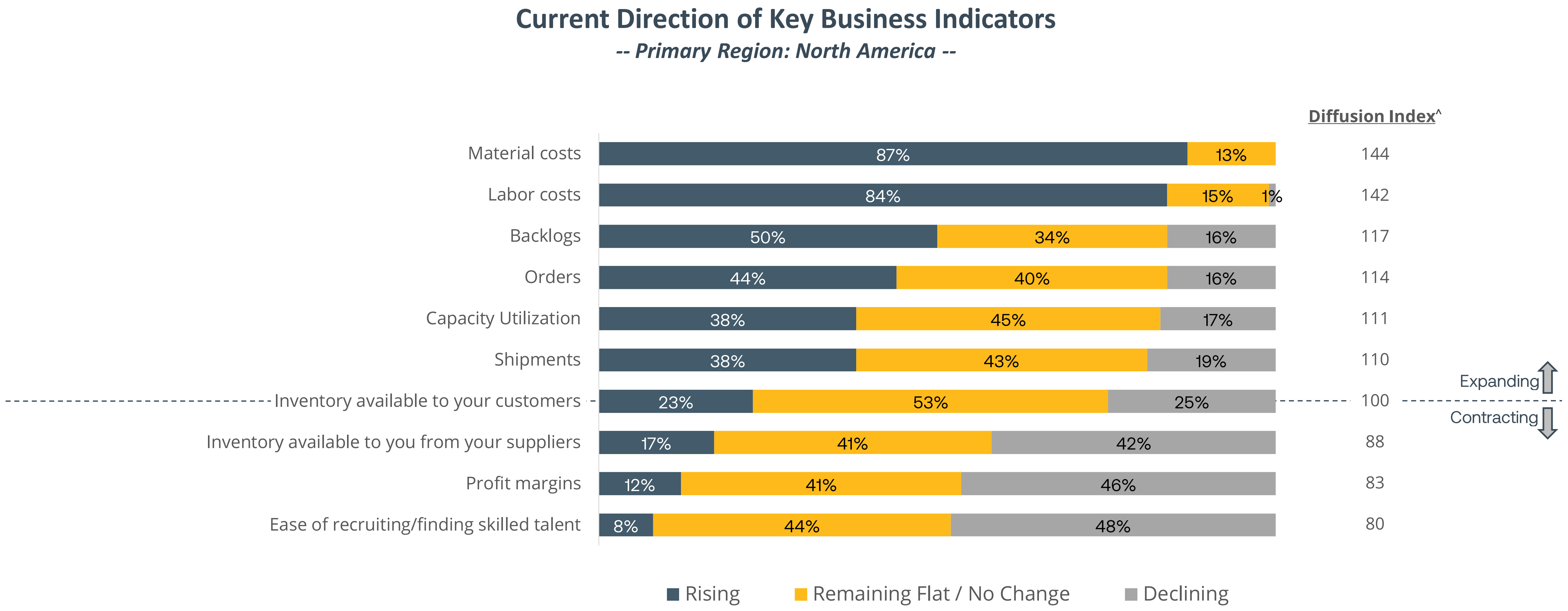


^A diffusion index is a statistical measure used to detect economic turning points.

Regional Differences in Current Conditions

- **Material costs are declining more so in APAC and among manufacturers operating Globally vs. North America.**
  - While 8% of APAC and 14% of Global manufacturers report material costs to be declining, there were no (0%) firms in North America indicating a current decline.
- **Labor costs are rising at a faster pace in North America when compared to manufacturers operating Globally.**
  - 84% of North American manufacturers indicate labor costs are currently rising, which is significantly higher than the 48% reported by Global manufacturers, for whom labor costs are more likely holding steady.

The View From Companies Primarily Operating in North America



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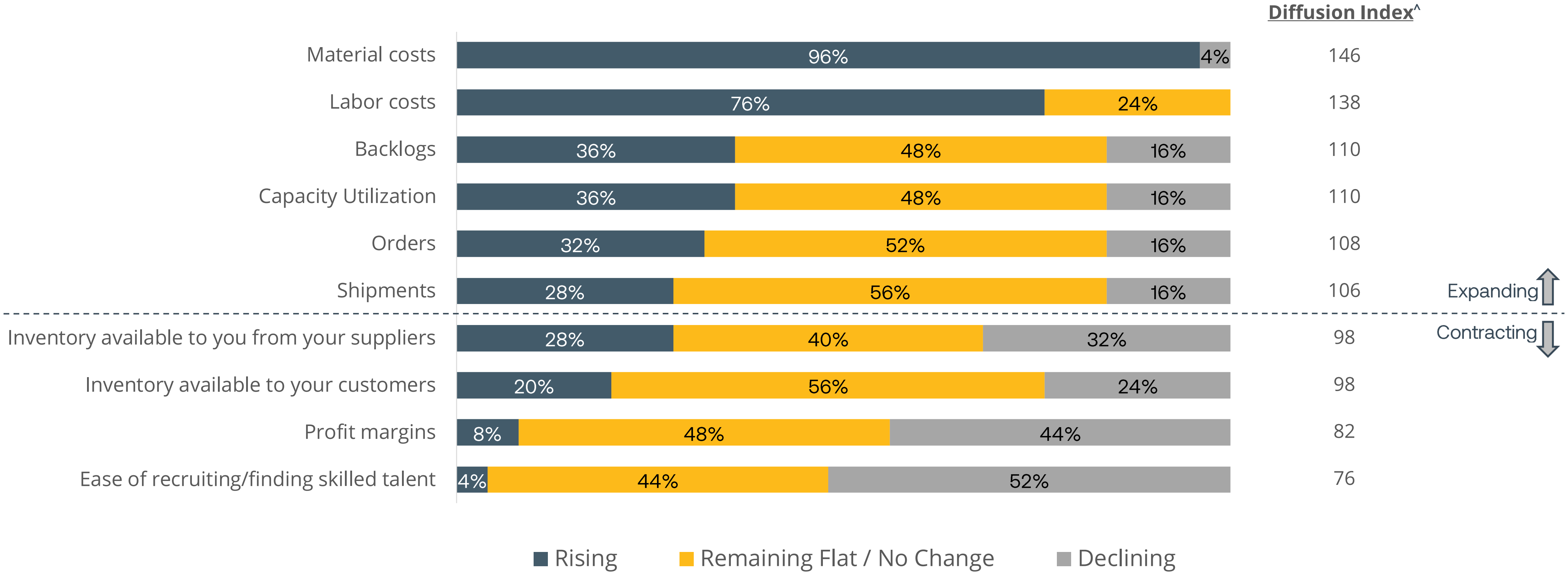
The View From Companies Primarily Operating in Europe

Current Direction of Key Business Indicators

-- Primary Region: Europe --



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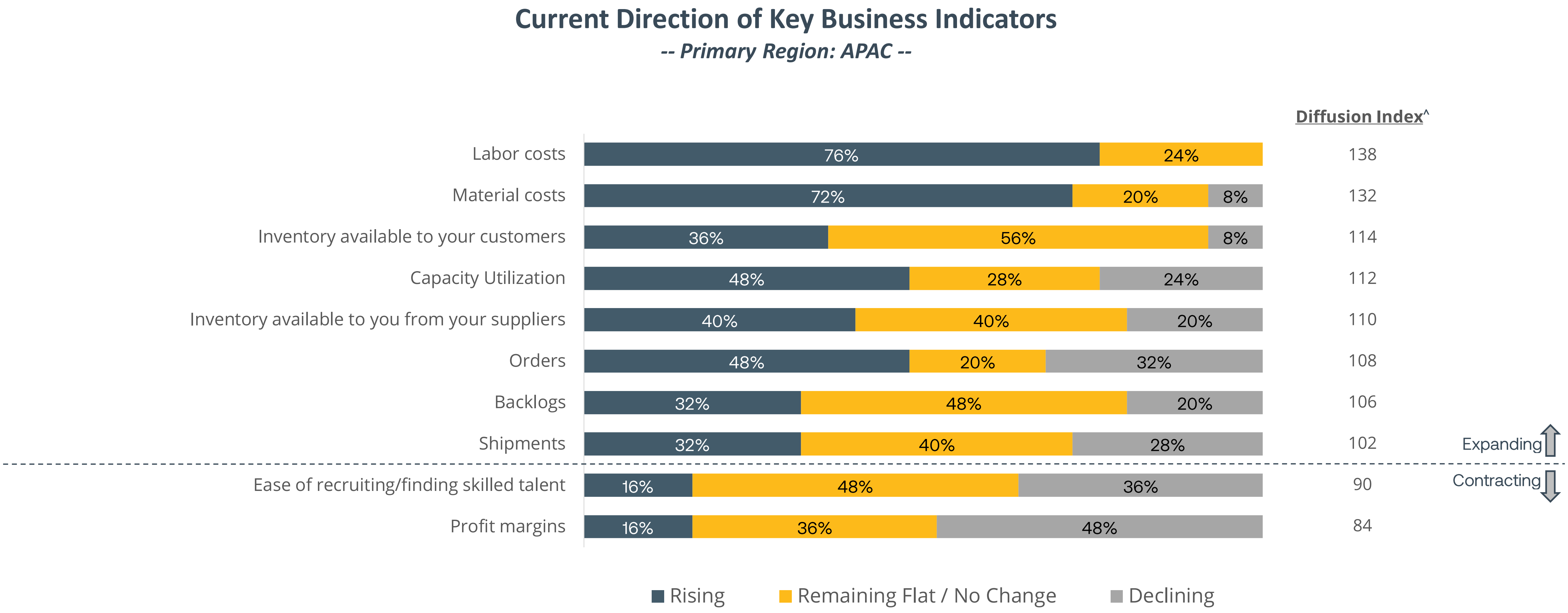
The View From Companies Primarily Operating in APAC



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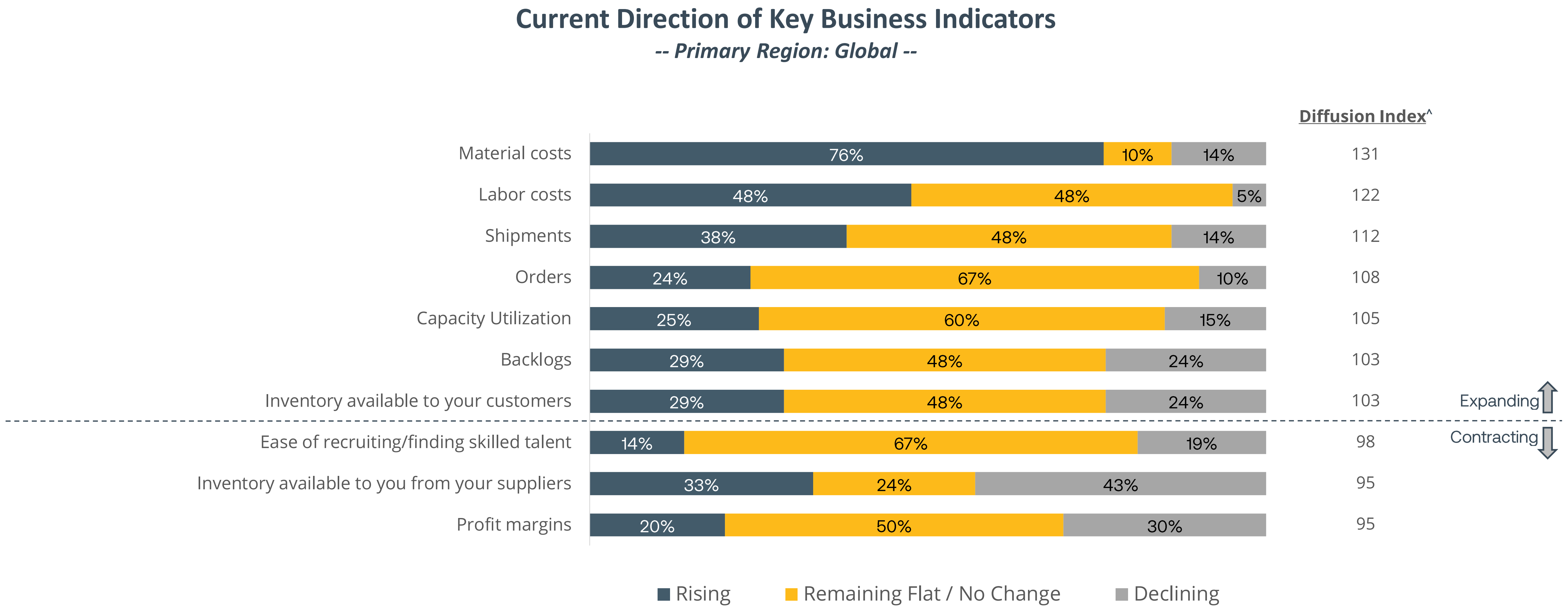
The View From Companies Primarily Operating Globally



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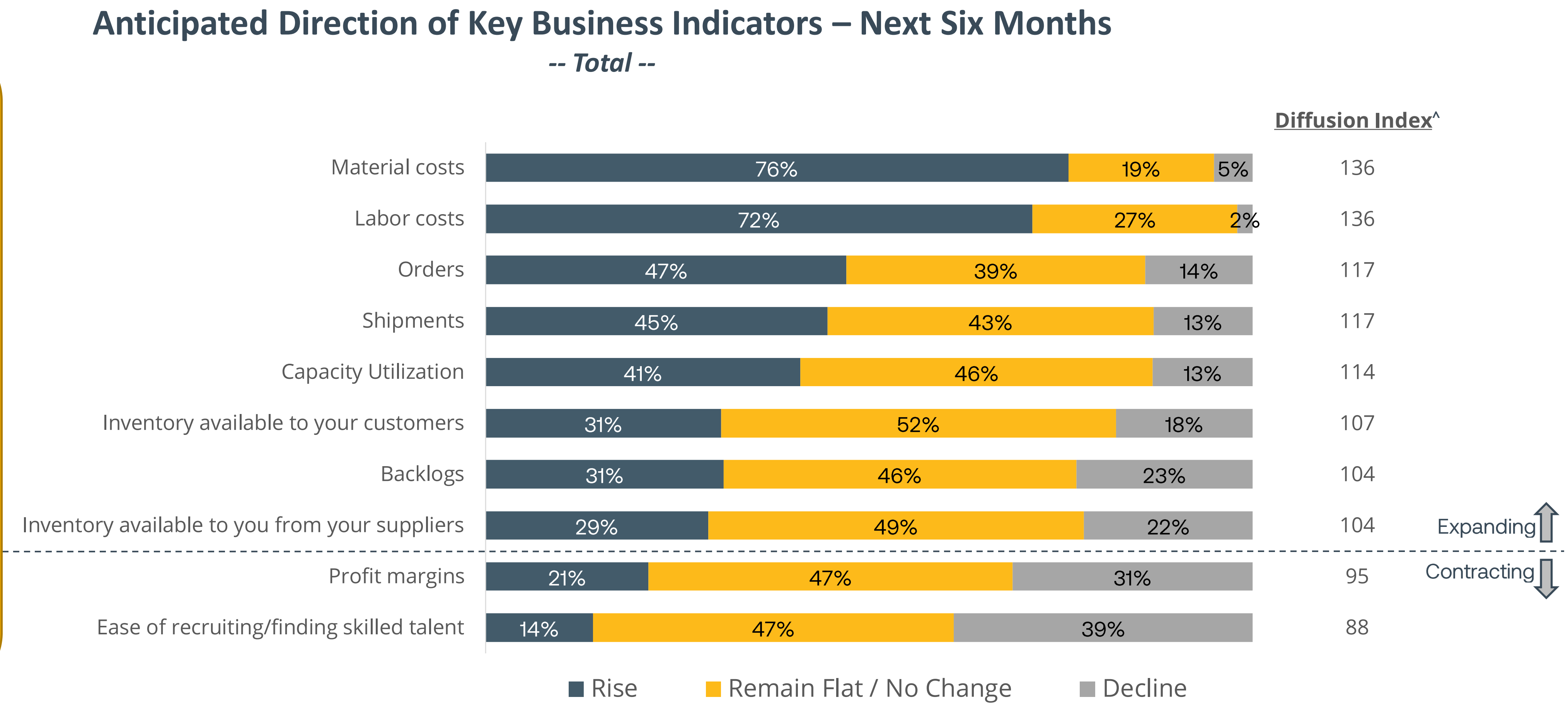
The Outlook for the Next 6 Months: Continued Challenging Conditions

Over the next six months, manufacturers expect to see continued increase in both material and labor costs.

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

Notably, there a no significant differences in 6-month outlook across all regions.



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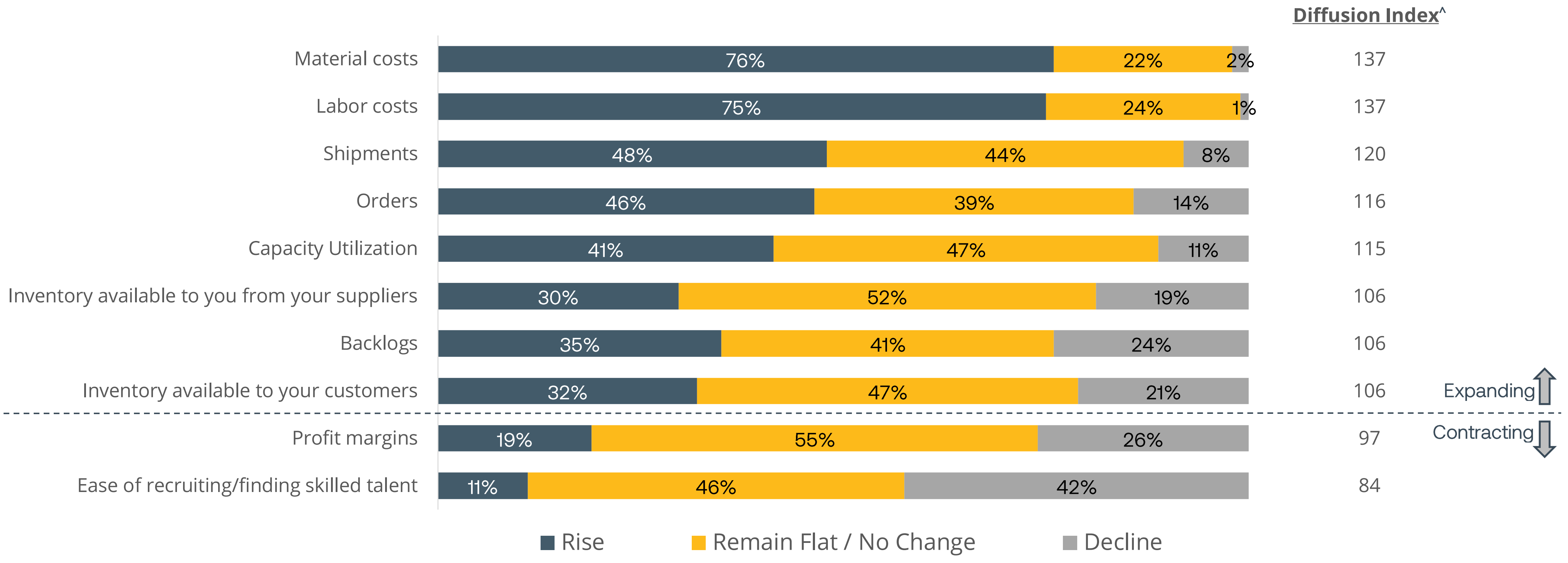
The View From Companies Primarily Operating in North America

Anticipated Direction of Key Business Indicators – Next Six Months

-- Primary Region: North America --



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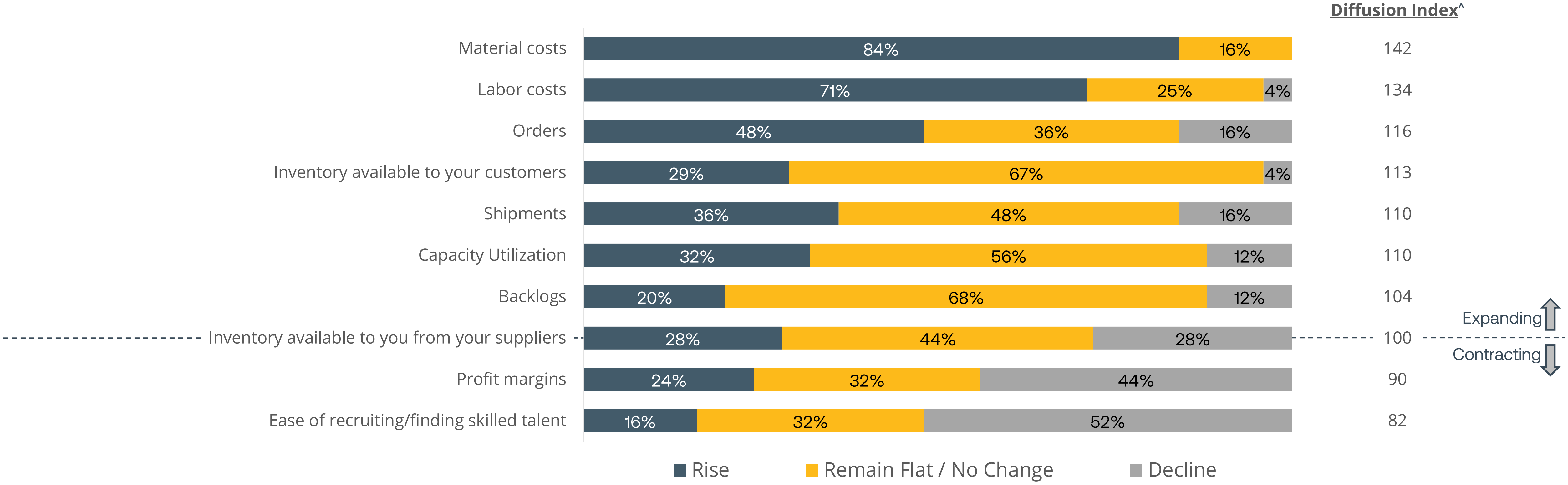
The View From Companies Primarily Operating in Europe

Anticipated Direction of Key Business Indicators – Next Six Months

-- Primary Region: Europe --



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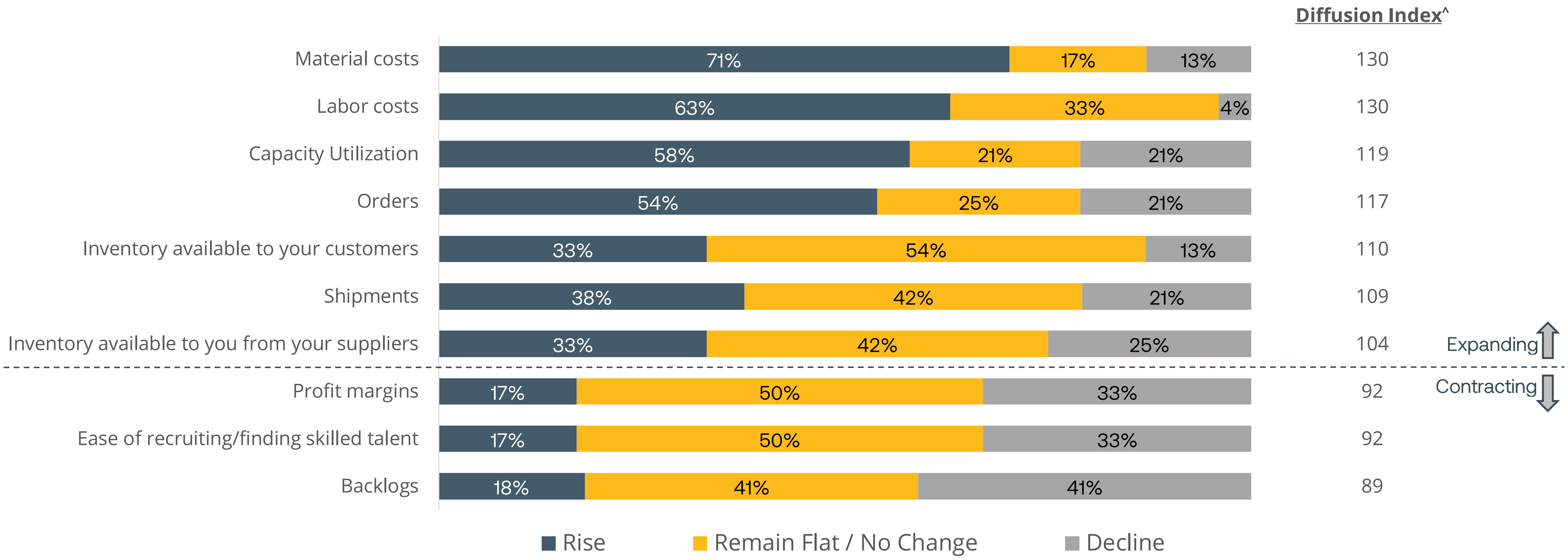
The View From Companies Primarily Operating in APAC

Anticipated Direction of Key Business Indicators – Next Six Months

-- Primary Region: APAC --



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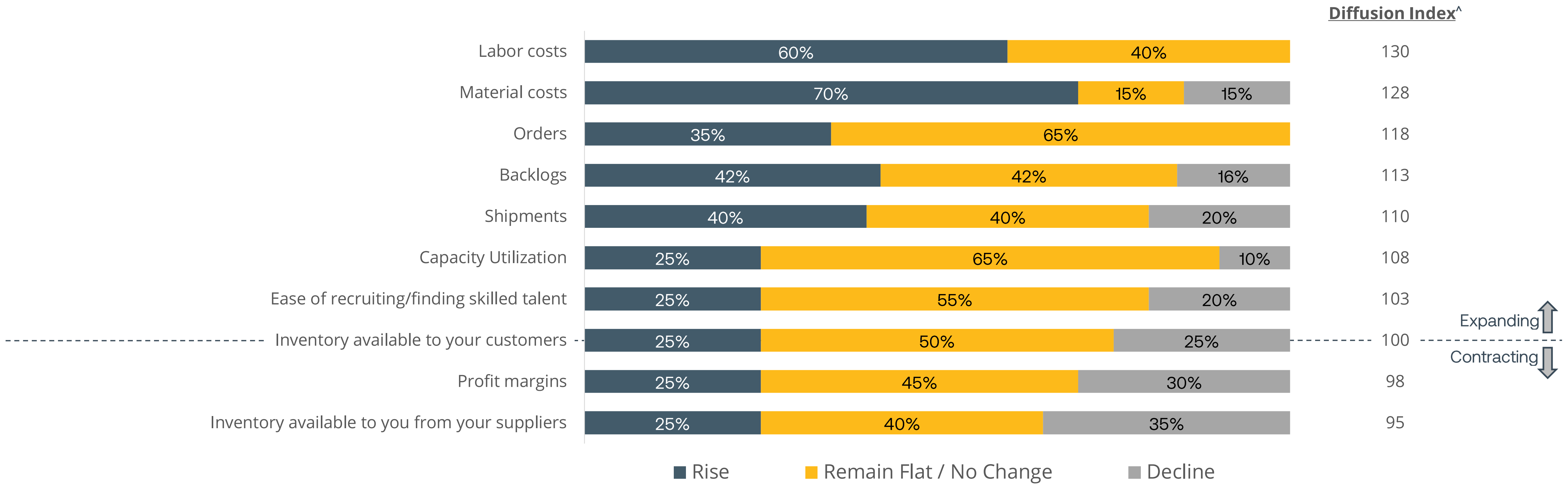
The View From Companies Primarily Operating Globally

Anticipated Direction of Key Business Indicators – Next Six Months

-- Primary Region: Global --



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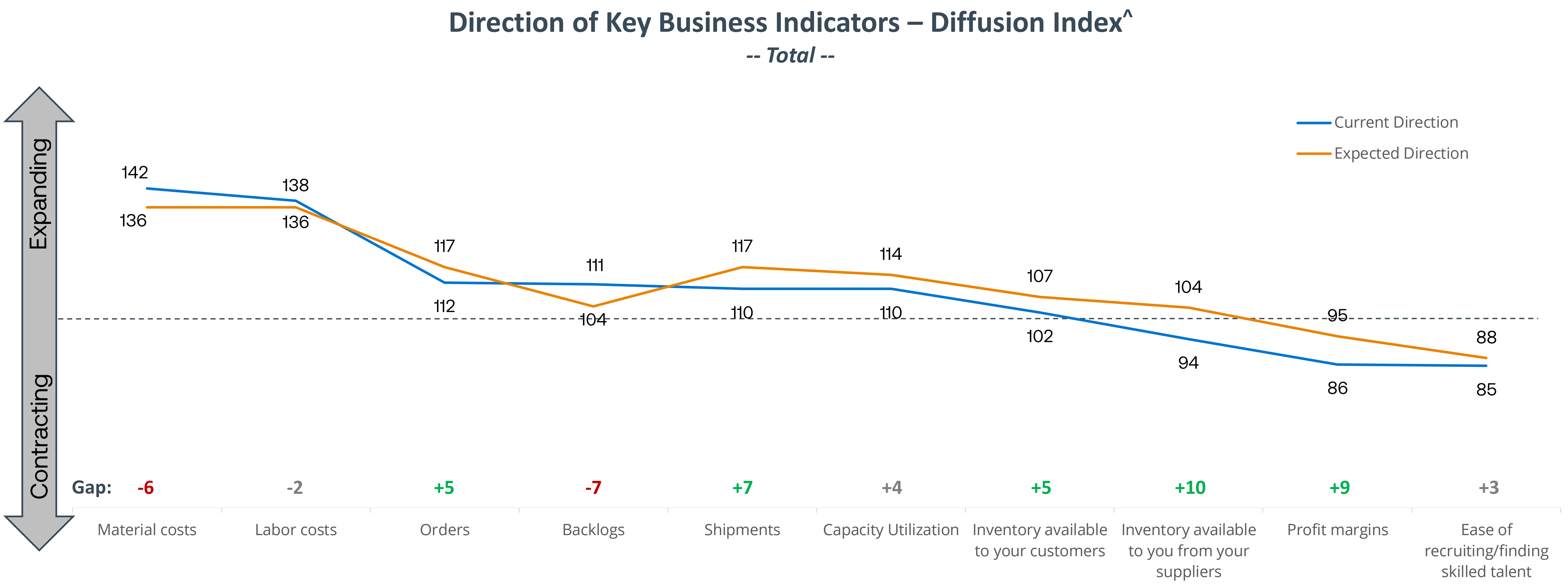
Labor Costs, Ease of Recruitment, and Capacity Utilization are Expected to Remain Relatively Stable Over the Next Six Months

Although manufacturers anticipate material costs and backlogs to decline, they do expect to see improvement as it relates to orders, shipments, inventories, and profit margins.



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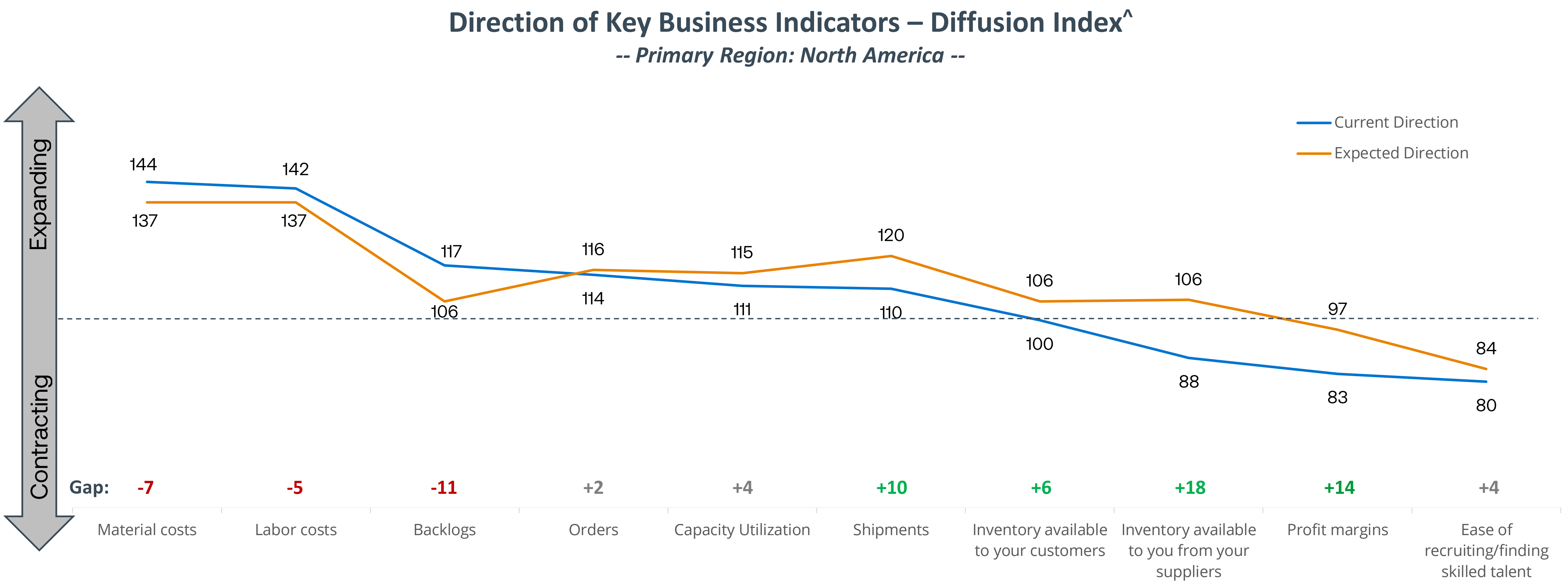
The View From Companies Primarily Operating in North America



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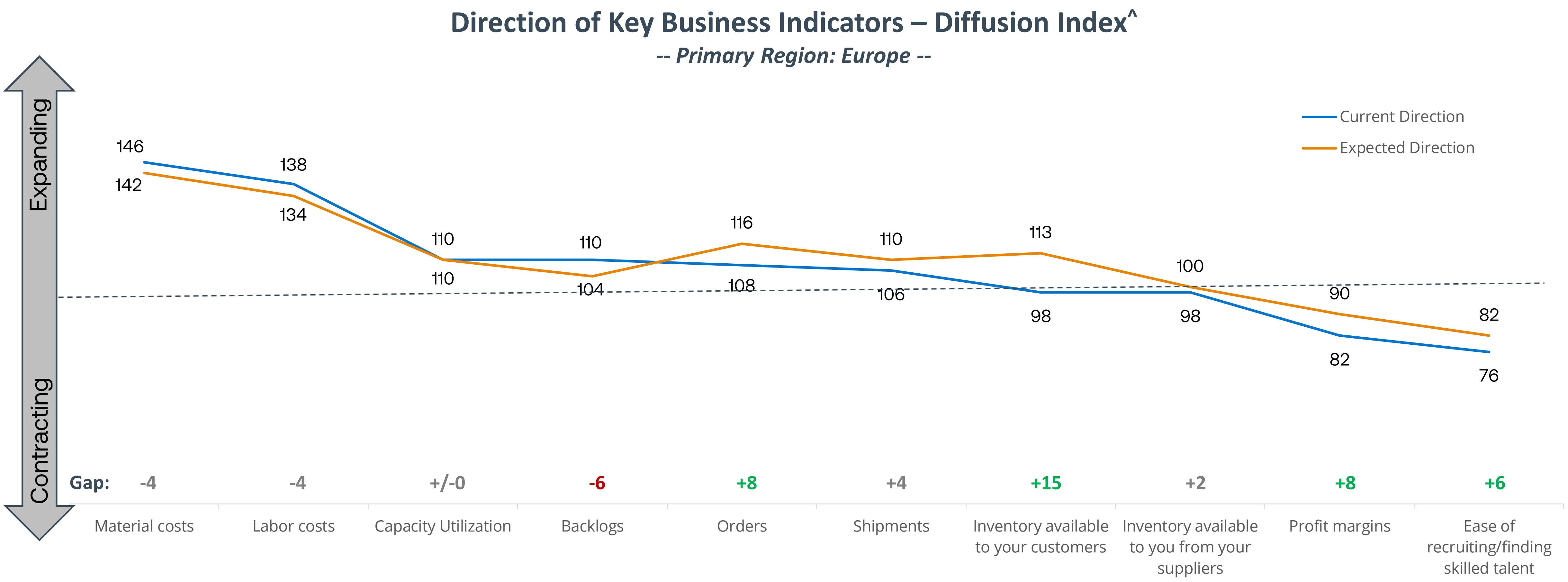
The View From Companies Primarily Operating in Europe



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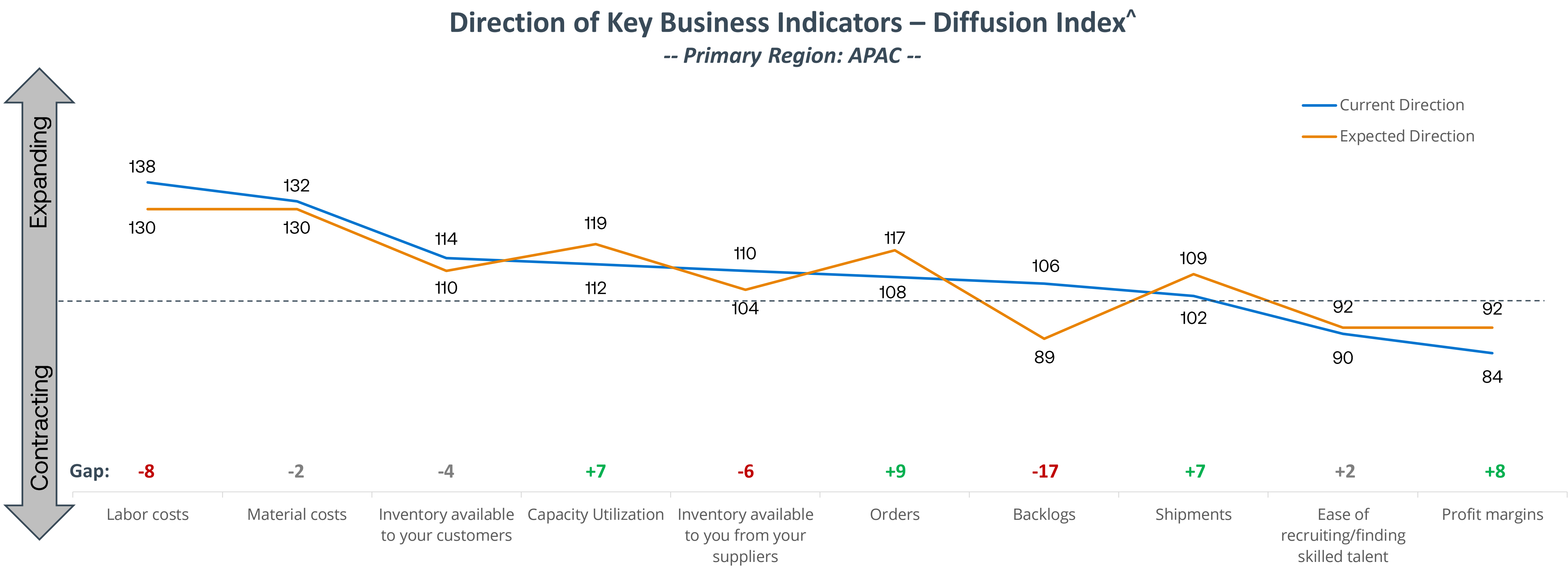
The View From Companies Primarily Operating in APAC



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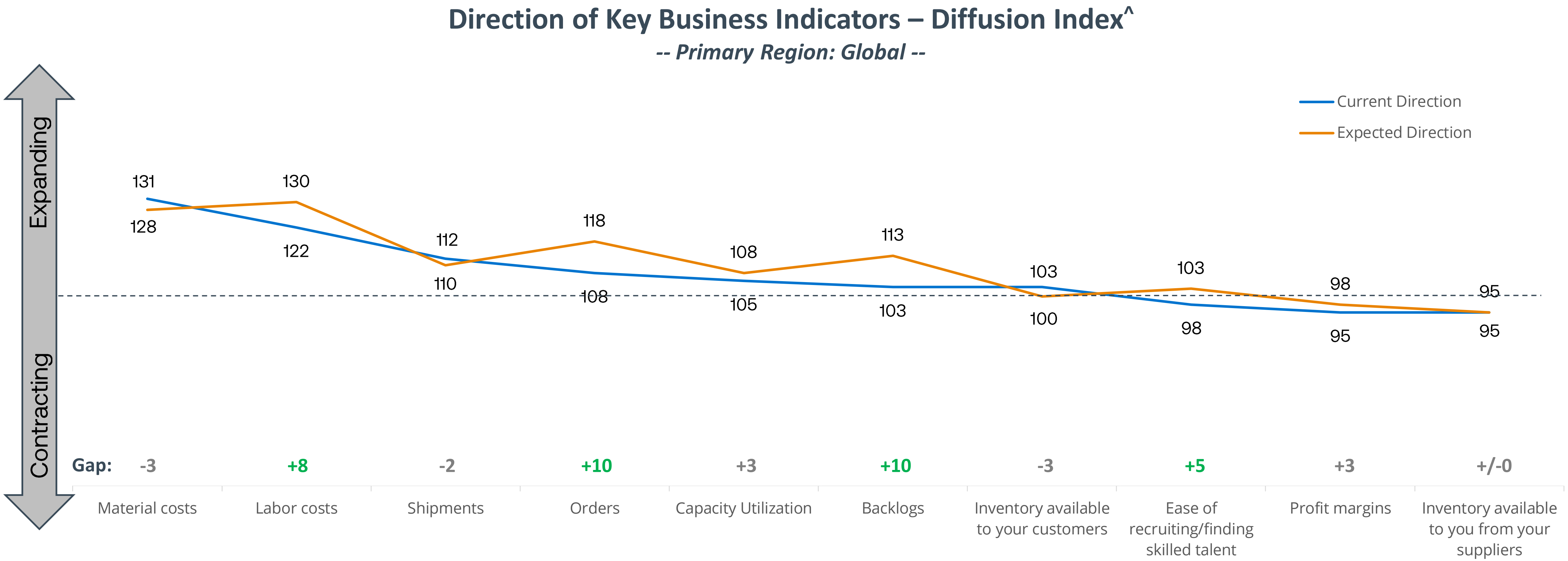
The View From Companies Primarily Operating Globally



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Appendix

Current Conditions Diffusion Indices

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

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

△+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 July 13 to July 29, 2022.

Questions? Please contact:

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