Electronics Manufacturers Report Slowing Growth and a Cautiously Optimistic Outlook

By Sharon Starr, director, IPC market research

Growth is slowing worldwide, and the industry’s outlook is less optimistic than in previous quarters, although it is still generally positive, according to the results of IPC’s fourth-quarter 2019 Pulse of the Electronics Industry survey. Based on results from 82 companies that make up a representative sample of the industry, third-quarter 2019 sales growth, averaging 3.0 percent, was at its lowest level since the quarterly survey began in mid-2017. The sales growth the respondents predicted for the current quarter is down further, averaging 2.6 percent. Respondents in the Americas expect a 1.3 percent decrease in sales this quarter.

The Current State

This quarter’s composite score for the current direction of the business environment also fell to its lowest level since mid-2017. It remains in positive territory, but just barely. As of October 2019, sales, orders and profit margins are moving in a positive direction on balance, while labor and material costs, ease of recruiting, inventories and order backlogs are heading in the wrong direction.

Current-state scores by region are mixed, with positive scores only for Asian and global businesses this quarter. Asian and global respondents report profit margins are moving in a positive direction on average, while margins are reported moving sharply down in Europe and are stable in the Americas. Current-state scores for Europe and the Americas turned negative this quarter.

The current-state score for EMS companies is down, but the equipment segment is experiencing the most negative current state this quarter. For equipment suppliers, orders, sales and inventories – all positive drivers last quarter – are now having a negative impact. A North American EMS-company respondent cited the tight labor market, rising health-insurance costs and increasing tariffs as the factors weighing negatively on the industry’s current state.

Six-Month Outlook

As of October 2019, the composite score for the industry’s expected direction in the next six months remained generally optimistic, with all business indicators for the next six months looking positive. But the six-month-outlook score continued to weaken compared to the first three quarters of this year. This indicates that the industry expects its health to remain generally good through the first quarter of 2020 despite some slowing.

The six-month outlook for sales and capital investment is positive this quarter for all industry segments, and PCB fabricators are the most optimistic. Asia’s outlook for growth in production, sales, markets and the number of employees weakened dramatically since last quarter.
Twelve-Month Business Outlook

The respondents’ answers about the business outlook for the next 12 months produced a composite score of 24.3, down substantially from previous quarters but still positive. Respondents describing the 12-month outlook as very or somewhat positive decreased, while those describing it as somewhat negative increased significantly. While a majority of respondents in all segments described the business outlook for the next 12 months as very or somewhat positive, only PCB fabricators were unanimous in reporting a positive outlook.

The composite scores on the business outlook for the next 12 months as of October 2019 are positive in all regions except Asia, which has declined to neutral. The uncertainty of trade relations between the U.S. and China might explain the lackluster 12-month outlook for respondents in Asia. Even in places where forecasts are still somewhat optimistic, economic changes are expected. A respondent from North America said “I think we have overstayed our growth cycle. The growth is unsustainable in the next 12 months.”

Opportunities Expected to Drive Future Growth

A ranking of opportunities that will drive the industry’s future business growth showed that the Internet of Things (IoT) and smart systems is the number one driver, followed closely by growing markets and then 5G/high-speed communications. Defense and aerospace topped the list of growing vertical markets cited by the respondents. Medical devices and LED lighting were also mentioned.
Other trends driving future growth that respondents cited include environmental sustainability and e-mobility.

**Business Conditions Causing Concern**

A ranking of major concerns about conditions in the business environment in terms of their impact on future business growth showed that economic uncertainty is the leading concern.

Some specific concerns respondents cited include Brexit, limited sources of materials, the threat of China reducing the supply of passive components and PCBs, decreases in business investment, inadequate supply of software specialists in the job market, and increasing PCB density.
Every quarter, respondents are asked if any conditions or trends are significantly increasing their costs. Again this quarter they cited two more than any others: labor and tariffs/trade.

Pulse of the Electronics Industry is a global survey-based data service from IPC that provides a quarterly report on the health of the industry and its outlook for the coming year. The quarterly report shows what factors are driving or limiting growth, and how the outlook differs in various regions and segments of the industry. The confidential surveys are open to all in management positions in the electronics industry. Survey participants receive the report on the quarter’s results.