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Original Equipment Suppliers Association
NEWS RELEASE

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OESA Supplier Barometer Shows Growing Concern Over Tariffs and Trade

SOUTHFIELD, Mich. (July 31, 2018) – Despite a strong sales and production environment, a pessimistic supplier outlook prevails due to trade policy uncertainty across the automotive supply base in 3Q 2018. The OESA Automotive Supplier Barometer, a quarterly survey of executives at North American automotive suppliers on their 12-month outlook, posted a negative reading of 43 for the third quarter of 2018, seven points below a neutral level of 50.

Supplier Barometer Index (SBI): Even with strong economic fundamentals (i.e. low unemployment, high consumer confidence and robust vehicle sales), the SBI in 3Q 2018 reflects negative repercussions from the current administration's current trade policy agenda. The latest OESA Supplier Barometer Index (SBI) reading dropped ten points from the 2Q 2018 result, in sharp contrast to the positive levels of 57 and 53 in the first and second quarters of 2018, respectively.

Concerns also remain over supply chain risks, commodity prices, the impact of Section 232 and Section 301 tariffs, as well as the fate of stalled NAFTA negotiations in the context of midterm congressional elections. Each concern adds uncertainty to the planning environment, causing automakers and suppliers to reassess, revise and potentially postpone incremental investments until greater clarity can be determined.

"Policy uncertainty serves to constrain additional capacity investment and accelerate volatility through the supply chain, adding risk down the tiers," said Mike Jackson, OESA's Executive Director of Strategy and Research and author of the study. "Now, more than ever, suppliers should strive to use the increasing market turbulence to their advantage by assessing and prioritizing alternative scenarios beyond the near-term to realize their strategy for success."

Supplier executive responses reflect a universal increase in pessimism over prior quarter survey results. Some 38 percent of responses from smaller, more regionally-focused suppliers, reflect increasing pessimism, twice the rate compared to the prior quarter. Even more dramatic, 75 percent of executive responses from larger suppliers, with revenue between $500M and $1 billion, show a sharp increase in pessimism, up from 38 percent in 2Q 2018.

The themes of Globalization and Supply Chain fueled responses for the third quarter 2018 Supplier Barometer survey.

Globalization: Supplier export activities provide a meaningful contribution to overall market strength. Survey responses highlight a median of 10 percent of US supplier production exported in 2018. Median allocation of US exports by country rank Mexico the top destination (50 percent), followed by Canada (30 percent), while Europe and Asia each reflect an equal share (20 percent). Highlighting the nature of sophisticated supply chains, the median value of material costs for US output purchased outside the U.S. stands at 45 percent, up materially from a median response of 25 percent in 2017. The median values for highest material/component spend for US output by region include Asia (35 percent), Mexico (25 percent) and Middle East/Africa (23 percent). These points highlight the sophisticated nature of highly integrated supply chains that are vital for regional competitiveness and the urgent need for clarity on NAFTA.

Supply Chain: Survey results show that 47 percent of respondents anticipate North American supplier capacity to face rationalization pressures over the next year. Policy uncertainty serves to constrain additional capacity investment and accelerate volatility through the supply chain, adding risk down the tiers. In the context of supply risk, a concerning trend is emerging as the number of financial watchlist suppliers has increased considerably.

Further supply concerns include persistent timing pressures due to late design changes or delayed part validation. Expect these factors to be compounded as steel shortages due to tariffs drive additional supplier changes and require additional late engineering and validation work.

Vehicle output remains robust, as OESA's Affiliate Forecast Matrix reflects North American production of 17.3 million units in 2018.

The automotive industry is poised to achieve another milestone. For the first time ever, North American vehicle production is forecast to surpass 17.0 million units for the fifth consecutive year.

Despite such a remarkable achievement, a wide range of market pressures including policy changes, cost, capacity, talent and supply chain--are turning leadership attention away from the crucial task of strategic planning. Now, more than ever, suppliers should seek to use the increasing market turbulence to their advantage by looking beyond the near-term to realize their strategy for success.

A fully copy of the 3Q OESA Automotive Supplier Barometer results and the Sentiment Index chart are available on the OESA website at:
https://www.oesa.org/automotive-supplier-barometer/oesa-automotive-supplier-barometer-studies

About the OESA Automotive Supplier Barometer:
The OESA Automotive Supplier Barometer captures the pulse and analyzes the twelve-month business sentiments of top executives in the supplier industry. It is a quarterly snapshot of their concerns on commercial issues, the business environment and strategies that influence the supplier industry. This Barometer is distributed to vehicle manufacturers, financial institutions, governmental officials and the media to provide an on-going profile of the trends in the supplier industry.

About OESA
Launched in August 1998 at MBS, the Original Equipment Suppliers Association's mission is to champion the business interests of automotive original equipment (OE) suppliers. Since 1998, the Association has been addressing issues of common concern and advocating on behalf of the supplier community throughout the supply chain and in Washington, D.C.

OESA is one of four divisions of the Motor & Equipment Manufacturers Association (MEMA). All divisions are represented by MEMA's advocacy and emerging technology expertise. For additional information, visit http://www.oesa.org.

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