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OESA AUTOMOTIVE SUPPLIER BAROMETER

Q3 2019

SUPPLY CHAIN &
GLOBALIZATION

Executive Summary



Supplier Barometer Index (SBI)

SBI Score = 37;
up 2 points from Q2

Despite a modest gain, the outlook remains deep in negative territory, 13 points below the neutral threshold of 50, remaining near the lowest levels since 2009. Continued trade tensions and poor vehicle sales of programs supplied weigh on the outlook of supplier executives across firms of all sizes, with larger suppliers reflecting greater pessimism.



Trade policy is identified as the greatest industry threat, followed by the impact of weak demand of programs supplied.

Trade policy remains the greatest industry threat within a dynamic environment. As progress is being made on USMCA, threats remain including proposed 232 tariffs on autos and auto parts and others.

Net profitability is deteriorating across a wide range of system areas and program segments

Growing margins are only reflected for electrical/electronics systems that support SUV and truck programs.

Margins for products that support car programs show the greatest level of decline.

Tariffs along with higher labor rates, material prices and interest rates are raising supplier cost pressures.



U.S. is the regional leader in N.A. production with expected growth in U.S. and Mexico

For supplier products produced in North America, respondents expect growth in U.S. and Mexico.



Surveyed supplier import/export balance is skewed

As a median value, 10% of current U.S. production is exported outside of the U.S. while 30% of material (on a dollar basis) needed for production is purchased outside of the U.S.

Most exports are sent to Mexico, Canada and Europe.

The rate of exports is increasing to Mexico and Asia excluding China.

Executive Summary



Most suppliers anticipate supply chain rationalization

14% of respondent companies have a direct supply base that is too large. Given that, a 13% average reduction in the number of their direct suppliers is planned by those companies.

17% of respondent companies have an indirect supply base that is too large with an equal percentage reduction planned for.



Increasing risk with “watch list” direct suppliers

On average, respondents include 3.4% of their direct suppliers on internal company “watch lists” up from 3.0% last year.

Quality and financial metrics were the primary reasons for direct suppliers being added to or continuing on the “watch list”.



Sourcing constraints for electrical/electronics and powertrain systems are at the highest risk

Survey participants indicate sourcing constraints are impacted by trade policy uncertainty as customers delay decisions. Suppliers are cautious to make new capital investments.



One of the primary causal factors in supply chain concerns is timing issues

Respondents indicate that timing issues and quality concerns are not only the most likely scenarios that would disrupt their supply chains but would also have the most severe impact on their business.

Labor issues and shortages of raw materials and/or components are also of great concern.



Risks associated with meeting customer production requirements:

Supply Chain Risks are timing or delay related, quality and a rising trend of financial distress within the supply base.

Internal production risks are lead times, labor issues and launch related issues.

The supply base remains healthy on average, yet weak financial metrics are a key contributor to rising quality issues.



On average, 17% of company suppliers are directed buy as required by customers, down from 20% last year

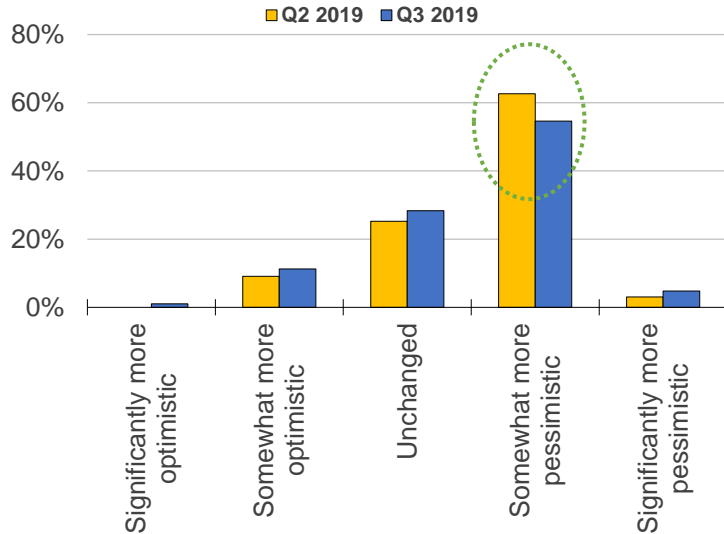


SUPPLIER OUTLOOK

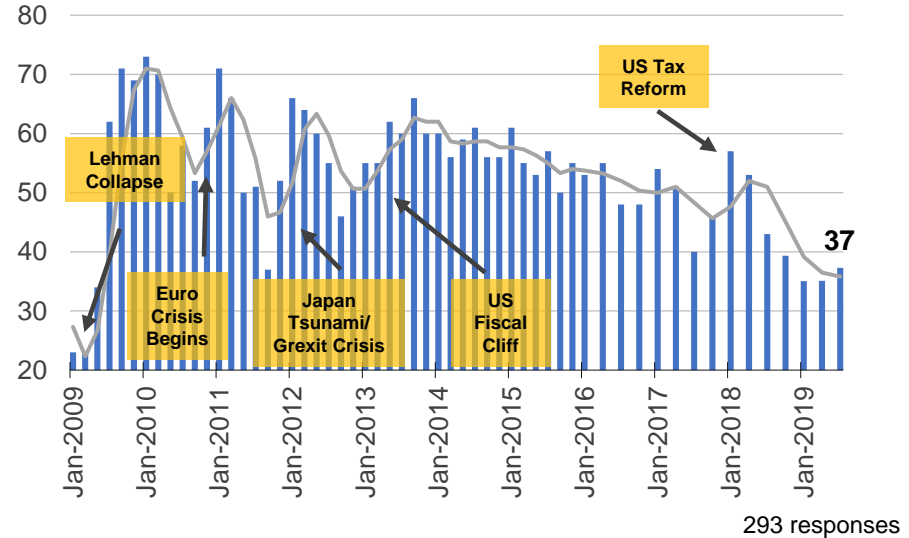
OESA Supplier Barometer: Q3 2019 Results

Describe the general twelve month outlook for your business. Over the past three months, has your opinion become...?

Current Supplier Outlook (Share of Respondents)



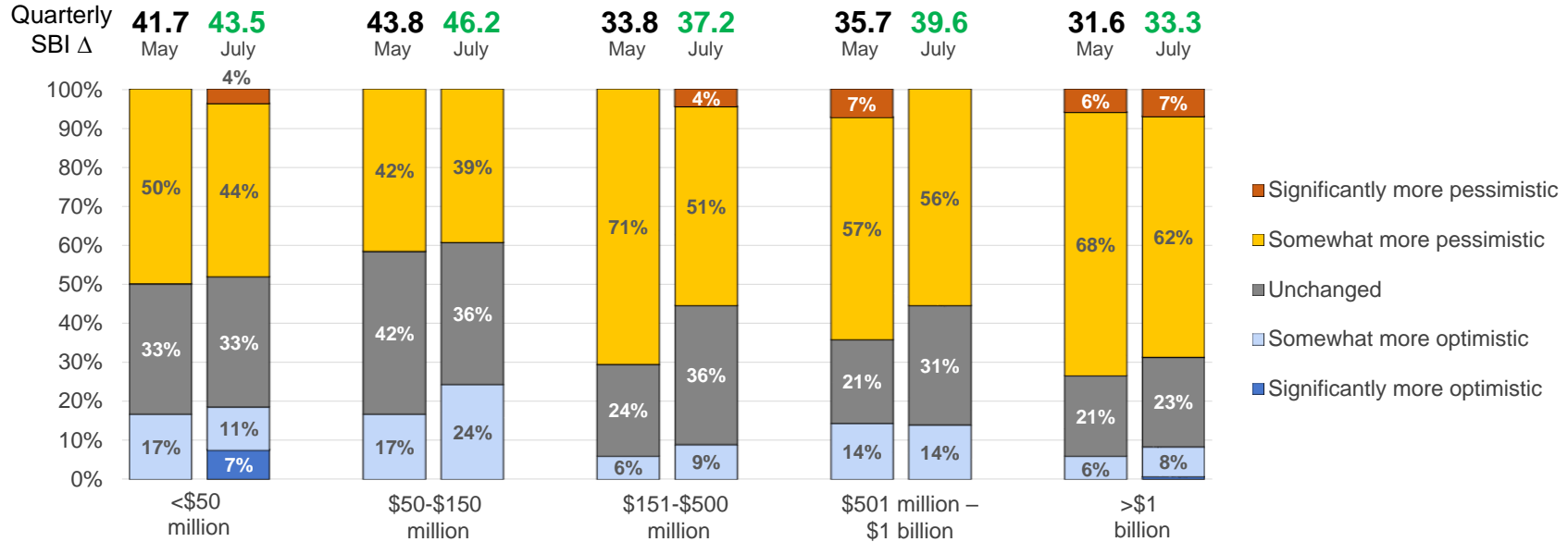
Supplier Barometer Index: (SBI and 6m Average)



SBI Score = 37; increased 2 points from Q2, but remains deep in negative territory on continued trade tensions, poor sales of programs supplied and weakness in the U.S. economy

OESA Supplier Barometer: Q3 2019 Results By Revenue

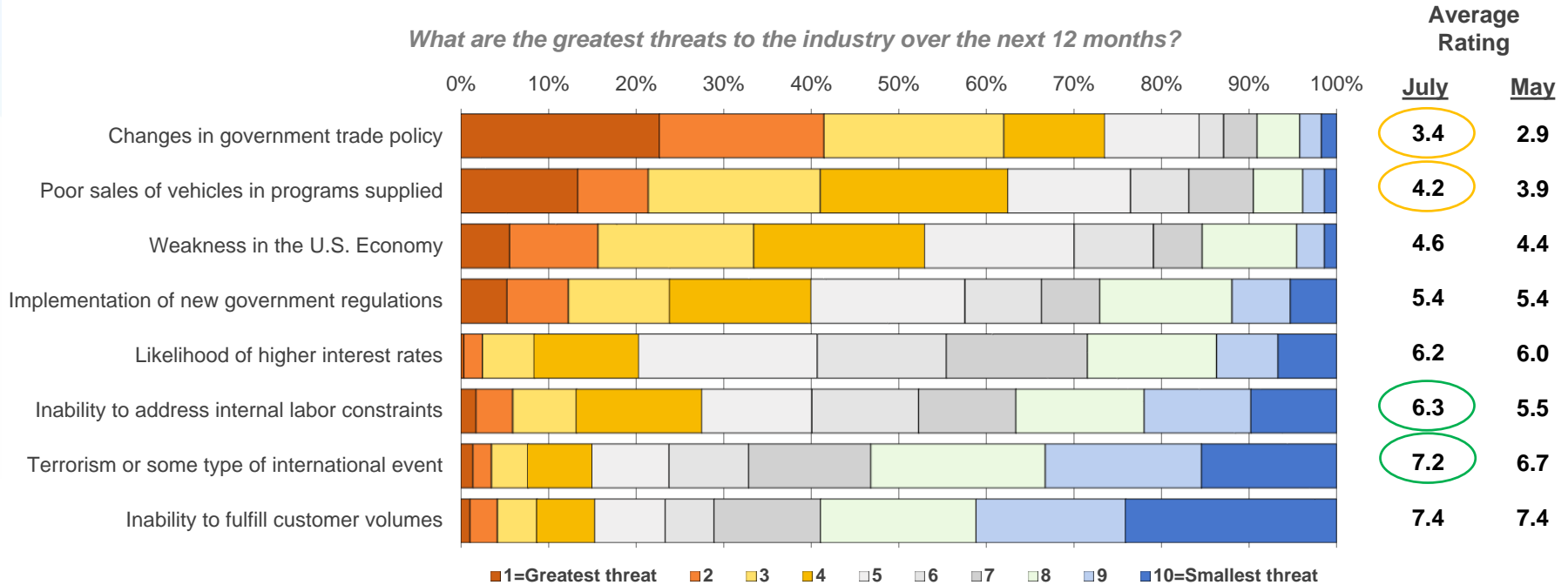
Describe the general twelve month outlook for your business. Over the past three months, has your opinion become..?



Regardless of revenue size, responses continue to reflect a high level of pessimism; Smaller firms were slightly more optimistic in comparison to larger size firms, but remain pessimistic on net

OESA Supplier Barometer: Industry Threats

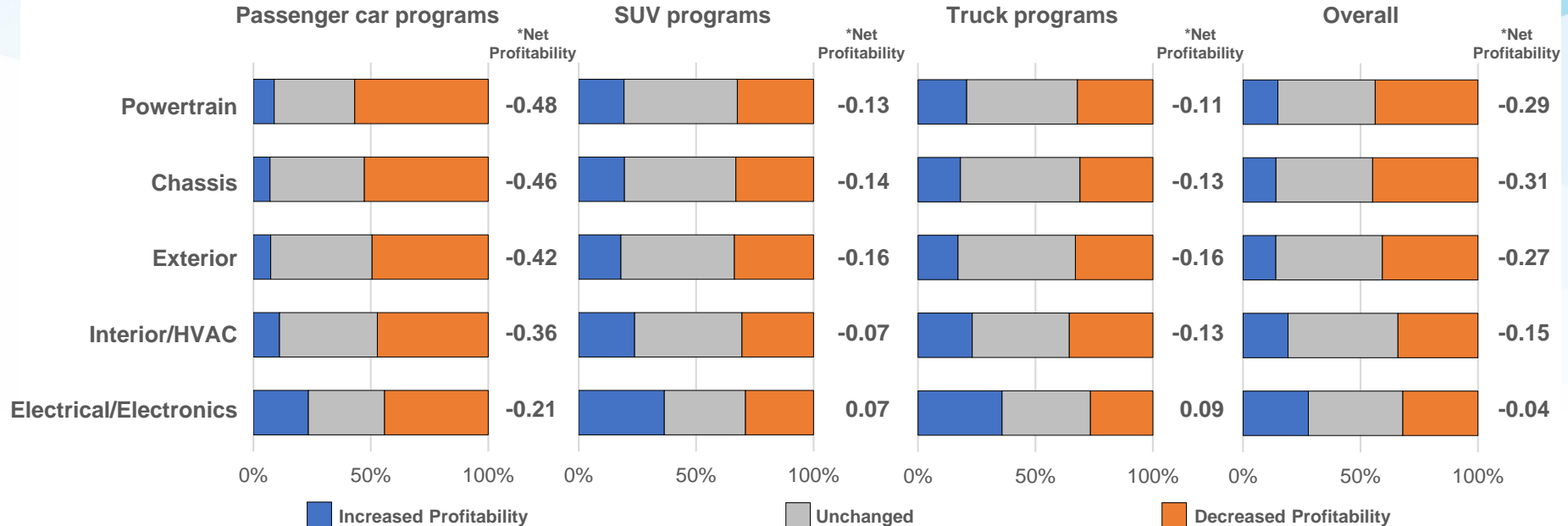
What are the greatest threats to the industry over the next 12 months?



Trade policy remains the greatest industry threat, at 3.4 in the third quarter, up slightly from Q2
 Poor sales of programs supplied was identified as the second largest threat at 4.2

OESA Supplier Barometer: Industry Profitability

For each of the following system areas, please indicate the direction of profit margins.



Net profitability is deteriorating across nearly all system areas and program segments;
 Net profitability increased for electrical/electronics for SUV and Truck programs

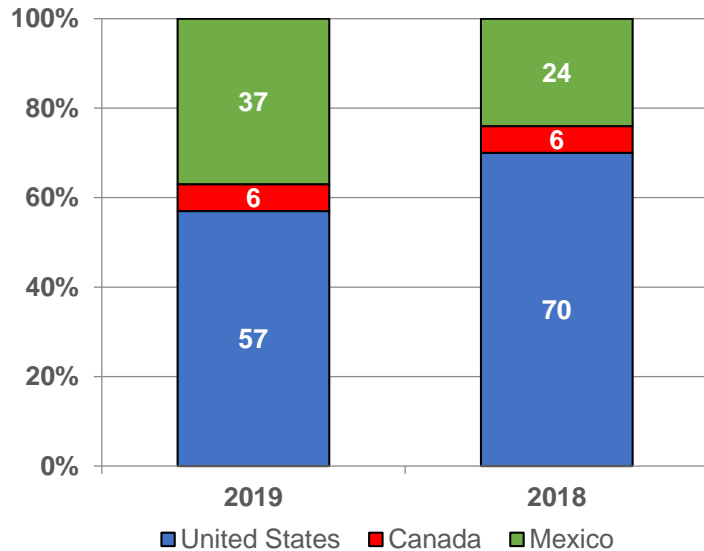


GLOBALIZATION

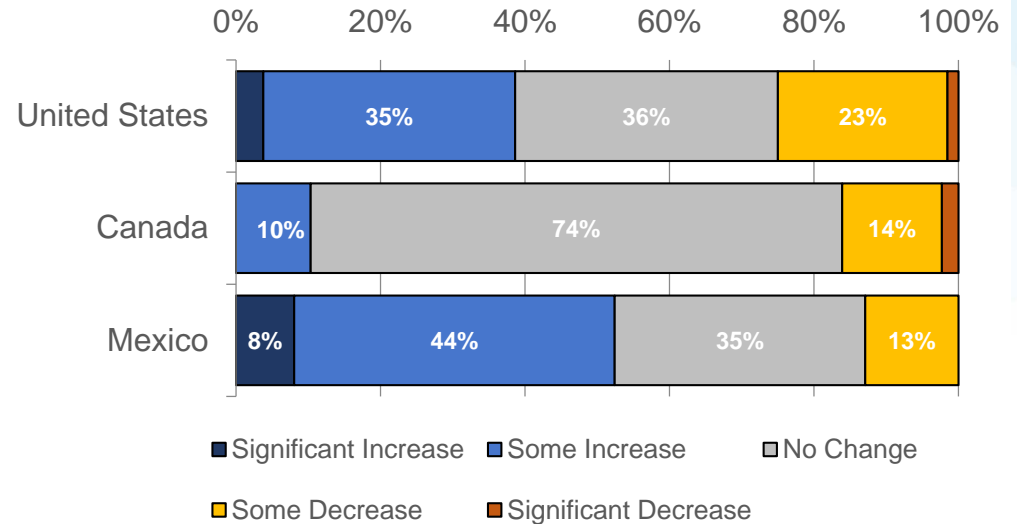
North American Production

U.S. leads North American production and is expected to grow along with Mexico

For your products produced in North America, identify the percent manufactured in each of the following countries.



How do you expect that these percentages will change over the next 5 years?



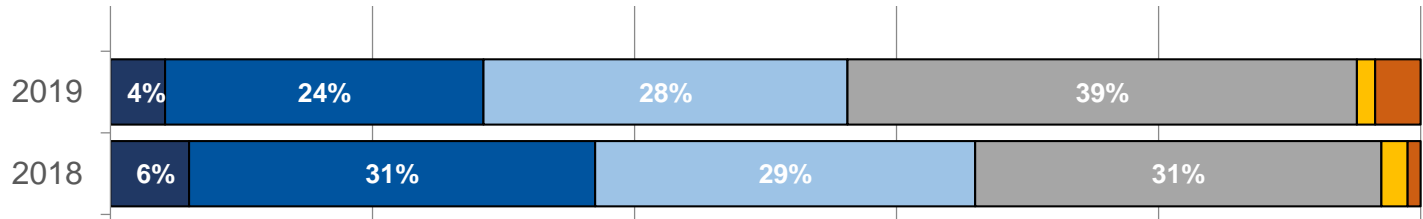
Sourcing

Customer and supplier sourcing localization continued to increase in 2019

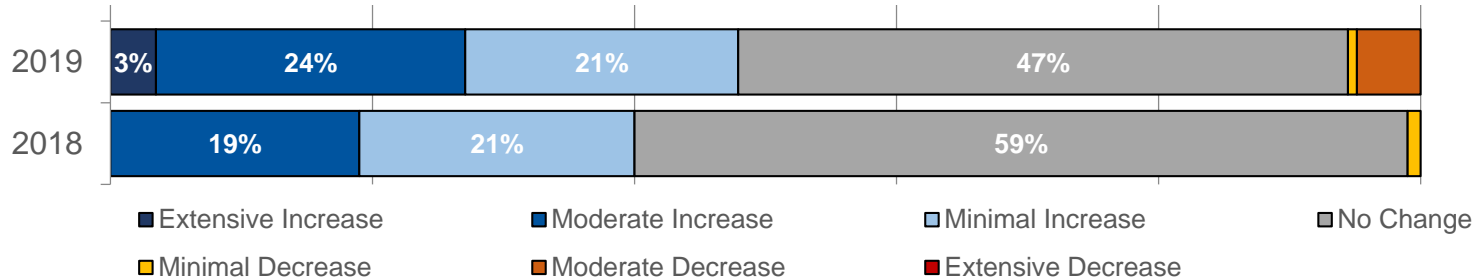
Over the past year, what level of manufacturing localization activity/effort did you...

0% 20% 40% 60% 80% 100%

... see from your customers?



... pursue with your suppliers?

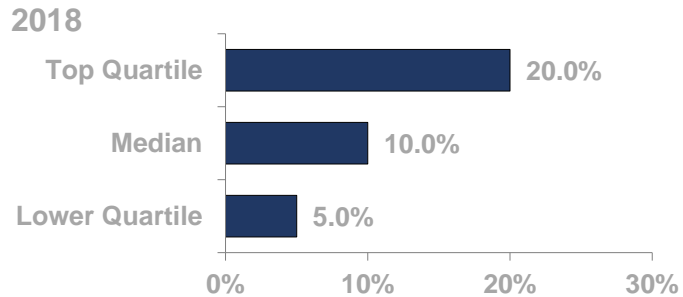
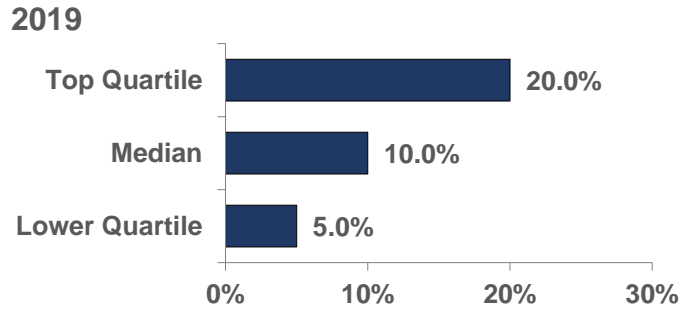


■ Extensive Increase ■ Moderate Increase ■ Minimal Increase ■ No Change
■ Minimal Decrease ■ Moderate Decrease ■ Extensive Decrease

North American Production

Exported products are primarily sent to Mexico

Estimate the percent of your current U.S. production that is exported outside of the United States.



What is the estimated split of these exports (in percent) to each of the following regions?

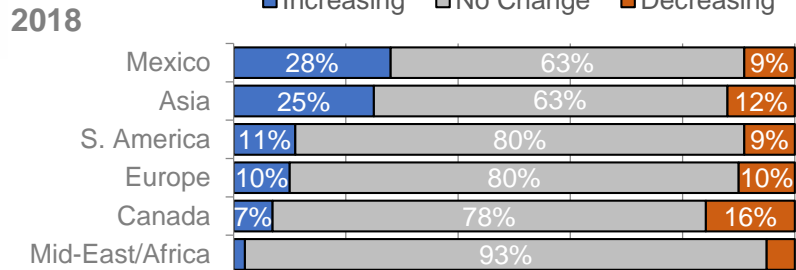
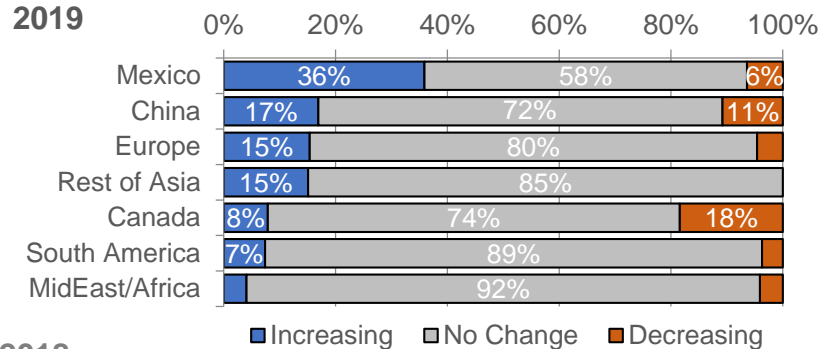
2019	Lower Quartile	Median	Upper Quartile	Number of respondent companies exporting to each region
Canada	5%	10%	20%	56
Mexico	5%	20%	50%	66
Europe	5%	10%	20%	47
China	4%	8%	20%	46
Rest of Asia	5%	5%	10%	24
S. America	1%	4%	7%	20
Mid-East/Africa	1%	5%	8%	5

2018	Lower Quartile	Median	Upper Quartile	Number of respondent companies exporting to each region
Canada	15%	30%	50%	43
Mexico	29%	50%	70%	48
Europe	10%	20%	30%	37
Asia	10%	20%	26%	36
S. America	10%	15%	24%	16
Mid-East/ Africa	5%	8%	10%	8

Sourcing

The majority of U.S. exports are planned for Mexico and China, with less exports to Canada

For each region, please describe the direction of your export plan over the next 5 years.



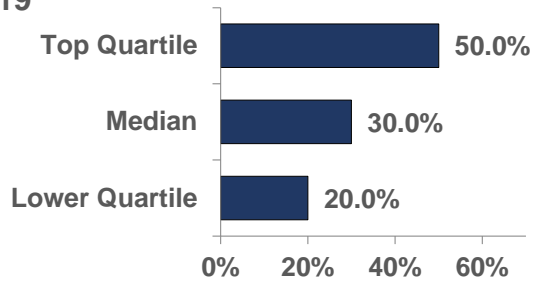
	<i>What major factors drive this regional export plan?</i>
Canada	<ul style="list-style-type: none"> • Lower demand for cars is driving lower shipments. • GM plant shutdowns. • OEM Reductions.
Mexico	<ul style="list-style-type: none"> • Focused on utilizing local production for facilities in Mexico for Mexico market. • Supplementing Mexico facility with US plant capabilities.
Europe	<ul style="list-style-type: none"> • OEM global vehicles.
China	<ul style="list-style-type: none"> • Moving south. • New program increasing this customer destination.
Rest of Asia	<ul style="list-style-type: none"> • OEM global vehicles. • Tooling capacity.
S. America	<ul style="list-style-type: none"> • OEM global vehicles.
Mid-East/Africa	<ul style="list-style-type: none"> • <i>No comments provided</i>

U.S. Production Imports

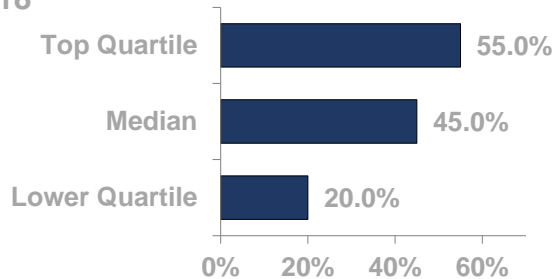
Imbalance between imports and exports

Estimate the percent of your current material costs for U.S. production (by dollar value) that is purchased outside of the United States.

2019



2018



What is the regional split of your total (by dollar value) of materials/components purchased for U.S. production?

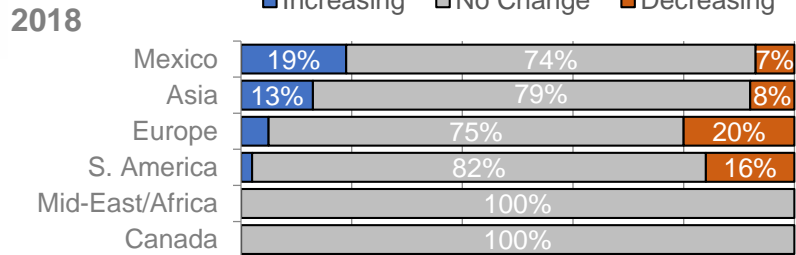
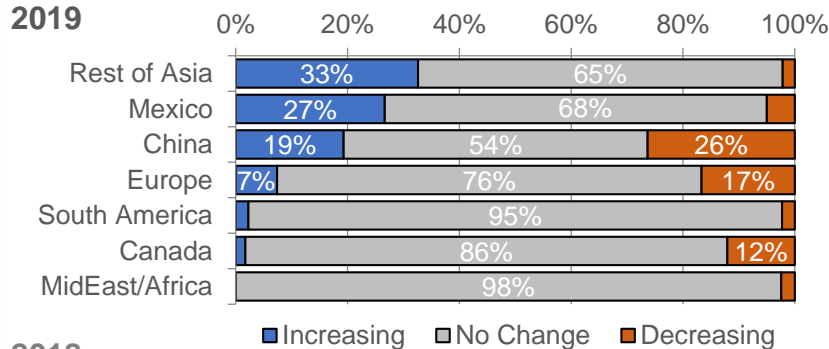
2019	Lower Quartile	Median	Upper Quartile	Number of respondent companies exporting to each region
Canada	5%	5%	15%	39
Mexico	10%	20%	40%	51
Europe	5%	10%	17%	50
China	10%	23%	40%	56
Rest of Asia	5%	13%	22%	29
S. America	1%	10%	15%	7
Mid-East/Africa	6%	25%	48%	4

2018	Lower Quartile	Median	Upper Quartile	Number of respondent companies exporting to each region
Canada	5%	10%	25%	33
Mexico	10%	25%	40%	33
Europe	5%	7%	20%	35
Asia	14%	35%	60%	48
S. America	9%	10%	15%	4
Mid-East/Africa	13%	23%	44%	4

U.S. Production Imports

Net growth is projected for the rest of Asia and Mexico, while net contraction for Canada, Europe and China

For each region, please describe the direction of your purchase plan over the next 5 years.



	What major factors drive this regional import plan?
Canada	<ul style="list-style-type: none"> • Use of metal components declining • Company directive to increase localization. • Steel.
Mexico	<ul style="list-style-type: none"> • Product specialties • Mexican based company • Suppliers from China, India, and ASEAN establishing production capacity in Mexico versus US or Canada
Europe	<ul style="list-style-type: none"> • Production capacity • Was 33% moving to 10%
China	<ul style="list-style-type: none"> • Cost • Localization efforts • Tariff cost mitigation
Rest of Asia	<ul style="list-style-type: none"> • Alternative to China (Tariffs).
S. America	<ul style="list-style-type: none"> • <i>No comments provided</i>
Mid-East/ Africa	<ul style="list-style-type: none"> • <i>No comments provided</i>

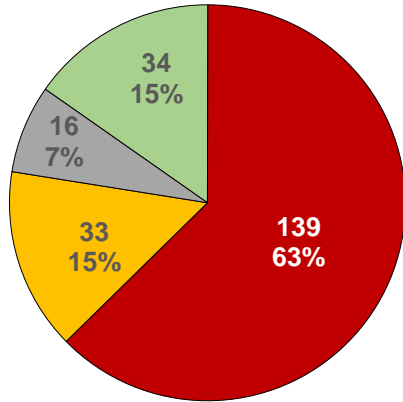


SUPPLY CHAIN

Capacity

Rationalization is anticipated

How do you see North American supply chain capacity changing over the next year?



- NA capacity expansion will occur
- NA capacity rationalization will occur
- NA production constraints will occur
- None of these

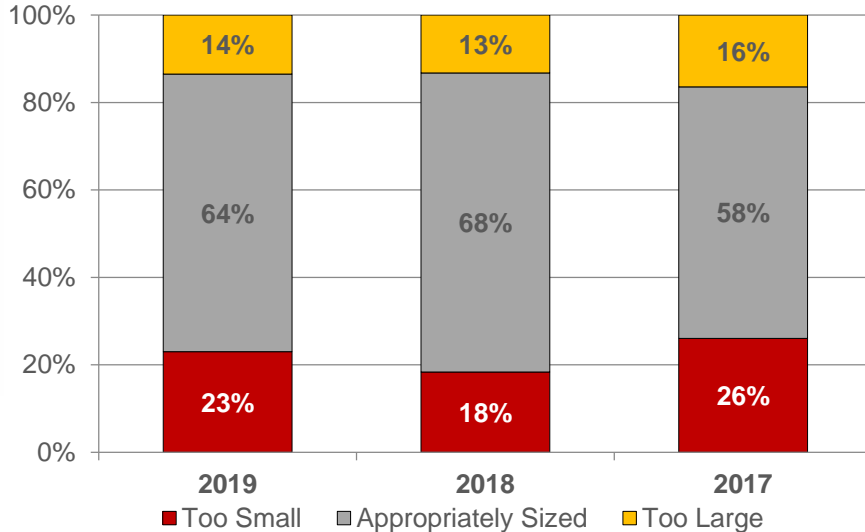
Comments (Selected):

- Expansion into new vehicle architecture; Rationalization of traditional manufacturing
- Troubled suppliers are already starting to be identified.
- There is more focus on localizing NA production leading to a requirement to expand NA capacity. This is coupled with a decrease in customer demands over the next 12 months.
- Capacity planning based upon market trends verses customer projected volumes.
- Impact of tariff policy
- Any of these outcomes are equally possible, hence the uncertainty to make investments.
- With the reduction of car assembly there will be a rationalization of these types of plants.
- The use of digital technology in the Tier-1 operations is evolving from volume driven OEM programs to respond more quickly to more trim levels with high speed flexibility.
- Suppliers will work to ensure proper capacity and breakeven points, so will likely avoid over-capacity and actually remove excess capacity.
- Much business moving back from Asia (in particular) to North America.
- As a result of the 301 tariffs, we are moving production to Europe, not North America.
- I think companies will wait and see what happens with China tariffs and USMCA before making decisions.
- Electric car maker entrants and Chinese entrants will complicate the picture for overall capacity, but will negatively impact many existing participants.
- I believe we'll see companies fold due to poor quote assumptions and losing money on high volume.
- Volumes decline and we have too much capacity.
- Due to Section 403 in NAFTA goes away
- High amount of capacity in the market currently drive profitability down
- I feel we will have open capacity that will need to be filled.

Size of Supply Base

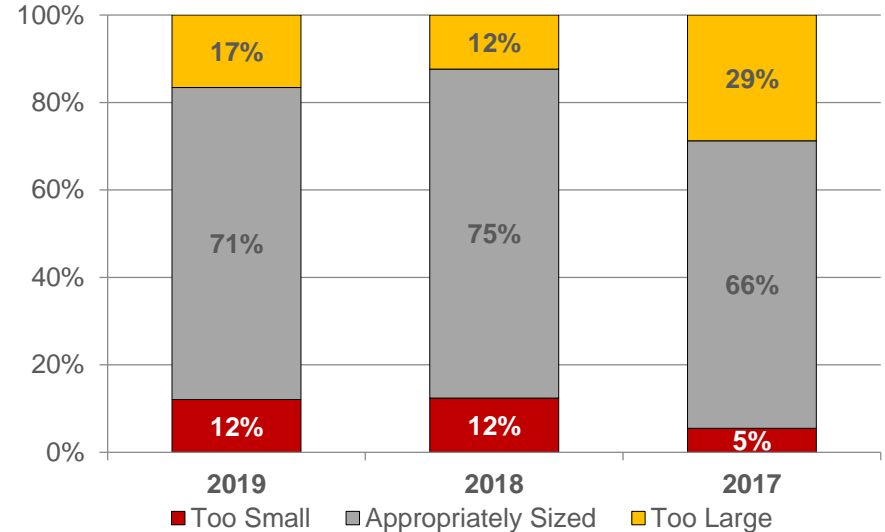
Considering your 2019-2020 North American production planning volumes expectation, in terms of the number of your NA suppliers, select the relative size of your current supply base

Direct Suppliers



Average -13%

Indirect Suppliers



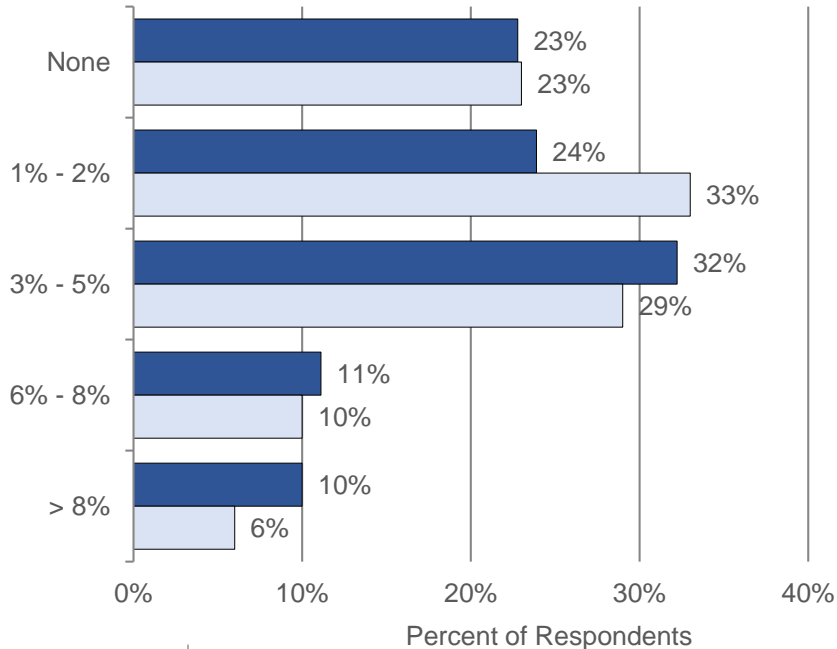
Average -17%

If your supply base is too large, over the next year, what percent reduction levels are you planning for (based on number of suppliers)?

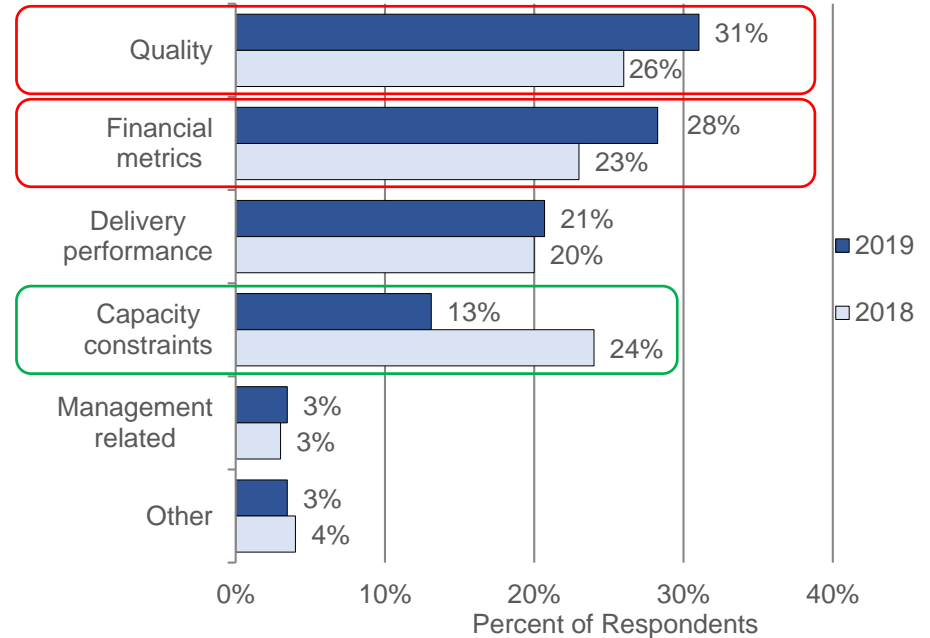
Direct Supplier Risk

Quality issues and financial metrics increased the percentage of “watch list” suppliers

What percent of your North American direct material suppliers are currently on your “watch list?”



What is the primary reason companies are being added to or continuing on the supplier “watch list?”

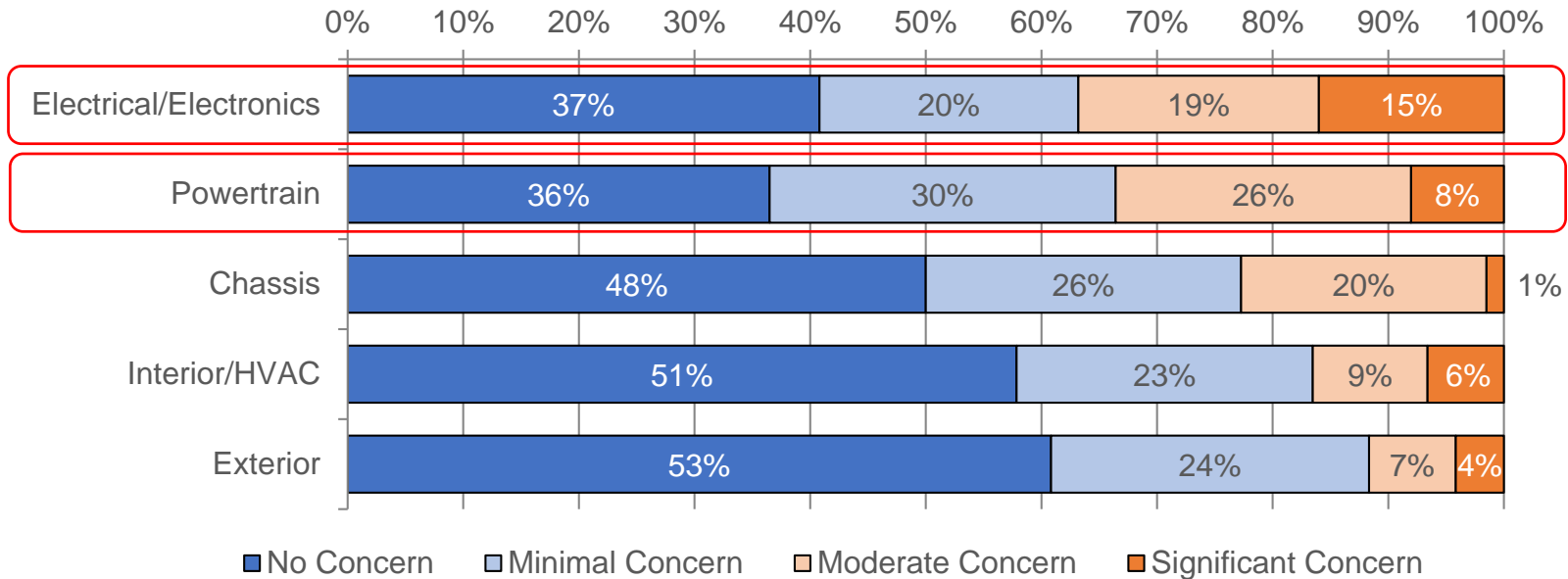


Sourcing Constraints

Electrical/Electronics and Powertrain systems face the highest sourcing risks

For each of the following system areas, select your level of concern in having future sourcing constraints

Percent of respondents

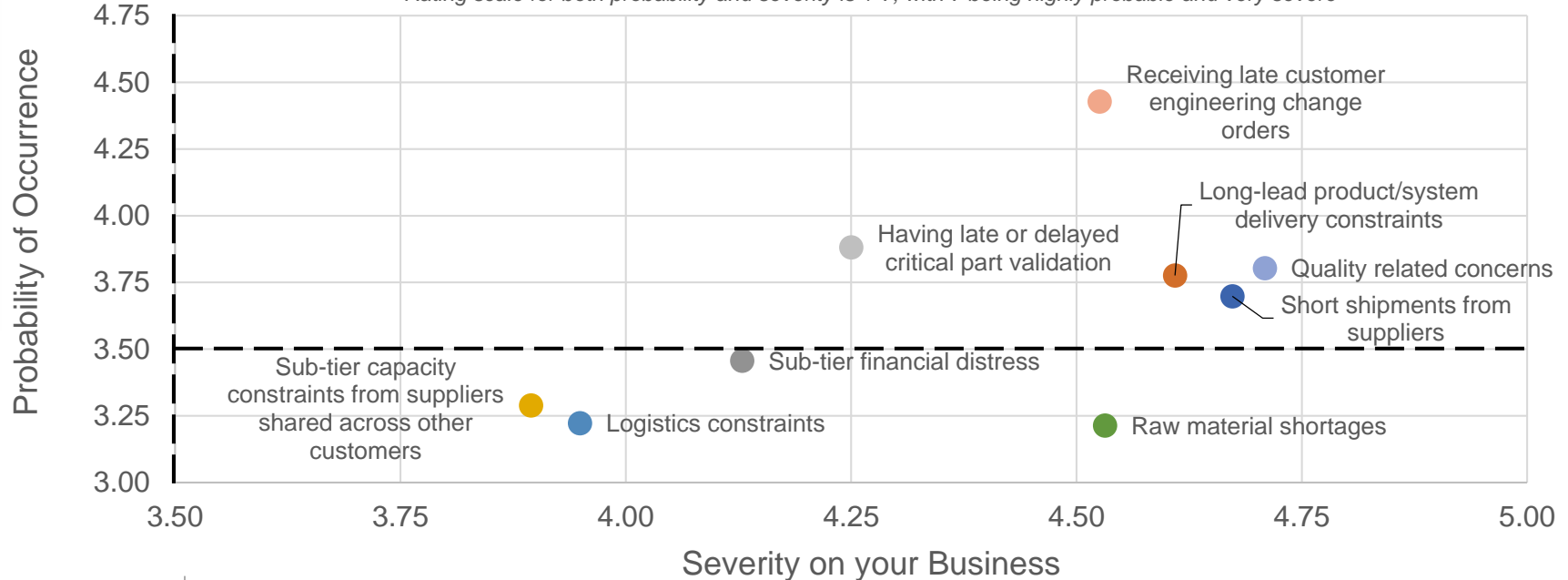


Supplier Concern Scenarios

Timing issues are not only the most disruptive, but also the most likely

Within your supply chain, over the next 12 months, rate the likelihood of occurrence and the severity that each of the following possible scenarios would have on your business.

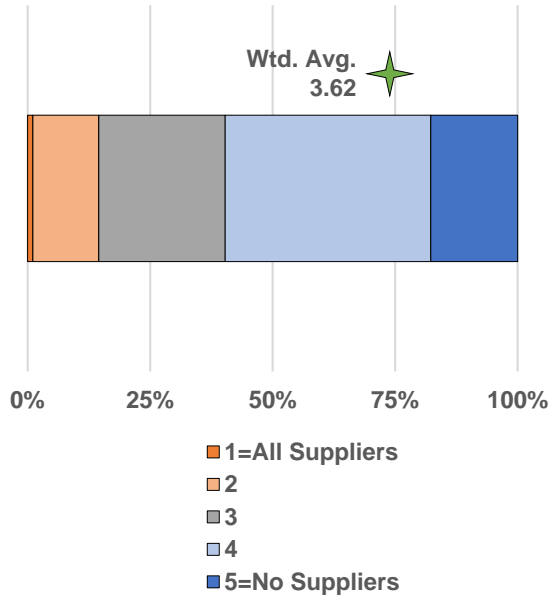
Rating scale for both probability and severity is 1-7, with 7 being highly probable and very severe



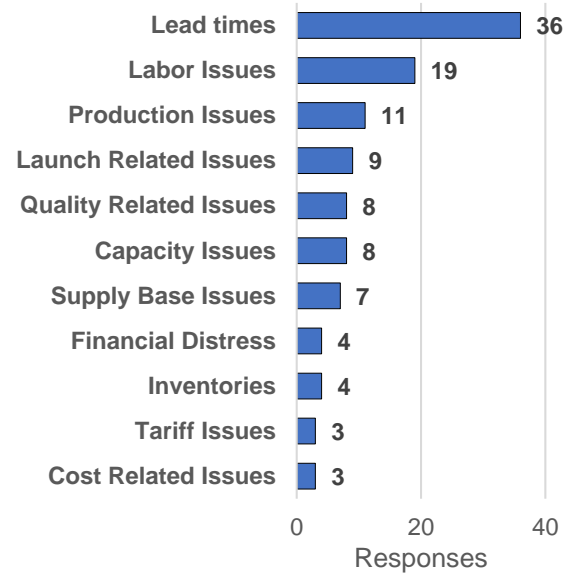
Production Risks

Predominantly timing, and labor related, yet impact of financial distress is rising

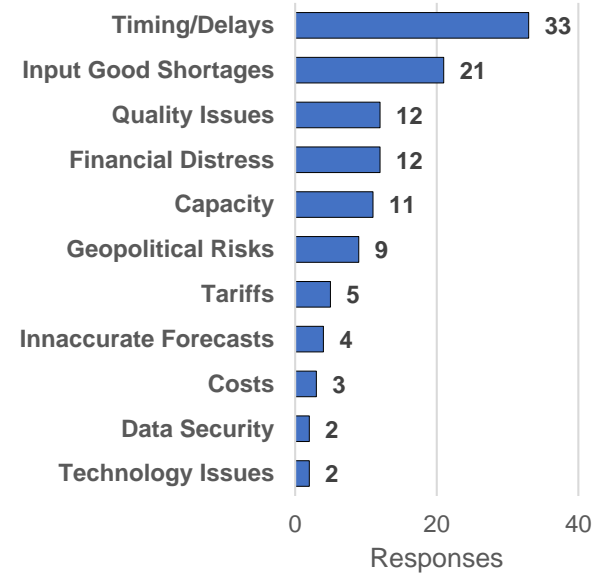
Over the past year have you witnessed an increase in distress within your supply base?



What is your greatest internal risk in meeting customer production requirements?



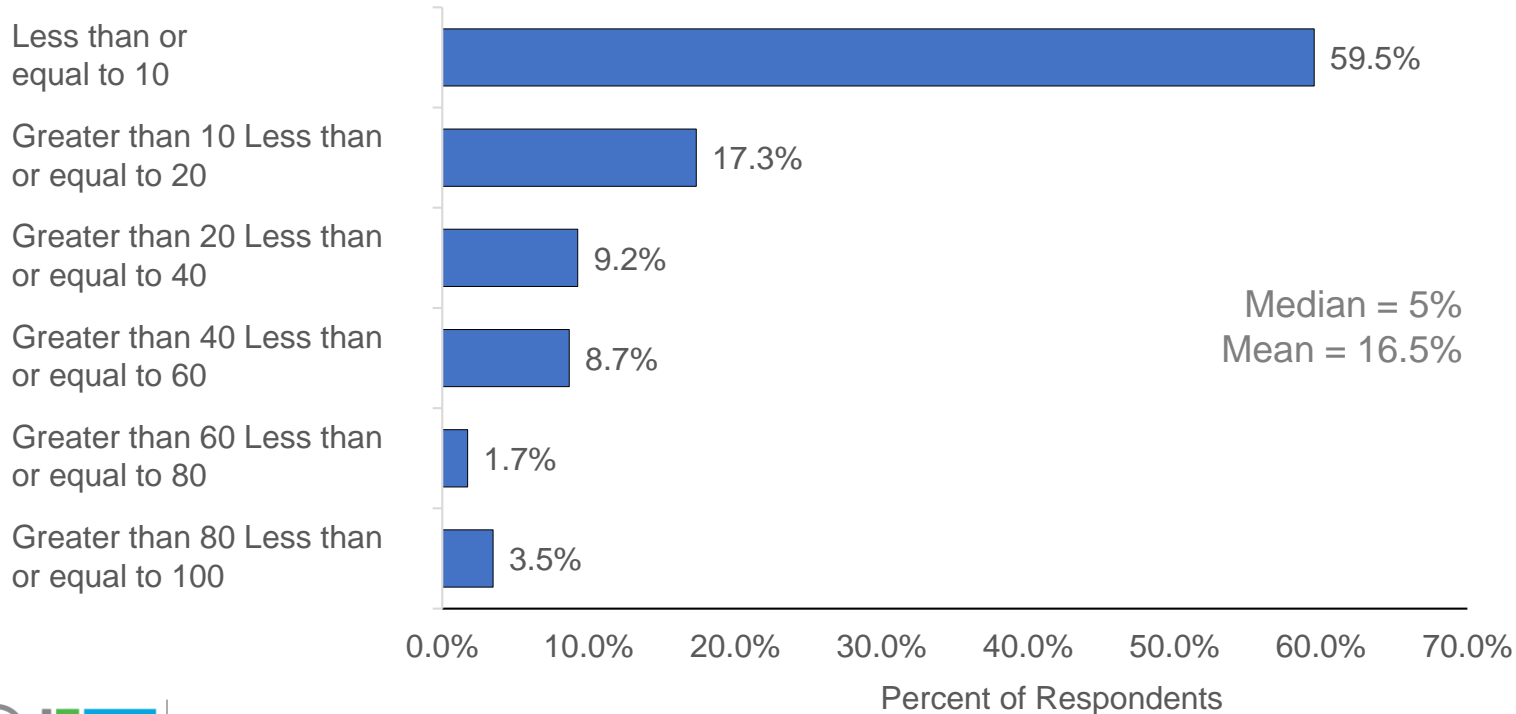
What is your greatest supply chain risk in meeting customer production requirements?



Directed Buy

The majority of respondents indicate that fewer than 10% of their suppliers are directed buy

What percent of your suppliers are customer required directed buy arrangements?





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OESA Automotive Supplier Barometer is a survey of the top executives of OESA regular member companies. The OESA Automotive Supplier Barometer takes the pulse of the suppliers' twelve month business sentiment. In addition, it provides a snapshot of the industry commercial issues, business environment and business strategies that influence the supplier industry.

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Survey Methodology

- Data collected July 15 – July 23 via invitation to online survey.
- Executives of OESA supplier companies.
- 176 complete survey responses were received, with 293 responses total.

The information and opinions contained in this report are for general information purposes. Comments are edited only for spelling and may contain grammatical errors due to their verbatim nature. Responses to this survey are confidential. Therefore, only aggregated results will be reported and individual responses will not be released or shared.

Antitrust Statement:

Respondents/participants should not contact competitors to discuss responses, or to discuss the issues dealt with in the survey. It is an absolute imperative to consult legal counsel about any contacts with competitors. All pricing and other terms of sale decisions and negotiating strategies should be handled on an individual company basis.

Contacts

Mike Jackson

Executive Director
Strategy and Research
248.430.5954
mjackson@oesa.org

Joe Zaciek

Manager
Research and Industry Analysis
248.430.5960
jzaciek@oesa.org

Larry Keyler

RSM Detroit Office Managing Partner
317.805.6205
lawrence.keyler@rsmus.com

Original Equipment Suppliers Association
25925 Telegraph Road
Suite 350
Southfield, Michigan 48033