OESA AUTOMOTIVE SUPPLIER BAROMETER

Q4 2018

HR and Talent

Executive Summary

Supplier Barometer Index (SBI)
SBI Score = 39;
down from Q3 level of 43

The barometer reading fell deeper into pessimistic territory this quarter on growing trade concerns, falling to the lowest level since the Japanese Tsunami/Grexit crisis in the third quarter of 2011. The Q4 2018 index reading reflects a steep 18 point drop from Q1 2018.

Regardless of revenue size, supplier executive responses maintain high levels of pessimism as with the prior quarter

The largest and smallest companies by revenue, over $1 bils. and less than $50 mils., respectively, had the sharpest increase in pessimism. With 56% of large firms becoming more pessimistic and 57% of small firms becoming more pessimistic.

The middle ground of suppliers by revenue ($50-1,000 mils.) were less pessimistic in comparison, but held below the neutral threshold of 50.

Trade policy continues to be identified as the greatest industry threat

The threat level surrounding trade policy on a 10-point scale (1=greatest threat) remains pronounced, remaining unchanged from Q3 2018 at 3.1.

Poor sales of vehicles in programs supplied fell sharply, down 0.9 points from Q3 to 4.2. Implementation of new government regulations and weakness in the U.S. economy, both fell 0.6 points from Q3 to 4.6.

Automotive suppliers are becoming increasingly diversified

A greater portion of suppliers had sales in non-automotive industries compared to last year.

The Aerospace industry showed the largest gain, with just over 16% of respondents indicating they had sales to that sector, up from 2% last year.

Executive Summary

Skills and Company Culture Gaps Persist but Suppliers are Willing to Embrace Change

Executive responses indicate that 58% of suppliers have moderate to wide gaps between their current roles and responsibilities versus skills, yet 97% executives were willing to embrace change needed to reduce skills gaps.

Furthermore, 54% of responses reflect suppliers face moderate to wide gaps between current and expected company culture, while 91% are willing to take steps to close cultural gaps.

Firms are focusing on increasing training efforts and educational outreach to offset skills gaps, while re-evaluating current policies and increasing flexibility will be used to close cultural gaps.

On Net, Employment Growth is not Anticipated to Keep Up with Sales Growth in the U.S., Canada, Europe and South America

Regional Voluntary Turnover Rates are Extremely High Throughout North America

24% of suppliers report their turnover rates in the U.S. at above 7.5% for salaried workers while 49% of suppliers estimate their turnover rates for hourly workers at above 7.5%.

Canada and Mexico are not immune to competitive labor markets with over a third of suppliers estimating turnover rates above 7.5% for both salaried and hourly workers.

Technical Skills are Scarce Throughout North America

The vast majority of suppliers indicate that technical positions, both white and blue-collar, are the most difficult to fill. Engineering positions are the most challenging to fill in the U.S.

Suppliers also indicated that mechanical and industrial engineers are the most difficult to come by.

Despite Widespread Shortages of Qualified Candidates, Suppliers are Maintaining Hiring Standards of Production Workers

The Industry is Adapting to the Desires of the Younger Workforce With Most Suppliers Implementing or Planning to Implement Programs to Attract and Retain Younger Workers

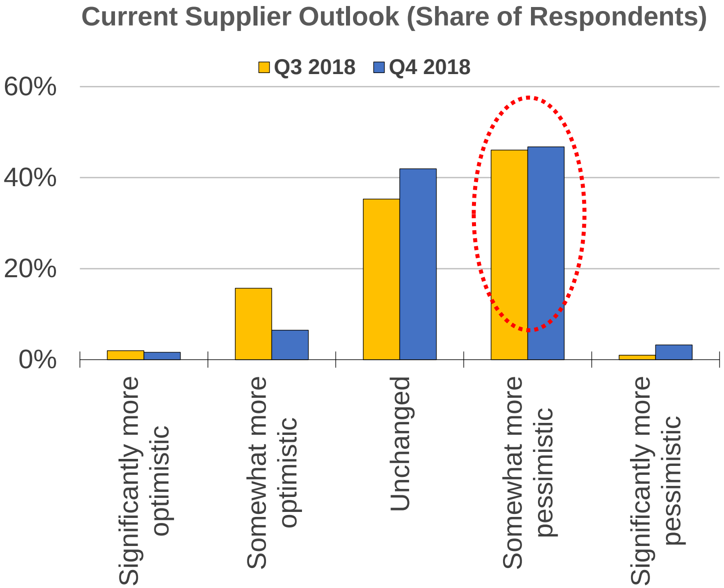
Career and Succession Planning is the Most Common Strategic Priority, followed Closely by Organizational Leadership and Training

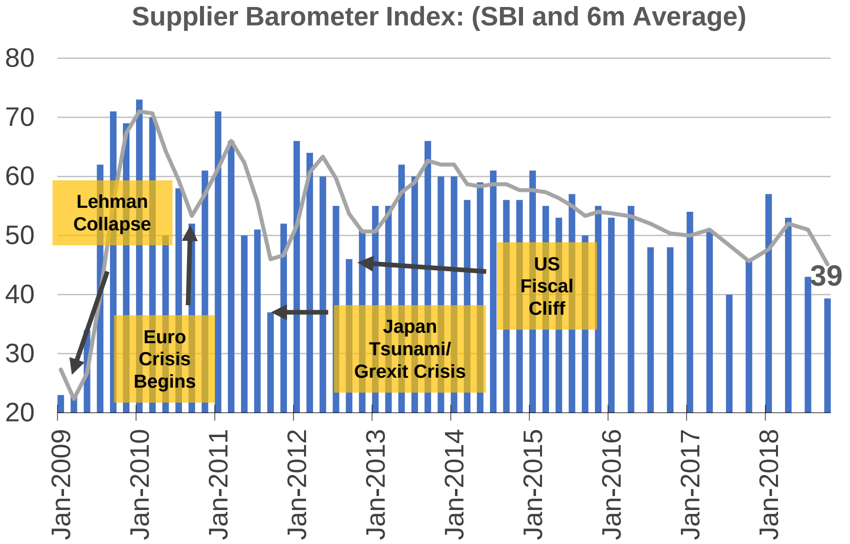
On Net, Benefits Packages are Expected to Become Ever More Costly in 2019, with Employer Health Care Contributions Leading the Way

SUPPLIER OUTLOOK

OESA Supplier Barometer: Q4 2018 Results

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



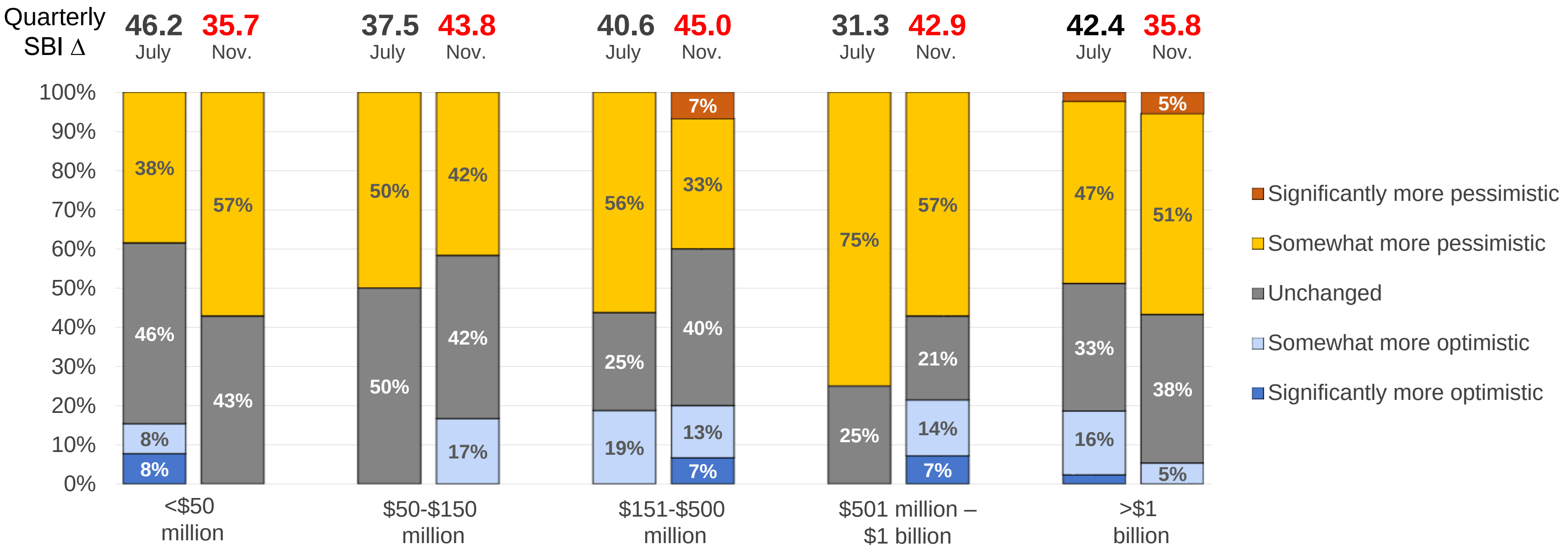


101 responses

Rising concerns over tariffs and trade policy pulled down the Q4 2018 OESA Supplier Barometer Index *(SBI)* by four points to 39, eleven points below a neutral reading.

OESA Supplier Barometer: Q4 2018 Results By Revenue

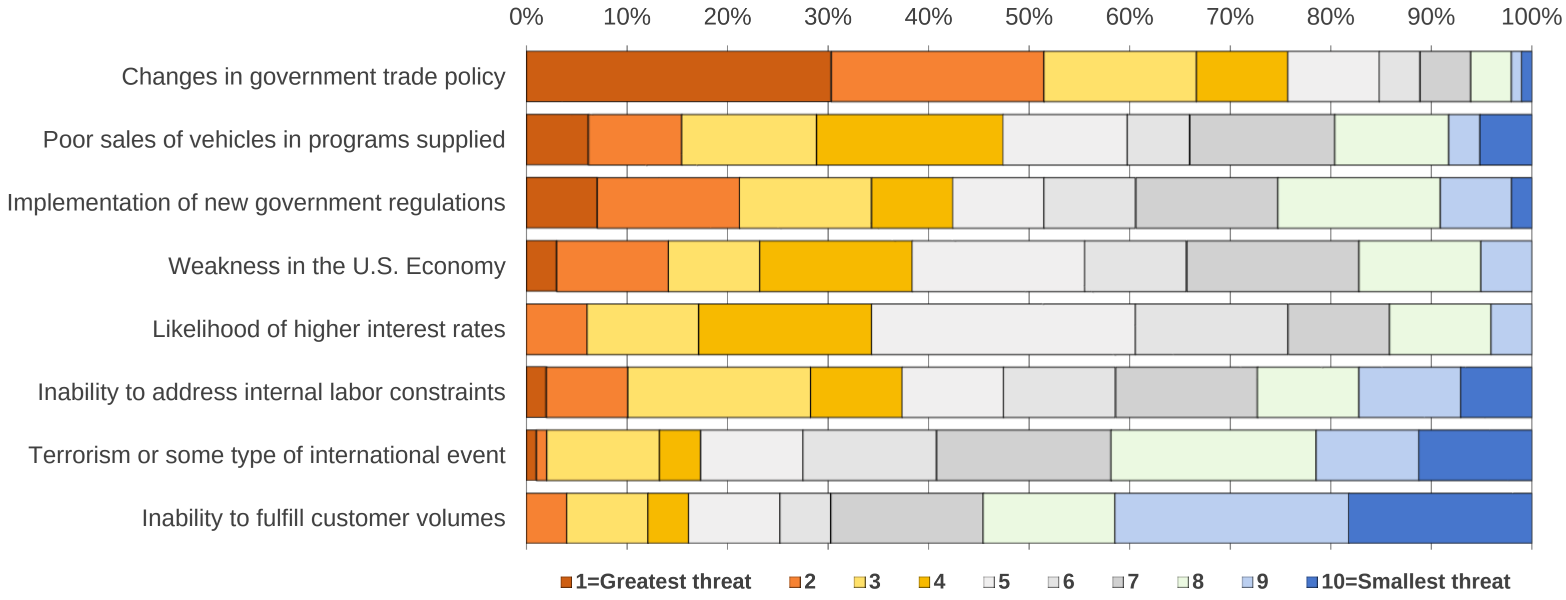
Describe the general twelve month outlook for your business. Over the past three months, has your opinion become..?



Regardless of revenue size, responses continue to reflect a high level of pessimism over Q3 2018. Sharply lower optimism is evident within smallest and largest suppliers from prior quarter results.

OESA Supplier Barometer: Industry Threats

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



Average Rating		
	November	**July**
Changes in government trade policy	3.1	3.1
Poor sales of vehicles in programs supplied	4.2	5.1
Implementation of new government regulations	4.6	5.2
Weakness in the U.S. Economy	4.6	5.2
Likelihood of higher interest rates	5.2	5.2
Inability to address internal labor constraints	5.2	5.7
Terrorism or some type of international event	6.5	6.7
Inability to fulfill customer volumes	6.8	7.3

Trade policy remains the greatest industry threat, at 3.1 in the fourth quarter, unchanged from Q3 2018.
Poor sales of programs supplied was identified as the second largest threat, declining substantially from Q3.

OESA Supplier Barometer: Industry Segmentation

To better understand North American markets of automotive suppliers, provide an estimate of your industry revenue for each segment:

N.A. Industries	Percent of total NA revenue in each Industry				# of responses
	Lower Quartile	Median	Upper Quartile	Range	
Automotive	80%	91%	100%	25-100%	98
Agriculture	5%	5%	10%	1-30%	29
Defense	2%	5%	10%	1-40%	20
Aerospace	2%	5%	10%	1-25%	16
Furniture	1%	5%	5%	1-8%	12
Computers and Non-Auto Electronics	2%	8%	24%	1-55%	12
Marine	1%	1%	2%	1-3%	10
Other	5%	12%	21%	1-75%	36

Other Industries:

- HD/Commercial Vehicles (8)
- General Industrial (6)
- Consumer (6)
- Recreational Vehicles (5)
- Race/High Performance /Aftermarket (5)
- Medical (5)
- Construction (4)
- Lawn & Garden (2)
- Food Equipment
- Welding
- Rail
- Forging
- Mining and Petroleum
- Alternative Energy

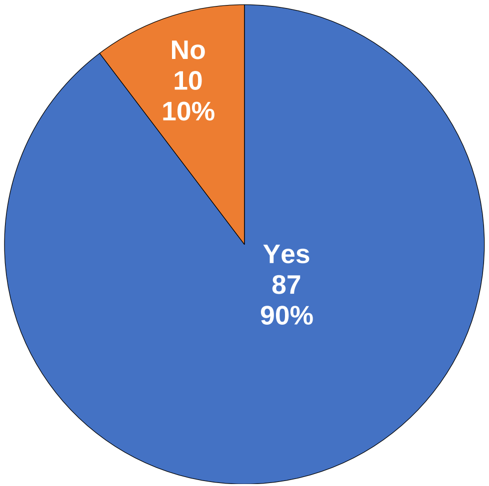
Response counts of sales in non-automotive industries increased over prior year, suggesting automotive suppliers are becoming increasingly diversified.

Human Resources and Talent

OESA Supplier Barometer: Roles/Responsibilities vs. Skills - Understanding the Gaps

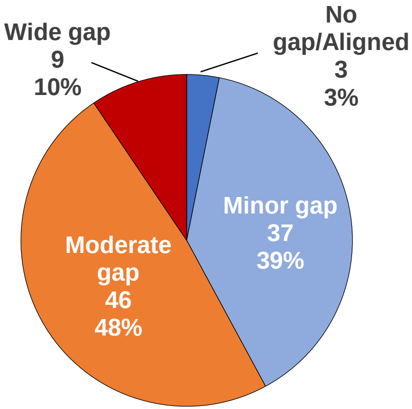
Given competitive hiring pressures and your effort to retain and capture new talent...

Are you evaluating the gaps between roles/responsibilities vs. skills in your organization?

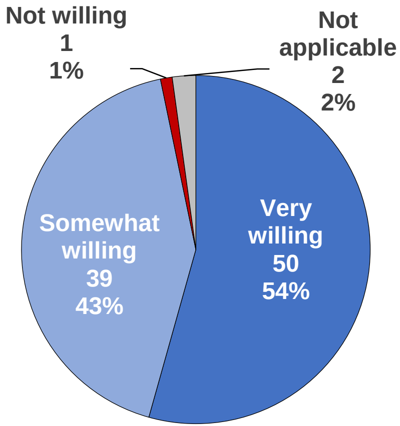


For those indicating 'yes'

What is the magnitude of each gap?



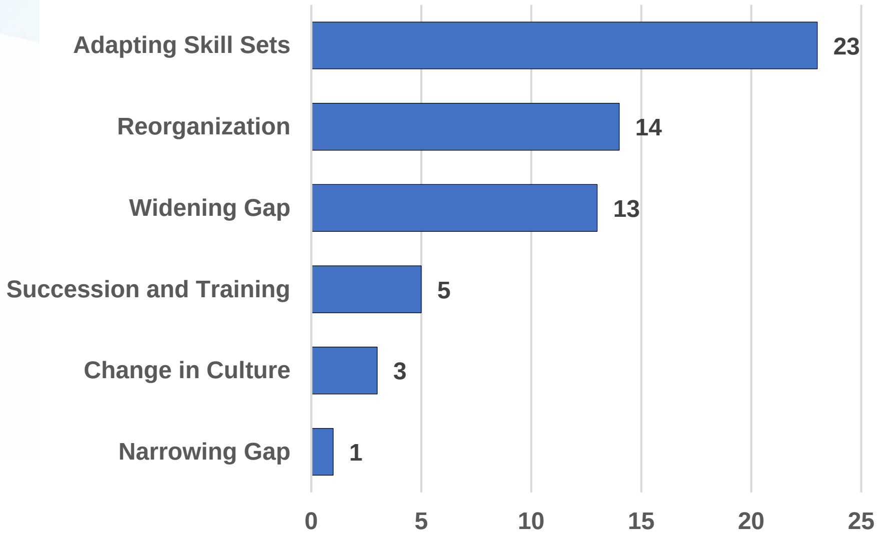
How willing are you to embrace the scope of change needed to close each gap?



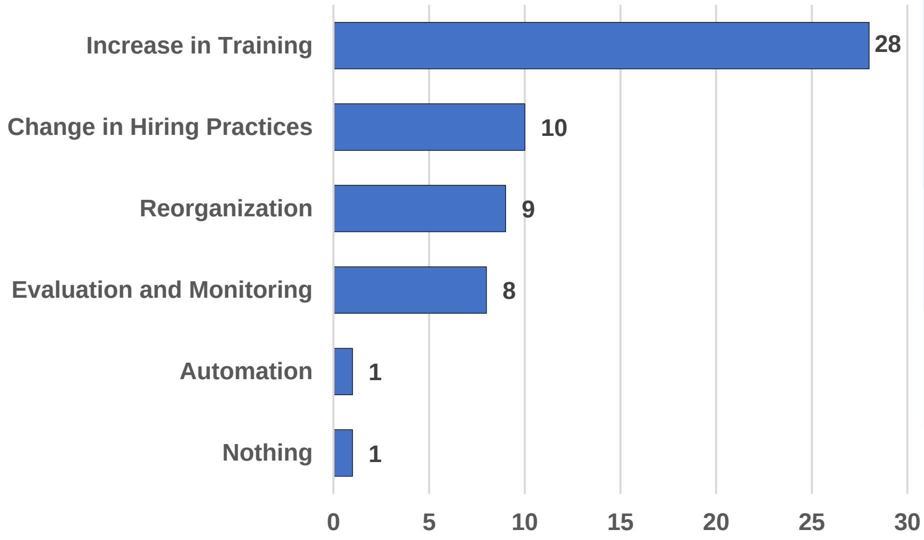
Most suppliers are evaluating skills gaps, ~60% have moderate to wide gaps, nearly all want to close gaps.

OESA Supplier Barometer: Roles/Responsibilities vs. Skills - Understanding the Gaps

How do you see this changing over the next 1 to 3 years?



What are you doing to adapt your organization to each of these changes?

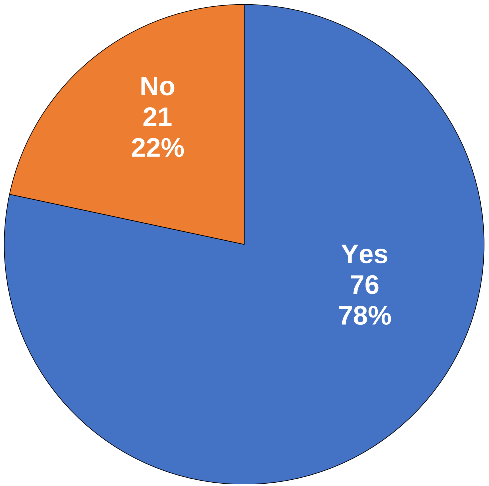


Adaptation and reorganization will be necessary to cope with current and emerging skills gaps, where training and new hiring practices are expected to realize gains.

OESA Supplier Barometer: Current Culture vs. Expected Culture

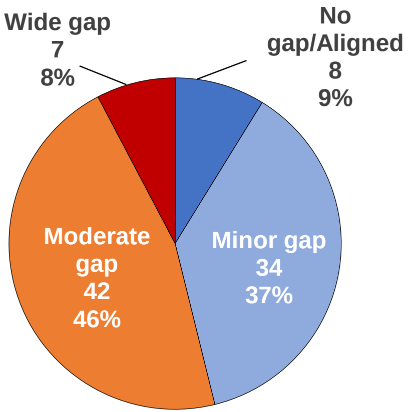
Given competitive hiring pressures and your effort to retain and capture new talent...

Are you evaluating the gaps between current vs. expected culture in your organization?

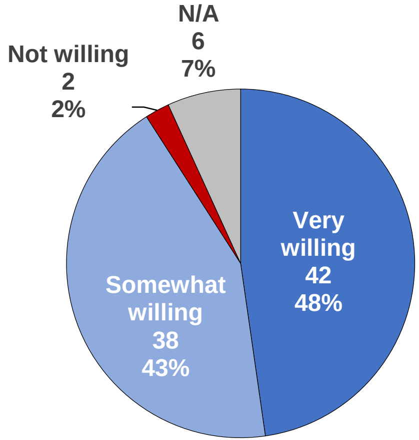


For those indicating 'yes'

What is the magnitude of each gap?



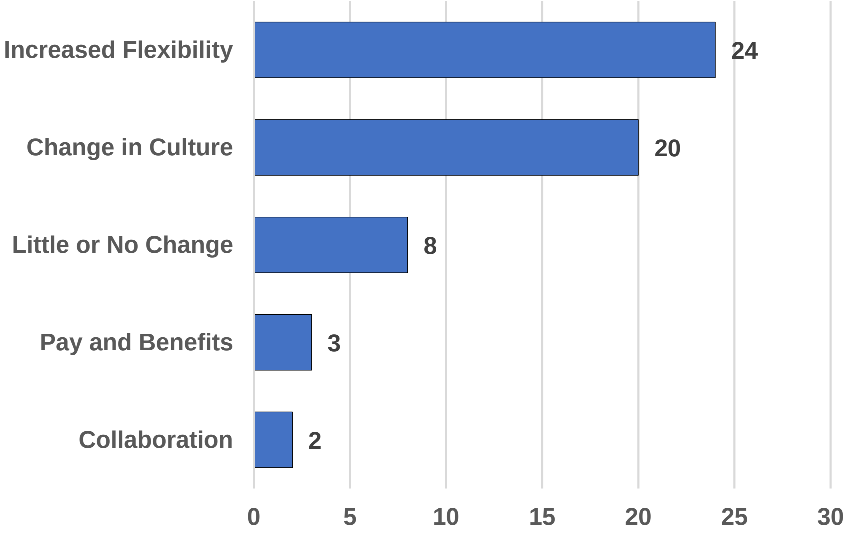
How willing are you to embrace the scope of change needed to close each gap?



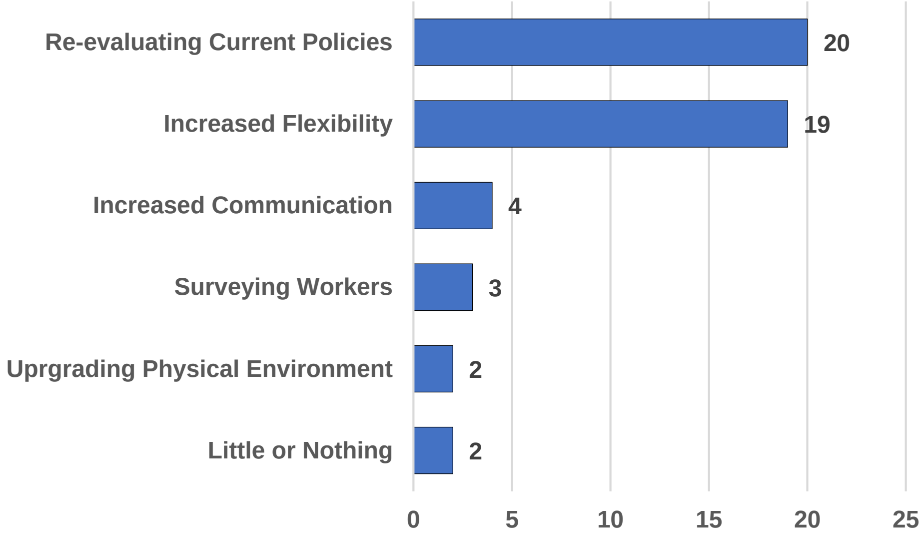
The majority of suppliers are evaluating the gap between their current culture and expected culture with nearly 55% of respondents indicating a moderate to wide gap.

OESA Supplier Barometer: Current Culture vs. Expected Culture

How do you see this changing over the next 1 to 3 years?



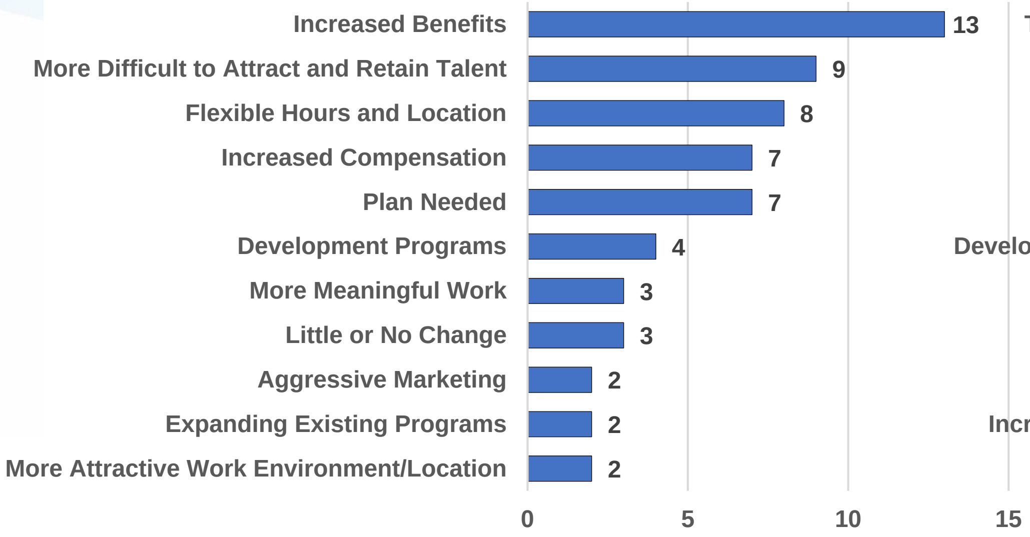
What are you doing to adapt your organization to each of these changes?



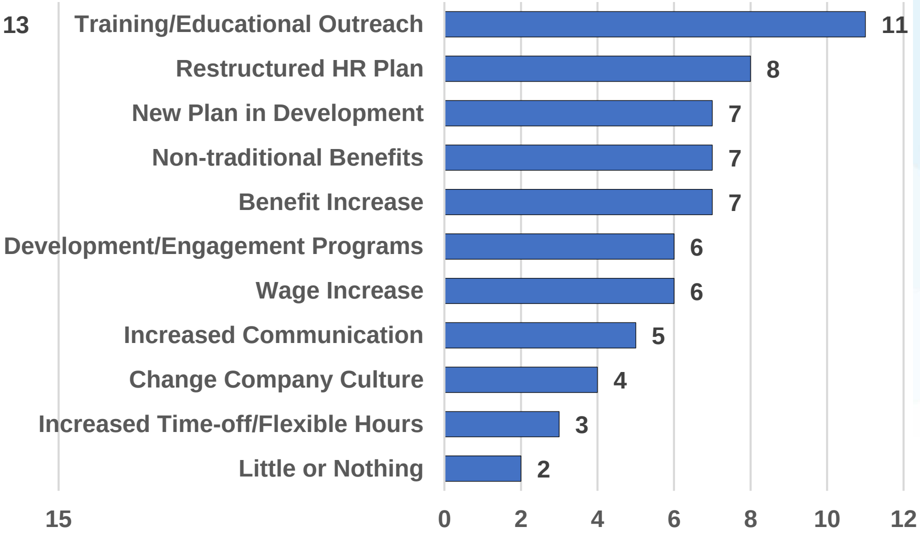
Many see increased flexibility as a key component for driving positive change in their company culture. Firms are reviewing policies to enhance flexible processes to improve outcomes.

OESA Supplier Barometer: Programs to Attract and Retain Talent

How do you see this changing over the next 1 to 3 years?



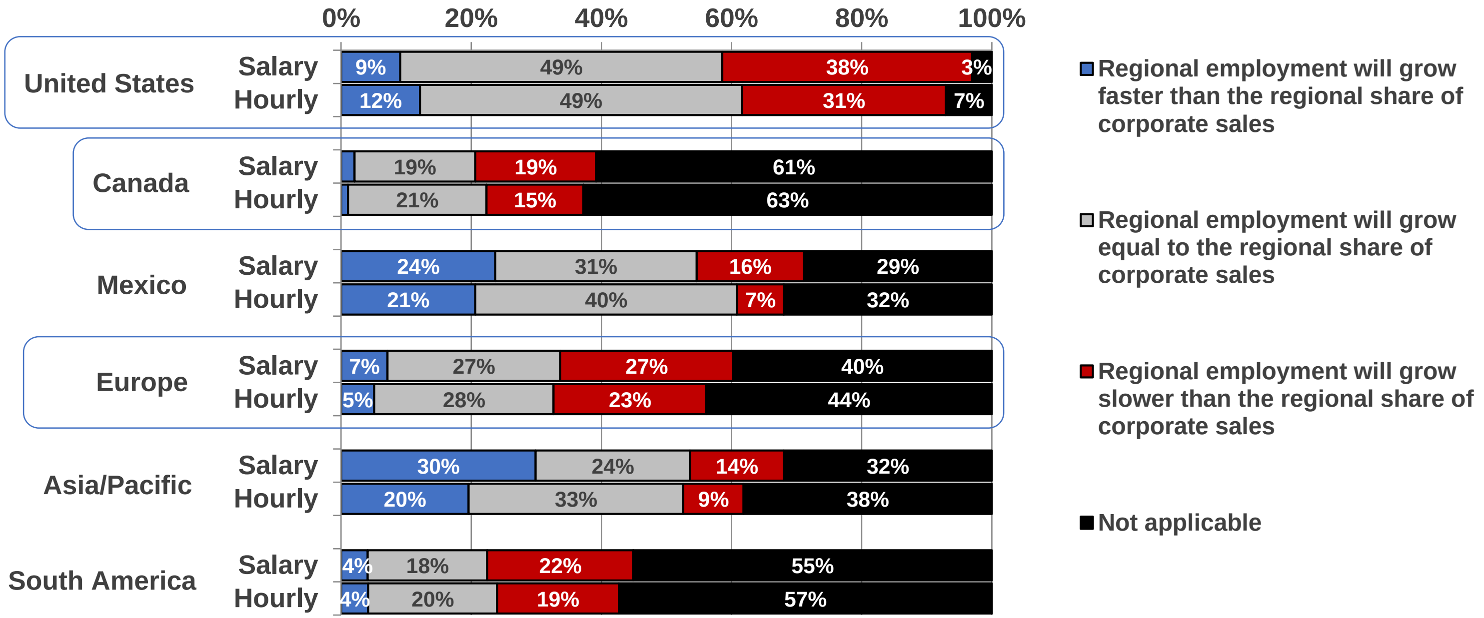
What are you doing to adapt your organization to each of these changes?



In addition to traditionally increasing compensation and benefits, many firms have increased training, perks, development, engagement and communication with employees.

Employment Issues: Regional Growth Expectations

Looking at your current global footprint, how do you anticipate regional employment levels shifting over the next five years?



No. of Responses = 99

Employment growth in the U.S., Canada, Europe and South America will face headwinds relative to the pace of regional sales growth.

Employment Issues: Shift Operation

Are you running alternate schedules to increase productivity or flexibility to meet customer demands (i.e. 4-10 hour shifts, 3 crews/2 shifts, etc.)?

If yes, what percent of your production are you running on alternate schedules (i.e. 4-10 hour shifts, 3 crews/ 2 shifts, etc.)?

	Yes *	No	Not applicable	1-25%	26-50%	51-75%	76-90%	91% or more
U.S.	55%	34%	11%	19%	24%	11%	6%	7%
Canada	9%	24%	67%	5%	4%	3%	1%	0%
Mexico	37%	25%	39%	15%	11%	8%	5%	5%

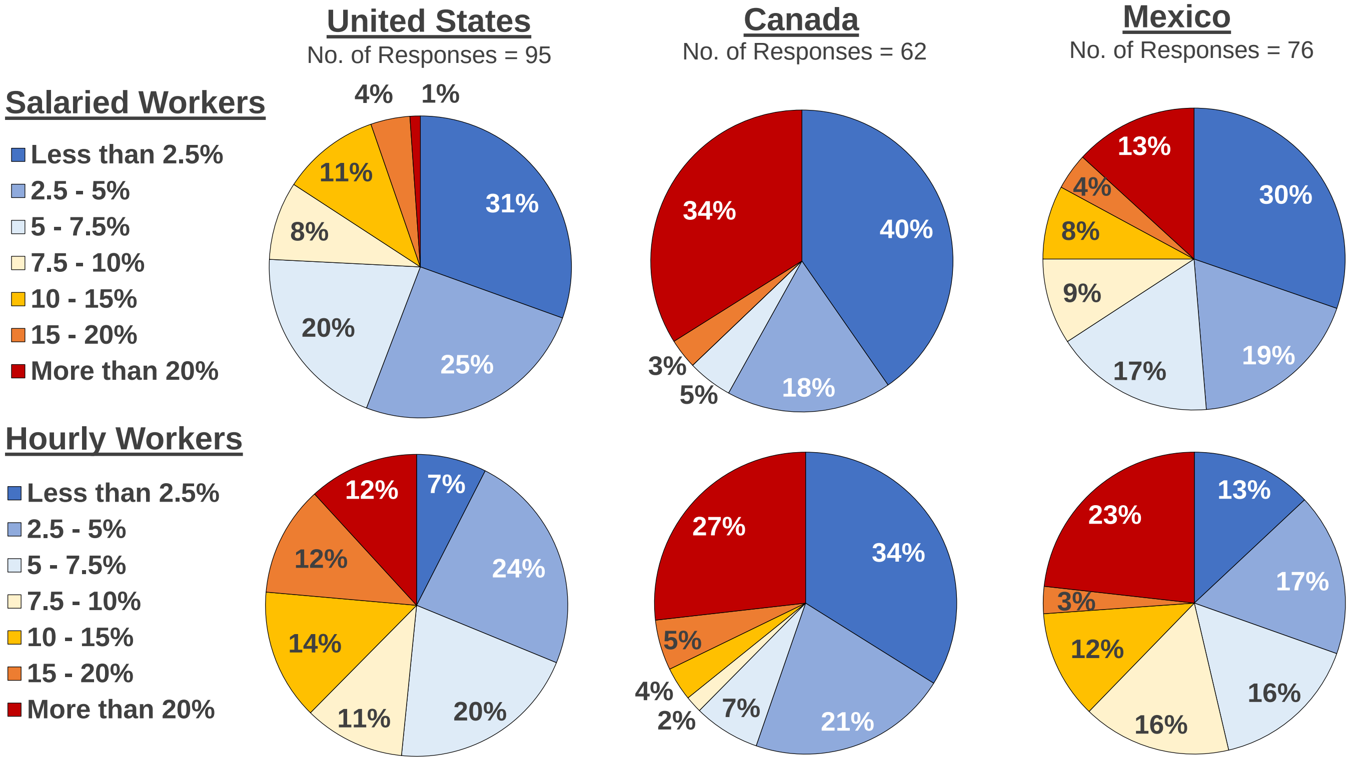
** 2017 results indicated that U.S., Canada and Mexico were running alternate schedules as 48%, 6% and 36% respectively*

No. of Responses = 97-99

Alternate shift scheduling has continued, with slightly higher rates across all regions

Employment Issues: Regional Voluntary Turnover

Estimate your year-to-date 2018 voluntary turnover rate for salary and hourly personnel



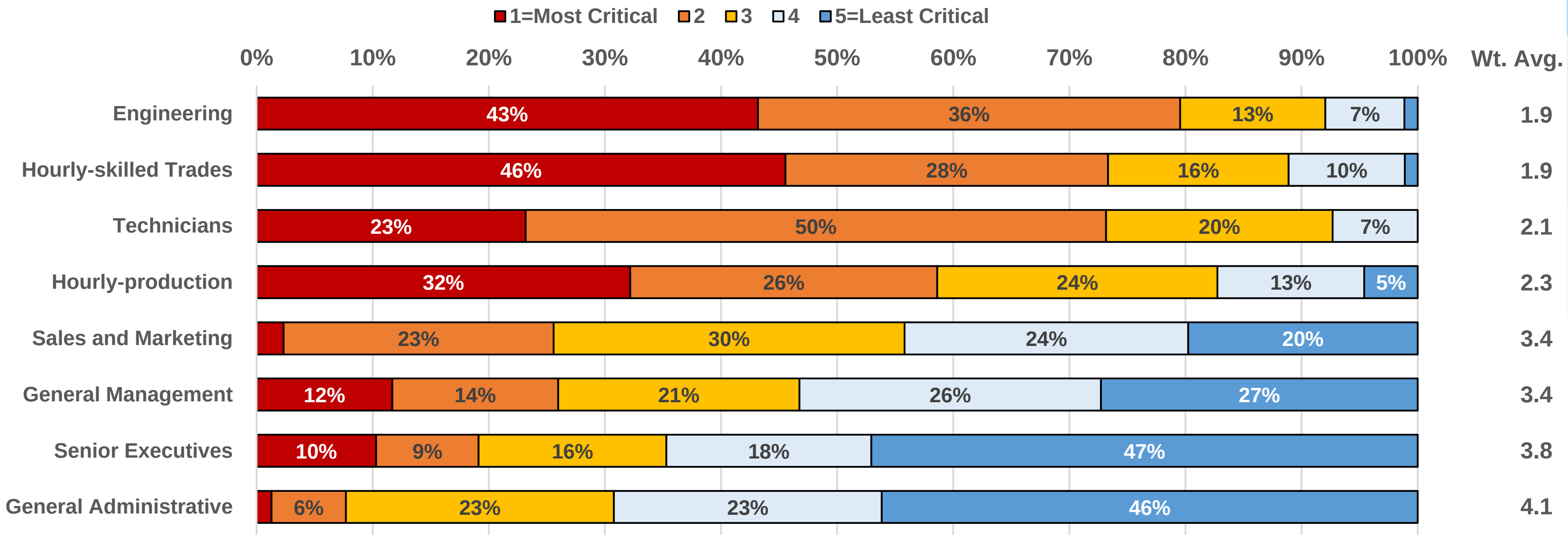
Comments for Salary Personnel:

- Turnover in the U.S. has grown steadily over the past 12 months
- Hire ten keep one

*According to the Bureau of Labor Statistics, the average turnover rate in September 2018 was 3.8% in all industries in the U.S.

Employment Issues: Labor Acquisition in the U.S.

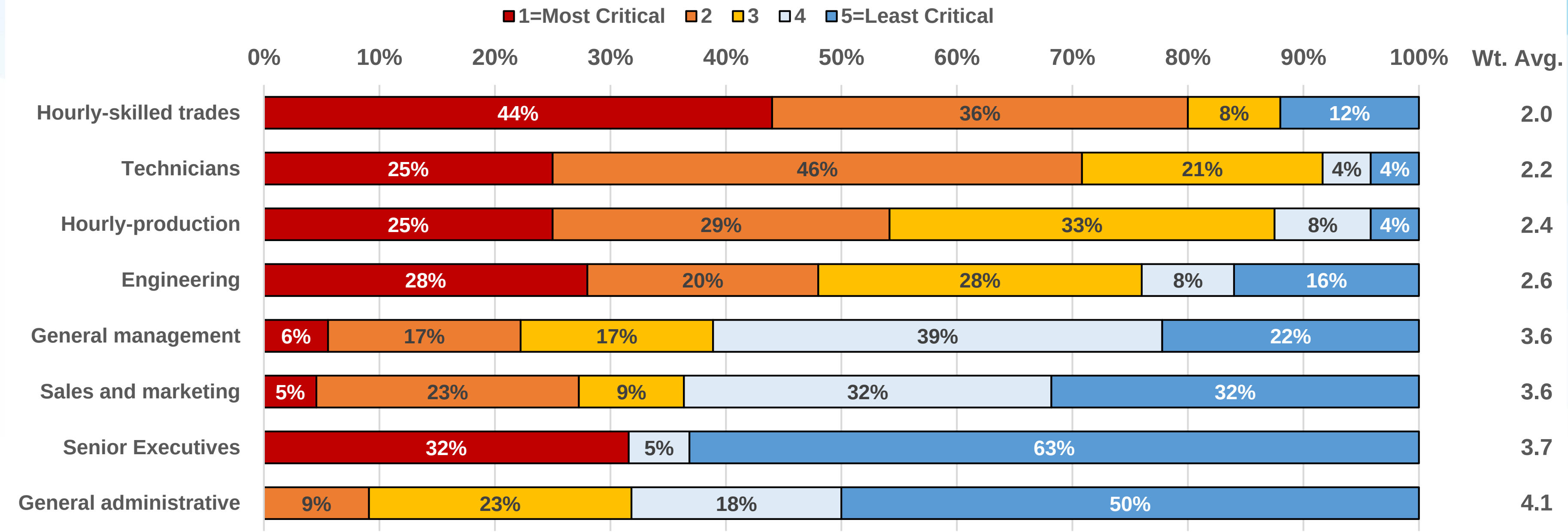
Based on current open requisitions, rate each of the following job classification and positions (most critical to least critical) where you have HR shortages



Respondents indicate that both white and blue-collar technical workers are the most scarce, while it is still very difficult to find general production workers.

Employment Issues: Labor Acquisition in Canada

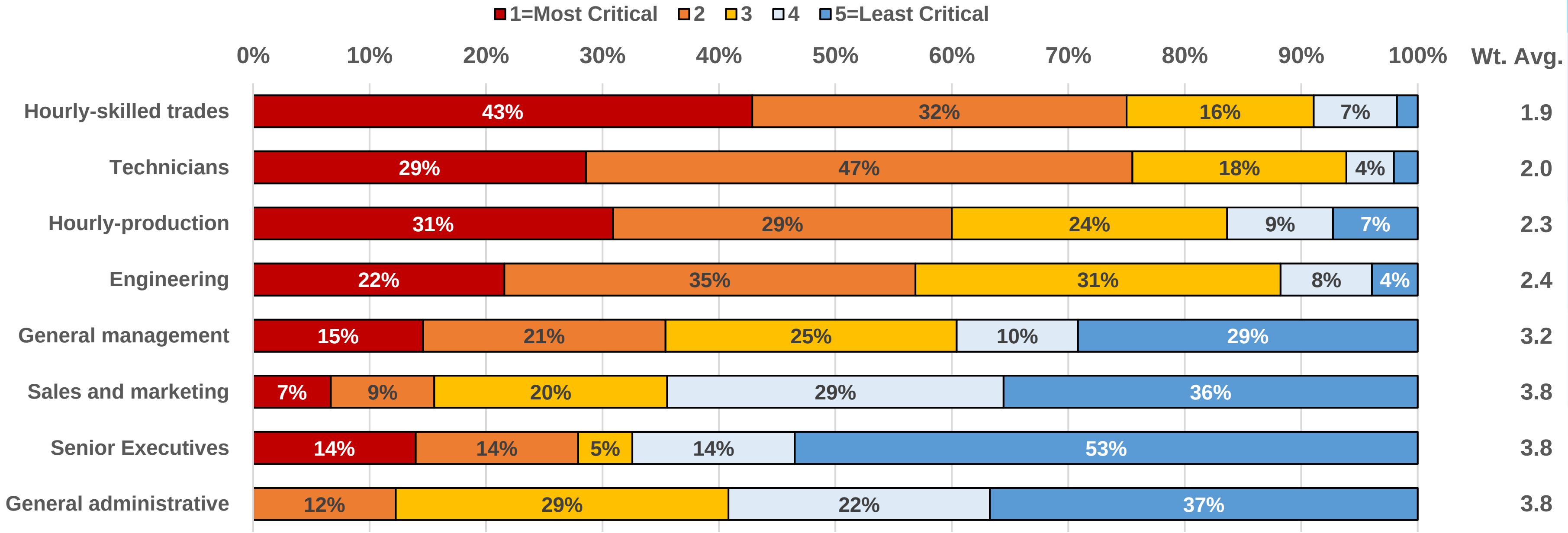
Based on current open requisitions, rate each of the following job classification and positions (most critical to least critical) where you have HR shortages



Technical knowledge shortages are spread throughout Canada as well, however, shortages of engineers are not as pronounced as compared to the U.S.

Employment Issues: Labor Acquisition in Mexico

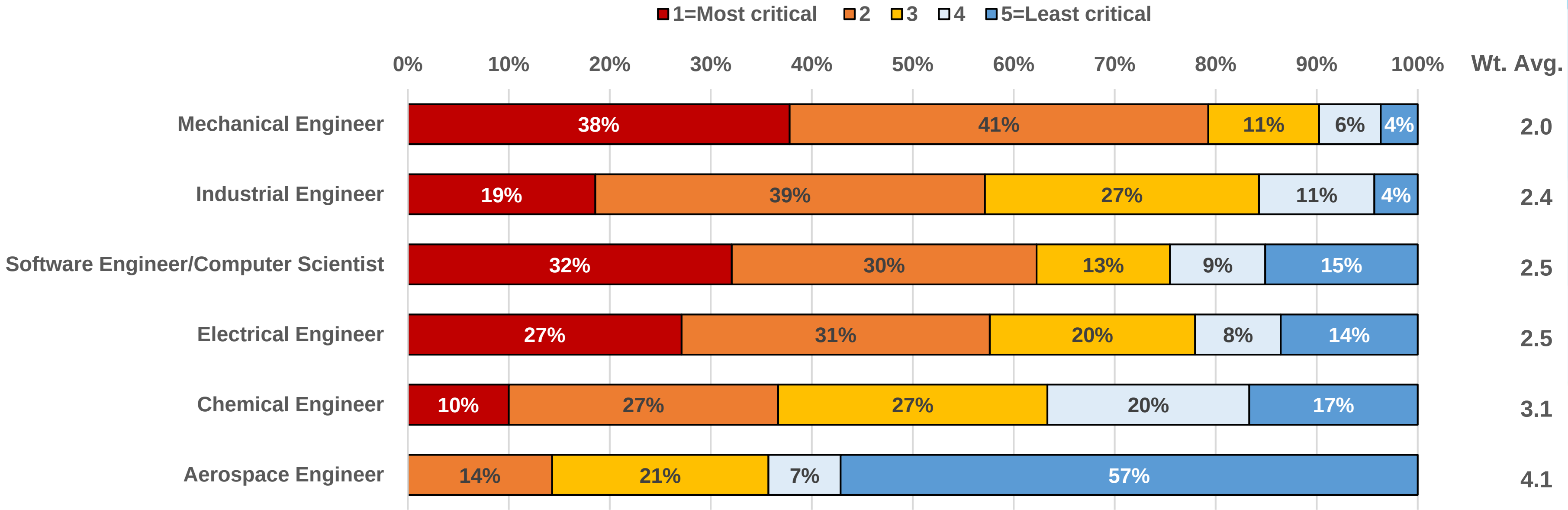
Based on current open requisitions, rate each of the following job classification and positions (most critical to least critical) where you have HR shortages



Technical knowledge shortages are abundant in Mexico as are shortages of hourly production workers, yet the supply imbalance for general office personnel is not as acute.

Employment Issues: Engineer Shortages

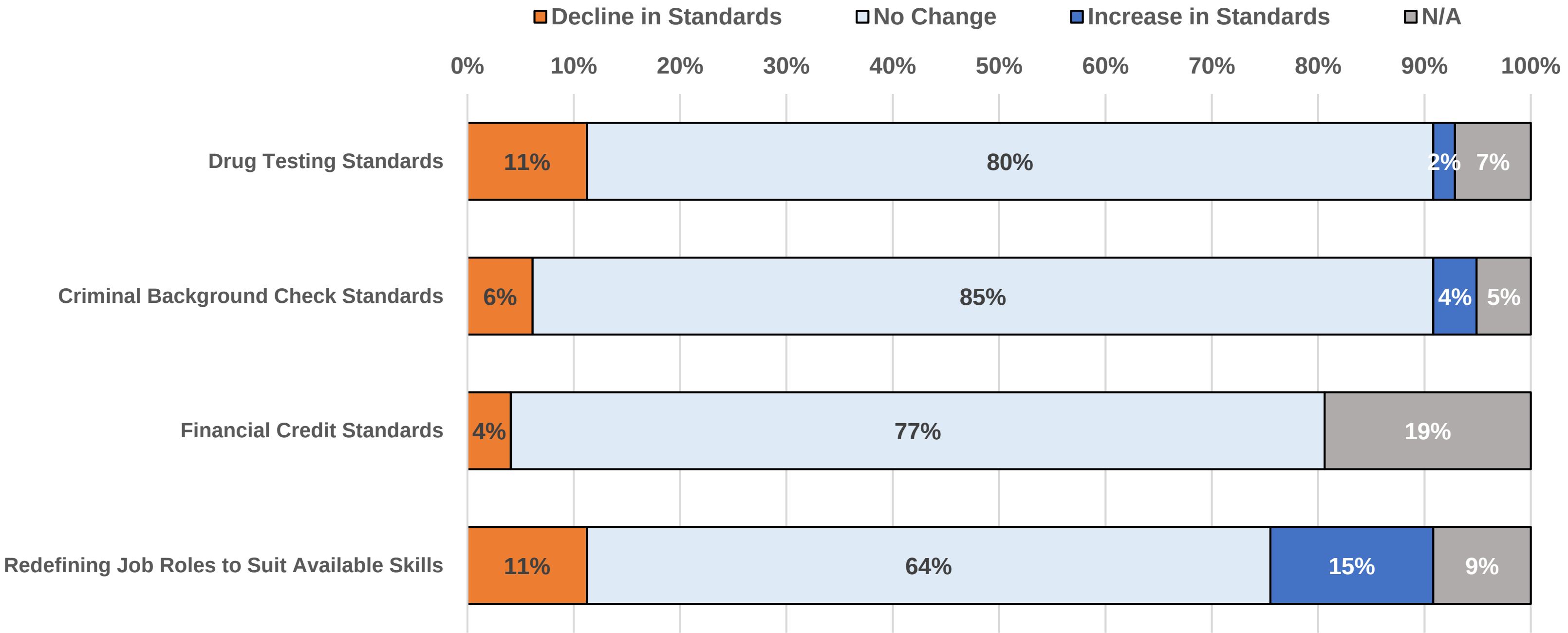
Based on current open requisitions, please rate the type of engineering positions that your organization is having difficulty filling



Mechanical, industrial, software and electrical engineers are all in great demand.

Employment Issues: Hiring Standards

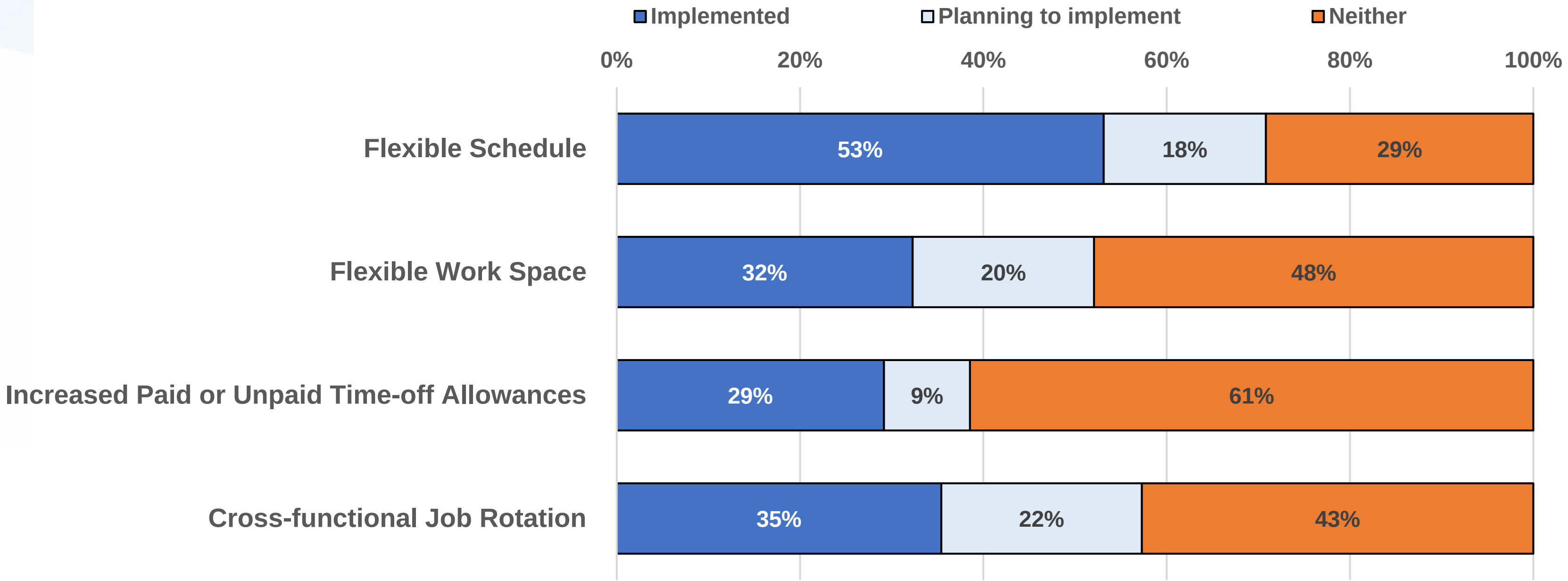
Given shortages of qualified candidates, has your company changed its standards in hiring production workers?



**Despite shortages of qualified candidates,
the industry is maintaining hiring standards of production workers.**

Employment Issues: Younger Workers Benefits Preferences

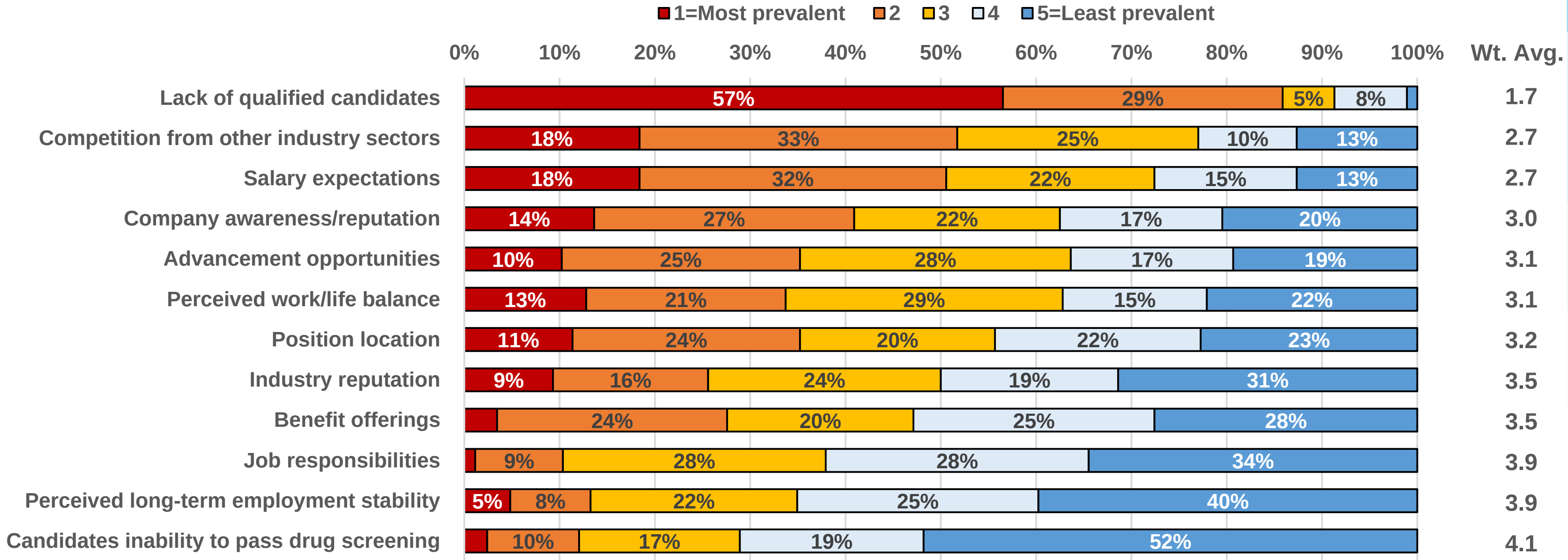
In last year's Talent and HR Barometer it was indicated that companies need to offer a more flexible work environment to suit the younger workforce. Has your company adopted any of the following programs?



The industry is striving to attract younger workers with greater emphasis on flexibility, in terms of schedule and workspace while adding scope via cross-functional job rotation.

Employment Issues: Filling Open Positions -- United States

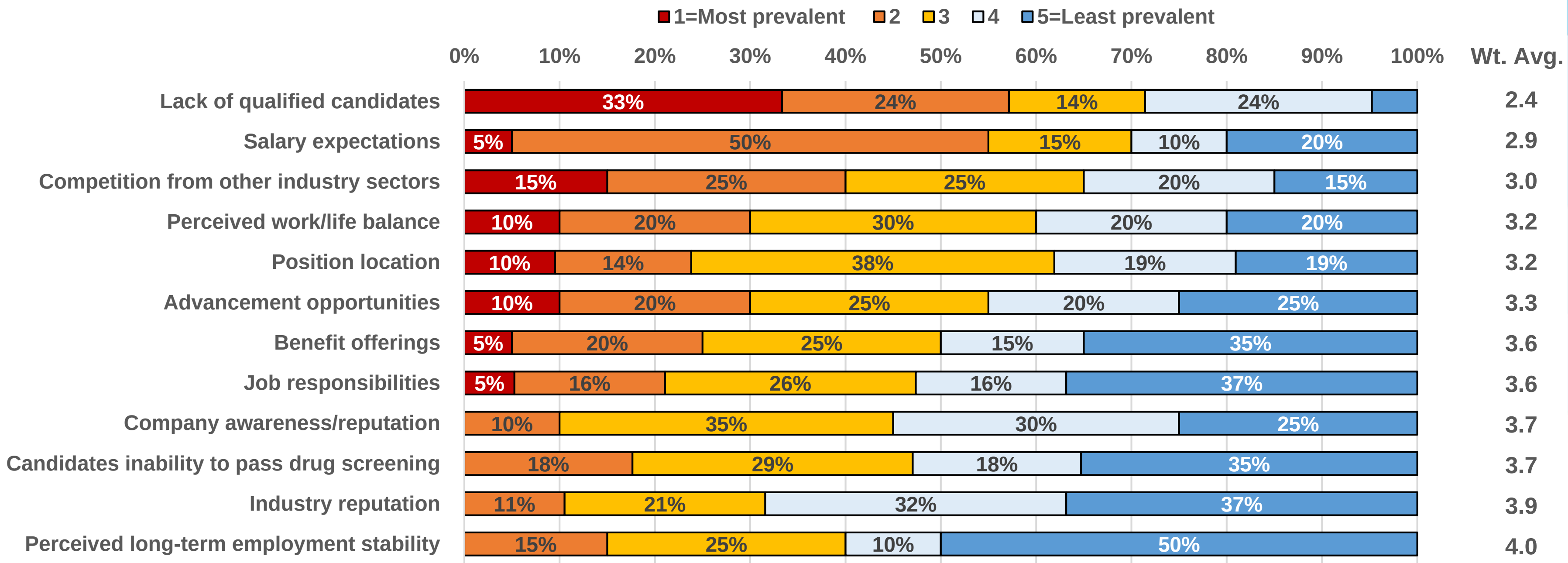
Rate each of the following reasons that you believe prevent you from filling the majority of your open requisitions



With sub 4% unemployment, a lack of qualified candidates is the most severe hiring constraint. Higher competition from other industries and few candidates drive salary expectations higher.

Employment Issues: Filling Open Positions -- Canada

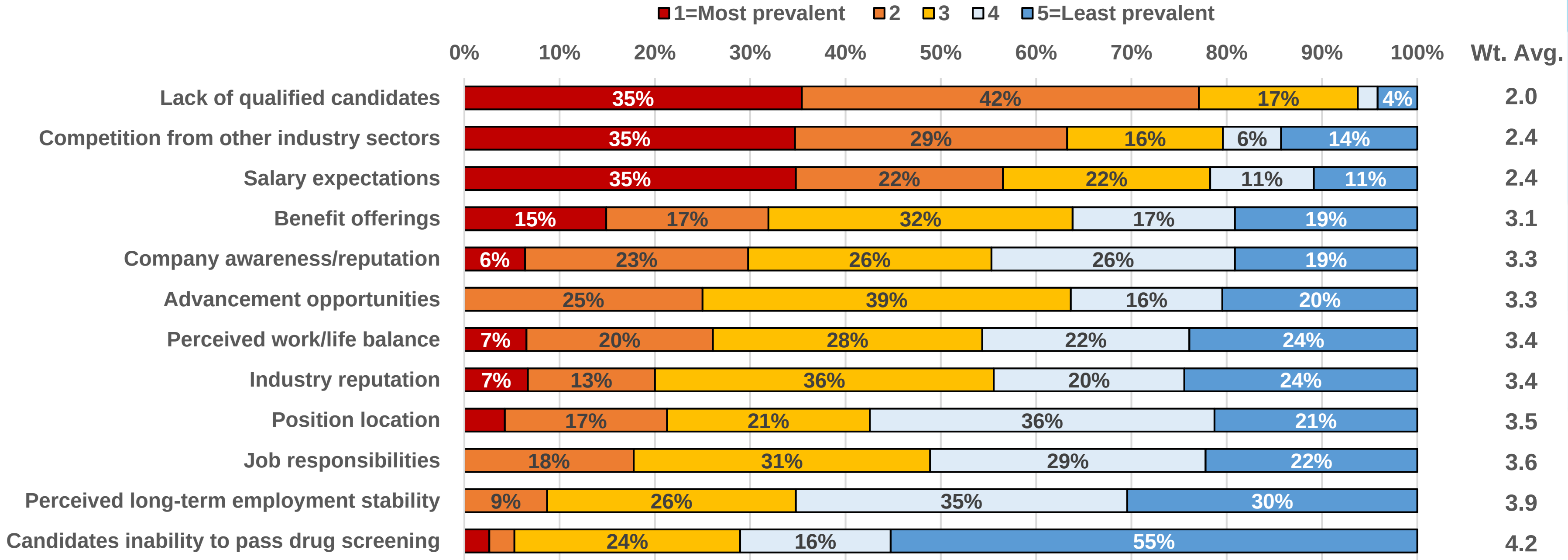
Rate each of the following reasons that you believe prevent you from filling the majority of your open requisitions



The lack of qualified candidates is by far the biggest hiring constraint yet is not as acute as in the U.S.; salary expectations and competition from other industries follow.

Employment Issues: Filling Open Positions -- Mexico

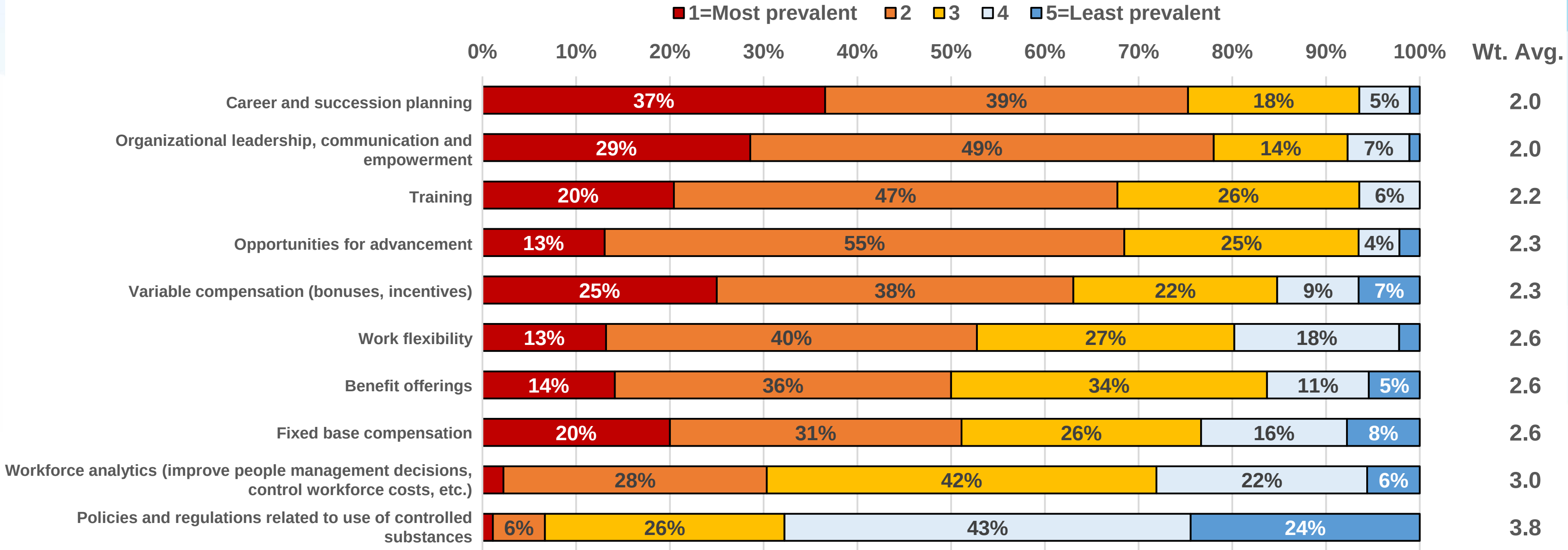
Rate each of the following reasons that you believe prevent you from filling the majority of your open requisitions



Though not as severe as in the U.S., candidate scarcity in Mexico combines with equally severe competition from other industries and high salary expectations to constrain hiring.

Employment Issues: HR Priorities

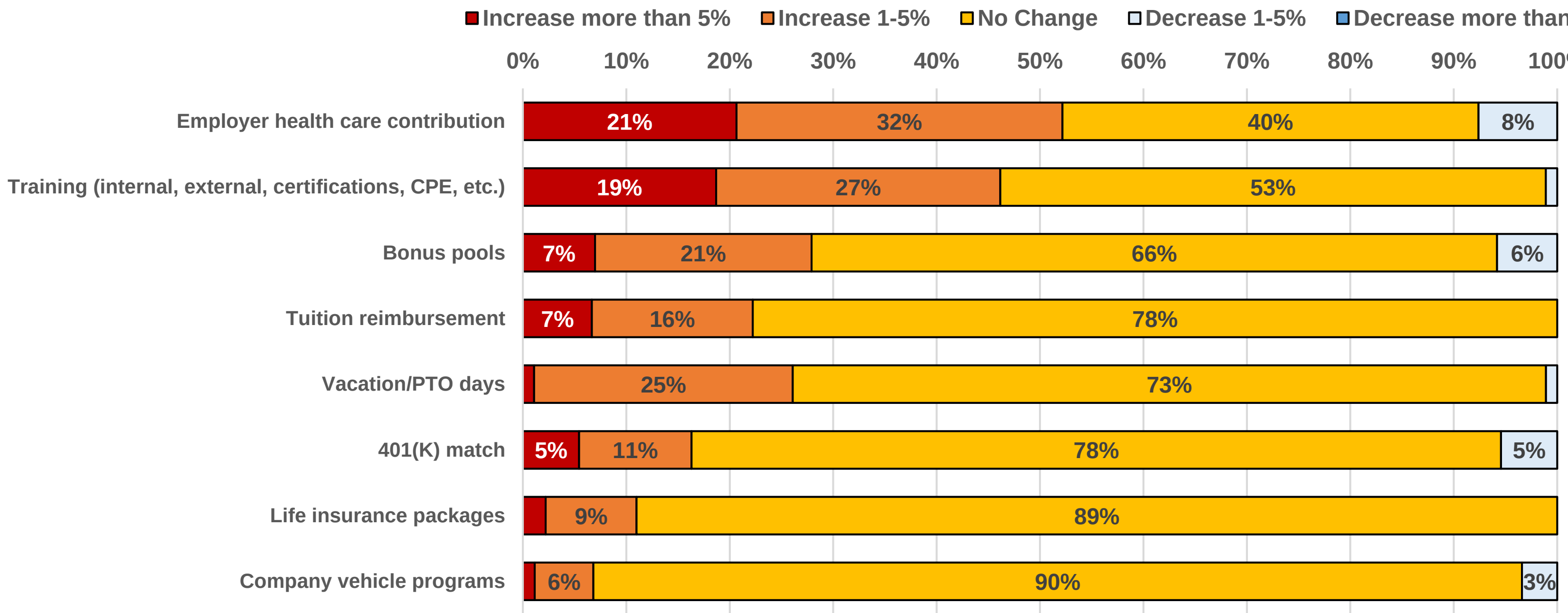
As you plan for 2019, please indicate the level of importance for each of the following priority areas that your organization's HR function will focus on to support business strategies and growth objectives.



Career and succession planning are a strategic business priority, followed closely by leadership and training as suppliers strive to retain and engage current employees.

Employment Issues: Benefits Package Changes

For next year, in the United States identify how your benefit packages are expected to change compared to this year.



Health care contributions and training packages are expected to increase the most, as employers take steps to take care of and empower employees.

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. www.oesa.org.

Survey Methodology

- Data collected October 24- November 16 via invitation to online survey.
- Executives of OESA supplier companies.
- 102 survey responses were received.

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

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