



## Discipline over growth in a constrained environment

### Deloitte Commentary: Q1 2026 MEMA OE Automotive Supplier Barometer

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The North American automotive supplier industry entered 2026 with sentiment holding steady but still in pessimistic territory, extending a prolonged period of below-neutral outlook across the supply base. While this could suggest a pause in the pace of decline from the sharper decreases seen in 2025, the picture varies by segment. Light vehicle suppliers remain pessimistic with EV uncertainty and volume pressure potentially having an impact, while commercial vehicle suppliers have moved into net-optimistic territory, likely buoyed in part by improving truck demand, rising OEM forecasts, and growing onshoring opportunities.<sup>1</sup>

#### External pressures continue to impact confidence

The ongoing pessimism is closely tied to a set of external pressures that suppliers continue to identify as material risks. Trade policy uncertainty remains the most significant concern for the year ahead, reflecting ongoing tariff activity,

localization requirements, and cross-border cost structures.<sup>2</sup>

Geopolitical risks are also becoming more prominent. The Middle East conflict and its impact on global fuel prices are increasing input costs for suppliers with energy-intensive manufacturing operations. The implications of this conflict are also relevant for suppliers relying on materials such as aluminum and petrochemical-based inputs, including polymers, where price volatility compresses margins at a time when cost recovery from OEM customers has become increasingly challenging.<sup>3</sup>

Affordability concerns are also weighing on demand expectations. Elevated vehicle prices and higher borrowing costs continue to constrain consumer purchasing power, contributing to slower replacement cycles and more cautious demand.<sup>4</sup> Some suppliers note that these conditions are limiting volume visibility and

increasing uncertainty around program performance.

Beyond macroeconomic, policy, and geopolitical developments, some suppliers are also recalibrating expectations around electrification—an area that is increasingly contributing to uncertainty in demand and investment planning.<sup>5</sup>

### **Electrification strategy resets and capital discipline**

Electrification remains a significant area of adjustment for suppliers. Half of EV-related capital investments are currently underperforming original volume or margin expectations, driven primarily by lower-than-anticipated demand and underutilized capacity.<sup>6</sup> This trend aligns with broader industry developments, as automakers have scaled back or delayed EV investments amid slower-than-expected adoption and profitability challenges.<sup>7</sup>

In response, some suppliers are tightening their approach to new EV businesses, sometimes requiring upfront capital recovery or volume guarantees or declining to quote speculative programs altogether. This reflects a more disciplined approach to managing program risk and capital exposure, with many suppliers projecting a low single-digit CAGR from EV-related business in North America over the next five years while some expect outright declines.<sup>8</sup>

These shifting economics are driving a broader recalibration of expectations for the powertrain mix. Some suppliers increasingly anticipate stronger growth in hybrid platforms, while internal combustion engine (ICE) programs are expected to remain more resilient than previously assumed.<sup>9</sup> This shift reflects a more measured approach to electrification, aligned with actual market demand rather than earlier projections.<sup>10</sup>

### **Operational indicators show early signs of stabilization**

Despite continued caution in supplier sentiment, several operational indicators point to modest improvement. While production remains down year over year, new orders have turned net positive and backlog levels have improved, reversing the

negative trends observed in prior quarters.<sup>11</sup> On the cost side, pressures have eased month over month, though they remain elevated on a 12-month basis.<sup>12</sup> Supply chain conditions have improved as well, suggesting that some of the acute disruptions that characterized earlier periods could begin to normalize.<sup>13</sup>

However, these improvements are not yet translating into stronger profitability. Some suppliers continue to highlight that North American production volumes, while expected to remain above the breakeven threshold of approximately 14 million units in 2026, are not sufficient to drive meaningful margin expansion, with profitability still dependent on program mix and cost recovery.<sup>14</sup>

At the same time, suppliers are not stepping away from longer-term capability building. R&D spending is expected to remain stable at ~3% of sales, with Industry 4.0 having overtaken advanced materials as the top technology investment priority.<sup>15</sup> This is a notable shift from the prior year, reflecting a commitment to building capability despite the growing pressure for a more selective approach to capital deployment.<sup>16</sup>

### **A shift toward discipline and selectivity**

The Q1 2026 MEMA Barometer Survey findings suggest a supplier base that appears to be becoming more disciplined in its operations. Rather than reacting to episodic disruption, suppliers are increasingly focused on managing persistent pressures—balancing cost control, capital allocation, and program risk.

In this context, suppliers may consider the following priorities:

**Strengthen cost discipline and operational efficiency:** With cost pressures remaining elevated despite recent easing, suppliers may need to continue prioritizing automation, lean manufacturing, supply chain optimization, and product portfolio optimization (i.e., the top-ranked cost management strategies across the supply base), to reduce structural costs and protect margins.

**Recalibrate EV capital exposure:** As half of EV-related investments are underperforming, suppliers can formalize rigorous quoting practices, such as volume haircuts, upfront capital recovery, and avoidance of speculative programs, while redirecting investment toward hybrid platforms where growth expectations are strongest.<sup>17</sup>

**Enhance flexibility in planning and execution:** Against the backdrop of continued volatility in policy, geopolitics, and demand, suppliers may

need to strengthen their ability to adjust production volumes, sourcing strategies, and program assumptions in response to changing market conditions.

The near-term outlook may be less about a return to growth and more about the ability to operate with discipline. Suppliers that can manage cost structures, align with shifting demand, and selectively deploy capital are likely to be better positioned as the industry continues to evolve.

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## Endnotes

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<sup>1</sup> MEMA Original Equipment Suppliers. *Q1 2026 Vehicle Supplier Barometer: Production, Planning & Electrification*. April 13, 2026.

<sup>2</sup> Ibid.

<sup>3</sup> John Irwin, [Auto industry monitors Iran war as aluminum, plastics, chip supplies face potential disruption](#), Automotive News, March 11, 2026.

<sup>4</sup> Nora Eckert and Kalea Hall, [Prices for new cars have soared. Here's one big reason why](#), Reuters, March 11, 2026

<sup>5</sup> MEMA Original Equipment Suppliers. *Q1 2026 Vehicle Supplier Barometer: Production, Planning & Electrification*. April 13, 2026.

<sup>6</sup> Ibid.

<sup>7</sup> Alessandro Parodi, [Global carmakers book \\$70 billion hit from EV rollbacks](#), Reuters, February 06, 2026.

<sup>8</sup> MEMA Original Equipment Suppliers. *Q1 2026 Vehicle Supplier Barometer: Production, Planning & Electrification*. April 13, 2026.

<sup>9</sup> Ibid.

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<sup>10</sup> [Hybrid adoption to rise as electric vehicle momentum slows](#), Goldman Sachs, September 11, 2025; Nick Gibbs, [Automakers need to master ‘three-speed highway’ as regulations evolve, analyst says](#), Automotive News, October 03, 2025.

<sup>11</sup> MEMA Original Equipment Suppliers. *Q1 2026 Vehicle Supplier Barometer: Production, Planning & Electrification*. April 13, 2026.

<sup>12</sup> Ibid.

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

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