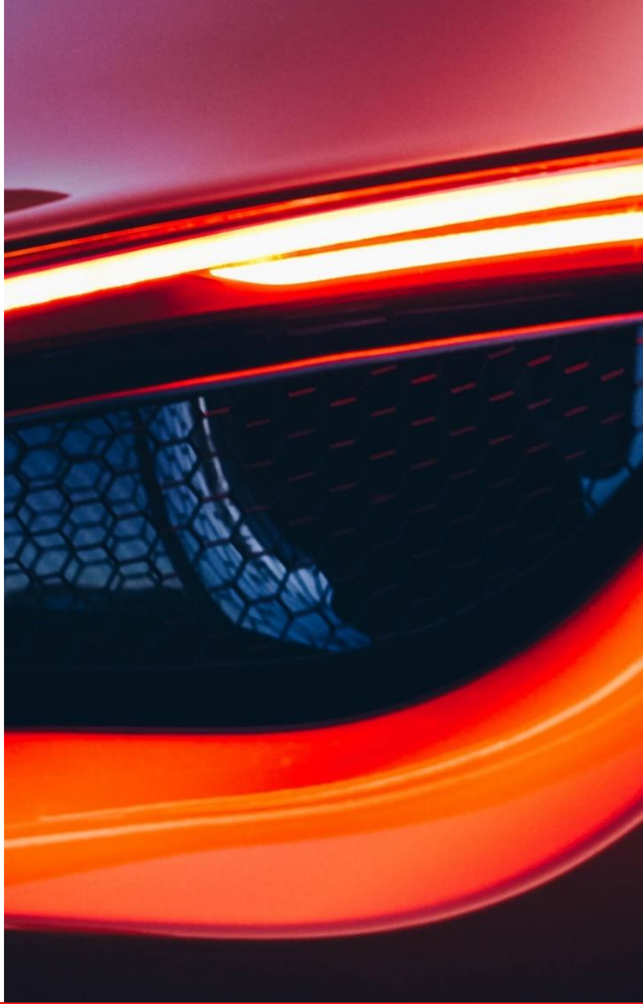
mema
Original Equipment Suppliers

Deloitte.

MEMA OE Suppliers Vehicle Supplier Barometer Q2 2024

Supply Chain, Globalization & Sustainability

June 19, 2024



MEMA OE Supplier Barometer: Executive Summary

Supplier Barometer Index (SBI)
SBI Score = 45;
up from Q1 level of 43

The outlook for the second quarter of 2024 continues to reflect industry pressures, for the nineth straight quarter of building pessimism on net. Firms with revenue less than $50 mils. were the only cohort that showed net optimism, while the outlook continued to deteriorate for larger firms. Commercial vehicle suppliers (47) are less pessimistic about the 12-months ahead in comparison to their light vehicle counterparts (45)

Concerns related to weakness in the U.S. economy accelerated from prior quarter overtaking poor sales in programs supplied as the leading threat to the industry in the coming 12-months.

Concern with changes in government trade policies and the implementation of new government regulations grew from prior quarter.

Suppliers indicate risks from labor constraints, higher interest rates, production shutdowns due to supply chain issues and the inability to fulfill customer volumes continue to improve from the beginning of the year.

Profitability remains in positive territory for the industry on a 12-month basis despite declining on average over the past month due to a slowing commercial vehicle segment.

Costs continue to rise, on both a year-over-year and month-over-month basis.

Suppliers are focused on capitalizing on ICE and Hybrid programs as customers downgrade their outlook for BEVs.

Many suppliers mention an aggressive business conquest strategy as their competition continues to struggle.

MEMA OE Supplier Barometer: Executive Summary

There is growing concern from suppliers about the risk of stranded capital due to underperforming programs and regulatory impacts.

Suppliers have responded by making claims and negotiating with customers for relief, reduced or delayed CAPEX, and are seeking new business or reallocating capacity elsewhere when feasible.

Despite continued pressures and fallout from the UAW strikes, sub-tier supplier distress eased in 2023 and into 2024, albeit from elevated levels.

Both light and commercial vehicle suppliers witnessed slowing rates of distress while commercial vehicle suppliers witnessed a net improvement throughout this year.

The percentage of sub-tier suppliers on "watch" fell to 3.2% on average, down from 4.0% in 2023.

The most concerning system area for sourcing is EV propulsion and semiconductor concern.

Over the past year, dual or multiple sourcing for components increased on net from supplier customers by 28% and down through the supply chain by 38%, nearly identical as last year.

Localization efforts continue in compliance with USMCA.

Suppliers have witnessed a continued effort by customers to localize production as they attempt to comply with the standards in place from USMCA.

Consequently, suppliers themselves look to localize within their own supply base in order to provide compliance value to their customers and minimize risk exposure from geopolitical events, with 46% of responses showing at least a minimal increase in localization efforts.

However, suppliers are running into labor/talent, cost and capacity issues in their localization efforts, coupled with customers' being unwilling to pay for local content.

Formal sustainability plans primarily have had little impact in securing new business or generating new business.

Most suppliers are concerned with unforeseen costs in fulfilling their customers sustainability requirements and the lack of clarity surrounding them.

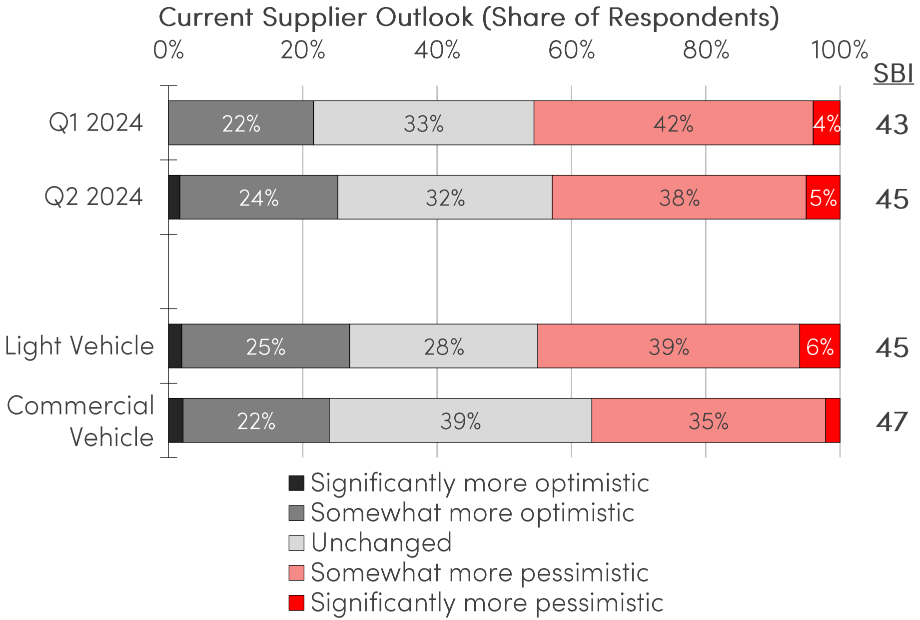
Suppliers biggest sustainability wins over the prior year were centered around clean energy usage, efficiency, recycling and waste reduction.

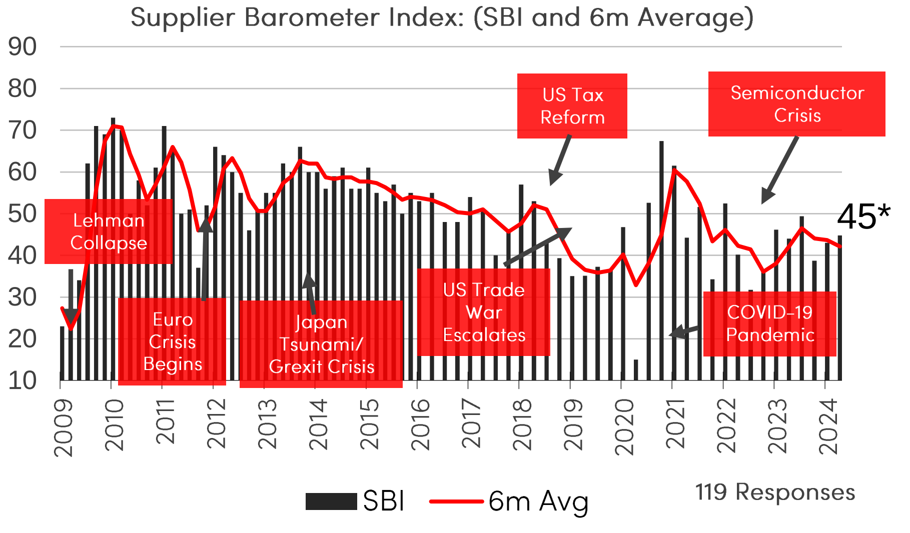
Supplier Outlook

Q2 2024 Vehicle Supplier Barometer

MEMA OE Supplier Barometer: Q2 2024 Results

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



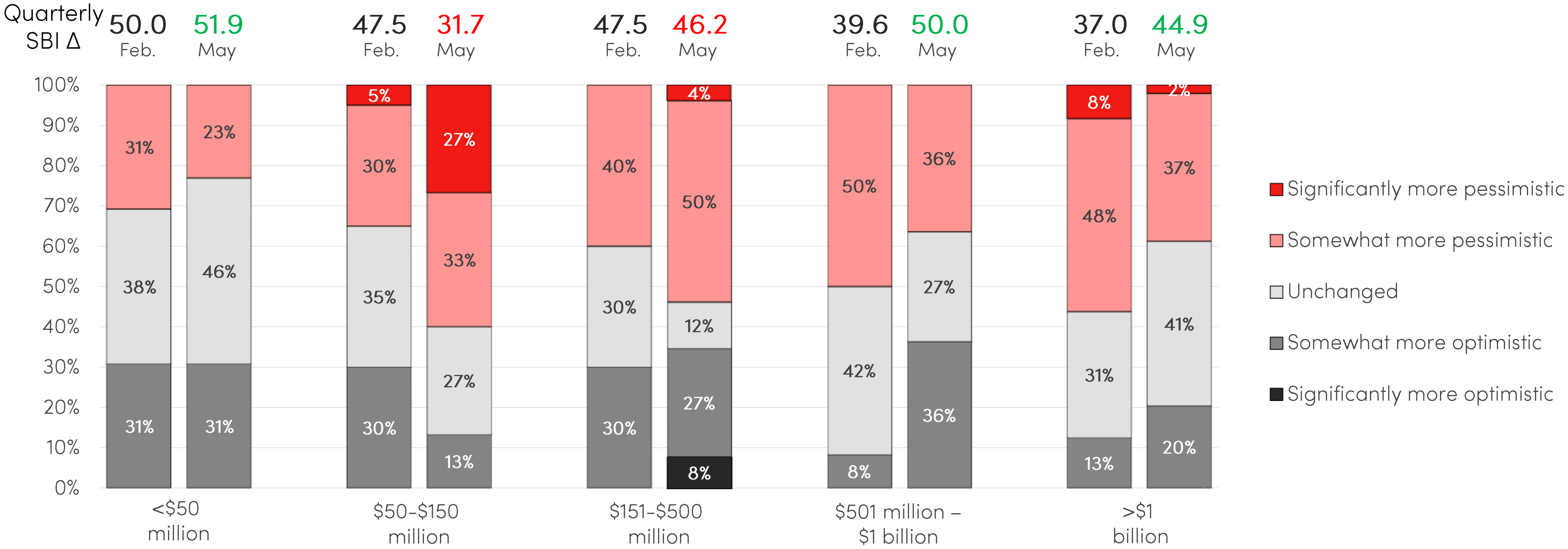


*Data prior to 2024 Light Vehicle Only

The outlook for the second quarter improved 2 points from the first quarter of 2023 to a level of 45, but marks nine consecutive quarters of building pessimism.

MEMA OE Supplier Barometer: Q2 2024 Results by Revenue

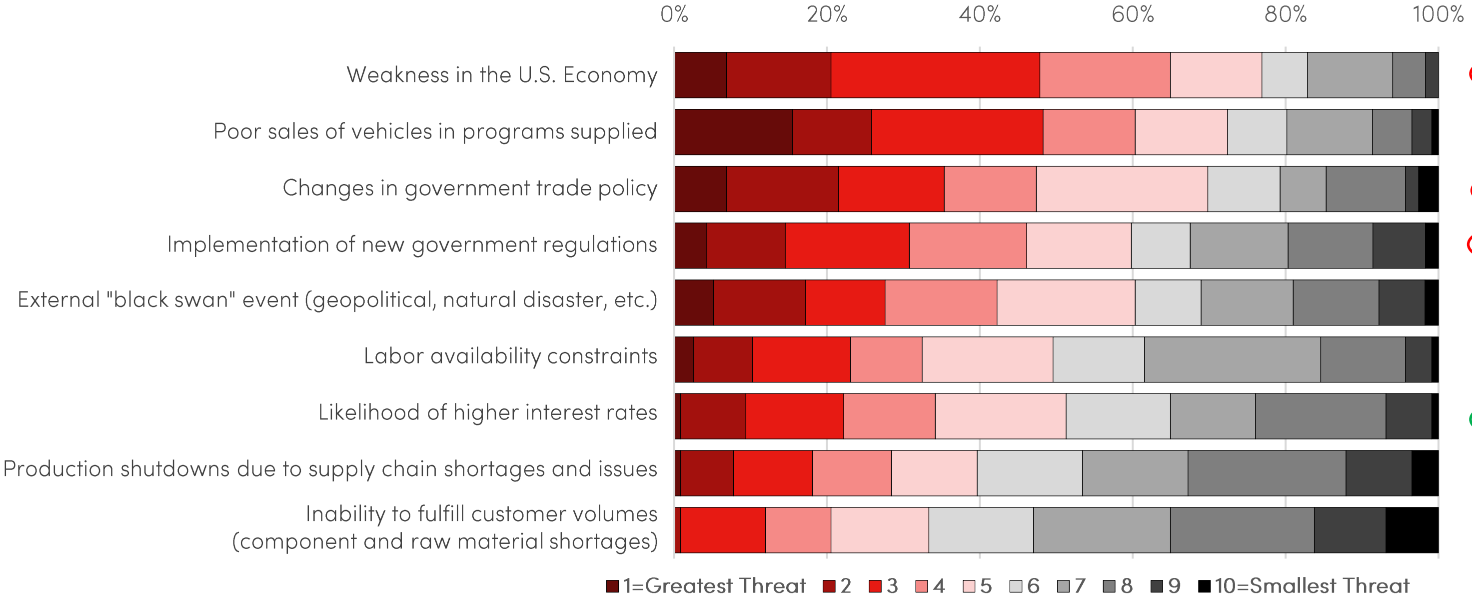
Describe the general twelve-month outlook for your business. Over the past three months, has your opinion become…?



The outlook is mixed based on firm size. Suppliers with revenue between $50-150 mils. showed the largest decline in their outlook while suppliers with revenue greater than $500 mils. had the biggest improvement.

MEMA OE Supplier Barometer: Industry Threats Results

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



Weighted Average

May	Feb.	LV	CV
4.1	4.5	4.2	4.0
4.1	4.1	4.0	4.6
4.6	5.7	4.6	4.5
5.1	5.5	5.2	4.6
5.1	5.0	5.1	5.5
5.4	5.2	5.3	5.8
5.5	5.2	5.4	5.7
6.0	5.7	5.8	6.2
6.4	6.5	6.4	6.7

Economic weakness and poor sales of programs supplied are the greatest 12-month threats to the industry. Industry threats that have plagued suppliers for years continue to improve.

MEMA OE Supplier Barometer: Industry Indicators

For the following indicators, please indicate what change, if any, your company has experienced over the following time frames.

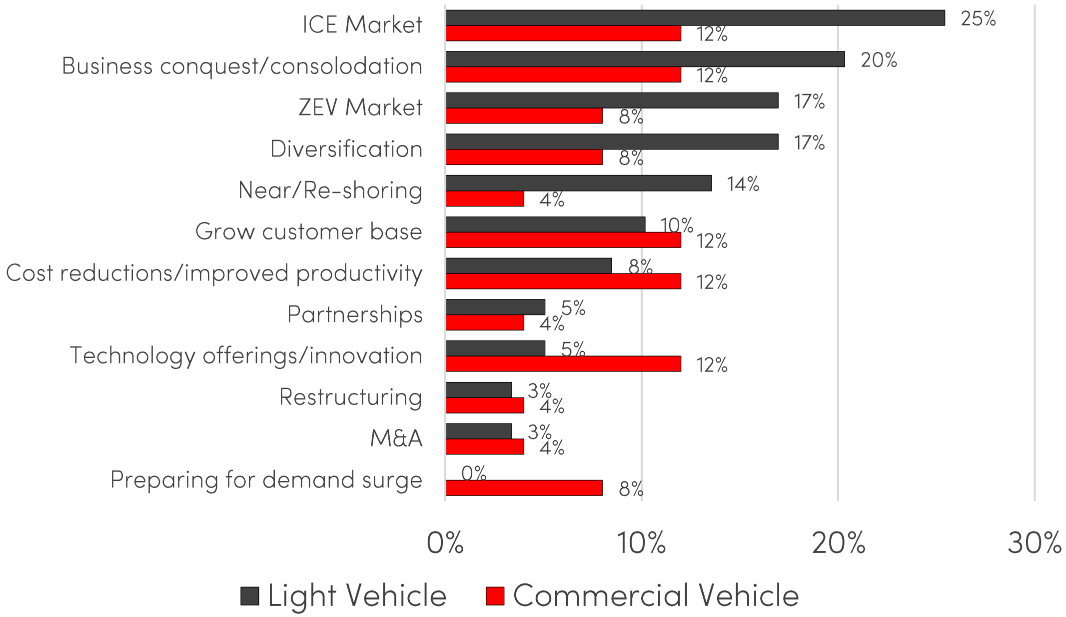
	Total Industry		Light Vehicle		Commercial Vehicle	
	12-Month Chg.	1-Month Chg.	12-Month Chg.	1-Month Chg.	12-Month Chg.	1-Month Chg.
Profitability	56	47	54	51	54	45
New orders	51	47	53	52	41	38
Production	54	49	56	55	48	45
Employment	49	45	51	48	48	42
Supplier Deliveries	60	54	60	59	58	57
Inventories	55	59	57	56	58	55
Customers' Inventories	67	66	70	72	58	61
Costs	84	69	84	81	81	75
Backlog of Orders	37	42	39	39	31	31
Imports	48	51	52	52	41	41
New Export Orders	50	48	52	51	49	46

Diffusion Index = Σ (% Responding Decelerated x 0, % Responding Unchanged x 50, % Responding Accelerated x 100)
Lower Limit = 0
Neutral = 50
Upper Limit = 100

Profitability remains in positive territory for the industry on a 12-month basis despite declining on average over the past month due to a slowing commercial vehicle segment.

MEMA OE Supplier Barometer: Current Opportunities

Based on the current business environment, what do you believe your biggest opportunities are at the moment?



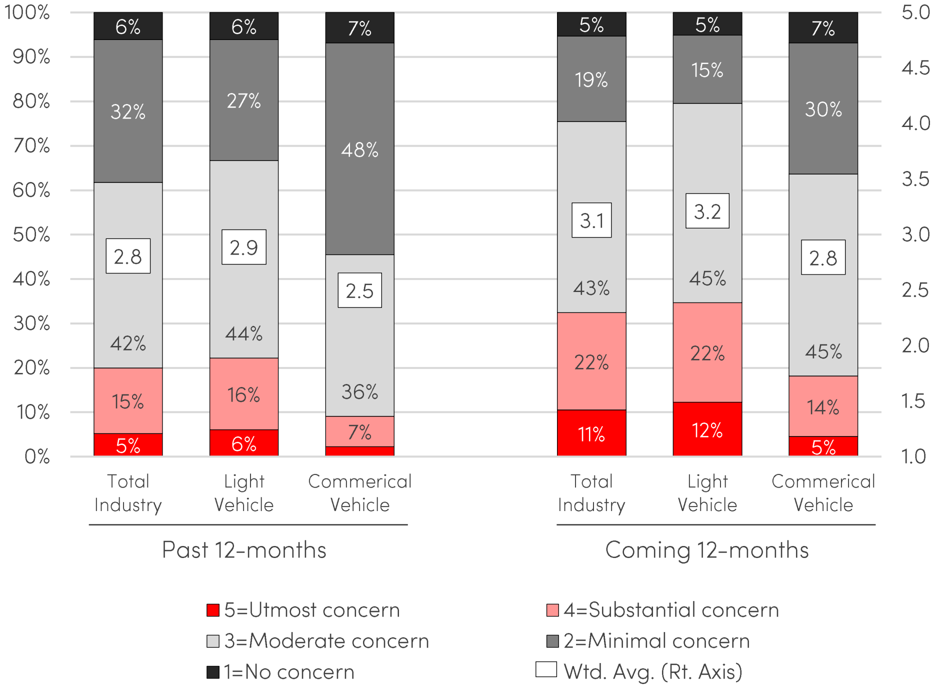
Comments (Selected):

- Not a lot of big opportunities at present, especially as OEMs delay programs. Focus today is on current production supply and finding ways to reduce cost.
- The shift to low emission & ZEV (BEV, Fuel Cell, and PHEV) will provide significant opportunity to update technology within our commodity, therefore attracting new customers and uses for our products.
- Continued growth in adjacent markets (to automotive) as well as within pass car auto with customers with which we have minimal business currently.
- Invest and deploy during slower periods. Provides little business disruption, increases capacity, positioned for greater returns, etc.
- Anticipating upcycle in advance of 2027 EPA mandates

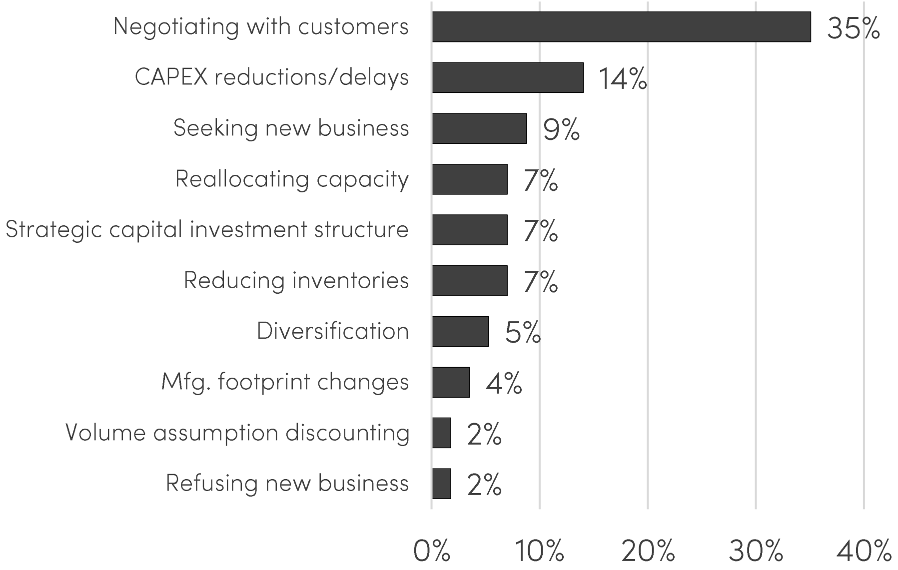
Financially stable suppliers are seeking to take over business from their struggling competitors.
Many suppliers expect volume growth from the BEV segment and new customers.

MEMA OE Supplier Barometer: Risk of Stranded Capital

How concerned is your company about the risk of stranded capital due to underperforming programs and regulatory impacts over the following timeframes?



How has your company responded to its risk assessment of stranded capital?

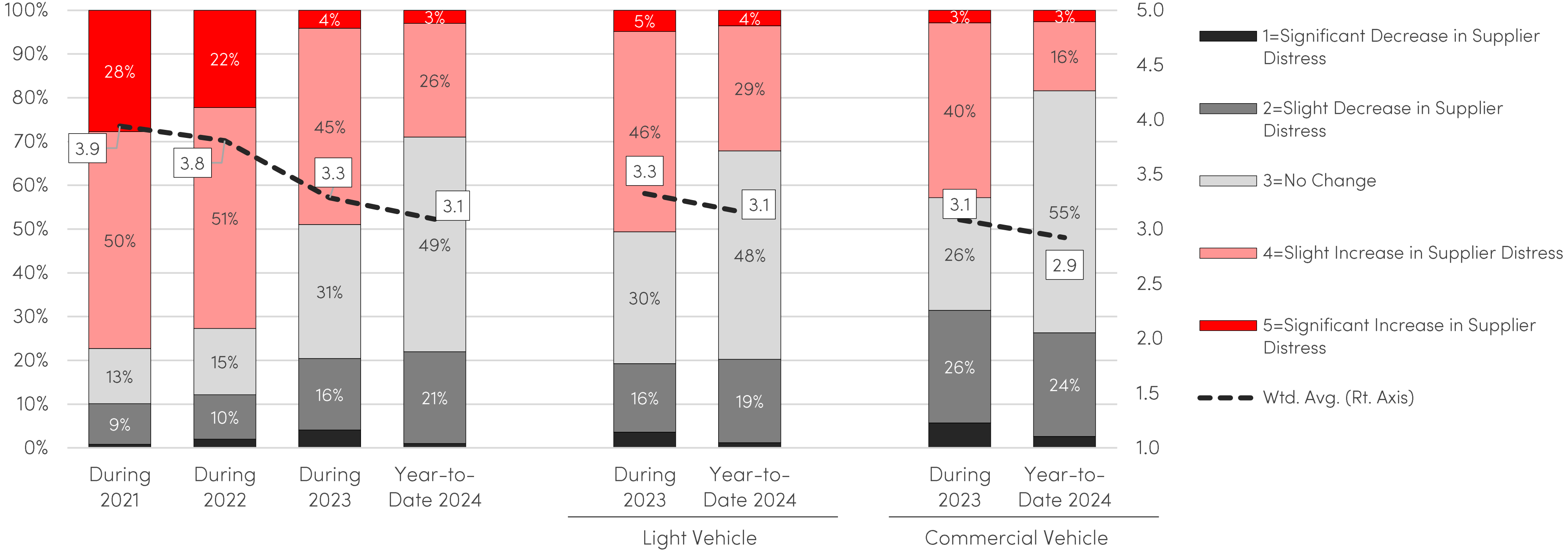


Supply Chain

Q2 2024 Vehicle Supplier Barometer

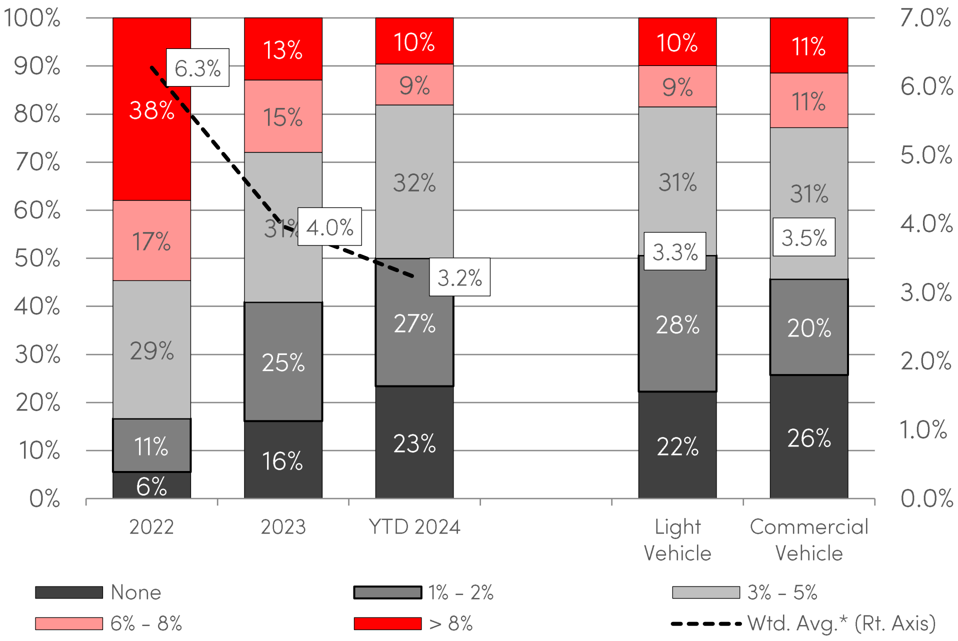
Supply Chain: Sub-tier Supplier Distress

Considering your North American production facilities, over the following periods, have you witnessed an increase in distress within your global supply base?



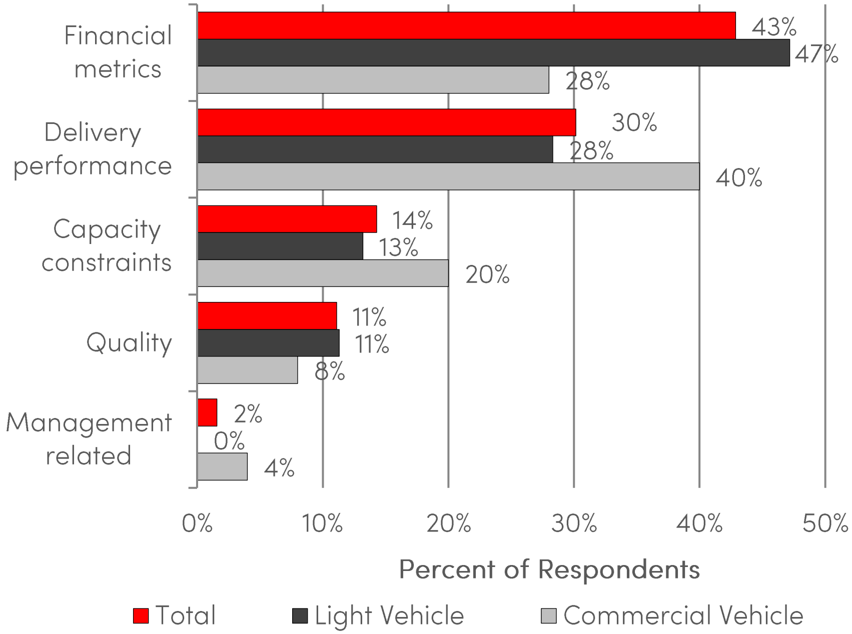
Supply Chain: Direct Supplier Risk

What percent of your global direct material suppliers are currently on your "watch list?"



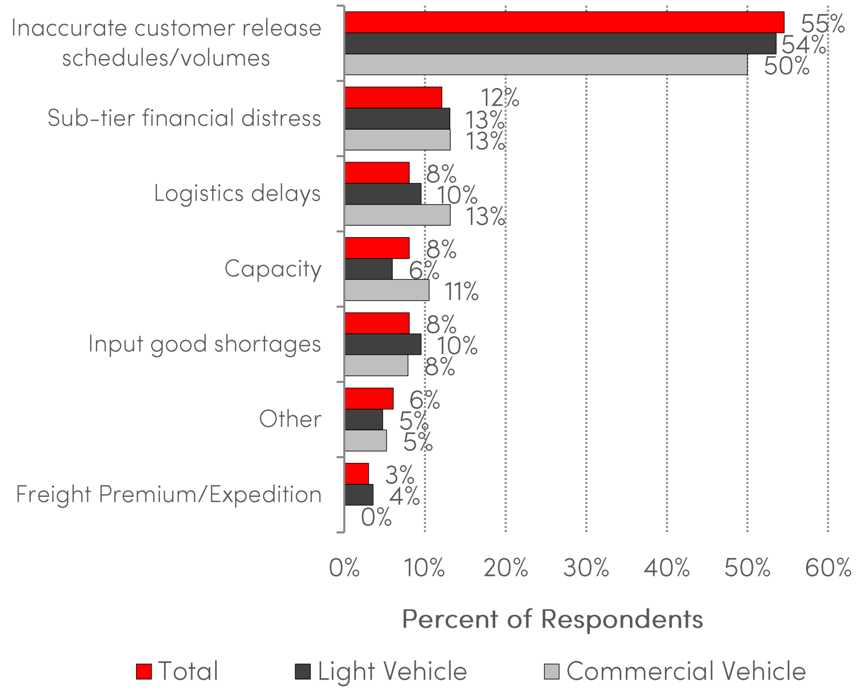
*Assumes mid-point of each range, greater than 8% equals 10%

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



Supply Chain:
Supply Chain Risk

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



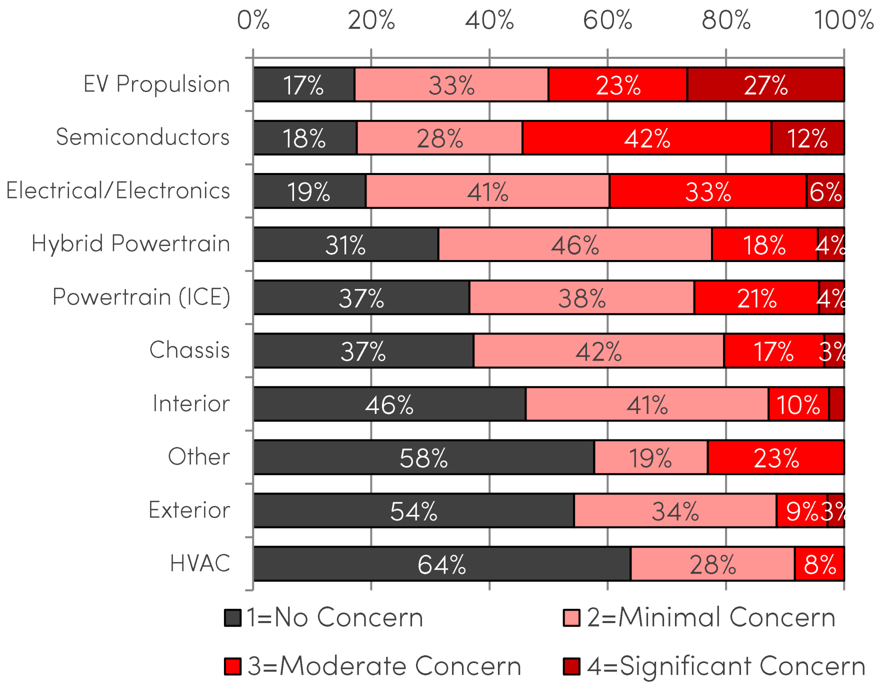
Comments:

- Detroit 3 OEM's release volatility is at an all-time high. They no longer honor 2-week firm forecasts and will literally just not show up with a truck to pick-up, with no notice. The entire industry would save a lot of money if the OEM's would level load their schedules like Toyota comes close to doing.
- Tier suppliers with shared capacity have in some cases reallocated to others during lower production periods, ramp up is challenging.
- Customers turn on/off production with little warning and the "caterpillar" effect piles up as supply chain is long
- OEM schedule changes due to doubt about EV sales shifting back to ICE sales is the primary driver.
- It is unclear of the pricing demands are truly based on distressed suppliers or simply improving profit margins. It is likely both.
- Suppliers have also been very careful in capacity expansions or increases.

Other:
- Cost increases from suppliers (2)
- Mexico border and port constraints and closures
- Workforce Labor (operators)
- Quality
- None

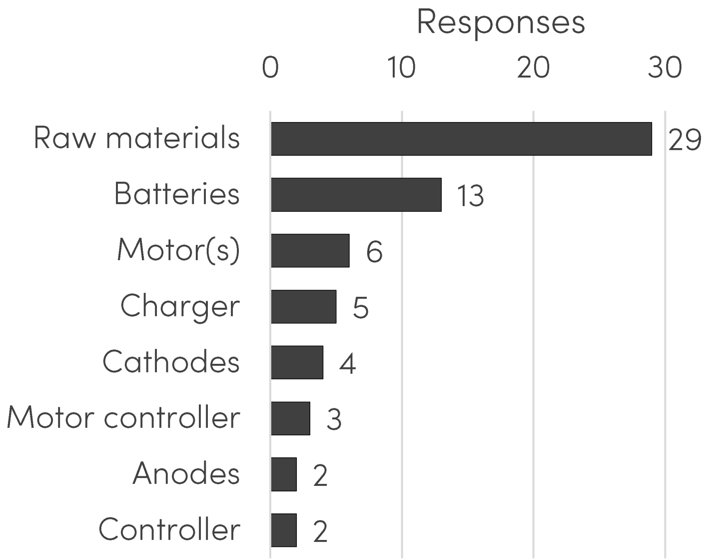
Supply Chain: Sourcing Constraints

Considering the North American marketplace, for each of the following system areas, select your level of concern in having future sourcing constraints to meet customer demand.



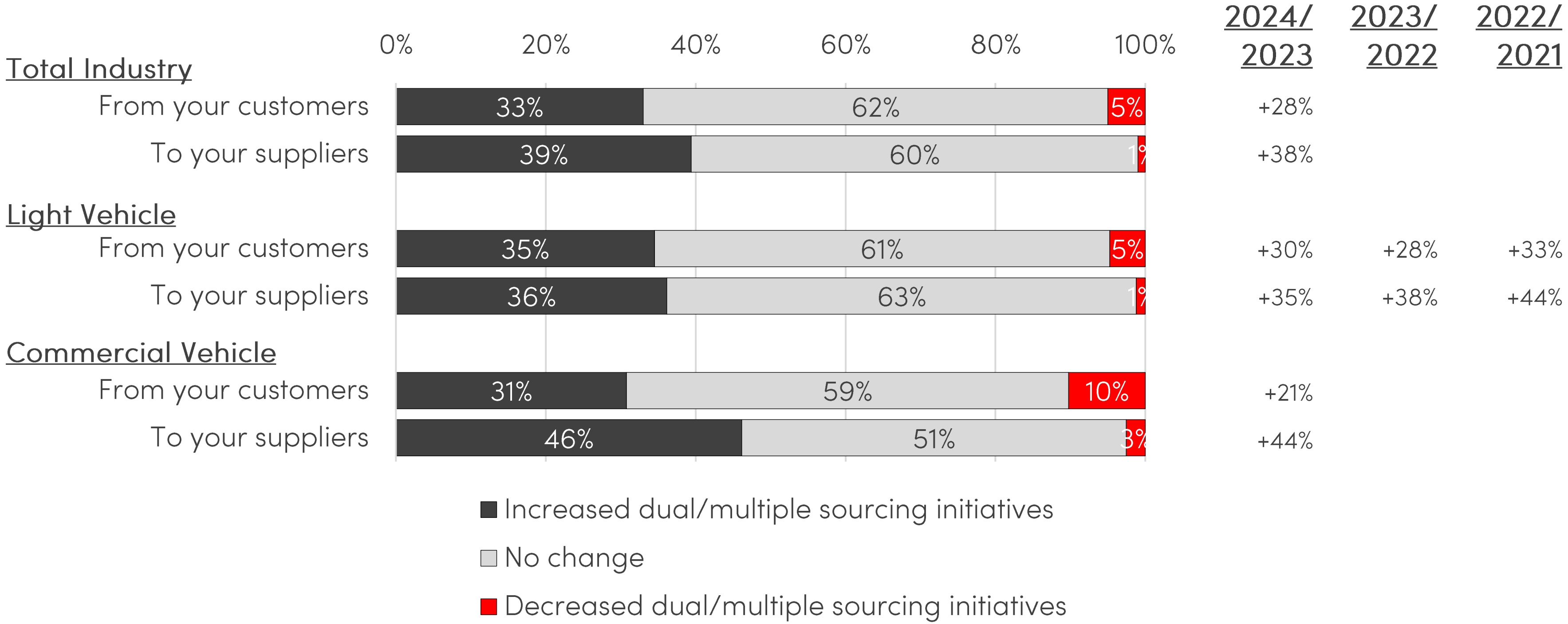
Total	LV	CV
2.6	2.6	2.7
2.5	2.5	2.5
2.3	2.3	2.4
2.0	2.0	2.0
1.9	1.9	1.9
1.9	1.8	2.0
1.7	1.7	1.5
1.7	1.6	1.6
1.6	1.6	1.8
1.4	1.5	1.4

To provide further detail to concerns over EV Propulsion components and/or materials, please indicate which of the following you are concerned in having future sourcing constraints.



Supply Chain: Dual Sourcing

Over the past year in North America, has your company experienced a change in dual/multiple sourcing initiatives from your customers or implemented dual/multiple sourcing initiatives with your suppliers?

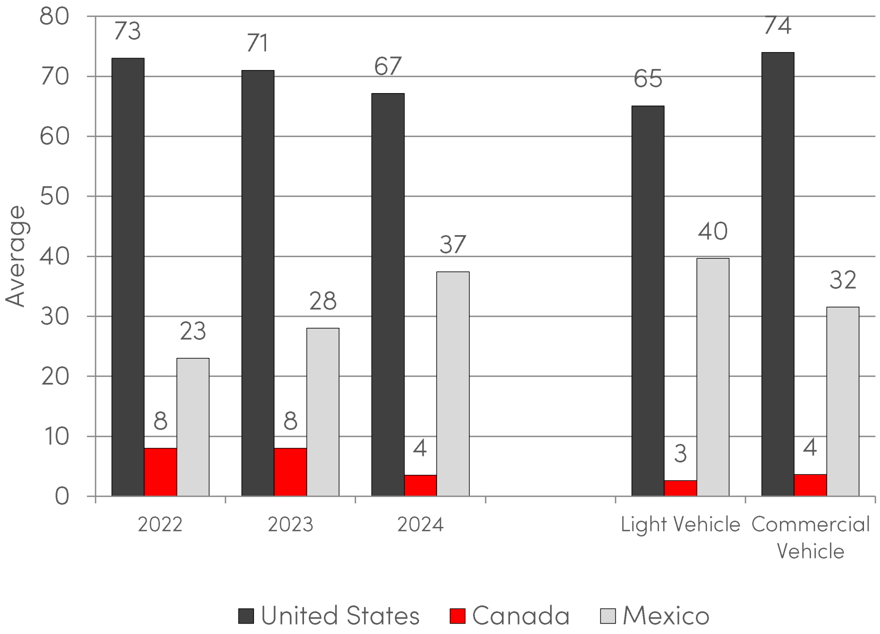


Globalization

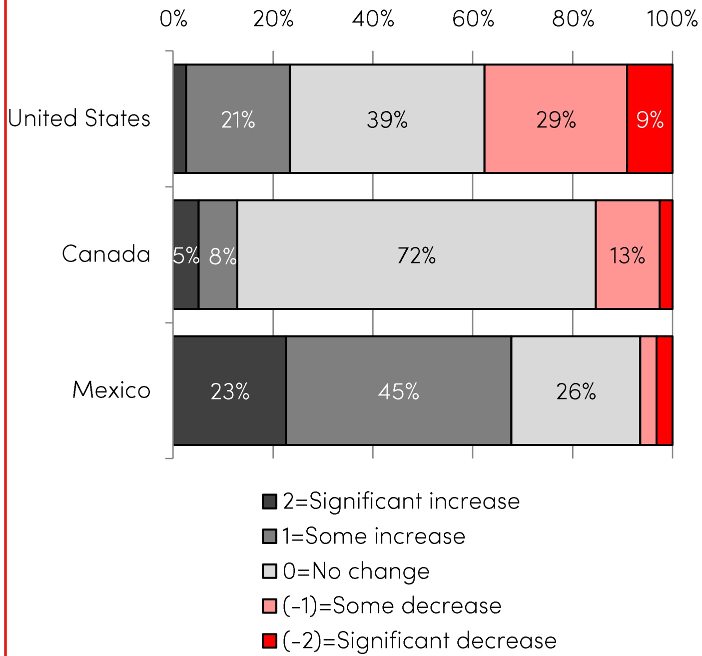
Q2 2024 Vehicle Supplier Barometer

Globalization:
North American Production Allocation & Planning

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



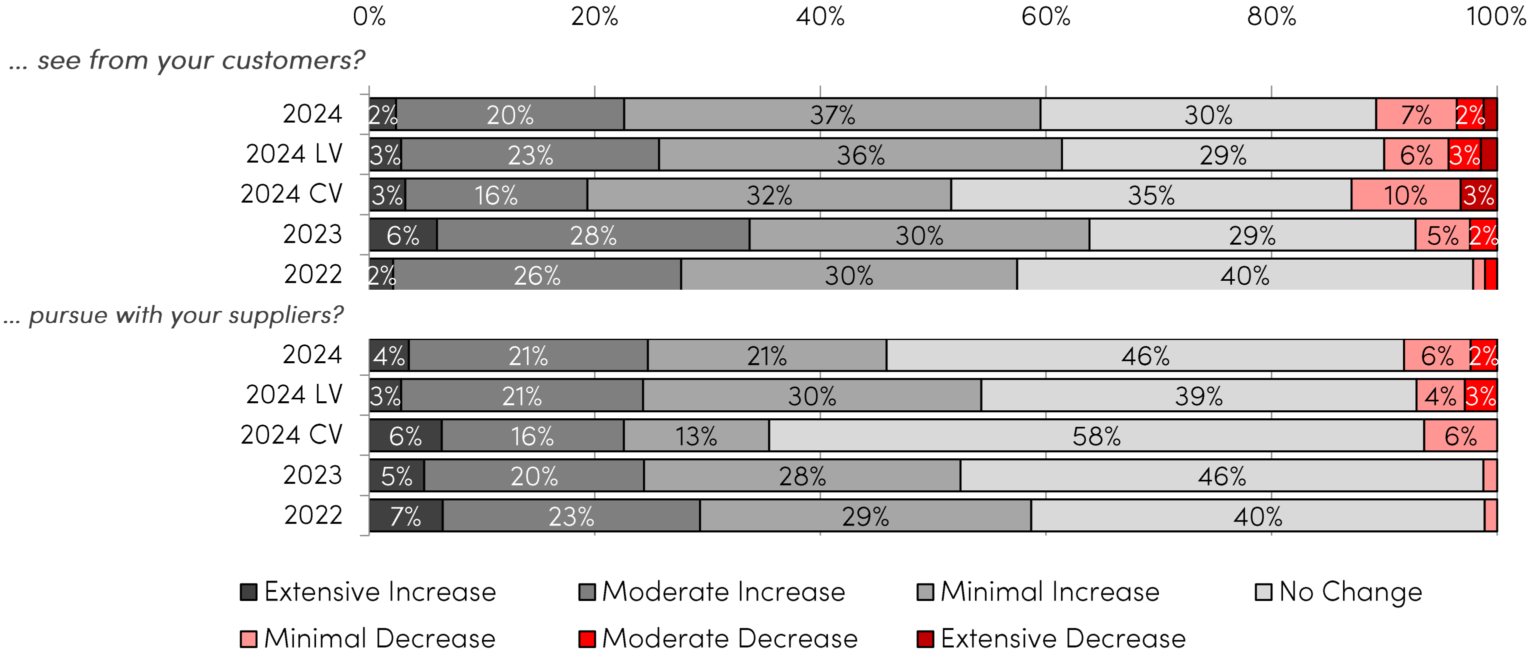
How do you expect that these percentages will change over the next 5 years?



	Total	LV	CV
United States	-0.21	-0.23	-0.31
Canada	0.00	0.00	0.00
Mexico	0.81	0.76	0.78

Globalization: Localization Efforts

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



Globalization: Localization Efforts

Has your company experienced any challenges to its North American localization efforts?

Light Vehicle

- No/none (4)
- Yes, capacity constraints where suppliers are not able to build a large enough bank to support a move. Customers delaying approvals. Insufficient tooling funds to support dual sourcing.
- Biggest issue is labor availability
- Costs continue to be higher to localize even based on a "landed North American" cost (including freight, duty, etc.) compared to the current non-localized supply
- Yes and no... while one OEM pushes for LCC, another seems to be pushing for localization.
- OEMs willingness to quickly adapt to local materials of equal grade due to aged inspection techniques.
- Yes, putting more production in USMCA
- We are already 99% localized.
- No, we are shifting manufacturing from our China operations to US/MX/Serbia to accommodate our OEM customers strategy for USMCA and supply chain risk
- Focus is on Mexico
- Customer still want off-shore pricing but sourced in USMCA.
- Customers are unwilling to pay local/North American economics
- No. Not focused on localization
- Cost increase, limited number of supply base in NA especially in US
- Cost compared to Asia
- We are 100% focus in NA, so our challenges is to find the short-term capacity required by our customers localization activities.
- Questions remain around whether our customers will be willing to pay a premium for the shorter lead-times and reduced risk profile for producing in US versus production in Asia.
- Not really. Lots of talk but no real clear-cut actions. Seems like political rhetoric.
- I would not say change, just in a holding pattern since we don't know what the future market looks like. EV, HEV, and ICE require different capital to support.
- More regional focus is a corporate initiative
- High costs and CAPEX
- Yes, labor shortage concerns.
- OEM's continuing to evaluate re-shoring projects, however, are they willing to make the changes.
- Limited. Still need some more capable sub-suppliers

Both Light and Commercial Vehicle

- None beyond typical geopolitical and regulatory challenges.
- Not to any extent.
- Supplier price increase with factor 2.5 up to 3.5 Reduction of Supplier Free Capacity Resource (people & energy) availability in Mexico Strong cost inflation on Man and Machine
- Lack of government grants/funding in place to support smaller projects. Raising cost of labor rates (UAW strike drove up wages). Lack of support in secondary services (tool & die, programmers, etc...) High cost of raw materials.
- Cost is increasing.
- Mfg. and labor costs are higher and labor difficult to find/retain.
- No. We are in NA.
- Labor and costs to produce locally
- People resources
- Cannot meet low pricing.

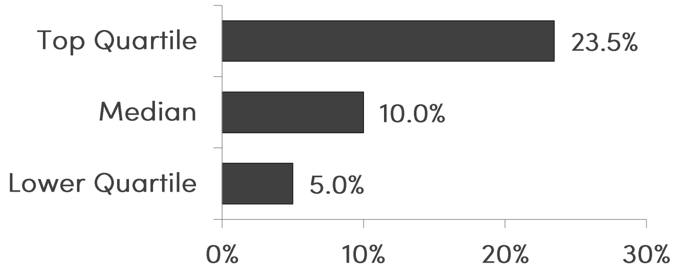
Commercial Vehicle

- No/none (4)
- Some parts are not available in NA. China is only source.
- Finding sufficient capacity with qualified suppliers has been one of our constraints.
- Costs for goods are higher, but risk of supply is lower along with logistic costs
- Foundries are tough to find in the U.S. Could be some opportunities in Mexico.
- Some tariffed suppliers are still the lowest cost provider with capacity.

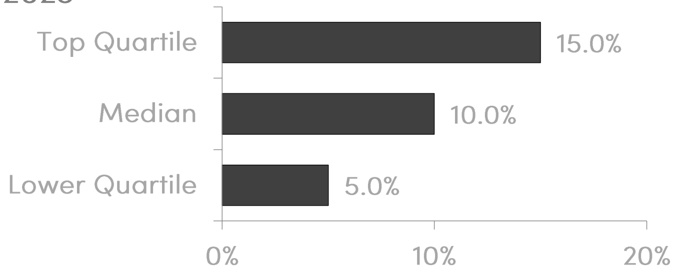
Globalization: U.S. Exports

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

2024



2023



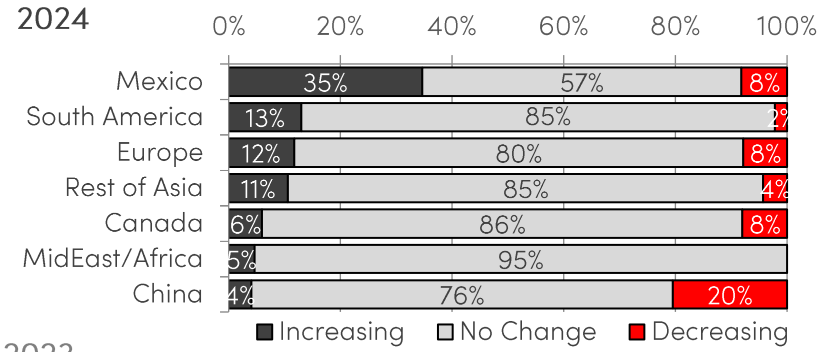
What is the estimated split of these exports (in percent) to each of the following regions?

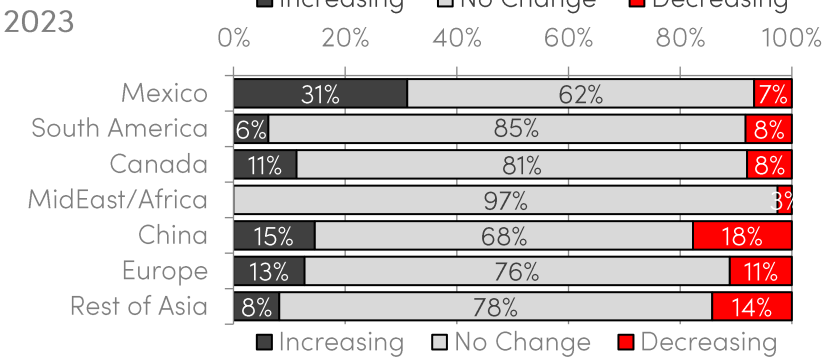
2024	Lower Quartile	Median	Upper Quartile	Number of respondent companies exporting to each region
Canada	0%	15%	33%	33
Mexico	10%	42%	68%	41
Europe	0%	0%	19%	25
China	0%	0%	8%	22
Rest of Asia	0%	0%	10%	18
South America	0%	0%	7%	20
MidEast/Africa	0%	0%	0%	4

2023	Lower Quartile	Median	Upper Quartile	Number of respondent companies exporting to each region
Canada	0%	5%	10%	32
Mexico	1%	20%	75%	39
Europe	0%	5%	14%	30
China	0%	2%	5%	22
Rest of Asia	0%	3%	6%	22
South America	0%	5%	10%	19
MidEast/Africa	0%	0%	0%	4

Globalization: U.S. Exports

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





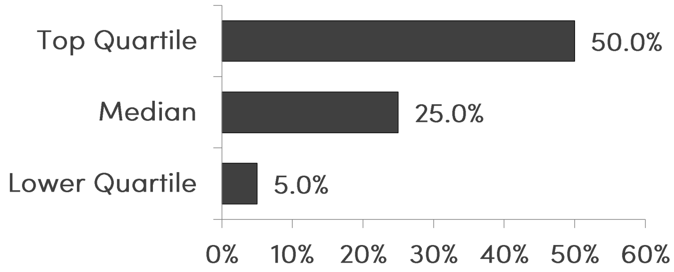
What major factors drive this regional export plan?	
Canada	• Closed plant in US and opened plant in MX. • Customer programs • New business opportunities
Mexico	• Sub-components are made in the USA (no-final assemblies) and sent to Mexico for further processing that is then sent as finished assemblies back to the USA or other regions of the world. • Closed plant in US and opened plant in MX. • Local production in Mexico
Europe	• Global Platforms • We have local supply and production for this market • Europe will likely look to local or Asian sources for our products • New expansion
China	• Global Platforms • We have local supply and production for this market • More local production occurring in China
Rest of Asia	• Supply resiliency • Global Platforms • We have local supply and production for this market
S. America	• New sourcing • Move to local if possible, in LA
Mid-East/ Africa	• *No comments provided*

Globalization: U.S. Imports

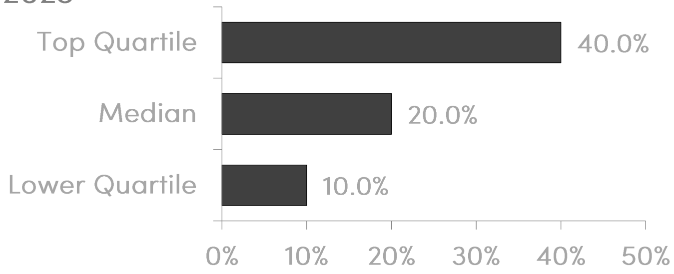
What is the estimated split of these imports (in percent) to each of the following regions?

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

2024



2023

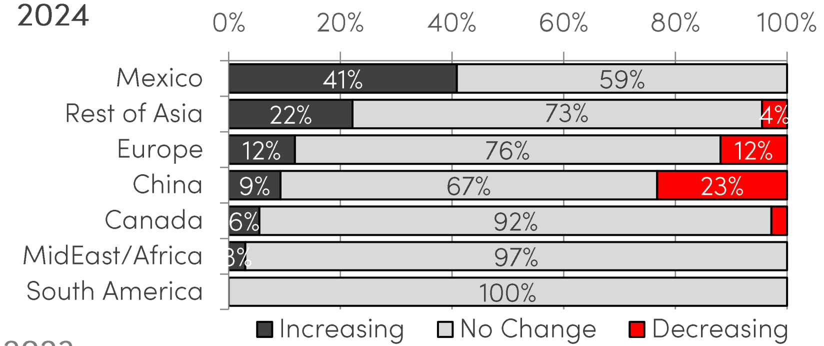


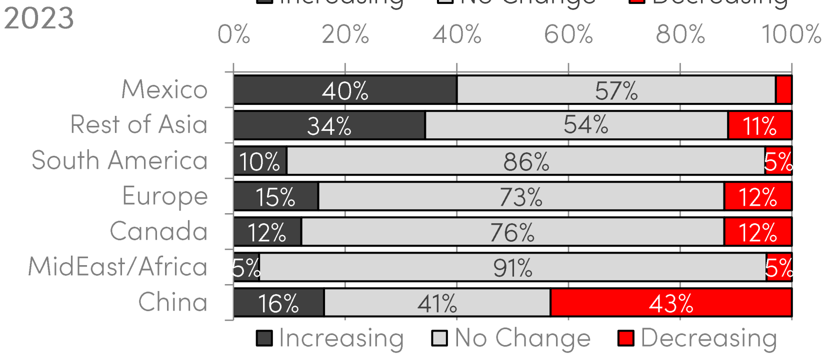
2024	Lower Quartile	Median	Upper Quartile	Number of respondent companies exporting to each region
Canada	0%	0%	11%	15
Mexico	0%	20%	44%	29
Europe	0%	13%	20%	31
China	10%	20%	40%	39
Rest of Asia	5%	23%	58%	36
S. America	0%	0%	0%	3
Mid-East/Africa	0%	0%	0%	4

2023	Lower Quartile	Median	Upper Quartile	Number of respondent companies exporting to each region
Canada	0%	1%	15%	19
Mexico	0%	10%	30%	22
Europe	1%	10%	25%	28
China	1%	20%	45%	32
Rest of Asia	4%	20%	49%	29
S. America	0%	0%	0%	1
Mid-East/Africa	0%	0%	0%	1

Globalization: U.S. Imports

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





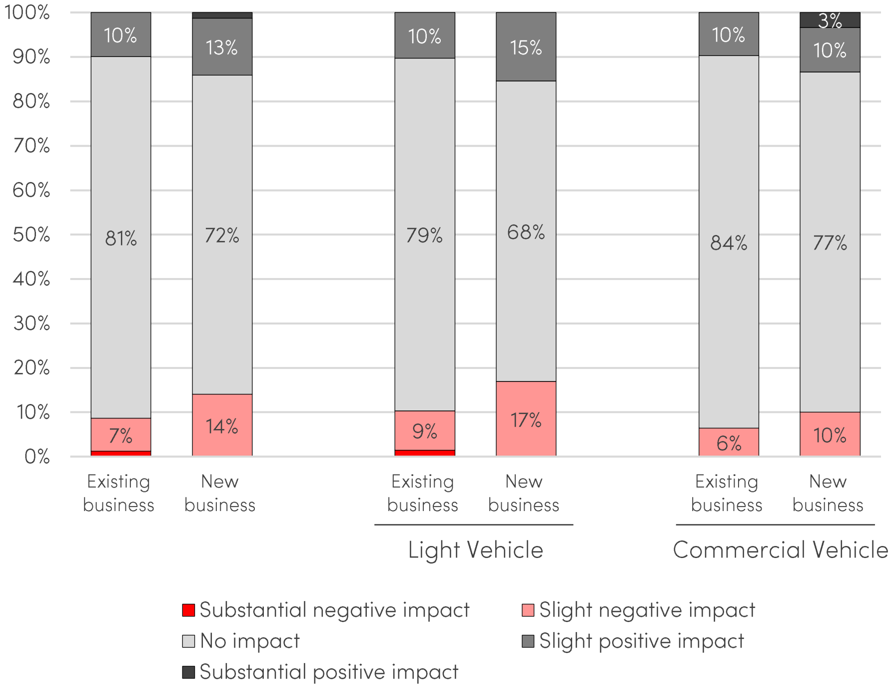
What major factors drive this regional import plan?	
Canada	• *No comments provided*
Mexico	• Customer driven demand for lower labor rates • Move to LCC
Europe	• Company strategy • Move to LCC
China	• Continuing Geopolitical tensions and customer direction (ABC policy) • US-China trade war
Rest of Asia	• Lack of NA supply chains • US-China trade war
S. America	• *No comments provided*
Mid-East/ Africa	• Primary aluminum is cheaper from Dubai than in NA

Sustainability

Q2 2024 Vehicle Supplier Barometer

Sustainability: Business Impact

How has your company's sustainability program impacted existing and new business?



Comments:

Positive Impact:
- Supporting OEM requirements for new business growth and SEC reporting guidelines that are being implemented.
- We do not have really any pressure from the customers, we are doing it by our own conviction, looking to contribute to the ESG at the same time we reduce cost
- Our organization has always had significant programs and systems that impact sustainability in a positive manner, however we are getting better at promoting what we are already doing.

No Impact:
- OEMs don't value sustainability for our products yet. Even in sourcing requirements, they will lift it if any cost is associated with it.
- Sustainability gets meetings but it is not part of the sourcing decision. OEM's want sustainable for free which isn't possible yet. So it doesn't drive sales.
- Fading OEM interest due to cost pressure
- We are in the process of evaluating our sustainability as a company. The resulting program may have an impact to our business.
- No impact to business currently or future as we are progressing rapidly with sustainability efforts and navigating various customer requests as expected
- Like we do not have enough compliance programs already. More costs that we cannot pass on that we are forced to do.

Negative Impact:
- Sustainability is increasing our cost for electricity. Not sure if it's really helping to gain new business.
- It requires added resources, investment, and higher costs.

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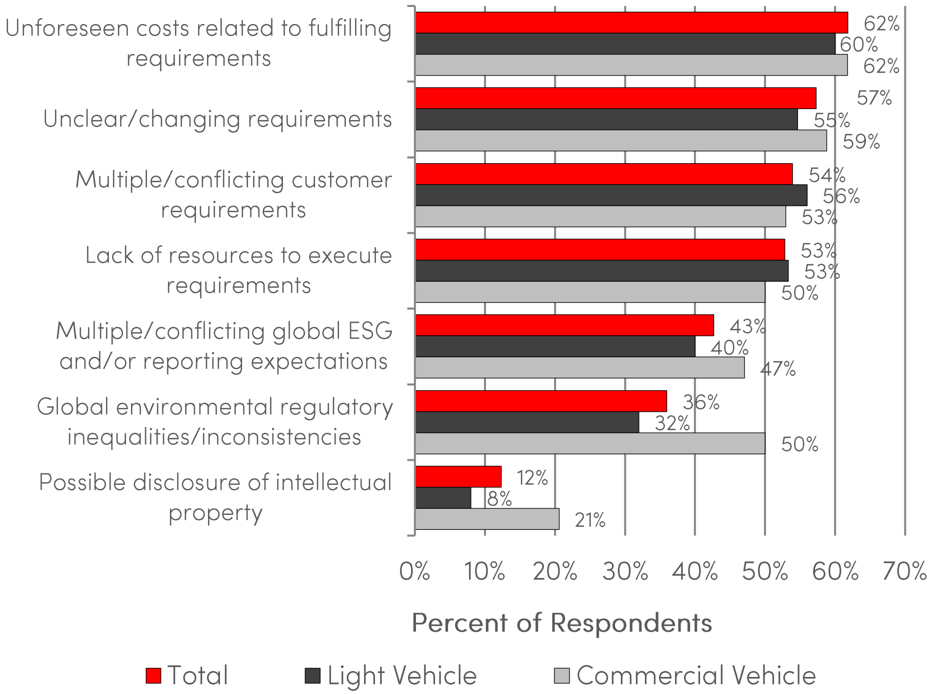
Sustainability: Concerns with Sustainability Implementation

What are your largest areas of concern related to implementing sustainability initiatives?



Comments:

Both Light and Commercial Vehicle

- The lack of a common reporting system/method and various customer, regional, and regulatory requirements drive unnecessary time and cost into our efforts.
- This needs to get consolidated into one format
- The cost to implement these strategies is a large burden on SME's.
- We supply multi-industry and the requirements are somewhat different

Light Vehicle

- Being forced to commit to goals such as Net 0, and the constantly changing legislation in Europe, Canada, and I'm sure more will come
- OEM are not willing to pay for it
- Customers are not willing to pay Customers want to access sensitive information
- The ESG 'movement' is not economically feasible for smaller companies, due to the burdensome requirements including reporting.
- SEC requirements and reporting are still unclear. Each company is creating their own reporting.
- Largest concern is North America is that customers won't pay for the premium cost for sustainable. They will revert back to existing if it is cheaper technology.
- Our global efforts are making ESG a plus for our company.
- No North American government regulation
- OEMS need to agree on one system and implement through AIAG or some other organization. Too many different approaches right now.
- Our biggest concern is the misalignment or lack of support from the Mexico government to have sources of real green energy.
- Actual costs for these initiatives are not yet understood and will negativity impact us for not clearly understood gains

Commercial Vehicle

- Cost/benefit is unclear, so far mostly a box checking exercise that drives added cost
- Fragmented and flavor of the day changes...

Sustainability: Biggest Win's

What was your company's biggest sustainability win over the prior year?

Light Vehicle

- Installation of solar panels
- Progress towards scope 1 in manufacturing plants
- I'm not sure I can say it's a win yet or not, but we have started moving our plants to renewable energy, including by installing solar on our property. Time will tell if it's a win.
- Improving efficiency of our melting operation.
- EV product development resulting in new business growth.
- Reduction of energy use in manufacturing sites
- Automotive Pace Pilot Award for new CO_2 neutral product
- Getting our Supplier Assurance customer ratings above minimum threshold simply by creating policies that already existed.
- Green aluminum and solar energy adoption in our Mexico operations.
- Installing solar panel in Mexico
- Dual sourcing of Micro controller chip
- Energy credits
- Water savings and recycling or reuse of it.
- Shipment consolidation
- Our ISO 14001 initiatives and our virtual forest progress.
- Recycling
- Packaging re-use, waste re-use
- Supply chain carbon emissions.

Both Light and Commercial Vehicle

- Furthering our internal cultural awareness and attention to sustainability efforts.
- Reinvigorating a plan to reduce landfill activity
- Some supplier opening manufacturing locations in Mexico to bypass China Tariff .... which also reduces the CO_2 footprint
- Renewable electricity usage for all our plants up to almost 40% green
- Adding solar panels to manufacturing plants. Improving furnace efficiencies.
- Installing solar panels at all plant locations in Asia.
- HVAV (air)

Commercial Vehicle

- Implementing a company strategy and process to address!

MEMA OE Supplier Barometer: Appendix

MEMA OE Automotive Supplier Barometer is a survey of the top executives of MEMA regular member companies. The MEMA OE 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. mema.org

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Survey Methodology

- Data collected May 8 – 24 via invitation to online survey.
- Executives of MEMA supplier companies.
- 91 complete survey responses were received, with 119 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.

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