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# An Update on Trends in Global Sourcing

January 2017

The latest results of the "Trends in Global Sourcing Survey" have been released and trends in risk, sourcing, and China's role in supply chains remain in flux.

*Bottom Line*

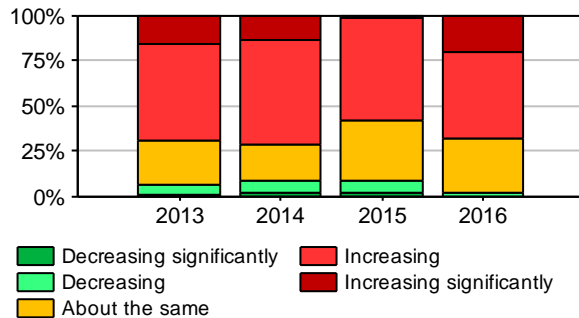
The survey points to three conclusions across these three areas of study. Commodity prices, supplier viability, and geopolitical concerns lead the myriad risks that sourcing professionals face as supply chains stretch and change. There is a slight shift in sourcing from the United States towards Mexico, India, and Asia, but most companies are taking a cautious approach to sourcing outside of their home region in 2017. China's role in supply chains continues to grow and has moved beyond that of a low cost provider.

*Supply Chain Disruption Financial Costs*

The number and financial impact of supply chain disruptions is on the rise. Two thirds of respondents said that the financial costs of supply chain disruption were increasing, with 19% of respondents saying that it was significantly increasing. This represents a reversal of the 2015 results when just 1% of respondents had that view. Additionally, less than 2% of respondents in the 2016 survey viewed the risk as decreasing at all.

**Supply-chain-disruption costs rise**

(Share of responses)

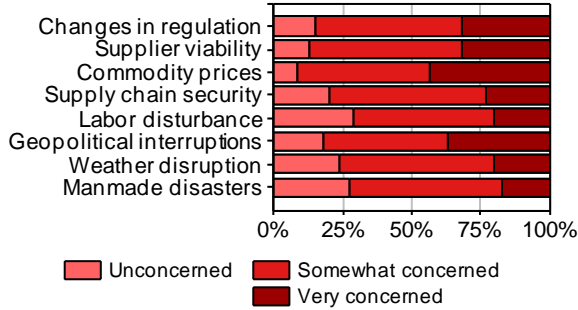


*Supply Chain Risks*

Sourcing professionals have to battle a number of different risks, but commodity prices and availability topped the scales once more as the risk of greatest concern, though supplier viability was not far behind. Fully 91% of respondents were either somewhat or very concerned about commodity prices, marking an end to the period of tame commodity markets. This mirrors the trend in the IHS Materials Price Index (MPI). Since hitting a low in mid-January, the MPI has increased 54% in three successive waves, rankling procurement managers and trashing budgets along the way. Despite percolating wages in the United States, there is little concern about labor and wage disturbance as the inflation and labor environments in much of the world are benign.

**Gauging supply-chain risks**

(Share of responses)

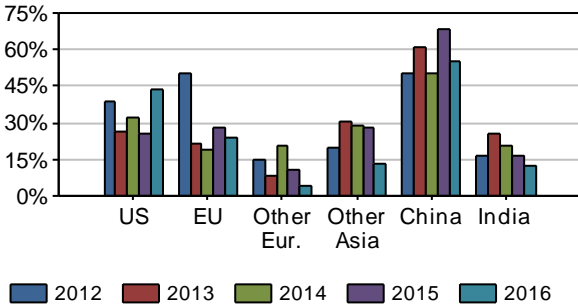


*Sources of Supply Chain Volatility*

Continuing on the theme of risk, the Presidential Election in the United States and slowing growth in China raised concerns about those two countries. They were the two greatest sources of volatility, far exceeding other responses. Perceptions of volatility are on the decline in Europe, with the sum of the EU and other Europe falling from 39% in 2015 to 28% in 2016. India and other Asia have shown an even steeper decline, from a combined 56% in 2013 to just 26% in 2016. This trend of drastic improvement in India and the rest of Asia is mirrored elsewhere in the survey, most prominently in the regions targeted for increased sourcing.

**Sources of volatility**

(Share of responses)



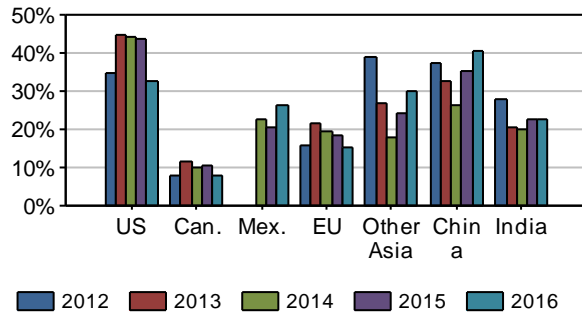
*Regions on the Rise in Supply Chains*

On that question of regions to increase sourcing, China, India, and other Asia are the biggest winners, with each showing strong increases from past years. The developed world, particularly the EU, the United States, and Canada, show the weakest results. In fact, the share of respondents that plan to increase sourcing in the United States dropped from 44% to 32% in 2016, the second largest one year drop in the survey's history. The perceptions of relative safety in Europe identified above did little to arrest the drop in respondents seeking to increase sourcing there. Both regions registered their lowest results in the five years of the survey, with less than a quarter of respondents planning to increase sourcing in either region. A rare bright spot outside of

Asia was the continued growth in Mexico, where 26% of respondents are looking to increase sourcing - up from 20% a year ago.

**Regions to increase sourcing**

(Share of responses)



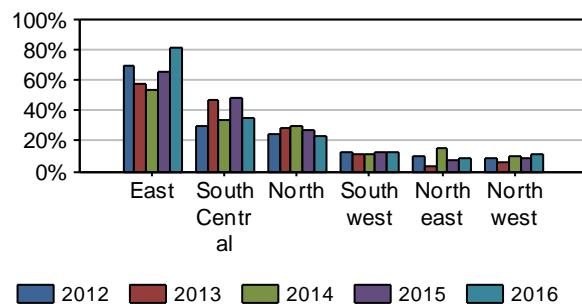
*China's Role in Supply Chains*

Despite its leadership as a destination for increased sourcing, support for China as a low cost sourcing destination is waning. The share of respondents who agree that China is a low cost sourcing destination dipped below 50% for the first time in 2016, down markedly from 70% in our 2012 survey. Taken together with continued support for the country as a sourcing destination, the survey signals the arrival of China as a hub, or even *the* hub, of global supply chains rather than a mere cheap outsourcing destination.

Further evidence for this hypothesis is given in the regional sourcing data. Rather than avoid rising costs in Eastern China by moving to less expensive provinces inland, sourcing professionals doubled down on the regions they know. Of those sourcing from China, more than 80% source from the East region that includes Shanghai and surrounding provinces. Western regions barely register and Northern provinces are actually seeing less activity.

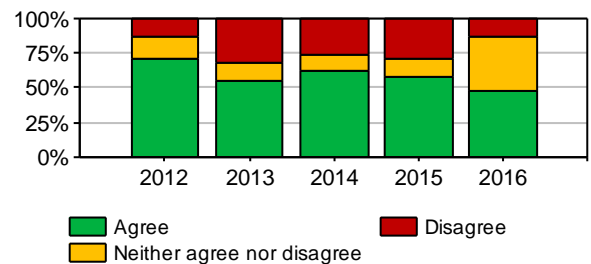
**Leading Chinese regions for sourcing**

(Share of responses)



**China will remain a low-cost-sourcing alternative**

(Share of responses)



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