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Automation Industry

JPM/CSIA System Integrator Survey: Sentiment Skews Positive, But Not Quite An Inflection

Our latest proprietary system integrator survey (which ran from Dec 11 through Jan 7) reflects improving sentiment versus prior May '25 survey (though we must keep in mind that uncertainty was elevated during prior survey), and on net supports our view that automation trends are stable sequentially with gradual recovery though not an inflection to sustain an EPS CAGR that justifies the valuation of some of the automation names, as reflected in results this earnings season. Customer capex expectations have improved vs prior May'25 survey, with 72% expecting growth in 2026 (vs 57% prior survey), while backlog visibility/lead times are now normal to high. Project delays somewhat reduced from the prior survey, with those that are seeing delays attributing this mostly to uncertainty around tariffs and input costs as well as general economic uncertainty, with higher conviction that these will resume in the near term vs the prior survey. Tariffs are expected to have a positive impact on onshoring trends but will take time, in line with prior survey, while a notable change was an increasing number of respondents seeing customers making incremental brownfield investments in existing facilities (32%, vs. 14% prior survey) while only 21% think customers are taking a wait and see approach (no action), down from 40% prior. Onshoring progress is slow with the majority of respondents or 56% (65% prior) still seeing no change in order activity vs six months ago, and expected "peak" of order activity has again slipped back, now the 2027 and beyond timeframe. Cost inflation continues to be +MSD-HSD% y/y with 70% of respondents seeing project modifications (less outright cancellations) tied to this, while the majority of respondents are only raising price by LSD-MSD% y/y, suggesting price cost pressure, albeit somewhat better than last survey. End market trends are generally improving with Oil & Gas continuing to be soft but those seeing B2B <1x declining to 40% from 52% last survey, while Auto & Tire and Food & Bev trends are largely unchanged to marginally improved, and Semiconductors improved with 35% citing B2B above 1x (17% prior). End market sentiment is most positive for Data Centers, Defense/Military, Semiconductor & Electronics, Warehouse Automation, Power & Energy and Life Science, while Automotive & Tire, Consumer & Household Products, Entertainment, and Oil & Gas were cited as the weakest. As for competitive commentary, Siemens commentary was positive while ROK was neutral (they may just as well be gaining share as losing share) with respondents indicating that on onshoring projects, the vast majority of customers plan to bring overseas suppliers to the US. Lastly, an increasing number of respondents (86%, vs. 76% prior) are integrating GenAI/LLMs, all seeing positive returns on AI and willing to absorb neg near term hit to reap the longer term business benefits. We also include in this note an overview of the current macro backdrop and capex trends across verticals, where forecast has improved with +6% ex-tech/utilities signaling we are definitely in a growth scenario, highest since 2023, but not the DD required for inflection. All in, we think valuation reflects improving general capex environment but where growth is driven by verticals of datacenter/tech/power/A&D/semis, not a broad inflection, and remain N on automation pure plays EMR and ROK.

- **J.P. Morgan/CSIA automation survey.** This note summarizes our latest

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See page 59 for analyst certification and important disclosures.

proprietary survey of control system integrators, where we received ~180 responses. System integrators are third-party firms focusing on delivering technically advanced capital projects, a proxy for upward of 70% of sales for automation suppliers. Responses are slanted toward North America, similar to the overall SI industry, but with some global representation as well, but it's important to keep in mind that industry exposure ranges from traditional automation centric disciplines like auto, food/bev, oil/gas to areas such as data centers, building automation, and defense applications. We are pleased to continue our partnership with CSIA (Control System Integrators Association), the leading professional association representing the industry.

- **Survey results indicate automation trends are stable sequentially with gradual recovery though not an inflection; backlog visibility and lead times normal to high.** Responses indicate improving near-term demand with the overall percentage of those reporting order activity strength ticking up to 48% vs. 35% in our prior survey, while 82% see B2B at or above 1, also up from 75% in May'25. Looking ahead, the survey pointed to expectations for stronger revenue growth over the next 12 months, with improving results vs May'25 survey. Here, 85% of respondents are looking for growth (vs. 68% prior survey) versus 7% for declines (20% prior survey). In terms of backlog visibility/lead times, this is normal to low with 48% saying they were at normal levels (vs. 49% in prior survey) while 30% (21% prior) indicate they were higher than normal.
- **Customer '25/'26 capex expectations also improved vs prior survey.** On customer capex expectations for 2025, 31% of respondents expect flat trends (vs. 40% prior), while 45% expect growth (up from 31% in the May'25 survey), with 24% (vs. 30% prior) expecting declines. On 2026 capex, expectations also improved with 72% of respondents pointing to growth (up from 57% prior) with 18% expecting flattish trends (28% prior) and 10% seeing declines (down from 15% prior).
- **End market sentiment is most positive for Data Centers, Defense/Military, Semiconductor & Electronics, Warehouse Automation, Power & Energy and Life Science, while Automotive & Tire, Consumer & Household Products, Entertainment, and Oil & Gas were cited as the weakest.** Data Centers is cited as the strongest while Auto & Tire is seen as the weakest end market in the near term, similar to prior survey. In the medium to long term, respondents indicated most support for Semiconductor & Electronics, Data Centers, Defense/Military, Warehouse Automation and Power & Energy markets. Looking at B2B across end markets, Oil & Gas trends continue to be soft, but incrementally improving from prior survey, with the percentage of respondents seeing a B2B of <1x declining to 40% (vs. 52% in May'25, 53% in Nov'24). Auto & Tire remained largely unchanged with the majority of respondents or 56% citing B2B was less than 1x (vs. 59% prior). Food & Beverage marginally improved with the highest percentage of respondents citing B2B was about 1x (49%, vs. 45% prior), with 31% citing above 1x (up from 29% prior), while Semiconductors improved with 32% of respondents seeing B2B >1x (17% prior).
- **Project delays reduced from prior survey, with higher conviction than prior survey that these will resume in the near future.** Approximately 42% of respondents indicated that they are seeing "more than usual" amounts of project delays due to uncertainty around the economy, down from May'25/Nov'24 levels of 49%/44%, with higher conviction than prior survey that these will resume in the near future (here, 86% had moderate to high conviction that these projects would resume, up from 76% in prior survey). The reason most cited for the project delays was "uncertainty around tariffs and input costs" and "uncertainty around the economy" both at 29%. Amongst the respondents, 70% cited that they have seen project modifications due to inflationary pressures, in line with last survey, while there appear to be less outright project cancellations with 42% of respondents seeing cancellations due to inflationary pressures, also similar to May'25 survey.
- **Tariffs expected to have a positive impact on onshoring trends but will take time;**

onshoring progress slow. We surveyed respondents on the impacts of tariffs on their business and customer investments. When asked how they feel about doing business in the US given the recent policy developments, the most respondents (42%) cited that they are incrementally positive (vs. 24% prior survey), a change in trend from last survey where the most respondents (44%) cited that they were incrementally negative (vs. 31% this survey), with the balance unchanged. When asked how respondents think tariffs will impact onshoring trends, the majority or 58% (60% prior) of respondents think tariffs will have a positive impact on onshoring with 41% (47% prior) saying that they think "there will be a positive impact but will take time", while 34% (35% prior) think there will be a negative impact. Here, interestingly, more respondents say that they see customers beginning to plan incremental investments in manufacturing footprint driven by tariffs compared to last survey (46%, vs. 22% prior survey), with 32% (14% prior) indicating that they see customers making incremental investments in brownfield facilities and 13% (8% prior) seeing customers making major greenfield investments to reconfigure production footprint, while those that say customers are taking a wait-and-see approach (no action) due to uncertainty reduced to 21% (40% prior). Among end markets where they see the most planning for incremental investments tied to tariffs, Automotive & Tire, Data Centers and Life Sciences ranked at the top (14% each), followed by Semiconductor Electronics (12%). Onshoring progress is slow, with the majority of respondents or 56% (65% prior) still seeing no change in order activity vs six months ago, while 31% (19% prior) cite improvement in order activity and 13% (18% prior) cite less activity. Expectations for "peak" of onshoring/megaproject activity has again slipped back compared to prior surveys, with the most respondents (47%, 37% prior) citing 2027, followed by 25% (7% prior) expecting beyond 2027.

- **Price cost equations pressured.** On cost inflation compared to six months ago, 47% say that it is "worse" (70% prior) with 13% citing it is "materially worse" (down from 30% prior), suggesting continued pressures albeit improving from prior survey. On the pricing environment, we see a similar picture with 55% (70% prior) of respondents seeing this as "worse" compared to six months ago, with 15% (down from 30% prior) seeing this as "materially worse". The more challenging environment both in terms of cost inflation and pricing we think suggests pressured price cost spreads for respondents, albeit somewhat better than last survey. To gauge the level of price cost pressure, we asked respondents the level of price increases they are seeing on the products they buy vs how much they have raised the price of their solutions. Here, the majority or 65% (62% prior) of respondents see input costs rising by MSD-HSD % vs the same time last year, while on the pricing side, the majority or 58% (58% prior) of the system integrators are only able to raise price by LSD-MSD % compared to the same time last year.
- **Mixed signs on share amongst automation players, ROK strongest in US, trend a debate.** On market share trends, it's tough to discern, but there are a meaningful number of respondents talking about customers bringing their suppliers from overseas. When asked whether overseas players are partnering with existing suppliers (i.e., Siemens, which has been a dominant player in Asia) or with U.S.-based suppliers like ROK when engaging in US onshoring projects, the majority of respondents (60%, a percentage that has been steady in recent surveys) expect the overseas companies to use their legacy automation suppliers vs. switching to U.S.-based suppliers.
- **Automation reads not an inflection; JPM capex survey improving but growth driven by verticals of datacenter/tech/power/A&D/semis.** Results this earnings season point to trends at discrete focused suppliers (ROK, Siemens) stable to improving sequentially but with limited visibility, with inventory levels around the world largely back to normal at distribution and at the machine builders, and there's optimism, but not yet a broad based release of orders, reflected in ROK products B2B below 1x, and 4Q organic exit rate implied soft absent an acceleration. On the other hand, orders for process focused suppliers (EMR, HON, ABB) accelerated with backlog/orders expected to

convert to shipments in 2H26 and longer cycle power/LNG orders providing visibility into 2027 and beyond, while near term organic growth is soft, showing sub-seasonal trends. Overall, companies are pointing to limited impact from memory shortage, with ROK citing cost inflation here in the single-digit millions of dollars range. Consensus 2026 corporate capex expectations call for +11% on average for 2026, with growth continuing to be led by datacenter, followed by utilities, aerospace, and semiconductors. Auto is also expected to be up mid-teens after a soft finish to 2025, while industrial/machinery, telecom, pharma and food & bev are also showing growth. On the flip side, chemicals are expected to see another year of HSD decline following MSD decline in 2025, and paper/packaging is also showing declines, while oil and gas capex is expected to be flattish. Importantly, excluding tech/utilities, 2026 capex is up 6% with process down 1%, discrete up low-teens and hybrid +MSD-HSD.