Automation Industry

JPM/CSIA System Integrator Survey: Solid Demand Near Term, Sentiment Soft as Uncertainty Lingers for Capex Plans

Our latest proprietary system integrator survey (which ran from April 25 through May 13) reflects solid near-term demand trends but a deterioration of sentiment and a softer outlook moving forward, and on net supports our view that while capex is not falling off, we don't see an inflection near term. We think the solid fundamentals in contrast with the pessimistic tone from the survey jibes with hard macro activity data, which have posted solid gains so far this year reflecting healthy fundamentals, potentially amplified by front-loading ahead of tariffs, while sentiment readings have fallen to recessionary levels in response to the trade war, which we have to keep in mind was not yet de-escalated during most of this survey period. Customer capex expectations have softened vs prior Nov'24 survey, with 30% expecting declines in 2025 (vs 6% prior survey), while backlog visibility/lead times are now normal to low. Project delays increased again from the prior survey, with respondents attributing this mostly to "uncertainty around tariffs and input costs", with less 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 what we have been hearing from industry participants broadly, and they are not seeing customers beginning to plan incremental investments in manufacturing footprint tied to tariffs as customers are taking a wait-and-see approach. Megaproject progess has been slower in the near term with a higher percentage of participants citing less activity vs prior survey, and expected "peak" of order activity slipped back vs prior surveys to the 2026/2027 timeframe. With the recent tariffs, cost inflation trends show clear deterioration with 70% of respondents saying it is worse than six months ago (up MSD-HSD% y/y), with three quarters of respondents seeing project modifications (less outright cancellations) tied to this, while the pricing environment is also worse compared to six months ago (only able to raise price by LSD-MSD% y/y). End market trends are on net softer with Oil & Gas continuing to be soft, Auto & Tire further deteriorated while Food & Bev and Semiconductors remain relatively stable. End market sentiment is most positive for Data Center, Power & Energy, and Life Sciences, not a surprise, while Auto & Tire, Chemicals & Petrochemicals, and Oil & Gas were among those cited as the weakest. As for competitive commentary, Siemens commentary was positive while ROK was mixed. We do not think this is definitive, but still represents a trend to watch as respondents indicated that on mega projects, the vast majority of customers plan to bring overseas suppliers to the US. We also include in this note an overview of the current macro backdrop in the context of tariffs as well as an analysis of the tax bill and implications on manufacturing spending, a potential positive offset, albeit marginal. All in, we remain cautious on the general capex environment and remain N on EMR, HON, ROK, with most favorable view on ROK given its idiosyncratic margin story in an uncertain macro, with attractive leverage expected off of a lower cost base if and when they return to growth (which they continue to forecast to be in 3Q25).

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See page 55 for analyst certification and important disclosures.

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- **J.P. Morgan/CSIA automation survey.** This note summarizes our latest proprietary survey of control system integrators, open April 25 to May 13 (i.e., pre-the most recent de-escalation), where we received ~100 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 solid near-term demand, but sentiment of softer trends moving forward; backlog visibility and lead times normal to low.** Responses indicate solid near-term demand with the overall percentage of those reporting order activity strength ticking up to 35% vs. 32% in our prior survey, while 40% see B2B above 1 also up from 27% in Nov'24. However, looking ahead, the survey pointed to expectations for softer revenue growth over the next 12 months, with deteriorating results vs Nov'24 survey. Here, 68% of respondents are looking for growth (vs 81% prior survey) versus 20% for declines (7% prior survey). In terms of backlog visibility/lead times, this is normal to low with 49% saying they were at normal levels (vs. 45% in prior survey) while 31% (26% prior) indicate they were lower than normal.
- **Customer '25/'26 capex expectations also deteriorated vs prior survey.** On customer capex expectations for 2025, the highest percentage of respondents expect flat trends (40% vs 25% prior), while 31% expect growth (down from 69% in the Nov'24 survey), with a similar 30% (vs. 6% prior) expecting declines. On 2026 capex, expectations also softened with 57% of respondents pointing to growth (down from 81% prior) with 28% expecting flattish trends (17% prior) and 14% seeing declines (up from 2% prior.
- **End market sentiment is most positive for Data Center, Power & Energy, Food & Bev and Life Sciences, not a surprise, while Auto & Tire, Chemicals & Petrochemicals, and Oil & Gas are among the weakest.** On end markets, sentiment is most favorable for Food Beverage, Life Sciences, Power Energy, Data Centers, and Water Wastewater, while Automotive Tire, Chemicals Petrochemicals, OEM/Industrial Equipment, Consumer Goods/Household Products, and Oil Gas were cited as the weakest. Interestingly, Auto & Tire is now seen as the weakest end market in the near term. In the medium to long term, respondents indicated most support for Data Center, Power & Energy, Food & Bev, and Life Sciences markets. Looking at B2B across end markets, Oil & Gas, trends continue to be weak, largely unchanged from prior survey, with the majority or 52% of the respondents seeing a B2B of <1x (vs. 53% in Nov'24, 47% in Jul'24). Auto & Tire further deteriorated with the majority of respondents or 59% citing B2B was less than 1x (vs 46% prior). For Food & Beverage and Semiconductors trends were relatively stable, with Food & Bev seeing the highest percentage of respondents citing B2B was about 1x (45% vs 55% prior), with 25% citing less than 1x (up from 16% prior), while for Semiconductors, the majority (61%, vs 53% prior) see B2B of about 1x while 22% (19% prior) see B2B less than 1x.
- **Project delays increased again from prior survey due to uncertainty around tariffs and input costs, with lower conviction than prior survey that these will resume in the near future.** Approximately 49% of respondents indicated that they are seeing "more than usual" amounts of project delays due to uncertainty around the economy, growing from Jul'24/Jan'24 levels of 44%/35%, with lower conviction than prior survey that these will resume in the near future (here, 69% had moderate conviction that these projects would resume, down from 82% in prior survey, and 24% had low conviction, up from 10% in prior survey). The reason most cited for the project delays was "uncertainty around tariffs and input costs" at 38%, followed by general "uncertainty around the

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economy at 33%. Among end markets that are seeing customers delay projects or potential bids, Auto Tire ranked highest as being most impacted, while Warehouse Automation, Water Wastewater, Data Centers and Building Automation were seen as less impacted. Amongst the respondents, 72% cited that they have seen project modifications due to inflationary pressures, up from 66% last survey, while there appear to be less outright project cancellations with ~41% of respondents seeing cancellations due to inflationary pressures, down from 48% in Nov'24 survey.

- **Tariffs expected to have a positive impact on onshoring trends but will take time; megaproject progress slower in the near term.** We surveyed respondents on the impacts of tariffs on their business and customer investments. On percentage of content of projects sourced from China, about half of the respondents think that China accounts for about 10-20% of content sourced, while 16% said they have no content sourced from China and 11% think more than 30% of content is sourced from China. In terms of the biggest commodity/component sourced from China, Industrial Controls Equipment ranked highest at 22% of responses, followed by Integrated Circuits (13%), Electrical Control Boards (9%) and Semiconductor Devices (9%). When asked how they feel about doing business in the US given the recent developments, the most respondents (44%) cited that they are incrementally negative while 32% said they are unchanged and the least number of respondents or 24% felt incrementally positive. When asked how respondents think tariffs will impact onshoring trends, the majority or 60% of respondents think tariffs will have a positive impact on onshoring with almost half (47%) saying that they think "there will be a positive impact but will take time" (consistent with what we have been hearing at trade shows), while 35% think there will be a negative impact. Here, the vast majority (78%) say they are not seeing customers beginning to plan incremental investments in manufacturing footprint driven by tariffs, with the most respondents (40%) saying that customers are taking a wait and see approach due to uncertainty, followed by 21% indicating that customers are making small tweaks to supply chain to manage tariffs instead, and 17% see customers cutting back on investment given increased cost. Among end markets where there may be some investment planning tied to tariffs, Automotive Tire ranked at the top (22% of respondents), followed by Life Sciences (13%), Metals Mining (10%) and Semiconductor Electronics (9%). Overall, progress appears slower on the megaproject front, with the majority or 65% (68% prior) saying they see no change to order activity vs six months ago with 18% (11% prior) citing less activity, and expectations for "peak" of megaproject activity have slipped back compared to prior surveys, with the majority of respondents (51%, 39% prior) citing 2026, followed by 37% (14% prior) expecting 2027.
- **With the recent tariffs, price cost equations pressured.** On cost inflation compared to six months ago, there are clear signs of deterioration, with 70% saying that it is worse (37% prior) with 30% citing it is "materially worse" (only 7% prior). On the pricing environment, we see a similar picture with 70% (45% prior) of respondents seeing this as "worse" compared to six months ago, with 30% (7% 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. 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 62% of respondents see input costs rising by MSD-HSD % vs the same time last year, while on the pricing side, the majority or 58% of the system integrators are only able to raise price by LSD-MSD % compared to the same time last year.
- **Macro uncertainty remains high; tax bill net positive for automation companies in the medium term, but not enough for an inflection.** De-escalation in the trade war is a positive that lowers the odds of recession though trade policy uncertainty remains a headwind for capital spending. While the risk on trade policy is skewed towards weaker 2H25 growth, and the US fiscal debate is unresolved, fiscal policy leans in the direction

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of easing. Here, the tax bill includes some provisions supportive of manufacturing spending, including reinstatement of 100% bonus depreciation for equipment (scored at $37 B over ten years) and 100% bonus depreciation for manufacturing structures (scored at $148 B over ten years), both combined broaden the scope of ability to expense manufacturing assets. Our stab at dimensioning the outcome on growth suggests a LSD % of additional capital investment on equipment and manufacturing structures (based on CBO's estimate of long run effects on private investment of 3.2%/1.4% for equipment/ manufacturing structures), phasing in from 2026 and peaking in 2027/2028, a positive support but not an inflection or enough to be considered a "theme". On the other hand, IRA provisions are targeted as major revenue/savings offsets to these tax cuts with (as the bill stands today) the IRA consumer EV tax credits immediately repealed, an indirect impact on EV manufacturing, a negative impact on the EV related supply chain buildout, the biggest tangible headwind, while clean energy reductions are also negative but less of a factor. We note that clean energy is a smaller percentage of sales for automation names, and no company was "doubling down" on clean energy to begin with. In combination, we see impacts to EMR/ROK/HON to a LSD/MSD % of sales. In terms of timeline from here, the bill now goes to the Senate, where additional changes are expected. If the Senate amends the bill, it must go back to the House for a final vote. Since the budget resolution is using reconciliation, the process is considered to be under a fast-track approach. Despite Republicans' goal to conclude the budget reconciliation process by July 4, JPM Strategic Research team sees passage by the August recess as a more realistic target with September 30, which is the end of the 2025 fiscal year, representing a hard deadline.

- **Mixed signs on share amongst automation players, ROK strongest in US, trend a debate.** To gauge 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 (~65%, 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. Here, when respondents were asked which automation solutions provider they think is gaining share overall, Siemens and Rockwell ranked highest each receiving 29% of the total votes, followed by Schneider and Emerson. Interestingly, when asked which automation solutions provider they think is losing share overall, Rockwell ranked the worst receiving 32% of overall votes (consistent with prior survey) followed by Emerson/Honeywell, while the European players fared better. While these results likely reflect the population of the respondents, which is skewed toward discrete/hybrid, it suggests that market share trends at Siemens appear solid while for ROK it is more mixed, going against ROK's recent comments that they are gaining share with 70% market share in US programmable controllers, 10x their nearest competitor.