

[« Back](#) | [Print](#)

2010 Global Automation Industry Outlook

Control Engineering and Morgan Stanley partner on global research project to provide insight on expected near-term spending, financing, and pricing trends for the automation industry.

By David Greenfield, Control Engineering -- Control Engineering, December 1, 2009

With all the turmoil raging across markets and industries this past year, the one thing we could all use right now is a compass to help us know which way is up—or at least out. To provide that kind of insight to our audience, *Control Engineering* partnered this fall with Morgan Stanley to conduct in-depth, global research on the automation, control, and instrumentation markets.

The goal of this research was to gather specific evidence that would indicate whether our markets were beginning to ascend from the depths of this latest downturn or were destined to remain mired in the muck at the bottom of the pit for awhile longer.

I'm happy to report that the survey does, indeed, offer more than few rays of hope. Overall, the findings appear to indicate that a bottom in the market has been reached, pricing is holding firm, and that customers remain loyal—all positive signs for global automation players.

Key findings

Four general points about the automation market in fall 2009 were apparent from responses to the survey:

1. The automation market has already bottomed; modest growth will return in 2010.

49% of respondents see automation spending up over the next 12 months, compared with 31% that see it down.

Preservation of cash is cited as the key reason for spending cuts, and service activities are the key area being cut. As credit becomes more available, there appears to be pent-up demand.

2. There is no evidence of a price war in automation equipment.

Only 12% of buyers and 14% of sellers expect pricing to fall over the next 3-6 months, which compares with 12% and 24% that experienced a fall over the past 12 months. Most respondents expect pricing to be flat—the key risk is that if pricing doesn't move as input costs rise, this can pressure margins.

Only 23% of buyers and 32% of sellers see increased pricing competition in competitive bids.

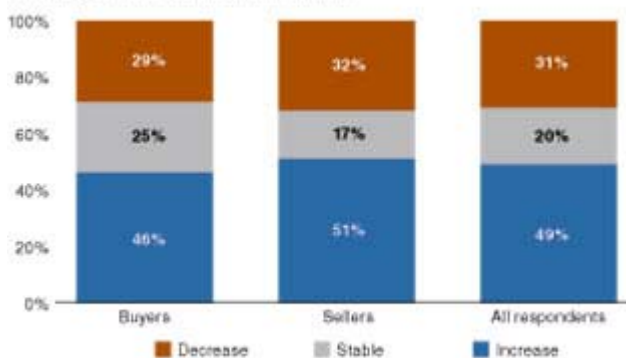
3. There is limited differentiation between the spending outlooks for process versus discrete industries.

Both discrete and process industries have their areas of strength and weakness in terms of end-market exposure, which appear to be cancelling each other out.

4. While highly cyclical, automation is a good business to invest

Automation spending outlook

Spending outlook over the next 12 months

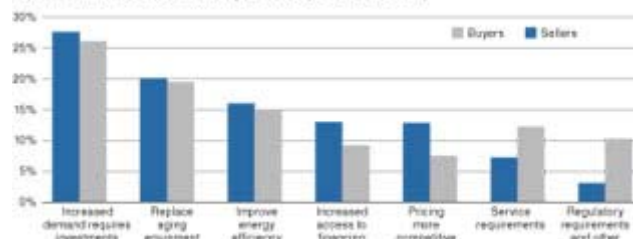


Source: Morgan Stanley/Control Engineering Global Automation Survey

Respondents are bullish, with 49% indicating that spending will be up versus 31% calling for a fall. Not surprisingly, sellers are more optimistic than buyers.

Why spending is increasing

Reason for demand outlook increasing (24% of buyers / 33% of sellers)

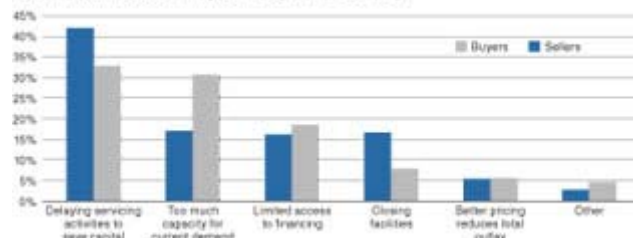


Source: Morgan Stanley/Control Engineering Global Automation Survey

Buyers that are increasing spending point to increased demand and the need to replace aging equipment as primary reasons. Pricing competitiveness is not as big a factor as sellers believe.

Why spending is falling

Reason for demand outlook falling (31% of buyers / 29% of sellers)



Source: Morgan Stanley/Control Engineering Global Automation Survey

Buyers that see budgets falling point to delayed service activities and too much capacity to warrant investment. Eventually, these service activities will need to resume, which is bullish for demand.

in over the long term

Buyers are reluctant to switch suppliers, cite pricing as eighth in importance out of 13 factors that go into purchase decisions, and don't appear overly interested in working with new entrants.

Demand trends

Though the outlook is still far from rosy, or even certain, the near-term trend for the automation industry does appear brighter than it did in early in 2009. Supporting this observation is the percentage of respondents expecting demand to increase, more budgets going up or staying level versus retreating, and increasing demand to replace aging equipment.

Details from the survey related to automation industry demand trends include:

Majority of respondents expect automation demand to be up (49%) versus down (31%) over the next 12 months. But, there is a wide dispersion of outlooks—26% of buyers expect spending up 10% or more, 20% expect it down 10% or more.

Budgets appear to be bottoming. Sixty-nine percent of respondents have seen budgets remain flat (45%) or increasing (24%) over the past 3 months, compared with 31% that see budgets still falling.

Increasing demand and need to replace aging equipment were cited as the top two reasons for budgets rising over the past three months. Delayed servicing activities to preserve cash and too much capacity were cited as the top two reasons for budgets falling.

Financing still appears to be an issue (74% cite as constraint), but is improving for more (27%) than say it is getting worse (18%).

Buyers are most positive in Asia-Pacific (59% of buyers see spending up versus 33% down), and least positive, but more balanced in Europe (35% see spending up versus 35% down).

Pricing trends

If there is one good thing that has come out of all the market turmoil—at least for buyers—is that pricing appears to be stabilizing in the near term. Few are expecting to see prices fall, but neither are they expecting out-of-the-ordinary price moves by suppliers to help offset losses in the past year.

Survey data supporting this observation include:

No sign of a price war. Only 12% of buyers see pricing falling in the next 3-6 months, compared with 30% that see it rising.

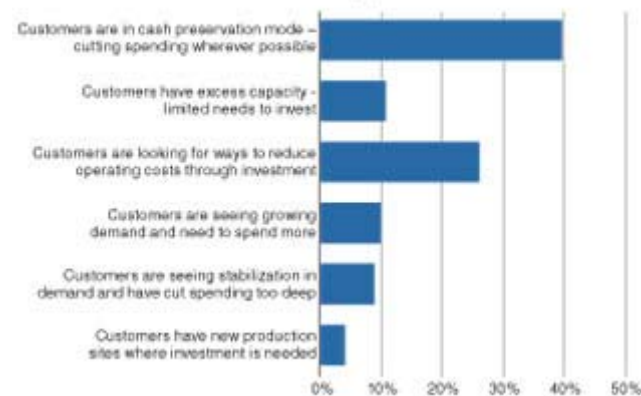
Buyers are more bullish on pricing than sellers. Twenty-three percent cite a more competitive bidding environment (bigger spread between high and low bidders) compared with 32% of sellers.

Seventy-seven percent of buyers indicate that pricing is rational, driven by inflation, or supported by brand/product differentiation.

Increased input costs and price increases due to inflation are seen as key reasons why pricing could rise. On the other hand, price competition among existing suppliers was cited as key reason why it should fall. New entrants to the market are not

Demand environment

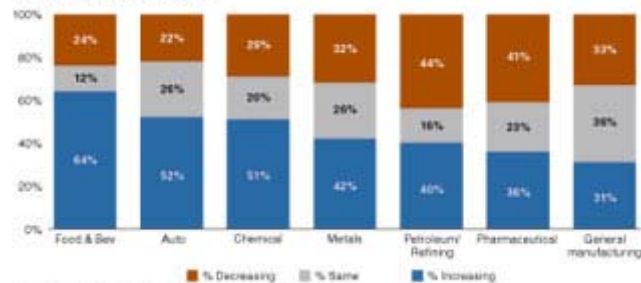
Sellers' view of the market for automation equipment



Sellers are split regarding their customers' outlook; 51% say that customers are still in cash-preservation mode or have limited needs to invest due to demand or cost efficiencies.

Automation demand outlook

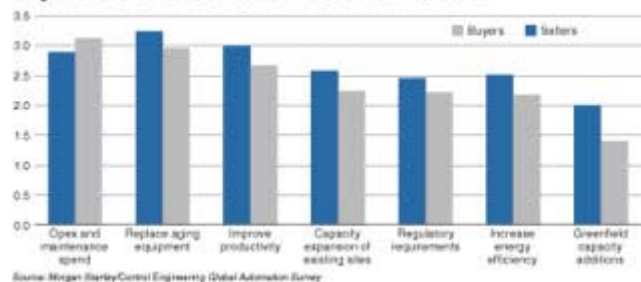
Near- to mid-term spending outlook



Source: Morgan Stanley Control Engineering Global Automation Survey

Buyers within food & beverages, autos, and chemicals are most bullish on the 12-month spending outlook. General manufacturing and pharma are least optimistic.

Key drivers of investment in near- to mid-term



Source: Morgan Stanley Control Engineering Global Automation Survey

Maintenance and replacement are viewed as key drivers of investment. Near-term buyers cite opex and maintenance requirements as a key area of spending allocation, followed by replacing aging equipment and improving productivity.

seen as a material factor in pricing.

Competitive dynamics

Given that the automation market is beginning to look up in terms of potential activity, what other factors are likely to influence how and what manufacturers are looking for when it comes to automation purchases?

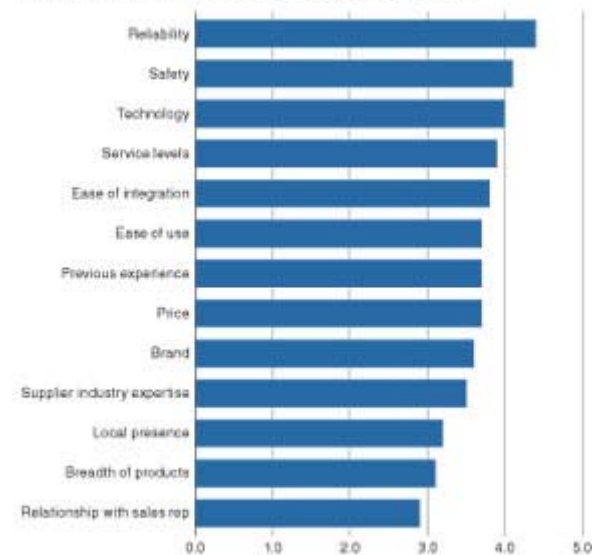
Responses to the survey point to:

Loyalty to suppliers. Only 17% of buyers are very or somewhat likely to switch from their current supplier; 56% are somewhat or very unlikely to switch.

Least likely reasons for spending in the near term: greenfield capacity additions and energy efficiency.

Buyers rank reliability, safety, and technology as being of highest importance in selecting a supplier.

Buyer criteria for selecting products



Source: Morgan Stanley/Control Engineering Global Automation Survey

Methodology

Buyers rank reliability, safety, and technology as being of highest importance. Price ranks eighth out of 13 categories.

Methodology

The survey was conducted from September 15-30, 2009, administered via an online survey tool to the target audience. The sample consisted of 1,049 automation professionals, including 416 working at companies that purchase automation equipment and 633 at companies that manufacture or install automation equipment. Participation in the survey was on a voluntary basis and responses were treated as non-attributable. The survey was sent out to print and online subscribers to **Control Engineering** readers in North America, Europe, Latin America, Asia, and the Middle East.

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