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ASSOCIATIONS

AREI - South Africa

Association of Representatives for Electronics Industry

ASPEC - Russia

Association of Suppliers of Electronic Components

ASSODEL - Italy

Associazione Nazionale Fornitori Elettronica

CEDA - China

China Electronics Distributor Alliance

ECAANZ - Australia

Electronic Components Association Australia and New Zealand

ECIA - United States

Electronic Components Industry Association

ECSN - United Kingdom

Electronic Components Supply Network

ELCINA - India

Electronic Industries Association of India

FBDI - Germany

Fachverband der Bauelemente Distribution

FEDELEC - Tunisia

Tunisian Federation of Electric and Electronic Industries

SE - Sweden

The Swedish Electronics Trade Associations

SPDEI - France

Syndicat Professionnel de la Distribution en Electronique Industrielle

Difficult times test us

by **Ivan Pokrovsky**
Executive Director
ASPEC



It is very difficult to predict what will happen with the **Russian market** for electronic components in 2015. We saw stagnation of the market over the last four years (see Figure 1). It correlates with past trends of Russian economics.

A new reality began in the second half of 2014. In the third quarter, Russia was faced with sanctions and ruble devaluation. Russian manufacturers tried to increase their stocks to reduce the risk of further ruble devaluation and further sanctions. The sales of electronic components jumped up as we see in the Figure 1.

However, the price for oil dropped from 100 to 50 dollars a barrel in the fourth quarter.

The IDEA Newsletter is the only quarterly publication in the world that highlights, from an electronic component supply chain perspective, what is happening in virtually all of the major world markets.

When ruble devaluation accelerated Russian large exporters and banks prefer to play in the currency market than invest in the real economics.

Through this Russian ruble was devalued by two times during 3 month (see Figure 2).

Some projects in electronics field were frozen before stabilization. Russian distributors continued some deliveries with losses for themselves to support the most important customers.

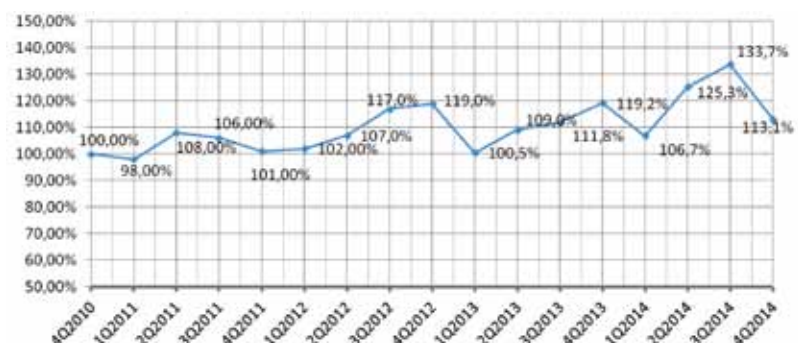
Distributors canceled or strongly limited credit for equipment manufacturers. At the end of 2014 Russian Central Bank increased the refinancing rate to 17%. They wanted to limit speculation in the currency market, but they closed access to credits for real economics at the same time.

“ In Q3 2014 Russia was faced with sanctions and ruble devaluation ”

In January 2015, the Russian government edited their state budget and their forecasts for current year. State budget expenses 2015 will be 3% higher than 2014 in rubles. It is significant that the electronics industry budget was increased by **15-20%**. The Government has forecasted a reduction of GDP by 3-5% in 2015, reduction of investments by 10-15% and a reduction of consumers demand by **7-8%**. What does this mean for Russian electronics industry? It means an increasing production volume for state orders. The share of imported components in the cost of infrastructure systems and defense equipment

QUARTERLY MONITORING OF RUSSIAN DISTRIBUTORS SALES

Graphic 1



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is about 5-10%. As a result, the growth in the cost of these systems due to ruble devaluation will be about 5%. It will be compensated by a growth of budget expenses. In addition, we can expect import replacement in all state purchasing. The market of corporate orders will drop by 10-15% or a little bit more. The share of imported components in the cost of IT systems and industrial electronics is about **20-30%**. We can't predict which factor will win here - the reduction due to demand's drop or the growth due to import replacement.

“ We are likely to see growth of demand for Russian equipment in countries that don't depend on the US ”

The same issue affects segments of the electronics industry that are dependent on consumer demand such as automotive electronics and multimedia.

We can expect a positive trend in the export of Russian electronics. There are several drivers for the export growth. The main is a cost advantages which is related to the devaluation of the ruble. The next is motivation to compensate for the lag of demand in the domestic market. Third is growth of demand for Russian equipment in countries that don't want to depend on the US. *Figure 3* shows finance sources for Russian electronics industry and components market.

It shows that **45%** of the Russian electronics industry depends on state expenses. This segment is likely to grow to 10% in 2015. The segments of **corporate systems** and **consumer goods** are likely to change from -15% to +15%. It will be -15% if we are faced with cash lags and it could be +15 if Russian manufacturers get finances for import replacement programs. The government has developed an anti-crisis plan to help industry: it includes a significant increase in prepayments for state orders and compensation for additional credit expenses for local manufacturers.

Export could grow by **5-15%**, it will depend on the inertia of supply channels. So the Russian electronic components market could go down in 2015 by a few percent. And it could grow by about 10% in the best case.

My thoughts about the Russian market mean nothing if we see an expansion of the war. Russia is in a dangerous conflict with the West - eye for eye, sanctions for sanctions, dirty lie for dirty lie. The impact is becoming more and more destructive. But there are people who need the war.

They are in Russia, they are in the West. They get power from our hate and fright. So if we do not hate others they will get nothing. If you feel hate - look who is provocateur and avoid them.

This difficult time tests us. I hope we will win with our values of cooperation and common development.

USD/RUBLE RATE

Graphic 2

