



Navigating Uncertainty

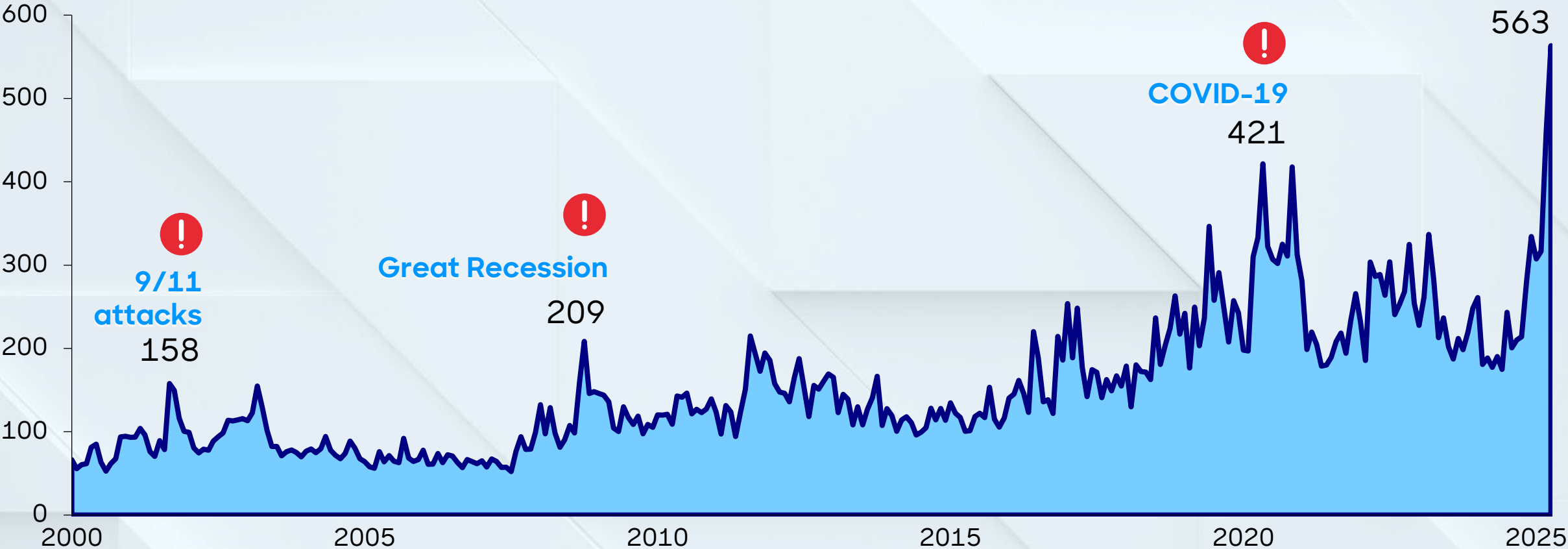
The geopolitical impact on manufacturing trends in 2025

June 27th, 2025 - Webinar

Roland
Berger

Economic policy uncertainty has steadily grown since the Great Recession and spiked in 2025 to the highest figure tracked in nearly 30 years

Global Economic Policy Uncertainty Index:
PPP-Adjusted GDP (as of June 3, 2025¹⁾)



1) Global Economic Policy Uncertainty Index is subject to retroactive data changes due to revision of underlying sources - See FRED for additional details

We surveyed a representative cross-section of manufacturing executives on six major trends shaping the manufacturing industry

We had extensive study participation



150+

Manufacturing executives



Conducted focus interviews with nearly
2 dozen industry leaders



Our study covered six key trends



GEOPOLITICAL RISK



CUSTOMIZATION



TALENT



LOCALIZATION



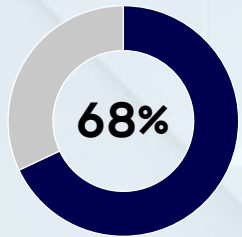
SUSTAINABILITY



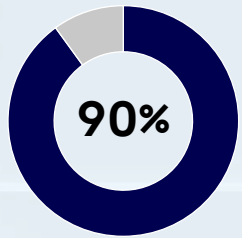
DIGITALIZATION

Geopolitical risks are greatly impacting the industry, shaping the strategic choices made by manufacturers

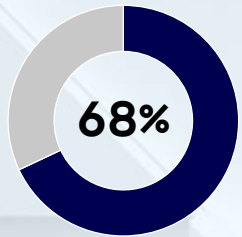
KEY TAKEAWAYS



...believe **geopolitical risk has a high impact** on the manufacturing industry



...agree that geopolitical risk **stalls strategic development**



...anticipate geopolitical risk to **slow down the industry's growth** in the next 5 years



Stalled investment

- Investments are slowing – while a December 2024 ISM¹⁾ panel expected 5.2% capex growth in 2025, a Spring 2025 report shows CEOs expect a 1.3% decline
- Shifting tariff policy drives a climate of uncertainty



Slowed industry growth

- Manufacturers worry that tariff-induced volatility will prompt a potential recession and demand slowdown
- Executives indicated Instability in demand makes long-term planning difficult and can slow manufacturing growth



Lowered earnings projections

- Tariff impacts are expected to be in the hundreds of millions of dollars for some large companies
- This threat has driven lower earnings projections by public companies anticipating worse than expected 2025 results

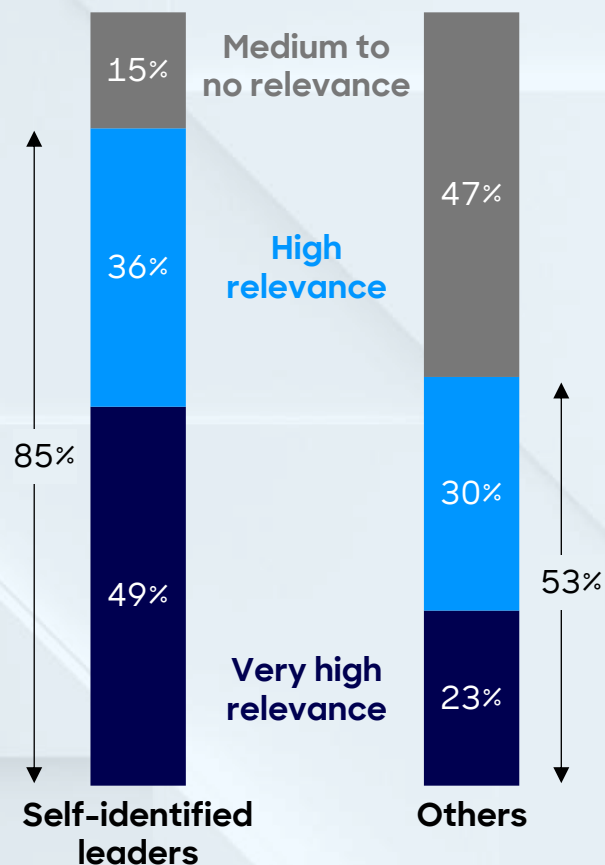


Just tell us what the end game is, and we'll adjust. The uncertainty and the fact that plans are changing every 30 minutes are just really difficult to manage.

- CEO for a construction and building materials company

Industry sentiment has shifted from low-cost plays to low-risk plays, where self-identified leaders are focused on localization of their manufacturing operations

Self-identified leaders placed high relevance on localization for manufacturing operations...



...US, UK and Japan ranked as most attractive countries for 2030 business footprints

	2025 survey rank		Δ to 2023
1	USA	↑	+13%
2	UK	↑	+38%
3	Japan	↑	+17%
4	Mexico	↓	-5%
5	Germany	↑	+12%
6	China	↓	-33%
7	Italy	↑	+21%
8	France	↑	+12%
9	India	↓	-20%
10	Brazil	↑	+5%

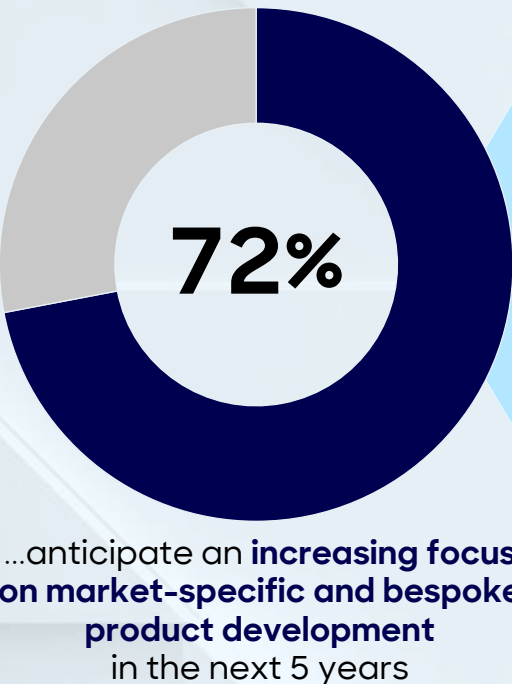
Development of country attractiveness

- Closeness to suppliers, trade agreements and economic / political climate are key characteristics of countries increasing in attractiveness
- Labor and cost characteristics were ranked lower in importance in 2025 compared to 2023
- The shift in location sentiment highlights that **manufacturers currently prize low-risk plays over low-cost plays**
- Methods of localization shifted from building plants to **capex-light strategies**, like repurposing facilities or sharing space with other manufacturers

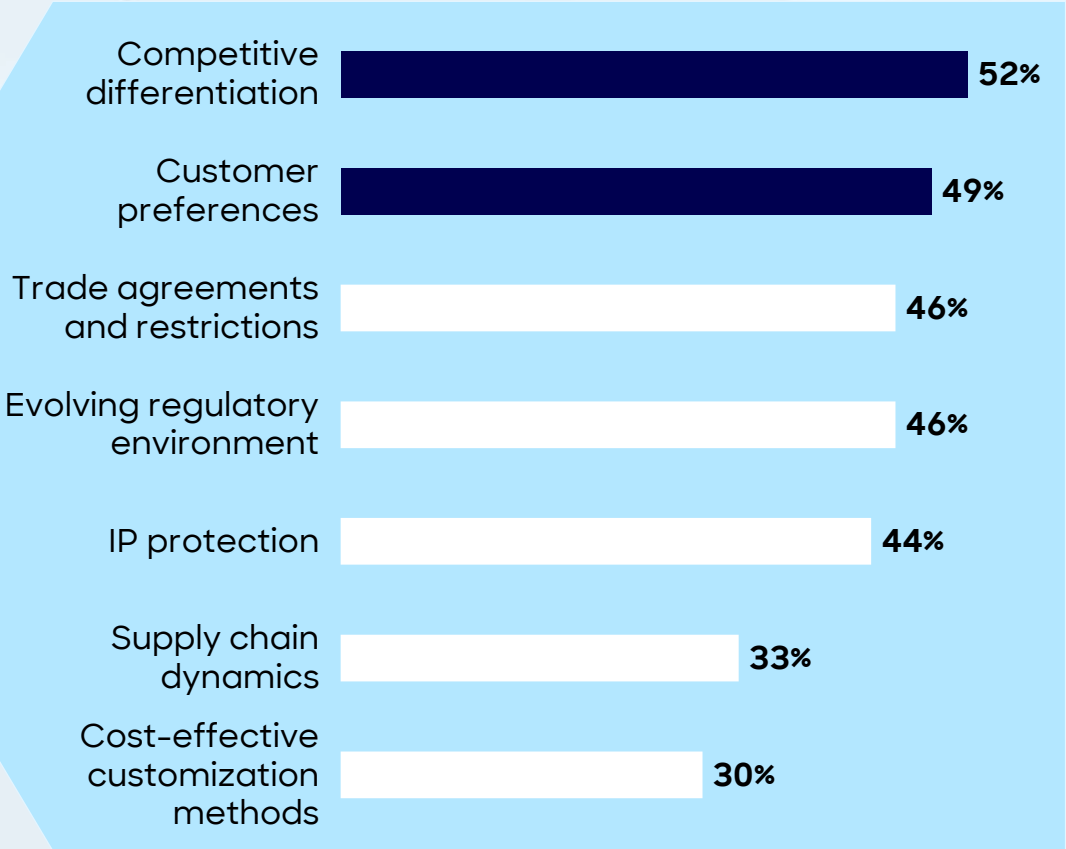
It seems to us that the best strategy is to try to be in a position where you can counter almost anything that comes along with either localized production or production in a country that is not affected.

- SVP Global Ops. for an industrials technology player

Customization is expected to enable cost-effective local market product differentiation



What were the top 3 factors that led your organization to increase its focus on customization?



Evolution of customization

- Most manufacturers **currently rely on standardized product platforms** to streamline manufacturing
- This situation is anticipated to shift with **72% of manufacturers expecting to focus more on customization**
- **Competitive differentiation** was cited at the top reason for pursuing customization – **Unique products** position companies to **gain market share** in a market saturated with standard products
- With digitalization and social media, **customer preferences** and insights are more **embedded** than ever in the **product development cycle**

1) Study participants were asked to consider 7 factors, in addition to those above, other factors included intellectual property protection, supply chain dynamics, and cost-effective customization methods

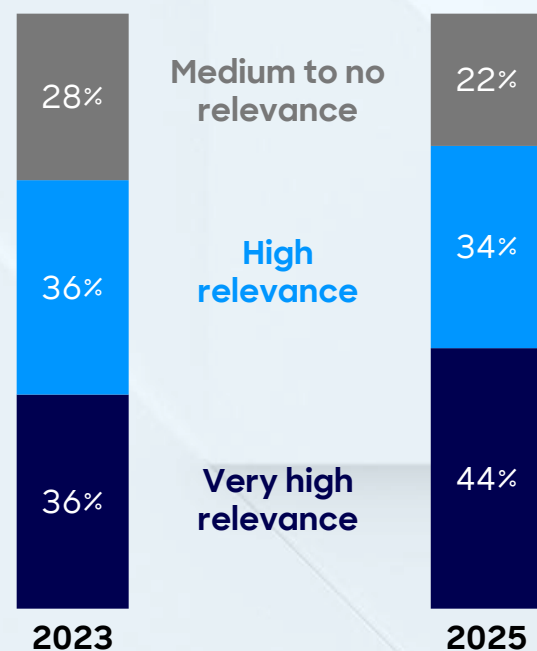
Despite the majority of manufacturers believing geopolitical risk will slow down sustainability, it will remain highly relevant across manufacturing industries

65%



...anticipate geopolitical risk to **slow down sustainable objectives and/or decrease sustainable investments** in the next 5 years

Sustainability will continue to be relevant for manufacturing operations and/or network



Sustainability is at the heart of what we do. The train has left the station. We're not changing that at all.

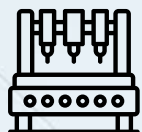
- Chief Strategy Officer for an HVAC manufacturer

Pace of sustainable technologies

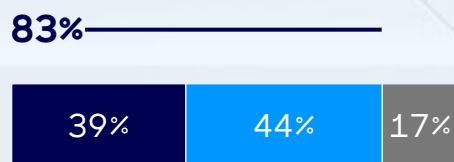
- Even as regulatory policies shift, **sustainability is a core part** of manufacturers' plans
- Although **sustainability is highly relevant** amongst manufacturers, future **investment in sustainability may be muted**
- In 2025, the EU and the US have relaxed rules around climate impact reporting due to concerns about competitiveness
- Despite anticipated slowing of investments in sustainability, **investments in technologies focused on materials and resource efficiency** (e.g., raw materials, heat, power, water use) are expected to continue

Manufacturers expect to use talent pool development and mitigation strategies, like automation and digitalization, in tandem to address geopolitical risk

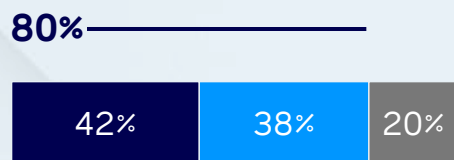
In the next five years, local manufacturing labor shortages will...



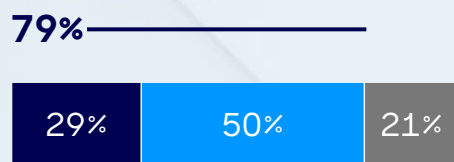
...be exacerbated by a persisting skills gap



...be exacerbated by increased demand from localization trends



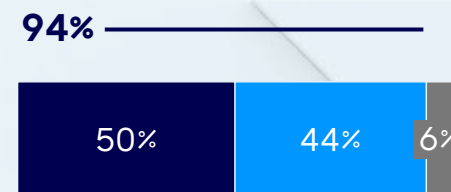
...be exacerbated by stricter domestic immigration policies



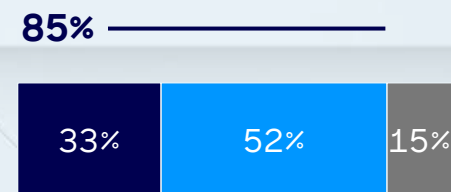
My organization will address labor shortage concerns by...



...focusing on talent pool development



...focusing on automation and digitalization



Talent pool concerns

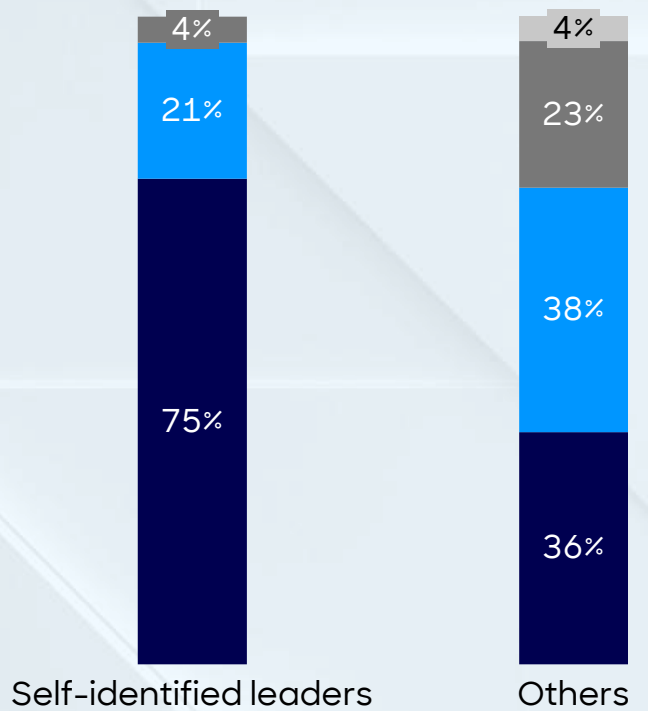
- Across all three areas, **~80% of survey respondents agreed labor shortages will be exacerbated** by key trends
- **85% of surveyed executives expect to leverage automation** in response to talent shortages, a vast majority
- As localization pushes manufacturers towards **producing in the U.S. and other higher-cost countries, talent pools may be even more difficult to fill**
- Most manufacturers see this **shift in production location as a barrier**, with many **worried about immigration restrictions** impacting talent availability

This is going to be a huge problem with everyone trying to put factories up and fighting for the exact same people in business-friendly states.

- CEO of a manufacturing conglomerate

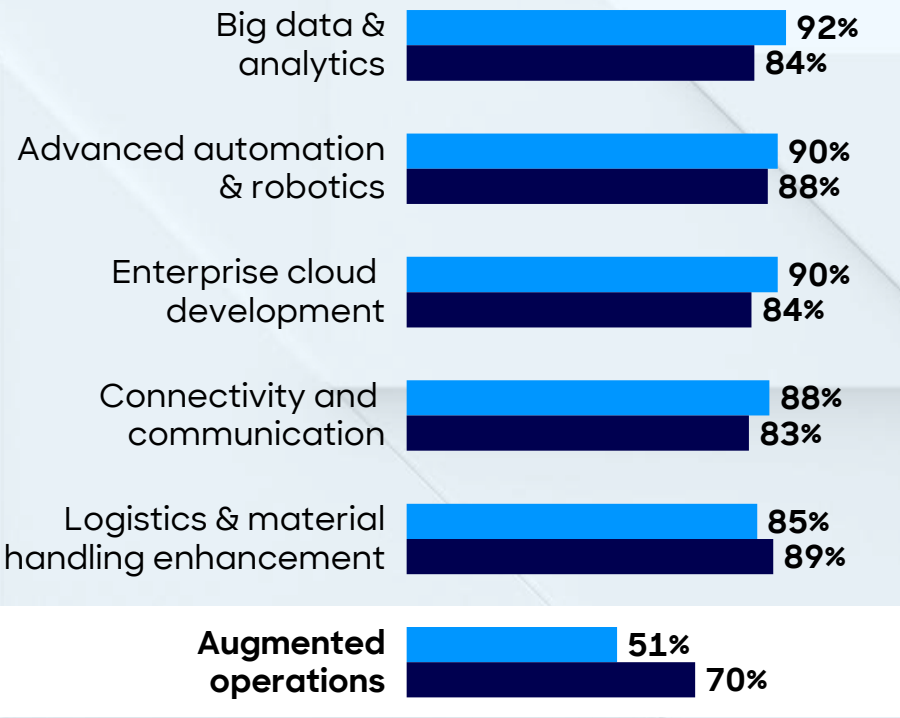
Manufacturers expressed a drive to embrace digitalization – Augmented operations showed the highest growth in importance compared to 2023

Self-identified leaders will increasingly look to digitalization strategies to mitigate geopolitical challenges...



Strongly motivated
Somewhat motivated
Moderately motivated
Don't know

...Augmented operations showed the largest increase in importances within organizations

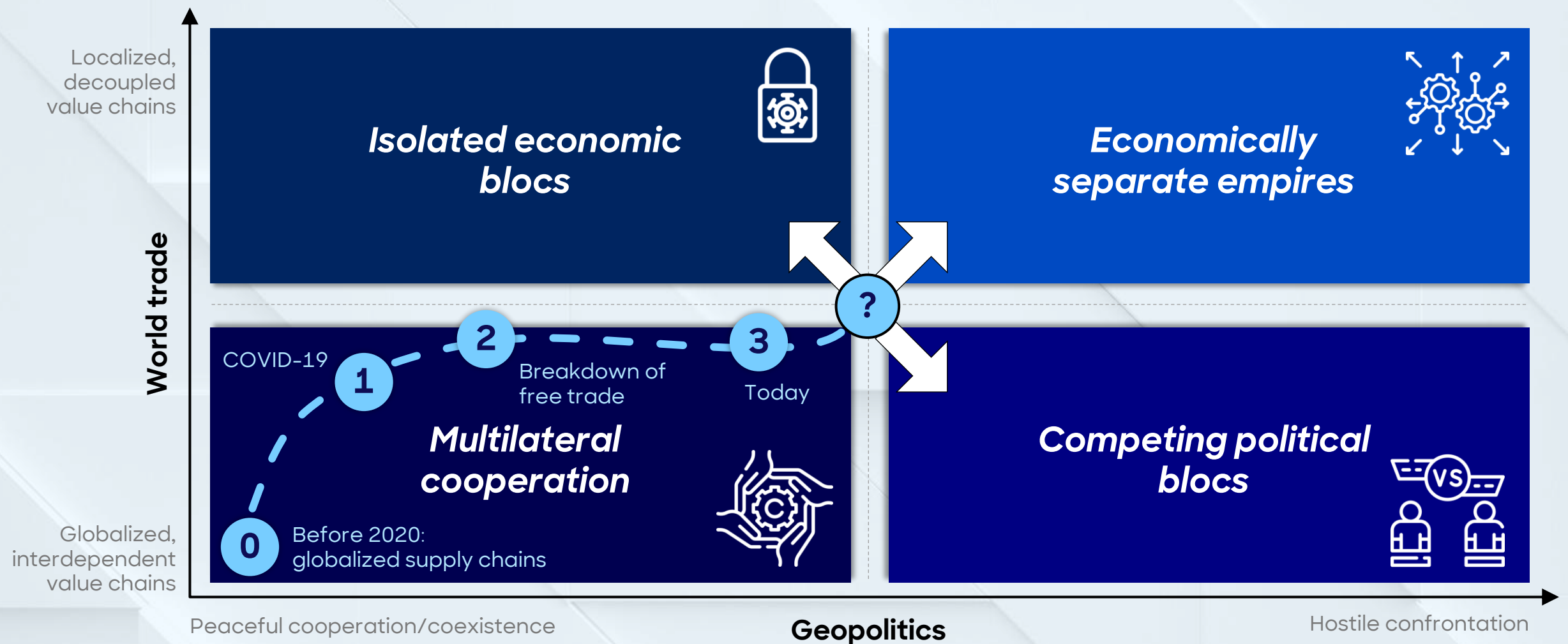


2023
2025

Digitalization tool kit

- Almost all survey respondents say that **geopolitical risk will have a medium or high impact on digitalization strategy**
- **Self-identified leaders** in manufacturing are much **more than twice as likely** to say they are motivated to **mitigate geopolitical challenges**
- **Augmented operations** show the highest growth in importance due to the shift towards **capex-light approaches** and advancements in technology and affordability creating stronger **ROI opportunities**
- **Productivity gains** through digitalization and AI can **absorb some of the high US labor costs**

We are headed towards an uncertain future



What, where, and how firms manufacture will shape competitiveness in the face of geopolitical uncertainty



WHAT
do you make?

**Building flexibility into
your product portfolio
and capacity**



WHERE
do you make it?

**Aligning production
and demand**



HOW
do you make it?

**Balancing people and
technology**

Companies must build agility and resilience without losing sight of their North Star

