



*Edition # 4 – DATA DIGEST is CLEPA's monthly publication shedding light on the health and resilience of the European automotive supply industry through latest facts and figures*

## What you will find in this edition

- 1 – Automotive suppliers concentrate of cost-cutting measures
- 2 – Recent survey shows 76% of suppliers see long-term opportunities to regain profitability
- 3 – 80% of surveyed suppliers are committed to keeping plants open
- 4 – 80% are committed to reskilling significant parts of their workforce
- 5 – Materials supply chain could remain bottleneck despite strong investments

# Electrification reshaping the automotive supply industry

## Suppliers stay committed to EU's industrial transformation despite significant challenges

Automotive suppliers' business sentiment reached an all-time low in the CLEPA McKinsey [September 2022 Pulse Check](#). 70% of suppliers saw their profitability drop to levels that could already start undermining their ability to invest in R&D, the workforce and new business activities. Three consecutive years of crisis have eroded the financial health of around one in two suppliers. Despite recent declines, gas prices in the EU remain five times higher than in North America. There are first signs of automotive investment flows shifting toward the US, with US destined foreign direct investment into enabling technologies tripling in the first nine months of 2022. Nevertheless, the supply industry holds strong in its commitment to delivering safer, smarter and more sustainable mobility solutions.

This edition of the Data Digest looks at how the industry is investing in long-term economic prospects that are already reshaping the sector.

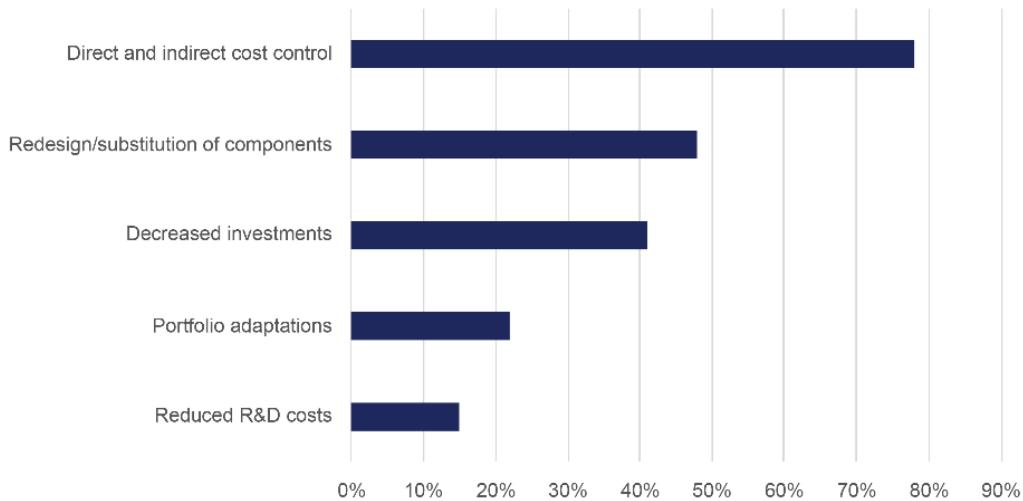
“Despite a perfect economic storm, the transformation of our industry continues. Suppliers are investing in reskilling, plants and R&D but uncertainties in raw materials supply and cost remain a challenge. How we contain those costs and secure supplies will determine the extent to which investments in the transformation will pay off in the years ahead.”

Nils Poel, CLEPA's Senior Manager Trade & Market Affairs  
Data Digest | Edition #4

## 1 - Automotive suppliers concentrate on cost-cutting measures

Automotive suppliers concentrate on cost control measures and the redesign and substitution of components in their efforts to regain or improve profitability. With one in four suppliers expecting to record an operational loss and 70% expecting profitability below healthy levels, the success of these measures will increasingly determine the sector's ability to maintain investments. 40% of suppliers indicated reducing investments and 15% would see a need to cut R&D investments, highlighting the degree to which pressure is building. McKinsey estimates that around 25% of the cost reductions to compensate for inflation could come from cost control measures (e.g. curb material cost development) and around 20% from operational efficiency improvement, but a significant part of compensation should also come from renegotiating the terms and conditions with vehicle manufacturers.

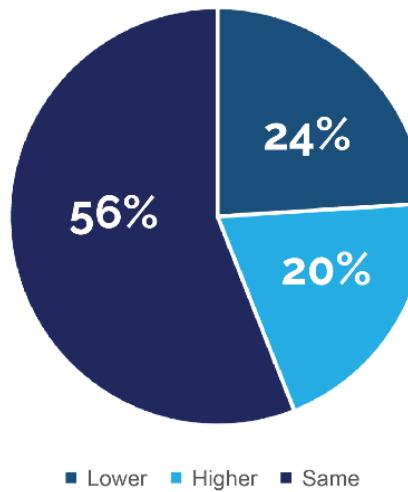
Figure 1  
**Cost reduction measures taken by suppliers**  
Source: CLEPA McKinsey Pulse Check, September-October '22



## 2 - Recent survey shows 76% of suppliers see long-term opportunities to regain profitability

E-mobility is responsible for around one-third of the €30 billion in R&D invested annually by suppliers. The sector's return to profitability will therefore be largely decided by the success of cost reduction in the electric vehicle (EV) domain. 56% of suppliers expect that their EV components could be as profitable as their internal combustion engine (ICE) components and 20% expect an even higher profitability. Nevertheless, 24% of suppliers expect that profitability could fall, highlighting how the transformation is going to impact the sector in an unbalanced way.

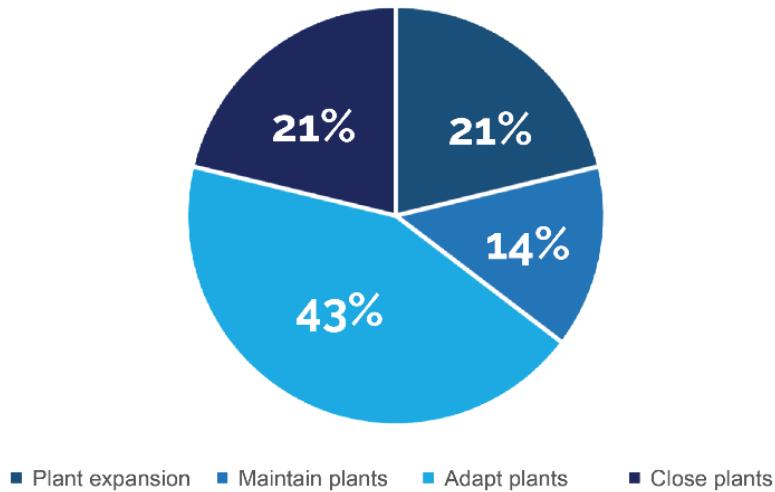
Figure 2  
**EV profitability vs. ICE**  
Source: CLEPA McKinsey Pulse Check, September-October '22



### 3 – 80% of surveyed suppliers are committed to keeping plants open

Electrification, digitalisation and lower growth expectations draw existing plants and production capacity into question. Nevertheless, 79% of suppliers intend to maintain, adapt or even grow their current network of plants, while 21% of suppliers fear significant overcapacities and see a need for restructuring. 43% see overcapacities for certain parts of their product portfolios but expect that new activities will be able to compensate for lost business, and 21% even see a need to build new plants.

Figure 3  
**Restructuring needs for automotive plants**  
Source: CLEPA McKinsey Pulse Check, September-October '22



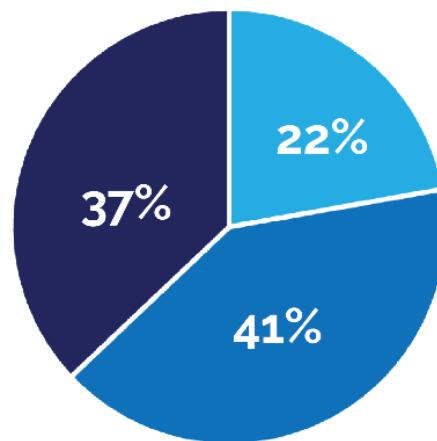
## 4 - 80% are committed to reskilling significant parts of their workforce

Suppliers are focused on reskilling workers with 37% saying that this transformation is well underway and another 40% indicating plans for reskilling measures. No suppliers indicated that this transformation is yet complete, and only one in five suppliers indicate to either have no plans or no need to reskill significant parts of their workforce. Reskilling workers will not be enough to meet future skills needs. Smaller and midsized suppliers will also lack the resources to fully cover for reskilling needs. CLEPA, therefore, calls policymakers to support a sectoral Skills Pact for the automotive sector, to facilitate up- and re-skilling of the labour force with concrete measure and financing mechanisms.

Despite reskilling efforts, independent research conducted for CLEPA suggests that jobs in the electric vehicle domain will not be able to compensate for all the 500k jobs at risk in the combustion engine domain, highlighting the need for resources to mitigate the social impact of the transition through, for instance, the Just Transition Fund.

Figure 4  
**Reskilling efforts by suppliers**

Source: CLEPA McKinsey Pulse Check, September-October '22



- No, we do not consider reskilling significant part of our workforce
- Yes, we plan on reskilling significant share of our workforce
- Yes, we are in the midst of reskilling a significant share of our workforce
- Yes, we finalised reskilling efforts for a significant share of our workforce

## 5 – Materials supply chain could remain bottleneck despite strong investments

EU-headquartered firms play a leading role in the green and digital transition of the automotive supply industry, being responsible for around 30-40% of foreign direct investment (FDI) into enabling technologies. Investments into the EU are focused on the construction of new manufacturing and R&D sites dedicated to electrification. FDI related to electrification averaged €9.3 billion per year between 2018 and the first half of 2022, significantly higher than the €165 million of FDI in autonomous driving.

The EU's relative share in global e-mobility investments for this year continued on a falling trend, dropping from 38% in 2021 to 37% in 2022. Electrification is gathering pace in the United States, while attention in the EU is shifting from the initial investment phase to bringing battery projects up and running. The EU's relative share in autonomous driving technologies has been volatile and hovering around 20% between 2018 and 2022.



Figure 5  
**FDI in autonomous technologies**  
Source: FDI Markets, CLEPA analysis

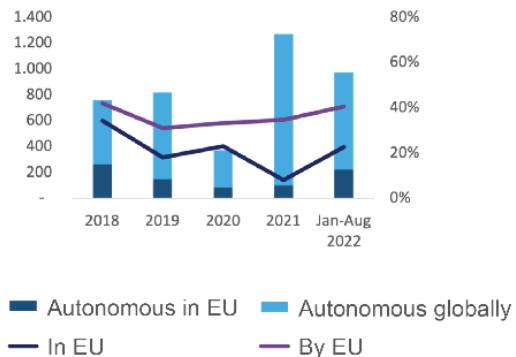
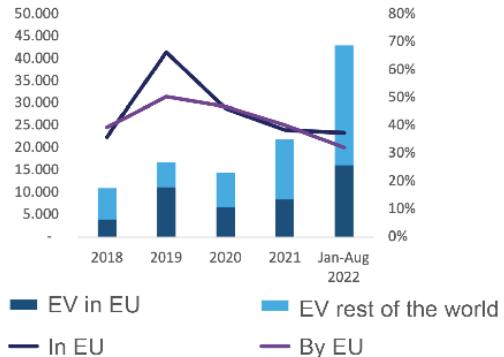


Figure 6  
**FDI in electrification**  
Source: FDI Markets, CLEPA analysis



Investments into manufacturing and R&D facilities for the production of battery and battery components is not currently matched by investments in battery materials, despite a significant increase in activity compared to 2019 and 2020. Globally, €5.2 billion was invested in the development of a battery material supply chain, against €36.5 billion in the assembly of components and battery cells and batteries.

The EU attracts a fair share of investment in the upper echelons of the battery supply chain. Around 7% of the world's cell manufacturing capacity [is currently in the EU](#) and this could grow to around 25%, if current investments bear fruit. EU start-ups and entries by vehicle manufacturers may result in EU technology leadership in this area, but these companies will have to compete with established Korean and Chinese players. Investments in an EU battery material supply chain continue to stagnate and the sector continues to be in the hand of non-EU headquartered players. Except for the processing of cobalt, [where the EU controls 20% of the world's capacity](#), the EU's share in cell components (e.g. anodes and cathodes), material processing and mining is well below 1% in all relevant areas of activity.



Figure 7  
**FDI in battery assembly and components**  
 Source: FDI Markets, CLEPA analysis

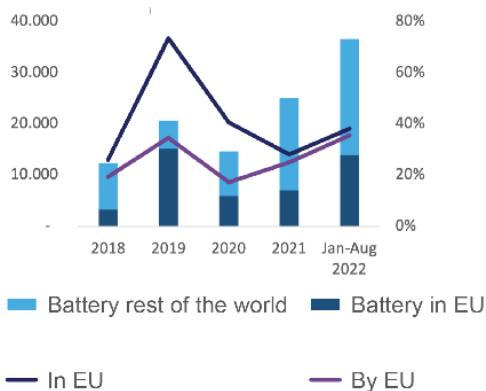
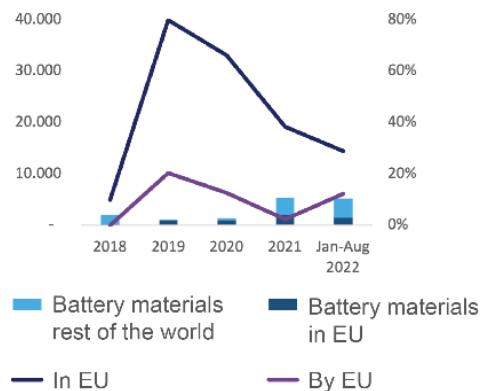


Figure 8  
**FDI in battery materials**  
 Source: FDI Markets, CLEPA analysis



**"Despite a perfect economic storm, the transformation of our industry continues. Suppliers are investing in reskilling, plants and R&D but uncertainties in raw materials supply and cost remain a challenge. How we contain those costs and secure supplies will determine the extent to which investments in the transformation will pay off in the years ahead."**



Benjamin Krieger, CLEPA's Secretary General  
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