Edition 7 – 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

Job growth slows to record lows since pandemic shutdown

Economic waning signs emerge as falling profitability, investment and trade balance deterioration threaten transformation

What you will find in this edition

1 – Three in four suppliers currently insufficiently profitable

2 – Foreign direct investment declining

3 – Trade balance of components under pressure

4 – Job creation slows down to pandemic levels

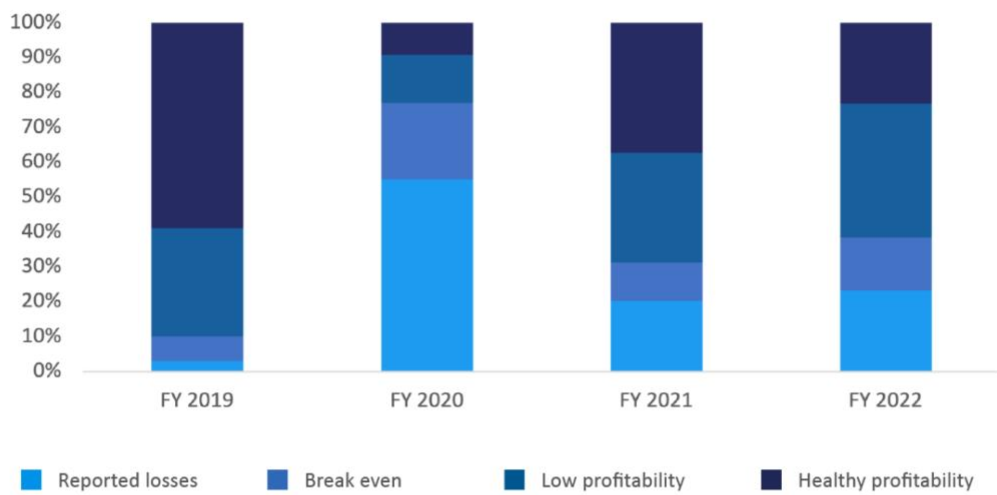
The year 2022 proved to be a difficult one for the automotive supply industry, with mounting cost pressures eroding revenue gains. Therefore, suppressed profitability remains a challenge. The share of suppliers recording healthy profitability continues to be below pre-COVID levels, undermining long-term abilities to invest.

Although investment announcements in the battery supply chain suggest that the sector remains competitive and attractive, recent reports indicate that some of these investments are now being reconsidered. This, coupled with decreasing Foreign Direct Investment (FDI) in non-battery components, serves as a warning sign. A deteriorating trade balance and a slowdown in job creation highlight the need for an industrial strategy and policy framework that bolsters the competitiveness of the EU.

1 - Electrification to lead vehicle production growth

Market forecasts by LMC Automotive suggest another strong year of double-digit production growth of battery electric vehicles (+43%), mild hybrid electric vehicles (+45%) and plug-in hybrid electric vehicles (+25%) across the EU. The mobility transition is approaching a tipping point where 1 in every 2 vehicles is electrified, when accounting for mild and full hybrid EVs. The car and light-duty vehicle segment is expected to increase by 5-8%, but still likely to remain 17% below pre-pandemic production levels.

Figure 1
Automotive supply profitability radar
Source: McKinsey CLEPA Pulse Check & CLEPA analysis



CLEPA Data Digest #7 - April 2023

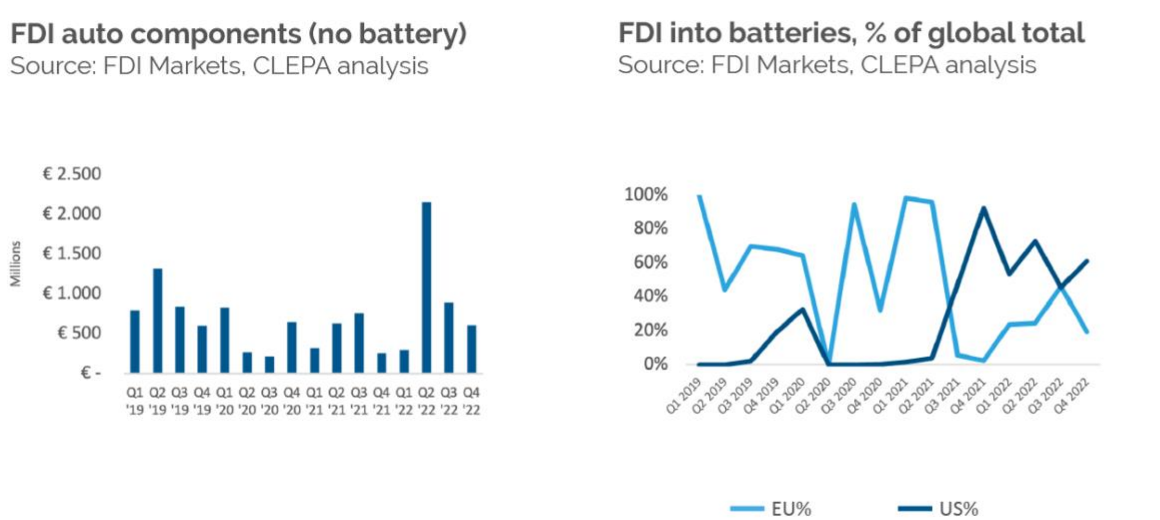
2 – Foreign direct investment declining

Foreign direct investment (FDI) in the automotive component industry, excluding batteries, fell for the second consecutive quarter in Q4. While FDI over the full year doubled to nearly €4 billion in 2022, the slowdown towards the end of the year underscores concerns about competitiveness.

Since the adoption of the Inflation Reduction Act, the US has attracted more than 50% of global battery investment, outperforming the EU in investment attractiveness since 2021. However, Chinese investors announced two major battery investments in the EU in the second half of 2022, worth around €8.4 billion.

It is worth noting that the FDI data below tracks investment intentions, and only a small proportion of investments announcements made since 2019 have been completed. [Analysis by T&E] suggests that two-thirds of the existing investments are at risk due to the IRA and high energy costs.

Figure 2



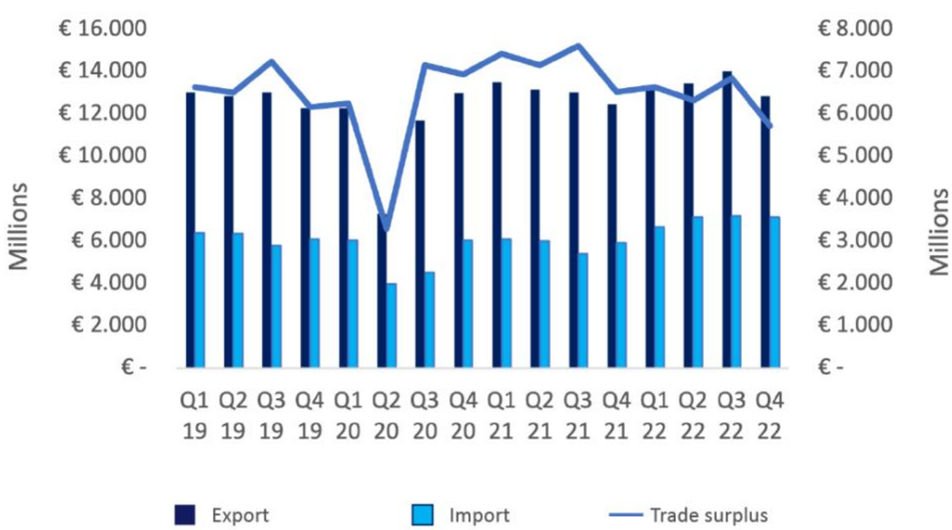
CLEPA Data Digest #7 - April 2023

3 – Trade balance of components under pressure

In 2022, automotive suppliers recorded a trade surplus of €25.7 billion, which is lower than the figures recorded in 2021 (€28.7 billion) and 2019 (€26.5 billion). The overall export of components increased by 3.4% over the year, totalling €53.9 billion. In contrast, imports in the EU rose by 20.4% over the entire year, reaching a value of €28.3 billion.

The trade relationship with China is the driving force of the deteriorating trade balance, with the EU importing 72% more components from China in 2022 than it did in 2019. Exports from the EU to China grew by a more moderate 10.3% over the same period. Over 2022, EU export of components was €4 billion higher than imports, down from €5.8 billion in 2019.

Figure 3
Export & import of automotive components
Source: S&P Global IHS GTA



CLEPA Data Digest #7 - April 2023

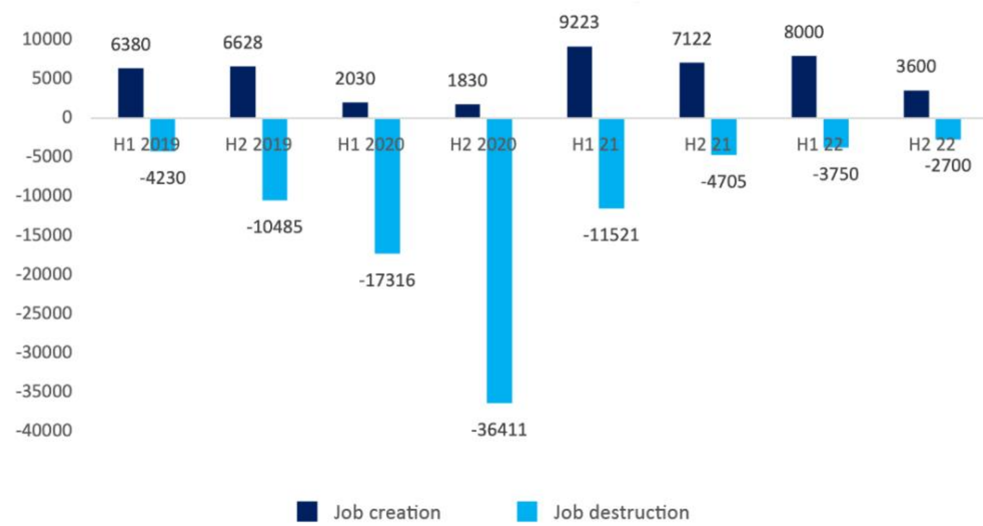
4 - Job creation down to pandemic levels

During the second half of 2023, automotive suppliers in the EU announced the creation of more than 3,600 jobs, while over 2,700 job cuts were reported. Unfortunately, job creation has slowed down significantly since the second half of 2020, which was the peak of the pandemic shutdown. Earlier research commissioned by CLEPA suggested that the period 2020-2025 would see a growth of around 100,000 jobs due to the scaling up of e-mobility component production. However, since 2020, 76,403 jobs have been lost and only 31,805 new jobs created, suggesting that the pandemic, along with the ongoing war and energy crisis, may exacerbate the social impact of the transition.

Figure 4

Automotive supply employment radar

Source: Eurofound, CLEPA analysis



CLEPA Data Digest #7 - April 2023

Are you interested in knowing more about it?

Contact CLEPA Communications Team at communications@clepa.be

CLEPA DATA DIGEST

Edition #7, April 2023