

Automotive suppliers cautiously optimistic despite continuing pressure on profit margins

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Media Statement McKinsey - CLEPA

- CLEPA and McKinsey's semi-annual survey shows nearly half of suppliers expect profits to remain low, with nearly one quarter expecting losses in 2023
- General outlook is more positive compared to 6 months ago; 35 percent of suppliers are optimistic about the future, while 35 percent remain concerned
- Business activities in China are both a strategic priority and challenge, with 45 percent of European suppliers involved from a moderate to great extent

Europe's automotive suppliers are regaining some of their optimism about the future, according to the latest Pulse Check survey conducted by CLEPA and McKinsey in February 2023. While almost half of the surveyed suppliers anticipate low profit margins, the general outlook is good, with 35 percent expecting positive market growth.

This indicates a significant shift in sentiment from the last survey conducted in the fall of 2022, when 70 percent of suppliers had a pessimistic outlook. This mood change is mainly due to the prospect of higher revenue, expected by two thirds of suppliers surveyed. At the same time, profits remain a source for concern, as nearly half (43 percent) of suppliers expect a low EBIT margin of just 1 to 5 percent with only one quarter expecting their profits to climb higher.

"Despite the overall improvement in sentiment compared to six months ago, the pressure on supplier profits remains a key concern for the industry," says Andreas Venus, Senior Partner at McKinsey. "After two difficult years, the mood in the industry is lifting a bit but it's too early to assume the risks have been completely overcome."

To address this, many suppliers remain focused on improving profits by exploring three levers: having manufacturers compensate added costs to the suppliers, monitoring direct and indirect costs even better, and adapting their product portfolios. Although many companies have managed to adjust their prices and enhance supply-chain resilience while also shifting towards e-mobility, there are still persistent concerns among industry players regarding the potential for a recession and an uncertain inflationary environment. However, an increasing number of suppliers are actively pursuing long-term challenges and are exploring new investment opportunities to foster future growth.

“The results of the Pulse Check affirm the automotive supply industry's dedication to investing in innovation,” states Benjamin Krieger, CLEPA Secretary General. “The shift in mobility and the transition towards green technologies present exciting prospects for automotive suppliers. However, the competitiveness of the EU as an investment destination and the accessibility and adequacy of capital to fund these investments remain significant concerns.”

Investment needs and access to skilled workers are a major strategic challenge. Despite profitability pressures, a minority of suppliers is looking to reduce investments (37 percent) or R&D expenses (18 percent). In terms of personnel acquisition, engineers remain the most sought-after group – 76 percent of suppliers say that finding and hiring these employees has become more difficult in the last five years. Demand is also still high for software developers (38 percent) and sourcing experts (35 percent).

The importance of establishing and expanding business relationships with customers in the Chinese market continues to increase, adding an additional layer of complexity and opportunity for automotive suppliers. Doing business in China is a top strategic priority for suppliers, with 45 percent involved from a moderate to great extent, and accounting for around 10 percent of business revenue. If supply chains are considered, two thirds of companies are highly dependent on China. However, just under 40 percent of suppliers have taken concrete steps to manage the potential risks of doing business in the country.

About CLEPA

CLEPA represents over 3,000 companies supplying state-of-the-art components and innovative technology for safe, smart and sustainable mobility, investing over €30 billion yearly in research and development. Automotive suppliers directly employ about 1.7 million people in Europe.

Filipa Rio, +32 478 97 0007

Email: f.rio@clepa.be

<http://www.clepa.eu/www.clepa.eu>

About McKinsey

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Martin Hattrup-Silberberg, +49 211 136-4516

Email: martin_hattrup-silberberg@mckinsey.com

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