Edition #14 – 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

EU suppliers' trade surplus under growing pressure

Limited investment capabilities and production costs could derail sector's status as global automotive production hub

The European automotive supply industry closed 2023 with continued low profitability. Many companies struggle with profit margins below 5%, a critical threshold for securing sustainable investment and maintaining European competitiveness in a changing market.

Despite these challenges, EU suppliers managed to grow their global trade surplus in conventional vehicle components, as imports from China into the EU fell for the first time in four years. Additionally, EU suppliers increased exports to the US and UK. However, a decline in EU exports to China resulted in the trade surplus with China more than halving over the same period.

European automotive suppliers face increasing competitive pressure in China, the world's largest market. Many EU suppliers find themselves outcompeted on price and have limited access to local OEMs. Nonetheless, a few EU suppliers have secured strong order books with Chinese OEMs, demonstrating that European companies can still succeed in China. If the EU manages to shore up competitiveness and address funding concerns, EU suppliers may have a chance to defend the sector's trade surplus in the years to come.

What you will find in this edition

1 – **Low profitability continues to undermine investment capabilities**

2 – **EU imports (slightly) less components from China**

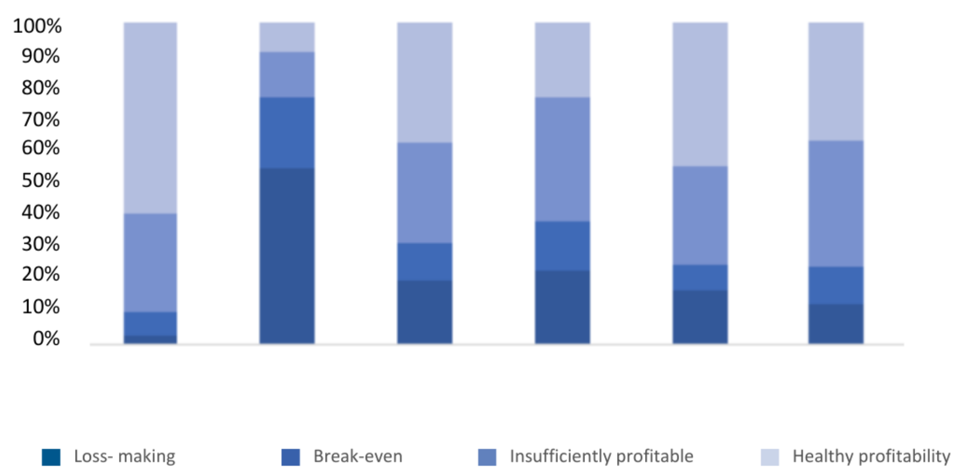
3 – **But the bilateral trade surplus continues to deteriorate**

4 – **Competition in the world's biggest market is fierce**

1- Low profitability continues to undermine investment capabilities

Three years after the pandemic, profitability remains a significant challenge for automotive suppliers. A bi-annual survey conducted by CLEPA and McKinsey reports that only 37% of suppliers expect healthy profits this year, a notable decrease from 59% in 2019. Additionally, 65% of companies are operating below the crucial 5% profitability threshold needed for sustainable investment in the industry's transition. Alarmingly, 25% of respondents report profits below 1% or even negative profitability. Despite these pressures, there is a gradual reduction in the number of companies recording losses, underscoring the sector's resiliency and adaptability.

Figure 1
Automotive supply industry profitability radar
CLEPA Mckinsey Pulse Check :



CLEPA Data Digest #14 - May 2024

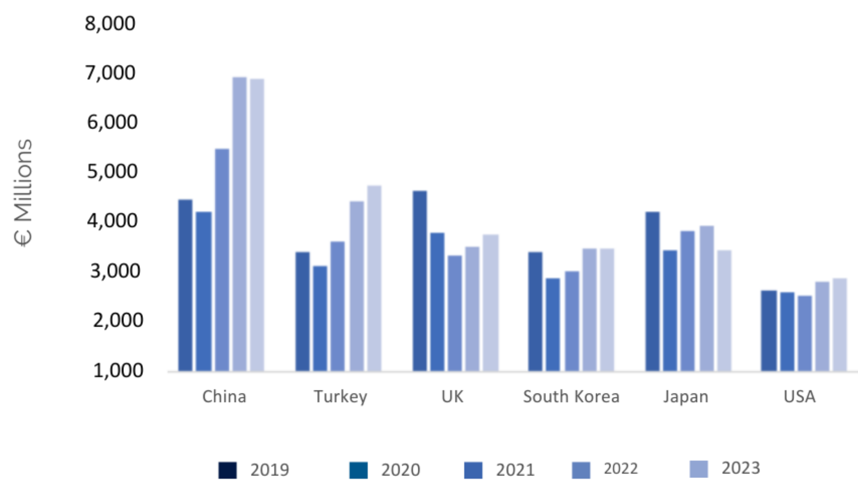
2- EU imports (slightly) less components from China

For the first time in four years, imports from China have decreased, with a slight decline of 0.57%. This marks a break in the trend of increasing dependency that began in 2020.

After two years of strong imports into the EU, 2023 witnessed a notable shift. Overall, there is a downturn in imports into the EU, with only a 3% increase compared to the notable 17% observed in 2022.

Since 2020, the EU has been importing more from Turkey, which is now the second-largest source of imports. Furthermore, the EU's imports from the UK seem to have recovered somewhat from Brexit, though they remain significantly below the levels recorded in 2019.

Figure 2
Imports of auto parts into the EU
S&P Global Trade Atlas:, CLEPA analysis



CLEPA Data Digest #14 - May 2024

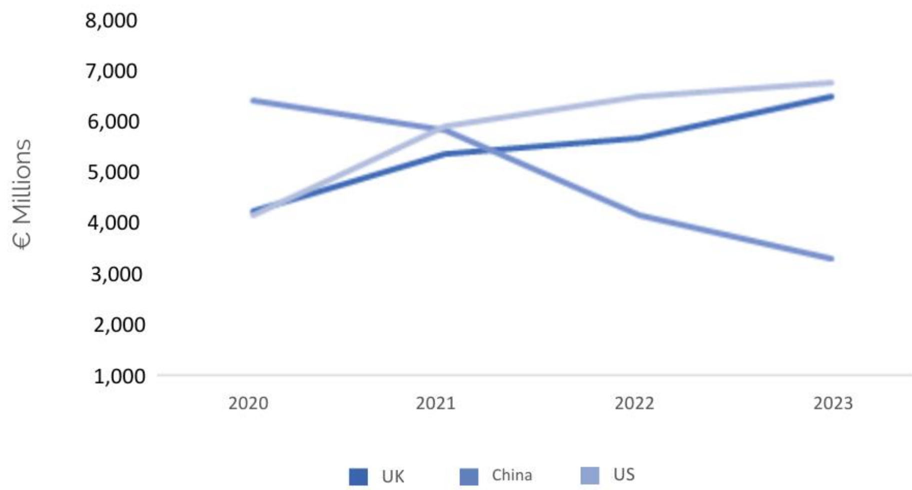
3 – But the bilateral trade surplus continues to deteriorate

The EU's trade surplus with China has decreased significantly since 2020, dropping from just under €7 billion to €3 billion in only three years. The trade surplus may already have turned into a deficit, if we include trade in battery cells.

In contrast, the trade surplus with the UK and the US has increased, partially compensating for the diminishing surplus with China. Automotive suppliers continue to make a positive contribution to the overall European trade surplus, which totalled €26.6 billion in 2023.

Despite this positive contribution, the decreasing trade surplus with China is concerning, raising questions about how long the EU can maintain a positive trade balance with such a crucial trading partner. It is essential for policymakers to address these challenges to safeguard the long-term health of the EU's trade relationships.

Figure 3
EU trade surplus in auto parts
S&P Global Trade Atlas:, CLEPA analysis



CLEPA Data Digest #14 - May 2024

"EU suppliers contributed nearly 27 billion to the EU's trade surplus over 2023, but it's unclear how long the sector can compensate for the EU's deficit in competitiveness. The EU must address the funding gap and reduce the administrative burden, strengthen the single market, and ensure affordable, reliable energy to help suppliers thrive globally."

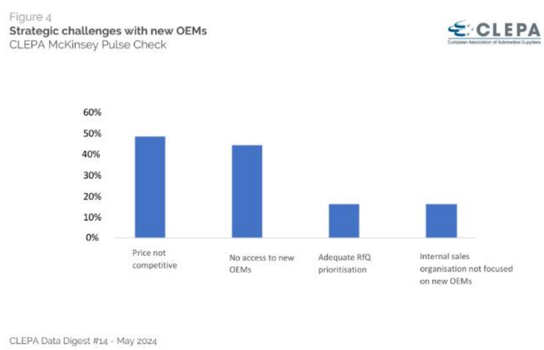
Benjamin Krieger, CLEPA's Secretary General
CLEPA Data Digest #14 | May 2024

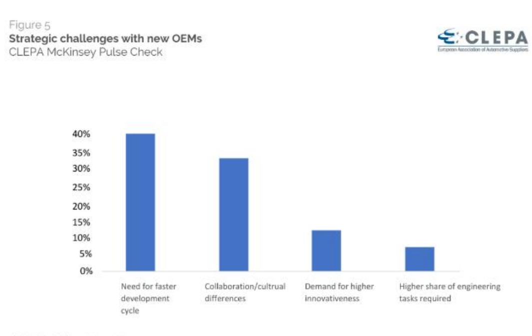
4 – Competition in the world's biggest market is fierce

As the world's largest market, China continues to be a crucial arena to compete for EU suppliers. A small group of suppliers manages to do exactly that, securing orders from Chinese OEMs, with one supplier close to recording its first ever profit on EV component production in the country.

However, most European suppliers face significant challenges entering the Chinese market, both strategically and in terms of research and development. Nearly 50% of companies cannot compete on price with China, 44% lack access to new Chinese OEMs, and 40% have uncompetitive production cycles.

Nevertheless, China's leading role in mobility and its market size make it essential for European suppliers to achieve growth there. As highlighted in the CLEPA and McKinsey Pulse Check, 30% of European suppliers expect to increase their sales in China, underscoring the critical importance of overcoming these challenges.





About CLEPA

CLEPA, the European Association of Automotive Suppliers based in Brussels, represents over 3,000 companies, from multi-nationals to SMEs, 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 in Europe directly employ 1.7 million people in the EU.

Are you interested in knowing more?

Contact CLEPA Communications Team at communications@clepa.be

CLEPA DATA DIGEST

Edition #14, May 2024