Grim outlook for European automotive suppliers, as lower volumes suppress profitability

Brussels, 27 November 2024 – **The European automotive supply industry is grappling with unprecedented levels of uncertainty, as the latest industry survey reveals 60% of suppliers expect a decrease in revenues over the next 12 months. New insights from CLEPA and McKinsey's bi-annual survey, with input from 120 companies, shed light on the industry's business climate, key trends, and pressing challenges:**

- A prevailing sense of uncertainty leads to 64% of suppliers expressing a negative outlook, signalling a significant fall in overall industry sentiment
- 68% of suppliers expect profits to remain low, and approximately 38% expect to operate at break-even or face losses over the 2024 reporting year
- Demand reduction and decreasing EU competitiveness are seen as major concerns
- 65% of suppliers expect that the battery electric vehicle penetration rate will now stay below 50% for 2030

Uncertainty and profitability pressures

High levels of uncertainty surrounding new projects and electric vehicles (EV) demand in Europe, coupled with pressure from vehicle manufacturers (OEMs) to cut costs and concerns regarding EU competitiveness, are contributing to the deterioration of business sentiment in the sector. As a result of these challenges, profitability projections paint a bleak picture. 38% of suppliers now anticipate operating at marginal or negative profitability levels, compared to just 25% at the start of the year. Only 31% expect profitability above 5%, marking a downturn from earlier forecasts. Prospects for the fiscal year 2025 show little improvement.

Benjamin Krieger, CLEPA's Secretary General, underscores the sector's concerns, stating: "The survey results paint a stark picture of the immense challenges our industry is facing. European automotive suppliers have the innovative power to lead the transformation of mobility, but cost pressures are forcing job losses and factory closures instead. To protect employment, boost competitiveness, and accelerate the green and digital transitions, we urgently need a recalibration of regulatory frameworks."

Key priorities for recovery

Suppliers identified investment into electricity generation and charging infrastructure, as well as the buildup of a European battery and semiconductor ecosystem as key investment focus areas to reinforce Europe's competitive strength. Roughly three quarters of suppliers identified these as their three top priorities. A third of suppliers highlighted the development of an open-source software ecosystem and access to funding.

Main strategic challenges

Demand reduction is cited by 80% of respondents as the most pressing issue. 77% report significant difficulties in passing on cost increases to OEMs. Suppliers, as intermediaries in the supply chain, are the first to absorb cost pressures. While some contracts include indexation clauses to adjust prices based on costs on a regular basis, many contractual relationships with vehicle manufacturers do not include such clauses and require negotiations for price adjustments.

Additionally, 58% of suppliers cite increasing geopolitical instability as a major concern. 29% identify bankruptcies of the smaller Tier 2 suppliers, as well as suppliers exiting the automotive business as having a strong impact on their operations, marking a sharp uptick from last year, when only 16% identified it as a major challenge.

Global competitiveness concerns

Europe's competitiveness is a rising concern, with 70% of suppliers now seeing this as a major challenge, up from 43% a year ago. Additionally, 55% of suppliers are worried about other regions, particularly North America and Asia, outpacing Europe in technology implementation. While 38% of suppliers continue to prioritise Europe for future investments, interest in North America (25%) and Asia (22%) is increasing as companies seek alternative regions with stronger growth prospects.

Electric vehicle transition

Less than 50% of automotive suppliers expect battery-electric vehicle (BEV) sales growth in the next 12 months. Growth prospects are in particular uncertain for vehicles in the mid-price range. 65% of automotive suppliers anticipate that BEVs will account for less than 50% of car sales by 2030. A striking 81% of suppliers blame pricing as highly relevant to explain declining demand for BEVs.

Concerns about electricity prices showed a notable fall, with 29% identifying it as a reason for the stagnating EV uptick, down from 51% last year. Charging infrastructure remains a major concern for 57% of respondents, albeit down compared to the 77% recorded last year.

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.

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