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Tech and Industry employers' views on the Annual Sustainable Growth Strategy 2023

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Current situation for the MET industries

Our sector continues to navigate one of its most challenging periods. Following the COVID-19 Pandemic, which will leave a lasting effect on our sector's competitiveness, companies are now faced with the reality of war on the European continent.

The invasion of Ukraine by Russia, in a post-pandemic world, is creating unforeseen economic consequences for manufacturers. In addition, companies are also managing the twin transition to a greener and more digital economy, spiralling inflation, particularly energy costs, acute labour shortages, a lack of raw materials and in some cases severe supply chain disruption.

Companies are faced with the perfect storm of high inflation, low unemployment, low growth, and increasing wage demands from trade unions. Profits are under pressure in many companies as the cost of living crisis begins to bite. This decrease in sales, mixed with higher costs of production and a supply chain nightmare is having an adverse effect on the competitiveness of our industries.

The MET industries entered a recession during the second quarter of 2022. There were many reasons for this: the invasion of Ukraine by Russia, the upward pressure on costs (energy as well as material prices), the upward pressure on wages due to the increased cost of living for households and the supply chain disruptions (steel, non-ferrous metals, electronic components). This is accompanied by the historically high vacancy rate that has limited companies' ability to fulfil incoming orders and last but not least the downward pressure on margins that are creating considerable uncertainty for the profitability and the liquidity of the financial resources of MET companies.

Currently, tightening monetary policy is a precursor to a stable industry, particularly as we enter a possible period of stagflation (double digit inflation and recession); this holds true more than ever. It should be noted that we saw similar challenges at the end of the 1970s and beginning of the 1980s and it should also be noted that, at that time, increases in interest rates went some way to dealing with these challenges. Furthermore, too much volatility in exchange rates creates competitiveness challenges for companies. The current levels of volatility in exchange rates is a particular challenge and source of uncertainty for companies.

The perfect storm

As has been laid out above, we are seeing a toxic mix of economic factors, which is becoming increasingly worrying and is creating an unprecedented situation for entrepreneurs. Having said that, MET companies have already been operating in a particularly challenging environment for the last number of years.

1. COVID-19

The COVID-19 Pandemic has left our industries with a covid-deficit in our figures. It will take many years to realign to the growth path we left in March 2020. The corona-crisis has, and will continue to, cost economies in value added and could take at least 10 years to get back on the path we were on beforehand.

In our sector, production figures took a nosedive in the first half of 2020. MET economists have calculated that, in comparison to a covid-free scenario, the MET industries have experienced an enormous shortfall of €273 billion in their production figures. These figures are stark but are borne out across our industries; from investment to exports, double-digit drops were experienced across our sector.

2. An overheated economy with materials shortages

The fallout from the COVID-19 Pandemic lead to an overheating of the economy which created a multitude of trade issues globally. These included a supply chain nightmare which in turn caused orders to remain unfilled, and in some cases, production to simply grind to a halt. Due to the scarcity, prices sky-rocketed and manufacturers were under severe pressure to secure the vital materials.

We are now seeing somewhat of a slowdown in the sales of the MET industries, e.g. the electronics and automotive sectors. This is having its own knock on effects, where we are seeing a slowdown in the need for some of those inputs which contributed to the backlog in supply chains.

A good example in this context is microchips, which were causing severe problems in production processes. However, it now appears that supply is beginning to come back to adequate levels. There are many factors affecting this but decreased demand alongside increased production worldwide is now leaving chip manufacturers better placed to fulfil the needs of MET companies.

However, this is not to say that we have found the silver bullet, e.g. the green transition to electric cars has the potential to ramp up the demand for semiconductors all over again. There is a real danger that we face the same challenges in the “not too distant” future.

This is not to mention some of the medium-term supply challenges for crucial raw materials such as neon, helium and phosphorus. Shortages of which will without doubt create difficulties for production in the MET industries.

3. Geopolitical situation increasing inflation, particularly energy costs

However, the current geopolitical situation and inflationary pressures are a strong counterbalance to any short-term good news on supply issues. Not only that, they bring about their own supply chain issues making it more difficult for companies to compete and remain competitive.

MET companies are experiencing energy challenges on an unprecedented scale. We have seen the slowing of Russian gas into Europe for some time now and, we will begin to see supply shortages cropping up across the continent. It is evident that industry will be first to be affected. This will be detrimental to production and by extension European GDP. Due to increasing energy costs, which show no sign of abating, companies may have to invest in ways to minimise energy loss during production, such as the use of sensors.

The effects will vary greatly among EU Member States meaning some will be harder hit than others. Despite this, there is consensus among MET economists that the knock on effects of such an outcome would be damaging for our industries across Europe and beyond. This is an extremely worrying development and measures must be taken to ensure the supply for business. As mentioned above, MET economists are of the opinion that we have entered a recession in the EU in the second quarter of 2022. This recession together with increasing costs is putting downward pressure on the profitability of MET companies.

Labour shortages/Vacancies

On top of all of the above, MET companies are experiencing one of the tightest labour markets for some time. Within our industries, and across the economy, we are seeing a severe shortage of available workers. This has not been helped by the fact that the corona-crisis has already put an immense amount of pressure on an unsustainable shortage of experts within our sector.

The right policies must be put in place to ensure manufacturers can continue to operate. In order to continue operations, we need to have the heart of manufacturing in place, its workers. In this context, a mix of governmental measures and proposals negotiated between social partners should show the way to a better balanced labour market.

Furthermore, vacancies in the MET sector are at record levels. In the UK, for example, they are at their highest level since modern records began in 2001. The latest data for May 2022 shows that there are 4.0 vacancies in the UK manufacturing sector per 100 employed. This figure is extremely high, even compared to recent history, approximately double the historical average.

The Green and Digital Transition

While Ceemet is conscious of the need to realise the green transition, it must be recognised by policy makers that a transformation of this magnitude takes time for industry to implement. It must be done while safeguarding our global competitiveness and ensuring that we at least preserve, and ideally increase, our market share in a globalised world.

While MET companies have been leading the digital transition for many years, they are now faced with the reality of the green transition. This will require changing of business models and mindsets within organisations. MET companies are moving towards more sustainable production. However, this must be a fair transition, while ensuring that we do not overburden companies in certain sectors. We must deliver a cleaner and more digitalised, but at the same time more competitive, European industry.

The Commission has recently given a conservative estimation that the twin transitions might need around €650 billion annually by 2030. Ceemet is mindful of the required investment to implement the green transition. Within industry, it will require a complete transformation of energy generation systems, and in parallel, massive reductions in industrial processes, transport and buildings. MET companies are conscious that a certain portion of the required investment will be private. However, this must be bolstered by EU funding; if not, it will leave a gap in the required investment.

We see that the Green Deal threatens to have a negative net impact on the MET industries due to increasing supply dependencies on Asia. This is a worrying development for our sector as continued volatility in China is putting supply chains at further risk. Put simply, price volatility due to supply chain issues leads to an increase in the cost for companies of transitioning to a greener industry.

Economic Data

1. Employment

The shining light of the MET industries is without doubt the employment figures within our sector where, despite the COVID-19 Pandemic and the current geopolitical situation, figures remain stable. We have only seen a slight decline in the figures and the current employment levels remain at over 17.4 million workers.

This is an extraordinary achievement considering the economic scenario which MET companies are experiencing. Furthermore, in our most recent figures, we see the share of MET employment in total manufacturing stands at over 51%, the highest figure since 2005. Manufacturing of fabricated metal products, mechanical engineering and the automotive industry remain the heavy weights of the MET sector. They represent over 61% of all employment.

2. Exports

We are seeing a worrying development in the exports of the MET industries. There was a dramatic decrease of 10.4% in the export figures in the MET sector in 2020 vis-à-vis 2019. However, in 2021 we regained our pre-corona export levels thanks to a 14.3% increase in our exports.

Since 2012, for more than a decade, the part of MET external EU exports in the total exports of the EU have decreased considerably from 45.6% to 39.1%. This is an alarming indicator for our analysts. Exports outside the EU should be a growth driver for the MET industries.

This dramatic decrease could be caused by many factors; however, it certainly indicates a competitiveness issue. Europe has lost competitiveness vis-à-vis the rest of the world, and as a result, has lost part of its share of world trade. In 2017, the MET industries represented 46.7% of total world exports. Four years later, in 2021, this market share has seen a sharp decline to 43.8%. Therefore, it is imperative that the EU has a competitiveness agenda which contributes to increasing EU competitiveness and deals with some of the ongoing issues which have been laid out in this paper.

3. Investment

The latest data from 2020 shows that because of the covid-crisis things took a turn for the worse in that year. Nevertheless, we have preliminary data showing a quick recovery already in 2021. If forecasts are accurate, pre-pandemic levels will be surpassed in 2023. However, given the current uncertain conditions in the economy, alongside the economic outlook, investment from companies is likely to slow.

4. Production

In 2020, production within our sector fell off a cliff. However, the preliminary value of production in the MET sector has thankfully turned a corner from this detrimental decrease of 11.6%. Current preliminary production values for 2021 stand at €3,365 billion.

Nevertheless, this is cold comfort for manufacturers who in a virus-free scenario should be seeing an annual production value of €3,638 billion in preliminary figures, an enormous difference of €273 billion from a hypothetical growth rate in 2021.

Conclusion

The situation in which MET companies find themselves is unparalleled. The triple threat of an industry recovering from a global pandemic, followed by an overheated economy with persistent supply chain problems and subsequently war on the European continent has been unrivalled in creating one of the worst business environments for companies. Add on top of that the labour and skills shortages and the fact that companies are living the green and digital transitions on a daily basis, we start to get a picture of an industry which is operating in testing times.

However, there is some good news that for now at least, employment has remained stable within our industries and investment is picking up following its detrimental decrease in 2020. Having said that, we still see an enormous difference of €273 billion in our production figures, in comparison to a virus-free scenario, and a long-standing decline in export figures outside of the EU.

Uncertainty is weighing heavily on companies. This is manifesting itself in the form of the inability to secure the right labour and skills, to access energy supplies, to reduce their input costs while also coming under increased pressure from trade unions. This is not to speak about the multitude of other issues companies are facing. Uncertainty is bad for business. Particularly in these challenging times, policy makers must do everything possible to avoid it.

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About Ceemet

- Ceemet represents the metal, engineering and technology-based industry employers in Europe.
- Member organisations represent 200,000 companies in Europe, providing over 17 million direct and 35 million indirect jobs.
- Ceemet is a recognised European social partner at the industrial sector level, promoting global competitiveness for European industry through consultation and social dialogue.