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# Covid-19: up to 463,000 jobs at risk in the manufacturing industry

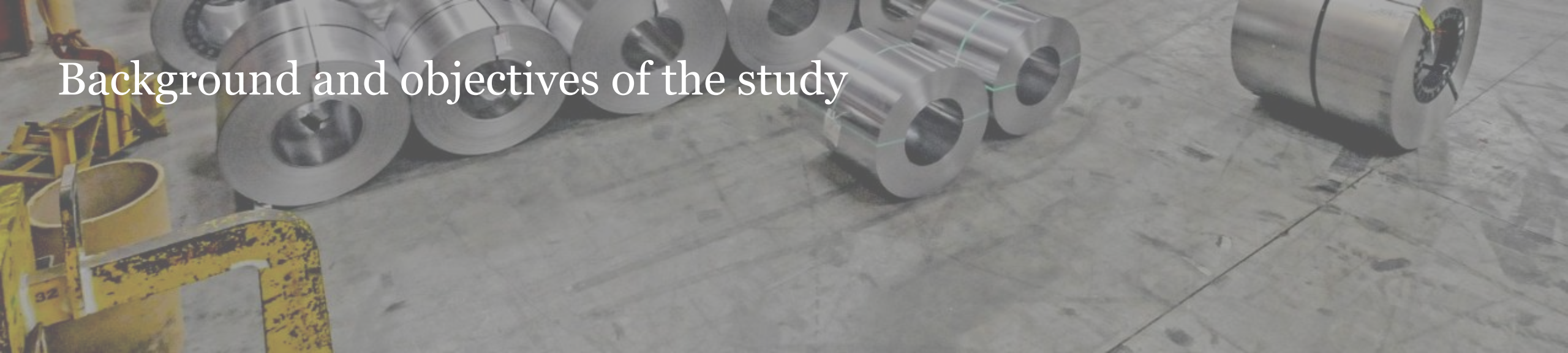
Final Report - June 23, 2020

**UIMM**

LA FABRIQUE  
DE L'AVENIR



# Background and objectives of the study



## Background

*Covid-19  
Sanitary crisis*



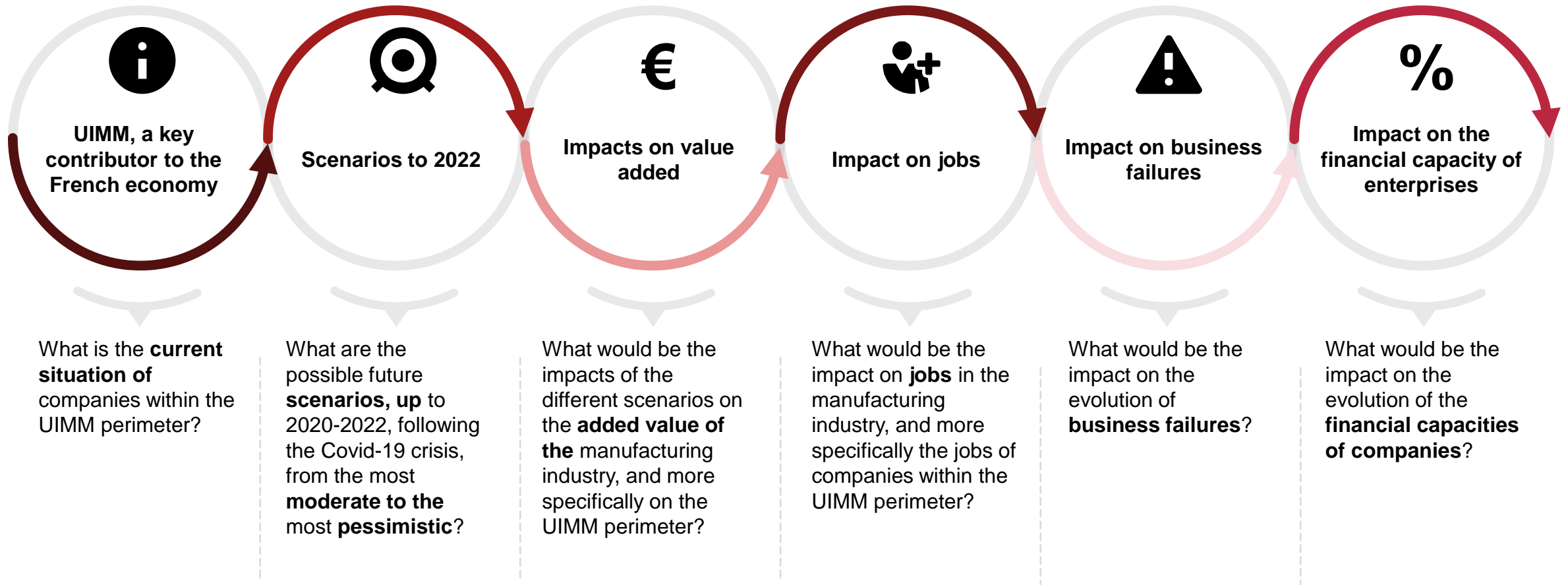
The UIMM wishes to objectify the impacts of the **Covid-19 crisis** beyond the "snapshot to date" documented by public statistics and to **communicate on the basis of an independent and factual study on French manufacturing industry.**

## Objectives of the study

Analyse the **socio-economic impacts of the Covid-19 crisis** on the **manufacturing industry** and the **risk of business failures**

# The study analyses the socio-economic impacts (GDP, employment) of the Covid-19 crisis on the French manufacturing industry\* by 2020-2022.

## Main topics addressed



# Manufacturing industry is at the heart of the French economy

## Key figures for manufacturing industry<sup>1</sup> in France (2019<sup>2</sup>)

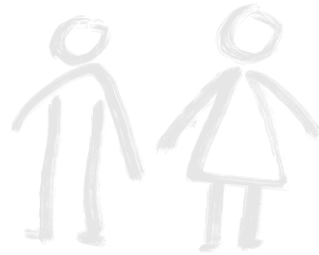


Added Value

**202 billion €.**

*~8.7% of French GDP*

of which **€124bn** for the **metalworking** trades (62%)



Employees

**2,1 million FTE**

*~16% of full-time equivalent employees<sup>3</sup>*

of which **1.3 million** for the **metalworking** trades (62%)



**A presence throughout France, particularly in rural areas**



**A sector with added value : one manufacturing job created 94 000 € of added value in France**



**Highly export-oriented sectors, more than 410 billion € in 2019<sup>4</sup>**

1) Excluding agri-food industry (AFI) - Note: Added value in manufacturing industry as a whole (Sector 'C') accounted for 10% of GDP in 2017.

2) PwC Strategy estimates based on INSEE 2017 data and macroeconomic projections

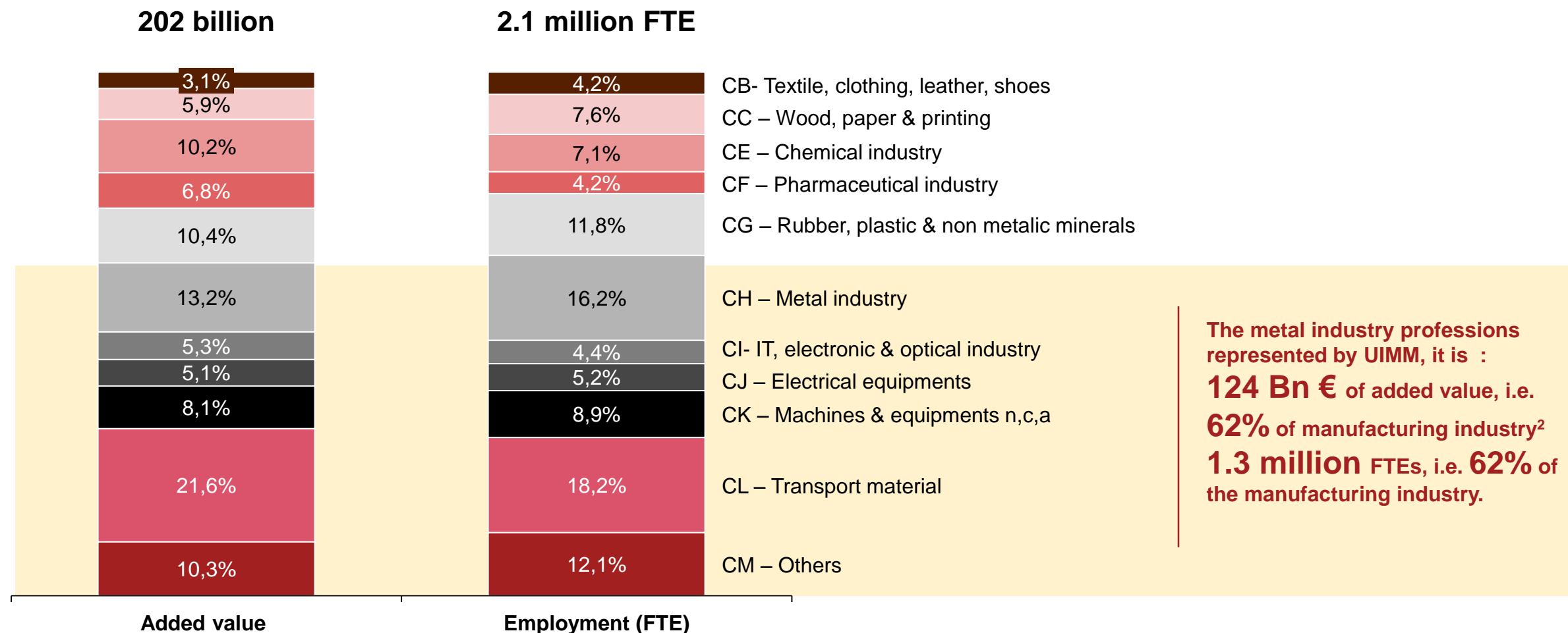
3) Field: Market companies except companies in the financial sector and agricultural holdings

4) Excluding energy and agri-food

Sources: INSEE, Esane, PwC Strategy Analyses.

# The manufacturing industry represents €202 billion of added value and 2.1 million full-time equivalent jobs in 2019.

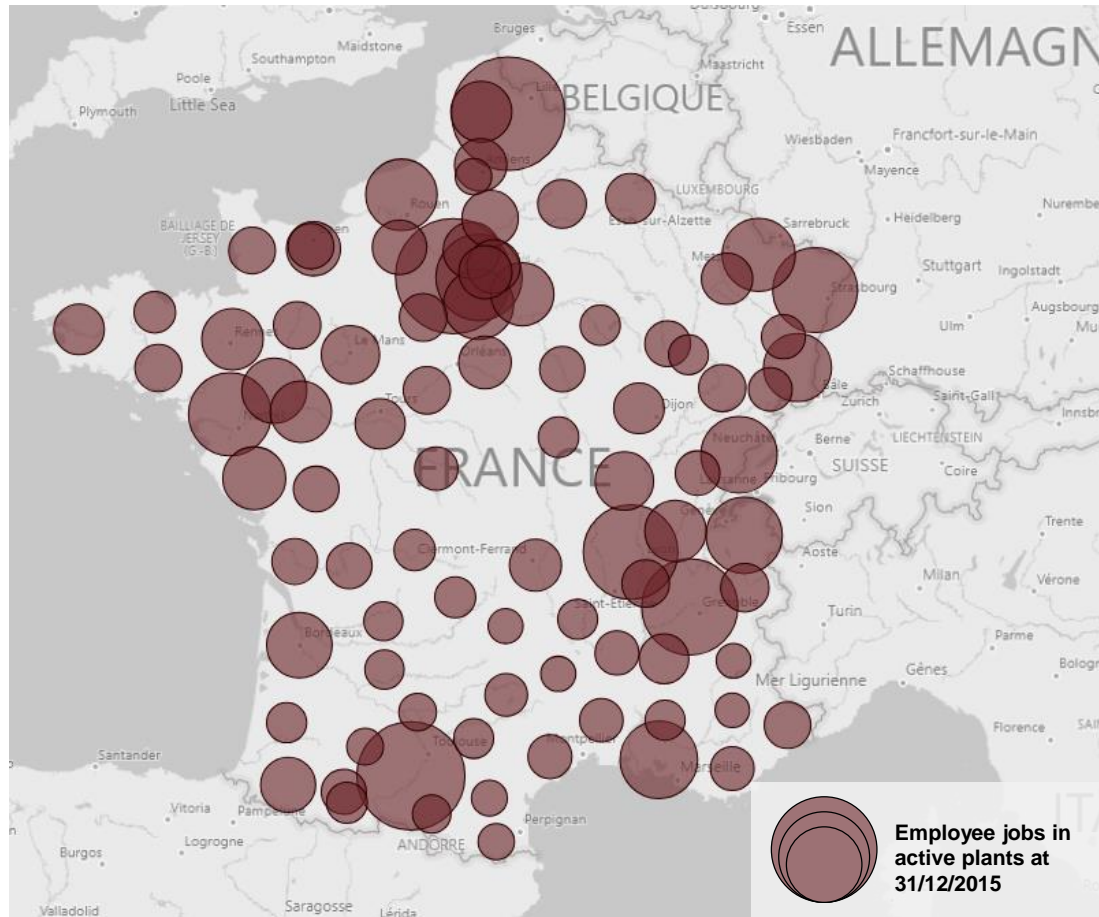
## Distribution of added value (€ billion) and employment (million FTEs) in manufacturing<sup>1</sup>



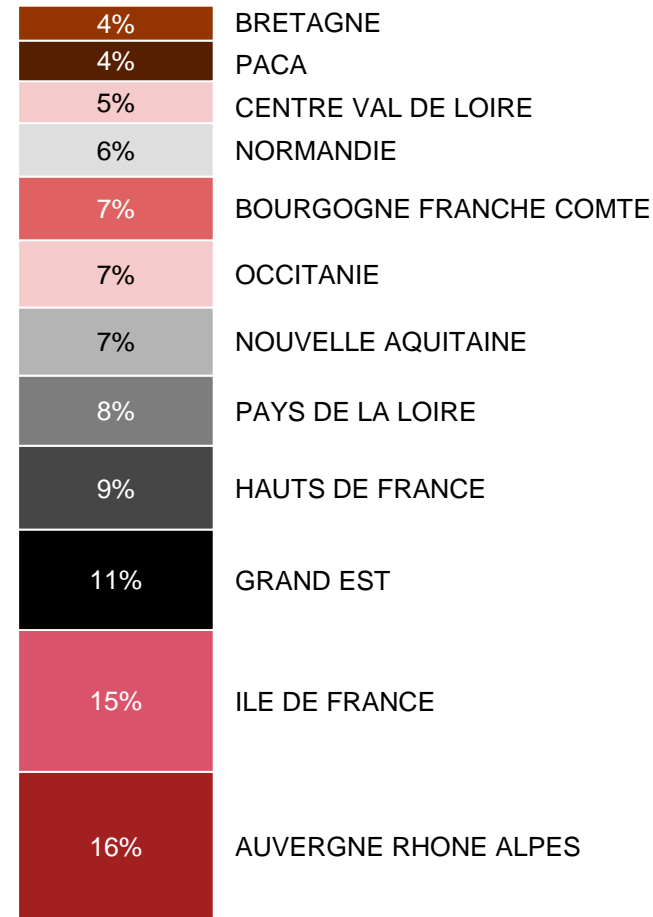
The metal industry professions represented by UIMM, it is :  
**124 Bn €** of added value, i.e. **62%** of manufacturing industry<sup>2</sup>  
**1.3 million FTEs**, i.e. **62%** of the manufacturing industry.

# Industrial jobs are spread throughout the country - no region accounts for more than 16% of total employment.

## Employee jobs in plants active as at 31/12/2015 within the UIMM perimeter



Employee jobs by department



Employee jobs by regions

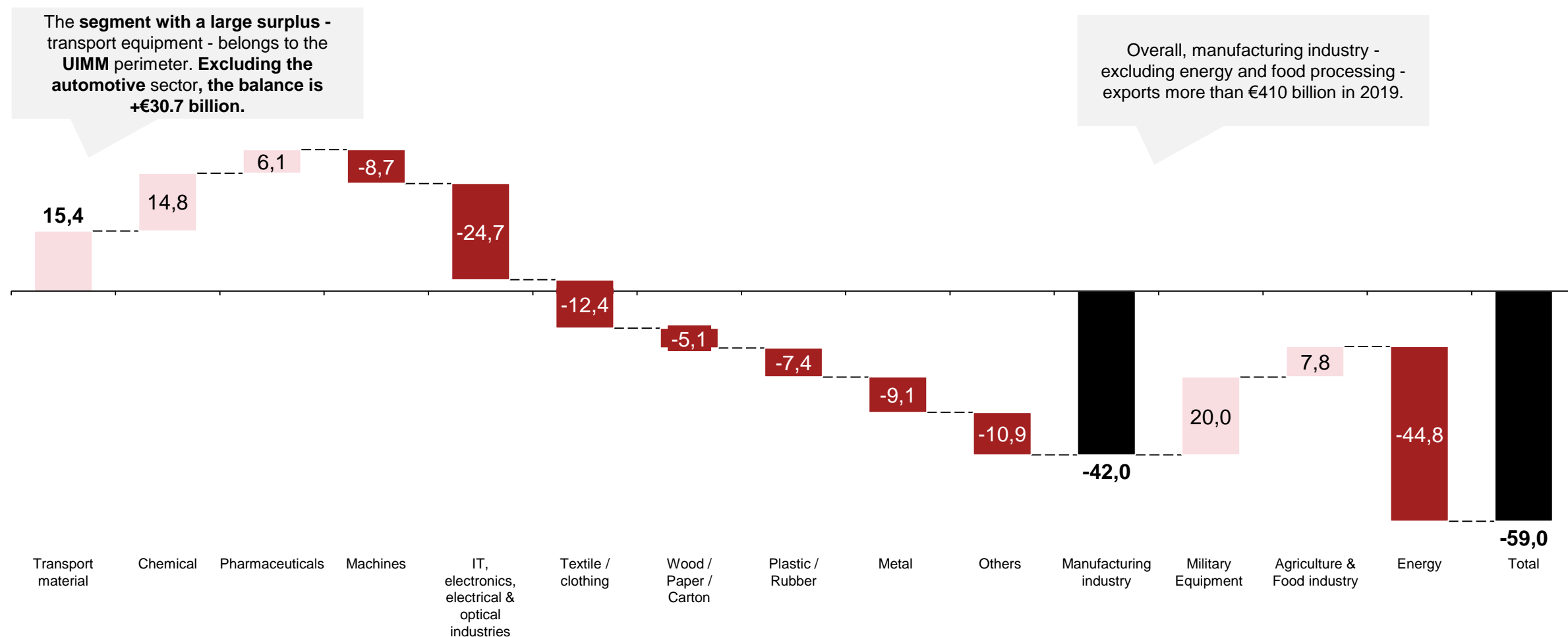
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### Comments

- The **North (59)** is the department with the **most jobs** (+63,000).
- Yvelines** and **Haute-Garonne** follow with respectively the **automotive** and **aerospace** sectors very active in these departments
- Auvergne Rhône-Alpes is the most industrial region in France with 16% of jobs.** The industrial tradition of the region is ancient. Industrial activity today is structured around eight major industrial sectors, including manufacturing of metal products and of machines and equipment.

# The industrial trade balance is in deficit (-€42 bn) but some sectors, such as transport, have a strong surplus.

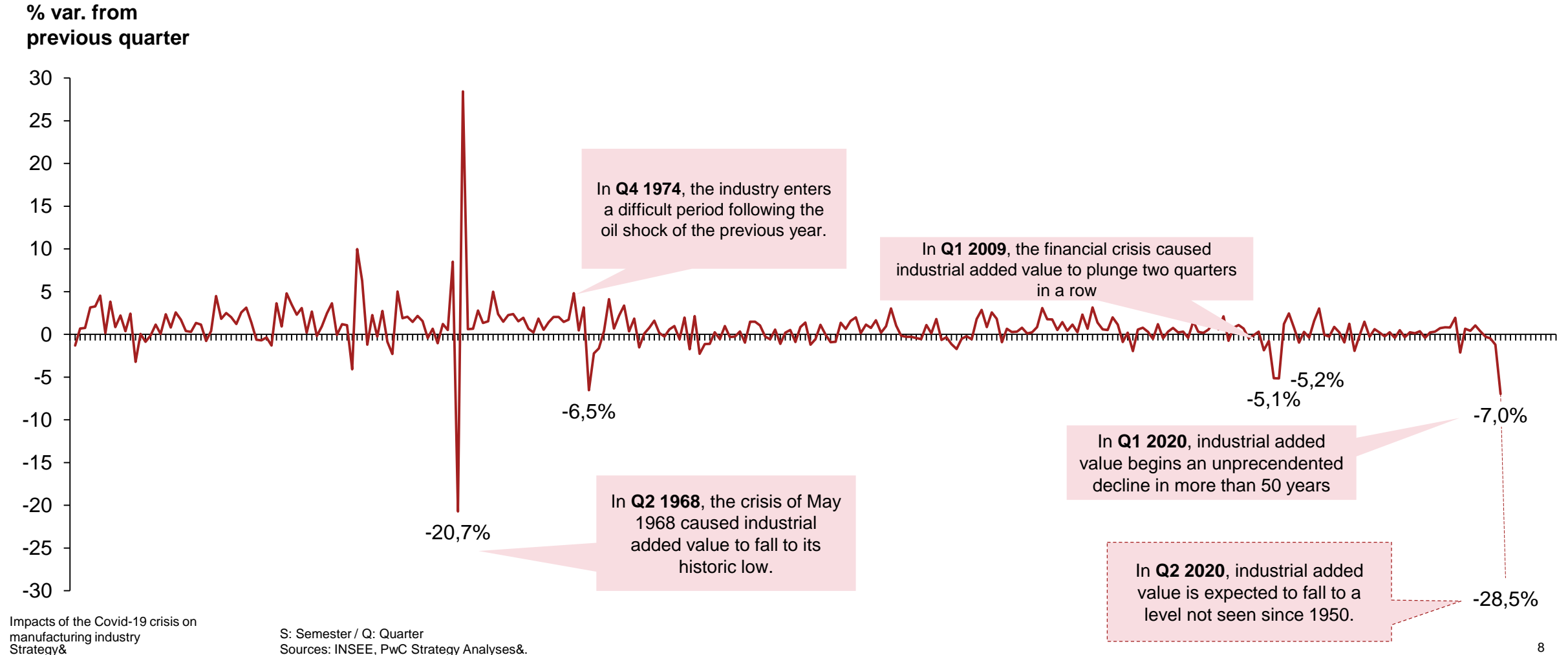
## Balance of trade in goods of the French economy (2019, € billion)





# In S1 2020, manufacturing added value fell by 7% (Q1) and then 28.5% (Q2 forecast), lowest since post-war.

## Quarterly evolution in manufacturing value added (excluding agribusiness), 1950-2020

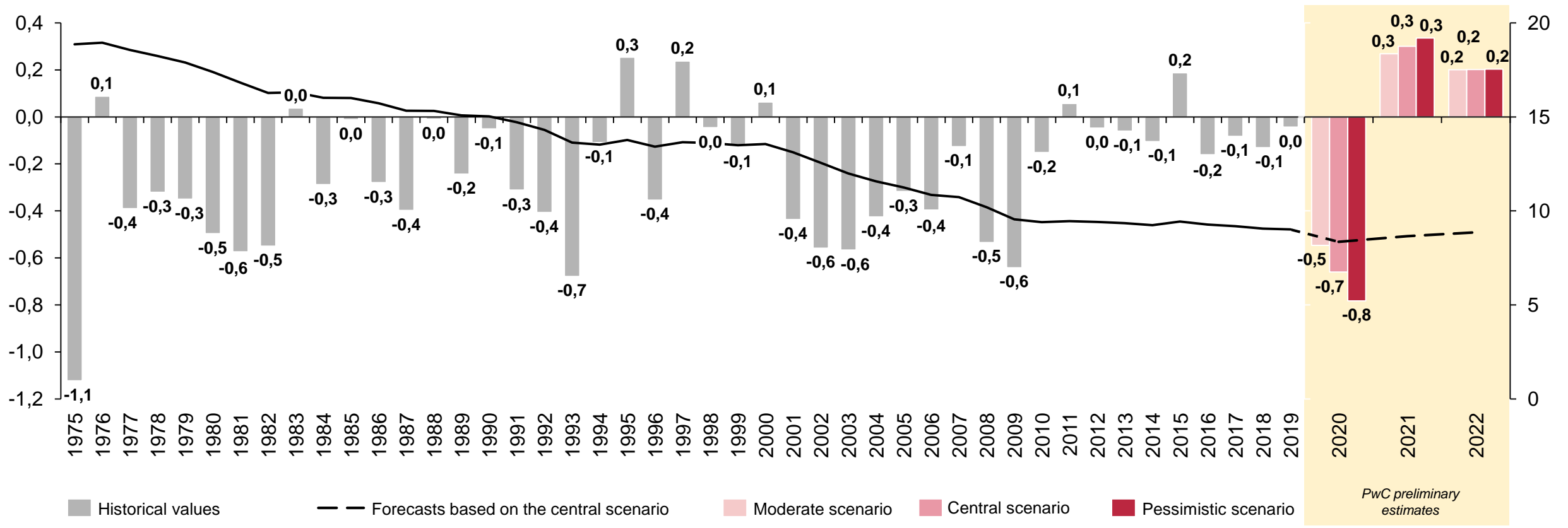




# The share of industrial added value in the GDP drops on average by -0.7 point in 2020 vs. 19, a return to the "dark years" of deindustrialisation.

## Share of manuf. industry value added\* in GDP and year-on-year evolution, 1975-2020

Annual evolution in the share of the industry's added value in GDP (in GDP points)



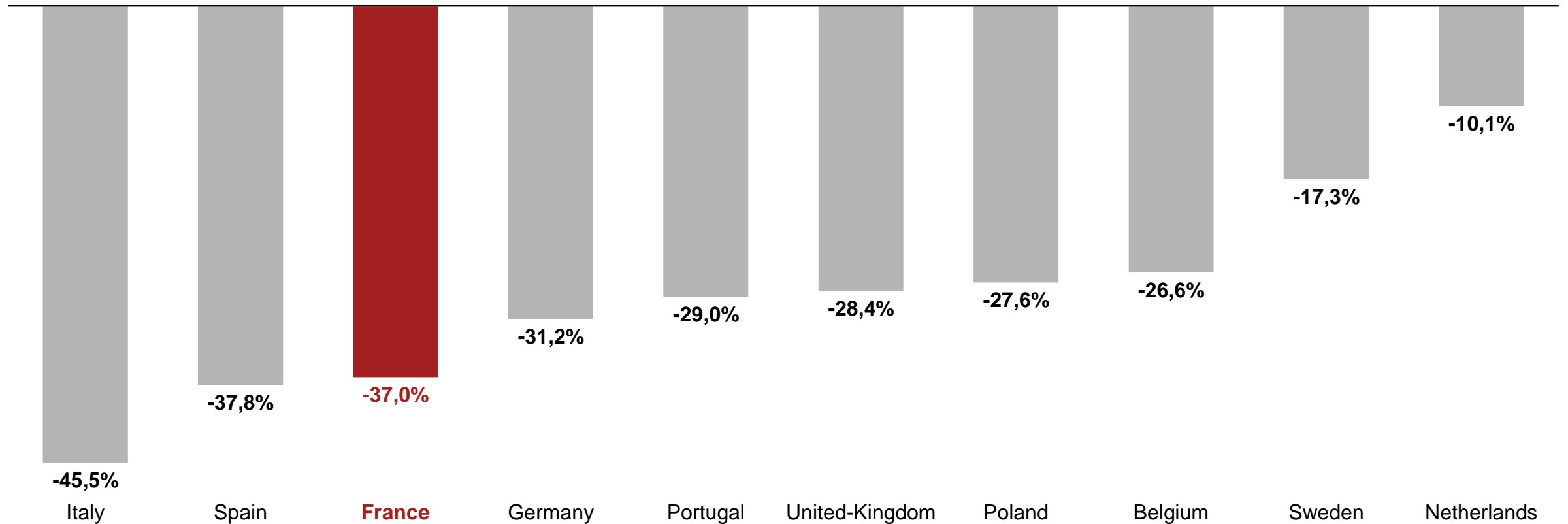
PwC preliminary estimates

Impacts of the Covid-19 crisis on manufacturing industry Strategy&

\* Manufacturing industry excluding food processing Sources: INSEE, PwC Strategy Analyses&




In the EU, France experienced one of the sharpest falls in industrial production, underperforming Germany and the United Kingdom.

**Industrial production volume evolution between Apr. 19 and Apr. 20 for the main EU economies**



# 3 scenarios for the evolution of added value (2020-22) have been defined on the perimeter of the manufacturing industry<sup>1</sup>

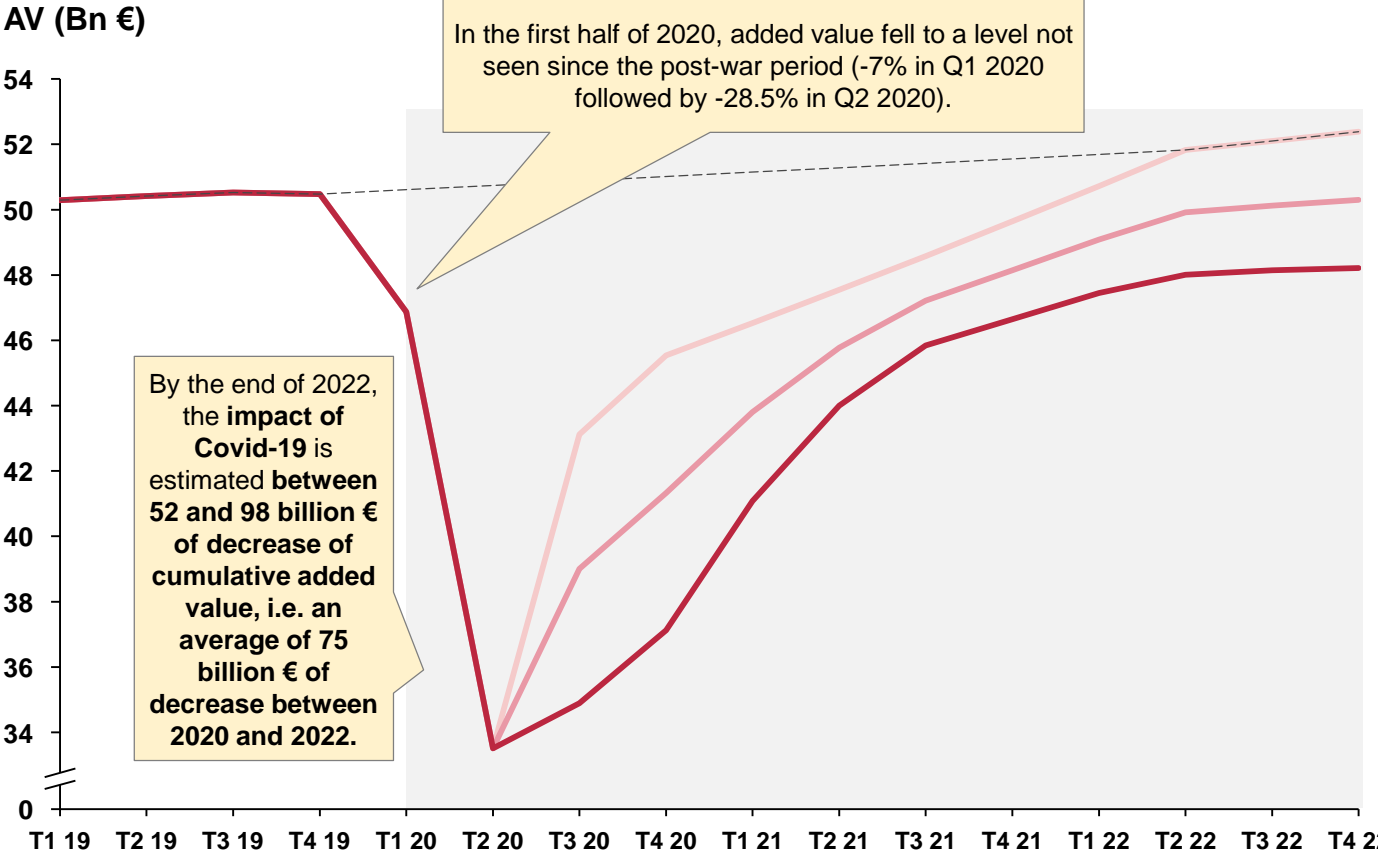
## Presentation of the 3 selected scenarios

	Description	In summary ...
	<b>Moderate Scenario</b>  The Covid-19 crisis has an <b>immediate "shock" impact</b> . 8 quarters after the Covid-19 crisis, GDP is at the level expected before the crisis thanks to <b>strong growth</b> : productivity gains have not been overshadowed by the crisis.	<b>Covid-19's "air hole" quickly compensated by strong growth</b> <b>Back to normal in 2 years</b>
	<b>Central Scenario</b>  Scenario based on the average of the moderate and pessimistic scenarios	Recovery significantly slowed down and half recovered within two years
	<b>Pessimistic Scenario</b>  Scenario based on two factors: <ul style="list-style-type: none"><li>• <b>Growth lastingly affected by the crisis</b> (as in previous economic crises), including lower productivity gains (the shock on the labour market and business failures will affect the overall productivity of the economy)</li><li>• <b>Return of the pandemic in the autumn, which requires the maintenance of sanitary measures</b>, which are relaxed during 2021, insufficient to reach the pre-crisis level (Q4 19) before the end of 2022 (Note: following the note of the scientific council, the scenario does not foresee a strict lockdown but a drastic reinforcement of the sanitary measures, with similar effects).</li></ul>	<b>Slow recovery, no catch-up in the medium term</b>

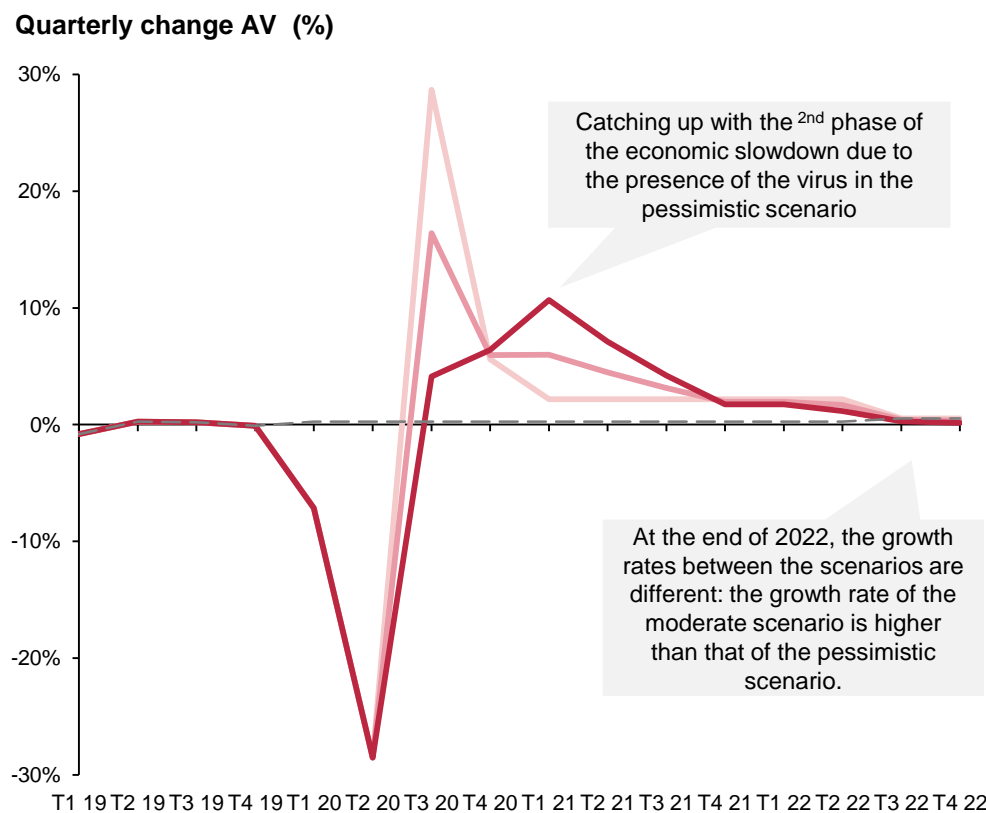
# By the end of 2022, the decrease in the added value of industry is estimated on average at -75 billion € compared to a scenario without Covid-19.

## Scenario modelling - results perimeter manufacturing industry, excluding agri-foodstuffs

Quarterly added value (volume) of manufacturing (€ bn)



Quarterly change in added value (volume) of manufacturing industry(%)



Impacts of the Covid-19 crisis on manufacturing industry Strategy&

Sources: PwC Strategy Analyses&

— Moderate scenario — Central scenario — Pessimistic scenario - - Base (without Covid-19)



# By 2022, the Covid-19 crisis will have a strong impact on the added value of industrial companies, putting their survival at stake.



Added value<sup>1</sup> (M€),  
cumulative between  
2020 and 2022

**Manufacturing industry**

*Metal*

**-52 000**

-34 000

**-75 000**

-49 000

**-98 000**

-64 000

*Business Failures*

**Manufacturing industry**

*Metal*

**+13%** increase in 2021  
compared to 2019

**+14%** increase in 2021  
compared to 2019

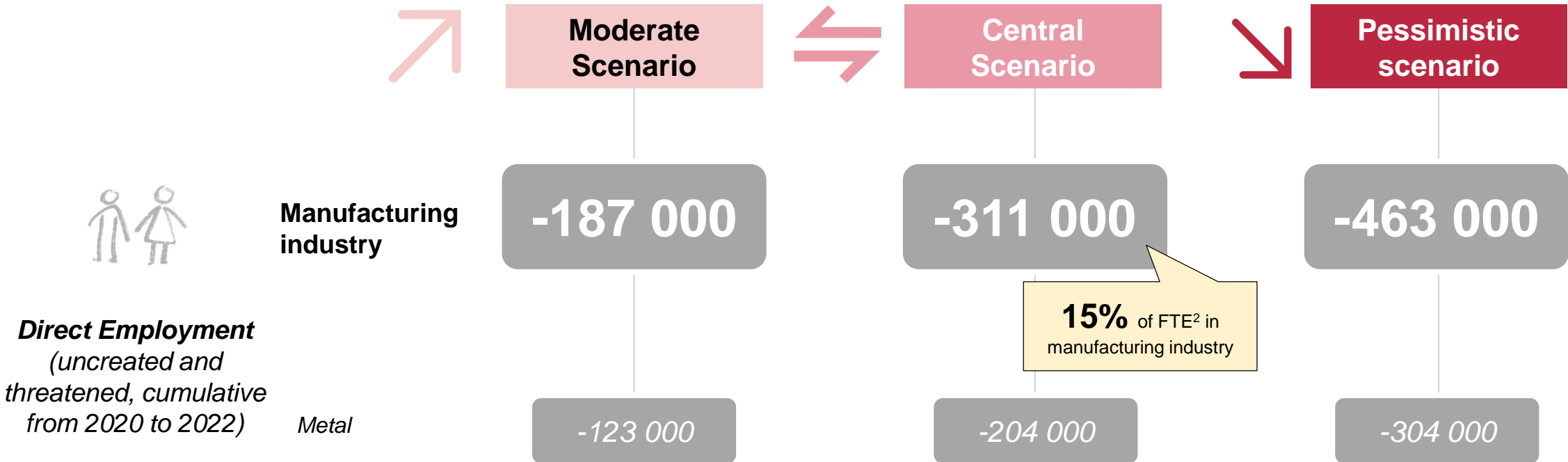
**+28%** increase in 2021  
compared to 2019

**+25%** increase in 2021  
compared to 2019

**+48%** increase in 2021  
compared to 2019

**+51%** increase in 2021  
compared to 2019

# By 2022, the Covid-19 crisis would impact 15% of direct manufacturing jobs<sup>1</sup> on average.

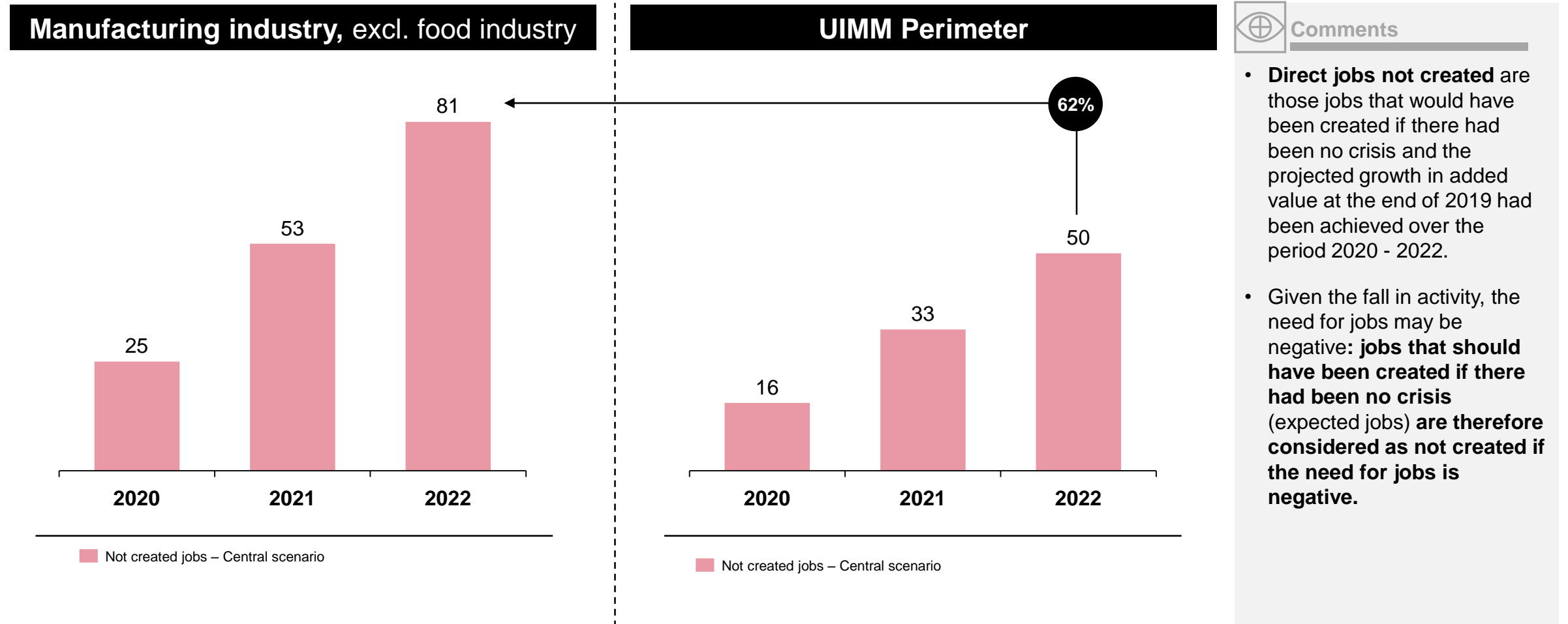


1) Excluding agri-food  
 2) FTE: Full time equivalent employee  
 Direct jobs not created: Jobs that would have been created if there had been no crisis and if the growth in added value projected at the end of 2019 had been achieved over the period 2020 - 2022.  
 Direct jobs at risk: Existing jobs that could be eliminated or not replaced due to the decline in activity over the period 2020 - 2022  
 Sources: PwC Strategy Analyses&

# 1 Direct jobs not created

By 2022, it is estimated that 81,000 direct jobs will not have been created in the manufacturing industry due to the health crisis.

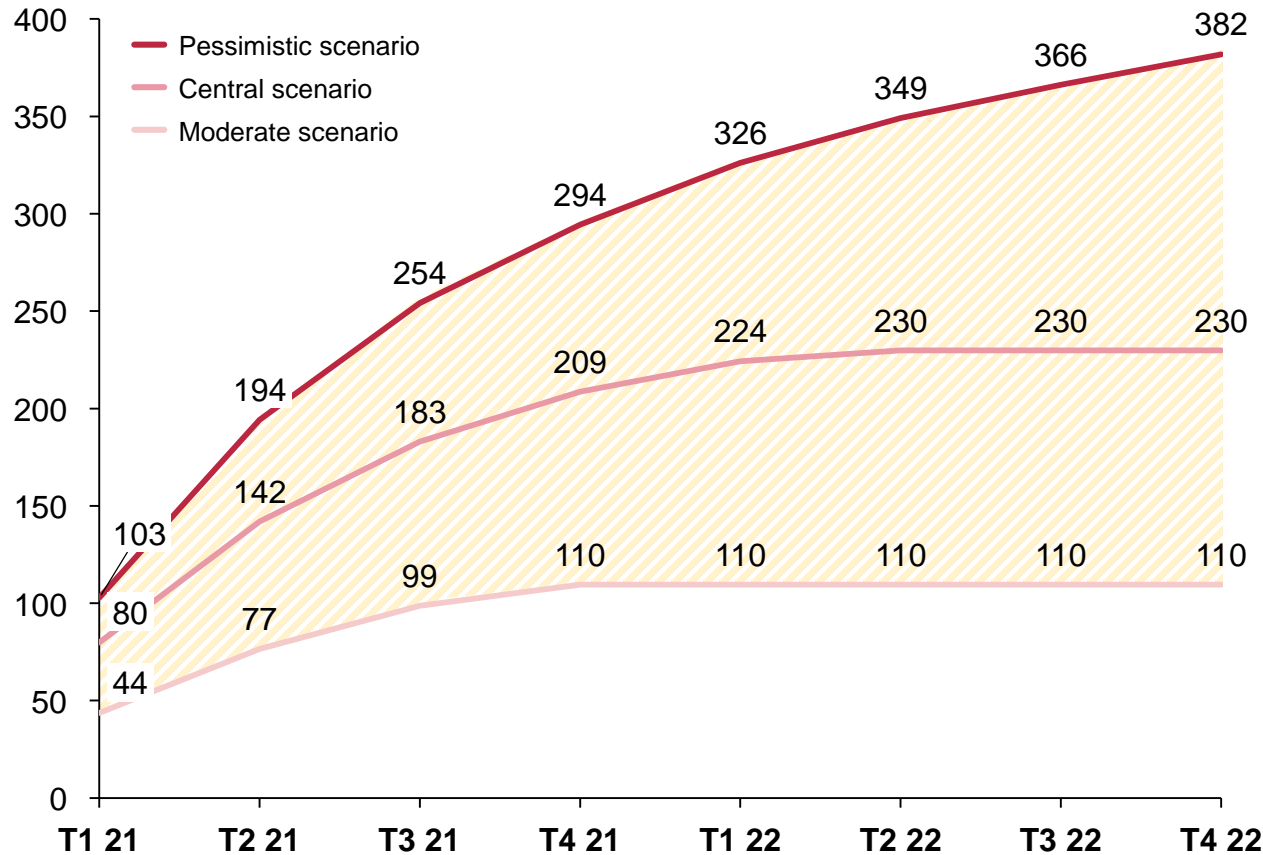
Direct jobs not created by the impact of the crisis; Cumulative, thousands of FTE (central scenario)



## 2 Direct jobs at risk

By 2022, between 110,000 and 380,000 direct jobs would be threatened in the manufacturing industry.

Direct jobs threatened by the impact of the crisis in manufacturing industry; Cumulation, kETPs



**Pessimistic Scenario**  
~382,000 direct jobs at risk by 2022

**Central Scenario**  
~230,000 direct jobs at risk by 2022

11% of FTEs in manufacturing industry

**Moderate Scenario**  
~110,000 direct jobs at risk by 2022

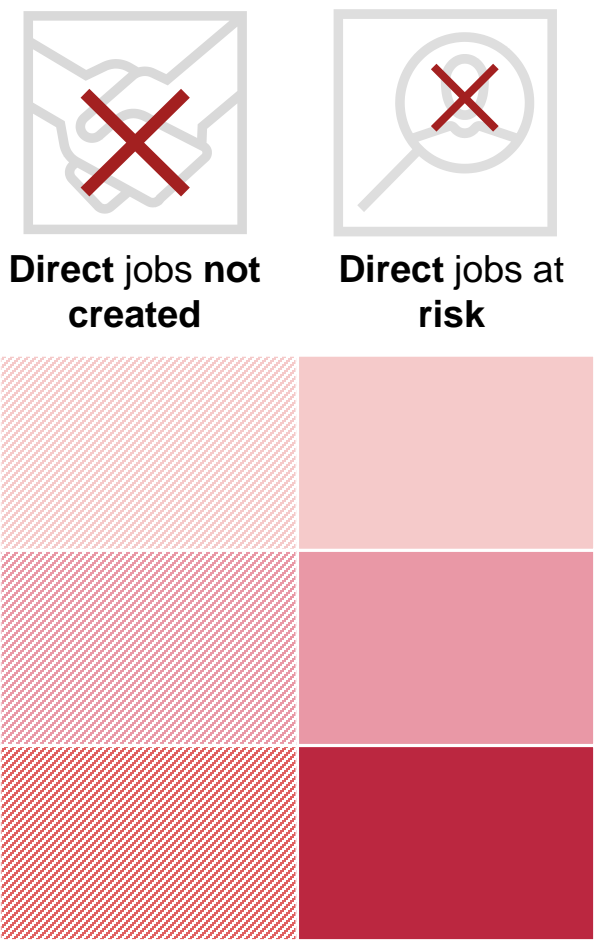
### Comments

- It is estimated that the impact on real employment will be visible from **Q1 21** onwards due to :
  - The hysteresis effect<sup>1</sup>** which decorrelates in terms of temporality the impact of a crisis and its visible effects.
  - The **duration of social law procedures** (e.g. a social plan has a duration of 2 to 4 months depending on the number of persons concerned).
- This modelling takes into account the end of State support measures from September 2020 for the moderate scenario and December for the pessimistic scenario.
- This modeling takes into account the adjustments of variable costs to the change in sales turnover.

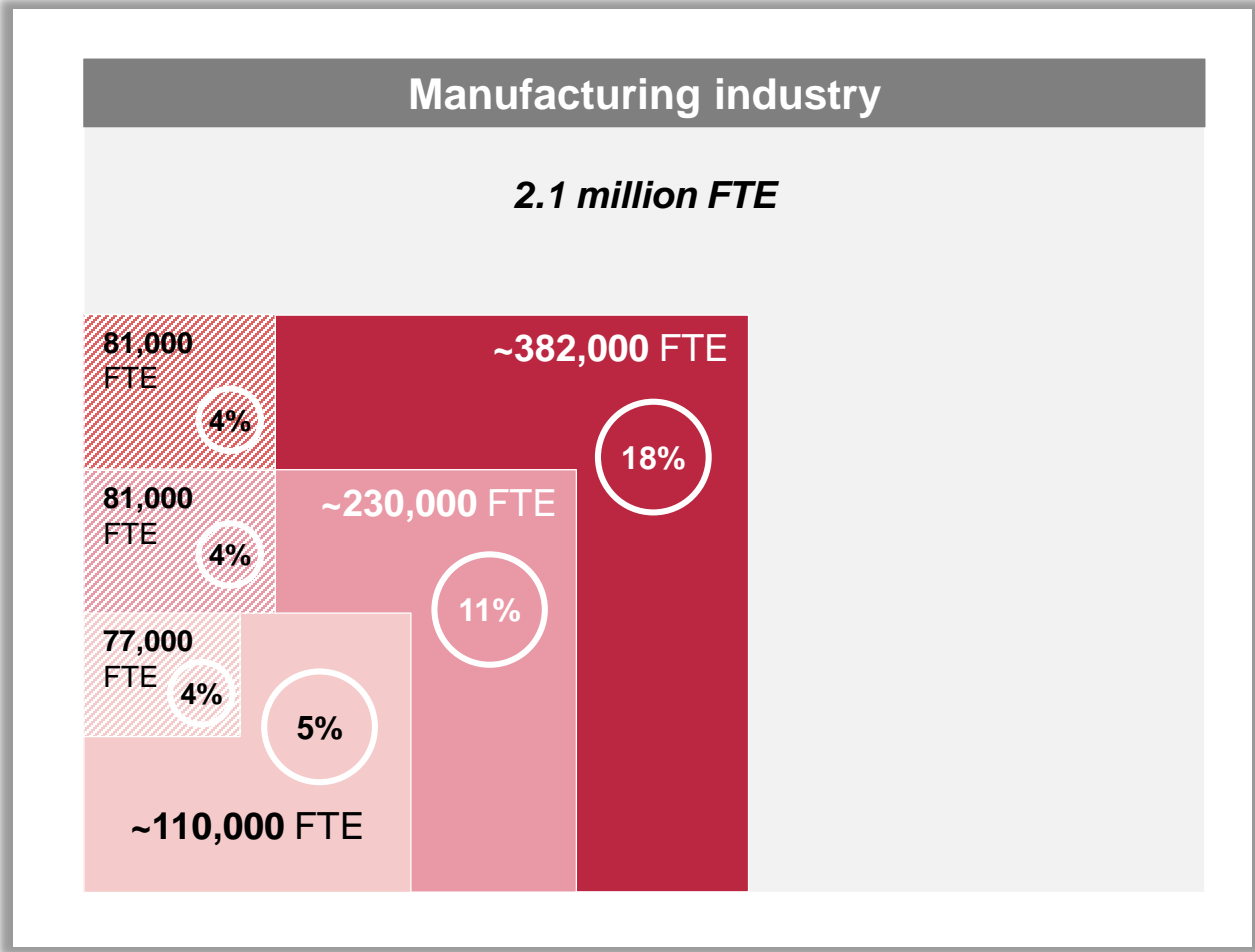


According to the central scenario, on average, 15% of direct industrial jobs (not created or threatened) would be impacted by 2022.

Summary of the impact on employment<sup>1</sup> in manufacturing industry



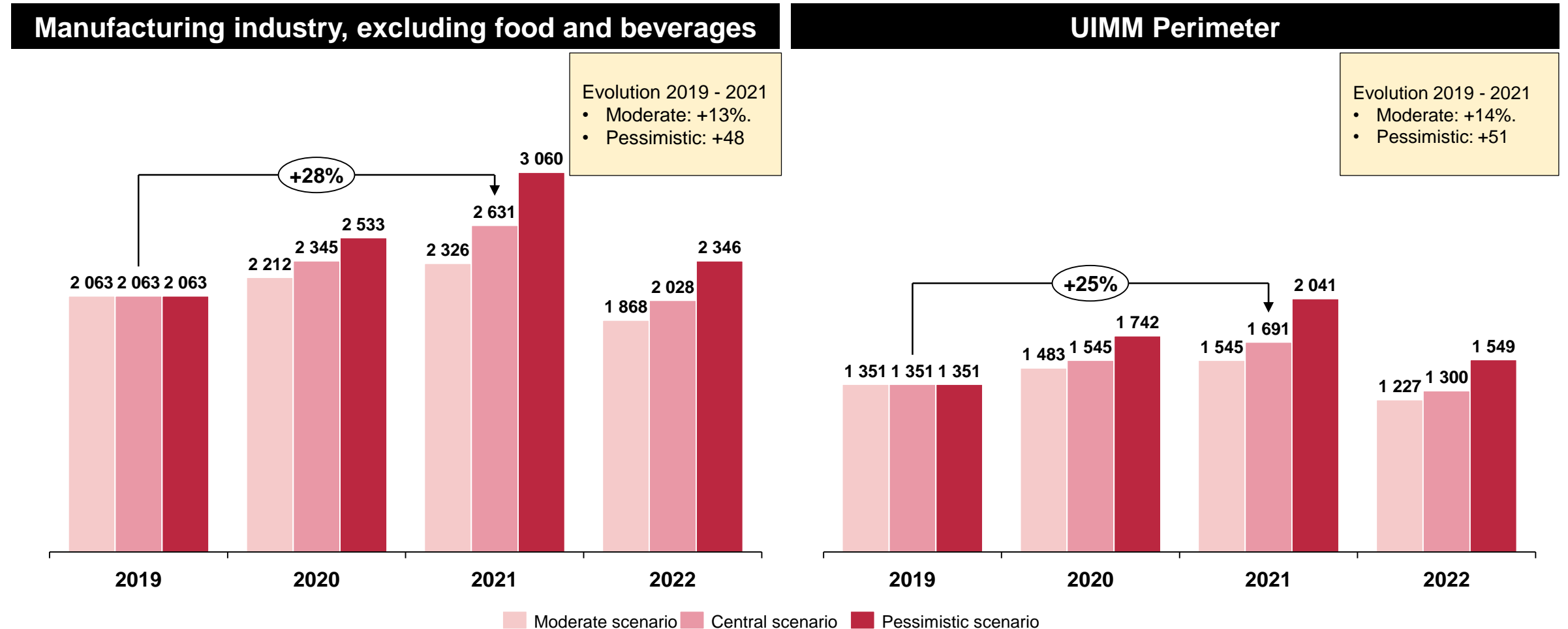
- Moderate Scenario
- Central Scenario
- Pessimistic Scenario



1) Scope: direct jobs not created and threatened, excluding indirect jobs Sources: INSEE, Esane, Diane, PwC Strategy Analyses&.

# Business insolvencies are expected to increase by 28% in the manufacturing industry between 2019 and 2021 due to the health crisis.

## Business insolvencies; Number of businesses, 2020 - 2022

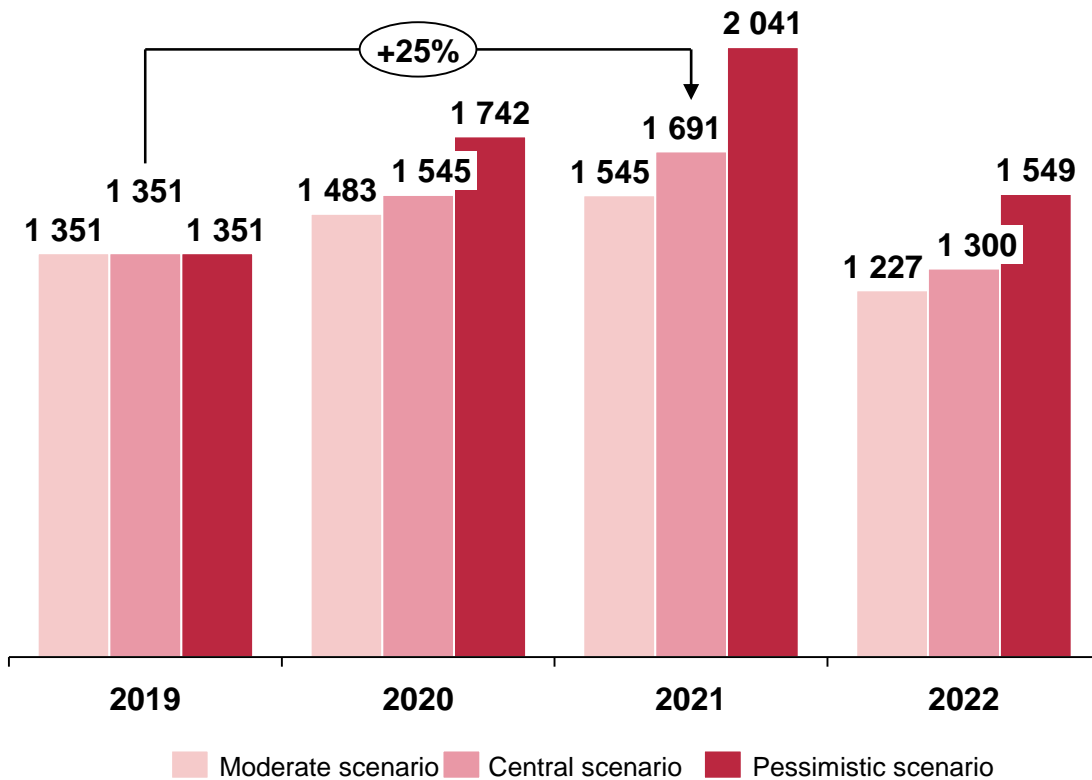


# The results of the Bottom-Up approach are similar to those of the Top-Down approach of Coface's macro analysis.

## Risk of failure - Methodological approach

### Bottom-Up Approach Results (Number of failures)

#### Perimeter of the UIMM



#### Approach

#### Modeling

##### Top-Down

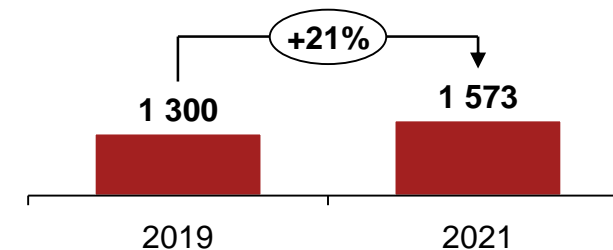
- Application of the ratio of projected growth in insolvencies (%) (source: Coface) to the number of insolvencies in 2019 within the UIMM perimeter

#### Data

- Coface forecasts a **21%** increase in company failures in France in 2021 compared to 2019
- According to Altares and the distribution of the number of companies in the UIMM perimeter in relation to manufacturing industry, there were **~1300** business failures in the UIMM perimeter in 2019

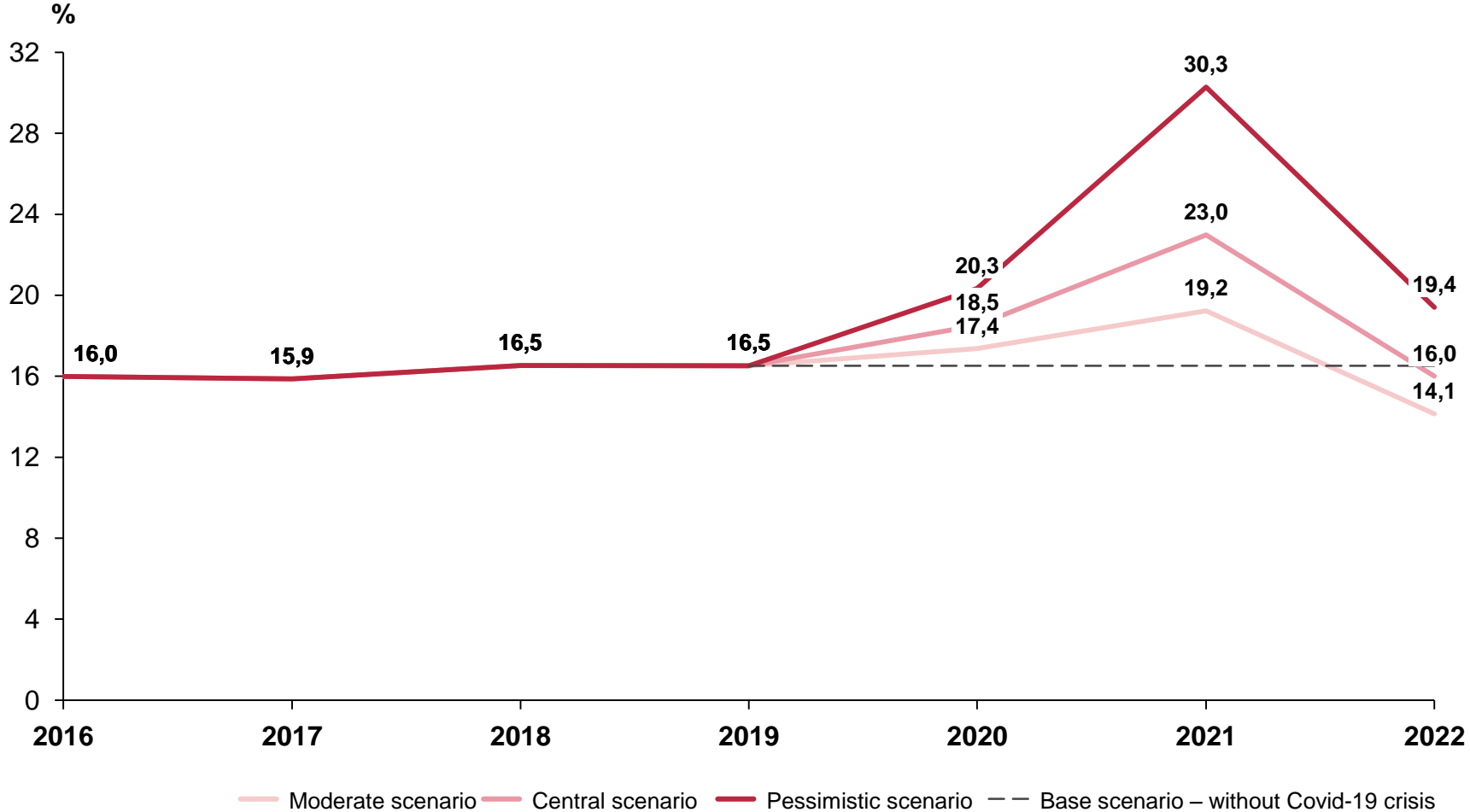
#### Results

Trend in business failures within the UIMM's perimeter by 2021 (in number of companies)



# In the pessimistic scenario, the share of industrial companies with negative GOS is expected to double in 2021, with recapitalisation issues at stake.

Share of firms with negative gross operating surplus; % total number of firms, projections 2019 - 2022



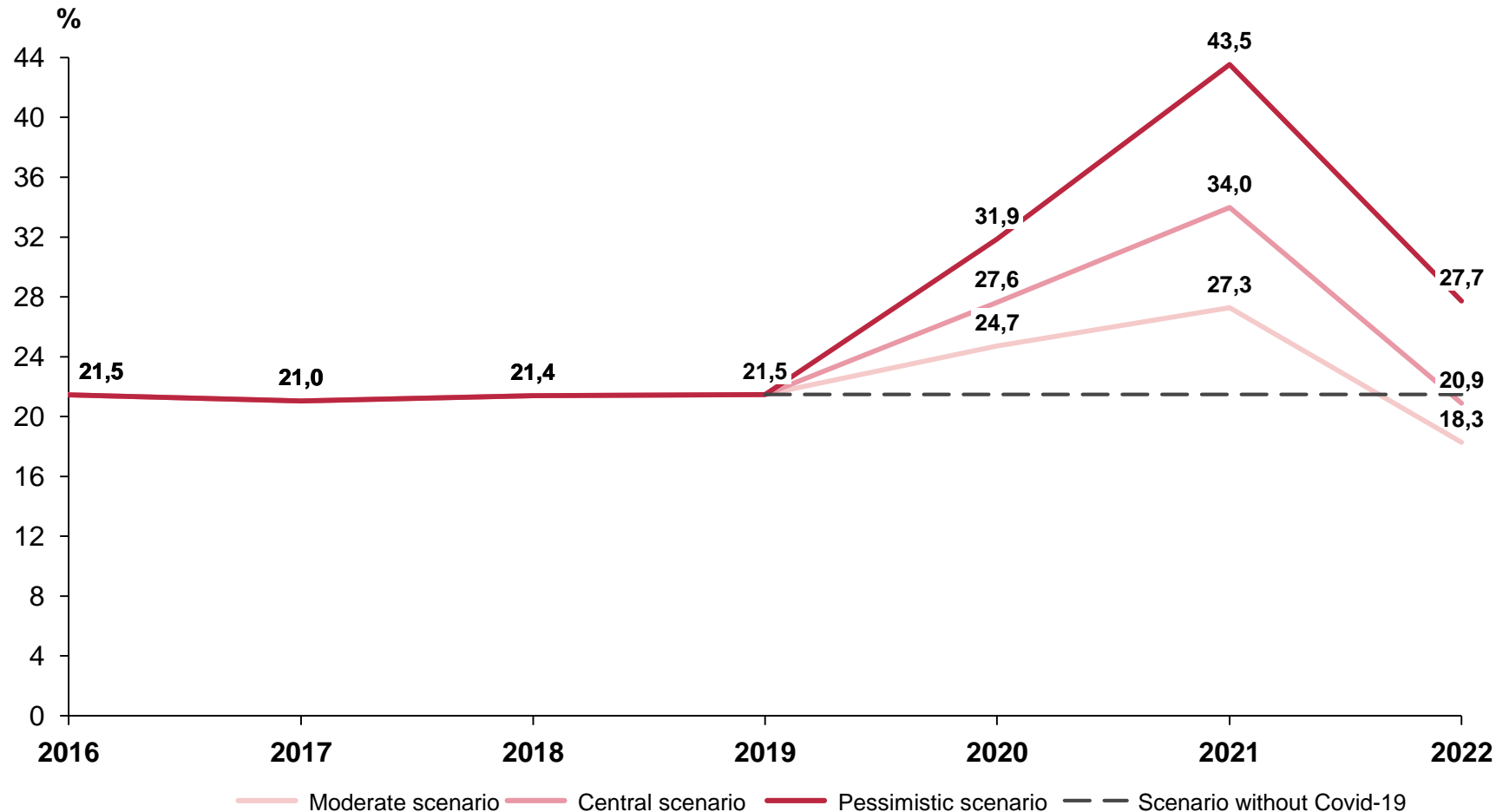
**Comments**

- The share of companies with **negative GOS** in industry is on **average 16% historically**
- **In 2020 and 2021, the share of companies with negative GOS should increase significantly to reach 30% in the pessimistic scenario in 2021.**
- This decline is the result of the sharp fall in added value in industry.



# In the pessimistic scenario, the share of industrial companies with negative EBIT is expected to double in 2021, with recapitalisation issues at stake.

## Share of companies with negative EBIT; % of total number of companies, projections 2019 - 2022



### Comments

- The share of companies with **negative EBIT** in industry is on **average 21% in historical terms**.
- In 2020 and 2021, the share of companies with negative EBIT is expected to increase significantly to reach ~44% in the pessimistic scenario in 2021.
- This decline is the result of the sharp drop in added value in industry, which is caught up in the central scenario in 2022.

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