Impacts of the COVID-19 pandemic on EU industries

Abstract

The COVID-19 crisis has had a substantial impact on the EU27 economy and triggered unprecedented policy responses across Europe and the globe. With evidence on the effects on the EU industry manifested until the beginning of 2021, this report aims to address the following key issues: (1) impact of COVID-19 on the EU economy as a whole and across sectors; (2) impact on strategic value chains; and (3) necessary recovery measures to meet the needs of the EU industry.

This document was provided by the Policy Department for Economic, Scientific and Quality of Life Policies at the request of the committee on Industry, Research and Energy (ITRE).

4. CONCLUSIONS AND RECOMMENDATIONS

The COVID-19 crisis has had an **abrupt impact on the EU27 economy.** By and large, **the economic shocks related to the second and subsequent waves have been more cushioned** compared to the first one. The real GDP is expected to reach pre-crisis levels by mid-2022 in both the EU and the euro area. This outlook is more positive than the initial forecasts from the beginning of the crisis, but a return of the economic activity to the pre-crisis levels would still be **slow growth for the EU industry** as compared to other leading economies.

Most manufacturing-based industries started recovering relatively quickly in Q3 2020, as confinement measures were increasingly lifted and as a result of various measures (e.g. the recognition of 'essential' sectors and their workers and green lanes to ensure transborder transport and supply chain functioning). However, there are **remarkable differences in performance amongst but also within sectors**. Large parts of the digital industry have performed well, and so has the healthcare industry. Enabling industries like chemicals, construction, and the food and drinks sector are likely to experience a V-shaped recovery. Despite the initial shocks, automotive and textile industries appear to be on a recovery path since the first lockdowns. **Sectors that are dependent on human contact and interaction, such as the cultural and creative industries and the aerospace industry** (due to the decrease in mobility and tourism activities), have experienced substantial hits by the crisis, and they are likely to suffer for extended periods from these unprecedented shocks.

The sectoral and value chain analyses show that **the pandemic acted as an accelerator of digitalisation**. The different trends in the COVID-19 effects are partially explained by the ability of businesses to go digital. In the case of the creative industries, e.g. streaming services, have largely profited from the crisis. The pandemic is also creating new opportunities for growth in the sector of autonomous vehicles. Furthermore, the crisis leads consumers to re-assess their needs and **allows for a potential acceleration of the green agenda**. For example, in the automotive sector, despite the decline in the demand for new vehicles, the impact of the pandemic on the demand for electric vehicles seems to be much less severe. This also affects the positive forecasts for the rebound of the batteries supply chain. Overall, the pandemic has increased the awareness of the benefits of the digital and green transition, which needs to be coupled with investments and political drives.

In order to remain internationally competitive, the EU will need to continue to rely on global value chains. However, the resilience of the value chains have been tested: the COVID-19 pandemic unveiled weaknesses, as many businesses were initially not able to cope with shortages in supplies caused by closed borders and closed manufacturing sites. Nevertheless, most supply chains quickly recovered and have been affected less severe during subsequent waves of infections. The overall view from industry and experts alike is that value chains can be strengthened through increased **diversification rather than reshoring/onshoring**. The crisis accentuated the strategic importance of value chains such as microelectronics, autonomous driving, batteries, and AI in light of the accelerating digital transformation and growing demand for electric vehicles. These value chains need to receive continued support and attention to ensure access to materials, investment, and skills. However, this should not lead to a sustained policy drive for relocation, as this trend could be at odds with the need to keep the EU industry internationally competitive. Furthermore, industry leaders and experts alike point to the limited stability of the investment climate in the EU's Neighbourhood countries and the reluctance to place (strategic) investments (including in R&D) in these countries.

The heterogeneity of impacts on EU industries illustrated by this study needs to be fully taken into account when preparing and elaborating recovery measures. The EU recovery package provides a