

AUTOMOTIVE SECTOR BULLETIN: 2018 UPDATE

Last year we released our inaugural sector bulletin on the UK automotive sector. In this bulletin update, we refresh the key data points one year on, take a look at the sector's trade performance, as well as highlight some new aspects of the sector we have discovered.

FACTS & FIGURES

In 2017 the automotive sector contributed **£16.5 billion** in GVA to the UK economy - representing a growth of **1.2%** ...

... making it the **3rd** largest manufacturing sector in the UK. The sector also generated a massive **£78 billion** in turnover in 2017.

Automotive manufacturers employed **159,000** people across the UK - a **3.9%** increase from 2015.

The West Midlands remains the beating heart of the industry. It is responsible for a huge **50%** of output and **36%** turnover.

A key characteristic of the sector is its investment and R&D intensity.... in 2016 the sector spent **£3.4 billion** on R&D (or **22%** of total manufacturing R&D), second only to the pharmaceutical sector.



**THIS IS A HUGE
20% INCREASE
FROM 2015**



All of which has helped cement the UK as a key global player:

**WE ARE THE
13TH LARGEST
AUTOMOTIVE
MANUFACTURER IN
THE WORLD....**

**AND THE 4TH
LARGEST IN
EUROPE
UNCHANGED
FROM A YEAR AGO**



TRADE PERFORMANCE



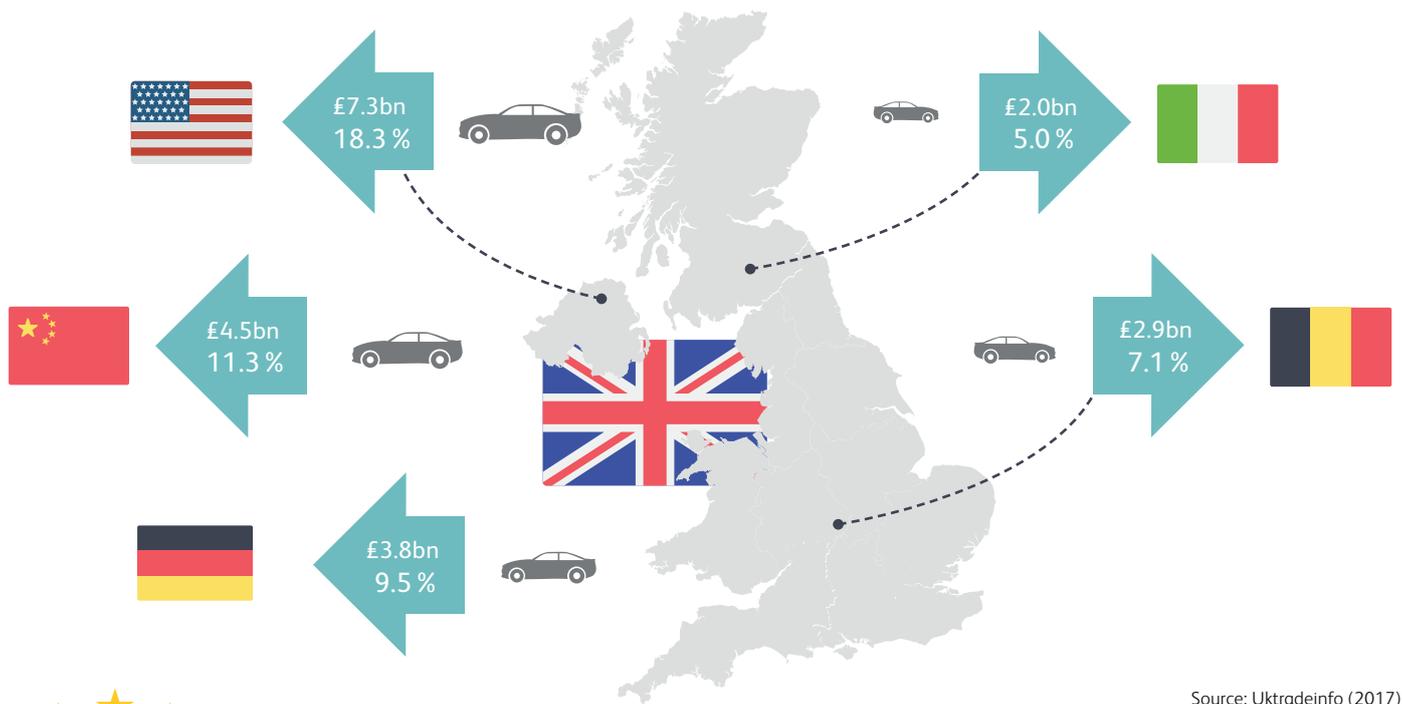
TRADE ALSO REMAINS VITAL TO THE SECTOR...WITH 29% OF FINAL DEMAND EMANATING FROM ABROAD.

In fact the UK is the **9th largest exporter** of cars in the world, and in 2017 exported goods to the value of **£40 billion...** This is a huge **26% increase** from our last report (2015 data) and accounts for **15%** of total manufactured goods exports.



Top 5 export markets

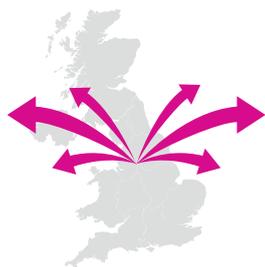
£ value and % of total automotive exports



Source: Uktradeinfo (2017)



The EU remains the sector's most important export market, with **45%** of exports destined for the bloc.



There are opportunities on offer outside the EU however, particularly from developing markets in Asia, where exports were up **21%** in 2017, the greatest growth of any region. The region now accounts for over **1/5** of all automotive exports.

However the EU is not only important for exports. **8 out of the UK's top 10 import markets** are located in the bloc, accounting for **84%** of imports in 2017.

The integrated nature of supply chains, and the EU's standing as the sector's largest export and import market helps explain much of the concerns surrounding **Brexit**.



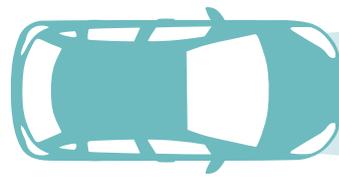
THINGS WE'VE DISCOVERED

1) A productive sector but still work to be done

The automotive sector has been one of the most productive UK manufacturing sectors over the last 20 years. Indeed in the period between 1995 and 2015, output per hour increased by a huge 90%.

Furthermore since the financial crisis the sector's productivity growth has

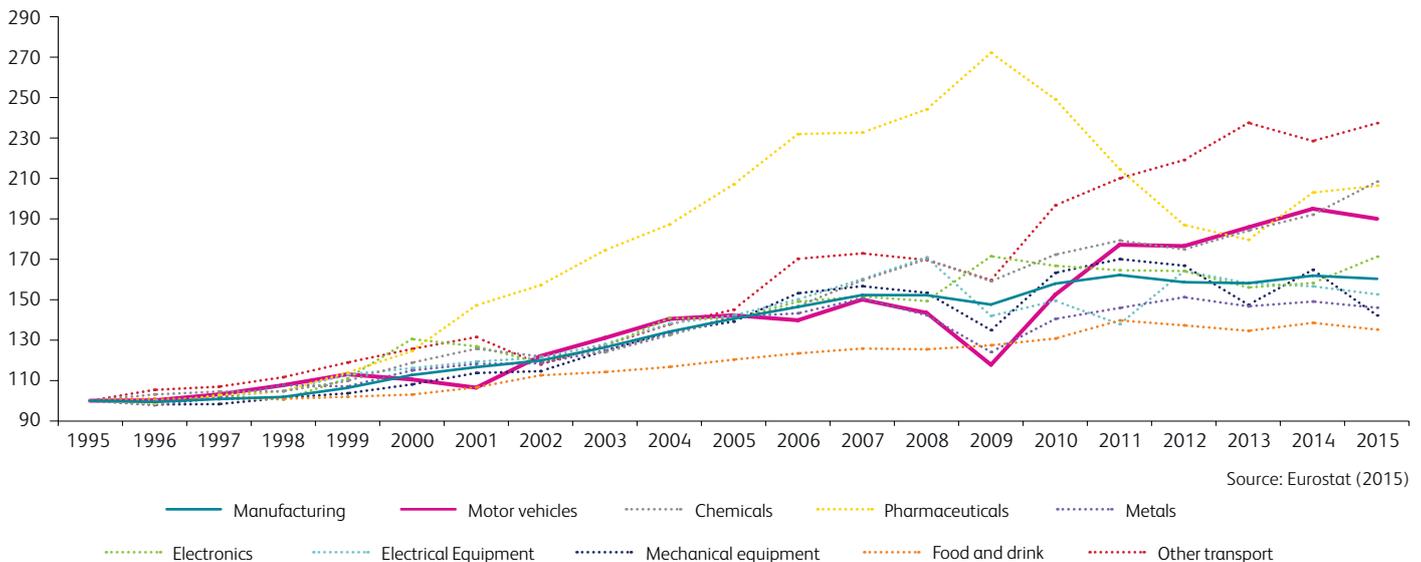
been the strongest of any sector, increasing by 61% since 2008.



THE AUTOMOTIVE SECTOR'S PRODUCTIVITY HAS INCREASED BY 61% SINCE 2008

Automotive productivity has been strong at the domestic level

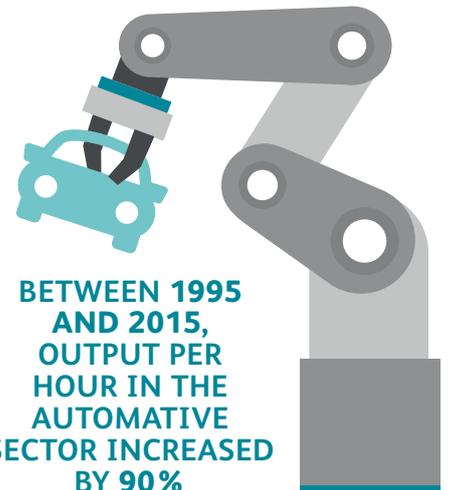
Output per hour, 1995 = 100



Despite the impressive growth, the sector is still lagging behind some of our international competitors in terms of productivity, with our German counterparts in particular outperforming us. There are a number of possible reasons posited for this, for instance the size of German motor vehicle firms, which in 2015 were seven times larger in terms of employees than the average UK automotive firm. You can read more on the other contributing factors in our sector

productivity work on our website.

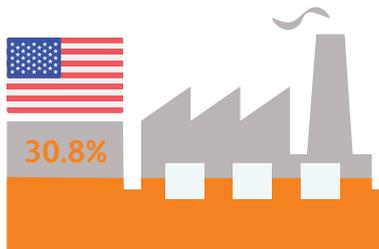
Nevertheless, it is clear that the UK is home to some world leading automotive manufacturers, which are helping to boost productivity in local areas. As an example, the area of Solihull in the West Midlands, where JLR has one of its main production plants, has a productivity 12% higher than the UK average and 29% higher than the average productivity of the entire region.



BETWEEN 1995 AND 2015, OUTPUT PER HOUR IN THE AUTOMOTIVE SECTOR INCREASED BY 90%

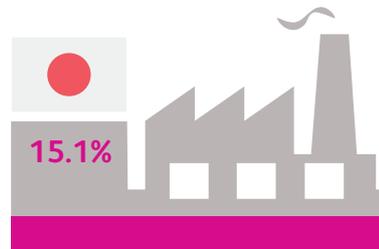
2) Higher degree of foreign ownership

The UK automotive sector, given its global standing and strong trade links makes it an attractive proposition for foreign multinationals. Indeed



over 6% of automotive firms - both Original Equipment Manufacturers (OEMs) and those in the supply chain are foreign owned, over double the average for the manufacturing sector as a whole. The biggest non-domestic

investor in the UK automotive sector is the US with 31% of foreign owned companies, followed by Japan (15%) and Germany (14%). This could have implications for major OEM's future investment decisions.



Source: Eurostat (2015)

3) An automotive sector deal

Since our automotive bulletin, the government released its much anticipated industrial strategy. The strategy looks at how industry can tackle some of the future "grand challenges" facing society. As part of this plan, the government announced an automotive sector deal at the start of 2018, building on the strong collaborative partnership established between government

and industry from the Automotive Council. The sector deal will look to improve supply chain competitiveness, reduce the sector's environmental impact, and crucially boost investment in emerging technology to ensure the sector remains at the forefront of the electric, connected and autonomous vehicles revolution (which we highlighted in the bulletin). While these announcements have

been welcome, government must ensure that they deliver on these promises, as well as outlining how other important sectors in the UK economy can receive similar support.





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