Taking stock: the impact of COVID-19 on the European lubricant industry

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The global COVID-19 pandemic has caused a major shock to the European economy and posed an unprecedented challenge to all economic sectors. As the lubricant industry is intimately intertwined with all manufacturing sectors, it too suffered a major setback.

Global disruption in supply chain and shortage in key raw materials, shrinking industrial activity, dampened consumer demand, and a major slowdown in transportation have put our industry under considerable stress.

Europe at the epicentre

If we look at the European economy in 2020, it has experienced a larger hit compared to the global economy. After the initial shock in economic activity which occurred in the first half of the year, the economy rebounded in the third quarter, as containment measures were gradually lifted. However, the resurgence of coronavirus infections led to another decrease in economic activity in the last quarter of 2020.

The manufacturing production in the EU27 experienced a sharp decrease in March and April 2020 (respectively -11.1 and -20% change on the previous period), during the first wave of the coronavirus. Most sectors recovered relatively quickly during the third quarter of 2020.

How the manufacturing sector was hit

It is interesting to observe that during the period September-November 2020 that coincided with the resurgence of COVID-19 cases, the manufacturing sector kept on growing, although at a more modest rate. To some extent, these dynamics indicate that EU manufacturing companies were able to adapt to the new realities of the pandemic and that the impact of the second lockdown upon the European industry was milder.

During the first wave of the pandemic, the European manufacturing industry was impacted by short-term supply shortages due to closed borders in the EU as well as beyond. Furthermore, the confinement measures during the first wave led to partial shutdowns of factories, as employees had to stay home or could only attend the workplace in limited numbers. As a consequence, the first wave led to bottlenecks in nearly all sectors. However, some sectors were more severely impacted than others, with the digital industry and healthcare industries performing well and enabling industries like chemicals, construction, and the food and drinks sector experiencing a decline but less severely than the transportation and textile industries.

Figure 1: *Manufacturing/services PMI (source OECD)*

Most manufacturing-based industries recovered relatively quickly during the third quarter of 2020, as confinement measures were increasingly lifted but also as a result of various measures, such as the recognition of 'essential' sectors. Naturally, the impact of the pandemic on different businesses also depended on the size and location within the company life cycle. Companies building up production were hit hard during both waves, due to the lower capital stock at hand, while those companies which had been up and running for some time were less affected during the second wave than during the first.

What about the lubricant industry?

From the point of view of the lubricant industry, the sectors that were hit hardest by the pandemics were the sectors that drive – directly or indirectly – the largest portion of lubricant demand, namely the automotive and the aerospace industry which, due to the decrease in mobility and tourism activities, experienced substantial hits.

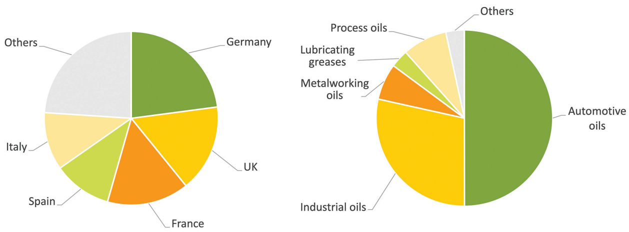

Figure 2: *Lubricant demand 2020 (source: UEIL)*

The supply chains of the European automotive industries were already disrupted by the first shutdowns of Chinese factories in the beginning of 2020. More severe, however, was the impact of factory shutdowns in Europe between March and May. Across Europe, automotive factories were closed for an average of 30 days, with the shortest downtime in Sweden (15 days) and the longest in Italy (41 days). Overall, in 2020, the passenger car market contracted by 23.7% and the commercial vehicle market shrank by 18.9%.

An interesting aspect is that the COVID-19 pandemic accelerated and amplified the ongoing trends in the automotive industry, in particular the growth of the electric vehicle market. Firstly, consumer behaviour has been changing towards more private mobility instead of public mobility to reduce infection risks, and at the same time, regulators have intensified activities for climate protection in the mobility sector. As a result, in 2020 hybrid electric vehicles made up 11.9% of the total passenger car sales across the EU, up from 5.7% in 2019 and electrically-chargeable vehicles saw a similar surge in demand, accounting for 10.5% of all new car registrations in the European Union, compared to a 3% market share in 2019. This trend is expected to continue, as recovery measures linked to the green transition are incentivising investments in this sector.

Overall, the European lubricant market shrank by 11% in 2020. Even if not all countries and product segments were affected to the same extent, the high-level industry footprint did not significantly change. The five largest European markets, Germany, UK, France, Spain and Italy accounted for more than 75% of the total market. The split between automotive and industrial was approximately 50-50 and has oscillated around these values for the past 10 years or more.

While all segments were impacted, metalworking fluids was the segment contracting most, due to the combined effect of the plunging demand in the automotive and aerospace industries, which were the most severely affected sectors by the pandemic, and lower demand from the primary metal sector, which impacted rolling oils.

All five major markets experienced a significant contraction, with Germany being the most severely impacted market. It is difficult to pinpoint a single factor behind the geographic differences in demand drop, as this was the result of concurring factors, such as the extent of lockdown measures, the specificity of the country's industrial tissue, as well as the extent and impact of supply chain disruptions.

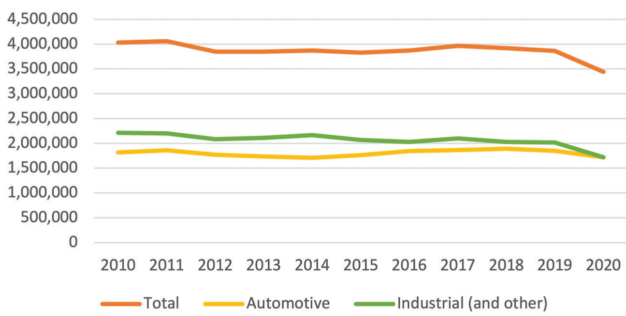

Figure 3: *Lubricant sales volumes 2010-2020 (Europe)*

2022: a resurgence?

Looking forward, the EU economy is already rebounding from the pandemic recession faster than expected. During 2021, as vaccination campaigns progressed and restrictions started to be lifted, growth resumed in spring and continued unabated through summer, underpinned by the re-opening of the economy. At almost 14% in annual terms, the rate of GDP growth in the EU in the second quarter

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of 2021 was the highest reading on record – as high as the unprecedented fall in GDP in the same period last year, during the first wave of the pandemic. The EU economy regained the pre-pandemic output level in the third quarter of 2021 and moved from recovery into expansion.

Despite mounting headwinds, the EU economy is projected to keep expanding over the forecast horizon, achieving a growth rate of 5% in 2021, 4.3% in 2022 and 2.5% in 2023. This forecast depends heavily on two factors: the evolution of the COVID-19 pandemic and the pace at which supply can adjust to the rapid turnaround in demand following the re-opening of the economy. Domestic demand is set to continue to drive this expansion. Improvements in labour markets and a projected decline in savings should contribute to a sustained pace of consumer spending. The implementation of the Recovery and Resilience Facility (RRF) is also starting to play an important role in boosting private and public investment.

Nevertheless, bottlenecks and disruptions in global supply will continue to weigh on activity in the EU, in particular in its highly integrated manufacturing sector. An example is the impact that semi-conductor shortages is having on the automotive industry. Moreover, after having fallen sharply in 2020, energy prices, particularly for natural gas, have increased at a tumultuous pace over the last months and are now well above pre-pandemic levels. This is set to weigh on consumption and investment.

Lessons learned and opportunities for development

The COVID-19 pandemic has also offered the opportunity to accelerate existing trends in relation to the twin transition. The national recovery plans are expected to amplify and accelerate both the digital and green transitions, as they will focus on investments to support sustainable growth and fight climate change. The twin transition is also seen as critical in strengthening European value chains. The EU's Action Plan on Critical Raw Materials acknowledges the importance of circular economy and the reuse of materials in decreasing dependencies and strengthening value chains. Also, the digitalisation of supply chains can be an important step for companies to mitigate the impact of possible disruptions and attain business resilience.

The twin transition can provide growth opportunities to the European lubricant industry, with large sectors such as manufacturing, renewable energy, and agriculture most likely to be impacted. Leveraging digitalization to capture value growth will also be key to support the growth of the lubricant sector, to counteract the likely negative impact on demand of the electrification of the car parc. There are several examples of how digitalization can support value growth, such as site-wide fluid management system with real-time used-oil analysis, real-time monitoring of stock levels, and digital marketing. All these can provide a way to move from product supplier to solution provider, thereby strengthening the relationship with the customers. Another opportunity is represented by e-commerce. It may seem to be going the opposite way from value-based selling.

However, we should not forget that the lubricant market is very diverse, ranging from specialties like for instance metalworking fluids – where a high level of service is usually provided – to commodities such as hydraulic fluids. Being able to sell commodities through an e-commerce platform could free valuable resources to dedicate to specialties.

The most successful companies will be those which will be best position themselves for the value pools of the future.

UEIL Industry Statistics

The figures in this article relating to the European lubricant market are based on the official statistics produced by the European Lubricant Industry Association (UEIL), which cover the European Lubricant Market for the years 2019 and 2020.

As the European Association for the sector, UEIL strives to provide an independent and impartial view of the European lubricant market. The data are developed by a team of experts from leading lubricant producers with the help of external consultants for data modelling. The data interpretation and comments are produced by UEIL experts.

Complete data are available in excel format and a market summary with country analysis is available in pdf format. More information can be found on the UEIL website (https://www.ueil.org/about-us/structure/ueil-statistics-committee/) or by emailing the Secretariat (secretariat@ueil.org).