Flash Economics

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Europe's deindustrialisation is likely to accelerate

The euro zone has already undergone significant de-industrialisation since 2021: the manufacturing industry's share of GDP has fallen from almost 16% in 2011 to 14.7% by the end of 2024.

Unlike in the United States, this decline in the weight of industry has not been offset by an increase in the weight of technological services (the weight of technological services in GDP is 7% and growing in the United States, whereas it is stagnating at around 4% in the euro zone).

It is to be feared that the de-industrialisation of Europe will continue because of:

- Weak R&D and business investment;
- High energy prices and the cost of decarbonisation;
- The low level of scientific skills among the population;
- Competition from China and the countries of Central Europe;
- Pressure from the Trump administration for European companies to locate their production in the United States.

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De-industrialisation of the euro zone is not offset by growth in technology services

The manufacturing industry's share of euro zone GDP has fallen sharply since the start of 2021, from 16% of GDP to 14.7% at the end of 2024 (**Chart 1**).

Chart 1
Euro zone: Real value added in manufacturing
(as % of real GDP)



Unlike in the United States, the de-industrialisation of the euro zone (cf. comment page 1) **has not been offset by strong growth in technology services**, due to the weakness of investment in new technologies in the euro zone (**Charts 2A/B**).

Chart 2a
Gross value added of the ICT sector
(as % of nominal GDP)

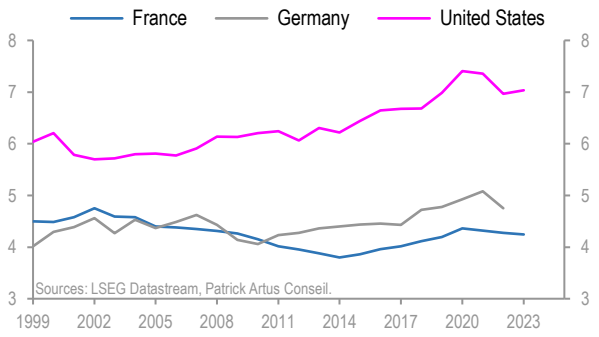
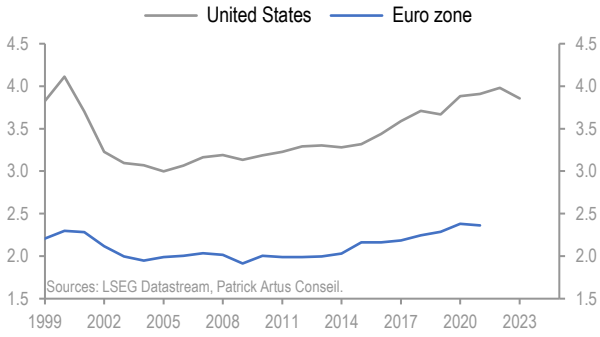


Chart 2B
ICT investment including software
(in value terms, as % of nominal GDP)



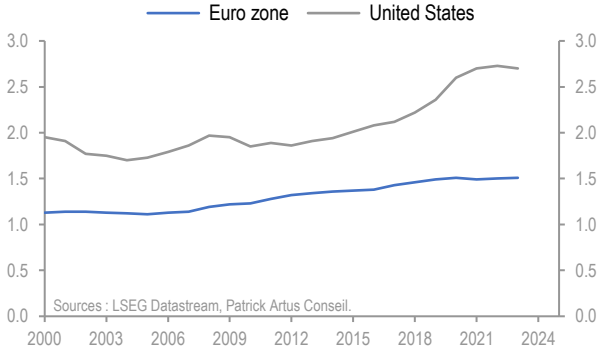
There is a risk that the de-industrialisation of the euro zone will continue

There are five reasons why the de-industrialisation of the euro zone could continue.

1. weak corporate R&D and investment

Euro zone companies invest less in R&D than their US counterparts (**Chart 3**), and this is holding back their productivity.

Chart 3
Corporate R&D spending (as % of nominal GDP)



What's more, their rate of investment is low (Chart 4), especially since 2020, and has been falling even more recently.

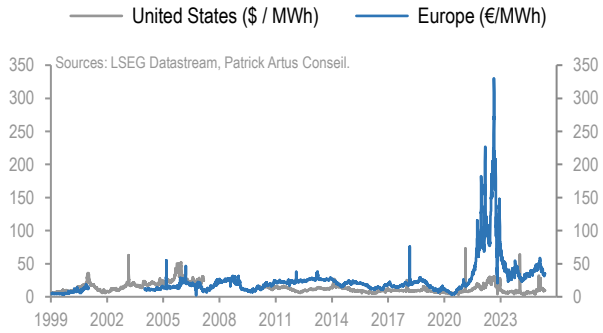
Chart 4
Investment of corporations
(in value terms, as % of nominal GDP)



2. High energy prices and the cost of decarbonisation

Since Russian natural gas supplies were cut off as a result of the war in Ukraine, the price of natural gas has risen sharply in Europe (Chart 5), which is unfavourable for companies that consume large amounts of energy (steel, aluminium, fertilisers, plastics, etc..), and is driving them to locate their production in the United States.

Chart 5
Natural gas price



The high cost of decarbonising industry may also have discouraged companies from investing in Europe.

3. Weak scientific skills in the population

Table 1 shows the scientific skills (in numeracy) of the population, as measured by the OECD's PIAAC survey.

Table 1: Results of the OECD PIAAC survey (score in numeracy, 2023, by decreasing score)

Country	Score
Japan	291
Sweden	285
Germany	273
Canada	271
France	257
Spain	250
Italy	244

Source: OECD

We can see the weakness of scientific skills in France, Spain and Italy, which is an obstacle to the development of industry.

4. Competition from China and Central European countries

Low production costs in China and Central European countries (Table 2) and China's high level of technology (for photovoltaic cells, electric batteries, wind turbines, etc..) are driving the relocation of production from the euro zone and the substitution of imported production for domestic production in euro zone countries (Charts 6a/b).

Since 2021, we have seen an increase in manufacturing output, particularly in China and Poland.

Table 2: Mean nominal hourly labour cost per employee in the manufactring sector (2023, USD)

Country	Mean nominal hourly labour cost (USD)
China	9.5
Romania	10.5
Poland	14.2
Hungary	14.7
Spain	28.0
Italy	32.7
France	48.2
Germany	49.7

Sources : ILO, LSEG Datastream

Chart 6A
Manufacturing production (Y/Y as %)

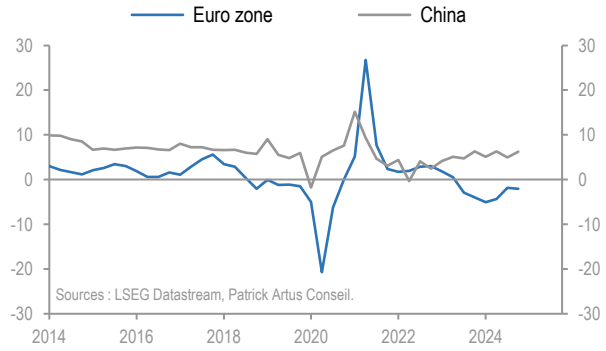
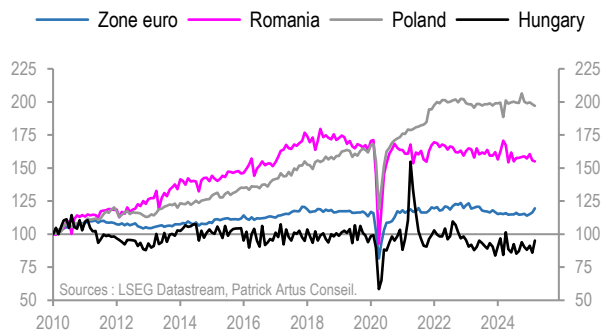


Chart 6b
France: Manufacturing production (01.01.2010 = 100)

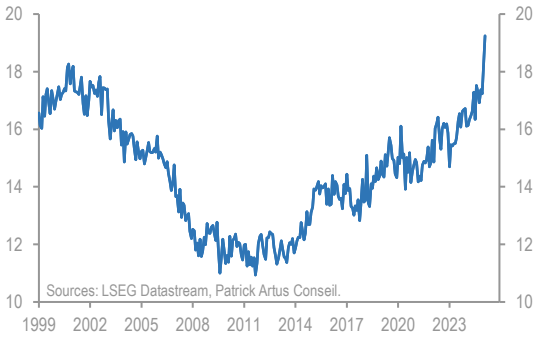


5. The Biden administration's and then the Trump administration's policy of relocating industry to the United States

18% of goods exports from the euro zone go to the United States (Chart 7). With Joe Biden's Inflation Reduction Act (IRA) and Donald Trump's imposition of tariffs on imports from Europe, the United States aims to relocate to the US some of the European industrial production that was previously exported to the US.

The effect of the tariffs could also be reinforced by a deliberate **policy looking to facilitate the dollar's depreciation**.

Chart 7
Euro zone: Exports of goods to the United States
(as % of goods exports)



Summary: reindustrialising the euro zone is proving difficult

The countries of the euro zone are keen to reindustrialise. But reindustrialisation of the euro zone is hampered by a number of obstacles:

- Weak R&D and business investment;
- High energy prices since 2022 and the costs associated with decarbonisation;
- Weak scientific skills;
- Competition from China and the countries of Central Europe;
- The Trump administration's desire to re-industrialise the United States.

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