

ERT Economic Confidence Survey

Background Report

For

European Round Table for Industry

**Centre for European Economic Research
Zentrum für Europäische Wirtschaftsforschung (ZEW)**

Mannheim, 27 November 2019



ZEW

Zentrum für Europäische
Wirtschaftsforschung GmbH

Contact:

Georg Licht

Department
Economics of Innovation and
Industrial Dynamics

L 7, 1 · 68161 Mannheim

Postfach 10 34 43
68034 Mannheim

E-Mail licht@zew.de

Phone +49 621-1235-177 (office)
+49 163-6235-177 (cell)

Telefax +49 621-1235-170

DISCLAIMER: This background document does not necessarily reflect the opinion of ERT. ZEW is solely responsible for the correctness of the data as well as any interpretation and conclusion provided in this report.

AUTHORS:

Georg Licht

Markus Trunschke

Contact:

Centre for European Innovation Research (ZEW)

Department Economics of Innovation and Industrial Dynamics

Tel: 0049 (0) 621 1235194

D - 68161 Mannheim

Table of Contents

1	Introduction.....	3
2	Results.....	3
2.1	ERT Confidence Index.....	3
2.2	Business Outlook in General.....	6
2.3	Sales, Investment and Employment.....	7
2.3.1	Sales Expectations.....	7
2.3.2	Investment Expectations.....	9
2.3.3	Employment Expectations.....	10
3	Field Work.....	12
	Appendix 1: Detailed results of the autumn 2019 edition.....	13
	Appendix 2: The ERT Index Score.....	14
	Appendix 3: The Online Questionnaire.....	15

1 Introduction

The ERT Economic Confidence Survey (ECS) is a survey organised for the European Round Table for Industry (ERT) and is conducted by the Centre for European Economic Research (ZEW). The aim of the survey is to provide insights into the short-term business expectations of the CEOs and Chairs of leading European industrial companies. All 59 ERT members were invited to participate in the survey. A total of 52 responses were collected.

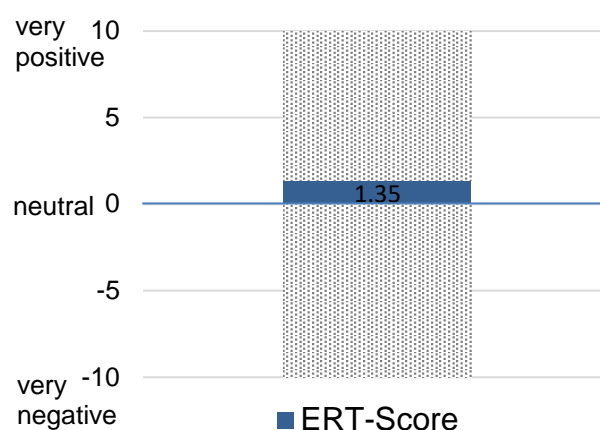
This edition in autumn 2019 of the ERT Economic Confidence Survey constitutes the fifth full version of the six-monthly survey, which was first conducted in autumn 2017. The next edition is planned for May 2020. The ECS aims to follow and visualise the development of economic expectations of ERT members and usually consists of two parts. The first part is repeated over all survey waves similarly and includes a number of questions covering the member's economic expectations of three key firm performance indicators: Investment, sales and employment. All three indicators distinguish between the expected development in Europe and outside of Europe. In addition, the second part of each survey may feature the attitude of ERT members towards current political priorities or economic policies and trends. The previous survey (Spring 2019 edition) contained special questions regarding the top priorities for the incoming European Commission and the attractiveness of the Europe.¹

2 Results

2.1 ERT Confidence Index

The ERT Confidence Index² is a comprehensive tool quantifying the overall results in one figure (index). It allows to track and compare the results from different survey waves. It is bounded between -10 and 10 while zero would be a neutral score. The ERT Confidence Index thus summarises the overall business expectations. This autumn 2019 edition shows that a majority of ERT members still expects a positive development (see figure 1). However, even though general

FIGURE 1: ERT INDEX: BUSINESS OUTLOOK: OVERALL ASSESSMENT



¹ See the results of the Spring 2019 edition here: <https://ert.eu/documents/ert-economic-confidence-survey/>.

² See Appendix 2 for a detailed explanation of the ERT index construction.

expectations are positive, its low value of 1.35 indicates that a large group of respondents does not expect an improvement of their general business situation over the next six months.

Comparing the current ERT Confidence Index of general business expectations with the results from the previous four surveys in figure 2, one can quickly find that the current results constitute the lowest business expectations since the start of the survey. Compared to the survey half a year ago, the ERT Confidence Index is

nearly cut in half. The low value of the index reflects the critical situation of the current business climate which mirrors the high uncertainty due to perspective of global trade,

FIGURE 2: ERT INDEX: OVERALL DEVELOPMENT

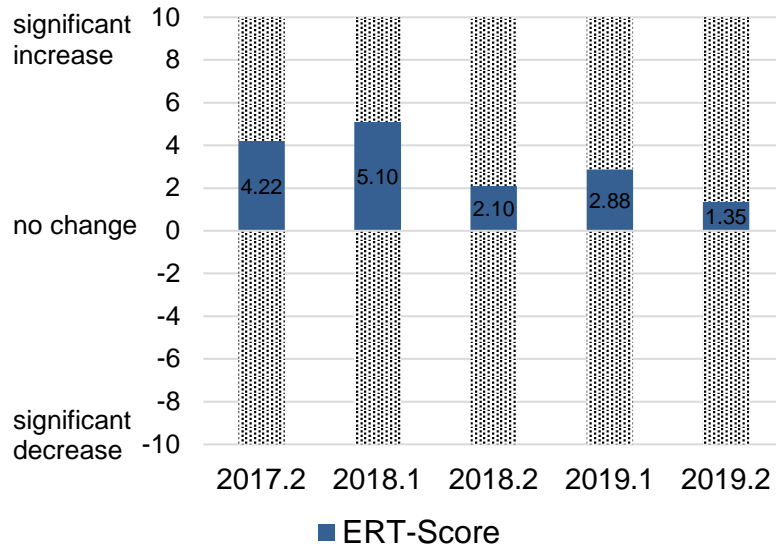
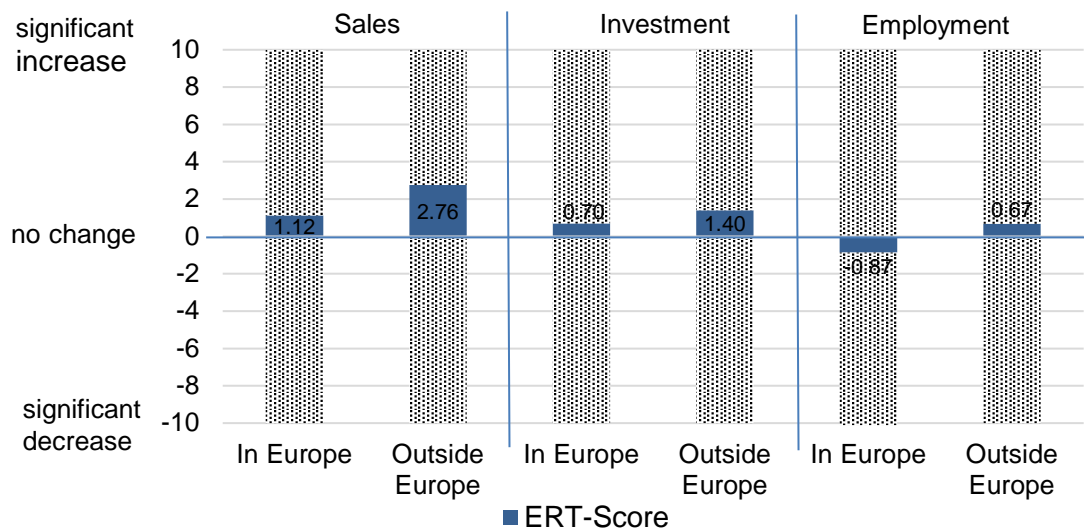


FIGURE 3: ERT INDEX: DETAILED RESULTS



disruptive technological change but also the short-term business cycle. One of the respondent explains: “Deterioration of global trade relations (trade wars, WTO challenges) are causing uncertainty and potentially a reduction in global trade and economic growth”. Another response points to the “continuously reduced demand in manufacturing sectors

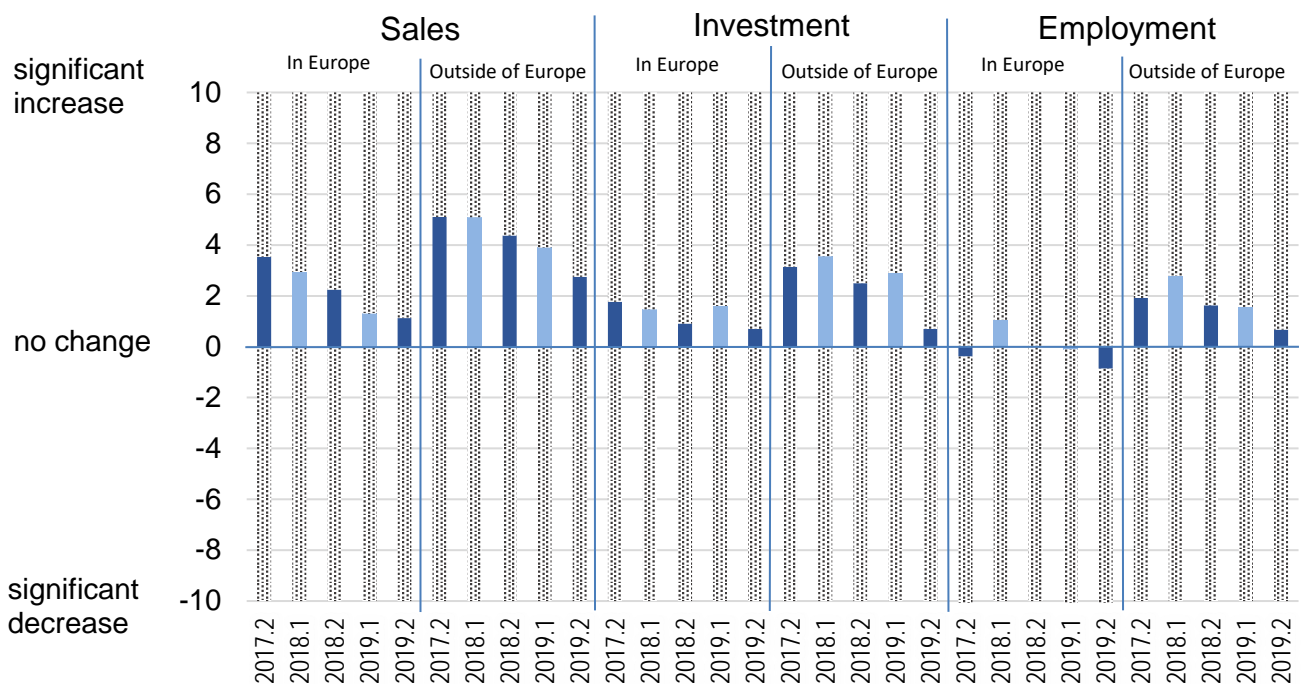
(Auto, Electronics, Oil & Gas) with no clear perspective of recovery in the short term". But we also note that the index is still positive which points to continued growth in the next six month. The current situation is nicely summarised by the following statement from one of the CEOs: "Global growth continues to stay within typical ranges for long-term trends, though downside risks related to geopolitical uncertainty and trade tension persist."

In order to analyse the expectations in greater detail, we focus on three key components of the business development – sales, investment and employment (see figure 3). The results show that expectations are generally positive for most indicators. Only the ERT index for employment expectations inside Europe is below zero expressing a slightly negative

expected development. In contrast, expectations for employment outside of Europe are low but still positive. As in previous survey waves, sales and investment expectations are generally lower for Europe than for the rest of the world. The downward trend already observed for general business expectations is also present for the three subcategories. All ERT indices exhibit strong declines since the first survey in autumn 2017 (see figure 4). In the results from spring 2019 the trend was halted and in some cases even got reversed. However, the downward trend now continues as before.

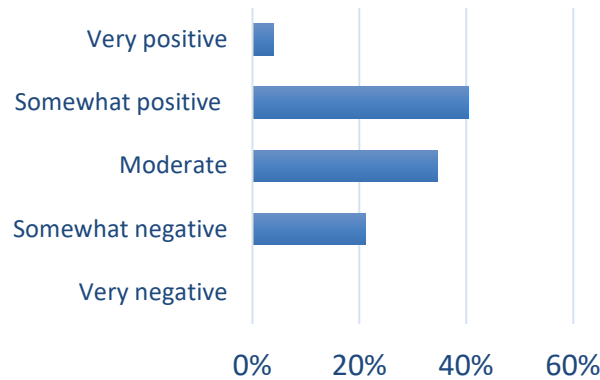
All ERT indices are at their lowest level since the start of the survey in 2017 with previously rather stable investment and employment expectations outside of Europe exhibiting steep falls. Overall, most ERT Indices still show a positive picture, even though business expectations in general declined strongly.

FIGURE 4: ERT INDEX: CHANGE



2.2 Business Outlook in General

FIGURE 5: GENERAL BUSINESS OUTLOOK

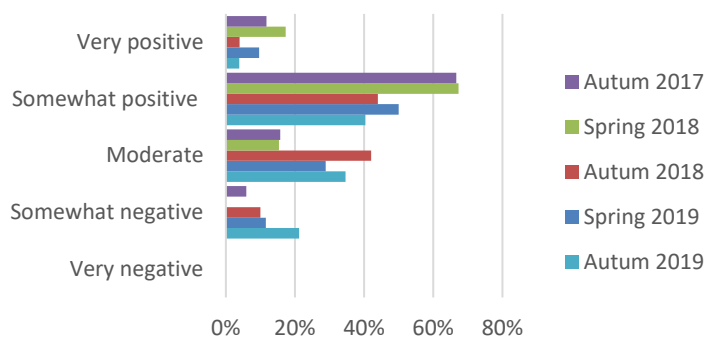


On average, ERT members still expect their companies to perform positively in the next six months. However, this is the result of a growing number of members expecting a moderate development while less than 50% believe in a positive development. A large share of about 21% see their company’s business development to be somewhat negative over the near future. No member has very negative

expectations.

The distribution of the general business expectations constantly shifted from optimistic believes to a rather neutral picture (see figure 6. The percentage of members expecting a

FIGURE 6: GENERAL BUSINESS OUTLOOK: CHANGE



very positive or a somewhat positive development constantly declined over the last two years from about 80% to about 45% in the current wave. At the same time, the share believing in business staying stable grew strongly from less than 20% in 2017 to about 35%. Also negative beliefs have

strongly increased to up to 21%. It needs to be mentioned however, that until now in all waves no ERT member saw very negative general business developments.

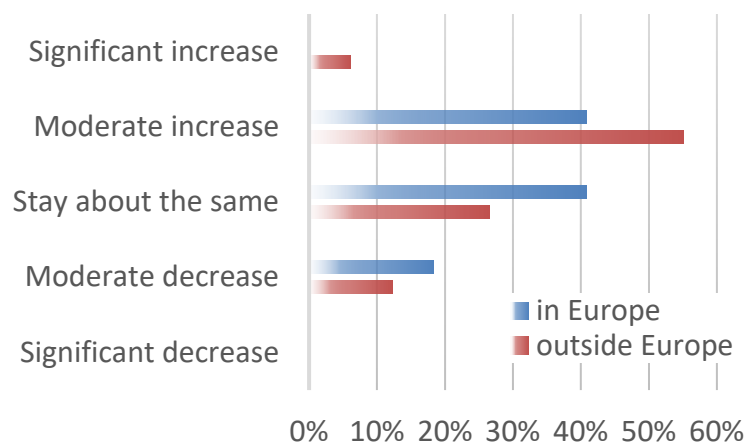
2.3 Sales, Investment and Employment

For the further analysis of business expectations of ERT members, we break down the general business outlook into three subcategories for a deeper analysis of the business expectations of ERT members. All three indicators are subdivided into expectations for Europe and expectations for the rest of the world.

2.3.1 Sales Expectations

The first indicator focusses on ERT member’s sales expectations over the next six months. ERT members in general expect sales of their companies to increase over the next six months

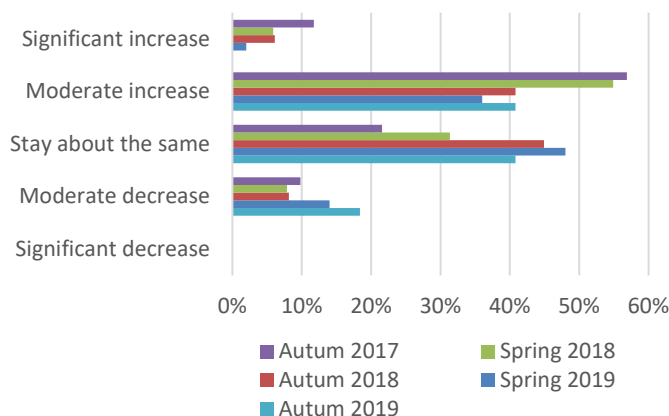
FIGURE 7: SALES OUTLOOK



for both Europe and the rest of the world. The distributions of those expectations differ between the two regions remarkably. About 6% expect a significant increase outside of Europe while no member sees such an increase in sales for the European market. Also a moderate increase is expected by a larger percentage of

members for the rest of the world (55%) than for Europe (41%). In turn, a much higher number of ERT members believe that sales will not change for the European market than for the non-European one. A moderately negative development for the European market is expected by 18% while only 12% expect a decrease for outside of Europe. A strong decrease is not expected by any member.

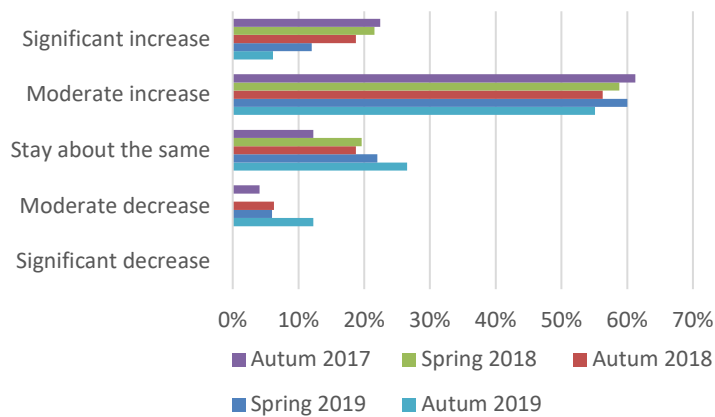
FIGURE 8: SALES INSIDE EUROPE: CHANGE



is not expected by any member.

The trend already observed for general business expectations can also be observed for sales expectations for both inside and outside of Europe. The number of ERT members expecting a significant or moderate increase in sales inside of Europe constantly

FIGURE 9: SALES OUTSIDE OF EUROPE: CHANGE



declined such that currently no member expects a significant increase in sales for the European market and only 6% for the non-European one. At the same time, the share of members believing in no change or even a moderate decrease has grown substantially for both markets. In 2017 only 32% expected a moderate decrease or no change in sales for the European

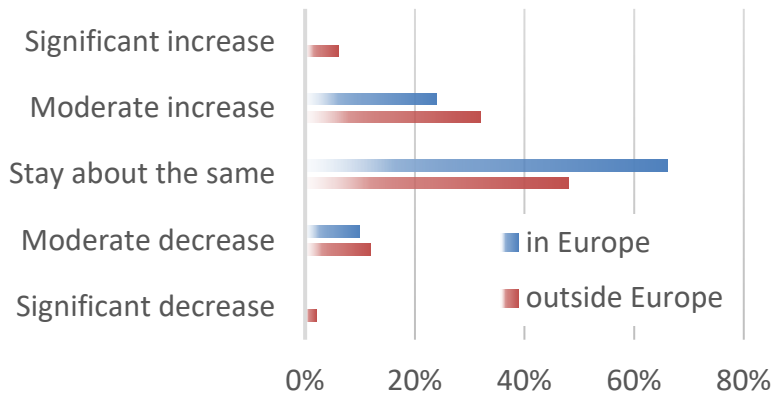
market and 16% for the non-European market. This minority has grown until the current wave to a majority of 69% for Europe and 39% for the rest of the world. However, even though sales expectations have become less optimistic, no member expects a significant decrease in sales.

Typically, the difference between markets in Europe and outside of Europe is attributed to a “general slowdown of the economy in Europe” and the pressure on margins. CEOs pointed to the “continuation of influx of Asian products into Europe negatively impact our industry” or to “margin pressure in major products increased especially from competition from Emerging Markets”. In addition, a large number of CEOs also point towards the uncertainty in European markets due to Brexit and trade conflicts e.g. refer to “threats caused by Brexit and trade tensions with USA & China”. Some CEOs observed several industry specific developments which hit European markets harder than other markets referring to a “continuously reduced demand in manufacturing sectors (Auto, Electronics, oil & gas...) with no clear perspective of recovery in short term”. However, there are also industries for which the European market looks quite promising as noted by another CEO: “In terms of the construction market, the outlook is a continued demand growth across most European countries we are present in, except in countries with high political uncertainties. Margin improvement is driven by positive price momentum and operational efficiency”

2.3.2 Investment Expectations

The distribution of investment expectations as shown in figure 10 below draws a similar picture as sales expectations. As the ERT index for this indicator already expressed, a large majority of 66% expect their investment in Europe to stay at a similar level for the next six months.

FIGURE 10: INVESTMENT OUTLOOK

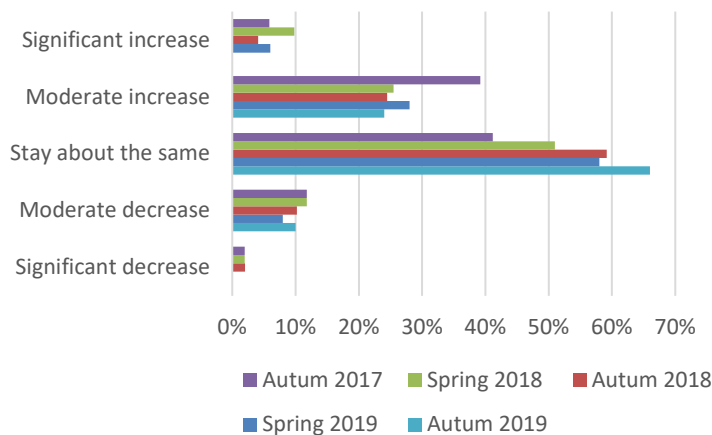


From those who expect a change, 24% believe their investments to increase slightly while only 10% expect a moderate decrease in investment. However, no member expects any large changes in investment for the European market. Investment expectations for outside of Europe are more volatile. Even

though 48% of members expect no change, 38% believe that investment will increase either slightly or significantly over the next six months. About 14% expect a decrease with 2% expecting a strong drop in investments outside of Europe.

Investment expectations have historically been the most stable of the three indicators.

FIGURE 11: INVESTMENT INSIDE EUROPE: CHANGE

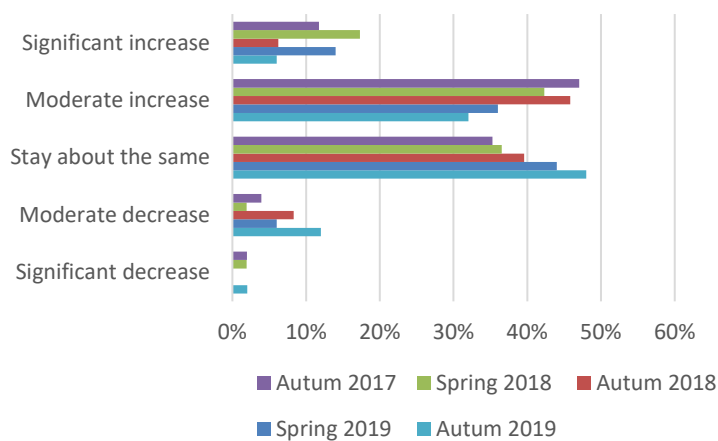


However, the negative trend seems to influence the development of investments inside- and outside of Europe, too. As shown in figure 11 the distribution of investment expectations for Europe slowly shifted over the past two years from a majority expecting increases to a majority expecting no change over the next half year. The share of ERT

members having pessimistic expectations for investments in Europe has, however, been stable over time and even slightly declined with no member expecting a significant decrease in the next six months.

Beliefs of investment development for the non-European market have shifted in a similar direction. Again, fewer members see an increase in investment of any kind in the near

FIGURE 12: INVESTMENT OUTSIDE OF EUROPE: CHANGE



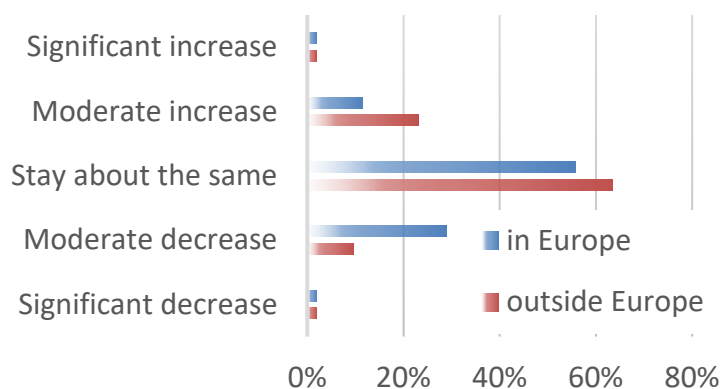
future, while the number of members expecting no change constantly grew. Differently than for the European investments, the percentage of members believing a moderate or significant decrease to happen has risen from less than 10% in 2017 to about 14% in the current wave.

The investment expectations are mainly driven by medium-term and long-term sales expectations. However, CEOs also point toward political and regulatory uncertainty hampering investment decisions. Positive investment signals are derived from the observed need to invest into the digitalisation of companies which drives the investment especially in the communication and the software sector. As one CEO says “a remarkable strong international momentum for 5G communications infrastructure investments benefiting those that have a strong technology leadership position”. Unfortunately, there seems to be also a disadvantage of the European market as that this investment trend is “stronger in North America and East Asia, but also the Middle East. Europe is more patchy, generally behind other regions in the investment cycle.”

2.3.3 Employment Expectations

The third and last indicator of business expectations looks at the development of

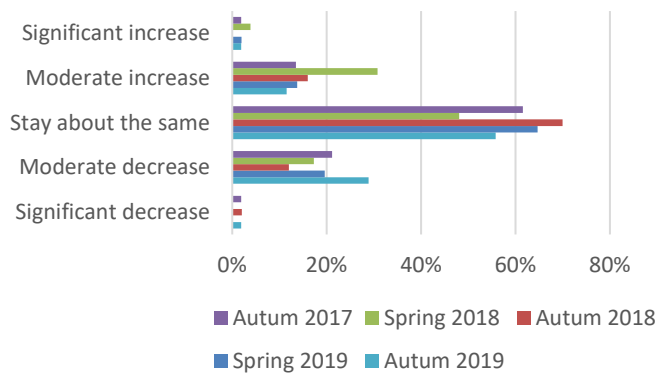
FIGURE 13: EMPLOYMENT OUTLOOK



employment plans for the next half year. This indicator has historically been the one with the least optimistic outcomes. For Europe, ERT members on average expect employment to fall slightly. However, one can see that the distribution (see figure 13) is similarly to investment expectations highly concentrated at neutral expectations. Over

50% expect no change to happen. When it comes to expected changes in employment for the non-European regions, the concentration even rises with over 60% expecting a stable development.

FIGURE 14: EMPLOYMENT INSIDE EUROPE: CHANGE

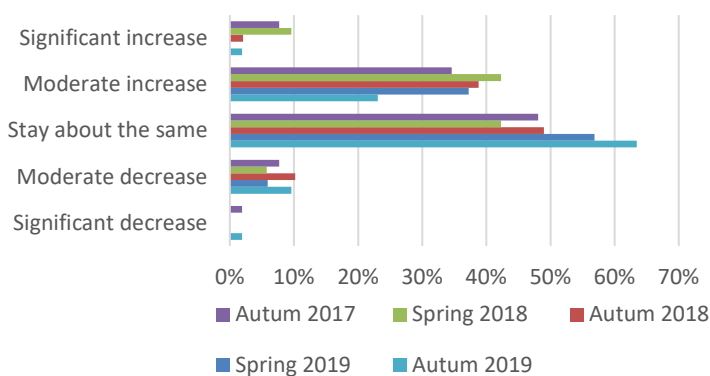


The outlook for Europe is more pessimistic than for the rest of the world because the share of members believing in a moderate decrease is about 30% three times as high. The reverse can be observed for a moderate increase where only 12% expect employment to rise in Europe compared to 23% outside. Only a very small minority of members only sees

extreme positive or negative changes. One CEO explains that a current skills shortage in the European labour market might be one cause for the relatively negative employment expectations.

The downward trend seen in the other indicators is also present for employment inside and outside of Europe. Less members expect employment inside of Europe to rise in the next months and even the share expecting no change generally decreased in the last two years. At the same time, the percentage of members expecting a decrease strongly increased since last year after initially declining from autumn 2017 to autumn 2018. Only a small but stable share of 2% expected in all autumn surveys a significant decrease in employment. The

FIGURE 15: EMPLOYMENT OUTSIDE OF EUROPE: CHANGE



number of members having very optimistic beliefs stayed similarly low but stable.

Outside of Europe, expectations have exhibited a similar trend over the last two years, even though they are generally more optimistic. The distribution has also shifted towards a more pessimistic view (see

figure 15). Less members expect significant or moderate increases. Two years ago, over 40% believed employment to rise. This share has dropped to only 25% in the current wave. The number of members with more pessimistic expectations for employment has grown slowly while the share of members expecting no change or a decrease has risen drastically by 17% since autumn 2017. But this decrease is not uniform across industries. Employment expectations are mainly driven by a more pessimistic outlook in some sectors which are currently undergoing a structural change like in automotive industry. One CEO nicely phrased the current challenge: "It is important that all stakeholders contribute and that all

efforts to move to a net-zero emission world are support by sustainable policy and regulation.”

Overall, most indicators still express a moderately positive picture. On average, most indicators are expected to increase in the near future. However, a clear negative trend of expectations can be observed for the past two years. Now, expectations point to a moderate increase or no change in business rather than a significant increase.

3 Field Work

Initially, a mail was sent to all ERT associates of the 59 ERT members on October 16, 2019. This mail contained a member specific link to the online questionnaire and operating instructions. Before the official beginning of the survey, Frank Heemskerk, ERT Secretary General, announced this survey edition and encouraged every member to participate. We had participation of a total of 52 responses which represents a total response rate of 87%³. One final response considered for the final survey outcome was recorded on Friday, November 8.

³ Please see Appendix 1 for the number of response by question.

Appendix 1: Detailed results of the autumn 2019 edition

Question 1: How would you characterise the general business outlook for your company right now?

Answer Option	Relative	Absolute
Very negative	0%	0
Somewhat negative	21%	11
Moderate	35%	18
Somewhat positive	40%	21
Very positive	4%	2
N		52
Missing		0
ERT Index Score		1.35

Question 3: Over the next six months, what do you expect will happen with your company's sales?

Answer Option	In Europe		Outside Europe	
	Relative	Absolute	Relative	Absolute
Significant decrease	0%	0	0%	0
Moderate decrease	18%	9	12%	6
Stay about the same	41%	20	27%	13
Moderate increase	41%	20	55%	27
Significant increase	0%	0	6%	3
N		49		49
Missing		3		3
ERT Index Score		1.12		2.76

Question 4: Over the next six months, what do you expect will happen with your company's investment?

Answer Option	In Europe		Outside Europe	
	Relative	Absolute	Relative	Absolute
Significant decrease	0%	0	2%	1
Moderate decrease	10%	5	12%	6
Stay about the same	66%	33	48%	24
Moderate increase	24%	12	32%	16
Significant increase	0%	0	6%	3
N		50		50
Missing		2		2
ERT Index Score		0.70		1.40

Questions 5: Over the next six months, what do you expect will happen with your employment?

Answer Options	In Europe		Outside Europe	
	Relative	Absolute	Relative	Absolute
Significant decrease	2%	1	2%	1
Moderate decrease	29%	15	10%	5
Stay about the same	56%	29	63%	33
Moderate increase	12%	6	23%	12
Significant increase	2%	1	2%	1
N		52		52
Missing		0		0
ERT Index Score		-0.87		0.67

Appendix 2: The ERT Index Score

The ERT Index is a quantitative measure to ease the interpretation of the results of the survey, enable comparison between different survey waves and also between the assessments of the likely development between regions. The index converts the shares of firms expecting a “significant increase”, a “moderate increase”, “no change”, a “moderate decrease” or a “significant decrease” into a single number.

The index is built as follows:

$$Index = \frac{1}{N} (n_1 \times 10 + n_2 \times 5 + n_3 \times 0 + n_4 \times (-5) + n_5 \times (-10))$$

Where n_1 to n_5 represent the number of participants who chose the different answer options with n_1 indicating a significant increase to n_5 indicating a significant decrease. The sum in parentheses is divided by the total number of responses (N) to bind the index between 10 and -10.

In case all ERT member expect a significant increase (decrease) the index will take the value of 10 (-10). If the responses are equally distributed between the 5 categories the index amounts to 0. Positive values of the index correspond to positive expected growth rates of the underlying variables, negative values to negative growth expectations. The construction also implicitly links larger values of the index to larger growth rates

Appendix 3: The Online Questionnaire

ERT
Economic
Confidence
Survey

performed by ZEW and ERT

What will happen to the data you provide?

ZEW bears full legal responsibility for data protection. All data will be treated strictly confidential, based on the provisions of data privacy law. ZEW will strictly follow the rule of the German data protection laws. For more information see <http://www.zew.de/en/datenschutz>. All collected data will be processed anonymously, and only pooled data will be analyzed. It will not be possible to identify the data for individuals from the published results. Data protection is in other words fully guaranteed.

How to answer the survey

The survey is implemented solely as a web survey. It takes not more than 5-10 minutes to respond to all questions. There is a specific link for each ERT member. This link is working unless you explicitly state at the end of the survey that you have finalized the survey. Hence, unless you have done so you can leave the survey and reenter the webpage to continue the survey or change your responses. So, please do not forget to answer to this last item in the survey.

[Legal Note](#) [Data Protection](#)

ERT
Economic Confidence Survey
ZEW

- 1 How would you characterize the **general business outlook** for your firm right now?

Very positive	Somewhat positive	Moderate	Somewhat negative	Very Negative
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
- 2 Please describe in a few words the **main trends** behind the current business outlook for your company (e.g. changes in trade policy, relocation of main business activities, changes in input prices, entry or exit of main competitors, exchange rate development, shift in demand, etc.)?
- 3 Over the next six months, what do you expect will happen with your company's...

	Significant increase	Moderate increase	Stay about the same	Moderate decrease	Significant decrease
sales in Europe?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
sales outside of Europe?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
- 4 Over the next six months, what do you expect will happen with your company's...

	Significant increase	Moderate increase	Stay about the same	Moderate decrease	Significant decrease
capital investment in Europe?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
capital investment outside of Europe?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
- 5 Over the next six months, what do you expect will happen with your company's...

	Significant increase	Moderate increase	Stay about the same	Moderate decrease	Significant decrease
employment* in Europe?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
employment* outside of Europe?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

* in fulltime equivalents

1/3