

The Conference Board Measure of CEO Confidence™ for Europe by ERT

# Despite the Resurgence of Covid-19 Cases in Europe, CEOs Look Ahead with Cautious Optimism

2020 H2 RESULTS



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by Ilaria Maselli

- 3 [Insights for What's Ahead: The Conference Board Measure of CEO Confidence™ for Europe by ERT](#)
- 4 [About The Conference Board Measure of CEO Confidence™ for Europe by ERT](#)
- 5 [CEOs in Europe Look Ahead with Cautious Optimism](#)
- 6 [Views of CEOs in US and Europe Align](#)
- 7 [Expectations for Sales and Investment Are Strong](#)
- 10 [The Medium-Term Impact of COVID-19 on Working Life: Companies Will Change](#)
- 13 [Mixed Feelings about the Impacts of COVID-19 on Globalisation, Democratic Institutions, and the EU](#)
- 14 [Methodological Note](#)
- 15 [Annex 1: Details on Expectations for Capital investment, Sales, and Employment](#)
- 16 [About the Author](#)

# Despite the Resurgence of Covid-19 Cases in Europe, CEOs Look Ahead with Cautious Optimism

## Insights for What's Ahead: The Conference Board Measure of CEO Confidence™ for Europe by the European Round Table for Industry (ERT)

- CEO Confidence has increased significantly in the second half of 2020 compared to the first half. The Conference Board Measure of CEO Confidence™ for Europe by ERT for the second half of 2020 is 61 compared to 34 in the first half. (A reading above 50 points reflects more positive than negative responses). The vast majority of CEOs see a very large improvement in business conditions compared to six months ago. Looking ahead, a majority expect further, albeit moderate, improvement in the economic outlook. Recent news on vaccines development may boost confidence further.
- The details of the survey reveal dampened hiring intentions, but more positive capital investment plans. Looking ahead, 51 percent of CEOs and Chairs expect employment to decrease in Europe, and 27 percent of respondents also expect employment to decrease outside of Europe. At the same time, chief executives are ramping up plans for capital investment. While high uncertainty is rarely conducive to investment, the exceptional nature of the current crisis may provide incentives for companies to increase investment, including: accelerating digital transformation; better equipping the workforce to become more productive while working remotely; and developing new ways to reach customers. This may bring productivity gains in the coming quarters.
- Despite the resurgence of COVID-19 cases in Europe in October, a majority of CEOs view prospects for their industry over the next six months with cautious optimism. Many CEOs (44 percent) expect business conditions to improve in their industry. Just 16 percent expect conditions to deteriorate and 40 percent see no change. The assessment may reflect the composition of the group, slightly tilted towards the manufacturing sector, where the initial recovery from the pandemic has been stronger compared to services.

- CEOs think that the way we work will change permanently because of the pandemic. An overwhelming majority expect to reduce office space by up to 25 percent, and there is openness towards the idea of hiring more employees who permanently telework from any location.
- Asked about societal challenges, 65 percent of CEOs think it is unlikely that public trust in democratic institutions will increase as a result of the COVID-19 crisis. Nonetheless, 60 percent believe that the European Union will emerge from the pandemic stronger politically, most likely thanks to the Next Generation EU package that will support the recovery in the coming years. When asked about globalisation, 75 percent of respondents believe that it will continue, despite the threats that have surfaced in recent years and increasing sympathies in Europe and elsewhere towards protectionism.

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## About The Conference Board Measure of CEO Confidence™ for Europe by ERT

The Conference Board and ERT have established a collaboration to create a new measure of CEO Confidence for Europe. The measure ranges from 0 to 100. A reading of less than 50 reflects more negative than positive responses.

The measure is based on results from three survey questions about: 1) business and economic conditions now; 2) conditions in six months; and 3) prospects for respondents' own industries. These questions have been surveyed by The Conference Board in the United States on a quarterly basis since 1976\* The survey will be conducted twice a year in Europe.

In addition to the confidence measure, CEOs and Chairs also assess the outlook for their own company through questions about employment, sales, and capital investment, inside and outside Europe. ERT has fielded these survey questions since the second half of 2017. For additional information on the survey and the methodology of The Conference Board Measure of CEO Confidence™ for Europe by ERT, see page 14.

\* See <https://www.conference-board.org/data/ceoconfidence.cfm>. The European panel includes the largest companies in the industrial and technological sector across Europe. The US survey reflects similar companies in the US but includes leading companies in the service and financial sectors.

## CEOs In Europe Look Ahead with Cautious Optimism

Despite the strong resurgence of the virus during the months of September and October, CEOs are cautiously optimistic about business prospects. The Conference Board Measure of CEO Confidence™ for Europe by ERT for the second half of 2020 rose to 61 from 34 in the first half of the year. This overall measure is based on three questions about business and economic conditions now, conditions in six months, and the prospects for their own industry. A reading above 50 points reflects more positive than negative responses.

**Optimism about current conditions versus six months ago surges** This dimension of the overall index scored the highest at 68. An overwhelming majority of CEOs (80 percent) believe the economy is doing moderately or substantially better compared to six months ago. GDP data for Q3 support this view: growth between July and September (12.6 percent in the Euro Area compared to Q2) turned out to be much stronger than expected in Europe relative to consensus projections.

### **Expectations for the economy over the next six months are cautiously optimistic**

Despite the resurgence in COVID-19 cases observed in Europe in October, a majority of CEOs look at the next six months with cautious optimism. The score for this portion of the index is 57. Recent news on progress in the development of vaccines may boost confidence further.

**Prospects for their own industry are rosier** Looking at the outlook for the next six months for their own industry, CEOs are on average optimistic, with a score of 58. Some 44 percent expect business conditions to improve in their industry, 16 percent expect conditions to deteriorate, 40 percent see conditions unchanged. The assessment reflects the composition of the group, slightly tilted towards the manufacturing sector where the recovery from the pandemic has been stronger compared to services. The divide between manufacturing and service-sector businesses is reflected also in the Purchasing Managers Index (PMI). The PMI for manufacturing shows that the industry recovered steadily since April, while the PMI for services improved between April and July, but then started to decline again. The PMI for manufacturing scored 54.4 in October; the services sector scored 46.2.

Chart 1

## CEOs in Europe: Cautious optimism despite COVID-19 resurgence



Note: A reading below 50 points reflects more negative than positive responses.

For calculation on the aggregate measure, see the Methodological Note.

Source: The Conference Board Measure of CEO Confidence™ for Europe by ERT

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## Views of CEOs in the US and in Europe Align

CEO confidence in Europe mirrored closely those held by executives in the United States. **The Conference Board Measure of CEO Confidence™** in collaboration with The Business Council<sup>1</sup> rose sharply in the final month of Q3 to the highest level recorded since Q1 2018. The measure stands at 64, up from 45 in Q2. The assessment of current economic conditions is the component of the headline index that improved markedly in September.

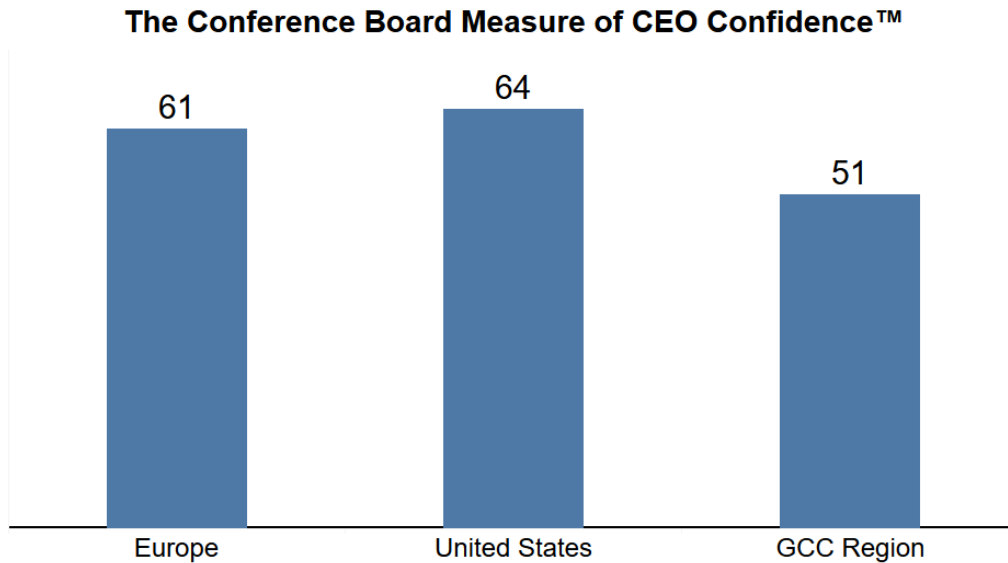
In the Gulf Cooperation Council (GCC) region, positive replies also outweigh the negative ones but by a smaller margin. The Measure of CEO Confidence™, at its first recording in November of 2020 is 51. Unlike in Europe and in the US, it is the prospects for the next six months that drive up the index in the Gulf. This is probably due to the expectations of improving oil prices in the coming months.

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<sup>1</sup> In 2020, The Conference Board started a collaboration with The Business Council around the Measure of CEO Confidence. The US-based Business Council is a forum for the CEOs of the world's largest multinational corporations across all industry sectors.

Chart 2

## Views of CEOs in the US and in Europe align



Note: Surveys were fielded at different times. In the US, CEOs were surveyed between 9/17 through 9/30, in Europe between October 15 and 30, in the GCC between October 18 and November 12  
Source: The Conference Board

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## Expectations for Sales and Capital Investment Are Strong

The combined measure for capital investment, sales, and employment showed material improvement in H2 2020, with a reading of 50 for the situation inside of Europe and 57 for outside of Europe. Views are more positive regarding the situation outside of Europe, where markets are more dynamic (see Annex 1 for detailed figures).

**Expectation for sales rise** Improvement in the sales component drove the overall index into positive territory in H2—both within Europe, with a score of 60, and outside of Europe, with a score of 65. Only 14 percent of CEOs and Chairs expect sales to decrease in Europe, and only 6 percent believe they will decline outside of Europe.

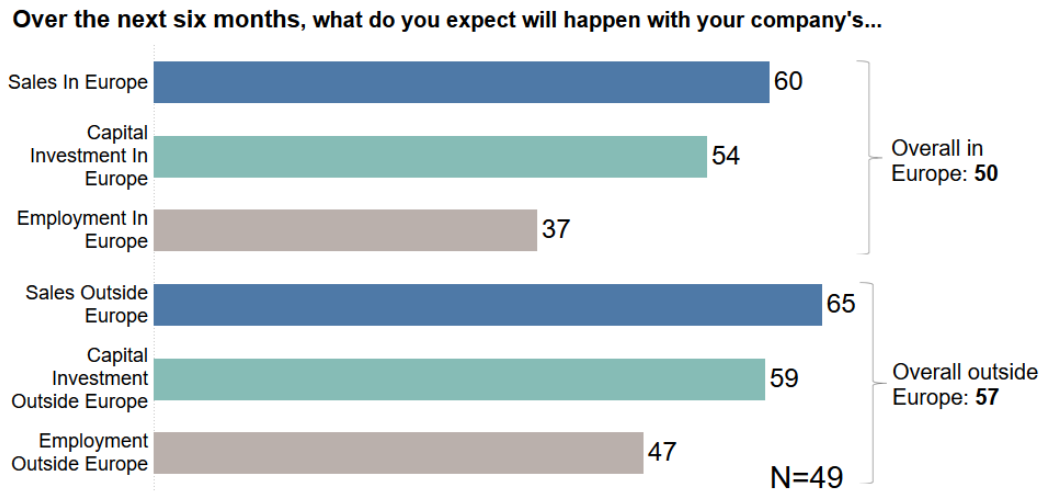
**Expectations over capital investment brighten** CEOs and Chairs also give an overall encouraging assessment of capital investment expectations for the next six months. The score is 54 for Europe and 59 for outside of Europe. A third of companies expect to increase their investment in Europe, and nearly half (49 percent) expect to increase capex outside the continent. High uncertainty is rarely conducive to investment. However, the exceptional nature of the current crisis may in fact provide several incentives for companies to invest. Examples include: accelerating digital transformation; better equipping the workforce to become more productive while working remotely; and inventing new ways to reach customers.



**Expectations for employment sour** Views on employment are dominated by negative responses. The score is 37 for Europe and 47 for outside. 45 percent of CEOs expect employment to moderately decrease in Europe, 6 percent to significantly decrease, and another 43 percent to stay the same. The negative assessment on employment expectations does not surprise. The wide use of furlough schemes has until now cushioned the labour market impact of COVID-19, which may appear more clearly only in the next months.<sup>2</sup>

Chart 3

**CEOs in Europe expect sales and investment to grow globally but employment to decline**



Note: A reading below 50 points reflects more negative than positive responses  
 Source: The Conference Board Measure of CEO Confidence™ for Europe by ERT

**CEO expectations inside and outside of Europe**

Over the past three years, the Mannheim-based ZEW–Leibniz Centre for European Economic Research has surveyed the same questions about sales, investment, and employment for the ERT. When The Conference Board CEO confidence methodology (see page 14) is applied to those questions, the measure was above 50 between the second half of 2017 and the second half of 2019, showing that business confidence was predominantly positive during that period.

After sinking into the 30s in the first half of 2020 as a result of the outbreak of the COVID-19 health and economic crisis, the index is currently again above 50 both inside and outside Europe. However, the gap between CEO assessments for prospects inside and outside Europe widened again, indicating that a faster recovery is expected outside of Europe. This is likely to be the case. According to The Conference Board’s projections in the best-case scenario, output in Europe may return to its pre-pandemic level towards the end of 2021,

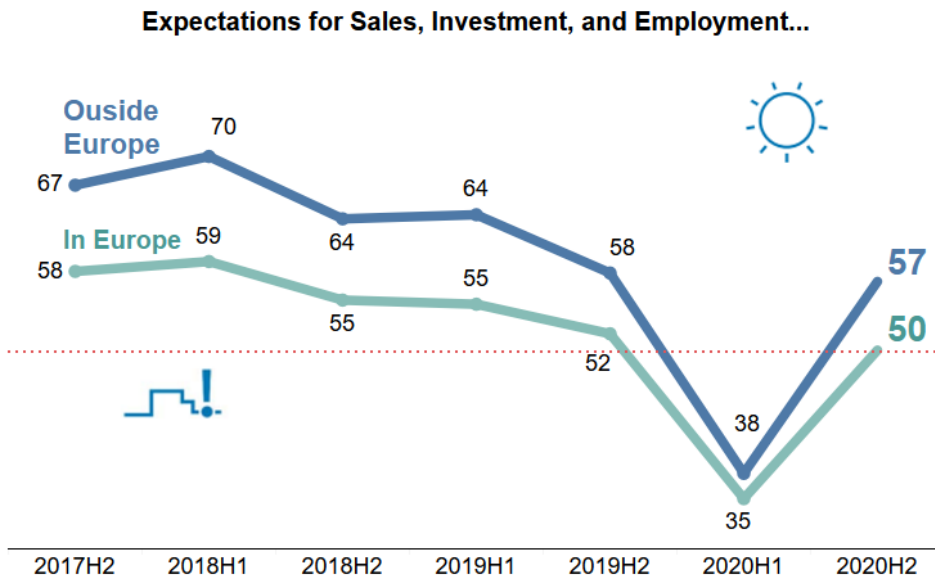
<sup>2</sup> The unemployment rate in the Euro Area was 8.3 percent in September, compared to 7.3 percent in February.



while the recovery is expected to be faster in Emerging Markets in aggregate, albeit not as fast as the recovery from the 2008-2009 global financial crisis.

Chart 4

**Inside and outside Europe: Expectations for sales and investment return to optimistic territory**



Note: A reading below 50 points reflects more negative than positive responses  
Source: The Conference Board Measure of CEO Confidence™ for Europe by ERT

## Where Are the Opportunities?

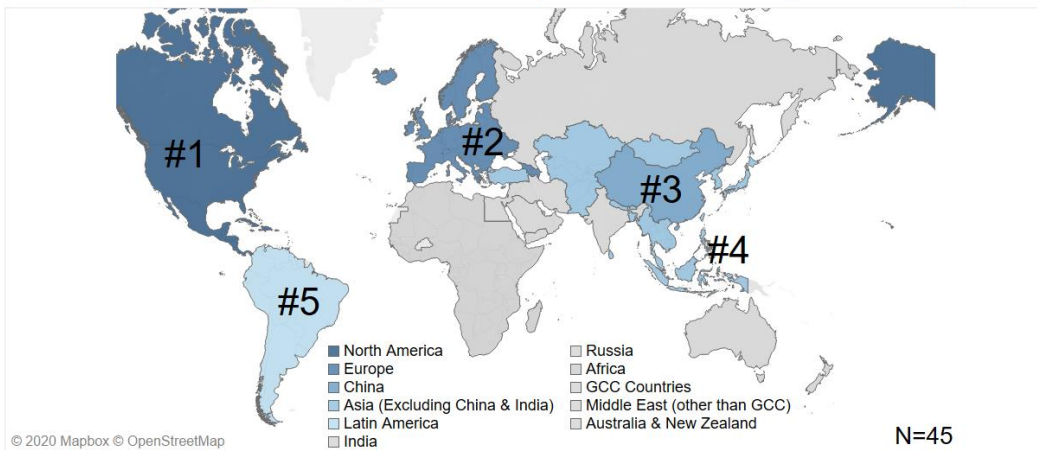
Asked about where they expect their business to expand the most in the next 3 years, CEOs rank North America first, Europe second, and China third. The three geographies are very close to each other on the podium. In the distance, Asia (excluding China and India) ranks fourth, and Latin America fifth. The high ranking of Europe shows that despite the well-known problem of sluggish growth, the region is still an attractive place for businesses given the size of the region and the high level of wealth.

Chart 5

**Despite slow growth prospects, Europe ranks second among the geographies where CEOs expect activities to expand in the next three years. North America ranks first and China third.**

Where do you expect your company's activities to expand the most in the next three years? Rank the top five

Where do you expect your company's activities to expand the most in the next 3 years? Rank the top 5.



Note: Responses are weighted using a 5-point scale, with a weight of 1 assigned to the top-ranked region, followed by 0.75 for those ranked second, etc.  
Source: The Conference Board Measure of CEO Confidence™ for Europe by ERT

## The Medium-Term impacts of COVID-19 on Working Life: Companies Will Change

How businesses operate changed abruptly amid the pandemic. What will working life look like in the post-COVID-19 world? Will offices continue to exist? Will people engage in business travel? We asked CEOs for their views regarding the future of work. The picture that emerges is of gradual, not abrupt, change.

**Telework here to stay even after the pandemic** In the next three years, 48 percent of respondents expect telework to take 26 to 50 percent of their workers time, and another 48 percent expect employees to telework up to 25 percent of the time. A very small percentage of CEOs (4 percent) expect employees to work from home more than half of the time. Many see a hybrid model as the wave of the future. This is certainly an important change given how little widespread working from home was in Europe before the COVID-19 outbreak.

Asked how often they worked from home before the pandemic, 65 percent of EU27 citizens replied “never” to a survey by Eurofound.<sup>3</sup>

**Office space will be downsized** An overwhelming majority of respondents (81 percent) expect to reduce office space by up to 25 percent to accommodate the rise in remote workers. This is a substantial figure for large multinationals. And almost a fifth of respondents plan to reduce office space by more than 26 percent.

**Business travel to downshift** 31 percent of CEOs expect to cut business travel by plane by up to 25 percent, another 42 percent expected to cut it by 26 to 51 percent, and 27 percent by more than 50 percent.

**Permanently telework from any location to become more common** 40 percent of CEOs surveyed think that it is likely that their company will hire more employees who are intended to permanently telework from any location. There has been a trend in this direction in the United States in the last years, as talent shortages became more pressing.<sup>4</sup> It appears that the pandemic-induced recession has accelerated acceptance of hiring remote employees permanently in Europe as well.

**Reshoring of operations unlikely** Despite the trade tensions between China and the US, and the disruptions of supply chains at the start of the pandemic, only 10 percent of CEOs were likely to relocate operations to Europe from other regions. 69 percent considered reshoring unlikely. Research from The Conference Board argues that since 2011, the manufacturing sector has become more localized in terms of the positioning of supply chains. However, this is different from reshoring. Reshoring involves domestication of globalised supply chains (e.g., European multinationals moving supply chains from abroad back to Europe). Localization implies building local supply chains within a specific region to be closer to the consuming market (e.g., European multinationals building a network of domestic supply chains in a particular region).<sup>5</sup>

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<sup>3</sup> [Living, WORKING, and COVID-19 Dataset](#), Dublin, Eurofound, September 2020.

<sup>4</sup> Gad Levanon and Frank Steemers, *Working From Home? You're Far From Alone*, The Conference Board, Labor Market Blog, March 2019.

<sup>5</sup> Ilaria Maselli, Klaas de Vries, Abdul Erumban, Ataman Ozyildirim, and Erik Lundh, [Going Local: Changing Global Value Chains and the Impact on Revenue and Jobs](#), The Conference Board, February 2019.

Table 1

**Most companies will reduce office space by up to 25 percent, and reduce business travel by up to 50 percent. Employees that will work from home more than half of their time will be a small minority**

To what extent will the following COVID-19 related changes become permanent in your company in the next 3 years?

	From 0 to 25%	From 26 to 50%	More than 50%
Employees will work from home x percent of their time	48%	48%	4%
We will reduce office space by x percent	81%	17%	2%
We will reduce business travel by airplane by x percent	31%	42%	27%

Source: The Conference Board Measure of CEO Confidence™ for Europe by ERT

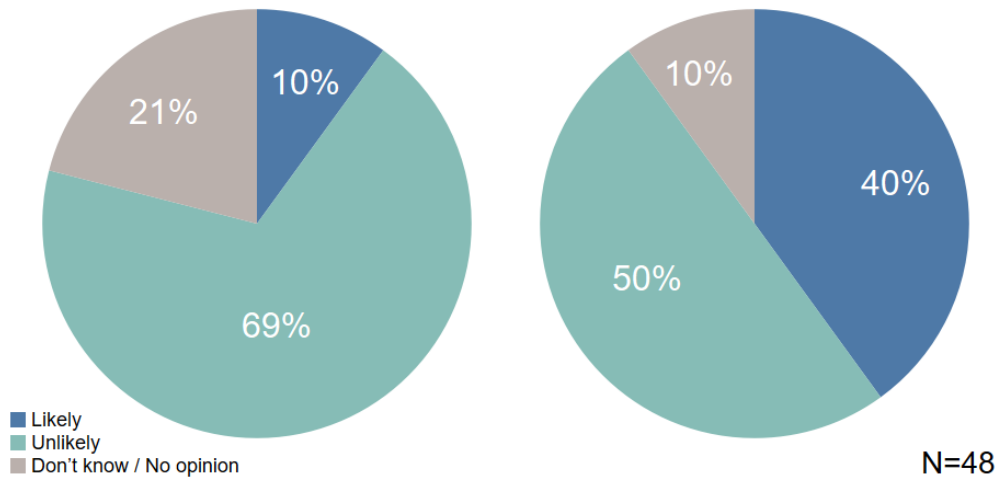
Chart 6

**The pandemic-induced recession has accelerated acceptance of hiring employees permanently on a distance**

How likely are the following statements regarding the post-COVID-19 world?

**My company will reshore operations to Europe**

**My company will hire more employees who are intended to permanently telework from any location**



Source: The Conference Board Measure of CEO Confidence™ for Europe by ERT

## Mixed Feelings about the Impacts of COVID-19 on Globalisation, Democratic Institutions, and the EU

**Trust in democratic institutions declines** Choosing between the recommendations of epidemiologists and economic lobbies, governments at all levels have faced tough decisions in recent months. In many countries, special emergency procedures were used to rule on business and school closures. Those decisions were still met with criticism as people either believed the decisions to be too restrictive or too lenient. Does the specific nature of the current crisis increase or decrease trust in democratic institutions? 65 percent of CEOs believed that trust in public institutions will decrease.

**A stronger European Union anticipated** At the same time, a majority of 60 percent of respondents think that it is likely that the EU will come out of the crisis stronger from a political point of view. The judgment follows the decision to launch a package of grants and loans (“Next Generation EU”) worth 750 billion euros to stimulate the economy. The main program in the package is the “Recovery and Resilience Facility” which amounts to 560 billion euros, 250 billion euros of which will be distributed to member countries as loans and 310 billion euros as grants. The latter represent a substantial policy shift since it creates a sizable form of cross-country redistribution of wealth.

**Globalisation will continue** When asked about globalisation, 75 percent of respondents believe it will continue, despite the threats to globalisation that have surfaced in recent years and increasing sympathies inside and outside Europe towards protectionism. Trade is a key contributor to growth in most European countries. Calculations from The Conference Board estimate a globalisation level today similar to the level reported during the 1970s would subtract 0.2 of a percentage point per year from real GDP growth between 2024 and 2030. In other words, growth would be 0.8 percent on average per year instead of the expected 1.0 percent.<sup>6</sup>

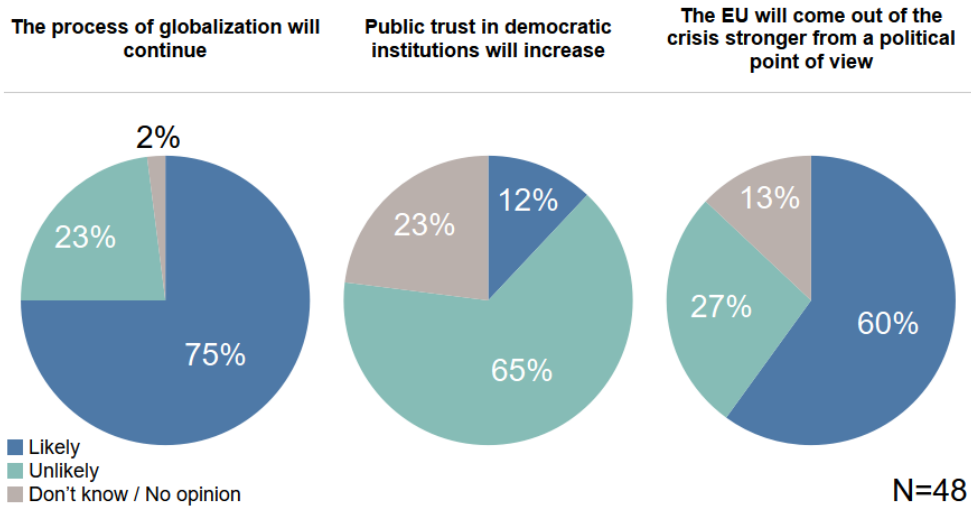
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<sup>6</sup> Uncertainty lingers in 2021, slow growth returns for the long term. The Economic Outlook for Europe in 2021 and beyond. The Conference Board, November 2020. Note: This calculation is likely to underestimate the actual impact of this scenario because in a less globalised world, capital and labor would also match less efficiently.

Chart 7

**CEOs don't think public trust in democratic institutions will increase in the post-COVID-19 world, but they do believe the EU will come out of the crisis stronger**

How likely are the following statements regarding the post-COVID-19 world?



Source: The Conference Board Measure of CEO Confidence™ for Europe by ERT

**Methodological Note**

The Conference Board and The European Round Table for Industry (ERT) collaborated on the Measure of CEO Confidence in Europe starting in April 2020. The key confidence measure is comprised of three key questions. An additional three questions relate to the outlook on employment, sales, and capital investment inside and outside Europe. Special questions of current significance are included in each survey. In this survey, special questions were included to capture measures companies are taking to tackle the COVID-19 crisis and the expectations of CEOs and Chairs for economic recovery.

The survey was fielded between October 15 to October 30, 2020 to 55 ERT members. 50 replied to the regular questions, resulting in a response rate of 91%. 48 replied to the special questions

Responses to the six regular questions in the survey (except special questions) are rated with a Likert-type, 5-point scale. We use the formula below to assign a score to each response:

$$\sum_{i=1}^N \frac{1}{N} (n_1 \times 100 + n_2 \times 75 + n_3 \times 50 + n_4 \times 25 + n_5 \times 0), \quad i = 1, \dots, N,$$

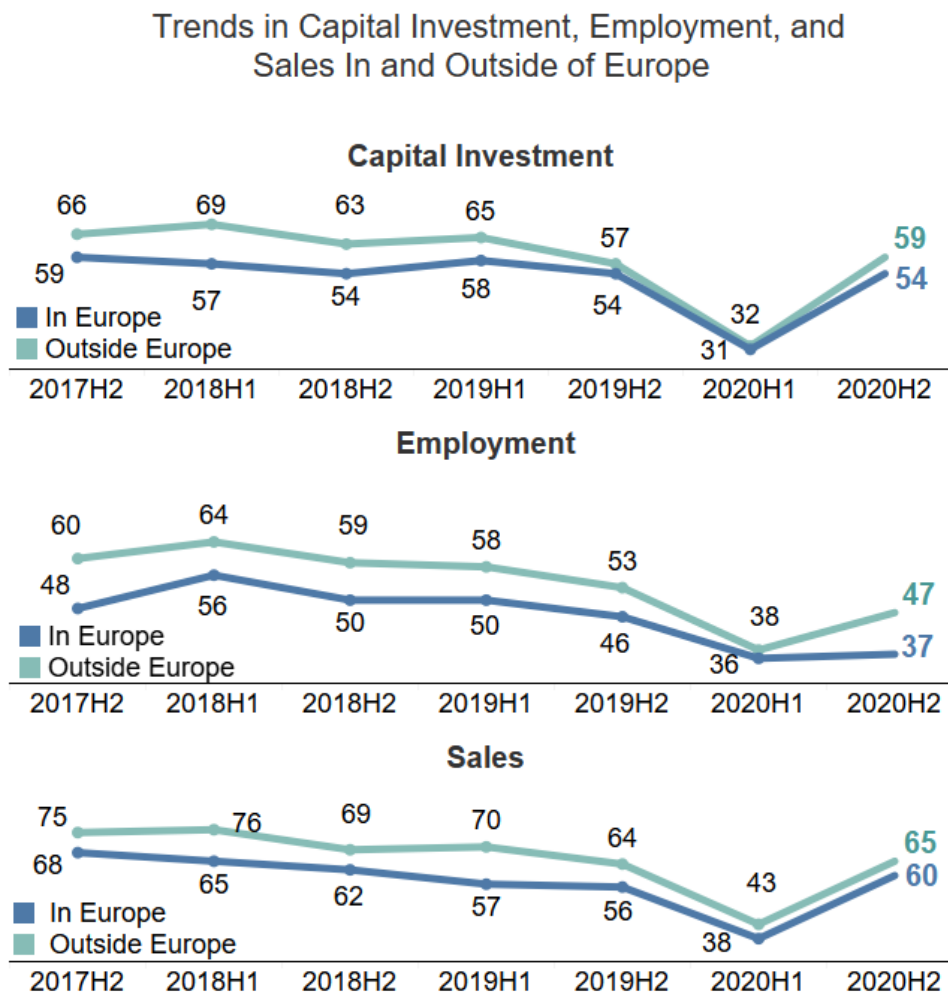
where  $N$  is the total number of responses, and  $n_1, n_2, n_3, n_4$  and  $n_5$  the number of those who picked “significantly increase,” “moderately increase,” “stay the same,” “moderately decrease,” or “substantially decrease.” Next to each count, the values 100, 75, 50, 25, and 0

are assigned respectively, ensuring that the index for each question is a value-bounded between 0 and 100. Higher measures indicate higher confidence and better economic conditions. The Conference Board Measure of CEO Confidence™ is then calculated by taking the average of the indices of questions 1, 2, and 3.

Following the same steps, we calculate the index on the expectations for sales, capital investment, and employment inside and outside Europe.

## Annex 1: Details on Expectations for Capital investment, Sales, and Employment

Chart 8



Source: The Conference Board Measure of CEO Confidence™ for Europe by ERT



## About the Author

**Ilaria Maselli** has been the Senior Economist for Europe at The Conference Board since March 2016. Maselli monitors the monthly business cycle of the European economy and contributes analysis to *The Conference Board Global Economic Outlook*. She also contributes to in-depth research related to global supply chains and labour markets. Maselli, who is an Italian and Belgian citizen, worked previously at the Brussels-based think tank the Centre for European Policy Studies (CEPS); her latest position was Research Fellow.

## Acknowledgments

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## About the European Round Table for Industry (ERT)

The European Round Table for Industry (ERT) is a forum that brings together around 55 Chief Executives and Chairs of leading multinational companies of European parentage, covering a wide range of industrial and technological sectors. ERT strives for a strong, open and competitive Europe, with the EU and its Single Market as a driver for inclusive growth and sustainable prosperity. Companies of ERT Members have combined revenues exceeding €2 trillion, providing direct jobs to around five million people worldwide—of which half are in Europe—and sustaining millions of indirect jobs. They invest more than €60 billion annually in R&D, largely in Europe. For more info, visit [www.ert.eu](http://www.ert.eu).

## About The Conference Board

The Conference Board is the member-driven think tank that delivers trusted insights for what's ahead. Its membership includes over 1,200 companies in both the established and emerging markets of the world. Its global community of leadership experts, which includes representatives from The Conference Board and a number of prominent companies, works to ensure members receive the practical knowledge they need to navigate the biggest issues impacting business and better serve society. Founded in 1916, we are a nonpartisan, not-for-profit entity holding 501(c)(3) tax-exempt status in the United States. For more info, visit [www.conference-board.org](http://www.conference-board.org).