

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

Surging Confidence Among European Business Leaders Despite Strains on Supply Chains

2021 H1 RESULTS

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by Ilaria Maselli and Konstantinos Panitsas

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Surging Confidence Among European Business Leaders Despite Strains on Supply Chains

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

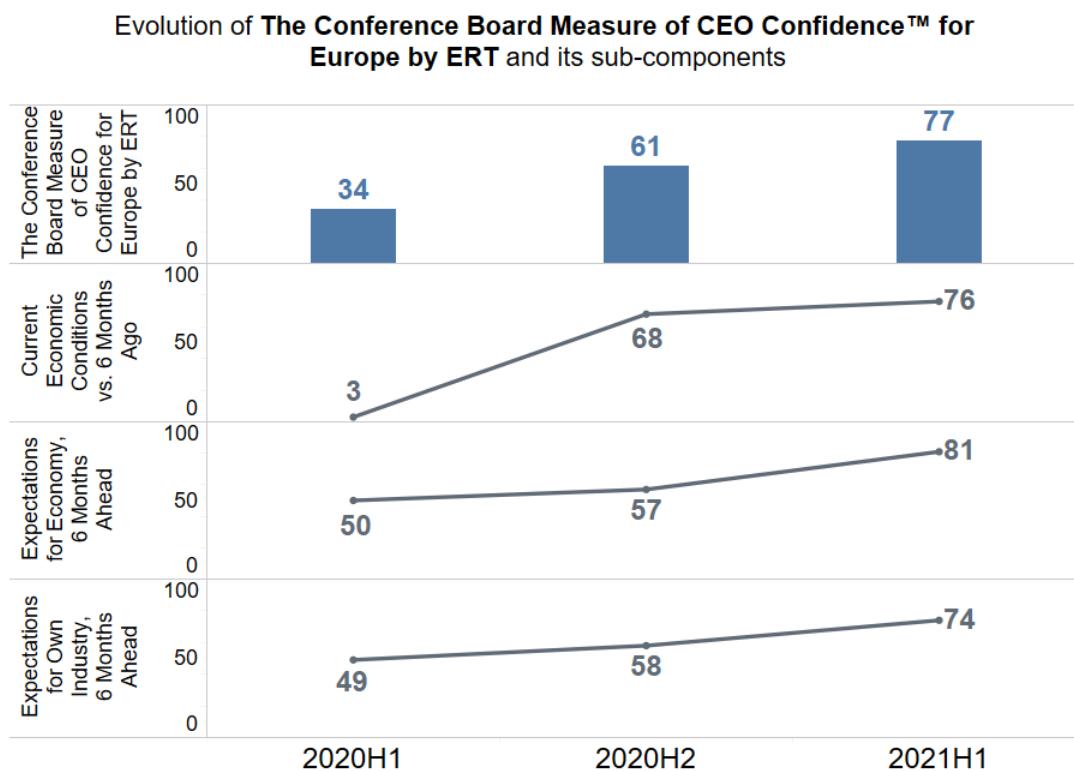
- CEOs and Chairs of some of Europe's largest companies are increasingly optimistic about the business and economic outlook for 2021. Overall, the measure of CEO Confidence for Europe increased substantially, from 61 in the second half of 2020 to 77 in the first half of 2021. (A reading above 50 indicates more positive than negative responses.) Sentiment regarding expectations for the economy over the next six months is the main driver behind this improvement, skyrocketing to 81 from 57 in H2 2020.
- The pace of the vaccination campaign in Europe is the number one factor affecting the economic revival. Should companies play a role in accelerating the campaign? Nearly all CEOs and Chairs surveyed agree that they should provide information, but only half of them think they need to go further and provide jabs on-site.
- Forty percent of companies consider the shortage of supplies for production of goods as highly disruptive, ranking it as the top risk over the next six months. Tight transport capacity and trade tensions are also considered as potentially highly disruptive over the next six months. Amid COVID-19 related restrictions, and new barriers to trade, 64 percent of respondents are reorganizing their supply chains, and nearly two-thirds of those are putting permanent changes in place.
- The aggregate index on sales, capital investment, and employment improved in 2021, both in Europe and abroad. For Europe, the index, launched in the second half of 2017, hit a record high of 60. As far as sales and capital investment are concerned, CEOs' expectations are aligned regarding a brighter outlook globally, while views on employment expectations diverge. The index for near-term employment prospects outside of Europe increased to 57 while, in Europe the reading is below 50, implying more negative than positive responses.
- Since the start of the pandemic, accelerating digital transformation has become urgent for businesses. Survey responses show that most companies are currently working on key dimensions of digital transformation, including acquiring new software, developing training programs for workers, and creating partnerships with universities and startups. What is not a part of the strategy is reducing workforces or hiring contingent workers.

CEOs in Europe Expect Business Conditions to Improve Sharply in the Next Six Months

The Conference Board Measure of CEO Confidence™ for Europe by ERT for the first half of 2021 comes in at 77, rising sharply from 61 in the second half of 2020. This overall measure is based on questions about business and economic conditions now, conditions in six months, and prospects for their own industry. A reading above 50 points reflects more positive than negative responses.

Chart 1

CEOs and Chairs expect the economy to perform substantially better over the next six months



Note: A reading above 50 indicates more positive than negative responses. The latest reading is based on 54 responses. For more details on the methodology see "About The Conference Board Measure of CEO Confidence™ for Europe by ERT"

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

Optimism about current conditions improves compared to six months ago This part of the overall index hits 76 in our most recent survey. The vast majority of respondents (83 percent) believe the economy is doing moderately or substantially better in H1 2021, compared to six months ago. Despite the resurgence of COVID-19 cases and stricter

lockdown measures throughout Q1 2021, CEOs and Chairs appreciate that the economy has adapted. A strong manufacturing sector in Q4 of 2020 and Q1 of 2021, powered by consumers buying more goods, as service consumption is limited, contributes to this view.

Expectations for the economy over the next six months are highly optimistic Most respondents are looking at the next six months with enthusiasm. The score for this portion of the index is the highest, standing at 81. Bright growth prospects for the services sector once restrictions are lifted, upbeat European consumers, and positive spill-over effects from the recently approved US fiscal stimulus package of \$1.9 trillion, improved GDP growth expectations in Europe. The Conference Board has increased Euro Area GDP growth projections from 3.7 to 4.4 percent in 2021, and the UK from 3.1 to 5.6 percent in the [April Global Economic Outlook update](#).¹ However, the path towards recovery is not without risks. The vaccination campaign is the number one factor that will drive economic revival. New hiccups in the rollout can postpone the lifting of government restrictions to economic activity.

Prospects for their own industry are rosier Looking at the outlook for the next six months for their own industry, CEOs are positive, with a score of 74. Almost 75 percent of CEOs expect business conditions to improve in their industry, 22 percent see conditions unchanged, while only 4 percent expect conditions to deteriorate in the near-term. The view is consistent across different industries represented in the panel but reflect the fact that the group is biased towards the industrial sector. Other confidence indicators, such as the Purchasing Managers Index (PMI), showed a clear divergence in recovery between manufacturing and service sector businesses between August 2020 and April 2021. In the former, activity kept improving remarkably, while in the latter it remained, for the most part, in contractionary territory.

Low Expectations for Employment in Europe Cloud the Outlook

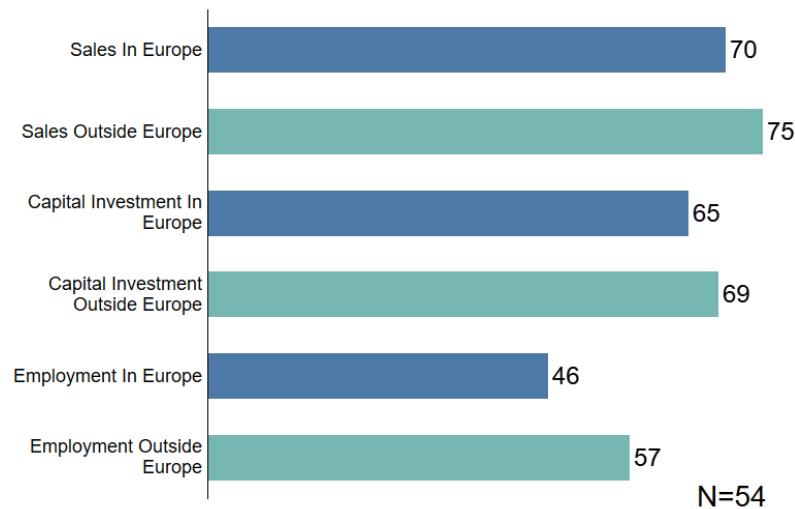
The combined indexes for sales, capital investment, and employment improved further in H1 2021, with a reading of 60 for the situation in Europe and 67 for the situation outside of Europe. Both at the aggregated and disaggregated level, views are more positive regarding the situation outside of Europe (see Annex 1 for detailed figures).

¹ Global Economic Outlook, The Conference Board. Latest update available at [this link](#).

Chart 2

Sales and investment will grow globally, while employment may decline in Europe

Over the next six months, what do you expect will happen with your company's...



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

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

Expectations for sales rise Both companies and consumers have adapted to economic activity amid restrictions imposed by governments to limit virus infections. This view is depicted in the sales index which improved in H1 2021—both within Europe, with a score of 70, and outside of Europe, with a score of 75. Only 2 percent of CEOs and Chairs expect sales to decrease in Europe, only 4 percent outside of Europe.

Expectations for capital investment increase European business leaders continue to be positive about capital investment expectations over the next six months. The score reached 65 for Europe and 69 for outside of Europe. Approximately 55 percent of the companies expect to increase their capital investment in Europe, while more than 60 percent intend to do the same outside of the region. Despite various challenges, the COVID-19 crisis has provided a golden opportunity for executives to reassess their way of doing business. Now in this new paradigm, accelerating digital transformation, green transition, restructuring supply chains to meet customer needs faster, and training and reskilling the workforce for new technologies are a few examples of investments that can help businesses grow and thrive in the post-pandemic economy.

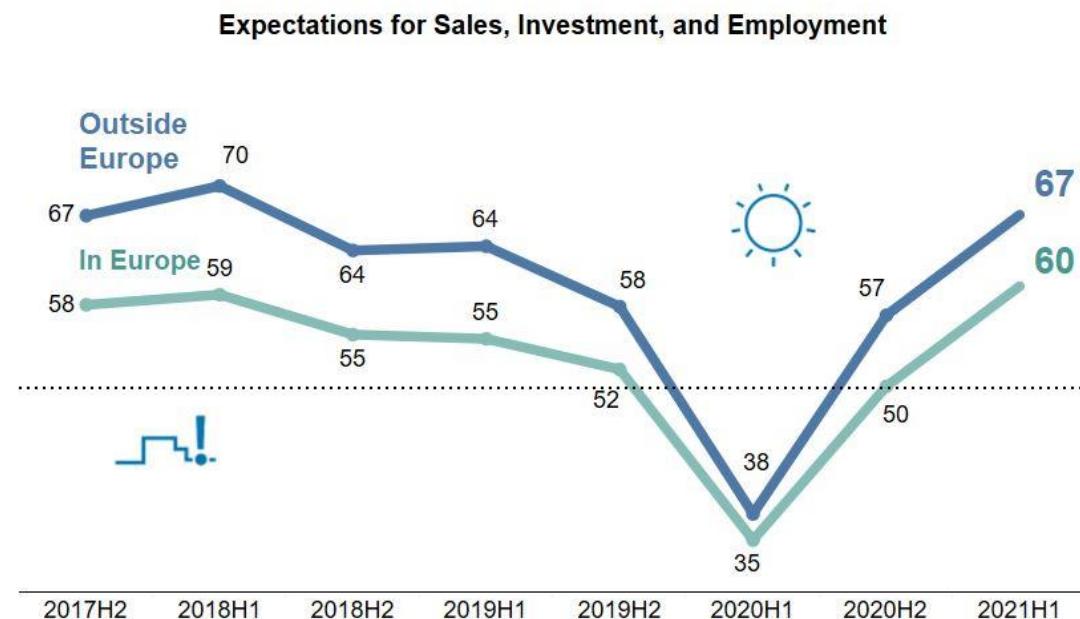
Expectations for employment are mixed Even though views on employment expectations in H1 2021 increased for a second consecutive time since H1 2020, the balance of views is slightly negative for employment perspectives in Europe. CEOs are more optimistic about employment prospects outside of Europe.

Despite Uncertainty about Employment, Expectations for European Outlook Reached Record Level

Aggregate views on sales, investment, and employment improved in 2021 both in Europe and abroad. For Europe, the score of 60 is the highest since the start of the index in 2017 H2. However, the gap between CEOs' assessments for prospects inside and outside of Europe persists. The main reason behind this difference stems from divergent views regarding employment expectations, with respondents being more sanguine about the situation outside of Europe than domestically. Since the pandemic outbreak in early 2020, job retention schemes across Europe helped firms lower labour costs and preserve jobs. As these schemes are likely to be scaled back over the next few months (e.g., stricter eligibility criteria, or companies bearing a higher part of the furlough cost) the risk of redundancies increases—a concern reflected in the survey.

Chart 3

Aggregate expectations over sales, employment, and investment in Europe reach record high levels



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

Shortage of Supplies is the Most Disruptive Risk

As business leaders in Europe look ahead, they are taking strong steps to tackle the challenges that have emerged due to the pandemic. From shipment delays to soaring costs in raw materials and electronic chip shortages, disruptions caused or exposed by COVID-19 remain a major obstacle globally, and if not addressed properly and decisively they can hamper efforts for a quick and robust recovery.

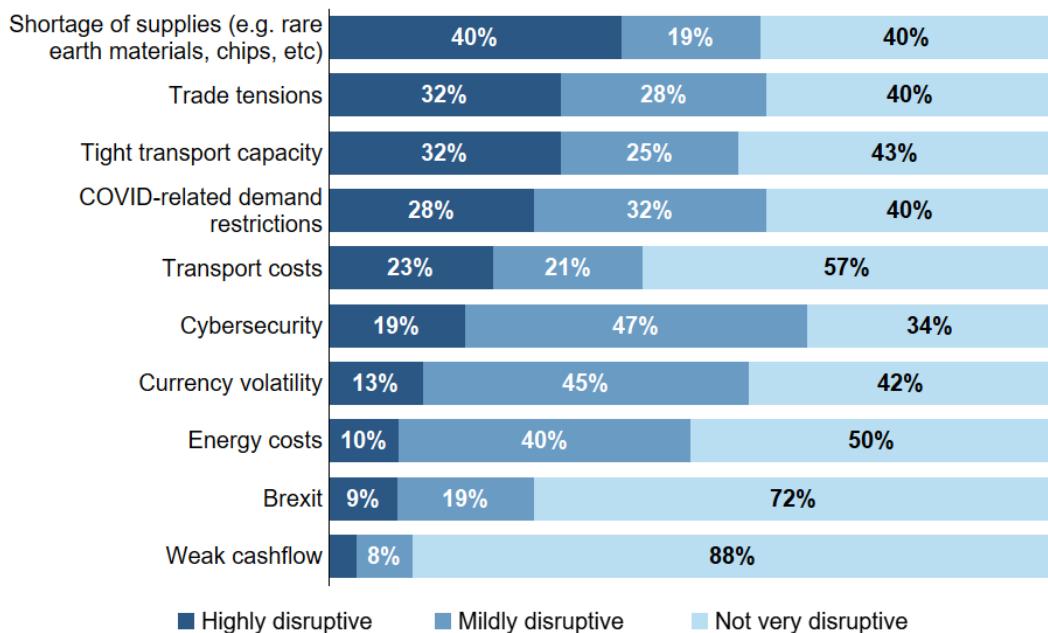
CEOs and Chairs in Europe were asked to identify issues they think will be the most disruptive for their businesses over the next six months and rate those issues on a scale from 1 to 5, with 1 being not at all disruptive and 5 being very disruptive.

Chart 4

Shortage of supplies like chips and rare earth materials rank as top disruption over the next six months

To what extent do you expect any of the following issues to be disruptive to your business over the next 6 months?

Scale from 1-5, 1 being not at all disruptive and 5 being very disruptive.



Note: Responses are grouped as follows: 'Not very disruptive' if an issue was rated '1' or '2', 'Mildly disruptive' if respondents picked '3', and 'Highly disruptive' if rated '4' or '5'.

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

Shortage of supplies most disruptive item but not for everyone Lack of supplies for production of goods, including rare earth materials and chips is the most disruptive risk companies face in the next six months—40 percent of respondents rate it as highly disruptive (4 or 5). However, the panel is split on this issue with another 40 percent of respondents rating it 1 or 2 (not very disruptive).

Bank, the most acute shortage is of semiconductors. The report states: “During the first wave of the pandemic, supply had been diverted to manufacturers of IT equipment, which then left shortages when demand from other industries recovered more quickly than expected. In recent weeks, shortages of semiconductors, as well as metals, chemicals, plastics and related components, had been exacerbated by various events, including the weather-induced power cuts in Texas.”²

Tight transport capacity hits some companies hard Limited transport capacity is rated 4 or 5 by 32 percent of respondents. Similarly to shortages, limited transport capacity is not a risk that affects all companies in the same way, but for those affected, finding solutions will absorb a significant amount of resources. The combination of shortages and tight transport capacity is affecting substantially delivery times, which are currently longer than usual.

Trade tensions still create stress Trade tensions are ranked second in the list of top risks. In US-China relations, old sources of tensions have not been resolved, and new ones are emerging, such as the idea of nationalising supply chains for strategic products. Mixed signals arrive from EU-China relations as well. On the one hand, the end of the negotiations in December 2020 of CAI, the Comprehensive Agreement on Investment was a positive development. On the other hand, the blacklist of European citizens no longer welcome in China is a negative development.

The pandemic is not over until it's over COVID-19 related demand restrictions rank fourth on the list of possible disruptions that may occur over the next six months. On top of these restrictions, there is the speed of the vaccine rollout campaign, mentioned by many respondents as a source of potential disruption.

Cybersecurity is still on the radar Although only 19 percent of respondents consider cybersecurity as highly disruptive, nearly half of respondents consider it as mildly disruptive making it the most important “mild” disruption. As the COVID-19 pandemic forces many organizations to rely more on remote working, increased remote access to corporate networks and sensitive data creates significant additional risk.³

Rise in transport and energy costs, and currency volatility, occupy the middle rankings Twenty-three percent of respondents rated rise in transport costs with a 4 or 5. Forty-five percent of respondents rate currency volatility as mildly disruptive.

Brexit and cashflow are on track to becoming irrelevant Brexit and cash flow are not (or no longer perhaps) considered disruptive challenges for more than 70 percent of companies. Asked to mention their other concerns, some respondents referred to: sustainability and environmental issues, talent shortages, travel restrictions, and carbon costs.

² ECB Economic Bulletin, Issue 3/2021, May 2021

³ [C-Suite Challenge™ 2020: Data Privacy and Cybersecurity—Mitigating Risk, Seizing Opportunity](#), The Conference Board, June 2020

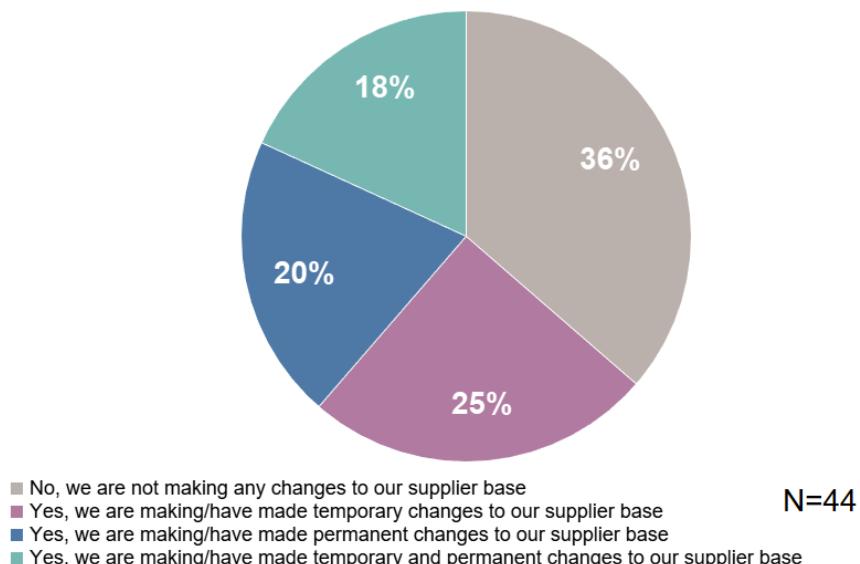
Most Companies Need to Rethink their Supply Chains

A majority of companies are reorganizing supply chains, some temporarily, some permanently The pandemic, and the challenges associated with lockdowns, restrictions, and shortages of certain inputs, led many companies to rethink how to organise their supply chains. Indeed, 64 percent of companies surveyed are reorganising their supply chains, 20 percent are making permanent changes, and another 18 percent are implementing both permanent and temporary changes. Research from the European Central Bank indicates that sectors experiencing stronger disruptions in supply chains are basic materials, machinery and equipment, and cars.⁴ Moreover, when asked about changes to supply chains related to the pandemic, 29 percent of respondents replied that they are sourcing more inputs closer to the final consumer market.

Chart 5

Most companies are reorganizing their supply chains, whether temporarily or permanently

Have you changed your company's supply chain due to the pandemic?
(Select all that apply)



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

⁴ ECB Economic Bulletin, Issue 3/2021, May 2021

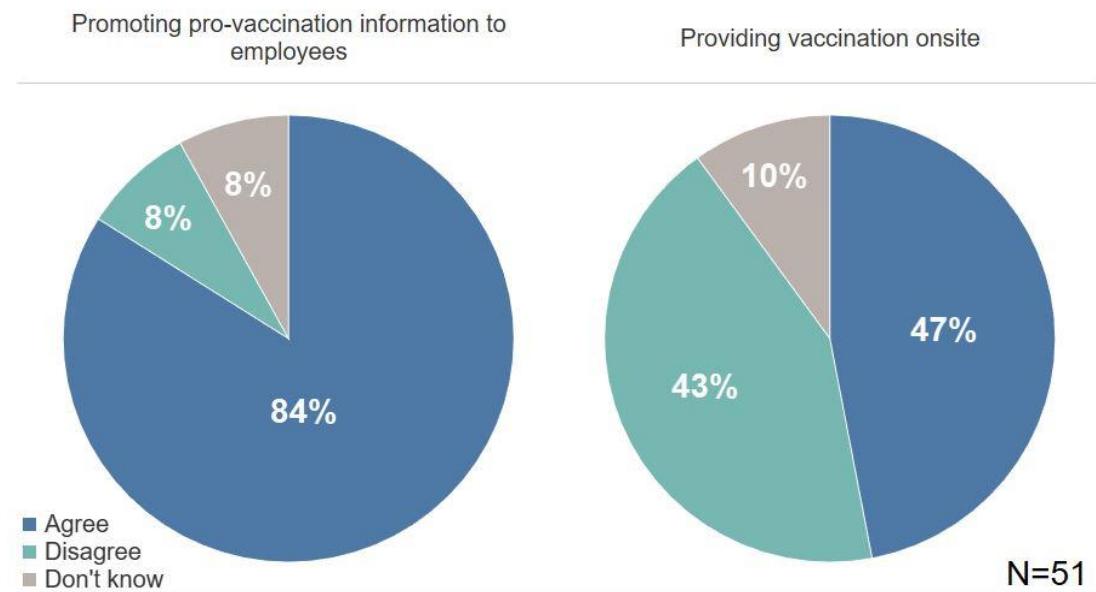
Mixed Attitude towards Actively Organising Vaccination Campaigns

CEOs and Chairs say “YES” to talking about the advantages of being vaccinated.
They exhibit mixed feelings about providing vaccinations on-site The slow speed of the vaccination campaign in Europe is a key risk for the economic outlook and a major source of uncertainty for businesses. A very large majority of CEOs and Chairs (84 percent) believe their company needs to support the vaccination drive with information campaigns, but only nearly half of them believe they should go one step further and provide vaccination on-site.

Chart 6

Most respondents think their company should play a role in the vaccination campaign, but only half advocate on-site vaccinations

My company is supporting ongoing vaccination drives, by:



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

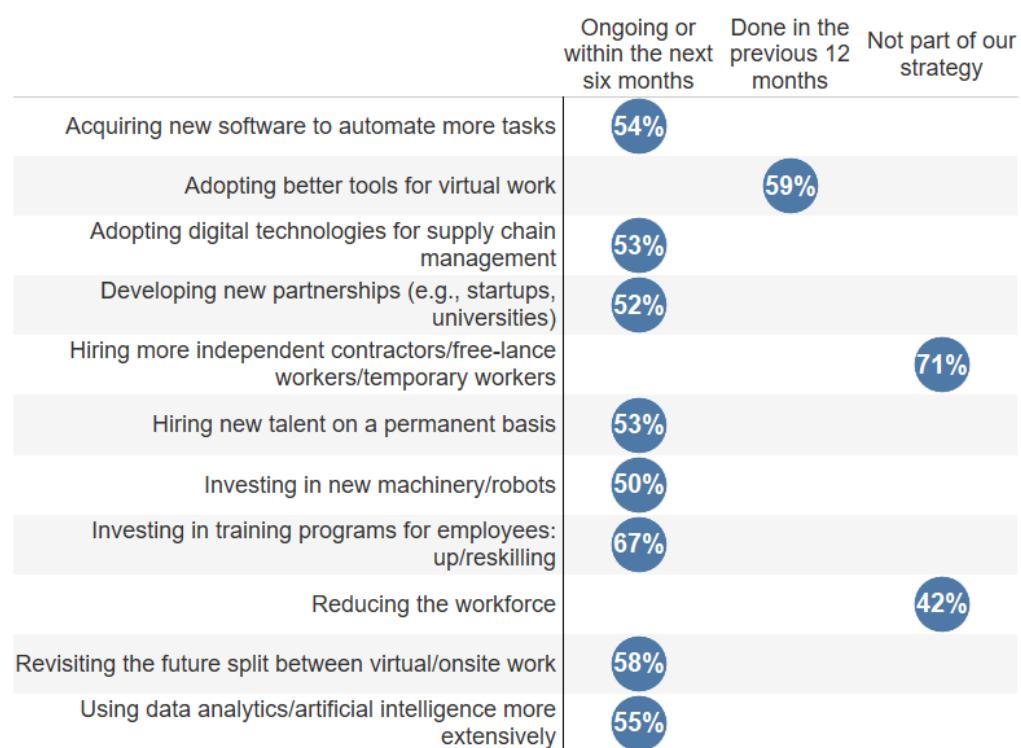
Steps to Set Digital Transformation in Motion are Happening Now

The Conference Board research shows that the pandemic accelerated the need of companies to tackle digital transformation.⁵ What does it mean in practice? And how far are leading European companies in this process? Responses to the survey highlight that these are busy times for companies, as most changes associated with digital transformation, including investing in training programs, acquiring new software, and developing partnerships, are happening now or will happen within the next six months (see Annex 2 for detailed responses to this question).

Chart 7

Respondents report that most changes associated with the digital transformation are happening now or within the next six months

To what extent has, or will, the pandemic accelerate the digital transformation of your company? By:



Note: In each row, only the percentage of the most-picked option is shown. Please refer to Table 2 in the Annex for a more detailed breakdown of how responses are distributed.

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

⁵ C-Suite Challenge™ 2021: Leading in a Post-COVID-19 Recovery, The Conference Board, January 2021

New skills and new people Forty-two percent of companies say that reducing their existing workforces is not part of their strategy. Hiring new talent on a permanent basis is identified by 53 percent of companies as an action for the short run, while there is little interest in hiring contingent workers (not part of the strategy for 71 percent of respondents). A large majority of companies (67 percent) are working on organising training programmes for employees.

The future split between virtual and on-site work is not set in stone Adopting better tools for virtual work is almost a done deal. Most companies (59 percent) consider the adoption of better tools for virtual work as completed, and another 35 percent are working on it, or plan to do so, over the next six months. Most companies (58 percent) are currently defining the future split between virtual and on-site work.

Focus on new tech and partnerships Operations related to digital transformation are ongoing or planned for most companies. The list includes, using data analytics more extensively, acquiring new software and machinery, adopting digital tools for supply chain management, and developing new partnerships with startups and universities.

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 in 2020. 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 is 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. Special questions of current significance are included in each survey.

The latest survey was fielded between April 7 to April 21, 2021 to 58 ERT members. Fifty-four replied to the regular questions, resulting in a response rate of 93%. More than 50 replied to the special questions.

Chart 8



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

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

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:

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

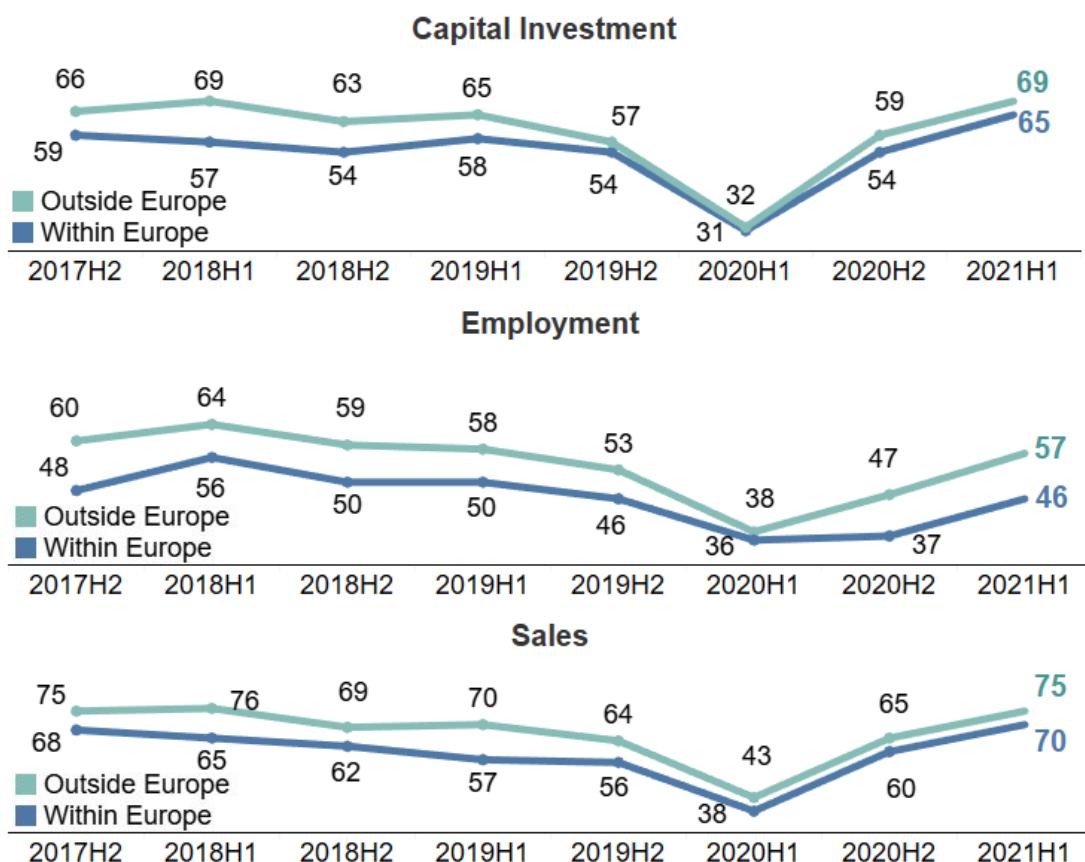
where N is the total number of responses, and n_1, n_2, n_3, n_4 and n_5 the number of those who picked “significantly increase,” “moderately increase,” “stay the same,” “moderately decrease,” or “substantially decrease.” Next to each count, the values 100, 75, 50, 25, and 0 are assigned respectively, ensuring that the index for each question is a value bound 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 9

Trends in Capital Investment, Employment, and Sales Within and Outside of Europe



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

Annex 2: Detailed Special Questions 1 and 4

Table 1

To what extent do you expect any of the following issues to be disruptive to your business over the next six months?

Scale from 1-5, 1 being not at all disruptive and 5 being very disruptive.

	1 (Not disruptive)	2	3	4	5 (Very disruptive)
Shortage of supplies (e.g., rare earth materials, chips, etc)	8%	33%	19%	29%	12%
Trade tensions	9%	30%	28%	25%	8%
COVID-related demand restrictions	6%	34%	32%	23%	6%
Cybersecurity	4%	30%	47%	17%	2%
Tight transport capacity	19%	25%	25%	28%	4%
Currency volatility	8%	34%	45%	13%	0%
Energy costs	13%	37%	40%	10%	0%
Transport costs	25%	32%	21%	19%	4%
Brexit	23%	49%	19%	9%	0%
Weak cashflow	52%	37%	8%	4%	0%

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

Table 2

To what extent has, or will, the pandemic accelerate the digital transformation of your company? By:

	Done in the previous 12 months	Ongoing or within the next six months	Maybe later	Not part of our strategy	Don't know
Acquiring new software to automate more tasks	26%	54%	8%	8%	4%
Adopting better tools for virtual work	59%	35%	2%	2%	2%
Adopting digital technologies for supply chain management	25%	53%	6%	4%	12%
Developing new partnerships (startups, universities)	27%	52%	12%	6%	4%
Hiring more independent contractors/free-lance workers/temporary workers	2%	12%	8%	71%	8%
Hiring new talent on a permanent basis	22%	53%	12%	10%	4%
Investing in new machinery/robots	18%	50%	12%	14%	6%
Investing in training programs for employees: up/reskilling	25%	67%	4%	2%	2%
Reducing the workforce	21%	25%	6%	42%	6%
Revisiting the future split between virtual/onsite work	37%	58%	2%	2%	2%
Using data analytics/artificial intelligence more extensively	37%	55%	4%	2%	2%

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

About the Authors

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.

Konstantinos Panitsas is a Research Associate in the Economy, Strategy, and Finance Centre at The Conference Board in Brussels. He contributes to several key projects with his data analytics, including the C-Suite Challenge™ survey. In 2017, Panitsas graduated from Hunter College of the City University of New York with an MA in Economics.

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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 <https://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 <https://conference-board.org/eu/>.