

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

European Business Leaders Adjust Expectations Slightly Downward

2021 H2 RESULTS



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by Ilaria Maselli and Konstantinos Panitsas

- Insights for What's Ahead: The Conference Board Measure of CEO Confidence™ for Europe by the European Round Table for Industry (ERT).....3
- CEOs Confidence Cooled Off in the Second Half of 20214
- Expectations for Employment Improve, Inside and Outside Europe6
- CEOs' Views on Drivers of Inflation8
- The Impact of the “Fit for 55” Package9
- Assessing the Completion of the Single Market10
- Annex 1: Details on Expectations for Capital Investment, Sales, and Employment.....11
- About the Authors12

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

- Confidence moderates among European CEOs and Chairs in the second half of 2021, compared to the first half of the year, but nonetheless remains firmly in positive territory, at 63. (A reading above 50 points reflects more positive than negative responses.) While business leaders rate the current economic situation favorably, concerns about the short-term outlook overall and about their industries emerge. These concerns may be prompted by supply chains delays, emerging labor shortages and increasing energy prices. The emerging fourth COVID-19 wave in Europe adds more uncertainty. However, despite these challenges, The Conference Board estimates that economic growth will stay well above trend in Europe in 2022 and 2023.¹
- Asked at the cusp of the COP26 global climate conference in Glasgow how more ambitious targets for emissions will impact their businesses, European CEOs and Chairs emphasize increasing costs. Close to a majority believe the “Fit for 55” package will have little or no impact on revenues, and nearly two-thirds foresee little or no impact on employment. In contrast, views are more polarized on profits and international competitiveness. More than a third feel both will likely decline. At the same time, 21 percent think profits will be impacted positively, and 25 percent believe it will improve international competitiveness.
- When it comes to inflation, close to half of CEOs and Chairs expect several of the drivers—such as transport costs, energy prices, and supply shortages—to subside throughout 2022. This expectation is consistent with the view of the European Central Bank, which is not planning to increase interest rates in 2022 and has so far announced only a moderation in asset purchases.
- Hiring expectations strengthened among European CEOs and Chairs in the second half of the year. The sub-index is above 50 both inside and outside of Europe, indicating more positive than negative views. Meanwhile, higher wages that may result in greater inflation are not expected to subside in the short term. One-third of respondents expect wage pressures to persist through 2023 and an additional 30 percent beyond 2023. Nearly half of respondents expect labor shortages to persist beyond 2023.

¹ The Conference Board Global Economic Outlook 2022, 3 November 2021.

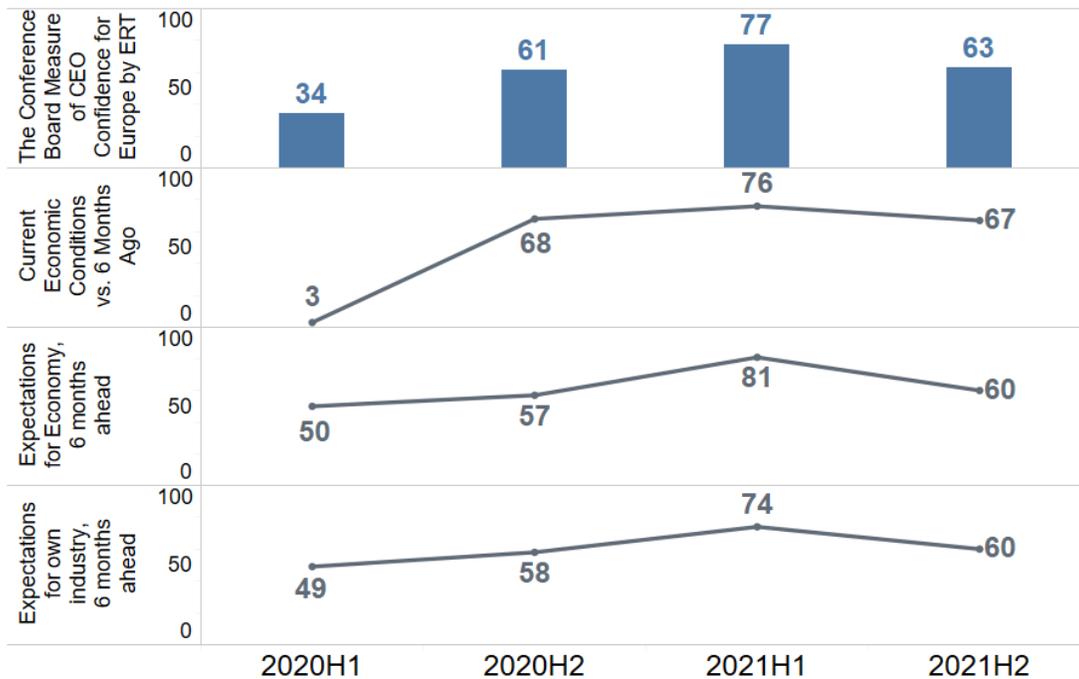
CEOs Confidence Cooled Off in the Second Half of 2021

The Conference Board Measure of CEO Confidence™ for Europe by ERT for the second half of 2021 was 63, down from 77 in the first half of 2021.² The overall Measure is based upon responses to questions about current economic conditions, and expectations for the economy and own industry six months out. A reading above 50 points reflects more positive than negative responses.

Chart 1

CEO expectations for the economy six months from now moderate

Evolution of **The Conference Board Measure of CEO Confidence™ for Europe by ERT** and its sub-components



Note: A reading above 50 indicates more positive than negative responses. The latest reading is based on 56 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 (2021-H2)

² To access and download the historical data, please visit Data Central at: <https://data-central.conference-board.org/>

Optimism about current conditions remained the strongest driver of confidence. This sub-measure reaches 67 in the second half of 2021. Most respondents (73 percent) believe the economy is doing moderately or substantially better compared to six months ago, despite businesses still facing challenges due to COVID-19 related supply disruptions, including higher costs, supply chain disruptions, and limited transport capacity.

Expectations for the economy over the next six months moderated. Respondents remain optimistic about the short-term outlook, but sentiment has moderated since the first half of the year falling from 81 to 60. The moderation is likely caused by the recent emergence of a COVID-19 wave in Europe. The emergence of the second wave in the Autumn of 2020 caused a slowdown in the European economy in Q4 of 2020 and Q1 of 2021. With new cases increasing, some CEOs may factor in some slowing of economic activity during winter.

CEOs are more cautious about prospects for their own industry. Regarding the outlook for their own industry, CEOs remain positive albeit more moderately, with a measure of 60, down from 74. Currently, 52 percent of CEOs expect business conditions to improve in their industry, while 18 percent expect conditions to deteriorate in the near term. Lower confidence may be related to mounting industry and country-specific challenges—such as record-high difficulties to hire workers in the UK, the growth moderation in China in Q3, supply chain disruptions, or rising costs of energy.

Expectations for Employment Improve, Inside and Outside Europe

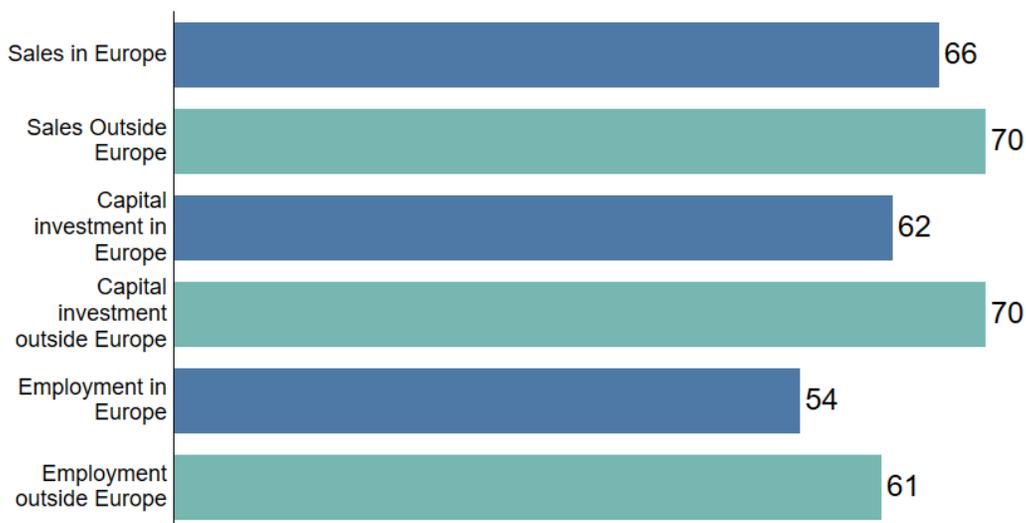
Expectations for employment in Europe strengthened. This reading is now above 50 for the first time in three years. Both inside and outside Europe, CEOs and Chairs are more positive on the employment front compared to the first half of the year. Renewed optimism about the labor market mirrors increased confidence among European consumers regarding job prospects.³

Expectations for sales remain positive, but less bullish compared to 2021 H1, both in and outside of Europe. Demand for goods and services stays strong, in and outside of Europe, but some moderation has recently occurred in emerging markets. Over the next six months, the overwhelming majority of European CEOs and Chairs expect to continue expanding capital investments.

Chart 2

Expectations regarding employment strengthen, both inside and outside 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

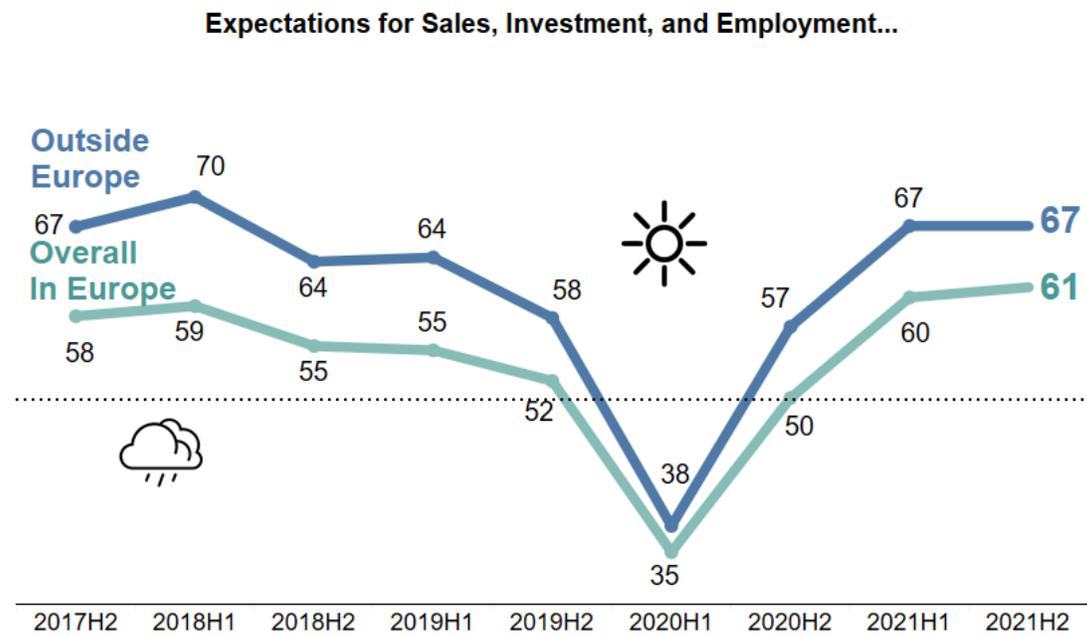
Source: The Conference Board Measure of CEO Confidence for Europe by ERT (2021-H2)

³ Global Consumer Confidence for Europe Q3 2021, The Conference Board, October 2021.

The combined index for sales, capital investment, and employment remains roughly unchanged for Europe and outside. However, views are more positive regarding the outlook outside of Europe than inside Europe. The gap between CEOs' assessment of prospects inside and outside of Europe has been persistent since the beginning of the survey. The main reason behind this difference stems from divergent views regarding employment expectations and capital investment, with respondents being more sanguine about the situation outside of Europe than domestically.

Chart 3

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



Note: A reading below 50 points reflects more negative than positive responses
 Source: The Conference Board Measure of CEO Confidence™ for Europe by ERT (2021-H2)

CEOs' Views on Drivers of Inflation

How temporary is temporary? For 2021, year-on-year inflation increased in the Euro Area to levels unseen since 2008. The Euro Area annual inflation rate was 4.1 percent in October 2021, up from 3.4 percent in September. Similar figures were reported in the UK, with a yearly inflation of 3.8 percent in October. The dominant view, including the European Central Bank, is that most of the underlying drivers of inflation are temporary—such as supply chain disruptions and increased energy and transport costs.

But how temporary is temporary? When will the drivers of price pressures subside? Regarding demand for goods and services, 43 percent of respondents expect demand will remain strong in 2022 and 2023, and 38 percent think it will last beyond 2023

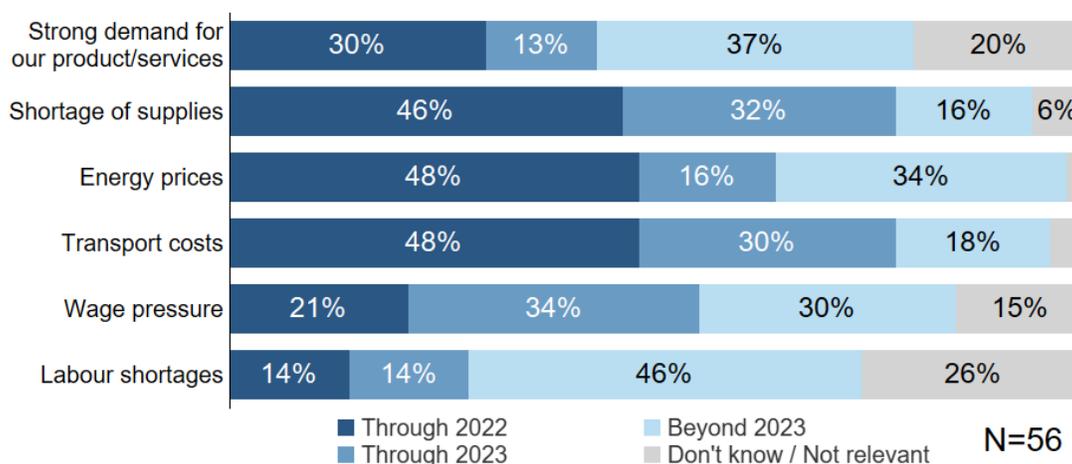
When it comes to transport and energy costs, nearly half believe they will subside during 2022. The same view holds true for shortages of supplies. However, more than a third of respondents anticipate that elevated energy prices will persist beyond 2023.

Labor market-related issues are not expected to be a short-term challenge and few respondents expect them to be a driver of inflation in 2022 only. A majority (64 percent) expects wage pressure to continue through 2023 or beyond, while 60 percent of respondents expect labor shortages to persist over the same time horizon.

Chart 4

The pressure of energy prices and transport costs may subside in 2022, while strong pressure from wages and labor shortages may continue in 2023 and beyond

How long do you expect the following drivers of inflation to impact your company?



Source: The Conference Board Measure of CEO Confidence™ for Europe by ERT (2021-H2)

The Impact of the “Fit for 55” Package

New emission targets expected to increase costs but might not hurt profits as much.

In the summer of 2021, the European Commission presented the first series of adopted files under the 'Fit for 55' package. The package set in motion the desire of Commission President Ursula von der Leyen to set more ambitious targets for emissions reduction: to net 55 percent by 2030 compared to 1990 levels, up from the 40 percent previously agreed.

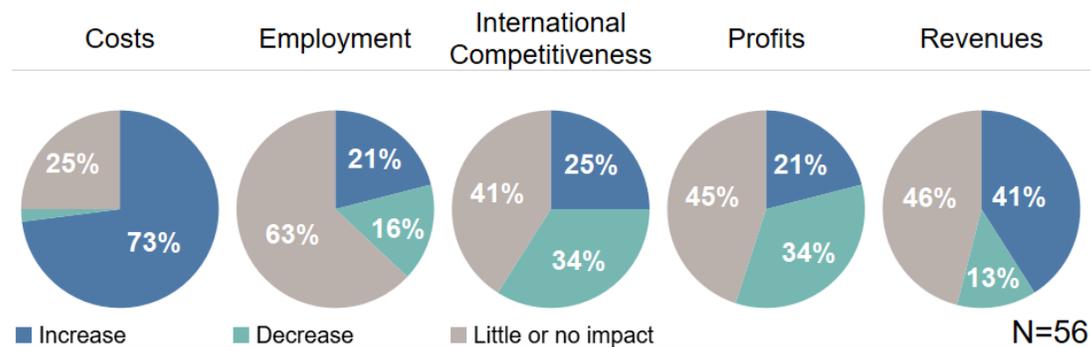
The Conference Board asked European CEOs and Chairs what impact they would expect these measures to have on several key metrics. By far the most likely impact is on costs, of which nearly three-quarters (73 percent) of CEOs say they will increase. Close to a majority believe the “Fit for 55” package will have little or no impact on revenues, and nearly two-thirds foresee little or no impact on employment.

In contrast, views are more polarized on profits and international competitiveness. More than a third feel both will likely decline. At the same time, 21 percent think profits will be impacted positively, and 25 percent believe it will improve international competitiveness.

Chart 5

More ambitious carbon emission schemes may increase costs, but otherwise will have limited impact for a majority of firms

What impact do you anticipate the proposals for "Fit for 55" package, which implement the EU's greenhouse gas reduction target of 55% by 2030, will have on your company's...



Source: The Conference Board Measure of CEO Confidence™ for Europe by ERT (2021-H2)

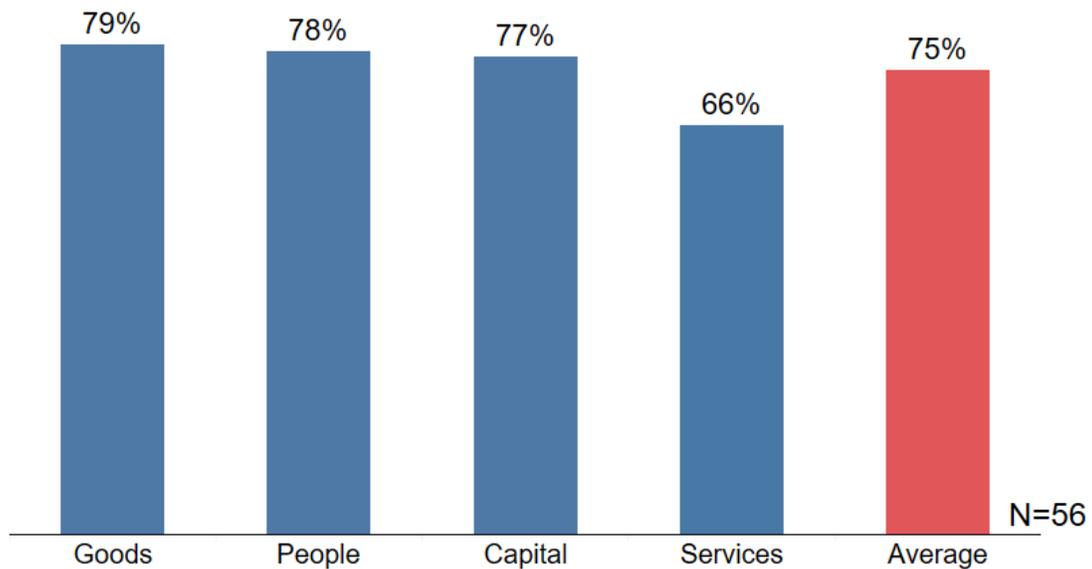
Assessing the Completion of the Single Market

As goods as it gets? Nearly 40 years since the creation of the European Single Market, there is unanimous consensus that the free circulation of people, goods, services, and capital is not fully completed. Policy initiatives to achieve completion, such as the European Capital Markets Union, are struggling to take off. When CEOs are asked how complete they think the Single Market is for each of the “Four Freedoms”, the highest score, 79 percent, is given to the circulation of goods. However, even for goods, the rating is far from 100 percent, indicating that barriers still exist even on the most advanced of the four freedoms. Free circulation of people and capital get a similar score, while free circulation of services scores the lowest. The average estimated rate of completion for all four pillars is 75 percent.

Chart 6

CEOs rating of Single Market completion point to margins for improvement

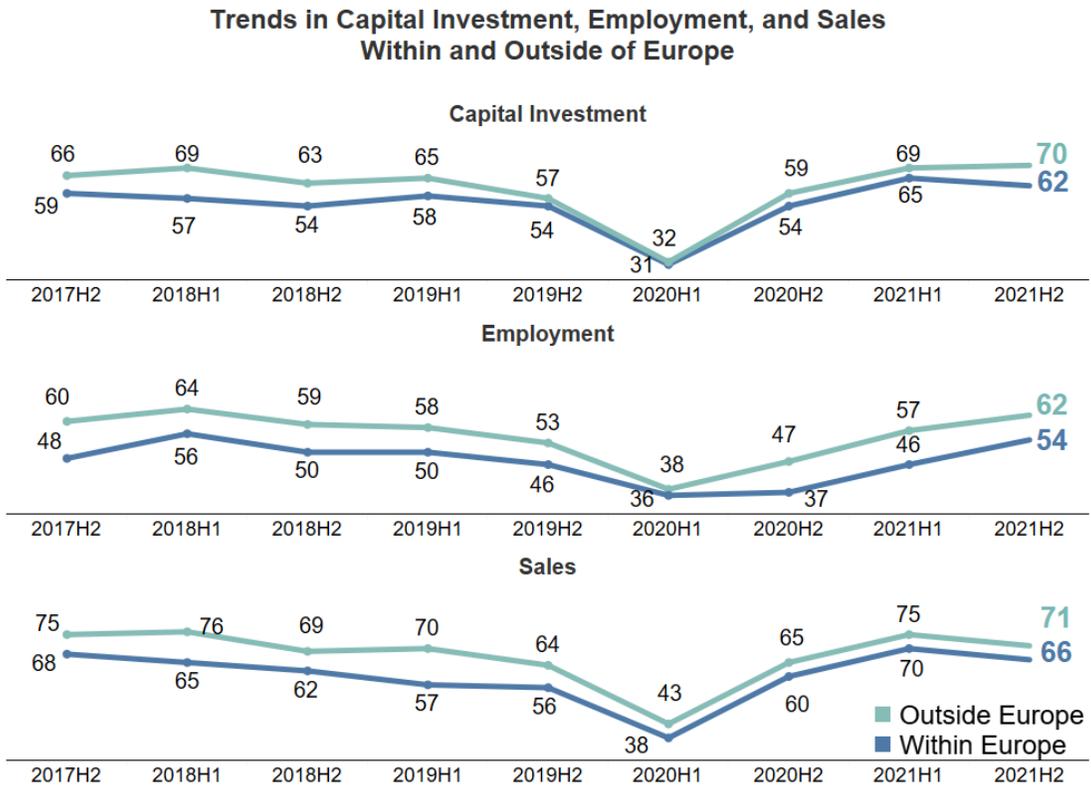
In your view, how complete is the Single Market regarding the four freedoms? From 0 (incomplete) to 100 (fully complete)...



Source: The Conference Board Measure of CEO Confidence™ for Europe by ERT (2021-H2)

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

Chart 7



Source: The Conference Board Measure of CEO Confidence™ for Europe by ERT (2021 - H2)

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 labor 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/>.

For additional information regarding the methodology for The Conference Board Measure of CEO Confidence™ for Europe by ERT see “*Surging Confidence Among European Business Leaders Despite Strains on Supply Chains*”, The Conference Board, May 2021. To access and download the historical data, please visit Data Central at: <https://data-central.conference-board.org/>.