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

CEO Confidence Drops to An All-Time Low in H2 2022

Confronted with high energy prices, European business leaders hold firm on green transition investments

2022 H2 RESULTS

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by Konstantinos Panitsas

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

- **The Conference Board Measure of CEO Confidence™ for Europe by ERT appears to be in freefall**, hitting an all-time low in the measure's three-year history. CEO Confidence in H2 2022 falls to a record low of 24, down from 37 in the first half of 2022. The measure was a healthy 63 in the second half of 2021. All three subcomponents of the Measure in H2 2022 are worse compared to six months ago. A reading below 50 reflects more negative than positive responses.
- **Assessments on the short-term economic outlook take the strongest hit** Compared to six months ago, views on current economic conditions and short-term expectations for the economy, as well as their own industry, have worsened, with the decline being the steepest when assessing the short-term outlook of the economy. As the war in Ukraine shows no signs of ceasing, elevated uncertainty due to the geopolitical landscape, record-high inflation, tighter financial conditions, and declining consumer confidence will continue to exert downward pressure on the region's growth prospects in the near future. In line with CEOs' pessimistic short-term assessment of the economy, The Conference Board projects the Euro Area likely will enter into a recession in late 2022 and early 2023.
- **Views regarding general business outlook for Europe turn pessimistic** Aggregate views on CEOs' company's sales, employment, and capital investment diverge considerably in this survey period. Overall, CEOs are more optimistic about the short-term prospects of these key indicators outside of Europe than inside. Compared to the first half of 2022, the combined measure outside of Europe remains positive, declining from 61 to 53. However, inside Europe, the measure falls below 50, from 55 to 43, signaling on average more negative than positive views. As the economic consequences of the war in Ukraine continue to unfold and strongly impact regional energy supply and energy prices, its adverse impact is felt more in Europe than elsewhere.
- **High energy prices are here to stay, and are seen as the main driver of inflation, and cost**. While almost half (44 percent) of CEOs and Chairs expect energy prices to return to their 2019 average no earlier than 2024, over one-third (38 percent) do not see this ever happening—consistent with the findings in our H1 2022 survey. When asked to rank the drivers of inflation CEOs believe will impact their company the most in 2023, energy costs are ranked as the most impactful factor, well above the others. Shortages of materials and suppliers and wage growth complete their top three list.
- **Soaring energy costs add pressure on existing investments, operations and production lines in Europe** A third of CEOs and Chairs in our survey (34

percent) say they plan to *temporarily* either pause or decrease investments in existing businesses owing to high energy prices. Fifteen percent of respondents plan to do this *permanently*. In another sign of the impact surging energy costs have on companies in Europe, 32 percent of the respondents said they intend to temporarily downsize operations or cease production in the region, while a worrisome 15 percent plan to do this indefinitely.

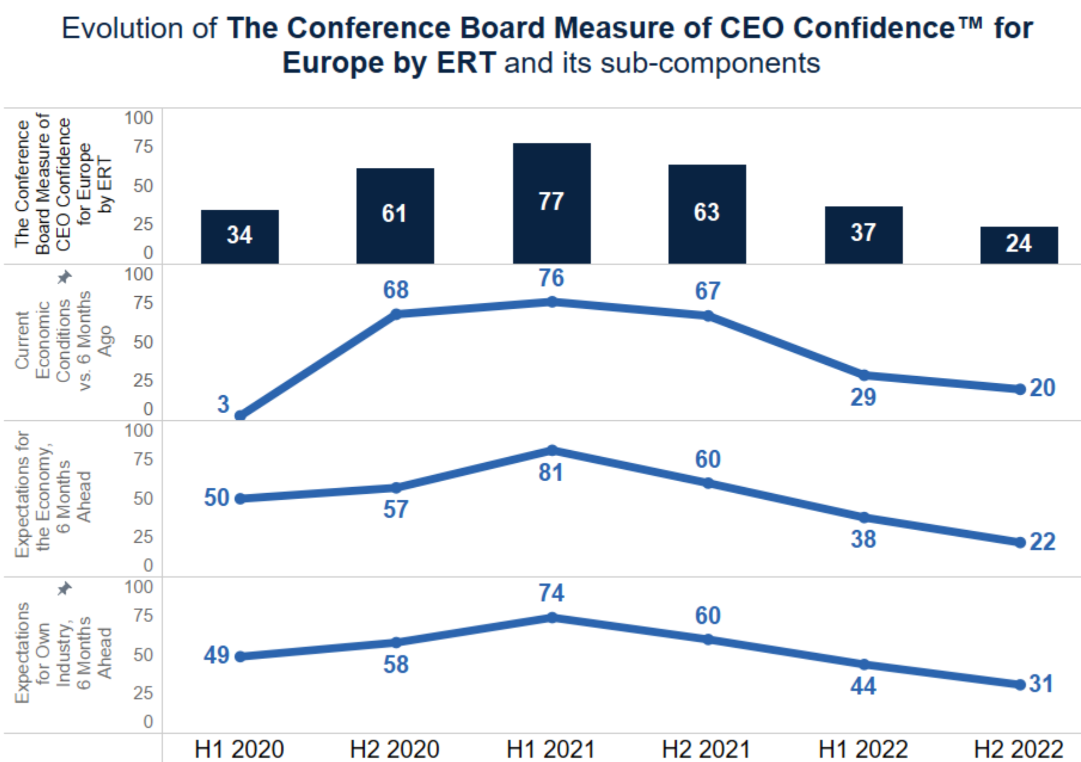
- **Investment in green energy technologies is a top priority.** CEOs in Europe signal strong and clear intentions to ramp up their investments in green energy technologies. In fact, the share of those planning to increase green investments permanently, and not just temporarily, rises from 48 to 59 percent.
- **The role of China remains important for a significant portion (but not all of) European company leaders with respect to their own business.** Fifty-three and 50 percent of business leaders in Europe see China as a major supplier of raw materials and intermediate goods for their own business, respectively. For a comparable number (44 percent) China's market is an important source of stable revenues. When it comes to innovation and R&D, China is seen as very important or important for their own business by a third (31 percent).

CEO Confidence Plunges To an All-Time Low in H2 2022

The Conference Board Measure of CEO Confidence™ for Europe by ERT drops to 24 in the second half of 2022, down from 37 in H1 2022. The overall measure is based upon responses to questions about current economic conditions, and expectations for the economy and own industry six months out. The reading, which was below 50 points for a second consecutive period, reflects markedly more negative than positive responses. The current level of confidence is the lowest ever recorded since the creation of the measure in H1 2020 and below the level at the onset of the COVID-19 pandemic.

Chart 1

CEOs' expectations for the economy in the short run drop noticeably



Note: A reading above 50 indicates more positive than negative responses. 55 CEOs responded to the survey.
Source: The Conference Board Measure of CEO Confidence™ *for Europe by ERT, 2022 H2*

Continued negative sentiment among business leaders in Europe most likely stems from the multifaceted and deleterious impact of Russia's war on the European and global economies.

Present economic conditions compared to six months ago deteriorate further This subcomponent of the overall Measure drops to 20, from 29 in H1 2022, the second lowest reading in the Measure's three-year history. A total of 93 percent of CEOs and Chairs in Europe believe the economy is doing either moderately or substantially worse compared to six months ago. The overwhelming consensus among responses is not surprising.

Double-digit inflation linked to record-high energy costs, dented business confidence due to weakening demand, and plummeting consumer sentiment owing to a surge in inflation are factors pointing to an economy that has slowed considerably compared to the first half of the year.

Prospects for the economy over the next six months plunge Almost 9 out of 10 respondents expect business conditions for the economy as a whole will worsen either moderately or substantially over the next six months. The score for this portion of the Measure stands at 22, the lowest ever recorded since the launch of this biannual survey in H1 2020. As the war in Ukraine shows no signs of ceasing, elevated uncertainty is most likely to keep exerting downward pressure on the region's growth prospects in the short-term.

Prospects for their own industry drop to a new low When business leaders in Europe are asked to assess prospects for their own industry over the next six months, the overall measure stands at 31, or 13 points below the H1 2022 level. Most CEOs and Chairs in Europe (71 percent) expect business conditions to worsen in their industry, 22 percent see conditions unchanged, while only 7 percent anticipate short-term prospects to improve.

CEO Pessimism Gets Worse in the West, Is Curbed in the East

Parallel to the survey in Europe, the CEO Confidence surveys in the US and China were also completed in October.

In the US, the quarterly *The Conference Board Measure of CEO Confidence™ in collaboration with the Business Council* falls to lows not seen since the 2007-2009 recession, namely from 42 to 32 compared to Q2 2022.[1] In tandem with their European counterparts, CEOs in the US are particularly pessimistic about both current economic conditions and the short-term economic outlook. In fact, an overwhelming majority of US executives say they are preparing for a recession both domestically and in Europe over the next 12-18 months. Interestingly, although most respondents expect the US recession to be short-lived and shallow, they also anticipate the EU recession to be deep and with serious global spillovers.

Compared to their US and European counterparts, China-based CEOs of US and European multinational companies are less pessimistic about current and future economic conditions. The *Measure of CEO Confidence™ for China*, although remaining in negative territory, improves markedly in H2 2022, rising from 34 to 47. Overall, more optimistic

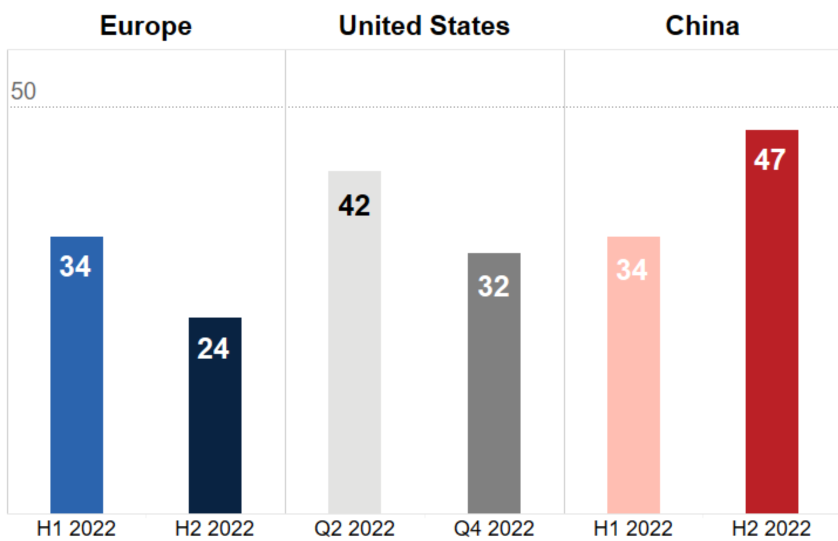
[1] In 2020, The Conference Board started a collaboration with The Business Council around the Measure of CEO Confidence. The US-based Business Council is a forum for the CEOs of the world's largest multinational corporations across all industry sectors.

views regarding short-term prospects in their industries, as well as the economy as a whole, are key in driving up the overall measure in China.

Chart 2

CEO confidence remains subdued globally, but falls deeper into negative territory in the US and Europe

The Conference Board Measure of CEO Confidence™



Note: A reading below 50 denotes more negative than positive responses. In the United States, 136 CEOs were surveyed between September 19 and October 3, 34 in China between 12 and 28 October, and in Europe 55 between 6 and 20 October. Although surveys in Europe and China are run bi-annually, the survey in the US is conducted quarterly. For the US, Q2 results are preferred to be shown overQ3 for reasons of comparability across the three regions

Source: The Conference Board Measure of CEO Confidence™

Expectations for Sales, Investment, and Employment Diverge Noticeably Inside and Outside Europe

Amid a prolonged period of disruptions and heightened volatility, business leaders' aggregate expectations on sales, capital investment, and employment decline further compared to H1 2022. However, the clear divergence of their assessment of prospects inside and outside of Europe is pronounced. While the summary measure outside of Europe remains in optimistic territory, at 53, the gauge for Europe itself falls to 43 from 55 six months ago. A reading below 50 reflects more negative than positive responses.

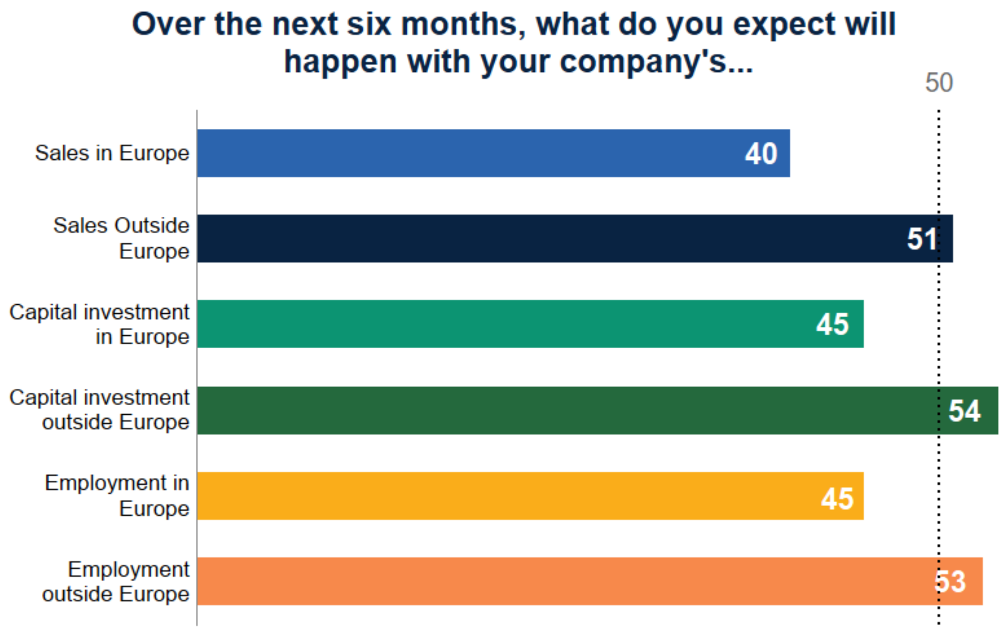
Sales expectations take the strongest hit Compared to the first half of 2022, sales expectations decline the steepest both outside and within Europe, with the drop being more pronounced in the latter. Likely factors behind this are annual inflation climbing to a double-digit rate in October (10.7 percent) and consumer confidence reaching an all-time low – both having a negative impact on private consumption.

Lukewarm employment expectations outside Europe, bearish ones inside Compared to six months ago, views on employment expectations have dropped globally. Despite this decline, the measure outside of Europe remains above 50, falling from 57 to 53, hinting executives remain slightly optimistic about the short-term employment outlook. However, inside Europe, this measure drops into pessimistic territory, falling to 45 from 54, with a third of respondents expecting employment to decrease in the next six months. The majority (60 percent) say it will stay the same, and the remaining tenth expect employment to increase. Despite a very strong and resilient labor market, negative views on Europe's employment expectations are not surprising. Likely causes are uncertainty due to the war and the cost-of-living crisis that undermines demand and leads companies to freeze hiring to reduce spending. Companies severely hit by the intensified energy crisis in Europe may cut jobs to stay viable.

Investment outlook over the next six months remains upbeat only outside Europe Following sales, the second largest fall is in investment expectations six months out, both within and outside of Europe. The decline is significantly larger in Europe, with negative views regarding the investment outlook, on average, outweighing the positive ones. In the first half of 2022, positive investment expectations likely stemmed from executives' ramped-up efforts to decouple from Russian energy and fossil fuels in general. Those efforts now could have slowed for two key reasons. First, tighter monetary policy— following the European Central Bank's decision to raise its main interest rate from -0.5 to 1.5 percent — has created less favorable lending conditions that might discourage business investment in the region. Second, heightened uncertainty and geopolitical instability so long as the war in Ukraine lasts will supposedly continue having an adverse impact on business leaders' investment plans.

Chart 3

Expectations regarding employment, sales, and capital investment diverge considerably in and outside of Europe



Note: A reading below 50 points reflects more negative than positive responses. 55 CEOs responded in the survey.
Source: The Conference Board Measure of CEO Confidence™ *for Europe by ERT, 2022 H2*

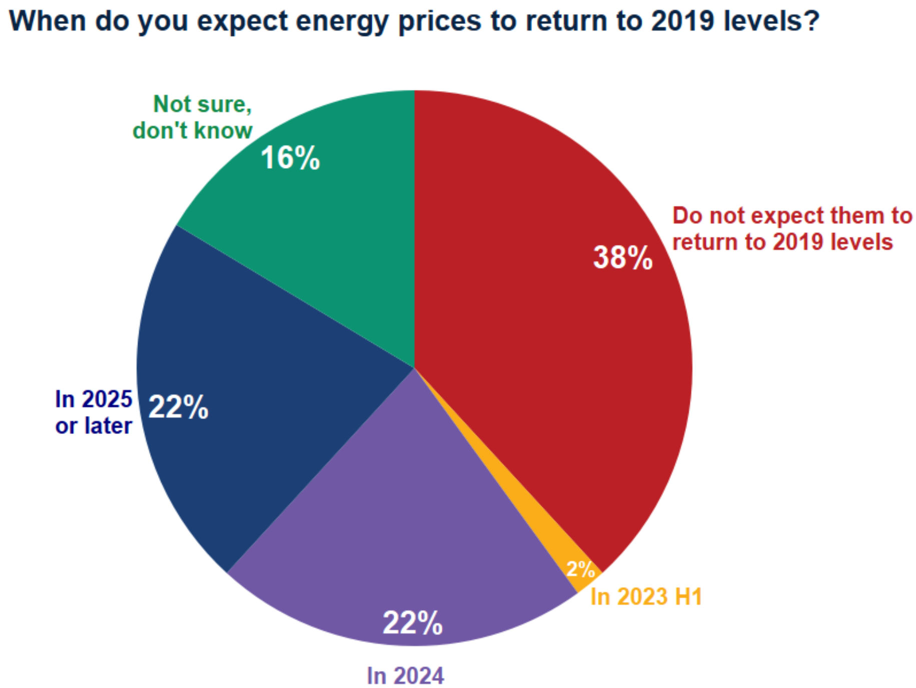
Energy Prices Will Not Return to Their 2019 Average According to the Majority of European CEOs and Chairs

The war in Ukraine added new disruptions to the long list of challenges faced by the European economy—particularly on the energy front. Before the war, Russia was Europe's largest supplier of petroleum oils and natural gas, accounting for 40 and 26 percent of total imports, respectively. Now that Russian pipeline supplies have shrank to as low as 9 percent of total supply, prices have risen sharply. More recently, the wholesale price of electricity—directly linked to gas prices due to the way the European energy market is structured – also surged to historical highs.

The energy crunch is likely to continue with gas supplies squeezed, demand poised to increase heading into winter, and efforts to substitute Russian gas with alternative sources taking time. Consequently, energy prices will likely remain elevated beyond the 2023 winter – a view shared by respondents. When executives are asked when they expect energy prices to return to 2019 levels, only 2 percent believe this would happen in 2023. More than a fifth of respondents see this happening in 2024 and another 22 percent in 2025 or later. Notably, 38 percent of executives do not expect energy prices to ever return to their 2019 rates. In the first half of this year, when CEOs were given a similar question, also 38 percent of respondents expected this outcome. It confirms that CEOs' views on energy prices never returning to their pre-war averages was more than a momentary pessimistic evaluation of the rapidly evolving crisis in early 2022.

Chart 4

The relative majority of CEOs foresees energy prices to never return to their 2019 averages



Note: CEOs in Europe were surveyed between 4 and 20 October. 55 CEOs responded to this question.
Source: The Conference Board Measure of CEO Confidence™ *for Europe by ERT, 2022 H2*

Soaring Energy Costs Put Pressure on Companies' Investments And Operations In Europe Whilst Boosting Green Energy Investments

Persistently elevated energy costs will likely add immense pressure on companies, particularly those operating in energy-intensive sectors. Production is likely to become more expensive, causing firms to become less competitive and profit margins to shrink. Amid competitiveness pressures, companies idle plants, cut back production, or scrap investment plans, CEOs and Chairs in Europe are asked to identify how intensified energy costs will impact their investment decisions and business operations in Europe, both temporarily and permanently, with the results summed up below.

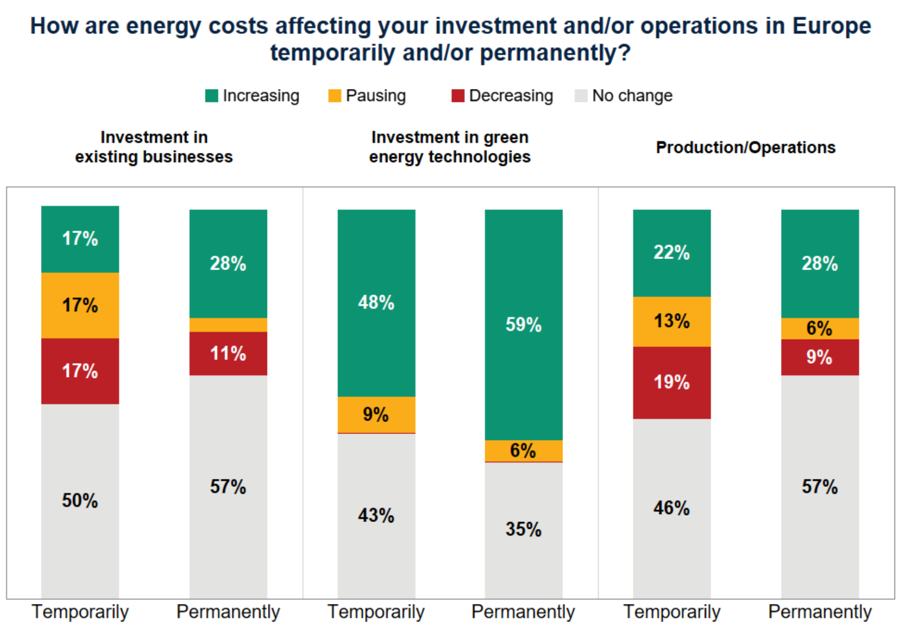
Investment in existing businesses will take a hit beyond the near horizon Even though half the respondents plan to make no changes in their existing investment plans in Europe and another 17 percent plan to increase them, the remaining third of CEOs (34 percent) say they are going to temporarily either pause or decrease current investments. One explanation could be that more energy-intensive companies are more likely to see their production costs increase, thus leaving less room for investments. When asked about investment decisions *permanently*, 11 percent of CEOs are expecting to decrease existing investments and another 4 percent to permanently pause them.

High energy costs will not halt green energy investments Despite myriad challenges, a large majority of CEOs and Chairs (91 percent) intend to either increase their investment in green energy or make no changes in the short term. As for the remaining 9 percent, they plan to temporarily pause investments in green energy technologies. Additionally, a sizable share of respondents (59 percent) plan to *permanently* increase their investments in green energy technologies, versus 48 percent *temporarily*, which is also noteworthy.

In an alarming finding, a third of CEOs plan to temporarily cease production or downsize operations in Europe A worrisome thirty-two percent of CEOs say they are planning to temporarily cease production or halt their operations in Europe as a result of the soaring energy costs in the region, although this share drops to 15 percent when asked if this could be a permanent strategy. On the other hand, 57 percent of respondents say they plan to make no changes and 28 percent plan to permanently increase their production and operations in Europe. This is most likely because they expect energy prices to normalize, supply side disruptions to ease, and demand to recover in the long-term.

Chart 5

Increasing green investments is the most popular way to safeguard their businesses from future energy crises



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Source: The Conference Board Measure of CEO Confidence™ *for Europe by ERT, 2022 H2*

Energy Costs, Material Scarcity, and Wage Growth Are Seen by CEOs and Chairs as the Most Pressing Drivers of Inflation for Their Companies in 2023

The inflation outlook in Europe and globally will remain elevated in the near term due to the ongoing war in Ukraine and supply-side bottlenecks weighing on businesses and crimping economic growth. CEOs and Chairs in Europe were asked to rank the drivers of inflation they think will be the most disruptive for their companies in 2023.

- **Energy costs dominate the list** There is strong consensus among CEOs and Chairs in Europe that high energy prices will be the top driver of inflation affecting their businesses in 2023. The fact that the majority of them foresee energy prices not returning to their 2019 average, at least before 2024, strengthens this view.

- **Material and supplier shortages are ranked as the second most impactful driver of inflation** CEOs and Chairs in our survey foresee material and supplier shortages to persist in 2023, having a significant impact to their companies. The high ranking is likely because the war in Ukraine exacerbated supply disruptions associated with material scarcity and supplier shortages experienced since the pandemic. Despite recent signs of easing disruptions, producer prices in the Euro Area are still significantly higher compared to their long-term average.

- **Wage growth completes the list of top-3 inflation drivers impacting companies** Despite the recent decline in hiring intentions, the European labor market remains incredibly tight with plentiful job openings. In such a tight market, CEOs will likely be called to offer higher wages in order to retain talent or attract new workforce. At the same time, workers' stronger demand across the continent for pay raises to meet record-high inflation adds more pressure to already dwindling profit margins.

- **Transport costs, a weak euro, and strong demand are seen as less important factors for companies.** These results are consistent with recent trends. Recent data do point to some easing in transport costs, including lower shipping rates. The improvement may reflect the decision of CEOs and Chairs to swiftly choose alternative, less costly ways of moving goods and products without disrupting business.[2] As for the weak euro, although a fourth (26 percent) of CEOs placed it in their top-3 drivers of inflation, none of them ranked it first. One explanation could be that the most significant hindrance of a weak euro at the moment is how much more expensive it makes energy—primarily imported and usually paid in dollars. Given high energy costs are already ranked as the number one inflation driver for companies in 2023, that could perhaps explain why a weak euro is seen as a less important stressor. Finally, strong demand for products or services bottoms the list of inflation drivers, ranked by approximately a tenth of respondents as a top-3 most impactful driver of inflation for their companies in 2023. With aggregate demand for goods and services rapidly weakening, a demand-driven surge in inflation is unlikely to happen in the near term.

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[2] Ilaria Maselli, Konstantinos Panitsas, "*The Conference Board Measure of CEO Confidence for Europe by ERT, 2022 H1*", The Conference Board, May 24, 2022.

Chart 6

Energy costs, material and supplier shortages and wage growth top the list of most impactful inflation drivers for companies in 2023

What drivers of inflation will impact your company the most in 2023?

Energy costs	1
Shortage of suppliers/materials	2
Wage growth	3
Transport costs	4
Weak euro	5
Strong demand for our product/services	6

Note: Respondents were asked to rank the top 3, with 1 being the most impactful driver of inflation and 3 the least impactful one. Final rankings were derived from a weighted analysis of how many respondents picked each option as well as how rankings were distributed per option.
Source: The Conference Board Measure of CEO Confidence™ *for Europe by ERT, 2022 H2*

Chinese Supply Chains and a Strong Consumer Base Are Important for European Competitiveness

CEOs and Chairs in our survey were asked to give their perspectives about the importance of China for business competitiveness.

- For 50 percent of respondents' businesses, China is either an important or very important supplier of intermediate products. Europe supply chains' dependence on China is an important factor, including for intermediate goods that are critical in production processes. Reliable supply from China is also essential for keeping European firms' costs contained and staying competitive in a global market.

- 53 percent of CEOs and Chairs rate China as an important supplier of raw materials for their businesses. China provides 98 percent of the EU's supply of rare earth elements used in key industries like automotive, clean energy production, and aerospace. Losing access to these elements would possibly adversely impact the Europe's manufacturing sector, which accounts for almost a fifth of the region's total output.

- For 44 percent of respondents, China is very important or important as a source of stable revenue for their business. As one of the largest consumer economies, with a growing consumer class, China can be considered a critical source of demand for European goods, bolstering profitability, and enhancing firm viability. Indicatively, exports to China in 2021 alone accounted for 19 percent of total extra-EU exports, double the amount compared to that in the US.

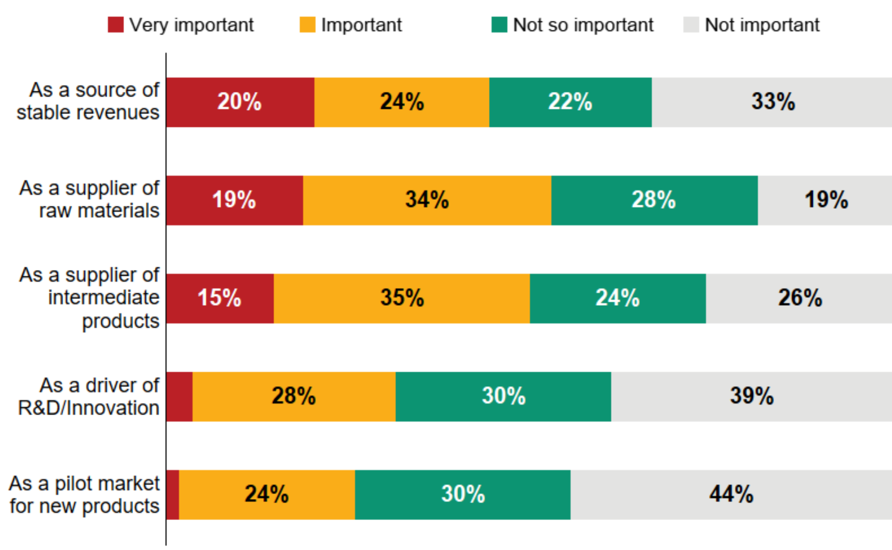
- Roughly a third of Chief executives and Chairs (31 percent) think of China as an either very important or important driver of R&D and innovation for their business, hinting the region is not solely perceived as a critical manufacturing hub, but also as a major source of innovation. Thirty percent of CEOs do not consider the region that important when it comes to innovation and R&D for their business, while the relative majority (39 percent) find it not important at all.

- Twenty-six percent of respondents see China as an either important or very important pilot market for their companies' new products, another 30 percent as not so important, while the remaining 44 percent as not important at all.

Chart 7

Chinese supply chains and a strong consumer base are critical for Europe's competitiveness

How important is China for the competitiveness of your business?



Note: CEOs in Europe were surveyed between 4 and 20 October. 54 CEOs responded to this question.
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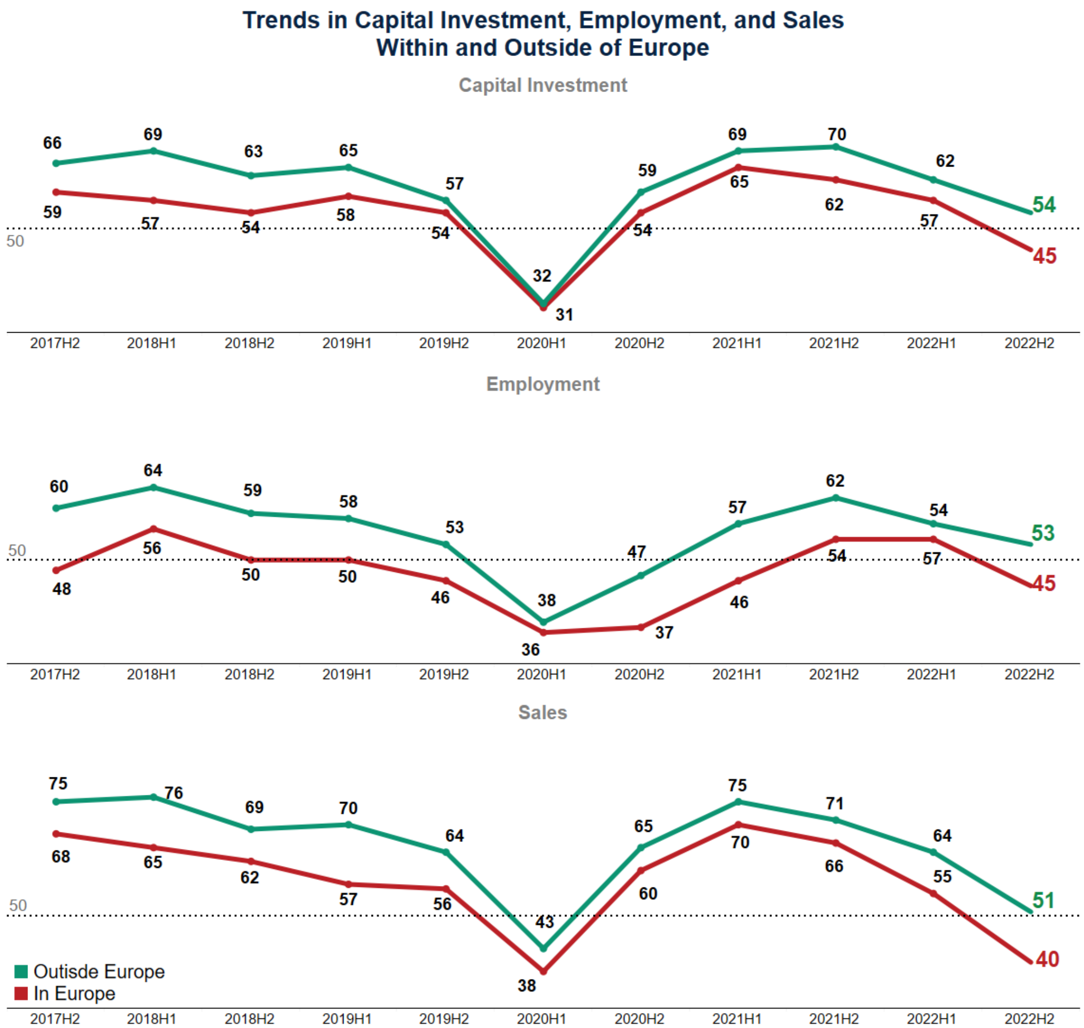
Annex: Details on Expectations for Capital Investment, Sales, and Employment

Chart 8



Note: A reading below 50 denotes more negative than positive responses
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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 since 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 October 4 to October 20, 2022, to 58 ERT members. Fifty-five replied to the regular questions, resulting in a response rate of 95%. More than 50 replied to the special questions. The Measure of CEO Confidence survey was circulated in China between October 12 and October 28 to 44 CEOs and Executives. The response rate was 77 percent.

About the Authors

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The author would like to thank John Metselaar for his continuous support and guidance on this project, as well as Dana Peterson, Chuck Mitchell, Klaas de Vries, Anke Schrader, and Lynn Franco for their thorough reviews and helpful comments, and Babette Plessers for editing and improving the text.

About the European Round Table for Industry (ERT)

The European Round Table for Industry (ERT) is a forum that brings together around 60 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/.