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

European CEOs Raise Warning Flags On Europe's Weakening Competitiveness

2023 H1 RESULTS

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by Konstantinos Panitsas

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CEO Confidence Returns Into Positive Territory, But Europe's Competitiveness As A Base For Industry is Weakening

The Conference Board Measure of CEO Confidence™ for Europe by ERT has returned into positive territory in the first half of 2023 from the extreme lows seen six months ago. It currently stands at 53, up from 24 in the second half of 2022, when confidence hit an all-time low. A reading above 50 reflects more positive than negative responses. A mildly positive perception of current economic conditions as compared to last autumn and somewhat more optimistic expectations for their own industry over the next six months were the primary drivers of the measure's improvement.

However, the starkest finding of our H1 2023 survey is that more than 80 percent of CEOs believe Europe's competitiveness as a base for industry is weakening.

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

- **A key driver of confidence, the short-term economic outlook also improved in Europe from six months ago, although they still remain pessimistic with negative views outweighing the positive ones.** Only a quarter of CEOs are looking at the next six months with optimism.
- **In parallel with Europe, The Conference Board Measure of CEO Confidence™ surveys in China and the US were also completed in late April. Results diverge markedly across the three regions.** In the US, the quarterly-published measure ticked down in Q2, from 43 to 42, while in China it surged to a new high in H1 2023, from 42 six months ago.
- **CEOs' aggregate views on their company's sales, employment, and capital investment improved both inside and outside of Europe.**
- **However, CEOs are more optimistic about the short-term prospects of these key indicators outside of Europe than within.**
- **More than 80 percent of CEOs believe Europe's competitiveness position as a base for industry is weakening.**
- **CEOs see geopolitical risks, inflation, and energy costs as the top issues that will continue to impact their company's business competitiveness over the near term.** Skills shortages and supply chain disruptions complete the top-5 list of risk factors.
- **In light of sliding competitiveness, CEOs expect to move investments and/or company operations away from Europe in the near-term.** In fact, more than half of CEOs and Chairs (57 percent) are planning to shift investments and/or operations from Europe to North America over the next

two years. An equal share of respondents expect their customers to do the same.

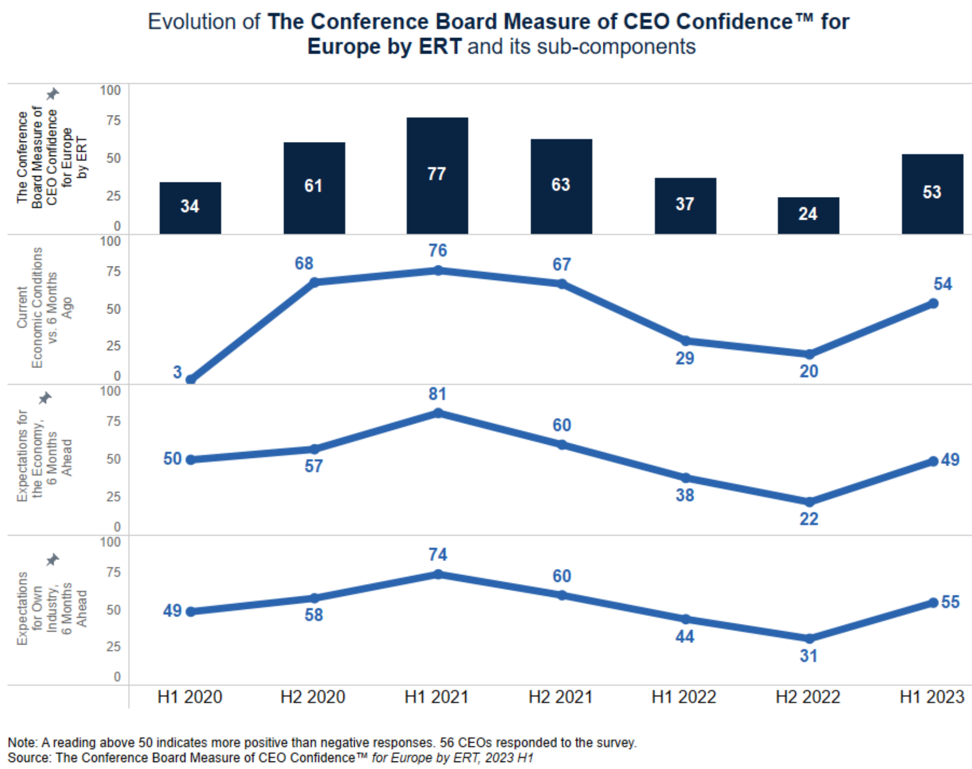
- **A lower share of respondents (32 percent) expect to shift investments and/or operations for their company from Europe to Asia (excluding China), while almost 40 percent expect their customers to do so.** On the contrary, only 7 and 11 percent of respondents see investments and/or operations shifting away from Europe to China for their company and customers, respectively.
- **CEOs view current geopolitical tensions as having a negative effect on their company's business prospects in Europe.** Namely, more than two-thirds of respondents (70 percent) rate the impact of current geopolitical tensions on their company's business prospects in Europe as either somewhat negative or negative.
- **Outside Europe, 40 percent of CEOs see the current geopolitical landscape as having a favorable impact on their company's business prospects in North America.** A smaller percentage (33 percent) shares the same view about Asia (excluding China), but not for China. In fact, almost 80 percent of CEOs rate current geopolitical tensions as having a negative impact on their company's business prospects in China. Finally, more than 70 percent of respondents rate the impact current geopolitical tensions have on their company's business prospects in Africa and South America as neutral.

CEO Confidence Stabilizes From the Free Fall of H2 2022

The Conference Board Measure of CEO Confidence™ for Europe by ERT increased to 53 in the first half of 2023, up from the record-low of 24 in H2 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 is greater than 50 for the first time since the beginning of Russia's war in Ukraine, reflects on average marginally more positive than negative responses. Fifty-six CEOs and Chairs of some of Europe's largest companies replied in this round of the CEO Confidence survey, resulting in a response rate of 97 percent.

Chart 1

CEOs' Confidence Stabilizes From the Free Fall of H2 2022



Views about current economic conditions improve. This subcomponent of the overall measure more than doubled in our most recent survey, from the extreme low of 20 in H2 2022 to 54. Nonetheless, while a large portion of CEOs (41 percent) see the economy performing relatively better compared to six months ago, almost a third (32 percent) view current economic conditions as unchanged, and the remaining 27 percent say they have worsened moderately. On the one hand, the uptick in sentiment regarding current economic conditions likely stems from the fact that the Euro Area has weathered the autumn and winter energy crisis and geopolitical fallout from the war in Ukraine better than expected. On the other hand, weakly positive views imply significant headwinds to the region's economic outlook still persist.

Prospects for the economy over the next six months remain subdued. This is the only part of the overall measure that remains in negative territory, at 49. Less than one-third (27 percent) of CEOs and Chairs are looking towards the next six months with tempered optimism. Forty-one percent expect no changes to the economic outlook in the near term, while the remaining 32 percent expect conditions to worsen. Although other recent confidence indicators, like the monthly-published Purchasing Managers' Index (PMI), suggest an uptick in business activity in 2023 driven by the services sector, growth in the region is likely to remain anemic in coming quarters. An uncertain geopolitical environment due to the ongoing war in Ukraine, unabated inflationary pressures weighing unfavorably on consumption and investment, and adverse monetary conditions dampening demand, are likely to keep economic growth significantly below its long-term trend for the remainder of 2023.

Prospects for their own industry turn modestly positive. When CEOs are asked to assess prospects for their own industry over the next six months, the overall measure increased from 31 to 55. Fifty-two percent of CEOs assess the outlook for their own industry to be neutral, a third of them sees it as positive, while the remaining 16 percent says conditions will be moderately worse six months out.

CEO Confidence Remains Largely Pessimistic In The US, Surges To A New High In China

In parallel with the European CEO Confidence, the bi-annual "*The Conference Board Measure of CEO Confidence™ for China*" and the quarterly "*The Conference Board Measure of CEO Confidence™ in collaboration with the Business Council*"[1] surveys were also completed in late April.

In the US, the measure remains firmly in negative territory, declining slightly to 42 in Q2 2023 from 43 a quarter ago, suggesting US CEOs remain largely pessimistic about what lies ahead in the US economy. More than half of CEOs (56 percent) have negative sentiment about current and near-term economic conditions, while 40 percent expect conditions in their own industry to weaken further. A vast consensus of US CEOs is preparing for a brief and shallow US recession over the next 12-18 months, but only 6 percent of respondents expect a deeper downturn with major global spillovers. The current banking sector turmoil, which could fuel a broad credit crunch and slow down the US economy further, coupled with the Fed's aggressive monetary tightening that US CEOs expect will remain high or even rise in 2023 are key elements feeding into their pessimistic view about the US economic outlook, now and in the near-term.

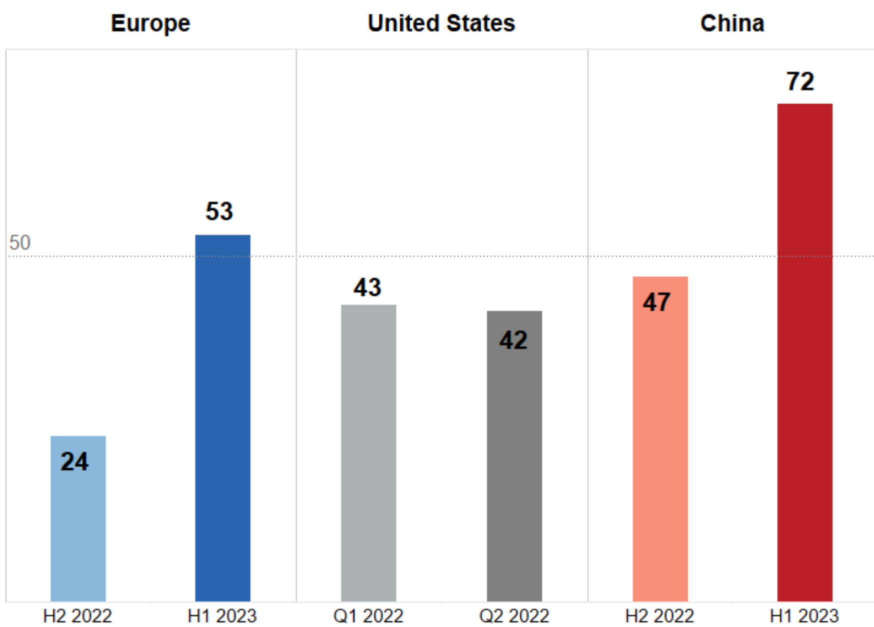
Unlike their US and European counterparts, China-based CEOs of US and European multinational companies are remarkedly more optimistic. The Measure of CEO Confidence™ for China surges from 47 to an impressive 72, with positive views about present economic conditions compared to six months ago being the main driver behind this stark improvement. Heightened optimism among China CEOs is most likely associated with the complete lift of the country's restrictive zero-COVID-19 policy towards the end of last year. Eighty-eight percent of China CEOs see the economy as doing either moderately or significantly better than six months ago, while 80 percent also see business conditions in six months from now will improve further.

[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.

Chart 2

CEOs' Confidence In Key Markets Diverges Considerably

The Conference Board Measure of CEO Confidence™



Note: A reading below 50 denotes more negative than positive responses. In the United States, 139 CEOs participated in the survey, which was fielded from April 10 through 24. In Europe 56 CEOs participated in the survey, which was on the field from April 4 to April 19. Finally, 34 CEOs in China participated in the Chinese edition of the CEO Confidence measure, with the survey open from April 6 through 21.
Source: The Conference Board Measure of CEO Confidence™

Expectations for Sales and Investment Rebound Strongly, But They Remain Mixed for Employment

The combined sub-measures for sales, investment, and employment expectations in H1 2023 improved globally from six months ago. Inside Europe, the summary measure increased from 43 to 54, while outside the region it rose from 53 to 61. A value above 50 reflects more positive than negative responses. Overall, positive views both inside and outside Europe are likely associated with the global economy so far weathering economic headwinds better than expected.

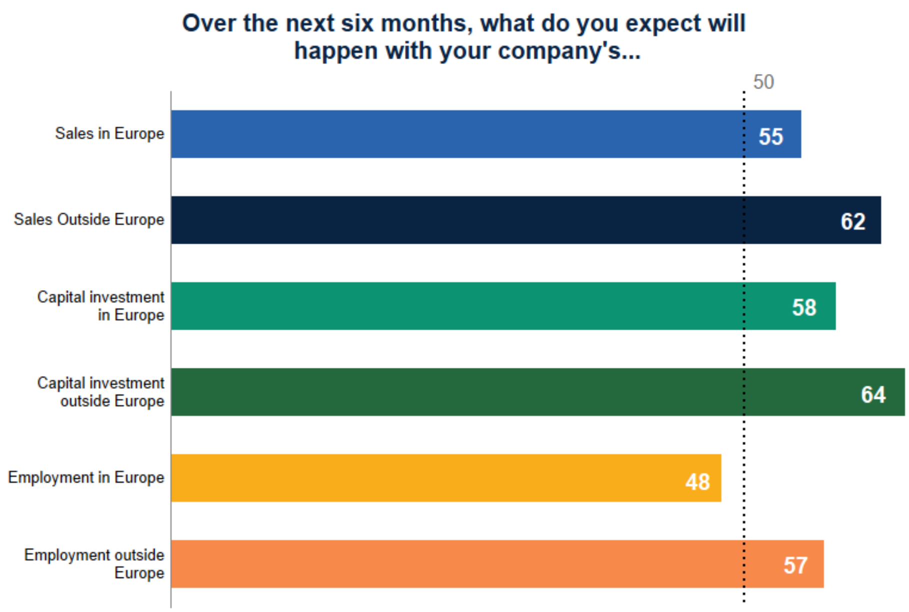
Sales expectations improve the most globally. Compared to the second half of 2022, sales expectations over the next six months improved both inside and outside of Europe. In Europe the measure increased from a near record-low of 40 in H2 2022 to 55, with a significant portion of CEOs (44 percent) estimating sales will increase either moderately or significantly.

Expectations for capital investment rise markedly in Europe, and also improve for outside the region. Compared to H2 2022, CEOs' views regarding short-term investment expectations turned positive globally. In fact, the measure rebounded more strongly for Europe, climbing to 58 from 45 six months ago. Outside the region, the sub-measure increased from 54 in H2 2022 to 64.

Employment expectations remain positive outside Europe but are bleaker within. Both inside and outside of Europe employment expectations rose moderately and at the same rate. Outside Europe, the measure rises from 53 to 57. In Europe on the other hand, it remains in negative territory, reaching 48 from 45 in H2 2022. While half the respondents see no changes in employment expectations in Europe, and another fifth plan to actually increase hiring, 30 percent expect their company's employment to decrease either moderately or significantly over the next six months.

Chart 3

Expectations rebound for sales and investments, but much less so for employment



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, 2023 H1*

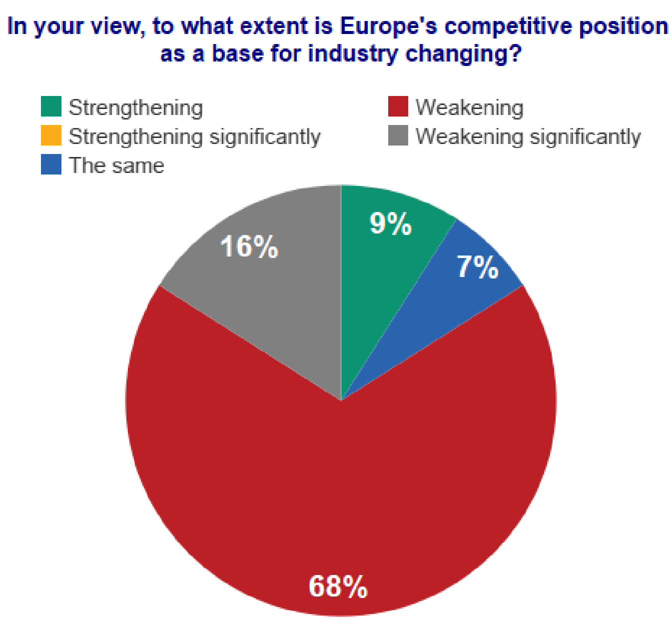
European Competitiveness Faces Growing Challenges

Europe's competitiveness was already in decline before the war in Ukraine broke out in early 2022. Lower productivity growth, regulatory burdens, and homemade economic crises that lead to subdued confidence and prolonged underinvestment had already put European competitiveness on a downward spiral. Russia's war against Ukraine has added to this challenge. Europe's efforts to restore its competitiveness are more challenged than ever due to an unstable geopolitical environment, elevated energy prices compared to pre-2019 levels, rising inflation, tighter financing conditions, and record-high input costs.

An overwhelming majority of CEOs believe Europe's competitiveness is weakening. When assessing the extent to which the competitive position of Europe's industry is changing, an overwhelming majority (84 percent) of CEOs and Chairs state it is weakening, with almost a fifth of respondents (16 percent) characterizing this weakening as significant. Only seven percent of CEOs believe Europe is maintaining its competitive position, while the remaining 9 percent see Europe's competitiveness as becoming stronger vis-à-vis its global peers.

Chart 4

Four in five CEOs see the competitive position of Europe's industry is weakening



Note: 56 CEOs responded in the survey.
Source: The Conference Board Measure of CEO Confidence™ *for Europe by ERT, 2023 H1*

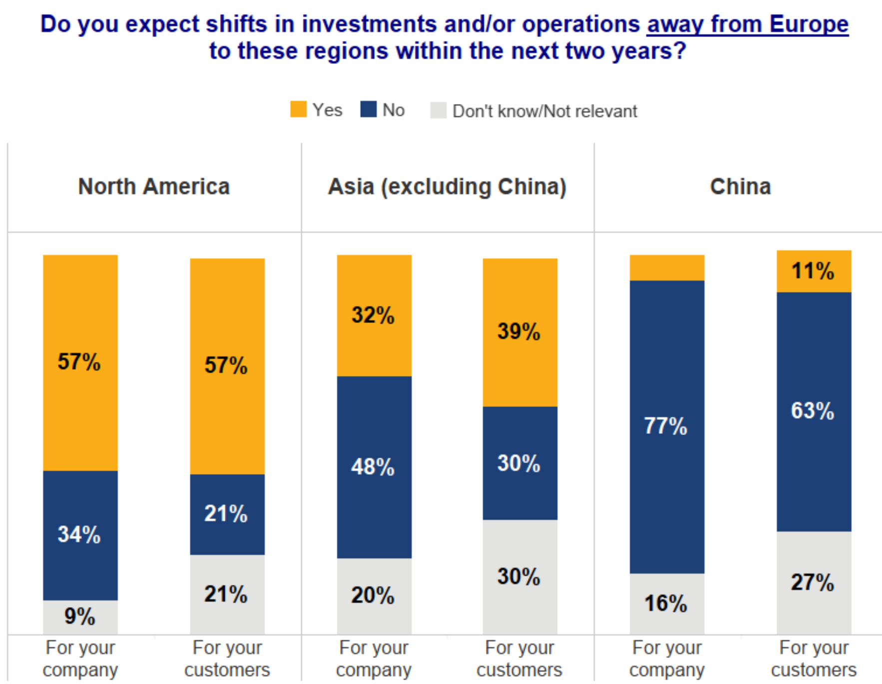
The US Inflation Reduction Act (IRA) is seen by policymakers in Europe as posing a major challenge to the region's efforts to regain its competitiveness. Aiming at spurring investments in renewable energy and green technologies through massive subsidies worth nearly $400 billion, concerns that the act could lure investments away from Europe have risen. The findings of our CEO Confidence confirm such concerns.

Within the next two years:

- **A majority of CEOs see shifts in investments and/or operations away from Europe to North America.** Fifty-seven percent of CEOs expect their company to move investments and/or operations away from Europe to North America. An equal share of respondents sees their customers doing the same. On the other hand, 34 percent of CEOs do not expect their company to shift investments and/or operations to North America, while a fifth (21 percent) do not see their customers doing this either.
- **A smaller share see their company or customers shifting investments and/or operations from Europe to Asia (excluding China).** Almost a third (32 percent) of CEOs and Chairs in Europe plan to increase their investments and/or business operations in Asia (excluding China) at the expense of investments/operations in Europe. A slightly larger share (39 percent) expect their customers will do the same. On the other hand, 48 percent say they do not intend to reduce their investments/operations in Europe in favor of Asia, and 30 percent of respondents do not see their customers shifting investments/operations to Asia (excluding China) either.
- **Only a few CEOs expect their company and customers to shift investments and/or operations from Europe to China.** Just 7 percent of respondents intend to shift investments and/or operations for their company from Europe to China. Most CEOs (77 percent) do not see this happening, while the remaining 16 percent chose 'don't know or not applicable'. Similarly, only a marginally larger share of them (11 percent) expect their customers to modify their investments/operations plans in Europe in favor of China over the near-term.

Chart 5

Most CEOs plan to move part of their investments to North America. A smaller share intend to do the same in Asia, and only a small minority in China.



Note: 56 CEOs responded to this question.
Source: The Conference Board Measure of CEO Confidence™ *for Europe by ERT, 2023 H1*

Geopolitical Tensions And Price Pressures Top Issues To Continue Restraining Competitiveness Beyond 2023

As the world continues to recover from the shock of COVID-19 and the new reality of a war on the European continent, the European economy needs to recover lost competitiveness and open strategic autonomy. CEOs in Europe were asked to rank the risks they believe will continue to have a negative impact on their company's business competitiveness in 2023 and 2024.

- **Geopolitical tensions top the list of risks for business competitiveness.** Almost half of respondents (45 percent) rank geopolitical tensions as the number one risk to their company's business competitiveness. Geopolitical tensions translate into heightened uncertainty and volatility along many dimensions, posing challenges to business models and forward planning. Moreover, competing jurisdictions increase efforts to advance the competitiveness of their own economies (e.g., the US IRA, which the EU has not been able to match). These factors together pose risks for European companies' competitiveness.
- **Inflation and energy prices are seen as the second and third most pressing issues, respectively.** Firms operating in Europe face both elevated underlying inflation and higher costs for many production inputs at the same time. Record-high core inflation weighs negatively on private spending, with weak demand adding downward pressure on industrial output. Elevated energy costs like gas or electricity prices pose a specific challenge in many industries. For instance, natural gas prices even after declining in recent months, are still 3-times higher than their 2015-2020 average and more than five times higher than in the US and are likely to remain elevated until at least the end of 2024.[2] All in all, increased costs on the one side, and price pressures on the other, are an important burden on European companies' ability to compete.
- **Skills shortages are ranked the fourth issue for their company's competitiveness.** The world economy is undergoing a dual transition of green technologies and digital innovation. Europe must stay resilient and relevant in order to remain competitive and prosperous. To achieve these goals, a workforce with the skills to meet the challenges of this twin transition is needed. However, a rapidly ageing workforce and a labor market that has become tighter – as well as a fast-growing need for skills that are in short supply - has made attracting talent with the right skills and reskilling of current employees a key concern for businesses and executives in Europe.
- **Supply chain woes become less of a worry** CEOs in Europe rank supply chain disruptions as the fifth most important issue for their company's competitiveness that will persist over the next two years. Timelier data suggest supply chain constraints continue to ease globally and will likely continue waning further in coming quarters. This could explain why CEOs do not rank it higher on the list of issues.
- **Only a small share of respondents picked *the lack of comparable incentive schemes in Europe versus the US* as a top-5 risk to their company's competitiveness,** ranking it sixth. A likely reason behind the low ranking could be that companies are already reacting to this risk factor by shifting business activities to other geographies due to more attractive investment schemes.

[2] Konstantinos Panitsas, "*The Conference Board Measure™ of CEO Confidence for Europe, by ERT, 2022 H2*", The Conference Board, November 23, 2022

- **Access to raw materials and funding conditions come last in the list of risks posing a threat to CEOs' company's business competitiveness.** Less than a fifth of respondents see access to raw materials and access to funding conditions as significant risk factors to their companies' competitiveness, ranking them 7th and 8th respectively.

Chart 6

Geopolitical risks, elevated underlying inflation, and high energy prices top CEOs' list of risks impacting their company's business competitiveness in 2023 and 2024

Note: Respondents were asked to rank the top 5, with 1 being the highest risk item and 5 the lowest risk item. Final rankings are 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, *2023 H1*

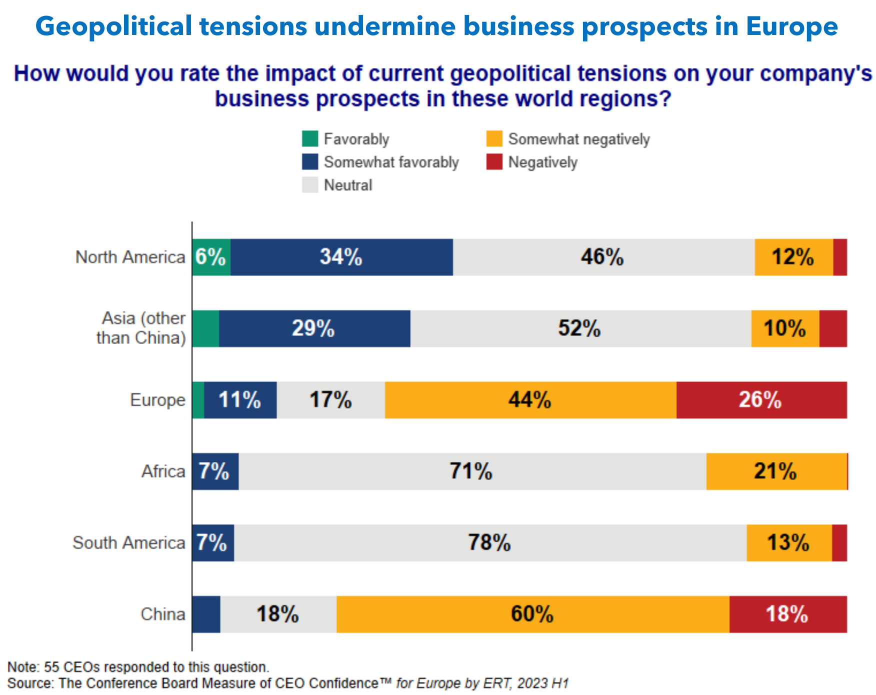
Geopolitical Tensions Make Business Prospects in Europe Less Favorable

With geopolitical tensions ranked by CEOs as the single most important factor impeding their company's ability to compete, changing geopolitical dynamics will play a greater role in business decisions from now on. CEOs in our survey were asked to give their perspective about the impact current geopolitical tensions have on their company's business prospects in major markets in which they operate:

- **Business prospects in Europe are negatively affected by the current geopolitical landscape.** More than two thirds (70 percent) of CEOs in our survey rate the impact current geopolitical tensions have on business prospects in Europe for their company as either somewhat negative or negative. Another 17 percent find it neutral, while the remaining 13 percent rate it as either somewhat favorable or favorable.

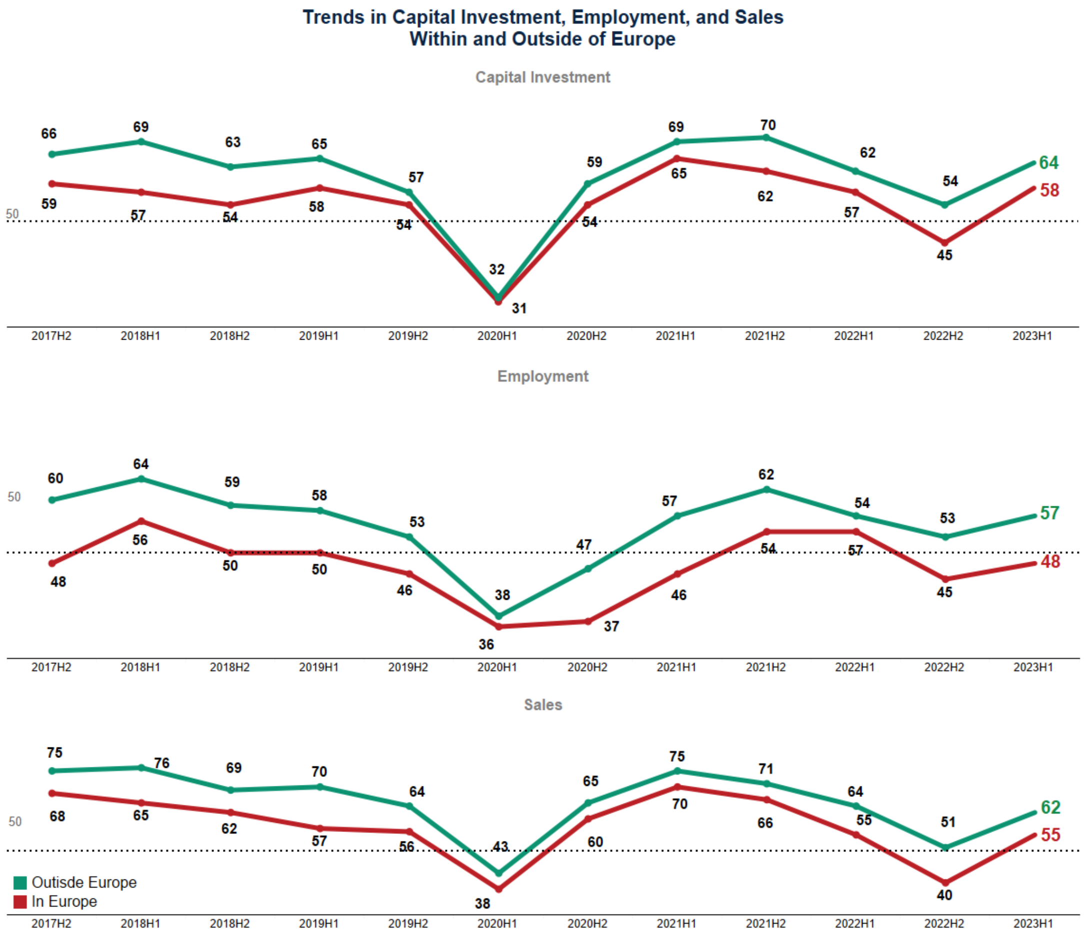
- **Amid current geopolitical tensions, a large share of CEOs rate business prospects in North America more favorably.** Forty percent of respondents view current geopolitical tensions as having a favorable impact on their company's business prospects in North America. Another 46 percent rate the impact as being neutral and the remaining 14 percent as negative.
- **Most CEOs see geopolitical tensions as having a neutral impact on their company's business prospects in Asia (excluding China), but a negative one in China.** A majority of CEOs (52 percent) rate the impact current geopolitical tensions have on business prospects for their company in Asia (excluding China) as neutral, a third (33 percent) view them favorably, while the remaining 15 percent see them as negative. Meanwhile, an overwhelming majority of CEOs (78 percent) rate the impact of current geopolitical situation on their company's business prospects in China as negative, only 4 percent see it as favorable, and the remaining 18 percent consider the impact to be neutral.
- **More than 70 percent of CEOs see the impact current geopolitical issues have on their company's business prospects in Africa and South America as neutral.** Twenty-one percent of them perceive the current geopolitical environment as having a negative impact on business prospects in Africa, and 15 percent believes the same about South America. On the contrary, an equal share of respondents in our survey (7 percent) see current geopolitical tensions as having a somewhat favorable impact on their company's business prospects in both regions.

Chart 7



Appendix: Details on Expectations for Capital Investment, Sales, and Employment

Chart 8



Note: A reading below 50 denotes more negative than positive responses
Source: The Conference Board Measure of CEO Confidence™ *for Europe by ERT, 2023 H1*

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 April 4 to April 19, 2023, to 58 ERT members. Fifty-six replied to the regular questions, resulting in a response rate of 97%. More than 50 replied to the special questions. The Measure of CEO Confidence survey was circulated in China between April 6 and April 21 to 44 CEOs and Executives. The response rate was 77 percent.

About the Authors

Konstantinos Panitsas Data Scientist, ESF

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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 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/.