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

Confidence Drops, CEOs Urge Europe To Follow Mario Draghi's Recommendations

Confidence Drops, CEOs Urge Europe To Follow Mario Draghi's Recommendations

The Conference Board Measure of CEO Confidence™ for Europe by ERT
H2 2024 RESULTS

by Konstantinos Panitsas

Confidence Drops, CEOs Urge Europe To Follow Mario Draghi's Recommendations

The Conference Board Measure of CEO Confidence™ for Europe by the European Round Table for Industry (ERT) is back in negative territory in H2 2024. Six months ago, the measure had just climbed back to a relatively healthy 58. Now, however, at 47, the measure signals disappointment among executives in current economic conditions and a lack of optimism for the future. Confidence about the general business outlook in Europe dropped below the levels in other world regions. However, an overwhelming majority of CEOs agreed that fully implementing Draghi's proposals would improve business conditions in their industries and motivate them to invest again in Europe rather than in other regions.[1] The 'Draghi effect' would be triggered by achievements such as regulatory simplification, progress in EU Single Market integration, and a successful implementation of Draghi's vision for a decarbonized economy. Finally, in the wake of EU tariffs on Chinese Electric Vehicles, CEOs see greater merit in other strategies *vis-à-vis* China's industrial overcapacity.

The current survey was conducted from October 8 to October 23, 2024. A reading above 50 reflects more positive than negative responses.

Trusted Insights for What's Ahead

- **The Conference Board Measure of CEO Confidence™ for Europe by ERT deteriorated, from a positive 58 six months ago, to a relatively bleak 47 in the second half of 2024, likely driven by a weakening growth outlook in Europe due to a prolonged manufacturing recession, slower growth in services, weak domestic consumption, and trade headwinds.**
- **Two out of three subcomponents of the confidence measure—views around current economic conditions, and six-months ahead expectations for the economy—return to pessimistic territory**, while six-months expectations for conditions within own industry remain borderline positive.
- **A significant gap persists in CEOs' assessments of business prospects inside and outside Europe. Their outlook on employment and investments outside Europe remains strong at 60, bolstered by optimistic sales expectations.** In contrast, perceptions of the European market have declined for the third consecutive time, dropping from a neutral 50 in H1 2024 to 49.
- **Lower expectations for employment and investment contribute to CEOs' pessimistic views on Europe's overall business outlook, with the gap in**

[1] "The future of European Competitiveness" is a report authored by Mario Draghi, former European Central Bank President, aiming at contributing to the Commission's work on a new plan for Europe's sustainable prosperity and competitiveness.

their assessments of business prospects inside and outside of Europe remaining pronounced by our survey's historical standards.

- **CEO Confidence deteriorated globally, but the fall is steeper in Europe.** In the US, the quarterly-published measure retains its positive momentum, deteriorating marginally, from 52 in Q3 2024 to 51 in Q4 2024. Meanwhile in China, overall confidence among China-based CEOs of US and European multinational companies (MNCs) declined from a cautiously optimistic 56 in H1 2024 to 49 in the second half of the year. All three surveys were completed before the US elections.

- **CEOs in our survey show overwhelming confidence in the positive impact Draghi's recommendations would have for Europe's businesses.** Some 86% of CEOs in our survey express confidence that, if implemented under the new Commission's term, the recommendations in the Draghi report, aimed at improving Europe's economy and addressing its global competitiveness, will improve conditions for their industries.

- **Around 80% of CEOs say that a full implementation of the Draghi recommendations would motivate their companies to invest or operate in Europe rather than elsewhere.**

- **A majority of CEOs (85%) see a simpler and more innovation-friendly regulatory framework as a strong motivator to invest more in Europe. Greater economies of scale in a less fragmented EU Single Market would also encourage investment.**

- **The expected 'Draghi effect' on investment would also be driven by better prospects for pan-European investments, greater demand for decarbonization technologies and more affordable and secure renewable energy,** as signaled by nearly half of CEOs on each count.

- **CEOs agree that increasing global fragmentation poses the most significant geopolitical risk to their businesses** with 51% identifying the accelerating shift into distinct political and economic blocs as the biggest potential disruptor—outweighing concerns about insecure trade routes, military conflicts, or the weaponization of essential raw materials.

- **The future of the EU-China trade relationship should prioritize reciprocity of market access.** Over half (51%) of CEOs agree that the EU's focus should be on opening markets based on reciprocal market access, while 20% believe that access to EU markets should be contingent on integration into European value chains and/or establishing industrial partnerships within EU territory.

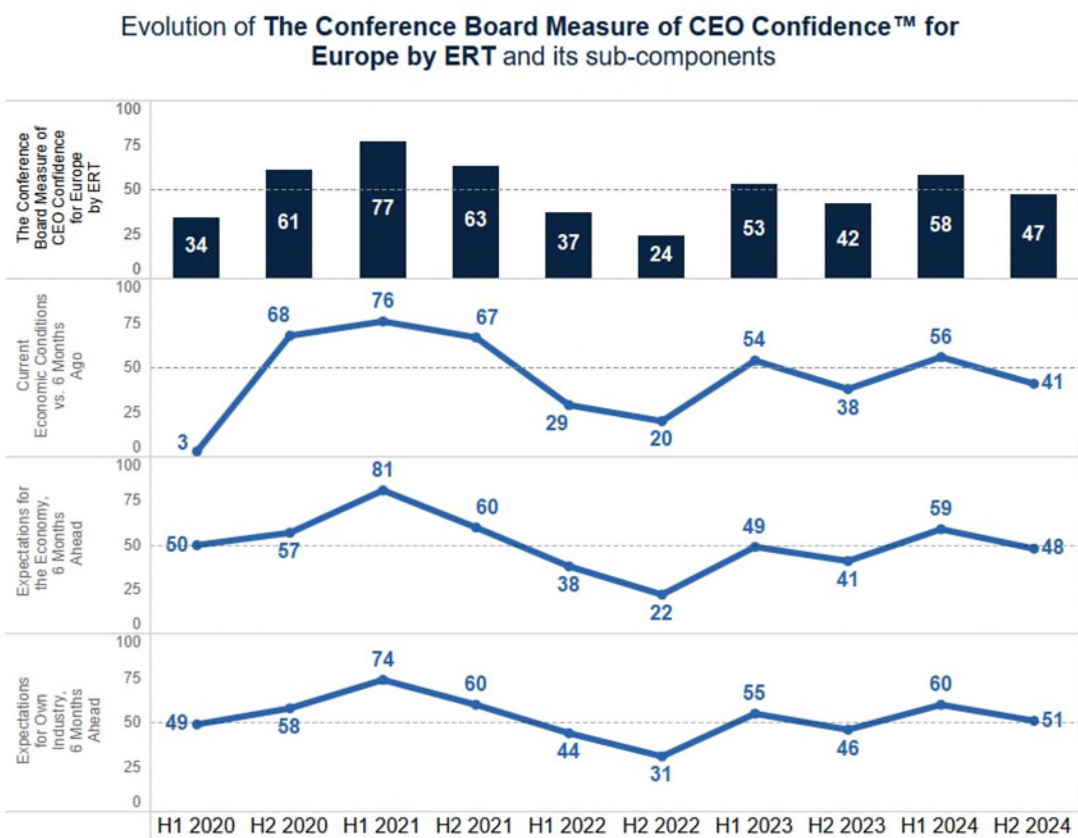
- **Only 9% of CEOs in Europe consider increasing tariffs as the most promising strategy for Europe** and only 4% call for subsidies for Europe's domestic industry.

CEO Confidence in Europe Returns to Pessimism

Fifty-five CEOs and Chairs of some of Europe's largest companies participated in this round of the CEO Confidence Survey, which was fielded from October 8 to October 23, resulting in a response rate of 92%. At a score of 47, The Conference Board Measure of CEO Confidence™ for Europe by ERT is back in pessimistic territory, falling from a relatively healthy 58 just six months ago. The overall measure is based on responses to questions about current economic conditions, six-months expectations for the economy, and six-months expectations for own industry. Two out of three subcomponents of the measure have fallen below the break-even 50 level, suggesting CEOs' views about both current and future economic conditions have deteriorated considerably compared to six months ago.

Chart 1

Current and future economic conditions weigh on CEOs' confidence



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, 2024 H2*

Views about current economic conditions worsen from six months ago. This subcomponent of the measure drops from a relatively confident 58 in H1 2024 to a relatively gloomy 41, making it the biggest drag on the overall index. Most CEOs (51%) view current economic conditions as unchanged from six months ago, while only 4% of respondents see the economy performing better. On the contrary, a considerable number of CEOs (42%) believe current economic conditions have worsened compared to the first half of 2024.

Sentiment around the short-term economic outlook deteriorates. Business views about the short-term economic outlook also declined noticeably from six months ago, with this portion of the index dropping from a healthy 59 to a pessimistic 47. Although 53% of CEOs expect the economic outlook six months out to remain unchanged, more than a fourth (27%) believe it will deteriorate in the near-term. The remaining 20% of respondents are still somewhat optimistic about the short-term economic outlook.

Views regarding prospects for their own industry deteriorate but remain better than those for the overall economy. Regarding the outlook for their respective industries, however, CEOs' sentiment remains borderline positive, falling significantly from an upbeat 60 six months ago to a weaker 51 in H2. Currently, 47% of CEOs expect business conditions in their industry not to change in the short-term, while a third (30%) expect them to improve moderately over the next six months. Almost a fourth of respondents expect industry conditions to deteriorate moderately in the near term.

CEO Confidence Falls in China and the US, Turns More Pessimistic in Europe

In parallel with the European CEO Confidence, the bi-annual "The Conference Board Measure of CEO Confidence™ for China", and the US quarterly "The Conference Board Measure of CEO Confidence™ in collaboration with the Business Council" surveys were also completed in late October. All three measures of CEO Confidence declined from six months ago, however, the fall was most pronounced in Europe, less so in China, and the US was the only region in which the measure remained in positive territory.

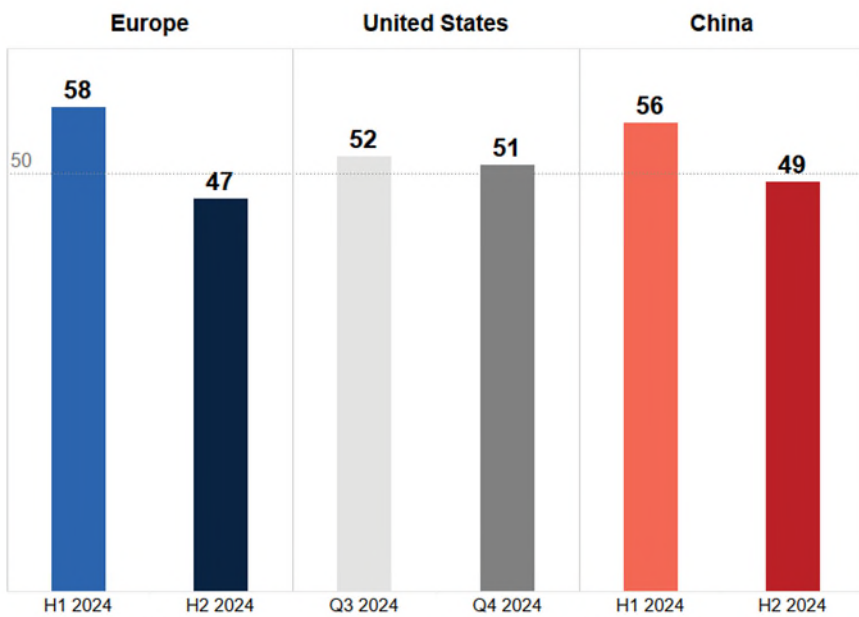
In the US, confidence among US-based CEOs declines moderately for a second consecutive quarter to 51 in Q4 2024, down from 52 in Q3. The measure remains above 50, indicating CEOs remain on balance slightly optimistic. However, optimism has weakened since Q2 2024, when the measure hit a two-year high of 54. Though CEOs' assessments about current economic conditions remains negative in Q4, their expectations about the short-term economic outlook improves further compared to Q3, with a third of respondents expecting economic conditions to improve over the next six months.

In China, overall confidence among China-based CEOs of US and European multinational companies (MNCs) falls more steeply than in the US, from 56 six months ago to 49, indicating that sentiment turned negative again in H2 2024. A significant drop in sentiment around current economic conditions is the main drag on overall confidence, while expectations about the economy six months out remain cautiously optimistic, at 54. China's slower-than-expected GDP growth in 2024, driven by both lower aggregate demand domestically and softening external demand in major economies amid trade tensions are likely key reasons behind the decline in China CEOs' confidence.

Chart 2

CEO Confidence declines globally, but the fall is most pronounced in Europe

The Conference Board Measure of CEO Confidence™



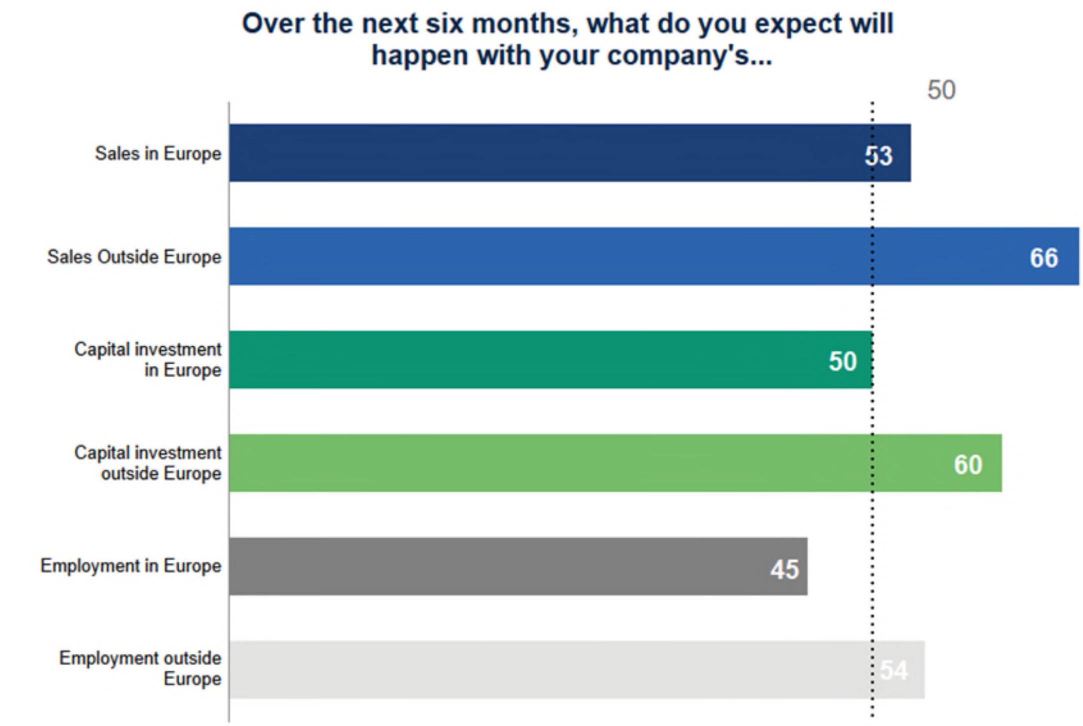
Note: A reading above 50 denotes more positive than negative responses. In the United States, 133 CEOs participated in the survey, which was fielded from 30/9 through 14/10. In Europe 55 CEOs participated in the survey, which was on the field from 8/10 through 23/10. Finally, 33 CEOs in China participated in the Chinese edition of the CEO Confidence measure, with the survey open from 1/10 to 28/10.
Source: The Conference Board Measure of CEO Confidence™

Business Sentiment Deteriorates Globally, Remains More Upbeat Abroad

Compared to six months ago CEOs' aggregate views on their companies' sales, investment, and employment expectations weaken globally. However, while assessments about business conditions *outside of Europe* remain largely positive, they have deteriorated further *on the continent*. This is the third consecutive survey in which business prospects in Europe have declined, with the aggregate measure now falling to 49. Abroad, the summary measure stands at a stronger 60. A value above 50 reflects more positive than negative responses. Overall, the gap between Europe's CEOs' assessments for business prospects inside and outside of Europe, though narrowing somehow compared to six months ago, remains pronounced by the survey's historical standards. This is the fifteenth consecutive time we see confidence levels for doing business in Europe being consistently lower than the levels for abroad.

Chart 3

Better sales and investments prospects abroad continue to drive the gap between CEOs' assessments of business prospects inside and outside of Europe.



Note: A reading below 50 points reflects more negative than positive responses.
Source: The Conference Board Measure of CEO Confidence™ *for Europe by ERT, H2 2024*

Expectations for capital investments weaken globally but are more promising outside Europe. Despite some moderation from six months ago, Europe's business leaders continue to be positive about their companies' short-term investment outlook outside Europe, with this subindex consolidating at a positive 60, down three points from H1 2024. Only 8% of respondents plan to scale back investments abroad, 52% see no changes, and 44% even plan to increase investments outside Europe. Inside the continent the picture remains more downbeat though, with the subindex falling from a marginally positive 52 in H1 2024 to a break-even 50. Around 60% of respondents expect investments in Europe to remain the same in the next six months, 20% see them increasing, and the other 20% expect them to decline.

Hiring intentions remain more favorable abroad but turn mildly less negative in Europe. Despite increasing compared to six months ago, employment expectations in Europe stay in negative territory in H2 2024, with the subindex increasing from an already bearish 42 to a less pessimistic 47. Some 60% of CEOs see no changes to their company's hiring intentions in the near-term, only 11% plan to expand their workforce, while the remaining 30% of CEOs expect their company's employment in Europe to decrease either moderately or substantially. Outside Europe, employment expectations remain more positive, despite decreasing from 57 to 54. Most CEOs (55%) see their company's employment remaining as is in the short run, another 29% expects employment to increase, while the remaining 16% expects it to fall in the near future.

Sales expectations deteriorate inside and outside of Europe but are more resilient abroad. Similarly to sentiment around capital investments and employment, sales expectations are also remarkably higher outside Europe than within. Domestically, the measure declined from 56 in H1 2024 to 53, with only a third of respondents expecting their company's sales to increase over the next six months. Outside the continent, though, the index, while weakening somewhat compared to six months ago, stands at a robust 66. Almost all CEOs (93%) expect sales outside Europe to either improve or stabilize at the high levels seen in H1, while only 17% see sales declining in the short run.

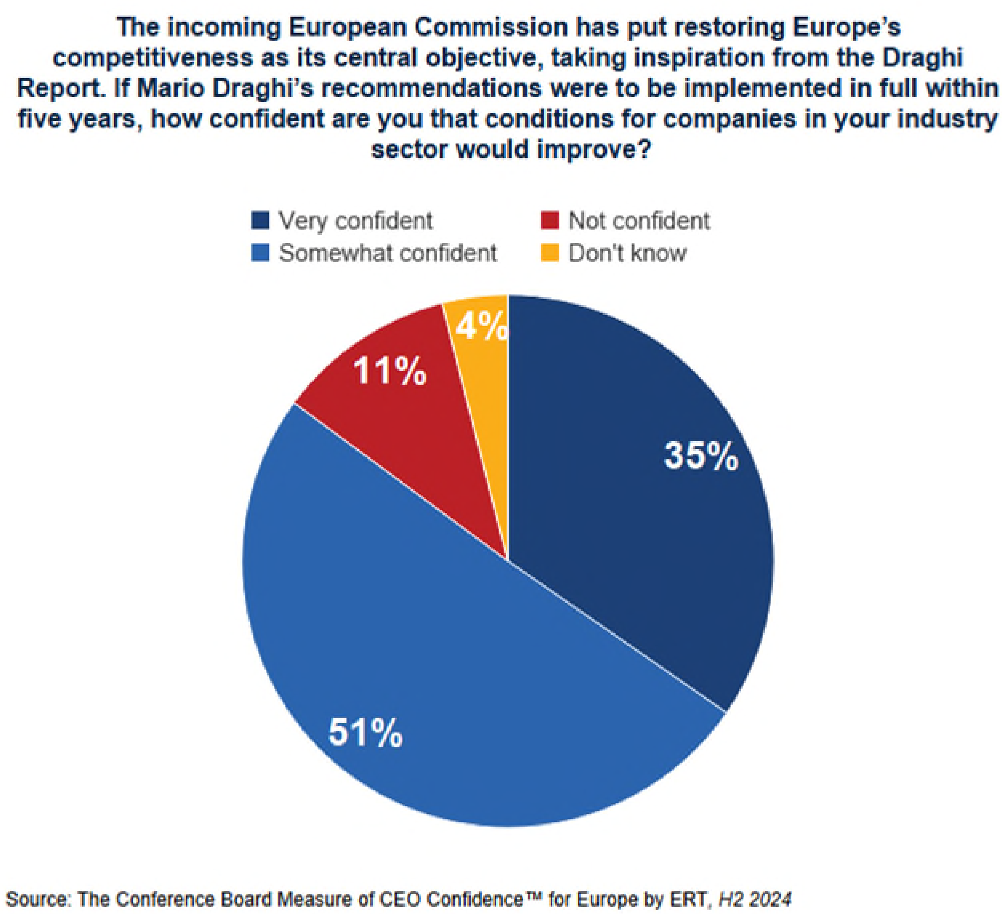
CEOs Show Striking Support for Mario Draghi's Recommendations on Europe's Competitiveness

In September 2024, Professor Mario Draghi, former President of the European Central Bank (ECB), published his long-awaited report, a study that sets out a pathway to restore Europe's industrial competitiveness. The Draghi Report is a 400-page analysis outlining Europe's competitiveness status and what policy actions are needed to reverse the region's productivity and growth slowdown. It also has inspired Ursula von Der Leyen's priorities for her new Commission, expected to take office in December 2024.

In line with the public consensus, CEOs in our survey express strong, decisive support for Draghi's proposals to revitalize Europe's competitive edge. When asked about their confidence in the potential impact of fully implementing Draghi's recommendations during the new Commission's term, an impressive 86% of CEOs responded as either "confident" or "very confident" that it would improve conditions for industries.

Chart 4

Most CEOs are confident that fully implementing Draghi's recommendations would lead to improvements for the industry in which they operate

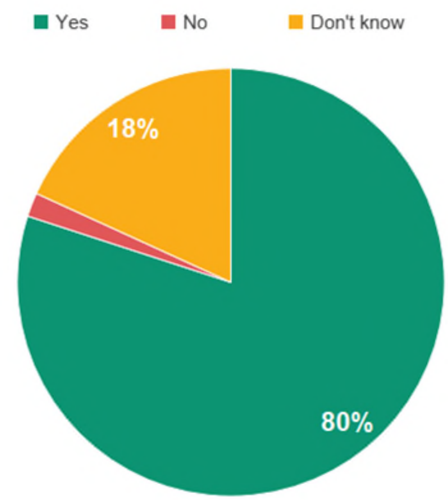


As a matter of fact, four-fifths of CEOs in our survey agree that the full implementation of Draghi's proposals would incentivize their companies' operations and investments in Europe rather than elsewhere. Of the remaining 20%, the vast majority respond that they could not take a view, whilst only one gave a decidedly negative response. The finding comes at a crucial time, as not that long ago CEOs in our survey warned about Europe's sliding competitiveness and how this has already led to parts of their investments and/or operations being moved abroad.[2]

Chart5

Most CEOs agree that fully implementing Draghi's recommendations would be a first-class incentive for their companies' operations and investments in Europe

If Mario Draghi's Recommendations are implemented in full, would this incentivize your company's investments/operations in Europe rather than elsewhere within the next three years?



Source: The Conference Board Measure of CEO Confidence™ for Europe by ERT, *H2 2024*

Most CEOs View a Simpler and More Innovation-Friendly Regulatory Environment as the Key Driver for More Investment in Europe

So, what factors would motivate companies to increase investments and/or operations in Europe? CEOs' top responses are both clear and unequivocal:

- **There is strong consensus that simplifying Europe's regulatory environment and making it more innovation friendly would be the biggest motivator for investing more in Europe.** For a strong majority of CEOs, 85%, *a simpler and more innovation-friendly regulatory environment* scores amongst the top motivators for companies to grow their investments/operations in Europe rather than elsewhere. Simplifying EU regulation is one of the Draghi Report's key horizontal action points.
  Already in previous editions of the survey, CEOs not only cited regulatory hurdles as a long-lasting risk factor impending Europe's potential, but they also considered a simpler and more coherent regulatory framework to be a true game changer for reversing Europe's falling competitiveness and the highest impact action point for the

[2] Konstantinos Panitsas, *"European CEOs Raise Warning Flags On Europe's Weakening Competitiveness"*, The Conference Board, May 2023

incoming EU institutions .[3,4] In this round of the survey, their response consolidates further their view that a less complex regulatory framework would strongly benefit Europe's industrial basis.

- **Greater economies of scale in a less fragmented EU Single Market is the second biggest motivator for driving business growth in Europe and both Mario Draghi as well as Enrico Letta call for this.[5]** Around 63% of CEOs see actions supporting *greater economies of scale* as the second biggest factor that would encourage their companies' operations to remain or grow in Europe—and a less fragmented EU Single Market is an integral prerequisite for achieving this. Fewer internal trade barriers and easier flow of capital and labor across Member States—all essential components of the Single Market—can bring down costs and input prices, make production more efficient while also bolstering innovation, and eventually improve productivity and drive growth at the micro and macro level.
- **Improved prospects for pan-European investments are a top priority for expanding operations across Europe.** Nearly half of CEOs (48%) view Draghi's proposals for more pan-European investments as a game changer. **Some 40% of CEOs say their investments would be motivated by an improved access to finance** via the creation of more integrated capital markets.
- **Greater demand for decarbonization technologies would be another driver for investing and operating in Europe.** Around 48% of CEOs expect that higher demand for decarbonization technologies would spur their companies' investment in Europe. Moreover, increasing the deployment of decarbonization projects and clean technologies is a concrete step towards safer and cheaper energy and less energy dependence on external sources.
- **CEOs also foresee lower energy prices and more secure supply of renewable energy as another positive signal for investment in Europe.** Europe's businesses across the board are currently affected by high energy costs. Increasing the availability of renewable and low-carbon energy would increase the competitiveness of several industries and enable industry – in speed and scale – to meet climate action goals.
- **Less of an impact on investment is expected for the Draghi recommendations concerning impact on skills in the workforce, resilient supply chains, and access to deep-tech innovation.** Each of these expectations was only selected by less than a quarter of respondents (20%) as one of their top-four motivators for investments in Europe. This likely reflects that on those topics, there is less room for game-changing improvements via direct EU action.

---

[3] Konstantinos Panitsas, "Complex and Incoherent Regulation Puts Pressure on Europe's Competitiveness", The Conference board, November 2023

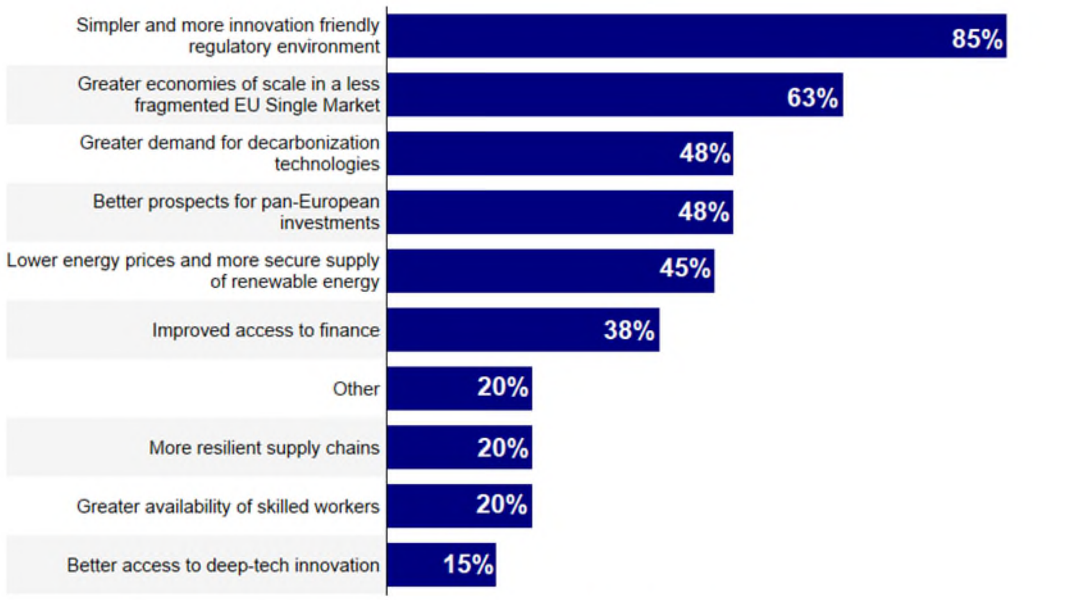
[4] Konstantinos Panitsas, "*CEO Confidence Improves Globally, But Little Pain-Relief Is Expected for Europe*", The Conference Board, May 2024

[5] Enrico Letta, "Empowering the Single Market to deliver a sustainable future and prosperity for all EU Citizens", April 2024

Chart 6

Simpler and more innovation-friendly regulatory environment tops the list of motivators for doing business in Europe

Which expectations motivate your response in the previous question (Chart 5)? Select the top-4.



Note: This was a follow-up question, to those responding 'Yes' to the previous question: *"If Mario Draghi's Recommendations are implemented in full, would this incentivize your company's investments/operations in Europe rather than elsewhere within the next three years?"* Forty-four CEOs answered to this question.
Source: The Conference Board Measure of CEO Confidence™ for Europe by ERT, *H2 2024*

Accelerating Geopolitical Fragmentation Poses the Greatest Risk to Europe's Businesses

Heightened geopolitical volatility, unprecedented levels of business uncertainty, rising trade barriers, and unfair competition are all creating a more hostile environment in which European businesses have to operate. In our survey, CEOs were asked to assess which three geopolitical developments pose the greatest risks to their businesses.

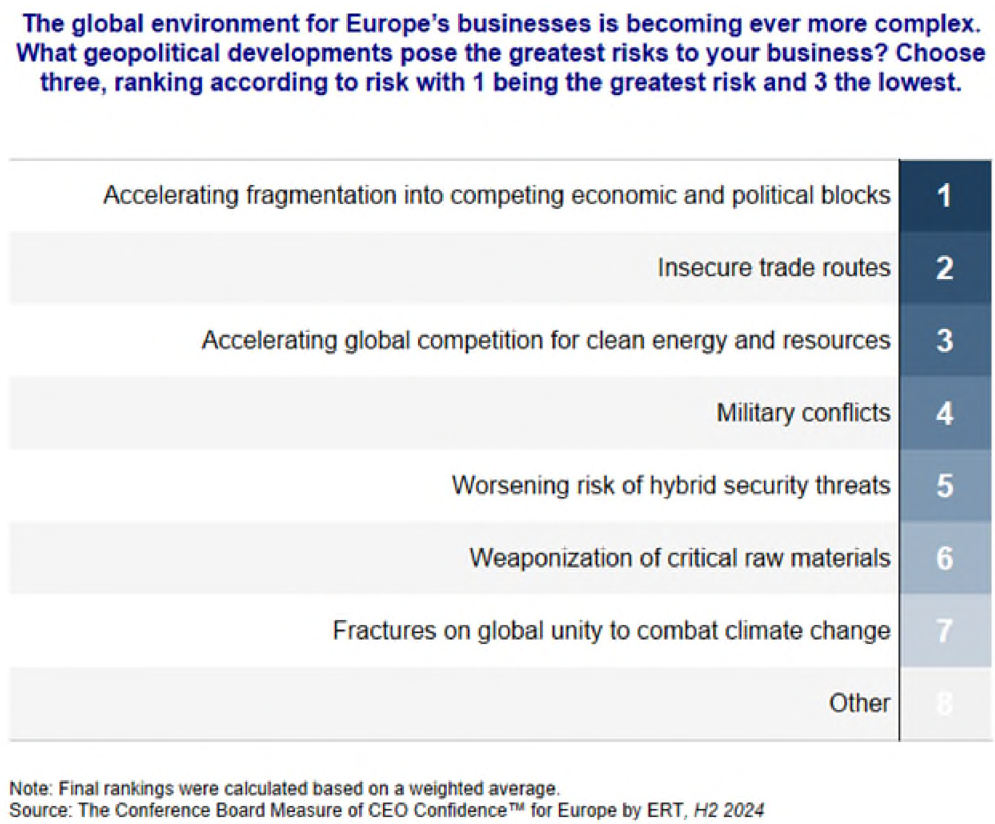
- **Most CEOs see accelerating geopolitical fragmentation as the single biggest potential disruptor to their global businesses' operations.** More than half of respondents (55%) name the shift towards competing economic and political blocks amongst as their top concern.
- **Insecure trade routes are seen as the second largest threat.** Some 40% of respondents rate insecure trade routes amongst the top three risks for their business.
- **Accelerating global competition for clean energy and resources is viewed as a top geopolitical risk driver by 35% of CEOs.** Another 31% of CEOs see **the weaponization of critical raw materials** as a major geopolitical risk for their businesses.
- **Also high on the list of concerns are military conflicts, rated by** 31% of CEOs as a top three risk factor impeding their business.
- **Some 36% of respondents put the "worsening risks of hybrid security threats" among the top five risks having a significant impact on their businesses.** CEOs' concerns likely reflect that hybrid threats are becoming increasingly sophisticated and

unpredictable, whilst their impact—including on critical infrastructures—can be very far reaching.

- **Fractures on global unity to combat climate is perceived as a less-significant risk factor.** Less than 5% of CEOs in our survey rank fractures on global unity to combat climate as posing the greatest risk to their business operations.

Chart 7

Accelerating world fragmentation is seen by CEOs as posing the greatest risk to their businesses.



Reciprocity Will Be Key in Shaping the EU's Future Trade Relationship with China

In our Spring 2024 edition of the survey, business leaders expressed heightened concerns about the future of the EU-China relationship, with 54% of CEOs anticipating it will worsen over the next years.[6] Among other reasons, China's industrial overcapacity – viewed by many European observers as a result of state subsidies combined with low domestic aggregate demand – is seen as a key friction point affecting the trade relationship between the two economies. With the EU-China relationship becoming ever more complex, we asked CEOs to select *one* recommendation for how the EU should position

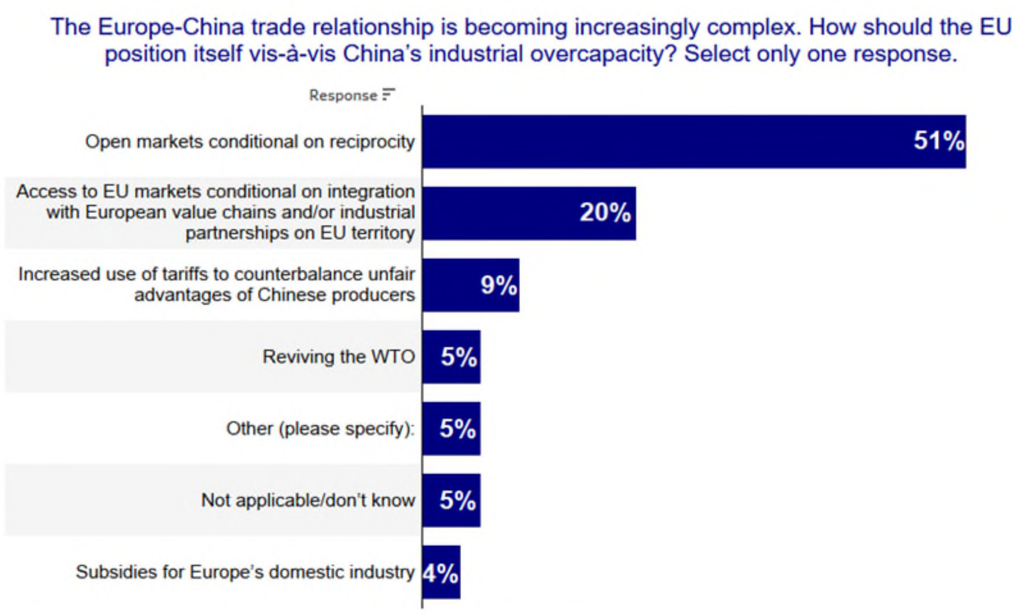
[6] Konstantinos Panitsas, "*CEO Confidence Improves Globally, But Little Pain-Relief Is Expected for Europe*", The Conference Board, May 2024

itself vis-à-vis China in light of China's industrial overcapacity and its implications for Europe:

- **Half of the CEOs agree that 'open markets conditional on reciprocity' is the best strategy for Europe in the face of China's industrial overcapacity.** Some 51% of CEOs select *open markets conditional on reciprocity* as their recommendation to Europe's policy makers. This recommendation likely reflects the fact that non-domestic companies exporting to and operating in China often face discriminatory treatment and other post-entry hurdles.
- **Another 20% recommend that Europe makes access to its market conditional on China integrating operations into Europe-based value chains.** Under this approach Europe would mirror China's own successful practices that have spurred China's rise as an economic powerhouse and benefit from technology spillovers in strategic sectors.
- **Less than 10% of CEOs agree that increasing the use of tariffs is effective in the face of China's overcapacity.** In various contexts business leaders have emphasized that more protectionist measures would put further strain on the EU-China trade relationship rather than improve it.
- **Only 5% of CEOs believe that Europe should rely on *reviving the WTO, and only 4% call for more subsidies for Europe's domestic industries*.**

Chart 9

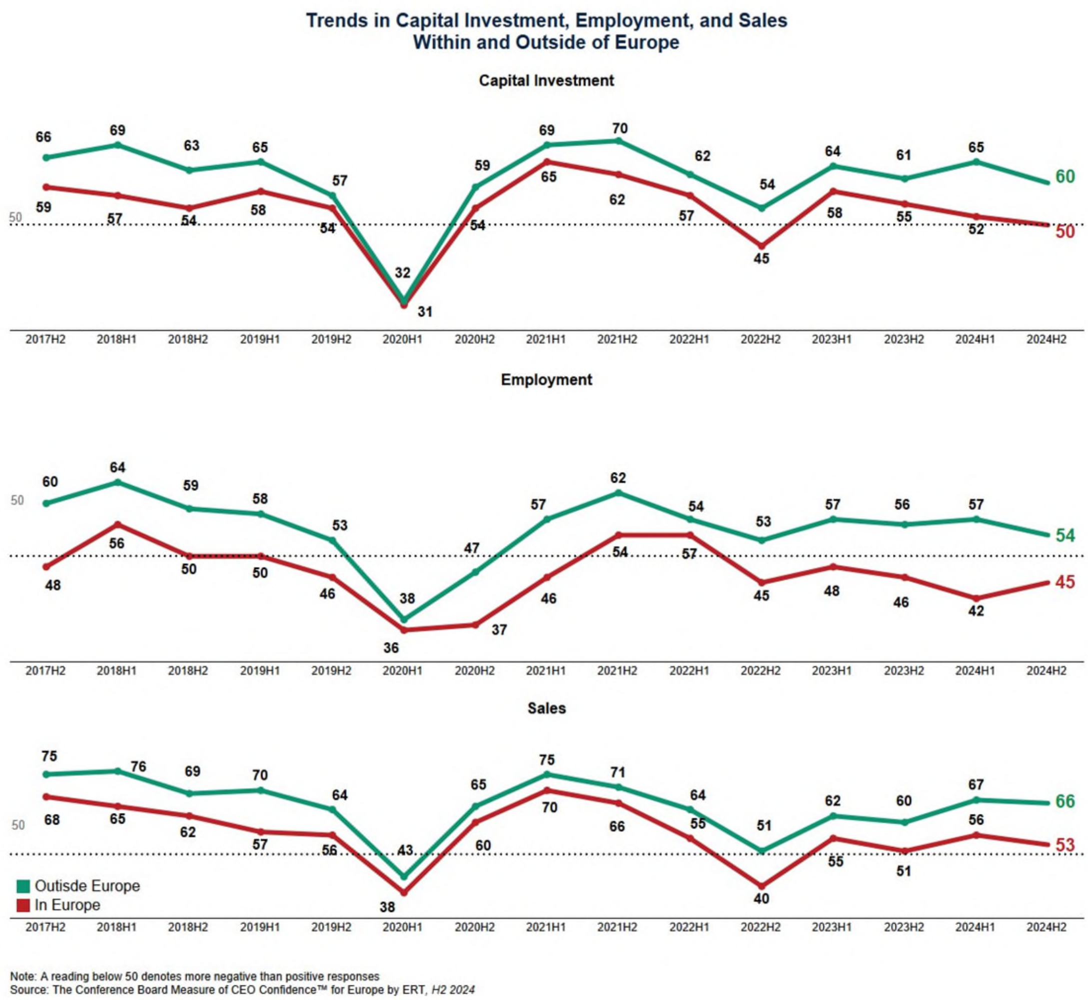
Most CEOs agree that reciprocity and establishing a fair level playing field will be key in fostering Europe's trade relations with China



Source: The Conference Board Measure of CEO Confidence™ for Europe by ERT, *H2 2024*

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

Chart 8



Appendix 2: Detailed answers to Chart 7

Chart 9

The global environment for Europe's businesses is becoming ever more complex. What geopolitical developments pose the greatest risks to your business? Choose three, ranking according to risk (1 being the greatest risk, and 3 the lowest).

	#1	#2	#3
Accelerating fragmentation into competing economic and political blocks	55%	20%	9%
Insecure trade routes	9%	15%	16%
Accelerating global competition for clean energy and resources	7%	15%	13%
Military conflicts	9%	13%	9%
Worsening risk of hybrid security threats	5%	11%	20%
Weaponization of critical raw materials	7%	9%	15%
Fractures on global unity to combat climate change	4%	13%	15%
Other	4%	5%	4%

Note: Detailed breakdown of responses for Chart 7
Source: The Conference Board Measure of CEO Confidence for Europe, by ERT, H2 2024

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 8 to October 23, 2024, to 60 ERT members. Fifty-five replied to the regular questions, resulting in a response rate of 92%. All 55 replied to the special questions.

About the Authors

Konstantinos Panitsas, Economist, ESF

The author would like to thank Maria Demertzis for her support on the project, as well as Chuck Mitchell, Sara Murray, and Judith Ay 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/.