

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

CEOs in Europe: Business Conditions, the COVID-19 Crisis, and Beyond

2020 H1 RESULTS



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CEOs in Europe: Views on the Economy, the COVID-19 Crisis, and Beyond

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

- CEOs and Chairs of Europe's largest companies in the industrial and technological sector have a pessimistic view of business and economic conditions, according to a new measure of confidence. Overall, the measure records a reading of 34 in April 2020. The measure ranges from 0 to 100. A reading of less than 50 reflects more negative than positive responses; a reading of more than 50 reflects the opposite.
- The views of CEOs and Chairs are especially negative on *present* business conditions in the economy, showing an extremely low reading of 3. This assessment is comparable with that of US CEOs in a survey conducted in parallel by The Conference Board in late March.
- The sentiment with regard to future conditions in the economy and within individual industries varied between respondents. When asked about for the next six months, responses were roughly equally divided (but quite polarised) on both issues between those who expect prospects to improve and those who expect them to worsen, reflecting business uncertainties and different conditions in the industries represented.
- At a company level, the outlook for investment, employment, and sales—inside and outside Europe—sharply decreased in comparison to previous surveys undertaken by ERT. Business leaders expect their companies' plans for investment and hiring to decrease at about the same rate inside and outside Europe over the next six months. However, expectations for sales outside Europe are slightly more positive than for sales inside Europe.
- If the COVID-19 pandemic were to end immediately, nearly half of respondents expect it would take more than one year for their revenue to recover to pre-pandemic levels.

- CEOs and Chairs expect the recovery of the global economy to take long. Almost no respondents expected a global economic recovery within one year; over half anticipate between one and two years; the remainder expect it to take more than two years.
- In response to the COVID-19 crisis and to ensure the viability of their businesses in the long term, companies have taken various steps. Among the most popular (mentioned in order of importance) are postponing planned investment, temporary closing of offices and plants, furloughing workers with pay, issuing debt, and drawing down lines of credit.

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. 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 will be 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. For additional information on the survey and the methodology of The Conference Board Measure of CEO Confidence™ for Europe by ERT, see page 13.

* See <https://www.conference-board.org/data/ceoconfidence.cfm>. The European panel includes the largest companies in the industrial and technological sector across Europe. The US survey reflects similar companies in the US but includes leading companies in the service and financial sectors.

CEOs In Europe Express Deep Pessimism about Current Conditions

The Conference Board Measure of CEO Confidence™ for Europe by ERT for the first half of 2020 is 34 (on a scale from 0 to 100). This overall measure is based on three key questions asked of CEOs and Chairs about business and economic conditions now, conditions in six months, and the prospects for their own industry. A reading under 50 points reflects more negative than positive responses.

The negative sentiment among business leaders resulted from the dramatic impact of the COVID-19 crisis which delivered a severe supply shock to the economy in Europe and around the world. Strict containment of human mobility and temporary closures of non-essential businesses brought economic activity to an unprecedented halt. The Conference Board estimates that economic activity in the Euro Area decreased by more than 10 percent in March, and by another 5 percent in April. It forecasts GDP growth in the Euro Area in 2020 to range between -6.8 to -7.8 percent depending on different scenarios. These estimates are largely in line with recent estimates by the European Commission and the International Monetary Fund¹.

Current conditions versus six months ago Unsurprisingly, CEOs and Chairs are most pessimistic about current economic conditions, with almost all respondents saying conditions have deteriorated compared to six months ago, leading to an extraordinarily low measure of only 3. (See Chart 1, page 6.)

Expectations for the economy over the next six months CEOs and Chairs are less negative, on average, about the short-term outlook. When asked about business conditions for the economy as a whole in the next six months, the measure was at 50. The measure of 50, however, hides a rather polarised view. Forty six percent of respondents expect business conditions to become “moderately better” and 10 percent expect them to get “substantially better.” However, 29 percent expect conditions to become “substantially worse.” Ten percent said conditions would be “moderately worse,” and the remaining 6 percent said they would be the same. The variation shows the high level of uncertainty about the business climate of the future.

Prospects for their own industry When asked to assess prospects for their own industry in the next six months, the overall measure of confidence was 49. Forty-six percent of respondents said they would be “moderately better” or “substantially better;” forty-five percent said they would be “moderately worse” or “substantially worse.” This may reflect the diversity of recovery prospects for the industries of respondent companies.

¹ The European Commission estimates GDP growth in the Euro Area to be -7.7 percent in 2020, the International Monetary Fund -7.5 percent.

Sources: *European Economic Forecast*, Spring 2020, European Economy, Institutional Paper 125, May 2020 and the *World Economic Outlook, April 2020: The Great Lockdown*, International Monetary Fund.

Chart 1

CEOs in Europe: present situation is bleak but there's light at end of the tunnel



Note: For calculation of the aggregate measure, see the Methodological Note.

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

Views of US CEOs Compared to Peers in Europe

For more than 40 years, US CEOs have been asked the same set of questions for The Conference Board Measure of CEO Confidence™ as in the European launch of the confidence measure.

In late March/early April 2020, US CEOs provided an assessment very similar to that of their European counterparts, as the compounded measure was identical at 34. Amid the fallout from COVID-19, such low levels of confidence among US CEOs had not been seen since the height of the Great Recession in 2008. In particular, the confidence measure for the current economy was driven as low as 3, again the same as in Europe. Despite negativity about the situation at the time, US CEOs, like their counterparts in Europe, were less pessimistic about the outlook for the next six months. This suggests that, as in Europe, CEOs expect to experience major consequences from the current crisis but see brighter days six months ahead.

Chart 2

CEOs in the US are also starkly pessimistic but expect improvement in the next six months



A reading below 50 points reflects more negative than positive responses

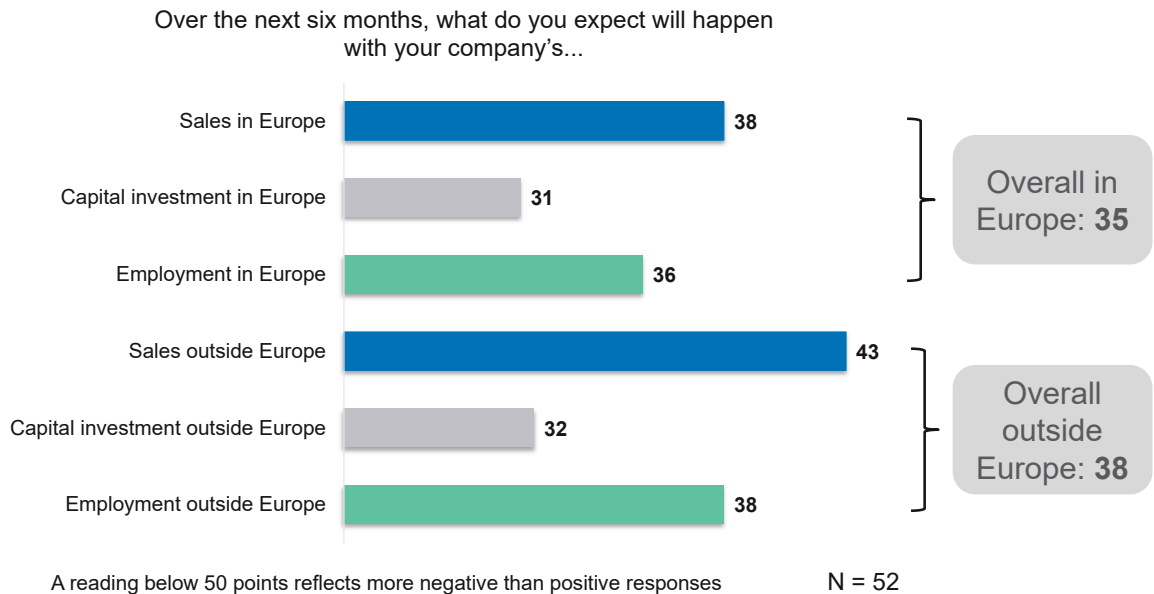
Note: The surveys in the US and Europe were fielded at different times. In the US CEOs were surveyed between March 25 and April 2, in Europe between April 9 and 28.

Expectations for Capital Investment, Sales, and Employment at the Company Level

The summary measure for capital investment, sales and employment combined shows a pessimistic reading of 35 for the situation inside Europe, and 38 for outside Europe. Respondents are slightly less negative about sales prospects outside Europe compared to those inside Europe, but the differences in expectations for inside and outside Europe are much narrower for investment and hiring.

Chart 3

European CEOs have higher expectations for capital investment, sales, and employment outside the European market than inside



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

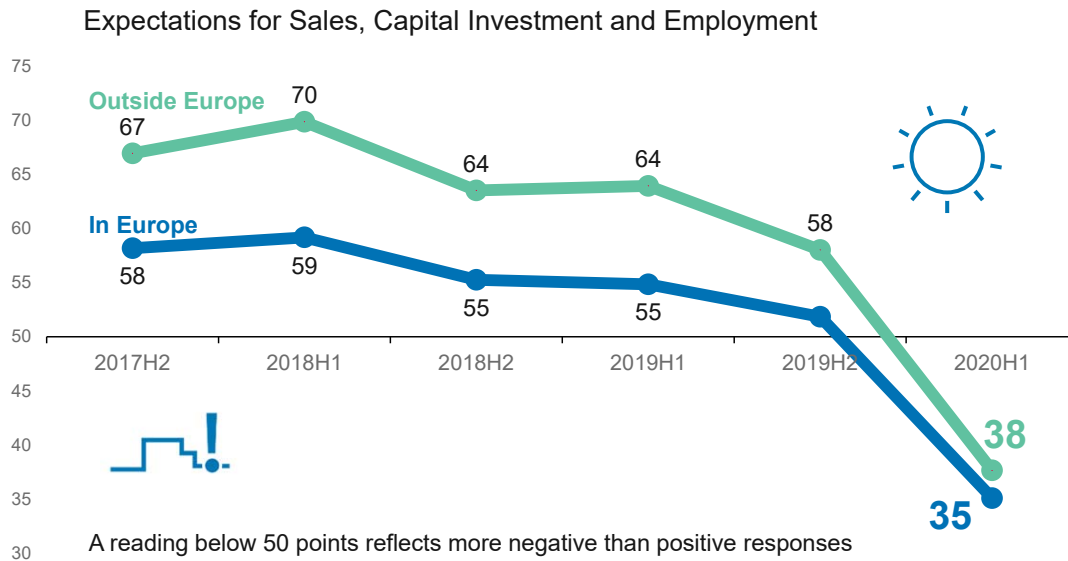
CEO expectations inside and outside Europe

Over the past three years, the Mannheim-based ZEW–Leibniz Centre for European Economic Research has surveyed the same questions about sales, investment, and employment for the ERT. When the CEO confidence methodology (see page 13) is applied to those questions as well, the measure for the three variables combined was more than 50 between the second half of 2017 and the second half of 2019, reflecting that business confidence was predominant during that period. (A reading of more than 50 points reflects more positive than negative responses.) During that same period, expectations for sales, investment, and employment outside Europe were better than for expectations inside.

It is worth noting that the gap between CEO assessments for prospects inside and outside Europe began to narrow in mid-2019 and has continued to do so in the latest reading. Global trade disputes in 2019 and supply chain disruptions that began in early 2020 may have contributed to the faster decline of expectations outside Europe.

Chart 4

Inside and outside Europe: expectations for sales, capital investment, and employment reach a low point



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

Impact of the COVID-19 Outbreak

In addition to the confidence-related measures, CEOs and Chairs were asked several questions specifically linked to the COVID-19 crisis. Companies are facing an unprecedented crisis in which some sectors in the economy, especially those vulnerable to requirements for social distancing such as the arts, entertainment, and recreation industries; accommodation and restaurants; and certain personal service activities, such as hair dressers and gyms, have been shut down due to stringent regulations. But most other sectors have also been seriously affected due to declining consumer demand or supply constraints, including manufacturing, construction, and large parts of brick and mortar retailing. In contrast, some industries have seen a rise in demand due to businesses or consumers stocking up on supplies of certain goods, including groceries, online retailing, and warehouses.

Steps companies are taking during the crisis

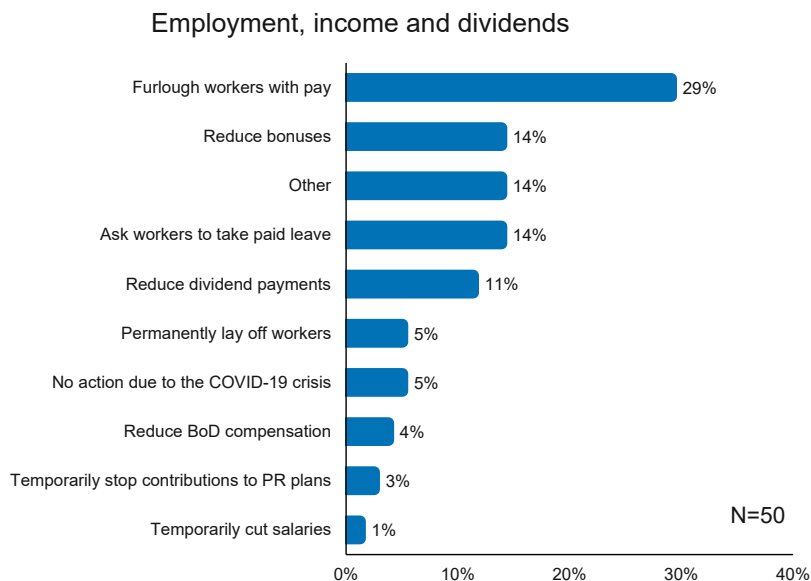
CEOs and Chairs were asked which specific, COVID-19-crisis measures they are taking to ensure the long-term viability of their business. A range of measures (30 in all) were divided into four categories: 1) employment, incomes, and dividends; 2) cost cutting and shifting; 3) restructuring; and 4) financials. Respondents were asked to select up to two specific actions in each category.

Employment, incomes, and dividends Nearly a third of respondents said they had put workers in temporary furlough schemes. Many European countries have enacted support schemes, such as short-time working, which allow companies to put workers on reduced hours; government funding or insurance covers the bulk of the difference to make up a full-time salary for the employee². By May 6, 12 million workers were in the Chômage Partiel program in France, 10 million in Kurzarbeit in Germany, and 8 million in Cassa Integrazione in Italy. Other common measures to address the crisis include asking workers to take paid leave and reducing bonuses. Other actions, such as delays in pay increases and offering employees training programs, were less common.

Chart 5 A

The European response to the COVID-19 outbreak: employment, income and dividends

Which of the following COVID-19 crisis-related measures do you think will ensure the viability of your business in the long-term? Select up to two in each category.



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

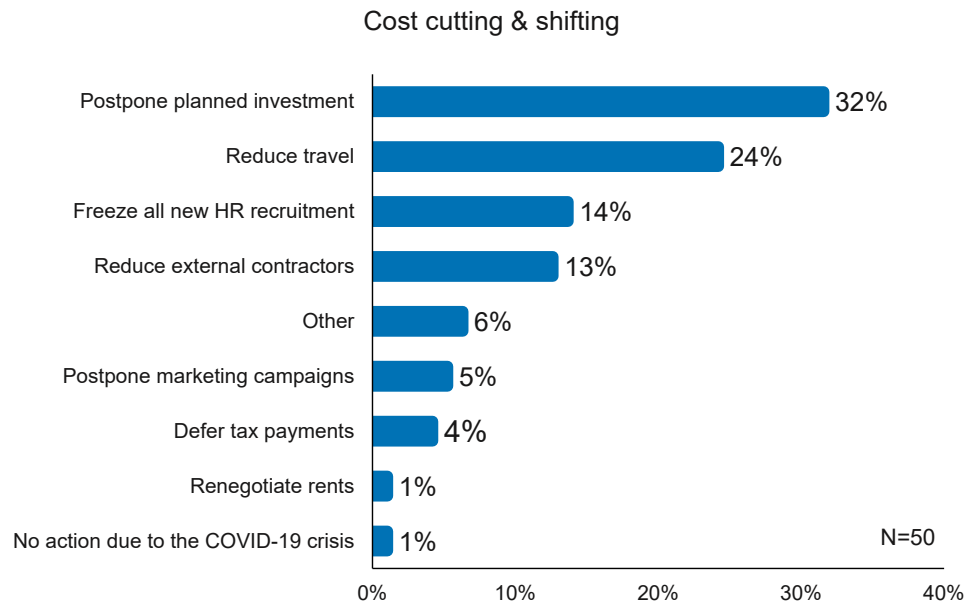
² For a complete overview of details in each country, see “Short time work measures across Europe”, COVID-19 Watch, ETUC Briefing Note, 31 March 2020.

Cost cutting and shifting About one third of respondents are postponing planned investment; nearly a quarter (24 percent) plan to reduce expenses on business travel. Fourteen percent of respondents identified hiring freezes as one of their two most important actions.

Chart 5 B

The European response to the COVID-19 outbreak: cost cutting and shifting

Which of the following COVID-19 crisis-related measures do you think will ensure the viability of your business in the long-term? Select up to two in each category.



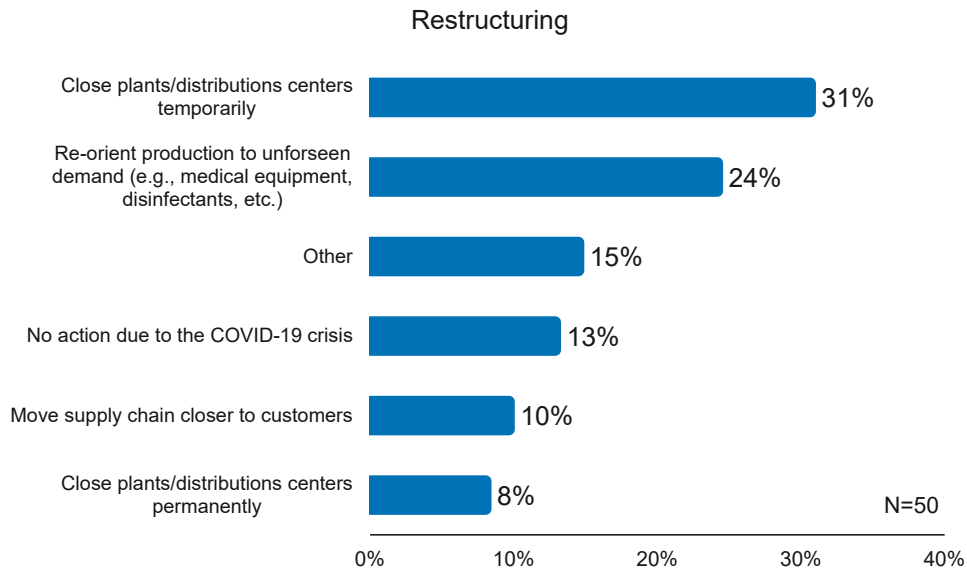
Source: The Conference Board Measure of CEO Confidence™ for Europe by ERT

Restructuring One third of respondents said they will temporarily close plants or distributions centres. Another 24 percent plan to re-orient production to unforeseen demand (e.g., medical equipment, disinfectants). Other actions mentioned include improvement of operational efficiency and acceleration of digital transactions.

Chart 5 C

The European response to the COVID-19 outbreak: restructuring and financials

Which of the following COVID-19 crisis-related measures do you think will ensure the viability of your business in the long-term? Select up to two in each category.



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

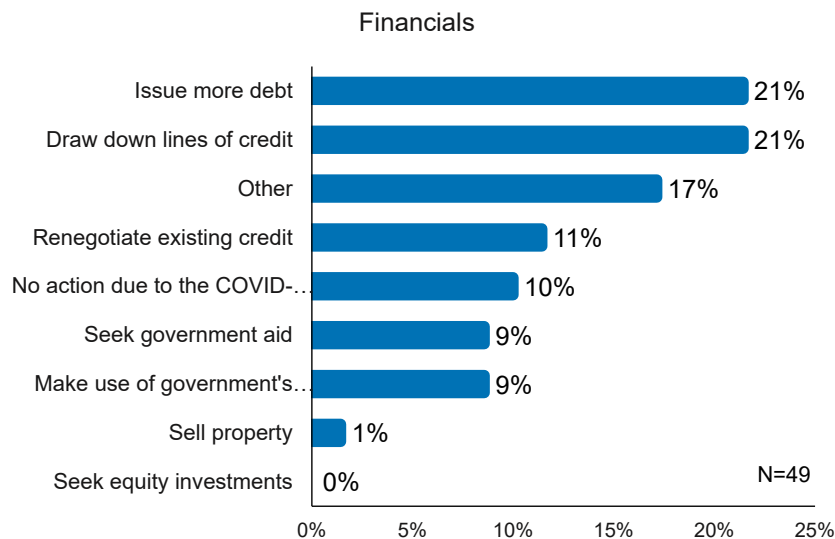
Financials A fifth of respondents (21 percent) said they would issue more debt, and another fifth would draw down lines of credit. Other actions cited include selling of non-core assets or using export credits to stimulate sales.

Not all respondents are facing distress due to the COVID-19 crisis, a reflection of the diversity of challenges faced by different industries. For example, in one case the need for worker overtime and hiring of external contractors to meet excess demand was mentioned.

Chart 5 D

The European response to the COVID-19 outbreak: restructuring and financials

Which of the following COVID-19 crisis-related measures do you think will ensure the viability of your business in the long-term? Select up to two in each category.



Note: Respondents could choose one or two options in each category. Relative responses therefore do not total 100. To get percentages, the data have been normalised as a second step.

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

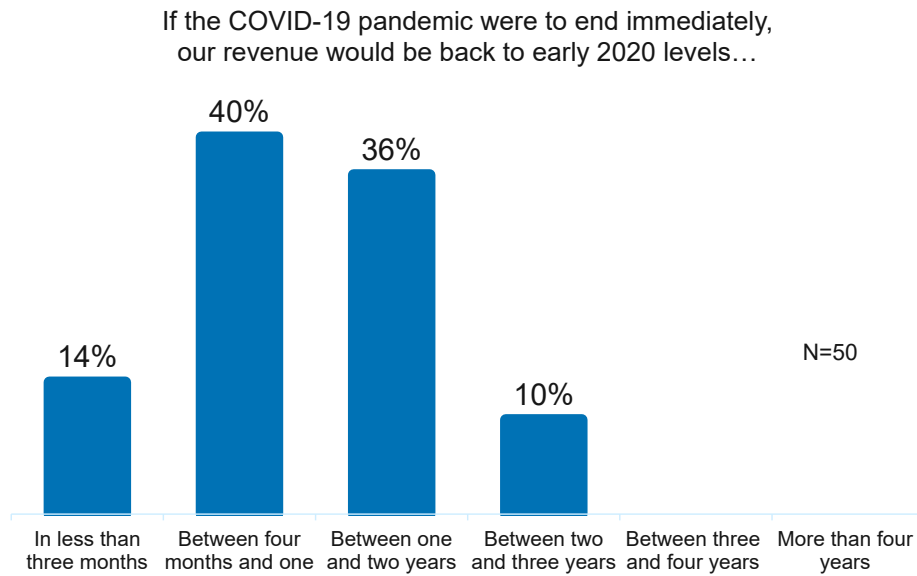
Expectations for economic recovery

As European governments begin to implement plans for a gradual reboot of their economies, there is mixed sentiment among CEOs and Chairs about how long it will take to return to precrisis levels of revenue and growth. Only 14 percent of CEOs said that if the COVID-19 pandemic were to end immediately, their revenue would return to early 2020 levels in less than three months; another 40 percent expect it to take between four months and one year. The remaining 46 percent expect it to last longer than one year.

As far as the outlook for the global economy is concerned, a majority of respondents (54 percent) believe it will take between one and two years for the global economy to recover from the COVID-19 crisis, and 40 percent expect it will take between two and three years.

Chart 6

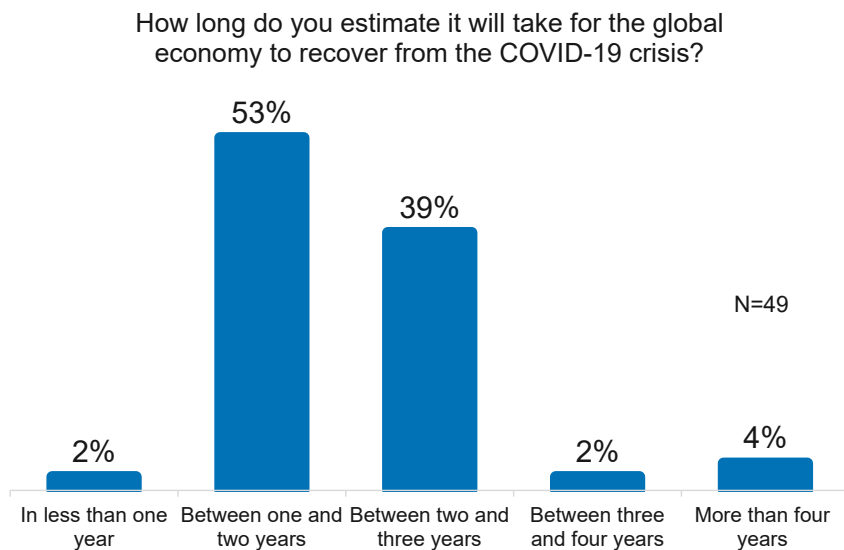
If the pandemic ended immediately, most CEOs say their company's revenue would recover within one year



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

Chart 7

A majority of respondents believe it will take between one and two years for the global economy to recover



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

Methodological Note

The Conference Board and The European Round Table for Industry (ERT) collaborated on the Measure of CEO Confidence in Europe starting in April 2020. The key confidence measure is comprised of three key questions. An additional three questions relate to the outlook on employment, sales, and capital investment inside and outside Europe. Special questions of current significance are included in each survey. In this survey, special questions were included to capture measures companies are taking to tackle the COVID-19 crisis and the expectations of CEOs and Chairs for economic recovery.

The survey was fielded between April 9 and April 28, 2020 to 56 ERT members. 52 replied to the regular questions, resulting in a response rate of 93 percent. 49 replied to the special questions related to the COVID-19 outbreak.

Responses to the six regular questions in the survey (except special questions) are rated with a Likert-type, 5-point scale. We use the formula below to assign a score to each response:

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

where N is the total number of responses, and n_1, n_2, n_3, n_4 and n_5 the number of those who picked “significantly increase,” “moderately increase,” “stay the same,” “moderately decrease,” or “substantially decrease.” Next to each count, the values 100, 75, 50, 25, and 0 are assigned respectively, ensuring that the index for each question is a value-bounded between 0 and 100. Higher measures indicate higher confidence and better economic conditions. The Conference Board Measure of CEO Confidence™ is then calculated by taking the average of the indices of questions 1, 2, and 3.

Following the same steps, we calculate the index on the expectations for sales, capital investment, and employment inside and outside Europe.

About the Authors

Ilaria Maselli has been the Senior Economist for Europe at The Conference Board since March 2016. Maselli monitors the monthly business cycle of the European economy and contributes analysis to *The Conference Board Global Economic Outlook*. She also contributes to in-depth research related to global supply chains and labour markets. As of 2018, Maselli is also responsible for the *C-Suite Challenge*™, a yearly survey of global business leaders conducted by The Conference Board since 1999. 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.

Bart van Ark is Executive Vice President and Global Chief Economist of The Conference Board. Appointed in 2008, he oversees the production of widely watched economic indicators and growth forecasts around the globe as well as an in-depth global research

program on topics related to economic policy, labour markets, productivity, technology and innovation, and digital transformation. He leads a global research team based in New York, Brussels, Beijing, and Kuwait, as well as the Economy, Strategy and Finance Center. A Dutch national, he is the first non-US chief economist since the founding of The Conference Board over a century ago.

Acknowledgments

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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 www.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 www.conference-board.org.