

European CFO Survey

Still on the up, but with new challenges

Autumn 2021

CFO Programme



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Foreword

As part of our broader commitment to supporting business leaders across the globe in their strategic decision-making, we are pleased to present the 14th edition of the Deloitte European CFO Survey.

Since 2015 the survey has given voice twice a year to over 1,300 Chief Financial Officers from across Europe. The report provides an overview of CFOs' hiring and investment intentions, their views on critical business risks and strategic priorities, and the factors they currently consider vital for success. Due to its wide geographical reach, the consistently high number of participants across a range of different industries, and the privileged viewpoint of CFOs, the survey provides insights into how European companies view the economic environment and how they are planning to respond to it.

In this edition CFOs report that they face new challenges, such as a shortage of skilled professionals, increasing regulation and high commodity prices, while the COVID-19 pandemic is becoming less dominant. Consequently, this survey reveals that though business confidence remains high, it has faded a little since the spring. In particular, the latest price developments have led CFOs to update their inflation expectations noticeably.

We hope you find the views set out in the report bring an interesting dynamic to your thinking and trigger further debate. To discuss any specific aspects of the report, please contact one of our Deloitte leaders.

Jose Manuel Dominguez Carravilla
Leader CFO Programme, Spain

Executive summary

- The current Deloitte European CFO survey reveals that business confidence remains high, though it has softened a little since the spring. There are, however, great differences in sentiment between different regions and sectors.
- While demand-related risks are fading, various supply issues are becoming more important. Nevertheless, CFOs are slightly more optimistic about the evolution of revenues. But their expectations for operating margins are gloomier than in the spring edition.
- CFOs report decreased uncertainty compared to the spring survey. Expectations for investment and, especially, employment have continued to brighten, and further expansion is the strategic priority.
- However, CFOs' inflation expectations have been revised up considerably.



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Business confidence slightly dampened

The current Deloitte European CFO survey reveals positive though somewhat less promising business confidence – with great differences between regions and sectors.

Economic activity has recovered further in recent quarters. Service sectors are bouncing back as lockdown measures have gradually eased. At the same time, demand for manufactured goods has rebounded – quicker than expected by most firms – causing multiple supply-chain problems to emerge, such as material shortages and shipping/delivery delays, and this has also caused prices to rise. These bottlenecks are preventing manufacturing firms from producing as much as needed to meet increased demand. The economic outlook is somewhat clouded by these issues, which are not expected to fade in the near term. Bottlenecks are much less of an issue so far in service sectors.

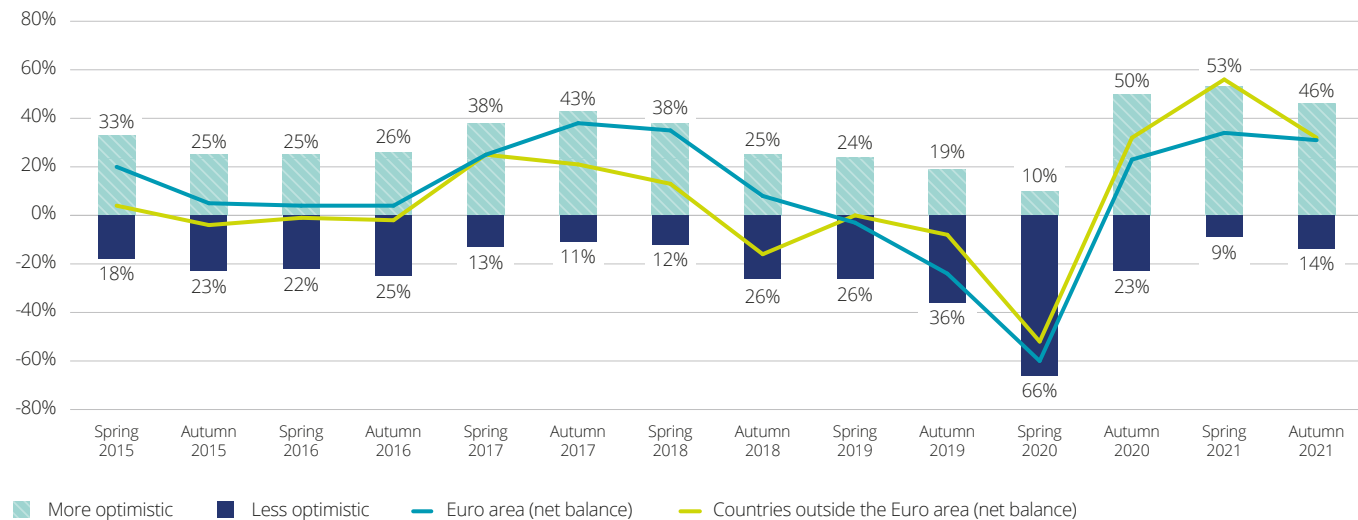
CFOs are currently confident about the financial prospects for their company, though slightly less so than in the spring survey. Business confidence has deteriorated, particularly in countries outside the Euro area (see Figure 1), having leaped a year ago, in the autumn 2020 survey. Survey participants in the UK, currently faced with a complex mix of supply problems, mostly due to the consequences of Brexit, reported the biggest drop as the net balance (defined as the difference between the share of positive and negative answers) plunged from 77 per cent to 17 per cent. In the Euro area, CFOs' business confidence softened only marginally. But the results varied considerably across the Euro area countries.

In Italy, the net balance of business confidence rose noticeably from 13 per cent to 41 per cent while CFOs in Greece became considerably less optimistic, though from a previous very high level, as the net balance moved from 67 per cent to 43 per cent. The results also differ greatly across industries. CFOs in the automotive industry, which is currently struggling

with severe supply-chain problems, report the lowest business confidence, with a net balance of 10 per cent – a drop of 36 percentage points from the spring survey. CFOs in tourism & travel, by contrast, are currently the most optimistic, as the net balance increased from 45 per cent to 72 per cent in line with the strong recovery in this sector over the summer.

Figure 1. Financial prospects

Compared to three months ago, how do you feel about the financial prospects for your company?*



Source: Deloitte European CFO Survey, Spring 2018 – Autumn 2021.

Note: In Denmark, Norway, Italy and Poland the question specified a six-month period.

*To explore the results country by country, please view the interactive graphs at www.deloitte.com/europeancfosurvey



Supply-side challenges become more important

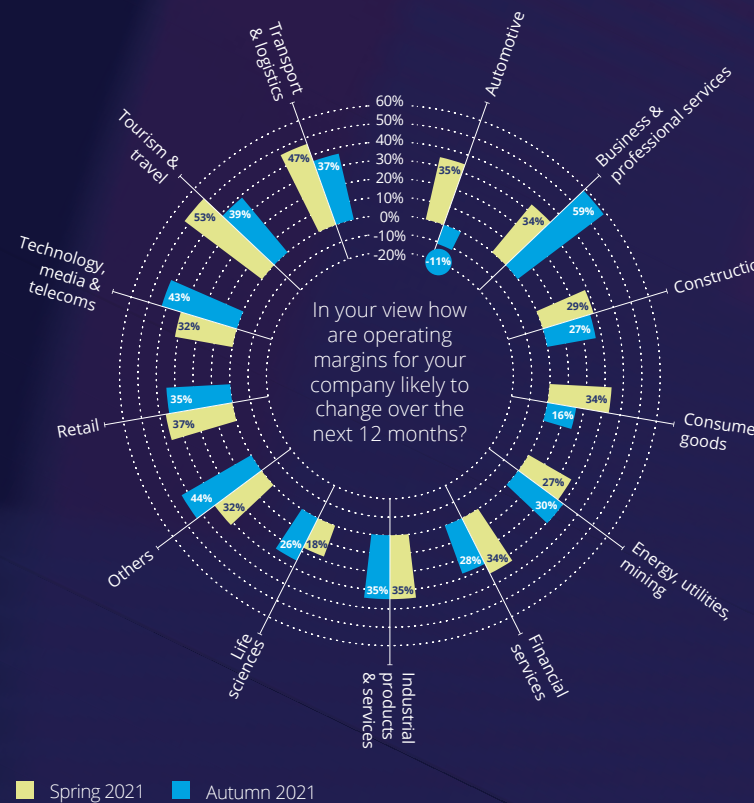
While demand-related risks are fading, various supply issues are becoming more important. Nevertheless CFOs are slightly more optimistic about the evolution of revenues during the next 12 months. But expectations on operating margins are gloomier than in the spring edition.

The risks seen by CFOs over the next 12 months have changed somewhat. As economic activity has continued to recover, weak demand is no longer seen as a major problem by survey participants. Rather, CFOs are facing a number of supply-side problems, such as a shortage of skilled professionals, increasing regulation and high commodity prices. Nevertheless, CFOs' revenue expectations over the next 12 months brightened slightly from an already high level. 80 per cent of CFOs expect higher revenues, and only 9 per cent reduced ones, resulting in a climb in the net balance from 67 per cent to 71 per cent in the spring edition.

Looking at industries, CFOs in the struggling automotive industry are the most pessimistic about future revenues. By contrast, the revenue expectations of survey participants in transport & logistics and tourism & travel increased further and are at a very high level, indicating that these industries see the recovery continuing.

But on operating margins CFOs' outlook has deteriorated. The net balance stands now at 20 per cent, dropping from 35 per cent in the spring. The decline was more pronounced in non-euro countries and, above all, the UK, where CFOs have become much more pessimistic. The net balance in the UK has turned negative, meaning that more CFOs are expecting operating margins to decrease than to rise.

Figure 2. Industries' expectations for operating margins (net balance %) In your view, how are operating margins for your company likely to change over the next 12 months?*



Source: Deloitte European CFO Survey, Spring 2021.

Within industries, CFOs in automotive are expecting decreasing operating margins: the net balance has plunged below zero (see Figure 2), illustrating the sector's supply-chain difficulties. CFOs in consumer goods and tourism & travel are also less optimistic about operating margins than in the spring. The expectations of CFOs in business & professional services, on the other hand, have improved considerably since the spring, from a net balance of 34 per cent to 59 per cent, the highest among all industries.



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Hiring plans at all-time high

CFOs report decreased uncertainty compared to the spring survey, in line with the overall improving state of the economy. Similarly, investment and, especially, employment expectations have continued to strengthen and further expansion remains the strategic priority.

CFOs' level of uncertainty declined in the autumn survey, from 65 per cent in the spring to 58 per cent, but still remains at a relatively high level. It is apparent that financial and economic uncertainty continue to weigh on CFOs' minds.

Expectations about capital expenditures (CAPEX) over the next 12 months have improved slightly. About half the CFOs are planning an increase, and only 11 per cent are expecting to reduce their CAPEX spend, so the net balance rose to 38 per cent, from 32 per cent in the spring edition. The investment plans of survey participants became more positive, especially in consumer goods and tourism & travel, which have experienced high demand during the past half year.

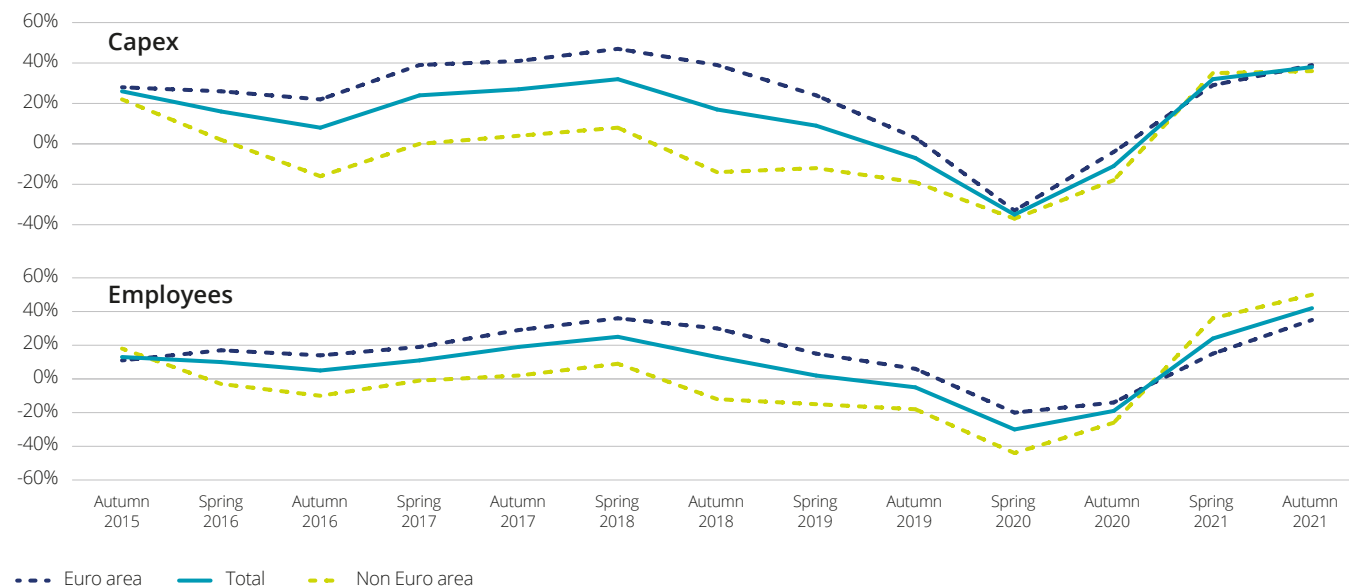
The survey results also reveal that CFOs revised up their plans for future employment considerably more strongly than for capital expenditures. More than half the CFOs expect to expand the number of employees over the next 12 months, while only 12 per cent assume a reduction. Hence, the net balance increased clearly to 42 per cent, from 24 per cent in the spring edition – to an all-time high since the series began in 2015. As companies' hiring plans are so strong it is unsurprising that the shortage of skilled labour has become more pronounced and is seen increasingly by CFOs as a risk. Employment expectations were up in all industries except automotive.

In line with these results, survey participants report that they are on an expansionary course. CFOs are concentrating on expanding in their markets and seeking organic growth, probably to win back or gain greater

market share in the post-pandemic world. CFOs are also focusing still more on digitalisation in order to remain competitive and be better prepared for future challenges.

Figure 3. Investment and hiring plans improved

In your view, how are capital expenditure/number of employees for your company likely to change over the next 12 months? (% net balance)*



Source: Deloitte European CFO Survey, Autumn 2018 – Autumn 2021.

*To explore the results country by country, please view the interactive graphs at www.deloitte.com/europeancfosurvey



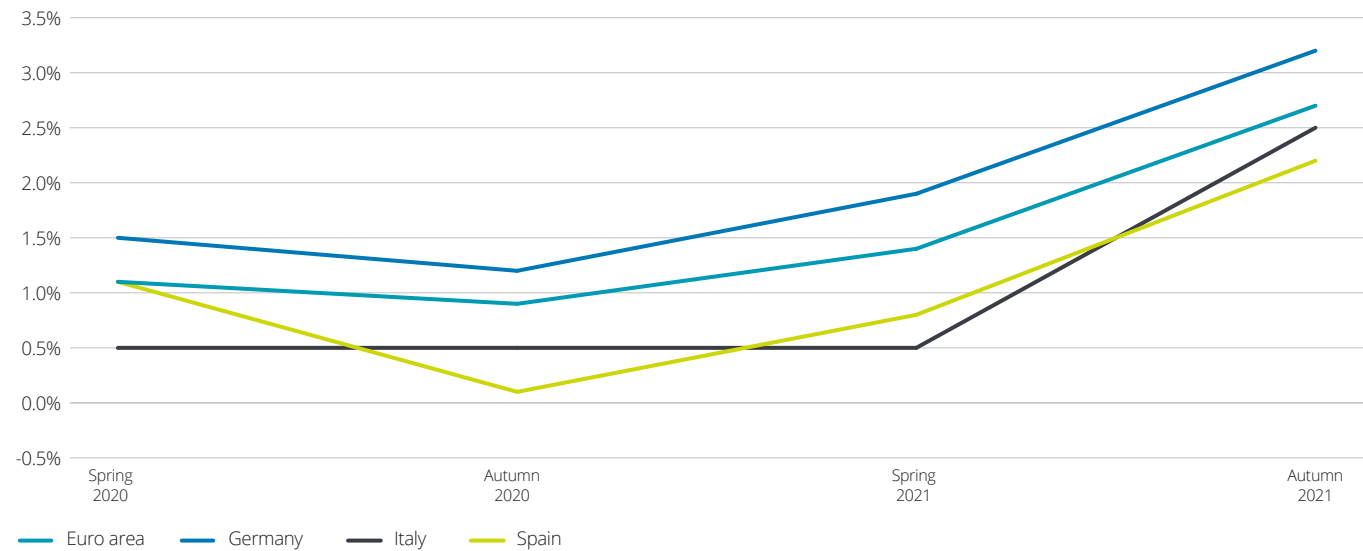
Inflation expectations revised upwards

Inflation has increased considerably in recent months, driven mainly by high energy prices and base effects as inflation was unusually low a year ago.

The inflation expectations of CFOs have surged since the spring edition (see Figure 4). This is the case in all participating countries. The expected average inflation rate in 12 months' time for the Euro area increased considerably from 1.4 per cent in the spring survey to 2.7 per cent in this edition. CFOs assume that price pressures will remain high.

Figure 4. CFOs' expectations on the average inflation rate

What do you think the inflation rate (for the Consumer Price Index) will be in your country in 12 months' time?*



Source: Deloitte European CFO Survey, Spring 2020 – Spring 2021.

*To explore the results country by country, please view the interactive graphs at www.deloitte.com/europeancfosurvey



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Conclusion: Concern shifts to the supply side

While demand-side problems have become less relevant as economic activity recovers further, supply-side challenges, such as a shortage of skilled professionals, increasing regulation and high commodity prices, have become much more pronounced.

CFOs are less confident about the future evolution of operating margins but more optimistic about revenues, capital expenditures and employment. Their strategic orientation remains expansionary, reflecting their confidence in continued economic growth.

The question remains as to how the shortage of skilled professionals plays out. If the shortage of skilled labour does not ease it might become a factor that could exacerbate wage inflation and begin to limit the scope for growth.

Another overarching concern for growth emanates from supply chains. Poor supply is disrupting manufacturing output in many sectors, and there is potential for this to spill over into the service sector, mainly through lower demand for industry-related services and the negative income impact from the possible higher use of short-time work schemes.

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The Deloitte European CFO Survey

Since 2015 Deloitte has conducted the European CFO survey, giving voice twice a year to senior financial executives from across Europe. The data for the Autumn 2021 edition were collected in September 2021 and garnered responses from 1,330 CFOs in 17 countries and across a wide range of industries. To explore the results country by country, please view the interactive graphs at: www.deloitte.com/europeancfosurvey



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Sample composition by geographic location

Country	
Germany	12%
Portugal	11%
Switzerland	9%
Denmark	8%
United Kingdom	7%
Norway	7%
Italy	7%
Sweden	6%
Spain	6%
Turkey	5%
Austria	5%
Iceland	5%
Russia	4%
Greece	4%
Finland	2%
Luxembourg	1%
Netherlands	1%

Sample composition by industry

Industry	
Financial Services	17%
Industrial Products & Services	13%
Energy, Utilities, Mining	9%
Technology, Media & Telecommunication	7%
Retail	7%
Consumer Goods	7%
Construction	6%
Life Sciences	5%
Transport & Logistic	5%
Automotive	5%
Tourism & Travel	3%
Business & Professional Services	2%
Other	9%

Sample composition by business size

Annual revenues	
Less than 100 million Euro	35%
Between 100 and 999 million Euro	43%
1 billion Euro and more	22%

Acknowledgements

We would like to thank all participating CFOs for their support in completing this survey. We would also like to thank the CFO Survey Teams in each of the countries that collected the data from local CFOs, as well as Ram Sahu for the management of the data and Richard Horton, Sara Sikora and Alex Boersch for their useful comments on previous versions of the article.

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