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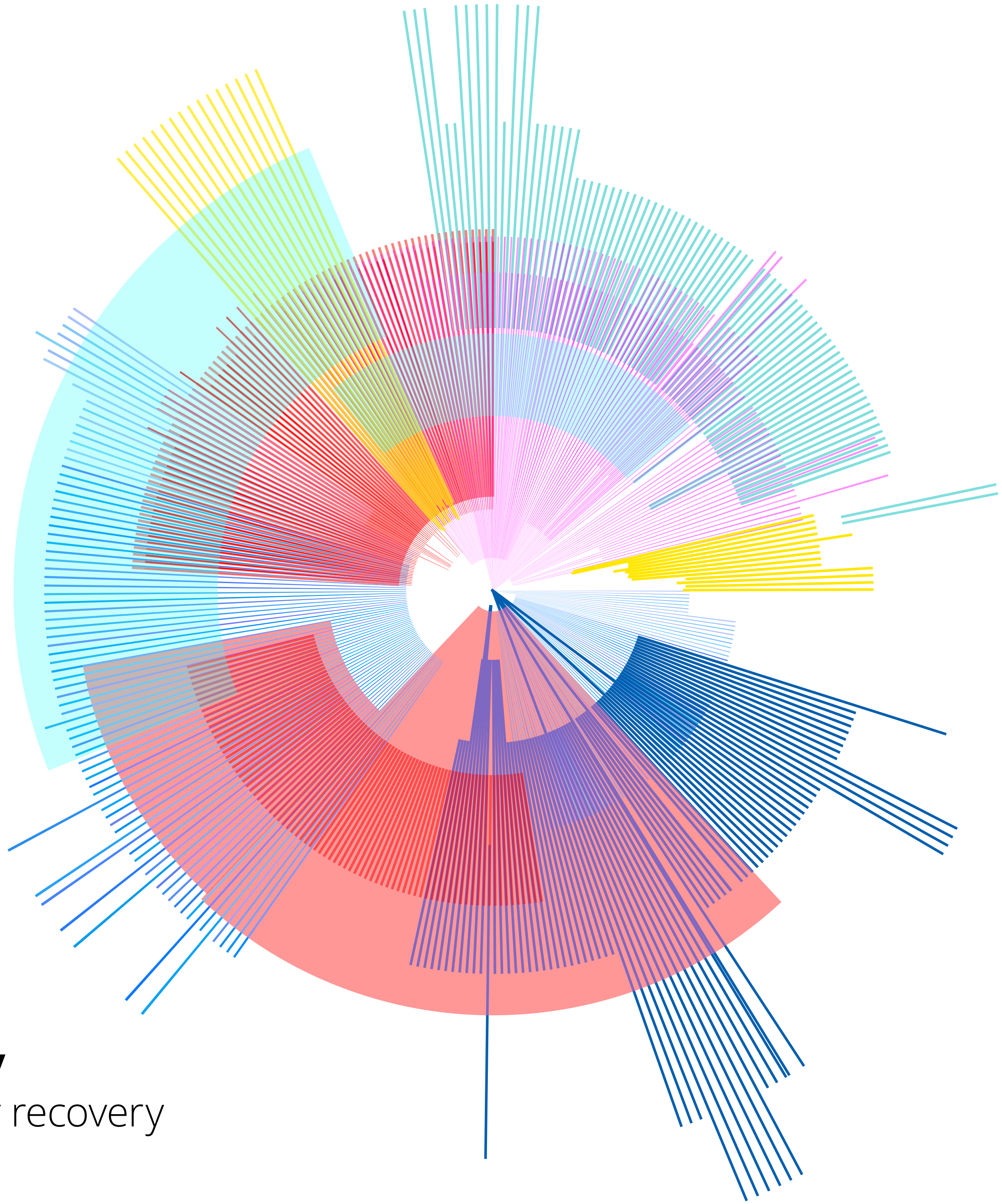
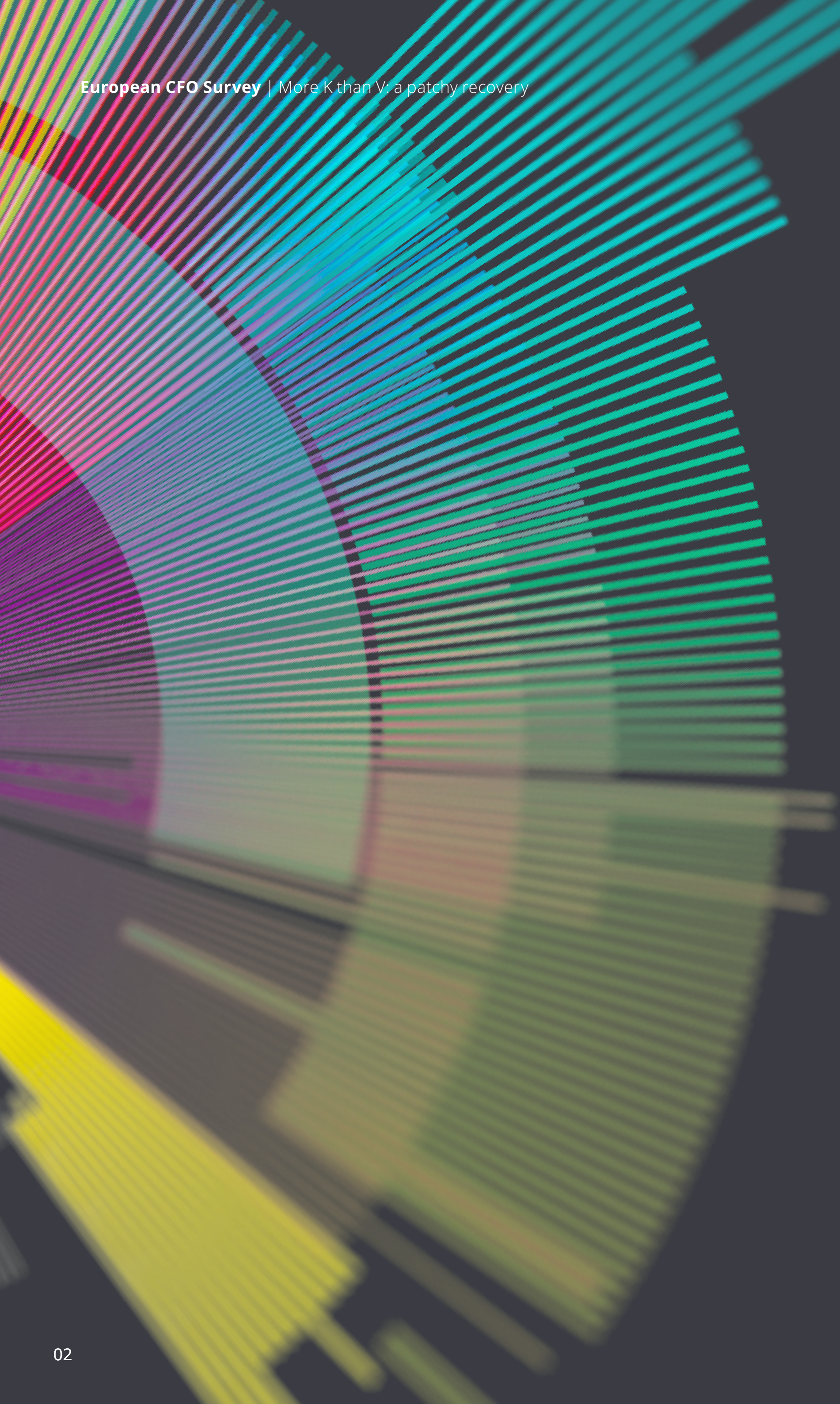


European CFO Survey

More K than V: a patchy recovery

Autumn 2020



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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 twelfth edition of the Deloitte European CFO Survey.

Since 2015 the survey has given voice twice a year to about 1,500 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, it provides reliable insights into how European companies view the economic environment and how they are reacting to it.

This edition focuses on the impacts of the COVID-19 pandemic, reporting in particular on CFO's current revenue expectations and employment plans and the investment areas that businesses across Europe are prioritising. Companies' investment plans are especially relevant as the pandemic is reshaping economies in fundamental ways. While some sectors are rebounding quickly, others face a long and uncertain road ahead. One thing is certain: CFOs will need to embrace change, reassess their goals, and invest for the future.

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

Richard Muschamp
North South Europe CFO Programme Lead Partner

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Nine months into the COVID-19 pandemic, a new letter has risen to prominence in the alphabet soup used to describe possible shapes of economic recovery: K. In a K-shaped recovery, different parts of the economy experience markedly different trajectories. While some sectors or groups are rebounding, others remain stuck on a downward trajectory. The results of the latest Deloitte's European CFO Survey reveal which paths businesses in Europe find themselves on.

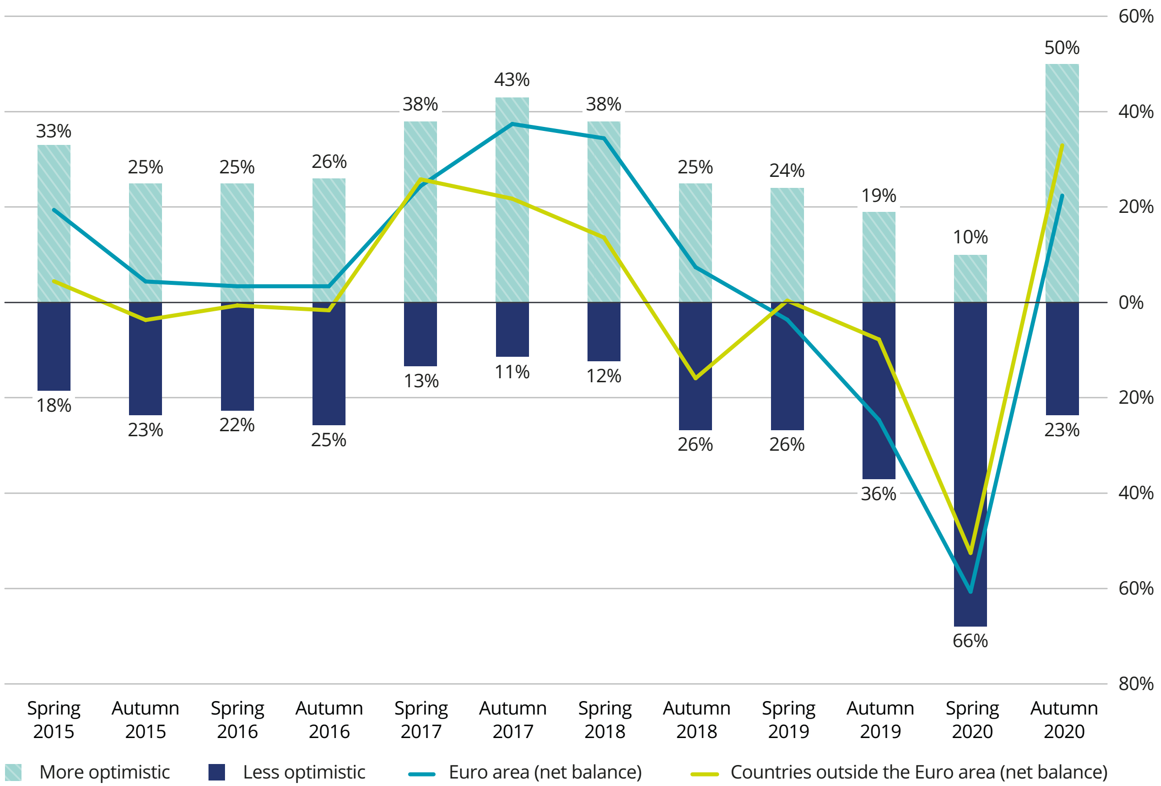
Some sectors bounce back, not all

The backdrop to the uncertain recovery could hardly be worse. In the first half of 2020, the European economy experienced the deepest contraction in output since World War II.

But following the initial reopening of businesses and the easing of the extraordinary measures put in place during the spring to counter the spread of COVID-19, economic activity in Europe picked up rapidly over the summer. In line with this, the business sentiment of Europe's CFOs leapt from a record low (Figure 1). Half the CFOs – five times as many as in March – said they feel more optimistic than three months ago about the financial prospects for their company. Sentiment improved in all countries surveyed, but in Italy and Spain CFOs who feel less optimistic still outnumber those who are optimistic, and the net balance remains negative.

It is, however, in sectors, rather than in countries, that a clear divide emerges. For example, 64 per cent of CFOs in the transport and logistics sector and 55 per cent of those in industrial products and services view the future more confidently now than they did three months ago – which mirrors a swift recovery in global trade and industrial production.[1] At the other end of the spectrum the picture is entirely different. In tourism and travel only 26 per cent of CFOs feel more optimistic, and almost half of them are less optimistic than they were three months ago. An increase in the number of new COVID-19 cases in many European countries and the reintroduction of stricter containment measures have dispelled hopes of a late-season revival in tourism, dealing a further blow to one of the sectors most negatively affected by the pandemic.

Figure 1. Business confidence rebounds after reaching a historical low.
Compared to three months ago, how do you feel about the financial prospects for your company?*



Source: Deloitte analysis 2020

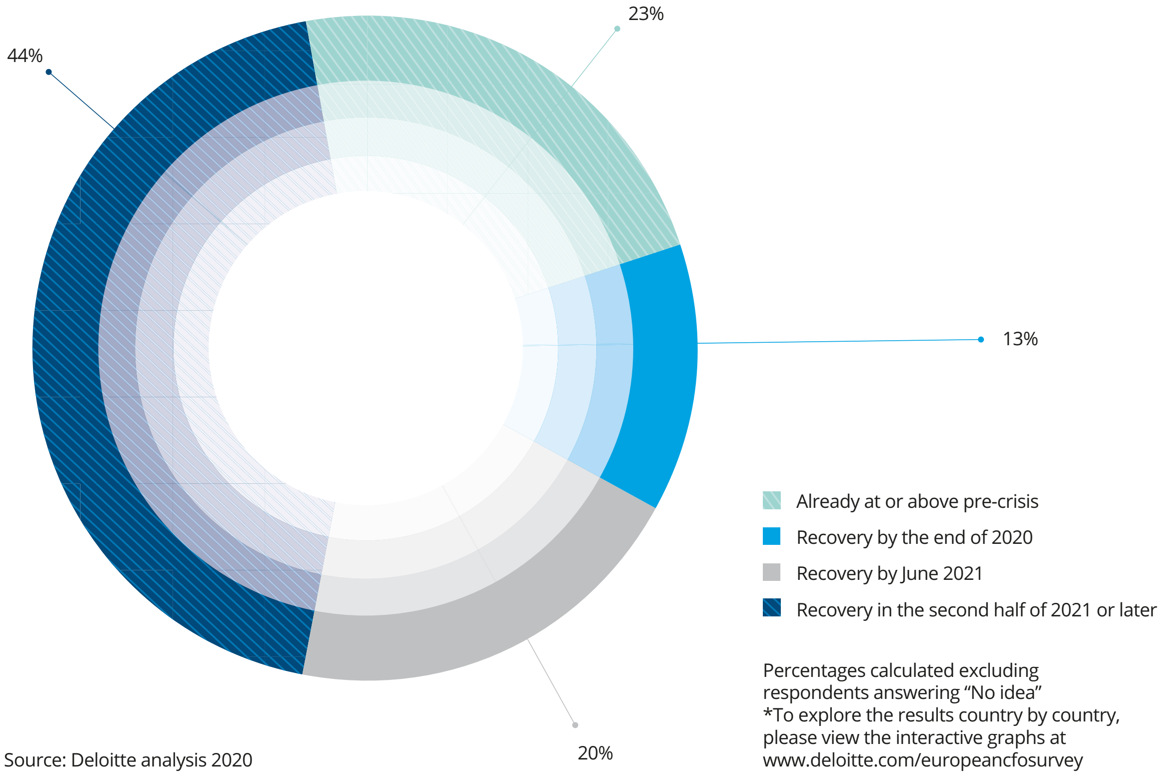
*To explore the results country by country, please view the interactive graphs at www.deloitte.com/europeancfosurvey

The long road to recovery

Companies' revenue expectations also reflect the overall improved mood in Europe. Fifty-four per cent of CFOs expect their revenues to increase over the next twelve months, against 30 per cent who expect them to fall – a result not far from being the precise opposite of March, when just 26 per cent expected revenues to increase and 60 per cent expected them to fall.

That the outlook for revenues looks more positive does not mean, however, that most businesses have already returned to their pre-pandemic level. While 23 per cent of businesses are indeed operating at or above their per-COVID level, 44 per cent expect to return to pre-crisis levels only in a year's time at the earliest – with 17 per cent of companies even pointing to 2022 as the likeliest time for a full recovery in revenues (Figure 2). The views differ within Europe and across sectors. While two-thirds of CFOs in Denmark and more than half in Germany expect their revenues to recover fully by the end of the year, only 25 per cent of CFOs in Switzerland and 21 per cent of UK CFOs do so.

Figure 2. A relative majority of companies expect to get back to pre-crisis levels in one-year's time at the earliest. Based on the information you have so far, when do you expect your company to return to a pre-crisis level of revenue generation?*

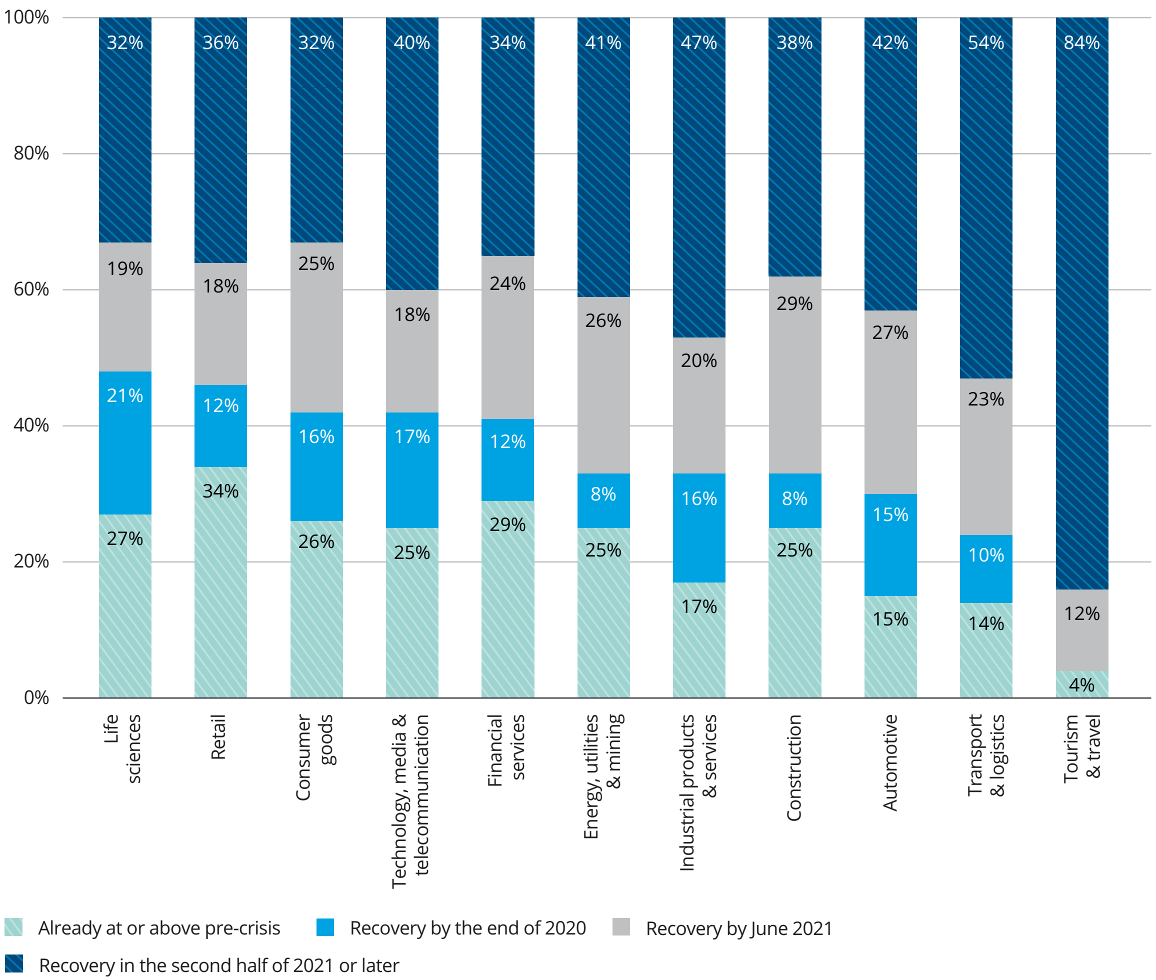


Percentages calculated excluding respondents answering "No idea"
*To explore the results country by country, please view the interactive graphs at www.deloitte.com/europeancfosurvey

Source: Deloitte analysis 2020

At the sector level it is in tourism and travel that CFOs are most negative about the recovery, with 84 per cent expecting to return to the pre-crisis level in the second half of 2021 at the earliest (Figure 3). In transport and logistics, too, a majority (54 per cent) of CFOs expect to be back to the pre-crisis level only by the end of next year or later. Thus, despite CFOs' generally optimistic view of their long-term financial prospects in this sector, the crisis seems to have inflicted a heavy blow and the road to recovery looks long. At the other end of the spectrum, about half the CFOs in the life sciences industry say they are already at pre-crisis levels or expect to recover fully by the end of 2020. In addition, a relative majority of CFOs in retail (46 per cent) expect full recovery by the end of the year. Although lockdowns had an immediate negative effect on retailers, the volume of sales recovered quite quickly and in August was already above the January level.[2] Pent-up demand and online sales may have helped this sector to emerge from the woods faster.

Figure 3. Some sectors are coming back to pre-crisis levels at a more rapid pace.
Based on the information you have so far, when do you expect your company to return to a pre-crisis level of revenue generation?



Source: Deloitte analysis 2020

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While sentiment has improved, CFOs' views on what represents a significant risk to their businesses provide a cautionary tale.

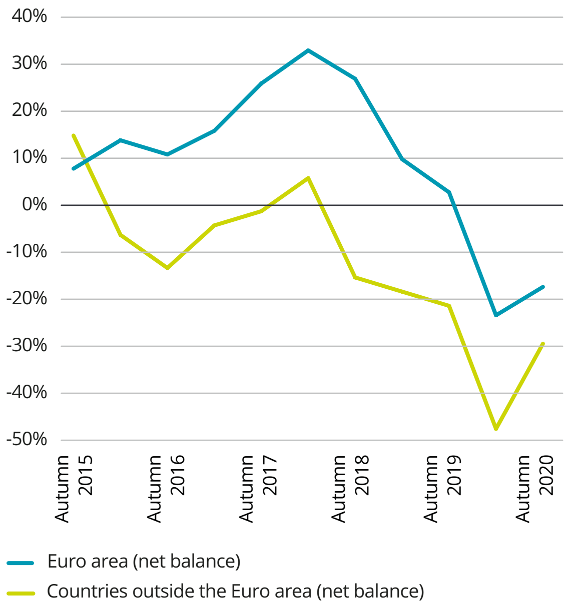
Warily assessing creative destruction

A weakening in demand remains one of the top three concerns in two-thirds of the countries surveyed. In March that was the case in almost three-quarters of the countries but that proportion is still higher than in autumn 2019. Despite signs of a brightening economic landscape, business leaders remain concerned about the solidity of the recovery.

That they are wary is likely to reflect the dangers that continue to be posed by COVID-19. A strong labour market generating healthy domestic demand was one of the major drivers of growth in Europe before the pandemic. Blanket job-retention schemes put in place to cushion the effects of strict lockdown measures during the spring have prevented a massive spike in unemployment. But the relevant question for future economic growth is what will happen to the labour market once these schemes expire. Unemployment has already increased across Europe since the spring.[3] Meanwhile, a resurgence in infections in many countries has forced new local restrictive measures that could lead to more layoffs.

The outlook for employment may, however, be becoming slightly less bad. Compared to the spring edition, the share of CFOs foreseeing a decline in their workforce dropped from 39 to 36 per cent for countries within the Euro area, and from 59 to 48 per cent for countries outside it – although the net balance of intentions remains negative in both areas (Figure 4). Expectations are unevenly distributed, with CFOs in tourism and travel and the automotive sector the most negative.

Figure 4. The outlook for employment improves, but remains subdued.
In your view how is the number of employees for your company likely to change over the next 12 months? (% net balance)*



Source: Deloitte analysis 2020

Note: In the UK, CFOs were asked: "How is the outlook for hiring for UK corporates likely to change over the next 12 months?"
*To explore the results country by country, please view the interactive graphs at www.deloitte.com/europeancfosurvey

After a shock as profound as that inflicted by the pandemic, it is natural for the economy to rebalance and for the labour market to change. Some jobs might not come back at all, others might be very different to how they were before. In coming months policymakers will therefore have to walk a fine line, protecting the livelihood of a large part of the workforce to avoid a collapse in demand while simultaneously letting workers transition towards different jobs and sectors in order to allow the economy to undergo a process of creative destruction.

CFOs face a similar challenge. As countries battle with the pandemic, corporate leaders must take a view on how they should navigate their companies in the changed world that will emerge from the crisis. What made sense before may no longer do so. New plans will have to be made.

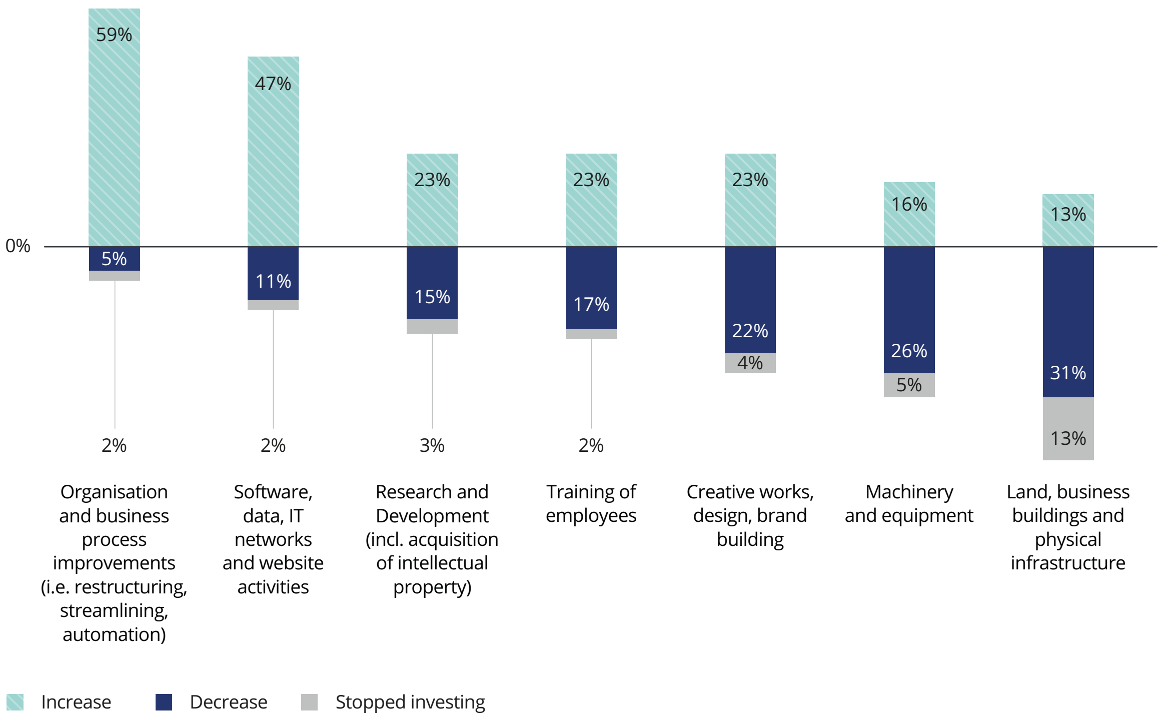
Digitalising the path to recovery

Investment intentions remain subdued across the region. Despite improving compared to the spring, the net balance of expectations remains below what it was in autumn 2019: 38 per cent of CFOs plan to reduce capital expenditures (CAPEX) over the next twelve months while 26 per cent expect to increase them.

Despite the generalised lack of appetite for investment, about 60 per cent of CFOs do plan to invest more in business process improvements such as automation, and 47 per cent intend to increase their investment in software, data and IT networks. Investments in tangible assets (i.e. physical infrastructure, as well as machinery and equipment) fall well behind (Figure 5). There are unsurprisingly differences across sectors, with CFOs in industries more reliant on physical capital (such as automotive or energy and utilities) more likely to increase their investment in tangible assets. Within these sectors investments in intangible assets are also currently a priority.

Similarly, "digitisation" is named as one of the top three strategic priorities in almost half the countries – whereas only one year ago that was the case in just one fifth of them. With many activities (from shopping and meetings to education and healthcare) suddenly moving online, the pandemic has accelerated in many respects the rise of the digital economy. Even in an uncertain economic environment, businesses in Europe are making efforts to complete their digital transformation.

Figure 5. nvestments on intangibles are on the rise.
Over the next 12 months and compared to the situation before the COVID-19 pandemic, how will your company's investments change in the following areas?*



Source: Deloitte analysis 2020

Note: Weighted averages calculated excluding respondents answering "Doesn't apply" or "Don't know"
*To explore the results country by country, please view the interactive graphs at www.deloitte.com/europeancfosurvey

An unclear economic outlook

Compared to six months ago, the economic picture emerging from the autumn survey is brighter, although with clear distinctions between sectors.

And overall the picture is also highly uncertain. According to the International Monetary Fund (IMF), voluntary social distancing in response to rising infections also contributed very substantially to the economic contraction – particularly in advanced economies.[4] Any lasting recovery will depend on bringing the virus under control. As recent surges of new cases in numerous countries show, the evolution of the pandemic can change course quite abruptly. Until a vaccine is developed or cure is found, the economic recovery will remain on shaky ground.

Nor is COVID-19 the only uncertainty weighing on the global and European economic outlook. The fraught relationship between the US and China is another major problem, although the risk of further escalation in the trade war appears to have eased somewhat after both sides concluded the review of the Phase 1 deal and committed to its fulfilment.[5] But tensions are likely to remain high, particularly in relation to technology disputes.

In general, much of how growth will pan out in Europe depends on how well governments manage to cushion the most painful implications of the pandemic on vulnerable groups, without hampering necessary adjustments in the economy and labour market. The COVID-19 pandemic has slowed down economic growth but accelerated and amplified underlying structural change – in supply chains, trade and technology. Businesses need to acknowledge and embrace these changes, reassess their goals and adapt their strategies if they want not just to survive in the post-pandemic world, but thrive in it.

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 2020 edition were collected in September 2020 and garnered responses from 1,578 CFOs in 18 countries and across a wide range of industries (Figure 6). To explore the results country by country, please view the interactive graphs at www.deloitte.com/europeancfosurvey

Sample composition by geographic location

Country	
Russia	14%
Switzerland	7%
Denmark	7%
United Kingdom	6%
Sweden	6%
Germany	6%
Spain	6%
Norway	6%
Portugal	6%
Italy	6%
Austria	5%
Poland	4%
Iceland	4%
Netherlands	4%
Turkey	4%
Greece	4%
Luxembourg	3%
Ireland	1%

Sample composition by industry

Industry	
Financial Services	14%
Industrial products & services	11%
Consumer Goods	9%
Construction	9%
Technology, Media & Telecommunications	8%
Retail	7%
Energy, Utilities, Mining	6%
Transport & Logistics	6%
Life Sciences	4%
Automotive	4%
Business & Professional Services	4%
Tourism & Travel	3%
Others	14%

Sample composition by business size

Annual revenues	
Less than 100 million euro	38%
Between 100 and 999 million euro	39%
1 billion euro and more	23%

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. All data management was done by Ram Sahu.

Endnotes

01. According to the Netherlands Bureau for Economic Policy Analysis, world trade volume increased 4.8% month-on-month (with month-on-month growth being 7.9% in June) this way recovering to 95% of January levels. Similarly, industrial production in advanced economies increased 4,4% month-on-month (having increased 6,6% in June), thus recovering to 92% of January levels (Source: own calculations based on the CPB World trade monitor database https://www.cpb.nl/en/worldtrademonitor, accessed Oct. 5th, 2020).

02. Eurostat, "Turnover and volume of sales in wholesale and retail trade – monthly data" https://ec.europa.eu/eurostat/databrowser/view/sts_trtu_m/default/table?lang=en, accessed Oct. 6th, 2020.

03. Eurostat, "Unemployment statistics – monthly data" https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=une_rt_m&lang=en, accessed Oct. 8th, 2020.

04. International Monetary Fund, "COVID's Impact in Real Time: Finding Balance Amid the Crisis", October, 2020 https://blogs.imf.org/2020/10/08/covids-impact-in-real-time-finding-balance-amid-the-crisis/?cid=em-COM-123-42113, accessed Oct. 8th, 2020.

05. Ana Swanson, Keith Bradsher, "American and Chinese Officials Take Pulse on Trade Deal, Six Months In," New York Times, September 14th 2020, https://www.nytimes.com/2020/08/24/business/economy/us-china-trade-deal.html, accessed Oct. 8th, 2020.

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