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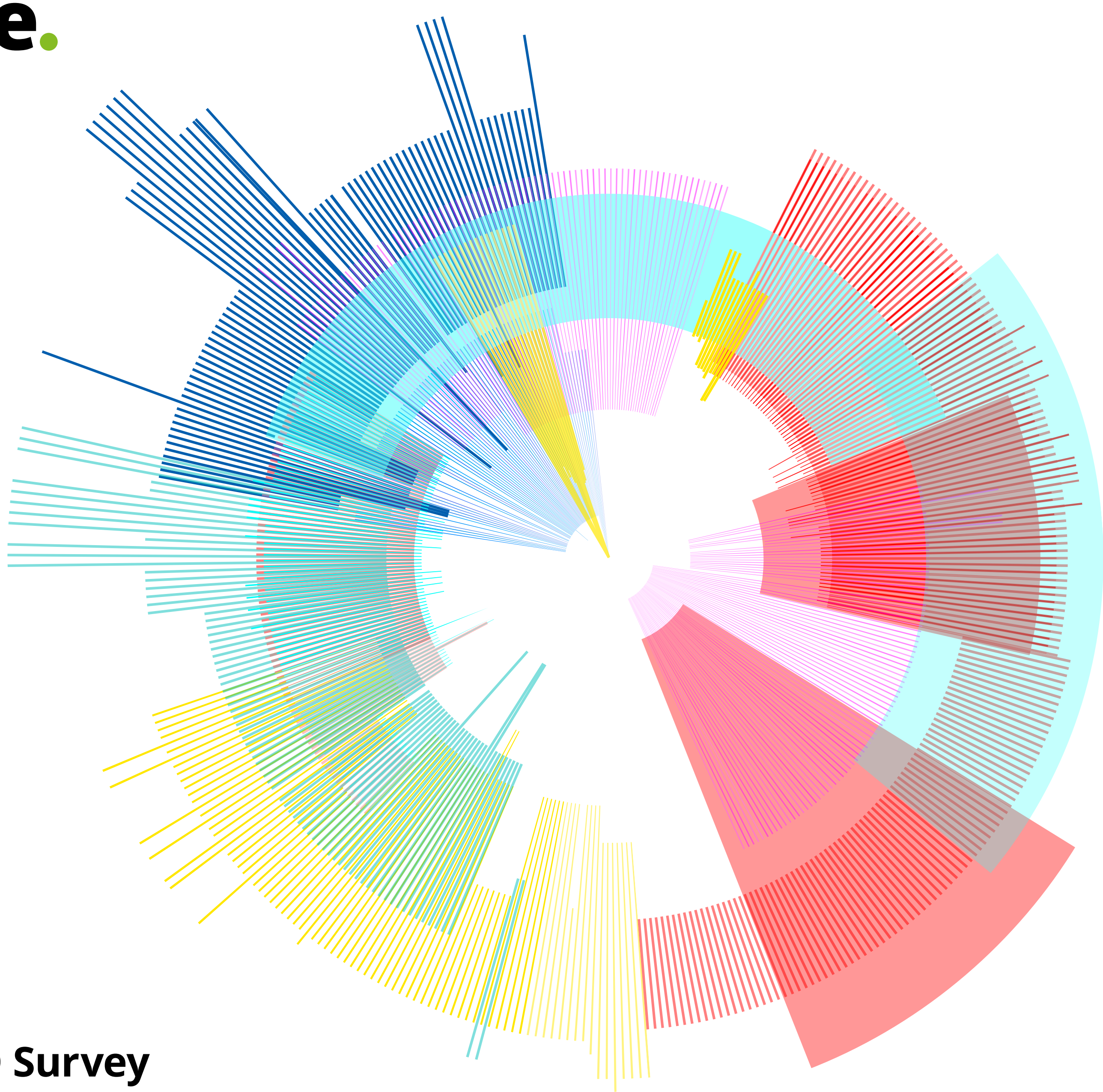

European CFO Survey

A new wave – of optimism

Spring 2021

CFO Programme

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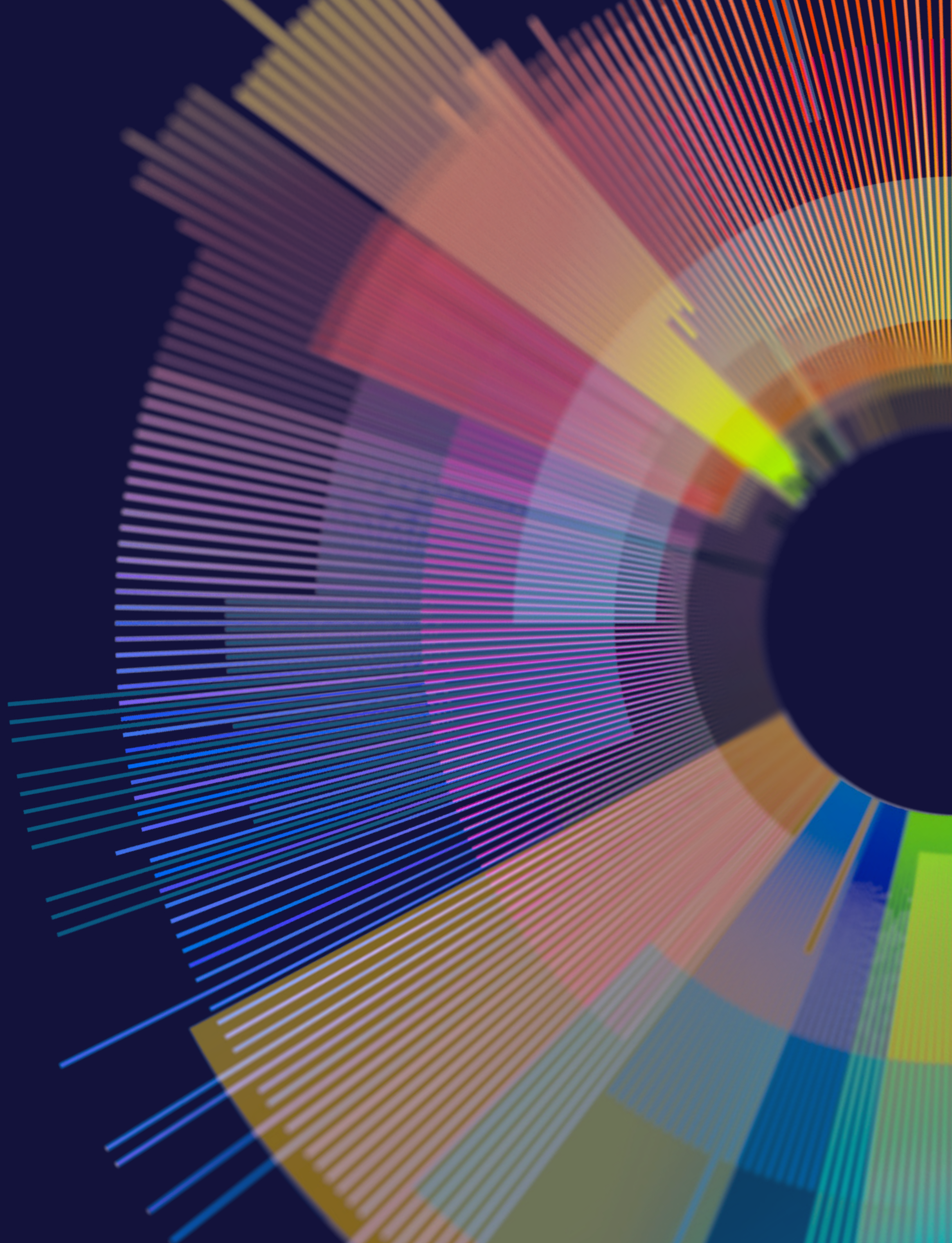

Foreword

As part of our broader commitment to supporting business leaders across the globe in their strategic decision-making, we are pleased to present the thirteenth 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 insights into how European companies view the economic environment and how they are reacting to it.

Although the COVID-19 pandemic has yet to be overcome and European countries remain under lockdown, this edition of the survey uncovers a new sense of optimism. Many companies seem already to have turned the page on COVID and are now focusing on the post-pandemic reality. This is not true, however, for all companies. Much of the ability of businesses to emerge from the crisis in a stronger position depends on their capacity to invest wisely – in people as well as in technology. The willingness to invest is indeed on the rise. But perhaps most vital of all is the ability to look further down the line and formulate a bold longer-term strategic vision. In this regard CFOs have an important role to play, providing the information and tools that can enable companies to take sound decisions.

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.

Rolf Epstein
Leader CFO Program, Germany

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With strict lockdown measures still in place across Europe, vaccines being distributed slowly in many countries, and still high levels of new COVID-19 infections, it would be easy to be gloomy about European economic prospects. But financial executives across the continent take a quite different view, as the results of the latest Deloitte European CFO survey reveal.

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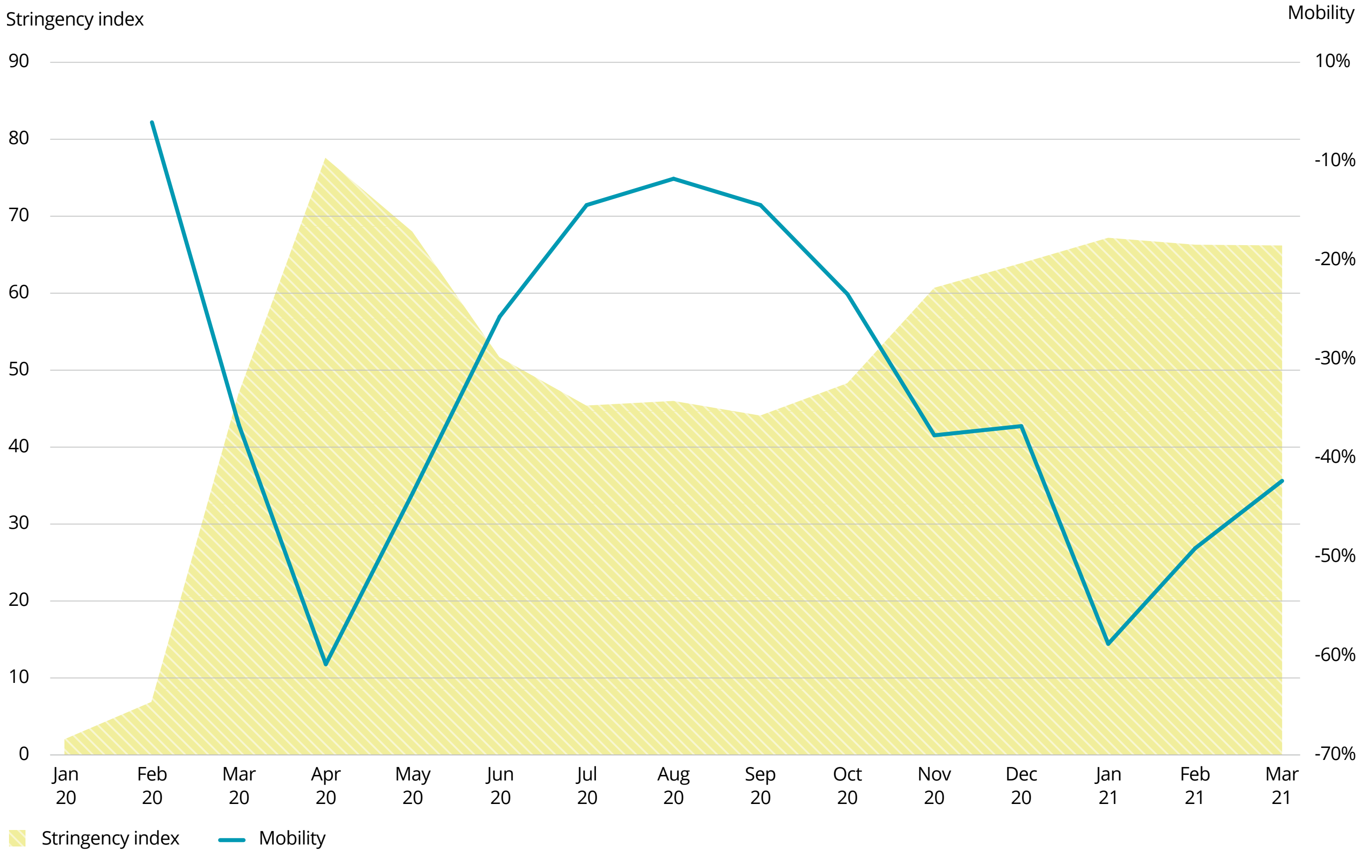
Optimism – though much COVID harm remains

Europe in March 2021 might not seem to have advanced much a year since COVID-19 was declared a global pandemic. Stringent policy measures to restrict people's behaviour are largely still in place across the region.

The Oxford stringency index, a composite measure that records the strictness of lockdown policies adopted, was only slightly below its level in April 2020 when Europe faced the first wave of the pandemic (Figure 1, left axis). According to Google's mobility data, visits to retail and recreational locations (such as restaurants, shopping centres or cinemas) and movements in transport hubs (such as underground, bus or train stations) were more than 40 per cent and 35 per cent below the pre-COVID level, respectively.[1] To some extent, Europeans are even less active than they were in March 2020 (Figure 1, right axis). Although mass vaccination campaigns have begun everywhere, the pace of vaccine rollouts varies considerably, with most European countries lagging far behind the United Kingdom in terms of coverage.

Figure 1. One year after the COVID-19 pandemic struck, Europe is yet to unlock.



Source: Deloitte's calculations. Stringency Index: https://ourworldindata.org/grapher/covid-stringency-index , data downloaded on April 7th, 2021. Mobility data: https://www.google.com/covid19/mobility/?hl=en , data downloaded on April 8th 2021. Average values of mobility data for visits to "retail/recreational activities" and "movements in transit stations" across all countries part of the European Economic Area (EEA) plus Russia, Switzerland and the UK.

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Fresh hopes

The latest Deloitte European CFO survey reveals great levels of optimism across the region. In all the countries surveyed CFOs who feel more optimistic about their company's financial prospects outnumber those who are less optimistic, so that the net balance of sentiment is positive everywhere.

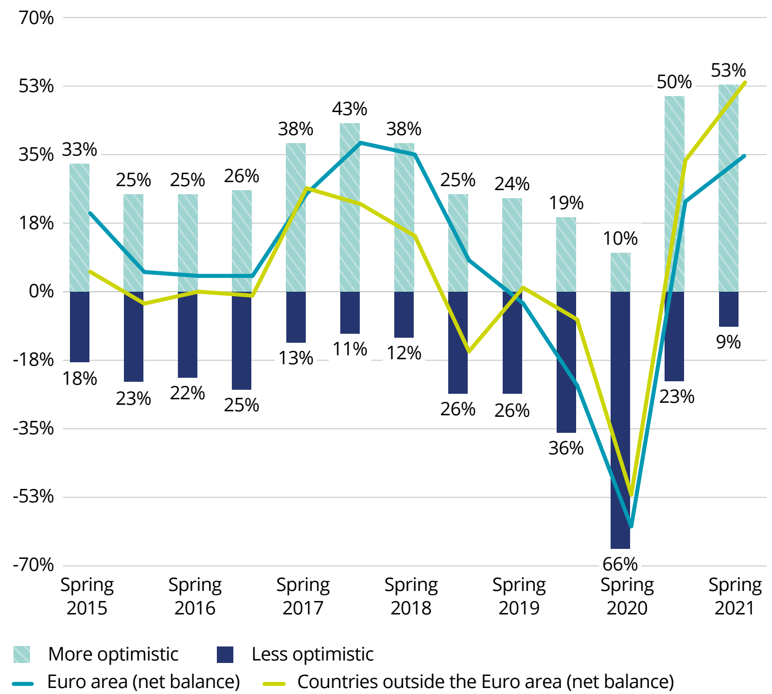
The overall share of respondents saying they feel less optimistic has more than halved compared to the autumn edition, to an all-time low. At the same time, the share of respondents who feel optimistic further increased so that the net balance of sentiment is at its highest since the beginning of the series. The increase in optimism is more pronounced in countries outside the euro area and is led above all by the upbeat mood of CFOs in the UK, where a net 77 percent of respondents feel more optimistic than three months ago – the highest level across all countries.

The improvement in business confidence is evident too when looking at the results across different industries. Even in sectors hit hard by the pandemic, such as tourism and travel, and still much affected by the restrictions in place, a vast majority of CFOs feel more optimistic than three months ago and view the future confidently.

Europe's CFOs also have high hopes when looking at the next 12 months. Seventy-seven percent of CFOs expect the revenues of their companies to increase – 25 percentage points more than in September. Only 11 per cent expect them to fall. Again, the improvement in sentiment is common to all countries and all sectors surveyed. Similarly, expectations on the evolution of operating margins have improved, reaching their highest since 2015.

This steep rebound in sentiment might, however, be considered almost a natural reaction. The dive suffered as the global pandemic hit was extremely deep. And despite proceeding at a slower pace than in other advanced economies, the vaccination campaign is advancing and indeed accelerating in all European countries, bringing closer the prospect that restrictions will be lifted in coming months. Particularly in those industries operating at rock-bottom levels even cautious reopening represents an improvement. It is also the case that companies have adapted to the new environment and found new ways to do business, thus becoming less hampered by restrictive measures.

Figure 2. Business confidence is at its highest since the beginning of the series. Compared to three months ago, how do you feel about the financial prospects for your company?*



Source: Deloitte European CFO Survey, Spring 2015 – Spring 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

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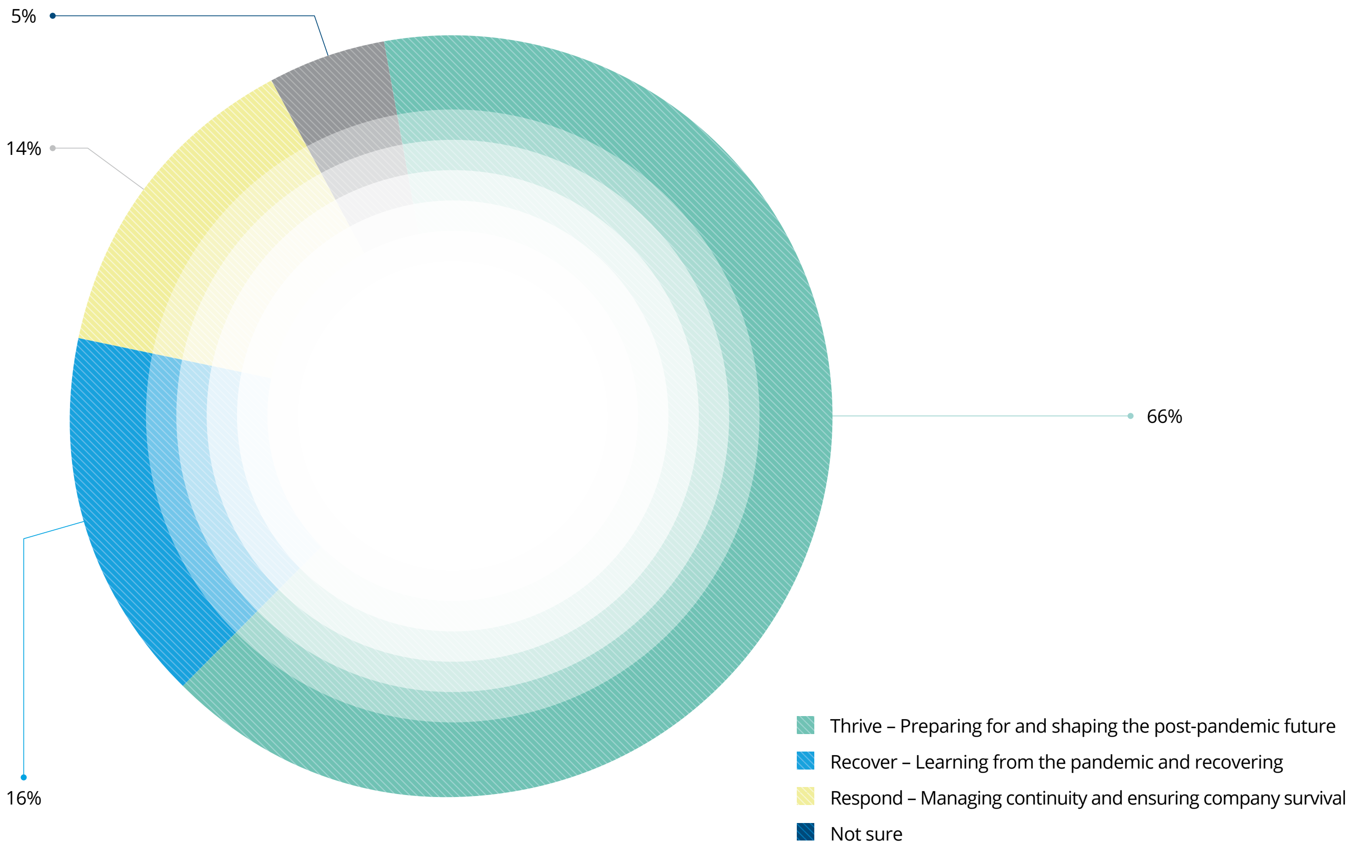
Turning the COVID page

There are broader signs that many European companies have turned the page on the pandemic and are fully focusing on the emerging business environment.

Asked to assess which phase of the COVID crisis their organisation has entered, two in three CFOs report that they are already preparing for and shaping the post-pandemic future – what we define as the "Thrive" phase. Only 14 per cent feel they are still in survival mode (Figure 3).

Although the positive mood is widespread the data do reveal substantial differences across industries. For example, more than 80 per cent of CFOs in life sciences and health care (LS&HC) consider their organisation to be already in the Thrive phase but only 38 per cent in tourism and travel, where more than half the CFOs say they are still battling to ensure their company's survival.

Figure 3. A majority of European companies are already in the Thrive phase, focusing on the post-pandemic future. What phase of the COVID-19 crisis is your organisation in?*



Source: Deloitte European CFO Survey, Spring 2021.

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

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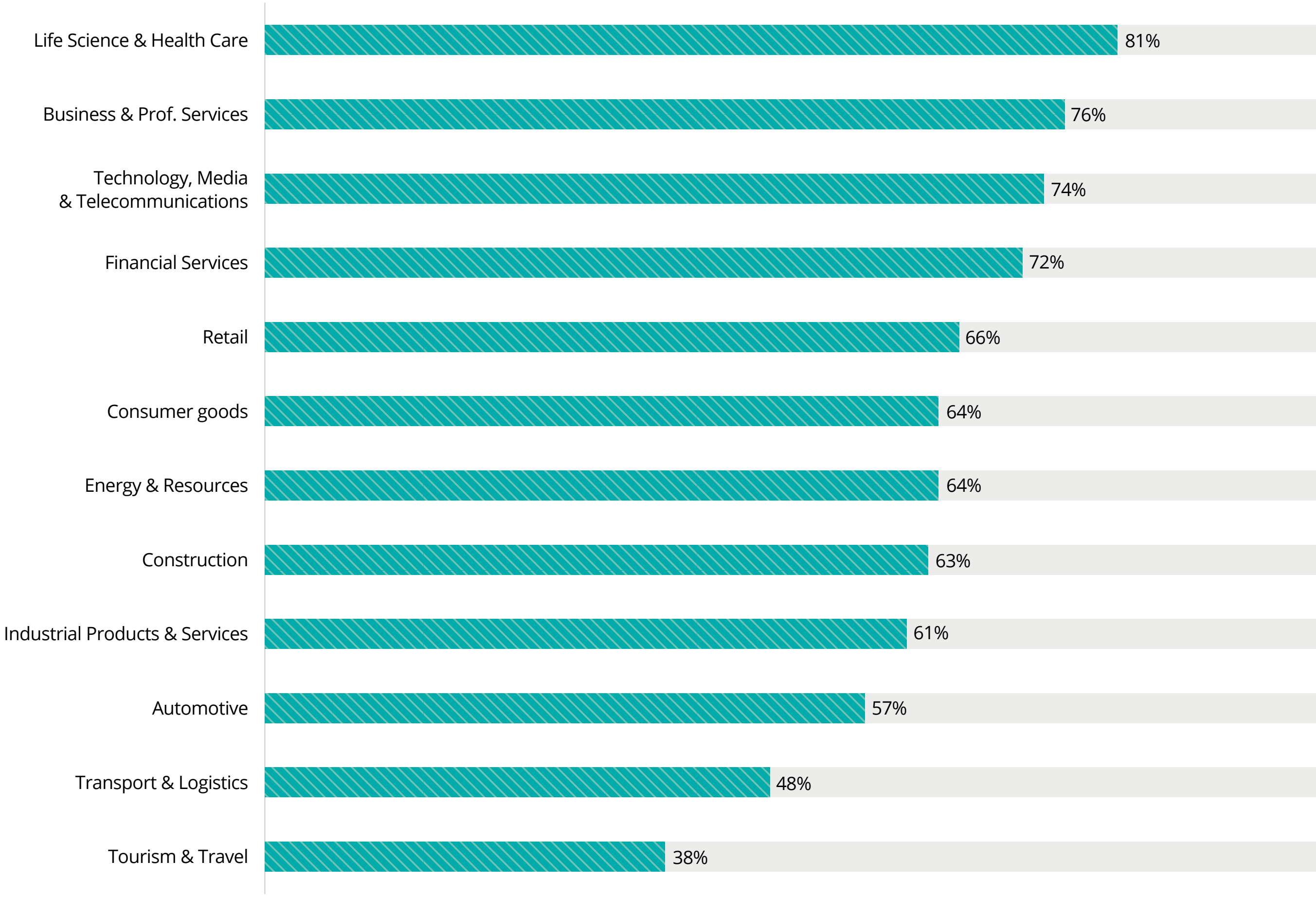
Interestingly, CFOs in retail are particularly bullish, with 66 per cent reporting that they are in the Thrive phase (Figure 4). By pushing consumers towards online shopping the pandemic has forced retailers to invest in and expand their omnichannel capabilities, propelling them towards new ways to serve their clients.

Company size also affects the responses. In general, smaller companies (defined as those with annual revenues of up to €100 million) appear to be at an earlier stage of the recovery, with 22 per cent of respondents reporting that they are still in the "Respond" phase. By contrast, only 6 per cent of CFOs in large companies (defined as those with annual revenues of €1 billion or more) are in the same position.

Figure 4. The share of companies in the "Thrive" phase varies substantially across industries
What phase of the COVID-19 crisis is your organisation in?* (% "Preparing for and shaping the post-pandemic future") for your company?*



Source: Deloitte European CFO Survey, Spring 2021.
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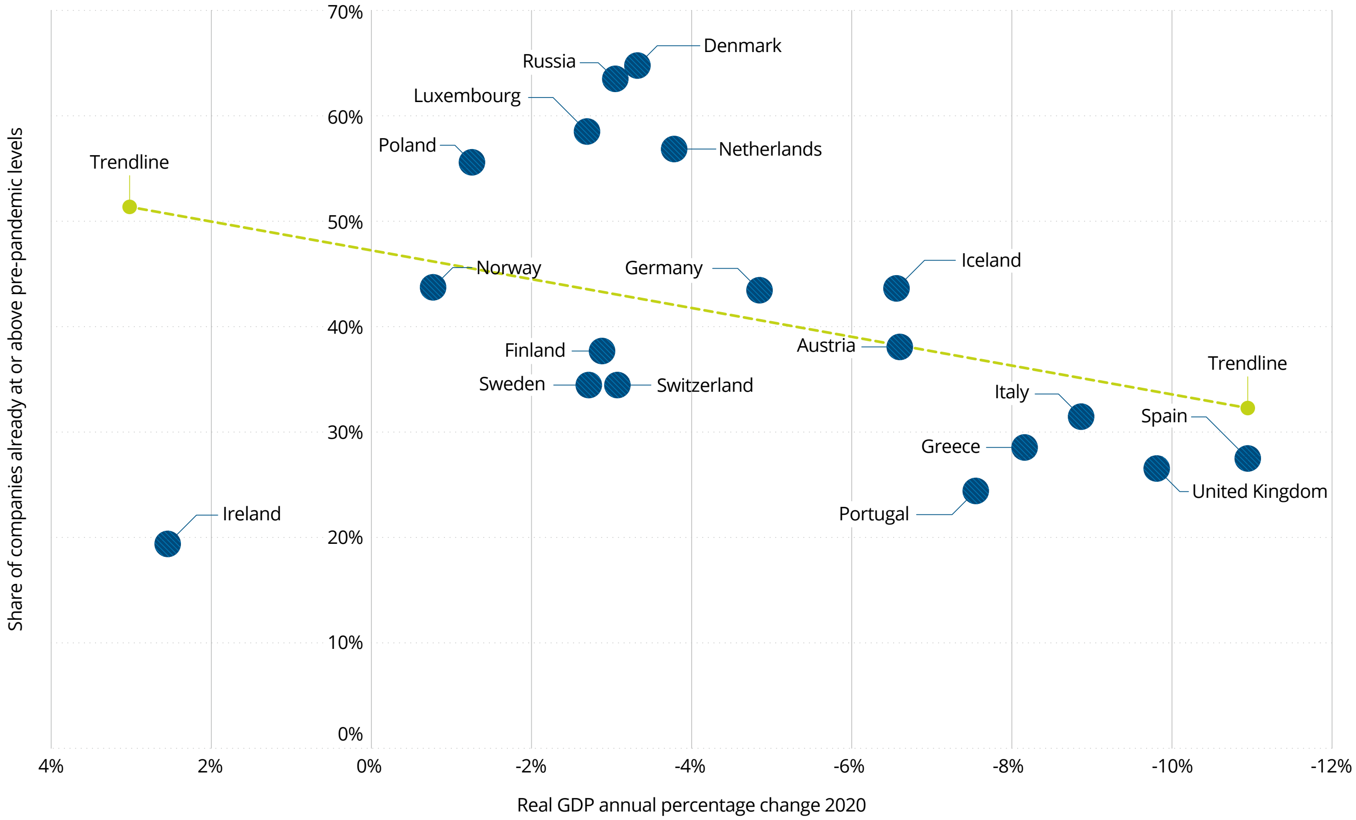
Different recovery patterns

CFOs' views on when their revenues will return to pre-pandemic levels also point to overall improvement. More than 40 per cent of CFOs report that they are already at or above pre-crisis levels – almost twice as many as last autumn, when this figure was only 23 per cent.

There are, however, large differences between countries, with, not surprisingly, a smaller share of CFOs reporting that they are already at or above their pre-pandemic level in economies that took a harder hit (Figure 5). For example, while almost two-thirds of CFOs in Denmark and Russia say that their revenues are already at pre-crisis levels, less than 30 per cent do in Spain, Greece and the UK.

Figure 5. The larger the GDP drop in 2020, the lower the share of companies that are at or above the pre-pandemic level.



Source: Deloitte European CFO Survey, Spring 2021. GDP data: IMF, World Economic Outlook, April 2021. Annex Table 1.1.1 accessed on April 9th, 2021.

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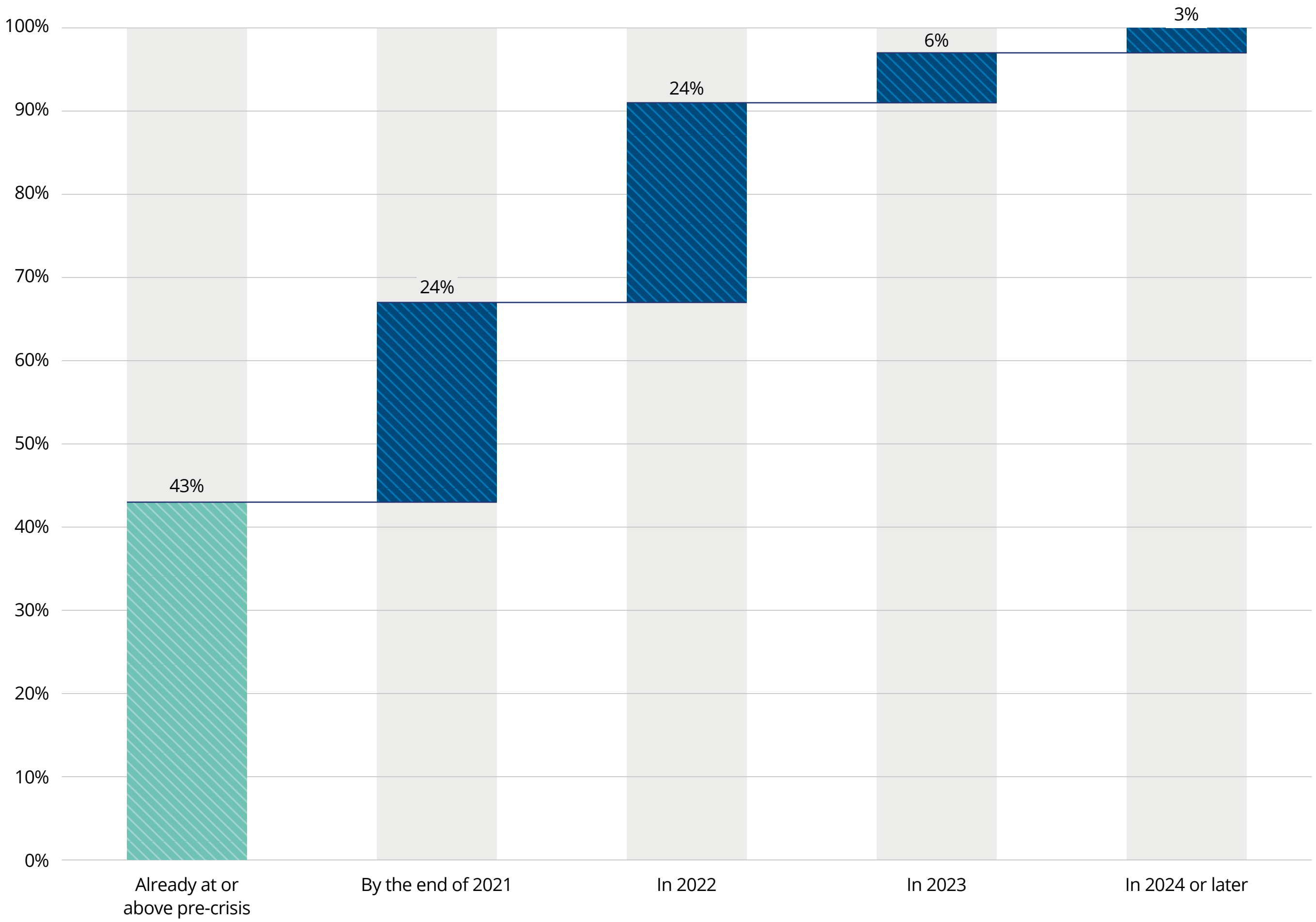
Despite the general rise in optimism, some CFOs see a long road to recovery. While, on average, about a quarter of respondents expect to return to the pre-crisis activity level by the end of 2021, another quarter expect full recovery will have to wait until 2022, and about 10 per cent of respondents expect a full recovery even later than that (Figure 6).

Expectations are particularly low in the tourism sector where no company has already returned to pre-pandemic levels and only 15 per cent expect to do so by the end of this year. A relative majority (40 per cent) expect full recovery by 2023. CFOs in the automotive sector are also more likely to see a slow road to recovery, with only 19 per cent reporting that they are already at pre-crisis levels and another 36 per cent expecting to bounce back by the end of 2021. At the other end of the spectrum, three-quarters of CFOs in the financial sector say they are already at pre-crisis levels or expect to be by the end of the year.

Figure 6. One-third of respondents don't expect to get back to pre-pandemic levels until 2022 or later.
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 European CFO Survey, Spring 2021. Percentages calculated excluding respondents answering "No idea".
*To explore the results country by country, please view the interactive graphs at www.deloitte.com/europeancfosurvey

Wary and yet bold – investments and hiring intentions

As in the previous edition of the survey, CFOs remain concerned about a possible weakening in demand and about the overall state of the economy. CFOs see a little less uncertainty than in the autumn but a net balance of 65 per cent still consider the current levels of economic and financial uncertainty as high or very high.

And yet their investment intentions have surged, with almost half the CFOs planning to increase their capital expenditures (CAPEX) over the next 12 months, and only 14 per cent planning a reduction. The last time that CFOs showed a similar willingness to invest was in March 2018, not only well before the pandemic, but also before trade wars and rising geopolitical tensions on the world stage began to heighten uncertainty (Figure 7).

Two trends may spur investment

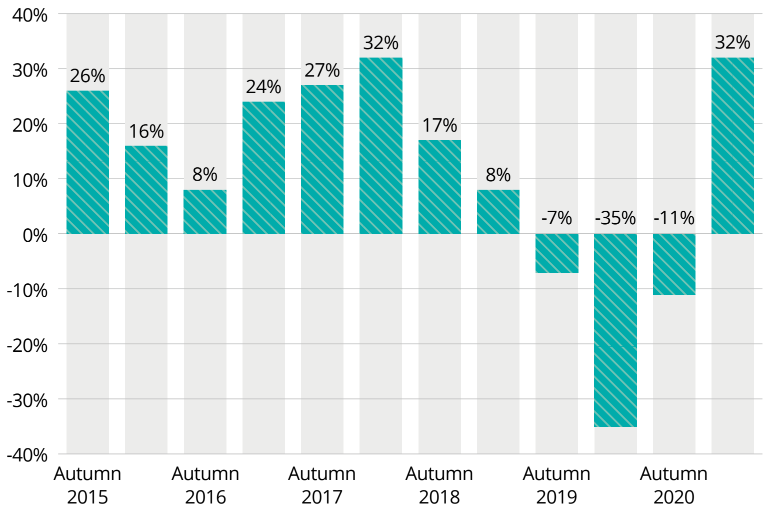
As the pandemic is far from over and there are plenty of risks to the economic recovery, companies' plans to increase their CAPEX are a positive sign. This seems more than a rebound from last year's depressed levels, when many cut their spending plans. COVID-19 brought with it new demands related to workers' and customers' safety as well as a need to increase digital interaction. All of this requires investment in new equipment, automation and digital technologies.

Perhaps surprisingly the pandemic has also increased the attention paid to environmental issues, adding a sense of urgency to efforts to shift away from fossil fuels. Major economies have announced plans to achieve carbon neutrality by 2050, providing a long-term signal on the direction of travel.[2] The number of investors who have signed up to the UN Principles for Responsible Investments (PRI) has further increased to over 3,000, representing over US$ 103 trillion in assets under management.[3] The increasing pressure on companies to achieve sustainability goals means in turn more investment in analytics, efficient equipment and environmentally friendly buildings, to name just a few. The combination of the two trends, digital and environmental, means future investment levels are likely to be higher than in the recent past.

A brighter outlook for employment

The outlook for employment also show clear signs of improvement. A net balance of 24 per cent of CFOs expect to increase their workforce over the next 12 months, with 43 per cent expecting an increase against 19 per cent expecting a decrease. This represents not only the first positive balance for employment in two years but also the second highest level since the beginning of the series in 2015. The outlook is positive across all industries – even those worst hit by the pandemic. The hiring intentions of CFOs in tourism and travel, for example, are among the most bullish, with a net balance of 36 per cent planning to add to their workforce. Companies in the "Thrive" phase are more likely to be bullish on employment, but the net balance of intentions is positive too among companies that are not yet out of the worst phase of the crisis. And in one-third of the countries surveyed CFOs mention shortages of skilled labour as one of their top three concerns – whereas in the autumn that was the case in only one country. From an employment perspective, these positive signals on employment are welcome as the COVID-19 pandemic has taken its toll on workers – especially women and young workers.[4]

Figure 7. The outlook for capital expenditures turns positive.
In your view how are capital expenditures for your company likely to change over the next 12 months? (% net balance)*



Source: Deloitte European CFO Survey, Autumn 2015 – Spring 2021.
*To explore the results country by country, please view the interactive graphs at www.deloitte.com/europeancfosurvey

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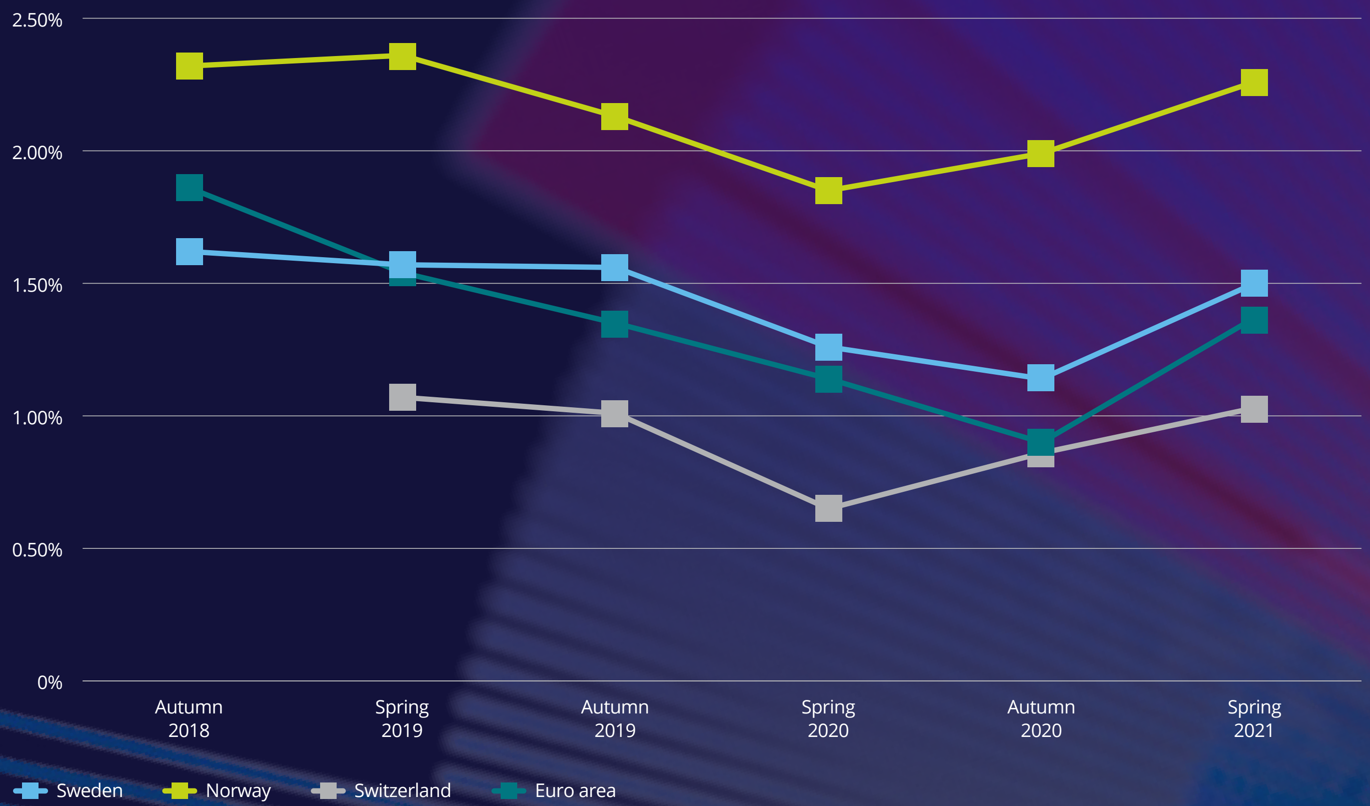
Will inflation pick up?

Talk of inflation has increased lately. The argument is that once vaccines are rolled out and economies reopen, cash-rich consumers will go on a spending spree.

At the same time production and transport bottlenecks will prevent businesses from satisfying the sudden surge in demand. Consequently prices will begin to rise. Furthermore, central banks' balance sheets have expanded substantially in many countries, largely through purchases of rising government debt. It is argued that this monetary expansion and rise in government debt could cause a loss of confidence in economic and financial stability, in turn causing prices to spiral.

The survey does reflect CFOs' expectation that inflation will rise. Inflation expectations have risen in a majority of countries compared to the autumn. But they remain below the levels in spring 2019. Among countries in the Euro area, the expected inflation rate a year from now averages 1.37 per cent, still well below the European Central Bank's inflation target of 2 per cent. Thus, across Europe, financial executives do not seem to be planning for a high-inflation environment.

Figure 9. CFOs' expectations on the average inflation rate – countries in the Euro area and selected countries outside the Euro area. 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, Autumn 2015 – Spring 2021.
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Conclusion: a dynamic period ahead

The world has experienced 12 months like no other in living memory. The ingenuity, resourcefulness and resilience of individuals and businesses has been tested. Workers have adapted to new ways of living and conducting business despite terrible losses, restricted mobility and extraordinarily high levels of uncertainty.

Many risks remain but recovery from the pandemic now seems near at hand and CFOs across Europe are looking to the future with confidence.

The business environment as the world exits the pandemic, however, is quite different to how it was before it. COVID-19, while obstructing business, has accelerated change. New technologies and ways of working have come into play. Awareness of environmental dangers has risen, and so has the willingness to address these risks. The drive to leave behind fossil fuels has speeded up.

Nor will the pandemic and the efforts to overcome prove the only engine of change. Other issues, too, will shape coming years, from rising geopolitical tensions to growing awareness of social issues and the complexities of new working models and forms of interaction.

There is much for business executives to analyse and assess, and much that they will need to do. An exciting period of innovation and dynamism appears to lie ahead.

New technologies and ways of working have come into play. Awareness of environmental dangers has risen, and so has the willingness to address these risks. The drive to leave behind fossil fuels has speeded up.

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 Spring 2021 edition were collected in March 2021 and garnered responses from 1,559 CFOs in 19 countries and across a wide range of industries (Figure 9). 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	
Portugal	15%
Denmark	9%
Germany	9%
Switzerland	8%
Sweden	6%
United Kingdom	6%
Spain	6%
Norway	6%
Italy	5%
Poland	5%
Russia	4%
Austria	4%
Iceland	4%
Netherlands	4%
Greece	3%
Finland	2%
Ireland	2%
Luxembourg	1%
Belarus	0%

Sample composition by industry

Industry	
Financial Services	16%
Industrial Products & Services	14%
Consumer goods	8%
Technology, Media & Telecommunications	7%
Retail	7%
Energy & Resources	7%
Construction	6%
Transport & Logistics	6%
Life Science & Health Care	5%
Automotive	5%
Business & Professional Services	4%
Tourism & Travel	3%
Other	13%

Sample composition by business size

Annual revenues	
Less than 100 million euro	39%
Between 100 and 999 million euro	41%
1 billion euro and more	20%

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 Julius Elting, Fraciska Bulang and Alex Boersch for their useful comments on previous versions of the article.

Endnotes

01. Author calculations based on Google's COVID-10 community mobility reports: https://www.google.com/covid19/mobility/?hl=en , data downloaded on April 8th 2021. Average values of mobility data for "visits to retail/recreational activities" and "movements in transit stations" across all countries part of the European Economic Area (EEA) plus Russia, Switzerland and the UK.

02. UN Climate Press Release/21 Sep 2020 „Commitments to Net Zero Double in Less Than a Year", https://unfccc.int/news/commitments-to-net-zero-double-in-less-than-a-year accessed on April 13th, 2021.

03. Principle for Responsible Investment, "Annual Report 2020" https://www.unpri.org/about-the-pri/annual-report-2020/6811.article, accessed on April 13th, 2021.

04. International Labour Organization (ILO) " ILO Monitor: COVID-19 and the world of work. Seventh edition. Updated estimates and analysis" https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/briefingnote/wcms_767028.pdf, January 2021. Accessed on April 13th, 2021.

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