

CFO Programme

E-CFO Survey: Autumn 2021

Still on the up, but with new challenges

Autumn 2021

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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.

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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



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Foreword (Portugal)

We are proud to present the latest edition of the Deloitte European CFO Survey with Portugal insights, which includes the Portugal's CFOs' perspective about economic, financial, and strategic issues.

Despite the worldwide vaccination process started in the beginning of 2021 with Portugal being among the most vaccinated countries in Europe, COVID-19 continues to be part of our daily lives. New variants continue to emerge and a huge part of the world population is not yet vaccinated, creating strains in economic development. However, countries are fighting their way back to normality. In line with the general European sentiment, results show that the CFOs in Portugal are significantly more optimistic about their companies' financial prospects than they were on the CFO survey edition last spring. They are also more optimistic about revenue, operating margins, investment and employment.

CFOs in Portugal identify economic outlook, increasing regulations and shortage of skilled professionals as the three major factors that still pose significant risk to their businesses and, despite the global optimistic financial outlook, they still believe it is not a good time to be taking greater risk to their balance sheet. In addition, results show that digitalisation, growth in existing markets and cost reduction are considered the most likely strategies to be implement in their businesses over the next 12 months, in order to stay competitive and survive these uncertain times.

With a new year starting, it is a time to shape the future, rethink strategies and market approaches. A time to invest, seizing the opportunities that European funds for recovery and for energy transition present. A time to transform the business and grow.

We hope that this edition presents relevant and insightful information for you and for your business. We take this opportunity to thank all CFOs in Portugal that took a moment of their time to participate and share their insights with us.

Nelson Fontainhas

Portugal CFO Programme Leader

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. Portugal is, in fact, the most optimistic country in Europe, with 70 per cent of CFOs feeling more optimistic about the financial prospects of their companies.
- 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. In the case of Portugal, CFOs sentiment regarding revenues and gross margin continues to be high and surpasses the sentiment of last spring.
- 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.
- CFOs' inflation expectations have been revised up considerably, although slightly lower in Portugal when compared to the euro area.



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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. In Portugal, CFOs are feeling more confident than in last spring, with 70 per cent of CFOs stating that they feel more optimistic about the financial prospects of their companies.

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.

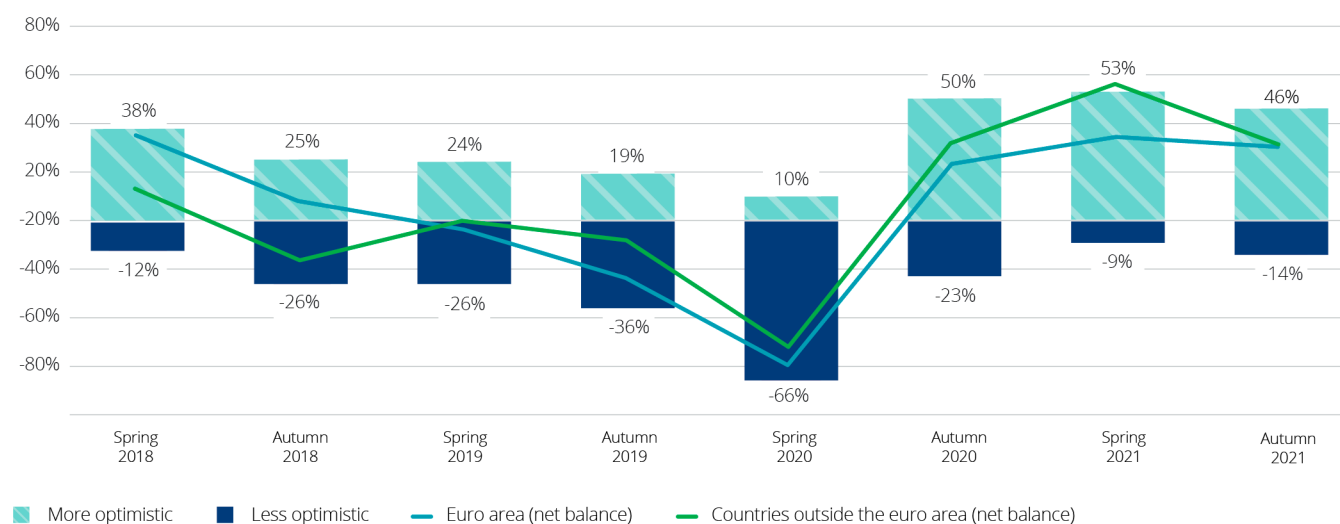
CFOs are currently confident about the financial prospects for their company, though slightly less so than in the spring survey. Business confidence has deteriorated, particularly in countries outside the euro area (see Figure 1), having leaped a year ago, in the autumn 2020 survey. Survey participants 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. In Portugal, CFOs are feeling more confident, with 70 per cent stating that

they feel more optimistic about their company's financial prospects. The net balance of business confidence rose from 39 per cent (last spring) to 60 per cent (see Figure 2).

Figure 1. Business confidence positive, yet slightly softer

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.

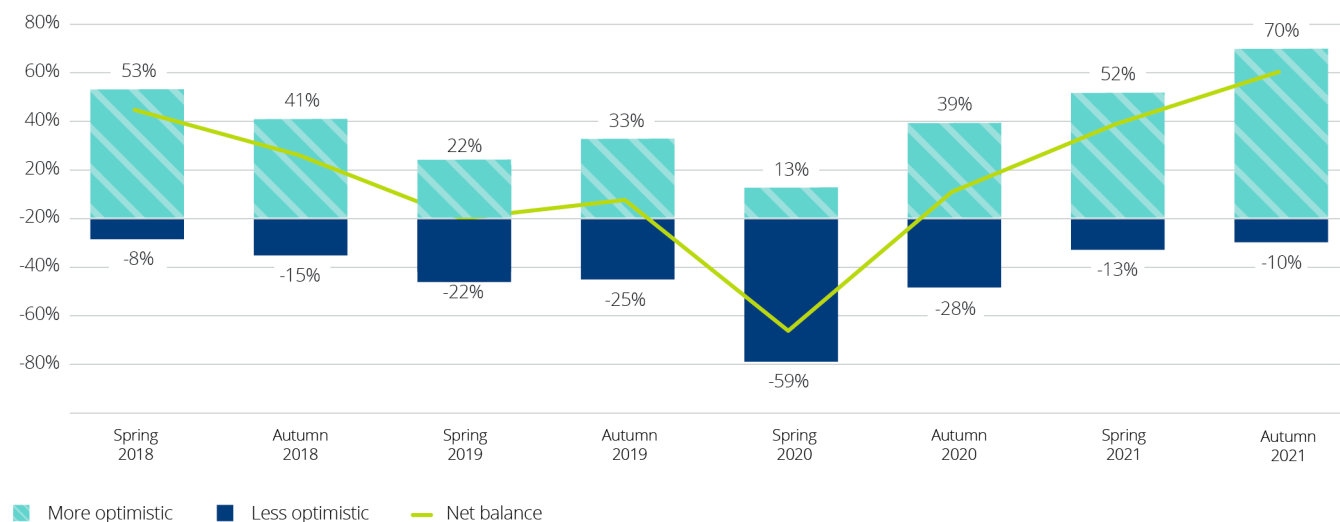
Note: In Denmark, Norway, Italy and Poland the question specified a six-month period.

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

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. In Portugal, the scenario is similar though slightly more optimistic, with the CFOs of the automotive industry reporting the lowest business confidence of all sectors, with a net balance of 25 per cent – a drop of 22 percentage points from the spring survey. Overall, CFOs in tourism & travel, by contrast, are currently the most optimistic as the net balance increased from 45 per cent (last spring) to 72 per cent. In Portugal, similarly to what is happening in Europe, expectations are particularly high in the tourism & travel sector, with CFOs being the most optimistic with a net balance increase from 50 per cent to 100 per cent in line with the strong recovery in this sector over the summer.

Figure 2. Business confidence is increasingly positive in Portugal

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



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



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Supply-side challenges become more important

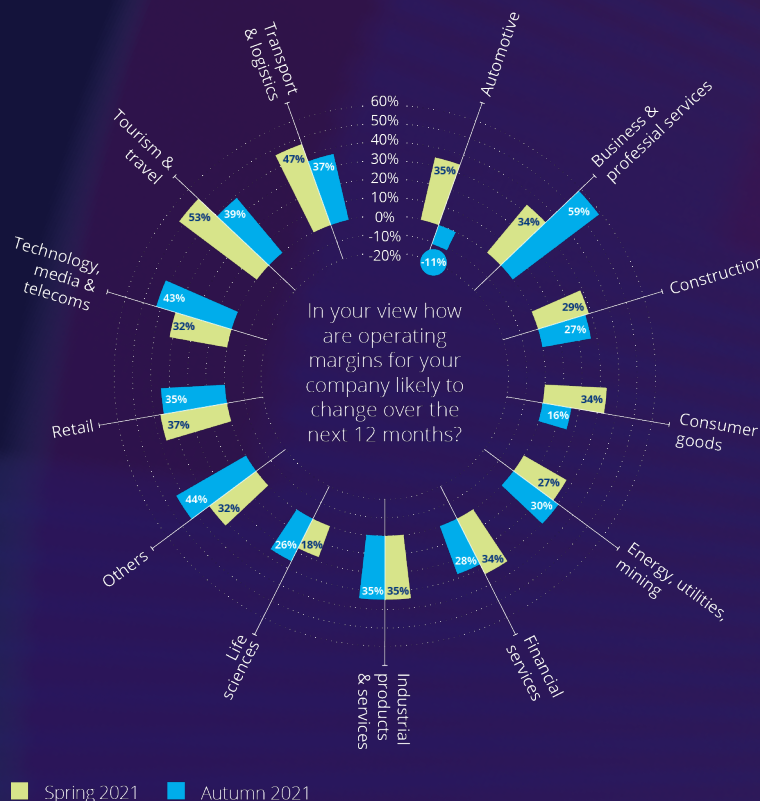
While demand-related risks are fading, various supply issues are becoming more important. Nevertheless, CFOs are slightly more optimistic about the evolution of revenues during the next 12 months. But expectations on operating margins are gloomier than in the spring edition. Portuguese CFOs share the same view on revenues, yet they expect operating margins to grow more 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. Portuguese CFOs highlighted the economic outlook/growth as their top business risk, followed by the increasing regulations and shortage of skilled professions.

Nevertheless, CFOs' revenue expectations over the next 12 months brightened slightly from an already high level. Eighty 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. Portuguese CFOs also have high hopes when looking for the next 12 months, with 79 per cent expecting the revenues of their companies to increase and a mere 10 per cent expecting them to fall, resulting in an increase in the net balance of 16 percentage points since the last survey 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, tourism & travel and consumer products (the latter just for

Figure 3. 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.

Portuguese CFOs) 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 the 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. On the contrary, in Portugal, CFOs' expectations on operating margins have improved. The net balance is now 32 per cent, rising from the 25 per cent observed in the spring.



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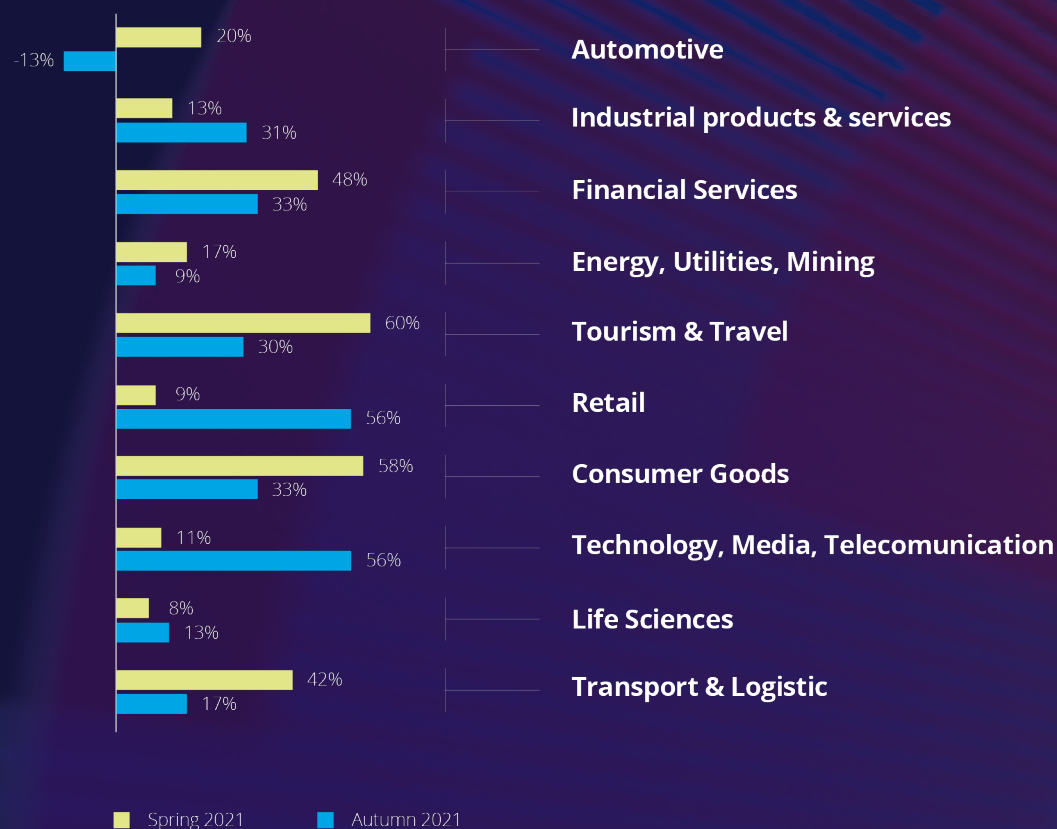
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Within industries, CFOs in automotive are expecting decreasing operating margins: the net balance has plunged below zero (see Figure 3), illustrating the sector's supply-chain difficulties. CFOs in consumer goods and tourism & travel are also less 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.

As seen in other countries, Portuguese CFOs in automotive are expecting decreasing operating margins - the net balance is of - 13 per cent, below European CFOs expectations. Consumer goods, tourism & travel and transport & logistic CFOs are also less optimistic about operating margins than in the last edition. On the other hand, the expectations of CFOs in retail and TMT have improved considerably since spring, from a net balance of close to 10 per cent to over 50 per cent in both industries. (see Figure 4)

Figure 4. Portuguese 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?*



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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. In Portugal, uncertainty declined from 64 per cent to 50 per cent in the autumn. 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 that 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. In Portugal, half of the CFOs are not planning on changing their CAPEX whilst 45 per cent are expecting to increase it. The net balance increased 21 percentage points, from 19 per cent last spring to 40 per cent in this edition. The investment plans of survey participants became more positive, especially in retail and energy, utilities and mining.

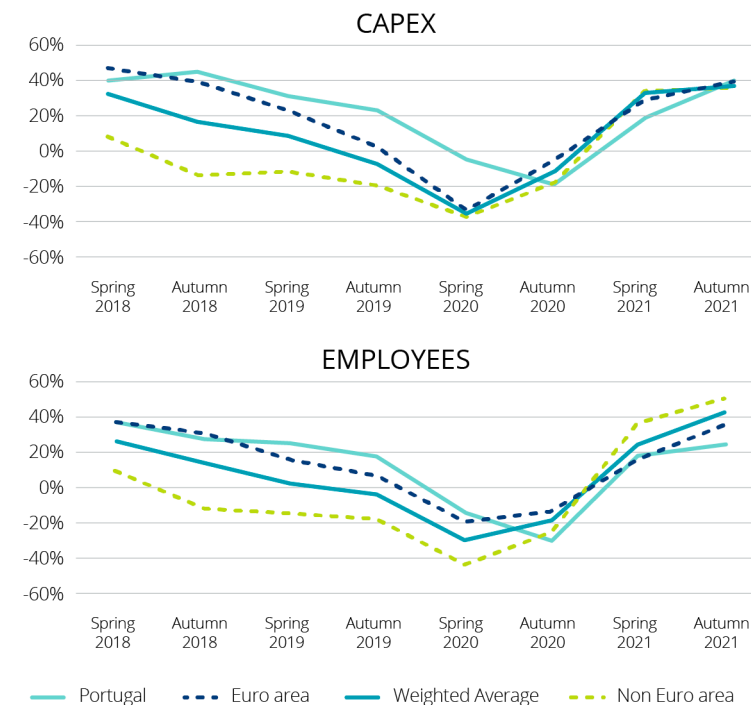
The survey results also reveal that CFOs revised up their plans for future employment considerably more strongly than for capital expenditures. More than the half the CFOs expect to expand the number of employees over the next 12 months while only 12 per cent assume a reduction. Hence, the net balance 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 Portugal, sentiment regarding employment is divided. Whilst 41 per cent of the CFOs consider increasing their workforce, 42 per cent consider maintaining it at the current level. Regarding the different industries, 56 per cent of CFOs in consumer products and 60 per cent of the CFOs in tourism and travel, industries that were greatly affected by lockdown policies, expect to increase their workforce over the next 12 months. Automotive is the only industry where expectations on employment are relatively low, with a net balance of -38 per cent.

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. Portuguese CFOs also see digitalisation and growth in existing markets as priorities when moving forward. However, they also highlight the importance of cost reduction as a defensive strategy to help them survive the current economic situation.

Figure 5. 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

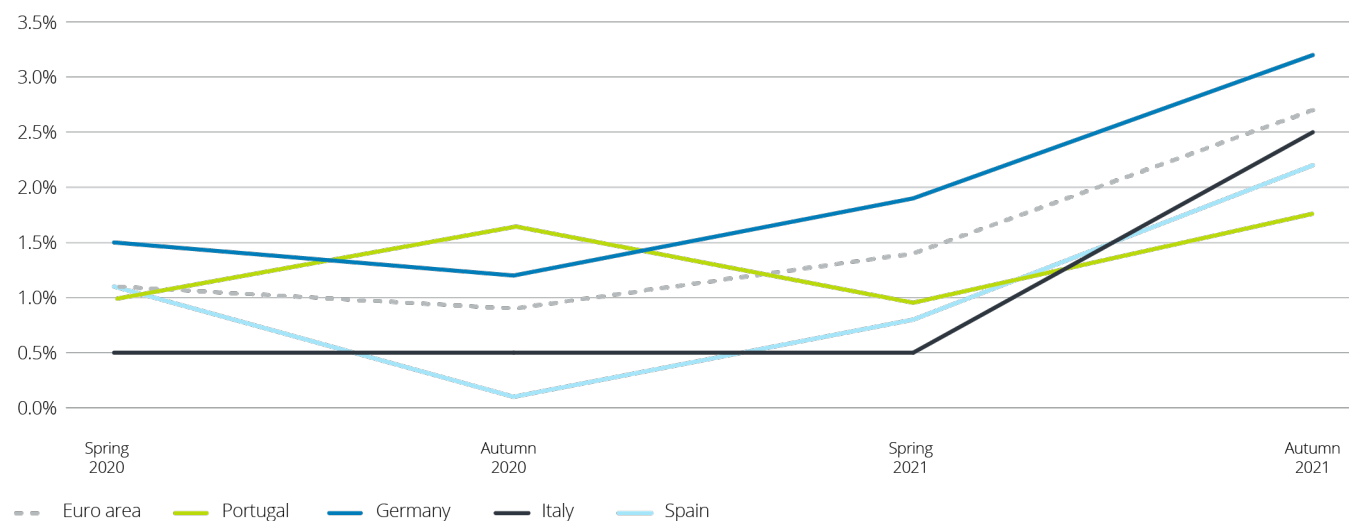
Inflation expectations revised upwards

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 6). 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, in general, assume that price pressures will remain high. In Portugal, although the expected inflation has increased in comparison to the previous edition, CFOs still expect it to be lower than in overall Europe, reaching close to 1.7 per cent.

Figure 6. 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.

Overall CFOs are less confident about the future evolution of operating margins but more optimistic about revenues, capital expenditures and employment. Portuguese CFOs have high expectations on revenue and gross margin increase over the next 12 months, whilst opinions divide when looking forward for CAPEX investments and employment expectations, with almost the same percentage of CFOs considering it should either increase or remain the same. The strategic orientation remains expansionary, reflecting the CFO's confidence in continued economic growth.

A question mark is 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.

Portuguese CFOs have high expectations on revenue and gross margin, whilst opinions divide when looking forward for CAPEX and employment. The strategic orientation remains expansionary, reflecting the CFO's confidence in continued economic growth



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Breakout box: 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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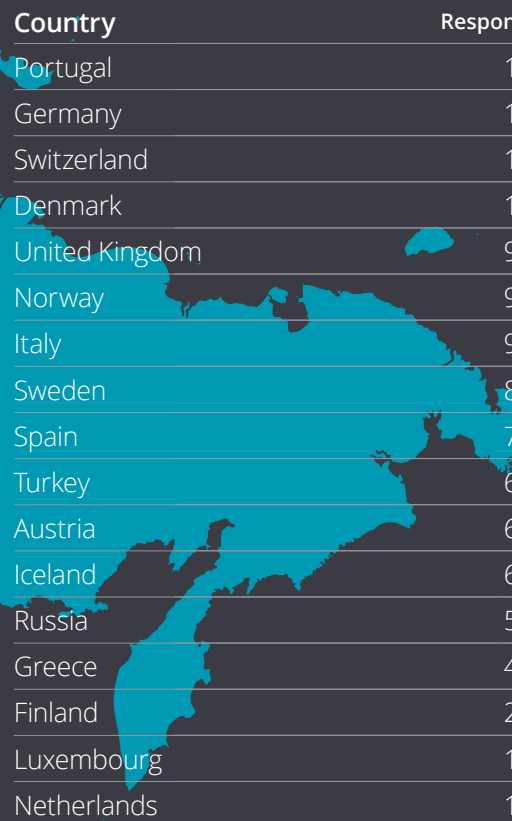
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Sample composition by geographic location



Country	Responses	Percentage
Portugal	146	11%
Germany	158	12%
Switzerland	114	9%
Denmark	111	8%
United Kingdom	96	7%
Norway	92	7%
Italy	92	7%
Sweden	80	6%
Spain	79	6%
Turkey	68	5%
Austria	68	5%
Iceland	62	5%
Russia	59	4%
Greece	47	4%
Finland	26	2%
Luxembourg	17	1%
Netherlands	15	1%

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.

Sample composition by industry

Industry	Respondents	Percentage
Financial Services	219	17%
Industrial Products & Services	163	13%
Energy, Utilities, Mining	111	9%
Technology, Media & Telecommunication	96	7%
Retail	93	7%
Consumer Goods	91	7%
Construction	82	6%
Life Sciences	65	5%
Transport & Logistic	63	5%
Automotive	61	5%
Tourism & Travel	36	3%
Business & Professional Services	29	2%
Other	185	14%

Sample composition by business size

Annual revenues	Respondents	Percentage
Less than 100 million euro	454	35%
Between 100 and 999 million euro	561	43%
1 billion euro and more	279	22%



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