Deloitte.

Deloitte: optimism returns among CFOs in Europe

63% of European CFOs expect revenues to increase

- Business sentiment of European CFOs has bounced back after hitting the second lowest net balance ever in autumn 2022. 34% of the CFOs feel more optimistic than six months ago about the financial prospects for their company (from 13% in November 2022)
- 63% of European CFOs expect revenues to increase over the next 12 months, compared to 19% who expect revenues to drop. The share of those who expect a drop strongly reduced from September 2022 (32%)
- Investment intentions are on the rise across the region, with 37% of CFOs planning to increase capital expenditures over the next 12 months against 24% who plan to reduce them
- According to European CFOs the economic situation remains fragile, even if the expected recession may be avoided in most countries
- A transition seems to be taking place in relation to supply chain challenges. Compared to a year ago, European firms have increased their use of digital tools and are using fewer inventories to address them

Brussels, 6 July 2023 – Europe's chief financial officers (CFOs) had a far better winter than they expected. And 34% of the CFOs surveyed across Europe feel more optimistic about the financial prospects for their company, as the latest Deloitte report "**European CFO Survey Spring 2023**" shows.

The report was presented today in Brussels at the 4th **European Economic Policy Forum – CFO Conference** attended by **Massimiliano Salini** (TRAN Committee, European Parliament), **S.E. Stefano Verrecchia** (Ambassador, Deputy Permanent Representative of Italy to the EU), **Roberto Viola** (Director-General of DG CONNECT, European Commission), **Riccardo Raffo** (CFO Program Leader, Deloitte Italy), **Adrián Vázquez** (Chair of JURI Committee, European Parliament), **Matteo Borsani** (Head of Confindustria delegation to the EU), **Isabel Yglesias** (Head of CEOE delegation to the EU), **Pablo Zalba** (Managing Director, Deloitte EU Policy Centre), **Patrizia Toia** (Vice-Chair of ITRE Committee, European Parliament), **Holger Kunze** (Director European Office, VDMA (German Mechanical Engineering Association), **Camillo Rossotto** (Chief Financial Officer, Autogrill), **Alexander Boersch** (Chief Economist and Director Research, Deloitte Germany), **Fabio Pompei** (CEO, Deloitte Italy) and **Alberto Mazzola** (President, Italian Initiative Group).

«In the autumn survey, Europe's chief financial officers feared the worst, but the EU economic activity has held up better than expected. As this latest edition of the Deloitte CFO Survey shows, a majority of CFOS foresee growth in their revenues», says ***Fabio Pompei****, CEO of Deloitte Central Mediterranean.*

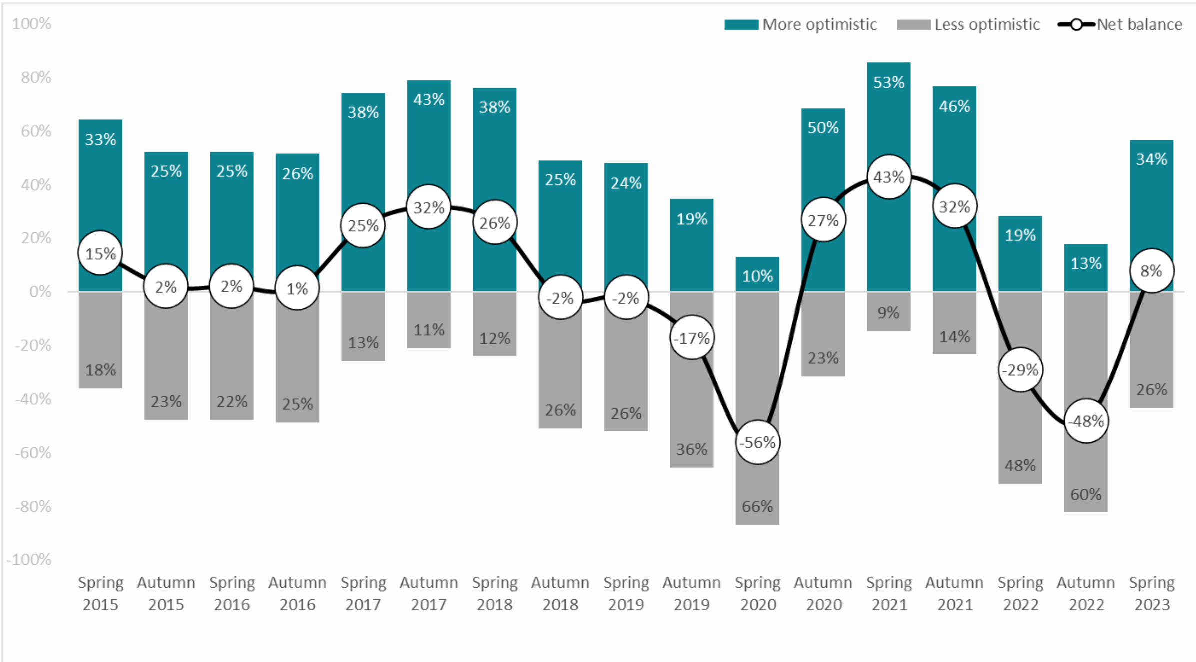
«Persistent war and geopolitical risks, fears about the economic outlook, labor shortages, high inflation and labor costs have tested European CFOs. But despite these challenges, the return to widespread optimism among CFOs is a very good sign for the European economy», comments ***Riccardo Raffo****, CFO Program Leader of Deloitte in Italy.*

CFOs are cautiously optimistic towards the future

Business confidence in Europe has greatly improved as European firms have become far less anxious about their financial prospects than in the autumn 2022. With a net balance of +8%, Europe's CFOs are currently cautiously optimistic. In the second half of 2022, the European economy experienced a contraction and a negative outlook towards the future was set due to the negative consequences prompted by the energy crisis. However, the expected slump did not materialize and business sentiment of Europe's CFOs has bounced back. 34% of the CFOs surveyed across Europe feel more optimistic than six months ago about the financial prospects for their company—21 percentage points more than September 2022. Sentiment improved in all countries surveyed, although CFOs in Italy who feel less optimistic (27%) still outnumber those who are optimistic (21%), and the net balance remains negative (-6%). In Spain the share of the optimistic equals the pessimistic, for a net balance equal to 0%, whereas in Germany there are more optimistic CFOs (40%) than the pessimistic (27%). At sector level, Automotive CFOs are by far the most optimistic (47%), travel and tourism CFOs follow (42%). The situation is different in retail, where only 26% of CFOs feel more optimistic.

Figure 1. Financial prospects in spring 2023

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



Source: European CFO Survey Spring 2023

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

Revenue expectations slightly improve across Europe

Despite the many risks, Europe's CFOs are more confident about their companies' future key metrics than in the autumn survey. Revenues are expected to increase strongly during the next 12 months, with more than 60% of those surveyed expecting higher revenues and only 19% expecting revenues to fall. A net positive balance of +10% also see their operating margins improving – though the spring balance is not high, it represents a huge 48-percentage-point increase on the gloomy outlook CFOs had in the autumn.

Even though financing costs have gone up, 37% of Europe's CFOs are planning to increase their capital expenditures over the next 12 months, whereas 24% are counting on a reduction. This implies that we

Deloitte.

should see somewhat higher investment in Europe in the near future. At the industry level, firms in energy, utilities and mining (net balance of +38%) and business and professional services (+36%) are aiming to increase their capital expenditures most, while retail companies (+4%), for which consumers' inflation struggles are a dampener, and the construction sector (+4%), with interest rates hurting mortgage lending and property prices, are showing little sign of wanting to increase their investment spending.

An improvement in hiring is expected

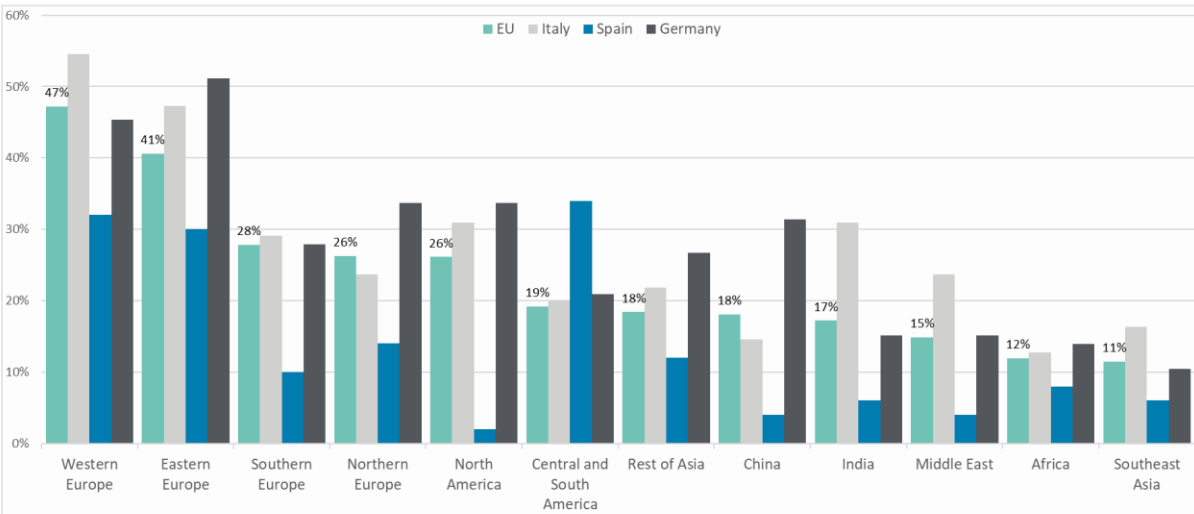
The rebound in firms' outlook for their earnings and investments is also reflected in their hiring intentions. Although a majority of firms (46%) plan no change in staffing levels, a little over a third (35%) are planning to hire. The modest net balance of +16% of Europe's CFOs planning to add employees reflects the fact that 19% of firms across Europe have staff-cuts in mind. Hiring intentions are strongest in the business and professional services (+52%) and tourism and travel (+45%) sectors. Only retail sector is expecting to reduce (–5%) its number of employees.
In Italy and Spain 33% of CFOs intend to increase their workforce over the next year, while in Germany 30% plans to do so.

Investment intentions

Most of Europe's CFOs, 65% of those surveyed, continue to rate the level of external financial and economic uncertainty as being high, but this figure is considerably lower than the autumn's 81%. The net balance, of +62%, is close to its historical average. As geopolitical tensions persist, almost half (+47%) of European firms are planning to expand their footprint in Western Europe and North America (+41%). Africa, the rest of Asia and China are the least attractive locations for European companies at present, probably reflecting the difficulties with global supply chains.

Figure 2. Global Footprint

Are you planning to expand or reduce your footprint (investments, trade, etc.) in certain countries/regions due to geopolitical tensions?



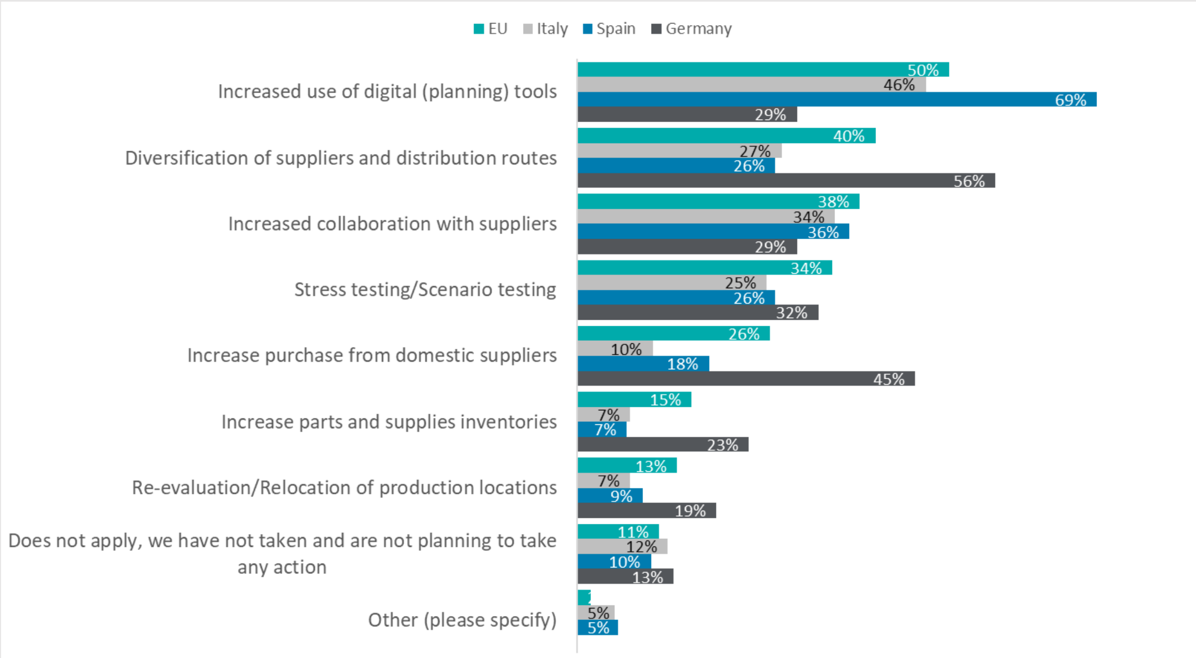
Source: European CFO Survey Spring 2023
Note: This question was not asked in the Netherlands, Switzerland and the UK.

European CFOs are taking long term actions to mitigate supply chain challenges

Though supply chain concerns have become somewhat less severe in recent months they are still keeping CFOs busy. In this edition of the survey, as in the spring 2022 edition, CFOs were asked how they aim to mitigate their supply chain difficulties. Half the CFOs report that they are making increased use of digital planning tools. Diversification of suppliers and distribution routes (40%), increased collaboration with suppliers (38%), and stress or scenario testing (34%) were the next most commonly used strategies. Since only 11% of European firms report that they have not taken or are not planning to take any action, CFOs are devoting time and effort to making their supply chains more dependable. And, in general, mitigating supply chain issues seems to be paying off because the companies whose CFOs reported that they have addressed the issue rate their financial prospects more optimistically than those that have not taken any action.

Figure 3. Actions to mitigate supply chain challenges

Is your company taking or about to take any of the following actions?



Source: European CFO Survey Spring 2023

Methodology

Deloitte has conducted the European CFO survey since 2015, giving voice twice a year to senior financial executives from across Europe. The data for the spring 2023 edition were collected in March 2023 and reflect responses from 1,366 CFOs in 16 countries and across a wide range of industries.