



News Release

Contact: Ekaterina Kutsenko

+7 (495) 787 06 00

Ekutsenko@deloitte.ru

Deloitte: European business confidence heads south

- *Business optimism and risk appetite down among Europe's Chief Financial Officers*
- *Sentiment falls most in Europe's larger, northern economies while CFOs in southern and peripheral Europe are more optimistic, willing to take risk and positive about revenue growth*
- *Almost half of CFOs say this summer's Greek crisis dented prospects for closer monetary union*

Confidence has fallen among European business according to Deloitte's latest European CFO Survey. However, the survey shows a distinct shift within Europe with companies in the south and periphery of the continent more confident and willing to take risk than those in northern countries.

The biannual survey, which collated the results of surveys run by Deloitte member firms in 15 European countries, analysed the views of 1,298 chief financial officers (CFOs).

Optimism declines

25% of CFOs say they are more optimistic about the financial prospects for their company than they were three to six months ago, down from 33% in the first quarter of 2015. Those saying they are less optimistic has risen from 18% in Q1 to 23% in Q3.

Southern and peripheral European countries report higher levels of optimism than in northern countries. 58% of Ireland's CFOs report growing optimism, with a high proportion of CFOs in Spain (54%), Poland (50%) and Portugal (47%) also more optimistic. Optimism is weakest in northern European economies with just 14% of CFOs in both France and Norway saying they are more optimistic, followed by Germany and the UK (both 18%).

Risk appetite drops

Risk appetite has declined, just 33% of CFOs say now is a good time to take risk onto their balance sheets, down from 38% in Q1. Risk appetite is highest in Italy, where 56% of CFOs say now is a good time to take risks, followed by Ireland (48%), the UK and Spain (both 47%). Risk appetite is lowest in Norway and Germany, in both countries just 20% say now is a good time to take risks, followed by the Netherlands (21%) France and Austria (both 22%).

Uncertainty rises

Perceptions of uncertainty have risen among CFOs, 66% say there is a high level of financial and economic uncertainty facing their business, up from 60% in Q1. Perceptions of uncertainty are highest in Germany (87%), the Netherlands (84%) and Switzerland (75%). They are much lower in Norway, where 22% of CFOs say there is a high level of uncertainty, Poland (36%) and Ireland (39%).

The survey highlights the areas of greatest concern to Europe's CFOs, with global economic weakness, geopolitical instability, financial market and currency weakness are all rating highly, even in countries where sentiment remains strong.

Revenue, capex and hiring projections weaken

64% of CFOs expect their company's revenues to rise in the next twelve months, down slightly from 67% in Q1. Optimism about revenues is highest in Italy, where 84% expect revenues to rise, Ireland (82%) and Spain (75%). They are lowest in Austria and France (42%), Netherlands (44%) and Norway (51%).

41% of CFOs say they expect their company to increase capital expenditure in the next twelve months, with 15% expecting a decrease. 70% of CFOs in Ireland expect capital spending to increase, followed by Italy (58%) and Spain (54%). The smallest increases in capital expenditure are forecast in Norway (29%), France (30%) and Russia (33%).

On average, 35% of CFOs expect the number of employees in their company to increase over the next 12 months, with 22% expecting a decline. The outlook for hiring is strongest in Ireland, where 55% of CFOs expect to increase job numbers, the UK (47%) and Spain (46%). The smallest increases in hiring are forecast in the Netherlands (12%), Austria (17%) and Russia (24%).

Bank borrowing preferred to equity financing

On average, 65% of CFOs view bank borrowing as an attractive source of financing, with 14% viewing it as unattractive, unchanged from Q1. However, 25% of CFOs say equity is an attractive source of funding, down from 35% in Q1, with 36% saying equity is unattractive, up from 28% in Q1.

Cost control a high business priority

When asked to outline their business priorities for the coming year, CFOs in 12 out of 14 of the countries responding rated cost reduction and cost control as a top three priority, with seven countries citing it as their top priority. This is true even countries such as Italy, Ireland and Portugal with high levels of optimism and risk appetite.

Largest Euro economies relaxed about Greek debt crisis

48% of CFOs say this year's Greek debt crisis has damaged long-term prospects for a stable and closely-integrated European monetary union. This stands at 40% in eurozone countries but 63% in non-euro countries. CFOs in the euro area's three largest economies are more optimistic about the future of the single currency bloc, 23% of French CFOs, 38% of Italian CFOs and 41% of German CFOs believe the Greece crisis will have a negative effect.

Ian Stewart, chief economist at Deloitte UK, said:

"This survey shows concerns about global growth have had a marked effect on sentiment in northern Europe, but we are seeing a rebalancing of prospects within Europe from north to south.

"Since Q1 Europe has experienced another Greek debt crisis and concerns have increased over the strength of the global economic recovery, in particular prospects for emerging markets such as China. This has created a sense of heightened uncertainty among Europe's CFOs.

"Sentiment has fallen most in northern European economies - including France, Germany, the Netherlands, and the United Kingdom - consistent with the weaker export outlook for these countries. Forecasts for global growth in 2015 and 2016 were downgraded between Q1 and Q3, with many

emerging markets – important export destinations for countries like Germany and the Netherlands – slowing.

“This pessimism contrasts with a brighter outlook in the south and edges of Europe. CFOs in Ireland, Italy, Portugal and Spain are among the most optimistic of our group with higher capex and employment intentions than in central and northern Europe. The outlook for revenues and operating margins for Ireland, Italy and Spain are above the European average. This mirrors the improved growth outlook in Europe’s periphery with Ireland, Italy, Portugal and Spain all having seen significant upgrades to growth forecasts for both 2015 and 2016.”

Michael Grampp, European CFO Survey Lead and chief economist at Deloitte AG (Switzerland), said:

“Worries about external risks have weakened business sentiment and fed through to a reduction in CFO risk appetite in most countries. Revenue and margin expectations have softened too.

“Against a backdrop of continuing global economic uncertainty, European CFOs are strongly focused on controlling costs, even in countries where sentiment and risk appetite are most positive – such as Italy, Ireland and Spain.

“Almost two years into the euro area recovery, this focus on costs testifies to the uncertainties and risks still facing Europe’s CFOs.”

-ends-

Notes to editors

The Deloitte European CFO Survey collates the findings of surveys conducted by Deloitte member firms in Austria, Belgium, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Poland, Portugal, Russia, Spain, Switzerland and the United Kingdom.

In total, 1,298 CFOs took part in these surveys, conducted between July and October 2015.

Percentages used in the report are weighted by GDP to provide accurate comparisons, taking into account individual countries’ GDPs in relation to the total GDP of the 15 participating countries.

The full survey results, including country-by-country breakdowns, and previous surveys are available to view at www.deloitteresearchemea.com