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CFO Survey

Europe | 2019

Q2

July 2019

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CFO optimism Q2 2019

Economic sentiment among European CFOs

Optimism among European CFOs has taken a serious beating in the second quarter of 2019. The number of optimists who have a positive outlook on the economy for the next twelve months, has decreased to 20%, down 6% from the previous quarter.

At firm level, the (financial) outlook has diminished as well. A little less than a third of European CFOs remain optimistic about their own firm's financial prospects for the next twelve months, whereas another third of the financial directors keep a pessimistic view on the next twelve months.

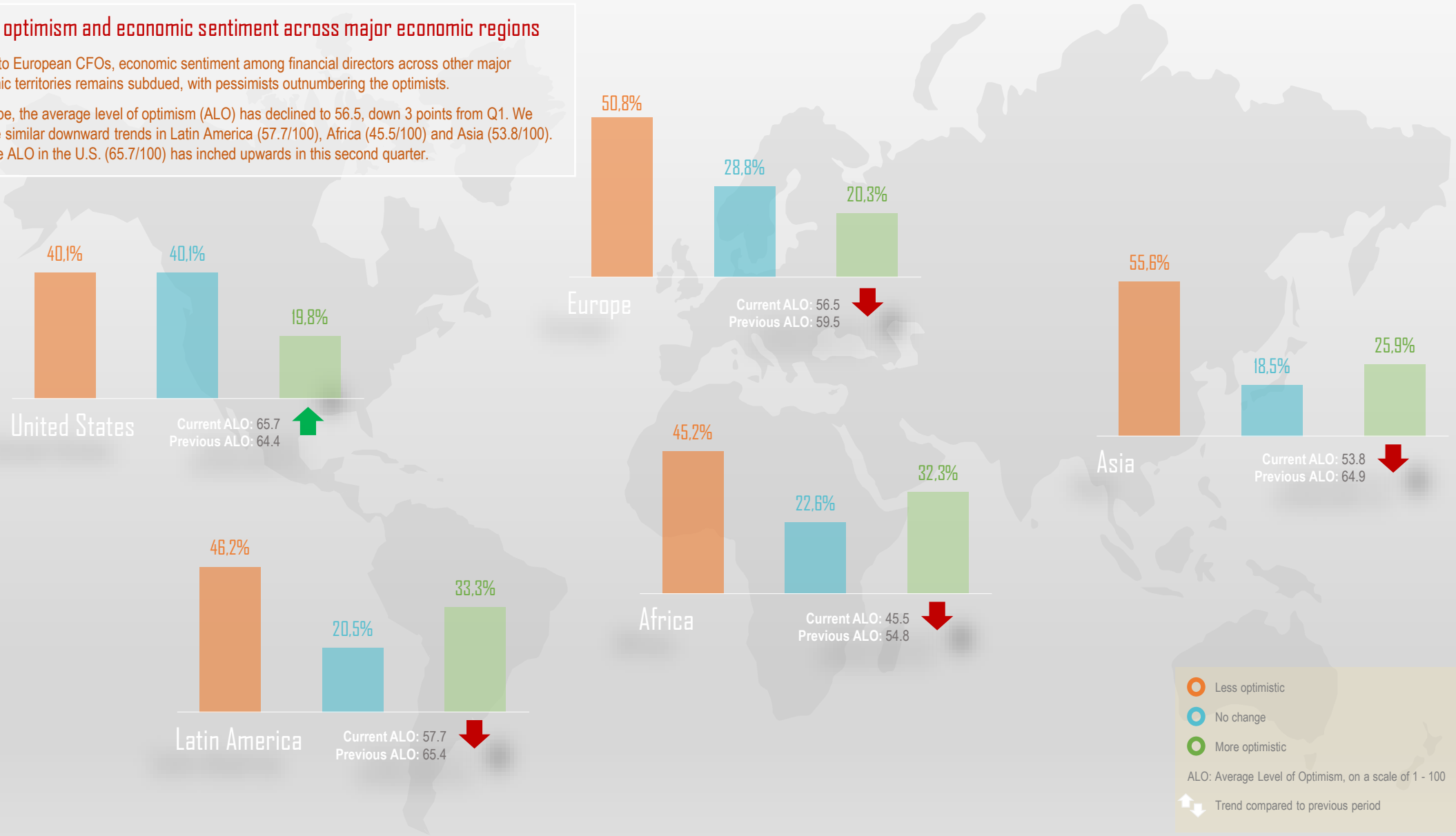
European CFO optimism index (QoQ)

Percentage of optimists -/- percentage of pessimists w.r.t. economy

CFOs' optimism and economic sentiment across major economic regions

Similar to European CFOs, economic sentiment among financial directors across other major economic territories remains subdued, with pessimists outnumbering the optimists.

In Europe, the average level of optimism (ALO) has declined to 56.5, down 3 points from Q1. We observe similar downward trends in Latin America (57.7/100), Africa (45.5/100) and Asia (53.8/100). Only the ALO in the U.S. (65.7/100) has inched upwards in this second quarter.



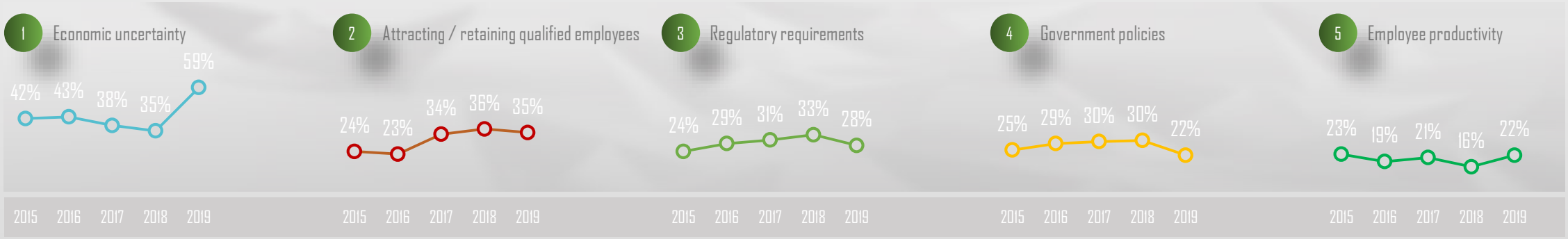
Top 10 concerns European CFOs

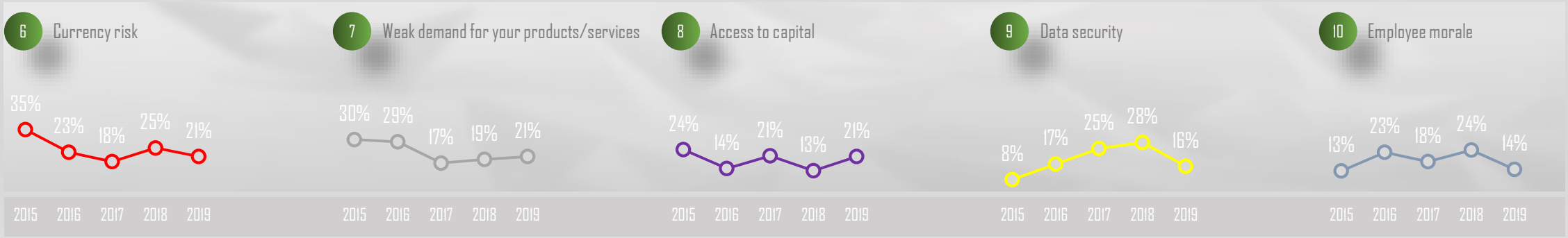
The deteriorating sentiment among European CFOs can be largely attributed to (perceived) economic uncertainty. In Q2 2019, 59% of the CFOs signal this to be by far their top concern, a view which has not been shared so widely and by so many for over the last five years.

The ability to attract and retain qualified personnel and employees is the second biggest concern during Q2 but is much less widespread.

Top 10 concerns European CFOs (Q2 – 2019)

Percentage of CFO's, five year trend for second quarter concerns

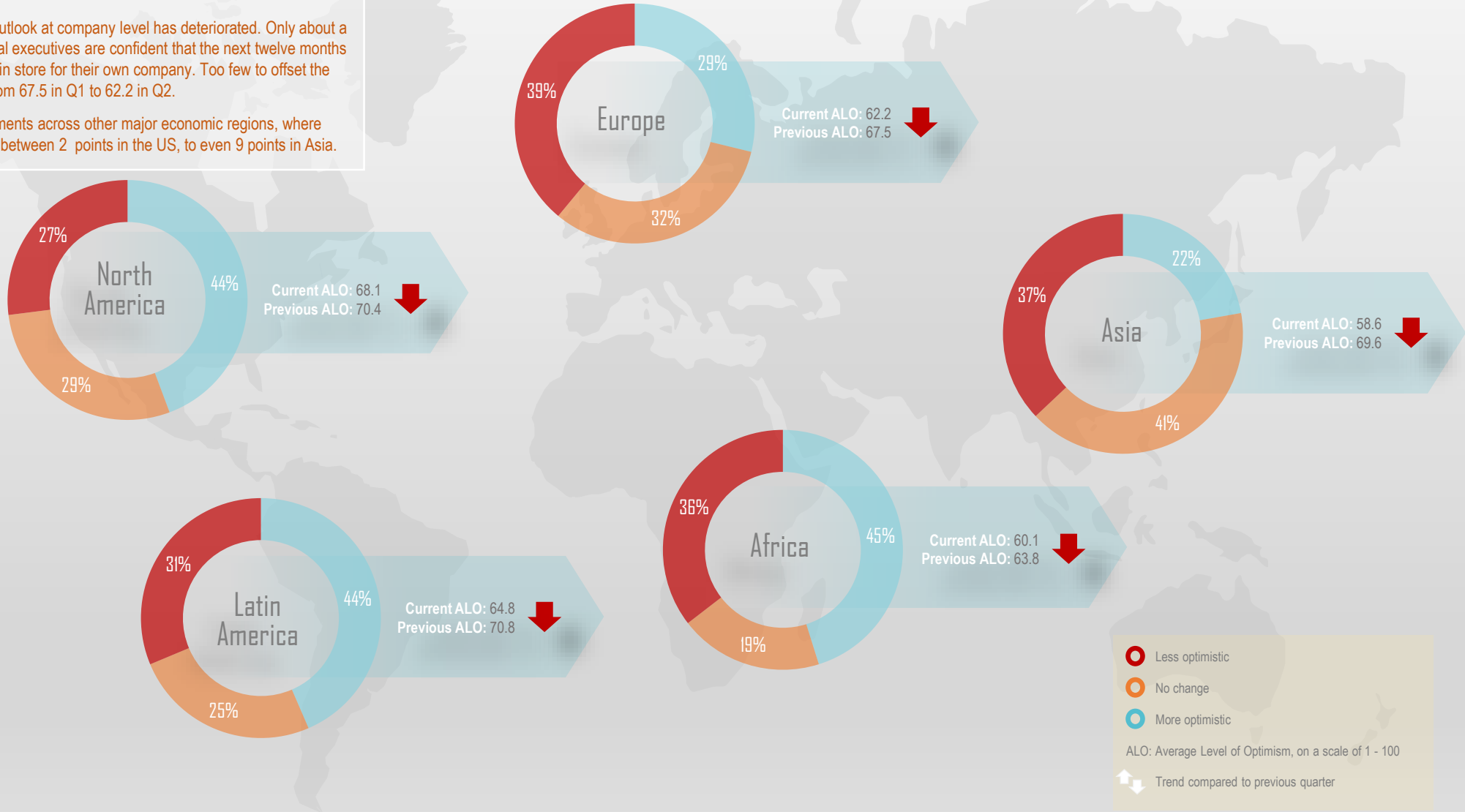




CFOs' optimism about financial prospects of the own firm in major economic regions

Across the board, financial outlook at company level has deteriorated. Only about a third of the European financial executives are confident that the next twelve months have positive developments in store for their own company. Too few to offset the significant decline in ALO, from 67.5 in Q1 to 62.2 in Q2.

We observe similar developments across other major economic regions, where ALO has plunged drastically between 2 points in the US, to even 9 points in Asia.



Corporate (financial) planning

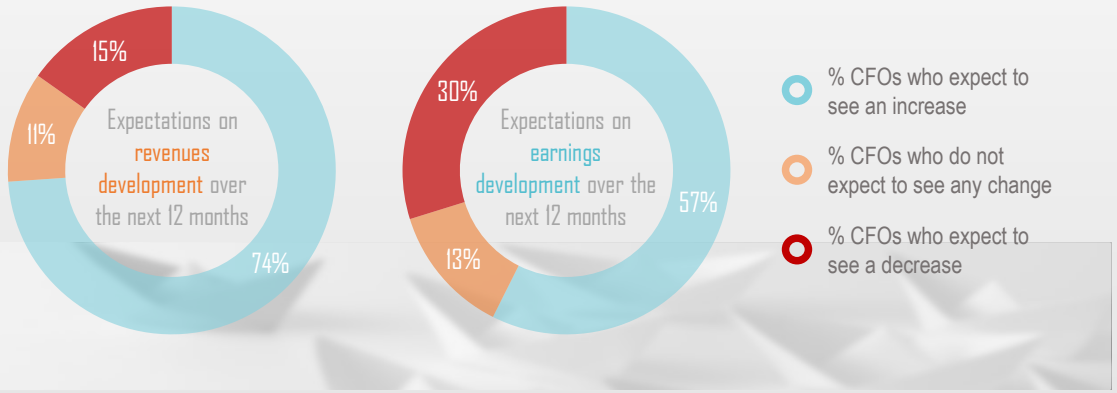
Outlook on business spending at European firms

A little less than half of the European firms are expected to increase business spending (i.e. Capital Investments, and spending on Technology, R&D and Marketing & Advertising). 1 in 5 European CFOs indicate that their company will even cut back on capital investments, whereas 1 out of 10 plans to reduce spending on technology and marketing & advertising. Except for the average growth rate in Capital Investments (at 7.1%), the growth rates in spending on Technology, R&D, and Marketing & Advertising remains modest at around 4%.

Against the backdrop of subdued business spending, about 3 out of 4 European CFOs anticipate to witness an increase in revenues (average growth rate of 8.5%) over the next twelve months. With almost 6 out of 10 confident that earnings will increase (at an average growth rate of 2.3%) during the next twelve months .

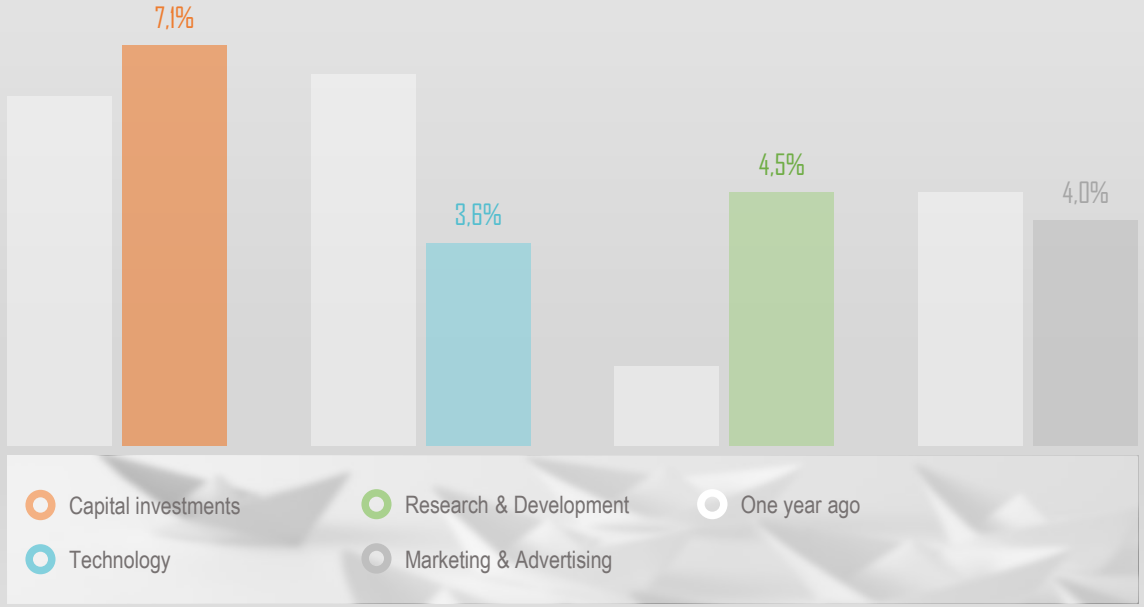
CFOs' anticipated growth in revenues and earnings

Expectations in development of revenues and earnings



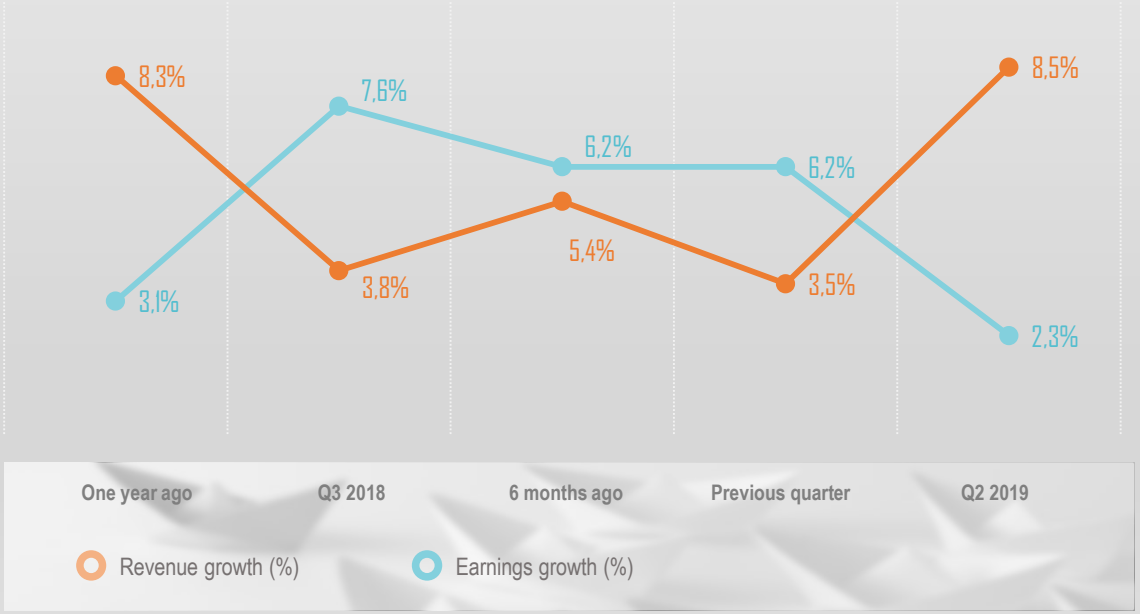
CFOs' expected growth in business spending for next 12 months

Average growth rates in percentages, compared to one year ago.



CFOs' anticipated growth in revenues and earnings

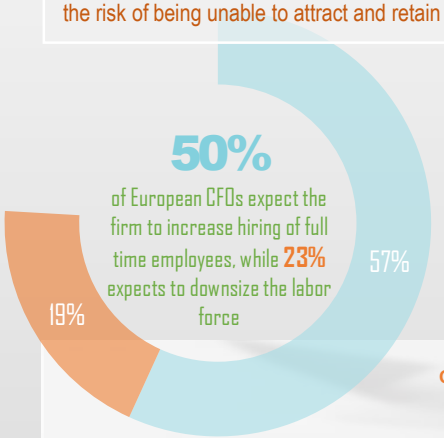
Twelve month historic trend in average growth rates in percentages (public firms only).

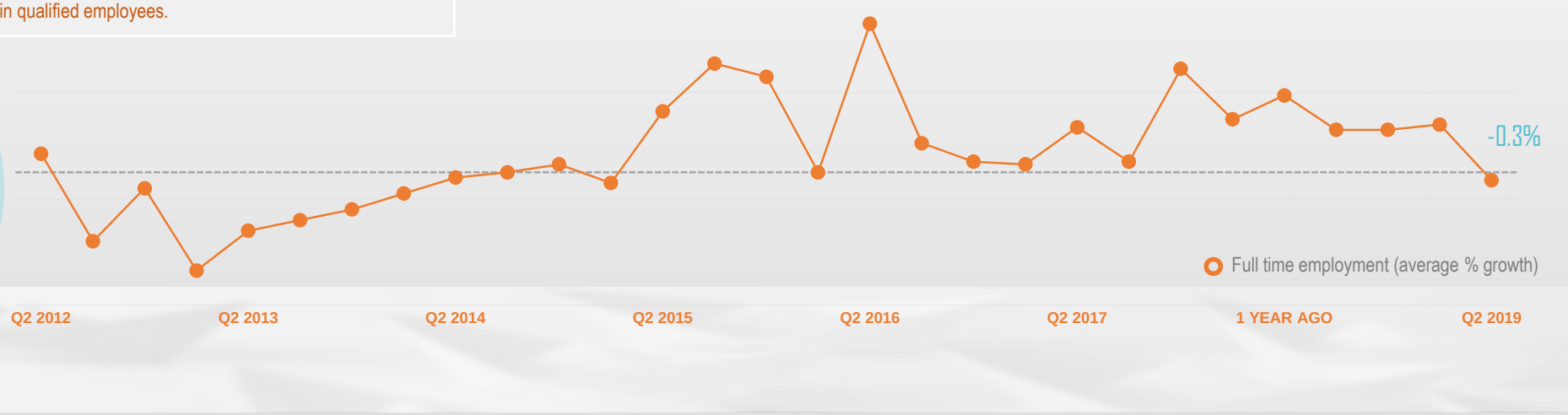


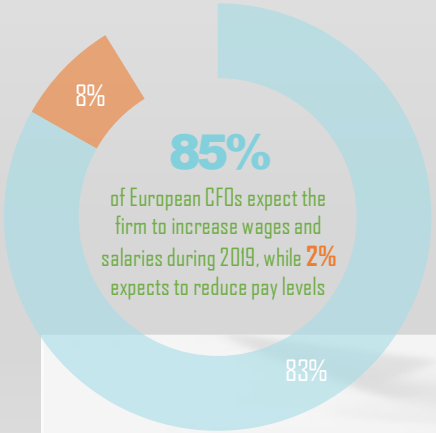
Hiring & Employment

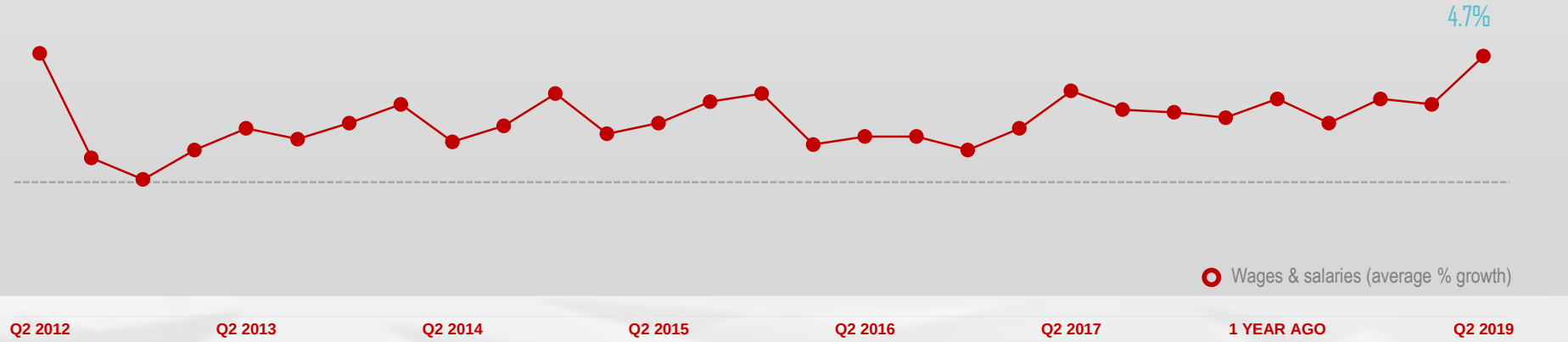
Against the backdrop of the deteriorating economic sentiment, European firms are less prone to hire full-time personnel over the next twelve months. Financial directors anticipate that, on average, hiring will decline with approximately 0.3%.

The expected increase in wages & salaries (on average 4.7%) is likely intended to offset and mitigate the risk of being unable to attract and retain qualified employees.



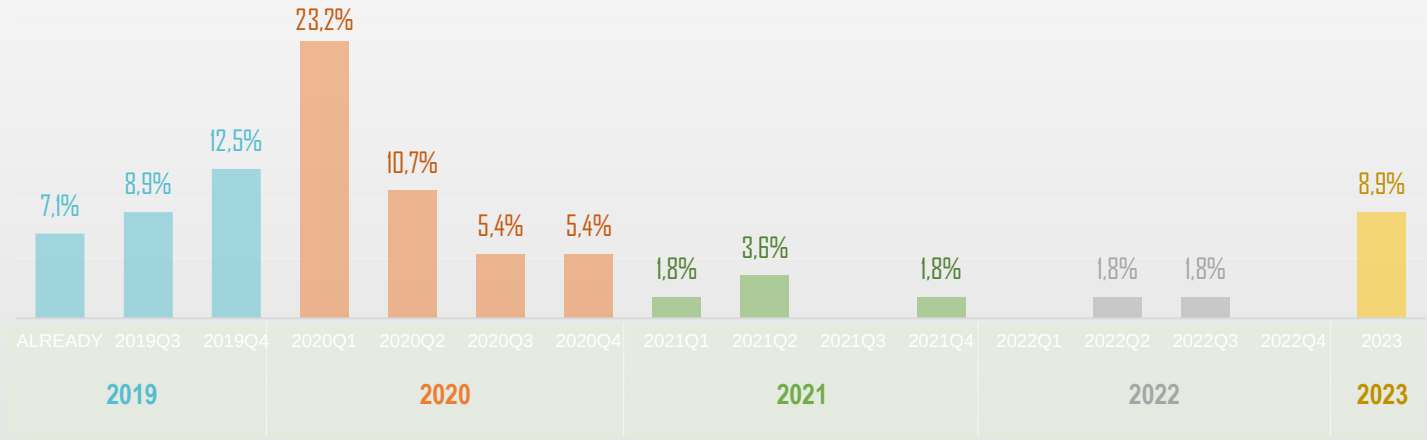






Probability of economic downturn / recession

For your country, in which quarter do you expect a downturn (recession) will occur?



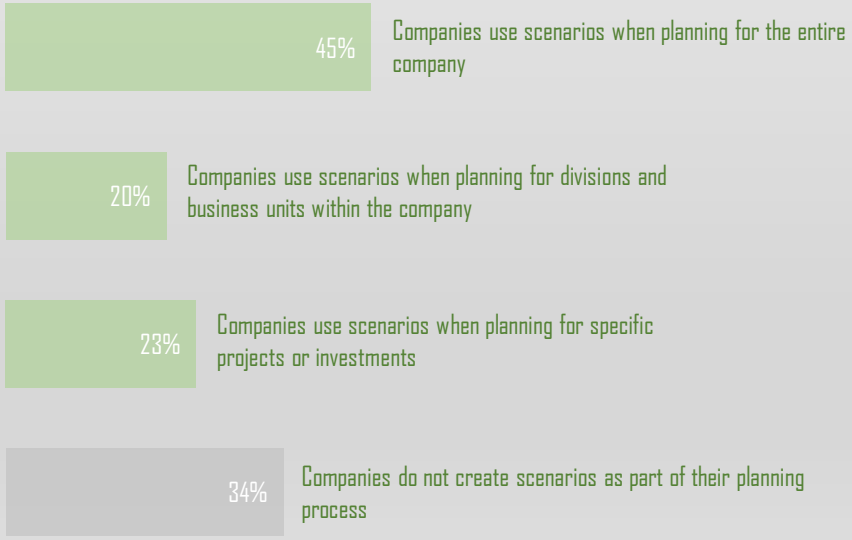
Expectations on economic downturn (recession) & scenario analysis

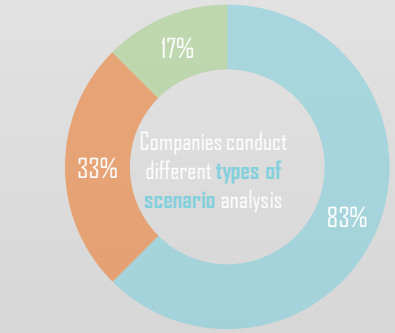
Approximately 44% of European CFOs anticipate a recession or economic downturn to occur next year, in 2020, with 2 out of 10 CFOs bracing for an economic downturn even before this year's end.

Two-thirds of the companies in Europe conduct scenario analysis as part of their business planning cycle. 45% employs scenario analysis for the entire company, whereas 20% does so at division and/or business unit level. Almost a quarter of the companies conducts scenario analysis when planning for specific projects and/or investments. Conventional Downside, Base-Case and Upside scenario analysis remains by far the most utilized., with most time and effort typically spent on base case analysis.

Scenario analysis

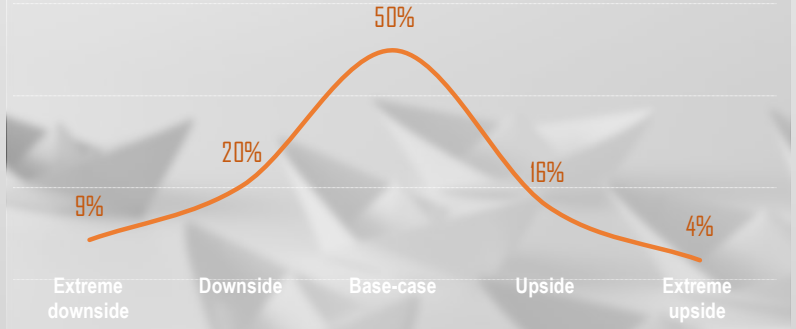
Does your company conduct scenario analysis as part of your planning?





- Downside, Base Case, Upside (or low, medium, high) types of scenarios
- Scenarios tied to specific events (e.g., oil price spike, interest rate change, recession, etc.)
- Scenarios tied to government legislation or regulation

Average time and attention spent on scenario type



Average probability assigned to each scenario

Extreme downside:	6%
Downside:	23%
Base Case:	51%
Upside:	17%
Extreme upside:	3%

Key results CFO Survey

Europe, US, Latin America, Africa and Asia

	EUROPE	UNITED STATES	LATIN AMERICA	AFRICA	ASIA
Economic sentiment					
CFOs More optimistic	20.3%	19.8%	33.3%	32.3%	25.9%
CFOs Less optimistic	50.8%	40.1%	46.2%	45.2%	55.6%
No change	28.8%	40.1%	20.5%	22.6%	18.5%
Own country optimism level	56.5	65.7	57.7	45.5	53.8
Employment – full-time	-0.3%	3.4%	1.8%	-0.5%	2.3%
Inflation (own-firm products)	4.8	1.4%	3.2%	5.3%	0.9%
Financial outlook own company					
CFOs More optimistic	28.8%	44.3%	43.5%	45.2%	22.2%
CFOs Less optimistic	32.2%	27.0%	31.3%	35.5%	37.0%
No change	28.8%	28.7%	25.2%	19.4%	40.7%
Own company optimism level	62.2	68.1	64.8	60.1	58.6
Revenue growth	8.5%	5.1%	7.8%	12.5%	2.2%
Earnings growth	2.3%	4.1%	5.5%	5.4%	3.0%
Business spending					
Capital spending	7.1%	3.4%	10.4%	2.3%	4.7%
Technology spending	3.6%	4.8%	6.7%	3.7%	4.5%
R&D spending	4.5%	2.1%	3.0%	0.4%	4.5%
Advertising and marketing spending	4.0%	2.8%	5.5%	2.4%	3.8%
Wages and Salaries	4.7%	3.8%	4.0%	9.1%	3.7%
Health Care Costs	3.7%	6.2%	4.1%	7.4%	1.8%

About CFO Survey Europe

The Survey & Note on Methodology

CFO Survey Europe

The CFO Survey Europe is conducted every quarter jointly by TIAS School for Business and Society (Tilburg, Netherlands), Duke University (Durham, North Carolina), and Grenoble École de Management. Previous editions of the CFO Survey Europe can be found at FinanceLab under the CFO Survey tab.

Note on methodology

The figures quoted in this report are taken from the Global CFO Survey for the second quarter of 2019. The survey concluded June 7, 2019. Every quarter, CFOs in Europe, the US, Latin America, Asia (and China), and Africa are polled about their economic expectations. Current quarterly records go back more than 21 years. The survey generated responses from nearly 1,500 CFOs, including 469 from North America, 145 from Asia, 261 from Europe, 590 from Latin America and 42 from Africa.

The CFO Global Business Outlook survey and CFO Survey Europe cover a wide range of companies (public and private, small and large, many industries, etc.). The responses are representative of the population of CFOs that are surveyed. Among the industries represented in the survey are retail/wholesale, mining/construction, manufacturing, transportation/energy, communications/media, technology, service/consulting and banking/finance/insurance.

The average growth rates reported are weighted by revenues or number of employees. For example, one EUR 5 billion company affects on average as much as 10 EUR 500-million firms would. Revenue-weighted mean growth rates are provided for earnings, revenues, capital spending, technology spending and prices of products. Employee-weighted mean growth rates are used for health care costs, productivity, number of employees and outsourced employment. The earnings, dividends, share repurchases and cash on balance sheet are for public companies only. Unless noted, all other numbers are for all companies, including private companies.

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