

# TIAS

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## CFO Survey Europe

# Q4 2016

- *More European CFOs with positive economic outlook, but not yet a higher level of optimism*
- *Corporate debt loads of past 3 years exposes European firms to greater financial risk*
- *Hopes for regulatory and tax reform boosts U.S. post-election optimism to record level*

As part of the quarterly CFO Global Business Outlook survey, TIAS conducts CFO Survey Europe in collaboration with Duke's Fuqua School of Business, ACCA and CFO Publishing.



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## Introduction

*The increase in number of optimists has yet to translate into higher level of optimism*

*U.S. optimism hits record level since nearly a decade...*

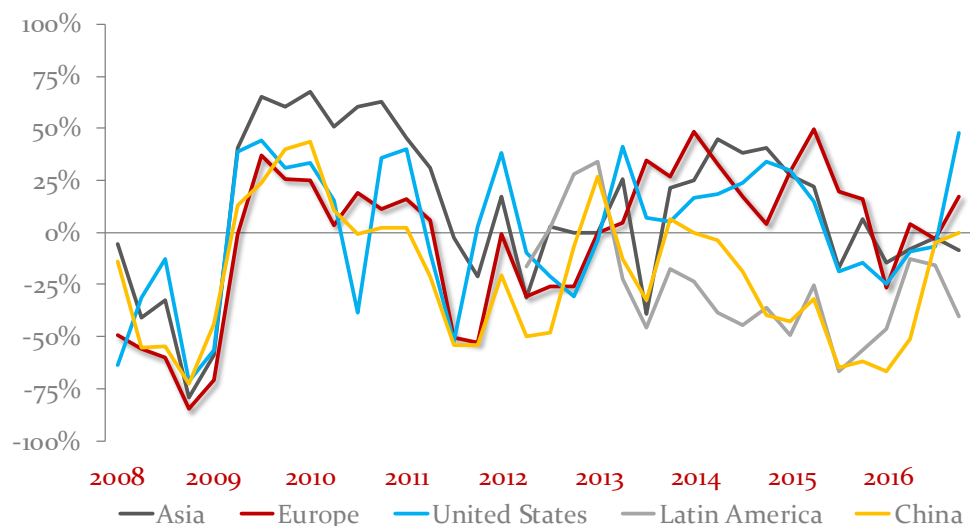
*...but companies await details from incoming president*

The number of European CFOs who have a positive outlook on the economy has increased during the fourth quarter of 2016 but has yet to translate into a higher level of optimism. The average level of optimism in Europe increased only marginally to 57 during Q4. Top European concerns continue to include economic uncertainty, government policies, and regulatory requirements. More than half of European CFOs say that high corporate debt loads in their respective industries will have a negative impact on future business spending.

In the U.S., CFOs are much more optimistic about the economy following the election of Donald Trump. For the last five quarters, the average level of CFO optimism for the U.S. has hovered around the long-term average of 60 (on a 100-point scale). This quarter, post-election, it jumped to 66, the highest level in nearly a decade.

The proportion of U.S. CFOs becoming more optimistic outweighs those becoming more pessimistic by 4 to 1. Although U.S. companies are still waiting for the details to flesh out before taking specific actions, many have high hopes with respect to Trump's announced regulatory and tax reform plans, both of which are the most prominent sources for the increased business optimism.

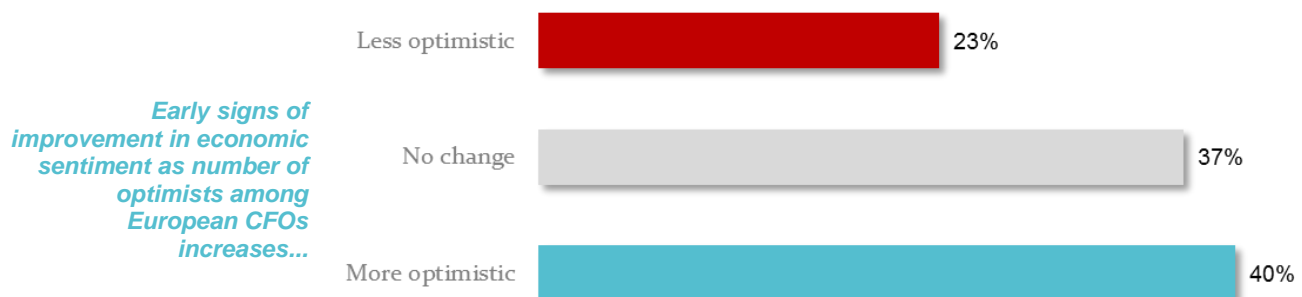
Figure 1. Optimism index for CFOs in Asia, Europe, US, Latin America and China (percentage of optimists -/- percentage of pessimists)



## CFO optimism & sentiment

During the fourth quarter of 2016, 40% of the European CFOs indicate to be more positive about the economic outlook of their own country, up from 28% during the previous quarter. A little less than one out of four are pessimistic about the economy for the next twelve months, down from 31% during Q3 (figure 2). Despite these shifts among optimists and pessimists, the average level of optimism has remained stable at 57 (on a 100-point scale).

Figure 2. European CFO sentiment regarding economy of own country



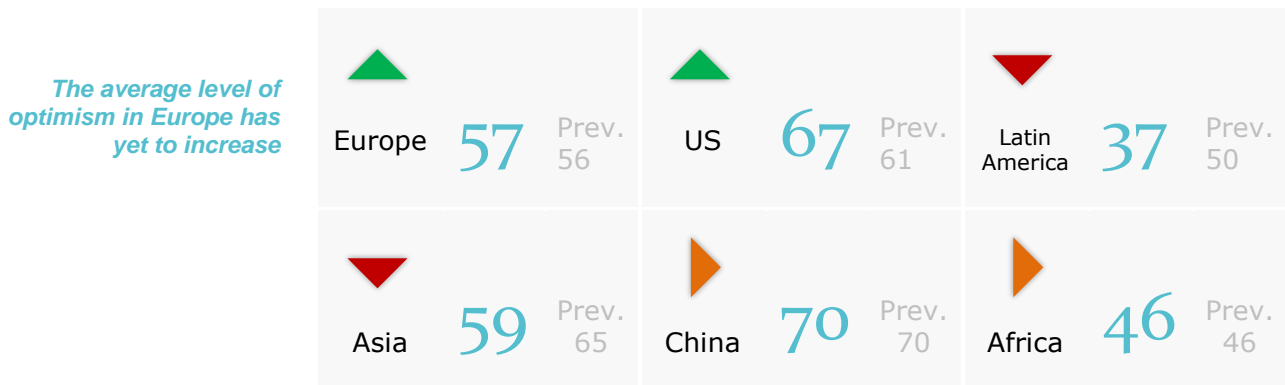
CFO sentiment across the other major economic regions offers a mixed view of the state of the global economy (see figure 3).

*...but global outlook remains unclear with mixed signals from CFOs across the major economic regions*

- Approximately 28% of the African CFOs indicate to be more optimistic about the economy for the next twelve months, whereas 57% remain pessimistic. Continuing the trend of the previous quarters, the average level of optimism remains stuck at 46 on a scale of 100.
- Economic sentiment among Latin American CFOs has taken a nosedive during the last quarter of 2016. Slightly less than 18% is more optimistic, while 58% of the CFOs claim to be more pessimistic about the next twelve months. The average level of optimism has dropped significantly to 37 on a scale of 100, down from 50 during Q3.
- The biggest gains could be seen in the US where the number of optimists has spiked to 64%, up from 27% during the previous quarter. Also, the number of pessimists has halved to 16%, down from 33% in Q3 of 2016. This quarter, post-election, the optimism index jumped to 66 on a 100-point scale, the highest level in nearly a decade.
- Although the ratio between optimists (29%) and pessimists (37%) in Asia has remained stable and in line with the trend of previous quarters, the average level of optimism has dropped substantially, to 59 on a scale of 100, down from 65 during Q3.

- In China, one third of the CFOs is more optimistic and one third is less optimistic about the economic outlook for the next twelve months. Following the trend of the previous quarter, the optimism index has remained at a stable level of 70 on a 100-point scale.

Figure 3. Optimism level about own country's economy



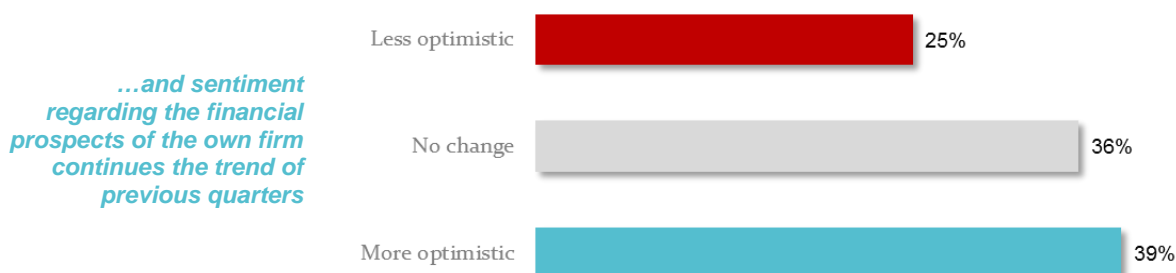
Economic uncertainty and worries about government policies and regulatory requirements remain the top concerns for European CFOs during the next twelve months (table 1).

Table 1. Top 10 concerns on the agenda of European CFOs

1	Economic uncertainty	6	Currency risk
2	Government policies	7	Employee morale
3	Regulatory requirements	8	Employee productivity
4	Weak demand for products & services	9	Data security
5	Attracting/retaining qualified employees	10	Access to capital

Notwithstanding the significant increase in number of CFOs who are more positive about the economy, the number of optimists regarding the financial prospects of the own firm has barely changed and continues the trend of the previous three quarters (figure 4). The optimism index with respect to the financial prospects of the own company has dropped to 60.6, down from 63.4 in Q3.

Figure 4. European CFO sentiment regarding financial prospects of own company in next twelve months.

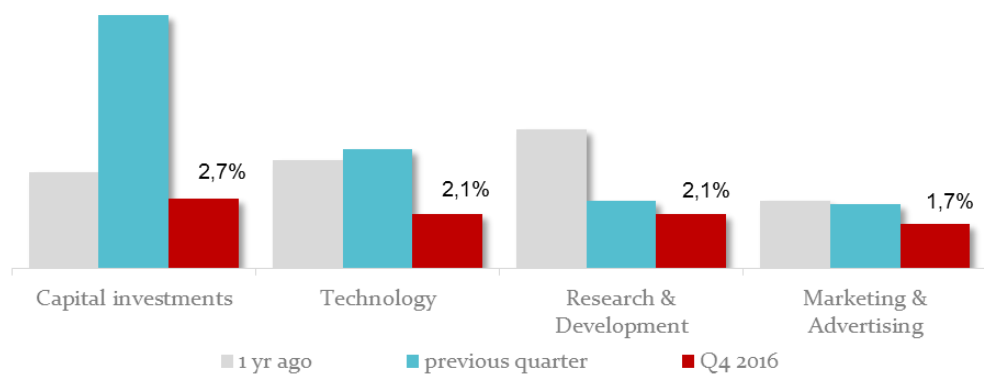


## Finance & capital

*Business spending is expected to level out during the next twelve months...*

**B**usiness spending is expected to increase during the next twelve months, albeit at marginal growth rates. More than 60% of the CFOs expects to increase capital spending, at an average growth rate of 2.7%. More than half of the CFOs anticipates (moderate) growth in spending for both technology as well as marketing and advertising, at average rates of 2.1% and 1.7% respectively (figure 5). A little over 40% of the European financial executives anticipates marginal growth, of 2.1% on average, in R&D spending. Approximately 13% of the European CFOs indicates that the amount of share repurchases over the past three years by firms in their industry, has limited the ability of these companies to spend on capital expenditures or R&D.

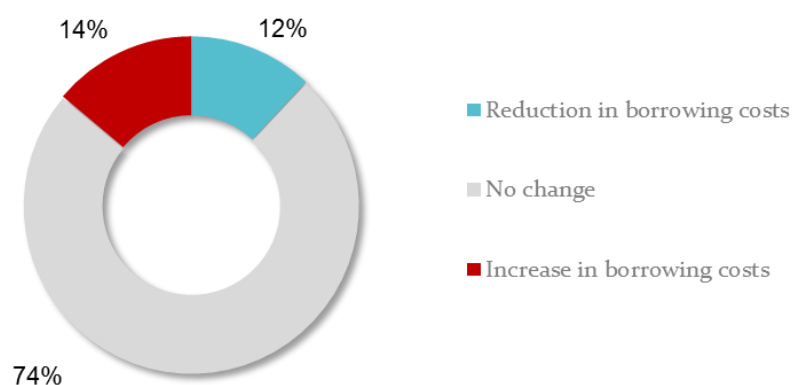
Figure 5. CFOs' expected growth in business spending for next 12 months



For 2017, about three out of four CFOs do not expect to see any significant changes in their costs of borrowing (figure 6). 14% does anticipate an increase of 0.8% (on average) in borrowing costs.

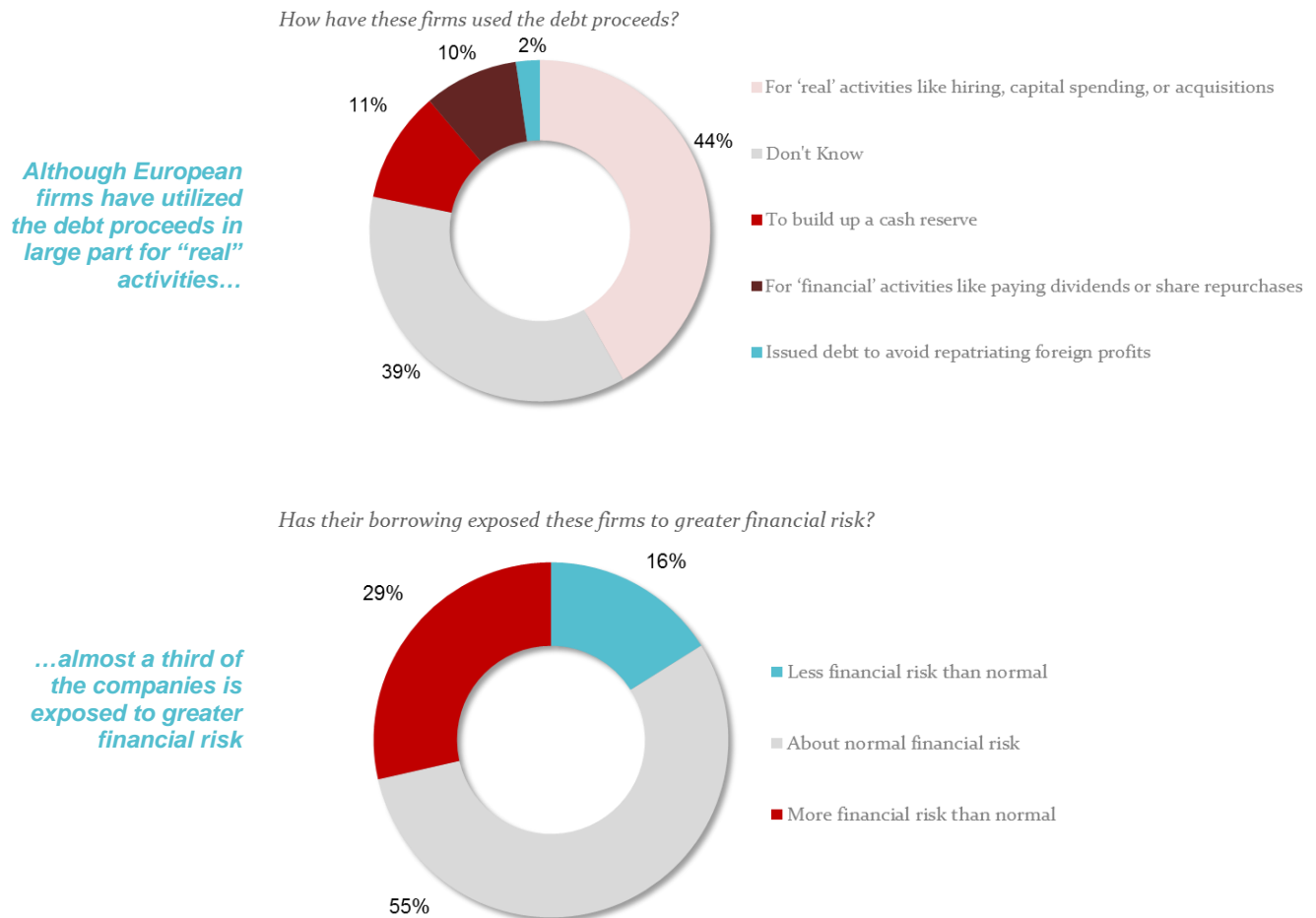
Figure 6. Does your company's planning anticipate a change in your borrowing costs from today through the end of 2017?

*...while costs of borrowing are expected to remain largely unchanged*



The debt that was taken on by firms during the past three years, was largely spent on 'real' activities such as hiring, acquisitions and capital investments. However, almost 30% of the European CFOs also believes that companies have been exposed to greater financial risk, specifically due to the amount of debt that these firms have taken on during these past three years (figure 7).

Figure 7. Please consider the amount of debt taken on by other firms in your industry over the past three years:

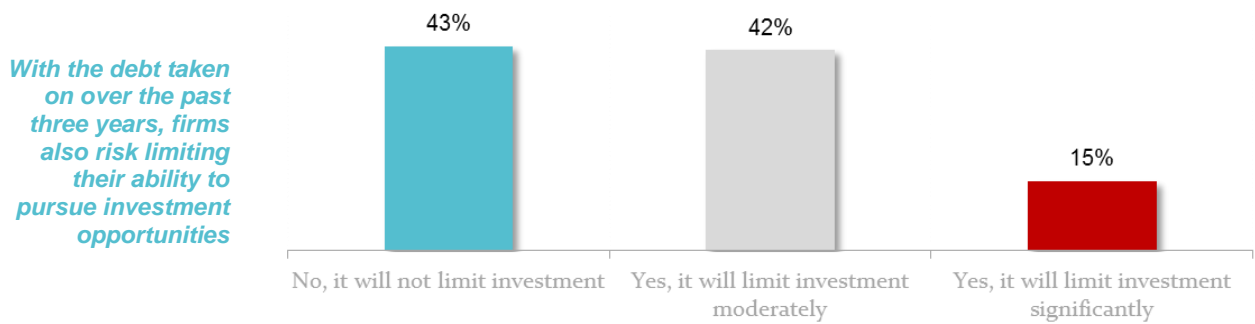


As a result of the debt that was taken on during the past three years by firms in their industry, more than half of the CFOs expect that these same companies (to a certain extent) will have difficulty in pursuing investment possibilities in the future (figure 8).

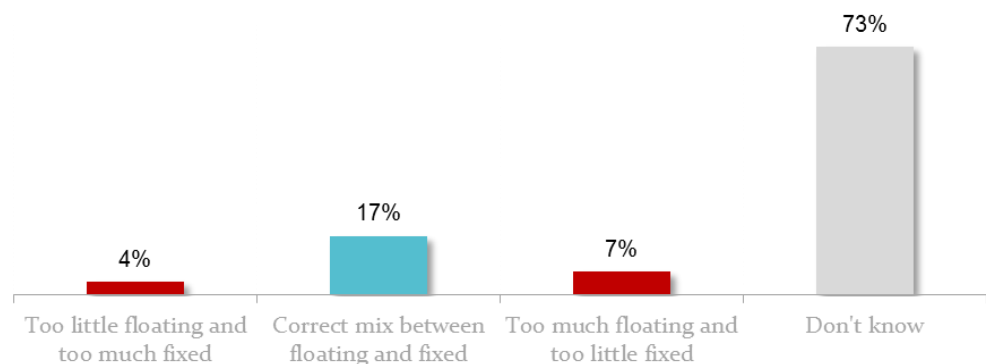


Figure 8. Please consider the amount of debt taken on by other firms in your industry over the past three years:

Will the debt burden of these firms limit their ability to pursue future investment opportunities?



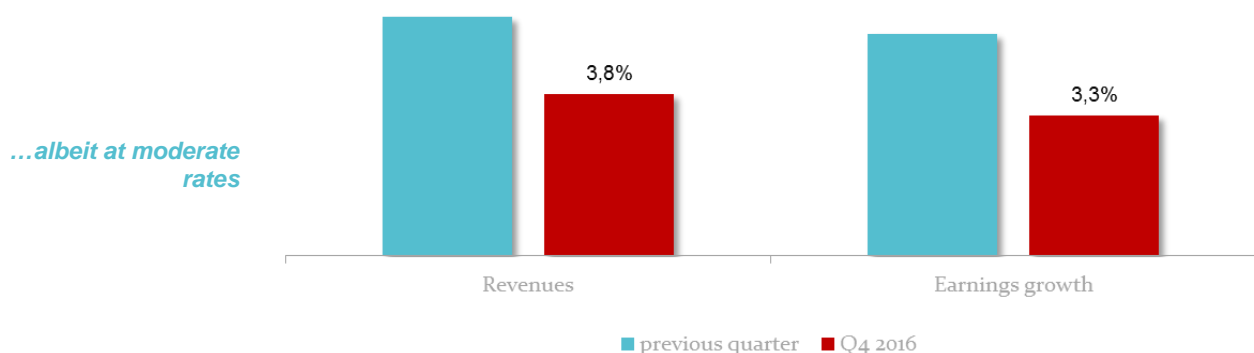
Do these firms have the correct mix between floating and fixed rate debt?



*European firms are expected to improve revenues and bottom-line results...*

For the next twelve months, approximately three quarters of the companies is expected to increase their revenues at an average growth rate of 3.8%. Another 72% of the companies is also expected to realize earnings growth of 3.3% on average (figure 9).

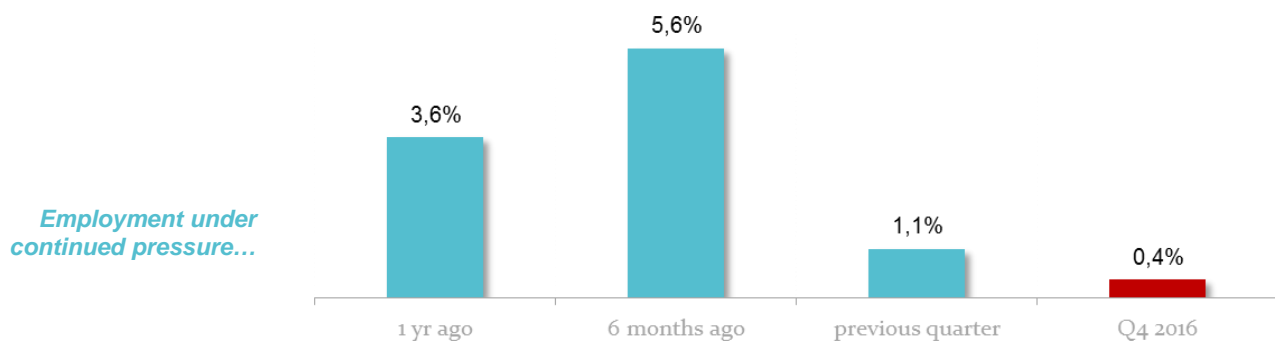
Figure 9. Anticipated P&L developments (public firms)



## Employment

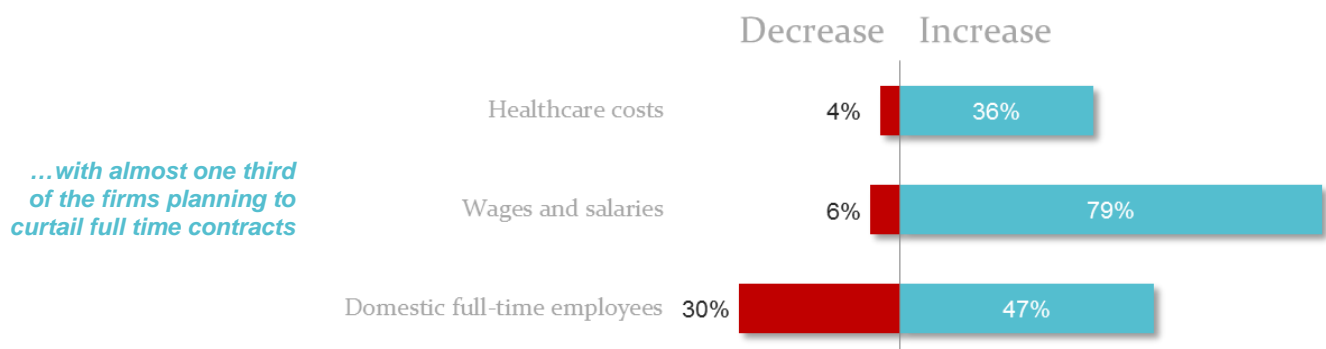
For the second consecutive quarter, the average growth rate in fulltime employment is in decline, reaching a level of just above 0%, down from 1.1% during the previous quarter (figure 10).

Figure 10. European CFOs' expected growth in full time employment for next 12 months



Nearly one third of the CFOs (30%) anticipates a decrease in the number of (full time) employees at their respective companies during the next twelve months (figure 11).

Figure 11. Relative to the previous twelve months, do you expect a positive (increase) or negative (decrease) change in the next twelve months for...?



## Key results CFO Survey – Europe, US, Latin America, Africa and Asia

Key Indicator	Europe	US	Latin America	Africa	Asia
<b>Economic sentiment</b>					
CFOs More optimistic	40.1%	64.1%	17.7%	27.6%	29.1%
CFOs Less optimistic	22.8%	16.3%	58.1%	57.1%	37.6%
No change	37.1%	19.6%	24.2%	15.3%	33.3%
Own country optimism level	<b>56.6</b>	<b>66.5</b>	<b>37.2</b>	<b>46.0</b>	<b>58.6</b>
Employment – full-time	0.4%	2.2%	-0.4%	-1.6%	2.7%
Inflation (own-firm products)	-0.3%	1.7%	3.5%	4.6%	1.3%
<b>Financial outlook own company</b>					
CFOs More optimistic	38.7%	51.1%	36.8%	44.9%	35.6%
CFOs Less optimistic	25.0%	18.3%	19.2%	30.6%	35.3%
No change	36.3%	30.6%	44.0%	24.5%	29.2%
Own company optimism level	<b>60.6</b>	<b>67.4</b>	<b>58.0</b>	<b>59.1</b>	<b>60.8</b>
Revenue growth	3.8%	4.4%	5.7%	5.8%	7.3%
Earnings growth*	3.3%	8.4%	-1.8%	2.7%	2.1%
<b>Business spending</b>					
Capital spending	2.7%	1.4%	3.3%	3.8%	6.8%
Technology spending	2.1%	3.5%	5.9%	8.4%	6.7%
R&D spending	2.1%	0.9%	2.7%	1.5%	4.4%
Advertising and marketing spending	1.7%	1.9%	4.5%	2.6%	1.7%
Wages and Salaries	1.2%	3.2%	4.5%	6.6%	6.7%
Health Care Costs	0.5%	6.8%	5.2%	5.1%	3.9%

Percentages indicate this quarter's expected growth rates for the next twelve months.

\* Indicates public firms only.

For Asia, the growth numbers for Employment, Inflation, Revenue, Earnings, and all business spending are GDP-weighted results.

#### About CFO Survey

The figures quoted above are taken from the Global CFO Survey for the fourth quarter of 2016. The survey concluded December 1, 2016. Every quarter, CFOs in Europe, the US, Latin America, Asia (and China), and Africa are questioned about their economic expectations. Current quarterly records go back more than 20 years. The CFO Survey is conducted jointly by TIAS School for Business and Society (Tilburg, Netherlands), Duke University (Durham, North Carolina), and CFO Magazine.

#### Note for the press

Previous editions of the CFO Survey can be found at [FinanceLab](#) under the CFO Survey tab. For further information, please contact Mrs. Judith Slikker, TIAS School for Business and Society, tel.+31-(0)-134668622 or e-mail [j.slikker@tias.edu](mailto:j.slikker@tias.edu)

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