2018

EUROCHAMBRES ECONOMIC SURVEY

EUROCHAMBRES

The Association of European Chambers of Commerce and Industry

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Connecting business to Europe

Introduction

The EUROCHAMBRES Economic Survey 2018 (EES 2018) is the 25th consecutive annual assessment of the European business community's expectations. The study is based on responses from over 50,000 European businesses in 23 countries to a survey that was carried out by Chambers of Commerce & Industry in autumn 2017.

As economic growth gathers pace in Europe, so the prospects of businesses brighten. All five EES indicators have increased since last year, indicating growing optimism among European companies. Despite positive sales forecasts, the biggest concern for 2018 remains domestic demand, but the lack of skilled workers has risen to the second place, which highlights a worrying mismatch of labour supply and demand.

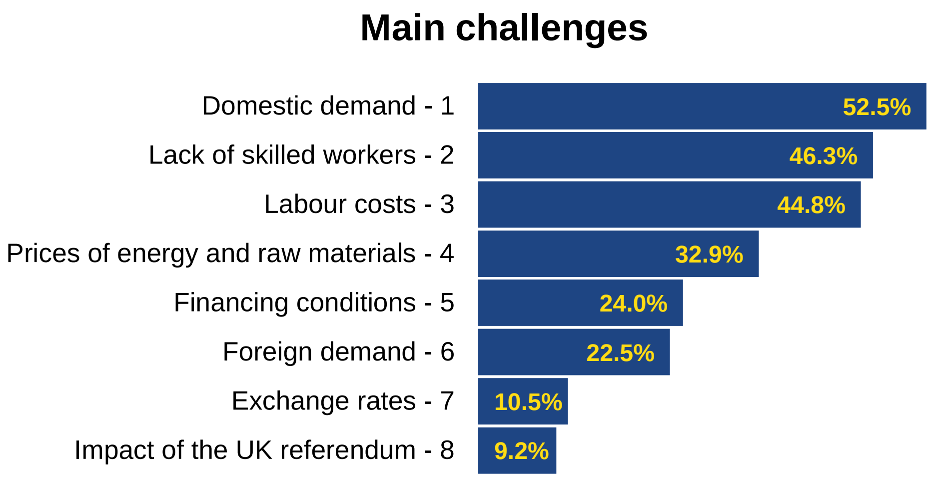
Methodology

Chambers of Commerce & Industry in Austria, Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Finland, Germany, Greece, Hungary, Ireland, Italy, Latvia, Luxembourg, Malta, Montenegro, the Netherlands, Portugal, Romania, Serbia, Slovakia, Spain, Serbia and Turkey asked companies about their expectations for 2018 in relation to five economic indicators – business confidence, domestic sales, exports, employment, investment – as well as to identify the main challenges.

Businesses were asked to give a comparative response – i.e. better, equal or worse – for the expected performance of the five indicators in 2018 with respect to 2017. Responses were collected and aggregated at national level. At European level, results were weighted according to national GDP.

Results are the weighted average of a balance figure (or "net positive response"). The latter is obtained by deducting the percentage of companies giving a negative response from the percentage of companies giving a positive response. The results were analysed by EUROCHAMBRES in collaboration with the participating national Chambers.

Challenges for 2018



weighted average of the national percentages of respondents who voted each option

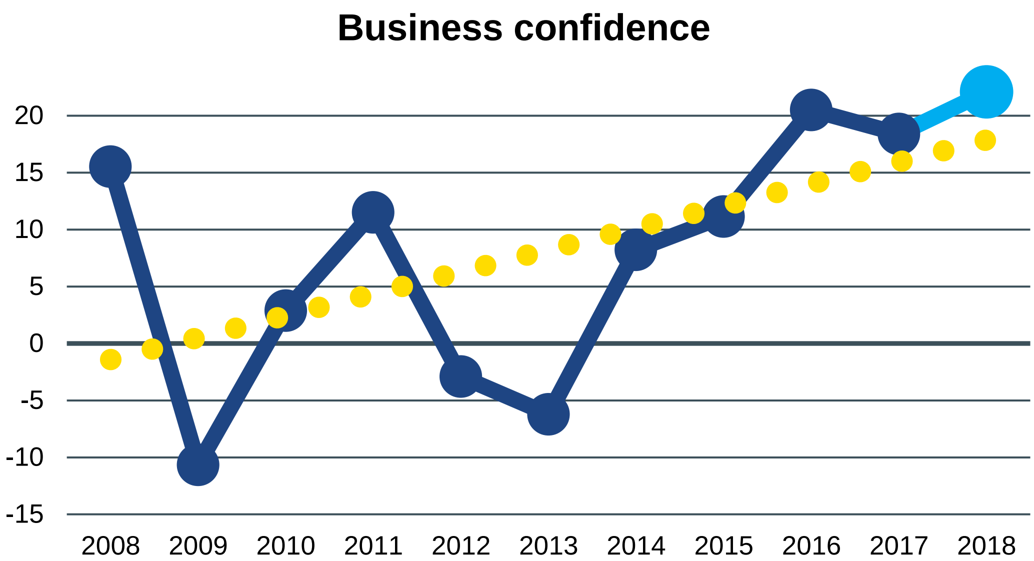
Domestic demand remains the main challenge for European businesses for 2018. It has consistently topped the challenges ranking and represents a major factor in company turnover, regardless of businesses' optimistic prospects for domestic sales.

Businesses place the **lack of skilled workers** second among their biggest challenges for next year, a rise from fourth place in 2017. This reveals concerns among respondents that they will be unable to keep up with increasing demand for their products and services because it is getting harder to find workers with the required profile. There are more academically qualified young people in Europe than ever, but this does not necessarily mean that they offer the competences that potential employers need. This mismatch can be attributed partly to the misallocation of resources around Europe. Free movement of labour remains a notion rather than a practice, so further efforts are required to promote and facilitate labour mobility within the EU. Regimes for vocational education seem to become more and more necessary.

The fact that this challenge rose to the second position of the EES is an indication of the severity of the situation. In fact, the shortage of skilled workers is becoming a significant obstacle to growth and has a knock-on effect on investments and productivity.

European businesses continue to name **labour costs** as their third biggest challenge for the future. Increasing inflation expectations and falling unemployment fuel concerns in this area. Interestingly, the **impact of Brexit** is ranked the least important challenge for 2018 in most countries that participated in the survey. This may be explained in part by the fact that Brexit is not due to actually happen until 2019 at the earliest, so this may be a bubble, but it will be interesting to see how this evolves in future editions of the EES. A notable exception is Ireland, where concerns about Brexit are biggest and outrank all other options.

Expectations for 2018



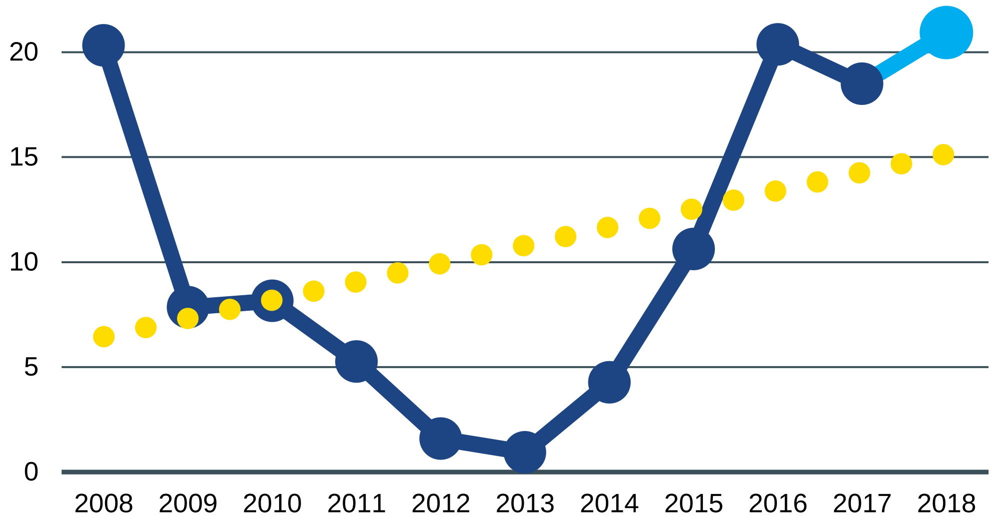
Weighted average of the national balances of positive & negative expectations, in %

On average, **business confidence** has been positive since 2014. After last year's slight dip, the new figure is the highest since before the crisis. Economic recovery has boosted demand both domestically and abroad, with growth picking up in most parts of the world, stabilising the global economy. Restored consumer confidence is encouraging businesses to expand and debt financing to do so is still accessible due to low interest rates.

The approach of the current US administration to trade and the state of the Brexit negotiations contribute to a geopolitical situation that has not improved noticeably since last year. While certainly unhelpful, companies are adapting to this situation and taking measures to mitigate the resulting risks.

Public administrations should continue to support the economic recovery by implementing sustainable, growth-friendly policies and minimizing the regulatory burden for European businesses.

Domestic sales

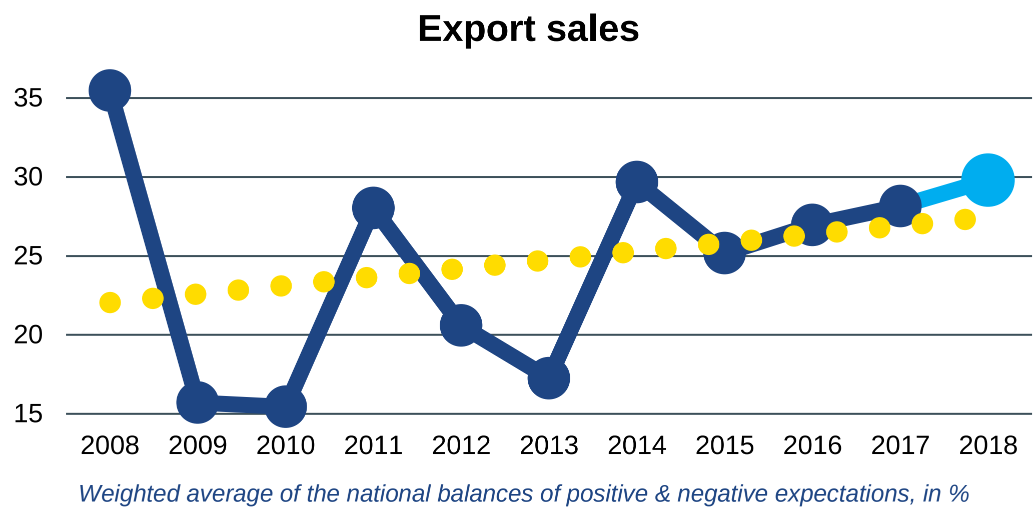


Weighted average of the national balances of positive & negative expectations, in %

The rapid recovery of **domestic sales** expectations since 2013 is back on track after it decreased slightly in last year's EES. Reflecting the positive development in business confidence, domestic sales expectations for 2018 are higher than they have been for more than a decade.

While unemployment is still high in some European countries, the noticeable trend towards more employment boosts consumption and domestic sales across the continent by increasing household income.

Furthermore, low interest rates continue to act as an incentive for spending and investment. Increases in consumption due to a decrease in savings and an increase in credit also contribute to business growth.

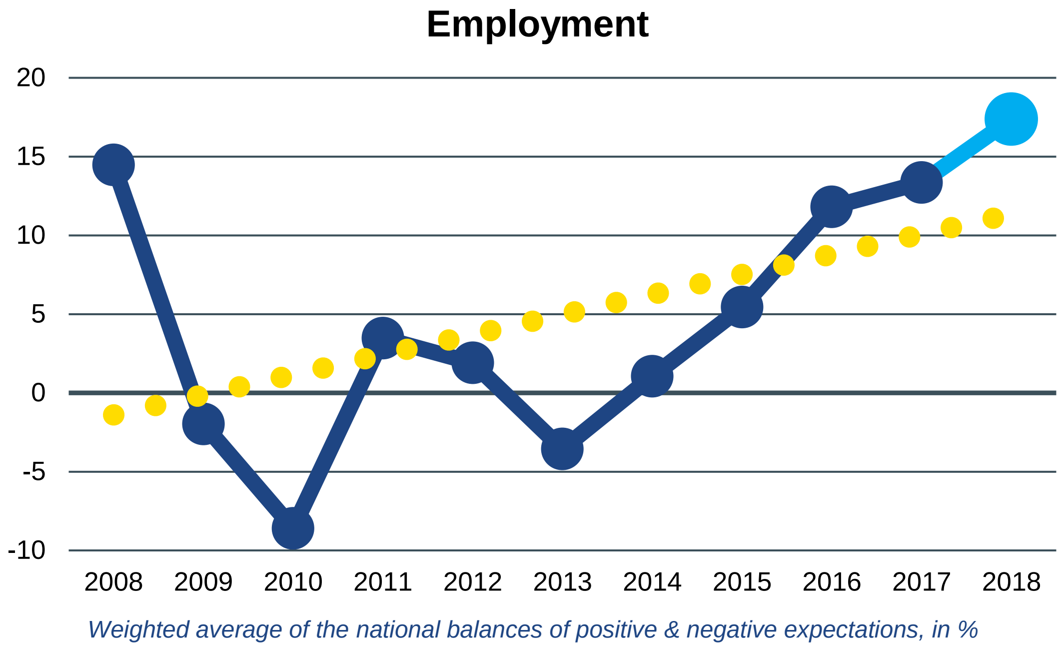


The growth of **export sales** expectations since 2010 has been quite volatile, especially in the years after the crisis. Nonetheless, as a general trend, this has been the most positive EES indicator over that period and the only one that has not yet been negative or close to zero. In general, businesses gain further trust in their export performance.

The EU Single Market is a significant driver of export growth for many European businesses. Growth in Europe is complemented by growth in many other regions of the world and an increase in global trade. Tapping into fast-growing markets like China or India allows European companies to expand and flourish on an international level. Overall, the high EES export sales expectations indicate a continued commitment to and confidence in free trade by the European business community.

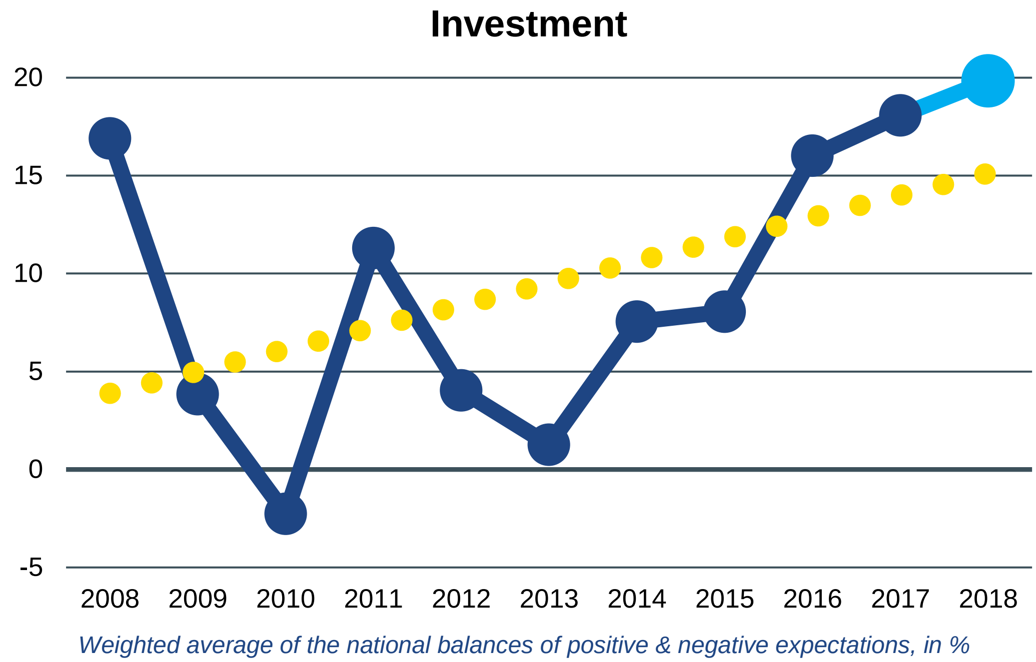
Within the EU, the focus should be on unremitting efforts to eliminate the remaining non-tariff barriers in the single market. Efforts to complete the single market must be redoubled, focusing on practical, incremental measures where more ambitious proposals encounter resistance. The free movement of goods, capital, services, and labour must become a reality for businesses of all sizes, types and sectors.

Further afield, the EU should continue to use trade deals to propagate its values and high quality standards. The EU must, now more than ever, take the lead in upholding an open, fair and inclusive environment for trade and investment. This is essential in order to ensure that businesses benefit from globalisation and European SMEs remain competitive on the global market.



The steady increase in **employment** expectations in the EES since 2013 correlates with the recovery of the European economy and the actual employment rate. As the economy picks up speed again, business confidence and labour demand increase. Because firms are reasonably sure that growing demand warrants an increase in production, they are open to expand their workforce. As a result, EU unemployment as a whole has been falling since 2013, even though the picture varies considerably between member states.

To support employment growth in Europe and combat long-term, as well as youth unemployment effectively, education and training have to be accessible and of high quality in all countries. Work-based learning must be central to this, particularly as part of vocational training. Promoting labour mobility will also act as a shock absorber and help reduce the skills mismatch in many parts of the EU.



Europe's improving economic stability is drawing in investors who see the potential of many European companies. Investment growth is bolstered further by an increasing capacity utilisation rate, persisting low interest rates and progress in relation to the Capital Markets Union. As a consequence, European businesses continue to benefit from favourable financing conditions and have the highest investment expectations since before the crisis.

Financing conditions remain challenging for businesses, especially smaller ones, in many parts of Europe. Further measures are needed to address asymmetries between supply and demand, both in terms of debt and equity financing. On the supply side, bank lending remains restricted and equity financing is still far below the levels aspired to in Europe. Progress on the CMU must be a priority to offer greater scale and scope for investors and businesses alike. On the demand side, there is a strong need to improve the investment readiness of SMEs in many countries. Here, policy-makers must continue to work with Chambers and other trusted intermediaries to ensure that practical measures are taken to prepare businesses better to pursue alternative forms of financing.