

Future of Europe 2018

A region resurgent

European businesses have a spring in their step. Data from our International Business Report (IBR) shows that business optimism across the EU sits at net 60%¹ in the first quarter of 2018. This is the highest figure recorded in Europe in over a decade of IBR research.

German and Dutch businesses remain extremely optimistic. There are also welcome increases in optimism in France and the UK. But, critically, confidence is now broad-based across the region.

Business optimism in Southern Europe has struggled since the financial crisis. Today, though, Italian optimism is up by six percentage points in the first quarter of this year. In Spain it is up 17 percentage points and Greek businesses are in net positive territory for the first time in three years.

This palpable sense of confidence is evident elsewhere. Net 57% of EU firms expect revenues to increase in the next 12 months. This is another record high. Businesses also plan to boost investment in: new buildings; plant and machinery; and research and development (R&D).

This bright outlook comes against an ever-shifting backdrop of powerful political forces. But businesses are keeping these factors in perspective. Concerns about the rise of populism and nationalist political parties have not dented overall sentiment. Likewise, EU business leaders do not view Brexit as a major worry.

Optimism in Europe is resurgent (see Figure 1). But will it last? History tells us that growth tends to come in cycles and there may be change afoot. Eurozone GDP growth slowed to 0.4% in the first quarter of 2018, down from 0.7% the previous quarter². If this slowdown continues, optimism levels may change.

In this snapshot we explore how businesses feel about Europe's political future. We also look at how European firms plan to capitalise on technology's potential to disrupt markets and provide growth opportunities. And we profile how businesses in the Nordic region are using collaboration as a foundation for success.

1. Net figures denote the percentage who feel optimistic minus the percentage who feel pessimistic
2. <http://ec.europa.eu/eurostat/documents/2995521/8853198/2-02052018-BP-EN.pdf/bd7192cb-d9de-471c-8a95-296064930087>
3. <https://www.grantthornton.co.uk/en/insights/planning-for-growth/>



Larissa Keijzer
Regional Leader Europe – NCT
M +31 (0) 6 1554 1797
E larissa.keijzer@gti.gt.com

Europe resilient as political landscape evolves

The IBR reveals that record levels of business optimism are contributing to a sense of resilience in the face of powerful political forces.

With less than 12 months to go until the UK leaves the EU, the exact nature of the future arrangement remains uncertain. But firms are taking Brexit in their stride.

Nearly half (43%) of eurozone businesses believe Brexit will lead to a two-tier EU membership model. But only 5% think it will lead to the EU being dissolved. In fact, one in four (26%) believe Brexit will have no impact on the EU.

A similar outlook is evident in the UK. Recent research by Grant Thornton UK found that only 22% of British firms identified Brexit strategy as one of their top five barriers to growth. And nearly half (47%) of those who said it was a top five barrier said they could overcome it³.

Appetite for integration remains strong

Despite the UK's imminent departure, EU integration remains a priority for most of the region's political leaders. For businesses, it remains firmly on the agenda too – but in economic rather than political form.

Across the eurozone, 65% of businesses would like to see further EU economic integration, up from 63% last year. However, just 35% want further political integration. This is down from 44% last year. Germany is the only country surveyed where more than half of business leaders (63%) want to see further political integration.

Businesses concerned about populist sentiment

Business resilience wavers most when it comes to the potential impact of populism on Europe’s economic stability. One in five (19%) eurozone businesses cite the rise in popularity of nationalist political parties as the biggest threat to the economic stability of the EU.

Nationalism in countries like Austria, Spain and Poland has made headlines recently. In all three, over a quarter of businesses believe nationalist politics is the biggest threat to economic stability. Some of the main business concerns are that nationalism will negatively impact cross-border trade and hiring skilled foreign workers.

Flexibility is key

European businesses feel confident they can cope with political change. But no firm wants to find itself losing market share, or market access, because it underestimated the impact of Brexit or a change in government policy. Therefore, businesses will need flexibility in their planning to accommodate for a range of scenarios in the coming years.

Europe keeping pace in global technology investment stakes

With European business sentiment buoyant, where are firms investing? IBR data suggests that technology is a priority. This makes sense. After all, we know that technology will change the way we live and work forever.

But businesses around the world are also racing to make the most of the opportunities technology offers. Against this backdrop, IBR figures show European businesses keeping pace.

Surveyed in the first quarter of 2018, net 42% of EU firms plan to increase investment in technology over the next 12 months. This is up from net 38% in the previous quarter. The figure is identical to businesses in Asia Pacific, and ahead of counterparts in Latin America (37%).

Country comparisons also reveal the EU is holding its own. Ireland (net 66%) outstrips the US (net 63%), for example. And the UK (net 50%) currently pips China (net 49%) for technology investment intentions.

Emerging technologies present real opportunity

The types of technology available, and their applications, are vast. Blockchain is a compelling example.

Blockchain’s power can be most effective when firms are using multiple processes that they want to simplify. We see Blockchain being used to make significant efficiency improvements to invoicing processes. Or, to bring together multiple supply chain parties’ data in a digital platform that offers a way to track and verify activity.

Elsewhere, technology helps tax functions operate more smoothly. This comes as tax authorities increasingly expect a greater amount of information in more detail, often in real-time. As automation and Artificial Intelligence (AI) help firms meet these requests, technology can free up individuals to play a bigger role in influencing business strategy.

New EU rules will affect how firms handle data

New European regulation will change how businesses use technology. General Data Protection Regulation (GDPR), the European Union’s new data law, comes into effect on 25 May. Businesses must ensure customer data privacy complies with the new rules.

This regulation will affect social media platforms, cloud computing, geolocation services and other technologies businesses may use. It will also affect use of technology platforms, such as Amazon, to sell and distribute products and services.

Technology is disrupting how European firms do businesses. But the same rules of business investment still apply. It is important to spend time understanding how individual areas of technology work, what their applications are, and the benefits they could create.

Figure 1 - Net optimism



Source: Grant Thornton IBR 2016-18

Nordic collaboration the foundation for success

IBR research reveals that the business outlook in the Nordics reflects the confidence of the rest of Europe. In fact, Finland ranks highest of all the 35 countries surveyed worldwide at net 98%. In Sweden, optimism surged by 22 percentage points to a seven year high of net 73% in the first quarter of 2018.

The Nordic countries are highly competitive on the world stage. The World Economic Forum's global competitiveness index⁴ ranks Sweden and Finland at 7th and 10th respectively, while Norway and Denmark follow closely at 11th and 12th. Furthermore, both Sweden⁵ and Finland⁶ expect GDP growth well above 2% in 2018.

Working together breeds Nordic success

One factor in the Nordic success story is collaboration. Previously, Finland rode high on the success of companies such as Nokia. Today, new partnerships are evident. A recent initiative, led by SEB chairman Marcus Wallenberg, saw 24 Swedish and Finnish industry giants pull together to form an alliance on Artificial Intelligence⁷.

These firms recognise that sharing insights and exploring technologies together can help them progress faster.

There are other structures in place to facilitate collaboration. The Nordic Business Forum⁸ brings firms together to exhibit their products to peers across the border and further afield. It's a showcase for big Nordic ideas and innovation.

Nordics want to trade - but investment also critical

Collaboration is built on a strong Nordic tradition of trading. And volumes look set to increase. According to the IBR, net 23% of Swedish firms plan to export more in the next year. In Finland that number is net 32%. Despite this, Grant Thornton's research raises important questions about Nordic businesses' investment plans.

Although net 24% of Swedish firms plan to invest in new buildings, just net 5% plan to increase R&D spending. In Finland, while net 18% of firms plan to invest more in R&D, there has been a drop of 12 percentage points on investment plans for plant and machinery.

Despite healthy optimism and an enviable environment for business, future Nordic success is reliant on investment. The challenge for its businesses is to maintain investment levels now to yield future success.

Brexit



22%

of British businesses identified Brexit strategy as one of their top five barriers to growth⁹



47%

of British businesses believe they can overcome it⁹

EU membership model



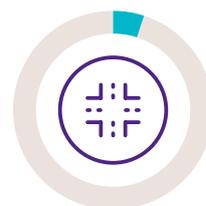
43%

of eurozone businesses believe Brexit will lead to a two tier EU membership model¹⁰



26%

of eurozone businesses believe Brexit will have no impact on the EU membership model¹⁰



5%

of eurozone businesses think Brexit will lead to the EU being dissolved¹⁰

Grant Thornton can help you realise your strategic ambitions, drawing on the expertise of over 14,000 people in 237 offices across Europe. Read more about how we can help you grow your business in Europe and beyond:

[grantthornton.global/en/
FutureofEurope2018](https://www.grantthornton.com/global/en/FutureofEurope2018)

4. <https://www.weforum.org/reports/the-global-competitiveness-report-2017-2018>

5. https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/sweden/economic-forecast-sweden_en

6. https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/finland/economic-forecast-finland_en

7. https://nordic.businessinsider.com/two-dozen-of-finlands-and-swedens-biggest-companies-are-forming-an-ai-alliance-its-a-world-first-/?utm_campaign=BusinessInsider_180425_Username=Madsen&utm_medium=email&utm_source=Eloqua&elqTrackId=e77f7ee757aa469c8cedae1314f29d64&elq=c429e78393284f09703dbe55d75812b&elqaid=16065&elqat=16elqCampaignId=11266

8. www.nbforum.com

9. These are views from British businesses that responded to the survey.

10. These are the views of eurozone businesses that responded.

IBR 2018 methodology

The Grant Thornton International Business Report (IBR) is the world's leading mid-market business survey, interviewing approximately 2,500 senior executives every quarter in listed and privately-held companies all over the world. Launched in 1992 in nine European countries, the report now surveys more than 10,000 businesses leaders in 35 countries on an annual basis, providing insights on the economic and commercial issues affecting the growth prospects of companies globally. The data in this report are drawn from 925 interviews conducted between January and March 2018 with chief executive officers, managing directors, chairpersons and other senior decision-makers from all industry sectors in mid-market businesses in 15 European economies. The definition of mid-market varies across the world: in mainland China, we interview businesses with 100-1,000 employees; in the United States, those with US\$20million to US\$2billion in annual revenues; in Europe, those with 50-499 employees. For the purposes of this research senior management is defined as those holding C-suite jobs, such as chief executive officer (CEO), chief operating officer (COO) or chief finance officer (CFO), managing directors or partners.

More information:

Publications: grantthornton.global

Methodology: grantthornton.global

Andrew Brosnan

Insights and thought leadership manager

Grant Thornton International Ltd

T +44 (0)20 7391 9613

E andrew.brosnan@gti.gt.com



Grant Thornton
An instinct for growth™

grantthornton.global

© 2018 Grant Thornton International Ltd. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton International Ltd (GTIL) and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

EPI.219