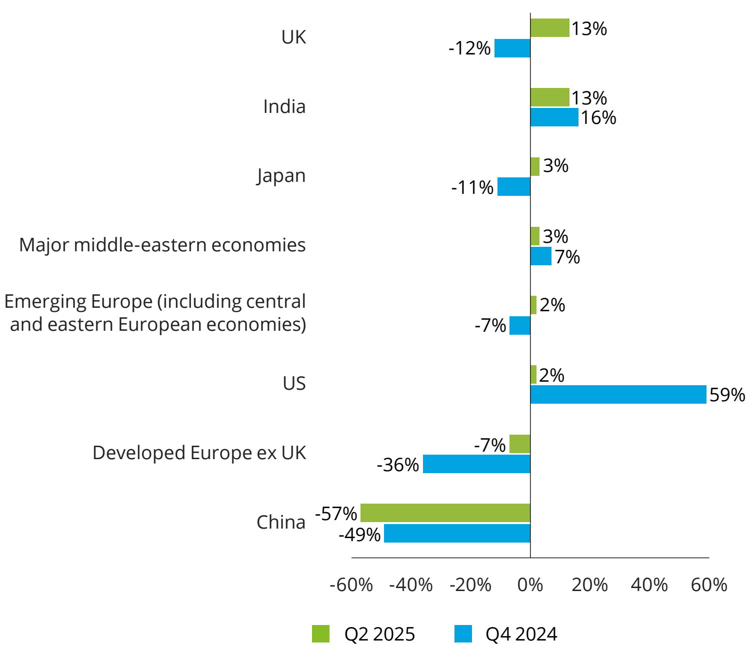
Deloitte CFO Survey Q2 2025

UK: a top investment destination

Since the end of last year, chief financial officers at some of the UK's largest businesses have reassessed their view of the best places for businesses to invest around the world. The UK has moved up our league table and is now, jointly with India, seen as the most attractive destination for business investment with a net 13% of CFOs describing it as very or somewhat attractive. CFOs are also taking a more positive view of the rest of Europe, now seen as having a broadly similar appeal to that of the US. This is a significant reversal from just six months ago when the US was seen as by far the most attractive destination.

The announcement of a limited trade agreement between the US and UK in early May, the only one confirmed at the time of the survey, provides greater certainty on US tariffs for businesses in the UK. The reduced attractiveness of the US comes after significant downgrades to US growth forecasts in the first half of this year, a weakening of the US dollar and sustained underperformance by US equities against European equities. Greater optimism about developed Europe could reflect an expectation that significant planned increases in German infrastructure and defence spending, along with EU-wide reform in the wake of the Letta and Draghi Reports, will improve Europe's growth performance.

Chart 1. Attractiveness of business investment destinations
Net % of CFOs who think the following destinations are somewhat or very attractive as a place for businesses to invest



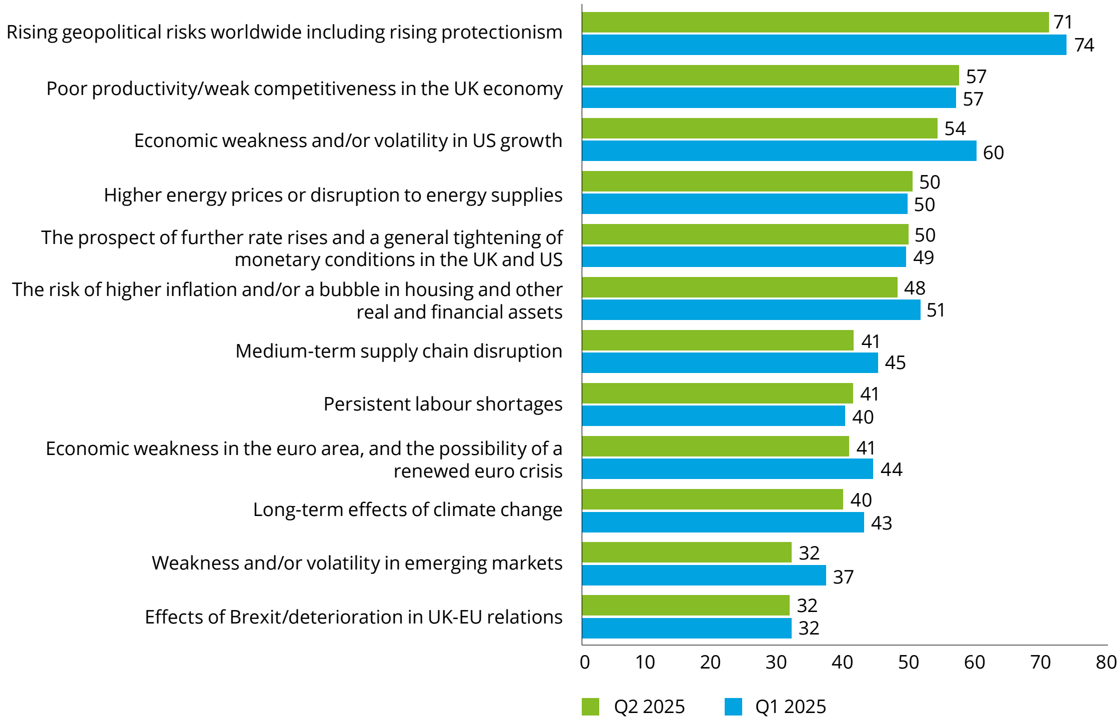
Respondents to our survey were twice as likely (36% vs 13%) to describe a falling dollar as a negative for their business rather than a positive. This is largely due to the declining sterling value of repatriated dollar revenues although some businesses that buy inputs in dollars reported benefits.

The continued pull of India, our joint table-topper, is unsurprising given that it is now the world's most populous economy and is expected to see significant growth in the medium term (45% over the next five years, according to the IMF).

Elsewhere, the survey, conducted between 16 and 29 June, shows a perhaps surprising degree of resilience in a challenging environment. With the outbreak of hostilities between Iran and Israel shortly before we opened the survey, perceptions of geopolitical risk remained elevated and at the third highest level in the nearly eight years we have been asking the question. Yet despite the conflict and the announcement of sweeping new US tariffs, CFO sentiment has strengthened somewhat. Business sentiment nudged up for the second consecutive quarter, risk appetite has risen and the survey shows a slight tilt away from defensive balance sheet strategies.

Geopolitics remains top risk to business

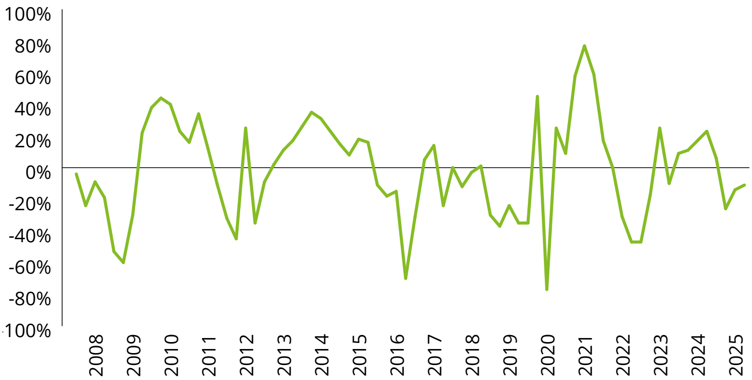
Chart 2. Risk to business posed by the following factors
Weighted average ratings on a scale of 0-100 where 0 stands for no risk and 100 stands for the highest possible risk



CFOs continued to rate geopolitics as the top external risk facing their business, as they have done for the last eight consecutive quarters. Despite the escalation of hostilities between Israel and Iran shortly before the survey opened and volatility in oil prices during the survey period, geopolitical risk was judged to have fallen marginally. This may reflect that the limited UK-US trade agreement has reduced uncertainty over future trade arrangements with the world's largest economy.

After a sharp fall in sentiment in the second half of 2024 CFO optimism about financial prospects nudged up marginally in the second quarter.

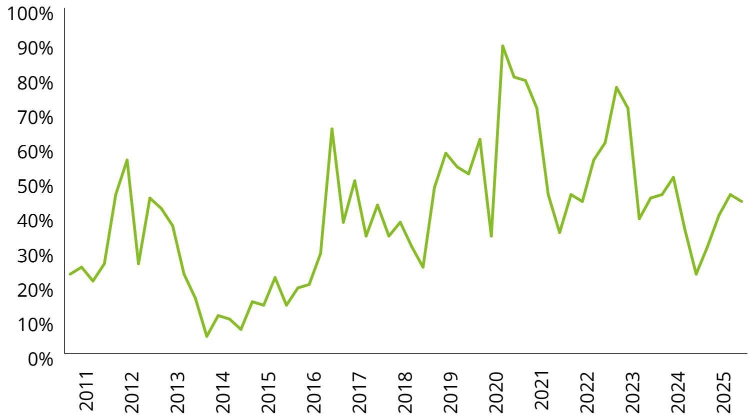
Chart 3. Optimism
Net % of CFOs who are more optimistic about the financial prospects of their business than three months ago



Risk appetite improves

44% of CFOs report that the level of external uncertainty facing their business is high or very high, slightly above the long-term average of 40%.

Chart 4. Uncertainty
% of CFOs who rate the level of external financial and economic uncertainty facing their business as high or very high

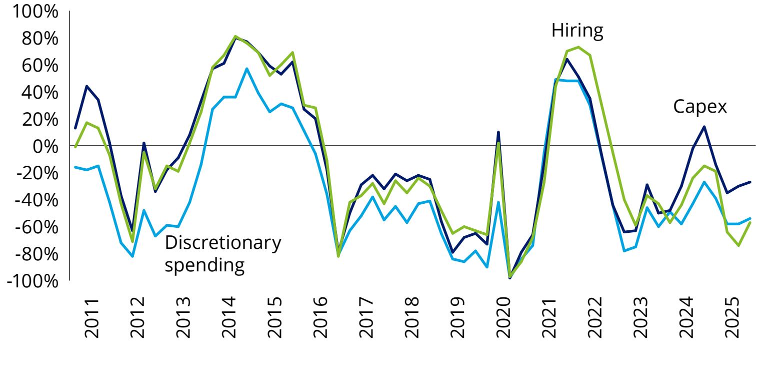


Finance leaders reported an uptick in risk appetite in the second quarter with 17% saying that it is a good time to take greater risk onto their balance sheets. This is below the long-term average of 25%.

Chart 5. Corporate risk appetite
% of CFOs who think this is a good time to take greater risk onto their balance sheets

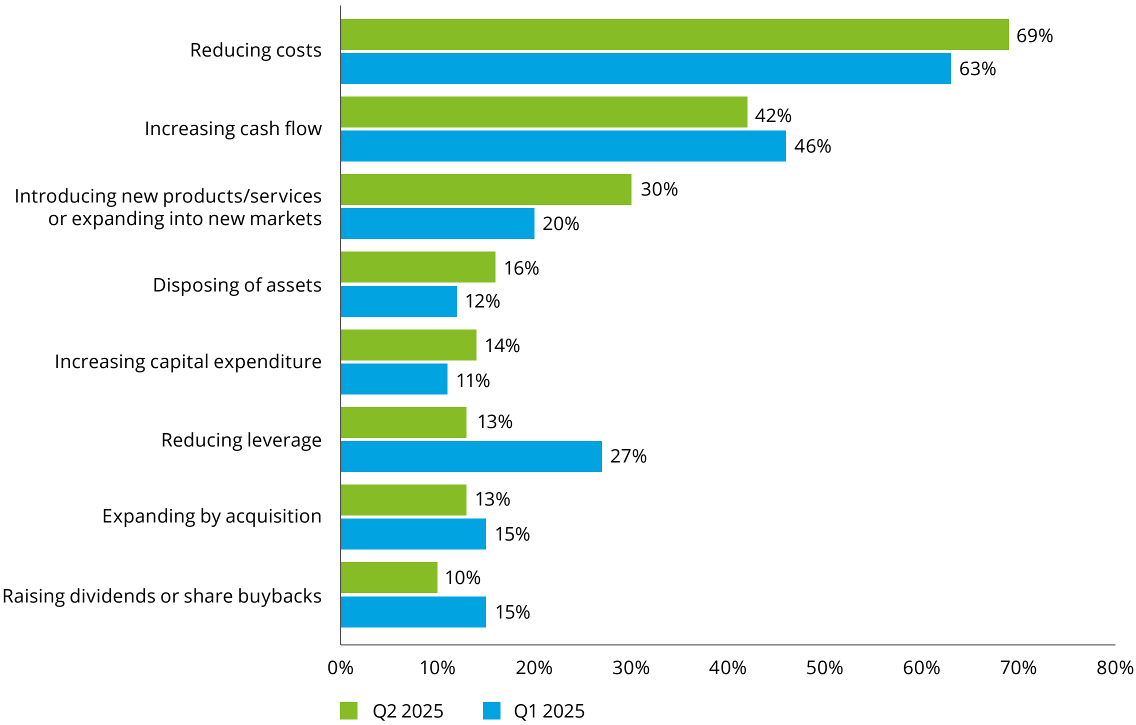
On balance CFOs remain negative on prospects for capital spending, discretionary spending and hiring as they have been since the second half of 2024.

Chart 6. Outlook for corporate spending
Net % of CFOs who expect UK corporates' capital expenditure, discretionary spending and hiring to increase over the next 12 months



Greater focus on expansionary strategies

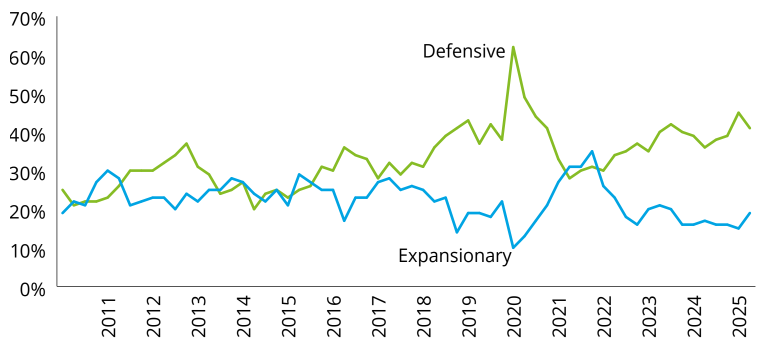
Chart 7. Corporate priorities in the next 12 months
% of CFOs who rate each of the following as a strong priority for their business in the next 12 months



CFOs' focus on cost reduction rose to a new post-pandemic high in the second quarter. However, a somewhat reduced focus on cash flow and paying down debts mean that our overall measure of corporate defensiveness has fallen for the first time in a year. At the same time CFOs have become rather more positive about introducing new products, expanding into new markets and increasing capital expenditure, leading to a slight uptick in our index of expansionary strategies.

So while defensive strategies are firmly in favour with CFOs, the gap with expansionary strategies has narrowed slightly.

Chart 8. Expansionary and defensive strategies*
Arithmetic average of the % of CFOs who rate expansionary and defensive strategies as a strong priority for their business in the next 12 months

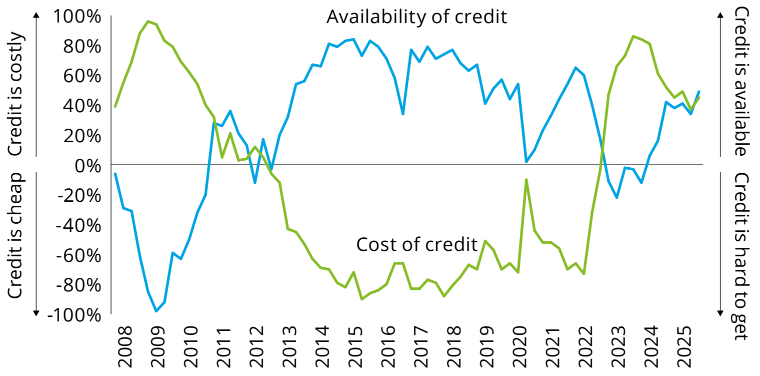


* Expansionary strategies are introducing new products/services or expanding into new markets, expanding by acquisition and increasing capital expenditure. Defensive strategies are reducing costs, reducing leverage and increasing cash flow.

Inflation and rate expectations decline

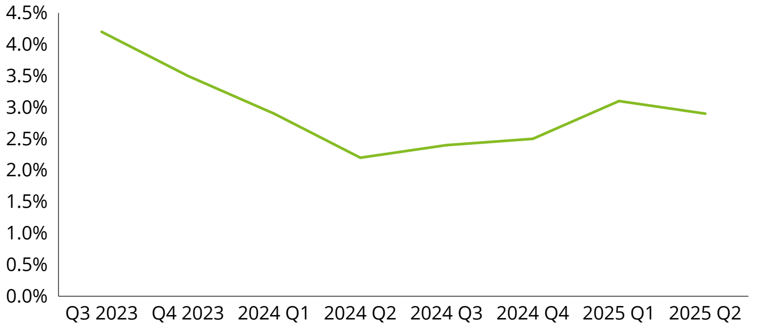
Corporate credit availability remains good but costs, although down from recent peaks as the Bank of England cuts interest rates, remain elevated.

Chart 9. Cost and availability of credit
Net % of CFOs reporting credit is costly and credit is easily available



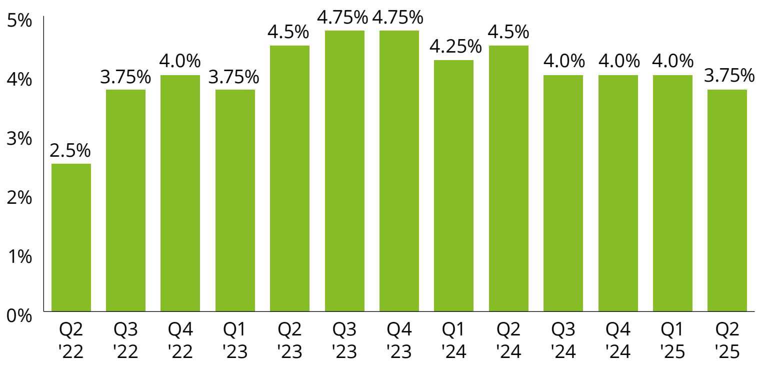
CFOs now expect inflation, which stood at 3.4% in the year to May, to decline to 2.9% by the middle of next year.

Chart 10. Inflation expectations
CFOs' median expectation for inflation in one year's time



CFOs expect that the Bank of England will lower its base rate from 4.25% in June to 3.75% by June 2026.

Chart 11. Interest rate expectations
CFOs' median expectations for the Bank of England's base rate in one year's time

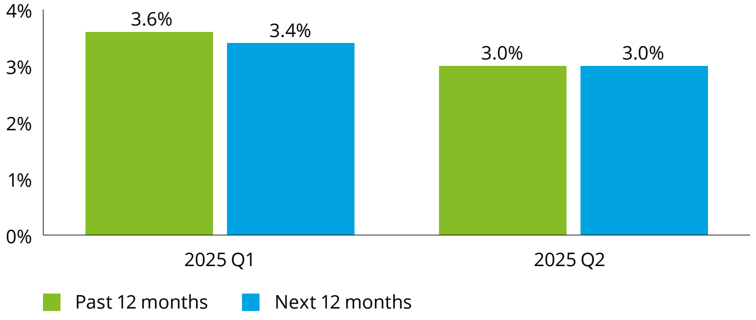


CFOs report continued wage slowdown

CFOs report an easing of wage pressures and expect this to continue over the next year.

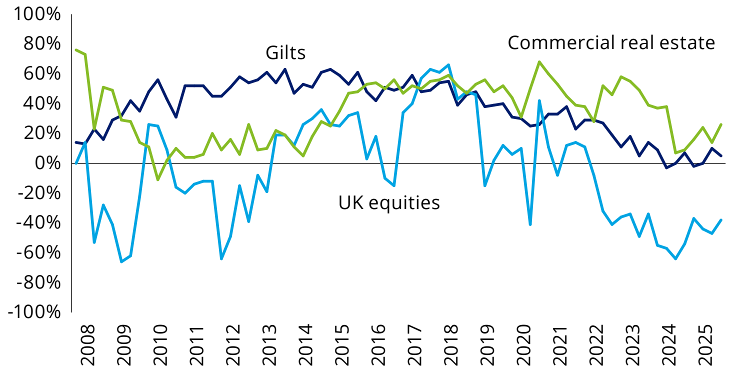
On average CFOs see wages in their own businesses growing by 3.0% over the next 12 months compared to reported growth of 3.4% over the last 12 months.

Chart 12. Wage expectations
CFOs' median reported increase in average wages in their business over the past 12 months and their expectations for the next 12 months



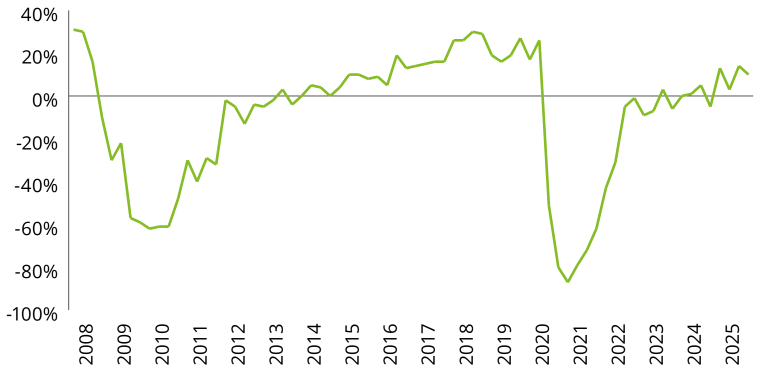
On balance CFOs see real estate and gilts as being overvalued and equities as undervalued.

Chart 13. Asset valuations
Net % of CFOs who rate the following assets as overvalued



A net 10% of finance leaders report that cash returns to shareholders are high relative to normal levels. This number has been broadly trending up for the past three years and may indicate that the corporate sector has scope to boost investment should opportunity present itself.

Chart 14. Cash returns to shareholders
Net % of CFOs who think that cash return to shareholder ratios (including both dividends and share buybacks) are high relative to normal levels

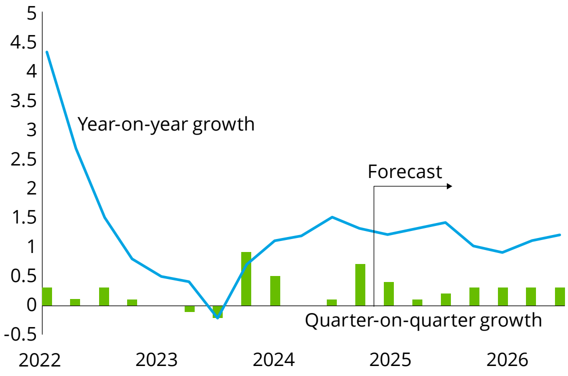


CFO Survey: Economic and financial context

The macroeconomic backdrop to the Deloitte CFO Survey Q2 2025

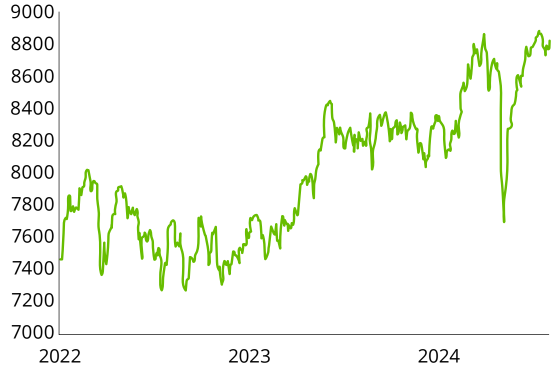
In April, average US import tariffs briefly reached a 100-year high before the US administration announced a 90-day pause in the application of tariffs to allow for negotiations. A limited trade agreement between the UK and US, announced in May, provided some certainty on trading arrangements for the UK but the future of US tariffs for other countries was unclear with the pause due to expire on 9 July. Forecasts for US GDP growth in 2025 saw sharp downward revisions and the dollar continued to weaken. The UK saw stronger-than-expected growth of 0.7% in the first quarter, however more timely data suggested a subsequent softening in activity. Rises in employer national insurance and minimum wages in the UK in April added to the pressure on businesses. NATO members agreed to boost defence spending to 5% of GDP by 2035. While euro area activity remained subdued, European equities performed well amid growing expectations of higher government spending and borrowing to fund defence and infrastructure spending. The Federal Reserve kept interest rates on hold, while the Bank of England and European Central Bank further reduced their interest rates. Oil prices briefly reached $79 per barrel in June following hostilities between Israel and Iran, but subsequently fell back to below $70, well below the average level of the last three years.

UK GDP growth: Actual and forecast (%)



Source: Refinitiv Datastream, Deloitte calculations

FTSE 100 price index

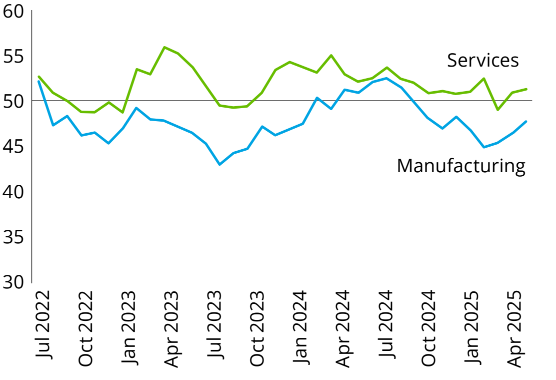


Source: Refinitiv Datastream

GfK Consumer Confidence Index (UK)

Source: Refinitiv Datastream

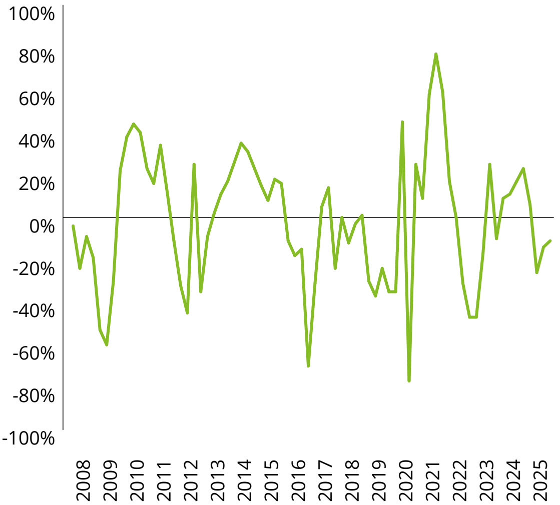
S&P Global/CIPS Purchasing Managers' Indices (UK)



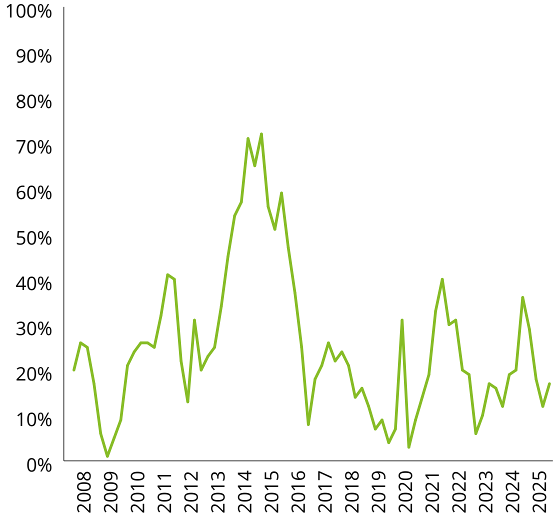
Source: Refinitiv Datastream, readings above 50 indicate expansion

Two-chart summary of key survey messages

Optimism
Net % of CFOs who are more optimistic about the financial prospects of their business than three months ago



Corporate risk appetite
% of CFOs who think this is a good time to take greater risk onto their balance sheets



About the survey
Conducted between 16th and 29th June 2025, the Q2 2025 Survey is the 72nd quarterly survey of Chief Financial Officers and Group Finance Directors of major companies in the UK. Overall, 66 CFOs participated, including the CFOs of 10 FTSE 100 and 22 FTSE 250 companies. The rest were CFOs of other UK-listed companies, large private companies and UK subsidiaries of major companies listed overseas. The combined market value of the 37 UK-listed companies surveyed is £386 billion, or approximately 14% of the UK quoted equity market.

The Deloitte CFO Survey is the only survey of major corporate users of capital that gauges attitudes to valuations, risk and financing. To join our panel of CFO respondents and for additional copies of this report, please contact Elaine Hoang on 020 7007 4717 or email ehhoang@deloitte.co.uk.

Authors

Ian Stewart
Chief Economist
020 7007 9386
istewart@deloitte.co.uk

Tom Simmons
Senior Economist
020 7303 7970
tsimmons@deloitte.co.uk

Peter Ireson
Economic Analyst
011 7984 1727
pireson@deloitte.co.uk

Thomas Avis
Economic Analyst
011 3341 6809
twavis@deloitte.co.uk

Key contacts

Ian Stewart
Chief Economist
020 7007 9386
istewart@deloitte.co.uk

David Anderson
CFO Programme Leader
020 7303 7305
davidjanderson@deloitte.co.uk

For current and past copies of the survey, historical data and coverage of the survey in the media and elsewhere, please visit: **www.deloitte.co.uk/cfosurvey**

Deloitte.

Designed and produced by 368 at Deloitte. J60083