

Deloitte CFO Survey Q4 2024

CFOs double down on costs

The latest Deloitte CFO Survey, conducted between 3 and 16 December, shows that optimism among chief financial officers of the UK's largest businesses has fallen to a two-year low. But it remains well above the lows seen in 2020 and 2022. CFOs enter 2025 with a sharp focus on cost control. They are responding to the forthcoming increase in National Insurance Contributions (NICs) mainly through cutting costs. Raising productivity and prices emerge as lesser, though important, strategies for dealing with higher NICs.

With cost control to the fore, CFOs have trimmed expectations for corporate investment, discretionary spending and, in particular, hiring, in the next 12 months. Employment expectations have seen the sharpest fall since the start of the pandemic in early 2020.

The announced increase in NICs accounts for roughly two-thirds of the increase in taxes announced by the chancellor in last October's budget, which unveiled the largest package of tax increases in over 30 years. It is hardly surprising that a tax increase of this scale, focussed on corporates, has dented CFO optimism and risk appetite.

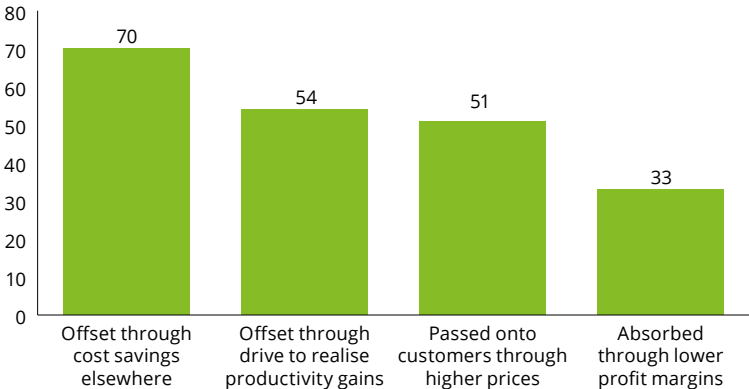
The worries about high inflation and interest rates that dominated CFO thinking for much of the last four years have faded. CFOs see wage pressures easing over the next year and expect the Bank of England to reduce interest rates by 75bp in 2025, to 4.0% by the end of the year. An easier monetary environment is feeding through to credit conditions, with CFOs reporting that credit is more available than it has been for most of the last five years.

Geopolitics tops CFOs' list of external risks to their businesses for the sixth consecutive quarter. But energy prices, which were a major concern for CFOs a year ago, have dropped down the risk list, in part, perhaps because oil prices fell in 2024 despite ongoing conflicts in the Middle East and Ukraine.

The decline in CFO sentiment has not been accompanied by the sort of sharp rise in perceptions of uncertainty that was seen during the pandemic and, in 2022, as inflation surged. Indeed, CFOs' perceptions of uncertainty are running well below the levels seen in most of the last six years. Although facing a sizeable tax hike, CFOs are no longer having to contend with the endemic uncertainty, high inflation and tight credit conditions that have marked recent years.

This quarter's special question examines CFOs' views on the attractiveness of countries and regions as destinations for business investment. The UK is seen as offering a better location for investment than other rich European nations or China. However, CFOs think it has become much less attractive as a destination for capital, having seen the sharpest deterioration in attractiveness of any major region in the last ten years. The US ranks by some margin as the most attractive location, highlighting the competitive challenge Europe faces from a fast-growing US economy.

Chart 1. Responses to the rise in Employer NICs
Weighted average ratings on a scale of 0-100 for how likely CFOs are to pursue the following strategies in response to the forthcoming rise in Employer National Insurance Contributions. 0 stands for not pursuing at all and 100 stands for pursuing to the greatest extent.



Capex cuts expected

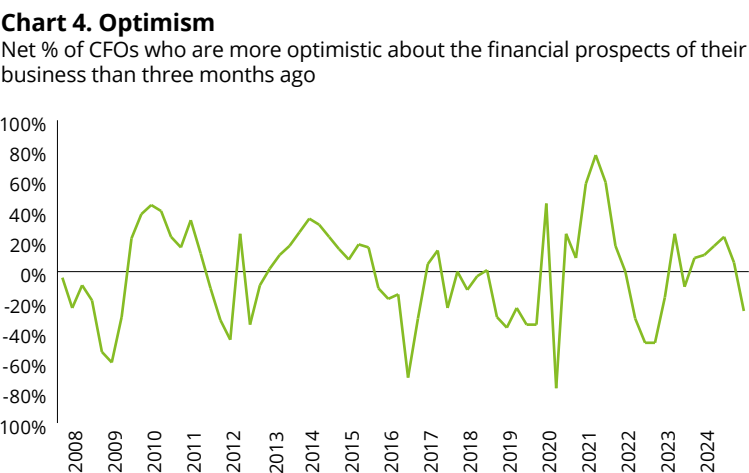
CFOs have trimmed expectations for corporate spending this year. On balance, they expect UK corporates to cut capital expenditure, discretionary spending and hiring over the next 12 months. Hiring expectations have seen the sharpest fall since the beginning of the pandemic in early 2020.



Some 18% of finance leaders think that now is a good time to take additional risk onto their balance sheets, the weakest appetite for risk in five quarters.



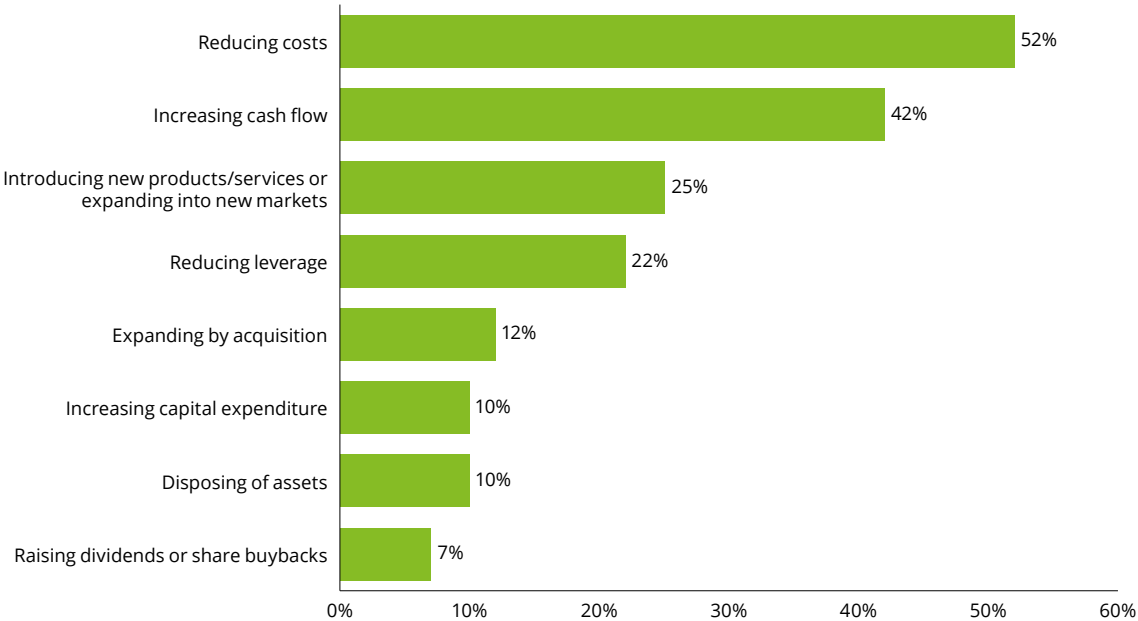
A net* -26% of CFOs reported feeling more optimistic about the prospects of their business in the final quarter of 2024, the first time sentiment has tipped into negative territory since the second quarter of 2023.



* A number of the findings in this survey report are presented in terms of net balances. The net balance here (-26%) was computed by subtracting the percentage of CFOs less optimistic from the percentage more optimistic.

Cost reduction is top priority

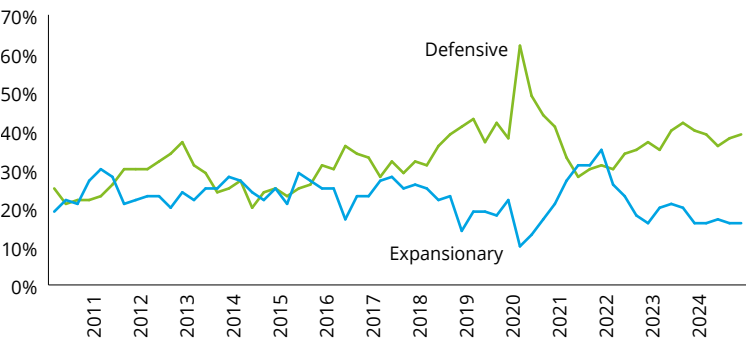
Chart 5. Corporate priorities in the next 12 months
% of CFOs who rate each of the following as a strong priority for their business in the next 12 months



CFOs continued to rate defensive strategies as their top two priorities. Cost reduction is their greatest priority for the 11th consecutive quarter, followed by increasing cash flow. Finance leaders reported a modest sharpening of focus on introducing new products or services and expanding into new markets, which is an expansionary strategy. But they are placing lesser emphasis on other expansionary strategies such as expanding by acquisition and increasing capital expenditure.

Overall, CFOs are set to maintain a cautious stance over the next 12 months, with a much more defensive positioning than the long-term average. Expansionary strategies have been assigned a lower average rating than now on just three occasions over the last 14 years.

Chart 6. 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

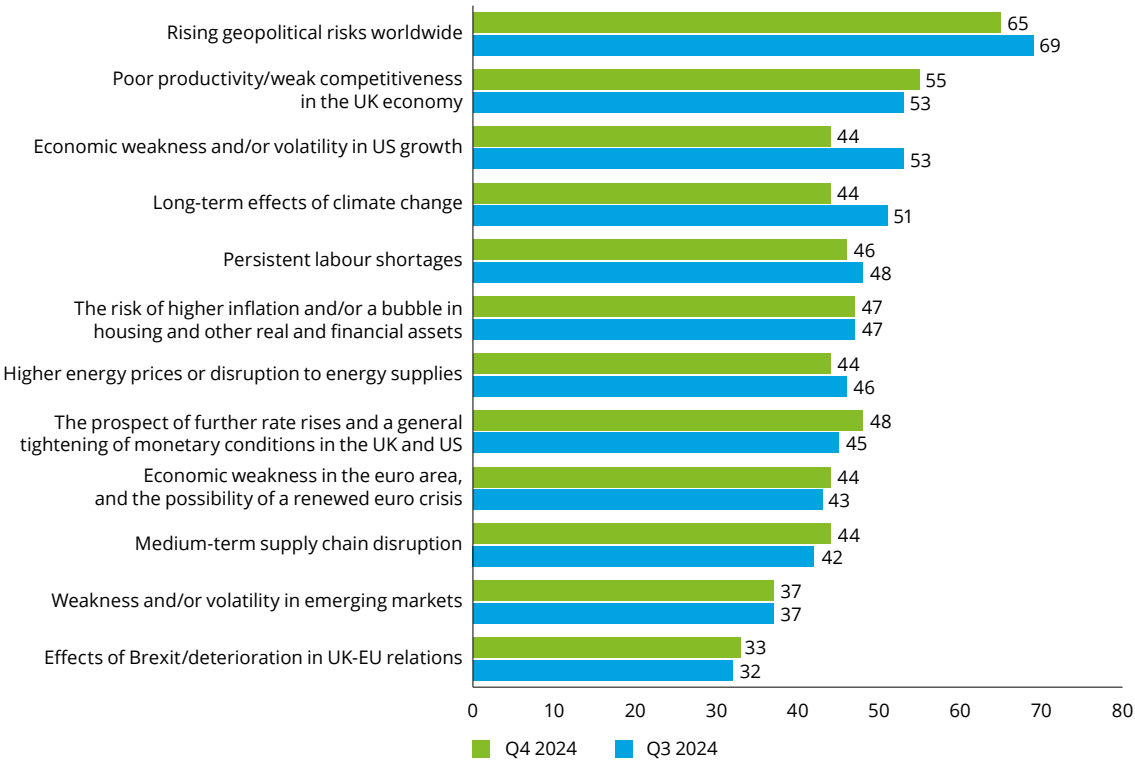


* Expansionary strategies are introducing new products/services or expanding into new markets, expanding by acquisition and increasing capital expenditure. Defensive strategies are reducing costs, reducing leverage and increasing cash flow.

Uncertainty up

Chart 7. 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



Heightened geopolitical tensions continue to cloud the outlook for CFOs, topping our list of risks to business as they have done in 10 of the last 12 quarters. Concerns over competitiveness in the UK economy have been running above the long-term average for the past two years. This quarter saw a notable drop in concerns over US growth.

Finance leaders reported an increase in economic uncertainty in the fourth quarter, with the proportion saying their business faced a high or very high level of external uncertainty rising to 40%. Although this is a one-year high, uncertainty remains below its post-2016 average.

Chart 8. Uncertainty

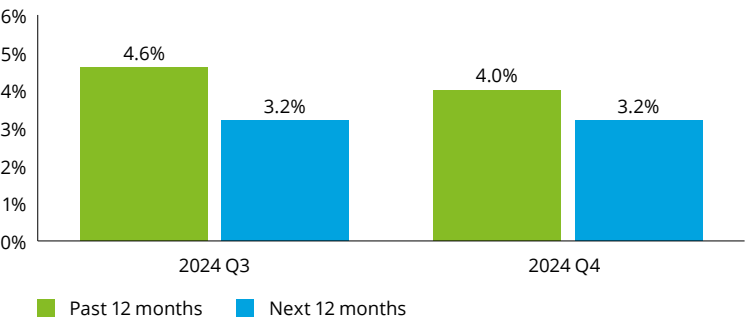
% of CFOs who rate the level of external financial and economic uncertainty facing their business as high or very high



Wage growth to slow

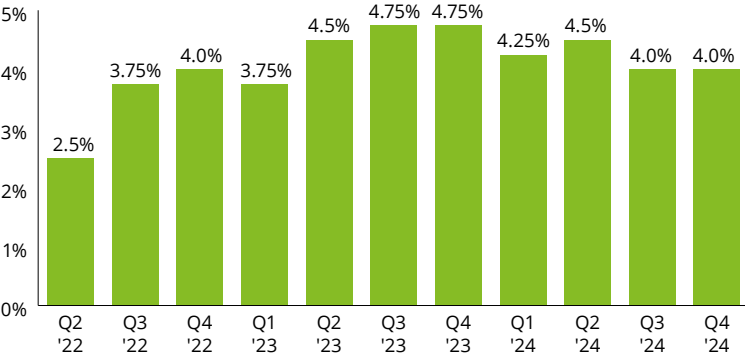
Wage increases are slowing, with the CFOs reporting that average wages rose by 4% at their business over the past 12 months. They continue to expect the pace of wage increases to slow to 3.2% over the next 12 months.

Chart 9. 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



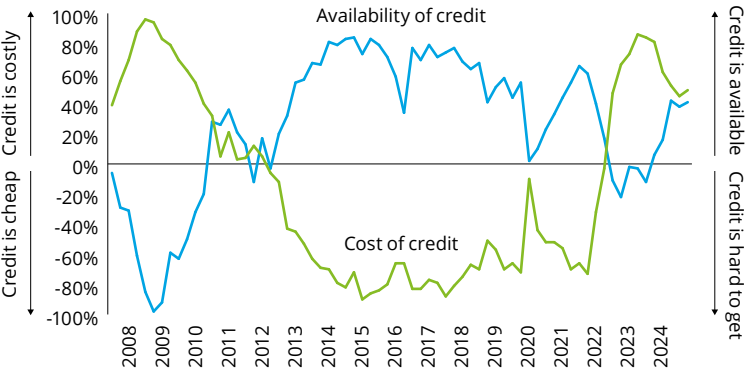
Finance leaders expect that the Bank of England will cut interest rates to 4% by the end of 2025 from their current level of 4.75%.

Chart 10. Interest rate expectations
CFOs' median expectations for the Bank of England's base rate in one year's time



Although CFOs reported a very modest increase in the cost of credit in the fourth quarter, credit conditions remain much better than in 2023. A net 41% rated credit as available while a net 49% rated it as costly.

Chart 11. Cost and availability of credit
Net % of CFOs reporting credit is costly and credit is easily available



US attracts investment

Table 1. Ranking of business investment destinations

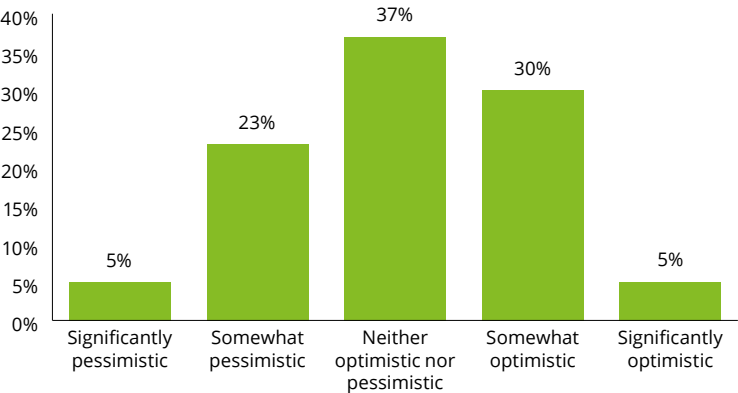
Net % of CFOs who think the following destinations are somewhat or very attractive as a place for businesses to invest and the net % of CFOs who think that destination's attractiveness has improved over the past ten years

Ranking	Destination	Net attractiveness score	Net improvement over the past 10 years
1	US	59%	28%
2	India	16%	42%
3	Major Middle Eastern economies	7%	34%
4	Emerging Europe (including central and eastern European economies)	-7%	18%
5	Japan	-11%	4%
6	UK	-12%	-63%
7	Developed Europe ex UK	-36%	-56%
8	China	-49%	-35%

This quarter we asked a special question on the attractiveness of different destinations for business investment. The US is seen as the star destination, with an overwhelming majority of CFOs rating it as an attractive investment proposition. While investing in the UK remains a more attractive proposition than in other developed European economies, it has seen a significant decline in attractiveness over the past ten years. A substantial competitiveness gap seems to have opened up between the UK or developed Europe and the US, which continues to benefit from easy fiscal policy and a lower cost of energy. Among emerging economies, India and major economies in the Middle East are seen as having become much more attractive over the past ten years and perform strongly in our ranking. Of the places we enquired about, China is seen as the least attractive destination for investment.

When asked how optimistic they were about the financial prospects for their businesses in 2025, compared to last year, there was notable diversity in opinion among the CFOs on our panel. On balance, the optimists won out by a small majority.

Chart 12. Optimism about 2025
% of CFOs who report the following sentiment about financial prospects for their businesses in 2025 compared with 2024

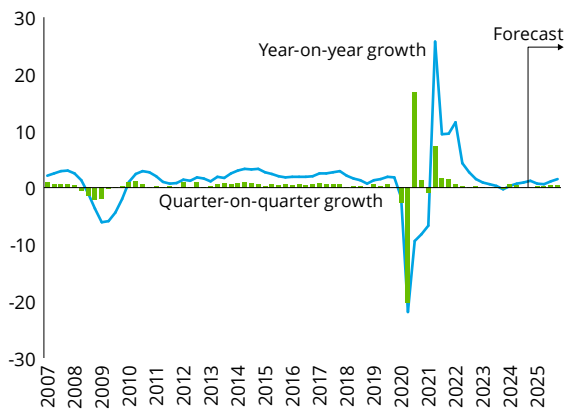


CFO Survey: Economic and financial context

The macroeconomic backdrop to the Deloitte CFO Survey Q4 2024

The UK economy slowed further, euro area activity remained weak, while the US economy continued to outperform, according to high-frequency PMI data for the fourth quarter. Authorities in China announced significant fiscal stimulus packages, targeted at boosting domestic demand and supporting the property sector. Central banks in the West continued cutting interest rates as inflation remained close to target levels. The US Federal Reserve, European Central Bank and Bank of England cut rates by 1, 0.75 and 0.5 percentage points, respectively, last year. Political events dominated news headlines in the fourth quarter. In the UK, the Labour government announced additional spending on public services worth £70bn a year in its first budget. This is to be funded partly by annual tax rises of about £40bn, primarily through higher employer National Insurance Contributions. In the US, Donald Trump's victory in the presidential election took US equity markets to record highs, as investors priced in pledged tax cuts and deregulation. Businesses and investors are awaiting further detail on the incoming Trump administration's trade policies following campaign pledges of higher tariffs. In Europe, political uncertainty increased as both the French and German governments collapsed. French bond yields briefly rose above those of Greece when prime minister Michel Barnier resigned after failing to push through a politically contentious deficit-reducing budget. The German coalition government fell apart over the issue of how to boost its ailing economy, with elections now scheduled for February. Geopolitical tensions remained elevated with developments in the Middle East and Ukraine.

UK GDP growth: Actual and forecast (%)



Source: LSEG Datastream, Deloitte calculations

FTSE 100 price index



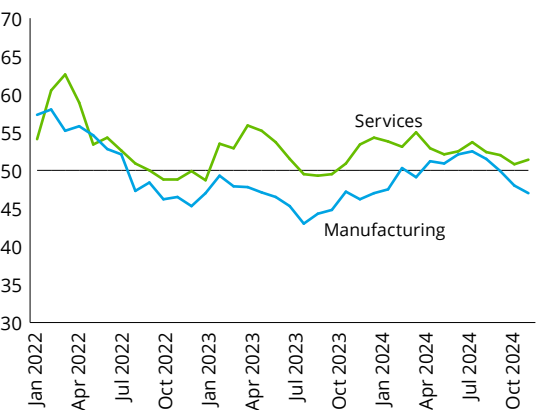
Source: LSEG Datastream

GfK Consumer Confidence Index (UK)



Source: LSEG Datastream

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

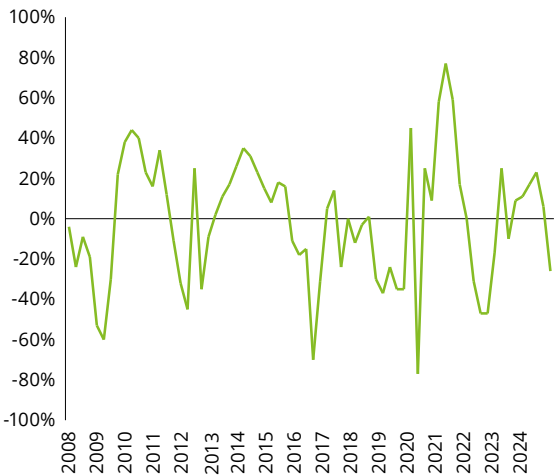


Source: LSEG Datastream, readings above 50 indicate expansion

Two-chart summary of key survey messages

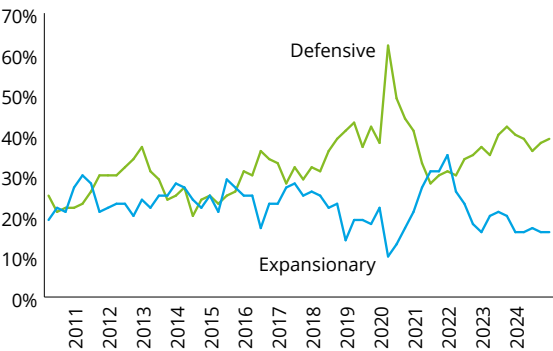
Optimism

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



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.

About the survey

This is the 70th quarterly survey of Chief Financial Officers and Group Finance Directors of major companies in the UK. The 2024 fourth quarter survey took place between 3rd December and 16th December. Overall, 63 CFOs participated, including the CFOs of 29 FTSE 350 companies. The rest were CFOs of other UK-listed companies, large private companies and UK subsidiaries of major companies listed overseas.

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.

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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

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