Deloitte CFO Survey Q1 2025

Defensive strategies dominate

The latest Deloitte CFO Survey, conducted between 18 and 31 March, shows that the UK's largest businesses are assuming their most defensive strategy stance since the early days of the pandemic in the face of rising operating costs and significant uncertainty over US tariffs.

The survey took place during a period of intense speculation over US trade policy and shows that even before the announcement of broad tariffs on 2 April, concern over geopolitical risk had risen to its highest level since the invasion of Ukraine. This was driven by worries over the impact of tariffs, sanctions and restrictions to market access, which CFOs now rate as the most prominent channel through which geopolitics could impact their businesses. As governments respond to the evolving geopolitical landscape, finance leaders are also more apprehensive of potentially higher taxation.

Meanwhile, concern over weakness or volatility in US growth has risen to its highest level since we began asking the question nearly five years ago. CFOs' views seem aligned to that of markets, who have judged the tariffs, which went further than many were expecting, and potential retaliation, as clouding the US economic outlook.

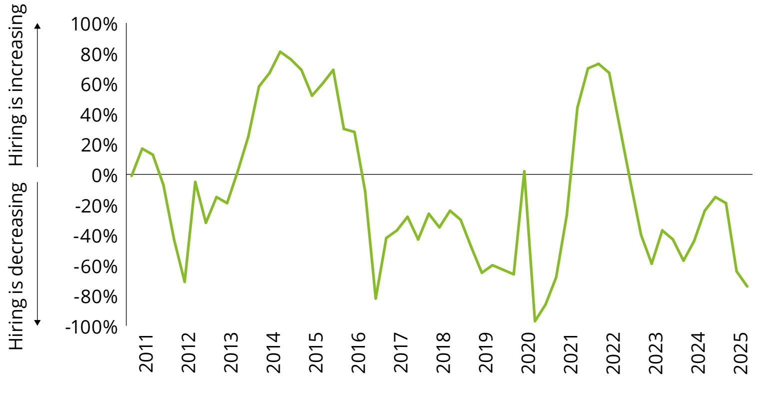
Closer to home, finance leaders continue to expect higher operating costs over the next 12 months, ahead of imminent increases in employer National Insurance and the minimum wage. There is notably less certainty that revenue growth will keep pace with costs, with a majority of CFOs expecting a decline in operating margins.

Our panel see a cooling labour market in the UK – the proportion of businesses reporting greater than mild recruitment difficulties has fallen to 29%, down from 86% three years ago. Looking ahead to the next 12 months, CFOs expect to see the sharpest decline in corporate hiring since Q3 2020 and expect wage growth to slow from 3.6% to 3%.

For the third quarter in a row, their expectations of inflation have increased and they see inflation as likely to remain above the Bank of England's target over the next two years. Given the implied reduction in the Bank's room for further easing, for the first time in over a year, CFOs do not expect a decline in financing costs for corporates.

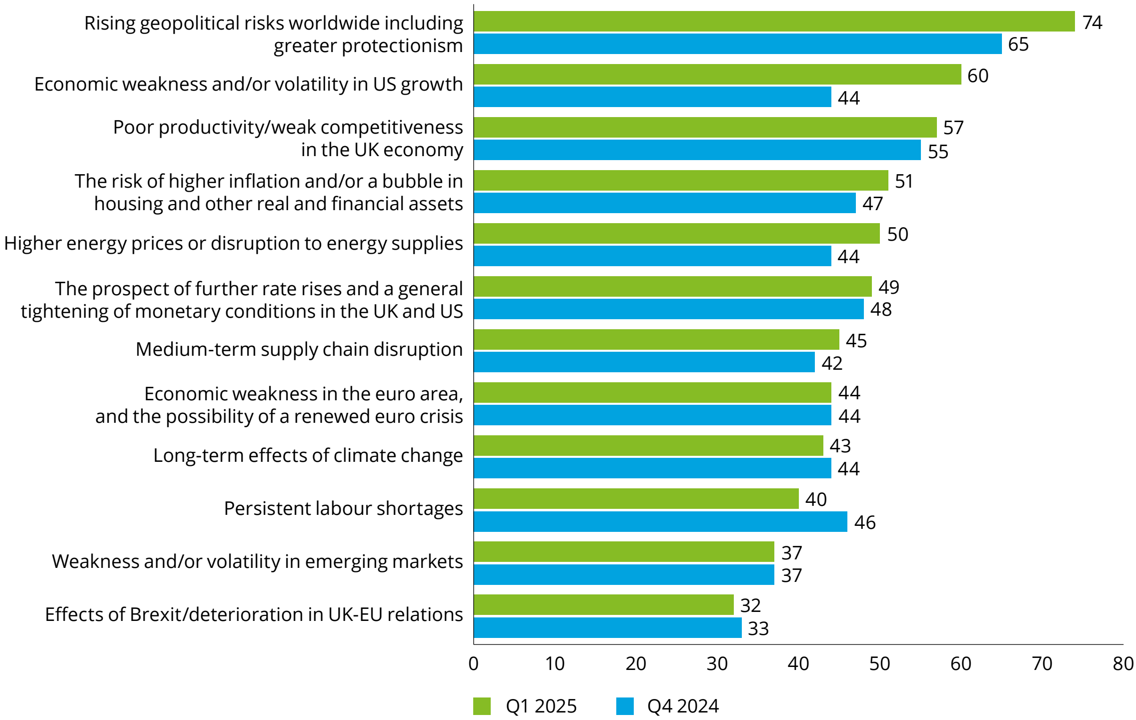
CFOs are reacting to this more challenging international and domestic environment by prioritising defensive strategies such as increasing cashflow, reducing leverage and, in particular, reducing costs – now assigned a greater priority than at any point on record, except the early days of the pandemic. This survey suggests that large UK businesses are bracing for turbulence by bearing down on costs and hiring, in what is already a challenging environment for growth this year.

Chart 1. Outlook for corporate hiring
Net % of CFOs who expect UK corporates' hiring to increase over the next 12 months



Spike in worries over US growth

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

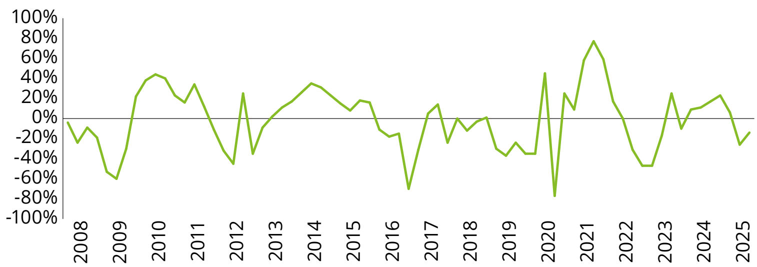


Conducted prior to the announcement of sweeping tariffs on 2 April but during a period of intense speculation about US trade policy, this quarter's survey saw CFOs assign the highest risk rating to geopolitics since Russia's invasion of Ukraine three years ago. Simultaneously, concern over US growth rose sharply to its highest level since we began asking this question in Q3 2020. In addition to the impact of potential tariff rises, this may reflect the declines in US stock markets seen prior to the opening of the survey and weaker consumer and business confidence in recent months.

Concerns about poor productivity and weak competitiveness in the UK have been creeping up and now stand at the joint-highest level since we began asking the question in late 2014 – at that time CFOs reported it as the least significant risk facing their business.

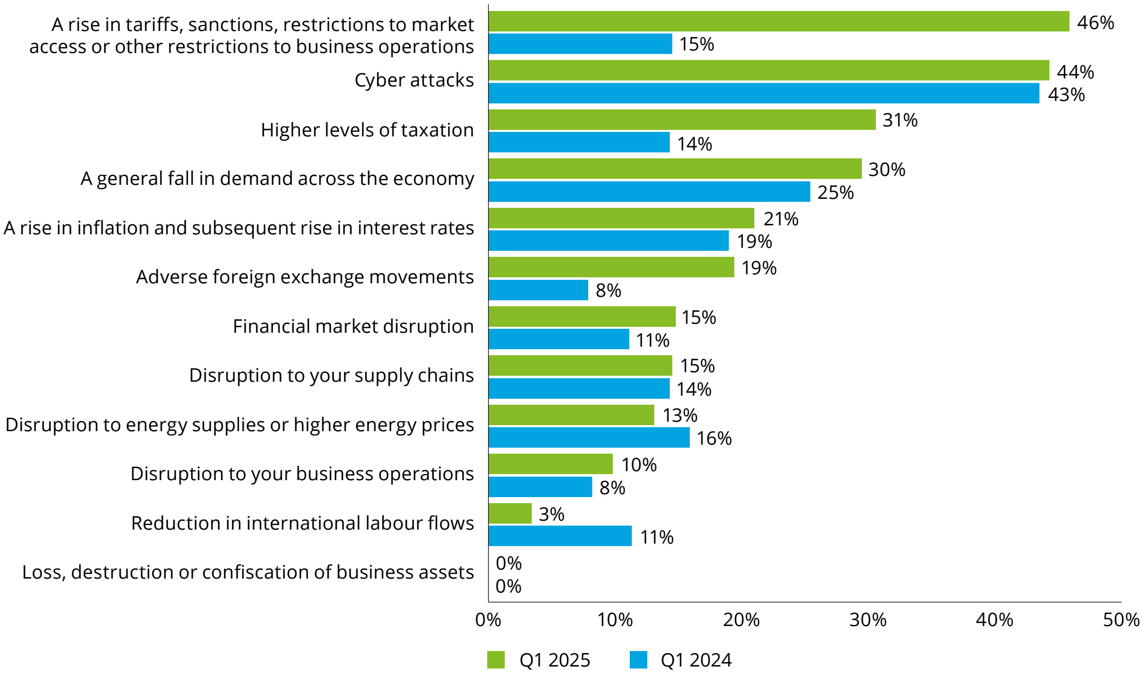
On balance, CFOs continue to report feeling more negative about the financial prospects of their own business, with a net 14% reporting a deterioration in sentiment over the past three months. However, optimism remains well above the lows seen during the pandemic in 2020 or after Russia's invasion of Ukraine in 2022.

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



Tariffs are top geopolitical risk

Chart 4. Consequences of adverse geopolitical developments
% of CFOs who are significantly concerned over the following possible consequences of adverse geopolitical developments on their business over the next three years considering both their likelihood and potential impact on their business



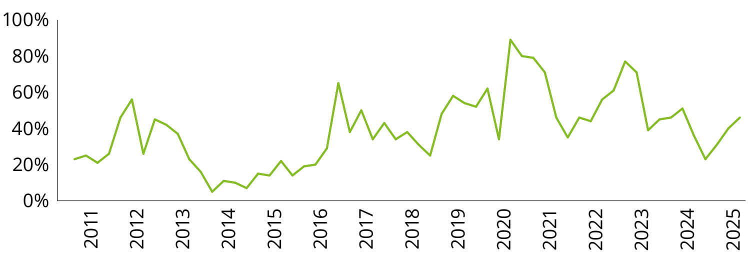
This quarter we repeated a set of questions asked at the same time last year, on how CFOs see geopolitics impacting their own businesses. The most notable difference is a sharp increase in the proportion of CFOs reporting that they are significantly concerned about a rise in tariffs, sanctions, restrictions to market access or other restrictions to business operations from 15% to 46%, reflecting ongoing global events.

Cyber attacks are rated the second most prominent channel through which geopolitics could impact businesses, with 44% of CFOs reporting that they are significantly concerned over the potential impact to their business.

Other notable increases are that 31% of CFOs report significant concern over higher levels of taxation for their businesses, as governments respond to the evolving geopolitical landscape, while 19% of CFOs report that adverse foreign exchange movements are a significant concern.

Overall, CFOs report a more uncertain environment with 46% rating the level of uncertainty facing their businesses as high or very high, the highest reading since the end of 2023.

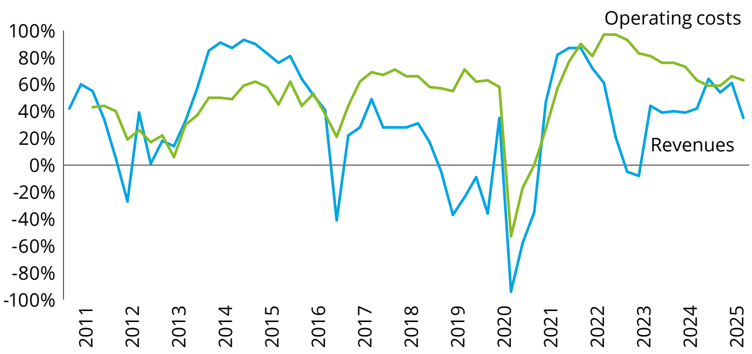
Chart 5. Uncertainty
% of CFOs who rate the level of external financial and economic uncertainty facing their business as high or very high



Cost pressures persist

A net 63% of CFOs expect corporate operating costs to increase over the next 12 months while a net 35% expect to see an increase in revenues. A net 35% expect to see a fall in operating margins.

Chart 6. Outlook for revenues and operating costs
Net % of CFOs who expect UK corporates' revenues and operating costs to increase over the next 12 months

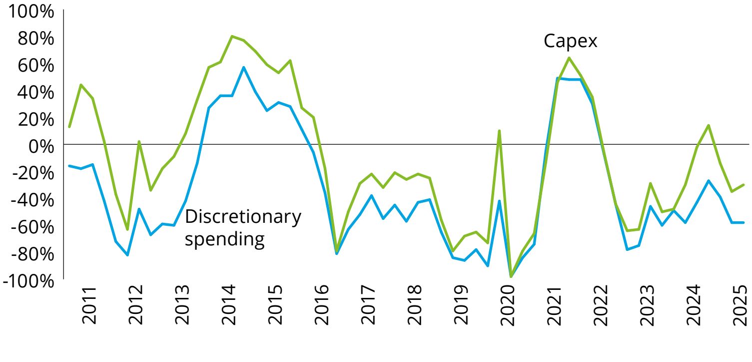


Corporate risk appetite declined in the first quarter with just 12% of CFOs reporting that now is a good time to take greater risk onto their balance sheet, less than half the long-term average of 25%.

Chart 7. Corporate risk appetite
% of CFOs who think this is a good time to take greater risk onto their balance sheets

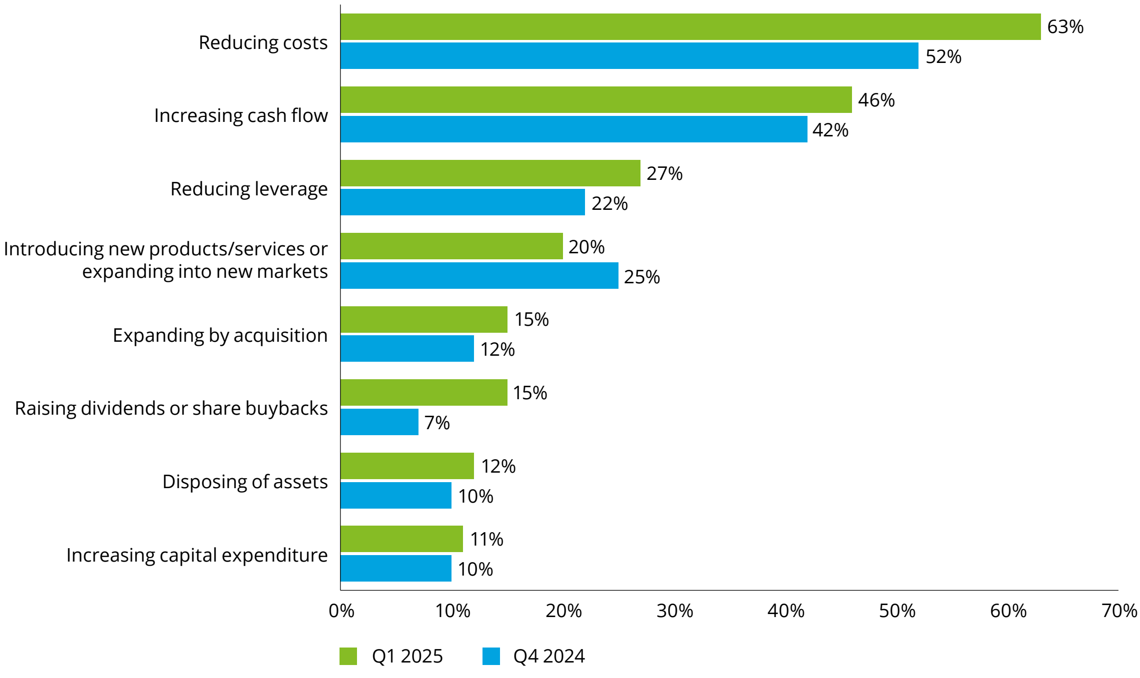
Along a sharp drop in expectations of corporate hiring, a net 30% of CFOs expect UK corporate capital expenditure to decline over the next 12 months and a net 58% expect to see a decline in discretionary spending.

Chart 8. Outlook for corporate spending
Net % of CFOs who expect UK corporates' capital expenditure and discretionary spending to increase over the next 12 months



CFOs sharpen focus on costs

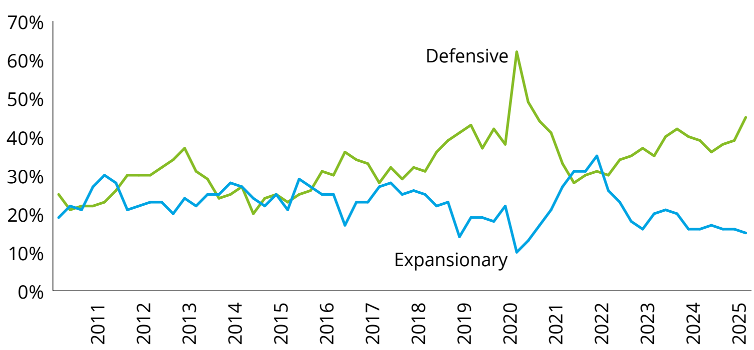
Chart 9. Corporate priorities in the next 12 months
% of CFOs who rate each of the following as a strong priority for their business in the next 12 months



CFOs have sharpened their focus on cost control with 63% saying it is a strong priority for their business, the second-highest reading on record. (The highest reading was recorded five years prior, at the start of the pandemic.) Other defensive strategies such as increasing cash flow and reducing leverage also rank highly with 46% and 27%, respectively, rating these as a strong priority. Expansionary strategies (including growing by acquisition, introducing new products/services or expanding into new markets, and increasing capital expenditure) are given lesser weight.

Overall, the gulf between defensive and expansionary strategies is at a post-pandemic high, largely driven by an increasing focus on defensive strategies.

Chart 10. 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

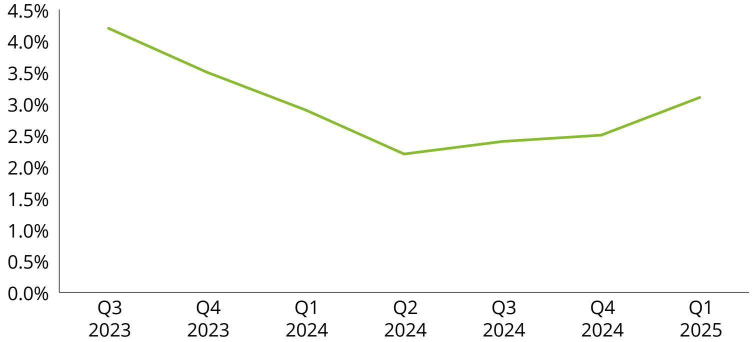


* Expansionary strategies are introducing new products/services or expanding into new markets, expanding by acquisition and increasing capital expenditure. Defensive strategies are reducing costs, reducing leverage and increasing cash flow.

Inflation worries

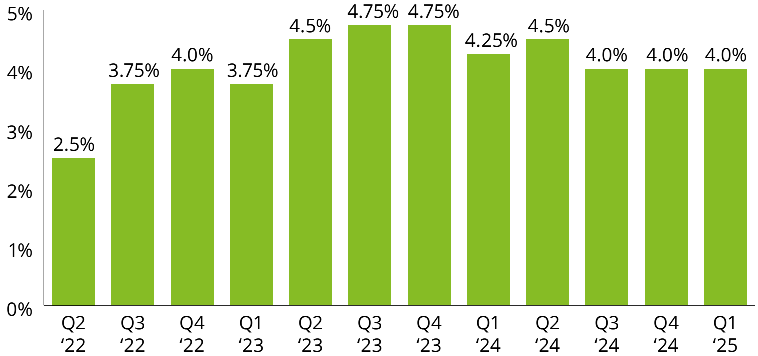
CFOs' inflation expectations increased for the third consecutive quarter with finance leaders expecting inflation of 3.1% over the next year and 2.6% over the subsequent year, up from 2.5% and 2.4% respectively.

Chart 11. Inflation expectations
CFOs' median expectation for inflation in one year's time



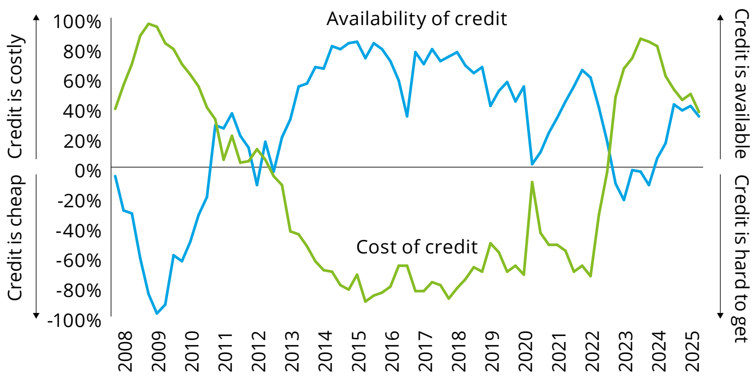
A year ago, CFOs expected that Bank Rate would currently stand at 4.25% rather than the 4.5% it is now. CFOs now expect that rates will fall to 4.0% in one year's time.

Chart 12. Interest rate expectations
CFOs' median expectations for the Bank of England's base rate in one year's time



CFOs reported a slight decline in both the cost and availability of credit, with a net 37% saying that credit is costly and a net 34% saying it is easily available.

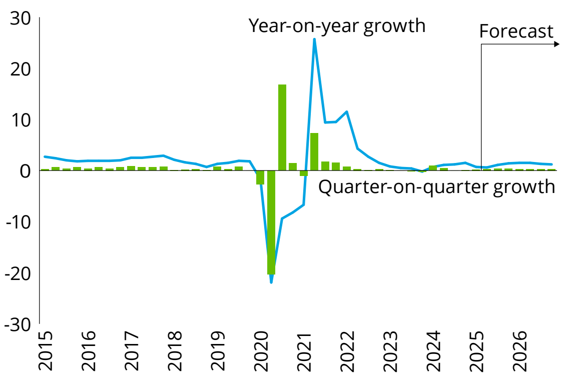
Chart 13. Cost and availability of credit
Net % of CFOs reporting credit is costly and credit is easily available



CFO Survey: Economic and financial context

The macroeconomic backdrop to the Deloitte CFO Survey Q1 2025
The CFO Survey closed on 31 March, two days before US president Donald Trump announced significant new tariffs. Even so, uncertainty about US trade policy ratcheted up throughout the quarter as tariffs were announced on China, Canada, and Mexico, as well as on steel, aluminium, and automobile imports. Economic activity remained weak in the UK and in the euro area in the first three months of the year while momentum in the US economy appeared to slow after strong growth throughout 2024, according to high-frequency PMI data. The Bank of England and the European Central Bank cut interest rates by a further 25bps and 50bps respectively while the US Federal Reserve kept rates unchanged. Inflation expectations among economists for 2025 picked up sharply for the US as they priced in the potential impact of tariffs, and to a lesser extent for the UK on higher energy bills. In the UK, the Spring Statement revealed welfare and spending cuts to restore the fiscal headroom that has been eroded since October's budget by higher public borrowing costs and a weaker growth outlook. The rise in the National Living Wage and employer's National Insurance Contributions, announced in the Budget last October, took effect at the start of April. EU nations announced plans to increase defence spending amid a shift in US foreign policy. The German parliament approved plans to reform the country's public 'debt-brake', allowing for significantly higher government borrowing for defence spending and infrastructure investment, while the European Union announced an €800bn plan to bolster member states' defence spending. Government bond yields rose in response to the projected higher public deficits, while European defence equities surged. Conflicts in the Middle East and Ukraine continued.

UK GDP growth: Actual and forecast (%)



Source: Refinitiv Datastream, Deloitte calculations

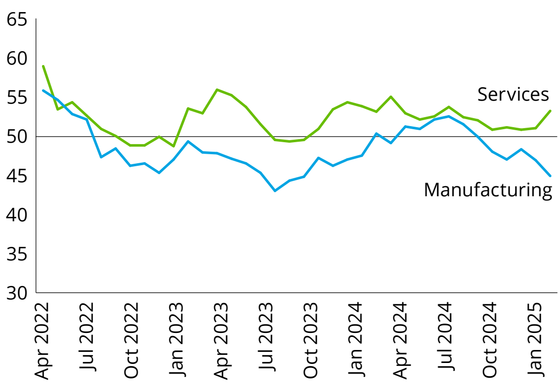
FTSE 100 price index

Source: Refinitiv Datastream

GfK Consumer Confidence Index (UK)

Source: Refinitiv Datastream

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

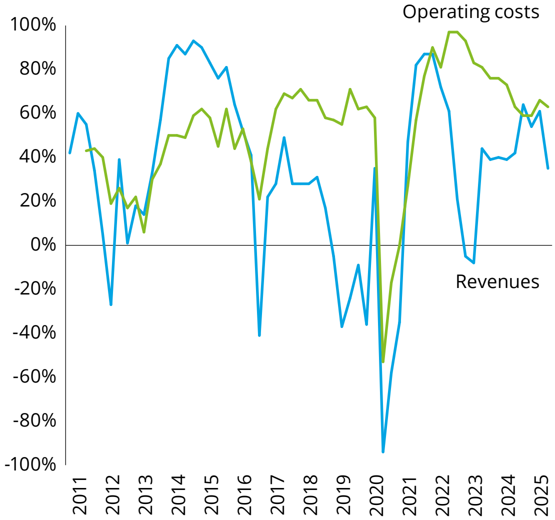


Source: Refinitiv Datastream, readings above 50 indicate expansion

Two-chart summary of key survey messages

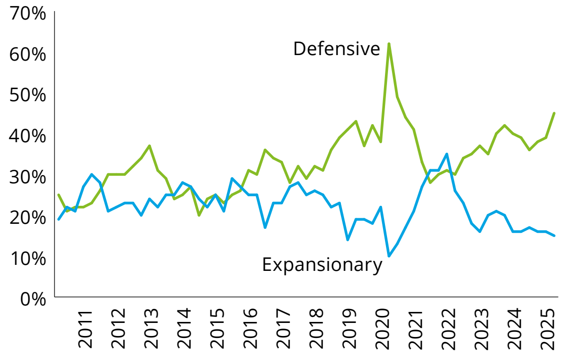
Outlook for revenues and operating costs

Net % of CFOs who expect UK corporates' revenues and operating costs to increase over the next 12 months



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



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About the survey

This is the 71st quarterly survey of Chief Financial Officers and Group Finance Directors of major companies in the UK. The 2025 first quarter survey took place between 18th March and 31st March. Overall, 67 CFOs participated, including the CFOs of 14 FTSE 100 and 20 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 42 UK-listed companies surveyed is £427 billion, or approximately 18% 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.

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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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