UK Consumer Spend Report

Q4 2025

Context

For retailers and consumer packaged goods (CPG) companies, Q4 is the most critical trading period – a make-it-or-break it moment where the expectation to perform and profit is immense.

The shape of end-of-year trade has evolved considerably over the last decade, and its complex dynamics are evident in figures from Black Friday 2024. Transaction volumes were up 12% year-on-year, buoyed by fortuitous timing with most shoppers' final payday before Christmas. Yet this spending growth masked a more complicated picture on the ground, with high-street footfall declining by 2.5% as more consumers migrated online. Yet amid all this change, one constant endures – consumers consistently spend more over the Christmas period.

As the 2025 festive season nears, many retailers may be wondering whether traditional spending patterns will prevail over challenging economic headwinds. The past 12 months have created difficult conditions, with sales volumes stagnating further and prices continuing to rise. This has driven high inflation, particularly in grocery, as businesses struggle to mitigate the margin impacts of increased national insurance contributions and the minimum wage rise that came into effect in April 2025.

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Navigating constant change to reach real value

Retailers and CPGs must keep their fingers on the pulse of consumer trends and pivot fast when conditions change. Achieving this level of insight and agility demands reliable data and flexible processes. Baringa can help you build both.

Blending unique resources like our Consumer Spending Model with deep consumer products and retail expertise, we allow you to understand how consumers are thinking, feeling, and acting. Working alongside your teams, we help your business harness the latest consumer and market insights to shape sharper strategies and operating models – driving value and growth for your business in an ever-changing world.

If you're interested in exploring more insights from our Consumer Spending Model, or ifyou'd like to discuss how we can help you refine your strategy and operations, get in touch with us today.

Executive Summary: Q4 Outlook

Section A: Low confidence is driving consumers to save, not spend

- With growth no longer coming from increasing sales volumes, retailers and CPGs face the formidable task of convincing customers to part with their hard-won earnings against a backdrop of greater caution and volatile consumer confidence.
- Ahead of the Chancellor's Autumn Budget, due to be issued in late November, many households appear to be adopting a defensive posture, saving more each month to build a financial buffer against further socio-political shocks. Consequently, even as growth in post-tax incomes has exceeded cost increases across all consumer segments, households have chosen to save rather than spend this extra discretionary income.

Section B: Consumer retail outlook for Q4 2025

- The unexpectedly high savings rate has prompted us to revise our central forecast for 2025 consumer spending growth to 1.0% (down from our prior forecasts of 1.5% in Q1 and 1.2% in Q2).
- In our central scenario, the strongest spending gains come from double income, no kids (DINKs) households and professional middle-aged families, contributing a combined £1.5bn to annual growth. Young homeowners and retired couples also significantly increase their spending, reflecting easing inflation and stronger real incomes. By contrast, spending remains flat or falls among low-income households, single parents, and graduate renters, as persistent cost pressures and higher savings rates constrain consumption.
- From a category perspective, spending increases are largest in food and drink (+£0.68bn), recreation and culture (+£1.37bn), and package holidays (+£0.65bn). Meanwhile, categories such as TV and media subscriptions and miscellaneous goods see much weaker growth.
- Alongside our central forecast, we've modelled an upside scenario, in which consumers start saving less and rediscover their appetite for spending. Under these conditions, growth accelerates sharply in certain product categories, with travel and leisure poised to benefit the most. However, this rising tide will not lift all boats. Spending behaviours diverge markedly across consumer segments, meaning retailers cannot afford to rely on broad assumptions and must dig deeper to understand where growth opportunities truly lie.

Section C: Insights shaping consumer spend into 2026

Beyond the scenario analysis, our report reveals key insights shaping consumer spend over the coming months:

- **Grocery retailers are doubling down on loyalty pricing** to chase market share. However, this strategy may prove less effective than anticipated. Price-conscious consumers are signing up to multiple loyalty schemes and shopping around to save money, rather than cementing their allegiance to any single retailer
- Consumer health catches a cold, with **shoppers forgoing trusted healthcare brands for more cost-effective alternatives**. However, vitamins and supplements offer an antidote, with a projected compound annual growth rate (CAGR) of around 7.9% for 2025-2030
- In restaurants, a **widening gap between spend and transaction growth** reveals that consumers are dining out less frequently but trading up when they do. Interestingly, this pattern inverts on special occasions, such as Easter and the May bank holidays, where frequency rises but spend per visit declines, which could bode well for the festive season.
- Fashion continues to paint a mixed picture. **Value brands are driving growth** whilst both luxury and the mid-market face headwinds.

This quarter's defining question

Against this backdrop, a key question emerges: Is all consumers want for Christmas a savings account? Or will we see them loosen the purse strings over the festive season and into the new year?

Section A: Low confidence is driving consumers to save, not spend

Findings based on the Baringa Consumer Spending Model

The Baringa Consumer Spending Model analyses expenditure patterns from the 28 million households in the UK. Unlike standard consumer surveys, our model is based on solid economic fundamentals, granular household-level data, and robust scenario analysis. It examines differences in spending across household size, regional locations, household age, and other demographic factors to offer a comprehensive overview of purchasing behaviours across multiple consumer groups and product categories.

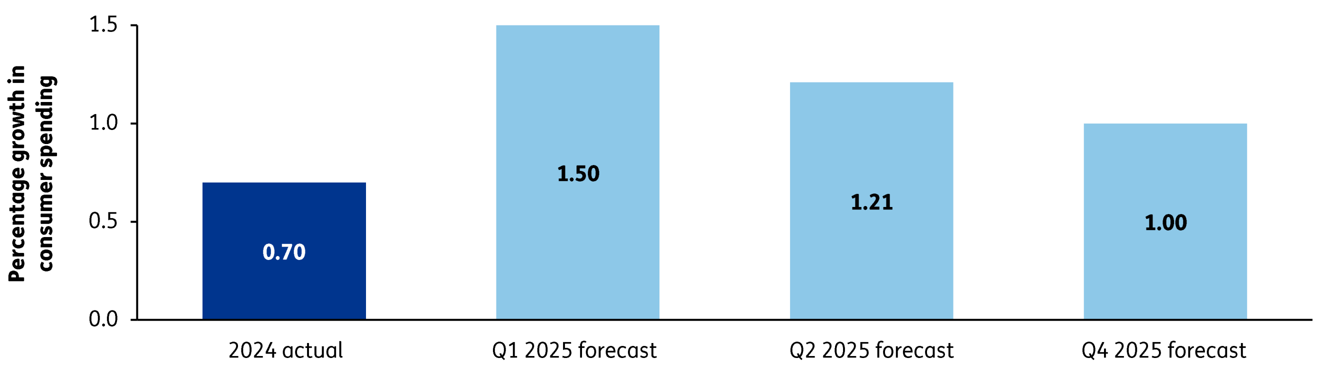
		Consumer Surveys	Baringa Consumer Spending Model
Pros	Timely	✓	✓
	Repeatable	✓	✓
	Driven by Economic Fundamentals (Accuracy)	✗	✓
	Scenario Tool	✗	✓
Cons	Sentiment Driven (Volatile	✓	✗
	Self-Perception Problem (Human Bias)	✓	✗

Amid subdued growth in consumer spending, we've revised down our 2025 forecast

In Q4, we have revised down our central outlook for 2025 consumer spending growth. Following actual growth of just 0.7% in 2024, we initially expected 2025 to be the year that retailers and consumer goods businesses got back on their feet after the pandemic, as inflation eased and real wages improved. However, these conditions haven't materialised, due to a combination of economic uncertainty, higher labour costs and shaky consumer confidence. As household spending remains low, our central outlook now anticipates 2025 consumer spending growth of 1.0%, down from our prior forecasts of 1.5% in Q1 and 1.2% in Q2.

This downwards adjustment is in line with other economic forecasts, such as the prediction from the Office for Budget Responsibility. It reflects continued consumer caution, with households choosing to save rather than spend, even as incomes rise. While the macroeconomic backdrop is improving, consumer demand is recovering more slowly and more unevenly than previously expected.

Baringa's central forecast for 2025 consumer spending growth



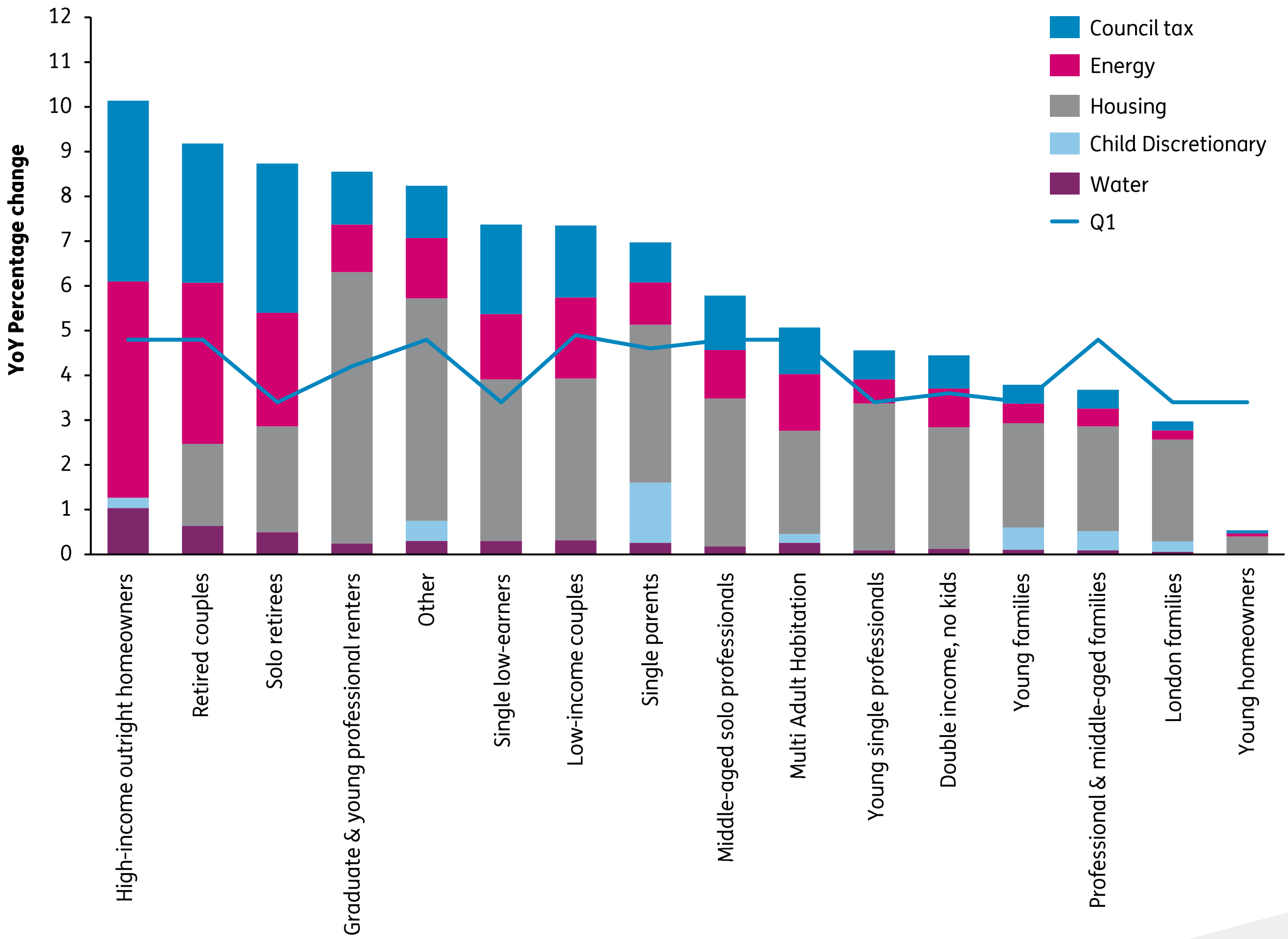
Source: Baringa Consumer Spending Model

Higher costs are driving lower spending

One key factor suppressing consumer spending is the growing weight of household bills. Costs have risen across all consumer segments since we published our Q1 forecast, driven by high energy costs and greater-than-anticipated increases in housing costs and council tax.

Whilst high earners who own their homes outright continue to face the largest absolute increases, lower-income and more vulnerable groups are experiencing sharper proportional rises compared with 2024. Renters, single parents, and lower-income couples face particularly acute pressure, as housing and energy costs account for a greater share of their total expenditure.

Percentage change in costs by consumer segment, Q1 2025 forecast versus Q4 2025 central forecast



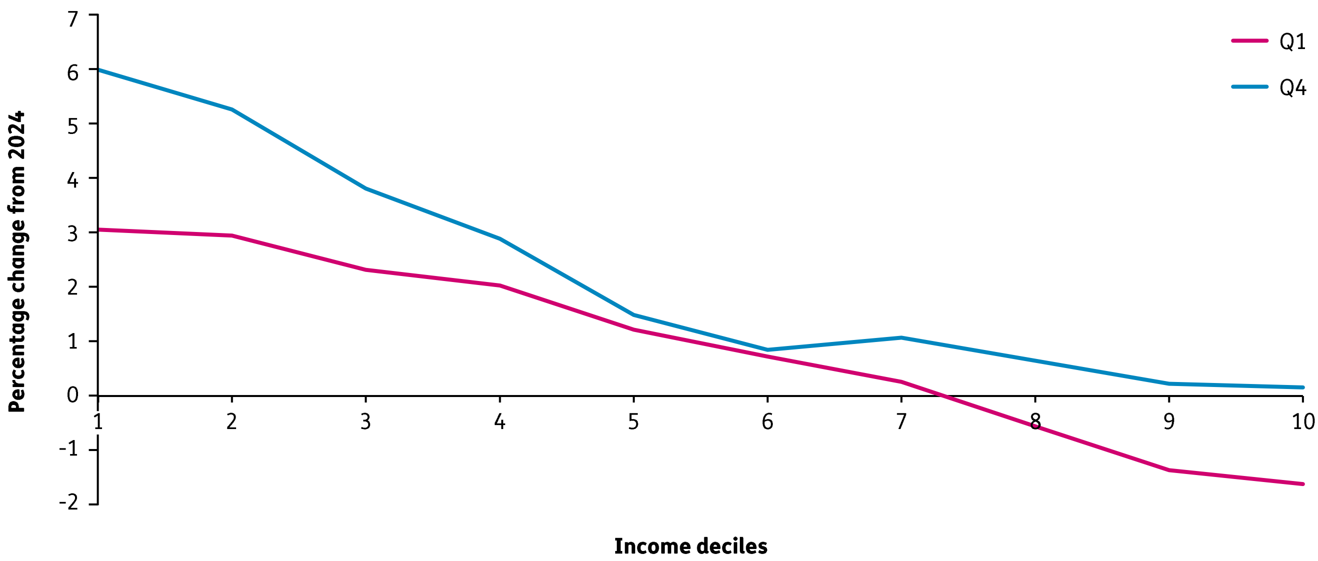
Source: Baringa Consumer Spending Model

Mortgage costs fell less then expected, while rents climbed higher

Housing cost dynamics have shifted noticeably during 2025. Rents have climbed steadily, with private rents experiencing particularly rapid increases. Both social and private renters now face higher costs compared to our Q1 forecast.

Mortgage-holders also face a challenging landscape. Interest rate cuts are filtering through to consumers more slowly than expected, meaning housing costs have eased more slowly for higher-income mortgage-holders than our Q1 forecast suggested.

Housing Costs changes across income deciles



Source: Baringa Consumer Spending Model

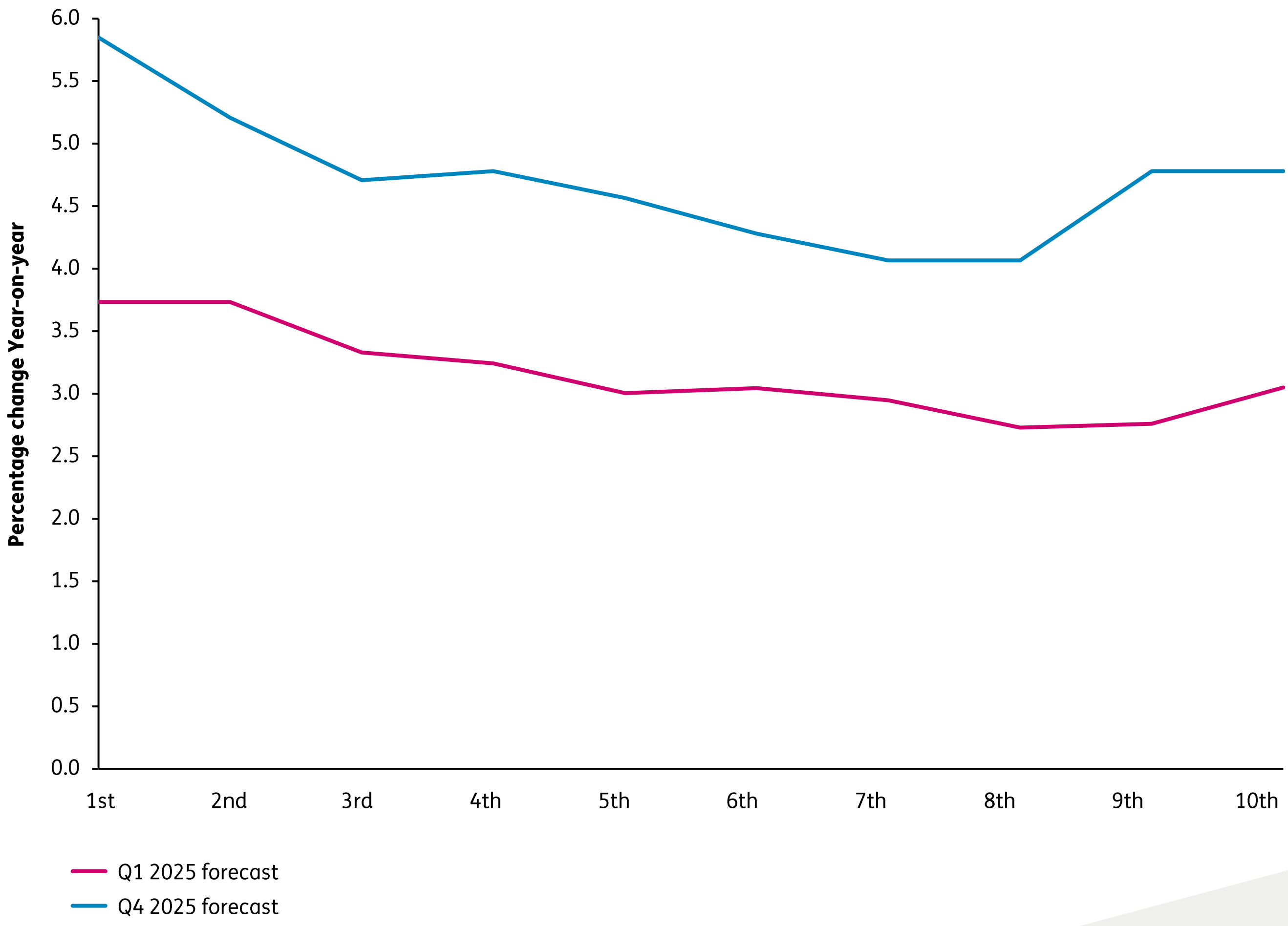
However, wage growth has been stronger than expected

2025 has seen wage growth outperform expectations across all income deciles. The strongest gains are concentrated in the bottom quartile, with minimum wage increases and tight labour markets in lower-paying sectors driving faster nominal pay growth than among higher earners. Policy measures scheduled for 2025 are expected to reinforce this trend, further lifting wage floors.

Thanks to these shifts, wage growth for the lowest income decile is expected to approach 6%, compared to 3.7% in our Q1 forecast. Higher-income deciles also enjoy pay increases, though the pace of growth remains more moderate.

Stronger wage growth among lower-income groups partially offsets rising living costs, though persistent inflation and high housing costs continue to weigh on real incomes.

Household pre-tax wage growth by income decile



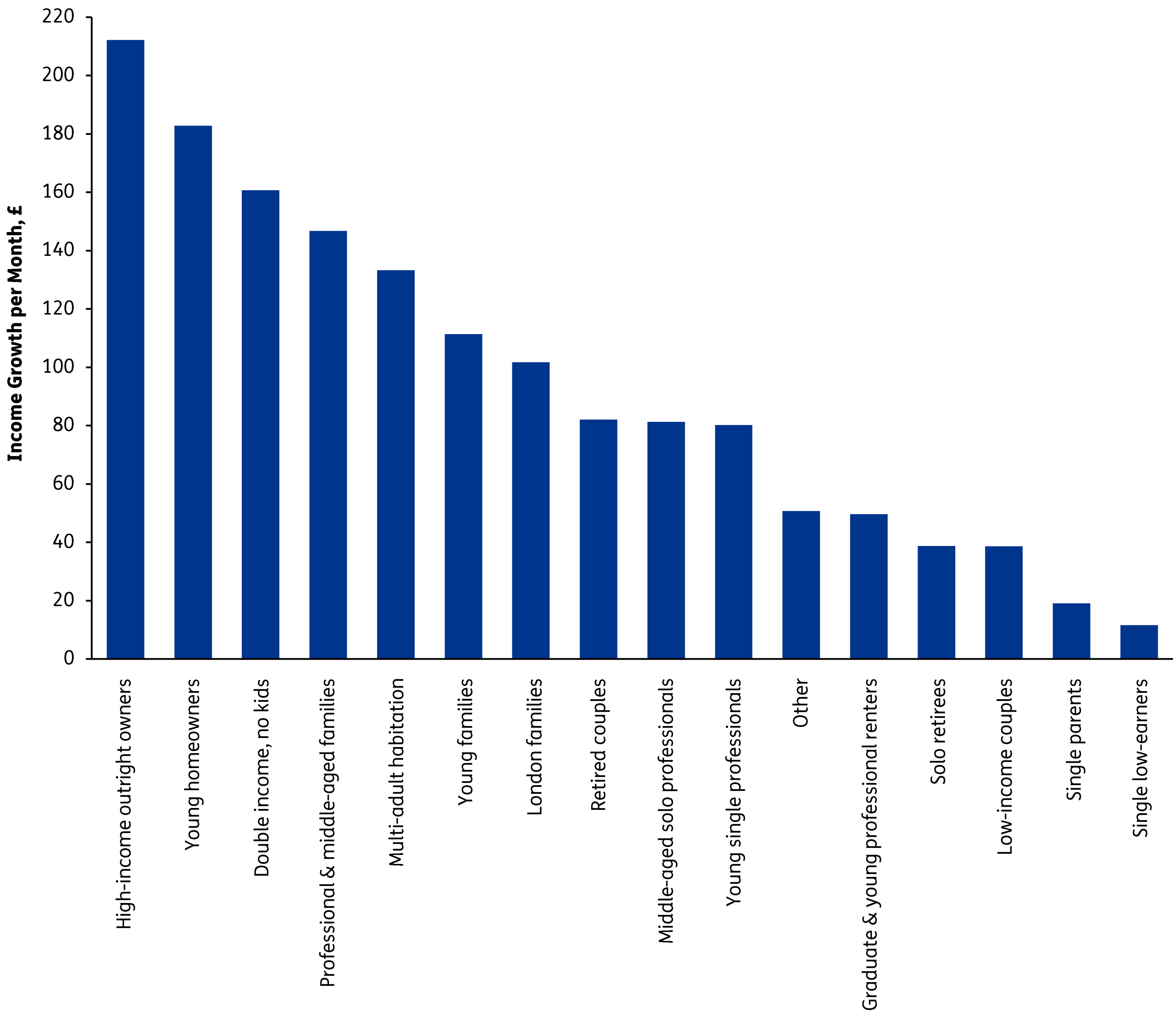
Source: Baringa analysis

Post-tax incomes have grown faster than costs in all income brackets and consumer segments

Households are feeling the benefits of strong wage growth, with post-tax incomes rising faster than fixed costs (such as housing, utilities, and council tax) across all income deciles and consumer segments. Higher-income deciles capture the largest absolute gains, driven by sustained nominal income growth and more moderate cost increases. Meanwhile, for lower-income households, the improvement is driven by strong wage growth.

The higher income-to-cost ratio marks a decided shift from the squeeze experienced during the 2022–2023 inflationary period, and provides some headroom for discretionary spending. However, financial pressures persist for lower-income households, whose essential costs account for a larger share of total expenditure.

Post-tax income growth after fixed costs per month



Source: Baringa Consumer Spending Model

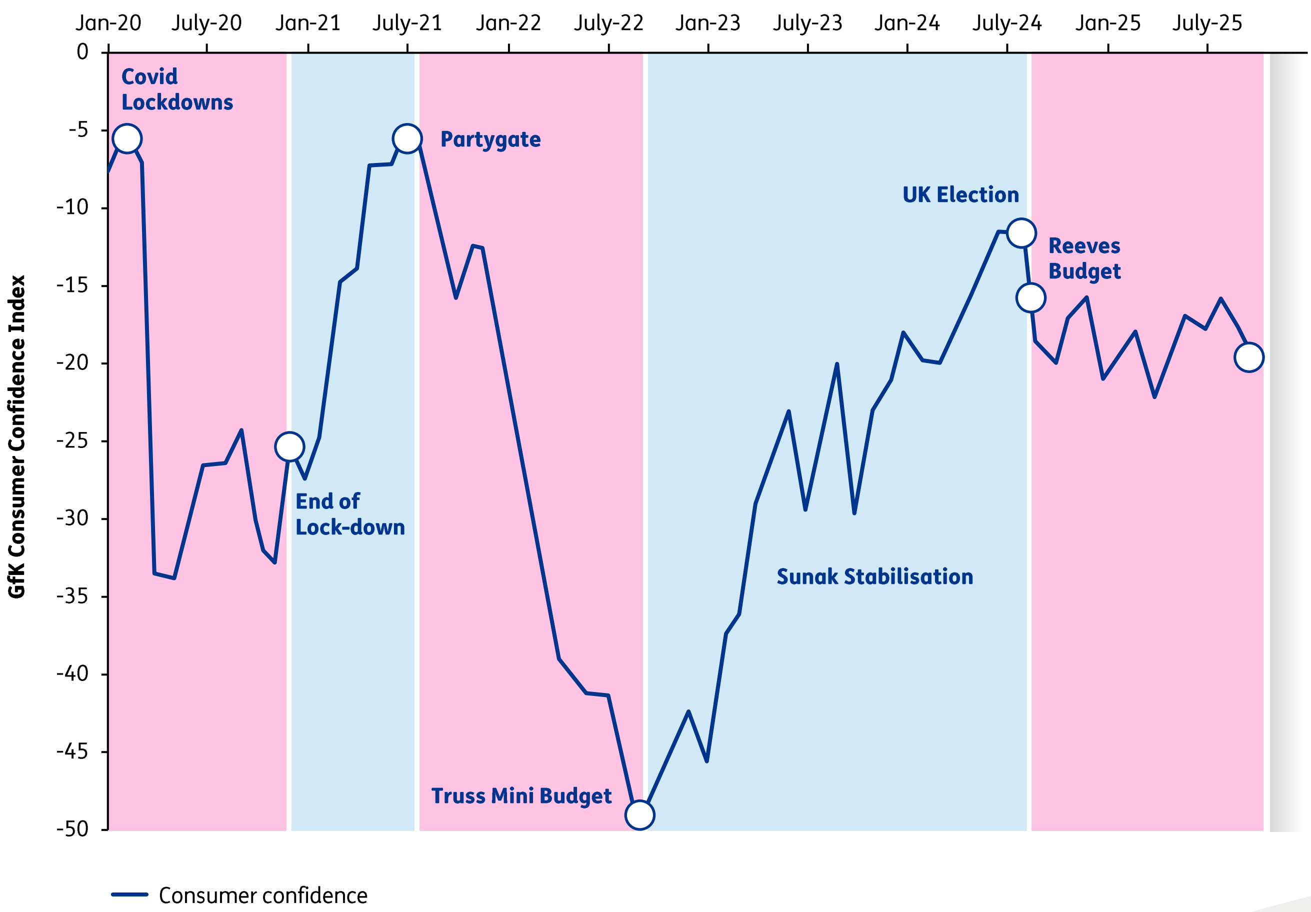
Consumer Confidence remains rocky

Given that post-tax incomes have risen faster than costs, we might expect to see spending flow more freely. Yet this has not materialised. Consumer confidence remains muted after a series of economic and political shocks, including the pandemic, the Truss mini-budget and the cost-of-living crisis.

Confidence improved briefly in the run-up to the 2024 election, buoyed by optimism around the change in government. However, it dipped again following Rachel Reeves' first Budget, with households still cautious about the economic outlook.

Overall, despite short-term rebounds, confidence has failed to recover to pre-pandemic levels – evidence of a prolonged period of consumer pessimism that continues to weigh on spending behaviour.

UK Consumer confidence



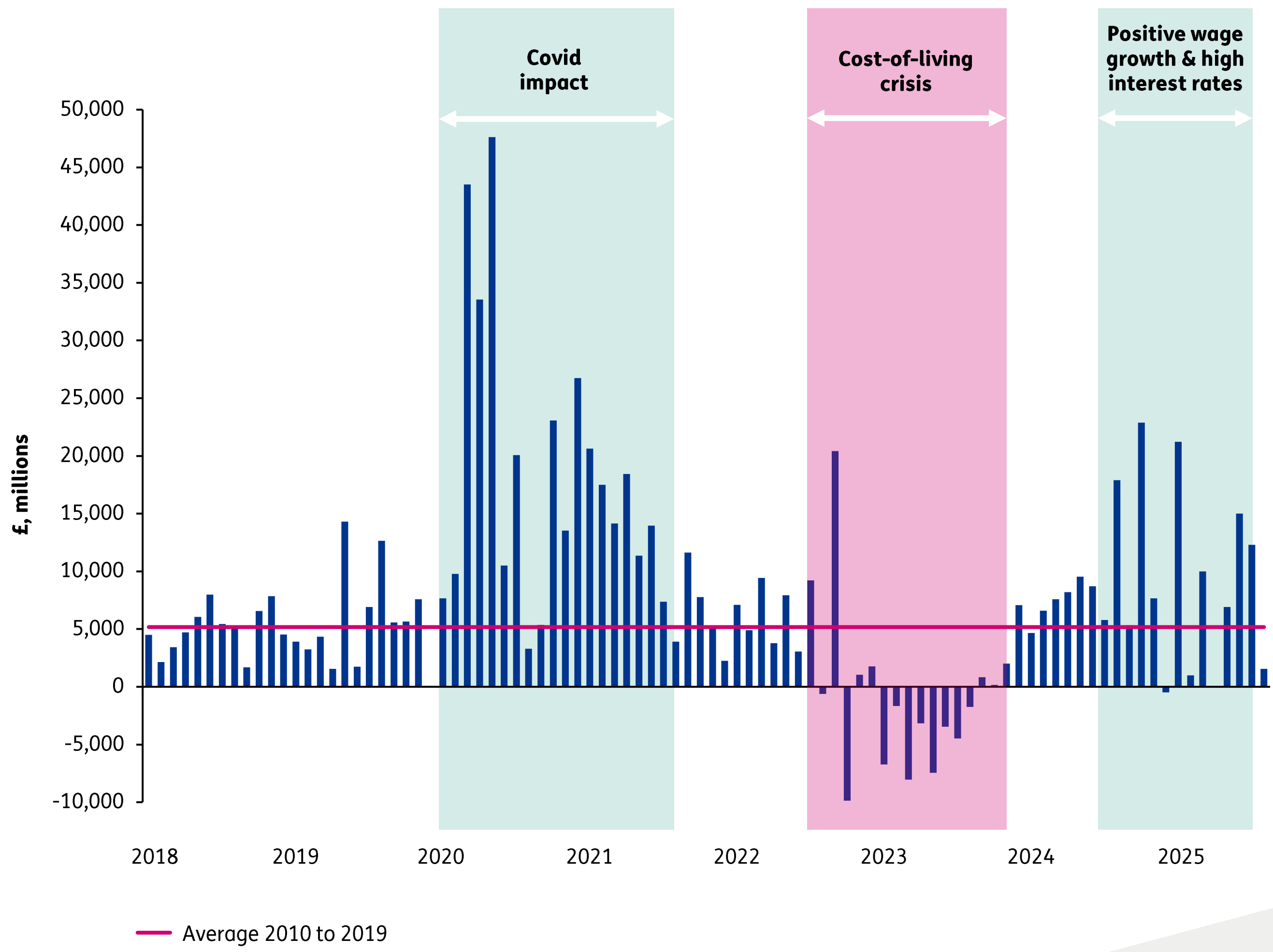
Source: GFK

Many households are choosing to hoard cash, rather than spend

Household savings remain higher than pre-pandemic norms. During the Covid period, retail banking deposits surged as lockdowns curtailed spending opportunities, with monthly inflows far above historical averages. Households gradually ran down this financial buffer through 2022 and 2023 as they faced surging energy bills, high inflation, and rising mortgage payments during the cost-of-living crisis, leading to periods of net withdrawals.

More recently, however, higher wage growth and increased interest rates have supported a rebound in savings. Larger cash reserves increase households' financial resilience – but they also signal consumer caution, as people prioritise building or maintaining financial buffers over discretionary consumption.

Monthly changes in sterling retail deposits, seasonally adjusted



Source: Bank of England

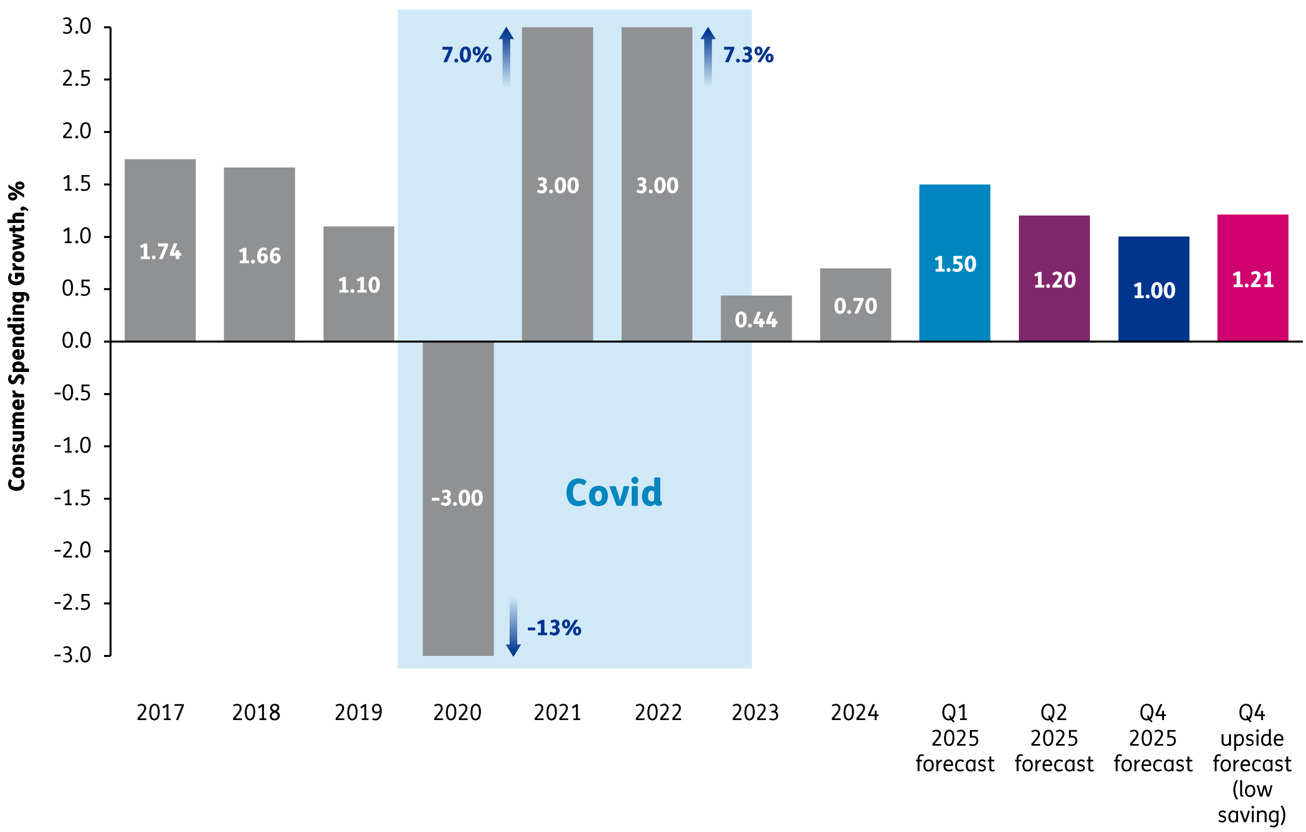
Section B: Consumer retail outlook for Q4 2025

Two Winter Scenarios

In this report, we set out two winter scenarios for consumer spending. Both cases show inflation stabilising around 3.4% and pay growth remaining strong at 4.7%.

Year-on-year growth in consumer spending- historical data and forecasts

	Inflation	Pay	Rates	Utilities	Rents
Q1 central forecast	2.5%	3%	3.5%	6%	3-5%
Q2 central forecast	3.2%	3.5%	3.75%	8%	3-6%
Q4 central forecast	3.4%	4.7%	4%	12-13%	4-8%
Q4 upside (lower savings) scenario	3.4%	4.7%	4%	12-13%	4-8%



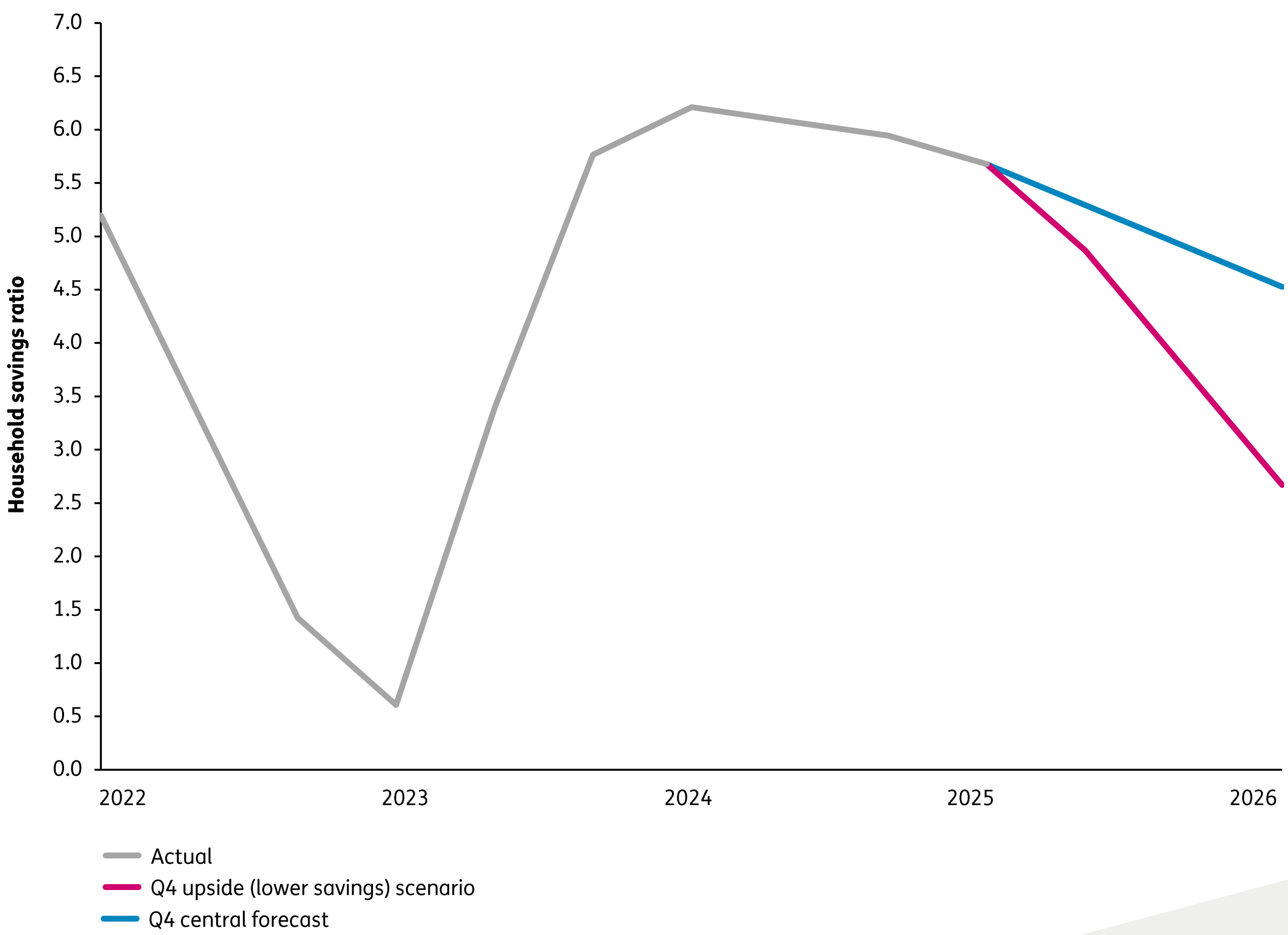
Will they continue to save this Christmas?

Our central Q4 scenario represents our core prediction for 2025, with consumer spending rising at a modest 1.0% year-on-year. Spending remains constrained by high savings rates, which decline gradually throughout 2025 but remain above pre-pandemic norms. This reflects lingering consumer caution following the 2022-2023 cost-of-living crisis, which eroded household buffers and left a more defensive mindset in its wake.

In our second upside (lower savings) scenario, households reduce their savings rate more rapidly. As a result, improved real incomes translate into stronger consumption and a more pronounced acceleration in spending.

Whilst cost pressures are easing, the key uncertainty for the winter and into 2026 lies in household behaviour – whether higher real incomes will be spent or retained as precautionary savings.

Adjusted savings ratio under modelled scenarios



Source: ONS

Uneven Consumer Outlook

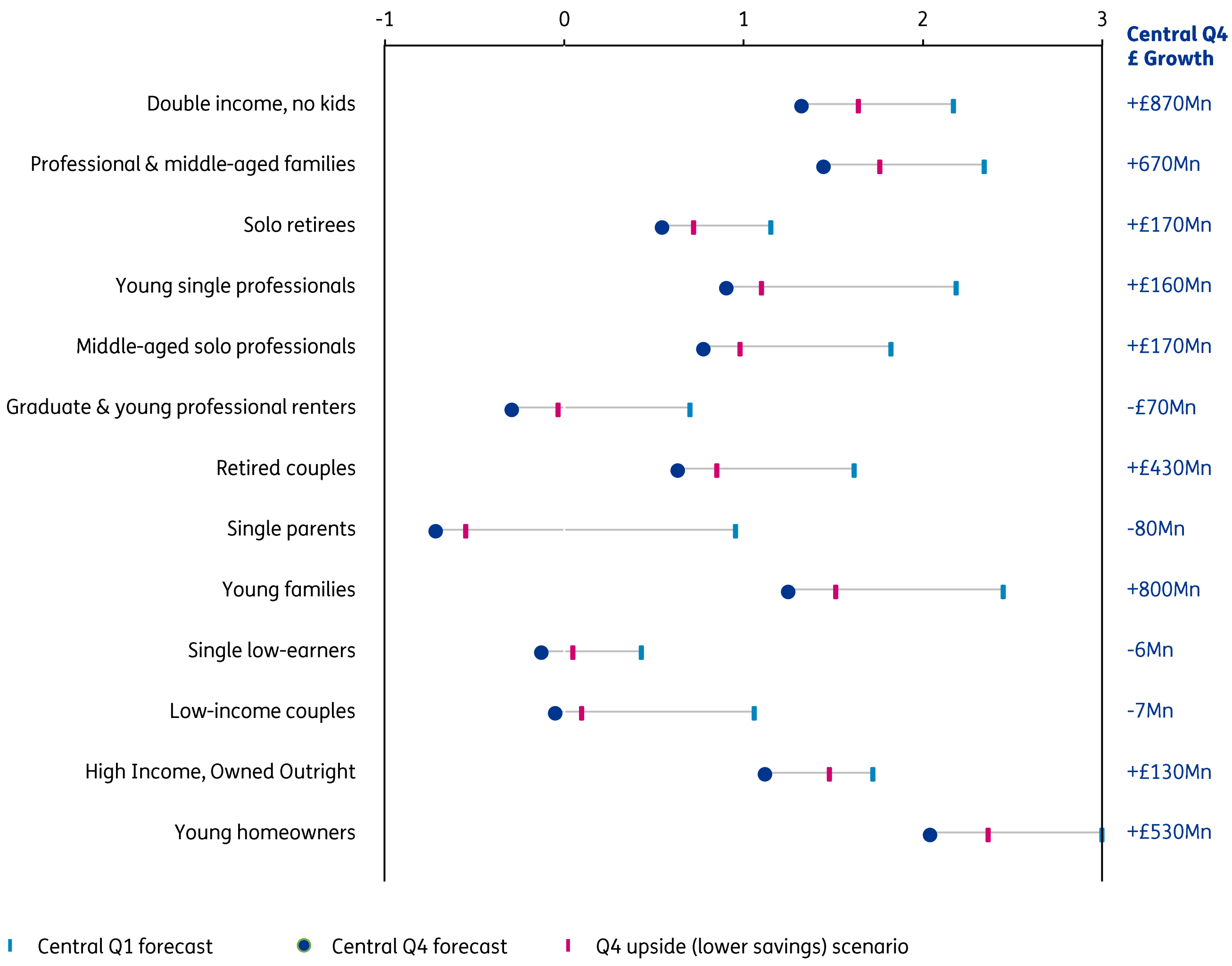
Spending growth in 2025 is set to remain uneven across consumer segments. In both Q4 scenarios, all groups are expected to spend markedly less than our Q1 outlook anticipated.

In the central Q4 scenario, the strongest spending gains come from DINKs and professional middle-aged families, contributing a combined £1.5bn to annual growth. Young homeowners and retired couples also register significant increases, reflecting easing inflation and stronger real incomes. By contrast, spending by low-income households, single parents, and graduate renters is projected to stagnate or decline, as persistent cost pressures and higher savings rates constrain consumption.

On the upside (lower savings) scenario, reduced savings rates lift spending growth across most groups, particularly younger and professional households.

Overall, our Q4 scenarios indicate a two-speed recovery, with higher-income and dual-earner segments driving the bulk of spending increases whilst more vulnerable groups continue to lag behind.

Percentage change across customer spending 2024 to 2025



Source: Baringa Consumer Spending Model

Spending growth and elasticity vary significantly across demographic groups

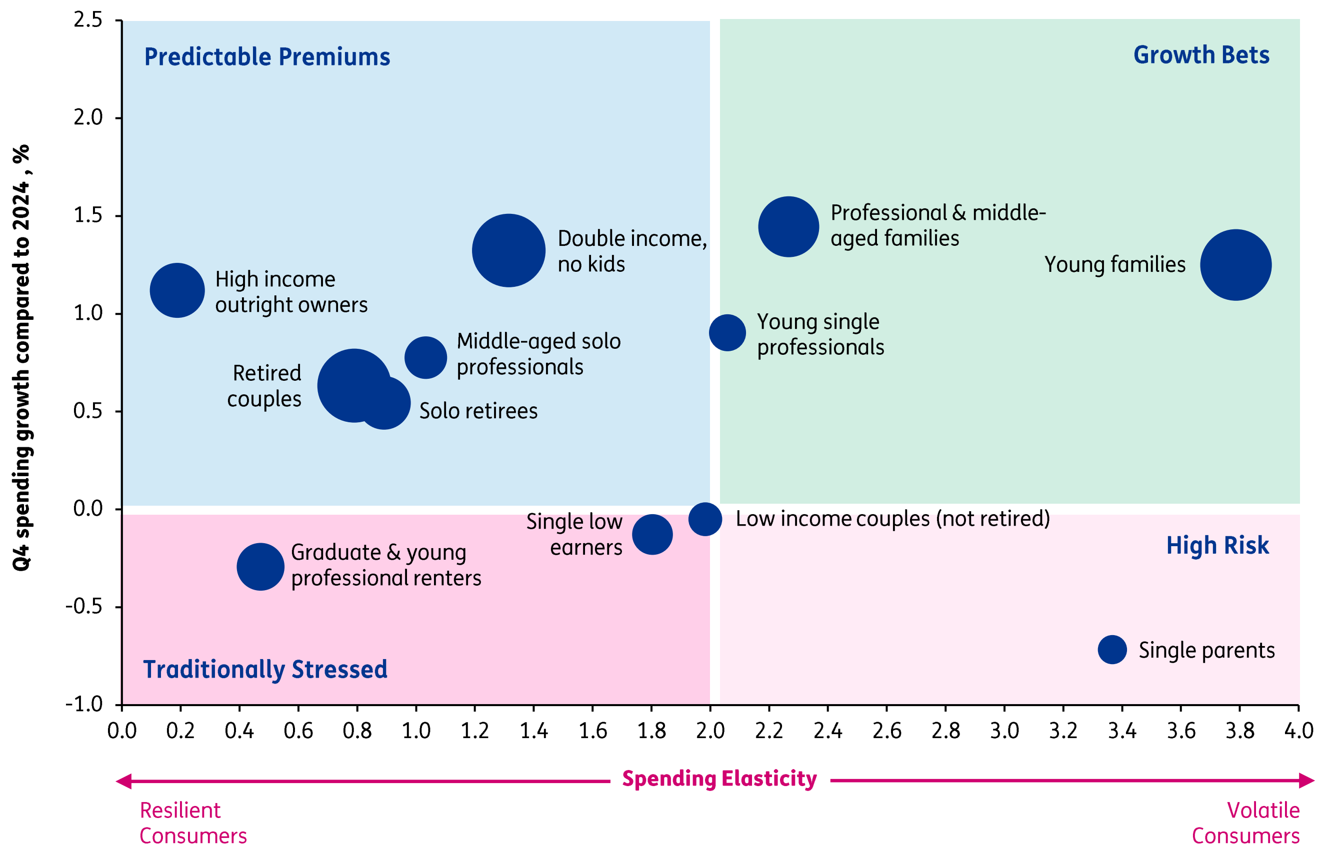
We anticipate significant differences in spending growth and elasticity (the degree to which spending responds to changes in income and costs) across consumer segments.

The top-left quadrant shows predictable premiums, such as high-income households, retirees, and DINKs. These groups are expected to deliver steady, positive spending growth, since they have stable incomes and are less sensitive to cost pressures.

The top-right quadrant shows growth bets, including young families and middle-aged professional households. These groups exhibit high spending elasticity and strong growth in post-tax incomes, positioning them to deliver the strongest spending increases if conditions remain favourable.

By contrast, spending is set to decline among the traditionally stressed and high-risk groups shown in the lower quadrants. Here, consumption is constrained by limited income gains and acute cost sensitivity. These demographics remain the most exposed to financial pressures over winter.

Central spending growth and spending elasticity



Note: * Delta between downside and upside cases. Ball size indicates the segment's share of disposable income 2024 – varies from c.3% - c.16%.

Source: Baringa Consumer Spending Model

Spending on the rise, but with major differences in growth between categories

Spending is expected to rise across most product categories in 2025, though the pace of growth remains highly uneven.

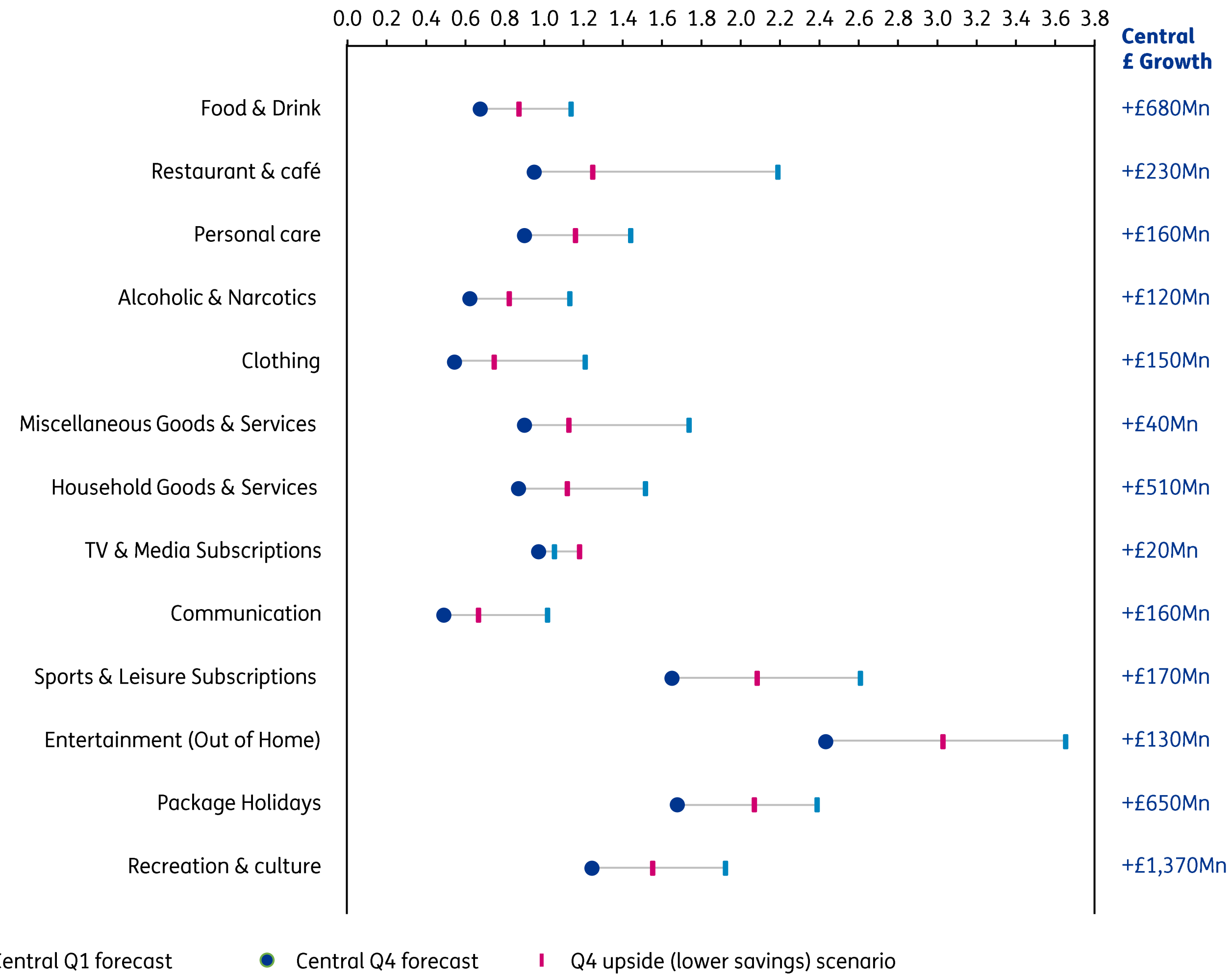
When we published our Q1 forecast, strong momentum pointed to robust consumer spending, particularly in discretionary categories such as recreation and culture, package holidays, and sports and leisure subscriptions.

However, in our central Q4 scenario, higher savings rates constrain consumer spending, compressing growth forecasts across all categories. The strongest gains are now expected in food and drink (+£0.68bn), recreation and culture (+£1.37bn), and package holidays (+£0.65bn), whilst categories such as miscellaneous goods show considerably weaker growth.

In our upside (lower savings) scenario, consumer spending increases across most categories, with discretionary areas registering the largest lifts.

The contrast between the two Q4 scenarios reveals where spending elasticity bites. For example, when households spend more readily, restaurants and out-of-home entertainment providers benefit the most. In-home entertainment mirrors this shift, with TV and media subscriptions bucking the general trend as the only category showing higher growth in our Q4 upside (lower savings) scenario compared to our Q1 outlook.

Percentage change across product category spending



Source: Baringa Consumer Spending Model

Regional growth

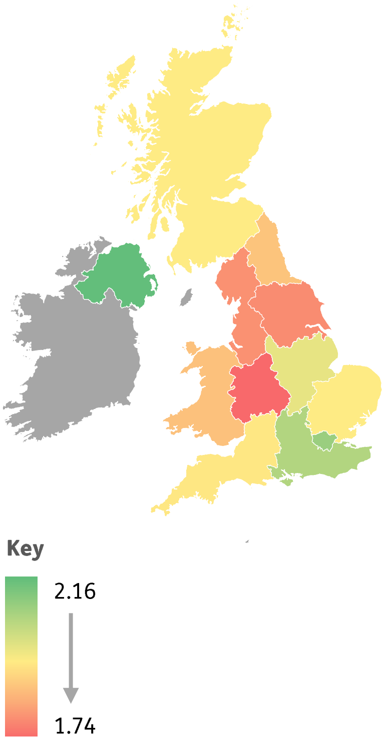
The outlook for regional consumer spending growth has shifted dramatically over the course of 2025.

In our Q1 projection, growth was strongest in Northern Ireland, Scotland and southern England. Most regions forecast annual growth rates between 1.7% and 2.2%, reflecting the initial boost from falling inflation and stronger real wages.

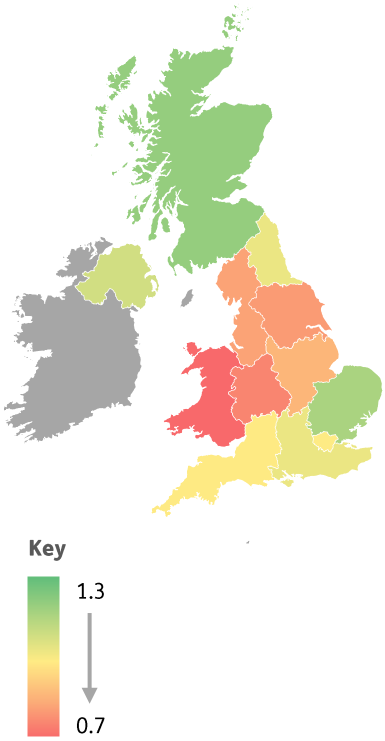
In our central Q4 scenario, a similar set of regions is set to prosper, but growth cools to between 0.7% and 1.3%. Only a handful of areas – notably Scotland and the south and east of England – retain their place in the higher-growth bracket.

The Q4 upside (lower savings) scenario paints a moderately brighter picture. Growth strengthens somewhat in the east and south west of England, as households channel improved incomes into consumption. Yet the uplift remains uneven, with many regions clustering in the mid-range, highlighting persistent geographic differences in consumer resilience and spending momentum.

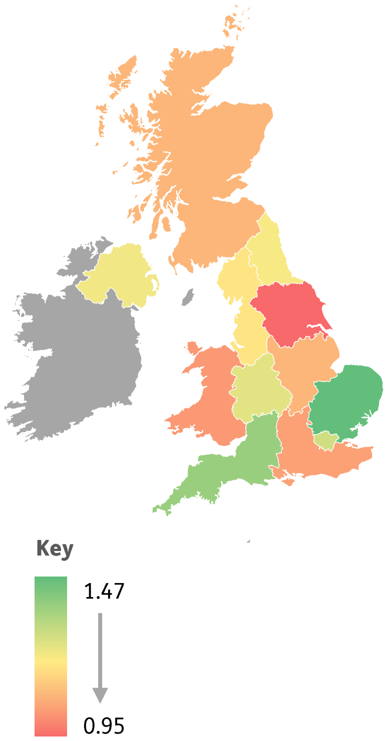
Regional growth in Q1 central forecast



Regional growth in Q4 central forecast



Regional growth in Q4 upside (lower savings) scenario



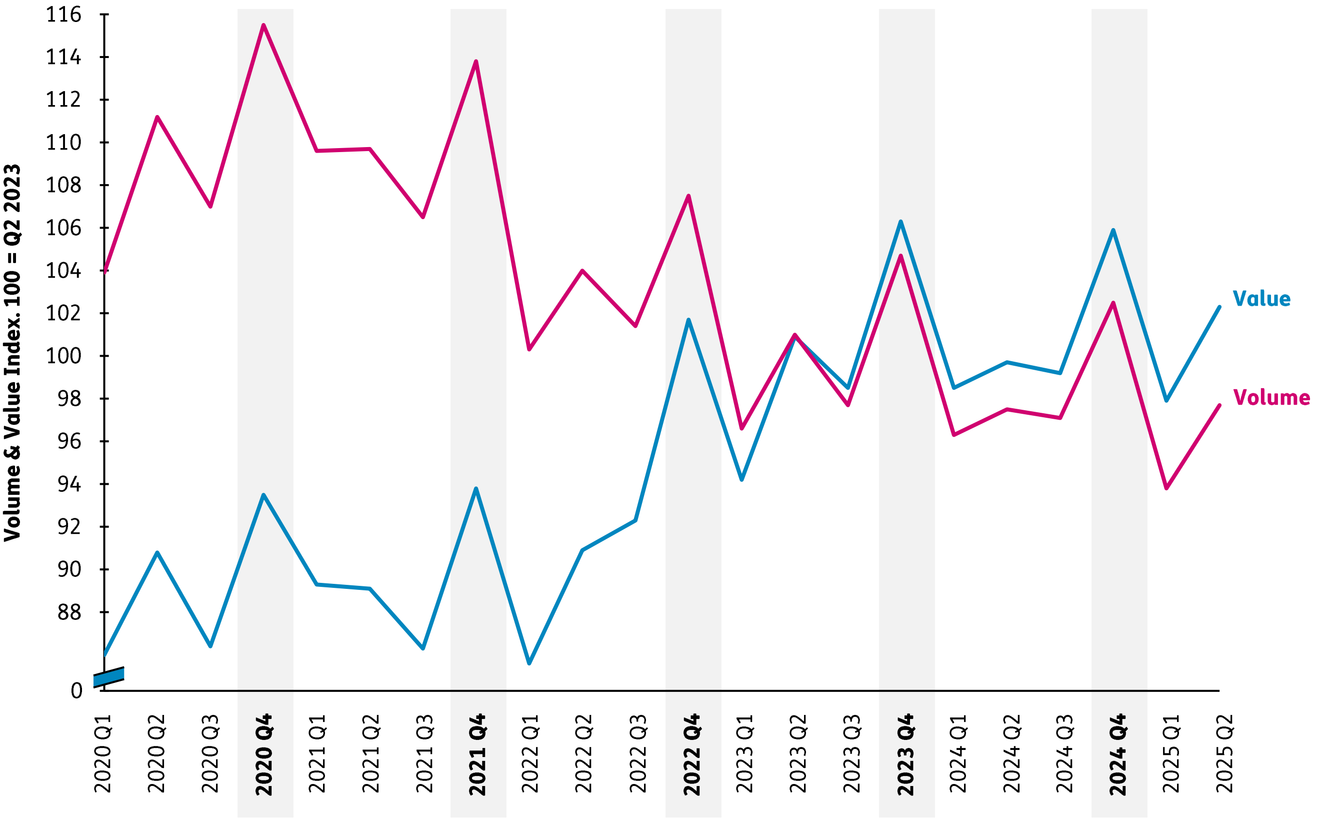
Source: Baringa Consumer Spending Model

Section C: Insights shaping consumer spend into 2026

Q4 is crucial for grocery retailers

Q4 has always been a crucial trading period for UK grocery, with consumers typically spending around 10% more on groceries this quarter compared to the rest of the year. In 2025, the battleground has become a price war, as grocery retailers seek to drive growth amid declining volumes.

UK Retail sales in value & volume in stores predominantly selling food – non-seasonally adjusted.



Source: ONS data, Baringa Analysis

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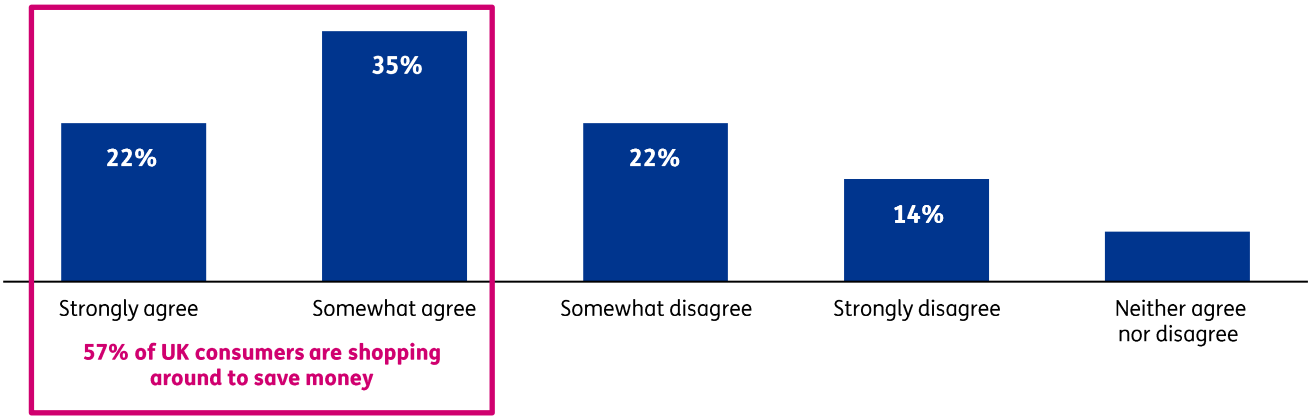
Loyalty price war intensifies in Grocery

Consumer spending is set to run 0.2% above average for certain segments – including DINKs, high earners who own their homes outright, and young homeowners. Whilst there is potential to tempt these shoppers with premium offerings, significant growth can only come from capturing greater market share.

Many grocery retailers are pursuing this by doubling down on loyalty pricing. This strategy may prove less effective than expected at fostering genuine loyalty, however. The average consumer now belongs to three supermarket loyalty schemes, and 57% of UK consumers report actively shopping around to save money. Festive winners will be the retailers that can capture the broadest share of wallet through personalised, hyper-relevant offerings.

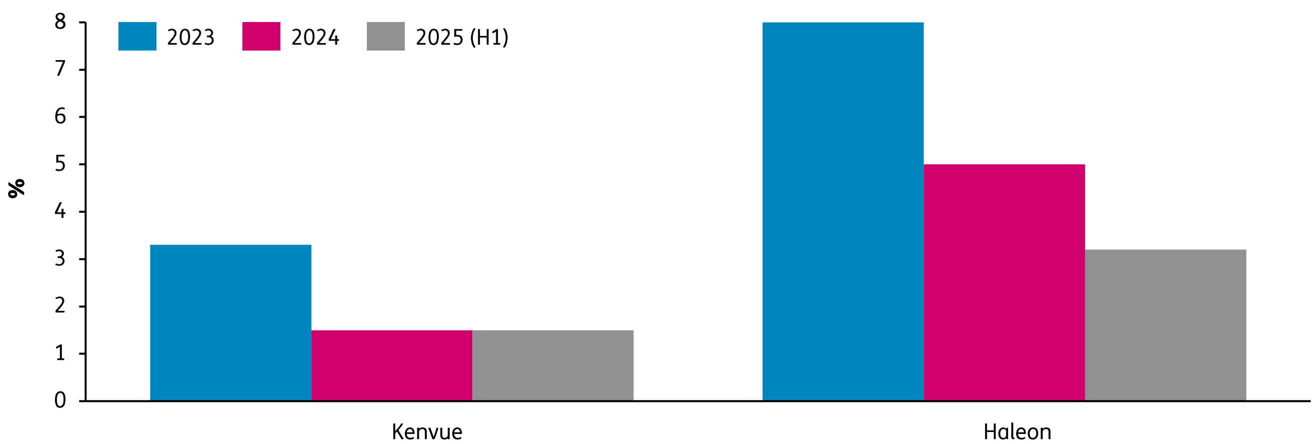
"To what extent to you agree with the following statement: I am increasingly shopping at multiple stores in order to save money" n=532



Consumer health catches a cold

Consumer health businesses are struggling to deliver the high levels of organic growth seen in recent years. While some of this stems from portfolio adjustments and foreign exchange headwinds, the trend also signals that consumers are trading down from trusted brands to more cost-effective alternatives available in supermarkets and other retailers.

Year On Year Sales Growth For Global Consumer Health Brands (%) (public listed equities)

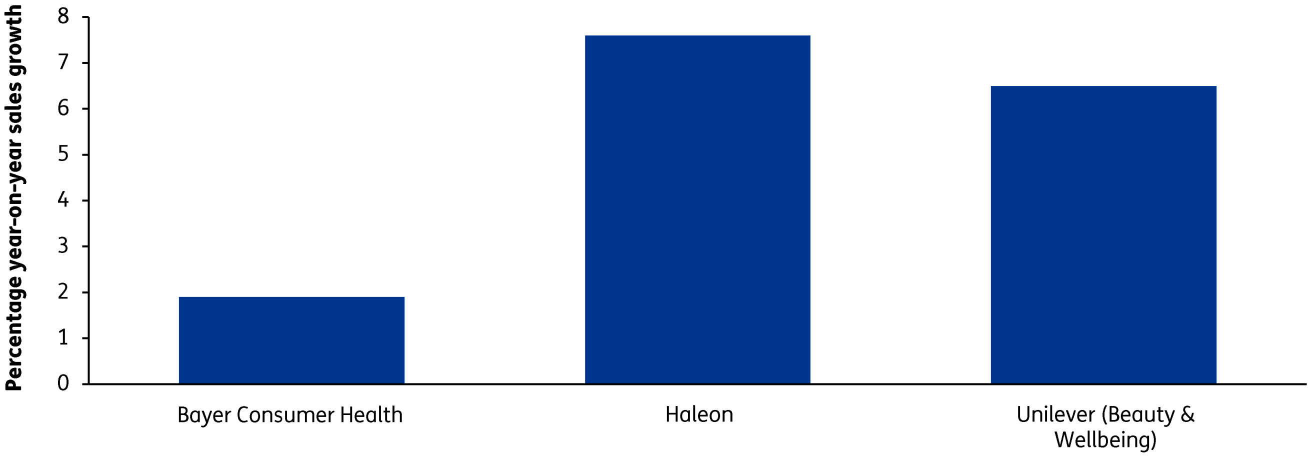


Source: Annual reports

Vitamins and supplements offer an antidote

Against this background of declining growth, the category shows some bright spots. Vitamins and supplements are performing well, with a year-on-year lift of c.7.9% for 2024-25. This is significantly higher than other over the counter categories, driven by aging populations and an increasing focus on wellness and preventative care. We expect spending on vitamins and supplements to remain resilient across half of consumer segments, presenting opportunities for consumer health brands to offset weakness in other categories by doubling down on this growth pocket.

Percentage year-on-year sales growth in vitamins and supplements for publicly listed global consumer health brands

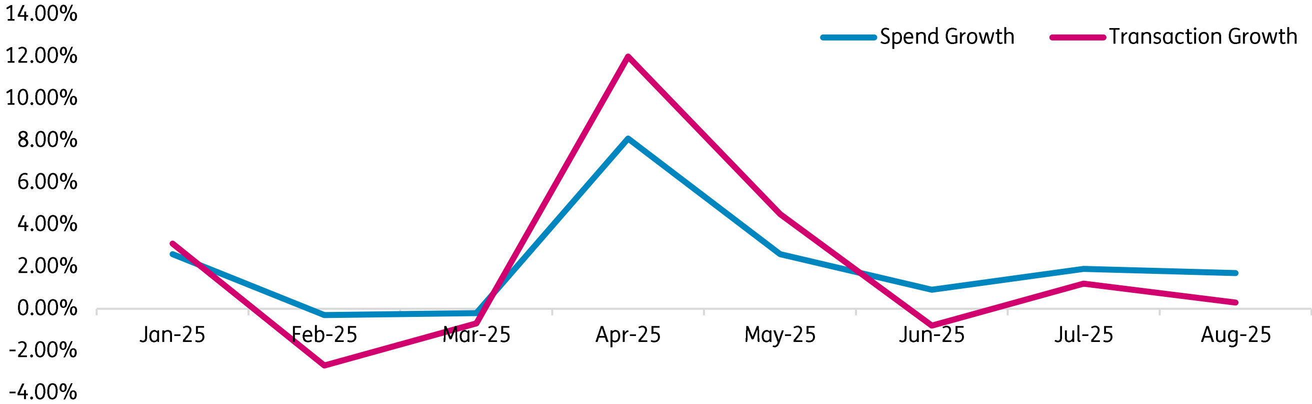


Source: Annual reports 2024

Premium or priced out?

In restaurants, a widening gap between spend and transaction growth reveals that consumers are dining out less frequently but trading up when they do. However, the inverse holds true on special occasions such as Easter and the May bank holidays. During these times, transactions become more frequent but lower in value, suggesting increasing visits to casual venues. This pattern could repeat around Christmas, presenting an opportunity for operators to capture footfall from diners seeking affordable ways to mark the festive period.

Historical year-on-year spend and transaction growth for restaurants, cafes & bakeries



Source: Barclays Consumer Spend Reports Jan-Aug 2025

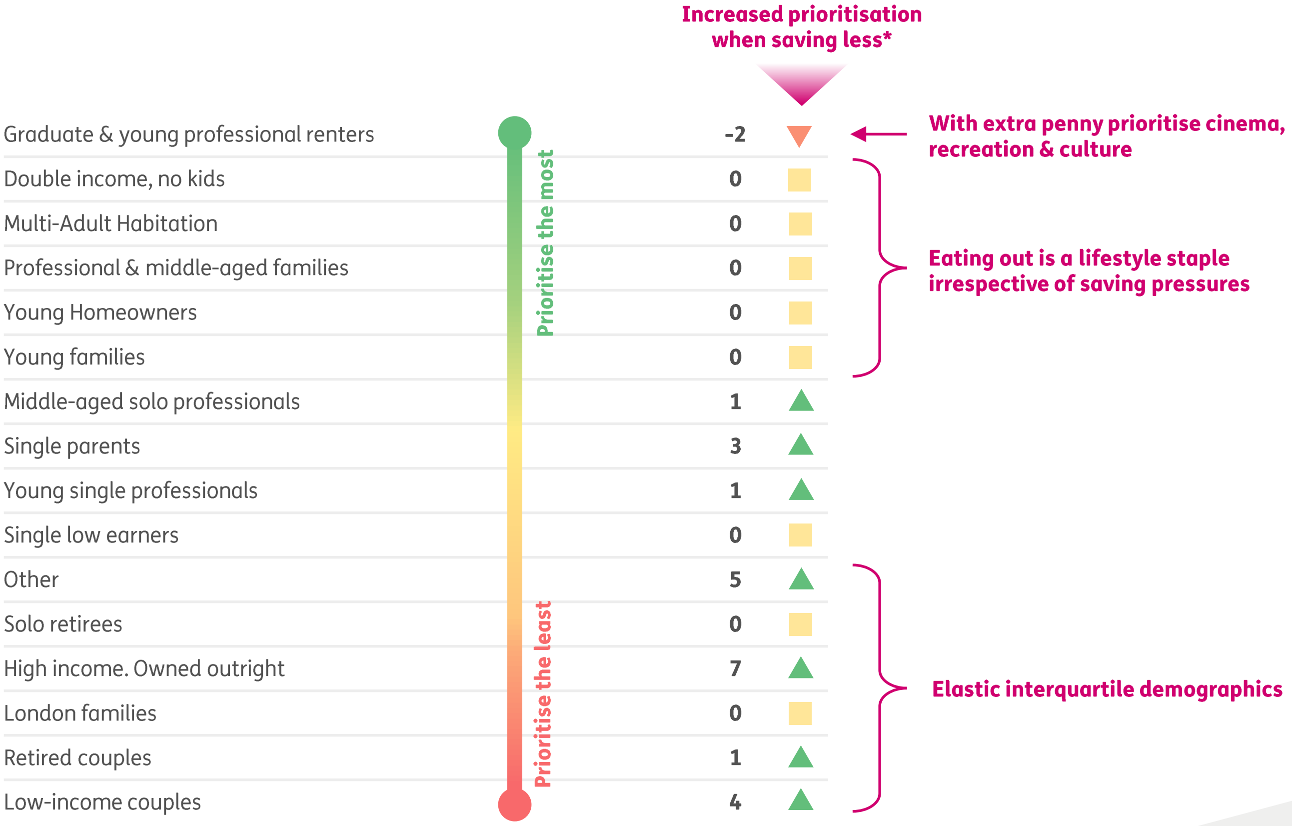
Reordering the menu

The shift towards premium restaurants reflects the fact that affluent households are driving spending growth in eateries whilst pressured segments cut back. Irrespective of economic stress, higher-income households tend to visit restaurants regularly. They consider dining out as a non-negotiable lifestyle staple rather than discretionary spending. Spending proves much more elastic among other demographics, such as low-income couples in employment and retirees, whose restaurant visits fluctuate significantly in response to economic pressures.

To cater to these diverging tastes across the demographic divide, operators should deploy segmented strategies – premium positioning and loyalty for sticky, high-value diners alongside accessible value propositions for lower-income customers who are increasingly priced out.

Interestingly, graduate and young professional renters readily spend on eating out under ordinary conditions. However, when they save less, they tend to redirect their spending towards other activities such as cinema, recreation and culture, rather than restaurants. This group bucks the general trend of becoming a higher priority for eateries when discretionary spending increases.

Spending on eateries by consumer segment



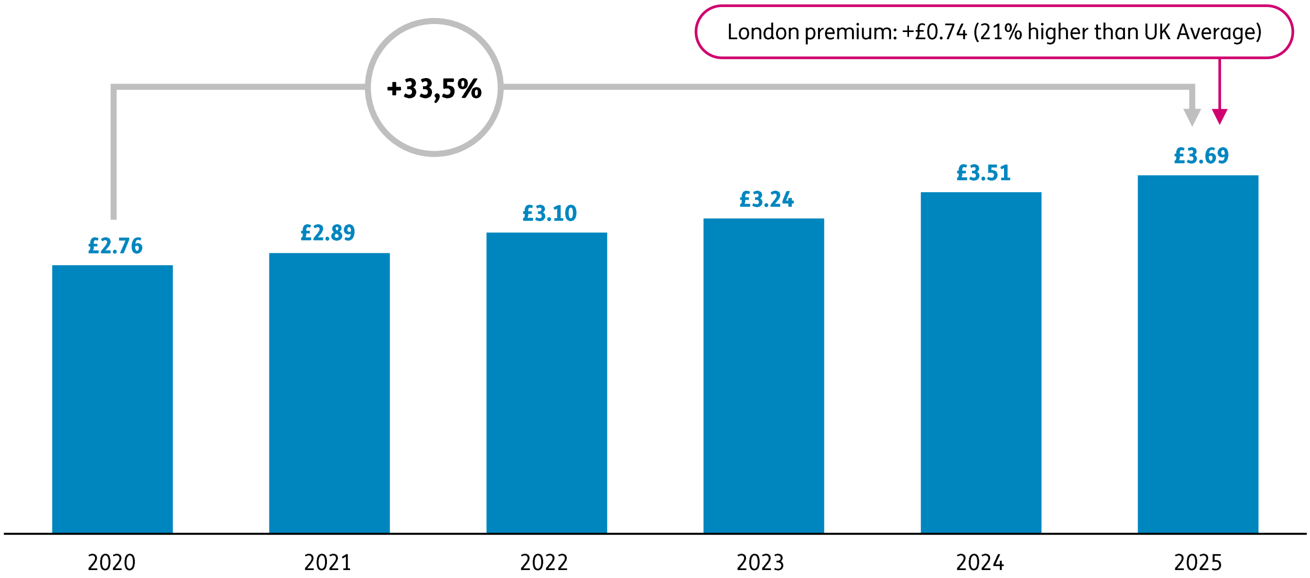
Note: * Out of 16 positions, e.g. +4, moved up prioritisation by 4 positions

Source: Baringa Consumer Spending Model

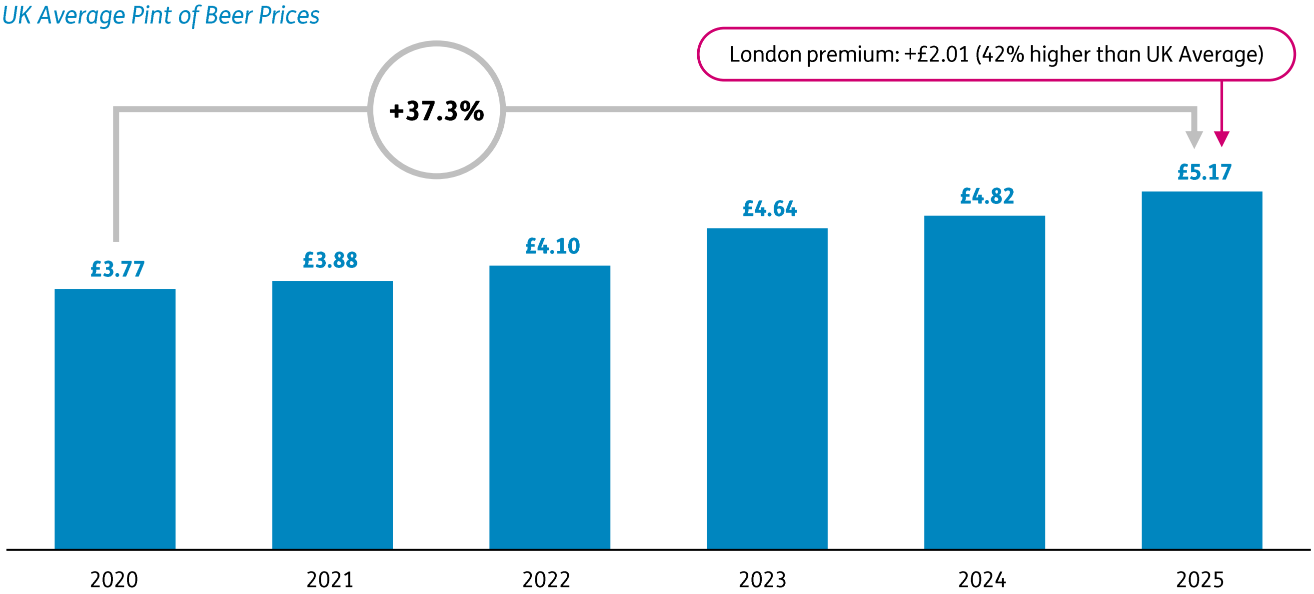
Small luxuries carry big price tags

Coffee and beer prices have surged dramatically since 2020, significantly outpacing general inflation (26%). UK lattes and beer have both risen in line with steep food inflation (37%), while London faces an even sharper spike – with lattes up 44% and pints commanding a 42% premium over the national average. These increases stem from climate impacts on coffee yields, Ukraine war disruptions to grain exports, energy crisis costs, and rising hospitality wages. As these "affordable luxuries" become less affordable, consumers face difficult choices: visit less frequently, trade down to budget chains, or cut back on these social rituals entirely – potentially reshaping the casual venue spend.

UK Average Latte Prices



UK Average Pint of Beer Prices

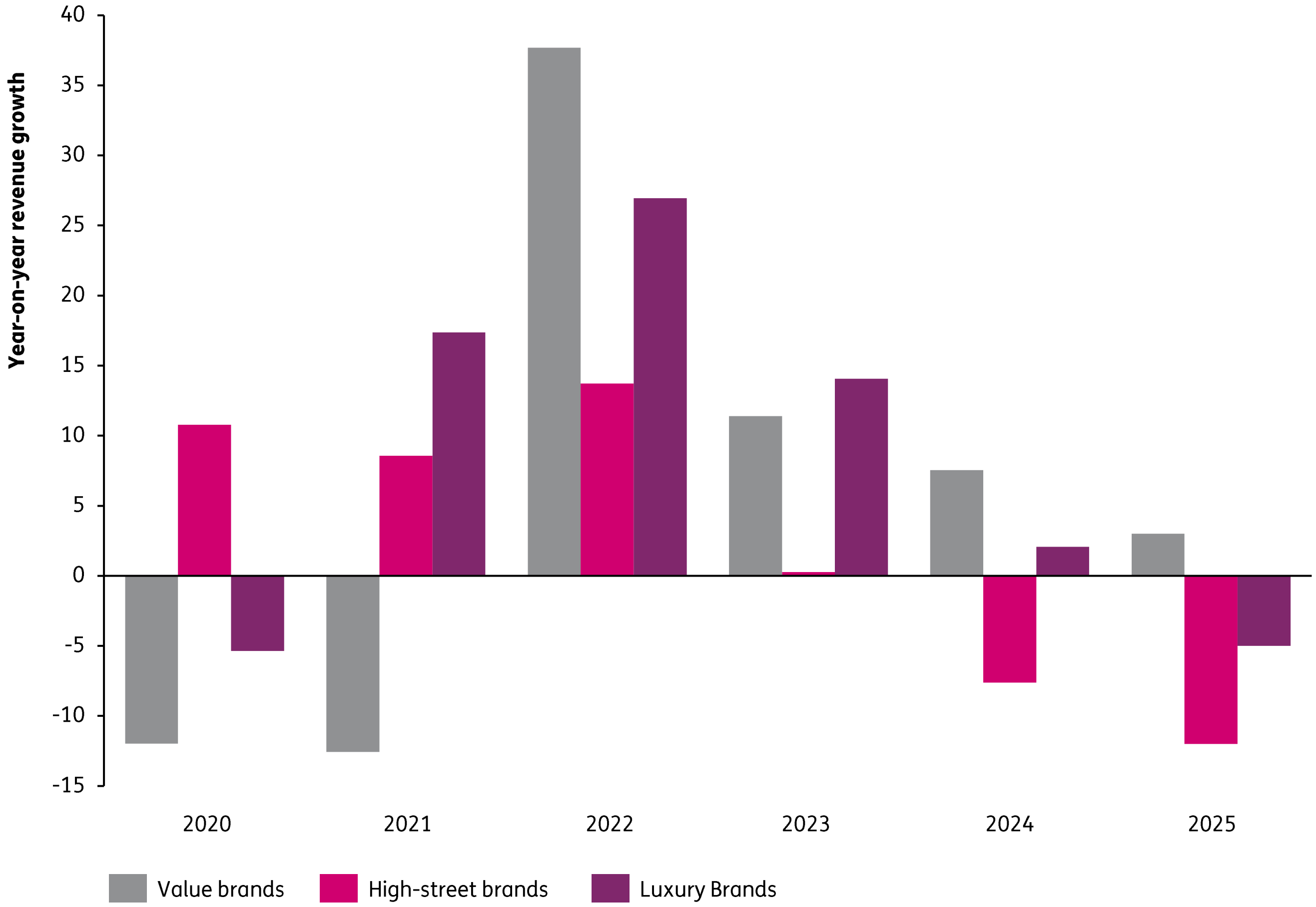


Source: Allegra Coffee Project, ONS

Luxury fashion squeezed

As consumer spend falls, we see a broad downwards trajectory across the global fashion industry. This is particularly evident in the luxury sector, where year-on-year growth has dipped into the negative as British brands' sales fall amid China's economic slowdown. Meanwhile, value brands continue to grow (albeit slower than before), indicating that clothing purchases have largely shifted from discretionary to non-discretionary.

Year-on-year revenue growth for publicly listed fashion brands



Source: Annual reports from various retail brands

Appendix

Consumer Segments

Segments	Descriptor
1. Double Income, No Kids	2 earning adults without children, with a combined income over £40,000 a year.
2. Professional & Middle-aged Families	Mid-income level families (over £40,000), where the head of household is over 45. This household includes 2 or more adults and children.
3. Solo Retiree	Lone individuals above 65 who have retired.
4. Young Single Professionals	Young individuals in full time employment, living alone with no dependents (children or elderly)
5. Middle Aged Solo Professionals	Middle aged individuals in full time employment, living alone with no dependents. Aged between 45-64.
6. Graduate & Young Professional Renters	Young individuals social or private renting as groups of 2 or more, without children or elderly dependents.
7. Retired Couples	Older generation individuals living as 2 adult households and without children.
8. Single Parents	Single adult household with children.
9. Young Families	Families with parents ages 16-40 and children.
10. Solo & Low Income	Lone adult living below full time employment annual income above the age of 25.
11. Low Income Couples (Not Retired)	Adult couples living below minimum full time employment wage for both individuals, without children or elderly dependents.
12. High Income, Owned Outright	Households with income over 100k per year (pre-tax) and who own their housing outright, without a mortgage.
13. Multi Adult Habitation	Three or more adults living on a single property, where the head of household is over 45 years old.
14. Young Home Owner	Head of household is under 35 years old and has bought their property (owned outright or with a mortgage).
15. London Families	Households based in London with children and no elderly dependent.
16. Other	Any remaining households not captured by the above groupings.

ONS Product Categories

Segments	Descriptor
1. Food & Drinks	All food and non-alcoholic beverages bought through shops (not restaurants)
2. Alcoholic drink, tobacco & narcotics	Alcoholic drinks, tobacco products, and narcotics spending
3. Clothing & Shoes	Men's, Women's and children's clothing, accessories and footwear
4. Household goods & services	Furniture, furnishings, household appliances, utensils, equipment, and maintenance goods and services
5. Transport	Purchase of vehicles, operation of personal transport and transport services
6. Communication	Post, telephone, internet subscription fees and combined telecom services
7. Recreation & culture	Equipment (e.g. TVs), gardens, pets, services (e.g. cinema), newspaper, books, package holidays
8. Education	Education fees and other ad hoc expenditure
9. Restaurants & hotels	Catering services, accommodation services
10. Personal care	Beauty, toiletries, hairdressing
11. Misc. goods & services	Personal effects, insurance, other services

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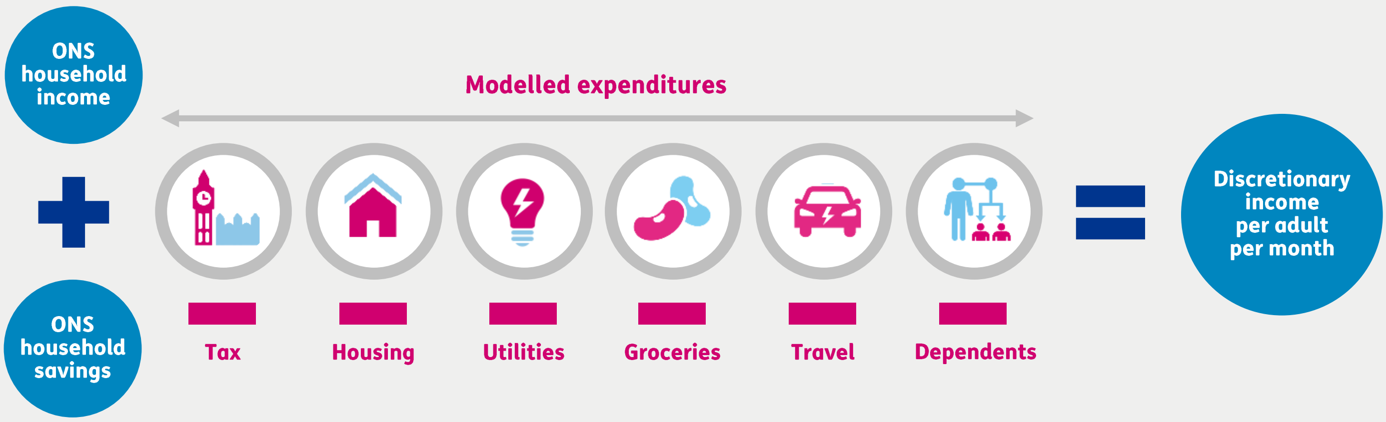
Appendix: Modelling Approach

We modelled expenditures for c.28 million households across the UK.

Modelling assumptions include regional based costs (e.g. rents, council tax and food costs) as well as family size based costs (e.g. mortgage size and child costs).

Leveraging ONS household income data, a discretionary income per adult is calculated.



UK Consumer Spend Report

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