

Consumer Spending Outlook 2025

Who's gaining, getting squeezed, or treading water?

February 2025

Executive summary

2025 promised a comeback for UK retail and consumer packaged goods (CPGs) businesses. Instead, they're still weathering strong headwinds from rocky economic conditions, higher labour costs coming down the track, and unsteady consumer confidence. Amidst this continued uncertainty, many businesses have been challenged to find safe harbours of growth and profitability.

Section A: Baringa's bottom-up Consumer Spending Model

Our bottom-up model offers insight into the growth potential of different demographic groups and consumer categories, as well as how they react to varying economic circumstances. It's a powerful tool for helping retailers and CPGs to understand exactly where their risks and opportunities lie, so they can optimise their positioning and capture maximum potential growth in consumer spend.

Section B: Five key insights from the Baringa Consumer Spending Outlook 2025:

1. Consumer spending growth returns to pre-pandemic levels

After years of subdued discretionary income growth due to the twin shocks of high inflation and high interest rates, our outlook for consumer spending growth in 2025 is positive. We expect spending growth to reach around 1.5% in our central case. This anticipated return to pre-pandemic levels is driven by rising real wages and falling interest rates.

While the central case scenario remains our most likely outcome, the probability of a downside scenario is increasing. This downside case reflects higher inflation and interest rates, which could reduce consumer spending growth to just 0.6%. Retailers and CPGs should keep a careful eye on these macro-economic indicators and how they might influence consumer purchasing decisions.

2. In an uneven rebound, fortune favours the homeowner

With interest rates expected to decline, mortgage holders stand to gain, with forecasted average annual savings of £5,670 driving a rebound in discretionary spending. Likewise, young families and professional and middle-aged families are poised for growth, with discretionary incomes projected to rise by 2.5% or more in 2025.

On the flip side, consumer segments such as young renters and low-income families continue to face significant challenges due to high rental inflation and weak real wage growth.

3. Some high-growth segments come with downside risks

If economic conditions take a turn for the worse, traditional high-growth segments could be at risk. In our model's downside case, central-case winners such as young families could face setbacks due to fewer interest rate cuts and lower real pay growth. Meanwhile, retired couples and double income, no kids (DINKS) segments are expected to perform comparatively well, with growth ranging from 1.5% to 2% due to lower mortgage exposure and higher disposable incomes.

To hedge against this uncertainty, retailers and CPGs must build a more detailed and targeted understanding of consumer segments.

4. For predictable growth opportunities, look outside of London

Consumers based in London are more sensitive to economic fluctuations in part due to larger mortgages. These segments show spending growth in our central case, but heightened vulnerability in a downside scenario. In contrast, regional markets outside of London present a more stable environment for consistent growth, offering brands a safer avenue for long-term planning.

5. Product category spending is on the rise, but not evenly

- i. **Going out is the new staying in.** 10 (out of 14) consumer segments in our central case will prioritise an out-of-home leisure activity (cinema, theatre, etc.) above everything else. Yet, entertainment remains much more sensitive to wider economic shifts than categories like clothing and food and drink. Should the economy move towards our downside case, entertainment will be one of the first sacrifices, with consumer spend likely to fall sharply.
- ii. **Fashion's middle ground is shrinking.** In 2025, we expect to see mid-market clothing retailers squeezed, continuing a trend from the last few years. Polarized consumers at the top and bottom of the spectrum will continue to focus on a few key luxury pieces and supplement with basics from value outlets.
- iii. **Grocery customers shopping around.** Consumers will continue to favour 'at-home treats' from specialist food and drink outlets over eating out. In 2025 we'll also see grocery customers broadening their repertoire, moving away from one-stop shops and visiting a variety of specialists and discounters to cater to their needs.

Retailers and CPGs looking to capture growth opportunities in 2025 will need to focus their portfolio mix and offerings very carefully on the demographic groups they need to attract in alignment with their risk / growth appetite.

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 Baringa's Consumer Spending Model, or if you'd like to discuss how we can help refine your strategy and operations, get in touch with us today.

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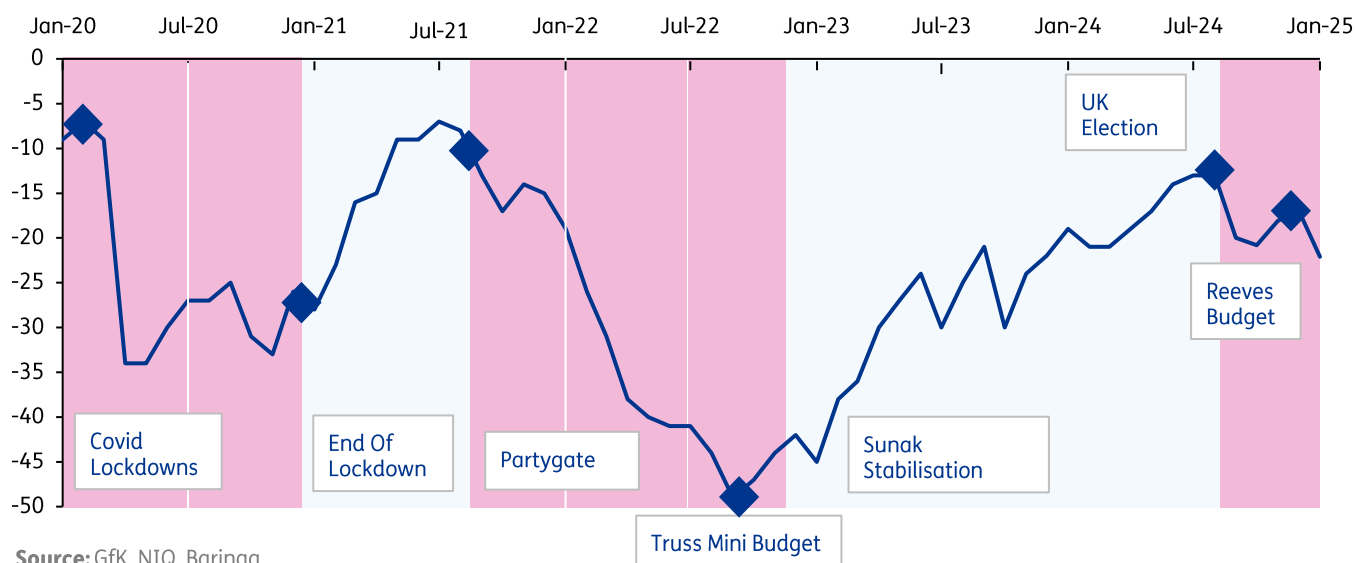
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Section A: Baringa's Bottom-Up Consumer Spending Model

The consumer outlook has been volatile, underlining the need for effective consumer forecasts

A series of social, economic and political crises have driven sharp changes in consumer confidence over the last 5 years. This unpredictability undermines the effectiveness of consumer surveys, which are widely used as a method to forecast longer-term consumer spending trends, as mindsets are impacted significantly by external events in real-time.

UK consumer confidence



Source: GfK, NIQ, Baringa

Introducing the Baringa Consumer Spending Model

As a result we have developed the Baringa Consumer Spending Model which offers more granular and less sentiment driven consumer spending forecasts than traditional surveys. Our years of working in energy utilities and developing a UK household model to predict utility bills' default rate has given us critical insight into the state of the UK household and their financial health, supporting the rigorous development of our Consumer Spending Model.

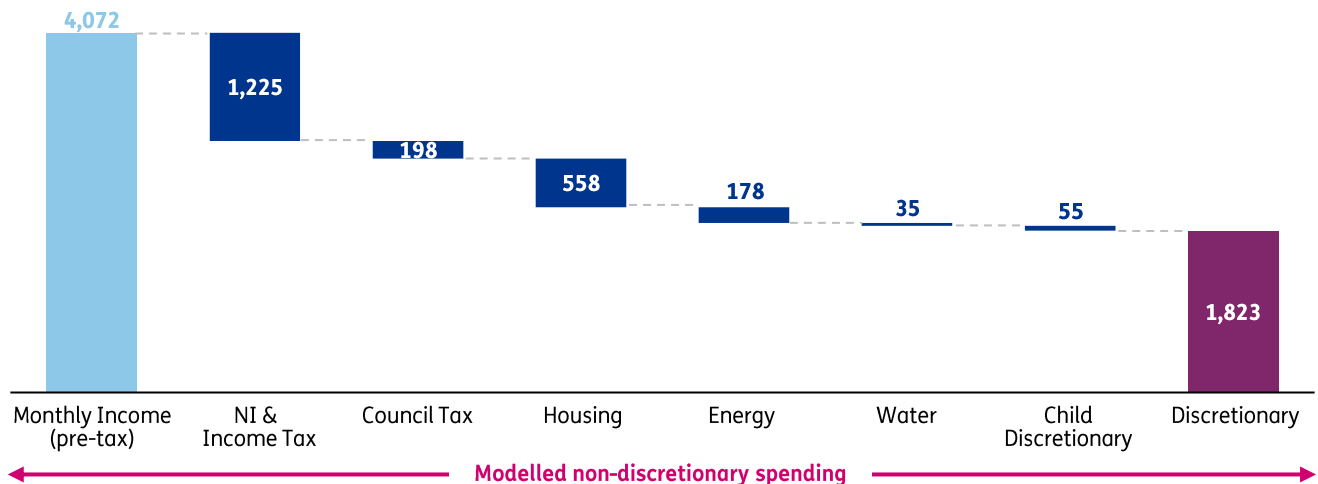
Baringa's Consumer Spending Model analyses expenditure patterns from the 28 million households in the UK. Unlike standard consumer surveys, our model is based on solid economic fundamentals, granular household level data and robust scenario analysis.

		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)	✓	✗

Cost of living in the UK 2024

Baringa's Consumer Spending Model considers national insurance, income tax, council tax, housing costs, energy and utility bills, alongside children's discretionary spending. On average, monthly disposable income is calculated to be £1,823.

Average monthly spending per household across non-discretionary spending categories (£)

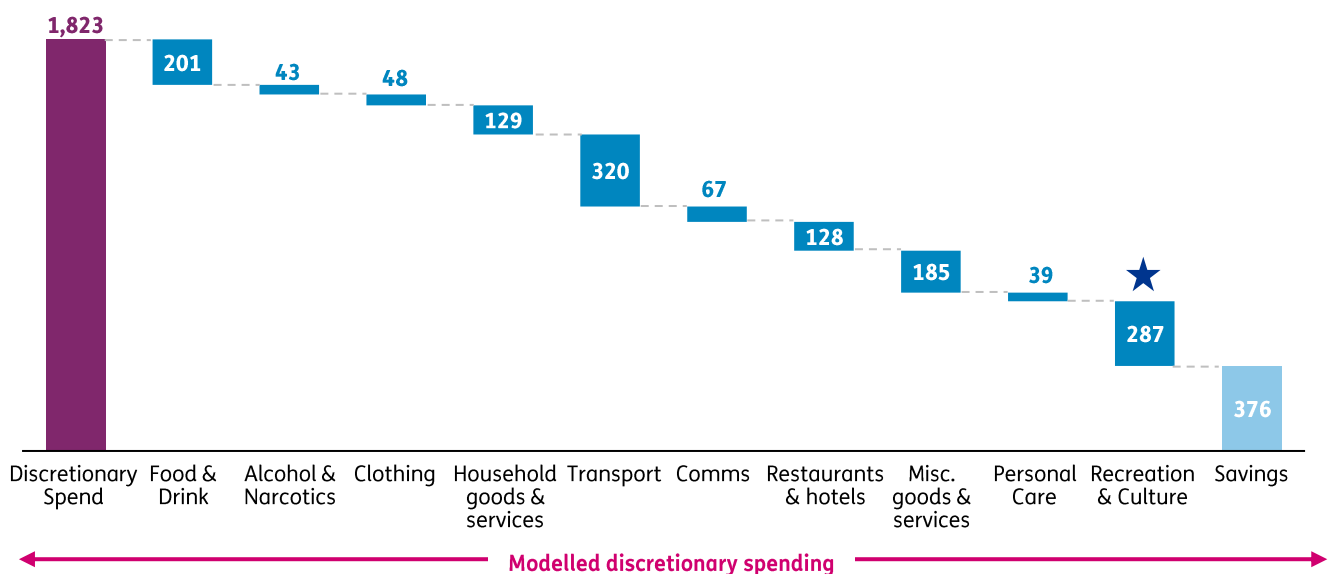


Source: Baringa Consumer Spending Outlook 2025

How households spent their money in 2024

Our model examines variances in spending across household size, regional locations, household age, and other demographic factors, providing a comprehensive overview of purchasing behaviors across various product categories.

Average monthly spending per household across discretionary spending categories (£)



★ Breakdown available into the following categories:

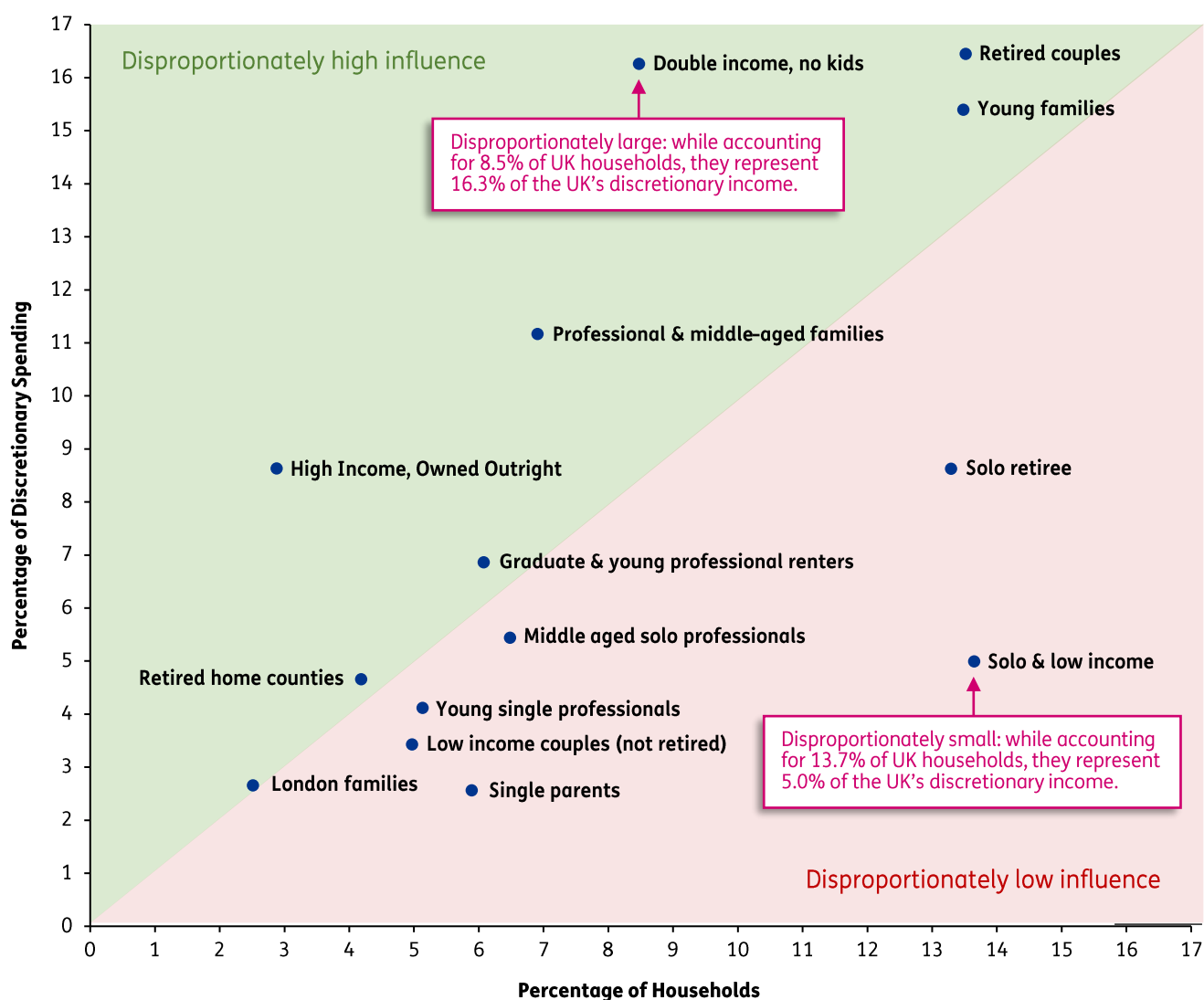
1) Sports admissions, subscriptions, leisure class fees and equipment hire, 2) Cinema, theatre and museums etc., 3) TV, video, satellite rental, cable subscriptions and TV licences, 4) Package holidays, 5) Recreation & Culture other

Source: Baringa Consumer Spending Outlook 2025

Key consumer segments play an outsized role in consumption

Demographics such as Double Income, No Kids (DINKs) and Professional & Middle Aged Families have disproportionate impact on consumption relative to their size in the population (X axis) due their higher rate of discretionary income (Y axis).

Discretionary spend population weighting per consumer segment



Source: Baringa Consumer Spending Outlook 2025

Note: Please see appendix (Page 16) for customer segment descriptions

Section B: Five Key Insights from the Baringa Consumer Spending Outlook 2025

1 Consumer spending growth returns to pre-pandemic levels

After years of subdued discretionary income growth due to the twin shocks of high inflation and high interest rates, our outlook for consumer spending growth in 2025 is positive. We expect spending growth to reach around 1.5% in our central case.

This anticipated return to pre-pandemic levels is driven by rising real wages and falling interest rates. Minimum wage increases and ongoing labour shortages amongst the bottom quartile of income earners have led to higher nominal pay growth in recent years compared to those in higher-income brackets. This trend is expected to persist into 2025, particularly due to policy changes that will further increase the minimum wage.

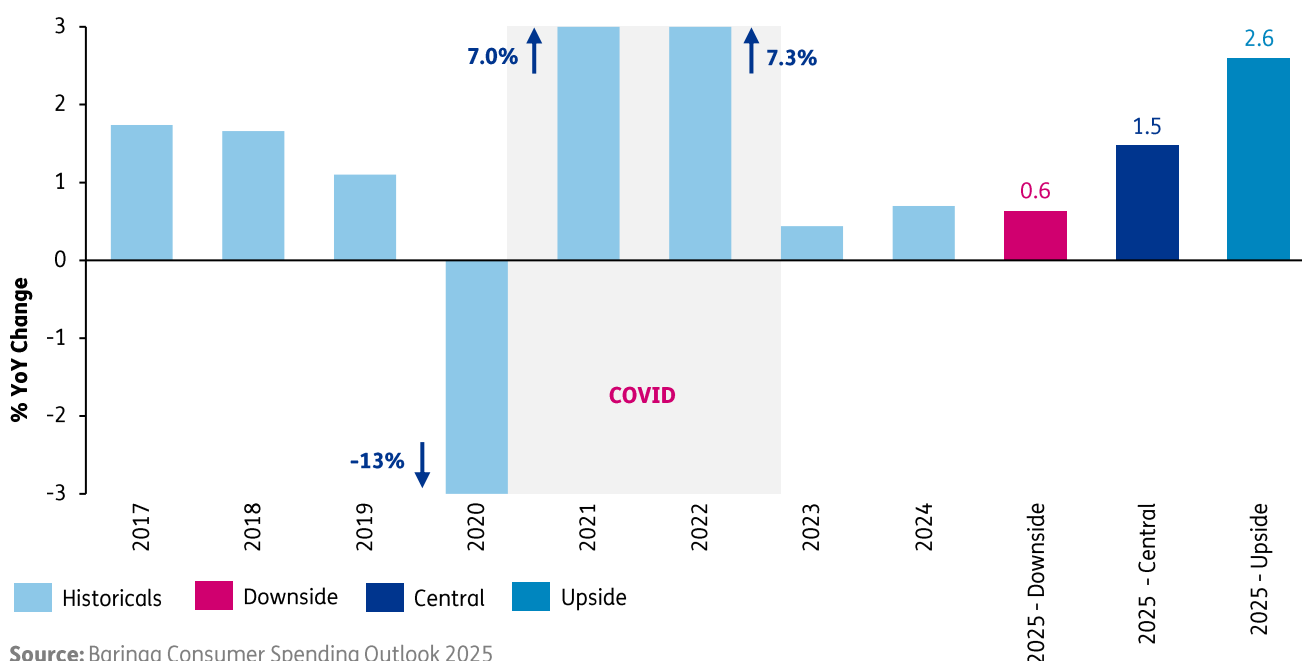
While the central case scenario remains our most likely outcome, the probability of a downside scenario is increasing. This downside case reflects higher inflation and interest rates, which could reduce consumer spending growth to just 0.6%. Retailers and CPGs businesses should keep a careful eye on these macro-economic indicators and how they might influence consumer purchasing decisions. Baringa's Consumer Spending Model can support translating macro-conditions into their micro context

Baringa's economists have generated three distinct scenarios for 2025:

1. The first is the central case, representing our most likely view of economic conditions.
2. The second is a downside case, reflecting a realistic negative outlook.
3. The third is an upside case, portraying a realistic positive scenario.

	Inflation	Pay	Rates	Utilities	Rents
Upside Case	2%	2.5%	3%	3-5%	2-5%
Central Case	2.5%	3%	3.5%	8%	3-5%
Downside Case	3.5%	3.5%	4%	12-13%	4-5%

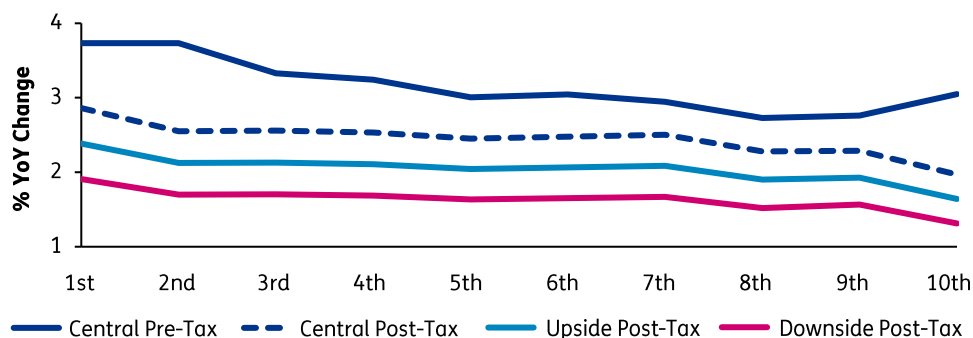
Consumer spending growth – historicals & 2025 outlook



Pay growth is highest in the lowest deciles across our three scenarios

Minimum wage increases and ongoing labour shortages among the bottom decile of income earners have led to higher nominal pay growth in recent years compared to those in higher income brackets. This trend is expected to persist into 2025, particularly due to future policy changes that will further elevate the minimum wage.

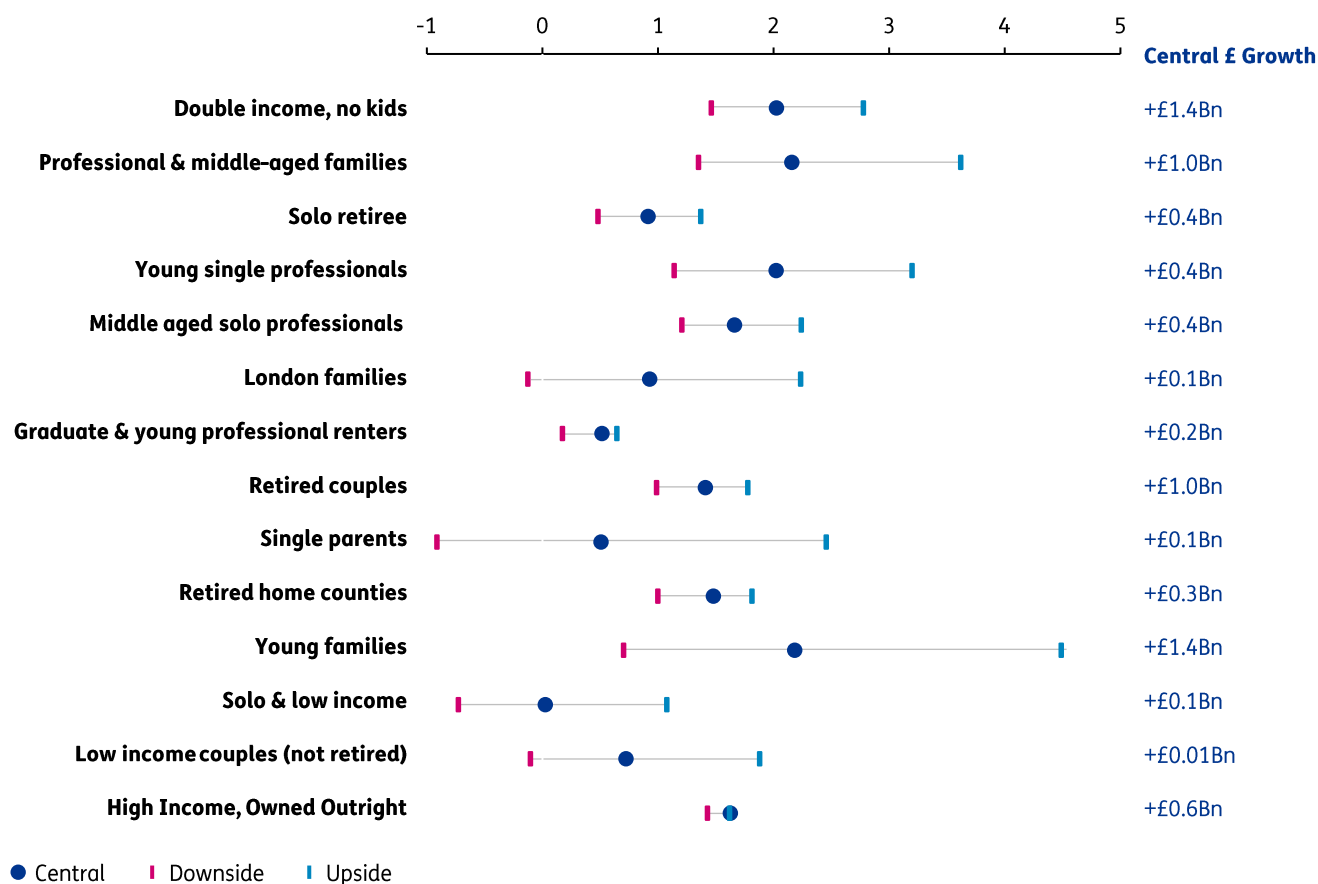
Household Income Growth by Income Decile



2 In an uneven rebound, fortune favours the homeowner

Discretionary spending will continue to vary significantly across different demographic groups, driven by variations in nominal pay and costs. By keeping a close eye on these changing fortunes, retail and CPGs can better anticipate how consumer confidence and spending patterns will ebb and flow amongst different demographics.

Percentage change across consumer spending 2024 to 2025

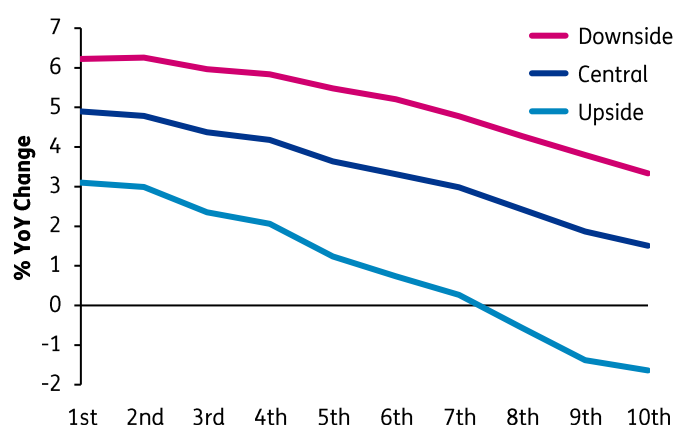


Source: Baringa Consumer Spending Outlook 2025

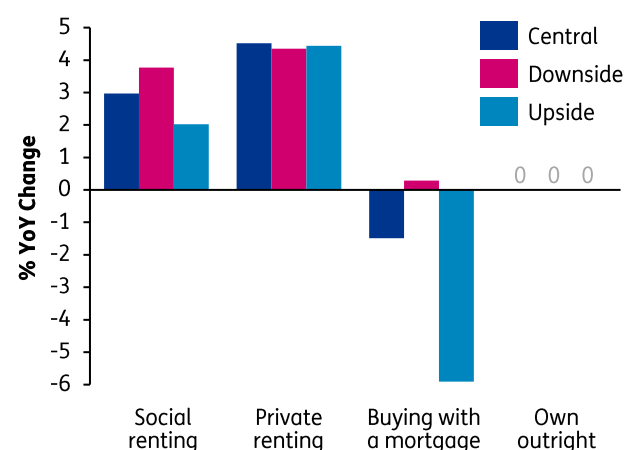
Mortgage holders set to gain

Year on year cost increases are largest for the lowest income groups in part due to housing costs. Higher prevalence of housing ownership reduces housing cost growth for higher income groups as mortgage rates fall. In addition, inflation tends to be regressive raising the cost of living for lower income groups disproportionately.

Percentage change in household costs by decile



Average percentage change in monthly housing cost

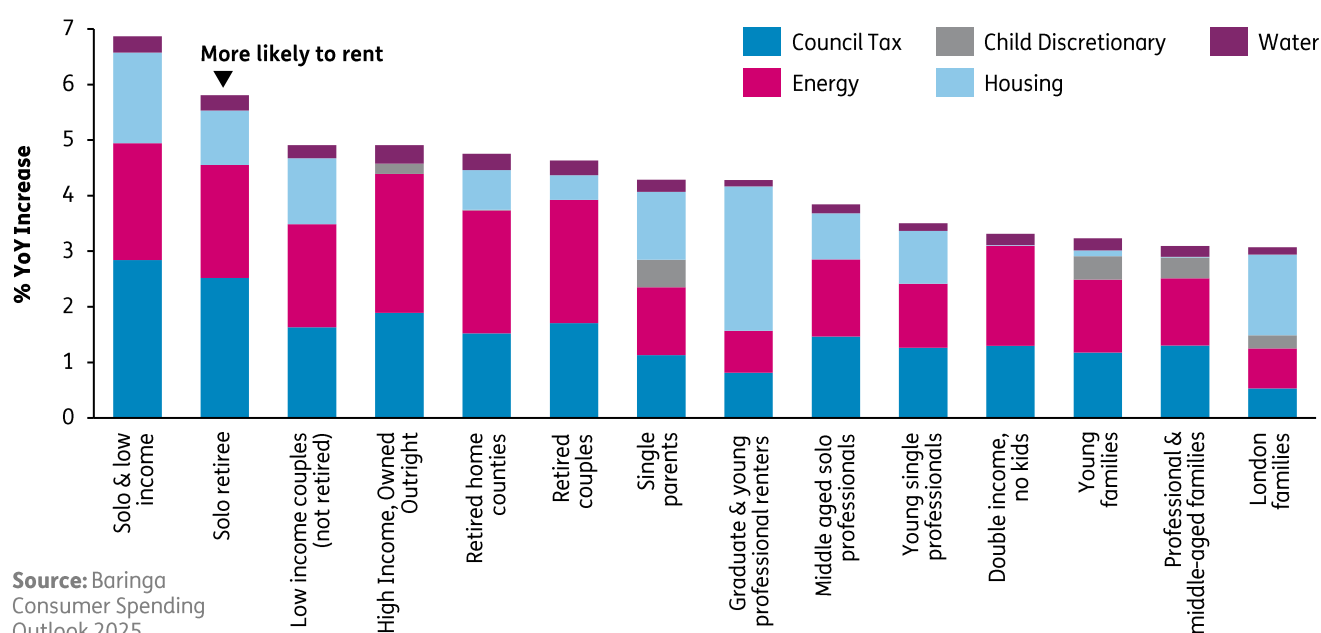


Low Income and Renters continue to feel the squeeze

Cost increases across different demographic groups are asymmetric. This is due to varying circumstances, such as housing structures (e.g. mortgage owners, outright owners or private renters), the size and composition of households, and the number of young dependents.

Consequently, due to base effects, the proportionate increase in costs in 2025 relative to 2024 is expected to impact the lower-income groups the most.

Cost by consumer segment, % YoY increase 2024-2025 (Central case)



Source: Baringa
Consumer Spending
Outlook 2025

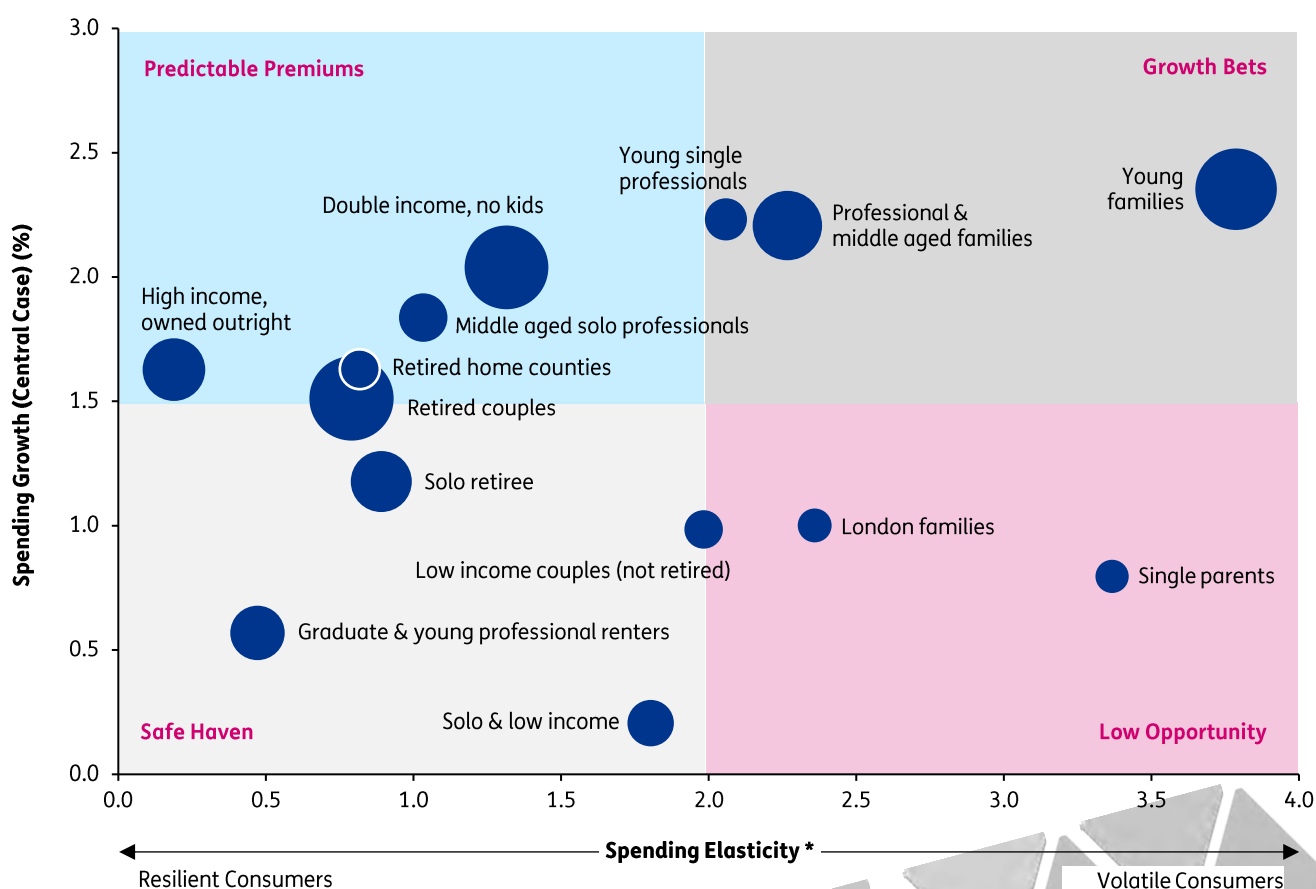
3 Some high-growth segments come with downside risks

If economic conditions take a turn for the worse, traditionally high spending growth segments could be at risk. In our model's downside case, central case winners such as young families could face setbacks due to fewer interest rate cuts and lower real pay growth. Meanwhile, retired couples and double income, no kids (DINKS) segments are expected to perform comparatively well, with growth ranging from 1.5% to 2% due to lower mortgage exposure and higher disposable incomes.

To hedge against this uncertainty, retailers and CPGs must build a more detailed and targeted understanding of consumer segments. As an example, we've divided the consumer groups included in our model into four target groups, based on their potential for growth and resilience:

1. **Predictable Premiums.** Groups with high spend growth in our central case, as well as high resilience to our downside case due to low spending elasticity.
2. **Growth Bets.** Groups with high spend growth, but low resilience to our downside case due to high spending elasticity.
3. **Safe Havens.** Groups with low spend growth, but high resilience to our downside case.
4. **Low Opportunity.** Groups with low spend growth and low resilience to our downside case.

Central spending growth and spending elasticity (difference between downside and upside scenarios)



Source: Baringa Consumer Spending Outlook 2025

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

4 For predictable growth opportunities, look outside of London

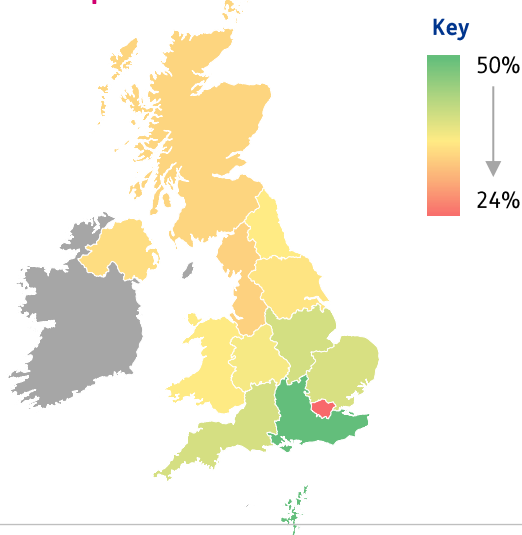
Consumers based in London are more sensitive to economic fluctuations in part due to larger mortgages. These segments show spending growth in our central case, but heightened vulnerability in a downside scenario. In contrast, regional markets outside of London present a more stable environment for consistent growth, offering brands a safer avenue for long-term planning.

Below, we've mapped our four target segments onto different regions of the UK. Taking these regional variations into account may influence retailers and CPGs' geographic strategy.

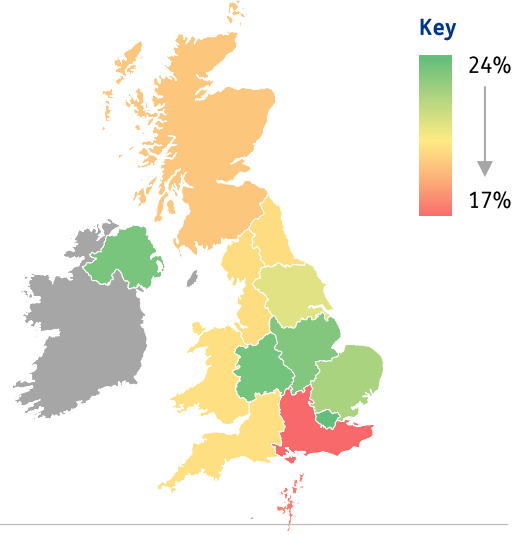
1. **Predictable premiums** – significant parts of the South East, but with a low rate of exposure to London.
2. **Growth bets** – a large proportion of the midlands, East Anglia, Northern Ireland and London.
3. **Safe havens** – large proportions of Wales, the North and Scotland.
4. **Low opportunity** – large proportions of London and major urban centres.

% of Local Population per Segment

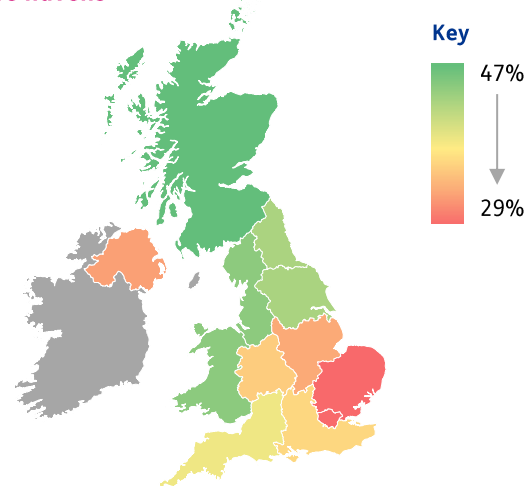
Predictable premiums



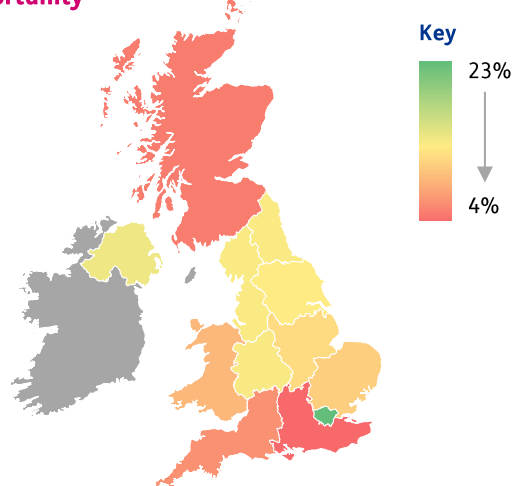
Growth bets



Safe havens



Low opportunity



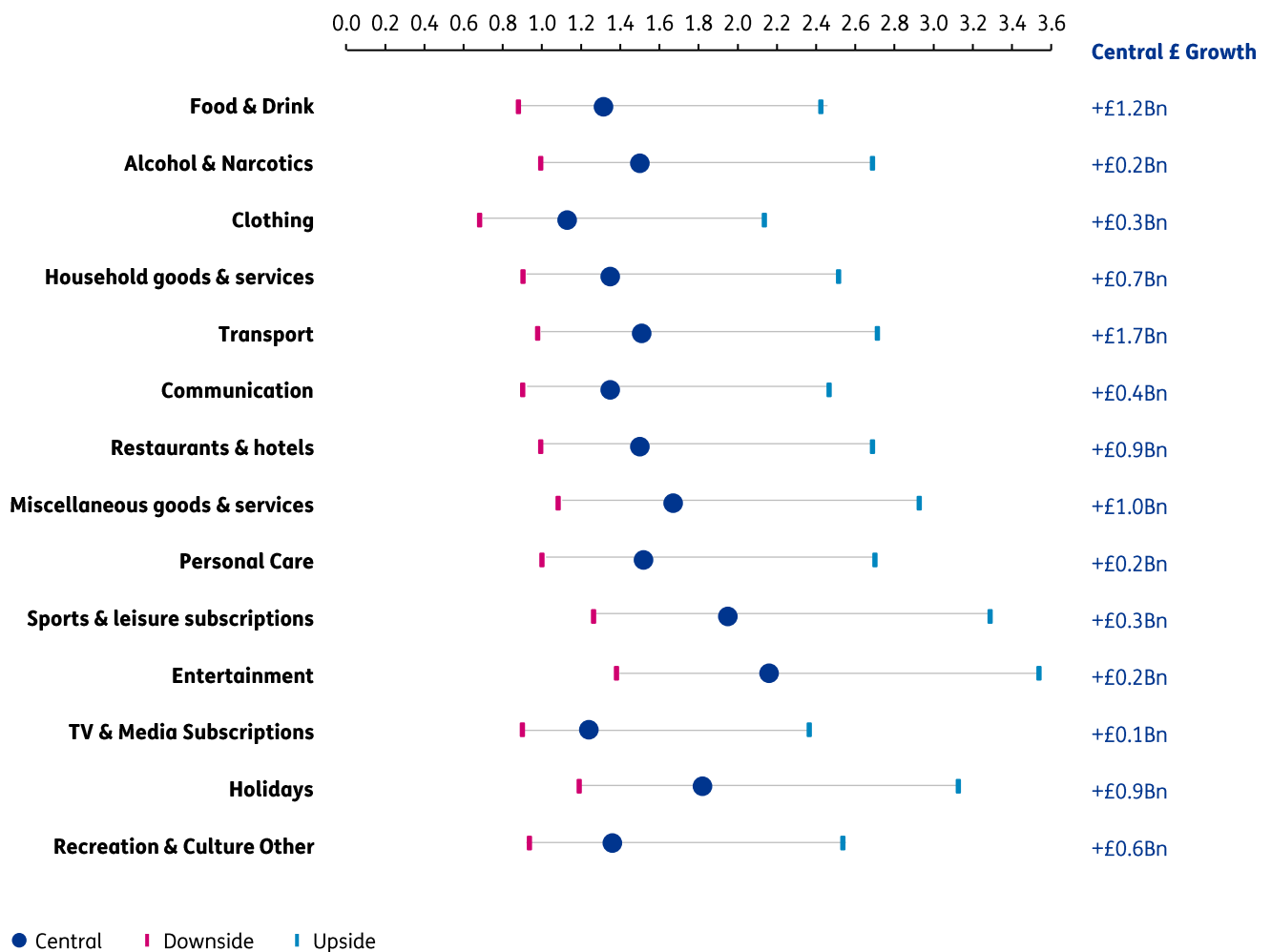
Source: Baringa Consumer Spending Outlook 2025

5 Product category spending is on the rise, but not evenly

Our product category outlook shows considerable variation in spending growth. The Entertainment category shows a 2.2% increase in expected spending in 2025, whilst clothing is expected to see just 1.1% growth.

These differences are driven by the asymmetric discretionary spending growth of different demographic groups and their relative propensity to spend on product categories associated with their income, geography, age and family composition.

Percentage change in spending 2024 to 2025 by product category



Source: Baringa Consumer Spending Outlook 2025

Emerging trends

Our spending heatmap shows how different consumer segments prioritise different product categories.

*Consumer spending priorities
(ranked spending growth by
category for each consumer
segment)*

	Food & non-alcoholic drinks	Alcoholic drinks, tobacco & narcotics	Clothing & footwear	Household goods & services	Transport	Communication	Restaurants & hotels	Miscellaneous goods & services	Personal Care	Sports admissions, subscriptions, leisure class fees and equipment hire	Cinema, theatre and museums etc.	TV, video, satellite rental, cable subscriptions and TV licences	Package holidays	Recreation & Culture Other
Double income, no kids	3	7	1	5	10	4	7	11	7	13	14	2	12	5
Professional & middle-aged families	3	7	5	4	10	5	7	11	7	13	14	1	12	2
Solo retiree	11	8	3	12	7	10	8	5	6	2	1	14	4	13
Young single professionals	11	7	14	6	5	13	7	4	9	2	1	10	3	12
Middle aged solo professionals	12	7	14	7	11	13	7	5	10	2	1	4	3	6
London families	2	6	1	3	5	3	6	10	9	13	14	6	12	11
Graduate & young professional renters	3	8	1	3	5	5	8	11	10	13	14	2	12	5
Retired couples	7	8	14	12	13	2	8	8	3	3	8	5	5	1
Single parents	10	6	12	8	5	11	6	4	9	3	1	13	2	14
Retired home counties	6	9	1	12	7	5	9	11	3	3	2	14	7	12
Young families	13	7	14	12	10	9	7	4	6	2	1	10	3	5
Solo & low income	4	7	1	12	3	5	7	10	6	7	2	14	11	13
Low income couples (not retired)	10	7	13	9	5	12	7	4	5	2	1	14	3	11

Source: Baringa Consumer Spending Outlook 2025

Based on this data, we've drawn out three micro-trends at the product category level:

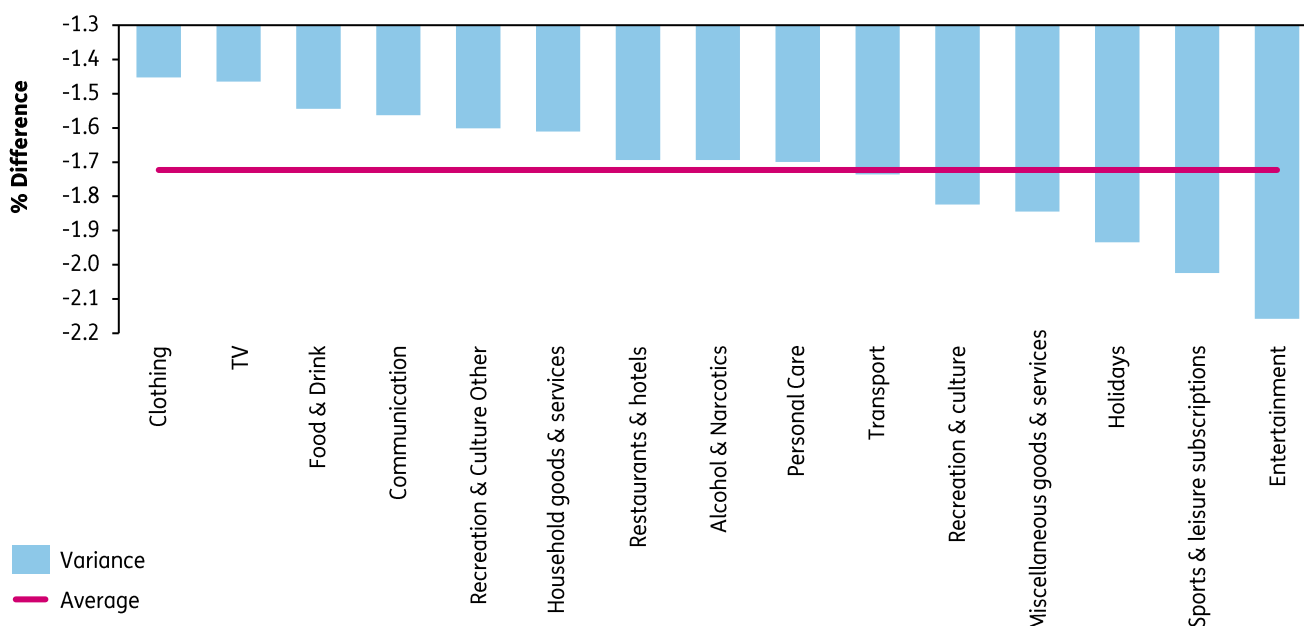
1. Going out is the new staying in (for now)
2. Fashion's middle ground is shrinking
3. Grocery customers shopping around

Note: Values indicate relative growth scoring per consumer segment, for example, for double income, no kids, clothing & footwear has the highest expected growth, while cinema, theatre and museums has the lowest. The high income, owned outright segments are not included as growth across product categories is largely consistent, due to their high discretionary income.

1. Going out is the new staying in (for now...)

10 (out of 14) consumer segments in our central case will prioritise an out-of-home leisure activity (cinema, theatre, etc.) above everything else. Yet, entertainment remains much more sensitive to wider economic shifts than categories like clothing and food and drink. Should the economy move towards our downside case, entertainment will be one of the first sacrifices, with consumer spend likely to fall sharply.

Delta between upside and downside product spending growth (spend elasticity)

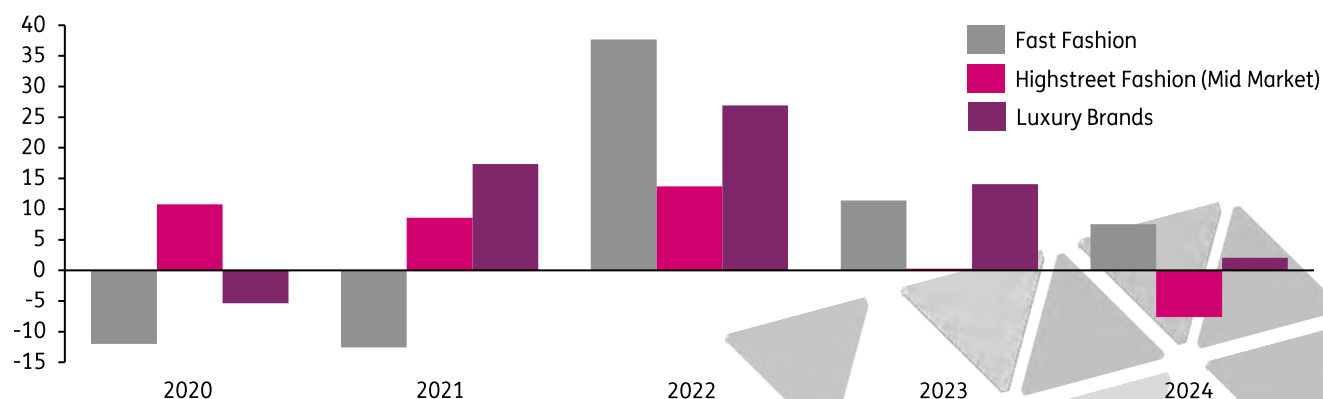


Source: Baringa Consumer Spending Outlook 2025

2. Fashion's middle ground is shrinking

5 segments will prioritise clothing and footwear over everything else, 5 other segments will de-prioritise spend in this area in favour of other categories (spend growth ranked last or second last). In 2025 therefore, we expect to see mid-market clothing retailers squeezed, continuing a trend from the last few years. Polarized consumers at the top and bottom of the spectrum will continue to focus on a few key luxury pieces and supplement with basics from value outlets.

Year on year sales growth for luxury vs highstreet clothing brands (public listed equities)

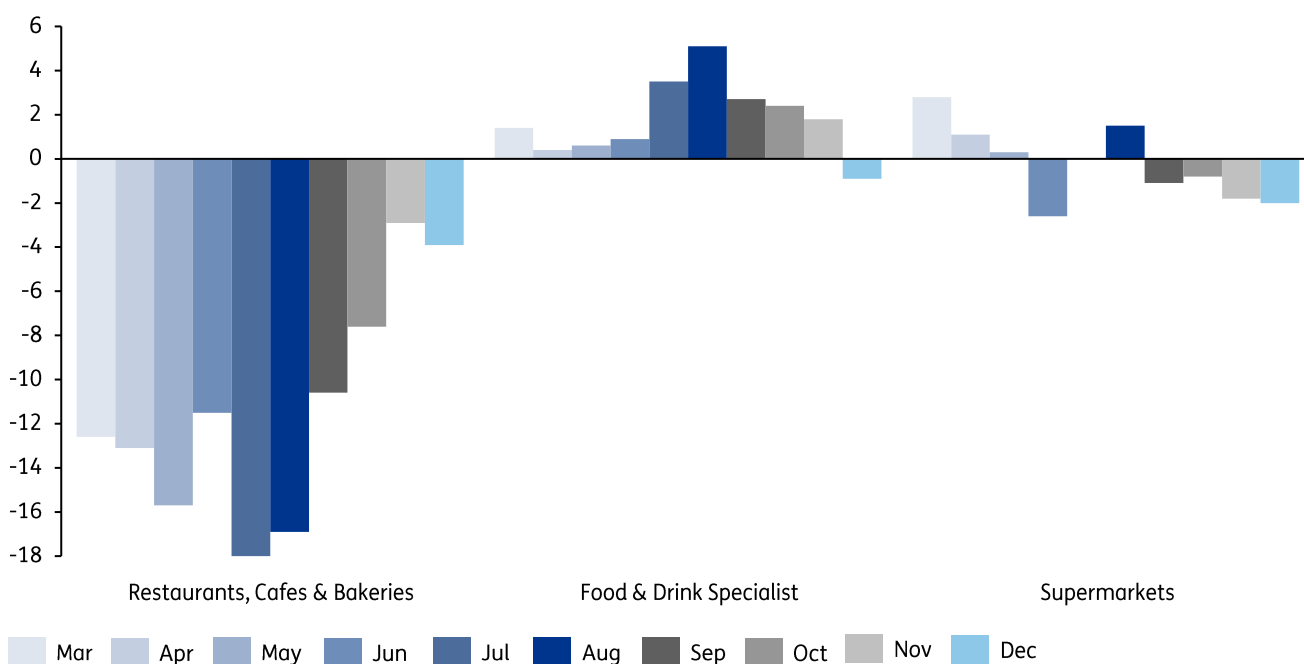


Source: Baringa analysis using public listed equities for market estimation.

3. Grocery customers shopping around

4 segments will prioritise Food & non-alcoholic drinks as one of their 'top 3' spend growth areas, but 4 will cut back above all else. This suggests (similar to Clothing and Footwear) that consumers will move towards the top-end, or the discounters with their weekly shop. In 2025, Consumers also will continue to favour 'at-home treats' from specialist food and drink outlets over eating out as well as broadening their repertoire; moving away from one-stop shops and visiting a variety of specialists and discounters to cater to their needs.

Year on year spending growth



Source: Customer spend report, Barclays

Retailers and CPGs looking to capture growth opportunities in 2025 will need to focus their portfolio mix and offerings very carefully on the segments they need to attract in alignment with their risk / growth appetite. If you're interested in exploring more insights from Baringa's Consumer Spending Model, or if you'd like to discuss how we can help refine your strategy and operations, get in touch with us today.

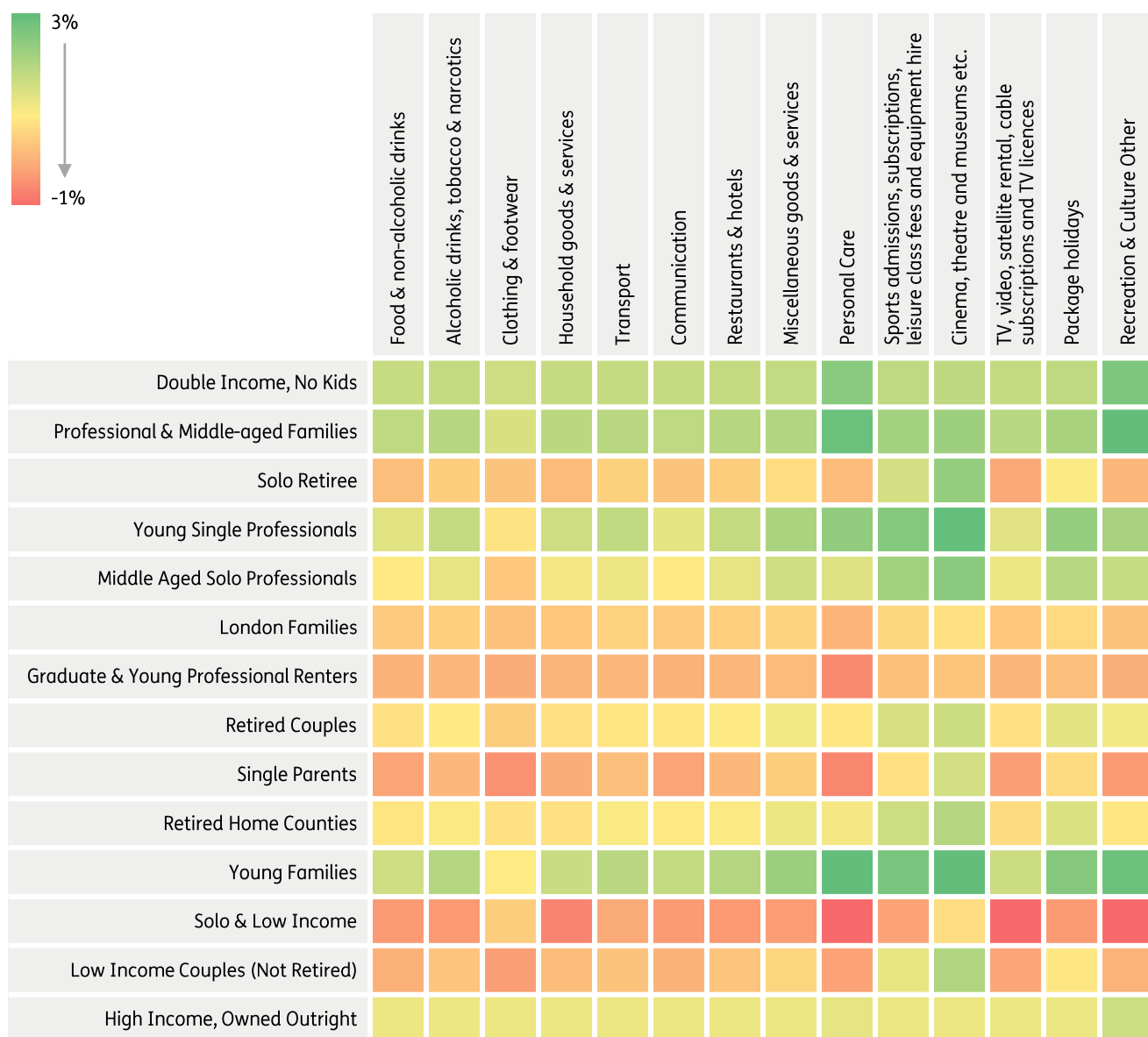


Appendix A: Consumer Segments

Central case heat map

Our spending heatmap shows how different consumer segments prioritise different product categories.

Consumer spending year on year growth (ranked spending growth by category for each consumer segment)



Source: Baringa Consumer Spending Outlook 2025

Note: Colours indicate % growth in 2025 per product and category. Colours are relative to each product category.

Consumer Segments

We have grouped the UK's 28 million households into logical demographic & economic segments which we believe represent useful consumer segments to identify the key trends in 2025.

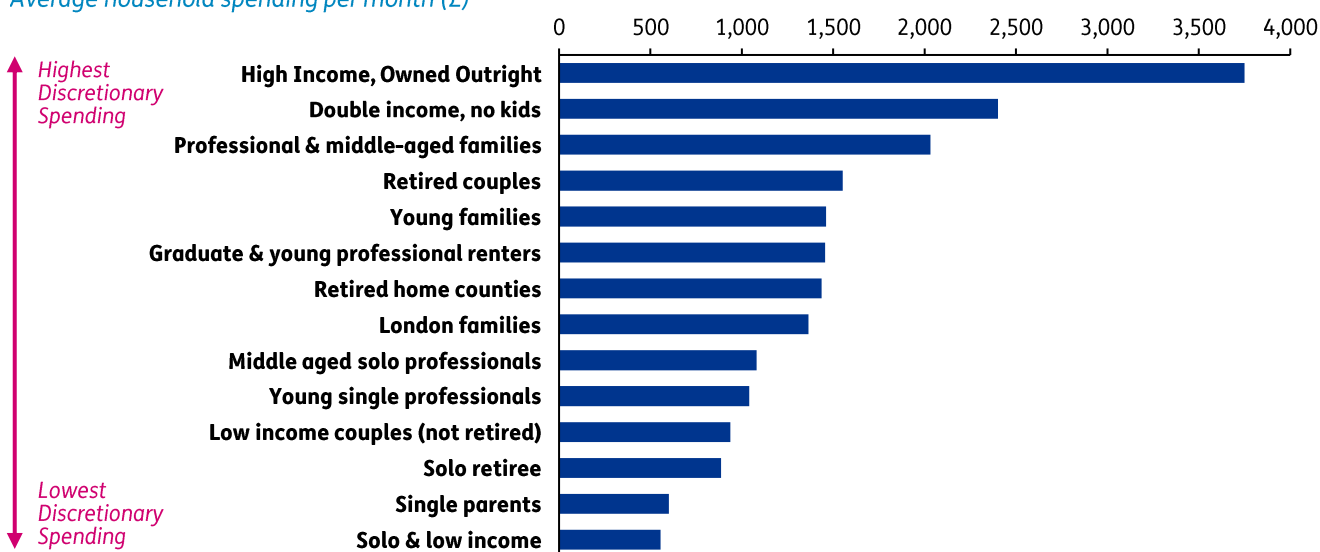
#	Category	Descriptor
1	Double Income, No Kids	Two earning adults without children
2	Professional & Middle-aged Families	Mid-income level families, where the head of household is over 45
3	Solo Retiree	Lone individuals above 65 who have retired
4	Young Single Professionals	Young individuals in full time employment, living alone with no dependents
5	Middle Aged Solo Professionals	Middle aged individuals in full time employment, living alone with no dependents, between 45-64
6	Graduate & Young Professional Renters	Young individuals social or private renting
7	Retired Couples	Older generation individuals living as 2 adult households
8	Single Parents	Single adult household with children
9	Young Families	Families with parents below ages 16-44
10	Solo & Low Income	Lone adult living below full time employment annual income
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 and who own their housing outright, without a mortgage

The most significant consumer segments by average spending

Average discretionary spending varies considerably by household composition and demographics. Larger households with higher incomes have greater discretionary income to devote to consumption.

Our High Income, Own Outright top the discretionary income per household, whilst Solo & Low Income come out at the bottom.

Average household spending per month (£)



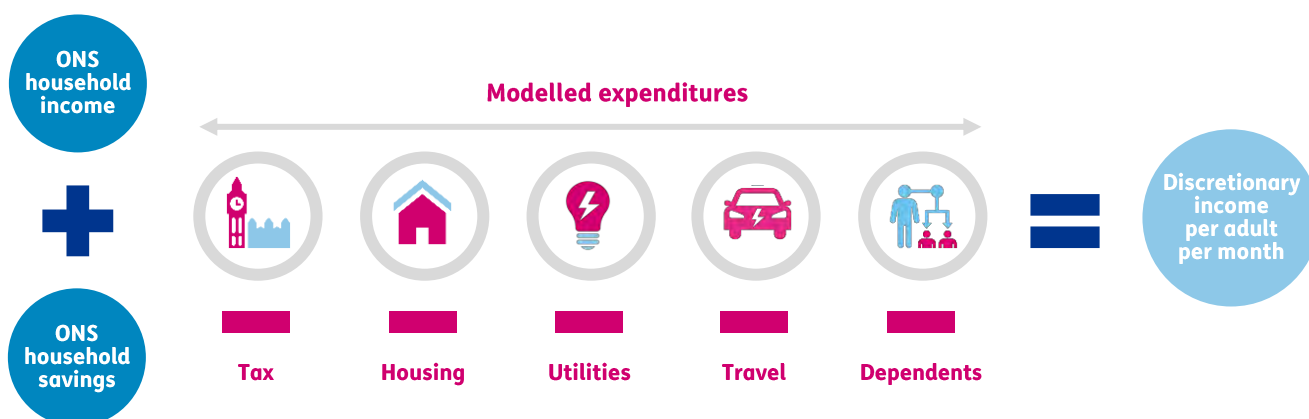
Source: Baringa Consumer Spending Outlook 2025

Appendix B: Modelling Approach

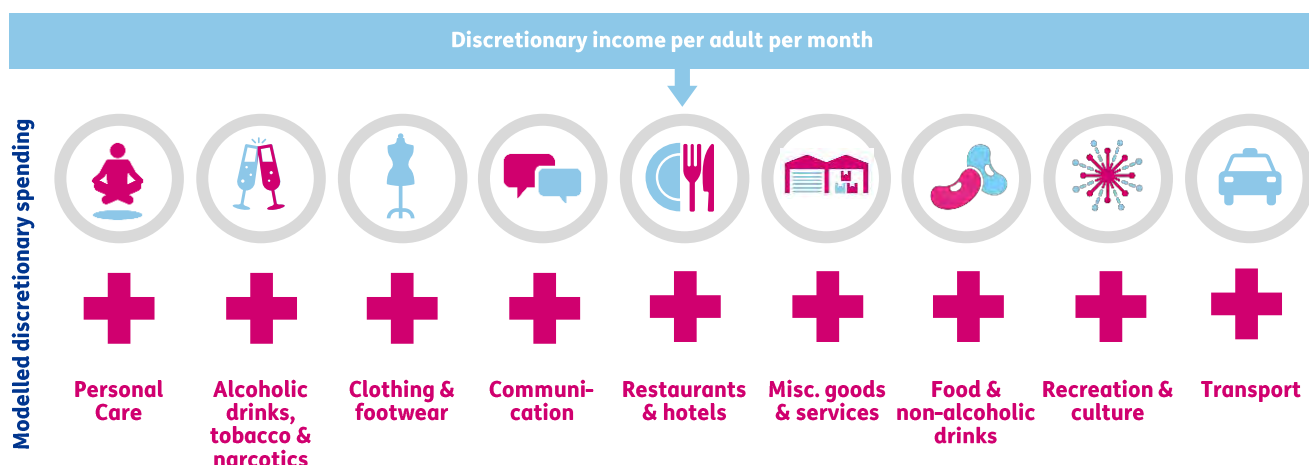
We modelled expenditures for c.28 million households across the UK.

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.

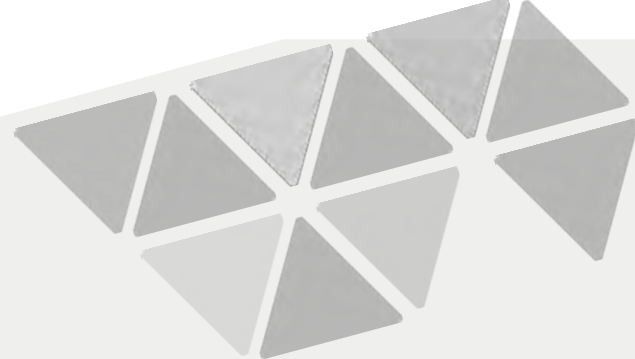


After modelling expenditure, we modelled discretionary income spending across defined product categories. Our modelling leverages insight into the marginal elasticity of spending across categories per pound of increase in discretionary income. This creates a dynamic view of UK customer spending behavior by region, housing type and several demographic indicators.



Across our modelled expenditures, we accounted for a number of cost types through using existing data and Baringa assumptions.

Expenditure	Description	Approach	Assumptions
Tax 	Income tax	▲ 2024 Income tax thresholds	▲ 2 adults split income equally
	National insurance	▲ 2024 national insurance thresholds	▲ N/A
	Council tax	▲ Historical 1991 values using regional house price growth calculator from nationwide	▲ Country banding threshold data and regional averages
Housing 	Private rent	▲ Number of bedrooms devised by household income and number of occupants	▲ ONS average rents by bedroom number and by region
	Social rent	▲ Household value provided by ONS assumptions by region and number of bedrooms	▲ Social rent circa half regional private rent
	Buying with a mortgage		▲ Household value provided by ONS assumptions by region and number of bedrooms ▲ Loan to value ratio 60% ▲ 25-year mortgage ▲ 12 payments per annum
	Owning outright		▲ N/A
Utilities 	Electricity costs	▲ Industry body seasonal pricing and consumption use by household size and region	▲ National average
	Gas costs		▲ National average
	Water costs		▲ Differs by water provider (region)
Travel 	Transport costs	▲ ONS UK average travel expenditure ▲ rural/urban transport cost adjustment	▲ Travel costs vary per region ▲ Travel cost non-linear to family unit size
Dependents 	Children	▲ Most essential spend covered by family size assumptions in utilities, groceries, household size ▲ Non-essential spend accounted for by additional child costs	▲ Additional £25 per week per child ▲ Skeleton payment not adjusted for income
	Elderly	▲ Elderly dependents generate private and state pension income	▲ No additional pensioner costs considered, e.g. healthcare



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