



UK Financial Vulnerability Outlook

Winter 2026/27

Executive Summary

Following years of economic volatility, the outlook for UK household vulnerability is for modest reductions year on year, but with a hardening core of extreme vulnerability.

Headline vulnerability is set to hold at levels similar to winter 2025/26 at 23%, and looking forward it's encouraging to see for most households, real wages and income growth now outpace essential cost growth.

The downside pressures anticipated at the start of the year from the Persian Gulf escalation have not materialised: a muted commodity market response and a more supportive rate path have eased cost pressures across the population. Although this reprieve is conditional, not structural. Renewed Persian Gulf escalation remains the principal downside risk to this outlook and could act to materially weaken the outlook for this winter and next.

Yet this national stability masks a hardening core of high financial vulnerability. Essential costs remain elevated, and a weakening labour market continues to press on the most exposed households, who keep seeing costs rise faster than income, leaving no room to rebuild savings or discretionary capacity. The result is movement within the vulnerable population rather than out of it: extreme vulnerability rises from 7.4% to 7.6%. Single parents, young renters, and low-income couples face the steepest increases, reflecting the compounding effects of high fixed costs and limited buffers, while vulnerability peaks among 35–54-year-olds, whose financial responsibilities are typically greatest, and eases for younger and older cohorts.

This concentration is no longer just a demographic pattern; it is now visible on suppliers' balance sheets. The number of households in energy debt has fallen by 579,000 to 6.37 million, an apparent improvement. But that improvement is concentrated entirely among At Risk and Vulnerable households: the Extremely Vulnerable share of debt has risen by 56,000 households, and because these are the households least able to repay, total energy debt is forecast to rise £2bn by Q1 2028. Debt is not being repaid so much as concentrated.

These findings underline a single message: while macroeconomic headlines show improvement, the underlying reality is not improving, it is hardening for the most financially vulnerable. With millions still constrained by elevated living costs and depleted savings, and with that hardship increasingly visible as unrecoverable arrears rather than just a vulnerability statistic, addressing the drivers of vulnerability will be critical to restoring household resilience, and to the recovery profile of energy and water suppliers, through the coming winter.

It's clear from this assessment, and the wider industry round tables we have hosted over recent months, that a structural response is required in the market- one that provides targeted support for those that need it, and a premise that appropriate action is taken for those that can afford to pay.

01

6.6m households financially vulnerable

c23% and holding. Vulnerability in the UK is entrenched, not easing.

02

2.2m households in extreme vulnerability

An additional 56K households are forecast to fall into the “Extremely Vulnerable” financial vulnerability category in H2 2026. In total 7.6% of households are expected to be in extreme vulnerability in our central scenario.

03

£2bn rise in energy debt by Q1 2028

Fewer households are in arrears overall, but a smaller, more concentrated extremely-vulnerable core is carrying materially larger, less recoverable balances.

Content

- 02** Executive Summary
- 05** Section 1: Key vulnerability dynamics
- 10** Section 2: Our economic scenarios
- 16** Section 3: Identifying financial vulnerability
- 25** Section 4: UK energy sector debt forecast
- 29** Section 5: Distribution of UK water debt
- 31** Appendix
- 34** Authors

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Utilising customer profiles, Baringa's debt forecasting capability can provide realistic projections for payment delays and defaults across a range of customised scenarios.

This can support our clients to understand vulnerability, debt risk, predict default events, and estimate impairment provision.



Section 1: **Key vulnerability dynamics**

Financial vulnerability categories

Baringa's financial vulnerability model segments households into five distinct categories. These are based on the level of household savings (relative to housing costs) and the level of discretionary income per adult after modelling essential expenditures such as housing, utilities, food, travel costs and the cost of dependents.

	Extremely Vulnerable	Vulnerable	At risk	Non-Vulnerable	Affluent
	1 	2 	3 	4 	5 
Description	Individuals at or below subsistence living levels, with minimal savings and income	Financially vulnerable to any income or cost changes	Individuals that are at risk of becoming financially vulnerable	Financially secure individuals that have savings and notable discretionary income	Significant discretionary income above other cohorts
Cohort sub-groups (discretionary income & savings)	• Very low income and savings below monthly housing cost	• Low income and low savings • Very low income and low to medium savings	• Medium income and low savings • Low income and medium savings	• High income • Medium income and medium to high savings	• Very high income

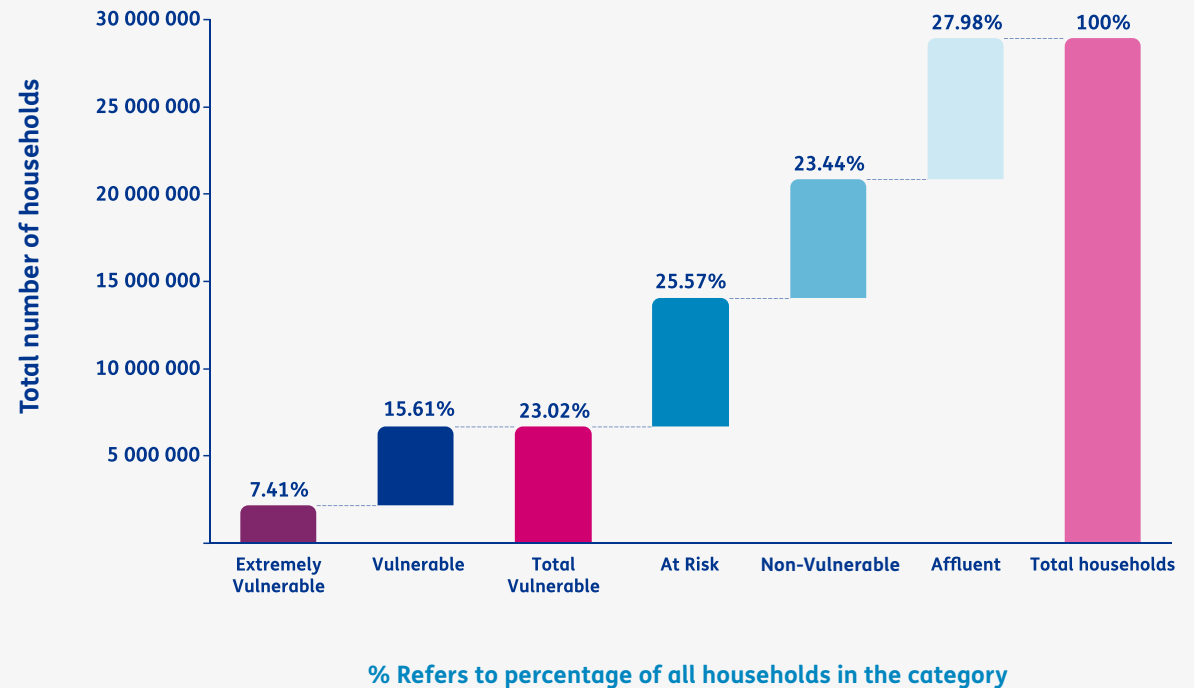
The current state of UK vulnerability

Baringa's financial vulnerability model segments UK households into **five categories**, based on household savings (relative to housing costs) and **discretionary income per adult** after essential spending on housing, utilities, food, transport, and dependents.

- **“Extremely Vulnerable”** households live at or below subsistence levels, with minimal income and savings often below one month of housing costs. They are highly exposed to any financial shock.
- The **“Vulnerable”** group has low income and limited savings, leaving them financially fragile and sensitive to small changes in income or costs.
- **“At Risk”** households typically have medium incomes but low to moderate savings. While able to meet daily expenses, they remain exposed if economic conditions worsen.
- **“Non-Vulnerable”** households have medium to high incomes and meaningful savings, giving them notable financial security and discretionary income.
- Finally, **“Affluent”** households sit well above other cohorts, with very high incomes and significant discretionary spending power.

This framework provides a structured way to assess **household resilience** across economic scenarios. It highlights which groups are most exposed to rising costs or falling incomes, and which are best positioned to absorb shocks.

2025 Vulnerability cohorts across the UK population



Vulnerability remains entrenched across the UK in H2 2026

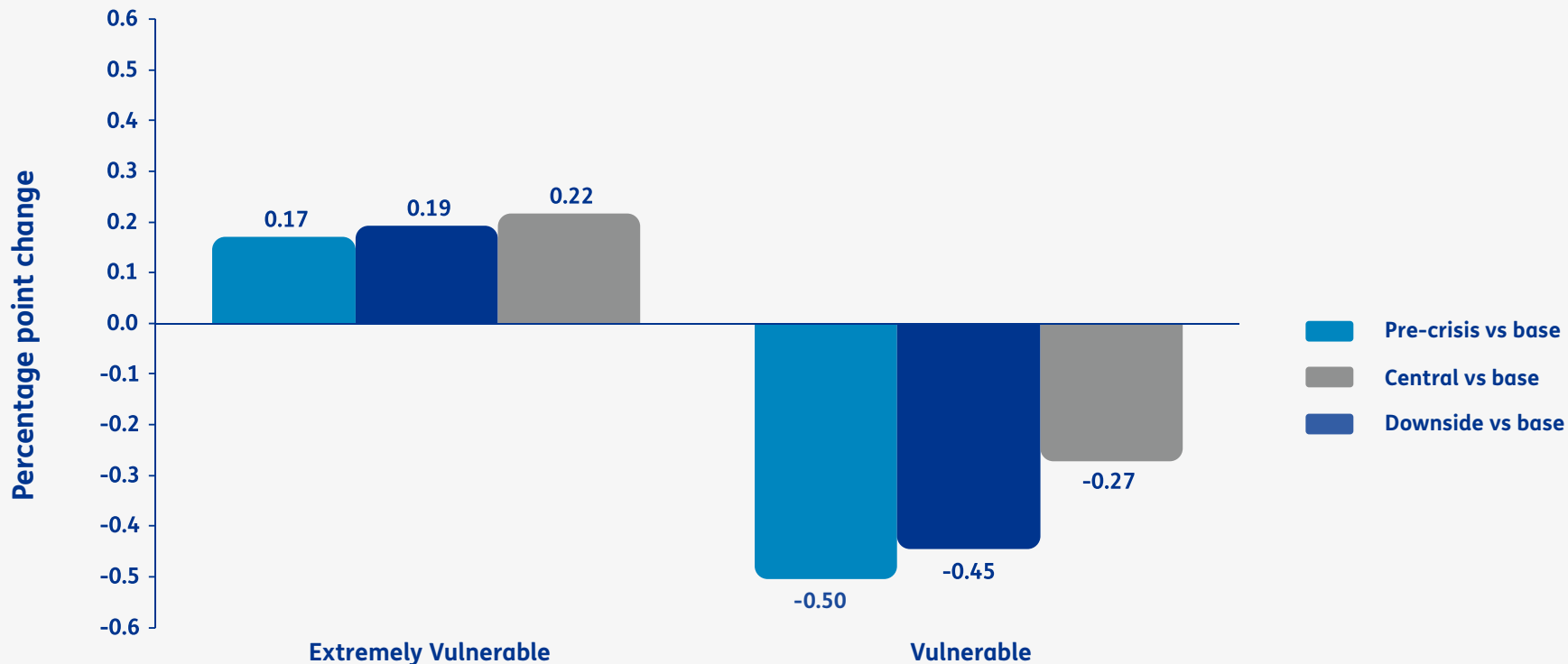
Baringa's financial vulnerability model points to a stubborn picture for UK households in H2 2026. Overall levers are expected to modestly reduce but with a hardening core of Extremely Vulnerable.

The deterioration anticipated at the start of the year has not materialised. Downside risk from the Persian Gulf escalation has proved more contained than feared: a muted commodity market response, so far, and a more supportive rate path have eased cost pressures, while income growth for most UK households continues to outpace fixed costs.

However, essential costs remain elevated, and a weakening labour market continues to place pressure on more financially exposed households. The result is movement within the vulnerable population rather than out of it: extreme vulnerability rises from 7.4% in 2025 to 7.6% in our H2 2026 central scenario.

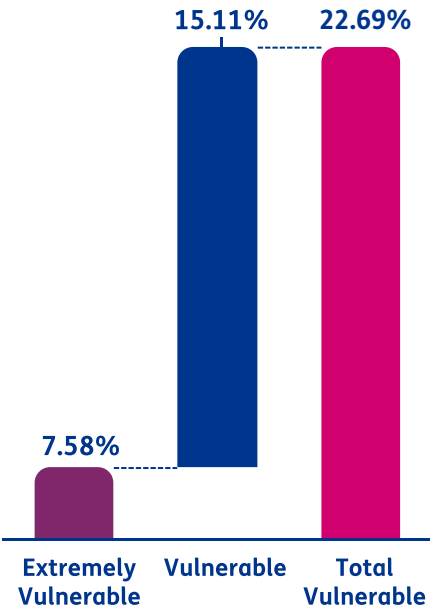
Renewed Persian Gulf disruption remains the principal downside risk, deepening this concentration through higher energy and fuel costs alongside rising unemployment.

Percentage point change from base - winter 25/26 outlook vs this year's scenarios

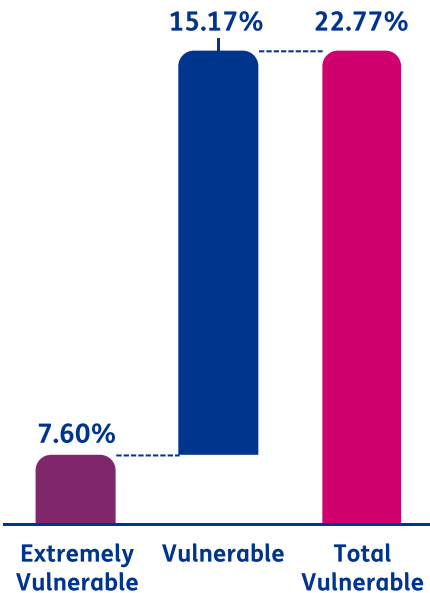


% of households in the UK Vulnerable and Extremely Vulnerable

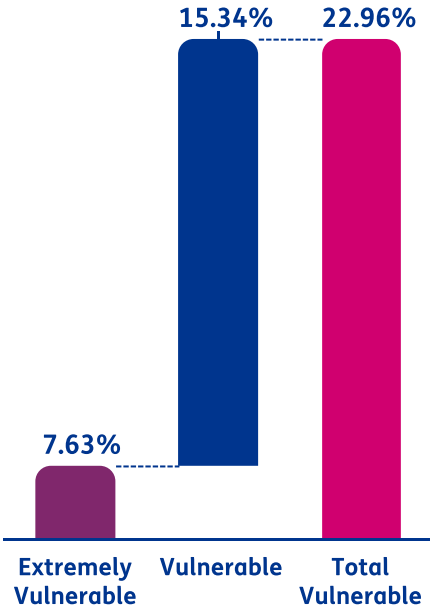
Pre-Crisis Forecast



2026 H2 Central Forecast



2026 H2 Downside Forecast



Section 2:

Our economic scenarios

Our 2026 scenarios

The vulnerability outlook is conditioned on four scenarios generated by Baringa's economists, spanning a realistic range of macroeconomic outcomes for H2 2026.

- The first is the central case, representing our most likely view of economic conditions.
- The second is a downside case, reflecting a realistic negative outlook.
- The third is an upside case, portraying a realistic positive scenario.
- The fourth is a pre-crisis, representing our economic view before escalation in the Persian Gulf.

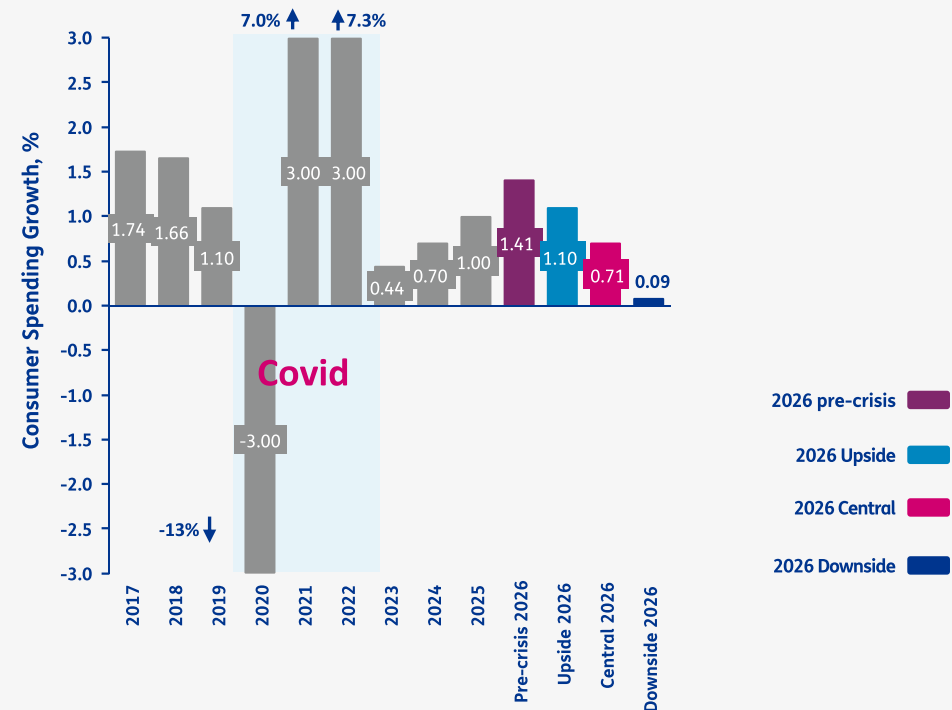
Our central case points to average consumer spending growth of 0.7% monthly YoY. The Persian Gulf escalation earlier in the year has not translated into the sustained energy shock initially feared, and with the Bank of England now expected to hold rates rather than tighten, real household incomes begin to see recovery. Essential costs nonetheless remain elevated, and a weakening labour market continues to place pressure on more financially exposed households, though the aggregate impact is partly limited by unemployment risk being concentrated among typically lower-spending groups. Savings rates also remain elevated, although early signs of a gradual decline could provide some support if consumer confidence improves.

While the central case remains our most likely outcome, the outlook remains highly asymmetric. Renewed Persian Gulf escalation could generate further volatility in global commodity and energy markets, pushing inflation higher and weakening consumer confidence.

In such a scenario, YoY monthly consumer spending growth could slow to around 0.09%. Conversely, stronger confidence and a gradual reduction in precautionary saving could lift growth towards 1.1%.

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

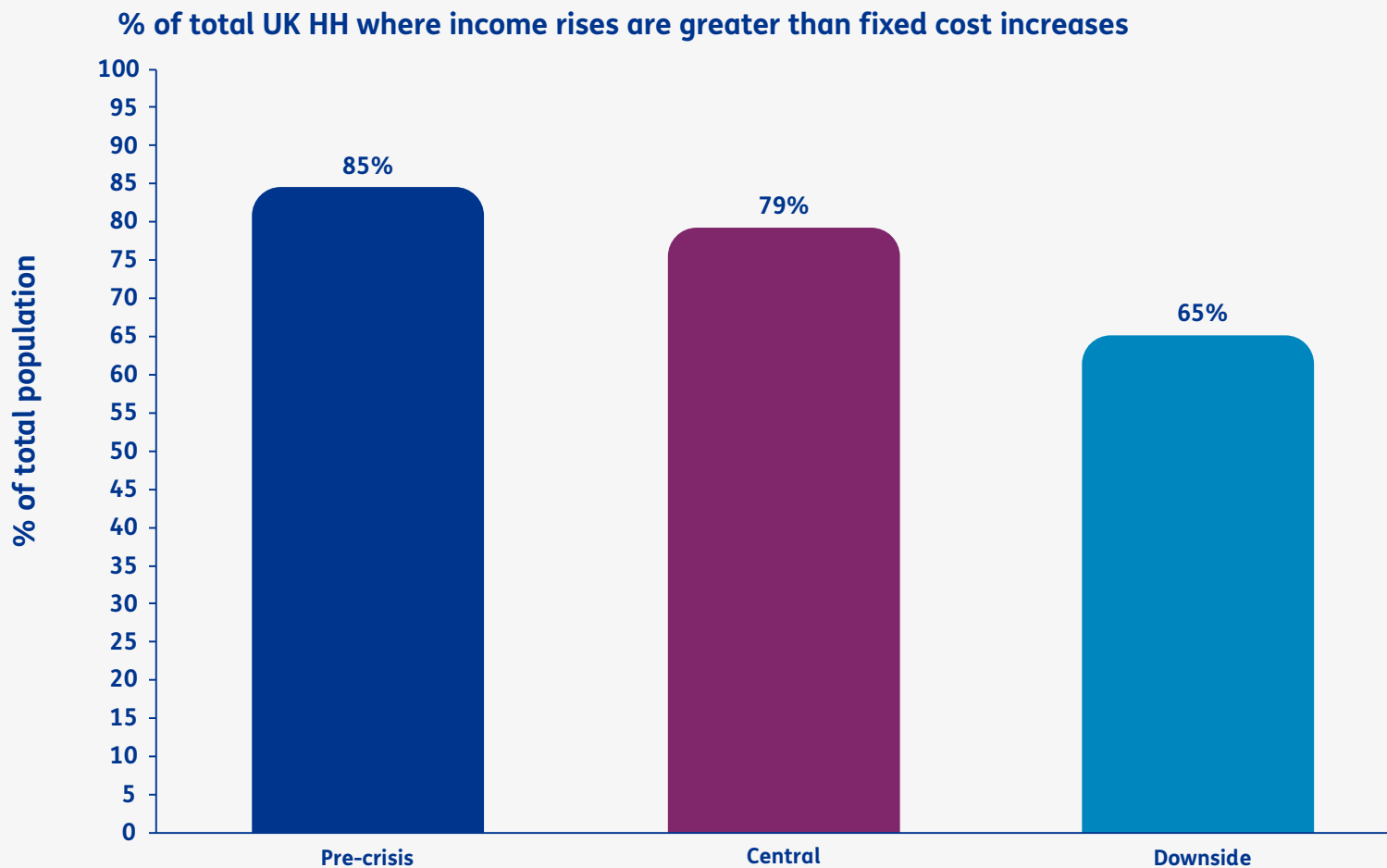
	Inflation	Pay	Rates	Utilities	Rents	Unemployment	Savings
Downside forecast	3.5%	3.0%	4.0%	15%	5.0%	6%	9%
Central forecast	3.2%	3.0%	3.75%	12%	5.0%	5%	9%
Upside forecast	3.2%	3.0%	3.75%	12%	5.0%	5%	8.5%



Most UK households are getting better off

Continued wage growth across all income deciles means 79% of the population is expected to see income rise faster than fixed costs in our central scenario, this holds for 65% even under the more severe downside.

However, while cost pressures have not materialised as feared during the Persian Gulf escalation, they remain elevated against pre-crisis levels. As such our central scenario sits 6 percentage points below the expected 85% of households pre crisis.



However, headline vulnerability remains persistent because cost pressures are concentrated

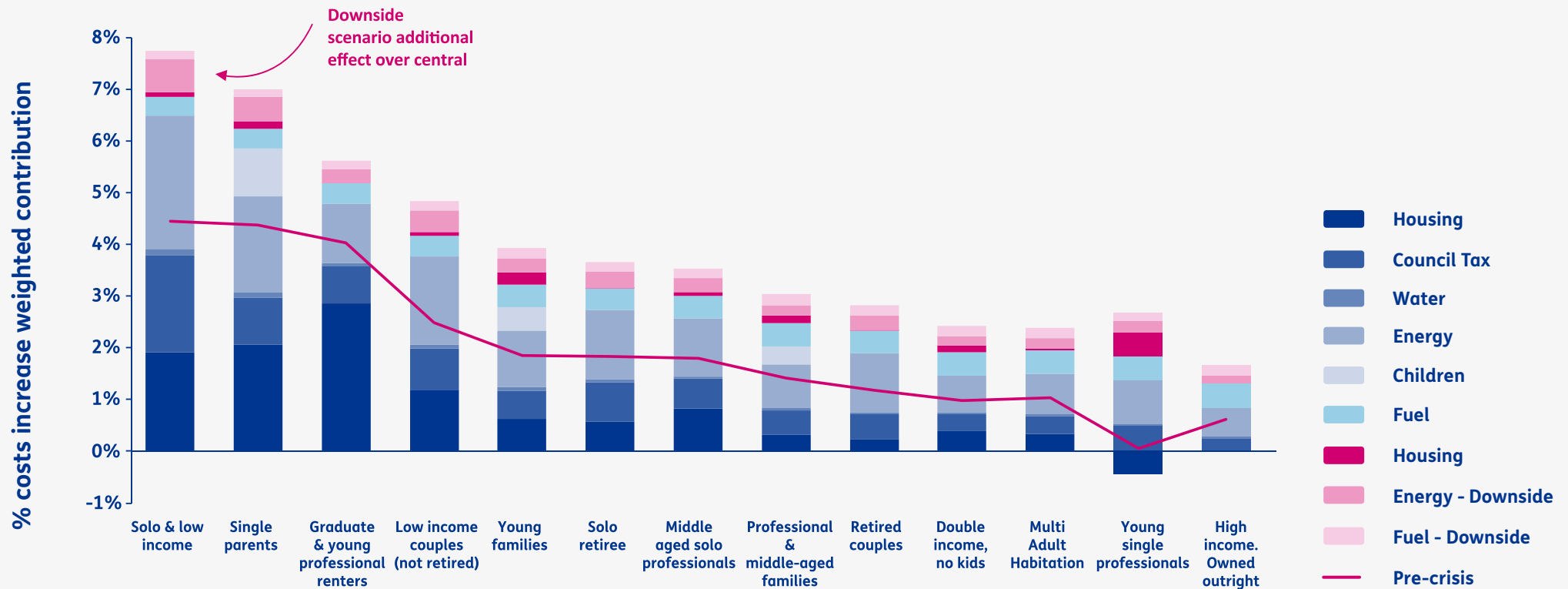
Despite a more stable outlook for household finances, essential cost increases remain above pre-Iran crisis levels and are heavily concentrated among financially exposed consumer segments.

Housing continues to be the largest driver of cost growth across most groups, while energy and fuel costs remain an important source of pressure too.

Solo & low-income households, single parents and young renters face the largest increases in costs, reflecting their greater reliance on essential spending and more limited financial buffers. By contrast, high-income outright owners experience substantially lower cost pressures.

The downside scenario amplifies these trends, with additional energy and fuel cost increases falling disproportionately on households that already dedicate a larger share of expenditure to essentials. As a result, vulnerability remains concentrated among lower-income households despite broader improvements in income growth.

Central and incremental downside cost increases versus base, by consumer segment



With falling living standards concentrated in our most exposed segments

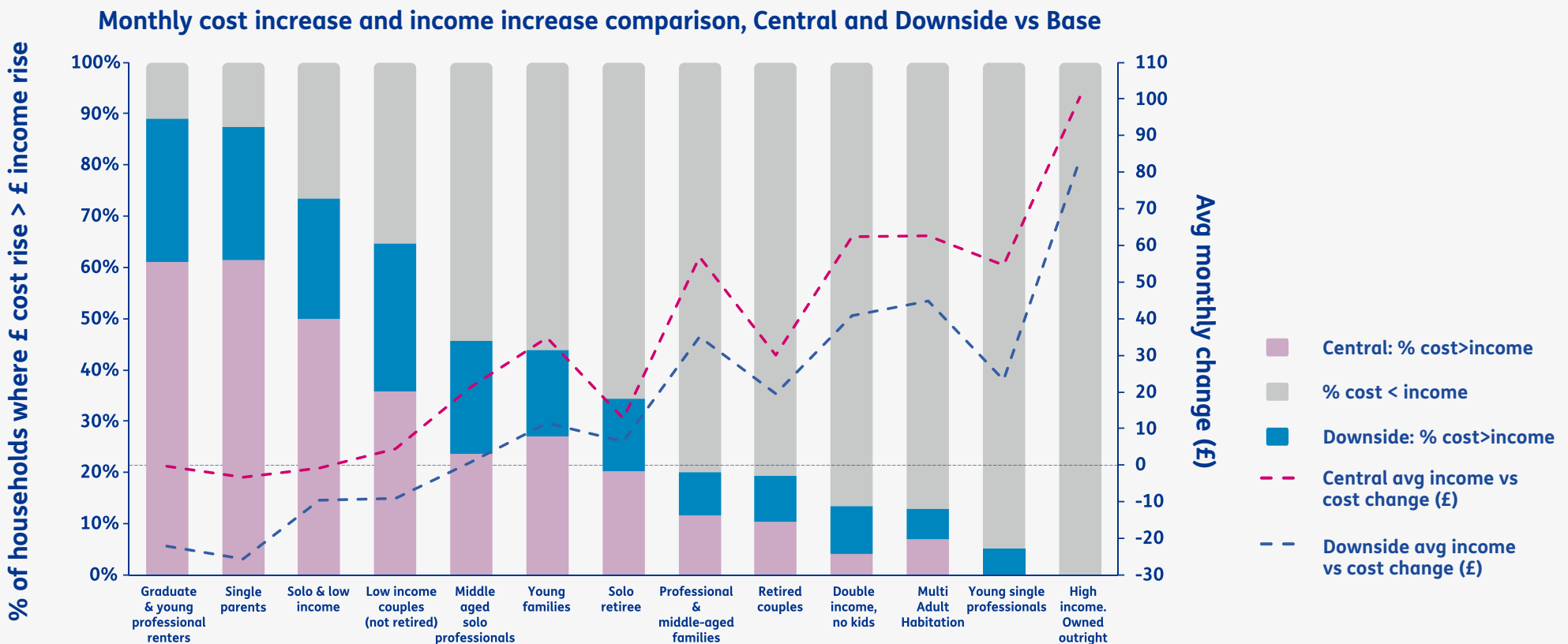
Even as the majority of households continue to see incomes rise faster than fixed costs, specific demographics are dominated by those households set to experience the reverse. For these households cost growth exceeds income growth and financial headroom erodes even as the national outlook improves.

Under the Central scenario, a significant share of lower-income households already experience cost increases that exceed income growth, limiting their ability to improve financial resilience.

The Downside scenario amplifies this imbalance, with higher energy, fuel and employment pressures increasing the number of households for whom rising costs outweigh income gains.

The impact is greatest among single parents, lower-income households and younger renters, where spending is concentrated on essentials and financial buffers are limited.

As a result, the Downside scenario not only reduces household financial headroom but also increases the risk of households moving into more vulnerable financial positions.



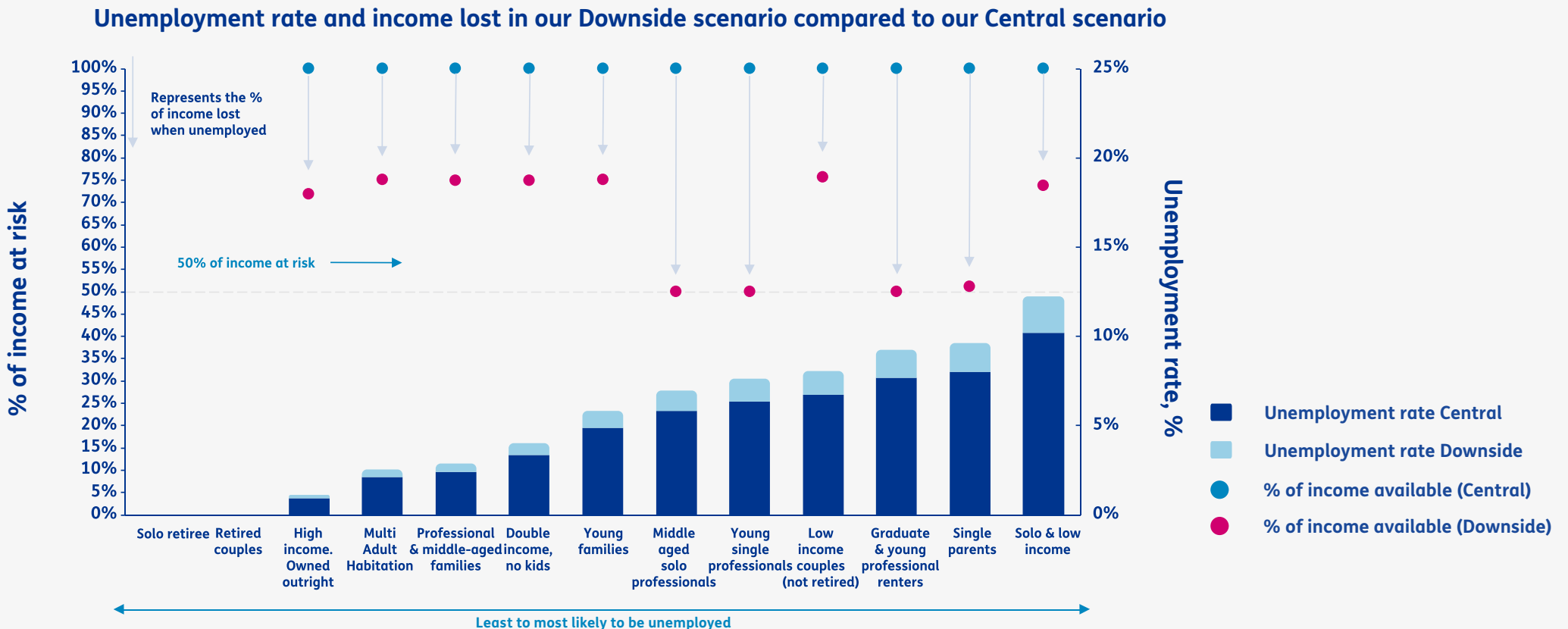
As well as slight increases in unemployment risk

The Downside scenario introduces a deterioration in labour market conditions, with unemployment rising most among younger, lower-income and renting households.

These groups are already more exposed to essential cost pressures and typically have more limited savings buffers, making them particularly sensitive to income shocks.

For households that experience unemployment, income losses can be substantial, often reducing earnings by around half or more. As a result, even a relatively modest increase in unemployment can have a disproportionate impact on household finances and push financially stretched households into deeper vulnerability.

The impact is not evenly distributed. Solo & low-income households, single parents, younger renters and low-income couples face the greatest downside exposure, helping explain why downside risks become concentrated among groups that are already financially vulnerable under the Central scenario.



Section 3: **Identifying financial vulnerability**

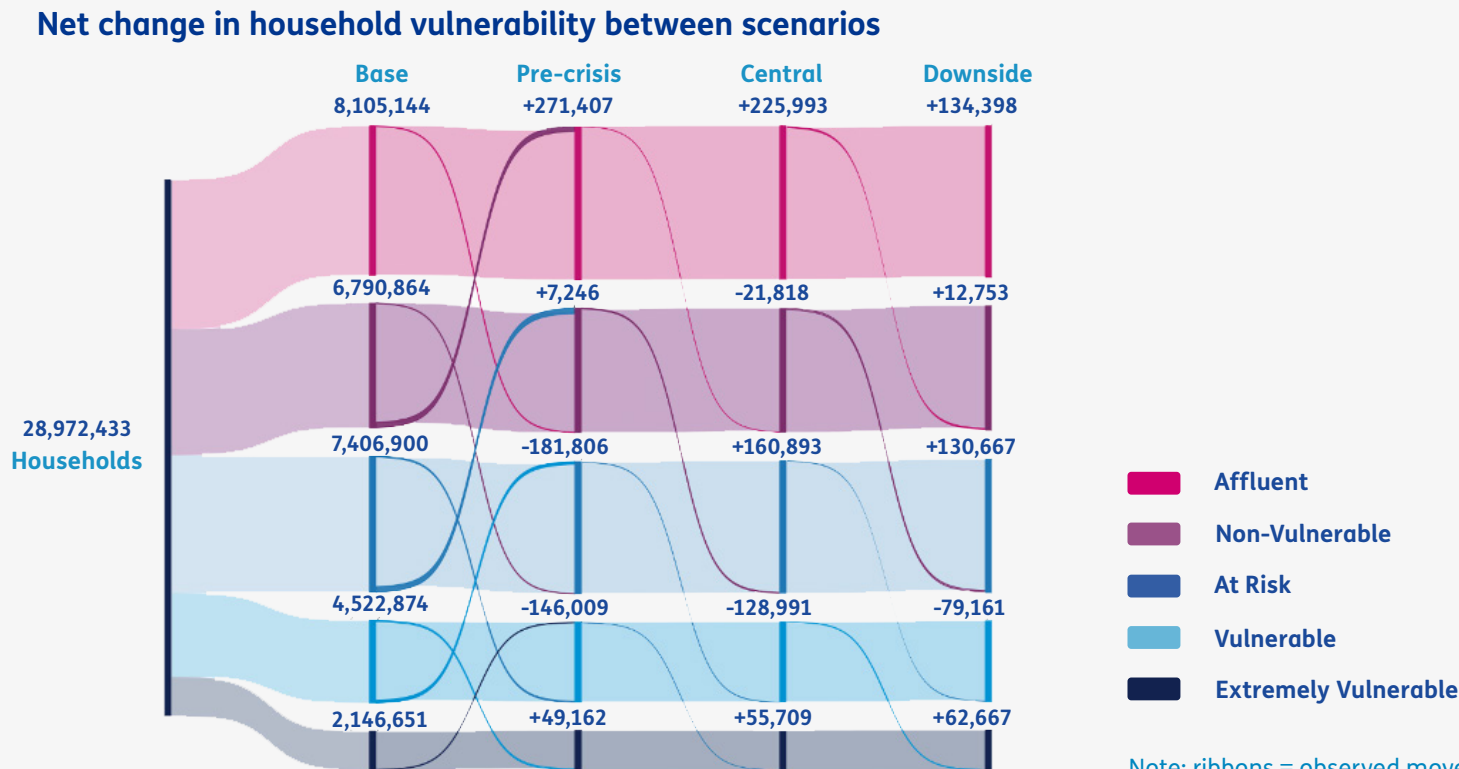
Movements between categories are much less significant in our central outlook as classifications become entrenched

In our Pre-crisis scenario, we would have seen larger movements across all vulnerability levels, with total vulnerability down by c.100,000 households.

However, Baringa's H2 2026 Central scenario points to stagnation rather than either a major deterioration or improvement in the level of financial vulnerability across the UK population.

Much of this movement is concentrated around the Vulnerable and Extremely Vulnerable cohorts, reflecting the impact of higher energy costs, rising unemployment and continued pressure on essential spending. Households with limited savings buffers are particularly exposed to these additional shocks.

The result is increasing concentration of vulnerability, with downside risks primarily affecting those already closest to financial vulnerability rather than being evenly distributed across the population.



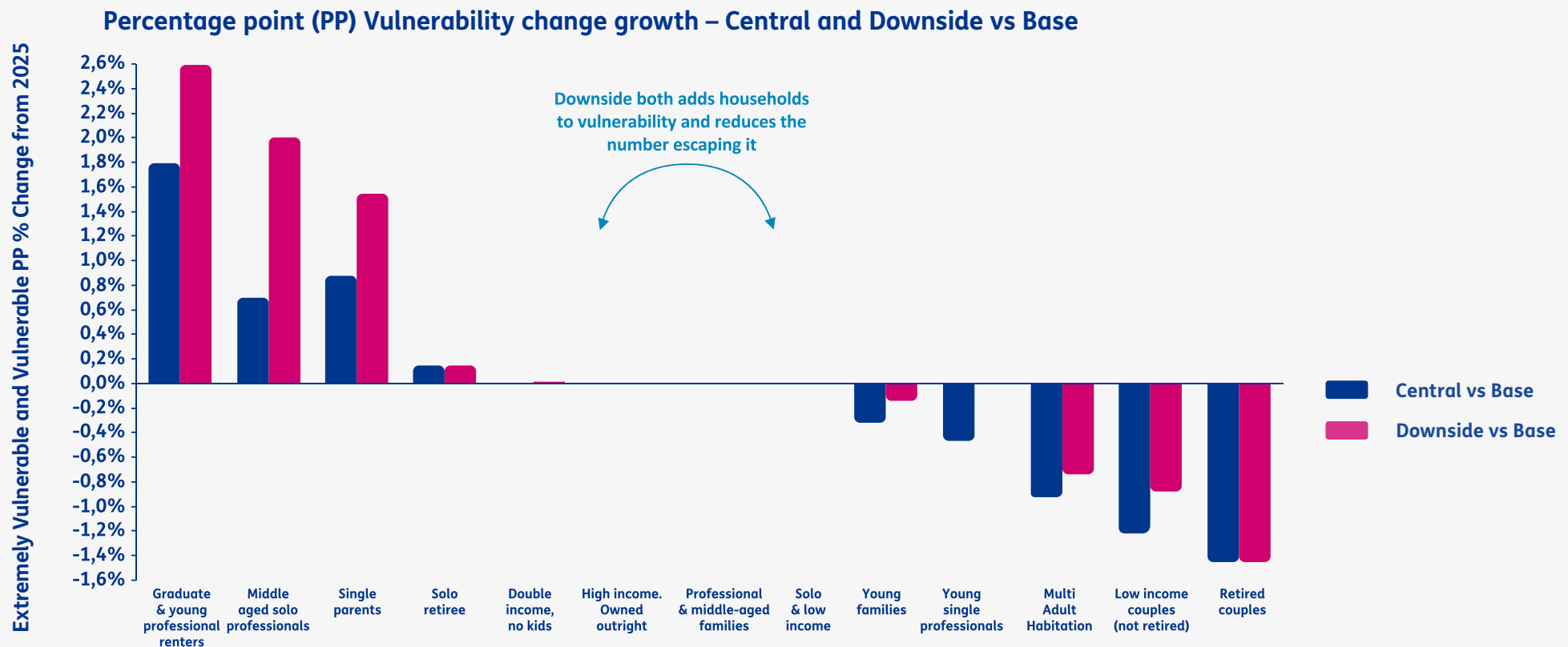
Note: ribbons = observed movements; node labels show change vs base

And asymmetric, with some groups improving whilst others fall

Changes in financial vulnerability vary considerably across consumer segments, reflecting differences in income, savings, housing tenure and essential spending requirements. While some groups see little change in their financial position, others remain significantly more exposed to economic pressures.

Single parents, solo & low-income households and lower-income couples experience the largest increases in vulnerability, reflecting their greater exposure to housing, energy and other essential costs, combined with limited financial buffers.

The impact of a weaker economic outlook is felt through both higher inflows into vulnerability and lower outflows from it. More households fall into Vulnerable and Extremely Vulnerable categories, while fewer households are able to recover and transition into more financially resilient groups. As a result, financial stress becomes increasingly concentrated among already exposed consumer segments. By contrast, higher-income and asset-owning households experience relatively limited changes in vulnerability, reflecting stronger financial resilience and a greater ability to absorb additional cost and income shocks.



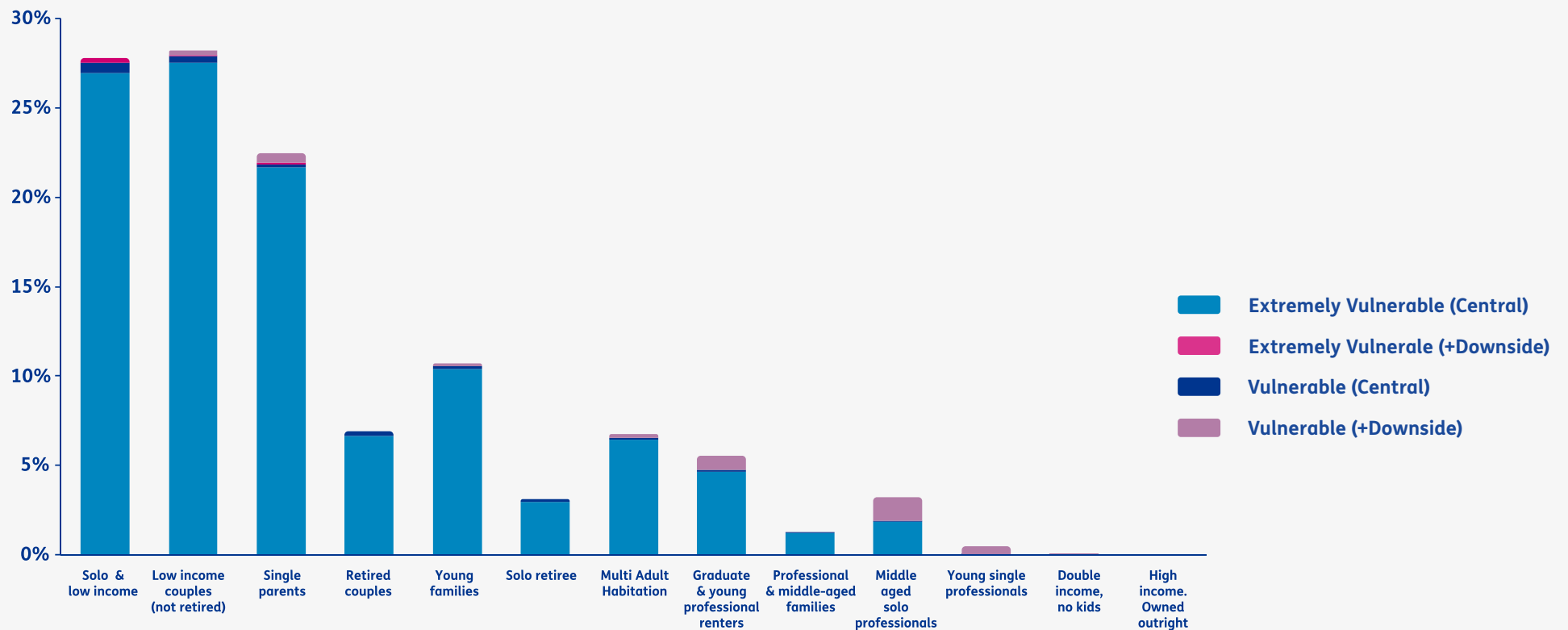
Vulnerability is increasingly concentrated in core demographics

Financial vulnerability differs significantly across consumer segments, reflecting differences in income levels, savings buffers, housing tenure and household composition. While some groups experience relatively low levels of vulnerability, others face a much greater risk of financial hardship.

Solo & low-income households, low-income couples and single parents exhibit the highest levels of vulnerability, with a large proportion already classified as Vulnerable or Extremely Vulnerable under the Central scenario. These households typically have less financial headroom and spend a greater share of income on essential costs such as housing, energy and childcare.

The Downside scenario further increases vulnerability among these already exposed groups, while having only a limited impact on higher-income and asset-owning households. This highlights the unequal distribution of financial stress across the UK population and the importance of household characteristics in determining resilience to economic shocks.

Extremely Vulnerable and Vulnerable by consumer segment – Central and Downside

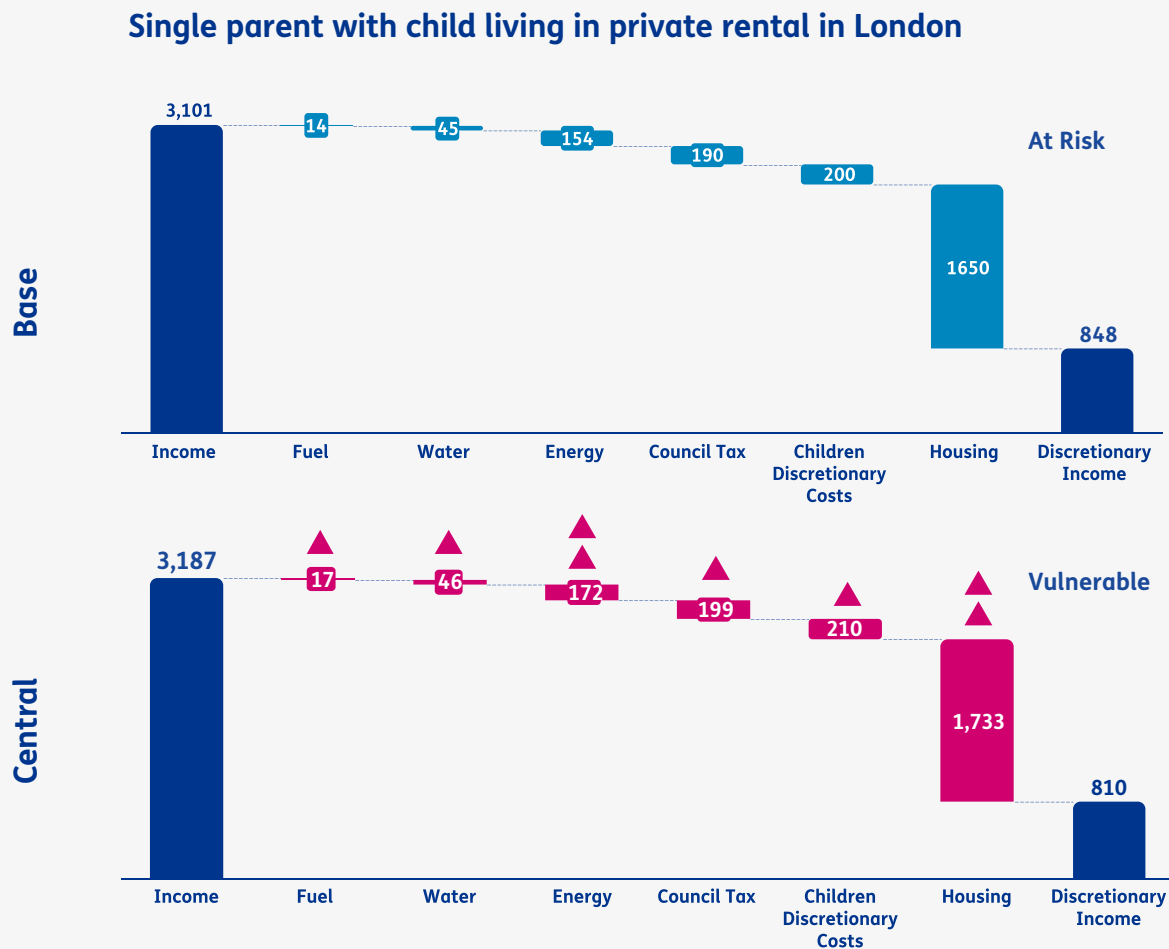


Housing and energy cost pressures pushing a single parent into vulnerability

This example illustrates how modest increases in essential costs can materially affect financially exposed households. The household begins in the At Risk category, with limited discretionary income remaining after essential spending.

Despite an increase in income under the Central scenario, rising housing, energy and other household costs absorb much of the gain. The result is a decline in available financial headroom, causing the household to move from At Risk into the Vulnerable category.

The case study highlights an important feature of financial vulnerability: households do not necessarily become vulnerable because incomes fall. In the cases where essential costs rise faster than incomes, financial resilience is gradually eroded and households are left more exposed to future shocks.



Regional vulnerability reflects underlying differences in household resilience

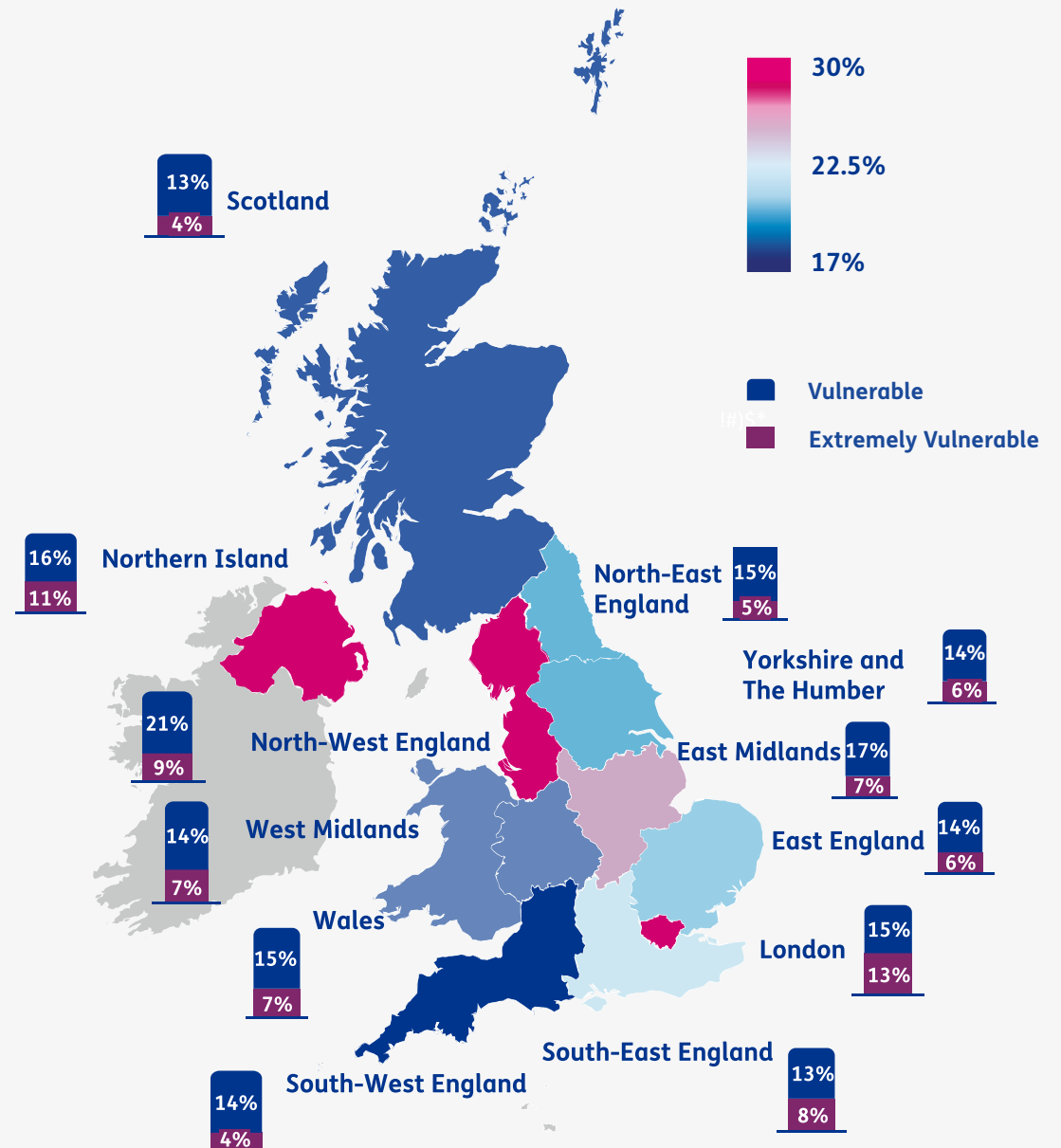
Financial vulnerability varies significantly across the UK, reflecting differences in household income, housing costs and demographic composition.

Under the Central scenario, vulnerability remains highest in London, Wales, the North-West and West Midlands, where a larger share of households are classified as Vulnerable or Extremely Vulnerable.

London stands out for its particularly high concentration of extremely vulnerable households, highlighting how high housing costs can offset the benefits of stronger average incomes.

By contrast, many southern regions exhibit lower levels of vulnerability, supported by higher household incomes and greater financial resilience. The results demonstrate that financial vulnerability is not evenly distributed across the UK and remains concentrated in regions facing a combination of affordability pressures and lower household resilience.

Vulnerability as a % of the regional population - Central



The downside scenario intensifies vulnerability in already exposed regions

The Downside scenario largely reinforces existing regional patterns of vulnerability rather than creating new hotspots.

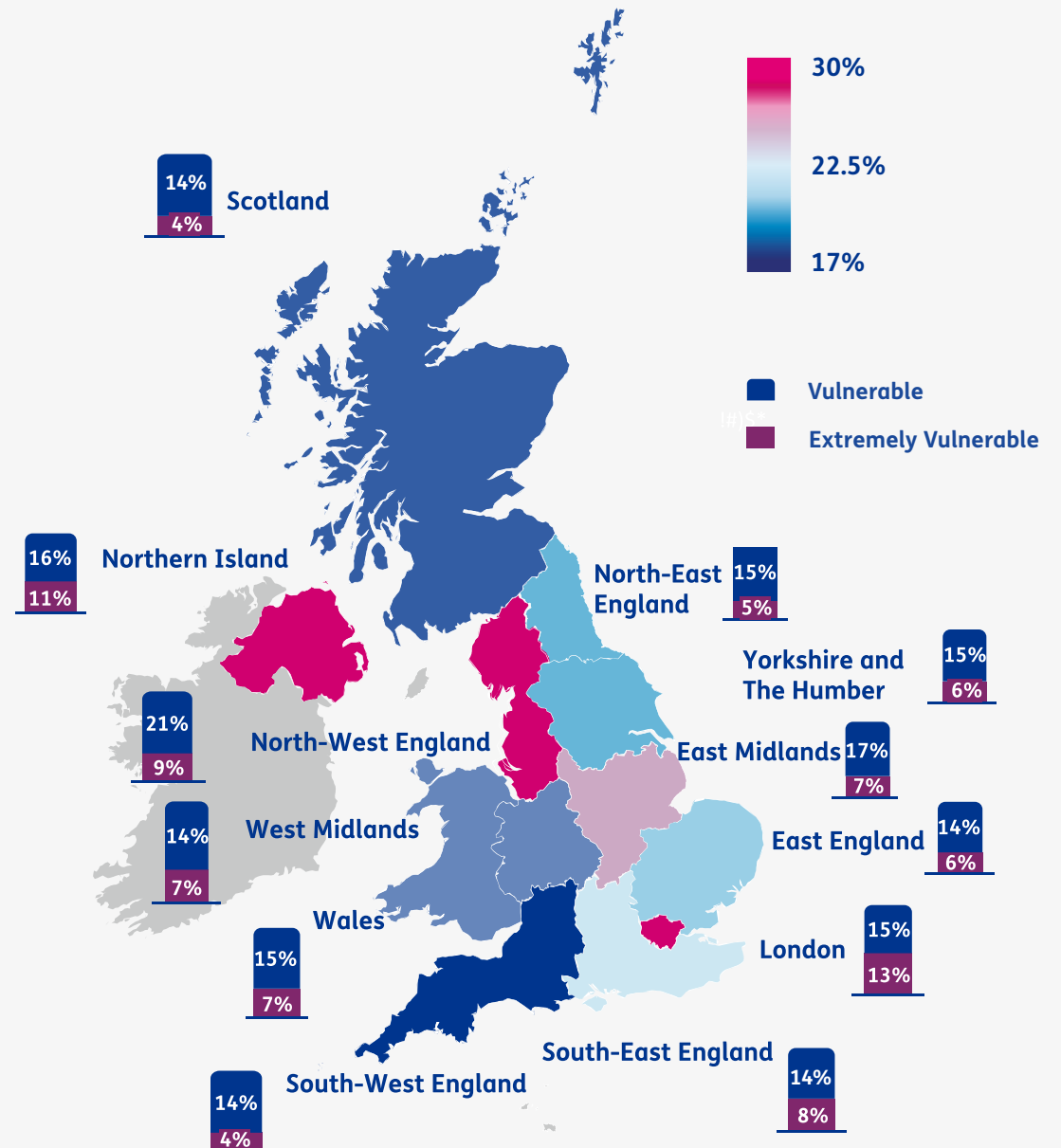
Regions that are already among the most financially exposed continue to experience the highest vulnerability levels, reflecting their greater sensitivity to increases in essential costs and weaker labour market conditions.

London, Wales, the North-West and West Midlands remain among the most vulnerable regions, while more resilient southern regions continue to fare comparatively better.

However, the downside scenario increases pressure on households with limited financial buffers, deepening financial stress in areas where vulnerability is already elevated.

This highlights an important feature of the outlook: economic deterioration does not affect all regions equally, with the greatest impact falling on areas where household finances are already under strain.

Vulnerability as a % of the regional population – Downside



Vulnerability is highest among households aged 35–54

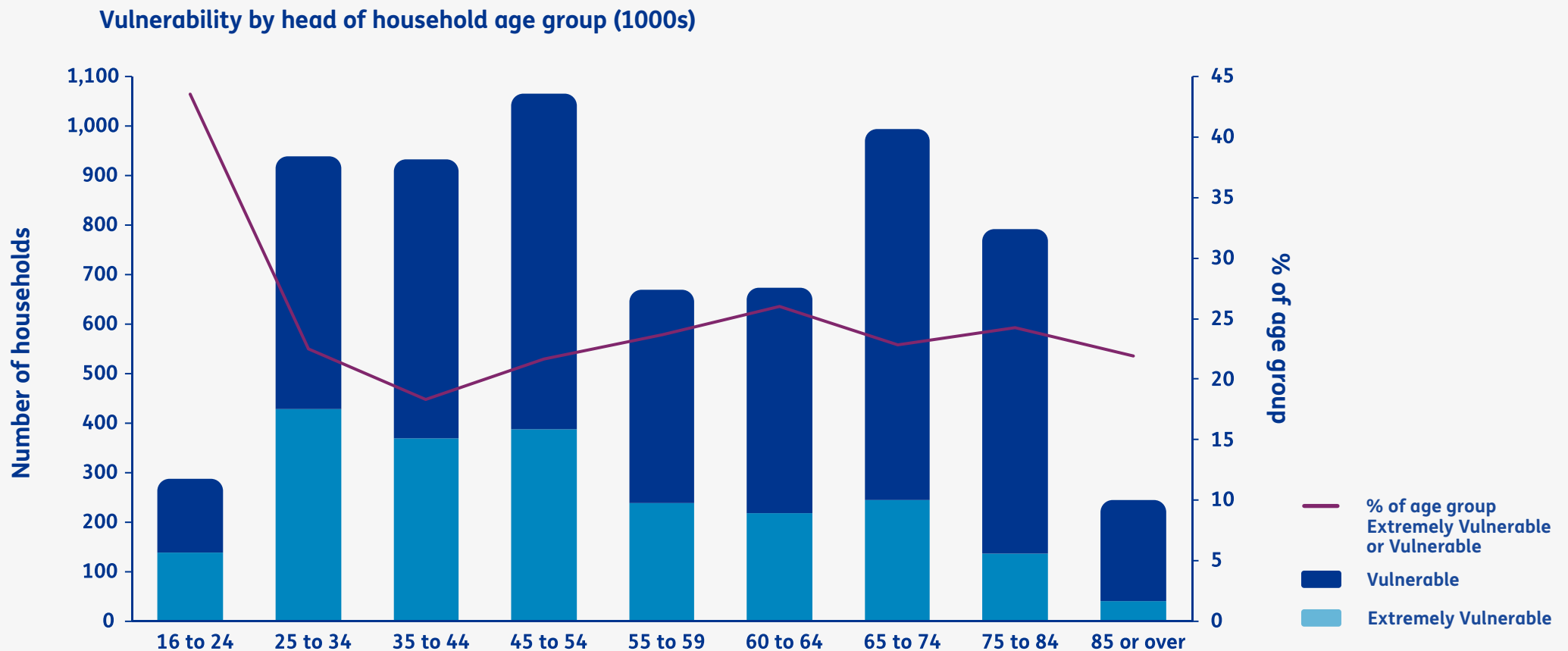
Financial vulnerability varies significantly across age groups, reflecting differences in earnings, housing costs, savings accumulation and household responsibilities.

Vulnerability is highest among households aged 35–54, where financial commitments such as mortgages, rents and childcare costs are typically greatest. While younger households often face affordability challenges, many benefit from stronger income growth and lower levels of financial responsibility.

In contrast, middle-aged households are more likely to be balancing housing costs, dependants and day-to-day living expenses simultaneously, leaving them more exposed to financial stress.

Vulnerability declines among older age groups, supported by lower housing costs, accumulated savings and more stable income sources.

This results in a clear lifecycle pattern, with financial vulnerability concentrated in households navigating peak spending years.

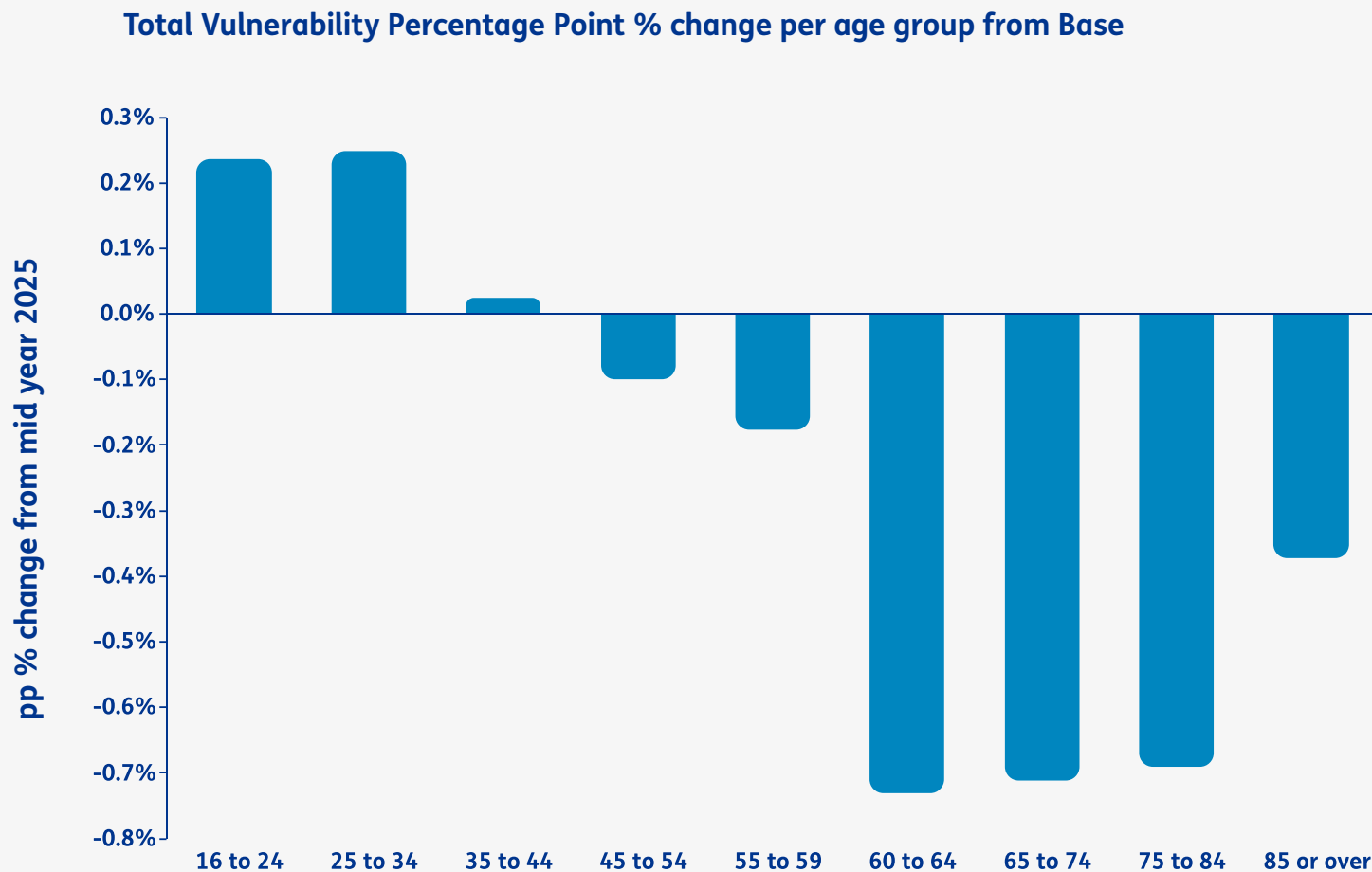


However, retirees benefit from falling cost pressures

Changes in financial vulnerability are relatively limited across age groups, with most cohorts experiencing movements of less than 0.3 percentage points. This suggests that age alone is not a primary determinant of vulnerability outcomes.

While younger working-age households see slightly higher increases in vulnerability, and older age groups generally experience small improvements, the differences are modest compared with those observed across consumer segments.

The results indicate that household characteristics such as income, savings, housing tenure and family composition play a more important role in determining financial vulnerability than age itself.



Section 4:

UK energy sector debt forecast

Fewer households in debt, but more of them Extremely Vulnerable

The number of households in energy debt falls by 579,000 to 6.37 million in our central scenario. This improvement is concentrated in the At Risk and Vulnerable cohorts, down 175,000 and 460,000.

However, essential cost increases since 2025 have put pressure on households with limited financial headroom. As a result, households in debt within the Extremely Vulnerable cohort move the other way, rising by 56,000 to 2.20 million. For the exposed segments identified earlier, single parents, solo and low-income households and younger renters, essential costs continue to outstrip income growth, and debt accumulates rather than clears.

Number of households in debt by vulnerability category

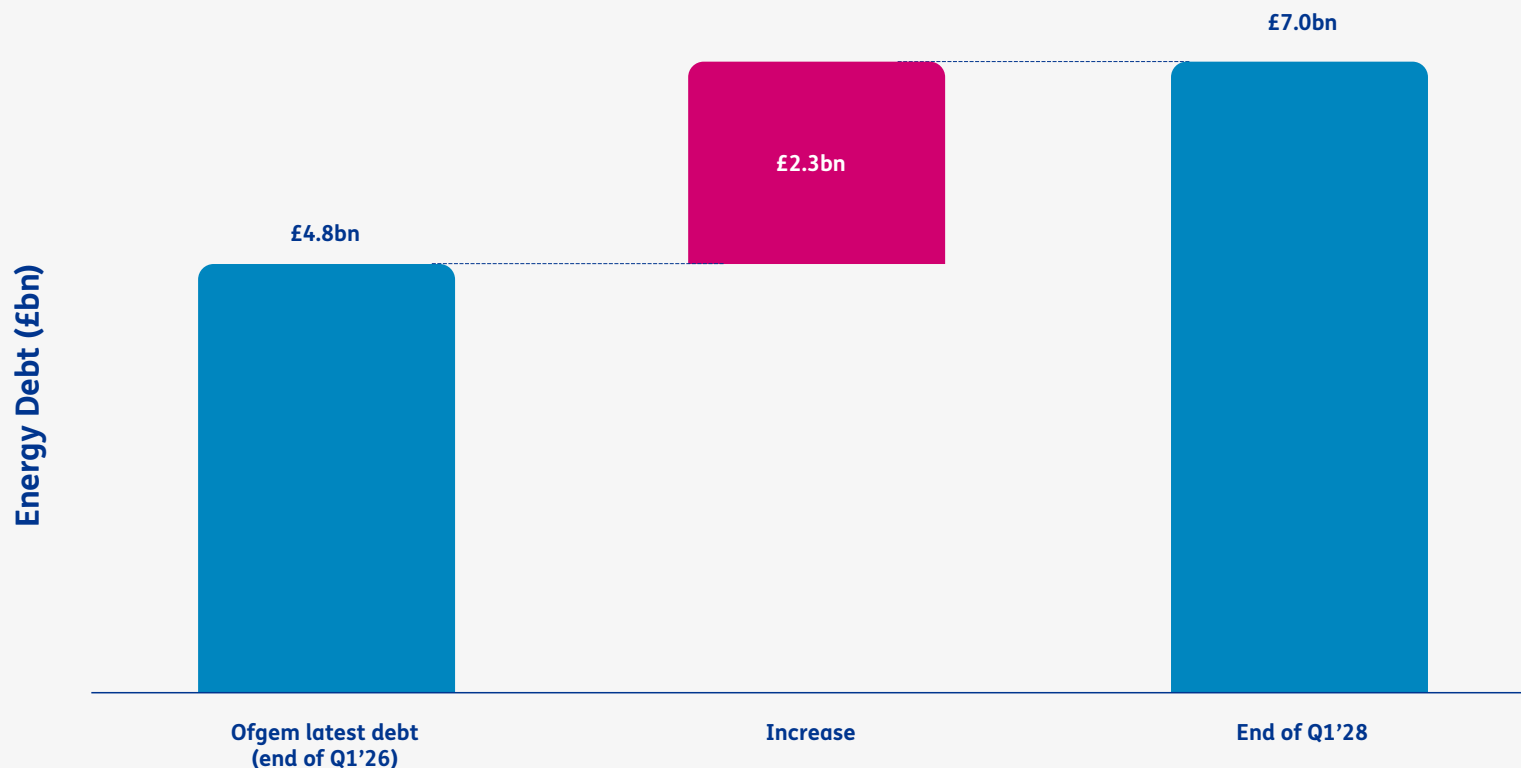
Cohort	2025	Central H2 2026	Net change
Affluent	0	0	 0
Non-Vulnerable	291,556	290,619	 -937
At risk	1,281,618	1,107,106	 -174,512
Vulnerable	3,233,559	2,773,850	 -459,709
Extremely Vulnerable	2,146,651	2,202,360	 55,709
Total	6,953,384	6,373,935	 -579,449

With total energy debt set to rise by £2.3bn by the end of Q1 2028

As the previous slide showed, extremely vulnerable households have risen from 31% to 35% of total households in energy debt. Because these are the households with the least financial resilience, this shift contributes to total debt value rising by £2.3bn by the end of Q1 2028, from £4.8bn to £7.0bn, a 47% increase from 2026.

For suppliers, the implication is a deteriorating recovery profile. A smaller debtor base holding materially larger individual balances, concentrated among households with no realistic capacity to repay, points to lower recovery rates, longer arrears durations and rising bad debt provisions.

Current and forecasted total energy debt in our H2 central forecast



With rise in prepay and unsecured most acute

The £2.3bn increase falls mostly on unsecured debt, which rises 47% (£4.1bn to £6.0bn) and drives most of the total. Secured debt grows fastest in percentage terms 64% (£0.3bn to £0.6bn) but from a small base, while prepay rises 31% to £0.5bn.

This composition reflects who remains in arrears. Unsecured balances sit with customers who've fallen out of, or never entered, a managed payment arrangement, the Extremely Vulnerable cohort, the only one that grew (+56,000) while all others shrank. As essential costs keep outstripping income, arrangements lapse and balances shift into unsecured debt rather than being repaid. The rise in secured debt points the same way, reflecting suppliers moving more arrears into formal recovery as the debtor base becomes smaller, more concentrated, and less able to repay voluntarily.

Debt forecast by payment type

	Prepay	Unsecured	Secured	Total
2026	£0.4bn	£4.1bn	£0.3bn	£4.8bn
Q1'28 (forecast)	£0.5bn	£6.0bn	£0.6bn	£7.0bn
% change	Medium 31%	High 47%	Very High 64%	High 47%

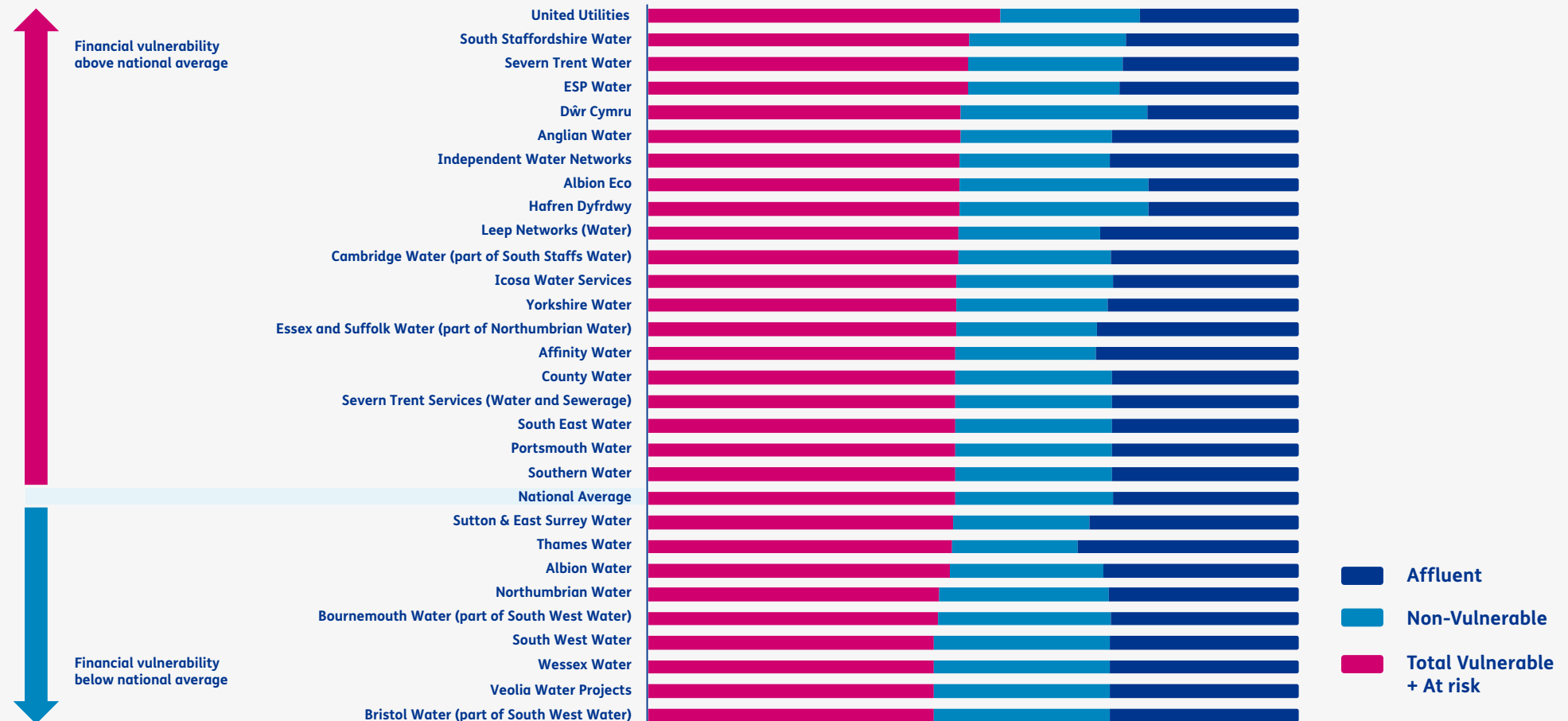
Section 5:

Distribution of UK water debt

Water company exposure tracks regional vulnerability

Water company exposure tracks the regional vulnerability addressed earlier. United Utilities serves the North-West and has the sectors most exposed customer base at 54.1% Vulnerable or At-Risk customers, 7 percentage points above the national average. This correlates with high regional vulnerability at 30% in the North West.

London is the exception; despite having the highest concentration of extremely vulnerable households at 13%, Thames Water sits below the national average. This is explained by the high proportion of Affluent consumers who also sit within this region. Water customers cannot switch supplier, so a company with an above-average vulnerable base carries that exposure permanently.

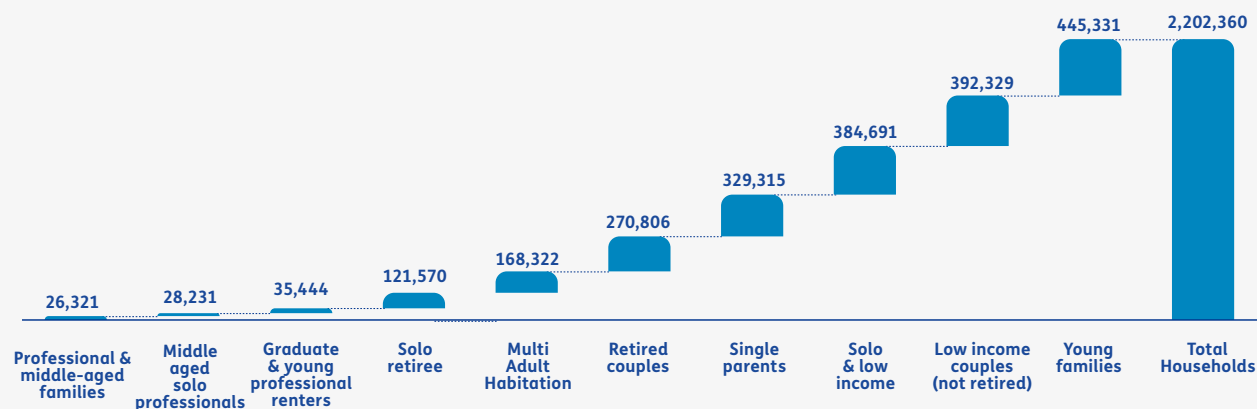


Appendix

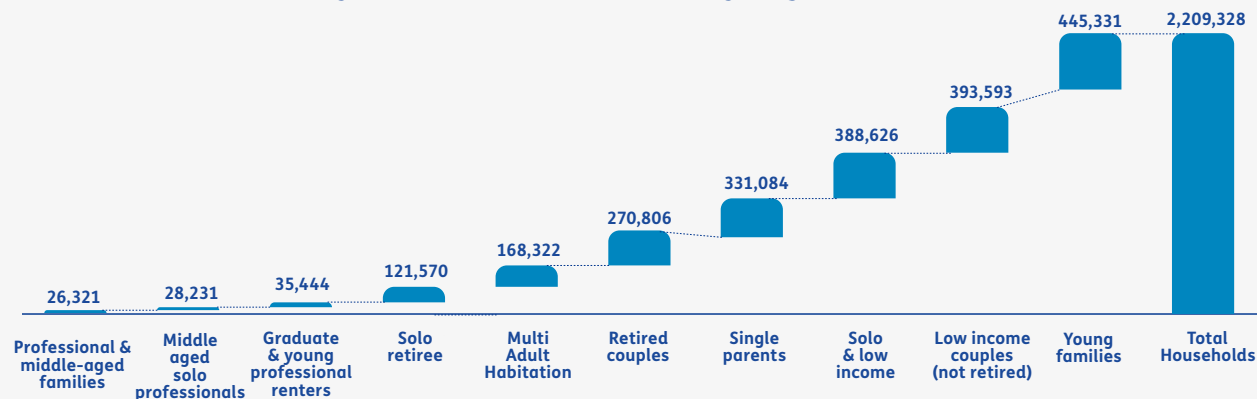
Central and Downside forecast for Extremely Vulnerable

Extremely Vulnerable households within the UK population are heavily concentrated. 2.2 million households fall into the Extremely Vulnerable category under our central scenario, and 70% of them sit in just four segments: young families, Low-income couples, Solo & Low income and Single parents. Young families are the single largest group at 445,331 households. This reflects the combination of high fixed costs such as childcare and housing.

Number of Extremely Vulnerable households by segment 2026/27 winter forecast - Central



Number of Extremely Vulnerable households by segment 2026/27 winter forecast - Downside



■ Extremely Vulnerable

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.

Modelled expenditures



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