

UK Financial Vulnerability Outlook

Winter 2025/26

Foreword

Following years of economic volatility, UK households continue to face mounting financial pressures. Despite easing inflation and sustained real wage growth across all income deciles, the aftershocks of the cost-of-living crisis are still being felt. This report draws on Baringa's Financial Vulnerability Model to assess forecasted household financial resilience across the UK for Q4 2025/26, segmenting households by income and savings into five categories – Extremely Vulnerable, Vulnerable, At Risk, Non-Vulnerable, and Affluent.

The outlook points to rising financial vulnerability driven by persistent cost pressures despite ongoing pay growth. While real wages have been increasing for some time and across all deciles, many lower-income households continue to see essential costs rising faster than income growth, leaving limited room to rebuild savings or discretionary spending capacity.

The pressures are not evenly distributed. Single parents, multi-adult households, and low-income couples face the steepest increases in vulnerability, reflecting the compounding effects of high fixed costs and limited buffers. Vulnerability peaks among those aged 35–45, whose financial responsibilities are typically greatest, while younger and older cohorts show greater relative resilience.

Domestic customer energy debt heads towards £6bn in 2026 without material intervention.

These findings underline that while headline economic indicators show improvement, the underlying household reality remains fragile. With millions still constrained by elevated living costs and depleted savings, addressing the drivers of vulnerability will be critical to restoring household resilience through the coming winter



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6.9m households financially vulnerable

Overall financial vulnerability is expected to increase from 23% to 24% in Winter 25/26, representing over quarter of a million additional households.



2.3m households in extreme vulnerability

An additional 548K households are forecast to fall into the “extremely vulnerable” financial vulnerability category in Winter 25/26. In total 8% of households are expected to be in extreme vulnerability.



Extreme Vulnerability reaches 25% of key demographics

Around 25% of low-income couples and solo low-income households exhibit extreme vulnerability but is rising fastest among single parents and multi-adult



Without action domestic customer energy debt heads towards £6bn

Debt levels are set to rise sharply across all payment types, with the increase most acute among prepay and unsecured customers.

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Our Experts

Consumer Products & Retail Experts

Access the full report, our data & generate vulnerability scenarios



Contact our expert:

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- ▲ Baringa's financial vulnerability model can be used to forecast financial vulnerability for over 28 million households in the UK.
- ▲ Access our existing scenarios or generate your own according to macroeconomic conditions.

Customer debt risk and debt book forecast



Contact our expert:

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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.

Vulnerability op model change



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- ▲ Baringa's vulnerability maturity assessment helps clients map and measure business maturity and helps propose how vulnerable customer needs can be met.
- ▲ Baringa has helped clients implement organisational changes such as customer segmentation and identification, staff training and development, process improvement, and technology enablement.

Section 1: Key Vulnerability Dynamics

Financial vulnerability categories

Baringa's financial vulnerability model categories household 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
					
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

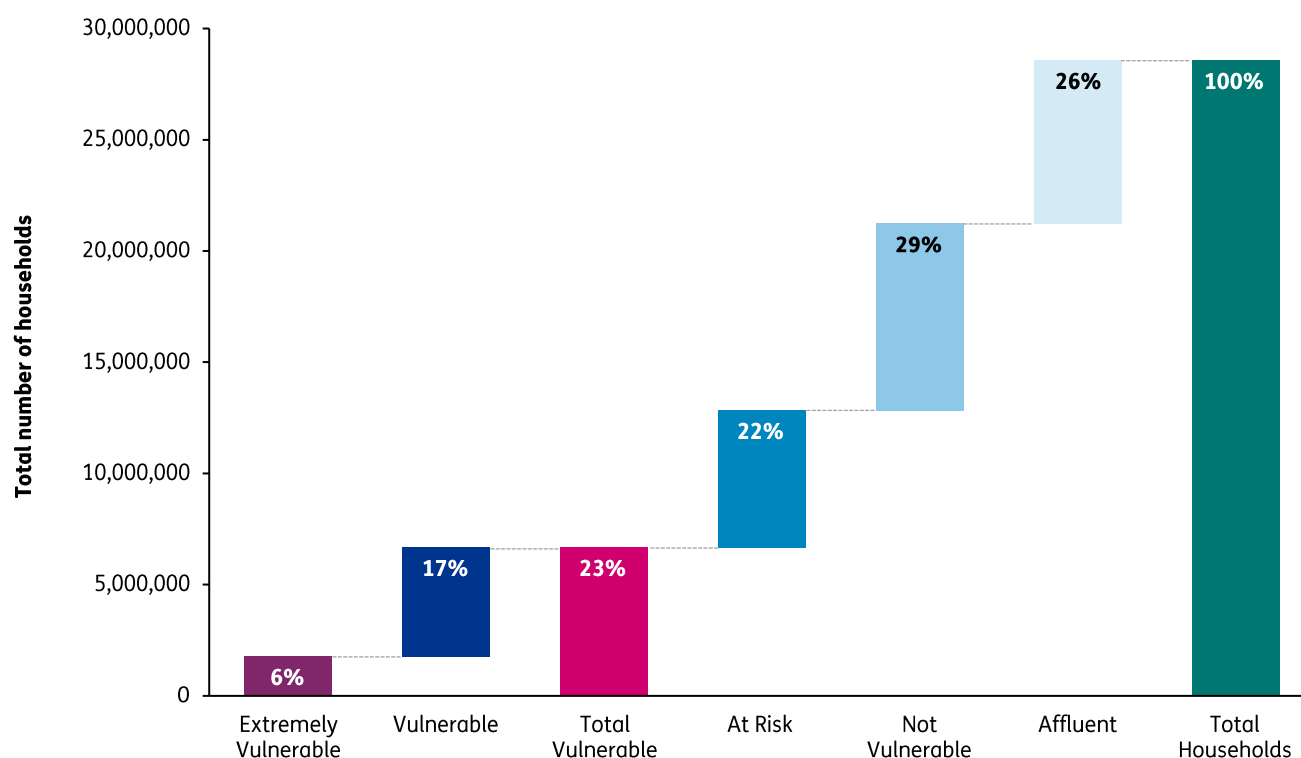
The current state of UK vulnerability

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.

Q2 2025 current Vulnerability cohorts across the UK population



% Refers to percentage of all households in the category

Our outlook

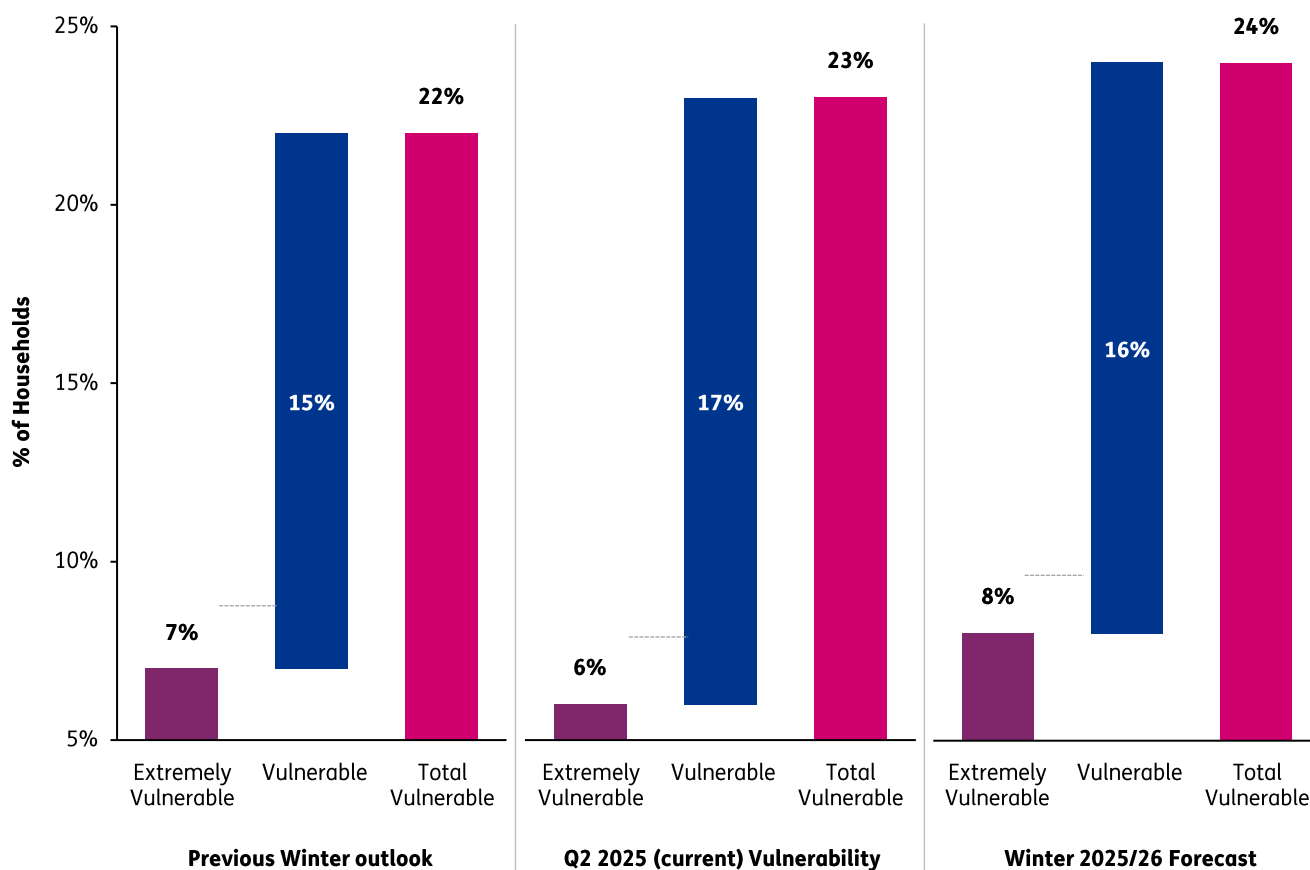
Baringa's financial vulnerability model indicates rising financial stress across UK households.

In our Q4 2025 forecast, total vulnerability is expected to worsen to 24% of the UK population, up from 22% in 2024. This is driven by a 2% increase in the "Extremely Vulnerable" group and a 1% increase in our "vulnerable" group.

This trend reflects the growing pressure on lower income households, many of whom, are living at or near subsistence levels with minimal savings. These groups are increasingly exposed to income shocks and rising living costs, particularly in housing and utilities.

The data highlights a widening gap in financial resilience, with a significant portion of the population facing heightened vulnerability as economic conditions tighten.

% of households in the UK vulnerable and extremely vulnerable



* Winter energy prices often drive seasonal fluctuations in vulnerability, as they are especially regressive and place a greater financial strain on lower-income households compared with the summer months, when energy costs are typically lower.

Section 2: Our Economic Scenario

Our economic scenario assumptions

Using Baringa's UK Economic Model, we generate regular outlooks for the UK economy throughout the year. These scenarios are refreshed quarterly to reflect the latest data and economic developments.

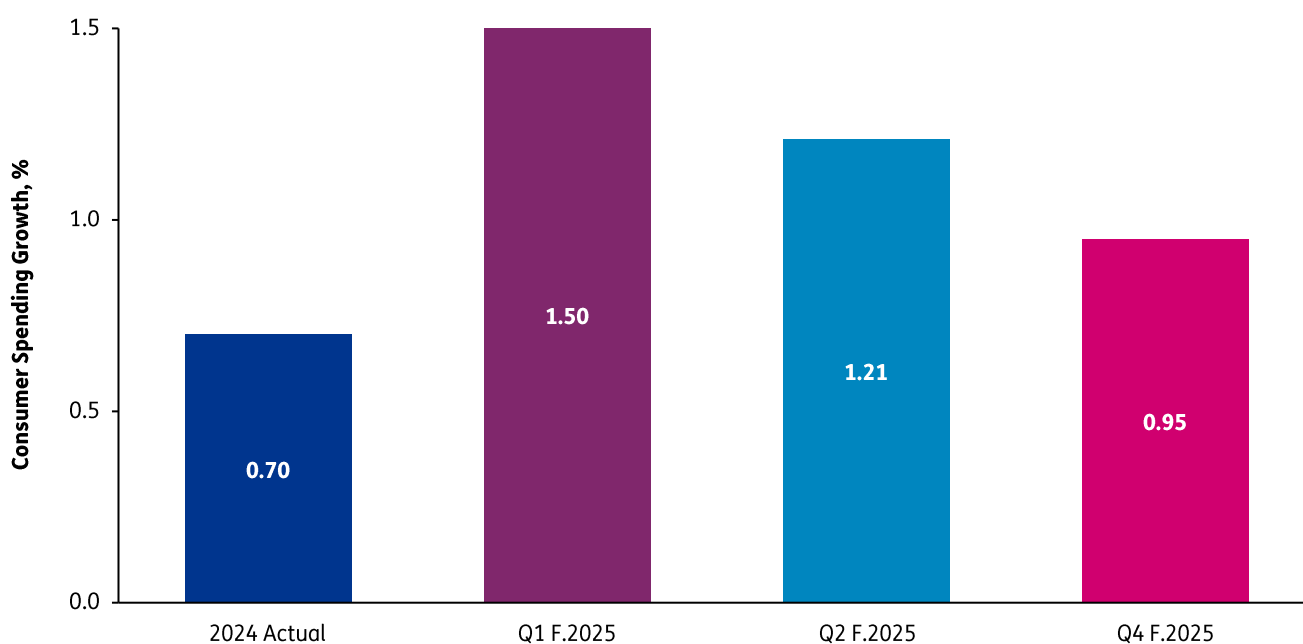
Over the course of 2025, we have revised down our forecast for UK consumer spending growth. In our Q1 Central scenario, consumer spending growth was expected to reach 1.5% YoY, supported by easing inflation and real pay gains. By Q2, this was trimmed to 1.2%, and in the latest Q4 Central scenario, the forecast stands at 0.9% YoY.

This downward revision reflects a softer outlook for real disposable incomes as cost pressures from utilities, rents and inflation persist into the winter. Pay growth has strengthened through the year, but rising living costs continue to offset these gains.

We use the Central Q4 scenario as our latest and winter reference case for household vulnerability modelling, alongside upside and downside scenarios to explore a wider range of potential economic outcomes.

	Inflation	Pay	Rates	Utilities	Rents
Central Q1	2.5%	3%	3.5%	6%	3-5%
Central Q2	3.2%	3.5%	3.75%	8%	3-6%
Central Q4	▲ 3.4%	▲ 4.7%	▲ 4%	▲ 12-13%	▲ 4-8%

Consumer Spending Growth YoY – 2024 & 2025 Forecasts



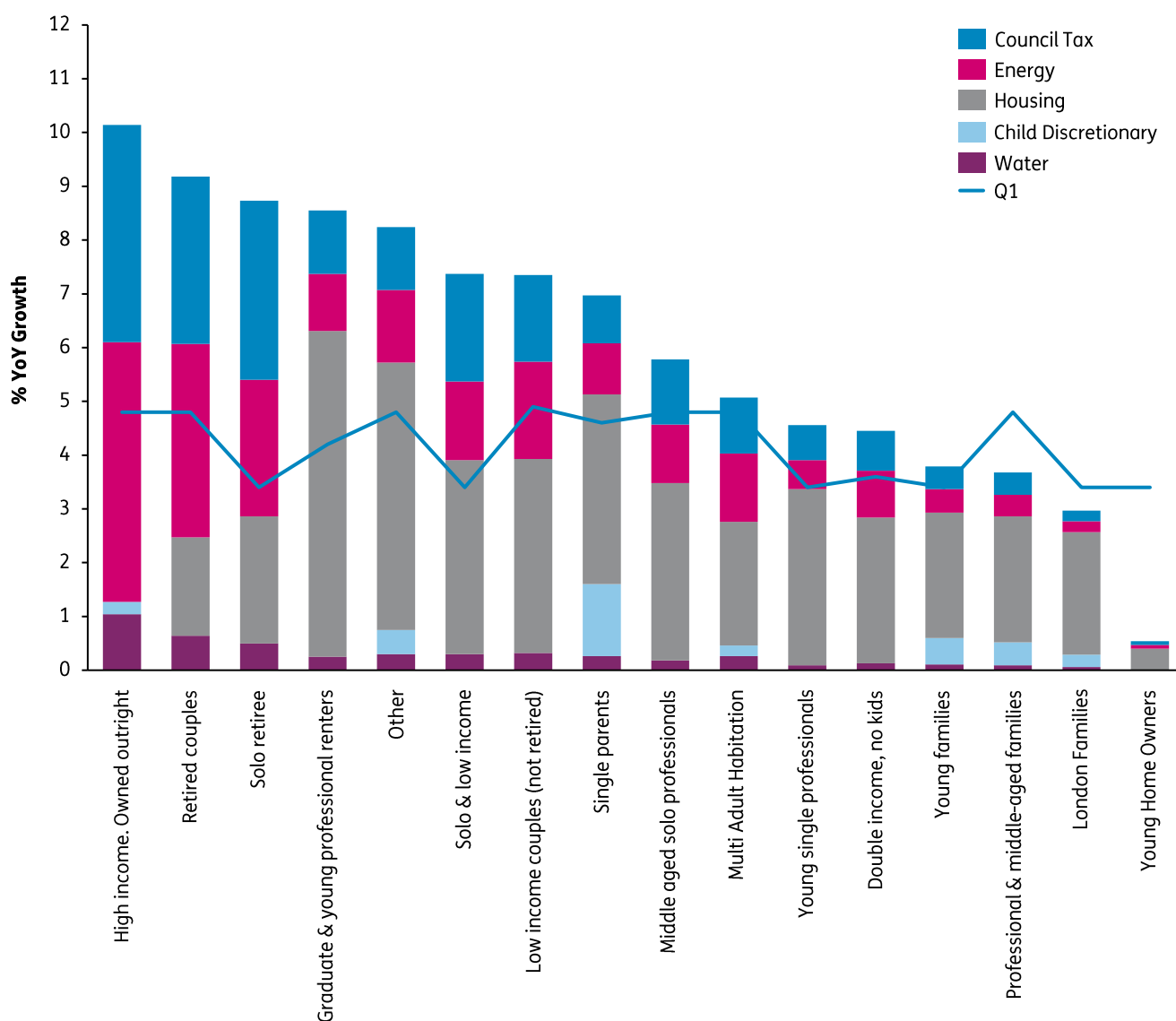
Costs continue to rise

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.

The chart compares Q1 vs Q4 2025 outlooks for year-on-year cost growth. Across all groups, costs have risen through the year, with higher utilities, housing, and council tax driving much of the increase. Energy costs also remain a key contributor.

While high-income, outright owners continue to face the largest absolute increases, lower-income and more vulnerable groups experience sharper proportional rises relative to their 2024 base. This is particularly evident for renters, single parents, and lower-income couples, where housing and energy costs form a greater share of total expenditure.

Costs Q1 vs Winter 25/25 outlook % YoY growth



As mortgage costs fell less and rents grew higher than expected

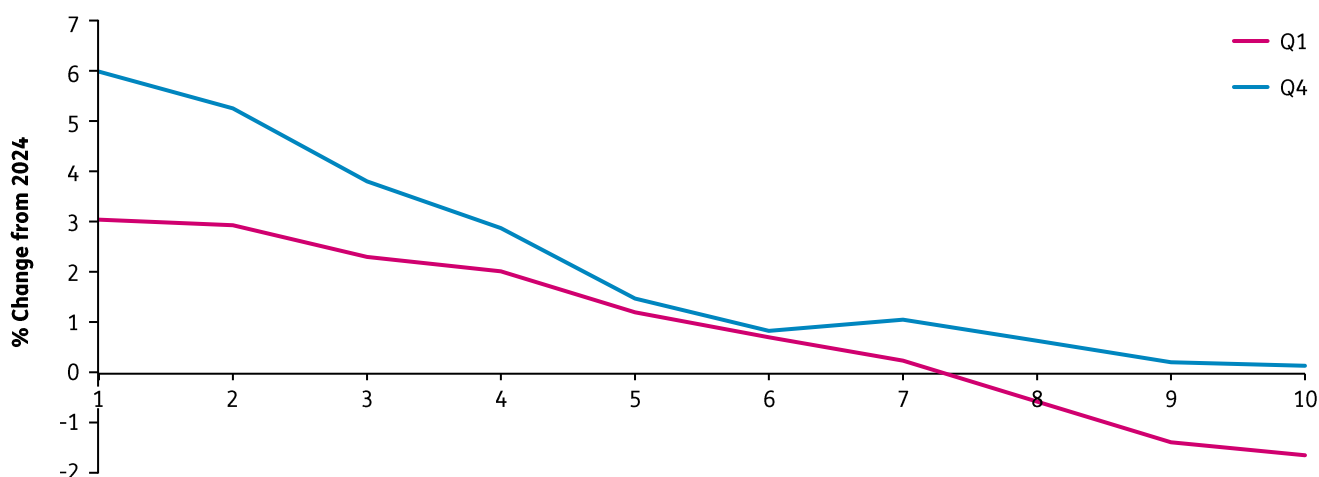
Housing cost dynamics have shifted through 2025, with mortgage costs falling by less than initially expected, while rental costs have continued to rise.

The left-hand chart shows how housing costs have evolved compared to 2024 across the income distribution. In Q1, housing costs were expected to ease more sharply for higher-income mortgage holders. By Q4, these falls are more modest, reflecting stickier mortgage rates and slower pass-through from interest rate cuts.

Meanwhile, rental costs have increased steadily through the year. The right-hand chart shows Q1 vs Q4 changes by housing tenure: both social and private renters face higher costs, with private rents rising particularly strongly in the latest Q4 scenario.

In contrast, mortgage holders are seeing smaller cost reductions than forecast earlier in the year, while outright owners remain largely insulated.

Housing costs changes YoY end of 2025 Q1 vs Q4 forecast



Housing costs changes by decile YoY end of 2025 forecast



However, wage growth has been stronger than expected

Wage growth has outperformed expectations through 2025, particularly for lower-income households.

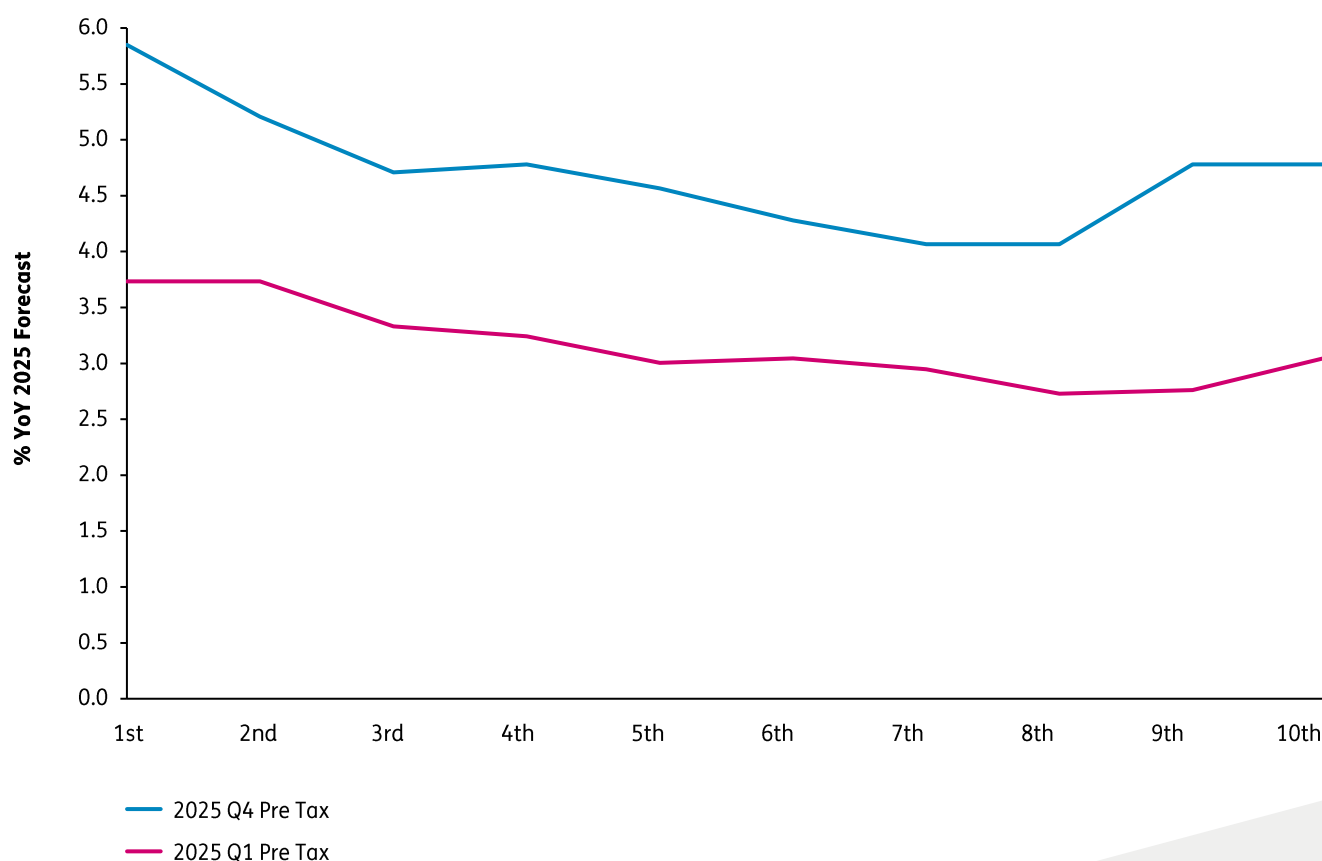
The chart shows year-on-year household income growth by income decile, comparing our Q1 and Q4 2025 forecasts. Income growth has been revised up across the distribution, but the strongest gains are concentrated in the bottom quartile.

This reflects the continued impact of minimum wage increases and tight labour markets in lower-paying sectors, which have driven faster nominal pay growth than among higher earners. Policy measures scheduled for 2025 are expected to reinforce this trend, further lifting wage floors.

By Q4, income growth for the lowest decile is projected at nearly 6%, compared to 3.7% in Q1. Higher deciles have also seen upward revisions, though the pace of growth remains more moderate.

This trend provides some headroom for discretionary spending, though pressures remain more acute for lower-income households, where essential costs still account for a larger share of total expenditure.

Household income growth Q1 and Q4 forecasts 2025 by income decile



Section 3: Identifying Financial Vulnerability

Despite a positive aggregate picture of income and costs, vulnerability is still rising

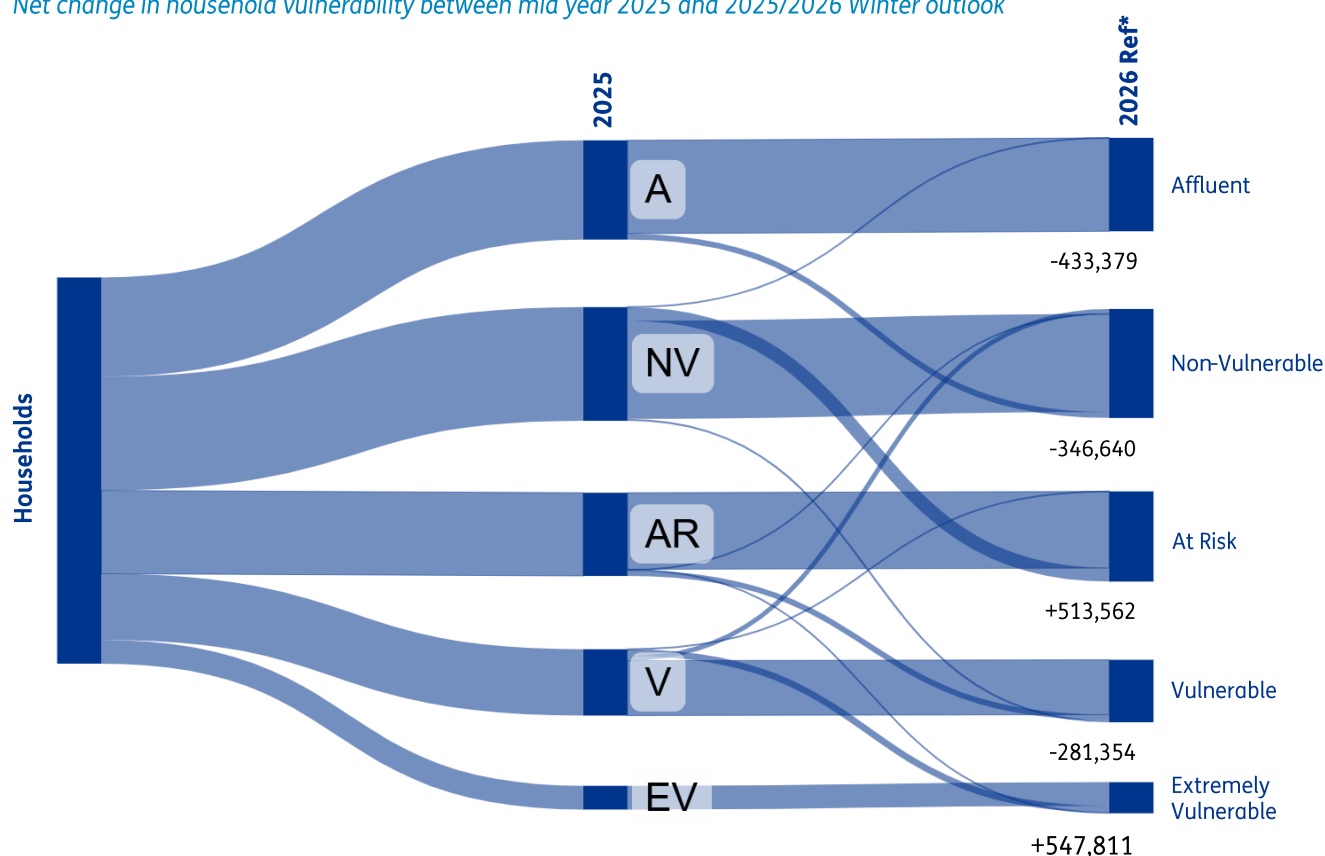
Financial vulnerability is set to increase among the most exposed households, even as it moderates elsewhere between 2025 and the 2026 reference case.

The Sankey diagram shows net movements between vulnerability categories. The Extremely Vulnerable group grows by around 548,000 households, reflecting persistent cost pressures and limited savings buffers.

In contrast, the Non-Vulnerable segment increases by over 500,000, supported by stronger wage growth and easing inflation.

Overall, polarisation is widening: while many households move into more resilient categories, a significant tail remains exposed to financial shocks, highlighting the growing concentration of vulnerability at the lower end of the income distribution.

Net change in household vulnerability between mid year 2025 and 2025/2026 Winter outlook



* Numbers Refer to Net Change between groups

But concentrated in more specific consumer segments

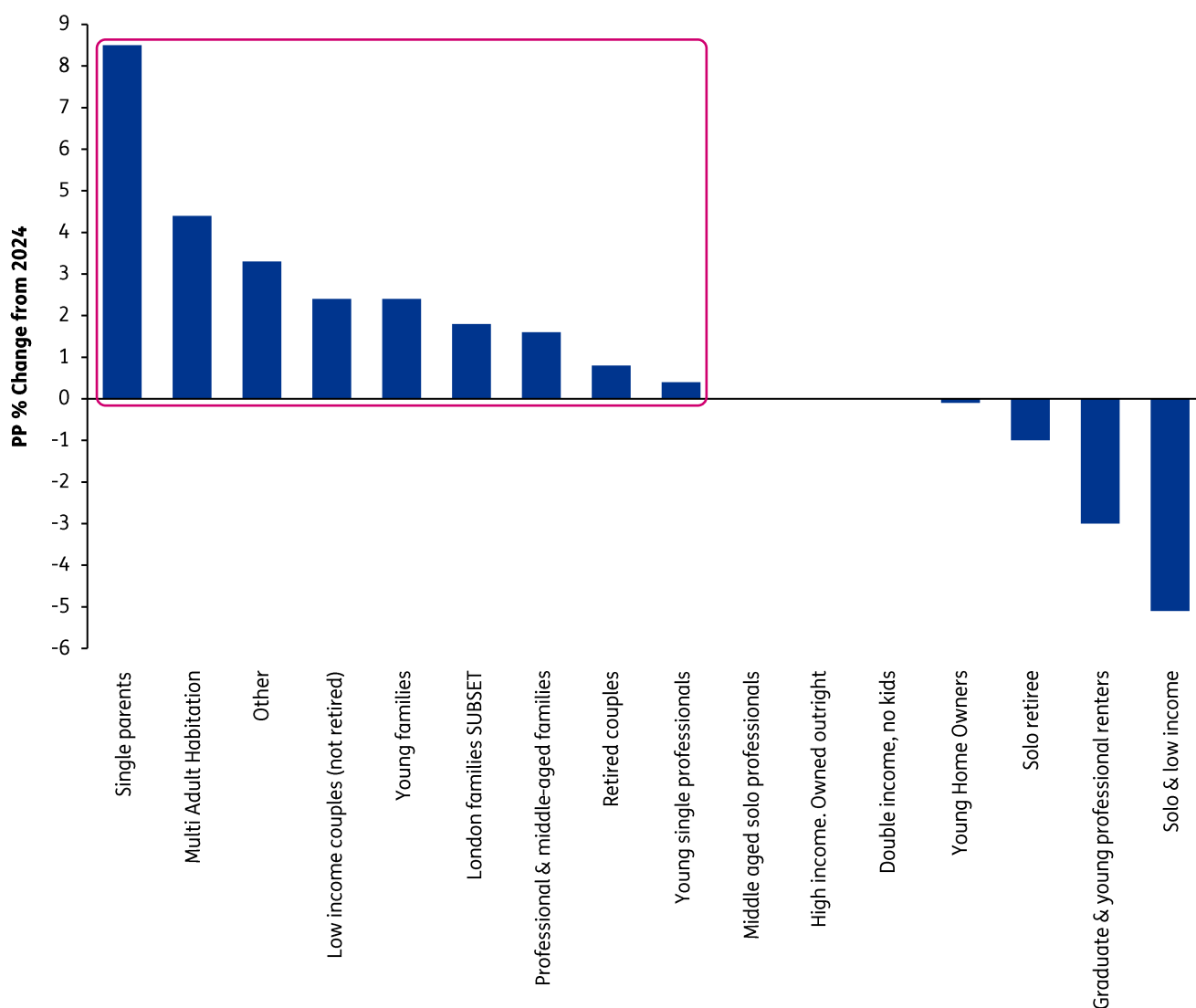
Changes in vulnerability since the mid 2025 base differ sharply by consumer segment, reflecting varying exposure to cost pressures and income dynamics.

The chart shows percentage point changes in vulnerability by profile. Single parents have experienced the largest increase (+8pp), followed by multi-adult households and 'other' groups, reflecting higher exposure to housing and childcare costs combined with limited financial buffers.

Lower-income and young family segments have also seen notable increases, while London families and professional households record smaller but positive changes.

By contrast, graduates, solo renters, and young low-income professionals have seen vulnerability fall, reflecting stronger wage growth in lower-income sectors and easing pressures relative to 2024. Older, asset-owning groups show minimal change or slight improvement, underpinned by stable incomes and lower exposure to housing cost inflation.

Percentage point (PP) vulnerability change growth from mid year 2025



Ratio of cost growth exceeding income growth is concentrated in segments with growing vulnerability

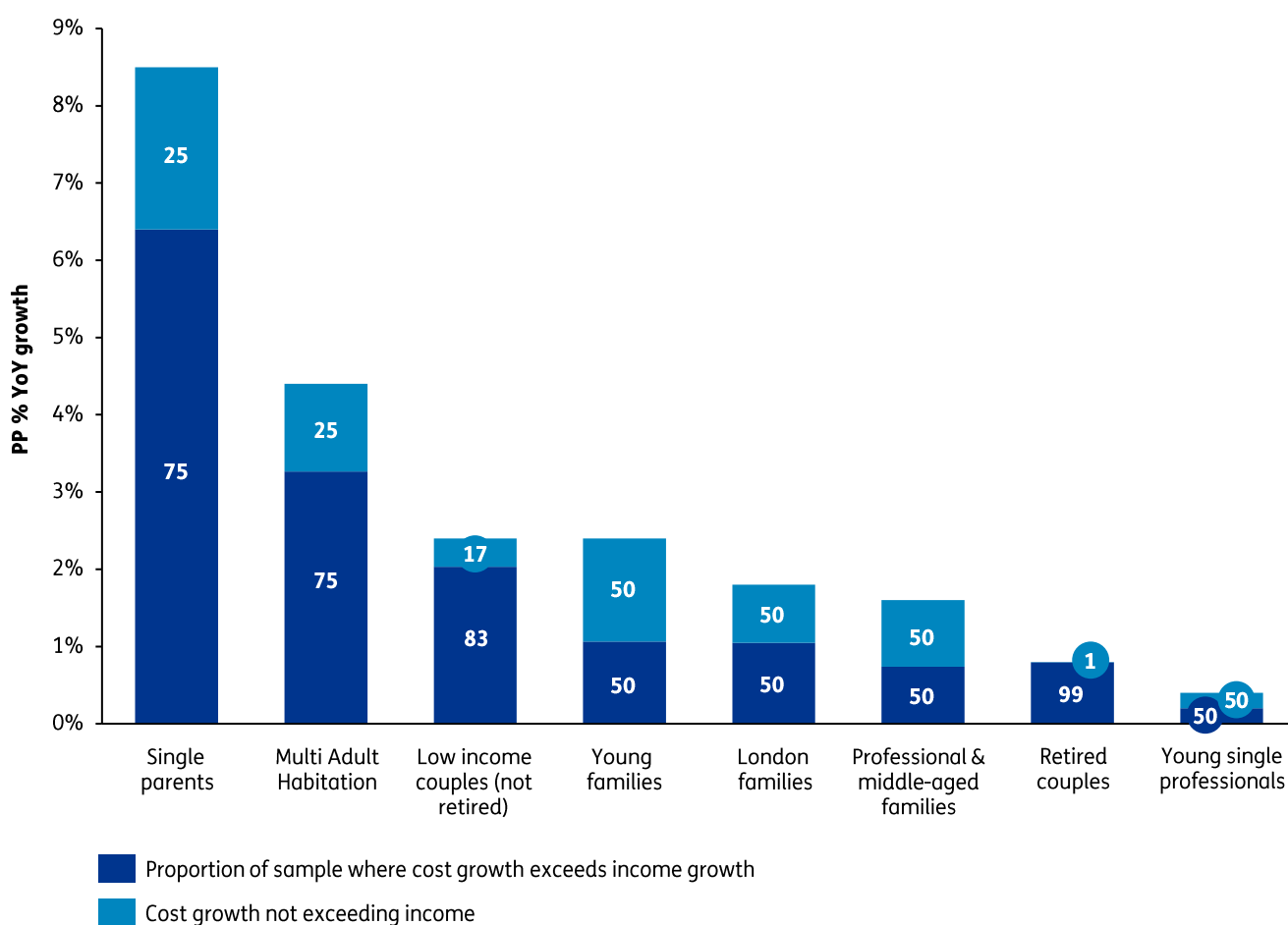
While post-tax income growth has been positive across all income deciles, cost growth is still outpacing income growth in several key consumer segments.

Segments such as single parents, multi-adult households, and low income couples show the highest proportion of households where cost growth exceeds income growth.

These groups also correspond to the largest increases in financial vulnerability since mid year 2025, highlighting the correlation between rising essential costs and deteriorating household resilience.

In contrast, segments like retired couples and young professionals show a lower ratio of cost growth exceeding income, aligning with their more stable financial positions.

Percentage Point (PP) vulnerability change growth (with ratio of cost growth exceeding income growth in each segment) from mid year 2025



Example: single parent cost change

This case illustrates how rising costs are impacting a single parent household living in private rental accommodation in the Southeast.

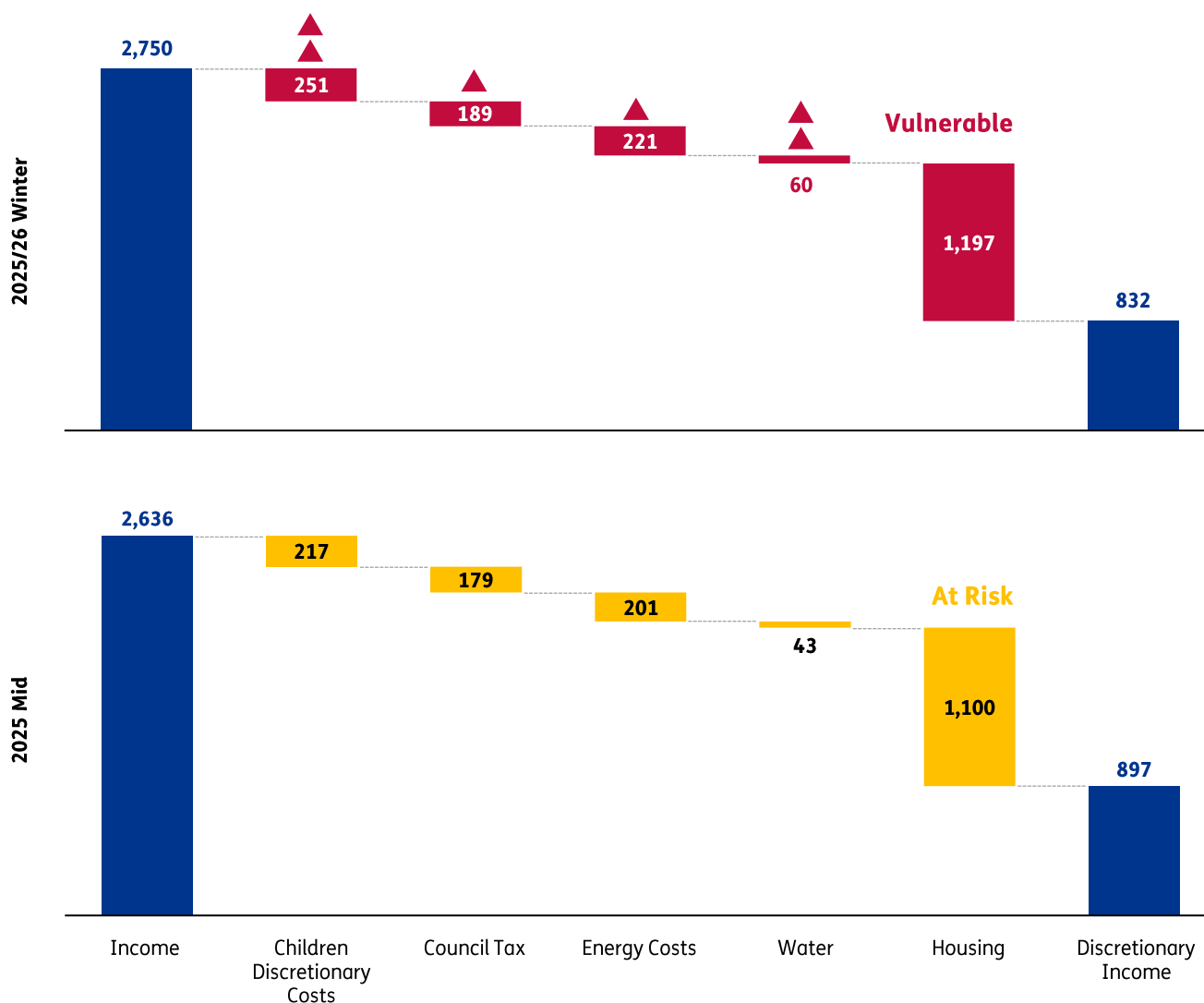
In mid-2025, the household was classified as At Risk, with limited discretionary income after covering essential costs.

By Winter 2025/26, the same household shifts into the Vulnerable category.

This is driven by increased housing costs, higher council tax and energy bills and rising childcare-related discretionary expenses.

Despite a modest increase in income, the net discretionary income falls, highlighting how cost inflation outpaces earnings growth for lower-income families.

Single parent with child living in private rental in the Southeast



Vulnerability by consumer segment

Financial vulnerability differs sharply across consumer segments, reflecting variations in income levels, housing tenure, and household composition.

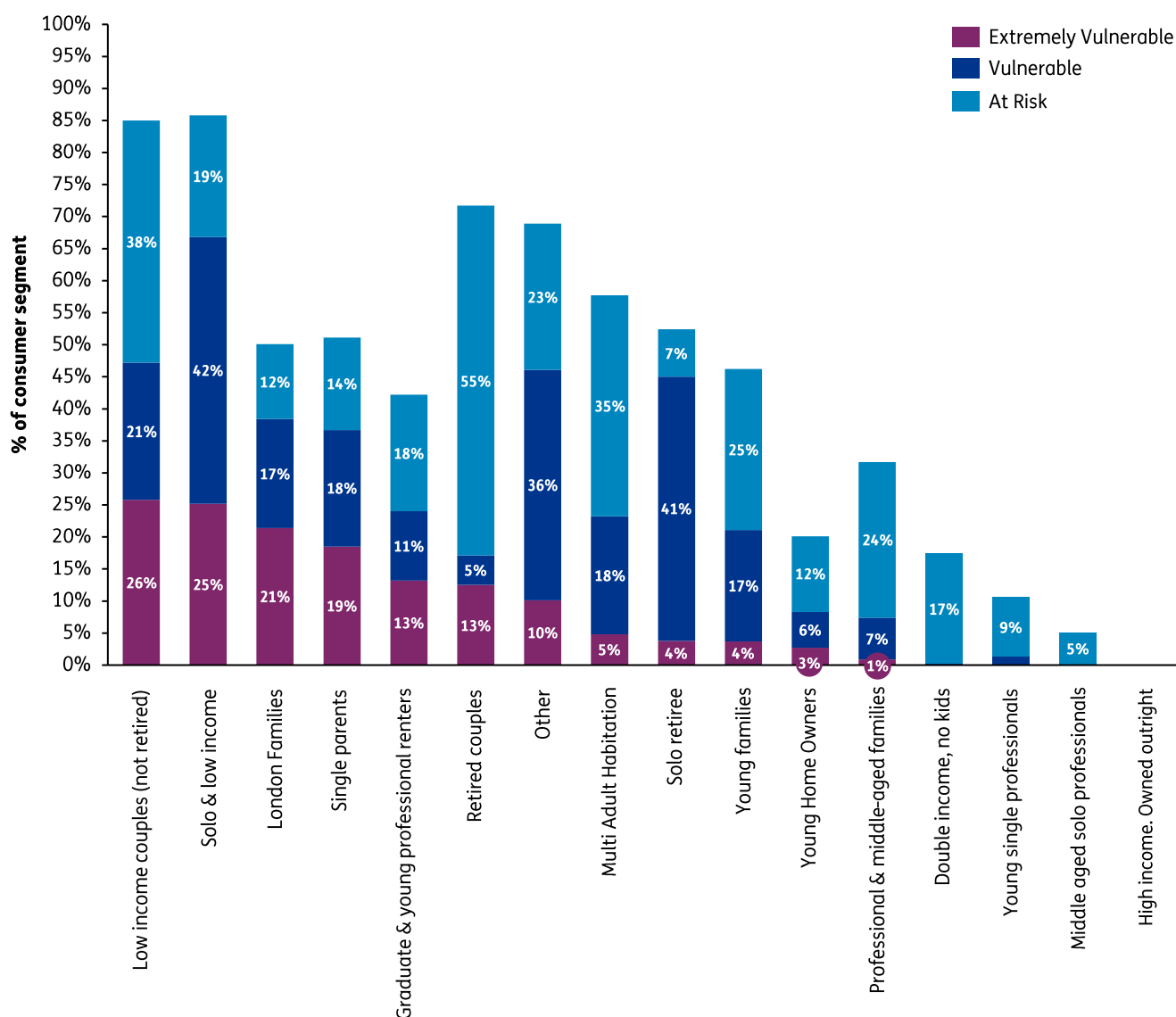
The chart shows the share of households that are Extremely Vulnerable, Vulnerable, or At Risk. Low-income couples (not retired) and solo & low-income households are the most exposed, with vulnerability rates exceeding 80%, driven by low incomes, limited savings, and high exposure to essential costs.

London families and single parents also face elevated vulnerability, reflecting high housing costs and childcare burdens.

At the other end, high-income outright owners and middle-aged solo professionals show the lowest vulnerability levels (around 5–10%), supported by high incomes and lower housing costs.

These differences highlight how vulnerability is concentrated in lower-income and family segments, while higher-income, asset-owning groups remain significantly more resilient.

Winter 2025/26 % vulnerable and at risk by consumer segment



Vulnerability outlook by region

Financial vulnerability varies significantly by region, reflecting differences in income levels, housing costs, and demographic composition.

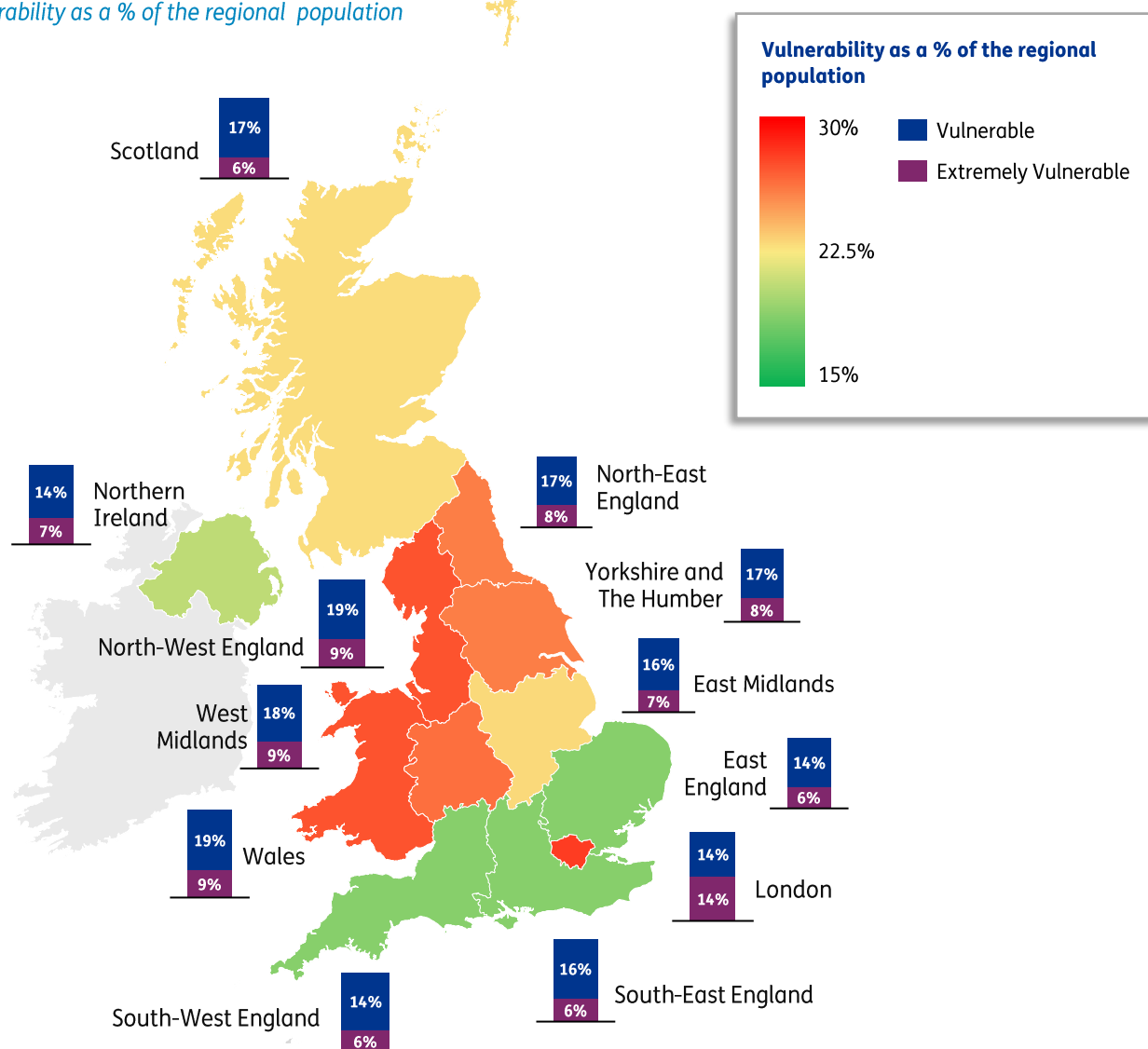
The map shows the share of households classed as Vulnerable or Extremely Vulnerable by region. Vulnerability is highest in London, Wales, the North-West and West Midlands, where around 28–30% of households fall into these categories.

London stands out for its exceptionally high share of Extremely Vulnerable households (14%), driven by elevated housing costs and stark income inequality, despite a higher nominal income base.

Southern regions such as the South-East and East of England show lower vulnerability, supported by higher average incomes and greater financial resilience.

These regional differences underline where households remain most exposed to economic shocks, highlighting the need for targeted policy support in more vulnerable areas.

Vulnerability as a % of the regional population



Growth in Vulnerability

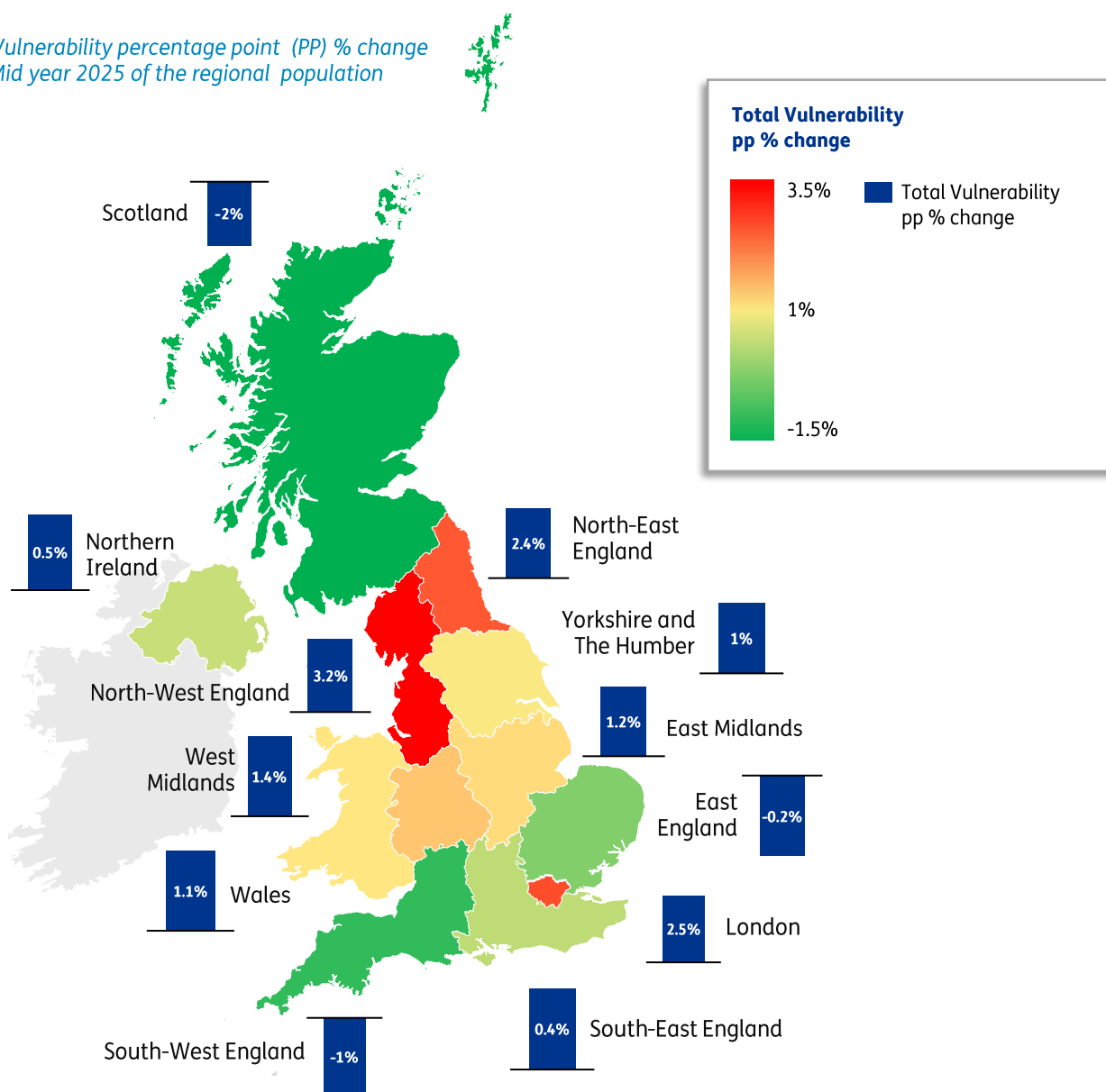
Regional growth in financial vulnerability is uneven, reflecting differing local economic conditions, cost pressures, and income dynamics.

The map shows the percentage point change in total vulnerability between the 2025 base and the 2025 outlook. Increases are most pronounced in the North-West (+3.2pp), London (+2.5pp), and parts of the North and Midlands, where rising housing and living costs are outpacing income gains for many households.

By contrast, Scotland (-2pp) and the South-West (-1pp) see declines, supported by lower cost growth and more stable income dynamics. Southern regions, including the South-East and East of England, show only modest changes.

These patterns highlight how vulnerability is intensifying in regions with pre-existing structural pressures, while others experience a degree of resilience, underlining the geographic polarisation in household financial positions.

Total Vulnerability percentage point (PP) % change from Mid year 2025 of the regional population

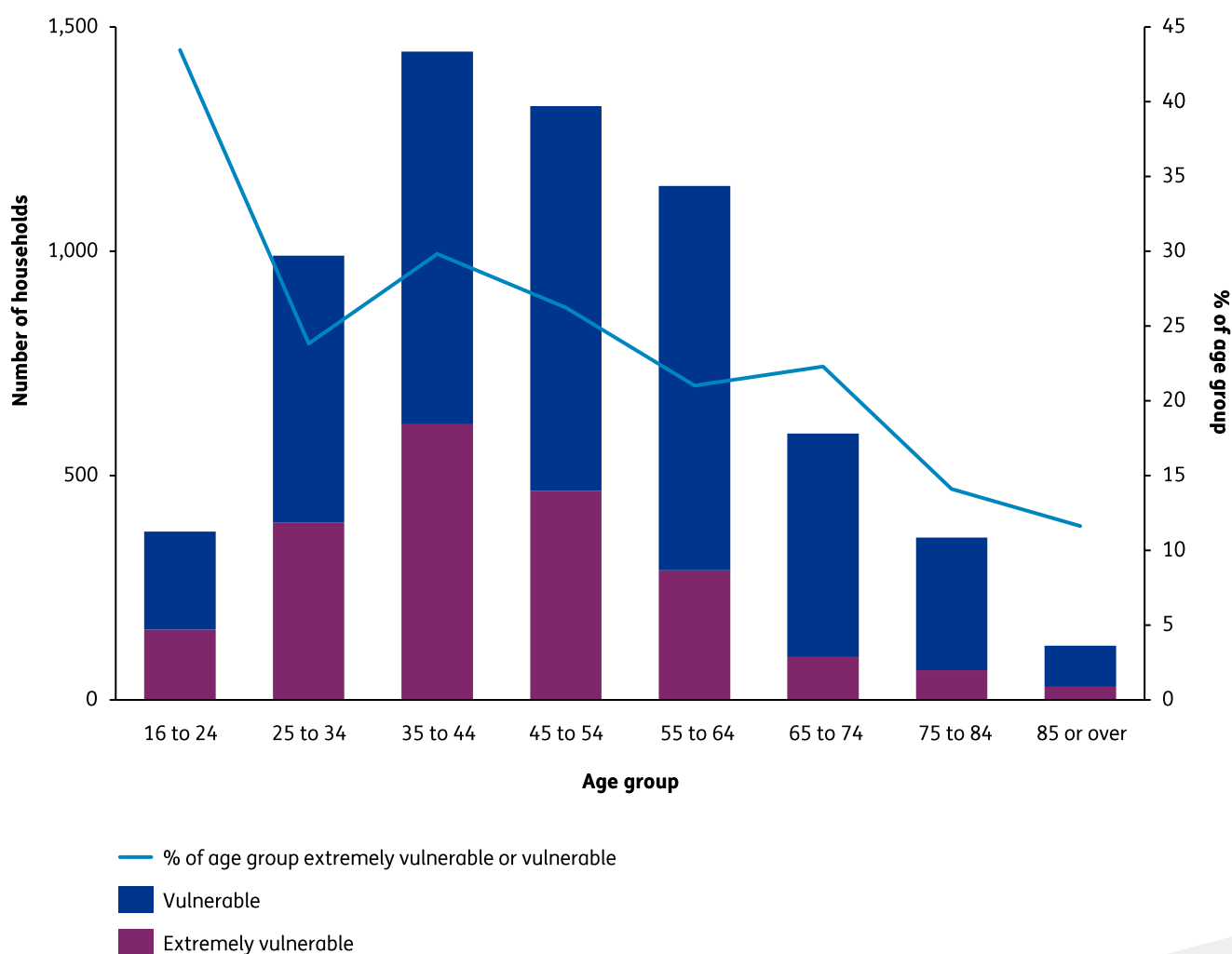


Vulnerability spikes between 35-45 age group

The number of financially vulnerable households increases markedly during middle age groups, as defined by the oldest income earner in the household.

Instances of vulnerability falls after the age of 55 whilst rising slightly at retirement age (65-74) before falling markedly in older age groups as successful policy actions, such as the inflation protection of pensions, has sought to address the historically high specter of pensioner poverty.

Vulnerability by head of household age group (1000s)



Vulnerability growth from base

Vulnerability growth since from mid year 2025 varies significantly by age group, reflecting differences in income dynamics, cost exposure, and savings buffers.

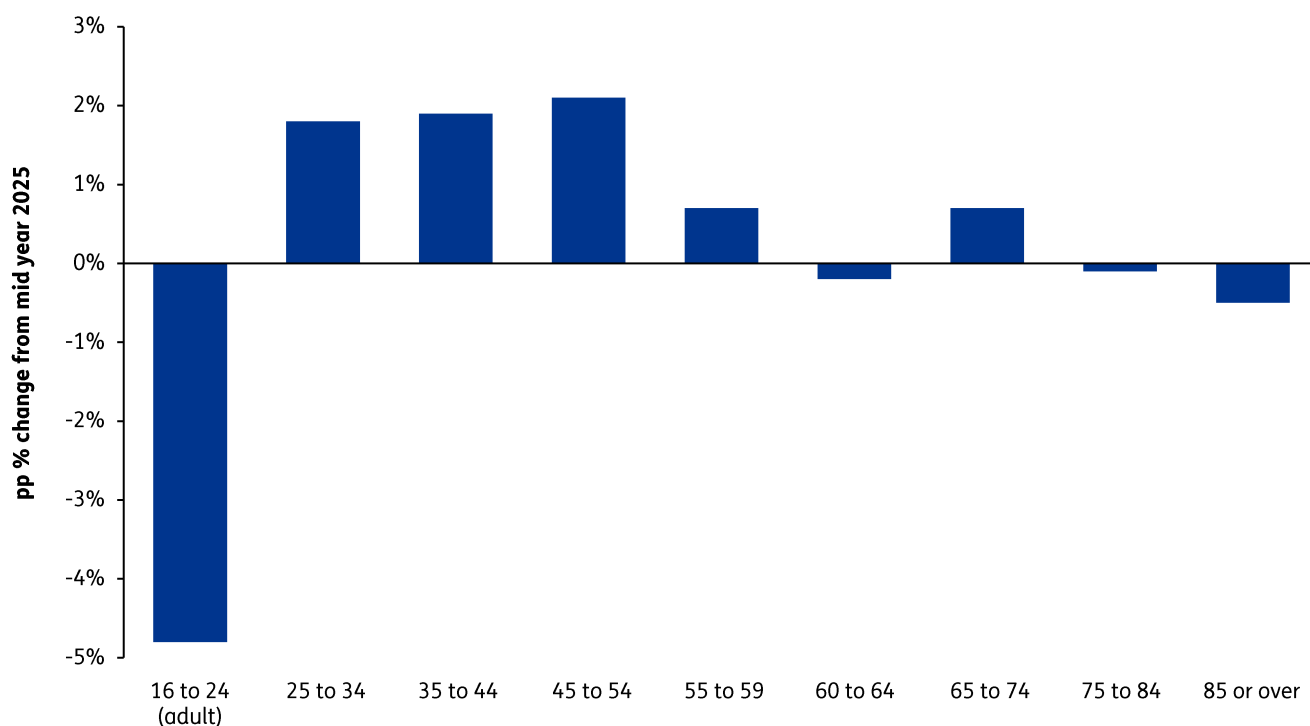
The chart shows percentage point changes in total vulnerability by age. The sharpest fall is among 16-24-year-olds (-4.5pp), driven by strong wage growth in lower-income sectors and fewer fixed housing costs relative to other groups.

In contrast, vulnerability has risen most for adults aged 25-54, with increases of around 2pp, reflecting greater exposure to housing, childcare, and living costs, which have risen faster than incomes for many households in this bracket.

Older age groups show little change or slight improvements, supported by more stable incomes (e.g. pensions) and lower exposure to housing cost inflation.

These trends highlight how mid-working-age households are experiencing the greatest squeeze, while younger and older groups see some relief.

Total vulnerability percentage point % change per age group from mid year 2025



The Extremely Vulnerable population

Extremely vulnerable households are concentrated within specific consumer segments, reflecting structural income and cost pressures.

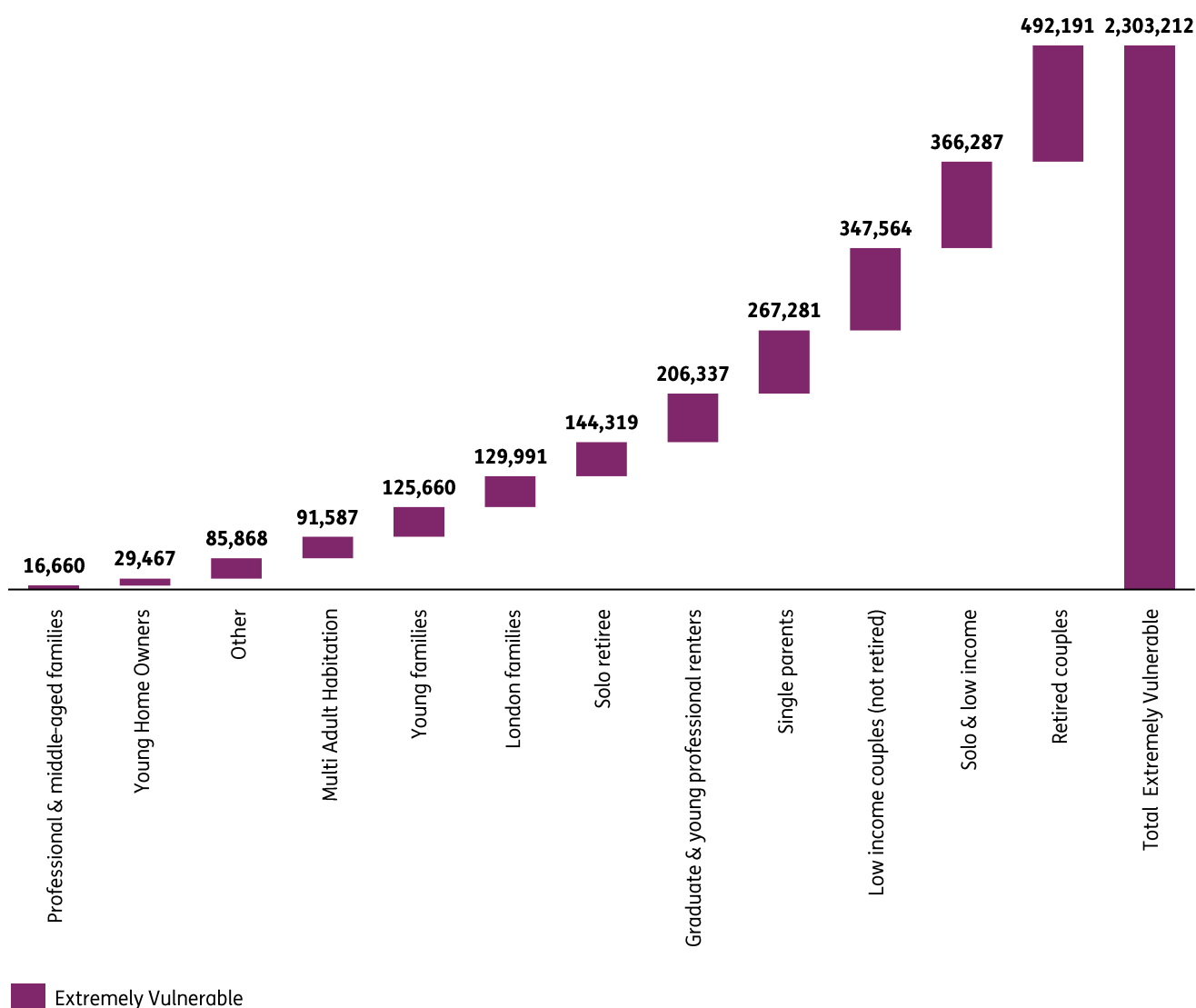
The chart shows the number of extremely vulnerable households by segment, totaling around 2.3 million households.

The largest groups are retired couples (492,000), solo & low-income households (366,000), and low-income couples (348,000). Together, these three segments account for over half of all extremely vulnerable households, highlighting the concentration of financial fragility among older and lower-income groups.

Single parents (267,000) and graduate & young professional renters (206,000) also make up significant shares, reflecting high housing costs and limited savings.

In contrast, higher-income and asset-owning groups, such as professional families and young homeowners, make up a much smaller share of extreme vulnerability, underlining the uneven distribution of financial resilience.

Number of extremely vulnerable households by segment 2025/26 winter forecast



Section 4: UK Domestic Customer Energy Debt

Increasing numbers of households in debt

We anticipate the number of households in debt to rise considerably overall and especially in our extremely vulnerable cohort.

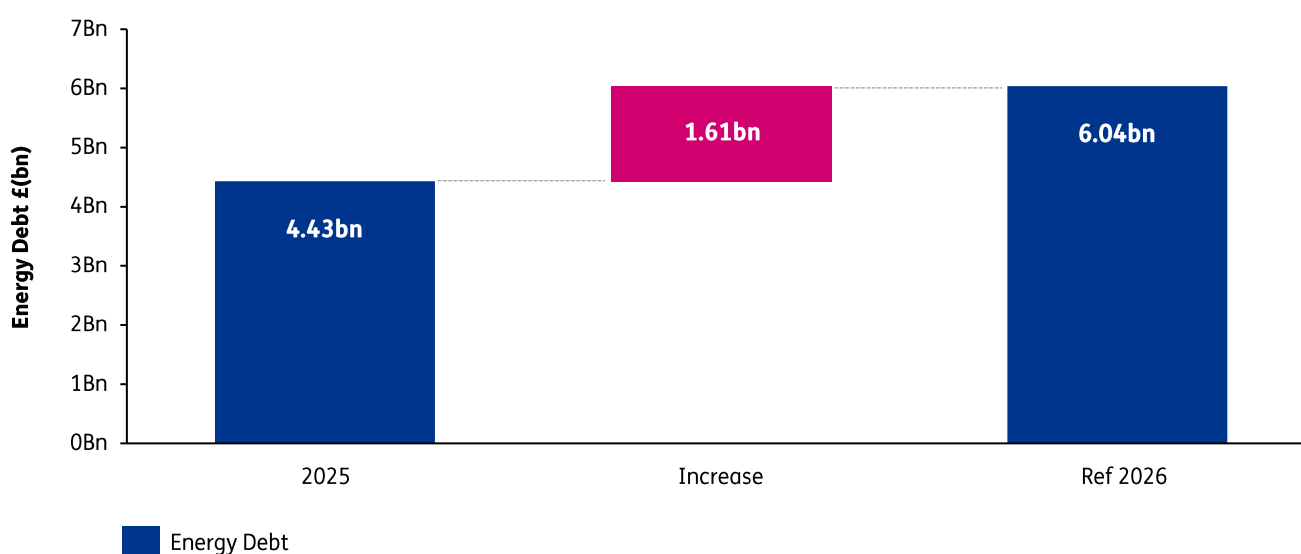
Number of households in debt by vulnerability category

Cohort	2025	REF 2026	Net change
Affluent	0	0	0 
Non-vulnerable	420,830	403,498	(17,332) 
At risk	1,232,185	1,334,897	102,712 
Vulnerable	3,925,804	3,700,721	(225,803) 
Extremely vulnerable	1,755,401	2,303,212	547,811 
Total	7,334,219	7,742,328	408,108

With total energy debt set to rise by £1.6bn

As a consequence of rising financial vulnerability, we project an increase of energy debt of c.£1.6bn in our reference case over the winter period.

Current and forecasted total energy debt in ref case



With rise in prepay and unsecured most acute

Debt levels are set to rise sharply across all payment types, with the increase most acute among prepay and unsecured customers.

Between 2025 and 2026, total unsecured debt is forecast to climb from £3.75bn to £5.14bn, a 37% rise, while prepay debt grows even faster, up 38% to £0.45bn. Secured debt also increases, but more moderately, rising 28% to £0.45bn.

This shows that the most financially vulnerable customer groups, particularly those on prepayment meters or without collateral, are facing the steepest deterioration in debt levels.

Debt forecast by payment type

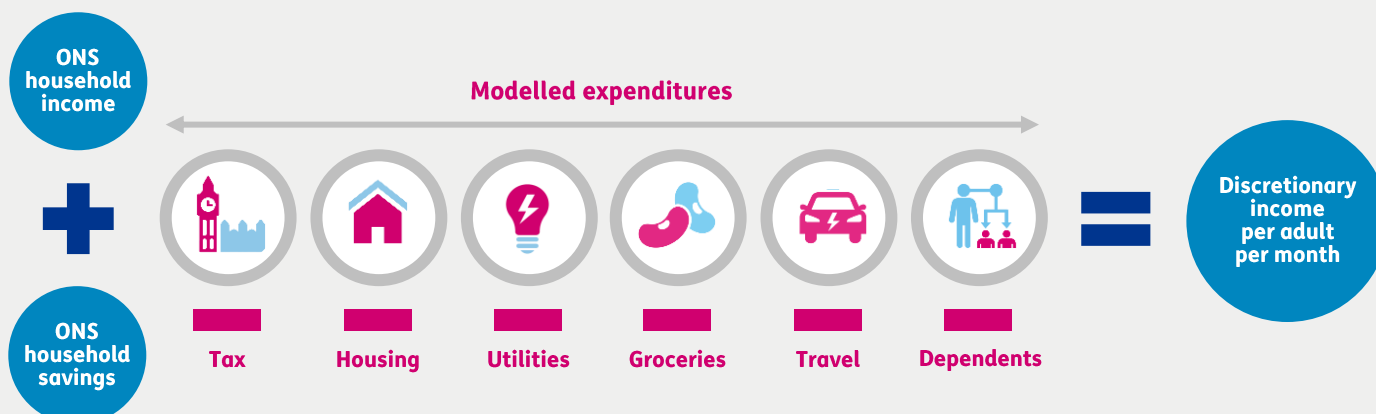
	Prepay	Unsecured	Secured	Total
2025	£0.33bn	£3.75bn	£0.35bn	£4.43bn
2026	£0.45bn	£5.14bn	£0.45bn	£6.04bn
% Change	High 38%	High 37%	Medium 28%	High 36%

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.





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