UK Consumer Spending Outlook

H2 2026

A Horizons Briefing

Inside the UK Consumer Spending Outlook

Executive Summary

For consumer-facing businesses, the message is one of cautious optimism, but unevenly distributed across household segments.

Broadly, the downside risk to UK consumer spending has reduced, while improving confidence creates a credible route to stronger-than-expected growth. However, national spending growth increasingly masks substantial differences in resilience across consumer groups and categories.

The UK consumer enters H2 2026 in a stronger position than feared following the escalation in the Persian Gulf. The disruption initially threatened a renewed energy and inflation shock, with significant downside risks for household incomes and spending. However, **the economic impact has so far proved more contained** than anticipated given the more muted commodity market response (particularly fuel).

The downside outlook has consequently improved materially. Energy price pressures eased from their initial peaks, while the interest-rate outlook has become more supportive, with the Bank of England now expected to hold rates rather than tighten further. Alongside falling mortgage costs, this significantly reduces the pressure on household finances anticipated earlier in the year.

Our central case now points to consumer spending monthly YoY growth of around 0.7% in H2, with even the downside scenario remaining marginally positive at 0.09% monthly YoY growth. However, continued escalation and renewed disruption in the Persian Gulf remain the principal downside risk, with the potential to reignite energy-driven inflation and weaken household spending.

There is also meaningful upside to our outlook from a recovery in consumer confidence. The recent "Burnham bounce" following the change in political leadership suggests that greater political stability and optimism could unlock spending currently being held back by cautious households. Combined with falling saving rates, this could drive a stronger release of household spending than captured in our central case.

The improvement is not evenly distributed across consumers. Higher-income and multi-income households continue to underpin spending growth, while lower-income households, renters and financially stretched consumers remain considerably more exposed, with some facing contraction. Importantly, some of the strongest-growing consumer groups are also among the most economically sensitive, creating greater vulnerability should conditions deteriorate.

*H2 figures represent the expected average YoY monthly spending run rate under current economic assumptions, rather than cumulative growth over H2 2026. **This outlook will be updated in our H1 2027 release.**

What this means for consumer & retail clients

The Iran crisis has **hit consumer products and retail far less than we feared.** In the second half of the year, there's **cautious room for optimism**: on average, we expect average YoY monthly spending growth to reach 0.7% in our central case.

But this average hides a divided nation. The growth is spread very unevenly, and it's being carried by a few wealthier household segments like Double income, no kids (+1%). Meanwhile, lower affluence groups such as Graduate & young professional renters are seeing their spend decline slightly (-0.1%).

Five moves to get you through the rest of the year.

01

Forget the average, target your portfolios to specific segments. The headline growth figure increasingly papers over a widening gap between household types. Build your plans and portfolios around specific consumer segments, not a national average that's far from the full picture.

02

Be bolder than your rivals and take share. Many competitors are likely to be cautious after recent crises. Businesses that keep investing in growth (winning new customers, premium ranges, innovation etc.) stand to win twice over: stronger demand and a bigger slice of the market. This is especially true in the more resilient shopper groups and categories.

03

Make sure you have enough inventory. For businesses aimed at the more resilient segments, the bigger risk isn't a slump, it's missing sales or expensive air freight when demand comes in stronger than planned.

04

Cash-in on affordable indulgences. Small luxuries, affordable premium ranges and cheaper stand-ins for a night out (e.g. the home-cooked “fake-away”) can still mop up the “treat” spending that shoppers across segments are willing to part with.

05

Keep an eye on costs in inflation-sensitive product categories. Non-essential products with the steepest price rises are the ones most likely to see shoppers walk away (e.g. Leisure activities). Monitor these categories and decide whether or not you'll pass through or absorb the extra cost if the situation arises.

Introducing the Baringa consumer spending model

Baringa's Consumer Spending Model combines economic fundamentals and household-level data, then tests how consumer spending changes under three macroeconomic scenarios.

Baringa's Consumer Spending Outlook is a proprietary tool that assesses the prospects for UK consumer spending under a range of macroeconomic scenarios. It examines how changes in inflation, energy prices, housing costs, utilities, and broader economic conditions could affect household finances, consumer behaviour, and spending growth across income groups, demographic segments, regions, and expenditure categories.

The analysis is intended to help stakeholders understand which consumer segments, categories, and regions are most vulnerable to downside risks, and where consumer demand is likely to hold up under weaker economic conditions.

The model analyses expenditure patterns from approximately 28 million households across the UK. It is built on economic fundamentals, detailed household-level data, and scenario analysis. It examines differences in spending across household size, regional location, age, tenure, income, and other demographic factors to provide a more practical view of purchasing behaviour across 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)	✓	✗

Three scenarios for consumer spending:

01 The first is the **central** case, representing our most likely view of economic conditions.

02 The second is a **downside** case, reflecting a realistic negative outlook.

03 The third is an **upside** case, portraying a realistic positive scenario.

Click here to see in depth scenarios

Proprietary data verified by our market experts

Section 1:
Six macro insights

Six macro insights

The H2 outlook has improved since H1, but the outlook remains fragile and uneven.

Consumer spending is proving more resilient than previously expected, although geopolitical risk, persistent pressure on discretionary categories and a widening divergence between household groups create significant uncertainty. At the same time, renewed consumer confidence provides a credible route to stronger spending if households become willing to reduce precautionary savings.

01

Consumer Outlook revised up from H1.

The consumer outlook is more resilient than previously feared, we expect average YoY monthly spending growth to reach 0.7% in our central scenario.

02

However, Persian Gulf escalation remains a key downside risk.

Further escalation could increase oil and energy costs, renew inflationary pressure and weaken household spending power.

03

Consumer spending outlook remains highly asymmetric.

Headline resilience masks material differences between financially secure households and consumers with less capacity to absorb further pressure.

04

Unemployment risk remains concentrated in low-spending segments.

Labour-market weakness is concentrated among typically lower-spending households, limiting its aggregate impact but increasing pressure on vulnerable groups.

05

Consumers expected to protect essentials as discretionary spending slows.

Consumers are prioritising essential expenditure while remaining increasingly selective across discretionary categories.

06

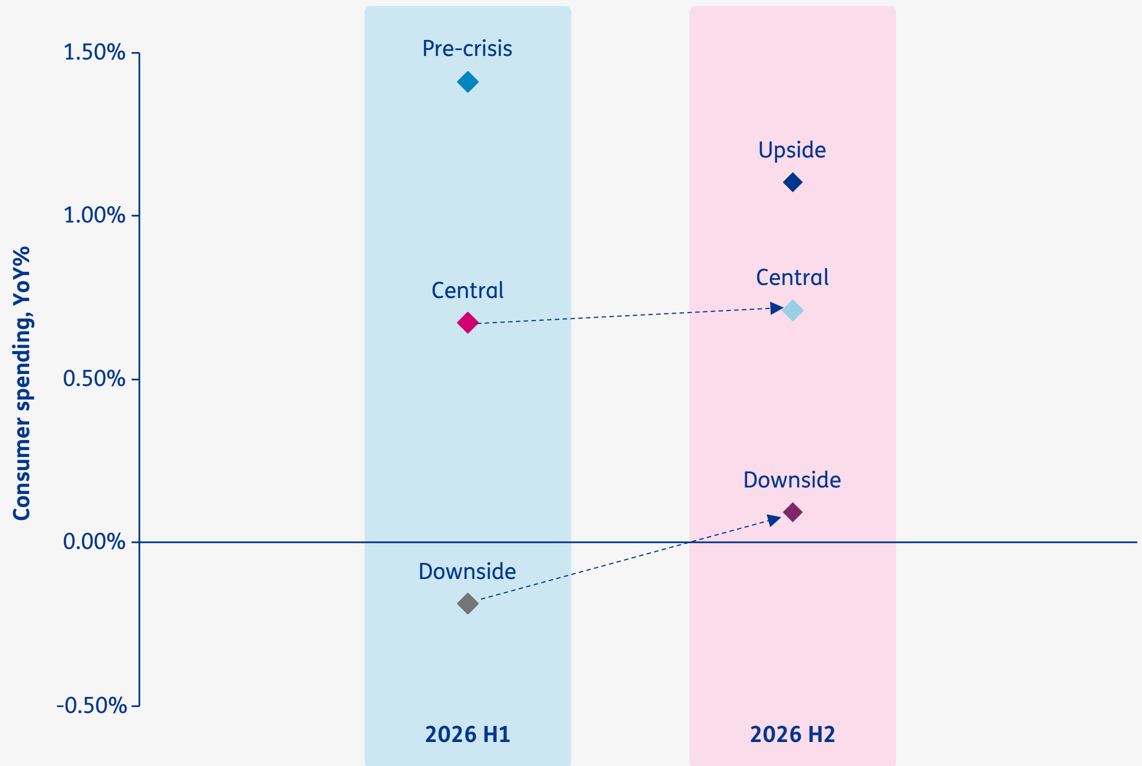
Burnham bounce in consumer confidence points to potential upside.

A sustained improvement in confidence could encourage households to reduce precautionary saving and unlock additional consumer spending.

01. Consumer outlook revised up from H1

The downside consumer outlook has improved since H1 as key household cost pressures have moderated. The updated H2 downside incorporates a less severe increase in fuel costs and a more supportive interest-rate environment than we previously expected. **Fuel remains the biggest source of improvement.** The H1 downside assumed fuel costs could rise by around 30% relative to the base, whereas the H2 downside assumes a materially smaller increase, reducing the direct squeeze on household spending power. **The interest-rate outlook has also improved.** Where the H1 downside incorporated a further rate rise, we now expect rates to remain on hold, limiting additional pressure on mortgage costs and supporting disposable income. **The labour market downside has also moderated.** The H2 downside assumes a smaller rise in unemployment than in H1, reducing the number of households experiencing a severe income shock and providing further support to aggregate consumer spending. **Risks have not disappeared.** Further escalation and disruption in the Persian Gulf could renew pressure on fuel and utility costs, reversing some of the improvement in household finances.

2026 consumer spending outlook

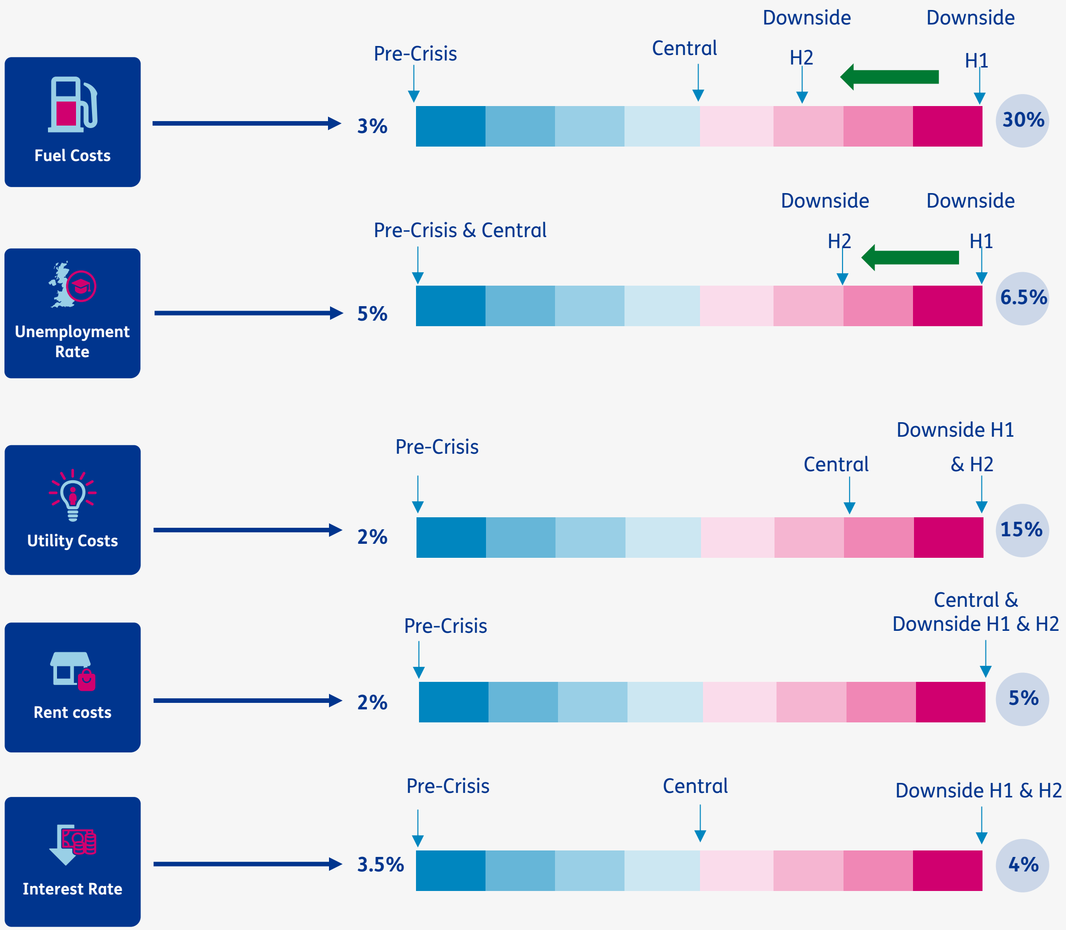


Source: Baringa UK Consumer Spending Model

*H2 figures represent the expected average YoY monthly spending run rate under current economic assumptions, rather than cumulative growth over H2 2026. **This outlook will be updated in our H1 2027 release.**

Why? Lower commodity cost pressures explain the improved downside outlook

Cost increase relative to base scenario (YoY)



Implications for retailers and consumer products companies

01 **Avoid under-planning demand.** Consumer spending is proving more resilient than expected, creating upside risk for businesses positioned around resilient consumer segments.

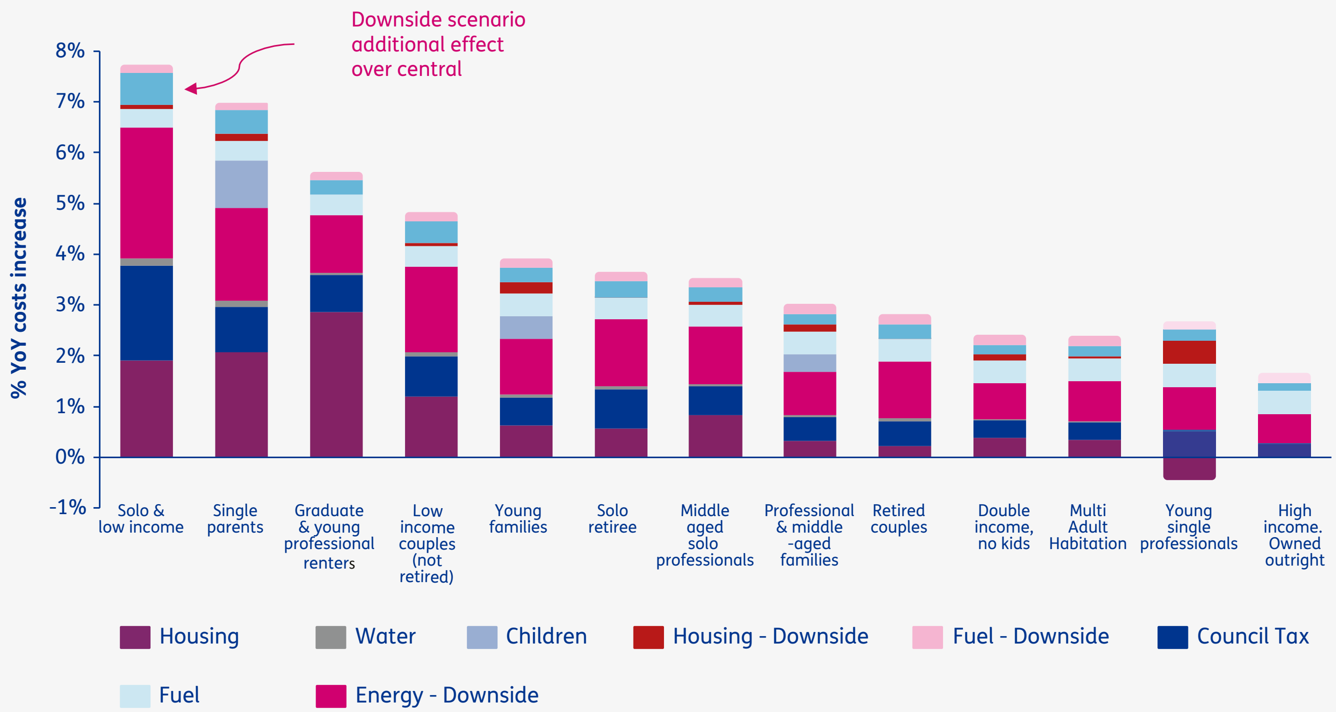
02 **Maintain investment in growth and resilience.** A more supportive spending environment increases the attractiveness of innovation, premiumisation and customer acquisition activity. At the same time, businesses should use the improved outlook to strengthen supply-chain resilience: securing strategic supplier relationships and ensuring they have the agility and capacity to respond if demand surprises to the upside.

03 **Take advantage of cautious competition.** Competitors may remain overly defensive following recent consumer weakness. Businesses that continue to invest in growth, particularly within resilient consumer segments and categories, could benefit from both stronger demand and market share gains.

02. However, Persian Gulf escalation remains a key downside risk

Cost risks have moderated relative to our H1 expectations, supporting the improved central outlook. However, significant downside risk remains from further escalation and prolonged disruption in the Persian Gulf. Renewed pressure on global oil and gas supplies would push fuel and energy costs higher, eroding some of the improvement in forecasted household spending power. **The impact of a renewed cost shock would be highly uneven.** Solo & low-income households and single parents face cost increases equivalent to around **7-8% YoY**, compared with less than **2% for high-income outright owners**, reflecting their greater exposure to essential costs and more limited financial headroom. **This creates a clear transmission from geopolitical escalation to weaker consumer demand.** Higher unavoidable costs would disproportionately squeeze discretionary spending among financially constrained households, reinforcing the asymmetric consumer outlook.

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



Proprietary data verified by our market experts

Implications for retailers and consumer products companies

01 **Stress-test plans against higher energy and fuel costs.** Further escalation could quickly weaken household spending power and consumer confidence.

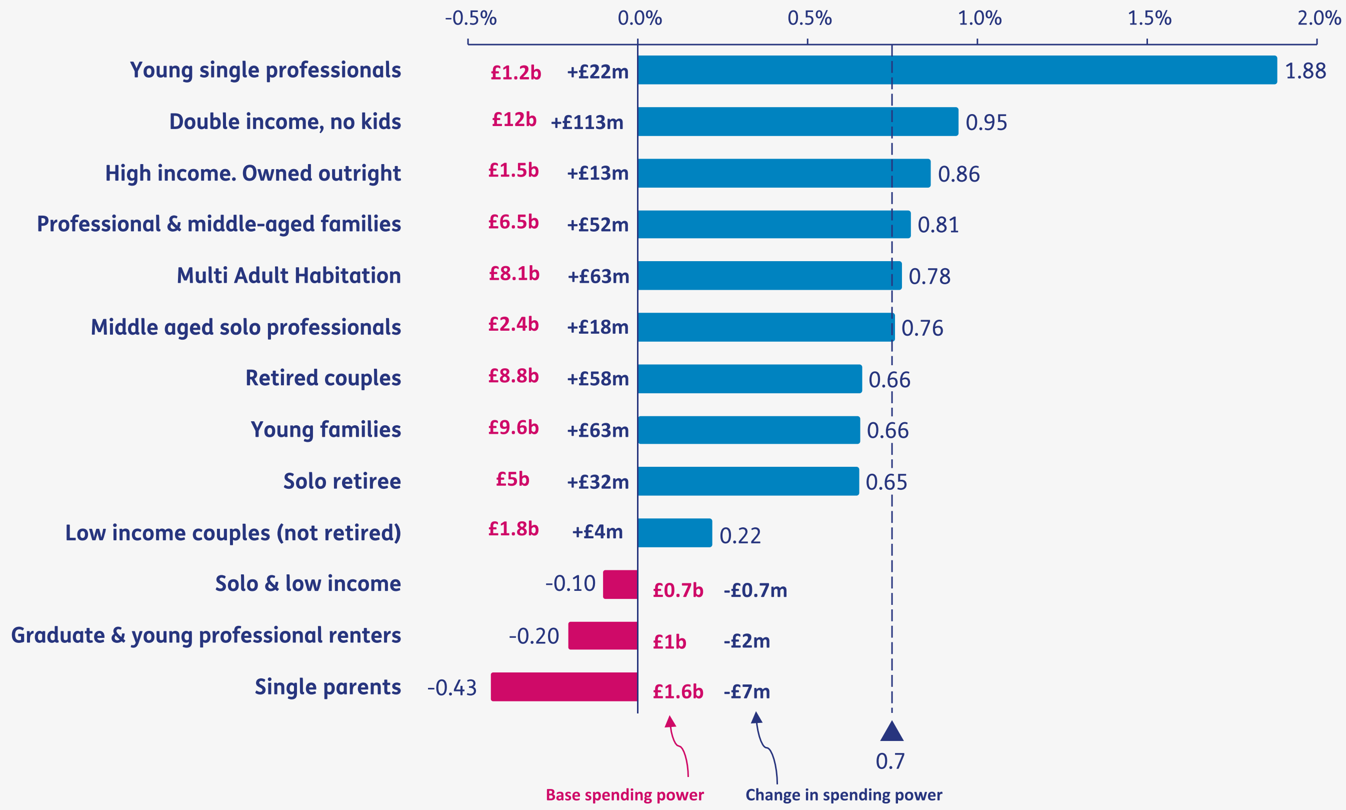
02 **Monitor inflation-sensitive product categories closely.** Discretionary spending products which show high sticker price inflation are likely to see the largest demand reduction.

03 **Retain operational flexibility.** Inventory, promotions and investment plans should be capable of adapting rapidly if downside risks materialise.

03. Consumer spending outlook remains highly asymmetric

The consumer outlook remains highly uneven across household groups. Most segments retain positive spending growth in H2, but the aggregate picture masks a significant divergence in households' ability to absorb the economic shock. **Higher-income and professional households continue to underpin spending growth.** Young single professionals see particularly strong growth, while double-income, high-income and professional family households also remain comparatively resilient. **Lower-income and more financially constrained households are being squeezed.** Spending falls among single parents, young professional renters and solo & low-income households, highlighting that the downside is concentrated among groups with less financial headroom. **This creates an asymmetric outlook for consumer-facing businesses.** Overall spending can remain resilient even as some household groups experience outright contraction, with exposure to different consumer segments increasingly important for sector performance.

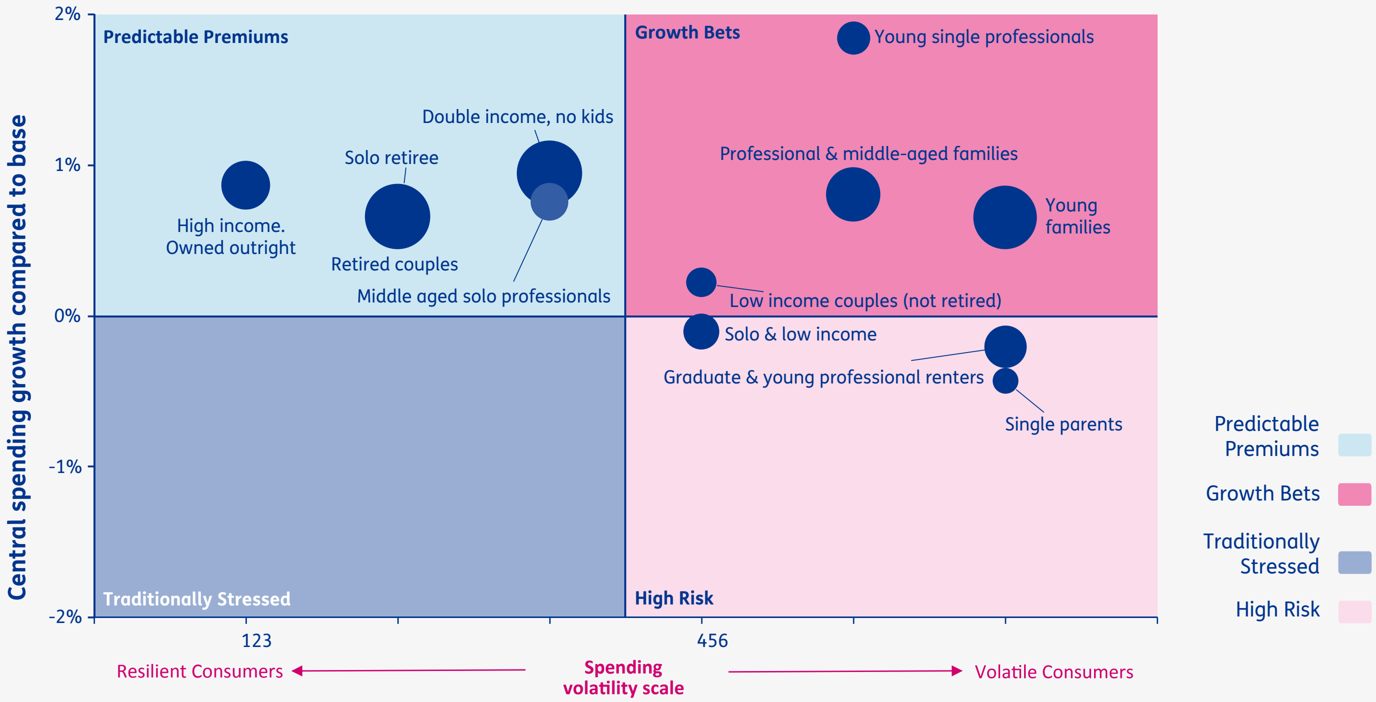
Central H2 consumer segment spending change from base (% and absolute monthly values)



Growth comes with volatility

The aggregate consumer outlook masks very different dynamics beneath the surface. While most segments see spending growth in our central case, their resilience to future shocks varies considerably. **“Growth Bets” drive some of the strongest spending growth, but are also the most vulnerable if economic conditions deteriorate**. Young single professionals and young families provide significant upside in the central case, but their high spending volatility means they are likely to retrench more sharply in a downturn. **“Predictable Premiums” provide a more dependable foundation for growth.** Affluent homeowners, retired households and double-income households combine positive spending growth with lower volatility, making their contribution more resilient across economic conditions. **Current spending weakness is concentrated within “High Risk” consumers.** Renters, single parents and the most financially constrained households are already seeing spending contract, while no segments currently fall within “Stressed”. **This reinforces the asymmetric outlook: Predictable Premiums provide resilience, Growth Bets drive upside but amplify downside risk, while High Risk consumers remain the most exposed.**

Spending volatility and spending growth



Implications for retailers and consumer products companies

01 **Forget the average plan for real households.** The headline growth figure increasingly papers over a widening gap between household types. Build your plans around specific consumer segments, not a national average that no single shopper actually lives in.

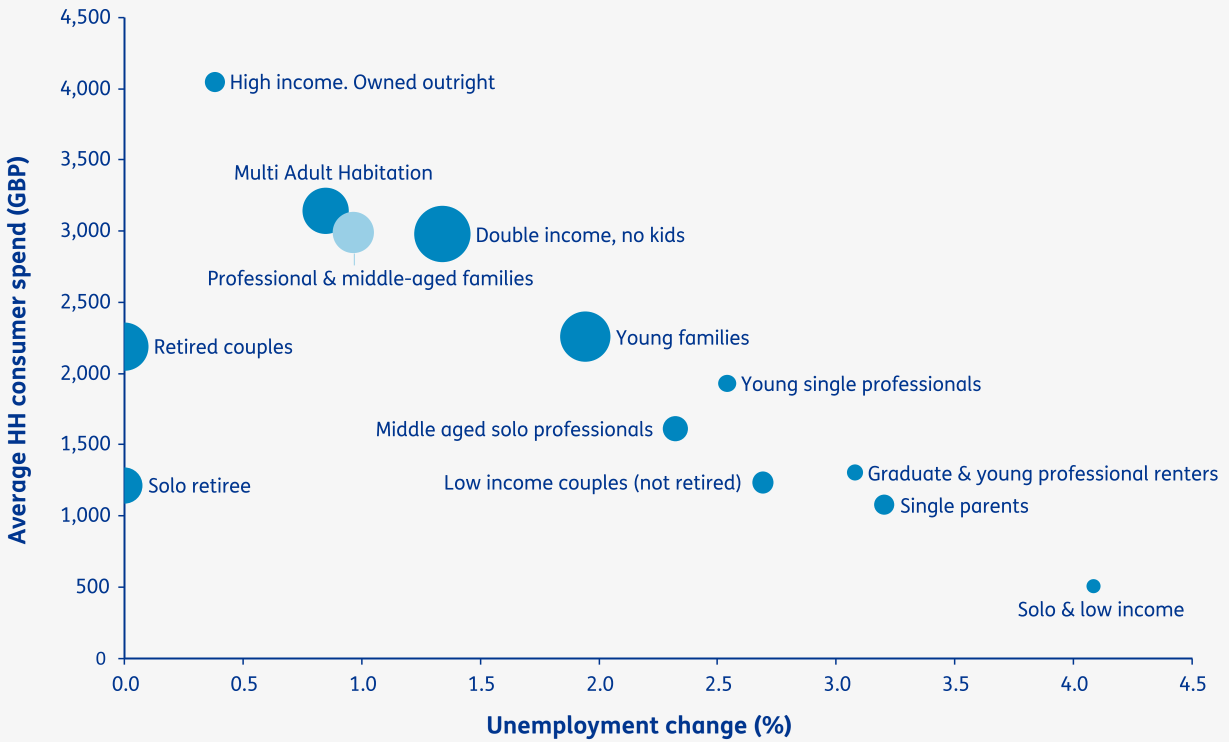
02 **Mind the middle, it’s where the danger lies.** Spending growth is bunching up among wealthier households, while more vulnerable shoppers feel the squeeze from job worries and the rising cost of essentials. That leaves middle-of-the-road products dangerously exposed. Trim your bets on the squeezed middle before the risk catches up with you.

03 **Serve both the splurger and the saver.** Even well-off shoppers are now mixing and matching. Grabbing budget basics in one aisle while still treating themselves in another. That hands own-label players a real chance to win at both ends of an increasingly split market.

04. Unemployment risk remains concentrated in low spending segments

Unemployment risk is concentrated among lower-spending households. Solo & low-income households, single parents and young renters face some of the largest increases in unemployment, while their average consumer spend is substantially below that of more affluent groups. **Higher-spending households are comparatively insulated.** High-income outright owners, multi-adult households and professional families see much smaller increases in unemployment, helping to protect a disproportionate share of consumer spending. **This limits the aggregate consumption impact of a weaker labour market.** While the distributional impact is significant, unemployment losses are skewed towards households with a smaller weight in total expenditure, reducing the direct drag on overall consumer demand.

Unemployment change (central view) compared to HH Average monthly consumer spend



Source: Baringa UK Consumer Spending Model

Proprietary data verified by our market experts

Implications for retailers and consumer products companies

01 **Don't expect the job squeeze to hit everyone the same.** Weakness in the jobs market is landing hardest on lower-spending households, not the population as a whole. Plan for a downturn that bites some shoppers far harder than others.

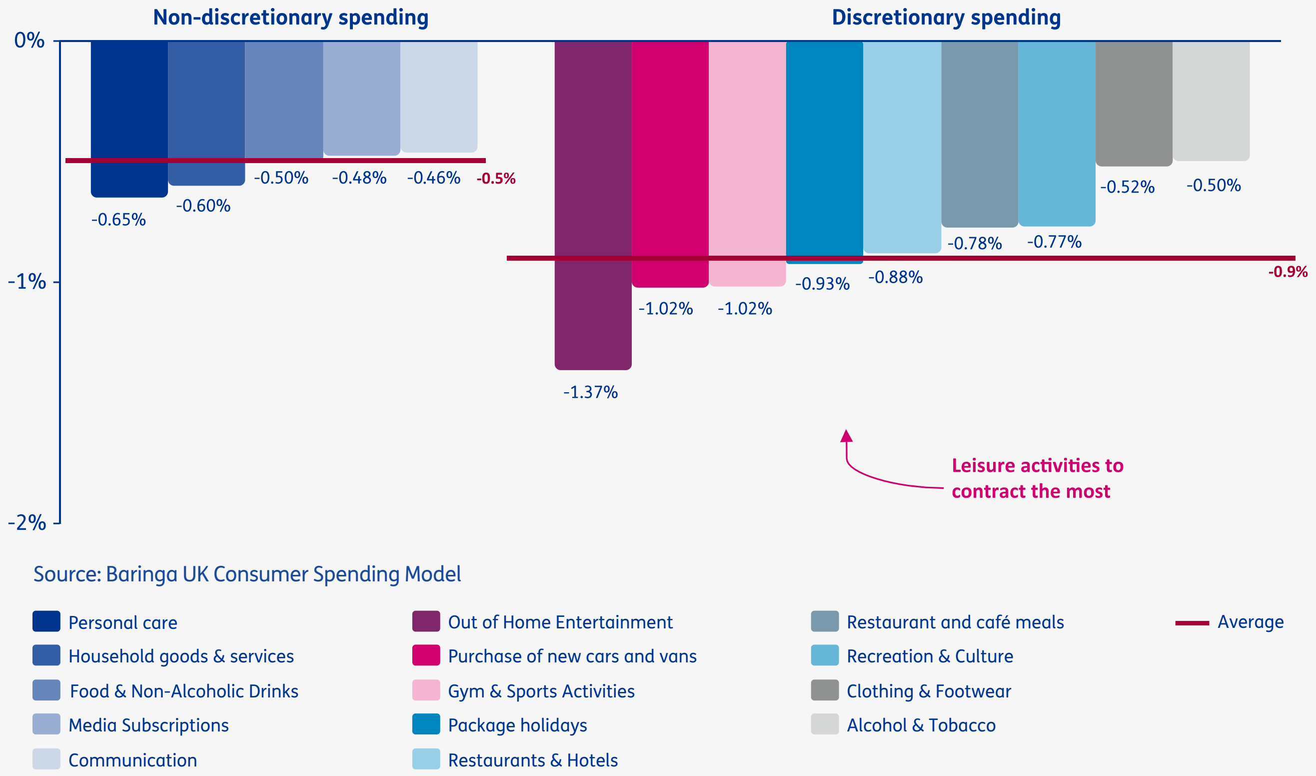
02 **Guard your value ranges.** The aisles that lean on hard-up shoppers are the ones most likely to feel the pinch. Keep a close eye on categories most exposed to stretched household budgets.

03 **Sharpen your local forecasts.** Areas packed with more vulnerable shoppers are likely to lag the national picture. Fine-tune your demand planning street by street, not just nationwide.

05. Consumers expected to protect essentials as discretionary spending slows

Consumers are prioritising essential spending as purchasing power comes under pressure. Non-discretionary categories see relatively modest declines, with spending growth around 0.5-0.7pp weaker than the pre-crisis forecast. **Discretionary spending absorbs more of the adjustment.** Leisure-related categories see some of the sharpest slowdowns, led by out of home entertainment, alongside weaker spending on new vehicles, gym & sports activities and holidays. **This points to increasingly defensive consumer behaviour.** Rather than cutting expenditure uniformly, households are concentrating reductions in categories that can more easily be delayed or forgone, protecting day-to-day essentials.

Change in consumer (non-)discretionary spending - H2 Central vs H1 Pre-crisis



Source: Baringa UK Consumer Spending Model

Implications for retailers and consumer products companies

01 **Bank on the basics and some nice-to-haves too.** Shoppers are still putting essentials first, but a few semi-treats like clothing are holding up better than you'd think. Expect steadier demand across both.

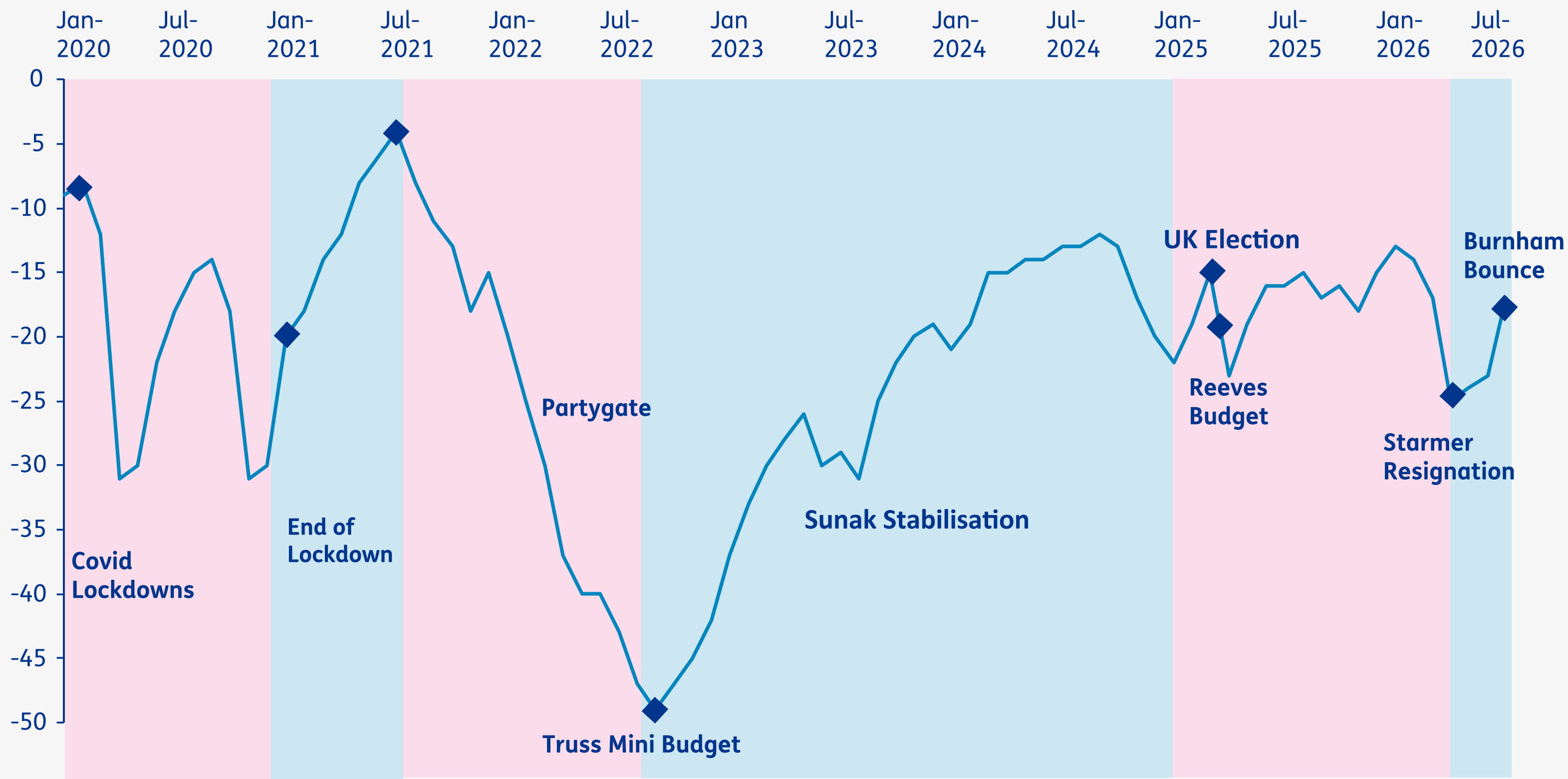
02 **Win on value, not just a low price tag.** People are still willing to spend, they're just choosier about where. A genuinely strong value offer will beat slashing prices across the board.

03 **Sell the little treats that get people through.** Small luxuries, affordable premium ranges and cheaper stand-ins for a night out. The home-cooked "fake-away" being the classic. Can still mop up the treat spending shoppers are willing to part with.

06. Burnham bounce in consumer confidence points to potential upside

Consumer confidence has rebounded following the change in political leadership. The sharp improvement following Starmer's resignation and the subsequent "Burnham bounce" suggests political developments are having a meaningful impact on household sentiment. **The recovery comes from a very weak base.** Confidence deteriorated markedly through the latter part of the Starmer government, falling back towards levels last seen during earlier periods of significant economic and political uncertainty. **A sustained improvement in confidence could provide an important tailwind to spending.** With households currently cautious and discretionary expenditure under pressure, greater political stability and optimism could encourage consumers to deploy more of their available spending power. A 0.5 pp reduction in national saving rates could deliver a c.£300 million increase in spending.

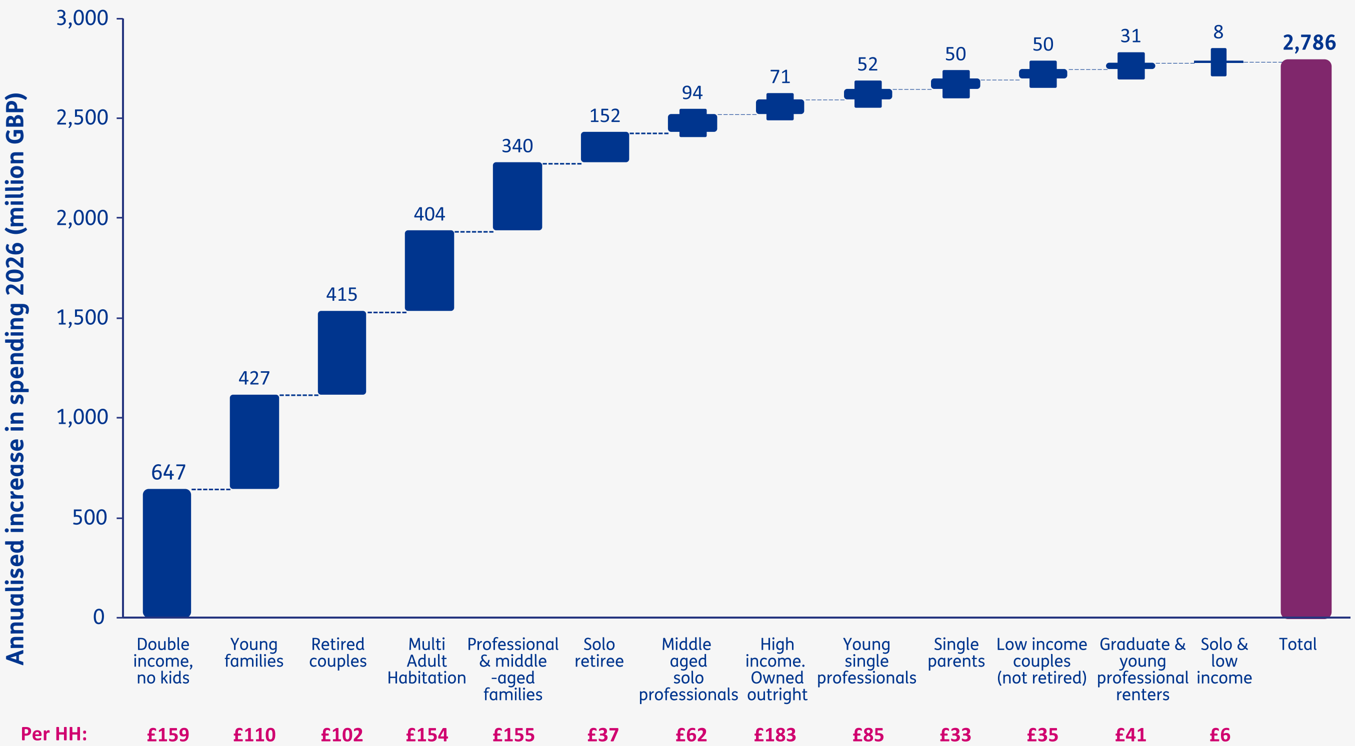
UK Consumer confidence



Source: GFK Consumer Confidence

With falling saving rates driving stronger consumer spending

Extra money spent annually (Upside Scenario)



Source: Baringa UK Consumer Spending Model

Proprietary data verified by our market experts

Implications for retailers and consumer products companies

01 **Treat confidence as a leading demand indicator.** Sustained improvements in sentiment could translate into stronger spending growth than currently forecast.

02 **Target consumers with the greatest spending flexibility.** Higher-income households and those with larger savings buffers are best positioned to increase spending.

03 **Prepare for discretionary recovery opportunities.** Travel, leisure, hospitality and premium retail categories stand to benefit most if confidence continues to improve.

Section 2:
H2 2026 Forecast

Our 2026 Scenarios

After several years of volatility following the pandemic and subsequent inflation shock, our outlook is for consumer spending to remain modestly positive. We expect average YoY monthly spending growth to reach **0.7% in our central case.**

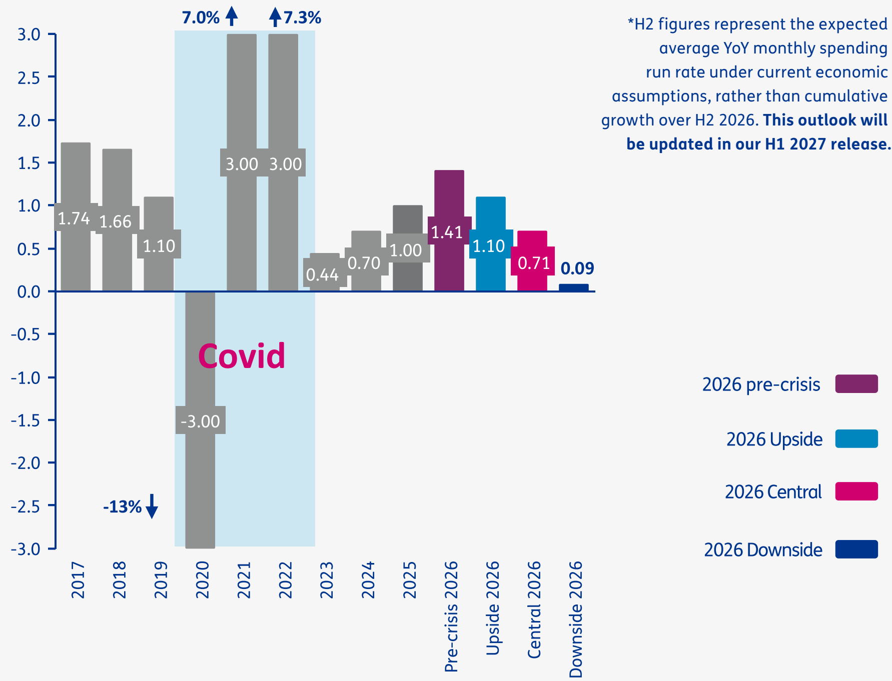
This slightly subdued outlook reflects persistent inflation alongside softer wage growth, limiting the recovery in real household incomes. While interest rates are expected to ease gradually, essential costs remain elevated and a weakening labour market continues to place pressure on more financially exposed households. However, 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. Heightened geopolitical frictions and trade tensions could generate further volatility in global commodity and energy markets, pushing inflation higher and weakening consumer confidence. In such a scenario, 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%. Retailers and CPGs should therefore monitor how changes in inflation, employment and confidence influence consumer purchasing decisions. Baringa's Consumer Spending Model can support translating macroeconomic conditions into their micro context.

Baringa's economists have generated three distinct scenarios for 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.

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%



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Source: Baringa UK Consumer Spending Model

Consumer spending outcomes expectations

Consumer spending outcomes vary significantly across segments in our scenarios, reflecting differences in income growth, cost pressures and spending sensitivity. While most segments see modest positive spending growth in the central scenario, the range of outcomes widens considerably in both the downside and upside cases. Higher-income households and multi-income families tend to contribute the largest absolute increases in spending, reflecting their larger share of disposable income and greater overall consumption levels. At the same time, some smaller segments can still experience strong percentage growth even if their overall contribution to total spending is more limited e.g. Young single professionals. More financially stretched households, such as single parents or lower-income renters, show greater downside risk. In these segments, spending is more sensitive to changes in income and employment conditions, meaning that weaker economic outcomes could lead to sharper pullbacks in consumption.

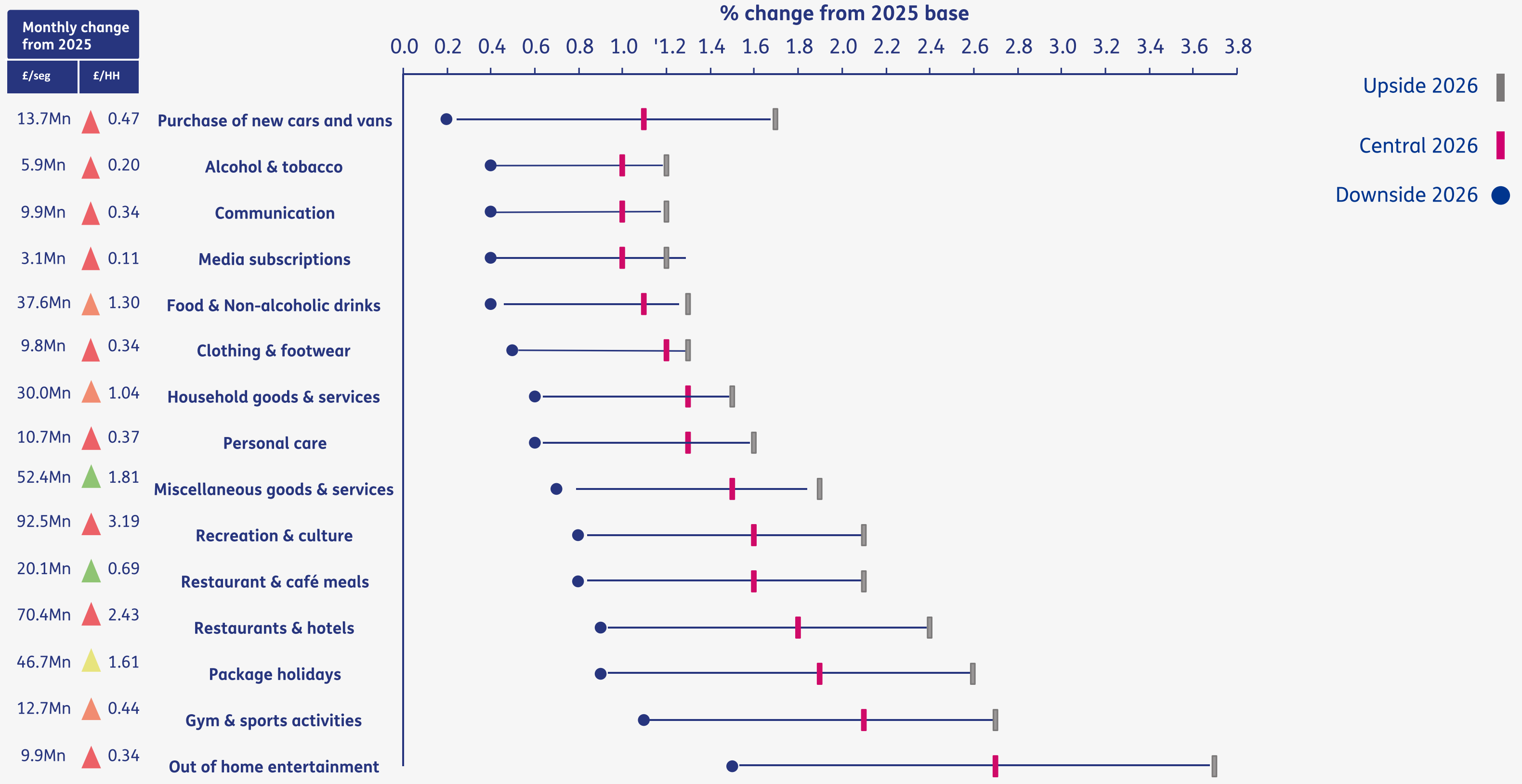
Change across consumer spending in our scenarios – consumer segments

Source: Baringa UK Consumer Spending Model

Product categories spending expectations

Consumer spending growth also varies significantly across product categories in our scenarios. Essential categories such as food, communication and household goods tend to see relatively stable demand, with more limited variation between downside and upside outcomes. By contrast, discretionary categories show much greater sensitivity to the economic outlook. Spending on restaurants, holidays, recreation and out-of-home entertainment tends to expand more strongly when household incomes improve but can also weaken more sharply in a downturn. In the central scenario, most categories see modest positive growth as real incomes gradually recover. However, the range between the downside and upside scenarios highlights how changes in household confidence, savings behaviour and income growth could lead to very different outcomes across consumer-facing sectors.

Changes across consumer spending in our scenarios – product categories

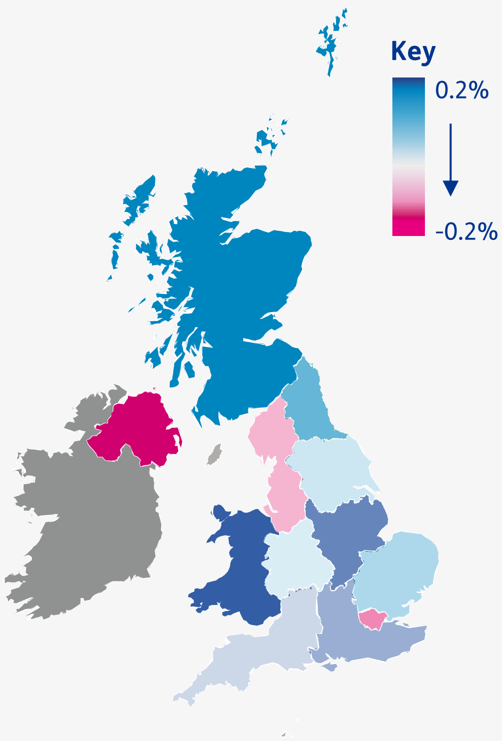


Source: Baringa UK Consumer Spending Model

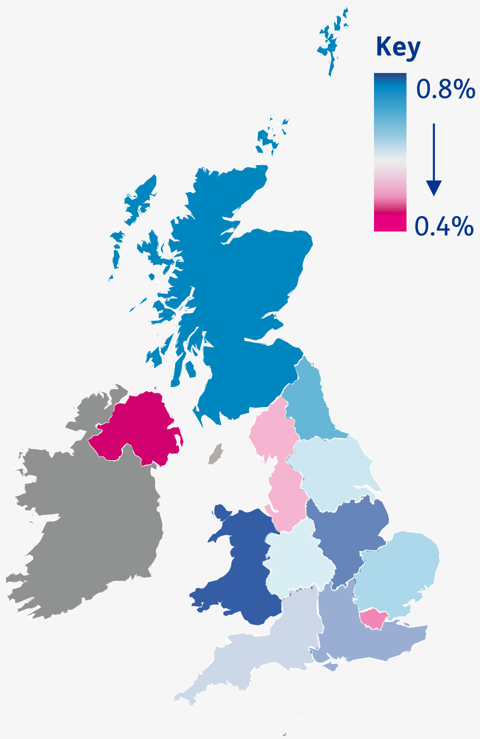
Regional spending growth expectations

The outlook for regional consumer spending growth in H2 2026 remains broadly positive, though differences across the UK persist. In our **central scenario**, most UK regions are expected to see modest growth, reflecting the gradual recovery in real incomes as inflation eases and wage growth remains supportive. Southern regions and parts of Scotland continue to show relatively stronger performance, while several regions across the Midlands and northern England see more moderate growth. In the **downside scenario**, weaker economic conditions lead to a more subdued regional picture, with spending growth slowing across most areas. However, the regional pattern remains broadly similar, with southern regions still showing comparatively stronger resilience. By contrast, the **upside scenario** presents a more positive outcome as stronger income growth and improving consumer confidence lift spending across most regions. Growth becomes more broadly distributed across the UK, although regional differences in household income and labour market conditions continue to shape the pace of recovery. Overall, while the direction of travel is similar across scenarios, regional disparities in income growth and household financial resilience mean consumer spending momentum continues to vary across the UK.

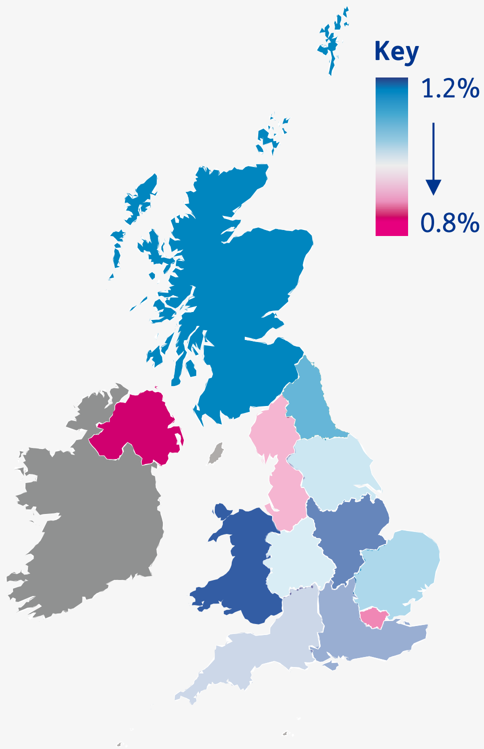
Regional spending growth in H2 2026 downside forecast



Regional spending growth in H2 2026 central forecast



Regional spending growth in H2 2026 upside scenario



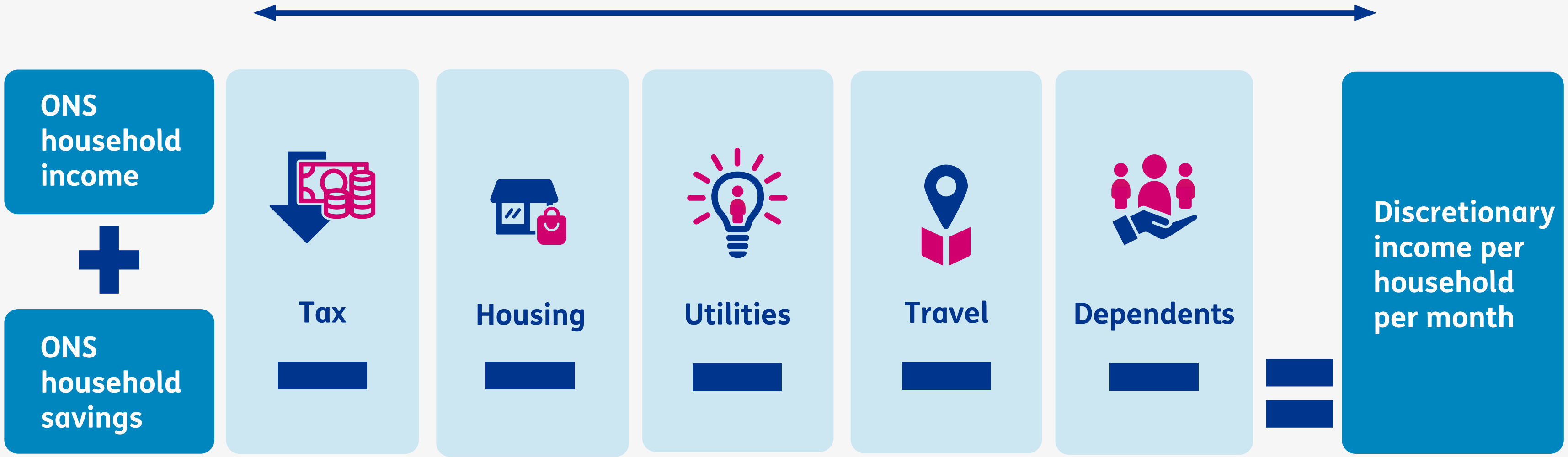
Source: Baringa UK Consumer Spending Model

Section 3:
Methodology

Modelling approach

We modelled expenditures for approximately 28 million households across the UK, providing a comprehensive analysis of consumer spending patterns at both national and regional levels. Modelling assumptions incorporate regional cost variations, including rents, council tax and food costs, as well as household-composition-based adjustments for expenditures such as mortgages and child-related costs. Drawing on ONS household income data, the model derives a discretionary income figure per adult, which serves as the basis for calculating spending capacity and sensitivity across different consumer segments.

Modelled expenditures



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.

ONS Product categories

Product	Descriptor
1. Food & non-alcoholic drinks	All food and non-alcoholic beverages bought through shops (not restaurants)
2. Alcohol & tobacco	Alcoholic drinks & tobacco products
3. Clothing & footwear	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. Purchase of new cars and vans	Purchase of newly produced cars and vans for personal use
6. Communication	Post, telephone, internet subscription fees and combined telecom services
7. Media subscriptions	Streaming video, music and other digital content subscription services
8. Recreation & culture	Equipment (e.g. TVs), gardens, pets, services, newspaper, books, package holidays
9. Restaurant and café meals	All food and non-alcoholic beverages bought through restaurants and cafes (not shops)
10. Restaurants & hotels	Catering services, accommodation services
11. Package holidays	Pre-paid holiday packages combining travel, accommodation and related services
12. Personal care	Beauty, toiletries, hairdressing
13. Gym & Sports activities	Gym and health club memberships, fitness classes and participation in sport
14. Out of home entertainment	Cinema, live events, attractions and other entertainment away from home
15. Misc. goods & services	Personal effects, insurance, other services

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