H2 2025 UK Economic, Consumer and Business Outlook

Economic Insights

June 2025

Teneo

Contents and Authors

Gee Lefevre
Senior Managing Director
Consumer and Economics Lead
Gee.Lefevre@teneo.com
+44 20 3206 8860

Kabir Seehra
Director
Consumer and Economics Specialist
Kabir.Seehra@teneo.com
+44 (0) 7584 10 3640

Professor Jonathan Portes
Senior Advisor
Former Chief Economist to the Cabinet Office

Section 01

Executive Summary

Executive Summary

Despite the UK government announcing three new trade agreements in May, GDP growth outlook remains challenged. These trade deals are likely to offer limited short-term benefits, at a time when several macroeconomic headwinds, including rising inflation, increasing unemployment and constrained fiscal headroom, are weighing on business and consumer confidence.

Gee Lefevre
Senior Managing Director
Consumer and Economics Lead

Against a complex "post-Liberation Day" global trade landscape, the announcement of three new UK trade agreements with the U.S., EU and India is seen as a political win for the UK government. The deals provide some relief for sectors under increasing strain, including automotive, aerospace, agri-food, steel and aluminium. However, are these deals going to be the springboard for the economic growth that the Labour government has promised, or are they simply papering over the cracks? In this paper we investigate the macroeconomic and consumer indicators to answer this question.

The trade agreement with the U.S., announced on 8th May, is expected to soften the impacts of U.S. tariffs; however, the net position the UK will find itself in is still £4.3bn worse-off in GDP terms by 2030 than "pre-Liberation Day." Furthermore, the UK-EU reset deal, which aims to reduce friction and streamline cross-border trade in key sectors, including agri-food, emissions trading, youth mobility and security cooperation, will only recover c. 7% of Brexit-related losses in GDP by 2040. While the UK's trade agreement with India, (the third largest after deals with Australia and Japan), represents net-new positive trade, the benefits of this will likely be felt in the longer term as India's middle-class economy grows into the 2030s and 2040s.

UK GDP growth in Q1 brought some positive news for the government following weak post-election momentum; however, this was primarily driven by delayed investment following the 2024 Autumn Budget and front-loaded activity ahead of U.S. tariffs. In our opinion, the outlook for the remainder of 2025 remains weak due to three key factors:

- **Inflation outlook and cost pressures:** Inflation grew above expectations in April, driven by labour costs and regulated utility hikes. While this is expected to be temporary, inflation is expected to remain above target levels to 2027, and interest rate cuts are expected to be slow and gradual for the remainder of 2025.
- **Labour market:** Demand for new hires has continued to fall with unemployment rising to its highest point (4.5%) since Q3 2021, driven by economic uncertainty and rising labour costs.
- **Fiscal constraints:** Small forecast revisions to the government's thin fiscal headroom could lead to further tax hikes or spending cuts in the 2025 Autumn Budget.

These challenges are not lost on the UK consumer. Despite real wages rising for almost two years and household net cashflow improving to pre-cost-of-living-crisis levels in FY25, consumer confidence is remarkably still falling. This is largely driven by a pessimistic economic outlook, coupled with a poor perception of the government's handling of the economy. This can be seen in the decisions consumers are making. Saving ratios have reached their highest levels since 2015 (excl. the high-saving COVID-19 period). This is most prevalent among high-income consumers who faced uncertainty following the 2024 Autumn Budget and low-income consumers who remain most concerned about future economic prospects. Simultaneously, households continue to deleverage, with the debt-to-income ratio at its lowest since 2002, and net credit card borrowing falling. The fact that households are using this period to improve their fiscal health suggests that growth and consumer spending should accelerate once confidence begins to recover. However, this rebound may not occur for another 6 to 12 months, which could limit economic buoyancy in 2025.

The implications of the current trade landscape, macroeconomic headwinds and consumer confidence will impact UK industries to varying degrees. **Real estate, public sector & defence and agriculture & mining** are expected to see growth over the next 12 months, whereas **education & healthcare, manufacturing & construction and retail & wholesale** are expected to be challenged.

In summary, the UK macroeconomic environment remains challenged, with headwinds, including rising inflation and unemployment and constrained fiscal headroom limiting growth potential in the short term. The three trade deals agreed in May offer limited positive GDP benefit in the short term. Consumer confidence remains low despite underlying consumer economic conditions improving. Until confidence improves, consumer spending will remain suppressed, further harming UK growth and performance.

The fact that households are using this period to improve their fiscal health suggests that growth and consumer spending should accelerate once confidence begins to recover. However, this rebound may not occur for another 6 to 12 months, which could limit economic buoyancy in 2025.

Section 02: UK Positioning in the Global Trade Landscape

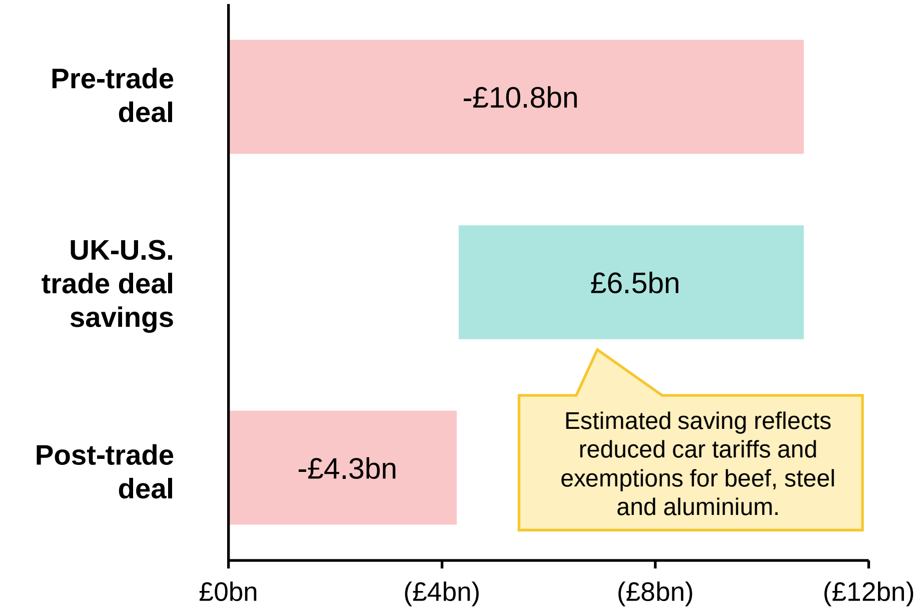
The UK trade deals with the U.S., the EU and India will have a limited impact on UK GDP growth

U.S. Tariffs are Set to Cost the UK £4.3 Billion in GDP Growth by 2030

While trade conditions remain weaker than pre-Liberation Day, the UK-U.S. trade deal eases immediate trade tensions and offers near-term insulation from U.S. policy shifts – though key sectors like pharmaceuticals and services remain unaddressed.

The new UK-U.S. trade deal is projected to offset more than half of GDP losses caused by tariffs introduced by the Trump administration.

Estimated impact of U.S. Liberation Day tariffs to UK GDP by 2030, (estimated: May-25)



The **UK-U.S. Economic Prosperity Deal reduces exposure** to Liberation Day tariffs **by c. 60%,** though a blanket 10% still applies to most UK goods.[1]

Prior to this, the tariffs were projected to shrink UK GDP by c. 0.3% over 3 years, **costing £10.8bn by 2030** and threatening c. 137k jobs.

Pharmaceuticals remain exposed to uncertainty, despite being the UK's second-largest U.S. export in 2024 (£6.6bn, 11.1% of total).

The deal secured negotiating rights for **preferential treatment on future tariffs**, but final outcomes depend on the U.S. Section 232 national security review.

Services, which **account for c. 70% of UK exports to the U.S.**, were not included in the agreement.

Reducing barriers in this sector would likely deliver far greater benefits for workers, producers and consumers than marginal tariff relief on goods.

Source(s): UK Gov; OBR; ONS; The Independent; Politico; Teneo research and analysis

Note(s): 1. Exemptions incl. energy (oil, gas, renewables), steel, aluminium, and quota-based agreements for beef and cars. Copper, timber, semiconductors exemptions and pharma tariffs are subject to review under U.S. Section 232.

Indirect Effects of U.S. Tariffs are Set to Weigh Heavily on the UK Outlook

One third of the UK's total GDP impact from the Trump administration's tariffs is expected to come from indirect effects – driven by heightened trade policy uncertainty, a weaker global outlook and broader spillover risks – with these impacts likely to materialise faster than direct tariff adjustments.

Confidence drag on spending investment	Trade uncertainty is likely to **weigh on already cautious consumers, delay investment decisions and dampen business sentiment** – particularly in sectors facing ambiguity over costs, supply chains and market access such as aerospace, advanced manufacturing and agri-food.
Operational responses & labour risk	Firms may **adjust operations to mitigate tariff exposure**, including **pausing recruitment, relocating production or delaying hiring decisions.** UK recruitment declined in April following the tariffs announcements, with contract roles down 6% month-on-month and permanent roles down 5%.
Supply chain exposure	**Retaliatory measures targeting the U.S. can have global spillover.** China's export restrictions on critical minerals, for example, risk disrupting EV and semiconductor supply chains, with knock-on effects for UK manufacturers.
Financial market volatility	While the FTSE 100 has since recovered following the 90-day pause on tariffs, the sharp initial decline highlighted the **UK market's sensitivity to tariff uncertainty,** and the risk of renewed volatility if tensions escalate.

A weaker global backdrop, shaped by ongoing trade uncertainty and retaliatory measures (the IMF cut its 2025 global growth forecast from 3.3% in Jan-25 to 2.9% in Apr-25), will **remain net negative for the UK – despite the bilateral deal.**

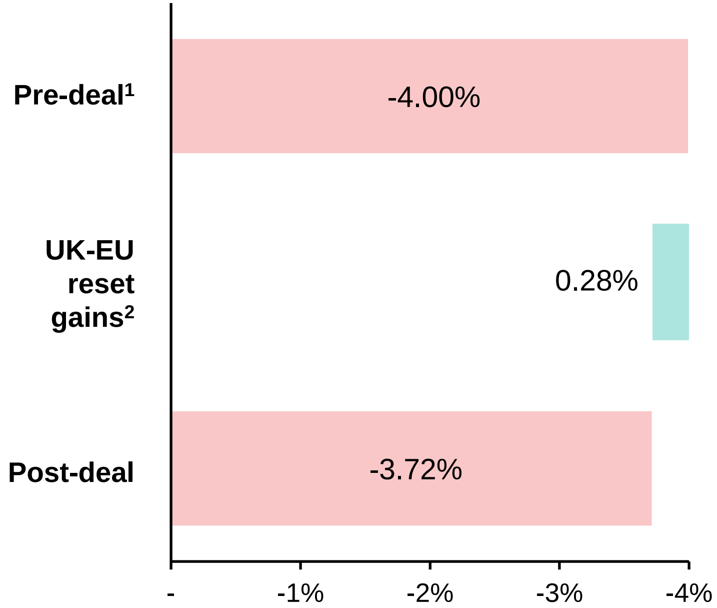
Source(s): UK Gov; OBR; EY; SFA (Oxford); IMF; Economics Observatory; Reuters; The Times; APSCo; Teneo research and analysis

UK-EU Reset Deal Will Have a Limited Impact on Long-term UK GDP Growth

The UK-EU reset deal offers modest economic gains and reduced trade friction but recovers only a fraction of Brexit-related losses. However, it marks a vital step in rebuilding post-Brexit sentiment and fiscal resilience and lays the groundwork for deeper UK-EU cooperation.

Expected to contribute £9.9bn to the UK economy by 2040, the reset deal aims to cut red tape, ease food costs and strengthen energy security.

Estimated impact of UK-EU reset on long-term UK GDP, relative to a non-Brexit scenario, (estimated: Dec-24)



The **EU remains the UK's largest trading partner**, with £358bn in exports (41% of total exports) and £454bn in imports (51%) in 2024.

While service exports have remained resilient, **Brexit severely impacted goods trade**, with 2024 goods exports to the EU 18% below 2019 levels.

Smaller firms have been disproportionately affected, facing greater difficulty adapting to post-Brexit regulatory complexity and red tape.

The **UK-EU reset deal aims to reduce friction and streamline cross-border trade** in key sectors, including agri-food, emissions trading, youth mobility and security cooperation.

Early **estimates suggest a £9bn GDP gain by 2040**, recouping just c. 7% of Brexit's long-term economic cost.

While the near-term macroeconomic boost may be limited, the **deal could help stabilise sentiment, encourage investment** and serve as a **springboard for future UK-EU trade** and regulatory alignment.

Source(s): Reuters; Centre for European Reform; The Guardian; OBR; Teneo research and analysis
Note(s): 1. OBR estimated 4% long-term reduction in GDP due to Brexit – a lower estimate than 5% (CRE) or 5-6% (NIESR); 2. CER analysis of agri-food, artists, EU students, professional qualifications, and youth mobility.

The Trade Deal With India Will Have Limited Short-term Benefits to UK GDP

The UK's trade agreement with India is its third-largest, following those with Australia and Japan. Key UK sectors, including whiskey, automotives and medical devices will benefit from improved access to India's high-growth market. However, the benefits to GDP will be felt in the longer term.

The UK-India trade deal is expected to contribute £4.8 billion to UK GDP annually in the long term, equating to a 0.1% boost to the economy.

India will **cut levies on 90% of British products** sold in the country and, within a decade, **85% of British products sold will become tariff-free** in India.

Some products affected include whisky, medical devices, electrical machinery, aerospace components and foods, including chocolate, salmon and lamb. **India will cut automotive tariffs from over 100% to 10%.**

As India grows, so will the number of consumers looking to purchase high-quality UK goods and services. **By 2030, India's middle class is expected to reach around 60 million, with projections suggesting it could grow to** a quarter of a billion by 2050.

The deal will also help British companies **compete for more services contracts** in India.

Impact (by 2040)

- **Increase UK GDP by £4.8 billion annually**
- **Increase UK wages by £2.2 billion annually**
- **Increase bilateral trade by £25.5 billion annually**

Source(s): UK Gov; The Economic Times; Teneo research and analysis

The Net Impact of the Three Trade Agreements on UK GDP Growth is Limited

While the trade agreements have been positioned as a political win, the impact they will have on GDP growth is limited, particularly in the short term, where the UK-U.S. trade deal is softening the net negative impact of the Liberation Day tariffs.

Trade deal	Short-term impact on GDP growth	Long-term impact on GDP growth	Commentary
			The UK-U.S. trade deal only softens the negative impact of the Liberation Day tariffs, and by 2030, the UK **will still be £4.3bn worse off**. The hope is that this is the first of multiple trade agreements which could stimulate further growth.
			While the UK-EU trade deal marks a vital step in rebuilding post-Brexit sentiment and fiscal resilience – laying the groundwork for deeper UK-EU cooperation – **it is expected to deliver only modest economic gains.**
			While the UK-India trade agreement will cut levies on 90% of British products sold in India, this will be phased over time, and the true **benefits will only be felt in the longer term.**
Net position			The net **negative impact of the UK-U.S. trade position outweighs** the economic benefits of the UK-EU and UK-India deals in the short term.

The UK cannot rely on these three trade agreements to stimulate GDP growth in the short term.

We note that Liberation Day tariffs may be delayed following the Court of International Trade ruling on the 29th May 2025.

Key – Impact on GDP growth
Very negative · Moderately negative · Flat · Moderately positive · Very positive

Teneo

Section 03: Macroeconomic Pressures Facing the UK

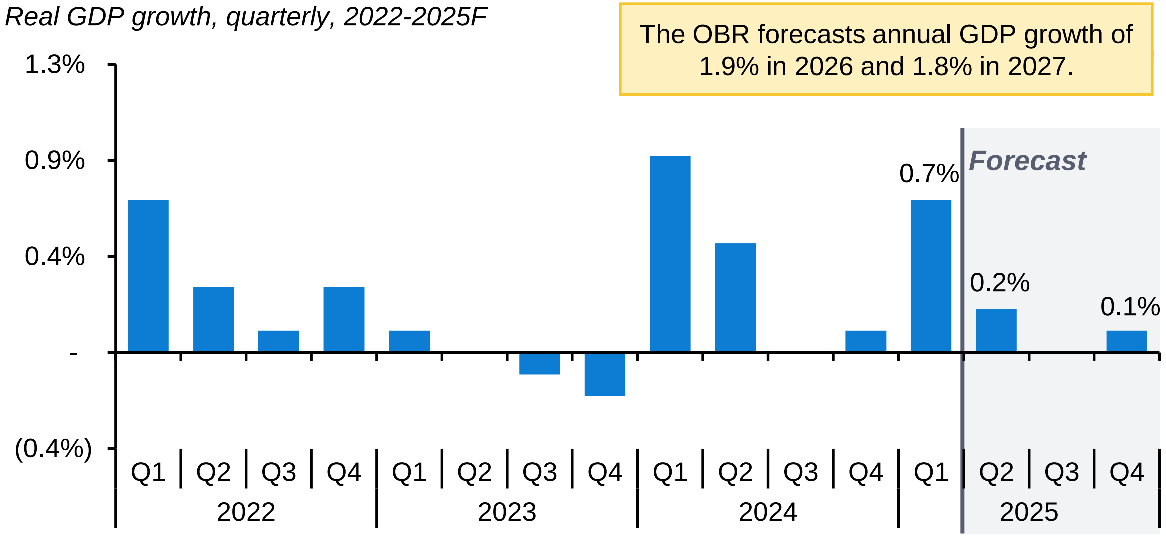
The UK continues to face a number of macroeconomic headwinds, which will limit GDP growth in the short term

UK GDP Outlook for 2025 Remains Unchanged, with Modest Growth Forecast

The UK economy showed stronger-than-expected GDP growth in early 2025, but the outlook remains fragile despite the announcement of three new trade deals due to their limited short-term impact, weak business confidence and rising tax pressures.

UK economic outlook shows modest GDP growth with fluctuating business confidence.

Real GDP growth, quarterly, 2022-2025F



UK GDP grew 0.7% in Q1 2025, exceeding the 0.6% forecast, marking **the fastest growth in a year,** and leading the G7 in this period.

Q1's strong growth is not expected to be repeated, as it was **inflated by front-loaded activity ahead of U.S. tariffs** and delayed investment following the 2024 Autumn Budget.

April's composite Purchasing Managers Index (PMI) fell to 48.5 – its lowest since September 2023 – indicating the economy has already begun to slow down.

Momentum is expected to weaken into Q2, with **forecasts of 0.2% growth** driven down by persistent global trade tensions and tighter domestic fiscal constraints.

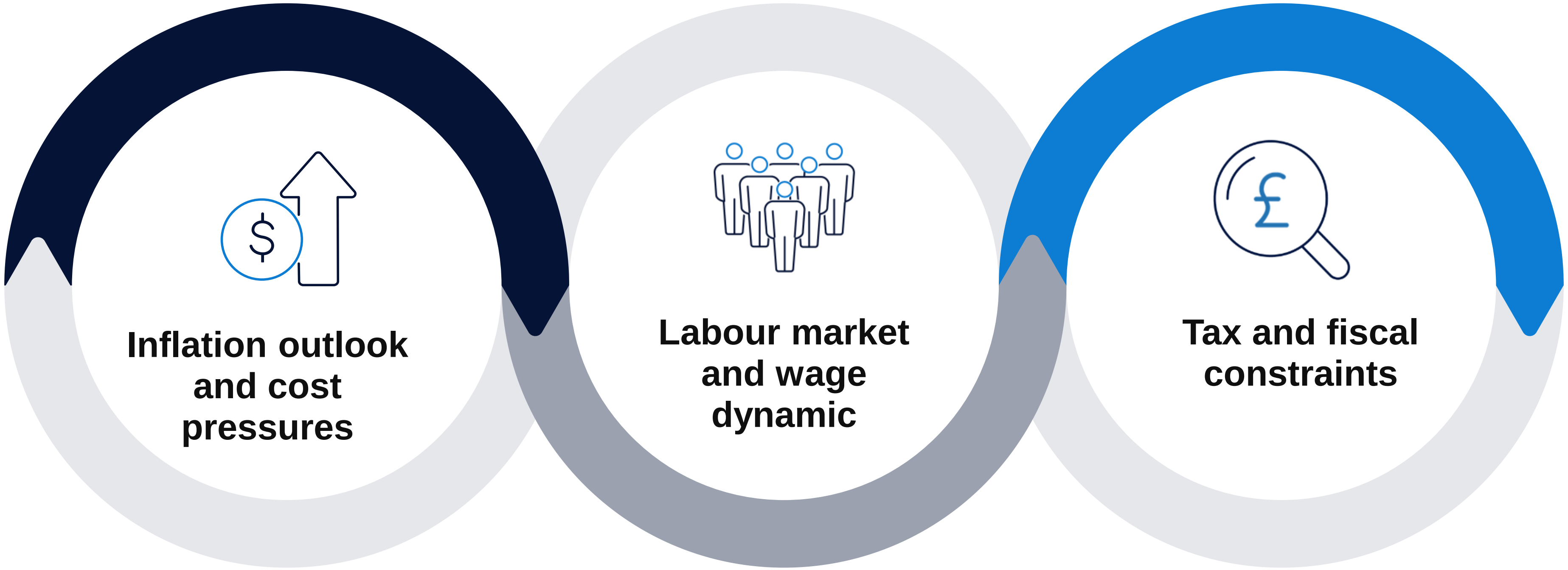
We have identified three macroeconomic headwinds that will continue to constrain GDP growth over the next 12 to 24 months, which are explored in this section.

Source(s): ONS; OBR; BBC; Lloyds Bank Business Barometer; Teneo research and analysis

Macroeconomic Headwinds Will Drive Weak GDP Growth Over the Next 12 to 24 Months

In addition to global trade frictions, the UK economy continues to face headwinds from elevated inflation despite modest signs of recovery, a cooling job market, as well as fiscal and labour cost pressures.

We outline the outlook for these three key macroeconomic drivers in the following pages.



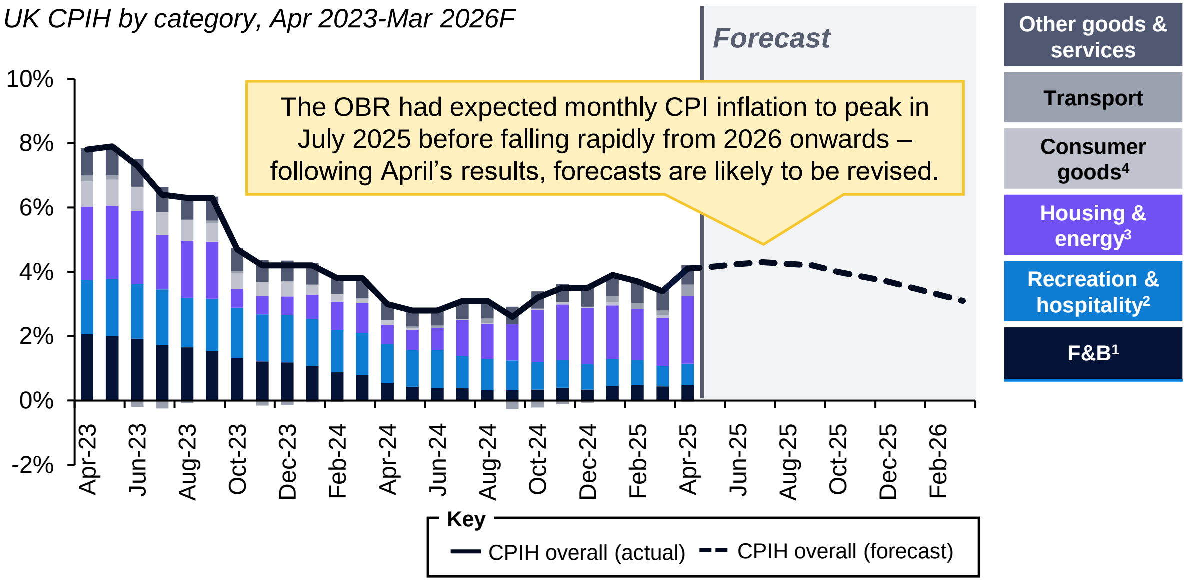
Source(s): Teneo research and analysis

Inflation Rose Sharply in April, Continuing to Put Pressure on Households and Businesses

"Awful April" inflation overshot forecasts, driven by energy, utilities and services. This reduced the purchasing power for households and businesses and the likelihood of significant interest rate cuts in 2025, which would stimulate increased spending and investment.

CPIH rose to 4.1% in April and is expected to remain above target through 2025.

UK CPIH by category, Apr 2023-Mar 2026F



Headline inflation rose more sharply than expected in April (from 2.6% in March to 3.5%), reaching its **highest level since January 2024** and prompting investors to **scale back expectations for near-term interest rate cuts**.

Services inflation jumped 2.2% month-on-month – its steepest rise in 30 years – driven by April's 6.7% National Living Wage increase and higher employer National Insurance Contributions, which have seen **labour costs rise substantially**.

CPIH climbed to 4.1% with **housing and transport the largest contributors** – led by Ofgem's 6.4% energy price cap increase in April, a 26.1% increase in water/sewerage and upward pressure from Easter airfares, given its later-than-usual timing.

Rising inflation will impact both household budgets and business operations, prompt high interest rates for longer, and add to economic uncertainty. These factors will likely discourage spending, investment and production that drive GDP growth.

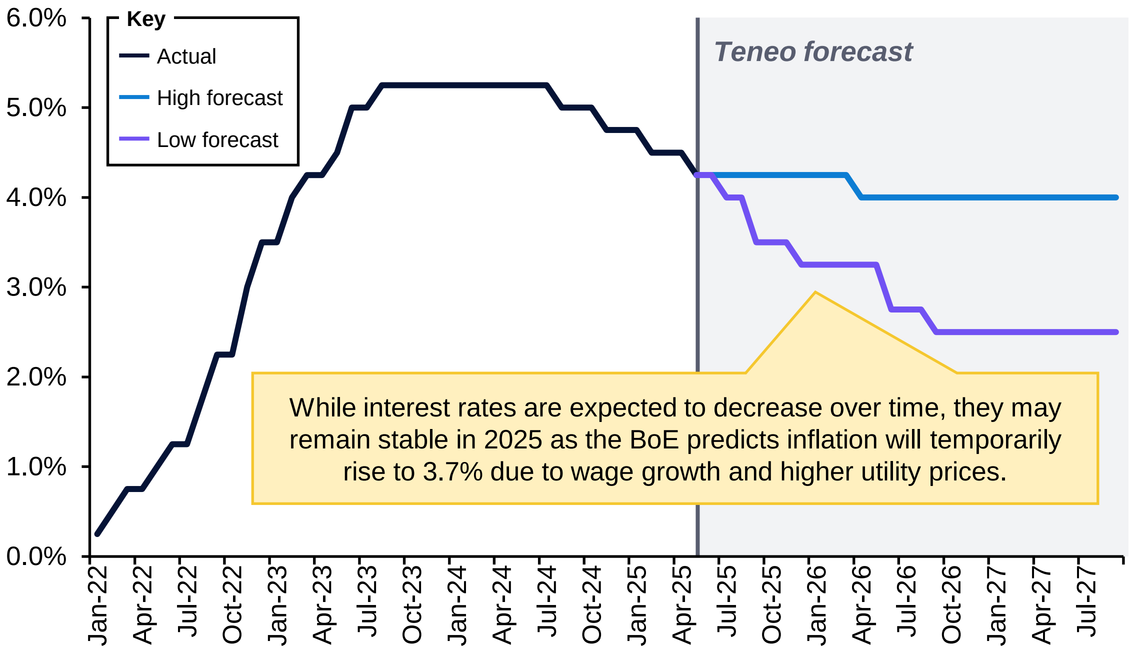
Source(s): ONS; OBR; Water UK; Ofgem; Reuters; The Guardian; Teneo research and analysis
Note(s): 1. Food & non-alcoholic beverages, alcohol & tobacco; 2. Recreation & culture, restaurants & hotels; 3. Housing & household services (incl. utilities & council tax); 4. Clothing & footwear, furniture & household goods.

Interest Rate Cuts are Likely to be Slower in 2025 Amid Renewed Inflation Pressure

April's upside inflation has reduced the likelihood of early or aggressive interest rates easing, particularly amid global uncertainty; this will lead to higher costs of borrowing for longer for both consumers and businesses, leading to reduced spending and investment, limiting GDP growth.

After two early-2025 rate cuts, temporary inflationary pressure may keep rates stable in 2025 before a gradual decline resumes.

BoE interest rate project, 2022-2027F



April's inflation exceeded forecasts but may prove temporary

While the 3.5% rise was above expectations, it was **driven by regulated and seasonal factors** (e.g. annual bill resets), rather than persistent demand-side pressures – **underlying momentum appears more contained**.

Services inflation coincides with easing wage pressures

April's NLW and NICs increases drove a sharp rise in services prices, however, a softer labour market and moderating wage growth **reduce the risk of sustained cost-push inflation**.

Rate cuts remain on the table, but expectations have shifted

While inflation this level would typically delay cuts, the **BoE faces a difficult balancing act** – rates are at 4.25% and growth risks are rising amid global uncertainty and tighter financial conditions.

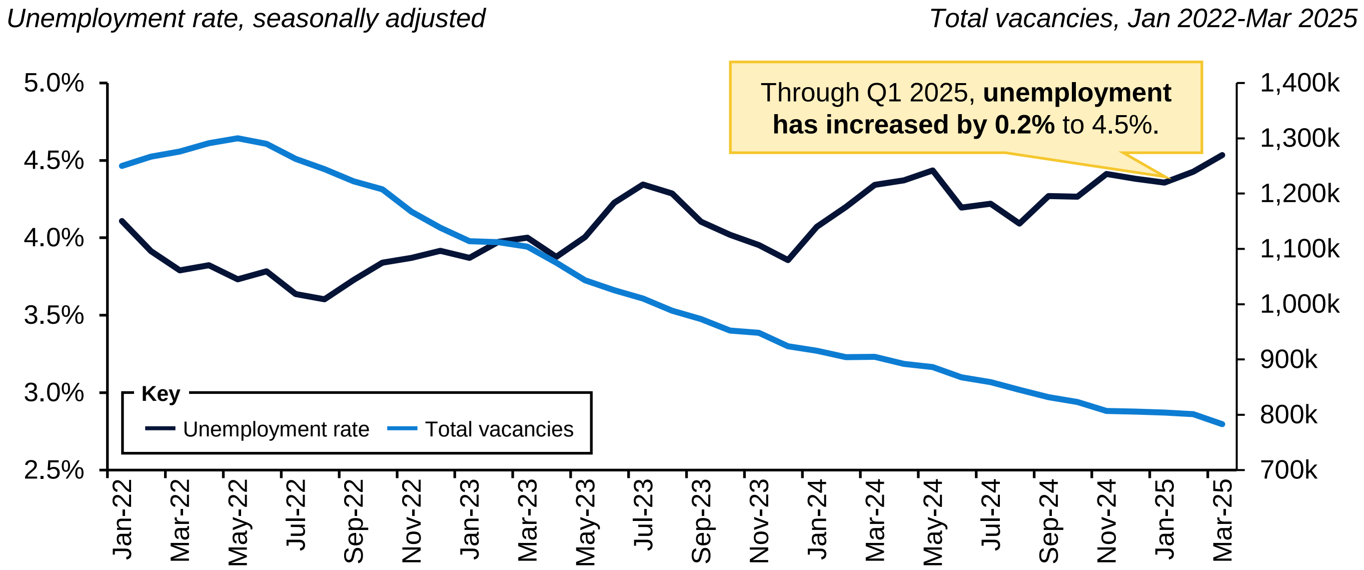
Cuts remain probable this year, but the **scale and pace of easing now look more limited**.

Source(s): BoE; BBC; Bloomberg; Teneo research and analysis

Economic Uncertainty and Increased Labour Costs are Leading to Higher Unemployment

Demand for new hires has continued to fall, with unemployment rising to its highest level since Q3 2021, driven by economic slowdown, increased labour costs due to policy changes following the Autumn Budget and structural shifts in the labour market.

With domestic and global headwinds impacting business sentiment, unemployment is expected to continue increasing.



Not all sectors of the economy will be equally affected by the rise in labour costs; **the retail and hospitality sectors could be particularly impacted**.

Rising costs could incentivise firms to **increase investment in technology and machinery** in a move to boost labour productivity.

Labour productivity improvements will **increase wage growth** but should **moderate inflationary pressure**.

Rising unemployment has the potential to hamper GDP growth by diminishing consumer spending, reducing economic output and straining government finances.

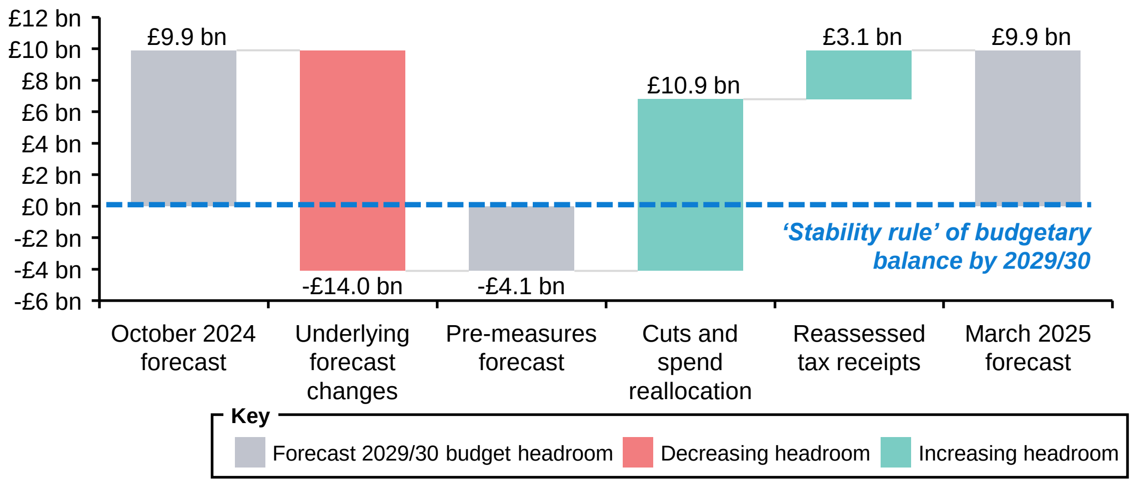
Source(s): ONS; Teneo research and analysis

Finely Balanced Public Finances Create a Risk of Further Tax Hikes or Spending Cuts

Small forecast revisions to the government's thin fiscal headroom, amounting to only 0.3% of GDP, have already necessitated tough spending cuts. With further downward revisions likely, the Chancellor has little margin for adjustment.

Changing global and domestic contexts have threatened the government's already-thin headroom for meeting fiscal targets, limiting response to inevitable unforeseen future events and circumstances.

UK government forecast headroom for balancing the 2029/30 budget



Revisions to key econometrics and rising costs of borrowing meant that the government faced a £4.1bn "hole" in the 2029/30 budget, **breaching the Chancellor's "stability rule."**

This gap had to be offset by cuts to welfare spending and the reallocation of spending from foreign aid to defence, with current forecasts now pointing again to budgetary balance.

The 2025 Autumn Budget position is **likely to deteriorate further** through slower growth, reduced immigration and limited falls in long-term interest rates.

Tax hikes and spending cuts, such as those seen in the Autumn and Spring Budgets, weaken consumer demand, discourage business investment and directly reduce public sector output, all of which constrain GDP growth.

Source(s): OBR; Teneo research and analysis

The Combination of Macroeconomic Headwinds Will Constrain GDP Growth in 2025

In addition to global trade frictions, the UK economy continues to face headwinds from elevated inflation despite modest signs of recovery, a cooling job market, as well as fiscal and labour cost pressures.

Inflation outlook & cost pressures

- **Labour costs and regulated utility hikes are driving short-term inflation** above target.
- Inflation expectations remain elevated due to wage growth and supply-side frictions.
- **Services sectors face persistent pricing pressures** due to labour intensity and slow cost relief.

Labour market & wage dynamic

- The **labour market is cooling**, with unemployment rising to 4.5% and vacancies declining.
- High labour costs from wage increases and NIC hikes are **straining business margins**.
- **Productivity investment is being prioritised** over hiring, which may moderate inflationary pressure.

Tax & fiscal constraints

- Rising NICs and frozen tax thresholds are **increasing the financial burden on households and firms**.
- The government's **fiscal headroom is just 0.3% of GDP**, limiting flexibility to respond to shocks.
- Concerns over future tax hikes and spending cuts are feeding **long-term policy uncertainty**.

Source(s): UK Gov; ONS; OBR; Teneo research and analysis

Section 04: Implications for the UK Consumer

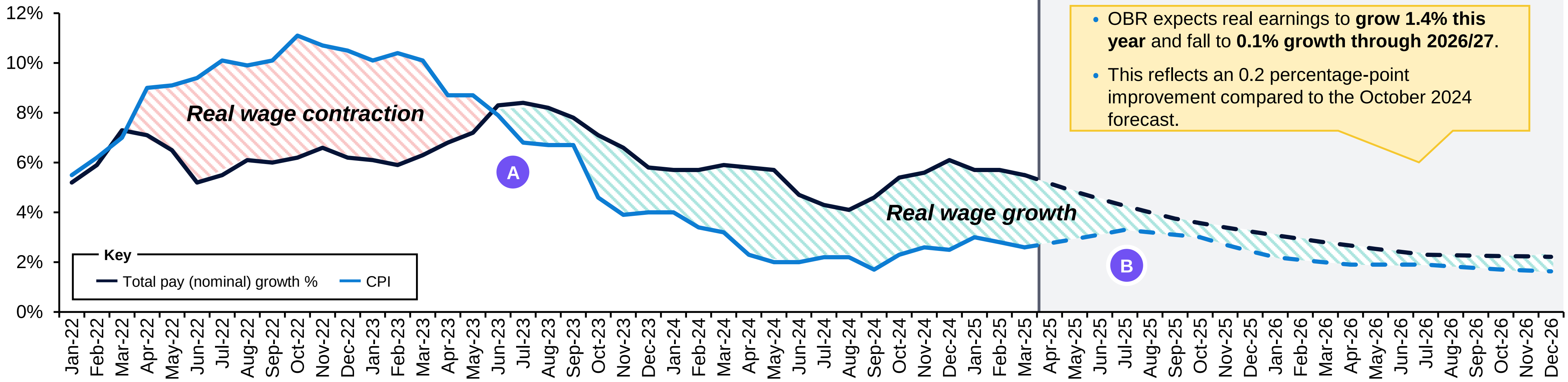
Despite modest GDP growth, consumer finances continue to improve; however, households remain cautious, highlighted by increased savings and deleveraging of debt

Despite Low GDP Growth, Real Wage Growth Remains Positive, But Momentum is Slowing

The continued growth of wages and declining inflation have resulted in a prolonged improvement in real wages since July 2023, which is expected to continue throughout the remainder of 2025, leading to higher levels of disposable income.

UK households continue to experience growth in real wages fuelled by persistent wage growth rates – though this is expected to fall.

Average weekly earnings growth rates vs. UK CPI, quarterly, Q1 2022-Q4 2026



A — As inflation started to decline in early 2023 and labour market tightness pushed wage growth higher, **real wages started to recover from the contraction** of the previous c. 18 months.

B — **A loosening of the labour market and reduced confidence** – as well as a short-term uptick in inflation – has started to impact real wage growth, which is expected to **fall close to zero through 2026**.

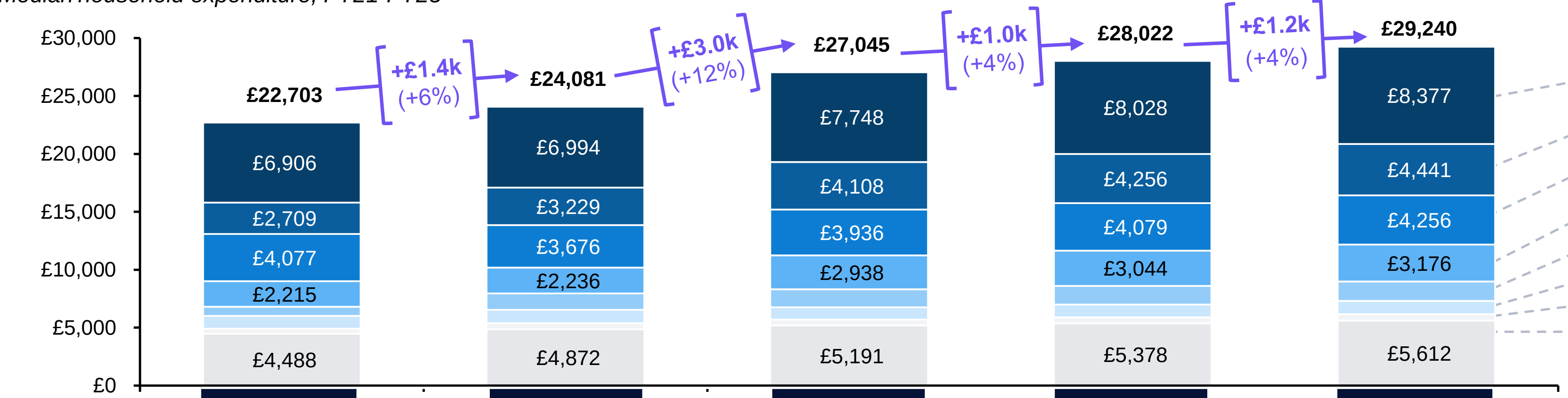
Source(s): ONS; OECD; RSM; Teneo research and analysis

Household Net Cashflow Has Recovered to 2021 Levels, as Cost Pressures Ease

Following the peak of the cost-of-living crisis, rising disposable incomes have improved households' cash positions, driven by real wage growth and easing inflation in a number of essential spending categories.

Household's net cash position has improved due to growth in real wages, returning to pre-crisis levels.

Median household expenditure, FY21-FY25 [1,2]



Spend category	CAGR FY21-25
Housing	4.9%
Transport	13.2%
Food & beverage	1.1%
Recreation	9.4%
Restaurants & hotels	20.8%
Communications	1.4%
Health	6.2%
Other goods / services[4]	5.7%

	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Median disposable household income	**£30,456**	**£31,484**	**£33,397**	**£35,523**	**£37,580**[3]
Overall net position vs. 2020-2021	-	**(£350)**	**(£1,401)**	**(£253)**	**£587**

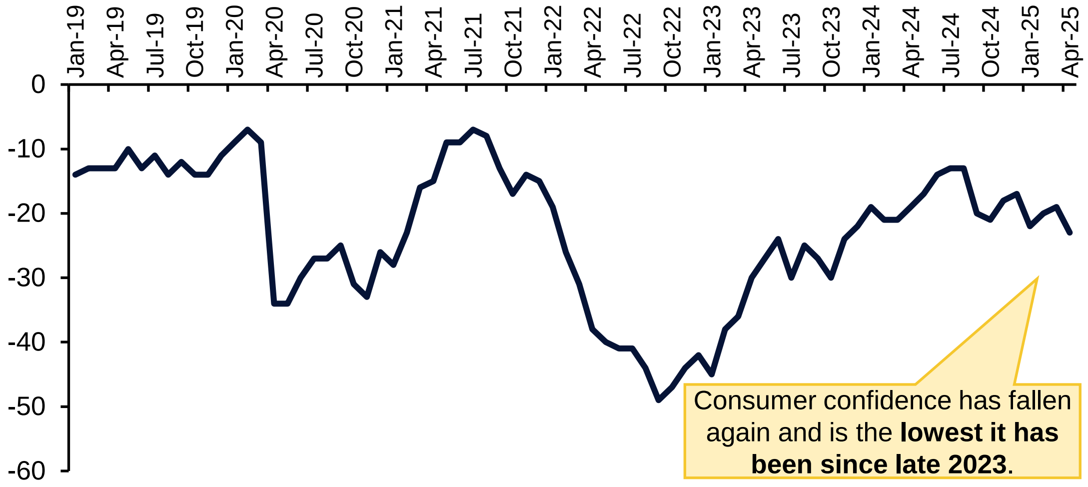
Source(s): ONS; Bank of England; OBR; Teneo research and analysis
Note(s): 1. Household expenditure in nominal terms; 2. FY is April to March, FY24/25 expenditure figures forecast using OBR household consumption forecasts; 3. FY25 disposable income modelled based on OBR forecast for 2024-25 of 2.5% increase in real household disposable income per person; 4. Education, consumer debt, and clothing are included in "Other goods / services."

While Households are Better off Than 12 months Ago, Consumer Confidence is Declining

Despite rising real incomes, consumer confidence has steadily declined since its mid-July peak and is now at its lowest level since late 2023. This has been riven by the impending impacts of U.S. tariffs, renewed fears of inflation and a weakening outlook for the economy.

Consumer confidence is the lowest it has been since late 2023.

Consumer confidence index, monthly, Jan 2019-April 2025



65% of households think that the economy will worsen over the next 12 months

A pessimistic outlook, coupled with poor perception of the government's handling of the economy, appears to be the main drivers of falling confidence. According to YouGov, **70% of Britons believe the government is "badly managing" the economy**.

Lower income groups are more pessimistic about the economic outlook and their personal financial situation

Almost 30% of consumers earning under £21k felt their personal finances were going to deteriorate over the next six months, the largest of any income cohort.

Only earners above £83k were net positive (+40%) on personal finances, but only modestly so on the wider economy (+11%).

In order for households to increase spending in response to growing real incomes, the public's confidence in the UK economy and the government's ability to navigate the current macroeconomic environment needs to improve.

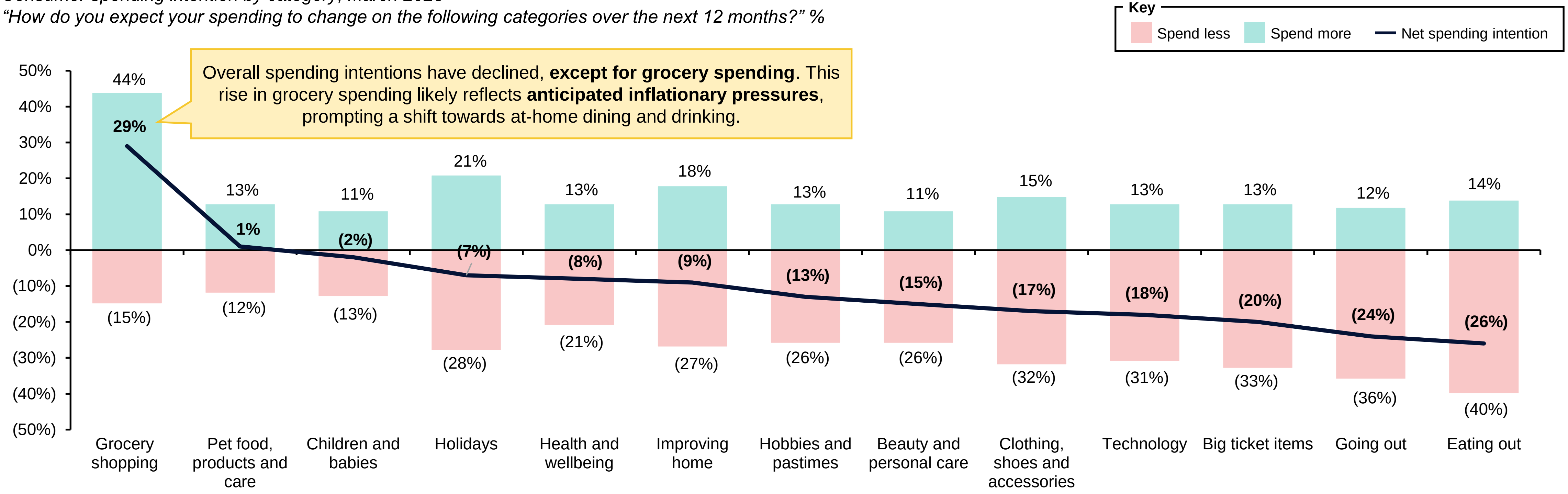
Source(s): NIQ; PwC; BCG; GfK; YouGov UK; Haver Analytics; Teneo research and analysis

Consumer Spending Outlook is Depressed

As it stands, households are expecting to reduce their discretionary spending in the next 12 months across nearly all spending categories, having a knock-on impact on overall growth.

Consumer spending is anticipated to decline most significantly in non-essential activities such as eating out, social activities and big-ticket items.

Consumer spending intention by category, March 2025
"How do you expect your spending to change on the following categories over the next 12 months?" %



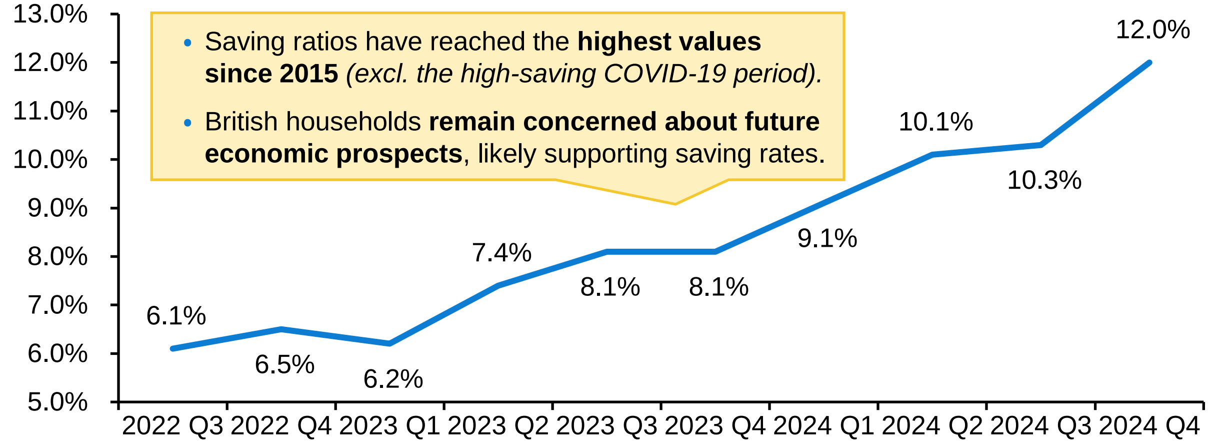
Source(s): PwC Consumer Sentiment Survey - Spring 2025; Teneo research and analysis

Instead of Spending, Households are Saving More

Households are choosing to save and rebuild their buffers, in anticipation of future economic headwinds, with savings rates reaching their highest levels since 2015 (excluding the COVID-19 period).

The average UK household is saving at higher rates with every passing quarter, but only low- and high-income groups[1] have been able to save at higher rates relative to 2019 levels.

Households' savings ratio (%), seasonally adjusted, Q3 2022-Q4 2024



Low-income groups: +0.5% saving rate *(vs 2019)*

Savings have increased despite **declining real wage** growth, reflecting low consumer confidence and anxiety around the future of the UK economy.

Middle-income groups: (1.4%) saving rate *(vs 2019)*

Declines in saving rates are driven by a combination of **rising living costs,** particularly housing, and **limited government support**.

High-income groups: +1.4% saving rate *(vs 2019)*

Elevated saving rates reflect a **greater ability to defer spending** to make use of higher interest rates and a postponing of spending activity following the Autumn Budget.

Increased savings in the lowest income groups are particularly notable, as these groups have seen the lowest increase in household disposable income. Higher savings in the group is reflective of low levels of consumer confidence.

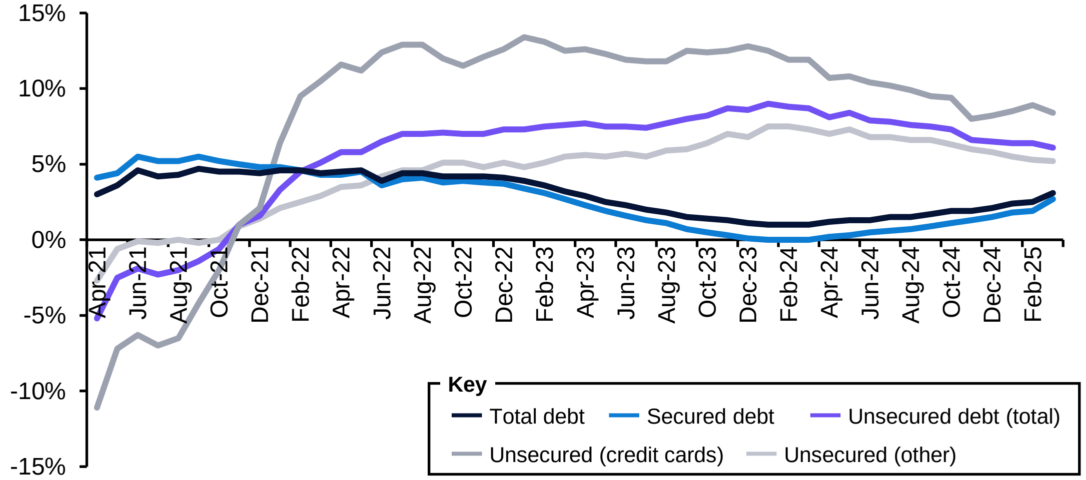
Source(s): ONS; Teneo research and analysis
Note(s): 1. Low-income = bottom two deciles, middle-income = intermediate four deciles, high-income = top four deciles; 2. The latest publicly available ONS data is from 2023/2024

As Well as Saving More, Households are Using Disposable Income to Reduce Debt Levels

Amid recent borrowing volatility, households continue to deleverage, with the debt-to-income ratio at its lowest since before the 2008 financial crisis. Mortgage demand is expected to soften in the coming months, and further stabilisation in household debt levels appears likely.

Household debt trends reflect a volatile post-pandemic landscape shaped by tax shifts, rate hikes and cost-of-living pressures.

Net lending to individuals,[1] 12-month growth rate (seasonally adjusted), Apr 2021-Mar 2025



Secured debt spiked in March 2025, as **buyers moved to beat the end of the first-time buyer tax break** and an increase in the second-home surcharge.

However, the underlying market has softened. **Mortgage approvals have declined for three consecutive months**, falling to 64.3k in March – below consensus and **signalling a potential cooling**.

Signs of caution extend beyond housing. **Net credit card borrowing fell to £0.2bn** in March, reflecting **APR[2] highs and a pullback in discretionary spending** as households respond to persistent cost-of-living pressures.

Ultimately, the **debt-to-income ratio remains on a downward trajectory**, standing at 118% in Q4 2024 – its lowest level since 2002.

Rather than spending, households are using their increased income to improve their fiscal health, increasing savings and reducing debt. The improved financial health of households has the potential to accelerate growth when consumer confidence begins to increase.

Source(s): ONS; Bank of England; Reuters; Teneo research and analysis
Note(s): 1. Excluding student loans; 2. Annualised percentage rate

Section 05: Industry Outlook Over the Next 12 to 24 Months

The confluence of macroeconomic pressures and consumer uncertainty will impact UK industries to varying degrees

The UK Business Landscape Has Been Impacted by Global and Domestic Challenges

Challenges facing UK businesses vary in both acuity and immediacy, with factors such as tariff pressures likely to have a more tangible impact on near-term outlook.

Below is the high-level impact of the global trade landscape, consumer spending, labour costs and government policy on the UK landscape.

Global trade landscape	Emerging tariff dynamics and pressures on international trade flows are likely to impact the UK economy directly through higher export costs, re-routed trade and dampened global demand.
Consumer spending	Inflation fears and rising living costs have dampened consumer spending, with consumer confidence reaching its lowest point since late 2023. However, recent strong wage growth, rebuilding of savings and reduction in debt levels mean that households have stronger balance sheets, which could support spending.
Labour cost	Labour costs have risen due to the increase in the National Living Wage and employer National Insurance contributions. However, rising unemployment is likely to dampen upwards wage pressure.
Government policy	The government has committed over £28bn in funding to improve healthcare and other public services, implemented VAT on private schools and raised wealth taxes to address income inequality.
Impact on the UK	Collectively, these challenges are likely to exert a constraining influence on the UK's economic growth in the short term until tariff dynamics stabilise and the benefits of government policy and increased consumer confidence are realised.

Source(s): Teneo research and analysis

Industry Outlook Over the Next 12 to 24 Months

Impact on UK Businesses Varies Significantly By Sector

While the current UK landscape could favour industries like public sector & defence, other industries could face more constrained prospects.

Industry	% of GDP[1]	Spending category	Global trade landscape	Consumer spending	Labour cost	Gov. policy	Overall UK impact	Commentary
Education & Healthcare	13.1%	Essential	-	↘→	↘	↘	↘	Both are likely to face a greater budget deficit due to immigration policies and rising labour costs.
Manufact. & Construct.	12.7%	Discretionary	↘	↘	↘	→	↘	Higher labour costs and trade-related economic uncertainty have led to contraction in this sector.
Utilities	12.5%	Essential	↘	↗	→	→	→	Global disruptions raised input costs; price cap adjustments and net zero policies are enabling selective reinvestment
Agriculture & Mining	11.4%	Essential	→↗	-	↘	→↗	→↗	The UK is expected to sign a deal with the EU to ease agricultural trade barriers.
Professional Services	6.6%	Discretionary	→	→	↘	→	→	Demand for professional services is expected to remain stable.
Public Sector & Defence	6.5%	Essential	↘→	-	→	↑	↗	The UK government has committed to increasing defence spending to 2.5% of GDP by 2027, with a 3% target for the next parliament.
Transport & Storage	6.3%[2]	Essential	↘	→	↘	→↗	↘→	Transport is constrained by staff shortages, though government consultations are under way to improve the network and address long-term challenges.
IT & Communication		Essential	↘→	→	↘→	→↗	→	The UK government is taking a more proactive policy approach towards technology, but global demand uncertainty and wage inflation continue to limit near-term upside.
Real Estate	6.3%	Discretionary	-	↗	-	↗	↗	Affordable housing policies and lower interest rates are expected to improve accessibility and reduce mortgage costs, increasing activity in the sector.
Retail & Wholesale	6.2%	Discretionary	↘	↘	↘	→	↘	High labour prices may mean higher costs are passed onto consumers.
Finance & Insurance	6.2%	Essential	→	→	→	↗	→	Lower interest rates may lift lending, but margin pressure and FX volatility weigh on broader sector sentiment.
Accomm. & Food	5.9%	Essential	→	→	↘	→	→	As essential goods, spending is likely to remain stable despite inflationary pressures.

Real estate, public sector & defence and agriculture & mining are expected to see growth over the next 12 months, whereas education & healthcare, manufacturing & construction and retail & wholesale are expected to be challenged.

Source(s): UK Gov; UK Parliament; BoE; Deloitte; ONS; Teneo research and analysis
Note(s): 1. Based on 2024 Gross Value Added (chained volume), by category of output; 2. 'Transport, storage & communications' grouped.

About Teneo

The Global CEO Advisory Firm

Teneo is the global CEO advisory firm. We partner with our clients globally to do great things for a better future.

Drawing upon our global team and expansive network of senior advisors, we provide advisory services across our five business segments on a stand-alone or fully integrated basis to help our clients solve complex business challenges. Our clients include a significant number of the Fortune 100 and FTSE 100, as well as other corporations, financial institutions and organizations.

Our full range of advisory services includes strategic communications, investor relations, financial transactions and restructuring, management consulting, physical and cyber risk, organizational design, board and executive search, geopolitics and government affairs, corporate governance and ESG.

The firm has more than 1,600 employees located in 40+ offices around the world.

Teneo