

The background features a complex financial visualization with multiple overlapping line and bar charts in shades of blue and red. Some data points are labeled with numbers: 21,678, 17,890, 30,001, 44,611, and 54,812. The overall aesthetic is professional and data-driven.

Autumn Budget Steadies Markets but Skirts Structural Problems

Teneo's Economic Insights

November 2025

Executive Summary

The Budget may steady the ship and ease market pressures in the short term, but without a long-term growth plan the UK remains exposed to the same entrenched economic challenges.



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The UK's 2025 Autumn Budget arrives at a moment when the nation's economic pulse is steady enough to avoid alarm, yet far too faint to inspire confidence. Confronted with stubbornly weak productivity, elevated borrowing costs and political pressure from all sides, the Chancellor has delivered a Budget that steadies the near-term fiscal picture while quietly deferring much of the hard work to the future. Short-term reassurance is achieved, but primarily through tax rises that materialise only in the late 2020s.

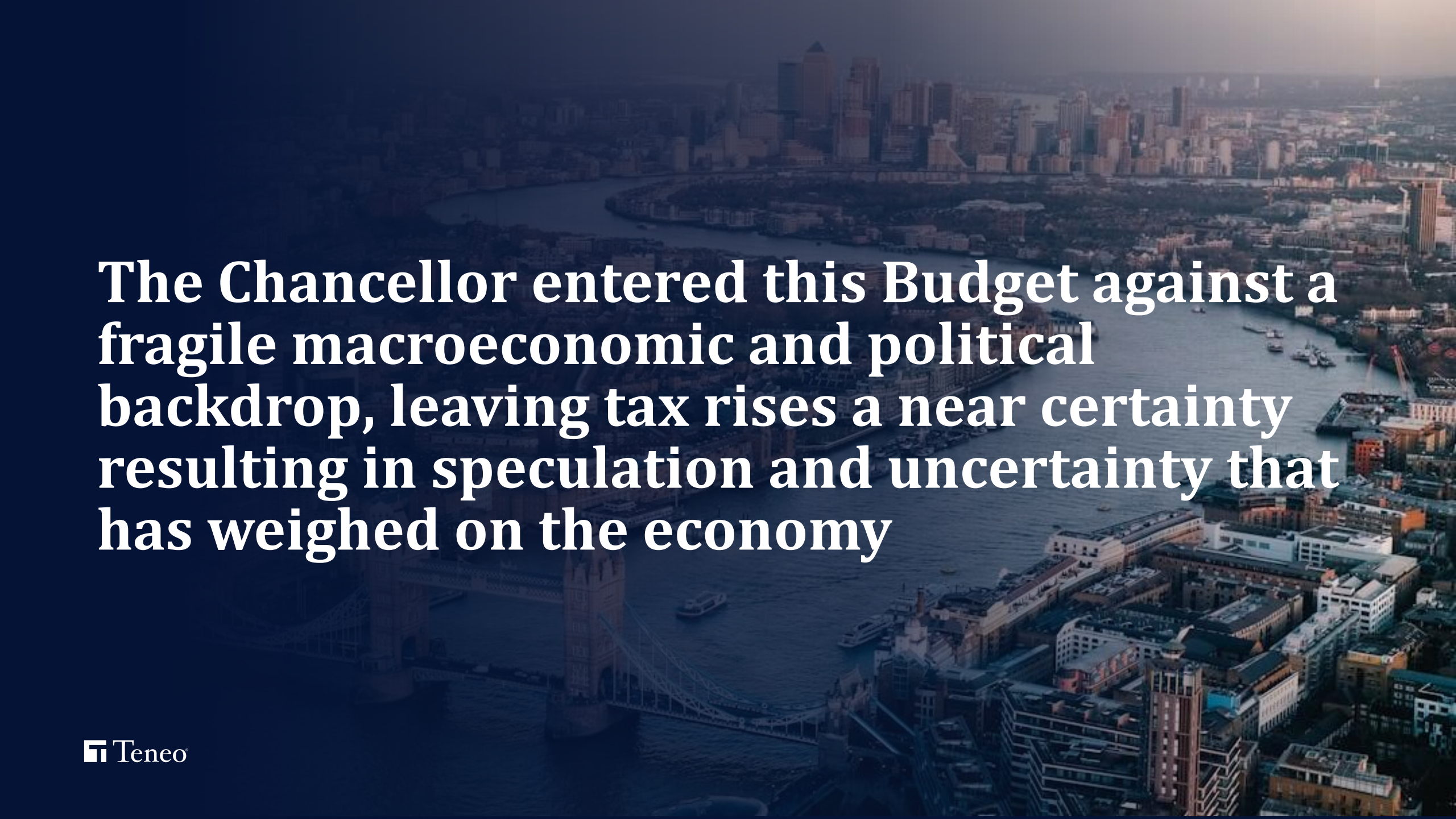
Consumers enter this Budget in a cautious mood. While household finances have improved thanks to rising real wages and easing inflation, spending remains subdued. **Confidence fell to a two-year low in Q3 2025, and many households continue to prioritise savings.** The improvement in net cash positions largely reflects a correction from the deep squeeze of 2021–23 rather than renewed optimism. At the extremes, the picture is stark: high-income households report savings buffers of around £63k, while low-income households often have less than £100. It is difficult to spark a consumer-led recovery when such a large share of consumers have no financial room to manoeuvre.

The Budget's most decisive moves come through welfare. Reversing winter fuel payment cuts, restoring key health- and disability-related benefits, and removing the two-child limit together amount to one of the most significant social policy shifts in over a decade. These **measures will meaningfully support lower-income households, but they are expensive.** By 2029–30, welfare accounts for £9bn of the £11bn rise in total spending, heightening the long-term fiscal challenge.

To fund this, the government leans on personal tax rises. Freezing income tax and NIC thresholds from 2028–29 will pull more workers into higher bands as wages rise; applying NICs to salary-sacrifice pensions broadens contributions further; and raising taxes on dividends, rental profits, and savings tightens the net around upper middle-income earners and small investors. Families with more than two children emerge as the clearest winners of this Budget; landlords and upper middle earners, less so.

Businesses escape sweeping reforms, but several sectors face targeted pressure. Retail and hospitality must absorb minimum wage (NLW) increases above inflation, airlines face higher passenger duties, online gambling operators confront sharply rising tax rates, and EV manufacturers brace for a mileage-based road charge expected to reduce sales by roughly 440,000 units.

Yet the Budget avoids deeper structural reforms such as tax simplification, planning streamlining and easing youth wage mandates. With productivity weak, gilt yields elevated, and fiscal headroom highly sensitive to shocks, **the UK enters 2026 stabilised in the short term but still lacking a credible long-term growth strategy.**

An aerial photograph of London, England, showing the River Thames winding through the city. The Tower Bridge is visible in the lower left, and the dense urban landscape of London extends to the horizon under a hazy sky. The text is overlaid on the left side of the image.

The Chancellor entered this Budget against a fragile macroeconomic and political backdrop, leaving tax rises a near certainty resulting in speculation and uncertainty that has weighed on the economy

The Chancellor Faced a Challenging Backdrop Entering This Budget

Low productivity, heavy debt and limited political room for spending cuts has left the Chancellor with little option but to raise taxes; the resulting uncertainty has weighed on the economy, evident in softer retail spending and lower business confidence.



Sustained low productivity growth

Output per hour has **consistently fallen short of OBR forecasts**, leading to weaker than anticipated growth and requiring intervention to balance the UK Budget.



High levels of government debt

Government debt remains at 95% of GDP and borrowing sits at **almost 5% of national income**, the highest since the second world war, limiting fiscal flexibility.



High long-term gilt rates above UK peers

UK gilt yields remain elevated, **roughly 1.3 ppts above the euro-area**, sustaining high borrowing costs and pressure for fiscal discipline.



Backbench pushback on welfare reform

Opposition within the party **have constrained efforts to tighten welfare spending** or redirect funds earlier in 2025.



Internal divisions and weaker polling

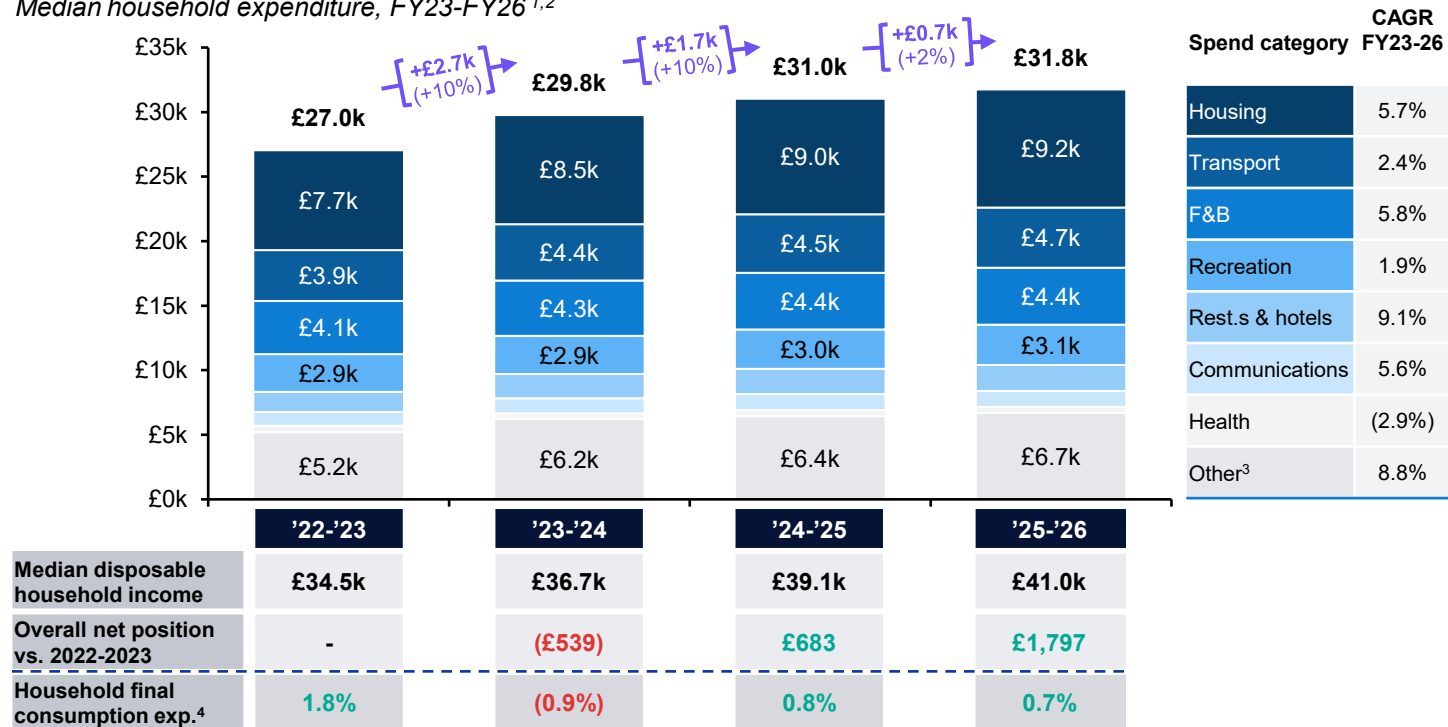
Labour's fragile political position among voters has **weakened its ability to take bold measures**.

Stronger Household Finances Haven't Translated into Higher Pre-Budget Spending

Despite improving household finances in 2025, consumer spending remains low, largely driven by economic uncertainty, high interest rates and unclear policy direction in advance of the Budget.

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

Median household expenditure, FY23-FY26^{1,2}



While households' net cash position has improved significantly over the past two years, this largely reflects an **unwinding of the negative position built up between 2021-23**.



Consumer spending remained subdued in 2025, with confidence hitting a two-year low as households prioritised saving amid uncertainty and high interest rates.



However, **high-income households⁵ have far greater buffers**, averaging c.£63k in savings compared to less than £100 for low-income households.⁵

Source(s): ONS; Bank of England; OBR; Deloitte; Teneo research and analysis

Note(s): 1. Household expenditure in nominal terms; 2. FY is April to March, FY25/26 expenditure and disposable income figures refer to April to October 2025; 3. Education, consumer debt, and clothing are included in "Other"; 4. Measured from Q1 to Q1, except '25-'26 which measures Q3 '24 to Q3 '25; 5. High-income households refers to the top four income deciles. Low-income households refers to the bottom two income deciles



While the Budget provides short-term reassurance on fiscal headroom, its reliance on delayed tax rises and limited pro-growth policies damages longer-term credibility

The Autumn Budget Sets Out a Combination of Tax and Welfare Increases

Chancellor Rachel Reeves has presented a plan that raises £26bn by 2029-30, primarily from personal tax threshold freezes, to provide fiscal headroom as well as funding £11bn welfare and cost-of-living support for families.

Key Autumn Budget 2025 announcements (non-exhaustive)



Welfare and cost-of-living support

- Limit on tax credits for a third or subsequent child scrapped from 2026.
- Reinstatement of support for individuals for disability-or health-related entitlements, as well as winter fuel payments for pensioners.



Employment

- Legal minimum wage for over-21s to rise by 4.1% in April (£12.21 to £12.71) and 8.5% (£10 to £10.85) for 18–20-year-olds.
- £820m in funding to guarantee paid work placements for 18–21-year-olds not in education, work, or training.



Personal taxes

- NI and income tax thresholds frozen for three further years to 2031.
- NIC exemption for pension contributions made through salary sacrifice removed over £2,000 from 2029.



Council tax surcharge

- Homes in England worth more than £2m will face a council tax surcharge between £2,500 and £7,500 from 2028.
- This will follow a revaluation of homes in council tax bands of F, G and H.



Savings

- Investments in cash ISAs for Under-65s are capped at £12,000 a year from April 2027.
- Remaining £8,000 in annual allowance reserved for investments.



Electric vehicles

- A new pay-per-mile tax for electric vehicles and plug-in hybrid cars to be introduced from 2028.
- EV and hybrid drivers will pay 3p and 1.5p per mile, respectively.



Fuel duty

- 'Temporary' cut in fuel duty on petrol and diesel extended until September 2026.
- Following this, it will rise again over a six-month period.



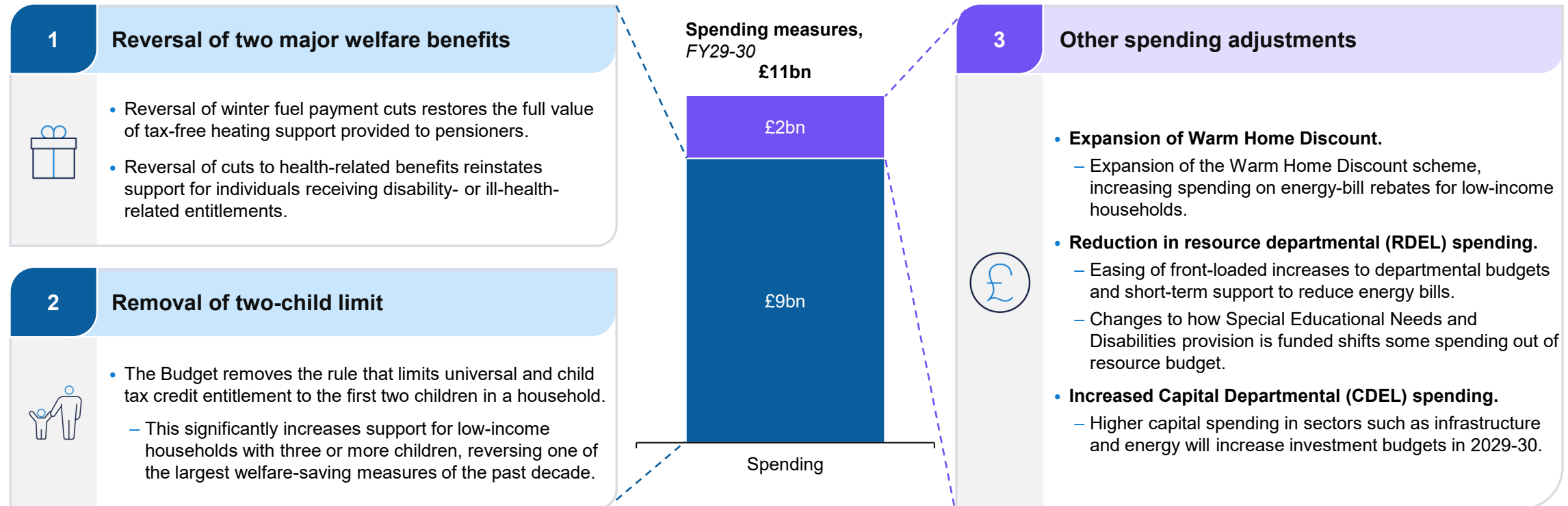
CGT on employee ownership trusts

- Capital gains tax (CGT) relief on disposals to employee ownership trusts will be reduced from 100% to 50%.

£11bn Spending Initiatives are Largely Focused on Welfare Measures

Welfare policy and energy-bill support will bolster low-income households, but higher long-term spending adds pressure to the fiscal outlook and heightens the importance of productivity and tax performance.

Key Autumn Budget 2025 spending announcements (non-exhaustive)



Source(s): OBR; Teneo research and analysis

The Budget Leans on Deferred Personal Tax Increases, Tightening Short-term Pressure

The Budget raises £26bn in annual tax revenue by 2029-30, with over half of the benefit realised only from 2028-29; borrowing will rise by £5bn a year as spending measures take effect well before major tax receipts materialise, before falling materially.

Key Autumn Budget 2025 tax announcements (non-exhaustive)



Freeze personal tax & NIC thresholds

- The government has committed to freezing personal tax allowance, higher-rate and NIC thresholds from 2028-29 to 2030-31, meaning more workers will drift into higher tax bands as wages rise.



Charge NIC on salary-sacrifice pensions

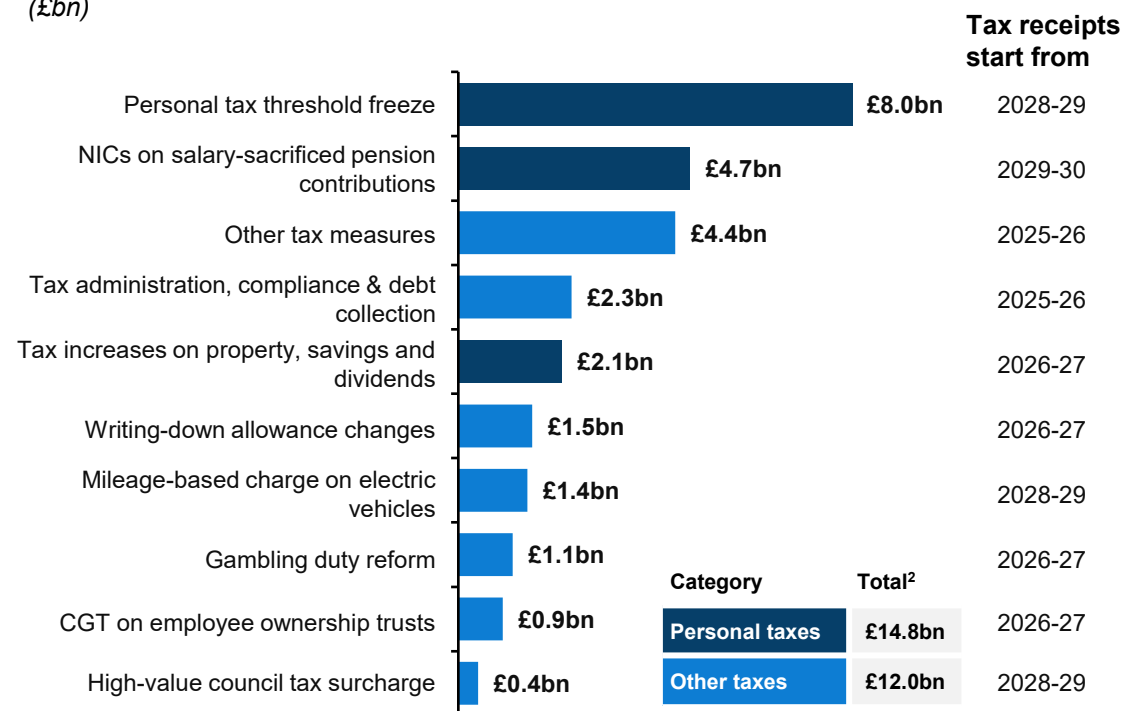
- Ending the NIC exemption for pension contributions made through salary sacrifice increases over £2,000, impacting both employees and employers.



Increase taxes on dividends, savings and property income

- Raising tax rates applied to dividends, rental profits and savings income broadens the tax burden on retail investors.

Impact of tax measures since March on forecasts for 2029-30¹ (£bn)



Source(s): OBR; Financial times; Teneo research and analysis

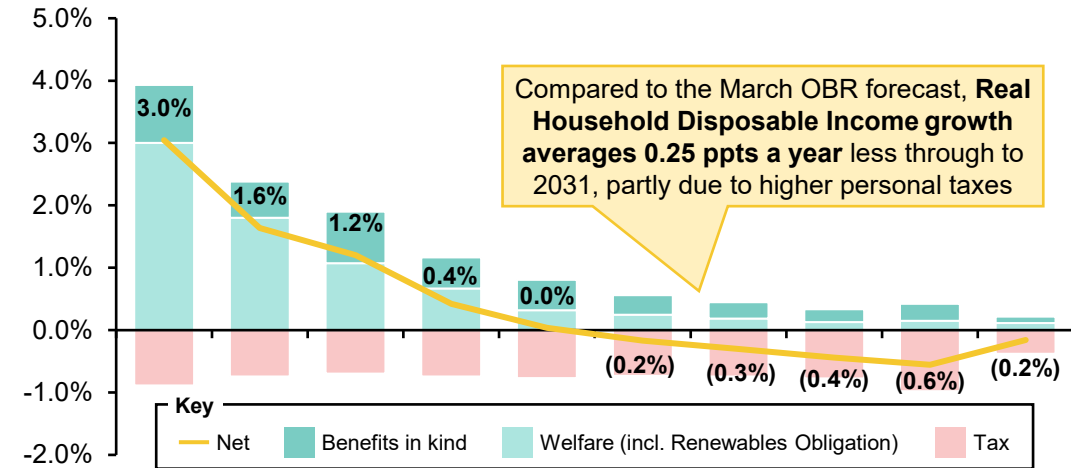
Note(s): 1. Chart excludes fuel duty freeze, which will be a cost of £0.9bn in 2029-30; 2. Total tax revenue = £26.1bn in 2029-30, totals may differ slightly from Budget figures due to rounding of individual measures

Decisions are Weighted Toward Upper Middle-Income Earning Households

Following a higher-impact raid on the top decile of earners in the previous Autumn Budget, the focus has shifted toward upper middle-income households, including landlords and cash and pensioner savers.

Impact of decisions post Autumn Budget 2024 onwards on households

As a percentage of net income, by income decile, 2028-29



Decile	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Average gross income ^{1, 2}	£14.3k	£25.3k	£31.1k	£36.9k	£43.5k	£50.4k	£58.0k	£67.5k	£78.0k	£126.3k

Demographic groups most positively impacted by the Budget

- Families with more than two children
- Basic rate taxpayers

Demographic groups most negatively impacted by the Budget






- Upper middle earners
- Cash and pension savers
- Self-employed
- Landlords
- High end property owners
- Families in £100k tax cliff

Source(s): HM Treasury, UK Government

Note(s): 1. Median gross income is defined as pre-tax private income including earnings, private pensions, savings and investments, and benefits income for a single adult household; 2. Values as of 2024;

While Business Impacts are Fewer, Certain Sectors Will Come Under Pressure

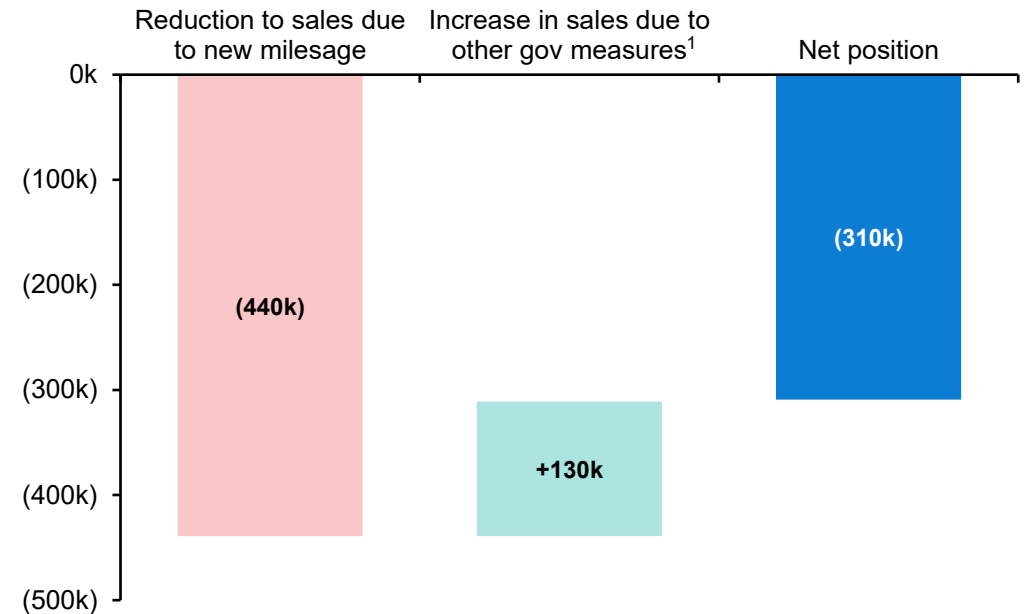
While this year’s business measures are more limited than last year’s, several sectors still face targeted actions, with retail and hospitality set to feel the impact of higher minimum wage rates.

Industry	Impact	Description
 EV manufacturers	↓	New pay-per-mile EV road charge from April 2028 increases running costs and cuts expected sales by 440k over the forecast period.
 Online gambling	↓	Remote gambling duty rising to 40% (from 21%) in April 2026 will increase tax liabilities and pressure operator margins.
 Airlines	↓	Passenger duty will be uplifted above RPI from April 2026, raising operating costs and potentially impacting demand for discretionary travel.
 Retail & hospitality	↓	Retail and hospitality are highly exposed to minimum wage increases above inflation and at 8.5% for 18–20-year-olds, tightening margins.
 Banking	→	Despite expectations of tax increases in the run-up to the Budget, the Banking sector managed to avoid any targeted measures.

Key	
↓	Negative impact
→	Neutral

Net impact on EV vehicle volumes due to new policy measures

Number of vehicles, FY26/27 – 30/31



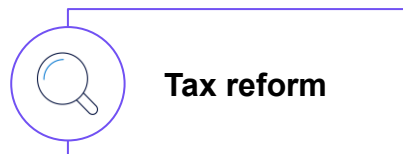
Source(s): OBR; Teneo research and analysis

Note(s): 1. An increase to the expensive car supplement (ECS) threshold for battery electric cars, from £40k to £50k and expanding the electric car grant between 2025-26 and 2029-30 at an average cost of £0.3bn in these years

The Budget Fails to Address a Number of Critical Issues

The government has missed the chance to take bold measures to support long-term growth, including meaningful tax reform, streamlined development and planning processes, and delaying substantial minimum wage increases for 18–20-year-olds.

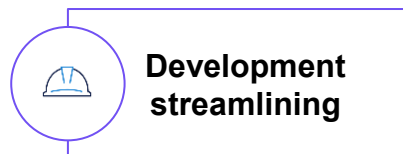
The Budget falls short of addressing several critical areas that warranted further consideration



The Budget **did not pursue tax reforms to reduce cliff-edges** created by the withdrawal of the personal allowance, child benefit, and subsidised childcare which would have strengthened work incentives and reduced distortions in the income tax system.

“The personal tax system is full of cliff-edges which discourage work such as the removal of the personal tax allowance and free childcare when income reaches £100,000.”²

– Tim Sarson, UK Head of Tax Policy at KPMG



The Budget **did not address streamlining the planning system**, despite calls for reforms to accelerate development and improve the delivery of infrastructure. OBR’s 1.49m UK housing forecast additions by 2030 suggests Labour will miss its 1.5m target.¹

“The Budget’s promise of streamlined planning is positive, but the government must take a holistic approach... meaning simpler rules, clearer regulations and fewer barriers to infrastructure projects.”³

– John Wilkinson, COO at BAM UK&I



The government opted against **postponing increases of the minimum wage** which would have reduced near-term labour costs but **u-turned on its manifesto** commitment on 27th November to offer all workers protection against unfair dismissal from day one.

“[The Budget’s above-inflation wage increases] will increase business costs and lower investment... there is a limit to how much additional cost employers can bear without something having to give.”⁴

– Jane Gratton, Deputy Director of Public Policy and the British Chambers of Commerce

Source(s): UK government; BBC; KPMG; IPE; Inside Housing; Teneo research and analysis

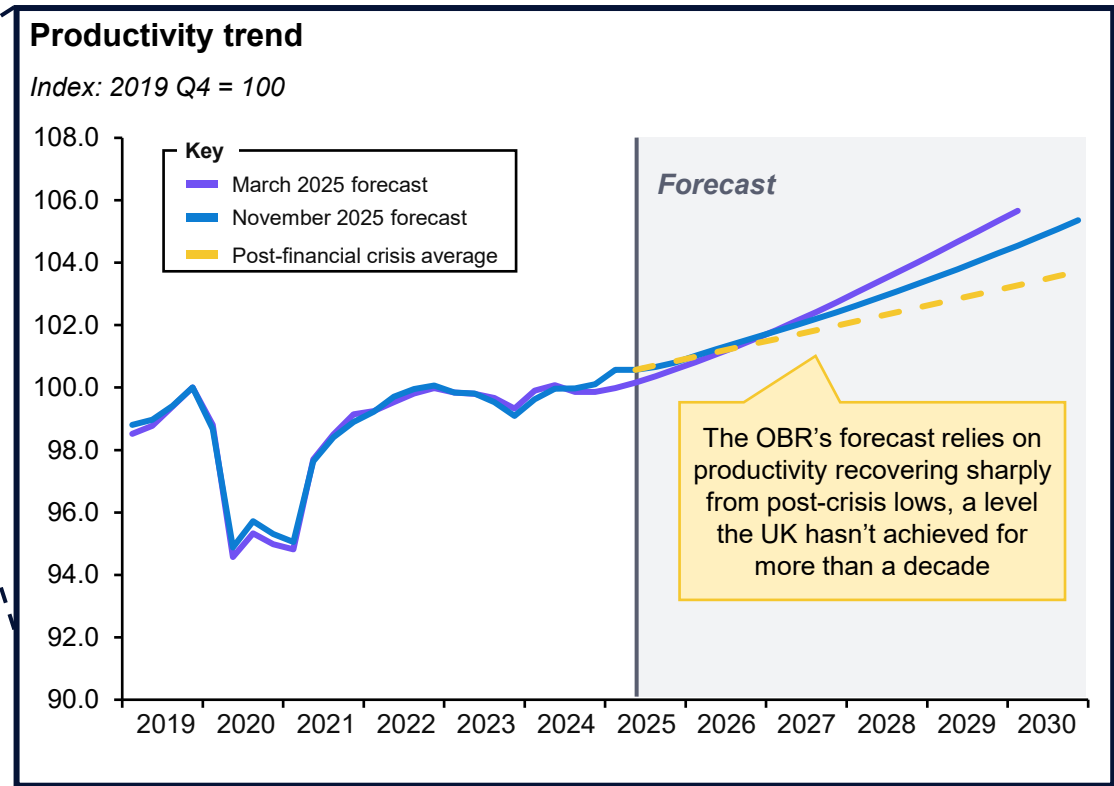
Note(s): 1. Labour’s target for 1.5m homes was for England, not the UK; 2. Article: “Looking ahead to Budget 2025” (KPMG); 3. Article: “UK budget: Real estate industry responds with mixed reactions” (IPE); 4. Article: “Over 21s to get £12.71 an hour as minimum wage increased” (BBC)

Fiscal Headroom is Heavily Exposed to OBR Forecasting Risks

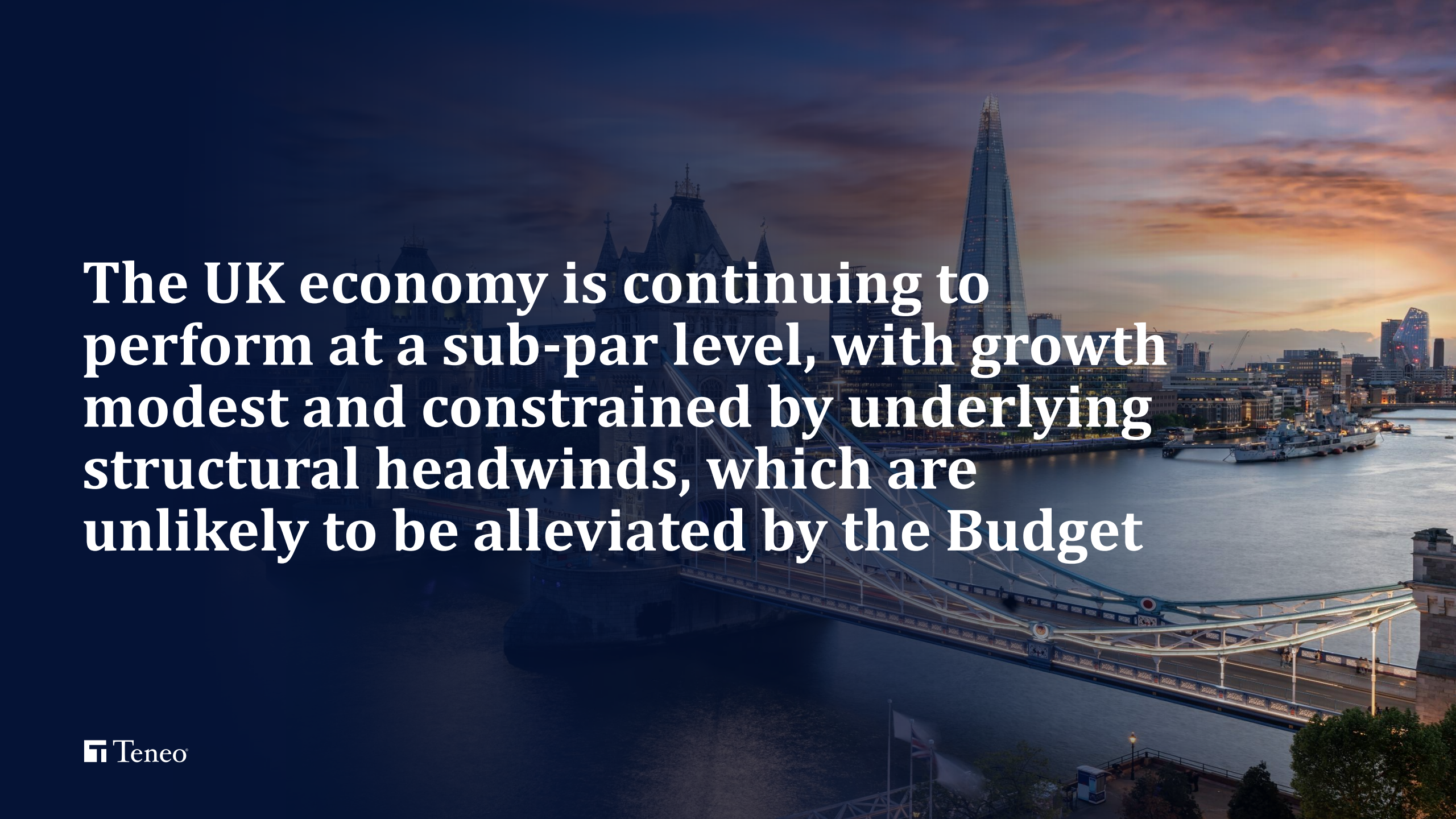
Although the Budget shows improved fiscal headroom since March, it still represents less than the £29bn average maintained by previous Chancellors; and with productivity risks left unaddressed, the UK could find itself in a similar position again.

Three major risks threaten future fiscal headroom

- Productivity**
 - **Changes in productivity have material fiscal impacts**
 - OBR assumes a medium-term productivity growth of 1.0% by 2030, which is lower than the 15-year historical of 0.5%.
 - At 0.5% growth, 2029-30 headroom would show a £6bn deficit.
- Bank rate & gilt yields**
 - **Fiscal position is highly sensitive to gilt position**
 - Market rates have moved 0.6pp since March.
 - Analysis indicates that a 1pp rise in bank rate and gilt yields reduces the 2029-30 headroom surplus by £16bn.
- Immigration**
 - **A smaller than expected workforce would weaken tax receipts and tighten headroom**
 - Recent policies to tighten migration will impact net migration, suggesting supply may be lower than historical outcomes.



Source(s): OBR; Teneo research and analysis



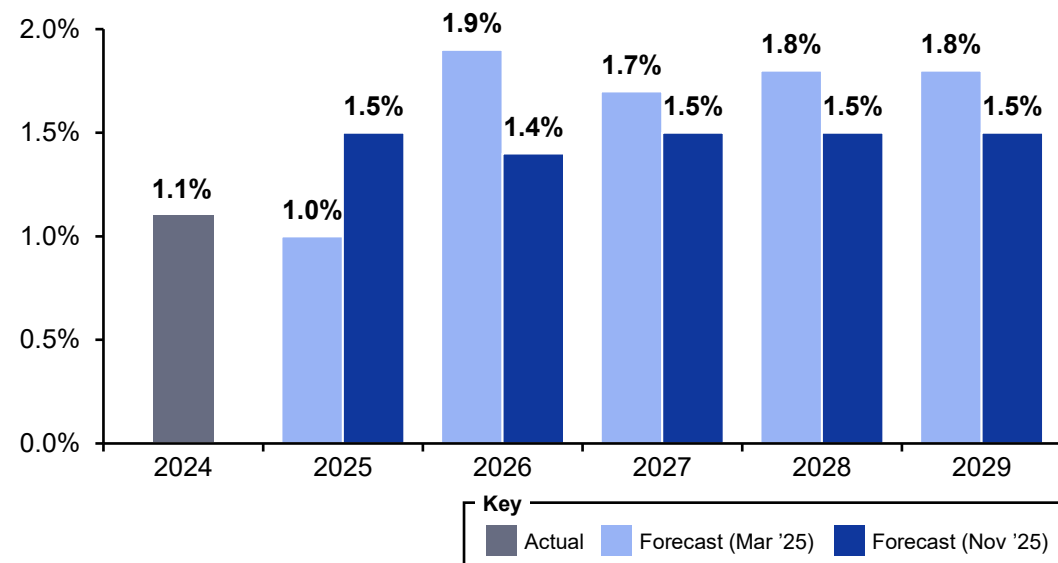
The UK economy is continuing to perform at a sub-par level, with growth modest and constrained by underlying structural headwinds, which are unlikely to be alleviated by the Budget

UK GDP is Expected to Grow at c.1.5% Over the Next Four Years

Although the 2025 GDP growth forecast was raised from 1.0% to 1.5%, the uplift reflects front-loaded exports and property activity, with the Budget having no meaningful effect on overall growth prospects by 2029.

Budget measures are not expected to materially impact GDP growth outlook

Annual real GDP growth, 2024-2029F



Strong Q1 growth of 0.7% **pushed the 2025 GDP forecast up from 1.0% to 1.5%**, driven by front-loaded exports ahead of U.S. tariffs and a rush of property transactions before stamp duty changes.



Growth is expected to **pick up only slightly in Q4**, as business and consumer confidence remain subdued, partly due to expectations of further tax rises in advance of the Budget.



Real GDP growth from 2026 to 2029 is projected to be **0.3 percentage points lower per year on average than previously forecast in March**, reflecting weaker expected productivity growth.



The near-term fiscal loosening announced in the Budget raises the central estimate for real GDP growth in 2026-27 from 1.4% to 1.5%, but it **does not affect the projected level of real GDP by 2030-31**.

Budget implications: The Budget does not materially change the UK's growth outlook, with the OBR judging that introduced measures will not have a significant impact on GDP in the short or medium term.



Source(s): UK Government; OBR; Financial Times; Teneo research and analysis

A Combination of Macroeconomic Headwinds Will Constrain GDP Growth in 2026

The UK economy will likely continue to face headwinds over the next two years from elevated inflation, a loosening job market and sustained government borrowing and debt pressures.



Inflation

- **Monthly inflation in H2 2025 has remained c.4%**, primarily driven by food, energy and administered cost increases.
- Inflation is expected to **fall to c.3% over the next few quarters**, before falling to 2% by mid-2027.
- While the measures set out in the Budget should decrease inflation in the short term, **there are risks that the forecast could be undermined** by upcoming increases in wage costs, including the rise in the NLW.



Unemployment

- The labour market **continues to loosen**, with the ratio of unemployed people to vacancies reaching 2.5:1.
- Unemployment is **expected to rise slightly in 2026** based on business sentiment around hiring.
- The government **risks increasing youth unemployment**, particularly those aged 18-20, who saw significantly increased wage costs relative to inflation, which may offset other measures aimed at youth employment and skills development.



Government borrowing and debt

- Government borrowing has **remained elevated** (c.5% of GDP) for the past four years, roughly double pre-pandemic levels.
- Debt interest spend has risen to c.4% of GDP, the highest since the 1980s, and is **expected to remain high**.
- While the Budget focuses on reducing net borrowing over the next five years, it **fails to tackle the long-term** challenge with debt, **driving growth in the economy**, and as such, debt will rise from 95% of GDP to 96% of GDP by 2030.

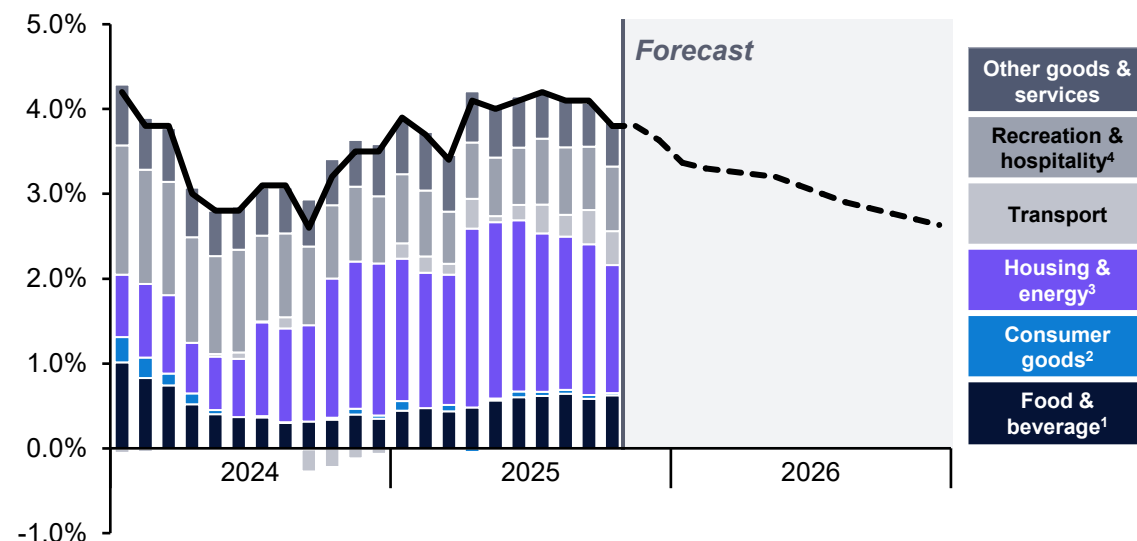
Source(s): UK Government; BoE; OBR; Teneo research and analysis

Inflation has Stayed Elevated Since April, Pressuring Households and Businesses

While the Bank of England forecasts inflation rates to gradually fall to 2% by mid-2027, monthly inflation in H2 2025 has remained close to or above 4%, with few structural indicators suggesting further decline is likely in the near-term.

CPIH is expected to remain above the 2% target in 2025 and 2026, and will only reach it by mid-2027 in baseline scenario

UK CPIH by category, Jan-24 to Nov-26F



2025 inflation was driven by energy and food prices due to geopolitical tensions, trade frictions, labour costs and extreme weather affecting crops.



Increased administered prices such as costs of regulated services, uprated indirect taxes, and higher employer wages also drove inflation.



Measures announced in the Budget are expected to **decrease inflation by 0.3 ppts in 2026**, primarily through reduced energy bills and the fuel duty freeze extension.



However, upcoming **increases to NLW** above inflation will **increase upward price pressure** in the short to medium term.

Budget implications: While the measures set out in the Budget should decrease inflation in the short term and make interest rate cuts more likely, there are risks the forecast could be undermined by upcoming increases in wage costs, including the rise in the NLW.



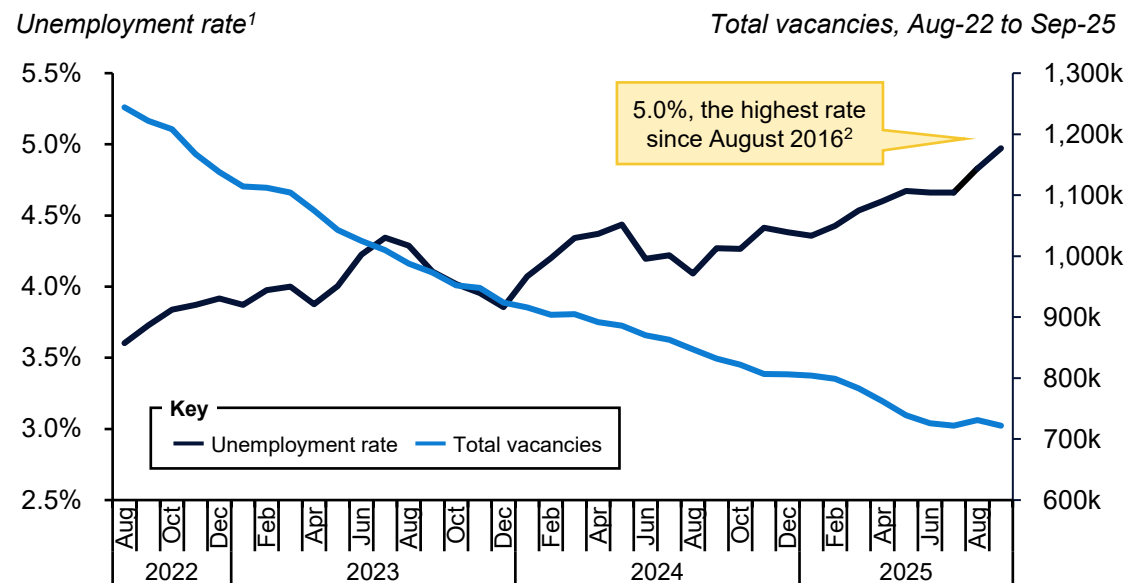
Source(s): ONS; OBR; Food & Drink Federation; Teneo research and analysis

Note(s): 1. Food & non-alcoholic beverages, alcohol & tobacco; 2. Clothing & footwear, furniture & household goods; 3. Housing & household services (incl. utilities & council tax); 4. Recreation & culture, restaurants & hotels

Weak Hiring Plans Ahead of the Budget Raise Risks for the Labour Market

Increased labour costs and structural shifts in the labour market have caused vacancies to decline and unemployment to rise to a four-year high; a trend which could continue due to increased wage pressure.

Domestic and global headwinds are weighing on hiring, with vacancies falling and unemployment edging higher



The labour market continues to loosen with the **ratio of unemployed people to vacancies reaching 2.5:1**, the highest since 2015.²



Unemployment is expected to rise slightly in 2026, based on current business sentiment around hiring and employment growth.



The **youth unemployment rate³ was 15.3% in August 2025**, the highest rate since 2015 excluding the pandemic period.



Although measures like free under-25 apprenticeships aim to support 16–20-year-olds, **sharp youth wage increases**, particularly for 18–20-year-olds **may limit employer demand**.

Budget implications: The government risks increasing youth unemployment, particularly those aged 18-20, who have seen significantly increased wage costs relative to inflation, which may offset other measures aimed at youth employment and skills development.



Source(s): ONS; BBC; Teneo research and analysis

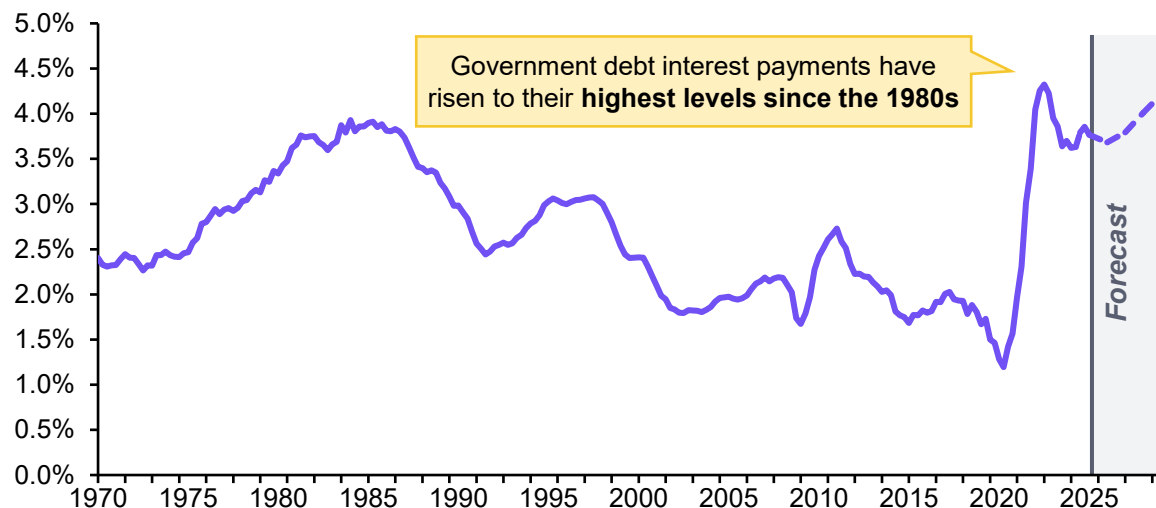
Note(s): 1. Seasonally adjusted; 2. Outside of the pandemic period; 3. Those aged 16-25 who are unemployed

Government Borrowing and Debt Remain Elevated

Government borrowing has risen to c.5% of GDP in recent years, while debt interest payments have reached c.4% of GDP and are expected to remain at these levels for the next five years, with a substantial portion of the debt on fixed rates.

Government debt interest payments have risen significantly since 2021

Government net debt interest spend, rolling four quarters (% of GDP), 1970-2029



Borrowing has stayed elevated in recent years, however, taking forecast and policy changes together, it is now forecast to **fall from 4.5% of GDP in 2025–26 to 1.9% by 2030–31.**



Weak growth and high interest rates are making UK debt harder to service, with low productivity holding down tax receipts and elevated yields driving up annual costs.



Net debt interest is set to rise from 3.7% of GDP in 2025–26 to 3.9% by 2030–31, largely reflecting **fixed-rate costs on past borrowing that the government cannot influence.**

Budget implications: While the Budget focuses on reducing net borrowing over the next five years, it fails to tackle the long-term challenge with debt, driving growth in the economy, and as such, debt will rise from 95% of GDP to 96% of GDP by 2030.



Source(s): UK Government; OBR; Financial Times; BBC; Teneo research and analysis

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