Insights

Beyond Budget Day: Relief Today, Structural Questions Ahead



UK Economic and Consumer Outlook

October 2026

Teneo

Executive Summary

The Budget provides some near-term support, but the outlook remains uneven: growth is holding up, household resilience is mixed and the bigger questions sit beyond Budget Day.



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The economy has held up better than expected, but the near-term improvement is not yet a sustained recovery. Growth has been stronger than forecast and the UK is not facing an immediate downturn, with the OBR upgrading its 2026 outlook. However, inflation remains above target and the labour market is broadly stable rather than strengthening. The OBR's forecast implies a softer period ahead before activity recovers, while medium-term growth potential remains broadly unchanged. The external environment remains an important swing factor: a resolution to the Middle East shock would ease energy and financial pressures, while renewed energy disruption, U.S. trade tensions or tighter global financial conditions could push inflation and borrowing costs higher.

The Budget helps some businesses more than others, but does not materially improve the wider conditions for expansion. Support for business rates, energy and capital investment benefits selected firms, while labour-intensive businesses continue to face high employment costs. Business investment is forecast to be only 0.5% above the March path by 2030, suggesting the Budget changes the mix of incentives more than the overall investment outlook.

The fiscal position is more credible, but the difficult choices have largely been deferred. The fiscal rules are met and borrowing falls across most of the forecast, but debt remains high, headroom is limited and the consolidation is increasingly back-loaded. The key question is whether the planned spending restraint can be delivered without further tax rises, cuts elsewhere or additional borrowing.

For households, the Budget provides some breathing space but does not resolve the underlying squeeze. Our modelling shows the typical household remains around £2.4k below its pre-pandemic cashflow trajectory, despite the recovery in real wages since 2023. The pressure is uneven: the 20–40% groups remain the most squeezed, with residual cashflow growing by just 1.7–2.1% p.a., while the 10–20% group has seen faster growth but still has only £5.7k of residual cashflow, with essentials absorbing 76% of income.

The consumer remains resilient, but spending is becoming more selective. Households are protecting essentials, valued experiences and important occasions, while becoming more cautious about frequency and lower-priority purchases. Christmas should remain relatively well protected, with Black Friday and promotions helping households stretch budgets, but across retail, hospitality and leisure the shift towards value and selective spending is increasingly visible in volumes and margins.

The next phase will depend on what happens beyond the Budget. The wider policy pipeline – including the Spending Review, Milburn and Timms reviews, investment delivery and the UK-EU relationship – is likely to matter more for the medium-term outlook than any single Budget measure. The common thread is that these are structural issues, so the effects will take time to emerge.



The UK enters the Budget having absorbed recent shocks better than expected, but the underlying economy remains fragile: growth is uneven, inflation is sticky, labour demand is softening, and households and government have less room to absorb further pressure.

A Resilient but Constrained Economic Backdrop

The economy has held up better than expected, with growth running ahead of its longer-run pace, but sticky inflation, softer labour demand and weak productivity remain constraints.



Growth has been more resilient than expected

Real GDP grew **0.7% in the three months to August**, well above its typical post-2008 pace, and was **1.8% higher year-on-year**. However, momentum remains uneven: monthly growth slowed to 0.1%, with services expanding while production and construction contracted.



The path back to low inflation has been disrupted

CPI inflation was **3.1% in September** and is expected to remain elevated in 2027 before returning towards target. The renewed energy shock has delayed the disinflation path and increased pressure on households and businesses.



The labour market is broadly stable, but hiring is weakening

Unemployment fell to **4.7%** and inactivity to **20.9%**, while payrolled employment was broadly unchanged. But vacancies have fallen to **691k**, with smaller firms increasingly reluctant to hire as labour costs rise; regular pay growth of **3.7%** provides only modest real wage growth.



Household buffers are thinner

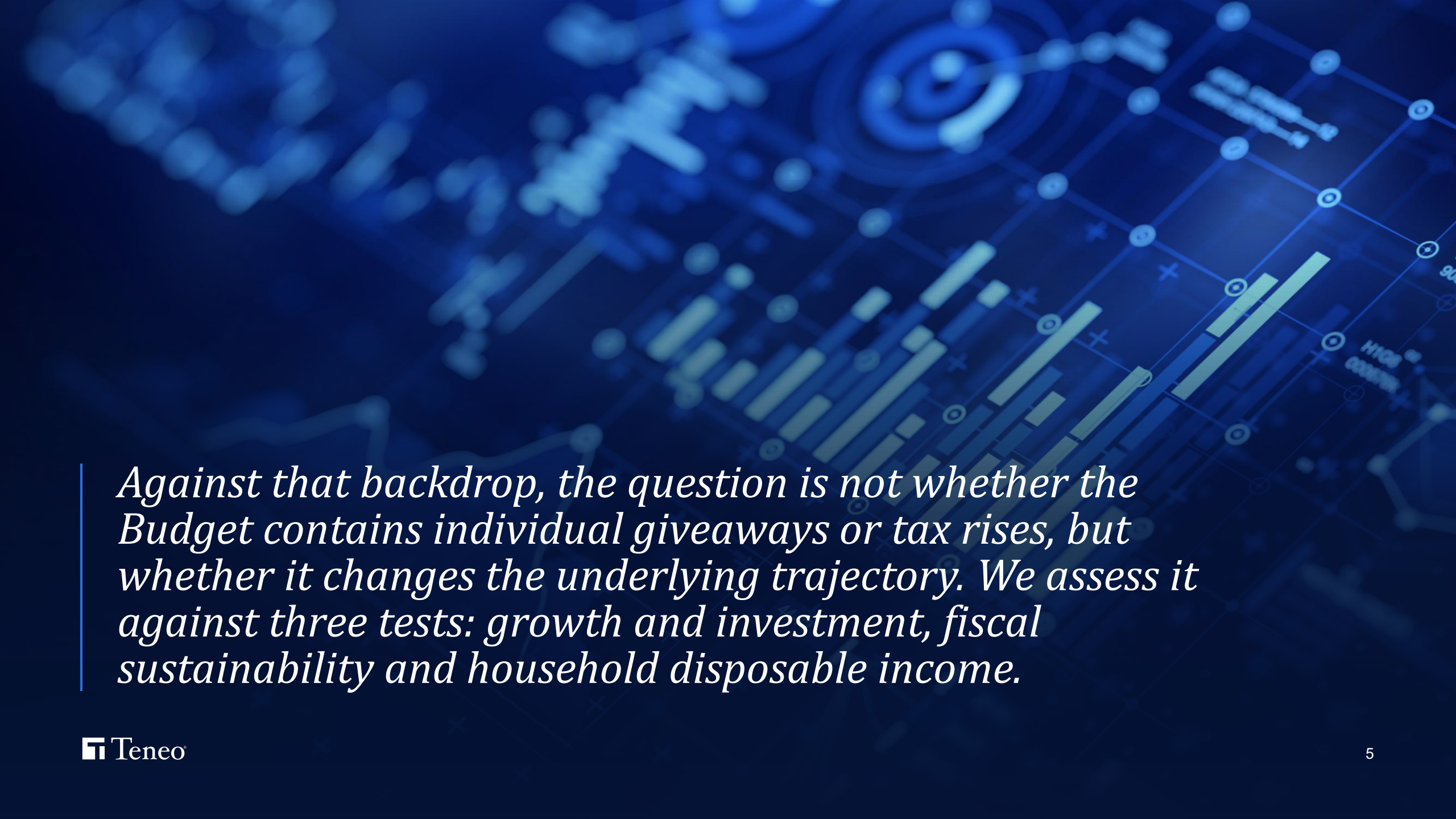
Households are better placed than during the initial cost-of-living crisis (2022-2023), but our modelling shows the typical household remains around **£2.4k below its pre-pandemic cashflow trajectory**. Essential costs continue to grow faster than disposable income.



The Chancellor has limited room to respond

Public-sector net debt stands at **94% of GDP**, down from **100% two years ago** but still historically high. The UK is not an international outlier, particularly compared to France and the U.S., but the size of the debt stock and higher servicing costs leave **limited room to absorb further shocks**.

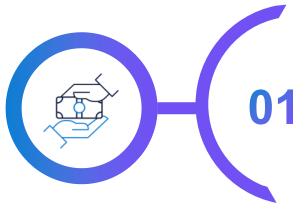
Source(s): Office for National Statistics; The Bank of England; Teneo research and analysis



Against that backdrop, the question is not whether the Budget contains individual giveaways or tax rises, but whether it changes the underlying trajectory. We assess it against three tests: growth and investment, fiscal sustainability and household disposable income.

Three Tests to Assess the Budget

Rather than judge the Budget by individual measures, we assess whether it improves the structural conditions needed for stronger growth and household prosperity.

	Test	What are we testing?	Why is it important?	Methodology
 01	**Growth and business investment**	Whether the Budget improves the incentives and conditions for **businesses to invest, hire and expand,** and increases the economy's **capacity to grow.**	Stronger business investment and greater productive capacity are ultimately the routes to **higher productivity, employment, wages and living standards.**	**1. Business investment:** we assess how the Budget changes the incentives to pursue labour-, property-, capital- and knowledge-intensive expansion. **2. Growth capacity:** we assess whether it raises potential output through productivity, labour supply and other supply-side reforms.
 02	**Fiscal credibility and sustainability**	Whether the Budget puts the public finances on a **more durable and credible path**, rather than relying on difficult decisions being deferred.	Fiscal resilience preserves policy flexibility and reduces the risk of **higher borrowing costs and future tax or spending shocks.**	We assess the path for **borrowing and debt, headroom, debt interest, tax receipts and spending assumptions**, including how much consolidation is back-loaded.
 03	**Household disposable income**	Whether the Budget leaves households with **more or less disposable cash**, and how evenly that impact is distributed.	Disposable income is the key bridge between **economic policy and consumer spending**, but the impact will vary sharply by household type	We combine **wages, employment, taxes, benefits, energy, housing and borrowing costs**, across representative households by income, generation and housing position

Does the Budget Improve the Conditions for Business Investment?

The Budget provides targeted support for property, energy and qualifying capital, but does little to reduce the cost of labour-intensive expansion and only shifts the timing of capital relief.

How does the Budget change the incentives to expand?

Labour-intensive expansion

No significant changes announced.

- No material relief from existing labour-cost pressures.
- Employer taxes and wider employment costs remain elevated.

Key sectors impacted: retail, hospitality

Capital-intensive expansion

Front loaded relief but net tightening.

- First-year allowance rises 40% to 50%.
- Writing-down allowance falls 14% to 12%.

Key sectors impacted: manufacturing, logistics and capital-intensive firms

Property-intensive expansion

Temporary, targeted support.

- Temporary business-rates package reduces receipts by around £400m in 2027-28 and £600m in 2028-29.

Key sectors impacted: retail, hospitality

Founder-led expansion

Mixed incentives.

- New 10% CGT rate for qualifying founders supports entrepreneurship.
- Business Asset Disposal Relief reduced from £1m to £0.5m.

Key sectors impacted: manufacturing, logistics, and capital-intensive firms

What changed:

- Business investment is forecast to be only 0.5% above the March path by 2030, reflecting stronger out-turn and expected profits rather than a material Budget effect.
- Support is targeted and often temporary, concentrated on property and energy-intensive businesses.
- Capital allowances are rebalanced rather than broadly strengthened: more relief upfront, but a lower writing-down allowance.

What this means:

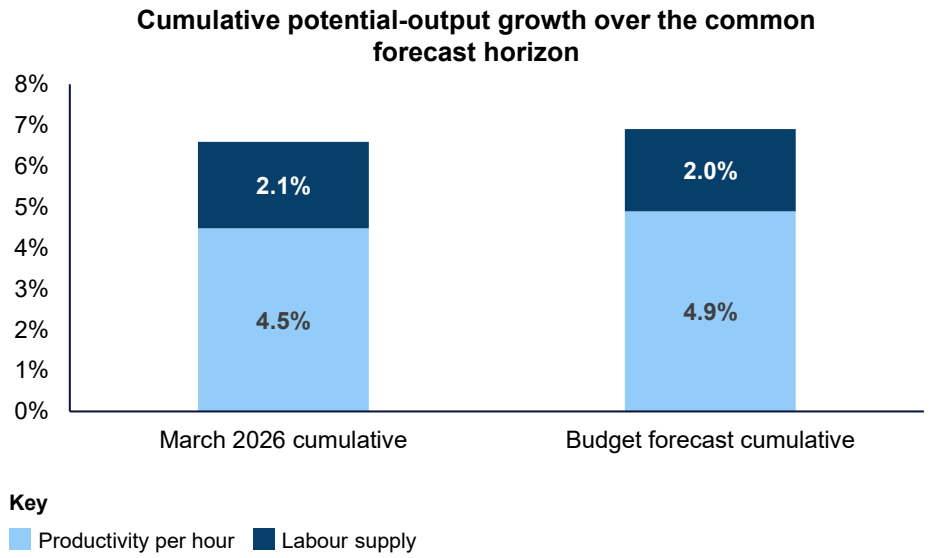
- The Budget changes where and when investment is incentivised more than the overall return to expansion.
- Consumer-facing sectors receive relatively limited support because their expansion is labour- and premises-intensive.
- The combination of high employment costs and only temporary property support leaves the broader business environment largely unchanged.

Assessment: *The Budget provides targeted investment support, but does not materially improve the overall conditions for business expansion.* **PARTIAL IMPACT**

Source(s): Office for Budget Responsibility: Economic and Fiscal Outlook, Teneo research and analysis

Does the Budget Increase the UK's Capacity to Grow?

The Budget does little to change the UK's medium-term growth potential: higher productivity is broadly offset by weaker labour supply, while the OBR has not yet credited new measures with a material growth impact.



Final year (2031) growth rates:

- Potential output growth: 1.5%
- Productivity per hour: 1.1%
- Labour supply: 0.4%

What changed:

- Potential output is broadly unchanged from March, with stronger productivity offset by weaker labour supply.
- Net migration is around 70,000 a year below the March forecast, while participation and hours remain constraints.
- The OBR makes no explicit uplift from new Budget measures, reflecting limited evidence of a material five-year impact.

What this means:

- The Budget continues the precedent of adding further complexity to the tax system. The frequent changes to regulation and incentives create uncertainty for businesses and weighs on investment decisions.
- The Budget supports investment and supply-side reform but has not yet shifted the medium-term growth outlook.
- Planning, infrastructure and fiscal devolution could raise capacity over time, but their effects are not yet sufficiently evidenced or specified for the OBR to score.
- The key test therefore moves from announcement to delivery: whether these measures translate into higher investment, productivity and labour supply over time.

Assessment: *The Budget does not materially change the UK's medium-term capacity to grow, with productivity and labour supply remaining the core constraints.* **FAIL**

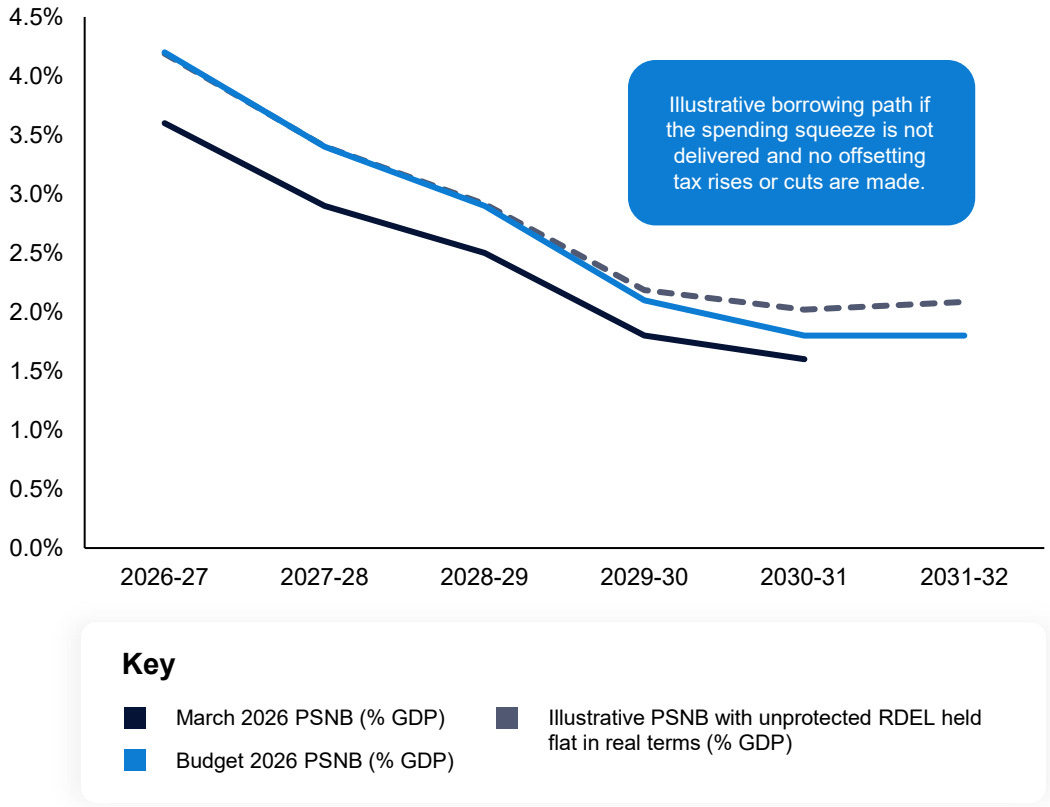
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Source(s): Office for Budget Responsibility: Economic and Fiscal Outlook, Teneo research and analysis
Note(s): Components of cumulative potential output may not sum to total due to compounding and interactions.

Does the Budget Improve Fiscal Sustainability and Credibility?

The fiscal rules are met on paper, but the consolidation relies on a politically difficult 2.6% annual real-terms squeeze on unprotected departments and rising tax revenues.

Borrowing falls, but remains above the March forecast



What changed:

- Borrowing remains above the March path in every year, although it falls from 4.2% of GDP in 2026–27 to 1.8% in 2031–32.
- Debt peaks at 97.3% of GDP in 2028–29, before falling only modestly thereafter.
- Headroom is £15bn against current-budget mandate, from £22bn when last assessed.
- Debt interest is materially higher, adding around £14bn a year to borrowing versus the March forecast.

What this means:

- Meeting the fiscal rules will require difficult political choices. The Government has delayed the decisions on who should bear the cost of the forecast consolidation and relies upon unspecified spending cuts and rising tax receipts, including unrealistic plans for increases to Fuel Duty.
- The key fiscal choices are deferred to the Spending Review. If the planned 2.6% annual real-terms reduction in non-protected departmental spending proves undeliverable, the Government would realistically need to raise taxes to meet its fiscal rules.
- History has shown the challenge of delivering departmental spending consolidation. The OBR notes that governments have increased planned resource spending by around 1.1 percentage points as Spending Reviews approach, equivalent to c.£6bn in 2028–29.

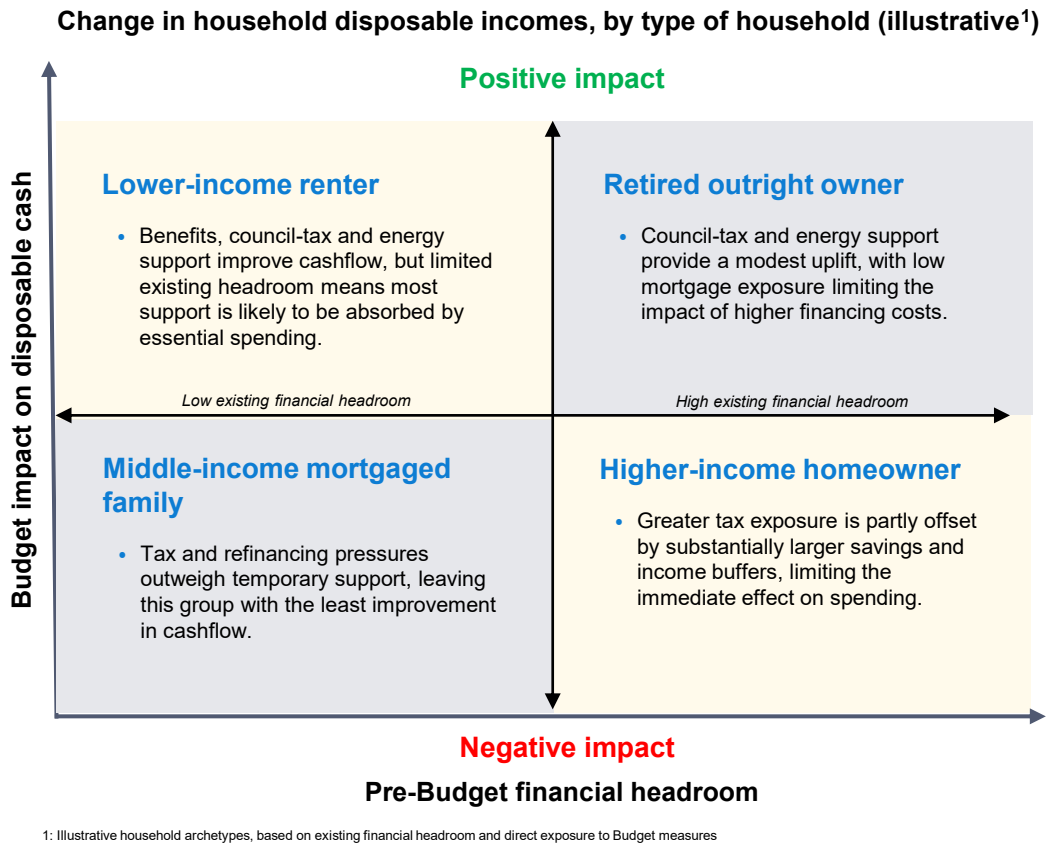
Assessment: *The Budget meets the fiscal rules, but resilience remains limited and depends on back-loaded consolidation and demanding spending assumptions.* **PARTIAL IMPACT**

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Source(s): Office for Budget Responsibility: Economic and Fiscal Outlook, Teneo research and analysis
Notes(s): Additional debt interest costs from higher borrowing not included in 'Illustrative PSNB with unprotected RDEL held flat in real terms (% GDP).

Does the Budget Leave Households with More Disposable Income?

Targeted support cushions household finances in the near term, but RHDI remains below the March path and middle-income mortgagors continue to face significant pressure.



1: Illustrative household archetypes, based on existing financial headroom and direct exposure to Budget measures

What changed:

- RHDI per person remains below the March path in 2030–31, before recovering only gradually in the final forecast year.
- Temporary council-tax, energy and fuel-duty support cushions near-term cashflow.
- Frozen tax thresholds continue to raise effective tax rates as nominal earnings increase.
- Mortgage pressure builds through the forecast, with effective rates approaching 5% and mortgage payments reaching 4.25% of disposable income.

What this means:

- The Budget provides targeted relief rather than a broad improvement in household incomes.
- Lower-income and retired households receive more direct support, but much is likely to be absorbed by essential spending.
- Middle-income mortgagors remain the key weak point, facing both fiscal drag and refinancing pressure.
- Consumption growth increasingly relies on households reducing saving, creating a potential increase in financial vulnerability.

Assessment: *Targeted support cushions the household squeeze, but the Budget does not materially improve the underlying income trajectory.*

PARTIAL IMPACT

Source(s): Office for Budget Responsibility: Economic and Fiscal Outlook, Teneo research and analysis

The Bigger Policy Story Sits Beyond Budget Day

The Budget provides near-term relief, but leaves several structural questions unresolved — with progress depending on difficult fiscal choices, local incentives and reforms that will take time to deliver.



Spending Review – *turning investment into growth*

The government has committed significant spending **to infrastructure, housing and capital investment**, but the difficult trade-offs remain. The 2027 Spending Review will need to reconcile these commitments with departmental pressures and fiscal sustainability, while greater tax devolution could strengthen local growth incentives, but with uncertain overall effects.



Millburn review – *unlocking labour supply*

The rise in young people out of work reflects **deeper changes in participation, skills and the labour market**, rather than a single policy failure. The Milburn review may identify ways to improve employment and matching, but any impact is likely to be gradual and will depend on broader changes in the labour market.



Timms review – *improving work incentives*

Welfare reform matters not only for household incomes but also for **the incentives to work, increase hours and progress earnings**. The key question will be whether the government's response simplifies the system and reduces the disincentives created by benefit withdrawal and thresholds.



UK-EU relationship – *unlocking longer-term growth*

The current red lines remain, but the future UK–EU relationship could still influence **trade, investment, labour supply and productivity**. Changes here could have a more meaningful long-term growth impact than many of the measures announced in the Budget itself.

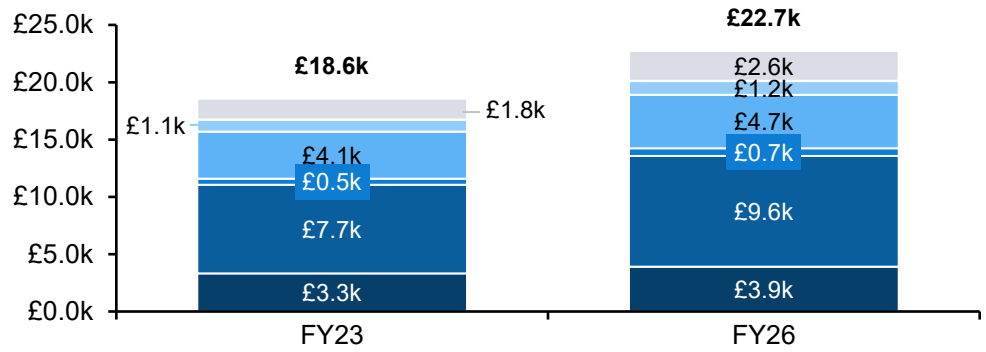
The Budget does not resolve the UK's structural constraints; the next phase will depend on difficult fiscal choices and reforms whose effects will take time to emerge.

Beyond the Budget, the consumer outlook will depend on how much financial resilience households still have — and that resilience varies sharply by income, generation and housing position.

Household Cashflow Has Recovered, but Remains Relatively Squeezed

Real wage growth has rebuilt household headroom since 2023, but essential costs have risen faster than incomes, leaving households c.£2.4k below their pre-shock trajectory.

Median household income, essential expenditure only (40-50 income decile), FY23-26



CAGR	
Total	7.0%
Other expenditure	12.7%
Education	21.9%
Communication	4.6%
Transport	4.3%
Health	10.1%
Housing	7.5%
F&B	5.7%

	FY23	FY26	CAGR
Equivalised disposable income	£33,538	£40,119	6.2%
Essential spend[1]	£18,574	£22,728	7.0%
Residual household cashflow	£14,963	£17,392	5.1%
Residual household cashflow adjusted for historic growth	£14,963	£19,810	9.8%
Gap to pre-pandemic trajectory		(£2,418)	

Source(s): ONS; Bank of England; OBR; Deloitte; Teneo research and analysis
Note(s): 1. Essential spend is treated on an equivalised basis, although the ONS summary does not make this explicit. This may introduce some variation in the absolute figures, but does not change the underlying direction of household cashflow.

Household cashflow has recovered

Residual household cashflow has risen to **£17.4k** in FY26, supported by stronger real wages and easing cost-of-living pressures.

But essential costs have risen faster than income

Essential expenditure has grown **7.0%** annually since FY23, compared with 6.2% growth in disposable income, **limiting the pace at which household headroom can rebuild**.

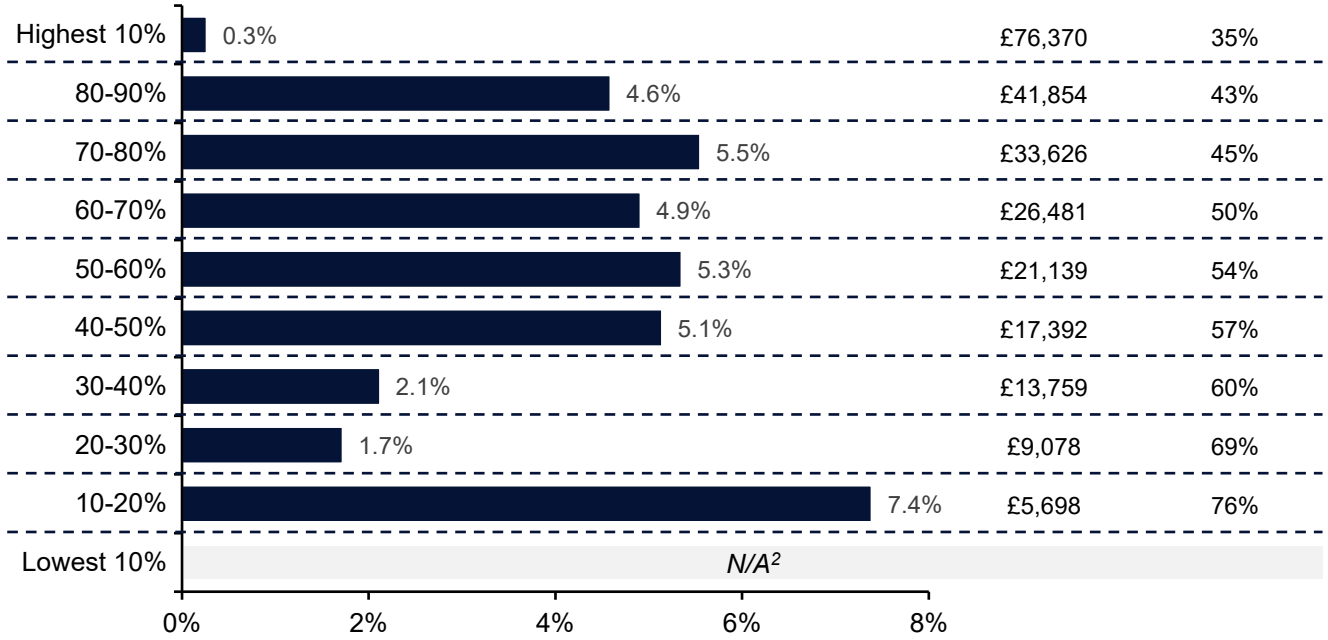
Households remain below their pre-shock trajectory

Had cashflow continued growing at its pre-pandemic rate, households would have around **£19.8k** of residual cash today — approximately **£2.4k** more than current levels.

The Average Consumer Masks a Divide

Household cashflow has evolved very differently across the income distribution, with the strongest percentage gains concentrated at the lower end but financial headroom still overwhelmingly concentrated among wealthier households.

Residual household income, CAGR, All income deciles, FY23-26



Lower-paid households have seen the strongest improvement

Residual cashflow for the **10–20% group has grown 7.4% p.a.**, helped by strong National Living Wage increases; but essential spend still absorbs **76% of income**, leaving only **£5.7k of headroom**.

The 20–40% groups remain the most squeezed

Cashflow growth of just **1.7–2.1% p.a.** suggests earnings gains have been **largely absorbed by housing, food and other essentials**, limiting growth in discretionary spending capacity.

Higher-income households retain the largest buffers, but growth has stalled

The top decile still has around **£76k of residual cashflow**, but growth has been just **0.3% p.a.** This reflects weaker disposable-income growth earlier in the period, combined with greater exposure to fiscal drag and direct taxation. The result is limited growth from a very high base, rather than financial stress.

Source(s): Teneo research and analysis
Note(s): 1. FY26 % of spend on essential goods is calculated as a proportion of equivalised disposable income; 2. The lowest income decile is excluded from the residual cashflow analysis because reported income at the very bottom of the distribution is subject to significant measurement error and can fall below recorded expenditure, making comparisons of income less reliable.

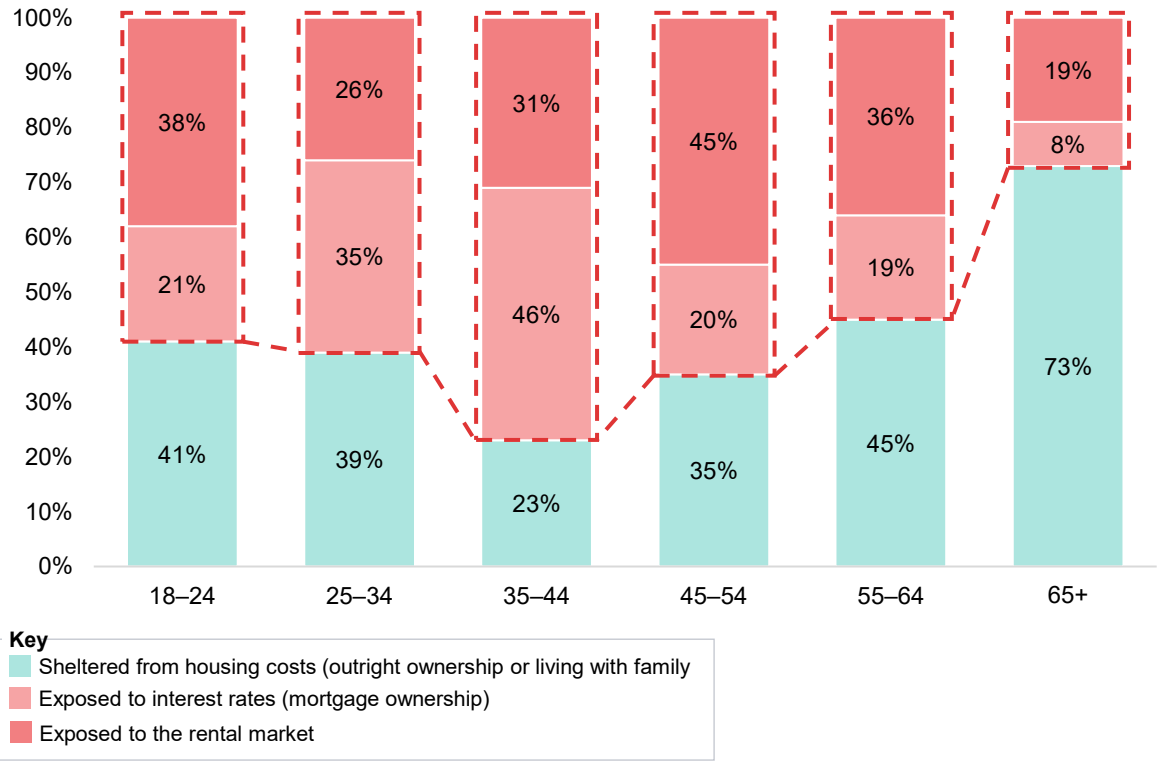


Household resilience is not determined by income alone: age and housing position increasingly shape who is most exposed to rising costs and who has the capacity to absorb them.

Housing Costs Are Widening the Generational Divide

Working-age renters and mortgage holders have absorbed rising housing costs, while older outright owners have been largely insulated and benefited from stronger pension growth.

Exposure to housing market volatility through living situation by age group, 2025



Source(s): ONS; Teneo Consumer Survey 2025; Teneo research and analysis

35–44s face the greatest mortgage exposure

46% are mortgage holders, the highest share of any age group. Since August 2023, regular pay has risen c.14%, but the effective mortgage rate on outstanding balances has increased from **3.06% to 4.00%**, absorbing part of those income gains.

Renters have seen little relief from housing costs

Average UK rents were still rising **3.8% YoY in September 2026**, broadly in line with latest nominal wage growth of **3.7%**, leaving renters with limited improvement in real housing affordability.

Older outright owners remain the most insulated

73% of over-65s own outright, largely shielding them from higher mortgage and rental costs. At the same time, the full State Pension has risen by roughly **18% cumulatively since 2023**.

18–24s are increasingly divided by housing position

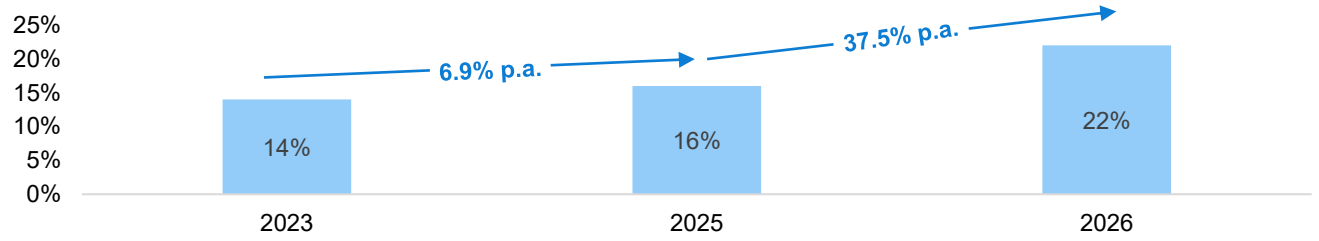
Around **41%** are shielded from the full impact of housing costs through ownership or living with family, while **38% rent** and are much more exposed — creating a widening divide within the youngest cohort.

Christmas Is Protected, but Increasingly Promotion-Led

Consumers remain determined to protect Christmas spending despite household pressures, though Black Friday and promotional periods are becoming increasingly important tools for making festive budgets stretch further.

Consumers are demonstrating **clear festive resilience** with **49%** indicating no intention to cut back on spending, up **7%** from 2025. However, **promotional events are increasingly being employed as a tool to stretch budgets**, as opposed to an opportunity for incremental spending.

Share of respondents planning to spend up to half of their Christmas budget during Black Friday, 2023-26



43% of consumers plan to **focus gift spending around promotional periods**, protecting festive participation by becoming more deliberate about **when and how they buy**.

Christmas remains a protected occasion

Despite **45% expecting greater financial anxiety** from rising costs, almost half plan no festive cutbacks. Consumers appear more willing to economise elsewhere than materially reduce Christmas participation.

Black Friday is becoming part of the Christmas budget

Those expecting to allocate up to half of festive spend during Black Friday has **risen to 22%,** suggesting promotions are increasingly pulling Christmas purchases forward rather than generating additional demand.

Resilience therefore comes with a margin trade-off

Consumers are still prepared to spend, but are increasingly **concentrating purchases around** promotions, with **67% actively hunting harder for deals**.

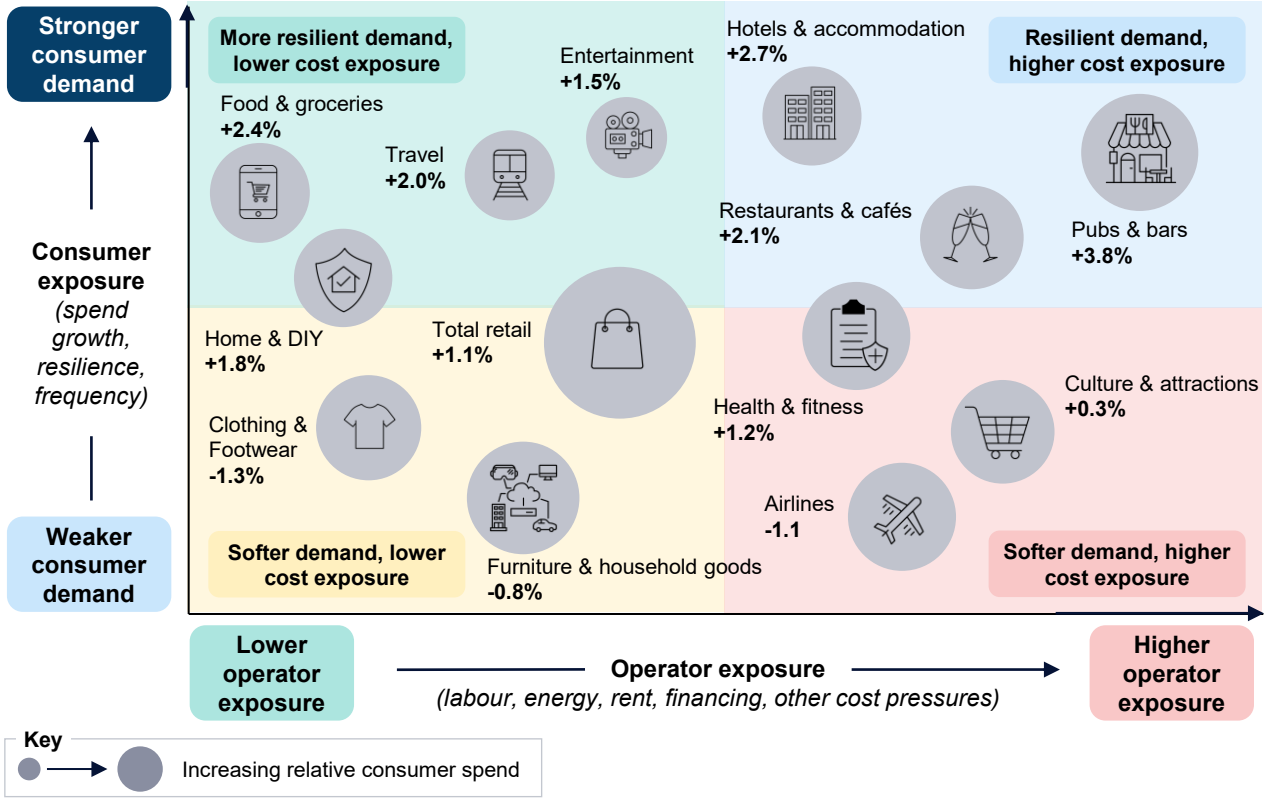
A resilient Christmas does not imply an unconstrained consumer: households are increasingly using promotions to preserve festive spending while making their budgets work harder.

Source(s): The Institute of Practitioners in Advertising; Sensormatic; Teneo research and analysis

Consumer Pressure Will Hit Sectors Differently

Consumer demand remains resilient in selected categories, but the strongest demand is often found in sectors facing the greatest labour, energy and property cost pressure.

UK consumer spending and sector dynamics, September 2026



Source(s): Barclays Consumer Spending (September 2026); ONS Retail Sales (September 2026); NIQ RSM Hospitality Business Tracker (September 2026); Teneo research and analysis

Retail is increasingly a mix and margin story

Food & groceries (+2.4%) and home & **DIY (+1.8%)** remain resilient, while clothing and household goods contract. Consumers are prioritising essentials and selected purchases, leaving retailers exposed to weaker volumes and promotion.

Hospitality demand is holding up, but frequency risk remains

Pubs & bars (+3.8%) and **hotels & accommodation (+2.7%)** continue to grow. Consumers are protecting social occasions but becoming more selective on frequency, while operators face high labour, energy and property costs.

Leisure is resilient where the experience justifies the spend

Entertainment and health & fitness continue to grow, **while airlines (-1.1%)** and culture & attractions remain weaker. Consumers are protecting valued experiences but deferring less essential discretionary spend.

Strongest demand does not mean the strongest economics

The strongest demand is often found in sectors with the greatest cost exposure. For hospitality and leisure especially, higher wages, employment taxes, energy and rent can **absorb much of the benefit of resilient sales**.

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