UK Economic Update

Topic in focus: Do household savings hold the key to the UK's economic fortunes?

PwC UK Economics Team
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Chief's Desk: Monthly Musings

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Confidence is currency

One of the key questions I get asked by clients is what could kick-start UK economic growth. My usual answer is to focus on what we can control in the economy and 'get the basics' right. This is anything from making sure policy is stable, predictable and transparent so public and private investment grows. In a less predictable world, stability matters much more. But there's something else that can kick-start economic activity, at least in the short run. And that is households.

In most advanced economies, including the UK, around two thirds of headline GDP growth comes from households spending. It was, is and will continue to be the biggest driver of economic growth. Nonetheless, in the UK households have been reluctant to spend post-pandemic, despite real wages growing significantly. The mirror image of this is households' savings ratio. The data shows that the UK is a post-pandemic outlier as households' savings ratio has gone up the most when compared to the other G7. Our modelling shows the main drivers for this has been higher interest rates and more recently a more fragile labour market and house prices not growing as fast, all of which make consumers more likely to save.

In our base case scenario, with interest rates coming down gradually we expect the savings ratio to also come down. But the pace at which this happens is important and has significant macroeconomic implications. We find that if households deplete their savings at a faster pace, then UK headline GDP growth could go up by an additional 0.4 percentage points next year. What could make this happen? Confidence in the economic outlook and that is because trust today unlocks tomorrow's spending.

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Topic in Focus

Do household savings hold the key to the UK's economic fortunes?

Getting households to spend again will be crucial to supercharge economic activity

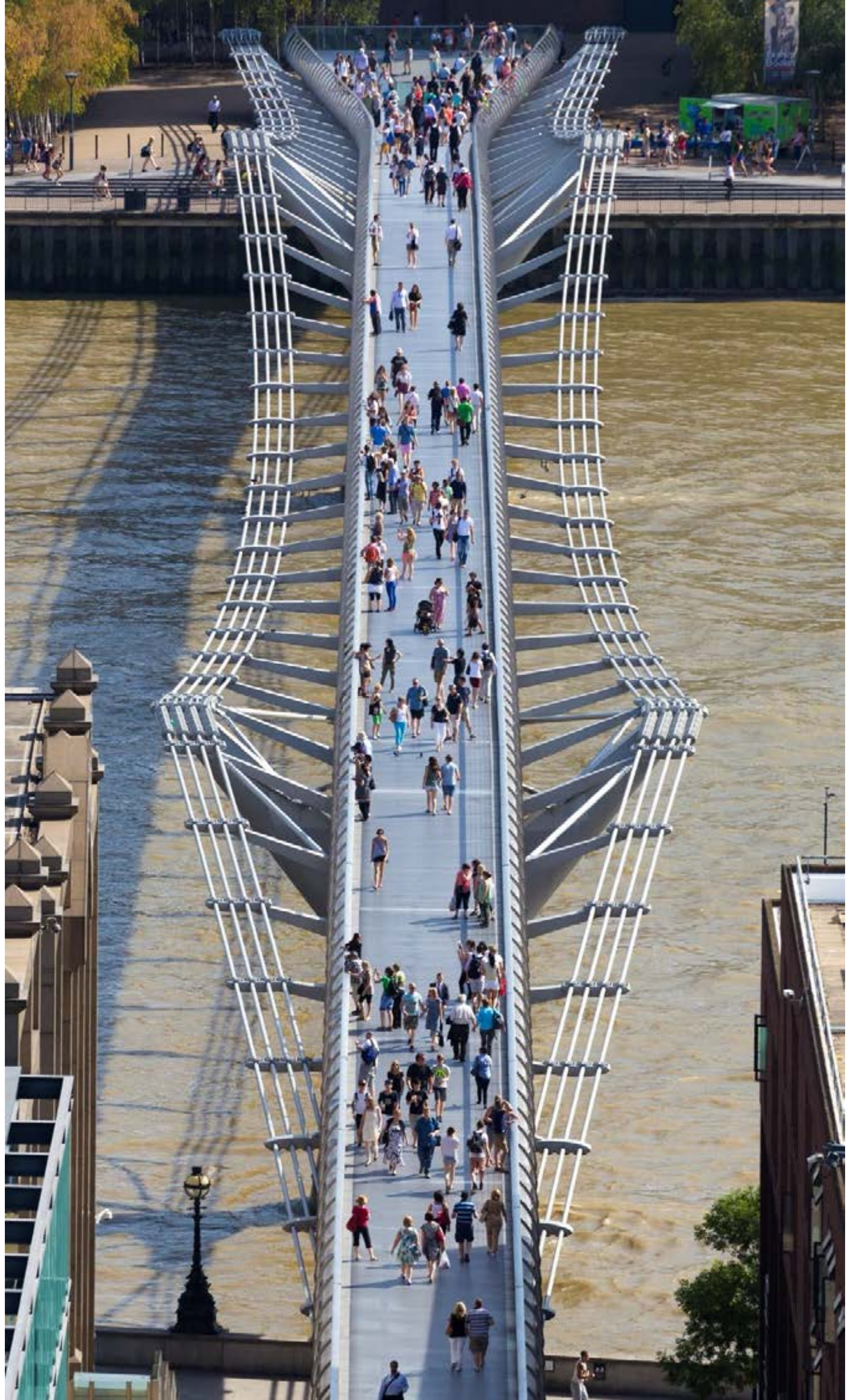
Key points

Consumer is king: Household spending is the largest driver of real GDP growth across advanced economies. In the UK, it accounts for almost two thirds of economic activity and is therefore, by far, the biggest driver of growth.

UK households are saving more: Nonetheless, the data shows that households are holding onto post-pandemic savings rather than drawing them down. This was similar to other G7 economies but the UK stands out. For example, the UK's household saving ratio remains around five percentage points higher than pre-pandemic levels, compared to just one point in Italy.

Scope for stronger economic growth: This has significant macroeconomic implications. Our modelling suggests that if households were to draw down their savings faster than expected over the next year, it could add around 0.4 percentage points to economic growth. The main beneficiaries would likely be consumer goods, hospitality and the broader entertainment sectors.

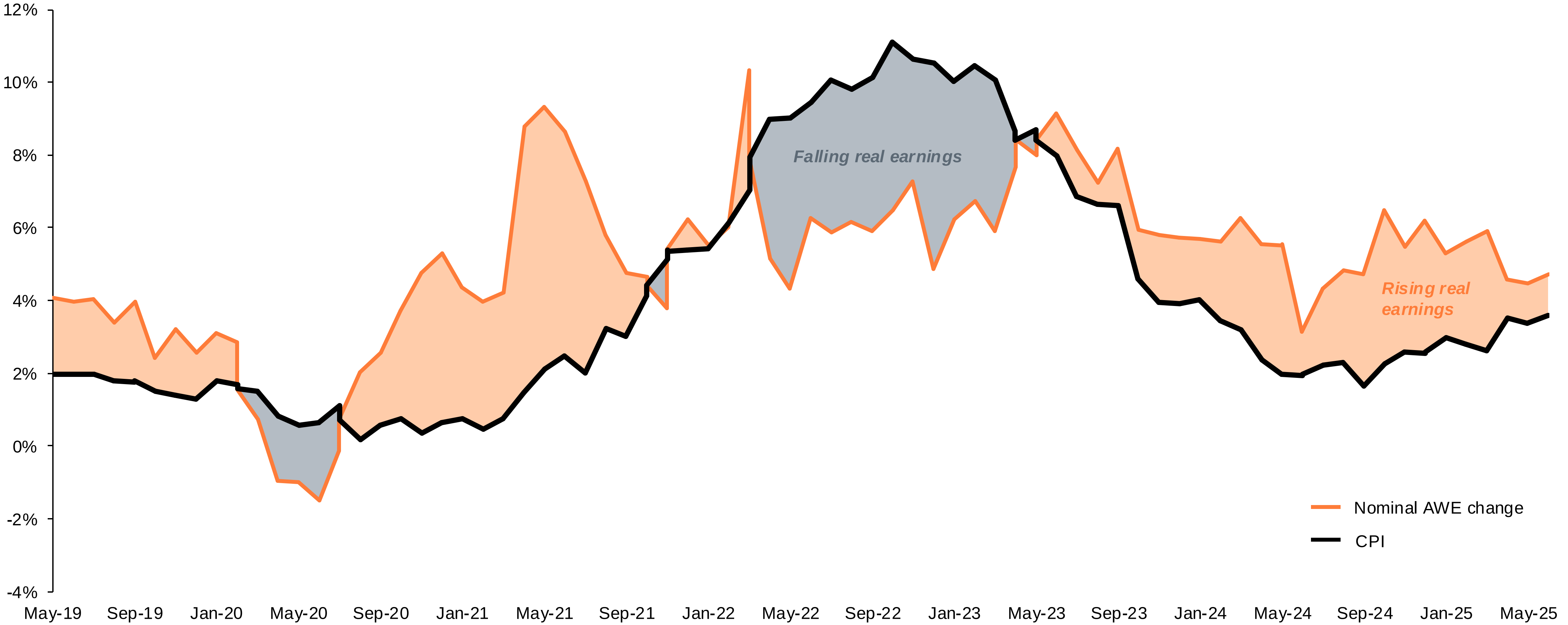
What could make this happen? Our modelling show that changes in the risk-free rate, economic activity and residential house prices influence the pace at which households save. But the hidden ingredient to all of this appears to be confidence. If households feel secure about their personal finances and the wider economy, they are far more likely to spend.



 Sources: PwC analysis, ONS

Following the cost-of-living squeeze, UK earnings have grown in real terms for the past two years. However, households are still exhibiting a degree of caution and are not spending as much as historic trends would suggest. This has wider implications for the macroeconomy.

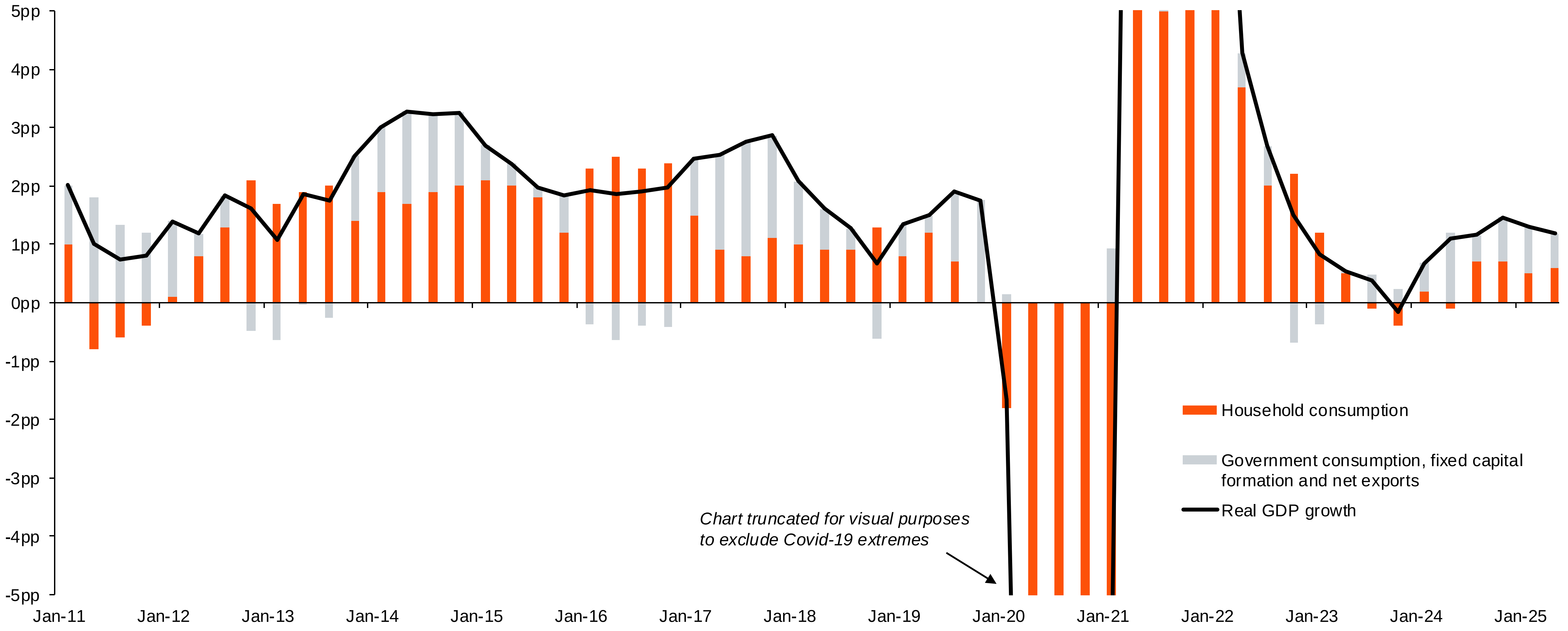
Nominal Average Weekly Earnings (AWE) growth vs Consumer Price Inflation (CPI)



 Notes: Average Weekly Earnings – total pay growth for Great Britain shown | Sources: PwC analysis, ONS

Household spending is by far the biggest driver of headline economic growth. In pure national accounting terms, increasing household consumption by 50 basis points is the equivalent of investment increasing by 1.1%, or net exports increasing by 2.8%.

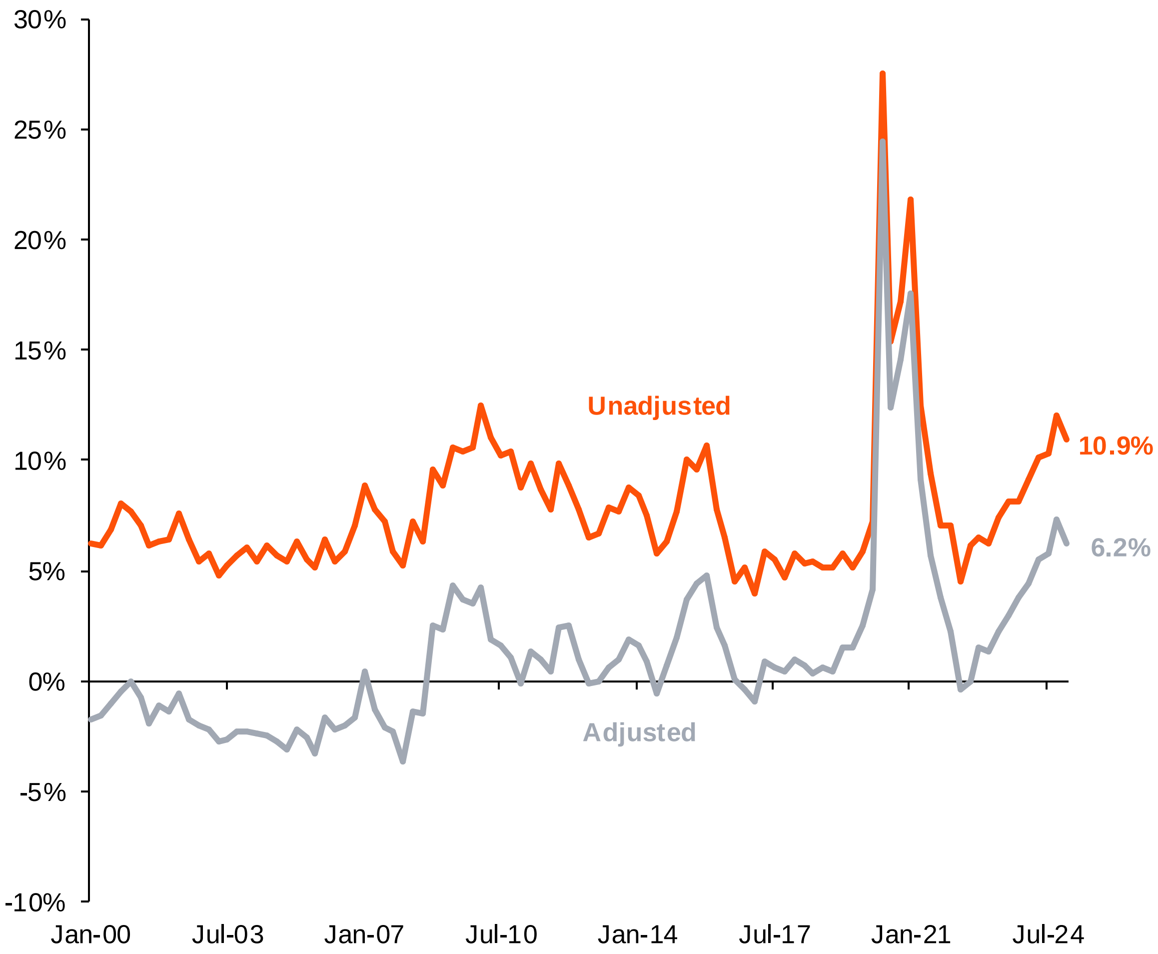
Contribution to headline real GDP growth by expenditure components, percentage points



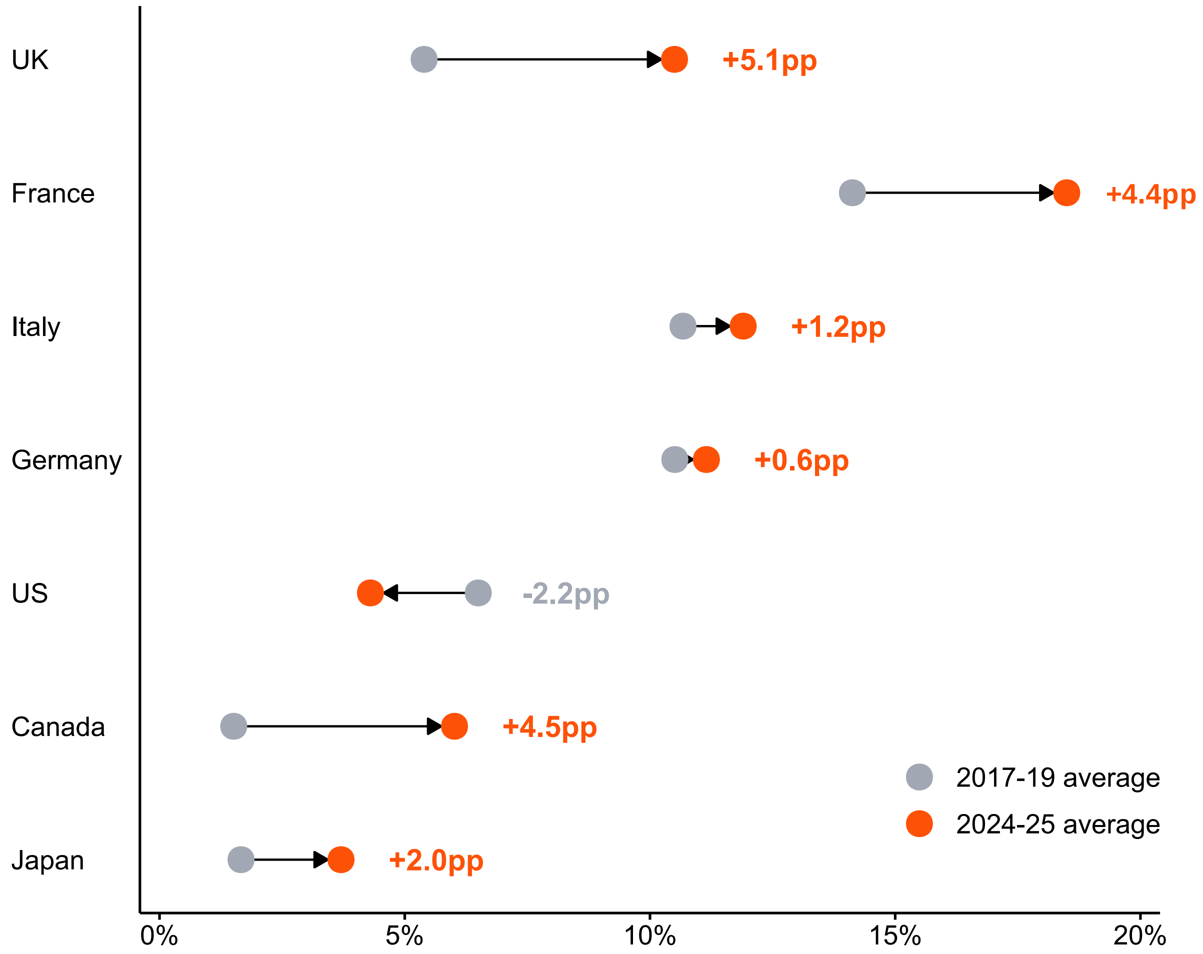
 Sources: PwC analysis, ONS

The main reason is that UK households are saving significantly more in the post-pandemic period, regardless of how savings are defined. Compared with other G7 economies, the UK stands out

UK adjusted and unadjusted household savings ratio, %



Change in unadjusted household savings ratio, %

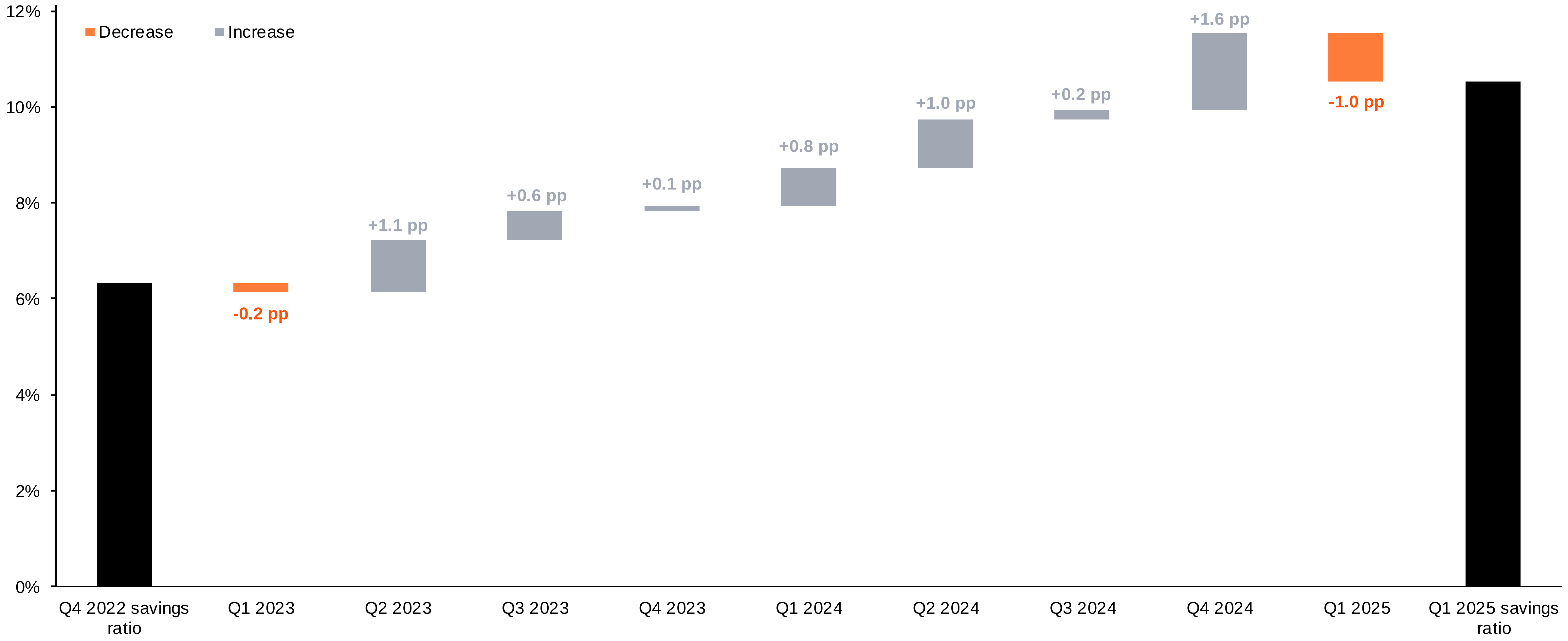


PwC

Notes: Savings ratio refers to the proportion of household disposable income that is saved rather than spent and includes the change in the net equity position of pension funds. The adjusted savings ratio, by contrast, excludes the latter component. Sources: PwC analysis, Cabinet Office (Government of Japan), ONS, ISTAT, Statistics Canada, INSEE, BEA, Statistisches Bundesamt, OECD

Recent data suggests UK households are beginning to draw on their savings, although it remains unclear whether this marks a temporary shift or a longer-term trend in savings behaviour

Change in unadjusted UK household savings ratio (%), Q4 2022 to Q1 2025



PwC Sources: PwC analysis, ONS

Using economic modelling, we first establish a statistical relationship between the changes in the adjusted savings ratio to a series of macroeconomic, financial, sentiment and other variables generate different scenarios of the savings ratio.

Our understanding and methodology

We develop an economic model that links key macroeconomic and financial variables to movements in the UK's adjusted household savings ratio. This measure excludes the net equity component of pension fund holdings, as fluctuations in pension valuations are unlikely to directly affect household consumption today.

The model is estimated using Ordinary Least Squares (OLS) on quarterly data from 1989 Q1 to 2025 Q1, with the dependent variable defined as the quarterly change in the adjusted savings ratio. The final specification includes the Bank of England policy rate, real GDP growth, the adjusted household savings ratio, and residential house price growth (lagged by four quarters), alongside a control for the Covid-19 lockdown period. All variables are statistically significant at the 5% level or better. We also tested a wider set of drivers, including sentiment indicators, but found this specification offered the best balance of fit and interpretability.

The model explains around 83% of the variation in the adjusted savings ratio over time ($R^2 = 0.83$). The coefficients are consistent with economic theory and provide intuitive insights. For example:

- **Policy rate:** A one-percentage-point rise in the Bank of England policy rate is associated with a 0.15 percentage-point increase in the adjusted savings ratio, as higher risk-free returns encourage households to save rather than consume.

- **House prices:** A 10% increase in residential house prices is associated with a one-percentage-point decline in the adjusted savings ratio, reflecting the UK's high homeownership rates and the scope for households to monetise housing wealth through equity release or similar mechanisms.

These examples illustrate the intuitive direction of the statistical relationships identified by the model, and more broadly highlight how monetary policy, economic growth, and housing market dynamics shape household saving behaviour in the UK.

Driver of adjusted savings ratio	Model-implied direction of relationship between driver and adjusted savings ratio
Bank of England policy rate	+
Real GDP growth	-
Household adjusted savings ratio (lagged by four quarters)	+
Residential house price growth (lagged by four quarters)	-
Covid lockdown dummy	+

 Source: PwC analysis

We then project forward the adjusted savings ratio based on a set of assumptions for its key drivers

Assumptions used in each scenario

To generate forward-looking scenarios for the adjusted savings ratio, we draw on a combination of our in-house projections and third-party sources. These include the 10th and 90th percentiles from the Bank of England's August 2025 Monetary Policy Report and projections from the Office for Budget Responsibility. Where necessary, third-party series are linearly interpolated.

Downside scenario (higher savings ratio)			
Period	Bank of England policy rate	Real GDP growth	Residential house price growth
2025 Q4	4.2%	0.8%	2.4%
2026 Q3	4.5%	-0.7%	1.6%
2027 Q3	4.5%	-0.8%	0.5%

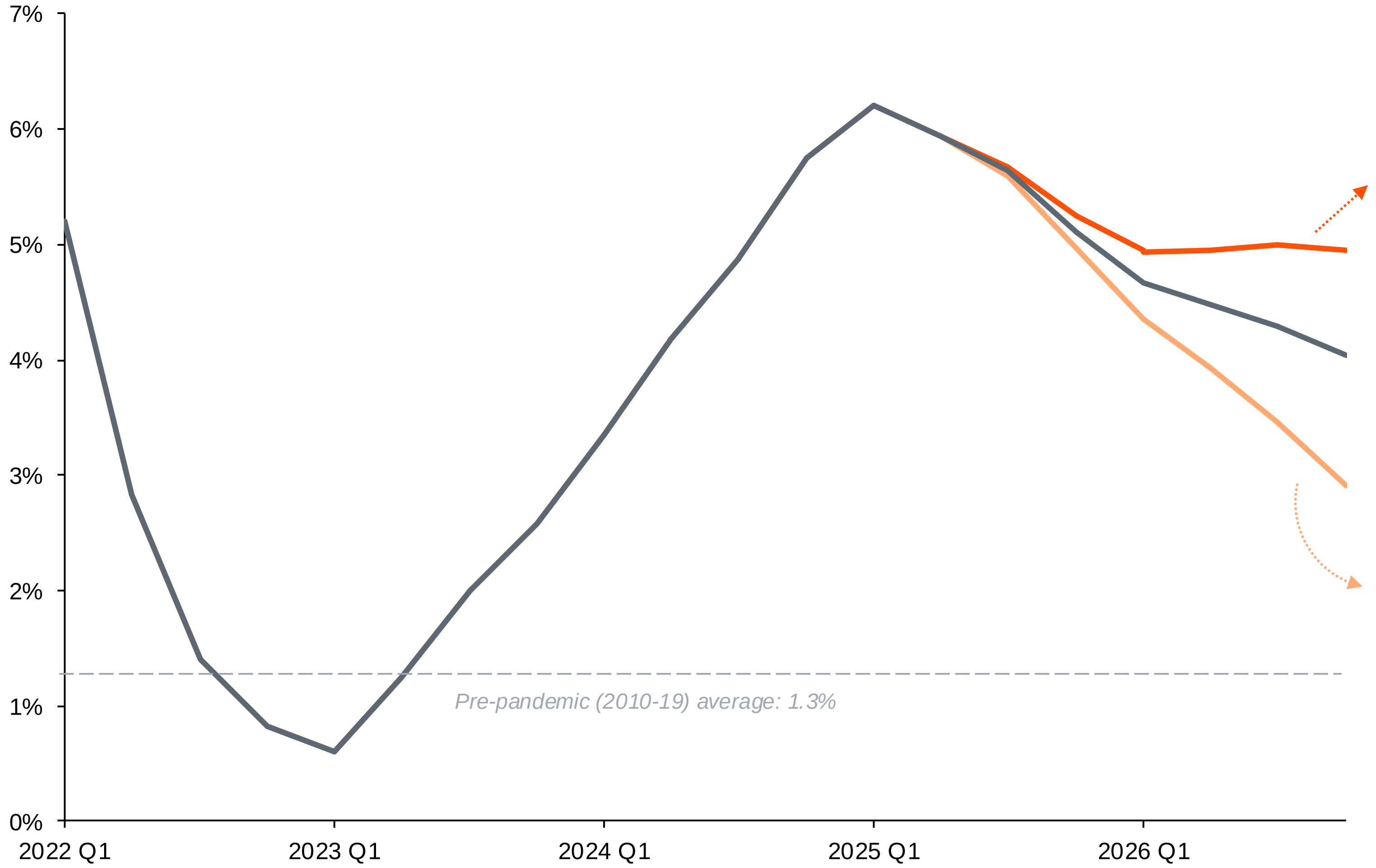
Base case scenario			
Period	Bank of England policy rate	Real GDP growth	Residential house price growth
2025 Q4	3.8%	1.1%	2.0%
2026 Q3	3.0%	0.7%	2.5%
2027 Q3	2.9%	0.8%	2.6%

Upside scenario (lower savings ratio)			
Period	Bank of England policy rate	Real GDP growth	Residential house price growth
2025 Q4	3.4%	1.4%	4.2%
2026 Q3	1.3%	2.3%	6.0%
2027 Q3	1.1%	2.4%	8.4%

 Sources: PwC analysis, OBR, Bank of England

In all three scenarios the adjusted savings ratio falls, mainly driven by the lower Bank policy rate. However, the rate at which this happens depends on the certainty about the economic outlook and other factors including the state of the labour market and house prices

Adjusted savings ratio under three modelled scenarios



Downside scenario (higher savings ratio)

→ **Lower consumer confidence** about the future leads households to spend more cautiously.

→ **Weak business confidence** results in a more fragile labour market.

→ **Slower house price growth** than the base case limits perceived wealth gains.

Base case scenario

→ **Consumer confidence** improves gradually but remains fragile amid Budget-related uncertainty.

→ **Job insecurity** persists, keeping precautionary saving slightly above historical norms.

→ **Moderate house price growth** provides some support to household wealth and spending.

Upside scenario (lower savings ratio)

→ **Consumer confidence** improves substantially on the back of a stronger economic outlook and greater tax policy certainty.

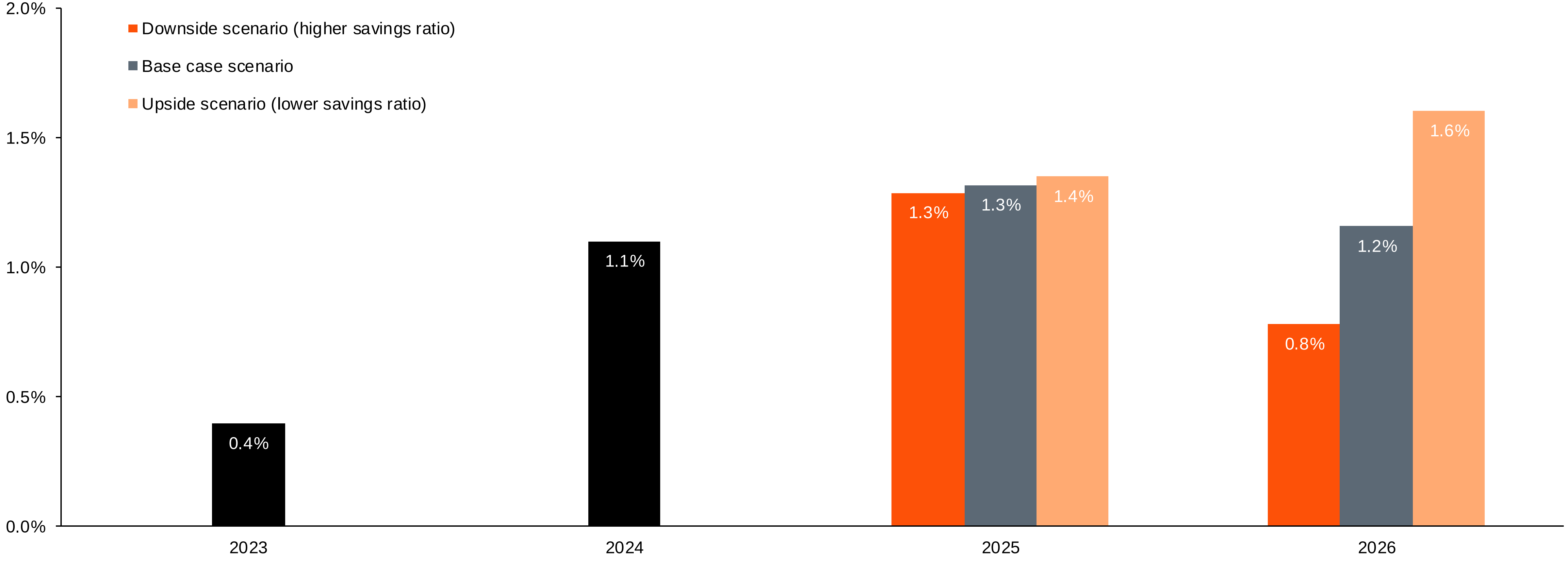
→ **Faster Bank of England rate cuts** reinforce the positive mood and encourage households to save less.

→ **Stronger house price growth** than the base case boosts perceived wealth.

 Notes: The adjusted savings ratio excludes changes in pension entitlements from income | Sources: PwC analysis, ONS

The pace at which the adjusted savings ratio falls has a significant economic implications. In our lower savings ratio scenario, economic activity is boosted by around 40 basis points relative to the base case.

UK annual real GDP growth rate, scenario-based projections

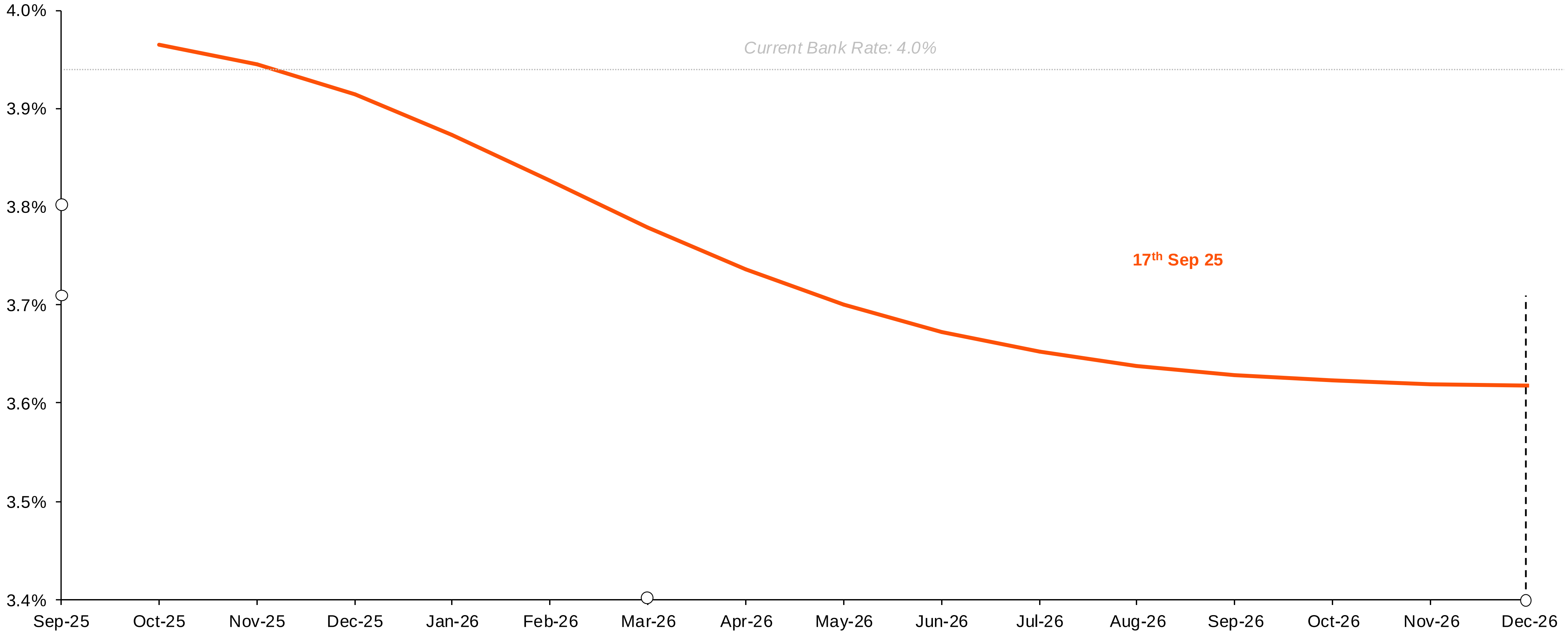


To assess the impact of the adjusted savings ratio on economic activity, we use the OBR's household disposable income projections to infer what each scenario implies for household consumption. We then apply the differences between these consumption paths and our in-house base case projection to estimate the resulting impact on overall economic activity.

 Sources: PwC analysis, ONS

Which scenario is more likely? With the Bank of England expected to gradually lower its policy rate over the next twelve months, households should be encouraged to save less and spend more

Market-implied path of the Bank of England's Bank Rate



 Notes: Curves show Overnight Index Swap (OIS) rates for contracts maturing in the corresponding months. Based on market pricing as of 17 September 2025. | Sources: PwC analysis, LSEG Datastream

Surveys show that households are less likely to save as the risk-free return drops. On the flipside, at least one in three households report they want to save more either because of precaution or because they want to be ‘match fit’ to make a large purchase when the opportunity presents itself

Reasons for saving, UK households

Growing importance

Main reason for saving	Share of households (%) (H2 2024)	Share of households (%) (H1 2025)	Change
To rebuild savings	31.6	34.2	+2.6 pp
To save for major purchase	23.5	25.0	+1.5 pp
To prepare for future increases in housing costs	16.0	16.3	+0.6 pp

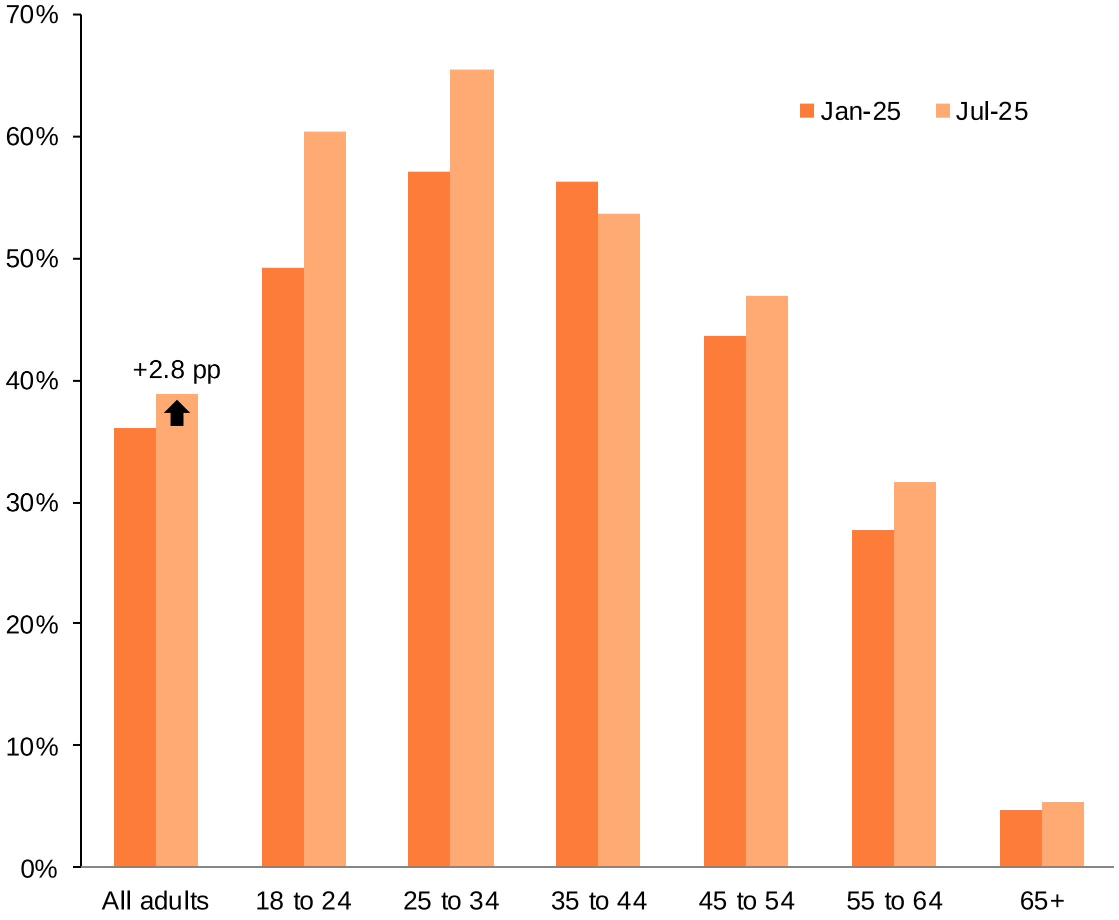
Declining importance

Main reason for saving	Share of households (%) (H2 2024)	Share of households (%) (H1 2025)	Change
Due to higher interest rates on savings	**33.2**	**27.2**	-6.0 pp
Due to an increase in income	26.8	26.5	-0.3 pp
To counteract a fall in investment or housing value	11.4	10.3	-1.1 pp
Due to risk of unemployment	8.8	8.6	-0.2 pp

PwC Notes: Share of households (%) that stated each factor as a main reason for saving more than usual over the past year. H1 = Half One (Jan-Jun). | Sources: PwC analysis, Bank of England, NMG Survey of Household Finances

There could be an element of precautionary saving too as most consumer age groups are more worried about the fate of the economy or their personal circumstances now compared to the beginning of the year

% of individuals concerned about their job security or job prospects



Conclusions

Confidence key to unlocking savings

- A key determinant of the UK's economic outlook is whether households feel confident enough to draw down savings and increase spending.
- Despite two years of rising real wages, households remain cautious, with job insecurity and uncertainty over the economic and inflation outlook weighing on spending.
- This hesitancy has kept growth subdued even as conditions for a modest recovery begin to emerge.

Chancellor's challenge: turning caution into confidence

- The challenge for the Chancellor is to convert household caution into confidence and encourage spending rather than precautionary saving.
- Her ability to inspire greater demand from households, rather than continuing to build precautionary savings, will be central to supporting near-term growth.
- This would be reinforced by policies that are stable over time rather than shifting with each fiscal event.

Notes: The number of individuals who responded 'A little concerned' or 'Very Concerned' to the question in the survey: Looking ahead at the next 12 months, how concerned, if at all, are you about each of the following things? Your job security or job prospects. Sources: PwC analysis, PwC Consumer Sentiment Survey (January and July 2025)

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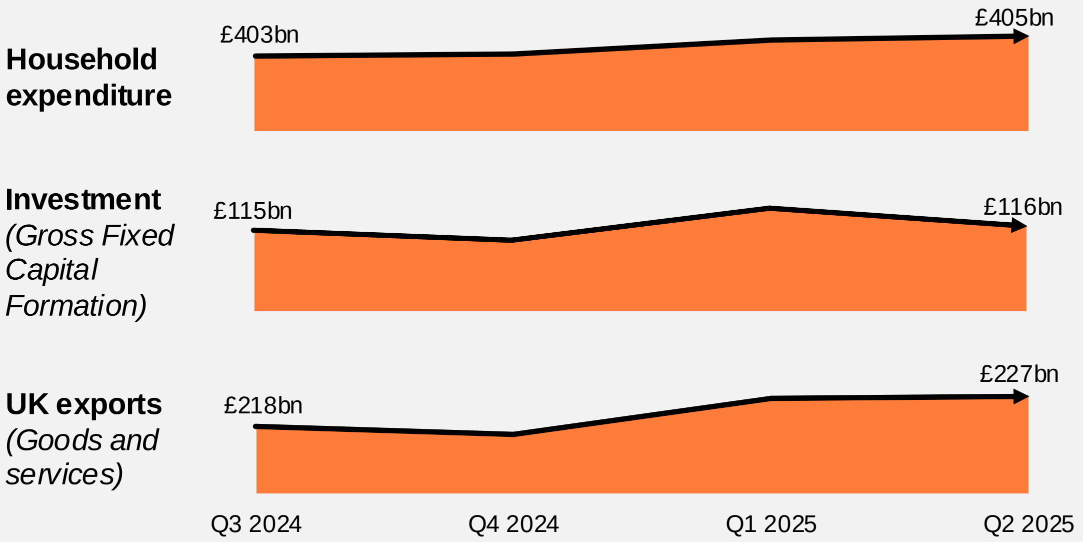
Data Watch

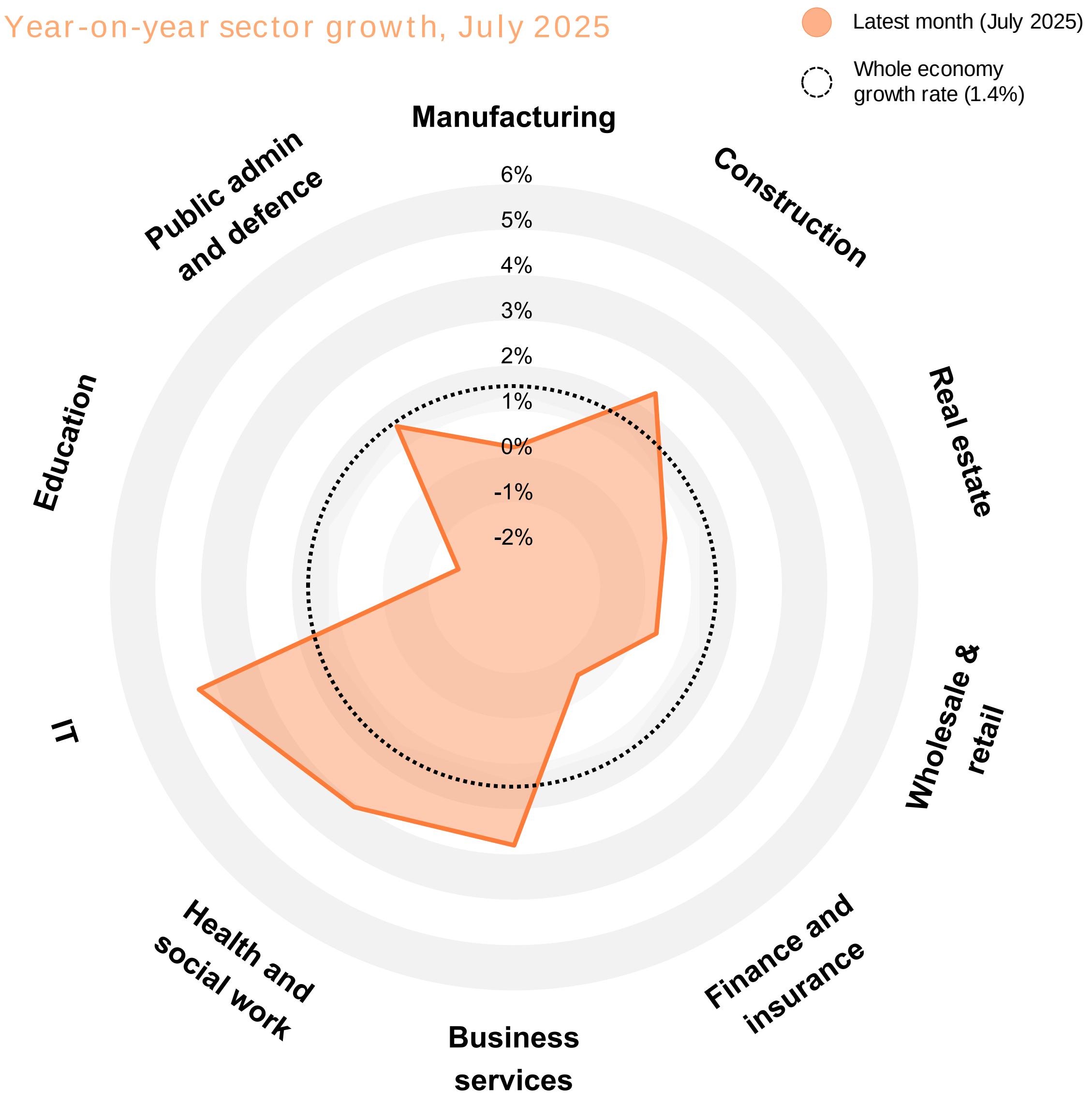
Tracking movements in the UK economy across key themes

Demand

- **PwC GDP projections revised up:** Stronger-than-expected growth in Q1 (0.7%) and Q2 (0.3%) put the UK at the top of the G7 in H1. We've raised our 2025 projection to 1.3%, reflecting stronger first-half data rather than a change in our H2 view.
- **Growth flattered by government spending:** Q2 was supported by government consumption and the resources put by government to the healthcare service. Household consumptions moderated and investment (which tends to be volatile) fell, while net trade was flat. A lasting recovery will require household spending & private sector activity to pick up.
- **Mixed sector performance:** Services (+0.4%, q-on-q) and Construction (+1.2%) drove Q2 growth, while Production slipped (-0.3%) after a strong Q1. Manufacturing edged up (+0.3%), helped by pharmaceuticals, potentially reflecting firms front-loading ahead of US tariffs.

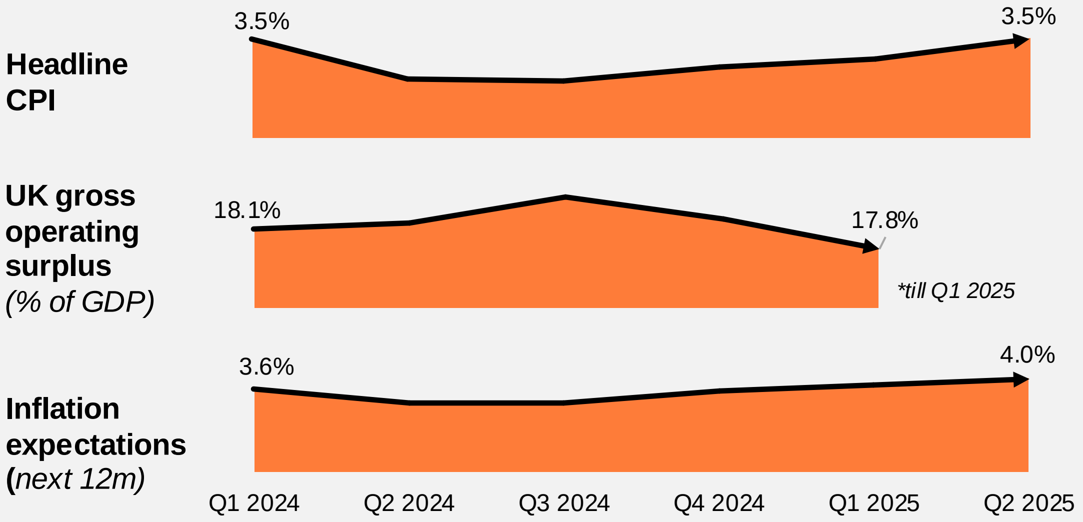


Year-on-year sector growth, July 2025

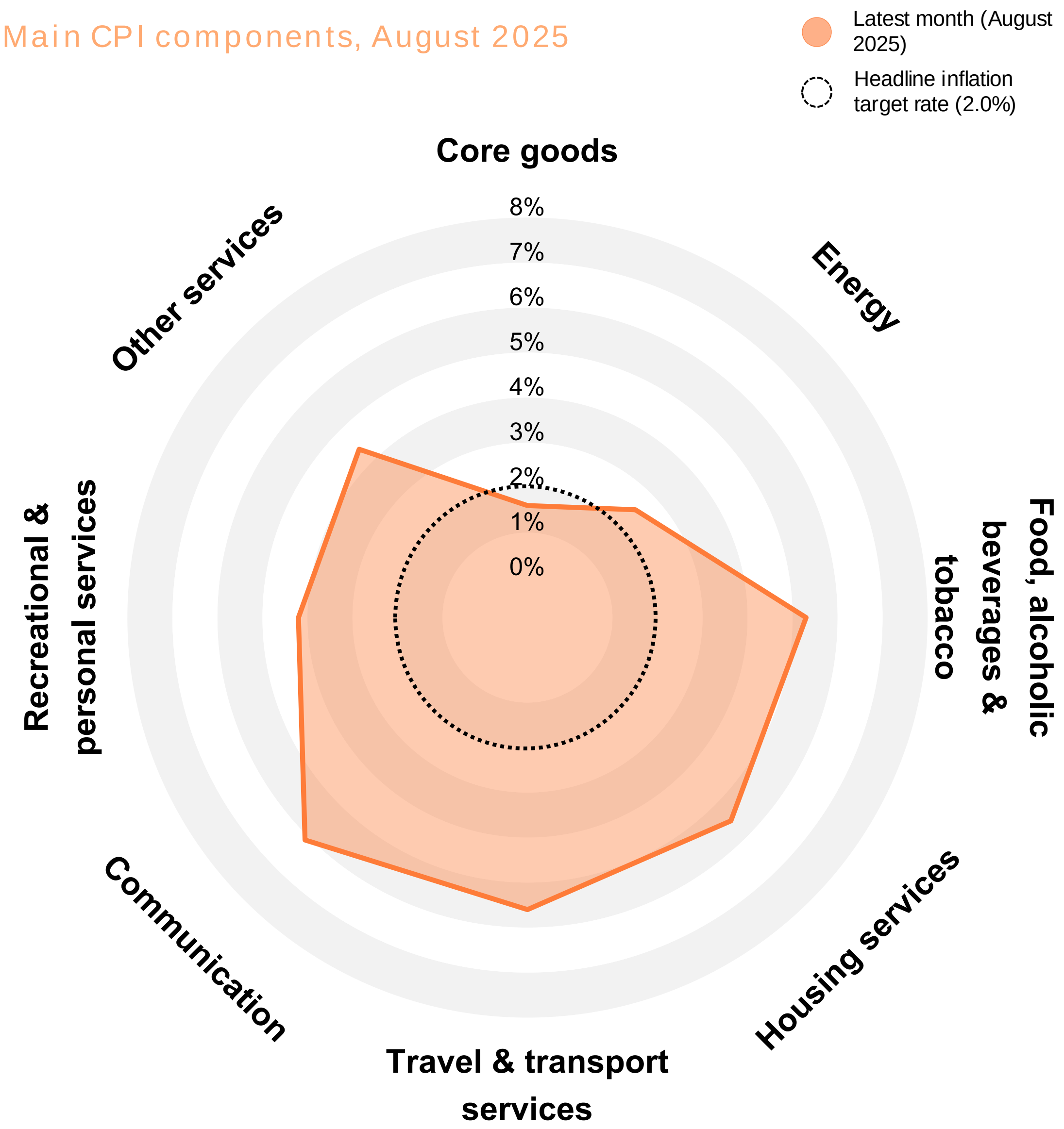


Prices

- **Headline hot, but the detail matters:** CPI held steady at 3.8%, matching expectations. Food & drink was once again a key driver reaching 5.1% in August (up from 4.9% in July). The closely monitored services inflation did fall from 5% to 4.7% which helped to offset the rise in food & drink inflation.
- **CPI projections revised higher:** We expect CPI to peak at just under 4% in September, before easing through 2026. Sticky services and food inflation have led us to upgrade our near-term projections, though our medium-term view remains that inflation should return towards target next year as looser labour market conditions and weaker demand feed through.
- **Margins under strain:** With food and wage inflation still elevated, firms' operating expenses remain under pressure. Firms have so far absorbed much of this through thinner margins, but profitability is now at its lowest since 2009. If labour-cost inflation remains high, more firms may attempt to pass costs onto consumers.



Main CPI components, August 2025



People

	2024 Q1	Q2	Q3	Q4	2025 Q1	Q2	Latest month	2010-19 average
Labour market activity								
Unemployment rate	4.2%	4.3%	4.2%	4.4%	4.4%	4.6%	4.7%	6.1%
Payrolled employees' MoM	14,000	15,000	-6,000	-6,000	-16,000	-22,000	-8,000	34,000
Self-employment jobs MoM	11,000	-19,000	31,000	-1,000	6,000	10,000	25,000	9,000
Economic inactivity rate	22.1%	22.1%	21.8%	21.6%	21.4%	21.1%	21.1%	22.2%
Long-term sickness, % of inactivity	29.9%	29.9%	30.0%	30.0%	30.2%	30.6%	30.7%	22.9%
Pay								
Nominal regular pay growth	6.0%	5.7%	5.2%	5.6%	5.7%	5.1%	4.8%	2.1%
Labour demand								
Vacancies	908,000	883,000	847,000	812,000	795,000	742,000	718,000	655,000
Labour market flows								
Job churn rate	2.8%	2.1%	1.8%	2.0%	2.2%	2.3%	2.3%	2.2%
Employment-to-unemployment flow	1.2%	1.0%	0.8%	0.9%	1.0%	0.9%	0.9%	1.2%

Looser *labour market* ***Tighter*** *labour market*

July 2025 data commentary

- **Cooling, but no sharp deterioration:** Payrolls have fallen in eight of the past nine months, though July's drop (-8k) was the smallest yet and unemployment held at 4.7%. Vacancies have now declined for 37 consecutive quarters, leaving labour demand at its weakest since 2014.
- **Sector pressures uneven:** Labour-intensive sectors such as hospitality, retail, construction and manufacturing have seen notable falls in payrolled employees, reflecting higher costs from April's NIC and National Living Wage hikes. In business services and IT, falling vacancies may also reflect efficiency gains from AI adoption.
- **Inactivity edging down:** Economic inactivity fell modestly in June, now down 335k from its peak last year, helped by more young people entering work. But the workforce remains smaller than before the pandemic and long-term ill health is still the leading cause of inactivity.

 Notes: The intensity of the colour reflects the distance from the average: the further away, the stronger the shading. Job churn rate refers to the percentage of workers who move from one job to another. Sources: PwC analysis, ONS, BoE

Bank of England tracker

	2025 Q1	Q2	Q3	Q4	2025 Q1	Q2	Latest month	2010-19 average
Policy stance								
Bank of England base interest rate	5.3%	5.3%	5.1%	4.8%	4.6%	4.3%	4.0%	0.5%
Inflation tracker								
CPI	3.5%	2.1%	2.0%	2.5%	2.8%	3.5%	3.8%	2.2%
Core goods inflation	2.0%	0.1%	0.2%	0.9%	1.3%	1.5%	1.6%	0.8%
Services inflation	6.2%	5.8%	5.2%	4.8%	4.9%	4.9%	4.7%	3.0%
Nominal regular pay growth, 3m avg	6.0%	5.7%	5.2%	5.6%	5.7%	5.1%	4.8%	2.1%
Market expectations of price pressures								
Market-implied RPI expectations, 10yr	3.5%	3.6%	3.4%	3.5%	3.3%	2.9%	3.0%	3.0%
Household inflation expectations, 1yr	3.1%	2.9%	2.8%	2.9%	3.3%	3.3%	3.2%	3.0%
Labour market slack								
Unemployment to vacancies ratio	1.7	1.7	1.8	1.9	2.1	2.3	2.3	3.3
Economic inactivity rate	22.1%	22.1%	21.8%	21.6%	21.4%	21.1%	21.1%	22.2%

Building *price pressures* ***Receding*** *price pressures*

September 2025 commentary

- **Steady but cautious:** The Bank of England kept the Bank Rate at 4.0%, with only two votes for a cut. The decision was widely expected, as recent inflation and labour market data have broadly tracked the Bank's forecasts. Forward guidance was left unchanged: any future reductions will be "gradual and careful".
- **Prices over jobs**: With labour market signals muddied by low survey response rates, the MPC continues to lean more on inflation data. This points to a slower pace of easing, as price data takes longer to reflect rate changes. Sticky services inflation remains the main concern, while food price pressures risk keeping household expectations elevated.
- **November in the balance:** A cut at the November meeting is now a genuine coin toss. The 22 October inflation release will be pivotal, with upside surprises on services inflation likely to delay easing. Beyond this year, we still see scope for gradual reductions as a looser labour market eventually feeds through to prices.

 Note: The intensity of the colour reflects the distance from the average: the further away, the stronger the shading. Sources: PwC analysis, ONS, BoE

Economic Projections: September 25

PwC main scenario projections

	2010-19 Average	Latest	2024 Q1	Q2	Q3	Q4	2025 Q1	Q2	Q3	Q4	2025	2026	2027-29	As-at
G7 GDP, annual growth rate, %														
UK	2.0	1.4 *Jun*	0.7	1.1	1.2	1.5	1.3	1.2	1.4	1.5	1.3	1.2	1.8	*5th Sep*
US	2.4	2.1 *Q2*	2.9	3.0	2.7	2.5	2.0	2.1	-	-	1.6	1.7	2.2	*5th Sep*
Canada	2.3	1.2 *Q2*	0.1	0.5	1.4	1.9	2.3	1.2	-	-	1.2	1.2	1.8	*5th Sep*
Germany	2.0	0.2 *Q2*	-0.5	-0.6	-0.6	-0.2	0.2	0.2	-	-	0.3	1.3	1.5	*5th Sep*
France	1.4	0.8 *Q2*	1.7	1.0	1.1	0.6	0.6	0.8	-	-	0.6	1.0	1.3	*5th Sep*
Italy	0.2	0.4 *Q2*	0.3	0.7	0.5	0.6	0.7	0.4	-	-	0.5	0.8	0.9	*5th Sep*
Japan	1.2	1.8 *Q2*	-0.9	-0.7	0.7	1.3	1.6	1.8	-	-	0.6	0.6	0.6	*5th Sep*
Eurozone	1.4	1.5 *Q2*	0.5	0.5	0.9	1.3	1.6	1.5	-	-	1.2	1.1	1.4	*5th Sep*
UK Prices and Policy rate														
Consumer prices, %	2.2	3.8 *Jul*	3.5	2.1	2.0	2.5	2.8	3.5	3.7	3.5	3.4	2.3	1.8	*8th Sep*
- Services, %	3.0	5.0 *Jul*	6.2	5.8	5.2	4.8	4.9	4.9	5.1	5.2	5.0	3.4	2.3	*8th Sep*
- Core goods, %	0.8	1.6 *Jul*	2.0	0.1	0.2	0.9	1.3	1.5	1.4	0.8	1.2	0.8	0.6	*8th Sep*
- Energy, %	3.2	1.4 *Sep*	-14	-16	-13	-8	-7	-1	2.9	0.7	-1.2	0.5	2.9	*8th Sep*
Base interest rate, %	0.5	4.0 *Aug*	5.3	5.3	5.1	4.8	4.6	4.3	4.1	3.9	4.2	3.6	3.7	*10th Sep*
Residental property, UK														
Prices, annual growth rate, %	3.7	3.6 *Jun*	-1.3	0.3	1.0	3.0	4.7	2.9	-	-	3.9	2.9	2.9	*10th Sep*
Transactions, monthly avg, 000s	92	96 *Jul*	84	92	92	97	128	81	-	-	-	-	-	
World														
GDP, annual growth rate, % (MER)	3.2	-	2.8	2.7	2.8	3.1	3.0	2.9	-	-	2.4	2.3	2.6	*9th Sep*
Brent crude, $/bbl	79	68 *Sep*	82	85	79	76	76	66	69	67	69	66	56	*10th Sep*

Notes: Please refer to the appendix for a more detailed explanation of our methodologies. ‘MER’ refers to market exchange rates and ‘PPP’ is purchasing power parity. All inflation projections refer to the Consumer Price Index (CPI) unless otherwise stated. We continue to recommend our clients to undertake scenario analysis given uncertainties in the global and UK economic outlook. Sources: PwC UK and global analysis, national statistical authorities, EIKON from Refinitiv, IMF, Consensus Economics, the OECD, and Fitch Solutions.

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About us

Our team of economic consultants and strategists who work alongside a wide range of clients, using economic insights to inform strategic choices, guide the development of policy and assess the impact of major investments and spending decisions. In the boardroom, in front of regulators and with policy makers and decision-makers at large we develop big, distinctive ideas and important insights that are grounded in robust economic analysis.

We're one of the UK's leading economics practice and are part of PwC's global network of economists.

For more details, please visit our website.

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