The State of UK Affordability Report

Understanding financial resilience in a changing market

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Foreword

For lenders, affordability has rarely been a more important — or more complex — consideration.

After several years of economic disruption, consumers have proven remarkably resilient. Despite the pressures of rising prices, debt levels remain broadly manageable, incomes have grown significantly and credit performance remained relatively stable. At a headline level, consumers appear to be on somewhat solid footing, thanks almost entirely to the high median income growth. However, this is only part of the story.

Beneath these positive headline indicators, there's an increasing divergence between the haves and have-nots. Financial resilience is becoming increasingly uneven across the population. While the majority of consumers have adapted successfully to higher living costs, a portion of the population continues to operate under increasing levels of financial stress. For lenders, this creates a complex challenge. Traditional income and affordability indicators often provide a snapshot of a consumer's financial position, but they provide less insight into how resilient that person may be in the face of change or economic shocks. Two households may appear equally financially secure, yet unexpected job losses or personal life events can leave them with very different capacities to withstand future financial strain.

This report explores factors shaping affordability in today's market and reveals why averages alone will never tell the full story. Drawing on TransUnion® market data and consumer research, it explores consumers' current financial circumstances and the near-term outlook both for consumers and the credit industry.

James O'Donnell
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The current state of consumer affordability

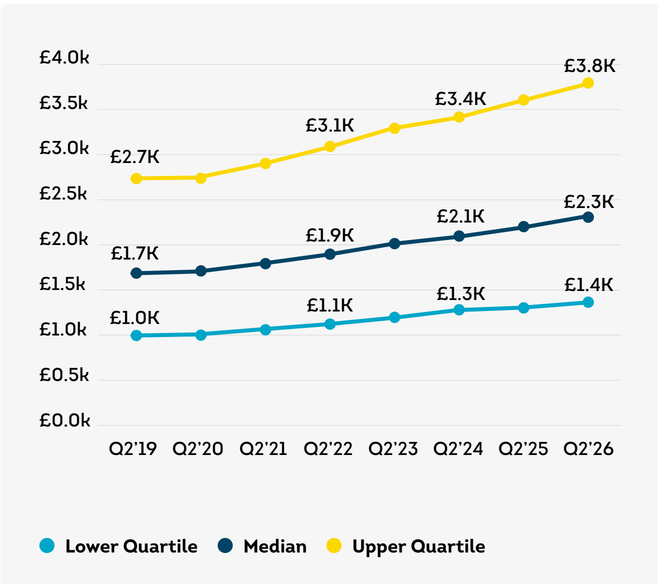
Headline indicators point to resilience

The UK's affordability landscape in 2026 presents a more resilient picture than many may have anticipated. Following several years of inflationary pressure, macroeconomic turbulence and cost-of-living challenges, headline indicators suggest consumer finances have stabilised and, in some areas, strengthened.

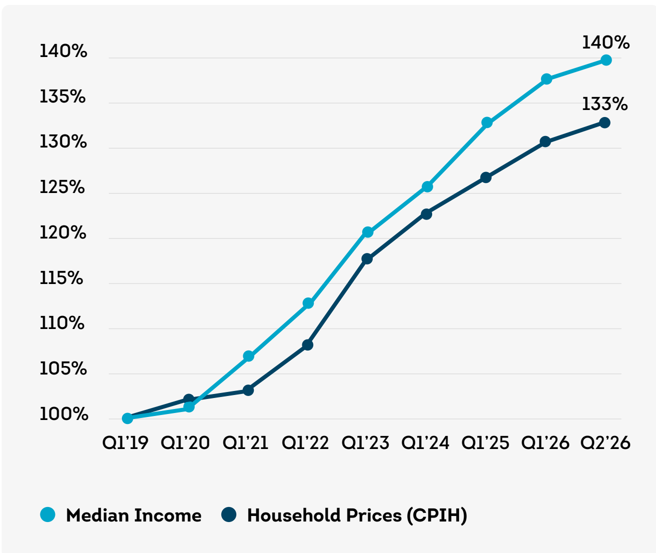
The most notable driver of this recovery can be identified in the increase in household incomes. TransUnion analysis shows net incomes have increased by an average of 38% across all income levels since January 2019 compared to a 31% increase in household prices.[1] This suggests a modest recovery in real purchasing power for a majority of consumers whose incomes have broadly surpassed rising costs despite a sustained period of inflation-driven pressure.

This upward trajectory is closely linked to the strength of the labour market in recent years, which mitigated much of the pressure created by rising everyday costs. As a result, household disposable incomes have remained relatively resilient. The share of consumers keeping monthly expenditure below 90% of their income increased slightly from 87.1% in 2022 to 87.8%,[2] indicating income growth has enabled more households to maintain financial headroom. In turn, this has strengthened their ability to cope with unexpected costs and periods of financial strain.

Monthly Post-Tax Income



Buying Power Shifts: Comparing Growth in Income and Prices (Indexed to 2019 Q1)



1 TransUnion UK Affordability Data
2 TransUnion UK Consumer Credit Data

Consumer indebtedness tells a similar story. While debt balances increased overall, indebtedness remains well controlled at an aggregate level. In fact, the ratio of unsecured debt to income declined materially, falling from 5.80x pre-pandemic to 3.79x today, marking the lowest level in two decades.[3] As a result, consumers are, on average, carrying a more manageable level of debt relative to their earnings when compared to previous cycles.

This trend is the result of several factors, including Financial Conduct Authority (FCA) regulations on interest rates and overdrafts, tighter restrictions on high-cost borrowing, and increased risk aversion among both lenders and consumers. Faced with the economic uncertainty brought about by the COVID-19 pandemic, followed by the recent period of high price inflation and interest rate hikes, lenders have been less willing to expand their exposure to risk — while consumers have taken a more cautious approach to managing their finances, which has had a knock-on effect to the trends we're seeing today. Ultimately, these factors, in conjunction with the corresponding high income growth, are responsible for the notable drop in consumer debt-to-income ratios.

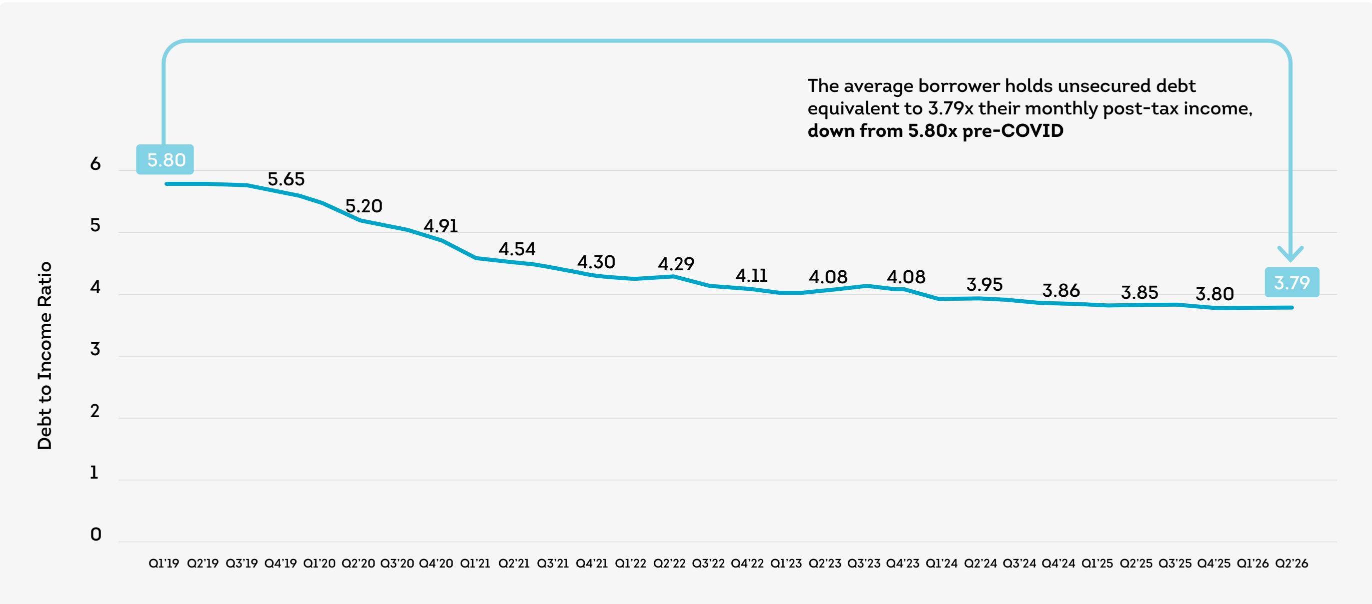
These overall market conditions are reflected in consumer sentiment. Consumer optimism was at a record low (26%) when the cost-of-living crisis began in 2022, but it has since recovered and remained on a steady upward trajectory, reaching a recent peak in Q1 of 2026.[4] This is perhaps unsurprising when most households also reported their finances were either better than expected (26%) or on track (38%),[5] suggesting the combination of strong incomes and manageable debt levels helped galvanise a degree of optimism among the population.

Taken together, these indicators present a picture of a consumer base that has, at a macro level, mostly weathered recent economic pressures more effectively than might have been expected. Income recovery, controlled debt levels and broadly stable repayment performance all point to a system that appears fundamentally resilient.

However, while the overarching picture is positive or neutral, it does not discount the importance of considering the needs and pressures experienced by the 32% who are pessimistic about the future of their finances.[6]

Unsecured Debt to Income Ratio

(Unsecured Debt Per Borrower With A Balance/Median Monthly Post-Tax Income)



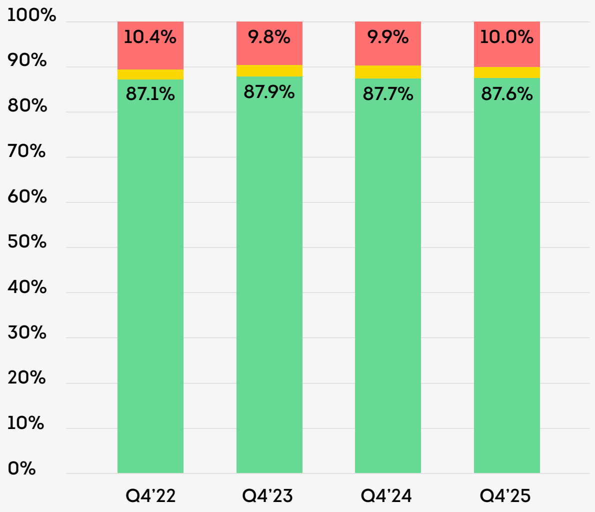
3 TransUnion UK Consumer Credit Data
4, 5, 6 TransUnion Consumer Pulse Data Q2 2026

Divergence is emerging

Despite the majority appearing to be relatively resilient, it is more accurate to observe that financial pressure remains a concern for many consumers. Rather than being widespread, the pressure has instead become more unevenly distributed.

While incomes increased or remained the same for a majority (84%) of households,[7] this wasn't the reality for all. As a result, a core group of consumers continue to operate in a structurally constrained position. Around 10% remain in negative disposable income,[8] while a further 2.5% hold less than a 10% financial buffer.[9] Together, these groups highlight a segment of consumers operating with little to no financial headroom — either already reliant on credit to meet everyday expenses or highly exposed to even small changes in income or cost.

Disposable Income Indicator



Green
The percentage of consumers whose expenditure is less than or equal to 90% of their income

Amber
The percentage of consumers whose expenditure is between 90% and 100% of their income

Red
The percentage of consumers whose expenditure is more than their income

This increased exposure is further evidenced in household behaviour. The savings ratio fell in early 2026, declining from around 4.5% in late 2025 to approximately 3.5% in Q1.[10] Typically, periods of instability lead to an increase in precautionary saving. However, this trend suggests some households may have limited capacity to save, rather than reduced need to do so.

This emerging vulnerability is reflected in consumer sentiment. TransUnion Consumer Pulse data reveals while many reported stability, a meaningful proportion — over 3 in 10 (32%) — were pessimistic about their financial outlooks, with 37% stating their finances are worse than planned.[11] Sentiment often weakens before financial distress becomes visible in credit performance data, meaning these perceptions may serve as an early warning sign financial pressure has begun to build beneath an otherwise resilient consumer landscape.

Delinquency trends reinforce this picture. While account-level delinquency rates remained relatively stable, both the volume (+13.7%) and rate (+8.9%)[12] of consumer-level delinquency are on a gradual upward trajectory, suggesting financial strain is becoming more widespread — even if it has yet to materially impact portfolio performance.

Nevertheless, context remains important. Delinquency rates are still near historic lows, debt burdens remain manageable, and the majority of consumers continue to demonstrate strong affordability. The evidence does not point to a broad-based deterioration in consumer finances. Instead, it suggests increasing divergence between consumers who remain financially resilient and those who are becoming progressively more vulnerable. As a result, aggregate measures of financial health may appear robust, even as underlying fragilities begin to emerge among specific segments of the population.

However, there are increasing signs the factors underpinning this headline resilience are beginning to weaken, creating a more uncertain outlook for affordability in H2 2026 and beyond.

7, 8, 9, 10, 12 TransUnion Consumer Credit Data
11 TransUnion Consumer Pulse Data Q2 2026

Why the outlook is becoming more uncertain

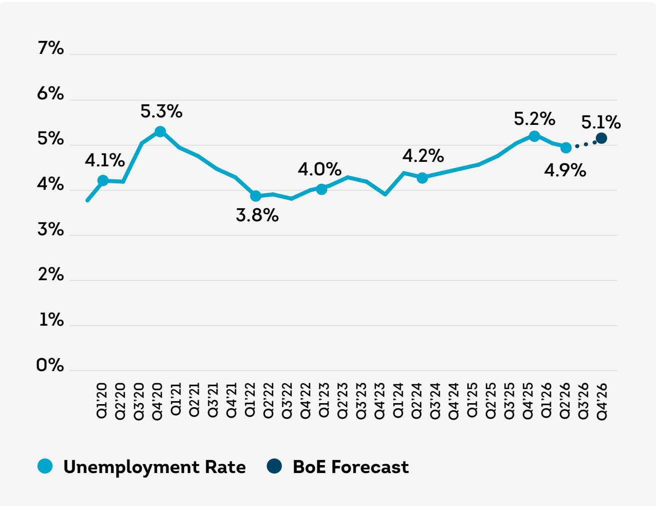
Much of the improvement in consumer affordability over recent years did not emerge in isolation. Households navigated the 2022–2024 inflation shock against the backdrop of one of the strongest labour markets in decades, with abundant job opportunities, low unemployment and robust wage growth helping consumers absorb rising living costs. However, the conditions that underpinned that resilience are becoming less supportive.

The clearest sign of this shift is the continued cooling of the labour market. Vacancies peaked at almost 1.3 million in mid-2022,[13] reflecting exceptionally strong demand for labour. Since then, vacancy volumes have fallen steadily, reaching just 712,000 by Q2 2026 — below the 2019 average of 799,000.[14] As opportunities have become less abundant, workers have faced a more challenging environment for both securing employment and improving earnings.

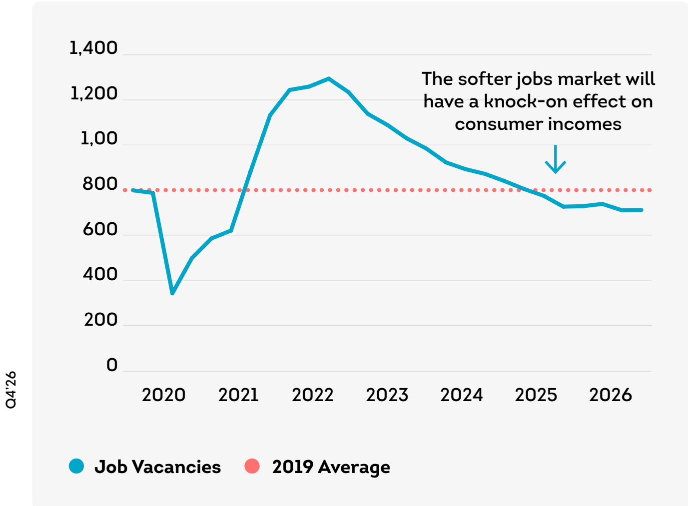
This softening is also reflected in unemployment. Having fallen as low as 3.7% in 2022, the unemployment rate rose to 4.9% in May, with The Bank of England forecasting a further increase to approximately 5.1% in Q4 2026.[15]

Younger consumers appear to be feeling this shift most acutely. Often considered an early indicator of broader labour market stress, unemployment among 18–24-year-olds has increased from 9.5% in April 2022 to 14.5% in April 2026, while youth employment rates have steadily declined over the same period.[16]

Unemployment Rate Forecast



Job Vacancies



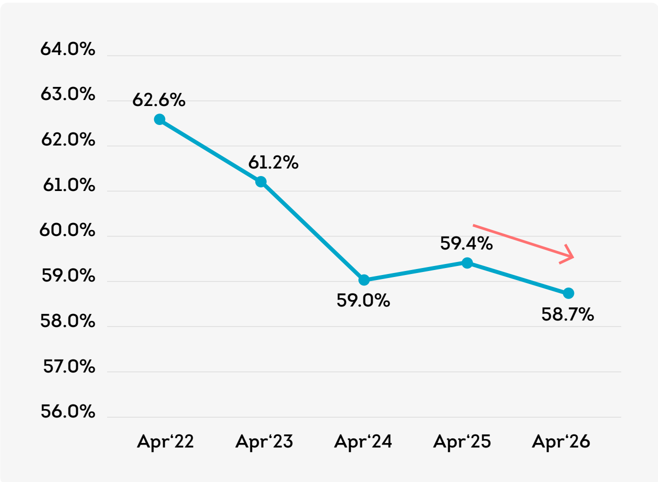
13 Office for National Statistics, Labour Market Overview, July 2026
14 Office for National Statistics, Labour Force Survey
15 Bank of England, Monetary Policy Report, July 2026
16 TransUnion UK Affordability and Consumer Credit Database

Importantly, this isn't simply a story about employment levels. A softer labour market impacts income progression. When vacancies are plentiful, workers can more easily secure promotions, negotiate higher wages or move jobs to improve earnings. As hiring demand cools, that earnings momentum becomes harder to sustain. Consistent with this outlook, forecasts for real household disposable income have deteriorated sharply.[17] After strong growth through 2024, disposable income growth is expected to turn negative during 2026,[18] creating additional pressure on household finances.

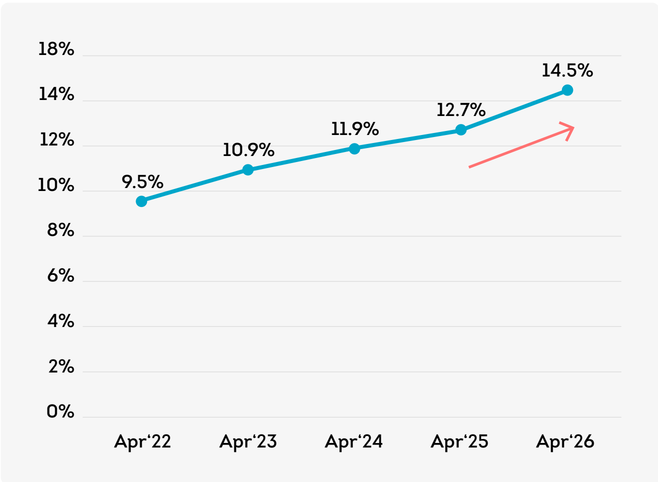
There are signs consumers are already feeling the consequences of this changing environment. After reaching 47% in Q1 2026, financial optimism fell to 44% in Q2,[19] reversing some of the improvement seen over recent years. This decline likely reflects a combination of factors, including renewed inflationary pressures triggered by heightened geopolitical uncertainty in the Middle East. While confidence remains well above the levels seen during the height of the cost-of-living crisis, consumers appear to be feeling the early effects of an economic environment that's becoming less favourable.

Taken together, the evidence suggests consumer affordability is entering a new phase. While most households remain financially resilient, the economic conditions that supported that strength over recent years are becoming less favourable. A softer labour market, slowing income growth and renewed inflationary pressures are unlikely to trigger widespread financial distress, but they may increase the number of consumers operating with limited financial headroom. As affordability pressures become more unevenly distributed across the population, understanding where vulnerability is emerging will become increasingly important. This has significant implications for lenders.

Youth Employment Rate (18-24)



Youth Unemployment Rate (18-24)



17, 18 Bank of England, Household Disposable Income Forecast
19 TransUnion Consumer Pulse Data Q2 2026

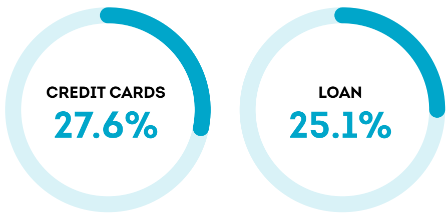
The implication for lenders

For lenders, the current environment presents a challenge of precision rather than protection. As the findings of this report have established, affordability isn't deteriorating but diverging.

While traditional indicators continue to suggest stability among much of society, pockets of pressure are emerging through consumer sentiment, financial resilience and delinquency trends. Importantly, the question for lenders will not be whether consumers are under pressure, but *which* consumers are under pressure.

This distinction will be increasingly important for lenders as we enter a period of slower income growth and a less supportive labour market. However, contextualising the current lending environment is critical. Much of the credit growth observed during 2025 was driven by changes in lender behaviour rather than any meaningful deterioration in consumer finances. Increased competition, higher origination volumes and a clear expansion in risk appetite fuelled lending growth,[20] particularly within credit cards and unsecured personal loans. Most notably, non-prime originations increased by 27.6% for credit cards and 25.1% for loans,[21] reflecting a greater willingness among lenders to extend credit beyond traditional prime segments.

As a result, lenders should expect some moderation in portfolio performance over the coming quarters. The combination of lower incomes, higher cost burdens and increased lending to riskier segments will inevitably place some upward pressure on arrears rates, as is already reflected in the gradual incline in delinquency rates.



Non-prime originations increased by 27.6% for credit cards and 25.1% for loans [21]

However, these trends don't warrant a wholesale shift toward more conservative lending decisions. While some consumers are facing increasing financial strain, affordability remains strong for the vast majority and demand for credit remains firmly in place.

The opportunity for lenders lies in moving beyond traditional, static affordability assessments toward a more dynamic view of a consumer's financial resilience. In an environment of ongoing economic uncertainty, lenders that can separate short-term financial strain from long-term affordability risk will be better equipped to make stronger, more confident lending decisions. In short, true differentiation will come from the ability to assess not just where a consumer stands today but how resilient their financial position is likely to be in the face of future change. Those that achieve this will be poised to identify emerging risks earlier — while also unlocking opportunities to extend credit to creditworthy customers who may historically be underserved by more traditional assessment approaches.

To explore how lenders can achieve this in practice, download our eBook — **Affordability, Redefined**. It explores the changing affordability landscape and examines how income insight, affordability monitoring and behavioural indicators can help organisations identify emerging stress earlier, make more confident lending decisions and support better customer outcomes.

20 Bank of England Mortgage Lenders and Administrators Statistics 2025
21 TransUnion UK Consumer Credit Data

Find out more at:

transunion.co.uk/creditworthiness

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