



Ulster Bank

Retail and Leisure Outlook Report 2026



Tomorrow begins today

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Ten key takeaways

1. Growth is more selective and values-based

Growth is returning but it's more selective and values-driven. Businesses that remain vigilant with agile business models can capitalise on emerging opportunities.

2. A year of modest recovery – but policy risks remain

Economic growth of 1% expected in 2026 with additional legislation potentially undermining investment and household spending intentions.

3. Efficiency and automation top the investment agenda

Half of all business investment in 2026 is focused on efficiency, with eight in ten intending to increase automation to ease rising labour costs.

4. Retail, hospitality and leisure return to growth

Volume growth across retail, hospitality and leisure is expected to rise 0.4% in 2026.

5. Firms stay focused on cost strategy despite headwinds

60% of retail, hospitality and leisure firms feel less confident after the Autumn Budget 2025. Additional costs plan to be offset through a combination of cost optimisation, margin absorption and price rises.

6. Target demand where it's growing – the secure and affluent

Consumer demand across retail, hospitality and leisure in 2026 is predominately skewed towards young, affluent and financially secure households.

7. Spending shifts towards meaningful, experience-led moments

Many consumers plan to prioritise their spending on experiences above physical purchases.

8. Affordability remains front of mind for most households

Over half of consumers remain concerned about the cost of living in 2026.

9. AI and platforms are transforming brand visibility

Use of Generative AI, social platforms and international marketplaces has surged, creating new opportunities for discovery and research of brands. One in four consumers use AI to make shopping or booking decisions.

10. AI is moving to the front line of customer experience

AI use by businesses is being rolled out in front-end interactions with customers, including marketing and customer support.

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Foreword

As UK retail, hospitality and leisure businesses enter 2026, the turbulence of recent years has eased, but the conditions created have become structural.

Inflation has moderated and household finances are stabilising. Despite this, consumer confidence remains fragile with a range of spending behaviours. Businesses face a year defined not by shocks, but by persistent cost pressure, uneven demand and shifting consumer expectations.

Against this backdrop, growth will come from those who adapt fastest. Financially resilient and digitally fluent households are driving spending, increasingly influenced by AI-shaped discovery, social platforms and global marketplaces. These behaviours are reshaping competition, placing visibility, experience and trust at the centre of advantage.

At the same time, operators face sustained margin pressure from labour, business rates and regulatory change. Efficiency, automation and disciplined cost control are now central to enabling - not replacing - growth ambitions.

This outlook draws on fresh research with consumers and industry leaders to highlight where real opportunities lie. It shows that 2026 rewards businesses that defend margins without eroding experience, embrace AI while elevating human touchpoints, and invest with clarity in a market where confidence - not just income - determines spend.



David Scott
Head of Consumer Industries

“Financially resilient and digitally fluent households are driving spending, increasingly influenced by AI-shaped discovery, social platforms and global marketplaces.”

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Section 1

Operating backdrop: the margin squeeze



Section 1: Operating backdrop – the margin squeeze

This section lays out the macroeconomic context for 2026. It outlines the pressure on margins, and we explore the growth outlook, labour market, consumer confidence, and key financial risks and opportunities to better understand challenges in the year ahead.

1.1: Growth in 2026

UK businesses enter 2026 against a backdrop of: (1) modest growth; (2) easing but still-elevated inflation; and (3) a labour market that is softening but remains relatively tight. Positively, the economy continues to expand, but at a slow pace, while margins in consumer-facing sectors remain under pressure. Together, these factors create a range of core expectations and impacts (Fig. 1).

Across official forecasters, there is broad consensus that economic growth will be mildly positive in 2026, with real GDP projected between 1% and 1.5%. This reflects geo-political uncertainty, continued drag from fiscal consolidation, polarised consumer spending, and mixed productivity.

Despite challenging conditions, many consumer brands have continued to defy expectations. Those investing in digital capabilities, sharpening propositions around customer realities and leading with data-driven decision-making have consistently outperformed the market. This has been evident in a series of impressive Christmas trading updates, underlining how the strongest propositions are pulling ahead, even as performance remains uneven.

Fig [1] Key macroeconomic expectations for 2026

Area	2026 expectation	What this means for retail, hospitality and leisure
Inflation	Easing, but sticky. Headline CPI expected to average around 2.5% in 2026, moderating from recent peaks but remaining above the Bank of England’s 2% target.	Price pressures continue to weigh on real spending power. Peak inflation has passed, but households still feel stretched, reaffirming the opportunity for value-led messaging to support growth in discretionary categories.
Labour market	Softening, not slack. Unemployment projected at around 5.0%, still low by historical standards. Wage growth moderates but remains positive in nominal terms.	Employment continues to underpin demand, but uneven real wage growth is constraining discretionary spend in some areas. Labour costs remain a material pressure for operators.
Real wages	Fragile improvement. Nominal wage growth slows as inflation eases, resulting in only modest real income gains for many households.	Spending recovery is uneven. Higher-income households are stabilising first, while pressure persists among lower-income and renter cohorts, heightening the need for clear, data-led customer understanding.
Interest rates	Gradual easing, but restrictive. Policy rates expected to edge lower during 2026 as inflation falls but remain well above pre-pandemic levels.	Falling interest rates are beginning to ease financing conditions, improving investment visibility and reinforcing the value of strong cashflow and working capital management.
Consumer confidence	Cautious against uncertain backdrop. Sentiment remains subdued, reflecting the cumulative impact of higher prices, cooling wage growth and geo-political volatility.	Demand profiles are uneven. Growth depends more on share-of-wallet gains, value perception, and experience-led differentiation than on a rising spending tide.

Source: Retail Economics

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Section 1: Operating backdrop – the margin squeeze

1.2 Autumn Budget impact – cost pressure without confidence

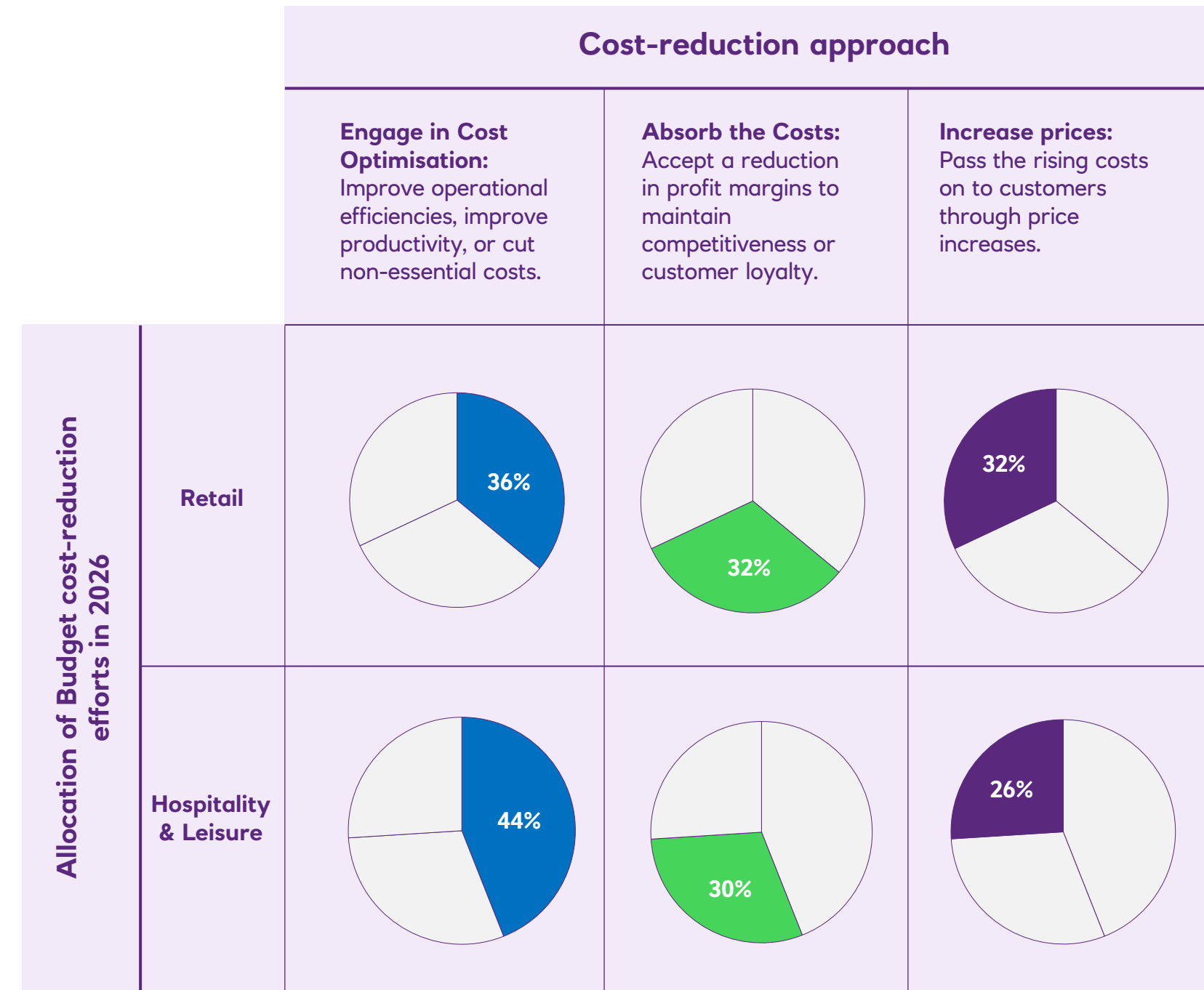
The Autumn Budget 2025 arrived at a sensitive moment for retail, hospitality and leisure. While further cost pressures were unwelcome, many businesses took reassurance from the fact that outcomes were less severe than feared, with greater clarity helping to support confidence.

Overall, six in ten businesses report feeling less confident after the Budget, citing business rates, tax headwinds and the cumulative burden of regulation as major causes of concern. However, there are signs the Government has responded to pressure from industry. A revised support package – worth around £100m annually – has been announced for pubs after warnings of widespread closures and job losses linked to the earlier business rates changes. This suggests the sector’s concerns have been heard, even if uncertainty remains.

This support package applies to England only; at the time of writing, devolved governments retain discretion over whether to introduce equivalent measures. Our research shows that businesses are expected to continue to prioritise cost optimisation over price increases, reflecting acute consumer price sensitivity. This is a positive trend for consumers. We reveal that cost-reduction efforts in 2026 will be achieved using three main approaches (Fig. 2).

“Businesses are expected to continue to prioritise cost optimisation over price increases, reflecting acute consumer price sensitivity. This is a positive trend for consumers.”

Fig [2] How businesses are defending margins: cut, absorb or pass on?



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Section 1: Operating backdrop – the margin squeeze

Key sector differences

Sector	Implications
Hospitality, leisure and entertainment	<p>These sectors are most focused on cost optimisation:</p> <ul style="list-style-type: none"> • This approach reflects labour-intensive operating models and greater exposure to the National Living Wage and employer National Insurance changes • Restaurant prices have risen by 29% over the past four years, compared with a 38% increase in grocery prices. • The largest proportion of cost inflation management is driven by increasing operational efficiencies.
Retail	<p>Retailers are adopting more balanced strategies:</p> <ul style="list-style-type: none"> • Combining selective price increases with cost absorption and efficiency measures. • Aimed at avoiding accelerated switching to discounters, own-label and online alternatives.

Overall, the Budget reinforces a structural shift away from price-led margin management and towards operational efficiency as the primary defence.



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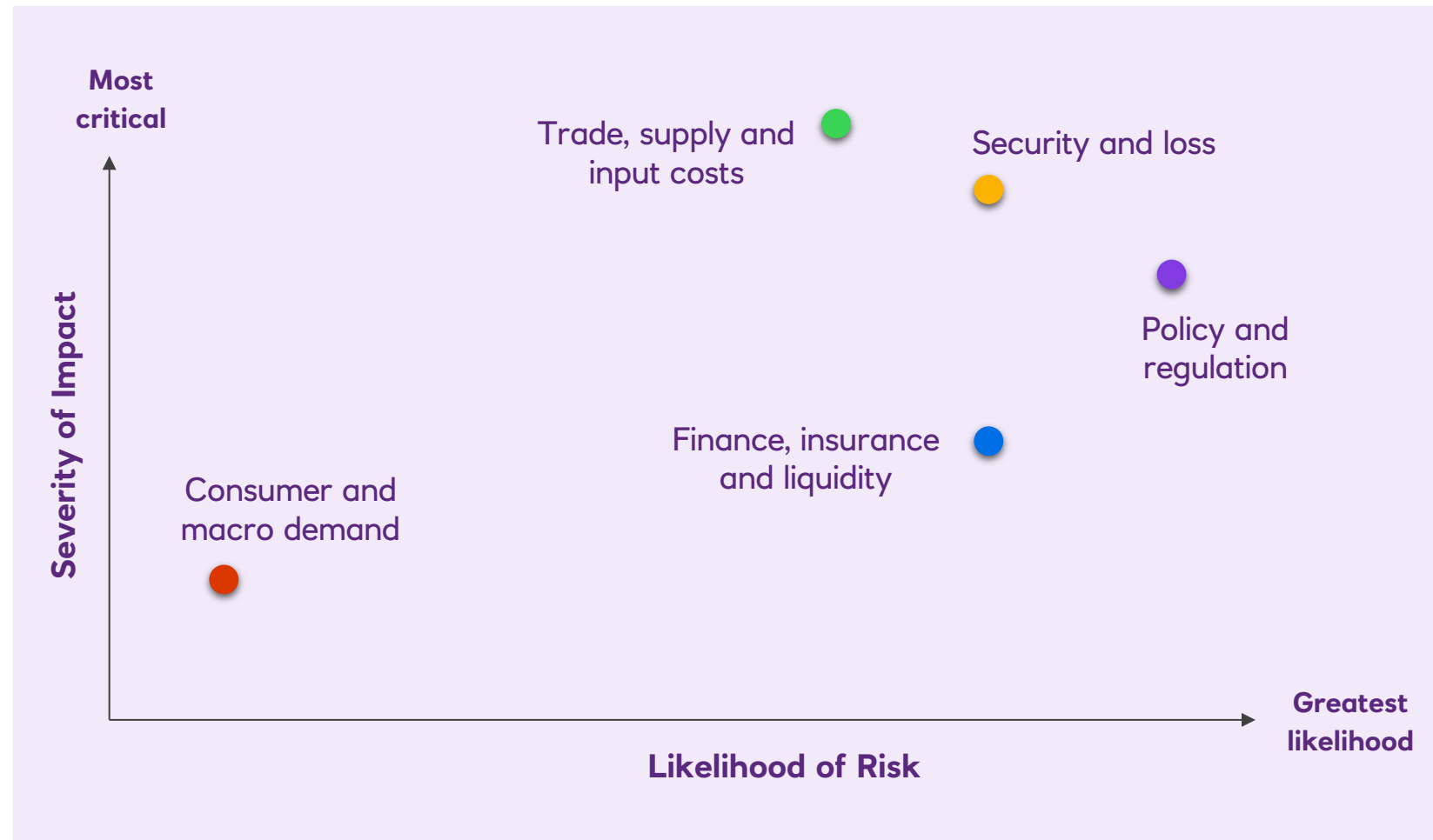
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Section 1: Operating backdrop – the margin squeeze

1.3: Risks and the cost mitigation

Businesses continue to rank cost-related risks as the most significant threat in 2026, scoring them high on both likelihood and severity of impact (Fig. 3). Pressures linked to trade, supply and input costs continue to weigh heavily on planning assumptions. Reassuringly, consumer and macro demand risks have eased, pointing to greater certainty and adjustment towards more stable demand levels.

Fig [3] Cost, regulation and security dominate the 2026 risk landscape



Source: Retail Economics

Persistent cost exposure

- Ongoing exposure to global supply chain disruption, higher import costs from tariffs and sanctions, energy price volatility, and less favourable foreign exchange continue to impact planning assumptions. While these risks are not new, they remain unresolved, keeping cost bases elevated and volatile.
- **Retailers** are most concerned about business rates and taxation changes, reflecting the fixed-cost burden of large physical estates and uncertainty around future rate revaluations.
- **Hospitality, leisure and entertainment** businesses highlight energy, insurance and input cost inflation as acute pressures, given exposure to utilities, insurance market hardening and venue-based operating models. Business rates revaluations remain a key concern, but transitional relief and the proposed £100 million support package are expected to soften the impact.

“Reassuringly, consumer and macro demand risks have eased, pointing to greater certainty and adjustment towards more stable demand levels.”

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Structural policy risk: Policy and regulation also emerge as high-impact concerns. Businesses expect rising labour costs, higher business rates and regulatory change to materially affect operations. These are widely viewed as structural, putting pressure on businesses to continue to invest in efficiency drivers to protect profitability.

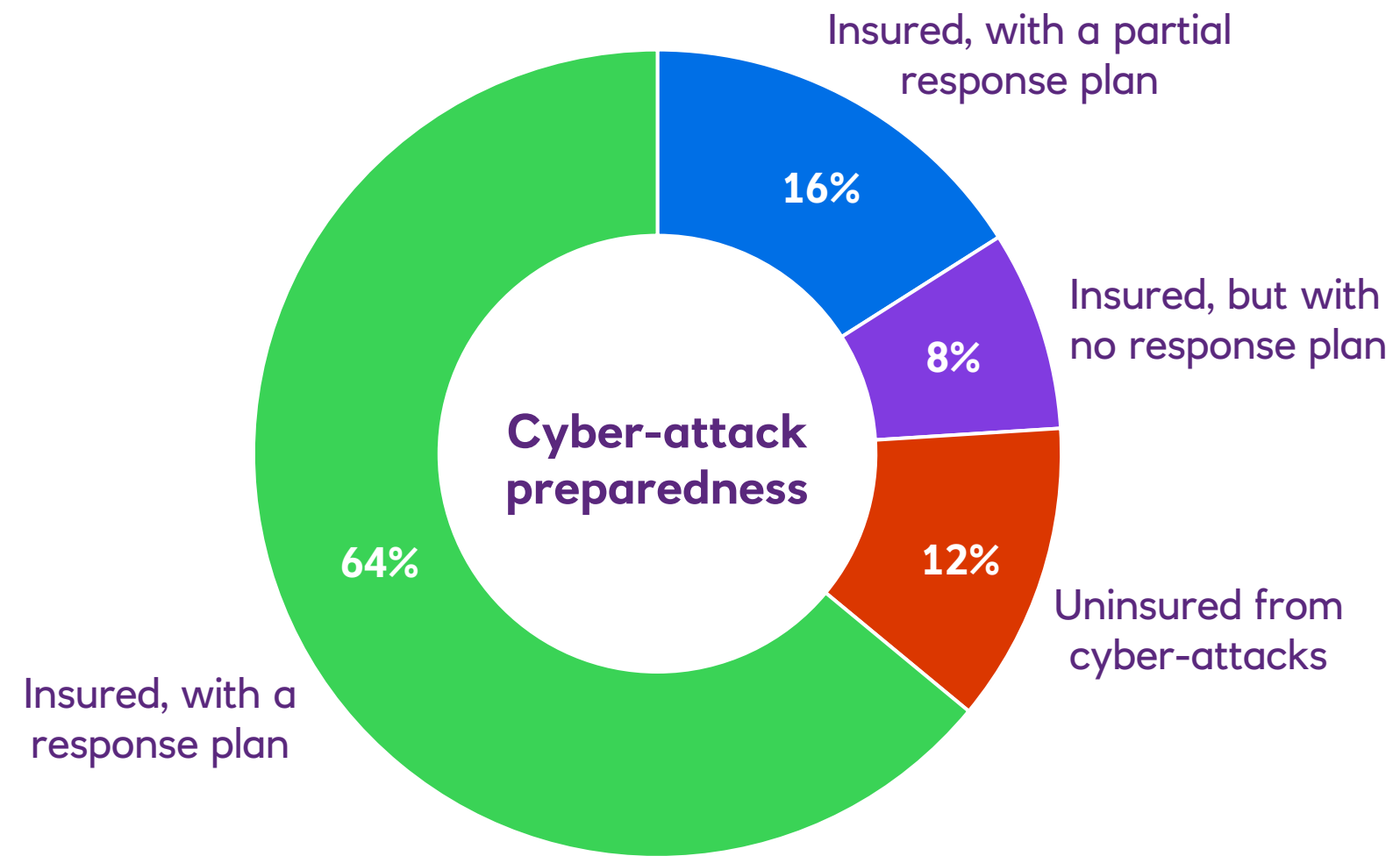
Regulation timing: A range of high-profile regulatory changes came into effect in 2025, adding further pressures. Additional regulations in 2026 such as statutory minimum wage increases, packaging EPR, and the business rates revaluation will encourage many businesses to revisit cost structures.

Demand-side: Consumer and macro demand risks are seen as less immediately disruptive than in recent years, reflecting stabilisation in demand, employment and incomes. Despite the challenges of cost-of-living pressures, higher interest rates and soft consumer confidence, consumer spending has continued to rise, while elevated household's savings could support spending over the coming year.

Cyber security: Cyber security has moved rapidly up the risk agenda following continued high-profile attacks. As businesses continue their digital transformation (e.g. AI integration, payments, data sharing and omnichannel fulfilment), digital defences has formed a cornerstone of their strategies.

In response, 56% of businesses plan to deploy AI within cyber security and loss prevention in 2026. This reflects the need to detect threats faster, reduce fraud and manage risk at scale amid a rise in perceived threats. Reassuringly, almost two-thirds of businesses (64%) have cyber insurance with a fully developed incident response plan (Fig. 4).

Fig [4] Over a third of businesses are under-prepared for cyber-attacks



Source: Retail Economics

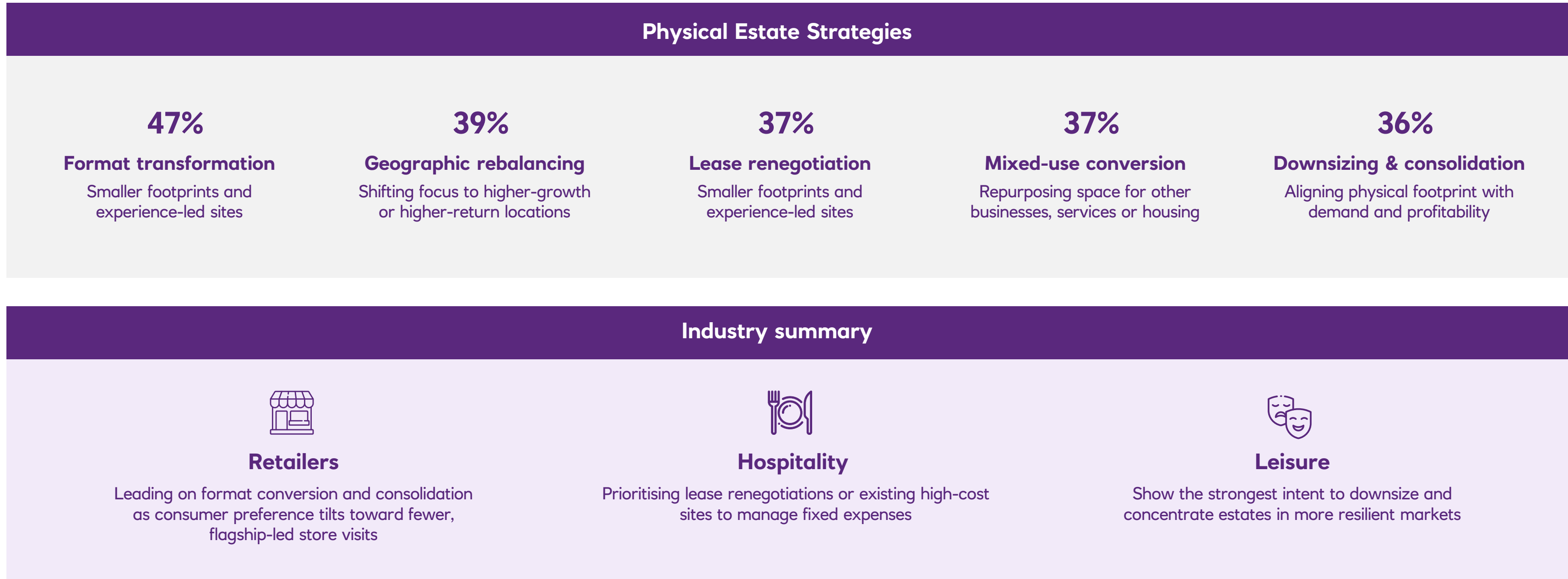
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Section 1: Operating backdrop – the margin squeeze

1.3.3: Challenging property economics

The pressure on operating costs, combined with evolving consumer behaviour, is accelerating a change in the role of stores within a wider omnichannel strategy for many. Our research shows that businesses across sectors are actively pursuing different strategies (Fig. 5).

Fig [5] Estate strategies shift from growth to optimisation



Source: Retail Economics

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Section 2

A more **dynamic**
consumer
landscape



Section 2: A more dynamic consumer landscape

Consumer behaviour in 2026 is more intentional, fragmented and fluid. Traditional demographics no longer explain how people spend. Instead, decisions are shaped by mission, mindset, and moment – influenced by social feeds, AI tools, payment habits and financial resilience. For brands, relevance now depends on deeply understanding the different consumer profiles across a multi-touchpoint journey.

2.1: Know your customer: Meet the consumer cohorts shaping spending in 2026

Our research shows that once behavioural, financial and social dynamics are accounted for, five distinct consumer segments emerge. Each have materially different expectations, sensitivities, growth potential and relevance, highlighting key opportunities (Fig. 6).



“For brands, relevance now depends on deeply understanding the different consumer profiles across a multi-touchpoint journey.”

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Fig [6] The five consumer cohorts for 2026

	Pressured Renters	Asset-secure Retirees	Fixed-cost Committers	Young Starters	New-age Affluents
Characteristics	<ul style="list-style-type: none"> Financial stress dominates decision-making – spending is driven by necessity, not aspiration Age range: 45-64 Highly active on social platform but low growth in AI or social usage – digital use is habitual, not expanding Moderate chatbot usage but minimal net increase – cautious adopters Strong engagement with resale platforms reflects recommerce as a coping strategy Primarily card-based users who still carry wallets; cash remains in occasional use. 	<ul style="list-style-type: none"> Spending is restrained by mindset: they prioritise preservation over novelty Age range: 65+ Lowest engagement with digital tools – only 49% use social platforms and chatbot uptake is limited Almost no growth in platform usage Recommerce plays a minor role, seen more as utility than habit Strong card-wallet behaviours, avoid phones for payments, almost never use cash. 	<ul style="list-style-type: none"> Balance financial obligations with controlled discretionary spend Age range: 35-54 High social usage and moderate AI adoption – value-efficient tools appeal Some growth across all platforms but still deliberate in adoption Recommerce well embedded – motivated by both value & practicality Balanced between phone and wallet - practical, low-friction payment habits 	<ul style="list-style-type: none"> Value-focused but still highly engaged consumers when convenience is clear Age range: 18-24 Extremely high usage of social, resale and chatbots Flat growth in digital tools suggests saturation, not avoidance Recommerce is second-nature – both functional and identity-driven Prefer cards and phones, rarely use cash, occasionally leave wallet behind 	<ul style="list-style-type: none"> Optimistic, future-oriented, and focused on experiences & smart value Age range: 25-44 Almost universal usage of social, chatbots and resale Rapid growth in all digital behaviours – open to experimentation Recommerce used not just for sustainability and convenience Digital-first payment behaviour – frequent phone use, but cards remain in play
% of total consumers	14%	26%	30%	8%	22%
% of total discretionary spend	5%	30%	30%	5%	30%
Working Status	Working Part-time Looking for work	Retired	Working full-time	Student Working full-time	Working full-time
Living Arrangement	Live in social housing/private rental accommodation on Housing Benefit	Own home outright	Own home with mortgage	Living with parents Renting	Own home outright Own home with mortgage
Shopping channel (penetration rate)	Omnichannel (46%)	Predominantly In-store (32%)	Omnichannel (58%)	Omnichannel (56%)	Predominantly Online (67%)
Current gross income and consumer confidence in change	£16,203 ▼ 42% change	£66,378 ▼ 35% change	£54,641 ▼ 15% change	£31,757 ▼ 3% change	£93,601 ▲ 60% change
Real disposable income growth	1.1%	0.4%	0.9%	0.9%	0.5%
Spend volume averages:					
Retail	-0.5%	0.2%	0%	0.3%	1.6%
Hospitality and leisure	-2.1%	-1.5%	-1.2%	-0.2%	2.7%
Retail, hospitality and leisure	-1.2%	-0.6%	-0.6%	0.1%	2.1%

Source: Retail Economics

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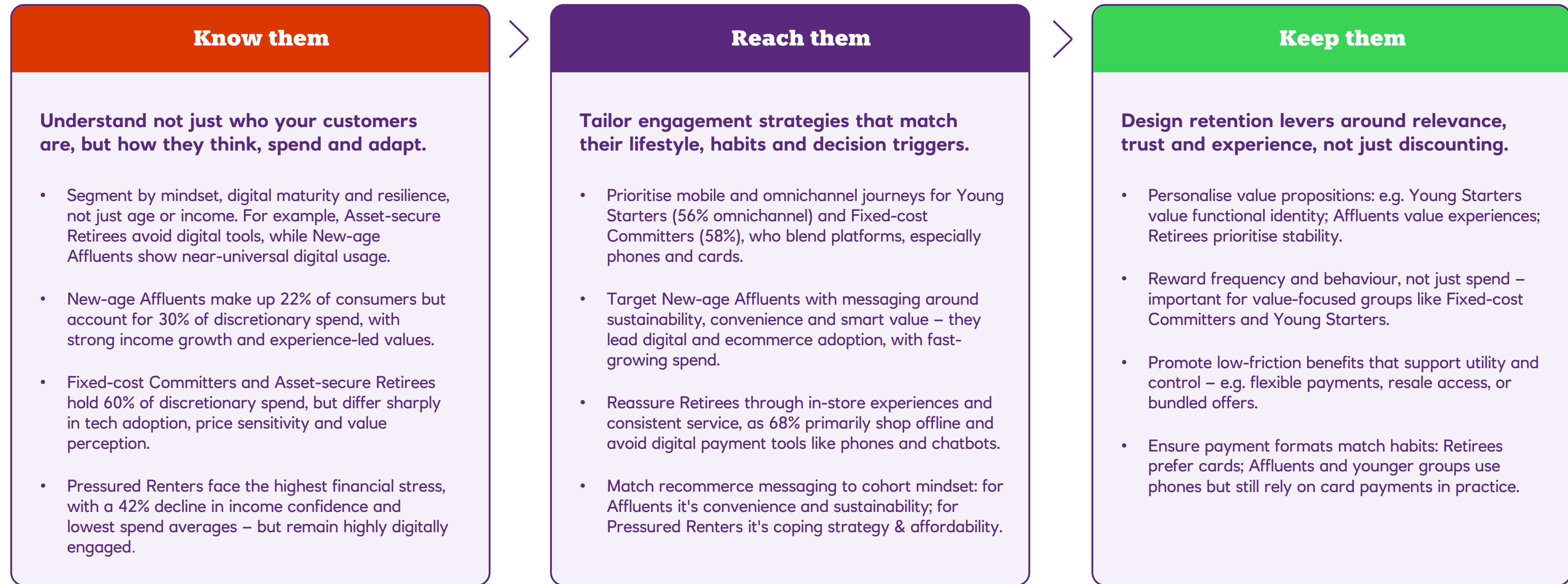
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How to know, reach and keep your customers

In a fragmented market, customer retention relies on deeply knowing your customer, not just transactional data. Our three-step playbook outlines ways to help brands build deeper relationships and unlock targeted growth.

Fig [7] Activating growth through deeper customer understanding



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2.2 Consumer spending ‘need to knows’

Consumer recovery in 2026 remains uneven. Leading businesses are using data to personalise offers, sharpen propositions and deepen customer connections, driving incremental spend and lifetime value. Growth strategies are diverging, with some targeting financially confident and affluent households, and others unlocking demand through sharper value for more financially stretched consumers. Against a backdrop of macroeconomic, geopolitical and technological disruption, understanding customers, their values and the trade-offs shaping how, when and why they spend has become a critical source of competitive advantage.

Three critical factors will be vital for consumer facing businesses to consider when assessing their strategies heading over the coming months:

1. K-shaped confidence fragments spending

Despite easing inflation and improving income fundamentals, consumer spending in 2026 remains constrained by fragile confidence. This disconnect is critical. The recovery in household finances has not translated into a uniform recovery in spending behaviour.

“Spending in 2026 is shaped less by what consumers can afford, and more by what they feel sufficiently secure to justify.”

Instead, the market is exhibiting a distinctly ‘K-shaped’ pattern, where confidence, rather than income alone, determines outcomes. Financially secure, asset-rich and younger households are spending with increasing freedom, particularly on premium, convenience-led and meaningful experiences. Other consumers remain cautious, deferring discretionary purchases and requiring clearer reasons to spend. For some brands, unlocking this latent demand hinges on a sharper, value-led proposition.

As a result, spending in 2026 is shaped less by what consumers can afford, and more by what they feel sufficiently secure to justify. Value, reassurance and emotional payoff have become as important as price.



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2. Category differences

Demand remains uneven across both categories and consumer types. Overall spending volumes across retail, hospitality and leisure are forecast to modestly rise by 0.4% in 2026. While discretionary spend continues to underperform, essential categories absorb a larger share of household budgets and remain more defensible.

Food and drink is the most resilient category across all cohorts, but for different reasons. At the lower end, spending is driven by necessity, while at the top it reflects a ‘premium’ focus. Alcohol, by contrast, continues to decline, reinforcing longer-term behavioural shifts.

Discretionary spending is evolving. Restaurants, hotels and leisure continue to see strong engagement from New-age Affluents. Volume remains under pressure, but affluent households are driving up spend per occasion.

While clothing and home-related spending remains subdued, emerging opportunities are taking shape as consumer confidence rebuilds and digital platforms reshape demand.

New-age Affluents and Young Starters believe 2026 will be a good time for major purchases. Among these groups, spending is twice as likely to be directed towards home improvement rather than luxury goods, and three times more likely towards travel than luxury.

Fig [8] Spending volume: New-age Affluents set to drive main growth across categories in 2026

	Pressured Renters	Fixed-cost Committers	Asset-secure retirees	Young Starters	New-age Affluents	UK Average
Food & Drink	0.1%	1.0%	0.8%	0.6%	1.6%	0.9%
Home-related Services	-0.5%	0.1%	-0.1%	0.4%	2.7%	0.6%
Holidays	-0.3%	0.2%	0.1%	0.4%	1.7%	0.4%
Restaurants & Hotels	-0.5%	0.2%	0.0%	0.3%	1.6%	0.4%
Alcohol	-0.4%	-0.1%	-0.3%	0.1%	1.2%	0.1%
Leisure	-1.0%	-0.4%	-0.3%	0.1%	2.0%	0.1%
Clothing	-0.4%	-0.1%	-0.3%	0.0%	1.0%	0.1%
Transport	-0.4%	-0.1%	-0.4%	-0.1%	0.5%	-0.1%
Home-related goods	-1.0%	-0.4%	-0.8%	0.1%	1.4%	-0.2%
Communication	-2.8%	-1.9%	-1.8%	-0.1%	2.2%	-1.0%
Health & Beauty	-3.5%	-2.8%	-2.5%	-0.7%	3.6%	-1.3%

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3. The cost-of-living crisis is showing signs of improvement

Despite modest improvements in household finances between 2025 and 2026, financial strain remains embedded across much of the consumer base. Incremental income gains are helping to stabilise household finances, though changes in core spending behaviour are likely to be gradual, reflecting an uneven recovery across consumer groups (Fig 9).

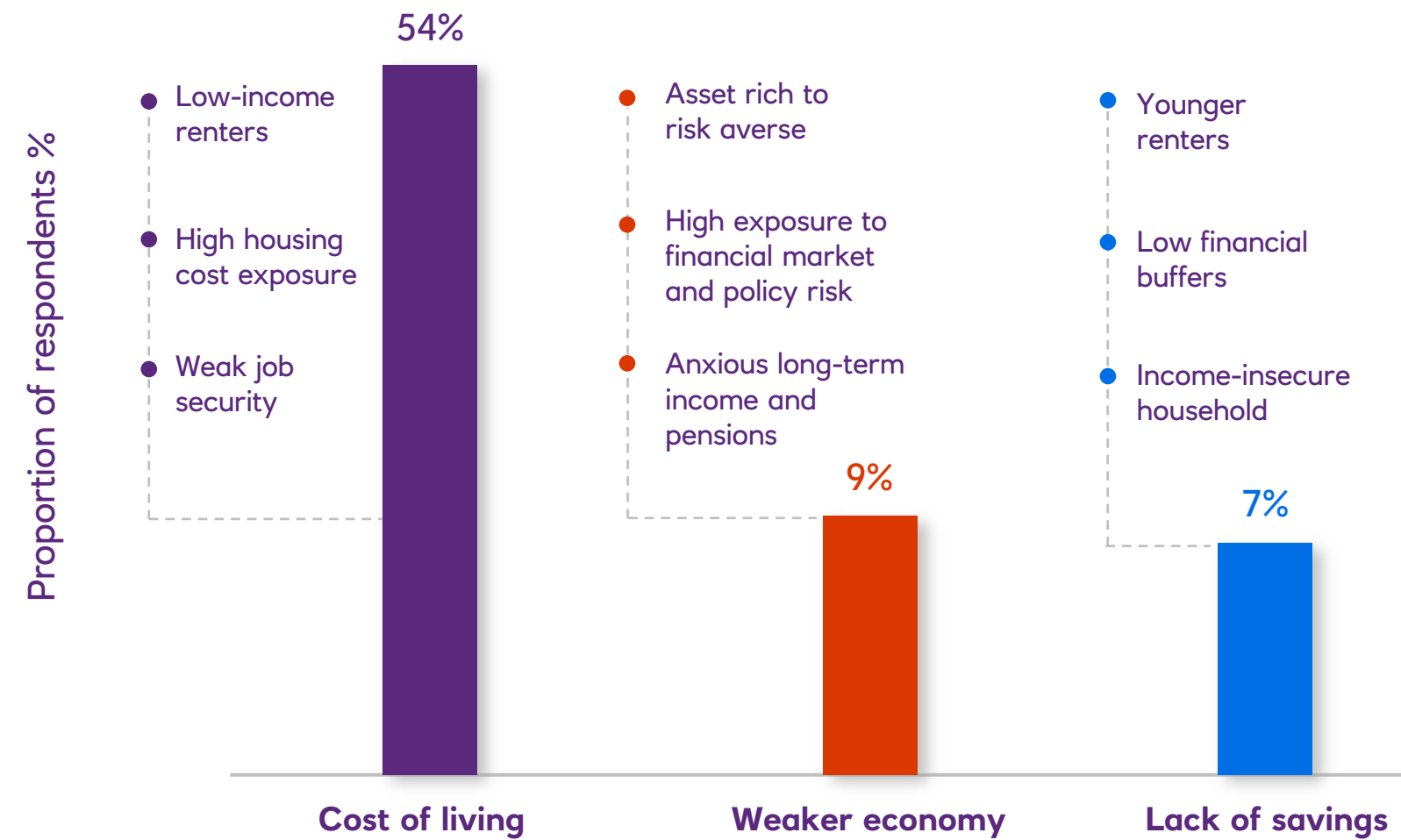
Interestingly, younger consumers are more willing to increase spending in 2026 despite ongoing pressure. This reflects greater optimism, while confidence among older and more exposed households remains subdued. Rising living costs continue to weigh on sentiment and are the leading concern for personal finances in 2026.

Essential spending continues to dominate lower-income budgets. Pressured Renters remain most constrained: 48.5% of income goes on food, drink and housing in 2026 (marginally below 2025), leaving minimal discretionary spend and driving weaker non-essentials. This compares to just 25.8% for New-age Affluents.

“Interestingly, younger consumers are more willing to increase spending in 2026 despite ongoing pressure.”

Fig [9] Concerns vary by cohort as living costs dominate overall

Q: *When thinking about your personal finances in 2026, what do you find most concerning?*



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4. Labour dynamics drive evolving consumer priorities

While overall employment levels remains low on aggregate, changing conditions in parts of the labour market are prompting consumers to reassess spending priorities. As perceptions of income certainty shift, businesses have an opportunity to engage customers with more flexible, value-led propositions.

Our research shows that among Pressured Renters, unemployment is set to rise sharply to 26.9% in 2026, with only 17% feeling secure in their main income source. Young Starters are also experiencing growing strain, with unemployment increasing to 7.5% at a stage of life where financial buffers are typically thin and confidence is fragile.

By contrast, New-age Affluents remain largely insulated, with near-zero unemployment and 88% reporting confidence in their income.

This widening gap in labour market security reinforces uneven demand patterns. Discretionary spend becomes increasingly polarised, with large cohorts prioritising caution, while a smaller but influential group continues to spend through volatility.

In a market where the average UK job search can take four to five months (UK Jobs Alert), income insecurity is not a short-term shock, but a sustained drag on confidence-led spending.



“As perceptions of income certainty shift, businesses have an opportunity to engage customers with more flexible, value-led propositions.”

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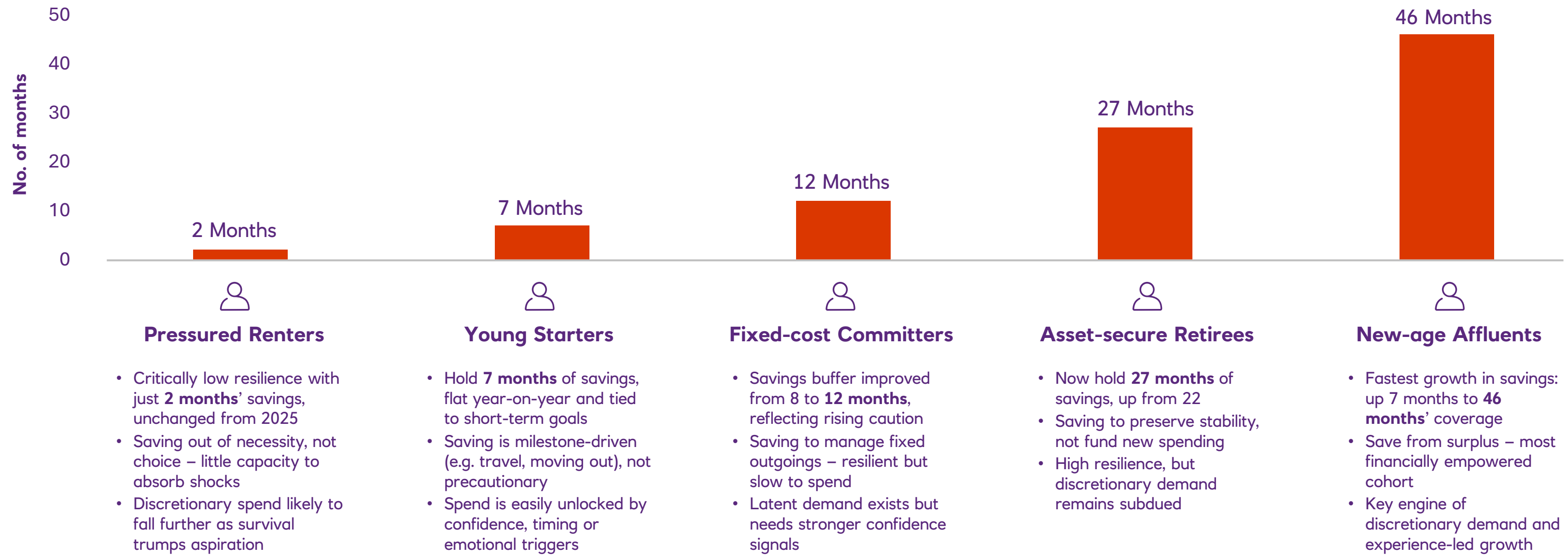
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2.3 Savings underpin financial resilience amid uncertainty

With current cost pressures and uncertainty, saving continues to outpace spending in 2026. Across our consumer cohorts, households are using savings as a security strategy (e.g. job loss) but show very different characteristics (Fig. 10).

Fig [10] How long can households cover essentials from savings in 2026?



Source: Retail Economics

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Section 3

Five forces reshaping spend



Section 3: Five forces reshaping spend

This section explores five trends redefining spending behaviour in 2026. These forces are embedded in technology, drive for value, societal trends and cross-border dynamics. More generally, as online growth in 2026 is being driven by shifts in search and discovery, traffic and sales growth is moving towards AI-assisted commerce, social media and international discount marketplaces. This algorithm-led discovery and value-driven choice is causing significant disruption.

Five forces reshaping spending in 2026

<p>AI commerce</p> <p>AI is increasingly acting as the first filter in shopping and booking journeys, shaping what consumers see, compare and choose outside of branded websites.</p>	<p>Circular economy</p> <p>Repair, resale and pre-owned markets have moved into the mainstream as consumers stretch value, extending product lifecycles & reshaping how brands retain customers.</p>	<p>Social commerce</p> <p>Shopping is becoming embedded in social feeds and creator content, shifting discovery from search-led intent to inspiration-driven, impulse-led purchasing.</p>
<p>Internationalisation</p> <p>UK retailers are accelerating expansion into faster-growing global markets where British brands retain premium appeal.</p>	<p>Chinese platforms</p> <p>Chinese platforms are structurally resetting expectations on price, speed and discovery, intensifying competition.</p>	



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Section 3: Five forces reshaping spend

3.1 AI commerce

AI-assisted commerce is now mainstream. Today, AI is being increasingly embedded into search engines and platforms, shaping how consumers discover, evaluate and commit to purchases.

More than third of consumers (37.9%) are planning to increase their use of Generative AI platforms such as ChatGPT, Gemini and Claude. This rises to over half among time-poor Millennials (56.6%) who commonly leverage AI in the workplace and for personal use.

Technology is a core Future Fit enabler, with AI, automation and platform-led discovery reshaping how consumers find, evaluate and buy, demanding new capabilities across the value chain.

For shopping specifically, around a quarter of consumers are already comfortable using AI for research and booking related tasks. Crucially, use case adoption is strongest where AI delivers immediate, tangible value (e.g. saving time, reducing effort or improving perceived value), rather than where it simply adds complexity (Fig. 11).

“More than a third of consumers (37.9%) are planning to increase their use of Generative AI platforms such as ChatGPT, Gemini and Claude.”

Fig [11] Where AI is earning consumer trust

Use case	Consumer insights
AI-driven recommendations	AI-driven recommendations for products, venues or services show the strongest acceptance, with around a third of Gen Z and Millennials frequently or almost always using AI to recommend products (34.2%) or restaurants and cafes (30.6%), reflecting consumers’ willingness to delegate choice when it reduces search and decision fatigue. This compares to less than 5% among those aged 61 or over.
Finding deals and offers	Finding deals and offers (34.2%) see strong uptake among Gen Z and Millennials, underlining that consumers trust AI when it helps them save money or resolve issues quickly.
Planning and curation tools	More planning-oriented uses – such as itinerary building, virtual try-on and dietary or allergy filtering – also show meaningful acceptance among over a quarter of (27.8%) of Gen Z and Millennials, highlighting growing comfort with AI acting as a curation layer rather than just a transactional tool, compared to less than one in 40.

Source: Retail Economics

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Regarding business use, our research shows six in ten brands already deploy AI in some capacity across marketing and personalisation, but there are many other use cases being explored (Fig. 12).

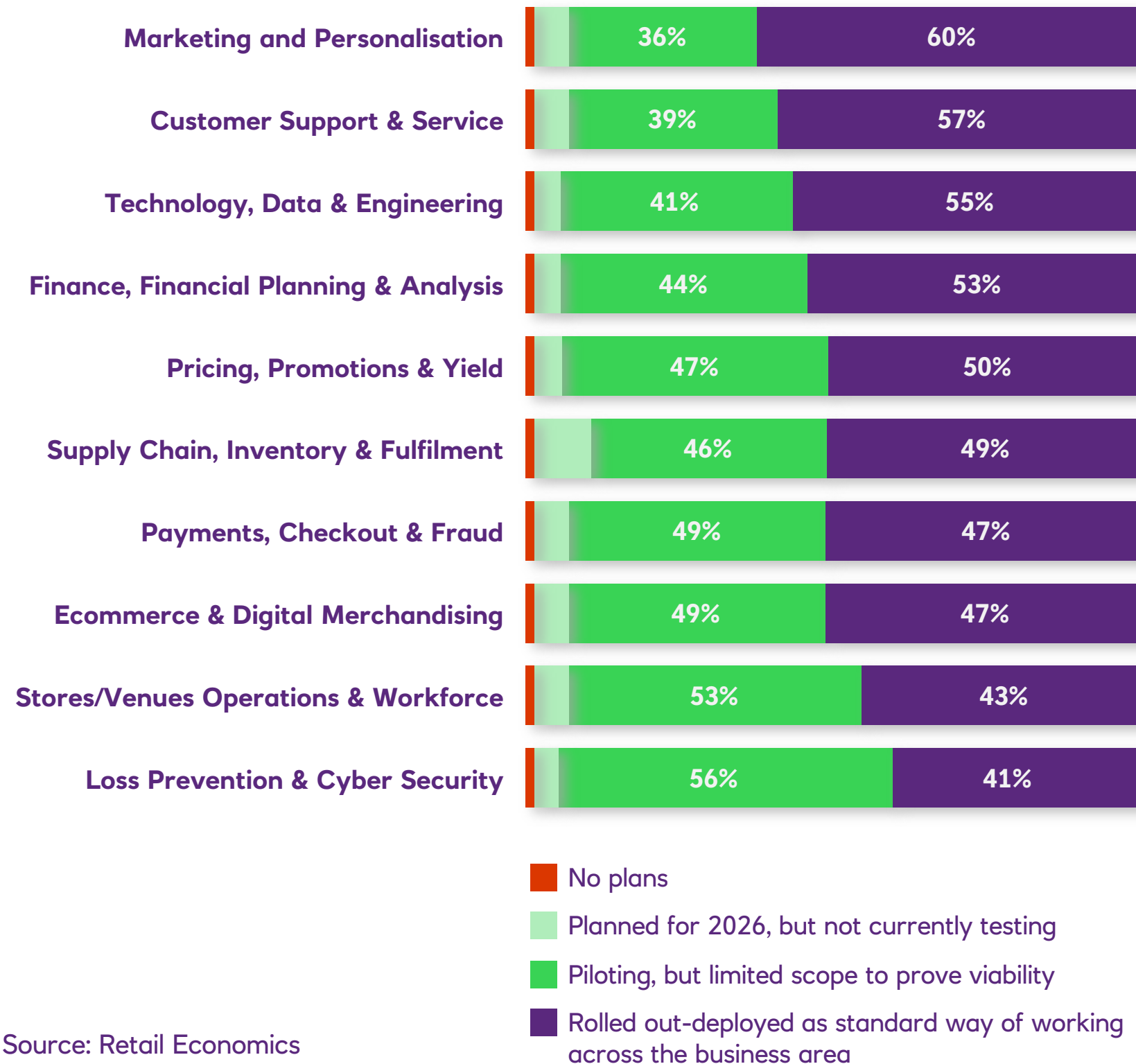
As such, AI is increasingly acting as a gateway to spend. By reducing search effort and cutting through choice overload, AI shortens the path from intent to purchase for consumers.

As a result, competition shifts upstream. Businesses must now optimise for discoverability by AI bots and agents, search layers, and marketplaces, or risk visibility.

“By reducing search effort and cutting through choice overload, AI shortens the path from intent to purchase for consumers.”

Fig [12] AI is moving from test to standard across the value chain

Q: *To what extent is your business using Artificial Intelligence (AI)*



Source: Retail Economics

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3.2 The circular economy

The shift toward a more circular economy is gaining mainstream traction, driven primarily by value-seeking behaviour. As households look to stretch budgets, reduce waste and manage uncertainty, more are turning to repair, resale and buying pre-owned. Sustainability is often a secondary motivator – but it’s becoming embedded in everyday decisions as a result.

Resale platforms such as Vinted and eBay are central to this shift, having improved logistics, returns and trust to make buying and selling second-hand goods easier.

Their usage has surged among younger and middle-aged consumers, with a net increase of 38.8% among 25 to 34-year-olds in the past year – compared to just 2.2% among over-55s.

“Vinted and eBay’s usage has surged among younger and middle-aged consumers, with a net increase of 38.8% among 25 to 34-year-olds in the past year.”



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Circular behaviours are now embedded

Our research shows that consumers are embracing circular behaviours when there’s a clear financial benefit. Recycling, repairing and resale behaviours are gaining the most traction (Fig. 13).

This behavioural shift creates opportunities for retailers and brands to rethink product lifetime value. Circular models are increasingly becoming a tool for:

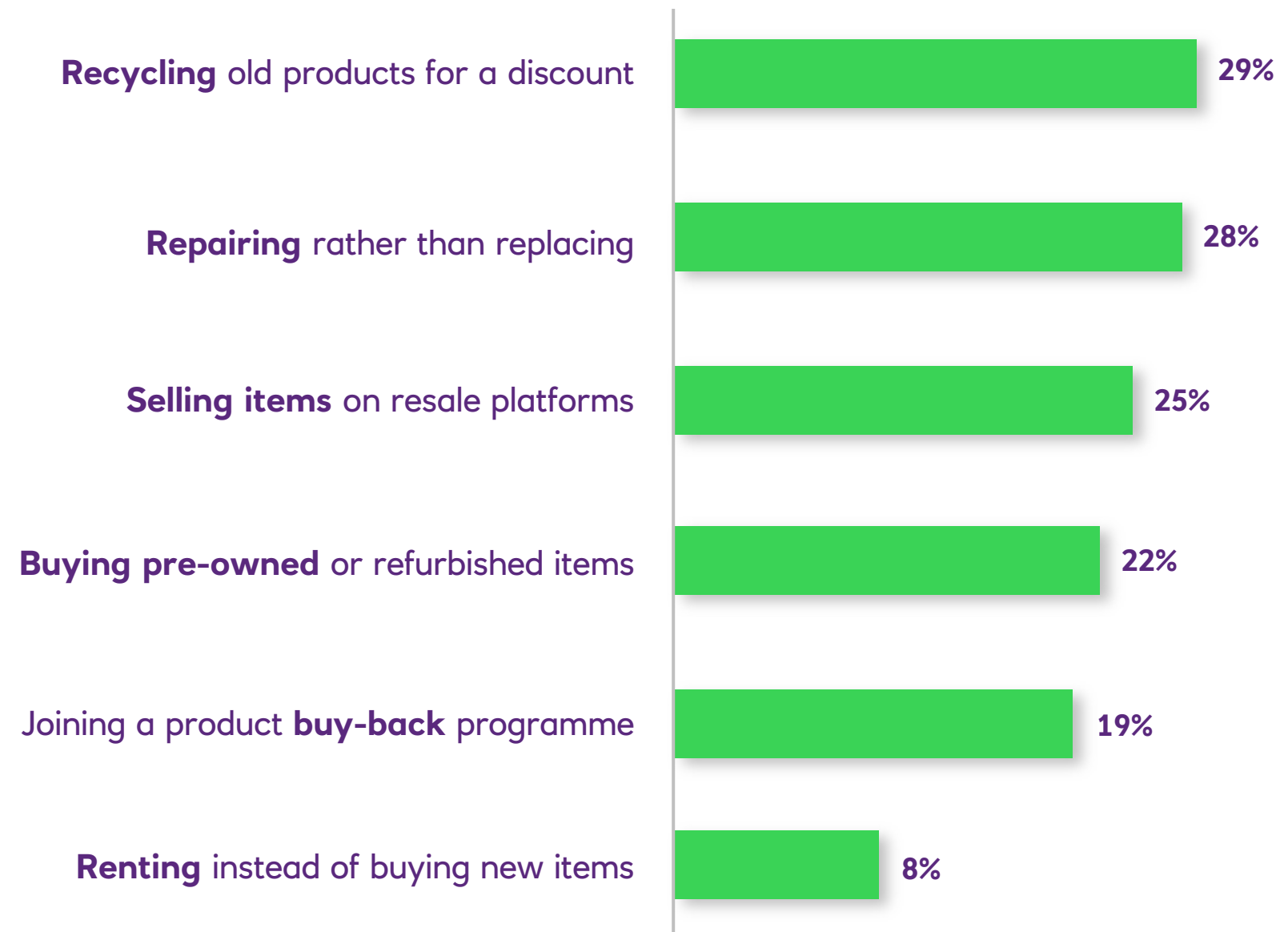
- Driving repeat engagement through recycling incentives and trade-in schemes
- Increasing footfall and cross-sell via voucher-based rewards
- Introducing new customers to brands through lower-cost entry points

Here, intelligently designed schemes strengthen brand affinity and pull consumers back into owned channels. Retailer-led recycling rewards show how sustainability and commercial outcomes can neatly align.

For brands, circularity works when it’s convenient, rewarding and trustworthy. Most consumers respond better to incentives than messaging. If it’s expensive, inconvenient or vague, they won’t engage.

Affluent shoppers in particular need proof, transparency and low effort to trade up into sustainable choices. When done well, circular models create new entry points, repeat visits and longer customer relationships – extending lifetime value rather than eroding it.

Fig [13] Consumers are engaging in sustainability where there’s financial incentive



Proportion of consumers playing their part in the circular economy

Source: Retail Economics

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3.3 Social commerce

UK social commerce is set to more than double, reaching £20bn by 2030 from £9.1bn in 2025, according to Retail Economics and Unbox – growing five times faster than total ecommerce. Usage is rising fastest among Gen Z and Millennials, with nearly half (49.4%) increasing their time on social platforms over the past year, particularly affluent users. In contrast, usage is declining among over-55s.

TikTok now accounts for just over half of UK social commerce spend, led by TikTok Shop – the only platform enabling end-to-end transactions within the app. This growth reflects the convergence of entertainment, discovery and shopping, especially in categories like Fast-Moving Consumer Goods (FMCG), apparel and beauty, which make up nearly two-thirds of all social commerce spending.

Commerce is becoming embedded in content, creators and feeds, where inspiration often precedes intent. Instead of searching for products, consumers encounter them organically – making journeys more impulsive, less brand-led, and increasingly shaped by algorithms and creators.



“UK social commerce is set to more than double, reaching £20bn by 2030 from £9.1bn in 2025 – growing five times faster than total ecommerce.”

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“UK brands have a strong premium perception on the global stage, offering an opportunity to forge a high-value niche in various international markets.”

3.4: Internationalisation

Persistent domestic headwinds are accelerating the move toward international expansion. The US and EU remain the largest export destinations for UK retailers, but rising trade friction, regulatory complexity and the prospect of higher US tariffs are prompting businesses to diversify their geographic exposure.

The United Arab Emirates (UAE) has emerged as the fastest-growing UK retail export market outside the EU since Brexit according to Retail Economics analysis of HMRC retail trade flow data. A large expatriate population, high disposable incomes and strong demand for British brands have made it an attractive entry point. High-street giant Primark is set to operate three stores in Dubai in 2026, signalling growing confidence in the international scalability of UK retail propositions.

India has also gained prominence, recording the second-fastest growth in UK retail exports. Rising middle-class consumption, rapid urbanisation and strong demand for apparel and electrical goods underpin this momentum. The India-UK free trade agreement from mid-2025 lowers barriers to entry, making the market more accessible – particularly for mid-sized and emerging brands.

For UK brands, marketplaces such as Amazon, eBay and Zalando provide an effective route for internationalisation, with established infrastructure, localisation capabilities and typically younger audiences to tap into. Furthermore, UK brands have a strong premium perception on the global stage, offering an opportunity to forge a high-value niche in various international markets.



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3.5 Chinese platforms

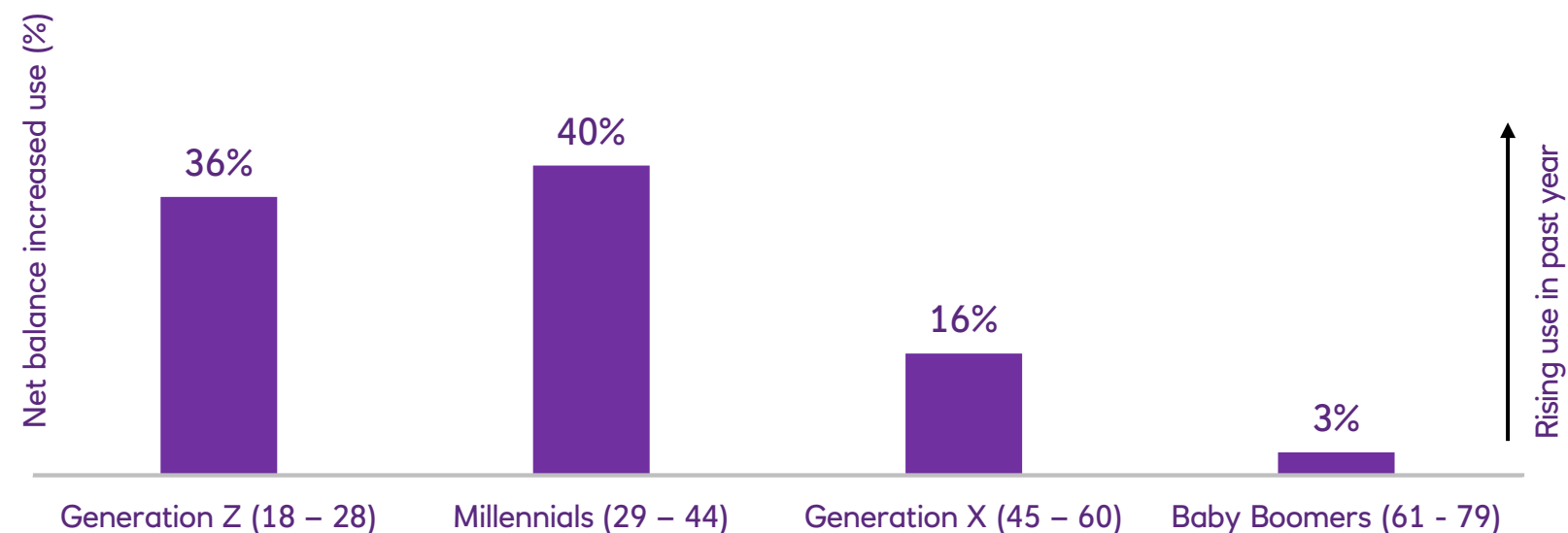
Platforms such as Shein, Temu and JD.com represent a structural shift in how price, speed and discovery are delivered at scale, challenging UK brands.

A net balance of more than a quarter (27.7%) of consumers have increased their use of discount international marketplaces in the past year. Interestingly, this is skewed towards younger and more affluent households, looking for greater choice across lifestyle discretionary categories including homewares, clothing and gadgets (Fig. 14).

These fast-growing platforms combine aggressive pricing, algorithm-led discovery and frictionless mobile journeys – all underpinned by fundamentally different economics. Their models thrive on vast assortments, real-time pricing, short product cycles and predictive demand forecasting, giving them a structural edge on speed and value.

Fig [14] Younger consumers warm to Chinese platforms

Q: *In the last 12 months, have you increased your use of discount international marketplaces (e.g. Temu, Shein, AliExpress)?*



Source: Retail Economics

For UK brands, this raises the bar. Competing on price alone is unsustainable, so opportunities lie in leveraging experience, discovery and regulatory factors (Fig. 15), while also tightening costs and accelerating fulfilment.

Fig [15] Competing with Chinese platforms

Differentiator	Why it matters	How UK brands can respond
Post-purchase experience	Global platforms excel at price and product range – but often fall short on delivery reliability, returns, and communication.	Use fulfilment speed, frictionless returns, and local service to retain trust and reduce churn.
Brand-led discovery	Temu and Shein rely heavily on paid ads and algorithms – less brand memory is built.	Invest in content, loyalty ecosystems and real-world presence to stay visible before the scroll.
Regulatory advantage	UK brands face higher compliance standards – but this can be turned into consumer confidence.	Make security, returns, quality assurance and sustainability visible differentiators.

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Section 4: Business response: converting disruption into growth

As consumer behaviour fragments and cost pressures persist, successful businesses are adapting how they operate, invest and compete.

This section examines how leaders are navigating complex customer journeys, evolving value propositions beyond discounting, and defending margins through targeted automation.

4.1 Evolving expectations: rewiring the customer journey

Customer journeys are becoming more fragmented and fluid. Our research shows rising use of AI tools, social platforms and marketplaces, as consumers switch seamlessly across digital and physical channels. Digitally fluent shoppers lead the shift, but expectations around speed, convenience and reassurance are now widespread.

To keep pace, businesses must start orchestrating end-to-end experiences that adapt in real time to evolving consumer needs while considering three key differentiators:

Differentiator	What leaders are doing	What this looks like in 2026
Shifting discovery upstream	Deploying AI-led recommendations and personalised menus; hospitality using AI chat for booking and issue resolution.	Retail: Optimising visibility within AI recommendations and social feeds before consumers reach owned channels. Hospitality & leisure: Being discoverable via AI itinerary tools, maps and review-led platforms where decisions are increasingly shaped.
Using payments as a conversion lever	Removing friction at checkout through digital wallets to target younger consumers – as around a quarter of Gen Z consumers now frequently leave home without a physical wallet, relying entirely on phones or wearables to pay, compared to just one in 20 Baby Boomers.	Retail: Digital wallets, fast refunds and flexible fulfilment reduce abandonment. Hospitality & leisure: Queue-less ordering, mobile pay and clear cancellation policies protect conversion at peak times.
Leveraging stores to earn ROI through service, not just sales	Using locations for returns, collections and reassurance	Retail: Stores act as collection, returns and service hubs alongside experiential flagships. E.g. c.8 in 10 online returns go through stores for bellwether Next. Hospitality & leisure: Bundling service and experience.

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4.2 Redefining value: winning when price isn't enough

With abundant choice and effortless comparison, leading retail, hospitality and leisure brands are moving beyond blanket discounting and shifting toward sharper, more targeted value propositions. Consumers now define value through a broader lens – balancing affordability, quality, experience and trust. This creates both risk and opportunity, and leading businesses are implementing a more strategic approach to pricing and proposition design in 2026.

Value lever	How leading businesses apply it
Value without discounting	<p>Retail: Own-label tiering allows shoppers to trade down without leaving the brand, while still capturing premium margin. Tesco’s continued expansion of its Finest range alongside Everyday Low Prices shows how value, reassurance and premium can coexist in the same basket.</p> <p>Hospitality & leisure: Fixed-price menus, off-peak incentives and bundling protect peak pricing. Wetherspoon’s transparent pricing remains effective for price-led occasions, while brands like Dishoom justify higher price points through atmosphere, storytelling and service.</p>
Trust as a differentiator	<p>Retail: Clear returns, fast refunds and reliable service help protect loyalty and differentiate against low-cost overseas competitors.</p> <p>Hospitality & leisure: Transparent pricing, portion clarity and consistent service justify higher price points and support repeat visits.</p>
Segmented loyalty	<p>Retail: Targeted offers replace blanket promotions, rewarding frequency and behaviour rather than spend alone. Boots’ Advantage Card remains a strong example, blending personalised offers and health-led services to deepen relationships.</p> <p>Hospitality & leisure: Loyalty schemes focus on repeat visits, experiences and perks rather than discounts alone.</p>

“Consumers now define value through a broader lens – balancing affordability, quality, experience and trust.”

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4.3 Adapting to cost realities: defending margins through investment

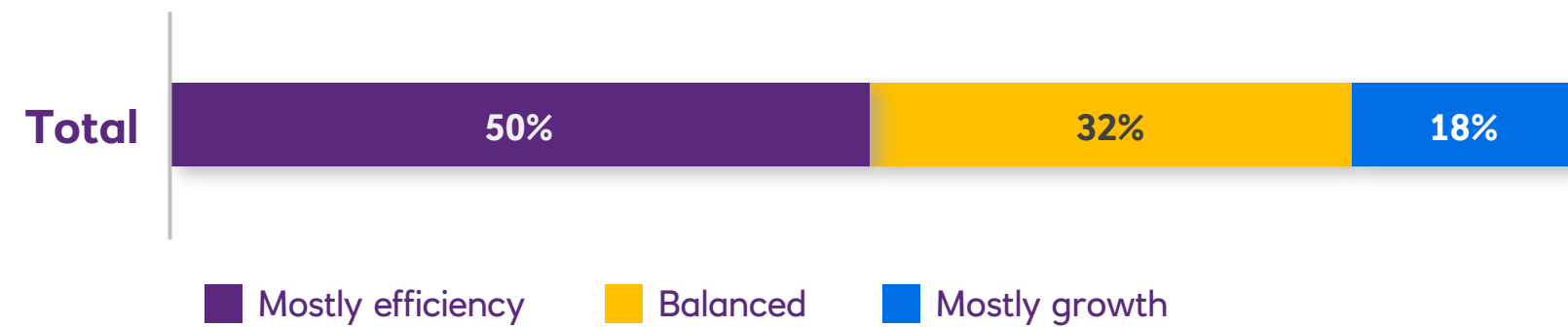
With rising labour costs, regulatory pressure and persistent input inflation (see Section 1), many retail, hospitality and leisure businesses are focusing on operational resilience overgrowth at all costs.

This is reflected in capital allocation. In a flat investment climate, half of 2026 capital expenditure is focused on efficiency (Fig. 16). In hospitality, that rises to 60%, driven by high labour intensity and wage exposure. Growth strategies must now be margin-sensitive by design, using AI, automation and footprint flexibility to reduce cost-to-serve while protecting experience.

Future Fit businesses that embed sustainability into their operations could benefit from lower long-term costs, stronger supply-chain resilience and increased customer trust. The bank’s research shows 74% of Future Fit companies agree sustainability investments provide competitive advantage.

Fig [16] Firms are balancing investment in efficiencies amid weak economic backdrop

Q: How much of your 2026 Capital Expenditure is aimed at efficiency vs growth?



Source: Retail Economics



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Our research shows that brands are shifting their investment focus toward automation, capability building and workforce redesign to protect margins and improve resilience (Fig 17).

This aligns with the bank’s Future Fit businesses, where investment in sustainability, supply chain agility, talent development and technological innovation are key priorities. Here, these businesses are taking proactive steps to:

- Diversify suppliers and build dual-sourcing for supply continuity
- Upskill employees to improve engagement and productivity
- Leverage data-led technologies for faster, smarter decisions
- Embed sustainability into operations to meet regulatory and cost pressures

Together, these strategies reflect a deliberate move away from reactive cost-cutting toward long-term value creation through operational excellence.

Fig [17] Investment implications to realise lasting impacts

Investment implication	Strategic response	Impact
Shifting discovery upstream	Although total investment budgets are broadly flat year-on-year, the mix is changing. Around a third of 2026 investment is directed toward digital transformation and innovation, up from a quarter in 2025.	Greater flexibility and efficiency in volatile demand conditions.
Automation becomes essential	Automation is emerging as a key lever for margin defence. Over eight in ten businesses plan to increase automation adoption in 2026 in response to rising labour costs, with a further 15% having already implemented it as standard.	Investment is focused on automating repetitive, cost-heavy tasks to lower unit costs, speed execution and improve service.
Roles being redesigned	Labour is shifting to customer-facing, value-add roles as automation frees staff to focus on experiences.	Hospitality staff focus on service, while retail staff shift to advice and recovery.






“Brands are shifting their investment focus toward automation, capability building and workforce redesign to protect margins and improve resilience.”

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Our five-step playbook for growth in 2026

With margins under pressure and consumer behaviour shifting, success in 2026 requires vigilance and a business model fit to capitalise on emerging opportunities. Our playbook outlines five strategic priorities designed to help businesses move from reacting to reshaping. The right plays will vary by organisation, but most will benefit from starting with margin defence and AI readiness, while keeping experience and trust front of mind.

Above all, the outlook for 2026 offers room for optimism. Consumers are still spending – but differently. Growth will come to those who adapt with intent, align investment with evolving behaviour, and build smarter business models. Ultimately, success will favour business leaders who are brave enough to rethink, bold enough to invest, and trusted enough to win customer loyalty in a more competitive world.

Step 1	Step 2	Step 3	Step 4	Step 5
 <p>Build financial and operational resilience</p>	 <p>Invest in AI, but double down on what AI can't do</p>	 <p>Win upstream in discovery and influence</p>	 <p>Make sustainability pragmatic and profitable</p>	 <p>Reframe cybersecurity as a commercial asset</p>
<p>Why it matters Ongoing cost volatility, wage pressure and regulatory change require greater flexibility to preserve margins.</p> <p>What to consider</p> <ul style="list-style-type: none"> • Stress-test operations across cost and demand shocks • Simplify ranges and renegotiate leases • Build agility into supply chains and decision-making 	<p>Why it matters AI is scaling rapidly across operations, but loyalty still hinges on trust, empathy and human connection.</p> <p>What to consider</p> <ul style="list-style-type: none"> • Automate repetitive or data-heavy tasks • Reinvest into high-touch, service-driven moments • Keep key customer interactions human where it matters most 	<p>Why it matters Decisions are now shaped earlier – on social, marketplaces and via AI – before customers reach your channels.</p> <p>What to consider</p> <ul style="list-style-type: none"> • Optimise presence across third-party platforms and AI tools • Align pricing, content and visibility upstream • Rethink stores as fulfilment and experience hubs 	<p>Why it matters Circular behaviours scale when they save money – not just when they feel ethical.</p> <p>What to consider</p> <ul style="list-style-type: none"> • Focus on repair, resale and recycling where friction is low • Highlight cost and value benefits • Use proof over messaging to build trust 	<p>Why it matters Data protection underpins trust, conversion and loyalty in digital and AI-led models.</p> <p>What to consider</p> <ul style="list-style-type: none"> • Integrate cyber resilience into CX and brand trust strategies • Prepare for rapid, transparent incident response • Position cybersecurity as a visible value driver

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About Retail Economics

Retail Economics is an independent economics research consultancy focused on the consumer, retail and leisure industries. We analyse the complex retail economic landscape and draw out actionable insight for our clients. Leveraging our own proprietary retail data and applying rigorous economic analysis, we transform information into points of action.

Our service provides unbiased research and analysis on the key economic and social drivers behind the retail sector, helping to inform critical business decisions, giving you a competitive edge through deeper insights.

We're thrilled to partner with the bank once again to deliver this year's outlook for the retail, hospitality and leisure sectors. In many ways, our 2026 report captures a market at a turning point – where the ability to adapt will define performance more than the challenges themselves.

While trading conditions remain tough, businesses are responding with greater precision and purpose. From AI-led productivity gains to smarter investment and more targeted customer strategies, we highlight where momentum is building – and how to harness opportunities. The year ahead will reward clarity, agility and alignment with real consumer behaviour.

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Methodology

This report is based on independent modelling and analysis by Retail Economics. It draws on a nationally representative survey of 2,000 UK consumers and a parallel survey of 100 retail, hospitality and leisure businesses, both conducted in December 2025. The analysis is supported by third-party data, including national statistics and official economic forecasts.

Modelling and analysis by Retail Economics which includes:

- A UK nationally representative survey across 2,000 consumers undertaken in December 2025
- A survey across 100 UK retail, hospitality and leisure businesses undertaken in December 2025
- Third-party sources including national statistics and official economic forecasts
- Future Fit businesses are identified based on a survey of 1,000 UK businesses across 10 sectors in 2024

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