

Asda Income Tracker

Report: September 2017

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Making Business Sense

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Headlines – Asda Income Tracker











- The average UK household had £197 a week of discretionary income in September 2017, down by £0.94 a week on the same month a year before. This is the fifth month out of the last six in which the income tracker showed a decline.
- Prices for essential items and services have further risen in September. Inflation, as measured by the Consumer Price Index, rose to 3.0% the highest rate in five and a half years.
- Higher prices for food and fuel left households with less discretionary income in September.
- All but two regions saw family spending power decline in the year to Q3 2017. Only households in London and the Yorkshire and the Humber had more discretionary income in the Q3 compared to the same period last year. While income growth recovered slightly from an especially weak second quarter, any gains in income were cancelled out by the higher cost for essential spending.



Family spending power was down by £0.94 a week year on year in September

(a 0.5% annual decrease)

Asda Income Tracker Dashboard: September

Indicator	Year-on-year change	Change to previous period
GDP (Q2 2017)	 +1.5%	+0.3% QoQ
Regular earnings growth* (Jun-Aug)	 +2.1%	+/- 0.0 p.p.
Unemployment rate (Jun-Aug): 4.3%	 -0.7 p.p.	+/- 0.0 p.p.
CPI Inflation (Sep)	 +3.0%	+0.1% MoM
Net income (Sep)	 +1.9%	+0.1% MoM
Essential item inflation (Sep)	 +2.5%	-0.1% MoM
Family Spending Power (Sep)	 -0.5 %	-0.1% MoM
Food & non-alcoholic drinks inflation (Sep)	 +3.0%	+0.8% MoM
Clothing and Footwear (Sep)	 +3.3%	+3.9% MoM
Vehicle fuels (Sep)	 +6.1%	+2.1% MoM

KEY IMPROVING TREND   NO SIGNIFICANT CHANGE IN TREND  DETERIORATING TREND  

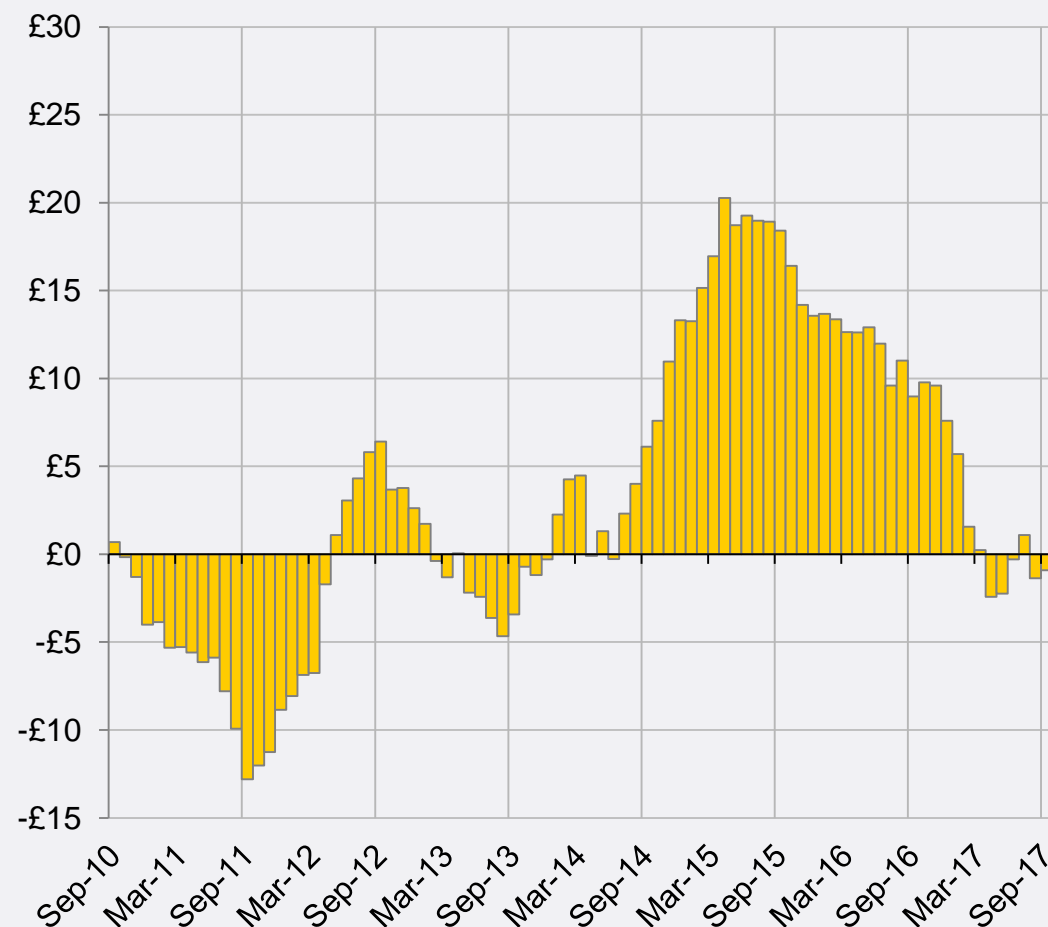
* three-month average, excl bonuses

Squeeze on households' budgets continues in September

The Asda Income Tracker was £0.94 a week lower in September 2017 than a year before

- September saw yet another decrease for the ASDA Income Tracker, which fell in five out of the last six months.
- Spending power in September was £0.94 a week lower than during the same month a year ago. This is equivalent to a 0.5% decrease on the year.
- Inflation rose once again last month, with higher prices for food, recreational goods and services as well as higher transport costs all contributing to the rise.
- At the same time, wage growth still shows hardly any upwards momentum, despite a record-low unemployment rate and a high number of job vacancies.
- Small pay increases and reductions in benefit payments mean that households across the UK have to endure further reductions in inflation-adjusted incomes.

Year-on-year change in Asda income tracker, £

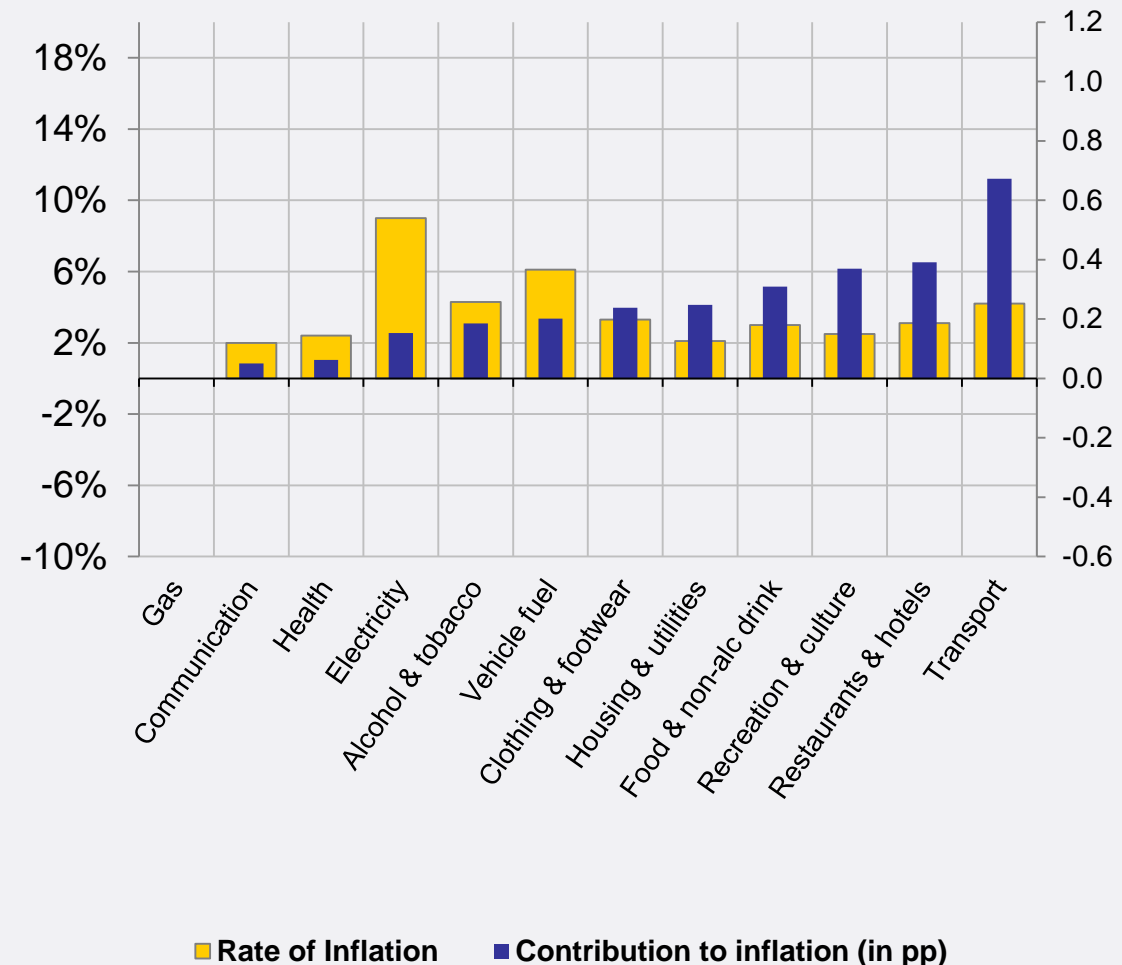


Higher food and fuel prices continue to push up inflation

The main factors affecting family costs in September were:

- Inflation as measured by the Consumer Price Index rose to 3.0% in the year to September, up from the 2.9% recorded in August.
- This is the first time inflation reaches 3.0% since April 2012.
- Prices for transport, restaurants & hotels and recreational goods and services (for example computer games) made the largest contribution to headline inflation.
- Having eased somewhat over the previous three months, transport inflation ticked up again in September, rising to 4.2% year-on-year, up from 3.2% in August. This rise was once more driven by more expensive fuel prices.
- Electricity inflation continues to stand at 9% for a third consecutive months after major suppliers increased their prices earlier this year.

Inflation of selected goods, annual rate (LHS) and contribution to headline inflation (RHS)



Vehicle fuel is a sub-category of Transport;
Gas and electricity are sub-categories of Housing & utilities

■ Rate of Inflation ■ Contribution to inflation (in pp)

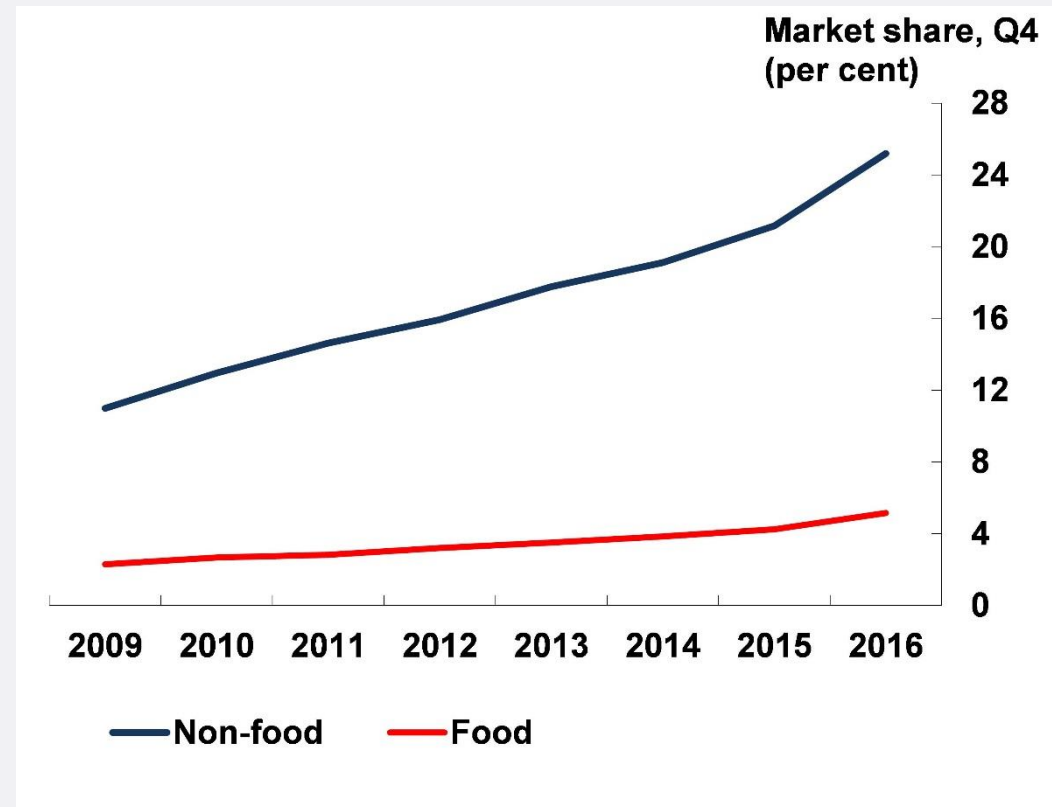
Report Spotlight:

Consumer shopping trends – trends and outlook

Competition among retailers keeps food price inflation in check

- Recent years have seen substantial changes in how consumers go about their shopping. This was both a result of and catalyst for changes in the wider retail environment.
- An analysis of recent shopping trends¹ suggests that consumers have shifted to more frequent shopping trips spending less money on each trip. As a result of squeezed household incomes, consumers are also increasingly seeking better value-for-money rather than prioritising a large selection of products. Ultimately, consumers are also increasingly shopping online, with 25% of non-food retail sales in Q4 2016 realised online. The market share of online shops for groceries is also growing, albeit at a slower pace reaching just over 5% in 2016.
- Supermarkets are reacting by improving their productivity and cost-cutting where possible. Growth rates in sales volumes per square foot of retail space and sales volumes per employee have risen considerably over the last few years.
- Currently, the intense competition in the retail sector is one factor holding food price inflation down. According to the Bank of England, about 40% of food and non-alcoholic drinks sold in the UK are imported, which means that these items are vulnerable to fluctuations in the exchange rate such as the devaluation in sterling after the EU referendum.
- In other words, if it wasn't for competitive pressures, consumers would likely face even higher bills for their shopping.

Market share of online shopping, food and non-food



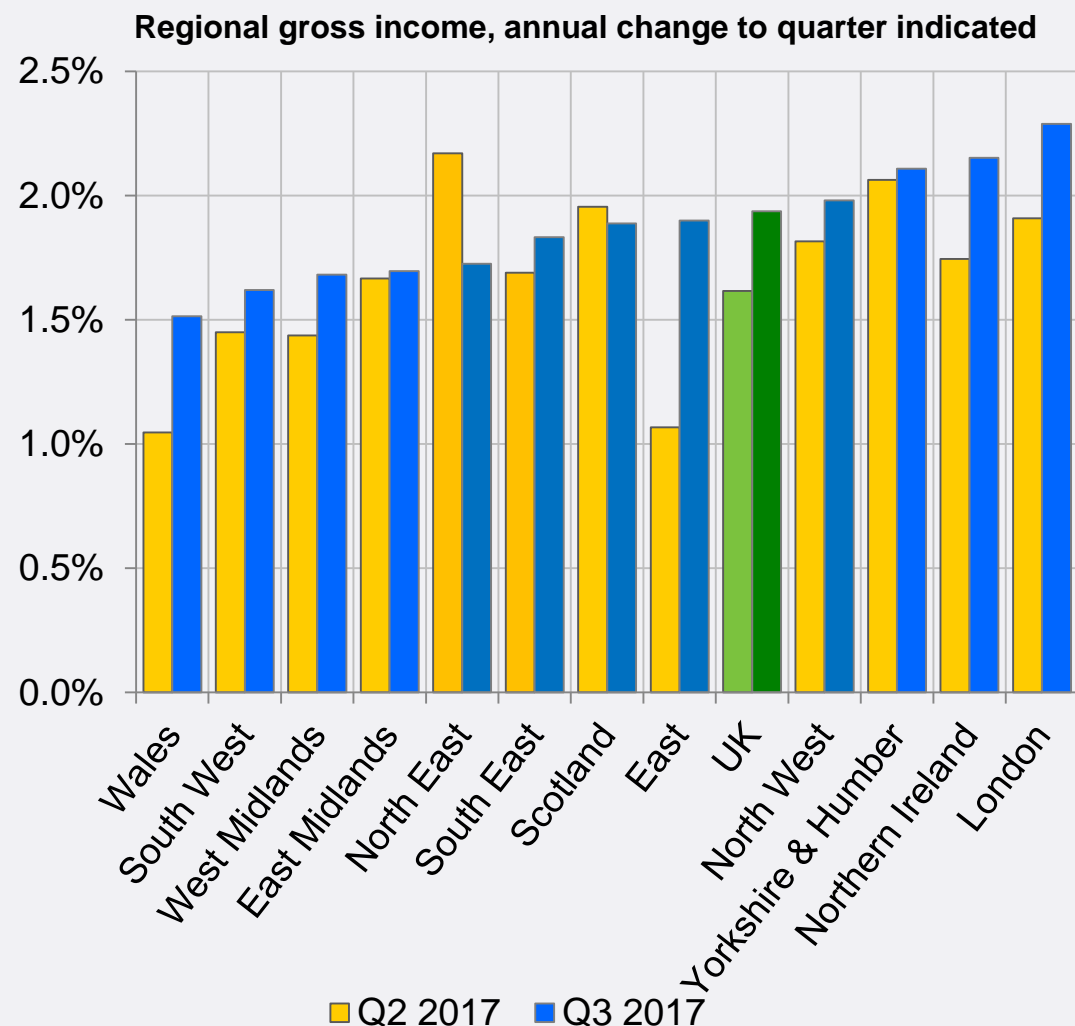
Source: ONS and Bank of England estimates

1: Bank Underground: David vs Goliath: the supermarkets' battle for the consumer
<https://bankunderground.co.uk/2017/09/08/david-vs-goliath-the-supermarkets-battle-for-the-consumer/>

The East of England and Wales see biggest jumps in gross income growth

Gross income growth recovers slightly in Q3 2017 across the UK

- In positive news for households, gross income growth has accelerated in the third quarter across most regions.
- The biggest jump has been recorded in the East of England where incomes before taxes rose by 1.9% YoY in the third quarter, up from just 1.1% in the previous quarter.
- Overall, Northern Ireland and London have seen the strongest income growth in the third quarter at 2.2% and 2.3%, respectively.
- Scotland and the North East are the only two regions to have seen gross income growth slow between the second and third quarter due to higher unemployment rates.
- Although any improvement is welcome, income growth still remains at low levels by historic standards and – most importantly – behind the rate of inflation.

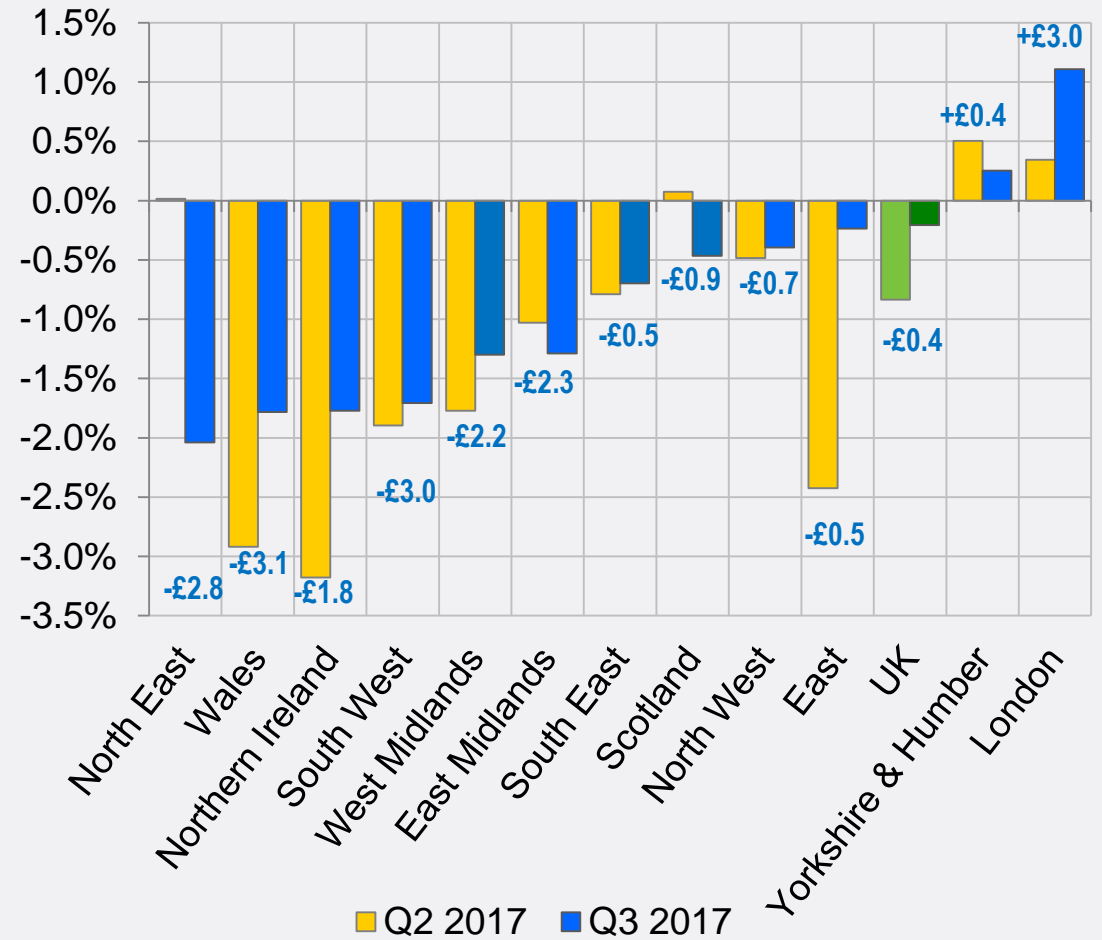


Family spending power in the North East decreases in Q3

Income tracker continues to fall for all but two regions

- The inadequacy of the moderate gross income gains is shown on the graph to the right. For a number of regions, falls in the family spending power in the third quarter have been even more severe than in the second quarter.
- Comparing annual change in the Income Tracker for Q2 and Q3, the fall has been most pronounced in the North East. While family spending growth held steady in the second quarter, in Q3 this year households had £2.80 less in disposable income than in Q3 2016.
- However, some regions also saw spending power growth recover. Unsurprisingly, the East of England saw discretionary income growth recover on the back of higher gross income growth. This was mainly due to job growth in the area, which recovered from a weaker second quarter.
- Only London and Yorkshire & the Humber saw positive growth in family spending power in Q3 2017.

Asda Income Trackers by region, annual % change to quarter indicated and annual £ change to latest quarter

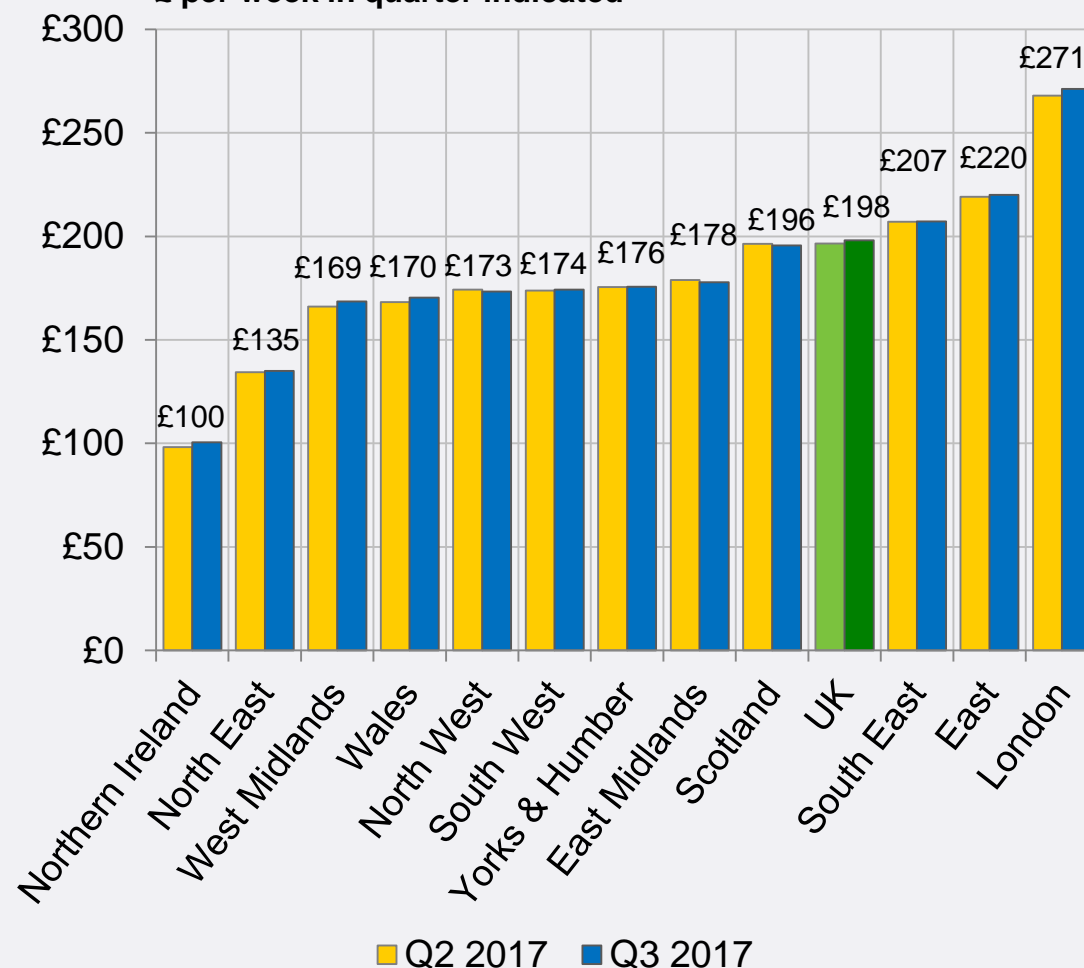


Higher inflation leads to stagnating Income Tracker growth in Q3 compared to Q2 2017

UK-wide average family spending power stood at £198 in Q3 2017

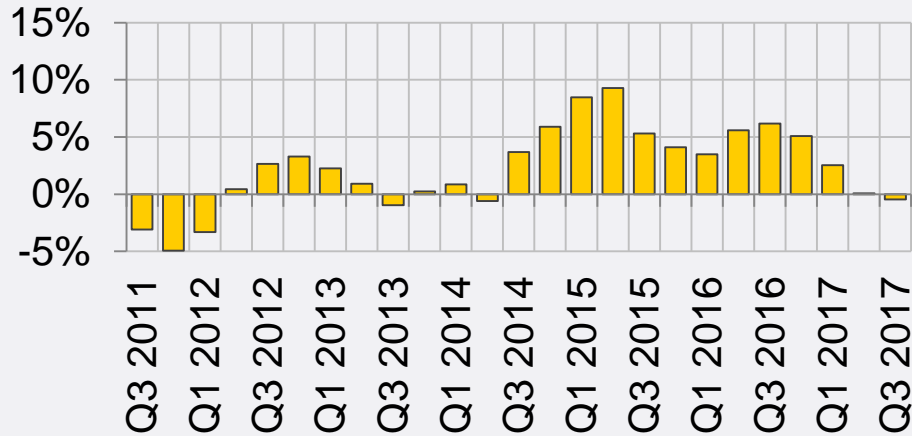
- Comparing Q2 and Q3 2017 shows that family spending power continues to stagnate in most regions.
- At the top of the list, households in London continue to enjoy the highest average family spending power at £271 per week. The income trackers for the South East and the East of London also stand above the national average at £207 and £220, respectively.
- Northern Ireland and the North East continue to have the lowest discretionary incomes with £100 and £135 per week.
- Across the country, wages have increased slightly compared to Q2 while unemployment has decreased in most of the regions. The West Midlands (5.2%) and the North East (5.8%) are currently the only regions with unemployment above 5.0%.
- However, the rise in the cost of essential spending has eaten up most of these gains leading to a near standstill in income tracker growth between the two quarters.

Average household discretionary income by region, £ per week in quarter indicated



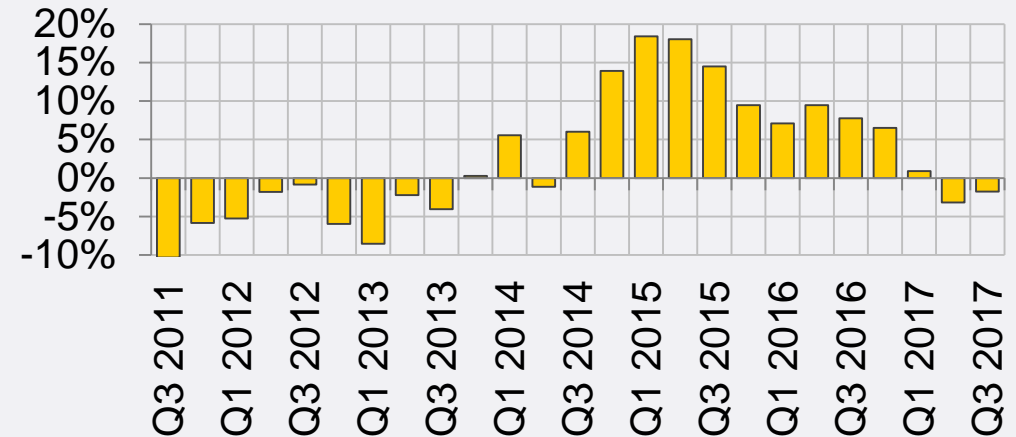
Focus on Scotland and Northern Ireland

Annual % change in discretionary incomes, Scotland



- The rate of change in the Scottish income tracker fell for the fourth consecutive quarter and stood at -0.5% YoY in Q3 2017.
- For the first time since 2014, households in Scotland saw their discretionary incomes decline compared to the same quarter a year ago.
- A slight rise in unemployment contributed to the weaker income growth for Scottish households, though unemployment remains below the UK average.

Annual % change in discretionary incomes, Northern Ireland



- The Income Tracker for Northern Ireland shows that Family Spending power decreased by 1.8% YoY in the third quarter, up from a 3.2% decrease in the previous quarter.
- The improvement is due to healthy wage growth in Northern Ireland, which now stands above the UK average.
- Unemployment, while still above the UK average, has also decreased giving a further boost to households.
- However, households suffer from high inflation as essential spending makes up a larger share of their income than for other regions.

Contact

Please find attached method notes and the tabulated data. Asda produces a monthly income tracker report with a more comprehensive report every quarter.

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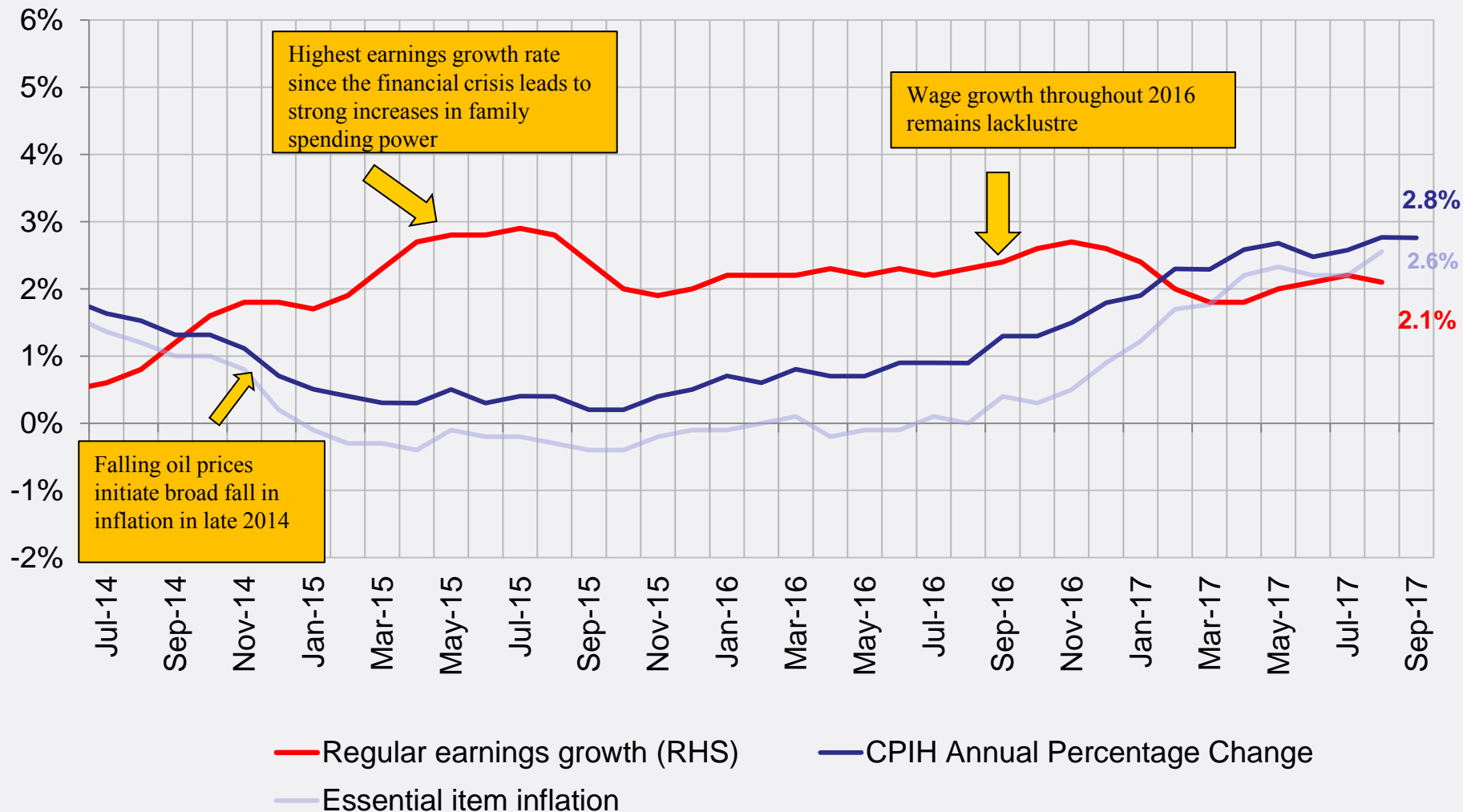
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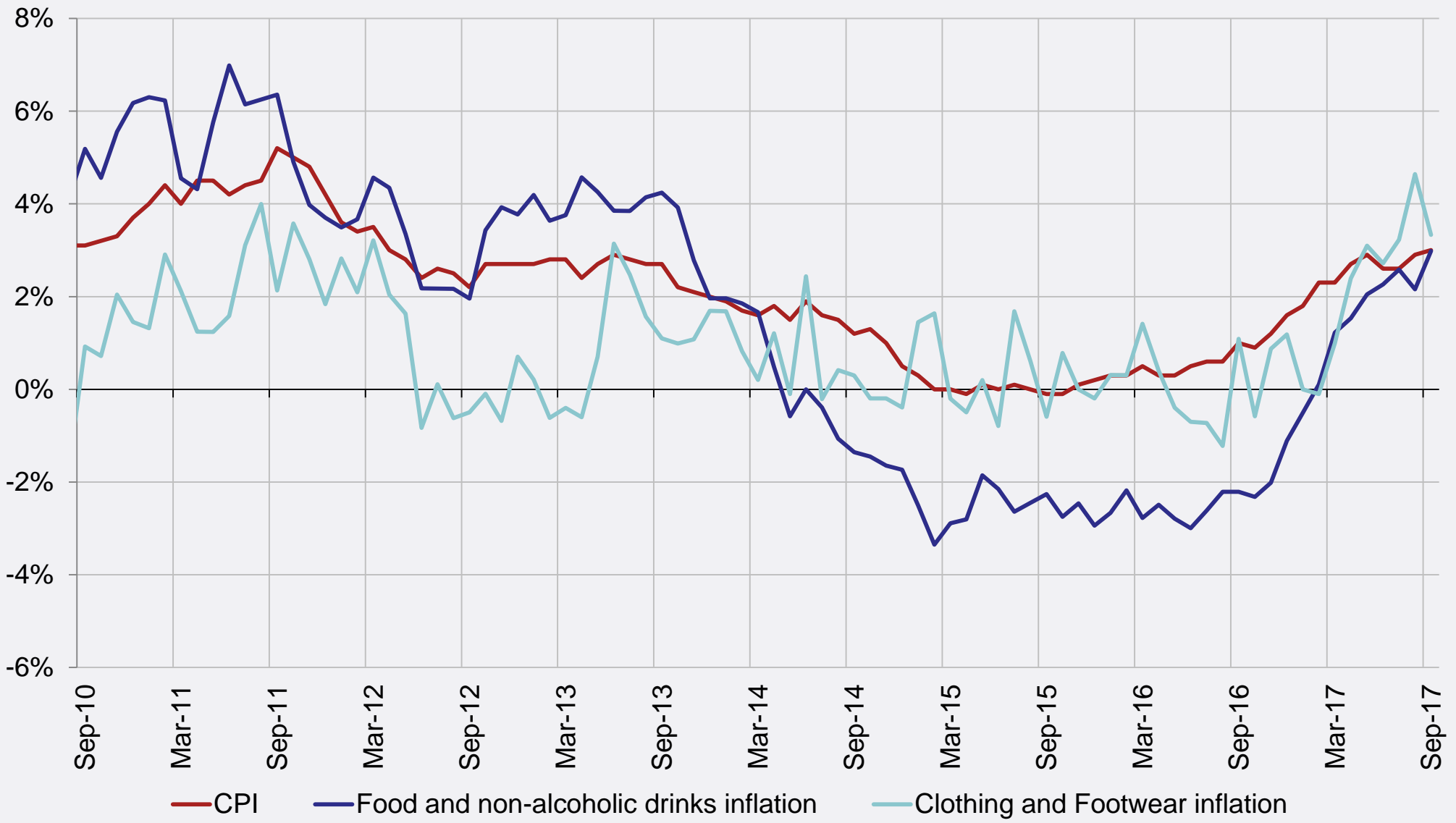
Appendix

Inflation rises to four-year high

Annual percentage change in Consumer Price Index (incl owner occupiers housing costs), essential item inflation and average weekly earnings

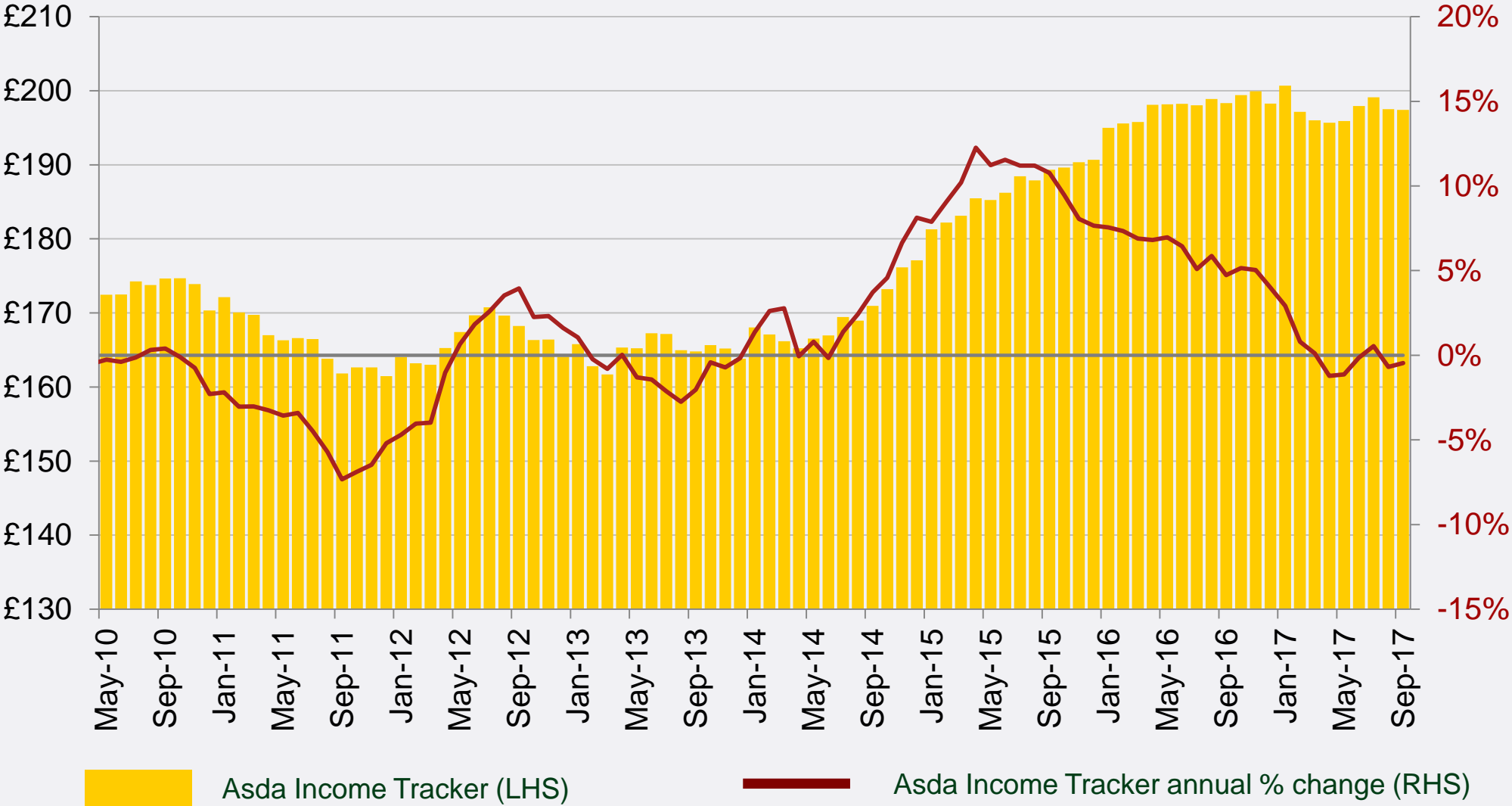


Inflation trends over time



Monthly Asda Income Tracker

Figure 1: Asda Income Tracker and year-on-year change (excluding bonuses)



Monthly Asda Income Tracker

Table 1: Average UK household Income Tracker, £ per week, current prices, excluding bonuses

Month	Income tracker	Month	Income tracker	Month	Income tracker	Month	Income tracker	Month	Income tracker
January 2013	£166	January 2014	£170	January 2015	£185	January 2016	£195	January 2017	£201
February 2013	£163	February 2014	£169	February 2015	£185	February 2016	£195	February 2017	£197
March 2013	£162	March 2014	£168	March 2015	£186	March 2016	£195	March 2017	£196
April 2013	£167	April 2014	£170	April 2015	£188	April 2016	£198	April 2017	£196
May 2013	£167	May 2014	£171	May 2015	£188	May 2016	£198	May 2017	£196
June 2013	£169	June 2014	£171	June 2015	£189	June 2016	£198	June 2017	£198
July 2013	£168	July 2014	£173	July 2015	£191	July 2016	£198	July 2017	£199
August 2013	£166	August 2014	£173	August 2015	£191	August 2016	£199	August 2017	£198
September 2013	£166	September 2014	£174	September 2015	£192	September 2016	£199	September 2017	£197
October 2013	£167	October 2014	£176	October 2015	£193	October 2016	£199		
November 2013	£167	November 2014	£179	November 2015	£193	November 2016	£200		
December 2013	£165	December 2014	£181	December 2015	£193	December 2016	£198		
2013 Average	£166	2014 Average	£173	2015 Average	£190	2016 Average	£198		

NB: In June, the ONS published revisions to the time series of its average weekly earnings data, one of the inputs of the ASDA Income Tracker. The values for the Income Tracker have been adjusted accordingly

Method notes

The Asda income tracker is calculated from the following equations:

- **Total household income minus taxes equals net income**
- **Net income minus basic spend equals Asda income tracker**

Total household income for the United Kingdom is derived from the Living Costs and Food Survey 2012 (released December 2013). This is updated on a monthly basis using official statistics on average earnings, unemployment, social security payments, interest rates and pension income. Earnings data from the Office for National Statistics that is released in the month of the report refers to the previous month. We forecast earnings data for the month of the report.

Taxes are subtracted from total household income to estimate the actual amount that can be spent on goods and services, i.e. net income or disposable income. The average amount of tax paid is calculated using the latest version of the Living Costs and Food Survey. This is updated on a monthly basis using Office for National Statistics data and Cebr modelling.

Method notes

These components are based on official statistics and Cebr calculations.

Net income is calculated by deducting our tax estimate from our total household income estimate.

Basic spend (cost of living) figures are updated using monthly consumer price data and the trend growth rate in the volume of essential goods and services purchased over the most recent ten year period. A full list of items constituting basic (or 'essential') spending was created in collaboration between Asda and Cebr when the income tracker concept was originally formed in 2008. This list is available on request.

The ***Asda income tracker*** is a measure of 'discretionary income', reflecting the amount remaining after the average UK household has had taxes subtracted from their income and bought essential items such as: groceries, electricity, gas, transport costs and mortgage interest payments or rent. The income tracker measures the amount left over to spend on discretionary purchases such as leisure and recreation goods and services.

Disclaimer

This report was produced by the Centre for Economics and Business Research (Cebr), an independent economics and business research consultancy established in 1993 providing forecasts and advice to City institutions, government departments, local authorities and numerous blue-chip companies throughout Europe. The main contributors to this report are Cebr economists Kay Neufeld and Nina Skero.

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London, October 2017