

Asda Income Tracker

Report: February 2017

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Making Business Sense

Centre for Economics and
Business Research Ltd

Unit 1, 4 Bath Street, London
EC1V 9DX

t 020 7324 2850

w www.cebr.com



Headlines – Asda Income Tracker











- The average UK household had £202 a week of discretionary income in February 2017, up by £3 a week on the same month a year before.
- The increase in the cost of living continued in February with headline inflation rising to 2.3%, the highest level since September 2013. This put pressure on family spending power growth across all households. Families in the bottom income groups are especially hit by this as welfare spending cuts and low wage growth have kept income growth down for these households.
- With the income tracker growing only £3 on the year (1.7%), growth in family spending power has nearly evaporated. We expect to see falls in the income tracker over the coming months as inflation has not yet reached its peak and wage growth is expected to remain flat. After two years of substantial growth in the income tracker, households should prepare for a more challenging outlook in 2017.

Family spending power was up by £3 a week year on year in December

(a 1.7% annual increase)



Asda Income Tracker Dashboard: March

Indicator	Year-on-year change	Change to previous period
GDP (Q4 2016)	 +2.0 %	+0.7% QoQ
Regular earnings growth* (Nov-Jan)	 +2.3%	-0.3 p.p.
Unemployment rate (Nov-Jan): 4.7%	 -0.4 p.p.	- 0.1 p.p.
Inflation (Feb)	 +2.3%	+0.6% MoM
Net income (Feb)	 +2.2%	+0.1% MoM
Essential item inflation (Feb)	 +1.7%	+0.7% MoM
ASDA Income Tracker (Feb)	 +1.7%	-1.2% MoM
Food & non-alcoholic drinks inflation (Feb)	 +0.2%	+0.8% MoM
Owner occupiers' housing cost (Feb)	 +2.5%	+ 0.1 MoM
Vehicle fuels (Feb)	 +19.4%	+1.2% MoM

KEY IMPROVING TREND   NO SIGNIFICANT CHANGE IN TREND  DETERIORATING TREND  

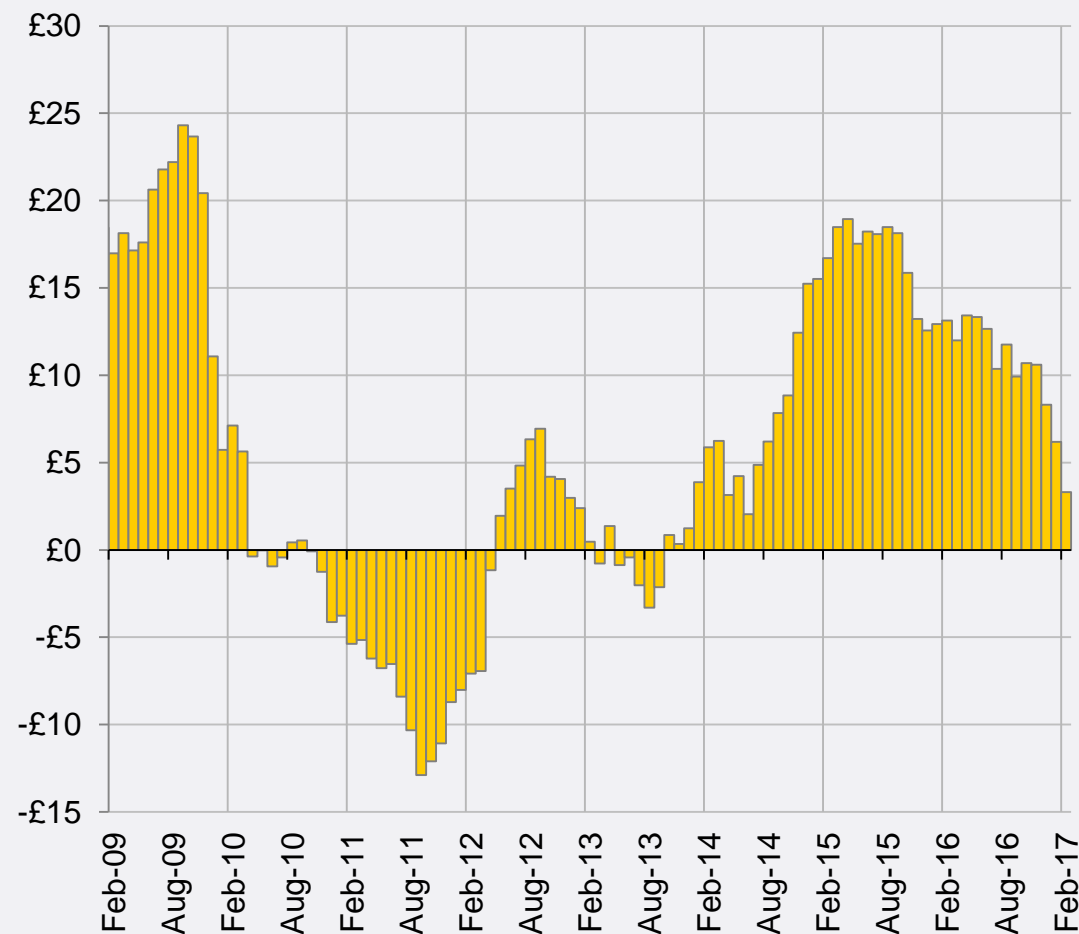
* three-month average, excl bonuses

Growth in family spending power comes to a halt as inflation surges

The Asda Income Tracker was £3 a week higher in February 2017 than a year before

- Average household spending power was 1.7% higher in February 2017 compared with the same month last year, down from 3.1% growth in the previous month.
- In pound terms, the Income Tracker stood around £3 higher than in February 2016. This marks the lowest pound increase since April 2014.
- Inflation has accelerated substantially in the first months of 2017, with more rises expected to come. Consumers feel the increase in inflation across a number of goods – especially in fuel prices, but also in food prices and housing costs
- Looking at the labour market, earnings growth continues to disappoint. In the three months to January, average regular earnings growth slowed to 2.3%, down from 2.6% in the three months to December 2017. While the low rate of unemployment is welcome, weak earnings growth and higher inflation will hurt family spending power in the coming months.

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

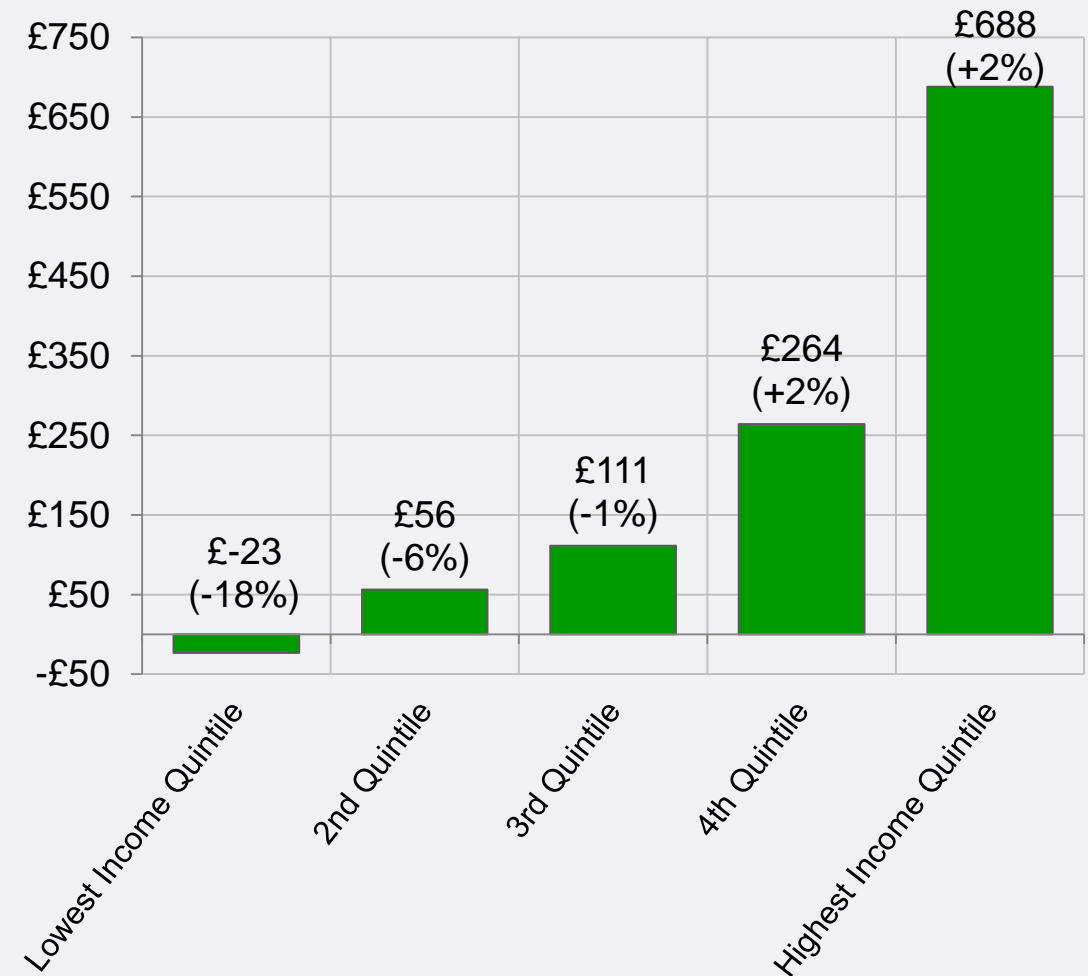


Welfare cuts and feeble wage growth squeeze incomes for poorer households

Discretionary income remains negative for the poorest households

- In February, annual discretionary income growth was negative for the lower three income quintiles. The strongest decrease in spending power has been felt by the poorest households, whose weekly discretionary income in February was 18% lower than in the same month before, falling from -£20 to -£23. This implies that the basket of essential products and services is even less affordable than previous year for the bottom income group.
- The second and third quintile have also seen a decrease in spending power on the year, as rising inflation wipes out the sparse income gains from wage growth. The squeeze on welfare spending puts further pressure on households who receive government benefits.
- The two top income quintiles have seen positive spending power growth at 2% each. Although wage growth has been disappointing, their relatively higher wages mean that rising costs for essential spending have less of an impact on their budgets.

Weekly Discretionary Income by Gross Income Quintile, February 2017, year-on-year growth in brackets



Report Spotlight:

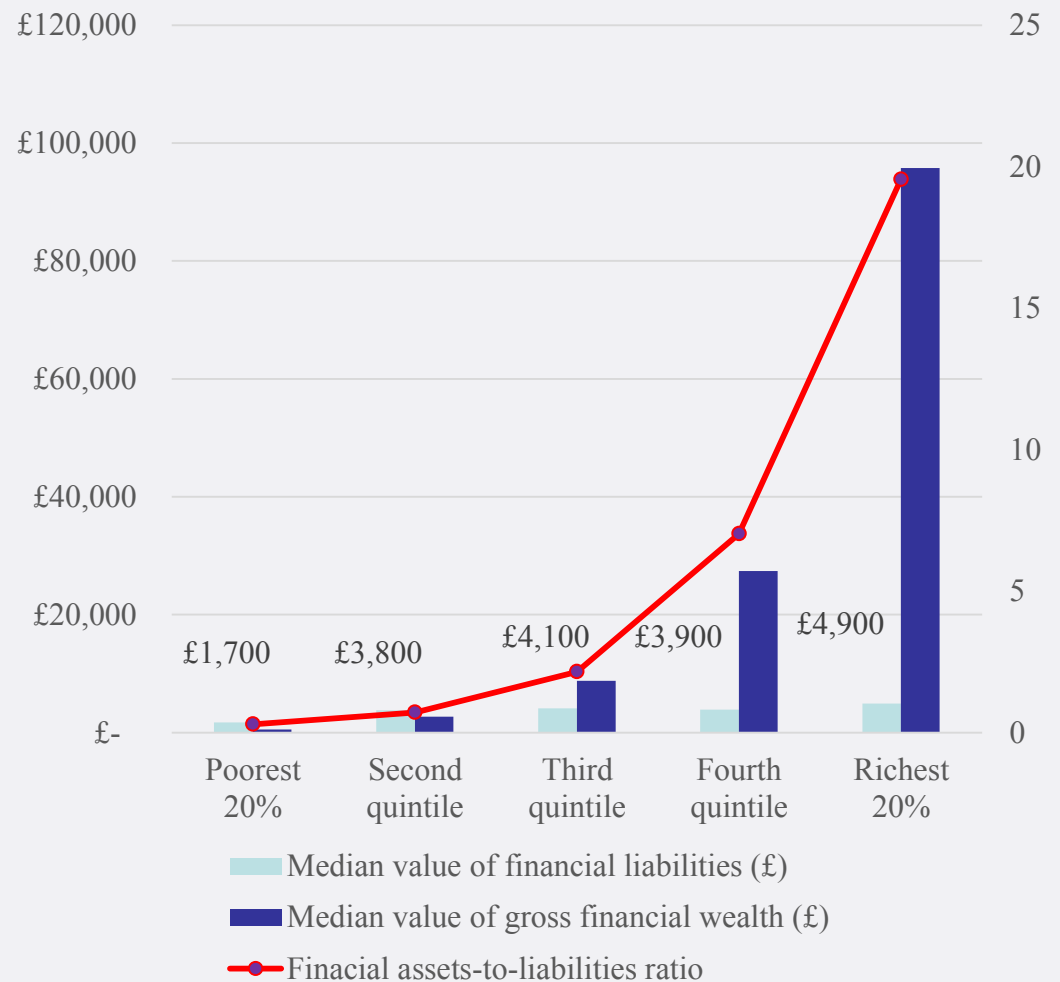
Household debt by income groups

Poorest household have the highest level of financial debt compared to assets

- The Wealth and Asset Survey, a large scale household survey, focused on capturing the various aspects of wealth in the UK, sheds some light on financial household wealth and debt by income quintiles.
- The graph to the right shows the median values of financial liabilities* (excluding mortgages), the median value of their financial assets and the resulting assets-to-liabilities ratio. This ratio expresses the value of financial wealth as a multiple of liabilities.
- For the bottom two quintiles, this ratio is below 1, meaning their liabilities are on average higher than their financial assets. The poorest 20% have median financial liabilities of £1,700 compared to financial wealth of just £500. For the second quintile, median financial wealth of £2,700 is eclipsed by liabilities of £3,800. The third income quintile already possesses financial assets worth twice the amount of their liabilities while the richest 20% have the highest median value of liabilities though their financial assets are worth around 20 times as much.
- The graph illustrates that it is not the absolute value of household debt but rather the debt level relative to assets that determines the financial situation of households.

*Financial assets include formal as well as informal financial assets including current and savings accounts in credits, ISAs, national savings products, bonds, stock and insurance products.

Financial assets and liabilities by income quintile, £ (LHS) and ratio of assets to liabilities (RHS), 2012-2014



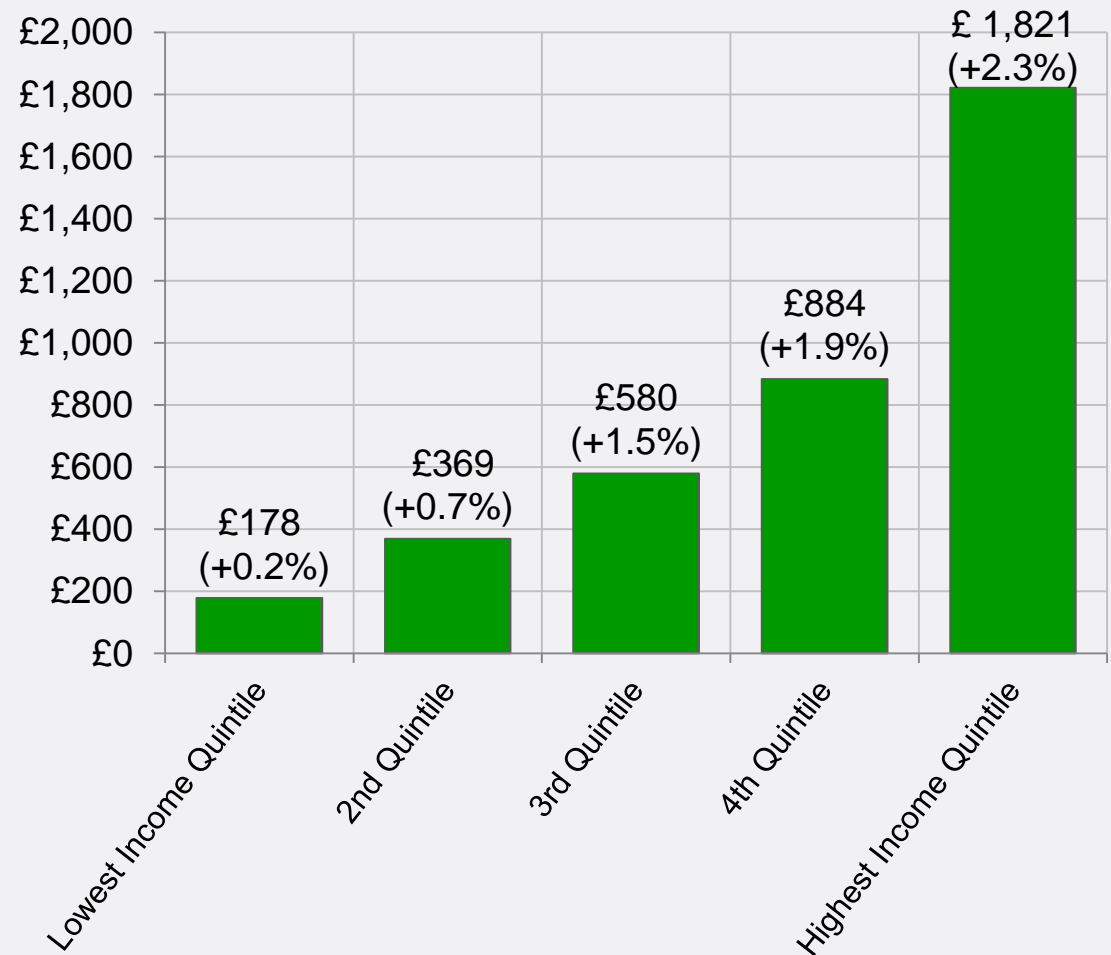
Source: ONS Wealth and Asset Survey

Richest households in the UK have seen fastest annual growth in gross incomes

Cuts to social welfare spending weigh on income growth in lower income groups

- Median gross incomes in the UK vary widely across income quintiles, as seen on the graph to the right. The richest 20% of households had a weekly median gross income of £1,821 in February. This is more than ten times the income of the poorest households in the UK.
- In relative terms, the gap between the poorest 20% of households and the next higher income quintile and that between the fourth quintile and the richest households are the largest. In both cases, the higher quintile earns more than twice the amount of the lower quintile. The second, third and fourth quintiles lie somewhat closer together with ratios of around 1.5 to 1.6.
- At 2.3%, the richest households have also seen the strongest growth in gross incomes over the last year. Income growth slows gradually as we move down the quintiles - the poorest households have seen their gross income increase by only 0.2% between February 2017 and the same month a year earlier.

Gross weekly income by income quintile, February 2017, year-on-year growth in brackets)

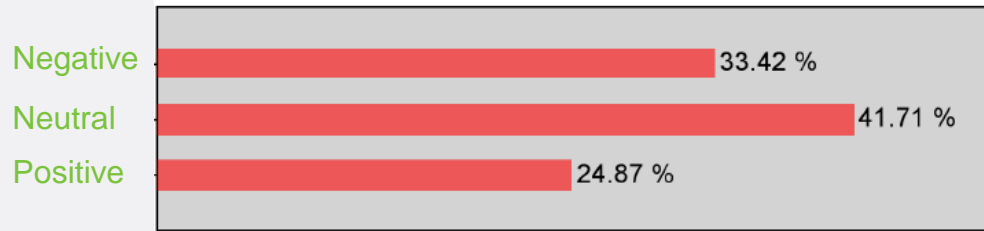


Consumer Focus:

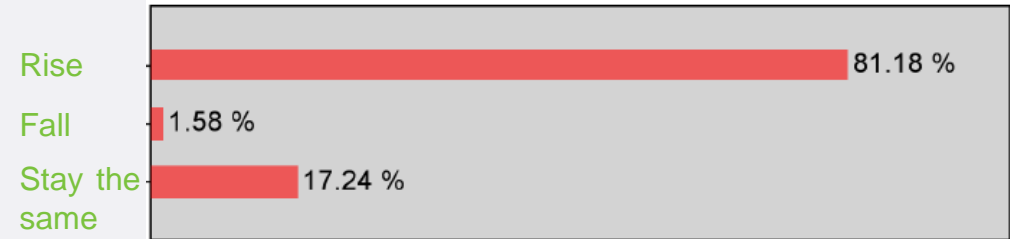
How are consumers feeling?

- Each month, Asda sends out a 'Pulse of the Nation' survey to see how consumers are feeling about the economy. This survey asks around 1000 individuals from across the UK various questions about their thoughts on the economy. See below the results:

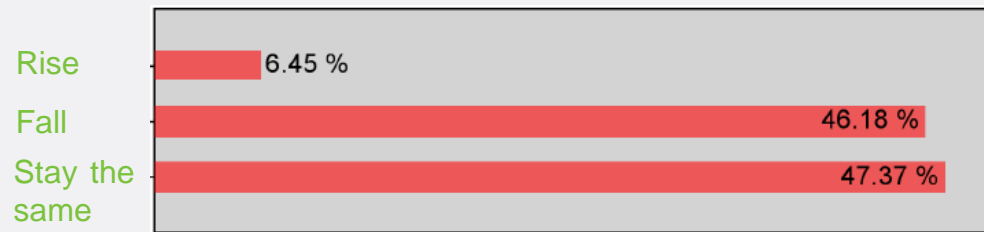
- How do you feel about the current UK economy?**



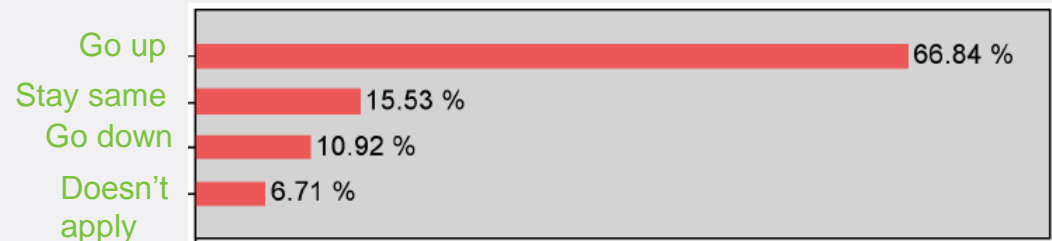
- What will happen to the cost of day to day living?**



- What will happen to your disposable income?**



- What will happen to the price of petrol?**



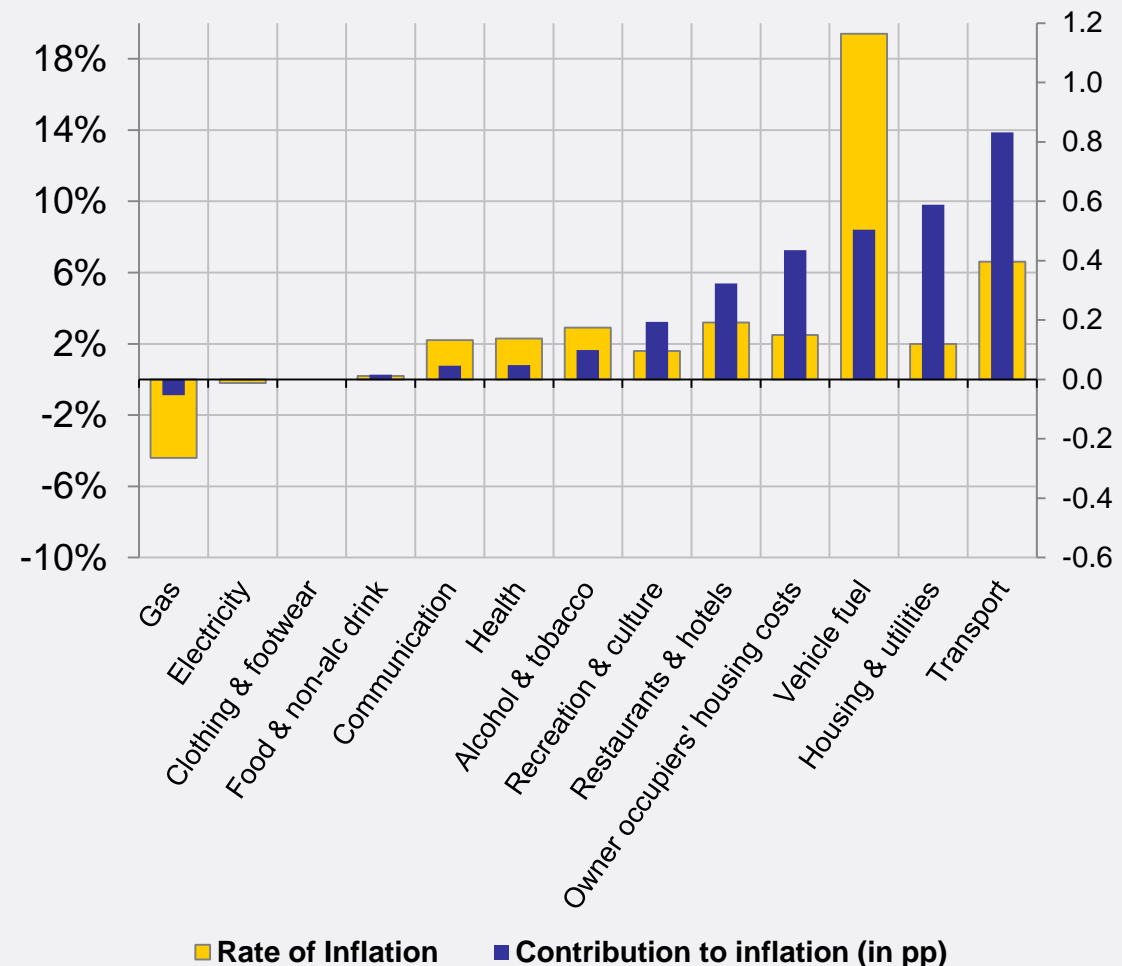
- In February, customers have told Asda how they are feeling about the economy and their finances. Despite the data showing that disposable income is still growing, nearly 50% of UK families think theirs will fall over the next month, with only 6% thinking it will continue to increase.
- Around a third of people are feeling negative about the economy, while only one in four feel positive about it.
- Over 80% think that the cost of living will go up and more than two thirds expect the price of petrol to increase further.

Higher oil prices continue to push up the cost of transportation

The main factors affecting family costs in February were:

- In February, inflation jumped past the 2.0% mark for the first time since late 2013. The ONS' new headline inflation index, the CPIH, shows an annual increase of 2.3% for the year to February.
- The main difference between the CPI and the CPIH is that the latter includes a measure of owner occupiers' housing costs (OOH) and council tax – important factors in the budgets of many families. In fact, housing and utilities including OOH contributed 0.6 percentage points to the headline inflation index.
- This was only exceeded by transportations, which – led by another surge in fuel prices – contributed 0.8 percentage points to inflation.
- Notably, food and non-alcoholic drinks no longer weigh on inflation in February.

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



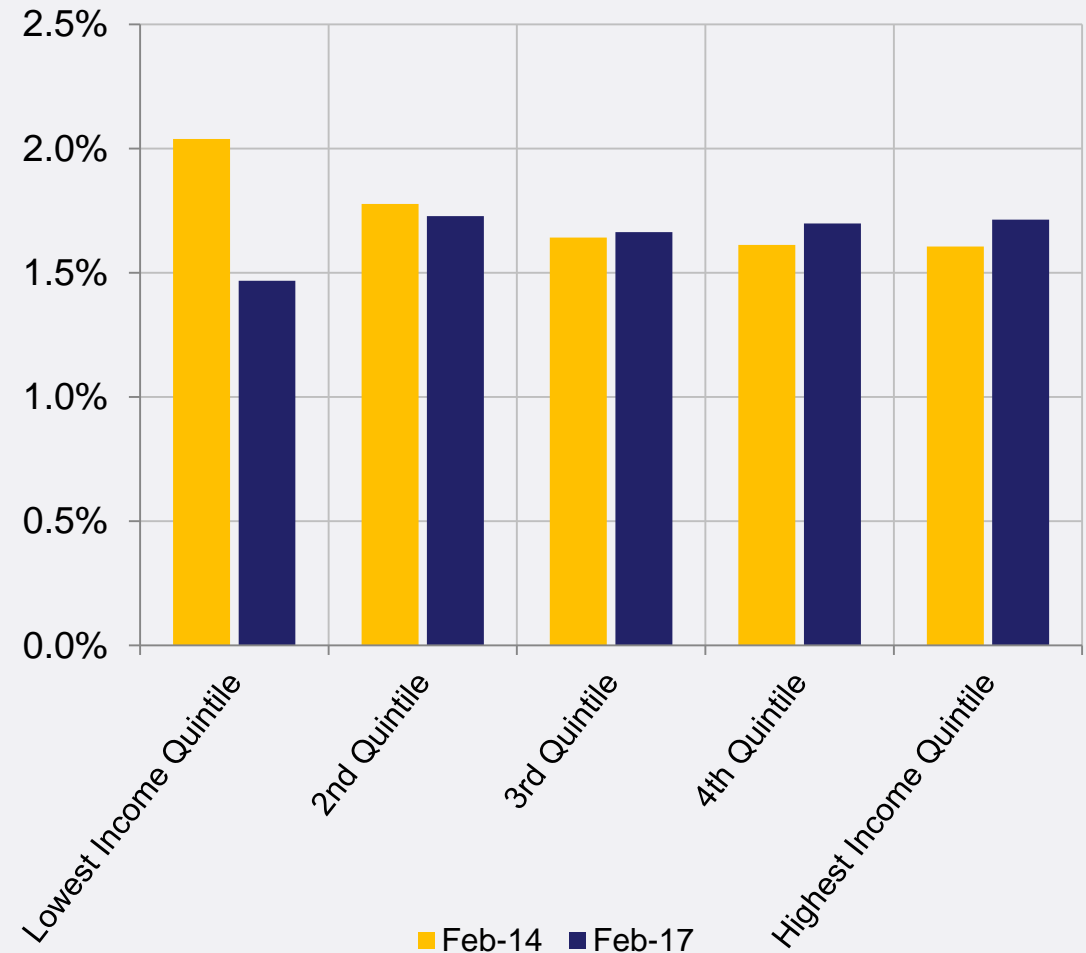
Vehicle fuel is a sub-category of Transport;
 Gas and electricity are sub-categories of Housing & utilities
 Owner occupiers' housing cost are included in the new CPIH headline inflation measure of the ONS

Drastic rise in essential item inflation is felt throughout all income groups

Lower income households face slightly lower rate of essential item inflation

- As essential spending is defined by the same group of goods and services for all income groups, the paths of essential item inflation look similar, although some differences can be discerned at closer examination.
- While at the start of 2014 the poorest households faced the highest rate of essential item inflation, in February 2017 the poorest 20% recorded the lowest rate of essential item inflation. Although essential item inflation is measured using the same basket of goods and services for all income groups, differences in prices affect the groups in different ways as the amount spent on each product or service varies across the income quintiles.
- For example, lower income households spend a higher share of their income on food and clothing, while medical costs have a larger contribution as we move up the income distribution.
- Not shown on the graph is that essential item inflation for all groups was below 1% between 2014 and 2016, which has boosted families' spending power during that time.

Essential item inflation by income quintile, 2014 to 2017

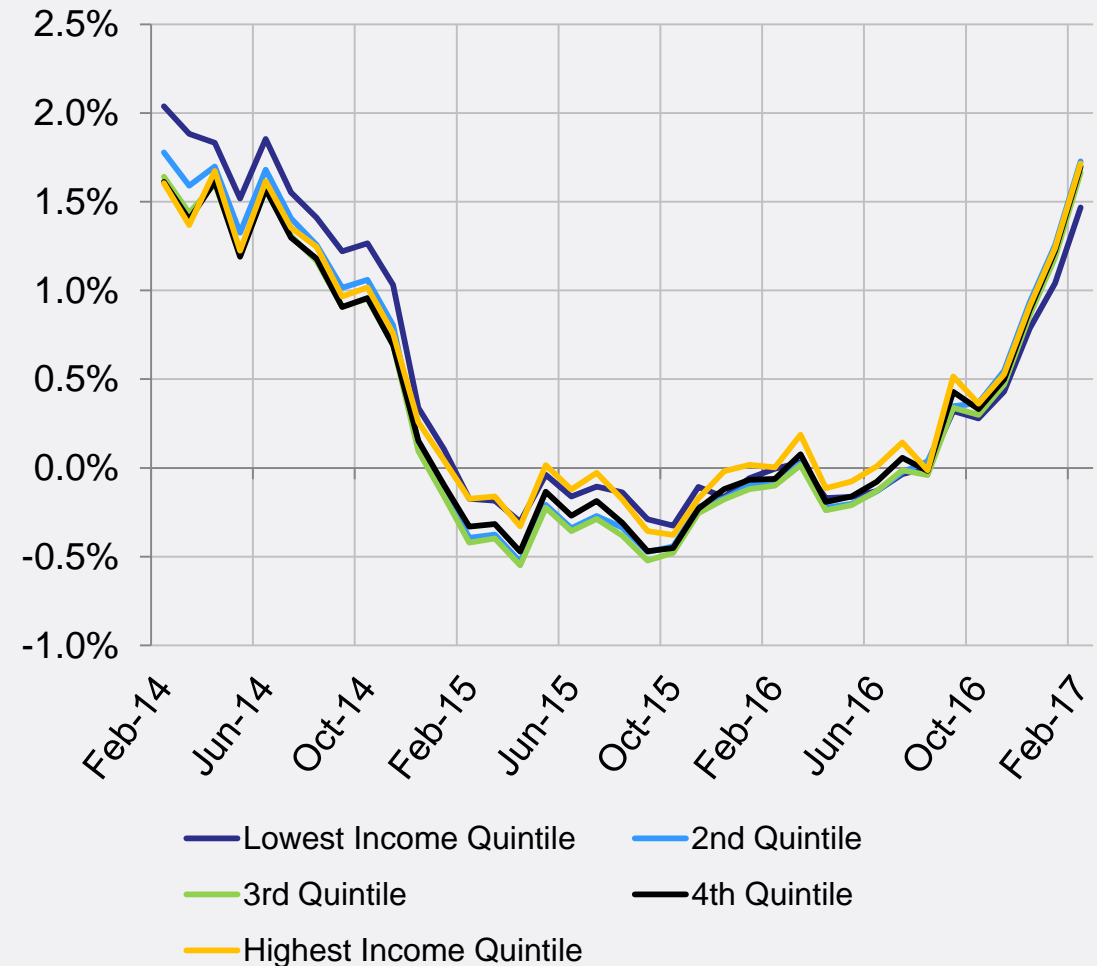


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- For example, lower income households spend a higher share of their income on food and clothing, while medical costs have a larger contribution as we move up the income distribution.
- The graph also shows that essential item inflation for all groups was below 1% between 2014 and 2016, which has boosted families' spending power during that time.

Essential item inflation by income quintile, 2014 to 2017



Contact

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

For press enquiries please contact:

Jack Woodhead, Senior Press Officer, Corporate and People
Jack.Woodhead@Asda.co.uk ; 0113 82 62852

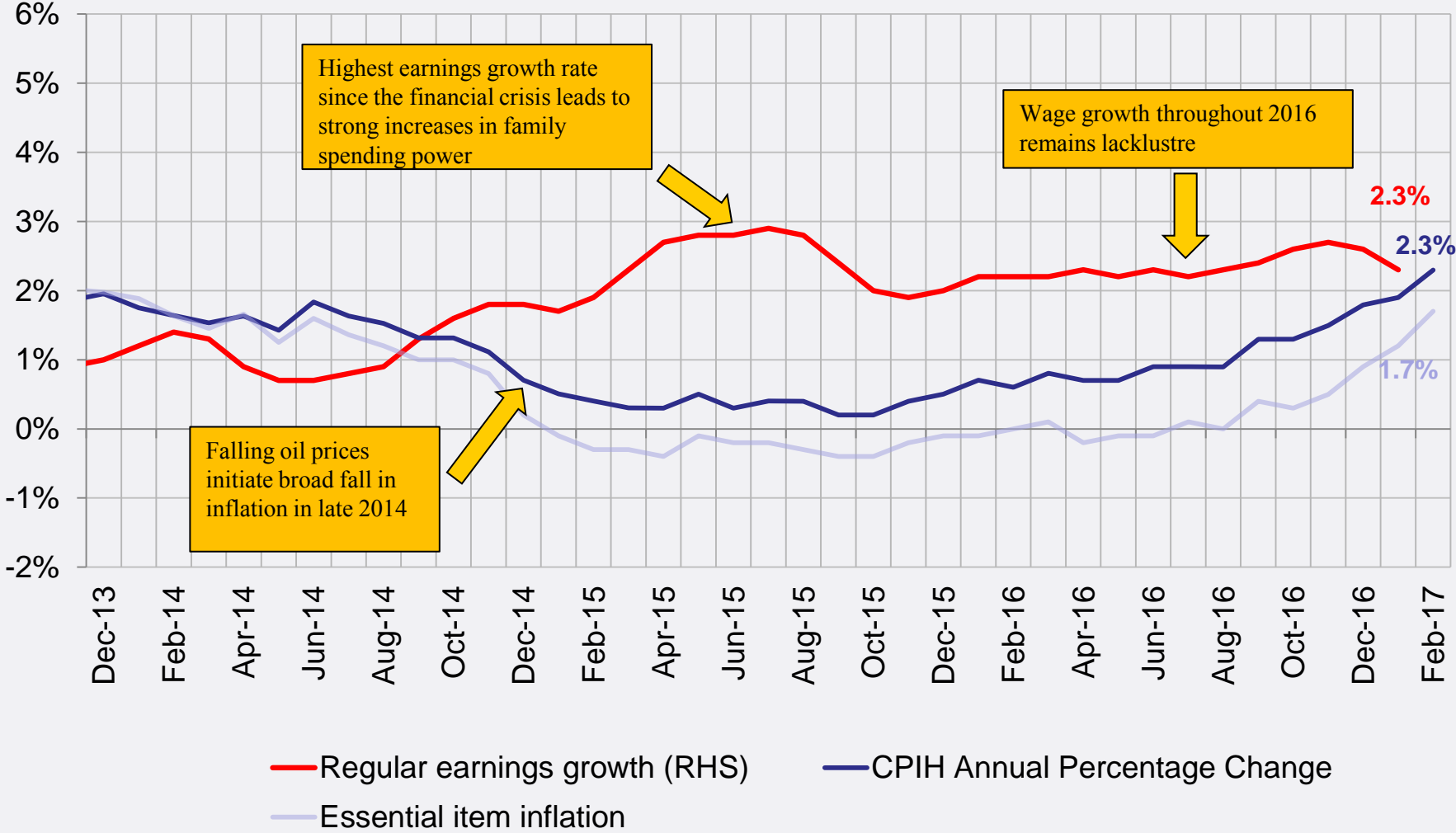
For data enquiries please contact:

Kay Neufeld, Cebr Economist,
KNeufeld@Cebr.com ; 020 7324 2841

Appendix

Inflation exceeds 2% target while wage growth stalls

Annual percentage change in Consumer Price Index, essential item inflation and average weekly earnings

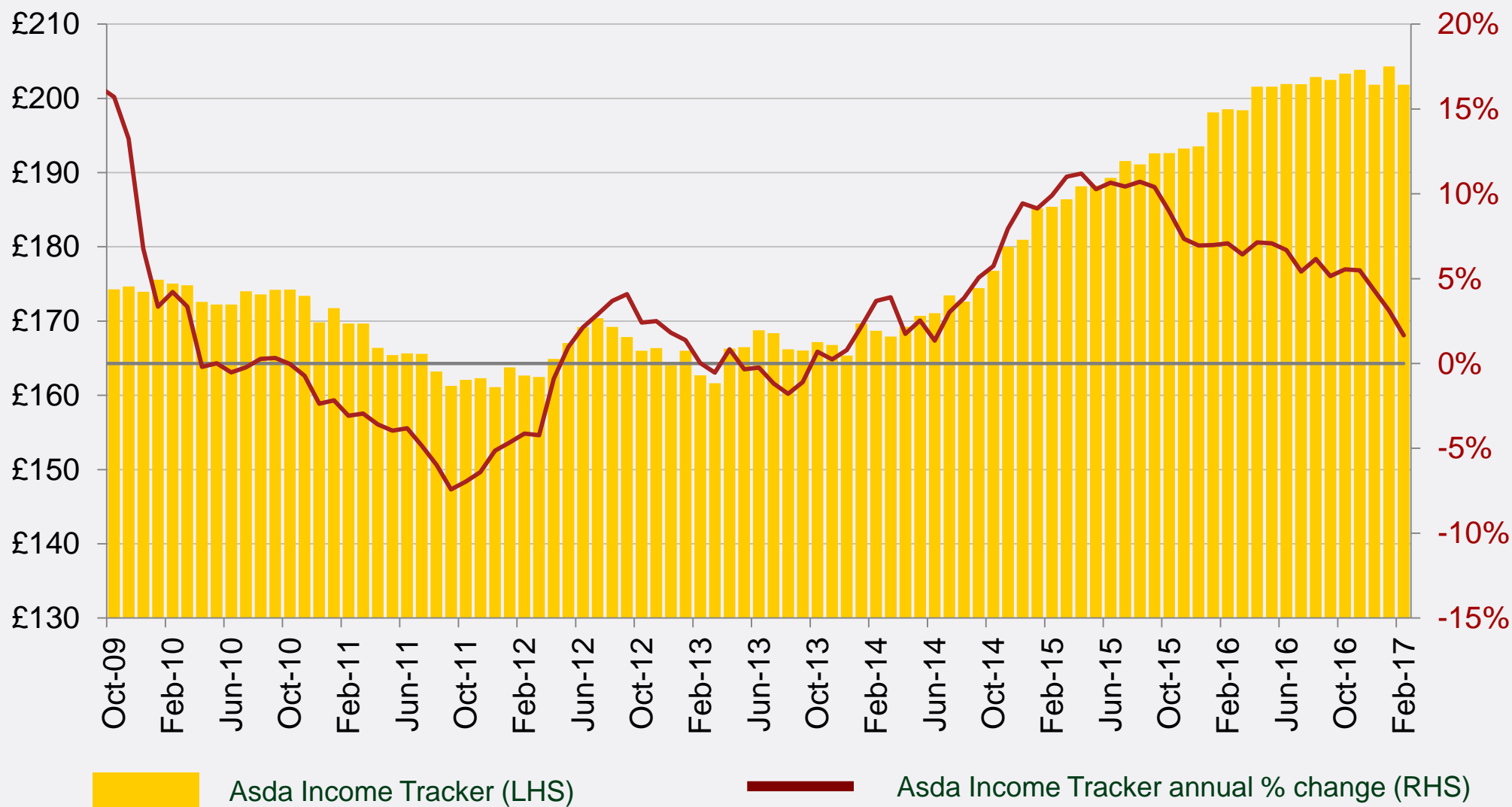


Inflation trends over time



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	£198	January 2017	£204
February 2013	£163	February 2014	£169	February 2015	£185	February 2016	£198	February 2017	£202
March 2013	£162	March 2014	£168	March 2015	£186	March 2016	£198		
April 2013	£167	April 2014	£170	April 2015	£188	April 2016	£201		
May 2013	£167	May 2014	£171	May 2015	£188	May 2016	£202		
June 2013	£169	June 2014	£171	June 2015	£189	June 2016	£202		
July 2013	£168	July 2014	£173	July 2015	£191	July 2016	£202		
August 2013	£166	August 2014	£173	August 2015	£191	August 2016	£203		
September 2013	£166	September 2014	£174	September 2015	£192	September 2016	£203		
October 2013	£167	October 2014	£176	October 2015	£193	October 2016	£204		
November 2013	£167	November 2014	£179	November 2015	£193	November 2016	£204		
December 2013	£165	December 2014	£181	December 2015	£193	December 2016	£202		
2013 Average	£166	2014 Average	£173	2015 Average	£190	2016 Average	£201		

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 Scott Corfe.

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London, March 2017