

# Asda Income Tracker

Report: July 2017

Released: August 2017



Making Business Sense

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# Headlines – Asda Income Tracker

- The average UK household had £199 a week of discretionary income in July 2017, up by £0.91 a week on the same month a year before. This is the first increase in the Asda Income Tracker after three consecutive months of declines.
- After last month's fall in inflation, the rate of price increases held steady in July. At the same time, wage growth picked up slightly which means households had some more breathing space than in previous months. Nevertheless, the pay squeeze is still on as inflation continues to stand above wage increases.
- Apart from accelerating inflation in food and clothes, families also have to pay more for electricity as the UK's major energy suppliers increased prices substantially this year. These increases disproportionately impact older and poorer households, who need to dedicate a larger share of their budget to essential spending. Looking ahead, the situation for households remains challenging as rising utility costs and food prices will persist for some time.

Family spending power was up by £0.9 a week year on year in July  
(a 0.5% annual increase)



# Asda Income Tracker Dashboard: July

Indicator	Year-on-year change	Change to previous period
GDP (Q2 2017)	 +1.7%	+0.3% QoQ
Regular earnings growth* (Apr-Jun)	 +2.1%	+0.1 p.p.
Unemployment rate (Apr-Jun): 4.4%	 -0.5 p.p.	- 0.1 p.p.
CPI Inflation (July)	 +2.6%	+0.0% MoM
Net income (July)	 +2.0%	+0.1% MoM
Essential item inflation (July)	 +2.2%	+0.0% MoM
Family Spending Power (July)	 +0.5 %	+0.4% MoM
Food & non-alcoholic drinks inflation (July)	 +2.6%	+0.0% MoM
Clothing and Footwear (July)	 +3.2%	-2.9% MoM
Vehicle fuels (July)	 +2.0%	-1.3% MoM

KEY IMPROVING TREND   NO SIGNIFICANT CHANGE IN TREND  DETERIORATING TREND  

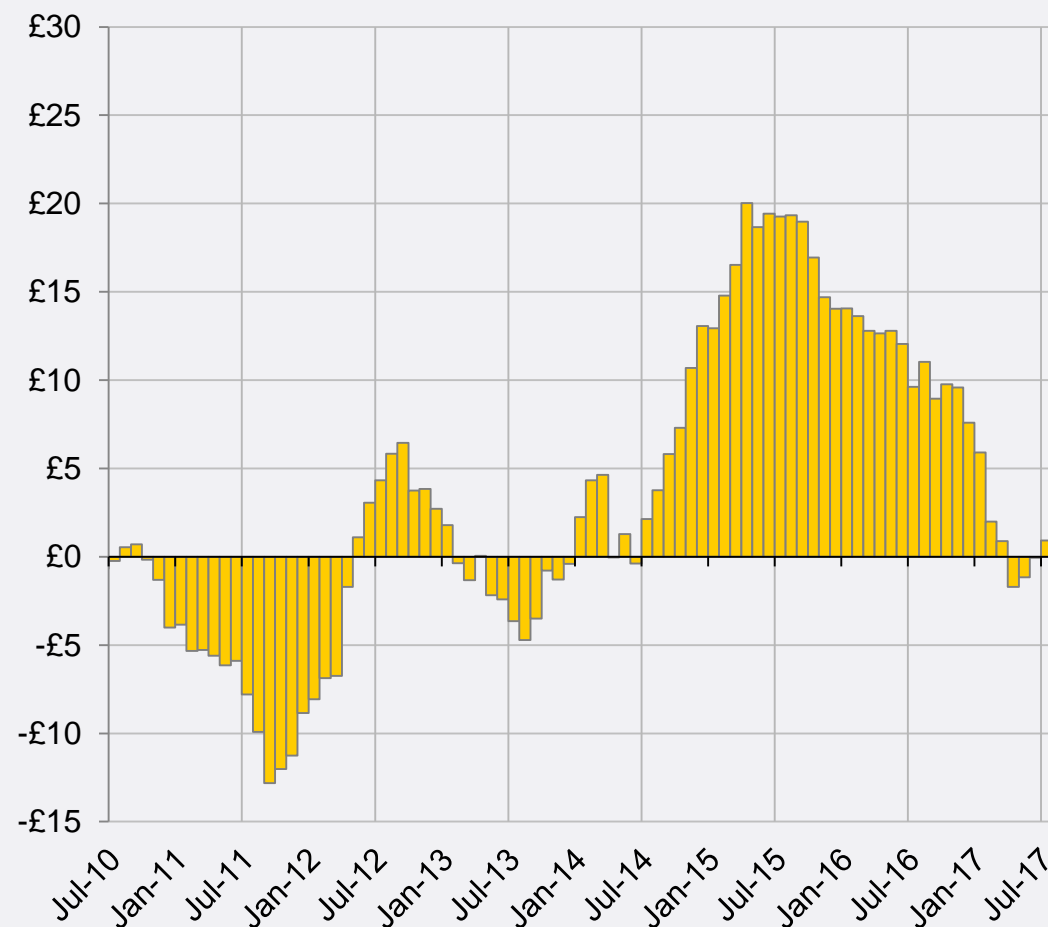
\* three-month average, excl bonuses

# Family spending power returns to growth as inflation flatlines

The Asda Income Tracker was £0.91 a week higher in July 2017 than a year before

- Pressure on households' budgets has eased in July as the ASDA Income Tracker returns to growth after three months of declines.
- Family spending power in July stood at £199, about £0.91 higher than in the same month a year ago.
- The latest labour market statistics show that wage growth continues to accelerate albeit at a very slow pace.
- What's more, the rate of unemployment fell to 4.4% in the three months to June, the lowest rate in four decades.
- Households are benefitting from the strong labour market and flatlining CPI inflation, which held steady at 2.6% YoY in July. Nevertheless, the rate of inflation still stands higher than earnings growth, meaning household finances remain under pressure.

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



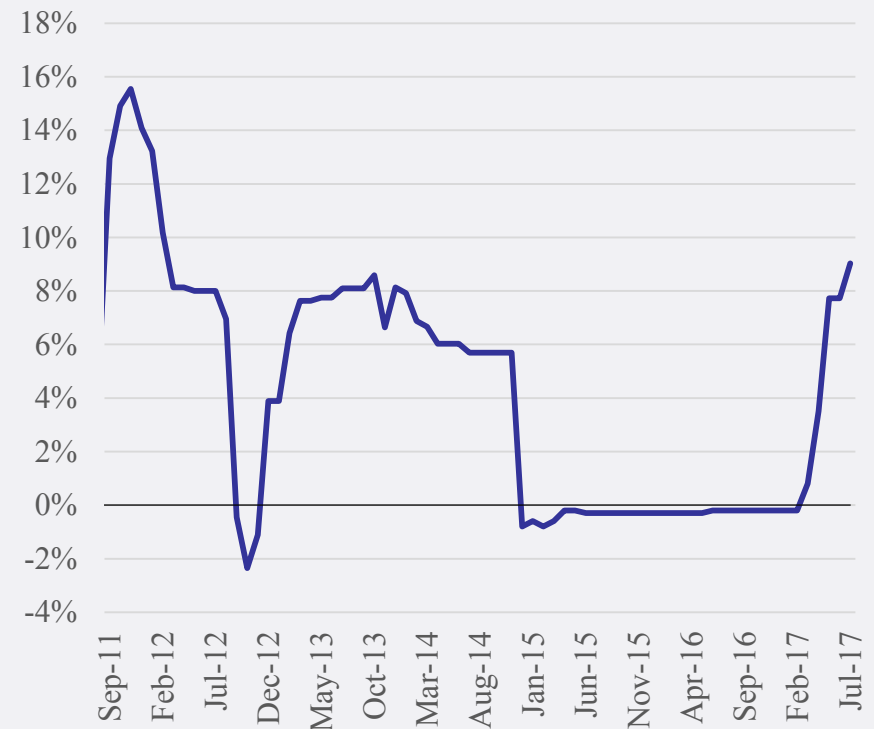
# Report Spotlight:

## Money down the wire

### Higher electricity prices hit millions of UK households

- Much has been written about the fall in the pound driving the recent rise in inflation as imported goods such as food and clothes become dearer.
- However, another factor adding to higher inflation is quite unrelated to exchange rates and imports. The 'big six' – the major electricity and gas providers in the UK – have all increased prices for electricity this year, some of them by double-digit figures.
- For example, British Gas raised prices by 12.5% in August for its customers on the standard variable tariff. The rises are often not driven by price movements in the whole sale market but rather by other factors such as transportation and distribution of electricity, operating costs for the grid and environmental regulations.
- Prices for electricity have risen by 9.0% year-on-year in July, up from -0.2% a year ago. This is the highest rate of inflation since early 2012.
- This rise hits elderly households especially hard as they spend relatively more on electricity than younger people. According to data from the Family Expenditure Survey, spending on electricity makes up 4.3% of the total spending of over 75s compared to 2.3% for under 30s.

ONS Consumer Price Index, Electricity, yoy-change, in %



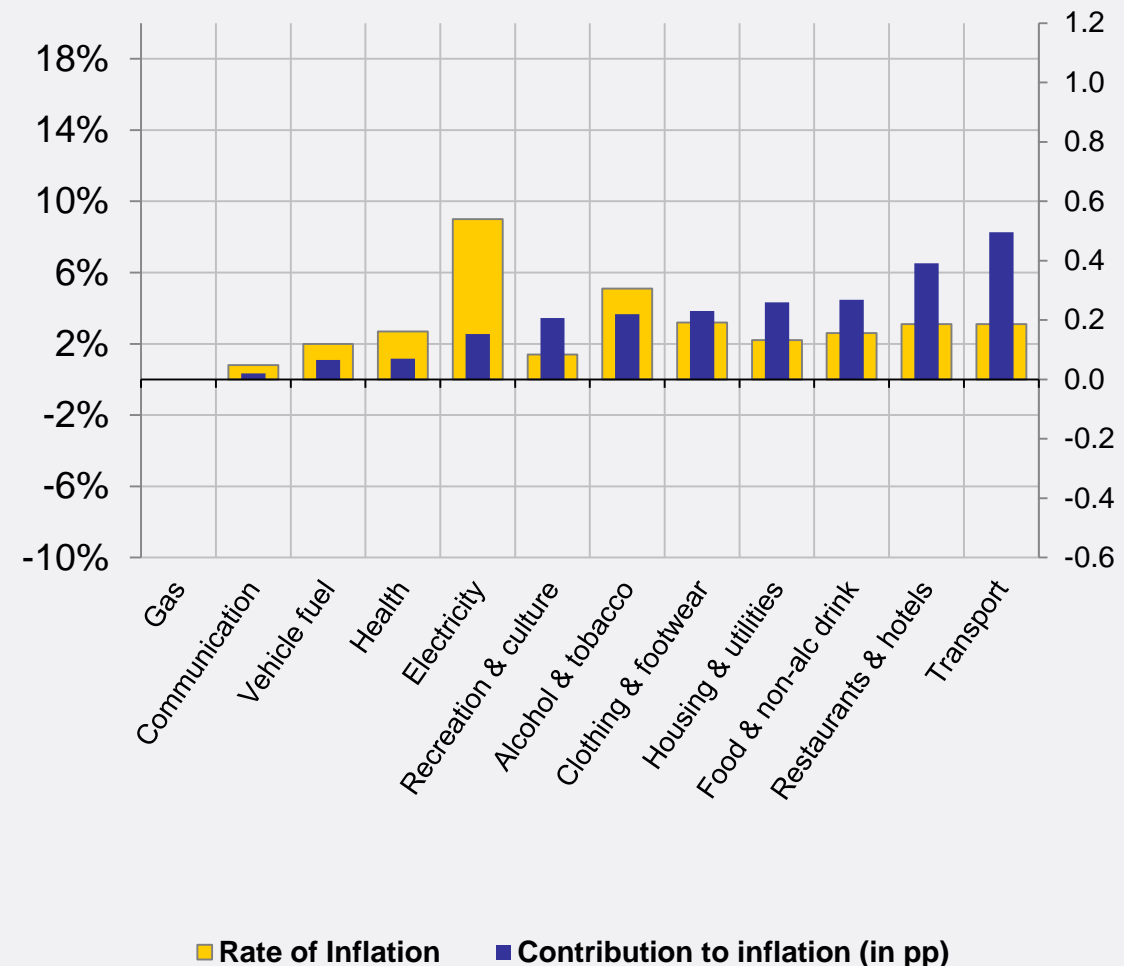
Source: ONS

# Inflation in clothes and footwear rises to highest level in 5 years

The main factors affecting family costs in July were:

- Inflation as measured by the Consumer Price Index stood at 2.6% in the year to July, unchanged from the previous month.
- After June's fall in the Consumer Price Index, forecasters had expected inflation to rebound in July but cheaper fuel prices exerted significant downward pressure on prices.
- Prices in the Communication and Recreation and Culture categories also fell compared to last month, further offsetting upwards pressure on inflation from other products and services.
- Notable contributors to inflation this month were once again fast rising electricity prices as well as prices for food and non-alcoholic beverages.
- Annual inflation for clothing and footwear hit 3.2% in July, the highest rate since March 2012.

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

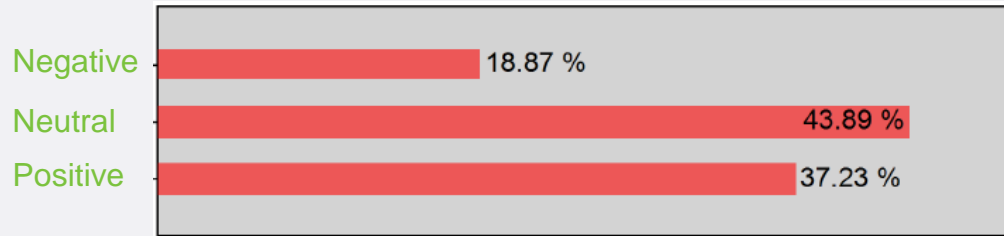
■ Rate of Inflation    ■ Contribution to inflation (in pp)

# Consumer Focus:

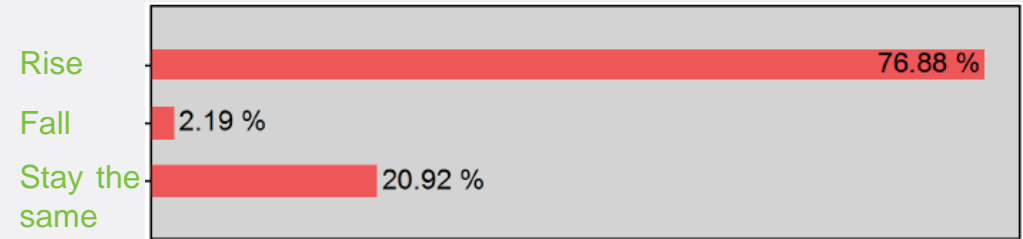
## How are consumers feeling?

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

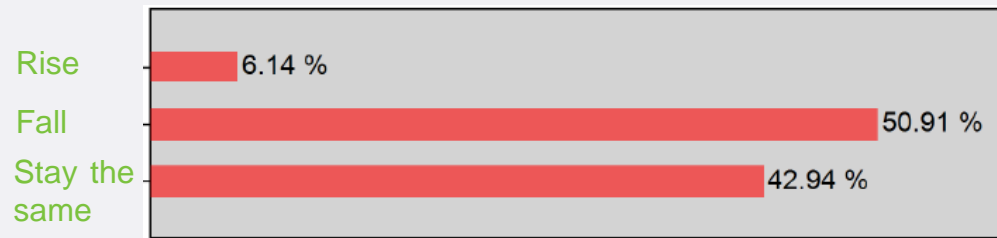
- How do you feel about the current UK economy?**



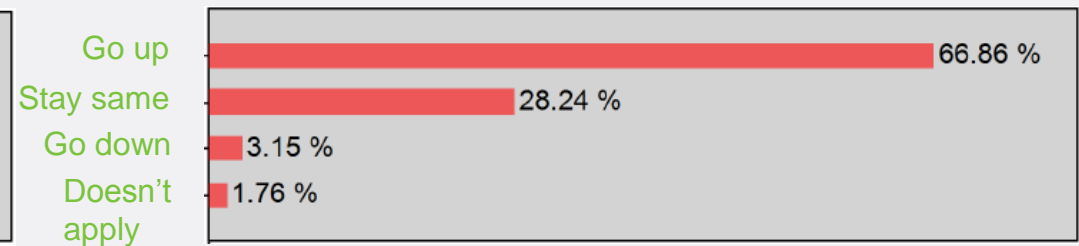
- What will happen to the cost of day to day living?**



- What will happen to your disposable income?**



- What will happen to electricity prices?**



- In August, consumers told Asda how they are feeling about the economy and their finances. The data revealed that more than half of customers asked think their disposable income will fall in the next month, which is higher than previous months.
- 66% of those asked believe their electricity bills will continue to rise going into September whereas only 3% think they will see a decrease in their monthly power cost.

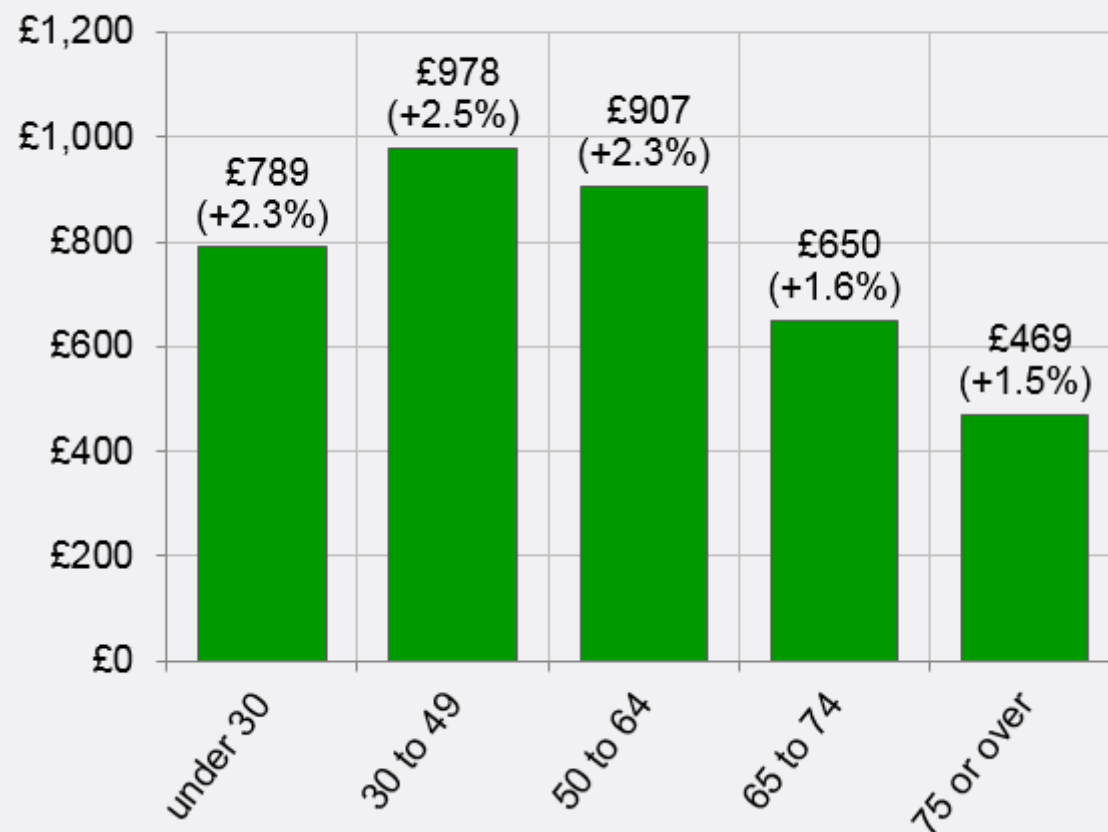
# Middle-aged households benefit most from strong labour market

Under 30s remain in third place in terms of gross income by age group

- Households aged 30 to 49\* continue to enjoy the highest gross income (i.e. before deduction of tax and cost of essential spending) at £978 per week. This is up 2.5% up from July 2016.
- Albeit wage growth has been disappointing over the past months, those aged 30 to 49 benefit from falling unemployment and higher employment rates.
- These gains have been less pronounced for those aged 65 and above. While this age group is playing an increasingly important role in the labour market compared to previous years, employment gains in recent months were subdued.
- Older generations further struggle with interest rates close to zero which means income from annuities and private pensions is lower.

\*Age groups determined via age of household representative person / main income earner in household.

Average weekly gross income by age group, July 2017, YoY growth in parentheses



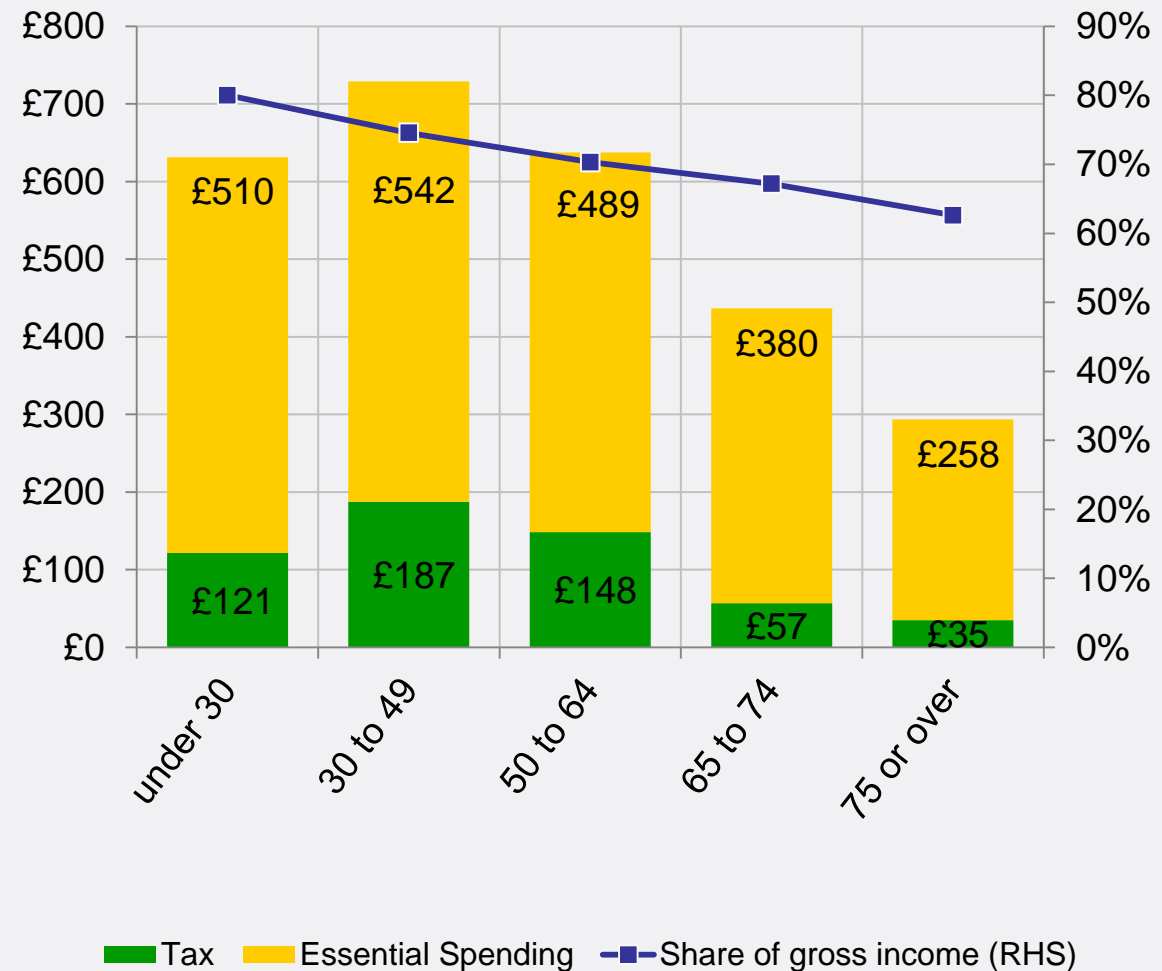


# Over 75s spend highest share on food and non-alcoholic drinks

## 30 to 49 year olds have highest essential spending

- 30 to 49 year-olds pay the highest tax on their income with £187 per week. They are followed by 50 to 64 year-olds who pay £148 per week and under 30s with £121 per week.
- In absolute terms, 30 to 49 year-olds also spend the most on essential items with £542 per week.
- However, when looking at tax and essential spending combined, we find that under 30s spend the most relative to their gross income, as shown by the purple line. The youngest age group spends 80% of their gross income on essentials and tax, compared to 63% for those aged 75 and over.
- Looking at the make-up of the essential spending for the various age groups, we find that under 30s spend a substantially higher share of their income on education and housing.
- As people grow older, a higher share of their income goes to food and non-alcoholic drinks compared to other categories, reaching 17% for over 75s.

Average weekly tax burden and essential spending by age group, July 2017

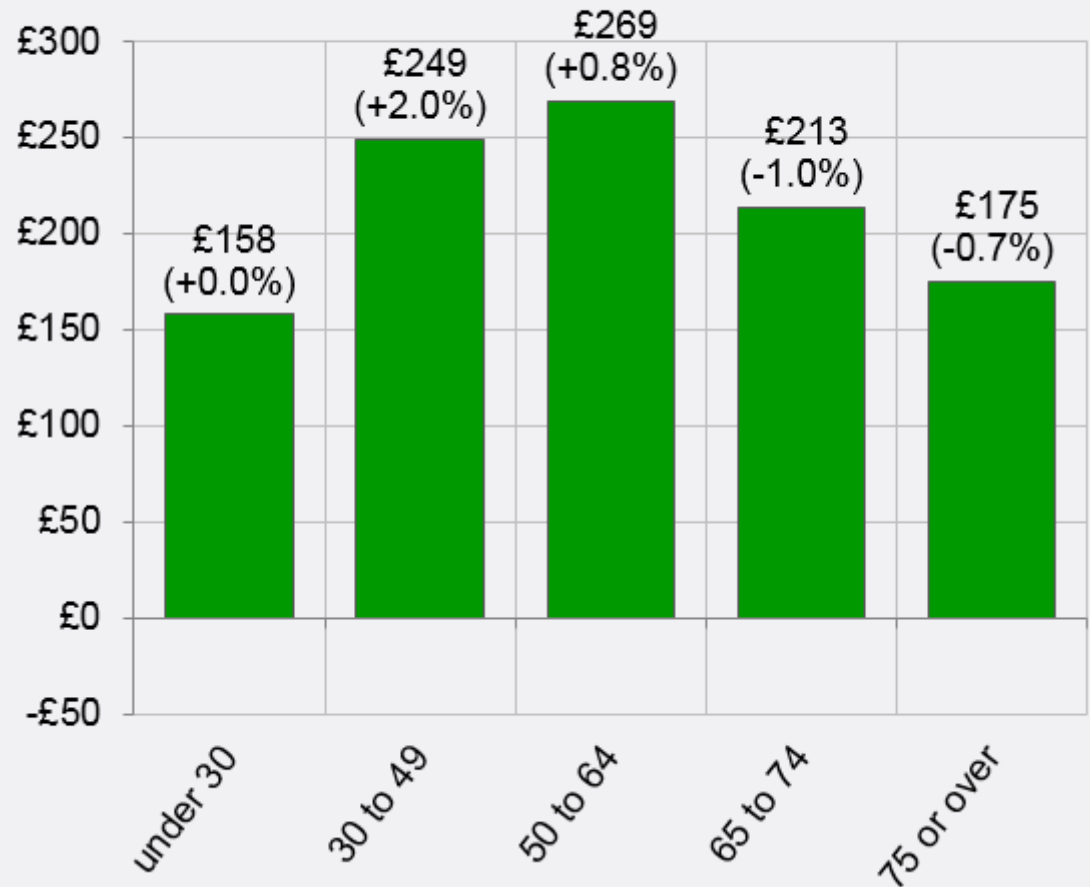


# Rising essential item inflation acts as a drag on discretionary incomes for over 65s

## Household spending power for under 30s stagnates

- Households in which the main income earner is aged 30 to 49 have experienced the highest year-on-year growth in the Income Tracker. Their discretionary income stood at £249 in July, 2.0% higher than in the same month a year ago. This, however, is still below the discretionary income of those aged 50 to 64, whose weekly family spending power is £20 higher.
- Under 30s have not seen any improvement in their discretionary incomes over the past 12 months with the Income Tracker still standing at £158. The situation is even worse for those above the state pension age. Those aged 65 to 74 have seen their discretionary incomes decline by 1.0% over the last year while those 75 and over saw a decline of 0.7%.
- Apart from the slow increases in gross income shown on the previous slide, older households are also especially hit by the recent inflationary hikes in food prices and electricity bills.

Average weekly discretionary income by age group, July 2017, YoY growth in parentheses



# 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:

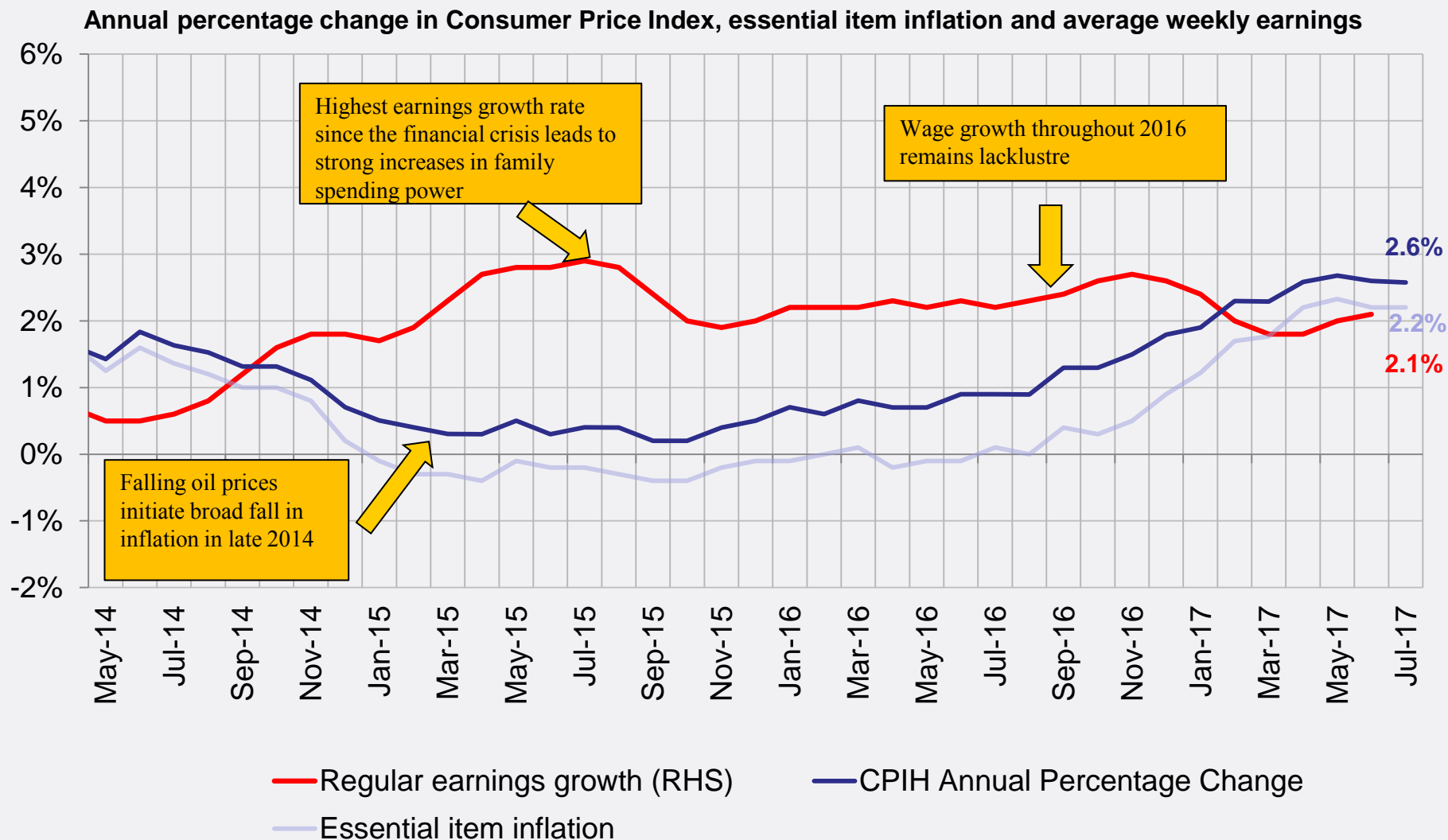
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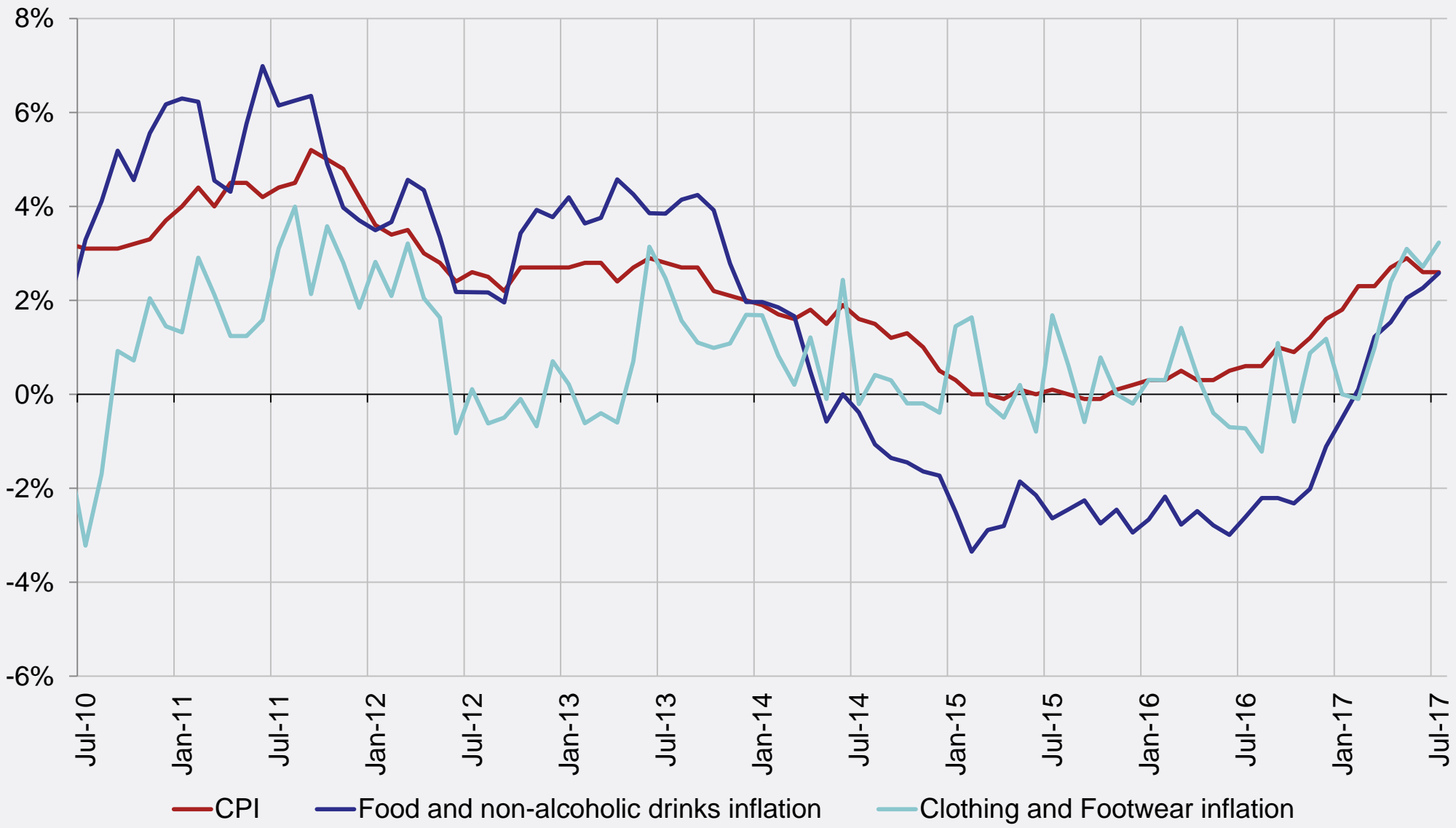
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# Appendix

# Wage growth falls further behind inflation

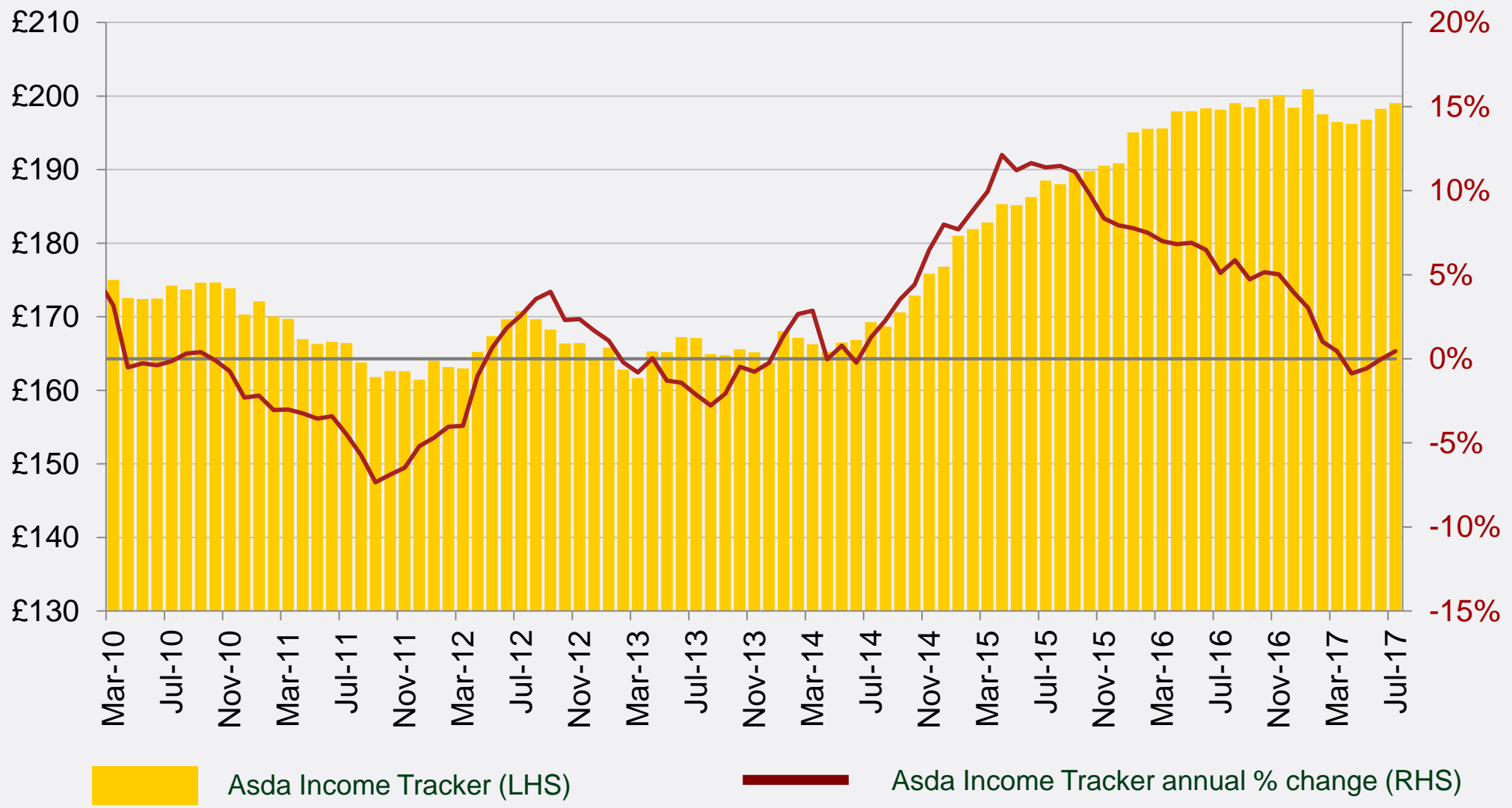


# Inflation trends over time



# 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	£198
March 2013	£162	March 2014	£168	March 2015	£186	March 2016	£195	March 2017	£197
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	£197
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		
September 2013	£166	September 2014	£174	September 2015	£192	September 2016	£199		
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		
<b>2013 Average</b>	<b>£166</b>	<b>2014 Average</b>	<b>£173</b>	<b>2015 Average</b>	<b>£190</b>	<b>2016 Average</b>	<b>£198</b>		

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, July 2017**