

Asda Income Tracker

Report: February 2018

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Making Business Sense

Centre for Economics and
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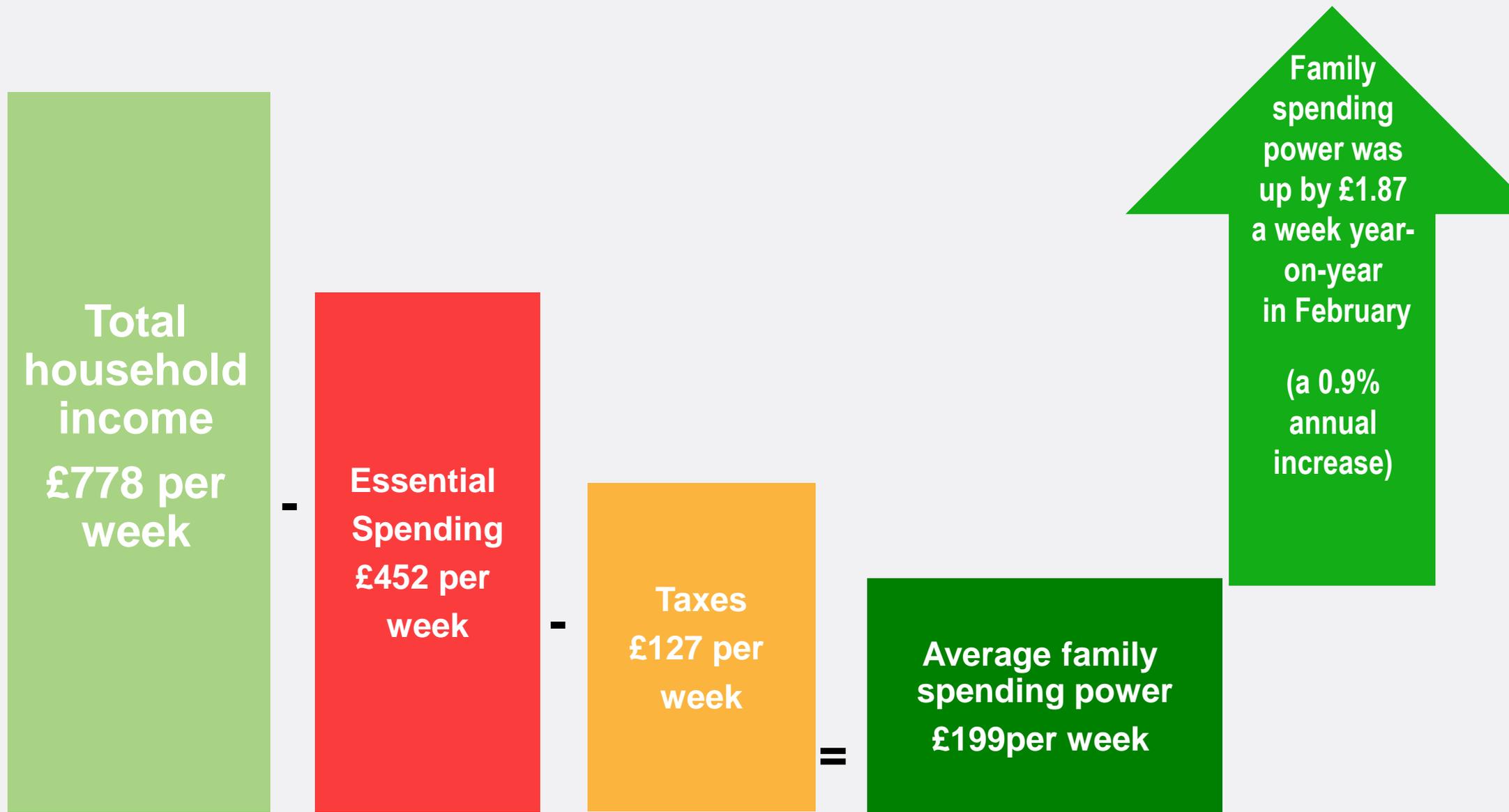
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Asda Income Tracker – Key Figures

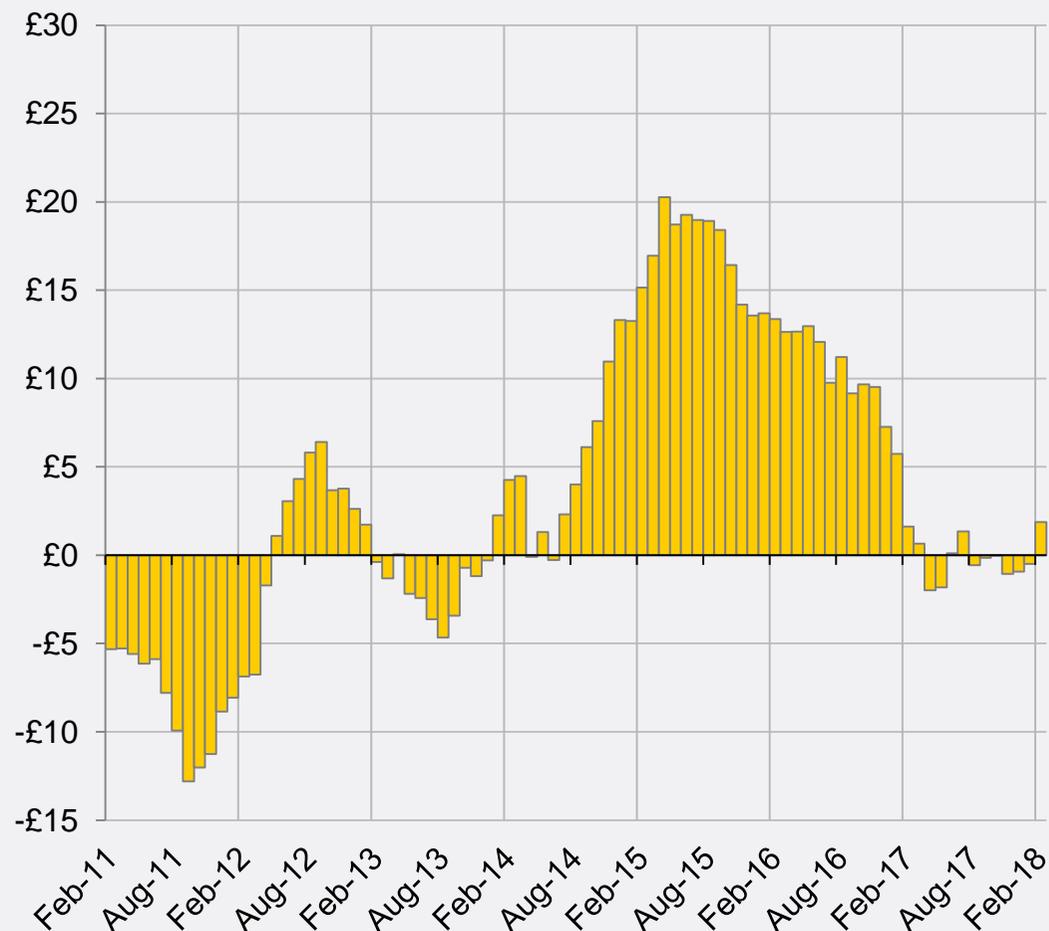


2018 outlook improves as family spending power returns to growth

The Asda Income Tracker was £1.87 a week higher in February 2018 than a year before

- In February 2018 family spending power rose by £1.87 compared with the same month a year earlier, equivalent to a 0.9% increase.
- This marks the first gain in the ASDA income tracker since July 2017.
- Inflation seems to have passed its peak as it fell by more than anticipated in February as exchange rate effects move out of the statistics.
- Wage growth has continued its slow but persistent upwards trend as the firms struggle to find sufficient workers to fill open vacancies.
- In the medium term the tight labour market effect is expected to translate into higher domestic inflation pressures. For now, however, households can enjoy a long awaited break from the squeeze on their finances.

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

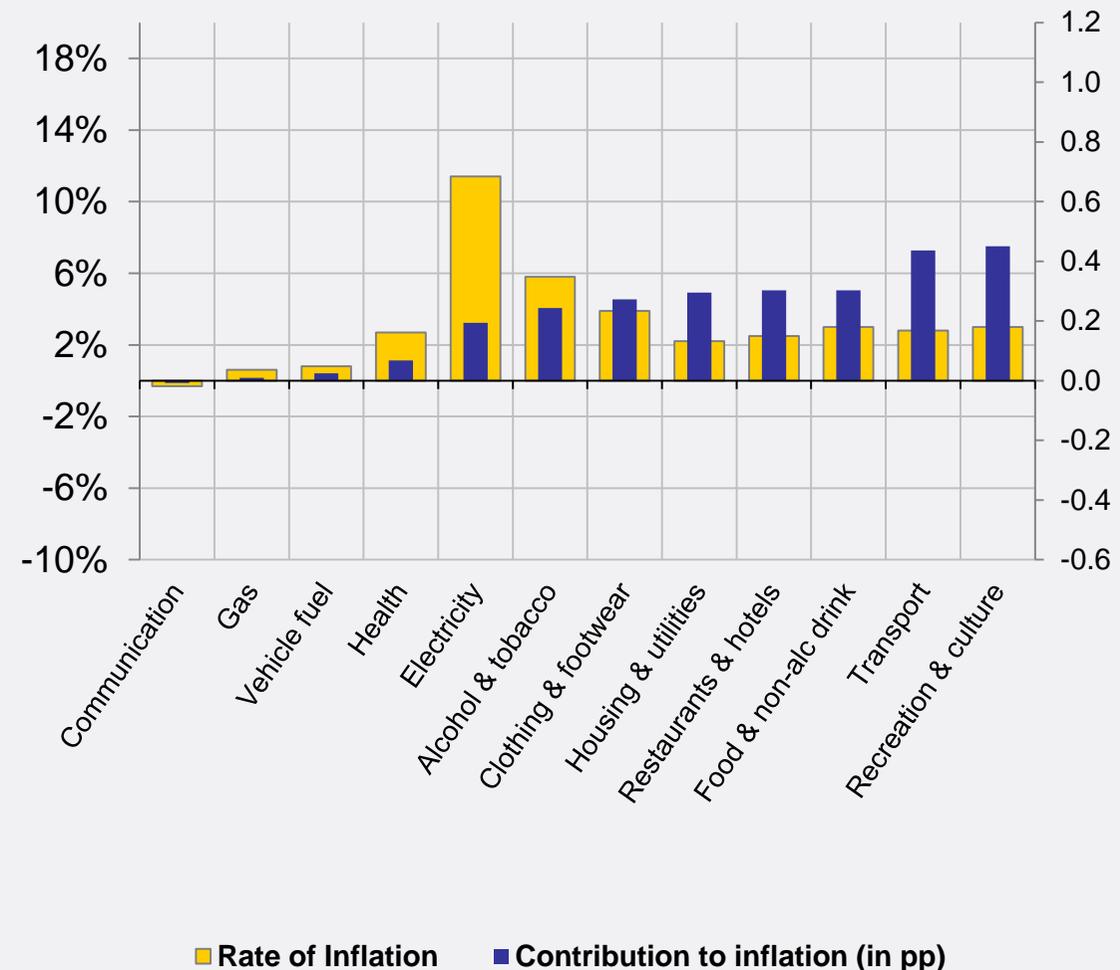


Inflation falls back as prices for fuel and restaurants and hotels rise more slowly

The main factors affecting family costs in February were:

- Inflation as measured by the Consumer Price Index stood at 2.7% in the year to February, down from 3.0% in the previous month.
- Compared with January, inflation slowed in a number of categories. Transport inflation, a main driver of the headline rate in previous month, fell to 2.8% - the lowest rate since November 2016. Price growth in restaurants and hotels fell from 3.1% in January to 2.5% in February.
- Inflation for goods and services in recreation and culture stood at 3% in February and was the single largest contributor to the headline rate.
- Fuel price inflation fell to the lowest value since August 2016, easing the pressure on households' budgets. These falls were partly offset by high price growth for electricity as well as inflation in alcohol and tobacco prices.

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

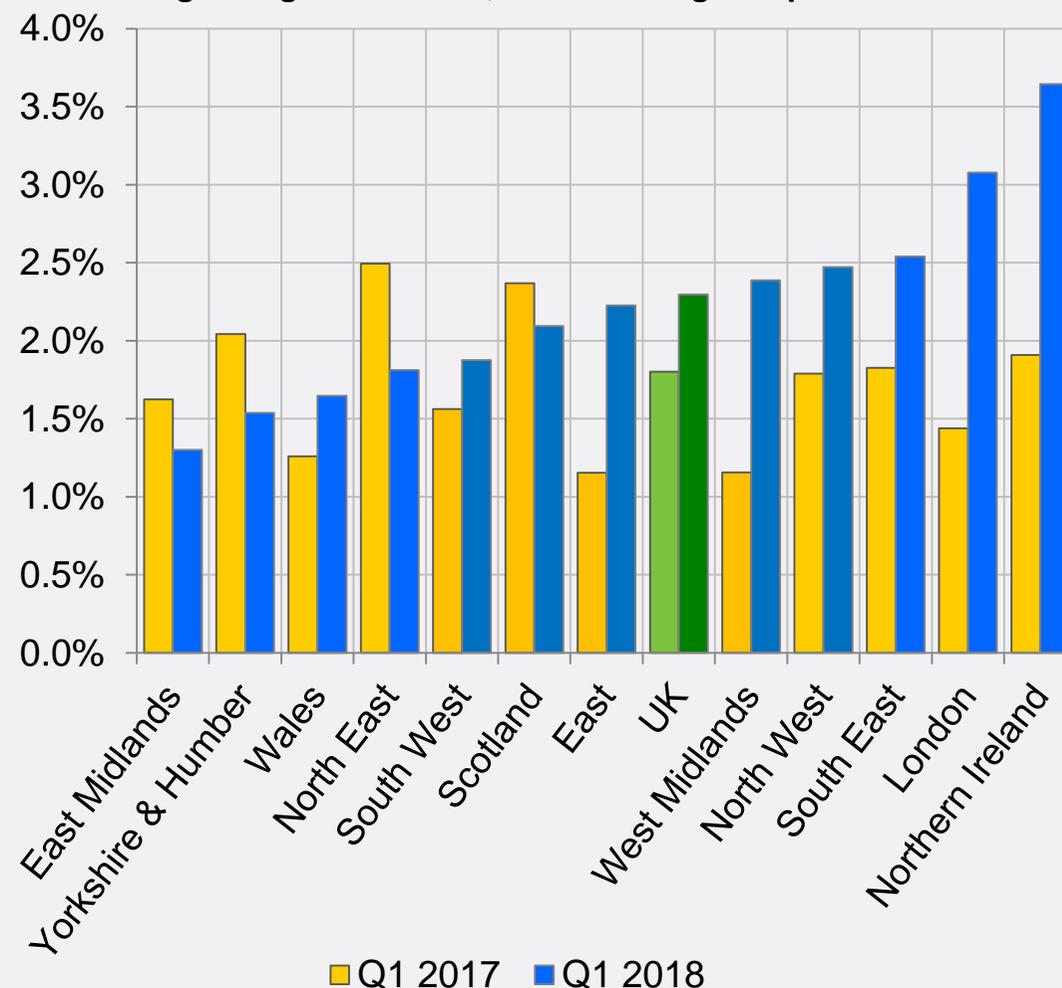
■ Rate of Inflation ■ Contribution to inflation (in pp)

Northern Ireland and London see gross income rise fastest in Q1 2018

Mixed picture for gross income growth across the UK's regions

- Gross income growth accelerated for most regions in Q1 2018 compared to the same quarter last year.
- Only a handful of regions saw gross income growth slow: the East Midlands, Yorkshire and the Humber, North East and Scotland.
- UK-wide gross income grew at 2.3% in Q1 2018, half a percentage point above the rate seen in the first quarter of 2017.
- The tight labour market has led to gains in wage growth across most regions, with London and Northern Ireland seeing the fastest growth rates at 3.1% and 3.6%, respectively.
- The regions which experienced slower gross income growth compared to the start of 2017 are those with a high share of jobs in the retail and accommodation and food sectors, where wages have grown only modestly.

Regional gross income, annual change to quarter indicated

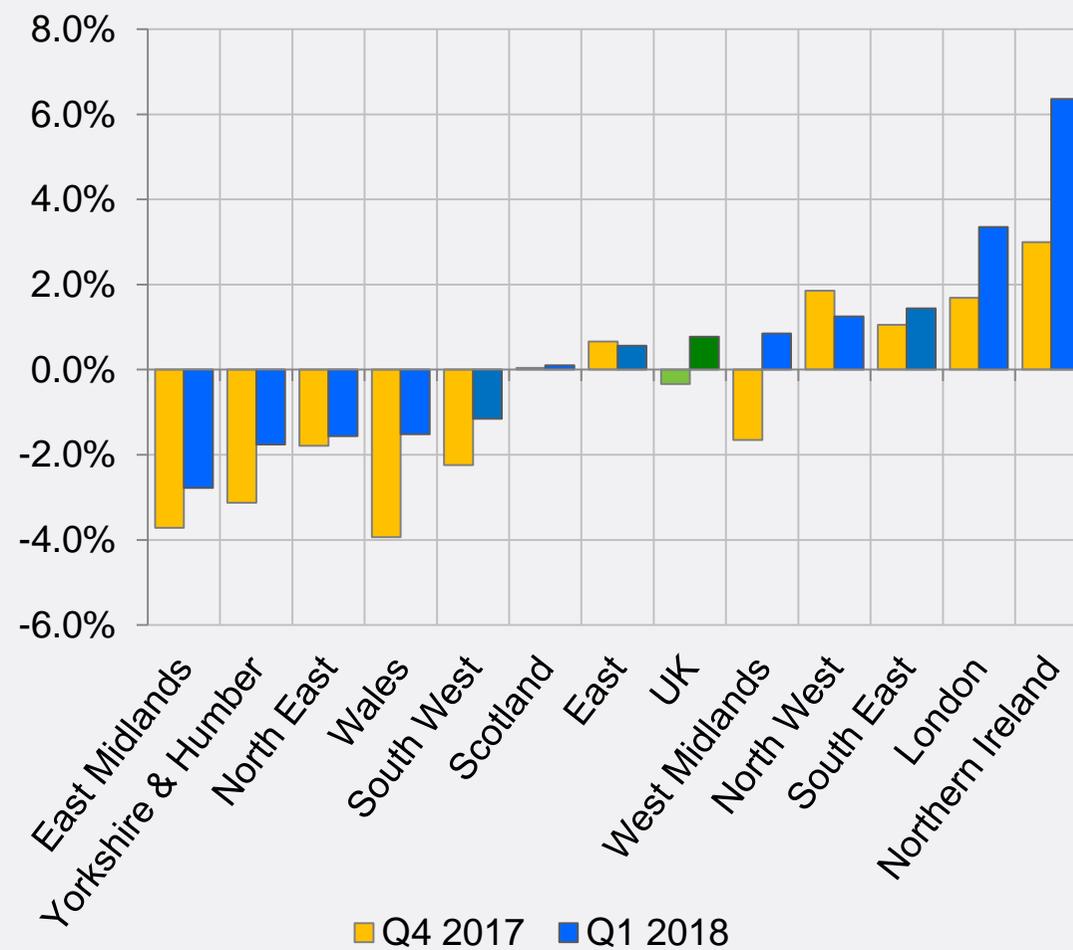


Positive trend in family spending power growth across all regions

ASDA Income Tracker returns to growth led by the South East, London and Northern Ireland

- Strengthening income growth has supported the ASDA income tracker in almost all regions. Only the North West and the East have seen growth in family spending power decline between Q4 2017 and the first quarter of the new year.
- Even among the regions which experiences a contraction in family spending power, the picture looks somewhat better in Q1 than in the previous quarter.
- Households in the East Midlands saw the steepest decline in the Income Tracker at -2.8%, followed by Yorkshire and the Humber (-1.8%) and the North East (-1.6%).
- Buoyed by strong income growth, Northern Ireland saw the biggest increase in the income tracker both in Q4 2017 and in Q1 2018. At 6.4%, household spending power grew at nearly twice the rate seen in London (3.4%), albeit from a much lower base.

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

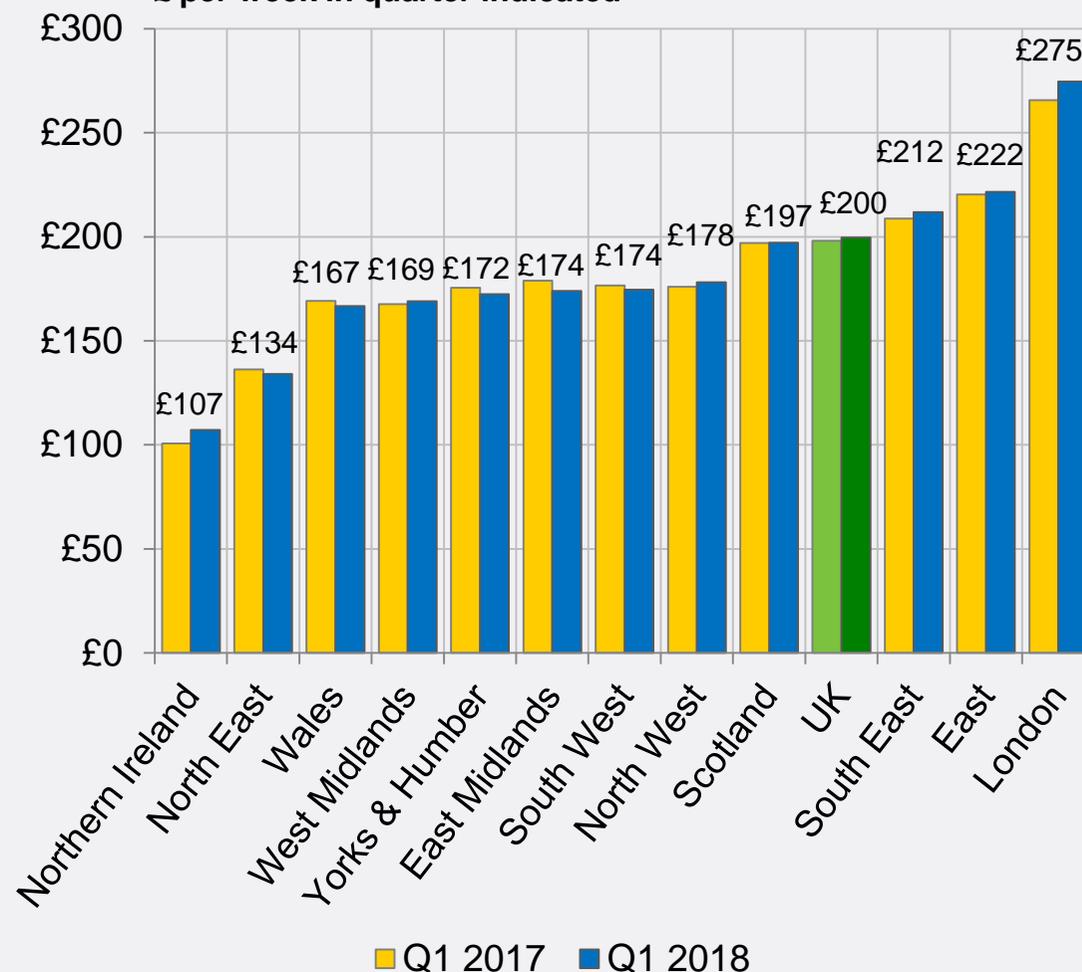


Increases in the cost of living leave family spending power unchanged from early 2017

UK-wide average family spending power stood at £200 in Q1 2018

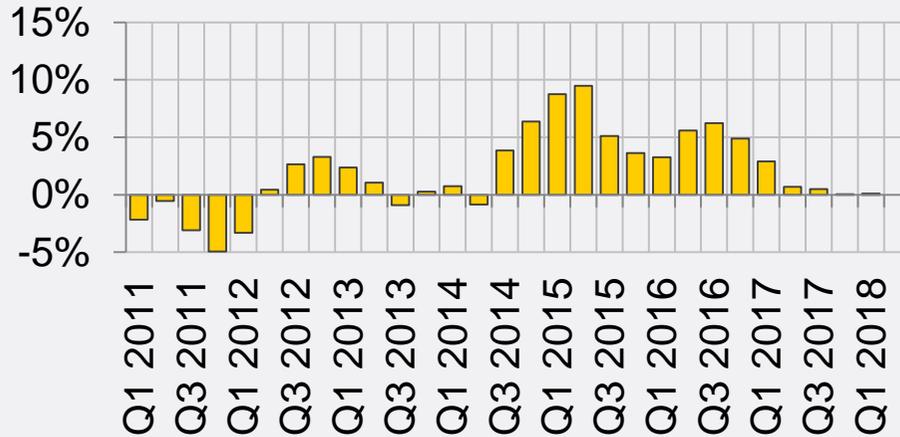
- Comparing Q1 2017 and Q1 2018 shows that family spending power stagnated in most regions.
- Households in London saw family spending power increase by £9 over the year, the largest pound-value increase among the regions and lifting weekly discretionary income to £275. Northern Ireland follows in second place with an increase of £6 to £107.
- Six of the UK's twelve regions saw changes of less than 1% in family spending power, underlining the difficult situation households found themselves in over 2017.
- The East Midlands saw discretionary income decrease by £5, equivalent to a fall of 3%. The region has a large manufacturing sector, which saw weak wage growth up until very recently as well as a larger than average public sector workforce.
- The South East, East and London all benefit from a high concentration of well-paying jobs in the technology sector, boosting family incomes.

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



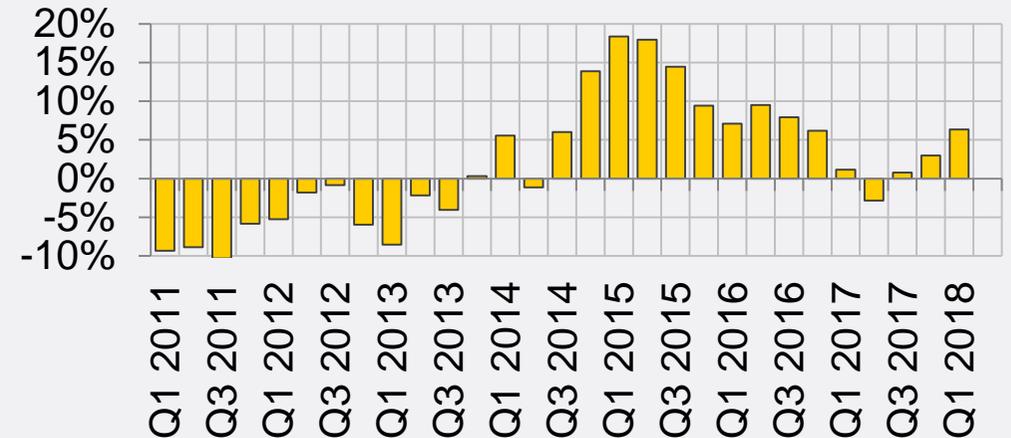
Focus on Scotland and Northern Ireland

Annual % change in discretionary incomes, Scotland



- Growth in discretionary incomes for Scottish households all but disappeared over 2017. In Q1 2018, we saw a miniscule uptick to 0.1%, up from 0% in Q4 2017. This compares to 2.9% family spending power growth in Q1 2017.
- Scotland saw a small uptick in unemployment over the past few months, though the labour market remains in good shape overall.
- The adverse weather conditions in Q1 2018 have been felt more strongly in Scotland than elsewhere in the country, weighing further on economic activity.

Annual % change in discretionary incomes, Northern Ireland



- Family spending power growth reached an impressive rate of 6.4% in Q1 2018, significantly higher than the 1.2% recorded in Q1 2017. After a difficult 2017, this is an encouraging start to 2018 for Northern Ireland.
- Northern Ireland has seen strong employment growth over the year, boosting households' income.
- Public sector pay growth has accelerated over 2017, though further increases and a scrapping of the pay cap are still up for debate as it is a devolved matter.
- Decreases in the cost of fuel further benefitted Northern Irish households in Q1 2018.

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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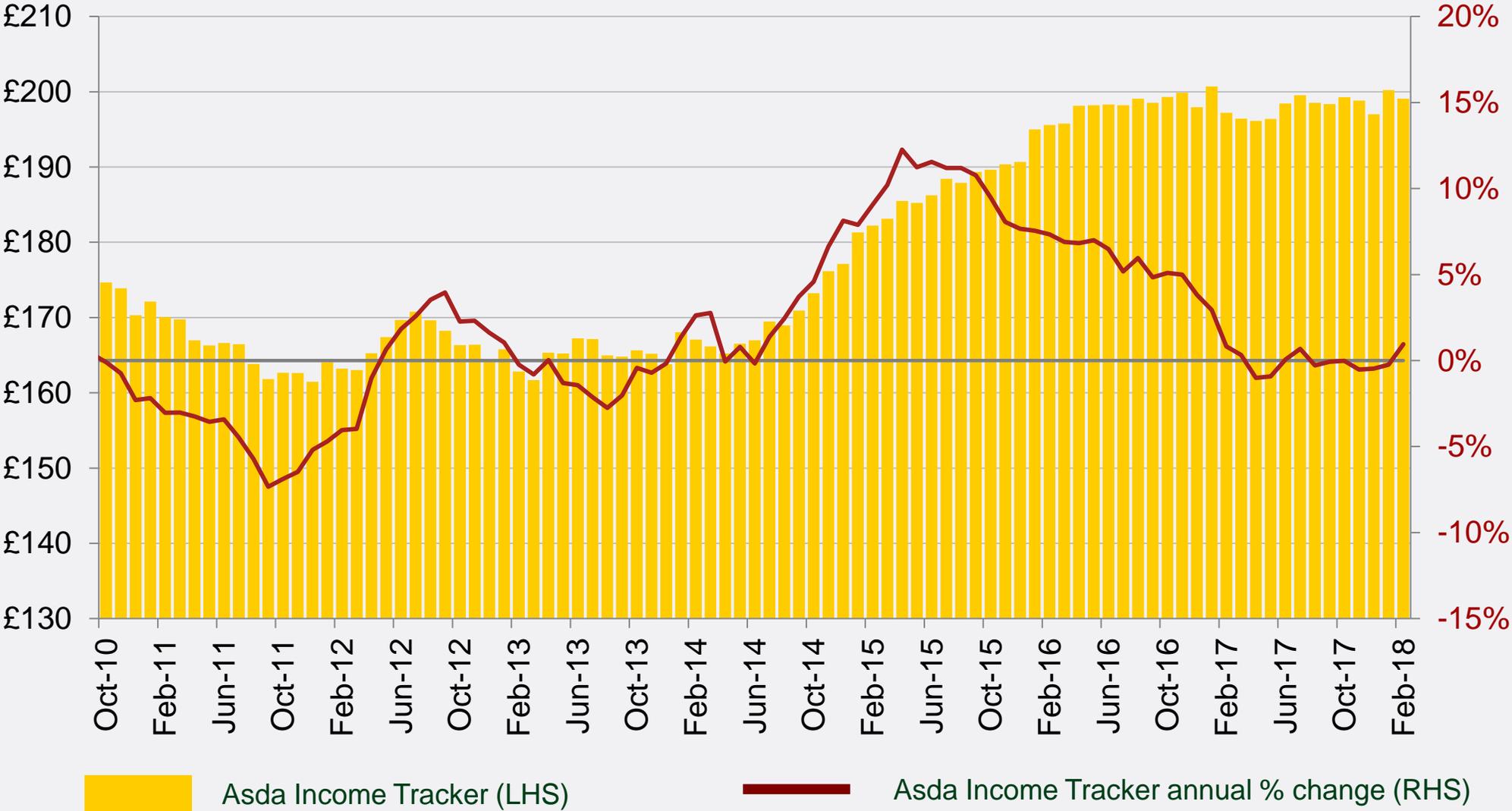
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Appendix

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						
January 2014	£170	January 2015	£185	January 2016	£195	January 2017	£201	January 2018	£200
February 2014	£169	February 2015	£185	February 2016	£195	February 2017	£197	February 2018	£199
March 2014	£168	March 2015	£186	March 2016	£195	March 2017	£196		
April 2014	£170	April 2015	£188	April 2016	£198	April 2017	£196		
May 2014	£171	May 2015	£188	May 2016	£198	May 2017	£196		
June 2014	£171	June 2015	£189	June 2016	£198	June 2017	£198		
July 2014	£173	July 2015	£191	July 2016	£198	July 2017	£199		
August 2014	£173	August 2015	£191	August 2016	£199	August 2017	£198		
September 2014	£174	September 2015	£192	September 2016	£199	September 2017	£198		
October 2014	£176	October 2015	£193	October 2016	£199	October 2017	£199		
November 2014	£179	November 2015	£193	November 2016	£200	November 2017	£198		
December 2014	£181	December 2015	£193	December 2016	£198	December 2017	£196		
2014 Average	£173	2015 Average	£190	2016 Average	£198	2017 Average	£198		

NB: In June 2017, 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, March 2018