

Asda Income Tracker

Report: January 2018

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Making Business Sense

Centre for Economics and
Business Research Ltd

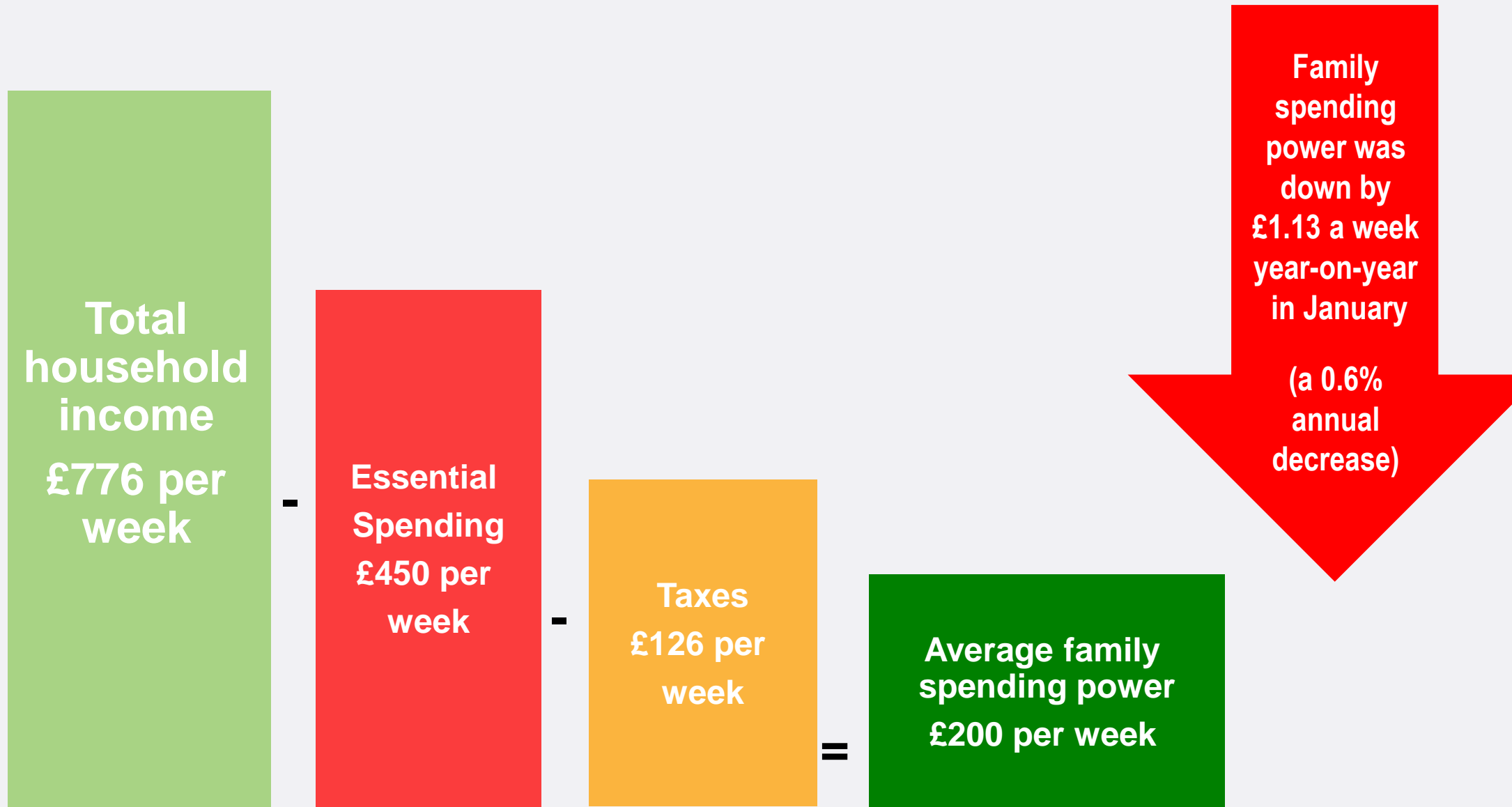
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Asda Income Tracker – Key Figures

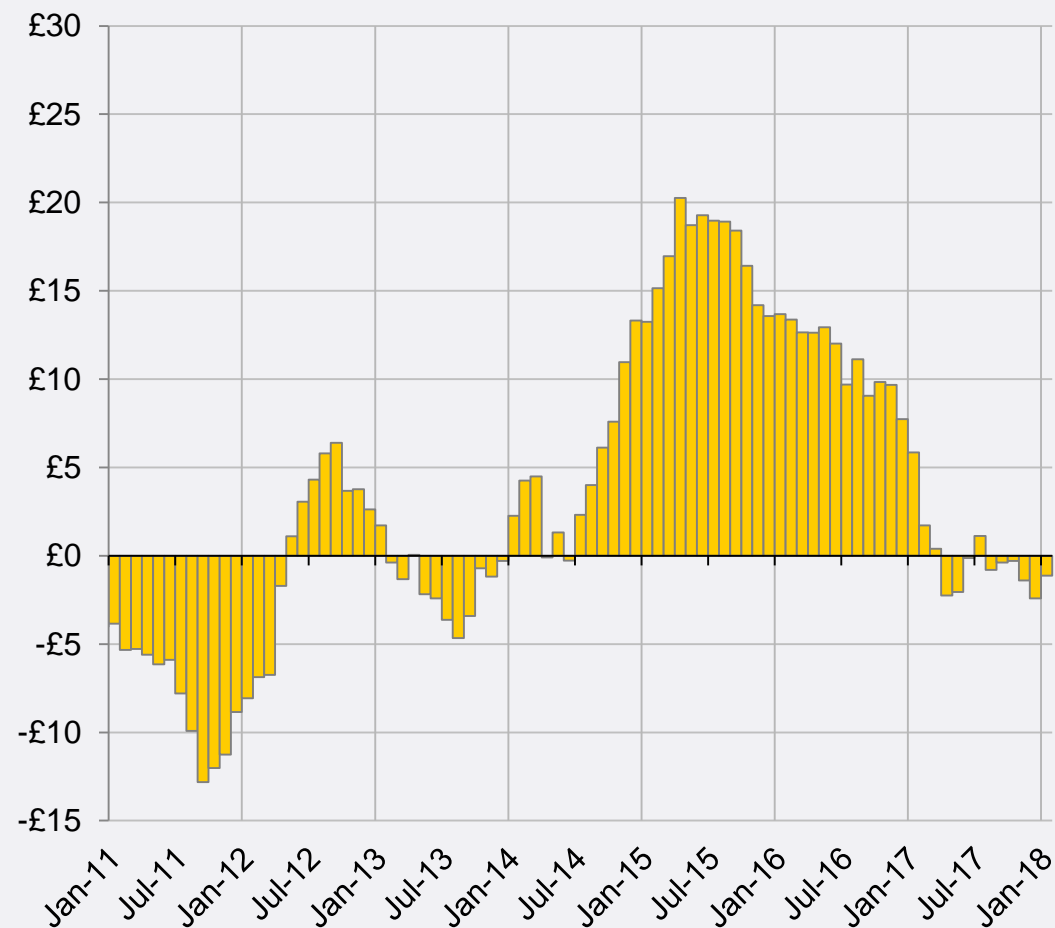


Family spending power begins the year in the red

The Asda Income Tracker was £1.13 a week lower in January 2018 than a year before

- In January 2018 family spending power fell by £1.13 compared with the same month a year earlier, extending the squeeze in household incomes into the new year.
- The fall is equivalent to a 0.6% reduction in the Income Tracker compared to January 2017.
- Broad-based increases in the prices of essential goods and services continue to weigh on consumers' pockets as the effect of the sterling depreciation dissipates only slowly from the inflation statistics.
- The tight labour market provides some relief to households, although increases in wage growth remain small.
- The squeeze in real incomes is expected to continue in the near future as domestic inflation pressures start to bite.

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



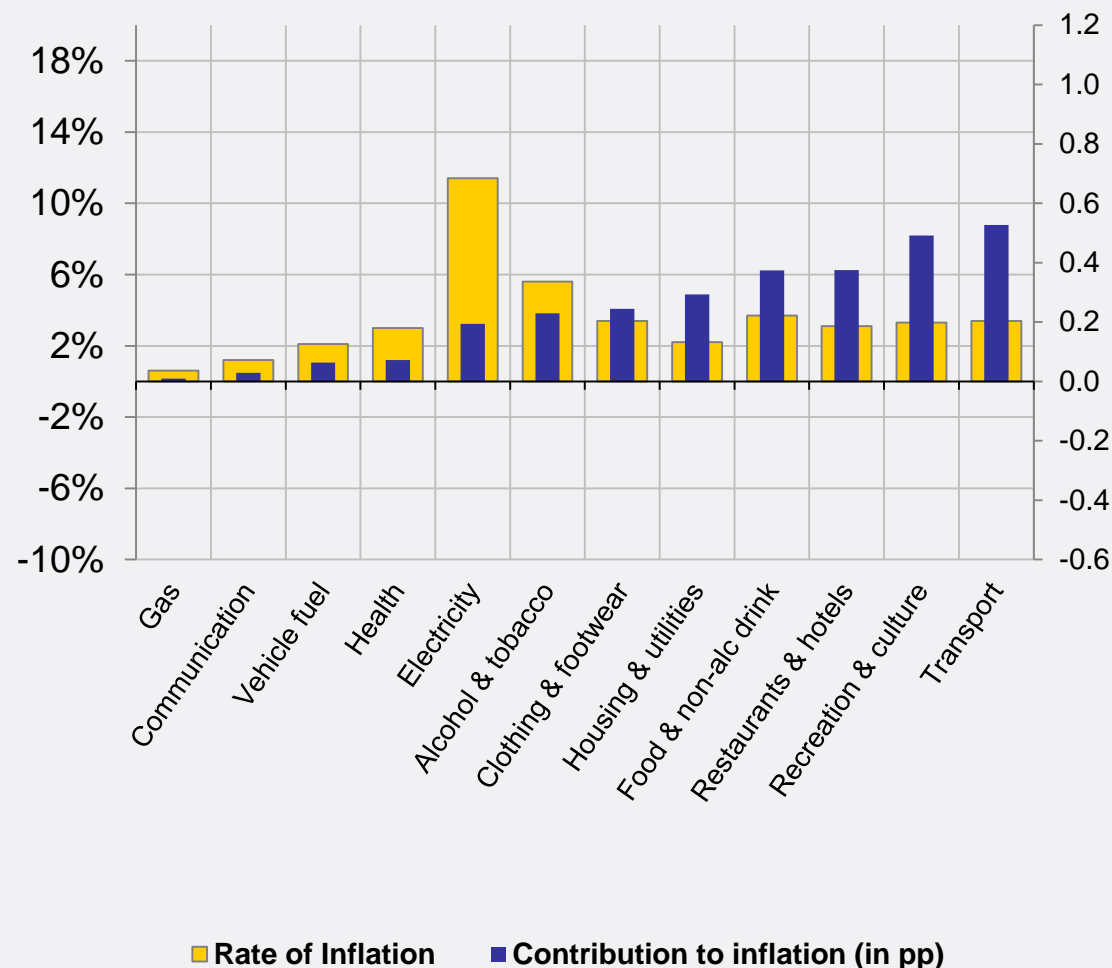
Inflation remains stubbornly high as prices for recreational goods and services rise

Cost of living

The main factors affecting family costs in January were:

- Inflation as measured by the Consumer Price Index stood at 3.0% in the year to January, unchanged from a month earlier.
- Transport inflation slowed further in January acting as a drag on the headline inflation rate. Fuel inflation fell from 4.7% in December last year to 2.1% in January.
- This was offset by an increase in the inflation rate for recreation and cultural goods and services. Also, inflation for clothes and footwear accelerated to its highest level since August 2017.
- In terms of utilities, double-digit inflation rates for electricity continue to put pressure on households. On top of that, the price for gas is also on the up: at 0.6%, annual inflation for gas is at its highest level since November 2014.

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

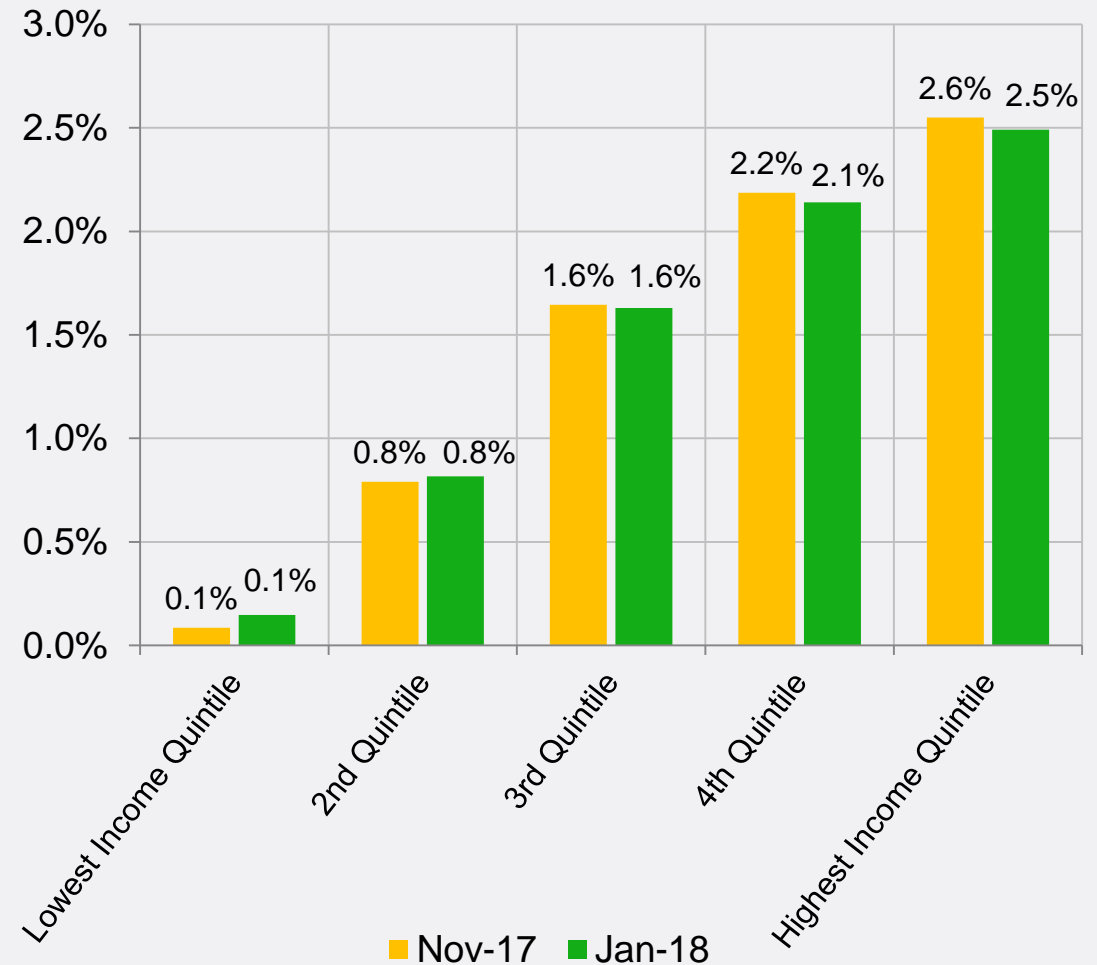
■ Rate of Inflation ■ Contribution to inflation (in pp)

Gross incomes growth falls back for higher earners

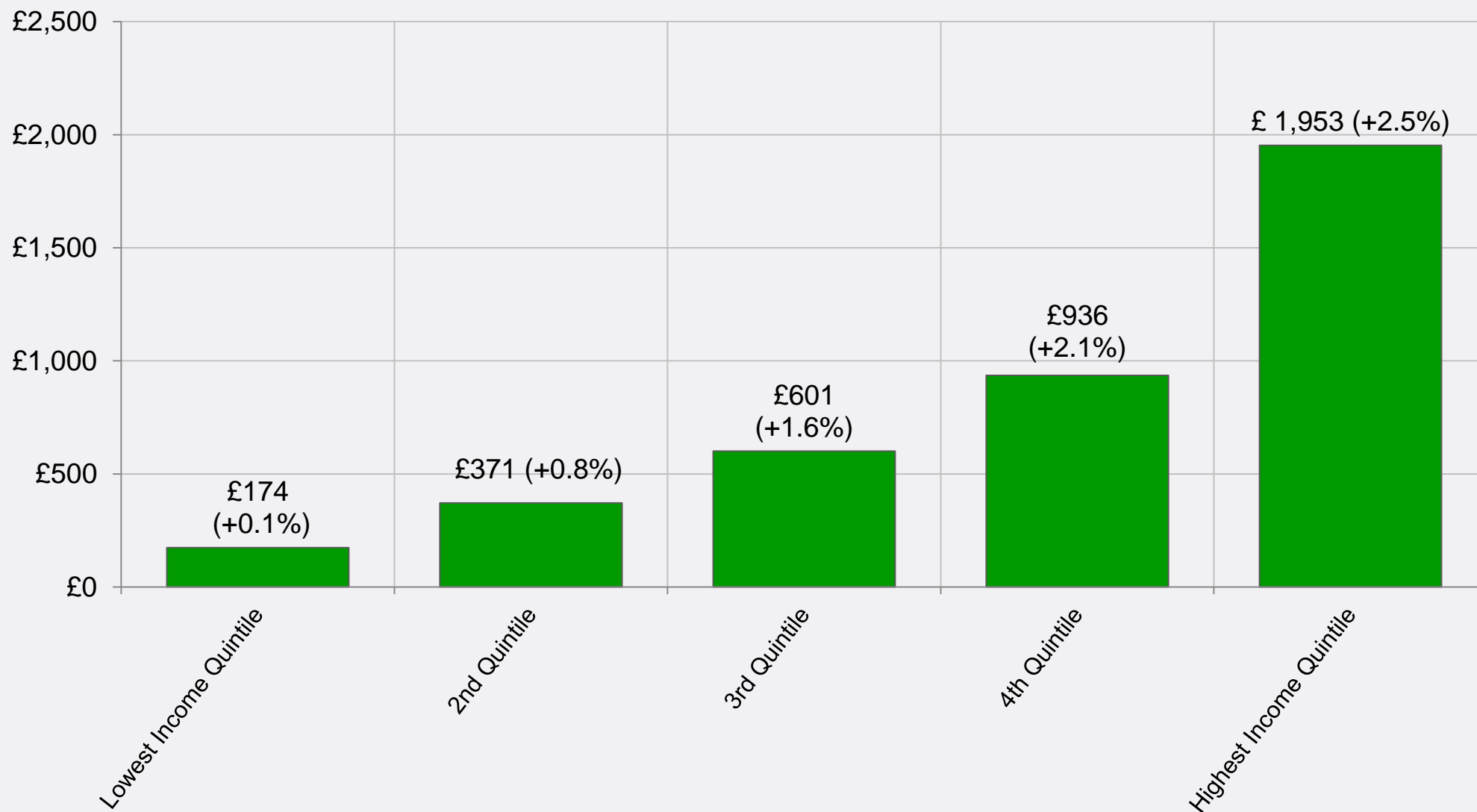
Lower and middle-income households see income growth largely unchanged since November

- The graph to the right compares gross income growth rates of different household income groups for November 2017 when we last analyzed the data and January 2018. Gross income includes income from wages, self-employment, investment, pensions and social security.
- The upwards trend in gross income growth for higher earners has come to an end over the most recent period. Income growth slowed from 2.6% to 2.5% for the highest income quintile and from 2.2% to 2.1% for the 4th income quintile between November last year and January.
- Wage growth, the main driver of income growth in these groups, has picked up only very gradually while the gains in employment start to flatten. This leaves less scope for large gross income gains.
- For lower and middle-income households, gross income growth has remained stable since November. Cuts in benefit payments as well as slow wage growth hold incomes back in these groups.

Annual gross income growth (incl. bonuses)



Gross weekly income including bonuses by income quintile, January 2018, (year-on-year growth in brackets)

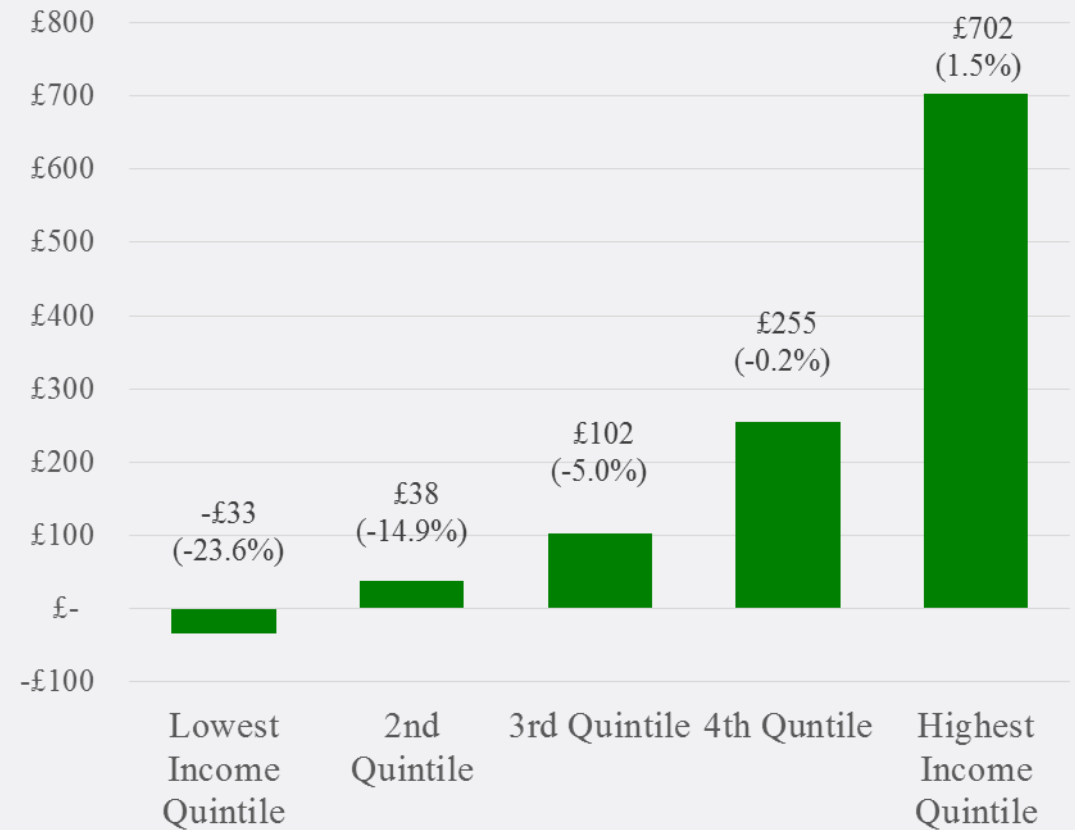


High earners are the only ones to see discretionary income grow in the year to January

The bottom 80% of the income distribution take a further hit to family spending power

- Elevated rates of inflation continue to squeeze spending power growth of households.
- For the large majority of families, the increase in the cost of essential goods and services means that in January 2018 they had less money available for discretionary spending than a year ago.
- The largest decreases were recorded for the bottom two quintiles with annual falls of 23.6% and 14.9%, respectively. Households with low discretionary incomes suffer more from price rises as they have less surplus income to begin with.
- The third quintile had weekly discretionary income of £102 in January 2018, down from £108 in the year before. The fourth quartile saw a marginal decline of -0.2% while the households in the highest income quintile saw an increase of 1.5% to £702 per week thanks to moderate growth in earnings.

Average weekly discretionary income by household income group, January 2017, YoY growth in %



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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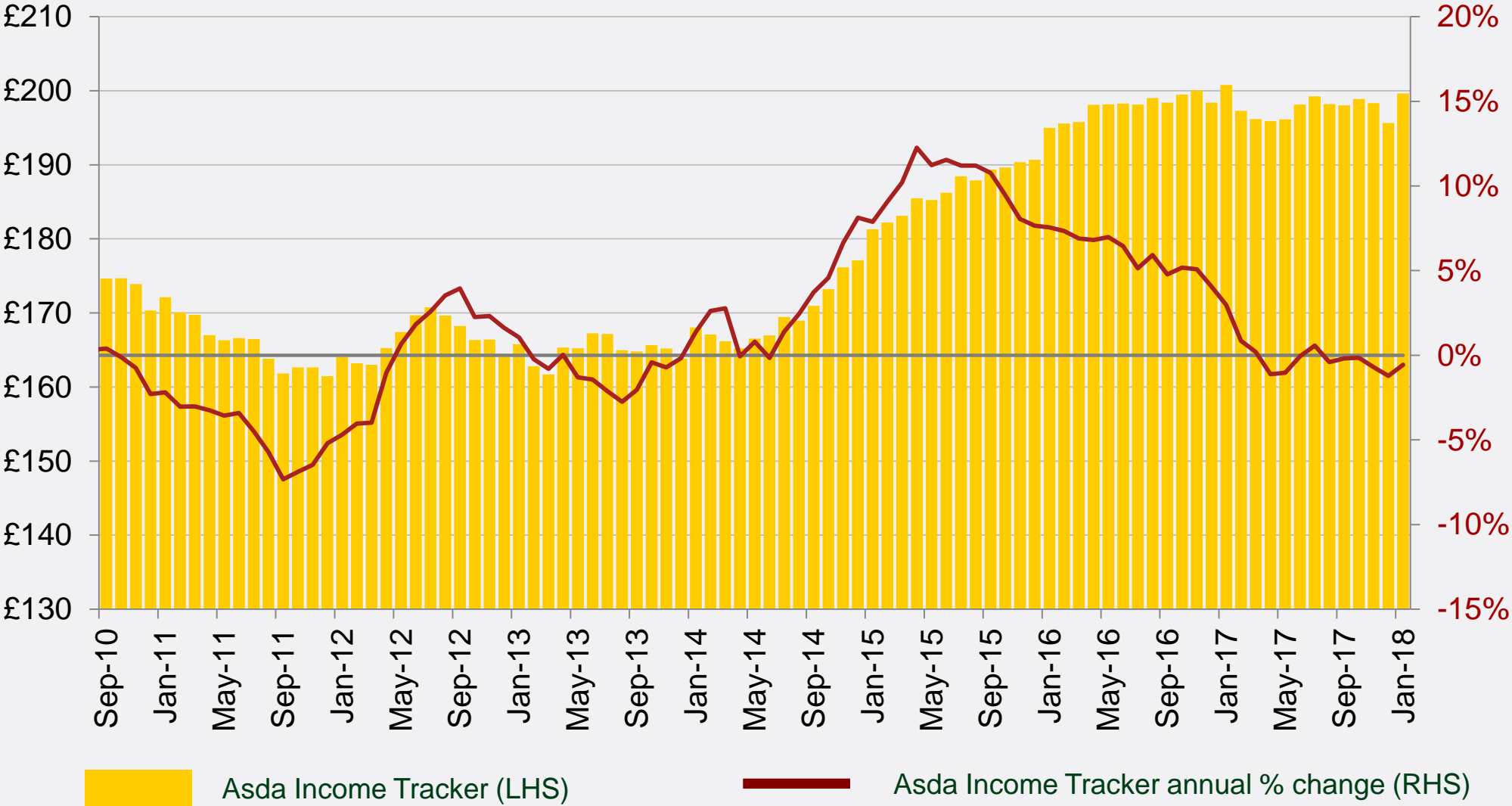
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Appendix

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	Month	Income tracker	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		
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, February 2018