

# Asda Income Tracker

Report: March 2017

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Making Business Sense

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# Headlines – Asda Income Tracker











- The average UK household had £200 a week of discretionary income in March 2017, up by £2 a week on the same month a year before.
- Although the rise in headline inflation took a break in March, spending power has been squeezed by a slowdown in wage growth, which remains very weak compared to before the global financial crisis.
- By historical standards, inflation is still relatively low. But as wage growth has failed to pick-up during the recovery from the Great Recession, even moderate inflation rates immediately eat into spending power growth. While this month's increase in the National Living Wage gives a boost to households, the ongoing squeeze on welfare payments works in the opposite direction for some households, further reducing spending power.






**Family  
spending  
power was  
up by £2 a  
week year  
on year  
in March**

**(a 1.1%  
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* (Dec-Feb)	 +2.2%	-0.2 p.p.
Unemployment rate (Dec-Feb): 4.7%	 -0.3 p.p.	+/- 0.0 p.p.
Inflation (Mar)	 +2.3%	+0.3% MoM
Net income (Mar)	 +1.9%	+0.1% MoM
Essential item inflation (Mar)	 +1.8%	+0.3% MoM
Family Spending Power (Mar)	 +1.1%	-0.6% MoM
Food & non-alcoholic drinks inflation (Mar)	 +1.3%	+0.4% MoM
Owner occupiers' housing costs (Mar)	 +2.4%	+0.1 MoM
Vehicle fuels (Mar)	 +17.1%	-0.8% MoM

**KEY** IMPROVING TREND   NO SIGNIFICANT CHANGE IN TREND  DETERIORATING TREND  

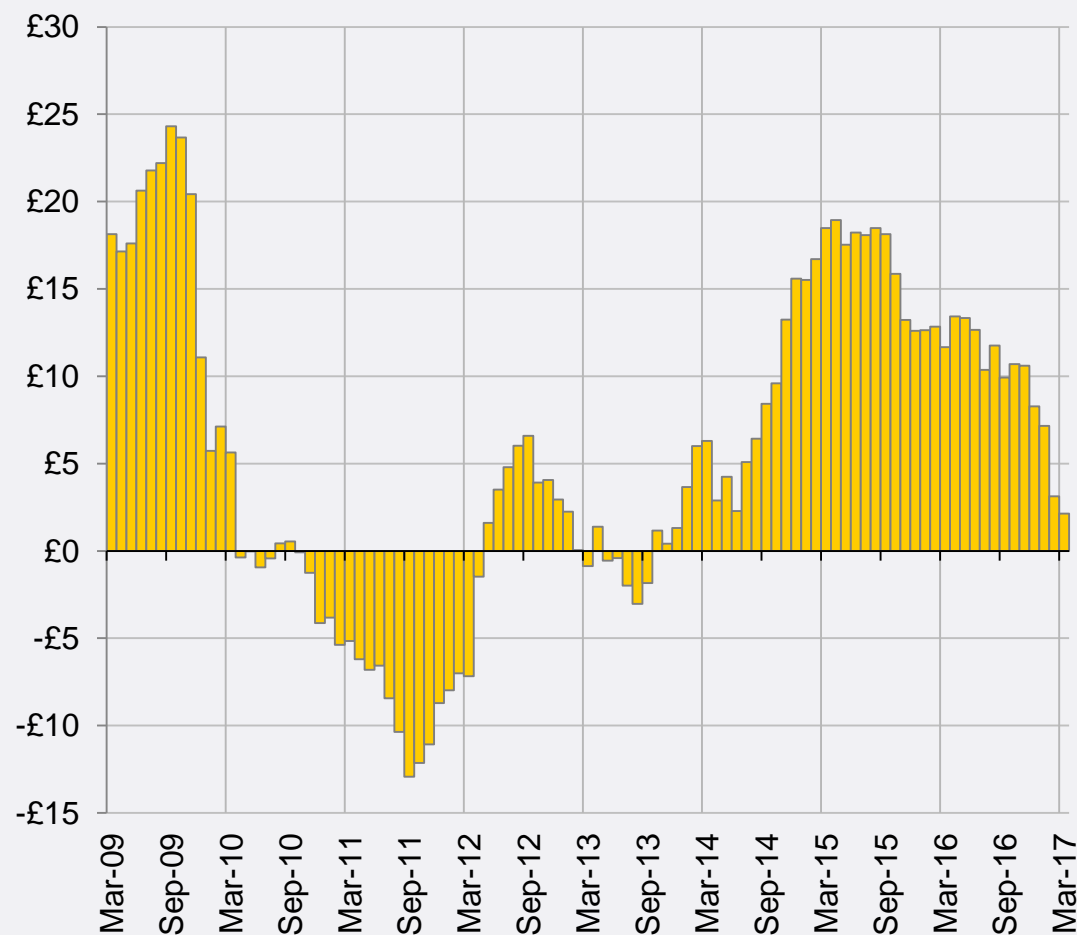
\* three-month average, excl bonuses

# Income Tracker growth close to zero as households feel the inflation-squeeze

The Asda Income Tracker was £2 a week higher in March 2017 than a year before

- Average household spending power was a mere 1.1% higher in March 2017 compared with March 2016. Growth in family spending power has not been weaker since December 2013.
- As a result, the Income Tracker stood only £2 higher in March compared to the same month last year.
- Higher rates of inflation and flat wage growth have sapped the spending power growth seen over the last two years. Factors such as higher oil prices, the weak pound and international food price inflation weigh on households' budgets.
- On a more positive note, the labour market is still holding up fairly well with unemployment stuck at 4.7%, the joint-lowest rate since 1975.

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



# Report Spotlight:

## Real wage growth stalls in February

### Rise in National Living Wage will not be enough to maintain increases in family spending power

- On April 1 the National Living Wage (NLW) increased from £7.20 to £7.50, boosting the earnings of an estimated 2.7 million<sup>1</sup> low-paid workers across the UK. The higher living wage applies for employees aged 25 and over. The National Minimum Wage (NMW) for younger workers has also been increased to up to £7.05 per hour for 21 to 24 year olds. Recently released data from the Office for National Statistics show that there were still more than 360,000 jobs with pay less than the NMW or NLW in April 2016.
- The pay bump is a boost for those on low pay. However, recent data show that across the whole economy inflation-adjusted or real wage growth has stalled. This follows a relatively short period of positive real wage growth after the financial crisis, lasting only from late 2014 to early 2017.
- For many segments of the population, this short period of positive real wage growth was not enough to make up for the losses incurred during the financial crisis. Low productivity growth is one explanation for the sluggish pay growth despite low unemployment rates, but a fully satisfactory explanation for the phenomenon has yet to be found.
- For UK households this means that living standards have improved only marginally, if at all, since the mid-2000s. The recent increase in the NLW will help some households, but with rising inflation and continued low pay growth the outlook for family spending power is bleak.

Average weekly earnings (excl bonuses) real pay annual growth rates, seasonally adjusted, in %



Source: ONS, 2017

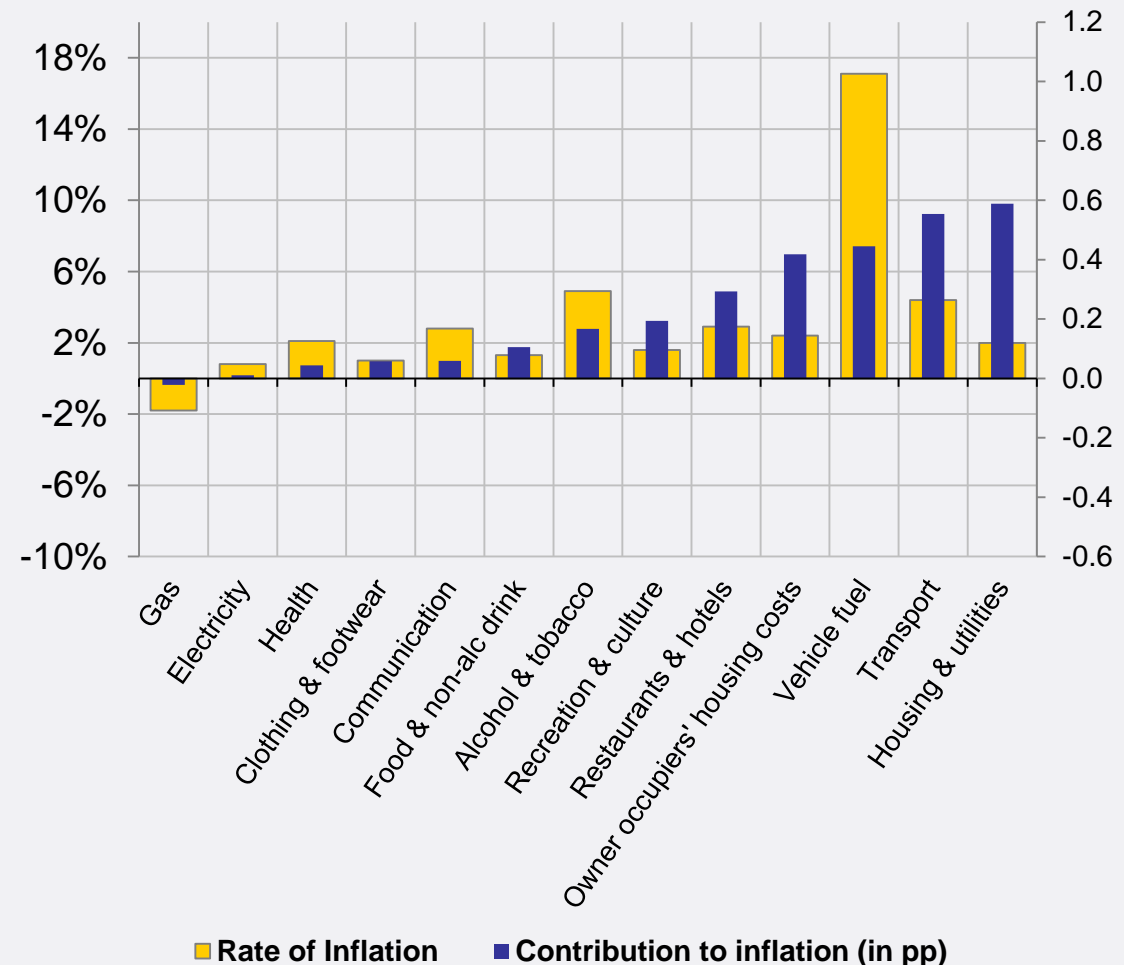
<sup>1</sup> Source: Resolution Foundation - Analysing the National Living Wage

# Prices rising for almost all goods categories

The main factors affecting family costs in March were:

- The ONS' headline inflation measure, CPIH, stood at 2.3% year-on-year in March, unchanged from the previous month. While the pause in the rise of inflation is a welcome relief for UK households, the composition of price rises has changed somewhat in the past month.
- Housing costs and utilities (including owner occupiers' housing costs) were the main contributor to inflation in March, followed by transport costs, which were once more driven by higher fuel prices.
- Food and non-alcoholic drinks posted positive inflation rates for the second consecutive month, resulting in a positive but modest contribution to inflation of 0.1 percentage points in March.
- As the prices for food, gas and housing increase, the cost of essential spending is rising further.

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



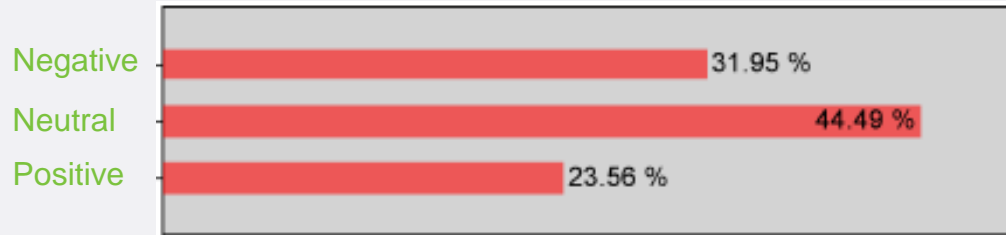
Vehicle fuel is a sub-category of Transport;  
 Gas and electricity are sub-categories of Housing & utilities  
 Owner occupiers' housing cost are included in the new CPIH headline inflation measure of the ONS

# Consumer Focus:

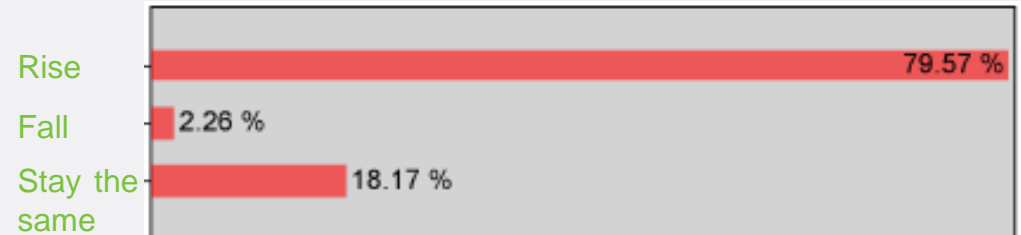
## How are consumers feeling?

- 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:

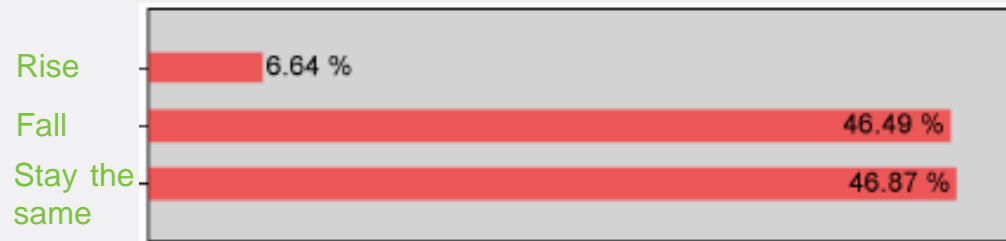
- How do you feel about the current UK economy?**



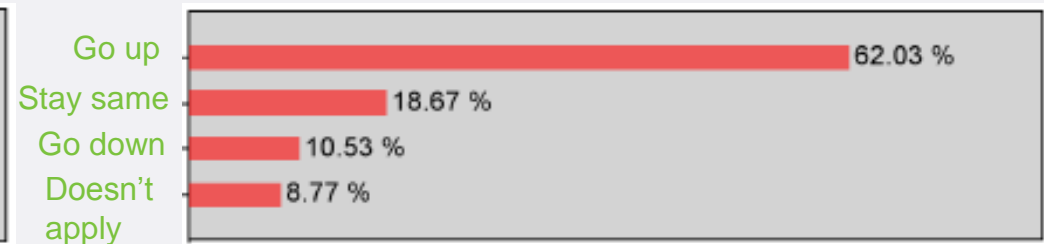
- What will happen to the cost of day to day living?**



- What will happen to your disposable income?**



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



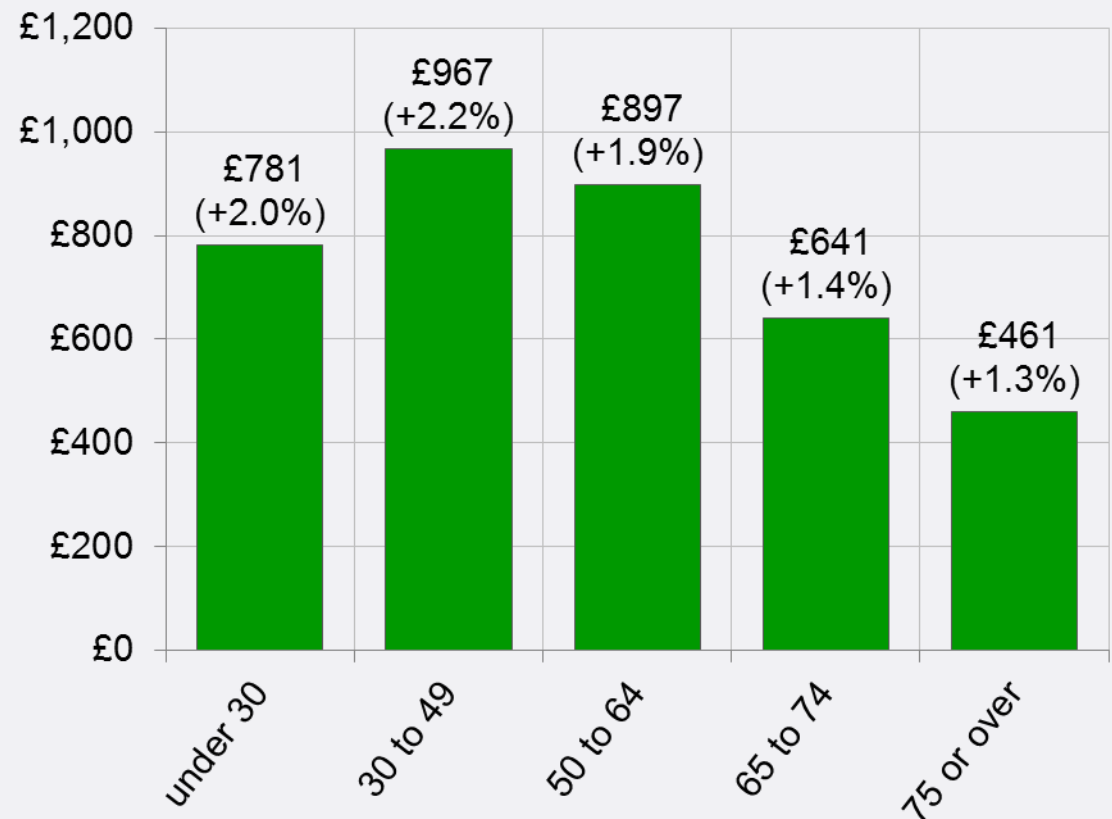
- In February, customers told Asda how they are feeling about the economy and their finances. Despite the data showing that disposable income is still growing, nearly 47% of UK families think theirs will fall over the next month, with only 6% thinking it will continue to increase.
- Around a third of people are feeling negative about the economy, while only one in four feel positive about it.
- Nearly 80% think that the cost of living will go up with more than 60% expecting the price of petrol to increase further.

# Weak income growth for older households

## Older households hit by low interest rates on savings

- Looking at household gross incomes by age group\* we see that those aged 30 to 49 have the highest average gross income with £967 per week. They have also enjoyed the highest growth rate for gross incomes out of all age groups with 2.2% compared to March 2016.
- This is mainly due to the fact that this group receives the highest share of income from employment compared to all other income groups. Although wage growth has been far from stellar over the past year, it has helped to lift average gross incomes by 2.2% for 30 to 49 year-olds.
- While the under 30s and 50 to 64 year-olds showed similar growth rates for gross incomes, those aged 65 and older have seen considerably weaker growth. In part, this reflects the impact of low interest rates in squeezing investment income.

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



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

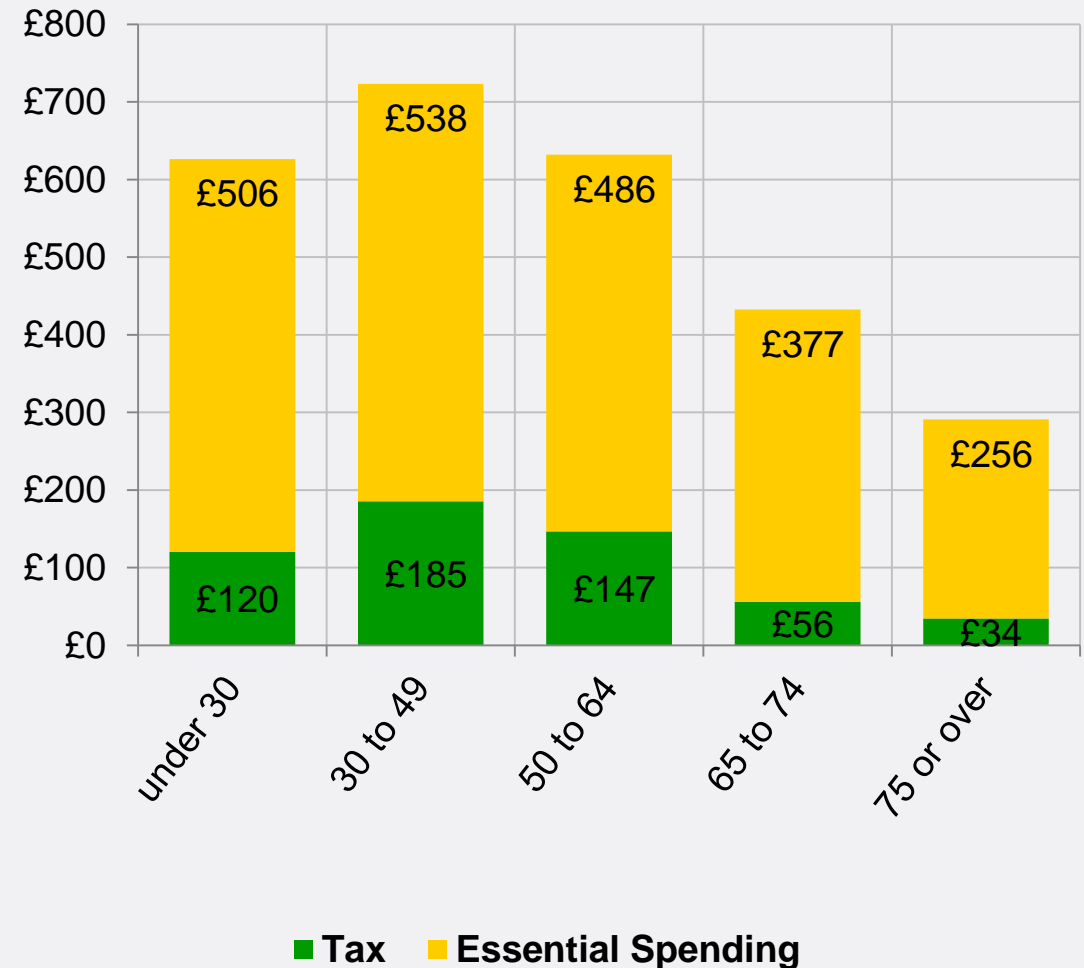


# Spending on education and rent drives up cost of essentials for the under 30s

## Under 30s spend most on housing and utilities

- As 30 to 49 year-olds received the highest incomes from work, they are also the most-heavily taxed age demographic, giving around £185 per week to the taxman.
- In line with their higher income, 30 to 49 year-olds also spend the most on essentials, around £538 per week. This is more than twice the sum the over 75s can spend and still over 10% more than what 50 to 64 year-olds put down for essentials.
- Under 30s have the second highest weekly bill for essential spending. As younger people are more likely to rent, their spending for housing costs is considerably higher than those of older generations. Similarly, spending on education is a bigger factor for youths' budgets both in relative and absolute terms. On Average, under 30s spend £48.5 per week (around 10% of their overall essentials spending) on education.

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

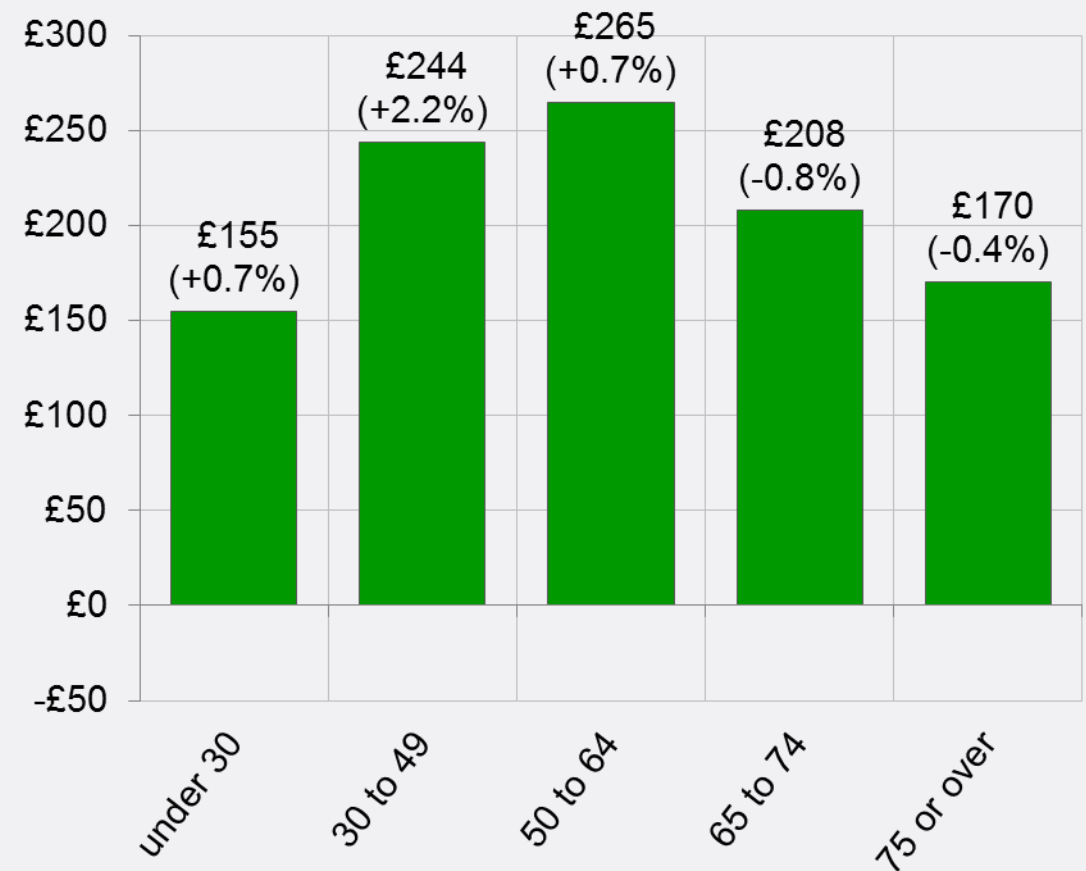


# The over 75s see the strongest decline in the discretionary spending power

## Negative growth in discretionary income for two oldest age groups

- Households where the main earner is aged 50 to 64 remain at the top in terms of discretionary spending power with £265 per week. However, the gap to the second placed age demographic, the 30 to 49 year-olds, who have seen discretionary income grow by 2.2% over the year to March, has narrowed.
- The income trackers for the under 30s and 50 to 64 year-olds have both seen growth of only 0.7% in the 12 months to March. However, this is still a much better performance than those of the income tracker of the 65 to 74 year-olds and the over 75s who have seen falls in discretionary incomes over the year.
- As the costs for food, transport and housing rise these age groups are spending an increasingly large share of their income on essentials, leaving them with smaller discretionary budgets.

Average weekly discretionary income by age group, March 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:

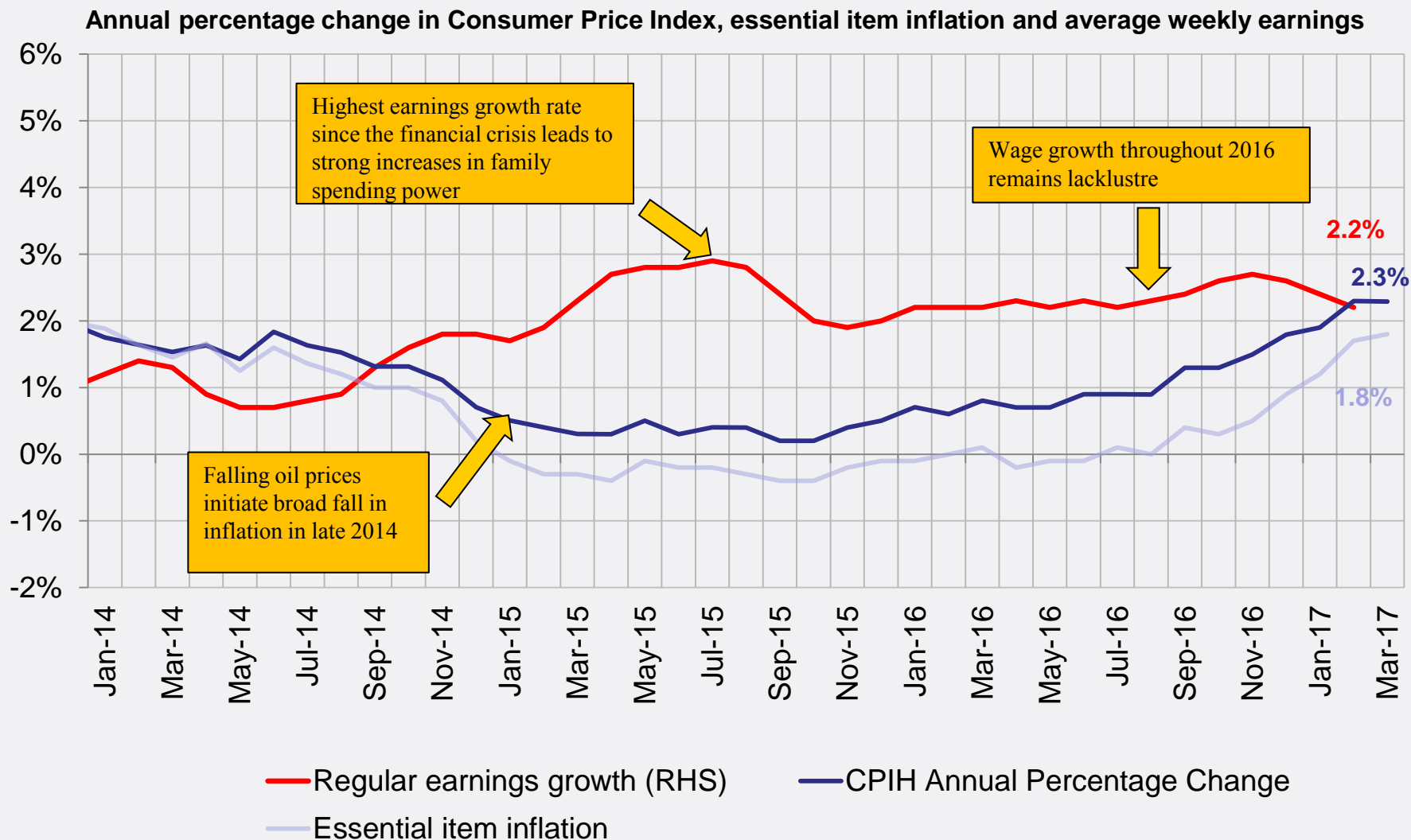
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# Appendix

# Rise in inflation takes a break in March

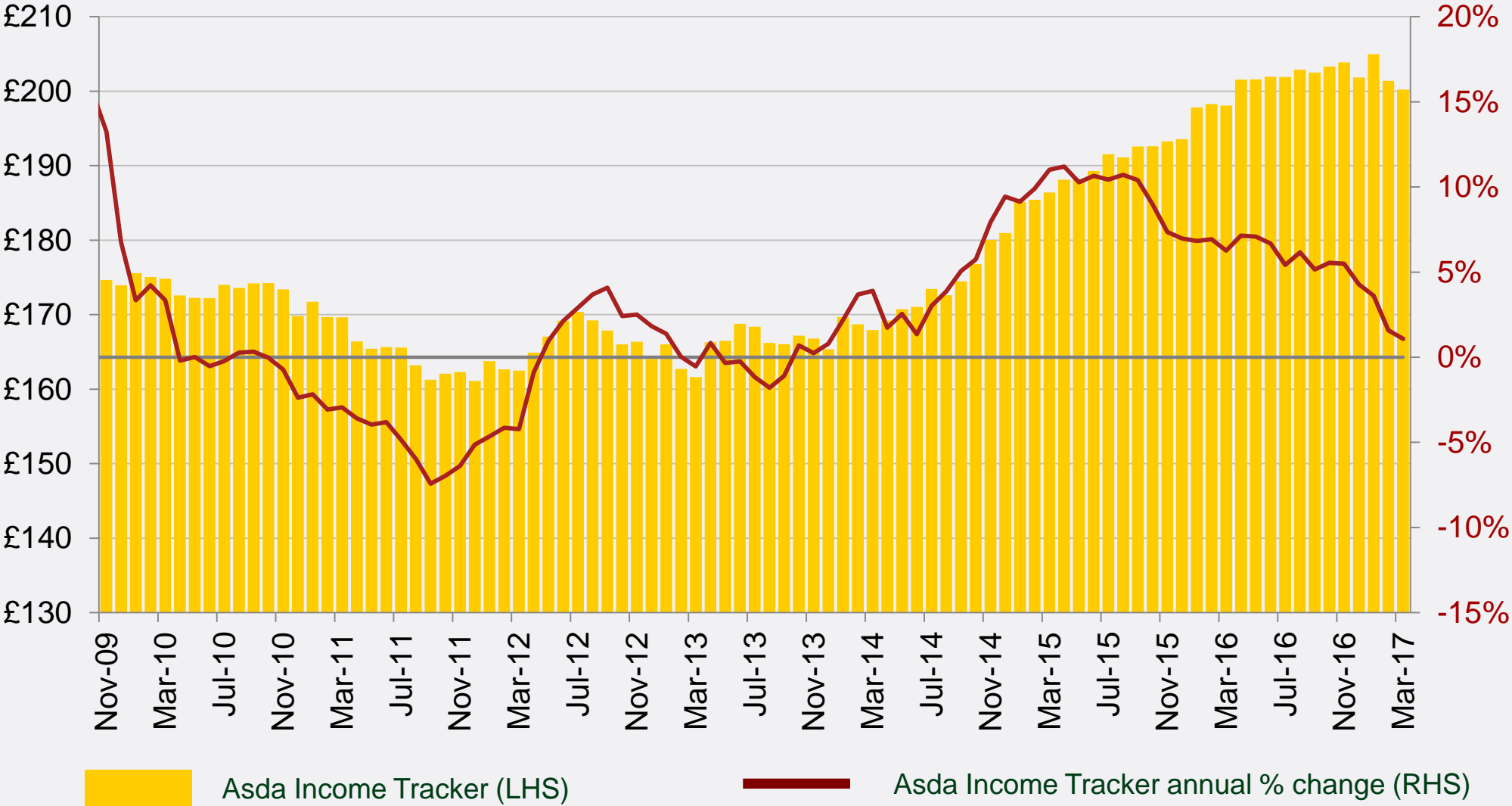


# Inflation trends over time



# 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	£205
February 2013	£163	February 2014	£169	February 2015	£185	February 2016	£198	February 2017	£201
March 2013	£162	March 2014	£168	March 2015	£186	March 2016	£198	March 2016	£200
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, April 2017**