

Asda Income Tracker

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Making Business Sense

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Headlines – Asda Income Tracker











- The average UK household had £198 a week of discretionary income in August 2017, down by £1.15 a week on the same month a year before. After briefly returning to growth in July, family spending power declined again according to the latest figures.
- Much of this decrease in discretionary incomes is attributable to the sharp rise in inflation in August. Prices for clothing rose at the fastest rate in almost thirty years and also food prices and rising costs for fuel put pressure on households' budgets.
- Across the country, families benefit from high rates of employment. However, this continues to come at the cost of low increases in wages.
- The bottom 60% of households saw discretionary incomes fall in the year to August. The ASDA Income Tracker showed no change for the fourth income quintile while the richest 20% saw their spending power increase by around 2%.



Family spending power was down by £1.15 a week year on year in August

(a 0.6% annual decrease)

Asda Income Tracker Dashboard: August

Indicator	Year-on-year change	Change to previous period
GDP (Q2 2017)	 +1.7%	+0.3% QoQ
Regular earnings growth* (May-Jul)	 +2.1%	+0.0 p.p.
Unemployment rate (Apr-Jun): 4.3%	 -0.6 p.p.	- 0.1 p.p.
CPI Inflation (Aug)	 +2.9%	+0.3% MoM
Net income (Aug)	 +1.9%	+0.1% MoM
Essential item inflation (Aug)	 +2.6%	+0.6% MoM
Family Spending Power (Aug)	 -0.6 %	-0.8% MoM
Food & non-alcoholic drinks inflation (Aug)	 +2.1%	+0.0% MoM
Clothing and Footwear (Aug)	 +4.6%	+2.4% MoM
Vehicle fuels (Aug)	 +5.1%	+1.7% MoM

KEY IMPROVING TREND   NO SIGNIFICANT CHANGE IN TREND  DETERIORATING TREND  

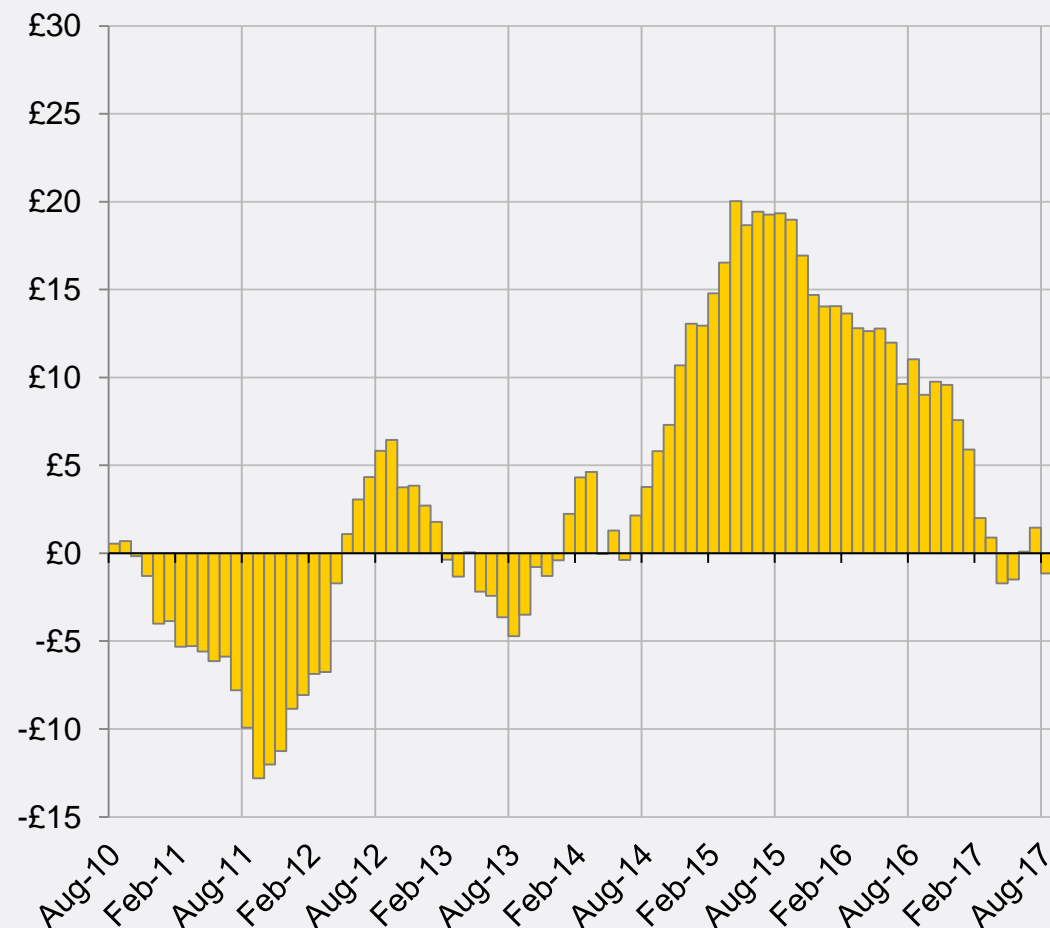
* three-month average, excl bonuses

Spending power falls as inflation rises more strongly in August

The Asda Income Tracker was £1.15 a week lower in August 2017 than a year before

- After July saw some modest increase in spending power, the ASDA Income Tracker shows that in August disposable incomes fell by -0.6% across the country.
- Family spending power in August stood at £198, which is £1.15 lower than in the same month a year ago.
- The latest fall in the income tracker comes on the back of higher inflation in August. Rising prices for clothing and electricity increase the cost of essential spending for families in the UK.
- While CPI inflation rose sharply in August, the latest wage data once more show little upward trend. As a result, families' real incomes continue to fall
- The next months will remain challenging for households, but with inflation set to ease towards the end of the year more stable increases in the Income Tracker are on the horizon.

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

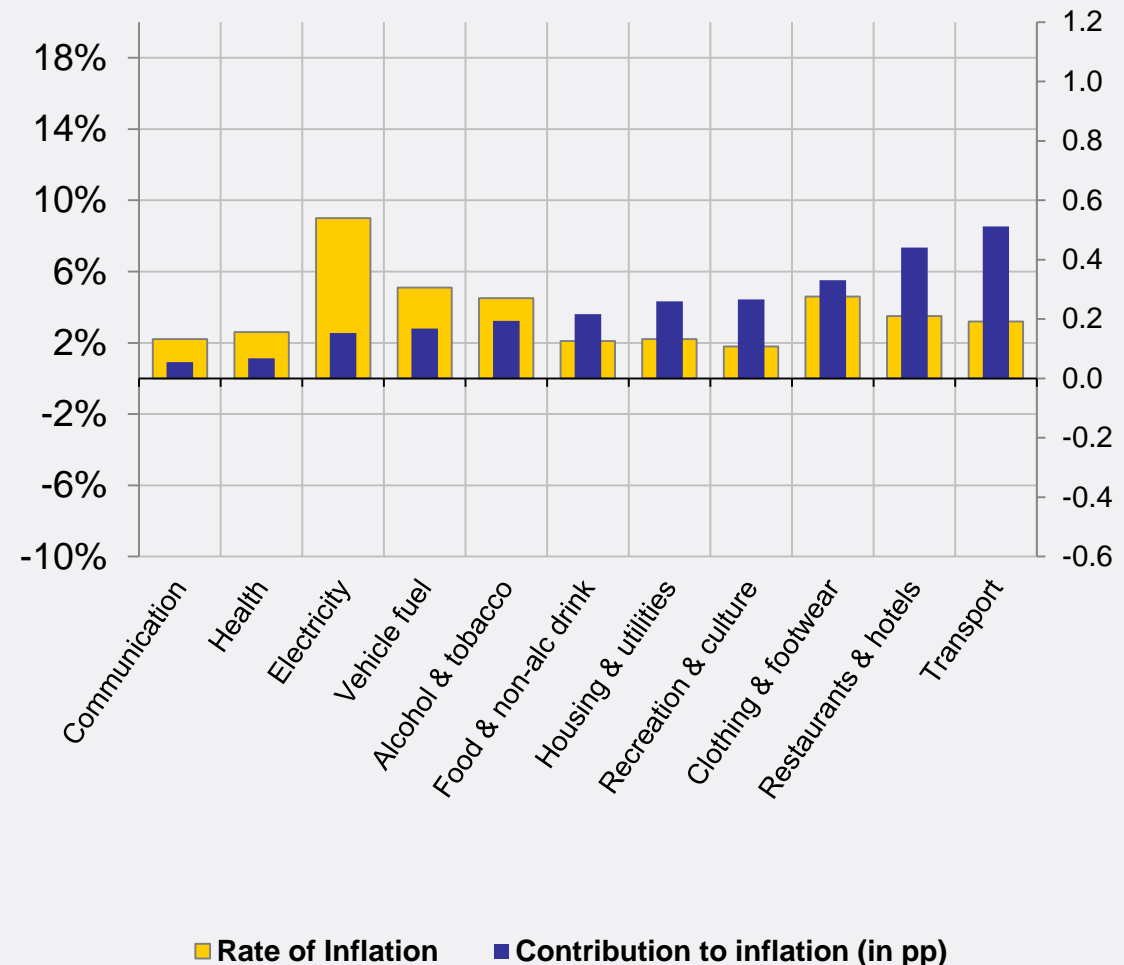


Rising inflation in clothing and electricity increase the cost of living

The main factors affecting family costs in August were:

- Inflation as measured by the Consumer Price Index stood at 2.9% in the year to August, up from the 2.6% recorded in July.
- This is the joint-highest inflation reading in more than 5 years as the depreciation of sterling exerts further pressure on consumer prices.
- Prices for transport, restaurants & hotels and clothing contributed most to the headline inflation rate.
- Fuel prices ticked up again in August after having previously fallen for five months in a row.
- Inflation in clothes and footwear has risen to 4.6% in August, the highest level since 1989. Prices for alcohol and tobacco rose only slightly less by 4.5% on the year.

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

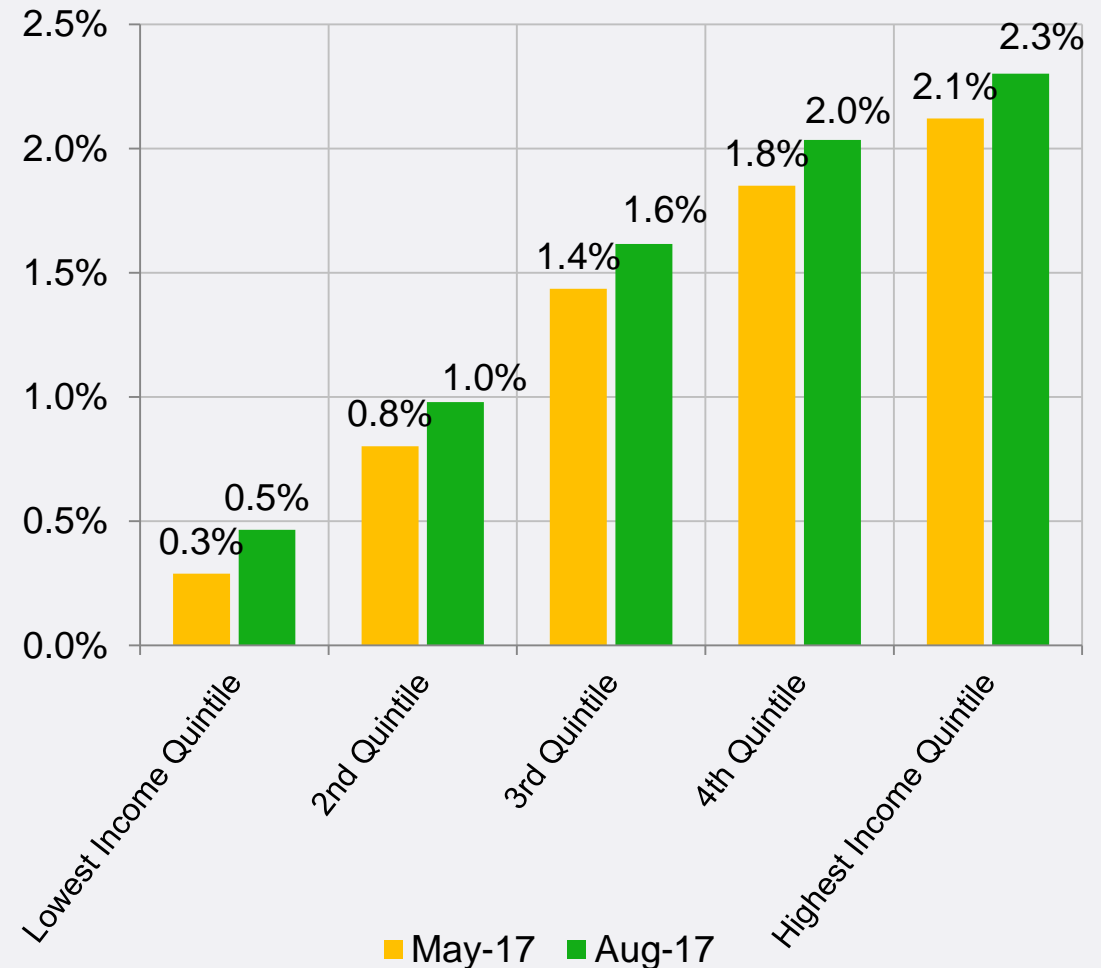
■ Rate of Inflation ■ Contribution to inflation (in pp)

Weak wage growth limits gains in gross incomes

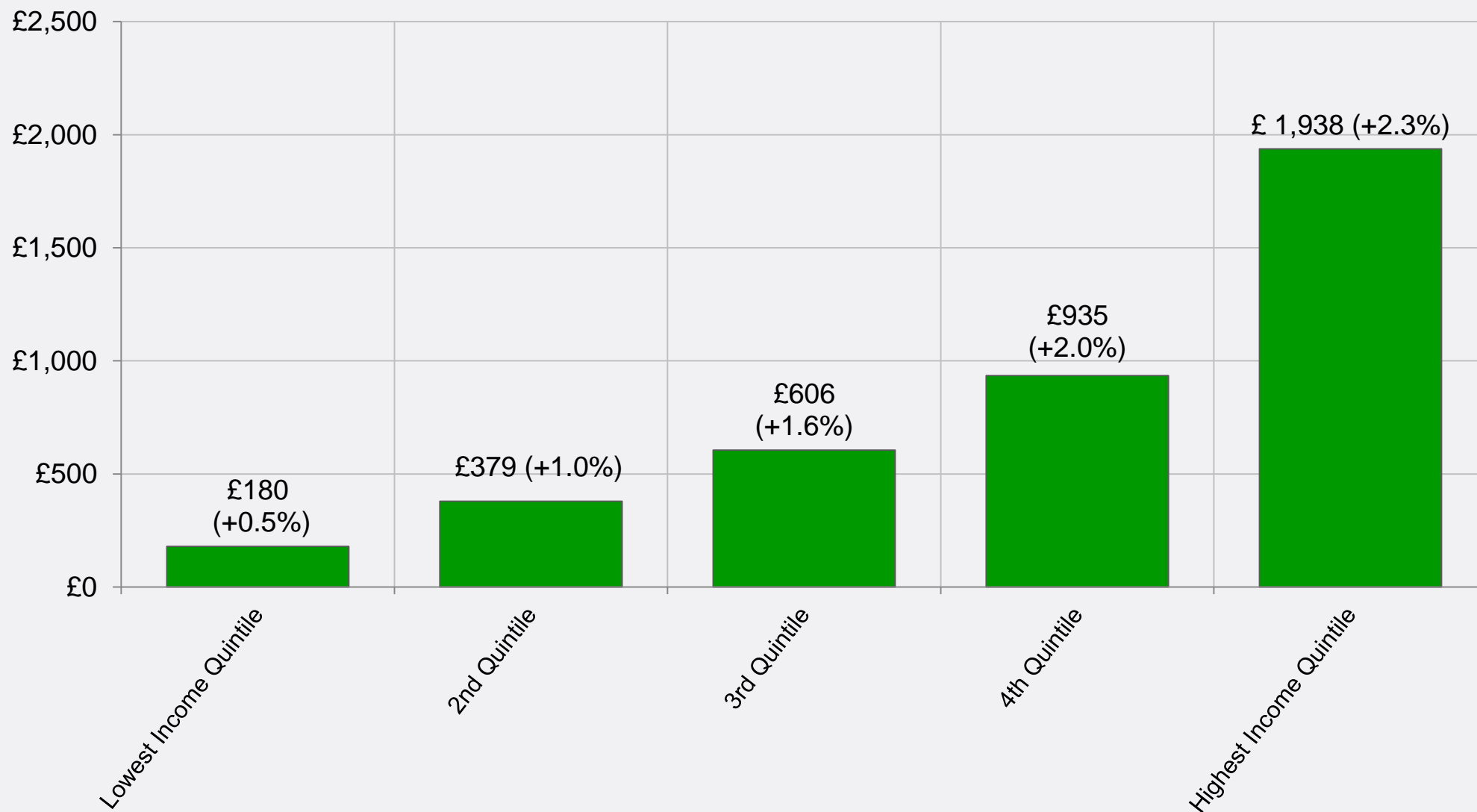
Lower income households benefit from strong employment growth

- Comparing gross income growth for August 2017 and May of the same year reveals that for all income groups, growth has slightly accelerated over the last three months.
- The poorest 20% of saw annual gross income growth rise from 0.3% in May to 0.5% in August.
- The highest income quintile has seen gross income growth of 2.3% in the year to August, up from 2.1% in May. The following quintile recorded annual income growth of 2.0% in August.
- Unemployment has kept falling since May and now stands at a record low of just 4.3%. This implies that firms still find it more profitable to hire more workers than increasing the wages of the already employed.
- As a result, wage growth remains low, hardly exceeding 2.0%. The slight increases in income growth seen between May and August are the result of moderate wage growth combined with further decreasing unemployment.

Annual gross income growth (incl. bonuses), August 2017



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

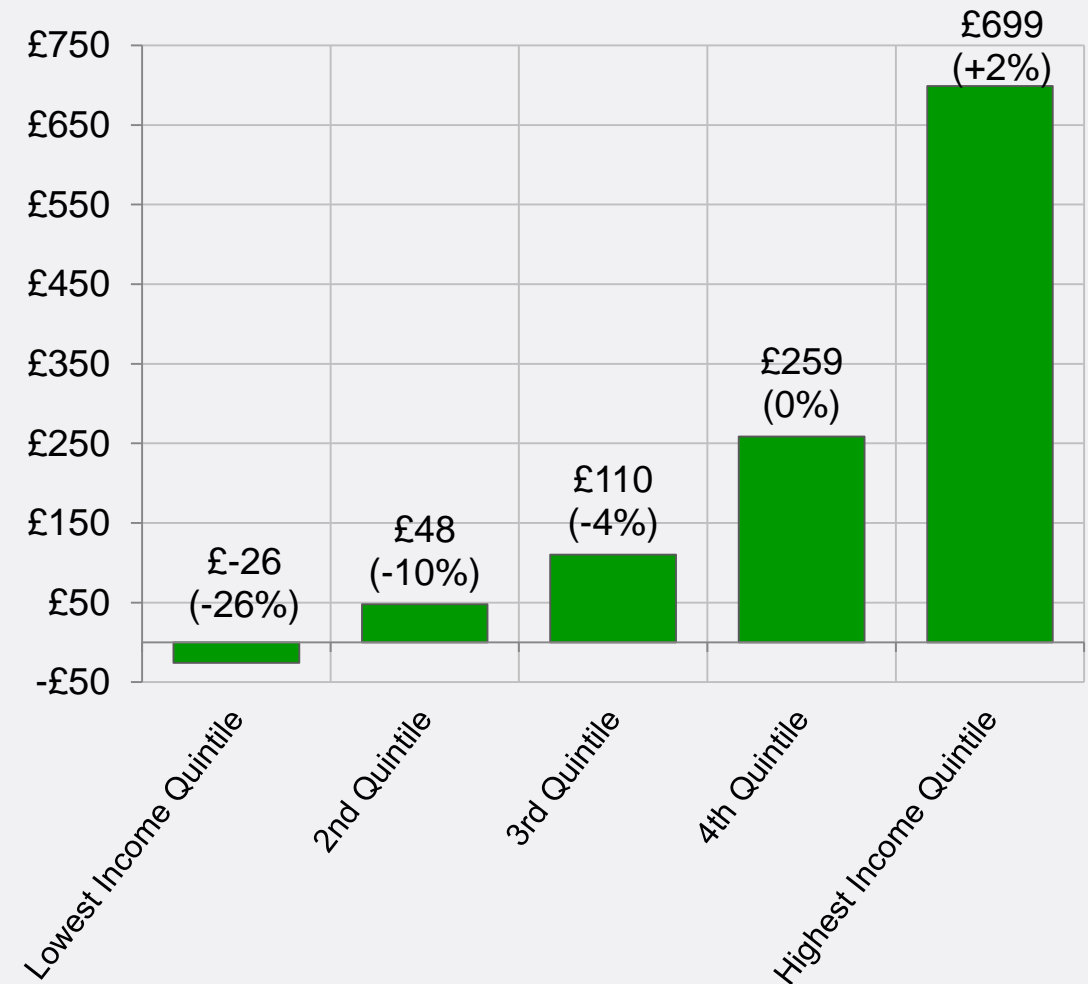


60% of households saw discretionary incomes fall

Family spending power weakens further for poorest households

- The highest income quintile has the highest disposable income in August at just under £700 per week. This is up 2% compared to the same month last year.
- The following 20% of households have to make do with £259 per week, unchanged from last year's reading.
- Alarming, 60% of households saw their discretionary incomes decrease in the 12 months to August. This fact reflects the continued pressure on households budgets.
- Inflation in a number of categories, from food prices to electricity and clothing, has increased the cost of essential spending substantially over the past months.
- Meanwhile, wage growth appears much less responsive to the low unemployment rates than previously thought.

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



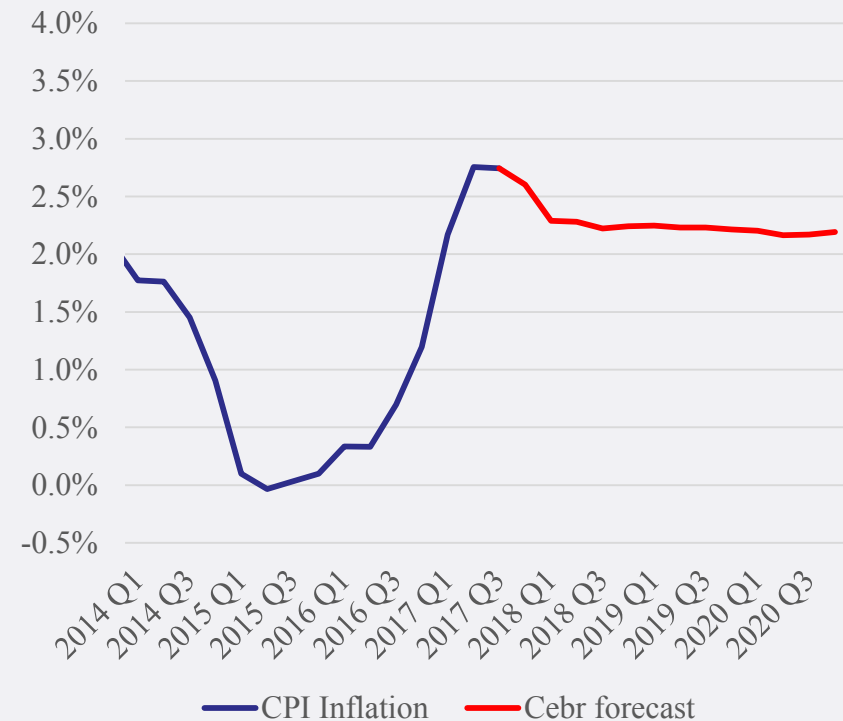
Report Spotlight:

Consumer squeeze continues but not for much longer

Households set to benefit from lower inflation towards the end of the year

- The previous months have been challenging for consumers as evidenced by the decreases in the ASDA Income Tracker.
- However, our analysis shows that there is reason to believe that the worst of the consumer squeeze might be over soon.
- Despite a significant currency depreciation, thanks to the UK's exceptionally competitive retail environment inflation has not skyrocketed. With inflation set to ease towards the end of the year and wage growth expected to pick up in the coming quarters, consumer spending stands to benefit.
- Further, the inflationary pressures stemming from the depreciation in the pound will soon have worked their way through the system which means that consumers will have seen the worst of the price increases.
- Some risks related to the wider economy, however, remain. Businesses are still somewhat reluctant when it comes to investment and the continuing economic and political uncertainty is not helping.

Inflation, historic data and forecast



Source: ONS, Cebr analysis

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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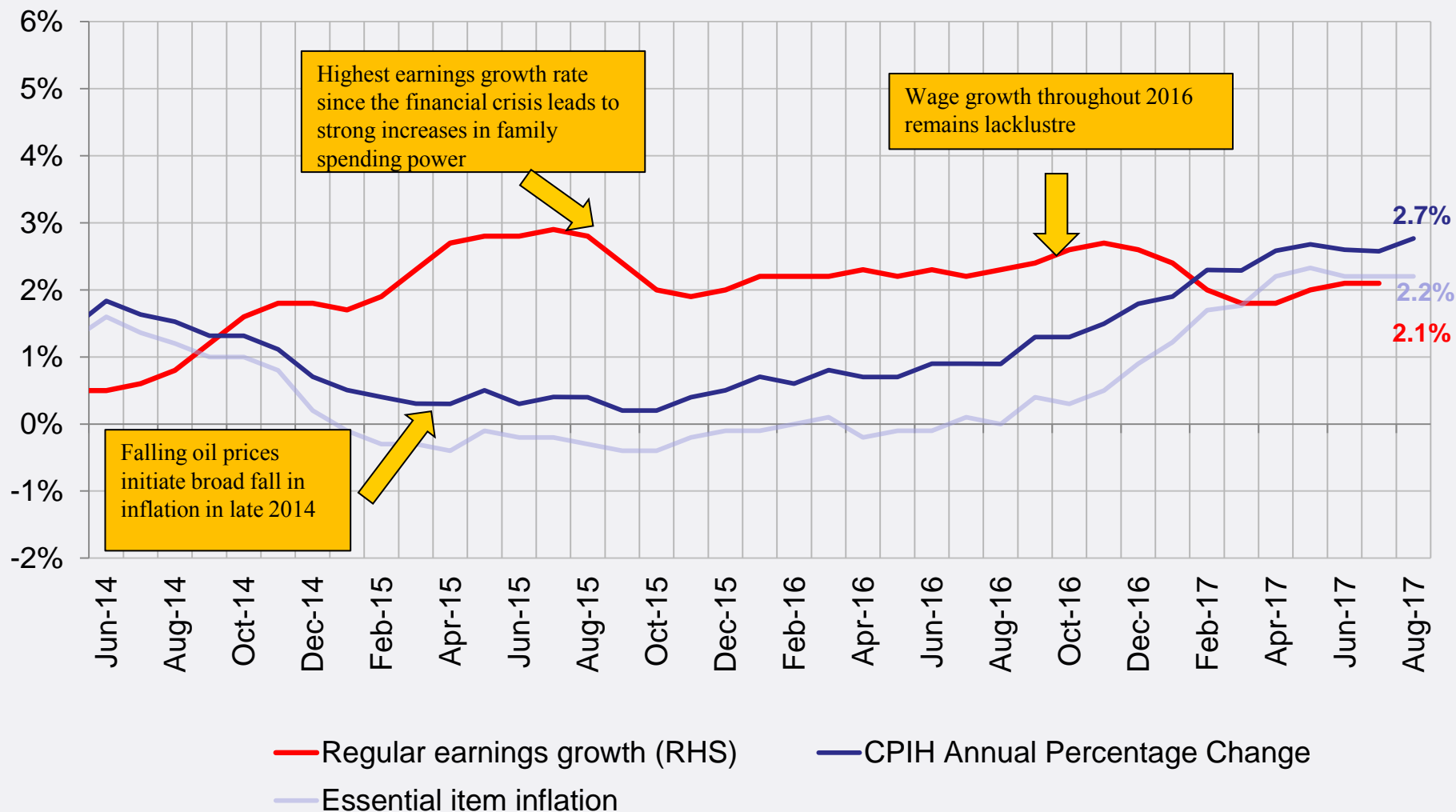
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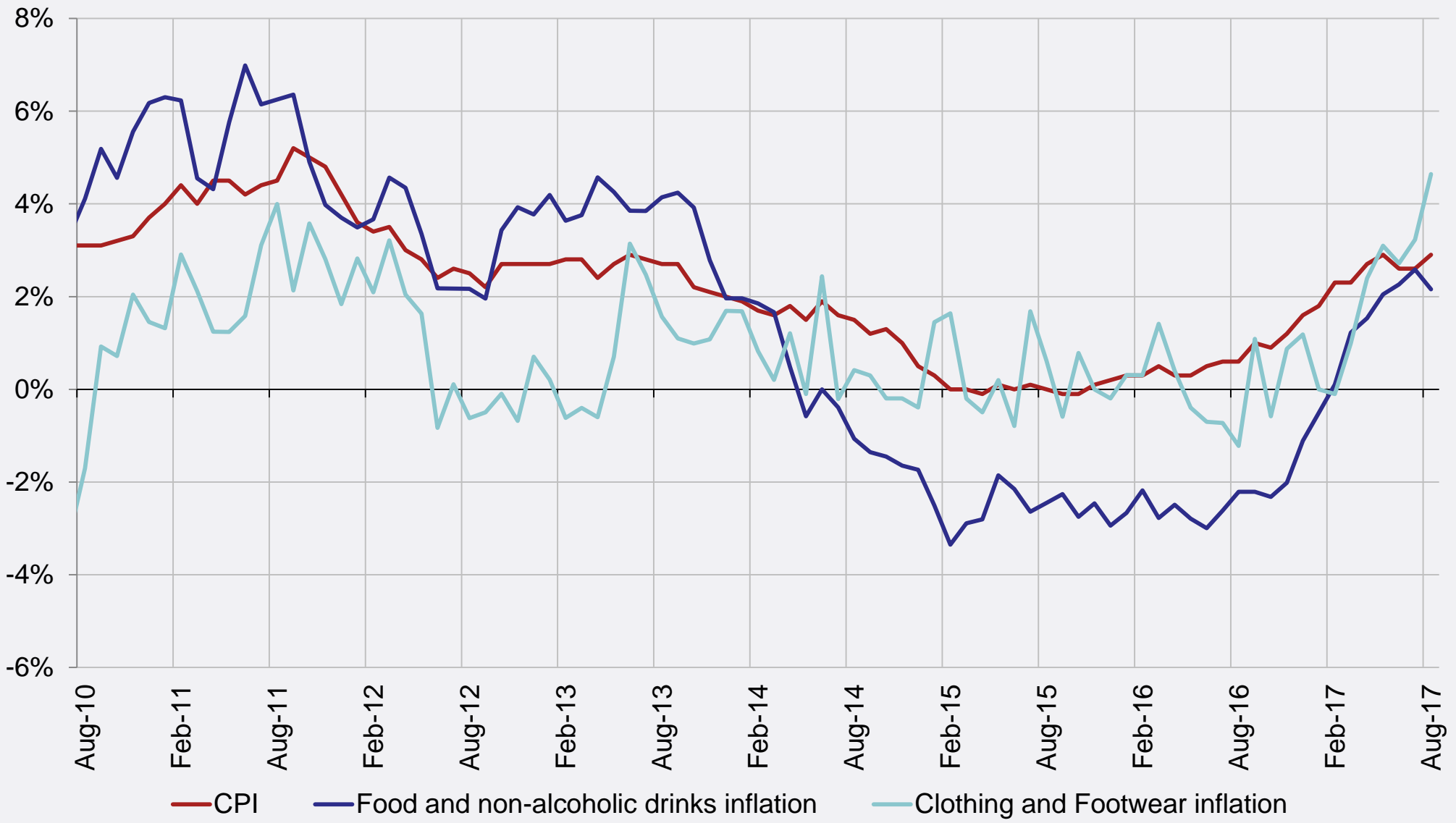
Appendix

Inflation rises to four-year high

Annual percentage change in Consumer Price Index (incl owner occupiers housing costs), essential item inflation and average weekly earnings

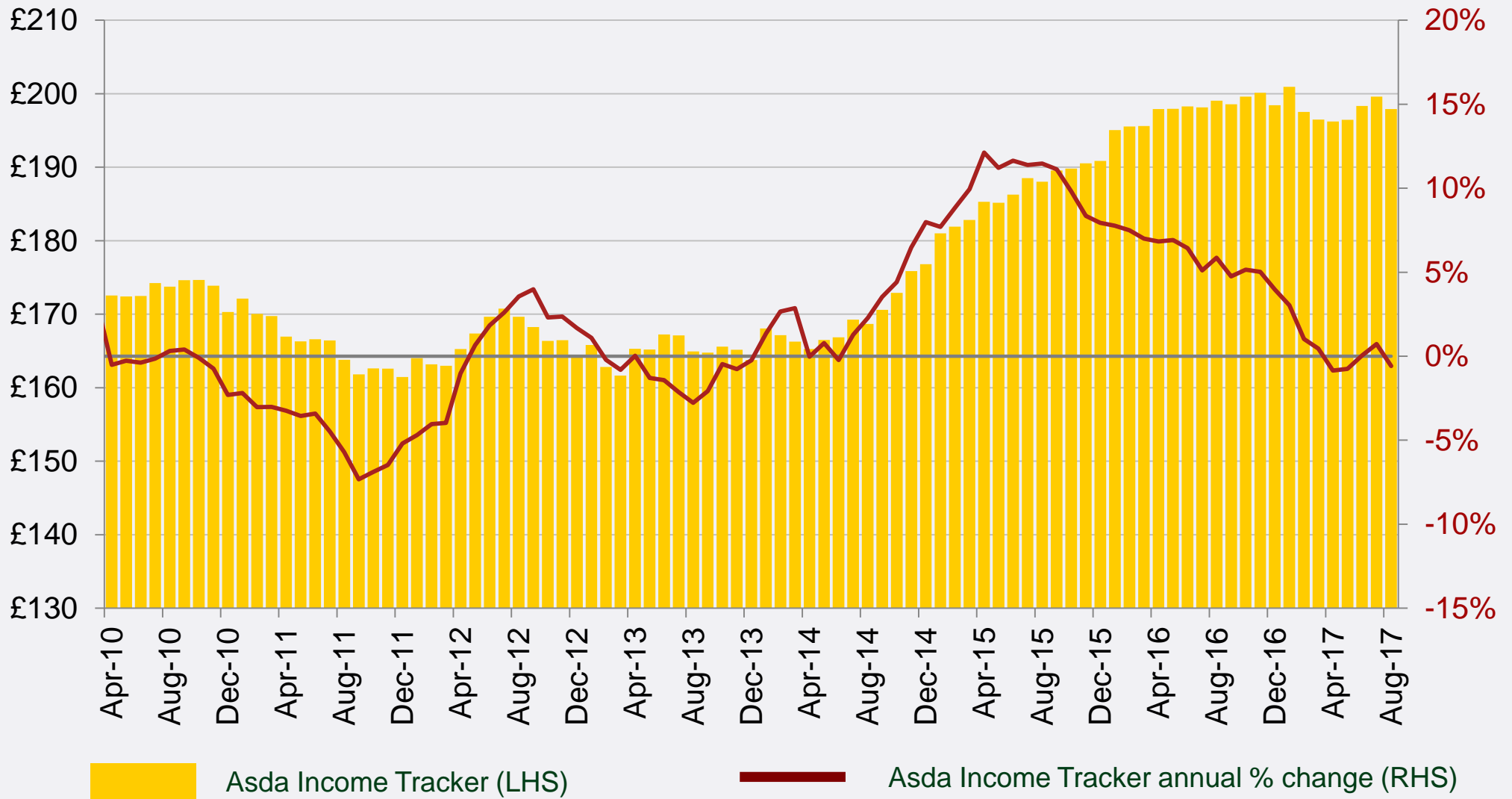


Inflation trends over time



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	£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	£200
August 2013	£166	August 2014	£173	August 2015	£191	August 2016	£199	August 2017	£198
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		
2013 Average	£166	2014 Average	£173	2015 Average	£190	2016 Average	£198		

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, August 2017