

Asda Income Tracker

Report: May 2017

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Making Business Sense

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Headlines – Asda Income Tracker











- The average UK household had £194 a week of discretionary income in May 2017, down by £3.77 a week on the same month a year before.
- The second consecutive month of falling family spending power confirms our expectations of a trend change in the Income Tracker. Families are faced with broad-based increases in the prices of essential goods and services while wage growth falls further behind.
- Inflation as measured by the Consumer Price Index stands at close to 3% now – largely a result of the depreciation of sterling following the Brexit referendum. While the effect of higher oil prices is slowly subsiding, we now see price increases across a range of product and service categories – from food and drinks to recreation and culture.
- UK households will need to prepare for more challenging times in the future as neither a sudden pick-up in wage growth nor a subsiding of inflation is expected for the rest of the year.



Family spending power was down by £4 a week year on year in March

(a 1.9% annual decrease)

Asda Income Tracker Dashboard: May

Indicator	Year-on-year change	Change to previous period
GDP (Q1 2017)	 +2.0%	+0.2% QoQ
Regular earnings growth* (Feb-Apr)	 +1.7%	-0.1 p.p.
Unemployment rate (Feb-Apr): 4.6%	 -0.4 p.p.	-/+ 0.0 p.p.
CPI Inflation (May)	 +2.9%	+0.2% MoM
Net income (May)	 +1.4%	+0.0% MoM
Essential item inflation (May)	 +2.3%	+0.1% MoM
Family Spending Power (May)	 -1.9%	-0.6% MoM
Food & non-alcoholic drinks inflation (May)	 +2.1%	+0.2% MoM
Clothing and footwear (May)	 +3.1%	+0.5% MoM
Vehicle fuels (May)	 +7.5%	-1.0% MoM

KEY IMPROVING TREND   NO SIGNIFICANT CHANGE IN TREND  DETERIORATING TREND  

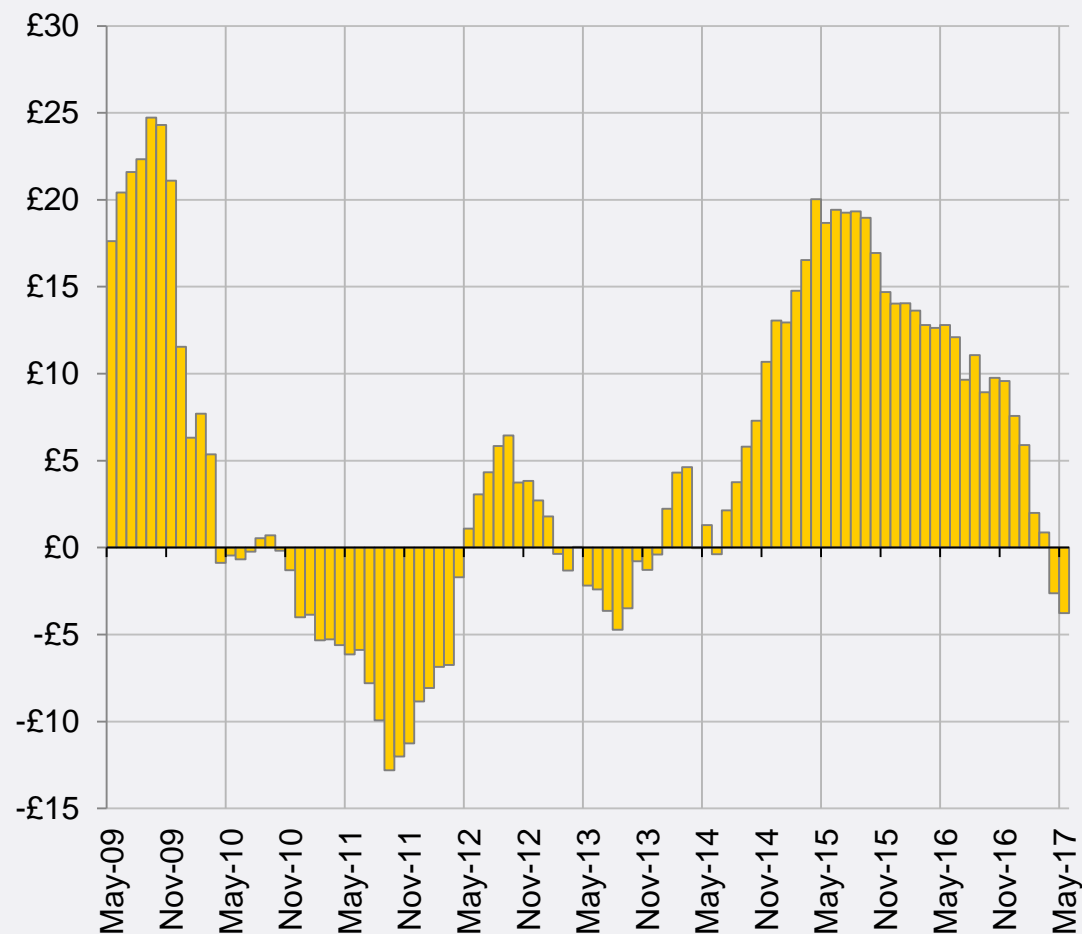
* three-month average, excl bonuses

Fall in family spending power accelerates as wage growth disappoints

The Asda Income Tracker was £3.77 a week lower in May 2017 than a year before

- The squeeze on household incomes intensified in May with the Asda Income Tracker recording a fall of almost £4 compared to the same month last year.
- This marks the second consecutive month with falling family spending power. We expect this trend to continue in the coming months.
- Households are exposed to a double whammy of rising inflation and slowing nominal wage growth. This leads to falling real, i.e. inflation adjusted, incomes.
- Inflationary pressures are now widely visible and no longer only contained to rising fuel prices. Regular earnings growth, on the other hand, has fallen below 2% year-on-year in the three months to April, despite the low rate of unemployment.
- As a result, real incomes as well as family spending power are falling.

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

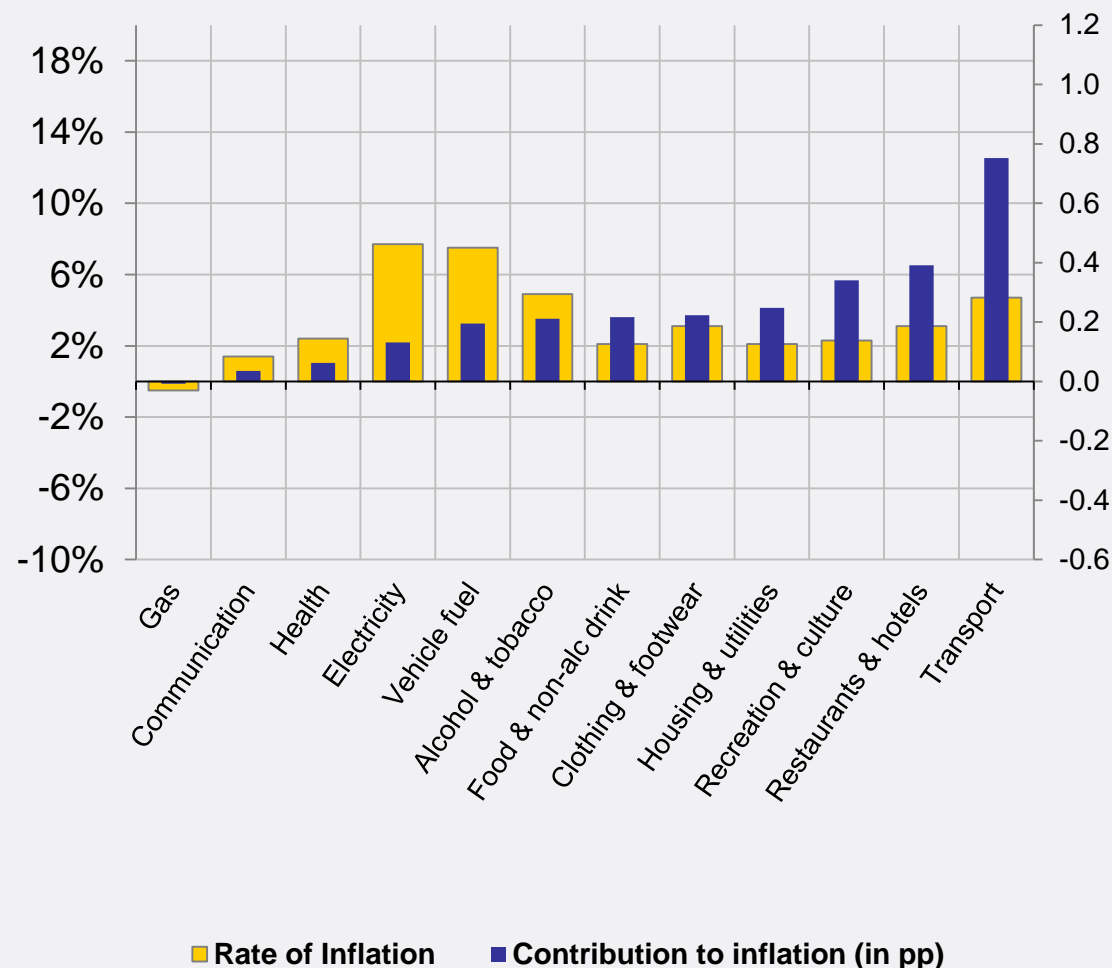


Inflation reaches four-year high in May

The main factors affecting family costs in May were:

- Inflation as measured by the Consumer Price Index rose to 2.9% in the year to May, up from 2.7% in the previous month. This is the highest inflation reading in four years.
- While electricity showed the highest price increase in May at 7.7%, once again transportation was the category with the largest contribution to inflation due to its bigger weight in the consumer basket of goods. With almost 0.8 percentage points, transportation cost contributed twice as much to headline inflation as the next most impactful category, restaurants and hotels.
- The contribution from transportation cost would have been even larger, but falling sea and air fares after Easter offset some of the upward pressure from higher fuel costs and more expensive new cars and motorcycles.
- Cheaper prices for gas led to a small negative contribution to inflation.

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

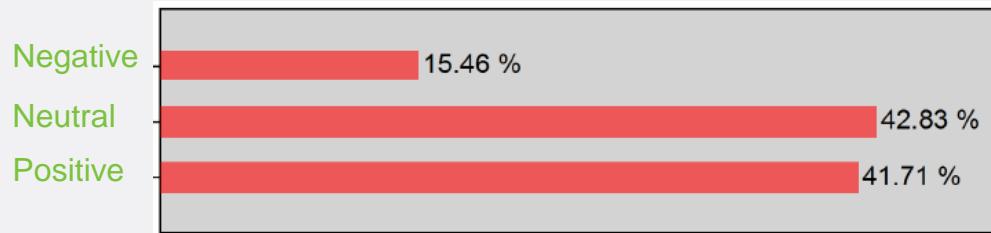
■ Rate of Inflation ■ Contribution to inflation (in pp)

Consumer Focus:

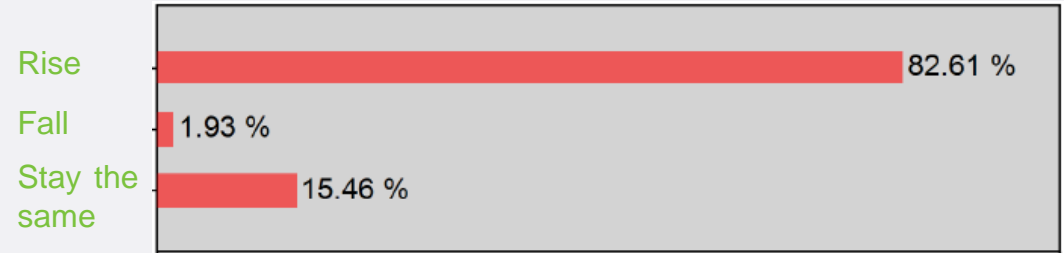
How are consumers feeling?

- 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:

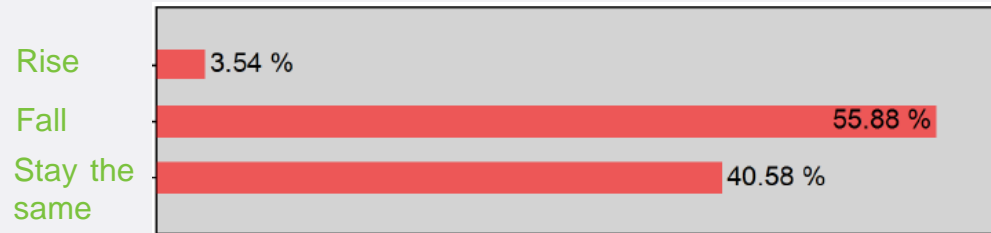
- How do you feel about the current UK economy?**



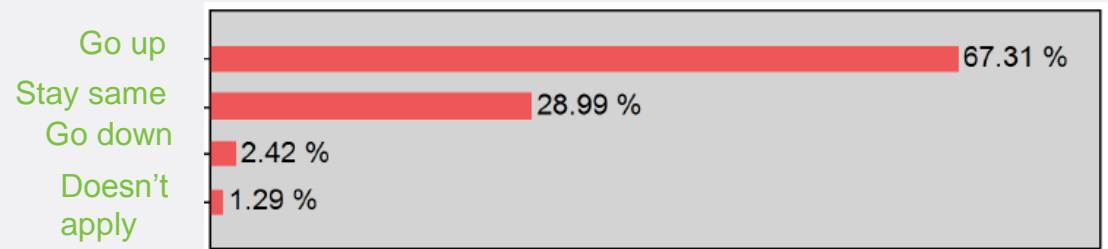
- What will happen to the cost of day to day living?**



- What will happen to your disposable income?**



- What will happen to your gas and electricity bills?**



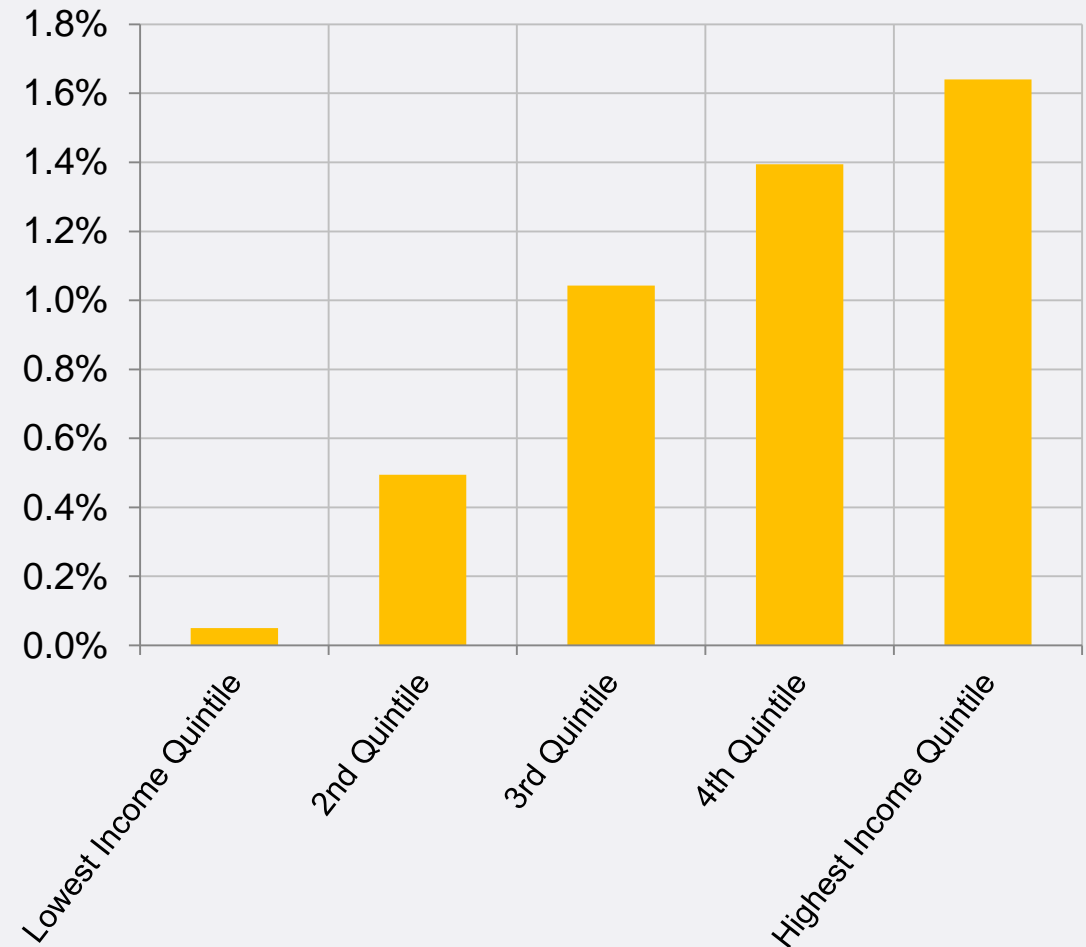
- In June, customers have told Asda how they are feeling about the economy and their finances. The data now shows that over half of customers think their disposable income will fall in the next month. This figure has increased by 9% over the last quarter.
- 82% of customers feel that the cost of living will also increase over the next month, which mirrors the inflationary rate of essential items.

Subdued wage growth and welfare cuts squeeze income growth across the board

Lower income households face stagnating income growth

- Households in the lowest income quintile feel the squeeze on in-work benefits as their gross income growth has come to a halt. This demographic draws a larger share of their overall income from state benefits and social securities – welfare cuts therefore have a noticeable impact on their income growth rates. According to our calculations the level of benefits paid is at the same level as in early 2015.
- Households in higher income quintiles draw an increasing share of their income from wages and salaries meaning that welfare cuts have less of an effect on their budgets.
- But as wage growth has been disappointing during the post-crisis recovery, even for the highest income quintile gross incomes have only increased by 1.6% in the year to May – below the current rate of inflation.

Annual gross income growth, May 2017

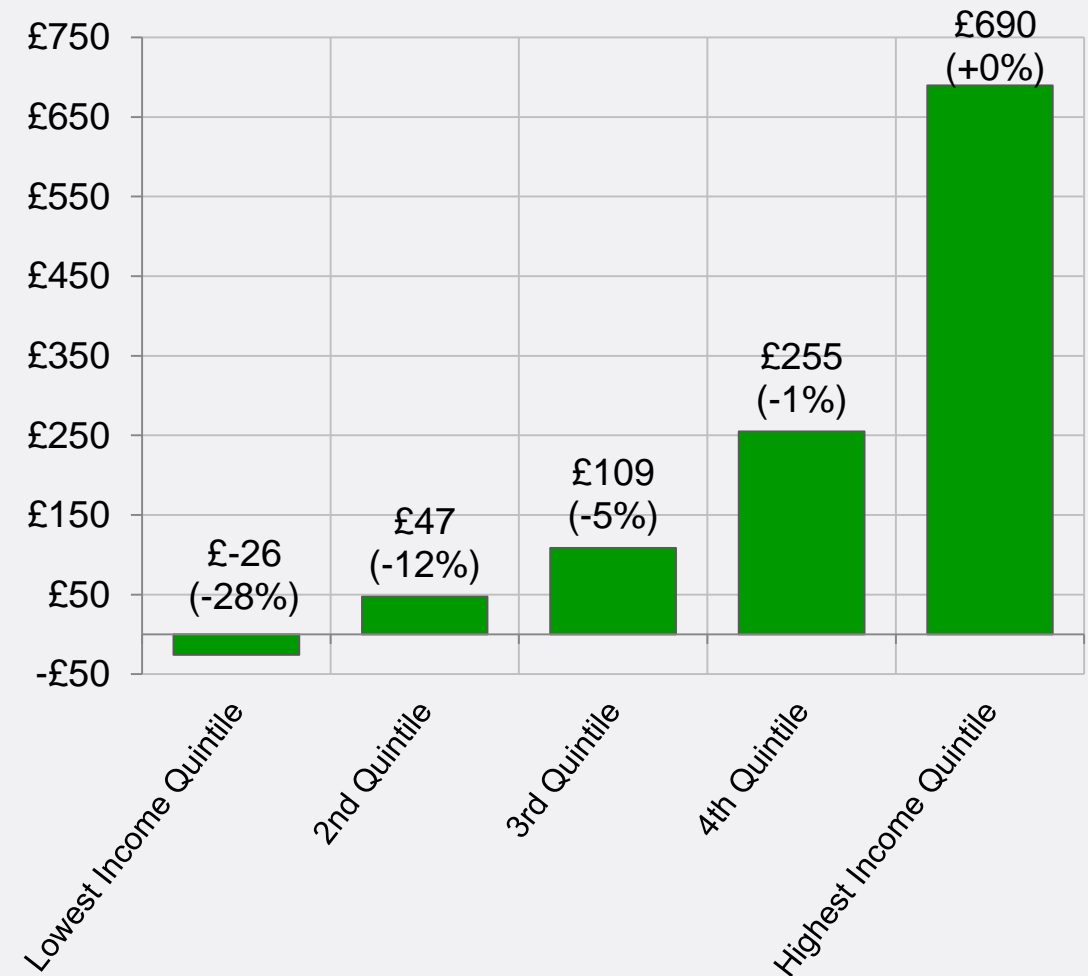


Only the highest income households able to avoid falls in family spending power

Discretionary income remains negative for the poorest households

- Annual growth in discretionary income was negative for all but the highest income quintile in May. While three months ago the second-highest quintile still recorded positive growth in discretionary incomes the persisting pay squeeze and higher inflation have now also led to a reduction in the family spending power for this group.
- The poorest households have to shoulder the biggest decrease in discretionary incomes, with family spending power standing 28% lower than in May 2016. Considering that lower income households need to dedicate a larger share of their net income to buying essentials (such as food, housing and clothing) any increase in prices hits these households especially hard.
- Conversely, high income households can more easily compensate for higher prices as essentials make up a much smaller part of their weekly spending budget.

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



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:

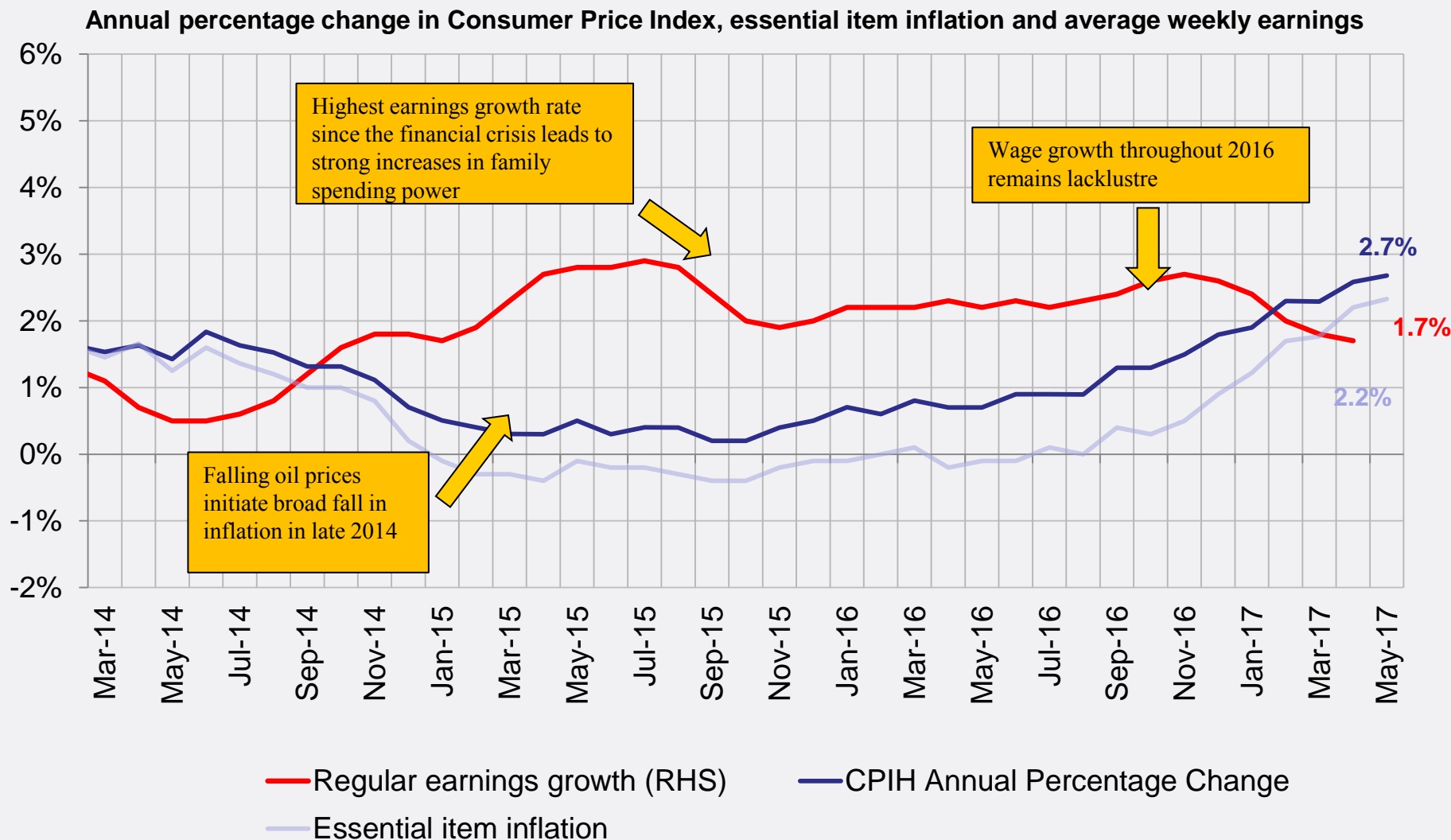
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Appendix

Wage growth falls further behind inflation

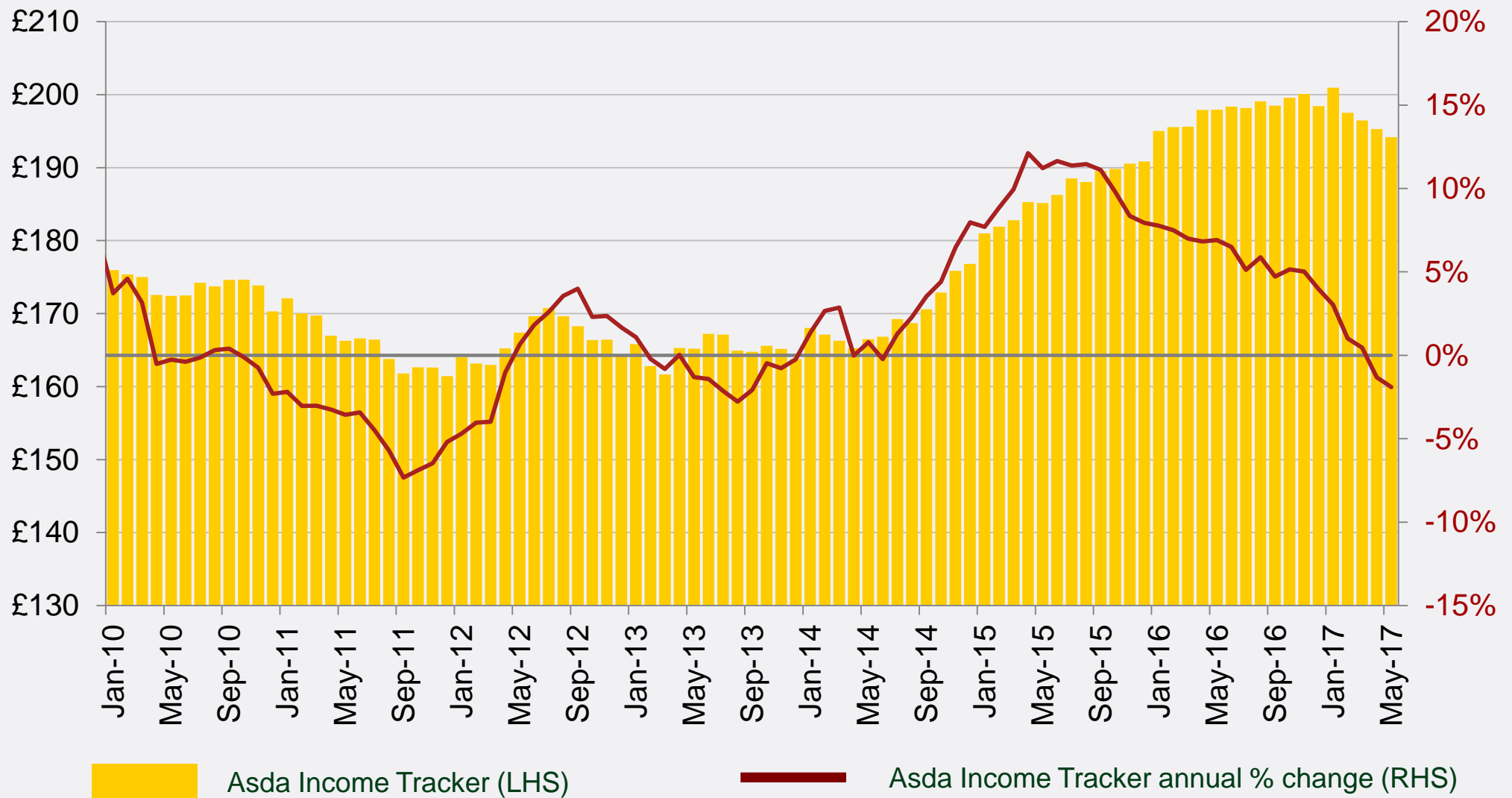


Inflation trends over time

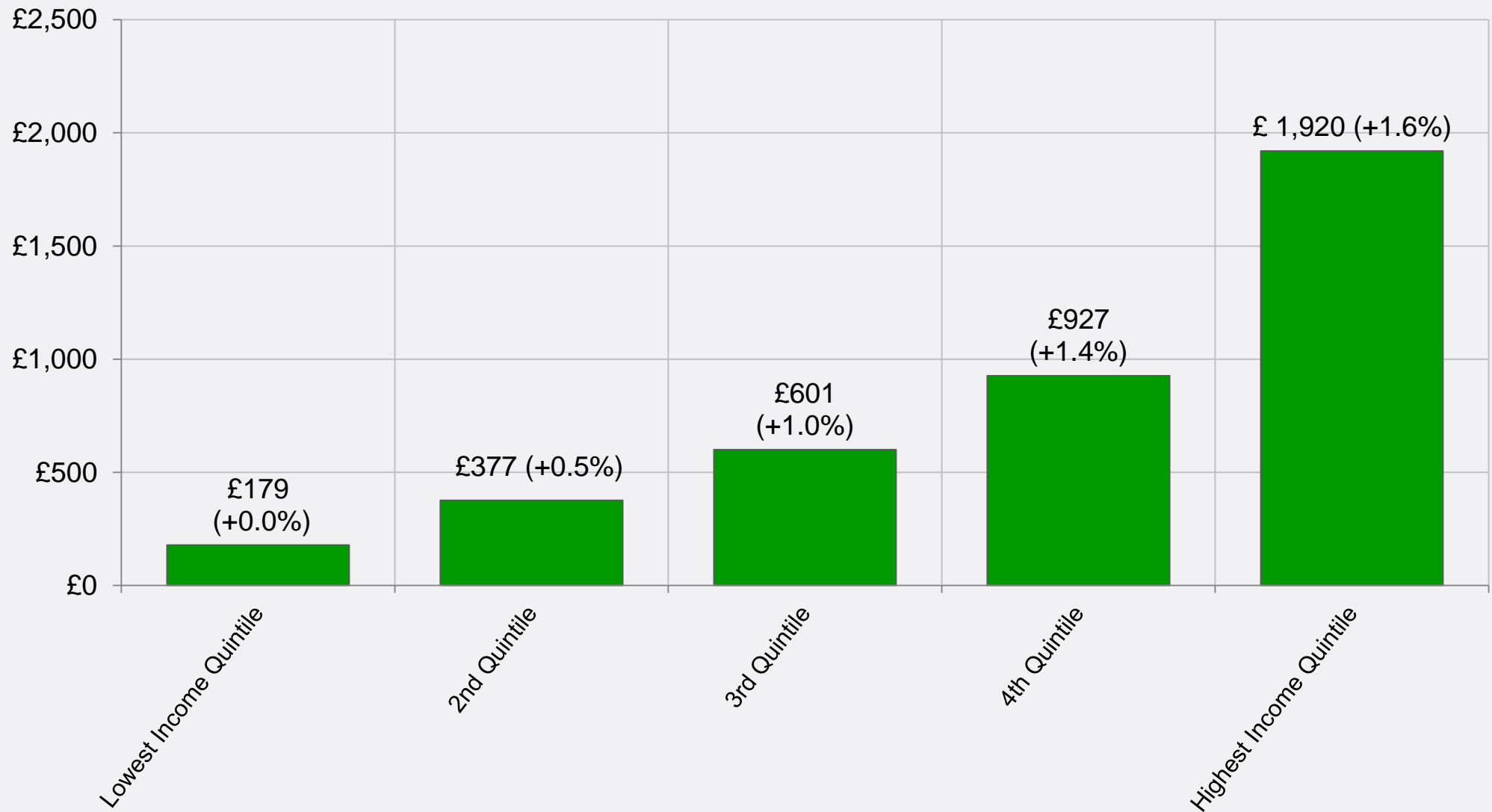


Monthly Asda Income Tracker

Figure 1: Asda Income Tracker and year-on-year change (excluding bonuses)



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



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	£195
May 2013	£167	May 2014	£171	May 2015	£188	May 2016	£198	May 2016	£194
June 2013	£169	June 2014	£171	June 2015	£189	June 2016	£198		
July 2013	£168	July 2014	£173	July 2015	£191	July 2016	£198		
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		
2013 Average	£166	2014 Average	£173	2015 Average	£190	2016 Average	£198		

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, June 2017