

# Asda Income Tracker

Report: June 2017

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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 June 2017, down by £0.47 a week on the same month a year before.
- This marks the third consecutive month of year-on-year decline for the income tracker highlighting the pressures faced by households.
- In welcome news for UK consumers, inflation fell back unexpectedly in June easing some of the cost pressures. Families dependent on their car especially benefitted from falling prices at the pump. However, it remains likely that inflation will rise again in the coming months as the effects of the depreciation of sterling as well as rising food prices continue to exert upwards pressure on the price level.
- The labour market remains robust with a record low unemployment rate. Nevertheless, wage growth remains unspectacular and, importantly, below the rate of inflation.



**Family spending power was down by £0.5 a week year on year in June**

**(a 0.2% annual decrease)**

# Asda Income Tracker Dashboard: June

Indicator	Year-on-year change	Change to previous period
GDP (Q1 2017)	 +2.0%	+0.2% QoQ
Regular earnings growth* (Mar-May)	 +2.0%	+0.2 p.p.
Unemployment rate (Mar-May): <b>4.5%</b>	 -0.4 p.p.	- 0.1 p.p.
CPI Inflation (June)	 +2.6%	-0.3% MoM
Net income (June)	 +1.8%	+0.2% MoM
Essential item inflation (June)	 +2.2%	+0.0% MoM
Family Spending Power (June)	 -0.2%	+0.6% MoM
Food & non-alcoholic drinks inflation (June)	 +2.3%	-0.2% MoM
Furniture and household equipment (June)	 +3.2%	+0.4% MoM
Vehicle fuels (June)	 +4.1%	-1.1% MoM

KEY IMPROVING TREND   NO SIGNIFICANT CHANGE IN TREND  DETERIORATING TREND  

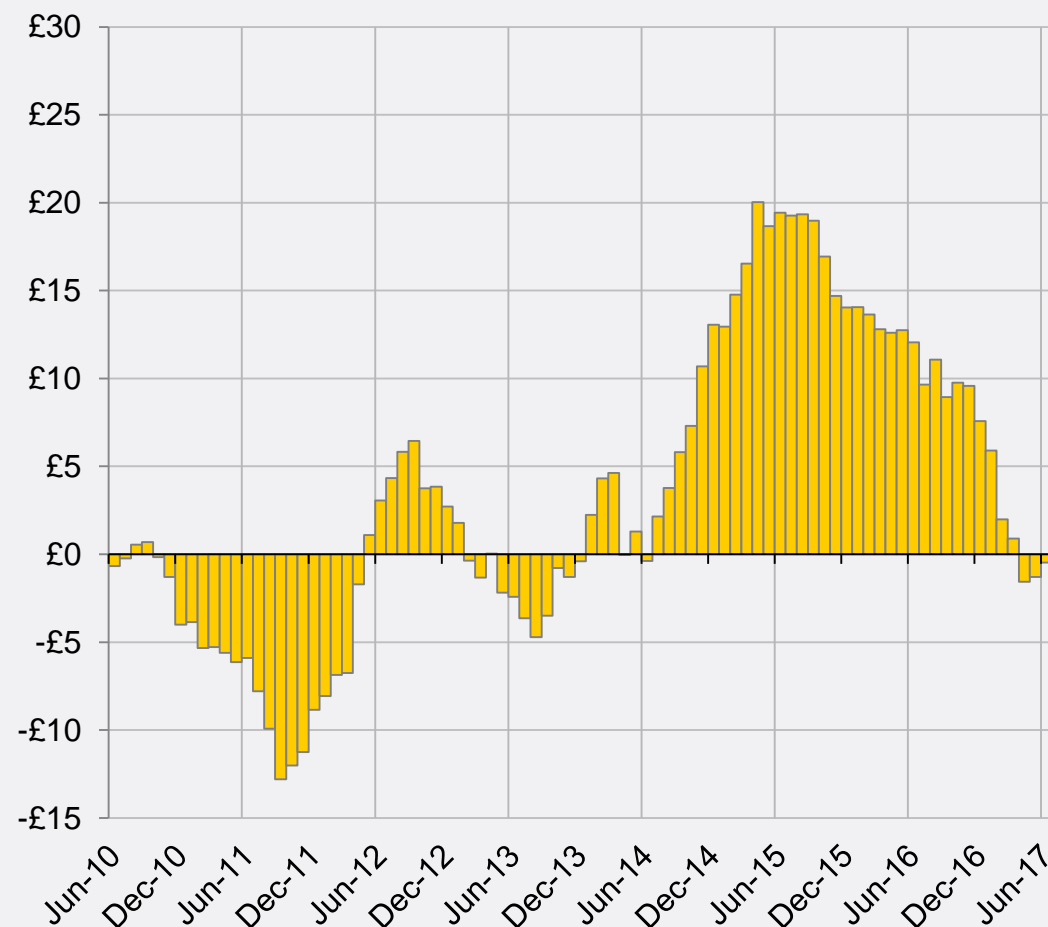
\* three-month average, excl bonuses

# Lower inflation provides welcome relief for households in June

The Asda Income Tracker was £0.47 a week lower in June 2017 than a year before

- While the annual rate of change for households discretionary incomes remained negative in June, there were some signs of a welcome relief.
- The fall in inflation eased the pressure on households' budgets, especially for those who rely on their car for transportation.
- Regular earnings growth also recovered somewhat although bonus payments were squeezed. Overall, pay growth has yet to turn a corner even though the employment rate has climbed to a new all-time record high of 74.9%.
- We expect June's slowdown in inflation to be temporary as higher food prices and the depreciation of sterling will continue to exert upwards pressure on price levels for the remainder of the year.
- This in turn means we expect further falls in the Income Tracker for the coming months.

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



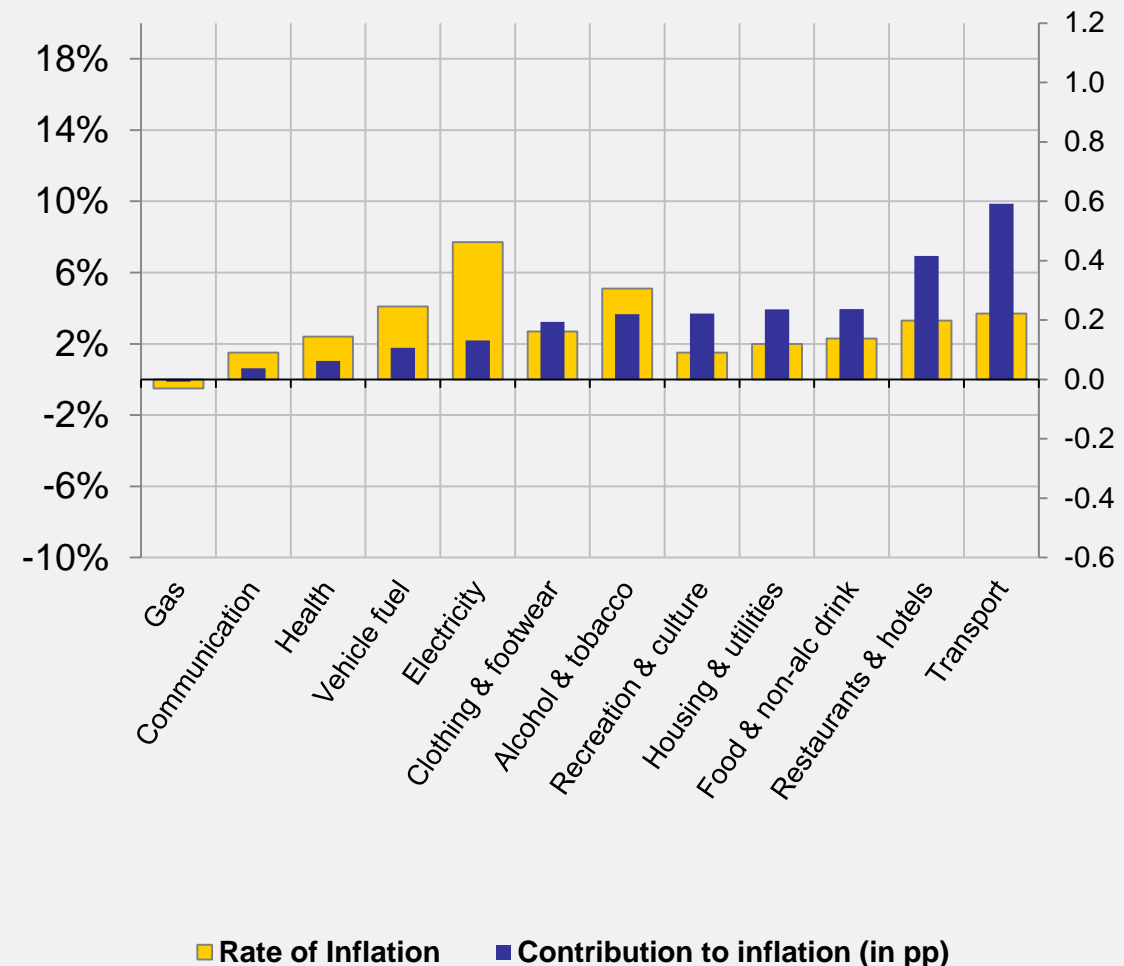
# Cheaper fuel slows inflation in June

The main factors affecting family costs in June were:

- Inflation as measured by the Consumer Price Index stood at 2.6% in the year to June, down from 2.9% in the previous month. This is only the third time that CPI inflation fell since the start of 2016.
- The decrease was mainly driven by lower fuel prices compared to May, falling prices for recreation and culture and less expensive clothing and footwear.
- Out of the main CPI categories, alcoholic beverages and tobacco showed the highest rate of inflation at 5.1%, followed by education (4.3%) and transport (3.7%).
- Due to its bigger weight in the consumer basket of goods, transportation still contributed most to the headline year-on-year inflation rate with 0.6 percentage points.
- As in the previous month, gas was slightly cheaper in June than in the same month a year ago. Electricity costs on the other hand rose strongly, with inflation in this category standing at 7.7%.

Vehicle fuel is a sub-category of Transport;  
Gas and electricity are sub-categories of Housing & utilities

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



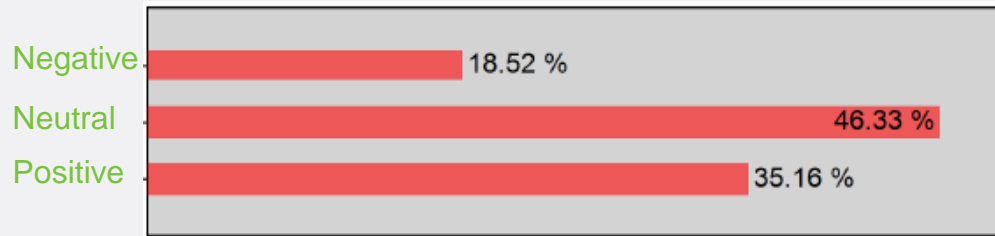
■ Rate of Inflation ■ Contribution to inflation (in pp)

# Consumer Focus:

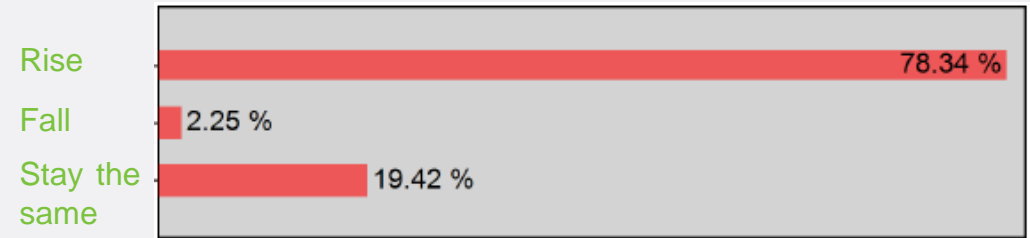
## How are consumers feeling?

- 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:

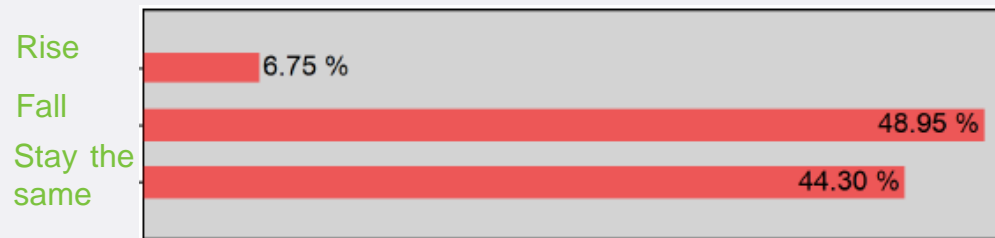
- How do you feel about the current UK economy?**



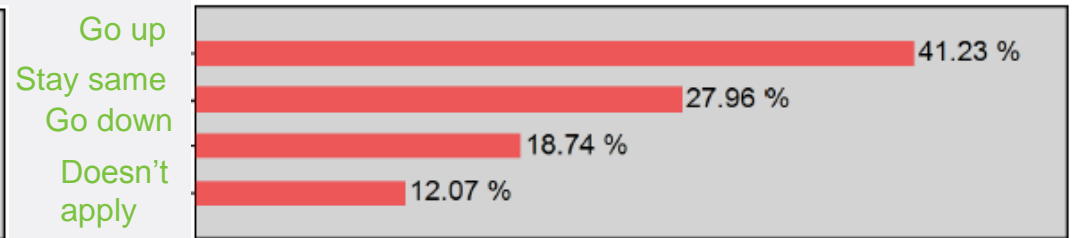
- What will happen to the cost of day to day living?**



- What will happen to your disposable income?**



- What will happen to fuel prices?**



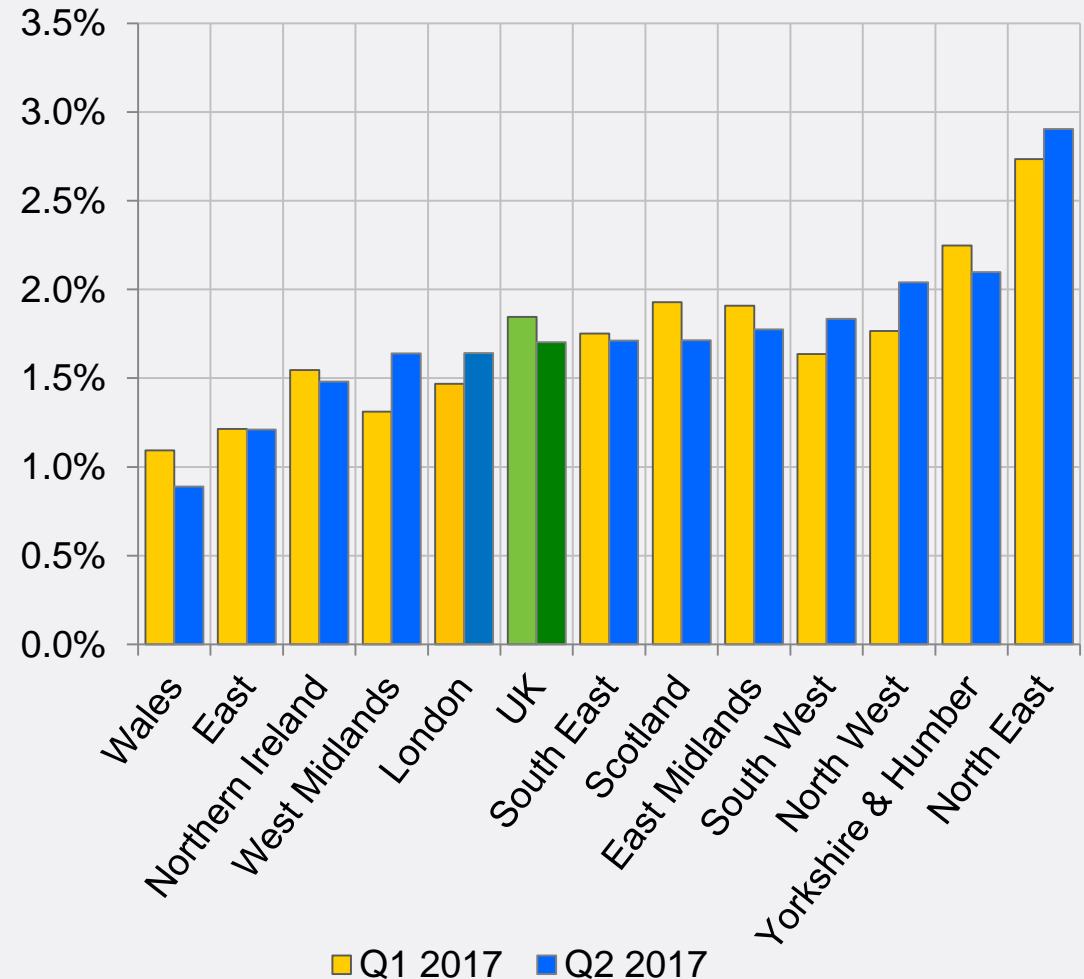
- In July, consumers told Asda how they are feeling about the economy and their finances. The data now shows that just less than half of customers asked think their disposable income will fall in the next month, which is slightly fewer than the June insight.
- 41% of customers feel that the cost of fuel prices will also increase over the next month, despite the income tracker data showing the cost is decreasing month on month.

# Gross income growth slows notably in Wales and Scotland

## Gross income growth slows in Q2 2017 across the UK

- The weak wage growth figures of the last quarter have led to a notable slowdown in gross income growth in a number of regions.
- The largest decreases between Q1 and Q2 of this year have been recorded in Wales and Scotland, where gross income growth fell back by 0.2 percentage points.
- Other regions where gross income growth has slowed are Yorkshire & the Humber, East Midlands and Northern Ireland where incomes have grown 0.1 percentage points slower in Q2 than in the previous three-month period. This has caused overall income growth in the UK to fall back by 0.1 percentage points to 1.7% year-on-year.
- Income growth was fastest again in the North East, followed by Yorkshire & the Humber and the North West, the only regions where growth reached 2.0% or more. This was mainly achieved by stronger-than-average employment growth in these regions.

Regional gross income, annual change to quarter indicated

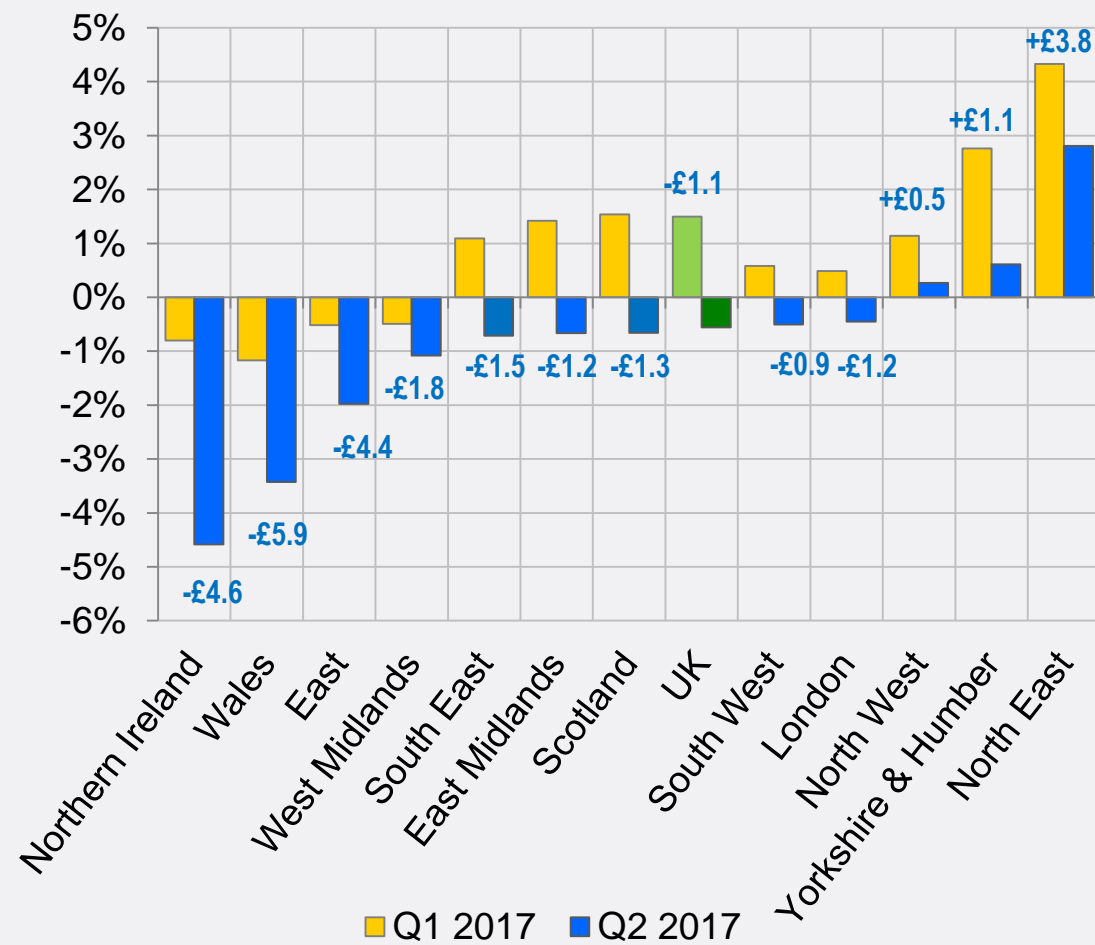


# Northern Ireland and Wales hit hardest by fall in Income Tracker

Most regions now report decreasing family spending power

- The recent squeeze in discretionary incomes is visible across all regions. Growth in the Income Tracker has slowed across the country and stands in negative territory for all regions except the North East, North West and Yorkshire and the Humber. But even in those regions, year-on-year increases in pound terms are at their lowest since 2014.
- Northern Ireland and Wales are especially affected with family spending power standing £4.60 and £5.90 lower than in the second quarter of 2016. Both regions have experienced below average wage growth and slower employment growth than the UK average.
- Q2 2017 is the first quarter for the UK to register negative year-on-year increases in family spending power since the end of 2013 when the country suffered its latest squeeze on real incomes.
- With inflation expected to accelerate further and no sign of faster wage growth in sight, the picture could look even darker in Q3 2017.

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



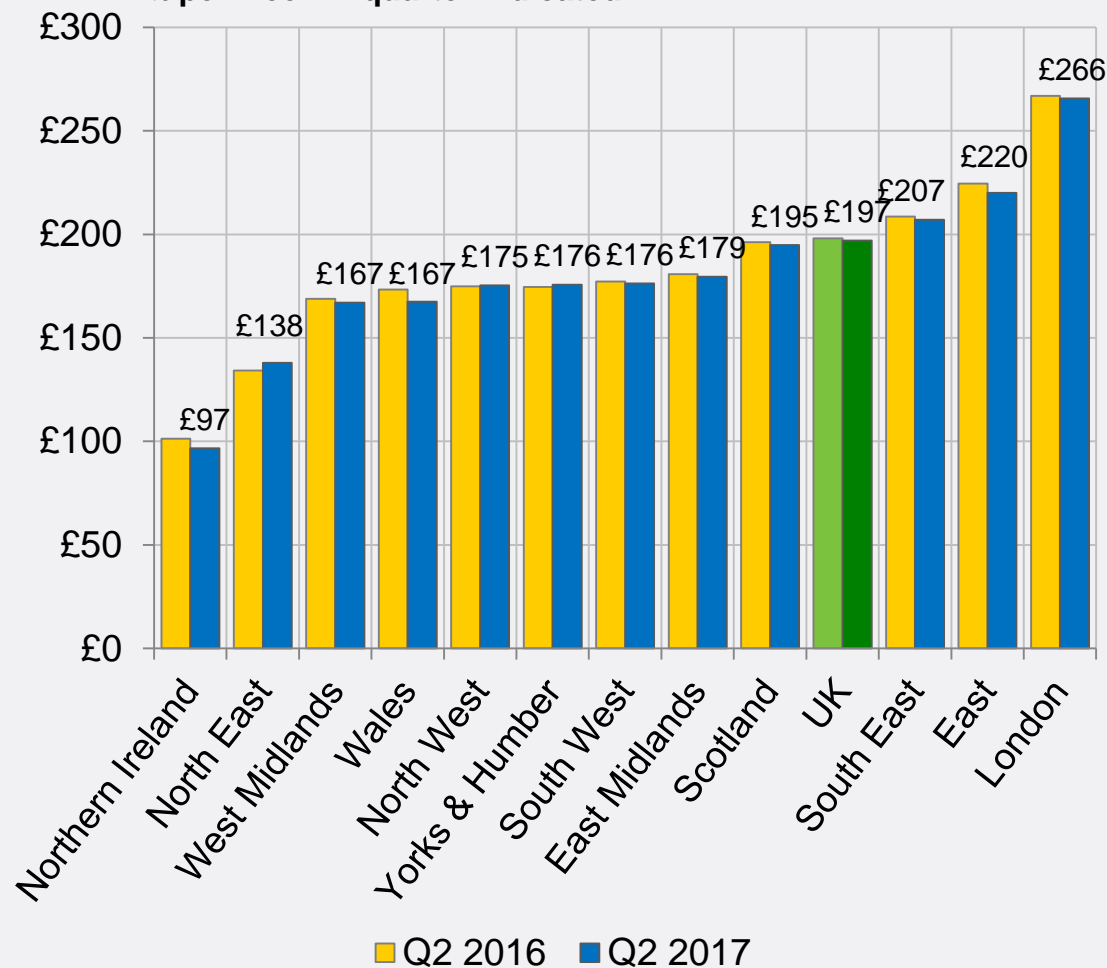


# North East is the only region with significant gains in family spending power

UK-wide average family spending power stood at £197 in Q2 2017

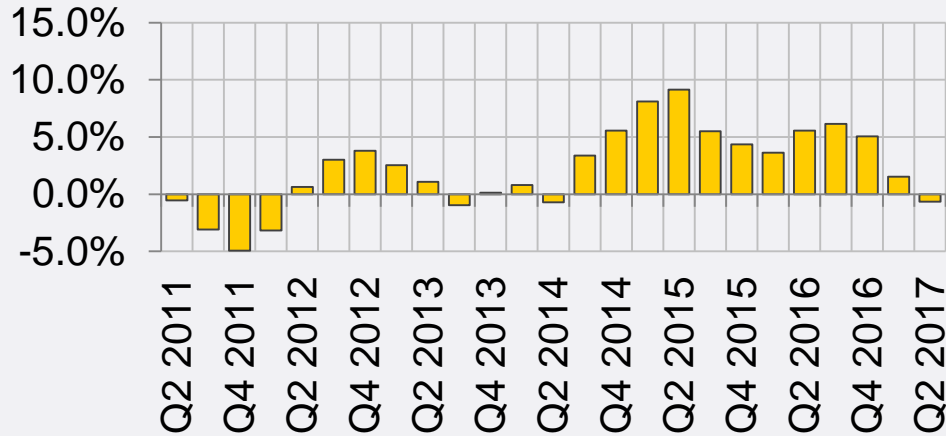
- Since Q2 2016 most households in the UK have gained little if anything in terms of family spending power. The strong gains made in the first half of 2016 have been undone by rising inflation and stagnant wage growth following the EU referendum in June last year.
- In a number of regions this has led to marginal decreases in spending power. More significantly, family spending power stands £5 below its Q2 2016 level in Northern Ireland, £4 lower in the East of England and £6 lower in Wales.
- With a £4 increase on Q2 2016, the North East is the only region to show significant gains, although in level terms it still remains some way behind most other regions due to its weaker labour market and high youth unemployment.
- The East, South East and London remain at the top of the table despite losses in family spending power over the year.

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



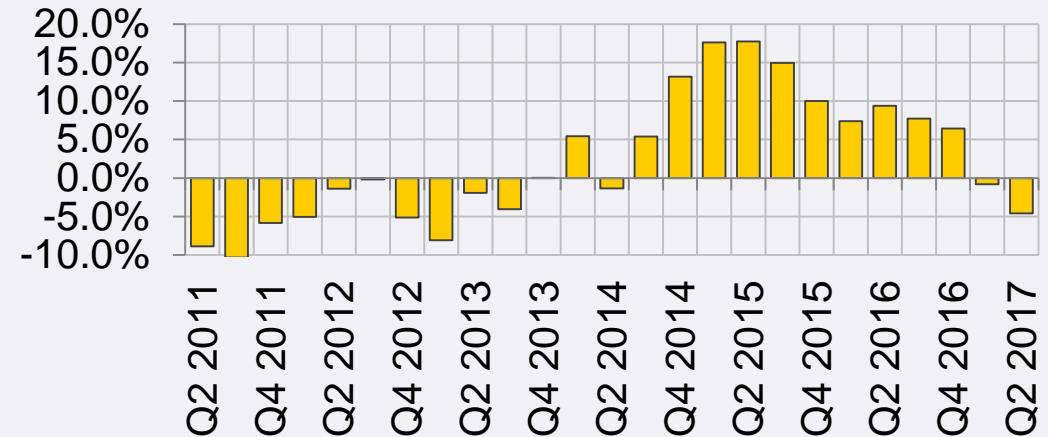
# Focus on Scotland and Northern Ireland

Annual % change in discretionary incomes, Scotland



- As most other regions and nations, discretionary incomes have fallen in Scotland in Q2 2017 compared to the same quarter a year earlier.
- Family spending power stood at £195 in the second quarter of the year which is 0.7% below the value of the previous year.
- Scotland has suffered more than other regions and nations from the falling oil prices of recent months. Difficulties in the oil sector have spread to the wider economy in the region leading to low growth and below average wage inflation. We further forecast employment growth in 2017 to stand at only 0.1% in Scotland, the weakest among all regions.

Annual % change in discretionary incomes, Northern Ireland



- The fall in family spending power in Northern Ireland has accelerated in the second quarter. After a fall of -0.8% YoY in the first quarter, discretionary incomes have declined by 4.6% in Q2 2017 compared to the same quarter a year earlier.
- This significant fall underlines the nation's economic woes. Northern Ireland has still by far the largest share of public sector workers among all regions and nations. Limited pay rises and low productivity gains in the public sector therefore especially affect Northern Irish households.
- This is further exacerbated by weak business growth and low private sector job growth.

# Report Spotlight:

## The impact of housing costs on incomes

### Higher incomes in London are almost entirely offset by higher housing cost

- The graph to the right shows a different measure of living standards, incomes (net of benefit and taxes) by region before and after housing costs are deducted.
- The distribution of incomes before housing costs are in line with the regional analysis of the Income Tracker, with the Midlands, the North and Yorkshire and the Humber showing incomes clearly below the national average. Scotland, the East and the South West are close to the national average while households in London and the South East have incomes more than 10% above the national median.
- After accounting for housing costs (private and social rent as well as mortgage payments), the picture changes little for the Midlands and the regions in the North. Incomes for London after housing costs are, however, below the national median underlining the high cost of accommodation in the capital. According to the Family Resource Survey, households in the capital spend almost twice as much on rent than the national average (£247 pw compared to £132 pw).
- Things change little for the South East, where incomes after housing costs are still more than 10% above the national median.

Percentage difference between median income by region and overall median income, 2013-14 to 2015-16



Source: IFS – Living Standards, poverty and inequality in the UK: 2017

# 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:

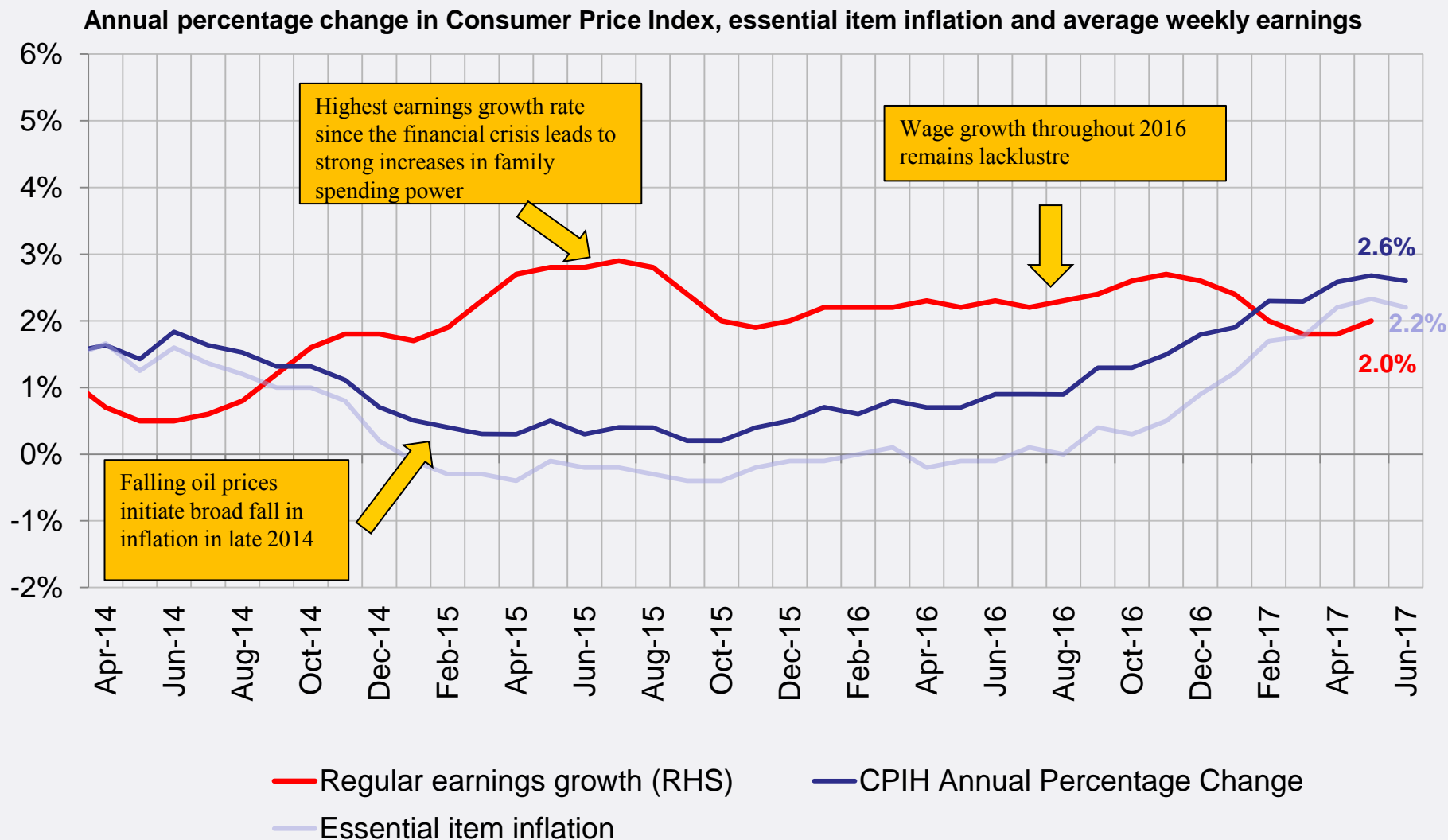
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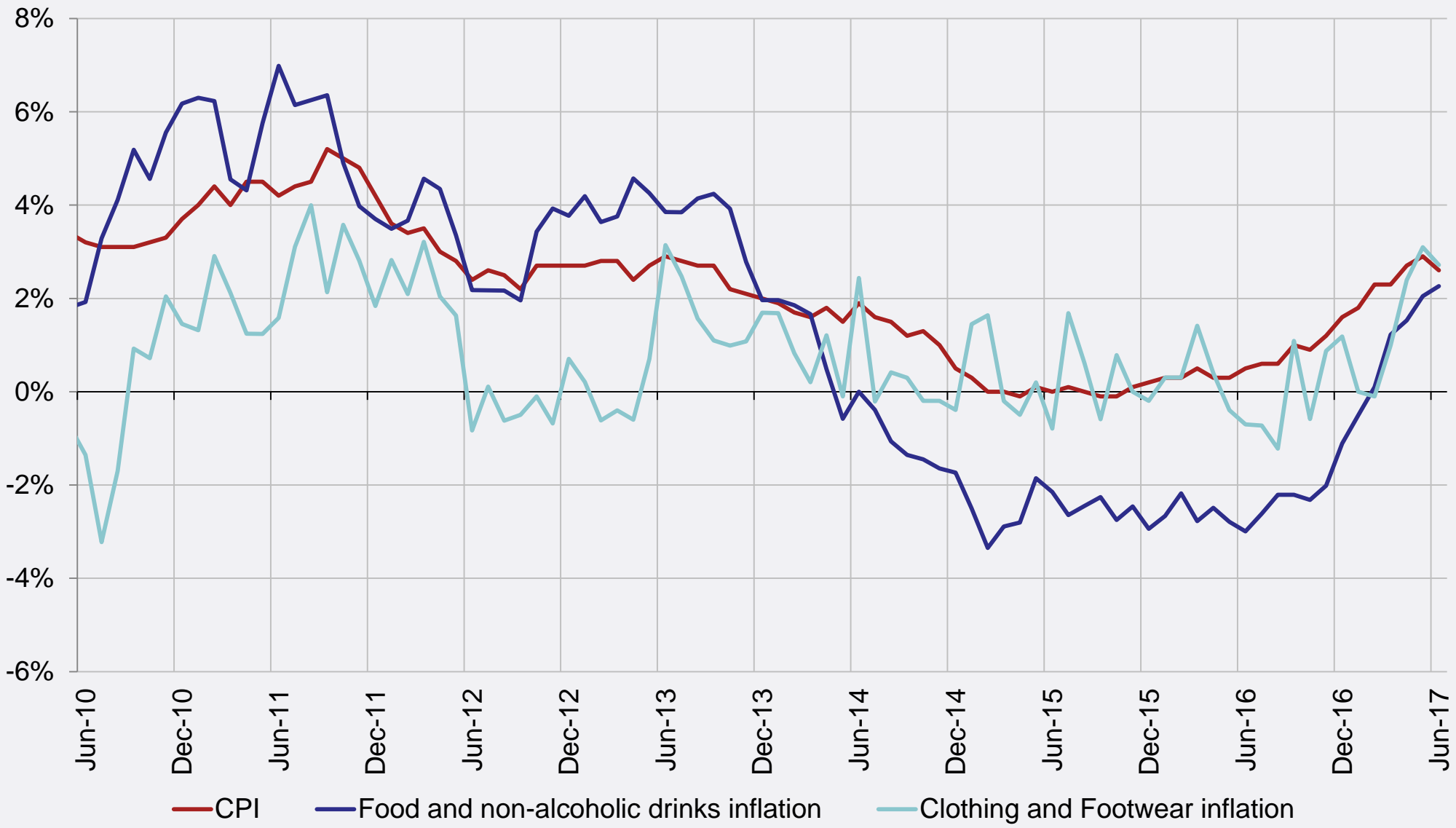
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# Appendix

# Wage growth falls further behind inflation

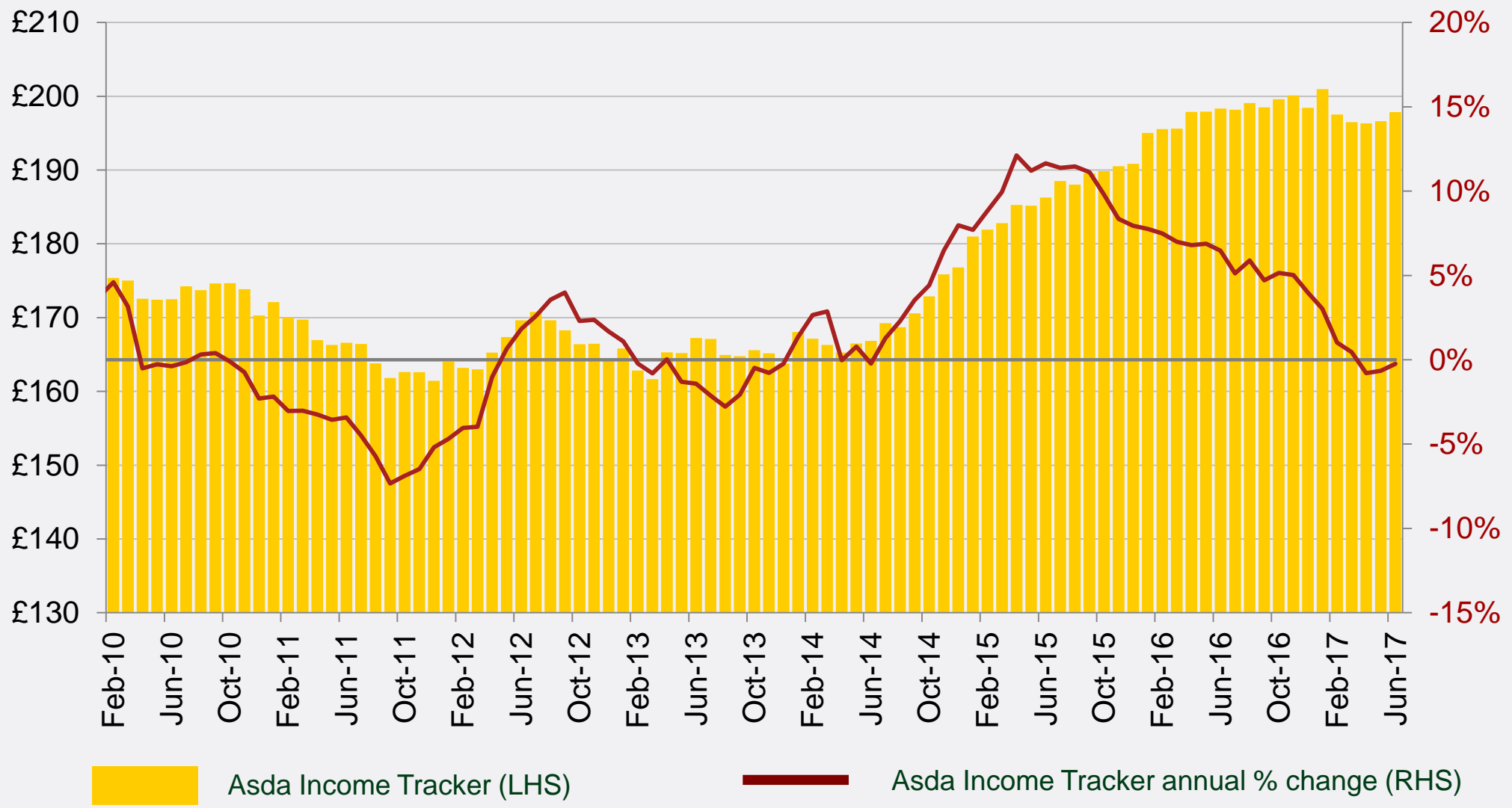


# Inflation trends over time



# Monthly Asda Income Tracker

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





# 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		
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		
<b>2013 Average</b>	<b>£166</b>	<b>2014 Average</b>	<b>£173</b>	<b>2015 Average</b>	<b>£190</b>	<b>2016 Average</b>	<b>£198</b>		

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, July 2017**