

Asda Income Tracker

Report: December 2020

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Making Business Sense

Centre for Economics and
Business Research Ltd

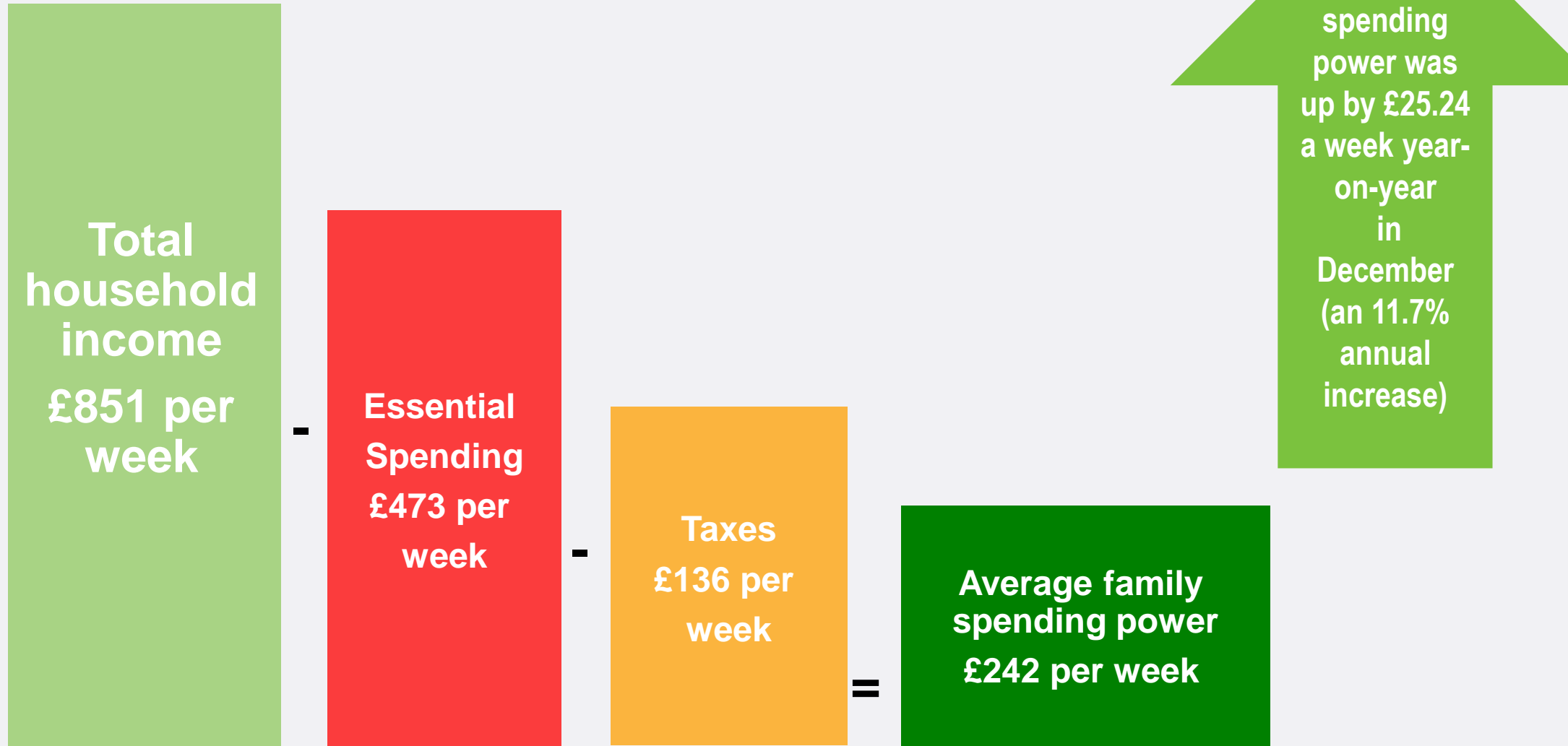
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Asda Income Tracker – Key Figures



NB: Due to the unprecedented effects of the coronavirus crisis on the UK economy, this month's Income Tracker figures are subject to a greater degree of uncertainty than usual. While we have used the latest data available to estimate the impacts of the crisis on incomes and expenditures in the reporting month, the Income Tracker figures will be subject to revisions as further official data are released over the coming weeks.

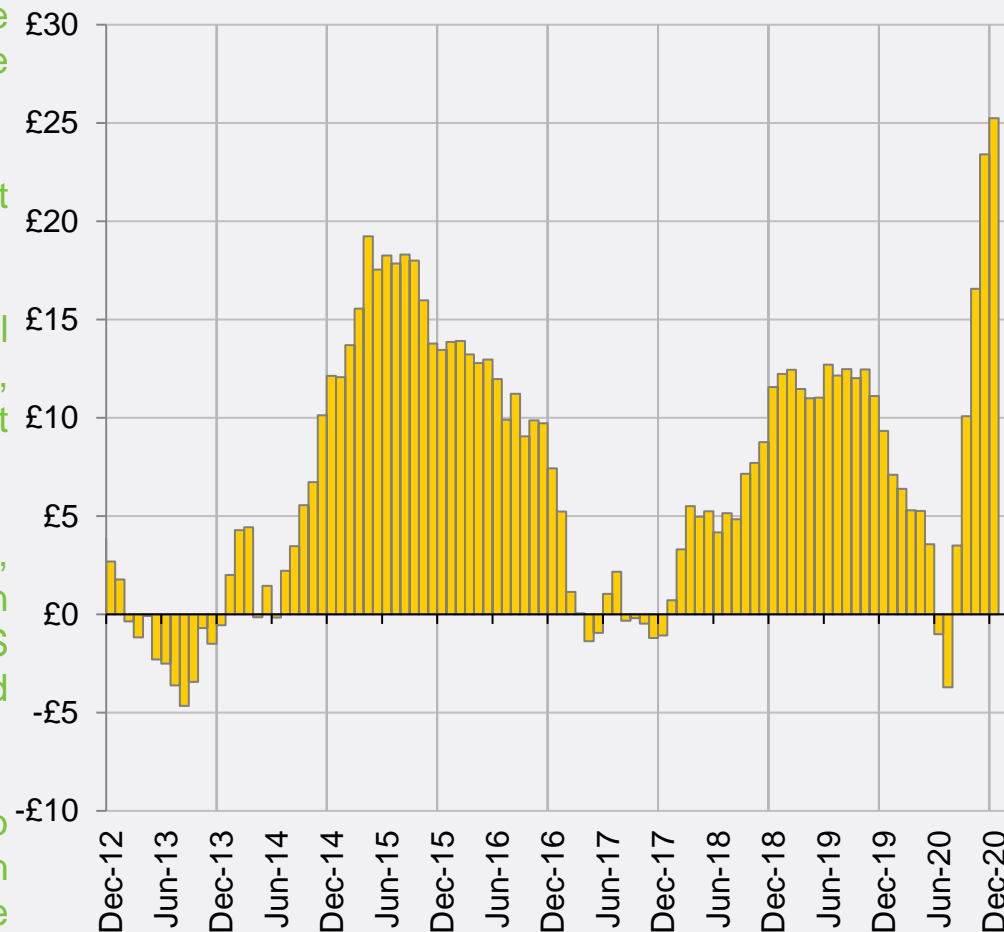
Income tracker records highest ever

absolute increase

The Asda Income Tracker was £25.24 a week higher in December 2020 than a year before.

- Household spending power grew by the fastest rate in more than 11 years in December 2020, picking up by 11.7%. Annual growth in the Asda Income Tracker was last higher in November 2009, when a rate of 13.7% was witnessed.
- The uptick of £25.24 compared to December 2019 marks the largest pound terms increase for the Income Tracker since records began.
- Wage growth continued to accelerate in November, with annual growth for total pay improving for a fifth consecutive month. Indeed, total pay picked up by 4.4% year-on-year in November, the highest growth rate since the 5.5% seen in February 2010.
- This high wage growth remains a matter of compositional effects, particularly with reference to the greater prevalence of job losses in lower-paid sectors. The latest labour market bulletin from the ONS suggests that the underlying rate of wage growth would likely stand below 2%, if we were to abstract from such effects.
- The labour market continues to be supported by the Coronavirus Job Retention Scheme. A cumulative 9.9 million jobs have now been furloughed since the beginning of the crisis. Nevertheless, the unemployment rate is still ticking up, reaching 5.0% in the three months to November.

Year-on-year change in Asda Income Tracker, £



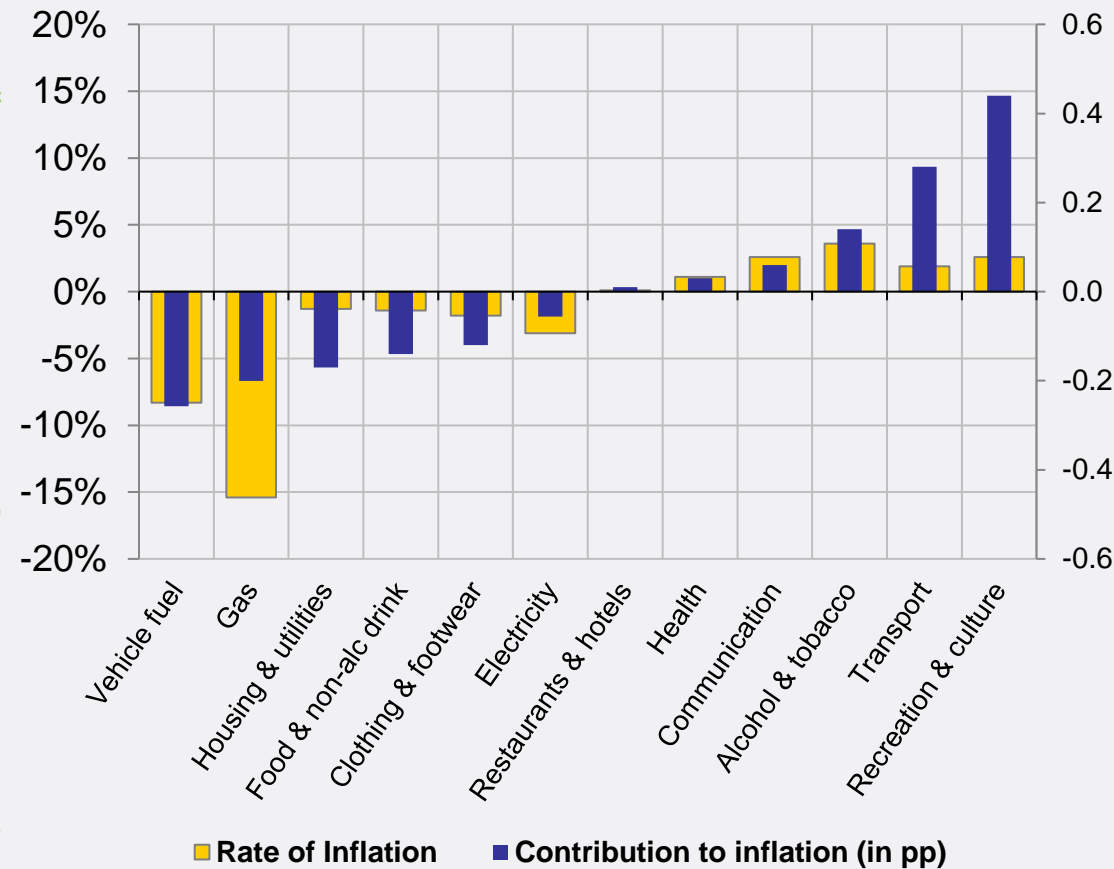
Inflation picked up slightly in December amidst increase in tobacco duty

Cost of living

The main factors affecting family costs in December were:

- Annual inflation, as measured by the Consumer Price Index (CPI), picked up by 0.3 percentage points in December, reaching 0.6%.
- The alcohol & tobacco category recorded the fastest rate of inflation, with prices picking up by 3.6% on an annual basis. This reflects an increase in duty on tobacco products, in place from mid-November 2020.
- The recreation & culture category was the largest upward contributor to inflation for the ninth consecutive month. Of the main categories, the largest downward contribution to the inflation rate came from housing & utilities. The subcomponents of gas and electricity, in particular, continue to exhibit stark price deflation, with prices falling by 15.4% and 3.1%, respectively, in December. A key factor here is the further capping of energy prices by Ofgem, implemented since October 2020.
- Vehicle fuels continue to provide a source of downward pressure on the inflation rate. Average petrol and diesel prices stood at 114.1 pence per litre and 118.8 pence per litre, respectively, in December 2020, down from values of 124.6 and 129.9, respectively, in December 2019.

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



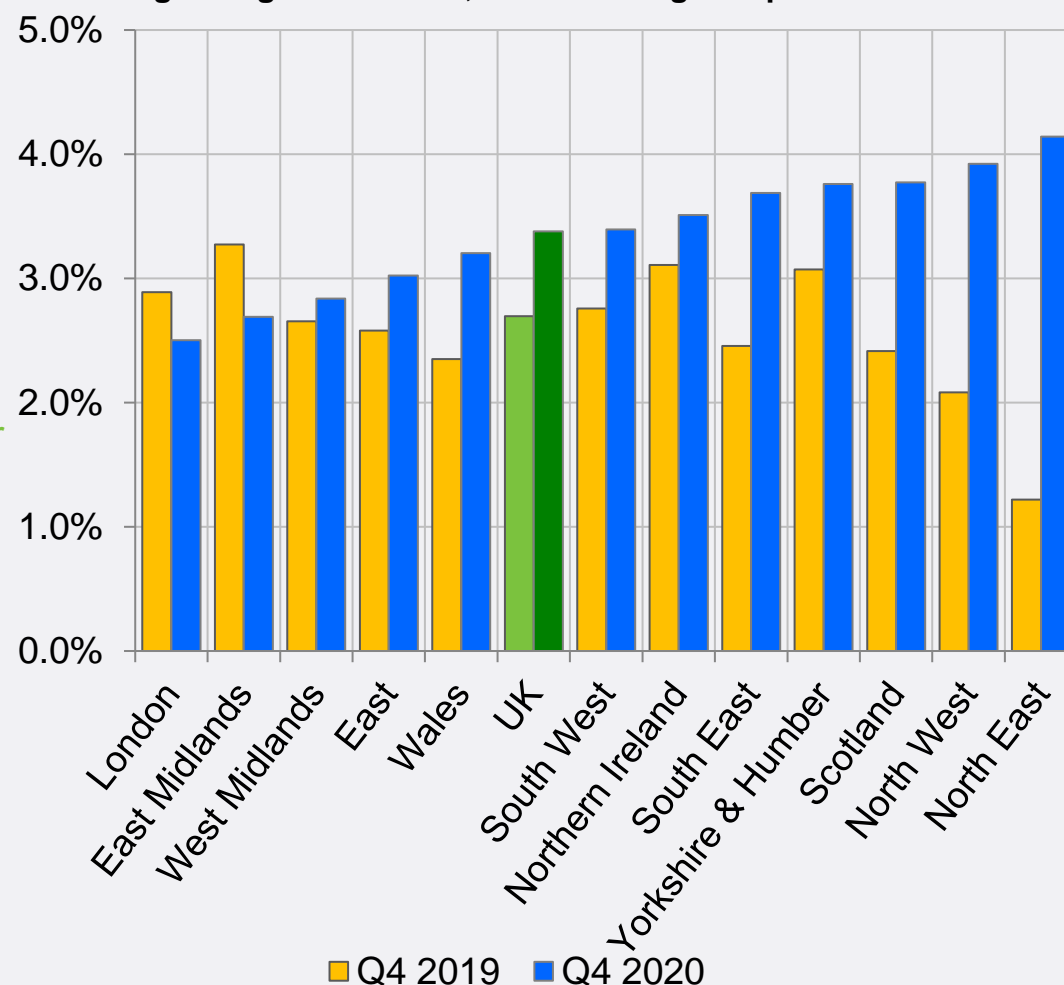
■ Rate of Inflation ■ Contribution to inflation (in pp)
 Vehicle fuel is a sub-category of Transport;
 Gas and electricity are sub-categories of Housing & utilities

Strong wage growth translates to improving gross incomes nationwide

UK-wide annual gross income growth reached a one-and-a-half year high of 3.4% in Q4 2020

- Annual growth in gross incomes picked up considerably in the final quarter of 2020, reaching 3.4% across the UK. This marks the fastest growth rate since Q2 2019, when incomes had picked up by 3.5%.
- There is some regional variation in the rate of gross income growth. Households in London saw the lowest growth rate, at just 2.5%, while the fastest rate of growth was seen in the North East, where incomes picked up by 4.1% year-on-year. Income growth in the North East has been particularly driven by broader social security benefits, with such payments constituting a greater proportion of household income than in any other region during normal circumstances.
- With the exceptions of London and the East Midlands, all regions saw their rate of gross income growth increase relative to Q4 2019. This coincides with the fact that these two regions have seen the largest upticks in unemployment since the beginning of the crisis. Between Q1 2020 and Q4 2020, London and the East Midlands have seen their unemployment rates increase by 2.3 and 1.7 percentage points, respectively, far exceeding the UK-wide estimate of 1.2 percentage points.

Regional gross income, annual change to quarter indicated

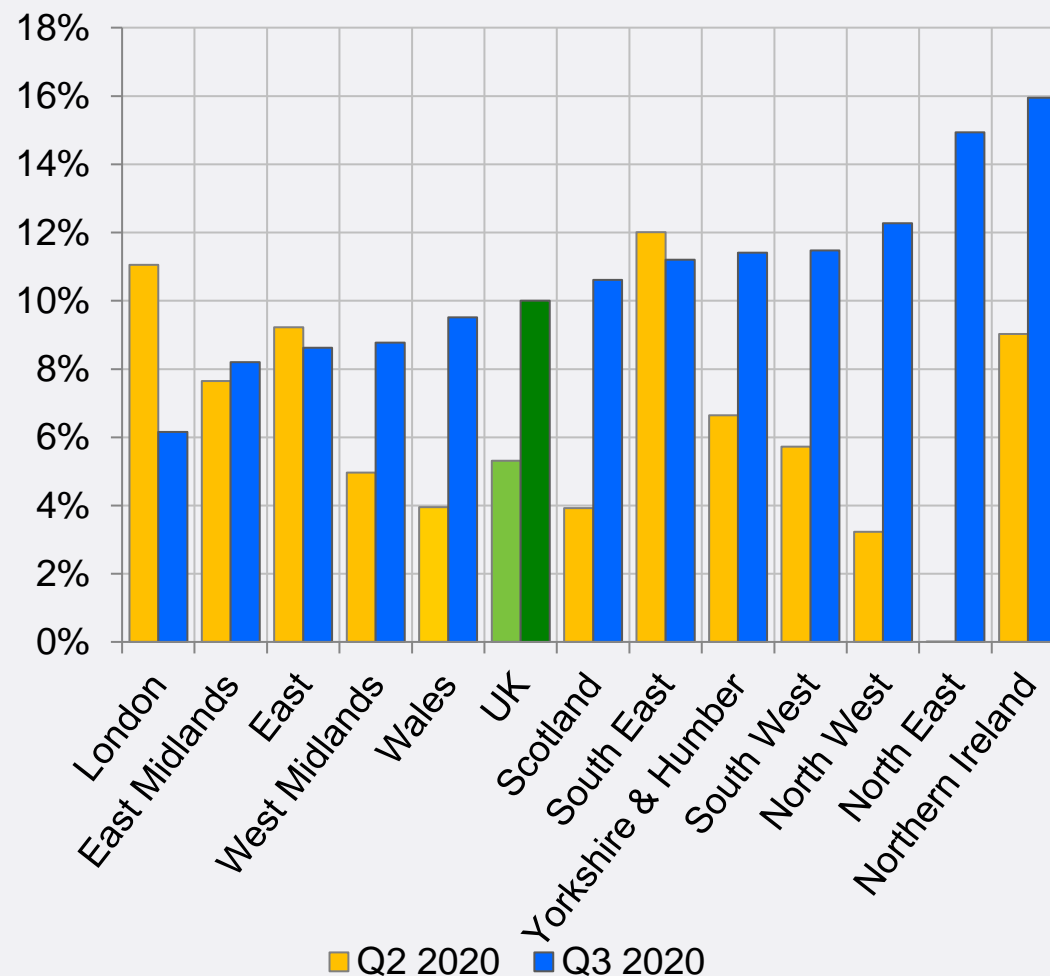


Income tracker growth picks up for majority of UK regions

UK-wide income tracker growth reached a more than five year high of 10.0% in Q4 2020

- Annual growth in the Asda Income Tracker picked up considerably in the final quarter of 2020, reaching 10.0%. This marks the fastest growth rate since Q3 2015, when discretionary incomes had picked up by 10.6%.
- There is some significant regional variation in this growth, however. Households in London saw the lowest growth rate, at just 6.2%, while the fastest rate of growth was seen in Northern Ireland, where discretionary incomes picked up by 15.9% year-on-year.
- With the exceptions of London, the South East, and the East of England, all regions saw the rate of Income Tracker growth increase relative to Q4 2019.
- The North East saw the largest change in the annual growth rate between Q4 2019 and Q4 2020, amounting to 14.9 percentage points. The 14.9% increase in Q4 marks the region's fastest growth rate annual growth rate since the onset of the Income Tracker. At 11.4% and 10.6%, respectively, Yorkshire & the Humber and Scotland also saw their fastest ever annual growth rates.

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

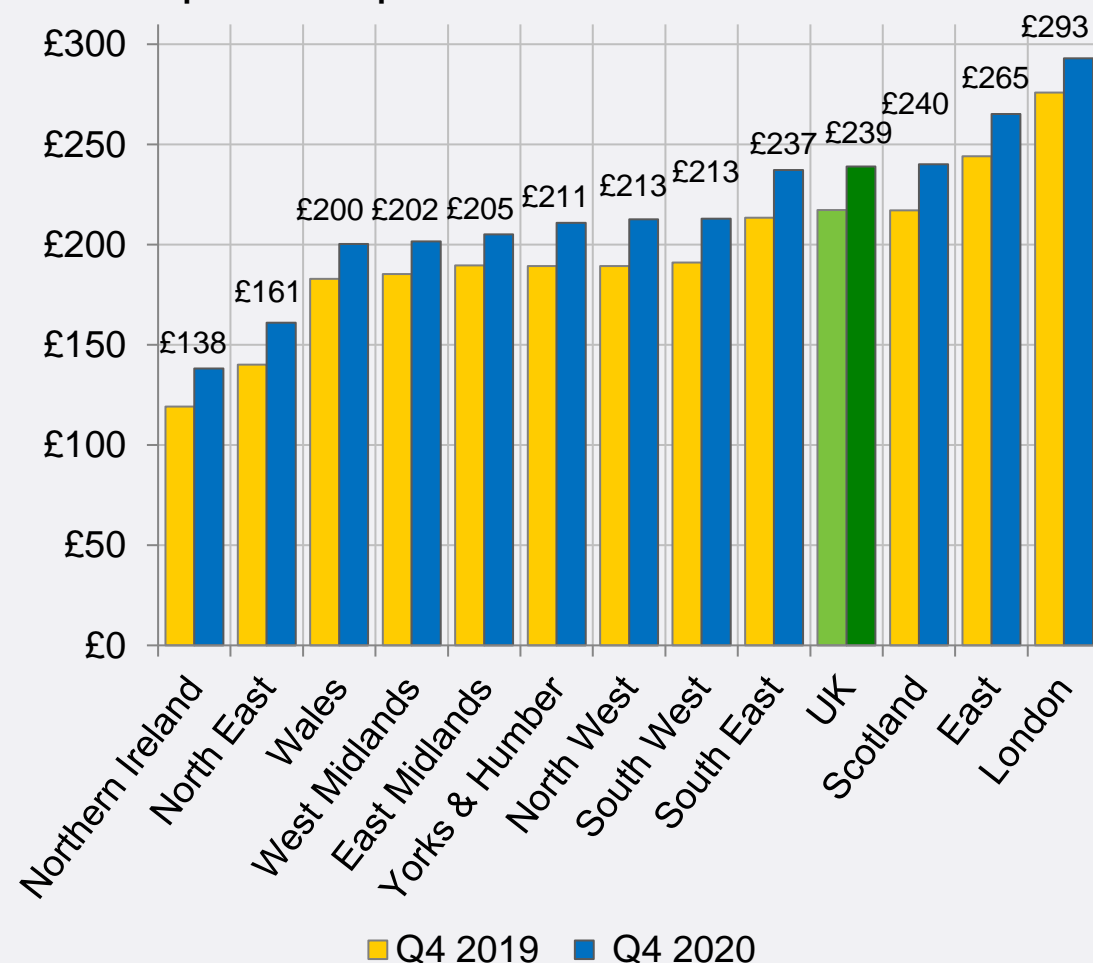


Absolute annual increases to discretionary income witnessed across all UK regions

UK-wide family spending power averaged £239 in the final quarter of 2020, the highest figure since the inception of the Income Tracker

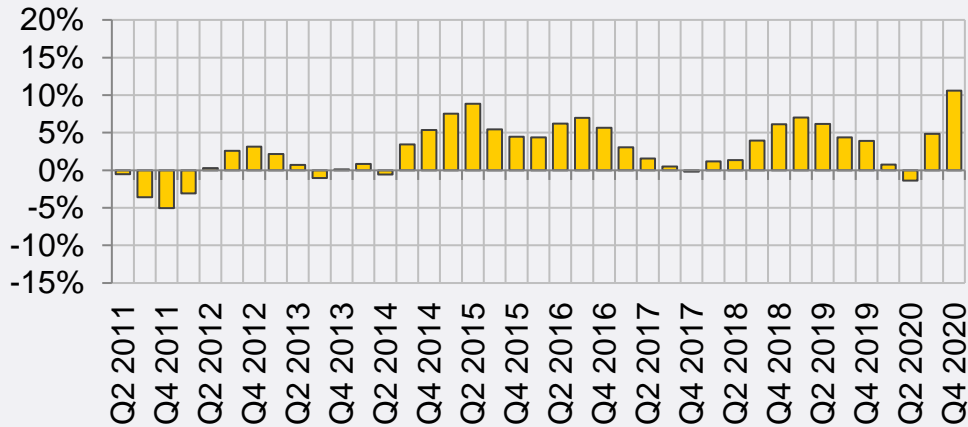
- The largest absolute increase in the Income Tracker was seen in the South East. Here, discretionary income was £21.93 higher per week in Q4 2020 than in the same quarter in 2019.
- Meanwhile, the smallest increase was seen amongst households in the East Midlands, with discretionary incomes picking up by £15.55 per week on an annual basis.
- The respective increases witnessed in the North East, North West, South West, Yorkshire & the Humber Northern Ireland, Scotland, and Wales all amounted to record highs.
- Though strong wage growth has been pivotal to the increases in discretionary income, further factors include the widening of social security eligibility, as well as the boost to universal credit payments in place since April 2020. This uplift is currently set to terminate in April 2021, with this set to put downward pressure on the incomes of the least well off, particularly in regions for which a greater proportion of household income stems from such support.

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

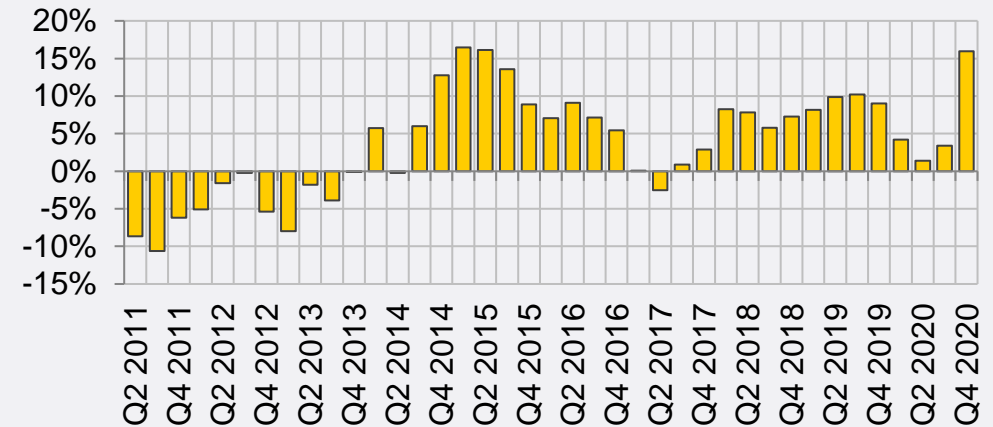


Focus on Scotland and Northern Ireland

Annual % change in discretionary incomes, Scotland



Annual % change in discretionary incomes, Northern Ireland



- The Income Tracker for Scotland witnessed an annual increase of 10.6% in Q4 2020. This marks the nation's fastest ever Income Tracker growth rate.
- Despite strength in the Income Tracker, the nation is still suffering from some of the wider economic fragility brought on by the coronavirus crisis. Unemployment in Scotland is expected to have stood at 4.4% in the final quarter of 2020, 0.9 percentage points higher than that witnessed in Q4 2019.
- Discretionary incomes in Scotland have now exceeded the UK-wide average for two consecutive quarters. This follows a 12-month period between Q3 2019 and Q2 2020, during which the Scottish Income Tracker fell below the UK-wide equivalent.
- The Income Tracker for Northern Ireland witnessed annual growth of 15.9% in Q4 2020, the fastest growth rate of any region or nation.
- In more normal circumstances, only households in Wales and the North East of England see a greater proportion of household incomes stemming from social security benefits than those in Northern Ireland. As such, the nation has benefitted from the increases to social security payments and widening of eligibility to a greater degree than most.
- The nation remains particularly vulnerable from the perspective of Brexit. This could impact household incomes and consumer spending power in 2021.

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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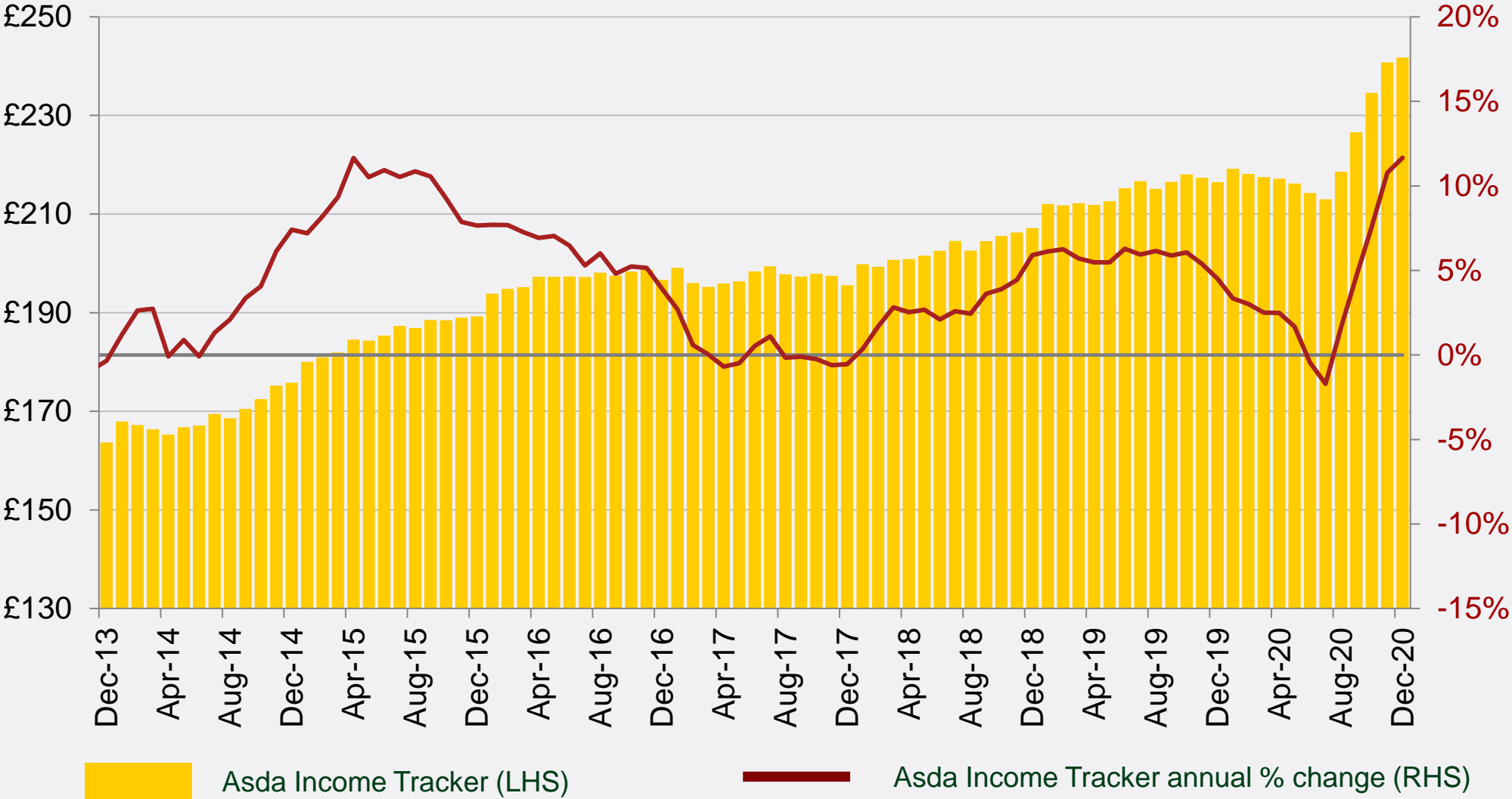
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Appendix

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 2016	£194	January 2017	£199	January 2018	£200	January 2019	£212	January 2020	£219
February 2016	£195	February 2017	£196	February 2018	£200	February 2019	£212	February 2020	£218
March 2016	£195	March 2017	£196	March 2018	£201	March 2019	£212	March 2020	£218
April 2016	£197	April 2017	£196	April 2018	£201	April 2019	£212	April 2020	£217
May 2016	£197	May 2017	£196	May 2018	£201	May 2019	£213	May 2020	£216
June 2016	£197	June 2017	£198	June 2018	£202	June 2019	£215	June 2020	£214
July 2016	£197	July 2017	£200	July 2018	£204	July 2019	£217	July 2020	£213
August 2016	£198	August 2017	£198	August 2018	£202	August 2019	£215	August 2020	£219
September 2016	£198	September 2017	£197	September 2018	£204	September 2019	£216	September 2020	£227
October 2016	£198	October 2017	£198	October 2018	£205	October 2019	£218	October 2020	£235
November 2016	£199	November 2017	£198	November 2018	£206	November 2019	£218	November 2020	£241
December 2016	£198	December 2017	£196	December 2018	£207	December 2019	£217	December 2020	£242
2016 Average	£197	2017 Average	£197	2018 Average	£203	2019 Average	£215	2020 Average	£223

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 Sam Miley.

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London, January 2021