

ASDA

Asda Income Tracker

Report: May 2023



Making Business Sense

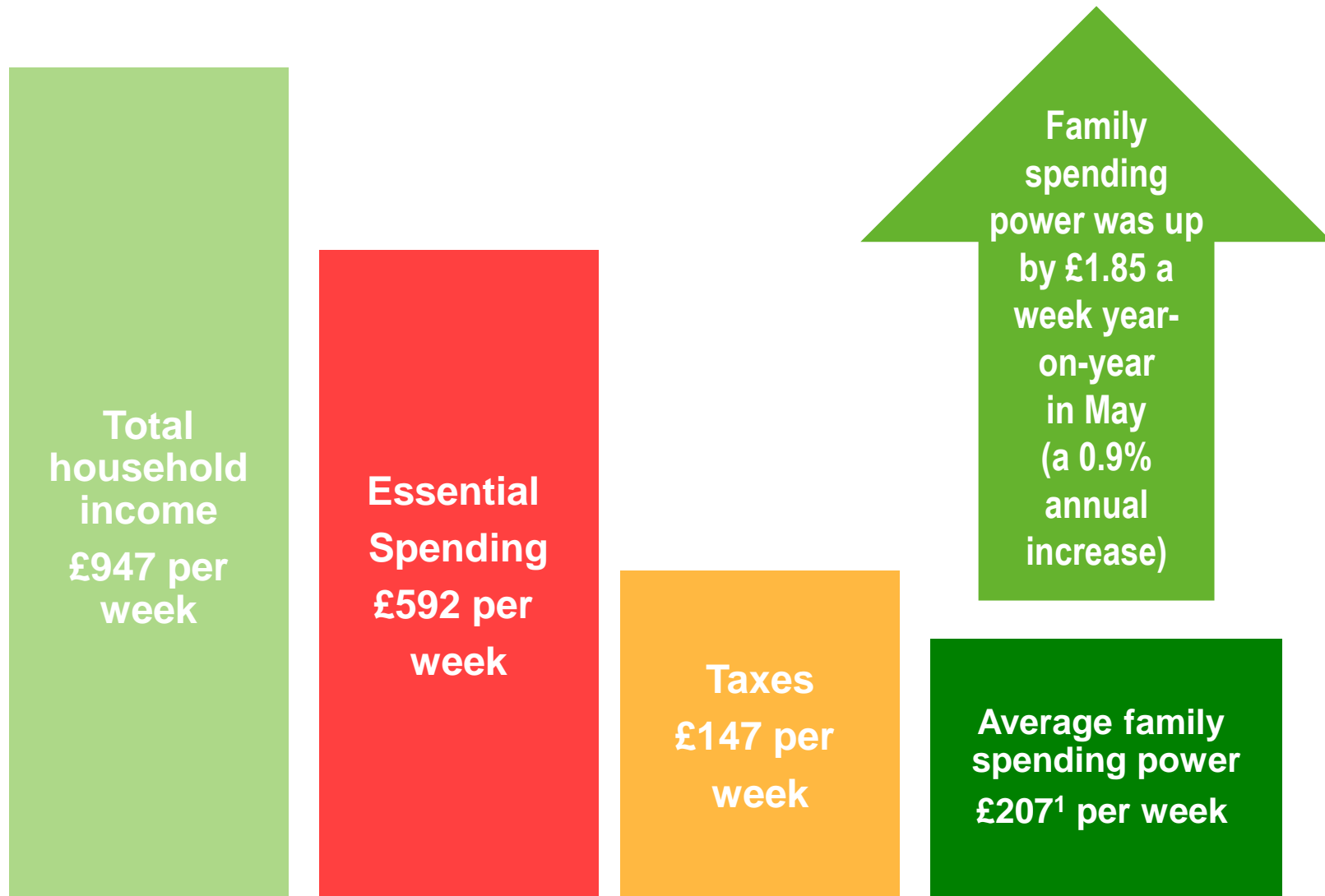
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Asda Income Tracker - Key Figures



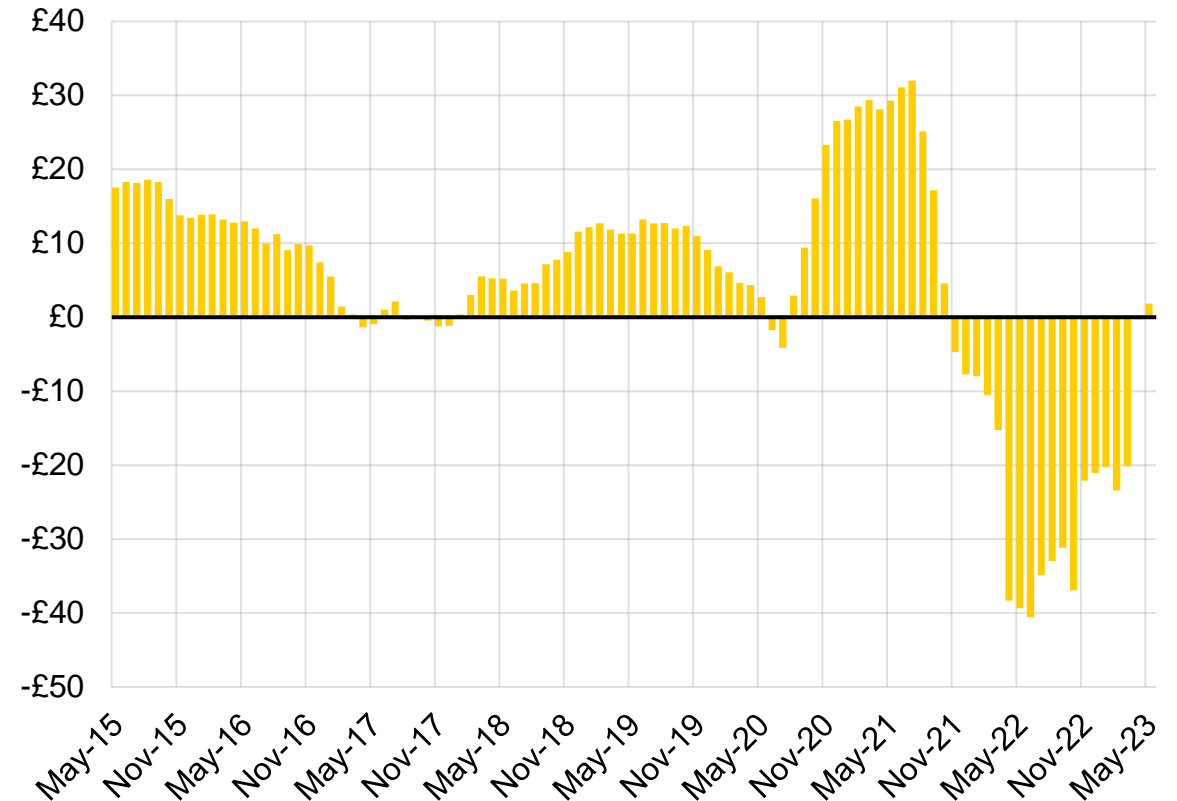
¹ After rounding

Income Tracker grows slightly, but spending power remains weak amidst sticky inflation

The Asda Income Tracker was £1.85 a week higher in May 2023 than a year before

- The Asda Income Tracker saw annual growth of 0.9% in May. This marked the strongest year-on-year change since October 2021.
- The annual growth was supported by base effects, given that energy-driven inflation and the ensuing cost-of-living crisis began to take hold around a year ago.
- On a month-on-month basis, spending power picked up £0.92 per week. With the exception of last month, however, May's reading of £207 per week marks the weakest since October 2022.
- Continually weak spending power is the result of elevated and sticky inflation. The fact that inflation remains concentrated in essential spending categories, such as food and housing, is also a key factor.
- Household spending power is likely to see noticeable gains from July onwards. This will be the result of upcoming falls in household bills, with Ofgem recently announcing a cut to its price cap.

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

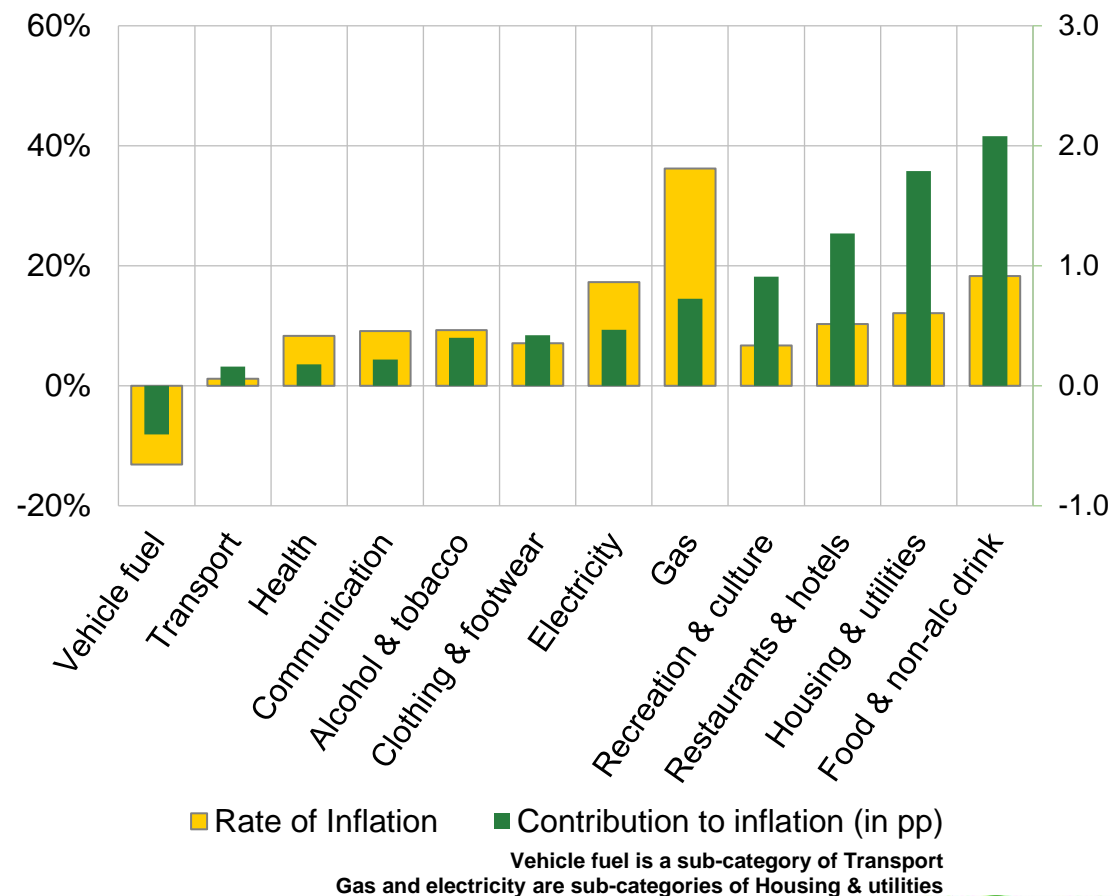


Inflation failed to decelerate in May, with further rate hikes on the horizon

The main factors affecting family costs in May were:

- Annual inflation, as measured by the Consumer Prices Index (CPI), was 8.7% in May. The same rate was also recorded in April.
- Amongst the main consumption categories, the highest rate of inflation was witnessed for food and non-alcoholic beverages, with prices being up by 18.3% on the year.
- Housing and household services, which includes utilities, saw the next highest rate of inflation in May, at 12.1%. Though an historically elevated value, this is down markedly on recent months. The slowdown in inflation for this category has predominantly been driven by energy prices. This trend is expected to continue, particularly from July, when bills will fall as a result of the recently announced Ofgem price cap cut.
- Core inflation, which excludes volatile consumption categories such as food and energy, accelerated to 7.1% in May. This represents the highest reading since 1992 and suggests that broader price pressures are becoming more embedded in the UK economy. Embedded price pressures are also evidenced by strong nominal wage growth at present.
- These factors have raised the likelihood of further monetary tightening by the Bank of England, with Cebr expecting multiple rate hikes in the second half of this year.

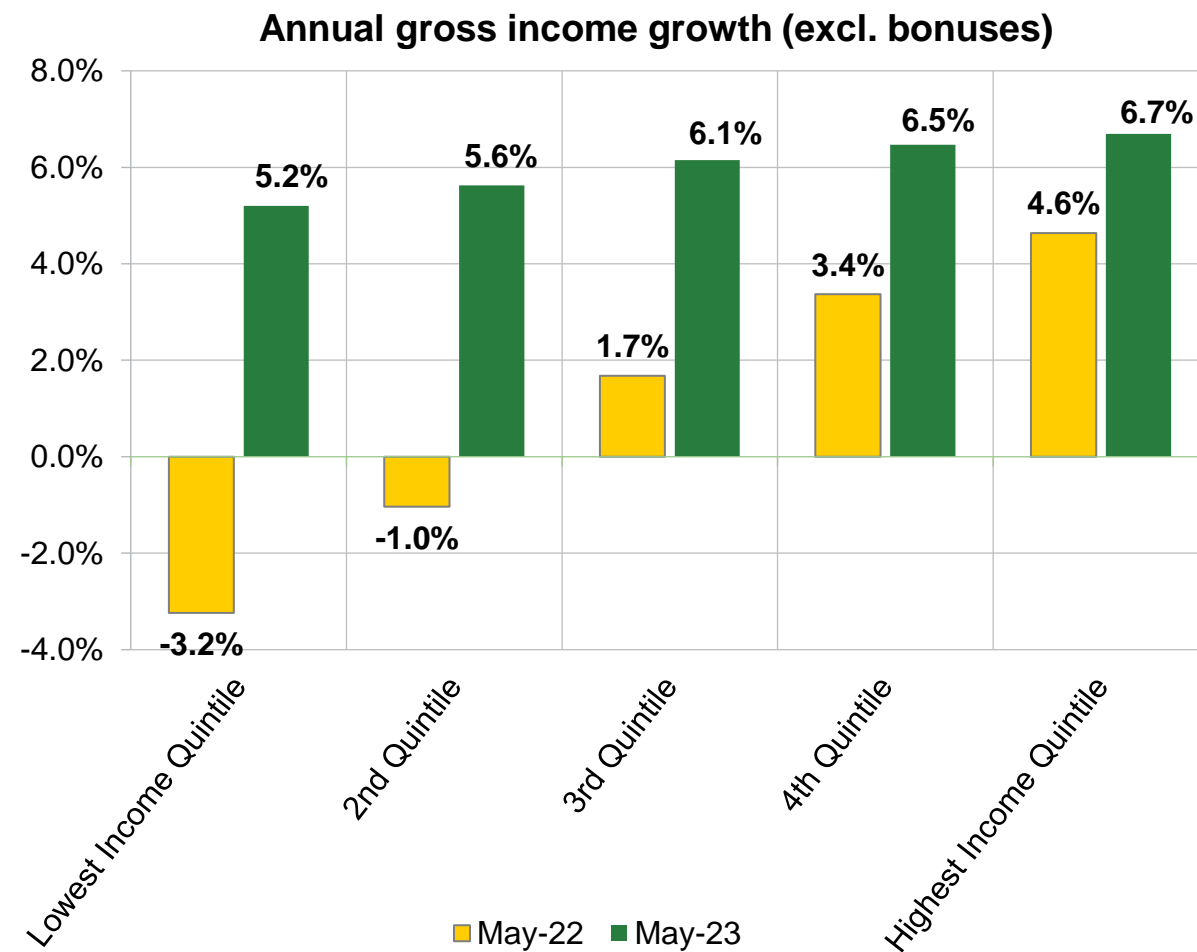
Inflation of selected goods, annual rate (LHS) and contribution to headline inflation (RHS)



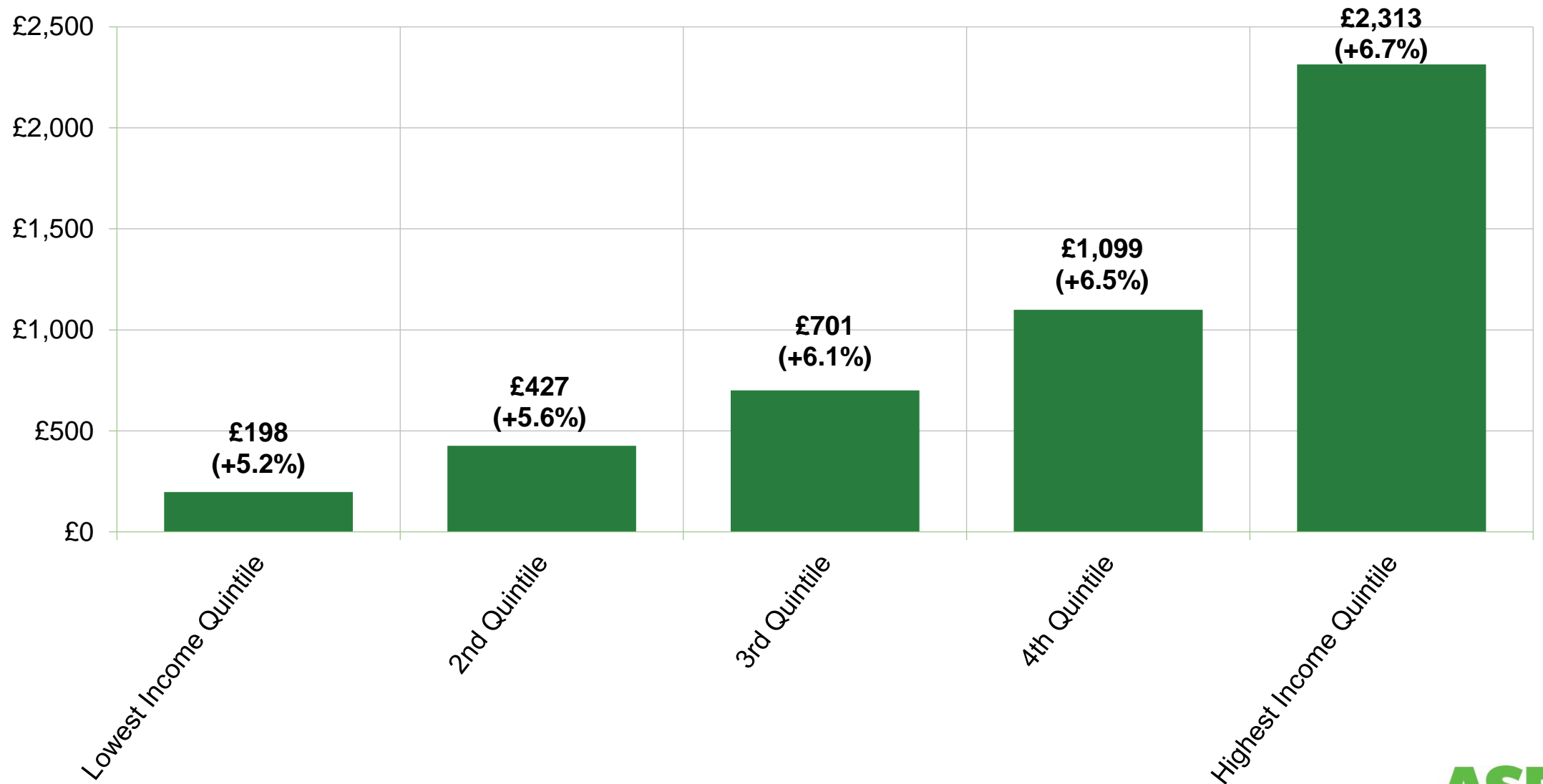
Annual growth in gross incomes seen across all income quintiles

Incomes are being supported by the tight labour market and recently implemented policies

- The graph to the right compares the annual gross income growth rates for different household income groups for May 2022 and May 2023. Gross income includes all income from various sources, including wages, self-employment, investment, pensions, and social security.
- Gross income growth has remained strong in recent months. For those in work, nominal wage growth has been high, supported by a number of factors including the tight labour market and recent policy changes, such as April's uplift to the National Living Wage.
- Gross income growth has also been supported by the uprating of social security benefits, including the state pension, in line with inflation.
- There is a positive relationship between income quintile and income growth at present. The highest income quintile is witnessing the strongest growth, amounting to a 6.7% annual increase in May. Each descending quintile is seeing a lower rate. Nevertheless, even those with the lowest growth, the first income quintile, saw an annual increase of 5.2% in May. Not since July 2021 has this group witnessed faster growth.



Gross weekly income excluding bonuses by income quintile, May 2023, annual growth rates in brackets

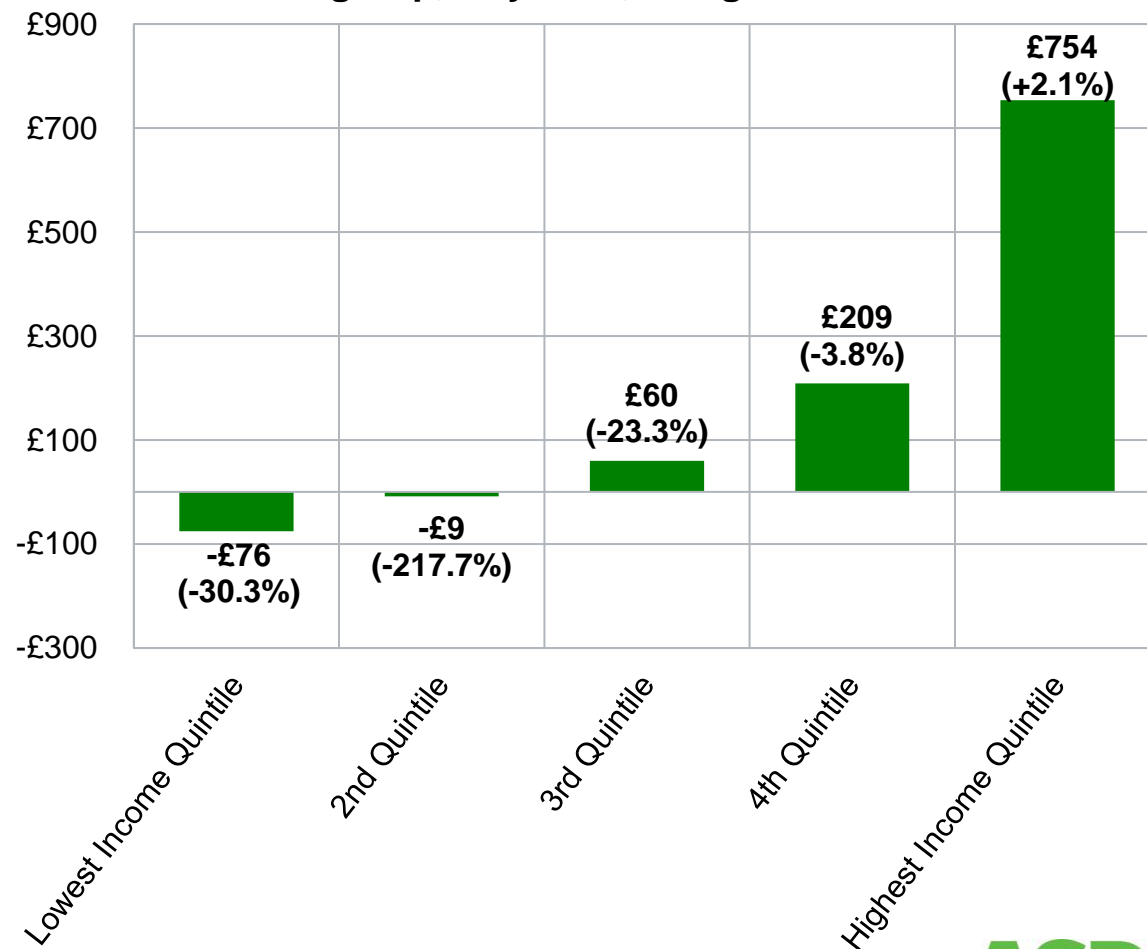


Highest earners witness return to spending power growth

Discretionary income still down on the year for other groups

- Despite the relatively strong wage growth environment, spending power is falling for the vast majority of households.
- The bottom four income quintiles are still witnessing annual falls in spending power. The fall has been particularly stark for those in the second quintile, with such households having seen their discretionary incomes fall from positive to negative territory over the course of the cost-of-living crisis. The negative reading indicates that their post-tax income is not sufficient to cover the basket of essential goods and services monitored by the Income Tracker.
- Households in the highest income quintile saw their discretionary income grow by 2.1% on the year in May. This marked a second consecutive month of annual growth, supported by strong increases in gross income.
- Looking ahead, all household groups are set to see a near-term improvement in discretionary income, with inflation expected to subside over the course of 2023. However, it remains to be seen whether these improvements will be sufficient to bring a return to annual growth, particularly for households at the bottom end of the income scale.

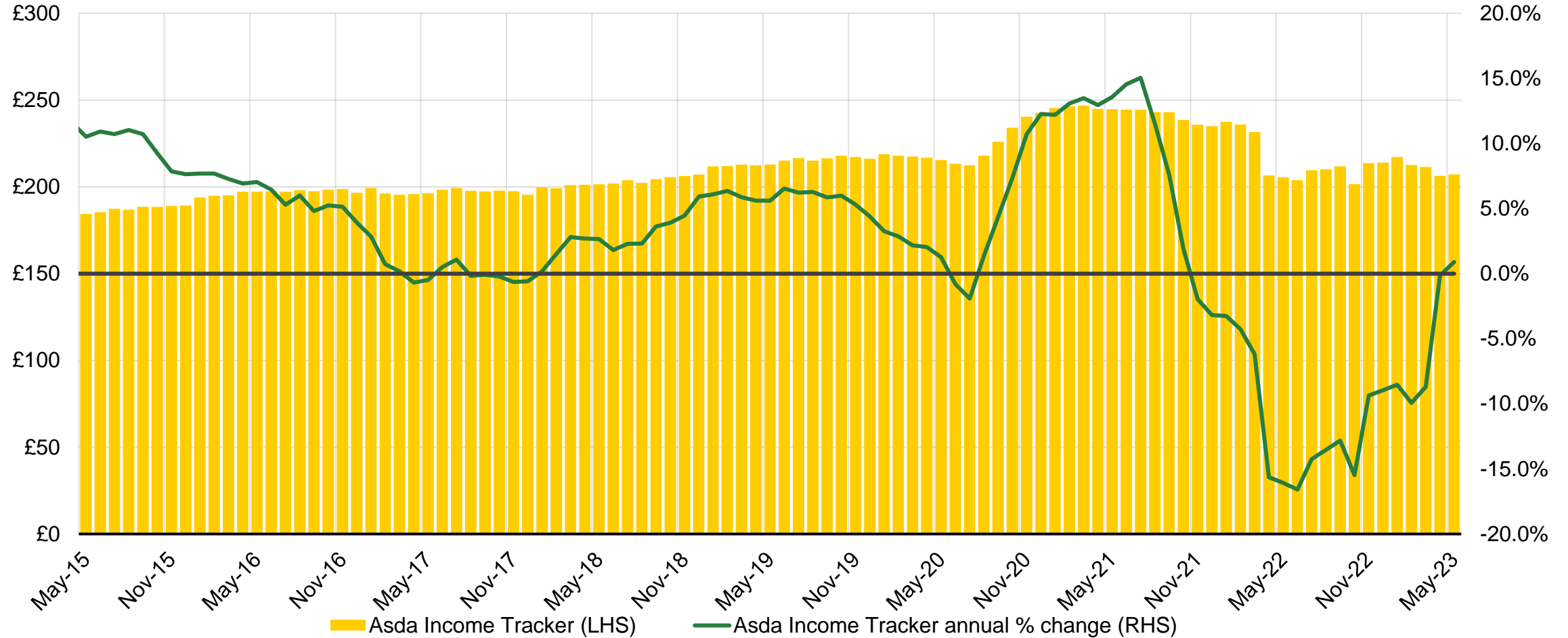
Average weekly discretionary income by household income group, May 2023, YoY growth in brackets



Appendix

Monthly Asda Income Tracker

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



Monthly Asda Income Tracker

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 2019	£212	January 2020	£219	January 2021	£246	January 2022	£238	January 2023	£217
February 2019	£212	February 2020	£218	February 2021	£247	February 2022	£236	February 2023	£213
March 2019	£213	March 2020	£217	March 2021	£247	March 2022	£231	March 2023	£211
April 2019	£212	April 2020	£217	April 2021	£245	April 2022	£207	April 2023	£206
May 2019	£213	May 2020	£216	May 2021	£245	May 2022	£206	May 2023	£207
June 2019	£215	June 2020	£213	June 2021	£244	June 2022	£204		
July 2019	£217	July 2020	£212	July 2021	£244	July 2022	£210		
August 2019	£215	August 2020	£218	August 2021	£243	August 2022	£210		
September 2019	£217	September 2020	£226	September 2021	£243	September 2022	£212		
October 2019	£218	October 2020	£234	October 2021	£239	October 2022	£202		
November 2019	£217	November 2020	£241	November 2021	£236	November 2022	£213		
December 2019	£216	December 2020	£243	December 2021	£235	December 2022	£214		
2019 Average	£215	2020 Average	£223	2021 Average	£243	2022 Average	£215	2023 Average	£211

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.

The following 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 recreational goods and services.



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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, June 2023

