

Asda Income Tracker

Report: December 2018

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Making Business Sense

Centre for Economics and
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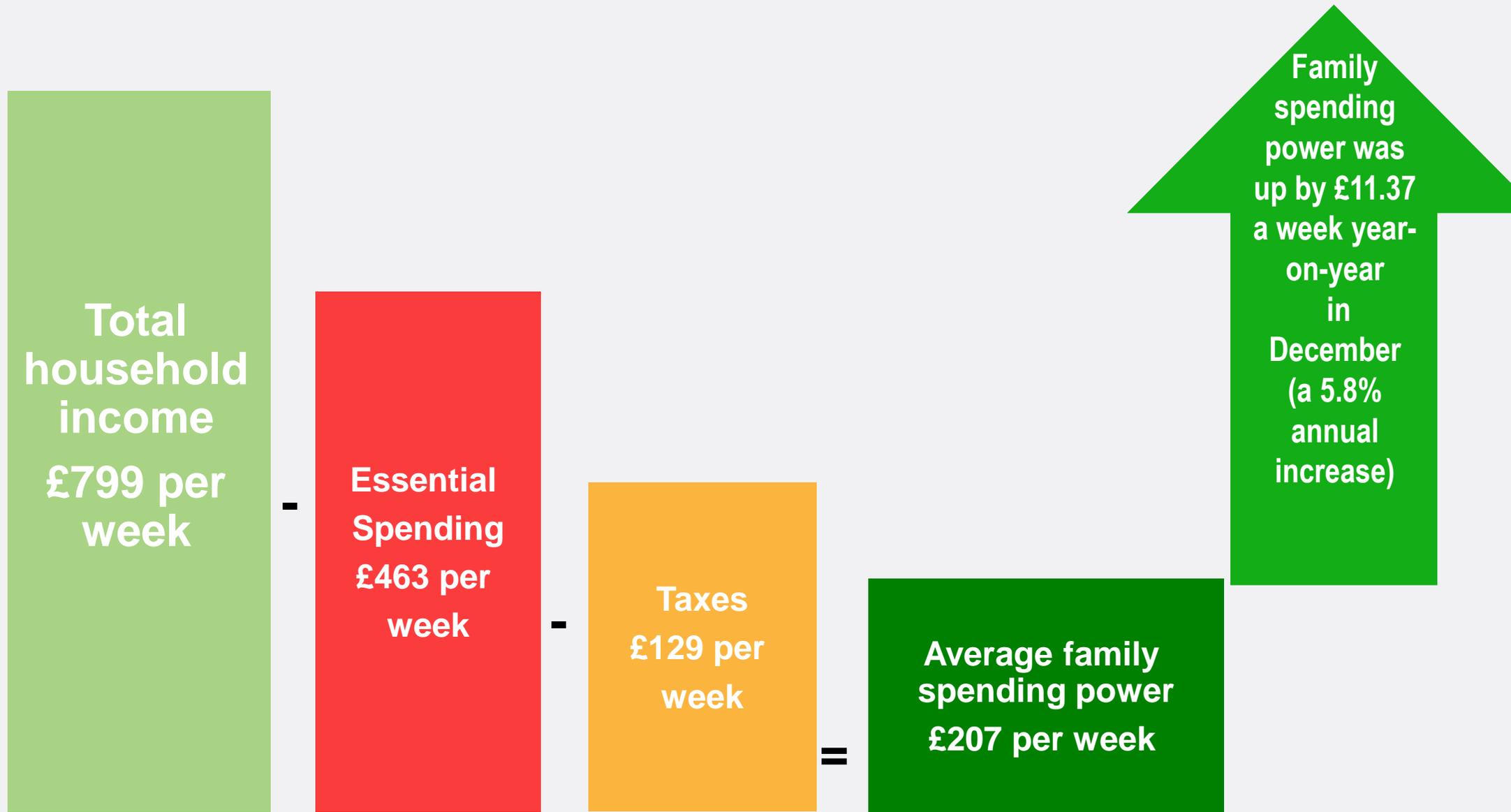
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Asda Income Tracker – Key Figures

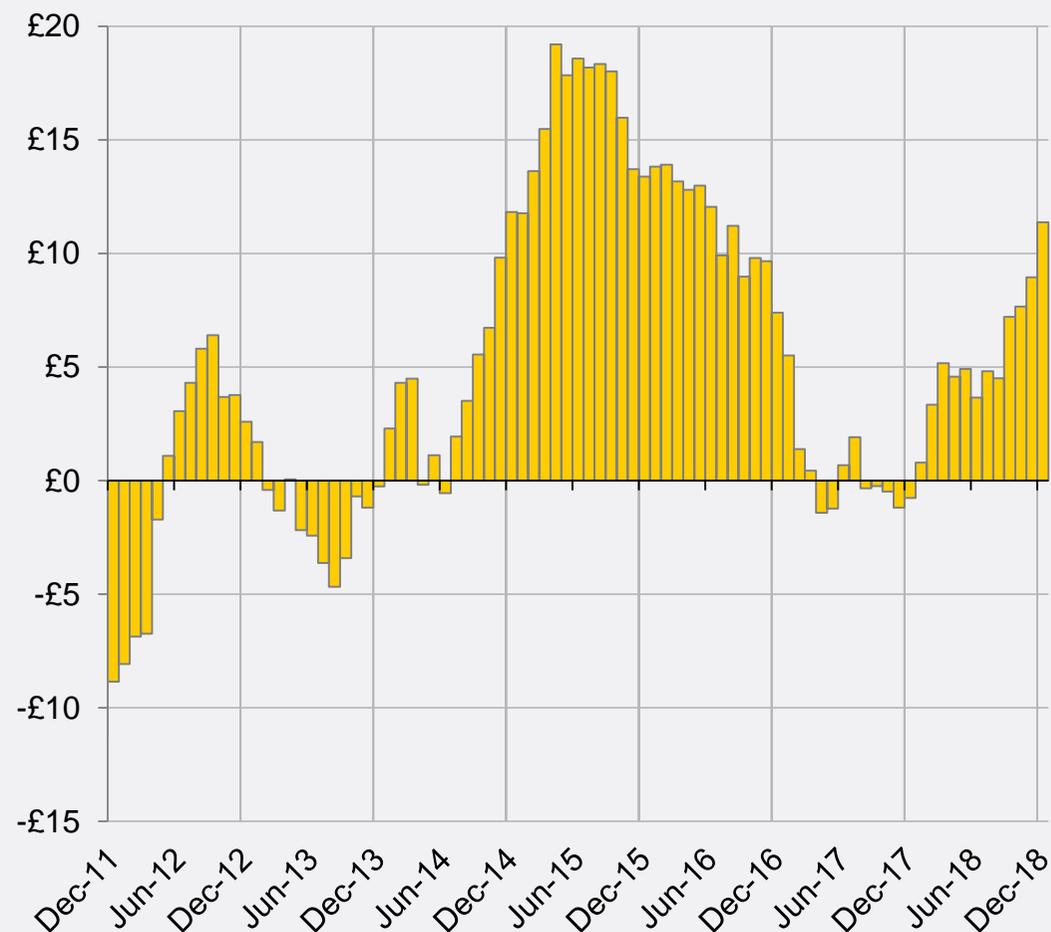


Income Tracker grows at fastest rate in over two years as labour market tightens

The Asda Income Tracker was £11.37 a week higher in December 2018 than a year before

- Family spending power increased by 5.8% compared to December 2017, the strongest annual growth rate since August 2016.
- The latest official labour market data show that the rate of unemployment fell further in the three months to November to stand at 4.0%. Moreover, the employment rate, i.e. the share of people aged 16-64 in work, reached a new record high at 75.8%.
- Nominal annual wage growth (excluding bonuses) remained stable at 3.3%, while inflation as measured by the CPIH index fell to 2.0%, the lowest level in nearly two years.
- The combination of a strong labour market and falling inflation is a boon to family spending power, leading to the first double digit pound-value increase in the Income Tracker in 28 months.

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

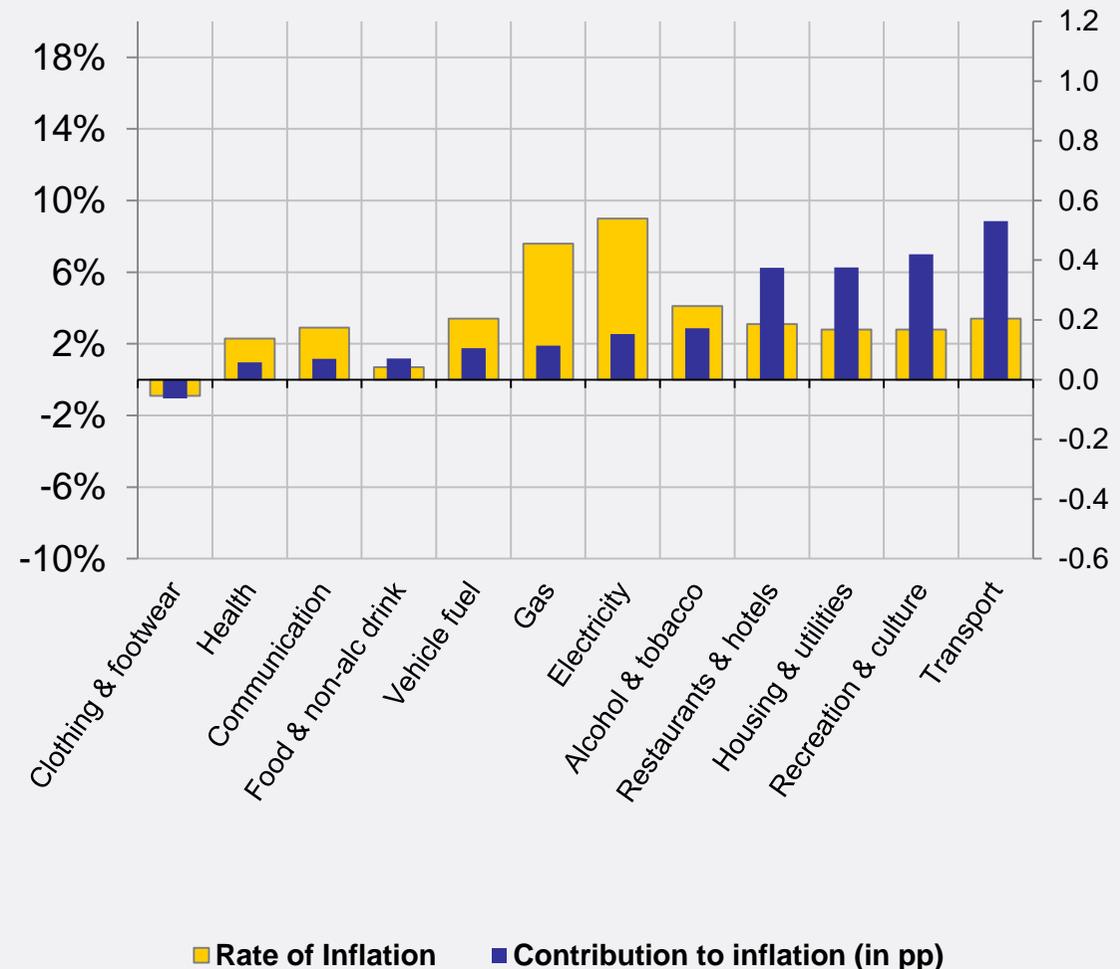


Fuel price inflation falls to lowest level since April 2018

The main factors affecting family costs in December were:

- Inflation as measured by the Consumer Price Index fell from 2.3% in November to 2.1% in December, the lowest rate since January 2017.
- The biggest contributor to the decrease compared to the previous month was a fall in fuel price inflation, which stood at 3.4% in December. This is down from the 8.9% measured in November and the lowest rate since April 2018. Between October 2018 and the end of the year, the price of Brent Crude fell significantly as concerns about oversupply and weaker demand from large oil consumers such as China depressed the cost of oil.
- Clothing and footwear recorded negative inflation for a fourth consecutive month, also helping to bring down the overall rate of price growth.
- Inflation for gas and electricity remained high at 7.6% and 9.0%, respectively, unchanged from the previous month.

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

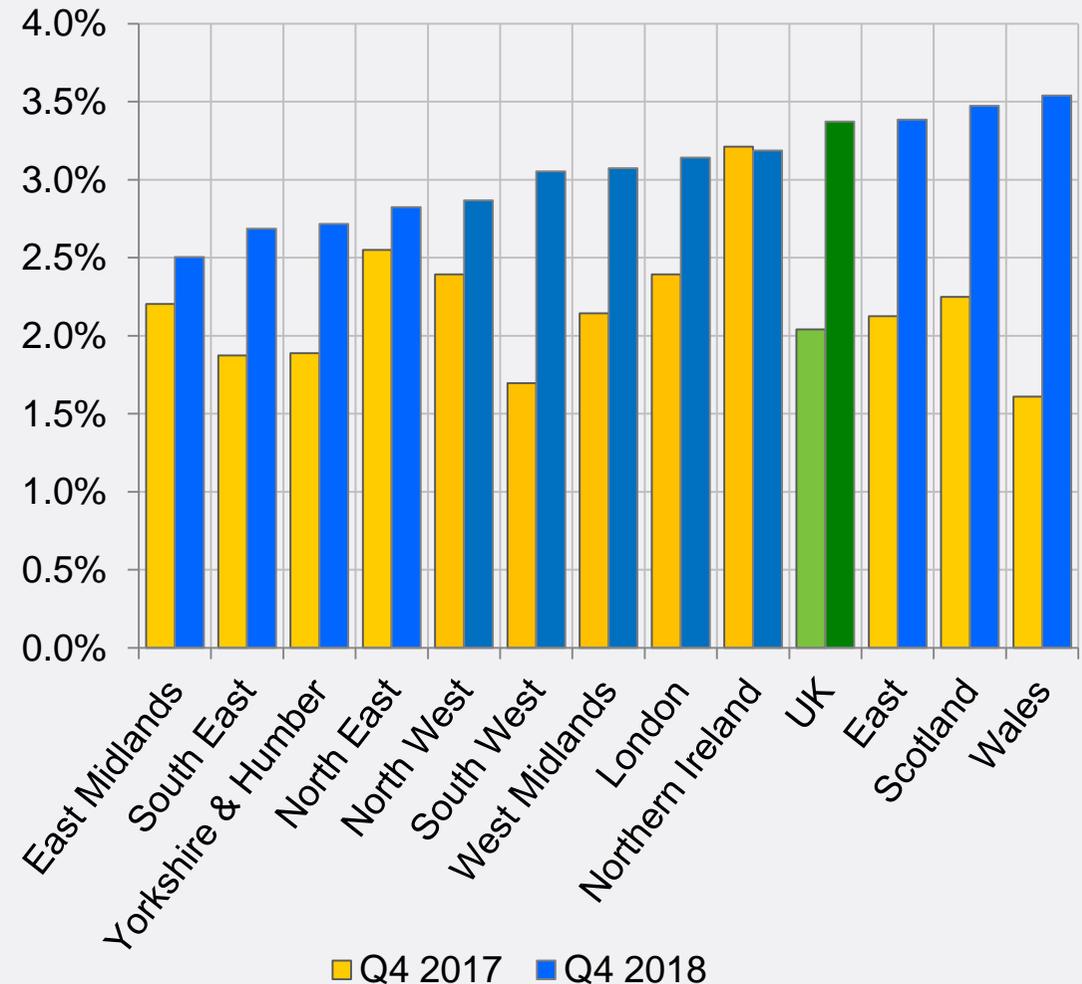
■ Rate of Inflation ■ Contribution to inflation (in pp)

A record high employment rate supports income growth across the country

Gross income growth accelerates in most regions over the year

- Gross income growth has further accelerated over the year to Q4 2018 and exceeded the gains seen in Q4 2017 in almost all regions.
- Across the UK, gross income growth has jumped from 2.0% in Q4 2017 to 3.4% in Q4 2018. The labour market finished the past year in strong form with the highest employment rate ever recorded and the fastest wage growth since the financial crisis.
- Northern Ireland is the only one of the UK's constituent regions and countries that has not seen an increase in gross income growth between 2017 and 2018. However, with gains of 3.2% in both quarters, this is by no means a worrisome trend. In fact, income growth stands above that of London and just slightly below the national average in Q4 2018.
- Scotland and Wales posted the fastest growth in gross incomes in the last quarter of 2018 at 3.5% y-o-y.

Regional gross income, annual change to quarter indicated

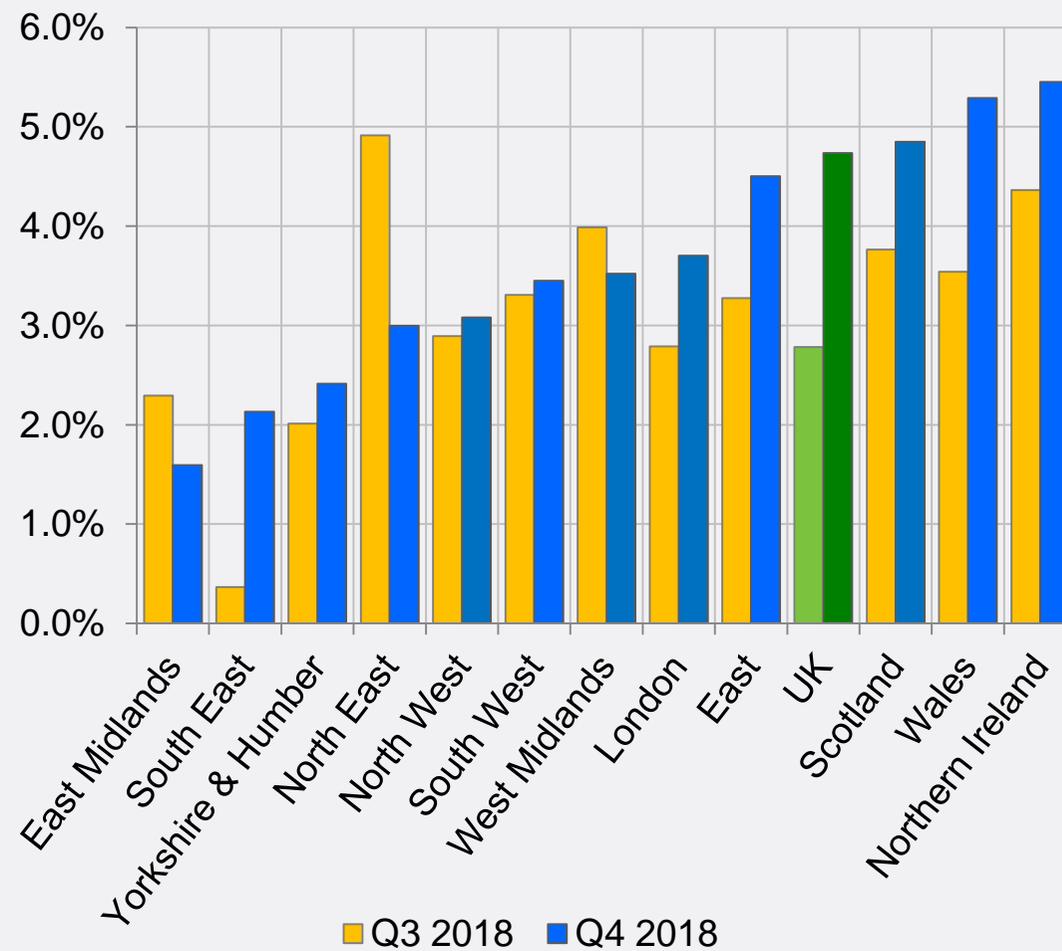


Low unemployment helps Northern Ireland to record fastest Income Tracker growth rate in Q4

Only North East and the East- and West Midlands see decreases compared to Q3 2018

- Comparing the income tracker growth rates of the latest two quarters paints a more mixed picture. While most regions and countries have recorded an uptick in the growth of family spending power, some fell behind.
- The North East could not sustain its high growth rate from the third quarter and posted an annual increase in the income tracker of 3.0% for the fourth quarter.
- Northern Ireland reclaimed its spot as the region or country with the highest growth rate, recording a 5.5% increase in family spending power, up from 4.4% in Q3. The latest labour market figures show that unemployment in the fourth quarter fell back after it seemed to have increased over the summer.
- Wales, Scotland and the UK-wide average follow behind Northern Ireland, with income tracker growth rates of 5.3%, 4.8% and 4.7%, respectively.

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

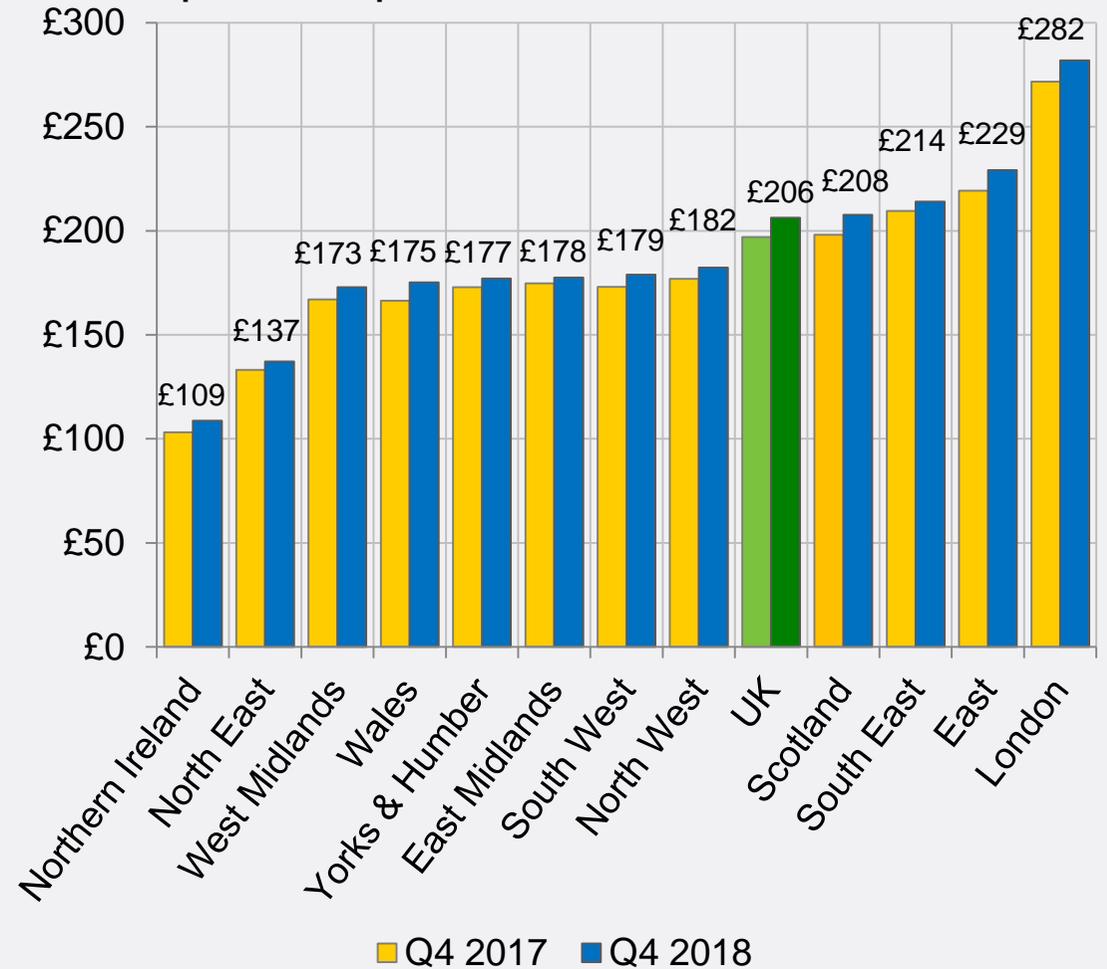


Northern Ireland narrows the family spending power gap to other regions

UK-wide average family spending power rose to £206 in the last quarter of 2018

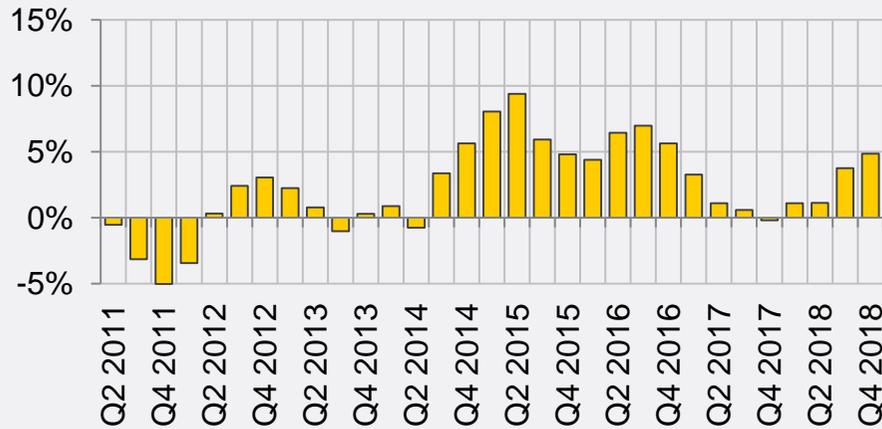
- Average household discretionary spending power has increased consistently over the past year in all constituent regions and countries of the UK.
- While Northern Ireland experienced the largest relative increase in the fourth quarter at 5.5%, the regions with the absolute highest discretionary incomes also saw the biggest increases in pound terms. Weekly family spending power increased by around £10 in London, Scotland and the East of England.
- With a weekly discretionary income of £282, households in London continue to lead the way by a clear margin.
- Northern Irish households have on average £109 left over per week after paying for essential goods and services. However, the gap between Northern Ireland and the next region, the North East, has narrowed from over 30% in Q2 and Q3 to 26%. The main difference between the two regions remains the fact that the cost of essential spending is significantly lower in the North East than in Northern Ireland.

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



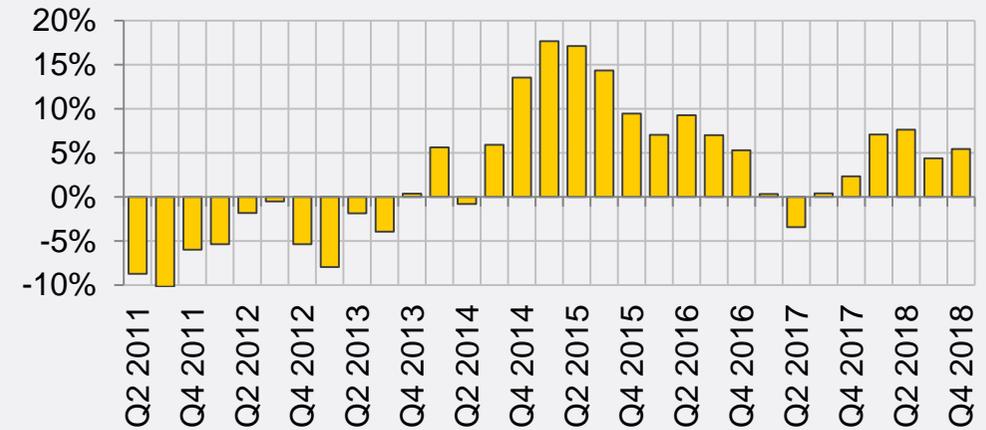
Focus on Scotland and Northern Ireland

Annual % change in discretionary incomes, Scotland



- Scottish discretionary income growth continued its strong performance from the third quarter and rose by 4.8% in the year to Q4 2018, just above the national average of 4.7%.
- This marks the highest growth rate in the Scottish Income Tracker since Q4 2016.
- In line with the UK picture, unemployment continued to fall in Scotland in recent months, supporting income gains for households. According to the latest ONS data, unemployment fell below the 100,000 mark for the first time ever in the three months to November.

Annual % change in discretionary incomes, Northern Ireland



- Northern Ireland has concluded a year of substantial gains in the Income Tracker with an increase of 5.5% in Q4, higher than the 4.4% increase in family spending power measured in Q3.
- After a brief increase in the unemployment rate above 4% in the summer, the rate of joblessness has fallen back to 3.5% in the three months to November, below the national average.
- This is in line with a decent economic performance that saw output increase by 0.3% over the third quarter. However, the potential of a disruptive no-deal Brexit poses a clear downside risk for employment and incomes in the country.

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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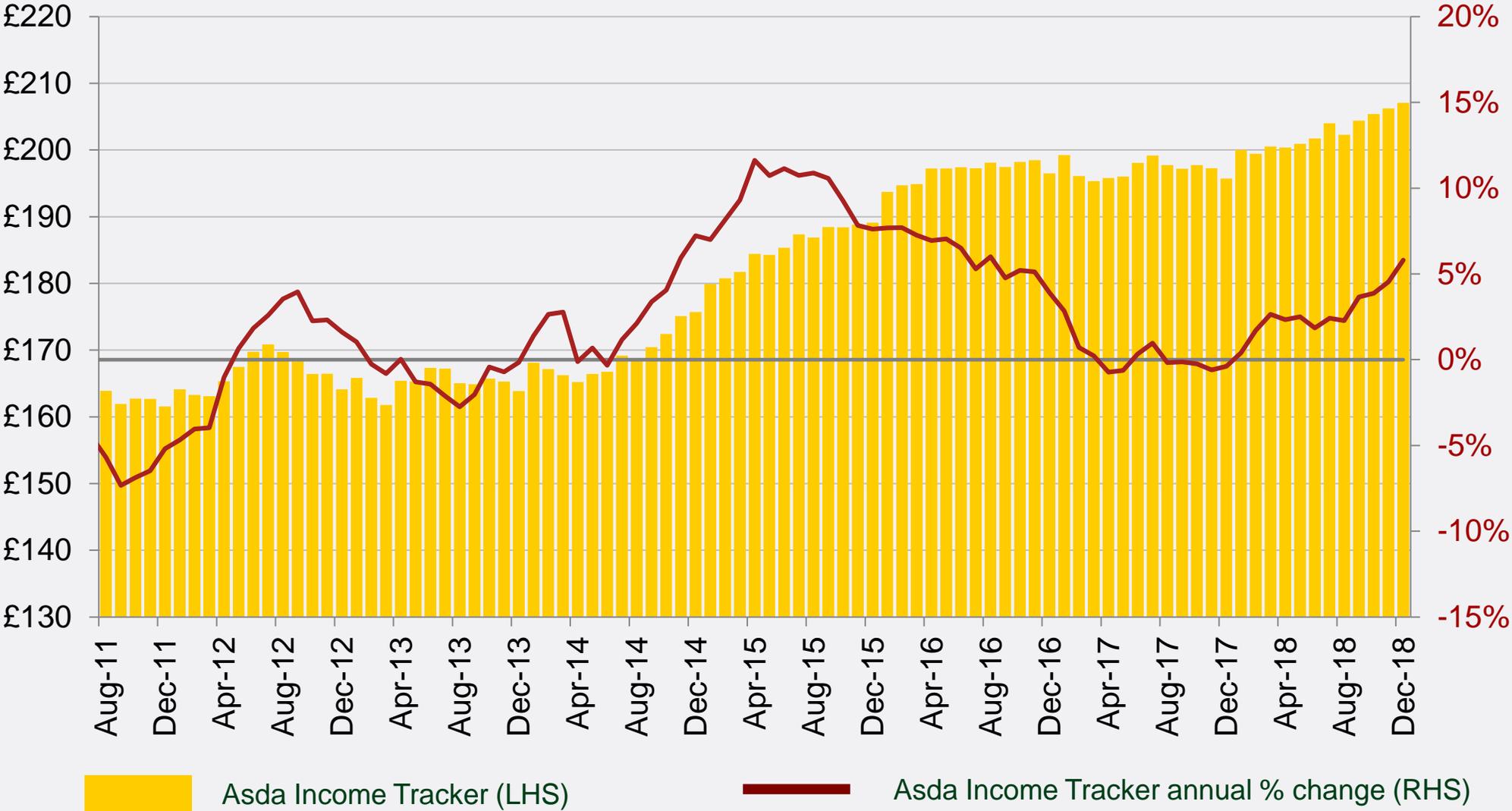
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Appendix

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								
January 2014	£170	January 2015	£185	January 2016	£195	January 2017	£201	January 2018	£200
February 2014	£169	February 2015	£185	February 2016	£195	February 2017	£197	February 2018	£199
March 2014	£168	March 2015	£186	March 2016	£195	March 2017	£196	March 2018	£201
April 2014	£170	April 2015	£188	April 2016	£198	April 2017	£196	April 2018	£200
May 2014	£171	May 2015	£188	May 2016	£198	May 2017	£196	May 2018	£201
June 2014	£171	June 2015	£189	June 2016	£198	June 2017	£198	June 2018	£202
July 2014	£173	July 2015	£191	July 2016	£198	July 2017	£199	July 2018	£204
August 2014	£173	August 2015	£191	August 2016	£199	August 2017	£198	August 2018	£202
September 2014	£174	September 2015	£192	September 2016	£199	September 2017	£197	September 2018	£204
October 2014	£176	October 2015	£193	October 2016	£199	October 2017	£198	October 2018	£205
November 2014	£179	November 2015	£193	November 2016	£200	November 2017	£197	November 2018	£206
December 2014	£181	December 2015	£193	December 2016	£198	December 2017	£196	December 2018	£207
2014 Average	£173	2015 Average	£190	2016 Average	£198	2017 Average	£197	2018 Average	£203

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 Nina Skero.

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London, January 2019