

Asda Income Tracker

Report: March 2018

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Making Business Sense

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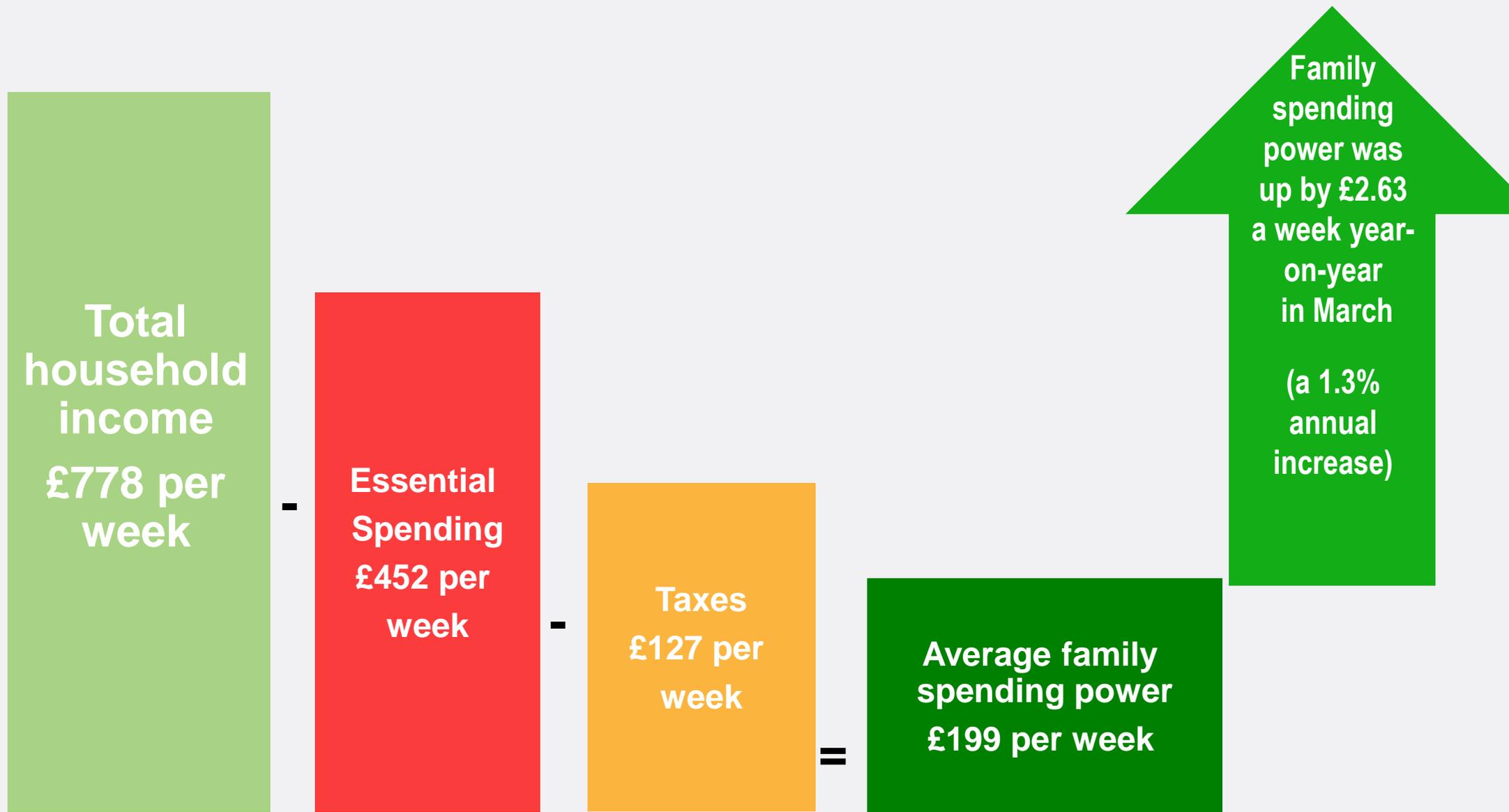
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Asda Income Tracker – Key Figures

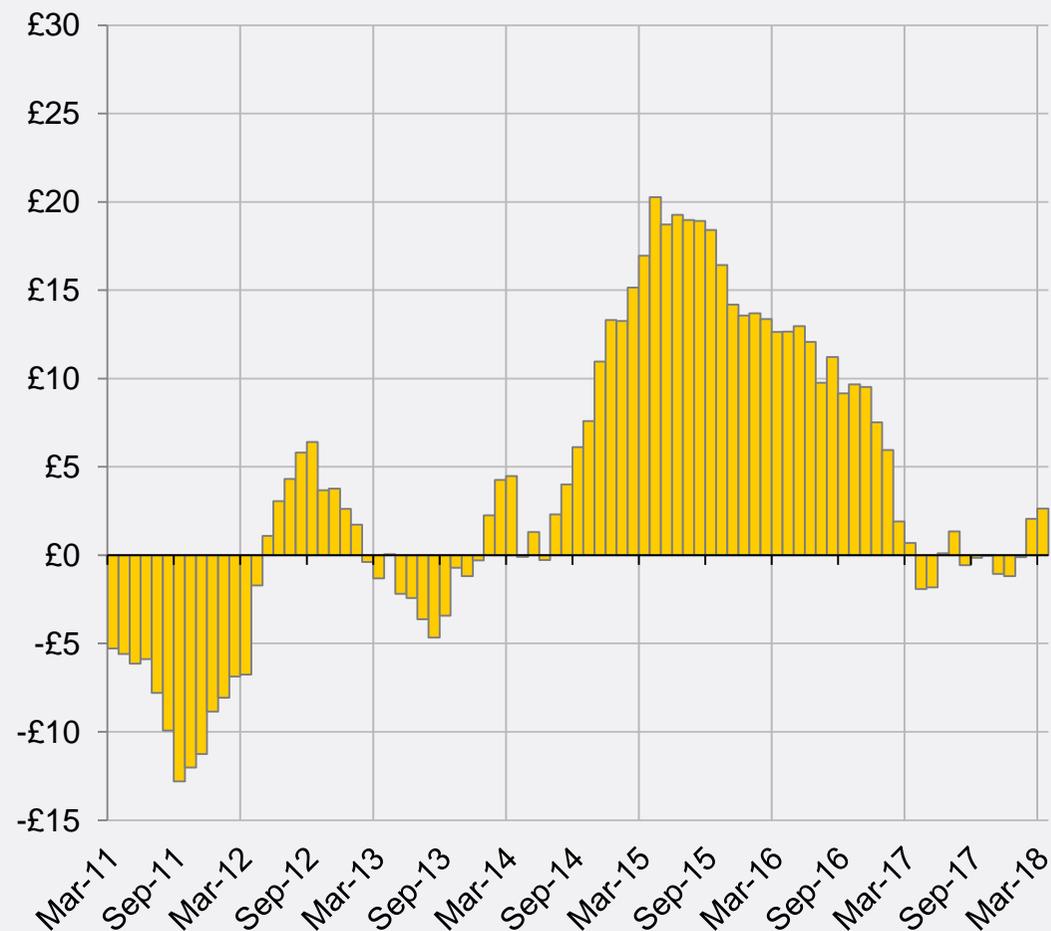


Spending power growth recovers as cost of essential spending eases

The Asda Income Tracker was £2.63 a week higher in March 2018 than a year before

- In March 2018 family spending power rose by £2.63 compared with the same month a year earlier, equivalent to a 1.3% increase.
- Growth in the Income Tracker was supported by both an uptick in wage growth and easing inflationary pressures.
- As stated in our last report, these two trends are expected to take some pressure off UK households, who have endured falls in discretionary spending power throughout much of 2017.
- The labour market continues to go from strength to strength as record employment levels and a further fall in the unemployment rate push up wages.
- Meanwhile, price pressures eased over the first quarter of the year, with falling prices for clothing and footwear contributing to the slowing inflation rate.

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

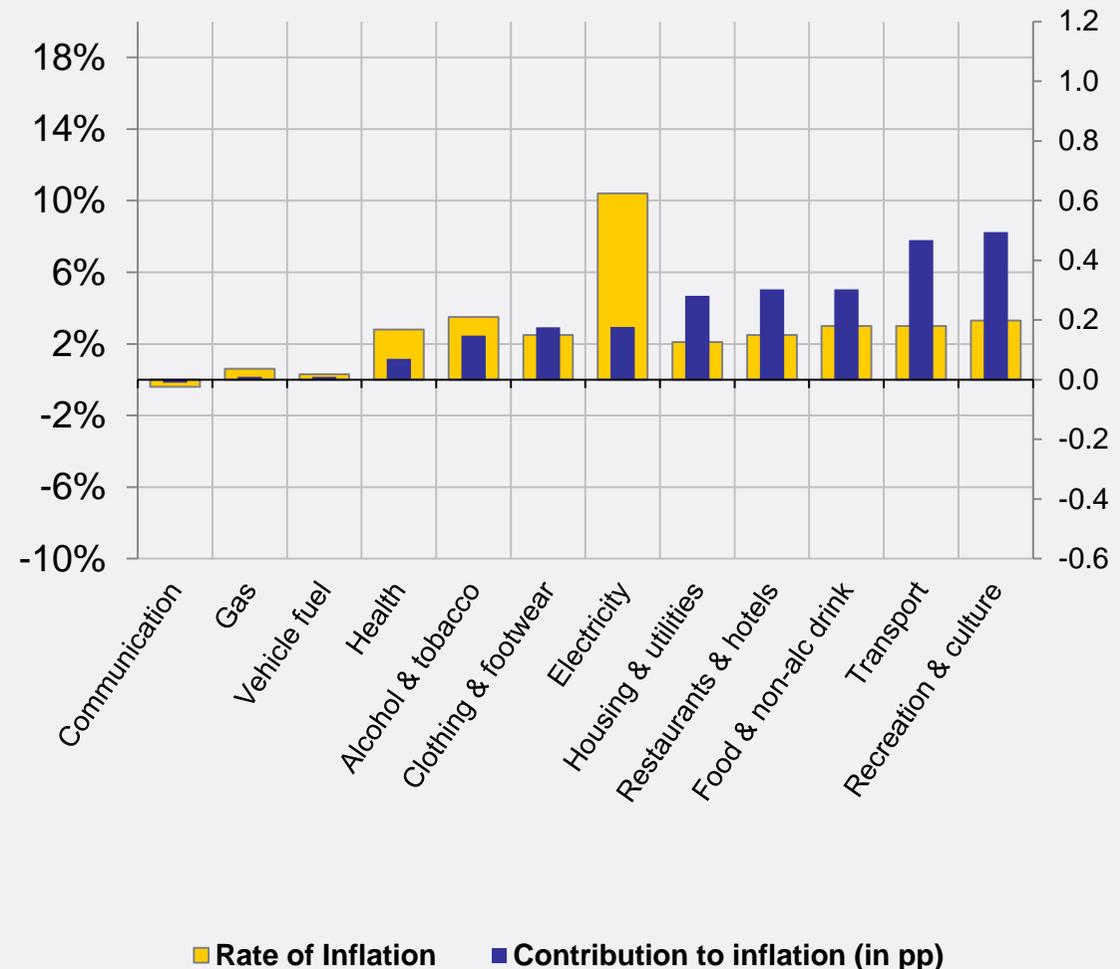


Inflation falls back as prices for fuel and restaurants & hotels rise more slowly

The main factors affecting family costs in March were:

- Inflation as measured by the Consumer Price Index continued to ease and stood at 2.5% in the year to March, down from 2.7% recorded in the previous month.
- The largest contributors to the slowdown in inflation were falls in the inflation rates for clothing & footwear, furniture & household equipment as well as for alcoholic drinks & tobacco.
- While inflation for fuel prices slowed further in March, the cost of both new cars as well as used cars increased. This led to an overall increase in transport inflation to 3.0% in the year to March, up from 2.8% in the previous month.
- Electricity inflation slowed in March, but at 10.4% price increases remain at elevated levels. High energy prices are expected to continue to exert pressure on household budgets as major suppliers announced further price increases.

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

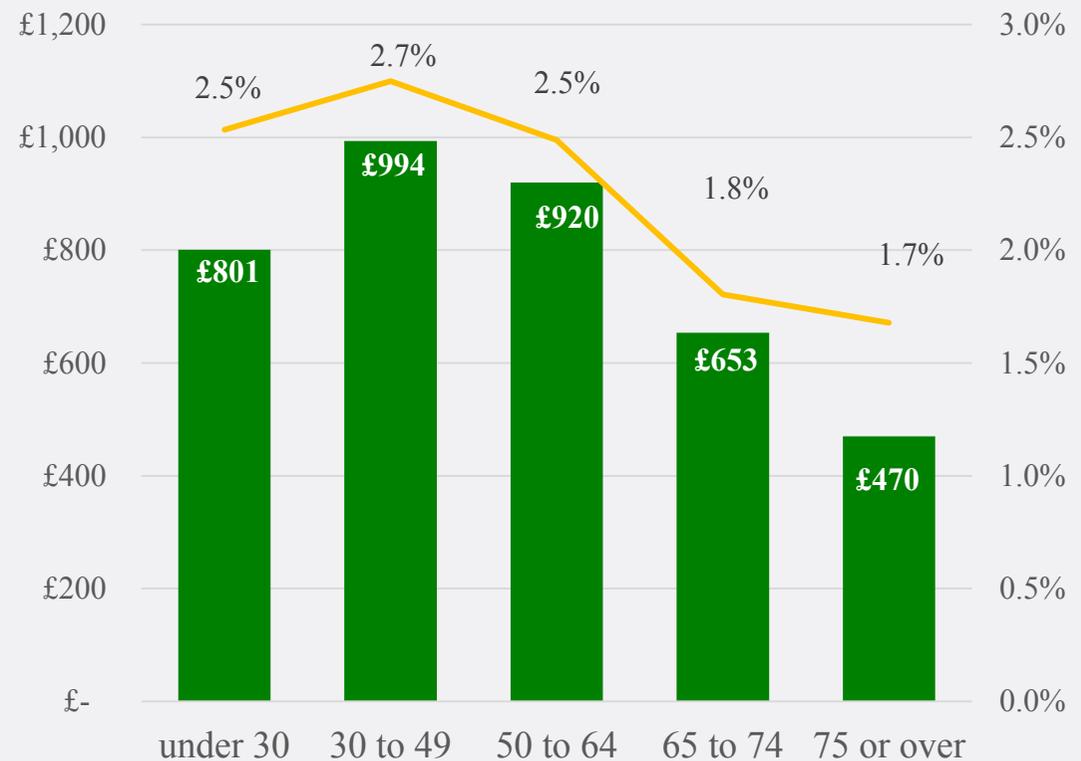
■ Rate of Inflation ■ Contribution to inflation (in pp)

Weekly gross income for under 30s surpasses £800 for the first time

Average income of the under 30s still nearly 20% below that of 30 to 49 year-olds

- In Q1 2018, households where the main income earner is aged 30 to 49 saw the biggest increase in gross incomes, at 2.7% year-on-year.
- The under 30s and the 50 to 64 year-olds followed with annual gross income growth of 2.5% while those of pension age saw much slower growth at 1.8% for 65 to 74 year-olds and 1.7% for over 74s.
- 30-49 year olds benefitted from accelerating wage growth and an overall strong labour market. According to the latest figures, unemployment dropped to 4.2% in the three months to February, the lowest rate since 1975.
- In light of the record low unemployment rates, wage growth – though rising – continues to disappoint.
- Income growth accelerated for households aged 75 or over from 1.5% in Q4 2017 to 1.7% in Q1 2018.

Average weekly gross income by age group, Q1 2018, YoY growth in % (RHS)



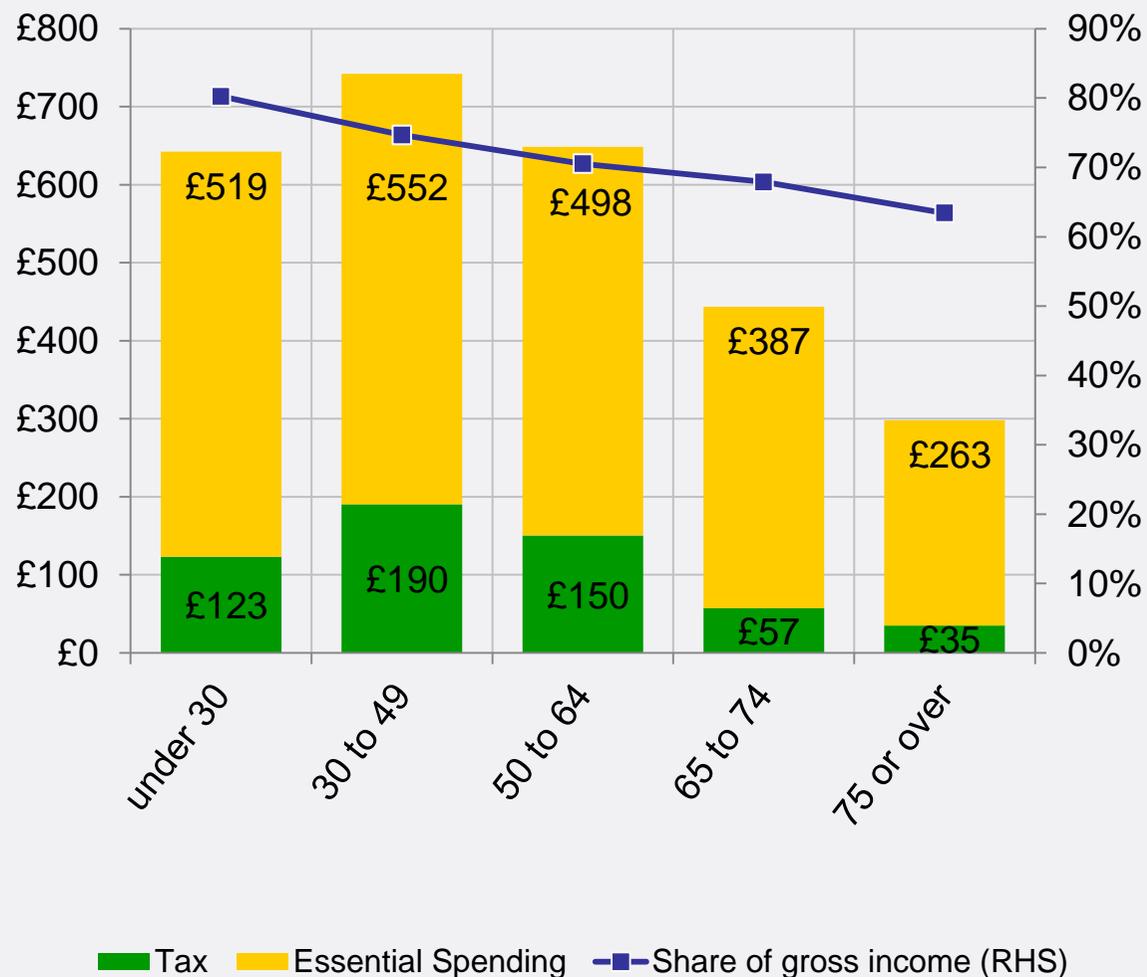
*Age groups determined via age of household representative person / main income earner in household.

Under 30s and over 75s spend the highest income shares on housing and utilities

Essential spending of over 75s stands at £263 per week

- At £552, 30 to 49 year-olds spend the largest absolute sum on essential goods and services. Under 30s, however, are the age group that spends the largest share of their gross income on essentials – this also holds true when looking at spending and tax combined.
- The cost of essential spending increased at nearly the same rate for all age groups over the first quarter of 2018, though the recent fall in inflation should provide a relief for households.
- The share of tax and essential spending out of gross income stands as high as 80% for under 30s and falls to 63% for the generation 75 or over.
- Average mortgage interest payments are highest for 30 to 49 year-olds who pay on average £34 per week. Potential rate rises this year could further add to this cost.

Average weekly tax burden and essential spending by age group, Q1 2018



Households over the age of 65 suffered from a spending power squeeze in Q1 2018

Moderate gains in discretionary income growth were recorded for all age groups below the age of 65

- 50 to 64 year olds still enjoy the highest spending power at £271 per week in Q1 2018, although the cohort of 30 to 49 year olds is closing the gap. Their family spending power has increased by 2.1% year-on-year lifting the Income Tracker to £252 per week.
- Under 30s continue to fall behind the next two older age cohorts with spending power of only £158 per week. The Income Tracker rose by just 0.9% over the year to Q1 2018 after three consecutive quarters of decreases.
- Older households, however, had it even worse with discretionary spending power decreasing by 0.7% for 65 to 74 year-olds and 0.4% for those aged 75 years or older.
- The two groups are the only ones to endure four consecutive quarters of falling spending power growth.

Average weekly discretionary income by age group, Q1 2018, YoY growth in %



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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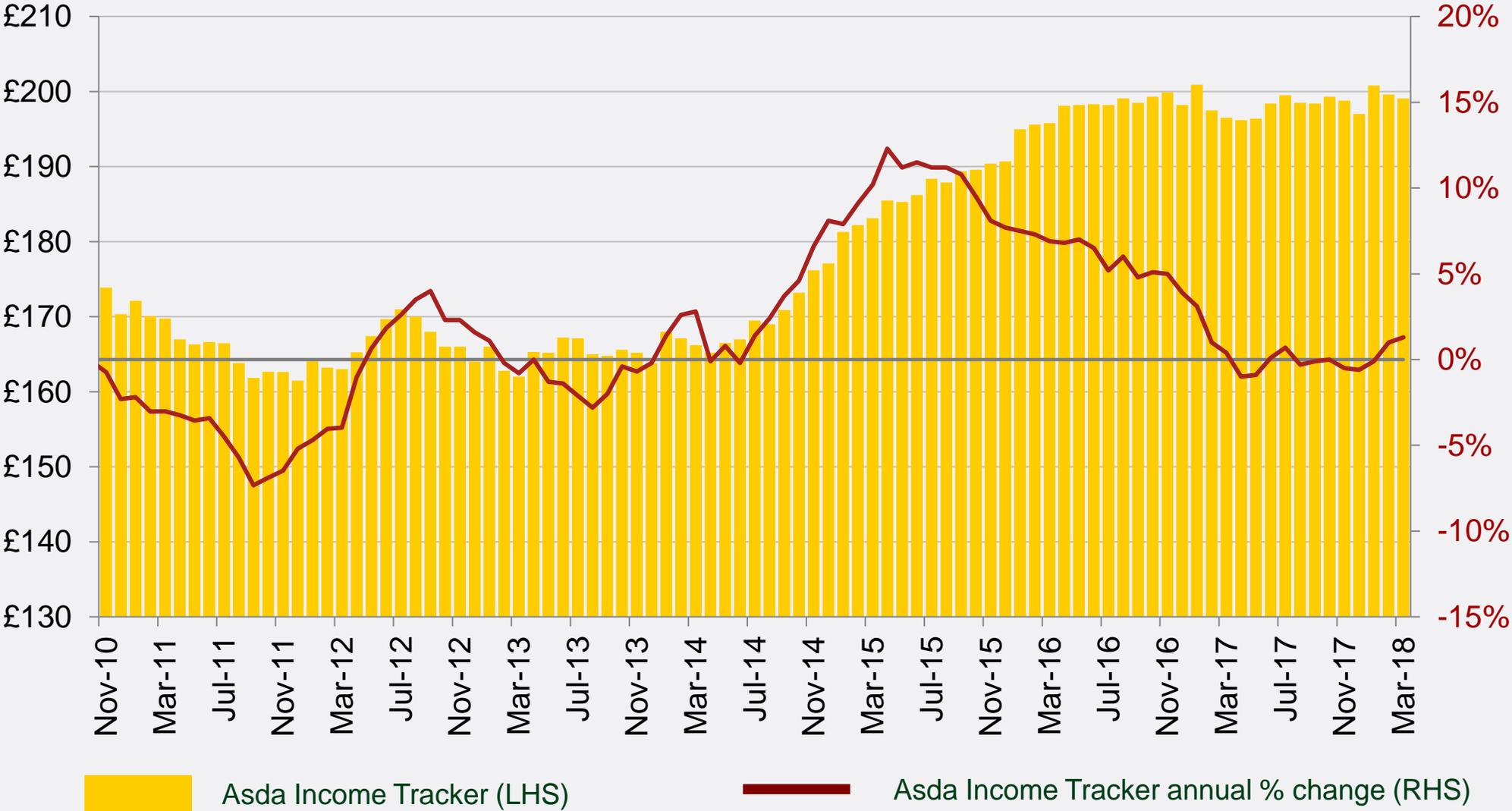
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Appendix

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

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, April 2018