

ASDA

Asda Income Tracker

Report: July 2023



Making Business Sense

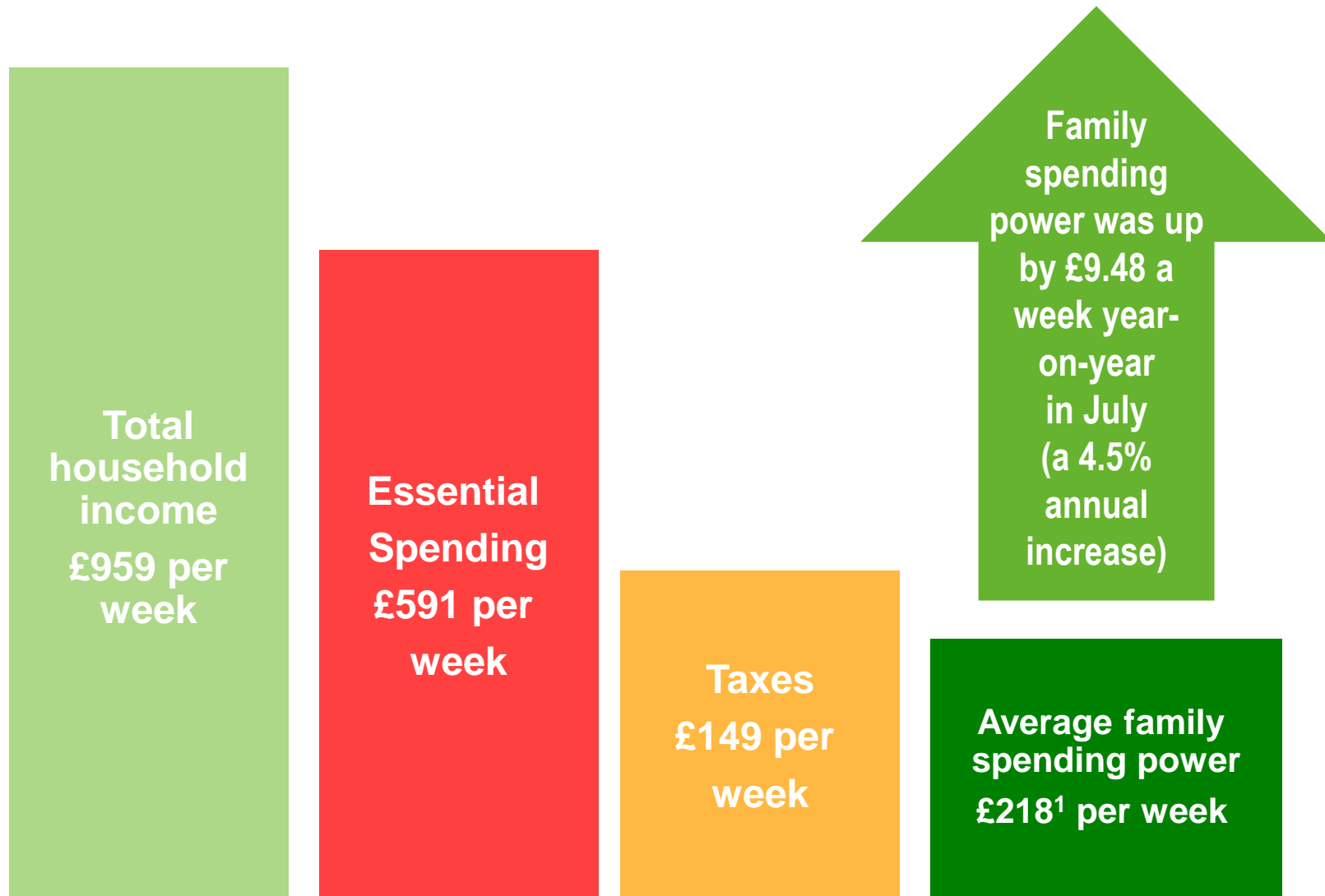
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Asda Income Tracker - Key Figures



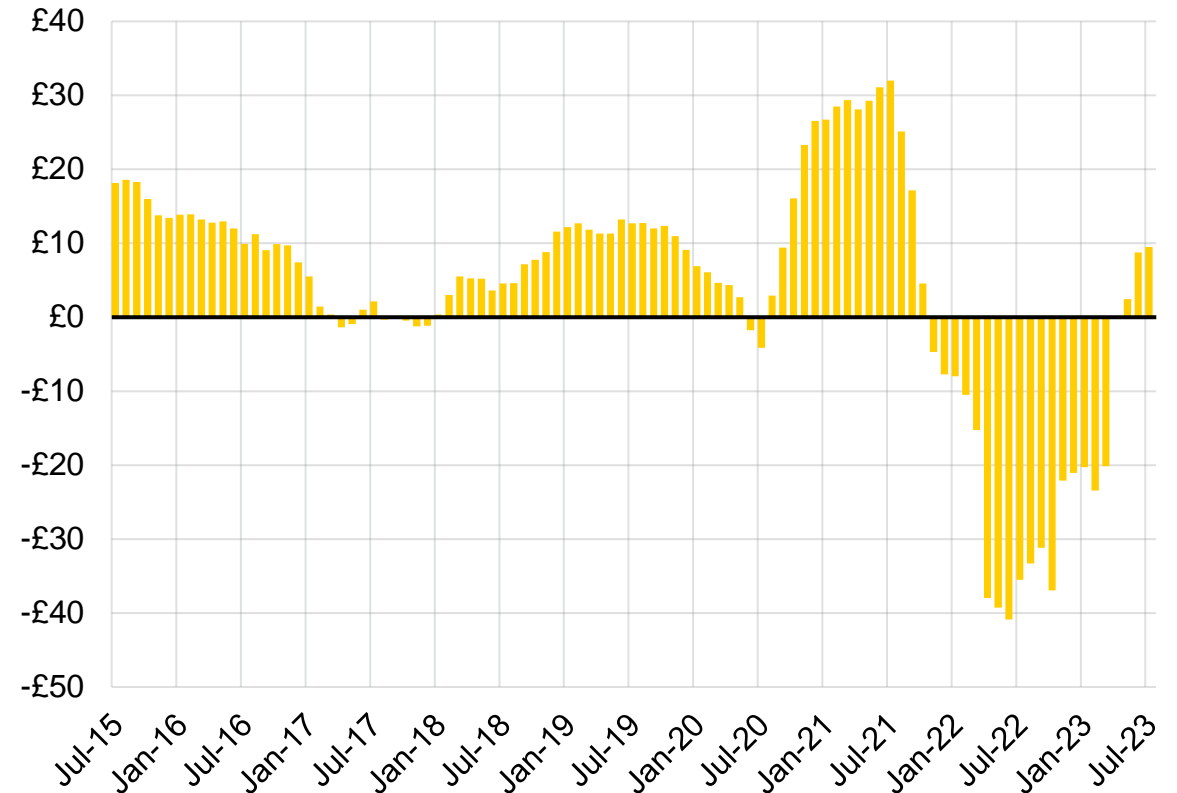
¹ After rounding

Spending power hits highest level in over a year amidst slowing inflation

Discretionary income remains firmly down on pre-crisis levels, however

- The Asda Income Tracker saw annual growth of 4.5% in July. This equates to an improvement of £9.48 per week. In both percentage and absolute terms, these mark the strongest year-on-year changes since September 2021.
- The Income Tracker has now recorded annual growth for three consecutive months.
- On a month-on-month basis, the Income Tracker picked up by £6.09 per week in July, taking weekly discretionary income for the average UK household to £218. This represents the strongest reading since March 2022.
- The near-term improvement was driven by lower energy prices. Ofgem implemented a lower energy price cap in July, reducing utility bills for households. This put downward pressure on the rate of inflation.
- Despite the recent improvements, spending power remains firmly below pre-crisis levels. Compared to the same month of 2021, spending power in July was down by £25.99 per week for the average household.

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

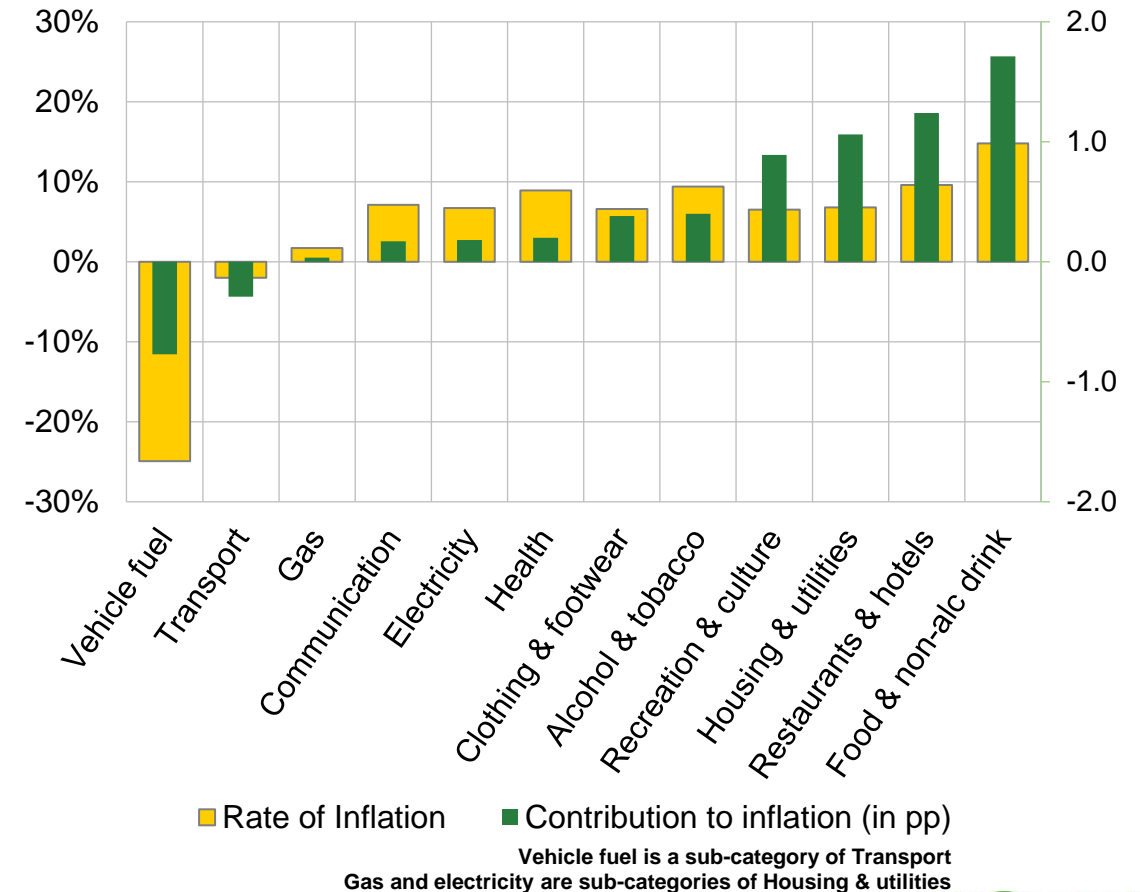


Lower energy prices take inflation to near 18-month low

The main factors affecting family costs in July were:

- Annual inflation, as measured by the Consumer Prices Index (CPI), slowed to 6.8% in July. This was down on June's rate of 7.9% and marked the slowest rate of inflation since February 2022.
- Utilities were the largest contributors to the monthly change in inflation, reflecting the implementation of a lower energy price cap at the beginning of July. Electricity price inflation slowed to 6.7% in July, down from 17.3% in June. Meanwhile, gas prices saw an even sharper deceleration, with price growth hitting 1.7% in July, down from 36.2% in June.
- Another category contributing to the monthly slowdown was food and non-alcoholic beverages. Though price growth remains high for this category, coming in at 14.8% in July, this was lower than June's reading of 17.3%.
- Despite the slowdown in the headline inflation rate, core CPI remained unchanged in July, at an elevated rate of 6.9%.
- Looking ahead, inflation is expected to continue slowing for the rest of the year. Nevertheless, a return to the Bank of England's target rate of 2.0% is not projected until the late 2020s.

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

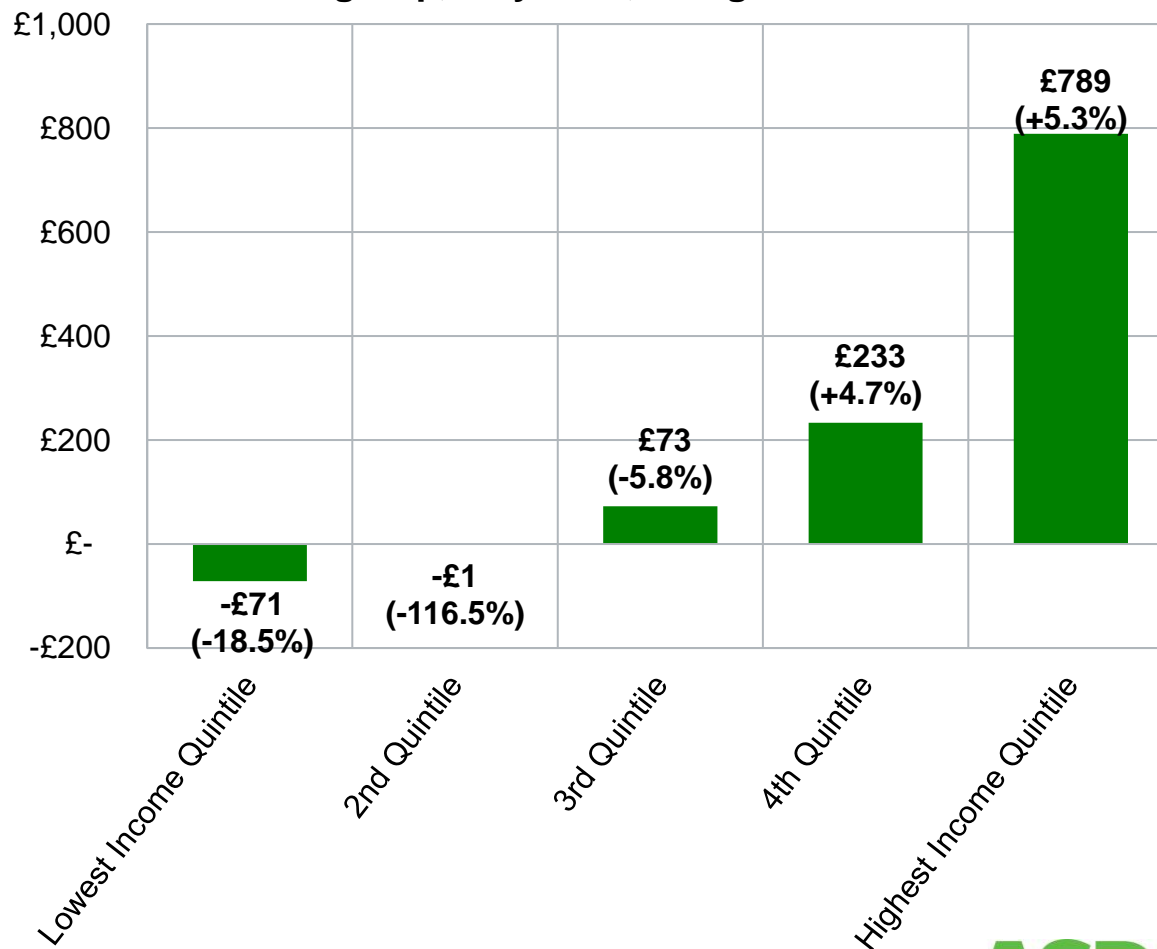


Second quintile households on verge of returning to positive discretionary income

Diverging growth in spending power highlights unequal effects of the cost-of-living crisis

- Despite the recent return to growth in spending power for the average household, many demographics are still witnessing annual falls in discretionary income.
- Households in the bottom three income quintiles recorded annual contractions in spending power in July. However, these contractions have been narrowing in scale in recent months, as the gap between inflation and earnings growth has closed. For instance, households in the first income quintile saw discretionary income contract by 18.5% on the year. In the same month of 2022, these households recorded a contraction in excess of 100%.
- Households in the second income quintile have faced negative discretionary income, meaning they cannot afford to cover the basket of essentials with their post-tax income, for the last six months. This reading is now only marginally negative, however, amounting to a shortfall of £1 per week in July. A return to a positive reading is therefore expected in the near future.
- Discretionary income growth for the average household is being supported by improvements amongst richer households, where wage growth has been even stronger than the already elevated economy-wide average in recent months. Households in the fourth income quintile recorded annual spending power growth of 4.7% in July, while the highest income quintile saw a faster rate of 5.3%.

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

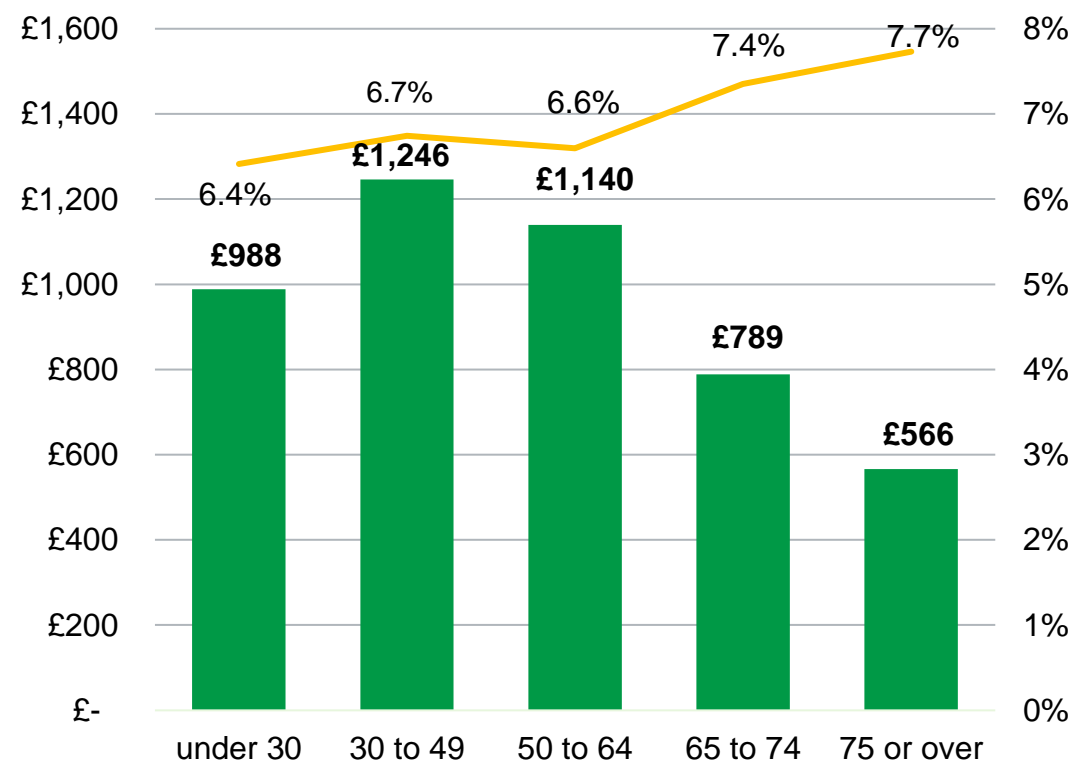


All age groups recording strong gross income growth amidst policy changes and tight labour market

Pension age households to witness strong growth for rest of the financial year

- Annual growth in gross income was witnessed across all age categories in July.
- The fastest growth was seen for those aged 75 or over, for whom average gross incomes picked up by 7.7% on the year. These households were closely followed by those aged 65 to 75, where average annual gross income growth of 7.4% was witnessed.
- The strong income growth for these households reflects the recently implemented uplift to the state pension, which increased by 10.1% in April in line with the triple lock policy. This effect will mean elevated gross income growth for these households for at least the remainder of the financial year.
- Strong gross income growth was also recorded for working age households. This is being supported by elevated wage growth, reflecting a tight labour market and recent policy changes.
- Continually elevated wage growth is raising concerns in terms of its impact on inflation. Given the low rate of unemployment in the economy, labour market effects could make inflation stickier, meaning price growth is more difficult to erode.

Average weekly gross income by age group, July 2023
(LHS), YoY growth in % (RHS)

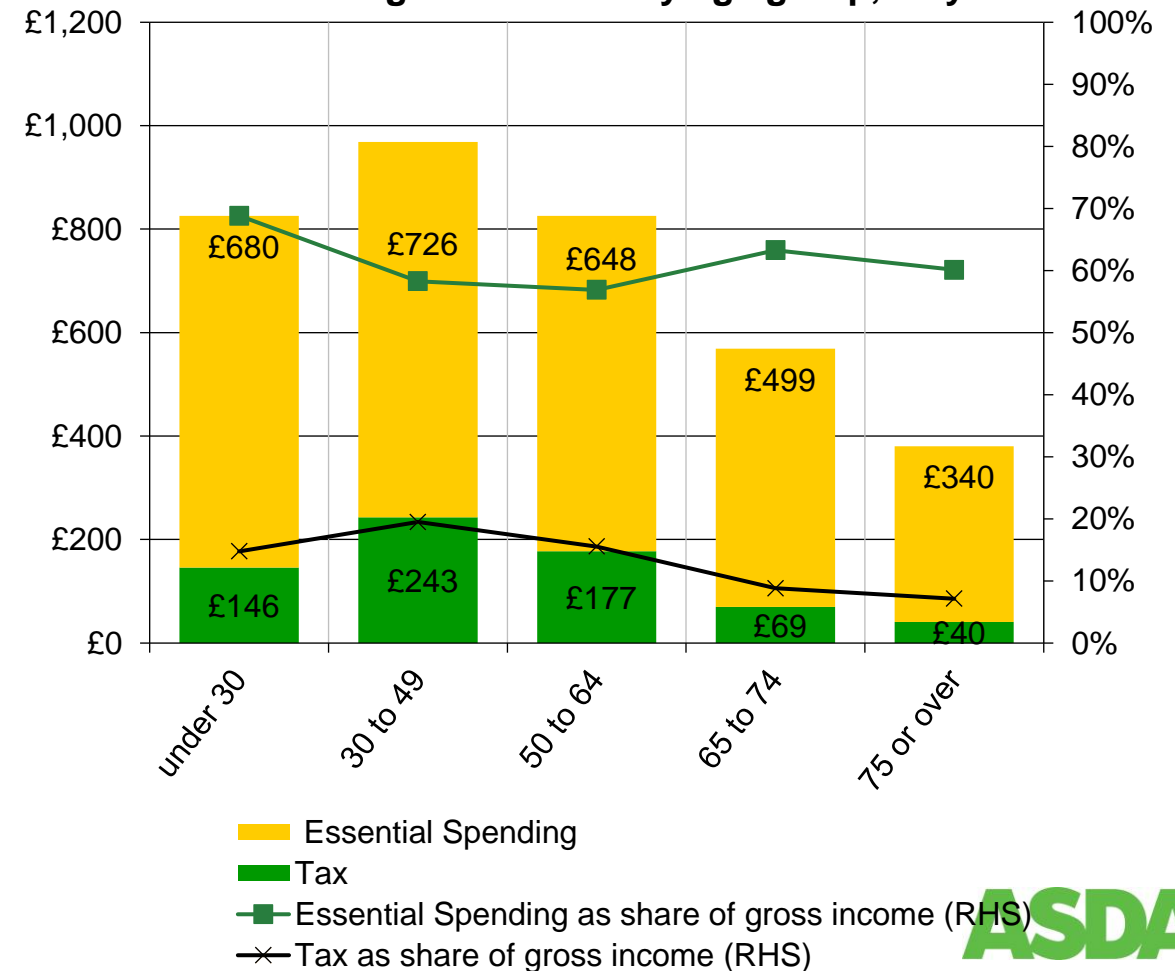


Households aged 30 to 49 continue to witness the fastest growth in the cost of essentials

Basket of essentials was cheaper in July than in June

- The basket of essentials modelled by the Income Tracker cost £591 in July. This was up by 9.0% on the year, exceeding the headline rate of inflation. This reflects the concentration of price growth in certain essential categories, notably food and housing. The rate of annual growth for the cost of essentials has slowed in each month since February, however, when it hit a peak of 13.6%.
- Growth in the cost of essentials was fastest amongst those aged 30 to 49, being up by 9.4% on the year. These households spend relatively more on certain categories that are witnessing above average inflation at present. For instance, as a share of basic spending, these households spend more on food and non-alcoholic beverages and restaurants and hotels than any other age group.
- In absolute terms, those aged 30 to 49 also spend the most. On average, households in this category spent £726 per week on essentials in July. This was down on June's reading of £729, however.

Average weekly tax burden and essential spending as a share of gross income by age group, July 2023

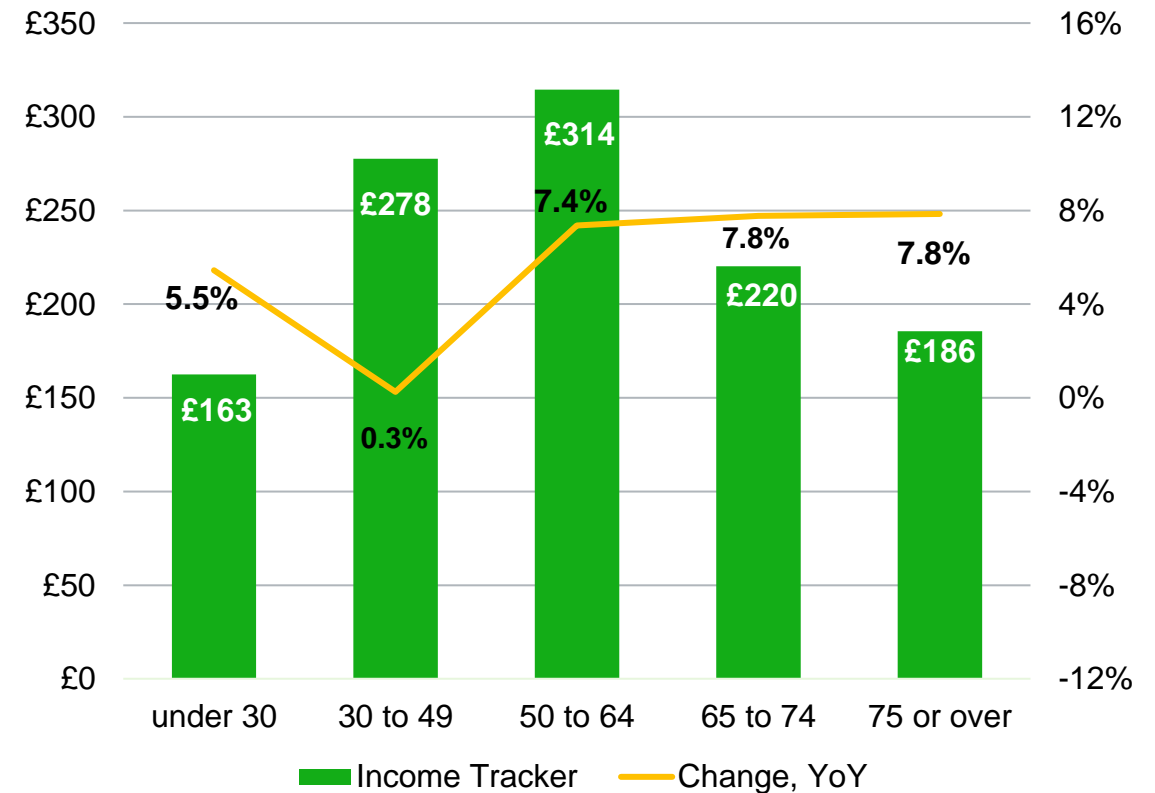


Unanimous annual growth in spending power witnessed for first time since September 2021

Older households witnessing strongest growth

- All age groups recorded discretionary income growth in July. This marked the first unanimous improvement since September 2021.
- The strongest growth was recorded amongst pension age households, reflecting their stronger gross income growth and weaker rise in the cost of essentials. Both households aged 65 to 74 and those aged 75 or over saw their spending power pick up by 7.8% on the year in July.
- The weakest growth was recorded amongst households aged 30 to 49. As discussed on the previous slide, this reflects the fact that the growth in the cost of their essential spending outweighed that of any other age demographic in July.
- Looking ahead, all age groups are expected to witness an acceleration in the rate of spending power growth, as inflation continues to decelerate.

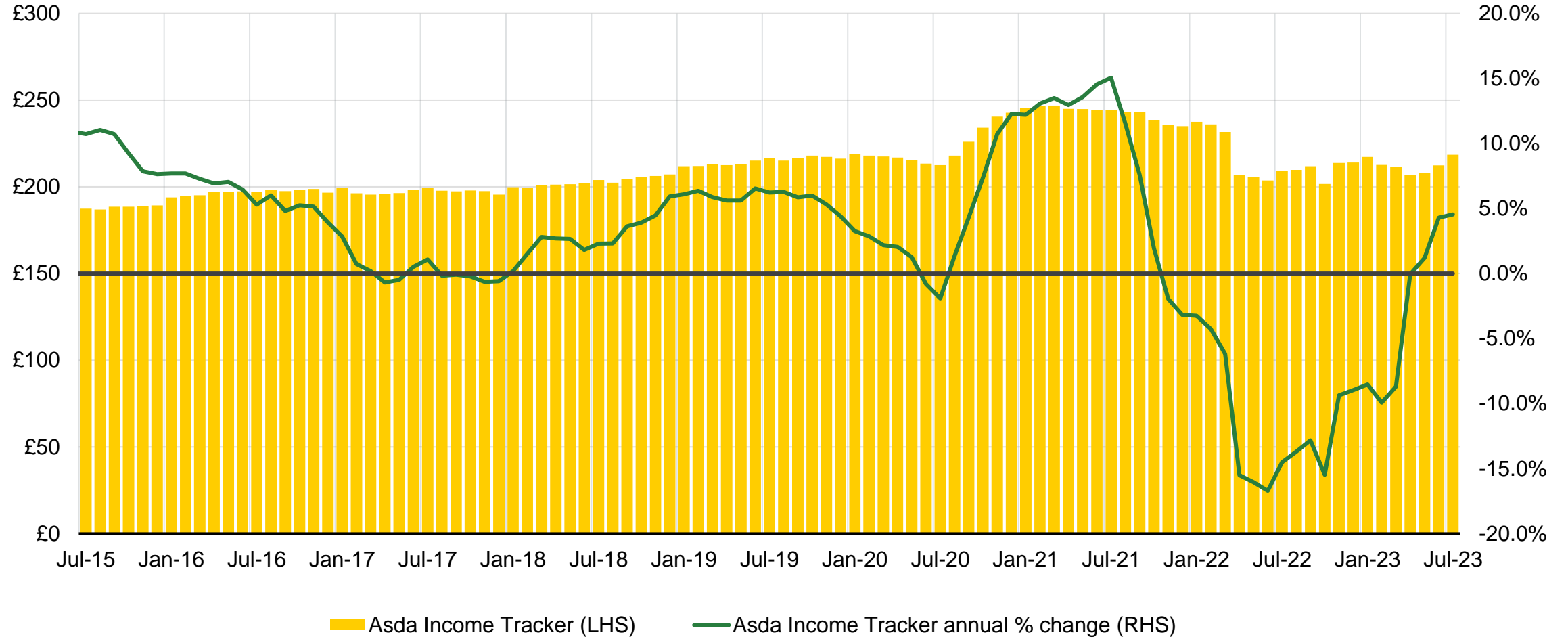
Average weekly discretionary income by age group, July 2023 (LHS), YoY growth in % (RHS)



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	£232	March 2023	£211
April 2019	£212	April 2020	£217	April 2021	£245	April 2022	£207	April 2023	£207
May 2019	£213	May 2020	£216	May 2021	£245	May 2022	£206	May 2023	£208
June 2019	£215	June 2020	£213	June 2021	£244	June 2022	£204	June 2023	£212
July 2019	£217	July 2020	£212	July 2021	£244	July 2022	£209	July 2023	£218
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	£214		
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	£212

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, August 2023

