

# Asda Income Tracker

Report: November 2017

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Making Business Sense

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# Headlines – Asda Income Tracker

- The average UK household had £198.90 a week of discretionary income in November 2017, down by £0.67 on the same month a year ago. So far, the Income Tracker has fallen in seven out of eleven months in 2017.
- Inflation jumped to 3.1% in November as families have to pay more for transport, food and recreational goods and services. Persistently high levels of inflation are having a noticeable effect on the ASDA Income Tracker as wage growth fails to compensate for the rise in price levels.
- While unemployment remains low, the decreasing employment levels spell trouble for the UK labour market in 2018.
- The higher cost of essential spending has led to a decline in spending power for households in the lower 60% of the income distribution. For the fourth quintile, income gains and increases in price levels have nearly cancelled each other out while the 20% with the highest incomes have seen a rise in discretionary incomes of 2%.



**Family spending power was down by £0.67 a week year on year in November**  
(a 0.3% annual decrease)

# Asda Income Tracker Dashboard: December

Indicator	Year-on-year change	Change to previous period
GDP (Q3 2017)	= +1.5%	+0.4% QoQ
Regular earnings growth* (Aug-Oct)	↑ +2.3%	+0.1 p.p.
Unemployment rate (Aug-Oct): <b>4.3%</b>	= -0.5 p.p.	+/- 0.0 p.p.
CPI Inflation (Nov)	↑ +3.1%	+ 0.1 p.p
Net income (Nov)	= +2.2%	+0.2% MoM
Essential item inflation (Nov)	↑ +2.8%	+0.3% MoM
Family Spending Power (Nov)	↓ -0.3%	+/-0.0% MoM
Food & non-alcoholic drinks inflation (Nov)	↑ +4.1%	+0.5% MoM
Recreation and Culture inflation (Nov)	↑ +3.1%	+ 0.7 MoM
Vehicle fuels inflation (Nov)	↑ +3.5%	+1.6% MoM

KEY IMPROVING TREND ↑ ↓ NO SIGNIFICANT CHANGE IN TREND = DETERIORATING TREND ↓ ↓ ↑

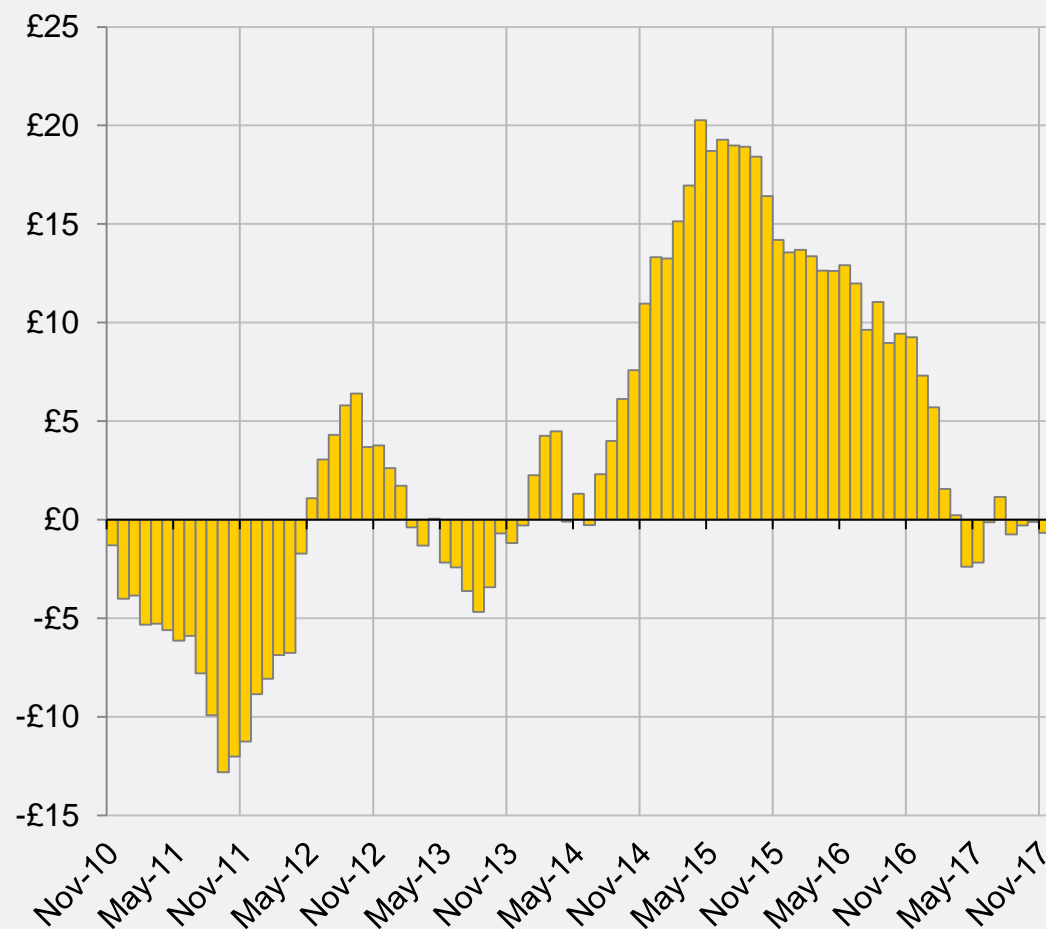
\* three-month average, excl bonuses

# Surprise jump in inflation puts further strain on spending power

The Asda Income Tracker was £0.67 a week lower in November 2017 than a year before

- The ASDA Income Tracker recorded yet another fall in family spending power in November.
- Discretionary household income after deducting tax and essential spending was £0.67 lower in November than during the same month a year ago. This is equivalent to a 0.3% decrease on the year.
- Inflation as measured by the Consumer Price Index rose further in the year to November, to 3.1%. The rises in price levels are broad-based ranging from restaurant and hotels to essentials such as transport and food and non-alcoholic drinks.
- The latest labour market data show a slight uptick in wage growth, though earnings are still lagging behind the rising cost of living.
- Moreover, employment figures declined for a second consecutive three-month on three-month period, adding to fears that the labour market might be turning.

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

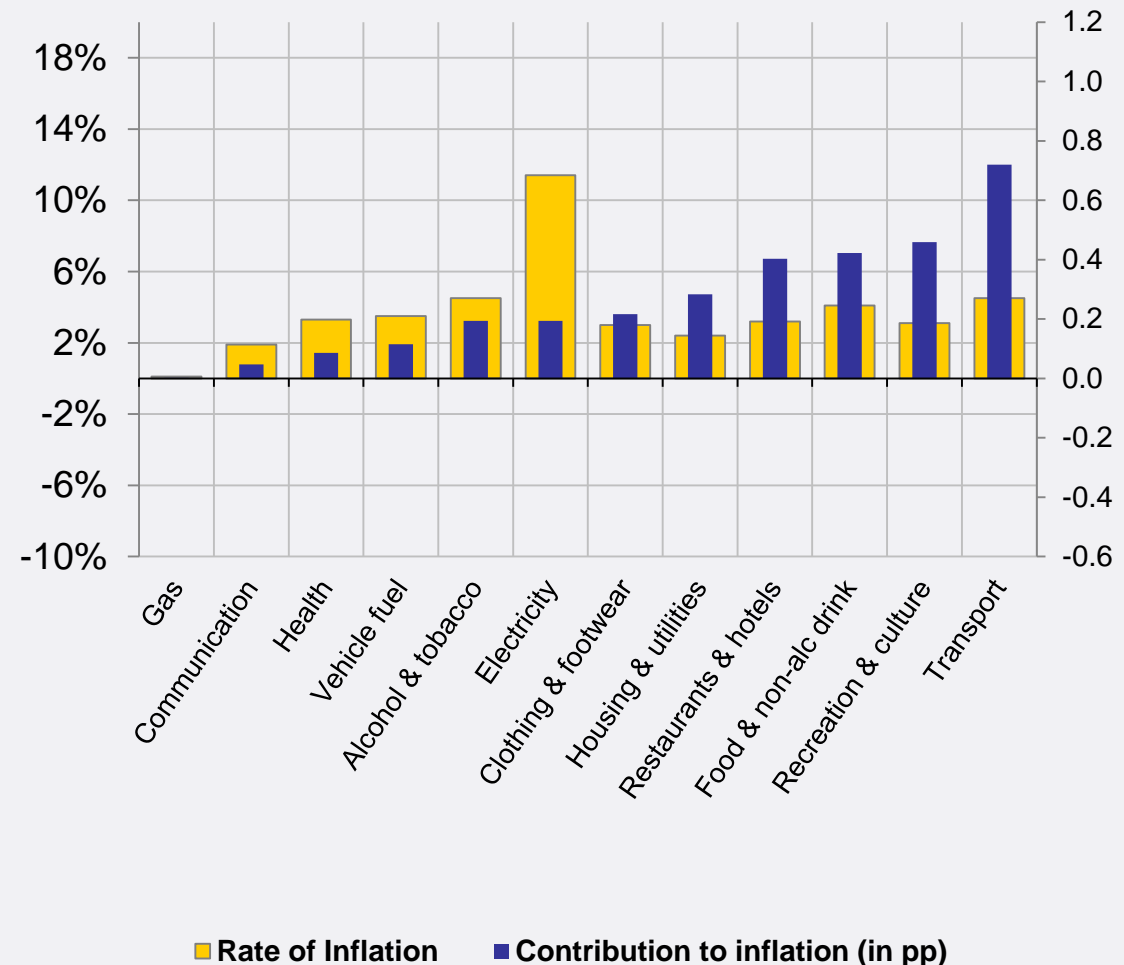


# Inflation for recreational goods rises to highest level since 2010

The main factors affecting family costs in November were:

- Inflation as measured by the Consumer Price Index stood at 3.1% in the year to November, up from 3.0% in the two previous months.
- Rising transport prices were the driver behind the uptick in inflation this month. Expensive vehicle fuel partly caused higher transport prices in November but also air fares, which fell by less than a year ago, exerting upward pressure on the price level.
- Prices for recreation and culture rose at the fastest pace since January 2010, also exerting upwards pressure on inflation.
- Working in the opposite direction were falling prices for miscellaneous goods and services, as well as more modest increases for clothing and footwear as well as for furniture and households equipment compared to last year.

**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)

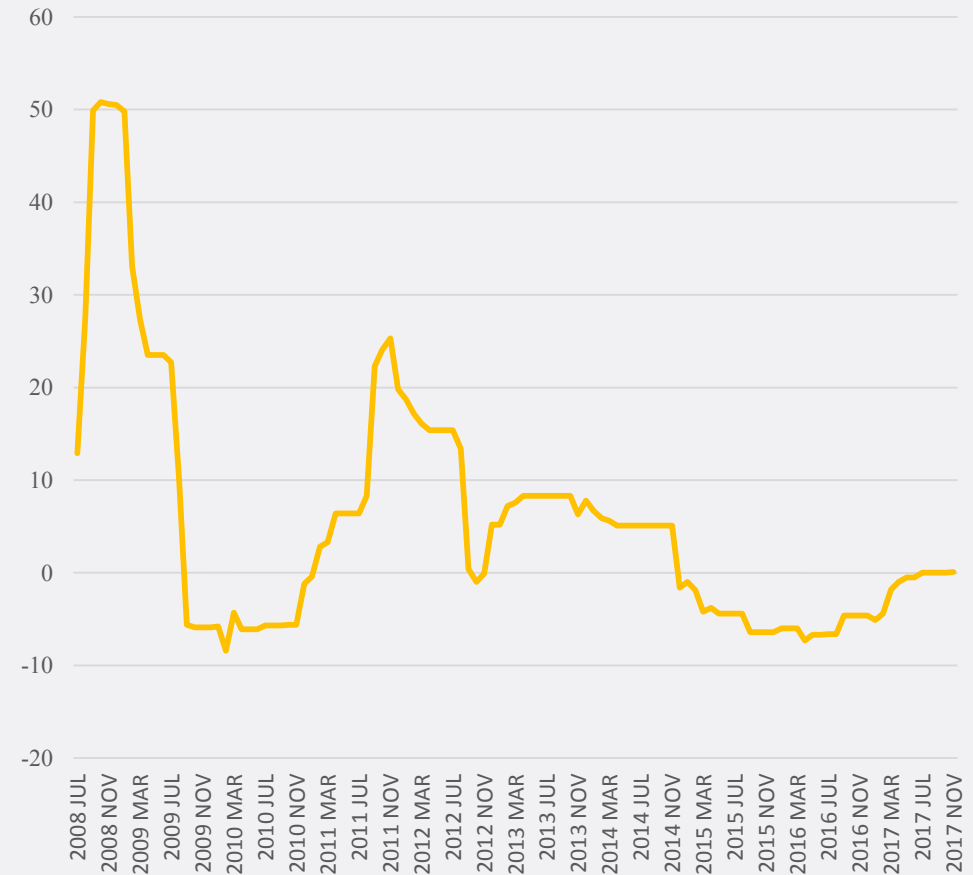
# Report Spotlight:

## Shortage in gas supply to send inflation further upwards

### Emergency maintenance work at a major pipeline and an incident at an Austrian gas hub expose UK's vulnerability

- A blast on Austria's main gas hub in Baumgarten in mid-December severely disrupted gas deliveries in south and central Europe.
- The incident was caused by a technical failure according to an ongoing investigation and caused Operator OMV to close the facility, leading to price hikes for gas in Italy and elsewhere in Europe.
- For the UK, the incident coincides with the closure of the UK's main North Sea pipeline for emergency repair works. There is no detailed timeframe as of yet for the repair works, but the Forties pipeline is likely to remain shut for the rest of the month, reducing the UK's daily gas supply by a third of normal domestic production.
- At the same time, demand is projected to reach multi-year highs in December as a cold snap with temperatures of below  $-10^{\circ}\text{C}$  hits the UK, creating a perfect storm for the UK gas market. The UK market is especially sensitive to price volatility as it has lower storage capacities than other European countries.
- All this has already driven natural gas prices to multi-year highs. Our analysis suggests that a spike in the annual growth rates of gas prices by 30% would cause CPI inflation to rise to 3.6% in December, all other factors held equal.
- Further price rises in utilities would come as a shock to consumers and business who have already endured double-digit inflation in electricity prices this year.

Gas - Annual inflation rate, in %



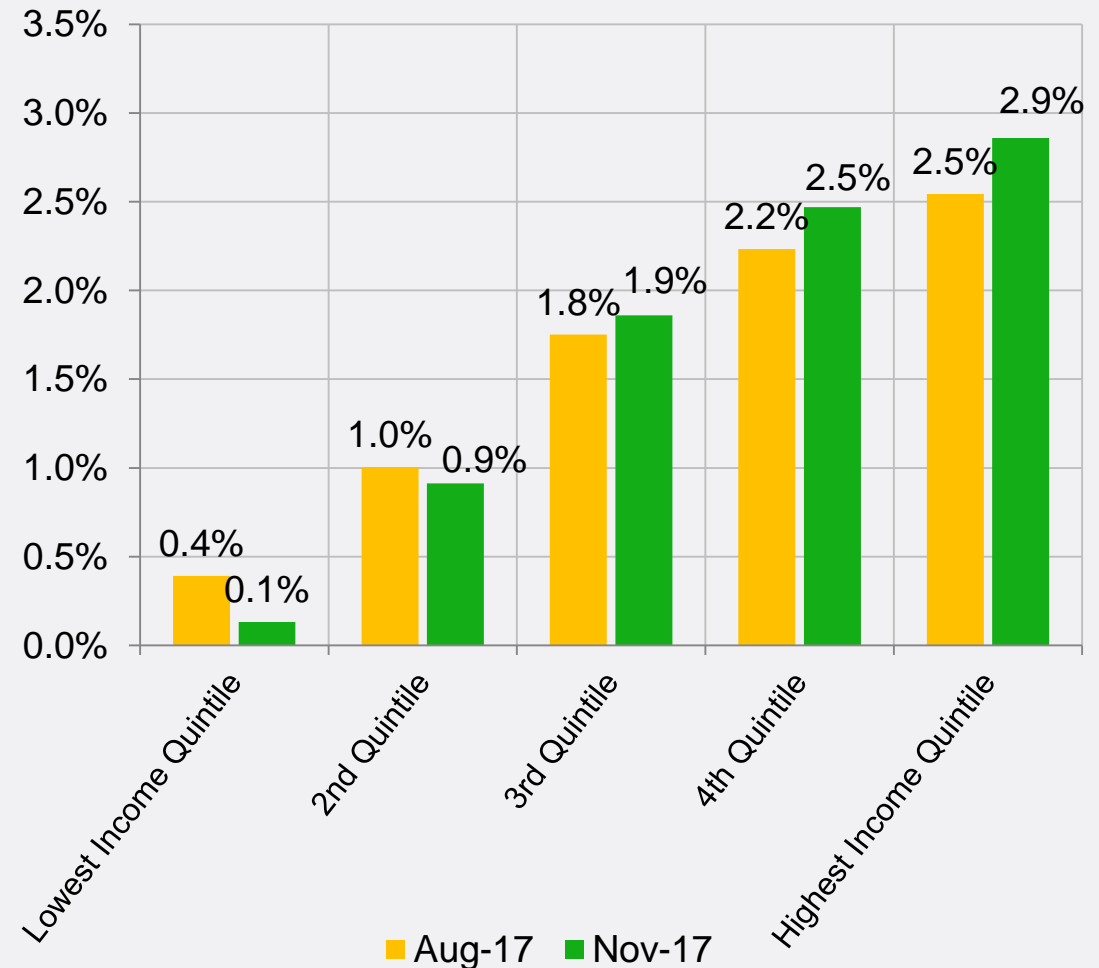
Source: ONS

# Growth in gross incomes slows for lower income households

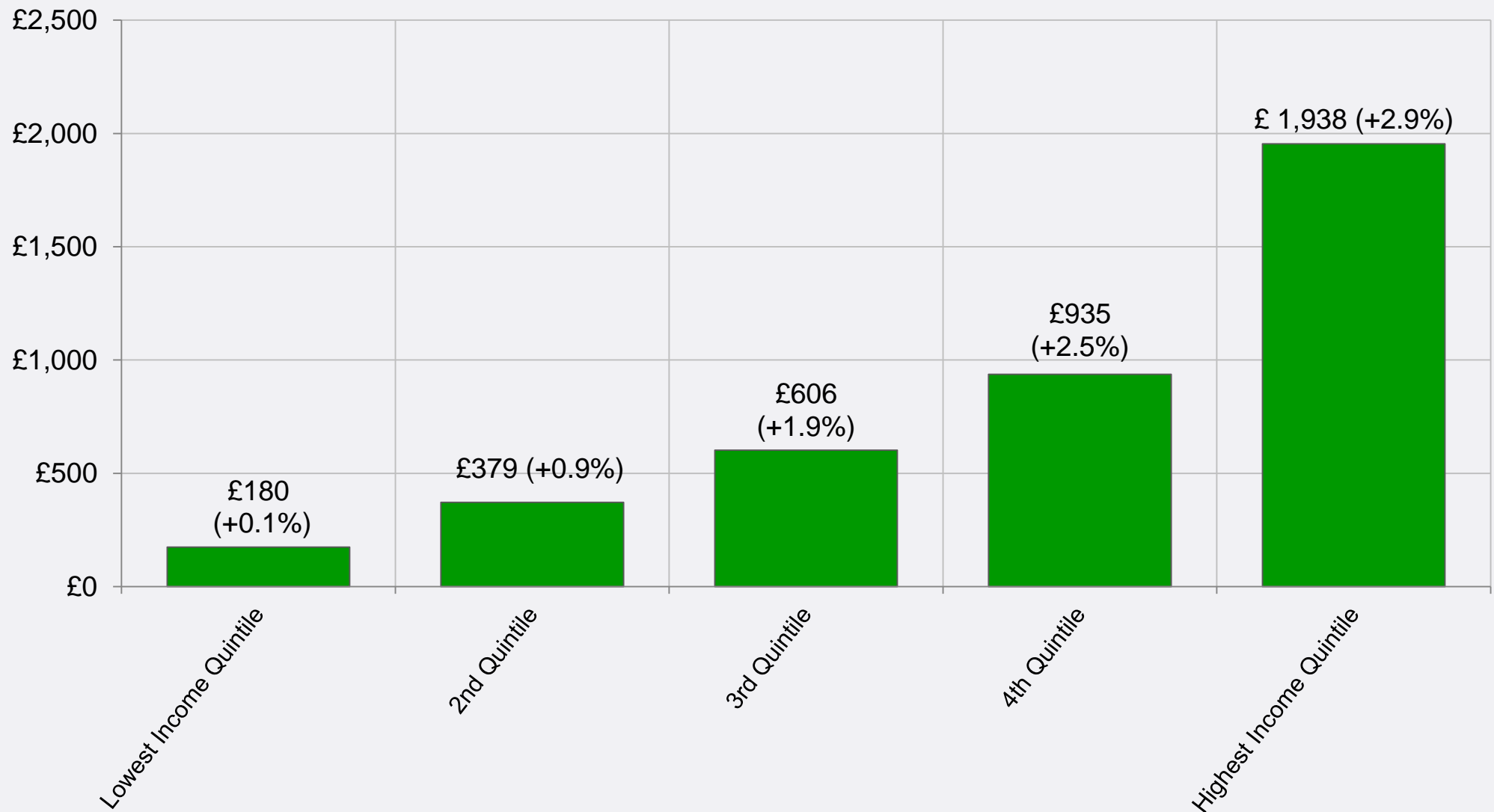
## Freeze in benefit payments hits low income households

- The graph to the right compares gross income growth rates of different household income groups for August and November of this year. Gross income includes income from wages, self-employment, investment, pensions and social security.
- Two trends are visible in the data: Firstly, higher income groups have recorded higher gross income growth rates both in August 2017 and in November of this year.
- This is mainly due to the fact that higher income groups derive a larger share of their income from wages and bonuses which have rises at a modest but steady pace.
- The second trend to be observed is the fact that gross income growth has slowed for the two bottom income quintiles, down to 0.1% for the lowest-earning households and to 0.9% for the second quintile.
- These declines are mainly driven by slower growth in income from social security due to a freeze in benefit payments.

Annual gross income growth (incl. bonuses), August 2017



## Gross weekly income by income quintile, November 2017, (year-on-year growth in brackets)



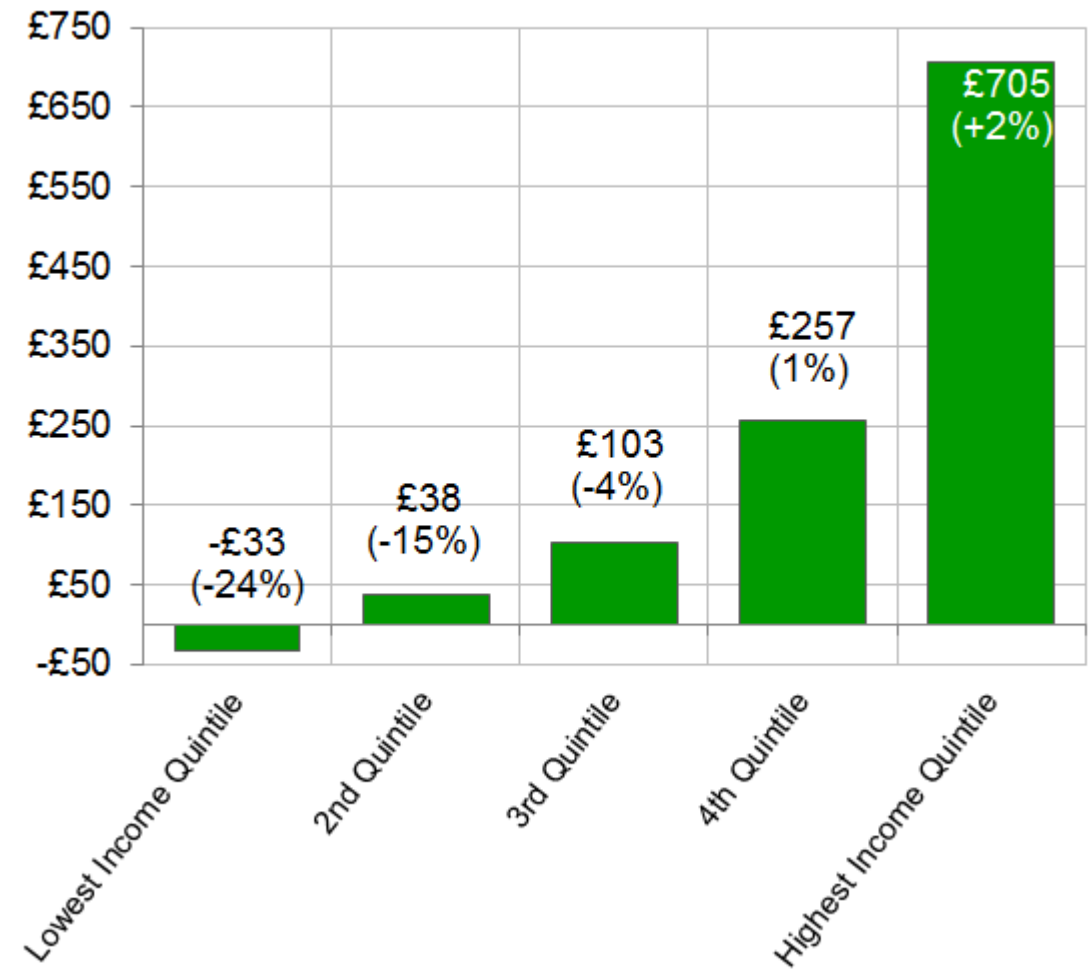


# High inflation affects spending power of all but the highest earning households

High income households are the only ones to see gains in discretionary incomes

- High income households were able to increase their family spending power by 2% in the year to November 2017, making it the only income group to see positive growth in discretionary incomes.
- Their weekly spending power after deducting taxes and essential spending stands at £705 per week.
- The fourth quintile recorded family spending power at £257 per week, only slightly up from the previous year.
- The following three quintiles all saw discretionary incomes decline. The strongest declines were once more seen by the lowest income households, who saw family spending power decline by 24% on the year.
- Due to their lower gross incomes, these households are especially vulnerable to increases in the cost of living.

Weekly Discretionary Income by Income Quintile, November 2017, year-on-year growth in brackets



# 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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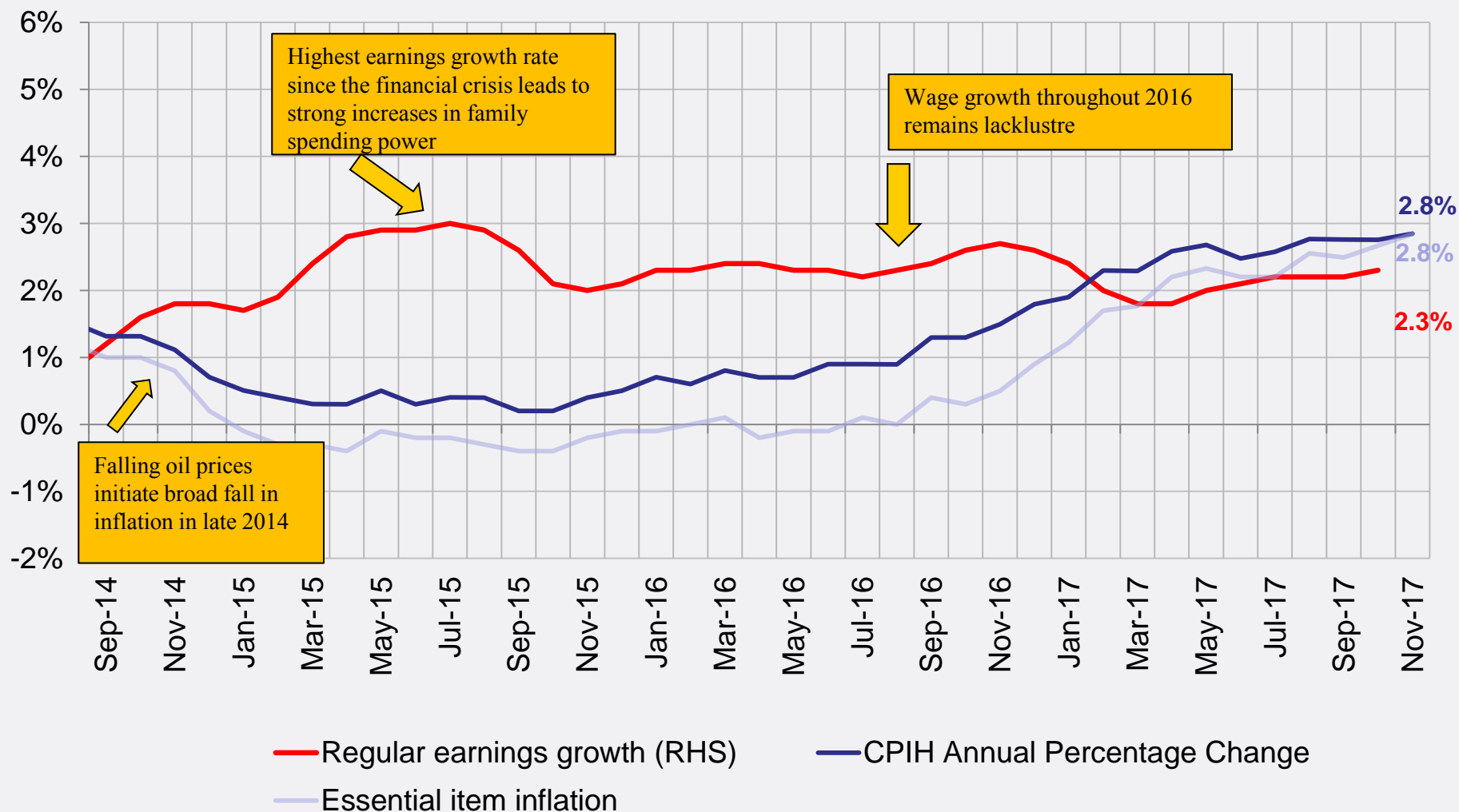
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# Appendix

# Inflation rises to four-year high

Annual percentage change in Consumer Price Index (incl owner occupiers housing costs), essential item inflation and average weekly earnings

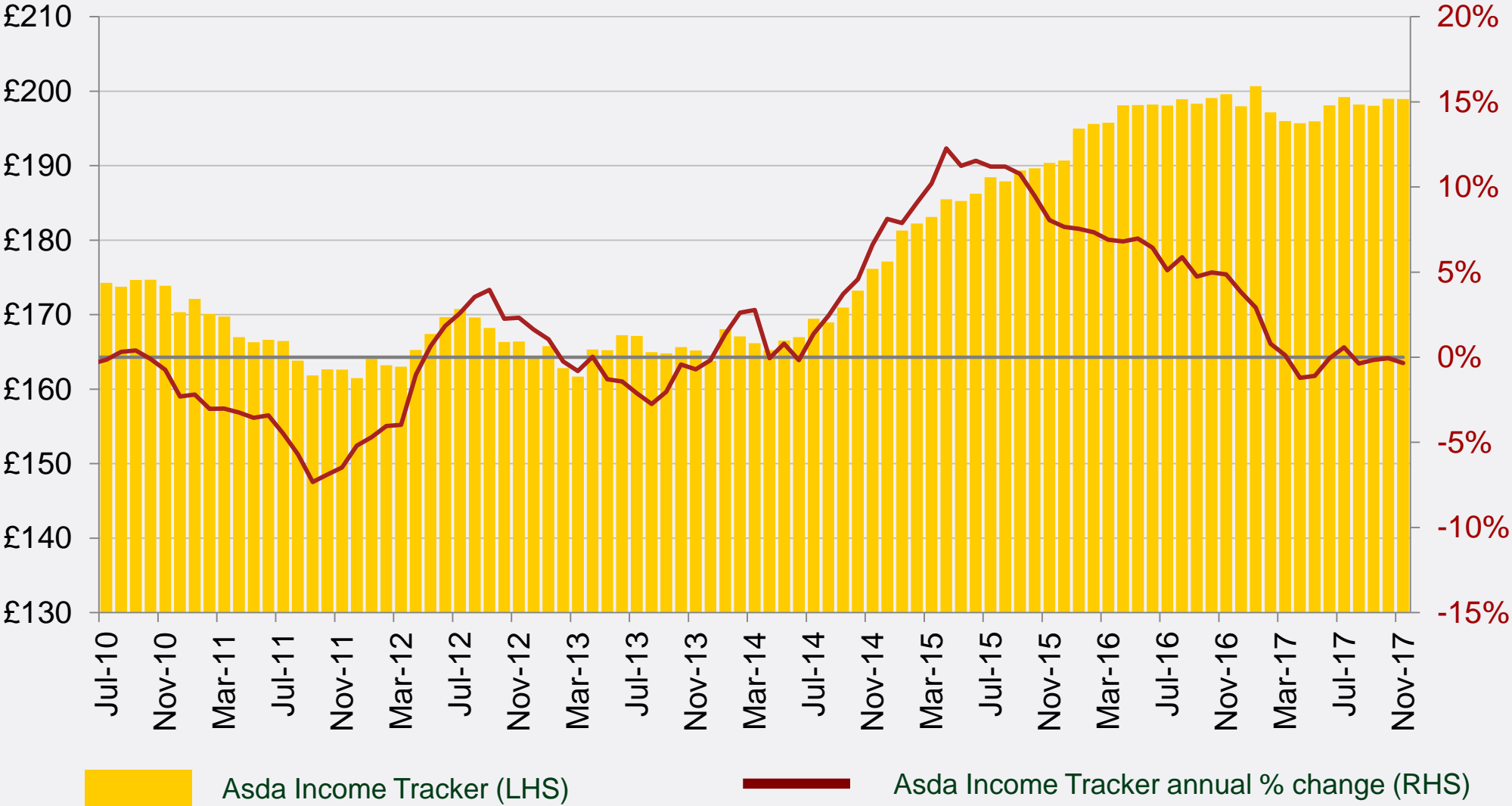


# Inflation trends over time



# 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 2013	£166	January 2014	£170	January 2015	£185	January 2016	£195	January 2017	£201
February 2013	£163	February 2014	£169	February 2015	£185	February 2016	£195	February 2017	£197
March 2013	£162	March 2014	£168	March 2015	£186	March 2016	£195	March 2017	£196
April 2013	£167	April 2014	£170	April 2015	£188	April 2016	£198	April 2017	£196
May 2013	£167	May 2014	£171	May 2015	£188	May 2016	£198	May 2017	£196
June 2013	£169	June 2014	£171	June 2015	£189	June 2016	£198	June 2017	£198
July 2013	£168	July 2014	£173	July 2015	£191	July 2016	£198	July 2017	£199
August 2013	£166	August 2014	£173	August 2015	£191	August 2016	£199	August 2017	£198
September 2013	£166	September 2014	£174	September 2015	£192	September 2016	£199	September 2017	£198
October 2013	£167	October 2014	£176	October 2015	£193	October 2016	£199	October 2017	£199
November 2013	£167	November 2014	£179	November 2015	£193	November 2016	£200	November 2017	£199
December 2013	£165	December 2014	£181	December 2015	£193	December 2016	£198		
<b>2013 Average</b>	<b>£166</b>	<b>2014 Average</b>	<b>£173</b>	<b>2015 Average</b>	<b>£190</b>	<b>2016 Average</b>	<b>£198</b>		

NB: In June, 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, December 2017**