

# Asda Income Tracker

Report: August 2016

Released: September 2016



Making Business Sense

Centre for Economics and  
Business Research Ltd

Unit 1, 4 Bath Street, London  
EC1V 9DX

t 020 7324 2850

w [www.cebr.com](http://www.cebr.com)



# Contents

<b>Introduction</b>	<b>03</b>
<b>Headlines</b>	<b>04</b>
<b>Constructing the Income Tracker</b>	<b>05</b>
<b>Dashboard</b>	<b>06</b>
<b>Income Tracker trends</b>	<b>07</b>
<b>Cost of living</b>	<b>09</b>
<b>Labour market</b>	<b>11</b>
<b>Contact</b>	<b>16</b>
<b>Data charts &amp; tables</b>	<b>17</b>
<b>Method notes</b>	<b>22</b>
<b>Disclaimer</b>	<b>24</b>

# Introduction

“This month’s report is a mixed one for families. On the one hand it’s encouraging that we continue to see a rise in spending power, courtesy of low levels of essential item inflation, and cuts to interest rates. However, on the other hand, there are some trends beginning to emerge that consumers should be mindful of .”

“With inflation predicted to creep up as we head towards 2017 and the potential for a continuation in the rising costs of some essentials, families will be watching their wallets with interest over the coming months.”

**Asda spokesperson**

# Headlines – Asda Income Tracker

The average UK household had £201 a week of discretionary income in August 2016, up by £10 a week on the same month a year before.

Despite the second consecutive month of rising input costs, the lower levels of sterling do not yet appear to have fed through to the prices consumers face at the tills.

The continued weakness in inflation combined with a cut to interest rates at the beginning of August has helped to offset a slight fall in wage growth, keeping spending power rising at double digit rates in pound terms for yet another month.

“UK households have continued to help to drive economic activity in the months following the referendum, clearly supported by further robust increases in household spending power.”

“However, whilst the initial turbulence has been navigated, improvements in household finances have slowed, a process that could accelerate if rising production costs begin to feed into prices at the tills.”

Sam Alderson, Economist, Cebr



Family  
spending  
power was up  
by £10 a week  
year on year  
in April

(a 5.3%  
annual  
increase)

# Constructing the Asda Income Tracker



# Asda Income Tracker Dashboard: August

Indicator	Annual percentage change	Recent trend
Regular earnings growth (Jul)	+2.1% (excl. bonuses)	●
Employment growth (Jul)	+1.8% (+559,000 employment on year)	●
Unemployment rate (Jul)	4.9% (-0.6% points on year)	●
Net income	+2.0%	●
Mortgage costs	-5.3%	●
Food & non-alcoholic drinks	-2.2%	●
Vehicle fuels	-2.6%	●
Home electricity, gas & fuel	-3.1%	●
Essential item inflation	+0.0%	●
Family spending power	+5.3%	●

**KEY** IMPROVING TREND ● NO SIGNIFICANT CHANGE IN TREND ● DETERIORATING TREND ●

\* three-month average, to month stated

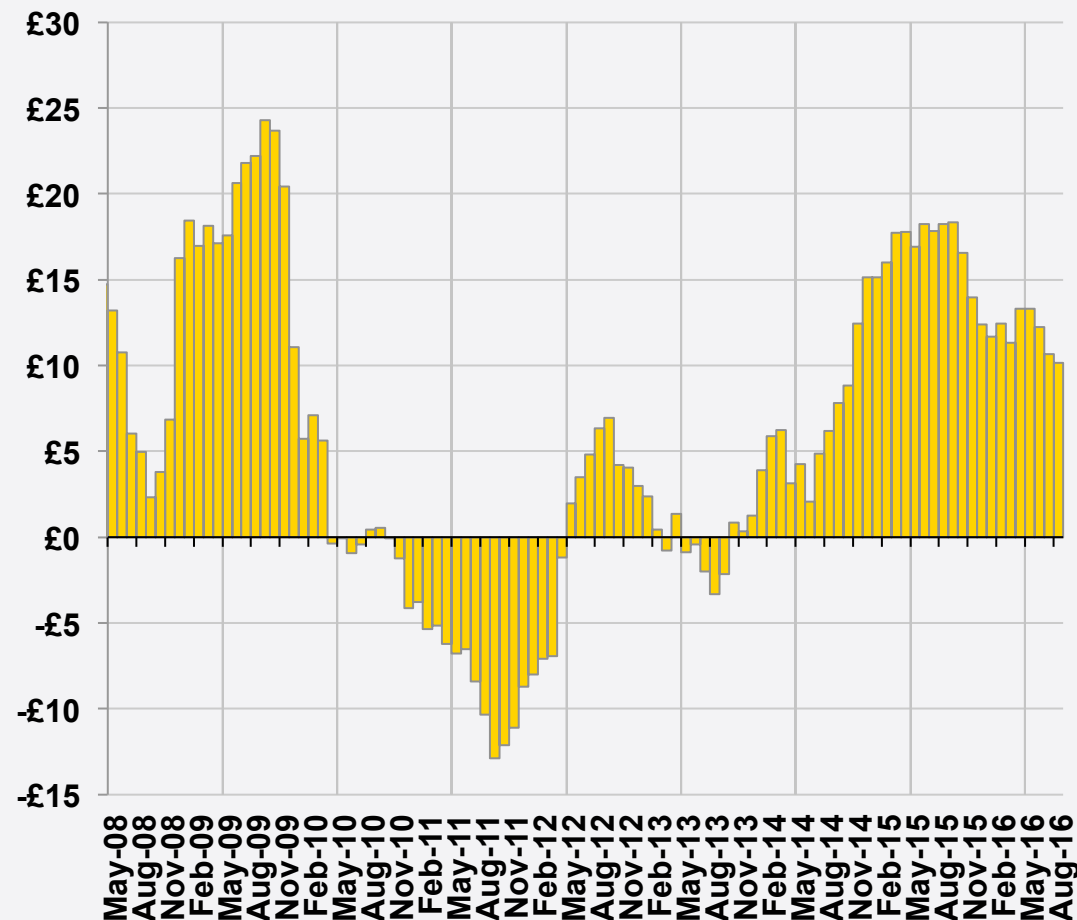
\*\*unemployment rate for three months to month stated

# Spending power growth continues to fall back in August

The Asda Income Tracker was £10 a week higher in August 2016 than a year before

- Average household discretionary incomes excluding bonuses were 5.3% higher in August 2016 compared with the same period in 2015.
- This represents a further fall on the rate of spending power growth, which stood at over 10% year-on-year in August 2015.
- However, in pound terms, annual growth once again held just above the £10 per week level – the 22<sup>nd</sup> consecutive month of double digit increases.
- Whilst wage growth slowed in the latest reading, inflation remained unchanged at 0.6%. As such, wage growth remains well above the rate of price changes across the economy, helping to continue to bolster the spending power of UK households.

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

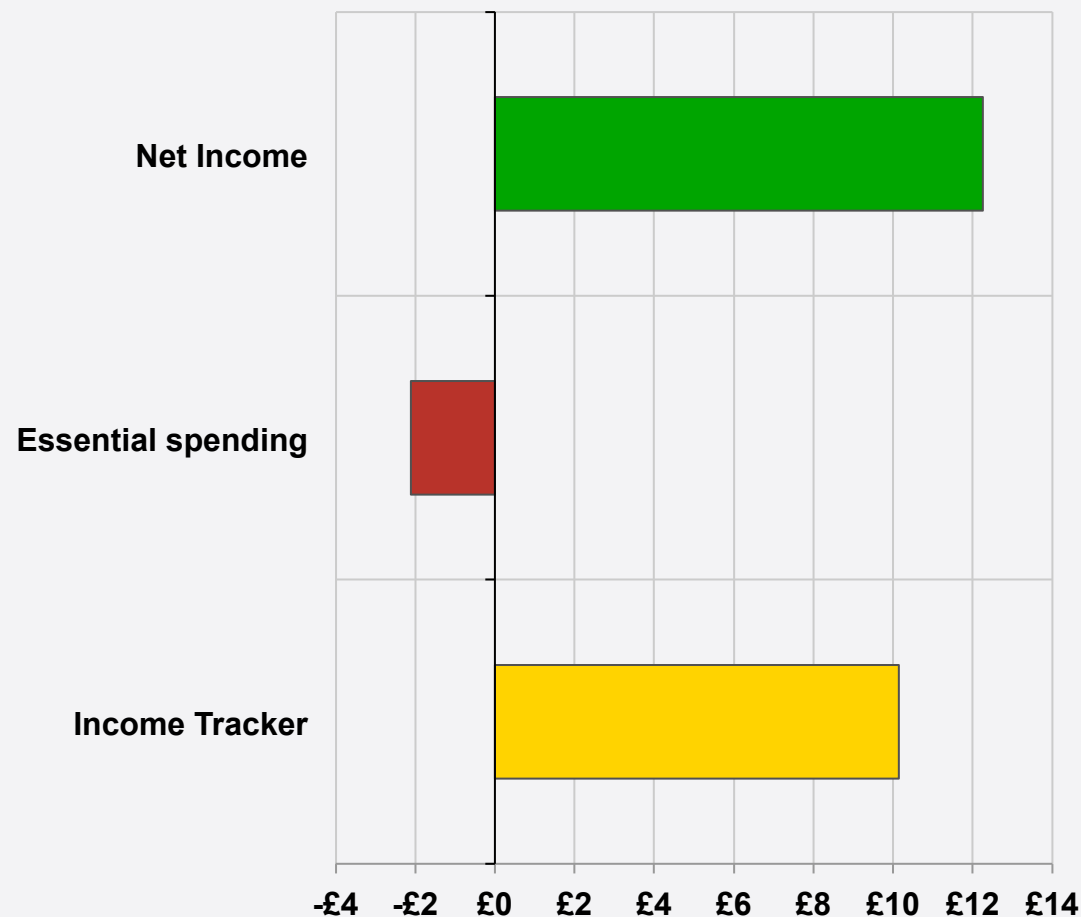


# Noflation across essential items remains key driver of discretionary income growth

**The Asda Income Tracker was £10 a week higher in August 2016 than a year before**

- The average UK household had £201 a week of discretionary income in August 2016, up from £191 at the same point a year ago.
- Despite the introduction of the National Living Wage at the beginning of April, annual wage growth remains around the levels seen at the beginning of the year.
- However, with essential item inflation remaining at near-zero levels, household spending power continues to rise at relatively robust rates.
- The falling rate of unemployment over the past 12 months has also contributed to the improvements in household finances.

Contributions to annual change in the Income Tracker (excluding bonuses), August 2016



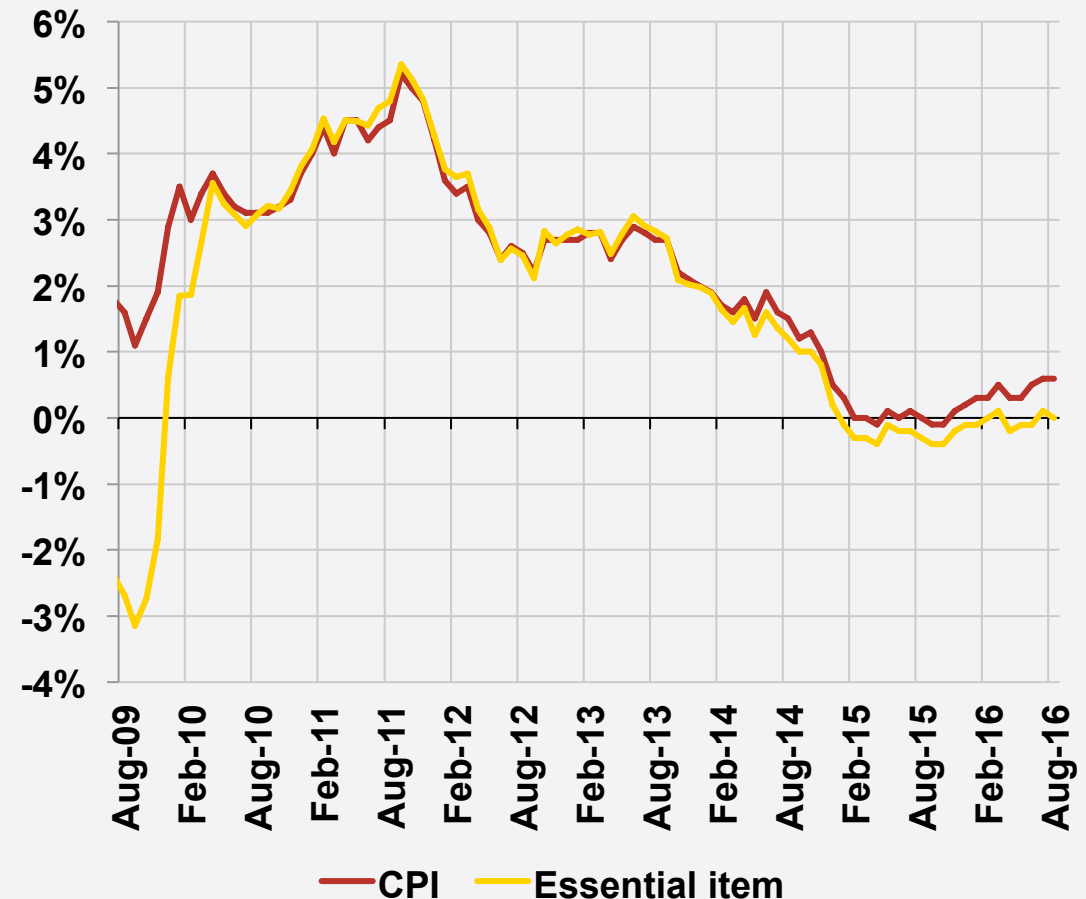


# Inflation holds steady despite rising input prices

## Essential item inflation rises slightly but remains negative

- Despite the weaker pound in the aftermath of the UK's referendum on EU membership, annual consumer price inflation remained unchanged at 0.6% in August.
- The subdued rise in inflation levels came despite separate producer price data showing that manufacturers' costs climbed at the fastest annual rate in almost five years.
- In part, the delays in higher input costs feeding through into higher prices to the consumer are likely to be the result of the intense competition seen across the retail environment in recent years.
- However, whilst inflation has yet to show the impact of the weaker pound and the associated rise in import costs, prices are expected to rise in the coming months, pushing headline inflation towards its 2% target in 2017.

Annual inflation on the consumer price index (CPI), and essential item annual inflation

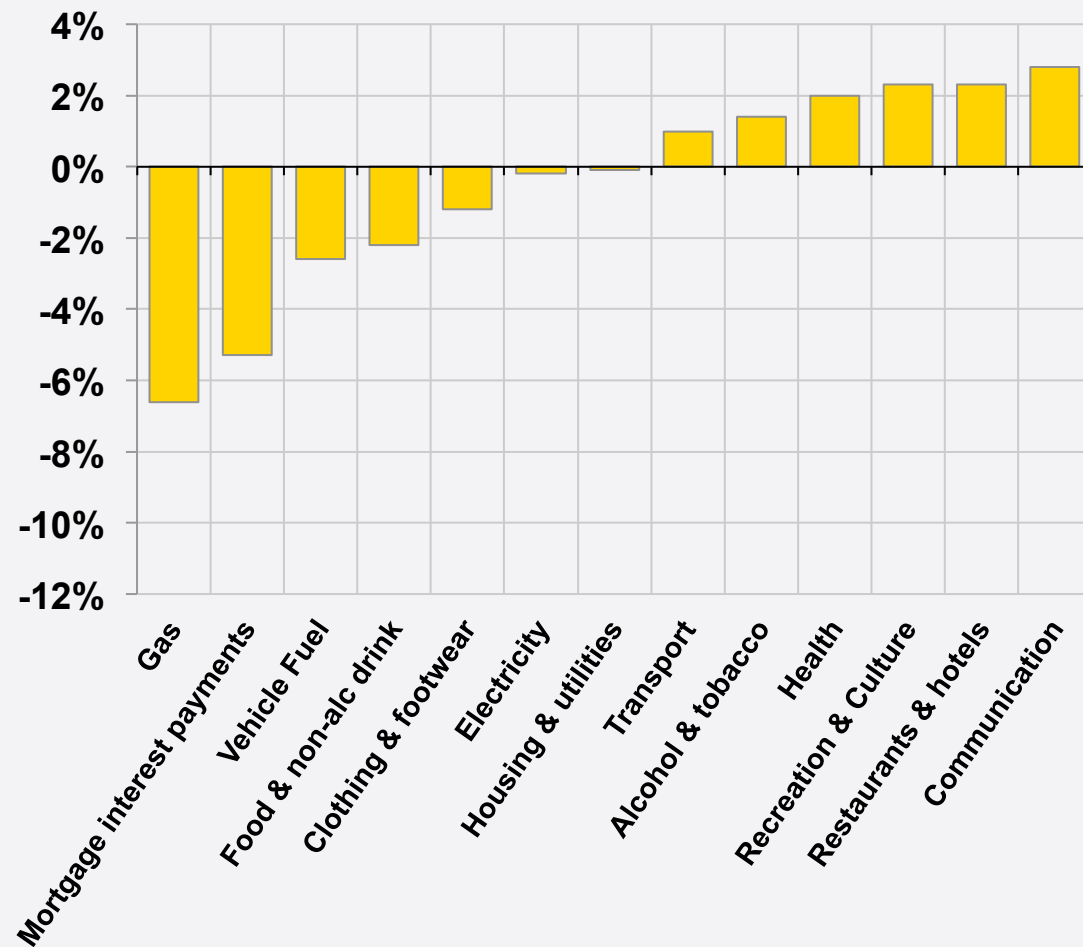


# Mortgage payments drop following cut to interest rates

## The main factors affecting family costs in August were:

- Following the trend seen in recent months, transport costs once again provided one of the main sources of upward pressure on inflation in August. Overall, prices rose by 0.9% between July and August this year with a large upward contribution from rising air fares for European routes.
- In contrast with previous months, food prices provided an upward contribution to the rate of inflation in August, rising by 0.6% compared with July. The pressure primarily came from a range of bread, cereal and meat products. However, prices overall still remain 2.2% lower than at the same time a year ago.
- Whilst the cost of two key essential item categories rose in August, pressure on households was offset in part by a further fall in mortgage payments following the Bank of England's decision to cut interest rates at the start of the month. Mortgage interest payments now stand 5.3% lower than they did at the same point in 2015.

Inflation of selected goods, annual change to August 2016

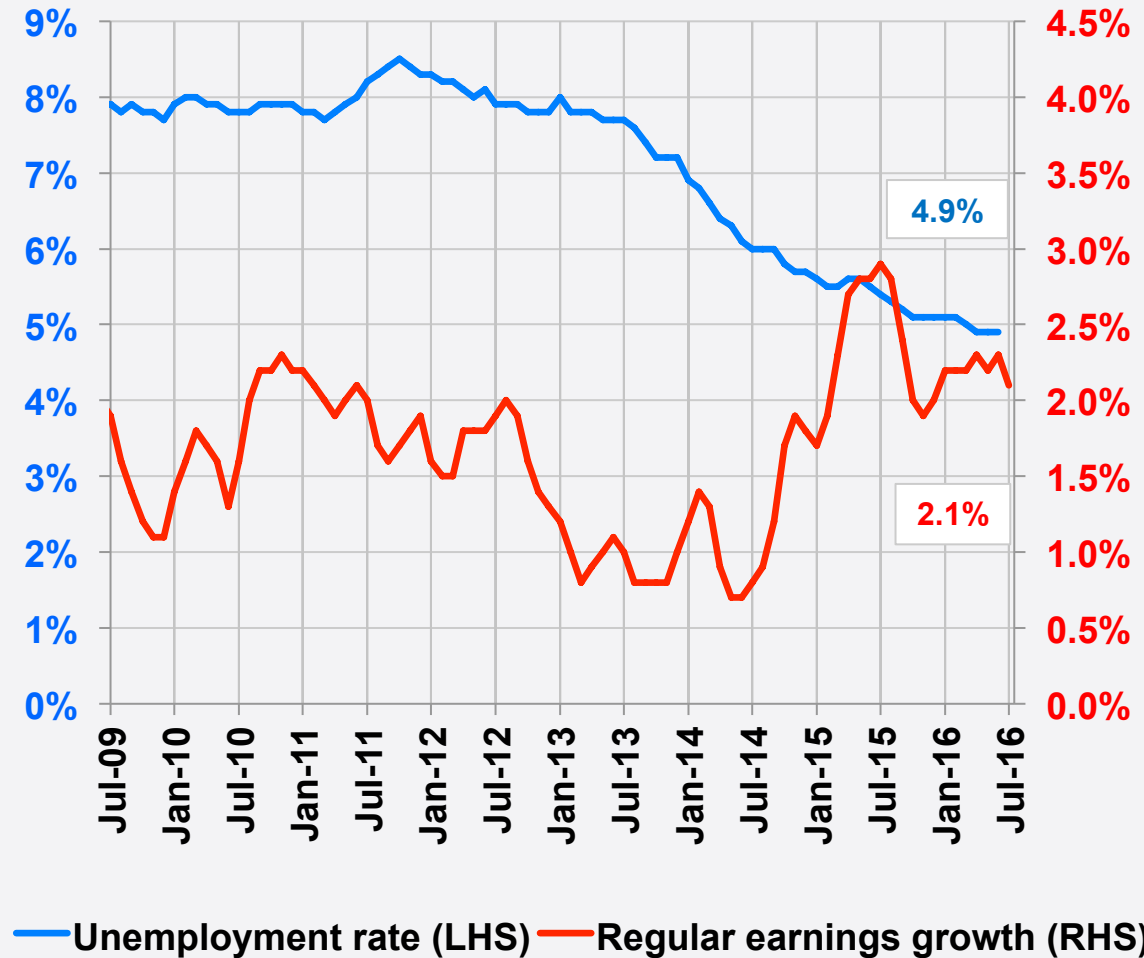


# Earnings growth drops to lowest level in 2016

## Rate of unemployment holds steady at 4.9%

- The rate of unemployment across the UK held steady at 4.9% for the third consecutive reading in the three months to July. Thus, the unemployment rate remains at levels not previously seen for over a decade.
- The employment rate over the period remained at 74.5%, the joint highest since records began in 1971.
- Whilst the latest data suggest that the labour market as a whole has continued to maintain much of its momentum following the UK's decision to withdraw from the European Union, average weekly earnings (exc. bonus payments) have softened compared with the previous reading. At 2.1% in the three months to July, regular pay growth has slipped to its lowest level since the end of 2015 despite the introduction of the National Living Wage at the beginning of April.
- With inflation expected to rise further in the coming months, slowing nominal wage growth could mean that consumers soon face falls in real income.

UK unemployment rate (LHS), per cent and 3-month annual growth in regular pay (RHS), per cent



# Data and Method

Please find attached method notes and the tabulated data. Asda produces a monthly income tracker report with a more comprehensive report every quarter.

For press enquiries please contact:

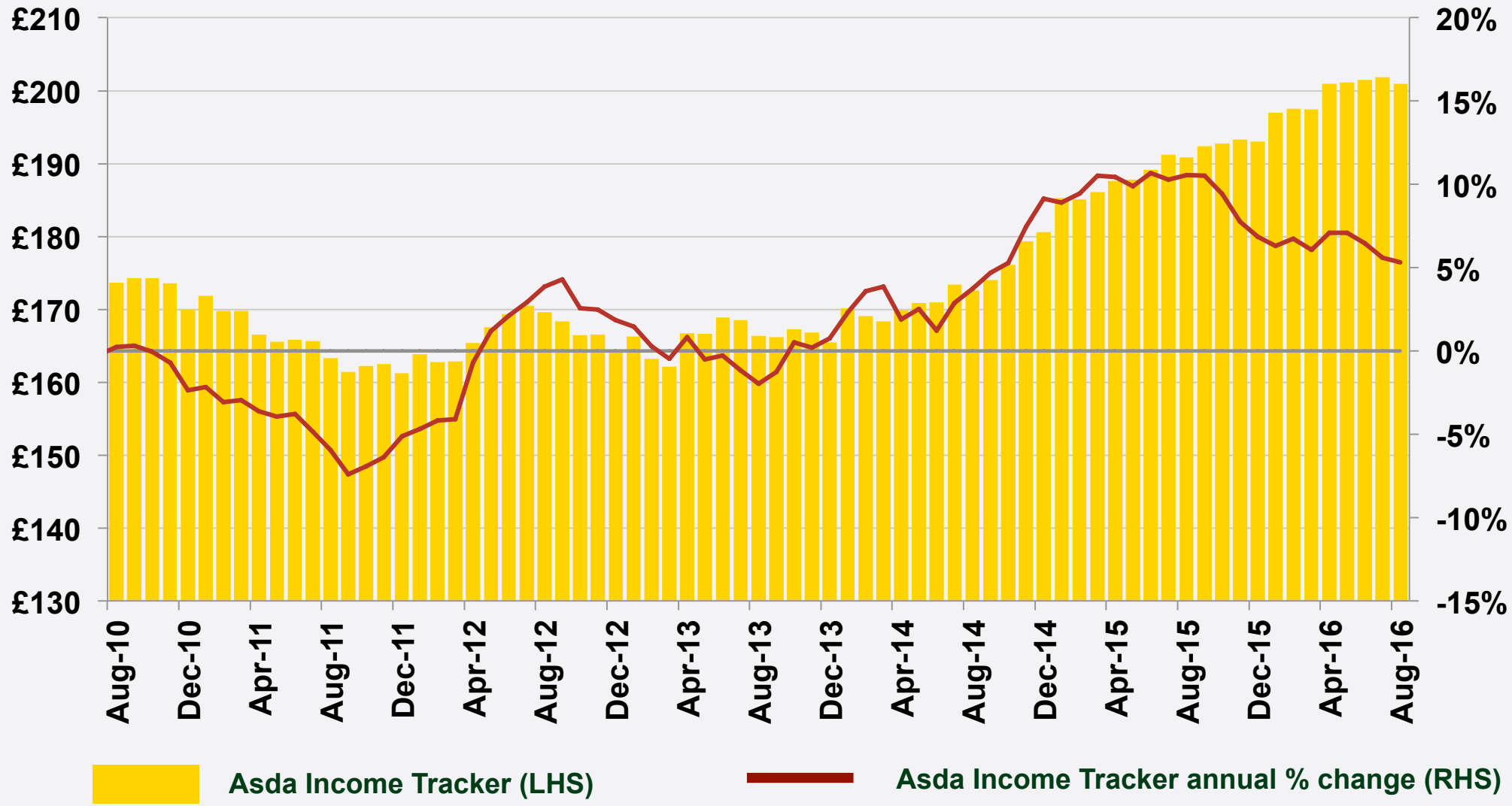
**Jennifer Devlin, Asda Media Relations Manager,**  
**[Jennifer.Devlin@Asda.co.uk](mailto:Jennifer.Devlin@Asda.co.uk) ; 0113 826 4823**

For data enquiries please contact:

**Sam Alderson, Cebr Economist,**  
**[SAlderson@Cebr.com](mailto:SAlderson@Cebr.com) ; 020 7324 2874**

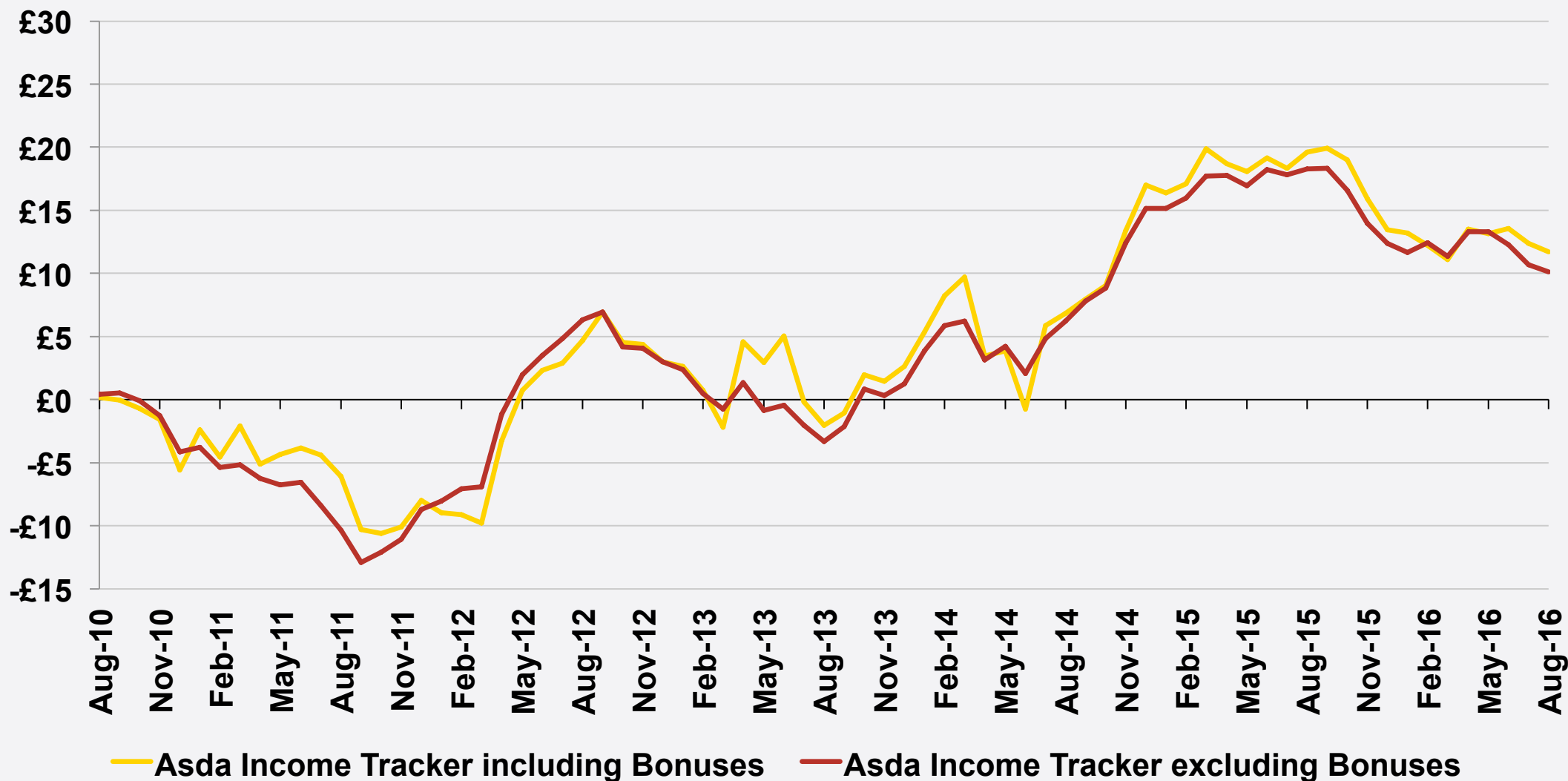
# Monthly Asda Income Tracker

Figure 1: Asda Income Tracker and year-on-year change (excluding bonuses)



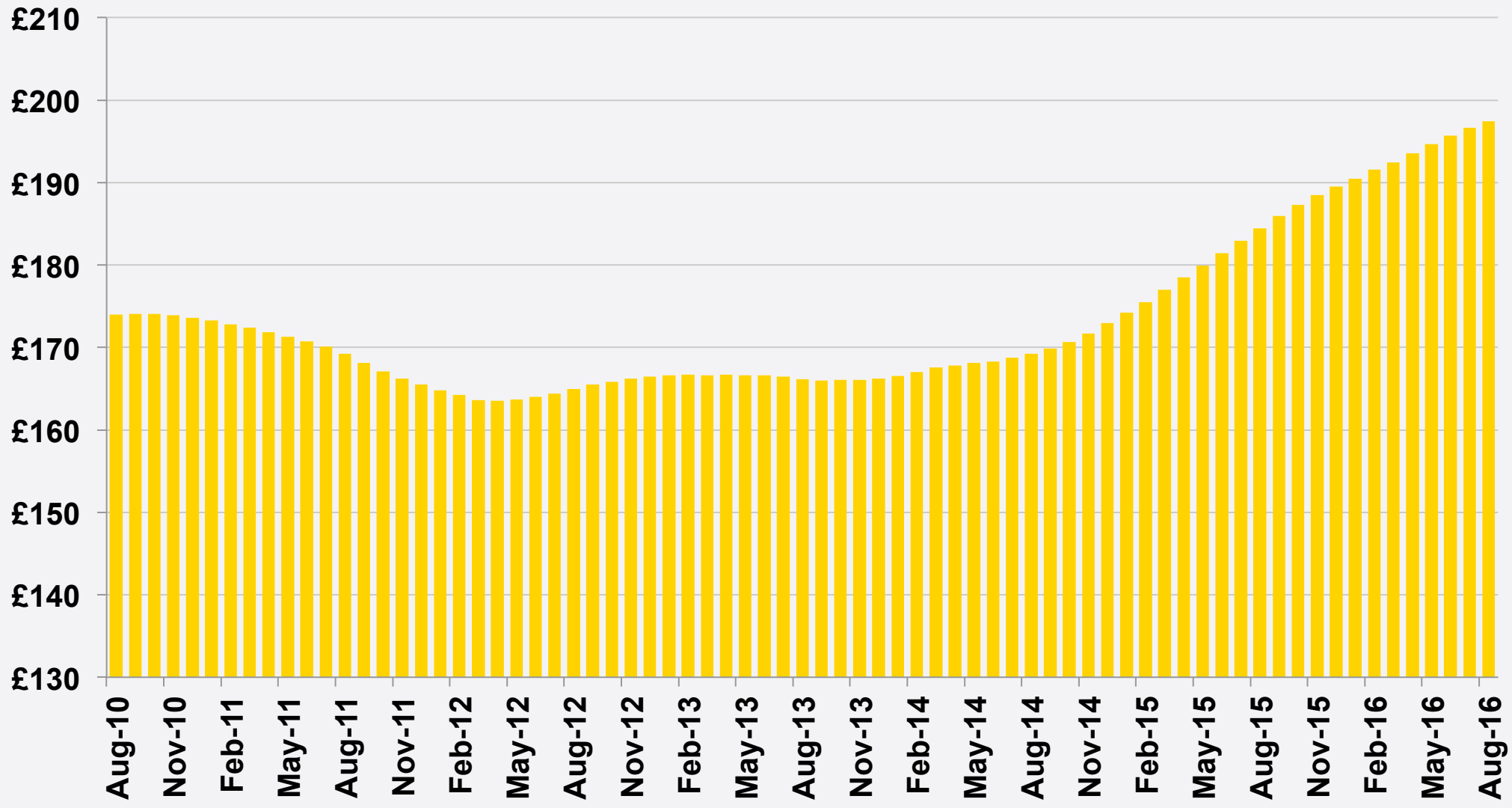
# Monthly Asda Income Tracker

Figure 2: Comparison of year-on-year change in Asda Income Tracker including and excluding bonuses



# Monthly Asda Income Tracker

Figure 3: Twelve-month moving average of Income Tracker (excl. bonuses) level



# 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 2012	£164	January 2013	£166	January 2014	£170	January 2015	£185	January 2016	£197
February 2012	£163	February 2013	£163	February 2014	£169	February 2015	£185	February 2016	£198
March 2012	£163	March 2013	£162	March 2014	£168	March 2015	£186	March 2016	£197
April 2012	£165	April 2013	£167	April 2014	£170	April 2015	£188	April 2016	£201
May 2012	£168	May 2013	£167	May 2014	£171	May 2015	£188	May 2016	£201
June 2012	£169	June 2013	£169	June 2014	£171	June 2015	£189	June 2016	£201
July 2012	£171	July 2013	£168	July 2014	£173	July 2015	£191	July 2016	£202
August 2012	£170	August 2013	£166	August 2014	£173	August 2015	£191	August 2016	£201
September 2012	£168	September 2013	£166	September 2014	£174	September 2015	£192		
October 2012	£166	October 2013	£167	October 2014	£176	October 2015	£193		
November 2012	£167	November 2013	£167	November 2014	£179	November 2015	£193		
December 2012	£164	December 2013	£165	December 2014	£181	December 2015	£193		
2012 Average	£166	2013 Average	£166	2014 Average	£173	2015 Average	£190		



# 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 Sam Alderson and Scott Corfe.**

**Whilst every effort has been made to ensure the accuracy of the material in this report, the authors and Cebr will not be liable for any loss or damages incurred through the use of this report.**

**London, September 2016**