

Asda Income Tracker

Report: March 2014

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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

Contents

Introduction	03
Headlines	04
Constructing the Income Tracker	05
Dashboard	06
Income Tracker trends	07
Cost of living	09
Labour market	11
Regional trends	12
Contact	16
Data charts & tables	17
Method update	22
Method notes	24
Disclaimer	26

Introduction

“In recent months I have been keen to point out that recovery cannot just be focussed on London and the South East – which is why I am delighted to see that this month, regions like the North East and Northern Ireland are finally enjoying a step on in their recovery.

“With household spend increasing for the sixth month in a row, there now appears to be a real momentum behind the economic recovery and this is being felt across all regions of the UK.

“Spending power is growing and unemployment is falling. Importantly though, these factors are combined with a fall in the price of petrol and food inflation, meaning that families have more breathing space when balancing the budget.”



Andy Clarke Asda President and CEO

Headlines – Asda Income Tracker

The average UK household had £170 a week of discretionary income in March 2014, up by £7 a week on the same month a year before but remaining below the all-time high of £174 seen in January 2010.

This is the fastest annual increase in discretionary incomes seen since September 2012 and reflects a continued slowing of inflation alongside a pickup in average wage growth.

Regular wages rose year on year by 1.4 per cent in the three months to February 2014 for the economy as a whole, while consumer price inflation dropped to 1.6 per cent over the year to March.

“It is encouraging to see a further increase in household spending power, as the Asda Income Tracker saw its fastest growth rate since late 2012.”

“A slowdown in inflation coupled with accelerating wage growth is helping to raise the average household spending power. Moreover, robust economic growth is expected to continue, which means it is likely that discretionary incomes will continue to rise over the coming months.”

Rob Harbron, Senior Economist, Cebr

**Family
spending
power was up
by £7 a week
year on year
in March**

**(a 4.3%
annual
increase)**

Constructing the Asda Income Tracker



Asda Income Tracker Dashboard: March

Indicator	Annual percentage change	Latest trend
Regular earnings growth* (Feb)	+1.4% (excl. bonuses)	●
Employment growth* (Feb)	+2.3% (+691,000 employment on year)	●
Unemployment rate** (Feb)	6.9% (-1.0 % points on year)	●
Net income	+2.6%	●
Mortgage costs	+0.1%	●
Food	+1.7%	●
Vehicle fuels	-6.6%	●
Home electricity, gas & fuel	+5.2%	●
Essential item inflation	+1.5%	●
Family spending power	+4.3%	●
KEY IMPROVEMENT ● NO SIGNIFICANT CHANGE ● DETERIORATION ●		

* three-month average, to month stated

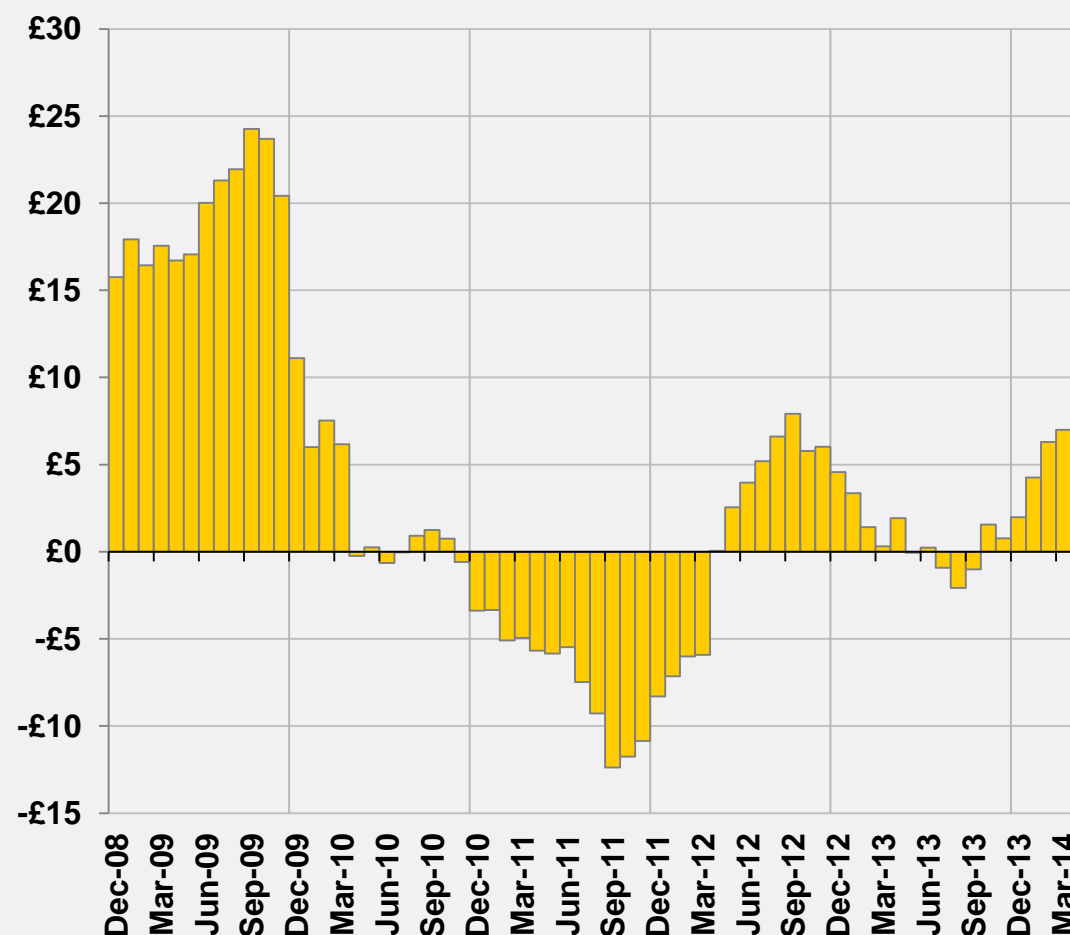
**unemployment rate for three months to month stated

Growth in discretionary incomes gathered pace in Q1 2014

The Asda Income Tracker was £7 a week higher in March 2014 than a year before

- In March 2014, household discretionary incomes excluding bonuses rose by 4.3 per cent compared to the same month a year before.
- This is the fastest annual growth on the Income Tracker since September 2012, reflecting both an easing of inflation and faster growth in wages.
- This is also the sixth consecutive month of annual increases in discretionary income, highlighting the current sustained nature of recovery.
- Once bonus payments are included in the Income Tracker, discretionary incomes increased year on year by £11 or 5.9 per cent. Bonus payments are returning to steady annual growth in 2014, alongside the general uptick in economic growth.
- An increase of £560 to £10,000 in the income tax free personal allowance from April 2014 will help discretionary incomes going forward.

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



Employment growth and falling inflation help to boost discretionary incomes

The Asda Income Tracker was £7 a week higher in March 2014 than a year before

- The average UK household had £170 a week in discretionary income in March 2014, up from £163 at the same point a year ago.

- However, the level of average discretionary income still remains below its record high of £174 in January 2010.

- Gross household incomes increased year on year by 2.0 per cent in March, pushed up by faster wage growth in the private sector and sustained employment growth.

- Taking into account the effects of tax changes, net incomes increased year on year by 2.6 per cent over the same period.

Contributions to annual change in the Income Tracker (excluding bonuses), March 2014

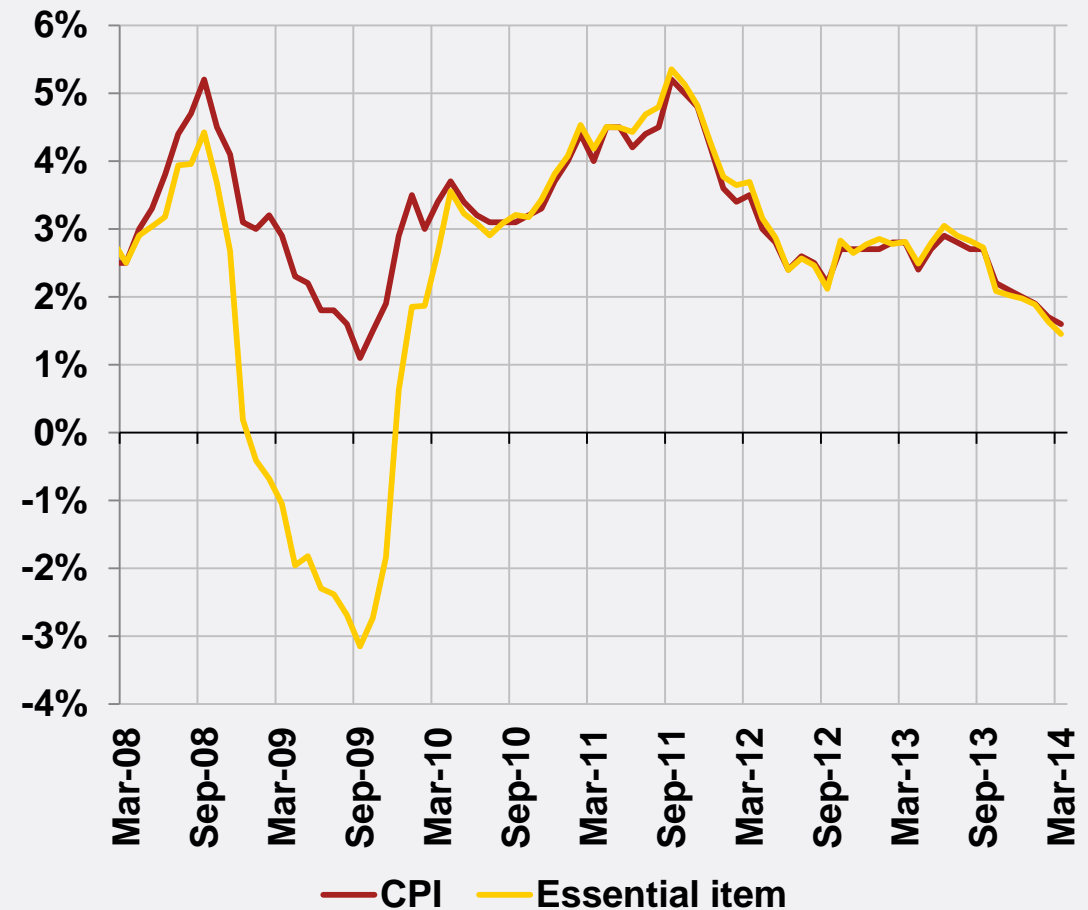


Price inflation for essential items now running slower than wage growth

Annual inflation on the price of essential items fell to just 1.5 per cent in March 2014

- Inflation continued to ease in March 2014, as the rate of price growth on essential items fell back to just 1.5 per cent, the lowest seen since December 2009.
- Headline Consumer Price Index (CPI) inflation also slowed to 1.6 per cent, down from 1.7 per cent the previous month and from a recent high of 2.9 per cent in June 2013.
- The inflationary environment has been generally easing since June 2013, and the latest consumer price inflation results takes the headline rate further below the Bank of England's central target of 2.0 per cent.
- The latest movement in inflation means that essential item price growth is now running more slowly than regular average wage growth, which stood at 1.4 per cent in the three months to February 2014 for the whole economy, compared to the same point a year before.

Annual inflation on the consumer price index and essential item annual inflation

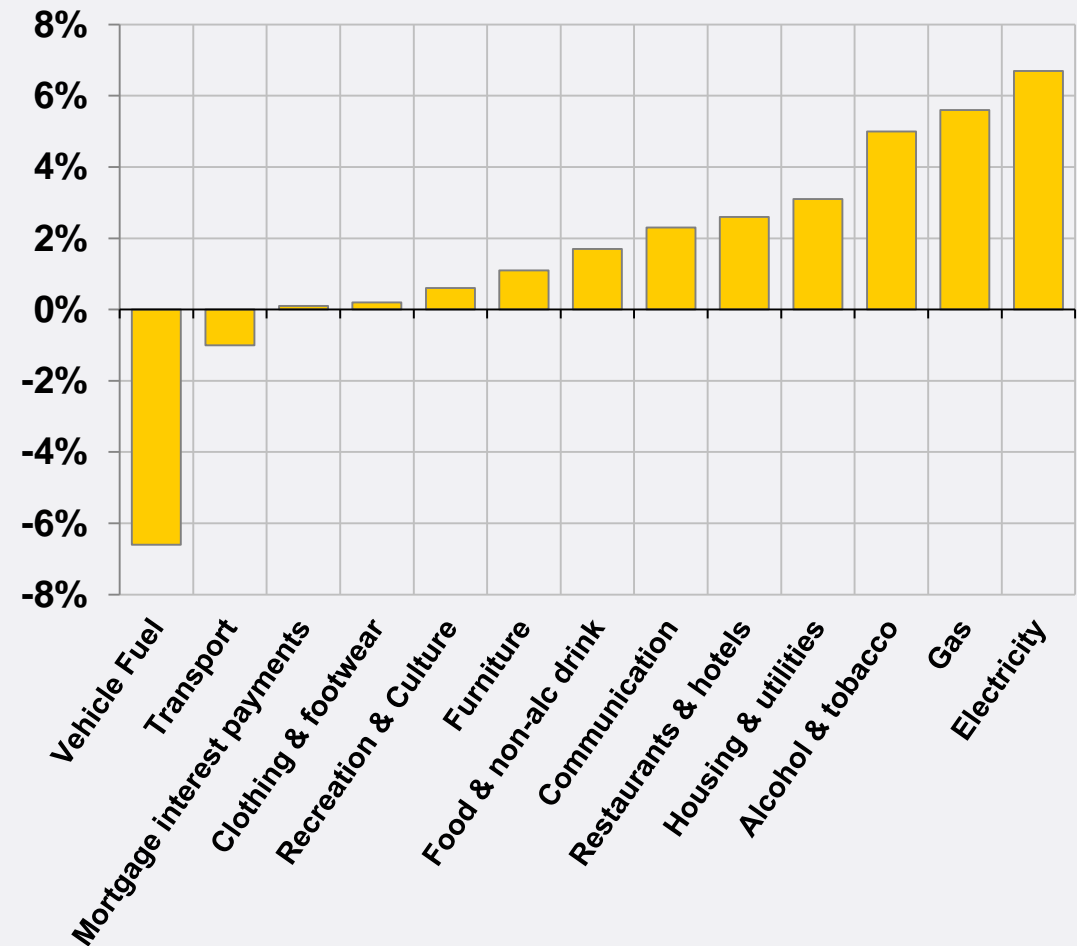


Fuel prices remain well down on a year ago, easing overall inflation rate

The main factors affecting family spending costs in March were:

- The cost of petrol and diesel in March 2014 stood some 6.6 per cent below its level a year before, helping to bring down the overall rate of inflation.
- Clothing and footwear price inflation slowed in March to just 0.2 per cent year on year, down from 0.8 per cent the previous month and a high of 3.1 per cent in June 2013.
- The annual inflation on mortgage interest payments slowed to 0.1 per cent in March 2014, as the Bank of England continues to keep the base rate on hold.
- Inflation on gas prices also slowed to its lowest in more than a year in March, at 5.6 per cent. The last time it was slower was January 2013. However, both gas and electricity price inflation remain elevated, continuing to put pressure on household budgets.

Inflation of selected goods, annual change to March 2014

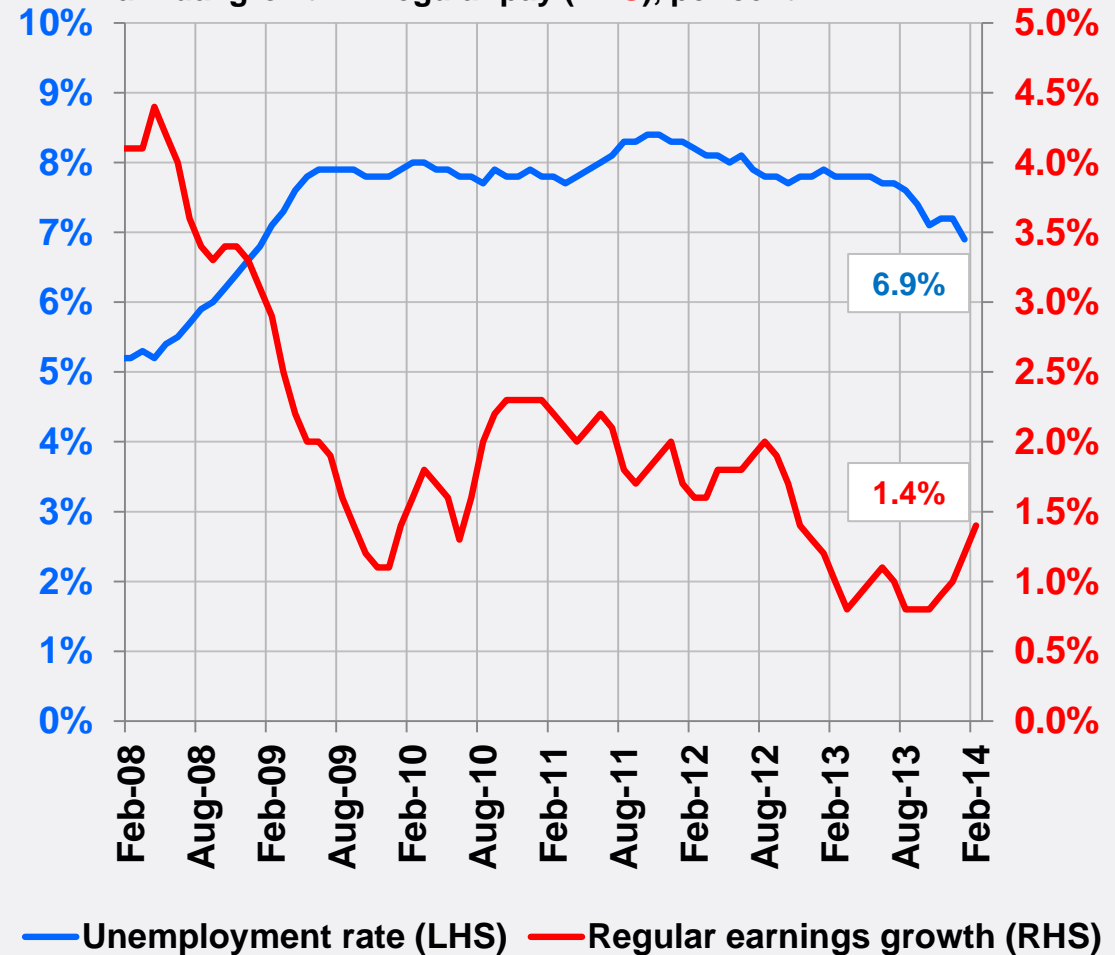


Private sector pay growth pace helps support discretionary incomes

Private sector regular wages rose year on year by 1.8 per cent in three months to February 2014

- This is the fastest rate of private sector regular pay growth seen since the three months to September 2012 and follows a period through the second half of 2013 when annual increases stood at or below 1.0 per cent.
- Year on year regular pay growth in the public sector remains weak however, at just 1.0 per cent in the three months to February 2014.
- This leaves the overall rate of annual pay growth for the UK labour force at 1.4 per cent, the highest since the three months to November 2012.
- This uptick in nominal wage growth comes alongside a sharp drop in joblessness. The unemployment rate fell to 6.9 per cent in the three months to February, down from 7.2 per cent in the three months to January.
- In addition, *underemployment* is falling. The share of those working part-time because they couldn't find full-time work fell to 17.7 per cent in the three months to February, the lowest reading in just over a year.

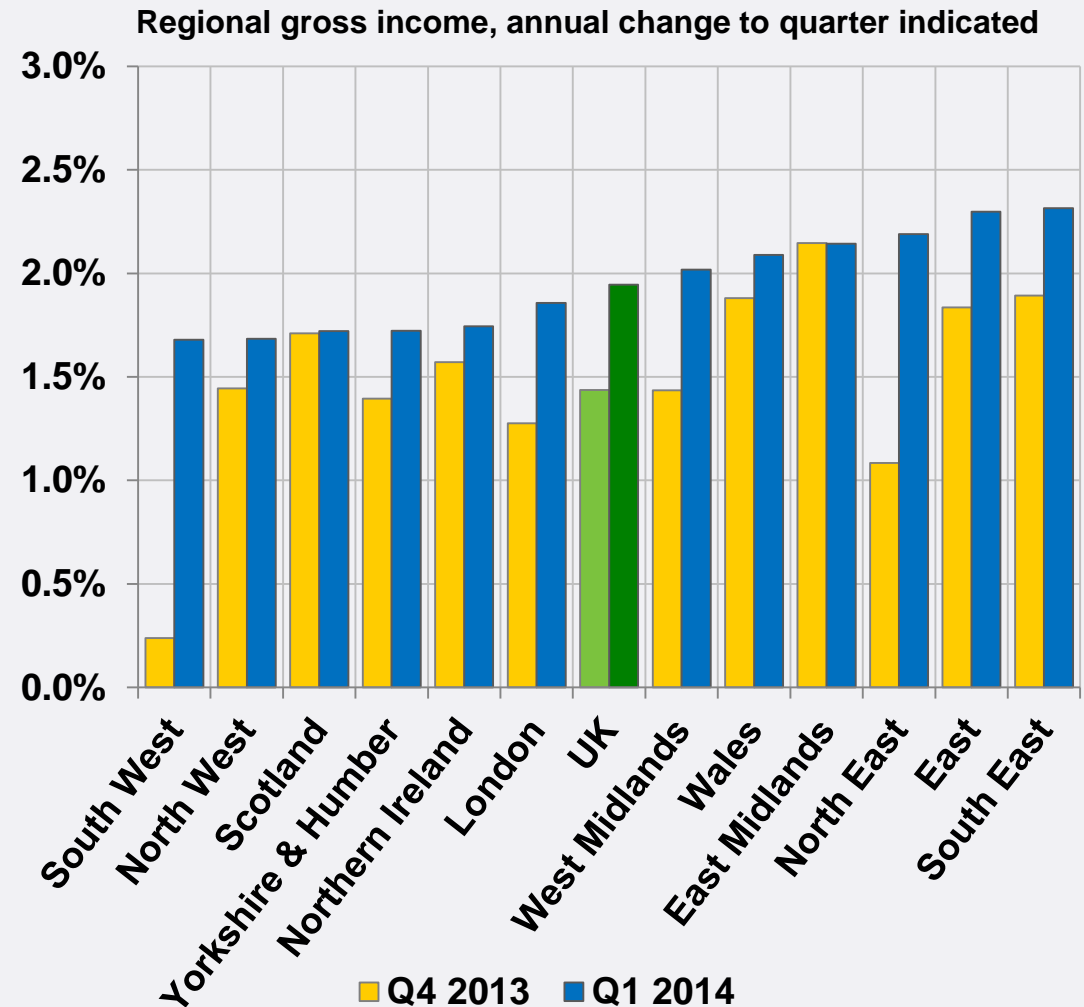
UK unemployment rate (LHS), per cent and 3-month annual growth in regular pay (RHS), per cent



Gross income growth picking up across most of the UK

Supported by accelerating wage growth and strengthening labour markets

- Households in the South East saw the greatest year on year increase in their gross incomes in Q1 2014, largely due to a significant strengthening of the local labour market.
- The unemployment rate in the region declined by 1.7 percentage points in the three months to February 2014 compared to the same period a year before, taking the rate to just 5.1 per cent.
- Unemployment rates have also fallen back year on year in every other part of the UK, alongside accelerating wage growth, helping to support gross income growth.
- However, although unemployment has fallen year on year in both Scotland and the East Midlands, the rates actually climbed between Q4 2013 and Q1 2014, preventing gross income growth from rising any faster.

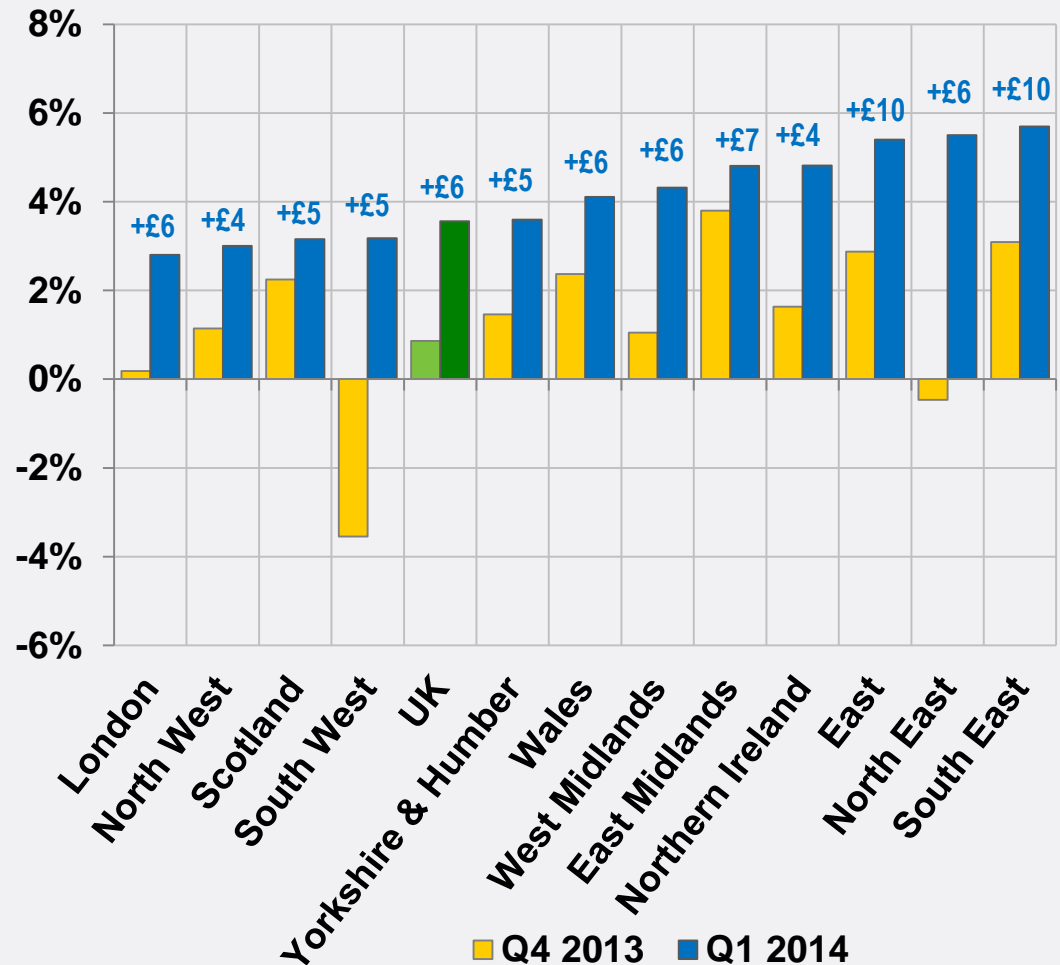


Spending power now in recovery in every area of the UK

Positive growth in discretionary incomes now seen in every UK region and country

- In line with the fastest growth in gross incomes, households in the South East are also seeing the most rapid increases in discretionary spending power, which is estimated to have increased by 5.7 per cent year on year in Q1 2014.
- Family spending power in the North East also saw strong year on year growth in Q1 2014, at 5.5 per cent. Average pay growth in the region is being boosted by the North East's relatively high reliance on the manufacturing and construction sectors, both industries that are currently seeing rapid pay increases.
- At the other end of the scale, discretionary income growth in London is more subdued. Increases in average wages in the capital are suffering from the dependence on the financial and business services sector, which continues to see declines in regular pay. In addition, the cost of living in London is rising faster than elsewhere in the UK, holding back spending power growth.

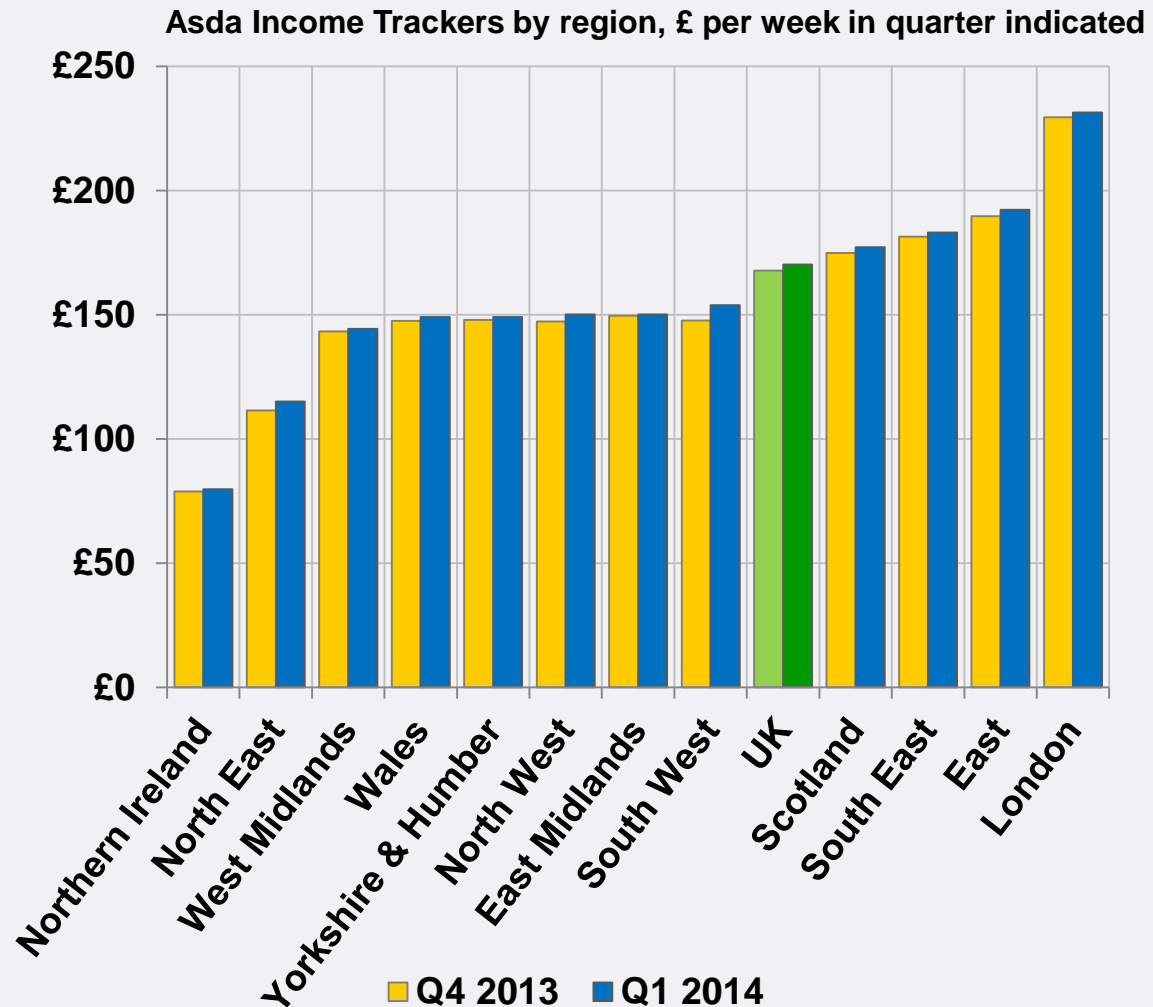
Asda Income Trackers by region, annual % change to quarter indicated and **annual £ change to latest quarter**



Discretionary income in London slipping back against the UK as a whole

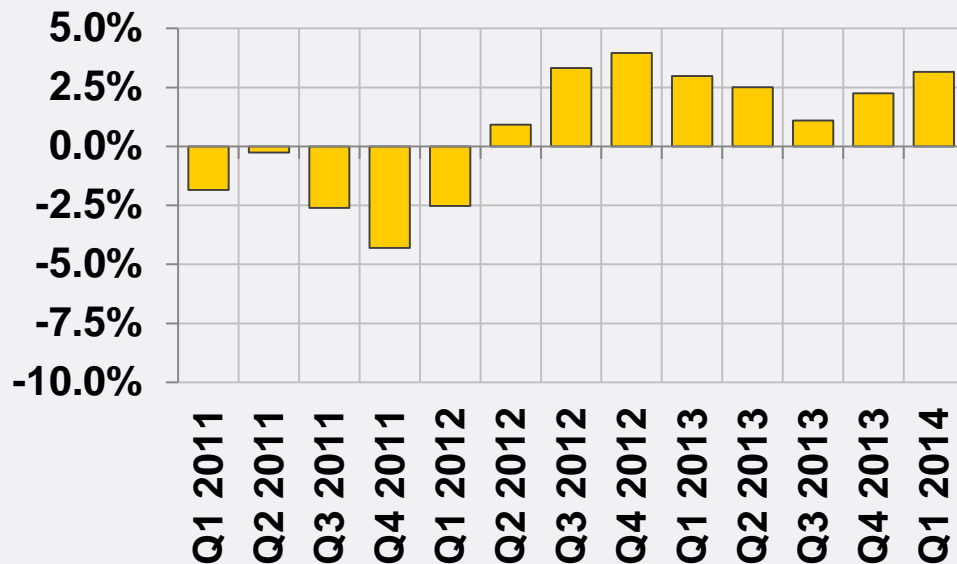
Spending power rising more slowly in the capital than the average UK household

- Average household discretionary income stood at £231 in London in Q1 2014, up from £230 the previous quarter and £225 at the same point a year ago.
- This compares to a UK-wide average of £170 for Q1 as a whole.
- However, as noted on the previous page, discretionary incomes are increasing more slowly in London than across the UK as a whole.
- As a result, discretionary incomes in London were 35.9 per cent higher than the UK average in Q1 2014, down from a gap of 36.9 per cent in Q1 2013.
- In contrast to London, average discretionary incomes in Wales and Northern Ireland are increasing faster than for the UK as a whole. As a result, spending power levels in these countries are drawing closer to the UK average level.



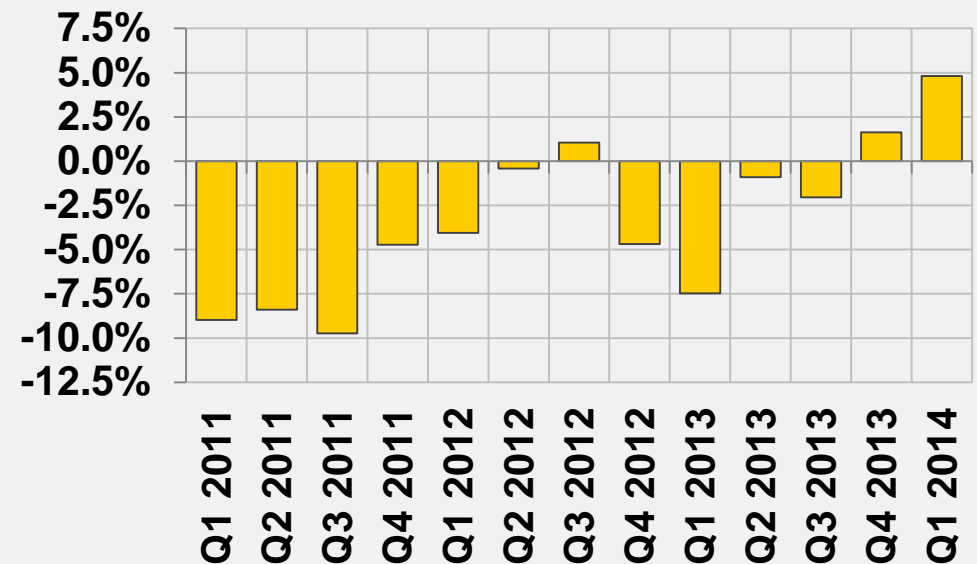
Focus on Scotland and Northern Ireland

Annual % change in discretionary incomes, Scotland



- Growth in discretionary incomes is accelerating in Scotland, rising to 3.2 per cent in Q1 2014, up from 2.2 per cent in Q4 2013.
- The unemployment rate fell by 0.8 percentage points year on year in the three months to February 2014, helping to support income growth.
- Slowing growth in the cost of living is also helping to ease pressure on family budgets, as petrol prices fell year on year by 4.9 per cent in Q1 in Scotland.

Annual % change in discretionary incomes, Northern Ireland



- Family spending power rose year on year for the second consecutive quarter in Q1 2014, standing 4.8 per cent higher than a year before.
- Falling unemployment and rapid wage growth in the manufacturing and construction industries, which make up a relatively large share of NI employment is helping to boost income.
- In addition, petrol prices fell year on year by 5.4 per cent in Q1 in NI, the fastest of anywhere in the UK.

Contact, 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:

Andrew Devoy, Asda PR Manager,
Andrew.Devoy@Asda.co.uk ; 0113 826 4823

Amy Garbutt, Asda PR Manager,
Amy.Garbutt@Asda.co.uk ; 0113 826 3369

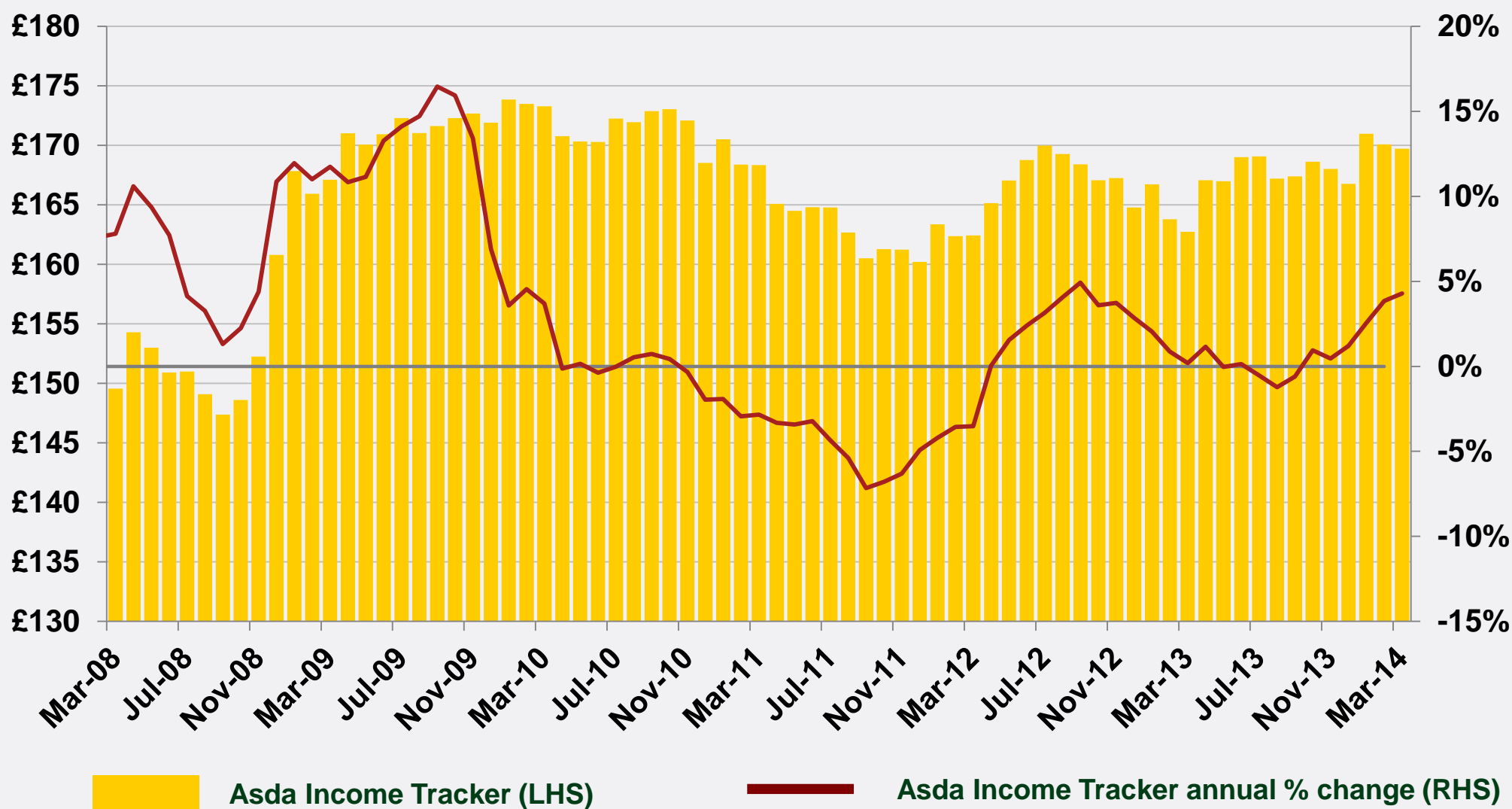
For data enquiries please contact:

Ilse van Herpen, Asda Customer Insight,
Ilse.VanHerpen@Asda.co.uk ; 0113 826 4691

Rob Harbron, Cebr Senior Economist,
RHarbron@Cebr.com ; 020 7324 2864

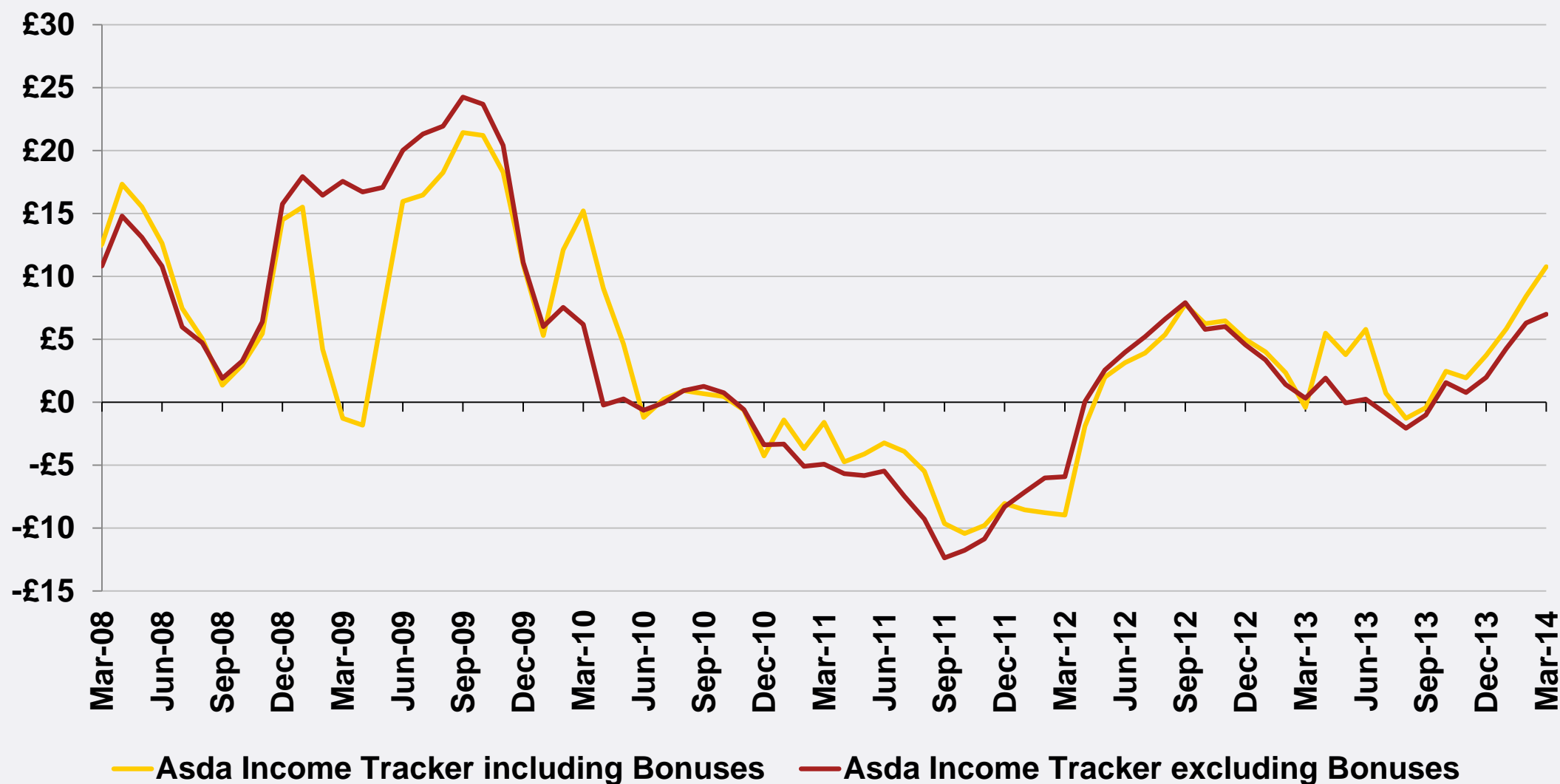
Monthly Asda Income Tracker

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



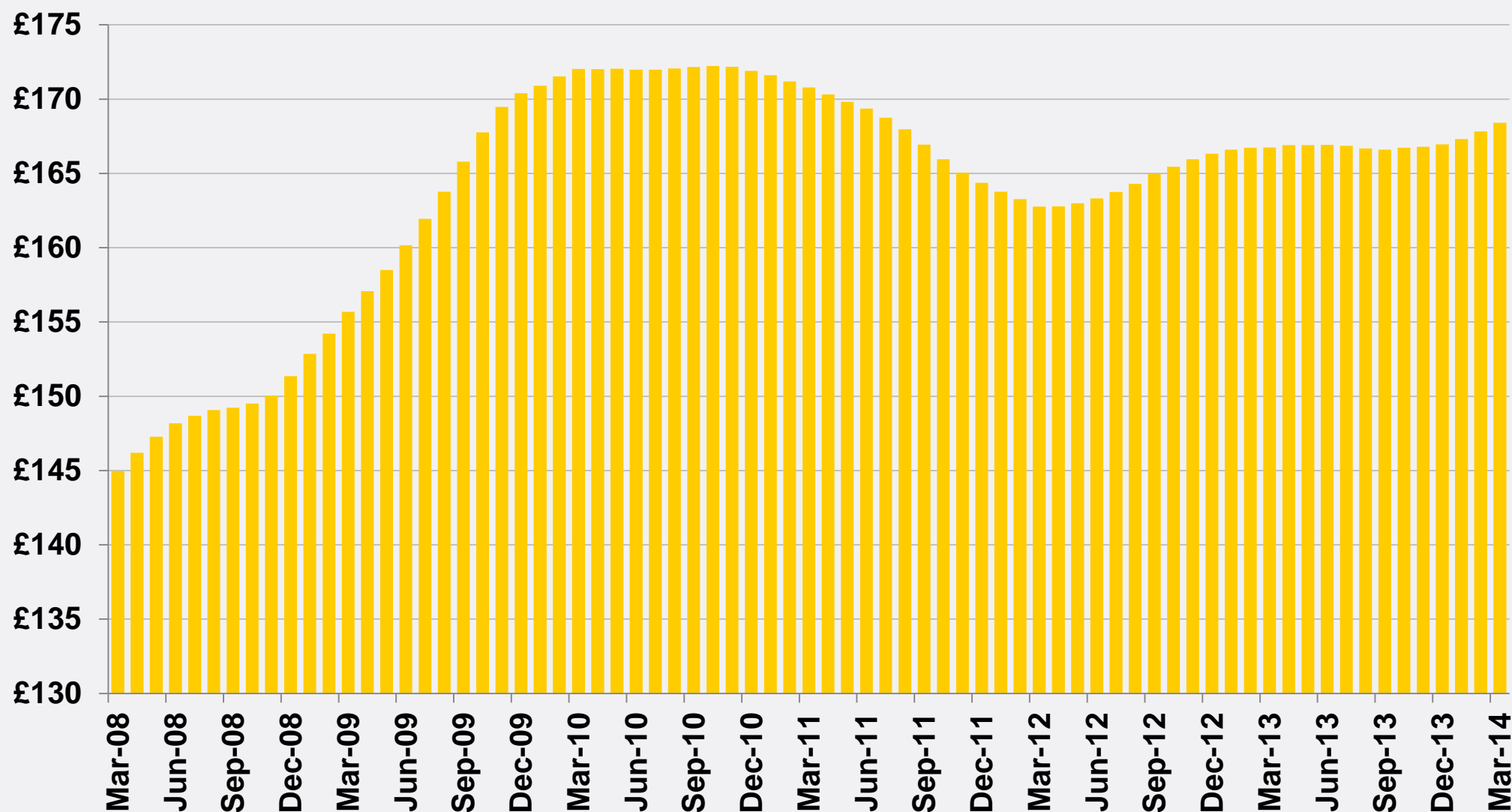
Monthly Asda Income Tracker

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 2010	£174	January 2011	£171	January 2012	£163	January 2013	£167	January 2014	£171
February 2010	£173	February 2011	£168	February 2012	£162	February 2013	£164	February 2014	£170
March 2010	£173	March 2011	£168	March 2012	£162	March 2013	£163	March 2014	£170
April 2010	£171	April 2011	£165	April 2012	£165	April 2013	£167		
May 2010	£170	May 2011	£164	May 2012	£167	May 2013	£167		
June 2010	£170	June 2011	£165	June 2012	£169	June 2013	£169		
July 2010	£172	July 2011	£165	July 2012	£170	July 2013	£169		
August 2010	£172	August 2011	£163	August 2012	£169	August 2013	£167		
September 2010	£173	September 2011	£161	September 2012	£168	September 2013	£167		
October 2010	£173	October 2011	£161	October 2012	£167	October 2013	£169		
November 2010	£172	November 2011	£161	November 2012	£167	November 2013	£168		
December 2010	£169	December 2011	£160	December 2012	£165	December 2013	£167		
2010 Average	£172	2011 Average	£164	2012 Average	£166	2013 Average	£167		

Quarterly ASDA Income Tracker

Table 2: Average household Income Tracker, £ per week, current prices, excluding bonuses

Region	Q1 2012	Q1 2013	Q1 2014
Northern Ireland	82	76	80
North East	105	109	115
West Midlands	142	138	144
Wales	142	143	149
Yorkshire & Humber	142	144	149
North West	141	146	150
East Midlands	143	143	150
South West	149	149	154
Scotland	167	172	177
South East	176	173	183
East	182	182	192
London	224	225	231

Method update note: I

From March 2014, the base data from which the Asda Income Tracker is derived have been updated.

This is to account for the latest release from the Office for National Statistics of the Living Costs and Food Survey: 2013 edition. This release gives the detailed data required to compute the spending and income figures for the average UK household that feed into the overall discretionary income result. These updates are conducted on an annual basis, in line with the release of the necessary datasets.

This update is required to continue to keep the Income Tracker as relevant as possible, with the most up-to-date data available. The update makes the latest vintage of the Income Tracker report and associated datasets not directly comparable with previous editions. However, the new time series data now available (e.g. in the tables and charts pages) provide the most complete estimates and should be used for any time series analysis.

Method update note: II

In addition, from Q1 2014, the method for calculating average wage growth across the UK countries and regions has been improved.

The Office for National Statistics only produces average weekly earnings figures at a UK-wide level, as well as an industry breakdown, rather than producing regional estimates.

However, as employment by industry is available in each region, and wage growth is available by industry across the UK as a whole, the new method provides estimates for wage growth on a regional basis. This is done by weighting the UK-wide wage industry wage growth by the employment share by industry in each region. This allows the Income Tracker analysis to provide a richer understanding of the discretionary income trends facing households around each part of the UK.

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 Rob Harbron, Scott Corfe and Charles Davis.

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, April 2014