

Asda Income Tracker

Report: December 2015

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Making Business Sense

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Introduction

“Throughout 2015 falls in commodity prices and a strengthening pound contributed to higher discretionary income in households across the UK. We’ve also passed a milestone for the British economy, with inflation remaining at zero for a full calendar year for the first time since records began. Despite these positive economic indicators, spending patterns remain erratic. Although falling vehicle fuel costs are putting extra pounds in consumers’ pockets, this doesn’t necessarily translate to an increase in household spending.”

“It’s encouraging to see that the regional picture was positive overall, but with varying contributing factors. Northern Ireland again experienced the fastest growth in discretionary income, but still remained disproportionately behind the rest of the UK. In comparison Scotland’s growth slowed as a result of increased pressure on the public sector and the price of oil.”

Andy Clarke Asda President and CEO



Headlines – Asda Income Tracker

The average UK household had £194 a week of discretionary income in December 2015, up by £13 a week on the same month a year before.

Slowing wage growth and a slight rise in inflation in recent months have acted as a drag on family spending growth, which fell to its lowest level since October 2014 in the latest reading.

In line with the UK as a whole, each region has seen discretionary income growth slow in the latest quarter. However, more positively, the gap between households in London compared with those in the East, South East and North West of England has narrowed over the past year.

“Against a backdrop of global economic turbulence, households across the UK continued to see spending power head higher supported by another month of negative essential item inflation.”

“Global growth concerns have already sent oil prices lower and are likely to hold interest rates lower for longer. While this should help provide further boosts to spending power in 2016, the uncertainty means that families can be forgiven for exercising some caution in terms of spending any additional spare cash.”

Sam Alderson, Economist, Cebr











Family
spending
power was up
by £13 a week
year on year
in December




(an 7.2%
annual
increase)

Constructing the Asda Income Tracker



Asda Income Tracker Dashboard: December

Indicator	Annual percentage change	Recent trend
Regular earnings growth (Nov)	+1.9% (excl. bonuses)	
Employment growth (Nov)	+1.9% (+588,000 employment on year)	
Unemployment rate (Nov)	5.1% (-0.8 % points on year)	
Net income	+2.4%	
Mortgage costs	-1.6%	
Food & non-alcoholic drinks	-2.9%	
Vehicle fuels	-11.4%	
Home electricity, gas & fuel	-4.0%	
Essential item inflation	-0.1%	
Family spending power	+7.2%	

KEY IMPROVING TREND  NO SIGNIFICANT CHANGE IN TREND  DETERIORATING TREND 

* three-month average, to month stated

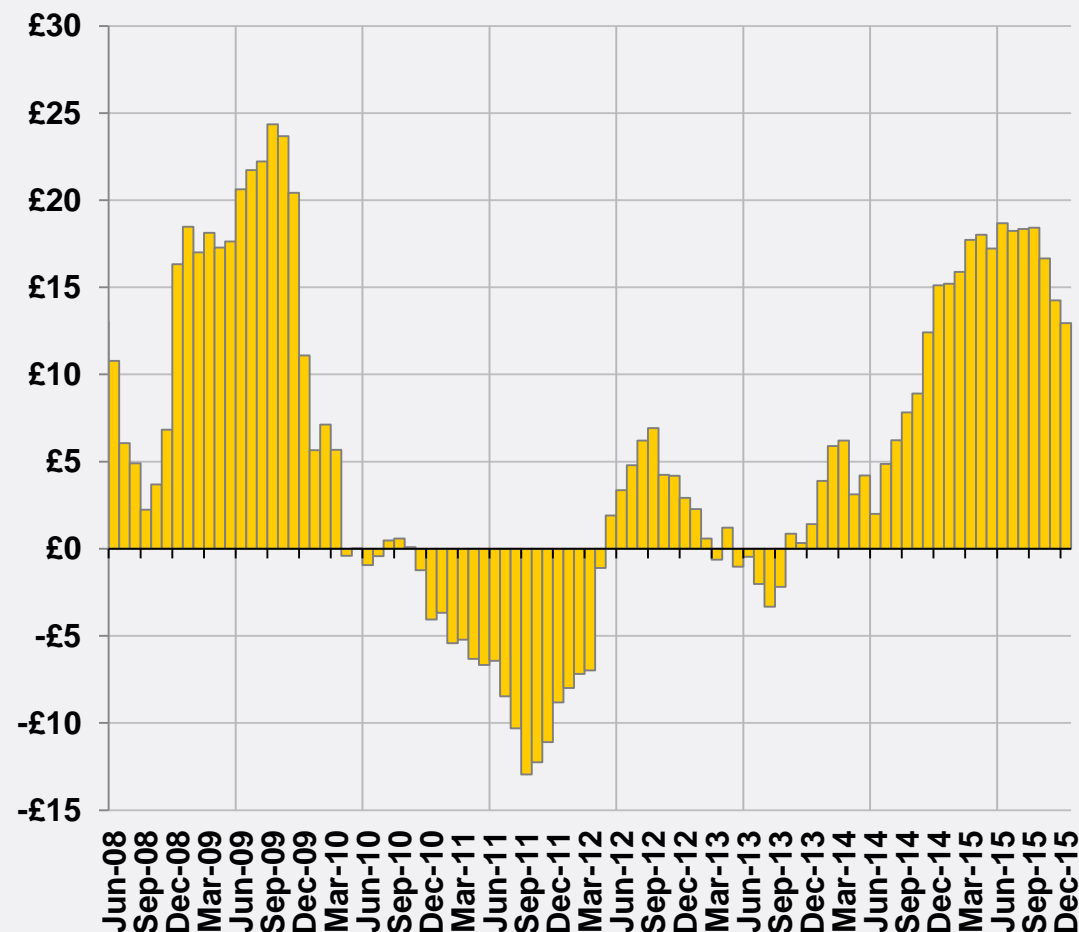
**unemployment rate for three months to month stated

Annual increase in spending power continues to slow

The Asda Income Tracker was £13 a week higher in December 2015 than a year before

- In December 2015, average household discretionary incomes excluding bonuses were 7.2% higher than the same month in 2014.
- While the lowest percentage increase recorded since October 2014, December saw yet another double digit increase in family spending power in pound terms.
- The combination of slowing wage growth and the slight pick-up in inflation has weighed on annual spending power growth in recent months.
- However, despite these trends, wage growth remains well above the rate of inflation. This is helping to maintain robust improvements in family spending power.
- Discretionary incomes are also being boosted by further growth in employment. The rate of unemployment fell to 5.1% in the latest reading for the three months to November, slightly below the pre-crisis average of 5.2%.

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

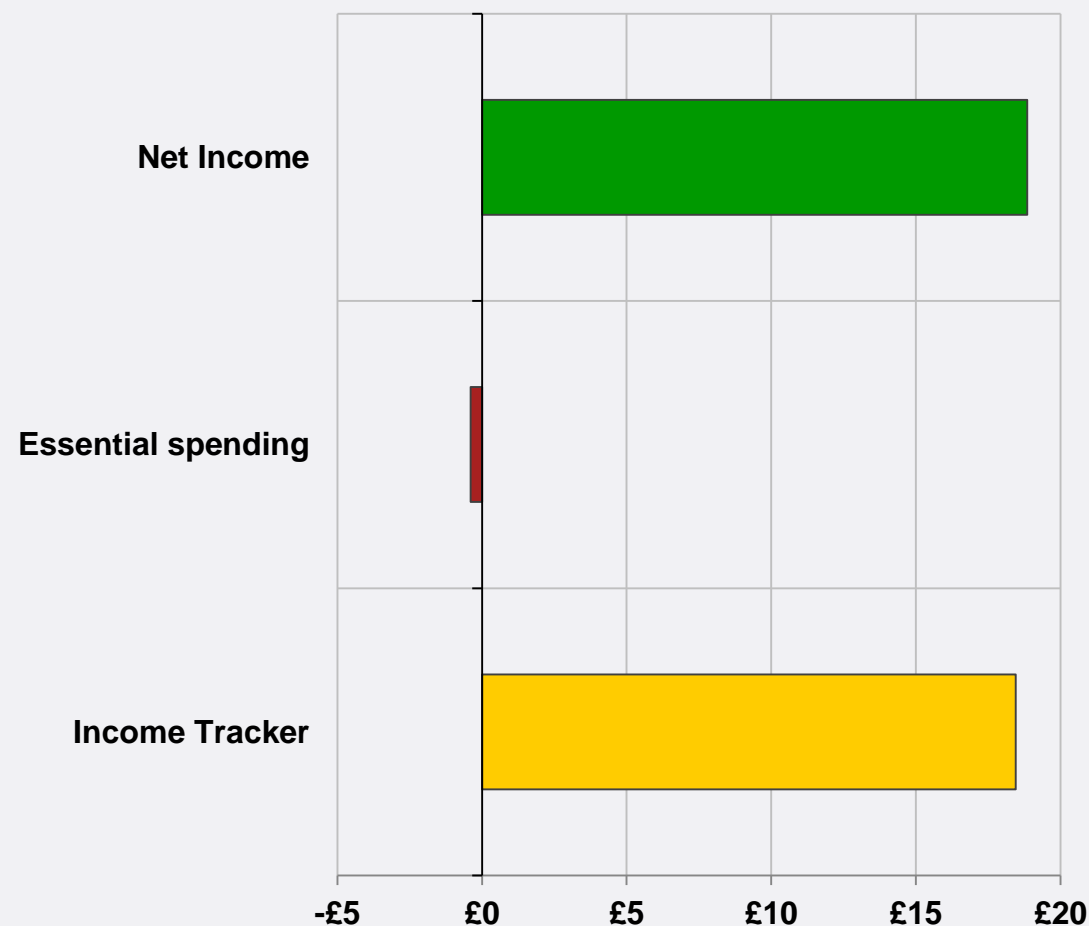


Slowing wage growth provides largest drag on discretionary income growth

The Asda Income Tracker was £13 a week higher in December 2015 than a year before

- The average UK household had £194 a week of discretionary income in December 2015, up from £181 at the same point a year ago.
- Year-on-year net income growth slowed once again in the latest reading, standing at 2.4% compared with rates above 3% seen earlier in 2015.
- While essential item inflation has picked up in recent months, it remains negative as the price of goods such as food continued to fall in December.
- Given that total pay growth has slowed, spending power including the effect of bonus payments has also seen the pace of growth slow. The annual rate including bonuses stood at 6.9%, down from the 7.9% recorded in November.

Contributions to annual change in the Income Tracker (excluding bonuses), December 2015



Inflation rises to its highest level since January – but that's still just 0.2%

Essential item inflation remains just below zero.

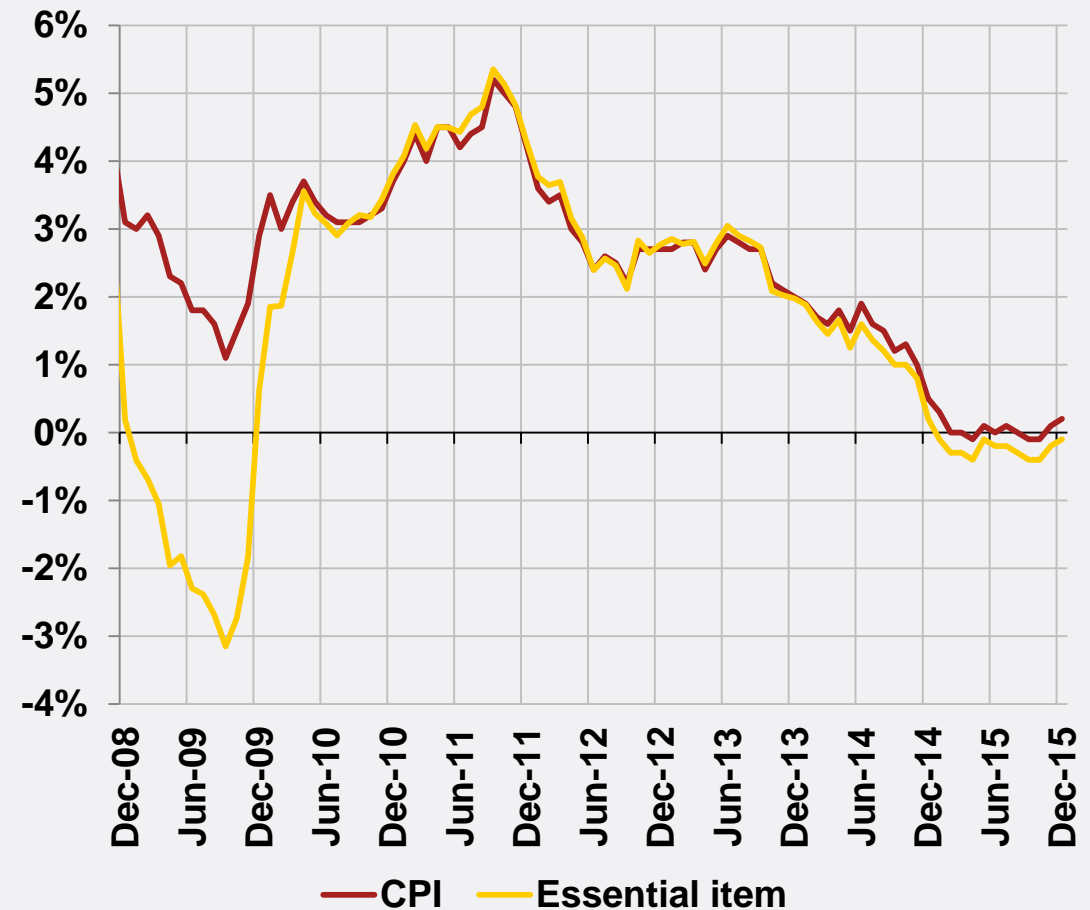
- Annual consumer price inflation rose marginally in December, standing at 0.2% compared with the 0.1% recorded in November. This means that the average headline inflation level for 2015 as a whole stood at 0% - its lowest annual level since comparable records began in 1950.

- Looking across the year overall, transport costs, food prices and (to a lesser extent) the prices of recreational and cultural goods and services have had a downward pull on the rate of inflation.

- While inflation remains barely above the zero-mark, it looks likely to rise further in the next couple of months. Despite oil prices hitting 12-year lows in January, the prices of vehicle fuel and utilities such as electricity and gas are unlikely to fall to the same extent that they did a year ago.

- In line with the headline rate, annual essential item inflation also rose in December, standing at -0.1% compared with -0.2% in November. This rounds off 12 consecutive months of negative essential item inflation.

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

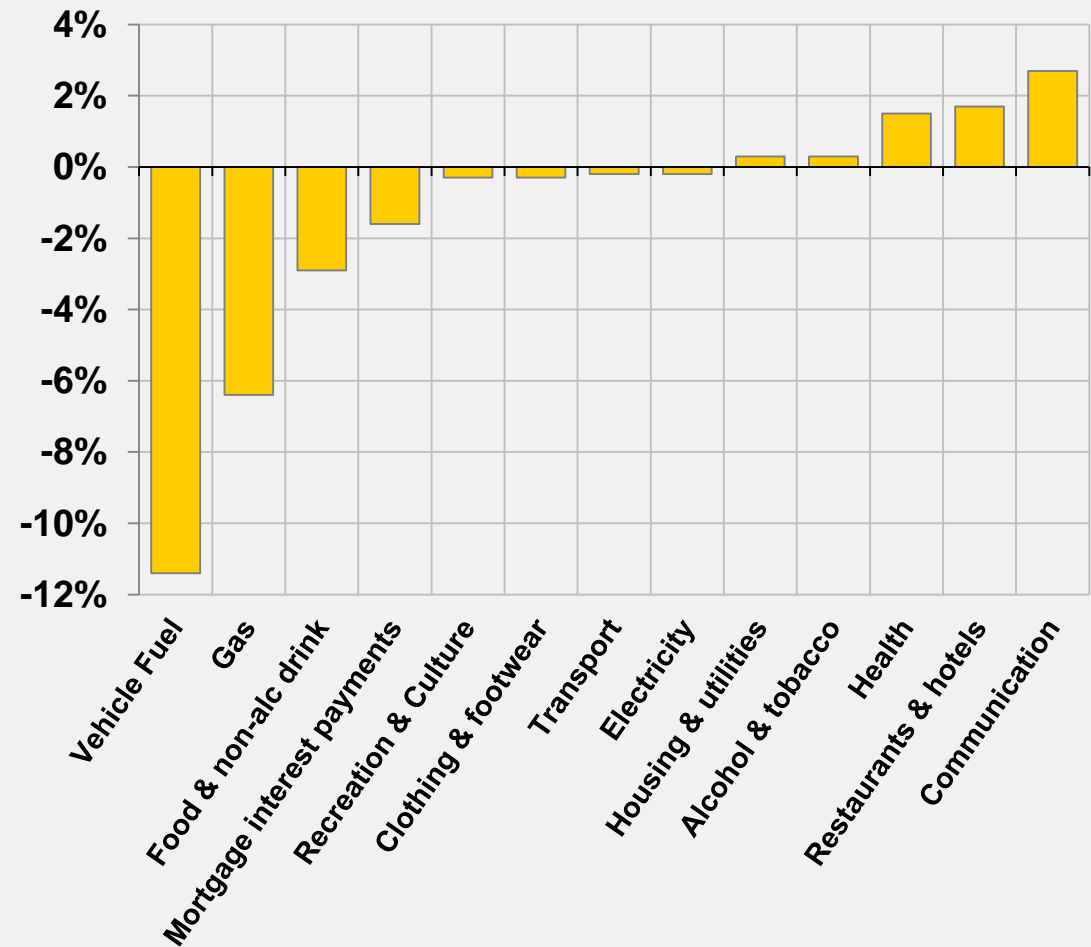


Airfares jump sharply in December despite further declines in the price of oil

The main factors affecting family costs in December were:

- Transport costs were the main contributors to the rise in inflation in December. The upward effect came primarily from air fares, which increased 46% between November and December. While prices typically rise between these months, this represented the largest December price hike since 2002 and leaves airfares 26.8% higher than at the same point a year ago.
- In sharp contrast, those avoiding the airways over the holiday season saw further falls in the price of a range of goods between November and December.
- For instance, the price of a litre of petrol fell by 3.4p between November and December. While less than the decline seen at the same time a year ago, the fall provides further relief to household budgets.
- Similarly, food prices fell by a further 0.2% between November and December, while alcohol saw a 3% monthly decline in price helping to reduce the cost of entertaining over the holiday period.

Inflation of selected goods, annual change to December 2015

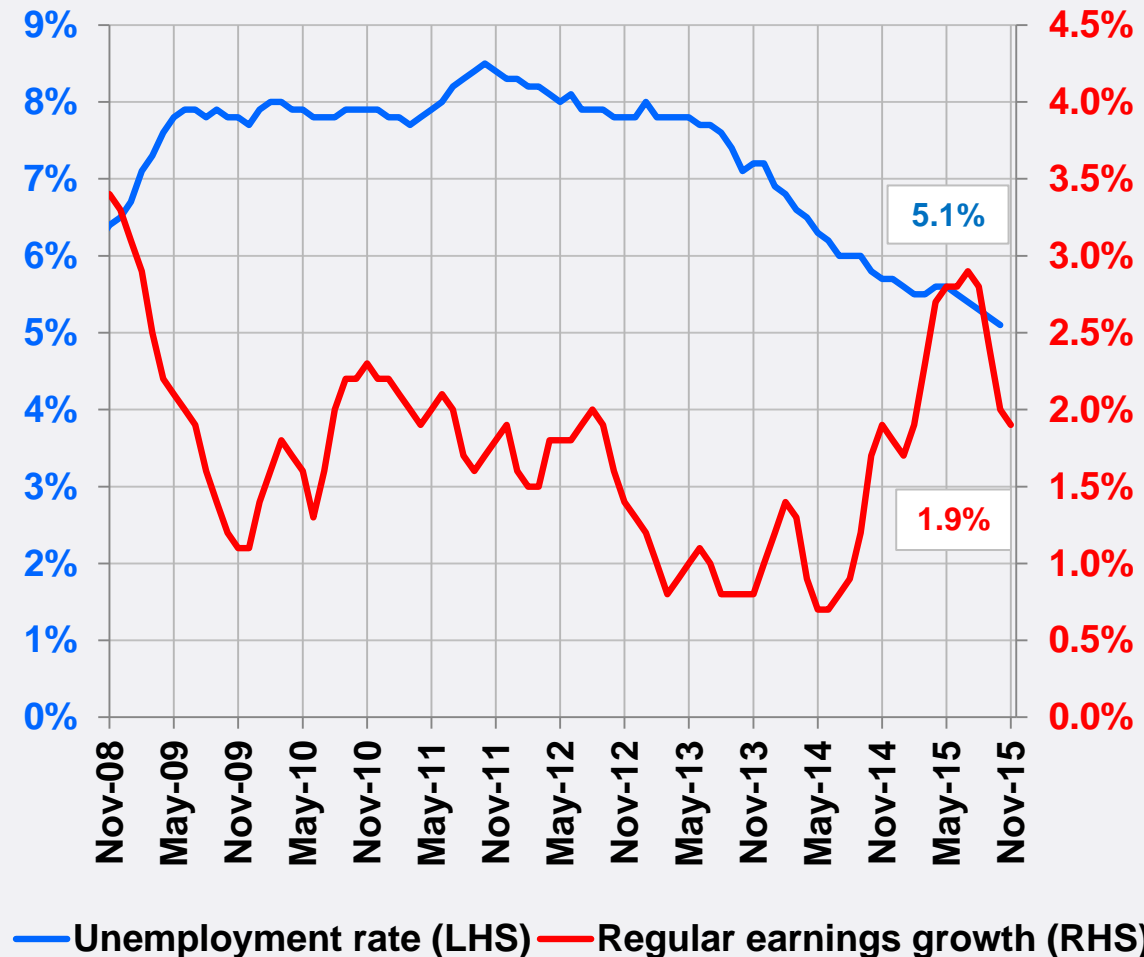


Unemployment hits its lowest level in over a decade

However, wage growth continues to slow across the economy

- The rate of unemployment in the UK fell once again to stand at just 5.1% in the three months to November. This represents the lowest rate recorded since the three months to October 2005.
- Compared with the previous three month period, the number of people out of work fell by 99,000 to stand at 1.68 million.
- However, despite further headline improvements in the labour market, average weekly earnings, excluding bonuses, rose by 1.9% year-on-year. This represents the slowest rate since the three months to February.
- Given the continued momentum in the labour market, it is likely that the low levels of inflation seen over the past year have begun act as a drag on wage growth. However, with the introduction of the National Living Wage in April and a gradual increase in inflation expected over the coming year, wage growth should firm in 2016.

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



Gross income growth slows across all regions

East of England leads the way after seeing relatively minor drop in growth

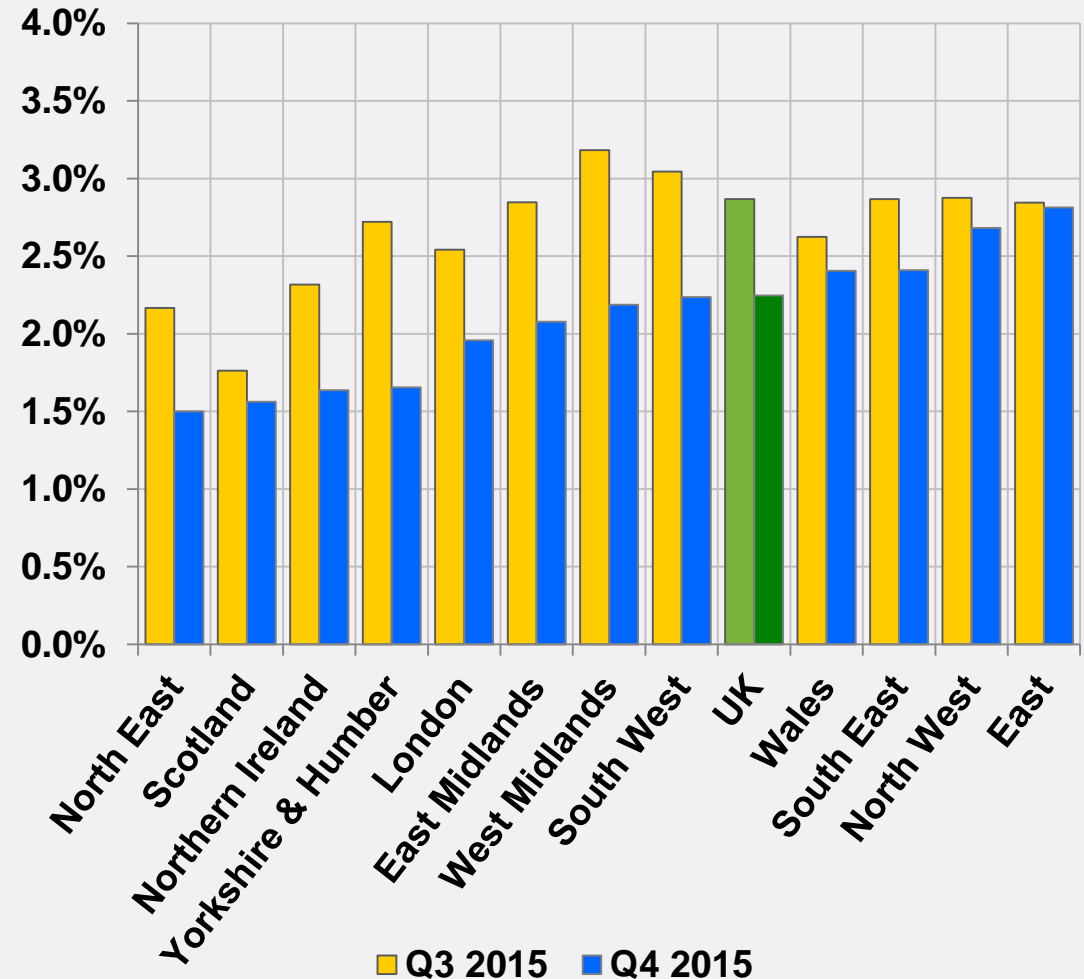
- In line with the UK as a whole, all regions saw gross income growth slow in the final quarter of 2015 driven by the overall slowdown in wage growth.

- However, not all regions suffered declines to the same extent. The East of England for instance suffered only a marginal slowdown in gross income growth compared with the previous quarter. As such, the region saw the fastest rate of growth in the latest quarter at 2.8% year-on-year.

- Alongside the East of England, other regions enjoyed rates above that seen across the UK as a whole thanks, in part, to strong job creation in recent months. The South East for instance saw its employment rate rise by a whole percentage point compared with the previous three month period in the latest reading for the three months to November.

- While the North East has seen some growth in employment in recent months, unemployment has been slow to decline over the past year and a high dependence on public sector employment remains a drag on wage growth given pay freezes in the sector.

Regional gross income, annual change to quarter indicated

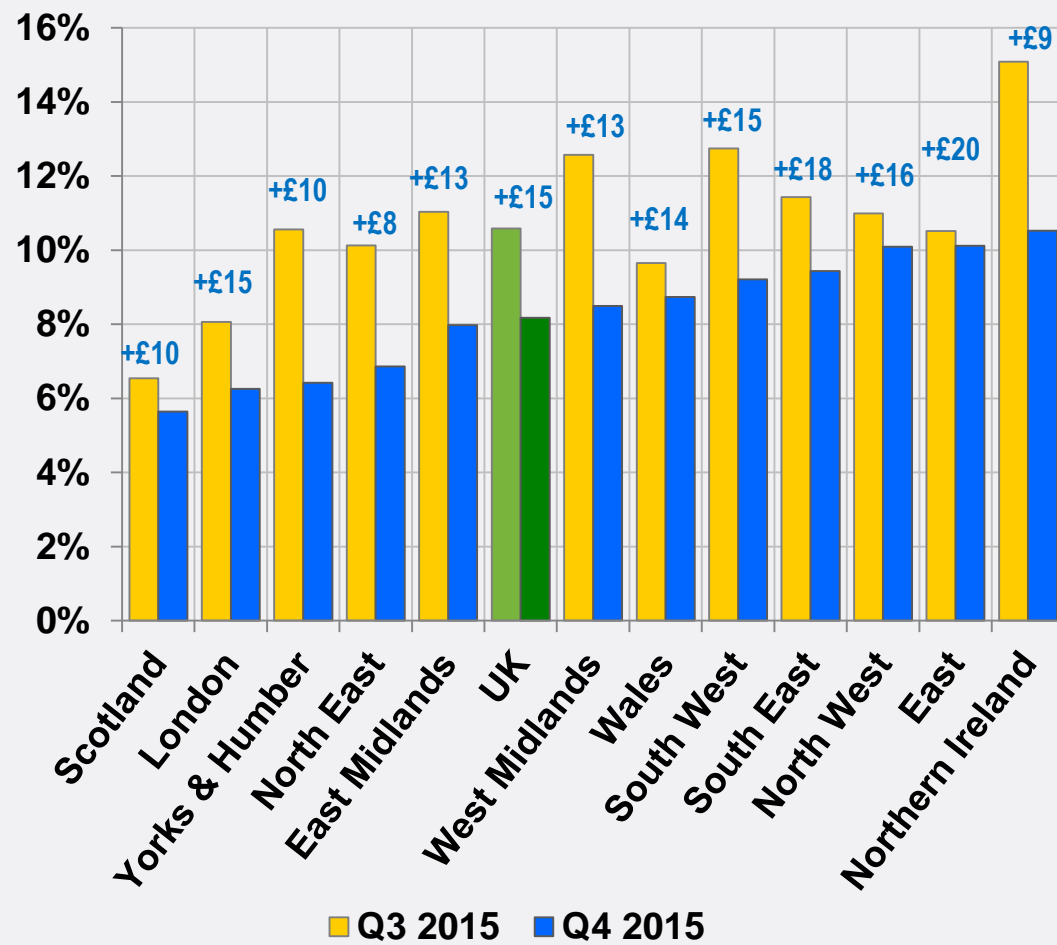


Discretionary income growth remains slowest in Scotland and London

Growth slows across all regions but most continue to see double-digit increases

- While growth in all regions of the UK slowed in line with the slowdown in earnings growth, all but two regions saw household discretionary income rise by £10 or more over the past 12 months.
- Overall, increases ranged from the £8 increase seen in the North East to the £20 increase recorded in the East of England.
- Essential item inflation was negative across all regions of the UK in the final quarter of the year.
- However, in line with the UK slowdown, just three regions in the UK experienced increases in household spending power of over 10% in Q4 – down from nine in the previous quarter.
- Northern Ireland remained the fastest growing region in percentage terms. However, after a couple of very strong quarters, growth across Northern Ireland has fallen much closer in line with regions such as the East and North West of England, which also recorded rates of over 10%.

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

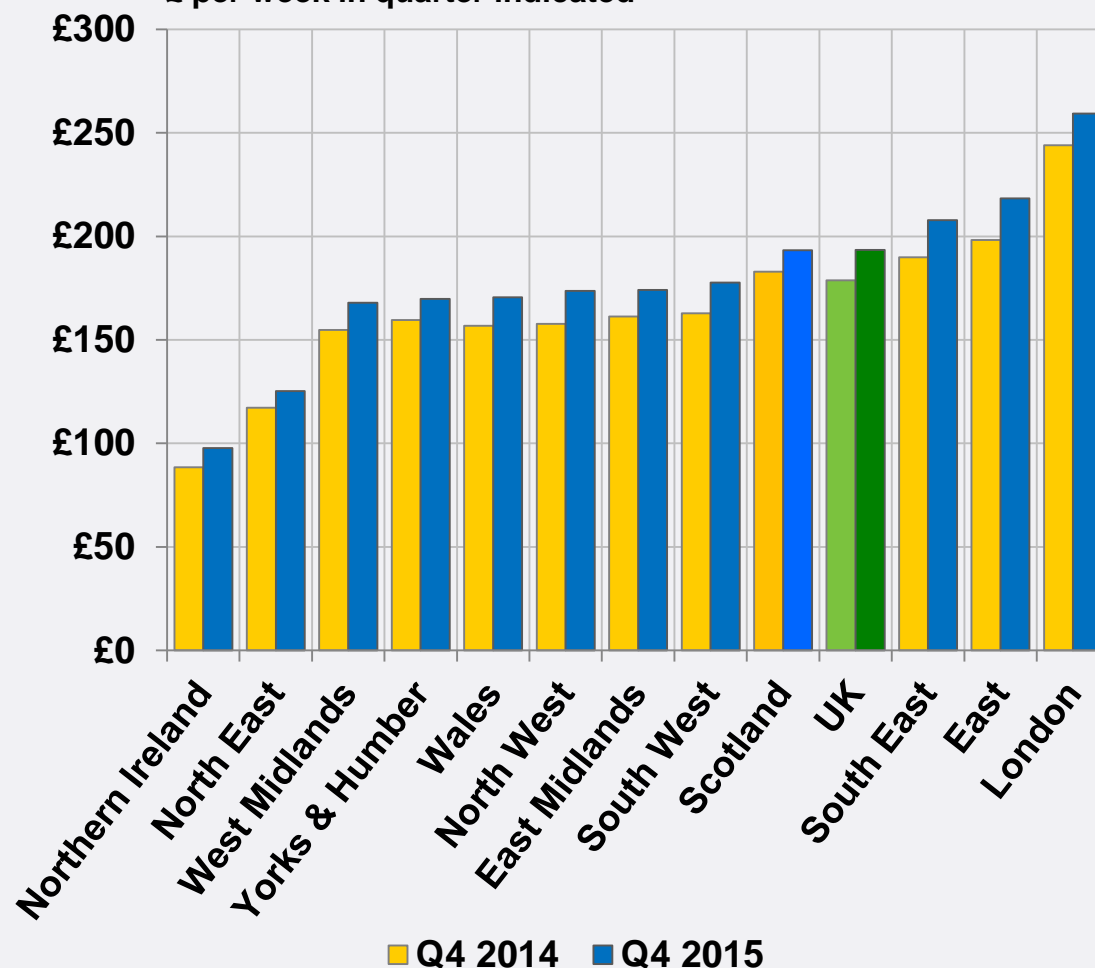


London continues to lead the way in terms of family spending power

However, gap between the Capital and the East of England narrows

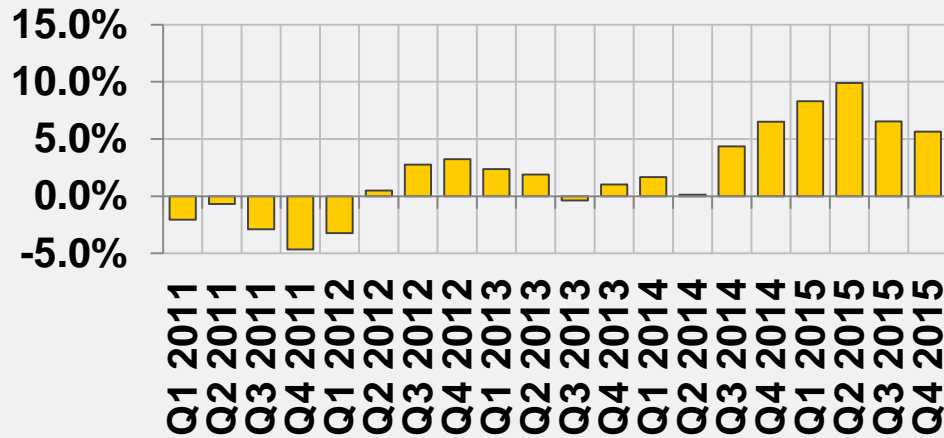
- While households in London experienced one of the slower rates of spending power growth in the latest quarter, the average household discretionary income across the capital (£259) remains well-above other UK regions.
- However, the strong growth seen in the East of England over the last year has seen the gap with London narrow slightly. The South East and North West also saw their gaps in household spending power relative to London narrow in Q4.
- In contrast, each of the devolved nations has seen average family spending power fall back relative to the UK average over the past 12-months.
- Still, Northern Ireland, which remains at the bottom of the ranking, edged slightly closer the next lowest region, the North East, over the past year.

Average household discretionary income by region, £ per week in quarter indicated

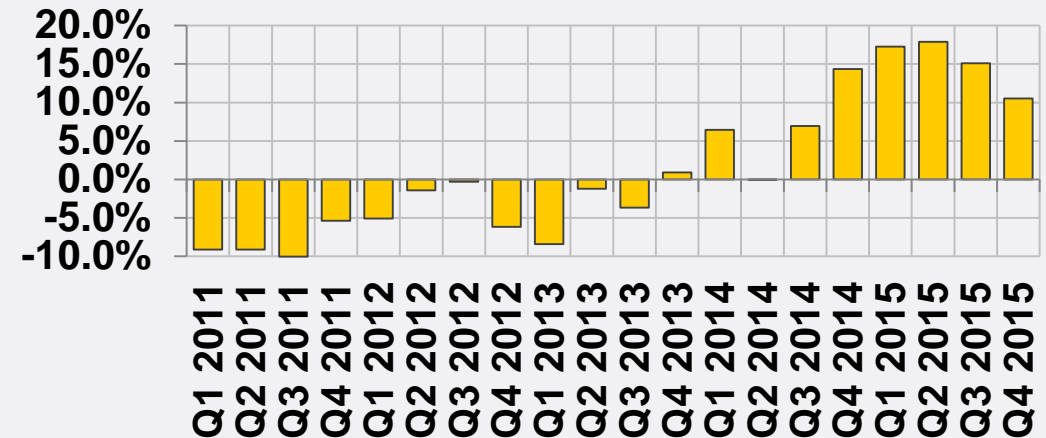


Focus on Scotland and Northern Ireland

Annual % change in discretionary incomes, Scotland



Annual % change in discretionary incomes, Northern Ireland



- Growth in average discretionary incomes in Scotland slowed in Q4 2015, down to 5.6% year-on-year compared with the 6.5% recorded in Q3.
- The rate of unemployment in Scotland in the three months to November was down 0.3 percentage points when compared with the same period a year ago. This represents one of the slowest rates of improvement seen across the UK.
- Still, employment, alongside negative essential item inflation, is having an overall positive effect on family spending power in Scotland.
- The latest fall in discretionary income growth is reflective of slowing wage increases in Scotland. Growth in sectors such as financial services, an important sector in Scotland, are providing a further drag to the overall rate.

- Northern Ireland once again experienced the strongest year on year growth in discretionary income of all parts of the UK, though growth continues to lag in monetary terms.
- Household spending power rose by 10.5% in the year to Q4 2015, down quite considerably from the 15.1% increase recorded in Q3.
- The slowing largely reflects a moderation in recent improvements in the country's labour market. The rate of unemployment actually rose by 0.1 percentage points over the past year compared with the 0.8 percentage point fall seen across the UK as a whole.
- Still, with essential spending making up a larger portion of household budgets compared with the rest of the UK, the sharp fall in the price of some essentials over the past year continues to provide a significant boost to households in Northern Ireland.

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:

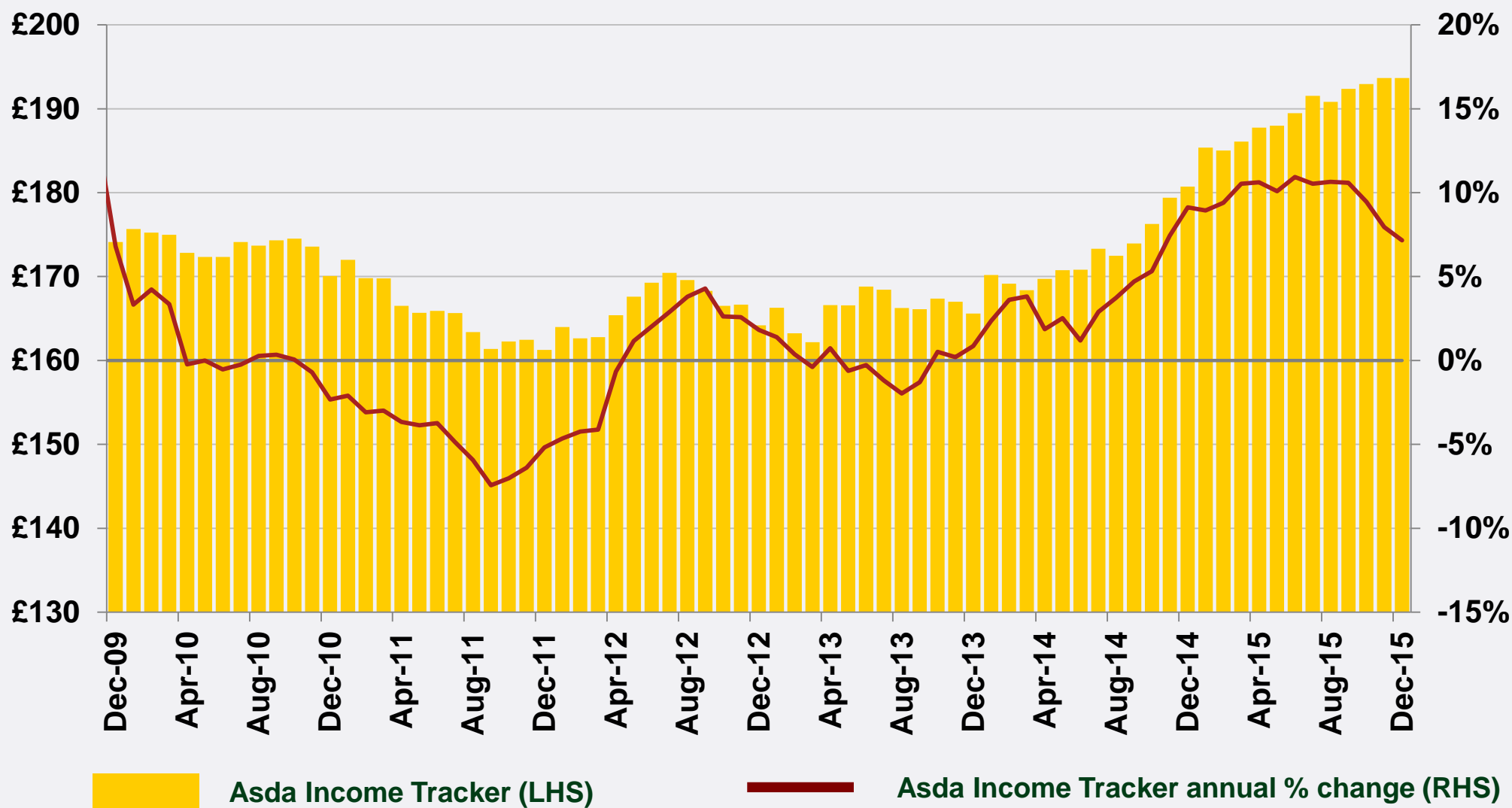
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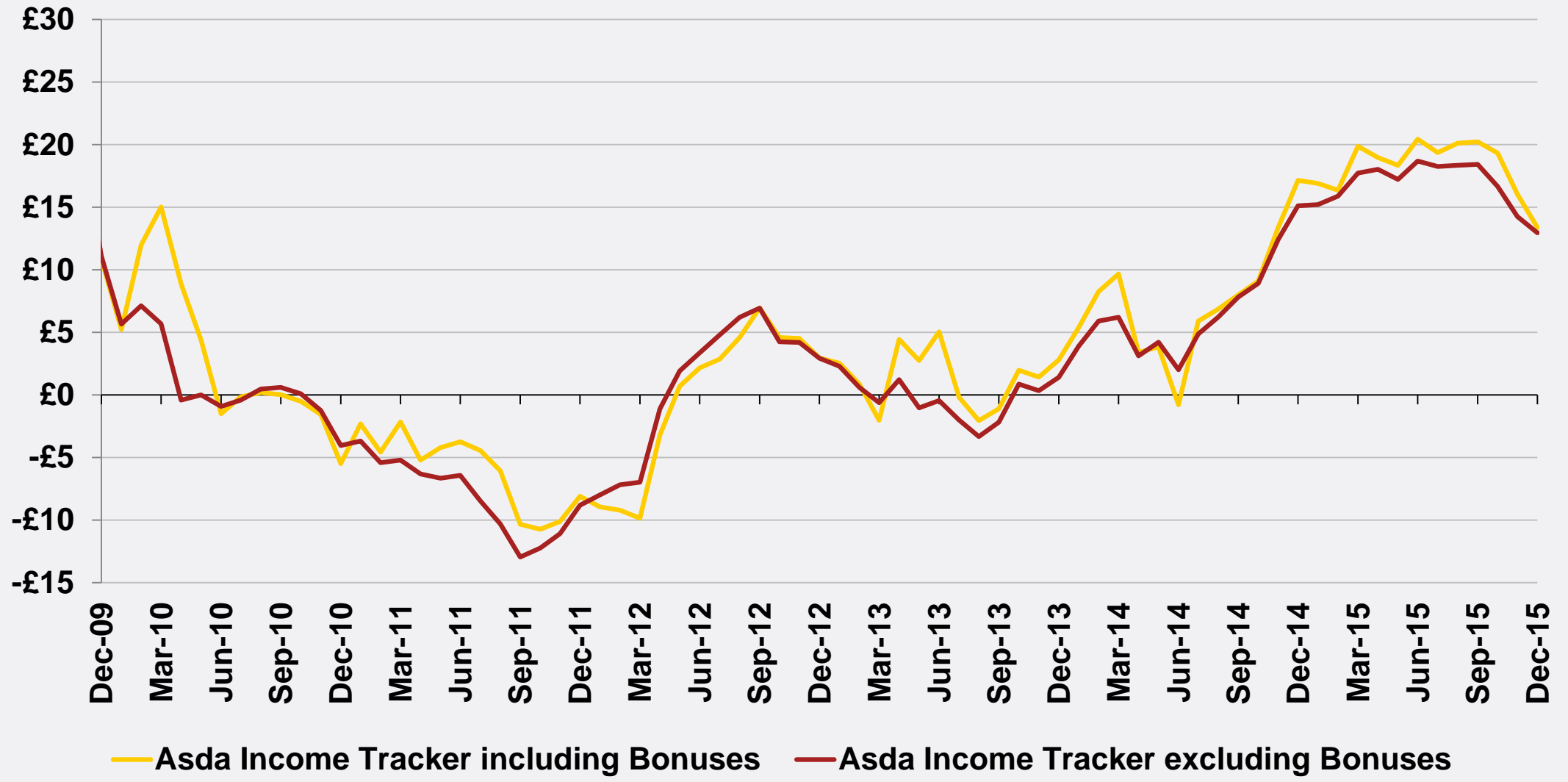
Monthly Asda Income Tracker

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



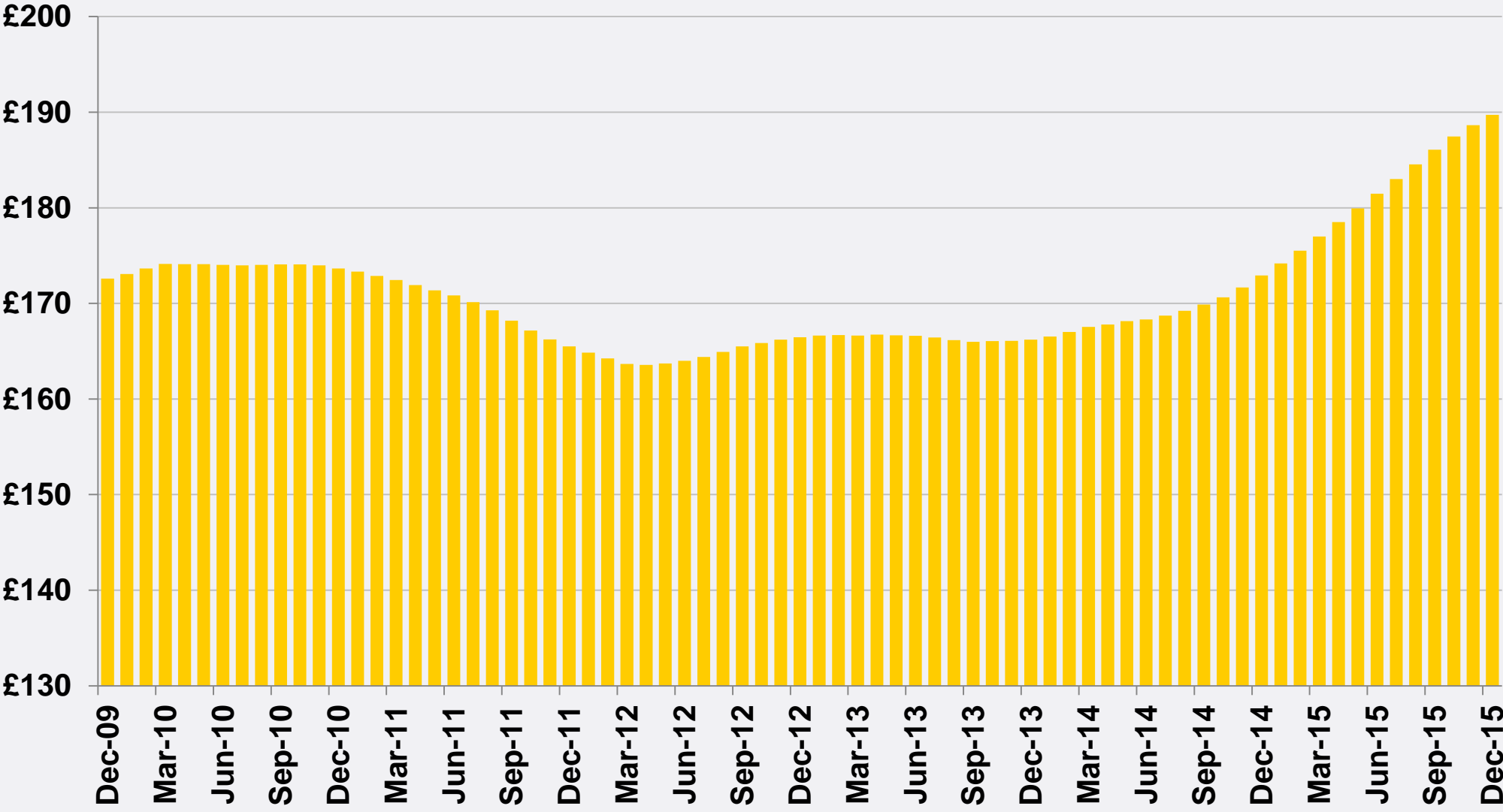
Monthly Asda Income Tracker

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 2011	£172	January 2012	£164	January 2013	£166	January 2014	£170	January 2015	£185
February 2011	£170	February 2012	£163	February 2013	£163	February 2014	£169	February 2015	£185
March 2011	£170	March 2012	£163	March 2013	£162	March 2014	£168	March 2015	£186
April 2011	£167	April 2012	£165	April 2013	£167	April 2014	£170	April 2015	£188
May 2011	£166	May 2012	£168	May 2013	£167	May 2014	£171	May 2015	£188
June 2011	£166	June 2012	£169	June 2013	£169	June 2014	£171	June 2015	£189
July 2011	£166	July 2012	£170	July 2013	£168	July 2014	£173	July 2015	£192
August 2011	£163	August 2012	£170	August 2013	£166	August 2014	£172	August 2015	£191
September 2011	£161	September 2012	£168	September 2013	£166	September 2014	£174	September 2015	£192
October 2011	£162	October 2012	£167	October 2013	£167	October 2014	£176	October 2015	£193
November 2011	£162	November 2012	£167	November 2013	£167	November 2014	£179	November 2015	£194
December 2011	£161	December 2012	£164	December 2013	£166	December 2014	£181	December 2015	£194
2011 Average	£166	2012 Average	£166	2013 Average	£166	2014 Average	£173	2015 Average	£190

Quarterly ASDA Income Tracker

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

Region	Q4 2013	Q4 2014	Q4 2015
Northern Ireland	77	89	98
North East	107	117	125
West Midlands	142	155	168
Wales	148	156	170
Yorkshire & Humber	146	160	170
East Midlands	147	161	174
North West	146	158	174
South West	148	163	178
Scotland	172	183	193
South East	178	190	208
East	188	198	218
London	226	244	259

Method update note

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 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, January 2016