

ASDA

Asda Income Tracker

Report: September 2023



Making Business Sense

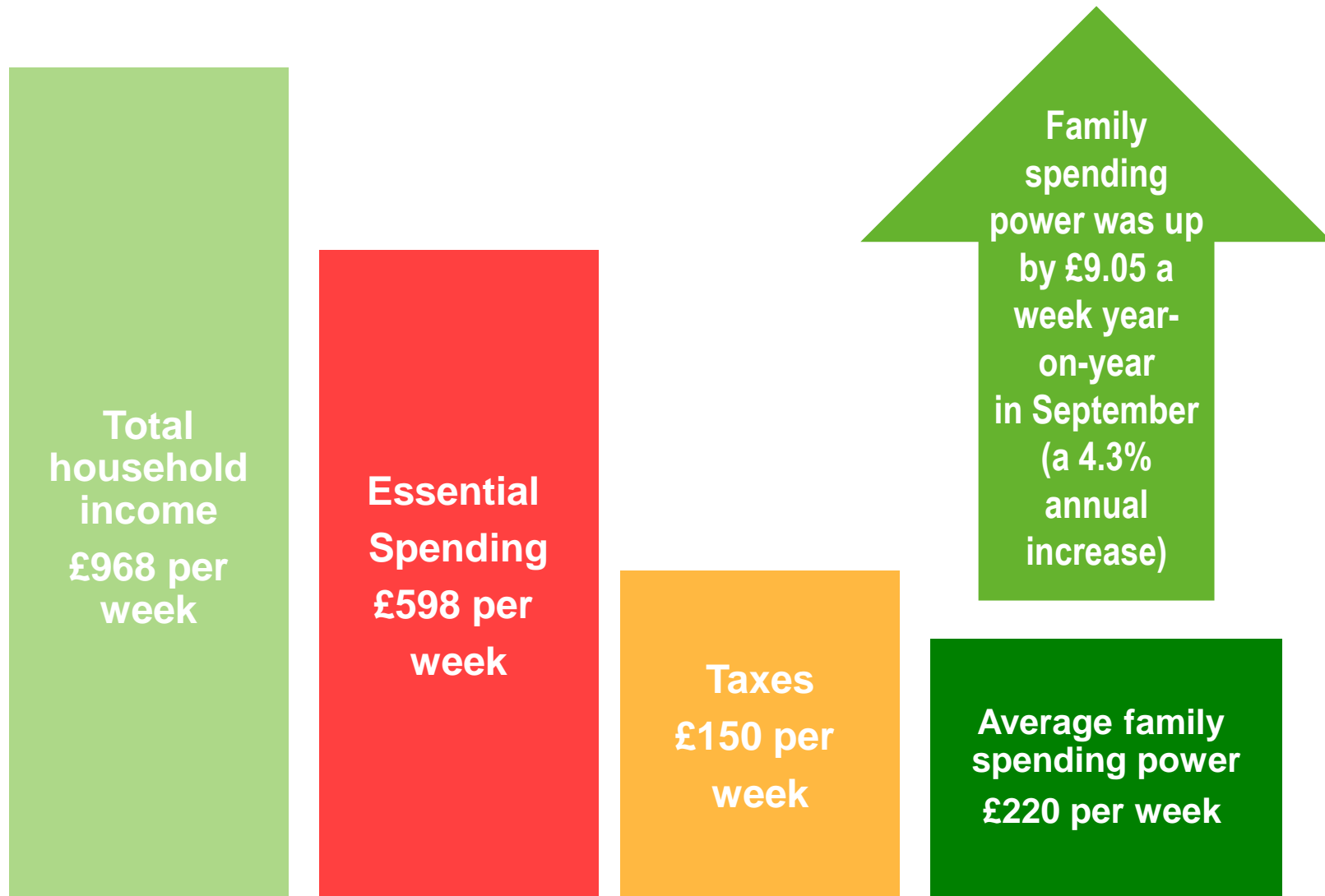
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Asda Income Tracker - Key Figures

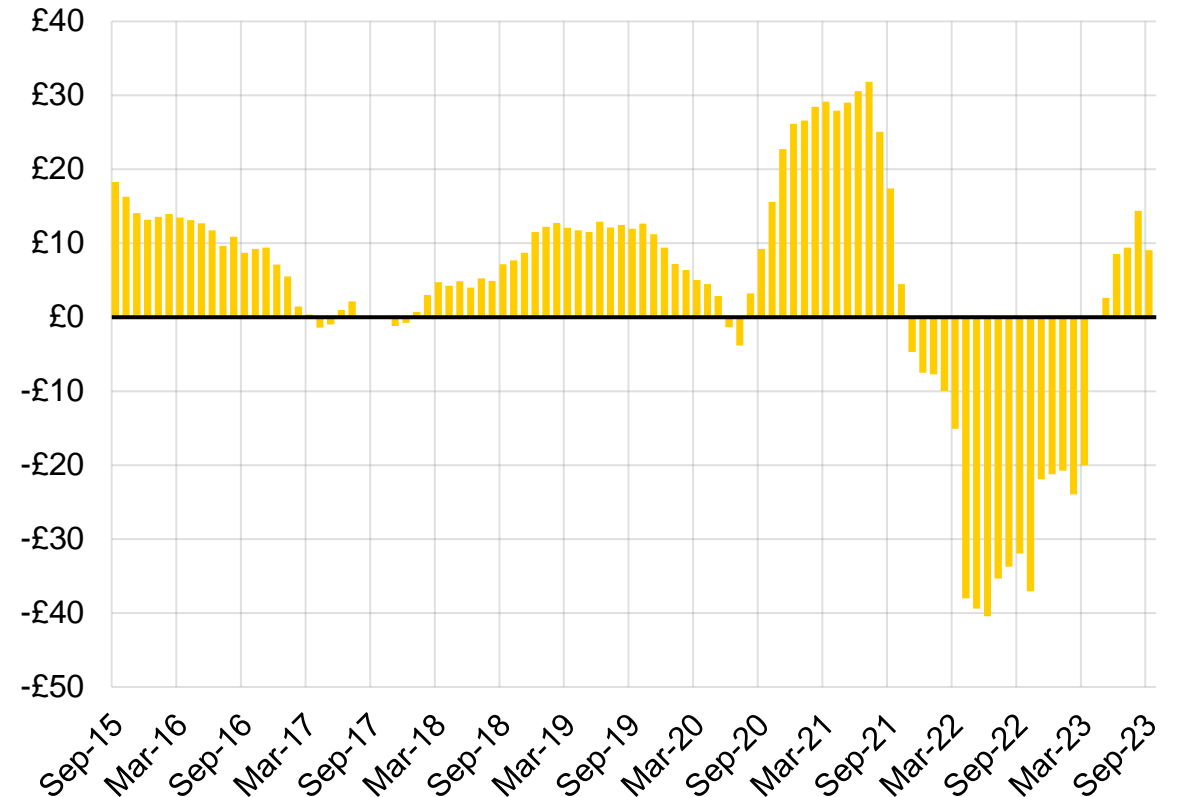


Elevated inflation limits growth in Income Tracker in September

The Asda Income Tracker was £9.05 a week higher in September 2023 than a year before

- The Asda Income Tracker saw annual growth of 4.3% in September. This was a slower rate than in the other months of Q3, with annual growth of 4.5% and 6.9% recorded in July and August, respectively.
- The deceleration in annual growth was driven by continually elevated inflation and an expected slowdown in earnings growth.
- Despite the slowdown, the Income Tracker has still recorded annual growth for sixth consecutive months.
- On a month-on-month basis, the Income Tracker fell by £3.88. Average household spending power now stands at £220 per week.
- Though firmly down on the value witnessed prior to the cost-of-living crisis, spending power is showing signs of recovery. The average household now has an estimated £19 more per week relative to the depths of the crisis.

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

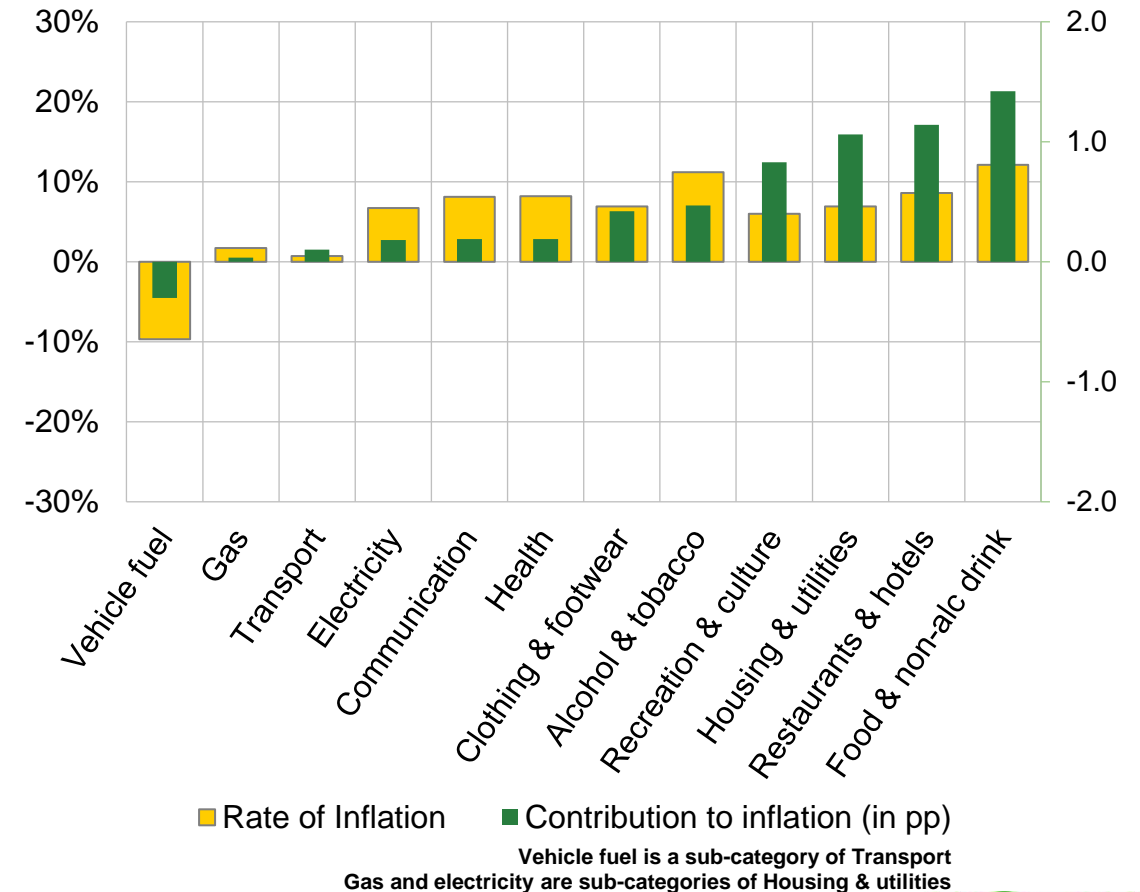


Inflation was sticky in September amidst near-term fuel price pressure

The main factors affecting family costs in September were:

- Annual inflation, as measured by the Consumer Prices Index (CPI), stood at 6.7% in September. The same rate had prevailed in August.
- Core inflation amounted to 6.1% in September, down slightly from 6.2% in August.
- Food and non-alcoholic beverages remains the largest contributor to the overall rate of inflation, experiencing price growth of 12.1% in September. However, price growth in this category has now slowed for six consecutive months since March's multi-decade high of 19.1%.
- The transport category returned to price growth in September, having witnessed three consecutive months of deflation. Within the transport category, the rate of annual deflation for vehicle fuels narrowed sharply, reflecting recent pressure from higher global oil prices.
- Cebr expects inflation to return to deceleration throughout the rest of 2023, reaching a rate of 4.6% by December. Further slowdowns are expected in 2024 and beyond, though a return to target inflation is not projected until the late-2020s.

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

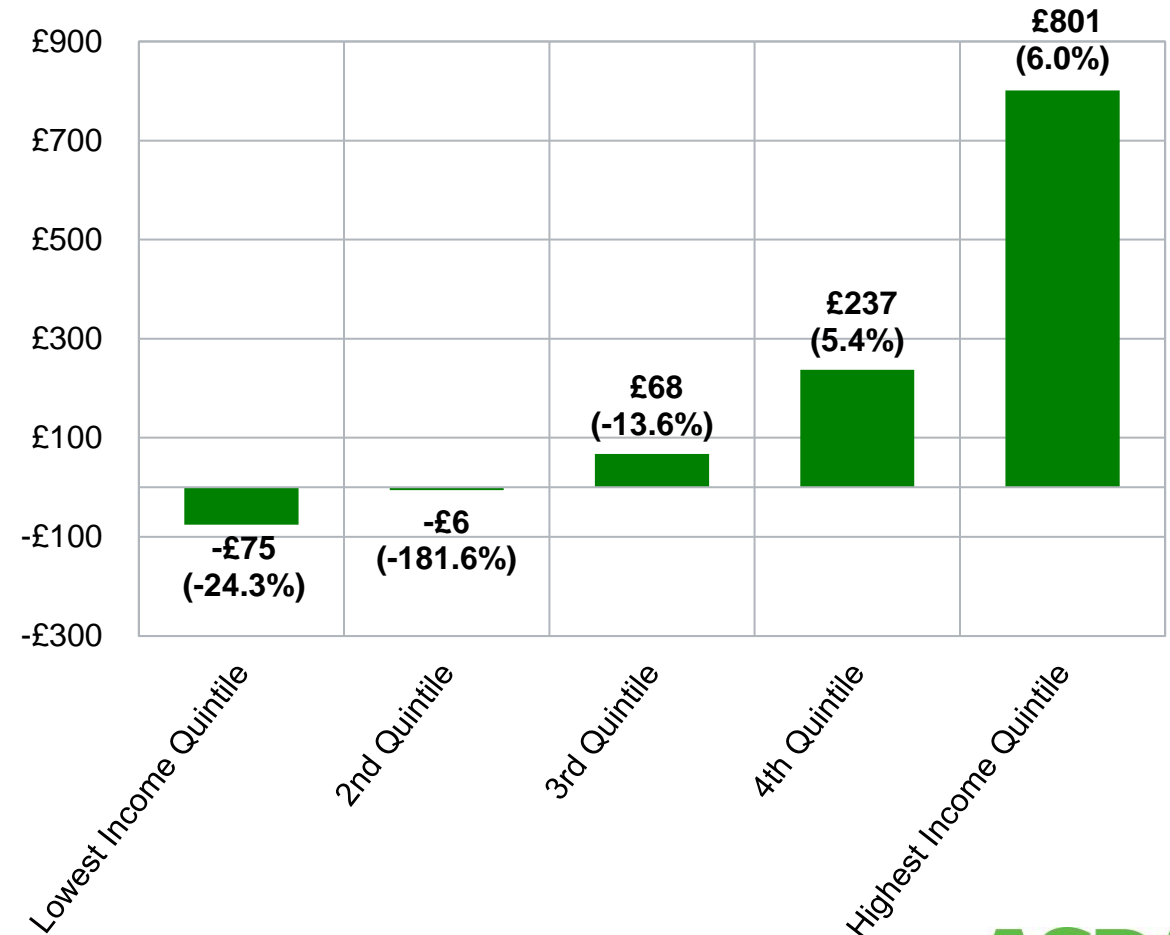


Widening gap in spending power between higher and lower earners

Annual falls in discretionary income witnessed for bottom three income quintiles

- Despite the relatively strong wage growth environment, spending power is falling for many households, highlighting the impact of continually elevated inflation on discretionary income.
- The bottom three quintiles are still witnessing annual falls in spending power, with the second quintile experiencing the most notable decline. On an annual basis, these households are witnessing a spending power fall in excess of 100%. This has seen the spending power become negative, meaning the value of their post-tax income is exceeded by the value of their essential spending. The shortfall for these households in September amounted to £6 per week.
- Households at the higher end of the income spectrum are recording above average spending power growth. These households are more likely to be employed in high-paying jobs, where wage growth has been higher recently.
- Those in the fifth quintile saw the fastest rate of growth in September, with spending power picking up by 6.0% on the year. This is equivalent to an improvement of £45 per week.

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

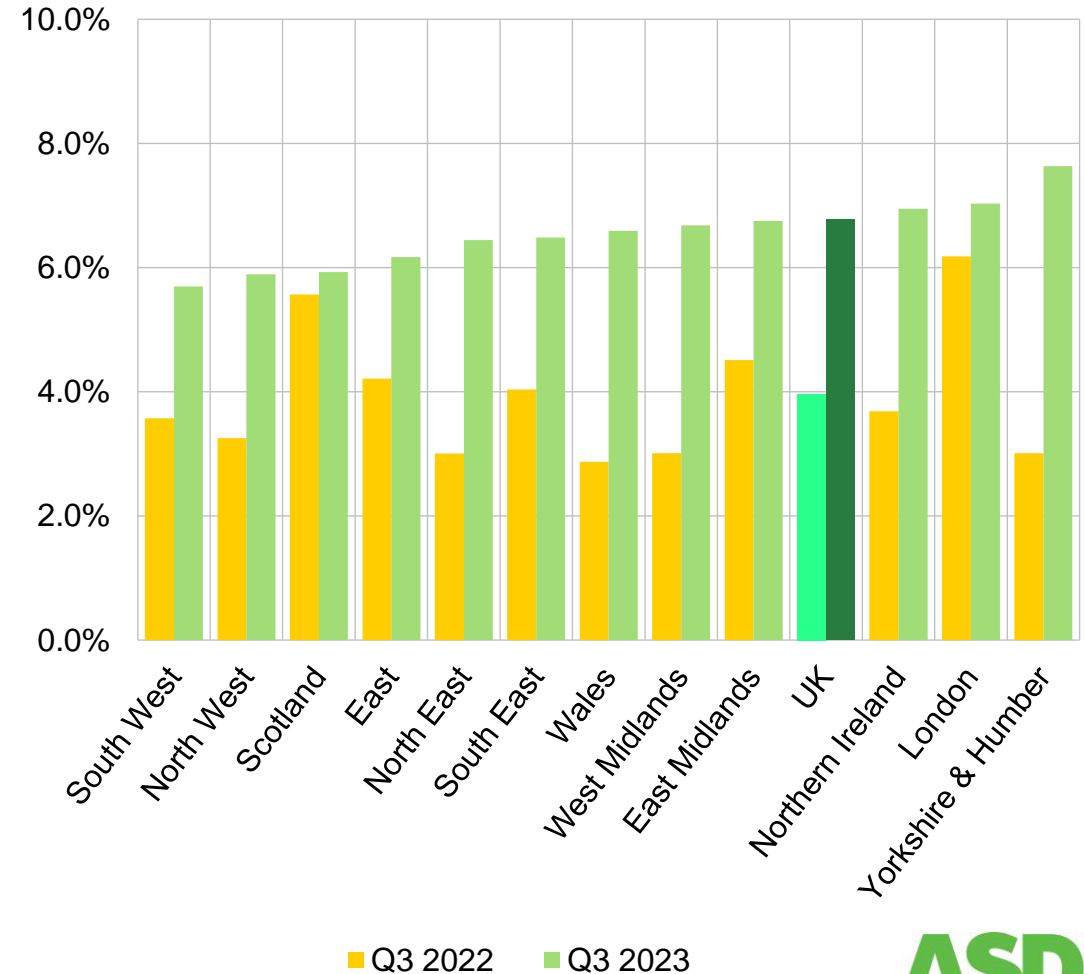


Aggregate gross income growth hits a further series high

UK-wide annual gross income growth stood at 6.8% in Q2 2023

- UK-wide gross income growth stood at 6.8% in Q3. Following five consecutive months of acceleration, gross income growth once more stands at its highest rate since the Income Tracker's inception.
- Amongst workers, nominal wage growth remains historically elevated. However, the rate of growth appears to have topped out. The latest official data showed annual total pay growth of 6.9% in August, marking a second consecutive month of slowdown since June's near-term peak of 9.3%.
- The rate of pay growth is expected to continue slowing in the near future, as a result of a gradual loosening of the labour market.
- The fastest rate of earnings growth in Q3 was recorded amongst households in Yorkshire and the Humber, with a 7.6% annual uptick. This was closely followed by households in London, at a rate of 7.0%.
- All regions saw faster gross income growth in Q3 2023 than they did in the same quarter of last year.

Regional gross income, annual change to quarter indicated

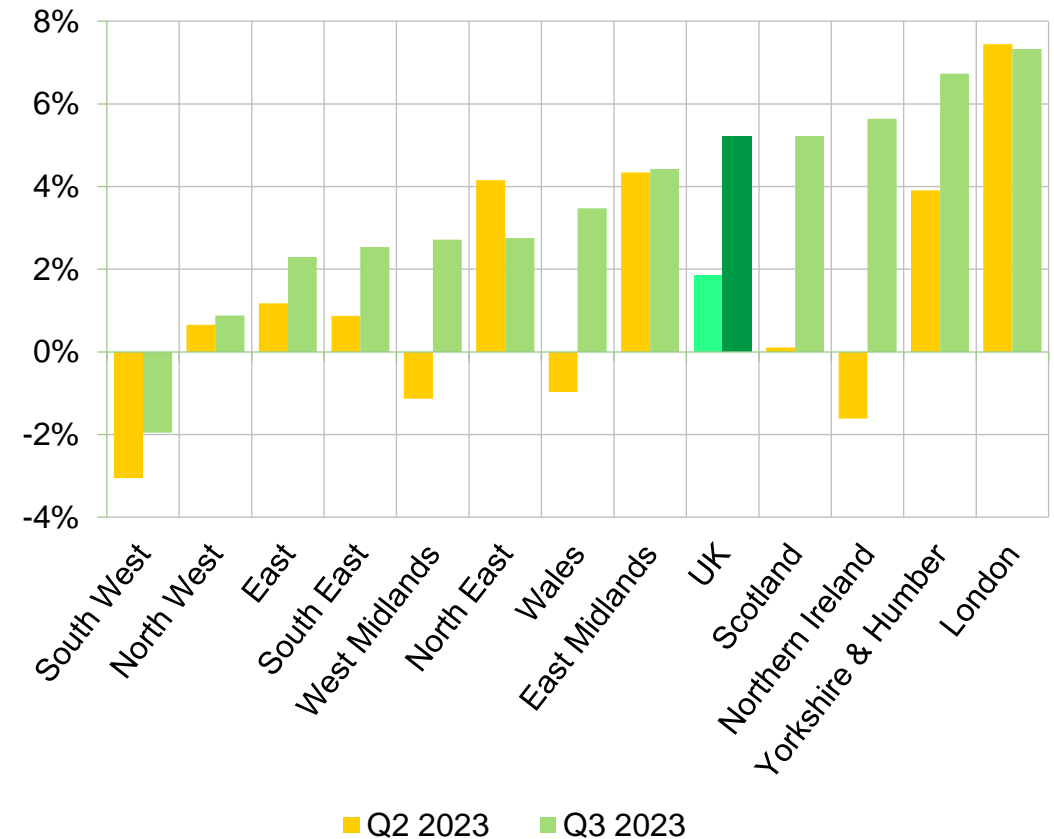


All but one region now witnessing growth in spending power

UK-wide Income Tracker grew by 5.2% on the year in Q3

- The UK-wide Income Tracker recorded a second consecutive quarter of growth in Q3. The rate of growth accelerated on the quarter, reaching 5.2%, having stood at 1.8% in Q2.
- All but one region recorded annual growth in spending power in Q3. This was strongest in London, amounting to an uptick of 7.3%. Yorkshire and the Humber recorded a similarly sized increase, of 6.7%. Both of these growth rates were driven by strong earnings growth.
- Several regions witnessed spending power growth for the first time in a while in Q3. Northern Ireland, Wales, and the West Midlands recorded their first growth since Q3 2021.
- The South West was the only region to record a contraction in spending power in Q3. This was driven by having the weakest earnings growth of any region.
- With the exception of the North East and London, all regions saw stronger growth in spending power in Q3 than in Q2.

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

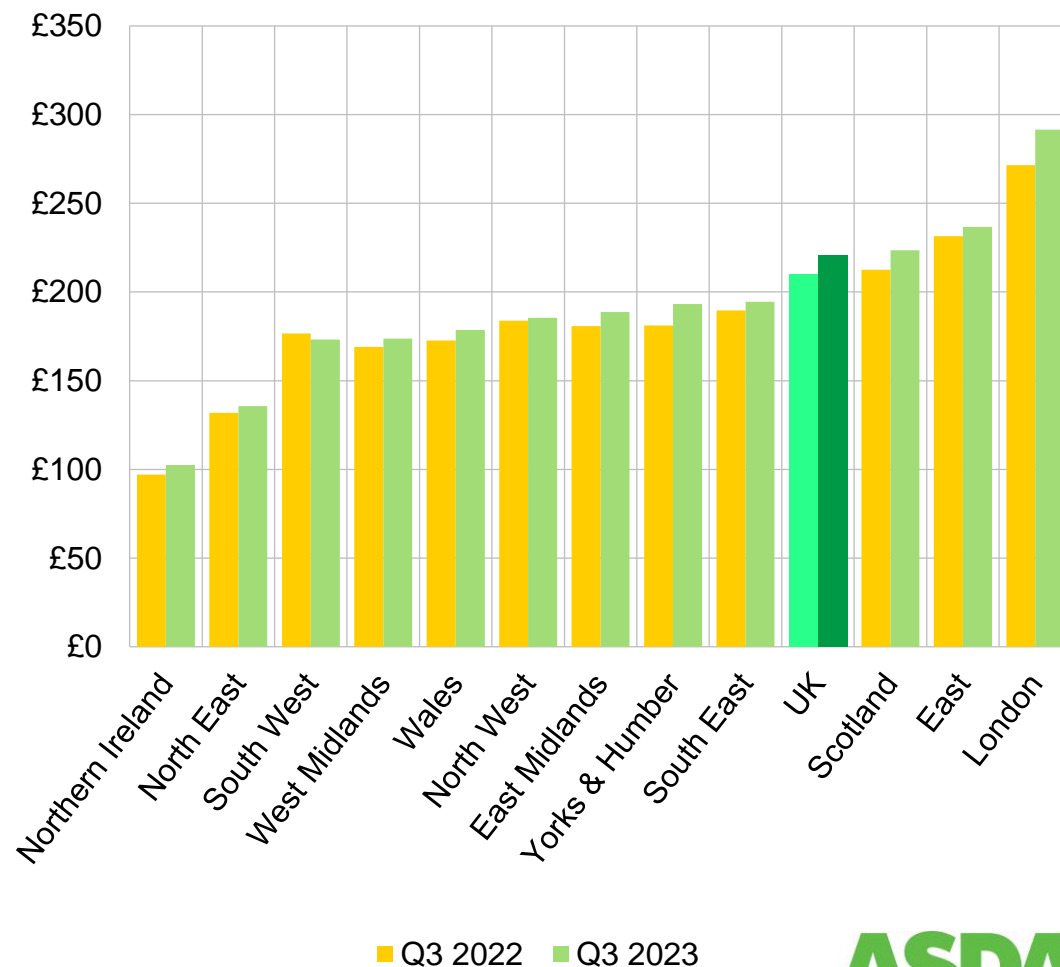


Spending power on the up for most, but still down compared to pre-crisis levels

UK-wide weekly family spending power averaged £221 in Q3 2023

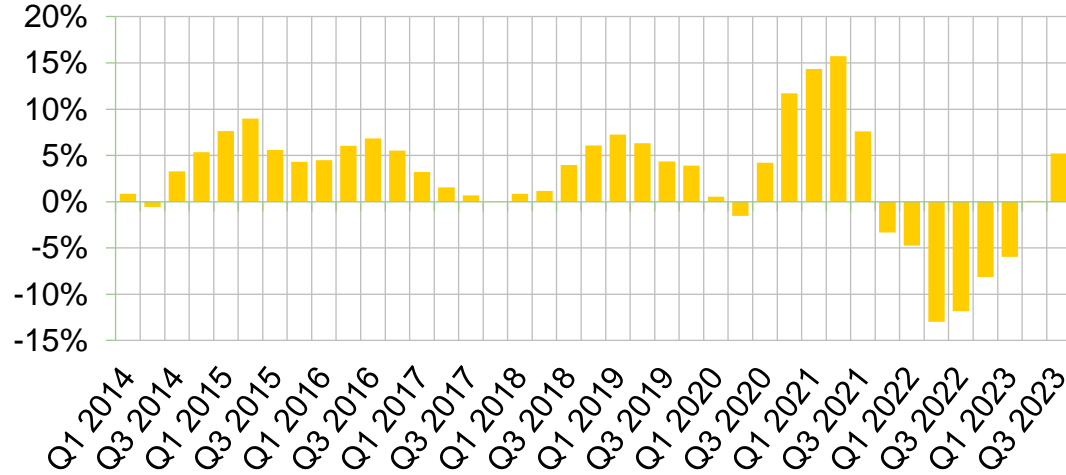
- The Asda Income Tracker averaged £221 per week across Q3. This represents the strongest value since Q1 2022.
- Spending power remains firmly down on the values witnessed prior to the cost-of-living crisis. For instance, the average household saw discretionary income of £246 in Q1 2021.
- There is considerable variation amongst regions when looking at spending power. London is the strongest performer, with the average household witnessing discretionary income of £292 per week across Q3. Since London also saw the strongest growth in spending power in Q3, the divergence between the capital and the rest of the country is increasing.
- Northern Ireland saw the weakest spending power value in Q3, at just £103. The North East saw the next weakest value, at £136.
- The East of England and Scotland both recorded above average spending power values in Q3, at £237 and £224 per week, respectively.
- Spending power is expected to pick up for all regions looking ahead, with earnings growth set to outstrip inflation.

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

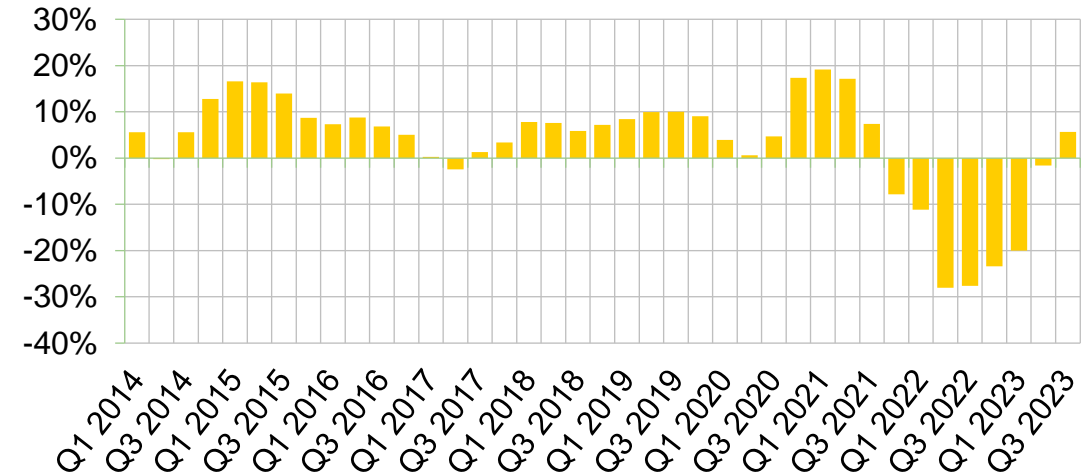


Focus on Scotland and Northern Ireland

Annual % change in discretionary incomes, Scotland



Annual % change in discretionary incomes, Northern Ireland

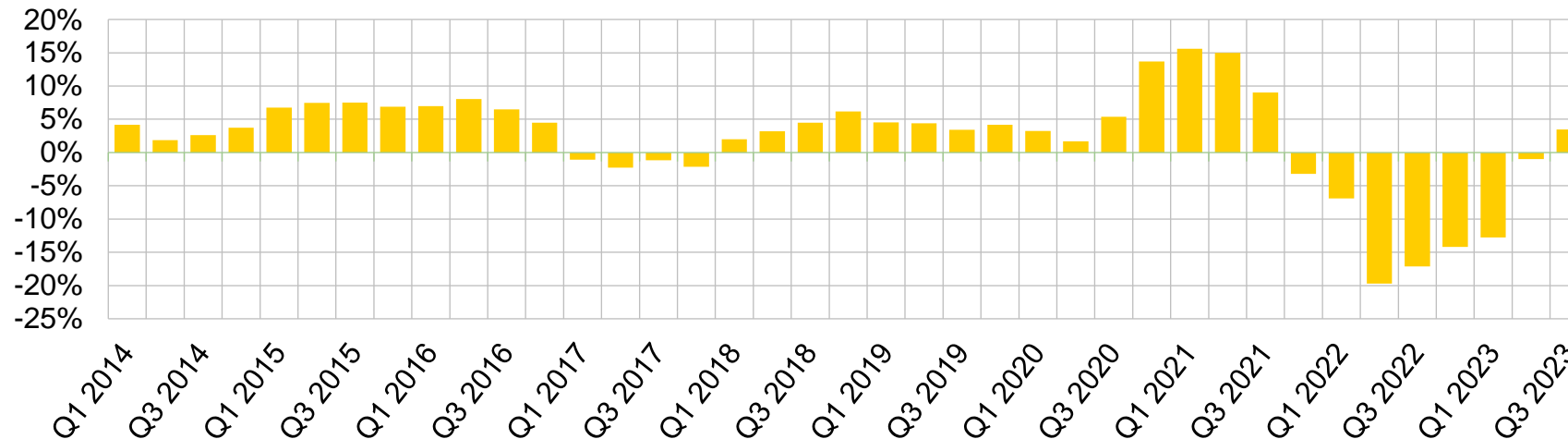


- The average Scottish household saw a second consecutive quarter of annual spending power growth in Q3. The rate of growth accelerated from 0.1% in Q2 to 5.2% in Q3. The latest uptick is equivalent to an annual increase of £11 per week or £49 across a month.
- Scotland's growth in spending power in Q3 was in line with the UK-wide average. This was despite experiencing weaker gross income growth. Scotland's improvement instead came from a slightly weaker increase in the cost of the basket of essentials.
- Scotland's economy has faced some pressure recently. The labour market has loosened at a faster pace relative to the rest of the UK, with the unemployment rate picking up by 1.2 points on the quarter in the three months to July. This trend could put downward pressure on Scotland's Income Tracker reading looking ahead, by reducing the share of the population benefitting from elevated wage growth.

- The Income Tracker in Northern Ireland grew by 5.6% on the year in Q3. This marked a return to growth for the first time since Q3 2021.
- The latest uptick is equivalent to an annual increase of £5 per week or £24 across a month.
- The prolonged shortfall in spending power in Northern Ireland was driven by weak earnings growth and the country's exposure to inflationary pressure.
- However, Northern Ireland is now experiencing a more robust labour market, which is supporting earnings growth. The average Northern Irish household saw an annual increase in gross income of 6.9% in Q3, exceeding the UK-wide average.

Focus on Wales

Annual % change in discretionary incomes, Wales

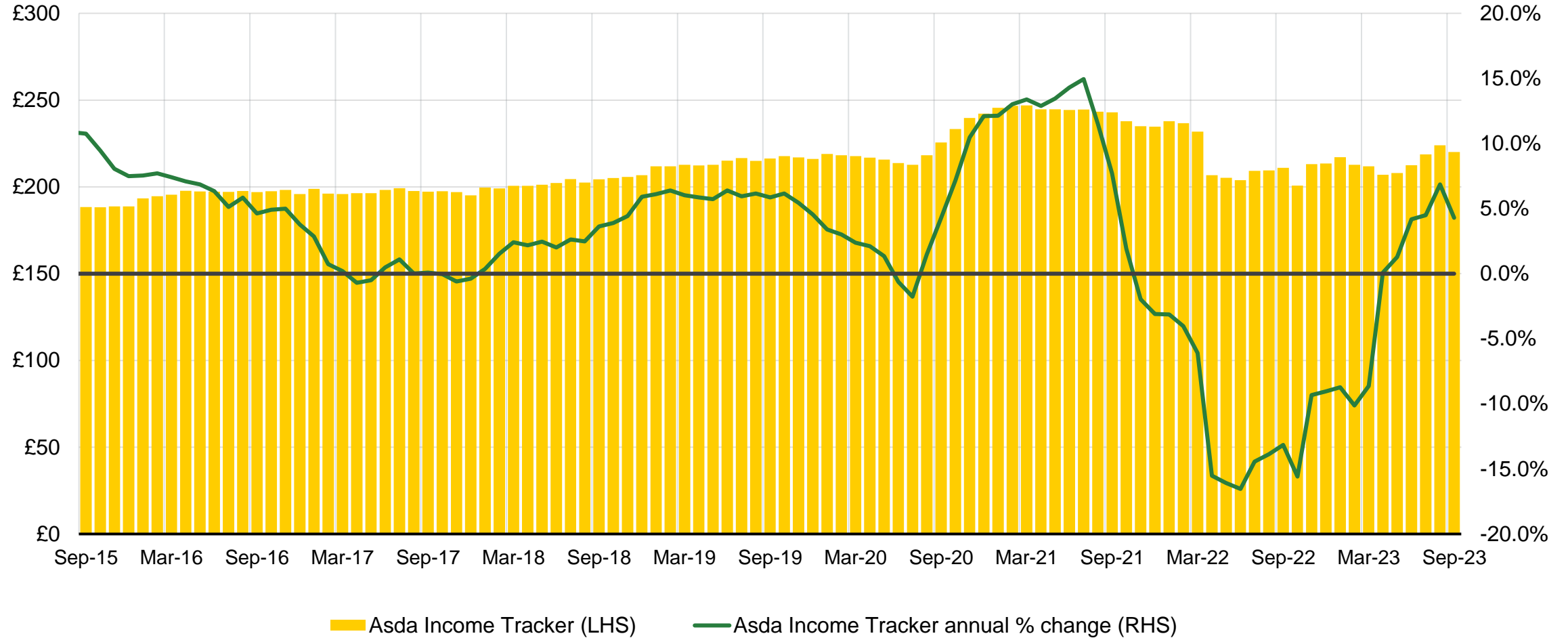


- The Income Tracker in Wales returned to growth in Q3, at an annual rate of 3.5%. This put an end to seven consecutive quarters of contraction.
- Q3's uptick is equivalent to an annual improvement of £6 per week or £26 across the month.
- Wales' increase in spending power in Q3 fell short of the UK-wide average of 5.2%. The last time Wales' growth exceeded that of the UK as a whole was in Q2 2021.
- Wales' relatively poor performance compared to the UK-wide average was driven by below average gross income growth. Weaker gross income growth in Wales likely reflects its labour market composition, having a higher share of workers in occupations witnessing lower wage growth.

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 | £237 | February 2023 | £213 |
| March 2019 | £213 | March 2020 | £217 | March 2021 | £247 | March 2022 | £232 | March 2023 | £212 |
| 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 | £205 | May 2023 | £208 |
| June 2019 | £215 | June 2020 | £214 | June 2021 | £244 | June 2022 | £204 | June 2023 | £212 |
| July 2019 | £217 | July 2020 | £213 | July 2021 | £244 | July 2022 | £209 | July 2023 | £219 |
| August 2019 | £215 | August 2020 | £218 | August 2021 | £243 | August 2022 | £210 | August 2023 | £224 |
| September 2019 | £217 | September 2020 | £226 | September 2021 | £243 | September 2022 | £211 | September 2023 | £220 |
| October 2019 | £218 | October 2020 | £233 | October 2021 | £238 | October 2022 | £201 | | |
| November 2019 | £217 | November 2020 | £240 | November 2021 | £235 | November 2022 | £213 | | |
| December 2019 | £216 | December 2020 | £242 | December 2021 | £235 | December 2022 | £214 | | |
| 2019 Average | £215 | 2020 Average | £223 | 2021 Average | £243 | 2022 Average | £215 | 2023 Average | £215 |

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 contributor to this report is Cebr economist Sam Miley.

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London, October 2023

