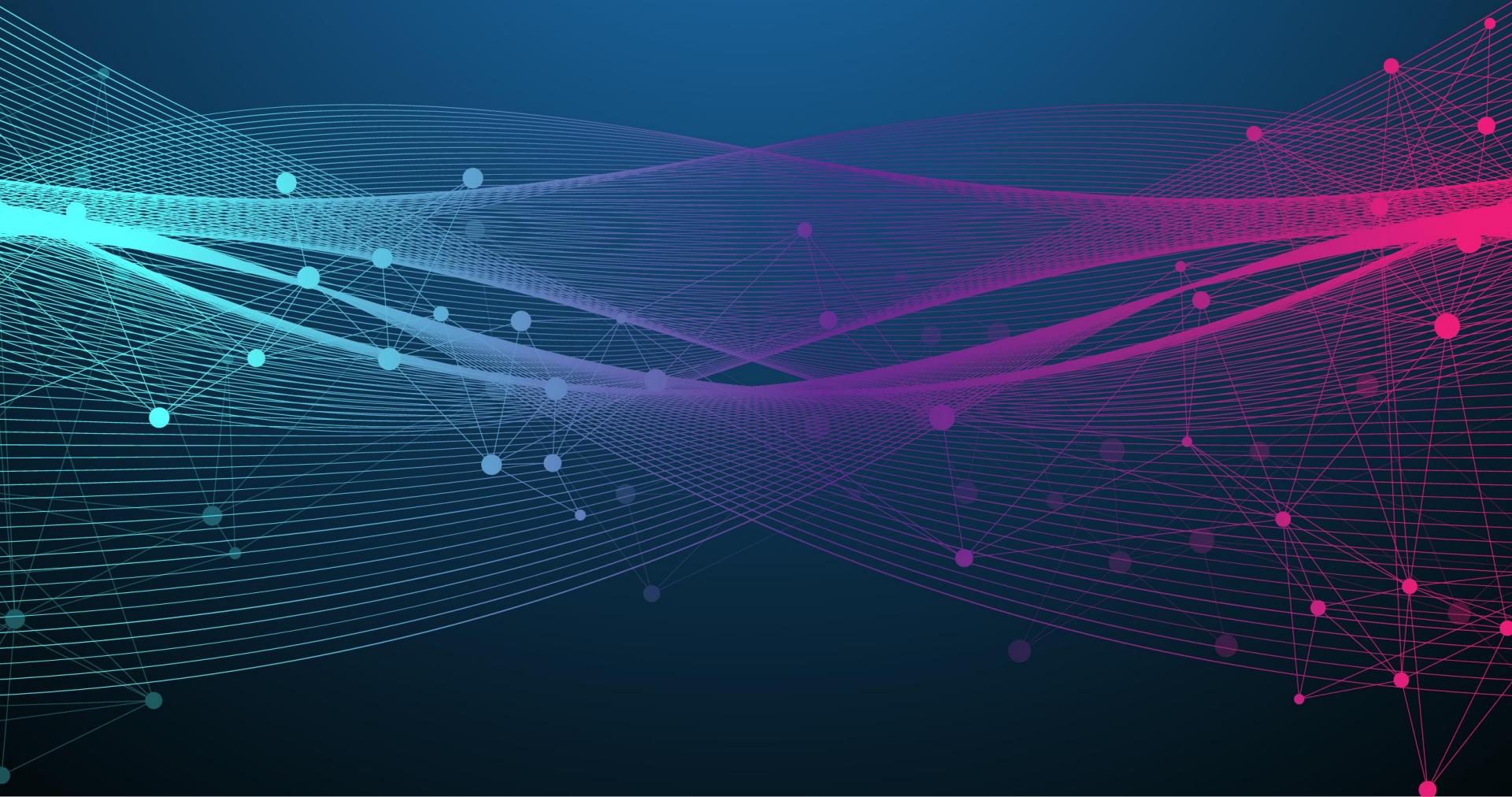


ECONOMIC BRIEFING No.11

Week Beginning 20/09/21



Economic Briefing Note – An Uncertain Economic Outlook

This is the eleventh economic briefing note and covers a wide range of topics. The note looks at evidence of what is happening across the economy at UK, Scottish and Glasgow City Region levels. The key points covered include:

- **Economic Output Updates:** The latest GDP monthly data released from ONS, showing that UK's economic recovery stalled in July due to supply chain challenges and staff shortages.
- **Inflation:** UK prices rose in August, leading to the highest inflation rate (3.2%) since 2012.
- **Labour Market Challenges:** As the economy has continued to reopen over the summer, the labour market has continued to improve. However, the Job Retention Scheme will end in less than two weeks' time
- **Unemployment Forecasts:** Official forecasts throughout the pandemic have predicted a rise in unemployment after the scheme ends – but in August, the Bank of England Monetary Policy Report suggested that unemployment will hold steady in the final quarter of 2021.
- **Rising Poverty Predictions:** Rising energy prices pose a significant risk to vulnerable households in GCR. Moreover, at the beginning of October there will be a £20-a-week cut in Universal Credit. As a result of this cut, economic experts have warned about a rise in poverty and health problems.



The UK Economy- Economic Recovery Slowdown

Gross domestic product (GDP) is estimated to have grown by 0.1% in July 2021, much weaker than expected.

- **GDP:** GDP rose by 0.1% in July. That leaves the UK economy still 2.1% below its pre-pandemic level in February 2020.
- **Sectors:** All sectors are still approximately 2% below their February 2020 levels
 - **Production:** output increased by 1.2% in July 2021 and was the main contributor to GDP growth.
 - **Construction:** contracted by 1.6%.
 - **Services:** remained flat and 2.1% below its pre-pandemic level.
- **Growth Slowdown:** has been attributed to supply chain disruptions and staff shortages.
- Recent research from the Institute for Fiscal Studies shows that the surge in UK vacancies are **driven by low-paying work.**

Contributions to monthly GDP growth, percentage points, January to July 2021, UK

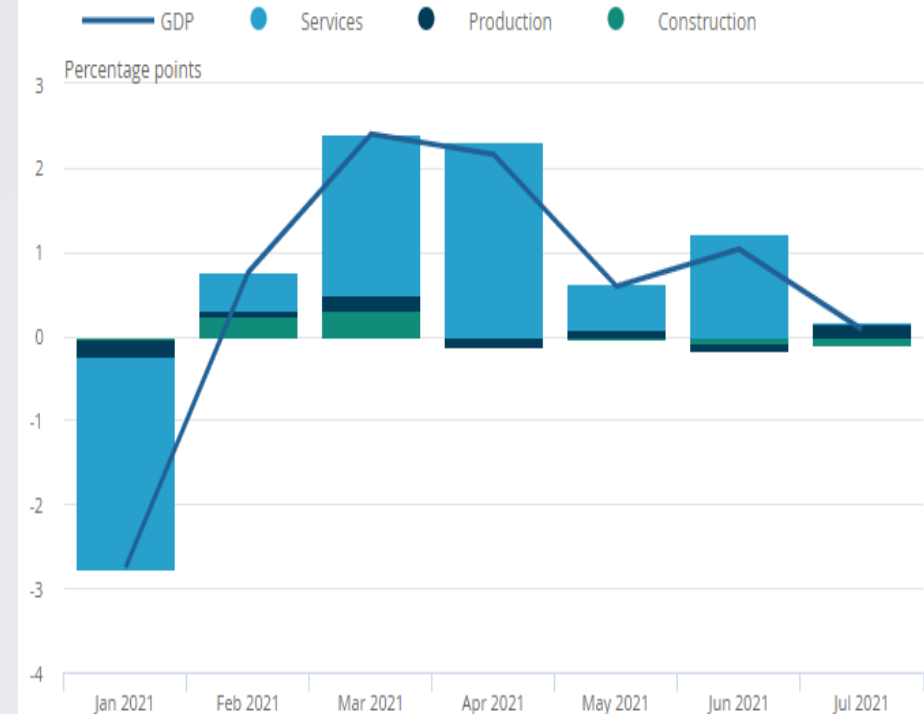


Chart 1: Office for National Statistics, GDP monthly estimate.

The UK Economy- Rising Inflation

UK inflation jumped to 3.2% in August, from 2% in July, the highest rate since March 2012. In early August, the Bank of England had warned that inflation might hit 4% until the end of the year.

- **UK Inflation:** made its biggest jump on record in August (3.2% from 2% in July) amid a rise in food and transport prices.
- **Living standards:** Trade unions have warned that a rise in inflation along with the imminent cut to universal credit and the withdraw of the furlough scheme will result in a new living standards crisis.
- **Future Outlook:** Paul Dales, chief UK economist at Capital Economics, and other experts, believe the jump in inflation will prove temporary as distortions caused by a slump in prices fade and pressure on global supply chains gradually abates.

UK Inflation

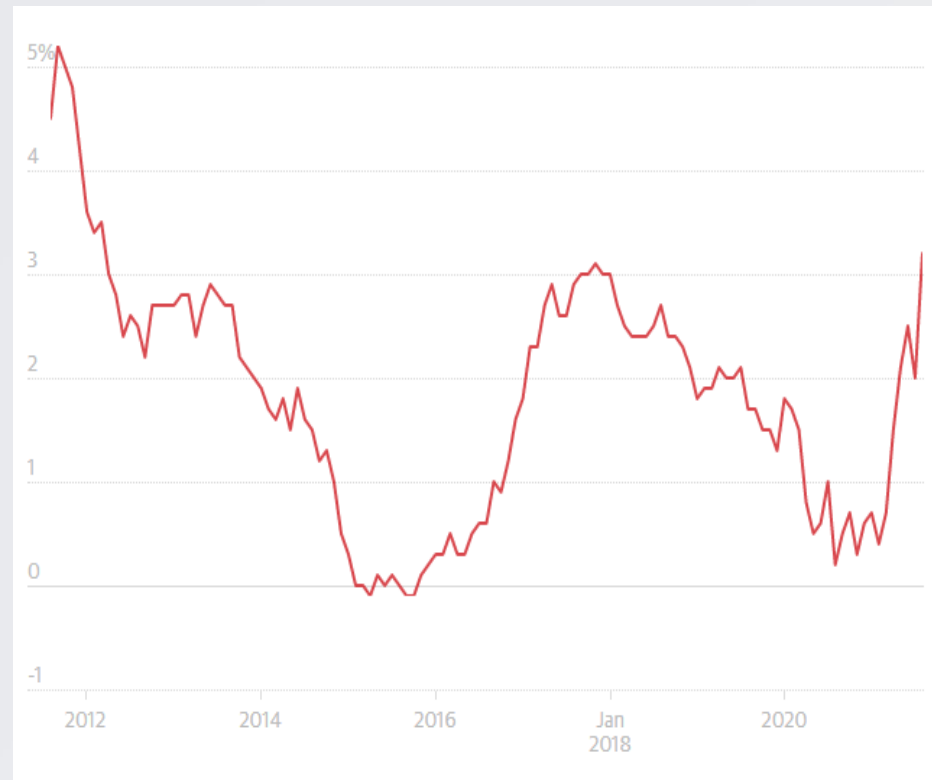


Chart 2: The Guardian, Source: ONS.



The Scottish Economy- Economic Outlook

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The impacts of the easing of restrictions and the move to level zero are beginning to be seen in the leading economic indicators.

Business Optimism: Overall, business and consumer sentiment remains positive about the recovery of the economy.

Uncertain Outlook: However, the economic outlook remains uncertain, as Covid-19 cases have increased again following the further easing of restrictions in August.

Increasing labour market risks: There continues to be risks to recovery, particularly as fiscal support comes to an end, such as the furlough scheme, the changes to Universal Credit, and the 5% VAT rate for hospitality.

THE LABOUR MARKET

GCR ECONOMY

GDP



Scottish GDP fell by 0.2% in July, with the growth in the services sector offset by falls in the production and construction sectors. Output remains 2.4% below the level in February 2020.

JRS



Around 5% of workers are still fully or partially supported by the furlough scheme. There is rising concern about the future of those jobs once businesses are no longer supported by the JRS.

VACANCIES



The number of vacancies continues to rise in the Scottish economy, with **nearly 2.5 times the number of vacancies** in July than the same time last year. **Vacancies have also grown fastest in Scotland** compared to the other nations of the UK.



An Improving Labour Market

The Scottish Labour Market continues to rebound following the easing of restrictions and an increase in recruitment activity.

Area	Employment			Unemployment			Economic Inactivity		
	Rate (May-July)	1 year % Change	Change Jan-March 2021	Rate (May-July)	1 year % Change	Change Jan-March 2021	Rate (May-July)	1 year % Change	Change Jan-March 2021
Scotland	74.1	0.5	0.2	4.3	-0.6	-0.1	22.5	-0.1	0.2
UK	75.2	-0.4	0.5	4.6	0.3	-0.3	21.1	0.2	-0.2

Table 1 : Scottish Labour Market Update September 2021, Scottish Government

- Headline labour market indicators:** The latest labour market statistics for May-July 2021 show Scotland's employment rate was 74.1% (up 0.5 percentage points over the year). The unemployment rate was 4.3% (down 0.6 percentage points) and the economic inactivity rate was 22.5% (down 0.1 percentage points).
- Pay As You Earn Real Time Information data:** PAYE data for July shows the number of payrolled employees in Scotland increased by 17,000 (1.5%) over the month, and was up by 2.7% from its recent low in November.



Labour Market- Workforce on Furlough

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At the end of June, 141,500 jobs in Scotland (6%) were furloughed, its lowest point since the start of the JRS and down from 175,300 (8%) at the end of May. More recent business survey data indicate that the proportion of staff furloughed trended down in the first half of August.

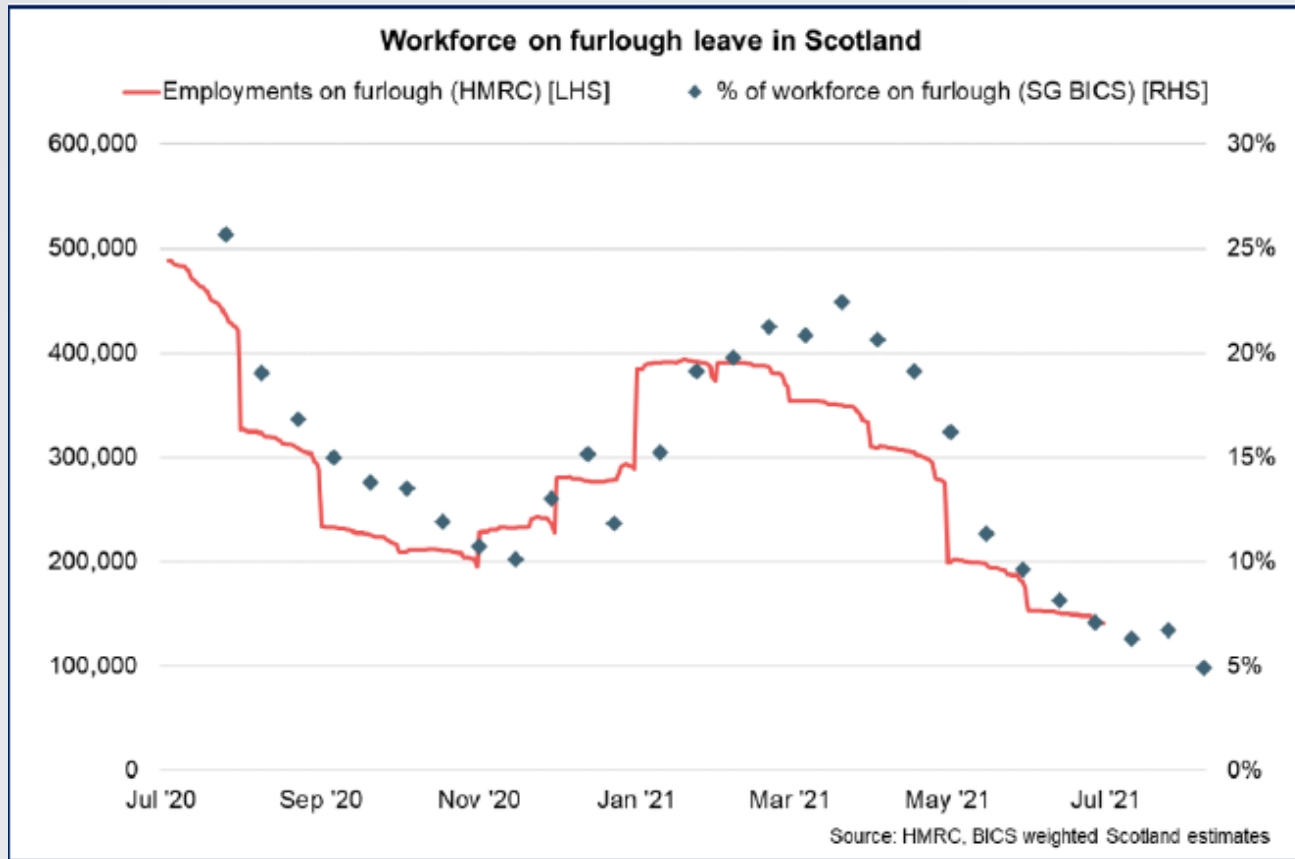


Chart 3: Monthly Economic Briefing August 2021, Scottish Government



GCR- Workforce on Furlough

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The latest furlough data for GCR suggest that the number of employees on furlough continues to fall. In July 2021, 43,000 (5%) benefited from the scheme (-16.5% from the previous month).

- **GCR:** In line with the national trend, GCR furlough rates continue to fall. In July 2021, there were 43,000 employees on furlough.
- **Sectors:** At the sectoral level, HMRC data shows consumer facing services, such as accommodation and food and retail, continue to have the highest number of employees on furlough.

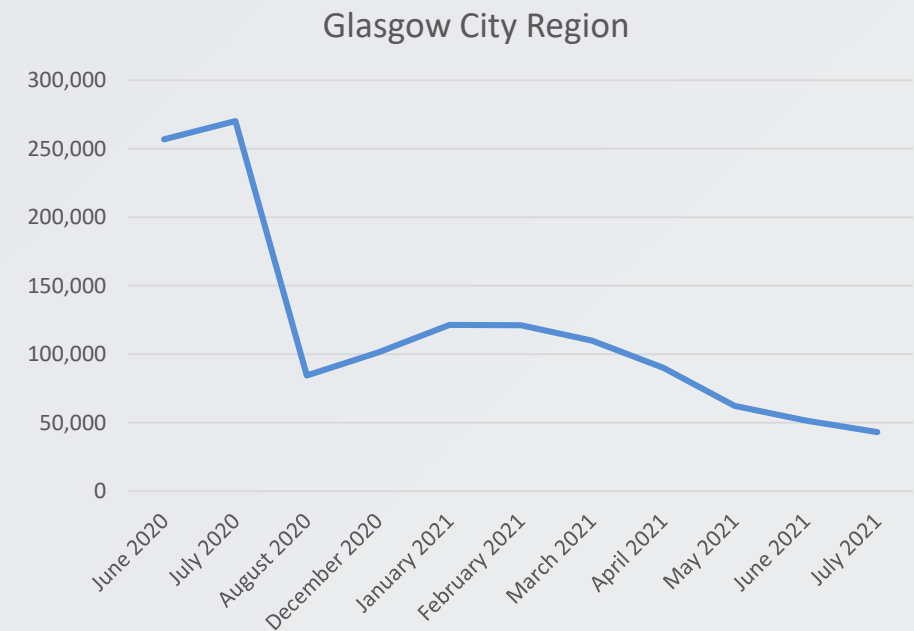


Chart 4: Job Retention Scheme Statistics, 9 September 2021

Labour Market Challenges: Post Furlough Unemployment?

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The Resolution Foundation has developed unemployment scenarios for October 2021 when the JRS ends.

Scenario 1: the most optimistic view where unemployment falls to **4.1%** by October 2021

Scenario 2: the central scenario. Unemployment could reach **4.9%** (slightly higher than the 4.7% predicted by the Bank of England's August forecast).

Scenario 3: the most pessimistic with unemployment reaching **5.5%**, above Q4 2020 peak (though still below the 6.5% predicted by OBR in March 2021).

16+ unemployment rate (single-month estimates), outturn and possible scenarios for October 2021: UK

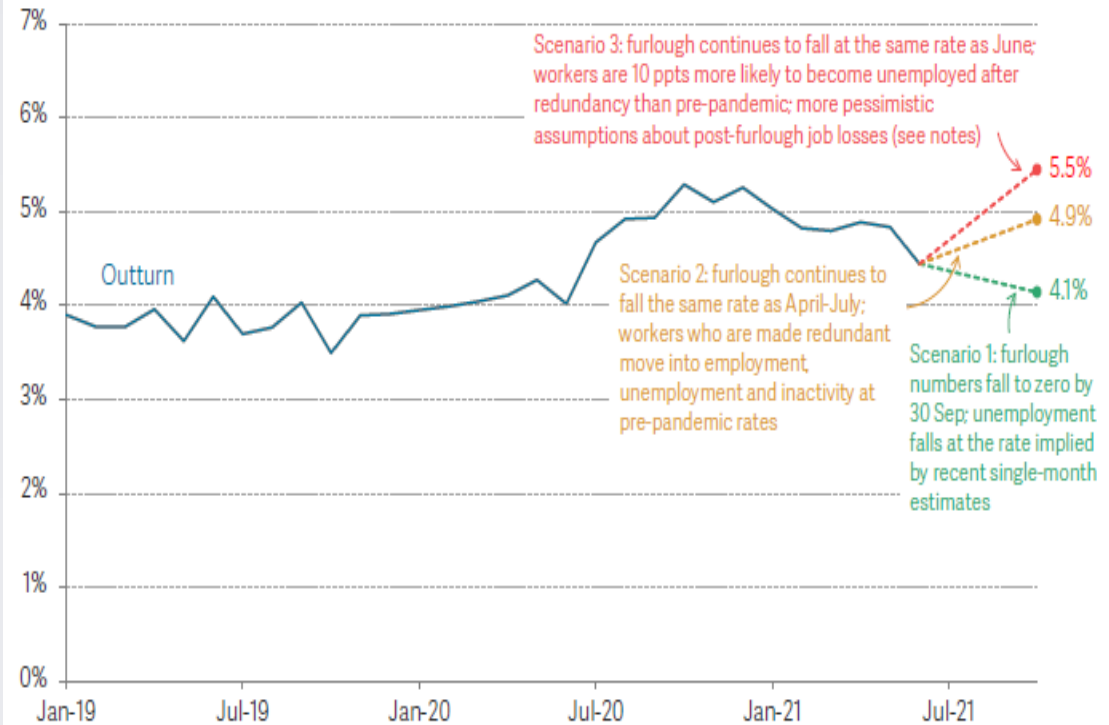


Chart 5: Labour Market Quarterly Briefing Q3 2021. The Resolution Foundation.

Labour Market Challenges: Labour Shortages

The UK faces labour shortages due to a sharp fall in overseas workers as a result of COVID-19 and Brexit. Business leaders warn that labour shortages pose a risk to economic recovery.

“Labour shortages are biting right across the economy. These shortages are already affecting business operations and will have a negative impact on the UK’s economic recovery.” Tony Danker, Director General CBI.

- **Shortage of workers:** The CBI argued that restrictions on EU workers has seen vacancies rise in sectors such as logistics, hospitality and construction.
- **Sectors:** Between 23 August and 5 September, 30% of hospitality businesses said that vacancies were more difficult to fill than normal. This compares with 13% across all industries.
- **Post COVID-19 occupation transition:** Employment experts suggest that people are being put off from in work in certain sectors which have developed reputation for low pay and poor conditions.

Chart 4: Staff Availability Index*



*Note: Any reading above 50 signals an increase on the previous month, below 50 indicates a decrease

Labour Market Challenges: Labour Shortages

Scotland

- **Latest data:** In July, permanent placements in Scotland rose but staff availability continues to fall.
- **Sectors:** Staff shortages are particularly acute in **catering and hospitality, manufacturing and logistics.**

GCR

- **Chef Academy:** In response to staff shortages in GCR's hospitality sector, the City Region is looking to set up a Chef Academy program to offer 40 cookery training courses.
- It is hoped that the training fund will help existing workers advance to senior cooking and open junior positions for new chefs.

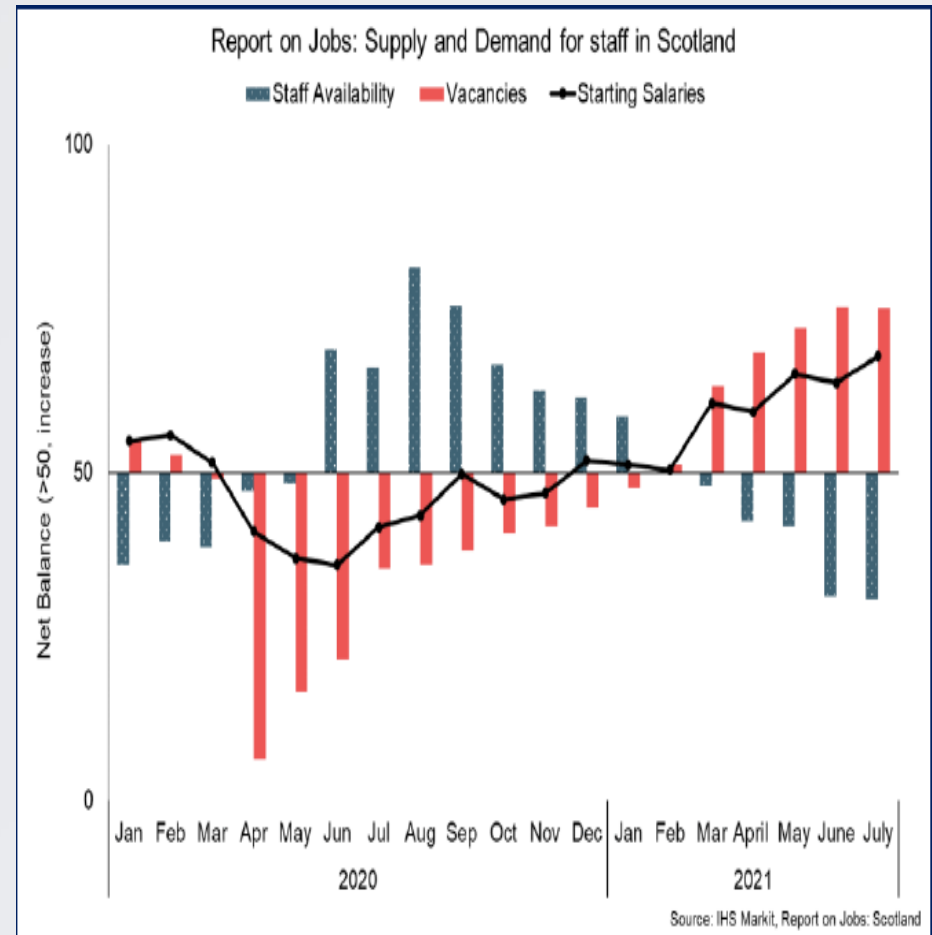


Chart 5: OCEA, August 2021

GCR Economy: Claimant Count

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The latest claimant count rate for the Region was 5.9% in July 2021 (71,650 residents). This is the lowest it has been since its peak in February-March 2021 (6.9%).

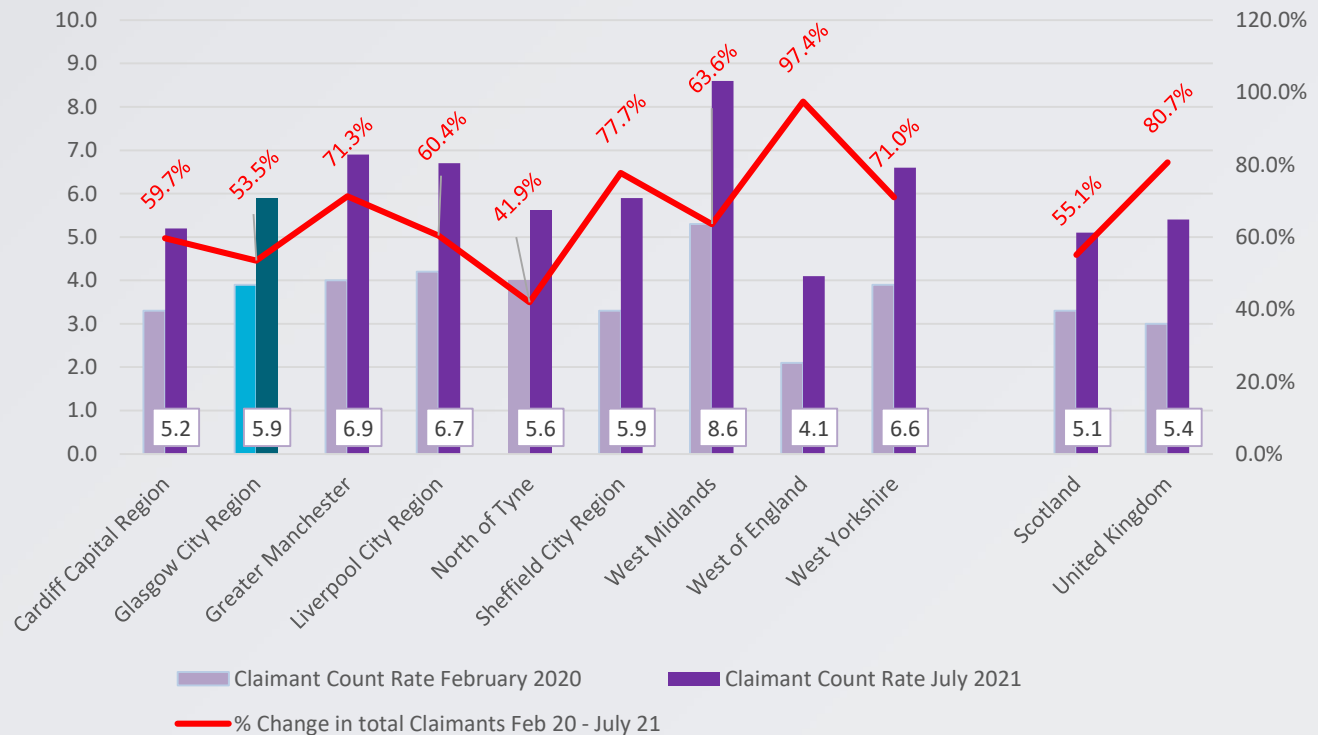


Chart 6: Claimant Count, July 2021, NOMIS



GCR Economy: Poverty & Inequality

The Health Foundation has warned that a planned £20-a-week cut to Universal Credit and Working Tax Credit, due at the beginning of October, is likely to lead to poorer mental health and wellbeing. This will have the greatest impact on those who already suffer from poor health.

- The Joseph Rowntree Foundation has produced estimates of the numbers and proportions of families who will be impacted by the planned cut to Universal Credit in October 2021.
- **GCR Impact:** The table shows the proportion of families in constituency areas within GCR that receive Universal Credit and are likely going to be affected by the cut.
- **Inclusive economy challenge:** The Universal Credit cut poses a significant risk to the inclusive economy ambitions of Glasgow City Region.

Constituency	Percentage of families (with or without children) in receipt of universal credit or working tax credits	Percentage of families with children in receipt of universal credit or working tax credits
Glasgow Central	19%	63%
Glasgow South West	29%	55%
Glasgow North East	26%	54%
Glasgow East	27%	49%
Glasgow South	20%	45%
Glasgow North West	20%	44%
Inverclyde	26%	43%
Glasgow North	16%	43%
West Dunbartonshire	24%	42%
Motherwell and Wishaw	24%	41%
Paisley and Renfrewshire South	20%	38%
Lanark and Hamilton East	21%	36%
Paisley and Renfrewshire North	18%	33%
East Renfrewshire	14%	20%
East Dunbartonshire	11%	18%

Table 2: Joseph Rowntree Foundation, August 2021



GCR Economy: Risk of Rising Fuel Poverty

Wholesale gas prices have soared due to a high demand for gas and reduced supplies. There is significant risk of a further rise in fuel poverty.

- **Energy crisis:** Industry Group Oil & Gas has said wholesale prices for gas have increased by 250% since January with a 70% rise since August.
- The increase had been blamed on several factors including higher demand for natural gas from Asia and less generation of renewable energy due to a less windy summer.
- **Higher Bills:** Households across the UK are facing a 12% rise in energy bills from October when a higher price cap comes into force.
- **Fuel Poverty:** There is significant risk of further rise in fuel poverty, especially when workers are facing cuts to Universal Credit. The latest data show that in GCR, there were 209,116 (23.9%) dwellings in fuel poverty.

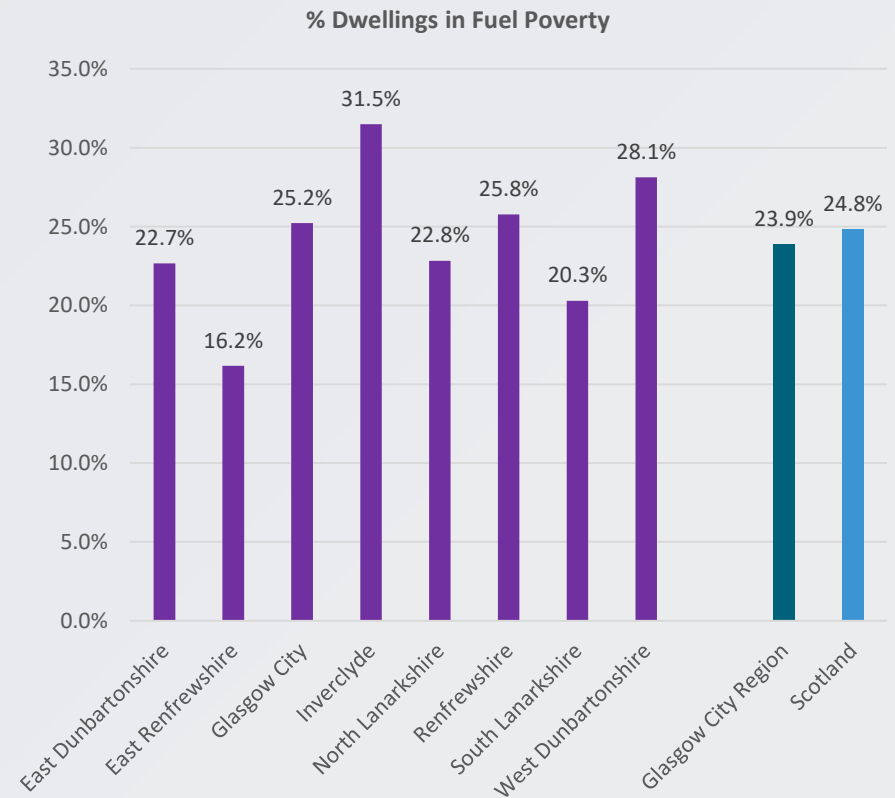


Chart 7: % of dwellings in Fuel Poverty, Scottish Household Condition Survey

Sources

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