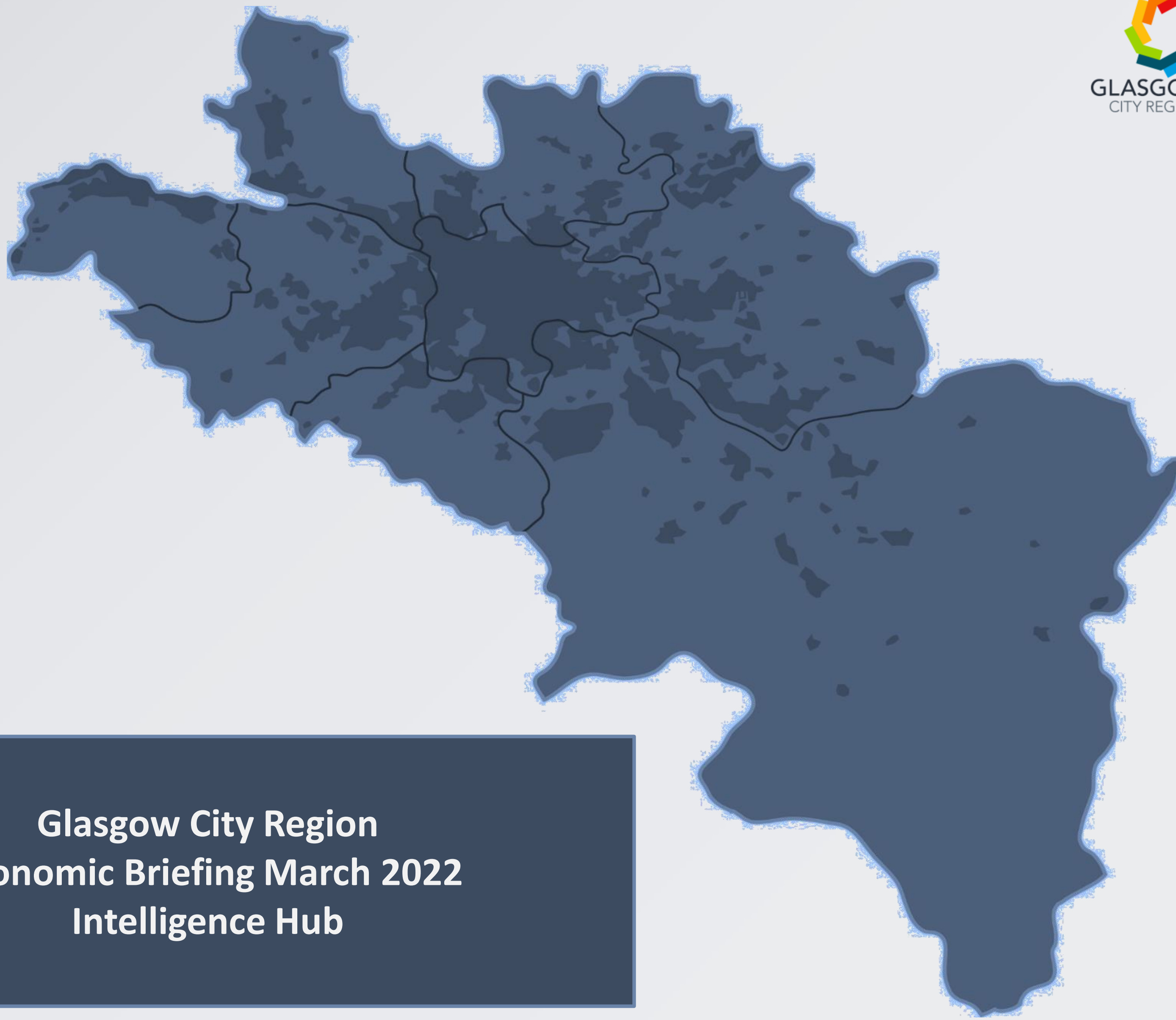
GLASGOW
CITY REGION



Glasgow City Region
Economic Briefing March 2022
Intelligence Hub

Summary

This month's economic briefing note covers the outlook for UK's GDP growth, the latest labour markets statistics and key updates from the Cities' Outlook 2022 publication from the Centre for Cities.

GDP Growth: The UK recorded the fastest GDP growth among the G7 countries in 2021 - 7.5%. But it started from a lower base and the British Chamber of Commerce warns that economic growth will slow down this year to due high inflation and the war in Ukraine.

Rising Inflation: CPI inflation rose to 5.5% in January and is expected to rise to 8% in April. Economists predict that UK households face the biggest fall in living standards since 1950s.

Labour Market Outlook: This month's labour market statistics, covering the last quarter of 2021, show a fairly positive picture - unemployment rates across Scotland have recovered quickly and the labour market outlook for young people has improved significantly since Spring 2021. However, there are still areas of concerns, namely:

- **Growth in worklessness due to ill-health and early retirement**
- **Rise in insecure work for young people**
- **Continuation of skills shortages**
- **Changes to migration policy brings labour supply problems**

Cities' Outlook 2022: The Centre for Cities' Outlook 2022 provides an in-depth look at the state of UK high streets. It provides a picture of the short-term impact of the pandemic on the UK's town's and city centres. Interestingly, the weaker high streets appear to have been sheltered from the biggest impacts of lockdowns.

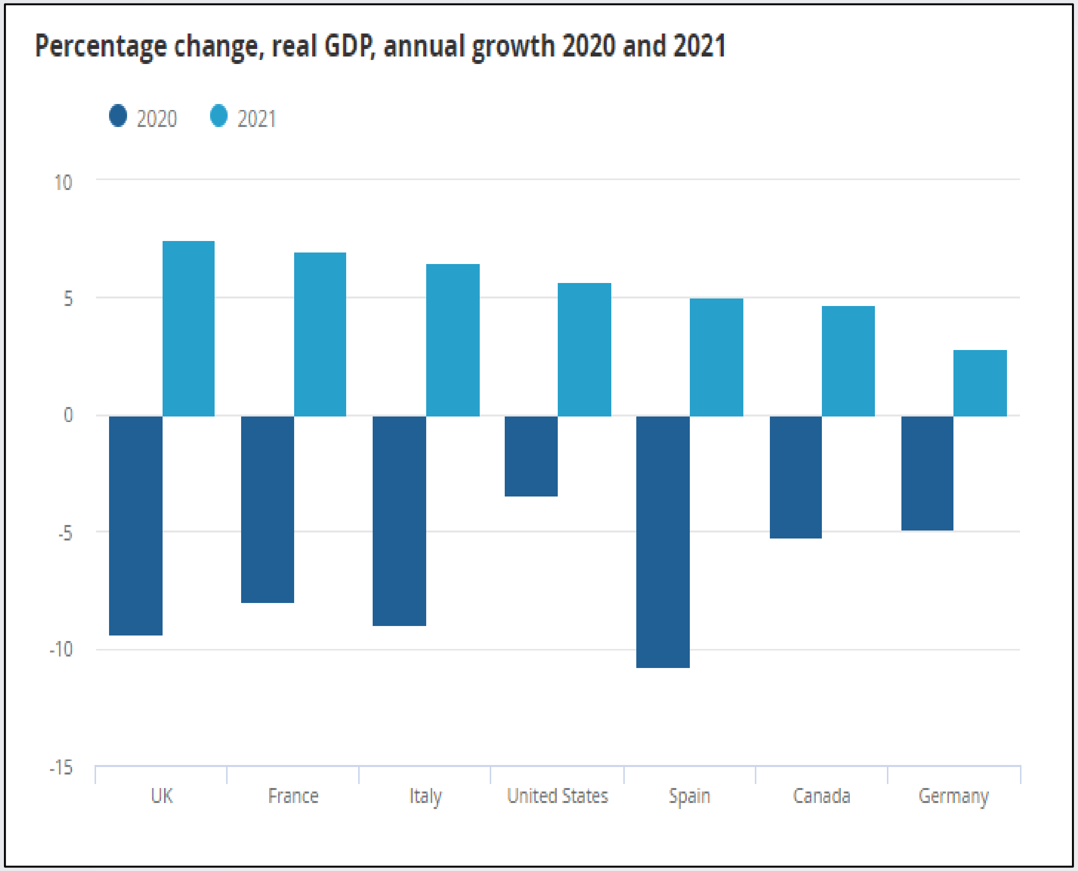
Net zero transition: A new report from the Resolution Foundation assesses the impacts of net zero transition on households.

Outlook for Growth and Inflation

UK GDP had an annual growth of 7.5%. The British Chamber of Commerce has warned that economic recovery will slow down due to inflation, rising taxes and the war in Ukraine.

GDP Growth: the UK recorded the fastest GDP growth last year among the G7 countries- 7.5%. However, the UK is recovering from a lower base, having contracted 9.4% in 2020. That was a steeper downturn than other G7 members.

- **Services:** Services output rose by 1.2% in Quarter 4 (Oct to Dec) 2021 and is now 0.5% above pre-coronavirus (COVID-19) levels (Quarter 4 2019). Human Health Services was the largest contributor to the increase in services.
- **Production:** Production output fell by 0.4% in Quarter 4 2021 and is now 3.6% below its pre-coronavirus levels.
- **Construction:** Construction output increased by 1.0% in Quarter 4 2021, following a fall of 1.4% in the previous quarter.



Source: ONS

Falling Living Standards

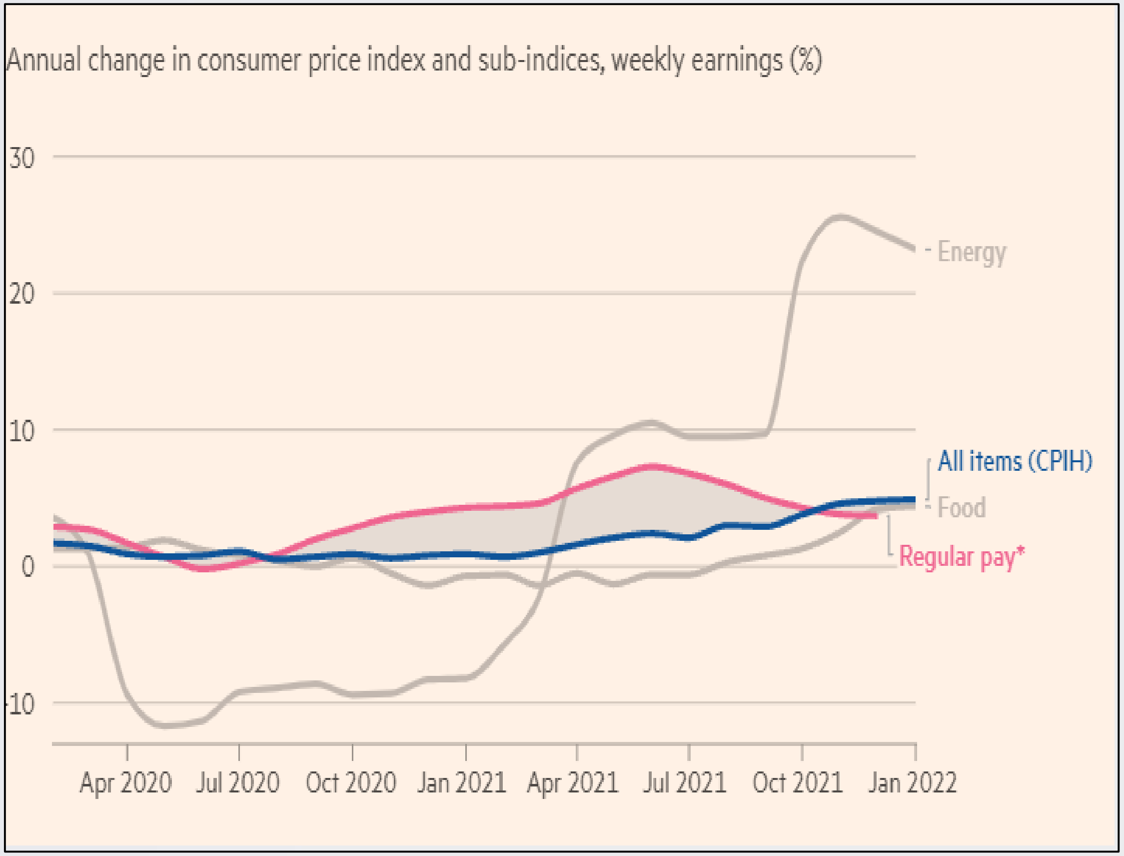
Economists predict that UK households face the biggest fall in living standards since the 1950s. With inflation at a historic high, real earnings are falling.

Inflation:

- CPIH inflation rises to 5.5% in January. The Bank of England expected inflation to rise to 8% in April.

Falling real wages:

- Inflation is rising at a much faster rate than wages. The latest official data showed regular pay, excluding bonuses, was just 3.7% higher than a year earlier in the three months to December, similar to pre-pandemic rates.
- In real terms, average earnings fell — and the squeeze is set to worsen in the months ahead as energy prices push inflation higher.



Source: Financial Times

Labour Market Outlook

There was no change in the unemployment rate over the last quarter in 2021, but economic inactivity has increased.

	Employment Rate (16-64) Oct- Dec 2021 (%)	Employment Rate Quarterly Change (ppts)	Annual Change Oct-Dec 2020 (ppts)	Unemployment Rate (16-64) Oct- Dec 2021 (%)	Unemployment Rate Quarterly change (ppts)	Annual Change Oct-Dec 2020 (ppts)	Economic Inactivity (16-64) Oct-Dec 2021 (%)	Economic Inactivity Quarterly Change (ppts)	Annual Change Oct-Dec 2020
Scotland	**74.1**	-0.6	+0.8	**4.1**	0	-1.2	**22.6**	+0.6	-0.5
United Kingdom	**75.5**	0.1	+0.9	**4.1**	-0.2	-0.5	**21.2**	+0.1	+0.1

Source: ONS, February 2022

Scotland

- ***Employment:*** Scotland's estimated employment rate fell from 74.9% to 74.1% between October and December.
- ***Unemployment***: During this period, the unemployment rate remained unchanged at 4.1%.
- ***Economic Inactivity:*** Economic inactivity increased by 0.6 percentage points to 22.6. However, compared to this period last year, economic inactivity is -0.5 percentage points lower.

UK

- Across the UK, employment rates rose from 74.6% to 75.5% and economic inactivity increased by 0.1 percentage points.

Labour Market Estimates by Age

The labour market outlook has improved for all age groups in Scotland except for those aged 50-64, who have seen a decrease in the employment rate over the year. This is mainly driven by an increase in economic inactivity for this group.

Employment Rate:

- The employment rate for young people (16-24) was 58.8% in the last quarter of 2021, 3.8 percentage points higher that last year.
- Employment rate for 50-64 decreased from 68.7% to 66.7%.

Inactivity Rate:

- Economic inactivity has decrease for all age groups except for those aged 50-64. This group was an increase in economic inactivity over the year from 28.6% to 30.6% (as discussed in the next section).

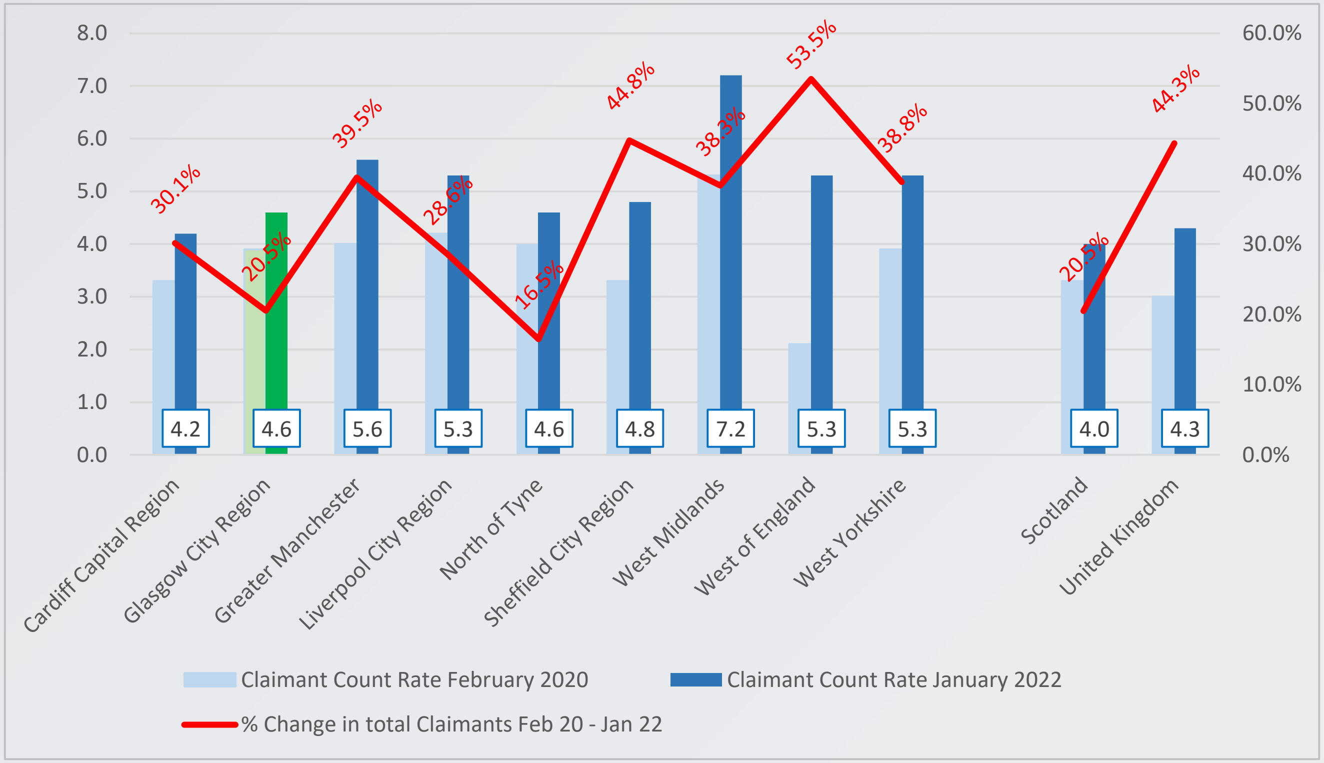
	Age Group	Rate Oct-Dec 2021 (%)	Change on Year (ppts)
Employment Rate	16-24	**58.8**	3.8
	25-34	**82.3**	0.4
	35-49	**84.0**	2.1
	50-64	**66.7**	-2.0
	65+	**10.4**	1.0
Inactivity Rate	16-24	**32.7**	-1.9
	25-34	**13.4**	-1.9
	35-49	**13.7**	-0.9
	50-64	**30.6**	2.0
	65+	**89.6**	-0.7

Source: Scottish Government Labour Market Statistics, February 2020

OUTLOOK FOR GROWTH
LIVING STANDARDS
LABOUR MARKET OUTLOOK
CITIES' OUTLOOK 2022
NET ZERO

GCR Claimant Count

The Claimant Count Rate in January 2022 was 4.6 (56,270 residents), the lowest it has been since the start of the pandemic (February 2020). However, the number of claimants is still 20.5% higher than February 2020.



Source: NOMIS

OUTLOOK FOR GROWTH
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Young People's Employment in 2021

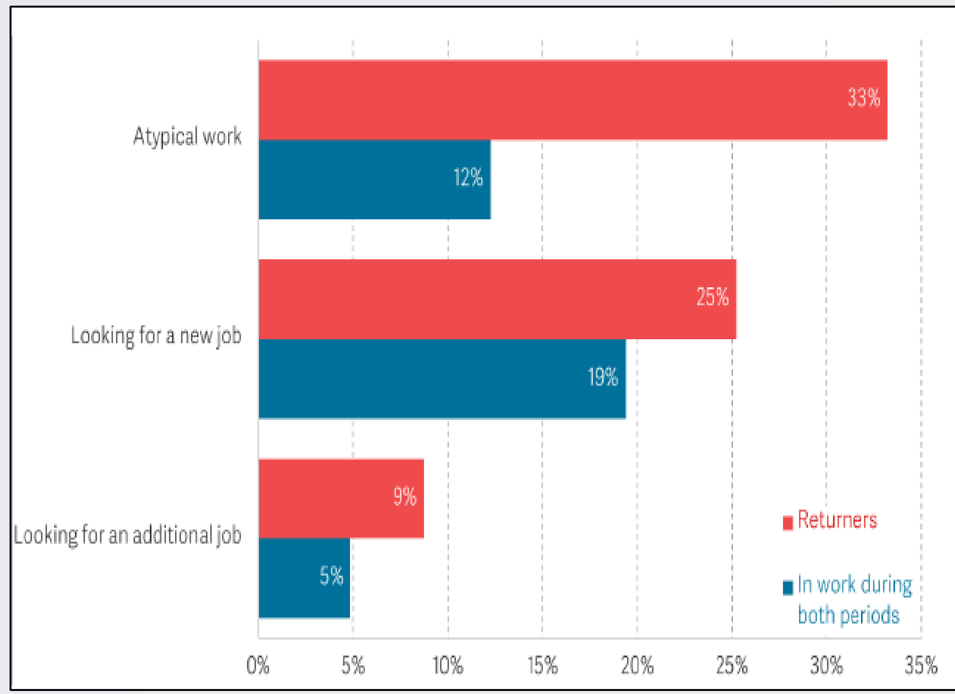
Although young people were disproportionately likely to lose their jobs at the start of the COVID-19 pandemic, their employment prospects have improved since Spring 2021. However, new evidence from the Resolution Foundation shows that there are still areas of concern.

- One in three of 18-34 respondents who had been in work at the start of the pandemic experienced extended period of worklessness which could scar their employment prospects.
- Unsurprisingly, the biggest factor correlated with younger respondents' extended worklessness was the type of sector they had worked in before the pandemic started in February 2020.
- ***One third of young respondents who had fallen out of work during the winter 2021 lockdown have since returned to work on insecure contracts***.
- Finally, despite the fact that unemployment hasn't risen among young people, the share of 18-24-year-olds who are economically inactive and not in full-time education has grown slightly since spring last year.

Policy Considerations:

- **Ensuring that employment services help young people who have experienced worklessness to avoid longer-term employment scarring**
- **Making sure that younger people have access to good quality jobs and career progression opportunities.**

Proportion of 18-34-year-olds who were in work in February 2020 and October 2021 who are in atypical work and who are looking for a new or additional job, for 'returners' and those who were in work during both periods: UK



Source: *Resolution Foundation Spotlight, January 2022*

Labour Market Recovery for Disadvantaged Groups

There are worrying signs that those disadvantaged in the labour market are faring worse in the economic recovery from COVID-19.

The chart shows the 'gap'* in employment rates between disabled people, ethnic minorities, those aged 50-64 and young people not in education.

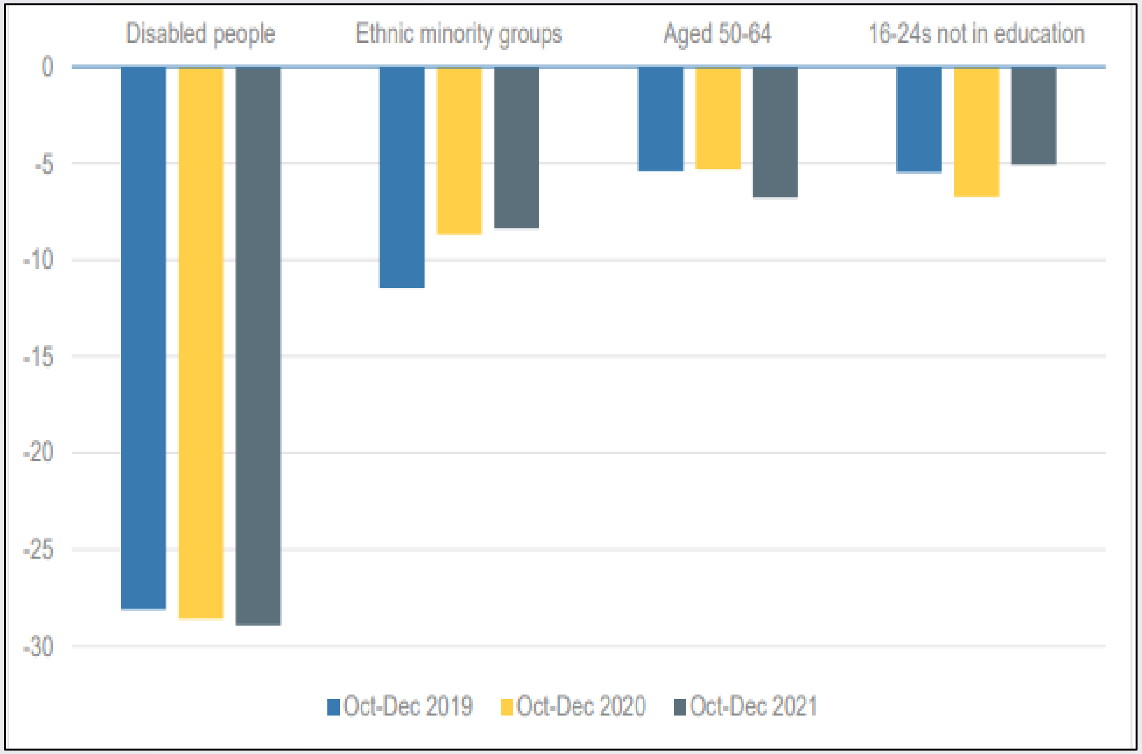
Widening gap:

- the employment 'gap' for disabled people and for older people widened in the last two years.

Narrowing gap:

- For ethnic minority groups, the gap has slightly narrowed.
- The gap has narrowed for young people outside of full-time education. Given the volume of jobs available, there is now an opportunity to reduce this gap.

Employment rate 'gaps' for disabled people, ethnic minority groups, those aged 50-64, and young people not in full-time education. Oct-Dec 2019, 2020, 2021.



Source: Institute for Employment Studies, February 2022

***Note: Gaps are calculated as the percentage point difference in employment rates between the rate for the disadvantaged group and the rate for the overall 16-64 population excluding that group**

Vacancies and Skills Shortages

November 2021 to January 2022 saw the rate of growth in vacancies slowing down in all industry sectors.

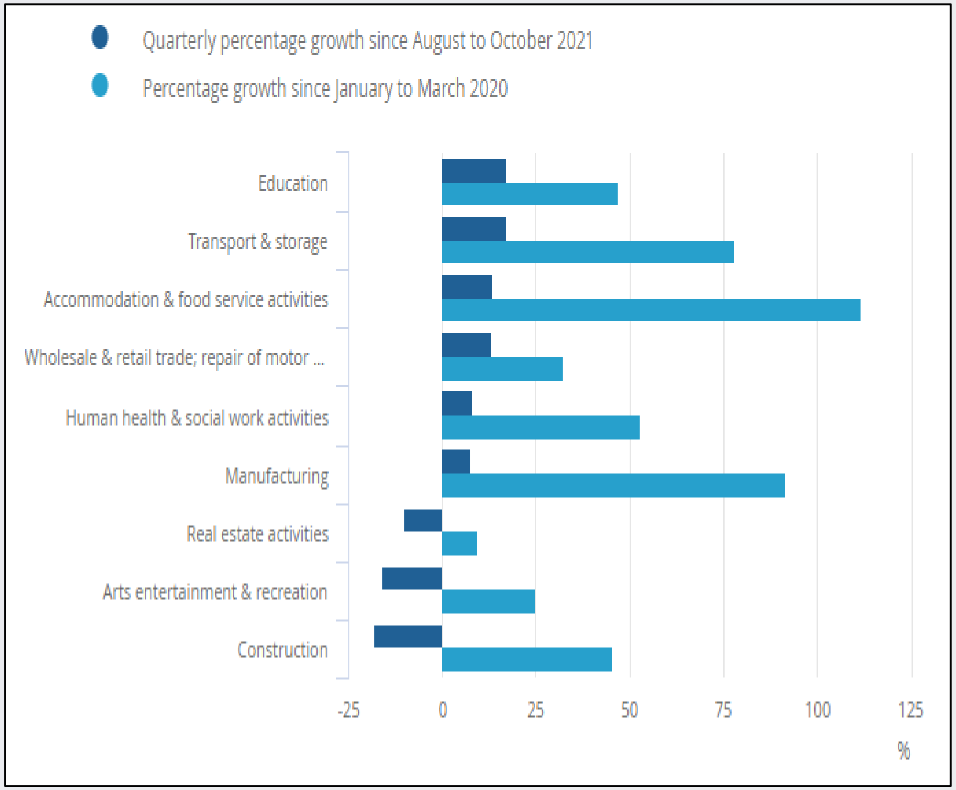
Quarterly growth

- In November 2021 to January 2022 the quarterly growth rate fell to 9.6% with all industry categories displaying a slowdown.
- The rate of this slowdown varies across business sectors, as is seen in the two industries with the highest quarterly growth rates, Education at 17.3%, and Transport and Storage at 17.1%.
- While growth slowed, the number of vacancies continued to rise across most industries. ***The largest quarterly increase in vacancy numbers was in Accommodation and Food Service Activities, which grew by 13.6%.***

Scottish Business Monitor (Q4 2021)

- More than half of responding businesses currently had vacancies to hire new members of staff.
- 1 in 5 business reported that they were finding it difficult or very difficult to retain current levels of staff

November 2021 to January 2022 three-month average vacancies in the UK.



Source: ONS, February 2022

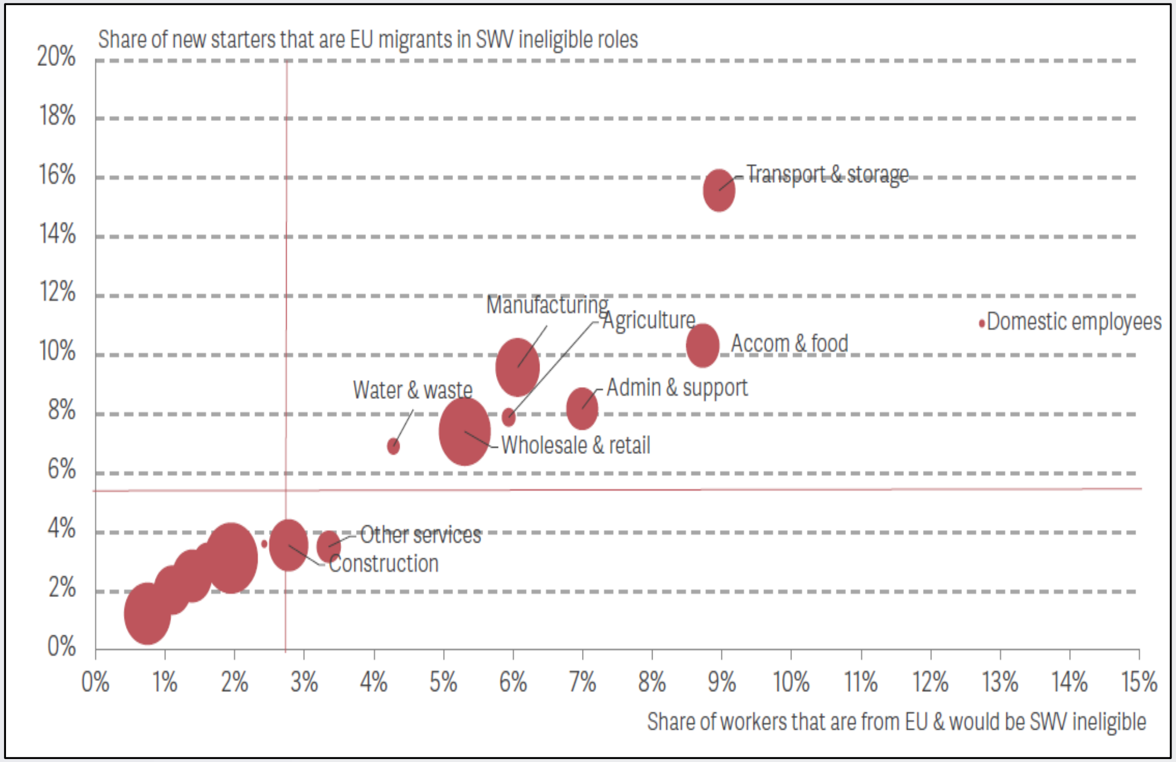
Brexit Impact on the Labour Market

Research suggests that recent migration policy changes will bring acute labour supply problems for a small number of sectors in the short-term - namely those with high staff turnover that are reliant on workers who would be ineligible to work in the UK.

According to research from the Resolution Foundation***, hospitality, transport and manufacturing are among the sectors that are expected to struggle*** with labour supply under the work-related new migration regime**.**

The share of workers in each of these sectors that are classed as new starters (with their employer for less than two years) ranges from 29% to 42% (compared against an across industry average of 15% during the time).

Proportion of 18-64-year-old workers that are new starters and working in an SWV-ineligible occupation (y-axis) and proportion of workers that are from the EU and would be ineligible for a Skilled Worker Visa (x-axis), by industry: UK, 2017-2019



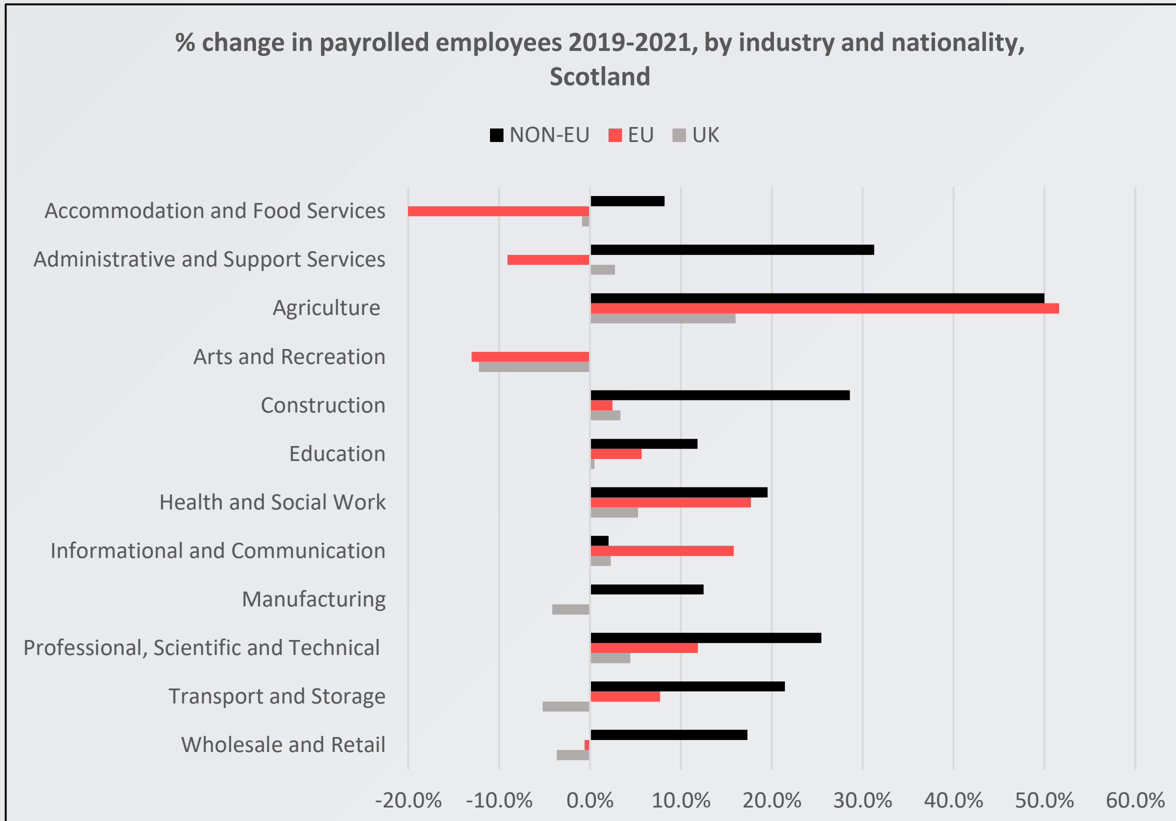
Source: Resolution Foundation, 2022

Changes in Payrolled Employments during COVID-19 and Brexit

The evidence suggests that some 'at risk' industries are already feeling a labour supply pinch. Between June 2019 and June 2021, payrolled employments held by EU nationals in Scotland fell by -0.3% (-400), whereas those of non-EU nationals increased by 16.6% (+11,800).

COVID-19 and Brexit has affected people's decisions to work in the UK. Experimental statistics from HMRC payroll* data explore changes in employment by industry and nationality. The data shows that while some industries have experienced growth, others have seen a decline.

- **In Scotland, the largest decline was seen in Arts and Recreation (-12.1%) driven by both EU and UK nationals.**
- **The second largest decrease was seen Accommodation and Food Services (-3.1%), driven by EU nationals.**
- The largest growth was seen in Agriculture (20.9%).

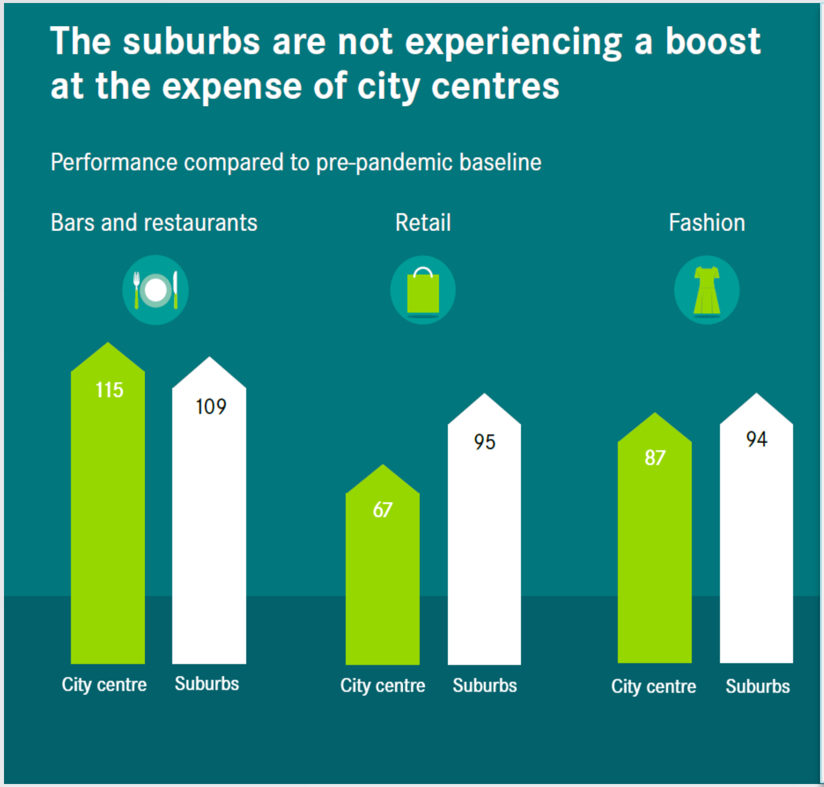


[Source: ONS, 2022]

Note: These statistics only include payrolled employments from the Pay As You Earn (PAYE) system, they do not include employments from non-payrolled sources such as self-employment

Cities’ Outlook 2022

Centre for Cities has published the Cities’ Outlook 2022 which highlights the performance of high streets during the pandemic. Overall, it shows that the strongest high-streets pre-pandemic were hardest hit.



<u>**Five Surprising Trends**</u>

1. ***Shopping in physical stores is back.*** People had switched to online but offline has bounced back.
2. ***Pubs and restaurants weren’t the hardest hit***. The biggest high street casualty was fashion.
3. ***Suburbs are not experiencing a boost at the expense of city centres***. In fact, with the exception of the retail sector, there are no real differences between cities and suburbs when it comes to sales recovery for sectors like fashion and hospitality.
4. ***High streets in weaker places, appear to have been sheltered from bearing the economic brunt of the pandemic.*** Stronger city centres have large catchment areas which shrank during the pandemic, severely restricting the number of workers, shoppers and tourists from outside of their boundaries coming into the city centre .
5. ***‘Returning to normal’ might not be possible or desirable.*** Amid Omicron, and the continued uncertainty over the future of working patterns, questions remain over whether the changes provoked by the pandemic will be permanent or temporary.

Source: Cities’ Outlook 2022, Centre for Cities

The impacts of net-zero transition on households

A new report from the Resolution Foundation assesses how households will be affected by efforts to decarbonise the economy. The key findings are summarised below.

- **Housing Retrofit:** Decarbonising buildings is the key challenge for the 2020s, with urgency further hastened by elevated energy prices. The Resolution Foundation argues that policymakers should focus on energy efficiency, reversing a decade of policy failure by ensuring that regulations for the private rented sector are delivered and enforced, and that support is made available for lower income owner occupiers.

- **Heat pumps:** The expectation that the widespread rollout of heat pumps in existing homes won't get underway until the 2030s gives the Government time to deliver on its plan to drive down costs before the majority of households switch over from gas boilers. The benefits of achieving this are vast, potentially cutting more than £135 billion from the investment costs associated with net zero.

- **Electric vehicles:** Rapid change is well underway in the UK's vehicle stock, with electric car sales well ahead of even the most ambitious projections. As such, it is only a matter of time until more affordable vehicles appear in the second-hand market. At the same time, continued innovation and scaling up will see more downward pressure on vehicle costs.

- **EV Infrastructure:** Access to at-home, off-street parking will be the key factor in households being able to bank savings from cheaper electric driving. As well as richer households having better parking provision, 81% of owner occupiers can tap into cheap at-home charging, compared with just 51% of private renters. Those able to plug in to overnight tariffs at home will save around £950 per year, compared to less than £400 for drivers using an average public charger.

Source: Economy 2030 Inquiry, Resolution Foundation

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