



**Glasgow City Region  
Economic Briefing August 2022  
Intelligence Hub**



# Summary

- **Economic Outlook:** The UK economy shrunk by 0.1% in Q2 2022 and is expected to enter recession later this year. Businesses across industries, but particularly in energy-intensive sectors, have been significantly impacted by the soaring energy prices.
- **Labour Market:** The latest labour market figures suggest that the labour market is still strong. However, economic inactivity has continued to increase over the quarter. Cross-country evidence suggests that the UK has seen the largest drop in over 50s in the workforce of ten major countries studied.

## SPOTLIGHT ON

Whilst most of the data highlights the scale of Cost of Living crisis, this month's spotlight is on **Net-Zero opportunities**. Key points include:

- Intelligence Hub analysis shows that GCR has specialisations in Waste/Water and Environmental Consulting Activities.
- With additional support and investment , there are opportunities for employment growth in Insulation Activities, Environmental Construction Activities and Production of Renewable Energy.
- Research shows disconnect between increasing employer demand for green skills and young people's lack of awareness on green jobs. Key challenges that need to be addressed are: a) young people's lack of knowledge about green skills b) significant gender gap in green skills.



# Economy Outlook

According to ONS estimates, the UK economy shrunk by 0.1% in the second quarter of 2022 and is expected to enter a recession later this year.

- UK inflation rose to 10.1% in July and is projected to hit 18.6% as gas prices surge. Ofgem increases the price cap by 80% from October.
- Moreover, this month the Bank of England forecast that by the third quarter of 2025, the UK economy would be 0.8% smaller than before the pandemic.
- The UK's PMI report shows that UK private sector growth hits 18-month low of 50.9, down from July's 52.1.

## GDP

- UK GDP fell by 0.6% in June

## Inflation

- In July 2022, UK Consumer Price Inflation rose to 10.1%
- UK faces the highest inflation of all G7 economies

## Pay

- Real pay fell 3% between April and June 2022
- This is the fastest decline in 20 years

Sources: [FT](#), [Guardian](#)



# Cost of Living Crisis Context – Why is it Happening

The cost of living crisis is being driven by a range of factors impacting the cost of fuel and goods – particularly food.

## The Rise in Energy Costs

- **£28 for a coffee, £33 for a pint of beer** - “That’s roughly what these items would cost if they had risen in line with the wholesale gas price this year. “
- **2021:** The rise in costs for energy started with a post lockdown surge in demand
- **Winter 2021:** A lack of renewable generation (wind and solar) and a long and cold winter meant further increase in demand and reduction in supply
- **February 2022:** War in Ukraine impacts supply of gas (40% of Europe’s supply)

## The Rise in Food and Housing Costs

- There are multiple global factors influencing the rise in food prices.
- **Poor crop yields:** due to bad growing conditions – particularly in South America
- **A reduction in production:** caused by fuel costs, supply chain problems impacts supply of machines / parts
- **War in Ukraine:** impacting supply of grains and of course fuel. A reduction in available fertilisers from Russia and Belarus will likely impact yield next year

Source: FT, 2022

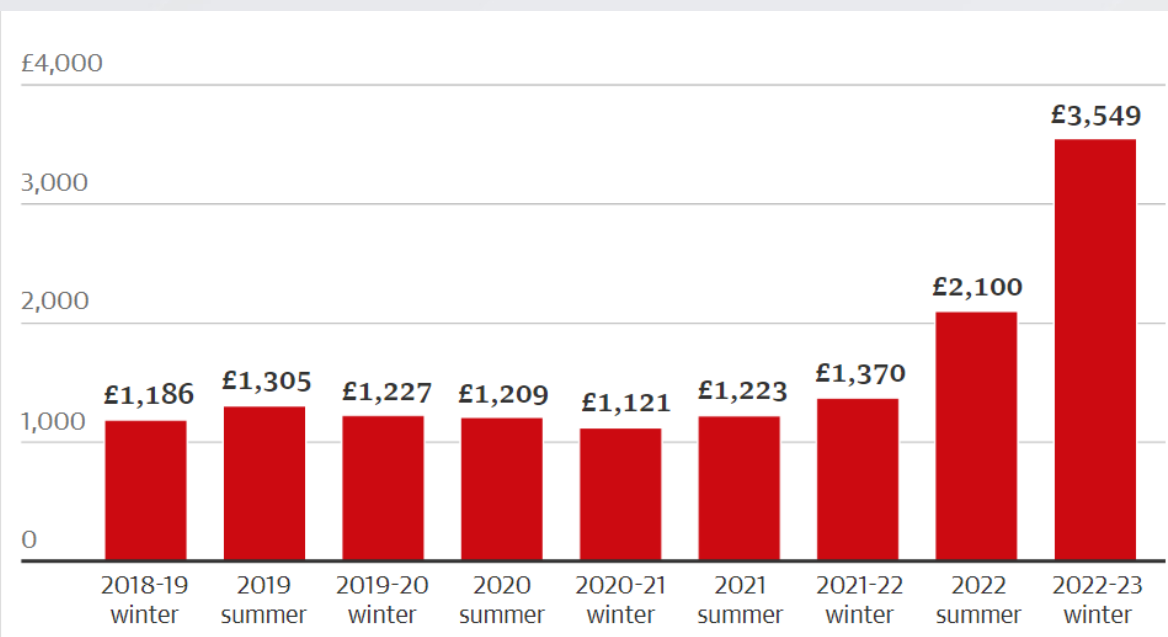


# Energy Price Increases-Energy Price Cap

**Ofgem raises energy price cap by 80% to £3,549 from October. Average energy bills are expected to increase to £5,387 in January and to £6,616 in April. It is expected that the new price cap will affect 85% of the population.**

- Ofgem advised that winter gas prices were 15 times higher than normal conditions and equivalent to paying £400 to £500 to fill up a car with petrol.
- According to the Institute for Fiscal Studies, the new cap means that typical bills for this financial year will be 27% higher than what than expected from the last support package in May.
- High energy prices will also collide with high energy use in the winter monts.

Chart 1: Default tariff price cap



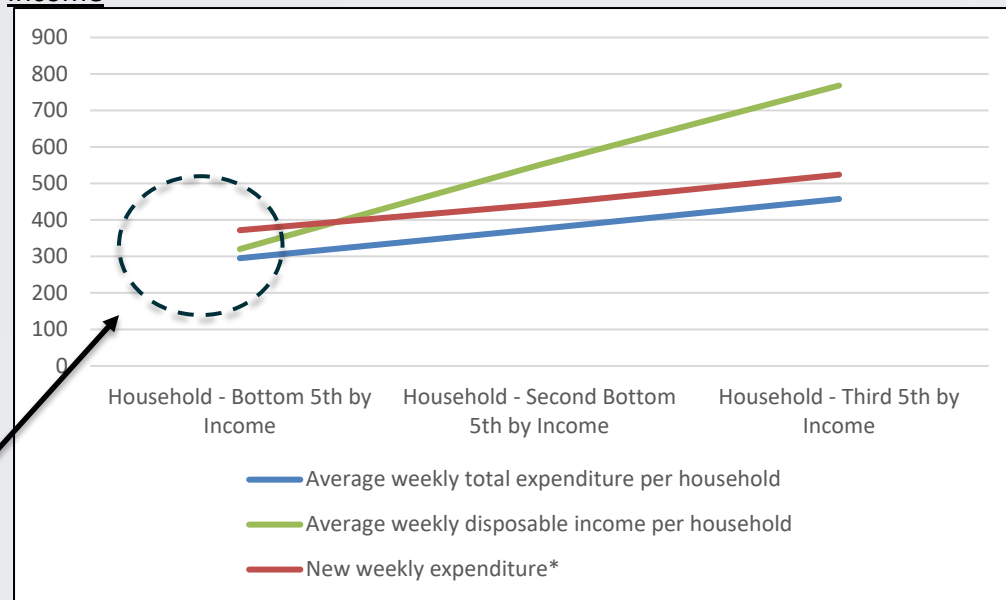
Source: Ofgem

# Social Impact - Unequal Impacts of Energy Rises

For a family maintaining the typical energy use, spending on energy over the 2022-23 financial year will cost £3,478 compared with £1,472 in 2021-22. Even with existing government support, energy bills in 2022-23 are set to take up twice as much of household budget than in pre-Covid years.

- According to Ofgem's forecasts, the average household costs over the 2022-23 financial year will cost £3,478. For the poorest households spending on energy will cost an average of £4,000.
- According to [Joseph Rowntree Foundation's](#) estimates, 22% of households in the UK won't be able to warm their homes and a third will have to cut spending on four or more essentials.
- Applying these estimates to Glasgow City Region, shows the scale of challenge and tough choices residents will have to make in 2022-23:
  - 190,000 households won't be able to afford heating**
  - 285,000 households will cut spending on essentials**
  - 95,000 rely on credit to get by**

Chart 2: Illustration of Expenditure Impacts in GCR by Household Income



Source: Intelligence Hub Calculation of the UK Family Spending, July 2022

\*Note: includes increased energy costs smoothed over 2022-2023 financial year.

# Energy Price Increases- Fuel Poverty

Evidence from the University of York, on behalf of the Child Poverty Action Group, estimates that by January 2023 over half of all UK households will be in fuel poverty.

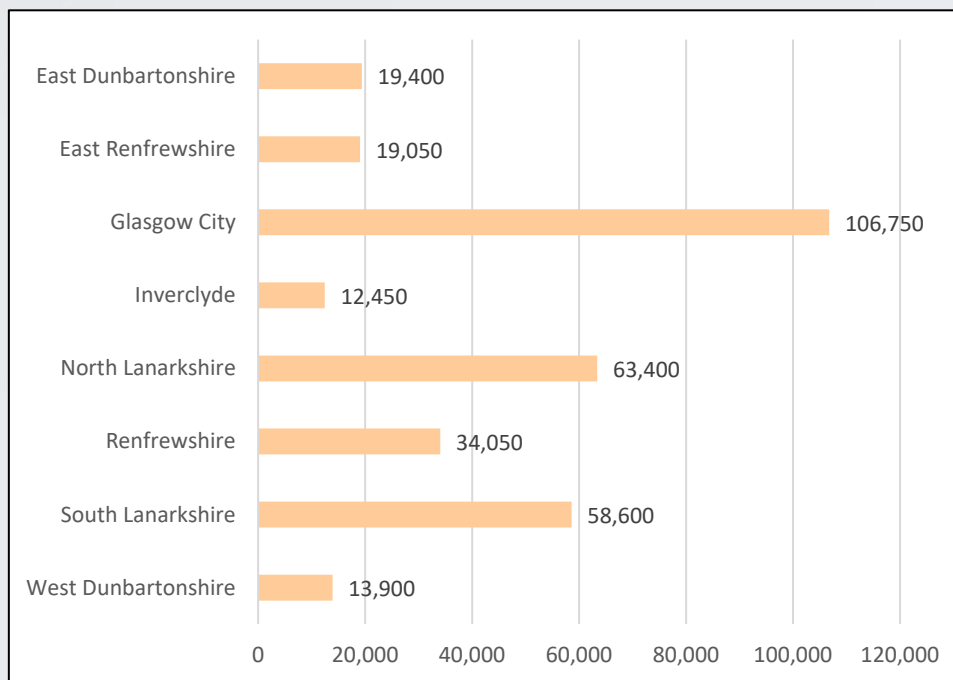
**Fuel Poverty:** Defined as a household spending more than 10% of their net income on fuelling their homes.

**Impacts:** By 2023 it is estimated that almost 80% of income-poor households will also be categorised as fuel-poor.

Regionalised estimates anticipate Scotland's fuel poverty percentage to increase to 61.5% in January 2023 from the 24.4% last estimated in 2017/19 from the Scottish Household Condition Survey.

If Glasgow City Region's fuel poverty rate was to increase to 61.5% and approximate **325,000 additional homes will be in fuel poverty.**

Chart 3: Additional households in fuel poverty in January 2023



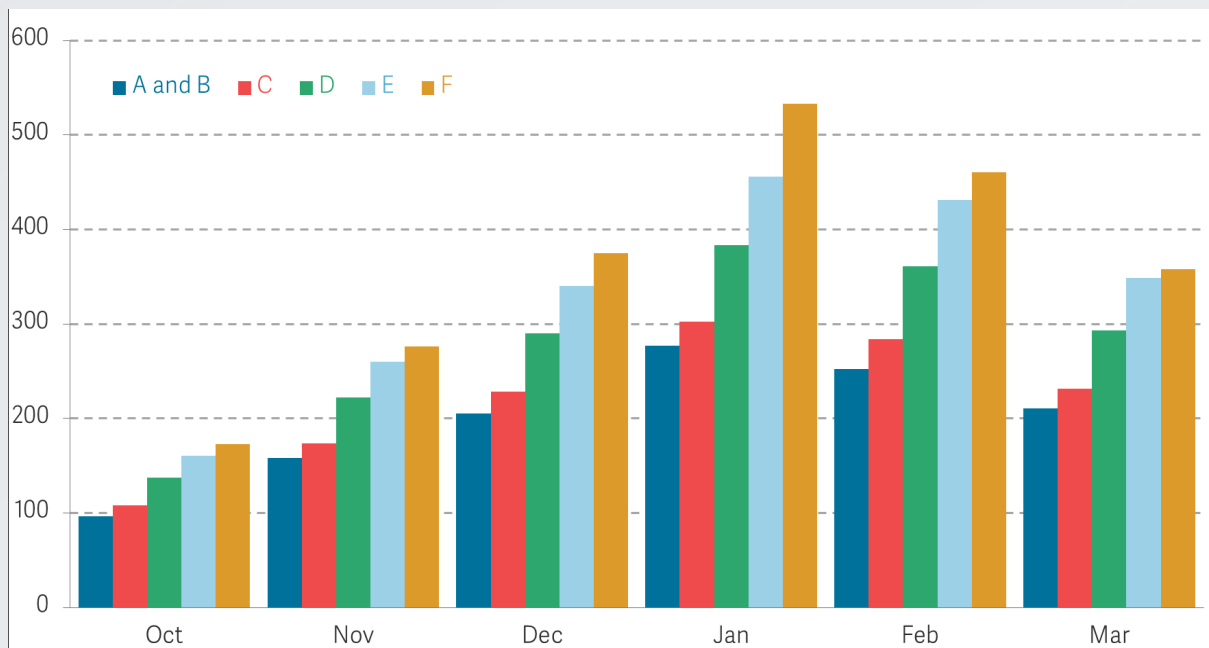
Source: [CPAG](#), Scottish Household Conditions Survey, Ihub Calculations

# Energy Price Increases- Impact on energy-inefficient homes

Families in energy-inefficient homes will be hit the hardest from the jump in energy costs this winter. The financial consequences of living in energy-inefficient homes will hit lower-income households hardest. These costs pose a serious threat to families physical and financial health.

- As the chart shows, energy costs for families in poorly insulated homes will see a jump in energy costs from October onwards. In January, families in energy-inefficient homes will be facing monthly gas bills £231 higher than those in better-insulated homes.
- In GCR, the total number of dwelling of EPC below D is 428,022. This represents **48% of the total dwellings in the Region**.
- Glasgow City has the lowest percentage of properties in the range D-G (41%). East Dunbartonshire has the worst with 65% of properties below EPC C.

Chart 4: Average monthly gas costs by Energy Performance Rating (EPC):  
Winter 2022-23, Great Britain



Source: Resolution Foundation, Cutting back to keep warm, August 2022



# Energy Price Increases- Impact on Industry

Unlike households, businesses are not protected from sudden swings in the wholesale cost of gas by a price cap. CRH, the world's largest materials company, has warned that the construction industry faces a second wave of inflation and projects will fall off heavily.

- Industrial and chemical companies are among the heaviest energy users. Steel is one of the several energy-intensive industries that will suffer along with others such as glass and cement production.
- Greatest annual price increases ([BEIS](#), July 2022):
  - **Concrete reinforcing bars 58.2%**
  - **Fabricated structural steel (46.3%)**
  - **Pre-cast concrete products (28.3%)**
- Soaring energy costs have already forced closure of plants in Europe. Experts warn that the UK might be hit harder, with its response to the energy crisis stalled until a new prime minister takes power.
- The second wave of cost inflation for construction materials has a knock-on effect on infrastructure projects as material costs account for a quarter of the total construction costs.

Chart 5: UK Energy prices

UK power prices soar to unaffordable levels for manufacturers  
(£/MWh)\*



\* Seasonal average prices for winter/summer 2022  
Source: ICIS

Source: [FT](#)

# Business Impacts- the Hospitality Sector

According to recent industry reports, the beverage-related hospitality sector may face imminent closure if there is no intervention to tackle their increased energy costs.

**Proposed Support:** The UK Government are currently considering the implementation of measures to mitigate the increased cost of energy for energy intensive industries - including steel, paper, glass, ceramics, and cement production.

However, this would only support 300 enterprises and 60,000 jobs UK-wide.

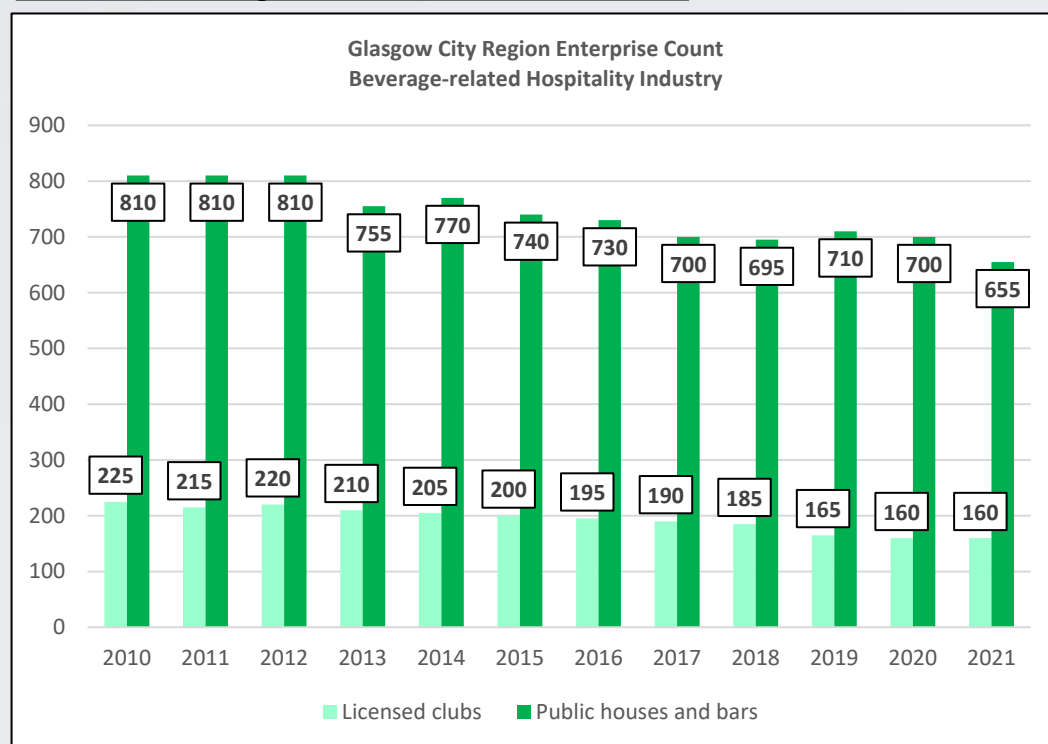
**Critical Need:** The British Beer & Pub Association have written to the Government indicating that energy prices could increase by 300% for their businesses.

This would create further enterprise closures in the industry – already at its lowest level of firms in the UK since records became available.

Support for this industry would impact over 800 enterprises and 10,000 employees in Glasgow City Region alone.

Source: [UK Government](#), [British Beer and Pub Association](#)

Chart 6 – Pub & Nightclub Counts in GCR 2010-2021



Source: UK Business Counts

# Headline Labour Market Statistics

The latest labour market figures suggests that the labour market is still strong. However, economic inactivity has continued to increase over the quarter to 22.0%. According to the latest Scottish Business Monitor (Q2,2022), 81% of business are concerned about availability of staff.

Table 1: Labour Force Survey estimates for April to June 2022

	Unemployment (%) Apr-Jun 2022	Unemployment (ppts) Quarter Change	Employment (%) Apr-Jun 2022	Employment (ppts) Quarter Change	Economic Inactivity (%) Apr-Jun 2022	Economic Inactivity (ppts) Quarter Change
<i>Scotland</i>	3.2	0.0	75.4	-0.1	22.0	+0.1
<i>UK</i>	3.8	+0.1	75.5	-0.1	21.4	0.0

Source: Scottish Government, Labour Market Statistics August 2022

## Economic inactivity in international context

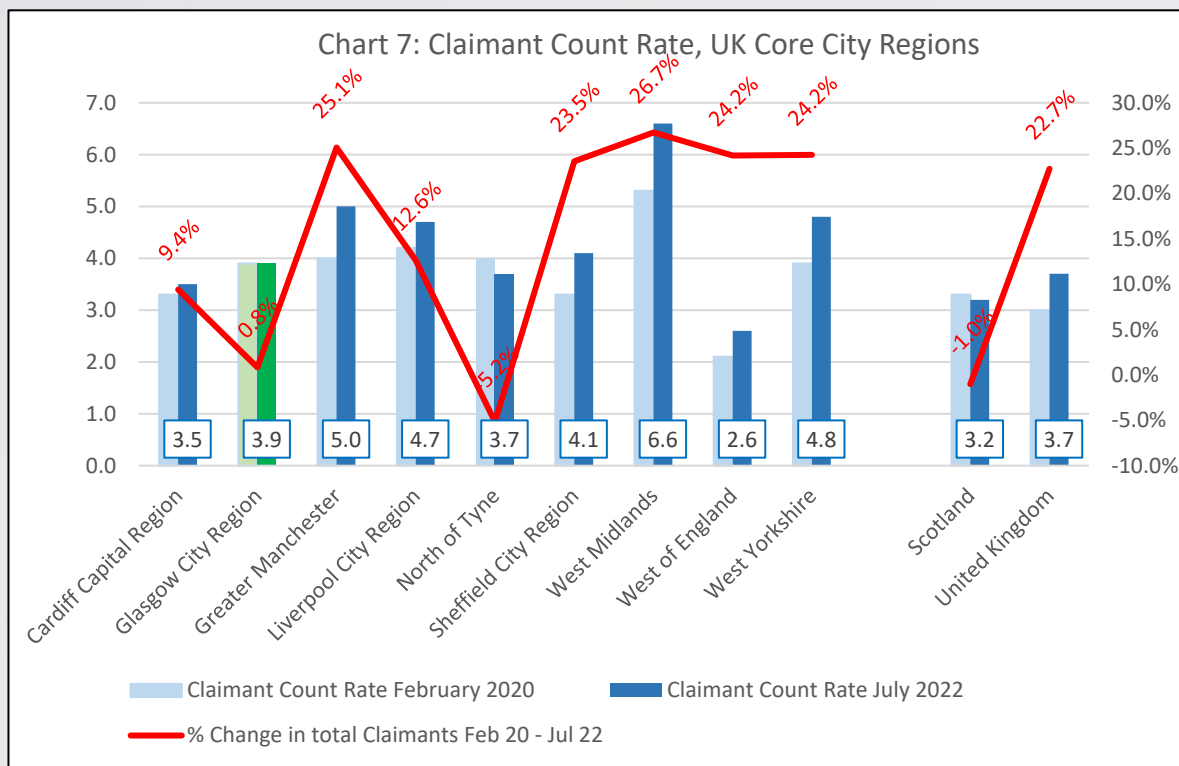
Research from the Learning & Work Institute shows that the UK is an international outlier, seeing the biggest drops in over 50s in the workforce of ten major countries studied. The drivers of the UK's relatively poor performance are outlined below:

- Mental health/ change of lifestyle
- Long-term sickness
- Labour market structural issues (e.g. lack of flexible working options, job that suits caring responsibilities)
- Less policy focus on how to support economically inactive groups back into the labour market

Source: L&W, The Participation Gap, July 2022

# GCR Claimant Count

GCR's Claimant Count Rate has recovered to pre-pandemic levels (3.9). In July 2022, the total number of claimants was 47,075.



Source: NOMIS

# Green Growth Opportunities

Green growth opportunities for GCR have been identified using Shift-Share and Location Quotient analyses. We use ONS's definition of Low Carbon Economy which includes 17 sectors.\* These have been further aggregated into six groups.

**Low Carbon Economy:** The chart maps employment growth in the Low Carbon Economy in GCR.

- the top right quadrant includes industries with recent employment growth and competitive advantage in GCR
- The bottom left indicates current weaknesses of the regional economy

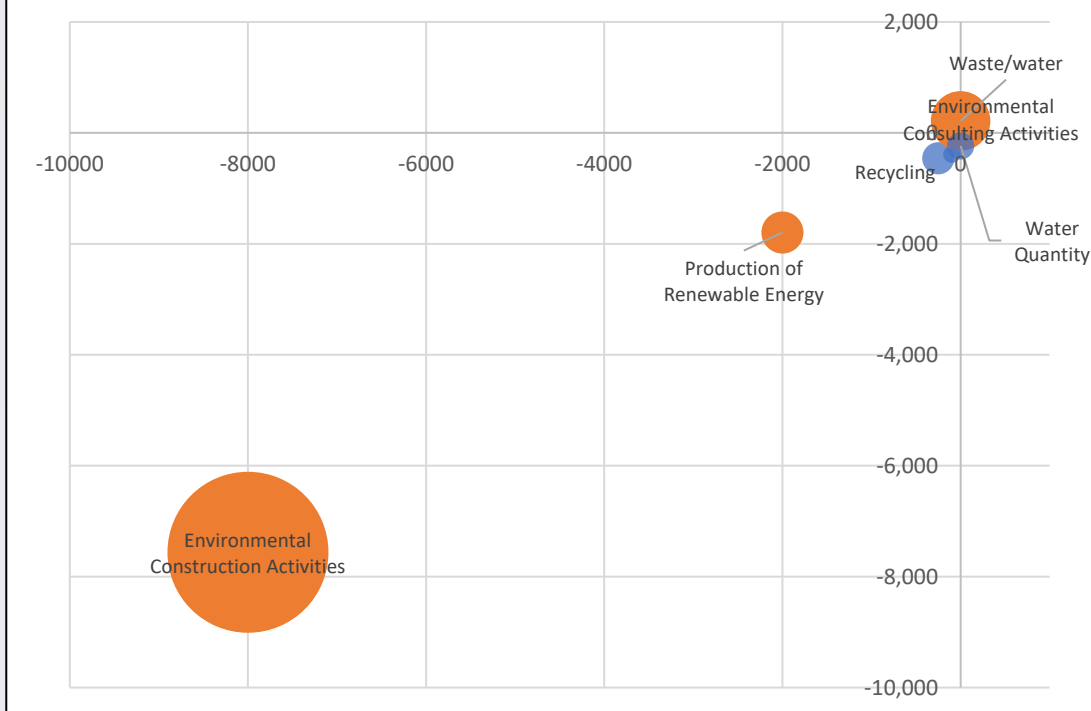
**Concentration:** Compared to Great Britain, GCR has a higher concentration of jobs in the following sectors:

- Environmental Construction Activities
- Environmental Consulting activities
- Insulation Activities
- Production of Renewable Energy
- Waste/Water

**Specialisation:** GCR has specialisations in Waste/Water and Environmental Consulting Activities.

\*Source: [ONS, March 2022](#)

Chart 8: Low Carbon Economy



Source: Intelligence Hub Analysis of BRES, NOMIS



LQ>1, bubble size= employment number

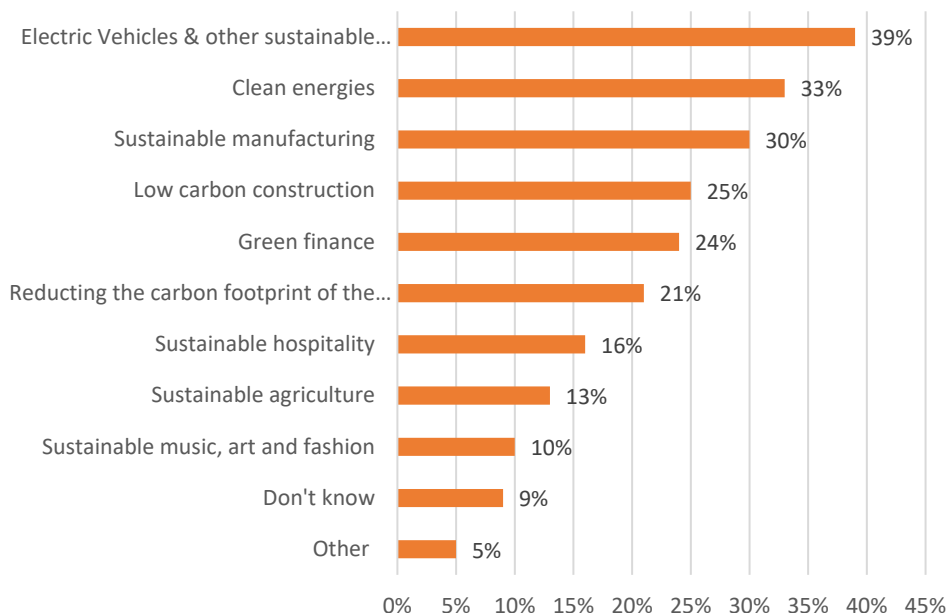
# Green Skills

Research shows disconnect between increasing employer demand for green skills and young people's lack of awareness on green jobs. This poses a risk to delivering on net zero ambitions.

- **Sectors:** Green skills are needed across all levels and across a range of industries. **Electric Vehicles, Clean Energies and Sustainable Manufacturing** are the industries most noted by employers where green skills are needed.
- **Skills gaps:** Six in ten employers report that they have a green skills gap. This is having a negative impact on employers' ability to reduce emissions and manage rising energy costs.
- **Challenges:** The survey suggests that:
  - **young people's knowledge of green skills is low**
  - **There is a significant gender gap**, with women being more likely to say they've never heard of green skills.
- **Policy considerations:** Providing young people with additional information and support is key to overcoming barriers to pursuing a green career.

Source: Learning & Work Institute, *Skills for a net-zero economy*, 2022

Chart 9: Business areas that employers require green skills for



Source: YouGov employer survey 2022

# Housing Shortages

Experts warn that 2022 will see a further increase in house and rental prices and without investment in the sector, the current housing crisis will get worse.

## Housing Stock has been constrained:

Research shows that the number of properties available to rent has been diminishing with a large portion of landlords choosing to sell their properties.

### Drivers:

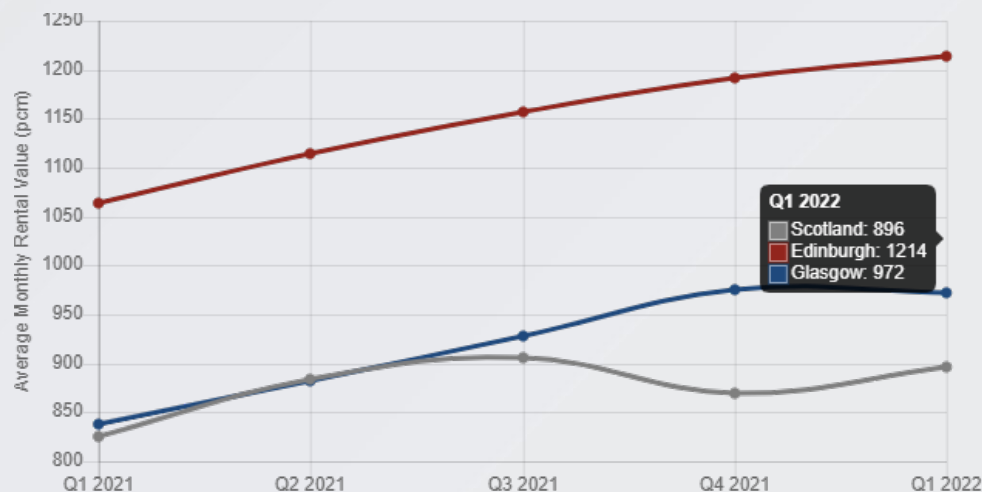
- Risk
- Viability
- Changes to legislation- Renters' Reform Bill
- Energy efficiency targets

### Impacts:

- Increasingly unaffordable rents. Average rents in Glasgow have increased 15% since last quarter to £972/per month.
- Shortage of housing causing students to drop courses at university.
- Tenants who cannot access the private sector will add pressure on already strained social housing services.

Sources: [Citylets](#), [BBC](#), [Scottish Business News](#)

Chart 10 : Average monthly rental value, Scottish cities, Q1 2022



Source: Citylets, Q1 2022 report

# Glasgow least affordable city to study in the UK

The Royal Bank of England Student Living Index - an index that takes account of student spending and income to calculate a score for university towns and cities across the UK - has revealed that Glasgow is the second most expensive place in the UK for students to live.

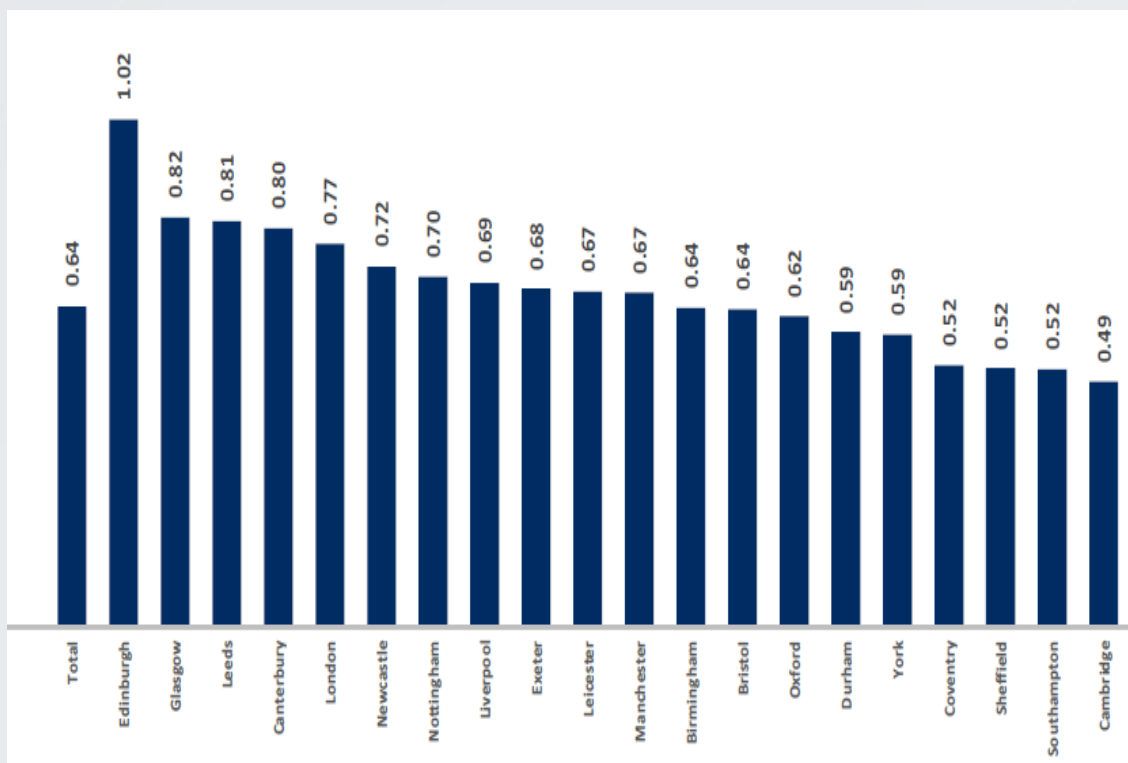
**Income:** Glasgow has seen high increase in the index largely due to lower average monthly income. Students receive amongst the lowest monthly income (estimated at 1,602.29/ term).

**Student Accommodation:** Monthly rent in Glasgow is estimated at £467.03 per month. This is more than two times the average student rent in Edinburgh and higher than the UK average.

**Bills:** Moreover, students in Glasgow pay an average of £74.6/month on household bills, higher than the national average (£56.5).

**Place impacts:** The impact of the cost of living crisis could have significant negative implications for Glasgow's attractiveness as a place to study.

Chart 11: UK Student Living Index



Sources: [RBS](#), Student Living Index, 2022