

GLASGOW CITY REGION - COST OF LIVING BRIEFING

OCTOBER 2022

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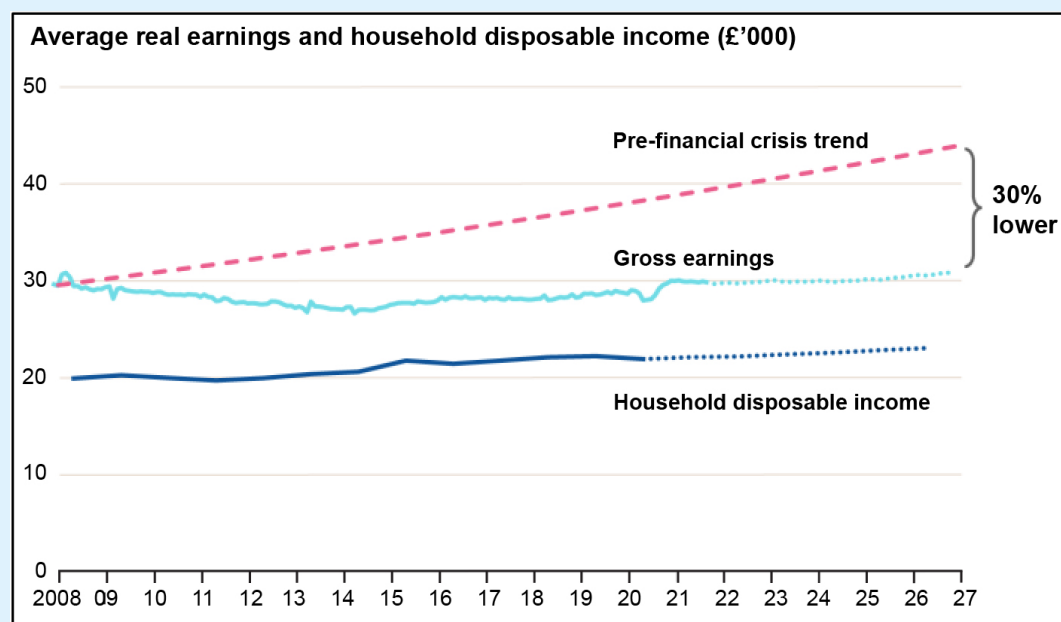
1. Executive Summary

The UK Economy shrunk by 0.1% in Q2 2022 and is expected to enter recession later this year. Households and businesses across industries have been impacted by the soaring energy prices. The ongoing cost of living crisis continues to worsen across the UK as a result of high prices for food, energy and fuel. Low-income households have been more negatively affected as they spend a higher proportion of their income on energy and food. This briefing note provides an overview of the cost of living crisis and its impact on Glasgow City Region.

2. Cost of Living Crisis Context

- 2.1. In October 2021, the Office for Budgetary Responsibility was raising cost of living concerns with inflation projected to rise to 4.4%. The latest figures show that UK inflation hit 10.1% in July 2022 mainly driven by an increase in energy prices. CPI inflation is forecast to peak at 14% in Q4 2022 (1).
- 2.2. **Weak earnings and income growth:** The cost of living crisis hit when standards of living were already weak. According to the Resolution Foundation, the last decade has seen the weakest growth in earnings and disposable income - chart 1 (2).
- 2.3. **In-work poverty:** In-work poverty was also on the rise. The proportion of working-age adults in poverty who are in a working household in the UK has never been higher (68%) (3). The largest increases in poverty are seen in the **Administration and Human Health sectors**. These are two of the highest employing sectors in Glasgow City Region (GCR), employing, respectively, 85,000 and 143,000 people.
- 2.4. **Fragile Work:** In 2021, there were 33,000 individuals employed in non-permanent roles in the Region (4). **Retail/Hospitality** (industries which could be exposed to household spending cut backs) have the highest share of non-permanent jobs in the economy.

Chart 1: Weak Earnings Growth, UK



Source: Institute for Fiscal Studies, FT

1. British Chambers of Commerce
2. Resolution Foundation, The Living Standards Audit 2022
3. The Work Foundation, The UK Insecure Work Index, May 2022
4. Fragile work is generally used to refer to forms of work that are precarious, unprotected or low-paid.

- 2.5. **Drivers:** The cost of living crisis is being driven by a range of factors impacting the cost of fuel and goods – particularly food.
- 2.6. **The rise in energy costs:** The surge in costs for energy started in 2021 with a post-lockdown surge in demand. A lack of renewable energy generation (wind and solar) and a long and cold winter meant further increase in demand and reduction in supply. In February 2022, the war in Ukraine started to impact gas supply (which accounts for 40% of Europe's supply).
- 2.7. **The rise in Food and Housing Costs:** There are multiple 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 impact supply of machines and other parts.
 - War in Ukraine: UK food prices soar by record 10.6% as Russia-Ukraine war pushes up costs. Inflation for some staples such as pasta and tinned tomatoes has reached a record 8.6% (5).

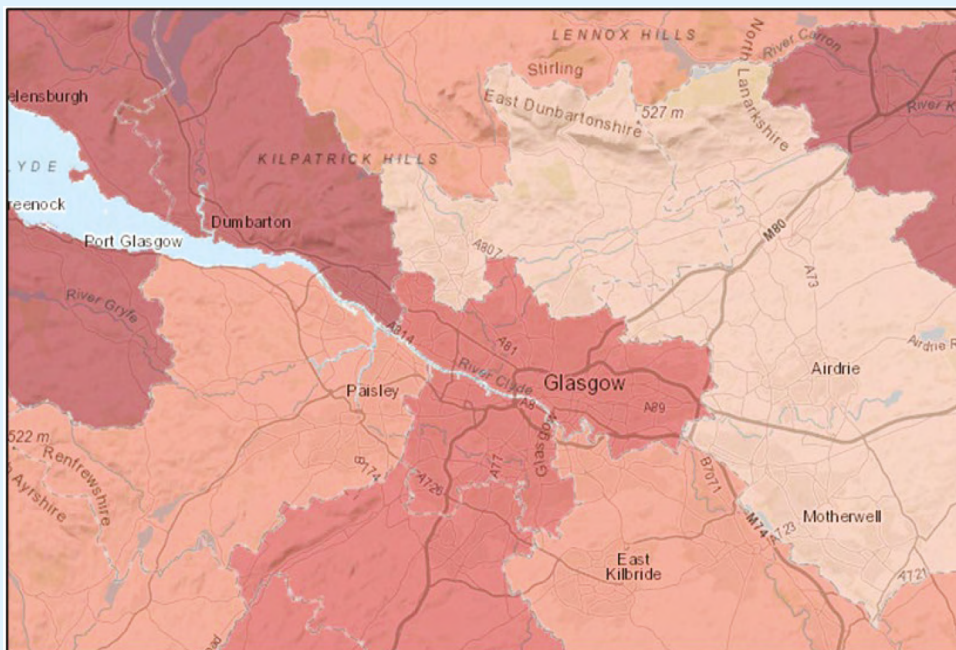
3. Cost of Living Crisis Impacts

- 3.1. The Centre for Cities has developed a cost of living tracker which shows how the cost of living is affecting cities differently (6). This is updated monthly and includes city-by-city inflation figures, wage data and spending on essential items.
- 3.2. **Inflation:** In August 2022, inflation in Glasgow (7) was 10.7%. That's the highest compared to all Scottish cities and higher than the UK's rate.
- 3.3. **Driver:** The main driver for Glasgow was the higher than average proportion of energy inefficient households spending more on heating their homes.
- 3.4. **Mean Wage:** In July 2021, the mean wage was £2,440. In July 2022, the mean wage was £2,283. As a result, workers in Glasgow are on average £157.5 a month poorer than in July 2021.

Social Impacts

- 3.5. **Food Insecurity:** A new study from the University of Sheffield in partnership with the Food Foundation has revealed the areas in the UK where residents most struggle to afford or access food. The analysis assesses the problem at local authority level and breaks down experiences of food insecurity into three distinct groups – hungry (unable to access or afford food), struggle (cut back on meals or healthier foods), worried (people managing but could slip into insecurity as a result of an unexpected crisis).

Chart 2: Percentage of adults experiencing hunger because they did not have enough to eat



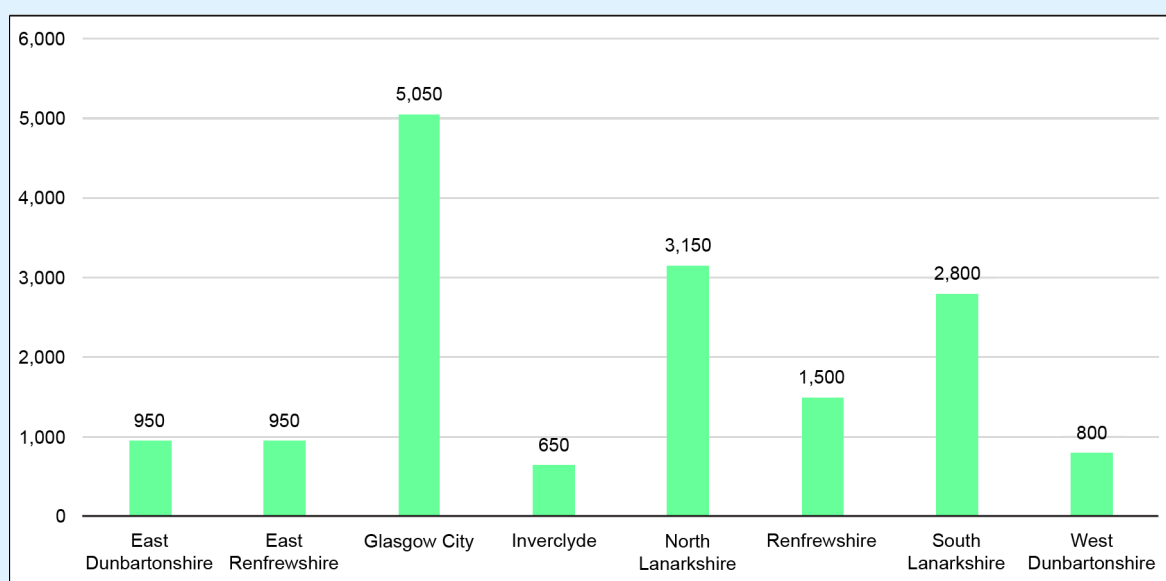
Source: University of Sheffield

Note: Darker colours indicate higher percentage of adults experiencing hunger.

6. <https://www.centreforcities.org/data/cost-of-living-tracker/>
7. Glasgow (PUA): East Dunbartonshire, East Renfrewshire, Glasgow City, Renfrewshire, West Dunbartonshire

- 3.6. **Within GCR, the most affected local authorities are Inverclyde, West Dunbartonshire and Glasgow City.** The map on page 6 shows incidence of hunger within the Region. Between 1 April 2021 and 31 March 2022, food banks in the Trussel Trust network in GCR, distributed 130,836 food parcels (8). This is an increase of 25% compared to this time five years ago. And in September 2022, they reported a 50% increase in food bank use across the UK compared to pre-pandemic levels.
- 3.7. **Child Poverty:** The Resolution Foundation has estimated that levels of Absolute Child Poverty could rise by 5% points in 2022/23 (9). Applying this projection to the latest estimates of Child Poverty (after Housing Costs) from 2020/21 show that the number of children in poverty in the Region could increase by approximately 15,500 in the next year.

Chart 3: Projected Increases of Absolute Child Poverty 2022/23, GCR



Source: Resolution Foundation, End Child Poverty, GCR Intelligence Hub Calculations

- 3.8. **Unequal Impacts:** Using the latest estimates of earnings, disposable income and weekly expenditure (by income quintile), the Intelligence Hub has modelled the different energy price cap scenarios (10). The analysis shows that even with the forthcoming September 2022 Energy Price Cap (£2,500 p/a), those households in the bottom fifth of the earnings (approximately 170,000 households) will need to cut expenditure or increase income/debt (chart 5).
- 3.9. According to Ofgem's forecasts, without the implementation of a price cap the average household energy costs over 2022/23 financial year will be £3,478. For the poorest households spending on energy will cost an average of £4,000 (11).

8. Trussel Trust Network

9. Resolution Foundation, Living Standards Outlook 2022

10. Includes increased energy costs smoothed over each respective financial year. The increased weekly expenditure estimates do not include modelled increases in other common household purchases- such as food.

11. Resolution Foundation, A Chilling Crisis

3.10. According to Joseph Rowntree Foundation's (JRF) 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 (12). With the September 2022 Price Cap being implemented by the UK Government- proportionately applying the JRF estimates to Glasgow City Region highlights the potential scale of the challenge currently facing some of the Region's residents:

- 135,000 households won't be able to afford heating
- 205,000 households will cut spending on essentials
- 68,000 required to rely on credit to get by

Chart 5: Illustration of Expenditure Impacts in GCR by Household Income



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

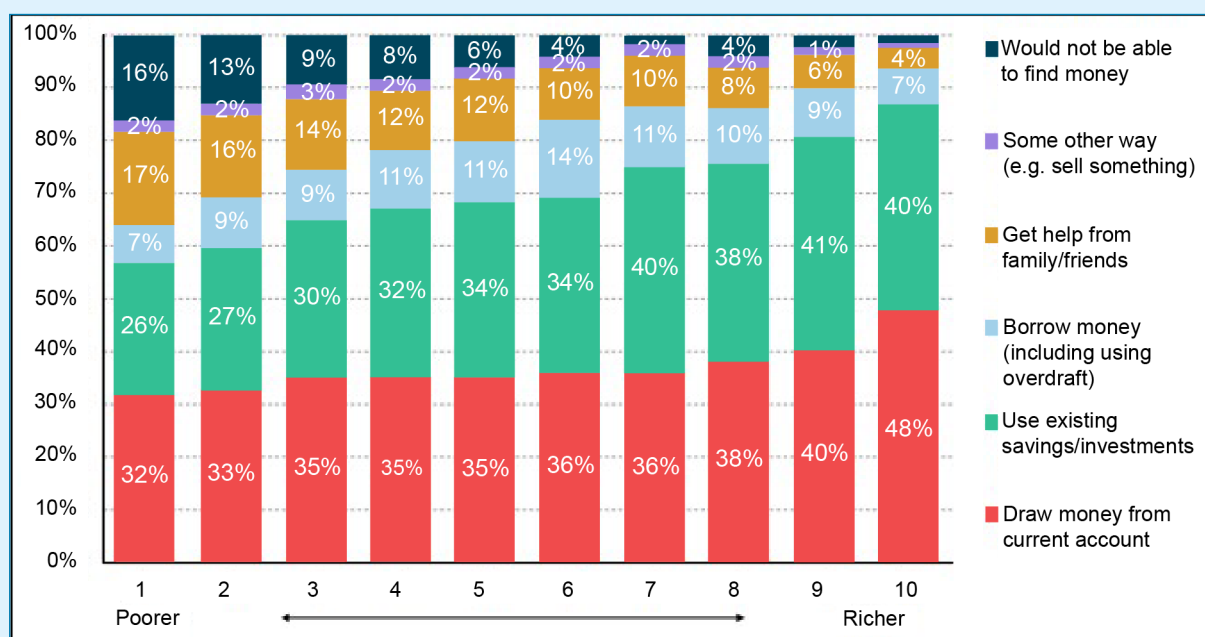
- 3.11. **Households' Response:** Wealthier households will be able to fall back on savings in order to respond to the unexpected price increases. However, this is not often an option for those on lower incomes. **In 2020, an estimated 16% of people in low-income deciles were not be able to find the money to respond to an unexpected expense** (13).
- 3.12. The lack of financial resilience means that low-income households are likely to fall back on bill payment or go without some essentials. This is concerning for living standards **as those on low incomes will be spending less on essentials such as food.**
- 3.13. It is expected that COVID-19 has exaggerated the lack of financial resilience of low-income households. Although aggregate savings rose during the pandemic, there was a clear distributional slant to this, with higher-income households being much more likely to repay debt or increase saving, and those lower-income households who faced labour market disruption in the pandemic being more likely to see debts increase (14).

12. [Joseph Rowntree Foundation, June 2022](#)

13. Resolution Foundation, A chilling crisis, August 2022

14. M Broome & J Leslie, Arrears fears, The Resolution Foundation, July 2022

Chart 6: Share of families reporting how they would find money for an unexpected major expense, by household income decile, 2018/20, GB.



Source: Resolution Foundation, A Chilling Crisis, August 2022

Business Impacts

3.14. **Foundational Economy:** The cost of living crisis has had a significant impact on Foundational Economy businesses which have already been hit hard by COVID-19. As a response to the sharply rising energy costs, many businesses are reducing their operations. According to the Scottish Business Monitor Survey (Q2 2022), **the Wholesale and Retail (51%) and Transport and Storage (43%) have the highest share of firms expecting to reduce their operations.**

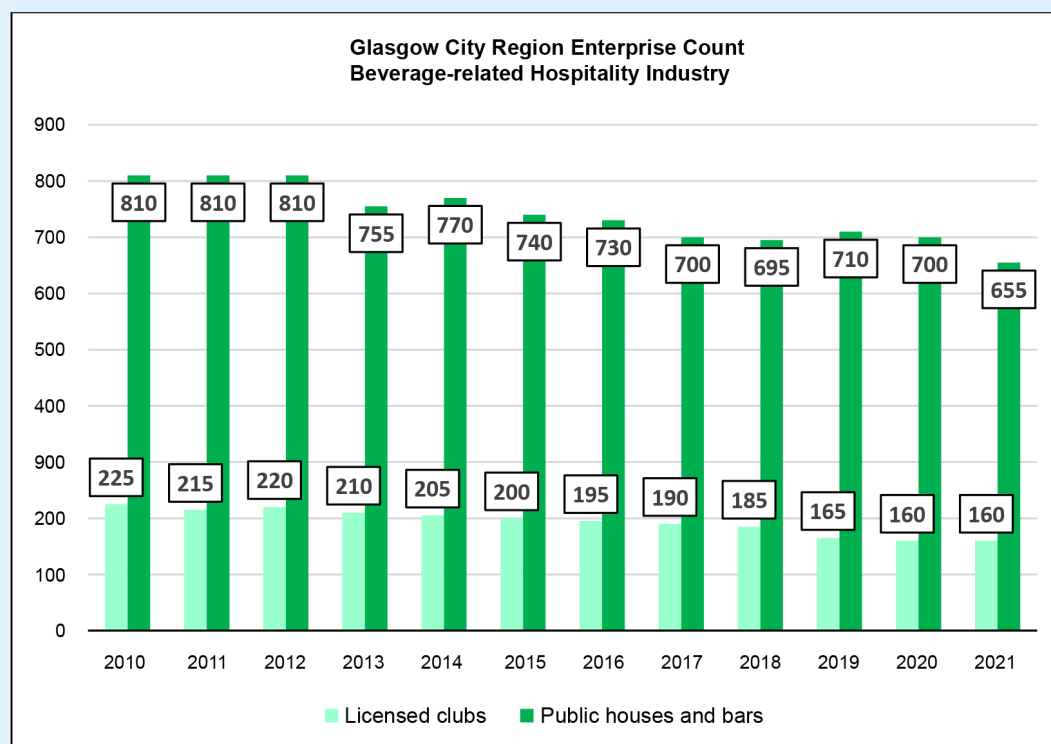
3.15. The Foundational Economy has also been hit indirectly, as a result of reduced demand for non-essential goods and services. A new YouGov survey has revealed that people in Britain have cut spending on non-essential items such as (15):

- Clothes (44%)
- Eating Out (39%)
- Non-essential food items (39%)
- Holidays (30%)
- Personal Services (29%)

3.16. **Hospitality Sector:** According to recent industry reports the beverage-related hospitality sector may face imminent closures if there is no intervention to tackle their increased energy costs.

- 3.17 **Policy response:** The UK Government is 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.
- 3.18. 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.**

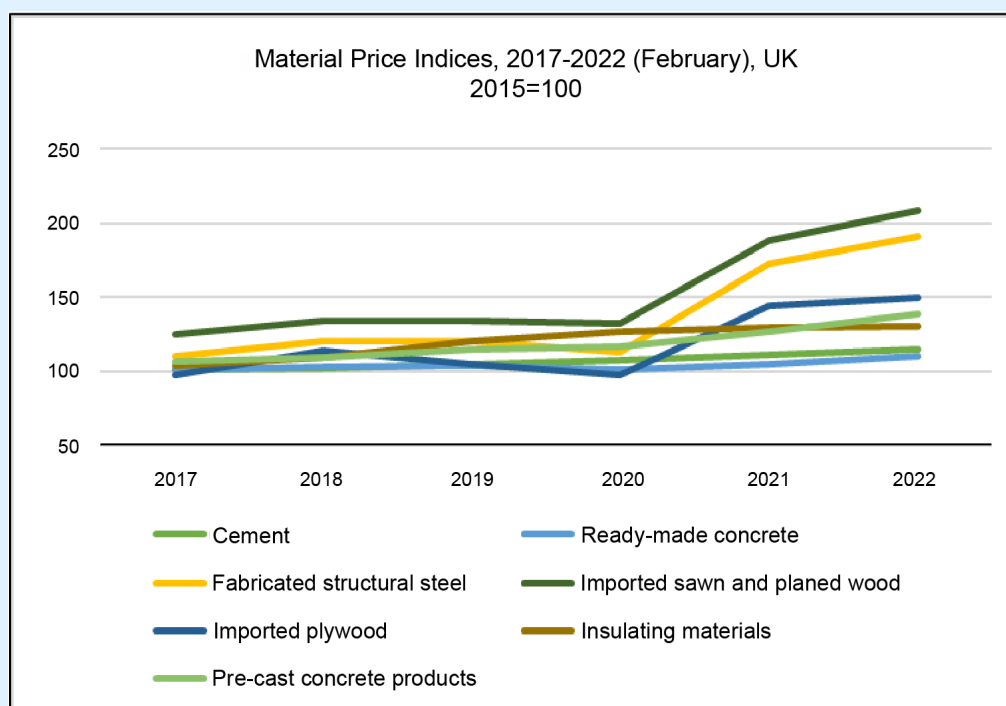
Chart 7: Pub and Nightclub Counts in GCR 2010/21



Source: UK Business Counts

- 3.19. **Construction Sector:** The Manufacturing and Construction sectors have also been heavily impacted due to high energy costs. Energy-intensive industries such as steel production, glass and cement have been hit hard.
- 3.20. This has had a knock-on effect on the Construction sector as material prices have skyrocketed. According to Business Insights and Conditions Survey (BICS) data, 59% of Scottish businesses in Construction have reported that the price of materials has increased above what is normally expected. **This has led to increased number of insolvencies as well as project delays and cancellations.** Registered company insolvencies in the Construction sector in Scotland increased to 50 in Q4 2021. Over the one-year period to Q4 2021 relative to the year prior, registered company insolvencies in the construction sector in Scotland increased by 32.5%.

Chart 8: Material Price Indices for Construction Materials, 2017/22, UK



Source: Intelligence Hub analysis of BEIS, Price Indices of Construction Materials, March 2022

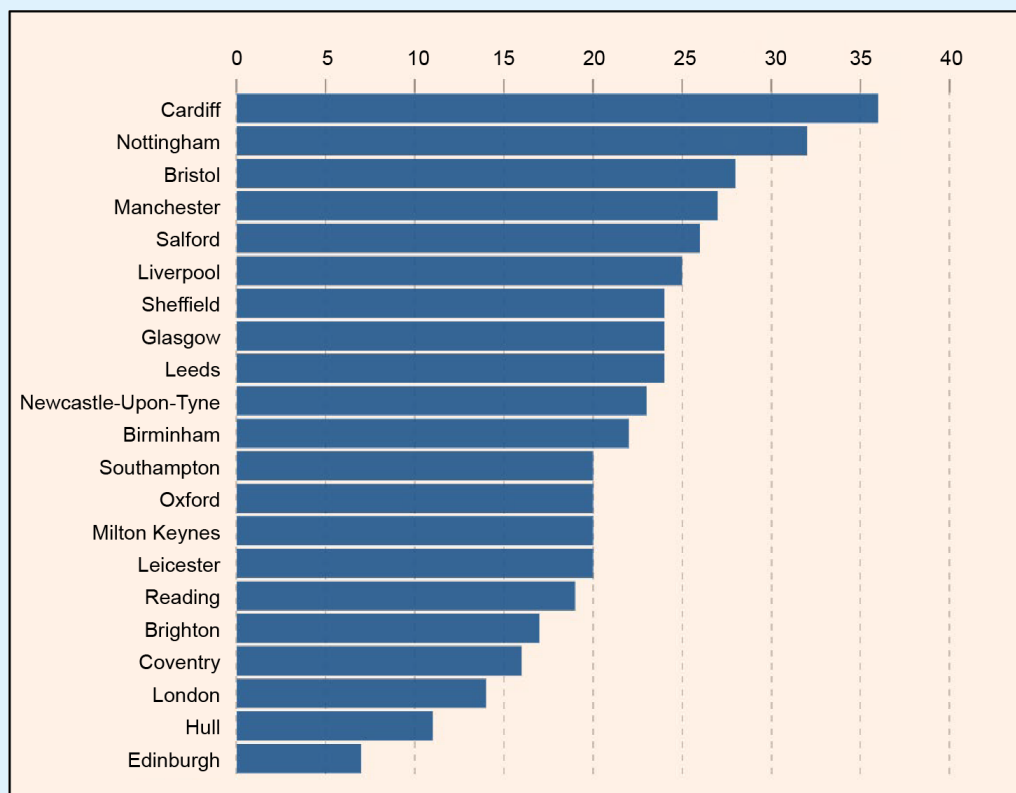
Place Impacts

- 3.21. **Rising Housing Costs:** Monthly rent increases in the private rented sector in Glasgow have increased by 24% since July 2019. **Greater Glasgow has seen average rents above the rate of inflation over the last decades across all property sizes.**
- 3.22. Tenants who cannot access the private sector will add pressure on already strained social housing services. In addition, a rise in invisible homelessness across the UK has already been seen, with people staying in hostels, squats and other forms of unsatisfactory or insecure accommodation (16).
- 3.23. **Policy response:** The First Minister has announced that the Programme for Government 2022/23 will include measures to deliver a rent freeze until at least March of next year (17). In the short-term, this measure will stop the current situation from getting worse. However, the Region needs more long-term measures to address increasing housing costs such as provision of affordable housing and increasing the housing supply.

16. Financial Times, 26 Aug 2022

17. [Programme for Government 2022/23](#)

Chart 9: Average monthly asking rent increase since 2019 (%), Major UK Cities.



Source: Rightmove, FT

4. Conclusion

- 4.1. The cost of living crisis hit when the economy was already vulnerable. The Region's strong service economy was hit by COVID-19 and there were also high levels of people in fragile work in these sectors. Moreover, over the last decade, the Administration and Human Health sectors have seen the biggest increased in in-work poverty. These are the biggest employment sectors in Glasgow City Region.
- 4.2. As a result, the cost of living crisis has had a severe impact in the Region. This means that the Region needs to scope a long-term route out of the crisis and take measures to increase the resilience of the economy. Creating more jobs that are good, high-paying and secure needs to remain the long-term focus.

| 1. VULNERABLE ECONOMY |
|---|
| A. Service Economy: Region's strong service economy vulnerable double shock |
| B. Fragile Work: High Level of people in fragile work in these sectors |
| C. Weak Pay Growth: Weakest decade of pay growth since the 1930s |
| D. In Work Poverty: Admin and Human Health sectors (GCRs biggest) have seen biggest increase in people in work poverty in the last decade |
| E. Above Average Inflation: Inflation higher than UK average and projected to rise (13 %- 18%) |
| 2. SEVERE GCR IMPACTS |
| A. Child Poverty: Projected increase of 15,000 children in poverty (but likely to be an underestimate) |
| B. Rise in Inequality: Unequal impact on the most vulnerable <ul style="list-style-type: none"> • Up to 135,000 households won't be able to afford heating • Up to 205,000 households will cut spending on essentials • Up to 205,000 households will cut spending on essentials • Up to 68,000 rely on credit to get by |
| C. Housing Costs: Weakest decade of pay growth since the 1930s |
| D. Medium Term - Rise in Economic Inactivity Due to Ill Health: <ul style="list-style-type: none"> • The Region already has long term issues of 'hidden unemployment' • Rise in mental health issues and potential reduction in jobs may exacerbate this |

5. Glasgow City Region Intelligence Hub

The Glasgow City Region Intelligence Hub provides a range of economic intelligence related services. This includes data analysis, policy research, economic modelling, strategy development and project evaluation for the City Region and the City Deal. The work covers a broad range of economic issues – including demographics, land use, sustainability, inward investment, economic growth, tourism, transport, enterprise, skills, employment and housing.

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