



**Glasgow City Region
Economic Briefing January 2023
Intelligence Hub**



Summary

- **Economic Outlook:** The outlook for the UK economy is looking more positive. The UK is likely to have avoided a 2022 recession thanks to the unexpected GDP growth of 0.1% in November.
- **Cost of living:** The Resolution Foundation highlights that inflation may have peaked and will fall quickly in 2023.
- It is expected that in 2024-2025 incomes will start increasing
- **Labour Market:** Labour market headline indicators show some positive change, as economic inactivity levels are starting to come down.

SPOTLIGHT ON

This month's spotlight is on **Fair Work**, looking at young people's employment opportunities. Key points include:

- A high proportion of employers do not hire anyone aged 18-21
- Young people from disadvantaged backgrounds struggle to access employment opportunities
- Young people with health conditions often receive no support in work
- There is a discrepancy between employers' and young people's perception of good work.



The Outlook for the UK Economy

The UK is likely to have avoided a 2022 recession thanks to the unexpected GDP growth of 0.1% in November.

Despite the positive news, economists warn that “the risk of recession still looms large” as the Bank of England and the Office for Budgetary Responsibility both forecast the economy will shrink in the first half of 2023.

The Resolution Foundation also points out that family incomes are shrinking, with typical household disposable incomes on track to fall by 7%- over this financial year and next one.

GDP

- GDP grew 0.1% in November.
- Services was the main contributor to GDP growth

Inflation

- The Consumer Price Index (CPI) was 10.5 % in December, down from 10.7% in November.

Pay

- Nominal wages continue to rise strongly (up 6.7%)
- But, real pay is down by 2.4%

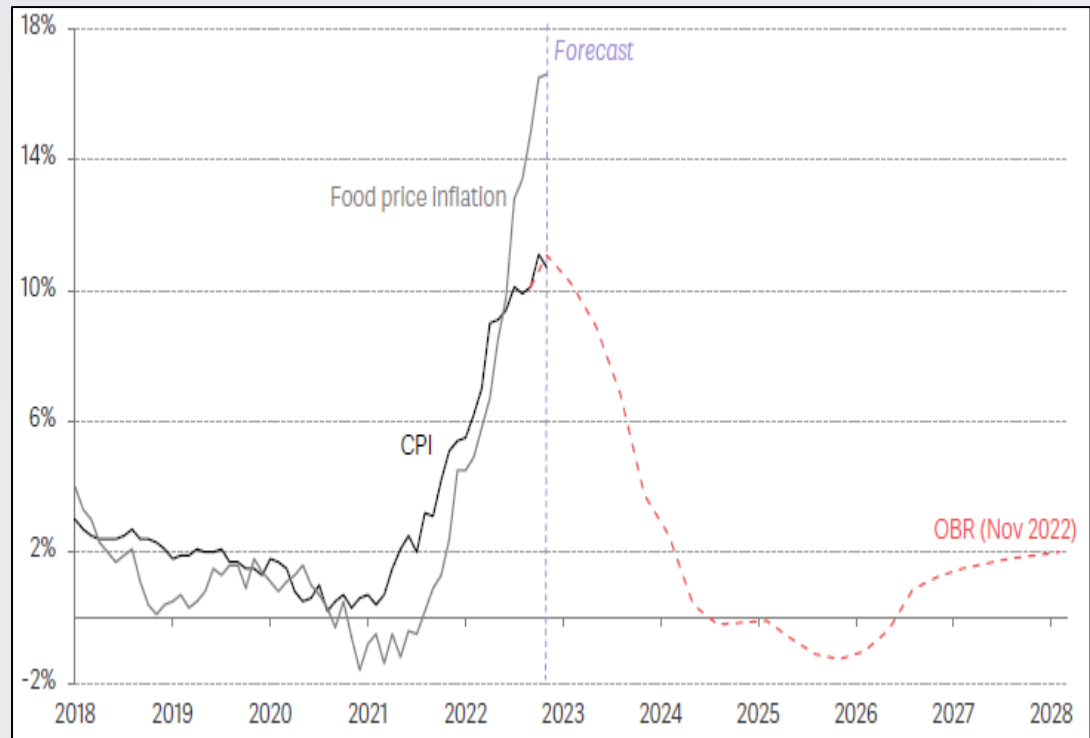


Inflation is Forecast to Fall Quickly

The Resolution Foundation (RF) has published the Living Standards Outlook for 2023. The good news is that inflation may have peaked and in 2024-2025 incomes will start increasing.

- **Inflation:** The RF forecasts that inflation will fall quickly in 2023, and may turn negative in 2025-26.
- However, food price inflation continues to pose challenges.
- **Energy Prices:** Wholesale gas prices have been falling, but household won't be feeling the benefits soon as Government support is becoming less generous from April 2023.
- **Living Standards:** real wages won't reach their Q1 2022 rate until the end of 2027. This follows a long period of poor wage growth.

UK Inflation forecasts



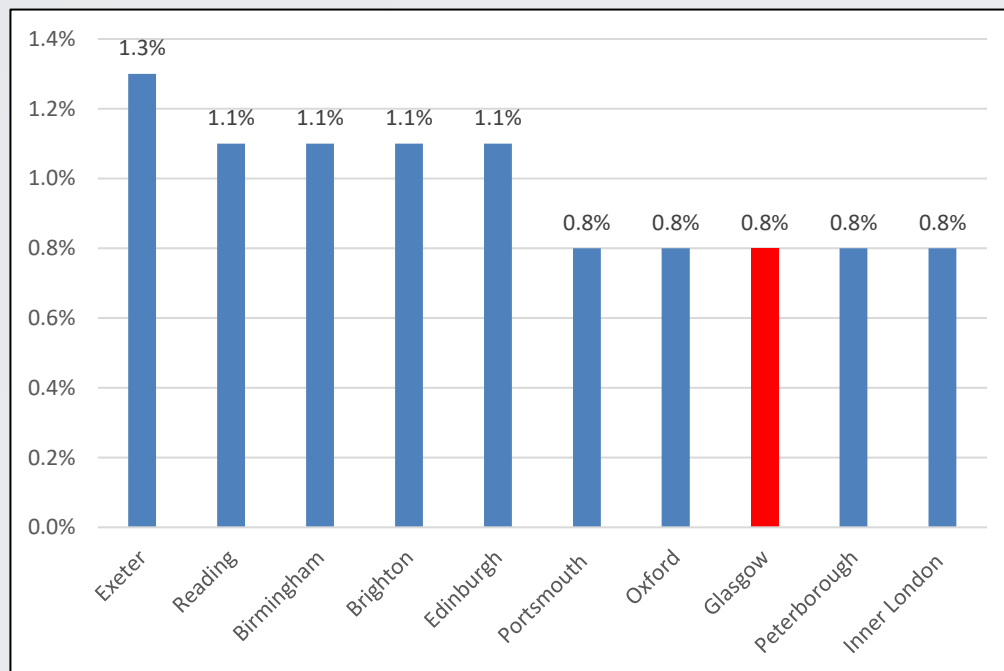
Source: [Resolution Foundation](#)

Glasgow's Economy is Forecast to Grow

Glasgow's economy is set to be among the fastest growing as the UK emerges from recession in the second half of 2023.

- Law firm Irwin Mitchell, in partnership with the Centre for Economics and Business Research (Cebr), examined 50 locations across the UK, forecasting future growth in terms of Gross Value Added (GVA) and employment.
- The report, which estimates that the UK entered into a recession in the second half of 2022, expects economic growth to resume in the second half of 2023.
- Glasgow comes eighth in the table for GVA growth with a 0.8% year-on-year increase expected in the final quarter of 2023. This would take the size of the economy from £23.3bn to £23.5bn.

Fastest growing city economies (YoY) GVA 2023 Q4



Source: [Insider](#)

Energy Bill Discount Scheme

Under existing support, there is a cap on energy bills for companies, meaning that if prices rise above a ceiling, the state bears the cost. The new scheme, set to launch in April, will apply a discount to wholesale energy prices. If prices rise, it will be the business that will bear the cost.

- **All Businesses:** all eligible non-domestic customers who have a contract with a licensed energy supplier will see a unit discount of up to £6.97/MWh automatically applied to their gas bill and a unit discount of up to £19.61/MWh applied to their electricity bill.
- **Energy Intensive Industry:** Those eligible for this support will receive a discount that reflects the difference between a price threshold and wholesale price
- The threshold will be £99/MWh for gas and £185/MWh for electricity

Source: [BBC](#)

The newly announced energy support scheme has received significant criticism by the industry

The FSB said that the average small business could access just £47 while two thirds of firms “could at very most theoretically access £200.”

“If pubs passed all their rising costs on to consumers, the price of a pint of beer would soar to £10, said Charlene Lyons, chief executive officer of Black Sheep Brewery.”

Source: [Bloomberg](#)



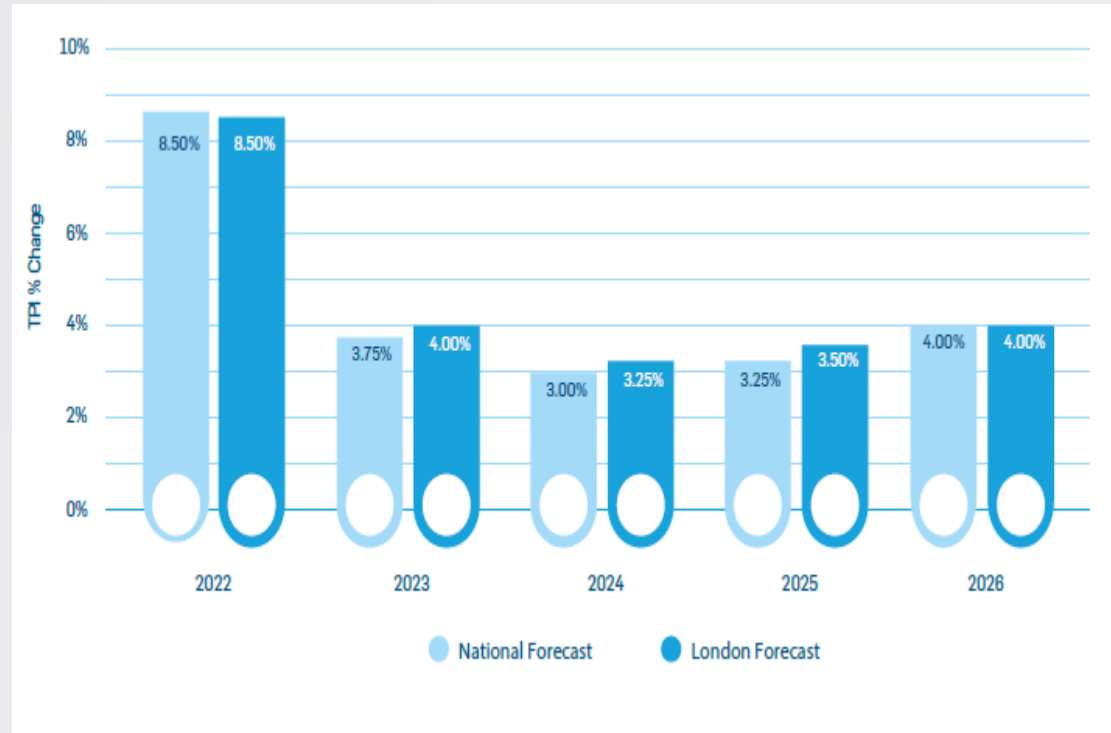
Construction

The deteriorating macro environment has taken a toll on the construction industry with access to credit now being cited as a key challenge. Faithful and Gould forecasts that inflationary pressures will stay high for 2023. Construction output is expected to drop by 3.9% before recovering in 2024.

Tender price forecast

- Many manufacturers have already committed to purchasing energy and there is concern energy intensive products such as steel, cement and masonry, which having seen large price increases in 2022, will see further increases in 2023.
- Labour costs will become a major driver, fuelled by the need to keep up with the high living costs and shortages across all levels of the industry.
- According to Faithful and Gould, 2022 was the peak for tender prices. It is anticipated that tender prices will return to historic level in a slowing economy.

Tender Price Forecast



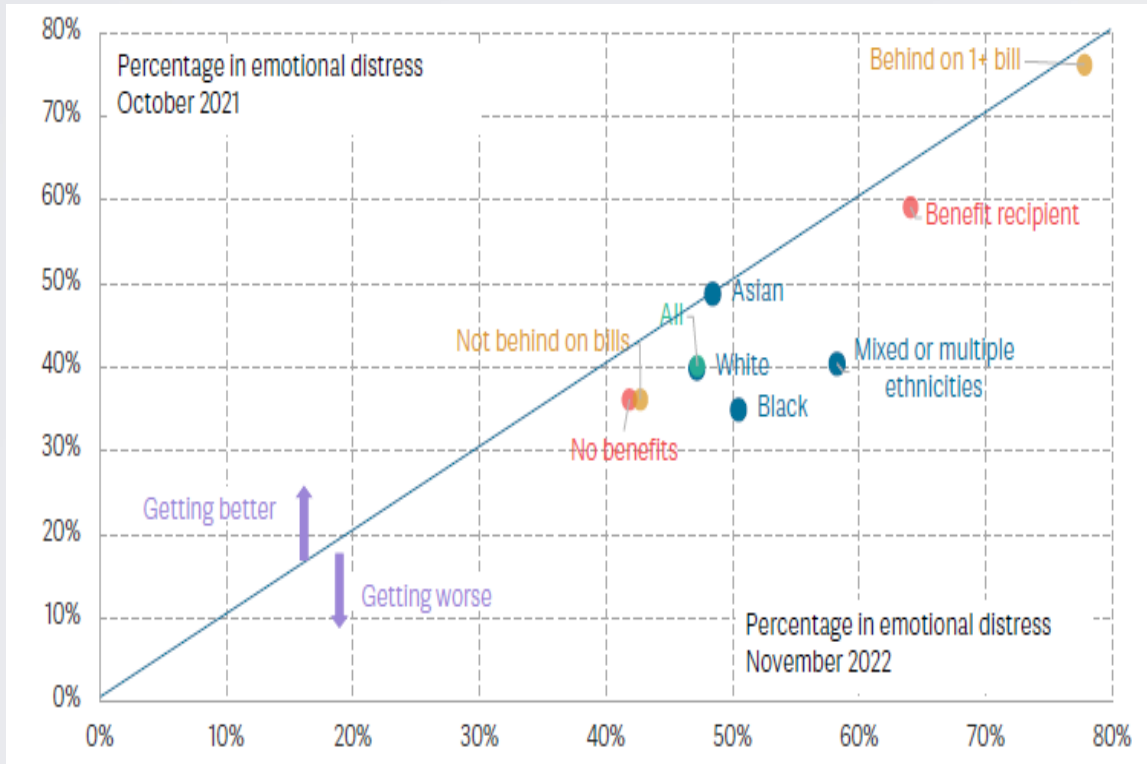
Source: Faithful Gould, Construction Report Q2 2022

Cost of Living Crisis Impact on Health

Survey evidence suggests that the cost of living crisis is harming mental and physical health. The Chief Executive of the Health Foundation has said that “the rise of mental health issues in the short-run will result in long-run health conditions and an increase in economic inactivity”.

- Deteriorating Mental Health:** RF’s survey suggests that mental health is getting worse even compared to autumn last year when the UK was only just emerging from ongoing lockdowns, with the percentage of *people facing emotional distress increasing from 40% in October 2021 to 47% in November 2022*.
- Vulnerable Groups:** Those with *lower financial resilience* are also more likely to be experiencing emotional distress. For example, those receiving benefits are increasingly in emotional distress.
- Ethnic Minorities:** Emotional distress has *worsened particularly from Black and Mixed-race people*.

Percentage of working-age respondents being in emotional distress, by ethnic group, arrears and benefits status: UK October 2021 and November 2022.



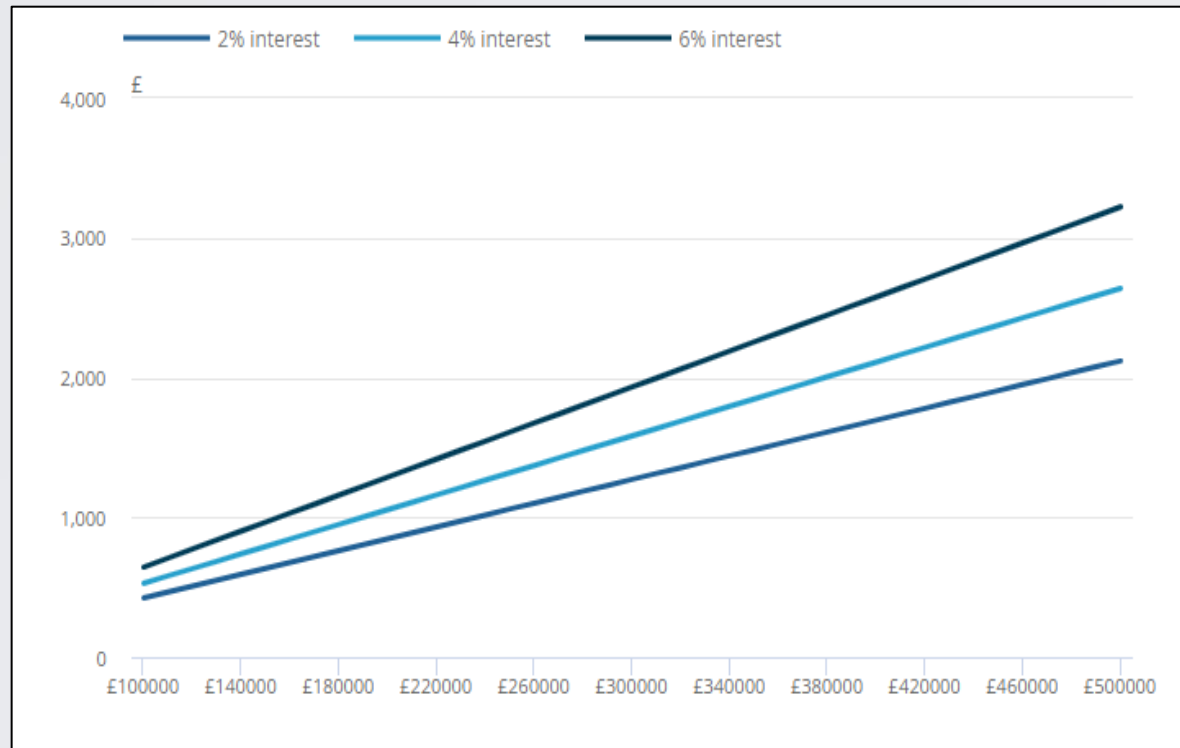
Source: [Resolution Foundation](#)

Housing Affordability

Official data shows that the cost of future fixed-rate mortgages could increase. Private renters are also facing an increase to their housing costs, with rental price growth at its highest rate in the UK since records began in 2016.

- **Mortgage holders:** Most fixed rate mortgages in the UK (57%) coming up for renewal in 2023 were fixed at interest rates below 2%.
- The [BoE's Financial Stability Report](#) suggests that mortgagors on fixed rates set to expire by the end of 2023 are facing monthly repayment increases of around £250 upon refinancing to a new fixed rate.
- **Renters:** Private renters are also facing an increase to their housing costs, with rental price growth at its highest rate (+4%) in the UK since records began in 2016.

Monthly mortgage costs at different amounts of borrowing and different fixed interest rate



Source: [ONS](#)

Headline Labour Market Statistics

Headline estimates of employment, unemployment and economic inactivity are all similar to those published last month. However, we do see some signs of change. In potentially positive news, economic inactivity due to ill health and early retirement appear to be falling slightly.

Table 1: Labour Force Survey estimates September to November 2022

	Unemployment (%)	Unemployment (ppts) Quarter Change	Employment (%)	Employment (ppts) Quarter Change	Economic Inactivity (%)	Economic Inactivity (ppts) Quarter Change
Scotland	3.3	0	76.1	0.3	21.3	-0.3
UK	3.7	0.2	75.6	0	21.5	-0.1

Source: ONS, Labour Market Overview January 2023

- **Redundancies:** In more worrying signs, redundancies continues to rise across the UK (albeit so far only back to pre-pandemic levels). The redundancy rate has reached 3.4 per thousand employees.
- **Vacancies:** Vacancies continues to fall back. The fall in the number of vacancies reflects uncertainty across industries, as survey respondents continue to cite economic pressures as a factor in holding back on recruitment.

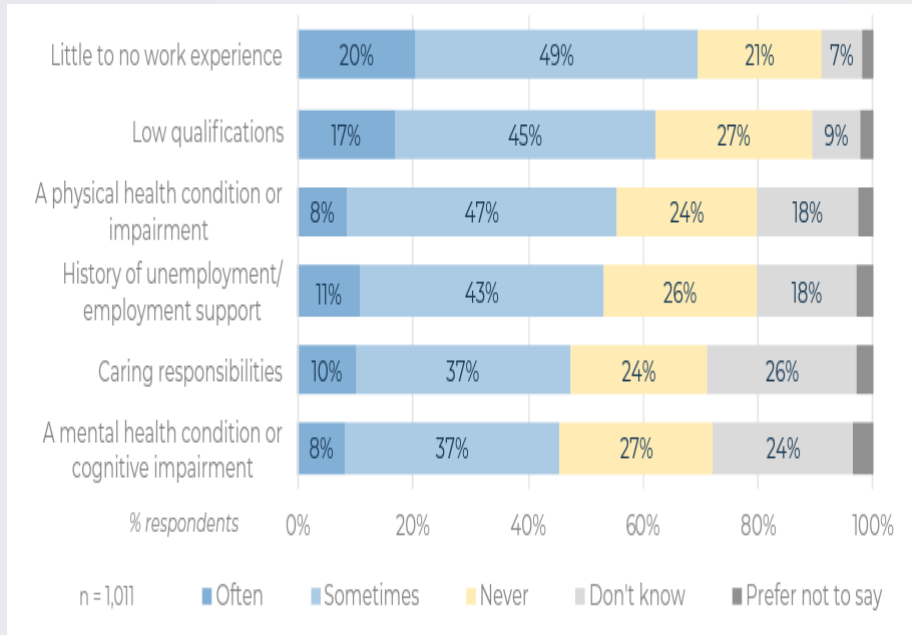


The Gap Between Employers and Young People

Employers are struggling to fill their vacancies as there are increasing numbers of economically inactive people due to ill health and early retirement. Young people (aged 18-25) are a key part of the solution as they are more likely to be looking for work, but new survey evidence from the Institute for Employment Studies suggests that employers are not hiring from this age group.

- **Attitudes to recruitment:** Around 21% of employers do not hire from the **21-25 age group** and 40% do not hire anyone aged **18-21**.
- **Disadvantaged groups:** *A quarter of employers have no experience of hiring young workers who face disadvantages*, such as mental health conditions or a history of unemployment.
- **Health:** Employers, particularly those in small organisations, *lack an understanding of the support that could be offered to them so that they could provide the necessary adjustments to support employees with health conditions*.
- **Perceptions of good work:** There is a discrepancy between employers' and young people's perception of good work.
- The majority of employers identified an enjoyable environment, a job that's interesting and offers opportunities as key facets of good work.
- This contrasts with *young people's views of wanting fair pay, security and stability*.

Experience hiring young people facing disadvantage



Source: [Institute for Employment Studies](#)

The background features a white central area surrounded by several overlapping, semi-transparent geometric shapes in various colors: yellow, orange, red, pink, purple, blue, teal, and green. The shapes are arranged in a circular pattern, creating a dynamic and modern aesthetic.

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Glossary

Gross Domestic Product (GDP): The total monetary value of final good and services produced in a country in a given time period.

Consumer Price Index (CPI): Is a weighted-average of a basket of consumer goods and services purchased by households. Changes in measured CPI tracks changes in prices overtime.

Household Disposable Income: the amount of income that households have available for spending and saving after taxes and benefits have been accounted for.

Energy Bill Relief Scheme: currently provides a discount on wholesale gas and electricity prices for all non-domestic consumers. This includes public sector organisations, voluntary sector organisations like charities, and businesses.

Unemployment rate: Unemployed people are out of work but actively looking for a job and available to start work in the next two weeks. It is measured as the number of unemployed people divided by the number of economically active population (those in employment and those unemployed).

Economic Inactivity rate: Economically inactive people are out of work but are not actively looking for a job. The headline inactivity rate is calculated by dividing the inactivity level for those aged from 16 to 64 divided by the population for that age group.

Economic inactivity due to ill-health: Economically inactive people whose primary reason for being out of work is ill-health.

