

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



# Summary

- The outlook for the UK economy is improving but is still challenging. The Office for Budget Responsibility has upgraded its forecast and expects the economy to contract by 0.2% this year but avoid a recession.
- Inflation unexpectedly increased in February mainly due to vegetable shortages. The OBR expects a sharp decrease in inflation over the medium-term.
- This month's labour market statistics show a positive picture. Employment is continuing to increase and economic inactivity is edging down. Scotland has reached record low unemployment rate. However, some challenges remain, particularly with regards to economic inactivity due to ill-health.

## SPOTLIGHT ON

This month's spotlight is on the *Spring Budget* which was delivered by the Chancellor last week. The focus on the Budget was on:

- **Addressing Labour Shortages:** A major policy announcement was the extension of free childcare provision to increase incentives for people to return to work.
- **Cost of Living Crisis:** The Energy Price Guarantee has been extended for 3 months until June 2023 to limit typical household energy bills to £2,500.
- **Boosting Business Investment with Greater Devolution:** Trailblazer devolution deals in Greater Manchester and West Midlands Regions, 12 new Investment Zones across the UK, and Levelling Up Partnerships were also key policy announcements.

*Note: a Glossary of all the terms used in this report can be found at the end*



# The Outlook for the UK Economy

The outlook for the UK economy looks better but still challenging. The Office for Budget Responsibility has upgraded its short-term outlook, however the economy is expected to be smaller than initially expected by 2027 and living standard stagnation continues.

- UK Inflation increased unexpectedly as the Bank of England had forecast a decline from January to 9.9%.
- The Spring Budget highlighted several areas of structural weakness within the UK economy, namely stagnation of business investment since 2016 and post-pandemic falls in labour market participation.
- The Budget demonstrated how the UK government wishes to address these weaknesses; increasing economic participation via changes in universal credit and increase in free childcare provision, devolving financial powers to English mayoral areas and announcement of 12 investment zones, with at least one being in Scotland.

## GDP

- Monthly GDP is estimated to have increased by 0.3% in January 2023.
- The Services sector was the main contributor to GDP growth

## Inflation

- CPI Inflation rose to 10.4% in February.
- According to the ONS, the jump was driven by veg shortages

## Pay

- Growth in total pay in real terms fell in November 2022 to January 2023 by 3.2%

Sources: [ONS](#), [BBC](#), [FT](#), Resolution Foundation



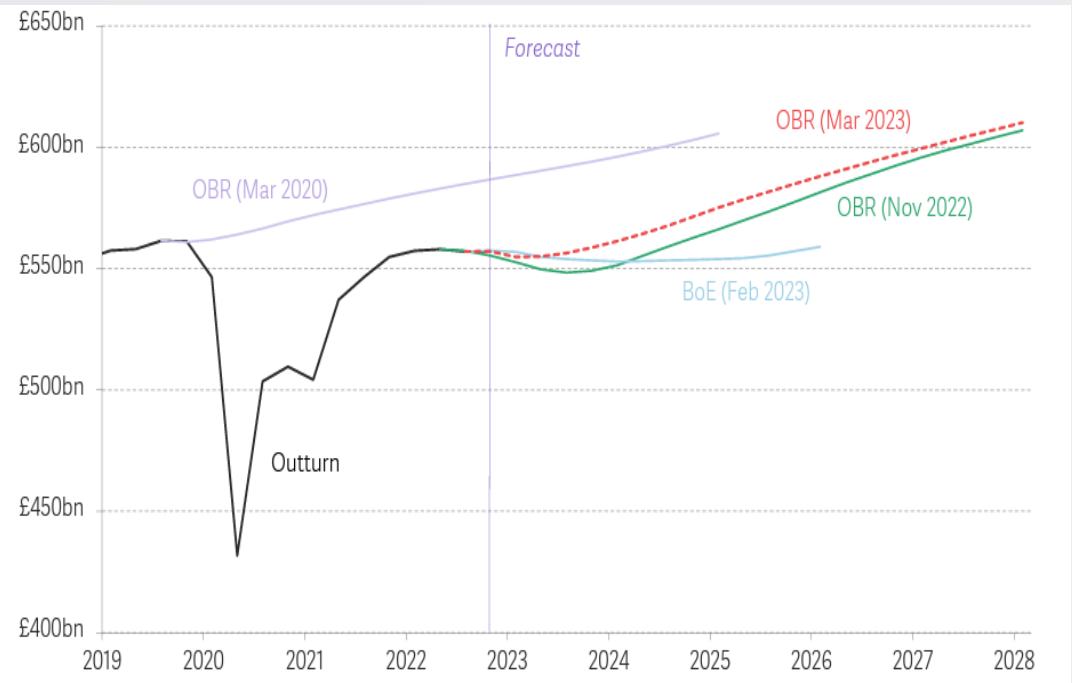
# GDP Growth Forecasts

The Office for Budget Responsibility (OBR) expects the economy to contract by 0.2% this year but avoid a recession. It will then grow by 1.8% in 2024, 2.5% in 2025 and 2.1% in 2026.

Unemployment is expected to peak at 4.4% in 2024 compared to 4.9% previously forecasted.

- Following significant energy price falls, the OBR has significantly upgraded its short-term economic outlook, with the economy expected to be 1.5% larger by the end of the year than previously expected.
- In contrast to the Bank of England, the OBR assumes that households will save less to keep spending in the face of rising prices.
- The improvement in the medium-term outlook comes mainly from a larger labour force. The OBR expects the post pandemic hit to participation to last but policy measures (i.e., expansion of free childcare and higher migration) more than offset this.

**Real GDP outturns and forecasts: UK**



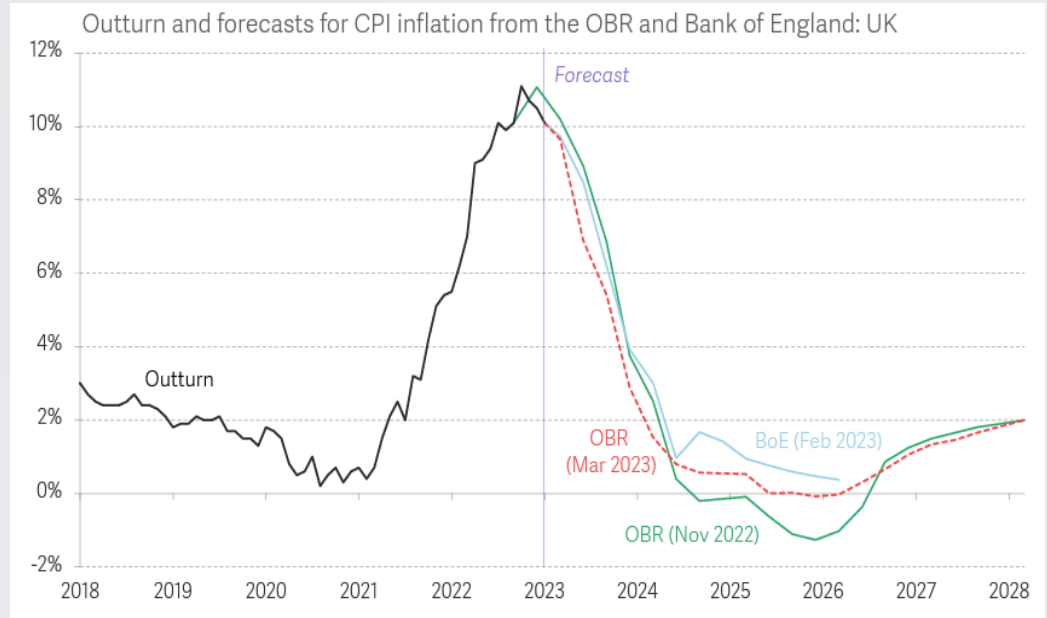
Source: OBR, [Resolution Foundation](#)

# UK inflation Forecasts

According to OBR, UK inflation is forecast to fall from 9.7% at the start of 2023 to 1.5% at the start of 2024, the sharpest one-year fall since the 1970s.

- The faster-than-expected fall in energy prices has translated in a larger than expected fall in inflation.
- Inflation is forecast to fall from 9.7% at the start of 2023 to 1.5% at the start of 2024.
- But, in the medium-term, the OBR expects inflation to be higher than it was in November 2022 (due to less long-lasting downward pressures on prices).
- The OBR forecasts annual average inflation of 0.8% between 2024 and to 2026.

## Outturn and forecasts for CPI Inflation from the OBR and Bank of England, UK



Source: OBR, [Resolution Foundation](#)

# Headline Labour Market Statistics

This month's figures show that employment rates continue to improve and economy inactivity is edging down. Unemployment in Scotland has hit a record low.

*Table 1: Labour Force Survey estimates from November 2022 – January 2023*

	Unemployment (%)	Unemployment (ppts) Quarter Change	Employment (%)	Employment (ppts) Quarter Change	Economic Inactivity (%)	Economic Inactivity (ppts) Quarter Change
Scotland	<b>3.1</b>	-0.2	<b>75.7</b>	0.5	<b>21.0</b>	-0.4
UK	<b>3.7</b>	0.0	<b>76.5</b>	0.1	<b>21.3</b>	-0.2

*Source: ONS, Labour Market Overview March 2023*

Despite the positive news, economic inactivity due to ill-health across the UK has risen.

Moreover, the employment recovery for older people has been very weak, especially for those aged 50-64. Recent falls have been driven by fewer older men in work. However, the long-term picture is of flat or falling employment rates for both men and women aged 50-64.

The number of young people outside education or employment is rising. The reasons behind this are not yet clear, but emerging evidence suggests that those aged 21-22 are finding it harder to get jobs.

*[Source: Institute for Employment Studies](#)*



# Childcare Reforms and Workforce Participation Boost Plans

Childcare was a major focus of the Budget, with a total of £5.4 billion projected to be spent on new childcare and early years support for parents by 2027-28. Changes to childcare support will boost full-time work incentives for lower-income parents.

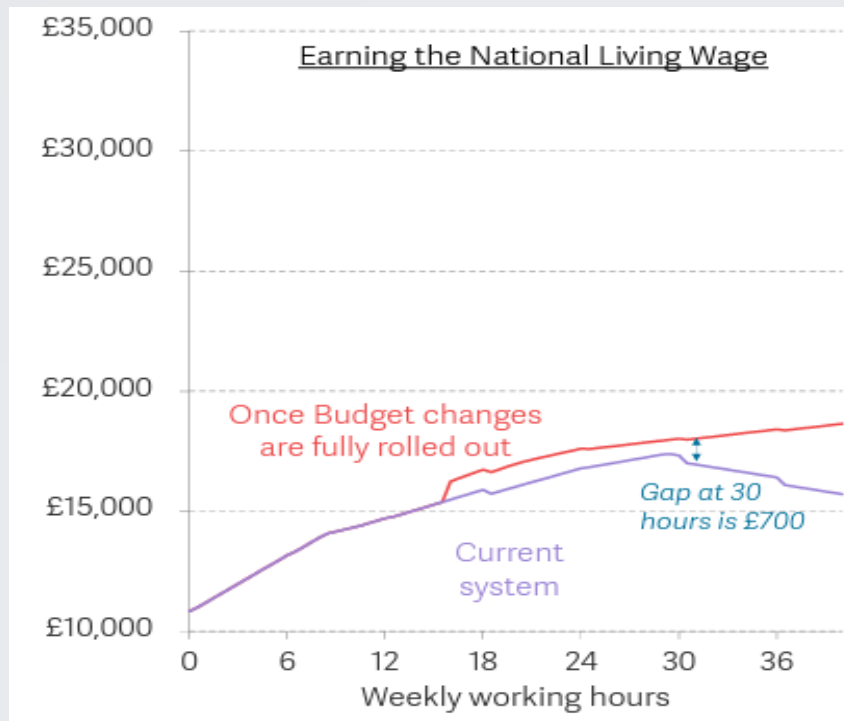
Both Scotland and England have a 30-hour per week childcare offer for 3 and 4 year-olds.

The announcement from the Chancellor extends this 30-hours a week entitlement to children from the age of 9 months in England. However, the in-work criteria remains (all adults must be working in 16 hours) and it will be rolled out in stages.

- April 2024: 15 hours for 2 year olds
- September 2024: 15 hours for children over 9-months
- September 2025: 30 hours for all children

Scotland will receive significant Barnett consequential and although it is expected that the Scottish Government will commit to further childcare expansion off the back of this, the policy might look different to the rest of the UK.

*Annual family disposable income after housing and childcare costs, by weekly hours worked, for a single parent of a one-year-old child: UK, 2024-25*



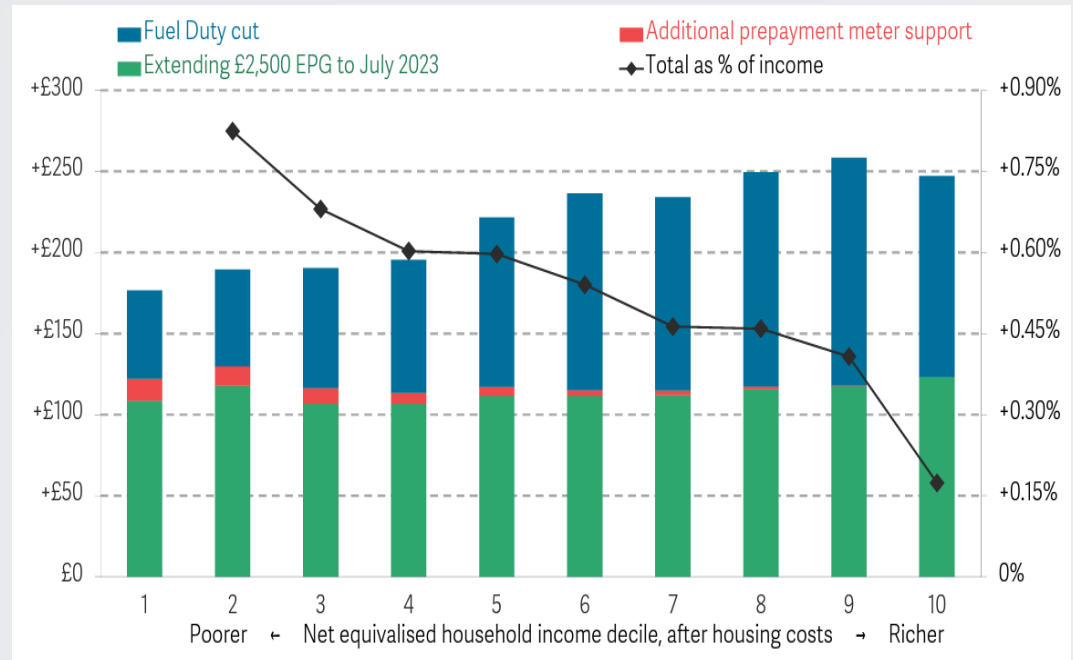
Source: [Resolution Foundation](#)

# Cost of Living Support

The Government has increased the support to households provided by the EPG by extending the £2,500 price cap for a further 3 months until the end of June 2023. This prevents an increase of the average bill to £3,000.

- **EPG:** The £2,500 price cap has been extended for a further three months.
- **Fuel Duty Freeze:** The Government will extend the 5p cut to Fuel Duty for another 12 months, bringing some relief to drivers.
- **Prepayment meters:** Charges for prepayment meter (PPM) customers will be reduced from the 1 July 2023 with plans to bring in more permanent changes to bring down PPM costs. According to the Budget, this will save people on prepayment meters on average £45 a year.
- As the chart shows, although less generous overall, the energy support in 2023-24 will be more targeted towards low-income households.

*Impact on household budgets of new policy changes affecting household spending, by income decile: UK, 2023-24*



Source: [Resolution Foundation](#)



# Living Standards Outlook

The majority of personal tax and benefit changes made over the course of this parliament are progressive, benefiting the poorest households. However, the long-term outlook for living standards remains grim.

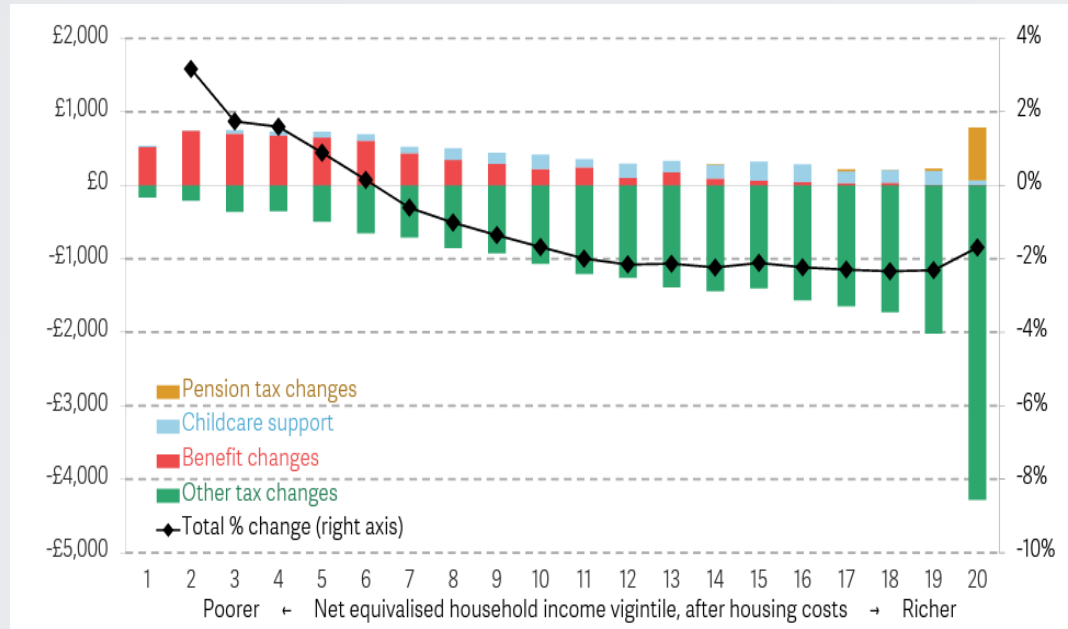
## Tax and Benefit Changes

- Freeze to income-tax thresholds- the typical households will be worse off by £1,100 by 2027-28.
- As the chart shows, the permanent changes to personal tax and benefits will:
  - a) increase average incomes for the **poorest fifth of households by £420**, and
  - b) **reduce incomes by £740 for the middle fifth of households** and
  - c) by **£2,060 for the richest fifth**.

## Long-term wage growth

- On top of the impact of policy changes to living standards, the picture for wages is that of long-term stagnation.
- According to the OBR's latest forecast, **real wages will not get back to their 2008 level until 2026: 18 years without real wage growth.**

*Impact of permanent personal tax and benefit changes announced this Parliament in 2027-28 by income quintile: UK*



Source: [Resolution Foundation](#)

# Investment

The Chancellor also announced various areas for investment. One of the key announcements was Trailblazer Devolution Deals for mayoral authorities in England and simplification of their funding arrangements.

## Trailblazer Devolution Deals

- These will see money and powers handed directly to the Mayors of the West Midlands and Greater Manchester, including a direct funding settlement, devolution of post Covid-19 skills funding and functions and greater control of the affordable homes programme.
- A new framework will ensure that decision-makers in areas with devolution deals are accountable to their residents and deliver value for money.
- **These agreements are designed to pave the way for future deals in other Mayoral regions**

## Investment Zones

- Over £400 million **for 12 Investment Zones across the UK to drive business investment and levelling up, each backed with £80 million over five years including generous tax incentives.** Investment Zones will be based around research institutions such as universities and will be focused on **driving growth in one of the UK's key sectors.**
- Eight places in England have been shortlisted but there are also discussions with the Scottish Government to **establish how Investment Zones can be delivered in Scotland.**

## Levelling Up Partnerships

- The rolling out of Levelling Up Partnerships to provide bespoke place-based regeneration in an initial 20 of England's areas most in need of levelling up over 2023-24 and 2024-25.
- The Government will consult with the Devolved Administrations and local government to explore potential options in Scotland, Wales, and Northern Ireland.





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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.

**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.

