



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



# Summary

- The UK economy shows signs of gradual recovery. This is reflected in IMF's upgraded growth forecasts which suggest that the UK is no longer heading for recession.
- The headline inflation rate has fallen to single digits for the first time in eight months. Moreover, Ofgem's energy price cap falls from £2,500 to £2,074/ year. However, food prices are at record high levels.
- This month's labour market statistics continue to show a tight labour market. The number of people unable to work due to long-term sickness has reached new record high levels.
- Research highlights that there's an urgent need for investment in social care and occupational health.

## This month's spotlight is on place, looking at Glasgow's Low Emission Zone, the impact of home working on city centres and Levelling Up.

- **Low Emission Zone:** Case studies from Beijing, London and Berlin show positive environmental and health effects of low emission zones.
- **Home Working Impact:** According to Savills research, the vacancy rate for office space saw a dramatic increase over the last three years. Research suggests that city centre strategies should focus on mixed use land.
- **Levelling Up:** Research from the Resolution Foundation looks at common themes from seven previously underperforming cities. These include investment in skills, liveability of cities and collaboration between national and regional government.



# The Outlook for the UK Economy

According to the IMF, the UK is no longer heading for a recession – although the other experts have cast doubt on this due to continuing interest rate rises.

- **Growth Forecasts:** The IMF has upgraded its forecast for the UK's economy. It now expects UK GDP to rise by 0.4% rather than shrinking by 0.3% as it had expected in April.
- **Inflation:** Consumer Price Inflation also fell into single digits for the first time in eight months, as a result of falling energy costs.
- However, food inflation is at record high levels. According to the ONS, import dependence is the biggest contributor to UK's high food prices. Input prices for producer food materials in the 12 months to March 2023 rose by 29.1% (compared to 15.1% for home-produced materials)
- **Interest Rates:** The Bank of England is expected to raise interest rates above 5% before the end of the year as the inflation rate fell less than expected.

Sources: [The Guardian](#), [ONS](#)

## GDP

- Monthly GDP is estimated to have fallen by 0.3% in March 2023.
- Monthly GDP is now estimated to be 0.1% above pre-coronavirus levels (Feb 2020).

## Inflation

- The headline inflation rate has fallen from 10.1% to 8.7%. The sharp fall has been attributed to the fall of energy costs.

## Pay

- Earning growth remains strong at 7% in both public and private sectors.
- Continued high inflation means that real pay growth is negative.

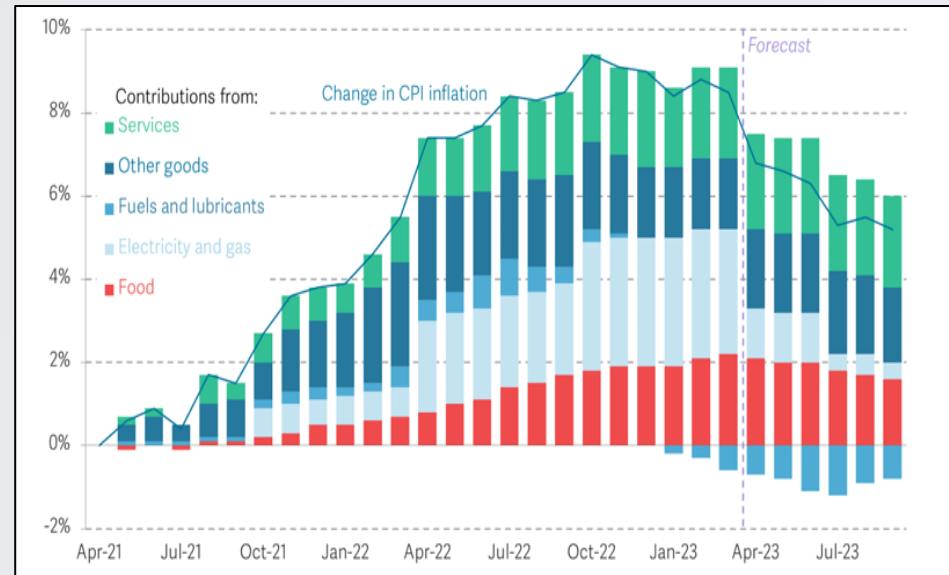


# Food Price Shock

Analysis from the Resolution Foundation examines the contribution of food prices to today's high inflation and the pressures on household living standards. It shows that the cost of food is about to overtake the energy cost as the biggest threat to household finances.

- Unequal impacts of food price shock:** Food makes up a far larger share of a household's typical consumption than energy. The price shock will likely affect low-income households the most. It is estimated that **low-income households are currently experiencing 3 percentage points higher inflation than high-income households.**
- According to [ONS survey data](#), this has resulted in **61% of the poorest one-fifth of households cutting back on food, compared to 35% of the richest one-fifth.**
- Research from [Which](#) suggests that cheaper own-brand items have seen the highest price increases, seeing monthly inflation to the end of April 2023 of 25%.
- Future Outlook:** Although global food commodity prices are down significantly since May 2022, producer price inflation suggests that food inflation might continue into the summer.

**Contributions to the rise of CPI inflation since April 2021, UK**



Source: [Resolution Foundation](#)

# Productivity Growth

The ONS recently released the annual estimates for Gross Value Added (GVA). For the first time since the start of the pandemic, we are able to look at the impact of Covid-19 on regional and local economies, and subsequent recoveries in 2021.

## UK Core City Regions - All Industries

- The National estimates saw increases in GVA from pre-pandemic levels (2019), with Scotland and UK seeing increases of 1.2% and 2% respectively.
- The UK Core City Regions generally performed well, with the highest increase from pre-pandemic being the West of England.
- Whilst Glasgow City Region performed better than the Scottish average, it saw the fourth smallest growth from pre-pandemic levels across all UK Core City Regions, growing by only 1.8% since 2019.
- Comparing this to Edinburgh City Region (ECR), GCR saw markedly less growth from 2019, with Edinburgh seeing growth by 3.4% over the same period. But, GCR still remained above ECR for total GVA in 2021.

## Gross Value Added, UK Core City Regions

Area	2021	1 yr change (%)	pre-pandemic change (%)	Best Performing City Region Volume Change required
Cardiff Capital Region	£35,303	5.8%	1.1%	£43,441
Edinburgh City Region	£44,870	7.7%	3.4%	£33,874
Glasgow City Region	£47,984	6.5%	1.8%	£30,760
Greater Manchester	£78,744	8.0%	4.0%	£0
Liverpool City Region	£35,345	7.6%	2.6%	£43,399
North of Tyne	£19,725	7.2%	1.7%	£59,019
Sheffield City Region	£28,971	7.2%	4.2%	£49,773
West Midlands	£70,961	6.4%	1.4%	£7,783
West of England	£34,110	8.4%	5.7%	£44,634
West Yorkshire	£60,137	8.0%	3.9%	£18,607
Scotland	£149,938	6.9%	1.2%	n/a
United Kingdom	£2,040,499	7.2%	2.0%	n/a

Source: APS, 2023

# Headline Labour Market Statistics

This month's labour market statistics show a worsening picture for Scotland's labour market in the first quarter of 2023. Employment rate fell by 1.2 percentage points from the previous quarter and economic inactivity saw an increase of 1.4 percentage points.

*Table 1: Labour Force Survey estimates from January to March 2023*

	Unemployment (%)	Unemployment (ppts) Quarter Change	Employment (%)	Employment (ppts) Quarter Change	Economic Inactivity (%)	Economic Inactivity (ppts) Quarter Change
<b>Scotland</b>	3.1	-0.2	75.3	-1.2	22.2	1.4
<b>UK</b>	3.9	0.1	75.9	0.2	21.0	-0.4

Source: ONS, Labour Market Overview May 2023

## Record high levels of long-term sickness

- The ONS said that Q1 2023 labour market statistics reflected the biggest flow from inactivity into employment on record, although the UK workforce remains smaller than it was before the pandemic, partly because of record levels of long-term sickness.
- Analysis by the Work Foundation shows that despite record high levels in long-term sickness, ***one in five might come back into work with the right support. Therefore, there's an urgent need for investment in social care and occupational health*** (Source: [Work Foundation](#)).
- The right mix of health and employment support, coupled with good job design could enable some of these workers to re-join the labour market.

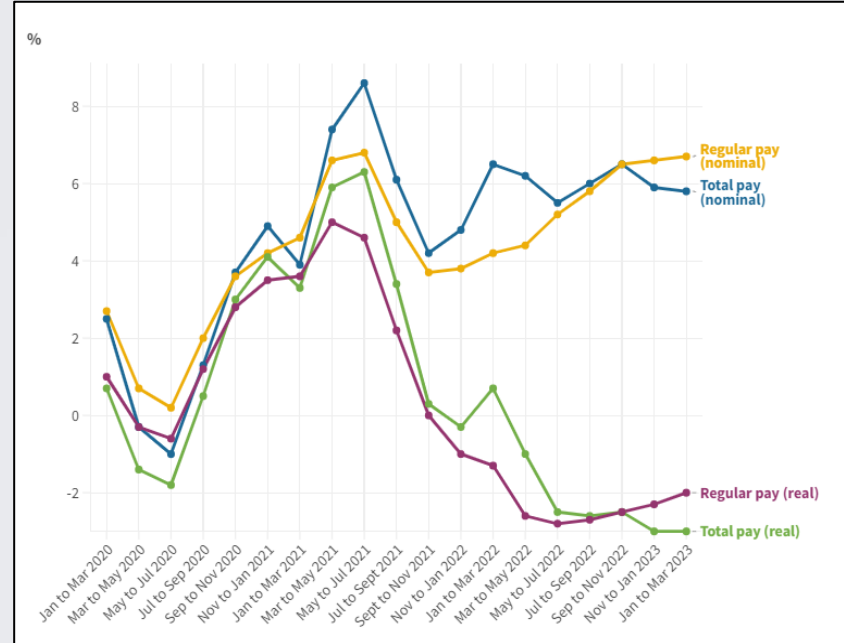


# Bank of England and the dangers of a Wage-Price Spiral

For the first time, the Bank of England has admitted that the UK is dealing with a wage-price spiral, with Andrew Bailey from the BoE suggesting the outlook for inflation is more uncertain and depends on the extent of persistence in wage and price setting.

- Wage-price spiral:** Refers to the concept that as people's wages go up to match the rising cost of living, companies will also raise prices of their products and services. This process creates accelerated growth in inflation.
- The current trends:** As shown opposite, there has been sustained growth in the amount pay since the end of 2021, but this has not been reflected increases in real pay, which is adjusted for inflation – **meaning that although public and private pay has grown, people are not experiencing higher wages.**
- Public Confidence:** Research published by [FT](#) suggests that Britons are among the most pessimistic about how long it will take for inflation to return to what they consider normal levels\*, with 46% saying they thought their disposable incomes would fall over the next year. **This lack of confidence underlies a fear of the BoE that people will continue to seek higher wages, driving inflation higher.**

*Real Pay (Nominal and Total) and Total Pay (Nominal and Total) % change Jan-March 2020 to Jan-March 2023*



Source: [ONS](#)

\*out of 29 countries surveyed

# Low Emission Zones

The Glasgow Low Emission Zone (LEZ) came into force on 1 June 2023. The LEZ restricts the most polluting vehicles; those that are old, and especially those with diesel engines. The overall aim is to reduce air pollution in targeted areas.

## LEZ research at a glance

- By banning the most polluting vehicles LEZs' biggest impact is on the decision to retrofit or buy a new vehicle.
- The distance people travel and the number of trips undertaken are not directly affected.
- Hence, LEZs usually change the urban fleet composition but do not reduce congestion.

- **Environmental Impacts:** Case studies from Beijing, London and Berlin show that LEZs have reduced the most hazardous pollutants, including nitrogen dioxide (NO<sub>2</sub>) and Particulate Matter 10 (PM<sub>10</sub>).
- **Health and wellbeing benefits:** Research from University of York ([Beshir and Fichera, 2022](#)) shows that the LEZ implemented in Greater London reduced limiting health problems by 7% and sick leave by 17%. The ULEZ in Central London reduced health conditions by 22.5% and sick leave by 18%.
- **Economic impacts:** It is often said the zone charges unfairly penalise socio-economically deprived groups. However, the evidence is mixed. It is not clear that the poorest people own the oldest cars. Some clearly do but data from 2010 ([Barnes and Longhurst, 2019](#)) shows a more complex picture. Cars in the UK's poorest areas were, on average, just over a year older than those owned by the most well off ([The Guardian](#)).
- Moreover, the economic impact of LEZs also depends on other factors such as availability and affordability of public transport infrastructure ([Vanoutrive and Vrij, 2022](#)).





# The Impact of Home Working on Office Space in City Centres

According to Savills research, the vacancy rate for office space in Glasgow saw a dramatic increase from 4.9% in 2020 to 10.3% in Q1 2023. Moreover, recruitment data suggests that hybrid/flexible work has not fully reached the labour market.

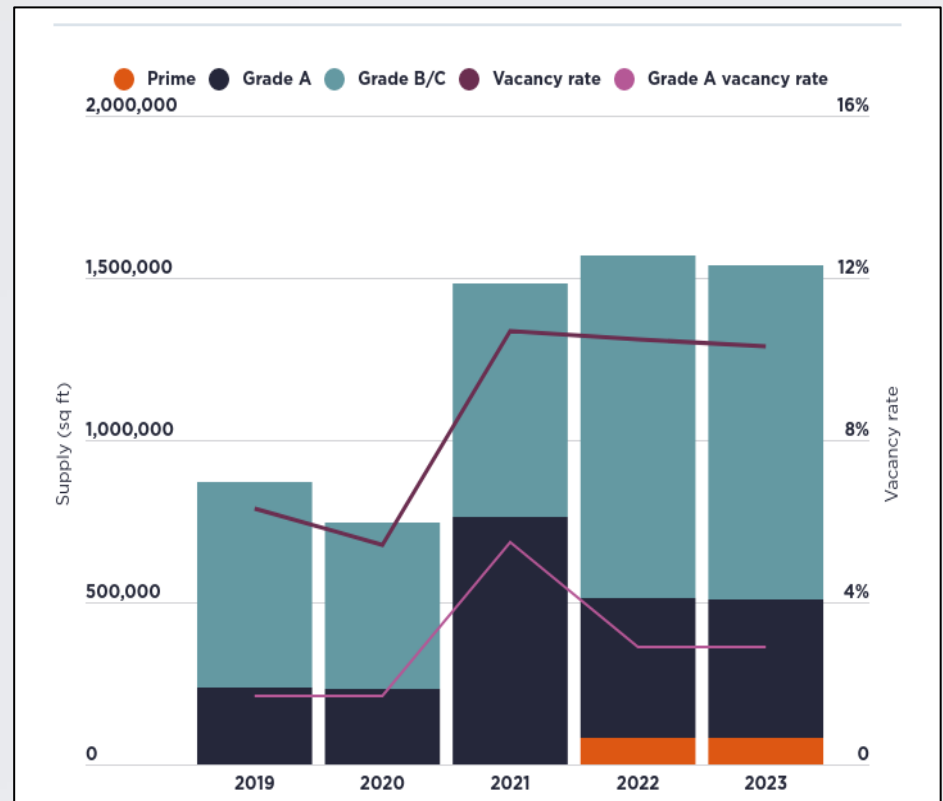
- In contrast to some predictions of a fully remote 'new normal', [Centre for Cities](#) found that in April 2023, Central London office workers worked an average of 2.3 days per week in the office, 59% of January 2020 levels.

- CFC argues caution from policy makers not to be too eager to convert commercial space to residential, and risk limiting future growth opportunities.

- Similarly, [Brookings Institute](#) has suggested that, even at this smaller scale, the long term growth of Professional and Business Services demonstrates sustained demand for office spaces in City Centres.

- They argue the need to **recognise the unique benefits of centrally located, economically productive, and dense city centres as job centres, social and activity destinations, as well as places for living – not least due to differences in density between residential and commercial buildings.**

*Glasgow office supply 2019-2023*



Source: [Savills Research](#)

# ‘Turnaround Cities’ and Levelling Up

The UK’s levelling up agenda has prompted an examination about what we can learn from other previously underperforming ‘turnaround’ cities for examples of economic development in times of uncertainty and what role regional economic governance plays.

- [The Resolution Foundation](#) claims that the UK’s current governance of economic development will likely entrench regional inequalities further.
- According to RF, “...**sub-central government in the UK needs to be given much greater powers and resources to decide their own priorities and design**”.
- Rather than creating new economic structures, the emphasis is argued to be on increasing the capacity of decision making for local government.

- The Resolution Foundation examined seven ‘turnaround’ cities , and identified some common insights and lessons for economic development – which can be found [here](#) – here are some of the takeaways:
- One of the key challenges for developing economically weaker areas **is the ability to find employees with the right skill set**, whilst those that have the right skills for the labour market tend to leave elsewhere. The examples of Dortmund and Bilbao shows that having a clear strategy on liveability, focusing on regeneration and the modernisation of the city to attract younger families, helps retain and maintain a skilled workforce.
- Another lesson learnt is **the promotion of comprehensive strategies over piecemeal ones**, which helps business access finance, workers and the right infrastructure. RF says too many policies are focused on one of these areas, giving the example of Duisburg, illustrating that their successful support of the logistics sector gave comprehensive infrastructure, skill development and start-up support.
- According to RF, **local and/or regional leadership is central to economic development**. All case studies are set in countries that are highly devolved, Spain and Germany for instance, which allows policy making at a local level which can utilise local knowledge and benefits from collaboration with government at Regional and National levels.



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. These 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.

**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.

**Gross Value Added (GVA):** is the measure of the value of goods and services produced in an area, industry or sector of the economy.

