

**Glasgow City Region
Economic Briefing
August 2023 Cabinet**



Summary

As the need for a more resilient business base, with more productive jobs, continues to grow, the latest data and research highlights why the Investment Zone opportunity is so timely

- **Inflation:** Despite a recent decrease in the inflation rate, the *UK continues to grapple with persistently high inflation compared* to other advanced economies.
- **SMEs:** This situation has created *challenging business conditions, particularly for small and medium-sized enterprises (SMEs)*.
- **Labour Market:** The latest labour market statistics suggest *a rise in economic inactivity in Scotland*, compared to the UK average, with ONS suggesting that mental health and interrelated health issues are to blame
- **Growing Inequality:** Poverty data for Scotland show that *very deep poverty has increased over the last 20 years* and income inequality has worsened.
- **Productivity:** The Region performs well in terms of GVA per hour worked. But, a larger driver in increases in productivity appears to be due to a reduction in employment rather than a growth of a specific activity



The Outlook for the UK Economy

The UK remains an international outlier with stubbornly high inflation and with slowing down economic growth. ONS data show that the UK economy has barely grown since 2019.

Inflationary Pressures

June's inflation data gave hope that price growth is easing, as the inflation rate dropped to its lowest rate since March 2022. However, the UK is still an international outlier, with stubbornly high core inflation sitting higher than both the US (4.8%) and Eurozone (5.5%) at 6.9%. According to the IMF, the UK interest rates need to stay higher for longer to beat inflation.

GDP fell by less than expected, but the UK's economic recovery has been slower than in other countries

As a result of the Bank of England's hike in the base rate, the Construction sector saw a 0.2% fall in May, linked to a slow down in private housing

GDP

Monthly GDP is estimated to have fallen by 0.1% in May 2023 after an growth of 0.2% in April 2023

Inflation

The UK's CPI fell more than expected in June to 7.9%, mainly due to a sharp fall in petrol prices

Pay

Real pay fell in March, by -1.2% for total pay and -0.8% for regular pay

Sources: [ONS GDP](#), [ONS Inflation](#), [ONS Pay](#), [BBC](#)

The Impact of the Rising Cost of Doing Business

The latest Scottish BICS survey shows that smaller firms face tougher business conditions. Hospitality has been hit particularly hard. A hospitality industry group has said that rising costs are putting businesses and jobs at risk.

Scottish BICS* Survey: inflation and energy costs remains chief among business concerns.

- Increasingly, firms are concerned about falling demand for goods and services as well as interest rates with notable differences between large and small firms.

Hospitality sector: Emerging evidence suggests that the hospitality sector has been hit hard.

- Companies House data for Scotland shows that hospitality saw the greatest number of insolvencies in June followed by the construction and wholesale and retail sectors.
- Hospitality was among the sectors hardest hit by the pandemic and now the industry has gone from one crisis to the next.

Key Insights from BICS

6% of SMEs main concern at present is interest rates compared to 4% of big firms

12% of SMEs have no cash reserves, compared to 10% a year ago

4% of SMEs in Scotland are planning to make redundancies over the next three months

Sources: [FAI](#), [BBC](#)

*Business Insights and Conditions Survey



Headline Labour Market Statistics

There are signs that lower economic inactivity is feeding through into higher unemployment more than employment. There is also emerging evidence that short-term unemployment is starting to lead to long-term unemployment.

Table 1: Labour Force Survey estimates from March to May 2023

	Unemployment (%)	Unemployment (ppts) Quarter Change	Employment (%)	Employment (ppts) Quarter Change	Economic Inactivity (%)	Economic Inactivity (ppts) Quarter Change
Scotland	3.2	0.2	75.1	-0.5	22.3	0.3
UK	4.0	0.2	76.0	0.2	20.8	-0.4

Source: ONS, Labour Market Overview June 2023, Scottish Government Labour Market Statistics July 2023

Long-term unemployment: growth in long-term unemployment is being driven by young people. Given that many young people do not access employment support through Jobcentre Plus and may have not the experience to move into higher skilled jobs, it suggests that many young people might be not getting the help they need to take up jobs that are still being created.

Vacancies: emerging evidence suggests that demand is slowing down but less in white collar jobs and public services. In many areas where demand is strongest are in industries where employers are more likely to need a higher level of job-specific skills. People joining the labour market from economic inactivity may struggle to meet those needs without help to reskill.

Source: [Institute for Employment Studies](#)

Deepening Poverty in Scotland

Recent analysis from the Joseph Rowntree Foundation (JRF), shows that over the last 20 years, **very deep poverty*** in Scotland has increased and income inequality has become exacerbated

In Scotland, over the last 20 years, there was an **increase of around 150,000 people in very deep poverty**. Analysis shows that, although income groups in and around the poverty line have seen improved situations, people on very low incomes are seeing worsening situations

Household Characteristics

- Single person households made up nearly 1/2 the increase in people in very deep poverty.
- A significant raise in the proportion of households where someone is disabled in Scotland.
- Minority ethnic households were also almost three times more likely to be in deep or very deep poverty than the Scottish average.

Contributing Factors:

- Benefit levels have reduced / risen slower than income from work
- Income from work has stagnated apart from those at the top

Change in poverty rates, Scotland 1994-2020

- **Overall Poverty Rates** – Poverty rates have fallen: **23% to 19%**
- **Just Below the Poverty Line** – between 50-60% of median income. Rates have halved: **10% to 5%**
- **Deep Poverty** – 40-50% below median income. Rates have dropped: **7% to 5%**
- **Very Deep Poverty*** – a household with an overall income of less than 40% of the UK average. Rates have increased: **6% to 9% of the population (now 1 in 12 people in Scotland)**

Source: [Joseph Rowntree Foundation](#)



The Pandemic's Impact on Regional Productivity

Higher productivity means higher wages and a more prosperous economy, and new GVA per hour worked data show the different impacts the pandemic had on hourly productivity across Glasgow City Region.

Why look at GVA per hour worked:

- GVA per hour worked (phw) provides a greater level of accuracy in measuring productivity than GVA per job, accounting for variations in the number of full and part time workers between different areas.

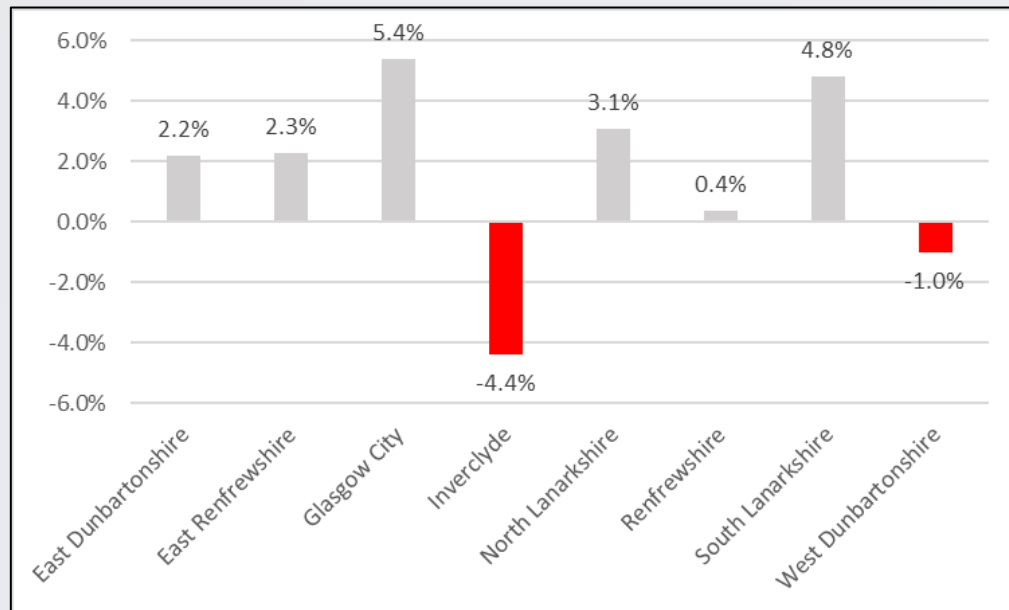
In 2021, GCR remained second best to West of England in GVA (£) phw:

- But, GCR saw less growth than other core city regions like Liverpool (5.2%) and North of Tyne (5.6%), growing by 3.8% since before the pandemic in 2019.

Inverclyde experienced a considerable reduction of 4.4% in their GVA phw after the start of the pandemic, a loss of £1.30 per hour:

- [The Industrial Strategy Council](#) gave insights that there several factors facing coastal areas like declines in tourism, fishing and ship building

% change in GVA per hour worked from pre-pandemic (2019-21) among member authorities



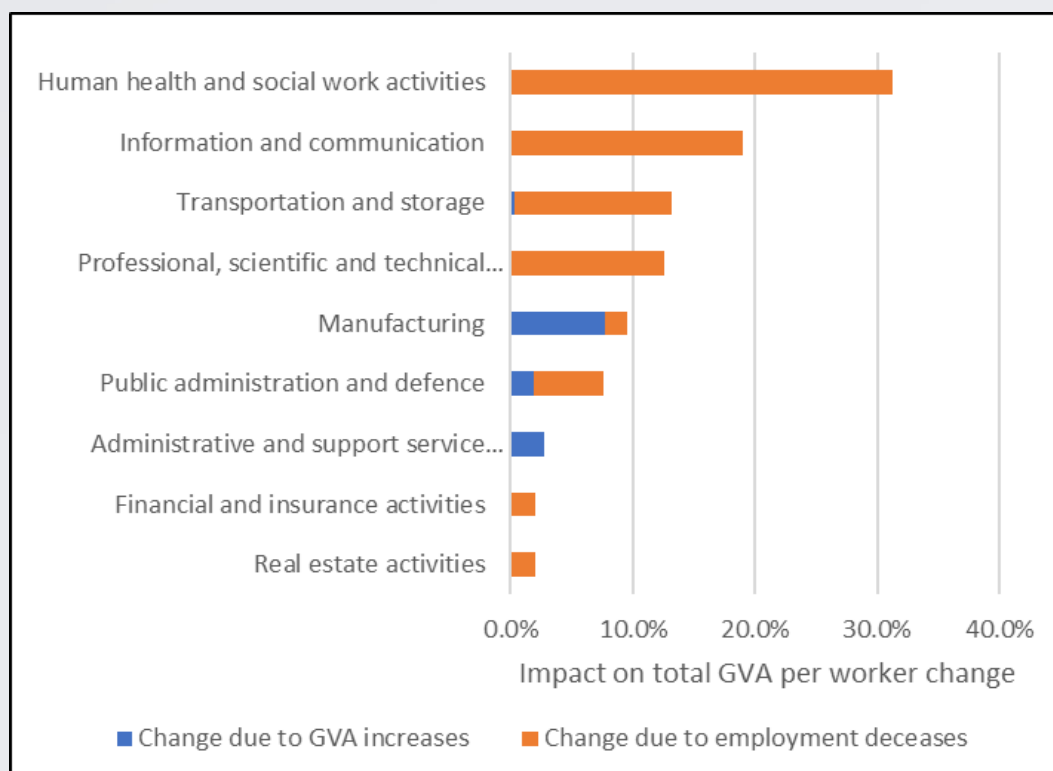
Source: Intelligence Hub analysis of [ONS](#)

Regional Productivity by Sector

New data from ONS gives us insight into what sectors are driving changes in productivity across the Region.

- **GCR's GVA Per Worker grew in 2021:** GCR had an increase in GVA per worker from £53,310 in 2020 to £55,345 in 2021, now above the UK core city region average (£55,330).
- **Key drivers:** This was largely driven by a reduction in the number employed rather than an increase in total GVA.
- **Sectoral drivers:** The largest proportion of the change came from **Human Health and Social Work Activities** due a decrease of 9,000 employees in the sector.
- Employment decreases were more responsible for GVA per worker increases in all sectors apart from **Manufacturing and Administrative & support services** which had GVA increases.

Impact on GCR's total GVA per worker change by sector in 2020-21



Source: Intelligence Hub analysis of [ONS](#)

Creating Good Jobs to Address Lagging Productivity

According to the Resolution Foundation (RF), the lack of well-paying jobs are worsening the UK economy's international shortfall productivity in cities outside of London

How other countries are focussing on good jobs

- Recent industrial policy from Germany, Sweden and the US have focussed on improving *the skill environment* to benefit business and people, but also on the *creation of productive work*

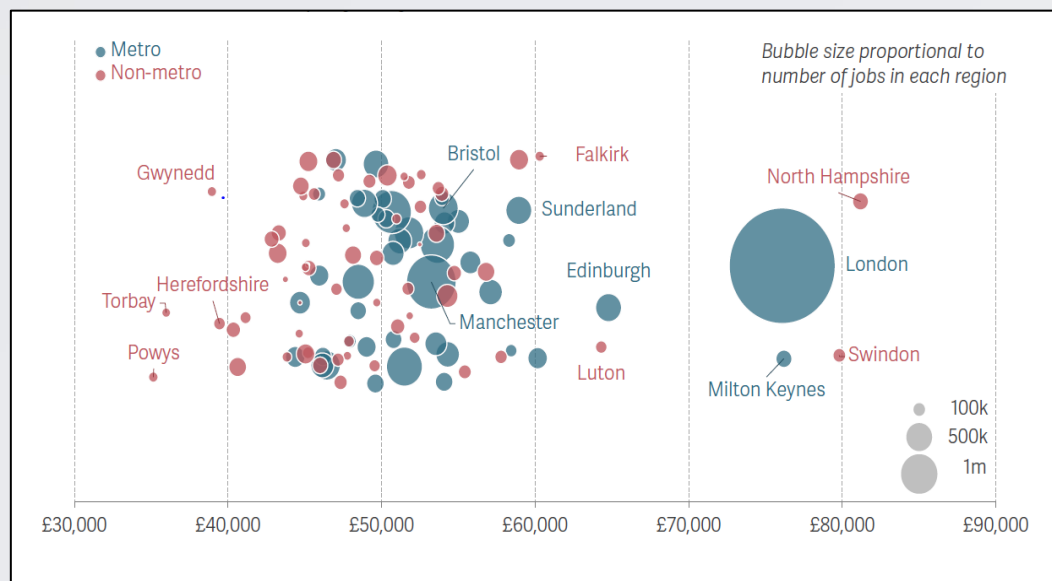
Supporting the Growth of Good Jobs:

- RF argues that that one way of creating good jobs should be working directly with business to *encourage the adoption of technology that enhances workers, rather than substitutes their labour*

Role of Investment Zones:

- Investment Zones gives a focus on the deliverables of skills and business support from local government to the private sector, and local areas have an opportunity to make good jobs a long-term priority

GVA per job in Metro and Non-Metro areas, 2019



Source: [Resolution Foundation](#)



For queries, please contact Christina Kopanou:
christina.kopanou@Glasgow.gov.uk

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.

Poverty Line: Individuals are defined as being in poverty when their income is below a certain threshold (the poverty line). For instance, the most common is that a household is considered to be in poverty when their income is less than 60% of the average income for that household type

Very Deep Poverty: A household with an overall income of less than 40% of the UK average

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