

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



Summary

- **Economy Outlook:** The impacts of rising high rates and weak household spending are beginning to feed into a reduction for demand for goods and services, with some economists fearing that the UK economy could shrink.
- **Labour Market:** There are worrying signs that Scotland and the UK are experiencing continued rises in unemployment, with Scotland also continuing to see higher rates of economic inactivity than the UK.
- **Housing Affordability:** The GCR Intelligence Hub, for the first time, has developed indices looking at affordability for rentals and mortgages throughout the Region. According to our analysis, East Renfrewshire, East Dunbartonshire and Glasgow are the least affordable for the lowest 40% of earners and the most vulnerable to future costs increases.

SPOTLIGHT ON PLACE

This month's spotlight is on Place, looking at challenges around housing affordability, gentrification and policies of placemaking.

- **Levelling Up:** Local Government should navigate the Levelling Up agenda carefully. They need to ensure they support local business and people – by improving the services and place-based offerings of the local area – alongside driving investment and growth in GVA.
- **Housing Market:** Alongside our analysis, research highlights that rises in the average income of an area reduces the offering of affordable private rentals and mortgages illustrating the challenges of gentrification in some areas.

Source: [S&P](#), [FT](#)

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



The Outlook for the UK Economy

UK inflation continues to fall, and it is projected to stabilise at around 5% by the end of the year. But, some fear that the era of high inflation could be here to stay. Meanwhile, growth in the UK's GDP remains weak and has been forecast to potentially contract by the end of 2023.

Positive Inflationary Outlook:

Although prices remained 6.8% higher in July than they did last year, the annual rate has dropped. This is primarily because of the continued reduction of food inflation to 14.9% in July, down from 19.2% in March 2023, the highest annual rate seen for over 45 years.

Lukewarm Long-Term Outlook:

Despite this, some economists argue that the UK's inflation issues are compounded by the issues of industrial action from historic poor wage growth among lower earners, concentrated in public health and transport sectors. This is intensified by the uncertainty of Brexit and the divergences of regulations which will likely have inflationary impacts on firms and individuals.

Despite some short-term good news, the UK is facing some distinct issues compared to the US and European Economic Area, that [Adam Posen](#) of the Peterson Institute for International Economics believes will force inflation to stay high in the long term.

GDP

Monthly GDP is estimated to have grown by 0.5% in June 2023, following growth of 0.2% in April 2023.

Inflation

The UK's CPI fell in July 2023 to 6.8% from 7.9%, which was mainly driven by falling petrol and food prices. BoE forecasts predict this to fall to around 5% by the end of 2023.

Pay

In real terms, in April to June 2023, annual growth rates of regular pay was 0.5% with total pay seeing a growth of 0.1%.

Sources: [ONS GDP](#), [ONS Inflation](#), [ONS Pay](#), [National Institute of Economic and Social Research](#), [BoE](#), [The Guardian](#)



Headline Labour Market Statistics

There are worrying signs that Scotland and the UK are experiencing continued rises in unemployment, with Scotland also continuing to see higher rates of economic inactivity than the UK.

Labour Force Survey estimates from April to June 2023

	Unemployment (%)	Unemployment (ppts) Quarter Change	Employment (%)	Employment (ppts) Quarter Change	Economic Inactivity (%)	Economic Inactivity (ppts) Quarter Change
Scotland	4.0	0.9	77.4	-1.1	22.6	0.4
UK	4.2	0.3	79.1	-0.1	20.9	-0.1

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

Growing rates of unemployment: Scotland and the UK have experienced growing rates of unemployment, matched with growing rates of economic inactivity in Scotland. The Institute for Employment Studies (IES) suggests that this rise has been driven by people who have been out of work for a long time and have become more disadvantaged in the labour market.

Rises in short-term employment: Recent growths in short-term employment might suggest that the cost-of-living crisis, alongside higher wages, may be attracting more people into the labour force.

Cooling labour demand: However, the impact of high interest rates is forcing firms to reduce recruitment and investment, with some suggesting the UK is moving into a period of stagflation – a period of higher unemployment, high interest rates but stubbornly high prices.

Source: [Institute for Employment Studies](#)

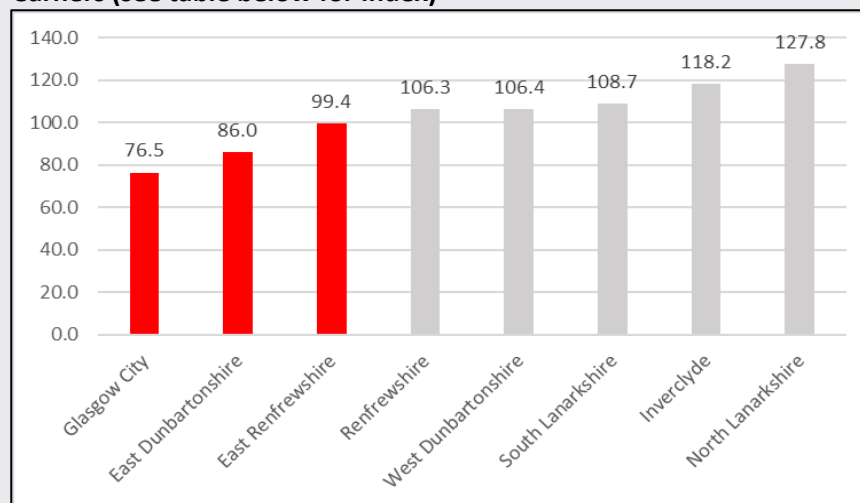
GCR's Rental Affordability

New analysis of rental affordability suggests that Glasgow City is still affordable compared to areas like Bristol and Manchester, but some local authorities in the Region have seen reductions in affordability for the lowest earners.

Following the recent rises in the cost of mortgages, the Intelligence Hub has, for the first time, undertaken analysis to look at rent affordability across the Region.

- **On average, the Region saw a 25.2% increase in rent costs for 1-4 bedroom properties in 2020-23:**
 - The highest increase during this period was seen in Renfrewshire, increasing by 30.1%, equivalent to £150 extra per month.
- **The 30/40 rule:**
 - The Joseph Rowntree Foundation assumes that although rent may be taking up more than 30% of an individual's income, a person with a higher income may choose / can afford to pay more and would be less affected than lowest 40% of earners.
- **Based on average rent (1-4 Bedroom) Glasgow City ranks lowest on rental affordability, with an additional £694 in a 4 weekly gross wage needed to make average rent affordable for the lowest 40% of earners:**
 - Other local authorities within GCR that come out as unaffordable are East Renfrewshire and East Dunbartonshire.

Rental Affordability Index (RAI) scores for the lowest 40% of earners (see table below for index)



Source: Intelligence Hub Analysis of Zoopla data and ASHE, 2023

RAI Score	Share of income spent on rent	What this means
<50	60% or more	Severely Unaffordable
51-80	38-60%	Very Unaffordable
81-100	30-38%	Unaffordable
101-120	25-30%	Just Affordable
121-150	20-25%	Affordable
>150	15% or less	Very Affordable

Source: [JRF](#), [BBC](#)

Rental vs Mortgage Affordability

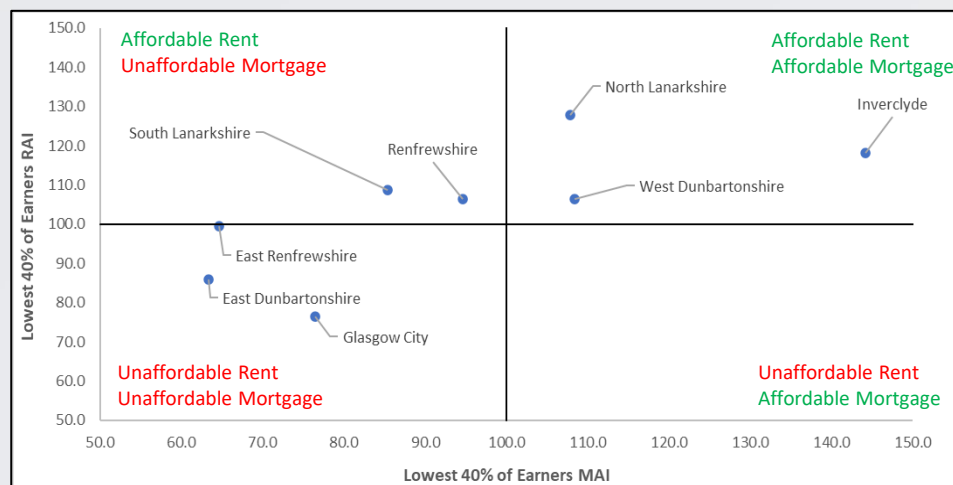
Similar analysis has been used to estimate member authorities' mortgage affordability, showing that East Renfrewshire, East Dunbartonshire and Glasgow City are the least affordable compared to the lowest 40% of earners.

- Across the Region, the different types of housing tenure varies:
- While in Glasgow City 54.3% of households rent (socially and private), in East Dunbartonshire 84.7% of households own their own property.
- To capture these differences, we have constructed an index looking at the lowest 40% of earners, compared to mortgage costs.*
- Areas that came out as particularly vulnerable to future rises in the costs of housing were East Renfrewshire, East Dunbartonshire and Glasgow City.
- For instance, for the lowest 40% of earners in South Lanarkshire, someone would have to earn an extra £397/month to make a mortgage affordable, a 17% increase in a 4 weekly gross wage.

Source: Intelligence Hub Analysis of Zoopla data, Annual Survey of Hours and Earnings, [BBC](#)

*The model assumes that a 15% deposit is used, the fixed rate of interest is 6.2% and the mortgage covers 30 years.

Rental Affordability Index (RAI) vs Mortgage Affordability Index (MAI) scores for the lowest 40% of earners



RAI/MAI Score	Share of income spent on rent/mortgage	What this means
<50	60% or more	Severely Unaffordable
51-80	38-60%	Very Unaffordable
81-100	30-38%	Unaffordable
101-120	25-30%	Just Affordable
121-150	20-25%	Affordable
>150	15% or less	Very Affordable

Levelling Up - Housing and Transport Infrastructure

The [King's Cross Development](#) in London provided a successful template for the densification of housing and improved transport in cities; but the impacts of NIMBYism mean that similar projects now cost more in the UK than elsewhere.

- **Productivity and housing:** Unlike in many other western European countries, productivity does not increase with city size in the UK.
- Only 40% of the population in large UK cities are able to reach the city centre by public transport in 30 minutes, compared to 67% in mainland Europe.
- Economists have argued that densification plays an important role to the UK's productivity problem.
- **Levelling Up:** The Levelling Up White Paper promised 20 regeneration projects around the UK, firmly making place-making a crucial element of the levelling up agenda.
- The King's Cross Development is a successful template for urban redevelopment which prioritises the densification of housing in a given area.
- In 2020, the residential population jumped up to 12,200 in King's Cross benefiting from public realm development focused on accessibility and placemaking.

- **What this means for Glasgow:** Housing is unaffordable for the lowest earners in Glasgow City, showing the need for greater supplies of affordable housing.
- Similar policies of urban densification, as seen in King's Cross, could help to address productivity and also help to improve levels of affordability by improving supply and availability.
- **However, infrastructure in the UK costs more than other countries.**
- According to the Financial Times, recent UK rail projects cost an average of £262m per mile, compared to £92m in Sweden and £34m in Germany.
- **The impacts of NIMBYism:** Evidence from the US suggests that homeowners, lobbyists and NIMBYism have added significant delays and costs to construction projects.
- The same impacts have been noted to have impacted the HS2 infrastructure project driving up costs from adding additional tunnels, routes and noise barriers.
- This has resulted in the UK's under-delivery of similar transport infrastructure, dragging on productivity and connectivity.

Source: [Centre for Cities](#), [FT](#), [Britain Remade](#), [The Telegraph](#)



The Rise of Gentrification

Local economic development often focuses on attracting increased inward investment as a key driver for growth. However, evidence suggests that this may price out existing residents.

- **The impact of Gentrification:** As Centre for Cities suggests, gentrification typically refers to the process of wealthy newcomers moving into an area to displace existing residents.
- The impacts are often discussed as higher house prices, rent, and the reduction of services available to current residents as new residents/workers move in.
- **New data suggests that creative activity has a potent role in this process.**
- Analysis from the Creative Industries Policy and Evidence Centre shows that where an area increases in creative workers*, there is a higher probability of higher housing costs, but there are benefits to other sectors and services like cafes, bars, museums and the arts.
- **However, some suggest that the problem with gentrification is not the process itself, but the policy response from government to enable locals to access new benefits.**

Thoughts on gentrification from Govanhill:

In 2022, Journalist Robbie Armstrong spoke to his neighbours in Govanhill about their perspectives on gentrification:

“Gentrification, while great for multiple property owners like landlords, and for niche shopping enclaves, is a double-edged sword for the community that is becoming gentrified. Pushing people further away from the areas they grew up in into areas with even less resources, and perhaps no real sense of community”.

“But in all honesty, I was only able to buy a flat here thanks to the generosity of a family member who helped me with a deposit in 2019... I worry about how quickly the area is changing, what impact I’m having, and if anything can be done to mitigate the effects of the gentrification I am irrefutably part of.”

Sources: [Creative Industries Policy and Evidence Centre](#), [The Herald](#), [Centre for Cities](#), [Greater Govanhill](#)

*Note: Creative Workers are referred by the Creative Industries Policy and Evidence Centre as people working in areas like Motion Picture Development, the Arts and Performing Arts



The Regeneration of left-behind areas using the Foundational Economy Model

New research suggests that economic strategy in smaller urbanised areas needs to focus on place-based offerings, and consider the importance of the Foundational Economy to support the low wage economy

- **Focusing on the Foundational Economy-** local development should focus on driving up the standard of living, rather than solely focusing on driving private investment
- The Foundational Economy may help to delink quality of life from market indicators, to focus on the importance of place-based drivers of growth like green space access and public services.
- **Measuring economic success:** Some economists argue that the emphasis on GVA or GDP obscures the issues of living in poorer areas, and others economists show that crucial elements of family life are not captured by GVA measures, like family childcare.
- Research has also shown that SME survivability, particularly in the foundational economy is linked to place-based offerings like childcare and stable housing.

Source: [*Discovering the diverse economy of a 'left-behind' town*](#)

Key Lessons from Shildon, County Durham

- Shildon is a small, urbanised town that has experienced de-industrialisation. Like many areas like this, it has a low wage economy, and a prominent foundational economy business base.
- Initial policies aimed at increasing the number of SMEs, highlighted the need to avoid relying solely on economic indicators such as GDP and GVA. This is because areas facing challenges such as low levels of labour market participation and low wages are unlikely to see the benefits.
- From plans aiming to construct more housing to attract above average incomes, it was learnt that locals and people moving to the area found greater value in existing affordable housing options, access to services like the community centre, food banks, and child care services.
- The case of Shildon emphasises the requirement for thoughtful consideration when dealing with smaller economic areas, to ensure that they are not left behind or marginalised.
- This involves recognising the value of diverse SMEs in the foundational and low wage economies and economic activities that contribute to the development of social connections beyond just economic outcomes.



For queries, please contact William Harkiss:

William.Harkiss@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.

NIMBYism: NIMBY is a widely used acronym for 'Not in My Back Yard', a term originating in the US to describe the arguments of those opposing development in their vicinity while not necessarily against similar development elsewhere.

