

Glasgow City Region
Economic Briefing September 2023
Intelligence Hub



Summary

- **Economy Outlook:** Despite revisions to the UK's GDP over the post-COVID period, to show a stronger post-COVID recovery compared to other G7 countries, economic growth remains weak going into autumn. With the FSB arguing that smaller businesses will face the brunt of reduced footfall.
- **Cost of Living:** Moving into the colder months, energy bills will be increasing, and Ofgem has announced the new price cap for October of £1,923. Despite this, our analysis shows that the reduced disposable income from increased food and housing bills have left households vulnerable this winter.
- **Labour Market and Low Paid Work:** The Robertson Trust's engagement with employers and employees shows that the cost-of-living crisis continues to impact people's lives, and this often overlaps with issues like housing and skills.

SPOTLIGHT ON COST OF LIVING AND IN-WORK POVERTY

This month's spotlight is on this winter's cost-of-living crisis looking at the challenges in high energy, housing and food costs.

- **Impacts of Low Paid Work:** Recent surveys undertaken in Scotland have shown the detrimental impacts on health and quality of life that low paid work can bring e.g. lower levels of disposable income to spend on activities or working unsocial and unreliable hours in hospitality reducing financial stability for workers.
- **Importance of Affordable Housing:** As discussed in last month's briefing, rent has been growing faster than wages for nearly two years. The strain that comes from an unaffordable and unstable housing market often disproportionately impacts low-income families and young people.
- **Continued Energy Crisis:** Poor growth in household incomes in real terms against surging costs of food, housing and energy has also left many more vulnerable than last year to historically high energy costs.



The Outlook for the Economy

Despite strong pay growth, there are signs that the high interest rate environment is causing the economy to cool, as inflation drops to 6.7% despite recent surges in fuel costs.

- The UK Economy continues to avoid a technical recession, but GDP growth remains **historically low**: The only periods that have seen comparable growth were other periods of economic shocks like the oil crises of the 1970s and the financial crash of 2008.
- The British Chambers of Commerce (BCC) has argued that trade is likely to see reductions in the **long-term, with falls in both imports and exports**: This is due to weak global demand, and the continued regulatory changes at UK and EU borders are weighing down trade flows and impacting business confidence.
- With average earnings continuing to perform well, there was a stronger case for a higher Bank of England base rate, which has stayed at **5.25%**: The FSB has argued that smaller firms are facing the brunt of the high interest rate environment through reduced footfall.

GDP

- Monthly GDP in the UK is estimated to have fallen by 0.5% in July 2023.
- But, in Scotland, GDP was estimated to have grown by 0.1% driven by the production sectors.

Inflation

- The UK's CPI fell in August 2023 to 6.7% by 0.1 percentage point. Many economists had expected the figure to increase due to a rise in fuel prices.

Pay

- In May to July 2023, annual growth in regular pay was 7.8%, the same as the previous three-month period and the highest growth seen on record. Total pay saw a growth of 8.5%.

Sources: [ONS GDP](#), [Scottish GDP Estimate](#), [ONS Inflation](#), [ONS Pay](#), [BCC](#), [FSB](#)

GDP revisions

At the start of September the ONS published revisions to the estimates to GDP for the UK, showing the UK's fall in output in the first phase of the pandemic was less severe and the post-pandemic recovery was much stronger than previously understood.

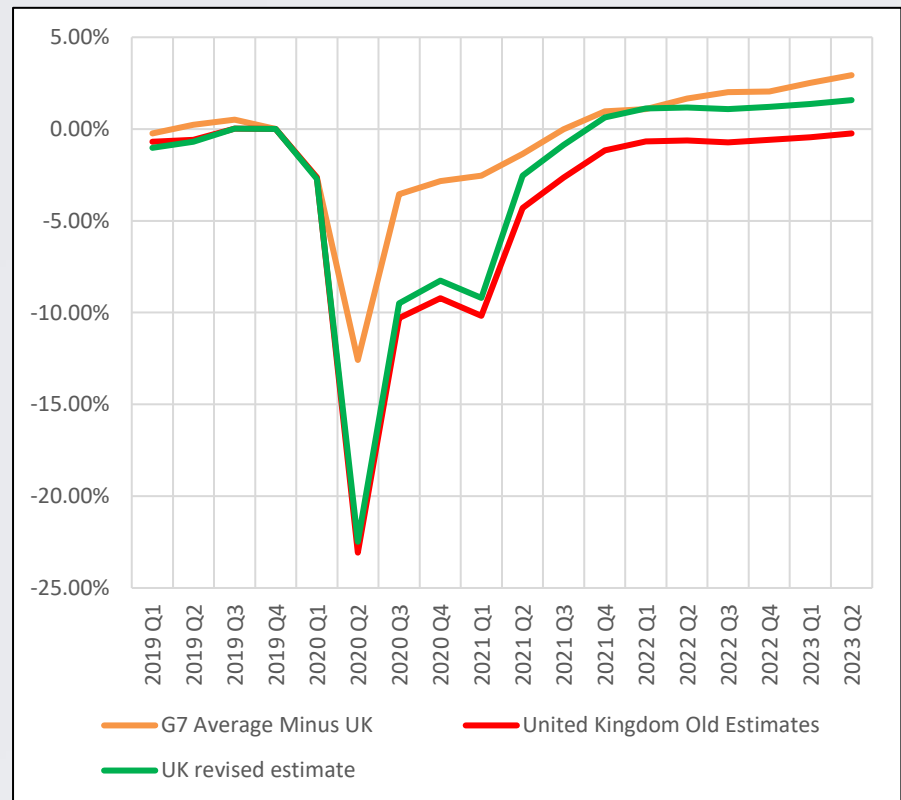
Strong Economic Recovery in 2021:

- It was previously reported that the UK had not returned to pre-pandemic levels of growth. Current estimates now show that the UK had indeed surpassed these almost as early as two years ago.
- This means that the UK's economic recovery in 2021 was stronger than that of France, Germany, Italy and Japan, with only the US and Canada seeing greater increases in GDP in the G7.
- **The GDP revisions indicate a weakness of attaching strong narratives to GDP data:** GDP estimates are hard to gather, particularly during a lockdown, and are prone to revisions like the [double dip recession](#) in 2013, and [to some it](#) shows the scepticism needed when looking at GDP data.

What does it mean for policy and the autumn budget:

- While real GDP has been revised substantially over the 2020 to 2021 period, nominal GDP has not.
- This is important as nominal GDP is the main driver of the outlook for public finances, as taxes are paid on nominal income and government spending is also set on cash terms. ([FAI](#), 2023).

Cumulative Real GDP growth from 2019 Q4



Sources: [ONS](#)

Historical and Future Outlook of Public Finances

Covering 300 years of tax, spending and borrowing data, the OBR tells the story of how government spending and borrowing has changed since 1700.

The new historical database suggests that the public finances are a reflection of prevailing challenges and the changing role of government in responding to them.

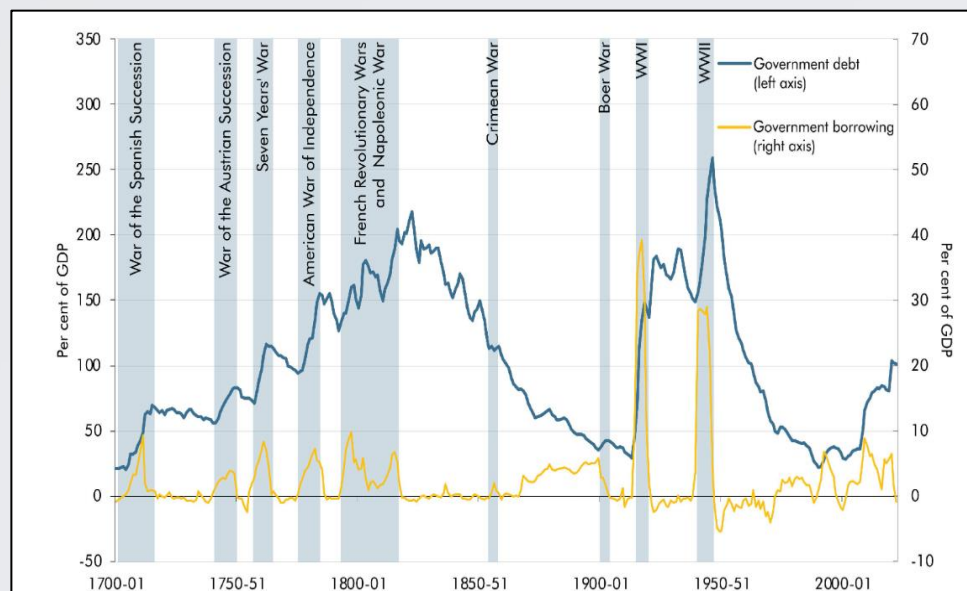
- For much of its history, public finances were driven by geopolitical tensions and armed conflicts. The two World Wars left a huge financial burden.

Rapid succession of shocks has pushed:

- borrowing to its highest level since the 1940s;
- debt to its highest level since the 1960s; and
- debt servicing costs to their highest level since the 1980s.

Future Outlook: Looking ahead for the next five decades, OBR's latest long-term fiscal projections indicate that *addressing challenges related to an increasingly ageing population, the impacts of climate change, sluggish productivity growth, elevated levels of public debt, and escalating geopolitical conflicts* will continue to significantly impact government finances in the coming years.

Office for Budget Responsibility's Estimates for Government borrowing and debt since 1700:



Source: [OBR, 300 years of UK public finance data, September 2023](#)

According to the Resolution Foundation, the Energy Crisis Will Continue to Impact People's Finances

Energy bills this winter are set to be close to those last winter, but still close to double those seen before the energy crisis with Ofgem's imminent confirmation of a £1,923 price cap.

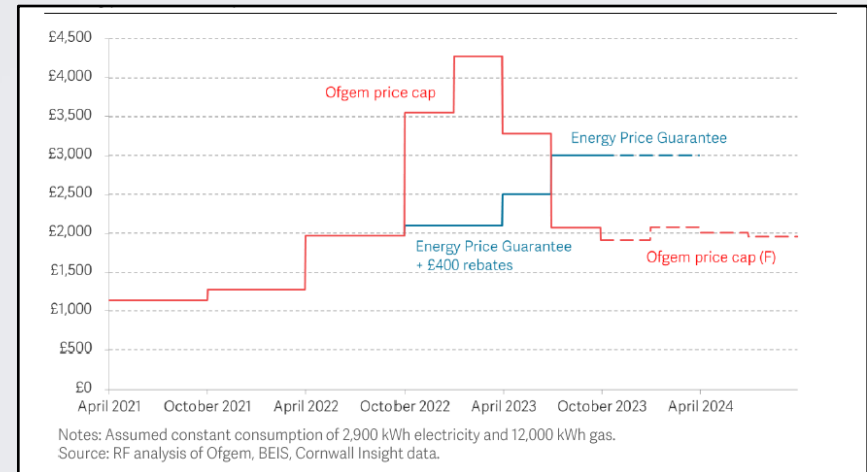
The combination of the Energy Price Guarantee and the £400 payments kept bills low last winter: This made the typical annual bill per household in the UK £2,100, which is set to lower further this winter. Despite this, it is almost double than before the Russian Invasion.

Resolution Foundation finds that 1/3 of households are set to face higher bills this winter than last, depending on how much energy a household uses to benefit from the lower per-unit prices: Households that are high energy consuming are more likely to see lower bills this winter, and households that consume less than 79% of the typical consumption are likely to see higher bills.

Continued high energy bills are matched with higher household food and rent costs: With the average UK household food bill increasing by £960 since 2019-20 and private rent on new lets increasing by 10.3% in the last year across the UK.

This means that this winter households will be burdened with historically high energy and food bills, alongside high rent and mortgage costs.

Historical and forecast annualised Default Tariff Cap levels, direct debit customers with typical consumption: GB



Source: [Resolution Foundation](#)

How this winter's Energy Crisis will Compare to Last Year

Despite Ofgem's price cap dropping to £1,923, over the last year household's disposable income has dropped due to surges in cost of food and accommodation, with our analysis showing that even with the new price cap lower earners will struggle without support.

Households' disposable incomes have dropped, leaving them more vulnerable to increases in costs this winter:

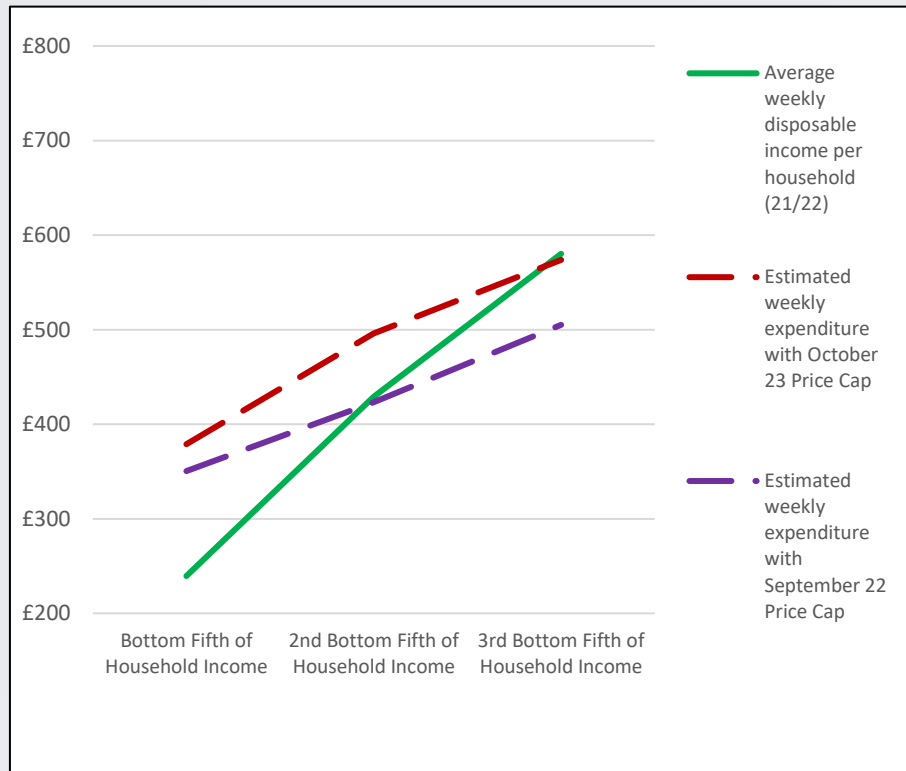
- Compared to last year, the bottom fifth of earners have seen total expenditure increase by approximately £50, whilst their disposable income has reduced by £80, a reduction of 25%.

This trend continues across all earners, and has resulted in forecasted weekly expenditure matching or overtaking disposable incomes:

- However, higher earners (third bottom fifth of household incomes) may see a bigger difference this winter seeing higher levels of forecast expenditure than last year and reduction in disposable incomes.
- The top fifth of household incomes have seen a 36% increase in the weekly expenditure from the September 2023 to the proposed October 2023 price cap.

This means that despite strong nominal pay growth, poor growth in real and disposable incomes has left many households vulnerable this winter.

Household Income and Forecast expenditure comparison between price cap in September 2022, and the new October 2023 price cap



Sources: [ONS](#), Ofgem

How Increasing Housing Supply Can Help Affordability and the Cost of Living

Research from London and New Zealand has further shown the benefits of increasing housing supply for affordability, even at higher prices.

In 2016, Auckland up-zoned around 75% of its residential, which allowed for much higher and medium density residential builds:

- This resulted in a large increase in multi-house units, with around 20,000 additional new dwellings being built over a five year period.

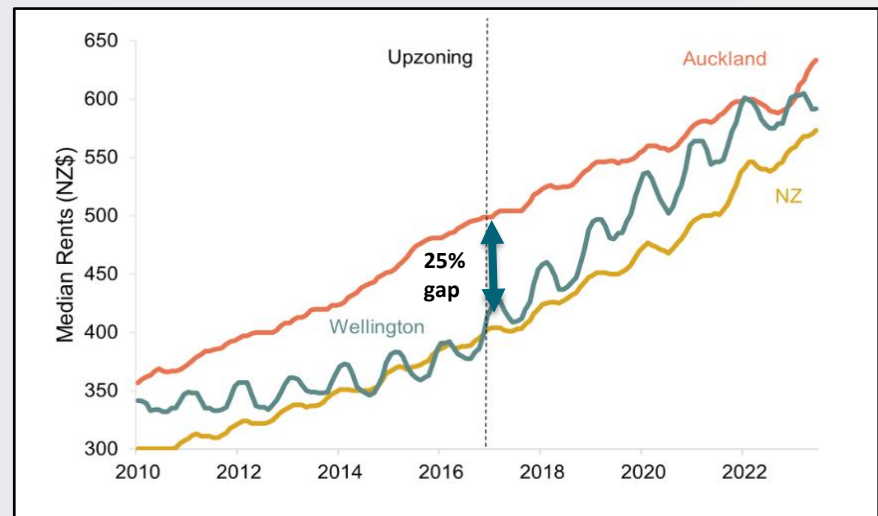
In 2010, Auckland was the most expensive city in New Zealand to rent; since the reforms, Auckland has seen median rent grow at a smaller rate than the national average and Wellington (a city of similar size):

- In 2016, Auckland's median rent was 25% higher than Wellington's, and current data shows that after adjusting for inflation, renting in Auckland is no more expensive than it was in 2016.

Research from Greater London has also demonstrated that building new homes, even those at market rates, makes other housing more affordable:

- It does this by creating vacancies across a housing market, which improves the availability and affordability of housing across prices, rents and directly impacts lower earner's housing affordability.

Median Rent in Auckland, Wellington and New Zealand



Source: [Brookings](#), [FT](#), [Centre For Cities](#)

Headline Labour Market Statistics

Unemployment has continued to rise in both Scotland and the UK. Across all indicators, the UK and Scottish labour markets have experienced cooling demand, but this has not fed into slower wage growth yet, with pay growing at record rates.

Labour Force Survey estimates from May to July 2023

	Unemployment (%)	Unemployment (ppts) Quarter Change	Employment (%)	Employment (ppts) Quarter Change	Economic Inactivity (%)	Economic Inactivity (ppts) Quarter Change
Scotland	4.3	0.9	75.1	-1.1	21.4	-1.5
UK	4.3	0.5	75.5	-0.5	21.1	0.1

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

Labour demand has been falling: Despite this, vacancies remain historically high in most sectors, with unemployment remaining at a historic low despite the recent increases. Alongside the cooling impact of high interest rates, this could suggest that ‘mismatches’ between the skills of job seekers and demand are holding back some parts of the economy and unemployed from getting into the labour market.

To compare supply and demand, the Institute for Employment Studies suggests comparing the number of unemployed people per the number of vacancies: using this method shows that *before the pandemic across the UK there was around 1.6 unemployed per vacancy, which increased to almost 6 in the first lockdown. Currently this stands at 1.44 per vacancy*, showing that this is much lower than before the pandemic, but much less tight than during the main period of the pandemic.

This mixed, and mostly negative, picture shows the importance of ‘supply-side’ focused policy – like reskilling and inclusive recruitment for those who want to work – to help fill vacancies

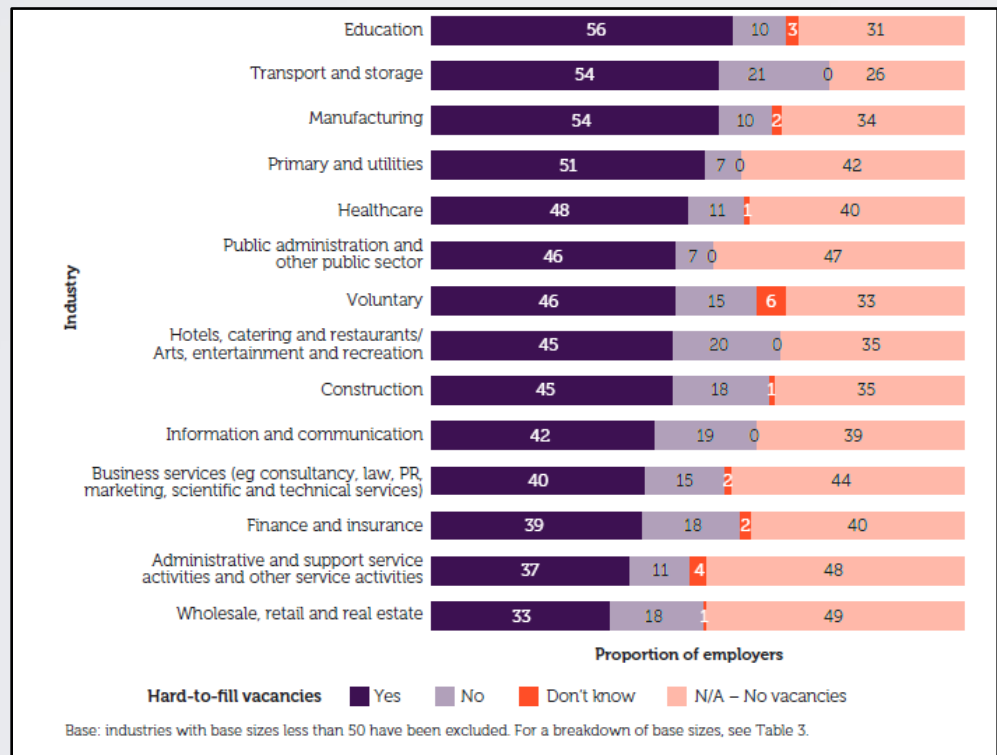
Source: [Institute for Employment Studies](#)

Labour Market Outlook From the Employers' Perspective

The CIPD has undertaken survey analysis to understand the impact of the tight labour market on employers: with more private sector employers using counter offers and increased pay to retain staff, and employers in the Hospitality sector highlighting the impacts of increases in their bills.

- **Redundancy Intentions:** While low historically, UK employers' intentions to make redundancies have steadily risen since 2021, particularly in the public sector.
- **Hard-to-fill Vacancies.** 44% of employers had hard-to-fill vacancies. The sectors with the highest proportion were *Education, and Transport and Manufacturing*. Almost half of employers were seeking to address these vacancies by upskilling current staff and 44% have had to increase wages to retain existing workers.
- **Expected Pay Rises:** The median expected basic pay increase remains at 5% for the third consecutive quarter.
- **Employers with low-wage staff were hit hard by National Minimum Wage increases.** This impact is particularly pertinent in the Hospitality sector, where 43% of employers are experiencing the financial strain.

Employers with hard-to-fill vacancies, by industry (%)



Source: [CIPD](#), August 2023

Labour Market Outlook - Spotlight on Hospitality

The Serving the Future project, ran by the Robertson Trust, looks at Hospitality workers' experience of low paid work in Scotland, and shows the impacts of zero hour contracts and lack of affordable housing on employees.

Levels of pay in the Hospitality sector lag significantly behind other sectors: The wage varied in the study from £9.50 to £16.78 per hour, with pay often supplemented by tips.

However, as a consultee suggests, this income source is not sustainable:

"There could be some really good weeks in my old work where I was making, like, a hundred and fifty quid in tips [per shift], and sometimes when it was really quiet, it could be £40. That's why they always say don't rely on it to pay your bills and that, isn't it? But, I mean, the most I've seen in one night in my new work's about £35. I'd say they're probably down to about sixty, seventy a week now." Jack, bar/pub, single adult, large urban area.

Over a third of participants are either on a zero hour contract or have not signed one: Often rotas and working schedules are provided at short notice, and many employees work far more than contracted, which negatively impacts social lives and finances.

Further to our analysis in last month's briefing, with a focus on affordable housing, this project also finds that low paid work and housing are interlinked: High rents in Glasgow were a significant challenge for low paid workers.

One participant said:

"Going into this new place that I'm renting, where I'm renting it on my own, I'll be paying obviously more for rent and bills on my own. So I'm definitely a little more conscious of having to kind of suss out exactly what my financial situation's going to be, and a little bit wary of it. As I've priced it out it's, it's within my price range, but I do know that I'm going to have to be pretty careful with my budgeting as well."

Other participants suggested that long waiting times for social housing had forced many to apply for private rentals: One lone parent faced hurdles, like her low sole income and the fact that she received benefits deterring landlords and agents.

To address in-work poverty, the Region must improve affordability and the supply of housing.

Source: [Serving the Future](#)





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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.

ONS: Office for National Statistics

