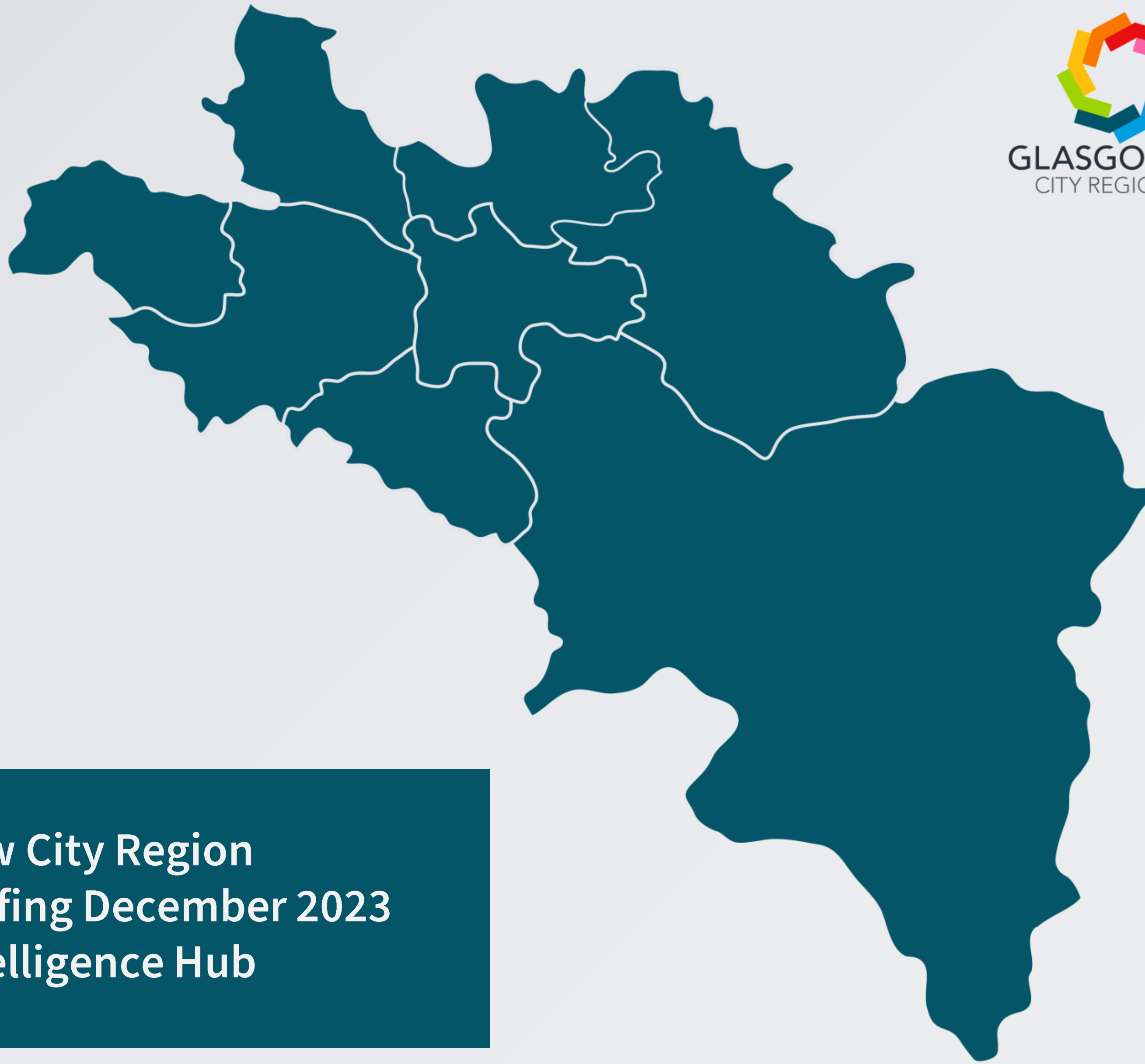

Glasgow City Region
Economic Briefing December 2023
The Intelligence Hub

Summary

Headline Inflation: inflation has fallen to 4.6%, down from 6.7% in September, but food inflation remains high at 10.1%.

Increased costs have reduced household disposable incomes: The Resolution Foundation have projected an additional 300,000 people will be pushed into absolute poverty next year as a result.

The ONS' Labour Force Survey release continues to be delayed: This has sparked concerns over the reliability of survey, as data during and after the pandemic saw response rates plummet among certain age groups.

Tax Burden: Despite the Autumn Statement's announcement of tax cuts, the UK's tax burden remains at a 70 year high. The process of fiscal drag is predicted to raise £45bn by 2029, compared to the cost of the cuts to National Insurance predicted to cost the treasury £10bn.

SPOTLIGHT ON:

This month's spotlight is on the Inclusive Growth Agenda:

A high tax burden, alongside the UK's poor outlook for economic growth seen in the UK creates a difficult fiscal policy environment.

Our analysis suggests that GCR already has among the most productive workers in tradable sectors, but Foundational Economy (FE) workers in West of England generate around 40% more GVA than in GCR.

Boosting the productivity of the foundational economy proportional to the gap seen with West of England's tradable sectors and FE (33.1%) could boost GVA generated across the Regional economy by almost 20%.

Economic policies that increase the productivity of the Foundational Economy, like encouraging technological adaptation and R&D, could not only deliver substantial economic growth for the Regional economy, but could also boost living standards for people that deliver essential services to local areas throughout GCR.

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

The Outlook for the UK Economy

According to the Office of Budgetary Responsibility (OBR), the UK economy is now expected to grow by 0.6% in 2023, up from a contraction of 0.2% predicted in March 2023.

Economic Output: The UK's total economic output looks unlikely to return to its pre-pandemic trend in the short / medium term.

- According to PwC analysis, by 2026 the UK's economic activity will be around 10% lower than where it would be if there the pandemic did not happen. The IMF has suggested the UK's poor economic outlook is in part caused by Brexit and the underperformance of UK Core City Regions.

Inflation Impacts: According to OBR forecasts, the UK economy proved more resilient to the shocks of the pandemic than anticipated. But, **high inflation is increasing the costs of services and government debt.**

- The OBR forecasts that inflation will remain higher for longer, not easing to the Bank of England's target of 2% until 2025 – a year later than forecast in March 2023.
- The Bank of England has warned that **interest rates will need to remain high** in order to bring inflation down.

GDP

Monthly real gross domestic product (GDP) is estimated to have grown by 0.2% in September 2023, following growth of 0.1% in August 2023.

Inflation

The Consumer Prices Index (CPI) rose by 4.6% in the 12 months to October 2023, down from 6.7% in September.

Pay

Annual growth in regular pay was 7.7% in July to September 2023. This is slightly down on the previous periods but is among the highest annual growth rates since 2021.

Sources: ONS GDP, ONS Inflation, ONS Pay, PwC

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Although Inflation (CPI) has Fallen to 4.6% over the Last 12 Months, Food Inflation is Still High at 10.1%

Beyond the widely covered narrative of easing inflation, estimates indicate that food inflation will likely end the year below 10%, almost 7x the rate seen before the pandemic.

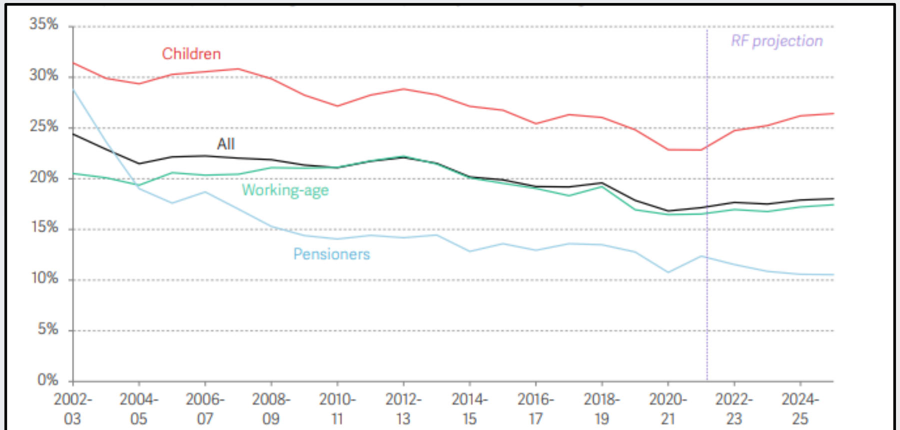
Food inflation: has **nearly halved from its peak of 19.2% in March 2023,** which was the highest annual rate seen for over 45 years.

Household Spending: But, according to the ONS, **more than 4 out of 10 adults surveyed are spending more than usual to buy food shopping.** Other surveys ran by the ONS suggest that nearly half of the respondents were buying less food.

Living Standards are Falling: Despite record breaking real wage growth, the squeeze on families' food and energy costs is causing a stagnation of disposable incomes, as suggested by the Resolution Foundation.

- The RF projects **zero real growth for the median non-pensioner household income over the next 3 years.** For the households with the lowest income, this **stagnation is projected to force an extra 300,000 people into absolute poverty next year across the UK, an overall rise of 3%.**
- Concerningly this analysis shows, that **the proportion of children living in absolute poverty is projected to rise the highest.**

Graph 1: Proportion of people living in absolute poverty, after housing costs



NOTES: Some Department for Work and Pensions poverty numbers are expected to be revised in 2024 / 2025.
SOURCE: RF analysis of DWP, Households Below Average Income, and RF projection including use of the IPPR Tax Benefit Model; ONS, Wealth and Assets Survey; ONS data; Bank of England forecasts; OBR forecasts.

Sources: [ONS](), [Resolution Foundation]()

Energy Price Cap Will Rise In January, Adding Additional Pressure On Households

Ofgem's UK energy price cap has been set to rise by 5% in January 2024, meaning that the typical annual household bill is projected to increase from £1,834 to £1,928, an increase of £94.

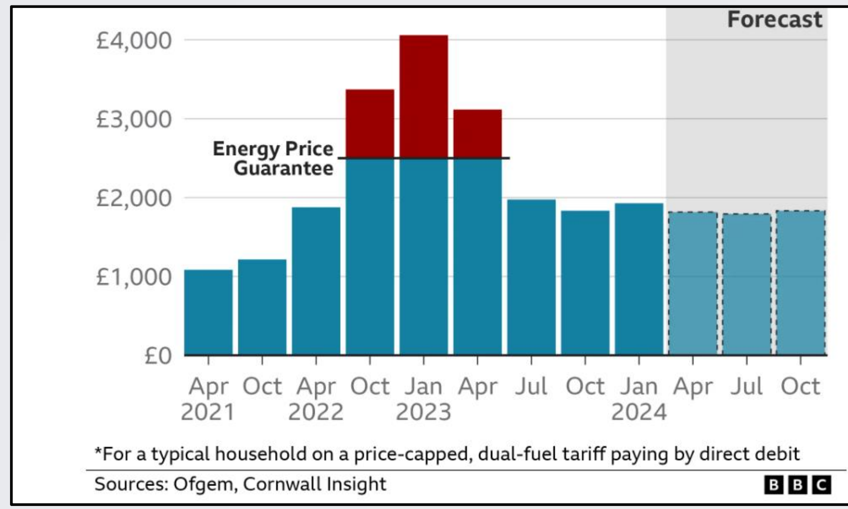
Price Cap: The £1,928 price cap set by Ofgem for January 2024 is substantially lower than £4,059 which was triggered by the initial invasion of Ukraine by Russia.

But, the price cap remains far higher than caps seen pre-pandemic, which were on average below £1,200.

- Last winter, overall energy prices were limited by the Energy Price Guarantee, which limited annual bills to £2,500, but because this has been withdrawn many more might be exposed to higher costs.
- The Energy and Climate Intelligence Unit has suggested that **unseasonal and extreme weather has, and will continue to account for one-third of all the UK's food price inflation this year.**

Household impacts: Elevated energy and living costs have reduced disposable household incomes, as recent research undertaken by the Resolution Foundation shows that **average households will be around £1,900 poorer by January 2025 than in December 2019.**

*Chart 2: Typical Household's Energy Bill**



Sources: [Resolution Foundation](), [BBC](), [FT](), [The Guardian]()

Headline Labour Market Statistics

Latest ONS data shows the trend of a labour market that is cooling, with some suggesting that indicators across sectors are returning to pre-pandemic trends after the disruption of the pandemic.

*Table 1: ONS Experimental Labour Market estimates from July to September 2023**

	Unemployment (%)	Unemployment (ppts) Quarter Change	Employment (%)	Employment (ppts) Quarter Change	Economic Inactivity (%)	Economic Inactivity (ppts) Quarter Change
Scotland	4.0	0	74.3	+0.1	22.7	0
UK	4.2	0	75.7	0	20.9	0

Source: ONS

Labour Market: The latest experimental data shows little difference to last month, with the impression that **the labour market remains stagnant**. However, positive signs come from nominal wage growth, which remains very high and growing, with falling inflation giving a slight boost to real pay growth.

Weakened Labour Demand: New data suggests that the hospitality sector is likely starting to see weakened demand, but is still continuing to experience shortages and struggling to find staff for hard to fill jobs, with vacancies historically high. **Similar trends are being seen in the construction sector, with employment falling, and wage growth weakened. The Institute for Employment Studies (IES) has suggested that this is indicative of dampened demand from consumers and businesses.**

According to the Institute for Fiscal Studies (IFS), vacancies continue to ease, but remain far above pre-pandemic levels, suggesting that the labour market is improving compared to the last few months. This might suggest that **rather than there being a slowdown of demand, there are less people moving jobs or leaving the labour market.**

*Source: Institute for Employment Studies *These estimates use an experimental dataset*

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Fiscal Background to the Autumn Statement

The Autumn Statement arrives at a time when the UK tax burden remains at a 70 year high, whilst the UK potential for growth looks poor compared to other advanced economies, like the US and the Eurozone.

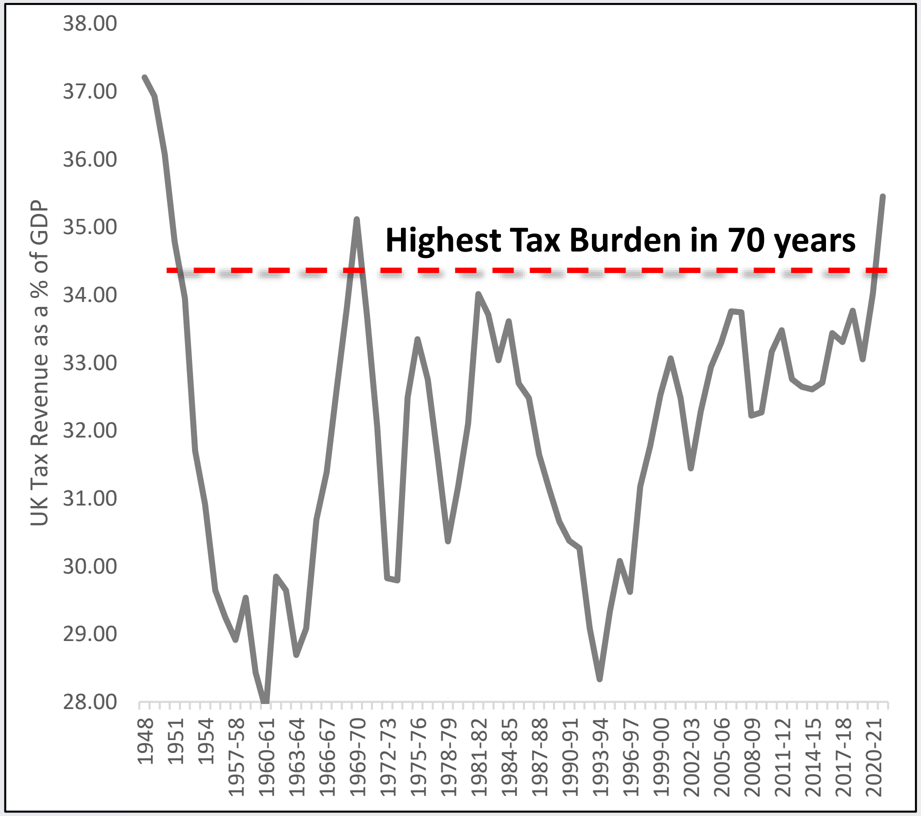
Fiscal Impacts: The high tax burden, alongside the poor economic growth seen in the UK since the financial crash, has created a difficult fiscal policy environment. Cutting taxes would impact in demand public services, whilst increasing public services would require raising taxes.

Deep-rooted Productivity Problem: The Productivity Institute have highlighted the UK's productivity puzzle, arguing that the issues are deep rooted and long standing. They argue that this has reduced the UK's potential for growth, and that sustained economic growth has the potential to not only close gaps in regional inequality but increase tax receipts for government.

Business Investment: The Resolution Foundation has also highlighted that UK business investment has stagnated since 2016, and has only grown by 4.6% compared to 32% in the US.

- **The UK economy has been impacted by unique challenges like Brexit, which has added to the uncertainty and instability caused by COVID-19, war in Ukraine and now the Middle East.**

Chart 3: UK Tax Revenue as a % of GDP



Sources: OBR, FT, Resolution Foundation

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Closing the Productivity Gap in the Foundational Economy could help Drive Inclusive Growth

The UK's weak productivity outlook has been widely reported this month, and our analysis suggests that increasing productivity in the Foundational Economy could help drive inclusive economic growth.

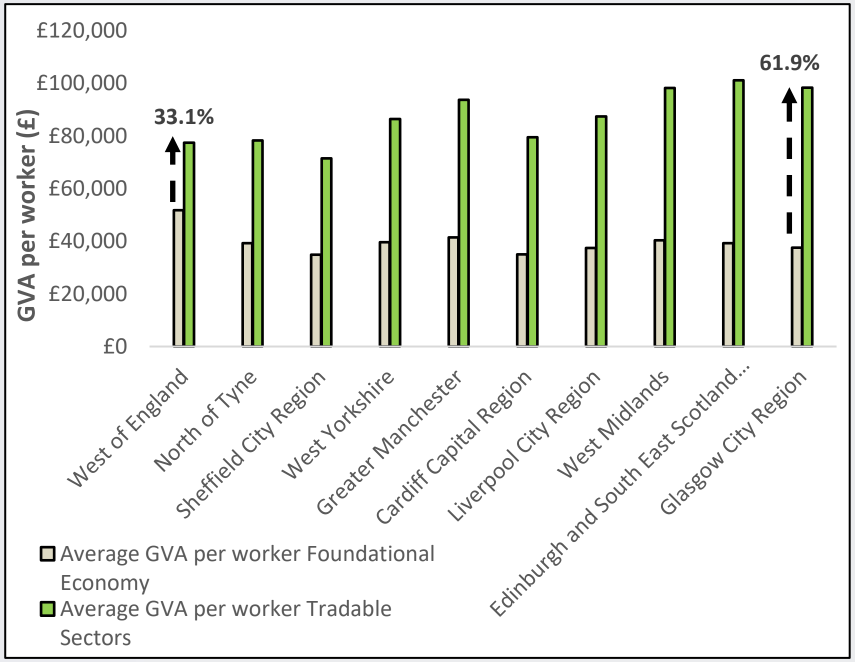
Productivity Gap: Glasgow City Region already has among the most productive workers in tradable sectors, but the Foundational Economy (FE) is typically less productive than other UK Core City Regions.

For instance, Foundational Economy workers in the West of England generate on average 40% more GVA than in GCR.

Economic Importance: Increasing the productivity of the FE proportional to the gap between West of England's tradable sectors and FE (33.1%) could increase GVA generated by the foundational economy **by around £9,500m – boosting GVA generated across the Regional economy by almost 20%.**

Inclusive Growth: The OECD argues that the UK spends more than anywhere in Europe subsiding inequality. The Foundational Economy has among the lowest pay, in areas like Hospitality and Social Care. **Economic policies that increase the productivity of the Foundational Economy can not only deliver substantial economic growth, but can also boost wages and living standards for people that deliver essential services to local areas.**

*Chart 4: Average GVA per worker and % gap in Tradable Sectors and Foundational Economy Sectors**



Sources: OECD, IPPR

**This GVA per worker Foundational Economy analysis excludes Public Admin, Education and Human Health*

Autumn Statement: Key Announcements at a Glance

In the autumn statement, Chancellor Jeremy Hunt announced cuts to National Insurance, changes to the benefits system and support for business to drive investment.

The £20bn tax relief

The main rate of employee national insurance contributions will be cut from 12% to 10% from 6 January 2024:

- It is currently 12% on earning between £12,571 and £50,271, meaning that for ***those earning the Scottish median wage will be £415 better off*** at the year end of this year.

The system of businesses being able to offset investments in IT equipment and machinery against tax will made permanent:

- According to the OBR, this will boost business investment by about 1% of UK's GDP, but at a cost of £11bn to the public purse.
- Business rate relief for small businesses in hospitality like pubs is also set to continue.

Highlighted by many like the Resolution Foundation, despite the proposed tax cuts, many lower earners are still paying relatively high amounts of income and national insurance tax from thresholds being frozen:

- This means for the average worker, the 2% reduction is negligible.
- But for the treasury, fiscal drag is predicted to raise £45bn by 2029, compared to the cost of the NI predicted to cost the treasury £10bn.

Benefits rise, but rules tighten

National Living Wage (NLW) has increased

- From April 2024, the NLW will increase to £11.44 and will be extended to 21 year olds.

Universal Credit will uprate using September's inflation

- Benefits will be increased by 6.7% from April, an increase of £470 million for 5.5 million households.

Local housing allowance

- Housing benefit will be uprated after being frozen since 2020 to cover the lowest 30% of local market rents.
- This means that someone renting among the 30% lowest priced properties in their area could cover their entire rent with housing benefit.

State Pensions honour the triple lock

- State pensions will see an increase of 8.5% from April 2024, to grow in line with the recent growth in average earnings.

Mandatory work placements

- Those claiming benefits will face compulsory work experience upon not successfully finding a job within 18 months. In addition, people who have been on benefits for six months without searching for employment could have their case closed and benefits stopped.

Sources: IFS, FAI

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 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.

Inclusive Growth: Growth that combines increased wealth with equity, creating opportunities for all and distributes the dividends of increased prosperity fairly.

***Foundational Economy*:** Sectors that provide essential goods and services necessary for the functioning of society, such as healthcare, education, food production, and utilities.

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