Glasgow City Region
Economic Briefing October 2023
Intelligence Hub

Summary

Unemployment has risen in the UK, seeing a 0.2% point gain, a sign that labour demand is weakening: High costs of doing of business, caused by high interest rates and inflation, appear to be driving down hiring.

Wage growth has overtaken inflation for the first time in two years: But, some economists think that because of weakened labour demand, high wage growth will begin to ease.

Recent research has highlighted the UK's poor productivity growth since the financial crash: UK Core City regions have large productivity gaps to London, compared to international comparators like Paris and Lyon.

The Scottish economic outlook has been downgraded by the Fraser of Allander Institute, revising their 2023 GDP growth forecast from 0.5% to 0.2%: Weak growth has fed into weak tax revenue forecasts, meaning there will also be limited fiscal headroom for the Chancellor in the autumn statement.

SPOTLIGHT

This month's spotlight is on the Productivity Puzzle.

- In 2019, economic output per hour across the UK was growing by less than half than it was before the financial crash (1990-2007).
- The Region's strong performance in productivity measures like GVA per hour worked is being hindered by poor rates of economic activity, and improving rates of enterprise could help this to boost economic output.
- Hub analysis suggests that if GCR grew its overall business base by 25%, this could increase GVA per capita to levels seen in Greater Manchester, boosting overall economic output by some £6m.
- Higher rates of business creation and enterprise is pivotal in generating local employment opportunities and can also improve the place offerings of a local area with a provision of local firms in the Foundational Economy providing essential services in childcare and local retail.

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

The Outlook for the UK Economy

While the prices of essentials like milk, cheese and eggs have all decreased, inflation remains stubbornly high in the UK.

Food and non-alcoholic drink prices fell by 0.2% on the month for the first time since September 2021: Some commentators have suggested this was caused by the competition from supermarkets driving down the price.

Despite this, the average food shop is still up by 12% compared to last year, and inflation has remained more than three times higher than the Bank of England's goal of 2%: Petrol and diesel prices have counteracted the decreases in food inflation in recent months.

High interest rates, and economic uncertainties are leading to reduced or delayed investments from business. This has resulted in the downgrading of the Fraser of Allander's economic outlook for Scotland: The recent Scottish Business Monitor has highlighted the cost pressures on business, with more than 8 out 10 seeing their costs increase in the past year, and with one in two unsure how much longer they can absorb the inflated costs.

GDP	Monthly GDP is estimated to have grown by 0.2% in August 2023, following a fall of 0.6% in July 2023.
Inflation	The UK's Consumer Price Index remained at in 6.7% in September 2023. Economists think this is due to stubbornly high fuel prices.
Pay	In June to August 2023, annual growth in regular nominal pay was 7.8%, similar to the previous 3-month period the highest growth seen on record.

Sources: ONS GDP, ONS Inflation, ONS Pay, The Guardian, The Fraser of Allander Institute (FAI)

Headline Labour Market Statistics

The most recent Labour Force Survey release by ONS was different to previous versions due to some statistical challenges. However, it showed an easing in vacancies and wage growth, indicating that the labour market is cooling.

Table 1: Labour Force Survey estimates from June to August 2023*

	Unemployment (%)	Unemployment (ppts) Quarter Change	Employment (%)	Employment (ppts) Quarter Change	Economic Inactivity (%)	Economic Inactivity (ppts) Quarter Change
Scotland	-	-	-	-	-	-
UK	**4.2%**	+0.2	**75.7%**	-0.3	**20.9%**	+0.1

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

The latest ONS data uses a different methodology compared to previous quarters, after continued low response rates to survey questions and issues with reliability: Several publications like The Resolution Foundation and the Institute for Employment Studies have highlighted that the latest data lacks detail about which groups are being affected by unemployment and sickness. The number of households surveyed has significantly dropped over the last decade from 50% to 15% in the most recent data, and this trend accelerated during the pandemic.

But the latest figures show an unchanging picture: The labour market is continuing to cool, amid the increased cost of doing business. UK unemployment jumped up by 0.2 % points, to 4.2%, with the ONS suggesting that business are less likely to hire, or reskill existing staff to meet demand.

Neil Carberry, chief executive of the Recruitment and Employment Confederation has said that the labour market is still normalising after the post-pandemic boom: He suggests that demand across sectors differs widely, and many workers are finding themselves transitioning to other areas, and this transition is a primary driver of rising unemployment.

*Source: Institute for Employment Studies, BBC *Scotland level estimates were not released*

Wages Overtake Inflation for the First Time in Two Years

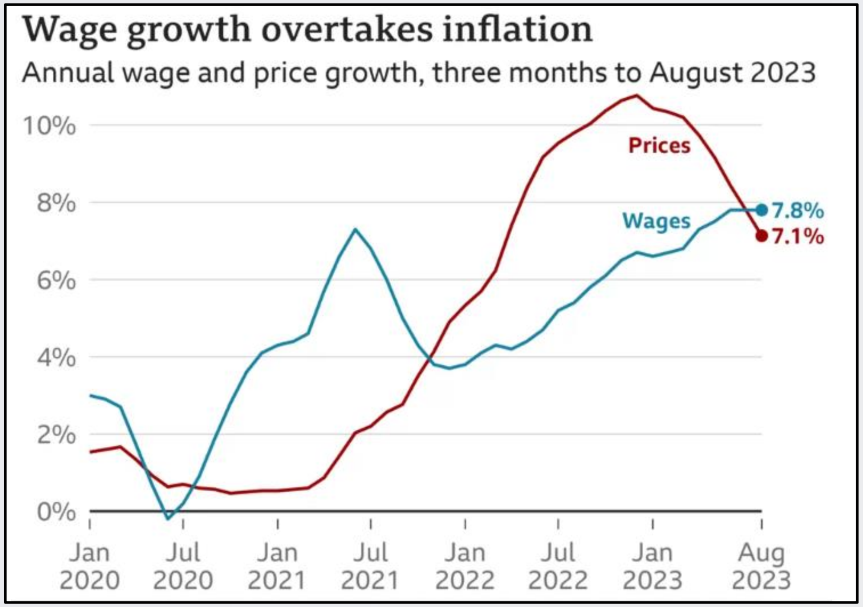
With pay growth rising above inflation, there are signs that the squeeze on living costs may start to ease for some.

Despite historically high public pay growth in June and August 2023, there is a large gap between public and private pay growth: According to the ONS, public sector workers saw a 6.8% annual increase (the biggest increase since records began in 2001), while private sector saw a 8% annual increase.

Economists think that wage growth is starting to ease, in part due to cooling labour demand: Across the UK, the number of job vacancies fell by 43,000 between July and September. This is still 187,000 higher than levels in seen in January to March 2020 prior to the COVID pandemic's impact on the economy.

The construction sector saw the lowest wage growth among other sectors, with the BBC's research showing that demand in construction has fallen: Other pressures have come from commitments to pay the living wage (an increase to £11 an hour from next April), with fears of redundancy.

Graph 1: Annual wage and price growth



Sources: BBC, ONS

The UK's Productivity* Woes – GVA per hour Worked

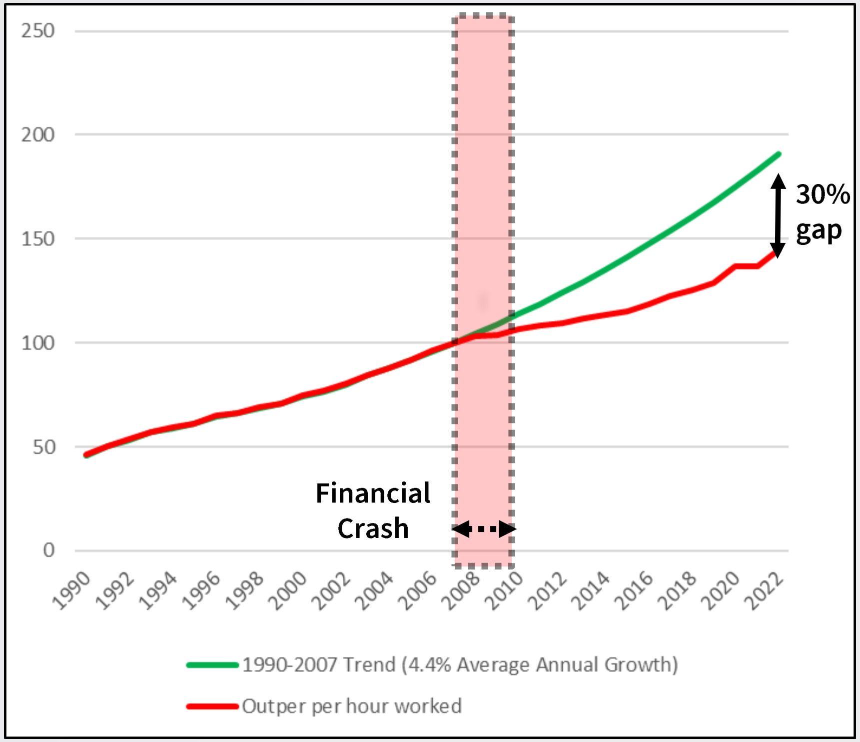
Recent attention has been given to the UK's productivity growth, with average growth reducing from 4.4% between 1990-2007 to 2.5% after 2007.

Leading up to the pandemic, output per hour across the UK grew less than half than it had in the years leading up the financial crisis: This meant by the end of 2022, output per hour was 30% lower than it would have reached if it continued on the pre-2007 trend.

Although this trend was observed across developed economies, economists think that this is being felt acutely in the UK – stemming from the uncertainties of Brexit on investment and supply of labour: For instance, limits on migration impacted the supply of truck drivers, which has negatively impacted productivity across the economy in recent years.

Other economists have suggested that poor management and soft skills like leadership have negatively impacted productivity: Researchers like Professor John van Reenen have drawn attention to UK firms lagging behind counterparts in good management practices in the US and Germany. Good management is not only good for employees, but often leads to greater levels of technology adoption, leading to benefits for the wider economy's productivity.

Graph 2: Normalised output per hour worked in the UK, 2007=100



**A productivity glossary is provided at the end*

Sources: ONS

ECONOMY OUTLOOK

WAGE GROWTH BEATS INFLATION

THE PRODUCTIVITY PUZZLE

Glasgow City Region's Productivity Trends – GVA per Capita

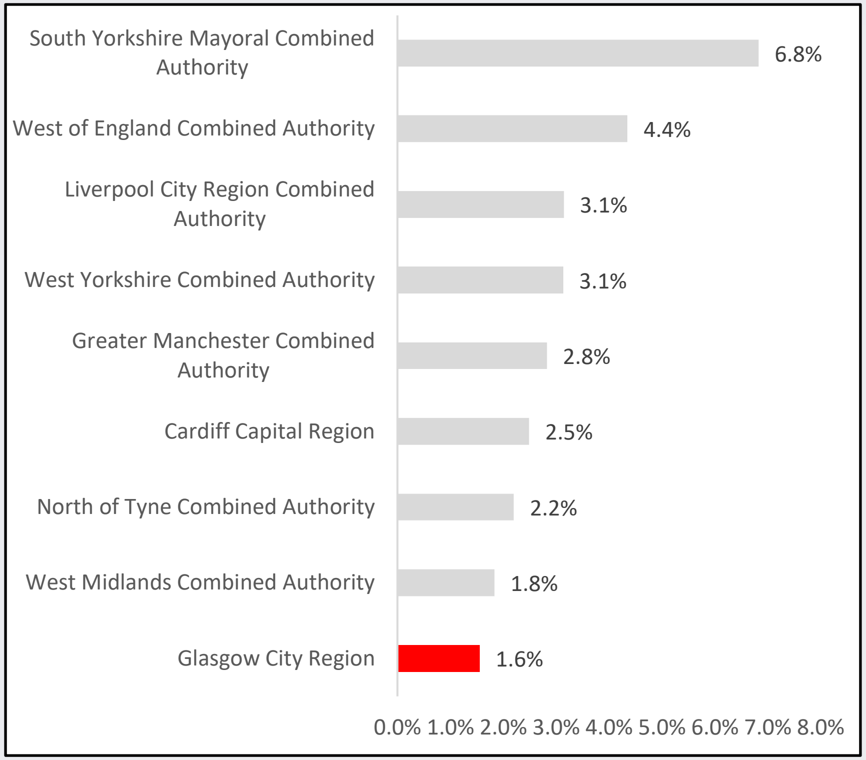
Despite GCR having strong productivity measures, GVA per capita can help identify regional disparities in productivity, and GCR has seen the lowest growth post-pandemic among its peers.

GVA per capita provides a different way to assess productivity and gives an indication of the average standard of living or economic well-being of the population in an area: Glasgow City Region performs well in other metrics like GVA per hour worked, and since the financial crash (2007) the Region has seen the highest growth among UK Core City Regions (44%).

Despite this, since 2019 the Region has seen the lowest growth in GVA per capita compared to other UK Core City Regions, like West Yorkshire and West of England: Poor growth since the start of the pandemic in GVA per capita gives an indication that the Region's comparably strong productivity is not being seen by everyone.

GVA per capita shows us that although the Region has comparably strong productivity, economic potential could be lost from reduced participation in the labour market since the pandemic: For instance, GCR saw among the highest % increases in economic inactivity due to long term sickness (21.4% increase) compared to other UK Core City Regions since 2019.

Graph 3: GVA (£) per capita among UK City Regions post pandemic recovery (2019-2021)



Source: [ONS]

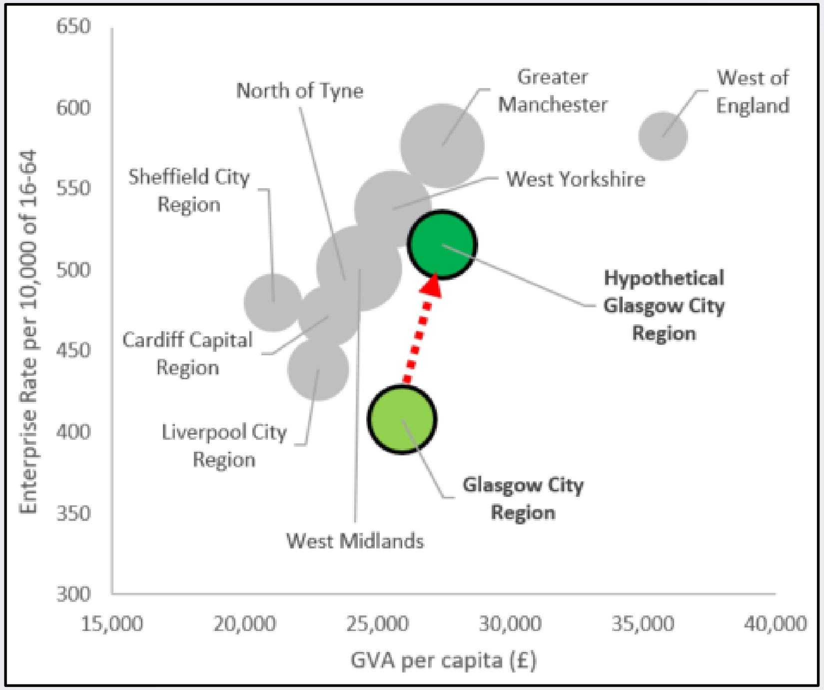
Improving Rates Of Business Creation Could Grow GVA per Capita and Boost Economic Output in Glasgow City Region

A 25% boost to the business base could increase GVA per capita, in turn boosting Regional economic output by almost £6m.

The Region has the second highest rate of GVA per hour worked within UK core city regions. But its total GVA could be higher with a rise in the number of firms* operating in the Region.

- **Improving rates of business creation could help address low rates of economic activity – thereby improving overall output:** For instance, supporting SME creation is pivotal in generating local employment opportunities for people to join the labour market in local areas.
- **Supporting business creation can also increase competition, forcing existing businesses to become more efficient and invest in R&D:** The Region has one of the UK's most productive and skilled workforces. Improved business creation would use existing Regional strengths to support innovation across sectors.
- **Similarly, increased rates of enterprise is important to a thriving Foundational Economy:** Firms in the Foundational economy, which offer essential services like childcare and local retail, improves the quality of life and place offering in a local area. And thereby attracting more firms to the area

Chart 4: How boosting GCR's poor enterprise rate could increase productivity per capita



Bubble size indicates total population
Source: Resolution Foundation, Centre for Cities, McKinsey & Co

*(*The Hub is currently undertaking a more in depth analysis of the Region's business base and its implications on productivity – results of his will be shared upon completion)*

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Productivity Glossary

The choice between productivity metrics depends on the specific analysis or policy question we seek to address:

GVA per capita: Gross Value Added (GVA) per capita is a measure that calculates the total economic output or value generated divided by the total population of an area.

- **Assessing Living Standards:** It provides a way to assess the average standard of living or economic well-being of the population in those areas. Higher GVA per capita suggests a higher average income and a potentially better quality of life for residents.
- **Regional disparities:** GVA per capita can also help identify regional disparities. It highlights differences in economic development and can be a useful tool for policymakers to target areas in need of economic support.

GVA per hour worked: Gross Value Added (GVA) per hour worked is a measure that assesses the economic output or value generated per hour.

- **Productivity Analysis:** GVA per hour worked allows for the evaluation of how efficiently resources are utilised. Higher GVA per hour worked indicates that each hour of labour contributes more value, which can be a sign of greater efficiency and productivity.
- **Comparing Labour Productivity:** It's useful for comparing labor productivity across different time periods, industries, or regions. For example, you can use GVA per hour worked to assess whether a specific industry is becoming more or less efficient over time.

GVA per worker: Gross Value Added (GVA) per worker is a measure that assesses the economic output or value generated per worker. It calculates the contribution of each worker to the overall economic output.

- **Labour Market Analysis:** GVA per worker is useful for labour market analysis. It provides insights into the economic contribution of each worker in terms of GVA. This can be important for understanding employment trends and how labour is contributing to economic growth.
- **Workforce Composition:** GVA per worker can help in understanding the impact of workforce composition on economic output.

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.

Enterprise Rate: Number of businesses per 10,000 of the working age population (16-64).