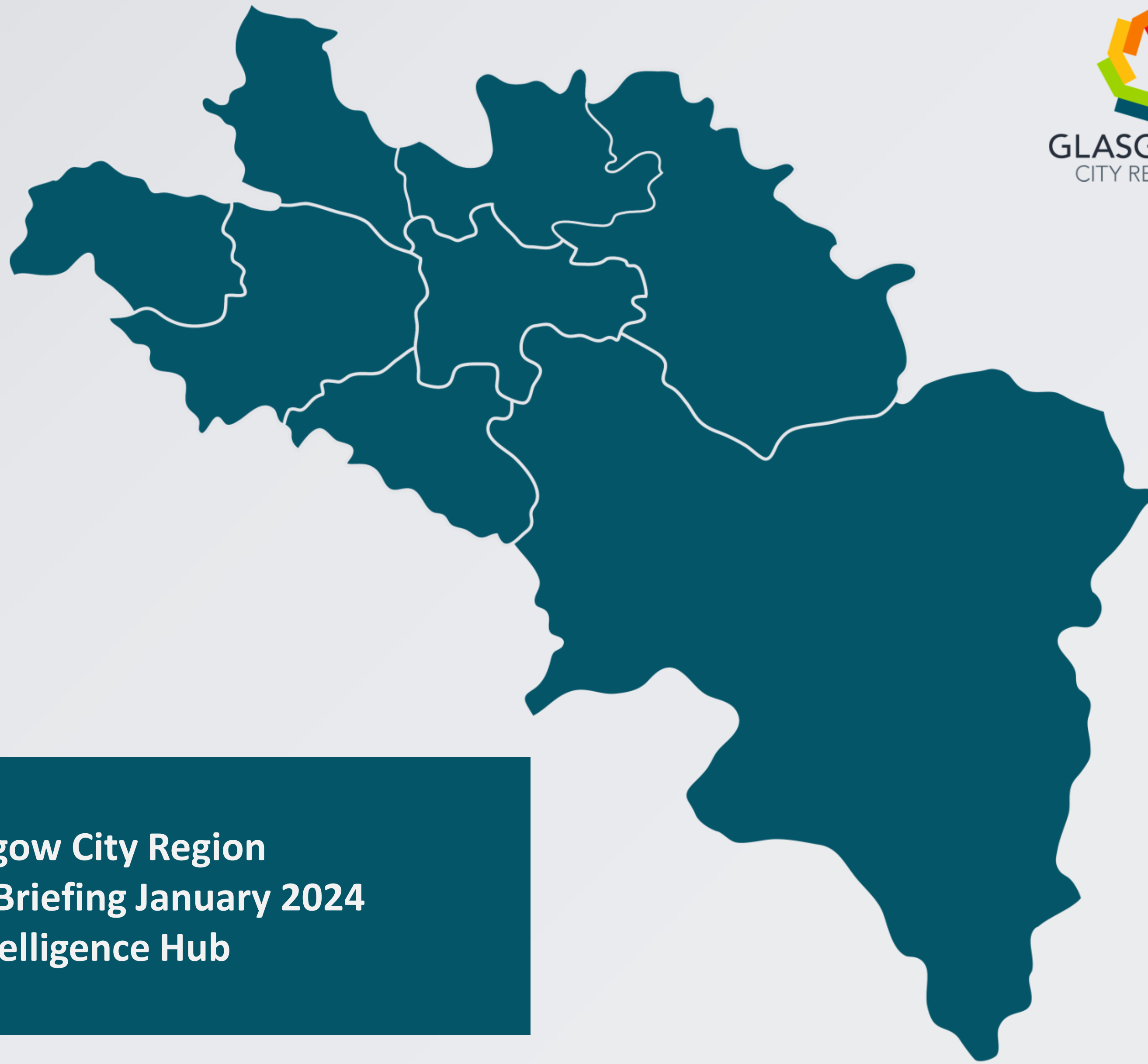


# Glasgow City Region
# Economic Briefing January 2024
# Intelligence Hub

# Summary

**Moving into 2024, here are some of some trends that will likely impact the UK and Regional economy:**

**Persistent Inflation:** Headline inflation has fallen by more than 10% from January 2023 to 4% in December 2023. This means that the prices facing shoppers are increasing at a slower rate.

While this is good news, there are concerns that inflation could remain historically high amid geopolitical tensions and the UK's tight labour market as a result of Brexit, particularly in the transport and hospitality sectors.

**High Interest:** In an effort to control high inflation, the Bank of England has set a high base rate to control spending. But by doing so, this has negatively impacted consumer spending yielding stagnant growth in 2023, and this is forecast to continue into 2024.

**Consumer Confidence:** Spend appeared weakened over the Christmas period and economic growth is low and stagnant, prompting many to forecast a recession next year.

**Growths in Unemployment:** Weak economic growth has led to fewer job openings being created in recent months, with the OBR forecasting that unemployment may rise to 4.6% of the UK labour force, from 4.2%.

**According to OBR forecasts, this could mean 3,000 additional people not in work within GCR by 2025.**

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

# Economic Outlook for the UK in 2024

**Although the UK economy shrank in Q3 2023, new data gives signs of optimism that the UK economy will avoid a recession, with an estimated 0.3% of growth in November 2023.**

**Economic Output:** Despite the surprise growth in November, the UK Economy shrunk in the third quarter of the last year, still putting it on the cusp of a technical recession.

- Projections from the Bank of England (BoE) suggest that there will be near-zero growth in 2024.
- Other forecasters are more optimistic than the BoE and expect the economy to grow by about half a per cent in the last quarter of 2023 and in 2024.

**Inflation:** Despite inflation recently increasing to 4%, the headline rate has fallen faster than expected in 2023 and food inflation is at a much lower rate than it was last year.

**Investment:** There's been a bigger focus on capital investment in the Autumn statement and businesses are spending again. Investment has now jumped above levels seen before the Brexit referendum.

**Interest rates:** There are growing expectations that the Bank of England will cut the base rate to as low as 4.25% by the end of 2024, down from its current high of 5.25%.

**GDP**

**UK gross domestic product (GDP) is estimated to have grown by 0.3% in November 2023, after a fall of 0.3% in October 2023.**

**Inflation**

**The Consumer Prices Index (CPI) in December rose to 4%, Although this is the first time the rate has increased since February 2023, this still means that inflation has reduced by 10% since January 2023.**

**Pay**

**Annual growth in regular pay was 6.6% in September to November 2023, down from the summer peak of 8.5%, and 7.2% in the three months to October.**

*Sources: ONS GDP, ONS Inflation, ONS Pay, Financial Times, The Guardian*

# The Outlook for the Scottish Economy

**GDP forecasts for Scotland are more pessimistic than the UK, alongside other issues like poor business conditions and constrained public spending. Together, this might mean a more challenging macro-economic outlook than the rest of the UK.**

**Weakness in Demand**: In 2023, inflation and reductions in demand played a significant role in shaping the Scottish Economy.

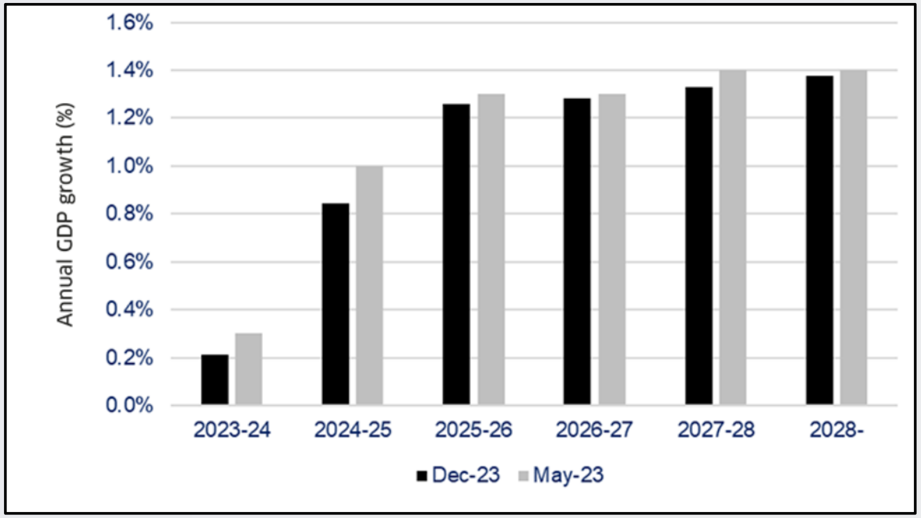
Accommodation and Food, and Whole and Retail remain below their pre-pandemic output in February 2020, reflecting the impact of the pandemic and successive shocks like the Cost of Living crisis.

**As a result, the Scottish Financial Commission (SFC) revised their short term forecasts from 1% of real GDP growth to 0.8%**

**Business Conditions:** A Scottish Business Monitor (SBM) report highlighted that due to uncertainty, half of firms have cancelled or delayed investments in the past 12 months, higher than the 2 in 5 firms last quarter.

**Public Services:** Reductions in economic growth in Scotland will likely mean shortfalls in public budgets. **For example, from the Scottish Budget in December, local government capital grants will be £150m lower next year compared with their 2023-24 budget – a 21% cut in real terms.**

*Scottish Financial Commission Real GDP % Growth Forecasts*




*Source: Scottish Government, FoA*

ECONOMY OUTLOOK

TRENDS IN STANDARDS OF LIVING

HOUSING CRISIS

# Labour Market

**The Office for Budget Responsibility (OBR) has forecasted that unemployment is set to rise due to weakened economic activity and higher borrowing costs, negatively affecting businesses' hiring intentions.**

**Unemployment is expected to rise:** Weak activity and higher borrowing costs are expected to weigh heavily on employers' hiring intentions in 2024, with forecasters anticipating a rise in unemployment over the course of the year.

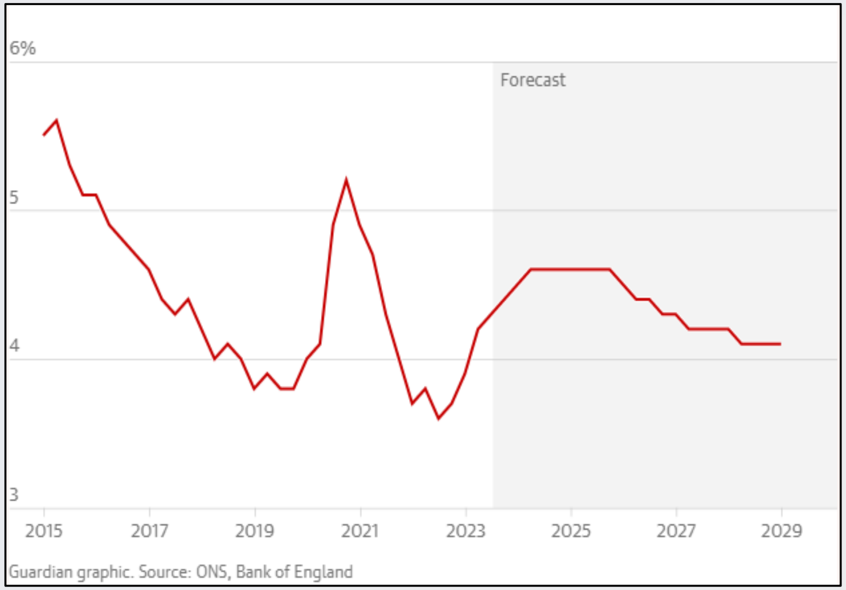
The Office for Budgetary Responsibility (OBR) forecasts unemployment will rise in 2024 and will be at 4.6% in 2025 (up from 4.2%).

**GCR Impacts:** For the Region, this means that unemployment could rise **to 3.5% up from 3.1%, or an increase of approximately 3,000 residents by 2025.**

**Future trends:** But the CIPD stresses that creating good jobs should be the priority:

*"Though 2024 could bring respite to employers struggling to recruit…Creating quality jobs that enable people to balance competing priorities is key."* [Source: CIPD]

*Unemployment rate, November 2023 forecast*




*Source: [The Guardian]*

ECONOMY OUTLOOK

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# Declining Living Standards in 2024

**Although 2024 is likely to see some easing of cost pressures for food and energy, others factors such as housing costs and are becoming central to the cost of living crisis. Both the OBR and the Resolution Foundation expects that disposable incomes will see no growth in 2024-2025.**

Food and energy costs are easing, but different factors will drive changes in living standards including:

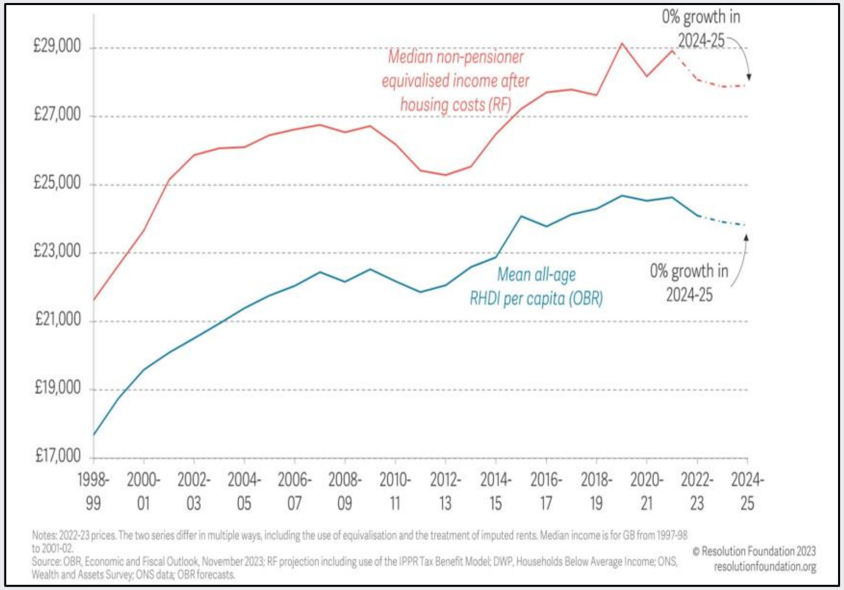
**Real pay has returned.** Although real earnings are expected to grow by 1% over 2024, income for poorest households will fall. This is mainly attributed to the end of cost of living support and changes in the benefits system.

**The impact of high interest rates.** Rising interest rates have boosted disposable incomes in 2023. Households don’t have as much debt as they used to, and higher incomes for savers have arrived quicker than higher costs for borrowers.

**Zero growth for disposable incomes.** As the chart shows, on two different measures, projected disposable income growth is zero for 2024-2025.

**Future trends of living standards:** In Scotland, the SFC has forecast that falling living standards impacting many households will not return to pre-pandemic levels until 2026-27

*Real median/mean households disposable income (RHDI): GB/UK*




*Source: Resolution Foundation*

# Increased Rental Costs

## In December 2023, the average renter across the UK experienced a 10.2% year-on-year increase amid many landlords selling and demand surging for rentals

**High prices:** Although high interest rates have forced down UK house prices, the average house is still around £40,000 higher than it was before the pandemic.

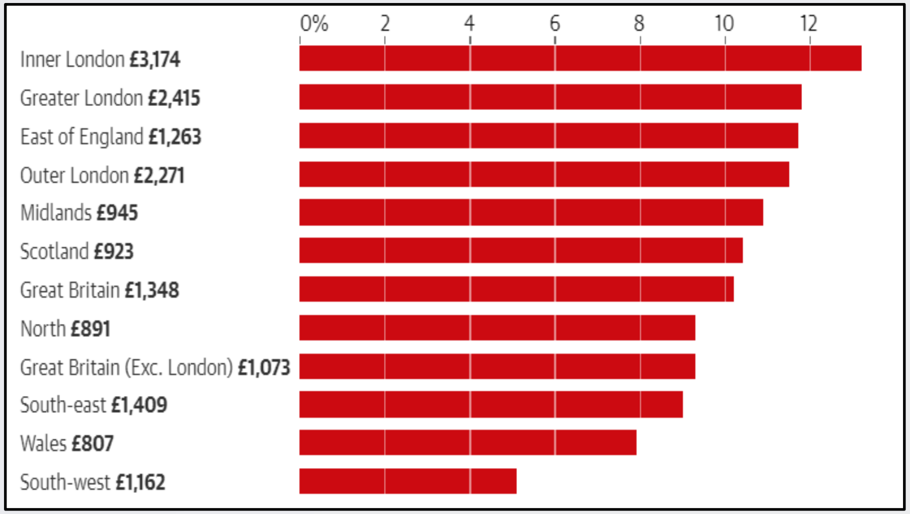
**Greater demand for rentals:** According to experts, high rates and historically high prices are meaning that more people are renting for longer, rather than buying.

**Reduction in housing stock:** 2023 saw many buy-to-let landlords selling, predominately in Scotland.

Across Scotland, the estate agents Hamptons said that Landlords made up 12% of all sellers in Scotland in 2023 up from 10% the previous year.

Landlords and experts say that tighter regulations from government from rent caps have pushed landlord investments down.

*Year-on-year percentage change and average monthly rent*




*Source: The Guardian*

# 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).

***Real Household Disposable Income:*** Real disposable income is a measure of the purchasing power of a household or individual, taking into account the effect of inflation. It is calculated by subtracting taxes and other mandatory payments from a household's disposable income, and then adjusting for inflation.

***Technical Recession:*** The most common definition of recession used is a 'technical recession' which mean that there have been two consecutive financial quarters of negative growth in real GDP.

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