

**Glasgow City Region
Economic Briefing February 2024
Intelligence Hub**



Summary

Economic Outlook:

Despite falling into a technical recession in the last quarter of 2023, the UK's economy narrowly avoided a contraction over the year. There was marginal growth, contrasting with the US and the Eurozone's stronger performance. However, UK wage and job market resilience hints at recovery later into 2024.

Cost of Living:

Food inflation has dropped for the first time since 2021 but was offset by higher energy costs. Because of this, and other factors, UK inflation remains above comparators like that of the Eurozone and US.

Housing and Productivity:

Steep housing costs impact lower-income families and business dynamism. Economies with economic specialisation appear to suffer greater impacts from housing price shifts, suggesting that economic diversification into knowledge sectors could buffer against housing market instability's negative productivity effects.

Post-Pandemic Labour Market:

The UK labour market has an educated, yet underused workforce, with historically high levels of economic inactivity.

The Region experienced a notable increase in the number of people classified as economically inactive due to ill health following the pandemic. **To close the gap to Scotland, GCR would need to reduce its level by around 8,800 people.**

Sectors like nursing and IT are experiencing a severe shortage of workers across the UK. Employers, in turn, are increasing wages to attract and keep employees. Since the onset of the pandemic, wages have indeed shown a more pronounced inflationary dynamic, with wages trying to catch up with prices.

Simultaneously, the UK's growing graduate numbers may exceed business needs, with weak demand for valuable skills eroding graduate wage premiums. **Around the UK, one-third of graduates are working in jobs that do not require a degree.**



Economic Outlook

The UK entered a recession in 2023 as output fell in two consecutive quarters. Inflation held steady at 4%, double the Bank of England's goal. Historically high wage growth is prompting fears of sticky inflation.

Stagnating Economy:

- Despite the economy contracting in Q4 of 2023, looking across the entire year, the UK economy saw marginal growth of 0.1%.
- But compared with 2.5% growth experienced in the US, the UK's growth is weak, and witnessed its worst performance since the financial crash.
- Also, considering increases in the UK's population during this time, output per head fell by some 0.7% in 2023 at the fastest rate since 2022.
- But economists think that the recession is shallow and may have already ended because the UK job market and wage growth remains strong.

Cost of Living: Food and non-alcoholic beverage inflation has reduced to 7%. This is the lowest annual rate since April 2022, and the first reduction since 2021.

- Grant Fitzner, ONS chief economist, highlighted that this reduction was counteracted by the increase of energy bills, likely impacted by the rise of the energy price cap.
- The UK's inflation remains an outlier, and higher than both the Eurozone (2.9% to December) and the US (3.1% to January).

GDP

UK GDP fell by 0.3% in the final quarter of 2023, following a 0.1% decline in the third quarter. This means that the UK fell into a technical recession in 2023.

Inflation

The UK's Consumer Price Index (CPI) held steady in January at 4%, performing better than the Bank of England's estimate of 4.1%. But is still double than the Bank of England's goal of 2%

Pay

Annual growth in regular pay was 6.2% in October to December 2023, down from 6.6% in September to November.

Sources: [ONS GDP](#), [ONS Inflation](#), [ONS Pay](#), [BBC](#), [FT](#)

The Relationship Between Housing Costs and Productivity

New analysis from the Economics Observatory suggests that the recent slowdown in labour productivity may be explained by high housing costs.

Housing Costs:

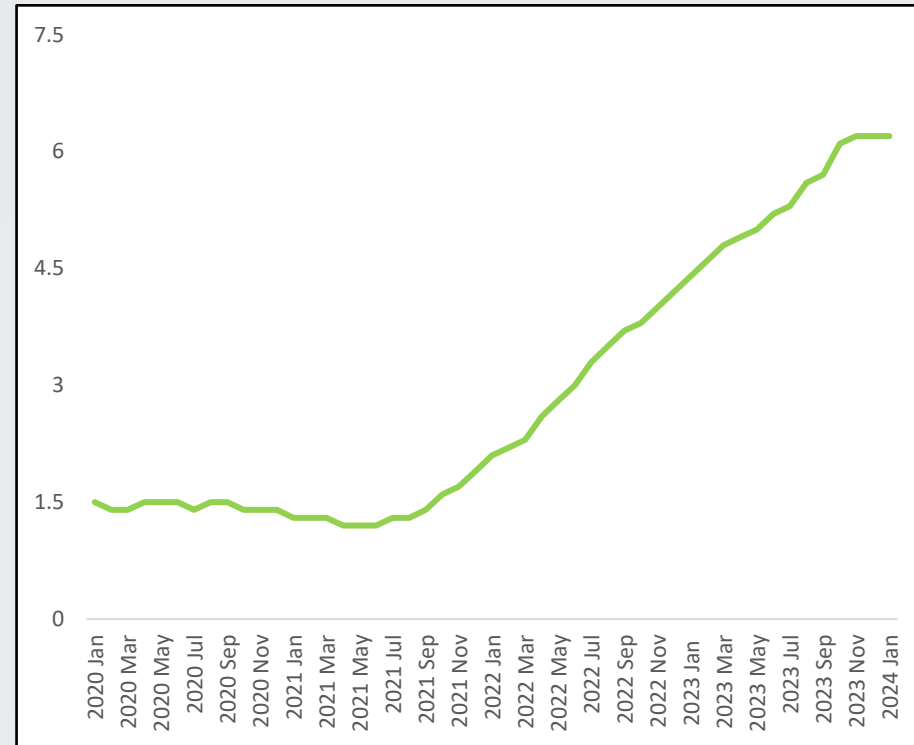
In January, tenants in the UK paid 6.2% more in rent than they did a year ago, the highest rate since records began, increasing steadily since 2021.

The role of economic complexity: Recent research suggests that more complex economies, which have a wide range of specialised industries, are less affected by rising house prices.

Impacts of Demand: Housing prices typically rise rapidly due to high demand and speculative investment. In these situations, this can outpace the growth of the general economy. In turn, this leads to large amounts of capital being invested in housing rather than in other productive sectors, reducing overall productivity as resources are concentrated in less productive areas

This means that in Glasgow City Region, developing a more complex and diversified economy could potentially shield against the adverse effects of rising housing prices, as there will be demand for capital from other sectors.

UK 12 Months Rental Growth Rate (%)



Sources: [Economics Observatory](#), [ONS](#)

Headline Labour Market Statistics

The latest data shows that despite employment rising, people who are economically inactive due to long term sickness hit 2.8 million at the end of 2023 across the UK – rising by more than 200,000 in the last year.

*Table 1: ONS Experimental Labour Market estimates from October to December 2023**

	Unemployment (%)	Unemployment (ppts) Quarter Change	Employment (%)	Employment (ppts) Quarter Change	Economic Inactivity (%)	Economic Inactivity (ppts) Quarter Change
Scotland	4.5	0.1	74.4	0.6	22.0	-0.8
UK	3.8	-0.2	75.0	0.2	21.9	0.0

Source: [ONS](#)

Vacancies Remain High: Although vacancies have started to fall from their peak, they remain far above pre-pandemic levels at around 932,000 and the pace of reduction has slowed to the smallest fall since May to July 2022.

Earnings Growth: Similarly with vacancies, earnings growth is reducing but at a slower rate, and are still higher than predicted by the Bank of England and experts. Regular pay growth was 6.2% higher in the three months to December, higher than the Bank of England's forecast of 6%. As wage growth plays an important part of inflation, this will likely have consequences on discussions for cutting interest rates.

Impact on Hard-to-Fill Vacancies: Particularly, as shown by CIPD, hard-to-fill vacancies remain prevalent across the economy and were reported by around one-third of business, and are more common in the public sector, in areas like Education and Healthcare.

The latest data suggests that the absence of some 200,000 workers, from last year alone, across the UK may be causing the labour market to remain tight and as the Institute for Employment Studies has argued, holding back growth and recovery.

Source: [Institute for Employment Studies](#) *These estimates use an experimental dataset

Economic Inactivity Due to Long Term Sickness

The number of people economically inactive due to ill health has reached 2.8 million across the UK, and although GCR has experienced a reduction, there is still a gap of around 8,800 people to Scotland.

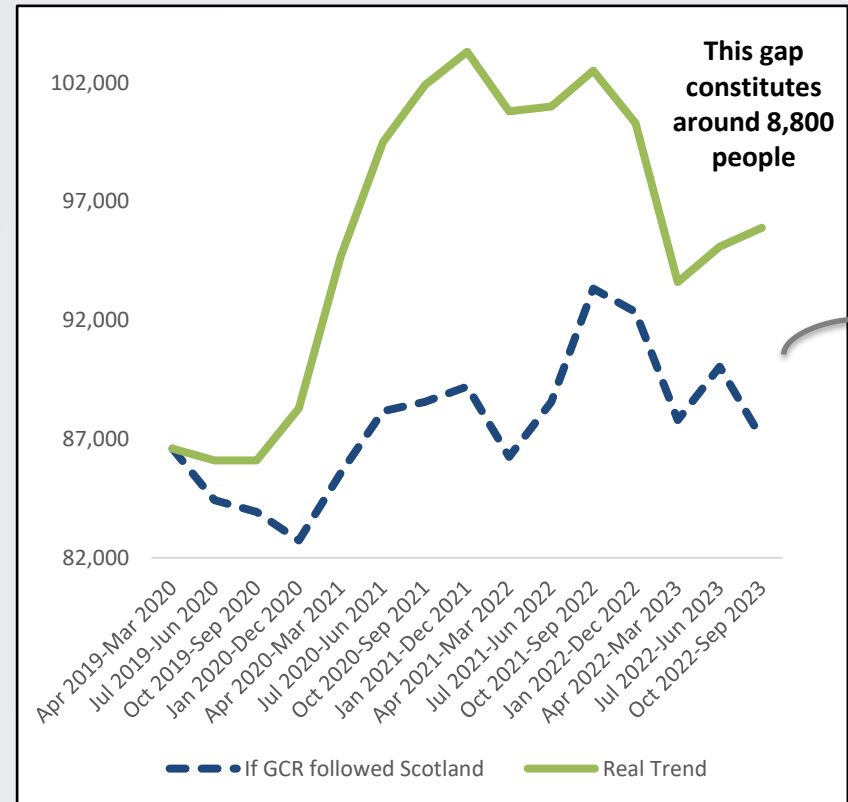
Why it is important: Economic inactivity represents untapped potential. By addressing the root causes of economic inactivity, local governments can enhance productivity and stimulate economic dynamism.

Long Term Trends: But this has been a long-standing issue for the Region and was likely exacerbated by the COVID-19 pandemic.

- In 2022 there were around 17,700 more people classified as economically inactive due to ill health than before the pandemic in GCR.
- To close the gap to Scotland, GCR needs to get around 8,800 people out inactivity due to ill health.

Wage Growth and Inflation: It can also lead to labour shortages in certain sectors. Employers may respond to these shortages by raising wages to attract and retain workers. Businesses often pass these higher costs onto consumers in the form of higher prices, contributing to inflation.

The Number of People Economic Inactive Due to Long Term Sickness



Sources: [The Guardian](#), Annual Population Survey, [IPPO](#)

High Wage Growth Might Keep Inflation High in the UK

With wage growth remaining higher than expected, there are concerns that the UK is on the edge of a wage-price spiral which might keep inflation high.

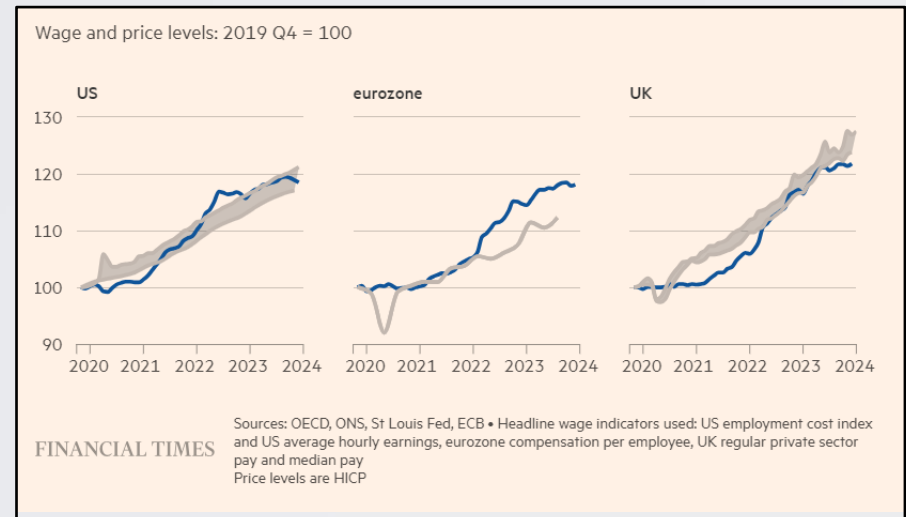
Why wage growth is important: Across the UK, the Eurozone and the US, wages account for around 60% of GDP. This means that rapid increases to wages, have a large economic impact.

Inflationary dynamic: The chart opposite illustrates how wages have reacted to price increase since the start of the pandemic. The UK economy, more than comparators, has seen a higher inflationary dynamic of wages chasing prices since 2020.

How increasing productivity can help this: From OECD analysis, GDP per employee between the US and UK shows that the US enjoyed sustained growth over the pandemic period, while the UK saw marginal growth.

This suggests an economy enjoying gains in productivity can sustain wage growth, without generating inflation – explaining the difference between the UK and the US in the graph opposite.

Wage and Price Levels 2019 Q4=100



Wages Prices

Sources: [FT](#), [UNECE](#)

Graduate Wage Premiums have Reduced in the UK

Graduate Wages tend to be larger than non-graduates, but this effect is weakening in the UK, with premiums paid to those with degrees have been falling everywhere outside of London

More Graduates: The share of the UK's workforce with a degree has increased substantially over the last 20 years.

- Over the last 10 years, GCR has seen the number of working-age people with a degree increased by almost 30%, or 126,000 people.

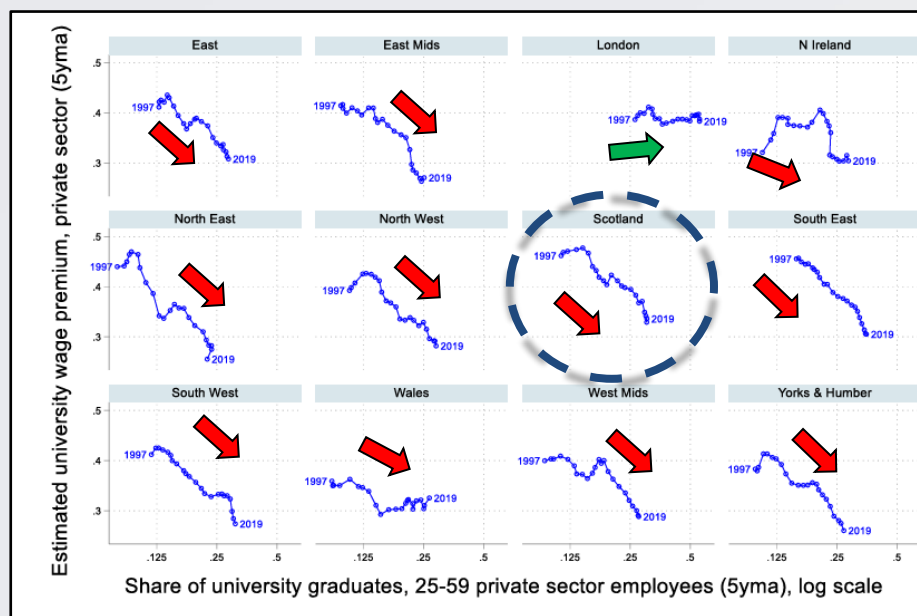
Weakening Graduate Wage Premia from Oversupply:

The Resolution Foundation shows that weekly pay of graduates aged 21–40 fell by 9% between 2007 and 2021. Over the same period pay for non-graduates of the same age only fell by 2%.

- The US median graduate hourly earnings were \$36, 40% more than the \$26 earned by British graduates. A gap that has widened significantly in the last 15 years.

Business Demand: The UK has a smaller number of high-productivity sectors and enterprises than the US, which might mean there is less demand for these graduate jobs. But there are severe undersupply of workers in areas like nursing and IT, suggesting that the growth of the graduate population has exceeded demand without meeting requirement in the UK.

University Wage Premia Across UK Regions 1997-2019



Sources: [Economics Observatory](#), [Harvard University](#), [Annual Population Survey](#), [FT](#)

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.

Economic Inactivity: People who are not in the workforce are classified as economically inactive and have not been seeking work for the last four weeks and cannot start in the next two weeks.

Graduate Wage Premia: Graduate wage premium refers to the extra amount of money that people who have a college or university degree earn compared to those who don't have such degrees. Essentially, it's the financial advantage of having higher education.





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