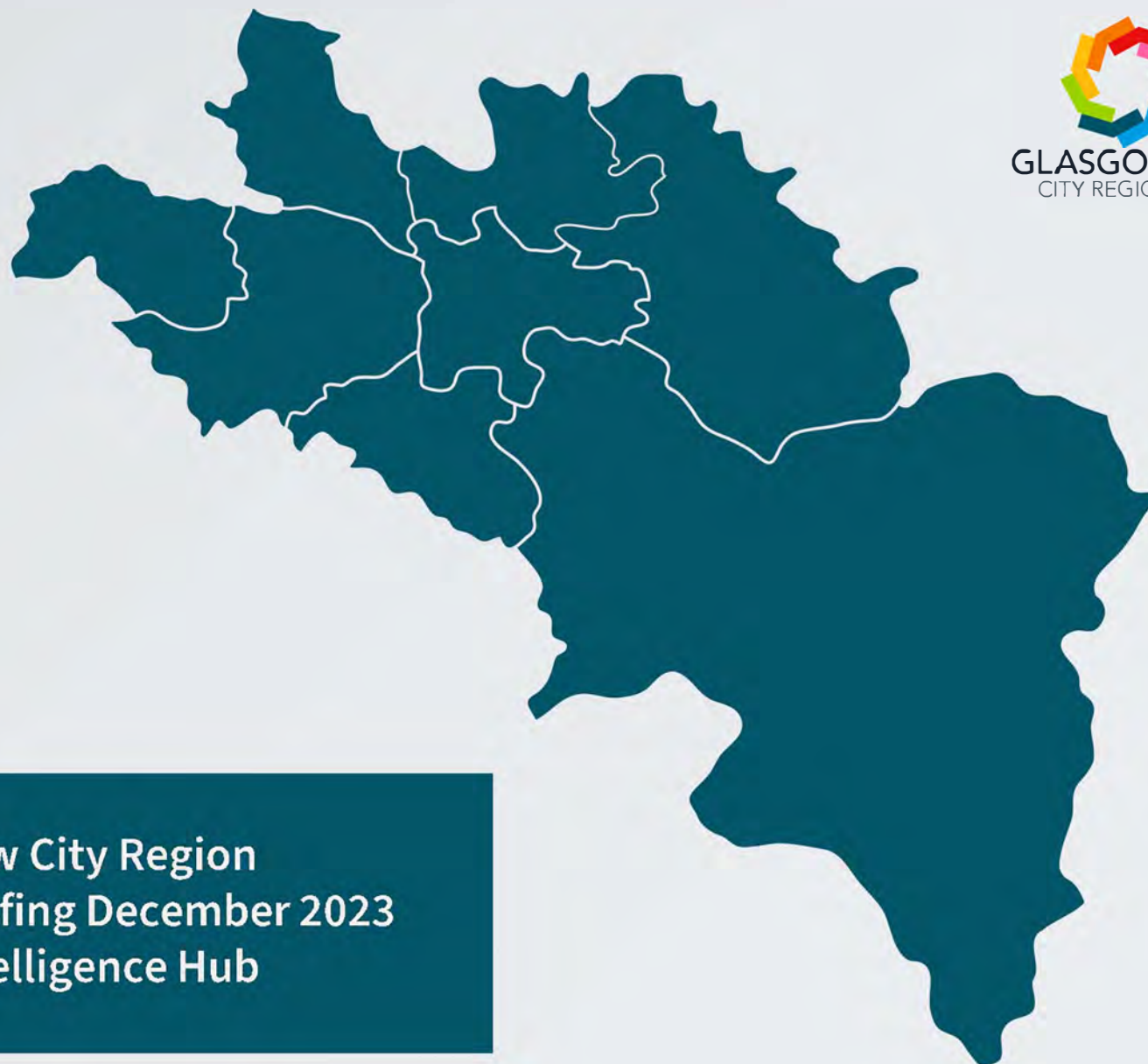




Glasgow City Region
Economic Briefing December 2023
The Intelligence Hub



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](#)



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.

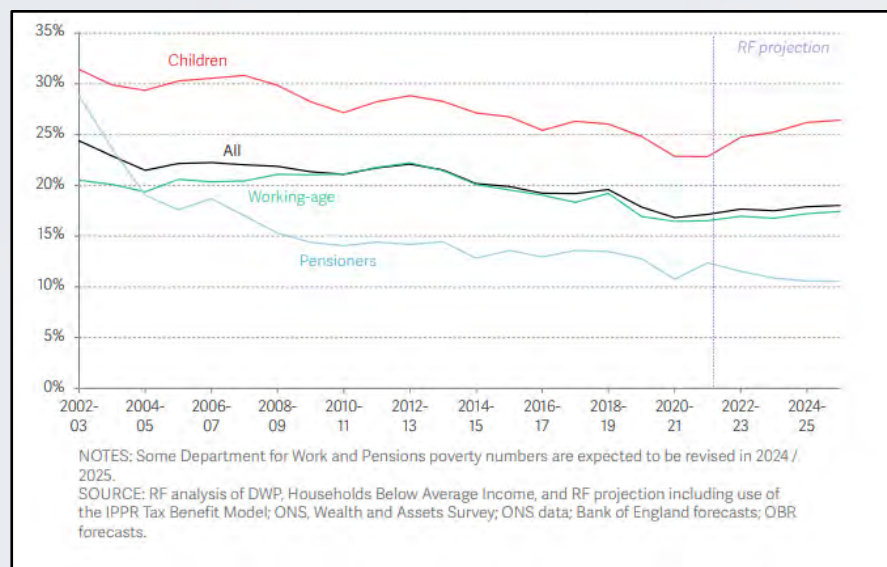
Food inflation: has nearly halved from its peak of 19.2% in March 2023, which was the highest annual rate seen for over 45 years.

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



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.

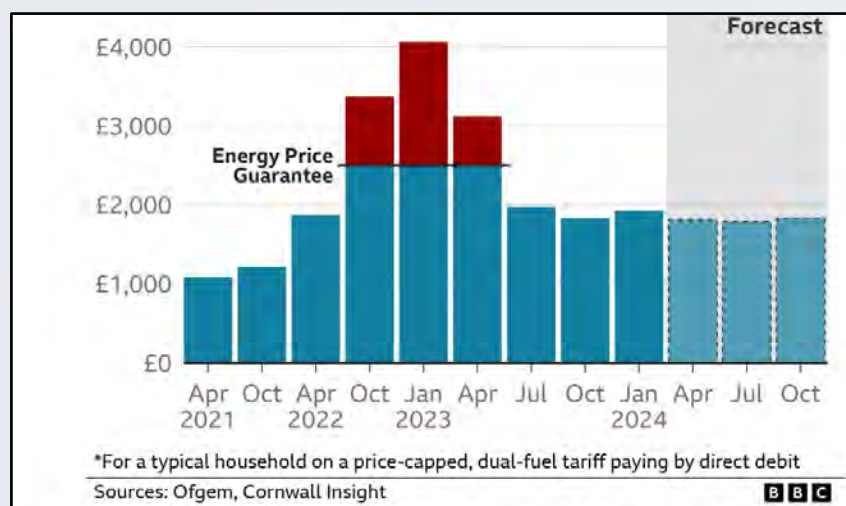
But, the price cap remains far higher than caps seen pre-pandemic, which were on average below £1,200.

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

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.

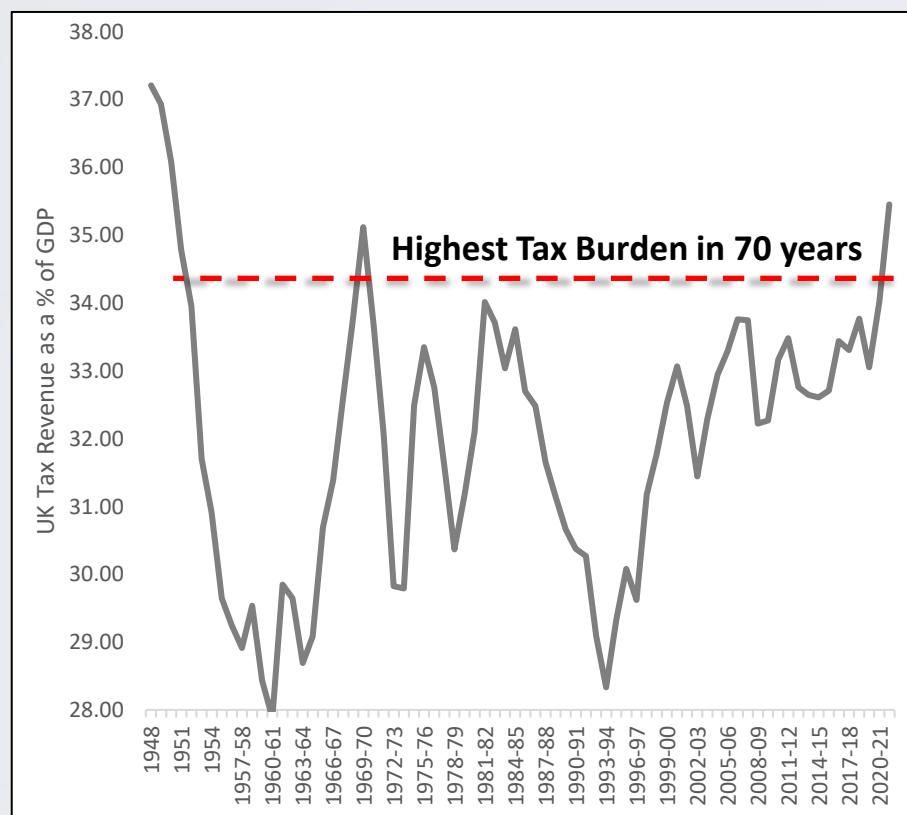
Fiscal Impacts: The high tax burden, alongside the poor economic growth seen in the UK since the financial crash, has created a difficult fiscal policy environment. Cutting taxes would impact in demand public services, whilst increasing public services would require raising taxes.

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](#)

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.

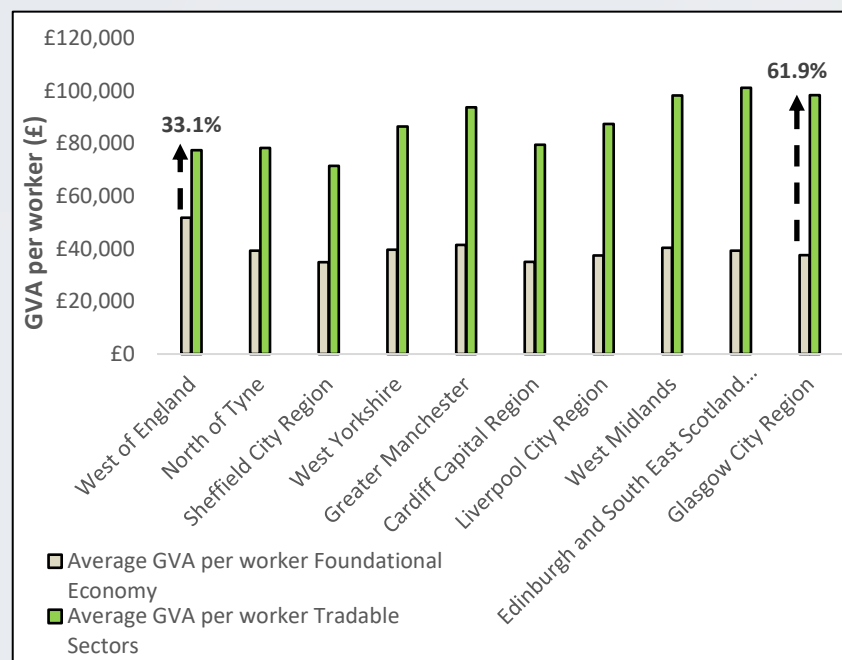
Productivity Gap: Glasgow City Region already has among the most productive workers in tradable sectors, but the Foundational Economy (FE) is typically less productive than other UK Core City Regions.

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 subsidizing 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.

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).

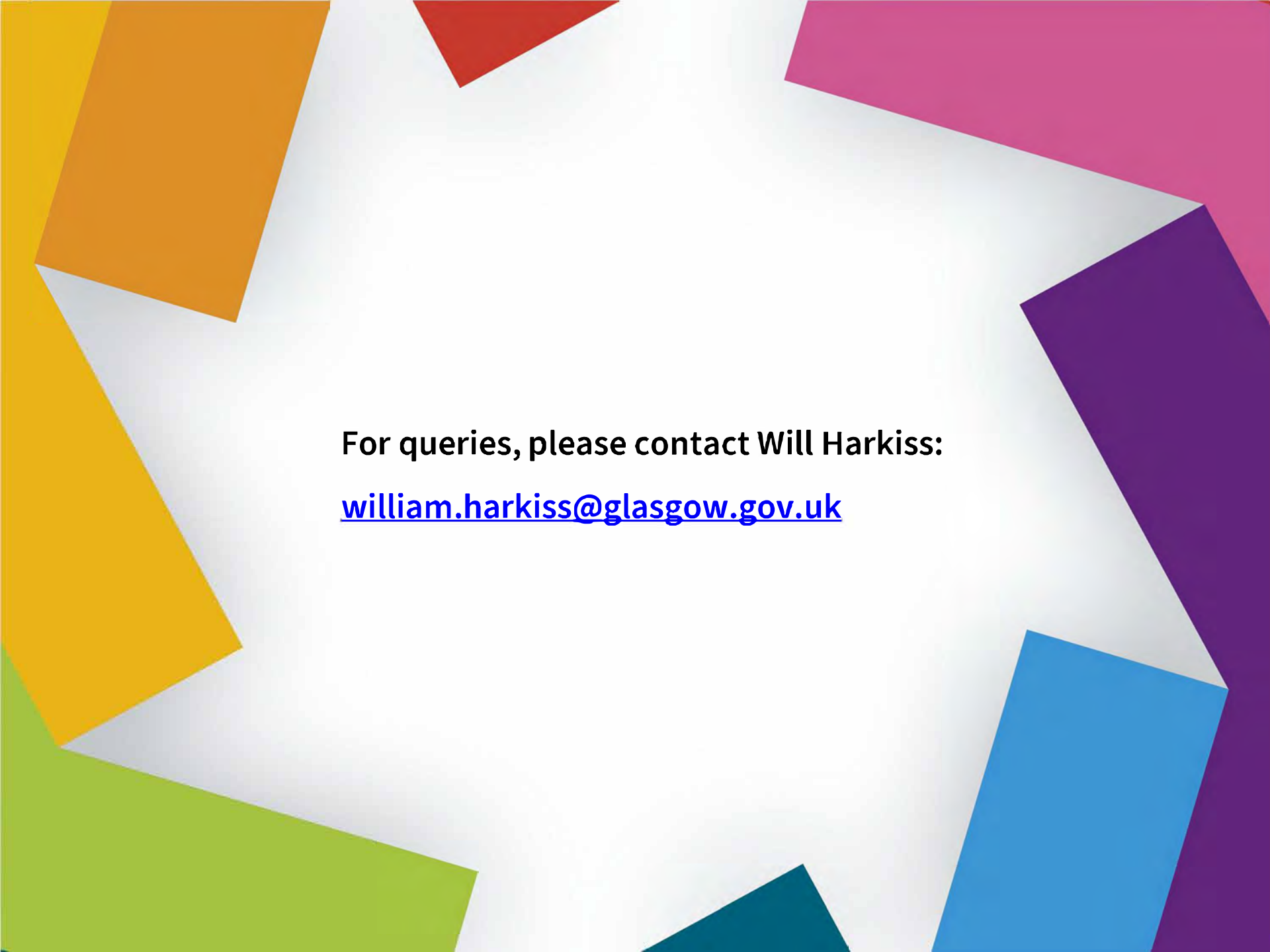
Economic Inactivity rate: Economically inactive people are out of work but are not actively looking for a job. The headline inactivity rate is calculated by dividing the inactivity level for those aged from 16 to 64 by the population for that age group.

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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**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:

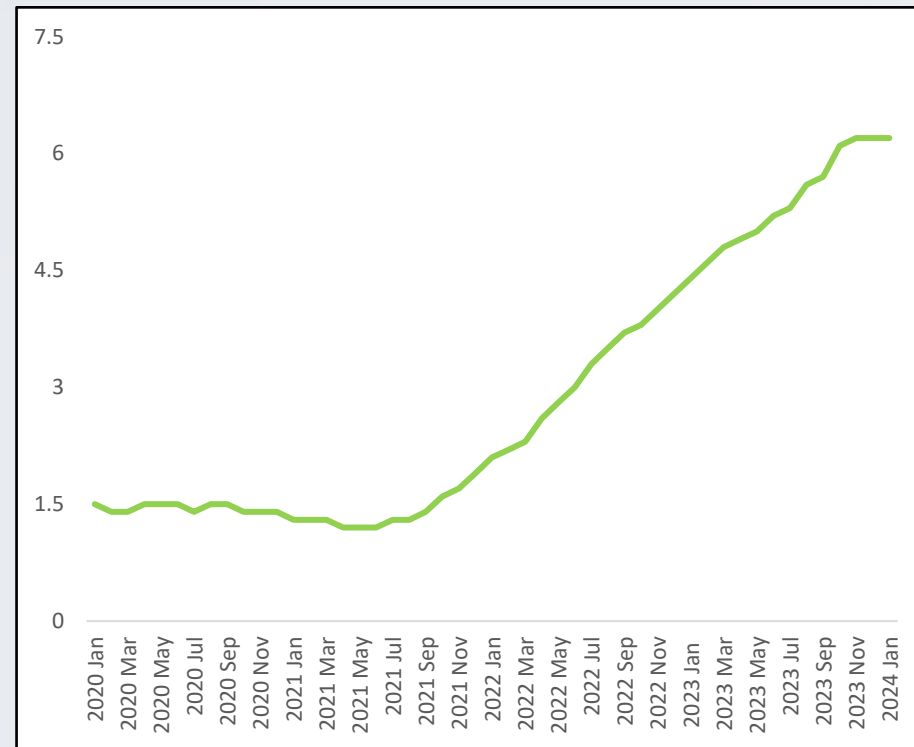
In January, tenants in the UK paid 6.2% more in rent than they did a year ago, the highest rate since records began, increasing steadily since 2021.

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.

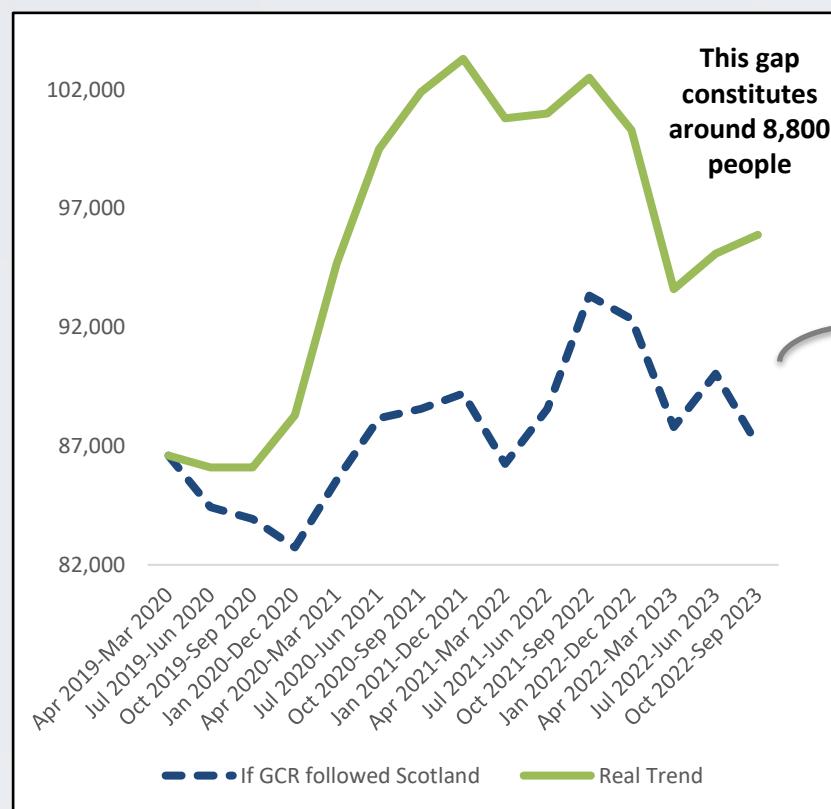
Why it is important: Economic inactivity represents untapped potential. By addressing the root causes of economic inactivity, local governments can enhance productivity and stimulate economic dynamism.

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.

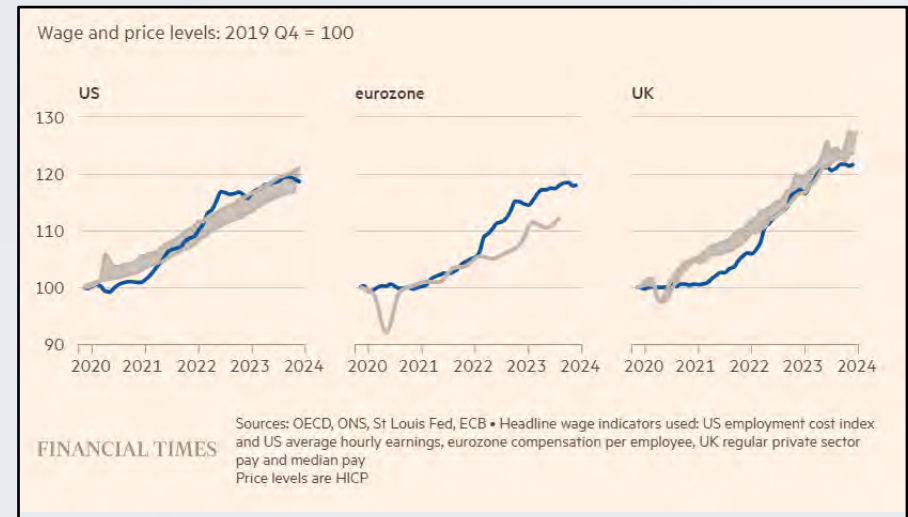
Why wage growth is important: Across the UK, the Eurozone and the US, wages account for around 60% of GDP. This means that rapid increases to wages, have a large economic impact.

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.

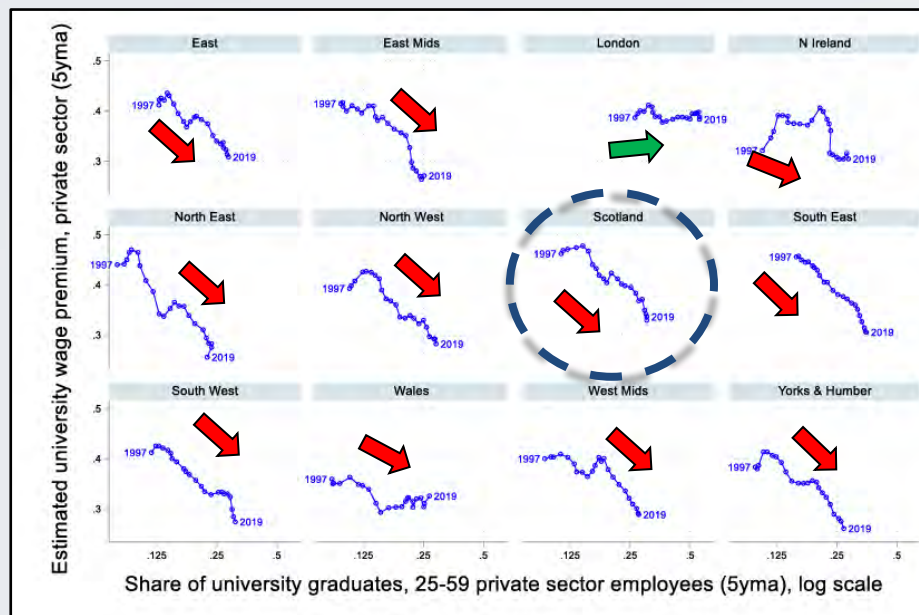
Weakening Graduate Wage Premia from Oversupply:

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.

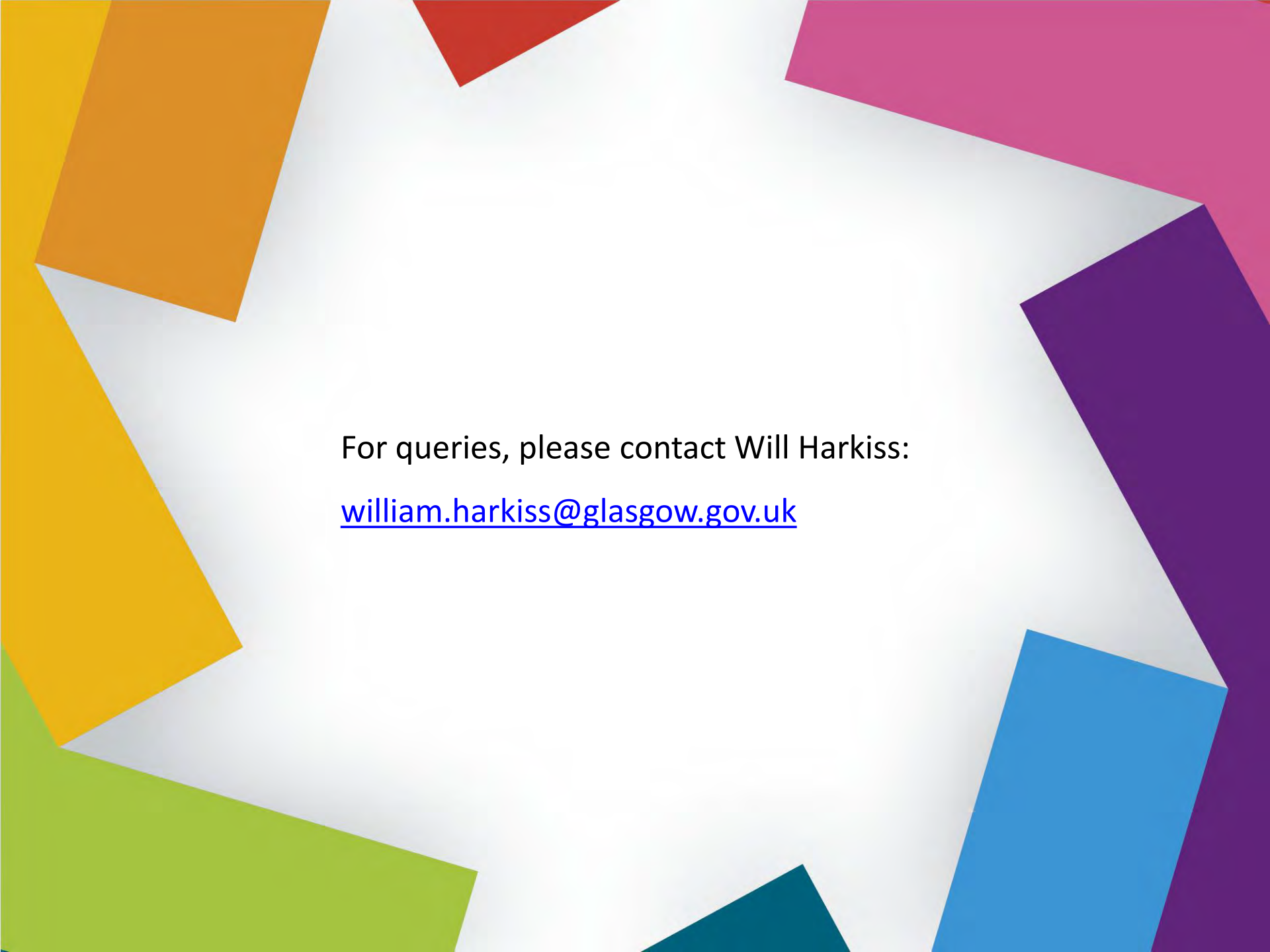
Unemployment rate: Unemployed people are out of work but actively looking for a job and available to start work in the next two weeks. It is measured as the number of unemployed people divided by the number of economically active population (those in employment and those unemployed).

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



Summary

The economy is showing signs of recovery after a period of contraction, with business activity picking up at the start of 2024. This growth is supported by an optimistic business outlook, despite concerns around inflation and weak demand.

Employment levels have shown resilience, with a record-high number of pay-rolled employees and low unemployment rates. **However, challenges remain with skill gaps and economic inactivity, highlighting the need for targeted investment.**

The slight increase in GDP towards the end of the forecast period is primarily attributed to population growth rather than gains in productivity. Real GDP per capita has declined since early 2022 **and is only expected to recover slightly by 2025, remaining nearly 1% lower than previously forecasted.**

The UK government is looking at public sector productivity, with the Productivity Institute highlighting digital transformation is one of the ways to address the financial challenges from an ageing population and rising tax burdens.

Spotlight On: Inclusivity In the Night-Time Economy (NTE)

Within the Region's Night-Time Economy, there are issues of inclusivity. A significant portion of the workforce earn low wages compared to the broader economy. Similarly, while offering flexibility for students, caregivers, and others, working arrangements often come with downsides, such as reduced job security, fluctuating income, and fewer benefits compared to full-time employment.

Lessons from London emphasise the need for:

- Fair wages,
- Enhancing employment protections to offer greater job security and equitable benefits for part-time workers, and
- Supporting workforce development through targeted education and training programs.

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

Economic Outlook

Following a mild recession, the UK appears to be on the road to recovery with business activity increasing in the first month of 2024.

GDP growth is expected to pick up this year, after a period of contraction. The Scottish Government has reported an uptick in business activity in January marking a positive start following 2023. **But concerns continue to centre around inflation and weak demand, indicating evolving challenges.**

Inflation held steady at 4% in January but is expected to decrease to the 2% target throughout the year. **As inflation pressures ease and outlooks for the year ahead are improved, businesses reportedly remain hopeful of maintaining or increasing their staffing levels, signalling an optimistic stance towards the future.**

Despite consumer sentiment remaining generally negative, indicating ongoing cost of living concerns for households, the labour market shows resilience. Scotland has seen record-high numbers of pay-rolled employees since 2014 and the lowest claimant count unemployment rate since 2019 at 3.5%. **However, challenges in supply, including skill gaps and higher economic inactivity, underscore the need for investment to address deprivation and worklessness.**

GDP

Monthly real gross domestic product (GDP) is estimated to have grown by 0.2% in January 2024, following a fall of 0.1% in December 2023.

Inflation

The Consumer Price Index rose by 3.4% in the 12 months to February 2024, down from 4% in January – outperforming forecasts from analysts and reaching its lowest level for almost two and half years.

Pay

Annual growth in regular earnings has continued to fall to 6.1% from November 2023 to January 2024, and annual growth in employees' average total earnings was 5.6%.

Sources: [ONS GDP](#), [ONS Inflation](#), [ONS Pay](#), [Scot Gov](#)

The UK Budget and Improved OBR Forecast

The Office for Budget Responsibility (OBR) revised their growth for 2024 from 0.7% to 0.8% and continue to show more optimism than the Bank of England.

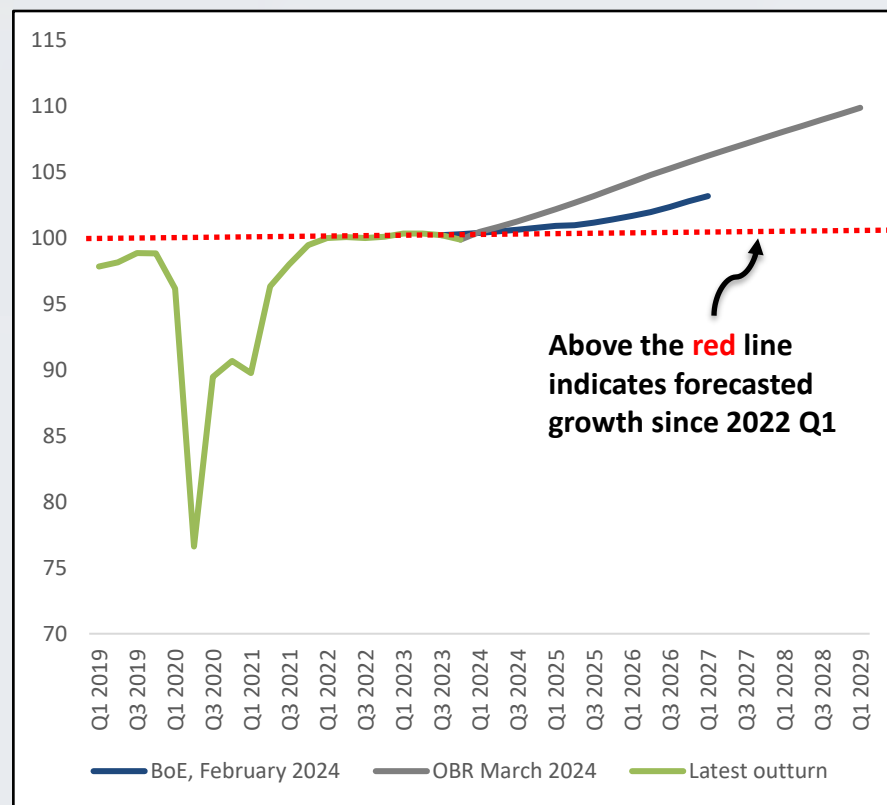
Overall, the economy saw slight growth in 2023 (0.3%) **but experienced a technical recession in the last quarter.**

The OBR forecasts a 1.9% growth in 2025, an increase from the earlier 1.4% prediction. They also anticipate a moderate economic growth of 1.8% annually from 2026 to 2028, **maintaining a slightly more optimistic view than both the Bank of England and independent forecasts.**

However, the increase in GDP at the end of the forecast period (2029) is mainly due to population growth rather than productivity gains. **Real GDP per capita will have declined since early 2022.** However, this is expected to recover slightly by 2025.

Disposable income per person is expected to see a modest real increase in 2024/25 **and return to pre-pandemic levels by 2025/26.** Despite this, and real wage increases this year, **households are likely to continue to have lower real incomes compared to before the pandemic (2019).**

Real GDP, actual and forecast (2022 Q1 =100)



Sources: [Institute for Government](#), [OBR](#)

Consumer Sentiment across Europe has Reduced

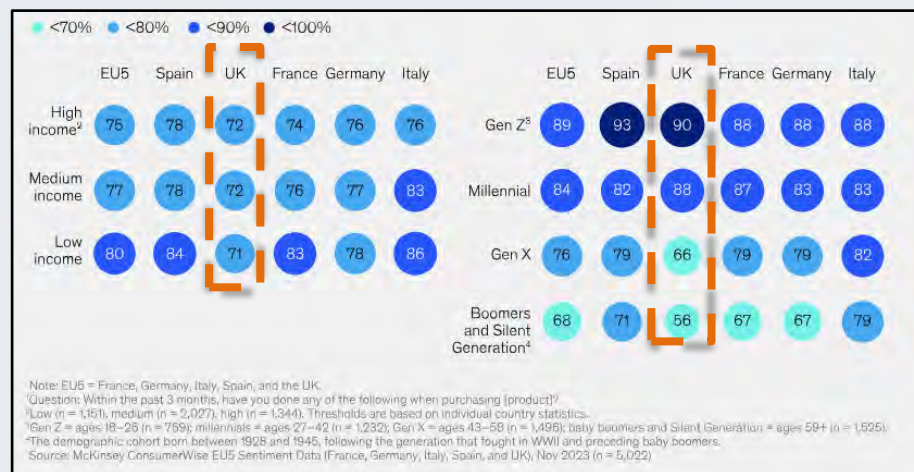
To cope with increased costs, many more shoppers are *'trading down'* to cheaper products, but at different rates according to income and age

Trading down involves consumers opting for less expensive alternatives to the products and services they traditionally purchase. This might mean switching from premium brands to generic labels. Economic pressures such as wage stagnation, job insecurity, and rising costs of living have played a significant role in this trend. **As households find their disposable income squeezed, people have focused their spend on essentials over others.**

McKinsey's analysis shows that although UK consumers did not trade down as much as seen in Italy and Spain, significant rates were seen among younger generations, like Gen Z. **In fact, the gap seen among younger generations, and older generations was the largest, indicating that income by age inequality may be a larger issue within the UK.**

This has implications for the Foundational Economy, like bars and clubs, where reduced spend might put additional pressure on their operations. **Evidence from The British Beer and Pub Associations predicts that up to 750 pubs could close this year across the country.** This comes at the same time as other costs rise.

Share of respondents changing their shopping behaviour and trading down, by generation and income



Sources: [McKinsey & Company](#), [Resolution Foundation](#), [The Guardian](#)

Headline Labour Market Statistics

Labour market appears to be steady, but shortages of workers may be hindering the UK and Scottish economic recovery.

*Table 1: ONS Experimental Labour Market estimates from November to January 2024**

	Unemployment (%)	Unemployment (ppts) Quarter Change	Employment (%)	Employment (ppts) Quarter Change	Economic Inactivity (%)	Economic Inactivity (ppts) Quarter Change
Scotland	4.1	-0.3	74.2	0.4	22.5	-0.2
UK	3.9	0.0	75.0	-0.1	21.8	0.1

Source: [ONS](#)

The labour market is currently stable, with employment levels remaining largely unchanged and unemployment rates staying low, under 4%. **However, economic inactivity is significantly higher than before the pandemic, with an additional 700,000 individuals not participating in the labour force compared to four years ago.**

This could be due to reduced demand influenced by increased interest rates and living costs, though it has not led to a rise in layoffs or unemployment. **Vacancies have decreased yet still exceed pre-pandemic figures, standing at around 900,000 across the UK, while short-term unemployment has slightly declined in the past six months, following an increase last year.** This indicates a relatively tight labour market with ongoing, though somewhat diminished, labour and skills shortages compared to 2022. **It then appears that the main constraint on a more robust recovery might be labour and skills shortages, rather than weak demand.**

According to the Institute for Employment Studies, this data underscores the importance of engaging those out of the workforce to create inclusive and good jobs. **They argue that employers play a crucial role in creating good jobs that focus on job security, positive workplace relationships, flexibility, autonomy, and support during difficult times.**

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

Addressing Public Sector Productivity Challenges

The Productivity Institute suggests that the public sector should focus on digital transformation to overcome productivity and budget concerns.

Facing the challenges of an ageing population and rising taxes, Chancellor of the Exchequer Jeremy Hunt has prioritised improving public sector productivity. Similarly, Michael Gove, the Secretary of State for Levelling Up, Housing, and Communities, has called for productivity improvements within local government. **Gove has urged councils to create productivity plans to improve service efficiency and cut unnecessary costs, aiming for better taxpayer money use.**

However, measuring productivity in the public sector presents unique challenges. **For instance, in sectors like Education, where the effectiveness of teaching hours is more critical than merely counting them as inputs or outputs.**

Measuring performance across the entire service chain poses challenges for the public sector, especially due to the time difference between the introduction of productivity measures and their impact. **For example, the long-term effects of education on career choices or quality of life may not be immediately apparent.**

Sources: [Productivity Institute](#); [Glasgow 5G Innovation Region](#)

Digital technologies can dramatically improve productivity in public sector operations, like enabling shared service centres for collaboration between organisations.

The *ResilienceDirect* digital platform, introduced by the UK Cabinet Office in 2014, exemplifies this innovation in the public sector to enhance emergency response coordination and collaboration.

This was designed to support emergency responders in sharing information and achieving a unified situation awareness and addresses the challenges of diverse emergency planning and response across the UK.

One of the lessons learnt from this platform was that to fully leverage the benefits, significant investments in training and skill development are essential.

To see the benefits of digital technology, a concerted effort to enhance digital skills across sectors is needed, supporting the workforce in adapting to technological advancements in both the private and public sector.

An Inclusive Economy: What It Means

Recent analysis from SIPHER has illustrated how to measure an economic inclusivity, beyond traditional measures like GDP and employment rates.

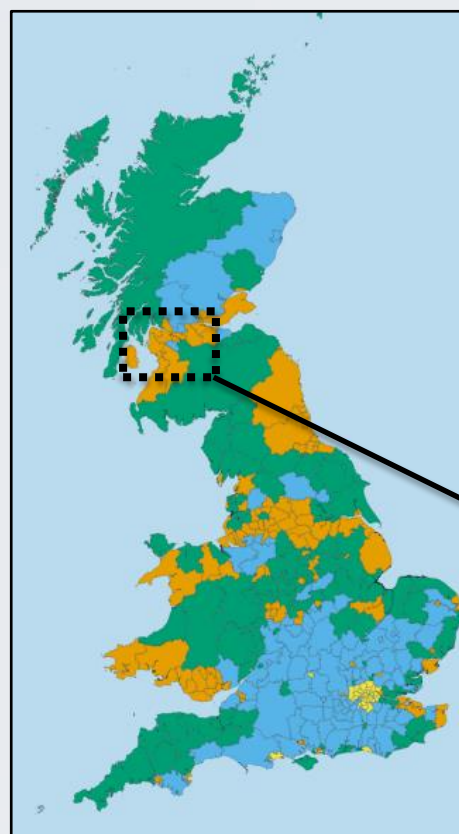
Across the UK, there has been a push to adopt broader economic metrics beyond traditional indicators. **The Inclusive Growth Commission (2017) proposed a quality GVA index to complement GDP data, highlighting the importance of social aspects in assessing growth.**

SIPHER has developed an inclusive economy dataset covering 13 indicators, focussed on inclusivity in an area's economy – **combining housing affordability, decent pay and job stability.**

Their clustering technique groups local authorities according to similar inclusive economy values. Despite seeing economic progress in recent decades, **five out of eight of the Region's authorities are grouped as being less inclusive than others in the UK.**

This indicates some of the disparities within GCR. Long-term social and economic challenges could counteract the overall progress of the Region. **GCR has ambitious targets to reduce inequality by 2030, and this new research shows the importance of investing in fair and good work.**

SIPHER Inclusive Economy Clustering



	<i>Less Inclusive</i>
	<i>More Inclusive</i>
	<i>Average</i>
	<i>Mix</i>



Sources: [SIPHER](#), [RSA](#), [LGA](#)

An Inclusive Economy: Night-Time Economy Case Study

The Night-Time economy (NTE) is pivotal to GCR's place vitality, significantly contributing to an area's cultural and social offering.

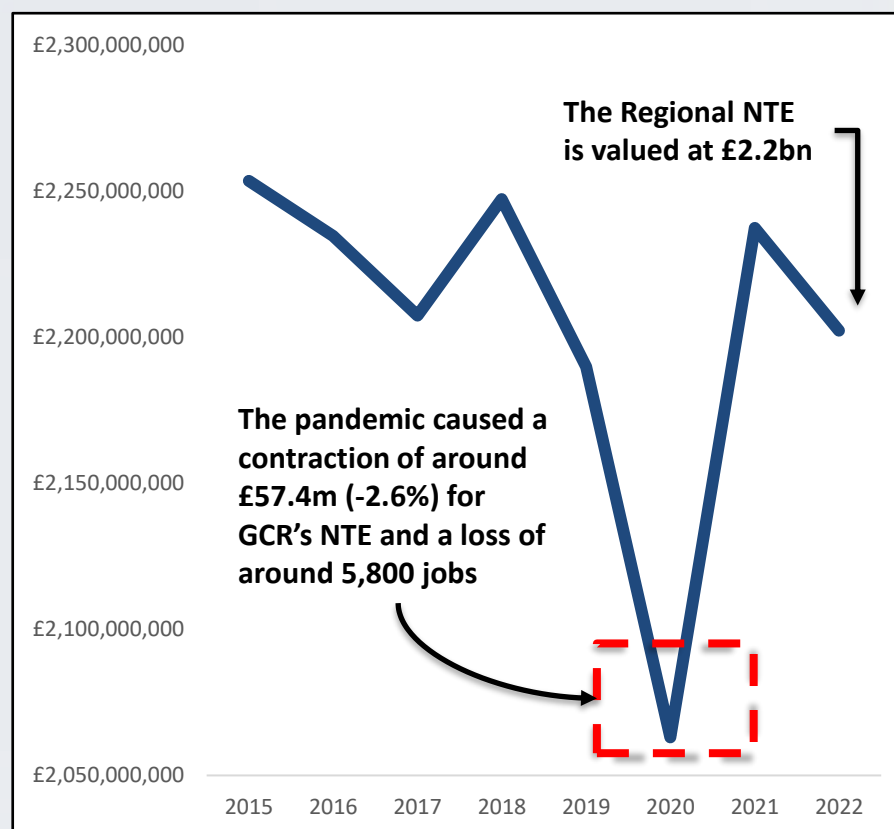
There is no precise definition of the NTE, but the ONS and others define it as economic activity that takes place between **6pm and 6am**.

At a regional level, this NTE contributes around 5% to GCR's total GVA, and comparatively Glasgow city centre's NTE alone generated around half of the GVA of Orkney in 2022.

Although other parts of GCR's economy are more productive, the comparative size of the NTE is significant and makes up a pivotal part of the Regional and local economies and social fabric.

But the pandemic showed some of the NTEs vulnerabilities and issues with inclusivity. Many NTE employees, who were employed on flexible or gig arrangements, were confronted with job losses when restrictions came into place in 2020. **This meant that many lost their employment, and the NTE's output was impacted severely by the Pandemic.**

Approximate Value (GVA) of GCR's NTE



Sources: [ONS NTE](#), [West Midlands CA](#)

An Inclusive Economy: Night-Time Economy Case Study

The NTE relies heavily on part-time workers, presenting some challenges and opportunities to enhance inclusivity.

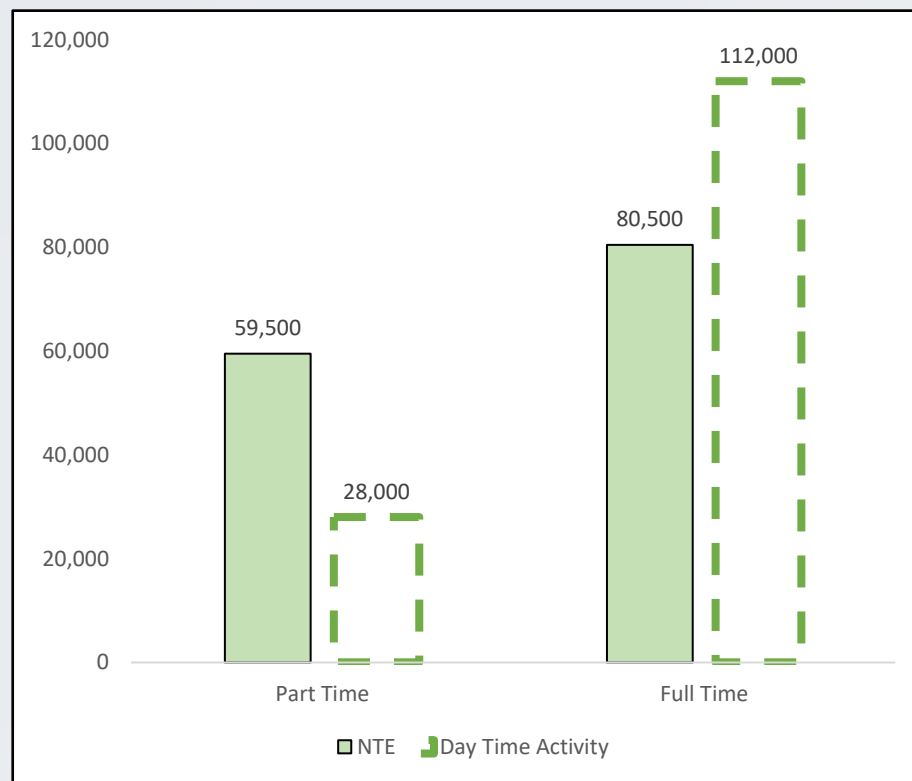
Part-time work in the night-time economy can serve as a catalyst for inclusivity by providing employment opportunities to those who might not be able to commit to full-time jobs due to various reasons. This includes students, parents, especially single parents, individuals with disabilities, and those with caregiving responsibilities.

The flexibility offered by part-time work in the night-time economy thus serves as a bridge, enabling economic participation.

But it can also mean weakened job security. Many part-time positions in the NTE are temporary contracts. **This instability can make it difficult for workers to plan their finances or future, contributing to stress and anxiety.** Furthermore, the irregular hours associated with night-time work can lead to unpredictability in income, especially when shifts are allocated based on demand, which fluctuates throughout the year.

While the NTE is flexible, there are many challenges to making it a healthy and fair workplace for those that work in it.

Approximated Number of Workers by Working Pattern in GCR's NTE 2023



Sources: [ONS NTE](#)

An Inclusive Economy: Night-Time Economy Case Study

Compared to the rest of economy, NTE workers are more likely to be lower earners.

LABOUR MARKET

In the NTE, many workers find themselves grappling with low wages.

Around 45,000 workers (32%) of the Regional NTE are on low wages. Applying the pay split from all industries combined, shows that NTE workers are far more likely to be on lower wages, and less likely to be on higher and middle incomes.

This reality of low pay contributes to **in-work poverty**, where those who work in this economy cannot afford to partake in the economy themselves. They may struggle to afford housing, reliable transportation, and other necessities, which in turn affects their ability to fully participate in both the economy and society. **This means the becomes NTE less inclusive, with many who may not fully share in its economic benefits.**

Building an inclusive economy requires more than policies that foster fair wages. **It must also ensure job security, and career progression opportunities through upskilling**, allowing for a workforce to sustain and grow this culturally and economically important economy.

PUBLIC SECTOR
PRODUCTIVITYINCLUSIVE
NIGHTTIME
ECONOMY

Approximated Number of Workers by Pay in GCR's NTE in 2023



Sources: [ONS NTE](#), [Productivity Institute](#)

An Inclusive Economy: Night-Time Economy Case Study

The Greater London Authority's (GLA) Night-Time Commission demonstrates some of the policy responses that can be deployed to address inclusivity in the NTE.

GLA established the Night-Time Commission in 2017. The commission was tasked with conducting a comprehensive review of London's NTE, **with a particular focus on improving the working conditions of night-time workers, enhancing safety and security, and ensuring the NTE contributes positively to the city's cultural and economic vitality.**

Among the key objectives of the Night-Time Commission, was to identify the challenges and opportunities within the NTE, especially concerning labour issues such as **low pay and precarious work.**

The Night-Time commission highlights that more than 530,000 of GLA's NTE employees are paid less than London's Living Wage.

Central to London's strategy is a focus on improving labour standards within the NTE. By advocating for policies that prioritise the welfare of these workers, London aims to mitigate the precarious nature of night-time employment, setting a standard for how cities can protect their most vulnerable workers while fostering a vibrant environment at night.

Policy Lessons

Policies aimed at improving the health and safety of night workers, including measures to combat workplace harassment and ensure safe transport options at night, were highlighted, suggesting the need for holistic worker protection regulations and policies.

These policies include enhanced transport services during night hours and a shift towards more robust public transportation options to support workers and patrons in the NTE. This includes safer, more frequent, and accessible night buses and trains.

This also includes a range of activities beyond bars and clubs like cultural venues, late-night markets, and family-friendly options. This diversification can drive economic growth and create more inclusive environments.

Sources: [Greater London Authority](#), [LGiU](#)

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.

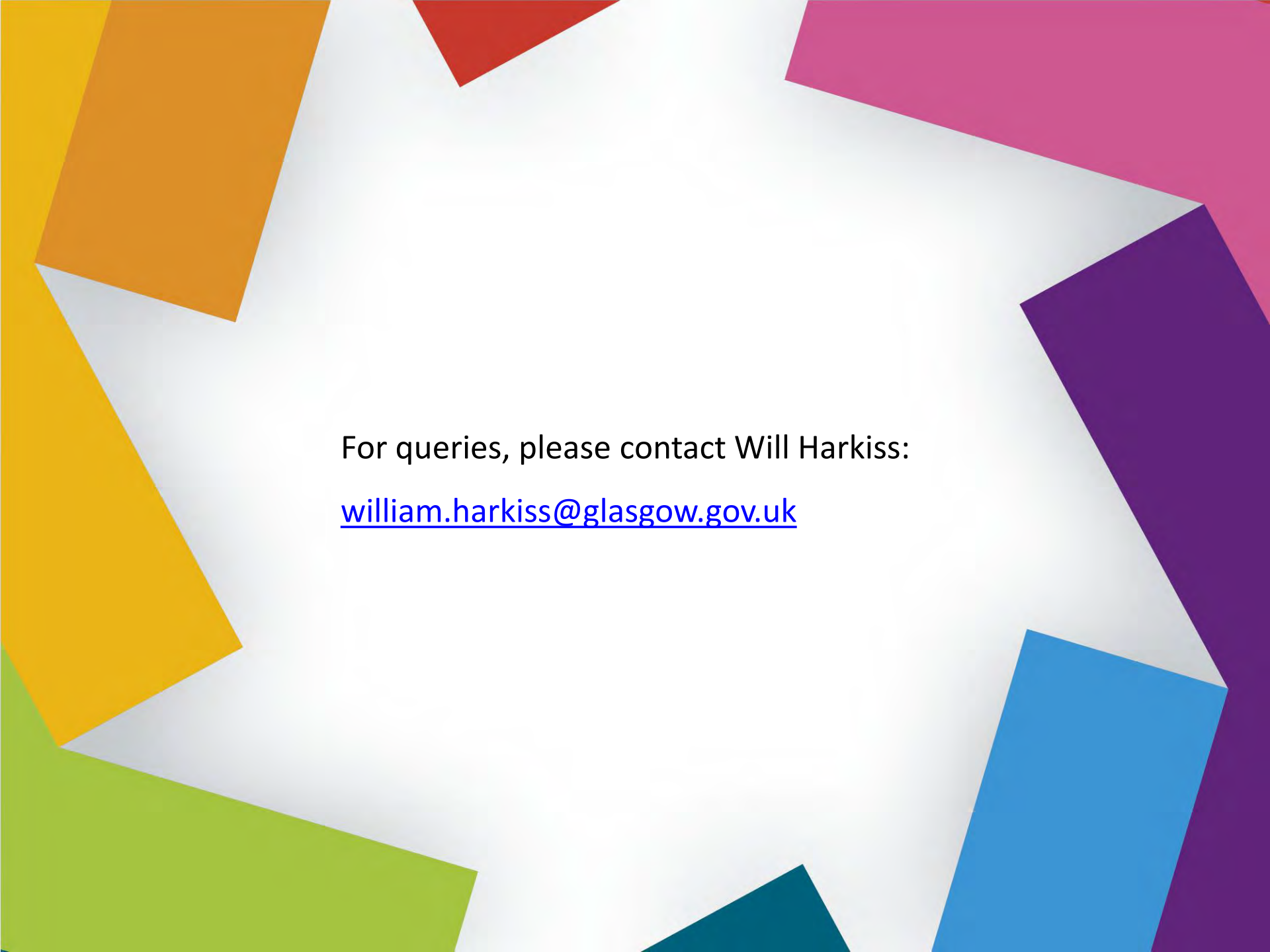
Unemployment rate: Unemployed people are out of work but actively looking for a job and available to start work in the next two weeks. It is measured as the number of unemployed people divided by the number of economically active population (those in employment and those unemployed).

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.

Night-Time Economy: There is no precise definition of the 'night-time economy' (NTE). The ONS definition of economic activity that takes place between 6pm and 6am is used in this analysis

SIPHER: SIPHER at the University of Glasgow employs a systems science approach to examine complex relationships and interdependencies across various policies that impact health and wellbeing. It's part of a significant £5m research effort supported by UKPRP, aiming to improve public health and reduce inequalities by creating evidence-based tools for policy development



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