



making business sense

NEWS RELEASE

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Base rates of 0.5% till 2011 at least; QE not rolled back before 2014; long bond yield down to 2.5% by 2013; £ to weaken to \$1.40 and perhaps to go below €1.00

New cebr forecasts for the UK economy released today are the first to build in the effect of a major fiscal consolidation in the UK after the election. The forecasts show that the fiscal consolidation is likely to be matched with an unprecedented monetary relaxation.

The forecasts show base rates of 0.5% to 2011 at least, remaining below 2% to 2014. They show an additional £75 billion of quantitative easing (purchasing a wider range of assets than hitherto). They indicate a sharp fall in the long bond yield to 2.8% by 2011 and 2.5% by 2013 and a weaker pound, falling to \$1.40 and possibly below €1.00 (depending on whether the markets get worried about the long term sustainability of the euro).

The forecasts are based on the assumption that the incoming government will need to take fiscal action of around £100 billion in tax rises and spending cuts to correct the fiscal deficit. If – as the bookmakers expect – the new government is Conservative, the forecasts suggest tax rises of £20 billion and spending cuts of £80 billion.

These forecasts are based on an updated assessment for the UK economy contained in the latest *United Kingdom prospects* report published today by the **centre for economics and business research (cebr)** – one of the country's leading economics consultancies and respected commentators on business trends.

The forecasts assume that the incoming government will need to get the budget deficit down to £50 billion by 2014/15. Without fiscal action the forecasts predict a deficit of £143 billion in that year.

The forecasts show that the strategy of getting the budget deficit down is likely to work and that growth over the 2009-2014 period will average 1.4%. But they show that growth is likely to dip in 2011 and 2012 as the budget cuts are absorbed. Thereafter, the effects of the low interest rates and the weak pound boost growth by encouraging investment, halting the rise in savings, boosting exports and restraining the growth of imports.

The cebr forecasts are for GDP growth of -4.3% in 2009; 1.3% in 2010; 0.8% in 2011, 1.0% in 2012; 1.5% in 2013 and 2.3% in 2014.

Douglas McWilliams, one of the report's authors and Chief Executive at cebr, commented:

'We are likely to see an exciting policy mix, with the fiscal policy lever pulled right back while the monetary lever is fast forward. Our analysis says that this ought to work. If it does so, we are likely to see a major rerating of equities and property which in turn should stimulate economic growth after a lag.'

Charles Davis, Senior Economist at cebr, added:

'The risk to the scenario in our forecasts are from the world economy and from inflation. Our forecasts show low levels of labour cost inflation which should keep the CPI low enough to prevent the MPC from having to raise rates until the economy is recovering. But this does require the prices of oil, primary commodities and food not to rise so fast that with a weak pound they dominate the impact of low labour costs.'

NOTES TO EDITORS

cebr is a leading independent commercial economics consultancy with particular strengths in macroeconomic and market forecasting. The report has been co-authored by cebr staff (for details see below).

The United Kingdom Prospects report is a quarterly report released in the middle of April, July, October and January of each year. The report is part of the prospects service - cebr's macroeconomic advisory package for business.

For more information on the contents of the report, please contact:

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