

# CBI Economic Forecast

- **UK GDP**

Prospects for the UK economy across this year and next remain broadly similar to those outlined in December's forecast. The process of economic recovery will continue to unfold at a restrained pace throughout 2010, with the lack of a strong driver of growth preventing the recovery from building any significant momentum. Near term economic prospects can be expected to remain fragile, given that some of the stimulus measures have now been withdrawn. However, a firming in the rate of growth is expected in 2011, as a result of somewhat higher household spending and stronger growth in UK exports driven by more robust global demand.

While we are forecasting that annual GDP growth will strengthen from 1.0% in 2010 to 2.5% in 2011, this rate remains below the recent trend rate of growth for the UK economy. Indeed, by the end of next year, GDP will still be below the pre-recession level, such is the modest nature of the recovery following what was an exceptionally deep recession.
- **Households**

Weakness in consumer expenditure will persist throughout this year, as a result of subdued wage growth and households raising their savings rates in light of concerns over job security. Unemployment is expected to begin to fall back, albeit at a lacklustre pace, after peaking in the autumn this year. As this occurs and wage growth picks up, consumer spending is expected to strengthen over 2011.
- **Firms**

Uncertainty over the robustness of future demand and high levels of unused capacity will continue to act as a drag on business investment over most of the forecast period, with further quarterly falls expected till mid-year. Business investment is expected to contract by 7.5% across 2010 as a whole, and to expand by 4.2% in 2011, when some of the uncertainty surrounding economic conditions is likely to have dissipated.

Firms are expected to continue running down inventories at a progressively slower rate until the middle of 2010, when stock rebuilding will begin and then gather pace over 2011.
- **UK Trade**

Export growth is forecast to build some momentum over this year and next, as global economic activity gains a little more traction. With exports forecast to grow more strongly than imports next year, due to the relatively lacklustre performance of household spending and business investment, net trade can be expected to make a positive contribution to output growth in 2011.
- **Monetary Policy and Inflation**

Near term inflation will be slightly higher than previously forecast, but given the transient nature of the factors which have driven inflation sharply upward, such as the VAT increase, it is forecast to fall back markedly throughout 2010. Indeed CPI inflation is expected to drop below the Bank of England's 2% target by the end of the year and to remain below target through 2011, given the substantial amount of spare capacity in the economy.

In light of the subdued outlook for inflation, we expect the Bank of England to begin normalising the policy stance through a modest increase in interest rates in the third quarter this year, slightly later than previously anticipated. Thereafter, we expect the Bank to continue to nudge rates higher throughout 2011, in order to move away from current emergency levels. But policy will remain easy throughout the forecast period, with interest rates only reaching 2% by the end of next year.

# CBI Economic Forecast

12mth% unless otherwise stated				2010				2011			
	2009	2010	2011	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>GROWTH &amp; CONSUMPTION</b>											
Real GDP	-4.9	1.0	2.5	-0.2	0.9	1.7	1.7	2.0	2.3	2.6	3.0
Manufacturing output	-10.5	1.4	2.3	0.9	1.5	2.0	1.5	1.6	1.8	2.5	3.3
Household consumption	-3.1	0.7	1.9	-0.3	0.9	1.2	1.3	1.5	1.7	2.0	2.3
Government consumption	2.0	1.2	-1.5	2.5	1.8	1.1	-0.5	-1.2	-2.0	-2.1	-1.4
Household savings ratio	7.4	8.7	7.4	8.5	8.6	8.8	9.0	8.6	8.2	7.0	5.8
<b>INVESTMENT</b>											
Fixed investment	-14.3	-3.3	4.3	-7.5	-1.8	-3.0	-0.6	1.9	3.7	5.3	6.5
of which:											
Total business	-18.5	-7.5	4.2	-16.1	-7.0	-4.8	-0.6	2.2	3.7	4.9	5.9
General government	14.9	1.0	-21.2	9.2	11.8	-4.8	-10.4	-17.3	-21.4	-22.7	-24.0
Manufacturing	-22.8	-17.8	2.5	-32.8	-20.9	-9.6	-1.1	1.0	2.0	2.9	4.2
<b>EXTERNAL TRADE</b>											
Exports	-10.9	4.7	6.2	2.7	5.4	6.5	4.2	5.3	5.9	6.5	6.9
Imports	-12.1	5.3	4.6	3.4	7.3	6.9	3.7	4.0	4.4	4.8	5.3
Current account (£bn)	-18.4	-36.6	-36.7	-9.3	-9.2	-9.0	-9.1	-9.0	-9.0	-9.0	-9.7
% of GDP	-1.3	-2.5	-2.5	-2.6	-2.6	-2.5	-2.5	-2.4	-2.4	-2.4	-2.5
<b>PRICES</b>											
CPI	2.2	2.4	1.6	3.1	2.6	2.2	1.7	1.5	1.6	1.7	1.8
RPI	-0.5	3.4	2.6	3.8	3.9	3.3	2.6	2.4	2.6	2.6	2.6
RPIX	2.0	3.1	2.0	4.2	3.5	2.8	1.9	1.8	2.0	2.0	2.1
Producer output prices	1.3	3.3	2.2	4.0	3.4	3.1	2.8	2.5	2.3	2.1	1.9
<b>LABOUR MARKET</b>											
Unemployment (ILO, mn)	2.40	2.69	2.64	2.58	2.69	2.75	2.74	2.72	2.68	2.61	2.54
Unemployment rate (%)	7.6	8.5	8.3	8.2	8.5	8.7	8.7	8.6	8.4	8.3	8.0
Unemployment (CC, mn)	1.53	1.63	1.62	1.61	1.63	1.64	1.64	1.64	1.63	1.62	1.60
Claimant count rate (%)	4.7	5.1	5.0	5.0	5.0	5.1	5.1	5.1	5.0	5.0	4.9
Employment (mn):	26.72	26.58	26.58	26.57	26.59	26.58	26.57	26.56	26.56	26.58	26.61
Average earnings inc. bonus	1.2	2.1	3.1	2.8	2.0	1.9	1.7	2.0	2.8	3.5	4.3
<b>PUBLIC SECTOR</b>											
Net borrowing (£bn)***	168.1	177.0	149.0								
% of GDP	12.0	12.1	9.8								
*** 2009/10, 2010/11, 2011/12											
<b>FORECAST ASSUMPTIONS</b>											
	2009	2010	2011	2010 Q1	Q2	Q3	Q4	2011 Q1	Q2	Q3	Q4
OECD GDP	-3.0	2.1	2.5	2.0	2.4	2.1	1.8	1.9	2.3	2.7	3.0
UK Bank Rate	0.65	0.69	1.63	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.00
Oil prices \$ per barrel	61.6	80.1	90.1	77.2	79.1	81.1	83.1	85.9	88.0	91.5	94.7
GBP Trade-weighted index	80.1	79.6	84.2	79.2	78.2	79.3	81.8	83.3	83.6	84.4	85.3
USD/GBP	1.57	1.56	1.63	1.56	1.53	1.56	1.58	1.61	1.62	1.64	1.64
EUR/GBP	1.12	1.14	1.19	1.13	1.12	1.14	1.16	1.18	1.18	1.19	1.20