



## cebr's top ten for 2010

We've reviewed our predictions for 2009 made a year ago. Our economic predictions were roughly right, though sterling didn't fall as much as we thought and unemployment didn't rise as much (we will be doing a Forecasting Eye on why this was). But our sporting predictions were spot on – 4 out of 4 with the most remarkable a prediction that England would win the Ashes 2-1 (I wish I had put money on this forecast!). Anyway, encouraged by our success (or more probably luck), we have repeated the process for this year.

- 1) An election and a change of government. It is certain that there will be a UK election by June. What is not certain is the result. But it seems improbable that a government with as bad a record as Gordon Brown's will be reelected. A hung Parliament is a possibility, though if the Conservatives have the largest number of seats they will be asked first to form a government.
- 2) An emergency UK Budget after the election where the fiscal retrenchment measures that should have happened already get announced. We are looking for about £100 billion of fiscal action. Some of this will be higher taxes but the bulk will have to be in real cuts in the cost of providing public services.
- 3) GDP growth numbers for the year that are better than those for 2009 (world GDP probably declined in the year by about 0.5%, UK GDP by 4.7% in 2009 – we are looking for world GDP growth of about 2% and UK growth of around 1% in 2010). But these might be a bit misleading because a large part of the decline in GDP both worldwide and in the UK has been destocking which by its nature is temporary. But whereas for most of 2009 since the spring the world economy was recovering and the UK economy started to recover in the Autumn, both may look less buoyant in 2010 and although a double dip is not our central forecast, it is well within the margin of error.
- 4) Inflation generally to stay low worldwide. Obviously in some countries there will be the impact of tax rises and higher public sector charges. And because currencies have been jumping around a lot, some countries with weak currencies will have higher inflation than average. But generally it looks as though 2010 will be the first test of whether printing money causes inflation even in a recession. And it looks as though the test will show in the short term that it cannot.
- 5) Interest rates starting to rise for the first time in the cycle. Though our view is that interest rates generally will stay lower than the consensus view because of low inflation (see above), a modest 50 basis points rise seems probable for the US. There is a good chance now, however, that rates could stay unchanged for the whole year in both the UK and the eurozone.

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- 6) A probable sterling crisis at some point before the election. If the Tory lead is shown dropping well into single figures in the opinion polls then the possibility of a sterling crisis with the pound dropping below parity with the euro reemerges (yes I know we said this last year). The pound and the euro are like two equally talented (or in this case untalented) downhill skiers racing each other - at some points one is lower than the other, at other points this is reversed. Whether the pound goes below parity will depend on whether the differential performance in the euro zone starts to affect markets before the possibility that the UK will fail to make fiscal retrenchments.
- 7) A small recovery in UK housing transactions with house prices also edging up a little. There is a substantial housing supply shortage in the UK now and this will provide a safety net. Obviously if you are a 'housing shortage denier' you will ignore this. But the track record of commentators who have ignored the supply side in the housing market is atrocious.
- 8) A tough year for the UK consumer. With real incomes squeezed, many of those who rely on the public sector for their incomes nervous about what happens next, pay freezes, the VAT rise and other potential rises in public sector charges it seems unlikely that consumers spending - which did well in Q4 2009 - can continue to be so buoyant.
- 9) Slightly more business failures in the UK in 2010 than in 2009. Ironically, the destocking in 2009 which depressed GDP at the same time improved corporate cashflow and bought time. With little further scope for raising cash many companies will sadly be forced under this year. In the circumstances business investment will remain depressed, although those with some money may look to buy out their weaker competitors.
- 10) And now to our infamous sporting predictions. In theory Chelsea look like very strong runners for the Premiership. But their best players have gone off to Angola for the African Cup of Nations and may not return until after the final on 31 January. Despite their uncertain form this year, Manchester United still look more likely Premiership winners. Brazil to beat England in the soccer world cup final. Hull City not to be relegated yet again. England to beat Bangladesh but to lose to Pakistan in the summers' tests (unless Daryll Hair can be persuaded to come back as umpire!).

**Douglas McWilliams** *chief executive*  
 centre for economics and business research ltd  
[dmcwilliams@cebr.com](mailto:dmcwilliams@cebr.com) 07525287112

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