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cebr's top ten predictions for 2009

making business sense

After a dramatic year in which the credit crunch turned into a full-blown financial crisis with takeovers and nationalisations that would have been unthinkable a year ago, we are now on the brink of what we think is likely to be the most difficult year for the United Kingdom real economy since the Second World War. In this note, we look at what 2009 could hold in store as the recession deepens:

1. The economy will experience its first full year contraction since 1991 – and we think that the contraction will be larger than 1980 when output fell by 2.1 per cent. **With bank lending running at a trickle, we expect a 2.9 per cent fall in economic activity in 2009 – the steepest single year drop since the postwar demilitarization of 1946.**

2. In the toughest economic climate in decades and with bank credit at a premium, **research by cebr for BDO Stoy Hayward shows that business failures will rise by 50 per cent in 2009 with at least 32,300 firms going bust.**

3. Unemployment has risen for most of 2008 but we expect worse by spring – with **claimant count unemployment set to rise from around 1.1 million now to exceed 2.0 million by the end 2009 – the highest since 1996**. The wider ILO measure of unemployment is likely to approach 2.8 million within twelve months. The fourth quarter **Business Confidence Monitor from the Institute of Chartered Accountants England and Wales showed that just nine per cent of firms found availability of staff a greater challenge to business performance, compared with 23 per cent in the same period in 2007** – showing how labour shortages have disappeared.

4. Inflation is collapsing due to declining commodity prices, heavy retailer discounting and the effect of the VAT cut. We think that consumer price inflation will briefly turn negative in summer 2009 and that Governor **Mervyn King will be forced to write to Chancellor Darling explaining an inflation target undershoot for the first time since Bank of England independence in 1997**. Meanwhile, the monetary policy committee will be busy cutting rates as they attempt to ward off the real risks of a deflationary spiral and deep recession: **interest rates to hit ½ per cent before the summer** – and stay there for the rest of the year – the **lowest since the Bank of England was founded in 1694**.

5. As the euro enters its second decade, **sterling will tumble below parity as the Bank of England cuts rates faster and more deeply than the European Central Bank**. At the time of writing, the pound is trading slightly above this week's record low of €1.02, which was some 30 per cent down from its average level in 2007.

6. With the bleak economic outlook and major pound depreciation, we expect that **many migrant workers will leave the United Kingdom in 2009 and fewer will arrive**. The latest Worker Registration Scheme data show a 36 per cent year-on-year fall in applicants to work in the United Kingdom in the third quarter of 2008. This trend will continue into 2009; we could see the number of overseas workers registering fall by as much as 50 per cent. The effect of the recession will be seen more viscerally in the net migration statistics; **we could even see zero or negative net migration for the first time since 1993**.

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7. With the government forecast for economic growth in 2009 on the optimistic side – and a remarkable bounce back predicted in 2010 – **Chancellor Darling is likely to be forced to raise his borrowing forecasts once again in the March Budget. The extra borrowing could reach almost £100 billion over the next three financial years** if the recession worsens as we expect. After riding on the highs of the widely acclaimed banking intervention in October, saviour of the world Prime Minister Gordon Brown will be embarrassed by the **United Kingdom being overtaken by France and Italy in the world current exchange rate GDP league table by the end of the year due to the recession and weak pound**. All this in a year in which the United Kingdom chairs the G20 – the newly significant international forum – and hosts its key financial summit in April. Rumour has it that the topic of the summit is: how not to run public finances, with Brown and Darling leading the discussion along with their Italian counterparts.

8. On 20 January 2009, President-Elect Barack Obama will enter office. He will face a rough ride as the United States enters its most serious recession since at least the 1980s, if not the 1930s. Our latest forecast is for a full year contraction in the range 1.0-1.5, while the **United States unemployment rate will rise from its current 6.7 per cent to 8.5 per cent towards the end of 2009 – the highest since 1983**. Obama's fiscal stimulus plan aims to create three million jobs but a key question is how efficiently state money will be spent and whether it can be mobilized quickly enough. Monetary policy will also be important – albeit in new guises. We are likely to see a period of negative consumer price inflation, the Fed target rate staying at 0-0.25 per cent through the year and increasingly unorthodox interventions from Federal Reserve Chairman Ben Bernanke. As one of the foremost experts of the 1930s' deflationary spiral, Bernanke will innovatively use 'quantitative and qualitative easing' – bringing more and a broader range of assets onto the central bank balance sheet.

9. Turning to matters less economic, but no less important (!), the 2009 Ashes will see an Australia side that has fallen from grace doing battle in England and Wales – with the first ever Test match there at Sophia Gardens in Cardiff. **The effect of losing Warne, McGrath, Gilchrist *et al.* will see one reason to cheer despite the United Kingdom's economic woes as England win the series 2-1.** As a mark of how the major powers of world cricket have changed, we will have to wait until early 2010 for the more significant battle as India host South Africa – who could well be ranked the first best Test nation by then.

10. The cebr central forecast was for Liverpool to win the Premiership title for the first time since 1990 in 2009. This view, however, was taken before their captain and spearhead was arrested. **Manchester United are still the bookies' favourites and we are backing Sir Alex's men to storm through the second half of the season and take the title in all too predictable fashion – and make it three in a row, equaling their 1998-2001 feat**. The author also believes strongly that **Hull City** will stay up despite their Christmas disaster.

Wishing you a happy New Year, from all at cebr.

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