

## UK Forecast

## A slow return to growth

UK Economy		Price Inflation (HICP)		GDP (Growth)		10 Yr Gilt Yields		Base Rates		\$/£		£/Euro	
		2010	2011	2010	2011	End 2010	End 2011	End 2010	End 2011	End 2010	End 2011	End 2009	End 2010
Market participants forecasts		%	%	%	%	%	%	%	%				
	High	3.40	2.50	2.20	3.05	5.13	5.00	2.00	3.00	1.79	1.75	1.00	0.95
	Low	1.50	0.10	0.40	0.80	3.40	4.40	0.50	0.50	1.31	1.55	0.80	0.79
	Median	2.40	1.78	1.20	2.10	4.50	4.80	1.00	1.75	1.65	1.65	0.85	0.84
	Last month median	2.10	n/a	1.30	n/a	4.43	n/a	1.25	n/a	1.68	n/a	0.85	n/a
Legal & General Investment Management		2.60	1.40	1.70	2.70	4.50	5.00	0.50	1.50	n/a	n/a	n/a	n/a

Source: Bloomberg and LGIM estimates

The forecasts above are taken from Bloomberg and represent the views of between 20-40 different market participants (depending on the economic variable). The 'high' and 'low' figures shown above represent the highest/lowest single forecast from the sample. The median number takes the middle estimate from the entire sample.

The UK finally emerged from recession during the fourth quarter of 2009. However the magnitude of growth (a 0.1% expansion in GDP during the quarter) was lower than most market participants anticipated.

We have revised our growth (GDP) forecast for 2010 lower this month, from 2% to 1.7%. This reflects the weakness in the fourth quarter of 2009, rather than any change to our quarterly growth profile through 2010. While a full expenditure breakdown is not yet available, it appears as if the UK has yet to receive the boost to growth from a turn in the inventory cycle that we have seen in many other parts of the world. Manufacturing activity should improve over the next few months, but final demand is likely to remain subdued. We remain slightly more optimistic on UK growth in 2010 than the median market participant's forecast of 1.2%.

Despite the spike in the most recent reading on the Consumer Price Index (CPI) to 2.9%, we believe inflation pressures will ultimately subside through the coming year. Recent price pressures have resulted from exceptional events which took place at the end of 2008 that are now affecting the yearly calculation - including the reduction in the standard rate of Value Added Tax (VAT) from 17.5% to 15% and sharp falls in the price of oil.

Given our anaemic outlook for economic growth and ongoing weakness in the labour market we believe inflationary pressures will not build during 2010. Therefore, we retain our view that while we have likely seen the last extensions in the Bank of England's quantitative easing programme, official interest rates will remain on hold at 0.5% through 2010.

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