

UK Forecast

Emerging economy slowdown

| UK Economy | | Price Inflation (HICP) | | GDP (Growth) | | 10 Yr Gilt Yields | | Base Rates | | \$/£ | | £/Euro | |
|---------------------------------------|-------------------|------------------------|--------------|--------------|--------------|-------------------|----------|------------|----------|----------|----------|----------|----------|
| | | Average 2008 | Average 2009 | Average 2008 | Average 2009 | End 2008 | End 2009 | End 2008 | End 2009 | End 2008 | End 2009 | End 2008 | End 2009 |
| Market participants forecasts | | % | % | % | % | % | % | % | % | % | % | % | % |
| | High | 4.30 | 3.50 | 1.80 | 1.70 | 4.85 | 5.07 | 5.00 | 4.50 | 1.90 | 1.96 | 0.86 | 0.84 |
| | Low | 3.10 | 2.00 | 0.80 | -1.60 | 4.20 | 3.95 | 3.50 | 3.00 | 1.68 | 1.50 | 0.78 | 0.72 |
| | Median | 3.80 | 2.70 | 1.20 | 0.70 | 4.35 | 4.34 | 4.50 | 4.00 | 1.76 | 1.68 | 0.80 | 0.77 |
| | Last month median | 3.70 | 2.60 | 1.40 | 0.90 | 4.56 | 4.66 | 4.75 | 4.00 | 1.80 | 1.75 | 0.81 | 0.77 |
| Legal & General Investment Management | | 3.90 | 3.30 | 0.90 | -0.40 | 4.00 | 4.50 | 4.00 | 2.00 | 1.79 | 1.79 | 0.80 | 0.80 |

Source: Bloomberg and LGIM estimates

Amidst the current volatile environment, the table has been altered to extend the range of forecasts to capture a greater sample size. This now reflects more up-to-date adjustments. 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.

Our lead indicator for emerging economies, which aims to predict growth at least nine months ahead, is currently pointing to a sharp slowdown in the region in coming months. The largest pressures forcing this decline have been the dramatic sell off in the region's equity markets and lower Baltic freight levels. The Baltic Exchange's dry sea freight index for global raw materials has slumped recently as economic decline in the developed world, ongoing financial turmoil and weaker demand for commodities from a slowing China has led to fears of a sustained slowdown in global trade.

Our forecasts for the UK remain more cautious than consensus. Falling housing prices, tighter lending conditions and higher unemployment lead us to anticipate negative growth in 2009. While we have been cautious for some time (flagging the possibility of a recession in May) the median consensus forecast has been aggressively revised down during the past few months. We have revised our GDP forecasts lower from last month. We now expect growth to decline -0.4% in 2009, while the median forecast points to be around 0.7%.

In contrast to consensus, our Bank of England model was pointing to a decline in official interest rates last month, which we subsequently saw with the coordinated 0.50% monetary easing from the major central banks. While this has not been reflected in the median forecast figures for 2008 above, we continue to have one of the lowest base rate estimate for 2009. We anticipate more aggressive policy easing next year than other market participants, as inflation falls back and growth remains weak. Our model suggest that UK official interest rates could decline to 2.00% by the end of 2009.

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