

# The Saturday Economist

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Saturday January 21st 2012



John Ashcroft is Chief Executive of pro.manchester, a director of Marketing Manchester, a member of the Greater Manchester Chamber of Commerce, the AGMA Business Leadership Council and a visiting professor at MMU Business School specialising in Macro Economics and Corporate Strategy.

London School of Economics  
London Business School with a  
PhD in macro economics from  
MMU.

## Base Rates on hold until 2016

Saturday January 21st 2012

The Centre for Economics and Business Research (CEBR) leads with the story - base rates will be kept on hold until the first quarter of 2016. Capital Economics thinks rates will first rise in Q1 2015 and the Ernst & Young Item club considers rates may rise early next year. The majority of economists think that rates will be held beyond the end of the year with just one or two thinking rates may rise by the end of the year.

How can we really know and can we really predict rate rises six years ahead?

Well the obvious answer is no. The best guide can be drawn from the "Taylor rule" which assumes base rates are set as a function of inflation and output. The model assumes rates should rise if inflation is above target but rates should fall if output is below trend. Assuming inflation is at or around target for the next six years and low growth ensures the output gap is maintained or increases, a low interest rate regime could well follow.

Can we be so sure about all of these things over a six year horizon - not really. Doug McWilliams head of CEBR is an old friend but occasionally likes to grab the headlines with those "aliens ate my spreadsheet" stories. This sounds like one of those. On the other hand his forecasting record for 2011 looks pretty good.



Doug McWilliams

### Leading economic forecasts and analysis

"The gold star goes to the Centre for Economics and Business Research, which was nearest the market with a gloomy 1.1% forecast this year. The consensus now is 0.9%. Well done, chaps." - [Evening Standard](#)

"The closest prediction [was] made by the Centre for Economics and Business Research (Cebr)" - [Citywire](#)

"Crystal Ball of the Year Award must go to the Centre for Economics and Business Research run by Douglas McWilliams. It got most of the 2011 calls right" - [Scotsman](#)

Every month, the Treasury publishes a compilation of about 40 independent economic forecasts ... The Centre for Economics and Business Research (Cebr) came closest [with its GDP prediction]" - [Sunday Times](#)

Saturday January 21st 2012

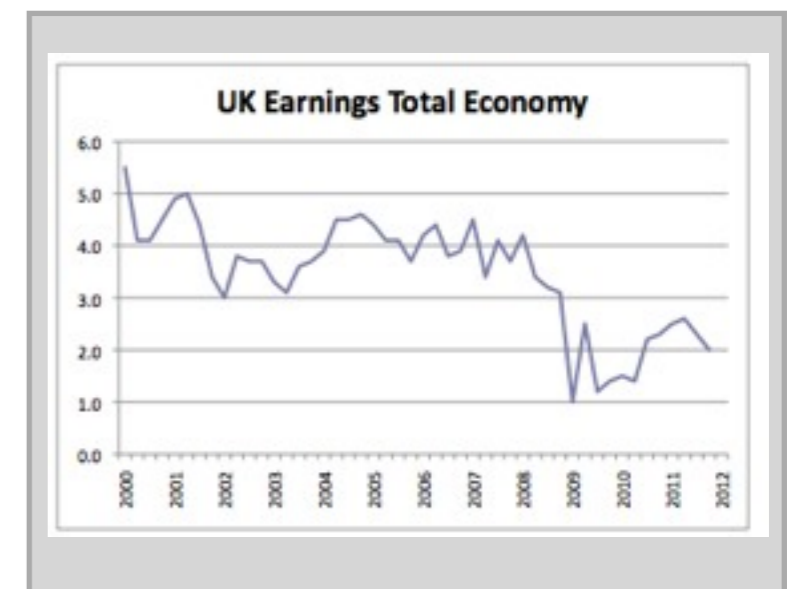
## Inflation falls in December

Inflation CPI basis fell to 4.2% in December from 4.8% in November. Further good news is expected in January as the VAT increase [January 2011] drops out of the series. The headline CPI rate could fall to 3.5% this month. With further unwinds of energy costs in the second quarter, inflation should fall towards target by the end of the year. There is still lots of inflation within the system with energy and utility costs up by 16%. The 2% target will be a challenge.

## Earnings

1.9% was the latest figure for whole economy earnings growth in the three months to November. Inflation CPI over the same period was 5% generating negative real earnings growth of -3.1%. (RPI based the negative earnings figure is worse at 3.5%).

Assuming earnings growth of 2% into 2012, real earnings growth adjusted for inflation will be zero. This is the good news! The average forecast for earnings in 2012 is 2.4% - even better.



Saturday January 21st 2012

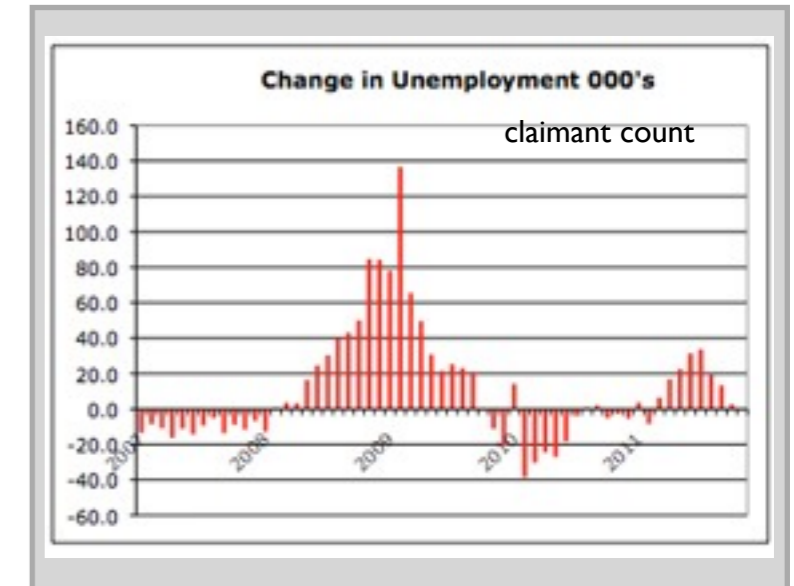
## Unemployment rises in December

The unemployment rate increased to 8.4 per cent in the three months to November, up 0.3 on the quarter. There were 2.68 million unemployed up 118,00 - the highest for seventeen years.

The claimant count in December increased by 1200 to just under 1.6 million. The November figures actually were revised down slightly. The figures suggest the unemployment wave is easing towards the end of the year as the first chart suggests

## Retail sales in December

Retail sales in December were much better than expected with sales values and volumes up by 6.2% and 2.6% compared to December last year. Clothing and footwear sales increased by 6%, food stores up by a modest 1.2% but household goods sales were hammered down by almost 4%. Internet sales were up by 10% accounting for 11% of all retail sales in the month.



Saturday January 21st 2012

## The World Bank casts gloomy over view

The World Bank added to the gloom suggesting the world economy has entered a dangerous period with turmoil in Europe spreading to developing countries.

Slower growth in the RICs within the BRICs suggest the global economy will expand by just 2.5% in 2012 compared to the earlier 3.6% forecast. In the event of a major crisis “high-income countries do not have the fiscal or monetary resources to bail out the banking system or stimulate demand to the same extent as in 2008/09”, the Bank warns. China reported GDP growth in the final quarter of 2011 of 8.9%. Down but far from out.

## The Chancellor warns of bad figures in the fourth quarter

Speaking in Bolton the Chancellor warned the Q4 GDP estimate due next week would be disappointing with negative growth expected. This is surprising since NIESR preliminary estimates suggests growth increased by 1% year on year. Bear in mind in the final quarter of the year there was little snow, no Tsunami and no Royal Wedding. The NIESR forecasts will be correct. Results will not be so as bad as the Chancellor is claiming.



GLOBAL ECONOMIC PROSPECTS

### Turbulent Year Ahead for Global Economy

In a new report, the World Bank downgrades its global growth forecast for 2012 to 2.5% and warns developing countries will be impacted.

Full Report | Video: Andrew Burns on BBC | Release | Blog Post: Uncertainties, Vulnerabilities

Saturday January 21st 2012

## What does the year hold?

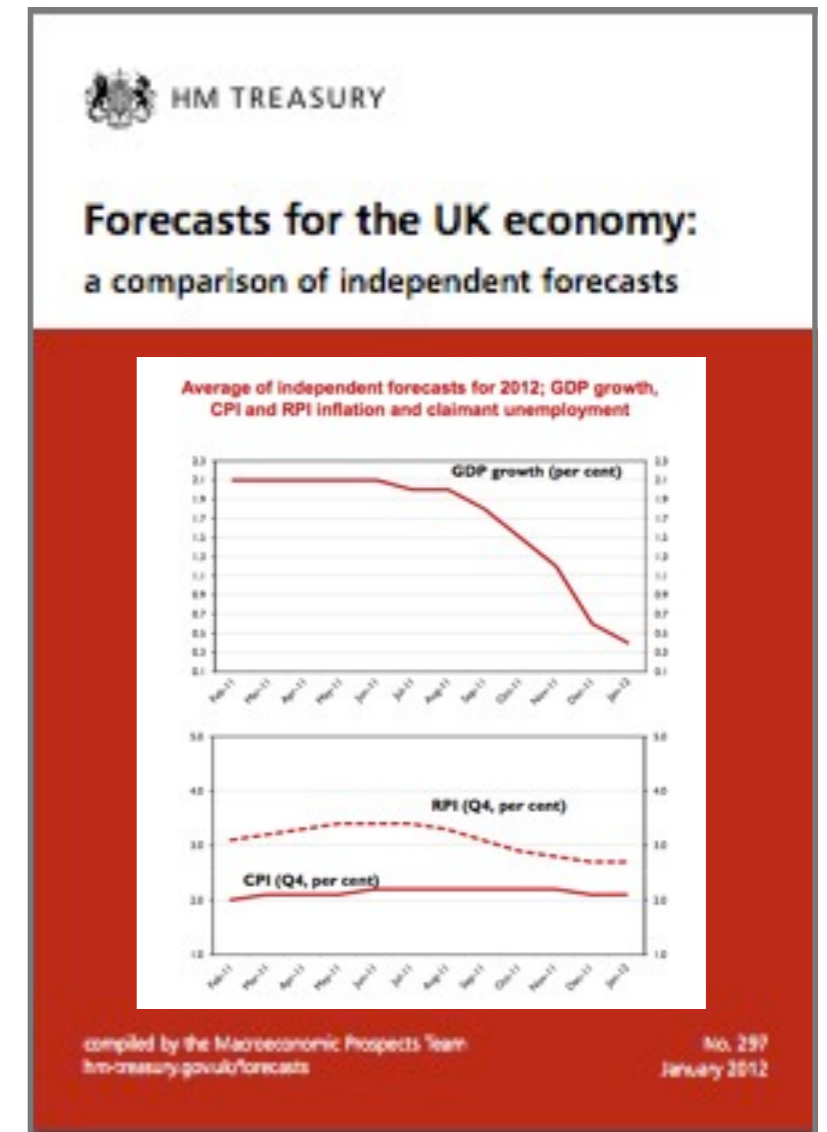
Latest forecasts from the HMT poll of forecasters (18th January) suggest growth will be just 0.4% in the year, with inflation falling to 2.1% CPI basis. Average earnings will increase by 2.4% and the oil price will average \$106. Claimant count unemployment is expected to increase to 1.8 million and the borrowing forecast (PSNB) will hit £118 billion just £2 billion below the OBR forecast in November.

## Round up of the Week

That's it - a round up on the economics news from the Saturday Economist. More news and updates next week.

Details of our current forecasts : The UK in Black and White Forecasts for the UK Economy 2012 - 2015 can be found on this web site and on slideshare.

<http://www.slideshare.net/jkaonline>



## Latest Economic Indicators

Saturday January 21st 2012

| Indicator           | Period   | Latest | Notes                         | Source |
|---------------------|----------|--------|-------------------------------|--------|
| Inflation CPI       | December | 4.2%   |                               | ONS    |
| Inflation RPI       | December | 4.8%   |                               | ONS    |
| Inflation RPIX      | December | 5.0%   |                               | ONS    |
| Earnings            | November | 1.9%   | trailing three months         | ONS    |
| Retail Sales volume | December | 2.6%   |                               | ONS    |
| Retail Sales value  | December | 6.2%   |                               | ONS    |
| Unemployment        | November | 2.68   | LFS Million trailing 3 months | ONS    |
| Unemployment %      | November | 8.4%   | LFS trailing 3 month          | ONS    |
| Claimant count      | December | 1.6m   | Million                       | ONS    |
| PPIs output         | December | 4.8%   | Manufacturing prices (output) | ONS    |
| PPIs input          | December | 8.7%   | Manufacturing prices ( input) | ONS    |

ONS : Office for National Statistics, LFS : Labour Force Survey

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Page 7

## The Saturday Economist

The Saturday Economist is a round up of the week's economics news for the UK published on the web site [johnashcroft.co.uk](http://johnashcroft.co.uk). The information is also available as a PDF download.

The information was originally published in short form in the Sunday Times and Croissants weekly blog post and has been expanded following requests for more information. To receive the weekly SCAT e-mail join me on LinkedIn.

The material in the Saturday Economist is based upon information which we consider to be reliable but we do not represent that it is accurate or complete and it should not be relied upon as such. We accept no liability for errors, or omissions of opinion or fact.

In particular, no reliance should be placed on the comments or trends in financial markets. The publication of this document should not be construed as the giving of investment advice.

Forecasting is fun and subject to frequent revision.

JKA

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The screenshot shows a website page with a dark background. On the left, there is a list of economic indicators: GDP, Inflation CPI, Earnings - whole economy, Unemployment - claimant count, Unemployment - LFS base, Base Rate, Ten Year Gilt, Oil Price - Brent crude, PSNR £, PSNR \$, Manufacturing, Retail Sales, On line sales, Trade in Goods, Trade in Services, Current Balance, House Prices, and Exchange Rates. On the right, there is a portrait of a man. Below the portrait, the title 'The UK Economy in Black and White 2007 - 2015 Forecasts' is displayed. A disclaimer follows: 'The material is based upon information which we consider to be reliable but we do not represent that it is accurate or complete and it should not be relied upon as such. We accept no liability for errors, or omissions of opinion or fact. In particular, no reliance should be placed on the comments or trends in financial markets. The publication of this document should not be construed as the giving of investment advice.' Below the disclaimer is a small portrait of John Ashcroft and his bio: 'John Ashcroft is Chief Executive of pro Manchester, a director of Marketing Manchester and a visiting professor at MMU Business School specialising in Macro Economics and Corporate Strategy. Educated at the London School of Economics and London Business School with a PhD in macro economics from MMU.' The website URL 'www.johnashcroft.co.uk' is at the bottom. The date 'January 2012' is in the bottom right corner.

Details of our current annual forecasts : The UK in Black and White Forecasts for the UK Economy 2012 - 2015 can be found on this web site and on slideshare - [jkaonline](http://jkaonline)

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