

CBI Economic Forecast

- **GDP**

The economy has performed more strongly in the second quarter of 2013 than we expected in our May forecast, and early indications for Q3 suggest further short-term momentum. Output growth was concentrated in the services sector, but the drivers of growth broadened relative to Q1, with upward contributions from both the manufacturing and construction sectors. In the near term, we expect this pace of growth to be sustained in line with evidence of a pickup in underlying activity from a range of surveys. In contrast with domestic demand, global economic conditions have been relatively muted at the start of the year, but we expect a strengthening in the global outlook over the forecast period and a return to growth in the euro area, if only at a very muted pace. That said, developments in the euro area continue to remain a key risk to our forecast.

Although the UK economy appears to be on the path to recovery, there is uncertainty around the sustainability of growth in the medium term. A move to more balanced growth, including stronger growth in investment and exports, will be necessary to secure the recovery.

We have revised up our forecast for UK GDP growth to 1.2% in 2013, reflecting improvements in business and consumer sentiment and better credit conditions. We expect GDP growth of 2.3% in 2014 as the drivers of growth broaden further, with increasing support from residential and business investment, with a relatively neutral contribution from net trade.
- **Inflation and Monetary Policy**

On monetary policy, the Bank's forward guidance should support a further improvement in credit conditions and in business and consumer confidence. There are a number of uncertainties around the prospects for productivity growth and the degree of spare capacity in the economy. A stronger recovery in productivity would imply a more gradual fall in unemployment and consequently would push back a rise in interest rates to a later date, whereas weaker-than-expected productivity would see the unemployment rate falling to the threshold more quickly. Our forecast is for the unemployment rate to fall back only gradually, as hours worked increase and productivity begins to recover. Our central assumption is that interest rates will remain on hold beyond 2014.

CPI inflation is forecast to remain between 2½% and 3% for the remainder of 2013 before gradually falling back to average 2.4% in 2014. We expect the effects of last October's increase in university tuition fees and rises in domestic energy prices to continue to contribute to CPI inflation out to 2014.
- **Households**

Household spending rose at a robust rate in the first quarter of 2013, accompanied by a sharp fall in the saving ratio. The sharp fall in the saving ratio is likely to reflect a temporary effect as a result of the announced reduction in the top rate of income tax - incomes already look to have recovered somewhat in the second quarter. Despite a relatively challenging year for households in 2013, we expect that as sentiment around the economic outlook improves, the precautionary impulse to save will wane. Further out, lower inflation and stronger earnings growth will support incomes, while the FLS should continue to exert a positive effect on mortgage availability and net lending.
- **Investment**

Significant revisions to the measurement of investment have led to weaker business investment growth at the end of 2012 and growth fell at the beginning of 2013, compared with the rise we had built into our May forecast. CBI survey data show that investment plans remained relatively close to their long run average for plant and machinery and buildings in July. We do not expect that recent weakness in business investment will continue in 2013 and that business investment will support growth to a greater extent in 2014.
- **UK Trade**

Export performance is expected to strengthen over the next few years, as global growth picks up. We expect net trade to act as considerably less of a drag on growth this year, reflecting the expectation that the global economy will strengthen through the year. However, broadly flat conditions in the euro area will act as some restraint on UK export growth as the UK rebalances towards other export markets.

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12mth% unless otherwise stated	2012	2013	2014	2013				2014			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Growth & Consumption											
Real GDP	0.2	1.2	2.3	0.3	1.4	1.2	2.0	2.3	2.3	2.3	2.4
Manufacturing output	-1.7	-0.1	3.0	-2.6	-0.6	0.3	2.5	3.4	3.4	2.5	2.6
Household consumption	1.1	1.6	2.1	1.5	1.5	1.7	1.7	1.9	2.1	2.2	2.3
Government consumption	2.8	1.1	-0.6	0.8	2.0	1.2	0.5	0.1	-0.5	-1.1	-1.2
Household savings ratio	6.7	5.2	4.7	4.2	6.1	5.4	5.0	4.8	4.9	4.6	4.4
Investment											
Fixed investment	0.5	-3.2	6.8	-8.3	-5.3	-2.5	4.1	5.8	6.5	7.2	7.7
of which:											
Total business	1.8	-2.8	7.3	-5.5	-3.2	-5.0	2.7	6.0	6.9	7.8	8.5
General government	3.7	-6.7	5.3	-11.3	-11.3	-1.1	-2.2	5.4	5.3	5.3	5.2
Manufacturing	-0.6	3.5	9.8	0.3	4.5	3.5	5.8	9.7	9.9	9.9	9.8
External Trade											
Exports	0.9	0.7	4.9	-0.8	0.7	-0.2	3.0	4.4	4.8	5.2	5.4
Imports	2.8	-0.8	4.4	-0.9	-1.6	-1.3	0.8	4.0	4.3	4.6	4.8
Current account (£bn)	-59.2	-50.1	-44.7	-14.5	-12.4	-11.8	-11.4	-11.3	-11.2	-11.1	-11.1
% of GDP	-3.8	-3.1	-2.7	-3.6	-3.1	-2.9	-2.8	-2.7	-2.7	-2.6	-2.6
Prices											
CPI	2.8	2.7	2.4	2.8	2.7	2.7	2.6	2.4	2.5	2.5	2.4
RPI	3.2	3.1	3.1	3.3	3.1	3.1	3.1	3.0	3.1	3.2	3.1
RPIX	3.2	3.1	3.0	3.2	3.1	3.1	3.0	2.9	3.1	3.1	3.0
Producer output prices	2.8	1.8	2.0	2.1	1.4	1.8	2.0	1.9	2.0	2.1	2.1
Labour Market											
Unemployment (ILO, mn)	2.55	2.51	2.47	2.51	2.51	2.51	2.51	2.49	2.48	2.46	2.45
Unemployment rate (%)	8.0	7.8	7.6	7.8	7.8	7.8	7.8	7.7	7.7	7.6	7.5
Unemployment (CC, mn)	1.58	1.47	1.40	1.53	1.47	1.44	1.44	1.42	1.41	1.39	1.38
Claimant count rate (%)	4.7	4.4	4.1	4.6	4.4	4.3	4.3	4.2	4.1	4.1	4.1
Employment (mn):	27.94	28.14	28.29	28.08	28.14	28.15	28.16	28.20	28.25	28.31	28.37
Average earnings inc. Bonus*	1.4	0.7	2.3	-0.2	0.4	0.9	1.7	3.1	2.1	2.1	2.1
* Average Weekly Earnings											
Public Sector											
Net borrowing (£bn)*	116.5	117.9	104.5								
% of GDP	7.4	7.2	6.1								
*2012/13: excludes APF and Royal Mail transfer *2013/14;2014/15: excludes APF											
Forecast Assumptions											
	2012	2013	2014	2013				2014			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Global GDP	3.2	3.1	3.7	2.8	3.0	3.2	3.4	3.5	3.6	3.7	3.8
UK Bank Rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Oil prices \$ per barrel	111.7	104.9	102.2	112.6	102.6	103.1	101.4	101.3	101.8	102.5	103.2
GBP Trade-weighted index	83.1	80.0	80.3	80.4	80.6	79.8	79.2	79.0	79.5	80.7	81.9
USD/GBP	1.59	1.52	1.46	1.55	1.54	1.50	1.48	1.46	1.46	1.46	1.47
EUR/GBP	1.23	1.17	1.18	1.17	1.18	1.17	1.16	1.16	1.17	1.19	1.21