



## UK economy set for a surprisingly positive 2010

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**This is the first of a monthly series of columns covering economics and markets. This month we look at the UK economy, however in recognition that markets are sensitive to global rather than domestic economic developments, future columns will cover other parts of the world, especially China.**

Not since the election of June 1970 and the unexpected victory of Edward Heath has economic data played such a large role in an election campaign.

Many commentators are predicting, while the Tories are desperately hoping, that the initial estimate of first quarter GDP to be published on April 23<sup>rd</sup> will be negative. Actually it might well be, given severe weather problems in early January, but despite all the fuss over early estimates of GDP, they are only a very rough guide to underlying reality.

Readers may recall that the first estimate of fourth quarter UK GDP was 0.1% and how this provoked an enormous amount of handwringing in the press about how the UK was lagging behind other economies etc. At the time, I suggested that this figure would be revised up and now, the most recent estimate suggests that the economy actually grew by 0.4% in the final quarter of last year, which makes for rather less alarming headlines and I suspect, is still an underestimate.

Is it a surprise that growth has returned to the UK economy? With interest rates cut to 0.5%, the lowest in over 300 years, £200bn of quantitative easing and substantial currency devaluation, the UK has just enjoyed probably the largest monetary stimulus on record, admittedly to deal with the risk of systematic financial meltdown.

We have yet to see the full impact of this monetary largesse and I make three predictions: UK growth will surprise on the upside this year and will beat growth in the Eurozone, the MPC will raise rates before year end and Sterling will enjoy a bounce.

Source: rlam as at 12th April 2010, unless otherwise stated.

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Our reference: 179-PRESS-05/2010-SW