



The UK still has a long way to go

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Such was the shock to the global economic system in late 2008 that we are still living in the shadow of those events.

There is so much doom and gloom economic commentary out there – sovereign debt crisis, rampant food price inflation, prospect of public spending cuts, etc – it feels very difficult to accentuate the positive.

Last month, I noted that the pressures on our modest GDP forecast for next year were actually more to the upside than the downside and, having reviewed our economic outlook for 2011, we are actually more positive on global economic growth prospects than we were in September.

With emerging economies accounting for about half of global GDP, the bulk of the impetus to growth is coming from these areas.

Despite better growth prospects for 2011, our interest rate outlook remains broadly similar, since where monetary policy is concerned, it's the level of economic activity which counts, rather than its growth rate.

Much has been made of the sharp increase in manufacturing output in the UK over the past year. A rise of 6% looks impressive and a clear sign that the UK traded goods sector is benefiting from the rebound in global trade and substantial currency devaluation.

Yet the level of manufacturing output remains 10% below its 2008 peak. The welcome news for mortgage payers is that another year or two of very low interest rates looks the most likely outcome.

Source: rlam as at 8th December 2010 unless otherwise stated.

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