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# The CEBR Forecasting Eye

A WEEKLY BRIEFING FOR BUSINESS PLANNERS

## FOOT AND MOUTH AND STOCK MARKET WEAKNESS TO REDUCE GDP GROWTH TO 2% IN 2001

Foot and mouth disease and the impact of weakening stock markets worldwide are likely to reduce UK GDP growth to around 2%, according to CEBR, a leading economic forecasting group. This forecast is contained in CEBR's latest forecast update, released today in the March 2001 issue of *CEBR Quarterly Business Forecasts*.

Without foot and mouth disease CEBR would have raised its forecast for UK economic growth in 2001 from the 2.3% predicted three months ago to 2.7%. But the economic problems associated with the disease in the livestock and tourist sectors are likely to reduce GDP by around 1%, though some of this impact will be offset by a likely fiscal stimulus from compensation payments and lower interest rates.

With share prices across the globe plunging, a slowdown in the City looks likely. Our fundamental stock market valuation model predicts that the Dow should be valued at 9550, the NASDAQ at 1500, and the FTSE at 6200, which suggests that the US markets still have further to fall. We would expect some overshooting on the way down just at there was 'irrational exuberance' on the way up.

Some business in the City is beginning to dry up and jobs are coming under pressure. The number of firms looking to go public has fallen and the failure of the Orange flotation has forced the cancellation of other telecom issues. CEBR predict that up to 20,000 jobs could disappear in the City this year and next.

The effect of foot and mouth disease on the economy is likely to combine with the impact of falling US rates to allow UK rates to be cut by between 50 and 75 basis points by year end. Moreover, when the foot and mouth episode is over and UK production is recovering while exports remain banned, the likely glut on the UK market will hold down inflation keeping RPI (X) close to its 1.5% bottom band for most of the rest of 2001. But inflation is likely to rise in 2002.

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