



Recession will be much worse, say economists

Britain will suffer a much worse recession than previously imagined but it will not be as bad as in Europe, leading economists forecast today.

By Rowena Mason

12 December 2011 • 6:15am



Experts from Standard Chartered Bank are warning that the UK's economy has already begun to shrink, as companies are laying off workers and household spending is under pressure.

The bank's financial forecasters believe Britain's economy will continue to falter until at least half way through next year, reducing by 1.3 per cent overall in 2012.

However, they predict that economies of eurozone countries, including France and Germany, are likely to see a worse drop of 1.5 per cent as they struggle with the area's debt problems.

While Britain and Europe find it hard to make their economies grow, they will be left behind by countries like China and India.

Gerard Lyons, chief economist at Standard Chartered, predicts there will be a "two-speed world where a fragile West contrasts with a resilient East".

"The UK economy has still not yet recovered to the level where it was when the crisis began," he said. "I think the UK has already slipped back into recession this quarter. So much so, that growth of only 0.6 per cent in 2011 may be followed by a contraction of 1.3 per cent in 2012."

Dr Lyons said the UK would be in a better situation than Europe, but still very "vulnerable".

"The squeeze on real incomes and need to repay debt means people are not spending," he added. "Firms are thinking twice about investing and are now laying off workers, while Europe's recession will dent export prospects."

Standard Chartered was recently ranked the most accurate economic forecaster over the past two years in a survey of 350 companies.

A number of experts have predicted that the UK will slide back into recession at some point next year.

The Organisation for Economic Co-operation & Development (OECD) has warned Britain to prepare for a collapse in growth

It has also predicted that the Bank of England will have to pump another £125 billion into the economy to try to salvage the recovery.

The Treasury still insists that Britain will narrowly avoid recession, although its independent economists admit there will be a period of very low growth next year.

However, Chancellor George Osborne has admitted "if the rest of Europe heads into recession it may prove hard to avoid one here in the UK".

Official forecasters are even placing their hopes on a bout of snow to help the UK.

The Office for Budget Responsibility (OBR) said last week that severe weather before the end of year could skew economic activity in such a way that Britain does not experience two quarters of negative growth.

There is still a danger that the single currency could collapse, despite an agreement between European leaders on Friday.

This would cause a severe knock-on effect on the British economy, even though the UK has opted out of treaty changes that tie European countries closer together.

Sir Mervyn King, the Bank of England's Governor, has claimed that debt problems in Europe are to blame for most of Britain's slumping economic activity since the summer.

He has also warned of the potential for recession, saying there will be "weakness over the next few quarters" but the outcome is unclear.



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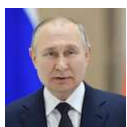
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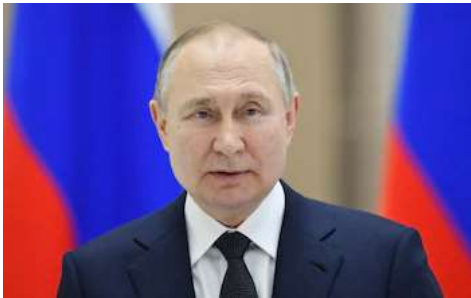
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