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Top ten predictions for 2012 include a country leaving the Euro, economic recession in Europe including the UK, a sharp fall in inflation, a successful Diamond Jubilee and a disappointing Olympics



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We have had an amazing 2011 for forecasting success – all those who have ranked forecasts for the UK so far have given us first prize – and we are anxiously awaiting David Smith's Golden Guru awards when they are published on 8 January in the Sunday Times. We have also had a sort of lifetime achievement award from Citiwire who claim that Cebr and OECD have been the best forecasters of the UK economy since 2004 and from Fasttrack (who are online estate agents) on our house price forecasts who not only say that 'Cebr are the best of the bunch' but that our main commercial rivals in this area are 'shockingly bad'! And after being the first to call the Greek potential default in 2010 we followed up in 2011 by being the first to point out that Italy would also be unable to repay its debt, which has since become conventional wisdom.

Obviously we think that we have got our forecasts less wrong than others because we have a better understanding of what is going on – my background in the Far East enables me to put the UK (and the West's) position in the world in context, our detailed information from our clients for whom we now run 9 tracker surveys gives us real life data to check up on official statisticians and we have a culture of honesty – we admit our forecasting mistakes and learn from them – which is at odds with at least the way government officials seem to behave. But it could just be good luck!

On our actual top 10 for 2011, we got it right on most. The predicted eurozone crisis **emerged as expected**; economic growth **slowed down** worldwide and in the UK; but Germany **was not** the Western economic superstar – though it did better than some; **there was an economic crisis** in Japan (though we did not predict the tsunami); **inflation was not lower** than conventionally expected (it was higher and notably higher than we thought...); **it was a tough** year for consumers; **online and the tech industry continued to drive business**; but **banks did not resume** lending because the euro crisis created a second financial crisis; UK house prices have probably ended slightly down on the year (-2.1% on the Chesterton Humberts poll of polls) – **close to our forecast of no net change**. For our infamous sporting predictions, we got right Manchester United for the League, New Zealand to win the rugby world cup and India to win the cricket world cup. We also predicted that England would beat Sri Lanka in the Test series but said that India would beat England – whereas the result was a 4-0 whitewash to England. We wrongly predicted Real Madrid for the Champions League, which was won by Barcelona in some style.

So here are our top ten predictions for 2012:

- 1) **It now looks as though 2012 will be the year when the euro starts to break up.** It is not a done deal yet – we are only forecasting a 60% probability – but our forecast is that by the end of the year at least one country (and probably more) will leave. We have revised up our forecast of the probability of an eventual breakup within the next decade from an 80% chance to a 99% chance.
- 2) **A modest to severe recession in the West** possibly excluding the US (see below). Depending on how the Euro is managed, European GDP will decline by between 0.6% and 2%. The UK will also probably hit a temporary recession – this could well be happening right now in Q4 2011 and Q1 2012.
- 3) **The US to be the Western economic star** – though with growth around 2% only there will not be much to crow about. We predict that two factors will drive US growth – the strength of profitability and the applications of technology – and that they will start to make a serious difference in 2012. The US has huge economic strengths in operationalising economies of scale and the online world plays to these strengths.

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- 4) **It is going to be another tough year for UK households.** Whereas the squeeze in 2011 came from increased costs – as a result of commodity price hikes and the VAT rise; the squeeze in 2012 is likely to come from reduced income growth – pay may well be largely frozen and we see average earnings increases below 2%, while unemployment is likely to rise sharply as firms who hoarded labour during the initial downturn on the assumption of a normal cycle replan their hiring strategy to take account of an extended downturn. Meanwhile, benefits are set to be squeezed (or more precisely rise by less).
- 5) **We expect inflation to fall sharply.** Yes I know we said this last year and were badly wrong but the laws of economic gravity tend to work eventually – the most difficult thing is to get the timing right! We could see a CPI down to 1% in the second half of the year if public sector charges and public utilities price rises are not excessive. We expect lower commodity prices, affecting especially food and petrol.
- 6) **European banks to be bailed out.** I would expect to see most of the French and German banking systems bailed out to compensate for the writedowns on their sovereign debts. They might even be nationalised as well. Many other European banks will go back into crisis.
- 7) **Some of the cracks start to show in the Asian economic and political success story.** We predict that Chinese growth will slow to a bit over 7% - which for them is a recession (would that we be so lucky!) and India to 6%. A bit like a bicycle that has to progress at a certain speed to be stable, the Asian economic and political systems are based on rapid growth and even the modest slowing down that we predict is likely to lead to popular discontent. It should be possible to clamp down on this, but not without a degree of repression.
- 8) **For the UK there are two special events – the Queen’s Diamond Jubilee and the Olympics.** We think that the former will be a huge success while the latter may be a disappointment. The Diamond Jubilee celebrates the reign of remarkable lady who has kept going into her mid 80s with little sign of flagging and still carries out her duties uncomplainingly. The nation will take her to their hearts.
- 9) **The Olympics will almost certainly reduce London’s GDP** since the Olympic tourists will largely crowd out those who would have come otherwise. The ‘ZIL lanes’ for transporting the IOC officials (many of them people who in a civilised country would be in jail) around in limos, which are required because they wanted the Olympics to be in East London for the ‘legacy’ effects and made the athletes stay there but who themselves insisted on being put up in the Dorchester, will make London’s traffic lanes hell. Obviously I don’t approve of throwing stones at the cars in the ZIL lane but I hope that the contempt of sensible people for the IOC’s behaviour will be registered in some way.
- 10) Now for our infamous sporting predictions. I suspect Manchester United will win the League, though it is not such a certainty as last year. Wales for the 6 nations. England should beat the West Indies easily at cricket and the South Africans with a little more difficulty. Spain should win the European Nations Cup. I expect the home team to do well in the Olympics, though possibly not quite as well as the last time, since other people have learned our trick of investing money in obscure sports to buy relatively easily earned Olympic gold medals.

We wish all our readers a happy new year. If it is prosperous as well, that will be a bonus, though as you can see from the predictions this will be harder to achieve.

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