

## 'Golden economic period' to end

Ten years of "golden" economic performance may come to an end in 2005 with growth slowing markedly, City consultancy Deloitte has warned.

The UK economy could suffer a backlash from the slowdown in the housing market, triggering a fall in consumer spending and a rise in unemployment. Deloitte is forecasting economic growth of 2% this year, below Chancellor Gordon Brown's forecast of 3% to 3.5%. It also believes that interest rates will fall to 4% by the end of the year.

In its quarterly economic review, Deloitte said the UK economy had enjoyed a "golden period" during the past decade with unemployment falling to a near 30 year low and inflation at its lowest since the 1960s.

But it warned that this growth had been achieved at the expense of creating major "imbalances" in the economy. Deloitte's chief economic advisor Roger Bootle said: "The biggest hit of all is set to come from the housing market which has already embarked on a major slowdown. "Whereas the main driver of the economy in recent years has been robust household spending growth, this is likely to suffer as the housing market slowdown gathers pace."

Economic growth is likely to be constrained during the next few years by increased pressure on household budgets and rising taxes, Deloitte believes. Gordon Brown will need to raise about \$10bn a year in order to sustain the public finances in the short term, the firm claims. This will result in a marked slowdown in growth in 2005 and 2006 compared to last year, when the economy expanded by 3.25%. However, Deloitte stressed that the slowdown was unlikely to have any major impact on retail prices while it expected the Bank of England to respond quickly to signs of the economy

faltering. It expects a series of "aggressive" interest rate cuts over the next two years, with the cost of borrowing falling from its current 4.75% mark to 3.5% by the end of 2006. "Although 2005 may not be the year when things go completely wrong, it will probably mark the start of a more difficult period for the UK economy," Mr Bootle.