



Press Release

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SUMMER REPORT PREDICTS GLOOMY WINTER

INTEREST RATES TO RISE TO 5% REPORTS IoD

The latest forecasts from the Institute of Directors (IoD) for the UK economy next year show that interest rates will reach 5% in early 2005.

The evidence for the rise in interest rates is contained in the IoD's Summer Economic Outlook published today which show UK GDP growth of 3.1% in 2004, followed by 2.6% growth in 2005.

Commenting on the latest forecasts, Graeme Leach, Chief Economist at the IoD said:

"It was never going to be an easy task to slow the British economy, but it is proving harder than we expected. In the latest IoD Economic Outlook we speculate as to whether there has been a change in consumer behaviour over recent years, with homeowners now prepared to spend more on housing costs, owing to long-term growth in personal incomes.

"Does this mean the UK economy requires shock therapy? On balance we think the case for a gradualist approach to interest rate rises is still stronger, but it is now a very close call."

The IoD's Summer Economic Outlook indicates that further interest rate rises are needed for 3 reasons:

- concern that the UK may have reached a turning point for inflation;
- strong growth in household wealth and the potential for stronger consumer spending in the future; and

- public sector output – official statistics may be understating the actual volume of Government output and therefore GDP growth.

The IoD also argues that consumers will respond to higher interest rates, despite the limited evidence to date, because:

- total debt servicing costs are actually relatively high, not low; and
- the relationship between house prices and consumption appears to be weaker in the latest economic cycle.

Graeme Leach added:

“If interest rates rise to 5%, there is a 50:50 chance of a HISS (sharp slowdown in UK house prices) versus a POP (significant falls in UK house prices) outcome for the housing market in 2005.”

Ends

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Notes to editors

1. The IoD (Institute of Directors) was founded in 1903 and obtained a Royal Charter in 1906. The IoD is a non-party political organisation with upwards of 54,000 members in the United Kingdom. Membership includes directors from right across the business spectrum – from media to manufacturing, e-business to the public and voluntary sectors. Members include CEOs of large corporations as well as entrepreneurial directors of start-up companies.

2. The IoD offers a wide range of business services which include business centre facilities (including six regional centres), conferences, networking events, issues-led guides and literature as well as information services and free access to a comprehensive business library and enquiry service. The IoD places great emphasis on director development and has established a certified qualification for directors - Chartered Director - as well as running specific board-level and director-level training and individual career mentoring programmes.

3. In addition, the IoD provides an effective voice to represent the interests of its members to government and key opinion-formers at the highest levels. These include ministers, constituency MPs, Select Committee members and senior civil servants. IoD policies and views are actively promoted to the national, regional and trade media.

4. For further information, visit our website: www.iod.com