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Tens of thousands of people could be laid off every week in the run-up to Christmas as the UK economy falls into recession, David Blanchflower of the Bank of England's monetary policy committee warned today.

Blanchflower told MPs to expect "a large increase in unemployment", and warned that a "horrible surprise" could be just around the corner. The gloomy assessment sent shares in London falling, and also weakened sterling yet further against the dollar.

Blanchflower, who has repeatedly tried and failed in recent months to persuade the MPC to cut interest rates, predicted that the unemployment count will rise by 60,000 a month for several months in a row, probably starting in October.

"I believe we will see a deeper economic decline than other people think," Blanchflower told the Treasury select committee, ruling out the possibility that the UK GDP will not shrink.

He added that the employment market will come under extra pressure this autumn when school leavers look to join the workforce.

The claimant count has already risen for the last six months. In July it increased by 20,100, the fastest rate since the early 1990s.

Those who hold onto their jobs through the downturn should also brace themselves for difficult times, Blanchflower warned. "Employees in the private sector are not in a position to ask for higher wages, and employers are not in a position to pay it either."

The FTSE 100 index was down by 64 points following Blanchflower's comments at 5302.2, while sterling fell again today to $1.75.

The MPC has held UK interest rates at 5% for the last five months, as it tries to juggle rising inflation and falling economic growth. While Blanchflower has argued for a cut, other members of the committee believe that soaring inflation poses too much of a threat.

Blanchflower was appearing before the committee as part of a five-man delegation answering questions on the MPC's quarterly inflation report. During the hearing, governor Mervyn King revealed that the Bank will launch a new funding scheme for banks to try to keep the mortgage market afloat.

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