

December 6, 2007



BANK OF ENGLAND

The risks of a slowdown bring on a first rate cut in the United Kingdom

ACCORDING TO THE BANK OF ENGLAND (BoE)

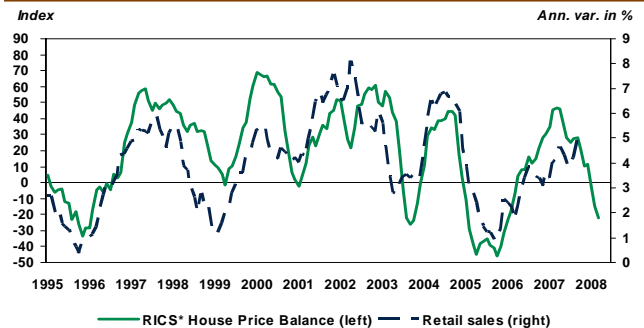
- Following two years of rapid growth, there are now signs that the British economy has begun to slow. Surveys of households and businesses suggest spending is moderating.
- Conditions in financial markets have deteriorated and a tightening in the supply of credit to households and businesses is in train, posing downside risks to the outlook for both output and inflation further ahead.
- Higher energy and food prices should keep inflation above the target in the near term. While upside risks persist, slowing demand growth should ease the pressures on supply capacity, bringing inflation back to target in the medium term.
- In this context, the BoE decided to lower its key rate by one quarter of a point to 5.5%.

COMMENTS

Most analysts had deferred the rate cuts into 2008, but recent events prodded the BoE to be proactive. Like the U.S. Federal Reserve and the Bank of Canada, the BoE decided to lower its key rate by one quarter of a point to 5.5%. This morning's cut does not come as a complete surprise, moreover. The status quo had passed 8 to 1 in October, but the vote was 7 to 2 in November. In addition to heightened tensions on financial markets, which pose a substantial downward risk to growth, the economy is already showing signs of flagging. Consumption remained lively in the third quarter, but the housing sector slowdown indicates that the pace of household spending is not sustainable.

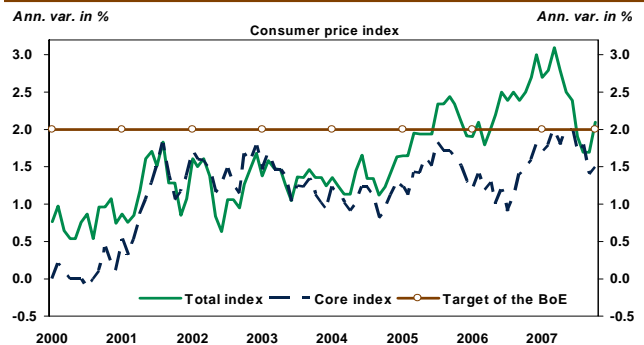
Total inflation (2.1%) is just over the BoE's target of 2.0% but, at 1.5%, underlying inflation gives the BoE all the leeway it needs to ease interest rates. Under these conditions, it is likely the BoE will act once more in the first quarter of 2008. However, unless the liquidity situation deteriorates further or the American economy sags, the BoE, as is its habit, will no doubt want to wait for its February Inflation Report before taking further action.

The real estate market should provide less support to household consumption



* Royal Institution of Chartered Surveyors.
Sources: Royal Institution of Chartered Surveyors, Office of National Statistics and Desjardins, Economic Studies

Core inflation remains contained



Sources: Office of National Statistics, Bank of England and Desjardins, Economic Studies

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**EXCERPT FROM THE BANK OF ENGLAND PRESS RELEASE
DECEMBER 6, 2007**


The Bank of England's Monetary Policy Committee today voted to reduce the official Bank Rate paid on commercial bank reserves by 0.25 percentage points to 5.5%.

Although output in the United Kingdom has expanded at a brisk pace for the past two years, there are now signs that growth has begun to slow. Forward-looking surveys of households and businesses suggest spending is moderating, broadly in line with the projections contained in the November Inflation Report. But conditions in financial markets have deteriorated and a tightening in the supply of credit to households and businesses is in train, posing downside risks to the outlook for both output and inflation further ahead.

CPI inflation was 2.1% in October. Higher energy and food prices are expected to keep inflation above the target in the short term. Although upside risks to inflation remain, which the Committee will continue to monitor carefully, slowing demand growth should ease the pressures on supply capacity, bringing inflation back to target in the medium term. [...]

**Table 1
Schedule and key rates**

Date	Central Bank	Decision	Rate
September 2007			
18	U.S. Federal Reserve	-50 b.p.	4.75
19	Bank of Japan	s.q.	3.00
21	Bank of Mexico	s.q.	7.25
21	Bank of Norway	+25 b.p.	5.00
October 2007			
2	Reserve Bank of Australia	s.q.	6.50
4	European Central Bank	s.q.	4.00
4	Bank of England	s.q.	5.75
11	Bank of Japan	s.q.	0.50
16	Bank of Canada	s.q.	4.50
17	Bank of Brazil	s.q.	11.25
24	Reserve Bank of New Zealand	s.q.	8.25
30	Bank of Mexico	+25 b.p.	7.50
30	Bank of Sweden	+25 b.p.	4.00
31	Bank of Japan	s.q.	0.50
30	Bank of Norway	s.q.	5.00
31	U.S. Federal Reserve	-25 b.p.	4.50
November 2007			
6	Reserve Bank of Australia	+25 b.p.	6.75
8	European Central Bank	s.q.	4.00
8	Bank of England	s.q.	5.75
8	Bank of Japan	s.q.	0.50
23	Bank of Mexico	s.q.	7.50
December 2007			
4	Reserve Bank of Australia	s.q.	6.75
4	Bank of Canada	-25 b.p.	4.25
5	Bank of Brazil	s.q.	11.25
6	European Central Bank	s.q.	4.00
6	Bank of England	-25 b.p.	5.50

s.q.: status quo; b.p. : basis points
Source: Desjardins, Economic Studies

**Table 2
Coming soon**

Date	Central Bank
December 2007	
6	Reserve Bank of New Zealand
7	Bank of Mexico
11	U.S. Federal Reserve
12	Bank of Norway
13	Swiss National Bank
18	Bank of Sweden
19 - 20	Bank of Japan
January 2008	
9 - 10	Bank of England
10	European Central Bank
18	Bank of Mexico
21 - 22	Bank of Japan
22	Bank of Canada
23	Bank of Norway
24	Reserve Bank of New Zealand
29 - 30	U.S. Federal Reserve
February 2008	
5	Reserve Bank of Australia
6 - 7	Bank of England
7	European Central Bank
12	Bank of Sweden
14 - 15	Bank of Japan
15	Bank of Mexico
March 2008	
4	Reserve Bank of Australia
4	Bank of Canada
5 - 6	Bank of England
6	European Central Bank
6	Reserve Bank of New Zealand
6 - 7	Bank of Japan

Source: Desjardins, Economic Studies