



BANK OF ENGLAND

Monetary easing continues in the United Kingdom

ACCORDING TO THE BANK OF ENGLAND (BoE)

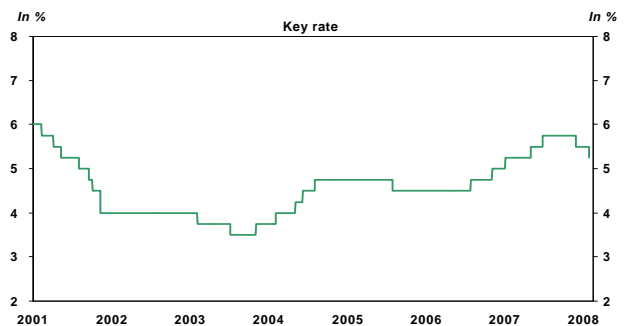
- In the United Kingdom, consumer and business credit conditions are tightening and consumer spending growth seems to have slowed. Economic growth has moderated to close to its historic average, and business surveys suggest the slowdown will continue.
- Inflation was close to the 2% target in December, but the increase in energy and food prices should push it up, perhaps substantially, over the next few months. Moreover, measures of inflation expectation are currently elevated.
- Given this outlook for inflation, some slowing of demand growth is likely to be necessary to return inflation to target in the medium term. The Committee needs to balance the risk that a sharp slowing in activity pulls inflation below the target against the risk that elevated inflation expectations keep inflation above target.
- Against that background, the BoE decided to lower its Bank Rate by one quarter of a point to 5.25%.

COMMENTS

Almost all of the analysts surveyed by Bloomberg were expecting this 0.25% key rate cut from the BoE. The statement accompanying the decision provides a good explanation of the complex situation facing the BoE. On one hand, the economic situation is still deteriorating in the United Kingdom and around the world. On the other, inflation should pick up substantially in the next few months, and go over the 2% target. In a recent speech, BoE Governor Mervyn King warned that 2008 could see above target inflation and a sharp economic slowdown.

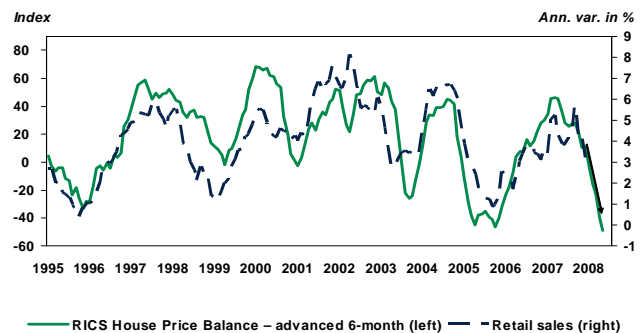
Under these circumstances, we can expect the BoE to remain prudent and limit its key rate cuts to maintain credibility on the fight against inflation. However, at current levels, the United Kingdom's rates still seem overly restrictive, given the clear signs of slowing activity and the problems in the real estate market. After taking a break in March, we believe

Despite the two 0.25% cuts, rates are elevated in the United Kingdom



Sources: Bank of England and Desjardins, Economic Studies

UK real estate market's correction should bring a marked slowdown in consumption



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

the BoE could thus proceed with two further cuts in the second quarter, taking the key rate to 4.75%.

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NOTE TO READERS: The letters **k**, **M** and **B** are used in texts and tables to refer to thousands, millions and billions respectively.

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**EXCERPT FROM THE BANK OF ENGLAND PRESS RELEASE
FEBRUARY 7, 2008**


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 5.25%.

[...] In the United Kingdom, credit conditions for households and businesses are tightening. Consumer spending growth appears to have eased. Although the substantial fall in the sterling exchange rate is likely to promote re-balancing of total demand, output growth has moderated to around its historical average rate and business surveys suggest that further slowing is in prospect. These developments pose downside risks to the outlook for inflation.

CPI inflation, at 2.1% in December, was close to the 2% target, but higher energy and food prices are expected to raise inflation, possibly quite sharply, in the coming months. [...]

Given this outlook for inflation, some slowing of demand growth, by reducing the pressure on capacity, is likely to be necessary to return inflation to target in the medium term. The Committee needs to balance the risk that a sharp slowing in activity pulls inflation below the target in the medium term against the risk that elevated inflation expectations keep inflation above target. [...]

**Table 1
Schedule and key rates**

Date	Central Bank	Decision	Rate
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	Reserve Bank of New Zealand	s.q.	8.25
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
7	Bank of Mexico	s.q.	7.50
11	U.S. Federal Reserve	-25 b.p.	4.25
January 2008			
10	European Central Bank	s.q.	4.00
10	Bank of England	s.q.	5.50
18	Bank of Mexico	s.q.	7.50
21	Bank of Japan	s.q.	0.50
22	Bank of Canada	-25 b.p.	4.00
22	U.S. Federal Reserve	-75 b.p.	3.50
17	Bank of Norway	s.q.	5.25
24	Reserve Bank of New Zealand	s.q.	8.25
30	Bank of Brazil	s.q.	11.25
30	U.S. Federal Reserve	-50 b.p.	3.00
February 2007			
7	Reserve Bank of Australia	+25 b.p.	7.00
4	European Central Bank	s.q.	4.00
7	Bank of England	-25 b.p.	5.25

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

**Table 2
Coming soon**

Date	Central Bank
February 2008	
13	Bank of Sweden
14	Bank of Japan
15	Bank of Mexico
March 2008	
3	Reserve Bank of Australia
4	Bank of Canada
5	Reserve Bank of New Zealand
5	Bank of Brazil
6	European Central Bank
6	Bank of England
6	Bank of Japan
13	Bank of Norway
13	Swiss National Bank
14	Bank of Mexico
18	U.S. Federal Reserve
April 2008	
1	Reserve Bank of Australia
8	Bank of Japan
10	European Central Bank
10	Bank of England
16	Bank of Brazil
18	Bank of Mexico
22	Bank of Canada
23	Bank of Norway
23	Reserve Bank of New Zealand
23	Bank of Sweden
29	Bank of Japan
30	U.S. Federal Reserve
May 2008	
6	Reserve Bank of Australia

Source: Desjardins, Economic Studies