

April 30, 2008



U.S. FEDERAL RESERVE

Is today's 25 basis point cut really the last one?

ACCORDING TO THE U.S. FEDERAL RESERVE (Fed)

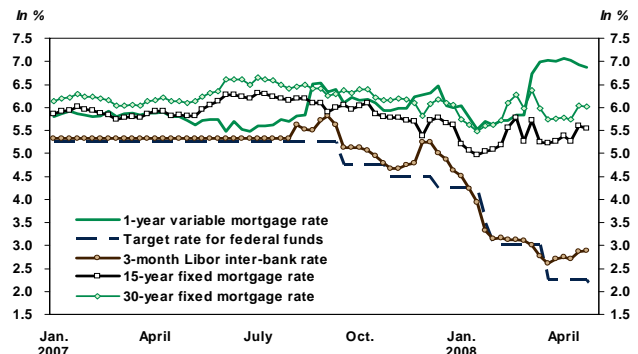
- The Fed announced that it was lowering its key rates by 25 points. The target rate for federal funds thus goes from 2.25% to 2.00%. The discount rate is also down 25 basis points to 2.25%.
- Eight of the monetary policy committee's members voted for the cut. Two members (the Dallas Fed's Richard Fisher and the Philadelphia Fed's Charles Plosser, the same dissenters as in March) were for a status quo.
- The financial markets remain under considerable stress. Tightening credit conditions and intensified deterioration by the housing market should curb economic growth over the quarters to come.
- Core inflation is showing signs of improvement, but some indicators of inflation expectations have deteriorated. The Fed expects inflation to moderate in the coming quarters. Uncertainty about the inflation outlook remains high.
- The Fed will continue to watch the economic and financial situation and act as needed.

COMMENTS

Following their disappointment with a Fed they thought was too timid in mid-March, the financial markets had fully priced in today's reduction in key interest rates. Stabilization by the stock and bond markets over the last month was largely offset by the feeling of urgency that had prevailed since the year opened. The Fed was thus able to temper its enthusiasm. Today's 25 basis point reduction contrasts with the two 75 basis point decisions and the 50 basis point action that came out of the latest meetings. Is this the end to key rate cuts? A number of people think it is. Yet, in its statement, the Fed keeps some leeway by stressing that it will continue to "monitor developments" and "act as needed". It did remove the expression regarding persistent risks to growth, but reiterated that tight credit conditions and weak housing market will continue to weigh on economic growth.

It is difficult to believe that the problems associated with credit are really over. The Fed still says that the financial markets are under considerable stress. Despite the key rate

Despite the Fed's efforts, mortgage rates have changed little, except to increase



Sources: Datastream, Mortgage Bankers Association and Desjardins, Economic Studies

cuts ordered since the financial crisis began and injections of liquidity for financial institutions, mortgage interest rates have not really come down. What's more, at the meeting, the Fed's leaders were able to review the results of the latest survey of financial institutions' credit conditions. We can assume that it is still very difficult for consumers and business to get credit.

However, the Fed must deal with resurgence by inflation fears. The renewed surge by energy prices and concerns surrounding food prices are threatening the anchoring of inflation expectations. The Fed emphasizes the situation in its statement, while anticipating that the economy's slowdown will weaken the pressure.

Implications: The Fed is still facing a dilemma. However, as more bad news is still to come and the Fed will continue to strive to counterbalance credit conditions, another key rate cut at future meetings is not out of the question. However, the inflation situation would have to permit it.

Francis Généreux
Senior Economist

François Dupuis
Vice-President and Chief Economist

Yves St-Maurice
Director and Deputy Chief Economist

Mathieu D'Anjou
Senior Economist

Francis Généreux
Senior Economist

Martin Lefebvre
Senior Economist

Hendrix Vachon
Economist

514-281-2336 or 1 866 866-7000, ext. 2336
E-mail: desjardins.economics@desjardins.com

**EXCERPT FROM THE U.S. FEDERAL RESERVE PRESS RELEASE
APRIL 30, 2008**


[...] The Federal Open Market Committee decided today to lower its target for the federal funds rate 25 basis points to 2 percent.

Recent information indicates that economic activity remains weak. Household and business spending has been subdued and labor markets have softened further. Financial markets remain under considerable stress, and tight credit conditions and the deepening housing contraction are likely to weigh on economic growth over the next few quarters.

Although readings on core inflation have improved somewhat, energy and other commodity prices have increased, and some indicators of inflation expectations have risen in recent months. The Committee expects inflation to moderate in coming quarters, reflecting a projected leveling-out of energy and other commodity prices and an easing of pressures on resource utilization. Still, uncertainty about the inflation outlook remains high. It will be necessary to continue to monitor inflation developments carefully.

The substantial easing of monetary policy to date, combined with ongoing measures to foster market liquidity, should help to promote moderate growth over time and to mitigate risks to economic activity. The Committee will continue to monitor economic and financial developments and will act as needed to promote sustainable economic growth and price stability. [...]

**Table 1
Schedule and key rates**

Date	Central Bank	Decision	Rate
February 2007			
7	Bank of England	-25 b.p.	5.25
13	Bank of Sweden	+25 b.p.	4.25
14	Bank of Japan	s.q.	0.50
15	Bank of Mexico	s.q.	7.50
March 2007			
3	Reserve Bank of Australia	+25 b.p.	7.25
4	Bank of Canada	-50 b.p.	3.50
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	s.q.	5.25
6	Bank of Japan	s.q.	0.50
13	Bank of Norway	s.q.	5.25
13	Swiss National Bank	s.q.	2.75
14	Bank of Mexico	s.q.	7.50
18	U.S. Federal Reserve	-75 b.p.	2.25
10	Reserve Bank of Australia	s.q.	7.25
April 2008			
8	Bank of Japan	s.q.	0.50
10	European Central Bank	s.q.	4.00
10	Bank of England	-25 b.p.	5.00
16	Bank of Brazil	+50 b.p.	11.75
18	Bank of Mexico	s.q.	7.50
22	Bank of Canada	-50 b.p.	3.00
23	Bank of Norway	+25 b.p.	5.50
23	Reserve Bank of New Zealand	s.q.	8.25
23	Bank of Sweden	s.q.	4.25
29	Bank of Japan	s.q.	0.50
30	U.S. Federal Reserve	-25 b.p.	2.00

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

**Table 2
Coming soon**

Date	Central Bank
May 2008	
6	Reserve Bank of Australia
8	European Central Bank
8	Bank of England
16	Bank of Mexico
19	Bank of Japan
28	Bank of Norway
June 2008	
3	Reserve Bank of Australia
4	Reserve Bank of New Zealand
4	Bank of Brazil
5	European Central Bank
5	Bank of England
10	Bank of Canada
12	Bank of Japan
19	Swiss National Bank
20	Bank of Mexico
25	Bank of Norway
25	U.S. Federal Reserve
July 2008	
1	Reserve Bank of Australia
3	European Central Bank
3	Bank of Sweden
10	Bank of England
14	Bank of Japan
15	Bank of Canada
18	Bank of Mexico
23	Reserve Bank of New Zealand
23	Bank of Brazil
August 2008	
5	Reserve Bank of Australia

Source: Desjardins, Economic Studies