

Essentials of the Monetary Policy

May 8, 2008



BANK OF ENGLAND



EUROPEAN CENTRAL BANK

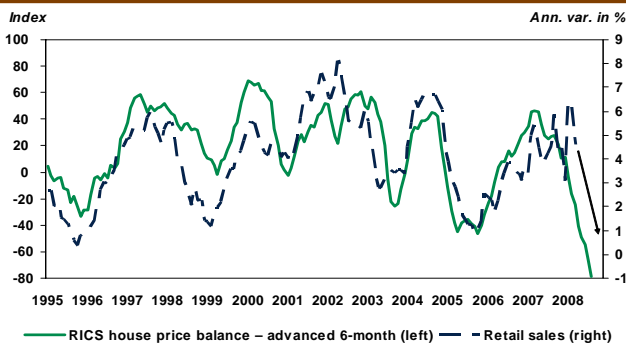
Stuck between inflation and economic slowdown

BANK OF ENGLAND (BoE)

As the vast majority of analysts had predicted, the BoE decided to leave its key interest rate at 5.00% this morning, after cutting it by 25 basis points in April. We can assume that less turmoil in the financial markets, along with inflationary pressures that are likely to push the annual inflation rate up, from 2.5% in March to 3.0% or more within the next few months, convinced the Bank to take a break in its monetary easing despite clear signs of economic slowdown. Since the beginning of May, statistics have shown near-zero growth in activity in the services sector, a drop in industrial production and a further decline in consumer confidence.

Implications: This pause by the BoE does not herald an end to monetary easing in the United Kingdom; in fact, it is quite likely that the key interest rate will be cut once more at the June meeting. The correction in the British residential market is of increasing concern and has the potential to push the economy into recession if no action is taken. However, high inflation is narrowing the Bank's leeway and forcing it to carry out its monetary easing very gradually.

The correction in the British real estate market threatens to rein in consumer spending



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

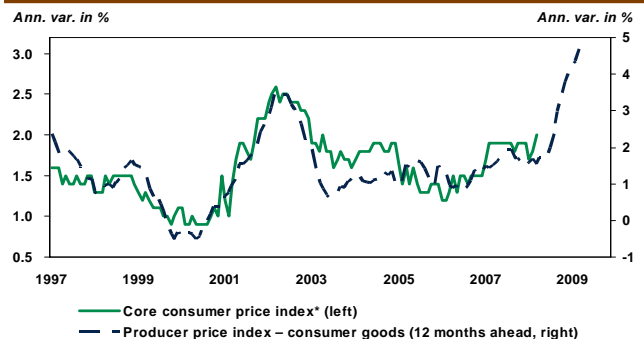
EUROPEAN CENTRAL BANK (ECB)

As expected, the ECB kept its key interest rate unchanged at 4.00% this morning, staying on course towards inflation control. In a context of persistently high oil prices, the ECB worries that inflation levels will impact salary negotiations and generate an inflationary spiral.

For the time being, the flash estimate shows that total inflation, standing at 3.3% in April, has fallen slightly from the peak of 3.6% that was recorded in March. Furthermore, the spreading of high prices from energy to overall consumer prices appears to be contained. However, the ECB remains concerned about the risk of higher production costs being passed on to consumers.

Implications: The ECB remains stuck between inflationary pressures and an economic slowdown. Given its clear mandate to keep prices stable, it will take more concrete signs of subsiding inflation or economic slowdown for the ECB to open the door to rate cuts. In our opinion, that could take some time... until the fourth quarter of 2008 at the earliest.

Rising production costs give rise to concern



* Excludes energy, food, alcohol and tobacco.
Sources: Datastream and Desjardins, Economic Studies

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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 EUROPEAN CENTRAL BANK PRESS RELEASE
MAY 8, 2008**


[...] On the basis of our regular economic and monetary analyses, we decided at today's meeting to leave the key ECB interest rates unchanged. Inflation rates have risen significantly since the autumn, owing mainly to increases in energy and food prices. As we have said on previous occasions, inflation rates are expected to remain high for a rather protracted period of time, before gradually declining again. The latest information confirms our assessment that upside risks to price stability prevail over the medium term, in a context of continuing very vigorous money and credit growth. At the same time, the economic fundamentals of the euro area are sound, and incoming macroeconomic data continue to point to moderate but ongoing real GDP growth. However, the level of uncertainty resulting from the turmoil in financial markets remains unusually high and tensions still persist. Against this background, we emphasise that maintaining price stability in the medium term is our primary objective in accordance with our mandate. The firm anchoring of medium to longer-term inflation expectations is of the highest priority. The Governing Council remains strongly committed to preventing second-round effects and the materialisation of upside risks to price stability over the medium term. We believe that the current monetary policy stance will contribute to achieving our objective. We will continue to monitor very closely all developments over the coming weeks. [...]

**Table 1
Schedule and key rates**

Date	Central Bank	Decision	Rate
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
May 2007			
6	Reserve Bank of Australia	s.q.	7.25
8	European Central Bank	s.q.	4.00
8	Bank of England	s.q.	5.00

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

**Table 2
Coming soon**

Date	Central Bank
May 2008	
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
5	U.S. Federal Reserve
7	Bank of England

Source: Desjardins, Economic Studies