

July 10, 2008



BANK OF ENGLAND

The combination of economic softness and inflation fears dictates caution

ACCORDING TO THE BANK OF ENGLAND (BoE)

- The key interest rate was left unchanged at 5.00%.
- No news release was issued after this morning's decision.
- The minutes of the meeting will be released on July 23.

COMMENTS

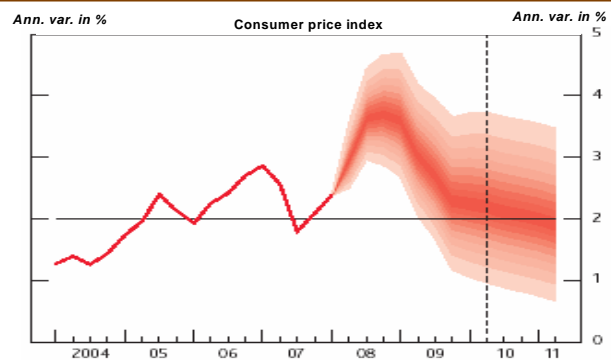
To no-one's surprise, the BoE decided this morning to keep its key interest rate at 5.00%. The combined risks of inflation and economic weakness have eliminated all leeway for the BoE in the short term.

On one hand, inflation gives cause for concern. The annual change in the consumer price index stood at 3.3% in May, surpassing the BoE's target by more than a percentage point for the first time since 1992. Moreover, British monetary authorities are expecting a sharper and longer-lasting increase in inflation, which could reach 4% by the end of 2008.

On the other hand, signs of a slowdown in the U.K. are proliferating. True, retail sales showed surprising vitality in May (3.5% m/m, 8.1% y/y) but that merely reflects early summer purchases due to record temperatures. Although data show that British households are not yet totally upset by fast rises in energy and food prices, the rate of sales growth observed in May is clearly unsustainable. House prices tumbled for an eighth consecutive month in June, pushing the annual variation down by 6.3%, its lowest level since 1992.

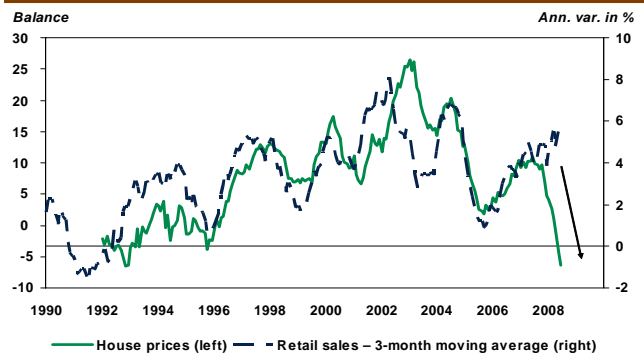
Implications: The BoE is well aware of the problems facing the British economy, but it needs to stop cutting rates for a few months in order to preserve its credibility and curb rising expectations of inflation. However, the scope of the economic slump should convince it to resume its monetary easing in the fall.

Total inflation could exceed the BoE's target by nearly two percentage points by the end of 2008



Sources: Bank of England and Desjardins, Economic Studies

The housing correction could have major repercussions on consumer spending



Sources: Nationwide, 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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**Table 1
Schedule and key rates**

Date	Central Bank	Decision	Rate
April 2008			
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	Federal Reserve	-25 b.p.	2.00
May 2008			
6	Reserve Bank of Australia	s.q.	7.25
8	Bank of England	s.q.	5.00
8	European Central Bank	s.q.	4.00
16	Bank of Mexico	s.q.	7.50
19	Bank of Japan	s.q.	0.50
28	Bank of Norway	s.q.	5.50
June 2008			
3	Reserve Bank of Australia	s.q.	7.25
4	Reserve Bank of New Zealand	s.q.	8.25
4	Bank of Brazil	+50 b.p.	12.25
5	Bank of England	s.q.	5.00
5	European Central Bank	s.q.	4.00
10	Bank of Canada	s.q.	3.00
12	Bank of Japan	s.q.	0.50
19	Swiss National Bank	s.q.	2.75
20	Bank of Mexico	+25 b.p.	7.75
25	Bank of Norway	+25 b.p.	5.75
25	Federal Reserve	s.q.	2.00
July 2008			
1	Reserve Bank of Australia	s.q.	7.25
3	European Central Bank	+25 b.p.	4.25
3	Bank of Sweden	+25 b.p.	4.50
10	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
July 2008	
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	Federal Reserve
7	Bank of England
13	Bank of Norway
15	Bank of Mexico
18	Bank of Japan
September 2008	
2	Reserve Bank of Australia
3	Bank of Canada
4	Bank of England
4	European Central Bank
4	Bank of Sweden
10	Reserve Bank of New Zealand
10	Bank of Brazil
16	Bank of Japan
16	Federal Reserve
18	Swiss National Bank
19	Bank of Mexico
24	Bank of Norway
October 2008	
2	European Central Bank
6	Bank of Japan
7	Reserve Bank of Australia

Source: Desjardins, Economic Studies