



## EUROPEAN CENTRAL BANK

### The ECB stands firm due to elevated inflation

#### ACCORDING TO THE EUROPEAN CENTRAL BANK (ECB)

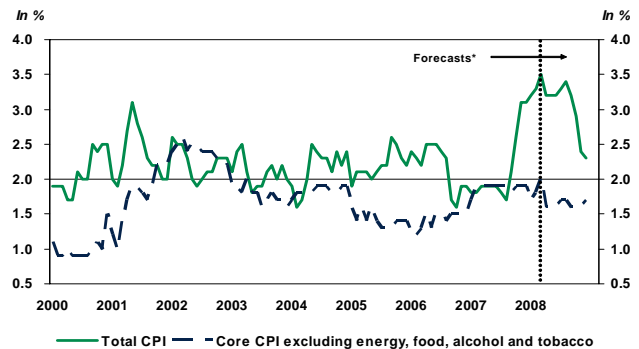
- March's 3.5% inflation confirms strong past pressures and the recent acceleration of short-term upside risks to inflation, mainly arising from energy and food prices.
- The risks surrounding the medium-term inflation projection are still to the upside. There is a risk that prices and wage setting could add to the inflation pressures. Second round effects must be prevented. Indexing wages to prices could lead to an inflation spiral.
- There is still a lot of uncertainty about the prospects for economic growth and the downside risks are prevailing. They are mainly a reflection of the turbulence in the financial markets, which could last longer than forecast and have a more pronounced impact on the real economy.

#### COMMENTS

As expected, the ECB chose to hold steady, keeping its key rate at 4.0% this morning. With annual inflation up 3.5% in March, the ECB is still clearly concerned about inflation risks. Oil prices continue to oscillate at record levels and a number of unions have been able to negotiate sizeable wage agreements in the last few months. However, there is little pass-through by elevated energy prices to consumer prices as a whole. The annual change in the core consumer price index (CPI), which excludes food, tobacco, alcohol and energy, is below 2.0%. Moreover, the risks to the economic outlook are tilted to the downside. The International Monetary Fund (IMF) has cut its growth forecasts to just 1.4% and 1.2% for 2008 and 2009 respectively. Under these circumstances, while the Governing Council states that potential second-wave effects associated with elevated inflation must be prevented, we continue to believe that rate cuts will be ordered as of mid-year.

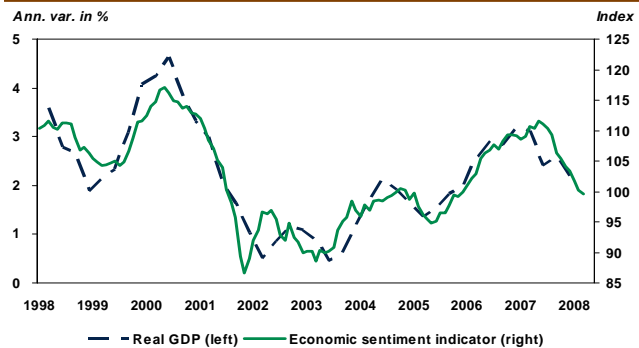
**Implications:** Elevated inflation is a concern, but the economic situation should lead to some deceleration in the next few months. However, it will take more concrete signs of an economic slowdown in the euro zone before the ECB initiates a monetary easing cycle. We are not ruling out a

#### Euro zone: Inflation picked up again in March, but should retreat starting in the next few months



\* Assuming average monthly growth since 1996.  
Sources: Datastream and Desjardins, Economic Studies

#### The confidence indicators are pointing to an economic slowdown



Sources: Eurostat and Desjardins, Economic Studies

rate cut in June, but the ECB's monetary rectitude (Jean-Claude Trichet has carefully reiterated that the ECB only had one needle in its compass and, as a result, the monetary policy was aimed at securing price stability) could mean that rate cuts would be put off until the summer.

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**EXCERPT FROM THE EUROPEAN CENTRAL BANK PRESS RELEASE  
APRIL 10, 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. The latest information has confirmed the existence of strong short-term upward pressure on inflation. In fact, we are experiencing a rather protracted period of temporarily high annual rates of inflation, resulting mainly from increases in energy and food prices. The latest information also clearly confirms our assessment of prevailing upside risks to price stability over the medium term, in a context of continuing very vigorous money and credit growth. The economic fundamentals of the euro area are sound. 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 may last longer than initially expected. 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 to the Governing Council and there is certainly no room for complacency in this regard. We believe that the current monetary policy stance will contribute to achieving our objective. 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 will continue to monitor very closely all developments over the coming weeks. [...]

**Table 1  
Schedule and key rates**

Date	Central Bank	Decision	Rate
<b>January 2008</b>			
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
<b>February 2007</b>			
4	Reserve Bank of Australia	+25 b.p.	7.00
7	European Central Bank	s.q.	4.00
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
<b>March 2007</b>			
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
<b>April 2008</b>			
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

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

**Table 2  
Coming soon**

Date	Central Bank
<b>April 2008</b>	
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
<b>May 2008</b>	
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
<b>June 2008</b>	
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
<b>July 2008</b>	
1	Reserve Bank of Australia
3	European Central Bank

Source: Desjardins, Economic Studies