

8 May 2008

Economic News

MONETARY POLICY

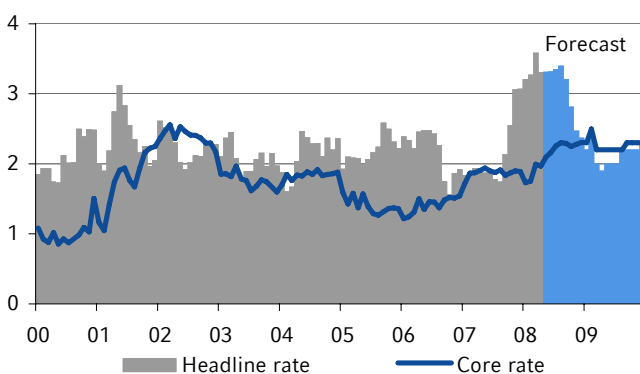
No change in ECB's stance

At today's meeting, the ECB committee left its key interest rates unchanged. ECB President Trichet continued to place emphasis on inflation risks, with no notable shift in his familiar rhetoric on economic growth. Accordingly, the ECB is keeping its options open regarding future monetary policy.

- Despite the latest drop in Eurozone **inflation**, the ECB's rhetoric on inflation remained virtually identical. ECB President Trichet re-emphasised that the central bank's primary concern is **price stability**. He added that current monetary policy is focused on warding off a rise in inflation expectations in the medium term and the possibility of second-round effects as a result. Trichet made no reference to comments from some council members – notably Bundesbank President Weber – that suggested they were toying with the idea of a rate hike.
- Trichet's comments on **economic growth** in the Eurozone likewise remained substantially unchanged from the previous two months. The ECB foresees moderate but ongoing growth in the Eurozone. Although a few economic indicators such as the Ifo business climate index and purchasing managers index have deteriorated of late, there is no danger of a severe slump comparable to the one in the USA.
- On balance, based on today's decision and Trichet's statement, the ECB is **keeping its options open regarding future monetary policy**. We believe the ECB, in its effort to find a balance between maintaining price stability and promoting growth, will continue to keep policy rates constant. The meeting in June should prove more interesting, as the ECB is scheduled to publish its new projections then. Given the likelihood of further deteriorating climate indicators and continued high inflation, how will the central bank describe its growth and inflation outlook? The dilemma between high inflation rates on the one hand and growth risks on the other will presumably continue. As long as the ECB is caught in this balancing act, its monetary policy will probably stand pat.

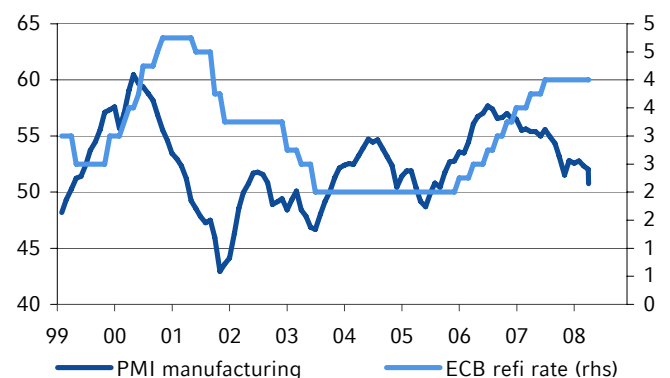
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Eurozone consumer prices
in % y/y



Source EcoWin, WestLB Research

ECB policy rate and Purchasing Managers Indices
in % and index points



Source EcoWin, WestLB Research

ECB information

Schedule of ECB's interest rate decisions

	Date*
2008	10 January
	7 February
	6 March
	10 April
	8 May
	5 June
	3 July
	7 August
	4 September
	2 October
	6 November
	4 December

* Source: ECB

Forecasts (% y/y)

	GDP		Consumer prices	
	2008	2009	2008	2009
ECB				
June 2007	2.3	-	2.0	-
September 2007	2.3	-	2.0	-
December 2007	2.0	2.1	2.5	1.8
March 2008	1.7	1.8	2.9	2.1
WestLB	1.6	1.5	3,1	2.1

Source ECB, middle of the projected range.

Euro zone

	2007	2008	2009	2007		2008			
				Q3	Q4	Q1	Q2	Q3	Q4
Real GDP (% y/y)	2.6	1.6	1.5	2.7	2.2	1.8	1.8	1.4	1.4
Real GDP (% q/q)				0.7	0.4	0.4	0.3	0.3	0.3
Consumer prices (% y/y)	2.1	3.1	2.1	1.9	2.9	3.4	3.3	3.3	2.6
Budget balance (% of GDP)	-0.6	-1.1	-1.0						
Unemployment rate (%)	7.4	7.1	7.0						
Current account balance (% of GDP)	0.1	0.1	0.2						

Source EcoWin, WestLB Research; 2008-09: WestLB forecast.

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