

7 August 2008

# Economic News

## EUROPEAN CENTRAL BANK

### Policy rates held constant – risks to growth stressed

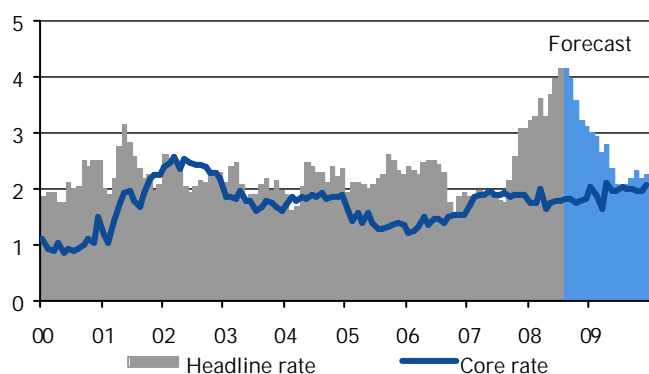
The ECB today left its policy rates unchanged. At the follow-up press conference, Trichet stressed risks to growth more strongly than in the past. In view of the pronounced economic weakness, which not even the ECB anticipated to be so severe, the likelihood of further rate hikes is remote. On the contrary, we look for an easing of monetary policy at the beginning of next year.

- As expected, Trichet retreated only marginally from his hawkish position of recent weeks and re-emphasised that inflation risks continue to point upward. According to the ECB's statement, the bank does not see the significant drop in the oil price over the past few weeks as signalling a trend as yet. There is thus no evidence that the ECB will be in any hurry to reverse the rate hike delivered in July. Accordingly, we continue to expect that interest rates will be held constant for the remainder of the year.
- However, Trichet placed greater emphasis on concerns of a slowdown in economic activity. The ECB also implicitly admitted that it was surprised by the severity of the economic slump in the eurozone. Trichet said in his statement that growth rates for mid-2008 were likely to be weaker, which had partly been expected. When questioned about this, he remarked that downside risks to growth, which had previously been identified, are now materialising. In our view, a eurozone recession can no longer be ruled out this year and we still expect rate cuts from Q1 2009 onward.
- The **Bank of England** likewise left its policy rates unchanged today. As is customary, no policy statement was issued today; any information regarding the discussion within the Monetary Policy Committee will only be available when the minutes are published. Continued weaker economic data prompted the BoE not to raise policy rates despite the significant overshooting of the inflation target. Like the eurozone, the UK economy is currently on the verge of a recession. We continue to expect the Bank of England to lower rates at the beginning of next year.

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#### Eurozone: consumer prices

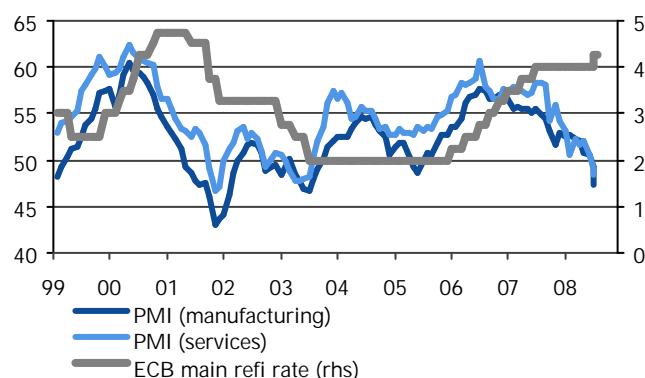
% y/y



Source EcoWin, WestLB Research

#### ECB policy rate and PMI

% and index points



Source EcoWin, WestLB Research

## ECB information

### Schedule for ECB's interest rate decisions

	Datum
2008	<del>3 July</del>
	<del>7 August</del>
	4 September
	2 October
	6 November
	4 December
2009	15 January
	5 February
	5 March
	2 April
	7 May
	4 June

Source: ECB.

### Forecasts (% y/y)

	GDP		Consumer prices	
	2008	2009	2008	2009
<b>ECB</b>				
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
June 2008	1.8	1.5	3.4	2.4
<b>WestLB</b>	1.7	1.2	3.6	2.4

Source ECB, middle of the projected range.

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