

DISSECTION - THE EUROPEAN CENTRAL BANK PRESS CONFERENCE

	July 2, 2009	June 4, 2009	May 7, 2009
THE TD TAKE	The prepared remarks this month were virtually a carbon copy of last month's. The outlook for inflationary pressures was downgraded from "moderate" to "low." And, on the recent ECB tender, the Governing Council saw this as "significant," but Trichet was unwilling to say whether a spread over the ECB rate may be used next time to limit the takeup on this somewhat, nor contingencies if this liquidity is not passed on to the economy. Barring new shocks, we see the ECB outlook likely to be steady as she goes until at least 2009Q4, when we will have a better sense of the strength of any short-term rebounds and medium-term recovery.	There were little new in this month's rate decision or press conference. The details on the covered bond purchase program of €60bn were announced. These purchases will start in June and be spread over 12 months, so very slight indeed in terms of actual impact. There was also no willingness to comment on any expanded purchases in the future or further reductions in interest rates, though further cuts were not ruled out. However, the ECB's new midpoint forecast for GDP growth of -0.4% in 2010 - and no quarterly positive growth until mid-2010 - and inflation of 1% creates a higher hurdle for further cuts in interest rates than earlier hikes.	The Governing Council took the path of least resistance this month, only discussing and deciding on issues on which they could achieve unanimity. The refi rate was lowered by 25bps while the corridor was narrowed to 75bps (so deposit rate unchanged and lending rate reduced by 50bps). The GC did not decide this is an explicit floor for rates, they just decided not to decide that explicitly for now. For alternative medicine, refi operations maturities were increased to 12 months, and the ECB decided in principle to purchase around €60bn in covered bonds, both of which will only take place in June after the next policy meeting. Trichet went out of his way to explain this is not QE, but credit easing to revive a segment of the market. With a €50bn increase in ongoing QE operations announced by the BoE, for an economy one-fifth the size of the EZ, the ECB distaste for anything tasting like QE remains. And interestingly, on credit in the economy, all mention of supply constraints were removed. Without precommitting, Trichet did signal not to expect much but clarifications next month.
REAL ACTIVITY			
Consumer	...further deterioration in labour markets, which are likely to materialise over the coming months.		...a number of adverse developments which are likely to materialise over the coming months, such as a further deterioration in labour markets.
Investment	...past reductions in key ECB rates have continued to be passed on through lending rates to both non-financial corporations and households.	<u>The past reductions in key ECB rates have continued to be passed on to lending rates</u> to both non-financial corporations and households.	...sharp declines in rates for such loans to households and non-financial corporations. As the transmission of monetary policy works with lags, our policy action will progressively feed through to the economy in full...
ECB Assessment	...economic activity over the remainder of this year is likely to remain weak but should decline less strongly than was the case in the first quarter of 2009. ...positive quarterly growth rates is expected by mid-2010. ...risks to the economic outlook are balanced.	...positive quarterly growth rates are expected by mid-2010. ...June 2009 Eurosystem staff macroeconomic projections for the euro area... annual real GDP growth will range between -5.1% and -4.1% in 2009 and ... -1.0% and 0.4% in 2010	...tentative signs of a stabilisation at very low levels. ...Overall, economic activity is likely to be very weak for the remainder of this year, before gradually recovering in the course of 2010. ...the risks to this outlook remain broadly balanced...
INFLATION			
Non-labour prices	... <u>low inflationary pressures</u> over the medium term...	...price and cost developments are expected to remain dampened in the wake of ongoing sluggish demand in the euro area and elsewhere....moderate inflationary pressure...	...signs of a more broad-based reduction in inflationary pressure are increasingly emerging...
Wages			
Credit	...continued deceleration in monetary dynamics....This concurrent deceleration supports the assessment of a slower underlying pace of monetary expansion and low inflationary pressures over the medium term....A moderate monthly contraction in the outstanding amount of loans to non-financial corporations...are mostly due to a decline in short-term lending...	...MFI loans to the private sector contracted somewhat further in April....mainly due to a negative flow of short-term lending to non-financial corporations, which partly reflects a lower need for working capital...and greater recourse to liquidity buffers in financing such working capital...longer-term lending to non-financial corporations remained positive....	The reduced amount of financing is again related mainly to loans with shorter maturities, while the net flow of loans with longer maturities remained positive. <u>The decline in short-term lending is likely to reflect to a large extent lower demand</u> in the wake of a sharp deterioration in economic activity and business prospects at the start of the year.
Expectations	...Available indicators of inflation expectations over the medium to longer term remain firmly anchored...	...available indicators of inflation expectations over the medium to longer term remain firmly anchored...	...available indicators of inflation expectations over the medium to longer term remain firmly anchored...
ECB Assessment	...we expect price developments to remain dampened over the policy-relevant horizon....short-term movements are not relevant from a monetary policy perspective....Risks to the outlook for inflation are broadly balanced...	...price developments over the policy-relevant horizon will remain dampened...June 2009 Eurosystem staff projections...HICP inflation is seen to range between 0.1% and 0.5% in 2009...[and] 0.6% and 1.4% [in 2010], broadly unchanged from the March 2009...projections.	HICP inflation is likely to remain positive and below 2% in 2010, with price developments being dampened by ongoing sluggish demand in the euro area and elsewhere....The risks surrounding this outlook are <u>broadly balanced</u> .
GC REASONING			
Balance of Risks	...assessment of low inflationary pressure, as money and credit indicators continue to be weak...This assessment incorporates adverse lagged effects, such as a further deterioration in labour markets	...the risks to the economic outlook are balanced....there may be stronger than anticipated effects stemming from...macroeconomic stimulus...Confidence may also improve more quickly...On the other hand, concerns remain...a stronger impact from the turmoil in financial markets, more unfavourable developments in labour markets... <u>Risks to these [inflation] projections are broadly balanced...</u> on the upside they relate to higher than expected commodity prices.	...there are concerns that the turmoil in financial markets could have a stronger impact on the real economy...there may be stronger than anticipated positive effects due to the decrease in commodity prices and to the policy measures taken...The Governing Council will ensure that, once the macroeconomic environment improves, the measures taken can be quickly unwound...
ECB Assessment	...the current rates remain appropriate...	The current rates are appropriate taking into account our decisions of early May, including the enhanced credit support measures...	...after today's decisions we expect price stability to be maintained over the medium term...
Decision	Unchanged at 1.00%	Unchanged at 1.00%	25bps cut to 1.00% (deposit rate unchanged/lending rate -50bps)
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