



Economics Weekly

6 April 2009

Focus on BoE interest rate meeting and US Fed minutes

With the G20 meeting and the ECB's interest rate decision out the way, this week's focus is on the BoE's MPC meeting, on Thursday, and the minutes of the Fed's 17/18 March meeting, published Wednesday. The G20 concluded with agreement to add another \$1.1tn of cash to support the IMF in stabilising the world economy. But the ECB surprisingly delayed a full 0.5% interest cut, opting instead for a 0.25% reduction to 1.25% (another 0.25% cut is likely at the May meeting) and postponing buying of corporate bonds. This week, we will find out if the BoE plans to take further action on the banking crisis and the economy. But with official interest rates already just 0.5%, there is unlikely to be any change. Furthermore, we may have to wait for the minutes of the meeting published on 22nd April to find out initial progress on the £75bn Asset Purchase Programme and for any information to suggest whether or not the full £150bn of purchases will be required. In the US, the Fed FOMC minutes may inform on the debate around its unanimous decision to buy up to \$300bn long-term treasuries and to expand purchases of mortgage and agency backed securities. The BoJ and the central bank of Australia meet, and are both expected to hold interest rates at 0.1% and 3.25% respectively. UK and US financial markets are closed on Good Friday.

- Recent business surveys show that manufacturing output continues to fall, but at a slower pace, and this trend may be confirmed in February's monthly official industrial production figures. Producer input price data for March are also published. They may add to business concerns, as raw material price inflation may have accelerated in March, at the same time as weak market conditions may have kept factory gate inflation very low. This combination of falling output and slowing price growth, but faster cost growth, will maintain pressure on firms to cut jobs, and this will present a downward drag on output in Q2. Also published, the March NIESR 3-month rolling GDP estimate (a lead indicator for official GDP) will complete the Q1 data series. It is likely to show the recession deepening in Q1. The UK's external trade deficit may have narrowed slightly to £7.6bn in February from £7.7bn in January, due to a £100m improvement in the non-EU deficit.
- US net consumer credit may have declined by \$3bn in February, highlighting that credit conditions are still very tight and consumer confidence is weak. Part of the problem lies with the fact that banks are still saddled with 'toxic loans', as the US Treasury's public-private partnership plan to deal with them will not bring a quick solution to the lack of credit availability. In the meantime, the 6-month average job loss figure is around 620,000, bringing to 5m the total number of jobs lost since the start of the recession, exacerbating economic decline. Other key US data include the February trade deficit, which may be close to the previous month's figure of \$36bn and the March Treasury deficit which may increase sharply to \$160bn in March, possibly related to the fiscal stimulus plan.
- Weak eurozone economic data suggest that the ECB will implement some form of quantitative easing at next month's meeting, as hinted at by President Trichet last week. This week, we expect to see further falls in EU-16 retail sales in February, highlighting that consumer spending is continuing to fall. Other insightful publications include German factory orders and industrial output, which will remain very weak, as intra- and extra- EU trade has collapsed. Final publication of EU-16 Q4 GDP should confirm that output contracted by 1.5% on the quarter and will include household and corporate sector balance sheets.

Nichola James, Senior Economist, Corporate Markets

Chart a: Inter-bank interest rates are significantly lower and spreads with official rates narrower...

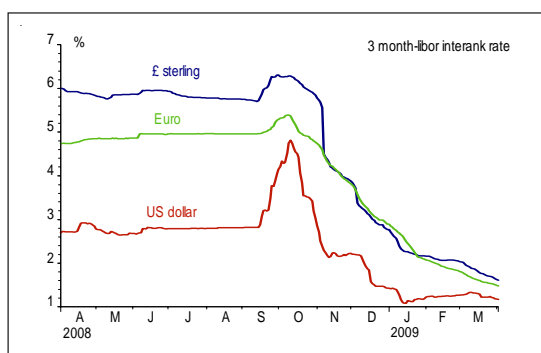


Chart b: ...and market expectations are that they will stay low - but access to and demand for credit is tight, curtailing economic growth



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Date	United Kingdom	United States	EU-16
Mon 6			EU-16 producer prices (10:00) Jan -0.8% Y-O-Y -0.5% Feb (f'cast) -0.4% Y-O-Y +0.3% Median -0.4% Range -0.7%:+0.2% EU-16 retail sales (10:00) Jan +0.1% Y-O-Y -2.2% Feb (f'cast) -0.2% Y-O-Y -2.4% Median -0.4% Range -0.8%:+0.2%
Tue 7	Industrial production (sa) Jan -2.6% Y-O-Y -11.4% Feb (f'cast) -1.5% Y-O-Y -12.8% Median -1.2% Range -2.5%:-0.4% Manufacturing output (sa) Jan -2.9% Y-O-Y -12.8% Feb (f'cast) -1.8% Y-O-Y -14.7% Median -1.5% Range -3.0%:-0.4%	Consumer credit (sa) (20:00) Jan +\$1.8bn Feb (f'cast) -\$3.0bn Median -\$1.3bn Range -\$5.0bn:+\$4.3bn	EU-16 GDP (final) (10:00) Q4 (prel) -1.5% Y-O-Y -1.3% Q4 (f'cast) -1.5% Y-O-Y -1.3% Median -1.5% Range -1.5%:-1.5%
Wed 8	NIESR GDP estimate (00:01) (Mar) Feb -1.8%	Wholesale inventories (15:00) Jan -0.9% Feb (f'cast) -0.6% Median -0.5% Range -1.0%:+0.8%	German trade balance (07:00) (Feb) Jan +€8.5bn Median +€7.5bn Range +€5.0bn:+€8.1bn French trade balance (07:45) (Feb) Jan -€4.5bn Median -€4.2bn Range -€4.5bn:-€4.0bn German factory orders (11:00) Jan -8.0% Y-O-Y -35.2% Feb (f'cast) -4.0% Y-O-Y -37.6% Median -2.1% Range -6.0%:+1.0%
Thu 9	Producer input prices (sa, prov) Feb +0.6% Y-O-Y +0.5% Mar (f'cast) +0.8% Y-O-Y -0.7% Median +0.9% Range -0.1%:+2.2% Producer output prices (nsa, prov) Feb +0.1% Y-O-Y +3.1% Mar (f'cast) +0.1% Y-O-Y +2.1% Median +0.1% Range -0.1%:+0.6% Producer prices ex FDT (sa, prov) Feb zero Y-O-Y +3.7% Mar (f'cast) +0.1% Y-O-Y +3.1% Median +0.1% Range -0.5%:+0.3% Global visible trade balance (sa) Jan -£7.7bn Feb (f'cast) -£7.6bn Median -£7.6bn Range -£7.7bn:-£7.1bn Non-EU trade balance (sa) Jan -£5.7bn Feb (f'cast) -£5.6bn Median -£5.5bn Range -£5.7bn:-£4.8bn BoE MPC interest rate decision (12:00) Current: 0.50% Forecast: 0.50%	Initial claims (w/e 3/4) (13:30) Previous 669K Forecast 650K Median 660K Range 650K:675K Trade balance (sa) (13:30) Jan -\$36.0bn Feb (f'cast) -\$36.5bn Median -\$36.5bn Range -\$39.5bn:-\$33.0bn Import prices (13:30) Feb -0.2% Y-O-Y -12.8% Mar (f'cast) +0.8% Y-O-Y -14.6% Median +0.9% Range -0.6%:+2.5%	German CPI (07:00) (final) Feb +0.6% Y-O-Y +1.0% Mar (f'cast) -0.1% Y-O-Y +0.5% Median -0.1% Range -0.2%:+0.1% German industrial output (11:00) Jan -7.5% Y-O-Y -19.3% Feb (f'cast) -2.5% Y-O-Y -21.3% Median -3.0% Range -9.0%:+1.0%
Fri 10	Markets closed - Good Friday	Treasury statement (sa) (19:00) Feb -\$48.2bn Mar (f'cast) -\$160.0bn Median -\$150.0bn Range -\$192.7bn:-\$105bn	French consumer prices (07:45) (Mar) Feb +0.4% Y-O-Y +0.9% French industrial production (07:45) Jan -3.1% Y-O-Y -13.8% Feb (f'cast) -1.0% Y-O-Y -14.8% Median -1.1% Range -13.1%:+0.6%
Mon 13	Markets closed - Bank Holiday		German wholesale prices (07:00) (Mar) (10-17) Feb -0.1% Y-O-Y -5.7%

NB: UK data released at 9.30 a.m., unless otherwise stated. Market medians are as of preceding Friday. Release times of US data are stated in brackets after the description of the indicator. Events are listed in the events column on the next page.

Date	Japan	Other Countries	Main events
Mon 6	Leading index (prel) (06:00) Jan 45.5% Feb (act) 75.2% Median 75.3% Range 74.8%:75.4% Coincident index (prel) (06:00) Jan 89.6% Feb (act) 86.8% Median 86.9% Range 86.5%:92.1%	Canada building permits (13:30) Jan -4.6% Feb (f'cast) -3.0% Median -5.0% Range -10.0%:-2.0% Canada Ivey PMI (15:00) Feb 45.2 Mar (f'cast) 46.2 Median 46.2 Range 43.0:47.0	<ul style="list-style-type: none"> • ECB member Smaghi speaks (09:20) • US Fed member Warsh speaks (18:00)
Tue 7	Japan interest rate decision (03:00) Current: 0.10% Forecast: 0.10%	Australia interest rate decision (05:30) Current: 3.25% Forecast: 3.25%	<ul style="list-style-type: none"> • UK DMO auction of £3bn conventional gilts at 4.5% due 2019 (10:30) • US Treasury auction of \$6bn 10yr TIPS reopening (18:00)
Wed 8	Trade balance (BoP) (00:50) Jan -Y844.4bn Feb (f'cast) +Y310.0bn Median +Y125.0bn Range -Y63.4bn:+Y1100bn Current account (total) (00:50) Jan -Y172.8bn Feb (f'cast) +Y1125bn Median +Y1034.3bn Range +Y753bn:+Y1576bn	Canada housing starts (13:15) Feb 134.7k Mar (f'cast) 130.0k Median 130.0k Range 120k:k150k	<ul style="list-style-type: none"> • UK DMO auction of £1.1bn index-linked bonds at 1.25% due 2032 (10:30) • US Treasury sells 3yr notes (17:00) • US Fed publishes minutes of 17/18 March FOMC meeting (19:00)
Thu 9	Machinery orders (00:50) Jan -3.2% Feb (f'cast) -7.0% Median -7.0% Range -18.0%:+2.0%	Australia unemployment rate (02:30) Feb 5.2% Mar (f'cast) 5.4% Median 5.4% Range 5.1%:5.6% Canada unemployment rate (12:00) Feb 7.7% Mar (f'cast) 8.0% Median 8.0% Range 7.8%:8.4% Canada employment change (12:00) Feb -82.6K Mar (f'cast) -55.0K Median -57.5K Range -80K:-38K Canada int'l merchandise trade (13:30) Jan -C\$1.0bn Feb (f'cast) -C\$1.1bn Median -C\$1.4bn Range -C\$2.0bn:-C\$0.3bn Canada new housing index (13:30) Jan -0.6% Feb (f'cast) -0.5% Median -0.5% Range -1.0%:-0.5%	<ul style="list-style-type: none"> • ECB publishes monthly economic report (09:00) • Bank of England interest rate decision (interest rates expected to remain on hold at 0.5%) (12:00) • ECB member Mersch speaks (17:00) • ECB members Provopoulos and Orphanides speak (17:00) • US Fed member Stern speaks (17:15) • US Fed member Hoenig speaks (18:00) • ECB member Wellink speaks (18:00)
Fri 10			<ul style="list-style-type: none"> • BoJ publishes minutes for 16/17 March monetary policy meeting (00:50) • IEA publishes monthly oil market report • US Treasury sells 10yr notes • US markets closed for Good Friday
Mon 13	Domestic CGPI (00:50) Jan Y-O-Y -1.1%		

2009 calendar of central bank meetings

European ECB (1.25%)
7 May, 4 June, 2 July, 6 August, 3 September
US FOMC (0-0.25%)
29 April, 24 June, 12 August, 23 September
UK MPC (0.50%)
9 April, 7 May, 4 June, 9 July, 6 August, 10 September

Rolling calendar of UK data releases and events

Official house prices (15/4)
Trade balance (16/4)
CPI inflation (21/4)
BoE MPC minutes (22/4)
Labour market stats (22/4)
Public finances (22/4)
UK Budget (22/4)

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Rolling calendar of US data releases and events

Producer prices (14/4)
Retail sales (14/4)
Business inventories (14/4)
Consumer prices (15/4)
TIC capital flows (15/4)
Industrial production (15/4)
Fed Beige Book (15/4)

**** All charts are sourced to Lloyds TSB Corporate Markets Economic Research and Bank of England***

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