

Preview

29 May 2009

EMU economic indicators (week of 1 to 7 June 2009)

- **EMU GDP** (Q1 2009): unlikely to be revised significantly
- **ECB**: set to hold rates at 1.00%

Region	Indicator	Date	BHF forecast	Previous
GE	PMI mfg / May rev	Mon 1 Jun, 9:55	39.1 3.7 pp mom	35.4 3.0 pp mom
EMU	PMI mfg / May rev	Mon 1 Jun, 10:00	40.5 3.7 pp mom	36.8 2.9 pp mom
EMU	GDP / Q1 2009 rev	Wed 3 Jun, 11:00	-2.5% qoq -4.6% yoy	-1.6% qoq -1.4% yoy
EMU	ECB Council meeting / refi rate	Thur 4 Jun, 13:45	1.00%	1.00%

The **Purchasing Managers' Indices for the German and EMU manufacturing sector in May** are unlikely to be revised significantly. The same holds for **EMU GDP growth in Q1 2009**.

Recent economic data have encouraged the idea that the economy might start to recover before long; stock markets have strengthened and bond yields have risen. Against this background, and bearing in mind that some **ECB council** members have voiced reservations against cutting rates to below 1% for a time, we expect the ECB to keep rates on hold at the meeting on Thursday. Moreover, on June 23, the ECB Council will conduct the first long-term refinancing operation with a maturity of one year. As the attractiveness of these funds for potential bidders depends on the outlook for the refinancing rate, the ECB council may decide on some form of longer-term commitment for the policy rate. However, as the economic risks are still very high, this would probably only be a "soft" commitment. Additionally, the ECB has announced that it will release details of its plans to purchase some €50bn of covered bonds.

ECB Staff Projection *)

	June 2009 **)		Mar 2009	
	2009	2010	2009	2010
GDP	- 4	0	-2.7	0.0
HICP	¼	¾	0.4	1.0

*) annual percentage changes; **) forecast

The quarterly **ECB staff projections**, which will be published during the press conference, are likely to include some downward revisions. We expect GDP growth in 2009 to be revised down most sharply, mainly because of the disastrous outcome for Q1 (cf. table). As the output gap has widened further, inflation projections for both years might be revised down somewhat too. We do not expect the revisions to cause policy action. According to ECB President Trichet, the rate cuts in April and May have already taken the latest deterioration in the economic situation into account.

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