

# Schroders Quickview



## All eyes on the ECB 3 December 2008

### European Equity Team

- **Leading economic indicators reveal a rapid slump in European business confidence**
- **Failures in the global banking system have spread into the real economy, with the impact being felt across industries**
- **The rapid pace of the economic downturn has prompted a raft of European countries to announce various fiscal stimulus packages, but additional measures are needed**
- **The prospect of a prolonged economic recession has raised expectations that the central bank will now take a more aggressive approach**

All eyes will be focused on the European Central Bank (ECB) as we count down to Thursday's interest rate decision. The central bank remained relatively reluctant to make any grand gestures in November, cutting interest rates by only 50 basis points to 3.25% versus the Bank of England's 150 basis points cut to 3%, driving UK interest rates below Eurozone rates for the first time since the creation of the single currency in 1999.

Following an inflation peak of 4% in July this year, which coincided with a 25 basis points interest rate rise to 4.25% from the ECB, the subsequent fall in commodity prices and economic contraction across Europe, has prompted policymakers to rethink the central bank's strategy. In October, Eurozone annual inflation fell from 3.2% to 2.1%, representing the largest monthly fall since the euro began, and the sharp drop in inflation was mirrored by a hike in Eurozone unemployment to 7.7% in October, the largest jump for 15 years.

Leading economic indicators reveal a rapid slump in European business confidence, deeper than that experienced during previous recessions. So too, forthcoming Eurozone manufacturing and services sector data are expected to reveal a drop in November.

Failures in the global banking system have spread into the real economy, with the impact being felt across industries. German industrial companies have tightened their belts, cutting capital expenditure in expectation of a protracted global recession, marking a turning point following a sustained period of growth over past five years.

Automakers continue to struggle in the face of sharp declines in demand and a pullback in bank lending, prompting Germany's industry association to appeal for government support for the industry, which accounts for almost a fifth of the country's exports and one in seven industrial jobs.

**Schroders Quickview**  
**3 December 2008**  
**ECB interest rate decision**  
**Continued...**

The rapid pace of the economic downturn has prompted a raft of European countries to announce various fiscal stimulus packages, but consensus among economists and institutions such as the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) is that additional measures are urgently needed.

Since the collapse of Lehman Brothers in September, policymakers have changed tact, albeit with less pace than some commentators had hoped for. No longer concerned about spiralling inflation, the ECB now faces the prospect of deflation, and the downturn in business confidence has raised expectations that the central bank will, this month, take a more aggressive approach to combating the deepening recession. To date, the central bank has remained reluctant to factor in deflation; however, as European governments struggle to draw up a common response to a more prolonged economic recession, businesses and investors alike will be looking to the ECB to take decisive action.

**Important Information:**

**The views and opinions contained herein are those of Schroders' European Equity Team, and do not necessarily represent Schroder Investment Management Limited's house view.**

**For professional investors and advisers only. This document is not suitable for retail clients.**

This document is intended to be for information purposes only and it is not intended as promotional material in any respect. The material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The material is not intended to provide, and should not be relied on for, accounting, legal or tax advice, or investment recommendations. Information herein is believed to be reliable but Schroder Investment Management Ltd (Schroders) does not warrant its completeness or accuracy. No responsibility can be accepted for errors of fact or opinion. This does not exclude or restrict any duty or liability that Schroders has to its customers under the Financial Services and Markets Act 2000 (as amended from time to time) or any other regulatory system. Schroders has expressed its own views and opinions in this document and these may change. Reliance should not be placed on the views and information in the document when taking individual investment and/or strategic decisions.

Issued by Schroder Investment Management Limited, 31 Gresham Street, London EC2V 7QA, which is authorised and regulated by the Financial Services Authority.

For your security, communications may be taped or monitored.