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Western European Indicators and Insights

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EUROZONE: Less fragile monetary dynamics?

Overshooting expectations, May M3 money supply growth picked up afresh, rising 0.4 percentage point to 2.4% Y/Y, thereby more than unwinding the softening seen in the previous month. Notably, in M/M terms, M3 grew by 0.5%, a contrast to the flat April reading. On a more downbeat note, the pick-up in M3 growth was in contrast with a further fall back in the Y/Y growth rate of the narrower money supply gauge (M1), which dropped to 1.2%, still the lowest since September 2008 (ie the month that saw the collapse of Lehman), with the M/M outcome falling further.

More positively, May private sector lending growth edged up further, rising another 0.1 percentage point to 2.7% Y/Y, the highest reading in just over two years. Notably, this pick-up was boosted by a further 0.3% M/M gain. The lending breakdown showed no further pick-up in corporate lending, with the Y/Y rate staying at 0.9 % (actually easing to 1.8% when adjusted for sales and securitization). Meanwhile, household loans growth was (again) unchanged at 3.4% Y/Y, as a steeper drop in consumer credit was offset by a pick-up in other non-mortgage lending.

These numbers will have little impact on ECB thinking which is still committed to a fresh rate hike at the Council meeting next week: President Trichet gave a further hint in this regard today, once again pointing to 'strong vigilance'. Regardless, these monetary numbers certainly do not corroborate the central bank view that there is any accumulated (excess) liquidity in the Eurozone.

Instead, they continue to show that real money and lending growth is at, or below, zero, hardly indicative of anything but continued banking sector fragility. Instead, the likes of the deeper drop in consumer credit provide corroboration of the weaker consumer spending signals now being seen increasingly across the whole of the Eurozone. In addition, the further (and non-base effect driven) weakening in M1 growth also corroborates the slowing economy message evident in recent surveys as it is this aggregate which seems to be better than the broader M3 numbers in tracking the economy. The ECB, however, will probably reiterate that the recent weaker M1 readings are mainly a result of a steepening in the yield curve.