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Western European Indicators and Insights

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UK: More weak numbers.

According to BoE-computed data, the number of mortgage approvals edged up in May, but only to 45 940, edging up from an April outcome of 45 447, the latter having apparently being depressed by the impact of the royal wedding on activity through the months. Moreover, the value of overall approvals failed to recover in May, remaining at £ 10.5 bln, but with actual mortgage lending rising (to £ 1.1 bln). Meanwhile, and of some note, average mortgage rates fell to a fresh cycle-low of 3.47%. Otherwise, consumer credit was up 0.1% on a M/M basis, growth in the latter thereby slowing further.

Elsewhere, BoE numbers on underlying monetary dynamics offered clearer, downbeat messages in May data. These aggregates, which exclude intermediate other financial companies, are the ones that the BoE has been using to help assess the impact of its QE efforts and also assess the health of bank lending and monetary conditions generally. Admittedly, these showed a 0.3% M/M rise in underlying broad money supply growth, following clear weakness in previous month, including the 0.1% April drop. As a result, the May three-month annualized rate (possibly more closely watched by the BoE given the volatility in the numbers), recovered from -2.2%, the lowest reading on record, to 1.0%.On a more unambiguous downbeat note, the underlying lending numbers were very much weaker, actually seeing a fresh M/M fall (of 0.3%) following a flat April reading, meaning that the three-month annualized pace actually turned negative (at -0.1%). This weakness in lending was backed up by the latest BoE Trends in Lending update which highlighted fresh declines in lending to UK businesses.

Royal wedding hits services.

The index of services rose by 0.8% Y/Y in April, a slowing from the pace set in the previous month. Even so, it is also noteworthy that the actual M/M outcome for April showed a fall of 1.2%, the first fall in four months, but one that was largely due the impact of the royal wedding during the month.

Productivity still weak.

Output per worker rose by 0.3% Y/Y in Q1, down from the 0.9% Q4 rise. Admittedly, the Q/Q figure showed a fresh rise but only of 0.1%, hardly canceling out the 0.3% drop of the previous quarter. Meanwhile, productivity (in terms of output per hour) was as weak (also 0.3% Y/Y in Q1) albeit with previous data revised up somewhat. Even so, total unit wage costs rose 0.6% Q/Q, the second increase in succession, but almost half that seen in Q4.

BoE reaction

This array of data very much highlight why the BoE is seeing continued splits, albeit ones that Governor King tried to play down when he and much of rest of the MPC testified before parliament on Tuesday. Very clearly, the weakness in lending underscores the probable impact of one clear headwind restraining activity, namely a fragile and impaired banking sector, albeit with consumer lending data also highlighting the seemingly deepening travails of the consumer. To what extent this consumer weakness is also behind the slowing trend in services is unclear given the likely impact from the royal wedding on April activity. However, such uncertainty very much argues in favor of further policy prevarication from the MPC, both in terms of conventional and unconventional policy.

Admittedly, the testimony on Tuesday reiterated that some of the MPC (member Miles and even possibly the Governor) are edging closer to a fresh does of asset purchases (something the Governor suggested should not be seen as unconventional policy as it was tantamount to the overfunding policy used by the BoE in the 1980s. However, the weakness in productivity will probably only harden the inflation concerns from the likes of Paul Tucker, who underscored his worries about the apparent diminution of the supply side of the economy, something he thought could cause inflation pressures even if the demand side stays soft. In addition, the MPC generally may be getting less worried about the continued weakness in broad money growth given that this has not held back growth in nominal GDP (ie one of the concerns that actually precipitated the launch of asset purchases back in March 2009).