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Western European Indicators and Insights

September 29, 2011

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UK: Weak lending continues.

According to BoE-computed data, the number of mortgage approvals rose further in August, with the 52 410 reading not only above the recent average, but also the highest in 20 months. Moreover, the value of overall approvals also rose clearly, rising to £ 12.2 bln, although actual net mortgage lending edged down slightly to £ 0.6 bln.

Meanwhile, and of some note, average mortgage rates fell to a fresh cycle-low of 3.41%. Otherwise, consumer credit was up 0.2% on a M/M basis, growth in the latter thereby picking up further.

More notably, BoE numbers on underlying monetary dynamics offered gloomier messages in August data. These aggregates, which exclude intermediate other financial companies, are the ones that the BoE has been using to help assess the health of bank lending and monetary conditions generally. These showed a flat M/M reading in underlying broad money supply, following a 0.6% July rise, but with a continuing a flat undertone evident despite the three-month annualized rate (possibly more closely watched by the BoE given the volatility in the numbers) slipping from a six-month high of 3.7% in July to 2.3%.

On a more unambiguously downbeat note, the underlying lending numbers remained notably weak, actually showing a further drop of 0.6% M/M, ie a decline that matched the fall seen in July. Indeed, the weakness was evident in the three-month annualized pace which turned much more negative (at -4.2%).

The weakness in the lending data will cause reverberations within the BoE, well aware (from its recent Credit Conditions Survey) of increased risks from the possibility that funding conditions may soon act to restrain lending. That same Credit Conditions Survey, however, did suggest that credit availability had not fallen of late, implying that the continued reports of a fall in lending most probably reflect weak demand. This does not rule out the MPC resuming asset purchases as the BoE insists that such stimulus works not so much by encouraging banks to lend more but instead via an increase in asset price that, in turn, boosts wealth and therefore demand.

However, the BoE may very well wish to have more decisive data that (flagging) demand needs a further boost. The question is whether the key upcoming PMI data due next week – manufacturing on Monday and the services counterpart on Wednesday – will provide enough evidence that the MPC meeting next Thursday is the appropriate juncture to resume the asset purchases that most of the committee at the September meeting thought was probable at some point.