27 March 2014

Flash Comment

Euro money supply and credit data still weak in February

- The monetary and credit development in the euro area was almost unchanged in February after it showed a slight rebound in January. Despite the improvement in January, the figures are still at very low levels in a historical perspective.
- M3 money supply increased slightly to 1.3% y/y in February from 1.2% in January. Considering the monthly flow it was EUR33bn and the increase was due to additional overnight deposits, which were EUR44bn. The three-month average of the annual growth rates of M3 stood at 1.2%, which is very low in a historical perspective.
- The annual growth rate of M1 increased slightly to 6.2% y/y in February from 6.1% in January. The growth rate has been almost unchanged since July 2013 and it continues to suggest that GDP growth in the euro area should be around 0.2% q/q on a six-month horizon. This is below our growth forecast.
- The loan figures also continue to point a weak picture although the recovery has lasted some time now. Loans to the private sector adjusted for loan sales and securitisation remained at -2.0% for a third consecutive month.
- However, the monthly loan flow paints a slightly more positive picture. Loans to the private sector (again adjusted for loan sales and securitisation) increased EUR7bn after declining EUR10bn in January and EUR19bn in December. This could indicate the beginning of an upward trend.
- The improvement in the monthly loan flow reflects additional loans to households of EUR6bn. However, loans to non-financial corporations continue to decline and were EUR13bn lower. The monthly loan flow to non-financial corporations has been negative since July 2012.
- The higher monthly loan flow to the private sector was mainly due to additional loans to non-monetary financial intermediaries except insurance corporations and pension funds.
- The monetary and credit development is still very weak and, in our view, it remains a risk for the euro area recovery. At the same time, the early signs of improvement in the monthly loan flow to the private sector are not strong enough for the ECB to abstain from easing, in our view, but, on the other hand, the figures are likely to support its current wait-and-see approach.
- In our view, the ECB decision next week depends on the euro inflation print on Monday. We expect inflation to decline to a new cycle low of 0.5% and see the odds slightly in favour of further easing from the ECB, if we are right in our inflation forecast (see more in our *flash comment*, 13 March 2014).

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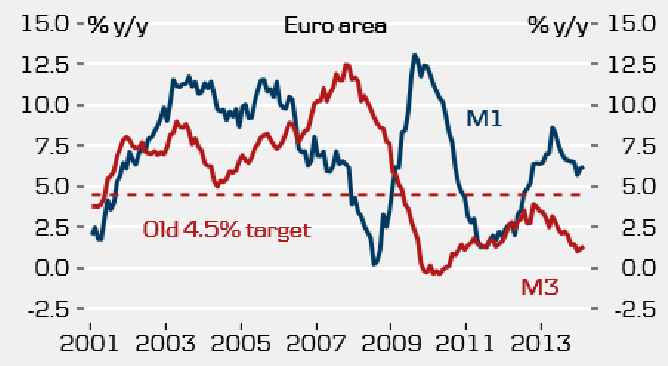
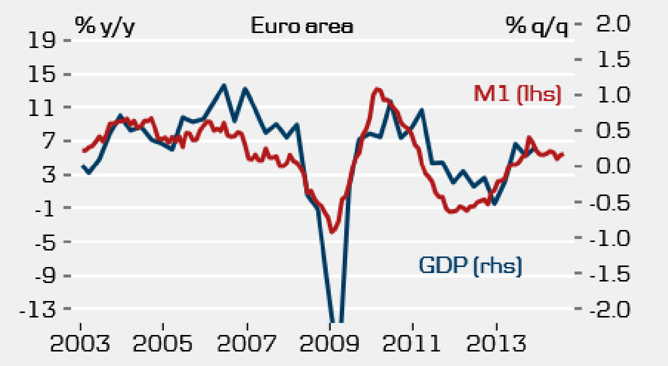
M3 money growth remains at a low level in a historical perspective



Source: Macrobond Financial

M1 growth points to GDP growth around 0.2% q/q



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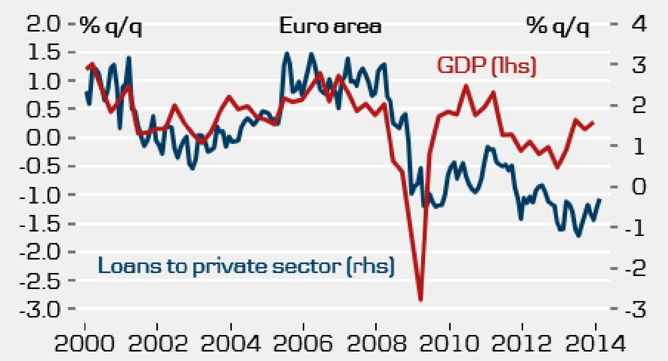
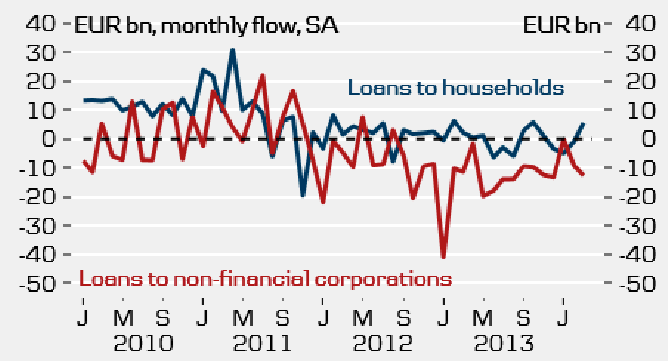
Loan figures remain weak despite the recovery lasting some time...



Source: Macrobond Financial

...but monthly loan flow shows some signs of improvement for households



Source: Macrobond Financial

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