Eurozone monetary aggregates reflect a solid housing market

Money growth decelerated to 8.3% year-on-year in June, but the underlying loan figures reflect a solid housing market and an upturn in business investment.

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Strong growth in most liquid component

Year-on-year money growth (M3) fell to 8.3% in June, down from 8.5% in May.

The annual growth rate of the most liquid aggregate M1 slightly accelerated to 11.7% in June from 11.6% in May. In the past, this would have been a harbinger for a significant increase in future inflation, but not today, as the information contained in the money growth figures has become difficult to interpret since central banks started to use unconventional monetary policy measures.

As such money velocity has strongly declined over the past few years, qualifying the inflationary impact of strong money growth.

Rising demand for mortgage loans

Regarding the counterparts, the annual growth rate of credit to the government decreased to 13.0% in June from 15.4% in May.

Adjusted loans to the private sector (adjusted for loan sales, securitisation and notional cash pooling) rose 3.0% year-on-year in June from 2.7% in May, with the adjusted loan growth rate to households at 4.0% and to non-financial corporations at 1.9%. Interestingly, the year-on-year growth rate in household lending for house purchase increased further to 5.4%, indicating that the frenetic activity on the real estate market is definitely not calming down.

More business investment in the offing

At the same time, there is a further shift towards longer-term loans to firms.

Loans up to one year to non-financial corporations actually fell 11.9% year-on-year, while loans with maturities over five years grew 7.2% year-on-year, accelerating from the 6.1% growth rate seen in May. On the one hand, this is due to base effects. At the start of the pandemic in 2020, there was a huge demand for liquidity, which is, with the opening of the economy, no longer the case. Hence, the strong year-on-year decline in short term loans. At the same time, the increase in longer-term loans reflects the return of lending for fixed investments, as mentioned by the banks in July's Bank Lending Survey.

According to the same survey, this movement will gain pace in the coming months. So, overall, a solid report, though we mustn't forget that June was pretty much the month wherein most countries confinement measures were eased, contributing to a more positive lending environment. While we don't expect the delta variant to stop the recovery in the Eurozone, the jury is still out regarding the potential downward impact on the growth pace.

Author

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com