

Eurozone: monetary conditions favourable but don't show much upside

Even though monetary conditions remain favourable in the eurozone for the moment, the tick down in real M1 growth indicates that a growth recovery later in the year will only be shallow



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Eurozone manufacturing PMI numbers yesterday were a rude awakening from any New Year's optimism, showing that the recession in industry is far from over. Today's data shows that monetary conditions are probably too accommodative for a recession in the broader economy to happen but still signal nothing more than a shallow growth recovery in the course of 2020.

Growth in broad money M3 and the narrower aggregate M1 both ticked down slightly in November. With inflation trending somewhat higher, this means that real M1, an important leading indicator, fell from 7.7 to 7.4%. This corresponds to a decent expansion, but the tick down indicates that any hopes of a faster growth recovery over the course of 2020 seem somewhat premature.

Lending growth rates in November paint a similar picture. Even though financing conditions remain favourable, annual growth in lending to non-financial corporates shows that the industrial recession and running down of inventories are having a negative impact on investment appetite.

Lending growth has been trending down since August and fell from 3.8% to 3.4% year-on-year from October to November. That is an important signal that a growth revival may not be around the corner just yet.

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