Snap | 1 July 2019

Eurozone unemployment drops again in May

Loan growth and the monetary aggregate M1 indicate continued sluggish growth for the months ahead. Unemployment continues to be the good news story of this part of the cycle as it falls further to 7.5%, providing the weak economy with a lifeline as industry continues to decline

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Approaching the lowest level since the inception of the eurozone, unemployment continues to be the good news story of this part of the cycle. With a decline of more than 100 thousand in May, unemployment shows the labour market is not losing steam at all, despite the soft patch that the eurozone is currently in. This fuels household consumption growth, which is very welcome given the weakness in the rest of the economy.

Monetary developments seem to be in line with the current modest growth pace. Adjusted loan growth to household and businesses were both stable in May at 3.3 and 3.9% growth YoY respectively. This means that it is not contributing to an acceleration of GDP growth, but also not pointing towards weakening thanks to a slower uptake in borrowing. Still, given the record low-interest rate environment, faster loan growth could have been expected. The uncertainty about the global economy dampens the demand for loans significantly.

The monetary aggregates are showing a similar picture, with M3 increasing slightly from 4.7 to 4.8% in May, while the more narrow estimate and better leading indicator M1 fell from 7.4 to 7.2%.

> Altogether, the bright spot remains the labour market as global uncertainty continues to hurt businesses and results in delayed investment decisions. With continued returns to employment, consumers are set to keep the economy afloat for the moment.

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