

Stronger eurozone loan growth eases slowdown concerns

Faster loan growth to businesses and a higher growth rate of the money supply in May provides some encouragement to the ECB in times of disappointing eurozone data releases



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Loan growth to non-financial businesses increased from 3.3% to 3.6% year-on-year in May. This is the strongest growth rate in nine years. Even though uncertainty in the eurozone economy has not decreased in 2Q, businesses have continued to borrow more as capacity constraints are limiting output growth. This should continue to provide a tailwind for eurozone investment in the second half of the year, if trade war turmoil does not cause businesses to delay investments.

Growth in the broad money supply M3 bounced back as well in May, increasing from 3.8% to 4% year-on-year. The more narrow indicator M1 has seen growth decline over recent months, but jumped from 7% to 7.5%. Growth is still slower than in 2017, mainly related to the lower amount of net asset purchases in the QE programme, but the bounce back in the narrow money supply in May does suggest some more strength in the eurozone economy over the summer.

For the ECB, this release must come as a relief. With lower confidence among businesses and consumers, worries about delayed investments have become an issue. This release suggests that

business lending has not been affected all that much in May. That should help GDP growth to maintain a solid pace over the summer months, if trade concerns do not escalate further.

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