GLOBAL ECONOMICS UPDATE

11th Feb. 2016

Are the monetary data pointing to global downturn?

- **While some recent survey evidence has hinted that loan growth in the US may be about to slow, money and credit data in the four major advanced economies as a whole so far provide little support for the view that the world is on the verge of a broad-based downturn**.
- One of the many concerns we have heard in recent weeks is that monetary and credit conditions are signalling a broader economic slowdown. But for now at least, this has not been borne out by the data.
- Admittedly, **broad money growth slowed in all four major advanced economies, including those in which central banks are still undertaking quantitative easing, at the end of last year**. (See Chart 1.) **But bank lending to non-financial corporations has held up better** (see Chart 2), and this is probably a more reliable indicator of the state of the economy. Indeed, corporate credit was still rising at double-digit rates in the US. And it is no longer contracting in the euro-zone or the UK.
- That said, year-on-year changes in credit failed to provide an early warning of the global financial crisis; indeed, this measure slowed significantly only in late 2008, when the recession was already underway. Changes in the *flow* of lending, also known as the "credit impulse", are a timelier (though imperfect) guide to the credit cycle. (See Chart 3.) The credit impulse has weakened over the past two years, consistent with the slowdown in investment in advanced economies, but it has not collapsed.
- **The evidence on bank lending conditions and credit demand is also mixed**. Last week's US Senior Loan Officer Survey made gloomy reading as it suggested that demand for business loans was weakening and banks were tightening credit standards. (See our *US Economics Update*, "Demand for business loans slumps", 1st February.) But loan demand in the euro-zone and Japan has strengthened further. (See Chart 4.) And banks in both the euro-zone and Japan have, on the whole, continued easing credit standards.
- Of course, **these surveys pre-date the latest sell-off in bank shares, which could yet trigger a sharper tightening in financial conditions, particularly in the euro-zone**. (See our *European Economics Update*, "Bank troubles intensify downside risks to growth", published yesterday.) Accordingly, while the latest evidence suggests there is little reason to panic, we will be monitoring the incoming credit data closely.

Michael Pearce Global Economist (+44 (0)20 7808 4067, michael.pearce@capitaleconomics.com)

Chart 1: Broad Money (% y/y)

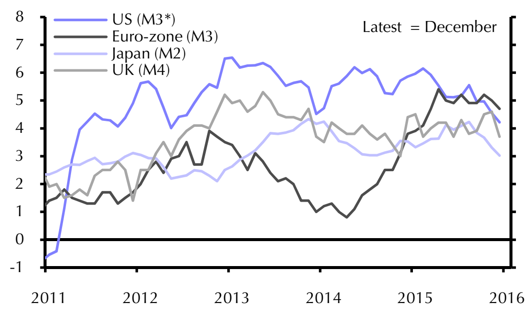


Chart 2: Bank Lending to Firms (% y/y)

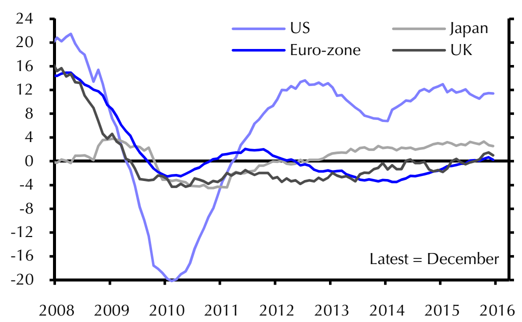


Chart 3: Credit Impulse & Business Investment

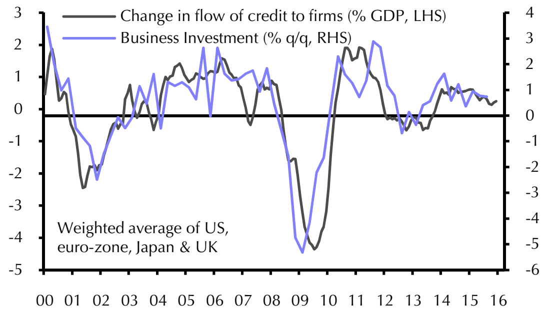
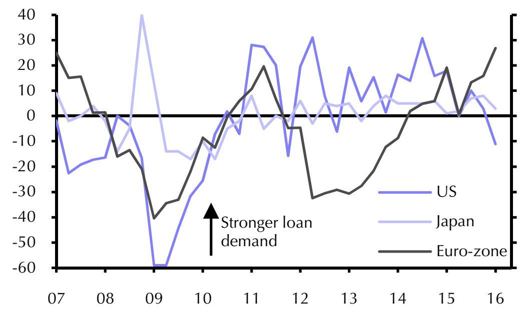


Chart 4: Net % of Banks Reporting Stronger Corp. Loan Demand



Sources – Thomson Datastream, Capital Economics