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LONDON-STOCKHOLM

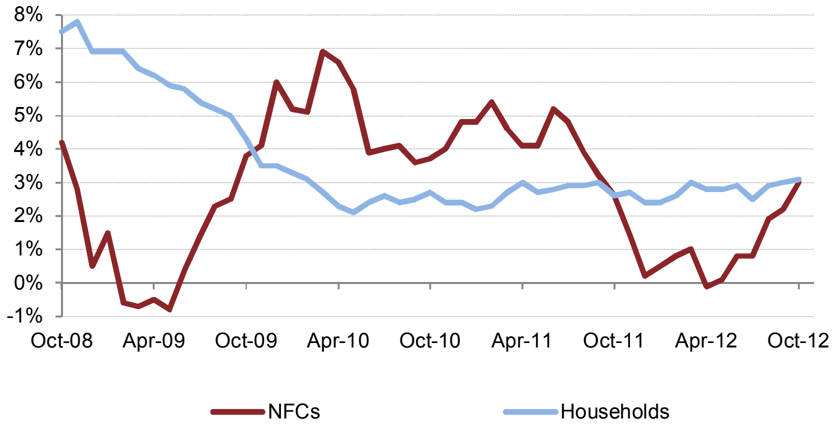
Good EA money data (for a change)

But one swallow doesn't make a summer

Broad money growth in the euro area jumped from 2.6% in the year to September, to 3.9% in October. The October number was the highest since April 2009 (when it was 4.8%) and brought the three-month moving average of M3 growth to 3.1%; this number has been above 3% since June. As they go, the number and the trend are welcome. However, M3 growth is still below the ECB's 4.5% medium-term reference value, and of course remains considerably below the 6-8% range which is consistent with euro area trend growth. When coupled with weak credit data – credit to the non-general government sector fell by 1.4% in the twelve months covered, the lowest number on record (ie, since 1998) – the continued bleak outlook for EA growth remains stark.

Some of the news is less bad, however. Part of the reason for the acceleration in M3 growth is a rise in deposits held by non-financial companies and by households. While the change is most pronounced for NFCs, their total deposits only amount to €1.7tn, compared with €6tn for households. Over the past twelve months, NFC deposits grew by €50.6bn (compared with €42.4bn in the previous twelve-month period), while household deposits grew by €179bn (€147bn in the previous twelve months).

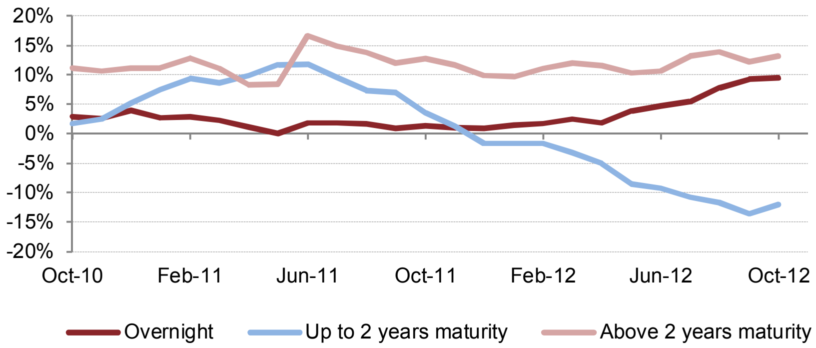
Total deposits held by EA NFCs and households, 12-month change, %



EA households are likely to remain cautious, not least because the sovereign debt crises continue (in spite of yesterday's deal on Greece) to dampen demand. However, companies tend to not like to hold cash, particularly in a low-interest rate environment. Significantly, EA NFCs have shifted cash away from accounts with an agreed maturity of up to two years, partly to longer accounts (which should offer somewhat higher interest rates) but mainly to overnight accounts.

Stein Brothers (UK) Ltd.
Telephone: +44 (0)7768 094 340
Email: gabriel.stein@steinbrothers.co.uk

Changes in account holdings of NFCs by type of account, 12-month change, %



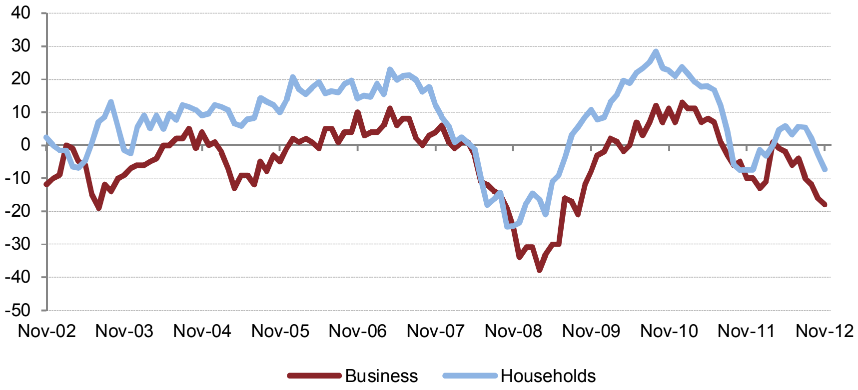
The confidence-dampening effect of the EA crises will of course also affect NFCs. However, corporate liquidity is usually a good leading indicator of share prices, and the combination of falling NFC borrowing and rising deposits means that liquidity ids picking up. If this trend continues, it should eventually mean stronger M&A activity, which, in turn, should be good medium-term news for euro area equities, unattractive though they seem today. Meanwhile, although the latest Greek deal probably will turn out to be less and also less effective than was initially hoped and heralded, it almost certainly has postponed Greece's euro exit into 2013 at least (and I lose a couple of bets as a result). Greece is still likely to have to leave the euro – but not yet.

Meanwhile, in Sweden

Tomorrow Statistics Sweden will publish GDP numbers for the third quarter of 2012.I am not going to try to predict those – suffice it to say that there is a general perception that the number is unlikely to be higher than Q2's 1.3% four-quarter growth (although that could still mean a pick-up in the quarterly rate, which was 0.7% in Q2). Sweden has so far had a reasonably good crisis. In a fairly unattractive world, it remains one of the less unattractive countries, boosted by an independent monetary policy and healthy public finances. However, recent data point to a sharp deterioration in activity in the current quarter and possibly into early 2013, with GDP potentially contracting in Q4.

Stein Brothers (UK) Ltd.
Telephone: +44 (0)7768 094 340
Email: gabriel.stein@steinbrothers.co.uk

Swedish business and household confidence, diffusion indices



Both business and household confidence have fallen to their lowest levels since the Great Recession began; and broad money growth has slowed from 7.4% in the year to April, to 1.5% in October. Add to this concerns about the continued build-up of household debt (which I have covered in the past), and Sweden may be on its way to becoming more unattractive than it has been. There should be no recession; but the growth rates generally seen over the past three years (usually in excess of 0.5% per quarter, although there was a 1.1% fall in Q4 2011) may take some time before they return. There are already signs that households are reining in activity. If so, Sweden's dependence on foreign trade will increase, at a time when the rest of the world is unlikely to oblige – at least not until mid-2013 (and that assumes that China and the US see growth picking up by then).

Gabriel Stein
gabriel.stein@steinbrothers.co.uk

Gabriel Stein is Managing Director of Stein Brothers (UK) Ltd and Chief Economic Advisor to OMFIF. The views expressed are his own.

Stein Brothers (UK) Ltd.
Telephone: +44 (0)7768 094 340
Email: gabriel.stein@steinbrothers.co.uk