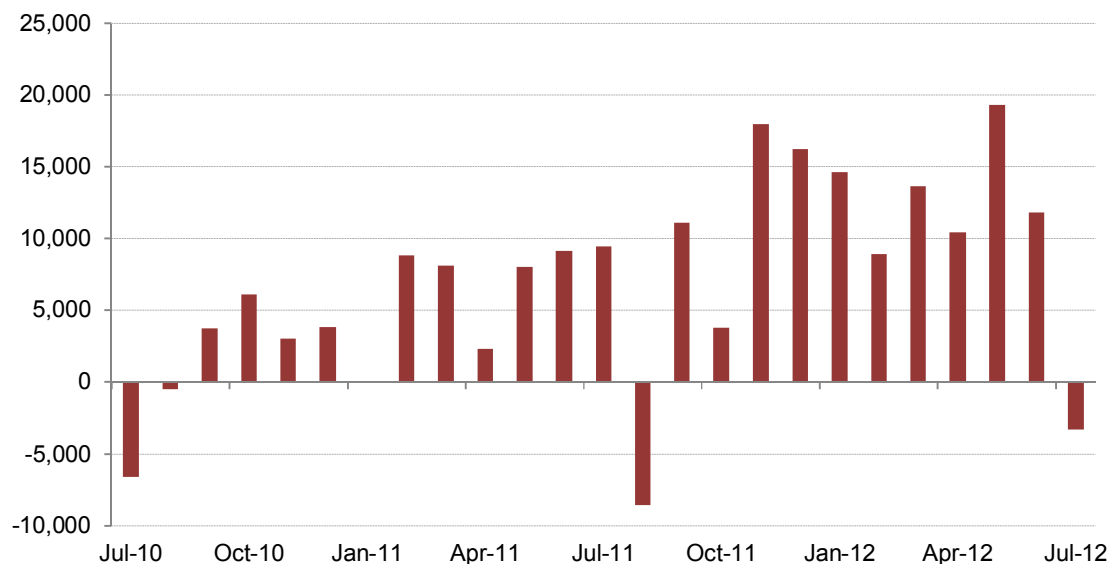


US consumer credit signals weakness ahead

Monetary data point to lower spending in H2

US consumer credit fell by 3.3 billion dollars in July. While one must be careful to make too much of one month's data; for one thing, the June stock of consumer credit outstanding was the highest ever. For another, there was a similar one-month fall in August last year, which did not change the trend. Nevertheless, the July number is worrying. The fall was the first monthly fall since August 2011. Moreover, it comes after five months when the average rise in consumer credit was 12.8 billion dollars; and the – admittedly noisy – trend of the last nine months is one of continually smaller increases.

Total consumer credit, monthly change, \$bn s/a



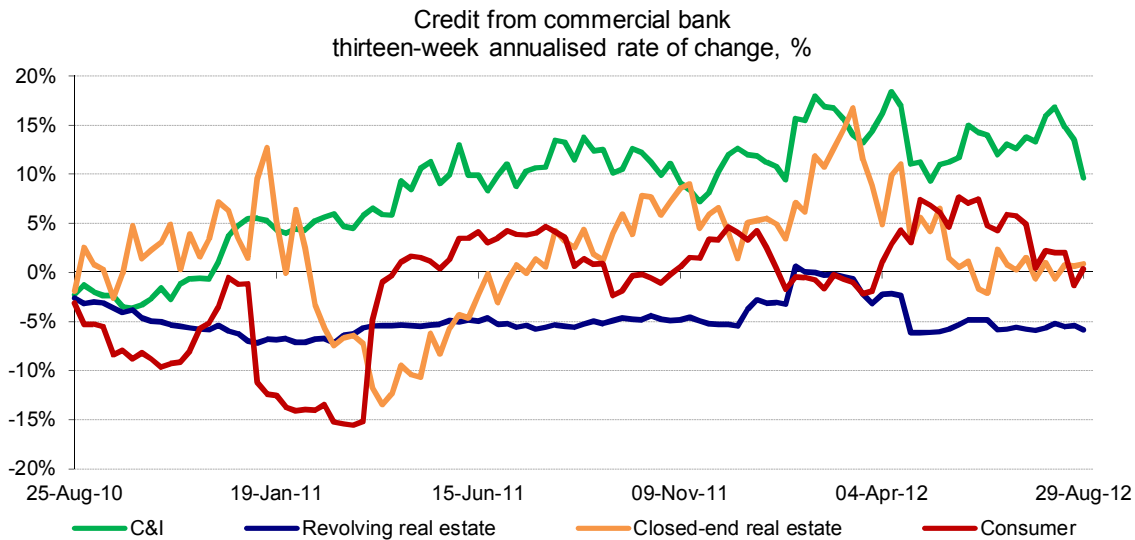
The data confirms what we are seeing from the weekly data published for commercial banks. This shows that consumer loans, which as recently as last May were still growing at a three-month annualised rate of close to 8%, have since gone ex-growth – as have closed-end real estate loans, hinting that recent housing market strength may ebb somewhat in the autumn. Revolving real estate loans are still contracting and only commercial and industrial loans (c&i) are still growing at a healthy pace. But the growth rate of these is also slowing somewhat, dropping below 10% after having been above that figure for most of the year to date.

Further, the numbers come together with a raft of other signs pointing to weaker growth in the second half of 2012. Leaving aside the non-farm payrolls (which are an almost meaningless lagging indicator, prone to substantial revisions and uncertainty), the manufacturing ISM survey came in below 50 for a third

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consecutive month, with a notable decrease in new orders, but a notable *increase* in inventories – a classic pointer to weaker industrial production in coming months.



Everything is not doom and gloom. The services ISM index was stronger than expected and July retail sales were healthy. But the credit data certainly point to slower consumer spending in coming months, amidst rising uncertainty and falling confidence. The issue is not whether the US economy is going to fall back into recession. It won't. But it also won't achieve lift-off, if we define that as sustained growth at or above the economy's trend growth rate (around 2½%). That in itself should push the Fed towards an earlier, rather than a later implementation of QE3. How effective that will be is another issue – probably not very much.

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