

FROM: P WYNN OWEN

DATE: 23 December 1983

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- DLWilletts
23/12/83
1. MR WILLETTTS
 2. CHANCELLOR

pa
Sims
23/12

cc Chief Secretary
Financial Secretary
Economic Secretary
Mr Middleton
Sir T Burns
Mr Cassell
Mr Battishill
Mr Lankester
Mr Monck
Mrs Lomax o.r.
Mr Mowl
Mr Sedgwick
Mr O'Donnell
Mr Johnston
Miss Roach
Mr Willetts
Mr Willoughby

Prime Minister

Satisfactory for £M3; M0 which is increasingly looked at as the best indicator of narrow money has been growing slowly. Banking December has only three weeks. Thus there is not a lot of information in these figures.

AT 23/12

MONEY SUPPLY IN BANKING DECEMBER: "FIRST GUESS"

I attach a note by the Bank giving their first guess at the money figures for Banking December. £M3 is estimated to have risen by 0.9 per cent, (compared to our forecast of 0.8 per cent), PSL2 by 1.0 per cent and M1 by 2.4 per cent. Recent experience with the accuracy of the "first guess", and the Bank's explanation of a probable alteration to the M1 change suggest eventual outturns of between $\frac{3}{4}$ to $1\frac{1}{4}$ per cent for £M3, + 0.8 to 1.3 per cent for PSL2 and $+1\frac{1}{2}$ to 2 per cent for M1. M0, the wide monetary base, fell by 0.2 per cent, as estimated from the Bank's weekly returns last week. Table 1 (attached) gives implied growth rates in the target aggregates, M0 and both definitions of Notes and Coin.

2. The M1 change can be expected to come down to between $1\frac{1}{2}$ and 2 per cent, because the reorganisation of the TSBs will result in their final figures showing a switch of £360 million of interest-bearing deposits from sight to time. Nonetheless, the M1 change will still be well above forecast. Both interest-bearing and non-interest bearing private sector sterling sight deposits rose by substantial amounts (£457 million and £600 million respectively, seasonally adjusted) but the Bank are as yet unable to explain these large increases.
3. The "first guess" of the counterparts to £M3 growth is given in the table attached to the Bank's note. Of the public sector counterparts, sales of Central Government debt to the non-bank private sector exceeded total net sales for the second month

running, though by not such a wide margin as in banking November. Local Authority borrowing returned to its unpredictable path, exerting a very large contractionary influence which was only partially offset by the rather expansionary public corporations. While the public sector counterparts should be reasonably reliable at this stage, the private sector figures are certainly not. For the time being, it appears that sterling lending to the private sector at £1350 million, was very close to the forecast level. Externals and net non-deposit liabilities were very wide of expectations taken separately, but quite close to forecast when taken together.

4. We will receive the provisional December money figures some time towards the end of the first week of January and they will be published on 10 January. Full money and banking figures appear on 19 January.

5. I am sending a copy of this submission to Mr Turnbull at 10 Downing Street.

Philip Wynn Owen

P WYNN OWEN

TABLE 1 : MONETARY AGGREGATES - FIRST GUESS

	% (seasonally adjusted)					
	M1	£M3	PSL2	MO	Notes and coin with public	Total notes and Coin £
"First Guess"	+ 2.4	+0.9	+1.0	- 0.2	- 0.1	+ 0.2
Likely Outturn	+1½ to 2	+¾ to 1¼	0.8 to 1.3	- 0.2	- 0.1	+ 0.2
Annualised rate of growth in target period to date (10 months)	12.8 to 13.4	10.3 to 11	12 to 12½	+ 6.4	+ 5.6	+ 5.9
5 month annualised growth rate	15½ to 18	12 to 14¼	10 to 12¼	+ 3.3	+ 3.9	+ 3.3
6 month annualised growth rate	8 to 9¼	6¾ to 8	8¾ to 9¾	+ 3.4	+ 4.6	+ 4.7
Growth over past 12 months	12¼ to 13	10¼ to 10¾	13 to 13½	+ 5.7	+ 6.7	+ 6.3

£ including till money

SECRET

FOR THE ATTENTION OF PHILIP WYNN-OWEN

MONETARY AGGREGATES IN BANKING DECEMBER: A FIRST ESTIMATE
(£ million, seasonally adjusted)

1 The figures provided by the weekly-reporting banks show a rise in £M3 of 920 (+0.9%) in banking December. This suggests a final outturn for £M3 in the range of $+1\frac{1}{2}\%$ to $+1\frac{3}{4}\%$ (as compared to the forecast of +0.8%), giving an annualised rate of growth during the target period of between +10.3% and +11.0%.

2 M1, according to the weeklies rose by 1,020 (+2.4%) in banking December. The full figures, however, are expected to show a somewhat lower figure than this because the TSBs have told us that their full figures will show a switch from sight to time of some 360 interest-bearing deposits, the terms of which are apparently being changed following the reorganisation of the TSBs last month. Thus, the full figures seem likely to show an outturn of between $+1\frac{1}{2}\%$ and +2.0%, giving an annualised rate of growth during the target period of between 12.8% and 13.4%.

3 According to the weeklies, notes and coin in circulation fell by 10, till money rose by 30 and bankers' balances fell by 50, resulting in an estimated fall in M0 of 30 (-0.2%), the annualised rate of growth since mid-February would thus fall back to 6.4%.

NIB sight deposits rose by 560, producing a rise in NIBM1 of 560 (+1.8%) IB sight deposits rose by 460 and time deposits including CDs rose by 30. Public sector sight and time deposits fell by 130, of which LA deposits -70 and PCs -60.

5 PSL2 may have grown by around 1,550 (1.0%). A range of around 0.8% to 1.3% would give an annualised growth rate since the start of the target period of between 12% and 12½%. It should be noted, however, that some elements of PSL2 are strongly seasonal although seasonal adjustments are not yet applied to them: in particular, the building societies strongly increase their holdings of liquid assets in the months up to banking December and then run them off as they pay their taxes. This causes the cumulative growth of PSL2 in the target period up to banking December to be reduced and subsequently to rise. If PSL2 were fully seasonally adjusted, the cumulative rate of growth of PSL2 up to banking December (annualised) would be 12½% to 12¾%. This difference will unwind in banking January and February.

6 Private sector EM3 contributed 1,040 to the rise in PSL2. Private sector bank bills may have risen +100 but their holdings of CTDs fell -50. The building societies attracted lower net (non-wholesale) inflows than in banking November (+590 in banking December compared with +910 in banking November, plus interest credited in banking December +360). The lower net inflow was partly seasonal and partly because the term share offers are no longer being promoted on a large scale. Thus the inflow into term shares seems to have continued to drop, to an estimated 250 compared with 370 in banking November. Building societies are also estimated to have raised 110 in wholesale funds from the non-bank private sector (mainly time deposits), but to have continued to build up their liquid assets (-350, reducing PSL2 compared with EM3), if not at quite the high rate of banking October and November. National Savings in PSL2 contributed 30.

7 PSL2A, which includes term shares, may have risen by around 1,000 (1.1%). However, the same point about seasonals applies as to PSL2.

8 The attached table compares changes in EM3 and its counterparts with the forecast (as circulated in the Financial Report of 15 December). The CGBR is estimated at +530, less than the forecast (+975). On-lending to LAs was +590 and to PCs +130. Net purchases of central government debt by the non-bank private sector are estimated to have raised 730 (slightly more than the forecast of 630), of which gilts were 590 (compared to the forecast of 405) and National Savings were 220.

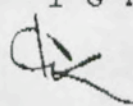
9 The other public sector's direct contribution is estimated to have been expansionary by 190, compared to the forecast of -280. Local authorities were +30 (of which bank lending +140) and public corporations were +160 (of which bank lending +200 and deposits with the NLF -130).

10 Bank lending in sterling to the private sector is estimated to have risen by +1,350 (forecast +1,180). This includes a decrease in the Bank of England's holdings of commercial bills of 350 (Issue -280, Banking -70).

11 Identified external items are +510 and the residual (net non-deposit liabilities plus differences between weekly and non-weekly reporters) is -930. Taken together, they are very close to the sum of the forecast externals (-155) and net non-deposit liabilities (-250).

Financial Statistics Division
Money & Banking Aggregates Group HO-4
23 December 1983

I G Kerr/Miss V F Howat (4471)



FIRST ESTIMATE COMPARED TO FORECAST

	<u>First estimate</u> ϕ	<u>Forecast</u> *
CGBR	+530	+ 520
CG Debt: Gilts	- 590	- 330
Treasury bills	+ 30	-
National Savings	- 220	- 220
CTDs etc	+ 50	+ 50
	<u>-730</u>	<u>- 500</u>
Other public sector: LA	+30	-460
PC	+160	+275
	<u>+190</u>	<u>- 185</u>
Bank lending to UK private sector (inc Issue commercial bills)	<u>+1,350</u>	<u>+ 1400</u>
	<u>+1,340</u>	<u>+ 1,235</u>
SUB-TOTAL OF DOMESTIC COUNTERPARTS		
External and foreign currency counterparts	+ 510	- 155
Residual (includes NNDLs & reporting differences)	- 930	- 250
	<u>+ 920</u>	<u>+ 830</u>
STERLING M3 (percentage monthly increase)	<u>(+0.9%)</u>	<u>(+0.8%)</u>
Notes and coin	- 10	
Private sector sight deposits	+ 1,020	
M1†	<u>+ 1,020</u>	
(percentage monthly increase)	<u>(+2.4%)</u>	
EM3 annualised since February 1983	<u>+10.6%</u>	
M1 annualised since February 1983	<u>+14.0%</u>	

ϕ Some figures do not sum because of roundings

* As circulated in Mrs Lomax's Monetary Prospects submission of 16 December 1983.

† But see para 2 of covering note.

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