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File

MONTHLY MONETARY REPORT: MARCH-JUNE

SUMMARY

- Both £M3 and MO (despite a sizeable downward distortion) grew faster than forecast in March, bringing £M3 towards the top of its 1984-85 target range, and leaving MO a little below the middle of its 1984-85 range. The exchange rate (sterling index) is some 9 per cent higher than at the time of last month's report, and short term interest rates 1 per cent or so lower.

- With heavy sales of gilts and the PSBR and bank lending performing much as expected, the main factor tending to add to £M3 was the unexpectedly high proportion of gilts bought by banks and the overseas sector. The acceleration of MO, which is continuing in banking April, is a little puzzling.

- Bank lending is projected to continue at a high rate, declining only very slowly in response to the level of short term interest rates. The forecast assumes gross gilt sales of £1¼bn in banking April, a figure that may well not be met, and the same level of gross sales in May, and in June (a month of very heavy gilt redemptions).

- On these assumptions, by the end of banking June £M3 is forecast to be growing at 9.3 per cent on a twelve month basis, and at 13.7 per cent on a three month basis - compared with its 5-9 per cent target range for 1985-86.

- MO is projected by the same date to be growing within - but in the upper half - of its 3-7 per cent range. Assuming its growth after April falls back to a more normal rate, it is forecast by mid-June to be growing at 5.3 per cent on a twelve month basis and 6.3 per cent on a three month basis.

HF3 - 12 April 1985.

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Monetary Aggregates

In banking March £M3 growth was 0.3 per cent above forecast, at 1.0 per cent, with MO growth marginally above forecast at 0.4 per cent. £M3 is now at the top of its 1984-85 target range, while MO remains below the centre of its target range. Table 1 below shows recent growth in the main aggregates, and annex table 1 provides further detail, also covering real MO and real £M3. Other measures of money are shown in annex table 4.

Table 1: Main Aggregates : Recent Experience

per cent, s.a.

	MO	£M3	PSL2
monthly change			
February	0.1	0.5	1.1
March	0.4	1.0	1.1
Growth to mid-March at an annual rate			
over past:-			
3 months	- 1.3	9.3	15.4
6 months	5.3	9.8	14.8
12 months	5.3	9.3	14.6
Target period	5.4	9.9	15.2

2. In March MO growth was depressed by an unusually low level of bankers' operational deposits on make-up day when the markets were extremely short of funds and overnight rates reached 50 per cent. If this had not occurred MO would have grown by around 0.7 per cent. As a result of the same distortion MO growth in April will be correspondingly higher. This distortion masks a substantial rise in coins in circulation in March which was only partly offset by lower note issue. Coins have been growing at a rate of £12m or so a week (a monthly rate of over 3 per cent) since the beginning of the year, but until banking March this had been largely offset by a fall in the note circulation. It seems that more £1 coins are

are being issued than £1 notes withdrawn. It is hard to explain this: but it may be that retailers and banks are for the time being maintaining separate stocks of coin and notes. Or the greater cost of transporting cash in bulk may be encouraging retailers and banks to maintain larger stocks of £ coins than they would of £ notes.

3. £M3 and bank lending were both distorted upwards by £140m (about 0.1 per cent) in banking March as a result of failure to complete one large transaction on make-up day, leaving one party with an unwanted deposit of £140m and the other with an unexpected overdraft of the same amount. The transaction was completed the following day. Even without allowing for this distortion, target period growth in £M3 at mid-March was slightly below the top of the 1984-85 target range, with six month growth at a similar rate, but twelve month growth substantially lower at 9.3 per cent.

4. With the PSBR much as expected one factor leading to a higher than expected outturn for £M3 was late and unexpected purchases of gilts by the banks and the overseas sector, dissipating the influence on £M3 of a very high level of gross sales. After allowing for the distortion mentioned above, sterling lending at £1,650m was close to forecast. If the indications of substantial round-tripping towards the end of banking March are correct our current estimate of underlying lending - of around £1.6bn - may even be on the pessimistic side.

5. PSL2 growth in March at 1.1 per cent was, unusually, almost in line with £M3 growth. Twelve month growth in PSL2 has fallen back slightly, to 14.6 per cent, but both three and six month rates are rather higher. Further adjustments to the building society components of M2 go some way to offset the improvement caused by last month's adjustments. Twelve month growth at 9.8 per cent is similar to £M3.

<u>Other indicators of monetary conditions</u>

6. <u>Inflation</u>. Retail price inflation is expected to remain at about 5½ per cent in March, but an increase is likely in April following the building societies' decision to raise mortgage rates with effect from April 1. Producer input prices increased by 9.6 per cent over the twelve months to March - the sixth consecutive month

that the annual growth rate has been 9 per cent or greater. However, the annual growth rate of producer output prices fell to 5.4 per cent in March. It would seem that producers are absorbing the impact on costs of the fall up to February in the exchange rate by reducing profit margins rather than increasing their prices.

7. Asset prices. The DoE monthly house price series suggests that house price inflation in the year to February was 7½ per cent. Three leading building societies - the Halifax, the Abbey National and the Leeds - agree. Their figures show that house prices rose by 7½-9 per cent in the year to the end of the first quarter.

8. Real interest rates. Real short term interest rates remain at historically high levels, despite the recent falls in banks' base rates. Expected inflation as measured by outside forecasters has edged upwards, suggesting that real rates may have fallen by more than nominal rates. Indexed gilt yields have almost returned to their February levels as the effect of the bondwashing provisions was largely offset by the unwinding of defensive positions after the Budget made it clear that pension funds income was not to be taxed.

9. Exchange rate. In the second half of March sterling recovered strongly against all currencies. Since 15 March it has risen 15 per cent against the dollar and 5 per cent against the Deutchemark giving a 9 per cent rise on the sterling exchange rate index. The index has stayed above 75 for three weeks, and is now at roughly the same level as last summer.

10. Money GDP. Provisional estimates for the fourth quarter of 1984 suggest that money GDP increased by 6½ per cent in 1984. But for the coal strike, it would have increased by just under 8 per cent, equivalent to real growth of about 3½ per cent.

Three month forecast

11. It is assumed that there will be no further change in interest rates, or differentials, during the forecast period beyond the increase in building society rates already implemented, and increases in National Savings rates already announced.

12. MO is forecast to rise by 0.9 per cent in banking April. About 0.3 per cent of this arises from the recovery of bankers' balances from last month's abnormally low level. The other main factor is rapid growth in coins without an offsetting fall in notes which started last month, and shows no sign of abating according to figures for the first two weeks of banking April. As a result of these factors, while the growth rate remains within the 1984-85 target range, there are now some signs of an acceleration, with the three and twelve month growth rates forecast to reach 6.1 per cent by the end of banking April.

13. We have not changed our estimate of the underlying level of sterling lending since last month, and continue to take a cautious view of the effect of high interest rates and of other special factors. On this basis, £M3 is forecast to grow by 1.1 per cent in banking April, taking annualised growth in the target period as a whole to 10.2 per cent, just outside the target range. And it assumes that the gross gilt sales target for April of £1¼bn is achieved, which, with substantial sales still required, and only 3 days of the banking month to go, looks increasingly unlikely. If we fell £½bn short of the gilt sales target the forecast for £M3 would rise to around 1.4 per cent.

14. Much more modest growth for £M3 is forecast in banking May (0.4 per cent), with £1¼bn assumed gross gilt sales, no redemptions and a £500m rights issue by Barclays. In banking June, in contrast, £M3 is forecast to increase by 1.8 per cent. This is largely because, with redemptions of almost £1¼bn, there would be no contribution from gilts to funding, unless a gross sales target for that month were set (and achieved) substantially higher than the £1¼bn we have assumed for the forecast.

Table 2: Main Aggregates : Summary of Forecast

per cent, s.a.

	MO	£M3	PSL2
Monthly change			
April	0.9	1.1	1.2
May	0.3	0.4	0.8
June	0.3	1.8	1.8
growth to mid-March at an annual rate			
over past:-			
3 months	- 1.3	9.3	15.4
6 months	5.3	9.3	14.8
12 months	5.3	9.3	14.6
Target period	5.4	9.9	15.2
growth to mid-June at an annual rate			
over past:-			
3 months	6.3	13.7	16.6
6 months	2.4	11.5	16.0
12 months	5.3	9.3	14.0

15. Table 2 summarises the forecast for the different aggregates, and Chart I shows past and projected movements in the twelve month and three month growth rates for MO and £M3. The expected outturn for the fourteen month target period from February 1984 to April 1985 using the traditional cone presentation is illustrated in Chart V at the back of this report.

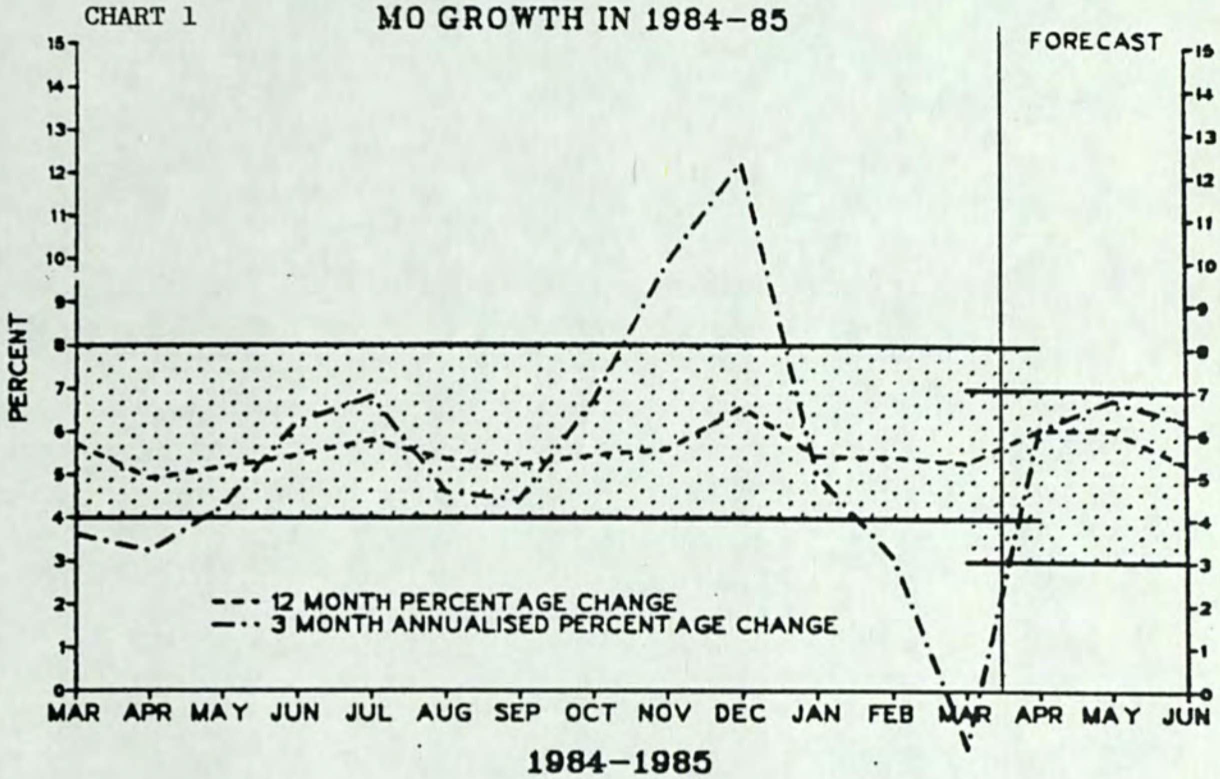
Public Sector Borrowing

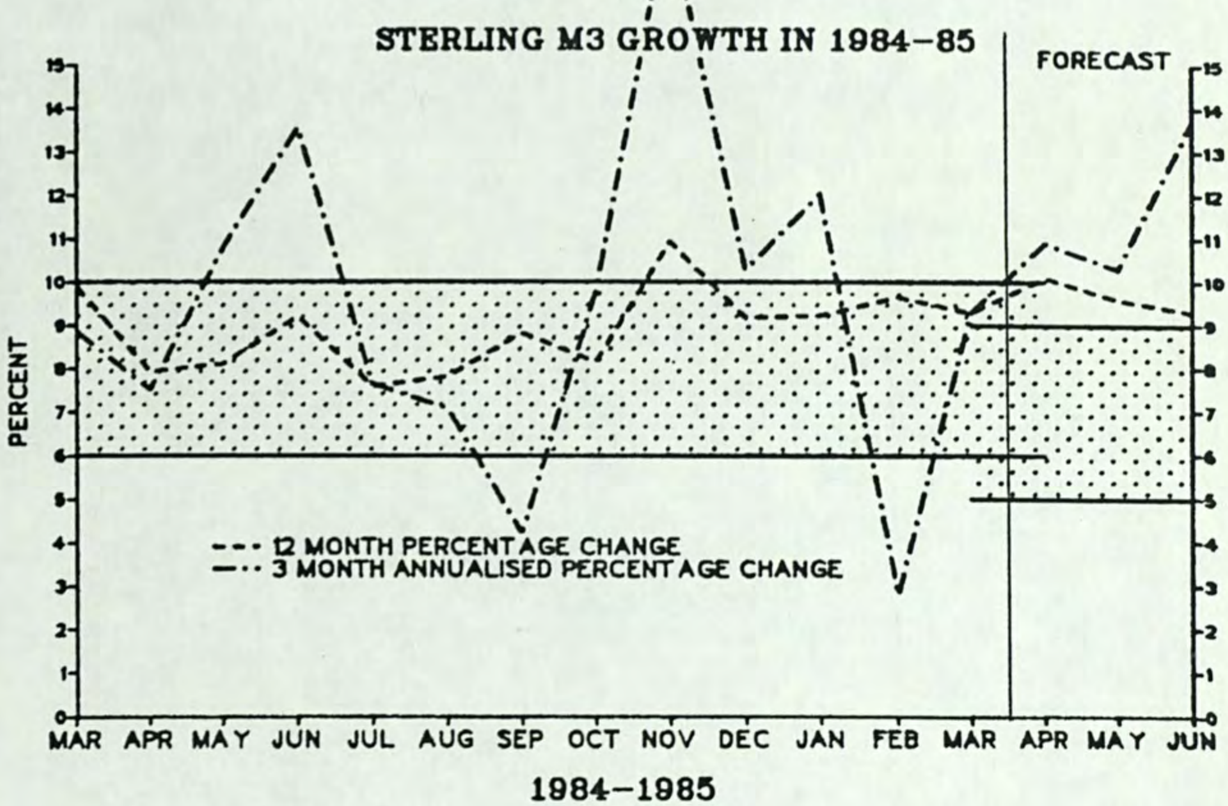
16. In March the PSBR outturn was close to forecast at £1.3bn. The CGBR accounted for virtually all this figure.

17. For the second half of calendar March the CGBR was close to the earlier forecast. Although the expected surge in supply expenditure was less than forecast, this was offset by higher than forecast on-lending to local authorities.

18. For the period after the end of calendar March, the forecast is based on the recently completed calendar month profiles for the

CHART 1


M0 GROWTH IN 1984-85
FORECAST
PERCENT
12 MONTH PERCENTAGE CHANGE
3 MONTH ANNUALISED PERCENTAGE CHANGE
MAR APR MAY JUN JUL AUG SEP OCT NOV DEC JAN FEB MAR APR MAY JUN
1984-1985


STERLING M3 GROWTH IN 1984-85
FORECAST
PERCENT
12 MONTH PERCENTAGE CHANGE
3 MONTH ANNUALISED PERCENTAGE CHANGE
MAR APR MAY JUN JUL AUG SEP OCT NOV DEC JAN FEB MAR APR MAY JUN
1984-1985

new financial year. The provisional profiles are similar to those for the same period last year when there was a surge in expenditure (see table 3). However there are a number of special factors relating to this year. Firstly in the second half of banking May there is the sale of British Aerospace shares which are expected to gross £180m. Secondly, affecting the CGBR but not the PSBR, there is, also in May, a large repayment of market borrowing by the Central Electricity Generating Board. The latter relied on market borrowing to finance purchases of oil during the miners' strike. Lastly there is the second call on BT, although this falls just outside the forecast period.

Table 3: Public Sector Borrowing

£ million, monthly average

	mid-Feb 84 - mid March 85	forecast mid-March 85 - mid-June 85	mid-March 84 - mid-June 84
CGBR(O)	513	943	1011
'LABR'	239	260	215
PCBR	96	- 115	- 73
'PSBR'*	848	1088	1153

* PSBR less non-bank private sector transactions in other public sector debt.

Debt Sales

(a) **Gilts**

19. Gross gilt sales in the four weeks of banking March totalled £1,704m, compared to a target of £1¼bn. £611m was raised through the second and final £77.50 per cent call on 11% Exchequer Loan 1990 (issued in banking February). New issues totalled £2,150m nominal, of which £637.4m remained at the end of the banking month. Details of new issues are set out in annex Table 8. Redemptions of 15% Treasury 1985 reduced the net total by £389m.

20. Despite the high level of sales, the contribution to funding was blunted by a late, and unexpected, surge in gilt purchases by the banks and the overseas sector. The banks' late purchases may reflect their particularly buoyant liquidity position at the end of last month, caused by high sterling inflows from both domestic and overseas depositors. The prospect of falling interest rates may also have been a contributory factor. Overseas gilt purchases (mainly of the new FOTRA stock) formed part of a heavy inflow into sterling denominated assets last month, probably prompted by a weakening dollar and high UK real interest rates.

21. Table 4 compares the March outturn with performance over the previous twelve months and summarises the three month forecast for gilt sales. With an assumed gross sales target of £1¼bn per month throughout the forecast period, the net sales profile, and the contribution to funding, is very uneven. With only days of banking April to go we remain around £½bn short of the gross sales target. We would expect about two-thirds of any shortfall to feed through to £M3, so under the worst possible scenario of no further sales, £M3 might be 0.3-0.4 per cent higher than in the forecast.

Table 4: Gilt Sales*

monthly averages, £m

	Actual Banking March	mid-Feb 84 - mid-Mar 85	Forecast mid-March 85 - mid-June 85
Gross sales	1704	1242	1250
Redemptions	- 389	- 274	- 372
Next maturities	3	- 106	- 167
Net sales	1318	862	711
of which:-			
Monetary sector	271	39	50
Public Corporations	- 10	3	- 13
Overseas	265	95	117
Non-bank private sector	792	725	557

* Excluding repos

22. The uneven net sales profile - and the corresponding uneven profile forecast for £M3 - reflects minimal projected buying-in in May, followed by both substantial buying in and a large redemption in banking June. It is the 3% Treasury 1985 that matures in June, and experience has shown that low coupons are normally held to maturity by the nbps; almost £1bn of the stock is therefore assumed to mature in market hands. Against this uneven pattern of redemptions the forecast simply assumes gross gilts sales of £1¼bn a month. In practice, it may be sensible to adjust the targets to achieve a more even pattern of net sales, and hence of £M3. Thus with no redemptions in May, and with institutional cash likely to be channelled away from gilts and into Barclay's rights issue and British Aerospace share sale in the same month, it may be that a lower target should be adopted. While in June a higher target might make sense given the possibility of attracting some of the cash freed by redemption of the 3% Treasury 1985 back into gilts.

(b) CTDs

23. Purchases of CTDs in March exceeded expectations by about £¼bn, with a few large purchases just before the Budget, perhaps reflecting a desire by companies to lock into higher interest rates in the expectation of post-budget falls in rates. Purchases so far in banking April have been substantial, with negligible surrenders, and a net contribution to funding of about £200m is now expected. Greater surrenders are expected to produce a neutral impact on funding in May and a small contribution in June.

(c) National Savings

24. National Savings contributed £¼bn (unadjusted) to funding in banking March (£170m adjusted), slightly above forecast. As anticipated the major contributors were the 30th Issue Certificate, the Income Bond and accrued interest. The 30th Issue benefitted from the customary surge of sales to high-rate taxpayers in the first few weeks of each new issue. This helped to ensure that the 1984-85 target was met: total net sales in the financial year were £3.1 bn.

25. The forecast assumes that the only changes in interest rates will be those already announced. This suggests that National Savings

competitiveness will rise gradually over the forecast period as the interest rate increases on the gross products come into effect. It is expected that the 30th Issue will continue to be a strong factor in the next three months, while the high Common Extension Rate should ensure that there are no heavy maturities of the 19th Issue stock. Although accrued interest is expected to bring in £100m per month over the forecast period, the major contributor is expected to be the Income Bond which looks to be a good option for non-taxpayers in the aftermath of CRT. In contrast, there is no evidence that the Investment Account has benefitted from the introduction of CRT on bank deposits: we do not envisage any sharp improvement in the performance of INVAC in the next three months.

The PSBR and Funding

26. Table 5 (over page) summarises net funding over the target period so far and that implied by the forecast. In banking March the "PSBR" was only modestly underfunded seasonally adjusted and modestly overfunded unadjusted. In the forecast period the projected front end loading of the PSBR, particularly in unadjusted terms, and the large gilt redemptions, imply small underfunding seasonally adjusted conventionally defined, and large underfunding (£3¾bn) unadjusted. For the 14-month target period to end April there is now expected to be overfunding of £2½bn seasonally adjusted conventionally defined. On the alternative definition, after taking account of external finance of the public sector overfunding seasonally adjusted in the target period is expected to reach £5bn..

Table 5 : The PSBR and Funding

£ billion

	Actual mid-Feb 84 - mid-Mar 85	Forecast mid-Feb 84 - mid-Apr 85	mid-Mar 85 - mid-Jun 85
"PSBR"	11.0	12.3	3.3
Debt sales to nbps	- 13.7	- 14.9	- 2.7
of which:-			
Gilts	-10.5	- 11.3	- 1.7
National Savings	- 3.7	- 3.9	- 0.8
CTDs	- 0.8	- 1.0	- 0.3
Over(-)/Underfunding(+)	- 2.6	- 2.6	0.5
Unadjusted	- 3.1	- 1.0	3.7
External Finance of the public sector	- 2.1	- 2.2	- 0.4
Over(-)/Underfunding(+) alternative definition	- 4.8	- 4.9	0.2
Unadjusted	- 5.4	- 3.4	3.4

Money market influences

27. Given the expected level of underfunding over the forecast period - due to seasonal factors - there should be a substantial decline in money market assistance. A fall of £3.3bn is projected between mid-March and mid-June. In March the small unadjusted CGBR combined with strong net gilt sales caused a shortage of £1.3bn. Outstanding money market assistance reached £17.6bn at the end of banking March.

Sterling Lending to the Private Sector

28. Sterling lending increased by £1.8bn last month, taking the three and six month annualised rates to 20 per cent, while the twelve month rate is now around 17 per cent. A delay in the clearing system resulted in an artificial increase of £140m on banking March make-up day, which was unwound the next day. The undistorted level of lending was therefore around £1660m, slightly above forecast.

TABLE 6

STERLING LENDING TO PRIVATE SECTOR

Seasonally adjusted

		Moving Averages of Underlying Lending						Moving Averages of Recorded Lending					
		3 months		6 months		12 months		3 months		6 months		12 months	
		£m	%*	£m	%*	£m	%*	£m	%	3m	%	£m	%
1984	Jan	1116	15.1	1117	14.9	1157	15.9	1195	15.6	1271	17.1	1084	14.9
	Feb	1076	13.7	1171	15.3	1158	15.6	1283	16.5	1278	16.7	1076	14.5
	Mar	1095	13.7	1303	17.0	1200	16.1	1282	16.2	1340	17.5	1161	15.5
	Apr	1627	20.9	1396	17.9	1268	17.0	1445	18.4	1320	16.9	1273	17.0
	May	1424	17.7	1250	15.7	1240	16.2	1322	16.4	1302	16.4	1230	16.1
	June	1563	19.2	1329	16.5	1262	16.5	1297	15.8	1290	16.0	1267	16.5
	July	882	10.4	1255	15.5	1186	15.3	936	11.1	1190	14.7	1231	15.9
	Aug	1098	12.9	1261	15.3	1216	15.3	887	10.3	1104	13.3	1191	15.0
	Sept	1028	11.9	1295	15.4	1299	16.3	850	9.81	1074	12.7	1207	15.1
	Oct	1637	19.4	1260	14.8	1328	16.3	1452	17.1	1194	14.0	1257	15.4
	Nov	1831	21.6	1464	17.1	1357	16.4	1785	21.0	1336	15.6	1319	16.0
	Dec	1788	20.8	1408	16.3	1368	16.3	1793	20.9	1321	15.2	1305	15.6
1985	Jan	1684	19.3	1660	19.3	1457	17.4	1748	20.1	1600	18.6	1395	16.7
	Feb	1614	18.1	1722	19.8	1492	17.5	1715	19.3	1750	20.1	1427	16.7
	Mar	1604	17.8	1696	19.2	1495	17.2	1821	20.3	1807	20.6	1440	16.6
Forecast													
	April	1654	18.0	1669	18.7	1464	16.7	1652	18.0	1700	19.0	1447	16.5
	May	1600	17.1	1607	17.7	1535	17.3	1610	17.2	1663	18.3	1499	16.9
	Jun	1550	16.3	1577	17.1	1492	16.6	1526	16.0	1674	18.2	1497	16.7

* Based on stock of recorded lending

29. The recent high level of lending can, in part, be explained by erratic factors. The 1984 Budget changes in investment allowances provided an incentive to borrow funds for investment, financed directly or by leasing, before the end of the fiscal year. This may have boosted the March figure and is expected have a slightly larger effect in banking April. There may also have been some base rate round-tripping in the last week of banking March. Blue chip companies are apparently able to borrow at 0.4 per cent above base rate (ie. at 14.4 per cent) and could earn over 14½ per cent throughout the week on 1-7 day money. (See Chart IV). Lending may have been particularly inflated by round-tripping on make-up day itself with companies borrowing from banks and investing the proceeds overnight to capitalise on the 50 per cent overnight rate.

30. We have assumed that the various forms of round-tripping boosted lending in March by some £200m but there is no way of gauging the accuracy of this assumption.

31. All the £200m is projected to unwind in banking April. However, in the first two weeks of this banking month there have been further arbitrage opportunities that could be exploited by issuing one month bills and investing the proceeds at one month interbank rates. This form of bill round-tripping is projected to boost lending in April by £200m, unwinding in May.

32. One of the reasons banks were able to increase their lending substantially in March was an exceptional net inflow of over £1½bn of sterling deposits from non-residents, as the exchange rate strengthened. These funds may give the banks increased scope for lending in future, albeit on the basis of deposits that could prove to be rather volatile.

33. Over the next three months we expect lending to increase at just over £1½bn a month which would bring the three and twelve month growth rates down to 16-17 per cent. The lower level reflects an assumption that the sustained high level of base rates will have some depressing effect on the demand for bank finance. In banking May the contractionary effect of the unwinding of one month round-tripping is forecast to be offset by increased borrowing associated with the Barclays and British Aerospace rights issues.

CHART II : BANK LENDING

GROWTH OF THE STOCK OF BANK LENDING TO THE NON BANK PRIVATE SECTOR

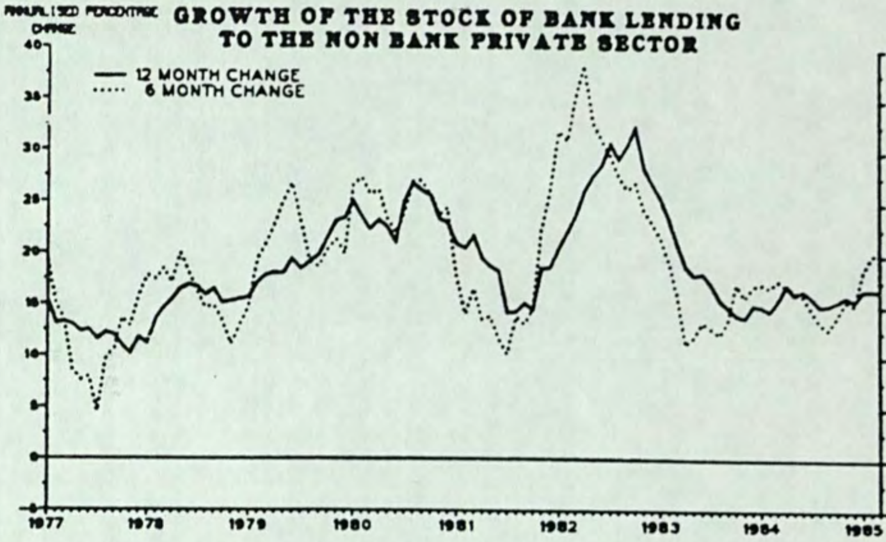


Chart III REAL FT ALL SHARE INDEX

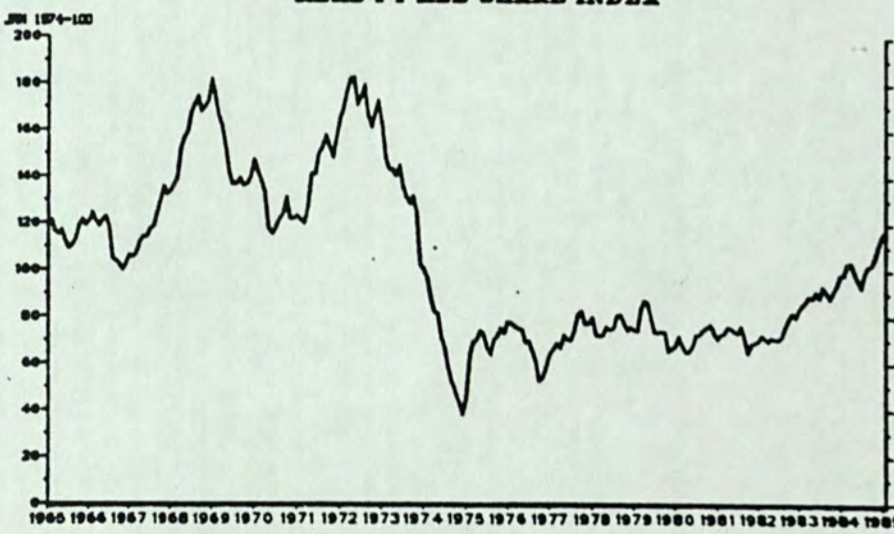
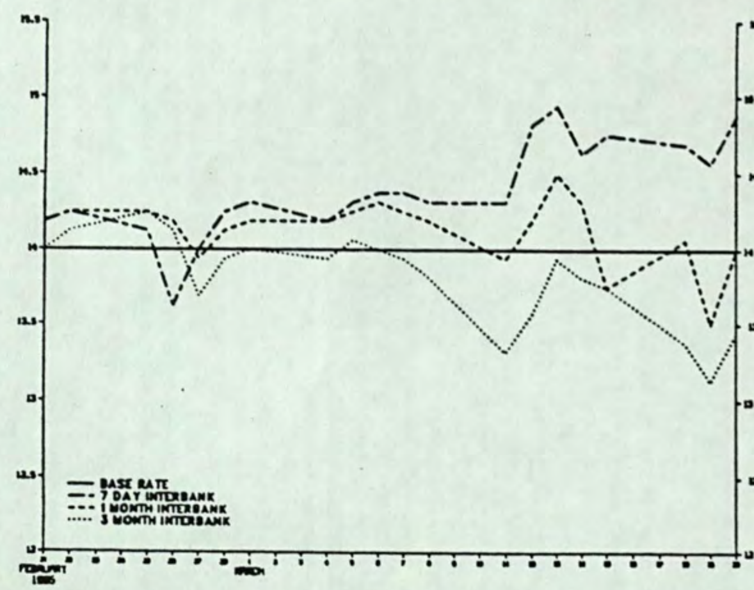


CHART IV INTERBANK VERSUS BASE RATE IN BANKING MARCH



34. Net issues by listed UK companies raised over £700m in calendar March. If this keeps up - and the further increase in the size of the equities queue suggests it will - 1985 is likely to be a record year for rights issues. As yet there is little sign that companies are using the proceeds of new issues to repay bank borrowing. This may be because the money is being used to fund acquisitions. It may also reflect the ability of companies to obtain a higher yield from investing in various financial assets than they are paying on their bank borrowing.

Table 7: Issues by Listed UK Companies

Calendar month averages, £m

	Net Issues	Gross Issues Queue* (Equities)
1982	97	-
1983	234	-
1984	143	-
1984 Q1	51	850
Q2	199	1510
Q3	218	1030
Q4	106	1215
1985 Q1	400	
1985 Jan	275	1610
Feb	201	2943
Mar	723	4100**

* Excluding privatisations, currently consisting of £1bn for British Airways and £½bn for British Aerospace.

** As of Thursday 4 April 1985

Externals and net non-deposit liabilities (NNDLs)

35. In March the externals had a neutral impact. However this masks huge offsetting changes in sterling deposits from abroad and UK banks net currency liabilities. Both increased by around £1½-£2bn, about £1bn higher than in any other single month in the past year. Both movements would seem likely to be related to the reactions of banks and their customers to currency instability. In the forecast period the externals are projected to be a positive influence on money by about £200m a month - close to the projected current account surplus.

36. In banking March net non-deposit liabilities were contractionary by £830m. Although this largely reflected strong capital issues there were also sizeable negative influences from the residual categories. These could be reversed in the coming months. Otherwise the nndl's forecast reflects continued strong capital issues by the monetary sector with Barclays issue of £500m in banking May being the most significant.

Building Societies

37. Retail inflows in banking March at £790m were £70m below forecast suggesting that the societies were hit rather harder than we had expected by the decline in their relative competitiveness. One result of this was a lower than expected building society contribution to PSL2: the overall figure was £865m as against a forecast of £1155m.

38. The table below shows our forecast for the seasonally adjusted balance sheet flows over the next three months.

Table 8

	RECEIPTS			PAYMENTS			TOTAL
	Net inflow of Shares and Deposits	Net inflow Wholesale Funds	Other*	Net mortgage Advances	Acquisition of Liquid Assets	Other**	
April	400	125	985	1280	- 175	405	1510
May	700	125	1020	1350	85	410	1845
June	700	150	1040	1375	100	415	1890

* Mainly receipt of mortgage interest payments
** Mainly payment of interest and taxation

39. On retail inflows we anticipate that the rise in building societies' ordinary share and premium rates, effective from April 1, will induce a sharp recovery from the middle of banking April. Underlying inflows to the top 16 societies of around £150m per week imply a monthly inflow at £700m for the industry as a whole. In banking June the forecast makes an allowance for the effects of the BT call early in banking July, for which private investors will need to mobilise their resources towards the end of banking June out of building society accounts into cheque accounts held with the banks.

40. The continuing high cost of wholesale funding assumed over the forecast period suggests that the latter will remain fairly subdued over the coming months. Taken together with a steadily rising level of mortgage demand, despite very high real lending rates, our forecast for inflows suggests that societies will continue to run down their liquid assets in banking April. Although there should be a small increase in liquid asset holdings in the succeeding two months, we expect to see a liquidity ratio of around 16.2 per cent by the end of banking June.

41. The forecast building society contribution to PSL2 reflects these trends:

Table 9

Average Monthly Contribution since mid-February 1984	Forecast April	Forecast May	Forecast June
1190	1340	1385	1390

Retail Inflows

42. Table 10 draws together the forecasts for retail inflows into building societies, banks and National Savings. In banking March we were surprised by the very low level of retail flows in total

fm

SECRET

TABLE : 10

A BREAKDOWN OF RETAIL FLOWS

Seasonally Adjusted
£ million

	OUTTURN		FORECAST		
	Average Monthly Increase since mid-February 1984	MARCH	APRIL	MAY	JUNE
RETAIL BANK DEPOSITS					
Nib. Sight	98	-133	)		
Ib. Chequable	147	340	) 280	180	160
Ib. Other	18	25	)		
TOTAL BANK DEPOSITS	265	232 [590]	280	180	160
BUILDING SOCIETIES	1058	790 [860]	915	1220	1225
NATIONAL SAVINGS	265	169 [150]	205	250	315
TOTAL	1587	1191 [1600]	1400	1650	1700

[Last month's forecast in brackets]

and, in particular, by the poor showing at the banks. Given that investors' interest rates in real terms are currently at near-record levels we did not anticipate that total retail saving would fall to less than 75 per cent of its average rate over the previous year. Moreover, we expected to see relatively high bank inflows in response to the strong improvement in bank competitiveness in recent months and the proliferation of high-interest easy-access money market accounts.

43. Two possible explanations at these figures suggest themselves. First, the CRT effect could be pulling down bank deposits more than we anticipated. But in that case one would expect flows elsewhere to have increased, which they have not. Secondly, it is possible that saving behaviour in banking March was dominated by the very high lending rates. Rather than invest money in intere-bearing deposit accounts it is possible that persons close to pay off expensive debts; or they may have drawn on savings to meet increased mortgage and other interest payments.

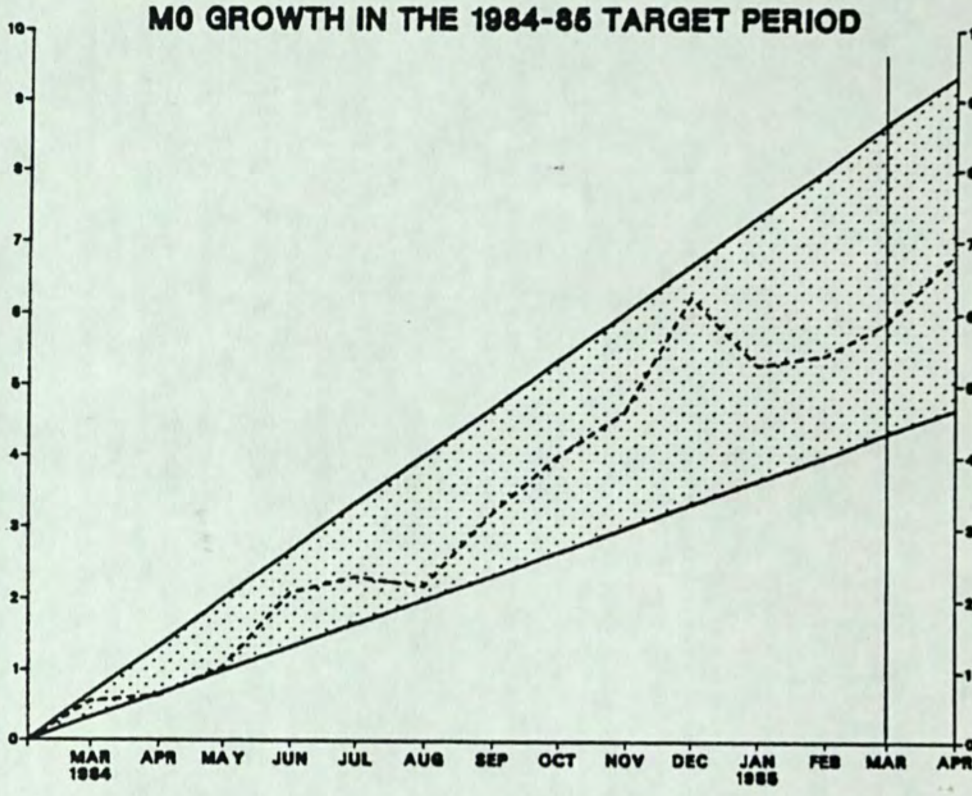
44. Given the uncertainties surrounding the banking March figures it has been more than usually difficult to construct a sensible projection for the next three months. The main features of Table 10 are:-

(i) a gradual rise in total retail flows each month from the low level observed in March up to £1700m in June;

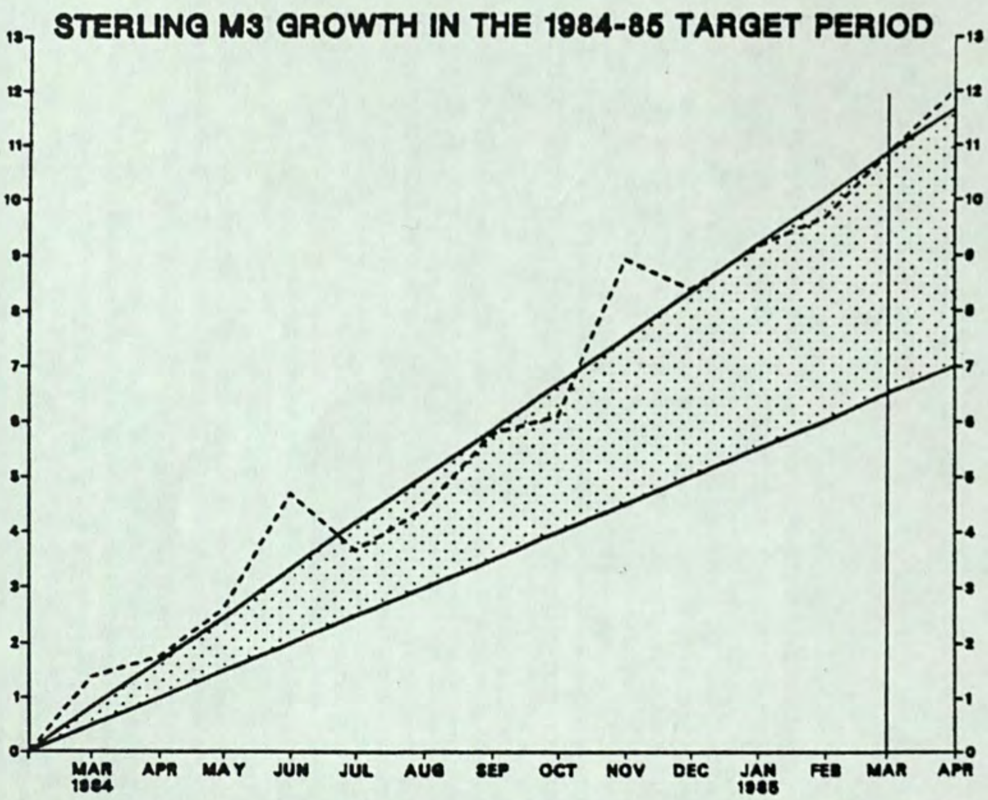
(ii) a rise in bank inflows in April, representing a lagged response to the higher bank interest rates, followed by a fall off in bank inflows in May and June as a result of reduced competitiveness and CRT.

(iii) a gentle improvement in National Savings inflows and a sharp recovery in building society deposits due to improved competitiveness, CRT gains and the increased size of the savings pool caused by high real interest rates.

CHART V



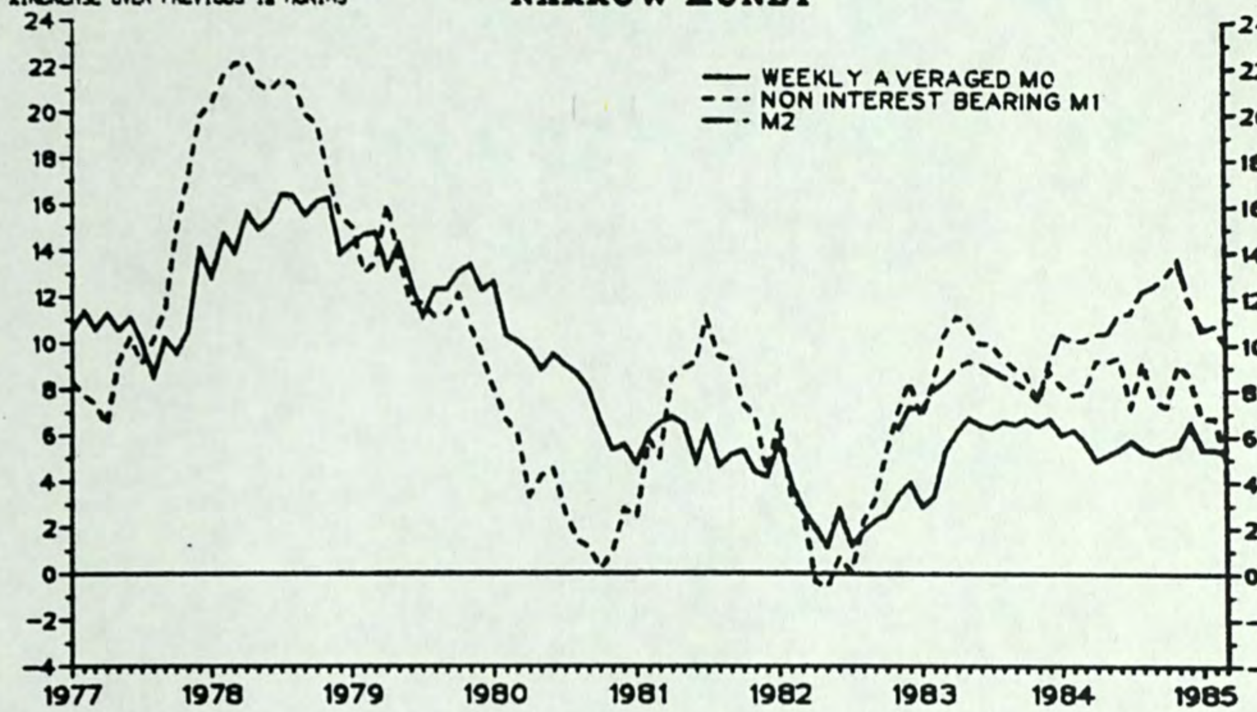
M0 GROWTH IN THE 1984-85 TARGET PERIOD
0
1
2
3
4
5
6
7
8
9
10
MAR 1984
APR
MAY
JUN
JUL
AUG
SEP
OCT
NOV
DEC
JAN 1985
FEB
MAR
APR



STERLING M3 GROWTH IN THE 1984-85 TARGET PERIOD
0
1
2
3
4
5
6
7
8
9
10
11
12
13
MAR 1984
APR
MAY
JUN
JUL
AUG
SEP
OCT
NOV
DEC
JAN 1985
FEB
MAR
APR

CHART VI : ANNUAL GROWTH RATES OF MONETARY AGGREGATES

NARROW MONEY



BROAD MONEY

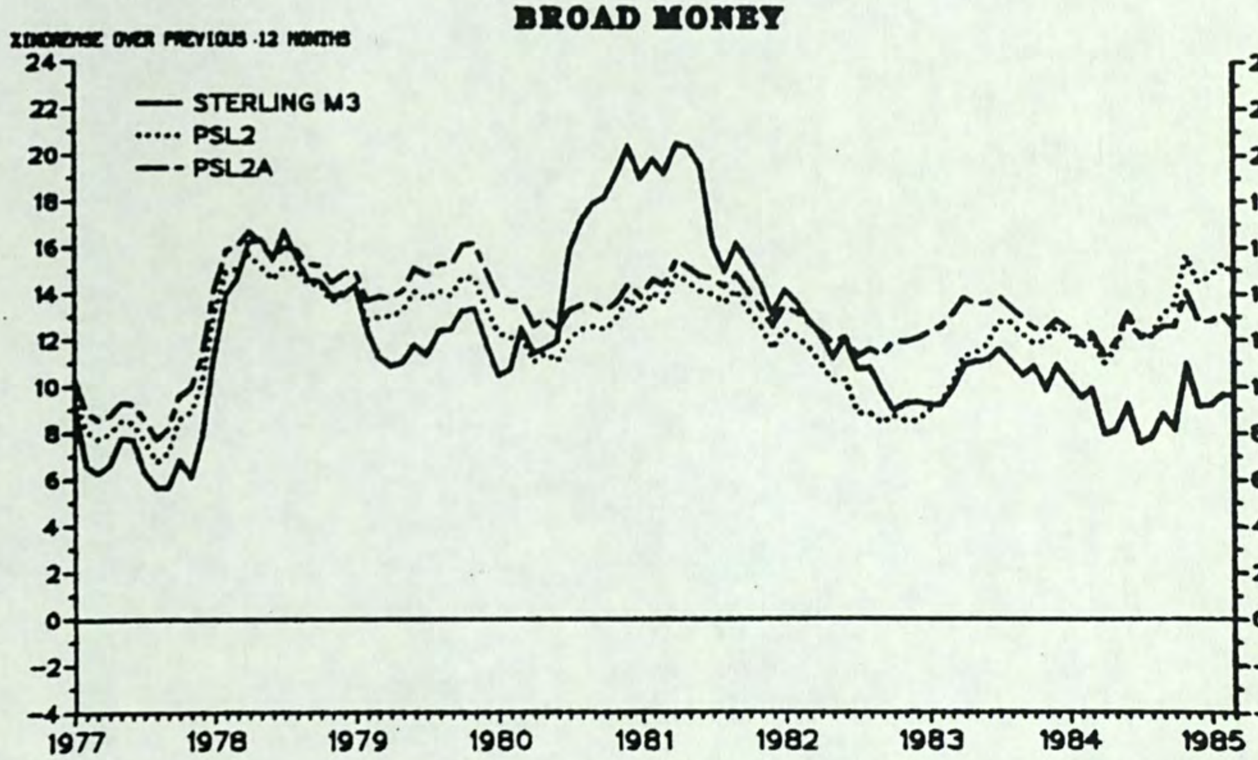
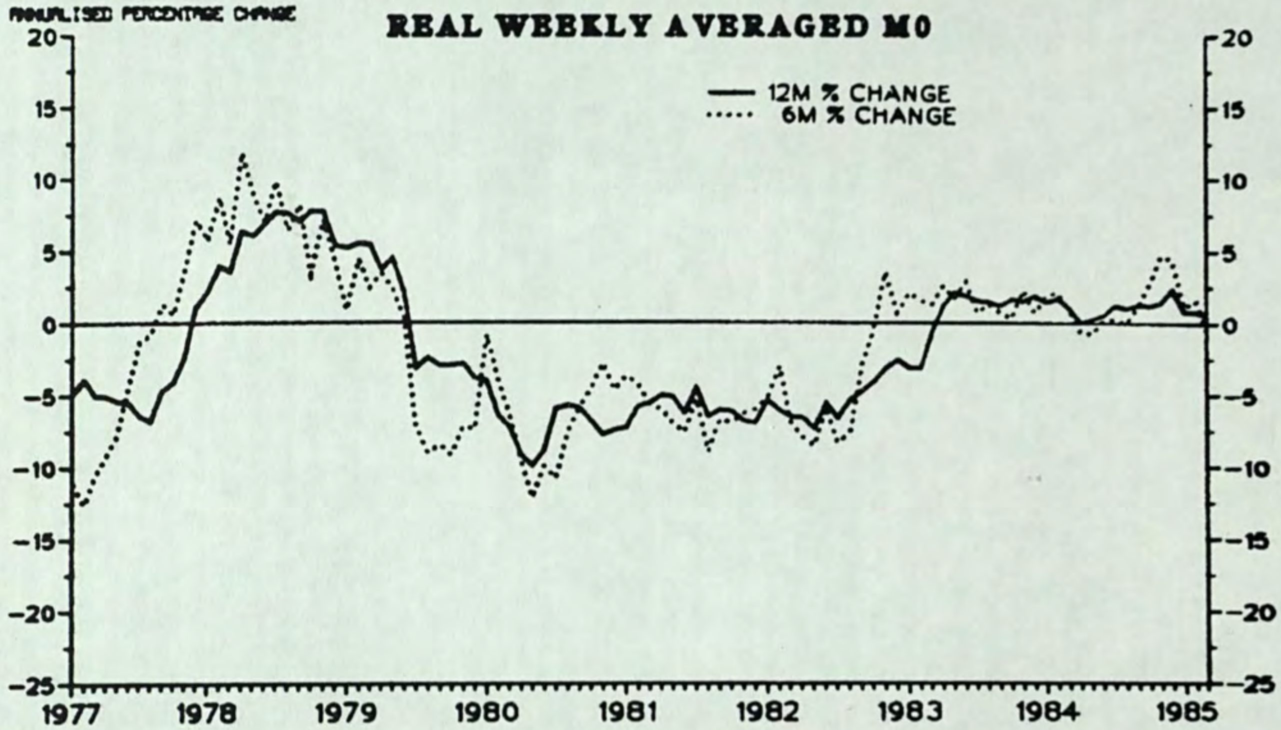
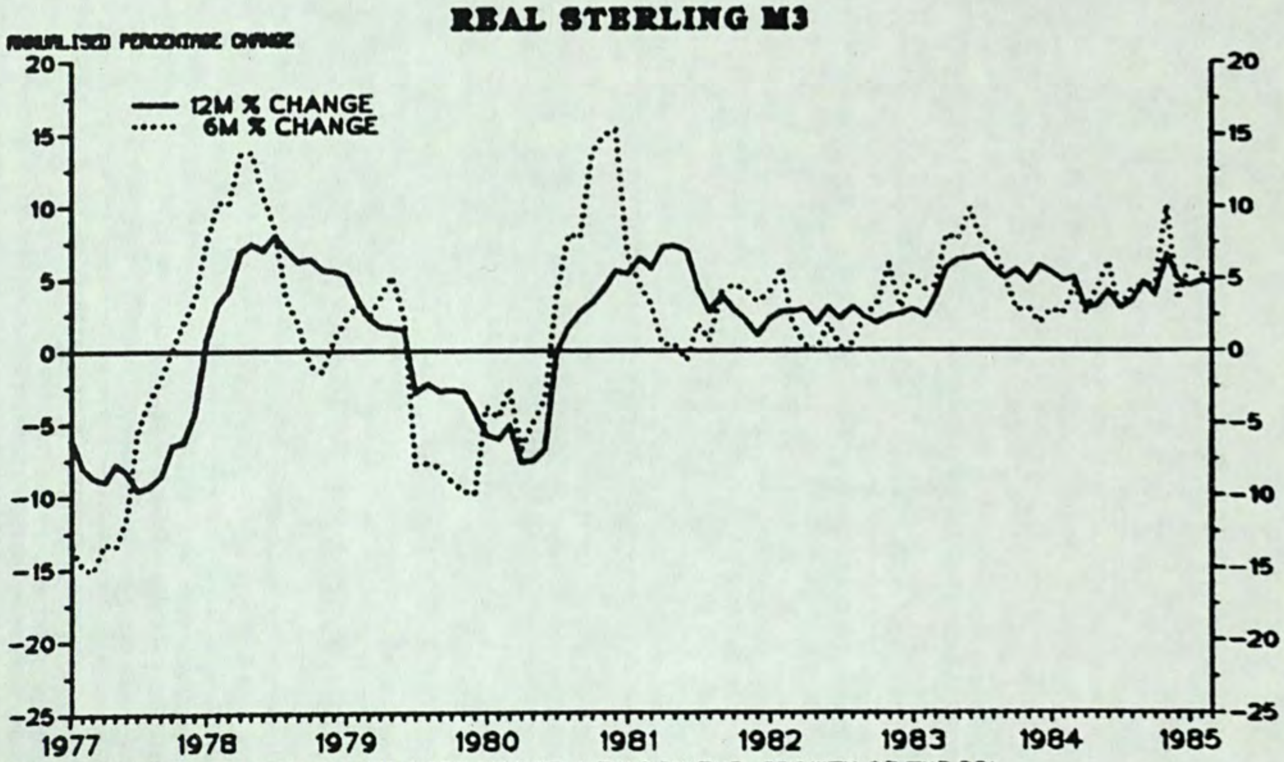


CHART VII : GROWTH RATES OF REAL MONETARY AGGREGATES

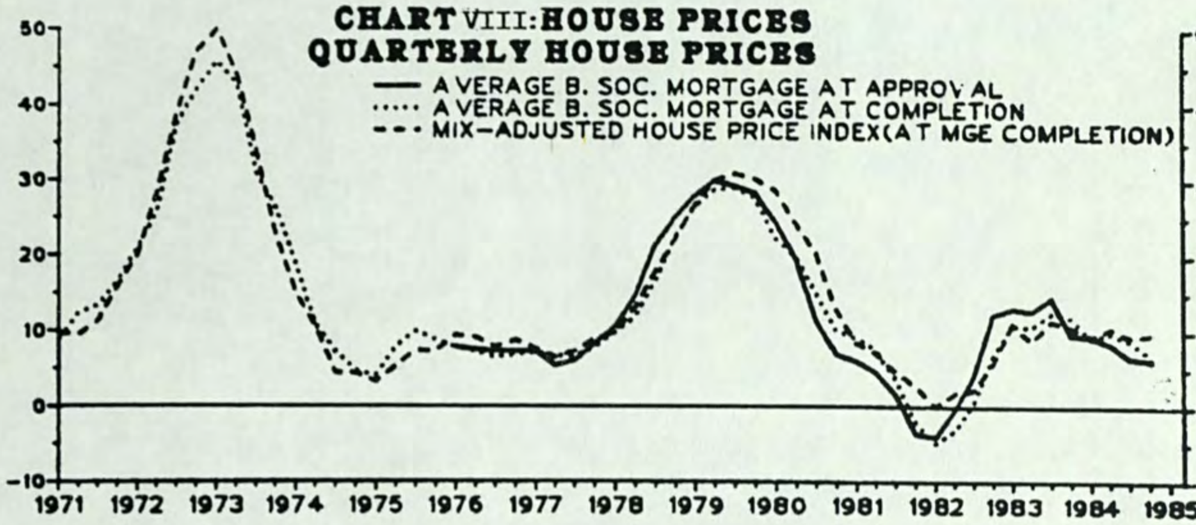




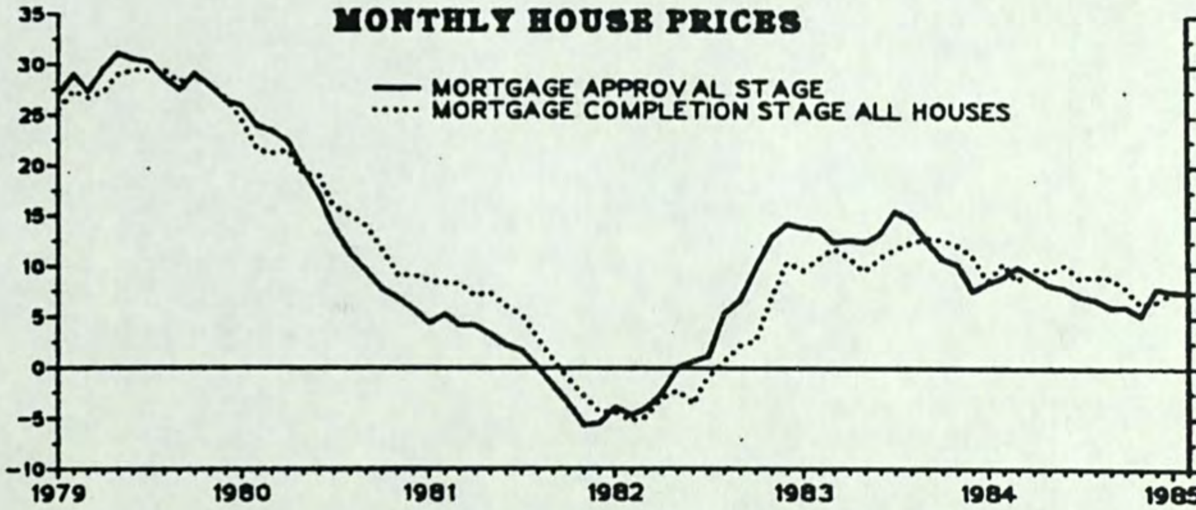
REAL GROWTH RATES ARE CALCULATED BY DEFLATING BY THE GROWTH OF THE RPI EXCLUDING THE MORTGAGE ELEMENT

CHART VIII: HOUSE PRICES

QUARTERLY HOUSE PRICES



MONTHLY HOUSE PRICES



INDICES OF RELATIVE HOUSE PRICES

BASED ON DOE MIX ADJUSTED HOUSE PRICE INDEX

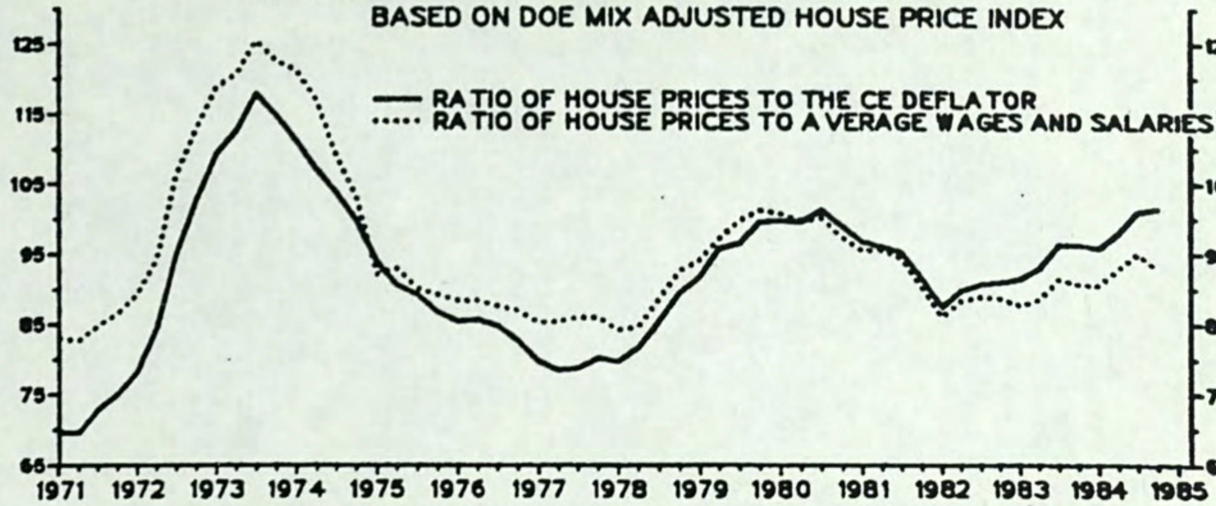
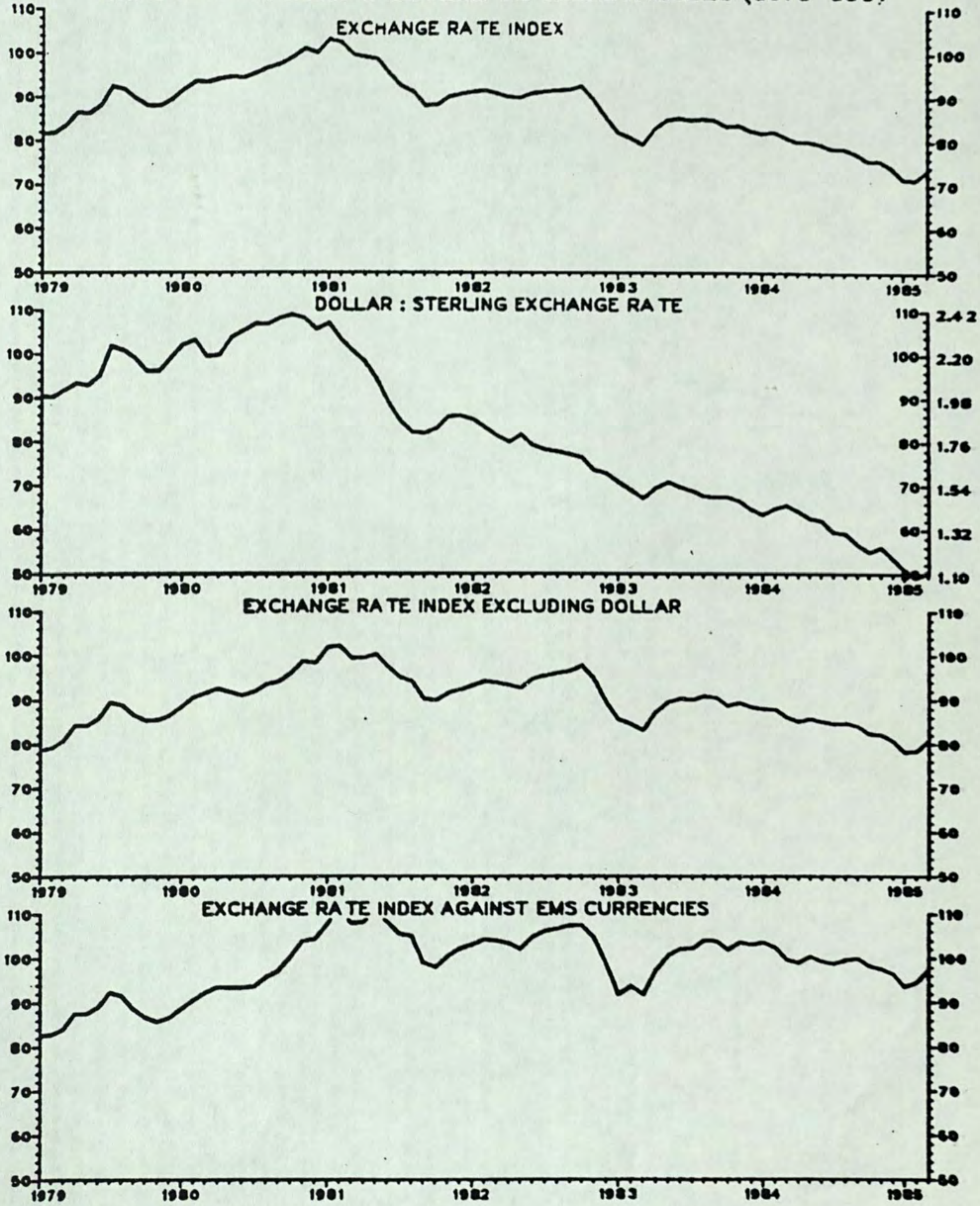


CHART IX :STERLING EXCHANGE RATE INDICES (1975=100)



NOTE : ALL SCALES ARE EQUIVALENT