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FROM: P N SEDGWICK
DATE: 7 April 1982

MR BURNS

cc Sir Douglas Wass
Sir K Couzens
Mr Ryrie
Mr Littler
Mr Middleton
Mr Britton
Mr Cassell
Mr Evans
Mr Lavelle
Mr Monck
Mr R Allen
Mrs Lomax
Mr Peretz
Mr Pirie
Mr Riley
Mr Turnbull
Mr Bean
Mr H Davies
Mr S Davies
Mr Hood
Mr Pickford
Mrs Rowlatt
Mr Spencer
Mr Bennett
Mr Crook

Sir J Boreham - CSO

Deputy Governor)
Mr Dow)
Mr George)
Mr Fforde)
Mr Coleby)
Mr Goodhart)
Mr Plenderleith)
Mr Foot)

Professor A Walters - No. 10

INTERPRETATION OF MONETARY CONDITIONS: APRIL 1982

... I attach the monthly note, which reflects the discussion at your meeting yesterday.

2. The note discusses monetary conditions and their possible consequences on the basis of developments until the end of last week. It does not discuss the implications of developments in the last few days that are related to the Falkland Islands crisis.

P.N.S

P N SEDGWICK

Introduction & Summary

This month's note examines

(a) the recent behaviour of the principal monetary aggregates and financial wealth, both nominal and real;

(b) the implications of the current divergent behaviour of the narrow and wide aggregates for the future course of prices and money GDP;

(c) the growth of bank lending;

and (d) recent information on the use of cash as a means of payment.

The usual tables and charts not directly related to these are at the end of the note.

2. Table 1 summarises the most recent information on the nominal financial aggregates and presents this in the context of developments in the previous two financial years.

TABLE 1 : SUMMARY OF GROWTH RATES OF MONETARY AND OTHER FINANCIAL AGGREGATES ø

	MO	Non-interest bearing M1	M1	£M3	M3	PSL2	PSL2A øø	Net financial wealth**	Gross financial wealth**
(a) financial years									
1979-80*ø	9.6	4.2	3.2	11.0	12.4	11.3	13.8	3.8	10.7
1980-81*ø	7.4	7.9	11.3	19.8	21.5	14.0	13.6	30.0	22.0
(b) changes on same period in previous year									
1981(1)	7.5	4.2	6.8	17.4	19.4	12.8	13.6	30.0	22.0
(2)	5.8	8.9	11.3	17.8	21.3	13.3	14.2	33.0	22.3
(3)	5.1	9.5	10.5	15.7	21.5	13.8	14.6	18.8	18.4
(4)	4.8	4.8	7.8	13.5	19.3	11.7	12.5	(18.0)	(16.4)
1982									
January	7.2	7.3	10.7	14.8	18.2	12.4	13.4		
February	3.6	3.9	8.7	14.4	17.1	12.1	13.2		
March	3.0	3.9	8.2	13.6	16.1	11.9	-		

*through the financial year (mid-April on mid-April)
**including revaluations
øThe growth rates for all monetary aggregates, except non-interest bearing M1, are adjusted for recent changes in definition
øø PSL2A adds to the current definition of PSL2 building society term shares and bank deposits with over two years maturity.

3. Recent monetary developments can be summarised as follows:

(i) The twelve month growth rates for the main aggregates have varied around the same levels for some months, though month to month variations tend to be wider for the narrow aggregates;

(ii) The six month growth rates for the wide aggregates have fallen quite sharply since the third quarter of 1981, and March continues this trend. The deceleration is less marked once allowance is made for the Civil Service Strike.

(iii) The six month growth rate for M1 has declined sharply and the twelve month growth rate is significantly below that of the wide aggregates.

4. The behaviour of the other indicators continues to give conflicting signals. Bank lending continues to grow strongly. Neither this nor the growth of the wide financial aggregates appear be leading to any significant upward pressure on expenditure or prices. Retail and wholesale price inflation have been falling steadily through the first quarter of 1982 and provisional estimates of money GDP in the first quarter suggest further deceleration in the growth rate. The exchange rate, however, has fallen slightly in the last month.

(a) Nominal and real monetary aggregates

5. Table 2 shows changes in the nominal monetary aggregates over various time periods. The new monetary sector has tended to produce rather lower growth rates than with the old definition and the existing definition of PSL2, which excludes some building society term deposits that are not in practice very different from ordinary deposits as far as ease of encashment is concerned, produces rather lower growth rates than other definitions.

TABLE 2: CHANGES IN THE NOMINAL MONETARY AGGREGATES (%)

				£M3		
	M0	Non-interest bearing M1	M1	recorded	strike adjusted	PSL2
(i) Change in March	-0.7	-0.3	-0.7	0.3	0.6	0.6
(ii) Change in 12 months to March	3.0	3.9	8.3	13.9	13.3	11.9
of which						
at annual rate ((a) change (in six (months to (September (1981	6.9	13.0	14.7	19.3	14.8	16.2
((b) change (in six (months to (March (1982	-0.8	-4.5	2.1	8.6	11.8	8.0

6. With the effects of the Civil Service dispute unwinding the recent six month growth rates for £M3 are heavily distorted. The recorded figures suggest that there has been a significant reduction in the growth rate. When, however, they are adjusted for the effects of the Civil Service strike the figures suggest a less substantial reduction in the growth rate between the six months to September 1981 and the six months to March 1982.

Strike adjustment would probably have a smaller effect on PSL2, but would still reduce the extent of deceleration.

7. The latest data on financial wealth (see Table 1) have resulted in a slight upward revision to the growth rates in early 1981. It now seems more likely that there has been a slackening in the rate of accumulation of financial wealth.

8. All the narrow aggregates fell during March. Over the last 12 months both the monetary base and non-interest bearing M1 have grown very slowly. The interest bearing component of M1 (mainly overnight deposits by financial institutions in the interbank market) has grown relatively quickly raising the growth of M1 somewhat.

9. Table 3 shows twelve and six monthly growth rates for the real financial aggregates. The real stocks of the narrow aggregates have been falling, apparently indicating a severely contractionary monetary stance. On the other hand the real stock of the wider aggregates, after allowing for the effects of the Civil Service dispute, have been growing in recent months after falling during the first half of 1981.

(b) <u>The implications of monetary developments for inflation & the growth of money GDP</u>

10. The "Interpretation of Monetary Conditions" note for March 1982 discussed in detail the behaviour to be expected from the narrow monetary aggregates during the course of a programme to reduce the rate of inflation by means of monetary policy, and in particular the implications of changes in the growth rate of the financial aggregates for the growth rates of prices and output. It was suggested there that during the initial stages of the policy interest rates would rise and that as a consequence non-interest bearing money would tend to grow more slowly than interest bearing money such as time deposits. As a result M1 might grow more slowly than £M3. As interest rates decline, however, this scenario could be reversed with M1 growing more quickly relatively to £M3 and the other broad aggregates. The divergent behaviour of the monetary aggregates during the last two years accord fairly well with what would be expected during the first stages of the policy.

Whether the growth rate of M1 will now increase as a result of the fall in short term interest rates, and if so by how much it will rise, will depend in part on the extent of innovation in the financial system. The particular potential developments that are relevant are first a move towards payment of interest on current accounts, and second innovations that allow firms and companies to economise on the use of accounts that earn no interest.

11. Whether the relatively rapid growth of £M3 (and the other broad aggregates) is likely to lead to an increase in expenditure, and ultimately inflation, in the future depends on a number of factors. The first factor is that a structural change in the financial sector may be taking place, with banks taking a larger share of the market at the expense of building societies and finance houses. This has been discussed at some length in previous "Interpretation of Monetary Conditions" notes and is reflected in the somewhat slower growth of PSL2. This is unlikely to have major implications for future inflation unless it substantially increases total credit available to the non-bank private sector.

12. The second factor is the extent to which the current high levels of interest bearing deposits are likely to be used eventually to finance expenditure, or shifted into other financial assets - such as government debt, equities, or foreign assets. Even if they are used to finance expenditure this may not lead to renewed inflationary pressure if deposit holdings are run down slowly. Whether they will be shifted into longer-term assets will depend on whether the rate of return on such assets is attractive or not. At present the return on real capital is low, but this is likely to rise when the economy recovers. However, there are many other factors, such as the tax system, and the outlook on wages, which will affect the expected return on these assets. It is therefore difficult to be sure that the present rapid growth of bank deposits, and still more of bank credit, will not ultimately lead to an increase in demand and inflation. While some increase in the rate of growth of M1 is likely as interest rates decline a very rapid acceleration could indicate that funds are being transferred to current accounts to finance expenditure and this could in principle provide a useful short-term warning signal.

Econometric evidence and its implications for short term interest rates

13. There is evidence that the relationship between the broad financial aggregates - and especially £M3 - and both money GDP and prices has shifted by a significant amount in the course of the past few years. Relationships with £M3 significantly overpredict money GDP and prices in the last two years. This shift in the relationship with £M3 in particular is true of other variables as well. The exchange rate in particular has been much higher than previous relationships with the broad financial aggregates would suggest for a much longer period than has been the case with domestic prices. It is most unlikely, however, that the higher than expected exchange rate is solely the result of the changed significance of the broad financial aggregates. Taking this evidence as a whole it can be seen that the view that the relatively fast growth of the broad financial aggregates will not lead to an acceleration in prices does not therefore pre-suppose a shift in the relationship between money and prices in the future, but rather a continuation of a shift that has already occurred.

14. The relatively fast growth of the broad aggregates does not therefore on its own suggest a need for higher nominal interest rates in the immediate future as a necessary precondition for further deceleration in prices and money GDP. This does pre-suppose, however, that the shift that has occurred in the relationship between the broad aggregates and either money GDP or prices is not reversed in the near future. The argument in paragraph 12 suggests that one important factor leading to the shift in the relationship during the last year has been the high level of real interest rates. A significant fall in real interest rates could precipitate an acceleration in money GDP and prices. If this analysis is correct - and the evidence for it is fragmentary - it may be necessary to maintain high real interest rates for some time ahead.

TABLE 3 : CHANGES IN THE REAL MONEY SUPPLY (%)*

	RPI	MO	Non interest bearing M1	M1	£M3 recorded	£M3 strike adjusted	PSL2	PSL2A
(a)Change in 12 months to								
1981 March	12.6	-5.1	-6.2	-5.8	4.8	1.8	0.2	1.0
April	12.0	-4.6	1.6	-1.5	6.9	2.0	2.0	2.7
May	11.7	-6.4	3.9	0.2	7.0	0.9	2.1	2.8
June	11.3	-5.5	0.9	0	6.5	-0.6	2.2	2.9
July	10.9	-4.3	0.2	0	3.8	-0.6	2.3	3.0
August	11.5	-8.1	-1.7	-2.3	2.2	-0.4	1.6	2.4
September	11.4	-6.3	-1.7	-0.5	4.2	1.7	2.5	3.2
October	11.7	-7.1	-4.5	-2.8	3.0	0.2	1.0	1.8
November	12.0	-8.2	-4.9	-2.0	1.9	0	0.1	0.9
December	12.0	-7.1	-7.0	-4.2	1.4	0	-0.3	0.5
1982 January	12.0	-4.8	-4.7	-1.3	2.7	1.4	0.3	1.4
February	11.3	-7.2	-7.4	-2.7	2.4	1.3	0.4	1.9
March	10.5	-7.5	6.6	-2.3	3.4	2.8	1.4	-
(b)Change (at an annual rate) 6 months to								
1981 March	10.6*	-7.3	-4.2	-3.4	1.3	0.4	1.1	2.2
April	13.3	-5.0	0.3	0.6	-1.8	-4. 9	-1.3	-0.9
May	12.4	-6.8	3.2	3.9	0.1	-3.2	1.0	2.0
June	12.5	-6.3	-0.3	-2.3	-1.2	-4.9	0.2	1.3
July	13.0	-6.9	5.9	3.5	1.9	-3.0	1.7	2.4
August	13.7	-11.7	-3.2	-3.5	2.7	-1.5	-1.0	1.6
September	12.2	-5.3	0.8	2.5	7.1	2.8	4.0	4.3
October	10.2	-9.3	-9.1	-6.2	7.7	5.3	3.1	3.6
November	11.6	-9.6	-12.3	-7.5	3.7	3.1	-0.7	-0.1
December	11.7	-8.0	-13.4	-6.3	3.7	4.8	-1.1	-0.3
1982 January	13.8	-2.8	-17	-8.0	3.4	5.8	-1.3	-2.4
February	8.9	-3.8	-11.1	-1.7	3.5	5.1	0.6	2.2
March	10.6	-11.4	-15.1	-8.5	-2.0	1.2	-2.8	-

* seasonally adjusted (1)

(1) The simple method of seasonal adjustment for the RPI for use in calculation of the six monthly growth rates was described in the February Interpretation of Monetary Conditions.

(c) The growth of bank lending

15. Tables 4 and 5 show respectively th growth of total bank lending in the recent past and an analysis of lending for house purchase by all institutions.

16. There is no sign as yet of a deceleration in total bank lending. On the other hand seasonally adjusted lending for house purchase by both banks and building societies has fallen quite significantly since its peak in 1981.

17. The course of events since the banks entered the market for home loans appears to have been as follows:

(i) Until the second quarter of 1981 much of the increased lending by banks was clearly additional to that by building societies;

(ii) By the third quarter of 1981 building societies were finding it increasingly difficult to match the competition from the banks. Their difficulties were reflected as much in their inability to set rates for investors that ensured a sufficient net inflow of funds as their inability at the time to match the conditions for home loans being offered by the banks. As a result lending by building societies for house purchase fell steadily during the second half of 1981;

(iii) There are signs that lending by building societies has reached a trough and may be beginning to rise again. New mortgage commitments by building societies have increased sharply in February and March. In the last few months lending by the banks has fallen though it is possible that this may reflect seasonal adjustment that is not appropriate for the much higher level of lending in the past year.

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TABLE 4 : MONTHLY DATA FOR STERLING BANK LENDING TO SECTORS*

Change on previous month £m for seasonally adjusted banking months

	London Clearing Banks				Total sterling lending	Lending out-standing on year earlier
	OFI's	I&C Companies	Persons	Total		
July	62	511	325	898	408	13.4
August	158	1296	580	2034	1463	13.8
September	9	47	541	597	1212	14.5
October	-112	-580	428	264	782	14.0
November	130	1011	559	1700	2558	17.9
December	-145	-367	491	-21	1084	18.9
January	-25	676	655	1306	1656	20.0
February	14	222	457	693	1976	22.1
March	133	813	524	1470	2094	23.5

*The allocation of total lending by sector is subject to a margin of error.

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TABLE 5 : LENDING FOR HOUSE PURCHASE (£m)

(a) SEASONALLY ADJUSTED

	Building Societies	Banks (excl. TSBs)	Total Banks & Building Societies
1979	5271	590	5861
1980	5722	490	6212
1981	6207	2200	8410
1980 1	1307		
2	1291		
3	1429		
4	1695		
1981 1	1634	250	1880
2	1841	370	2210
3	1475	730	2210
4	1257	840	2100
July	558	220	780
August	490	220	710
September	429	280	710
October	397	280	680
November	431	290	720
December	429	270	710
January	387	230	620
February	411	220	630

(b) NOT SEASONALLY ADJUSTED

	Building Societies	Banks (excl. TSBs)	Other	Total lending for house purchase
1979	5271	590	731	6592
1980	5722	490	1170	7382
1981	6207	2200		
1980 1	1242	30	332	1604
2	1257	170	287	1714
3	1511	160	261	1932
4	1712	130	290	2132
1981 1	1562	210	212	1984
2	1810	390	234	2434
3	1562	730	275	2567
4	1273	870		

(d) The use of cash as means of payment

18. There are two pieces of information which may throw some light on the changes in means of payments which underlie the recent fall in the ratio of the stock of notes and coin to the value of total expenditure. (Table 6 shows this ratio.)

19. Jointly with the Bank of England the Treasury has purchased, from Audit of Great Britain (AGB), a monthly series for the medium of payment used by households in transactions over £3 in value. (See Table 7.) These indicate that the proportion made in cash remained very steady at about 50 per cent from January 1979 to September 1981. (The total of spending in this survey seem to move quite closely in line with consumers' expenditure in the national accounts over the same period.) The process of economising on cash does not, according to this data, involve the greater use of cheques, standing orders or credit cards by households in making purchases.

20. The Treasury has received also from the Bank the (confidential) results of a survey conducted by the Inter-Bank Research Organisation into the medium of payment of wages and salaries. Here there does seem to have been a rather striking change. (See Table 8.) Between 1979 and 1981 payments in cash fell from 54 per cent to 44 per cent (ie the proportion fell by nearly 20 per cent). This continues an established trend, but the change seems to be proceeding at a much faster rate than in the years 1976 to 1979.

21. The trend to a "cashless" society was described, and commended, in a CPRS report last year and an associated article in the EPR for August. The motivation may partly be a saving of interest costs, but it is reinforced by the potential saving on administrative costs and especially security. The move away from payment of wages in cash may well be associated with better cash management generally by businesses, although there is no data that directly confirms this, though it is possible that balance sheet data may be available which would provide evidence on this point. There has presumably been a fall in the average size of cash balances held by households as a

direct result of the switch away from payment of wages in cash. But that direct effect might not be enough to account for all the fall in the ratio of cash to consumer spending which was about 15 per cent between 1979 and 1981.

TABLE 6 : RATIO OF STOCK OF NOTES AND COIN TO TOTAL CONSUMERS' EXPENDITURE

1979	Q1	0.34	1980	Q1	0.30	1981	Q1	0.28
	Q2	0.32		Q2	0.29		Q2	0.28
	Q3	0.32		Q3	0.29		Q3	0.28
	Q4	0.31		Q4	0.30		Q4	0.28

TABLE 7 : PROPORTION OF TOTAL AGB TRANSACTIONS PAID FOR BY CASH

	1979	1980	1981
January	50	49	49
February	49	49	48
March	50	51	52
April	50	48	49
May	47	50	51
June	51	51	49
July	49	50	50
August	48	51	48
September	50	49	47
October	49	49	-
November	53	50	-
December	53	53	-

TABLE 8 : MEDIUM OF WAGE/SALARY PAYMENT

	Wage/salary payment of all adults in Great Britain			
The proportion of adults paid by:	1969	1976	1979	1981
	%	%	%	%
Cash	75	59	54	44
Cheque	10	12	14	14
BCT	15	27	31	38
Other*	-	2	1	4
	100	100	100	100

Note: *Other: these percentages should be ignored as they are dependent partly upon the survey base in each case.

TABLE 9 : NOMINAL INTEREST RATES (period averages)

	Three month Interbank	Three month Eurodollar	Base Rate	Long Rate (20 year gilts	Yield gap
1980 Q1	17.7	16.2	17	14.5	-3.2
Q2	17.2	12.7	17	14.1	-3.1
Q3	16.1	10.6	16.1	13.3	-2.8
Q4	15.5	16.5	15.2	13.3	-2.2
1981 Q1	13.3	16.5	13.6	13.8	0.5
Q2	12.5	17.7	12	14.2	1.7
Q3	14.2	18.4	12.3	15.2	1.0
October	16.4	16.3	15.8	16.0	-0.4
November	15.1	13.3	15.1	15.4	0.3
December	15.4	13.3	14.5	15.7	0.3
1982					
January	15.0	14.5	14.4	15.6	0.6
February	14.4	15.8	13.9	14.7	0.3
March	13.5	15.0	13.9	13.8	0.3
April 2	13.4	15.5	13.0	13.5	0.1

TABLE 10 : REAL INTEREST RATES

	(i) Expected inflation over next 12 months**	(ii) 3-month Interbank rate less expected inflation	(iii) Real post-tax deposit rate	(iv) Yield on 1996 indexed gilt	(v) Expected inflation rate implied by 1996 indexed gilt
1980 Q1	16.1	1.6	-5.6	-	-
Q2	16.4	0.8	-5.9	-	-
Q3	17.0	-0.9	-7.2	-	-
Q4	13.6	1.9	-4.4	-	-
1981 Q1	10.7	2.6	-3.0	2.1	10.8
Q2	10.0	2.5	-3.7	2.4	12.3
Q3	10.3	3.9	-3.5	3.1	13.0
1981 October	10.1	6.3	-0.7	3.0	13.1
November	10.0	5.1	-0.9	3.0	13.2
December	10.3	5.1	-1.6	3.2	12.7
1982 January	10.5	4.5	-1.8	3.2	11.8
February	10.4	4.0	-2.6	3.2	11.3
March	10.1	3.5	-3.1	2.8	10.9
April 2	(10.1)	3.3	-3.1	2.8	10.8

*Period average (except indexed gilt)
**Unweighted average of forecasts by Phillips & Drew, National Institute, and the London Business School.

TABLE 11: GROSS DOMESTIC PRODUCT AT CURRENT PRICES

	GDP at factor cost (income based)		GDP at factor cost (expenditure based)		GDP market prices (CSO's average estimate)		
	£b	% change on a year earlier	£b	% change on a year earlier	£b	% change on a year earlier	[% change over six months annual rate]
1980 Q1	46.6	20.4	45.7	19.0	54.0	23.0	[19.8]
Q2	48.2	15.9	47.2	15.1	55.2	17.4	[15.2]
Q3	49.5	15.7	49.2	15.2	57.3	15.5	[12.6]
Q4	50.4	12.2	50.0	12.6	58.5	12.7	[12.3]
1981 Q1	50.4	8.2	50.8	11.2	60.1	11.3	[10.0]
Q2	51.4	6.9	(51.7)	(9.5)	(61.2)	(10.9)	[9.0]
Q3	53.7	8.5	(53.8)	(9.3)	(63.2)	(10.3)	[10.6]
Q4	55.0	9.1	54.9	9.8	64.5	10.3	[11.1]
1982 Q1	(55.9)	(10.9)	(55.6)	(9.4)	(65.5)	(9.0)	[7.4]

TABLE 12: RETAIL AND WHOLESALE PRICES
(% change on same period a year before)

	RPI		Wholesale output prices (home sales)	Wholesale input prices
	Recorded	Underlying/		
1980 Q1	19.1	20.3	18.4	28.5(32.2)*
Q2	21.5	19.7	18.5	23.2(8.6)*
Q3	16.4	13.5	15.4	18.6(1.2)*
Q4	15.3	12.0	13.4	10.6(2.8)*
1981 Q1	12.7	11.5	10.9	8.5(22.3)*
Q2	11.7	10.7	10.3	12.2(24.4)*
Q3	11.3		10.1	16.8(19.1)*
Q4	11.9		11.2	16.7(2.3)*
1981 July	10.9	10.5	9.6	15.5(22.9)ø
August	11.5	13. 0	10.1	17.3(20.3)ø
September	11.4	12.5	10.4	17.7(14.5)ø
October	11.7	13.5	11.0	18.3(8.5)ø
November	12.0	15.5	11.3	16.5(0.0)ø
December	12.0	15.0	11.5	15.5(-1.7)ø
1982 January	12.0	13.0	11.0	13.8(0.8)ø
February	11.0	10.5	10.6	12.0(-1.4)ø
March	(10.5)	-	9.5	8.0(-2.6)ø

/ The underlying rate of inflation is based on recent movements in the RPI which have been purged of influence which make difficult the assessment of the trend. More precisely, increases in rents, rates, Nationalised Industry prices and seasonal food are computed on a twelve month basis whilst changes in the remaining items that comprise retail prices are calculated in a fashion that gives more weight to (annualised) one month changes than to twelve month changes.

* increase over previous quarter at an annual rate.

ø increase over past three months at an annual rate.

TABLE 13 : EXCHANGE RATES*

	Effective Rates	£/$ rate	£/$ uncovered differential**
1980 Q1	93.0	2.25	0.6
Q2	94.5	2.29	6.1
Q3	96.7	2.38	4.0
Q4	100.2	2.30	-1.9
1981 Q1	101.8	2.31	-3.1
Q2	97.8	2.08	-5.0
Q3	90.6	1.84	-4.2
October	88.2	1.84	0.1
November	90.1	1.90	1.8
December	90.7	1.91	2.1
1982 January	91.1	1.88	0.5
February	91.5	1.85	-1.4
March	90.8	1.81	-1.5
April 2	91.0	1.79	-2.1

*Period averages

**Between 3-month UK Interbank rate and 3-month Eurodollar rate.

TABLE 14

WIDE AND NARROW MONEY AGGREGATES: END PERIOD ANNUAL GROWTH RATES

	UNITED KINGDOM		UNITED STATES		CANADA			GERMANY		JAPAN		FRANCE		ITALY	
	Narrow	Wide	Narrow	Wide	Narrow	Wide (1)	Wide (2)	Narrow	Wide	Narrow	Wide	Narrow	Wide	Narrow	Wide
1974	11.0	10.3	4.3	5.6	6.0	19.9	(16.7)	6.4	9.2	12.2	11.6				
1975	19.0	6.6	4.8	12.8	22.4	14.6	(17.3)	10.0	8.3	11.1	14.6				
1976	10.3	8.9	6.5	14.1	1.4	19.9	(17.7)	8.1	8.6	11.9	13.4				
1977	22.1	10.0	8.1	11.1	12.3	13.0	(13.4)	10.0	11.2	8.3	11.2				
1978	16.6	15.2	8.3	8.3	7.6	16.9	(14.0)	8.6	10.9	13.6	13.4				
1979	9.1	12.8	7.4	8.6	3.9	17.8	(21.1)	5.1	5.8	3.0	9.2				
1980	3.7	19.1	6.5	9.7	10.3	10.6	(9.6)	5.3	6.3	-2.0	7.2				
1980 Q1	6.3	13.7	7.5	8.9	8.8	17.8	(20.8)	5.5	5.9	6.5	9.7	8.5	12.7	20.5	17.4
Q2	6.6	15.7	4.6	8.2	1.3	15.1	(17.8)	4.4	4.3	0.7	7.0	7.3	11.5	17.8	14.9
Q3	2.9	17.6	6.8	9.4	5.8	12.0	(13.3)	4.6	4.8	-4.3	6.1	8.4	11.0	12.7	11.9
Q4	4.0	19.1	6.5	9.7	10.3	10.6	(9.6)	5.3	6.3	-2.0	7.2	6.9	9.8	13.4	12.6
1981 Q1	8.6	17.9	7.9	10.8	7.3	9.9	(12.4)	4.4	5.8	-4.2	6.9	8.3	10.7	13.8	12.9
Q2	10.2	16.6	8.8	10.6	8.1	8.5	(12.2)	4.9	7.2	4.6	8.8	11.6	13.1	12.0	11.0
Q3	12.1	16.4	4.9	8.9	-1.1	14.4		4.7	7.2	6.7	10.0	15.8	13.3		
Q4			6.0	10.4											

covering SECRET

INTERPRETATION OF MONETARY CONDITIONS

CHARTS

VI. 12mth % change in M1 and MO, May 1976 to Mar. 1982

VII. " " in £M3 and M1 " "

VIII. 6mth " " " "

IX. 3mth " " " "

X. 12mth " in £M3 and PSL2 " "

XI. 6mth " " " "

XII. 3mth " " " "

XIII. Real £M3 1963 Q1 - Mar. 1982

XIV. Real £M3 Jan. 1977 - Mar. 1982

XV. Real M1 1963 Q1 - Mar. 1982

XVI. Real MO 1963 Q1 - Mar. 1982

XVII. Real PSL2 1963 Q1 - Mar. 1982

See important note overleaf.

Important Note

Figures for the monetary aggregates published in January in respect of banking December, and thereafter, will be on the basis of the new monetary sector. (The new sector includes TSBs and licensed deposit takers.) This revision increases the stock of £M3, for example, by 10 per cent, and therefore gives rise to a significant break in these series. Fully revised back series consistent with the new definition of the sector are not yet available.

For the purposes of the attached charts the following conventions have therefore been adopted this month:

Charts VI-XII (growth rates)

Growth rates for months in the current target period have been estimated on the new basis, and will therefore be consistent with any future published references. Growth rates for months up to the start of the current target period are on the old basis. The break is shown on the charts.

Charts XIII-XVII (real levels)

Levels are shown throughout on the old basis.

CHART VI

12 MTH %AGE CHANGE IN M1 AND M0

MAY 1976 – MAR. 1982

SA DATA

M1 } % growth over 12 months
M0 }

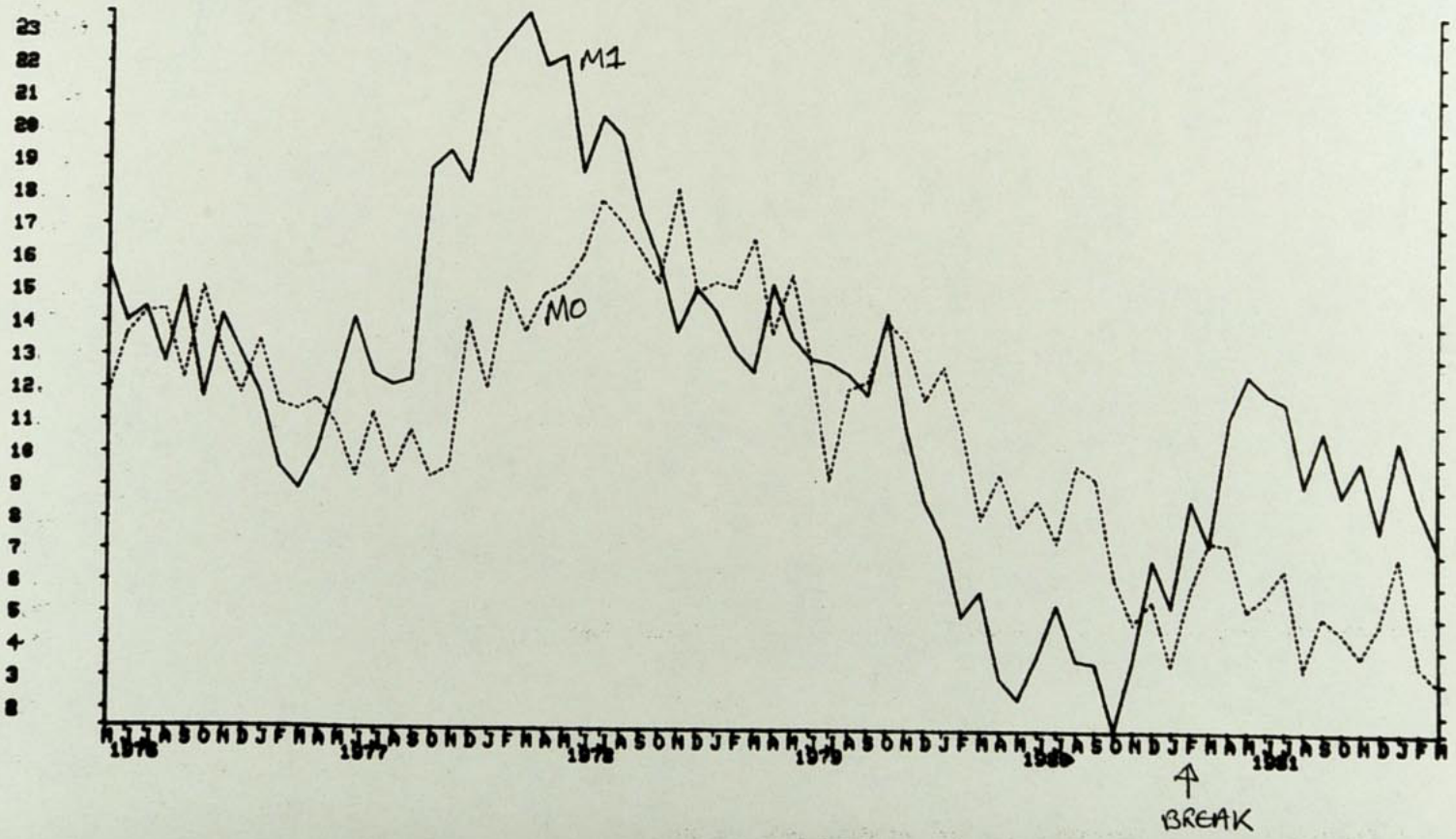


CHART VII

12 MTH %AGE CHANGE IN £M3 AND M1
MAY 1976 - MAR 1982
SA DATA

£M3 } %age growth over 12 months
M1 }

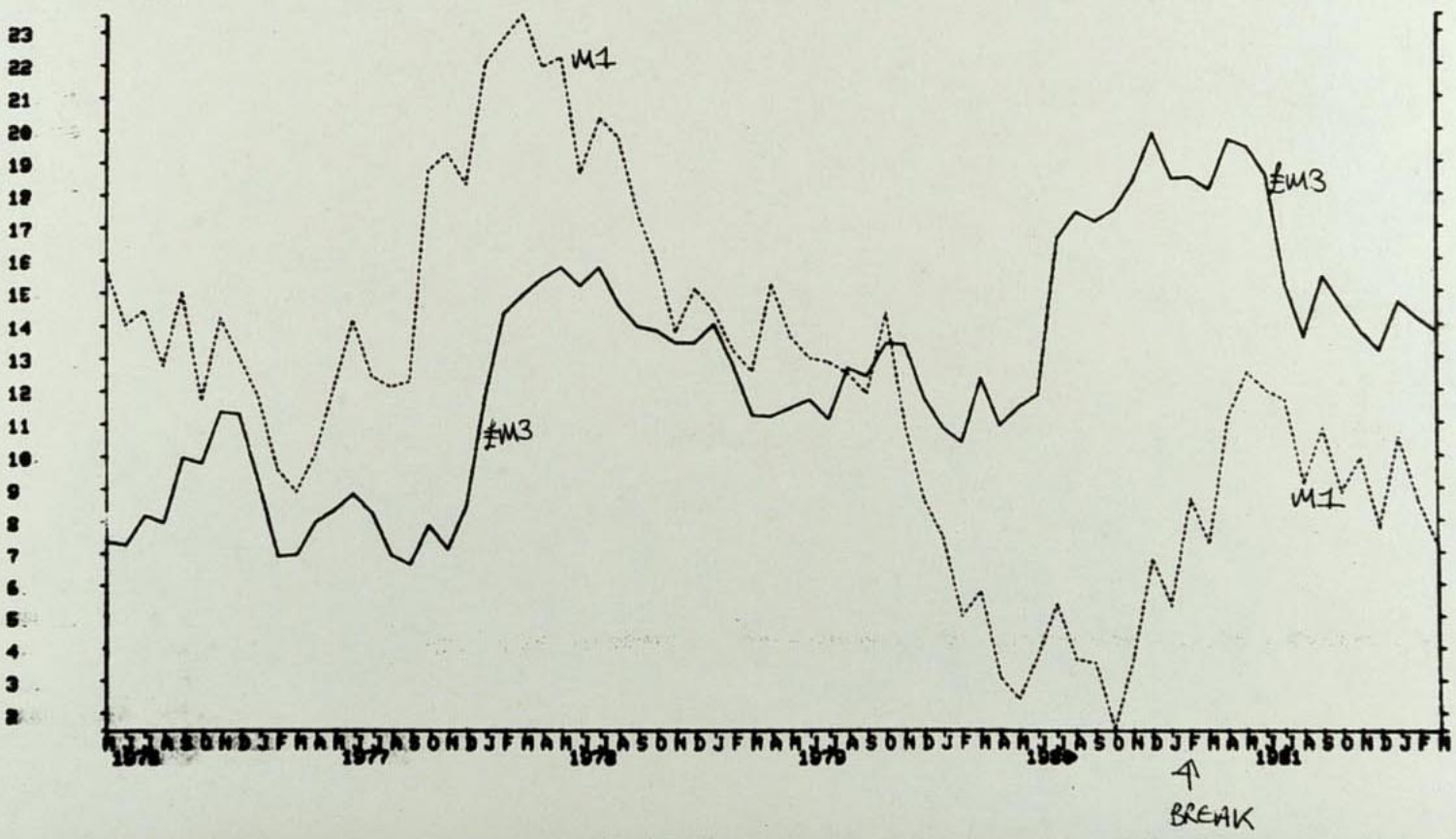


CHART VIII

6 MTH %AGE CHANGE IN £M3 AND M1. AT ANNUAL RATE
MAY 1976 – MAR. 1982
SA DATA

£M3 } %age growth over 6 months, at annual rate.
M1 }

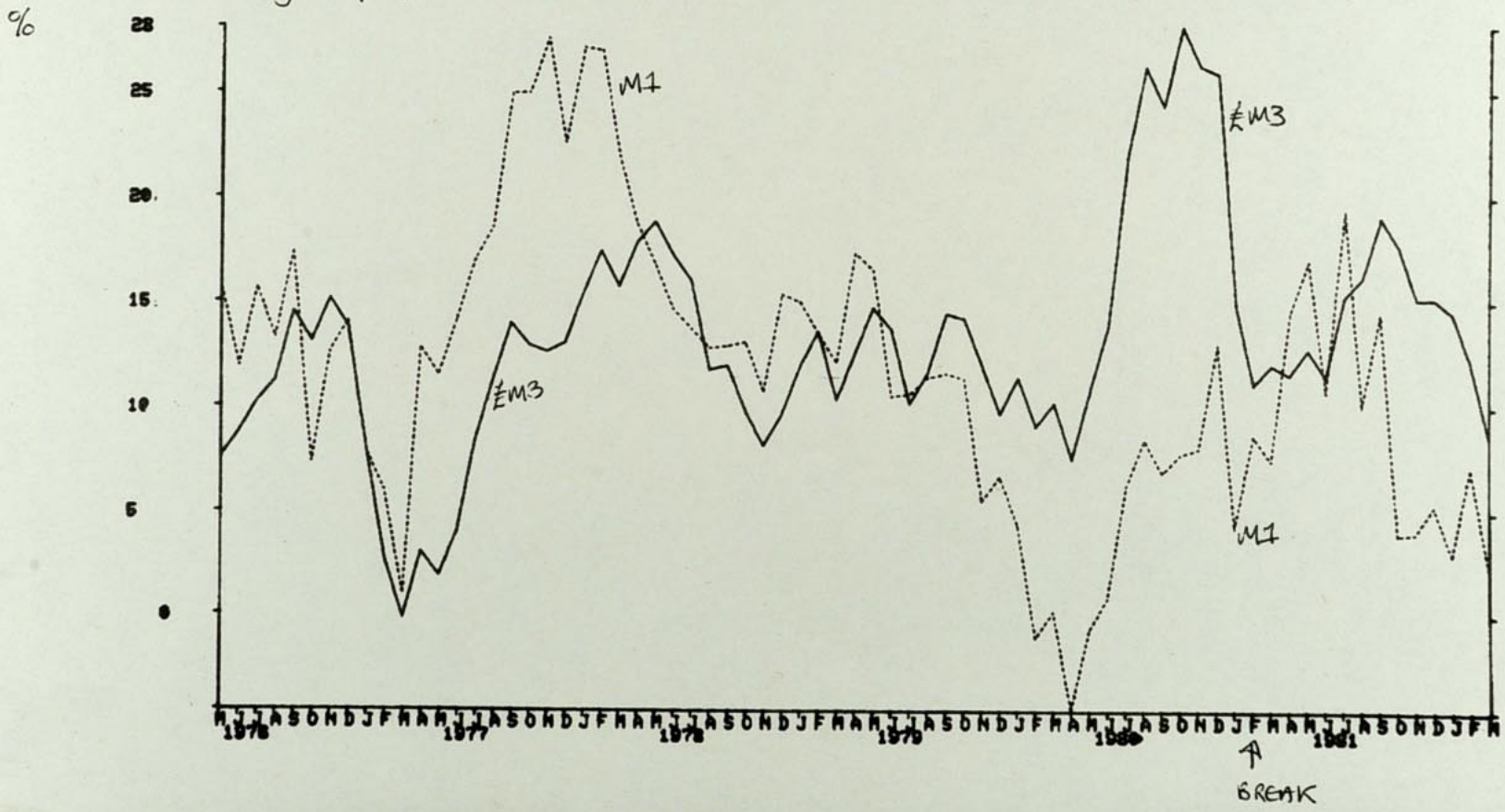


CHART IV

3 MTH %AGE CHANGE IN £M3 AND M1 AT ANNUAL RATE

MAY 1976 - MAR. 1982

SA DATA

£M3 } %age growth over 3 months, at annual rate.
M1 }

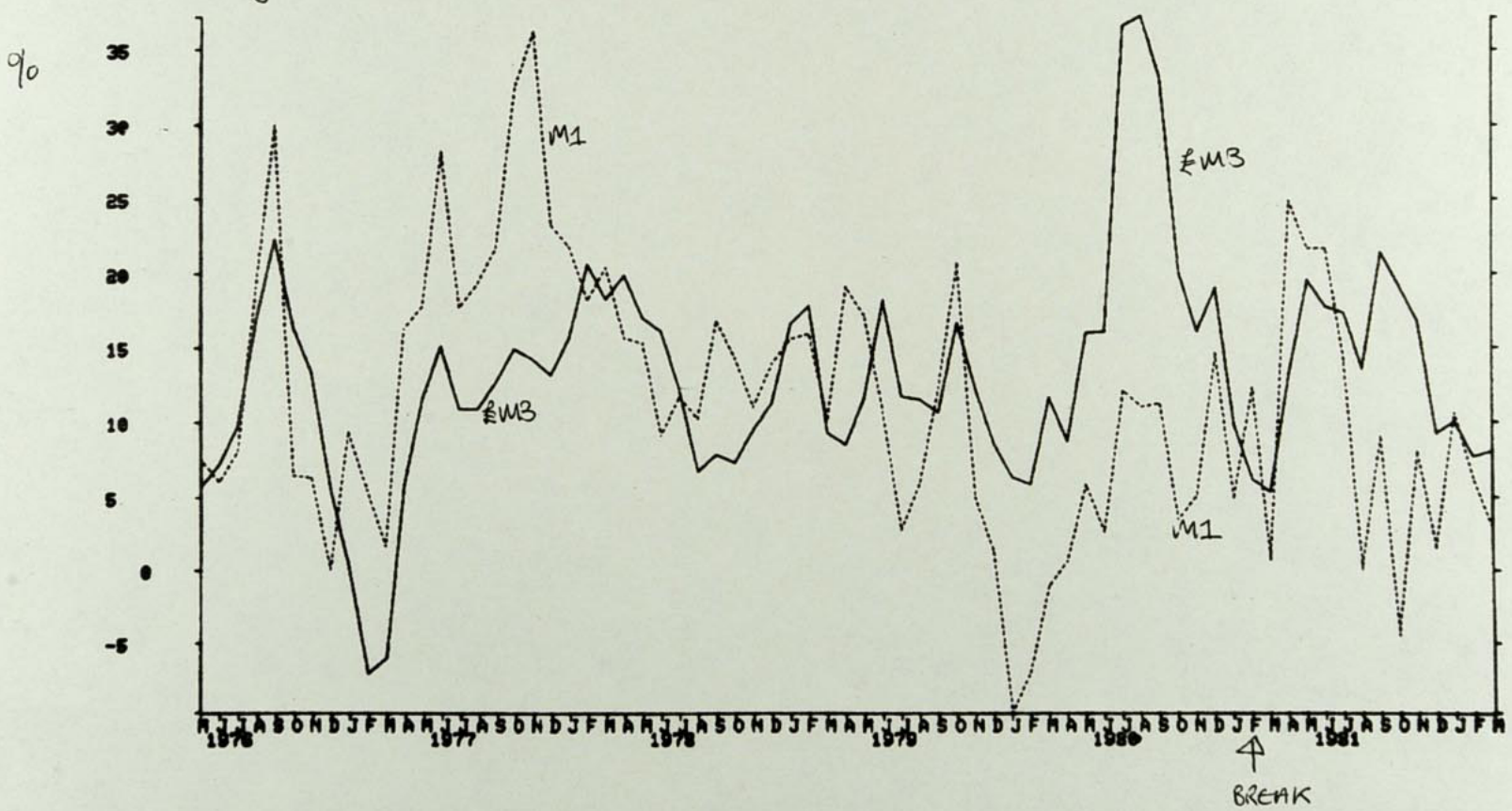


CHART X

12 MTH %AGE CHANGE IN £M3 AND PSL2
MAY 1976 – MAR. 1982
SA DATA

£M3 } %age growth over 12 months
PSL2 }

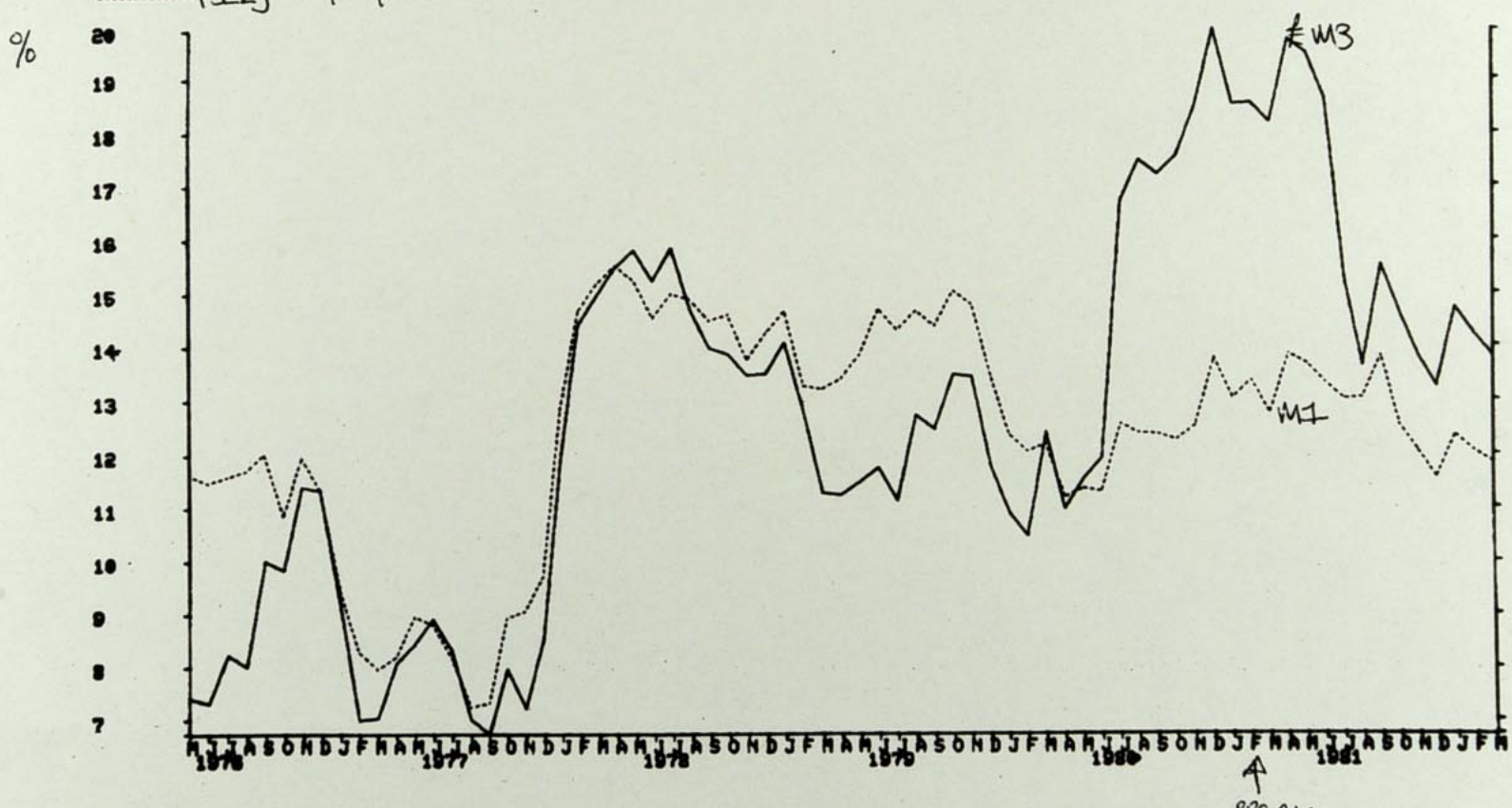


CHART XI

6 MTH %AGE CHANGE IN £M3 AND PSL2, AT ANNUAL RATE
MAY 1976 - MAR 1982
SA DATA

£M3 } %age growth over 6 months, at annual rate.
PSL2 }

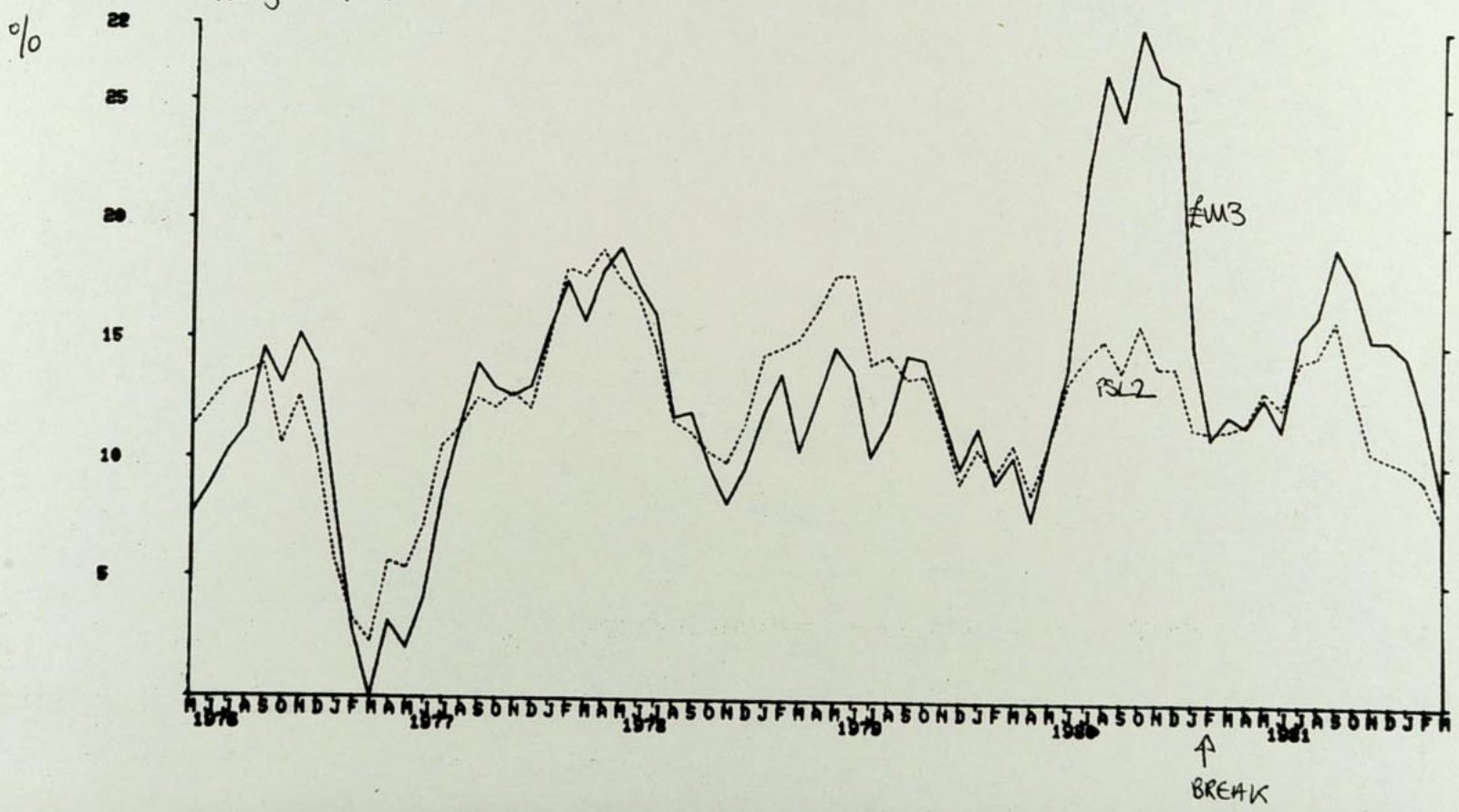


CHART XII

3 MTH %AGE CHANGE IN £M3 AND PSL2, AT ANNUAL RATE
MAY 1976 – MAR 1982

SA DATA

£M3 } % age growth over 3 months
PSL2 }

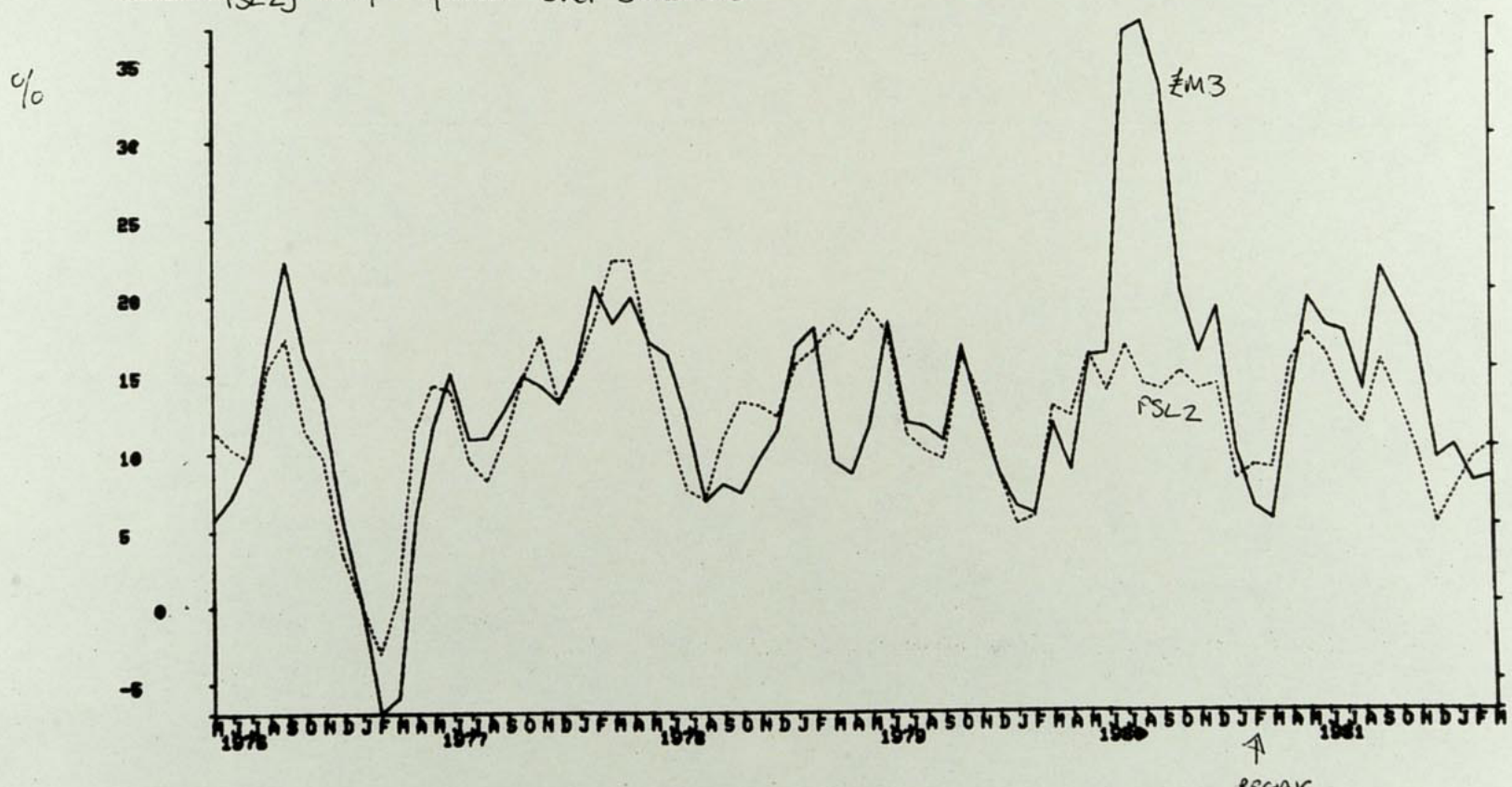
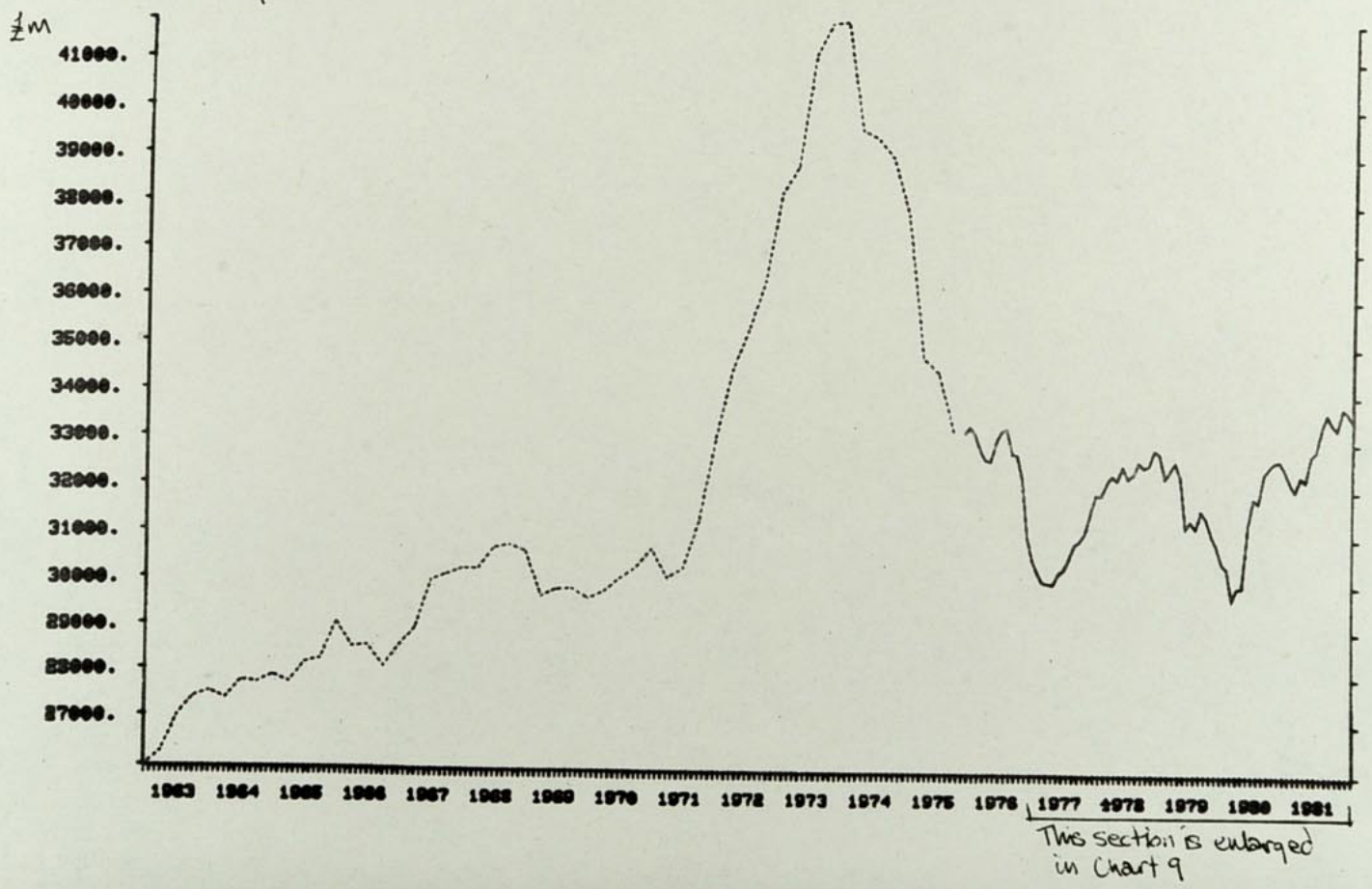


CHART XIII

REAL £M3, 1963Q1-MAR 1982
SA DATA, SERIES DEFLATED BY RPI, 1975=1.0

——— quarterly data } Real £M3
..... monthly data }



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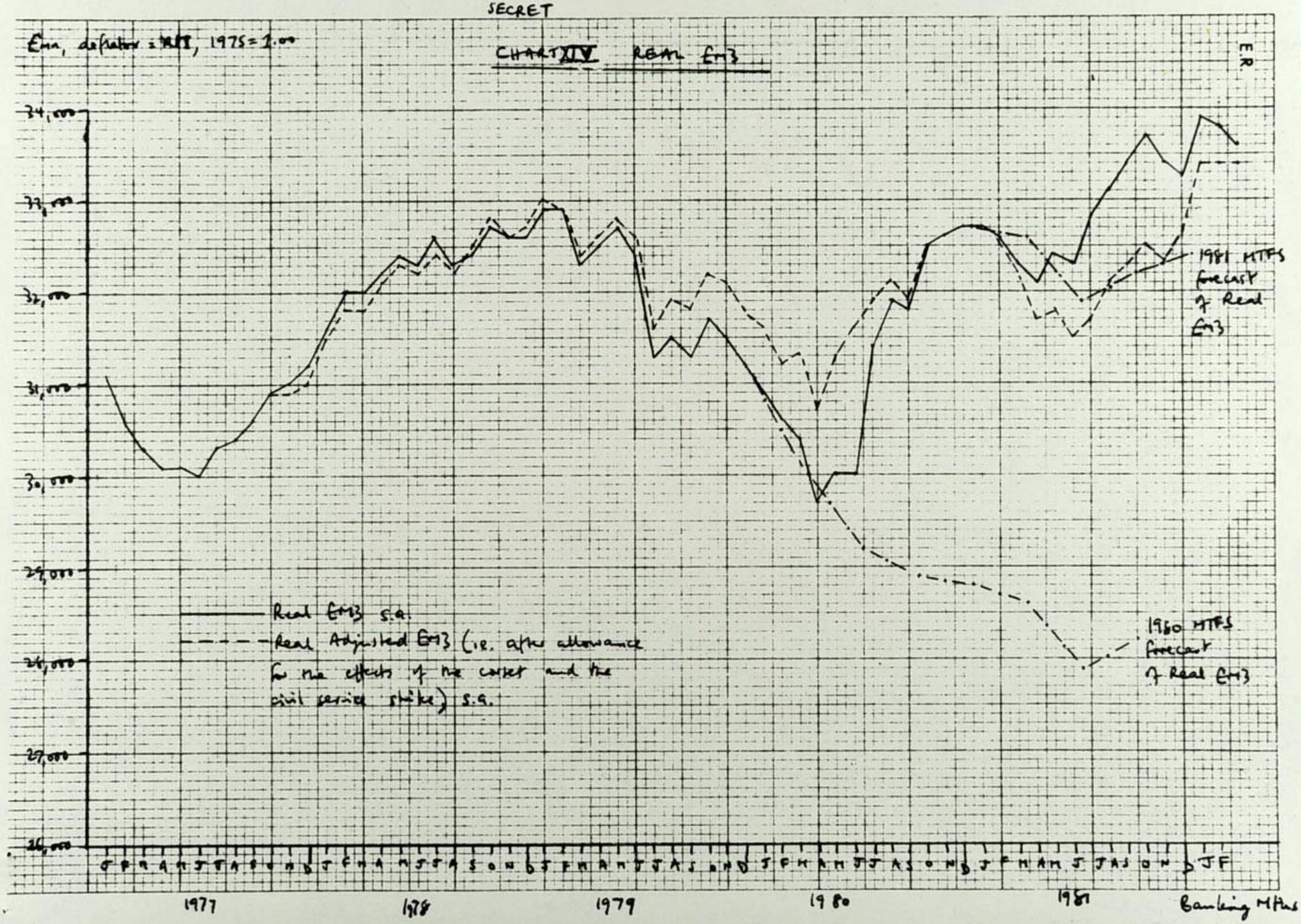
£m, deflator = RPI, 1975 = 1.00
CHART XIV REAL £M3
E.R.
34,000
33,000
32,000
31,000
30,000
29,000
28,000
27,000
26,000
1981 MTFS forecast of Real £M3
1980 MTFS forecast of Real £M3
Real £M3 s.a.
Real Adjusted £M3 (i.e. after allowance for the effects of the carker and the civil service strike) s.a.
1977
1978
1979
1980
1981
Banking Mths.

CHART XV

REAL M1: 1963Q—MAR 1982
SA DATA, SERIES DEFLATED BY RPI, 1975=1.0

Monthly data } Real M1
Quarterly data }

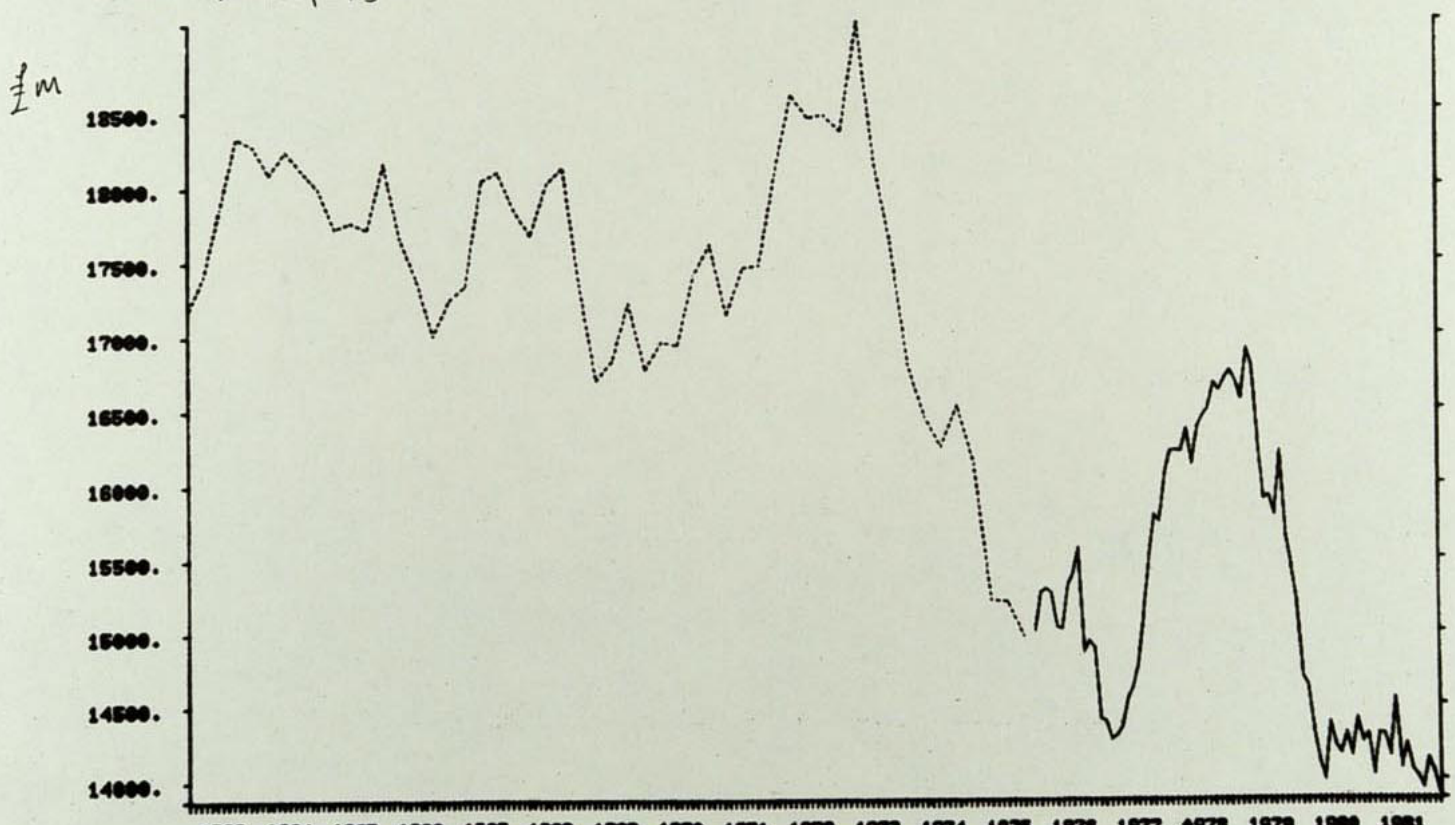

CHART XVI

REAL M0, 1963Q1 – MAR 1982
SERIES DEFLATED BY RPI, 1975 = 1·0

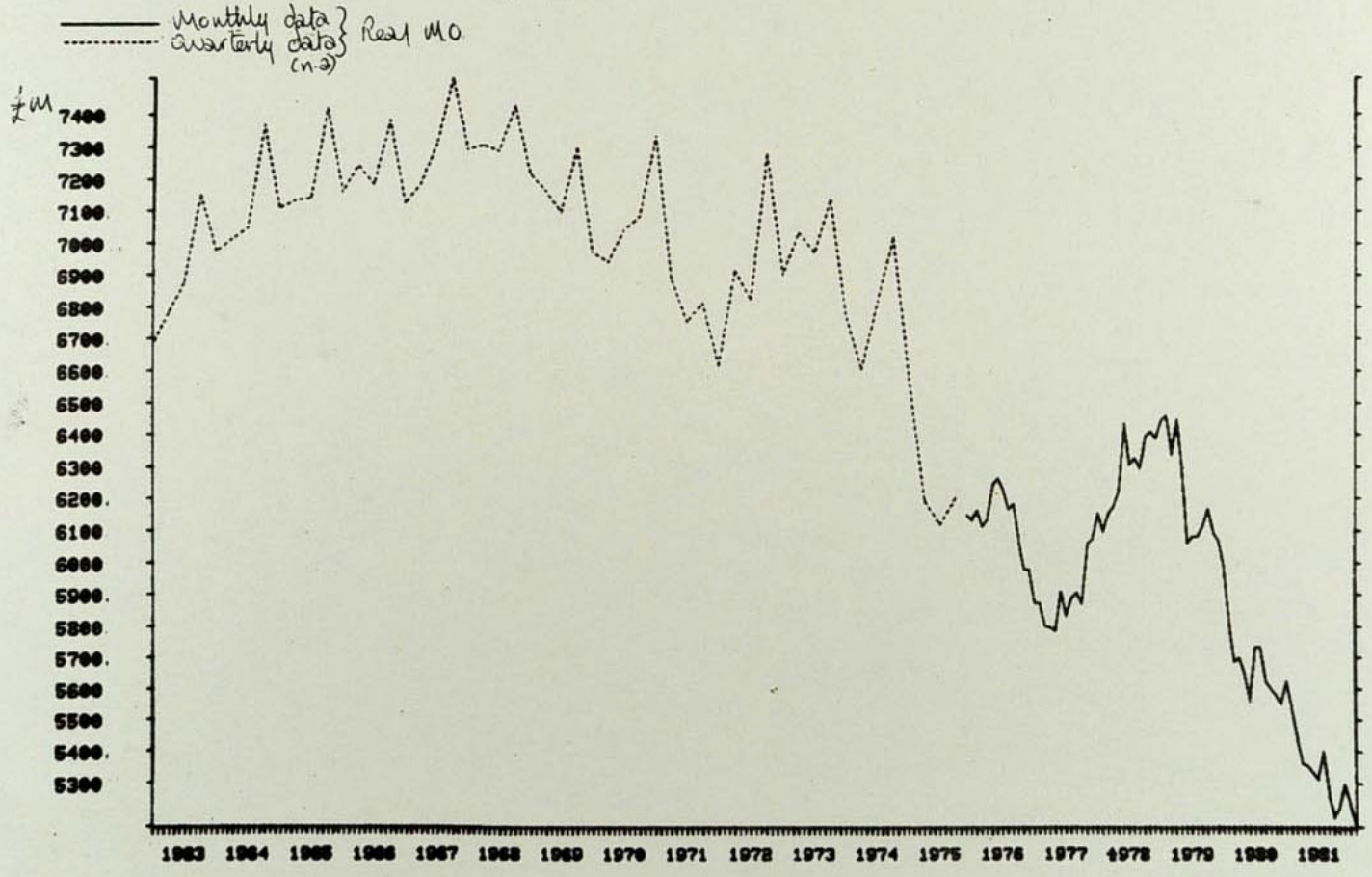

CHART XVII

REAL PSL2, 1963Q1 - MAR 1982

SERIES DEFLATED BY RPI, 1975=1.0

——— Monthly data } Real PSL2
..... Quarterly data }