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Professor A Walters - No. 10

INTERPRETATION OF MONETARY CONDITIONS: OCTOBER 1982

... I attach the monthly note.

P.N.S

P N SEDGWICK

## INTERPRETATION OF MONETARY CONDITIONS

## INTRODUCTION AND SUMMARY

This note

- (1) discusses the recent behaviour of the principal monetary aggregates and other indicators of the impact of monetary policy;
  - (2) briefly summarises the results of the recent forecast;
  - (3) discusses the latest data on lending for house purchase and assesses the implications for prices and activity in the housing market;
- and (4) briefly assesses recent movements in other asset prices.

2. There are now unmistakable signs that M1 (and in particular its non-interest bearing component) is rising at a fairly rapid rate, though this has not yet had its full effect on twelve month growth rates. This is in sharp contrast to the low growth in the last few months of last year and the early part of this year. The main cause of this increased growth is the series of reductions in interest rates during the year. The monetary aggregates have not yet fully adjusted to these reductions in interest rates.

3. There are signs of some upward movement in the growth rates (over periods of less than twelve months) of the broad aggregates, with the notable exception of PSL2 which - because it excludes some fast growing, though liquid, building society deposits - is not now a very reliable indicator of broad money growth. The fluctuations in broad money growth through the current year may, however, be in part the result of distortions caused by the recovery from the Civil Service strike.

4. Partly as a result of the reduction in the rate of inflation there have been some very large increases in the real money supply - both broad and narrow - in recent months.

5. Direct evidence on the behaviour of prices and real output continues to suggest a very depressed economy and - by implication - very tight monetary conditions. It is worth noting, however, that real domestic demand has been rising and that the depressed level of output in large part reflects a disappointing performance of net exports. This disappointing performance reflects both low growth in the world economy and poor UK competitive performance. The poor competitive performance is in part at least the result of the remarkably stable effective exchange rate.

6. The main issue of interpretation is whether the current depressed state of the economy reflects solely the effects of tight monetary conditions in earlier periods - and in particular in the final quarter of last year and the first half of this year - or whether it in part reflects a continuing tightness of monetary conditions in spite of lower nominal interest rates and faster growth of the narrow aggregates. To the extent that the disappointing behaviour of net exports explains the poor output performance, and that the strong exchange rate is part of the explanation for the lower than desired net exports, there is evidence that monetary conditions remain fairly tight. Because it projects a sluggish growth of output and further falls in inflation in the period immediately ahead the recent short term forecast (summarised in Section 2) implicitly inclines rather more closely to the view that monetary conditions remain tight.

7. The price of houses and other assets, which tend both to be very sensitive to monetary conditions and to give some advance warning of movements in the general price level, have stopped falling and have begun to rise at a modest rate. (See Sections 3 and 4.) There are no indications whatever as yet of a boom in asset prices.

(1) THE GROWTH OF THE MONETARY AGGREGATES AND THE EVIDENCE OF OTHER INDICATORS OF THE IMPACT OF MONETARY POLICY

8. Table 1 summarises the most recent information on the nominal financial aggregates as well as data for previous financial years.

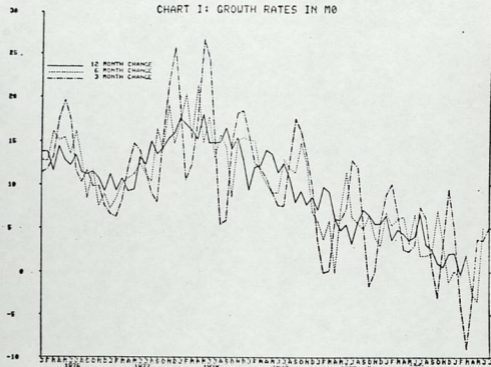
TABLE 1: %GROWTH RATES IN THE NOMINAL AND FINANCIAL AGGREGATES

	Composite monetary indicator	Non-interest bearing M1					
		M0	M1	£M3	M3	PSL2	
<b>(a) financial years</b>							
1979-80*	6.2	9.6	4.2	3.2	11.0	12.4	11.3
1980-81*	10.2	7.4	7.9	11.3	19.8	21.5	14.0
1981-82*	6.2	1.1	0.3	4.3	12.4	15.7	11.0
<b>(b) changes on same period in previous year+</b>							
1981 (1)	8.1	7.5	4.2	7.4	18.3	19.4	12.8
(2)	10.4	5.8	8.9	12.1	18.7	21.3	13.4
(3)	12.1	5.0	9.4	10.6	15.3	21.1	13.8
(4)	8.6	4.2	4.8	7.7	13.1	18.8	11.6
1982 (1)	8.5	2.7	4.0	8.4	13.9	16.1	12.0
(2)	6.7	2.2	1.5	6.4	12.6	13.5	10.5
(3)	7.1	2.0	4.4	7.6	10.5	10.4	8.3
<b>(c) changes on same period in previous year</b>							
<b>1981</b>							
October	9.9	4.5	7.1	8.6	14.5	21.6	12.7
November	9.7	3.8	6.8	9.8	13.6	19.6	12.1
December	8.6	4.2	4.8	7.7	13.1	18.8	11.6
<b>1982</b>							
January	10.6	6.8	7.4	11.1	14.3	17.8	12.5
February	8.8	3.3	4.2	9.0	13.9	16.8	12.4
March	8.5	2.7	4.0	8.4	13.9	16.1	12.0
April	6.2	1.1	0.3	4.3	12.4	15.7	11.1
May	5.7	0.7	0.0	4.0	11.9	14.1	10.4
June	6.7	2.2	1.4	6.4	12.6	13.5	10.4
July	5.7	2.3	1.1	4.7	11.1	12.5	8.9
August	7.0	-0.2	3.1	8.3	11.6	12.3	9.0
September	7.1	2.0	4.4	7.6	10.5	10.4	8.3
<b>(d) changes (at an annual rate) in 6 months to</b>							
<b>1981</b>							
October	7.3	2.0	1.1	3.7	18.1	25.8	13.6
November	5.2	2.0	-1.4	3.9	15.3	19.9	11.1
December	5.8	2.3	-1.7	5.4	16.1	18.1	11.2
<b>1982</b>							
January	5.2	7.2	-2.4	3.8	13.9	12.7	10.6
February	5.8	3.2	-1.1	8.3	12.1	10.6	9.9
March	3.1	-1.2	-3.5	2.9	8.9	7.5	7.9
April	5.0	0.2	-0.5	4.9	7.0	6.4	8.6
May	6.2	-0.5	1.4	4.1	8.7	8.6	9.7
June	7.5	2.1	4.8	7.5	9.2	9.1	9.6
July	6.1	-2.4	4.8	5.5	8.4	12.3	7.3
August	8.3	-3.4	7.5	8.4	11.2	14.0	8.0
September	11.3	5.2	12.9	12.6	12.1	13.4	8.7

(see page 4 for footnotes)

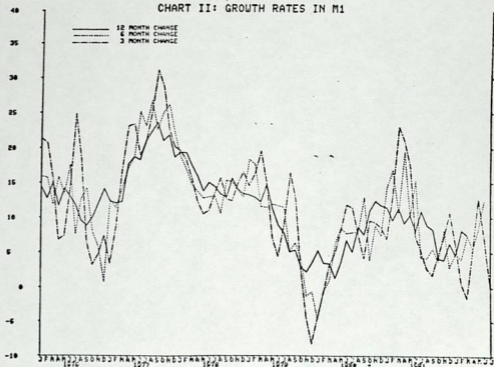


CHART I: GROWTH RATES IN M0



Annualised  
percentage change

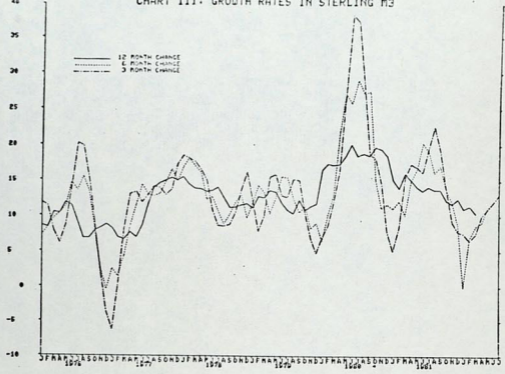
CHART II: GROWTH RATES IN M1



Note: The growth rates are shown as the mid-point of the period over which they are measured. Thus the growth from September 1981 to September 1982 is shown as March 1982 and the six month annualised growth rate from March 1982 to September 1982 is shown as June 1982.

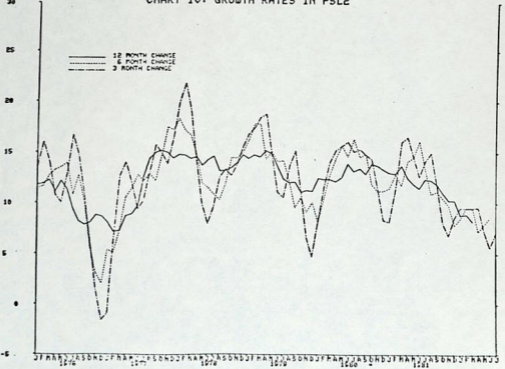
Annualised percentage changes

CHART III: GROWTH RATES IN STERLING M3



Annualised percentage changes

CHART IV: GROWTH RATES IN PSL2



Note: The growth rates are shown as the mid-point of the period over which they are measured. Thus the growth from September 1981 to September 1982 is shown as March 1982 and the six month annualised growth rate from March 1982 to September 1982 is shown as June 1982.

9. Table 1 shows that while its twelve month growth rate has fallen through the year there has been a slight upward movement in recent months in the six month growth rate of £M3. (The same is true of PSL2A, though not for PSL2 itself.)

10. In the last few months there have been very sharp increases in the six month growth rates of the composite indicator and the narrow aggregates - including in the most recent month even M0, though the short term movements in this particular aggregate can be very erratic. This pattern is particularly evident for non-interest bearing M1, the aggregate likely to be most sensitive to changes in interest rates. From November 1981 to April of this year - ie the period after the significant rise in short term interest rates in the autumn of 1981 - its six month growth rate was negative. Since April it has risen so that it is just under 13 per cent in September. The fluctuations in the growth rate of total M1 have been rather less dramatic. Nevertheless its six month growth rate also had risen to just under 13 per cent by September.

11. In the period since the mid-1970's (ie the period after the very rapid increases in £M3 and prices) M1 has tended to be a rather better predictor of subsequent movements in prices and money GDP than £M3. It is instructive therefore to compare the latest growth rates of M1 with growth rates in earlier periods. Table 1A shows six month growth rates for each month since the beginning of 1977.

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It is possible to obtain even better predictions by combining the monetary aggregates and by adding other explanatory variables such as oil prices.

Footnotes to Table 1

- \* through the financial year (mid-April to mid-April).
- \*\* including revaluations (calendar quarters).
- ∅ the growth rates for all monetary aggregates, except non-interest bearing M1, are adjusted for recent changes in definition.
- + quarterly figures are for the final banking month of the quarter.

TABLE 1A : 6 MONTH GROWTH RATES (AT AN ANNUAL RATE) OF M1 (%)

	1977	1978	1979	1980	1981	1982
January	8.0	25.3	15.4	4.4	4.0	3.8
February	5.9	26.4	14.2	-1.2	8.9	8.3
March	0.8	22.3	13.1	-0.6	7.5	2.9
April	12.6	19.0	18.5	-4.7	14.5	4.9
May	11.5	17.2	17.9	-0.6	17.0	4.1
June	14.2	15.0	11.8	1.0	10.7	7.5
July	17.2	14.0	11.6	6.4	19.6	5.5
August	18.9	13.0	12.1	8.7	10.5	8.4
September	25.3	13.2	11.8	7.9	15.5	12.6
October	23.3	13.3	11.6	8.0	4.4	
November	26.9	10.8	5.3	8.1	4.3	
December	22.9	15.5	6.5	13.0	5.7	

The last period when the M1 growth rate was in double figures was in the second and third quarters of 1981. This coincided with a period of exchange rate weakness and a temporary reverse in the process of reducing inflation. It is necessary to go back to the period 1977 to 1979 to find a similar period before then. The six month growth rate was consistently in double figures from early 1977 to late 1979, and for some periods above 20 per cent.

12. It is perfectly natural for M1 growth to rise as interest rates fall in the final stages of a policy to reduce inflation. The main problem of economic policy is to bring about the maximum reduction in interest rates consistent with the policy to reduce inflation, but not so great that it creates the conditions of a sharp upturn in the inflation rate later on. The recent Treasury/Bank forecast (summarised for the period until early 1984 in section 2 below) shows further falls in inflation in the period immediately ahead, and although growth in real output is forecast to pick up the economy is forecast to remain fairly depressed.

13. Table 2 shows movements in the real money supply. Chart V and VI show the levels of real M1, £M3, PSL2, and the FT share index. The recorded inflation rate (over both twelve and six months) has continued to fall. Because in addition the six month growth rates of many of the nominal monetary aggregates - the composite indicator, M1 (and its interest bearing component), and £M3 - have risen there have been some very sharp rises in the real money supply in the last few months. The turnaround is most dramatic for M1 and its interest bearing component.

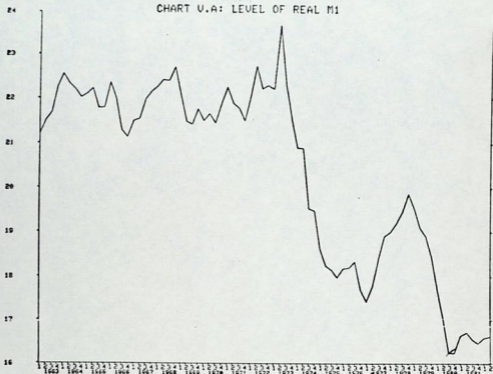
TABLE 2 : CHANGES IN THE REAL MONEY SUPPLY (%)

	<u>RPI</u>	<u>Composite monetary indicator</u>	<u>MO</u>	<u>Non Interest Bearing M1</u>	<u>M1</u>	<u>£M3</u>	<u>PSL2</u>
(a) Change in 12 months to							
1981 Oct	11.7	-1.8	-7.2	-4.6	-3.1	2.8	0.9
Nov	12.0	-2.3	-8.2	-5.2	-2.2	1.6	0.0
Dec	12.0	-3.4	-7.8	-7.2	-4.3	1.1	-0.4
1982 Jan	12.0	-1.4	-5.2	-4.6	-0.9	2.3	0.5
Feb	11.0	-2.2	-7.7	-6.8	-2.0	2.9	1.4
March	10.4	-1.9	-7.7	-6.4	-2.0	3.5	1.6
April	9.4	-3.2	-8.3	-9.1	-5.1	3.0	1.7
May	9.5	-3.8	-8.8	-9.5	-5.5	2.4	0.9
June	9.2	-2.5	-6.0	-7.7	-2.8	3.4	1.2
July	8.7	-3.0	-6.4	-7.6	-4.0	2.4	0.2
August	8.0	-1.0	-8.2	-4.9	0.3	3.6	1.0
Sept	(7.3)	-0.2	-5.3	-2.9	0.3	3.2	1.0
(b) Change (at an annual rate) 6 months to							
1981 Oct	10.2	-2.9	-8.2	-9.1	-6.5	7.9	3.4
Nov	11.6	-6.4	-9.6	-13.0	-7.7	3.7	-0.5
Dec	11.8	-6.0	-9.5	-13.5	-6.4	4.3	-0.6
1982 Jan	11.3	-6.1	-4.1	-13.7	-7.5	2.6	-0.7
Feb	8.7	-2.9	-5.5	-9.8	-0.4	3.4	1.2
March	8.8	-5.7	-10.0	-12.3	-5.9	0.1	-0.9
April	8.6	-3.6	-8.4	-9.1	-3.7	-1.6	0.0
May	7.5	-1.3	-8.0	-6.1	-3.6	1.2	2.2
June	6.6	0.9	-4.5	-1.8	0.9	2.6	3.0
July	6.3	-0.2	-8.7	-1.5	-0.8	2.1	1.0
August	7.1	1.2	-10.5	0.4	1.3	4.1	0.9
Sept	(5.7)	5.6	-0.5	7.2	6.9	6.4	3.0

- (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.
- (2) The RPI for September is not yet available and a prediction of its seasonally adjusted increase is included here.

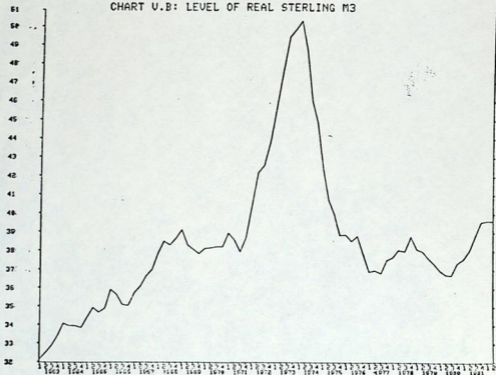
£bn  
1975 prices

CHART U.A: LEVEL OF REAL M1



£bn  
1975 prices

CHART U.B: LEVEL OF REAL STERLING M3



6A



fba  
1975 prices

CHART VI.A : LEVEL OF REAL PSL2

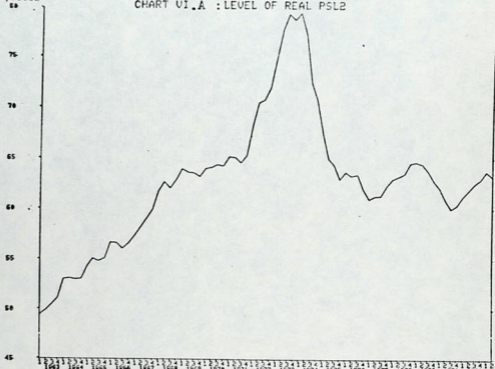
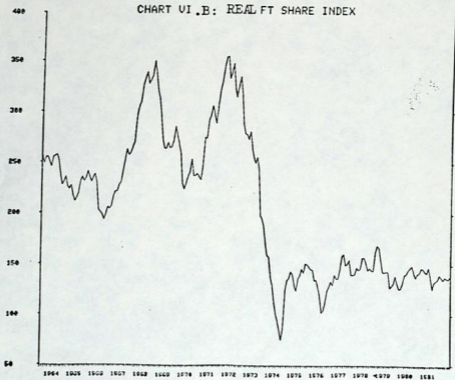


CHART VI.B: REAL FT SHARE INDEX



14. It is perfectly normal development for the real money supply to rise by a substantial amount towards the end of a period in which policy is directed towards a reduction in the rate of inflation by means of reduced monetary growth. In the early stages of such a policy the growth of the real money supply will fall, and maybe become negative, as the growth of the nominal money supply falls before there is any impact on inflation. Later as inflation falls - and in particular if the rate of inflation temporarily falls below the level it will achieve after full adjustment - the rate of growth of the real money supply will rise and temporarily be above its long run sustainable rate. The main issue of policy is to ensure that this above average growth in the real money supply is not so great or sustained over so long a period that it induces developments in the economy that subsequently lead to a significant rise in inflation.

15. The other indicators of the impact of monetary policy tend to show a less dramatic transformation of monetary conditions, insofar as they show one at all.

16. Money GDP has continued to decelerate (see Table 3) and there are clear signs of a continuing downward movement in retail and wholesale price inflation (see Table 4).

TABLE 3 : GROSS DOMESTIC PRODUCT AT CURRENT PRICES

	GDP at <u>market prices</u> (expenditure based)		GDP at <u>market prices</u> (CSO's average estimate)	
	% change on a year earlier	% change over six months (annual rate)	% change on a year earlier	% change over six months (annual rate)
1981 Q1	12.6	10.7	10.9	9.6
Q2	10.1	7.9	9.3	8.7
Q3	8.3	6.0	9.4	9.2
Q4	8.6	9.3	9.2	9.7
1982 Q1	9.1	12.2	9.3	9.4
Q2	9.5	9.6	8.8	7.9
Q3	(9.5)	(6.8)		

TABLE 4 : RETAIL AND WHOLESALE PRICES  
(% change on same period a year before)

	Retail prices		Wholesale output prices (home sales)	Wholesale input prices
	Recorded	Underlying $\Delta$		
1981 Q1	12.7	12.2	10.9	8.5 (12.1)*
Q2	11.7	11.2	10.3	12.2 (23.4)*
Q3	11.3	12.3	10.1	16.8 (21.7)*
Q4	11.9	12.7	11.2	16.7 (10.4)*
1982 January	12.0	11.5	11.0	13.9 ( 5.1) $\phi$
February	11.0	10.0	10.6	12.1 ( 2.6) $\phi$
March	10.4	9.0	9.7	8.0 (-2.2) $\phi$
April	9.4	8.0	8.8	7.7 ( 0.4) $\phi$
May	9.5	9.0	8.7	4.8 ( 0.5) $\phi$
June	9.2	9.0	8.2	5.6 ( 5.6) $\phi$
July	8.7	8.5	8.5	5.2 ( 6.8) $\phi$
August	8.0	8.0	7.9	3.0 ( 3.4) $\phi$
September (7.3)	-	-	(7.5)	(2.9)( 7.7) $\phi$

$\Delta$  The underlying rate of inflation is based on recent movements in the RPI which have been purged of influences 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. The series is rounded to the nearest 0.5.

\* Increase over two quarters before at an annual rate

$\phi$  Increase over past six months at an annual rate

17. Table 5 shows the latest short term interest rates - both the £ interbank rate and the Eurodollar rate - to be lower than the September average. Table 6 suggests that short term real interest rates have come down by a small amount since the beginning of the year. This fall could prove to be something of an illusion. The estimated rate of inflation, which is based on outside forecasts, does not fully reflect the better than expected output on inflation experienced in the last few months and now confidently expected to continue in the period immediately ahead.<sup>(1)</sup> It is quite possible that the short term real interest rate has actually risen.

TABLE 5 : NOMINAL INTEREST RATES (period averages)

	Three month Interbank	Three month Eurodollar	Base Rate	Long Rate (20 year gilts)	Yield gap
1981 Q1	13.3	16.5	13.6	13.8	0.5
Q2	12.5	17.7	12.0	14.2	1.7
Q3	14.2	18.4	12.3	15.2	1.0
Q4	15.6	14.3	15.1	15.7	0.1
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	13.8	15.3	13.0	13.9	0.1
May	13.4	14.3	13.0	13.7	0.4
June	13.0	15.7	12.5	13.6	0.6
July	12.4	14.2	12.3	13.2	0.8
August	11.2	11.7	11.3	12.1	1.1
September	11.0	12.0	10.5	11.4	0.7
October 7	10.4	11.3	10.0	11.1	0.7

(1) The National Institute forecast used to calculate this measure of expected inflation was published as long ago as May, while the London Business School forecast was published in June.

TABLE 6 : REAL INTEREST RATES (period averages)

	Expected inflation over next 12 months*	3 month Interbank rate less expected inflation	Real post-tax deposit rate	Yield on 1996 indexed gilts
1981 Q1	10.7	2.6	-3.0	2.1
Q2	10.0	2.5	-3.7	2.4
Q3	10.3	3.9	-3.5	3.1
Q4	10.1	5.5	-1.1	3.2
1982 January	10.5	4.5	-1.8	3.2
February	10.4	4.0	-2.6	3.2
March	10.1	3.5	-3.1	2.8
April	9.3	4.4	-2.3	2.9
May	9.3	4.0	-2.3	3.0
June	9.0	4.0	-2.4	3.1
July	8.2	4.2	-1.7	3.2
August	8.1	2.9	-2.4	2.9
September	7.7	3.0	-2.5	2.9
October 7	7.5	2.9	-2.8	3.1

\* Unweighted average of forecasts by Phillips & Drew, National Institute and the London Business School.

18. The effective exchange rate (Table 7) has edged up from its low point (taking months as a whole) in May. This has happened in spite of a fall in the £/\$ rate. Over the same period (since May) the uncovered differential against the \$ has improved while that against the DM has worsened.

TABLE 7 : EXCHANGE RATES\*

	Effective rate	£/\$ rate	uncovered differential	
			£/\$	£/DM
1981 Q1	101.8	2.31	-3.1	1.0
Q2	97.8	2.08	-5.0	-0.7
Q3	90.6	1.84	-4.2	1.6
Q4	89.7	1.88	1.3	4.4
1982 January	91.1	1.88	0.5	4.8
February	91.5	1.85	-1.4	4.3
March	90.8	1.81	-1.5	3.7
April	90.1	1.78	-1.4	4.5
May	89.9	1.81	-1.0	4.3
June	91.0	1.76	-2.7	3.8
July	91.2	1.72	-1.8	3.0
August	91.3	1.72	-0.5	2.4
September	91.7	1.72	-1.0	2.9
October	92.4	1.70	-0.9	2.9

\* Period averages

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

19. The increase in bank lending in September was over £2 billion (see Table 8). This increase is comparable with the very large increases earlier in the year. It is difficult to be sure whether the substantial increase in lending to companies was in part at least the result of arbitrage. There must, however, be some suspicion that this is part of the explanation.

20. Earlier in the year the relatively easy monetary conditions suggested by the very high growth of bank lending was in sharp contrast with the evidence of monetary tightness suggested by most of the monetary aggregates, and in particular the narrow aggregates, and other indicators such as real interest rates. In recent months the apparent inconsistency between the movements in the monetary aggregates and in bank lending has been less apparent as monetary growth has risen.

TABLE 8 : BANK LENDING  
(monetary sector, banking months,  
seasonally adjusted)

	Increase in Total sterling lending £mn	Percentage change in stock of lending, over	
		12 months	6 months (at annual rate)
1981			
September	1242	14.6	12.9
October	715	14.0	13.9
November	2540	17.9	23.1
December	1317	19.3	27.9
1982			
January	1336	19.9	31.1
February	1951	21.8	31.9
March	2213	23.4	34.8
April	2022	26.0	39.3
May	978	27.5	32.1
June	1080	29.3	30.6
July	1488	30.9	30.7
August	1284	29.8	27.5
September	2025	30.3	25.9



## (2): THE ECONOMIC PROSPECT TO EARLY 1984

21. Table 9 summarises the recently completed Treasury/Bank monetary forecast for the period to the end of the financial year 1983-84. It shows in addition the prospects for inflation and growth over the same period. The twelve month growth rates of the broad aggregates decline from early 1983. While there is some decline for M1 the prospect is for rather high growth rates (by recent standards) over the whole of the period; partly as a result of the assumed further falls in short term interest rates.

22. Both RPI inflation and the growth of money GDP fall further in the period immediately ahead and then begin to rise - but gradually and from very low levels. GDP begins to rise more quickly during 1983.

TABLE 9 : THE SHORT TERM FORECAST

(i) The monetary and financial aggregates (% changes at annual rates over same period a year earlier unless otherwise indicated)

		MO	M1		£M3		PSL2	Net financial wealth (including revaluation)
			(a)	(b)*	(a)	(b)*		
			1982	3	4.3	8.7		
	4	3.5	12.2	13.9	10.6	12.5	11.0	25.4
1983	1	6.2	13.5	14.6	11.9	11.8	10.8	23.3
	2	5.4	14.6	15.4	11.5	10.5	11.3	24.3
	3	5.4	14.5	14.5	10.0	8.3	10.0	17.9
	4	6.2	13.9	12.4	9.4	8.3	9.5	10.1
1984	1	5.8	12.8	11.2	8.2	8.0	8.6	7.0

\* % change over two quarters before at an annual rate.

(ii) Output and prices (% changes over same period a year earlier).

		RPI	Money GDP (at market prices)	GDP Volume
1982	3	8.0	8.5	1.0
	4	6.2	8.0	0.4
1983	1	5.6	7.1	0.5
	2	4.6	7.8	1.2
	3	5.1	7.9	2.0
	4	5.6	8.3	2.6
1984	1	5.9	8.8	2.7

(iii) Interest rates and the exchange rate (levels)

		3-month Inter-bank rate %	20-year gilt rate %	Effective exchange rate %
1982	3	11.1	12.4	91.4
	4	9.5	10.7	90.4
1983	1	9.0	10.3	89.5
	2	8.5	10.2	87.9
	3	8.5	10.3	86.9
	4	9.0	10.4	86.2
1984	1	9.0	10.6	85.0

(3) THE MORTGAGE AND HOUSING MARKETS

21. Building societies' net mortgage lending (seasonally adjusted) has declined only slightly each month since the peak recorded in May. Figures for September are not yet available, but the evidence from earlier lending commitments made by the societies and from the weekly inflow figures suggests that the current high level of net lending is likely to continue well into the Autumn. This view is supported by the continued competitiveness of the building societies in the savings market, especially compared with the banks, and by their current high liquidity ratio - higher than at any time since early 1978.

22. There are considerable difficulties in providing a comparable monthly series for bank lending for house purchase. Table 10 shows that seasonally adjusted bank lending for house purchase has fallen slightly since the June peak. Recent statements by three of the big four London Clearers and a tightening of their terms for mortgage lending point to a continued decline in net lending over the coming months, enabling the building societies to recapture some of their lost market share. The combined total of banks and building societies net lending is however likely to continue to decline slowly.

TABLE 10: NET LENDING FOR HOUSE PURCHASE (£m)<sup>(1)</sup>  
 (change on previous period, seasonally adjusted)

	<u>Building Societies</u>	<u>Banks (excl. TSBs) Estimated</u>	<u>Total Banks and Building Societies</u>
1979	5271	590	5860
1980	5722	490	6210
1981	6331	2240	8570
1981 1	1668	284	1950
2	1820	377	2200
3	1530	709	2240
4	1313	870	2180
1982 1	1265	1014	2280
2	1912	1257	3170
January	381	260	640
February	389	330	720
March	495	410	910
April	569	370	940
May	689	400	1090
June	654	480	1130
July	648	480	1130
August	635	450	1090

(1) All data is for calendar quarters and months

23. Average house prices, at the building society completion stage, continued to rise in August as shown in table 11 below. The monthly series now records its first positive change on a

TABLE 11 : AVERAGE HOUSE PRICE  
(all dwellings)

	£000	% change on year earlier
<u>1982</u>		
January	23.4	-4.4
February	22.9	-5.3
March	23.2	-4.9
April	23.9	-3.0
May	24.2	-2.3
June	24.1	-3.6
July	24.9	-0.9
August	25.3	+0.6

year earlier since September 1981, and the figures show an increase of 10.4 per cent above the low point recorded in February. The depth of the house price slump may have been exaggerated in the building society data because of the distorting effect of bank competition. The DOE's quarterly mix-adjusted house price index, which makes allowance for these effects, confirms an increase in house prices (of 4 per cent) in the second quarter of 1982 over the previous quarter, following declines of 2 and 2½ per cent in the previous two quarters. Thus, the extent of the house price collapse and subsequent recovery appears to be much smaller than the unadjusted figures would indicate. House prices are expected to continue to rise moderately over the next few months.

24. Table 12 shows that the rapid growth in housebuilding in the first quarter of 1982 was not sustained in the second quarter. Private sector starts declined compared with the first quarter and the annual rate of increase declined from 24 to 19 per cent.

TABLE 12 : PRIVATE SECTOR  
HOUSING STARTS  
( '000s)  
seasonally adjusted

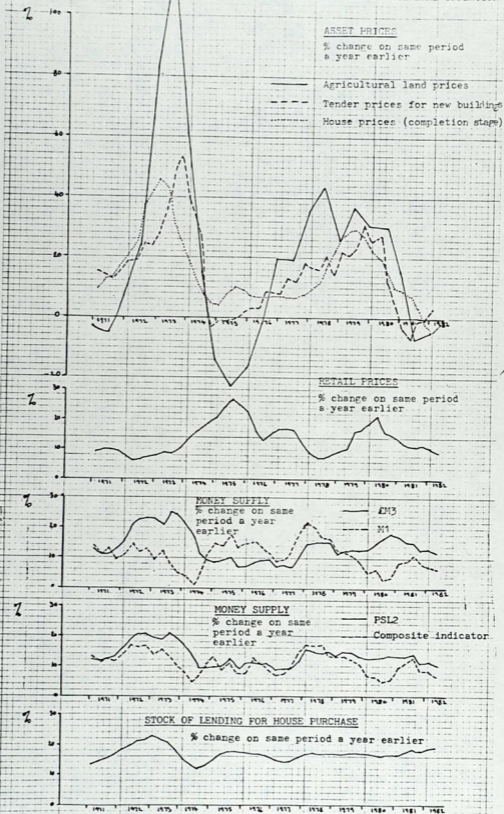
1981 Q1	31.3
Q2	28.5
Q3	30.3
Q4	25.7
1982 Q1	38.8
Q2	33.9
January	11.2
February	14.0
March	13.6
April	11.7
May	12.1
June	10.1
July	11.7

#### 4: MOVEMENTS IN ASSET PRICES

25. The most recent figures for asset prices (see Chart VII) confirm that the prices of assets other than houses have either begun to increase following a period of falling prices (tender prices for new buildings) or at least have begun to fall less rapidly than previously (agricultural land prices). Together with the house price information, which is much more recent than the other series, this points to a turn-round in asset prices generally, although there are as yet no indications of an asset price boom.



CHART VII  
 MONETARY GROWTH ASSET PRICES AND GENERAL INFLATION



SECRET (AND PERSONAL UNTIL 2.30PM, THURSDAY 14 OCTOBER 1982)

MR MIDDLETON

FROM: A TURNBULL  
8 October 1982

MONETARY PROSPECTS: OCTOBER-DECEMBER

I attach a copy of the report on the prospects for the monetary aggregates over the next three months.

A TURNBULL

Circulation

List A

Sir D Wass  
Mr Burns  
Sir K Couzens  
Mr Byatt  
Mr Evans  
Mr Lavelle  
Mr Monck  
Mr Britton  
Mr Kemp  
Mr Hall  
Mr Peretz  
Mr Collinson  
Mr R Allen  
Mr Riley  
Mrs Lomax  
Mr Sedgwick  
Mr Shields  
Mr Pickford  
Mrs Rowlatt  
Mr Fisher  
Mr Willetts  
Mr Bennett  
Mr Perfect  
Mr Bean  
Mr Bell  
Mr Willoughby  
Mrs Jutsum  
Ms Greenwood  
Mr Blower

Bank of England

Mr McMahon  
Mr Dow  
Mr Fforde  
Mr George  
Mr Loehnis  
Mr Somerset  
Mr Coleby  
Mr Goodhart  
Mr Walker  
Mr Gill  
Mr Flenderleith  
Mr Kentfield  
Mr Burman  
Mr Wright  
Mr Foot  
Mr Iles  
Miss Peirson  
Mr Townend  
Mr W A Allen  
Mrs P Jackson  
Mr I Thompson  
Mr S Sabine

List B

Mr Stibbard  
Mr Mountfield  
Mr Bottrill  
Mr Pirie  
Mr Spencer  
Mr Mowl  
Mr Hood  
Mr Williams  
Mr Page  
Mr Patterson

CSO

Sir J Boreham  
Mr Wells  
Mr Alexander

Mr J Anson - Economic Department, British Embassy, Washington

Professor Walters, No 10

Summary

- (i) All three target aggregates, though still remaining within the target range, showed signs of acceleration in September. This was most marked for M1 which rose by 1.2 per cent. The increase in £M3 of 1.1 per cent probably understates the underlying increase in September as the seasonal adjustment factor turned out to be too large. The cumulative position over the target period (11.6 per cent at an annual rate) is unaffected by the problem with seasonals. The growth of PSL2 of 1.0 per cent was again helped by the large flow into term shares.
- (ii) With interest rates and inflationary expectations on a declining trend, it is difficult to construct projections on the usual assumption of constant interest rates. If, as seems likely, short term interest rates do continue to fall, the growth of M1 might be slightly higher than projected. The effect on the broad aggregates would depend on whether the opportunity was taken to increase debt sales or whether the benefit was reflected in lower long rates.
- (iii) Over the next three months, the growth of £M3 is projected at about 1 per cent a month (1½ per cent in October) which would leave it by December right at, or possibly just over, the top of the target range.
- (iv) M1 is also projected to grow at 1 per cent a month which would move it into the top half of the target range (having been below the bottom of the range up to June).
- (v) PSL2 is expected to grow more slowly than £M3, reflecting the continued importance of building society term shares. By December its growth would be around 9 per cent.

- (vi) The CGBR is forecast at £1½ billion in October and November but, helped by the Britoil sale, only £0.1 billion in December. The rest of the public sector is expected to reduce its borrowing from the banking system, producing a PSBR totalling £2½ billion over the three months.
- (vii) For gilt sales, we have adopted a planning assumption for gross sales of £1.2 billion in October and £1.1 billion in November and £0.9 billion in December (a short month). If interest rates continue to fall this may be an opportunity to sell more, but the outcome will need to be decided in the context of funding policy generally. Of the £3 billion of redemptions due in the first three months of next year, only £650 million is assumed to be bought in in the next three months.
- (ix) National Savings are projected to bring in £285 million in October, declining to £145 million in December. While the conventional certificate and the income bond are proving popular, withdrawals of indexed certificates are at record levels. The outcome will depend crucially on the relative timing of changes in building society rates and changes in the terms of NS instruments.
- (x) Sales of CTDs have been exceptionally high (and surrenders low) as taxpayers took the opportunity to lock into current interest rates for up to two years. Under the new prospectus, however, rates are adjusted at the end of every year.
- (xi) Bank lending was very high in September. While this has led us to revise up the underlying rate somewhat, there were a number of special influences in September in

particular a contractionary public sector, i.e. overfunding of £0.9 billion, and some scope for arbitrage.

- (xii) While lending to persons is no longer accelerating it remains very high - over £600 million a month. Some deceleration is expected as an easing of bank mortgage lending begins to come through. The underlying rate has been projected at £1.45 billion in October, declining slightly to £1.35 billion in December.
- (xiii) Contrary to expectations the externals were expansionary in September as non residents reduced their sterling deposits (perhaps reflecting PRT payments). The negative influence seen over most of the past six months is expected to reappear over the next three.
- (xiv) The PSBR was overfunded by £0.9 billion in September. On the basis of the planning assumptions used in this forecast the PSBR is expected to be broadly matched by debt sales. The money markets are expected to remain tight, with little prospect of unwinding the Bank's commercial bill holdings significantly before the start of the revenue season in January.



Assumptions and forecast of £M3

As is usual the forecast of £M3 growth in the banking months October to December presented in tables 1 and 2 assumes no further reductions in short-term interest rates after this week's cut in base rates. Also we have explicitly assumed no 'creaming off', taking advantage of sterling's strength to rebuild the reserves. However, there are good reasons to think that the market will be expecting further interest rate cuts before the end of the year. In particular the inflation outlook is expected to improve dramatically, with a real likelihood of RPI growth rates falling to 6 per cent by December. This creates particular difficulties in formulating the projections for debt sales. For example, if, despite the assumption of constant interest rates, strong expectations persist about lower interest rates, it may be possible to achieve larger debt sales than projected. Alternatively long term interest rates may be allowed to fall and if this stimulated further corporate capital issues it might reduce bank lending somewhat. It is difficult to make a projection about how in the event this choice will be resolved. We have therefore adopted a planning figure for debt sales which does not necessarily represent the amount which could be achieved if we were prepared to fund to the maximum at current interest rates. Thus it is possible that £M3 could grow more slowly than shown in the tables, if opportunities for more funding arose and an approach of maximum funding were adopted.

2. The newly-completed NIF forecast incorporates the assumption that short-term rates will reach 9 per cent by the end of the year. Throughout this report we attempt to give an indication of how we would expect monetary growth to differ from the case presented in the tables if, firstly, interest rates declined in line with the NIF forecast and, secondly, we took the opportunity offered by that to achieve rather greater funding.



3. The forecast of  $\text{£M3}$  growth shown in table 1, which assumes no further interest cuts (nor market expectations of further cuts), is for growth averaging about 1 per cent a month. In the current month we are expecting rather faster growth (of about  $1\frac{1}{2}$  per cent), while in December growth of only about  $\frac{1}{2}$  per cent is forecast. In seasonally adjusted terms the public sector accounts for much of the variation in the forecast of  $\text{£M3}$  growth, with a small degree of underfunding in October and November, and overfunding by  $\text{£}\frac{1}{2}$  billion in December.
4.  $\text{£M3}$  growth in September turned out about  $\frac{1}{2}$  per cent higher than forecast, the main counterpart being much stronger sterling lending. Although there are tentative explanations which suggest some of the increase was erratic and unlikely to be repeated, we nevertheless think underlying lending is rather higher than we forecast last month, although we expect some small declines in the next two months as bank lending to persons (especially for house purchase) starts to increase more slowly. The naive model based on past movements in  $\text{£M3}$  would suggest slightly lower growth than forecasts of the individual counterparts indicate; also the latter would lead to a rather higher share of money in domestic wealth than we have observed on average in the past. So we have reduced the counterparts forecast somewhat. The forecast reported in table 1 suggests that cumulative growth of  $\text{£M3}$  in the target period to mid-December would remain at the top end of the target range.
5. If the NIF path of interest rates were achieved we would expect slightly slower  $\text{£M3}$  growth in the short run. Sentiment in the gilts market would probably allow more sales than the  $\text{£1}$  billion a month assumed in the tables, and National Savings inflows would also probably be improved.  $\text{£M3}$  growth over the three months as a whole might be some  $\frac{1}{4}$ - $\frac{1}{2}$  per cent lower if interest rates fell over the remainder of the year, with cumulative growth to mid-December still in the top quarter of the target range.

Forecast of the other monetary aggregates

6. The acceleration of M1 growth witnessed over recent months has continued, taking cumulative growth in the target period nearly to the middle of the range. If interest rates fell no further we would expect M1 growth to remain at about 1 per cent a month, but in the NIF forecast (which assumes further falls in short rates) slightly higher growth is expected. In the former case cumulative growth to mid-December would be in the middle of the target range, and in the latter slightly above the mid-point. The PSL2 forecast on unchanged interest rates, summarised in table 1, is for slightly slower growth than £M3, averaging  $\frac{1}{2}$  per cent a month. On this forecast PSL2 would remain in the bottom half of the target range; and if interest rates fell in line with the NIF forecast somewhat slower growth would be expected in the short run.

Forecast of £M3 counterparts

7. The main features of the counterparts to the £M3 forecast are summarised in table 2:

(i) The seasonally adjusted CGER is forecast to be in deficit by £1 $\frac{1}{4}$  billion in both October and November, followed by only a small deficit (£150 million) in December. The outturn for banking September was a deficit of nearly £1 billion, in line with the forecast. Customs receipts were lower than anticipated, despite higher payments of tobacco duties as more tobacco products were taken from bond in anticipation of manufacturers' price increases. This was more than offset, however, by lower VAT receipts, and trader compliance remains a cause for concern. The own account position in October is forecast to be over £ $\frac{1}{4}$  billion worse than was envisaged last month. This is in part attributable to the effect of the earlier payment of tobacco duties, and to an unanticipated drawing on EC balances. The picture for

November is little changed from last month's forecast, showing an unadjusted deficit of £1½ billion. This is followed by a forecast own account deficit of £½ billion in December. The latter includes an allowance of £400 million for the sale of Britoil shares, which is in line with the NIF projection but remains uncertain.

(ii) The profile of the on-lending component of the CGBR is very similar to last month, with net on-lending of £½-¾ billion in each month. So far in banking October, public corporations have borrowed £300 million (net) and local authorities £170 million; some net repayments are anticipated by the latter in the remainder of the month. Public corporations account for the lion's share of total on-lending in each of the three months, with some small allowance being made for the new temporary borrowing facility. FWLB borrowing by local authorities has tailed off from the very high levels seen earlier. We are expecting moderate net borrowing of about £100 million a month over the forecast period, with very little take up of the new variable rate facility.

(iii) The other public sector contribution to £M3 is expected to be negative by a total of £400 million over the three months. Public corporations' borrowing requirement is expected to rise from the very low levels seen earlier this year, and to be matched by NLF borrowing. Local authorities are expected to remain in surplus so their FWLB borrowing is used to refinance borrowing from banks and overseas.

(iv) The forecast for gilt sales is shown in detail in table 3. Gross sales to date in October have totalled £1.1 billion, of which nearly £½ billion is accounted

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for by the call on 10½% Exchequer 1987. We have assumed only moderate further gross sales in the remaining week and a half of the banking month. In November and December we have assumed that gross sales of about £1 billion a month are achieved, of which about £400 million in each month is already tied up by calls on 10½% Exchequer 1988. Moderate buying-in is assumed in advance of the heavy redemptions due in the early months of 1983. These assumptions, with some buying by banks and overseas likely, would indicate net sales to the non-bank private sector of £½-¾ billion a month. On this forecast about £1½ billion of new stock would have to be created in November and December in addition to the £½ billion of calls due.

If interest rates do fall and advantage were taken of favourable market conditions, it might be possible to achieve rather higher gross sales than assumed in the table. If it were decided to follow this course the short run effect would be to lower £M3 growth.

(vi) Sales of National Savings instruments are also likely to depend on market expectations of interest rates. On the assumption incorporated in table 2 that no further reductions are anticipated, the prospect for National Savings is for inflows falling off again quite sharply from the peak reached in September. Although sales of the 24th issue have picked up and the income bond is extremely competitive, withdrawals of index-linked certificates have increased dramatically - to over £50 million in the last week - presumably on the news of falling inflation. Even on the assumption that these withdrawals subside somewhat, National Savings contribution to funding is forecast to fall off from nearly £300 million in October to about half that figure in November and December. Although we would expect inflows to conventional

certificates and income bonds to improve if market interest rates fell further (in particular if building societies reduced their share rates), we have assumed in those circumstances the 24th issue would be taken off sale, but in a manner which avoided last-minute inflows on the scale of the 23rd. Furthermore, withdrawals of index-linked certificates might increase again to offset partially any improvement in sales of fixed-rate instruments. In these circumstances we would not expect significantly greater overall sales of National Savings. With the rapid deterioration in index-linked sales the prospect for even £2½ billion net inflows for 1982/83 looks extremely doubtful.

(vi) With the new CTD prospectus being issued next week we are expecting steadier sales of CTDs in the coming months, although their overall competitiveness is likely to be little affected. So far in October sales have been rather high, as expectations of a base rate cut built up. We are forecasting gross sales of £100-150 million a month in all three months and surrenders of £50 million a month or less; but in seasonally adjusted terms CTDs will only make a relatively small contribution to funding.

(vii) Table 4 shows the significant increase in sterling lending in September. A number of tentative explanations can be offered for the sizeable increase, which was concentrated on corporate lending: oil companies may have borrowed to pay PRT rather than surrender CTDs; there was a once-off increase in lending to jobbers; and bill yields fell relative to interbank rates around the PRT date, possibly encouraging a further build-up in liquidity. None of these explanations is likely to account for a large part of the increase, but taken together they may suggest a rather less worrying increase in underlying



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lending than is shown in the table. We have taken some account of the increase and forecast a higher level of underlying lending than we did last month, but we have discounted the larger part of the increase. Increases in lending to persons have levelled off during the summer, although at a relatively high level. We are forecasting some slight tailing off, both as the clearers cut back a little on lending for house purchase and as the effects of removal of HP controls diminish. After allowance for PSBR offsets recorded lending is still expected to rise by £1½-1¾ billion a month. It is unlikely that further falls in interest rates would have a significant effect on lending over the three months of the forecast.

(viii) The forecast of net externals is shown in tables 5 and 6. The positive outturn in September remains largely inexplicable, although we may have severely underestimated the proportion of PRT which was financed by inflows. In the absence of a reliable explanation we have assumed much the same level of structural outflows as in the last forecast. The EC Commission intends to withdraw £120 million from their No 1 Account in October, and we have assumed it is held by other member central banks in sterling as reserves. The net externals would be more negative by the full amount of the transaction, completely offsetting the effect of the higher CGER on £M3. We have explicitly assumed that there is no attempt to rebuild the reserves over the coming months by 'creaming off'.

(ix) We have assumed that non-deposit liabilities increase by £150 million a month on average, with a further £25 million increase in October on account of a bond issue by Standard Chartered.



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Money markets and overfunding

8. As the following table shows, we are forecasting (on the basis of unchanged interest rates) underfunding in October and November, outweighed by overfunding of over  $\text{£}\frac{1}{2}$  billion in December:

£ billion, seasonally adjusted

	Last 12 months to <u>mid-Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	Target period: mid-Feb to <u>mid-Dec.</u>
'PSBR' (CGBR + OPS contribution)	4.4	1.1	1.1	0.1	6.0
CG debt sales to NBPS (of which, gilt sales)	11.5 (7.1)	0.8 (0.5)	0.9 (0.8)	0.6 (0.5)	8.7 (5.9)
OVERFUNDING (increase +)	7.2	-0.3	-0.2	0.6	2.7

Cumulative overfunding in the target period to mid-December is expected to total about  $\text{£}2\frac{1}{2}$  billion of which  $\text{£}1.6$  billion occurred in March, and any further debt sales generated by expectations of interest rate reductions would increase overfunding further.

9. Table 7 summarises our forecast of money market influences over the next three months. As expected there was a large market shortage in September, with heavy debt sales and a small CGBR. The market is expected to return to moderate surplus in October and November; over the three months as a whole a surplus of  $\text{£}\frac{1}{2}$  billion is forecast. We are forecasting an easier position on Ways and Means advances at the end of each banking month. Overall between mid-September and mid-December we expect a rise in Ways and Means advances of over  $\text{£}\frac{1}{2}$  billion, assuming that only as much stock is created to meet the  $\text{£}1$  billion gross sales a month in the tables. If market conditions allow further sales of gilts the increase in Ways and Means advances could be significantly lower.

Table 1: PERCENTAGE CHANGES IN MONETARY AGGREGATES

Seasonally adjusted data

Banking month	Non-interest bearing M1		M1	M2	M3	PSL1	PSL2
	Wide monetary base (MO)	Non-interest bearing M1					
<u>Outturn</u>							
- April	-1.2	+0.4	+0.1	+0.6	+1.8	+ 1.3	+1.1
- May	-0.2	+0.3	+0.6	+0.2	+0.9	+ 0.7	+0.6
- June	+1.7	+1.4	+2.0	+1.1	+0.6	+ 0.6	+0.5
- July	+0.2	+2.2	+0.9	+1.9	+1.5	+ 0.4	+0.1
- August	-1.7	-	+1.2	-0.1	+1.1	+ 1.3	+0.9
- September	+3.9	+1.9	+1.2	+0.5	+0.5	+ 1.2	+0.9
Last 12 months	+2.0	+4.4	+7.6	n.a.	+10.4	+ 9.8	+8.2
Last 7 months (target period) at annual rate	+3.6	+9.8	+9.5	+6.9	+12.8	+11.1	+8.5
<u>Forecast</u>							
(i) Percentage change in month							
- October						+ 1.1	+0.9
- November						+ 1.1	+0.9
- December						+ 0.7	+0.6
(ii) Percentage change since Feb '82							
- October						+ 7.5	+5.8
- November						+ 8.8	+6.8
- December						+ 9.5	+7.5
(iii) Percentage change since Feb '82 (annual rate)							
- October						+11.5	+8.9
- November						+11.8	+9.2
- December						+11.5	+9.0

Note: All figures are on the basis of the new monetary sector.  
+10.4

{ 1 per cent  
} a month

Table 2: £M3 COUNTERPARTS

	September		Forecast		New Target Period: mid Feb 82 to mid-Dec 82
	Forecast	Outturn	Oct.	Nov. Dec.	
1 CGBR, n.s.a., surplus - )	(+210)	(+248)	(+1040)	(+1615)	(+8282)
1 CGBR, s.a.	+910	+946	+1225	+1280	+6744
(o/w, on-lending)	(+1080)	(+1084)	(+ 470)	(+350)	(+3283)
2 Net purchases of CG debt by NPS					
a Gilts	-415	-611	-500	-750	-5662
b Treasury bills	-	-101	-	-	- 127
c National Savings	-230	-287	-285	-155	-2127
d CTDs, etc	-415	-437	- 30	- 25	- 562
TOTAL	-1060	-1436	-815	-930	-8678
3 Other public sector					
a Local authorities	- 385	-292	- 75	-175	-268
b Public corporations	- 200	-134	- 70	-	-448
TOTAL	- 585	-426	-145	-175	-716
4 Lending to private sector	+1495	+2034	+1325	+1185	+1490
(adjusted lending)	(+1300)	(+1875)	(+1450)	(+1400)	(+15,250)
5 Net externals	-105	+282	-360	-190	-2,254
6 Net non-deposit liabilities	-200	-387	-175	-150	-1,826
TOTAL £M3	+455	+1013	+1055	+1020	+8,385
7 change in period	+0.5	+1.1	+1.2	+1.1	+0.8
					(+12.0 annual rate)

Table 3: GILTS FORECAST

£ million

	<u>Actual</u>	<u>Forecast</u>		
	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>
TRANSACTIONS TO 6 OCT AND KNOWN FUTURE TRANSACTIONS				
Redemptions	- 1	-490		
Buying-in next maturities	- 11	- 45		
Sales	+515	+600		
Calls		+470	+400	+370
FORECAST				
Assumed buying-in of next maturities				
8½% Exchequer 1983 (5/1)		- 55	-100	-200
3% Exchequer 1983 (21/2)			-100	- 50
12% Treasury 1983 (17/3)			- 50	- 50
Further gross sales		+120	+700	+530
TOTAL NET SALES	+503	+600	+850	+600
Overseas purchases ( - )	+ 58	- 50	- 50	- 50
Banks ( - )	+ 72	} -	- 50	- 50
LDMA ( - )	- 22			
PCs ( - )	-	-		
NET SALES TO NBPS	+611	+500	+750	+500

Table 4: STERLING LENDING TO THE PRIVATE SECTOR

£ million  
Seasonally adjusted

	<u>Actual</u>			<u>Forecast</u>		
	<u>July</u>	<u>Aug.</u>	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>
<u>Adjusted lending</u>	+1423	+1392	+1883	+1450	+1400	+1350
Bills held by NBPS	+ 109	+ 17	- 9	-	- 50	-
FSBR offset	- 10	- 100	+ 60	- 125	- 115	+ 190
Liquidity effect	-	-	+ 100	-	- 50	- 50
Actual/forecast recorded lending	+1522	+1309	+2034	+1325	+1185	+1490
Centred 3-month moving average of adjusted lending	+1250	+1550	+1575	+1575	+1400	

TABLE 5 : FACTORS CONTRIBUTING TO EXTERNALS

£million

<u>Ex ante demand for £ by sector</u>			
	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>
1. <u>Non-bank private sector</u>			
a. Current balance	+200	+200	+200
b. Ex ante exchange control outflow	-350	-350	-350
c. Underlying outflows	-200	-200	-200
	-350	-350	-350
2. <u>Banks</u>	-	-	-
3. <u>Overseas</u>			
a. Overseas £ deposits	+370	+250	+250
b. Sterling lending overseas	-200	-200	-200
	+170	+ 50	+ 50
4. Public sector - EC payment	-120	-	-
5. <u>TOTAL EX ANTE DEMAND FOR £</u>	-300	-300	-300
(1 + 2 + 3 + 4)			
6. a. Intervention (increase in reserves -)	-	-	-
b. NBPS equilibrating flow	+150	+200	+200
7. PSBR offset	- 40	- 40	+ 65
8. <u>EXTERNALS</u> (1 + 4 + 6(b) + 7)	-360	-190	- 85



Table 6: FINANCING OF NET EXTERNALS

£ million

	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>
Sterling deposits net from banks abroad	-187	+ 19	- 105
Sterling deposits net from non-banks abroad	- 50	- 50	- 50
Bank's net foreign currency liabilities	+ 10	+ 10	+ 15
Overseas holdings of gilts	- 50	- 50	- 50
Overseas holdings of Treasury bills and local authority sterling debt	-	-	-
Reserves net of official borrowing	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL NET EXTERNALS (n.s.a.)	-277	- 71	-190
Seasonal adjustment	- 83	-119	+105
	<hr/>	<hr/>	<hr/>
TOTAL NET EXTERNALS (s.a.)	-360	-190	- 85
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Table 7: MONEY MARKET INFLUENCES

£ million  
not seasonally adjusted

	<u>Actual</u>	<u>Forecast</u>		
	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>
CGBR (increase +)	+248	+1040	+1615	+1080
Reserves etc ( + )	+ 55	-	-	-
Notes and coin ( - )	+ 23	- 10	- 10	- 420
National Savings ( - )	-289	- 285	- 140	- 125
CTDs ( - )	-194	- 100	- 95	- 70
Gilts ( - )	-503	- 600	- 850	- 600
Other Exchequer items etc	+ 97	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL MONEY MARKET INFLUENCES (Market surplus + / shortage - )	-563	+ 45	+ 520	- 135
Change in bankers' balances	+152	- 150	+ 10	+ 10
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MONEY MARKET OPERATIONS REQUIRED	+715	- 195	- 510	+ 145
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