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FROM: P N SEDGWICK
DATE: 14 OCTOBER 1983

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Deputy Governor)
Mr George)
Mr Coleby) Bank
Mr Fforde) of
Mr Goodhart) England
Mr Plenderleith)
Mr Allen)
Mr Foot)

Professor A Walters No. 10

INTERPRETATION OF MONETARY CONDITIONS : OCTOBER

... I attach the note for this months which reflects the discussion at your meeting yesterday.

P.N.J.
P N SEDGWICK

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INTERPRETATION OF MONETARY CONDITIONS

(1) INTRODUCTION AND SUMMARY

The latest information on the nominal monetary aggregates shows that for most aggregates the twelve month growth rates, and to an even greater extent the six month rates, have fallen significantly over the last few months. This development is most pronounced for the broad aggregates, where the fall in the six month growth rates since June is in the range of 4-6 percentage points, but is evident for M2 (both broad and narrow), M1, NIBM1, and the composite monetary indicator. There has been no obvious trend movement in the twelve or six month growth rates of the wide monetary base, MC, since the middle of the current year, though the six month growth rate of its principal constituent, notes and coin, is lower than it was in the middle of the year.

2. The lower growth in the nominal monetary aggregates together with the slight rise in price inflation have together produced lower growth in real money.

3. Other indicators continue to give conflicting messages on monetary conditions, though none of these suggest that conditions are particularly loose. The recent revisions to the national accounts data (for the 1983 Blue Book) show that growth of money GDF was higher in 1981 and 1982 than had previously been thought, though the information currently available on growth in the first half of 1983 indicates it to have been lower than in 1981 or 1982. There has been a modest rise since the middle of this year in RPI inflation, though producer output price inflation has been stable. The recent fall in UK short term nominal interest rates (and in the estimated short term real interest rates) is evidence of some easing in monetary conditions, but in spite of a dip at the time of the cut in base rates the effective exchange rate is still notably higher than earlier in the year. The recent evidence on asset prices is sparse, but the monthly data on house prices confirms the very slight upward movement in the twelve month change first noticed last month. There is no evidence of significant rises in other asset prices and the monthly data on house prices may reflect a buoyancy unique to the housing and mortgage markets.

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(2) THE BEHAVIOUR OF THE MONETARY AGGREGATES

4. Table 1 and Charts I to IV summarise the most recent information on the nominal monetary and financial aggregates as well as data for previous financial years.

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

	Composite monetary indicator	M2 ϕ						£M3	M3	PSL2
		MO	Non- interest bearing M1	M1	narrow defin- ition (mone- tary sector)	broad defin- ition				
(a) financial years										
1980-81*	11.1	6.7	7.8	11.2			19.9	21.6	14.4	
1981-82*	5.4	2.1	-0.3	3.9			12.0	15.3	10.8	
1982-83*	10.9	5.1	11.3	14.9			11.5	12.8	11.4	
(b) changes on same period in previous year*										
1981 (1)	8.8	7.3	4.6	7.7			18.7	20.9	13.5	
(2)	11.6	5.7	8.6	11.8			18.6	22.5	13.9	
(3)	12.2	5.0	9.2	11.4			16.1	22.4	13.6	
(4)	8.2	4.2	4.9	7.8			13.0	18.6	11.1	
1982 (1)	7.7	2.7	3.5	8.0			13.2	15.5	11.7	
(2)	6.0	2.2	1.3	6.4			12.0	13.1	10.3	
(3)	6.3	1.5	3.9	8.8			10.3	10.3	8.5	
(4)	8.9	3.9	8.8	11.5	6.4	4.3	10.4	12.0	8.8	
1983 (1)	10.5	5.2	10.9	13.3	8.1	6.5	10.2	13.3	10.2	
(2)	11.3	7.0	10.5	15.9	8.9	8.0	11.7	13.1	11.7	
(3)		5.9	9.1	12.4			9.6	11.2	11.8	
(c) changes on same period in previous year										
1982 Oct	7.1	3.2	5.7	8.7			9.7	9.4	8.9	
Nov	8.5	3.4	7.5	10.5	4.9	3.4	10.1	10.7	8.9	
Dec	8.9	3.9	8.8	11.5	6.4	4.3	10.4	12.0	8.8	
1983 Jan	7.5	1.7	6.0	10.7	4.3	3.5	9.9	12.4	8.6	
Feb	9.1	3.5	8.9	11.8	6.3	5.1	10.2	13.1	9.5	
March	10.6	5.2	10.9	13.3	8.0	6.5	10.2	13.3	10.2	
April	11.3	5.0	11.3	14.9	8.5	7.3	11.5	12.8	11.4	
May	11.5	5.8	11.5	16.0	9.1	8.1	11.0	12.2	11.5	
June	11.2	7.0	10.5	15.9	8.9	8.2	11.7	13.1	11.7	
July	11.8	5.4	10.7	15.0	8.5	8.0	12.4	13.1	12.8	
Aug	11.5	5.0	10.0	10.3	8.6	8.1	11.5	12.4	12.9	
Sept	10.4	5.9	9.1	12.4	8.0	7.8	9.6	11.2	11.8	
(d) changes (at an annual rate) in 6 months to										
1982 Oct	9.7	5.3	12.6	13.4	7.3	4.7	10.5	10.7	8.2	
Nov	11.3	6.6	15.4	18.3	8.9	6.5	10.7	12.0	7.7	
Dec	9.5	6.3	13.2	15.1	6.3	5.5	9.7	13.0	6.9	
1983 Jan	9.2	4.8	8.4	16.2	3.6	4.6	11.3	12.2	9.3	
Feb	10.6	5.9	10.1	13.6	6.4	7.1	10.5	13.3	11.0	
March	11.4	5.6	9.9	13.9	8.4	8.8	9.9	14.7	12.2	
April	13.0	4.8	10.0	15.2	9.7	9.9	12.5	14.8	14.6	
May	11.8	5.1	7.7	13.8	9.3	9.8	11.2	12.4	15.4	
June	12.9	7.9	8.0	16.8	11.6	10.9	13.7	13.2	16.8	
July	14.5	6.2	13.2	13.8	13.8	11.6	13.6	14.0	16.4	
Aug	12.4	4.1	10.5	14.3	10.9	9.1	12.5	11.5	14.9	
Sept	9.5	6.5	8.3	11.0	7.6	6.8	9.2	7.8	11.6	

(See page 3 for footnotes)

Footnotes to Table 1

- Through the financial year (mid-April on mid-April)
- ∅ The growth rates for all monetary aggregates, except non-interest bearing M1, are adjusted for changes to the new monetary sector. The October 1982 figures were greatly distorted by the over-subscription of the STC share issue. The figures shown here are the Bank of England/Treasury best estimates of what would have happened in the absence of the distortion.
- + The quarterly figures are for the final banking month of the quarter.
- ∅∅ M2 is "seasonally adjusted" by using a seasonally adjusted series for the NIBM1 component and unadjusted series for the other components. When proper seasonal adjustment of M2 is eventually possible its within year movements will be different.

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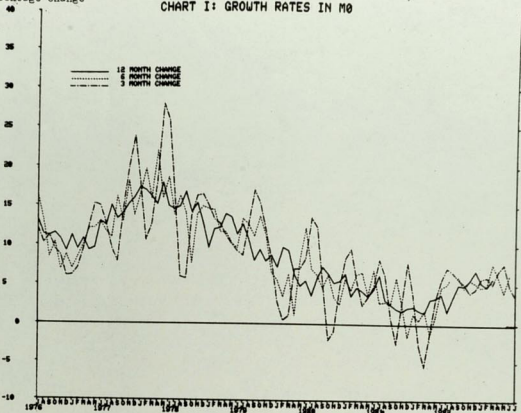
5. The six month growth rates for broad money have fallen sharply between June and September - from 13.7 to 9.2 for £M3 and 16.8 to 11.6 for PSL2. The higher growth of PSL2 reflects the higher relative interest rates now being paid by building societies.

6. Table 1A shows the growth rates of the principal constituents of £M3 (and of M1). The six month growth rate of notes and coin has been lower in the last three months than in the first half of the year. (This is not true of M0 as a result of the behaviour of the other components of M0 - bankers' balances and till money.) The behaviour of non-interest bearing sight deposits has been erratic during 1983. The six month growth rate fell from a peak of 21.5 per cent last November to just over 7 per cent in May and June. It subsequently rose and has now fallen again. This is the component of M1 commonly regarded as being most sensitive to changes in interest rates. The six month growth in total interest bearing deposits has fallen sharply from the high level reached in the middle of the year.

7. The lack of adequate seasonal adjustment for M2 makes it impossible to reach firm conclusions on within year movements. The twelve month growth rate has been fairly steady for some months at around 8 per cent for both the narrow and broad definitions.

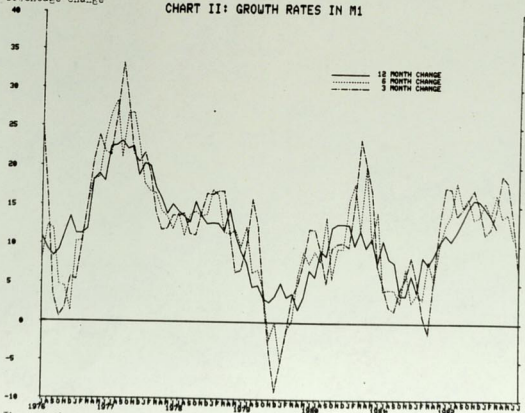
Annualised
percentage change

CHART I: GROWTH RATES IN M0



Annualised
percentage change

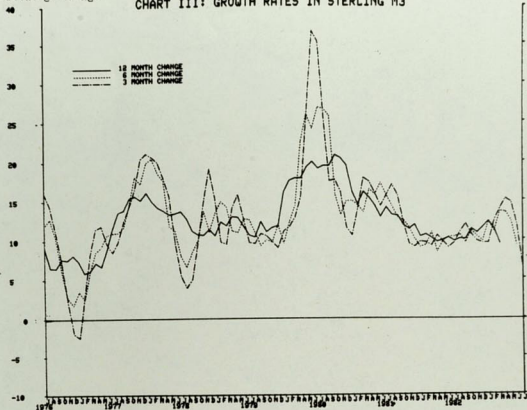
CHART II: GROWTH RATES IN M1



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.

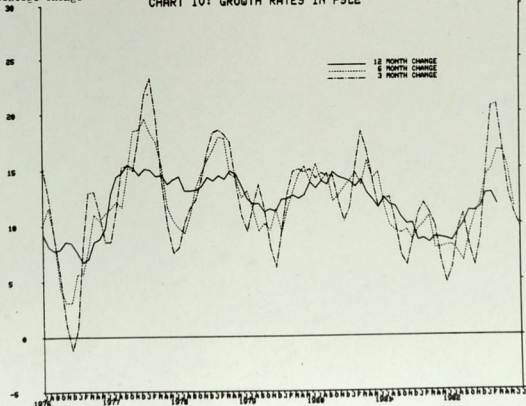
Annualised
percentage change

CHART III: GROWTH RATES IN STERLING M3



Annualised
percentage change

CHART IV: GROWTH RATES IN PSL2



Note: The growth rates are shown as mid-point of the period over which they are measured. Thus the growth from September '81 to September '82 is shown as March '82 and the six month annualised growth rate from March '82 to September '82 is shown as June '82.

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TABLE 1A : GROWTH RATES OF COMPONENTS OF £M3 (%)

	Notes/Coin		Non-interest bear- ing sight deposits		All private sector interest bearing deposits		Interest bearing sight deposits (included in M1)	
	12 months	6 months (annual rate)	12 months	6 months (annual rate)	12 months	6 months (annual rate)	12 months	6 months (annual rate)
1981 Q1	6.3	5.1	11.7	11.7	17.7	17.7	13.7	13.7
Q2	5.8	6.8	12.5	15.9	26.6	12.6	33.7	6.8
Q3	5.5	6.4	12.5	13.6	20.4	20.6	23.9	23.8
Q4	5.3	3.7	4.7	-5.4	17.3	22.0	25.7	47.8
1982 Q1	4.7	3.1	2.5	-7.5	18.0	15.4	32.8	42.5
Q2		3.1	-0.1	5.6	17.5	13.1	33.5	20.5
Q3	3.5	3.9	4.2	17.2	12.8	10.3	28.4	15.7
Q4	4.8	6.6	11.4	17.5	10.0	7.0	20.9	21.2
1983 Q1	6.3	8.8	13.8	10.6	9.7	9.1	21.3	27.2
Q2	7.7	8.8	12.3	7.4	11.6	16.3	33.2	46.3
1982 Oct	3.8	5.2	6.7	17.4	10.8	7.5	20.9	19.4
Nov	4.4	6.2	9.5	21.5	10.8	8.6	21.9	28.1
Dec	4.8	6.6	11.4	17.5	10.0	7.0	20.9	21.2
1983 Jan	3.9	7.7	7.3	8.8	10.6	10.7	26.7	44.1
Feb	5.8	8.8	10.9	10.9	10.1	9.5	21.5	24.7
March	6.3	8.8	13.8	10.6	9.7	9.1	21.3	27.2
April	7.2	9.1	14.0	10.8	10.9	14.4	26.9	34.8
May	7.3	8.4	11.2	7.3	11.2	13.9	31.1	34.1
June	7.3	8.8	12.3	7.4	11.6	16.3	33.2	46.3
July	7.7	6.9	12.9	17.2	12.2	13.8	28.5	15.3
August	6.3	3.9	12.8	14.7	11.6	13.8	25.2	25.6
Sept	7.2	5.6	10.3	10.0	10.0	10.9	23.2	19.3

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8. Table 2 and Charts V and VI show the latest data on the growth of real money.

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

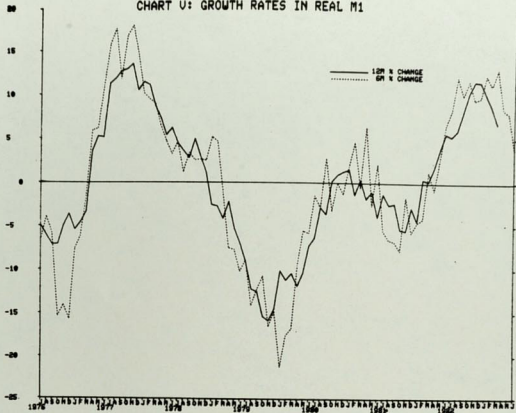
(a) Financial years*	RPI+	Composite monetary indicator	MO	Non interest bearing M1	M1	£M3	PSL2
1980-81	12.0	-0.9	-4.9	-2.7	0.3	7.9	2.5
1981-82	9.4	-3.6	-6.7	-8.9	-5.2	2.3	1.3
1982-83	4.1	6.6	1.0	7.0	9.9	7.3	6.4
(b) Changes in same period in previous years							
1981 (1)	12.6	-3.3	-4.6	-6.1	-3.5	6.1	1.0
(2)	11.3	0.3	-5.0	-1.5	1.4	7.4	2.7
(3)	11.4	0.7	-5.8	-1.4	0.5	4.3	2.5
(4)	12.0	-3.4	-6.6	-6.3	-3.9	0.9	-0.3
1982 (1)	10.3	-2.4	-6.9	-6.2	-2.3	2.6	1.2
(2)	9.2	-2.9	-6.4	-7.2	1.4	2.6	1.0
(3)	7.3	-0.9	-5.4	-3.0	5.8	2.8	1.1
(4)	5.4	3.4	-1.4	3.4	5.8	4.7	3.3
1983 (1)	4.6	5.6	0.6	6.0	8.3	5.3	4.9
(2)	3.7	7.4	3.2	6.6	11.8	7.7	8.0
(3)	(5.1)	5.0	0.8	3.8	6.9	4.2	6.4
(c) Changes in 12 months to							
1982 Oct	6.8	0.3	-3.4	-1.1	1.9	2.7	2.0
Nov	6.3	0.2	-2.7	1.3	4.1	3.6	2.5
Dec	5.4	3.3	1.4	-3.4	5.8	4.7	3.3
1983 Jan	4.9	2.5	-3.1	1.1	5.5	4.7	3.5
Feb	5.3	3.6	-1.7	3.4	6.2	4.6	3.9
Mar	4.6	5.7	0.6	6.0	8.3	5.3	5.4
April	4.0	7.1	1.1	7.1	10.5	7.2	7.1
May	3.7	7.5	2.0	7.5	11.9	7.0	7.5
June	3.7	7.3	3.2	6.6	11.8	7.7	7.0
July	4.2	7.3	1.2	6.3	10.3	7.9	8.2
Aug	4.6	6.5	0.3	5.4	8.9	6.5	7.9
Sept	5.1	5.0	0.8	3.8	6.9	4.2	6.4
(d) Change in 6 months to							
1982 Oct	5.0	4.3	0.1	7.1	8.5	5.0	2.9
Nov	5.3	5.7	1.3	9.7	12.4	5.2	2.3
Dec	4.4	4.9	1.8	8.4	10.2	5.0	2.3
1983 Jan	3.8	5.2	1.0	4.4	12.0	7.2	5.3
Feb	3.5	6.8	2.3	6.3	9.7	6.7	7.3
Mar	3.5	7.6	2.0	6.1	10.0	6.2	8.4
April	2.8	9.9	2.1	7.1	12.6	9.4	11.5
May	2.2	9.3	2.8	5.3	11.3	8.7	12.9
June	3.0	9.6	4.7	4.8	13.3	10.4	13.4
July	4.7	9.4	1.4	8.2	8.7	8.6	11.2
Aug	5.6	6.4	-1.4	4.6	8.2	6.4	8.9
Sept	6.7	2.6	-0.2	1.5	4.1	2.3	4.6

+The simple method of seasonal adjustment for the RPI for use in calculation of the six monthly growth rates was described in the February 1982 Interpretation of Monetary Conditions.

*Through the financial year (mid-April on mid-April)

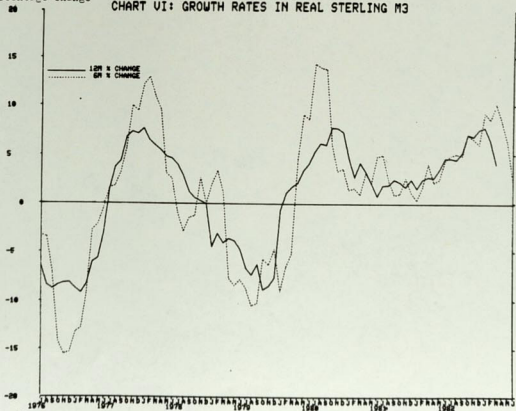
Annualised
percentage change

CHART U: GROWTH RATES IN REAL M1



Annualised
percentage change

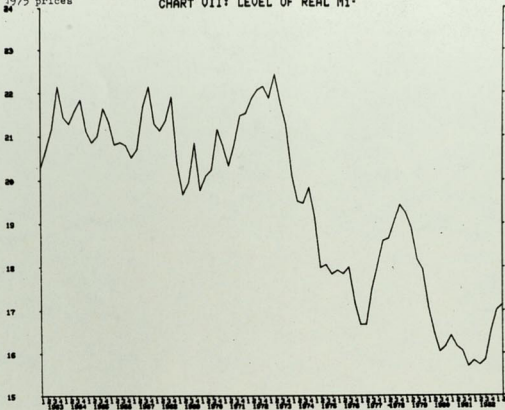
CHART VI: GROWTH RATES IN REAL STERLING M3



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.

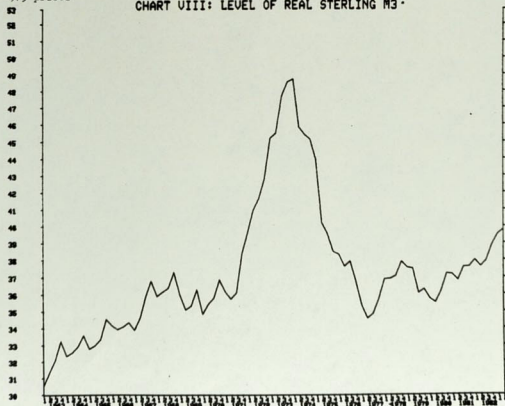
£bn
1975 prices

CHART VII: LEVEL OF REAL M1.



£bn
1975 prices

CHART VIII: LEVEL OF REAL STERLING M3.



Note: These charts use the quarterly monetary data.

*1983 Q2 estimated

Ebn
1975 prices

CHART IX: LEVEL OF REAL PSL2

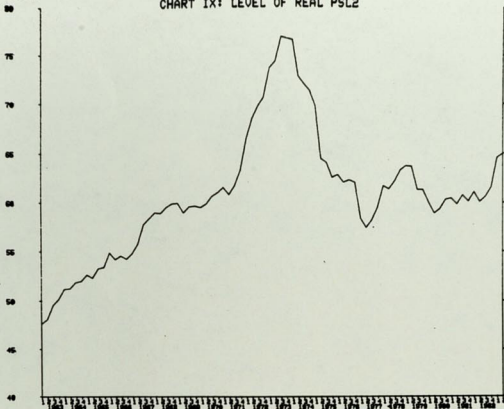
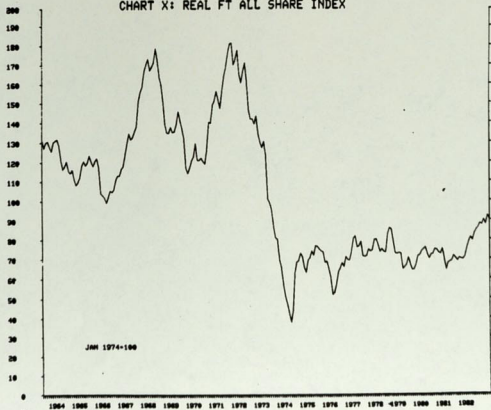


CHART X: REAL FT ALL SHARE INDEX



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9. The six and twelve month growth rates for all the real monetary aggregates have fallen substantially in recent months. The six month growth of real MO has been negative for two months, and the six month growth rates of real NIBM1, the composite monetary indicator and even real £M3 are at lower levels than have been experienced for some time.

10. Table 3 shows that the six month growth in bank lending to the UK non-bank private sector appears to have stabilised in the range of 10-12 per cent.

TABLE 3 : BANK LENDING
(monetary sector, banking months,
seasonally adjusted)

	<u>Percentage change in stock of lending over</u>	
	<u>12 months</u>	<u>6 months (at annual rate)</u>
1981 November	16.3	20.2
December	17.3	24.3
1982 January	18.9	31.7
February	20.9	31.5
March	21.7	35.3
April	24.2	38.2
May	25.6	31.3
June	26.5	28.6
July	28.8	25.9
August	27.6	23.8
September	28.6	2 .
October	29.5	21.4
November	26.9	22.8
December	25.5	22.5
1983 January	23.6	21.3
February	21.7	19.7
March	19.5	16.8
April	17.3	13.3
May	16.9	11.4
June	17.2	12.2
July	15.7	10.3
August	15.1	10.6
September	13.9	11.2

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(3) OTHER INDICATORS OF MONETARY CONDITIONS

11. Table 4 shows the latest data on money GDP. This is consistent with the 1983 Blue Book for 1981 and 1982 and shows data for the first half of 1983. The growth rates for the earlier years are higher than previous estimates (which implies that the velocity of money has been a little higher than previously estimated). The figures for the first half of 1983, which are liable to revision, show that growth has been at a lower level.

TABLE 4 : GROSS DOMESTIC PRODUCT
AT CURRENT PRICES

GDP at
market prices
(CSO's average estimate)

	<u>% change on a year earlier</u>	<u>% change over six months (annual rate)</u>
1981 Q2	8.6	7.2
Q3	10.1	11.1
Q4	9.8	12.4
1982 Q1	9.8	8.6
Q2	10.3	8.2
Q3	8.9	9.2
Q4	8.2	8.1
1983 Q1	9.2	9.1
Q2	7.2	6.4

12. Table 5 shows the most recent behaviour of the RPI and of producers' input and output prices. RPI inflation has risen from the low rates recorded in May and June, but is not expected to rise much further in the rest of the year. Producer output price inflation

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TABLE 5 : RETAIL AND PRODUCER PRICES
(% change on same period a year before)

	<u>Retail Prices</u>	<u>Producer Price Index</u> (All manufactured products)	
		Output prices (home sales)	Input prices
1981 Q1	12.7	10.3	3.7 (14.5)*
Q2	11.7	9.3	9.8 (15.6)*
Q3	11.3	9.0	13.4 (12.1)*
Q4	11.9	9.7	15.0 (14.5)*
1982 Q1	10.4	8.7	11.8 (11.5)*
Q2		7.2	5.7 (-2.6)*
Oct	6.8	6.8	3.6 (0.6)∅
Nov	6.3	6.4	3.6 (5.5)∅
Dec	5.4	6.3	4.9 (12.8)∅
1983 Jan	4.9	5.6	5.2 (14.9)∅
Feb	5.3	5.2	5.7 (18.8)∅
Mar	4.6	5.1	5.8 (15.6)∅
April	4.0	5.4	5.9 (11.7)∅
May	3.7	5.6	6.8 (8.2)∅
June	3.7	6.0	7.3 (2.0)∅
July	4.2	5.5	6.4 (-1.4)∅
Aug	4.6	5.3	8.3 (-1.3)∅
Sept	5.1	5.3	9.5 (3.6)∅

*Increase over two quarters before at an annual rate.

∅Increase over past six months (at an annual rate).

has been very stable in the range 5-6 per cent since the beginning of the year. There was an increase in producer input price inflation over the previous six months in September, following a series of falls.

13. Table 6 shows how both short and long term UK nominal interest rates have come down since the beginning of the year - long rates by only a little less than short rates. The latest fall in short rates has produced a further fall in the estimated real three

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TABLE 6 : NOMINAL INTEREST RATES (period averages)

	<u>Three month Interbank</u>	<u>Three month Eurodollar</u>	<u>Base Rate</u>	<u>Long Rate (20 year gilts)</u>	<u>Yield FBP</u>
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 Q1	14.3	15.1	14.1	14.7	0.4
Q2	13.4	15.1	12.8	13.7	0.3
July	12.4	14.2	12.3	13.2	0.8
Aug	11.2	11.7	11.3	12.1	1.9
Sept	11.0	12.0	10.5	11.4	1.4
Oct	9.8	10.4	9.8	10.5	0.7
Nov	9.4	9.8	9.2	10.6	1.2
Dec	10.5	9.5	10.1	11.4	0.9
1983 Jan	11.2	9.0	10.7	11.9	0.7
Feb	11.3	9.1	11.0	11.5	0.2
March	10.8	9.4	10.7	11.2	0.4
April	10.3	9.3	10.2	10.6	0.3
May	10.3	9.0	10.0	10.6	0.3
June	9.9	9.8	9.7	10.4	0.5
July	9.8	10.0	9.5	10.9	1.0
Aug	9.8	10.3	9.5	11.0	1.2
Sept	9.7	9.9	9.5	10.7	1.0
Oct 13	9.4	9.7	9.0	10.7	1.3

month interbank rate in Table 7. The level of real short rates in Table 7 may, however, be too low because the estimate of expected inflation (based on outside forecasts) is probably too high. In spite of this bias there has almost certainly been a fall in real pre-tax short rates during 1983 from the very high level at the beginning of the year.

14. There are a variety of ways in which to calculate the yield on indexed gilts. Table 7 shows estimates of the yield on the 1996 indexed gilt on the assumption that inflation is 7 per cent over the life of the gilt. These show that the yield rose significantly during the first half of 1983.

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TABLE 7: REAL INTEREST RATES (period average)

	<u>Expected inflation over 12 months*</u>	<u>Real 3 month Interbank Rate</u>	<u>Yield on 1996 indexed gilt 7% inflation assumption</u>
1981 Q1	10.7	2.6	2.1
Q2	10.0	2.6	2.1
Q3	10.3	3.9	3.1
Q4	10.1	5.5	3.2
1982 Q1	10.3	4.0	3.1
Q2	9.2	4.1	3.0
1982 July	8.2	4.2	3.2
Aug	8.1	2.9	2.9
Sept	7.7	3.0	2.9
Oct	7.5	2.3	2.7
Nov	5.4	3.9	2.7
Dec	5.9	4.6	2.8
1983 Jan	6.1	5.1	2.5
Feb	6.4	4.9	2.5
March	6.5	4.3	2.5
April	6.5	3.8	2.5
May	5.9	4.4	2.9
June	6.2	3.7	3.2
July	6.4	3.4	3.5
Aug	6.2	3.6	3.5
Sept	6.2	3.5	3.3
Oct 13	6.4	3.0	3.3

*Unweighted average of forecasts by Phillips & Drew, National Institute and the London Business School; the expected rate of inflation for a given month is the change in the price level between six months earlier and six months ahead. This is assumed to approximate roughly to average inflation expectations over the 3 months immediately ahead.

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15. Table 8 shows that the level of the effective exchange rate has continued to be higher than in the first quarter of the year. Much of the slight fall in the rate at the time of the recent cut in base rates has subsequently been made good.

TABLE 8 : EXCHANGE RATES (period averages)

	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 Q1	91.1	1.85	-0.8	4.3
Q2	90.3	1.78	-1.7	4.2
1982 July	91.2	1.72	-1.8	3.0
Aug	91.3	1.72	-0.5	2.4
Sept	91.7	1.72	-1.0	2.9
Oct	92.5	1.70	-0.6	2.6
Nov	89.3	1.63	-0.4	2.3
Dec	85.4	1.62	1.0	4.2
1983 Jan	82.0	1.57	0.1	4.5
Feb	80.8	1.53	2.2	5.8
March	79.1	1.49	1.4	5.8
April	82.1	1.53	1.0	5.3
May	85.0	1.58	1.3	5.3
June	85.2	1.55	0.1	4.5
July	84.7	1.53	-0.2	4.7
Aug	85.0	1.50	-0.5	4.4
Sept	84.7	1.50	-0.2	4.0
Oct 13	83.6	1.50	-0.3	3.6

*Between 3 month UK Interbank rate and 3 month Eurodollar rate and the 3 month Euro DM rate.

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HOUSING FINANCE AND ASSET PRICES

Mortgage lending

16. Building societies continued to attract large inflows of retail funds in August (Table 9). The net increase in shares and deposits was £902 million compared with £960 million in July and an average of £740 million in the six previous months when relative building society interest rates were lower. Wholesale money provided a further £196 million (net), down slightly on July. However, net new mortgage commitments, gross advances and net advances were all at their lowest levels for almost a year. On the face of it, this behaviour does not appear to square with reports of mortgage queues shortening, but it is possible that the demand for building society mortgages was reduced over the summer by the increase in mortgage rates, by increased bank mortgage lending, and by the effect of the queue itself in delaying transactions in housing claims and hence temporarily reducing the demand for loans. If this last factor is at all significant, there should be an increase in mortgage commitments fairly soon. There is some evidence from the weekly figures for the largest 17 societies that this began to occur in September.

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TABLE 9: BUILDING SOCIETY FINANCIAL FLOWS
(Calendar months and quarters,
seasonally adjusted)

	Liquidity ratio (end period)	Net increase in shares & deposits	Net inflows of whole- sale money (n.s.a.)	Net new commit- ments	Gross advances	Net advances
	%	£m	£m	£m	£m	£m
1982 Q1	19.3	2312	57	3278	2776	1395
Q2	19.5	2535	54	4092	3725	1988
Q3	19.7	2739	74	4249	3944	1996
Q4	19.7	2929	45	5254	4773	2741
1983 Q1	18.2	2274	58	5137	5216	3015
Q2	17.4	2066	365	4591	4834	2787
1982 October	19.8	1003	15	1678	1488	832
Nov	19.8	1089	23	1756	1583	908
Dec	19.7	837	7	1820	1702	1001
1983 Jan	19.3	719	21	1767	1716	955
Feb	18.8	736	10	1724	1708	1001
Mar	18.2	819	27	1646	1792	1059
Apr	17.9	682	25	1594	1620	938
May	17.5	630	78	1550	1649	956
June	17.4	754	262	1447	1565	893
July	17.7	960	200	1488	1529	853
Aug	17.8	902	196	1435	1480	795

17. The introduction from 1 September of a new 2-year term share by the top 5 societies offering a $1\frac{1}{2}$ percentage point premium above the ordinary share rate was quickly emulated by other societies and appears to have been highly successful. The figures for net inflows of retail money in September are likely to be significantly up on July and August. Net inflows of wholesale money are expected to be lower than the £196 million recorded in August, itself representing a decline on the two previous months. The liquidity ratio is likely to increase further from August's outturn of 17.8 per cent. The availability of time deposits from 1 October and the competition for retail deposits following the departure of the Abbey National from the building society cartel are likely to increase building societies' funds still further in the final quarter of 1983, and mortgage queues are likely to be eliminated by the end of the year.

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18. Table 10 confirms that the flow of bank lending for house purchase has not declined compared with the earlier months of the year despite some banks' statements to the contrary. The rate of growth of the banks' mortgage lending, whether measured over 6 or 12 months, has however continued to decline. The 6-month growth of building society lending continues to decline while the 12 months growth rate appears to have reached a peak at just over 20 per cent. The estimated growth of bank and building society mortgage lending combined has declined steadily, though slowly, over the last 5 or 6 months but remains well over 20 per cent.

TABLE 10 : NET LENDING FOR HOUSE PURCHASE
(£m., seasonally adjusted, calendar months)

	<u>Building Societies</u>	<u>Banks (Est)</u>	<u>Total</u>
August	650	487	1137
September	671	456	1127
October	838	357	1189
November	908	460	1368
December	1001	350	1351
1983			
January	955	296	1252
February	1001	314	1315
March	1059	323	1382
April	938	306	1244
May	956	348	1304
June	893	314	1207
July	853	299	1152
August	795	359	1154

Percentage change in stock of lending

	<u>Building Societies</u>		<u>Banks (excl. TSBs Estimated)</u>		<u>Total Banks and Building Societies</u>	
	12 months	6 months	12 months	6 months	12 months	6 months
1982 Dec	16.1	18.8	89.1	73.7	23.6	25.5
1983 Jan	17.1	19.8	83.4	63.7	24.2	25.5
Feb	18.2	21.0	77.1	55.1	24.8	25.6
Mar	19.1	22.3	70.0	48.8	25.2	26.1
April	19.6	22.3	65.4	45.6	25.3	25.7
May	19.8	22.1	61.2	40.9	25.2	25.0
June	20.0	21.3	55.2	38.6	24.8	24.0
July	20.2	20.6	50.0	37.5	24.3	23.2
August	20.2	19.4	46.0	37.3	23.9	22.2

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House prices and asset prices

19. Table 11 and Charts XI and XII give the latest available information on house price inflation. The only new information since the last monthly note is the third quarter Nationwide index, which shows an annual growth of 13 per cent, and the monthly DOE indices based on building society mortgage approval and completion data, which show 14.7 and 12.4 per cent respectively. Although these all confirm that there has been a slight upward shift in house price inflation in the third quarter, there is no evidence as yet of a continued acceleration of house prices.

20. There is no new information since the last monthly note on asset prices other than house prices (Chart XIII). The figures did not show any acceleration in asset prices in the second quarter of 1983.

TABLE 11 : HOUSE PRICES
(% change on a year earlier)

	<u>Based on mortgage approvals</u>	<u>Based on mortgage completions</u>	<u>Mix-adjusted (based on completions)</u>	<u>Nationwide (based on approvals)</u>
1982 Q1	-4.0	-4.9	0	2
Q2	-0.7	-3.0	1	3
Q3	4.0	0.5	2	8
Q4	12.2	6.8	6	
1983 Q1	13.0	11.3	11	9
Q2	12.8	10.4	9	11
				13
1982 October	9.9	3.1		
November	12.9	6.9		
December	14.2	10.4		
1983 January	13.8	9.6		
February	13.7	10.8		
March	12.4	11.8		
April	12.6	10.9		
May	12.4	9.5		
June	13.3	10.9		
July	15.5	11.7		
August	14.7	12.4		

CHART XI: QUARTERLY HOUSE PRICES

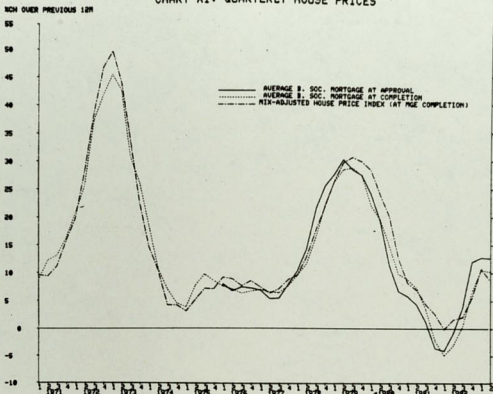
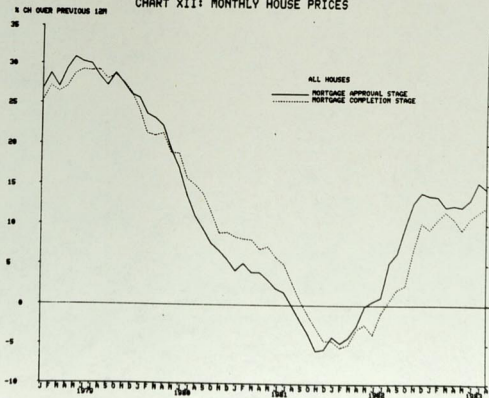
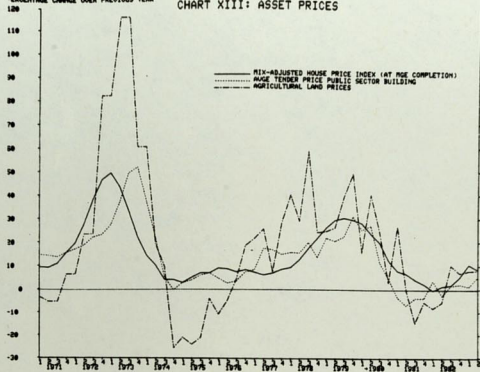


CHART XII: MONTHLY HOUSE PRICES



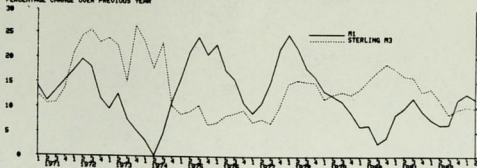
PERCENTAGE CHANGE OVER PREVIOUS YEAR

CHART XIII: ASSET PRICES



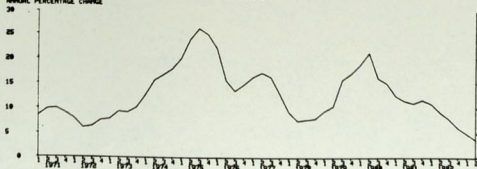
PERCENTAGE CHANGE OVER PREVIOUS YEAR

GROWTH RATE OF M1 AND STERLING M3



ANNUAL PERCENTAGE CHANGE

RETAIL PRICE INDEX



PERCENTAGE CHANGE OVER PREVIOUS YEAR

STOCK OF MORTGAGES OUTSTANDING

