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FROM: P N SEDGWICK
DATE: 13 JANUARY 1984

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Mr Plenderleith
Mr Allen
Mr Foot
} Bank of England

Professor A Walters No.10

INTERPRETATION OF MONETARY CONDITIONS : JANUARY

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

P.N.S

P N SEDGWICK

INTERPRETATION OF MONETARY CONDITIONS

(1) INTRODUCTION AND SUMMARY

In spite of both the relatively fast growth most of the nominal monetary aggregates in banking December it is now clear that monetary growth in the second half of 1983 was considerably lower than in the first. Comparison of the six month growth rates for June and December 1983 shows that only NIBM1 grew faster in the second half of the year. There are, however, still marked differences, that have persisted for some time, in the growth rates of the components of both interest bearing and non-interest bearing money. Notes and coin have grown significantly more slowly than NIB sight deposits, and six month growth rates of interest bearing deposits with banks have been lower than those for the other interest bearing components of PSL2 - mainly building society deposits and national savings - since February 1983. In contrast to the behaviour of broad money total bank lending to the NBPS was higher in the second half of 1983 than in the first half.

2. The deceleration of the nominal monetary aggregates together with the slight rise in inflation have implied a significant deceleration in real money.

3. Other indicators give somewhat conflicting messages on monetary conditions. Like most other currencies sterling has fallen against the dollar, though has remained reasonably stable against these other currencies. The fall in the effective exchange rate has therefore solely reflected the change in the £/$ exchange rate. Nominal sterling interest rates have remained remarkably stable in the light of the higher Eurodollar rates and the fall in the exchange rate. Estimated real short term interest rates and IG yields have remained reasonably high. Most measures of wage and price inflation continue to be stable, though producer input price inflation has risen. While building societies have continued to experience very large inflows of deposits and the increase in mortgage lending (from all sources) is still high there are signs that house price inflation could be about to fall. Taken together therefore the various indicators of monetary conditions do not suggest any immediate prospect of a sustained rise in inflation.

(2) THE BEHAVIOUR OF THE MONETARY AGGREGATES

4. Table 1 and Charts I and VI 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 ø

	Composite monetary indicator	MO	Non-interest bearing M1	M1	M2øø narrow definition (monetary sector)	M2øø broad definition	£M3	M3	PSL2
(a) financial years									
1980-81*	11.1	6.4	7.8	11.2			19.9	21.6	14.4
1981-82*	5.4	2.4	-0.3	3.9			12.0	15.3	10.8
1982-83*	10.9	5.7	11.3	14.9			11.5	12.8	11.4
(b) changes in 4 quarters to+									
1982(1)	7.7	3.1	3.5	8.0			13.2	15.5	11.7
(2)	6.0	2.7	1.3	6.4			12.0	13.1	10.3
(3)	6.3	2.0	3.9	8.8			10.3	10.3	8.5
(4)	8.9	4.3	8.8	11.5	6.4	4.3	10.4	12.0	8.8
1983(1)	10.5	5.7	10.9	13.3	8.0	6.3	10.2	13.3	10.2
(2)	11.3	7.3	10.5	15.9	8.9	8.0	11.7	13.1	11.7
(3)	10.4	6.0	9.1	12.4	7.9	7.9	9.6	11.2	11.8
(4)	11.2	5.9	9.2	12.4	7.5	8.0	10.8	12.7	13.1
(c) changes in 12 months to									
1983 Jan	7.6	2.0	6.0	10.7	4.3	3.5	9.9	12.4	8.7
Feb	9.2	3.8	8.9	11.8	6.3	14.9	10.2	13.1	9.5
March	10.5	5.7	10.9	13.3	8.0	6.3	10.2	13.3	10.1
April	11.3	5.7	11.3	14.9	8.5	7.1	11.5	12.8	11.3
May	11.6	6.2	11.5	16.0	9.1	7.9	11.0	12.2	11.5
June	11.3	7.3	10.5	15.9	8.9	8.0	11.7	13.1	11.9
July	11.9	6.0	10.7	15.0	5.5	7.9	12.4	13.1	13.0
Aug	11.5	6.4	10.3	13.9	5.6	8.0	11.4	12.3	13.0
Sept	10.4	6.0	9.1	12.4	7.9	7.9	9.6	11.2	12.0
Oct	10.8	6.3	9.4	13.7	7.9	7.9	10.6	11.9	12.2
Nov	10.1	6.9	8.2	11.9	6.6	7.7	10.0	11.3	12.1
Dec	11.2	5.9	9.2	12.4	7.5	8.0	10.8	12.7	13.1
(d) changes (at an annual rate) in 6 months to									
1983 Jan	9.4	5.4	8.4	16.2	3.6	4.4	11.3	12.2	9.6
Feb	10.9	6.0	10	13.6	6.4	6.8	10.5	13.3	11.5
March	11.5	5.8	9.9	13.9	8.4	8.5	9.9	14.7	12.3
April	13.2	5.2	10.1	15.8	9.7	9.6	12.5	14.8	14.9
May	12.1	5.3	7.7	13.8	9.3	9.4	11.2	12.4	15.9
June	13.1	8.0	8.0	16.8	11.6	10.8	13.7	13.2	17.4
July	14.5	8.5	13.2	13.8	13.7	11.6	13.6	14.0	16.6
Aug	12.0	6.8	10.5	14.3	10.8	9.2	12.4	11.3	14.7
Sept	9.3	6.3	8.3	11.0	7.5	7.2	9.2	7.8	11.6
Oct	8.5	7.4	8.6	11.8	5.9	6.2	8.7	9.0	9.5
Nov	8.3	8.6	8.7	9.9	3.9	5.9	8.8	10.2	9.1
Dec	9.4	3.9	10.5	8.2	3.5	5.3	7.9	12.0	9.0

(See page 3 for footnotes)

Footnotes to Table 1

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

ø 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.

øø 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.

TABLE 1A : GROWTH OF COMPONENTS OF PSL2 (%)

	Notes and coin	Non-interest bearing sight deposits with banks	Private sector interest bearing deposits with banks: Total	(of which included in M1)	All other components of PSL2
(a) Financial years					
1980-81	6.2	11.0	29.1	34.5	8.0
1981-82	3.5	-2.9	21.1	27.1	5.3
1982-83	7.2	14.0	10.9	26.9	11.7
(b) Changes in 4 quarters to					
1982 (1)	4.7	2.5	18.0	32.8	9.2
(2)	3.4	-0.1	17.5	33.5	7.5
(3)	3.5	4.2	12.8	28.4	6.4
(4)	4.8	11.4	10.0	20.9	7.6
1983 (1)	6.3	13.8	9.7	21.3	10.2
(2)	7.7	12.3	11.6	33.2	12.2
(3)	7.2	10.3	10.0	23.2	15.0
(4)	4.6	14.1	7.2	2.2	11.0
(c) Changes in 12 months to					
1983 Jan	3.9	7.3	10.6	26.7	8.1
Feb	5.8	10.9	10.1	21.5	9.3
Mar	6.3	13.8	9.7	21.3	10.3
Apr	7.2	14.0	10.9	26.9	11.8
May	7.3	14.2	11.2	31.1	11.9
June	7.7	12.3	11.6	33.2	12.8
July	7.3	12.9	12.2	28.9	14.8
Aug	6.3	12.8	11.6	25.2	15.8
Sept	7.2	10.3	10.0	23.2	15.4
Oct	7.5	10.5	11.7	27.9	15.4
Nov	7.5	8.7	10.8	23.2	16.3
Dec	6.7	10.7	11.7	22.3	16.7
(d) Changes (at an annual rate) in 6 months to					
1983 Jan	7.7	8.8	10.7	44.1	9.1
Feb	8.8	10.9	9.5	24.7	14.5
Mar	8.8	10.6	9.1	27.2	16.9
Apr	9.1	10.8	14.4	34.8	20.5
May	8.4	7.3	13.9	34.1	21.6
June	8.8	7.4	16.3	46.3	21.7
July	6.9	17.2	13.7	15.3	20.8
Aug	3.9	14.7	13.8	25.6	17.1
Sept	5.7	10.0	10.9	19.3	13.9
Oct	6.0	10.3	9.0	21.3	10.5
Nov	6.7	10.0	7.8	13.3	11.3
Dec	4.6	14.1	7.2	2.2	11.0

CHART I: ANNUAL GROWTH RATES OF NARROW MONEY

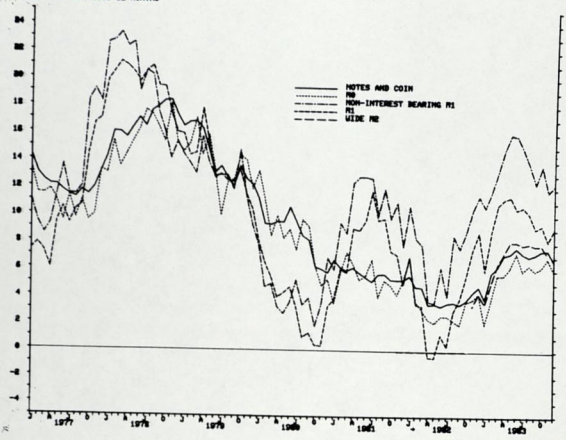
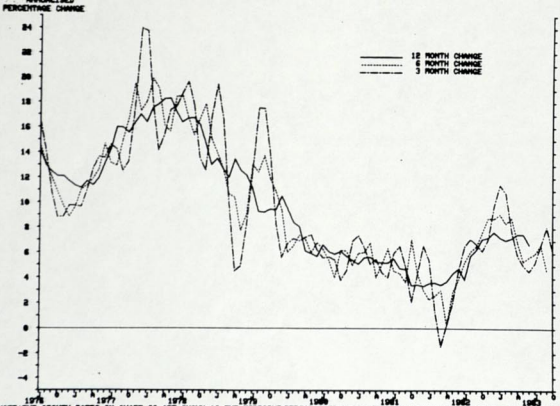


CHART II: GROWTH RATES OF NOTES AND COIN



NOTE:THE GROWTH RATES IN CHART II ARE SHOWN AS THE MIDPOINT PERIOD OVER WHICH THEY ARE MEASURED.THUS THE GROWTH FROM SEPT. 1981 TO SEPT. 1982 IS SHOWN AS MARCH 1982 AND THE SIX MONTH ANNUALISED GROWTH RATE FROM MARCH 1982 TO 1982 IS SHOWN AS JUNE 1982

CHART III: GROWTH RATES IN M0

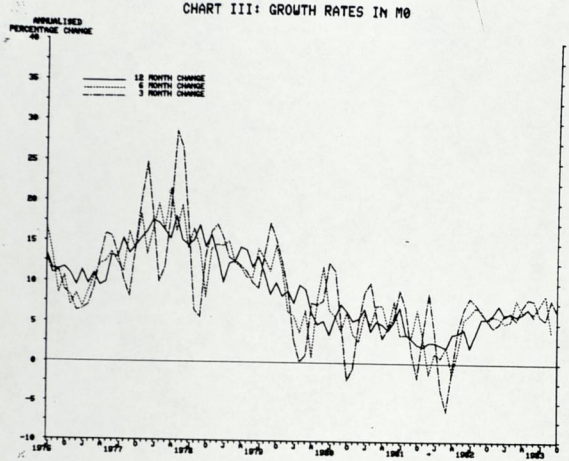
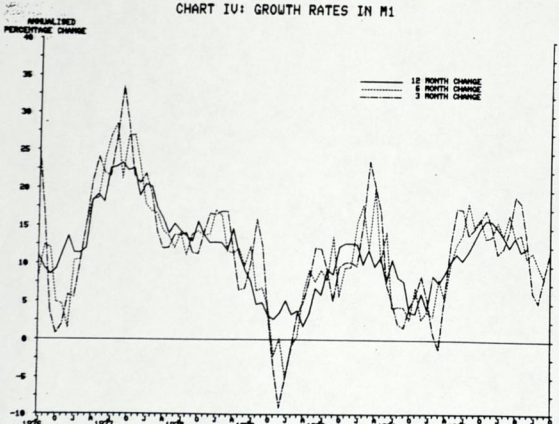


CHART IV: GROWTH RATES IN M1



NOTE: THE GROWTH RATES ARE SHOWN AS THE MIDPOINT OF THE PERIOD OVER WHICH THEY ARE MEASURED. THUS THE GROWTH FROM SEPT. 1981 TO SEPT. 1982 IS SHOWN AS MARCH 1982 AND THE SIX MONTH ANNUALISED GROWTH RATE FROM MARCH 1982 TO SEPT. 1982 IS SHOWN AS JUNE 1982

5. There has been a sharp fall since the middle of 1983 in the six month growth rates of most of the monetary aggregates. The fall has been least for NIBM1, M3 (which is influenced by the sharp increase in foreign currency deposits), and MO (though the growth of its principal constituent, notes and coin, has fallen rather more). Both the broad and narrow versions of M2 behaved in a similar way to MO and notes and coin.

6. The aggregates in Table 1 overlap to a considerable extent and some components of money are in a number of aggregates. (Notes and coin is in all the aggregates, while NIBM1 appears in all except MO.) Table 1A shows the separate components of the widest reported aggregate, PSL2. This shows clearly that within narrow, non-interest bearing money the six month growth rate of notes and coin has been lower than that for NIB sight deposits since the middle of 1983, while within interest bearing liquid assets the six month growth rate of deposits with banks has been much lower than that of the other interest bearing components of PSL2 since early in 1983. It is not easy to give precise explanations for these developments. Notes and coin are almost certainly less interest sensitive than NIB sight deposits, and in the light of the reduction in nominal interest rates during 1982 and 1983 this might account for some of the difference in growth rates. While financial innovation has probably reduced the demand for notes and coin more than for NIB sight deposits over the past decade taken as a whole it is not at all clear that this has been the case in the very recent past. Many of the recent innovations have enabled depositors to earn interest on transaction balances. The interpretation of the different growth rates for interest bearing deposits with banks and for the rest of interest bearing PSL2 is a little easier. For retail (though not for wholesale) deposits there is a very large interest rate differential for these two categories of liquid financial wealth. As building societies in particular offer more banking services there is less reason for persons to forego higher rates of interest. What is perhaps more puzzling is not that this switch out of interest bearing bank deposits has been taking place, but that it has taken as long as it has to occur on a significant scale.

7. Table 2 and Chartz VII & VIII show the latest data on the growth of real money. Charts IX-XII show the levels of real money and the real FT all share index. The six month growth rates of real money could be distorted by the seasonal adjustment of the RPI,

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

	RPI+	Composite monetary indicator	M0	Non interest bearing M1	M1	£M3	PSL2
(a) Financial years*							
1980-81	12.0	-0.9	-5.0	-2.7	0.3	7.9	2.5
1981-82	9.4	-3.6	-6.4	-8.9	-5.2	2.3	1.3
1982-83	4.0	7.0	1.7	7.1	10.5	7.2	7.0
(b) Changes on same quarter in previous year							
1982(1)	10.3	-2.4	-6.6	-6.2	-2.3	2.6	1.2
(2)	9.2	-2.9	-6.0	-7.2	1.4	2.6	1.0
(3)	7.3	-0.9	-4.9	-3.0	5.8	2.8	1.1
(4)	5.4	3.4	-1.0	3.4	5.8	4.7	3.3
1983(1)	4.6	5.6	1.0	6.0	8.3	5.3	4.9
(2)	3.7	7.4	3.5	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							
1983 Jan	4.9	2.6	-2.8	1.0	5.5	4.8	3.6
Feb	5.3	3.7	-1.5	3.4	6.2	4.6	4.0
Mar	4.6	5.6	1.0	6.0	8.3	5.3	5.3
April	4.0	7.1	1.6	7.1	10.5	7.2	7.1
May	3.7	7.6	2.4	7.5	11.9	7.0	7.6
June	3.7	7.4	3.5	6.6	11.8	7.7	8.0
July	4.2	7.4	1.7	6.3	10.3	7.9	8.5
Aug	4.6	6.6	1.7	5.4	8.9	6.5	8.1
Sept	5.1	5.0	0.8	3.8	6.9	4.2	6.5
Oct	5.0	5.4	1.2	4.2	8.3	5.3	6.9
Nov	4.8	5.1	2.0	3.2	6.7	4.9	7.4
Dec	(5.3)	5.7	0.6	3.7	6.8	5.3	7.6
(d) Changes (at an annual rate) in 6 months to							
1983 Jan	3.8	5.4	1.6	4.4	12.0	7.2	5.6
Feb	3.5	7.2	2.4	6.4	9.7	6.7	7.7
Mar	3.5	7.7	2.2	6.2	10.0	6.2	8.5
April	2.8	10.1	2.3	7.1	12.6	9.4	11.8
May	2.2	9.6	3.0	5.3	11.3	8.7	13.4
June	3.0	9.8	4.8	4.8	13.3	10.4	13.9
July	4.7	9.4	1.8	8.2	8.7	8.5	11.4
Aug	5.6	6.0	1.1	4.6	8.2	6.4	8.5
Sept	6.7	2.5	-0.4	1.5	4.1	2.3	4.6
Oct	7.2	1.3	0.2	1.4	4.3	1.5	2.2
Nov	7.5	0.7	1.0	1.1	2.2	1.2	1.7
Dec	(7.6)	1.7	-3.4	2.7	0.6	0.3	1.6

+ 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).

CHART V: GROWTH RATES IN STERLING M3

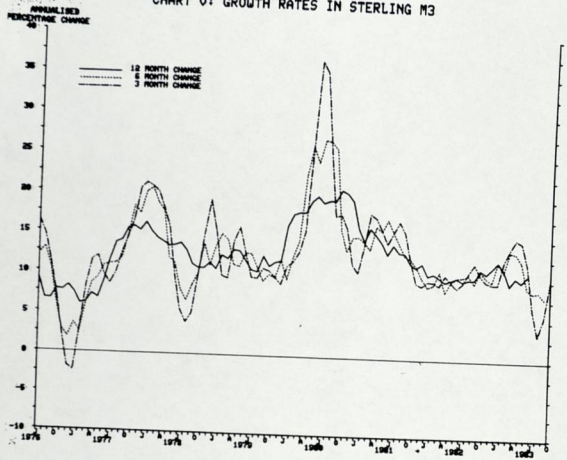
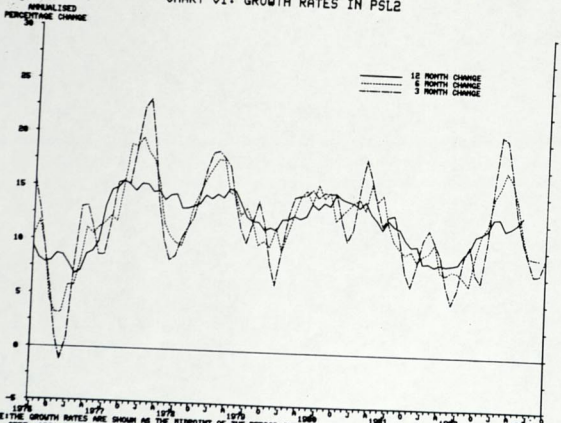


CHART VI: GROWTH RATES IN PSL2



NOTE: THE GROWTH RATES ARE SHOWN AS THE MIDPOINT OF THE PERIOD OVER WHICH THEY ARE MEASURED. THUS THE GROWTH FROM SEPT. 1981 TO SEPT. 1982 IS SHOWN AS MARCH 1982 AND THE SIX MONTH ANNUALISED GROWTH RATE FROM MARCH 1982 TO SEPT. 1982 IS SHOWN AS JUNE 1982

CHART VII: GROWTH RATES IN REAL M1

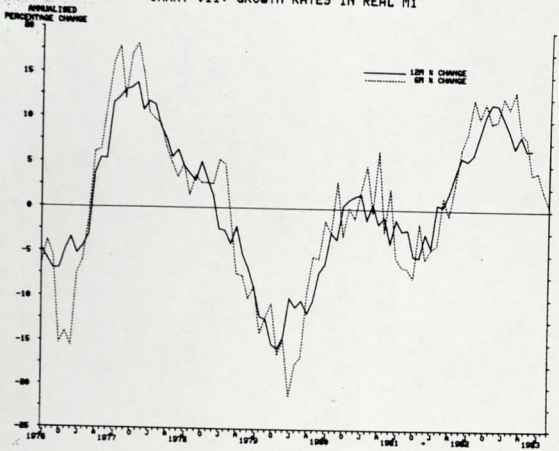
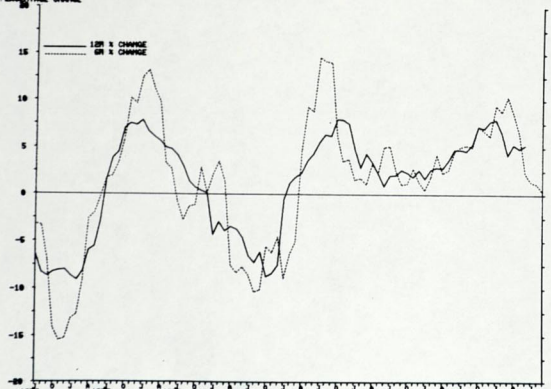


CHART VIII: GROWTH RATES IN REAL STERLING M3



NOTE:THE GROWTH RATE ARE SHOWN AS THE MIDPOINT OF THE PERIOD OVER WHICH THEY ARE MEASURED.THUS THE GROWTH FROM SEPT. 1981 TO SEPT. 1982 IS SHOWN AS MARCH 1982 AND THE SIX MONTH ANNUALISED GROWTH RATE FROM MARCH 1982 TO SEPT. 1982 IS SHOWN AS JUNE 1982

CHART IX: LEVEL OF REAL M1

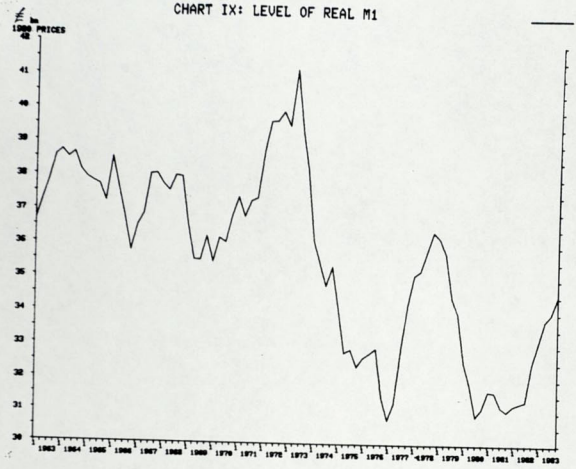
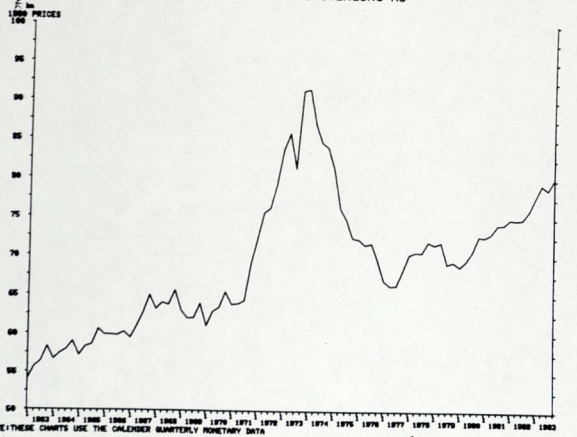
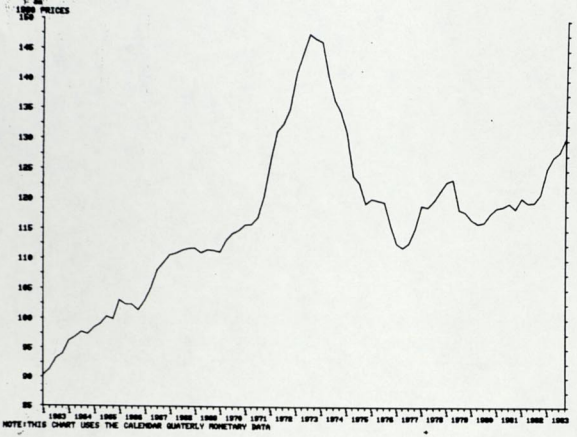


CHART X: LEVEL OF REAL STERLING M3



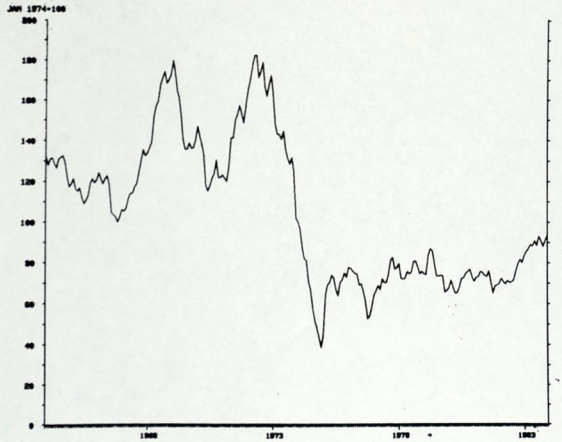
NOTE:THESE CHARTS USE THE CALENDER QUARTERLY MONETARY DATA

CHART XI: LEVEL OF REAL PSL2



NOTE:THIS CHART USES THE CALENDAR QUARTERLY MONETARY DATA

CHART XII: REAL FT ALL SHARE INDEX



which may well have "overcorrected" the six month changes in prices. If this is the case the deceleration of real money during 1983 was less than Table II shows, though still on a significant scale.

8. Table 3 shows growth rates for total bank lending to the non-bank private sector. While the twelve month growth rate fell rapidly during 1983, the six month rate of growth appears to have passed its trough, and has been increasing. There is no clear evidence on the sectoral composition of total lending in recent months, and in particular on lending to industrial and commercial companies.

TABLE 3 : TOTAL BANK LENDING TO THE NON BANK PRIVATE SECTOR (1)

	Percentage change in stock of lending over	
	12 months	6 months (at annual rate)
1983 January	24.8	21.8
February	23.0	20.6
March	20.7	17.5
April	18.2	14.0
May	18.0	12.5
June	18.5	13.8
July	14.5	11.4
August	15.3	11.5
September	13.9	12.3
October	12.8	14.3
November	12.9	15.3
December	15.0	15.4

(1) Lending by the monetary sector, banking months, seasonally adjusted. The quarterly figures are for the final banking month of each quarter.

(3) OTHER INDICATORS OF MONETARY CONDITIONS

9. Table 4 shows the growth of nominal and real GDP. The growth rate of nominal GDP rose slightly in the first quarter of 1983, and appears to have been a little lower in the second and third quarters. The twelve month growth rate of real GDP appears to have been in the range 2-3¼ per cent in 1983.

TABLE 4 : GROSS DOMESTIC PRODUCT (at market prices), CSO's average estimate

	Money GDP		Real GDP
	% change on a year earlier	% change over six months (annual rate)	% change on a year earlier
1982 1	9.8	8.6	1.5
2	10.3	8.2	2.5
3	8.9	9.2	1.8
4	8.2	8.1	1.1
1981 1	9.3	9.5	3.4
2	7.4	7.4	2.3
3	8.5	7.0	2.9
4*			(2-3)

*CSO projection

10. Table 5 shows the most recent data for the growth of retail prices, wholesale prices, and average earnings. While retail price inflation fell below 5 per cent again in December it is expected to be slightly above that level in subsequent months, close to the rate of producer output price inflation. The six month growth of producer input prices has risen, but much of this is the result of a seasonal increase in costs for industrial electricity. The growth of underlying average earnings, which is currently being raised by cyclical effects, remains just under eight per cent. The growth of wage costs remains markedly less. Taken as a whole the information on prices and earnings suggests a continuation of inflation at close to its present rate in the near future.

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

	Retail Prices	Producer Price Index (All manufactured products)		Underlying Average Earnings
		Output prices (home sales)	Input prices	
1982 1	10.4	8.7	11.8(11.5)*	10.8
2	9.2	7.2	5.7(-2.6)*	10.1
3	8.0	7.4	4.8(-4.4)*	8.9
4	6.2	6.5	6.3	8.4
1983 Jan	4.9	5.6	5.2(14.9)ø	8.0
Feb	5.3	5.2	5.7(18.8)ø	8.0
Mar	4.6	5.1	5.8(15.6)ø	7.8
April	4.0	5.4	5.9(11.7)ø	7.5
May	3.7	5.6	6.8(8.2)ø	7.5
June	3.7	6.0	7.3(2.0)ø	7.5
July	4.2	5.5	6.4(-1.4)ø	7.5
Aug	4.6	5.3	8.3(-1.3)ø	7.8
Sept	5.1	5.4	9.6(3.7)ø	7.8
Oct	5.0	5.5	8.2(4.9)ø	7.8
Nov	4.8	5.7	7.2(6.2)ø	7.8**
Dec	(5.3)	5.5	7.2(12.8)ø	7.8**

* Increase over two quarters before at an annual rate

ø Increase over past six months (at an annual rate)

** Department of Employment estimate.

11. Despite higher $ short term interest rates and the fall in the £/$ exchange rate short term sterling interest rates have so far been remarkably stable. Sterling long rates, and the yield gap, have edged down in recent months. Estimates of real short term interest

TABLE 6 : NOMINAL INTEREST RATES
(period averages for calendar months and quarters)

	Three month Interbank	Three month Eurodollar	Base Rate	Long Rate (20 year gilts)	Yield Gap
1982 1	14.3	15.1	14.1	14.7	0.4
2	13.4	15.1	12.8	13.7	0.3
3	11.5	12.6	11.4	12.2	1.3
4	9.9	9.9	9.7	10.8	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	9.4	9.6	9.1	10.6	1.2
Nov	9.3	9.8	9.0	10.3	1.0
Dec	9.4	10.2	9.0	10.3	0.9
1984 Jan 12	9.6	9.9	9.0	10.3	0.7

rates and of IG yields (Table 7) show a similar stability for recent months. It is notable that while estimated real short term interest rates came down during 1983 the reverse was the case with IG yields which - depending both on the particular stock and the technique for estimating the yield - rose by a percentage point or more during the year.

TABLE 7 : REAL INTEREST RATES

		Expected inflation over 12 months*	Real 3 month Interbank Rate**	Yield on 1988 indexed gilt***		Yield on 1996 indexed gilt***	
				Inflation assumption		Inflation assumption	
				5%	7%	5%	7%
1982	1	10.3	4.0	3.0	2.8	3.0	2.9
	2	9.2	4.1	3.5	3.2	3.4	3.3
	3	8.0	3.4	3.6	3.3	3.3	3.2
	4	6.3	2.7	2.7	2.5	2.9	2.8
1983	Jan	6.1	5.1	2.4	2.1	2.6	2.5
	Feb	6.4	4.9	2.7	2.4	2.7	2.6
	March	6.5	4.3	2.9	2.6	2.6	2.5
	April	6.5	3.8	3.2	2.9	2.9	2.8
	May	5.9	4.4	3.8	3.5	3.3	3.2
	June	6.2	3.7	4.2	3.9	3.5	3.4
	July	6.4	3.4	4.6	4.3	3.8	3.7
	Aug	6.2	3.6	4.2	3.9	3.6	3.5
	Sept	6.2	3.5	3.8	3.5	3.4	3.3
	Oct	6.4	3.0	3.6	3.4	3.4	3.3
	Nov	5.8	3.5	3.9	3.7	3.5	3.4
	Dec	5.8	3.6	3.7	3.4	3.5	3.4
1984	Jan 12	6.1	3.5	3.8	3.5	3.5	3.5

*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.

** average of working days for the month or quarter.

***Last working day for each month with first of month settlement assumed, or, for quarters, the average of the last working days of the three months.

12. Table 8 shows the extent of the fall in the effective exchange rate in recent months. This has occurred while the £/DM rate has been approximately constant since mid-1983, and reflects primarily the fall of sterling - and most other currencies - against the dollar.

TABLE 8 : EXCHANGE RATES (period averages)

	Effective rate	$/£ Rate	DM/£ Rate	uncovered differential*	
				£/$	£/DM
1982 1	91.1	1.85	4.34	-0.8	4.3
2	90.3	1.78	4.23	-1.7	4.2
3	91.4	1.72	4.28	-1.1	2.8
4	89.1	1.65	4.14	0.0	3.0
1983 Jan	82.0	1.57	3.76	0.1	4.5
Feb	80.8	1.53	3.72	2.2	5.8
March	79.1	1.49	3.59	1.4	5.8
April	82.1	1.53	3.76	1.0	5.3
May	85.0	1.58	3.88	1.3	5.3
June	85.2	1.55	3.95	0.1	4.5
July	84.7	1.53	3.95	-0.2	4.7
Aug	85.0	1.50	4.02	-0.5	4.4
Sept	84.7	1.50	4.00	-0.2	4.0
Oct	83.5	1.50	3.90	-0.6	3.6
Nov	83.6	1.48	3.96	-0.6	3.3
Dec	82.5	1.44	3.94	-0.8	3.2
1984 Jan 12	81.8	1.40	3.97	-0.3	3.4

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

HOUSING FINANCE AND ASSET PRICES

13. Building society inflows continued to increase in calendar November, and preliminary indications based on unadjusted weekly figures for the top 17 societies indicate that the December figures were exceptionally high for what is seasonally a poor month. Some of this money may have been switched from offshore roll-up funds before the end of the year, but the extent of this switching is unknown. The building societies remain highly competitive across the range of their accounts. Two of the top societies have altered the terms on their 2-year term shares marginally rather than withdrawing them completely as had previously been expected and the accounts are likely to continue to attract significant inflows. Net inflows of wholesale money, mainly in the form of time deposits, also remained high at £250 million in November.

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

	Liquidity ratio (end period)	Net increase in shares & deposits	Net inflows of wholesale money (n.s.a.)	Net new commitments	Gross advances	Net advances
	%	£m	£m	£m	£m	£m
1982 1	19.3	771	19	1087	942	467
2	19.5	845	18	1365	1254	665
3	19.7	913	25	1418	1325	668
4	19.8	976	15	1763	1596	916
1982	19.7	837	7	1850	1691	1002
1983 Jan	19.3	724	21	1753	1705	948
Feb	18.8	740	10	1712	1708	994
Mar	18.2	823	27	1649	1785	1051
Apr	18.0	686	25	1583	1614	930
May	17.6	634	78	1534	1646	948
June	17.4	759	262	1449	1563	885
July	17.7	965	200	1462	1529	846
Aug	17.8	906	196	1436	1478	794
Sept	17.8	1019	90	1621	1507	788
Oct	18.8	1096	318	1680	1512	818
Nov	18.8	1119	249	1780	1590	989

14. Mortgage commitments continued to rise in November to £1780 million and actual advances began to respond to the earlier rise in commitments with a small increase to £1590 million. This series can be expected to continue to rise over the next few months. The societies report no shortage of mortgage demand at current interest rates and the flow of commitments and advances may well stabilise at around £1700-£1800 million a month in the first few months of 1984. The societies can easily finance this level of lending at current rates of inflow, but it is possible that they are reaching some kind of equilibrium in that the liquidity ratio will soon flatten off. If so, the chances of a cut in building society interest rates without a further cut in the general level of interest rates look increasingly remote.

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

	Building Societies	Banks (Est)	Total Building Societies & banks
1982 Dec	1002	360	1362
1983 Jan	948	275	1223
Feb	994	289	1283
Mar	1051	300	1351
Apr	930	308	1238
May	948	346	1294
June	885	316	1201
July	846	344	1190
Aug	794	385	1179
Sept	788	306	1094
Oct	818	308	1126
Nov	989	320	1309

Percentage change in stock of lending

	12 months	6 months	12 months	6 months	12 months	6 months
1982 Dec	16.6	18.9	89.0	76.7	24.1	26.0
1983 Jan	17.5	19.8	83.6	65.1	24.7	25.6
Feb	18.5	20.9	77.5	55.0	25.1	25.6
Mar	19.3	22.2	70.7	47.6	25.4	25.8
Apr	19.7	22.2	66.1	44.4	25.4	25.5
May	20.0	22.0	61.7	39.5	25.3	24.7
June	20.0	21.1	55.7	37.1	24.8	23.6
July	20.1	20.4	50.7	37.6	24.3	23.1
Aug	20.1	19.3	46.5	33.5	23.9	22.3
Sept	20.1	18.0	42.5	37.6	23.4	21.1
Oct	19.7	17.3	40.4	36.5	22.3	20.3
Nov	19.6	17.2	37.2	34.9	22.3	20.0

15. Bank lending for house purchase continued at the recent rate of just over £300 million a month in November. The increases in the mortgage rates for new borrowers announced by Lloyds and Midland suggest a further withdrawal by these banks from the mortgage market. However, Lloyds had not been making new loans at all for some months previously, and it remains to be seen whether the new rates will significantly affect the overall level of bank mortgage lending given that much of the recent growth has been due to the non-clearers. The 6 and 12 month rates of growth of the stocks of both bank and building society mortgage lending however continued to decline.

16. The growth in house prices, based on the monthly building society mortgage approvals and completions data, showed a further fall in November to 10.2 and 12.1 per cent respectively. The Nationwide index for the fourth quarter of 1983 showed a 12 per cent increase over a year earlier, confirming the evidence from the monthly figures of a slight deceleration in house prices towards the end of 1983. Chart XVI shows that the ratios of house prices both to average wages and salaries and to the consumers' expenditure deflator have risen since the troughs in 1981. The ratio to the consumers' expenditure deflator has risen significantly, and at current rates of consumer and house prices inflation could reach the 1979 peak in a year or so (though it would still be well below the 1973 peak). In contrast the ratio to average wages and salaries has risen by a relatively small amount from its trough and is still well below the 1979 peak.

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

	Based on mortgage approvals	Based on mortgage completions	Mix-adjusted (based on completions)	Nationwide (based on approvals
1982 Q1	-4.0	-4.9	0	2
Q2	-0.7	-3.0	1	2
Q3	4.0	0.5	2	3
Q4	12.2	6.8	6	8
1983 Q1	13.0	11.3	11	9
Q2	12.8	10.4	9	11
Q3	14.6	12.3	10	13
1983 Jan	13.8	9.6		
Feb	13.7	10.8		
Mar	12.4	11.8		
Apr	12.6	10.9		
May	12.4	9.5		
June	13.3	10.9		
July	15.5	11.7		
Aug	14.7	12.4		
Sept	13.8	12.8		
Oct	10.8	12.7		
Nov	10.2	12.1		

17. No new figures for asset prices have become available in the last month, all the latest data referring to the third quarter of 1983. There is no evidence of worrying trends in any of the series shown in Chart XV.

CHART XIII : QUARTERLY HOUSE PRICES

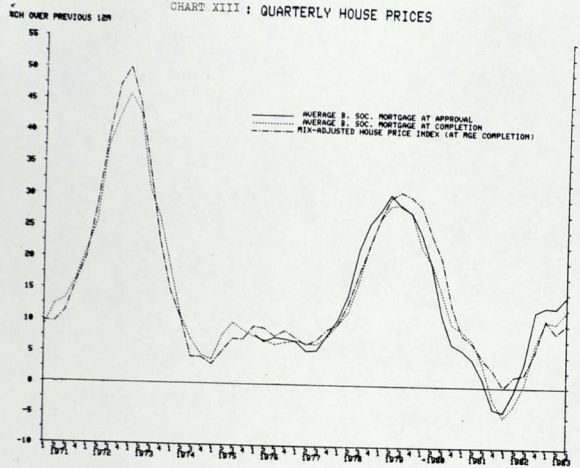


CHART XIV: MONTHLY HOUSE PRICES

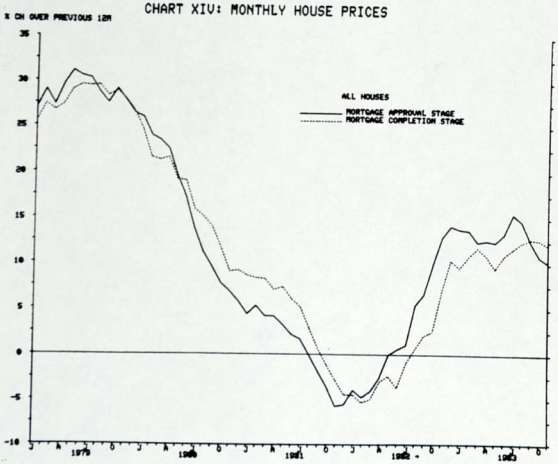
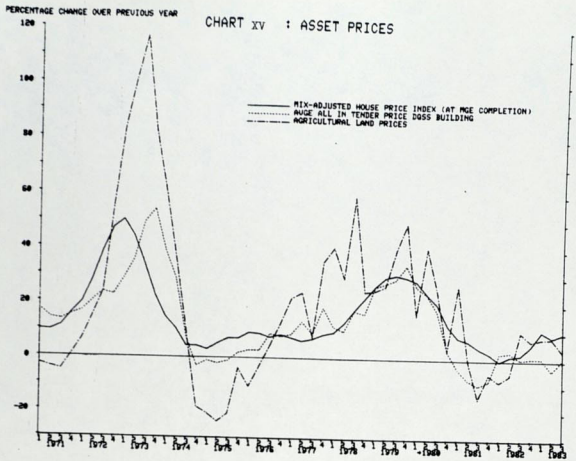
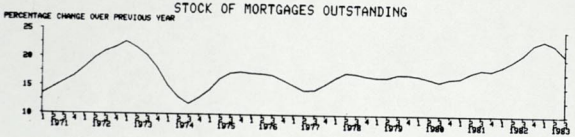


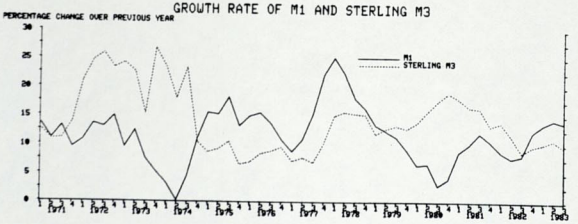
CHART XV : ASSET PRICES



STOCK OF MORTGAGES OUTSTANDING



GROWTH RATE OF M1 AND STERLING M3



RETAIL PRICE INDEX

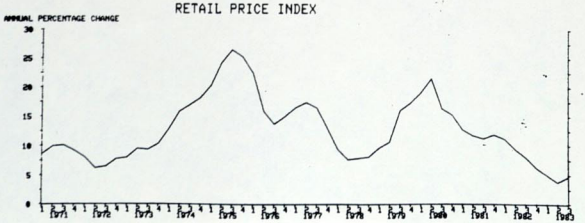


CHART XVI: INDICES OF RELATIVE HOUSE PRICES