

SECRET AND PERSONAL

FROM: S BROOKS/M H WHEATLEY
DATE: 16 September 1988cc: Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Scholar
Mr Peretz
Mr Sedgwick
Mr Gieve
Mr Grice
Miss O'Mara
Ms Ryding OR
Mr Cropper
Mr Gray (No10 personal)

1. MR PERETZ
2. CHANCELLOR

The fall in new lending, which is a fall in lending to companies, not yet to consumers, may be erratic. Nevertheless the broad money/lending figures should help keep the markets calm - at a time of year when they are prone to over excitement. The M0 figure is already in the market.

MLP 16/9

PROVISIONAL MONEY FIGURES - AUGUST

(All figures are unadjusted unless specified otherwise).

The provisional money supply figures for August will be published by the Bank at 11.30am on Tuesday 20 September. As usual M3, M4, and M5 broad money figures are subject to revision. In order to let you have this note early we have had to change the normal format slightly. Detailed press briefing will follow on Monday. The attached table summarises the figures.

MO

2. The seasonally adjusted twelve month rate of increase of MO in August was 7.6 per cent (unadjusted 7.8 per cent), a good deal higher than in July (6.9 per cent) and in earlier months this year. Notes and coin increased by 7.9 per cent (seasonally adjusted) in the year to August, while bankers' operational balances at the Bank of England fell and thus held down the growth of MO as a whole. MO growth in August was well outside the 1-5 per cent range published in the FSBR, and it now seems unlikely that MO will regain its target range before the end of the financial year.

Prime Minister 11
(A-E)
No slowdown yet in lending to the personal sector.

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Broad Money

3. Broad money growth slackened last month. The twelve month rate of growth of M4 - the aggregate we emphasise - fell slightly from 17.5 per cent in July to 17.3 per cent in August. M3 and M5 growth also slowed in August (see table attached). On a seasonally adjusted basis Building Society retail deposits increased by £2.3 billion (£1.6 billion in July) and retail bank deposits by £1.1 billion (£1.5 billion in July). Total retail deposits increased by 1.5 per cent and were 14.5 per cent higher than a year earlier. The growth of Building Society deposits, which slightly improved their share of total retail deposits, was a little surprising in view of their relatively poor interest rate competitiveness compared with the banks since early July. The twelve month rate of growth of retail deposits was much the same in August as in July. Wholesale deposits, which have increased by over 25 per cent overall since August 1987, grew by only 0.7 per cent (seasonally adjusted) last month after exceptionally rapid growth in July.

4. Within the M4 counterparts there was an over-fund of £0.7 billion (taking the cumulative over-fund in the financial year 1988/89 to £1.3 billion). Bank and Building Society lending fell back to £4.5 billion in August from £9.1 billion in July. Some of the fall probably reflected seasonal factors: after seasonal adjustment lending declined to £5.9 billion from £9.2 billion in July.

5. Building Society lending remained high at £2½ billion seasonally adjusted, much the same as in the previous three months, reflecting in part commitments entered into before the 1 August deadline for multiple mortgage relief. Decline in total lending reflected entirely a decline in bank lending from £6½ billion (seasonally adjusted) in July to just under £3½ billion in August. We have not yet seen the full CLSB figures, but the Bank tell us that they will show a particularly low figure for lending to industrial and financial companies. While it seems likely that

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Rover used its £0.5 billion CG grant to repay borrowing and that lending to motor dealers in July, in advance of the new registration, unwound, these special factors can only account for a small part of the fall. CLSB lending to persons remained buoyant. Not surprisingly, lending for house purchase remained high, exceeding £1 billion for the second month running. Lending for consumption was also reportedly buoyant.

6. The pattern of lending in August was therefore unfavourable. We cannot as yet explain the low lending to companies which we think likely to have been erratic.

Presentation

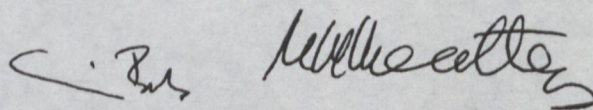
7. The MO figures are the bad news, but they have been widely and accurately forecast and should not surprise the markets. Indeed press speculation in recent days has been on the September weekly figures and the possible effects on MO of the postal dispute (see our separate note of today). The continuation of high and in some cases accelerating six- and twelve-month growth rates in the broader aggregates and in lending will also provide material for those looking at these figures with an eye for bad news. The good news is clearly slower in the month on month growth rates in the broader aggregates and in lending, which are considerably lower than the markets are expecting, only moderated by the fact that Building Society lending shows virtually no fall from July, and that the CLSB figures will show continued buoyant consumer borrowing.

8. Arguments for caution in presentation are: that some elements in lending appear to have been erratically low (see paragraph 5 above); the effect of over-funding during the month on the broader aggregates; and that previous months this year (February and May) have shown falls in one month growth rates which were followed by further accelerations in succeeding months. On the other hand one can draw some presentational advantage from our earlier statements that we were not expecting to see much effect from the interest rate increases yet.

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9. We suggest a line to take as follows:

"Still early days for rise in interest rates to be having much impact on these figures. Continued high growth in MO confirms the judgement of monetary conditions which led authorities to the 1½ per cent increase in interest rates during August. Nonetheless the lower month on month increases in the broader aggregates and in lending are moderately encouraging. Nothing in the figures to suggest any reassessment of the earlier judgement is needed".



S BROOKS/M H WHEATLEY

cc: Bank of England
Mr George
Mr Thorp (Financial Statistics Div.)

SUMMARY TABLE

Monetary aggregates for August

	Annual growth rate	Previous month	percentage changes		
			Six month growth (annualised)	Monthly growth rate	Previous month
M0	7.8	7.0		0.8	2.2
	7.6	6.9	s.a.	10.8	0.9
M3	20.1	20.6		0.8	2.8
			s.a.	24.9	2.7
M4	17.3	17.5		0.7	2.4
			s.a.	20.5	2.2
M5	16.4	16.6		0.8	2.4
			s.a.	19.3	2.1

Lending

	£ billion			per cent growth rates	
	This Month	Last Month	Average of last 6 months	Annual (monthly) (unadjusted)	Previous Month Annual (monthly) (unadjusted)
Banks	1.7	6.2	4.7	27.5	27.4
	s.a. 3.2	6.4	5.0	(1.3)	(2.7)
Banks and Building Societies	4.5	9.1	7.2	23.8	23.3
	s.a. 5.9	9.2	7.3	(1.2)	(2.4)
Building Societies	2.7	2.7	2.5	18.1 (1.8)	17.2 (1.9)

s.a. - seasonally adjusted

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pl cc Mr Gray ^A
(no 10) personal.

FROM: G J J YOUNG
DATE: 15 September 1988

and
return

- 1. MR GRICE
- 2. ECONOMIC SECRETARY

- cc PS/Chancellor
- Sir P Middleton
- Sir T Burns
- Mr Scholar
- Mr Sedgwick
- Mr Peretz
- Mrs Lomax
- Miss O'Mara
- Mr Brooks
- Mr Bush
- Ms Ryding o/r
- Mr Hurst

hp

File: MAMC C9

At your value, there is no sign
of any slowdown in these figures.
But the Bank feel they may be
distorted by the postal dispute.

JWG

15.9.88

M0 FIGURES

The latest weekly figures, covering the second week in September are attached. They show that the 12 month rate of growth of M0 in the latest 4 week period was 7.5 per cent (7.5 per cent not seasonally adjusted). The 12 month rate of increase of notes and coin over the same period was 8.2 per cent (8.3 per cent nsa).

2. The 6 month rate of change of notes and coin was 12.1 per cent in the latest 4 week period, compared to the 10.5 per cent figure recorded in August.

G. J. Young

GARRY YOUNG

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M0 : THE WIDE MONETARY BASE

Monthly data	Level £ million (Change in brackets)						Percentage change on previous month		6 month % growth annualised		Percentage change on previous year				
	Notes and Coin (nsa) (sa)		Bankers' Deposits	M0 (nsa)	M0 (sa)	Notes(sa) and Coin	M0 (sa)	Notes & Coin (sa)	M0 (sa)	Notes and Coin (nsa) (sa)		M0 (nsa)	M0 (sa)		
1988 January	15458	15620	(-41)	181	15638	15801	(-45)	-0.3	-0.3	6.1	5.3	4.7	4.5	4.8	4.6
February	15353	15659	(39)	124	15477	15783	(-18)	0.2	-0.1	5.3	4.5	5.7	5.7	5.3	4.6
March	15588	15753	(94)	162	15750	15916	(133)	0.6	0.8	5.0	4.6	6.9	6.4	6.4	5.3
April	15797	15826	(73)	229	16026	16055	(139)	0.5	0.9	4.8	5.1	5.8	6.1	5.9	5.8
May	15870	15954	(128)	178	16048	16132	(77)	0.8	0.5	5.6	5.5	6.0	6.5	5.7	6.2
June	16073	16143	(189)	174	16247	16317	(185)	1.2	1.1	6.3	6.0	7.5	7.1	7.7	7.3
July	16411	16271	(128)	188	16599	16459	(142)	0.8	0.9	8.5	8.5	7.5	7.3	7.0	6.9
August	16576	16461	(190)	156	16732	16617	(158)	1.2	1.0	10.5	10.8	8.1	7.9	7.8	7.6
September(2/4) @	16664	16707	(246)	150	16814	16857	(240)	1.5	1.4	12.5	12.2	8.6	8.7	8.2	8.3
Latest 4 weeks @	16680	16625	(244)	125	16805	16750	(160)	1.5	1.0	12.1	11.6	8.3	8.2	7.5	7.5
Weekly data	Level £ million (Change in brackets)						Percentage change on previous week								
	Notes(sa) and Coin		Bankers' Deposits	M0 (sa)		M0 (sa)									
August															
3rd	16376	(73)	217	16593	(31)	0.2									
10th	16415	(39)	187	16602	(9)	0.1									
17th	16428	(13)	176	16604	(2)	0.0									
24th	16487	(59)	78	16565	(-39)	-0.2									
31st	16597	(110)	122	16719	(154)	0.9									
September															
7th	16662	(65)	153	16815	(96)	0.6									
14th	16752	(90)	147	16899	(84)	0.5									

@ Weekly data for the current month so far include estimates for the unbacked note issue. The latest week also includes an estimate for coin. The changes for the current month so far use as a base the previous full month and the full month a year ago.