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PART C

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PO -CH /NL/0175

PART C

Chancellor's (Lawson) Papers:

MONTHLY MONETARY
ASSESSMENTS

Disposal Directions: 25 Years

6/9/95.

PO -CH /NL/0175
PART C

SECRET AND PERSONAL
UNTIL 11.30 AM ON MONDAY 30 NOVEMBER

PMP

FROM: N I HOLGATE
DATE: 26 NOVEMBER 1987

MR CASSELL

cc: PPS
PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Sir G Littler
Sir T Burns
Mr R I G Allen
Mr Peretz
Mr Grice
Miss O'Mara
Mr Pickford
Mr Pike
Mrs Ryding
Ms Bronk
Mr Cropper

FULL MONEY FIGURES - OCTOBER

I attach the Bank's draft press release on the full money figures which will be published at 11.30 am on Monday 30 November.

2. Annual growth rates for the monetary aggregates are the same as those published on 19 November. One month growth rates for M3, M4 (unadjusted) and M5 (seasonally adjusted) are 0.1 per cent higher in October than first announced because of a switch in the figures for overseas sterling deposits between September and October (and the one-month figures for September are correspondingly lower).

3. The PSBR is only £15 million different from the figure under-lying the rounded number used on 19 November (which should be very close to that used by the CSO). And there has been a small shift in the funding figures of £0.1 billion between the overseas sector and the non-bank private sector.

4. None of these amendments is likely to cause press comment. I suggest a new line on the prospects for a G7 meeting at defensive (iii) of the press briefing (attached) which draws on the Chancellor's speech to the American Chamber of Commerce on 24 November. Otherwise the briefing is very similar to that circulated on 19 November.

5. I would be grateful for comments on the Bank's draft press release by noon on Friday 27 November and any comments on the press briefing by close that day.

N I Holgate

N I HOLGATE

SECRET AND PERSONAL
UNTIL 11.30 AM ON MONDAY 30 NOVEMBER 1987

MONEY SUPPLY IN OCTOBER: PRESS BRIEFING

A. POINT TO MAKE IF ASKED - as Chancellor has indicated (factual (iv) (e)-(h)) was clearly right in market circumstances of late October/early November both to reduce interest rates and to allow some expansion in liquidity.

B. FACTUAL

(i) Changes in main monetary aggregates

	MO	M3	M4	M5
	per cent			
Annual growth rate	+5.5	+22.2	+15.7	+15.1
one month change	-0.2	+ 3.1	+ 1.8	+ 1.7
	(+0.6)	(+ 3.5)	(+ 2.1)	(+2.1)

(figures in brackets seasonally adjusted)

(ii) M3

- Reserves - external influences including large increase in reserves boosted M3 significantly in October. The increase in the reserves will be sterilised over time but would not have been sensible given current market conditions to have extracted liquidity on a major scale (see factual (iv) (g) and (v)).

- BP M3 may also have been boosted temporarily by build up of liquidity associated with BP sale. Underwriters and, potential BP investors was due to pay £1.5 billion to the Government in early November and may have built up bank deposits in advance. BP received their £1.5 billion share of the proceeds of the sale late on last day of October some of which BP may have placed temporarily on deposit with banks.

- Bank lending lower than average of recent months: £2.9 billion (also £2.9 billion s.a.) compared to £3.2 billion (£3.4 billion s.a.) over previous 6 months. But October figure affected by the unwinding of a £500 million loan associated with takeover activity in September.

(iii) **M4**. Fact that M4 grew by less (in percentage terms) than M3, may in part reflect a large switch by building societies out of gilts into bank deposits - perhaps in anticipation of withdrawals for BP sale which did not, in the event, take place. The switch out of gilts shows up in the lower public sector contribution to M4 (£1.1 billion) compared to M3 (£1.8 billion).

(iv) **Monetary Policy - Recent Statements**

(a) **Chancellor's speech to CBI annual dinner 19 May**

"... my consistent aim has been to keep the economy on a track which will gradually squeeze out inflation and facilitate steady, sustained growth."

(b) **Chancellor's speech to FHA annual dinner, 17 June**

"Certainly it is necessary to take account of changes in the level and composition of credit, along with all other indicators, in assessing monetary conditions. In the past I have not hesitated to act when I judged that there was a risk of being pushed off the path which I had set for inflation. Nor shall I do so in future."

"... the instrument of monetary policy can only be the level of interest rates, which - along with the level of the exchange rate - has to be such as to maintain downward pressure on inflation."

(c) <u>**Chancellor in press briefing on Washington IMF/World Bank meeting 30 September**</u>

"... the determination of short-term interest rates is increasingly pursued with an eye to sustaining exchange rate stability".

(d) <u>**Chancellor in interview on future economic aims (BBC Radio 4, Today, 7 October)**</u>

"At the end of the day our success in getting interest rates down will be tied to success in getting inflation down."

(e) <u>**Effect of fall in equity prices on monetary conditions, Chancellor's statement on financial situation 27 October**</u>

"The sharp falls in share price throughout the world over the past fortnight will tighten monetary conditions somewhat and are likely to have a dampening effect on world demand".

(f) <u>**Chancellor on ½ per cent cuts in interest rates on 23 October and 4 November (Mansion House Speech, 4 November)**</u>

"What is needed in the world today, above all, is the avoidance of any major blow to industrial confidence.

It was not the 1929 crash that caused the depression of the 1930s, but the policy response to it: the failure to provide adequate liquidity to the system, leading to a rash of bank failures, which in turn led to further monetary tightening ... For our part, I moved at an early stage to reverse half of August's rise in interest rates, not simply because some reduction was appropriate in the changed circumstances, though it was.

But I also felt it right, in the light of what was undoubtedly a shock, to signal clearly that the authorities were sensitive to the dangers that some might understandably fear.

Today I decided it was right to act again and reverse the other half."

(g) **Chancellor on liquidity and exchange rate intervention (Mansion House Speech, 4 November)**

"To prevent there being excessive liquidity in the economy, our policy is to ensure that, over time, any net intervention is sterilized - in other words, fully funded.

And that will be done, as and when appropriate, although not necessarily entirely within the financial year in which the intervention takes place.

In particular, while the funding programme will continue, it would clearly not be sensible in the present delicate market conditions to extract liquidity on a major scale."

(h) **Chancellor on reasons for cuts in interest rates (Interview with Financial Times, 10 November)**

"The Chancellor said the first half-point cut in British interest rates after the stock market fall last month had been decided upon for wholly domestic reasons. The second, announced last week, was determined after consultation with his international partners, but Mr Lawson said that he would have gone ahead in any case."

(i) **Chancellor on exchange rate stability (Mansion House Speech, 4 November)**

"Nor, however, should there be any doubt of our commitment to maintain a stable exchange rate, with the rate against the deutschmark being of particular importance. It gives industry most of what it wants and provides a firm anchor against inflation."

(v) **Funding:** underfund in October of £1.8 billion. Underfund of PSBR so far in this financial year of £3.8 billion. PSBR April/October 1987 about £0.5 billion; debt sales outside monetary sector and external finance of public sector minus £3.4 billion.

C. POSITIVE

(i) **Commitment:** Government remains committed to maintaining sound monetary conditions as key to keeping firm downward pressure on inflation.

(ii) **Sterling**. Commitment to continue to maintain stability (see factual (iv) (i)).

D. DEFENSIVE

(i) **Growth in M3 in October presages upsurge in inflation?** Stable and firm exchange rate against DM scarcely suggests resurgence of inflationary pressures. But continue to watch all indicators (see also factual (ii)).

(ii) **Is there scope for international (G7) meeting soon?** In his speech to the American Chamber of Commerce 24 November the Chancellor reaffirmed his view that the G7 should meet soon but warned that there would be little point in it unless all involved were prepared to contribute whole heartedly to the stabilisation of the dollar.

(iii) **Why were interest rates lowered?** See factual (iv) (f).

(iv) **Are further cuts on the way?** Wait and see.

(v) **Interest rates solely driven by exchange rates?** Not at all. Interest rates continue to be set in the light of a range of factors affecting financial conditions. But period of stability for sterling of benefit both to industry and as firm counter-inflationary anchor (see factual (iv) (i)).

(vi) **Growth of credit/liquidity inflationary?** Experience of a number of years shown that high rate of growth of lending and liquidity consistent with lower inflation because increase liquidity willingly held. And in current market circumstances, sensible to allow some expansion in liquidity. But Government remains committed to maintaining monetary conditions that keep downward pressure on inflation and has demonstrated that will not hesitate to act if necessary.

(vii) **Consumer credit boom?**

- No evidence that rate of lending to consumers accelerating in recent months.

- Vast bulk of personal borrowing takes form of mortgages, which represented over ¾ of outstanding personal debt at end of 1986. Increase overall as percentage of GDP in 1980s entirely attributable to growth in mortgage borrowing, as result of 2½ million increase in households buying own home. Consumer credit only some 15 per cent of total personal debt, and proportion if anything has come down slightly. [Within this, less than 5 per cent of personal debt takes form of credit card lending]. (See Chancellor's speech to FHA, 17 June).

(viii) **Role of MO?** MO has had stable relationship with money GDP over number of years. Proved reliable indicator. If underlying growth of MO threatened to move outside target range, presumption that action taken on interest rates unless other indicators clearly suggest monetary conditions satisfactory.

(ix) **Role of exchange rate.** Policy of maintaining a stable exchange rate, with rate against deutschemark of particular importance. This is consistent with aims for money GDP and inflation.

(x) **Role of broad money.** With changes in financial practices, no simple relationship between broad money growth and money GDP. Government therefore decided should be no formal broad money target in 1987-88. But growth of broad money (M3 and wider measures) and credit counterparts, still taken into account in assessing monetary conditions.

(xi) **Funding policy**. Aim remains in general to fund PSBR fully over the financial year as a whole. (Not a full fund every month - impracticable - so temporary over/under funding will occur; and foreign exchange intervention not necessarily fully funded within financial year - see factual (ii) (g)).

MR GEORGE	Copies to	Mr Coleby	Mr M St J Wright
		Mr Flemming	Groups 2/2
		Mr Plenderleith	2/3
		Mr Gill	2/4
		Mr Somerset	
		Mr W A Allen	
		Mr Warland/Mr Ingram	
		Mr Mann	Miss O'Mara)
		Mr Midgley	Mr Holgate) HMT
		Mr Pennington	Mr C Mowl)
		Mr Sheppard	

FINAL MONEY PRESS RELEASE FOR OCTOBER 1987

I attach a draft of the covering text for the full press release for publication at 11.30 am on Monday 30 November. Please may I have comments by noon on Friday 27 November.

Compared with the provisional press release, the only changes of any size in the figures for October are:

(i) the rise in M3 is 0.1 of a percentage point higher (this also affects some of the roundings on the sa and nsa growth rates of M4 and M5);

(ii) there has been a shift of +£0.1 bn from "external flows to the public sector" into "debt sales to the private sector";

(iii) the sterling lending counterpart of M5 is £0.1 bn higher;

(iv) the "other counterparts" of M3 and M4 are £0.1 bn more expansionary.

Financial Statistics Division BB-1
25 November 1987

J W Thorp (4764)

DRAFT

SECRET until 11.30 am Monday 30.11.87

MONETARY AGGREGATES & BANKING STATISTICS: OCTOBER 1987

1 The changes in the monetary aggregates are summarised below:

	12 months to October 1987	October 1987	
	not seasonally adjusted	not seasonally adjusted	seasonally adjusted
M0	5.5%	-0.2%	0.6%
M1	24.4%	3.0%	4.6%
of which, non-interest-bearing M1	12.0%	0.4%	3.4%
M2	9.6%	0.3%	0.9%
M3	22.2%	3.1%	3.5%
M3c	20.3%	3.0%	3.3%
M4	15.7%	1.8%	2.1%
M5	15.1%	1.7%	2.1%

2 Tables A-G and I show the components and counterparts of the monetary aggregates. Tables K-N show the details of the banks' and discount market's balance sheets. Transactions of the consolidated UK monetary sector, excluding interbank items and valuation changes on foreign currency items, are shown in Table H. An article in the May 1987 Quarterly Bulletin discussed the construction of the broad monetary aggregates.

3 Details of the building societies' balance sheets are shown in "Financial Statistics" (Tables 7.6-7.8), published by the Central Statistical Office. As mentioned in a note to those tables, the flows shown there for January 1987, which are calculated from some newly-available data for end-1986, may include some break in the series, and so the new data have not yet been incorporated in the money and banking statistics shown here.

4 Within the October PSBR, privatisation proceeds were expansionary by £0.6 billion, comprising £1.5 billion paid to British Petroleum plc in respect of a purchase of new shares, offset by receipts of part of the first instalment from the sale of BP shares.

5 Estimated seasonal movements in November 1987

The provisional seasonal movements are shown below. Because of the difficulties referred to in the December 1986 Quarterly Bulletin (page 519), the figures should be regarded as more uncertain than were the figures formerly given for banking months. They remain subject to revision.

£mns M0
M3
M4
M5
M3 counterpart: Bank lending in sterling to the private sector
M4 and M5 counterpart: Bank and building society lending in sterling to the private sector*

[Figures to follow.]

The seasonally-adjusted changes are obtained by subtracting (with due regard to sign) the seasonal movement from the unadjusted changes.

* See the footnotes to Table G.

BANK OF ENGLAND
30 November 1987

45/024

CONFIDENTIAL

pmp

FROM: T PIKE

DATE: 27 November 1987

1. MR ~~GRICE~~ JWG 27.11.87

2. ECONOMIC SECRETARY

cc PS/Chancellor
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Scholar
Mr Peretz
Mrs Lomax
Miss O'Mara
Mr Bottrill
Ms Ryding
Mr Westaway
Ms Bronk

M0 FIGURES

The latest weekly figures for M0, covering the final week of November, are attached. They show that the twelve month growth rate of M0 in November is 4.9 per cent (4.9 per cent not seasonally adjusted). The annualised growth rate of notes and coin in the three months to November is 7¼ per cent, compared to 8 per cent in the three months to October.

2. The figures include returns from the Scottish and Northern Irish issuing banks and are thus unlikely to be revised.

T. Pike

T PIKE

CONFIDENTIAL

MO, THE WIDE MONETARY BASE

Calendar months	Notes and coin (nsa)	Notes and coin (sa)		Bankers' deposits	MO (nsa)	MO (s.a.)		% change on previous Month: Notes (sa) and coin	% change on previous Month: MO (sa)	% change on year earlier: Notes and Coin (nsa)	% change on year earlier: Notes and Coin (sa)	% change on year earlier: MO (nsa)	% change on year earlier: MO (sa)
	Levels £ million (changes in brackets)												
1987													
June	14,946	15,075	(+91)	137	15,083	15,212	(+24)	+0.6	+0.2	+4.6	+4.6	+4.2	+4.2
July	15,271	15,166	(+91)	235	15,506	15,401	(+189)	+0.6	+1.2	+4.7	+4.8	+5.3	+5.5
August	15,337	15,258	(+92)	182	15,519	15,440	(+39)	+0.6	+0.3	+4.3	+4.6	+4.5	+4.7
September	15,349	15,376	(+118)	184	15,533	15,560	(+120)	+0.8	+0.8	+5.3	+5.1	+5.2	+5.0
October	15,299	15,457	(+81)	202	15,500	15,659	(+99)	+0.5	+0.6	+5.1	+5.1	+5.5	+5.6
November (4 of 4)	15,364	15,524	(+67)	183	15,547	15,707	(+48)	+0.4	+0.3	+4.8	+4.8	+4.9	+4.9

Weekly data	Notes (sa) and coin		Bankers' deposits	MO (sa)		% change on previous week MO (sa)
October						
7th	15,435	(+42)	190	15,625	(+111)	+0.7
14th	15,418	(-17)	192	15,610	(-15)	-0.1
21st	15,467	(+49)	223	15,690	(+80)	+0.5
28th	15,503	(+36)	202	15,705	(+15)	+0.1
November						
4th	15,510	(+7)	128	15,638	(-67)	-0.4
11th	15,511	(+1)	225	15,736	(+98)	+0.6
18th	15,522	(+11)	193	15,715	(-21)	-0.1
25th	15,553	(+31)	185	15,738	(+23)	+0.1

MONTHLY MONETARY ASSESSMENT

85A/2/cg/15/4508

SECRET

FROM: J W GRICE
DATE: 1 December 1987

1. SIR PETER MIDDLETON
2. CHANCELLOR OF THE EXCHEQUER

cc
Chief Secretary
Financial Secretary
Economic Secretary
Sir T Burns
Sir G Littler
Mr Cassell
Mr Lavelle
Mr Monck
Mrs Lomax
Mr Odling-Smee
Mr Peretz
Mr Sedgwick
Mr R I G Allen
Mr Bottrill
Mr Hibberd
Miss O'Mara
Mr Riley
Mr Pike
Mrs Ryding
Mr Cropper
Mr Tyrie
Mr Call

Mr George (B/E)
Prof. Griffiths (No.10)
Mr Lankester (Washingto
File: MAMC F1

Ch
For markets/G7 meeting
AA

[illegible]

MONTHLY MONETARY ASSESSMENT: NOVEMBER 1987

This note reports the discussion at Sir Peter Middleton's regular meeting on monetary conditions on 1 December. Attached is the usually Monthly Assessment. There is a special annex on the behaviour of MO.

Sir Peter Middleton's meeting

2. Mr Cassell began the discussion by noting that the exchange rate and domestic monetary indicators were giving conflicting testimony about monetary conditions. Domestic indicators certainly made little case for lowering interest rates:

(i) MO was growing strongly, as it had been for some months, and could be above its target range by Budget time;

(ii) growth in both M4, and more especially M3, had accelerated in October, the main reason being the unsterilised intervention which had taken place. The forecasts suggest that there may be some further acceleration to come; equity issues have collapsed in the wake of the Stock Market fall, and companies may turn to the banking system for finance. By January, M4 and M3 might be about 17 per cent and 23½ per cent, respectively, above their levels 12 months earlier. Against this, the willingness of the private sector to hold liquidity had probably increased after the equity price fall;

(iii) recent indicators of activity were stronger than expected at the time of the Autumn Statement. On the other hand, the combined effect of a higher exchange rate, lower share prices and, offsetting, lower interest rates was probably contractionary. On balance, the Autumn Statement money GDP forecast for 1988-89 was probably still close to central. This would be above the MTFS path, mainly due to higher inflation.

3. But the exchange rate had been strong. The effective rate had risen about 1¾ per cent since the last Assessment (2 November) and on an oil-price adjusted basis, the rise was over 2½ per cent. It was possible that we might soon encounter the familiar problems of having to counter upward pressure on sterling, especially against the deutschemark. If so, there was a strong case for cutting interest rates quickly, rather than adding further liquidity via intervention. But any such interest rate cuts ought equally to be quickly

reversed if the pressures on sterling themselves reversed.

4. Mr George saw little evidence of any downward pressure in inflation for the present. Since the last Assessment, most of the indicators suggested that activity before the equity price fall (19 October) was even stronger than we believed and the contractionary effect of the equity price fall itself was open to question. The immediate issue, however, was how to respond to upward pressure on the pound. This could come about quickly, particularly if the Bundesbank acted to cut its discount rate on Thursday. He agreed with Mr Cassell that market tactics would suggest early reductions in UK interest rates, rather than further heavy intervention, assuming the aim remained to keep the rate below 3.00 DM.

5. Sir Terence Burns took the same view about tactics in the event of upward pressure on the sterling/mark cross rate. But he noted that a stable rate against the mark had been consistent with a rising effective rate index, because of the falling dollar. If the dollar continued to fall, it was possible that the effective rate would remain strong, even if the pound eased away from 3 deutschemarks.

6. Other points to emerge in discussion were:

a. building societies' prospects appeared to have improved after the equity price fall. Both their retail deposits and their share of lending had improved;

b. there was a striking divergence in the sectoral purchases of gilts. Between June and October, the overseas sector had purchased some £5 billion net of public debt, whilst the non-bank private sector had been net sellers over this period. Institutions seemed, rather, to have preferred to buy equities.

7. There followed a discussion of the policy of paying particular attention to sterling's rate against the deutschmark. The discussion focussed on the effectiveness of the policy in reducing inflation and its credibility. The main points were:

(i) it was not necessary for sterling to rise against the mark in order to generate downward pressure on inflation. As in the last month, a falling dollar would lead to a rising effective rate with no change in the sterling - mark cross rate. The dollar probably still had some way to fall;

(ii) the more difficult test of policy, however, would be posed not by any imminent upward pressure on sterling, but by the need to react to downward pressure if sentiment reversed. It would then be crucial to prevent any substantial fall against the mark to maintain the credibility of policy and downward pressure on inflation;

(iii) although a stable cross rate against the mark should ultimately generate pressures towards lower inflation, the lags in the process were unclear. If outside perceptions of inflation were more pessimistic than warranted, then labour costs may rise excessively in the interim. This would make the eventual adjustment to lower inflation all the more painful;

(iv) the credibility of the policy was therefore critical. But it was difficult to demonstrate resolve to prevent an excessive fall against the deutshemark when the actual pressures were the other way;

(v) the fact that the economy was very liquid must increase the risk of a rapid fall in the exchange rate if confidence weakened.

8. Summing up, Sir Peter Middleton said that the basis for policy was a prolonged linkage of sterling to the deutschemark. The present situation was one of high liquidity, but where any inflationary consequences were checked by the high exchange rate. The outcome was not likely to be an immediate sharp decline in inflation, but the MTFS in any case allowed for a gradual reduction. There seemed to be two conclusions from this. First, every opportunity had to be taken for strengthening the credibility of the policy. Secondly, particularly given the liquidity of the economy, policy action would have to be swift and determined if the exchange rate started to fall.

JWG

J W GRICE

SECRET

MONTHLY MONETARY ASSESSMENT : NOVEMBER 1987

Summary Assessment

Monetary conditions have tightened over the last month. The exchange rate has risen by about 2½ per cent and, with oil prices falling, the oil adjusted rate has risen still further. Monetary growth tended to accelerate in October, especially M3, which of the broad aggregates was most affected by intervention. But this needs to be seen in the context of increased demand for liquidity in the wake of the equity price fall. The fall in share prices and latest rise in sterling - though partially offset by a one point reduction in interest rates - is, on balance, likely to be contractionary.

Main Points

At world level, the net effect of equity price falls and interest rate reductions has probably been disinflationary. Weak commodity prices suggest that inflationary pressures in the world economy are largely absent (paras 3, 5).

The 12 month growth rate of M0 in November fell back to 4.9 per cent, from 5.6 per cent in October and the growth rate is projected to fall further in December. (paras 25-27 and Annex I).

M4 grew by 15¾ per cent in the year to October, an acceleration of about ¾ per cent compared to September. For M3, the acceleration was greater - from 19½ per cent to 22¼ per cent in the same respective months. Intervention effects probably explain most of this rise (paras 30, 42).

The exchange rate index rose from 74.6 to 76.4 mainly reflecting the weaker dollar. This occurred despite falling oil prices; the oil adjusted index rose by about 3¼ per cent over the month. Nor were interest rates directly helpful; sterling's differential against the overseas basket declined from about 2½ to 2¼ per cent (paras 19-21).

Equity prices trended lower, declining a further 9 per cent. They now stand 36 per cent below the July peak. Institutional liquidity ratios have recovered from the low levels of the third quarter but are by no means exceptionally high (paras 49-52).

An Annex discusses the behaviour of M0. By the time of the next Budget it may be ½ per cent or so above its target range. (Annex I).

MG2 Division
1 December 1987

A. External Developments

The sharp falls **share prices** since mid-October on all the world's major stock exchanges (table 3) ended the long bull market since 1982. Disappointing US trade figures, increases in interest rates in the US and Germany, and policy tensions among the G7 were factors which initially undermined confidence. But P/E ratios had risen to heights that were probably unsustainable, and an adjustment was likely to come sooner or later.

2. The authorities in most countries responded to the fall in share prices by easing monetary policy. **Short-term interest rates** declined by about 1½ percentage points in the US and by about a point in Germany (table 2). These declines reversed the rises in September and early October, and will act to offset to some extent the effects of the share price falls on aggregate demand. During the last week in November the German rate fell by a further quarter of a point, whereas the US rate rose by half a point. However the net effect is likely to be to reduce the growth of demand and activity in 1988. The Autumn Statement and the OECD's provisional forecast both put real growth at around 2 per cent next year.

3. The **dollar** fell markedly against all major currencies during November (see table 2(b). At the end of the month, the effective exchange rate was 9 per cent below its Louvre Accord level and 4 per cent lower than a month earlier.

4. The 12 month rate of **consumer price inflation** in the G5 has risen from under 1 per cent at end of 1986 to 3 per cent in September (table 1). However this rise is largely attributable to the fact that the effects of last year's falls in oil and other commodity prices have largely worked through. Underlying inflationary pressures do not seem to have grown. Unit labour costs in manufacturing have fallen over the past year in the US, Japan and France, and have hardly risen in Germany. GNP price deflators have not accelerated significantly.

5. The behaviour of **commodity prices** (table 3(b)) is consistent with the judgement that inflationary pressures remain relatively weak. In real terms, they are barely any higher overall than on average in 1986.

B. Activity and Inflation

6. Recent labour market indicators and CBI survey results have been particularly buoyant. Table 4 summarises recent indicators of **activity and inflation.** The Q3 GDP(O) estimate published on 19 November is a little above the Autumn Statement forecast. Retail price inflation was slightly higher than expected in October but is expected to fall back again in the last two months of 1987. Few indicators relevant to the period following the share price fall have been published as yet. Those that have show no signs of having been influenced by recent developments, though this is not unexpected given the likely lags between financial developments and economic activity.

Recent indicators of activity

7. Preliminary estimates show a 1½ per cent rise in the output-based measure of **GDP** between the second and third quarters, with similar growth rates (all in the range 1½ to 1¾ per cent) for the production, service and construction industries. Monthly figures for production industry output show a ½ per cent fall in manufacturing output in September, after sharp rises totalling almost 2 per cent in July and August. The November **CBI survey** of manufacturers (conducted after the share price fall) continues to show buoyant order books and output expectations. After adjustment for seasonal variation, responses on both export order books and output expectations has risen sharply in November, and are only slightly below earlier peak figures seen in July and August respectively.

8. **Retail sales** continue to show strong growth, with a provisional ¾ per cent increase in October. In the three months to October sales were nearly 3 per cent higher than in the previous three months. Private housing starts are provisionally estimated to have fallen 5 per cent in September, after a similar rise in August. Despite having recovered in part from a sharp second quarter fall, housing starts remain below peak first quarter levels. **Business capital expenditure** is provisionally estimated to have fallen back 5 per cent in the third quarter after relatively buoyant outturns in the first half of 1987. Little should be read into this downturn given the volatility of the series and the contrasting message on investment prospects coming from CBI and other business surveys.

Business spending on stocks is provisionally shown to have risen sharply in the third quarter.

9. **Unemployment** fell by 58,000 in October, a somewhat larger fall than in previous months. **Overtime working** rose strongly in September; it is now higher than the previous peak level of June. Vacancies rose 15,000 in October, significantly faster than in recent months.

Inflation

10. The outturn for **retail price inflation** in October was 4.5 per cent, compared to the 4.2 per cent in September. Although some rise had been expected in October, it turned out slightly higher than expected. RPI inflation is expected to fall sharply in November, as the large mortgage rate increase in November 1986 drops out of the year on year comparison.

11. The twelve month increase in the **producer price index** (excluding food, drink and tobacco) in October was 4.8 per cent, up 0.1 per cent from the (revised) estimate for September. CBI survey responses on manufacturers' price expectations - adjusted for seasonal variation - have drifted upwards through 1987 in line with the published figures for output price inflation. The November survey showed a further small rise, though the balance of respondents expecting to raise prices remains, as yet, significantly lower than in the previous peak year of 1984. **Producer input prices** (also excluding FDT) rose by 7.7 per cent in the year to October, down from 10.7 per cent in the year to September. This fall in the annual increase reflects a diminishing influence from the rapid increase in input prices last Autumn, together with a small fall in the level of input prices in the latest month.

12. Underlying growth in **average earnings** in September remained at 7¾ per cent for the sixth successive month. Private sector settlements in the 1986-87 pay round just ended averaged around ½ per cent lower than the outturn for the previous round. However, both manufacturing and service sector settlements have drifted upwards since the end of 1986.

13. The annual rate of **house price inflation** (measured by the Halifax index) rose to 16.2 per cent in November, compared to

14.5 per cent in October, after six successive months at around 14½ per cent. The DoE index for the third quarter showed a rise of 15 per cent over a year earlier, compared with 14.1 per cent in Q2. While the latest figures show an increase in house price inflation, the stock market crash will not yet have been reflected in the London figures and it is too early to say whether house price inflation has started to rise again. The Royal Institute of Chartered Surveyors have reported falling sales and some over-priced properties in and around London recently, but an extremely buoyant market in the provinces. While the evidence is still very weak, some reduction in house price differentials between London and the rest of the UK could be expected following the stock market falls. The DoE housebuilding land price index increased by 48 per cent in the year to 1987 H1, the highest growth rate since the early 1970's property boom.

Projections for Money GDP

14. It has become increasingly clear that stronger than expected real activity would lead to an overshoot of the Budget forecast for 7½ per cent growth in **money GDP** in 1987-88. This was recognised in the Autumn Statement forecast, which showed a revised projection of 8½ per cent growth.

15. The fall in share prices and consequent policy response will affect economic prospects through 1988. Relatively little influence on activity or inflation is expected this year. The Autumn Statement forecast, which took account of the fall in share prices and the first half-point reduction in interest rates, assumed that, on balance, these factors would prove contractionary. This, coupled with some independent deceleration of real activity after above trend growth this year, was projected to yield 7¼ per cent money GDP growth in 1988-89 following 8½ per cent growth in 1987-88.

16. Prospects have not been fully re-assessed following the second half-point reduction in interest rates and the recent rise in sterling (the sterling effective index is currently about 5 per cent higher than As projections). However, it seems likely that, on balance, the combination of a 30 per cent fall in share prices, 10 per cent reduction in the level of interest rates (from 10 to 9 per cent), and 5 per cent appreciation of sterling remains

contractionary. Together these factors might be expected to lead to lower money GDP in 1988-89 than assumed in the Autumn Statement forecast. But against this, recent indicators of activity have proven stronger than expected. Overall, the Autumn Statement forecast probably remains close to a central one.

C. Public Sector Finances and the Fiscal Stance

17. Table 5 gives the main indicators of the fiscal stance. The **PSBR** in October was a surplus of £1.0 billion, as compared with a forecast of a surplus of £1.2 billion. However, net privatisation proceeds were £0.6 billion lower than forccast, as a result of some of the proceeds from the BP sale expected in October being delayed until November. This brings the PSBR for the first seven months of 1987-88 to £0.5 billion, which is £3.1 billion below the Budget profile. Of this difference, central government own account borrowing is around £2.3 billion below profile - Table 6 gives details. Local authorities' borrowing is about £0.5 billion below, and public corporations' borrowing about £0.4 billion below, profile. Comparison of the outturn so far this year with the previous year is affected by significant changes in the level and pattern of privatisation proceeds. If privatisation proceeds are excluded, borrowing in April to October has been around £3 billion lower than for the same period in 1986-87.

18. The October outturn for the PSBR does not cast any major doubt on the internal October forecast of a PSBR surplus of about £1 billion for 1987-88 as a whole. Thus last month's assessment of the **fiscal stance** in 1987-88 still stands, subject to the provision that any use of the BP buy-back option will increase the PSBR. Since most investors will wait until close to the expiry date of the option before selling shares to the Bank, the extent of the Bank's liability remains unknown, although the maximum £1½ billion is unlikely to be reached given the Kuwaiti's increased share holding recently. In any case, the PSBR appears to be turning out considerably tighter than envisaged at Budget time, even after allowing for the automatic tightening associated with higher than expected activity, and so fiscal policy would not appear to be contributing directly to the higher than expected growth of output.

D. UK Exchange Rate and External Accounts

19. The **sterling index**, which rose by 2½ per cent during October as the dollar fell in the wake of the stock market fall, has risen a further 2½ per cent, to 76½, since the beginning of November as the dollar has continued to weaken. Against the Deutschemark the rate has been relatively steady, rising to just over 2.99 from 2.98 at the beginning of November.

20. The rise in the sterling index in November occurred despite a further slight narrowing of the interest rate differential against the world basket, to 2¼ per cent. UK three month **interbank rates** have fallen by nearly ½ percentage point since the beginning of November. Over the same period US and German rates have fallen by a similar amount but Japanese rates have been relatively steady and French rates have risen by ½ percentage point, even after the recent concerted ¼ point reduction in European rates.

21. A further fall in the Brent spot oil price over the past month may have helped to remove some of the upward pressure on the DM/£ rate which was evident in September and October. The Brent price has fallen by nearly $1 a barrel since early November, to around $17¾ a barrel, largely in response to an easing of Gulf tension and excessive supplies in stock and in transit to North America and Europe. As a result the **oil adjusted reference ratio** has risen by a further 3¼ per cent. However given the weakness of the dollar over this period, which implies a larger fall in the oil price in sterling than in dollar terms, the conventional oil adjusted reference ratio may understate the downward effect on inflation of oil price and exchange rate movements in November.

22. In the absence of strong upward pressure on sterling against non-dollar currencies, spot and forward market **intervention** in November amounted to $ 180 million.

23. The October **trade figures**, published on 24 November, showed a current account deficit of £282 million compared with a deficit of £17 million in September. The rise in the deficit reflects some fall in export volumes while import volumes were little changed. The underlying upward trend in non-oil import volumes remains faster than the upward trend in exports.

E. Domestic Monetary and Financial Market Developments

(see Tables 10 to 26)

24. The development of domestic monetary indicators needs to be seen in the light of the sharp fall in equity prices. This will have had two related effects. First, the fall in private sector wealth and the implied increase in company borrowing costs will have reduced demand for goods and services in money terms. Secondly, there is likely to have been some upwards shift in liquidity preference, or perhaps more generally away from equities towards assets such as gilts and property, as well as money. This is liable to last at least until the equity market looks less fragile, the implication being that the volume of liquidity which will be willingly held has probably risen appreciably.

Narrow Money

25. MO developments since the last assessment are much as expected, with buoyant notes and coin growth continuing in November, albeit at a slower pace than the rapid growth of recent months. The annual growth rate of MO in October and November was about 1½ percentage points above what was anticipated at Budget time (see chart 7), providing further evidence that activity is currently well above the Budget projections. With interest rates falling by a further ½ per cent during November, leaving them below the Budget projection, the overshoot of MO growth is expected to increase over the rest of the financial year, despite some moderation in the pace of MO growth in Q1 1988. Annex I examines in more detail the likely factors reponsible for the current overshooting of M0 growth relative to the Budget projections and the outlook for the rest of 1987-88, together with an assessment of the implications for monetary conditions. Broadly, most of the overshoot can be accounted for by the increased level of real activity compared to what was expected at Budget time. Some of this excess is probably cyclical, but a part of it may represent improved supply side performance, which in principle might have allowed us to set the target range ½ per cent or so higher. This may be an important consideration in a presentational context because by the 1988 Budget MO might be about

½ per cent above the top of its target range.

26. **M0** (seasonally adjusted) rose by 0.3 per cent in November, and the 12 month growth rate fell back to 4.9 per cent, from 5.6 per cent in October. The fall in the 12 month rate reflects both the brisk growth of M0 in November 1986 and erratic movements in bankers' balances a year ago. The annualised growth rate of notes and coin (and M0) in the latest 3 months was about 7¼ per cent, compared to 8 per cent in the 3 months to October.

27. The **forecast** assumes very buoyant growth of M0 in December - partly reflecting seasonal influences - although the 12 month growth rate falls back to about 4¼ per cent, reflecting the exceptional growth of M0 in December 1986. But the twelve month rate of M0 is forecast to rise rapidly during Q1 1988, exceeding the target range in February, as the falls in the level of M0 during Q1 1987 drop out of the 12 month comparisons. The overshoot compared with the Budget projections is expected to rise steadily from its current 1½ percentage points in November to 2½ points in March.

28. **NIB M1** rose by £0.2 billion (£1.5 billion seasonally adjusted) in October and the annual growth rate rose to 12.0 per cent, from 6.1 per cent in September, the low September figure reflecting the upward distortion of the TSB sale on NIB M1 in September 1986. Interest-bearing sight deposits rose by £2.5 billion in October - the largest increase since March, although it is likely any effects of the BP sale (see below) will have been concentrated in IB sight deposits. Together with the £0.2 billion increase in NIB M1, this gives a £2.7 billion (£4.1 billion seasonally adjusted) increase in M1, with the 12 month growth rate jumping up to nearly 24½ per cent in October, from 20¼ per cent in September.

Broad Money

29. Broad money growth in October was the highest since March and 12 month growth rates of all the broad aggregates rose, partly reflecting the effects of the TSB share sale on the broad aggregates a year ago. The demand for money is likely to have been boosted

by sterling's firmness during October and possibly, to a lesser extent, by the stock market falls inducing a portfolio shift towards liquidity. The sterling supplied by the authorities through the record level of intervention during October does not seem to have led to any loosening of monetary conditions, as the fall in short rates during October suggests that the increased supply of sterling was being held willingly.

30. **M4** rose by £5.2 billion (1.8 per cent) in October and the 12 month growth rate rose to 15¾ per cent, from 15 per cent in September. **M3** rose by £5.5 billion (3.1 per cent) whilst its 12 month growth rate rose sharply to 22¼ per cent, from 19½ per cent in September.

31. With respect to the **M4 components**, holdings of M3 by the private sector excluding building societies rose by £4.1 billion, compared to an average of £2.0 billion over the previous twelve months. Bank deposits may have been inflated by several factors connected with the BP sale: the CG payment to BP of £1.5 billion for part of the share issue (which took place late on 30 October, BP placing most of this on deposit); a build-up of deposits by underwriters prior to paying £1.5 billion early in November; and possibly an earlier build-up of deposits by potential BP investors not reversed by the end of the month. In addition, recorded reserves rose by £3.9 billion in October and much of this is likely to have fed through into M3 (see para 42). There is no firm evidence that the October money figures are affected by the stock market crash, although the unit trusts may have been building up liquidity in anticipation of withdrawals (see para 50). Private sector retail deposits with the building societies rose by £1.1 billion in October, while their wholesale deposits were unchanged.

32. With respect to the **M3 components**, apart from the £4.1 billion increase in M3 by the non-bank non-building society private sector, building societies increased their bank deposits by £1.4 billion - the largest increase on record - which largely explains the higher M3 flow than of M4 in October. Some of this increase in building society bank deposits may have been in

anticipation of withdrawals for the BP sale, which in the event did not occur, although the societies have been accumulating liquidity fairly steadily over the past year, their bank deposits rising by an average of £0.4 billion per month in the year to September.

33. Building society **retail inflows** in October were, at an estimated £750 million excluding interest credited, the highest so far this year. This can be attributed largely to seasonal factors, although whether in the light of equity market developments such factors apply as in former years is open to question. The much vaunted boost to societies from the flight from, and continued unattractiveness of, equity and unit trusts (plus the short term return of funds set aside for BP) probably figured somewhat (possibly £150 million) in the October figures, but the major benefit has been felt in the first three weeks of November when over £720 million was taken by the 15 largest societies. Societies also borrowed heavily (£535 million) in October on the wholesale markets. Most of this will represent packages set up prior to the falls in equity prices to cope with heavy expected outflows from the BP sale, although some borrowing may also have occurred in expectation of a lifting in the 20 per cent limit on non-retail funding by societies close to that limit. The period since the stock market falls has seen fairly heavy redemptions by societies of wholesale liabilities.

34. As a result of these factors, societies ended the month with a substantial (£700 million) build up of liquid assets, especially bank deposits. Societies also made net disposals of £¾ billion gilts. In market conditions favouring gilts investment this was unexpected, particularly since it is rumoured that at least two large societies were net purchasers. A number of factors may underlie this, including the following:

- Some societies may have been profit-taking from substantial investment over the summer following the rise in gilts prices with the October base rate cut.

- Selling to provide extra cover against BP related outflows.

- The prospective redemption of the 12/87 gilt and the movement to XD status of £2.6 billion of 1988 gilts in October and November will have triggered selling since societies hold predominantly short dated gilts and tend to sell those prior to such events. Societies did not fully reinvest the proceeds within October.

35. The M3 and M4 **forecasts** are tentative because of uncertainties over the monetary effects of the shake-out in equity prices and the BP sale. It is assumed that the fall in equity prices will have an expansionary effect on broad money as liquidity preferences increase, with the counterpart being substitution into bank borrowing from equity finance by companies. It is assumed that the expansionary effect of the BP sale in October will unwind in November. On these assumptions annual growth rates of M3 and M4 are forecast to remain unchanged in November at 22 per cent and 15¾ per cent respectively.

Credit

36. **Bank and building society lending** rose by £4.1 billion (1.3 per cent) in October, compared with an average of about 1½ per cent over the previous 12 months. The annual growth rate of lending is estimated at 19.2 per cent in October, compared to 20.0 per cent in September.

37. **Sterling bank lending** grew by 1.5 per cent in October and at an annual rate of nearly 23 per cent, compared to 23½ per cent in the 12 months to September. One known special factor - the unwinding of a temporary loan made in September - will have depressed the October lending figure of £2.9 billion by £½ billion. Allowing for this special factor, bank lending was at its average rate of increase in October compared to the previous twelve months. However, foreign currency lending rose sharply (by £3.5 billion) compared to an average rise of £1 billion over the previous 12 months. It is likely that at least some of this increase in foreign currency borrowing by the private sector represents either speculative or hedging activity, with the private sector increasing its net currency bank borrowing and switching into sterling (a counterparty being

the EEA) on the expectation of sterling's appreciation.

38. Within sterling bank lending, advances increased by £2.8 billion, lending to GEMM's rose by £0.4 billion and lending via monetary sector holdings of commercial bills fell by £0.5 billion - the latter possibly reflecting the unattractiveness of fixed rate bill finance to companies when rates are falling. Returns from the London and Scottish retail banks show that of their total sterling advances of £1.7 billion, lending for house purchase rose by £0.7 billion - much in line with recent months - while other personal lending (£0.2 billion) was the smallest rise since February. Of the CLSB banks' total foreign currency advances of £1.5 billion, most was accounted for by hotels and catering (£0.7 billion - largely for overseas investment) and by unit trusts, insurance companies and pension funds (£0.8 billion - possibly reflecting hedging activity).

39. When account is taken of seasonal factors, **building societies' mortgage lending**, of £1.5 bn unadjusted, continued its slow recovery in October as the final boost of August's return to price competitiveness with the banks was felt. Lending may have been somewhat restrained in early October as the possibility of a loss of funds to the BP sale induced caution. But the possibility of a change in the limit on non-retail funding may have encouraged societies to avoid further losses of market share, as evidenced by their willingness to indulge in substantial wholesale borrowing (see para 33) and to sell their less liquid non-mortgage assets.

<u>Other Broad Money Counterparts</u>

40. A PSBR surplus of £1.0 billion was **underfunded** by £1.8 billion, largely reflecting a £3.9 billion recorded increase in the reserves and CG debt sales of £1.3 billion overseas, with no change in public sector debt sales to the non-bank private sector. Cumulative underfunding has been £3¼ billion in 1987-88 so far. The building societies made large (£¼ billion) disposals of gilts in October (see para 34). Hence, the **public sector contribution to M4** was,

at £1.1 billion, less expansionary than to M3. The cumulative public sector contribution to M4 is £2½ billion in 1987-88 so far. The M4 **externals** were expansionary by £3.3 billion and **£NNDL's** of the banks and building societies were contractionary by £0.6 billion.

41. Public and banking sector **external transactions** were expansionary by £3.4 billion in October, largely reflecting the £3.9 billion recorded increase in the reserves. The effect of the intervention on broad money growth is examined below.

Intervention and the External Counterpart of M3 in October

	£ billion
Recorded change in reserves*	3.9
Change in the Forward book*	0.9
Total Intervention	4.8
External Counterparts to M3	3.4
"Usual" external counterparts	-0.3
Abnormal external counterparts	3.7

* Including swaps and off-market transactions

42. The effect of the intervention on M3 in October, as measured by the "abnormal external counterparts", was less than the total intervention itself. Part of the explanation will have been that some of the sterling sold by the EEA will have been taken up by overseas residents and banks - which switched out of foreign currency in October and into sterling assets (see para 43) - and hence will not have added to M3. On the other hand, it seems likely that the counterparties to the swaps carried out by the EEA - namely buying sterling spot but selling it forward, which reduces recorded intervention compared to the total - were largely banks, which switched out of sterling to the extent of £2.7 billion in October. The spot sterling sold by the banks to the EEA as part of the swap will not have reduced M3. Hence it seems likely that most of October's intervention has fed through directly into M3.

43. Apart from the overseas sector increasing its net sterling bank deposits (by about £2 billion) in October, it also made a further net purchase of over £1¼ billion of gilts and Treasury bills. Between June and October, the overseas sector has made net purchases of £5 billion of public sector debt, in contrast to the private sector which has been a net seller of gilts and TB's over the period.

44. The **£NNDL's** counterpart to M4 was contractionary by £0.6 billion in October, reflecting the large wholesale funding of the building societies during the month. The £NNDL's counterpart to M3 was expansionary in October by £0.1 billion.

M5

45. M5 grew by £5.3 billion (1.7 per cent) in October and at an annual rate of 15 per cent, compared to 14¼ per cent in September. The lower annual growth rate of M5 compared to M4 is explained by a £1 billion fall in private sector holdings of local authority debt and tax instruments over the past twelve months.

Money Markets and Interest Rates

46. **Money market rates** started November at 9.4 per cent across the yield curve, falling to about 9 per cent after the base rate cut on 4 November. Rates have since held fairly steady and currently range from 8.9 per cent at one month to 9.1 per cent at twelve months.

47. The stock of **money market assistance** was little changed at £5.4 billion in October, with the £4 billion increase in the reserves offset by several factors, including a CG surplus (£¾ billion) and strong purchases of gilts (£1½ billion), CTDs (£¼ billion) and Treasury bills (£½ billion). The rise in market holdings of Treasury bills reflected the introduction of an extra tender of £500 million of 9 week Treasury bills at the end of October, and with the continuation of the tender in November the market is forecast to purchase a further £1¾ billion this month. When the bills mature, the need for commercial bill purchases will be reduced by about

£½ billion in December and £1½ billion in January, thereby smoothing the money-market assistance profile. The level of assistance is forecast to rise to £7¼ billion in November and in December before rising to about £10¾ billion by the end of January (see Table 25).

48. **Gilts** began November with the index at 90.1, and 5, 10 and 20 year par yields at 9.1, 9.5 and 9.3 per cent respectively. Prices were lifted by the base rate cut on 4 November, with the index reaching a peak of 92.8 on 9 November, before falling back again to end the month little changed. The Gilt Index now stands at 90.3, and the 5, 10 and 20 year par yields at 8.8, 9.3 and 9.3 per cent respectively. Yields have fallen slightly at the short end, steepening the yield curve, during November. Index-linked stock has been in demand. Real yields on index-linked have fallen by around ½ per cent to around 2.6 per cent at the short end, 3.8 per cent at the long end. Breakeven inflation rates of Index-linked Treasury 1990 and 2006 are currently 3.8 and 5.5 per cent respectively, compared with 3.2 and 4.9 per cent at of October. The equity dividend yield (based on the all-share index) has risen to around 4.7, having begun the month at 4.2.

<u>Capital Markets and Corporate Finance</u>
(see tables 20-21)

49. **Equity prices** (measured by the FT All Share Index) continued to slide in early November, the index reaching a low of 785 on 10 November, with falls often reflecting events in the US and Japan. Equity prices had then fallen by one-third since 16 October and were back to their levels of October 1986. Prices recovered slightly in mid-November but have since fallen back again, reflecting the weakness of the dollar. The index now stands at 796, 36 per cent below its July peak.

50. Net sales of **unit trusts** fell back sharply in October to £¼ billion, having been a record £1¼ billion in September and £3 billion in the third quarter. Assuming that net sales remained high until the middle of October it is likely that unit trusts experienced net withdrawals of some £¼ billion in the second half of October. Nevertheless, unit trusts' liquidity may be

exceptionally high if, as press reports suggest, they have sold large volumes of company securities in response to the stock market crash. Assuming sales of £2 billion of securities, units trusts' liquidity ratio in mid November might have jumped to about 15 per cent, from about 7¼ per cent in Q3 and an average of about 5 per cent since 1979.

51. The latest firm data for the liquidity of **pension funds and life companies** relate to the second quarter of 1987. At that point their liquidity ratio was historically quite low at about 3 per cent for pension funds and 2½ per cent for life companies, although their liquid assets stood at high levels (£8¼ billion and £5 billion, respectively). It is likely that pension funds' liquidity ratio fell further in the third quarter, perhaps to about 3 per cent, due to purchases of some of the record £8 billion of net capital issues. Early estimates of life companies' investments in the third quarter suggest that their liquidity may have risen a little, to about 2¾ per cent. Since Q3, there has been a further £1 billion of net capital issues in addition to the BP sale, and anecdotal information suggests that pension funds and life companies have not been heavy sellers of equities since the stock market crash. Thus, although the fall in equity prices will have raised liquidity ratios by reducing the value of total assets, it is unlikely that they have yet risen much above 4 per cent, which is probably well below the institutions' desired level.

52. Pressure on institutions' liquidity from capital issues is likely to have eased very considerably since early November, with negligible equity issues and only a moderate pick-up in Eurosterling issues since then (see paras 53-54). No further equity issues are expected in November and December.

53. UK commercial companies raised a total of £1.7 billion net sterling finance in October from the domestic capital and eurosterling markets, compared to £2.5 billion in September and a monthly average of £1.5 billion in the rest of 1987. The fall in capital market issues since September largely reflects the decline in equity net issues, which fell to £1.4 billion in October, from

£2.0 billion the previous month (the October figure including £0.5 billion raised by BP in the form of a partly paid £1½ billion rights issue). Equity issues in the first half of November were negligible, and it seems likely that in the face of continuing stock market weakness, they will remain subdued for some time. In addition, the total of capital issues in the queue and those announced but not raised has fallen back by over £4½ billion between 1 October and 20 November, to stand at £4 billion, and little of this is expected to go ahead in the remainder of 1987. With companies expected to have a healthy demand for finance in the rest of the financial year, the weakness of the stock market may lead companies to increase their bank borrowing at least temporarily reversing the observed trend towards securitisation since 1984.

54. Eurosterling issues by UK companies in October were £250 million, most of which was by mortgage companies in the floating rate market. Mortgage companies have issued £1 billion of floating rate notes so far this year, reflecting their increasing share of the mortgage market (currently estimated to be about 10 per cent). In November so far, UK financial companies have raised a further £525 million. In the wake of the stock market falls and lower interest rates, activity in the euromarkets is likely to remain at higher levels in the coming months.

55. The stock of **sterling commercial paper** (SCP) outstanding rose by £150 million in October, to £2.3 billion, with net issues by UK companies of £110 million pushing the stock up to £1.6 billion. Monetary sector holdings of SCP rose by £50 million to £0.7 billion.

MG2 Division
1 December 1987

SECRET

Monetary developments since last month's report

	Latest outturns available at time of:		
	Apr Report	Oct Report	Nov Report
Monetary aggregates (12 month % growth)	(Mar)	(Sept)	(Oct)
M0 (sa)	4.1	4.9	5.6(4.9)+
M3	19.0	19.5	22.2
M4	13.9	14.9	15.7
M5	13.4	14.3	15.1
Bank lending	20.7	23.5	22.7
Bank & building society lending (est)	19.1	20.0	19.2
Interest rates (%)	30 Apr	2 Nov	3o Nov
3 month interbank	9.3	9.3	8.9
20 year gilt-edged (par yield)	8.8	9.3	9.3
Yield gap	0.5	0.0	0.4
3 month overseas basket	6.3	6.7	6.7
3 month interbank/euro dollar differential	2.3	1.6	1.0
Real 3 month interbank	5.1	5.1	4.7
Equity dividend yield (all-share)	3.3	4.2	4.7
IG yields (2001) assuming 5% inflation	3.7	4.5	3.9
Exchange rate			
ERI	73.2	74.6	76.4
Oil adjusted reference index	72.8	73.1	72.4
ERI/reference rate ratio*	100.5	102.1	105.5
Asset prices			
FT-A Index (% pa)	25.4	8.0	-1.4
FT-A Level (July peak: 1239)	1024	876	796
Halifax house index (% pa)**	14.5	14.5	16.2

\+ Provisional November outturn

* indicates what ERI would be if exchange rate simply responded to oil prices in the ratio 1:4. In determining the reference rate the base taken is the Jan '83 - Nov '85 average for the ERI and oil price.

** figures are for April, October and November

THE BEHAVIOUR OF M0

Recent Monthly Assessments have drawn attention to the disturbing signs that M0 have been showing in the last few months. In the past, M0 has been a good current indicator of money GDP - and is available some months before the money GDP data itself. It may also be a useful forward indicator of monetary conditions though the evidence is less clear-cut. Reflecting this, M0 is now the only monetary aggregate to have target status so it has considerable presentational importance as well. This annex looks at its recent and prospective behaviour in more detail.

The Brisk Growth of Recent Months

2. Table 1 shows how M0 has moved in the current financial year to date. Month to month growth rates are liable to be affected by erratic movements in bankers' balances and so it also looks at the behaviour of notes and coin alone, which is probably a better guide to underlying conditions.

Table 1: Growth of M0 in 1987-88 to Date

Seasonally adjusted, per cent

	12 month growth		3 month annualised growth	
	M0	**Notes & Coin**	**M0**	**Notes and Coin**
April	4.8	4.6	0.5	-0.8
May	4.4	4.5	5.6	4.6
June	4.2	4.6	4.6	7.3
July	5.4	4.7	7.6	6.9
August	4.7	4.6	6.8	7.5
September	4.9	5.0	9.5	8.2
October	5.6	5.2	6.9	7.9
November	4.9	4.8	7.1	7.2

3. M0's 12 month growth rate has remained within the 2-6 per cent target range, as has that for notes and coin. But this owes much to the relatively rapid increase in M0 in the second half of 1986. Three month annualised growth rates, perhaps a better indicative of current behaviour, have been around 7-9 per cent consistently over the last few months. In consequence, M0 is now appreciably above the level indicated by its expected growth profile at Budget time; by November to the extent of about 1½ percentage points. (See Chart 7 of the main paper).

The Prospects for the Rest of the Financial Year

4. In the immediate future, there seems little prospect of a significant reversal of the current brisk growth in M0. Table 2 shows the expected path over the rest of the year.

Table 2: M0 Prospects for the Rest of the Year

		Percentage Change Over 12 Months		
		Current forecast*	**FSBR Projection**	**Change**
	December	4.3	2.3	2.0
1988	January	5.4	3.2	2.2
	February	6.6	4.3	2.3
	March	6.5	4.1	2.4

* Projections produced by MP1 Division based on the Autumn Statement forecast but modified to allow for the effect of the equity price falls.

As table 2 reveals, by the end of the year M0 is expected to be growing by about 6½ per cent over the previous year. This would be about 2¼-2½ per cent greater than expected at the time of the 1987 Budget and ½ per cent above the top of the target range.

Reasons for the Faster M0 Growth

5. Several factors are likely to have contributed to the unexpectedly rapid growth of M0:

(i) Activity has been rising at faster rate than the Budget projections allowed for. By 1988 Q1 real GDP is expected to be 4¼ per cent higher than a year before against 2¼ per cent in the Budget projections. Consumer spending, which is particularly relevant to M0, is now expected to rise by 6½ per cent between 1987 Q1 and 1988 Q1: the corresponding increase in the Budget forecast was 3¾ per cent;

(ii) inflation, by contrast, is expected to be little different over the year as a whole. Consumer prices, which are probably the most important to M0, have been recorded to date as <u>lower</u> than expected at Budget time (though this seems not wholly plausible and later upward revision cannot be ruled out). Some acceleration is expected by the end of the year and by 1988 Q1 consumer prices are projected to be 3½ per cent higher than a year previously, the same increase as in the Budget forecast;

(iii) interest rates in the financial year to date have been below the Budget projections, by an average of about ¾ per cent. This has reduced the incentive to economise on non-interest bearing assets such as those included in M0 and has thus added to the rise;

(iv) taken together these factors account for only part of the excess rise in M0. Some of the remainder may have risen because of unanticipated changes in the pace of financial innovation - a process which, so far as M0 is concerned, is likely to be uneven over time. But there is no reliable or timely data to confirm or refute this.

6. Using what is known about the determinants of M0, it is possible to make a rough quantitative assessment of the impact of the various factors discussed above.

	Nov 1987	Mar 1988
M0 12 Month Growth Rate:		
Expected at Budget Time	3½	4
Outturn/Current Expectation	5	6½
Excess	1½	2½
Due to:		
Higher Activity	+ ½	+1¼
Higher Prices	-1	-
Interest Rates	+ ½	+ ½
Financial Innovation/Unexplained	+1½	+ ¼

Implications

7. The substantive implications of the overshoot in M0 are not straightforward. In one sense, all of the excess growth

to the end of November is unexplained. Higher activity and lower interest rates than expected at Budget time each explain about ½ per cent of extra M0 growth. But this is exactly offset by the effect of the recorded lower consumer prices. On the other hand, it seems possible that both real consumer spending and the consumer price level may be revised up in future CSO estimates. That would leave a lower unexplained component, with buoyant real activity as the major factor accounting for the high M0 growth.

8. On present estimates, higher prices directly have not contributed to the M0 overshoot and unless future upward revisions to consumer price estimates are very large then that looks likely to continue to hold. If one also takes the view that the higher real activity reflects, at least in part, a better supply side performance than seemed probable at Budget time, so that it is sustainable and not a harbinger of future inflation, then the M0 overshoot would not be a cause of major concern. With hindsight there might, on that view, have been a case for a higher M0 target range since faster M0 growth would have proved consistent with the Government's inflation objectives. On the other hand, if the real activity is purely cyclical storing up inflationary pressures, then M0's behaviour must be a matter of more concern.

9. This is a critical issue and also a difficult one. The good trade performance in the early part of the year led some outside commentators to conclude that there had been a significant upward shift in productive potential. But the more recent deterioration in net trade performance suggests that any such shift is probably quite small. The behaviour of productive potential will obviously have to be assessed in detail in preparation for the 1988 MTFS. But, on present evidence, the warranted increase in the MO range for 1987-88 looks to be modest: perhaps of the order of ½ per cent. It seems more likely, therefore, that the extra activity is temporary and ultimately unsustainable. It may be that the inflationary pressure that this might have been expected to generate has been masked to date by a higher exchange rate than would have been anticipated given domestic monetary indicators . But the continuation of the high exchange rate cannot be taken for granted and, to this extent, the rapid growth in MO is disturbing.

10. Apart from these substantive worries, there may also be a presentational problem. On present projections, the last published figures before the next Budget (for February 1988) will show M0 outside the target range.

ANNEX II

BROAD MONEY FORECAST

1A. The M3 And M4 forecasts are tentative because of uncertainties over the monetary effects both of the shakeout in equity prices and the BP sale. Using the assumptions listed below, M3 and M4 are forecast to grow in November by 1.4 percent and 1.1 per cent respectively, with annual growth remaining unchanged at 22 per cent for M3 and 15 3/4 per cent for M4. Annual growth rates are expected to rise further in the following two months.

2A. Special factors affecting the forecast are set out in Table 1. It is assumed that the fall in equity prices will have an expansionary effect on broad money, as liquidity preferences increase. The counterpart to the increased liquidity preference is assumed to be increased bank borrowing by both the private sector and the overseas sector (with expansionary effects on lending and the externals respectively) as companies substitute bank borrowing for equity finance. It is assumed that the effect on bank lending to the UK private sector is £¼ billion per month on the basis that, with equity issues falling to zero from an average of £1½ billion per month (see main text), two-thirds of companies will postpone borrowing for three months, while of the remainder, half will substitute into bond issues and half into bank borrowing. It is assumed that the effect on overseas companies' sterling bank borrowing will also be £¼ billion per month. With respect to BP, it is assumed that the expansionary effect in October will unwind in November as the remaining proceeds are paid over. It is further assumed that the Bank of England will not buy significant amounts of shares under the support arrangements.

3A. The lending forecast assumes that underlying seasonally adjusted bank lending grows by 1.6 per cent (about £3 1/4 billion), and building society lending by 1.1 per cent (about £1 1/2 billion), per month. Special factors superimposed on the underlying forecast are set out in Table 2. It is assumed that the stock market crash will boost bank lending by about £1/4 billion per month (as explained above). It is assumed that BP will use some of the £1.5 billion held in cash on 30 October to repay bank borrowing undertaken early in 1987 when BP purchased SOHIO, but that distress borrowing by BP underwriters will offset this effect within total lending.

4A. In the absence of further movements in base rates, other building societies are likely to follow the lead of the Halifax (which cut its rate to 10.3%) and announce cuts in mortgage rates of around one point effective from 1 December or 1 January. The Abbey announced a cut shortly after the Halifax but have only recently confirmed the new rate, which is to be 10.1% (The Woolwich have also announced a move to 10.2% from December). Societies may also take the opportunity to raise margins by lowering retail deposit rates by more than one point since their increased inflows following the fall in equity prices have removed the need for violent competition for retail funds, a factor which may be strengthened if the limit on a wholesale funding is raised.

5A. Given the prospect of competitive mortgage rates, and the ability to compete in the mortgage market on non-price factors such as income multiples, societies are likely to emerge from the doldrums of the past six months and regain some of the ground lost to banks and Mortgage Finance vehicles (most of these have however already announced cuts in rates). But the full effect of this, given the lag between approvals and completions, is unlikely to emerge until towards the end of the forecast period and any lowering in mortgage demand as a result of equity price falls may nullify higher market share.

6A. The main uncertainty in the forecast is of the size of the benefit to retail inflows from the equity price crash, and from the temporary gain in competitiveness in November via-a-vis the banks, which have cut deposit rates rather than mortgage rates with the falls in base rates. In November we have allowed an extra £150m for competitiveness, £100m for BP effects, plus £350m and £300m for gains from unit trust and equities respectively. In future months, the effects diminish somewhat but the forecast for November through January of £1400m, £1100m, and £950m respectively is for very high inflows relative to the average over the year so far of around £550m per month. As a result, liquid assets grow sharply, with a possible reversal to net gilt purchases of around £100m a month being the main feature.

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ANNEX TABLE 1

Broad Money Forecasts

£ million not seasonally adjusted

	1987 OCTOBER		NOVEMBER		DECEMBER		1988 JANUARY	
	M4	M3	M4	M3	M4	M3	M4	M3
(i) Underlying Increase*	2055	2380	4200	3450	4100	2150	-1325	-3150
Special Factors								
Privatisations	1500	1500	-1500	-1500	200	200	400	400
Bank/Building Society Lending	-	-	175	175	-	-	500	500
Stock market correction	-	-	500	500	500	500	500	500
Intervention	1600	1600	-	-	-	-	-	-
(ii) Total Special Factors	3100	3100	-825	-825	700	700	1400	1400
(iii) Total Increase	5155	5480	3375	2625	4800	2850	75	-1750
% Change on previous month	1.8	3.1	1.1	1.4	1.6	1.5	0.0	-0.9
% Change on previous year	15.7	22.2	15.8	22.1	16.8	23.6	17.0	23.5
Memo								
Underlying % Change on previous year	13.9	19.0	14.3	19.5	15.0	20.6	14.7	19.5
% Change expected at Budget time	14.2	16.0	14.3	15.9	15.2	17.0	15.6	16.8

[Line (iii) = Line (i) + Line (ii)]

*Based on the following assumptions:

(a) Underlying bank lending rises by £3.2 billion per month and building society lending rises by £1.5 billion per month, both seasonally adjusted

(b) The public sector contribution to M4 and M3 is as follows:

	September	October	November	December
M4	1084	-1650	150	-4950
M3	1816	-1750	150	-4850

ANNEX TABLE 2

Lending Forecasts

£ million

	1987 OCTOBER			NOVEMBER			DECEMBER			1988 JANUARY		
	Bank Lend-ing	Build-ing Society Lending	Lending Counter-part to M4*	Bank Lend-ing	Build-ing Society Lending	Lending Counter-part to M4*	Bank Lend-ing	Build-ing Society Lending	Lending Counter-part to M4*	Bank Lend-ing	Build-ing Society Lending	Lending Counter-part to M4*
(i) Underlying Increase	2908	1448	4047	3180	1450	4630	3225	1450	4675	3270	1300	4770
Special Factors												
PSBR offset	780	-	780	-	-	-	-	-	-	400	-	400
Bill leak	-294	-	-294	-	-	-	-	-	-	100	-	100
Take-overs	-500	-	-500	500	-	500	-	-	-	-	-	-
Stock market correction	-	-	-	250	-	250	250	-	250	250	-	250
Other identified	-	-	-	-325	-	-325	-	-	-	-	-	-
(ii) Total Special Factors	-14	-	-14	425	-	425	250	-	250	750	-	750
(iii) Total Increase (seasonally adjusted)	2894	1448	4033	3605	1450	5055	3475	1450	4925	4020	1500	5520
Total Increase	2935	1510	4136	3625	1625	5250	3950	1150	5100	3575	1225	4800
% Change on previous year	22.8	13.9	19.2	22.6	13.7	19.2	22.0	13.6	18.8	23.0	13.3	19.3
Memo												
Underlying % Change on previous year	23.4	13.9	19.2	22.3	13.7	19.0	21.6	13.6	18.6	22.2	13.3	18.8
% Change expected at Budget time	20.3	15.9	18.1	19.3	15.8	17.5	18.5	15.8	16.9	18.9	16.0	17.1

*Excludes bank lending to building societies (which is included under Bank Lending)

ANNEX TABLE 3 BROAD AGGREGATES FORECAST

£ mn u/a

	OUTTURN 1987 OCT	FORECAST NOV	DEC	1988 JAN
1. CG (OA) (SURPLUS-)	-531	-725	475	-5675
2. LABR	-390	-450	200	75
3. PCBR	-63	-225	25	-75
4. PSBR(1+2+3)	-984	-1400	700	-5675
5. NET DEBT SALES TO NBPS (-)				
GILTS	109	200	-400	-350
TREASURY BILLS etc	72	-500	100	500
NATIONAL SAVINGS	42	0	-50	-125
CTDs	-166	50	200	1000
OPS DEBT	-45	300	0	0
TOTAL	12	50	-150	1025
6. EXTERNAL FINANCE OF PUBLIC SECTOR (INC-)	2786	-400	-400	-200
7. OVER (-)/UNDER (+) FUNDING (4+5+6)	1814	-1750	150	-4850
8. STERLING LENDING TO NON-BANK PRIVATE SECTOR	2935	3625	3950	3575
(seasonally adjusted)	(2894)	(3605)	(3475)	(4025)
9. PRIVATE NET EXTERNALS AND NET NON-DEPOSIT LIABILITES	731	750	-1250	-475
10.M3 (7+8+9)	5480	2625	2850	-1750
BUILDING SOCIETIES:				
11. RETAIL DEPOSITS	1058	1050	2900	2250
12. WHOLESALE DEPOSITS NBPS	-2	0	150	150
13. HOLDINGS OF M3 (-)	-1381	-300	-1100	-575
14.M4 (10+11+12+13)	5155	3375	4800	75

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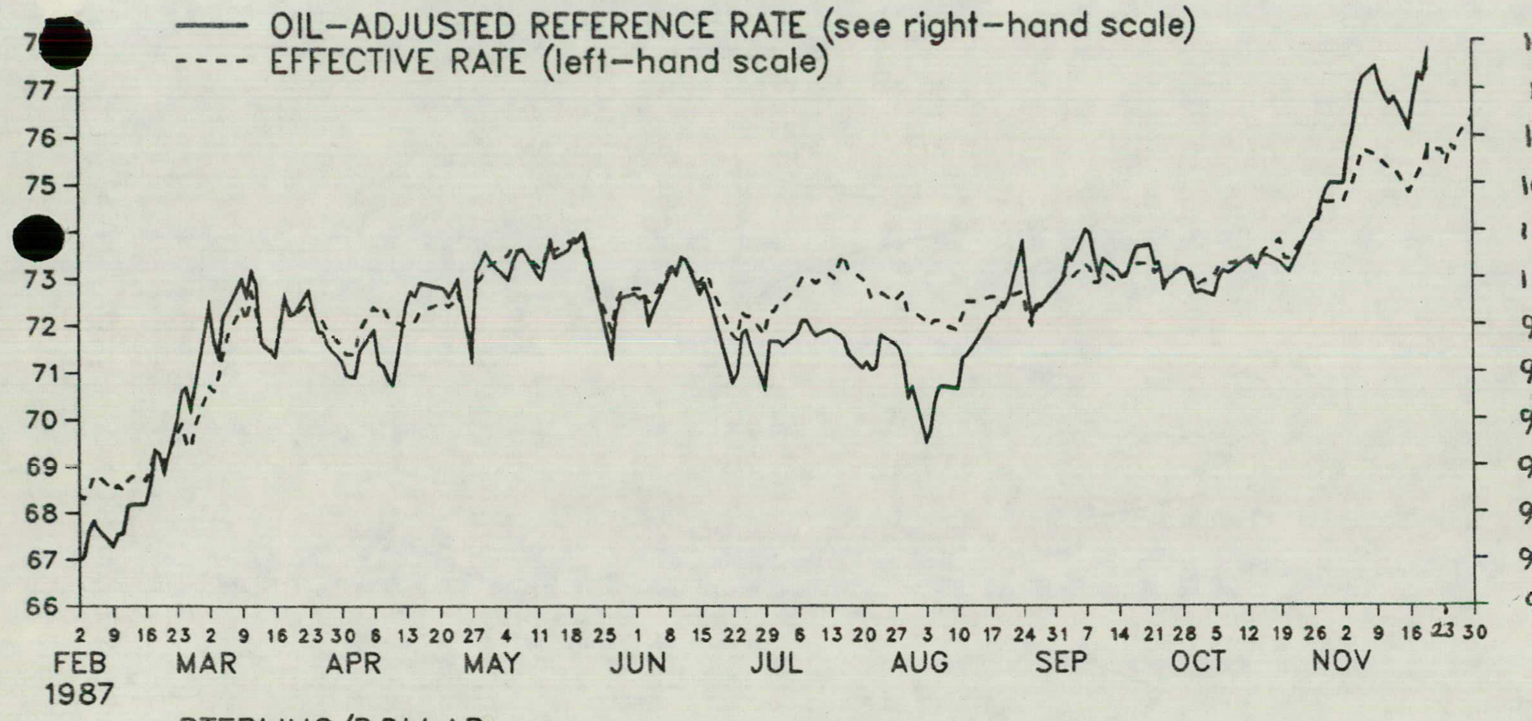
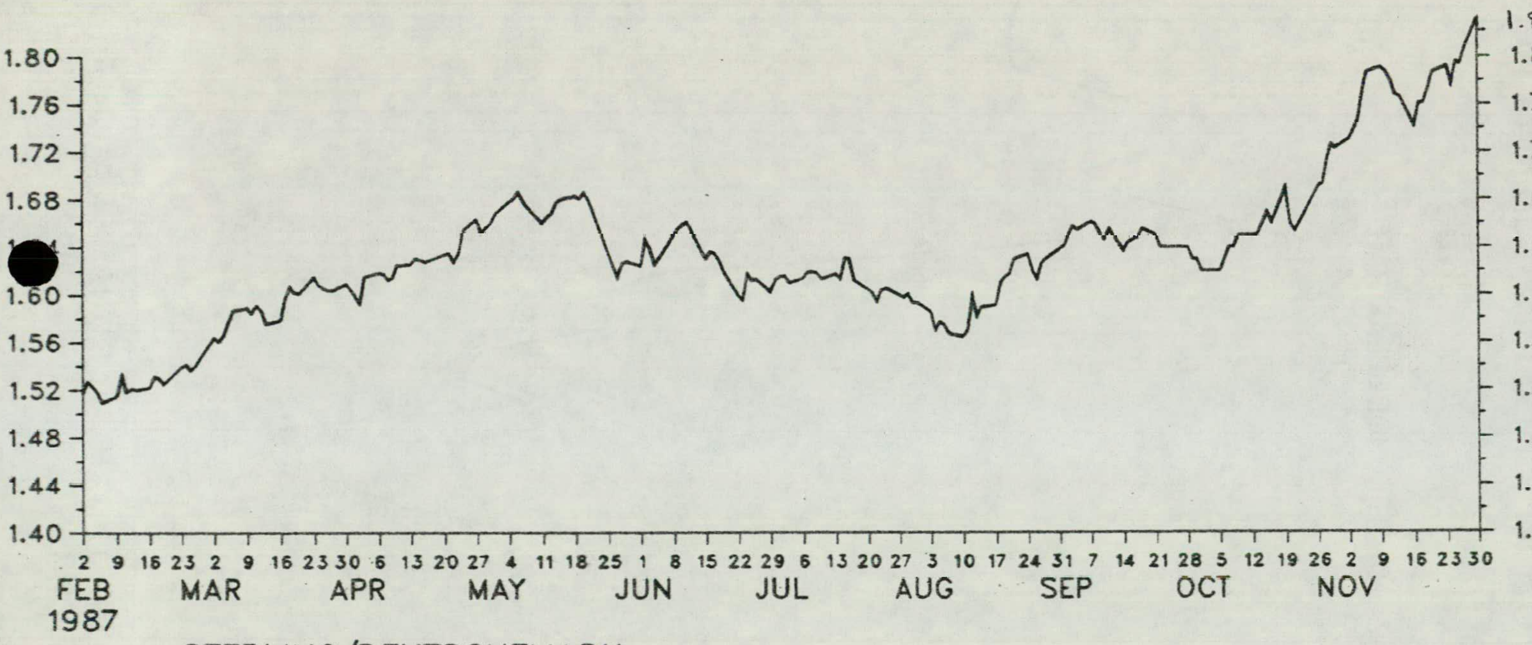
MONTHLY MONETARY REPORT : CHARTS

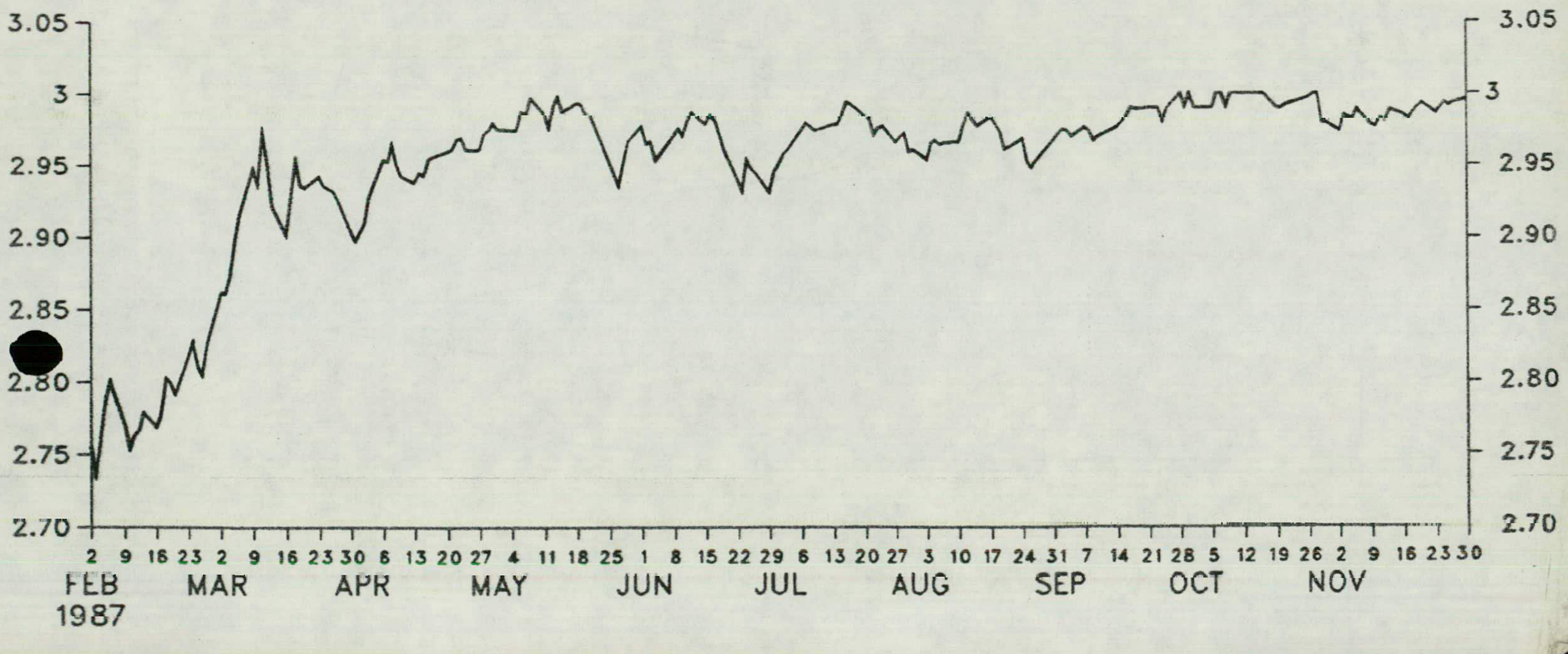
CHART I:EXCHANGE RATE



STERLING/DOLLAR



STERLING/DEUTSCHEMARK



UK/US INTEREST RATE DIFFERENTIAL

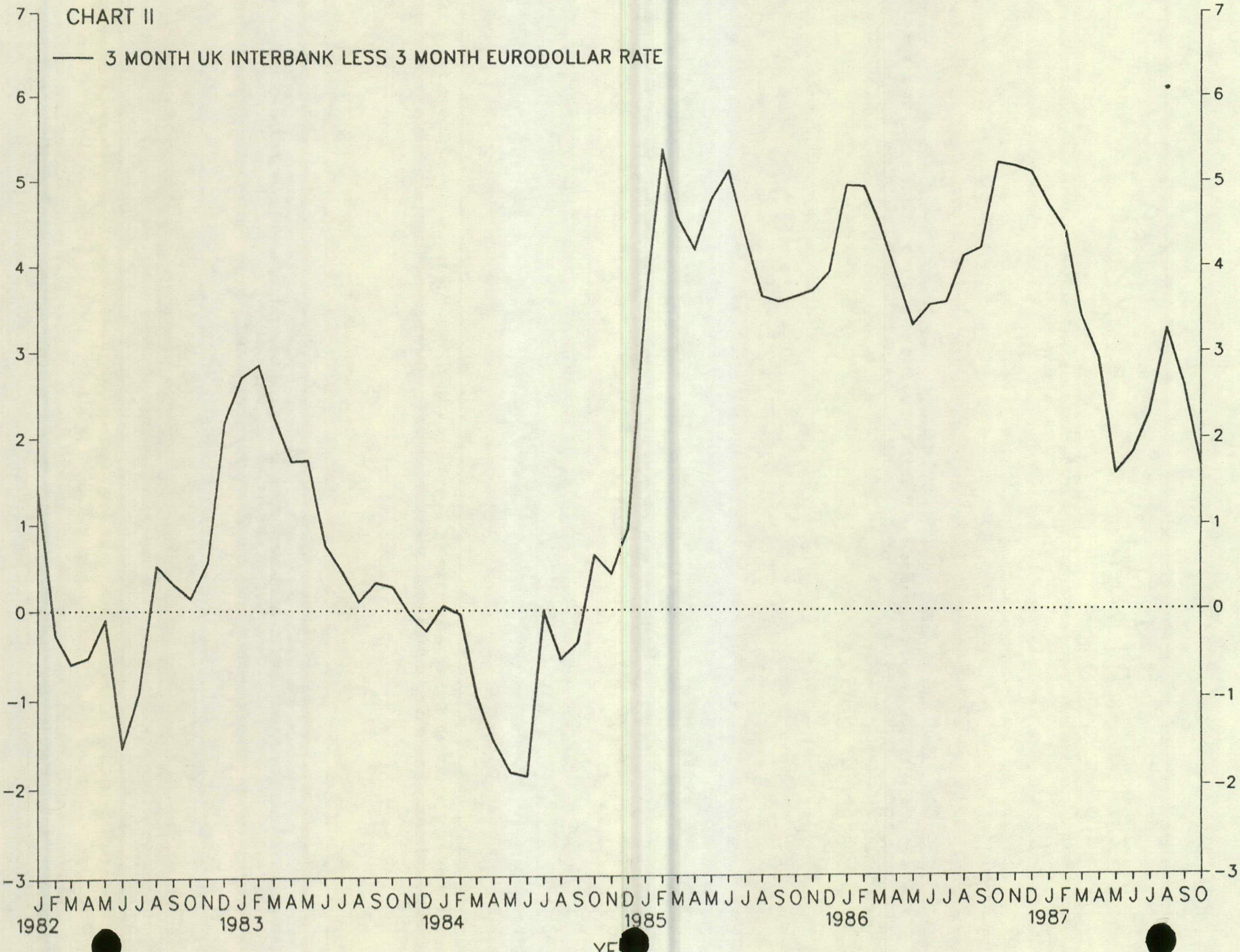


CHART III NARROW MONEY

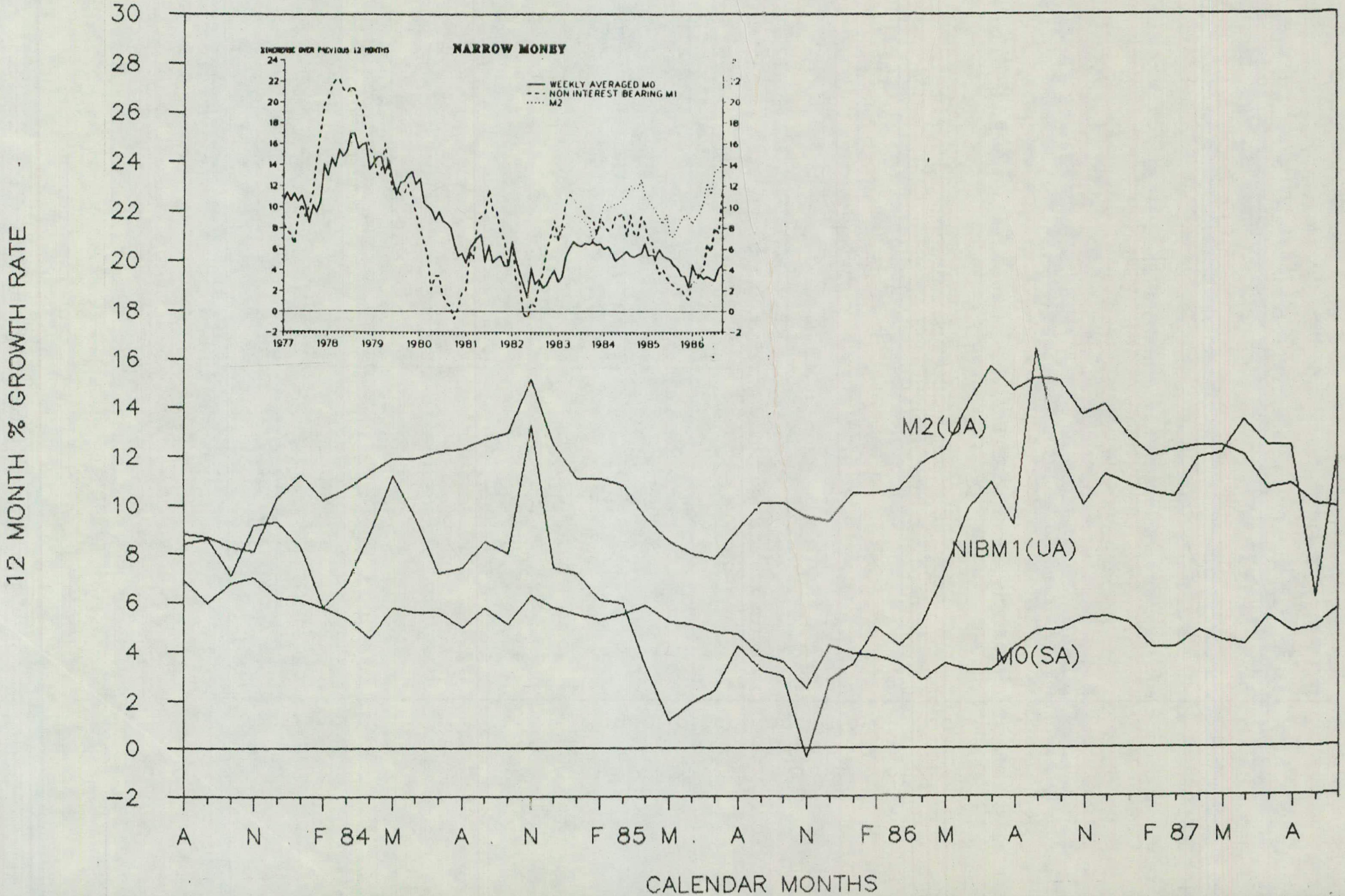


CHART IV BROAD MONEY

Annual percentage growth (ua)

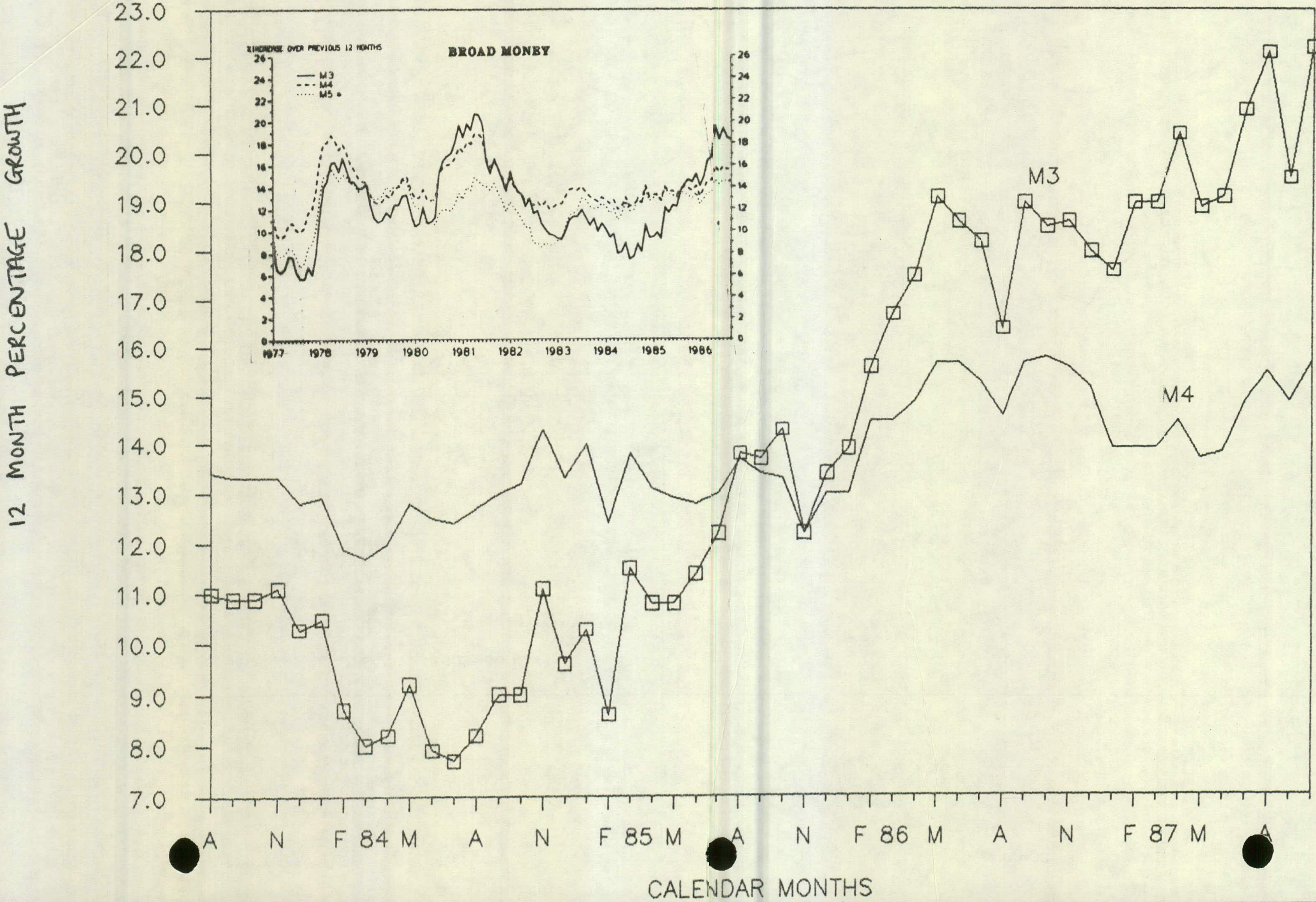
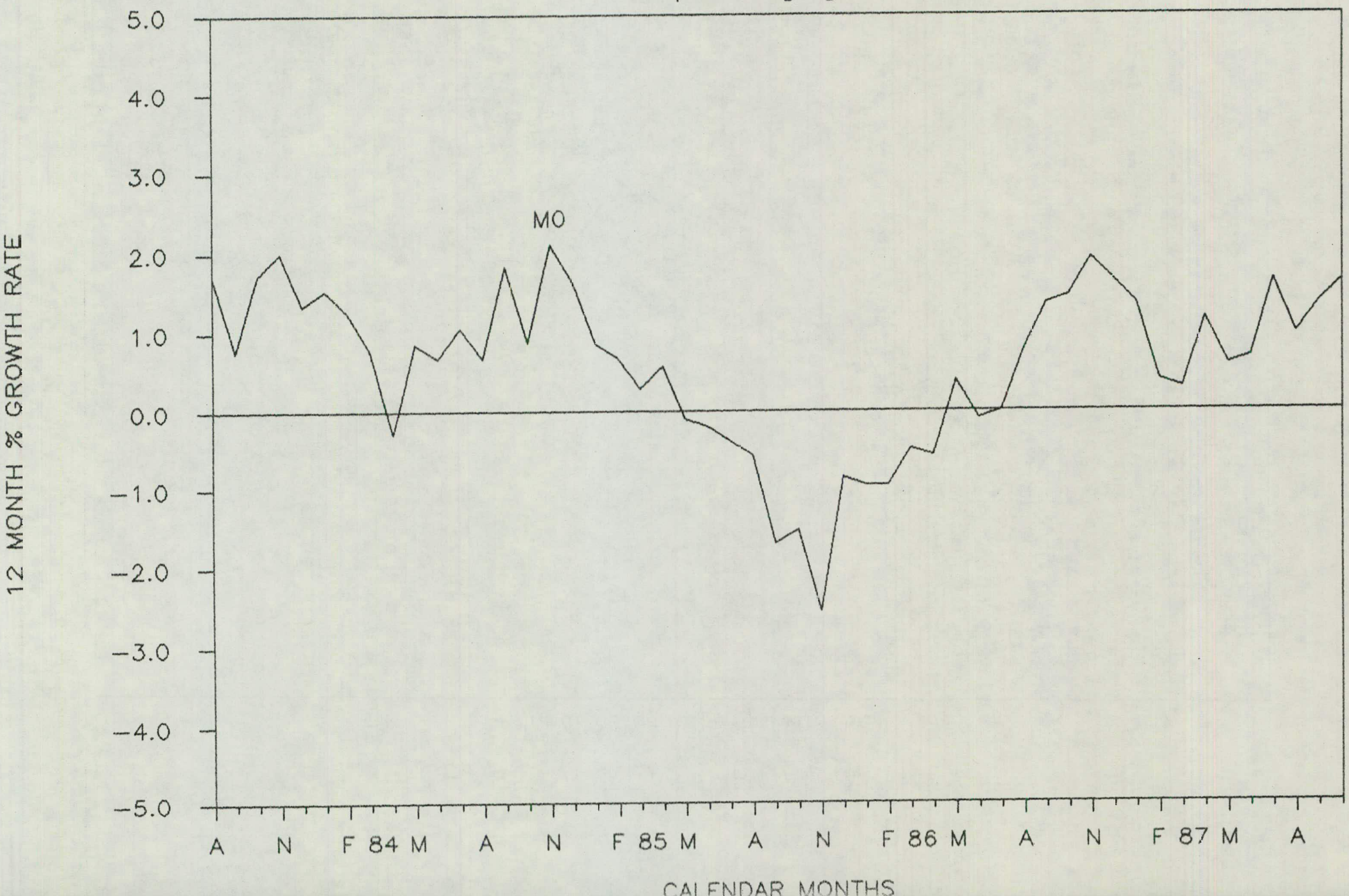


CHART V REAL M0

Annual percentage growth (sa)



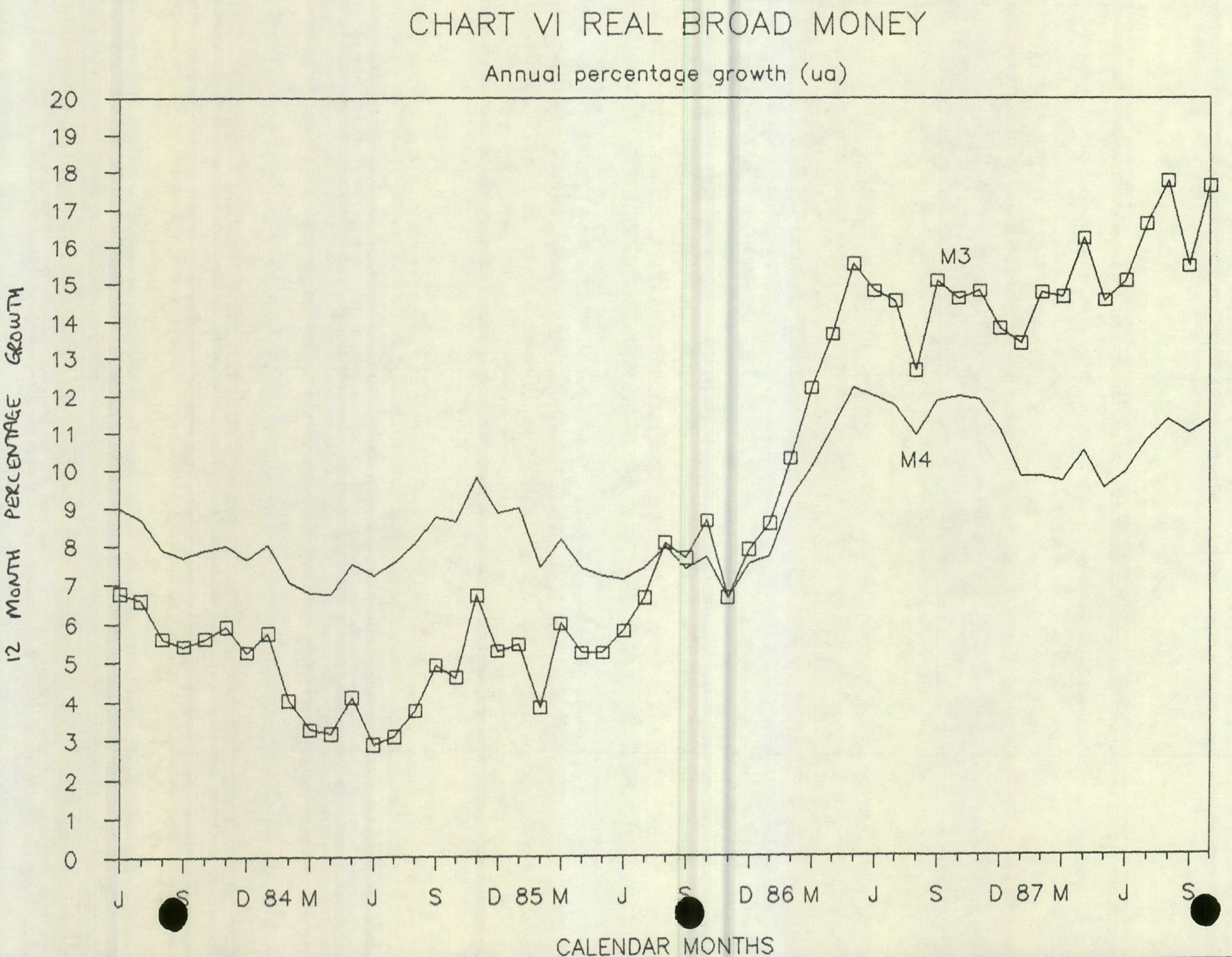


CHART VI REAL BROAD MONEY
Annual percentage growth (ua)
12 MONTH PERCENTAGE GROWTH
20
19
18
17
16
15
14
13
12
11
10
9
8
7
6
5
4
3
2
1
0
M3
M4
J
S
D 84 M
J
S
D 85 M
J
S
D 86 M
J
S
D 87 M
J
S
CALENDAR MONTHS

CHART VII

COMPARISON OF 1987 BUDGET FORECAST WITH OUT-TURN FOR M0

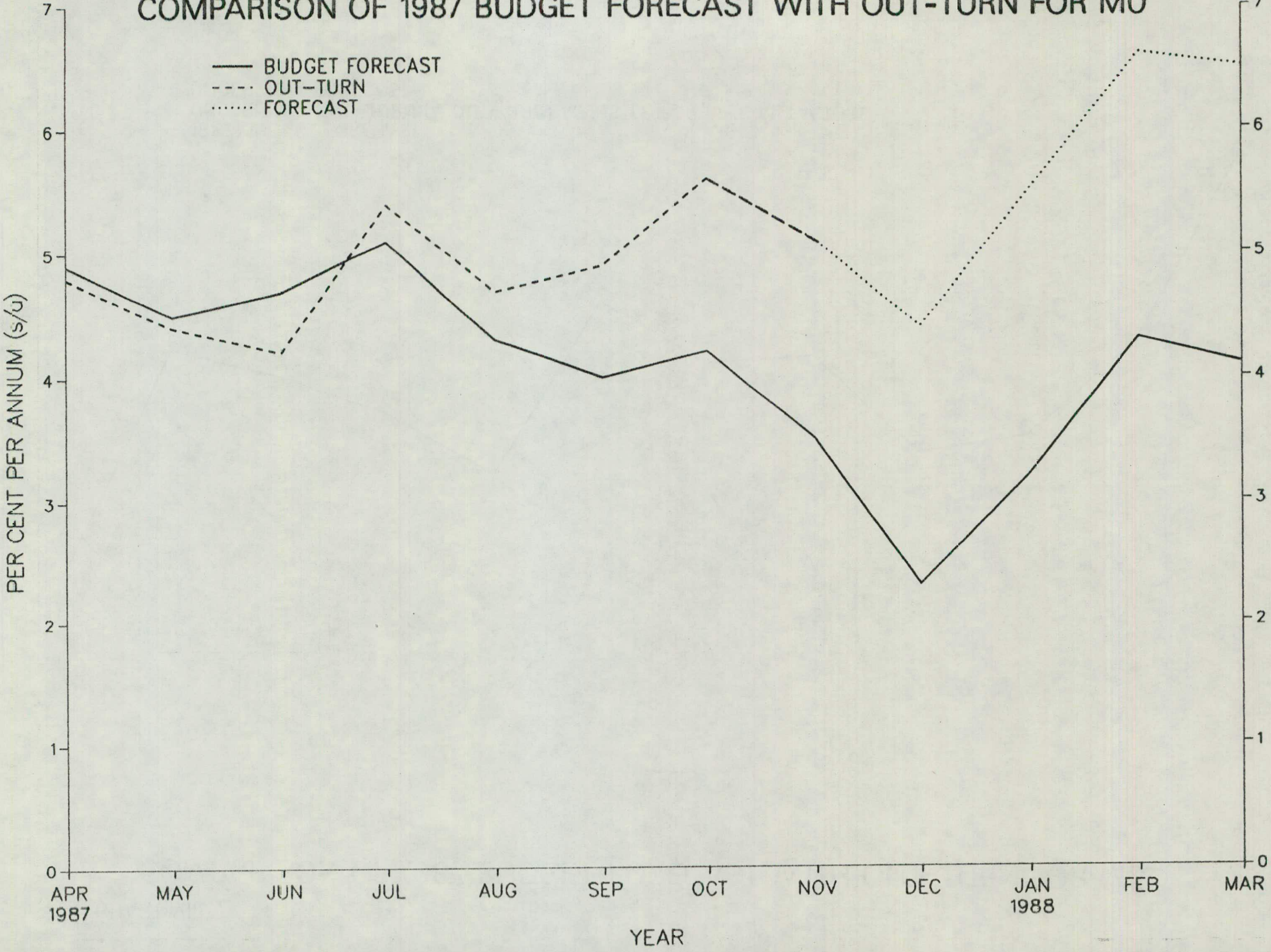


CHART VIII

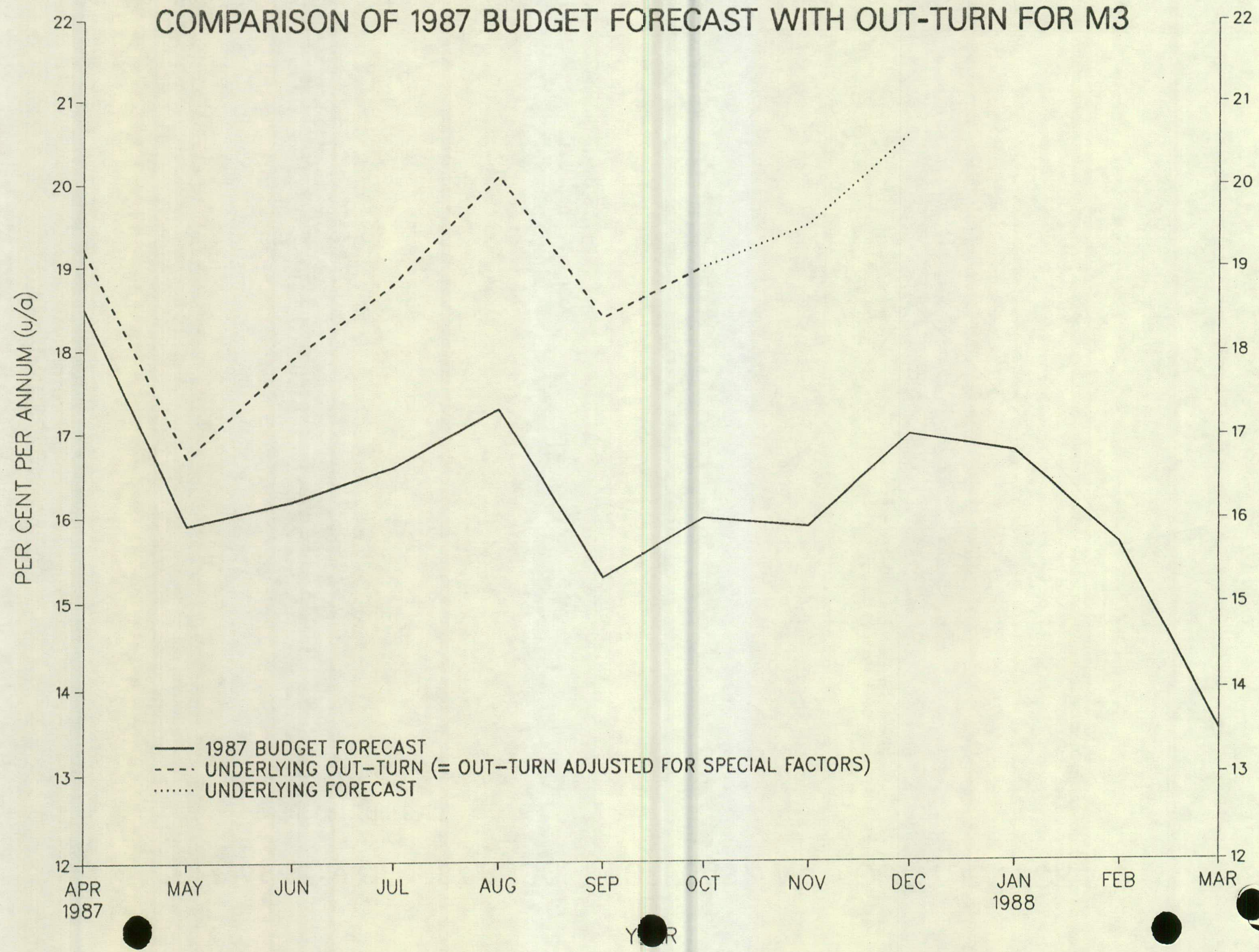

COMPARISON OF 1987 BUDGET FORECAST WITH OUT-TURN FOR M3
PER CENT PER ANNUM (u/a)
22
21
20
19
18
17
16
15
14
13
12
APR 1987
MAY
JUN
JUL
AUG
SEP
OCT
NOV
DEC
JAN 1988
FEB
MAR
YEAR
1987 BUDGET FORECAST
UNDERLYING OUT-TURN (= OUT-TURN ADJUSTED FOR SPECIAL FACTORS)
UNDERLYING FORECAST

CHART X RETAIL DEPOSITS

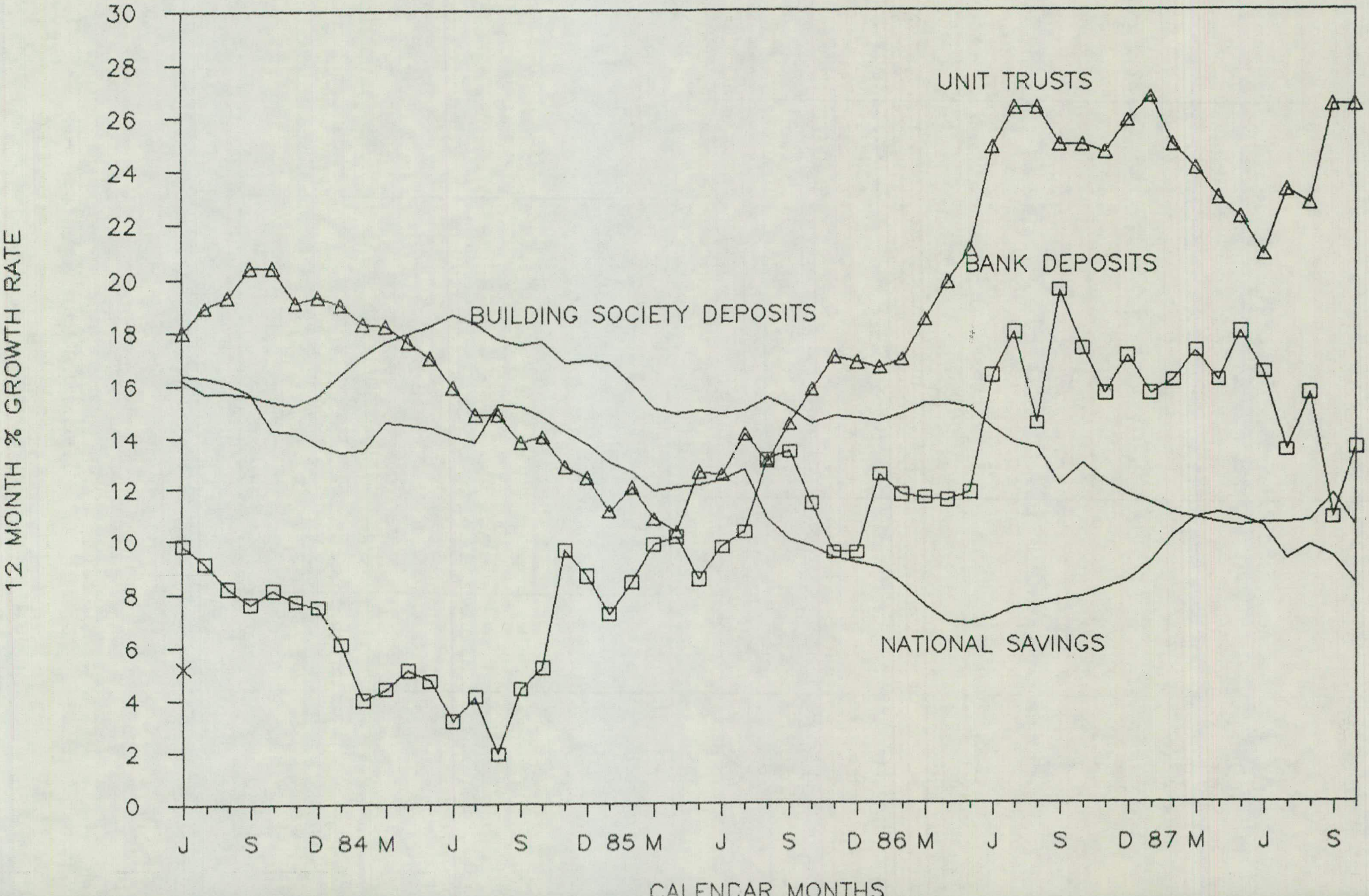
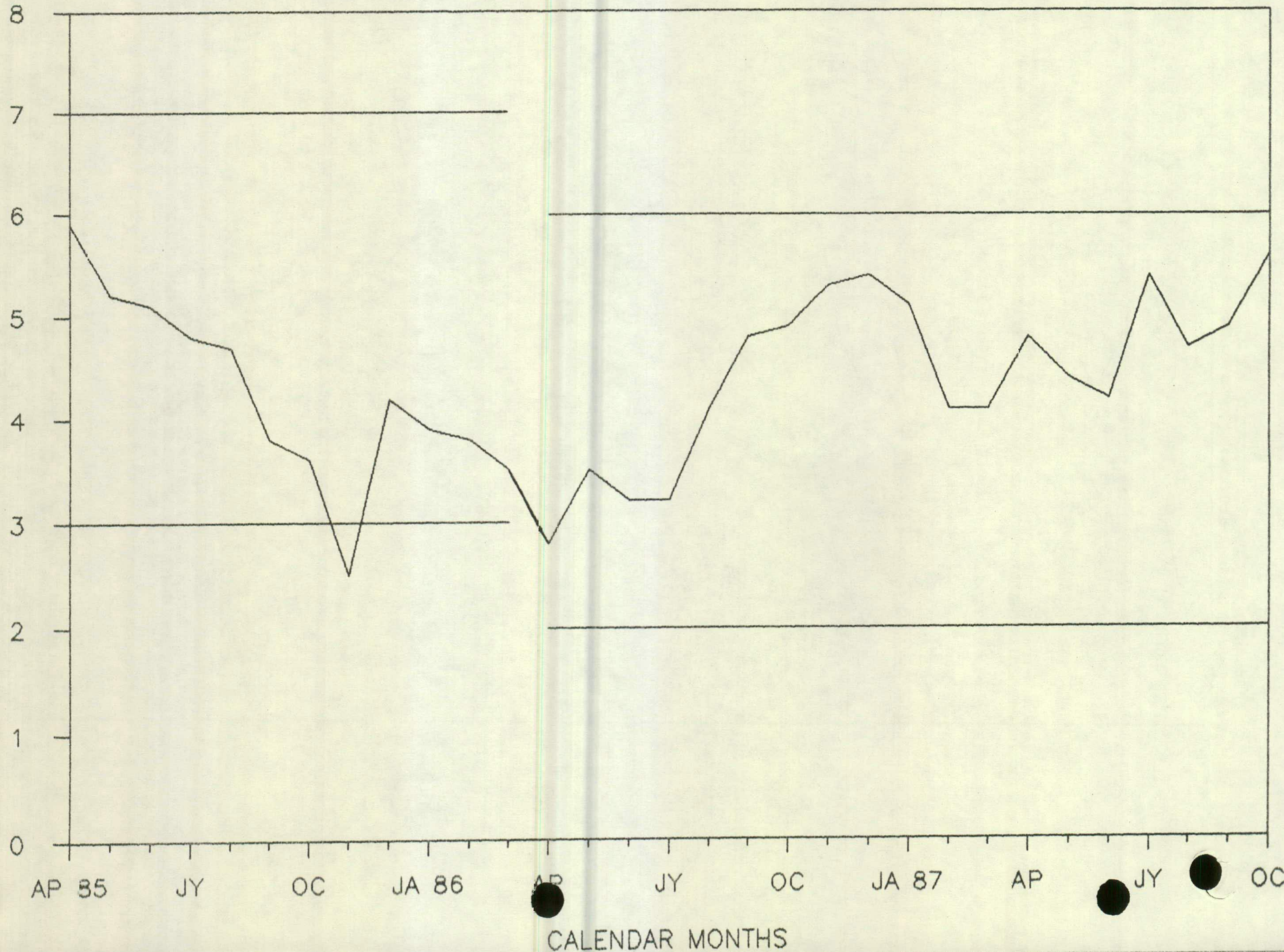


Chart IX

MO GROWTH (SA) COMPARED TO TARGET RANGE

CHART IX



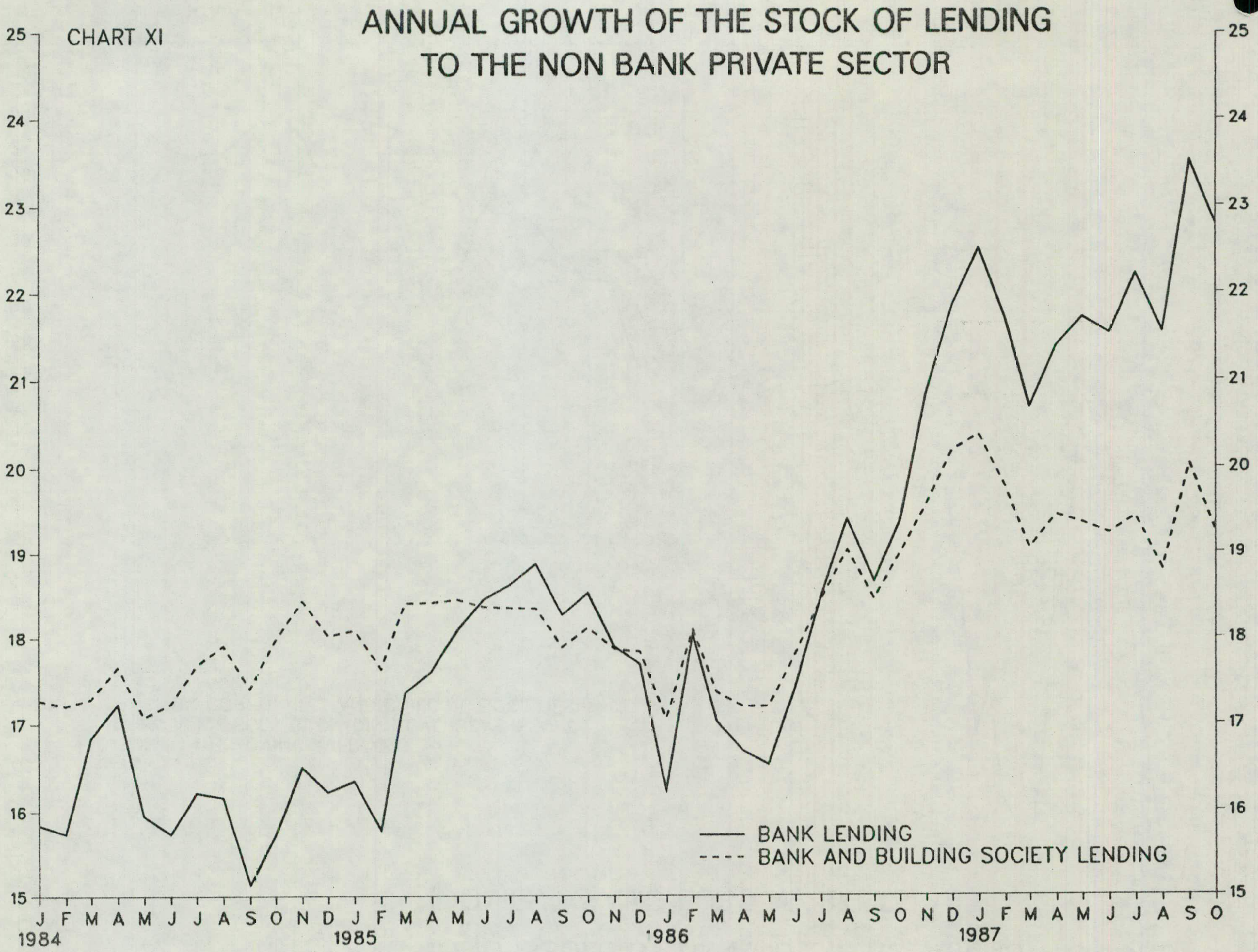
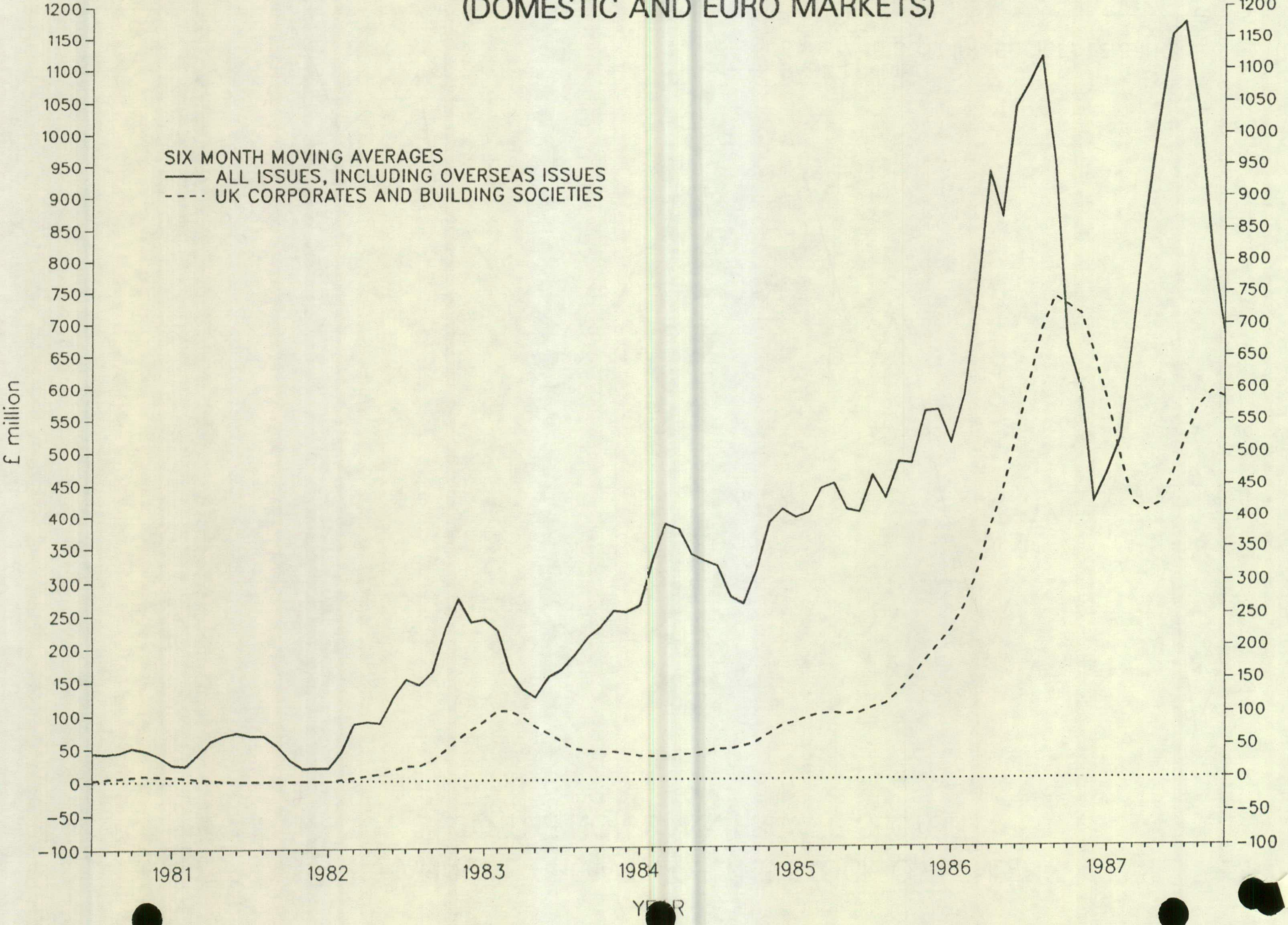


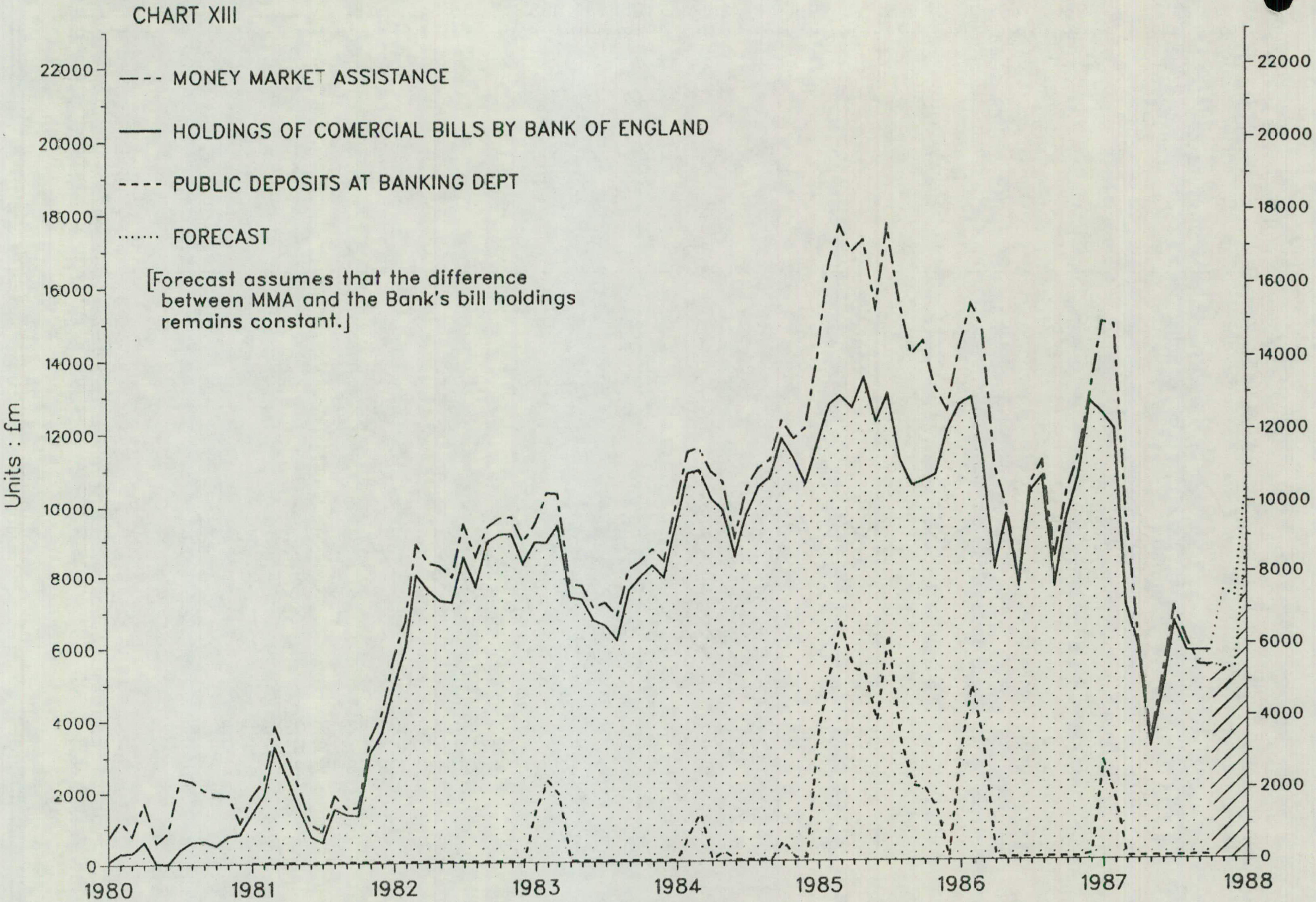
CHART XI
ANNUAL GROWTH OF THE STOCK OF LENDING
TO THE NON BANK PRIVATE SECTOR
25
24
23
22
21
20
19
18
17
16
15
BANK LENDING
BANK AND BUILDING SOCIETY LENDING
J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O
1984
1985
1986
1987

CHART XII

STERLING BOND ISSUES BY UK AND OVERSEAS INSTITUTIONS (DOMESTIC AND EURO MARKETS)

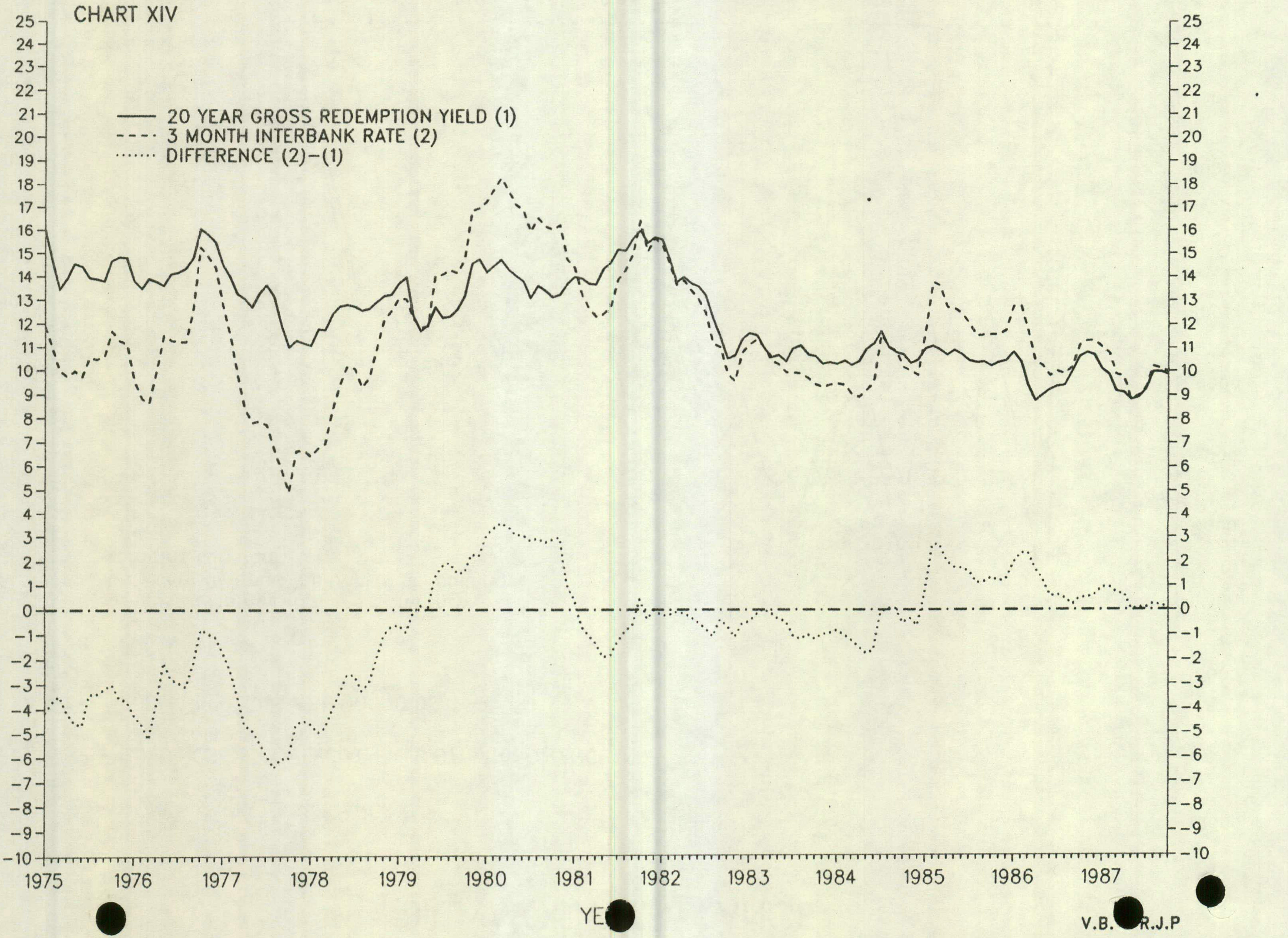


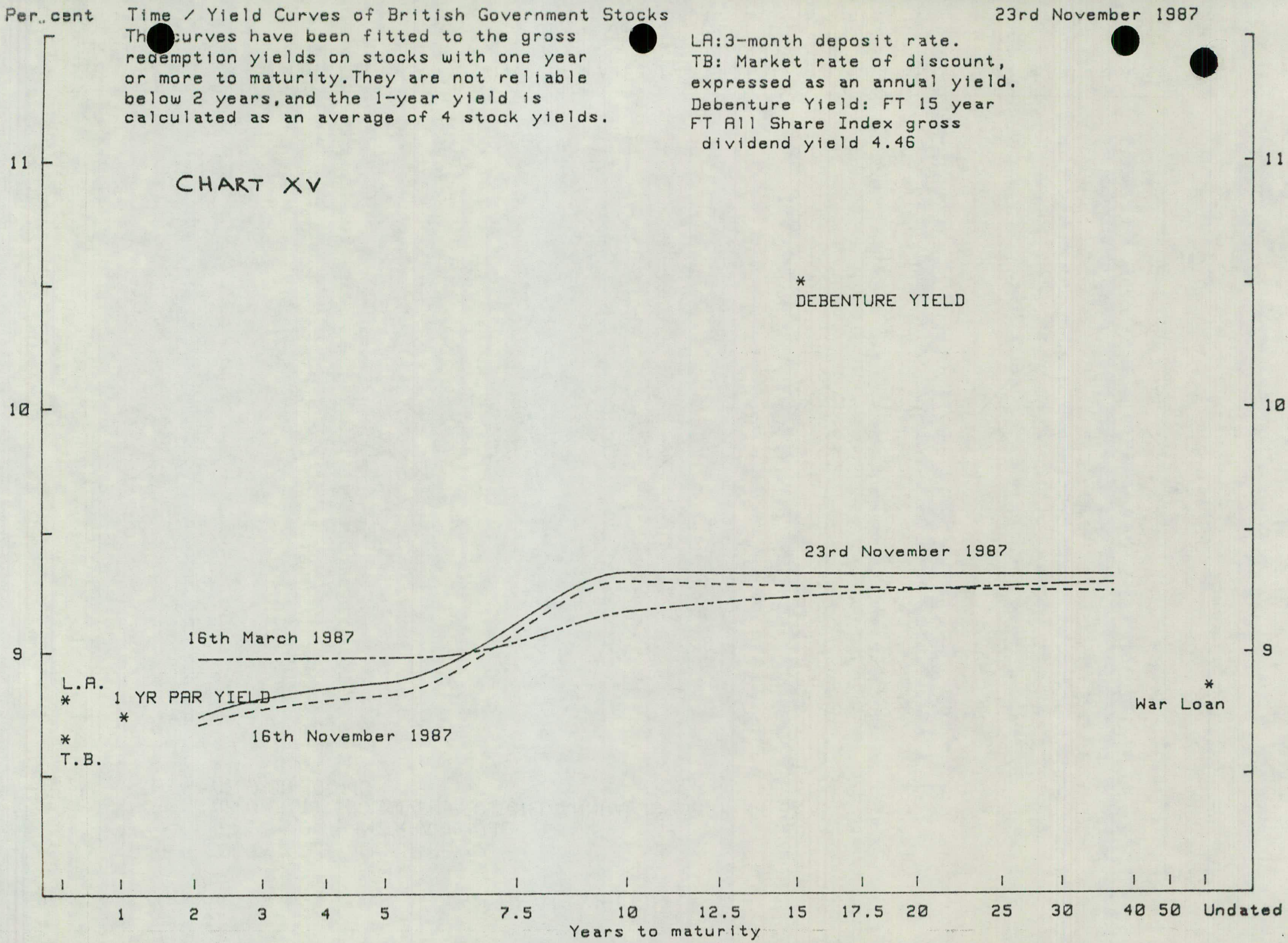
BILL MOUNTAIN RANGE



* end banking months until August 1986 thereafter end calendar months

NOMINAL INTEREST RATES

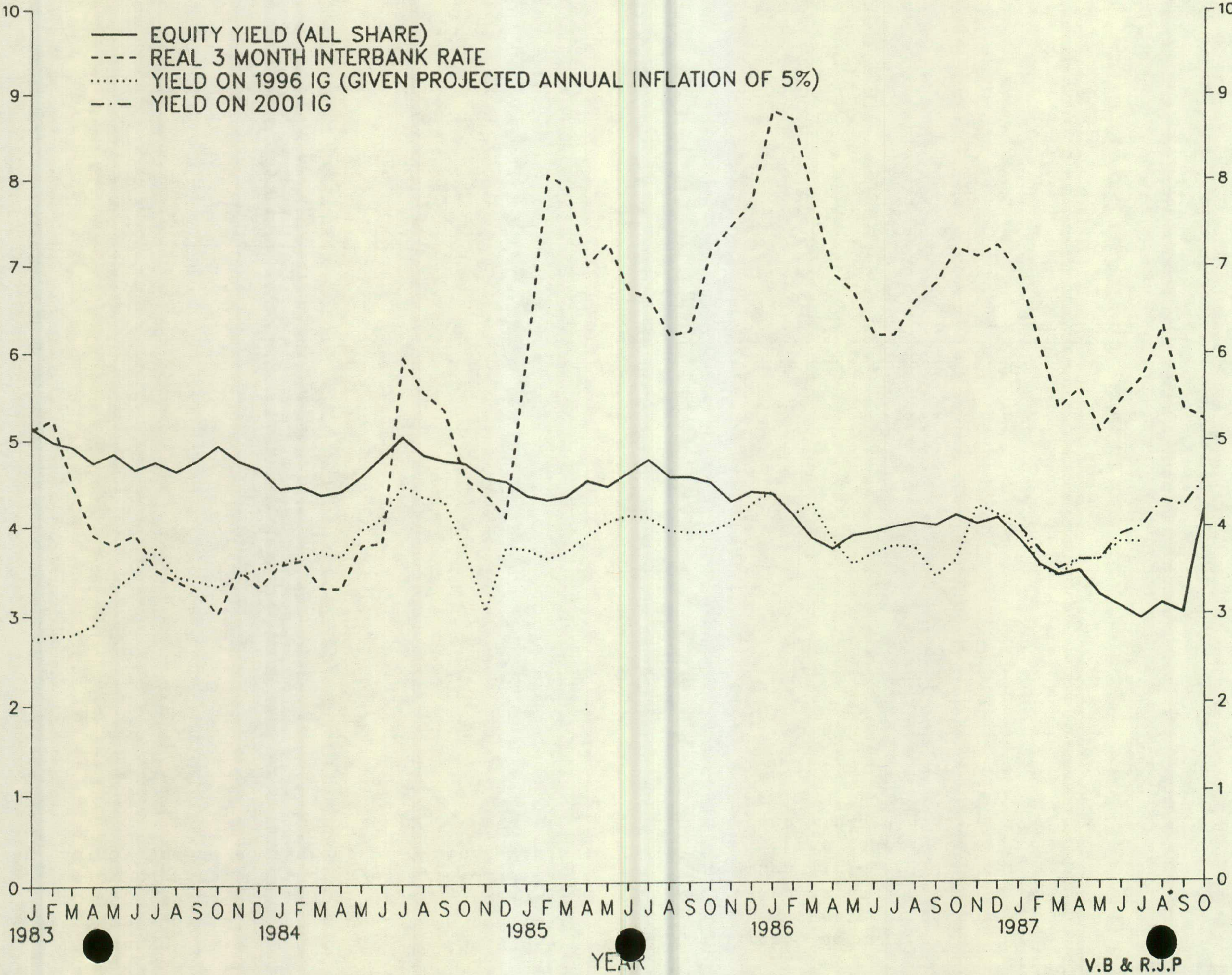




Per cent
Time / Yield Curves of British Government Stocks
23rd November 1987
The curves have been fitted to the gross redemption yields on stocks with one year or more to maturity. They are not reliable below 2 years, and the 1-year yield is calculated as an average of 4 stock yields.
LA: 3-month deposit rate.
TB: Market rate of discount, expressed as an annual yield.
Debenture Yield: FT 15 year
FT All Share Index gross dividend yield 4.46
CHART XV
DEBENTURE YIELD
23rd November 1987
16th March 1987
L.A.
1 YR PAR YIELD
16th November 1987
T.B.
War Loan
11
10
9
1
2
3
4
5
7.5
10
12.5
15
17.5
20
25
30
40
50
Undated
Years to maturity

CHART XVI

REAL YIELDS



V.B & R.J.P

ANNUAL HOUSE PRICE INFLATION

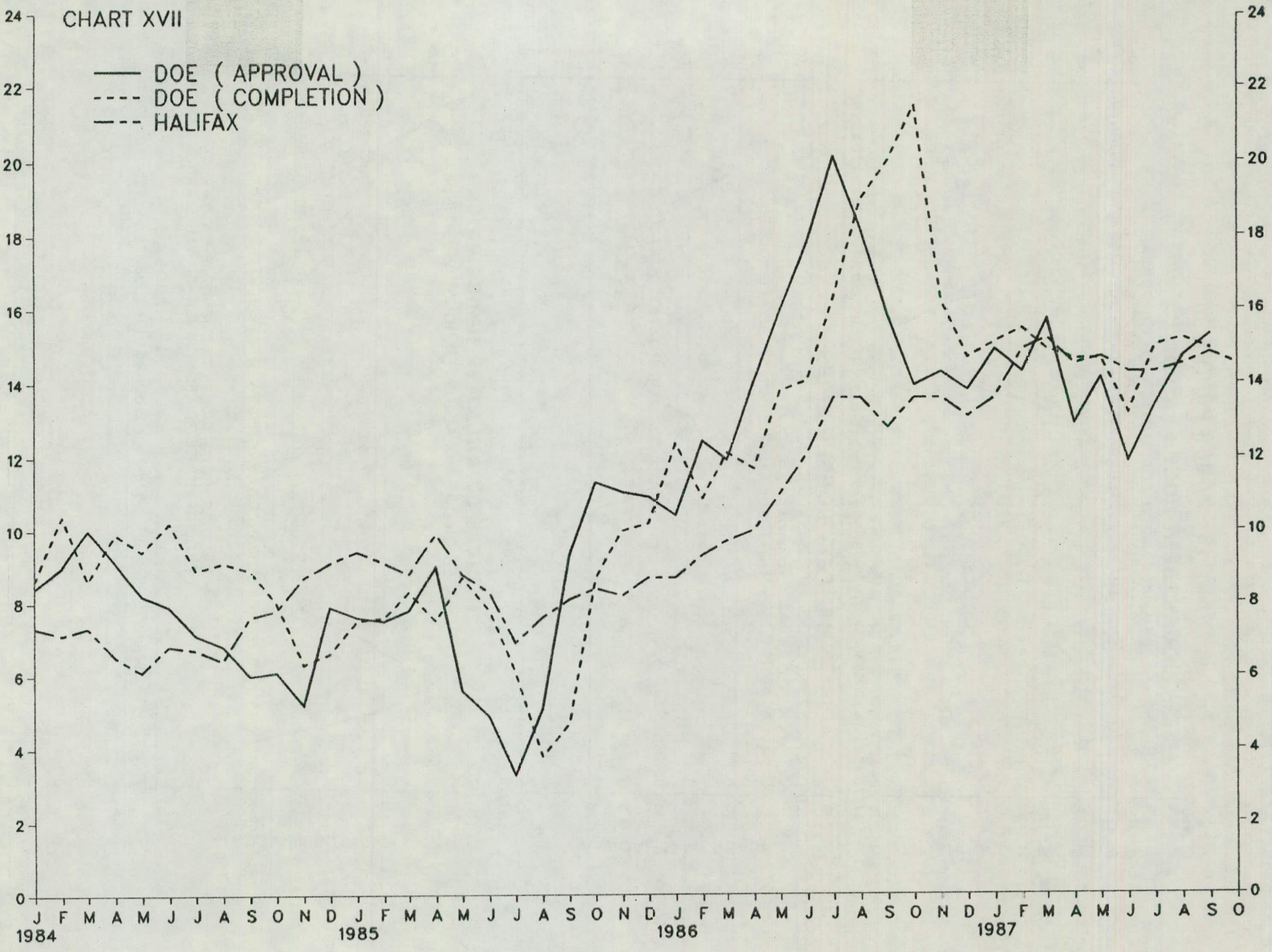


CHART 18 HOUSE PRICES

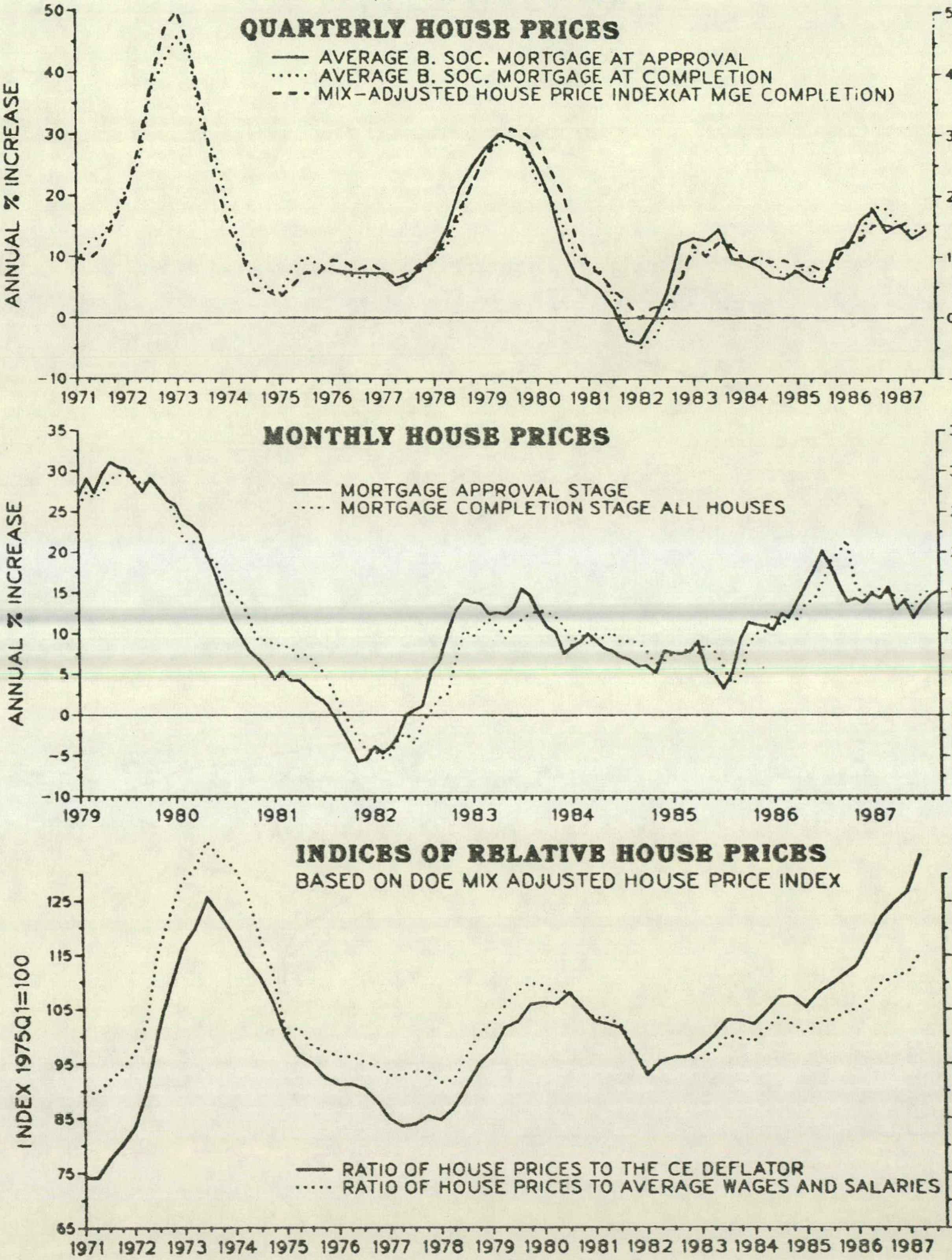
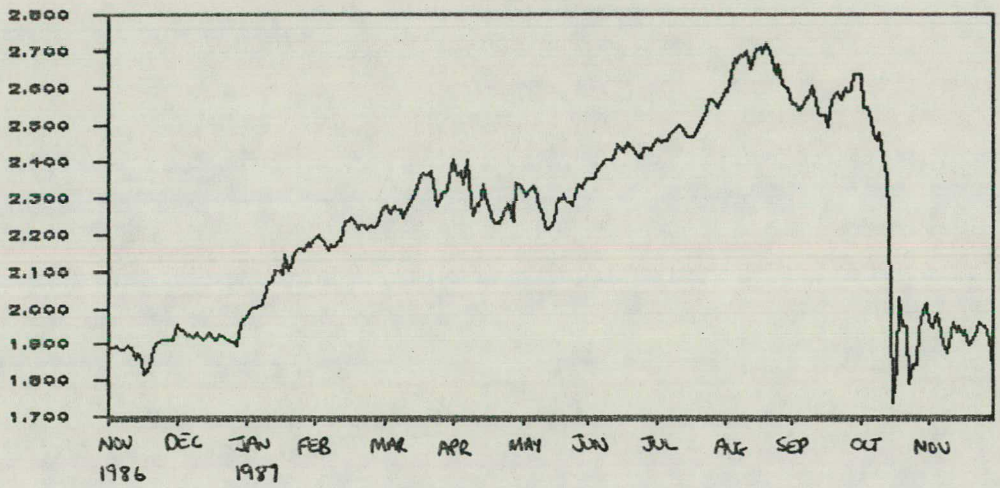


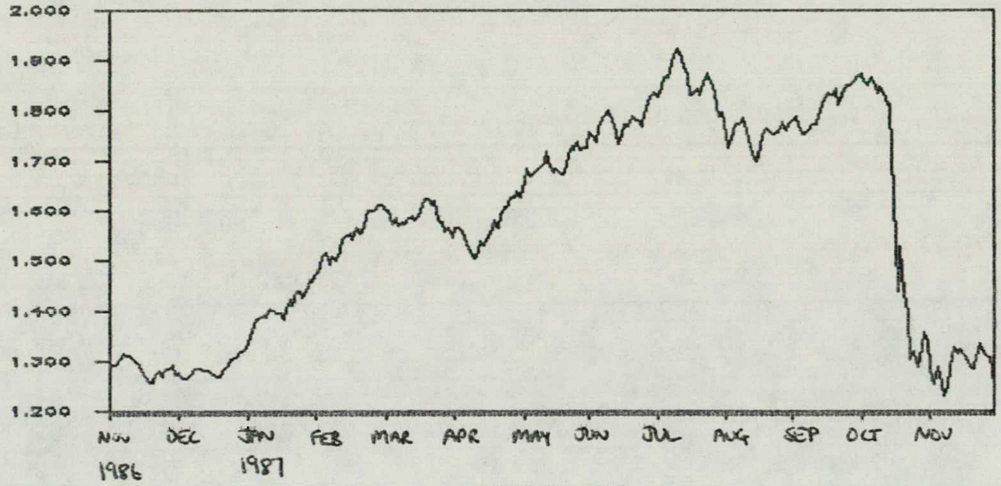
CHART XIX

CAPITAL MARKETS

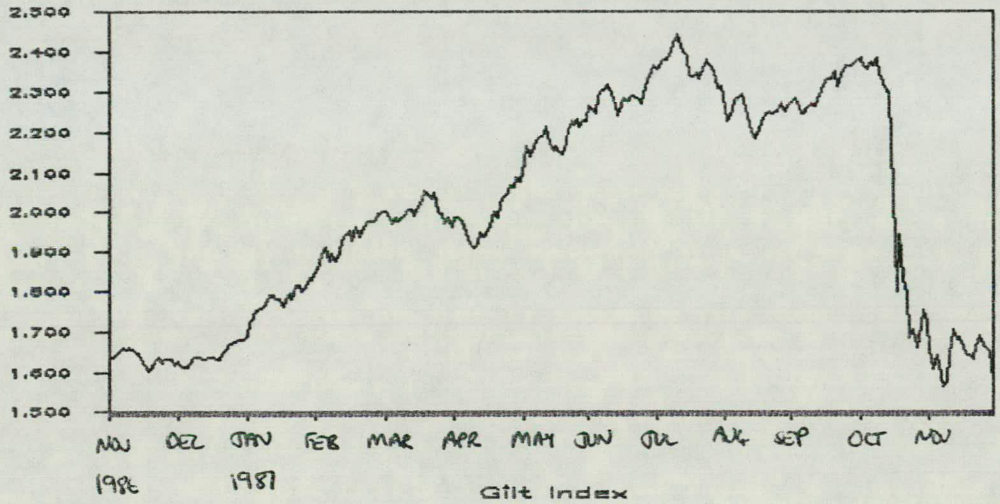
Dow Jones Industrial Average



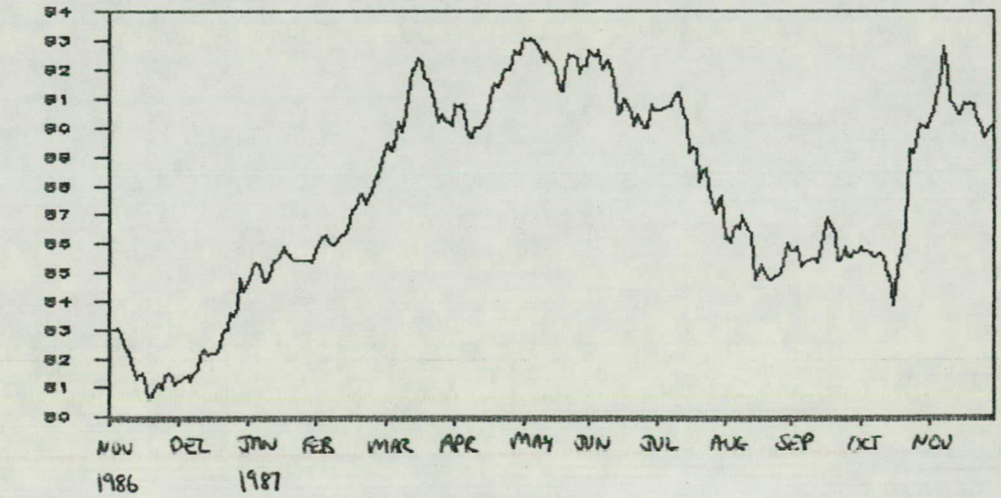
FT Ordinary Index



FTSE 100



Gilt Index



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MONTHLY MONETARY REPORT : TABLES

EXTERNAL

U.K. REAL ECONOMY AND FISCAL POLICY

EXCHANGE RATES AND EXTERNAL ACCOUNTS

MONETARY AGGREGATES

FORECAST

Table 1: Developments in the G5 (including UK)*

	Activity			Money supply		Costs and prices		
	Nominal GNP	Real GNP	Industrial production	M1	M2/M3	Unit labour costs	Consumer prices	GNP deflator
1983	7.1	2.9	3.7	9.8	8.6	-0.7	3.8	4.1
1984	8.6	4.9	8.0	6.6	8.6	-0.7	4.1	3.5
1985	6.6	3.2	3.0	8.2	8.4	0.3	3.5	3.3
1986	5.6	2.7	1.0	11.5	8.1	1.4	1.5	2.8
1987 Q1	5.0	2.5	1.0	13.5	8.8	0.5	1.5	2.4
Q2	4.7	2.2	2.1	12.4	8.9	-0.8	2.5	2.5
Q3							2.9	
1987 Jan			-0.1	14.4	9.0		1.0	
Feb			1.0	13.8	8.9		1.4	
Mar			2.0	12.4	8.6		2.0	
Apr			0.9	13.0	9.0		2.5	
May			2.6	12.7	9.0		2.5	
Jun			2.7	11.4	8.7		2.7	
Jul			2.7	10.6	8.5		2.6	
Aug			4.0				3.1	
Sep							2.9	

* Percentage changes on a year before.

35/3 3580/13/JN

TABLE 2: INTEREST AND EXCHANGE RATES IN G5

a. THREE MONTH NOMINAL INTEREST RATES IN THE G5 COUNTRIES*

	United States	Japan	Germany	France	UK
1983	9.1	6.5	5.8	12.5	10.1
1984	10.4	6.3	6.0	11.7	9.9
1985	8.1	6.5	5.5	10.0	12.2
1986	6.5	5.0	4.6	7.8	11.0
1987 Jan	5.8	4.3	4.6	8.4	11.0
Feb	6.1	4.0	4.0	8.5	11.0
Mar	6.2	4.0	4.0	8.0	10.0
Apr	6.5	3.9	3.9	8.0	9.8
May	7.0	3.8	3.8	8.2	8.8
June	7.0	3.7	3.7	8.2	9.0
July	6.7	3.7	3.9	7.9	9.2
Aug	6.8	3.7	4.0	7.9	10.1
Sept	7.4	3.8	4.0	7.9	10.1
Oct	8.2	3.9	4.8	8.2	9.[illegible]
Nov	7.4	3.9	3.9	8.6	9.0
Dec 1st	7.8	3.9	3.7	8.7	8.9

* CD rate for US, Gensaki for Japan, Interbank rates for rest.

TABLE 2

b. **EXCHANGE RATES**

EFFECTIVE EXCHANGE RATE INDICES (1975 = 100)

	United States	Japan	Germany	France	UK	CROSS RATES YEN/$	DM/$
1980	93.7	126.4	128.8	94.4	96.0	225.8	1.82
1981	105.6	142.9	119.2	84.3	94.8	219.5	2.25
1982	118.0	134.6	124.4	76.6	90.4	248.8	2.43
1983	124.8	148.4	127.1	70.0	83.2	237.4	2.55
1984	134.6	156.7	123.8	65.7	78.6	237.5	2.85
1985	140.7	160.5	123.6	66.3	78.2	238.4	2.94
1986	114.8	203.1	137.3	70.1	72.8	168.3	2.17
1985 Q1	149.7	154.3	119.3	63.4	72.1	257.5	3.26
Q2	145.8	155.2	121.6	65.2	78.9	250.6	3.08
Q3	138.4	157.6	125.0	67.2	82.1	238.6	2.85
Q4	128.8	174.9	128.5	69.3	79.8	207.4	2.59
1986 Q1	121.2	186.8	133.1	71.0	75.1	187.8	2.35
Q2	116.0	202.8	134.7	69.0	76.0	169.9	2.24
Q3	111.4	214.8	138.6	69.5	71.9	155.9	2.09
Q4	110.5	208.0	142.6	70.8	68.3	160.4	2.01
1987 Q1	104.2	210.1	147.7	71.9	70.2	155.2	1.84
Q2	101.1	222.9	146.9	71.6	72.7	142.6	1.81
Q3	102.5	218.0	146.4	71.4	72.7	147.0	1.84
1987 Jan	105.5	209.4	147.5	71.8	68.9	154.6	1.86
Feb	103.9	209.3	148.4	72.3	69.0	153.4	1.82
Mar	103.3	211.7	147.1	71.8	71.9	157.5	1.84
Apr	101.0	222.7	146.6	71.6	72.3	142.9	1.81
May	100.4	225.3	147.2	71.7	73.3	140.6	1.79
June	101.8	220.8	146.8	71.5	72.6	144.4	1.82
July	103.3	213.7	146.6	71.6	72.8	150.2	1.85
Aug	103.3	218.2	146.0	71.1	72.3	147.6	1.86
Sept	100.8	222.1	146.7	71.4	73.0	143.1	1.81
Oct	100.6	221.4	147.1	71.5	73.6	143.3	1.80
Nov 30th	94.4	231.0	152.2	72.7	76.4	132.4	1.64
% Change since dollar peak (Feb 85)	- 40	+ 47	+ 30	+ 16½	+ 9	- 4[illegible]½	- 52
% Change since Plaza (Sept 85)	- 32½	+ 47½	+ 21½	+ 8	- 7	- 45	- 42½
% Change since Louvre Accord (Feb 87)	- 9	+ 10½	+ 2½	+ ½	+ 10½	- 14	- 10½

psl(aa)

Table 3 (a): Share Prices for the Major Countries

	US St.& Poor Ind.	Japan Tokyo SE New	Germany Commerz -bank	France CAC Gen.	UK FT. All share	Italy Banca Com Ital	Canada Toronto Comp.	Australia All ord.	H.Kong Hang Sang Bank	S'pore Straits Times Index
1986 (Ave.)	262.3	1322.7	1998.8	361.5	778.5	694.0	2999.5	1207.4	1258.8	732.3
1987 Jan	297.0	1644.0	1888.0	415.2	880.1	718.0	3255.6	1529.0	1643.5	937.1
Feb	319.2	1744.8	1719.7	416.8	952.7	689.1	3492.1	1558.9	1770.0	1013.1
Mar	335.2	1848.0	1710.6	446.1	1001.3	694.8	3705.8	1644.2	1796.4	1061.2
Apr	335.2	2035.9	1832.4	451.5	989.2	739.7	3774.8	1725.3	1727.9	1097.2
May	336.2	2119.7	1773.5	440.6	1070.0	716.2	3750.6	1814.3	1846.9	1187.4
Jun	348.8.	2190.2	1791.2	410.7	1134.4	527.5	3705.6	1776.8	2009.7	1238.2
Jul	361.0	1982.0	1921.3	413.2	1194.0	683.3	3925.7	1910.6	2136.1	1349.0
Aug	384.3	2093.3	2024.5	410.2	1150.6	629.2	4042.7	2102.1	2300.0	1459.2
Sep	372.4	2088.7	1979.4	424.1	1174.0	619.3	3919.4	2232.2	2442.1	1417.9
Oct	314.9	2014.5	1802.4	364.9	1079.4	616.4	3132.7	1857.1	3357.3	1216.0
15 Oct	343.6	2158.6	1902.6	366.1	1189.9	665.5	3674.9	2146.4	3695.5	1426.1
30 Nov	263.2	1847.0	1322.6	293.9	796.3	528.4	2978.3	1328.7	2138.4	800.0
Percentage changes										
1986-25 Nov	+0.4	+39.6	-33.8	-18.7	+2.3	-23.9	-0.7	10	+69.9	+9.2
15 Oct - 25 Nov	-23.4	-14.4	-30.5	-19.7	-33.1	-20.6	-19.0	-38.1	-42.1	-43.9

The monthly figures are averages of weekly rates.

TABLE 3(b)

ECONOMIST COMMODITY PRICE INDICES 1980=100

	All items indices				SDR indices		
	SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
Annual							
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982	87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983	102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984	105.7	83.4	144.9	97.8	116.1	105.1	89.5
1985	95.8	74.8	135.2	86.5	103.4	94.2	84.3
1986	86.9	77.7	124.0	74.5	97.3	85.0	70.5
Quarterly							
1985 Q4	90.1	74.7	121.0	80.3	101.4	86.9	75.0
1986 Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
Q2	91.0	81.1	125.0	79.5	104.9	86.9	71.8
Q3	81.4	75.2	117.4	70.3	88.8	80.1	68.3
Q4	82.4	76.4	123.9	70.1	87.4	86.5	68.4
1987 Q1	81.6	79.2	119.2	68.9	82.4	91.0	69.0
Q2	86.8	86.4	122.2	73.3	85.5	98.0	75.2
Q3	91.4	89.6	128.9	75.9	82.6	107.1	87.5
Monthly							
December	81.9	76.1	122.7		85.4	87.5	68.4
January	80.3	77.0	118.8		82.5	88.8	66.7
February	81.7	79.6	120.5		82.6	91.7	68.5
March	82.9	81.0	118.2		82.1	92.4	71.8
April	84.2	83.8	119.0		83.2	94.8	72.6
May	87.3	87.6	122.0		87.1	97.2	74.8
June	88.9	87.8	125.2		86.2	101.7	78.3
July	90.7	88.4	127.8		84.0	105.1	84.7
August	92.2	89.8	130.9		81.2	109.7	90.2
September	91.4	90.6	128.2		82.7	106.6	87.6
October	94.8	94.2	132.2		86.7	101.9	94.3
November (prov)	93.6	97.0	127.6		86.5	97.2	93.8
Weekly							
September 8	90.4	90.3	126.4		81.8	107.2	85.7
15	91.3	90.4	127.8		83.1	107.8	86.0
22	91.8	91.0	128.8		82.8	104.5	89.8
29	93.5	91.9	131.1		84.4	103.9	92.8
October 6	95.7	94.1	134.1		86.6	105.2	95.2
13	96.1	95.4	134.7		86.7	102.5	97.9
20	93.4	93.3	131.0		86.2	101.1	91.5
27	93.9	94.2	129.1		87.2	98.9	92.7
November 3	91.0	93.6	124.9		84.3	96.8	89.8
10	92.1	96.5	125.5		85.3	95.4	92.3
17	94.8	97.8	128.8		87.3	98.3	95.4
24 (prov)	96.5	100.1	131.2		89.2	98.3	97.7

* In relation to prices of manufactured exports. Recent figures are estimated.
** Non-food agriculturals

TABLE 4: **RECENT INDICATORS OF ACTIVITY AND INFLATION**

(per cent changes on year earlier)

	MONEY GDP
1985-86	9.8
1986-87	6.7
1986 2	6.4
3	6.5
4	6.7
1987 1	7.0
2	8.1
3	9.5*
4	8.2
1988 1	8.1
1987-88	8.5

	OUTPUT		PRICES AND UNIT LABOUR COSTS					
					Producer Prices***		Unit Wage Costs	
	GDP(O))	Manufacturing Output	RPI	RPI excluding mortgage payments	Output	Input	Manufacturing	Whole economy
1985	3.7	2.9	6.1	5.2	6.3	4.4	5.6	5.1
1986	3.0	1.0	3.4	3.6	4.3	-10.7	4.6	5.4
1986 1	2.3	- 0.9	4.9	4.6	5.0	- 11.9	7.5	6.0
2	2.3	- 0.6	2.8	3.3	4.3	- 12.4	6.2	6.2
3	3.6	1.3	2.6	3.3	4.0	- 13.0	3.1	4.4
4	3.9	4.1	3.4	3.4	4.0	- 5.6	1.1	5.0
1987 1	4.5	4.8	3.9	3.7	4.1	- 1.7	0.6	4.0
2	4.1	5.2	4.2	3.6	4.5	4.6	1.2	4.6
3	4.5	6.1					1.5	
4								
1986 September		1.6	3.0	3.4	4.0	- 11.5	3.2**	
October		3.8	3.0	3.4	4.0	- 7.4	2.7	
November		4.3	3.5	3.3	3.8	- 4.9	1.8	
December		4.3	3.7	3.5	4.0	- 4.4	1.6	
1987 January		3.0	3.9	3.7	4.2	- 2.5	1.9	
February		5.8	3.9	3.7	4.2	- 2.9	1.5	
March		5.5	4.0	3.8	4.1	0.4	0.9	
April		4.2	4.2	3.6	4.3	3.0	0.5	
May		5.7	4.1	3.8	4.5	3.4	0.8	
June		5.7	4.2	3.5	4.5	7.2	1.3	
July		5.9	4.4	3.7	4.7	13.4	1.5	
August		6.8	4.4	3.7	4.7	14.5	1.5	
September		5.5	4.2	3.5	4.7	10.7	1.5	
October			4.5	3.9	4.8	7.7	1.5	

* Autumn Statement forecast.

** Wage cost figures show averages for three months ending in month indicated.

*** Excluding food, drink and tobacco.

TABLE 5: INDICATORS OF FISCAL STANCE

(a) Annual Data

	PSBR		PSBR excluding privatisation proceeds		PSFD	
	Cash (£ billion)	Ratio to GDP (per cent)	Cash (£ billion)	Ratio to GDP (per cent)	Cash (£ billion)	Ratio to GDP (per cent)
1970-71	0.8	1½	0.8	1½	-0.2	-½
1971-72	1.0	1¾	1.0	1¾	0.7	1
1972-73	2.4	3½	2.4	3½	2.0	3
1973-74	4.3	5¾	4.3	5¾	3.5	4½
1974-75	8.0	9	8.0	9	6.0	6¼
1975-76	10.3	9¼	10.3	9¼	8.1	7¼
1976-77	8.3	6½	8.3	6½	7.5	5¾
1977-78	5.4	3½	5.9	4	6.6	4½
1978-79	9.2	5¼	9.2	5¼	8.3	4¾
1979-80	10.0	4¾	10.4	5	8.0	3¾
1980-81	12.7	5½	13.1	5½	11.7	5
1981-82	8.6	3¼	9.1	3½	5.2	2
1982-83	8.8	3¼	9.3	3¼	8.3	3
1983-84	9.7	3¼	10.9	3½	11.4	3¾
1984-85*	10.2	3	12.3	3¾	13.1	4
1985-86*	5.8	1½	8.5	2¼	8.3	2¼
1986-87	3.4	1	7.8	2	9.6	2½
1987-88 (October forecast)	-1.2	-¼	4.1	1	4.3	1

* If adjusted for coal strike, PSBR and PSFD ratios to GDP roughly 0.9 per cent lower in 1984-85 and 0.3 per cent lower in 1985-86.

(b) Quarterly Data

£ billion		PSBR		PSBR excluding privatisation		PSFD	
		s.a.*	u.a.	s.a.*	u.a.	s.a.+	u.a.
1985	Q2	1.2	2.6	2.5	3.9	2.9	4.6
	Q3	1.9	2.9	2.4	3.4	1.5	1.9
	Q4	1.5	2.1	2.1	2.6	2.1	0.7
1986	Q1	1.1	-1.9	1.5	-1.5	2.0	1.0
	Q2	2.1	2.3	3.2	3.4	2.2	3.6
	Q3	2.1	3.6	2.1	3.6	3.0	4.2
	Q4	-1.3	-1.6	0.9	0.5	1.6	0.0
1987	Q1	0.5	-0.7	1.7	0.4	2.6	1.9
	Q2	0.2	1.1	2.5	3.4	1.6	3.3

* financial year - constrained
\+ calendar year - constrained

Table 6: CGBR(O) April - October Comparison with Budget Profile
£ billion

Receipts	
Inland Revenue	+2.0
Customs and Excise	+ 0.4
Privatisation proceeds	-1.1
Other receipts	+ 0.2
Expenditure	
Net debt interest payments	+ 0.3
Other departmental expenditure(1)	-1.0
Net effect on CGBR(O)	- 2.3

(1) on a cash basis, net of certain receipts and on-lending

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TABLE 7

EXCHANGE RATES

		Exchange Rate Index*	Real Exchange Rate	ERI/(Oil Price Adjusted ERI)/	Dollar: Sterling exchange rate	D-Mark: Sterling exchange rate	Index against EMS currencies*	US-UK Interest rate differential	Brent spot price ($/bl)
1983	(3)	84.9	114.5	1.042	1.53	3.94	103.4	-0.3	30.9
	(4)	83.2	112.3	1.035	1.47	3.93	102.9	-0.5	29.6
1984	(1)	81.7	110.3	1.012	1.44	3.87	101.9	-0.9	29.7
	(2)	79.8	109.0	0.988	1.40	3.78	99.6	-2.1	29.7
	(3)	78.0	106.8	0.979	1.30	3.78	99.5	-0.6	28.5
	(4)	75.0	103.5	0.946	1.21	3.72	97.5	+0.3	28.6
1985	(1)	72.1	99.9	0.908	1.12	3.63	95.2	+4.1	27.7
	(2)	78.9	111.1	1.001	1.26	3.88	102.3	+4.4	27.0
	(3)	82.1	117.4	1.040	1.38	3.92	103.8	+3.6	27.4
	(4)	79.8	115.7	1.001	1.44	3.71	98.7	+3.5	28.3
1986	(1)	75.1	111.7	1.037	1.44	3.38	90.9	+4.5	17.8
	(2)	76.1	117.2	1.101	1.51	3.39	91.4	+3.2	12.8
	(3)	71.9	112.7	1.049	1.50	3.10	84.9	+3.8	12.4
	(4)	68.3	108.0	0.970	1.43	2.87	79.0	+5.1	14.8
1987	(1)	69.9	111.6	0.967	1.54	2.83	78.8	+4.3	17.9
	(2)	72.8	116.8	0.996	1.64	2.96	82.6	+2.1	18.6
	(3)	72.7	116.5	0.992	1.62	2.97	83.0	+2.8	19.0
1987	January	68.9	109.8	0.950	1.51	2.80	77.8	+4.9	18.4
	February	69.0	110.3	0.960	1.53	2.78	77.4	+4.4	17.2
	March	71.9	114.8	0.991	1.59	2.92	81.2	+3.4	18.0
	April	72.3	116.1	0.994	1.63	2.95	82.1	+2.9	18.2
	May	73.3	117.9	1.002	1.67	2.98	83.1	+1.6	18.8
	June	72.7	116.5	0.991	1.63	2.96	82.6	+2.1	18.9
	July	72.8	116.7	0.985	1.61	2.97	82.9	+2.6	19.8
	August	72.3	115.5	0.988	1.60	2.97	82.8	+3.2	18.9
	September	73.1	116.9	1.004	1.65	2.98	83.2	+2.6	18.3
	October	73.6	n/a	1.006	1.66	2.99	83.5	+1.7	18.8
	November 30th	76.4	n/a	1.055	1.83	3.00	84.3	+1.0	17.7

/ Oil price adjusted ERI has roughly the same inflation implications as does an ERI of 80 given an oil price of $29 (their average values for January 1983 - November 1985). The ratio shown therefore indicates whether movements in the ERI are inflationary or otherwise, relative to the period Jan-1983 - Nov 1985, having allowed for oil prices.

* 1975=100

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TABLE 8 : NOMINAL AND REAL INTEREST RATES

		NOMINAL RATES					REAL RATES			
		Three month interbank	Three month Eurodollar	Base Rate	Long Rate (20 year Gilts)	Expected inflation over 12 months*	Real 3-month interbank rate	Yield on Index-linked Gilts** 1990	2001	2011
1985	(1)	13.0	8.9	12.9	10.9	5.7	6.9	4.4	3.5	3.2
	(2)	12.6	8.2	12.6	10.8	5.6	6.6	4.3	3.8	3.4
	(3)	11.7	8.1	11.7	10.4	5.3	6.1	4.3	3.8	3.5
	(4)	11.6	8.1	11.5	10.3	4.2	7.1	4.1	3.9	3.6
1986	(1)	12.4	7.9	12.3	10.2	3.9	8.2	4.3	4.2	3.8
	(2)	10.2	7.0	10.4	9.0	3.6	6.5	3.6	3.6	3.4
	(3)	10.0	6.2	10.0	9.7	3.4	6.5	3.7	3.9	3.5
	(4)	11.2	6.1	11.0	10.7	4.1	6.8	3.7	4.1	3.8
1987	(1)	10.6	6.3	10.8	9.6	4.3	6.0	3.0	3.7	3.5
	(2)	9.2	7.1	9.4	9.0	3.8	5.2	2.4	3.8	3.6
	(3)	9.9	7.1	9.7	9.8	3.7	6.0	2.6	4.2	3.9
1987	January	11.0	6.1	11.0	10.0	4.1	6.6	3.5	4.0	3.7
	February	10.8	6.4	11.0	9.8	4.3	6.2	3.0	3.7	3.5
	March	9.9	6.5	10.4	9.1	4.5	5.2	2.5	3.5	3.4
	April	9.8	6.9	10.0	9.2	4.2	5.4	2.6	3.6	3.4
	May	8.8	7.2	9.1	8.8	3.7	4.9	2.1	3.6	3.6
	June	9.0	7.1	9.0	8.9	3.5	5.3	2.3	3.9	3.7
	July	9.3	6.9	9.0	9.3	3.4	5.7	2.2	4.0	3.8
	August	10.2	7.0	10.0	10.0	3.9	6.1	2.6	4.3	4.0
	September	10.1	7.5	10.0	10.0	3.9	6.0	3.1	4.2	4.0
	October	10.0	8.3	9.5	9.8	4.0	5.1	3.1	4.5	4.3
	November 30th	8.9	7.9	9.0	9.3	4.0	4.7	2.0	3.9	3.9

* Unweighted average of forecasts by Phillips and 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 three months immediately ahead.

** Average of yields calculated for each Friday of month and quarterly for last Friday in each month. Assumes inflation averages 5 per cent per annum to redemption.

TABLE 9 CURRENT ACCOUNT

percentage change on previous year

	Export Volume less oil and erratics	Import Volume less oil and erratics	Terms* of Trade(AVI) 1980=100	Current balance £mn
1982	0.5	8.6	0.5	4035
1983	-1.1	9.5	-0.6	3338
1984	9.6	11.0	-1.9	1474
1985	6.8	4.2	1.8	2919
1986	2.4	5.7	-0.8	-980
1986 Q1	-2.5	3.2	3.0	744
2	0.0	2.4	1.9	146
3	2.9	7.5	-2.4	-910
4	9.3	9.9	-4.9	-960
1987 Q1	11.2	5.4	-1.5	672
Q2	6.4	10.2	+0.9	-195
Q3	9.1	12.0	+1.6	-1248
1986 Jan	-2.6	1.5	4.5	995
Feb	-2.7	2.6	3.3	204
Mar	-2.3	5.7	1.7	-466
Apr	-2.2	-1.8	2.3	283
May	-0.2	7.3	2.9	-113
Jun	2.6	1.7	1.6	-35
Jul	2.6	4.2	-1.9	-5
Aug	-0.4	9.7	-2.8	-734
Sep	6.4	8.4	-2.5	-179
Oct	7.7	5.1	-3.3	-155
Nov	11.3	10.6	-5.0	-462
Dec	9.0	15.0	-6.1	-313
1987 Jan	7.3	6.4	-2.7	85
Feb	18.2	8.5	-2.0	400
Mar	7.9	1.0	+0.3	186
April	10.4	10.6	+1.2	203
May	5.6	14.5	-0.1	-378
June	4.6	5.6	+1.5	-19
July	7.7	11.2	+0.4	-325
Aug	8.8	13.7	+1.2	-907
Sep	10.9	11.0	+3.3	-17
Oct	4.7	11.8	+2.0	-282

* excluding oil and erratics.

tables
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TABLE 10

Key Monetary Indicators

	1986-87					1987-88							
	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct
MONETARY AGGREGATES 12 month % change (ua)													
MO	4.9	5.2	5.2	4.1	4.1	3.5	5.3	4.4	4.2	5.3	4.5	5.2	5.5
M3	18.5	18.6	18.0	17.6	19.0	19.0	20.4	18.9	19.1	20.9	22.1	19.5	22.2
M4	15.8	15.6	15.2	13.9	13.9	13.9	14.5	13.7	13.8	14.8	15.5	14.9	15.7
M5	15.1	15.1	14.4	13.2	13.3	13.4	14.0	13.4	13.5	14.3	14.8	14.3	15.1
STERLING LENDING 12 month % change (ua)													
Banks	19.4	20.8	21.8	22.5	21.7	20.7	21.4	21.7	21.5	22.2	21.5	23.5	22.8
Banks and building societies	19.0	19.6	20.2	20.4	19.8	19.1	19.4	19.4	19.2	19.4	18.8	20.0	19.2
OVER(-)/UNDER (+) FUNDING financial year to date: £mm	812	-3	-1,577	-3,931	-3,969	395	3,197	5,144	2,368	1,905	2,209	2,002	3,816
MONEY MARKET ASSISTANCE/ Level outstanding £mn	10,247	11,295	12,970	14,948	14,873	9,742	6,126	3,340	5,132	7,078	6,114	5,421	5,403
INTEREST RATES													
3 months*	11.1	11.3	11.3	11.0	10.8	9.9	9.8	8.8	9.0	9.3	10.2	10.1	9.97
20 year ϕ	10.6	10.9	10.6	10.0	9.8	9.1	9.2	8.8	8.9	9.3	10.0	10.0	9.84
EFFECTIVE EXCHANGE RATE	67.8	68.5	68.5	68.9	69.0	71.9	73.3	73.3	72.7	72.8	72.3	73.1	73.6

* Inter bank

ϕ par yield

/ banking months until August thereafter end calendar months

Table 11

MONETARY AGGREGATES 1987-88

		FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP	OCT
M0	Averaged weekly									
	Monthly change (£ million)	-228	+115	+325	+42	-93	+423	+13	+14	-32
	Monthly % change	-1.5	+0.8	+2.2	+0.3	-0.6	+2.8	+0.1	+0.1	-0.2
		(-0.8)	(+0.4)	(+0.5)	(+0.4)	(+0.2)	(+1.2)	(+0.3)	(+0.8)	(+0.6)
	12 Monthly % change	+4.1	+3.5	+5.3	+4.4	+4.2	+5.3	+4.5	+5.2	+5.5
M3	Monthly change (£ million)	+2,930	+6,797	+3,183	+3,245	+1,884	+4,212	+2,287	+1,576	+5,480
	Monthly % change	+1.9	+4.4	+2.0	+2.0	+1.1	+2.5	+1.3	+0.9	+3.1
		(+1.9)	(+2.8)	(+2.2)	(+1.4)	(+1.4)	(+2.2)	(+1.4)	(+1.4)	(+3.5)
	12 Monthly % change	+19.0	+19.0	+20.4	+18.9	+19.1	+20.9	+22.1	+19.5	+22.2
M4	Monthly change (£ million)	+2,456	+6,651	+3,535	+3,436	+4,019	5,289	+2,752	+2,888	+5,155
	Monthly % change	+0.9	+2.5	+1.3	+1.3	+1.4	+1.9	+1.0	+1.0	+1.8
		(+1.5)	(+1.7)	(+1.5)	(+0.9)	(+1.4)	(+1.5)	(+1.3)	(+1.1)	(+2.1)
	12 Monthly % change	+13.9	+13.9	+14.5	+13.7	+13.8	14.9	+15.5	+14.9	+15.7
M5	Monthly change (£ million)	+2,594	+6,945	+3,544	+4,108	+4,122	+5,350	+2,618	+2,985	+5,288
	Monthly % change	+0.9	+2.5	+1.2	+1.4	+1.4	+1.8	+0.9	+1.0	+1.7
		(+1.5)	(+1.5)	(+1.3)	(+1.2)	(+1.4)	(+1.4)	(+1.2)	(+1.1)	(+2.1)
	12 Monthly % change	+13.3	+13.4	+14.0	+13.4	+13.5	+14.3	+14.8	+14.3	+15.1
NIBM1	Monthly change (£ million)	+519	+1,058	+475	+1,168	+1,471	+99	-78	+398	+192
	Monthly % change	+1.3	+2.6	+1.2	+2.8	+3.4	+0.2	-0.2	+0.9	+0.4
		(+0.4)	(-0.9)	(-1.2)	(+2.2)	(+4.3)	(+0.3)	(+0.4)	(+0.7)	(+3.4)
	12 Monthly % change	+10.5	+10.3	+11.9	+12.1	+13.5	+12.4	+12.4	+6.1	+12.0
M1	Monthly change (£ million)	+392	+4,364	+705	+2,967	+2,102	+984	+1,163	+1,524	+2,679
	Monthly % change	+0.5	+5.8	+0.9	+3.7	+2.5	+1.2	+1.3	+1.7	+3.0
		(+0.1)	(+3.7)	(-0.3)	(+3.4)	(+2.8)	(+1.2)	(+1.7)	(+1.6)	(+4.6)
	12 Monthly % change	+21.2	22.5	+23.2	+23.7	+23.8	+22.5	+23.8	+20.3	+24.4
Net £ deposits from banks abroad		-845	-1,395	+724	+987	-946	+492	-954	-111	+1,271
Overseas non-bank £ deposits		+550	+742	-194	+765	-429	+490	+195	+37	+902
WIDER £ AGGREGATE										
	Monthly change (£ million)	+2,635	+6,144	+3,713	+4,997	+509	+5,194	+1,528	+1,685	+7,470
	Monthly % change	+1.5	+3.4	+2.0	+2.6	+0.3	+2.7	+0.8	+0.8	+3.7
		(+1.4)	(+2.0)	(+2.1)	(+2.2)	(+0.5)	(+2.4)	(+0.8)	(+1.2)	(+4.0)

NB Figures in brackets are seasonally adjusted.

TABLE 12

REAL PERCENTAGE GROWTH RATES OF MONETARY AGGREGATES

	RPI less Mortgage Element	Weekly Averaged M0	M3	M4	M5
FINANCIAL YEARS (12 month % changes to calendar March)					
1981-82	9.8	-6.5	4.2	3.7	3.0
1982-83	5.9	-0.6	5.4	7.9	8.0
1983-84	4.6	0.8	3.3	6.8	6.1
1984-85	5.2	0.3	6.0	8.2	8.2
1985-86	4.0	-0.5	12.2	10.1	9.1
1986-87	3.8	0.3	14.6	9.7	9.2
12 MONTH % CHANGES (ua except M0)					
SEPTEMBER	3.4	1.4	15.1	11.9	11.1
OCTOBER	3.4	1.5	14.6	12.0	11.3
NOVEMBER	3.3	1.9	14.8	11.9	11.4
DECEMBER	3.7	1.6	13.8	11.1	10.3
1987 JANUARY	3.7	1.4	13.4	9.8	9.2
FEBRUARY	3.7	0.4	14.8	9.8	9.3
MARCH	3.8	0.3	14.6	9.7	9.2
APRIL	3.6	1.2	16.2	10.5	10.0
MAY	3.8	0.6	14.5	9.5	9.2
JUNE	3.5	0.7	15.1	10.0	9.7
JULY	3.7	1.6	16.6	10.8	10.2
AUGUST	3.7	1.0	17.7	11.4	10.7
SEPTEMBER	3.5	1.4	15.5	11.0	10.4
OCTOBER	3.9	1.6	17.6	11.4	10.8

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TABLE 13

MO, THE WIDE MONETARY BASE

Calendar months	Notes and coin (nsa)	Notes and coin (sa)		Bankers' deposits	MO (nsa)	MO (s.a.)		% change on previous Month: Notes (sa) and coin	% change on previous Month: MO (sa)	% change on year earlier: Notes and Coin (nsa)	% change on year earlier: Notes and Coin (sa)	% change on year earlier: MO (nsa)	% change on year earlier: MO (sa)
	Levels £ million (changes in brackets)												
1987													
June	14,946	15,075	(+91)	137	15,083	15,212	(+24)	+0.6	+0.2	+4.6	+4.6	+4.2	+4.2
July	15,271	15,166	(+91)	235	15,506	15,401	(+189)	+0.6	+1.2	+4.7	+4.8	+5.3	+5.5
August	15,337	15,258	(+92)	182	15,519	15,440	(+39)	+0.6	+0.3	+4.3	+4.6	+4.5	+4.7
September	15,349	15,376	(+118)	184	15,533	15,560	(+120)	+0.8	+0.8	+5.3	+5.1	+5.2	+5.0
October	15,299	15,457	(+81)	202	15,500	15,659	(+99)	+0.5	+0.6	+5.1	+5.1	+5.5	+5.6
November (4 of 4)	15,364	15,524	(+67)	183	15,547	15,707	(+48)	+0.4	+0.3	+4.8	+4.8	+4.9	+4.9

Weekly data	Notes (sa) and coin		Bankers' deposits	MO (sa)		% change on previous week MO (sa)
October						
7th	15,435	(+42)	190	15,625	(+111)	+0.7
14th	15,418	(-17)	192	15,610	(-15)	-0.1
21st	15,467	(+49)	223	15,690	(+80)	+0.5
28th	15,503	(+36)	202	15,705	(+15)	+0.1
November						
4th	15,510	(+7)	128	15,638	(-67)	-0.4
11th	15,511	(+1)	225	15,736	(+98)	+0.6
18th	15,522	(+11)	193	15,715	(-21)	-0.1
25th	15,553	(+31)	185	15,738	(+23)	+0.1

TABLE 14

SECRET

BUILDING SOCIETY BALANCE SHEET FLOWS

Unadjusted £ million

	Total Flow	ASSETS: Net Mortgage Advances & Unsecured Lending	Liquid Assets		Fixed Assets	LIABILITIES: Retail principal	Interest credited	Wholesale funds	Other (eg reserves)
1985 *	1459	1193	239	(18.0)	27	592	495	205	167
1986 *	1623	1589	17	(16.4)	17	553	498	523	49
1985 Q3*	1666	1157	479	(17.0)	30	590	384	153	539
Q4*	2172	1367	783	(18.0)	22	766	660	594	152
1986 Q1*	858	1271	-431	(17.5)	18	740	462	167	-511
Q2*	1591	1645	-74	(16.6)	20	478	522	321	270
Q3*	1783	1884	-112	(15.7)	11	56	402	1099	226
Q4*	2262	1556	686	(16.4)	20	938	649	403	272
1987 Q1*	1240	1120	105	(16.1)	15	484	594	279	-117
Q2*	1564	1240	309	(16.4)	15	612	457	182	313
Q3*	1487	1272	200	(16.1)	15	410	515	364	198
Sep	1043	1238	-210	(16.1)	15	193	630	594	-374
Forecast									
1987 Q4*	2158	1373	770	6 16.9)	15	970	610	262	316
Oct+	2122	1399	708	(16.4)	15	814	309	535	464
Nov	2046	1568	463	(16.4)	15	976	111	0	959
Dec	2306	1152	1139	(16.9)	15	1418	1411	250	-773
1988 Jan	1750	1217	518	(17.1)	15	1119	1298	250	-917

* Monthly averages
+ Estimated , part data

TABLE 15

THE COMPONENTS OF M3

	NOTES AND COINS	BANK DEPOSITS: RETAIL NIB	BANK DEPOSITS: RETAIL IB	BANK DEPOSITS: WHOLESALE	M3
% CHANGES					
Financial years (ua)					
1984-85[1]	5.2	6.5	7.7	19.1	11.5
1985-86[1]	3.7	4.5	16.8	26.1	16.7
1986-87[1]	2.2	16.9	17.5	25.8	19.1
Over 12 months (ua)					
OCTOBER	5.8	15.3	18.6	22.8	18.5
NOVEMBER	4.0	13.3	17.1	25.6	18.6
DECEMBER	5.1	14.4	18.7	22.2	18.0
1987 JANUARY	3.7	14.7	16.2	23.0	17.6
FEBRUARY	3.2	14.5	17.2	25.7	19.0
MARCH	-2.1	16.9	17.4	25.4	19.0
APRIL	6.5	14.5	17.1	27.9	20.4
MAY	3.7	16.4	19.0	23.1	18.9
JUNE	4.1	18.0	15.4	25.1	19.1
JULY	6.4	15.3	12.1	32.3	20.9
AUGUST	4.4	16.4	15.1	32.8	22.1
SEPTEMBER	6.1	6.1	14.2	31.8	19.5
OCTOBER	4.9	15.4	12.4	34.6	22.2
Over 6 months (sa)					
1987 MAY	-0.3	13.2	12.9	36.2	21.9
JUNE	-1.9	25.4	12.1	37.0	24.0
JULY	2.2	14.4	12.3	46.5	26.3
AUGUST	4.0	13.2	14.5	41.5	25.1
SEPTEMBER	8.9	16.0	12.7	32.1	21.7
OCTOBER	7.1	33.2	11.7	33.3	25.0
CHANGES £ MILLION					
monthly average (sa)					
1984-85[1]	42	56	238	683	1017
1985-86[1]	17	90	161	556	1565
1986-87[1]	4	359	538	1255	2157
Over 1 month (sa)					
1987 MAY	-74	963	270	1178	2337
JUNE	-35	1814	491	43	2313
JULY	294	-178	660	2836	3612
AUGUST	10	150	533	1702	2395
SEPTEMBER	-2	310	434	1651	2393
OCTOBER	262	1238	170	4519	6189

[1]March on March

TABLE 16 SECRET

THE COMPONENTS OF M4 AND M5

	M3	Building Societies: RETAIL[1]	Building Societies: WHOLESALE	Building Societies: HOLDINGS OF M3	M4	MONEY MARKET INSTRUMENTS	M5
% CHANGES							
Financial years (ua)							
1984-85[3]	11.5	15.1				13.8	13.8
1985-86[3]	16.7	15.3	52.6	94	-0.1	13.5	14.5
1986-87[3]	19.1	10.8	11.4	50	-15.6	13.5	12.9
Over 12 months (ua)							
NOVEMBER	18.6	15.6		24.0	15.6	5.4	15.1
DECEMBER	18.0	17.0		17.9	15.2	1.7	14.4
1987 JANUARY	17.6	15.6		43.0	13.9	2.4	13.2
FEBRUARY	19.0	16.1		62.8	13.9	2.8	13.3
MARCH	19.0	17.2		57.6	13.9	4.3	13.4
APRIL	20.4	16.1		55.7	14.5	4.2	14.0
MAY	18.9	17.9		60.0	13.7	8.5	13.4
JUNE	19.1	16.4		69.0	13.8	8.3	13.5
JULY	20.9	13.4		69.2	14.9	5.0	14.3
AUGUST	22.1	15.6		67.6	15.5	2.8	14.8
SEPTEMBER	19.5	10.8		62.0	14.9	4.0	14.3
OCTOBER	22.2	13.5		60.0	15.7	5.1	15.1
Over 6 months (sa)							
1987 MAY	21.9	10.4		82.9	13.1	8.0	12.8
JUNE	24.0	11.1		72.8	15.2	8.7	14.8
JULY	26.3	11.5		45.1	18.4	12.0	18.1
AUGUST	25.1	12.2		48.3	18.0	6.0	17.4
SEPTEMBER	21.7	10.1		25.3	16.8	9.8	16.5
OCTOBER	25.0	9.1		23.5	18.3	15.8	18.2
CHANGES £ MILLION							
monthly average (sa)							
1984-85[3]	984	1034	42	-28	139	2221	2090
1985-86[3]	1565	1207	50	-362	-118	2480	2557
1986-87[3]	2157	938	17	-372	51	2791	2975
Over 1 month (sa)							
1987 MAY	2337	908	100	-857	2488	914	3402
JUNE	2313	1269	-2	412	3992	236	4228
JULY	3612	936	249	-571	4237	-108	4129
AUGUST	2395	1363	39	12	3799	-167	3632
SEPTEMBER	2393	223	430	207	3270	110	3380
OCTOBER	6189	658	-2	-622	6227	68	6295

[1]Net in flow including Term sharesand SAYE.
[2]Treasury bills, bank bills, LA temporary debt, CID's and some national savings accounts.
[3]March on March.

TABLE 17 SECRET

RETAIL DEPOSITS

	BANKS	BUILDING SOCIETIES[1]	NATIONAL SAVINGS[2]	TOTAL
% CHANGES				
Financial years (ua)				
1984-85[3]	7.1	15.1	11.9	12.0
1985-86[3]	11.6	15.3	7.5	12.9
1986-87[3]	17.2	10.8	10.8	12.7
Over 12 months (ua)				
NOVEMBER	15.6	12.2	8.1	12.8
DECEMBER	17.0	11.7	8.4	13.0
1987 JANUARY	15.6	11.4	9.1	12.3
FEBRUARY	16.1	11.0	10.1	12.4
MARCH	17.2	10.8	10.8	12.6
APRIL	16.1	10.6	11.0	12.1
MAY	17.9	10.5	10.8	12.6
JUNE	16.4	10.6	10.5	12.1
JULY	13.4	10.6	9.2	11.0
AUGUST	15.6	10.7	9.7	11.9
SEPTEMBER	10.8	11.7	9.3	10.8
OCTOBER	13.5	10.5	8.3	10.9
Over 6 months (sa)				
1987 MAY	13	10.4	10.5	11.7
JUNE	17.2	11.1	10.4	12.7
JULY	13.1	11.5	8.9	13.6
AUGUST	13.9	12.2	8.1	13
SEPTEMBER	14	10.1	6.9	11.5
OCTOBER	19.7	9.1	5.6	10.9
CHANGES £ MILLION				
monthly average (sa)				
1984-85[3]	42	1034	683	1759
1985-86[3]	255	1207	1093	2555
1986-87[3]	871	938	266	2075
Over 1 month (sa)				
1987 MAY	1233	908	185	2326
JUNE	2305	1269	269	3843
JULY	482	936	203	1621
AUGUST	683	1363	105	2151
SEPTEMBER	744	223	75	1042
OCTOBER	1408	658	-70	1996

NOTES

[1] Total retail funds, including terms shares and SAYE.
[2] Total inflows.
[3] March on March.

SECRET

TABLE 18

Breakdown of Bank Lending by instrument (banking months before 1986 October)

		Advances	Commercial Bills	Investment[1]	Other[2]	Total	Total s/a
		unadjusted					
1984-1986							
% change[3]							
1984-85		15.5	27.7	18.0	n/a	17.5	17.5
1985-86		17.9	-7.4	81.3		16.9	16.8
Monthly average[3]							
1984-85		1131	186	25	91	1433	1452
1985-86		1438	56	157	11	1661	1692
Contributions to annual bank lending growth[4]							
Monthly changes							
1986							
	November	2221	420	129	483	3253	3374
	December	2655	1369	221	-272	3973	3599
1987	January	905	562	104	-136	1435	1640
	February	2617	-426	70	345	2606	275[illegible]
	March	4644	-2026	336	420	3374	24[illegible]
	April	1727	-409	210	-398	1130	2202
	May	3626	-2125	290	497	2288	2502
	June	5154	751	-8	-1215	4682	3979
	July	2090	1679	-98	890	4643	4530
	August	2840	-1519	119	-288	1154	2653
	September	5456	+13	-15	66	5520	4330
	October	2545	-500	77	813	2935	2894

1. Investment by banks in private sector
2. Market loans, shipbuilding repos, CD's and time deposits of building societies, commercial paper, and transit items.
3. April on April
4. First four columns equal fifth column.

TABLE 19 SECRET

COUNTERPARTS TO BROAD MONEY

£ million

LATEST MONTH : OCTOBER 1987

	M3	M4
PSBR	-984	-984
Debt sales (-): Other Public Sector	-45	-111
Central Government	57	-607
Public external & fc finance (-)	2786	2786
Over(-)/under(+)funding	1814	1084
£ lending to private sector	2935	4136
Bank/bank & b society externals (-)	628	514
Bank/bank & b society £NNDLs (-)	103	-579
TOTAL	5480	5155

FINANCIAL YEAR 1987/88 TO DATE

	M3	M4
PSBR	458	458
Debt sales (-): Other Public Sector	1697	813
Central Government	-1483	-1803
Public external & fc finance (-)	3144	3144
Over(-)/under(+)funding	3816	2612
£ lending to private sector	22352	31904
Bank/bank & b society externals (-)	-2028	-2666
Bank/bank & b society £NNDLs (-)	-2273	-4776
TOTAL	21867	27074

FINANCIAL YEAR 1986/87

	M3	M4
PSBR	3343	3343
Debt sales to private sector (-)	-1235	-5840
Public external & fc finance (-)	-1700	-1700
Over(-)/under(+)funding	408	-4197
£ lending to private sector	30299	47406
Bank/bank & b society externals (-)	-676	-1553
Bank/bank & b society £NNDLs (-)	-4601	-8689
TOTAL	25430	32967

Table 20:- BORROWING BY PRIVATE SECTOR EXCLUDING BUILDING SOCIETIES (£ million)

	BANK/BUILDING SOC. STERLING BORROWING			OTHER STERLING BORROWING					ALL BORROWING		
	Banks	Building Societies	TOTAL	Sterling Commercial Paper	Equities	Bonds	Euro-Sterling (*)	TOTAL	Sterling	Foreign Currency	TOTAL
1984											
Q1	5141	3007	8148		163	44	25	232	8380	1102	9482
Q2	2781	4076	6857		429	75	0	504	7361	808	8169
Q3	3285	4087	7372		288	59	100	447	7819	1047	8866
Q4	4535	3402	7937		249	73	210	532	8469	1948	10417
1985											
Q1	7093	3189	10282		924	170	235	1329	11611	3225	14836
Q2	4158	3748	7906		1092	327	230	1649	9555	1382	10937
Q3	4148	3560	7708		873	274	130	1277	8985	-806	8179
Q4	4803	4232	9035		525	89	200	814	9849	939	10788
1986											
Q1	7431	3867	11298		471	209	350	1030	12328	2362	14690
Q2	5465	5083	10548		1369	344	325	2038	12586	1575	14161
Q3	5764	5592	11356		1431	290	231	1952	13308	3688	16996
Q4	10433	4667	15100	67	2338	-52	281	2634	17734	591	18325
1987											
Q1	7074	3464	10538	368	1553	-782	1231	2370	12908	7358	20266
Q2	8571	4240	12811	651	2259	352	655	3917	16728	4633	21361
Q3	11068	3889	14957	284	5950	732	570	7536	22493	-1129	21364
Average per quarter											
1984	3936	3643	7579	0	282	63	84	429	8007	1226	9234
1985	5051	3682	8733	0	854	215	199	1267	10000	1185	11185
1986	7273	4802	12076	16.75	1402	198	297	1914	13989	2054	16043
1987 to q3	8904	3864	12769	434	3254	101	819	4608	17376	3621	20997
1987											
JANUARY	1390	1304	2694	150	500	-67	110	693	3387	1369	4756
FEBRUARY	2600	980	3580	104	870	20	315	1309	4889	2402	7291
MARCH	3084	1180	4264	114	183	-735	806	368	4632	3584	8216
APRIL	1288	1590	2878	192	828	110	355	1485	4363	1236	5599
MAY	2268	1295	3563	171	415	184	150	920	4483	2693	7176
JUNE	5015	1355	6370	288	1016	58	150	1512	7882	749	8631
JULY	4525	1302	5827	131	1840	182	210	2363	8190	-2214	5976
AUGUST	1055	1269	2324	9	2090	390	150	2639	4963	1020	5983
SEPTEMBER	5488	1318	6806	144	2020	160	210	2534	9340	11	9351
OCTOBER	2626	1510	4136	111	1385	190	45	1731	5867	3513	9380

Table 21:- NET FINANCE OF U.K. INDUSTRIAL AND COMMERCIAL COMPANIES AND BUILDING SOCIETIES (£ million)

	BANK BORROWING				OTHER BORROWING						ALL BORROWING
	Sterling		Foreign	TOTAL	Sterling Commercial Paper	Equities	Bonds	Euro-Sterling(*)		TOTAL	TOTAL
	ICC's	BSOC's	Currency					ICC's	BSOC's		
1984											
Q1	2905	-86	-895	1924		163	44	25	0	232	2156
Q2	559	-56	-193	310		429	75	0	0	504	814
Q3	1219	533	-74	1678		288	59	100	0	447	2125
Q4	2312	408	1433	4153		249	73	210	0	532	4685
1985											
Q1	3386	6	-606	2786		924	170	235	0	1329	4115
Q2	747	248	47	1042		1092	327	230	0	1649	2691
Q3	229	161	1469	1859		873	274	130	600	1877	3736
Q4	874	351	1444	2669		525	89	200	475	1289	3958
1986											
Q1	3935	89	-879	3145		471	209	350	935	1965	5110
Q2	-172	178	-1120	-1114		1369	344	325	1075	3113	1999
Q3	1055	976	-1072	959		1431	290	231	1575	3527	4486
Q4	4604	187	-50	4741	67	2338	-52	281	0	2634	7375
1987											
Q1	1063	306	2085	3454	368	1553	-782	1231	290	2660	6114
Q2	984	-490	727	1221	651	2259	352	655	50	3967	5188
Q3	3390	-188	-141	3061	284	5950	732	570	100	7636	10697
Average per quarter											
1984	1749	200	68	2016	0	282	63	84	0	429	2445
1985	1309	192	589	2089	0	854	215	199	269	1536	3625
1986	2356	358	-780	1933	17	1402	198	297	896	2809.	4743
1987 to q3	1812	-124	890	2579	434	3254	101	819	147	4754	7333
1986:- AUGUST					12	698	126	100	650	1586	
SEPTEMBER					31	385	113	0	750	1279	
OCTOBER					76	898	-49	105	0	1030	
NOVEMBER					77	835	-3	0	0	909	
DECEMBER					-86	605	0	176	0	695	
1987:- JANUARY					150	500	-67	110	0	693	
FEBRUARY					104	870	20	315	140	1449	
MARCH					114	183	-735	806	150	518	
APRIL					192	828	110	355	0	1485	
MAY					171	415	184	150	50	970	
JUNE					288	1016	58	150	0	1512	
JULY					131	1840	182	210	0	2363	
AUGUST					9	2090	390	150	0	2639	
SEPTEMBER					144	2020	160	210	100	2634	
OCTOBER					111	1385	190	45	0	1731	

* Gross Issues announced by U.K. ICC's and Building Societies

NOTE/ Bank borrowing figures include monetary sector holdings of 'Other Borrowing' instruments, giving rise to some double counting in the 'All Borrowing' figures.

TABLE 22 SECRET

FUNDING AND MONEY MARKET ASSISTANCE - FINANCIAL YEAR 1987/88

	APR-OCT 1987
CGBR	3744
Gilt sales to nbps and overseas (inc-)	-4816
Other CG debt sales to nbps incl Treasury bills* (-)	-1607
CG external and fc finance other than BGS(-)	7892
Funding of the CGBR Over(-)/under(+)	5213
OPS net of on lending	-3286
OPS debt sales to nbps(-)	1697
OPS currency finance(-)	192
Funding of OPS Over(-)/under(+)	-1397

Funding of PSBR Over(-)/under(+)	3816

	£ million u/a
	5213
Other BGS sales (-)	[illegible]
Other CG debt sales (-)	5
Notes and coins (-)	[illegible]
Other incl exchequer (-)	3
CG bank deposits (+)	[illegible]

Total influences* (surplus+,shortage-)	4143

Change in bankers deposits (-)	[illegible]
Change in level of assistance (+) #	-4339
of which	
Issue Department bills	[illegible]
Banking Department bills	[illegible]
Market advances	[illegible]
Repos	[illegible]
Level of assistance	
End March 1986	13317
End March 1987	9742
End October 1987	5403

* Treasury bills usually included below the line in the Money Market Assistance Table

\# Surplus on influences leads to a fall in assistance and vice

TABLE 23 SECRET

MONETARY AGGREGATES : FORECAST GROWTH RATES

percent

Not seasonally adjusted			M0	M3	M4
1 MONTH % CHANGE TO:					
1987 AUG			0.1	1.3	1.0
SEP			0.1	0.9	1.0
OCT			-0.2	3.1	1.8
NOV	)	*	0.3	1.4	1.1
DEC	)FORECAST		n/a	1.5	1.6
JAN	)		n/a	-0.9	0.0
12 MONTH % CHANGE TO:					
1987 AUG			4.5	22.1	15.5
SEP			5.2	19.5	14.9
OCT			5.2	22.2	15.7
NOV	)	*	4.9	22.1	15.8
DEC	) FORECAST		n/a	23.6	16.8
JAN	)		n/a	23.5	17.0

Seasonally adjusted			M0	M3	M4
1 MONTH % CHANGE TO:					
1987 AUG			0.3	1.4	1.3
SEP			0.8	1.4	1.1
OCT			0.6	3.5	2.1
NOV	)	*	0.3	0.8	0.9
DEC	) FORECAST		0.8	1.6	1.4
JAN	)		0.5	0.7	0.2
12 MONTH % CHANGE TO:					
1987 AUG			4.7	21.8	15.0
SEP			4.9	19.8	14.6
OCT			5.6	22.9	15.7
NOV	)	*	4.9	22.7	15.7
DEC	) FORECAST		4.3	23.9	16.7
JAN	)		5.4	23.3	16.8

* Provisional November outturn for M0

91/G.LD.4496.001

SECRET

TABLE 24: MO FORECAST

SEASONALLY ADJUSTED

	LEVELS £ MILLION			% CHANGE ON PREVIOUS MONTH		% CHANGE ON YEAR EARLIER	
	Notes and coin	Bankers' Deposits	MO	Notes and coin	MO	Notes and coin	MO
ACTUAL							
April	14,916	204	15,120	+0.7	+0.5	+4.6	+4.8
May	14,984	204	15,188	+0.5	+0.4	+4.5	+4.4
June	15,075	137	15,212	+0.6	+0.2	+4.6	+4.2
July	15,166	235	15,401	+0.6	+1.2	+4.7	+5.4
August	15,258	182	15,440	+0.6	+0.3	+4.6	+4.7
September	15,376	184	15,560	+0.8	+0.8	+5.0	+4.9
October	15,457	202	15,659	+0.5	+0.6	+5.2	+5.6
November	15,524	183	15,707	+0.4	+0.3	+4.9(4.9)	+4.9(5.0)
FORECAST							
December	15,650	190	15,840	+0.8	+0.8	4.7(4.6)	4.3(4.2)
January	15,730	190	15,920	+0.5	+0.5	5.3(5.0)	5.4(5.2)
February	15,780	190	15,970	+0.3	+0.3	6.5(6.5)	6.6(6.6)
March	15,830	190	16,020	+0.3	+0.3	6.9(6.9)	6.5(6.5)

* Last month's forecast in brackets.

TABLE 25: MONEY MARKET INFLUENCES

£ million
not seasonally adjusted

	Actual		Forecast	
	1987 OCT	NOV	DEC	1988 JAN
A. Money market influences				
(i) CGBR (+)	-730	-250	800	-6200
(ii) Reserves etc (+)	3921	25	0	0
(iii) Notes and coin (-)	-537	300	-800	725
(iv) National Savings (-)	1	0	-50	-125
(v) CTDs (-)	-282	50	200	1100
(vi) Gilts (-)	-1474	-125	-775	-525
(vii) Other Exchequer items etc	-221	0	0	0
A. TOTAL MONEY MARKET INFLUENCES (Market surplus + / shortage -)	678	0	-625	-5025
B. Money market operations				
(i) Commercial bills (purchase +):				
Issue Department - outright	-1191			
- repo terms	1080			
Banking Department	-83			
(ii) LA bills (purchase +)				
Issue Department	-49			
Banking Department	-28			
(iii) Treasury bills (purchase +)	-400	-1800	500	1500
(iv) Market advances	56			
(v) Export Credit/Shipbuilding Repos	0			
(vi) Gilt Repos	0			
B. TOTAL MONEY MARKET OPERATIONS	-615	0	625	5025
C. Change in bankers balances = A + B	63			
D. TOTAL ASSISTANCE OUTSTANDING (excluding Treasury bills) = previous level + B - B(iii)	5403	7200	7325	10850
of which commercial bills	5808	5257	5375	8900

TABLE 26

SECRET

TIMING OF GOVERNMENT SHARE SALES

The timetable now stands as follows:

1987

BP(I)	(28 October (Offer closes) (30 October (dealings start)

An issue of BT bonus shares is planned in December/January based on a record date of 30 November, and that £250m of BT prefs are to be repaid in December.

1988

BGC(III)	19 April
BAA(II)	19 May
BP(II)	30 August

1989

BP(III)	27 April

SECRET

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FORECAST

Table 23 - Forecast growth rates of Monetary Aggregates
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Table 26 - Privatisation Issues and Mergers

Table 1: Developments in the G5 (including UK)*

		Activity			Money supply		Costs and prices		
		Nominal GNP	Real GNP	Industrial production	M1	M2/M3	Unit labour costs	Consumer prices	GNP deflator
1983		7.1	2.9	3.7	9.8	8.6	-0.7	3.8	4.1
1984		8.6	4.9	8.0	6.6	8.6	-0.7	4.1	3.5
1985		6.6	3.2	3.0	8.2	8.4	0.3	3.5	3.3
1986		5.6	2.7	1.0	11.5	8.1	1.4	1.5	2.8
1987	Q1	5.0	2.5	1.0	13.5	8.8	0.5	1.5	2.4
	Q2	4.7	2.2	2.1	12.4	8.9	-0.8	2.5	2.5
	Q3							2.9	
1987	Jan			-0.1	14.4	9.0		1.0	
	Feb			1.0	13.8	8.9		1.4	
	Mar			2.0	12.4	8.6		2.0	
	Apr			0.9	13.0	9.0		2.5	
	May			2.6	12.7	9.0		2.5	
	Jun			2.7	11.4	8.7		2.7	
	Jul			2.7	10.6	8.5		2.6	
	Aug			4.0				3.1	
	Sep							2.9	

* Percentage changes on a year before.

TABLE 2: INTEREST AND EXCHANGE RATES IN G5

a. THREE MONTH NOMINAL INTEREST RATES IN THE G5 COUNTRIES*

	United States	Japan	Germany	France	UK
1983	9.1	6.5	5.8	12.5	10.1
1984	10.4	6.3	6.0	11.7	9.9
1985	8.1	6.5	5.5	10.0	12.2
1986	6.5	5.0	4.6	7.8	11.0
1987 Jan	5.8	4.3	4.6	8.4	11.0
Feb	6.1	4.0	4.0	8.5	11.0
Mar	6.2	4.0	4.0	8.0	10.0
Apr	6.5	3.9	3.9	8.0	9.8
May	7.0	3.8	3.8	8.2	8.8
June	7.0	3.7	3.7	8.2	9.0
July	6.7	3.7	3.9	7.9	9.2
Aug	6.8	3.7	4.0	7.9	10.1
Sept	7.4	3.8	4.0	7.9	10.1
Oct	8.2	3.9	4.8	8.2	9.[illegible]
Nov	7.4	3.9	3.9	8.6	9.0
Dec 1st	7.8	3.9	3.7	8.7	8.9

* CD rate for US, Gensaki for Japan, Interbank rates for rest.

TABLE 2

b. EXCHANGE RATES

EFFECTIVE EXCHANGE RATE INDICES (1975 = 100)

	United States	Japan	Germany	France	UK	CROSS RATES YEN/$	CROSS RATES DM/$
1980	93.7	126.4	128.8	94.4	96.0	225.8	1.82
1981	105.6	142.9	119.2	84.3	94.8	219.5	2.25
1982	118.0	134.6	124.4	76.6	90.4	248.8	2.43
1983	124.8	148.4	127.1	70.0	83.2	237.4	2.55
1984	134.6	156.7	123.8	65.7	78.6	237.5	2.85
1985	140.7	160.5	123.6	66.3	78.2	238.4	2.94
1986	114.8	203.1	137.3	70.1	72.8	168.3	2.17
1985 Q1	149.7	154.3	119.3	63.4	72.1	257.5	3.26
Q2	145.8	155.2	121.6	65.2	78.9	250.6	3.08
Q3	138.4	157.6	125.0	67.2	82.1	238.6	2.85
Q4	128.8	174.9	128.5	69.3	79.8	207.4	2.59
1986 Q1	121.2	186.8	133.1	71.0	75.1	187.8	2.35
Q2	116.0	202.8	134.7	69.0	76.0	169.9	2.24
Q3	111.4	214.8	138.6	69.5	71.9	155.9	2.09
Q4	110.5	208.0	142.6	70.8	68.3	160.4	2.01
1987 Q1	104.2	210.1	147.7	71.9	70.2	155.2	1.84
Q2	101.1	222.9	146.9	71.6	72.7	142.6	1.81
Q3	102.5	218.0	146.4	71.4	72.7	147.0	1.84
1987 Jan	105.5	209.4	147.5	71.8	68.9	154.6	1.86
Feb	103.9	209.3	148.4	72.3	69.0	153.4	1.82
Mar	103.3	211.7	147.1	71.8	71.9	157.5	1.84
Apr	101.0	222.7	146.6	71.6	72.3	142.9	1.81
May	100.4	225.3	147.2	71.7	73.3	140.6	1.79
June	101.8	220.8	146.8	71.5	72.6	144.4	1.82
July	103.3	213.7	146.6	71.6	72.8	150.2	1.85
Aug	103.3	218.2	146.0	71.1	72.3	147.6	1.86
Sept	100.8	222.1	146.7	71.4	73.0	143.1	1.81
Oct	100.6	221.4	147.1	71.5	73.6	143.3	1.80
Nov 30th	94.4	231.0	152.2	72.7	76.4	132.4	1.64
% Change since dollar peak (Feb 85)	- 40	+ 47	+ 30	+ 16½	+ 9	- 4[illegible]½	- 52
% Change since Plaza (Sept 85)	- 32½	+ 47½	+ [illegible]1½	+ 8	- 7	- 45	- 42½
% Change since Louvre Accord (Feb 87)	- 9	+ 10½	+ 2½	+ ½	+ 10½	- 1[illegible]	- 10½

Table 3 (a): Share Prices for the Major Countries

	US St.& Poor Ind.	Japan Tokyo SE New	Germany Commerz -bank	France CAC Gen.	UK FT. All share	Italy Banca Com Ital	Canada Toronto Comp.	Australia All ord.	H.Kong Hang Sang Bank	S'pore Straits Times Index
1986 (Ave.)	262.3	1322.7	1998.8	361.5	778.5	694.0	2999.5	1207.4	1258.8	732.3
1987 Jan	297.0	1644.0	1888.0	415.2	880.1	718.0	3255.6	1529.0	1643.5	937.1
Feb	319.2	1744.8	1719.7	416.8	952.7	689.1	3492.1	1558.9	1770.0	1013.1
Mar	335.2	1848.0	1710.6	446.1	1001.3	694.8	3705.8	1644.2	1796.4	1061.2
Apr	335.2	2035.9	1832.4	451.5	989.2	739.7	3774.8	1725.3	1727.9	1097.2
May	336.2	2119.7	1773.5	440.6	1070.0	716.2	3750.6	1814.3	1846.9	1187.4
Jun	348.8.	2190.2	1791.2	410.7	1134.4	527.5	3705.6	1776.8	2009.7	1238.2
Jul	361.0	1982.0	1921.3	413.2	1194.0	683.3	3925.7	1910.6	2136.1	1349.0
Aug	384.3	2093.3	2024.5	410.2	1150.6	629.2	4042.7	2102.1	2300.0	1459.2
Sep	372.4	2088.7	1979.4	424.1	1174.0	619.3	3919.4	2232.2	2442.1	1417.9
Oct	314.9	2014.5	1802.4	364.9	1079.4	616.4	3132.7	1857.1	3357.3	1216.0
15 Oct	343.6	2158.6	1902.6	366.1	1189.9	665.5	3674.9	2146.4	3695.5	1426.1
30 Nov	263.2	1847.0	1322.6	293.9	796.3	528.4	2978.3	1328.7	2138.4	800.0
Percentage changes										
1986-25 Nov	+0.4	+39.6	-33.8	-18.7	+2.3	-23.9	-0.7	10	+69.9	+9.2
15 Oct - 25 Nov	-23.4	-14.4	-30.5	-19.7	-33.1	-20.6	-19.0	-38.1	-42.1	-43.9

The monthly figures are averages of weekly rates.

7/003 TABLE 3(b)

ECONOMIST COMMODITY PRICE INDICES **1980=100**

	All items indices				SDR indices		
	SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
Annual							
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982	87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983	102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984	105.7	83.4	144.9	97.8	116.1	105.1	89.5
1985	95.8	74.8	135.2	86.5	103.4	94.2	84.3
1986	86.9	77.7	124.0	74.5	97.3	85.0	70.5
Quarterly							
1985 Q4	90.1	74.7	121.0	80.3	101.4	86.9	75.0
1986 Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
Q2	91.0	81.1	125.0	79.5	104.9	86.9	71.8
Q3	81.4	75.2	117.4	70.3	88.8	80.1	68.3
Q4	82.4	76.4	123.9	70.1	87.4	86.5	68.4
1987 Q1	81.6	79.2	119.2	68.9	82.4	91.0	69.0
Q2	86.8	86.4	122.2	73.3	85.5	98.0	75.2
Q3	91.4	89.6	128.9	75.9	82.6	107.1	87.5
Monthly							
December	81.9	76.1	122.7		85.4	87.5	68.4
January	80.3	77.0	118.8		82.5	88.8	66.7
February	81.7	79.6	120.5		82.6	91.7	68.5
March	82.9	81.0	118.2		82.1	92.4	71.8
April	84.2	83.8	119.0		83.2	94.8	72.6
May	87.3	87.6	122.0		87.1	97.2	74.8
June	88.9	87.8	125.2		86.2	101.7	78.3
July	90.7	88.4	127.8		84.0	105.1	84.7
August	92.2	89.8	130.9		81.2	109.7	90.2
September	91.4	90.6	128.2		82.7	106.6	87.6
October	94.8	94.2	132.2		86.7	101.9	94.3
November (prov)	93.6	97.0	127.6		86.5	97.2	93.8
Weekly							
September 8	90.4	90.3	126.4		81.8	107.2	85.7
15	91.3	90.4	127.8		83.1	107.8	86.0
22	91.8	91.0	128.8		82.8	104.5	89.8
29	93.5	91.9	131.1		84.4	103.9	92.8
October 6	95.7	94.1	134.1		86.6	105.2	95.2
13	96.1	95.4	134.7		86.7	102.5	97.9
20	93.4	93.3	131.0		86.2	101.1	91.5
27	93.9	94.2	129.1		87.2	98.9	92.7
November 3	91.0	93.6	124.9		84.3	96.8	89.8
10	92.1	96.5	125.5		85.3	95.4	92.3
17	94.8	97.8	128.8		87.3	98.3	95.4
24 (prov)	96.5	100.1	131.2		89.2	98.3	97.7

* In relation to prices of manufactured exports. Recent figures are estimated.

** Non-food agriculturals

TABLE 4: **RECENT INDICATORS OF ACTIVITY AND INFLATION**
(per cent changes on year earlier)

	MONEY GDP
1985-86	9.8
1986-87	6.7
1986 2	6.4
3	6.5
4	6.7
1987 1	7.0
2	8.1
3	9.5*
4	8.2
1988 1	8.1
1987-88	8.5

	OUTPUT		PRICES AND UNIT LABOUR COSTS					
					Producer Prices***		Unit Wage Costs	
	GDP(O)	Manufacturing Output	RPI	RPI excluding mortgage payments	Output	Input	Manufacturing	Whole economy
1985	3.7	2.9	6.1	5.2	6.3	4.4	5.6	5.1
1986	3.0	1.0	3.4	3.6	4.3	-10.7	4.6	5.4
1986 1	2.3	- 0.9	4.9	4.6	5.0	- 11.9	7.5	6.0
2	2.3	- 0.6	2.8	3.3	4.3	- 12.4	6.2	6.2
3	3.6	1.3	2.6	3.3	4.0	- 13.0	3.1	4.4
4	3.9	4.1	3.4	3.4	4.0	- 5.6	1.1	5.0
1987 1	4.5	4.8	3.9	3.7	4.1	- 1.7	0.6	4.0
2	4.1	5.2	4.2	3.6	4.5	4.6	1.2	4.6
3	4.5	6.1					1.5	
4								
1986 September		1.6	3.0	3.4	4.0	- 11.5	3.2**	
October		3.8	3.0	3.4	4.0	- 7.4	2.7	
November		4.3	3.5	3.3	3.8	- 4.9	1.8	
December		4.3	3.7	3.5	4.0	- 4.4	1.6	
1987 January		3.0	3.9	3.7	4.2	- 2.5	1.9	
February		5.8	3.9	3.7	4.2	- 2.9	1.5	
March		5.5	4.0	3.8	4.1	0.4	0.9	
April		4.2	4.2	3.6	4.3	3.0	0.5	
May		5.7	4.1	3.8	4.5	3.4	0.8	
June		5.7	4.2	3.5	4.5	7.2	1.3	
July		5.9	4.4	3.7	4.7	13.4	1.5	
August		6.8	4.4	3.7	4.7	14.5	1.5	
September		5.5	4.2	3.5	4.7	10.7	1.5	
October			4.5	3.9	4.8	7.7	1.5	

* Autumn Statement forecast.

** Wage cost figures show averages for three months ending in month indicated.

*** Excluding food, drink and tobacco.

TABLE 5: INDICATORS OF FISCAL STANCE

(a) Annual Data

	PSBR		PSBR excluding privatisation proceeds		PSFD	
	Cash (£ billion)	Ratio to GDP (per cent)	Cash (£ billion)	Ratio to GDP (per cent)	Cash (£ billion)	Ratio to GDP (per cent)
1970-71	0.8	1½	0.8	1½	-0.2	-½
1971-72	1.0	1¼	1.0	1¼	0.7	1
1972-73	2.4	3½	2.4	3½	2.0	3
1973-74	4.3	5¼	4.3	5¼	3.5	4½
1974-75	8.0	9	8.0	9	6.0	6¾
1975-76	10.3	9¼	10.3	9¼	8.1	7¼
1976-77	8.3	6½	8.3	6½	7.5	5¾
1977-78	5.4	3½	5.9	4	6.6	4½
1978-79	9.2	5¼	9.2	5¼	8.3	4¾
1979-80	10.0	4¼	10.4	5	8.0	3¾
1980-81	12.7	5½	13.1	5½	11.7	5
1981-82	8.6	3¼	9.1	3½	5.2	2
1982-83	8.8	3¼	9.3	3¼	8.3	3
1983-84	9.7	3¼	10.9	3½	11.4	3¾
1984-85*	10.2	3	12.3	3¼	13.1	4
1985-86*	5.8	1½	8.5	2¼	8.3	2¼
1986-87	3.4	1	7.8	2	9.6	2½
1987-88 (October forecast)	-1.2	-¼	4.1	1	4.3	1

* If adjusted for coal strike, PSBR and PSFD ratios to GDP roughly 0.9 per cent lower in 1984-85 and 0.3 per cent lower in 1985-86.

(b) Quarterly Data

£ billion		PSBR		PSBR excluding privatisation		PSFD	
		s.a.*	u.a.	s.a.*	u.a.	s.a.+	u.a.
1985	Q2	1.2	2.6	2.5	3.9	2.9	4.6
	Q3	1.9	2.9	2.4	3.4	1.5	1.9
	Q4	1.5	2.1	2.1	2.6	2.1	0.7
1986	Q1	1.1	-1.9	1.5	-1.5	2.0	1.0
	Q2	2.1	2.3	3.2	3.4	2.2	3.6
	Q3	2.1	3.6	2.1	3.6	3.0	4.2
	Q4	-1.3	-1.6	0.9	0.5	1.6	0.0
1987	Q1	0.5	-0.7	1.7	0.4	2.6	1.9
	Q2	0.2	1.1	2.5	3.4	1.6	3.3

* financial year - constrained
\+ calendar year - constrained

Table 6: CGBR(O) April - October Comparison with Budget Profile
£ billion

Receipts	
Inland Revenue	+2.0
Customs and Excise	+ 0.4
Privatisation proceeds	- 1.1
Other receipts	+ 0.2
Expenditure	
Net debt interest payments	+ 0.3
Other departmental expenditure(1)	- 1.0
Net effect on CGBR(O)	- 2.3

(1) on a cash basis, net of certain receipts and on-lending

TABLE 7

EXCHANGE RATES

		Exchange Rate Index*	Real Exchange Rate	ERI/(Oil Price Adjusted ERI)/	Dollar: Sterling exchange rate	D-Mark: Sterling exchange rate	Index against EMS currencies*	US-UK Interest rate differential	Brent spot price ($/bl)
1983	(3)	84.9	114.5	1.042	1.53	3.94	103.4	-0.3	30.9
	(4)	83.2	112.3	1.035	1.47	3.93	102.9	-0.5	29.6
1984	(1)	81.7	110.3	1.012	1.44	3.87	101.9	-0.9	29.7
	(2)	79.8	109.0	0.988	1.40	3.78	99.6	-2.1	29.7
	(3)	78.0	106.8	0.979	1.30	3.78	99.5	-0.6	28.5
	(4)	75.0	103.5	0.946	1.21	3.72	97.5	+0.3	28.6
1985	(1)	72.1	99.9	0.908	1.12	3.63	95.2	+4.1	27.7
	(2)	78.9	111.1	1.001	1.26	3.88	102.3	+4.4	27.0
	(3)	82.1	117.4	1.040	1.38	3.92	103.8	+3.6	27.4
	(4)	79.8	115.7	1.001	1.44	3.71	98.7	+3.5	28.3
1986	(1)	75.1	111.7	1.037	1.44	3.38	90.9	+4.5	17.8
	(2)	76.1	117.2	1.101	1.51	3.39	91.4	+3.2	12.8
	(3)	71.9	112.7	1.049	1.50	3.10	84.9	+3.8	12.4
	(4)	68.3	108.0	0.970	1.43	2.87	79.0	+5.1	14.8
1987	(1)	69.9	111.6	0.967	1.54	2.83	78.8	+4.3	17.9
	(2)	72.8	116.8	0.996	1.64	2.96	82.6	+2.1	18.6
	(3)	72.7	116.5	0.992	1.62	2.97	83.0	+2.8	19.0
1987	January	68.9	109.8	0.950	1.51	2.80	77.8	+4.9	18.4
	February	69.0	110.3	0.960	1.53	2.78	77.4	+4.4	17.2
	March	71.9	114.8	0.991	1.59	2.92	81.2	+3.4	18.0
	April	72.3	116.1	0.994	1.63	2.95	82.1	+2.9	18.2
	May	73.3	117.9	1.002	1.67	2.98	83.1	+1.6	18.8
	June	72.7	116.5	0.991	1.63	2.96	82.6	+2.1	18.9
	July	72.8	116.7	0.985	1.61	2.97	82.9	+2.6	19.8
	August	72.3	115.5	0.988	1.60	2.97	82.8	+3.2	18.9
	September	73.1	116.9	1.004	1.65	2.98	83.2	+2.6	18.3
	October	73.6	n/a	1.006	1.66	2.99	83.5	+1.7	18.8
	November 30th	76.4	n/a	1.055	1.83	3.00	84.3	+1.0	17.7

/ Oil price adjusted ERI has roughly the same inflation implications as does an ERI of 80 given an oil price of $29 (their average values for January 1983 - November 1985). The ratio shown therefore indicates whether movements in the ERI are inflationary or otherwise, relative to the period Jan-1983 - Nov 1985, having allowed for oil prices.

* 1975=100

TABLE 8 : NOMINAL AND REAL INTEREST RATES

		NOMINAL RATES				REAL RATES				
		Three month interbank	Three month Eurodollar	Base Rate	Long Rate (20 year Gilts)	Expected inflation over 12 months*	Real 3-month interbank rate	Yield on Index-linked Gilts** 1990	2001	2011
1985	(1)	13.0	8.9	12.9	10.9	5.7	6.9	4.4	3.5	3.2
	(2)	12.6	8.2	12.6	10.8	5.6	6.6	4.3	3.8	3.4
	(3)	11.7	8.1	11.7	10.4	5.3	6.1	4.3	3.8	3.5
	(4)	11.6	8.1	11.5	10.3	4.2	7.1	4.1	3.9	3.6
1986	(1)	12.4	7.9	12.3	10.2	3.9	8.2	4.3	4.2	3.8
	(2)	10.2	7.0	10.4	9.0	3.6	6.5	3.6	3.6	3.4
	(3)	10.0	6.2	10.0	9.7	3.4	6.5	3.7	3.9	3.5
	(4)	11.2	6.1	11.0	10.7	4.1	6.8	3.7	4.1	3.8
1987	(1)	10.6	6.3	10.8	9.6	4.3	6.0	3.0	3.7	3.5
	(2)	9.2	7.1	9.4	9.0	3.8	5.2	2.4	3.8	3.6
	(3)	9.9	7.1	9.7	9.8	3.7	6.0	2.6	4.2	3.9
1987	January	11.0	6.1	11.0	10.0	4.1	6.6	3.5	4.0	3.7
	February	10.8	6.4	11.0	9.8	4.3	6.2	3.0	3.7	3.5
	March	9.9	6.5	10.4	9.1	4.5	5.2	2.5	3.5	3.4
	April	9.8	6.9	10.0	9.2	4.2	5.4	2.6	3.6	3.4
	May	8.8	7.2	9.1	8.8	3.7	4.9	2.1	3.6	3.6
	June	9.0	7.1	9.0	8.9	3.5	5.3	2.3	3.9	3.7
	July	9.3	6.9	9.0	9.3	3.4	5.7	2.2	4.0	3.8
	August	10.2	7.0	10.0	10.0	3.9	6.1	2.6	4.3	4.0
	September	10.1	7.5	10.0	10.0	3.9	6.0	3.1	4.2	4.0
	October	10.0	8.3	9.5	9.8	4.0	5.1	3.1	4.5	4.3
	November 30th	8.9	7.9	9.0	9.3	4.0	4.7	2.0	3.9	3.9

* Unweighted average of forecasts by Phillips and 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 three months immediately ahead.

** Average of yields calculated for each Friday of month and quarterly for last Friday in each month. Assumes inflation averages 5 per cent per annum to redemption.

TABLE 9 CURRENT ACCOUNT

percentage change on previous year

	Export Volume less oil and erratics	Import Volume less oil and erratics	Terms* of Trade(AVI) 1980=100	Current balance £mn
1982	0.5	8.6	0.5	4035
1983	-1.1	9.5	-0.6	3338
1984	9.6	11.0	-1.9	1474
1985	6.8	4.2	1.8	2919
1986	2.4	5.7	-0.8	-980
1986 Q1	-2.5	3.2	3.0	744
2	0.0	2.4	1.9	146
3	2.9	7.5	-2.4	-910
4	9.3	9.9	-4.9	-960
1987 Q1	11.2	5.4	-1.5	672
Q2	6.4	10.2	+0.9	-195
Q3	9.1	12.0	+1.6	-1248
1986 Jan	-2.6	1.5	4.5	995
Feb	-2.7	2.6	3.3	204
Mar	-2.3	5.7	1.7	-466
Apr	-2.2	-1.8	2.3	283
May	-0.2	7.3	2.9	-113
Jun	2.6	1.7	1.6	-35
Jul	2.6	4.2	-1.9	-5
Aug	-0.4	9.7	-2.8	-734
Sep	6.4	8.4	-2.5	-179
Oct	7.7	5.1	-3.3	-155
Nov	11.3	10.6	-5.0	-462
Dec	9.0	15.0	-6.1	-313
1987 Jan	7.3	6.4	-2.7	85
Feb	18.2	8.5	-2.0	400
Mar	7.9	1.0	+0.3	186
April	10.4	10.6	+1.2	203
May	5.6	14.5	-0.1	-378
June	4.6	5.6	+1.5	-19
July	7.7	11.2	+0.4	-325
Aug	8.8	13.7	+1.2	-907
Sep	10.9	11.0	+3.3	-17
Oct	4.7	11.8	+2.0	-282

* excluding oil and erratics.

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TABLE 10

Key Monetary Indicators

	1986-87					1987-88							
	Oct	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**April**	**May**	**June**	**July**	**Aug**	**Sept**	**Oct**
MONETARY AGGREGATES 12 month % change (ua)													
MO	4.9	5.2	5.2	4.1	4.1	3.5	5.3	4.4	4.2	5.3	4.5	5.2	5.5
M3	18.5	18.6	18.0	17.6	19.0	19.0	20.4	18.9	19.1	20.9	22.1	19.5	22.2
M4	15.8	15.6	15.2	13.9	13.9	13.9	14.5	13.7	13.8	14.8	15.5	14.9	15.7
M5	15.1	15.1	14.4	13.2	13.3	13.4	14.0	13.4	13.5	14.3	14.8	14.3	15.1
STERLING LENDING 12 month % change (ua)													
Banks	19.4	20.8	21.8	22.5	21.7	20.7	21.4	21.7	21.5	22.2	21.5	23.5	22.8
Banks and building societies	19.0	19.6	20.2	20.4	19.8	19.1	19.4	19.4	19.2	19.4	18.8	20.0	19.2
OVER(-)/UNDER (+) FUNDING financial year to date: £mm	812	-3	-1,577	-3,931	-3,969	395	3,197	5,144	2,368	1,905	2,209	2,002	3,816
MONEY MARKET ASSISTANCE/ Level outstanding £mn	10,247	11,295	12,970	14,948	14,873	9,742	6,126	3,340	5,132	7,078	6,114	5,421	5,403
INTEREST RATES													
3 months*	11.1	11.3	11.3	11.0	10.8	9.9	9.8	8.8	9.0	9.3	10.2	10.1	9.97
20 yearϕ	10.6	10.9	10.6	10.0	9.8	9.1	9.2	8.8	8.9	9.3	10.0	10.0	9.84
EFFECTIVE EXCHANGE RATE	67.8	68.5	68.5	68.9	69.0	71.9	73.3	73.3	72.7	72.8	72.3	73.1	73.6

* Inter bank

ϕ par yield

/ banking months until August thereafter end calendar months

Table 11

MONETARY AGGREGATES 1987-88

		FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP	OCT
MO	Averaged weekly									
	Monthly change (£ million)	-228	+115	+325	+42	-93	+423	+13	+14	-32
	Monthly % change	-1.5	+0.8	+2.2	+0.3	-0.6	+2.8	+0.1	+0.1	-0.2
		(-0.8)	(+0.4)	(+0.5)	(+0.4)	(+0.2)	(+1.2)	(+0.3)	(+0.8)	(+0.6)
	12 Monthly % change	+4.1	+3.5	+5.3	+4.4	+4.2	+5.3	+4.5	+5.2	+5.5
M3	Monthly change (£ million)	+2,930	+6,797	+3,183	+3,245	+1,884	+4,212	+2,287	+1,576	+5,480
	Monthly % change	+1.9	+4.4	+2.0	+2.0	+1.1	+2.5	+1.3	+0.9	+3.1
		(+1.9)	(+2.8)	(+2.2)	(+1.4)	(+1.4)	(+2.2)	(+1.4)	(+1.4)	(+3.5)
	12 Monthly % change	+19.0	+19.0	+20.4	+18.9	+19.1	+20.9	+22.1	+19.5	+22.2
M4	Monthly change (£ million)	+2,456	+6,651	+3,535	+3,436	+4,019	5,289	+2,752	+2,888	+5,155
	Monthly % change	+0.9	+2.5	+1.3	+1.3	+1.4	+1.9	+1.0	+1.0	+1.8
		(+1.5)	(+1.7)	(+1.5)	(+0.9)	(+1.4)	(+1.5)	(+1.3)	(+1.1)	(+2.1)
	12 Monthly % change	+13.9	+13.9	+14.5	+13.7	+13.8	14.9	+15.5	+14.9	+15.7
M5	Monthly change (£ million)	+2,594	+6,945	+3,544	+4,108	+4,122	+5,350	+2,618	+2,985	+5,288
	Monthly % change	+0.9	+2.5	+1.2	+1.4	+1.4	+1.8	+0.9	+1.0	+1.7
		(+1.5)	(+1.5)	(+1.3)	(+1.2)	(+1.4)	(+1.4)	(+1.2)	(+1.1)	(+2.1)
	12 Monthly % change	+13.3	+13.4	+14.0	+13.4	+13.5	+14.3	+14.8	+14.3	+15.1
NIBMI	Monthly change (£ million)	+519	+1,058	+475	+1,168	+1,471	+99	-78	+398	+192
	Monthly % change	+1.3	+2.6	+1.2	+2.8	+3.4	+0.2	-0.2	+0.9	+0.4
		(+0.4)	(-0.9)	(-1.2)	(+2.2)	(+4.3)	(+0.3)	(+0.4)	(+0.7)	(+3.4)
	12 Monthly % change	+10.5	+10.3	+11.9	+12.1	+13.5	+12.4	+12.4	+6.1	+12.0
M1	Monthly change (£ million)	+392	+4,364	+705	+2,967	+2,102	+984	+1,163	+1,524	+2,679
	Monthly % change	+0.5	+5.8	+0.9	+3.7	+2.5	+1.2	+1.3	+1.7	+3.0
		(+0.1)	(+3.7)	(-0.3)	(+3.4)	(+2.8)	(+1.2)	(+1.7)	(+1.6)	(+4.6)
	12 Monthly % change	+21.2	22.5	+23.2	+23.7	+23.8	+22.5	+23.8	+20.3	+24.4
Net £ deposits from banks abroad		-845	-1,395	+724	+987	-946	+492	-954	-111	+1,271
Overseas non-bank £ deposits		+550	+742	-194	+765	-429	+490	+195	+37	+902
WIDER £ AGGREGATE										
	Monthly change (£ million)	+2,635	+6,144	+3,713	+4,997	+509	+5,194	+1,528	+1,685	+7,470
	Monthly % change	+1.5	+3.4	+2.0	+2.6	+0.3	+2.7	+0.8	+0.8	+3.7
		(+1.4)	(+2.0)	(+2.1)	(+2.2)	(+0.5)	(+2.4)	(+0.8)	(+1.2)	(+4.0)

NB Figures in brackets are seasonally adjusted.

TABLE 12

REAL PERCENTAGE GROWTH RATES OF MONETARY AGGREGATES

	RPI less Mortgage Element	Weekly Averaged M0	M3	M4	M5
FINANCIAL YEARS (12 month % changes to calendar March)					
1981-82	9.8	-6.5	4.2	3.7	3.0
1982-83	5.9	-0.6	5.4	7.9	8.0
1983-84	4.6	0.8	3.3	6.8	6.1
1984-85	5.2	0.3	6.0	8.2	8.2
1985-86	4.0	-0.5	12.2	10.1	9.1
1986-87	3.8	0.3	14.6	9.7	9.2
12 MONTH % CHANGES (ua except M0)					
SEPTEMBER	3.4	1.4	15.1	11.9	11.1
OCTOBER	3.4	1.5	14.6	12.0	11.3
NOVEMBER	3.3	1.9	14.8	11.9	11.4
DECEMBER	3.7	1.6	13.8	11.1	10.3
1987 JANUARY	3.7	1.4	13.4	9.8	9.2
FEBRUARY	3.7	0.4	14.8	9.8	9.3
MARCH	3.8	0.3	14.6	9.7	9.2
APRIL	3.6	1.2	16.2	10.5	10.0
MAY	3.8	0.6	14.5	9.5	9.2
JUNE	3.5	0.7	15.1	10.0	9.7
JULY	3.7	1.6	16.6	10.8	10.2
AUGUST	3.7	1.0	17.7	11.4	10.7
SEPTEMBER	3.5	1.4	15.5	11.0	10.4
OCTOBER	3.9	1.6	17.6	11.4	10.8

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TABLE 13

MO, THE WIDE MONETARY BASE

Calendar months	Notes and coin (nsa)	Notes and coin (sa)		Bankers' deposits	MO (nsa)	MO (s.a.)		% change on previous Month: Notes (sa) and coin	% change on previous Month: MO (sa)	% change on year earlier: Notes and Coin (nsa)	% change on year earlier: Notes and Coin (sa)	% change on year earlier: MO (nsa)	% change on year earlier: MO (sa)
	Levels £ million (changes in brackets)												
1987													
June	14,946	15,075	(+91)	137	15,083	15,212	(+24)	+0.6	+0.2	+4.6	+4.6	+4.2	+4.2
July	15,271	15,166	(+91)	235	15,506	15,401	(+189)	+0.6	+1.2	+4.7	+4.8	+5.3	+5.5
August	15,337	15,258	(+92)	182	15,519	15,440	(+39)	+0.6	+0.3	+4.3	+4.6	+4.5	+4.7
September	15,349	15,376	(+118)	184	15,533	15,560	(+120)	+0.8	+0.8	+5.3	+5.1	+5.2	+5.0
October	15,299	15,457	(+81)	202	15,500	15,659	(+99)	+0.5	+0.6	+5.1	+5.1	+5.5	+5.6
November (4 of 4)	15,364	15,524	(+67)	183	15,547	15,707	(+48)	+0.4	+0.3	+4.8	+4.8	+4.9	+4.9

Weekly data	Notes (sa) and coin		Bankers' deposits	MO (sa)		% change on previous week MO (sa)
October						
7th	15,435	(+42)	190	15,625	(+111)	+0.7
14th	15,418	(-17)	192	15,610	(-15)	-0.1
21st	15,467	(+49)	223	15,690	(+80)	+0.5
28th	15,503	(+36)	202	15,705	(+15)	+0.1
November						
4th	15,510	(+7)	128	15,638	(-67)	-0.4
11th	15,511	(+1)	225	15,736	(+98)	+0.6
18th	15,522	(+11)	193	15,715	(-21)	-0.1
25th	15,553	(+31)	185	15,738	(+23)	+0.1

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TABLE 14

SECRET

BUILDING SOCIETY BALANCE SHEET FLOWS

Unadjusted £ million

	Total Flow	ASSETS: Net Mortgage Advances & Unsecured Lending	Liquid Assets		Fixed Assets	LIABILITIES: Retail principal	Interest credited	Wholesale funds	Other (eg reserves)
1985 *	1459	1193	239	(18.0)	27	592	495	205	167
1986 *	1623	1589	17	(16.4)	17	553	498	523	49
1985 Q3*	1666	1157	479	(17.0)	30	590	384	153	539
Q4*	2172	1367	783	(18.0)	22	766	660	594	152
1986 Q1*	858	1271	-431	(17.5)	18	740	462	167	-511
Q2*	1591	1645	-74	(16.6)	20	478	522	321	270
Q3*	1783	1884	-112	(15.7)	11	56	402	1099	226
Q4*	2262	1556	686	(16.4)	20	938	649	403	272
1987 Q1*	1240	1120	105	(16.1)	15	484	594	279	-117
Q2*	1564	1240	309	(16.4)	15	612	457	182	313
Q3*	1487	1272	200	(16.1)	15	410	515	364	198
Sep	1043	1238	-210	(16.1)	15	193	630	594	-374
Forecast									
1987 Q4*	2158	1373	770	6 16.9)	15	970	610	262	316
Oct+	2122	1399	708	(16.4)	15	814	309	535	464
Nov	2046	1568	463	(16.4)	15	976	111	0	959
Dec	2306	1152	1139	(16.9)	15	1418	1411	250	-773
1988 Jan	1750	1217	518	(17.1)	15	1119	1298	250	-917

* Monthly averages
+ Estimated , part data

SECRET

TABLE 15

THE COMPONENTS OF M3

	NOTES AND COINS	BANK DEPOSITS			M3
		RETAIL		WHOLESALE	
		NIB	IB		
% CHANGES					
Financial years (ua)					
1984-85[1]	5.2	6.5	7.7	19.1	11.5
1985-86[1]	3.7	4.5	16.8	26.1	16.7
1986-87[1]	2.2	16.9	17.5	25.8	19.1
Over 12 months (ua)					
OCTOBER	5.8	15.3	18.6	22.8	18.5
NOVEMBER	4.0	13.3	17.1	25.6	18.6
DECEMBER	5.1	14.4	18.7	22.2	18.0
1987 JANUARY	3.7	14.7	16.2	23.0	17.6
FEBRUARY	3.2	14.5	17.2	25.7	19.0
MARCH	-2.1	16.9	17.4	25.4	19.0
APRIL	6.5	14.5	17.1	27.9	20.4
MAY	3.7	16.4	19.0	23.1	18.9
JUNE	4.1	18.0	15.4	25.1	19.1
JULY	6.4	15.3	12.1	32.3	20.9
AUGUST	4.4	16.4	15.1	32.8	22.1
SEPTEMBER	6.1	6.1	14.2	31.8	19.5
OCTOBER	4.9	15.4	12.4	34.6	22.2
Over 6 months (sa)					
1987 MAY	-0.3	13.2	12.9	36.2	21.9
JUNE	-1.9	25.4	12.1	37.0	24.0
JULY	2.2	14.4	12.3	46.5	26.3
AUGUST	4.0	13.2	14.5	41.5	25.1
SEPTEMBER	8.9	16.0	12.7	32.1	21.7
OCTOBER	7.1	33.2	11.7	33.3	25.0
CHANGES £ MILLION					
monthly average (sa)					
1984-85[1]	42	56	238	683	1017
1985-86[1]	17	90	161	556	1565
1986-87[1]	4	359	538	1255	2157
Over 1 month (sa)					
1987 MAY	-74	963	270	1178	2337
JUNE	-35	1814	491	43	2313
JULY	294	-178	660	2836	3612
AUGUST	10	150	533	1702	2395
SEPTEMBER	-2	310	434	1651	2393
OCTOBER	262	1238	170	4519	6189

[1]March on March

TABLE 16 SECRET

THE COMPONENTS OF M4 AND M5

	M3	BUILDING SOCIETIES RETAIL[1]	WHOLESALE	HOLDINGS OF M3	M4	MONEY MARKET INSTRUMENTS	M5
% CHANGES							
Financial years (ua)							
1984-85[3]	11.5	15.1				13.8	13.8
1985-86[3]	16.7	15.3	52.6	94	-0.1	13.5	14.5
1986-87[3]	19.1	10.8	11.4	50	-15.6	13.5	12.9
Over 12 months (ua)							
NOVEMBER	18.6	15.6		24.0	15.6	5.4	15.1
DECEMBER	18.0	17.0		17.9	15.2	1.7	14.4
1987 JANUARY	17.6	15.6		43.0	13.9	2.4	13.2
FEBRUARY	19.0	16.1		62.8	13.9	2.8	13.3
MARCH	19.0	17.2		57.6	13.9	4.3	13.4
APRIL	20.4	16.1		55.7	14.5	4.2	14.0
MAY	18.9	17.9		60.0	13.7	8.5	13.4
JUNE	19.1	16.4		69.0	13.8	8.3	13.5
JULY	20.9	13.4		69.2	14.9	5.0	14.3
AUGUST	22.1	15.6		67.6	15.5	2.8	14.8
SEPTEMBER	19.5	10.8		62.0	14.9	4.0	14.3
OCTOBER	22.2	13.5		60.0	15.7	5.1	15.1
Over 6 months (sa)							
1987 MAY	21.9	10.4		82.9	13.1	8.0	12.8
JUNE	24.0	11.1		72.8	15.2	8.7	14.8
JULY	26.3	11.5		45.1	18.4	12.0	18.1
AUGUST	25.1	12.2		48.3	18.0	6.0	17.4
SEPTEMBER	21.7	10.1		25.3	16.8	9.8	16.5
OCTOBER	25.0	9.1		23.5	18.3	15.8	18.2
CHANGES £ MILLION							
monthly average (sa)							
1984-85[3]	984	1034	42	-28	139	2221	2090
1985-86[3]	1565	1207	50	-362	-118	2480	2557
1986-87[3]	2157	938	17	-372	51	2791	2975
Over 1 month (sa)							
1987 MAY	2337	908	100	-857	2488	914	3402
JUNE	2313	1269	-2	412	3992	236	4228
JULY	3612	936	249	-571	4237	-108	4129
AUGUST	2395	1363	39	12	3799	-167	3632
SEPTEMBER	2393	223	430	207	3270	110	3380
OCTOBER	6189	658	-2	-622	6227	68	6295

[1]Net in flow including Term sharesand SAYE.

[2]Treasury bills, bank bills, LA temporary debt, CID's and some national savings accounts.

[3]March on March.

TABLE 17

RETAIL DEPOSITS

	BANKS	BUILDING[1] SOCIETIES	NATIONAL SAVINGS[2]	TOTAL
% CHANGES				
Financial years (ua)				
1984-85[3]	7.1	15.1	11.9	12.0
1985-86[3]	11.6	15.3	7.5	12.9
1986-87[3]	17.2	10.8	10.8	12.7
Over 12 months (ua)				
NOVEMBER	15.6	12.2	8.1	12.8
DECEMBER	17.0	11.7	8.4	13.0
1987 JANUARY	15.6	11.4	9.1	12.3
FEBRUARY	16.1	11.0	10.1	12.4
MARCH	17.2	10.8	10.8	12.6
APRIL	16.1	10.6	11.0	12.1
MAY	17.9	10.5	10.8	12.6
JUNE	16.4	10.6	10.5	12.1
JULY	13.4	10.6	9.2	11.0
AUGUST	15.6	10.7	9.7	11.9
SEPTEMBER	10.8	11.7	9.3	10.8
OCTOBER	13.5	10.5	8.3	10.9
Over 6 months (sa)				
1987 MAY	13	10.4	10.5	11.7
JUNE	17.2	11.1	10.4	12.7
JULY	13.1	11.5	8.9	13.6
AUGUST	13.9	12.2	8.1	13
SEPTEMBER	14	10.1	6.9	11.5
OCTOBER	19.7	9.1	5.6	10.9
CHANGES £ MILLION				
monthly average (sa)				
1984-85[3]	42	1034	683	1759
1985-86[3]	255	1207	1093	2555
1986-87[3]	871	938	266	2075
Over 1 month (sa)				
1987 MAY	1233	908	185	2326
JUNE	2305	1269	269	3843
JULY	482	936	203	1621
AUGUST	683	1363	105	2151
SEPTEMBER	744	223	75	1042
OCTOBER	1408	658	-70	1996

NOTES

1 Total retail funds, including terms shares and SAYE.
2 Total inflows.
3 March on March.

TABLE 18

Breakdown of Bank Lending by instrument (banking months before 1986 October)

		Advances	Commercial Bills	Investment[1]	Other[2]	Total	Total s/a
		unadjusted					
1984-1986							
% change[3]							
1984-85		15.5	27.7	18.0	n/a	17.5	17.5
1985-86		17.9	-7.4	81.3		16.9	16.8
Monthly average[3]							
1984-85		1131	186	25	91	1433	1452
1985-86		1438	56	157	11	1661	1692
Contributions to annual bank lending growth[4]							
Monthly changes							
1986							
	November	2221	420	129	483	3253	3374
	December	2655	1369	221	-272	3973	3599
1987	January	905	562	104	-136	1435	1640
	February	2617	-426	70	345	2606	275[illegible]
	March	4644	-2026	336	420	3374	247[illegible]
	April	1727	-409	210	-398	1130	2202
	May	3626	-2125	290	497	2288	2502
	June	5154	751	-8	-1215	4682	3979
	July	2090	1679	-98	890	4643	4530
	August	2840	-1519	119	-288	1154	2653
	September	5456	+13	-15	66	5520	4330
	October	2545	-500	77	813	2935	2894

1. Investment by banks in private sector
2. Market loans, shipbuilding repos, CD's and time deposits of building societies, commercial paper, and transit items.
3. April on April
4. First four columns equal fifth column.

TABLE 19 SECRET

COUNTERPARTS TO BROAD MONEY

£ million

LATEST MONTH : OCTOBER 1987	M3	M4
PSBR	-984	-984
Debt sales (-): Other Public Sector	-45	-111
Central Government	57	-607
Public external & fc finance (-)	2786	2786
Over(-)/under(+)funding	1814	1084
£ lending to private sector	2935	4136
Bank/bank & b society externals (-)	628	514
Bank/bank & b society £NNDLs (-)	103	-579
TOTAL	5480	5155

FINANCIAL YEAR 1987/88 TO DATE	M3	M4
PSBR	458	458
Debt sales (-): Other Public Sector	1697	813
Central Government	-1483	-1803
Public external & fc finance (-)	3144	3144
Over(-)/under(+)funding	3816	2612
£ lending to private sector	22352	31904
Bank/bank & b society externals (-)	-2028	-2666
Bank/bank & b society £NNDLs (-)	-2273	-4776
TOTAL	21867	27074

FINANCIAL YEAR 1986/87	M3	M4
PSBR	3343	3343
Debt sales to private sector (-)	-1235	-5840
Public external & fc finance (-)	-1700	-1700
Over(-)/under(+)funding	408	-4197
£ lending to private sector	30299	47406
Bank/bank & b society externals (-)	-676	-1553
Bank/bank & b society £NNDLs (-)	-4601	-8689
TOTAL	25430	32967

Table 20:- BORROWING BY PRIVATE SECTOR EXCLUDING BUILDING SOCIETIES (£ million)

	BANK/BUILDING SOC. STERLING BORROWING			OTHER STERLING BORROWING					ALL BORROWING		
	Banks	Building Societies	TOTAL	Sterling Commercial Paper	Equities	Bonds	Euro-Sterling (*)	TOTAL	Sterling	Foreign Currency	TOTAL
1984											
Q1	5141	3007	8148		163	44	25	232	8380	1102	9482
Q2	2781	4076	6857		429	75	0	504	7361	808	8169
Q3	3285	4087	7372		288	59	100	447	7819	1047	8866
Q4	4535	3402	7937		249	73	210	532	8469	1948	10417
1985											
Q1	7093	3189	10282		924	170	235	1329	11611	3225	14836
Q2	4158	3748	7906		1092	327	230	1649	9555	1382	10937
Q3	4148	3560	7708		873	274	130	1277	8985	-806	8179
Q4	4803	4232	9035		525	89	200	814	9849	939	10788
1986											
Q1	7431	3867	11298		471	209	350	1030	12328	2362	14690
Q2	5465	5083	10548		1369	344	325	2038	12586	1575	14161
Q3	5764	5592	11356		1431	290	231	1952	13308	3688	16996
Q4	10433	4667	15100	67	2338	-52	281	2634	17734	591	18325
1987											
Q1	7074	3464	10538	368	1553	-782	1231	2370	12908	7358	20266
Q2	8571	4240	12811	651	2259	352	655	3917	16728	4633	21361
Q3	11068	3889	14957	284	5950	732	570	7536	22493	-1129	21364
Average per quarter											
1984	3936	3643	7579	0	282	63	84	429	8007	1226	9234
1985	5051	3682	8733	0	854	215	199	1267	10000	1185	11185
1986	7273	4802	12076	16.75	1402	198	297	1914	13989	2054	16043
1987 to q3	8904	3864	12769	434	3254	101	819	4608	17376	3621	20997
1987											
JANUARY	1390	1304	2694	150	500	-67	110	693	3387	1369	4756
FEBRUARY	2600	980	3580	104	870	20	315	1309	4889	2402	7291
MARCH	3084	1180	4264	114	183	-735	806	368	4632	3584	8216
APRIL	1288	1590	2878	192	828	110	355	1485	4363	1236	5599
MAY	2268	1295	3563	171	415	184	150	920	4483	2693	7176
JUNE	5015	1355	6370	288	1016	58	150	1512	7882	749	8631
JULY	4525	1302	5827	131	1840	182	210	2363	8190	-2214	5976
AUGUST	1055	1269	2324	9	2090	390	150	2639	4963	1020	5983
SEPTEMBER	5488	1318	6806	144	2020	160	210	2534	9340	11	9351
OCTOBER	2626	1510	4136	111	1385	190	45	1731	5867	3513	9380

Table 21:- NET FINANCE OF U.K. INDUSTRIAL AND COMMERCIAL COMPANIES AND BUILDING SOCIETIES (£ million)

	BANK BORROWING				OTHER BORROWING						ALL BORROWING
	Sterling		Foreign	TOTAL	Sterling Commercial Paper	Equities	Bonds	Euro-Sterling(*)		TOTAL	TOTAL
	ICC's	BSOC's	Currency					ICC's	BSOC's		
1984											
Q1	2905	-86	-895	1924		163	44	25	0	232	2156
Q2	559	-56	-193	310		429	75	0	0	504	814
Q3	1219	533	-74	1678		288	59	100	0	447	2125
Q4	2312	408	1433	4153		249	73	210	0	532	4685
1985											
Q1	3386	6	-606	2786		924	170	235	0	1329	4115
Q2	747	248	47	1042		1092	327	230	0	1649	2691
Q3	229	161	1469	1859		873	274	130	600	1877	3736
Q4	874	351	1444	2669		525	89	200	475	1289	3958
1986											
Q1	3935	89	-879	3145		471	209	350	935	1965	5110
Q2	-172	178	-1120	-1114		1369	344	325	1075	3113	1999
Q3	1055	976	-1072	959		1431	290	231	1575	3527	4486
Q4	4604	187	-50	4741	67	2338	-52	281	0	2634	7375
1987											
Q1	1063	306	2085	3454	368	1553	-782	1231	290	2660	6114
Q2	984	-490	727	1221	651	2259	352	655	50	3967	5188
Q3	3390	-188	-141	3061	284	5950	732	570	100	7636	10697
Average per quarter											
1984	1749	200	68	2016	0	282	63	84	0	429	2445
1985	1309	192	589	2089	0	854	215	199	269	1536	3625
1986	2356	358	-780	1933	17	1402	198	297	896	2809.	4743
1987 to q3	1812	-124	890	2579	434	3254	101	819	147	4754	7333

		Sterling Commercial Paper	Equities	Bonds	Euro-Sterling ICC's	Euro-Sterling BSOC's	TOTAL
1986:-	AUGUST	12	698	126	100	650	1586
	SEPTEMBER	31	385	113	0	750	1279
	OCTOBER	76	898	-49	105	0	1030
	NOVEMBER	77	835	-3	0	0	909
	DECEMBER	-86	605	0	176	0	695
1987:-	JANUARY	150	500	-67	110	0	693
	FEBRUARY	104	870	20	315	140	1449
	MARCH	114	183	-735	806	150	518
	APRIL	192	828	110	355	0	1485
	MAY	171	415	184	150	50	970
	JUNE	288	1016	58	150	0	1512
	JULY	131	1840	182	210	0	2363
	AUGUST	9	2090	390	150	0	2639
	SEPTEMBER	144	2020	160	210	100	2634
	OCTOBER	111	1385	190	45	0	1731

* Gross Issues announced by U.K. ICC's and Building Societies

NOTE/ Bank borrowing figures include monetary sector holdings of 'Other Borrowing' instruments, giving rise to some double counting in the 'All Borrowing' figures.

TABLE 22 SECRET

FUNDING AND MONEY MARKET ASSISTANCE - FINANCIAL YEAR 1987/88

	APR-OCT 1987		£ million u/a
CGBR	3744		
Gilt sales to nbps and overseas (inc-)	-4816		
Other CG debt sales to [illegible] incl Treasury bills*	1607		
CG external and fc finance other than [illegible]	7392		
Funding of the CGBR Over(-)/under(+)	5213		5213
		Other BGS sales (-)	547
OPS net of on lending	-3286		
		Other CG debt sales ( )	45
OPS debt sales to nbps(-)	1697		
		Notes and coins ( )	[illegible]
OPS currency finance(	192		
		Other incl exchequer (-)	[illegible]
Funding of OPS Over(-)/under(+)	-1397		
		CG bank deposits (+)	79
	------		------
Funding of PSBR Over(-)/under(+)	3816	Total influences* (surplus+,shortage-)	4143
	------		------
		[illegible]	[illegible]
		Change in level of assistance (+) #	-4339
		[illegible]	
		[illegible] bills	[illegible]
		[illegible] Department bills	[illegible]
		[illegible]	[illegible]
		[illegible]	[illegible]
		Level of assistance	
		End March 1986	13317
		End March 1987	9742
		End October 1987	5403

* Treasury bills usu[illegible] [illegible] below the line in the Money M[illegible] [illegible]

\# Surplus on influences leads to a fall in assistance and vice [illegible]

TABLE 23 SECRET

MONETARY AGGREGATES : FORECAST GROWTH RATES

percent

Not seasonally adjusted			M0	M3	M4
1 MONTH % CHANGE TO:					
1987 AUG			0.1	1.3	1.0
SEP			0.1	0.9	1.0
OCT			-0.2	3.1	1.8
NOV	)	*	0.3	1.4	1.1
DEC	) FORECAST		n/a	1.5	1.6
JAN	)		n/a	-0.9	0.0
12 MONTH % CHANGE TO:					
1987 AUG			4.5	22.1	15.5
SEP			5.2	19.5	14.9
OCT			5.2	22.2	15.7
NOV	)	*	4.9	22.1	15.8
DEC	) FORECAST		n/a	23.6	16.8
JAN	)		n/a	23.5	17.0

Seasonally adjusted			M0	M3	M4
1 MONTH % CHANGE TO:					
1987 AUG			0.3	1.4	1.3
SEP			0.8	1.4	1.1
OCT			0.6	3.5	2.1
NOV	)	*	0.3	0.8	0.9
DEC	) FORECAST		0.8	1.6	1.4
JAN	)		0.5	0.7	0.2
12 MONTH % CHANGE TO:					
1987 AUG			4.7	21.8	15.0
SEP			4.9	19.8	14.6
OCT			5.6	22.9	15.7
NOV	)	*	4.9	22.7	15.7
DEC	) FORECAST		4.3	23.9	16.7
JAN	)		5.4	23.3	16.8

* Provisional November outturn for M0

SECRET

TABLE 24: MO FORECAST

SEASONALLY ADJUSTED

	LEVELS £ MILLION			% CHANGE ON PREVIOUS MONTH		% CHANGE ON YEAR EARLIER	
	Notes and coin	Bankers' Deposits	MO	Notes and coin	MO	Notes and coin	MO
ACTUAL							
April	14,916	204	15,120	+0.7	+0.5	+4.6	+4.8
May	14,984	204	15,188	+0.5	+0.4	+4.5	+4.4
June	15,075	137	15,212	+0.6	+0.2	+4.6	+4.2
July	15,166	235	15,401	+0.6	+1.2	+4.7	+5.4
August	15,258	182	15,440	+0.6	+0.3	+4.6	+4.7
September	15,376	184	15,560	+0.8	+0.8	+5.0	+4.9
October	15,457	202	15,659	+0.5	+0.6	+5.2	+5.6
November	15,524	183	15,707	+0.4	+0.3	+4.9(4.9)	+4.9(5.0)
FORECAST							
December	15,650	190	15,840	+0.8	+0.8	4.7(4.6)	4.3(4.2)
January	15,730	190	15,920	+0.5	+0.5	5.3(5.0)	5.4(5.2)
February	15,780	190	15,970	+0.3	+0.3	6.5(6.5)	6.6(6.6)
March	15,830	190	16,020	+0.3	+0.3	6.9(6.9)	6.5(6.5)

* Last month's forecast in brackets.

SECRET

TA[illegible] 25: MONEY MARKET INFLUENCES

£ million
not seasonally adjusted

	Actual		Forecast	
	1987 OCT	NOV	DEC	1988 JAN
A. Money market influences				
(i) CGBR (+)	-730	-250	800	-6200
(ii) Reserves etc (+)	3921	25	0	0
(iii) Notes and coin (-)	-537	300	-800	725
(iv) National Savings (-)	1	0	-50	-125
(v) CTDs (-)	-282	50	200	1100
(vi) Gilts (-)	-1474	-125	-775	-525
(vii) Other Exchequer items etc	-221	0	0	0
A. TOTAL MONEY MARKET INFLUENCES (Market surplus + / shortage -)	678	0	-625	-5025
B. Money market operations				
(i) Commercial bills (purchase +):				
Issue Department - outright	-1191			
- repo terms	1080			
Banking Department	-83			
(ii) LA bills (purchase +)				
Issue Department	-49			
Banking Department	-28			
(iii) Treasury bills (purchase +)	-400	-1800	500	1500
(iv) Market advances	56			
(v) Export Credit/Shipbuilding Repos	0			
(vi) Gilt Repos	0			
B. TOTAL MONEY MARKET OPERATIONS	-615	0	625	5025
C. Change in bankers balances = A + B	63			
D. TOTAL ASSISTANCE OUTSTANDING (excluding Treasury bills) = previous level + B - B(iii)	5403	7200	7325	10850
of which commercial bills	5808	5257	5375	8900

TABLE 26

SECRET

TIMING OF GOVERNMENT SHARE SALES

The timetable now stands as follows:

<u>1987</u>

BP(I)	(28 October (Offer closes) (30 October (dealings start)

An issue of BT bonus shares is planned in December/January based on a record date of 30 November, and that £250m of BT prefs are to be repaid in December.

<u>1988</u>

BGC(III)	19 April
BAA(II)	19 May
BP(II)	30 August

<u>1989</u>

BP(III)	27 April

45/024

CONFIDENTIAL

FROM: T PIKE

DATE: 3 December 1987

1. MR ~~PERETZ~~ 3/12

2. ECONOMIC SECRETARY

cc PS/Chancellor
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Scholar
Mrs Lomax
Mr Grice o/r
Miss O'Mara
Mr Bottrill
Ms Ryding
Mr Westaway
Ms Bronk

M0 FIGURES

The latest weekly figures for M0, covering the first week of December, are attached. They show that the twelve month growth rate of M0 to the latest four week period is 4.8 per cent (4.7 per cent not seasonally adjusted). The annualised growth rate of notes and coin in the three months to the latest four week period has fallen to 5¾ per cent, the lowest figure since early August.

T. Pike

T PIKE

MO, THE WIDE MONETARY BASE

Calendar months	Notes and coin (nsa)	Notes and coin (sa)		Bankers' deposits	MO (nsa)	MO (s.a.)		% change on previous Month: Notes (sa) and coin	% change on previous Month: MO (sa)	% change on year earlier: Notes and Coin (nsa)	% change on year earlier: Notes and Coin (sa)	% change on year earlier: MO (nsa)	% change on year earlier: MO (sa)
Levels £ million (changes in brackets)													
1987													
June	14,946	15,075	(+91)	137	15,083	15,212	(+24)	+0.6	+0.2	+4.6	+4.6	+4.2	+4.2
July	15,271	15,166	(+91)	235	15,506	15,401	(+189)	+0.6	+1.2	+4.7	+4.7	+5.3	+5.4
August	15,337	15,258	(+92)	182	15,519	15,440	(+39)	+0.6	+0.3	+4.3	+4.6	+4.5	+4.7
September	15,349	15,376	(+118)	184	15,533	15,560	(+120)	+0.8	+0.8	+5.3	+5.0	+5.2	+4.9
October	15,299	15,457	(+81)	202	15,501	15,659	(+99)	+0.5	+0.6	+5.1	+5.2	+5.5	+5.6
November	15,365	15,525	(+68)	183	15,548	15,708	(+49)	+0.4	+0.3	+4.8	+4.8	+4.9	+4.9
December (1 of 5)	15,686	15,578	(+53)	199	15,885	15,777	(+69)	+0.3	+0.4	-0.1	+4.2	-0.4	+3.8
Latest 4 weeks/	15,450	15,542	(+69)	201	15,651	15,743	(+84)	+0.4	+0.5	+4.4	+4.6	+4.7	+4.8

Weekly data	Notes (sa) and coin		Bankers' deposits	MO (sa)		% change on previous week MO (sa)
November						
4th	15,510	(+7)	128	15,638	(-67)	-0.4
11th	15,511	(+1)	225	15,736	(+98)	+0.6
18th	15,522	(+11)	193	15,715	(-21)	-0.1
25th	15,557	(+35)	185	15,742	(+27)	+0.2
December						
2nd	15,578	(+21)	199	15,777	(+35)	+0.2

/ Most recent data include estimates only for coin and unbacked note issues. The percentage changes for December so far use as their base the average for the full relevant month; for the latest 4 week period changes are based on the previous 4 week period and a comparable period a year ago.

MO

SECRET

From : D L C Peretz
Date : 9 December 1987

PPS

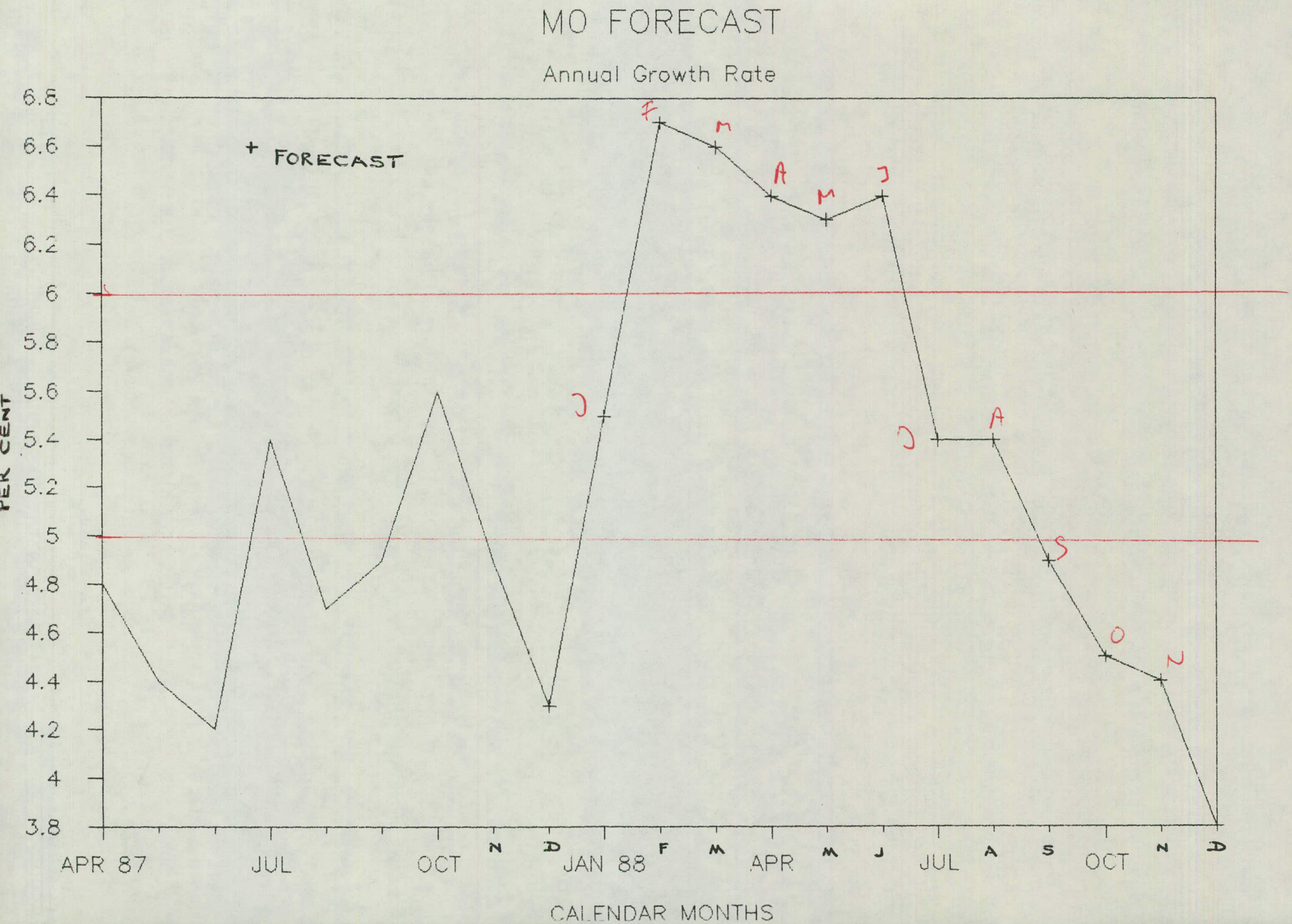
cc Sir P Middleton
Sir T Burns
Sir G Littler o/r
Mr Cassell
Miss O'Mara

MEETING WITH PRIME MINISTER AND GOVERNOR TOMORROW : MO

As requested, I attach a forecast of the MO 12 month growth rate going beyond the end of the financial year, to end 1988. The figures assume 9% base rates throughout 1988. You will see the projected 12 month growth rate falls to within a 1-5% range by August, and falls quite rapidly thereafter.

DLCP

D L C PERETZ



MO FORECAST
Annual Growth Rate
+ FORECAST
PER CENT
6.8
6.6
6.4
6.2
6
5.8
5.6
5.4
5.2
5
4.8
4.6
4.4
4.2
4
3.8
APR 87
JUL
OCT
N
D
JAN 88
F
M
APR
M
J
JUL
A
S
OCT
N
D
CALENDAR MONTHS
F
M
A
M
J
J
J
A
S
O
N

45/024

CONFIDENTIAL

FROM: T PIKE
DATE: 10 December 1987

pmp

1. MR GRICE
2. ECONOMIC SECRETARY

cc PS/Chancellor
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Scholar
Mr Peretz
Mrs Lomax
Miss O'Mara
Mr Bottrill
Ms Ryding
Mr Westaway
Ms Bronk

It is the next two weeks when the unadjusted increase is usually very large indeed. Until then, the weekly figures should be regarded with caution.

JWG 10.12.87

M0 FIGURES

The latest weekly figures for M0, covering the second week of December, are attached. They show that the twelve month growth rate of M0 to the latest four week period is 4.6 per cent (4.4 per cent not seasonally adjusted). The annualised growth rate of notes and coin in the three months to the latest four week period has fallen to 5½ per cent.

T. Pike

T PIKE

MO, THE WIDE MONETARY BASE

Calendar months	Notes and coin (nsa)	Notes and coin (sa)		Bankers' deposits	MO (nsa)	MO (s.a.)		% change on previous Month: Notes (sa) and coin	% change on previous Month: MO (sa)	% change on year earlier: Notes and Coin (nsa)	% change on year earlier: Notes and Coin (sa)	% change on year earlier: MO (nsa)	% change on year earlier: MO (sa)
	Levels £ million (changes in brackets)												
1987													
June	14,946	15,075	(+91)	137	15,083	15,212	(+24)	+0.6	+0.2	+4.6	+4.6	+4.2	+4.2
July	15,271	15,166	(+91)	235	15,506	15,401	(+189)	+0.6	+1.2	+4.7	+4.7	+5.3	+5.4
August	15,337	15,258	(+92)	182	15,519	15,440	(+39)	+0.6	+0.3	+4.3	+4.6	+4.5	+4.7
September	15,349	15,376	(+118)	184	15,533	15,560	(+120)	+0.8	+0.8	+5.3	+5.0	+5.2	+4.9
October	15,299	15,457	(+81)	202	15,501	15,659	(+99)	+0.5	+0.6	+5.1	+5.2	+5.5	+5.6
November	15,365	15,525	(+68)	183	15,548	15,708	(+49)	+0.4	+0.3	+4.8	+4.8	+4.9	+4.9
December (2 of 5)†	15,837	15,583	(+58)	163	16,000	15,746	(+38)	+0.4	+0.2	+0.8	+4.3	+0.3	+3.6
Latest 4 weeks†	15,617	15,561	(+63)	176	15,793	15,737	(+45)	+0.4	+0.3	+4.4	+4.6	+4.4	+4.6

Weekly data	Notes (sa) and coin		Bankers' deposits	MO (sa)		% change on previous week MO (sa)
November						
4th	15,510	(+7)	128	15,638	(-67)	-0.4
11th	15,511	(+1)	225	15,736	(+98)	+0.6
18th	15,522	(+11)	193	15,715	(-21)	-0.1
25th	15,557	(+35)	185	15,742	(-27)	+0.2
December						
2nd	15,576	(+19)	199	15,775	(-33)	+0.2
9th	15,590	(+14)	127	15,717	(-58)	-0.4

† Most recent data include estimates only for coin and unbacked note issues. The percentage changes for December so far use as their base the average for the full relevant month; for the latest 4 week period changes are based on the previous 4 week period and a comparable period a year ago.

91G.SCB.1.20

SECRET AND PERSONAL

Tony: p1

Thanks:

FROM: N I HOLGATE

DATE: 10 December 1987

1. MISS ~~O'MARA~~

2. CHANCELLOR

The 'first guess' reduction in the annual growth rate of MO from October's 5.5%, while close to forecast, is particularly welcome.

MOM 10/12

cc: Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Peretz
Miss O'Mara
Mr Grice
Mr Pike
Mrs Ryding
Ms Bronk
Mr Norgrove - No 10

MONEY SUPPLY IN NOVEMBER: "FIRST GUESS"

(All figures are unadjusted unless specified otherwise)

This note summarises the Bank's "first guess" at MO and M3 figures for November. M3 figures are still subject to significant revision.

Table 1: Monetary Aggregates (per cent)

	MO	M3**
Annual growth rate*	4.9 (4.9)	20.8-21.6
Change in month*	0.3 (0.3)	0.3-1.1 (-0.5-0.3)
Target range	2-6	-

* Figures in brackets seasonally adjusted

**The actual outturn has been within the range forecast on this basis in 10 of the last 12 months.

2. The increase in sterling bank lending in November is likely to be in the range £2.3-4.3 billion (also £2.3-4.3 billion seasonally adjusted). Known special factors had little net effect on the figure.

SECRET AND PERSONAL

3. The running down of deposits by BP, and potential and actual investors in BP at the end of October may explain the unexpectedly low estimate of growth in M3. In the counterparts, a large overfund was matched by bank lending. There is also a large positive residual which may indicate that bank lending figures will turn out at the top end of the estimated range.

M3 components and counterparts

4. Table 2 (attached) compares the changes in M3 components underlying the "first guess" with the average monthly change over the previous 12 months. Table 3 (attached) provides a similar comparison for M3 counterparts.

Timetable

5. We expect to receive provisional November figures on Thursday 17 December. They will be published on Friday 18 December. Full money and banking figures for November will appear on Thursday 31 December.

N I HOLGATE

SECRET AND PERSONAL

TABLE 2: M3 COMPONENTS - NOVEMBER 1987

"First Guess" compared with average monthly change in the previous year.

£ millions

	First Guess	Average monthly change in year to October
Notes and coins in circulation	- 89	50
Non-interest bearing sight	1164	350
Interest bearing sight	31	1100
Time deposits (including (CDs)	47	1240
Change in £M3	1153	2740

SECRET AND PERSONAL

TABLE 3 : M3 COUNTERPARTS - NOVEMBER 1987

"First guess compared with average monthly change in the previous year

£ millions

	First Guess		Average change in year to October	
CGBR (O) (ex bank deposits)		-919		-40
Other public sector:				
LABR)				
PCBR)		0		90
OPS debt sales)				
Modified PSBR*		-919		50
CG debt: Gilts	-1113		110	
Treasury bills	-366		-30	
National Savings	-15		-220	
CTD's etc.	40		80	
Total CG debt sales (-)		-1454		-60
External and fc finance of public sector (-)		-124		290
Wide over(-)/under(+)funding		-2497		280
Sterling lending to nbps (incl Issue Dept commercial bills)		2423 #		3080
Net private externals **)				
)		1227		-620
Residual (includes NNDLS **)				
and reporting differences))				
Change in M3		1153		2740
(Monthly percentage change)		(0.7%)		(1.7%)
(12 month percentage change)		(21.2%)		(19.6%)

* Modified PSBR equals PSBR less OPS debt sales

** For the "first guess", Private Externals and NNDLs cannot be separately identified

\# £2396 million after seasonal adjustment.

CONFIDENTIAL
UNTIL 11.30 A.M. MONDAY 14 DECEMBER
THEN UNCLASSIFIED

FROM: R DEANE
DATE: 11 DECEMBER 1987

Jim Hibberd 11/12

1. MR J S HIBBERD
2. CHANCELLOR OF THE EXCHEQUER

Terry. pl.

cc : PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Monck
Mr Sedgwick
Mr Allen
Mr Gilhooly
Miss O'Mara
Mr Pickford
Mr Price
Mr Patterson
Mr Hefford
Mr Cropper
Mr Call
Mr Tyrie

PRODUCER PRICES FOR NOVEMBER

The producer price indices for November will be published at 11.30 a.m. on Monday 14 December.

OUTPUT PRICES

2. The output price index rose by 0.3 per cent between October and November. The twelve-month rate of increase was 3.9 per cent in November, the same as in October. Excluding food, drink and tobacco industries, the output price index rose by 0.3 per cent over the month; the twelve-month rate of increase rose to 4.9 per cent from the (revised) October figure of 4.7 per cent.

PPI
cm-7-8

PRODUCER PRICES

	Percentage changes on a year earlier				Percentage change on previous month Seasonally adjusted input price index (all manufacturing)
	Output Prices		Input Prices		
	All	All excl FDT*	All	All excl FDT*	
1985 Q3	5.6	6.5	- 0.7	1.2	
Q4	5.1	5.9	- 5.4	- 5.1	
1986 Q1	5.0	5.0	- 9.5	-11.9	
Q2	4.5	4.3	- 9.3	-12.4	
Q3	4.4	4.0	- 9.3	-13.0	
Q4	4.2	4.0	- 3.9	- 5.6	
1987 Q1	4.1	4.1	- 2.0	- 1.7	
Q2	3.6	4.5	2.3	4.6	
Q3	3.6	4.6	8.4	12.9	
January	4.3	4.2	- 2.4	- 2.5	0.3
February	4.2	4.2	- 2.8	- 2.9	0.2
March	3.7	4.1	- 0.7	0.4	0.2
April	3.5	4.3	1.2	3.0	0.7
May	3.5	4.5	1.3	3.4	- 0.1
June	3.6	4.5	4.4	7.2	2.2
July	3.6	4.7	8.9	13.4	1.7
August	3.6	4.7	9.1	14.5	1.1
September	3.6	4.7	7.1	10.8	- 0.7
October	3.9	4.7	5.4	7.8	- 0.4
November	3.9	4.9	3.2	5.3	- 1.5

* Excluding the food, drink and tobacco industries.

INPUT PRICES

3. The producer price index for materials and fuels purchased by manufacturing industry rose by 0.5 per cent between October and November. The twelve-month rate of increase fell to 3.2 per cent in November from 5.4 per cent in October. The index would have fallen

between October and November but for seasonal factors (the seasonally adjusted index fell by 1.5 per cent between October and November). The seasonally adjusted index in November was 8.9 per cent below its peak of March 1985.

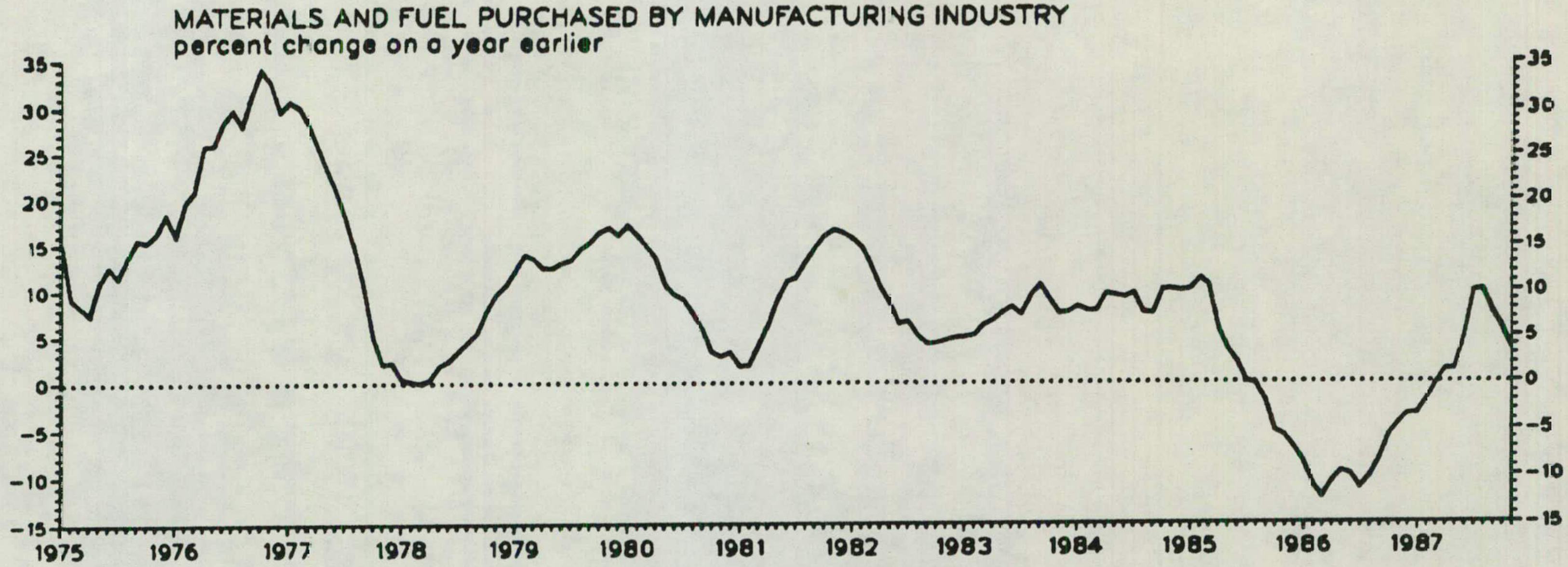
4. Excluding the food, drink and tobacco industries, the producer input price index rose by 0.5 per cent between October and November, leaving it 5.3 per cent above its level in November 1986.

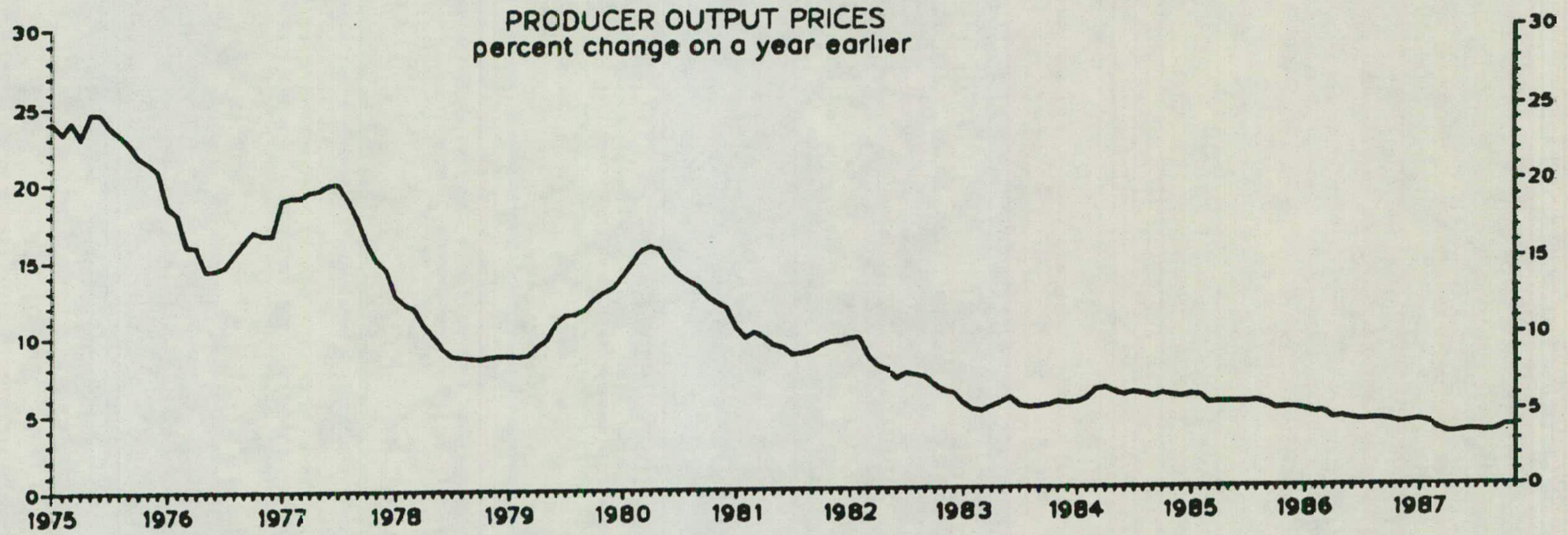
5. A seasonal increase in electricity costs between October and November was only partly offset by lower prices for petroleum products, metals and other imported materials. The falls in the year on year increase in input prices in September, October and November follow sharp rises in the previous three months.

6. I attach two charts showing movements in producer input and output prices since January 1975.

Robert Deane

R DEANE
EA1 DIVISION
X 5398


MATERIALS AND FUEL PURCHASED BY MANUFACTURING INDUSTRY
percent change on a year earlier
35
30
25
20
15
10
5
0
−5
−10
−15
1975
1976
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987


PRODUCER OUTPUT PRICES
percent change on a year earlier
30
25
20
15
10
5
0
1975
1976
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987

FROM: A A DIGHT

DATE: 14 December 1987

MR R DEANE

PRODUCER PRICES FOR NOVEMBER

The Chancellor has seen and was grateful for your minute of 11 December.

A A Dight

A A DIGHT

RJ5.99a

SECRET AND PERSONAL

FROM: A A DIGHT

DATE: 14 December 1987

MR N I HOLGATE

MONEY SUPPLY IN NOVEMBER: "FIRST GUESS"

The Chancellor has seen and was grateful for your minute of 10 December.

A A Dight

A A DIGHT

81G.SCB.17.20

SECRET AND PERSONAL

OK. One or two changes. N.

Ch/content with press briefing? MPW 17/12

FROM: N I HOLGATE
DATE: 17 December 1987

1. MR PERETZ
2. CHANCELLOR

cc: EST
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr R I G Allen
~~Miss~~ Mrs O'Mara
Mr Grice
Mr Pike
Mrs Ryding
Mr Cropper
Mr Norgrove (No 10 personal)

In presenting these figures we will need to remember that the December figures are likely to be less good, following this month's intervention.

You will see the briefing seeks to build on your remark to the TCSC that M4 is a less bad indicator than M3. I hope IDT can make a real attempt (not just this month) to try to wean the commentators away from concentrating on M3 and bank (rather than bank + building society) lending.

DLP 17/12

PROVISIONAL MONEY FIGURES - NOVEMBER

(All figures are unadjusted unless specified otherwise)

The provisional money supply figures for November will be published by the Bank at 11.30 am on Friday 18 December. As usual M3, M4 and M5 broad money figures are subject to revision.

Summary

2. The annual growth rate of **MO** to November was 4.9 per cent (also 4.9 per cent seasonally adjusted (s.a.) - as recorded in the "first guess").

3. The annual growth rate of M3 to November is estimated to be 21.3 per cent - within the "first guess" range. This shows a decrease from 22.2 per cent to October. (The Bank estimates that because of the British Gas sale in November 1986, the 12 month growth rate to November may be 0.3 to 0.6 per cent lower then it otherwise would be). The one-month increase in November is much smaller than that in October (0.7 per cent compared with 3.2 per cent or 0.0% s.a. in November compared with 3.6 per cent s.a. in October). The unadjusted monthly figure is the lowest increase since January 1987. The seasonally adjusted figure is the lowest since February 1985.

4. The annual growth rates for **M4** and **M5** to November are estimated at 15.2 per cent and 14.6 per cent respectively. These are 0.5 and 0.6 per cent lower than the annual increases to October. In November M4 increased by 0.6 per cent and M5 increased by 0.5 per cent (0.3 per cent and 0.3 per cent respectively s.a.) - again the smallest increase since January 1987 (both s.a. and n.s.a.).

5. Table 1 below gives the growth rate of all four aggregates:

Table 1: Provisional monetary aggregates for November (per cent)

	MO	M3	M4	M5
Annual	+ 4.9	+21.3	+15.2	+14.6
One month	+ 0.3	+ 0.7	+ 0.6	+ 0.5
One month (s.a)	+ 0.3	+ 0.0	+ 0.3	+ 0.3

Table 2 attached gives the historical growth rates for **MO**, **M3**, **M4**, **M5**, **NIBM1**, **M1**, and the **wider sterling aggregate**.

6. **Bank lending** to the private sector in November rose by £3.2 billion (also £3.2 billion s.a.), a monthly increase of 1.6 per cent and an annual growth rate to November of 22.4 per cent (22.2 per cent s.a.). These figures are much lower than the £5.5 billion, (2.9 per cent) increase recorded in September, just above the £2.9 billion recorded in October and below the average for the last six months of £3.5 billion.

7. **Bank and building society** lending to the private sector - as defined in the M4 counterpart - increased by about £4.4 billion (£4.3 billion s.a.) compared with £4.2 billion in October and an average of £4.8 billion over the last six months. Building society lending alone was £1.3 billion, in line with that of the last six months. The twelve month growth rate of bank and building society lending was 18.2 per cent compared with 19.3 per cent for the year to October).

8. Tables 3 and 4 (attached) show respectively the components and counterparts for broad money , together with the average changes over the previous twelve months.

Special Factors

9. The main points of note are:

(i) The low growth in broad money in November may largely be due to the unwinding of the effects of the BP sale and the net overfunding for the month of £2.6 billion (although the two are interconnected).

- Central government received £1.5 billion, mainly from underwriters.

- BP had received its £1.5 billion on 30 October and placed most of this temporarily on deposit. This was run down over November and may have reduced M3 by between £0.4 and £1.0 billion (equivalent to between 0.2 per cent and 0.5 per cent of M3).

- Potential BP investors will have run down liquidity built up prior to the share sale.

Unwinding of deposits held for hedging purposes (see point (iv) below) may also have contributed.

(ii) The small change in the reserves over November and negligible net sales abroad of gilts and Treasury bills meant that in November the net public sector external contribution to broad money was very small.

(iii) Banking sector external transactions were expansionary by £0.3 billion. Overseas residents reduced their sterling deposits by £1.6 billion, offset by a switch by banks into sterling of £1.3 billion. (This reversed some of the flows in October than overseas residents increased sterling deposits and banks switched out of sterling though the net effect then was also expansionary).

(iv) Bank lending was slightly lower than in recent months. Special factors known to the Bank, including BP's repayment of borrowing, were slightly contractionary. The nbps repaid £1.8 billion of foreign currency borrowing, reversing some of the £3.5 billion borrowing in October. As yet there are few signs of additional borrowing by industrial and commercial companies or distress borrowing by financial companies since the fall in the stock market.

(v) Building societies continued to build up their bank deposits; hence the faster percentage rise in M3 than M4 over November. Society inflows in November were strong.

The regular note by the Bank on the figures is attached and a more detailed commentary on the money figures will be given in the Monthly Monetary Assessment.

Presentation

10. This section concentrates on seasonally adjusted MO, M3 and bank lending in line with commentators' practice.

11. The outturn for MO should already be more or less known. The one month growth for M3 is zero (s.a) and compares with market expectations of about 0.75%. Bank lending at £3.2 billion (s.a) compares with market expectations of between £3 billion and

£4 billion. Commentators may therefore find the figures moderately encouraging: liquidity growth and lending in November were lower than some may have feared.

Press Briefing

12. The attached draft press briefing includes a general point to make if asked besides other factual, positive and defensive material. I should be grateful for comments on the press briefing first thing tomorrow Friday 18 December. The Bank's draft press notice is also attached.

N I Holgate

N I HOLGATE

cc: **Bank of England**

Mr George
Mr Thrsop (Financial Statistics Div)

SECRET

TABLE 2: **MONETARY AGGREGATES 1987-88**

		APR	MAY	JUNE	JULY	AUG	SEP	OCT	NOV
M0	Averaged weekly								
	Monthly change (£ million)	+325	+42	-93	+423	+13	+14	-32	+47
	Monthly % change	+2.2	+0.3	-0.6	+2.8	+0.1	+0.1	-0.2	+0.3
	12 Monthly % change	+5.3	+4.4	+4.2	+5.3	+4.5	+5.2	+5.5	+4.9
M3	Monthly change (£ million)	+3,184	+3,246	+1,885	+4,297	+2,162	+1,646	+5,579	+1,361
	Monthly % change	+2.0	+2.0	+1.1	+2.6	+1.3	+0.9	+3.2	+0.7
	12 Monthly % change	+20.4	+18.9	+19.1	+20.9	+22.1	+19.5	+22.2	+21.3
M4	Monthly change (£ million)	+3,536	+3,437	+4,020	+5,382	+2,621	+2,968	+5,254	+1,680
	Monthly % change	+1.3	+1.3	+1.4	+1.9	+0.9	+1.0	+1.8	+0.6
	12 Monthly % change	+14.5	+13.7	+13.8	14.9	+15.5	+14.9	+15.7	+15.2
M5	Monthly change (£ million)	+3,545	+4,109	+4,124	+5,442	+2,480	+3,063	+5,404	+1,562
	Monthly % change	+1.2	+1.4	+1.4	+1.8	+0.8	+1.0	+1.8	+0.5
	12 Monthly % change	+14.0	+13.4	+13.5	+14.4	+14.8	+14.3	+15.2	+14.6
NIBM1	Monthly change (£ million)	+475	+1,168	+1,471	+84	-94	+383	+192	+533
	Monthly % change	+1.2	+2.8	+3.4	+0.2	-0.2	+0.9	+0.4	+1.2
	12 Monthly % change	+11.9	+12.1	+13.5	+12.4	+12.3	+6.0	+11.9	+10.6
M1	Monthly change (£ million)	+705	+2,967	+2,102	+1,069	+1,048	+1,584	+2,851	+526
	Monthly % change	+0.9	+3.7	+2.5	+1.3	+1.2	+1.8	+3.2	+0.6
	12 Monthly % change	+23.2	+23.7	+23.8	+22.7	+23.7	+20.4	+24.7	+21.8
WIDER £ AGGREGATE									
	Monthly change (£ million)	+3,714	+4,998	+510	+5,279	+1,413	+1,745	+7,568	+48
	Monthly % change	+2.0	+2.6	+0.3	+2.7	+0.7	+0.9	+3.7	+0.0
	12 Monthly % change						+18.5	+22.2	+20.3

SECRET AND PERSONAL

TABLE 3: PROVISIONAL BROAD MONEY COMPONENTS

	£ million	Growth in 12 months to October	
	NOVEMBER	Monthly Rate	Percentage Increase
Notes and coins in circulation (nbps)	-84	50	4.6
Bank deposits (nbps)			
Retail			
non-interest bearing	617	350	15.4
interest bearing	792	430	12.4
Wholesale	36	1920	35.0
Change in M3	1361	2750	22.3
Building society holdings of M3 (-)	-526	-450	60.0
Buildings society deposits (nbnbsps)			
Retail	1202	1000	10.5
Wholesale	-357	60	32.3
Change in M4	1680	3360	14.9
Money market instruments (nbnbsps)	-202	-10	-0.2
National Savings Bank (nbnbsps)	84	70	8.3
Change in M5	1562	3420	15.7

nbnbsps = non-bank, non-building-society private sector

6

SECRET AND PERSONAL

TABLE 4: PROVISIONAL BROAD MONEY COUNTERPARTS

November 1987 (£ million)

	M3	M4	M5
1. PSBR	-1550	-1550	-1550
2. Debt sales to private sector (-)			
Gilts	-1153	-1183	-1183
Treasury bills	-279	-213	
National Savings	-24	-23	61
CTD's	51	51	
Other CG debt	11	11	11
LA and PC debt	344	398	454
3. External finance of public sector (-)	26	26	26
4. Public sector contribution (1+2+3)	-2574	-2483	-2181
5. Sterling lending to private sector	3235	4442	4022
6. Externals	296	210	210
7. £NNDLs	404	-489	-489
8. Total change (4+5+6+7)	1361	1680	1562
(Percentage change)	(0.7)	(0.6)	(0.5)

Average growth 10 months to October 1987 (£ million)

	M3	M4	M5
1. PSBR	-30	-30	-30
2. Debt sales to private sector (-)			
Gilts	180	-10	-10
Other public debt	30	-160	-120
3. External finance of public sector (-)	390	390	390
4. Public sector contribution (1+2+3)	570	190	230
5. Sterling lending to private sector	2980	4250	4300
6. Externals	-140	-250	-250
7. £NNDLs	-360	-590	-590
8. Total change (4+5+6+7)	3050	3600	3690
(Percentage change)	(1.9)	(1.3)	(1.3)

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MONEY SUPPLY IN NOVEMBER: PRESS BRIEFING

A. POINT TO MAKE IF ASKED - As Chancellor has indicated (factual (iv) (e)-(h)) was clearly right in market circumstances of late October/early November both to reduce interest rates and to allow some expansion in liquidity. In November, this expansion levelled off.

B. FACTUAL

(i) **Changes in main monetary aggregates**

	per cent			
	MO	M3	M4	M5
Annual growth rate	+4.9	+21.3	+15.2	+14.6
one month change	+0.3	+ 0.7	+ 0.6	+ 0.5
	(+0.3)	(+ 0.0)	(+ 0.3)	(+ 0.3)

(Figures in brackets seasonally adjusted s.a.)

(ii) **MO**

- Still within target range (2-6 per cent).

(iii) **Broad money**

- Growth in November comparatively low, partly because potential BP investors and underwriters will have run down liquidity built up prior to sale of shares in October. And also because public sector contribution contractionary ie an ~~under~~fund (see factual (v)).
over.

- Bank lending below average of recent months: £3.2 billion (n.s.a and s.a.) compared to £3.5 billion (n.s.a and s.a.) over previous 6 months.

- M4 continues to give less erratic signals than M3 (see factual (iv) (k)).

(iv) <u>Monetary Policy - Recent Statements</u>

(a) <u>Chancellor's speech to FHA annual dinner, 17 June</u>

"Certainly it is necessary to take account of changes in the level and composition of credit, along with all other indicators, in assessing monetary conditions. In the past I have not hesitated to act when I judged that there was a risk of being pushed off the path which I had set for inflation. Nor shall I do so in future."

"... the instrument of monetary policy can only be the level of interest rates, which - along with the level of the exchange rate - has to be such as to maintain downward pressure on inflation."

(b) <u>Chancellor in press briefing on Washington IMF/World Bank meeting 30 September</u>

"... the determination of short-term interest rates is increasingly pursued with an eye to sustaining exchange rate stability".

(c) <u>Chancellor in interview on future economic aims (BBC Radio 4, Today, 7 October)</u>

"At the end of the day our success in getting interest rates down will be tied to success in getting inflation down."

(d) <u>**Effect of fall in equity prices on monetary conditions, Chancellor's statement on financial situation 27 October**</u>

"The sharp falls in share price throughout the world over the past fortnight will tighten monetary conditions somewhat and are likely to have a dampening effect on world demand".

(e) <u>**Chancellor on ½ per cent cuts in interest rates on 23 October and 4 November (Mansion House speech, 4 November)**</u>

"What is needed in the world today, above all, is the avoidance of any major blow to industrial confidence.

It was not the 1929 crash that caused the depression of the 1930s, but the policy response to it: the failure to provide adequate liquidity to the system, leading to a rash of bank failures, which in turn led to further monetary tightening ... For our part, I moved at an early stage to reverse half of August's rise in interest rates, not simply because some reduction was appropriate in the changed circumstances, though it was.

But I also felt it right, in the light of what was undoubtedly a shock, to signal clearly that the authorities were sensitive to the dangers that some might understandably fear.

Today I decided it was right to act again and reverse the other half."

(f) **Chancellor on liquidity and exchange rate intervention (Mansion House speech, 4 November)**

"To prevent there being excessive liquidity in the economy, our policy is to ensure that, over time, any net intervention is sterilized - in other words, fully funded.
And that will be done, as and when appropriate, although not necessarily entirely within the financial year in which the intervention takes place.
In particular, while the funding programme will continue, it would clearly not be sensible in the present delicate market conditions to extract liquidity on a major scale."

(g) **Chancellor on reasons for cuts in interest rates (Interview with 'Financial Times', 10 November)**

"The Chancellor said the first half-point cut in British interest rates after the stock market fall last month had been decided upon for wholly domestic reasons. The second, announced last week, was determined after consultation with his international partners, but Mr Lawson said that he would have gone ahead in any case."

(h) **Chancellor on 3 December cut in interest rates (BBC Radio 4 3 December)**

"This has been a concerted move among a number of countries. We've been in very close touch and I've personally been in very close touch with my opposite numbers in Germany and France in particular. It is something we considered appropriate in the light of the current financial conditions."

(i) **Chancellor on exchange rate stability (Mansion House speech, 4 November)**

"Nor, however, should there be any doubt of our commitment to maintain a stable exchange rate, with the rate against the deutschmark being of particular importance. It gives industry most of what it wants and provides a firm anchor against inflation."

A bit provocative for this ? !

(j) **Chancellor on setting interest rates (TCSC, 9 December)**

"Obviously interest rates are something which I watch carefully all the time and when I think they ought to go up, they go up and when I think they should come down, they come down."

(k) **Chancellor on interpreting broad money aggregates (TCSC, 9 December)**

"Certainly broad liquidity matters and we watch it carefully as one indicator among others ... a better indicator of broad money nowadays is M4 rather than M3. If you look at the growth of M4 over the years from say 1979 to 1987 what you see is a remarkable stability of the growth of broad money."

(v) **Funding:** overfund in November of £2.6 billion. Underfund of PSBR so far in this financial year of £1.2 billion. PSBR April/November 1987 a surplus of about £1.1 billion; debt sales outside monetary sector and external finance of public sector minus £2.3 billion.

C. POSITIVE

(i) **Commitment**: Government remains committed to maintaining sound monetary conditions as key to keeping firm downward pressure on inflation. In evidence to TCSC, 9 December, Chancellor confirmed he would set interest rates at whatever level he deemed necessary.

(ii) **Sterling**. Commitment to continue to maintain stability (see factual (iv) (i)).

D. DEFENSIVE

(i) **Is there scope for international (G7) meeting soon?** Concerted European cuts in interest rates on 3 December showed that finance ministers/central banks in constant touch. [~~But other countries must also show commitment to dollar stabilisation through interest rates, intervention and tackling underlying imbalances.~~] But US needs to demonstrate commitment to dollar stabilisation and the measures necessary to secure it.

~~(?)~~

(ii) **Why were interest rates lowered?** See factual (iv) (e), (g).

(iii) **Are further cuts on the way?** Wait and see.

(iv) **UK's real interest rates out of line with competitors?** Real rates depend on price expectations of lenders and borrowers, so impossible to calculate. But deflating current three month money rates by most recent price indices suggests UK broadly in centre of G7 range. UK interest rates certainly not inhibiting investment. Autumn Statement forecast 5½ per cent growth in business investment in 1988.

(v) **Interest rates solely driven by exchange rates?** ~~Not at all.~~ Interest rates continue to be set in the light of a range of factors affecting financial conditions, though each [illegible] rate decision [illegible]. ~~But~~ Period of stability for sterling of benefit both to industry and as firm anchor against inflation (see factual (iv) (i)).

(vi) **Growth of monetary aggregates foreshadows higher inflation?** No. MO still within Budget target range. Stock market fall tightened monetary conditions and may have raised volume of liquidity willingly held. Exchange rate index risen 2½% from start of November; sterling firm and stable against DM. Scarcely suggests resurgence of inflation.

(vii) **Growth of credit/liquidity inflationary?** Experience of number of years shown that high rate of growth of lending and liquidity consistent with lower inflation because increase liquidity willingly held. And in current market circumstances, sensible to allow some expansion in liquidity. But Government remains committed to maintaining monetary conditions that keep downward pressure on inflation and has demonstrated that will not hesitate to act if necessary.

(viii) **Consumer credit boom?**

- No evidence that rate of lending to consumers accelerating in recent months: change in amounts outstanding was same in October as September; new credit advanced in October was in line with average of last six months.

- Vast bulk of personal borrowing takes form of mortgages, which represented ¾ of outstanding personal debt at end of 1986. Increase overall as percentage of GDP in 1980s entirely attributable to growth in mortgage borrowing, as result of 2½ million increase in households buying own home. Consumer credit only some 15 per cent of total personal debt. Less than 5 per cent of personal debt takes form of credit card lending. (See Chancellor's speech to FHA, 17 June).

(ix) **Role of MO?** MO has had stable relationship with money GDP over number of years. Proved reliable indicator. If underlying growth of MO threatened to move outside target range, presumption that action taken on interest rates unless other indicators clearly suggest monetary conditions satisfactory.

(x) **Dilemma between maintaining stable exchange rate and control of broad money?** Policy is to maintain stable exchange rate, with rate against deutschemark of particular importance. This is consistent with aims for money GDP and hence inflation. Cannot say to what extent intervention increases broad money as depends on unwinding of intervention and on transactions beyond the immediate intervention. Will be sterilised over time but not necessarily in same financial year.

(xi) **Role of broad money.** With changes in financial practices, no longer simple relationship between broad money growth and money GDP. Therefore no formal broad money target in 1987-88. But growth of broad money (M3 and wider measures) and credit counterparts, still taken into account in assessing monetary conditions. In evidence to TCSC, 9 December, Chancellor pointed to remarkably steady growth of M4 (which includes deposits in building societies) (see factual (iv) (k)).

(xii) **Funding policy**. Aim remains in general to fund PSBR fully over financial year as whole. (Not a full fund every month - impracticable - so temporary over/under funding will occur; and foreign exchange intervention not necessarily fully funded within financial year - see factual (iv) (f)).

THE GOVERNOR'S PRIVATE SECRETARY HO-P
THE DEPUTY GOVERNOR HO-P
MR GEORGE HO-P
MR LOEHNIS HO-P
MR COLEBY HO-P
MR FLEMMING HO-P

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MR HOPTON HO-(

Wholesale Markets Supervision Division
MR TOWNEND HO-(

Information Division
MR WARLAND HO-.

HMT
MISS O'MARA
MR N I HOLGATE
MR PERETZ

PRESS STATEMENT: NOVEMBER BANKING AND MONEY FIGURES
£ million

1 The preliminary monetary aggregates press release for calendar November will be published by the Bank at 11.30 am on Friday. A copy of the press release is attached. Figures for member bank groups will be published by the CLSB at the same time. The full banking and money supply figures will be published on Thursday, 31 December.

2 The November figures largely reflect the unwinding of positions built up towards the end of October associated with the BP sale. It is difficult to discern conclusive evidence about the aftermath of the stock market crash in the aggregate figures.

3 The format of this monthly note has been revised. It begins with a one-page summary, in the form of an aide-memoire, with references to the more detailed discussion which follows.

Financial Statistics Division
17 December 1987

C R Mann (4427) BB-1

CRM

NOVEMBER MONEY PRESS RELEASE: AIDE MEMOIRE

(References are to the detailed discussion attached)

1 M3 was unchanged (cf -0.4% in February 1985 - the previous "record" at a time of strong gilt sales following an interest rate hike), and M4 grew by only 0.3% s/a (cf +0.1% in January 1987)

2 Reasons for M3 and M4 outturn

(i) BP sale (para 2(c))

(a) Potential investors unwound positions built up in October (para 2c(i))
(b) BP ran down their 1.2 bn end October deposit (but effect on M3 less than this) (SECRET) (para 2c(ii))
(c) UK underwriters paid 1.5 bn to the CG in early November (para 2c(iii))
(d) building societies had a strong inflow (para 2d) but built up large bank deposits (para 2c(iv))

(ii) Best to look at October and November together; M3 and M4 growth not out of line with earlier months (para 2e)

3 MO - 12 month growth rate 4.9% (u/a) (target range 2-6%) Down from 5.5% last month (which was an erratic).

4 Bank lending + £3.2 bn s/a

(a) New takeover related loans perhaps 0.5 bn but largely offset by other factors (SECRET) (para 7)
(b) Foreign currency borrowing negative (SECRET although one could reasonably infer it from the CLSB's press release) (para 9)
(c) House purchase lending - in line with last 6 months (para 8)
(d) Consumer lending - subdued (para 8)
(e) Wags may point out that the stock of bank lending has reached £200 bn (doubled in 4 years)

5 PSBR -1.6 bn nsa (a surplus, reflecting 1.5 bn of BP receipts)

6 Other issues

Funding rule - was an announcement made? (paras 3 and 4)
Cumulative funding figures - table on page 4
Stock market collapse - still hard to read anything conclusive into these figures (para 11). Provisional figures suggest a small outflow from unit trusts in November, the first outflow for several years (para 2(d))

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* Much of this information remains SECRET indefinitely (eg where it refers to individual banks or their customers).

NOVEMBER MONEY PRESS RELEASE: DETAILED DISCUSSION

£ million, not seasonally adjusted (unless otherwise stated)

The aggregates

1 The growth rates of the main aggregates are summarised below.

% changes		M0(1)	M1	M2	M3	M4	M5
Nov	(nsa)	+0.3	+ 0.6	+ 1.9	+ 0.7	+ 0.6	+ 0.5
	(sa)	+0.3	- 1.0	+ 1.2	0.0	+ 0.3	+ 0.3
12 months to							
Nov	(nsa)	+4.9	+21.8	+10.8	+21.3	+15.2	+14.6
	(sa)	+4.9	+22.4	+10.5	+21.8	+15.0	+14.5
12 months to							
Oct	(nsa)	+5.5	+24.7	+ 9.6	+22.2	+15.7	+15.2
	(sa)	+5.6	+25.4	+ 9.5	+23.0	+15.7	+15.2

(1) Calculated as an average of Wednesdays in the month.

The target for M0 set in the Budget is 2%-6%.

2 There are several points to note about these figures.

(a) The fall in the 12-month growth rate of M0 between October and November is attributable to the erratic path of bankers' balances both last year and this. The October figure was erratically high.

(b) Within M3, there was a fall of 910 (s/a) in non-interest-bearing sight deposits offset by rises of 70 (s/a) in interest-bearing sight deposits and 940 (s/a) in time deposits and CDs.

(c) Bank and building society deposits are likely to have been affected by several factors:

(i) Potential small investors in the BP sale who built up bank balances prior to the sale have now run them down again. This is the most plausible explanation of the increase of £1.2 bn (s/a) in NIB sight deposits in October and the fall of £0.9 bn (s/a) in November

(ii) BP itself, which received £1.5 bn at the very end of October and placed £1.2 bn on deposit, has now largely run down that deposit. (It must be stressed that information relating to transactions by BP, which has been gleaned from various confidential sources, must not be revealed in public). To the extent that BP repaid sterling bank borrowing (perhaps as much as £0.4 bn), M3 is depressed in November. The effects of other transactions by BP, such as conversion of the sterling funds into foreign currency, are less clear, since we do not know who the counterparties might be.

(iii) The UK underwriters to the BP sale paid £1.5 bn to the CG early in November. We do not know how this was financed, but it is possible that they built up deposits in October and ran them down again to make the payment.

(iv) Building societies built up bank deposits by 620 in October, and by a further 800 in November. They also repaid some wholesale deposits to the nbps. Thus, despite the strong retail inflow to societies in November (see para (d) below), the rise in M4 was not much greater than the change in M3.

(d) The building society retail inflow in November was very strong (2,010 s/a, including interest credited), following a weak inflow (660) in October. The effect on inflows to accounts included in M2 was even more marked (-60 s/a in October, +2,550 in November). This is mostly the result of potential BP investors withdrawing funds in October and redepositing in November. Over the two months taken together, the average total monthly inflow to societies was 1.3 bn s/a, compared with an average of 1.0 bn over the previous 6 months. The implied "additional" inflow of 0.6 bn over the two months could be attributed to the increased attraction (after the stock market crash) of building society deposits compared with, say, unit trusts, where inflows were some 450 below average in October and some 700 below average in November (the latter figure is provisional - and suggests a small outflow from unit trusts, the first for several years).

(e) Most of the points made in (c) and (d) above point to the low outturns for M3 and M4 in November being largely an unwinding of temporary "BP effects" in October. Over the two months taken together, building societies may have captured some funds from unit trusts, but banks' retail inflows in M2 (both NIB and IB) are close to the average of earlier months (s/a). Banks' wholesale inflows (excluding deposits from building societies) were also close to the average of earlier months (s/a). One could take the view that the BP sale had a contractionary effect on M3 over the two months taken together but only by virtue of BP repaying bank borrowing: the CG received £0.9 bn but retained an equivalent amount in the reserves (which had come from overseas underwriters) hence having no net effect on M3, and BP received £1.5 bn (which came from UK underwriters, leading to a transfer of deposits within the nbps). Over the two months taken together overfunding was slightly contractionary (s/a), and bank lending (s/a) was close to the average of previous months. Having allowed for the effects of the overall contractionary effect of the BP sale, it is hard to discern any aggregate effect on banks' sterling deposits of the stock market crash.

(f) But we do have some evidence, as yet unverified, of "post crash" effects. One bank has reported a very large increase (nearly 900) in deposits from insurance companies and pension funds. This would suggest that some (but not a majority) of institutions have gone liquid. But, since aggregate bank deposits do not show this effect, other institutions may have adopted different strategies.

Counterparts

3 The exact definition of "overfunding" is under review. Corresponding to each of the main aggregates M3, M4 and M5 there is an overfunding definition. In the case of M3, all public sector debt sales, except those to banks, are offset against the PSBR in the calculation of funding; in the case of M4, debt sales to building societies are further excluded, and in the case of M5, certain other sales of debt are excluded. Figures on all three bases are quoted in the press release (and have been for some time, although hitherto attention has focussed on the M3 definition).

4 Among the counterparts to broad money, only sterling lending is published in seasonally adjusted form. The PSBR in November was -1,550 (ie a surplus), mainly due to the £1.5 bn of receipts from the BP sale. (Seasonally adjusted - not published - there was a public sector surplus of 1,610 in the month). On the financing side, the non-bank private sector increased its gilt holdings by 1,150. This is an unusually large movement, and follows four months of falls totalling 1,280. Within the November total, building societies made modest sales of 30. This suggests that other institutions must have been heavy buyers. Total sales by the authorities were modest, at 100. The overseas sector sold 220 (their first net sale since January) and the banks sold 770, following purchases of 1,070 in the previous two months. The reserves were unchanged, and the overseas sale of gilts was offset by purchases of Treasury bills, so that external

transactions contributed in total only 30 to underfunding. The funding calculations stand as follows:

November £ million	Counterparts to: M3	M4	M5
A PSBR (u/a)	-1,550	-1,550	-1,550
B CG debt sales (-) to non-bank (non-building society*) private sector (u/a)	-1,394	-1,357*	-1,111*
C LA & PC debt sales (-) to non-bank (non-building society*) private sector (u/a)	+ 344	+ 398*	+ 454*
D External and FC finance of public sector (u/a)	+ 26	+ 26	+ 26
A+B+C+D Overfunding (-) (u/a)	-2,574	-2,483	-2,181
(s/a)	-2,689	-2,617	-2,236
Cumulative Overfunding (-) April - November (u/a)	+1,203	+ 102	+1,112
(s/a)	+ 548	- 646	+ 247

5 Within the "other" counterparts to M3 (published as a single figure, +£0.8 billion, in the provisional press release), the banks' sterling transactions with overseas residents were expansionary by about £1.6 billion. In net terms overseas residents borrowed more in sterling with the banks than they deposited, but the effect of this on M3 was largely offset by the banks switching into sterling. Both of these movements are the reverse of what happened in October. In total the banking external counterparts (not published) were +300 and sterling net non-deposit liabilities (not published) were +400.

Bank lending

6 The seasonally adjusted figure of 3,210 in bank lending is "modest" only when compared with recent months; bank lending follows an erratic path, and its unadjusted 12-month growth rate still stands at 22.4%. Foreign currency borrowing by the nbps has however fallen by 1,600. This calls into question the theory advanced earlier in the year that high sterling borrowing is linked to low currency borrowing, and vice-versa. No causal

evidence of such linkage was found in previous months (eg we know of no individual borrowers switching in this way). In the light of the November figures one could equally well argue that at times of upward pressure on sterling (eg March-May 1987 and October 1987) foreign currency borrowing is strong, and when the pressure eases (July and November) foreign currency borrowing unwinds. We have some examples of individual borrowers behaving in this way - see para 9.

7 We know that in recent months there has been a number of major temporary loans to corporate borrowers to provide finance for takeovers; typically these loans are repaid when long-term capital finance is arranged. But we usually learn only of the largest of such loans, and we often notice only the original loan (which tends to be large) and not the repayments (which may be smaller, being spread over several months). It is likely that such borrowing has added to the stock of sterling borrowing in recent months, though the amount and the timing are not clear. There is as yet no evidence that the stock market crash has brought such activity to a halt. In particular we know of a large new loan in September (+500) that unwound in October; of two loans in October (of the order of 100 and 200 respectively) that seem to be related to takeovers and acquisitions; and of another in November (+500). Thus, <u>identified</u> lending of this type has inflated the November sterling bank lending figure. But we also think that repayments of borrowing by BP may largely have offset this boost to bank lending (see para 2cii). We also think the path of foreign currency lending is affected - see para 9.

8 Looking at the composition of bank lending by instrument, most of the increase in November was in loans and advances (as has been the case over the last six months taken together). About 1.5 bn of the new advances in sterling in November took place outside the CLSB bank groups and we know very little about its composition. The CLSB increase in sterling lending was £0.7 bn, more than accounted for by personal lending. The detailed analysis shows some 690 of lending to persons for house purchase (a slight easing of the trend established over the last six months) and 140 of lending to persons for consumption (a modest figure). Other notable large increases are 160 to "property companies" and 130 to "insurance companies and pension funds" but there are some large

falls, including 160 to "other financial" and 130 to "securities dealers". We cannot read any particular significance in these movements.

9 The CLSB analysis also sheds some light on foreign currency lending to the nbps; the CLSB accounted for some 900 of the total fall of 1,600. This fall was largely accounted for by "investment and unit trusts, etc" (250) and "insurance companies and pension funds, etc" (320), both of which showed large increases in October (thought to be due to hedging); in addition, about 500 of takeover related lending may have unwound in November, following an increase of 720 in October.

10 Building society lending rose by 1,150 (s/a), a little below the average of recent months. Looking at the last year as a whole, the dominant feature is a growth in the market share of the banks (and of other lenders) at the expense of the societies. Total new lending for house purchase (including an estimate for lending by other institutions such as mortgage finance vehicles, independent mortgage lenders, insurance companies, local authorities, etc) is likely to be about the same in nominal terms in 1987 Q3 as it was in the same quarter of 1986 (and hence less in percentage terms because of the growth in the stock).

Stock Market Collapse

11 It is still difficult to discern much conclusive evidence of the effects of this in the October and November figures. Inflows to unit trusts have been depressed since the collapse (para 2(d)), and building societies' inflows seem to have been the main beneficiary. But we see no immediate signs of additional borrowing by the company sector (as a substitute for equity issues, for example), nor of any distress borrowing by financial companies (three Stock Exchange settlement days have now passed since the collapse - and indeed 30 November itself was a settlement day); neither can we see any obvious inflation of bank deposits (see para 2(e)). We have some (unverified) evidence of certain institutional investors building up bank deposits (para 2(f)), but this does not imply that all institutions are doing so; others may be going into gilts (para 4).

SECRET until 11.30 am Friday 18.12.87

PROVISIONAL ESTIMATES OF MONETARY AGGREGATES: NOVEMBER 1987

1 Provisional information suggests the following:

% changes	M0	M3	M4	M5
12 months to November (not seasonally adjusted)	+4.9	+21.3	+15.2	+14.6
November - not seasonally adjusted	+0.3	+ 0.7	+ 0.6	+ 0.5
seasonally adjusted	+0.3	0.0	+ 0.3	+ 0.3

2 Provisional counterparts to the changes in M3, M4 and M5 are:

£ billion, not seasonally adjusted	M3 Nov	M3 Latest 12 months	M4 Nov	M4 Latest 12 months	M5 Nov	M5 Latest 12 months
A PSBR	-1.6	- 3.4	-1.6	- 3.4	-1.6	- 3.4
B debt sales to private sector(-)(1)	-1.0	+ 1.2	-0.9		-0.6	
C external flows to public sector(-)	0.0	+ 3.7	0.0		0.0	
D public sector contribution (A+B+C)	-2.6	+ 1.5	-2.5		-2.2	
E sterling lending(2)	+3.2	+37.1	+4.4	+52.0(4)	+4.0	+52.2(4)
F other counterparts(3)	+0.8	- 6.5	-0.2		-0.2	
Total (D+E+F)	+1.4	+32.1	+1.7	+39.4	+1.6	+40.0
Sterling lending (seasonally adjusted)	+3.2		+4.3		+3.9	
(average of previous 6 months)	+3.5		+4.7		+4.8	

(1) Sales of public sector debt to the private sector other than banks (and, for M4 and M5, building societies), with an adjustment in the case of M5 for private holdings of certain liquid government debt.

(2) Lending by the monetary sector (and, for M4 and M5, by building societies) to the rest of the private sector. For M5, an adjustment is necessary for private holdings of certain money-market instruments etc.

(3) External and foreign currency transactions and net non-deposit liabilities of banks (and, for M4 and M5, of building societies).

(4) Partly estimated. It is not possible to calculate all the counterparts over the last 12 months because full building society balance sheets for end-November 1986 are not available.

3 Within the November PSBR, privatisation proceeds from the sale of BP shares were contractionary by £1.5 billion.

4 Full money and banking figures for November, including revised estimates of the figures given above, will be published on 31 December.

BANK OF ENGLAND
18 December 1987

45/024

CONFIDENTIAL

pmp

FROM: T PIKE
DATE: 17 December 1987

1. MR GRICE

2. ECONOMIC SECRETARY

cc PS/Chancellor
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Scholar
Mr Peretz
Mrs Lomax
Miss O'Mara
Mr Bottrill
Ms Ryding
Mr Westaway
Ms Bronk

If anything, the numbers over the last few weeks have been coming in below the forecast profile. But the weekly numbers are a perfidious guide to underlying trends at this time of year. The seasonal factor alone in the current week is some 10 per cent of the stock outstanding.

JWG 17.12.87

M0 FIGURES

The latest weekly figures for M0, covering the third week of December, are attached. They show that the twelve month growth rate of M0 to the latest four week period is 4.4 per cent (4.2 per cent not seasonally adjusted). The annualised growth rate of notes and coin in the three months to the latest four week period has fallen to 5¼ per cent.

T. Pike

T PIKE

CONFIDENTIAL

MO, THE WIDE MONETARY BASE

Calendar months	Levels £ million (changes in brackets) Notes and coin (nsa)	Notes and coin (sa)		Bankers' deposits	MO (nsa)	MO (s.a.)		% change on previous Month Notes (sa) and coin	MO (sa)	% change on year earlier Notes and Coin (nsa)	Notes and Coin (sa)	MO (nsa)	MO (sa)
1987													
June	14,946	15,075	(+91)	137	15,083	15,212	(+24)	+0.6	+0.2	+4.5	+4.6	+4.2	+4.2
July	15,271	15,166	(+91)	235	15,506	15,401	(+189)	+0.6	+1.2	+4.7	+4.7	+5.3	+5.4
August	15,337	15,258	(+92)	182	15,519	15,440	(+39)	+0.6	+0.3	+4.3	+4.6	+4.5	+4.7
September	15,349	15,376	(+118)	184	15,533	15,560	(+120)	+0.8	+0.8	+5.3	+5.0	+5.2	+4.9
October	15,299	15,457	(+81)	202	15,501	15,659	(+99)	+0.5	+0.6	+5.1	+5.2	+5.5	+5.6
November	15,365	15,525	(+68)	183	15,548	15,708	(+49)	+0.4	+0.3	+4.3	+4.8	+4.9	+4.9
December (3 of 5)	16,146	15,564	(+39)	158	16,304	15,722	(+14)	+0.3	+0.1	+2.3	+4.1	+2.2	+3.5
Latest 4 weeks≠	15,974	15,562	(+51)	164	16,138	15,726	(+28)	+0.3	+0.2	+4.2	+4.4	+4.2	+4.4

Weekly data	Notes (sa) and coin		Bankers' deposits	MO (sa)		% change on previous week MO (sa)
November						
4th	15,510	(+7)	128	15,638	(-67)	-0.4
11th	15,511	(+1)	225	15,736	(+98)	+0.6
18th	15,522	(+11)	193	15,715	(-21)	-0.1
25th	15,557	(+35)	185	15,742	(+27)	+0.2
December≠						
2nd	15,576	(+19)	199	15,775	(+33)	+0.2
9th	15,596	(+20)	127	15,723	(-52)	-0.3
16th	15,519	(-77)	147	15,666	(-57)	-0.4

≠ Most recent data include estimates only for coin and unbacked note issues. The percentage changes for December so far use as their base the average for the full relevant month; for the latest 4 week period changes are based on the previous 4 week period and a comparable period a year ago.

CONFIDENTIAL

mjd 3/33m

CONFIDENTIAL

PMP

FROM: MOIRA WALLACE

DATE: 18 December 1987

MR HOLGATE

cc EST
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Peretz
Mr R I G Allen
Miss O'Mara
Mr Grice
Mr Pike
Mrs Ryding
Mr Cropper
Mr Norgrove
(No.10 personal)

PROVISIONAL MONEY FIGURES - NOVEMBER

The Chancellor has seen your minute of 17 December. He has the following amendments to the press briefing:

B, Factual, (iii) - 'underfund' should be 'overfund' in second sentence;

Factual (j) - delete;

Defensive (i) - replace second sentence with 'But US needs to demonstrate commitment to dollar stabilisation and the measures necessary to secure it.';

Defensive (v) - delete first sentence, and insert at end of second sentence '..., though exchange rate obviously important.' Delete 'But' at beginning of third sentence.

2. The Chancellor had no other comments.

MPW.

MOIRA WALLACE

SECRET AND PERSONAL
UNTIL 11.30 AM FRIDAY 18 DECEMBER 1987

FROM: N I HOLGATE
DATE: 18 December 1987

MR R I G ALLEN

PMP

cc: PPS
PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Sir G Littler
Sir T Burns
Mr Cassell
Mr Scholar
Mr Peretz
Mr Grice
Miss O'Mara
Mr Bush
Mrs Ryding
Mr Pike/Ms Bronk
Mr Cropper

NOVEMBER: PROVISIONAL MONEY FIGURES

I attach the press briefing for today's provisionals. This is as circulated under cover of my minute of 17 December apart from amendments to defensive (i) and (v).

2. There have been no changes to the main figures circulated in my minute of 17 December.

3. I also attach the Bank's Press Notice and the regular monthly statement of the London and Scottish Banks. Questions on this should be directed to the CLSB press office (01-626-8486).

N I Holgate

N I HOLGATE

SECRET AND PERSONAL
UNTIL 11.30 AM FRIDAY 18 DECEMBER 1987

MONEY SUPPLY IN NOVEMBER: PRESS BRIEFING

A. POINT TO MAKE IF ASKED - As Chancellor has indicated (factual (iv) (e)-(h)) was clearly right in market circumstances of late October/early November both to reduce interest rates and to allow some expansion in liquidity. In November, this expansion levelled off.

B. FACTUAL

(i) **Changes in main monetary aggregates**

	MO	M3	M4	M5
	per cent			
Annual growth rate	+4.9	+21.3	+15.2	+14.6
one month change	+0.3	+ 0.7	+ 0.6	+ 0.5
	(+0.3)	(+ 0.0)	(+ 0.3)	(+ 0.3)

(Figures in brackets seasonally adjusted s.a.)

(ii) **MO**

- Still within target range (2-6 per cent).

(iii) **Broad money**

- Growth in November comparatively low, partly because potential BP investors and underwriters will have run down liquidity built up prior to sale of shares in October. And also because public sector contributions contractionary ie an overfund (see factual (v)).

- Bank lending below average of recent months: £3.2 billion (n.s.a and s.a.) compared to £3.5 billion (n.s.a and s.a.) over previous 6 months.

- M4 continues to give less erratic signals than M3 (see factual (iv) (j)).

(iv) **Monetary Policy - Recent Statements**

(a) **Chancellor's speech to FHA annual dinner, 17 June**

"Certainly it is necessary to take account of changes in the level and composition of credit, along with all other indicators, in assessing monetary conditions. In the past I have not hesitated to act when I judged that there was a risk of being pushed off the path which I had set for inflation. Nor shall I do so in future."

"... the instrument of monetary policy can only be the level of interest rates, which - along with the level of the exchange rate - has to be such as to maintain downward pressure on inflation."

(b) **Chancellor in press briefing on Washington IMF/World Bank meeting 30 September**

"... the determination of short-term interest rates is increasingly pursued with an eye to sustaining exchange rate stability".

(c) **Chancellor in interview on future economic aims (BBC Radio 4, Today, 7 October)**

"At the end of the day our success in getting interest rates down will be tied to success in getting inflation down."

(d) **Effect of fall in equity prices on monetary conditions, Chancellor's statement on financial situation 27 October**

"The sharp falls in share price throughout the world over the past fortnight will tighten monetary conditions somewhat and are likely to have a dampening effect on world demand".

(e) **Chancellor on ½ per cent cuts in interest rates on 23 October and 4 November (Mansion House speech, 4 November)**

"What is needed in the world today, above all, is the avoidance of any major blow to industrial confidence.

It was not the 1929 crash that caused the depression of the 1930s, but the policy response to it: the failure to provide adequate liquidity to the system, leading to a rash of bank failures, which in turn led to further monetary tightening ... For our part, I moved at an early stage to reverse half of August's rise in interest rates, not simply because some reduction was appropriate in the changed circumstances, though it was.

But I also felt it right, in the light of what was undoubtedly a shock, to signal clearly that the authorities were sensitive to the dangers that some might understandably fear.

Today I decided it was right to act again and reverse the other half."

(f) **Chancellor on liquidity and exchange rate intervention (Mansion House speech, 4 November)**

"To prevent there being excessive liquidity in the economy, our policy is to ensure that, over time, any net intervention is sterilized - in other words, fully funded.
And that will be done, as and when appropriate, although not necessarily entirely within the financial year in which the intervention takes place.
In particular, while the funding programme will continue, it would clearly not be sensible in the present delicate market conditions to extract liquidity on a major scale."

(g) **Chancellor on reasons for cuts in interest rates (Interview with 'Financial Times', 10 November)**

"The Chancellor said the first half-point cut in British interest rates after the stock market fall last month had been decided upon for wholly domestic reasons. The second, announced last week, was determined after consultation with his international partners, but Mr Lawson said that he would have gone ahead in any case."

(h) **Chancellor on 3 December cut in interest rates (BBC Radio 4 3 December)**

"This has been a concerted move among a number of countries. We've been in very close touch and I've personally been in very close touch with my opposite numbers in Germany and France in particular. It is something we considered appropriate in the light of the current financial conditions."

(i) **Chancellor on exchange rate stability (Mansion House speech, 4 November)**

"Nor, however, should there be any doubt of our commitment to maintain a stable exchange rate, with the rate against the deutschmark being of particular importance. It gives industry most of what it wants and provides a firm anchor against inflation."

(j) **Chancellor on interpreting broad money aggregates (TCSC, 9 December)**

"Certainly broad liquidity matters and we watch it carefully as one indicator among others ... a better indicator of broad money nowadays is M4 rather than M3. If you look at the growth of M4 over the years from say 1979 to 1987 what you see is a remarkable stability of the growth of broad money."

(v) **Funding:** overfund in November of £2.6 billion. Underfund of PSBR so far in this financial year of £1.2 billion. PSBR April/November 1987 a surplus of about £1.1 billion; debt sales outside monetary sector and external finance of public sector minus £2.3 billion.

C. POSITIVE

(i) **Commitment:** Government remains committed to maintaining sound monetary conditions as key to keeping firm downward pressure on inflation. In evidence to TCSC, 9 December, Chancellor confirmed he would set interest rates at whatever level he deemed necessary.

(ii) **Sterling**. Commitment to continue to maintain stability (see factual (iv) (i)).

D. DEFENSIVE

(i) **Is there scope for international (G7) meeting soon?** Concerted European cuts in interest rates on 3 December showed that finance ministers/central banks in constant touch. But US needs to demonstrate commitment to dollar stabilisation and the measures necessary to secure it.

(ii) **Why were interest rates lowered?** See factual (iv) (e), (g).

(iii) **Are further cuts on the way?** Wait and see.

(iv) **UK's real interest rates out of line with competitors?** Real rates depend on price expectations of lenders and borrowers, so impossible to calculate. But deflating current three month money rates by most recent price indices suggests UK broadly in centre of G7 range. UK interest rates certainly not inhibiting investment. Autumn Statement forecast 5½ per cent growth in business investment in 1988.

(v) **Interest rates solely driven by exchange rates?** Interest rates continue to be set in the light of a range of factors affecting financial conditions though exchange rates obviously important. Period of stability for sterling of benefit both to industry and as firm anchor against inflation (see factual (iv) (i)).

(vi) **Growth of monetary aggregates foreshadows higher inflation?** No. MO still within Budget target range. Stock market fall tightened monetary conditions and may have raised volume of liquidity willingly held. Exchange rate index risen 2½% from start of November; sterling firm and stable against DM. Scarcely suggests resurgence of inflation.

(vii) **Growth of credit/liquidity inflationary?** Experience of number of years shown that high rate of growth of lending and liquidity consistent with lower inflation because increase liquidity willingly held. And in current market circumstances, sensible to allow some expansion in liquidity. But Government remains committed to maintaining monetary conditions that keep downward pressure on inflation and has demonstrated that will not hesitate to act if necessary.

(viii) **Consumer credit boom?**

- No evidence that rate of lending to consumers accelerating in recent months: change in amounts outstanding was same in October as September; new credit advanced in October was in line with average of last six months.

- Vast bulk of personal borrowing takes form of mortgages, which represented ¾ of outstanding personal debt at end of 1986. Increase overall as percentage of GDP in 1980s entirely attributable to growth in mortgage borrowing, as result of 2½ million increase in households buying own home. Consumer credit only some 15 per cent of total personal debt. Less than 5 per cent of personal debt takes form of credit card lending. (See Chancellor's speech to FHA, 17 June).

(ix) **Role of MO?** MO has had stable relationship with money GDP over number of years. Proved reliable indicator. If underlying growth of MO threatened to move outside target range, presumption that action taken on interest rates unless other indicators clearly suggest monetary conditions satisfactory.

(x) **Dilemma between maintaining stable exchange rate and control of broad money?** Policy is to maintain stable exchange rate, with rate against deutschemark of particular importance. This is consistent with aims for money GDP and hence inflation. Cannot say to what extent intervention increases broad money as depends on unwinding of intervention and on transactions beyond the immediate intervention. Will be sterilised over time but not necessarily in same financial year.

(xi) **Role of broad money.** With changes in financial practices, no longer simple relationship between broad money growth and money GDP. Therefore no formal broad money target in 1987-88. But growth of broad money (M3 and wider measures) and credit counterparts, still taken into account in assessing monetary conditions. In evidence to TCSC, 9 December, Chancellor pointed to remarkably steady growth of M4 (which includes deposits in building societies) (see factual (iv) (j)).

(xii) **Funding policy.** Aim remains in general to fund PSBR fully over financial year as whole. (Not a full fund every month - impracticable - so temporary over/under funding will occur; and foreign exchange intervention not necessarily fully funded within financial year - see factual (iv) (f)).

PRESS INFORMATION from Banking Information Service

10 Lombard Street, London EC3V 9AR
Telephone 01-626 8486

NOT FOR PUBLICATION BEFORE 11.30 am
Friday, 18th December, 1987

MONTHLY STATEMENT OF THE LONDON & SCOTTISH BANKS
NOVEMBER 1987

Sterling advances to the U.K. private sector by the C.L.S.B. groups rose by £732 million in November. After adjustment for seasonal factors and for transit items, the underlying increase was less than £1,000 million, well down on the recent monthly average of around £2,300 million. However, relative interest rates suggest that there was probably some switching by corporate customers into market-related borrowing, including into bill finance (the C.L.S.B. group's acceptances rose by over £300 million). The big increase in foreign currency lending last month was, however, largely reversed.

The analysis of advances, which is not seasonally-adjusted, also bears out the suggestion that corporate customers switched to market-related borrowing, since the increase in sterling advances was more than accounted for by lending to persons. This rose at much the same rate as last month, with house purchase lending continuing strongly (+£685 million, of which bridging only +£4 million), but other personal lending remained relatively subdued (+£143 million, of which credit card credit +£68 million). The only other noteworthy changes this month were for property companies (+£157 million), insurance companies and pension funds (+£128 million), 'other financial' (-£155 million), securities dealers (-£126 million) and manufacturers (-£99 million).

Within the banks' other assets, lending to the L.D.M.A. fell by £274 million, and holdings of gilts and of commercial bills both fell, by £676 million and £627 million respectively; Treasury bill holdings, however, rose by £317 million.

On the liabilities side of the balance sheet, U.K. private sector deposits rose by only £473 million. After adjustment for seasonal factors and for transit items, however, the underlying movement suggests a fall of about £1,300 million. This no doubt reflects some unwinding of last month's exceptional rise (the average of the two months taken together is much in line with the previous monthly average of around £1,[illegible]00 million), with much of the fall coming from wholesale sources. Deposits from the public sector rose quite strongly, by £467 million, but overseas residents' deposits fell by £204 million. The banks reduced their net borrowing in the CD market by some £570 million.

Eligible liabilities rose by £287 million to £137,457 million.

QUARTERLY ANALYSIS OF ADVANCES
THREE MONTHS TO END-NOVEMBER

In the three months to end-November, total advances to U.K. residents (largely private sector) rose by £5,531 million (sterling +£5,972 million, currency -£441 million), much in line with last quarter's increase of £5,740 million. However, the underlying rise in sterling advances to the private sector, after allowing for seasonal factors, was under £5,200 million compared with around £6,700 million in the previous quarter. Although there were occasions during the quarter when borrowing may have been switched from C.L.S.B. overdrafts to market sources, acceptances showed little net change over the period.

The analysis of sterling advances shows that lending to persons continued to account for over half of the total increase. Lending for house purchase showed a 9% increase in the quarter of £2,374 million (including £77 million for bridging finance) compared with a rise of £2,549 million in the previous three months. Lending for consumption rose by £951 million against a rise of £1,122 million in the previous quarter. Significant increases were recorded in lending to property companies (+£569 million), to "other services" (+£540 million), to leasing companies (+£332 million) and to retailers and wholesalers (+£251 million and +£147 million respectively). Lending to manufacturers rose by £430 million (food, drink and tobacco +£161 million, other manufacturing +£246 million) although they repaid £130 million of acceptances. An increase of £280 million in foreign currency advances to hotels and catering, to finance overseas investment, was offset by repayments of £196 million by securities dealers, £139 million by "other financial" and £137 million by insurance companies and pension funds.

For further information, please contact:

John Ecklin, Head of C.L.S.B. Statistical Unit (01-283 8866)

Edwin Lawton, Press and Information Manager (01-626 8486)

CONFIDENTIAL UNTIL 11.30 A.M. ON FRIDAY, 18TH DECEMBER, 1987

BALANCES OF LONDON AND SCOTTISH BANKS' GROUPS AS AT END-NOVEMBER, 1987

These tables cover the business of the offices of members of the Committee of London and Scottish Bankers and their subsidiaries in the United Kingdom (including the Channel Islands and the Isle of Man) which are listed by the Bank of England as falling within the monetary sector. The items are defined as in Table 3 of the Bank of England's Quarterly Bulletin.

£ millions

TABLE 1. AGGREGATE BALANCES

	Total Outstanding		Change on Month	
LIABILITIES				
STERLING DEPOSITS :				
U.K. monetary sector	28,817		+ 2,189	
U.K. private sector	119,147		+ 473	
U.K. public sector	4,457		+ 467	
Overseas residents	16,155		- 204	
Certificates of deposit	11,175	179,751	- 444	+ 2,481
of which : Sight		78,677		+ 1,489
Time (inc. C.D.'s)		101,073		+ 991
FOREIGN CURRENCY DEPOSITS :				
U.K. monetary sector	17,126		- 1,880	
Other U.K. residents	8,568		+ 59	
Overseas residents	40,899		- 2,043	
Certificates of deposit	4,088	70,681	- 125	- 3,990
TOTAL DEPOSITS		250,432		- 1,509
NOTES IN CIRCULATION		791		+ 32
OTHER LIABILITIES (a)		44,319		- 515
TOTAL LIABILITIES		295,542		- 1,992
ASSETS				
STERLING				
Cash & balances with Bank of England:				
Cash ratio deposits	578		0	
Other balances	2,024	2,602	- 34	- 34
Market loans :				
Discount houses	5,275		- 274	
Other U.K. monetary sector	27,708		+ 2,188	
U.K. monetary sector C.D.'s	4,436		+ 125	
Local authorities	1,065		- 12	
Other	6,170	44,655	+ 17	+ 2,043
Bills :				
Treasury bills	798		+ 317	
Other bills	4,339	5,137	- 627	- 310
Investments :				
British Government stocks	4,966		- 676	
Other	5,505	10,471	+ 105	- 571
Advances :				
U.K. private sector	121,843		+ 732	
U.K. public sector	333		- 41	
Overseas residents	6,035	128,210	+ 84	+ 775
Other sterling assets (a)		18,691		+ 1,456
FOREIGN CURRENCIES				
Market loans :				
U.K. monetary sector	18,269		- 822	
Certificates of deposit	325		- 38	
Other	36,210	54,804	- 1,572	- 2,431
Bills		384		- 24
Advances :				
U.K. private sector	8,687		- 1,290	
U.K. public sector	651		- 52	
Overseas residents	13,659	22,996	- 765	- 2,107
Other foreign currency assets (a)		7,592		- 789
TOTAL ASSETS		295,542		- 1,992
ACCEPTANCES		5,681		+ 392
ELIGIBLE LIABILITIES		137,457		+ 287

(a) includes items in suspense and in transit

FOR TABLE 2 SEE OVER

TABLE 2. INDIVIDUAL GROUP BALANCES

£ millions	C.L.S.B. GROUPS	BANK OF SCOTLAND	BARCLAYS	LLOYDS	MIDLAND	NATIONAL WESTMINSTER	ROYAL BANK OF SCOTLAND	STANDARD CHARTERED	TSB
LIABILITIES									
Sterling deposits									
outstanding	179,751	7,356	42,657	27,908	26,020	46,408	11,068	3,737	14,596
change on month	+ 2,481	+ 329	− 78	+ 431	− 209	+ 385	+ 234	+ 106	+ 1,283
Foreign currency deposits									
outstanding	70,681	1,063	14,528	7,972	11,697	22,589	4,490	8,103	240
change on month	− 3,990	− 31	− 437	− 690	− 1,373	− 761	+ 34	− 749	+ 18
Total deposits									
outstanding	250,432	8,419	57,185	35,880	37,718	68,996	15,558	11,840	14,836
change on month	− 1,509	+ 298	− 515	− 259	− 1,582	− 376	+ 268	− 643	+ 1,301
STERLING ASSETS									
Cash and Balances with the Bank of England									
outstanding	2,602	312	463	235	287	558	606	14	128
change on month	− 34	− 9	+ 51	+ 10	+ 19	− 21	− 57	− 18	− 8
Market loans :									
U.K. monetary sector									
outstanding	32,983	1,076	7,580	4,516	3,689	9,860	1,656	910	3,697
change on month	+ 1,913	+ 200	− 155	+ 192	− 184	+ 903	− 144	+ 5	+ 1,096
Other									
outstanding	11,672	101	2,999	1,154	1,655	2,805	548	301	2,109
change on month	+ 130	− 24	+ 106	− 97	− 24	− 232	+ 88	+ 22	+ 293
Bills									
outstanding	5,137	201	959	1,104	210	1,345	313	64	941
change on month	− 310	− 8	− 159	− 83	+ 5	− 169	− 5	0	+ 109
British government stocks									
outstanding	4,966	173	1,050	521	647	568	250	274	1,484
change on month	− 676	+ 20	− 126	− 31	− 126	− 13	− 3	+ 75	− 472
Advances									
outstanding	128,210	6,178	30,948	20,232	19,562	32,114	8,616	3,468	7,092
change on month	+ 775	+ 132	+ 268	+ 1	− 199	+ 188	+ 198	− 8	+ 194
FOREIGN CURRENCY ASSETS									
Market loans and bills									
outstanding	55,188	541	11,228	6,676	7,912	19,368	3,404	5,860	199
change on month	− 2,456	+ 22	− 369	− 411	− 710	− 538	+ 242	− 642	− 50
Advances									
outstanding	22,996	715	3,633	3,073	5,533	5,410	1,443	3,097	93
change on month	− 2,107	− 63	− 466	− 154	− 447	− 586	− 253	− 154	+ 16
ACCEPTANCES									
outstanding	5,681	236	1,616	189	982	1,678	560	231	189
change on month	+ 392	− 3	+ 150	− 12	− 79	+ 266	+ 45	+ 16	+ 9
ELIGIBLE LIABILITIES									
outstanding	137,457	6,179	32,624	22,246	20,865	33,949	8,708	2,763	10,124
change on month	+ 287	+ 134	− 102	+ 360	+ 3	− 463	+ 202	+ 118	+ 36

COMPOSITION OF GROUPS (U.K. offices only)

The Bank of Scotland Group comprises Bank of Scotland, Bank of Wales plc, North West Securities Ltd. and The British Linen Bank Ltd.

The Barclays Group comprises Barclays Bank PLC, Barclays Bank Finance Company (Jersey) Ltd., Barclays Bank Trust Company Ltd., Barclays de Zoete Wedd Ltd., Barclays Finance Company (Guernsey) Ltd., Barclays Finance Company (Isle of Man) Ltd. and Mercantile Credit Company Ltd.

The Lloyds Group comprises Lloyds Bank PLC, Lloyds Bank Finance (Jersey), Ltd., Lloyds Bowmaker Ltd., Lloyds Bowmaker Finance Ltd., Lloyds Merchant Bank Ltd. and The National Bank of New Zealand Ltd.

The Midland Group comprises Midland Bank PLC, Forward Trust Ltd., Midland Bank Trust Company Ltd., Midland Bank Trust Corporation (Guernsey) Ltd., Midland Bank Trust Corporation (Isle of Man) Ltd., Midland Bank Trust Corporation (Jersey) Ltd., Samuel Montagu & Co., Ltd. and Samuel Montagu & Co. (Jersey) Ltd.

The National Westminster Group comprises National Westminster Bank PLC, Coutts & Co., Coutts Finance Co., International Westminster Bank PLC, Lombard Bank (Isle of Man) Ltd., Lombard & Ulster Ltd., Lombard Banking (Jersey) Ltd., Lombard North Central PLC, National Westminster Bank Finance (C.I.) Ltd., NatWest Investment Bank Ltd., Ulster Bank Ltd. and Ulster Investment Bank Ltd.

The Royal Bank of Scotland Group comprises The Royal Bank of Scotland PLC, Charterhouse Bank Ltd. and RoyScot Trust Ltd.

The Standard Chartered Group comprises Standard Chartered Bank, Chartered Trust plc and Standard Chartered Merchant Bank Ltd.

The TSB Group comprises TSB England & Wales plc, TSB Northern Ireland plc, TSB Scotland plc and United Dominions Trust Ltd.

THE COMMITTEE of LONDON and SCOTTISH BANKERS'
STATISTICAL UNIT
10 Lombard Street, London EC3V 9AP
Telephone : 01-283-8866

CONFIDENTIAL UNTIL 11.30 a.m. ON FRIDAY, 18TH DECEMBER, 1987

ANALYSIS OF ADVANCES TO U.K. RESIDENTS BY THE LONDON & SCOTTISH BANKS' GROUPS AS AT END-NOVEMBER, 1987

This table covers advances in both sterling and foreign currencies by offices of members of the Committee of London and Scottish Bankers and their subsidiaries which are listed by the Bank of England as falling within the monetary sector.

Loans under the special schemes for shipbuilding, other than those refinanced with the Bank of England, are included within item 3 "Other transport equipment"; but lending under the special export schemes is not included, since this is classified as advances to overseas residents.

£ millions

	Total Outstanding	Change on Quarter
1. AGRICULTURE, FORESTRY & FISHING	5,317	- 148
of which sterling	5,293	- 157
2. ENERGY & WATER SUPPLY INDUSTRIES		
Oil & extraction of natural gas	784	- 98
Other energy industries	485	- 30
Water supply	207	- 39
Total item 2	1,475	- 166
of which sterling	684	- 99
3. MANUFACTURING INDUSTRY		
Extraction of minerals and ores	275	+ 47
Metal manufacturing	454	- 10
Non-metallic mineral product manufacture	625	+ 46
Chemical industry	891	+ 46
Mechanical engineering	1,307	+ 10
Electrical & electronic engineering	1,621	- 86
Motor vehicles	293	- 40
Other transport equipment	1,057	+ 77
Other engineering & metal goods	1,198	- 15
Food, drink & tobacco	2,352	+ 183
Textiles, leather, clothing & footwear	1,197	- 68
Other manufacturing	3,969	+ 153
Total item 3	15,240	+ 343
of which sterling	13,412	+ 430
4. CONSTRUCTION	4,975	+ 134
of which sterling	4,825	+ 238
5. GARAGES, DISTRIBUTION, HOTELS & CATERING		
Garages & retail motor trade	2,223	+ 36
Other retail distribution	5,138	+ 223
Wholesale distribution	3,071	+ 121
Hotels & catering	4,189	+ 364
Total item 5	14,621	+ 744
of which sterling	13,385	+ 527
6. TRANSPORT		
Air transport	171	- 54
Other transport	1,819	+ 41
Total item 6	1,989	- 13
of which sterling	1,676	+ 66
7. POSTAL SERVICES & TELECOMMUNICATIONS	185	+ 95
of which sterling	123	+ 36
8. FINANCIAL		
Building societies	175	+ 46
Investment & unit trusts etc.	3,234	- 8
Insurance companies, pension funds etc.	1,554	+ 8
Leasing companies	6,767	+ 331
Other financial	5,427	- 73
Securities dealers etc.	1,020	- 218
Total item 8	18,177	+ 86
of which sterling	14,164	+ 549
9. BUSINESS & OTHER SERVICES		
Central & local government	346	- 95
Property companies	6,780	+ 625
Hiring of movables	794	- 14
Other services	10,422	+ 613
Total item 9	18,343	+ 1,129
of which sterling	17,479	+ 1,056
10. PERSONS		
Bridging finance for house purchase	1,217	+ 77
Other house purchase	27,924	+ 2,301
Other advances to persons	22,050	+ 949
Total item 10	51,191	+ 3,326
of which sterling	51,134	+ 3,325
TOTAL ADVANCES TO U.K. RESIDENTS	131,512	+ 5,531
of which in sterling	122,175	+ 5,972
in foreign currencies	9,337	- 441

C.L.S.B. Statistical Unit

PROVISIONAL ESTIMATES OF MONETARY AGGREGATES: NOVEMBER 1987

1 Provisional information suggests the following:

% changes	M0	M3	M4	M5
12 months to November (not seasonally adjusted)	+4.9	+21.3	+15.2	+14.6
November - not seasonally adjusted	+0.3	+ 0.7	+ 0.6	+ 0.5
seasonally adjusted	+0.3	0.0	+ 0.3	+ 0.3

2 Provisional counterparts to the changes in M3, M4 and M5 are:

£ billion, not seasonally adjusted	M3 Nov	M3 Latest 12 months	M4 Nov	M4 Latest 12 months	M5 Nov	M5 Latest 12 months
A PSBR	-1.6	- 3.4	-1.6	- 3.4	-1.6	- 3.4
B debt sales to private sector(-)(1)	-1.0	+ 1.2	-0.9		-0.6	
C external flows to public sector(-)	0.0	+ 3.7	0.0		0.0	
D public sector contribution (A+B+C)	-2.6	+ 1.5	-2.5		-2.2	
E sterling lending(2)	+3.2	+37.1	+4.4	+52.0(4)	+4.0	+52.2(4)
F other counterparts(3)	+0.8	- 6.5	-0.2		-0.2	
Total (D+E+F)	+1.4	+32.1	+1.7	+39.4	+1.6	+40.0
Sterling lending (seasonally adjusted)	+3.2		+4.3		+3.9	
(average of previous 6 months)	+3.5		+4.7		+4.8	

(1) Sales of public sector debt to the private sector other than banks (and, for M4 and M5, building societies), with an adjustment in the case of M5 for private holdings of certain liquid government debt.

(2) Lending by the monetary sector (and, for M4 and M5, by building societies) to the rest of the private sector. For M5, an adjustment is necessary for private holdings of certain money-market instruments etc.

(3) External and foreign currency transactions and net non-deposit liabilities of banks (and, for M4 and M5, of building societies).

(4) Partly estimated. It is not possible to calculate all the counterparts over the last 12 months because full building society balance sheets for end-November 1986 are not available.

3 Within the November PSBR, privatisation proceeds from the sale of BP shares were contractionary by £1.5 billion.

4 Full money and banking figures for November, including revised estimates of the figures given above, will be published on 31 December.

BANK OF ENGLAND
18 December 1987

pmp

SECRET AND PERSONAL
UNTIL 11.30 AM ON THURSDAY 31 DECEMBER

FROM: N I HOLGATE
DATE: 23 DECEMBER 1987

MR CASSELL

CC: PPS
PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Sir G Littler
Sir T Burns
Mr R I G Allen
Mr Peretz
Mr Grice
Miss O'Mara
Mr Bush
Mr Pike
Ms Bronk
Mr Cropper

Ch/ Content?

OK

FULL MONEY FIGURES - NOVEMBER

I attach the Bank's draft press release on the full money figures which will be published at 11.30 am on Thursday 31 December.

2. Annual and one month growth rates for the monetary aggregates are the same as those published on 18 December. Several of the figures in the counterpart analysis are slightly different: bank lending has been revised from £3.2 billion to £3.3 billion and other counterparts (external transactions and NNDLs) reduced by £0.1 billion.

3. None of these amendments is likely to cause press comment. The press briefing recommended is the same as that circulated on 18 December.

4. I would be grateful for comments on the Bank's draft press release by noon on Wednesday 31 December and any comments on the press briefing by close that day.

N I Holgate

N I HOLGATE

SECRET AND PERSONAL
UNTIL 11.30 AM ON THURSDAY 31 DECEMBER

MONETARY AGGREGATES & BANKING STATISTICS: NOVEMBER 1987

1 The changes in the monetary aggregates are summarised below:

	12 months to November 1987	November 1987	
	not seasonally adjusted	not seasonally adjusted	seasonally adjusted
M0	+ 4.9%	+0.3%	+0.3%
M1	+21.7%	+0.6%	-1.0%
of which, non-interest-bearing M1	+10.6%	+1.2%	-2.2%
M2	+10.8%	+1.9%	+1.2%
M3	+21.3%	+0.7%	0.0%
M3c	+19.0%	+0.6%	0.0%
M4	+15.2%	+0.6%	+0.3%
M5	+14.6%	+0.5%	+0.3%

2 Tables A-G and I show the components and counterparts of the monetary aggregates. Tables K-N show the details of the banks' and discount market's balance sheets. Transactions of the consolidated UK monetary sector, excluding interbank items and valuation changes on foreign currency items, are shown in Table H. An article in the May 1987 Quarterly Bulletin discussed the construction of the broad monetary aggregates.

3 Details of the building societies' balance sheets are shown in "Financial Statistics" (Tables 7.6-7.8), published by the Central Statistical Office. As mentioned in a note to those tables, the flows shown there for January 1987, which are calculated from some newly-available data for end-1986, may include some break in the series, and so the new data have not yet been incorporated in the money and banking statistics shown here.

4 Within the November PSBR, privatisation proceeds from the sale of BP shares were contractionary by £1.5 billion.

5 Estimated seasonal movements in December 1987

The provisional seasonal movements are shown below. Because of the difficulties referred to in the December 1986 Quarterly Bulletin (page 519), the figures should be regarded as more uncertain than were the figures formerly given for banking months. They remain subject to revision.

£mns	M0	+940
	M3	+ 60
	M4	+550
	M5	+610
	M3 counterpart: Bank lending in sterling to the private sector	+470
	M4 and M5 counterpart: Bank and building society lending in sterling to the private sector*	+310

The seasonally-adjusted changes are obtained by subtracting (with due regard to sign) the seasonal movement from the unadjusted changes.

* See the footnotes to Table G.

BANK OF ENGLAND
31 December 1987

MONEY SUPPLY IN NOVEMBER: PRESS BRIEFING

A. POINT TO MAKE IF ASKED - As Chancellor has indicated (factual (iv) (e)-(h)) was clearly right in market circumstances of late October/early November both to reduce interest rates and to allow some expansion in liquidity. In November, this expansion levelled off.

B. FACTUAL

(i) **Changes in main monetary aggregates**

	MO	M3	M4	M5
		per cent		
Annual growth rate	+4.9	+21.3	+15.2	+14.6
one month change	+0.3 (+0.3)	+ 0.7 (+ 0.0)	+ 0.6 (+ 0.3)	+ 0.5 (+ 0.3)

(Figures in brackets seasonally adjusted s.a.)

(ii) **MO**

- Still within target range (2-6 per cent).

(iii) **Broad money**

- Growth in November comparatively low, partly because potential BP investors and underwriters will have run down liquidity built up prior to sale of shares in October. And also because public sector contributions contractionary ie an overfund (see factual (v)).

- Bank lending just below average of recent months: £3.3 billion (n.s.a and s.a.) compared to £3.5 billion (n.s.a and s.a.) over previous 6 months.

- M4 continues to give less erratic signals than M3 (see factual (iv) (j)).

(iv) **Monetary Policy - Recent Statements**

(a) **Chancellor's speech to FHA annual dinner, 17 June**

"Certainly it is necessary to take account of changes in the level and composition of credit, along with all other indicators, in assessing monetary conditions. In the past I have not hesitated to act when I judged that there was a risk of being pushed off the path which I had set for inflation. Nor shall I do so in future."

"... the instrument of monetary policy can only be the level of interest rates, which - along with the level of the exchange rate - has to be such as to maintain downward pressure on inflation."

(b) **Chancellor in press briefing on Washington IMF/World Bank meeting 30 September**

"... the determination of short-term interest rates is increasingly pursued with an eye to sustaining exchange rate stability".

(c) **Chancellor in interview on future economic aims (BBC Radio 4, Today, 7 October)**

"At the end of the day our success in getting interest rates down will be tied to success in getting inflation down."

(d) **Effect of fall in equity prices on monetary conditions, Chancellor's statement on financial situation 27 October**

"The sharp falls in share price throughout the world over the past fortnight will tighten monetary conditions somewhat and are likely to have a dampening effect on world demand".

(e) **Chancellor on ½ per cent cuts in interest rates on 23 October and 4 November (Mansion House speech, 4 November)**

"What is needed in the world today, above all, is the avoidance of any major blow to industrial confidence.

It was not the 1929 crash that caused the depression of the 1930s, but the policy response to it: the failure to provide adequate liquidity to the system, leading to a rash of bank failures, which in turn led to further monetary tightening ... For our part, I moved at an early stage to reverse half of August's rise in interest rates, not simply because some reduction was appropriate in the changed circumstances, though it was.

But I also felt it right, in the light of what was undoubtedly a shock, to signal clearly that the authorities were sensitive to the dangers that some might understandably fear.

Today I decided it was right to act again and reverse the other half."

(f) **Chancellor on liquidity and exchange rate intervention (Mansion House speech, 4 November)**

"To prevent there being excessive liquidity in the economy, our policy is to ensure that, over time, any net intervention is sterilized - in other words, fully funded.

And that will be done, as and when appropriate, although not necessarily entirely within the financial year in which the intervention takes place.

In particular, while the funding programme will continue, it would clearly not be sensible in the present delicate market conditions to extract liquidity on a major scale."

(g) **Chancellor on reasons for cuts in interest rates (Interview with 'Financial Times', 10 November)**

"The Chancellor said the first half-point cut in British interest rates after the stock market fall last month had been decided upon for wholly domestic reasons. The second, announced last week, was determined after consultation with his international partners, but Mr Lawson said that he would have gone ahead in any case."

(h) **Chancellor on 3 December cut in interest rates (BBC Radio 4 3 December)**

"This has been a concerted move among a number of countries. We've been in very close touch and I've personally been in very close touch with my opposite numbers in Germany and France in particular. It is something we considered appropriate in the light of the current financial conditions."

(i) **Chancellor on exchange rate stability (Mansion House speech, 4 November)**

"Nor, however, should there be any doubt of our commitment to maintain a stable exchange rate, with the rate against the deutschmark being of particular importance. It gives industry most of what it wants and provides a firm anchor against inflation."

(j) **Chancellor on interpreting broad money aggregates (TCSC, 9 December)**

"Certainly broad liquidity matters and we watch it carefully as one indicator among others ... a better indicator of broad money nowadays is M4 rather than M3. If you look at the growth of M4 over the years from say 1979 to 1987 what you see is a remarkable stability of the growth of broad money."

(v) **Funding:** overfund in November of £2.6 billion. Underfund of PSBR so far in this financial year of £1.2 billion. PSBR April/November 1987 a surplus of about £1.1 billion; debt sales outside monetary sector and external finance of public sector minus £2.3 billion.

C. POSITIVE

(i) **Commitment:** Government remains committed to maintaining sound monetary conditions as key to keeping firm downward pressure on inflation. In evidence to TCSC, 9 December, Chancellor confirmed he would set interest rates at whatever level he deemed necessary.

(ii) **Sterling.** Commitment to continue to maintain stability (see factual (iv) (i)).

D. DEFENSIVE

(i) **Is there scope for international (G7) meeting soon?** Concerted European cuts in interest rates on 3 December showed that finance ministers/central banks in constant touch. But US needs to demonstrate commitment to dollar stabilisation and the measures necessary to secure it.

(ii) **Why were interest rates lowered?** See factual (iv) (e), (g).

(iii) **Are further cuts on the way?** Wait and see.

(iv) **UK's real interest rates out of line with competitors?** Real rates depend on price expectations of lenders and borrowers, so impossible to calculate. But deflating current three month money rates by most recent price indices suggests UK broadly in centre of G7 range. UK interest rates certainly not inhibiting investment. Autumn Statement forecast 5½ per cent growth in business investment in 1988.

(v) **Interest rates solely driven by exchange rates?** Interest rates continue to be set in the light of a range of factors affecting financial conditions though exchange rates obviously important. Period of stability for sterling of benefit both to industry and as firm anchor against inflation (see factual (iv) (i)).

(vi) **Growth of monetary aggregates foreshadows higher inflation?** No. MO still within Budget target range. Stock market fall tightened monetary conditions and may have raised volume of liquidity willingly held. Exchange rate index risen 2½% from start of November; sterling firm and stable against DM. Scarcely suggests resurgence of inflation.

(vii) **Growth of credit/liquidity inflationary?** Experience of number of years shown that high rate of growth of lending and liquidity consistent with lower inflation because increase liquidity willingly held. And in current market circumstances, sensible to allow some expansion in liquidity. But Government remains committed to maintaining monetary conditions that keep downward pressure on inflation and has demonstrated that will not hesitate to act if necessary.

(viii) **Consumer credit boom?**

- No evidence that rate of lending to consumers accelerating in recent months: change in amounts outstanding was same in October as September; new credit advanced in October was in line with average of last six months.

- Vast bulk of personal borrowing takes form of mortgages, which represented ¾ of outstanding personal debt at end of 1986. Increase overall as percentage of GDP in 1980s entirely attributable to growth in mortgage borrowing, as result of 2½ million increase in households buying own home. Consumer credit only some 15 per cent of total personal debt. Less than 5 per cent of personal debt takes form of credit card lending. (See Chancellor's speech to FHA, 17 June).

(ix) **Role of MO?** MO has had stable relationship with money GDP over number of years. Proved reliable indicator. If underlying growth of MO threatened to move outside target range, presumption that action taken on interest rates unless other indicators clearly suggest monetary conditions satisfactory.

(x) **Dilemma between maintaining stable exchange rate and control of broad money?** Policy is to maintain stable exchange rate, with rate against deutschemark of particular importance. This is consistent with aims for money GDP and hence inflation. Cannot say to what extent intervention increases broad money as depends on unwinding of intervention and on transactions beyond the immediate intervention. Will be sterilised over time but not necessarily in same financial year.

(xi) **Role of broad money.** With changes in financial practices, no longer simple relationship between broad money growth and money GDP. Therefore no formal broad money target in 1987-88. But growth of broad money (M3 and wider measures) and credit counterparts, still taken into account in assessing monetary conditions. In evidence to TCSC, 9 December, Chancellor pointed to remarkably steady growth of M4 (which includes deposits in building societies) (see factual (iv) (j)).

(xii) **Funding policy.** Aim remains in general to fund PSBR fully over financial year as whole. (Not a full fund every month - impracticable - so temporary over/under funding will occur; and foreign exchange intervention not necessarily fully funded within financial year - see factual (iv) (f)).

45/024

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FROM: T PIKE
DATE: 24 December 1987

1. MR GRICE

2. ECONOMIC SECRETARY

This week's surge probably has no greater significance than the run of lowish figures in recent weeks. Overall, December is now much as expected

JWG

24.12.87

cc PS/Chancellor
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Scholar
Mr Peretz
Mrs Lomax
Miss O'Mara
Mr Bottrill
Ms Ryding
Mr Westaway
Ms Bronk

M0 FIGURES

The latest weekly figures for M0, covering the fourth week of December, are attached. They show that the twelve month growth rate of M0 to the latest four week period is 3.8 per cent (3.7 per cent not seasonally adjusted). The annualised growth rate of notes and coin in the three months to the latest four week period has risen to 6¼ per cent, a sharp increase on last week's figure, suggesting that the seasonal pattern of M0 growth in December has not been picked up by the weekly seasonal factors.

T. Pike

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MO, THE WIDE MONETARY BASE

Calendar months	Levels £ million (changes in brackets) Notes and coin (nsa)	Notes and coin (sa)		Bankers' deposits	MO (nsa)	MO (s.a.)		% change on previous Month Notes (sa) and coin	MO (sa)	% change on year earlier Notes and Coin (nsa)	Notes and Coin (sa)	MO (nsa)	MO (sa)
1987													
June	14,946	15,075	(+91)	137	15,083	15,212	(+24)	+0.6	+0.2	+4.6	+4.6	+4.2	+4.2
July	15,271	15,166	(+91)	235	15,506	15,401	(+189)	+0.6	+1.2	+4.7	+4.7	+5.3	+5.4
August	15,337	15,258	(+92)	182	15,519	15,440	(+39)	+0.6	+0.3	+4.3	+4.6	+4.5	+4.7
September	15,349	15,376	(+118)	184	15,533	15,560	(+120)	+0.8	+0.8	+5.3	+5.0	+5.2	+4.9
October	15,299	15,457	(+81)	202	15,501	15,659	(+99)	+0.5	+0.6	+5.1	+5.2	+5.5	+5.6
November	15,365	15,525	(+68)	183	15,548	15,708	(+49)	+0.4	+0.3	+4.8	+4.8	+4.9	+4.9
December (4 of 5)† } Latest 4 weeks†	16,387	15,602	(+77)	190	16,576	15,792	(+84)	+0.5	+0.5	+4.1	+4.2	+3.7	+3.8

Weekly data	Notes (sa) and coin		Bankers' deposits	MO (sa)		% change on previous week MO (sa)
November						
4th	15,510	(+7)	128	15,638	(-67)	-0.4
11th	15,511	(+1)	225	15,736	(+98)	+0.6
18th	15,522	(+11)	193	15,715	(-21)	-0.1
25th	15,557	(+35)	185	15,742	(+27)	+0.2
December†						
2nd	15,576	(+19)	199	15,775	(+33)	+0.2
9th	15,596	(+20)	127	15,723	(-52)	-0.3
16th	15,525	(-71)	147	15,672	(-51)	-0.3
23rd	15,710	(+185)	286	15,996	(+324)	+2.1

† Most recent data include estimates only for coin and unbacked note issues. The percentage changes for December so far use as their base the average for the full relevant month; for the latest 4 week period changes are based on the previous 4 week period and a comparable period a year ago.

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