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PART D

MONTHLY MONETARY
ASSESSMENTS

PO -CH /NL/0175
PART D

Begins: 20/5/88
Ends: 6/10/88 (CONTINUED)

DD: 25 years
26/9/95

This cd be tricky - particularly with Delors on the cast list - I wd be inclined to turn down the request.

FROM: G SEGAL
DATE: 20 MAY 1988

1.MR R ALLEN

2. CHANCELLOR

RRA.

20/5

1. ~~Alex~~
2. C.
On X, I have spoken to the Bank, FCO, and DTI. None has been approached yet; none is likely to be interested. Regrets? ✓

AAH

cc PS/EST
PS/Sir P Middleton
Sir G Littler
Mr Scholar
Mr Lankester
Mrs Lomax
Mr Peretz
Mr A Edwards
Mr H P Evans
Miss O'Mara
Mr Bush
Mr Cropper

BID FOR INTERVIEW:ANALYSIS

X Caroline Anstey,editor of Radio 4's Analysis, has requested an opportunity to interview you for a programme being prepared on the implications of the single market for European monetary policy. The idea will be to look at ways of strengthening European monetary co-operation and,in particular,current proposals for a European central bank,a unified currency and development of the EMS.The argument will be advanced that the UK could take better advantage of the internal market if we were in the exchange rate mechanism.

2. The producers are only at the planning stage so far. However,they are going to approach Jacques Delors and Giscard d'Estaing as well as a number of people in the Commission for interviews. Helmut Schmidt has apparently already agreed to be interviewed. X Consideration is also being given to approaching the Bank and the FCO.

3.If you agree to this request, Stuart Smith,the presenter of the programme would like to interview you sometime in the week beginning 30 May.Should that not be possible their deadline is Monday 13 June,transmission date being 16 June. The interview would take about 20 minutes. The programme would be broadcast twice - on Thursday 16 June at 8.15pm and on Friday the 17th at 11am.

444/5

4. Ms Anstey has stressed that the aim of the programme will be to explore the issues rather than create a confrontation. However, given the sensitivities of the theme you may prefer to turn down this request altogether.

G SEGAL

Contact:Caroline Anstey 927 4812.

NH5/50Ju

p.p. (A)

FROM: MRS JULIE THORPE

DATE: 24 May 1988

MR G SEGAL

cc PS/EST
PS/Sir P Middleton
Sir G Littler
Mr Scholar
Mr Lankester
Mr R I G Allen
Mrs Lomax
Mr Peretz
Mr A Edwards
Mr H P Evans
Mr O'Mara
Mr Bush
Mr Cropper *

Ch
DGov discussed this with Peter. He's keen for Bank to participate — apparently DTI are. Peter is inclined not to make a fuss. AA

* Content for Bank to take part, but not DTI. The political matter — X below — is none of their business. They must be warned off it. N.

BID FOR INTERVIEW: ANALYSIS

The Chancellor has seen your minute of 20 May.

2. I am afraid the Chancellor's diary is particularly crowded over the next few weeks and he will not be able to fit in an interview with St Smith of Analysis. I would be grateful if you could pass on the Chancellor's apologies.

Julie Thorpe

MRS JULIE THORPE
Diary Secretary

90/G.[redacted] SECRET AND PERSONAL COPY NO. 1 OF 36 COPIES

FROM: J W GRICE
DATE: 8 June 1988

1. SIR PETER MIDDLETON
2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Sir T Burns
Sir G Littler
Mr Lankester
Mr Monck
Mr Scholar o/r
Mr H P Evans
Mrs Lomax
Mr Odling-Smee
Mr Peretz
Mr Sedgwick
Mr R I G Allen
Mr Hibberd
Miss O'Mara o/r
Mr Riley
Mr Pike
Mrs Ryding o/r
Mr Cropper
Mr Tyrie
Mr Call

Mr Cassell - Washington

File: MAMC F1

This discussion too place immediately after your meeting and the decision to raise interest rates by a further ½%

PEm

Ch
Interesting to know whether B England will advise PM as at X.

AA

MONTHLY MONETARY ASSESSMENT: MAY 1988

This note records the discussion at Sir Peter Middleton's monthly meeting on monetary conditions on 6 June. Attached is the usual Monthly Assessment.

Sir Peter Middleton's Meeting

2. Mr Peretz noted that the holiday period meant the Treasury meeting on the Monthly Assessment had taken place over a week before. Much had happened since. But even then he had not agreed with the Summary Assessment. As measured by prospective money GDP growth and inflation, the combination of lower interest rates and a higher exchange rate since the Budget had probably caused a net loosening in monetary conditions. At the same time, the mix of policy was undoubtedly worse than at Budget time. Now it looked as if there was an opportunity to move towards rectifying this.

3. A key question was whether interest rates were right given the present exchange rate. A month ago - before the ½ per cent cut in rates on 17 May - we felt some tightening was desirable. Since then:

(a) the effective exchange rate had fallen by 2 per cent and the bilateral rate against the mark by 1 per cent. Against the dollar and yen, the falls had been 3 per cent;

(b) this decline had occurred alongside higher oil prices which themselves tended to increase inflationary pressure;

(c) M0 growth had accelerated to around 6¼ per cent in May and was not expected to fall within its target range until October. 12 month M4 growth had declined a little in April but this was mainly attributable to coincidental overfunding of about £5½ billion over the relevant 12 months;

(d) house price inflation had again accelerated - to 22 per cent in May on the Halifax index.

4. It was also instructive to compare the situation with that on 17 March when interest rates were reduced from 9 per cent to 8½ per cent. Although the £/DM rate was then about the same as now, the effective rate was now around a point lower, M0 growth was one per cent faster and house price inflation had increased by over 5 per cent. The conclusion was therefore that interest rates should again be at least 9 per cent if the exchange rate remained at present levels. It would be helpful to trigger a mortgage rate rise. Alternatively, if the exchange rate fell much further, there would be an opportunity to demonstrate the Budget commitment not to accommodate inflationary pressures by depreciation, by acting more firmly on interest rates.

5. Mr George believed that monetary conditions had been too loose for too long. Even after the latest interest rate rise, conditions were probably too loose to contain let alone defeat inflation. The real economic data was not encouraging. Output seemed to be slowing relative to demand which itself was clearly buoyant. This gave rise to concern about the balance of payments but, more particularly, on the outlook for inflation. Over the last year, it was margins

which had pushed up inflation. But now cost pressures were more important. Pay settlements were high and edging up. They were consistent with inflation moving eventually to a 6-7 per cent range. The problem was particularly acute in the services sector where relatively low productivity growth would not offset high pay settlements. Import prices had been helpful in the past but there were worrying signs here too.

6. On monetary developments, he agreed with Mr Peretz. Underlying M0 growth was creeping higher. No comfort should be drawn from the slower M4 growth for the reason Mr Peretz had given.

7. Sir Terence Burns agreed that domestic demand was growing faster than output. The CBI figures suggested that output was coming off the boil. Even allowing for the statistical distortions, export growth had clearly slowed. But the crucial question was whether this was because of competitiveness or capacity considerations. The policy implications were different in the two cases.

8. On inflation, he took a more sanguine view than Mr George. The short term indications were surprisingly good. Unit labour costs in manufacturing were still growing slowly. Settlements had increased only moderately, surprisingly so given the recent behaviour of output. Over the next year, prospects looked better than at Budget time. This was only partly due to lower mortgage rate effects.

9. There were two more striking developments:

(a) the prospects for the current account had deteriorated - probably by more than the market anticipated, though this should not give rise to any financing problem;

(b) house prices were rocketing. This was clearly partly speculative and no doubt the bubble would eventually burst. But in the interim, there was a risk of it feeding into increased demand in the rest of the economy.

Both developments owed something to the adverse movement in the interest rate/exchange rate mix. The best hope was to undo as much of this movement as conditions would allow.

10. Professor Griffiths also noted that demand was growing faster than output; this showed up in the worsening balance of payments trend over the last six months. M0's behaviour was certainly disturbing. In retrospect, the Budget might have been too expansionary. Concentrating the tax cuts on incomes may itself have boosted inflationary pressures. Overall, he would support a move to higher interest rates.

11. In discussion, the following points were made:

(a) overall fiscal policy seemed to be tight. The evidence suggested that the surplus might be bigger than envisaged at Budget time;

(b) private sector wealth was strikingly high relative to income, largely because of house prices. This, together with widespread access to credit, could explain the low private savings;

(c) on the critical issue of whether exports were being constrained by capacity or competitiveness, the CBI Survey suggested neither factor to be very important. This was puzzling;

(d) tactically, the device of raising interest rates in ½ per cents seemed to be working well, reducing the risk of speculative inflows once again raising the exchange rate.

12. Summing up, Sir Peter Middleton said that the meeting recommended that at or around the present exchange rate some additional rise in interest rates was needed, to tighten policy further. It was desirable that the rise should be enough to increase mortgage rates sufficient to prick the speculative bubble in housing. Higher interest rates would also help to squeeze the protected services sector and to bring M0 back within range. There also seemed to be some opportunity to improve further the balance of interest and exchange rates. Half per cent rises seemed to offer the best change ce of making progress, but a more decisive movement might be needed if the exchange rate fell towards DM3.00.

13. By the time of his next meeting, the Summer Internal Forecast would be complete. It would be important to consider its implications and Mr Sedgwick should be invited to attend.

JWG

J W GRICE

cc: Governor)
Deputy Governor)
Mr George) Bank of England
Mr Flemming)
Mr Coleby)
Mr Plenderleith)
)
Professor Griffiths - No 10

SECRET AND PERSONAL

MONTHLY MONETARY ASSESSMENT : MAY 1988

Summary Assessment

The current evidence suggests that overall monetary conditions are in line with those expected at Budget time. But the balance is different. In the first quarter, domestic demand was probably higher and net exports lower than anticipated. The pattern of higher exchange rates and lower interest rates may reinforce this trend into the future.

Main Points

World activity looks to be buoyant and forecasts for most major countries are being revised up. Some commodity prices - particularly amongst metals - are rising quickly. (Paras 3, 4)

Output growth moderated a little in the first quarter though domestic demand remained strong. The CBI survey and order books point to continued moderation in output but the April labour market figures were surprisingly strong. (Paras 7, 8, 11)

Sterling was little changed during May, but has fallen in June so far, as the dollar and D-Mark have strengthened. Sterling's effective rate has fallen by 1¾ per cent since early May which, together with marginally higher oil prices, has reduced the oil adjusted exchange rate by 2 per cent. (Paras 21-23)

M0 continued to grow strongly in April and May. Annual growth in May was 6.3 per cent, compared to a Budget projection of about 4¾ per cent. The 12 month growth rate is projected to stay above the target range until the Autumn, thereafter remaining in the top half. (Paras 25,26, Chart 6)

Annual broad money growth was more subdued, possibly reflecting in part a large PSBR surplus in the 12 months to April. 12 month growth in M4 to April fell to 16 per cent, from 16¾ per cent in March. But credit growth was strong. Bank and building society lending in April rose by 2¼ per cent, taking the 12 month increase to 21¾ per cent. Both are record increases. (Paras 28, 29, 32-34)

House prices have accelerated further, the mix-adjusted Halifax index rising by 22 per cent in the 12 months to May, compared to 20¼ per cent in April. (Para 14)

MG2 Division
8 June 1988

SECRET AND PERSONAL

A. External Developments

1. The Fed apparently tightened monetary policy just before Easter in response to economic data which continued to suggest strong domestic demand, and possibly strengthening inflationary pressures. US **3 month interest rates** have risen about ½ percentage point since March. German rates have edged up slightly. Japanese rates have not moved. (Table 3).

2. **US trade figures** for March showed the smallest deficit for two years. The dollar strengthened as a result. In effective terms, it is currently close to its level at the beginning of the year. (Table 4)

3. Forecasts of **GDP** growth are being revised up for almost all major countries. The FSBR showed a 2½ per cent increase in G7 GDP in 1988. The summer forecast is likely to show an increase of over 3 per cent.

4. Non-oil **commodity prices** fell back a little in the last three weeks of April but have since risen very sharply. On the Economist index, they are 40 per cent higher, in SDRs, than a year ago. (Table 5). Rising commodity prices have taken place from an initially very low level and as yet do not indicate a resurgence of world inflationary pressures. But if commodity prices were to continue rising at recent rates, this would be cause for concern.

Conditions in West Germany

5. **Activity** in Germany is turning out a little stronger than expected. The OECD expects 2¼ per cent growth this year, against 1½ per cent in December. M3, the new targeted aggregate, is growing above its 3-6 per cent range. The Bundesbank continues to stress the risk of inflation, though there is little sign of any increase in inflationary pressures. Unit labour costs are scarcely rising. The **inflation rate** has remained almost unchanged, at about 1 per cent, since last summer.

B. Activity and Inflation

6. Recent indicators of **activity and inflation** are summarised in table 6. Indicators released this month provide evidence of some moderation in output growth, most notably in the manufacturing sector. Producer price inflation and earnings growth continue to show little change, though RPI inflation rose - as expected - in April reflecting Budget measures and increases in rates and gas and electricity prices.

Recent indicators of activity

7. Production figures for March provisionally show a recovery of just 1 per cent in **manufacturing output** after a fall of 2½ per cent in February. The February index was, to some extent, depressed by the Ford dispute. However, there are no obvious distortions to the March index. In the first quarter of 1988 manufacturing output stood around ¼ per cent lower than in the preceding quarter. The relative weakness of manufacturing output - after quarter on quarter increases of 2 to 2½ per cent in mid-1987 - is seen across most industry groups and market sectors. The latest output estimates may prove somewhat erratic but, taken with other evidence, suggest a sharp reduction in manufacturing output growth in the first quarter. The latest (seasonally adjusted) CBI survey results are a little more bullish than the published output estimates but are consistant with some slowdown in manufacturing growth.. Order books remain at peak levels, but have levelled off, while output expectations and business optimism have been edging downwards since end 1987.

8. **Retail sales** provisonally rose ¼ per cent in April after a revised increase of 0.1 per cent in March (the provisional estimate showed a small fall). In the three months to April, sales volumes are estimated to have been a little over 1 per cent higher than a quarter earlier. Although this figure is lower than the 2½ per cent quarter on quarter increases seen in 1987Q2 and Q3 consumer spending remains relatively strong.

9. Private sector **housing starts** are provisionally estimated to have fallen back in both February and March from peak December and January outturns. But this series has proven erratic on a monthly

basis and, on balance, evidence suggests continued buoyancy in the housing construction industry.

10. Provisional estimates show first quarter manufacturing investment nearly 5 per cent higher than a quarter earlier. Investment in selected non-manufacturing sectors fell by ½ per cent on the same basis, but from an exceptionally high Q4 outturn. Overall, industrial investment increased by a little over 1 per cent. The Royal Institution of Chartered Surveyors report strong growth in commercial and industrial construction work in the first quarter. Stock building activity by manufacturers and distributors is estimated to have remained subdued in the first quarter.

11. **Labour market indicators** remain relatively bullish. Adult unemployment fell a further 49 thousand in April while vacancies rose 8 thousand after several months fall. Overtime working in manufacturing showed little change between February and March and stands at around end-1987 levels.

Inflation

12. Annual **RPI inflation** rose from 3.5 per cent in March to 3.9 per cent in April (3.8 per cent to 4.2 per cent excluding mortgage interest payments). This increase primarily reflected special factors - the Budget revalorisation of excise duties, local authority rate increases and high gas and electricity price rises. This increase was broadly as expected. (The Budget forecast, which allowed for these factors, projected a further rise in RPI inflation beyond April, before falling back to 4 per cent at the end of the year.) **Producer output prices** (excluding food, drink and tobacco) rose 4.8 per cent over the year to April. The annual rate of producer price inflation has remained within just under 5 per cent since mid-1987. The April CBI survey showed manufacturers' price expectations back to recent levels after a sharp fall in March. Producer input prices (also excluding FDT) rose 4.7 per cent in the year to April, slightly up from the 4.4 per cent increase in the year to March. Over the month to April input prices (including FDT) rose 1 per cent, while over the latest 6 month period input prices have remained, on balance, broadly constant.

13. Earnings growth, like that of prices, continues to show no significant movement, either up or down. Underlying growth in **average earnings** remained unchanged at 8½ per cent for the fourth consecutive month in March. Underlying earnings rose at identical rates in both manufacturing and the services sector. Private sector settlements in the 1987-88 pay round to date have averaged 5¾ per cent, around 1 per cent above the outturn a year earlier, but only ½ per cent higher than the outturn for the 1986-87 pay round as a whole.

14. Latest figures for **house prices** show further acceleration, with the 12 month rate of increase of the Halifax index rising to 22 per cent in May, from 20¼ per cent in April. The house price inflation rate has risen steadily from December's 15¾ per cent. The Halifax believe some of the recent acceleration reflects seasonal factors, and the rate of increase is expected to slow down a little later in the year.

Projections for money GDP

15. The Budget forecasts showed a 9¾ per cent increase in **money GDP** in 1987-88, with deceleration to 7½ per cent in 1988-89. The first CSO estimate for money GDP in 1987-88 as a whole will be published on 21 June; a revised Treasury forecast covering projections for 1988-89 and later years will be circulated on 24 June.

16. Information available so far for the first quarter shows domestic demand a little higher than in the Budget forecast, but the contribution of money GDP growth from net exports somewhat lower than expected, largely because of the sharp recorded fall in exports of goods. (Imports of goods have similarly been lower than expected, but to a lesser extent.) On balance, and allowing for upward revision to initial estimates, current indicators are consistent with the Budget forecast for 1987-88.

17. The slowdown in money GDP growth projected for 1988-89 at Budget time was primarily due to slower forecast growth in real output, down from 4½ per cent in 1987-88 to 3 per cent in 1988-89. But some slowdown in the growth of the GDP deflator was also assumed - from 5 to 4½ per cent over the same periods. Relative

to the Budget forecast, sterling is currently about 2 per cent higher, and 3 month interbank rates are about ½ percentage point lower, than projected. Whilst these changes are likely to have little net effect on money GDP growth, they may reinforce the probable shift towards domestic demand in Q1. Also, oil prices (at $16¼) are currently $2¼ higher than assumed at Budget time. The Treasury model suggests that the effect of higher oil prices will have been to loosen monetary conditions slightly compared to the Budget assumptions. Money GDP growth and inflation could be higher by about ¼ percentage point in 1988-89.

C. Public Sector Finances and the Fiscal Stance

18. Table 8 gives the main indicators of the **fiscal stance.** The PSBR in 1987-88 is now a net repayment of £3.5 billion, a £0.1 billion lower net repayment than reported last month.

19. The **PSBR** in April was a net repayment of £1.1 billion, fairly close to profile. Privatisation proceeds were £1.8 billion. Excluding privatisation proceeds the PSBR in April was £0.8 billion compared with £2.2 billion in April 1987. The main difference is lower central government expenditure. This was not wholly unexpected and does not have any implications for the year as a whole.

20. The first assessment of fiscal stance in 1988-89 relative to the FSBR forecast will not be made until the June internal forecast is completed.

D. Exchange Rates and External Accounts

21. The value of **sterling** rose sharply from 4 May (when it stood at effective 77.9, $1.86, DM3.13) until at 16 May it stood at 79.2, $1.89, DM3.19. With sterling close to DM3.20 the decision was taken to cut base rates by half a point on 17 May. This, coupled with good US trade figures and the Prime Minister's statement at Question Time, eased pressure on sterling, which settled at around DM3.175 during the rest of May. Subsequently sterling has weakened considerably, ostensably triggered by first quarter figures for German output, although much of the fall has also been attributed to dollar strength. Despite half point rises in base rates on 2 June and 6 June, sterling closed on 7 June at 76.5, $1.81, DM 3.11, a fall of 1¾ per cent in effective terms since 4 May.

22. This behaviour, in conjunction with **intervention** in May of \$0.8 billion, seems to offer support for the view that sterling had been the subject of a minor speculative bubble. There are certainly fundamental factors which remain supportive, notably a higher oil price and a tighter perceived fiscal stance together with a wider belief in the Government's anti-inflationary stance than when sterling started to appreciate. But on the other hand the prospects for the current account seem considerably less favourable. It is thus hard to gauge in which direction future pressures will arise, although more commentators are now stressing the down side.

23. The slight rise in Brent oil prices (from \$16.1 to \$16.3 and SDR 11.7 to 12.0) since 4 May, coupled with the fall in sterling, will have loosened monetary conditions; the **oil adjusted ERI** is 2 per cent lower since the beginning of May.

24. The **current account** of the balance of payments was £525 million in deficit in April compared with a revised deficit of £285 million in March. This reflected a 5 per cent rise in export volumes, more than offset by a 6½ per cent rise in import volumes. The introduction of the new Customs procedures on 1 January 1988 has distorted the monthly path of recorded exports. The major impact is thought to have been on the December to February figures. Exports have recovered strongly in March and April from their low levels in the previous two months. Even allowing for distortions, the trend in non-oil exports is likely to have levelled out since the Autumn. The strong rise in imports in April supports the view that the underlying trend remains upwards - despite the fall in the first quarter. There remains some suspicion of seasonality in the imports figures.

E. Domestic Monetary and Financial Market Developments

Narrow Money

25. MO continued to grow strongly in May, the seasonally adjusted 12 month growth rate remaining at about 6¼ per cent, while the 12 month growth rate of notes and coin rose to 6½ per cent, from 6 per cent in April. MO growth is currently about 1½ percentage points above its Budget profile, which may reflect at least in part the probable shift within money GDP towards domestic demand from net exports during 1988, implying some reduction in the growth rate of MO velocity.

26. The **forecast** has the 12 month growth rate of M0 rising to 6½ per cent in June. The higher growth rate in June reflects an abnormally low level of bankers' balances a year ago; the 12 month growth rate of notes and coin is projected to fall from 6½ per cent to 6¼ per cent in June. Thereafter, annual growth of MO is projected to fall back to under 5 per cent from October, although remaining towards the top of the target range during the rest of the financial year. MO growth is projected to continue to diverge from the Budget profile during the rest of 1988-89, with the differential rising from about 1½ percentage points in May to about 2½ percentage points by the end of the financial year (see chart 6).

27. The annual growth rate of **M1** was little changed in April at just under 21 per cent. The annual rate of M1 growth in 1988 so far has been below the rates of 22-24 per cent seen throughout 1987.

Broad Money

28. Twelve month growth rates of broad money fell in April, although building society deposits continued to grow strongly. The boost to 12 month growth rates of broad money and credit from January's bill arbitrage should now have unwound, although when the unwinding occurred is not clear. The main influence within the counterparts in April was another very high level of sterling lending by banks and building societies, which banks financed partly by attracting overseas deposits. Together with a high level of mortgage lending, CLSB figures indicate a continued high level of lending to non-financial companies.

29. **M4** grew by £1.8 billion (0.6 per cent) in April and at an annual rate of 16 per cent, compared to 16¾ per cent in March. **M3** also rose by 0.6 per cent, and the annual rate fell to 19¼ per cent, from 21 per cent in March. Virtually all of the £1.2 billion increase in M3 was accounted for by building society bank deposits. Broad money growth may have been depressed by several factors in April, including the third British Gas call (£1½ billion); the unwinding of the redemption of an IG, which boosted broad money growth in March; and the unwinding of arbitrage. In addition, there was cumulative overfunding of M4 by £5½ billion in the 12 months to April, which will also have put downward pressure on monetary growth.

30. Within the **M4 components**, holdings of M3 by the non-building society private sector rose by £0.1 billion. Retail inflows to building societies, at £1.6 billion (plus £0.2 billion interest credited), remained strong. Wholesale funding of the building societies by the private sector was minus £0.1 billion, although their wholesale funding in total was unusually high, at £0.8 billion. Within the **M3 components** in April, retail bank deposits rose by £0.8 billion and wholesale deposits by £0.7 billion. Wholesale bank deposits were well below their average increase of the past 12 months; while this may reflect seasonal influences, the British Gas call would show up mainly in wholesale deposits since less than one third of the share issues is held by the personal sector.

31. **Building societies** again experienced strong **retail inflows** in April, despite some possible withdrawals to pay for the British Gas third call. Although the BAA second call may affect May inflows, these are also forecast to remain strong, and with societies delaying their response to the base rate cut until at least June 1, inflows could also benefit from a competitive advantage over the banks in the second half of May. Societies' considerable activity in wholesale markets was reflected in the highest net inflows of wholesale funds since 1986 (almost £800m). This still leaves several wholesale programmes unaccounted for, so May too is forecast to see a large net inflow. As a result of these factors, societies built up liquid assets in April by nearly £0.7 billion.

* * * * * * * * * * *

Provisional figures for the **sectoral balance sheets** in Q4 1987 show a general reduction in gross financial wealth of the personal sector, ICC's and OFI's (excluding building societies), averaging 14 per cent in each sector in the quarter to Q4. The main developments in Q4 were crash-related, with the falls in gross financial wealth reflecting lower market values of existing stocks of equities and pension fund rights. Net of financial liabilities both OFI's and ICC's saw their net wealth improve in Q4 as the value of their equity liabilities fell, while net financial wealth of the personal sector fell by 20 per cent. The crash also led to a large repatriation by OFI's of overseas assets, a switch into liquidity from unit trusts by the personal sector and a reduction in ICC's capital issues.

Charts A1-A4 show longer term trends in the components of sectoral balance sheets. They show that ICC's liquidity as a proportion of their financial wealth has risen to about 21 per cent in 1987, compared with about 15 per cent in the 1960's; net of their liquid liabilities, however, ICC's liquidity has been falling steadily during the 1980's compared to the 1960's. Gross liquidity of OFI's (excluding building societies) has risen to about 8 per cent in 1987, compared with about 5½ per cent in 1980 and about 3 per cent in the 1960's. Personal sector gross liquidity has fallen from 60 per cent of financial wealth (excluding pension fund rights) in 1980 to 54 per cent in 1987, compared to about 42 per cent in the 1960's. Relative to total wealth, however (which includes housing and other physical assets), personal sector liquidity has been fairly constant, at about 18-19 per cent of total wealth, since the 1960's.

* * * * * * * * * * *

Credit

32. **Bank and building society lending** rose by £6.4 billion (1.8 per cent) in April, the seasonally adjusted increase of 2.3 per cent and the 12 month growth rate of 21¾ per cent both setting new records. Any bill arbitrage of recent months should now have unwound within the money and credit annual growth rates but there is some anecdotal evidence of further arbitrage in April, although interest differentials were relatively narrow compared to previous months.

33. **Sterling bank lending** grew by 1.9 per cent in April and the annual rate increased to 26¾ per cent, from 25¼ per cent in March. Clearing banks (CLSB) figures - which covered about 75 per cent of the total increase in advances - show another high level of borrowing by ICC's (£1.6 billion, compared to £2.6 billion last month and an average of under £0.5 billion per month in the four previous non-interest charging months). Within this, lending to manufacturing was over £¾ billion, compared with £¼ billion on average in other recent non-interest charging months. Lending to GEMMs and SEMM's was erratically high, also at over £¾ billion, compared with a flat level of lending since the crash. This partly reflected unusual transactions which should unwind in future months. Lending to persons for house purchase and consumption was £1.0 billion, both components being only slightly higher than normal, suggesting that the building societies continued to gain market share against the banks in the mortgage market.

34. **Building societies' mortgage lending** is growing at an extremely rapid rate, with more lent in the last two months than in any three month period in 1987. This represents both a response to greater demand for mortgages, also reflected in accelerating house prices, and a gain of mortgage business from banks and other mortgage lenders. It is doubtful whether any significant effects from the Budget measures on home improvement loans and joint purchases have yet been felt in the figures for mortgage completions. To forestall the measures, it is necessary to have a loan offer before 6 April and 1 August respectively. For home improvement loans, there is

normally a lag of up to 6 months between commitments and completions, and borrowers who have forestalled the tax change by bringing forward their loan applications would be expected to draw down the loans later than other borrowers. For joint purchases, the normal lag between receiving a loan offer and completion is 2-3 months, suggesting that a boost to lending should occur from May. Finally, there is no anecdotal evidence from lenders of any significant effect of the Budget measures, although taken together with still rising commitments figures, mortgage lending can be expected to continue rising over the next few months.

35. Bank lending to the private sector in foreign currency fell by £2.3 billion in April, having risen by a similar amount in March. We have no details of currency borrowing by sector, but it is known that repayments were concentrated amongst overseas banks, suggesting that they could have been connected with offshore activity not related to sterling borrowing.

Funding

36. There was a £1.7 billion M4 overfund in April, mainly reflecting the PSBR surplus of £1.1 billion and CG debt sales to the private and overseas sectors totalling £1.1 billion. In terms of the ex-post counterparts, these were supplied by the monetary sector, which made net gilt sales of £0.9 billion. In the 12 months to April, M4 overfunding has been £5½ billion, with a PSBR surplus of £6½ billion (CG debt sales to the private and overseas sectors have been fully offset by an increase in the reserves of £9½ billion). This may have depressed M4 growth in the 12 months to April.

37. The **external counterparts** to M4 were minus £1.5 billion in April. The overseas sector increased its net sterling bank deposits by nearly £2½ billion, and reduced its net currency deposits by £3 billion, most likely reflecting the general increase in demand for sterling assets, as was evident from sterling's appreciation during April. The overseas sector also made net purchases of about £350 million of gilts during April. In contrast, the private sector increased its net currency deposits by £2 billion in April (and reduced its net sterling liquidity by £6½ billion).

38. Growth of **broad money** is **forecast** to be fairly strong in May, with the annual rate of M4 returning almost to March's reco[illegible] 16¾ per cent. M3 annual growth is also forecast to bounce back, although remaining below rates in the six months to March. The main factors underlying the forecast are shown in Table 26, the largest being the seasonal underfund of £1.8 billion.

39. Bank and building society **lending** growth is **forecast** to remain very high with the annual rates reaching a new record of 22½ per cent, as the acceleration in building society commitments during the last three months feeds into mortgage lending. Bank lending growth is also expected to reach a new annual high of 27½ per cent as companies continue to borrow in substitution for equities and there is a boost from shareholders borrowing to finance the BAA call and Barclays rights issue.

Money Markets and Interest Rates

40. **Money market rates** began May ranging from 7.9 per cent at one month to 9.3 per cent at 12 months. The cut in base rates to 7½ per cent on 17 May, followed by some further upward pressure on sterling, resulted in rates falling by about ½ percentage point across the yield curve during the rest of May. The sharp fall in sterling in June so far increased short rates by around 1 percentage point, the two base rate rises of half a point each on 2 and 6 June having little effect on either sterling or short rates, which currently range from 8.3 per cent at one month to 8.7 per cent at 3 months and 9.4 per cent at 12 months. Since base rates were at 9 per cent on 16 March, the money market yield curve has steepened, with one month rates falling by 0.6 per cent, 3 month rates falling by 0.3 per cent and 12 month rates unchanged.

41. The stock of **money market assistance** fell to £9½ billion at the end of May, from £10 billion in April, mainly reflecting gilt redemptions of £¾ billion. The stock of assistance is projected to fall to about £8¼ billion in June and July.

Capital Markets

42. The markets have generally been nervous this month, with no sense of direction emerging; the base rate cut on 17 May had little impact as inflation fears seemed to increase (resulting in selective demand for IG's) although the subsequent rise in short rates dispelled these concerns, the latest rise in base rates reducing long gilt yields slightly. The eurosterling market has remained strong, however, and equities have risen, reflecting the fall in sterling. Turnover in the markets and new equity issues have remained weak.

43. **Gilts** began May with the index at 89.8 and 5, 10 and 20 year par yields at 9.1, 9.5 and 9.3 respectively. The market was broadly flat during the first half of the month, before rising slightly. The cut in interest rates on 17 May brought the long end down again, but longs recovered as the base rate increases stemmed inflation fears. The index currently stands at 90.0, with par yields at 9.2, 9.4 and 9.2 respectively.

44. Real yields on **index-linked stock** began May at around 3.8 (3.7 at the very long end) and have remained steady around this level for most of the month. Shorter dated IG's were in demand during May and the real yield on Treasury 1996 fell from 3.25 to 3.16 per cent, before rising again after the issue of a new 1994 IG. Break-even inflation rates for index-linked Treasury 1990 and 2006 are currently 4.2 and 5.5 respectively compared with 4.0 and 5.6 in early May. The **equity dividend yield** (based on the all share index) stands at 4.2, unchanged since the start of May.

45. **Equity prices** (measured by the all share index) have risen by 2 per cent since 4 May, the main influence on share prices being the behaviour of sterling. The index currently stands at 941, 21 per cent above its post-crash trough in November and 24 per cent down on its July peak. New issues (and the equity queue) generally remain depressed, but the Barclays rights issue of £920 million - the largest on record in the UK - was almost entirely taken up without depressing share prices. **Equity market turnover** also remains subdued, with customer business in domestic equities averaging about

£775 million per day in May, compared to £780 million in April. This is up from the low point of £660 million per day in February but still well down on pre-crash levels of £1140 million per day in September 1987.

46. The **eurosterling** market has continued to strengthen in May, with UK issues of £1.1 billion in May (of which half has been by ICC's) compared to £0.6 billion in April and £0.6 billion per month in Q1. Fixed rate issues by UK ICC's have had lengthening maturities recently, typically being around 15-20 years compared to post-crash maturities of only around 5 years.

47. There were net inflows into unit trusts of £196 million in April, which continues the depressed level of inflows post-crash. (Before the crash, inflows were averaging £660 million per month during 1987.) **Sterling commercial paper** outstanding edged higher in April, to £3.0 billion, having risen from £2 billion in December, but the rate of increase has slowed markedly in March and April. Within the total, ICC's paper rose by £140 million to £2¼ billion; monetary sector holdings fell by £85 million to £½ billion.

MG2 Division
8 June 1988

SECRET

Monetary developments since last month's report

	Latest outturns available at time of:		
	Nov Report	Apr Report	May Report
Monetary aggregates (12 month % growth)	(Oct)	(Mar)	(Apr)
M0 (sa)	5.6	5.8	6.2 (6.3)+
M3	22.4	20.9	19.3
M4	15.8	16.8	15.9
M5	15.2	16.6	15.6
Bank lending	22.9	25.2	26.8
Bank & building society lending	19.3	20.8	21.8
Interest rates (%)	**30 Nov**	**4 May**	**7 June**
3 month interbank	8.9	8.4	8.7
20 year gilt-edged (par yield)	9.3	9.3	9.2
Yield gap	-0.4	-0.9	-0.5
UK real 3 month interbank	4.9	4.3	n/a
Equity dividend yield (all-share)	4.7	4.2	4.2
IG yield (2001) assuming 5% inflation	3.9	3.8	3.9
3 month UK interest differential with:			
Germany	5.2	5.0	5.1
US	1.0	1.2	1.1
World basket	2.2	2.1	2.2
Exchange rate			
$/£	1.83	1.86	1.81
Yen/£	242	233	228
DM/£	3.00	3.13	3.11
ERI	76.4	77.9	76.5
Oil adjusted ERI*	105.5	109.3	107.1
Asset prices			
FT-A Index (% pa)	-1.4	-11.1	-16.4
FT-A Level (July peak: 1239)	796	925	941
Halifax house index (% pa)**	16.2	20.3	22.0

\+ May

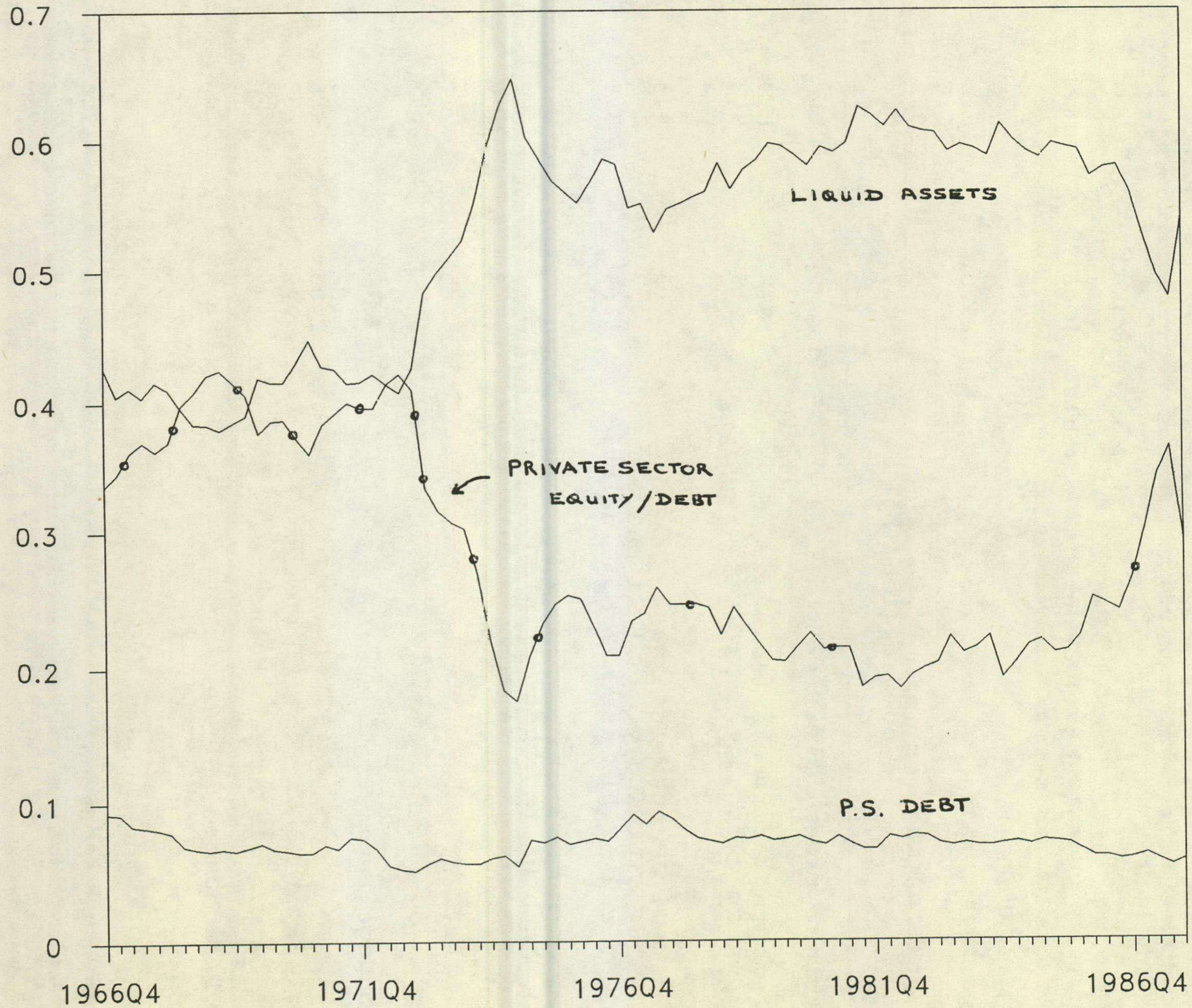
* The oil adjusted ERI shows whether the joint effect of oil price and exchange rate changes has been counter-inflationary or otherwise, relative to the base period Jan 1983-Nov 1985, on the assumption that the inflationary effect of a 4 per cent rise in oil prices is exactly offset by a 1 per cent rise in the exchange rate.

** figures are for November, April and May

A1

PORTFOLIO SHARES FOR THE PERSONAL SECTOR

(excluding equity in LAPFs)



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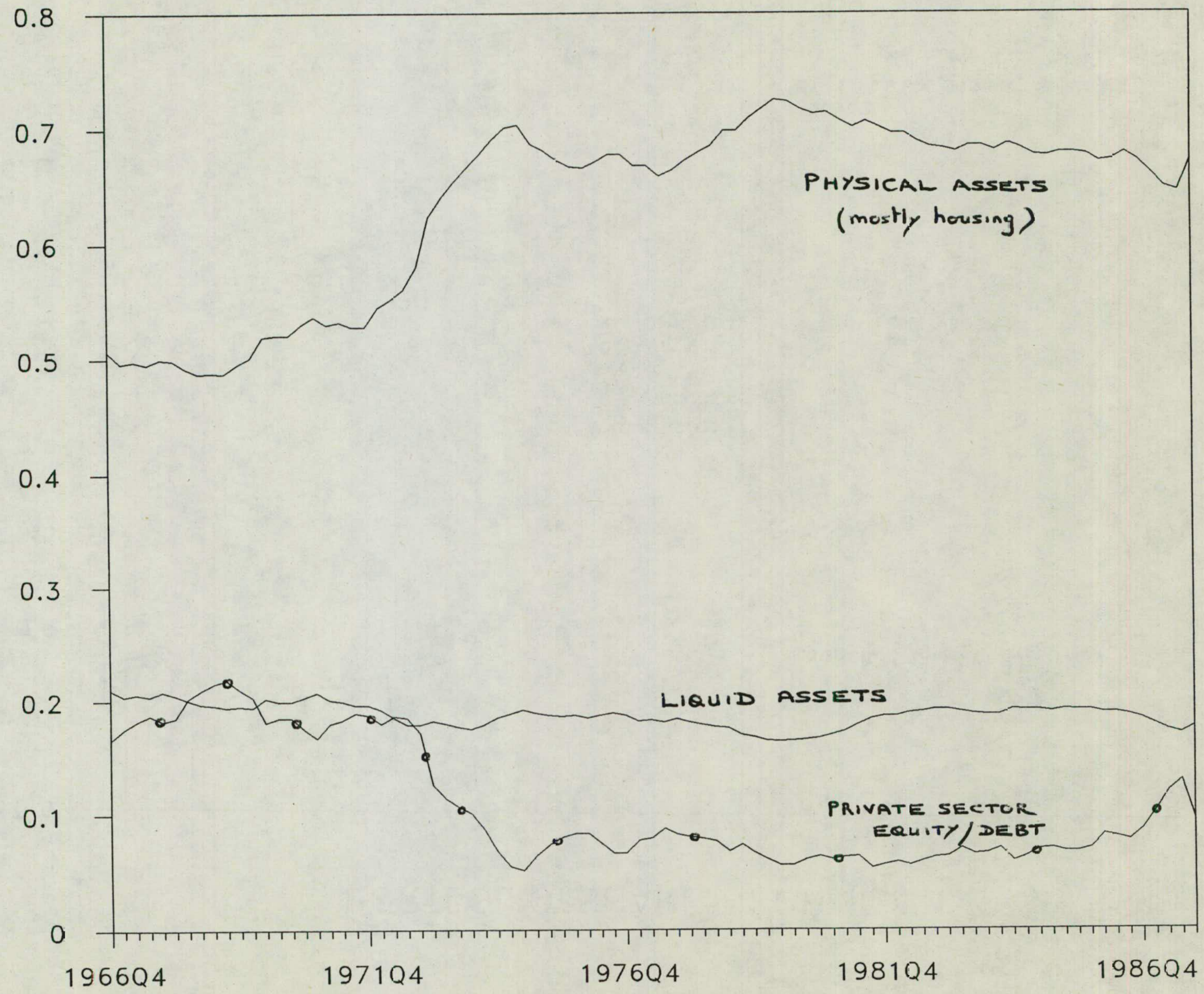
PROPORTIONS OF GROSS TOTAL WEALTH OF THE PERSONAL SECTOR (exc. equity in LAPF's)



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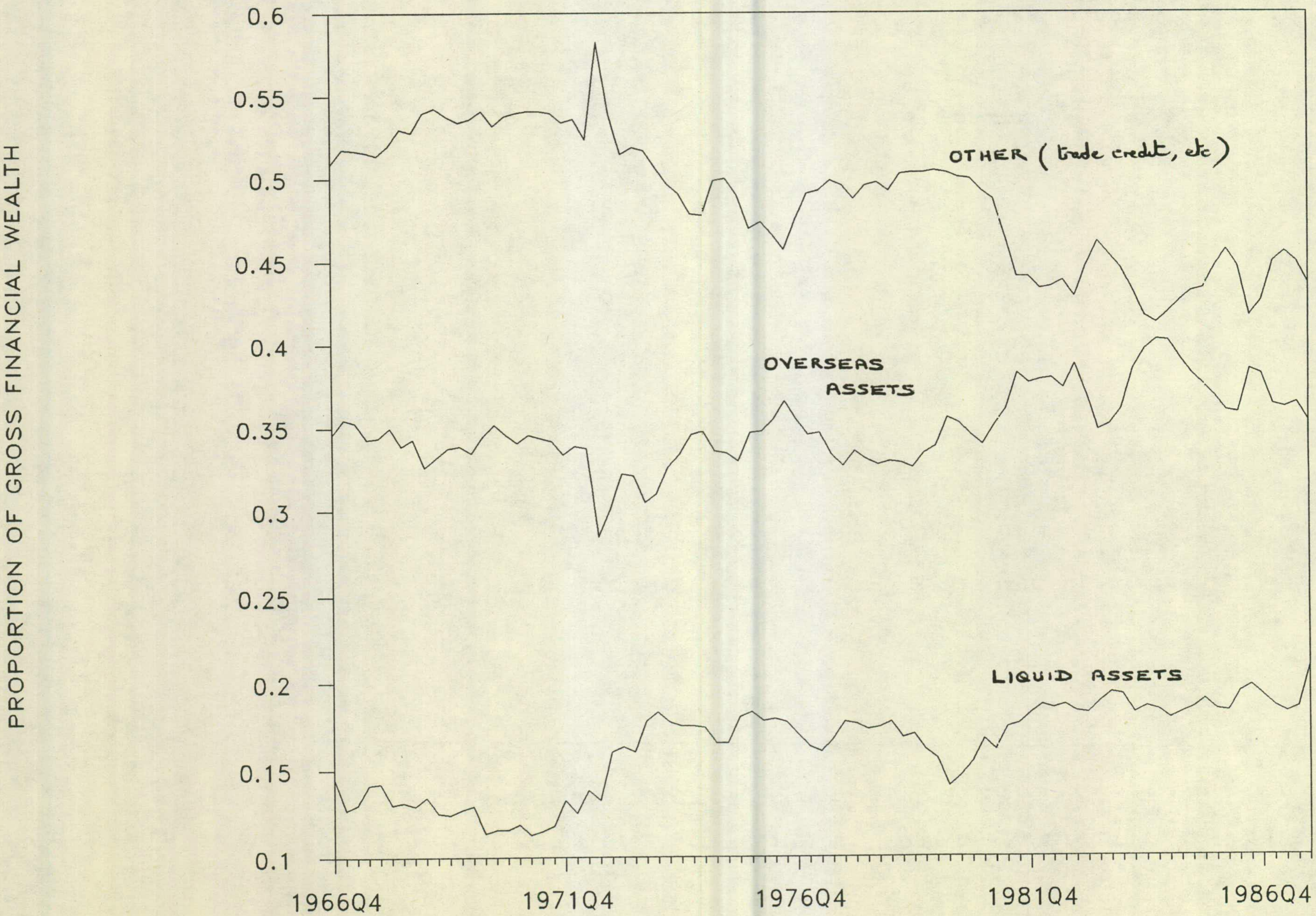
A3

PORTFOLIO SHARES FOR ICC's



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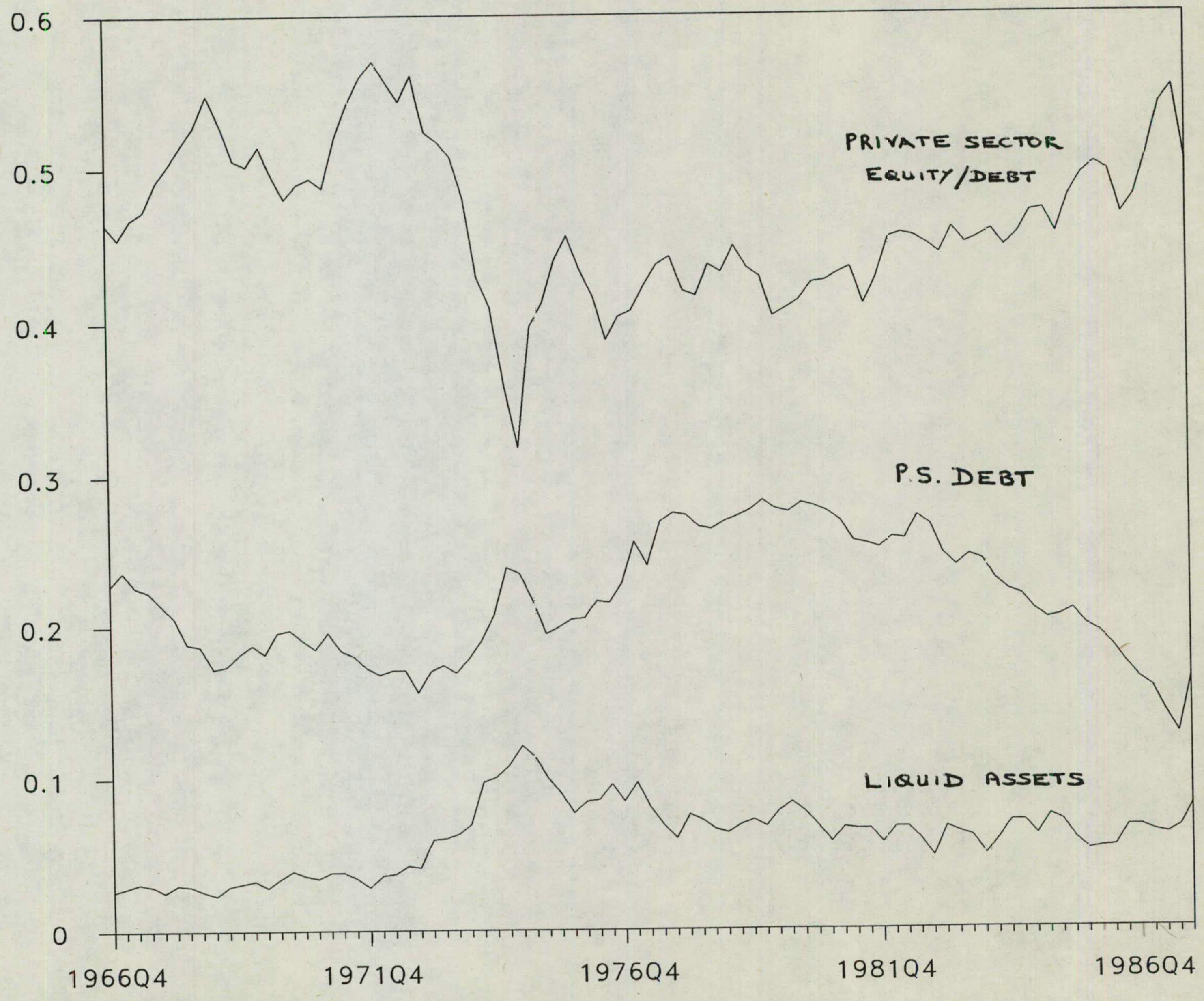
PORTFOLIO SHARES FOR 'OTHER FINANCIAL INSTITUTIONS' (exc. building societies)



MONTHLY MONETARY REPORT : CHARTS

I	Exchange Rate Short Term
II	UK/US interest rate differential
III	Narrow money growth
IV	Broad money growth
V	Real M0 growth
VI	FSBR budget profile M0
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X	£ Corporate bond issues
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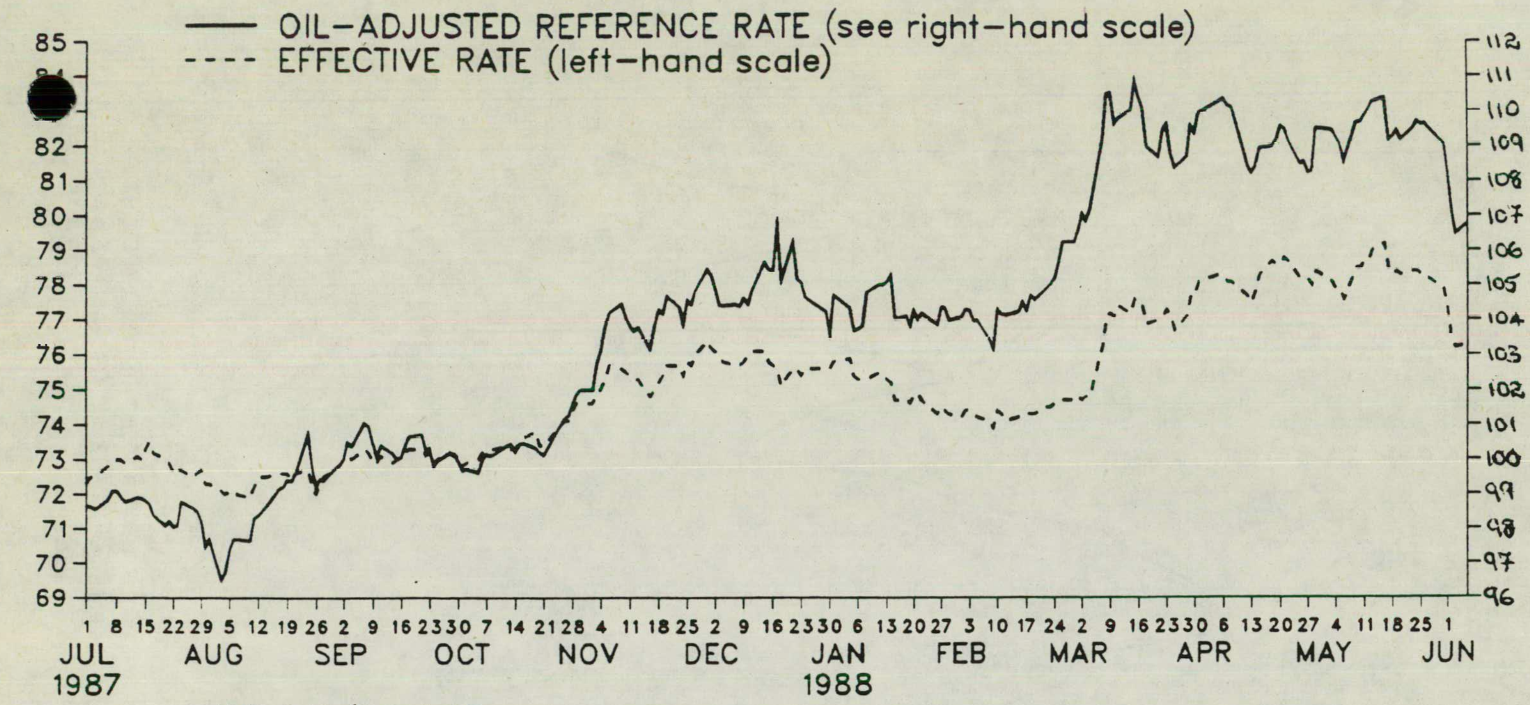
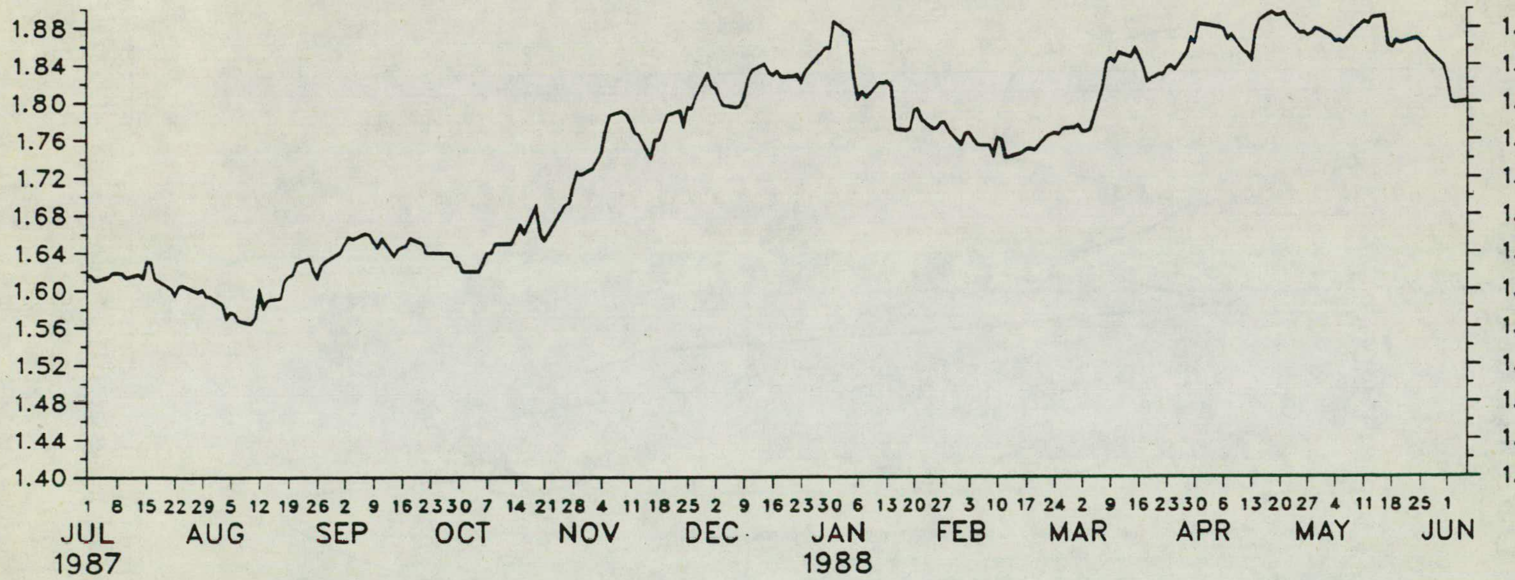
XII	Nominal Interest Rates
XIII	Yield Curve
XIV	Real Yields
XV	House prices 1
XVI	House prices 2
XVII	Capital Markets

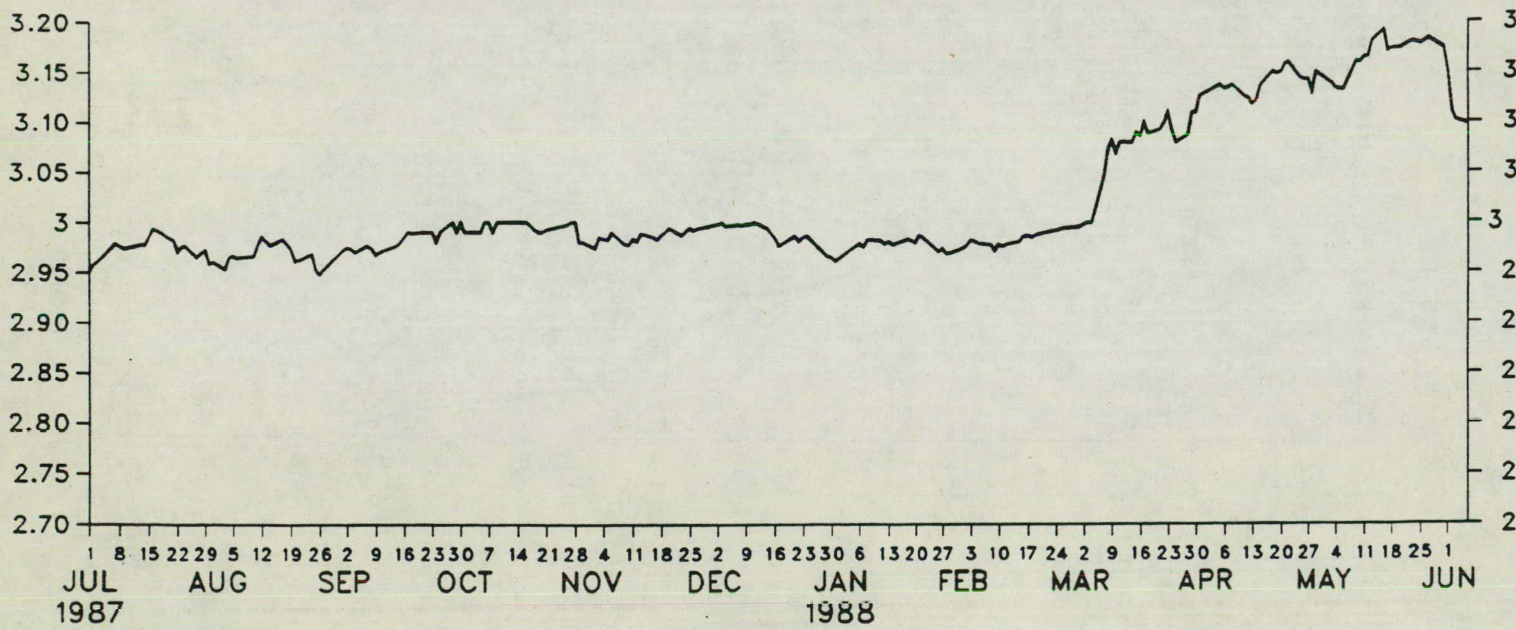
CHART I:EXCHANGE RATE



STERLING/DOLLAR



STERLING/DEUTSCHEMARK



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UK/US INTEREST RATE DIFFERENTIAL

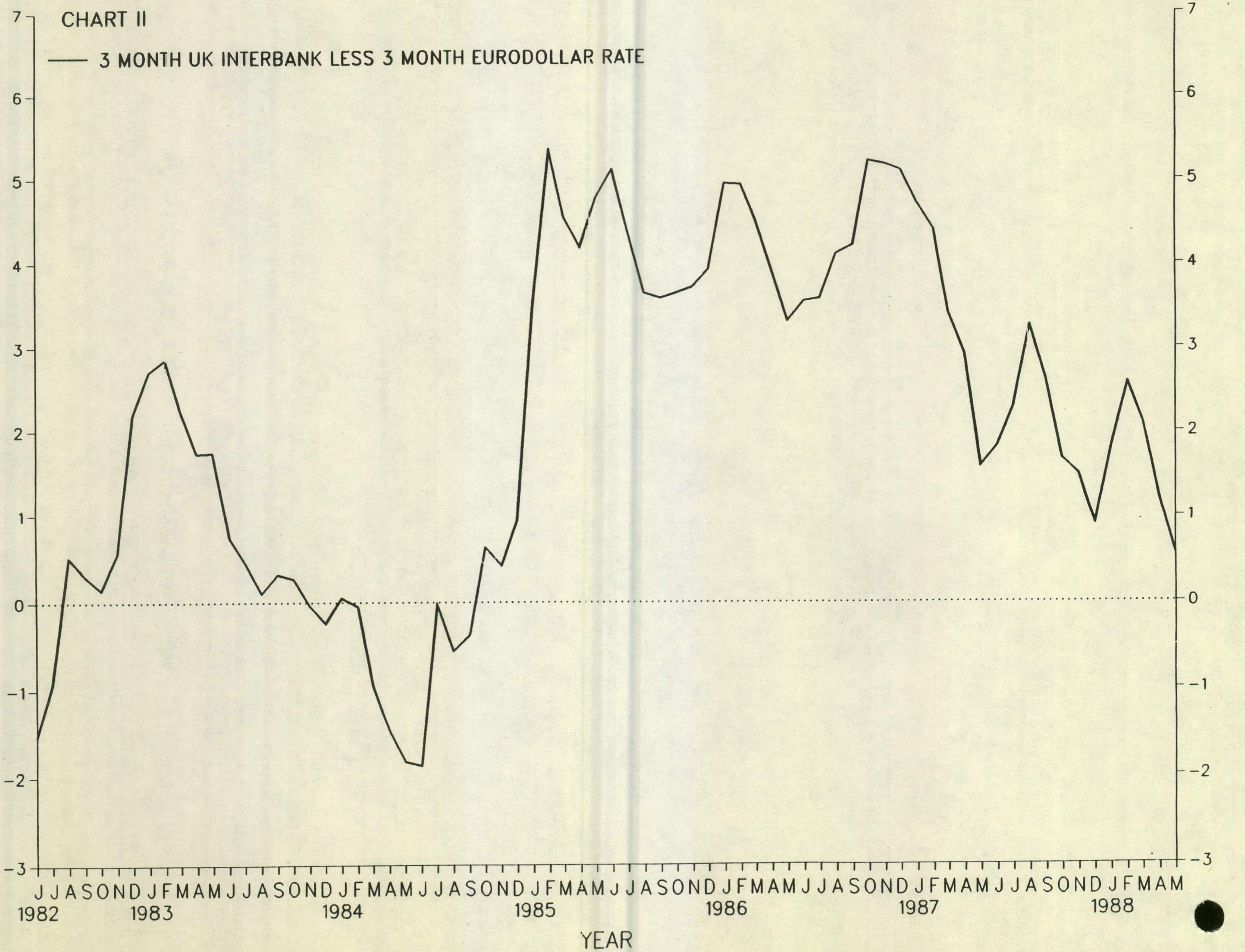

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CHART III NARROW MONEY

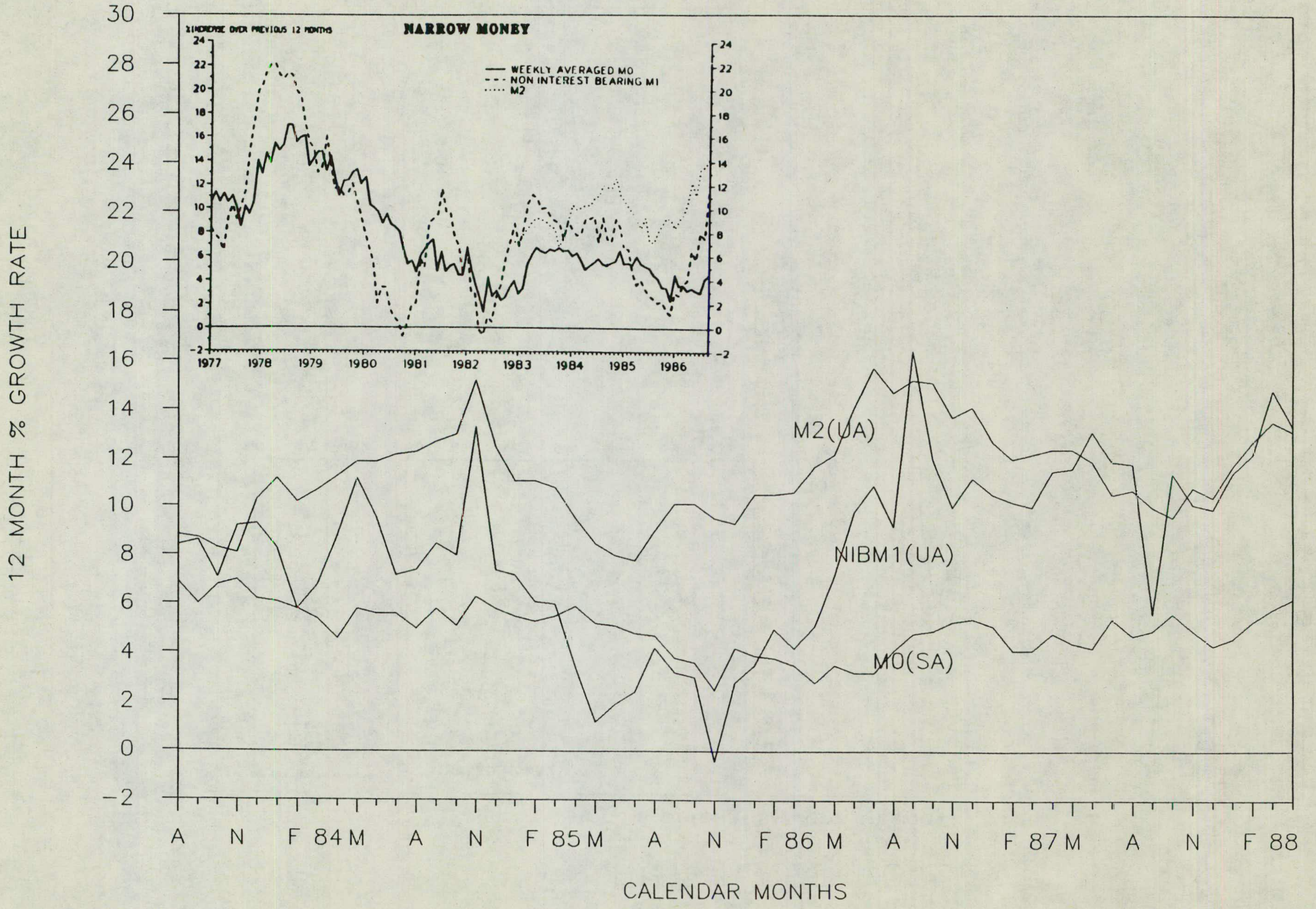

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CHART IV BROAD MONEY

Annual percentage growth (ua)

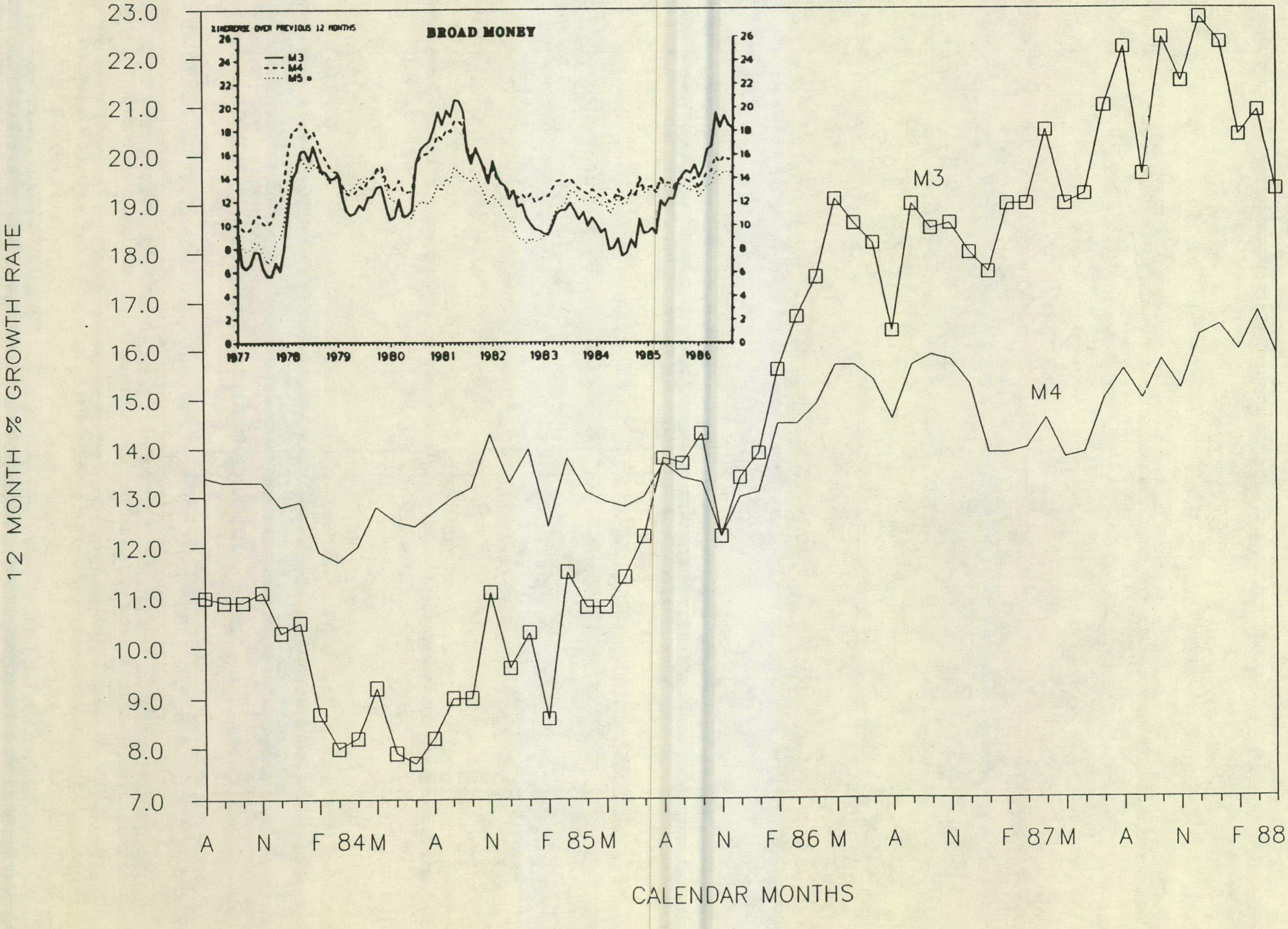

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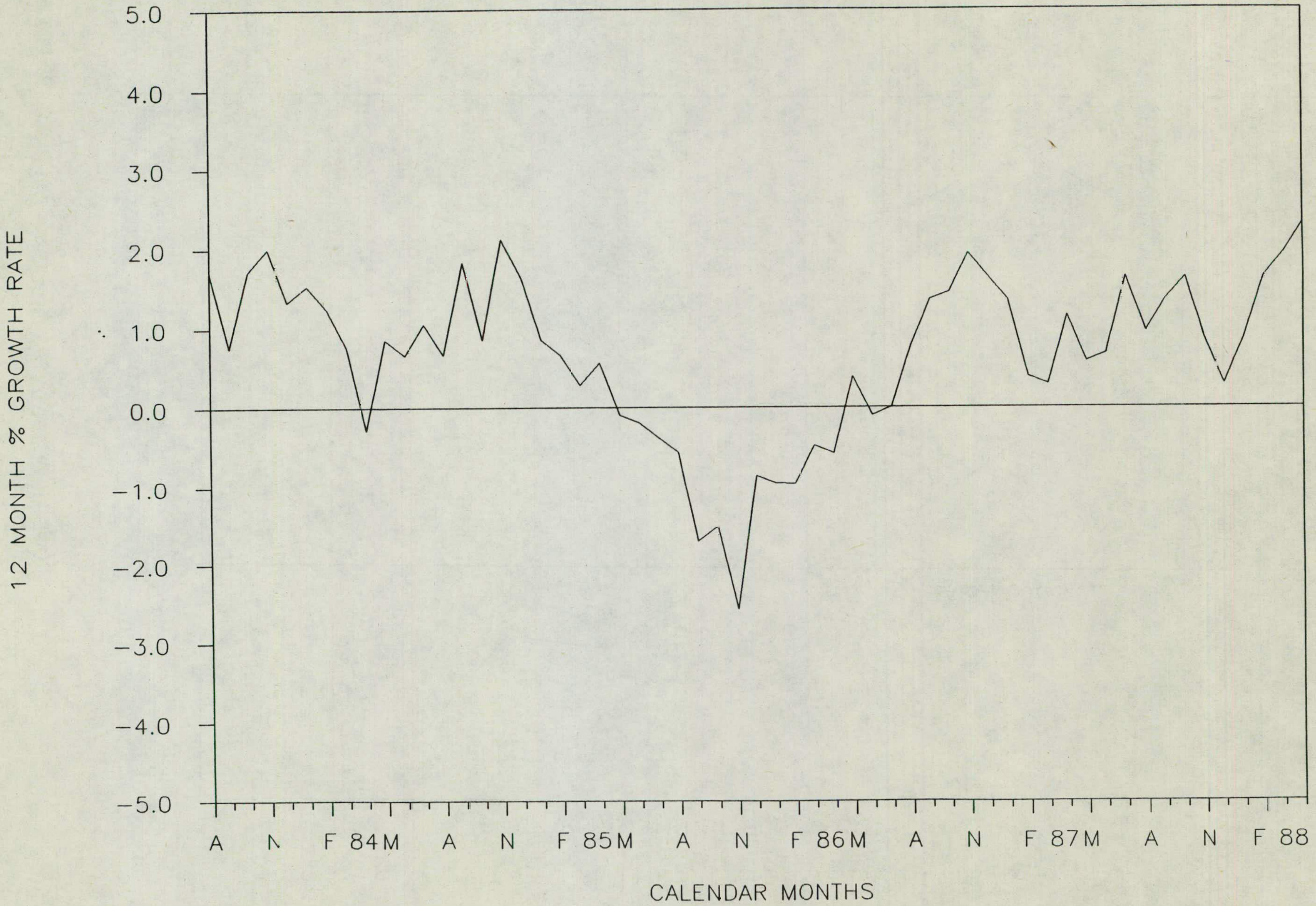
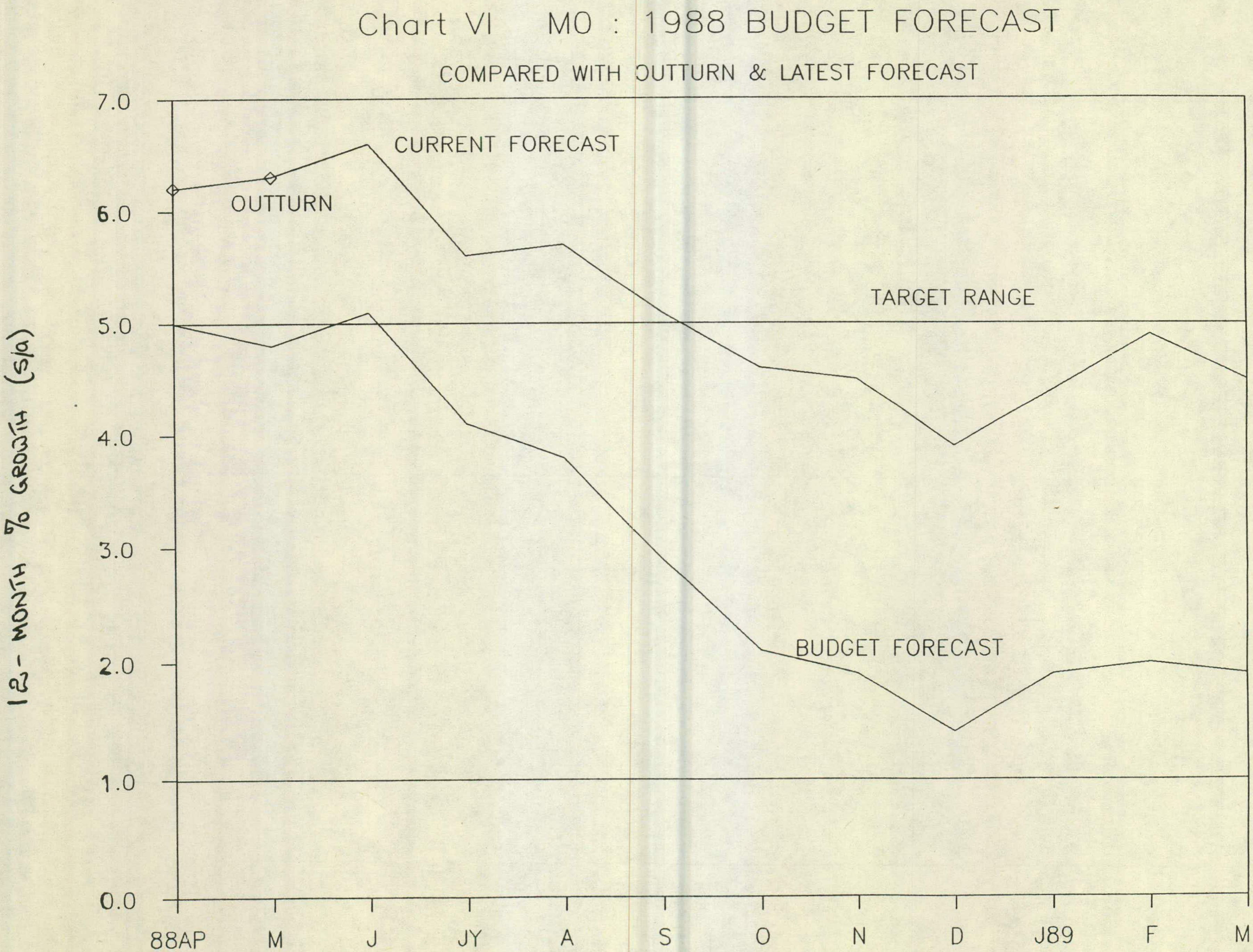
CHART V REAL M0

Annual percentage growth (sa)



CONFIDENTIAL (covering FORECAST)



CONFIDENTIAL (covering FORECAST)

Chart VII M4 : 1988 BUDGET FORECAST

COMPARED WITH OUTTURN & LATEST FORECAST

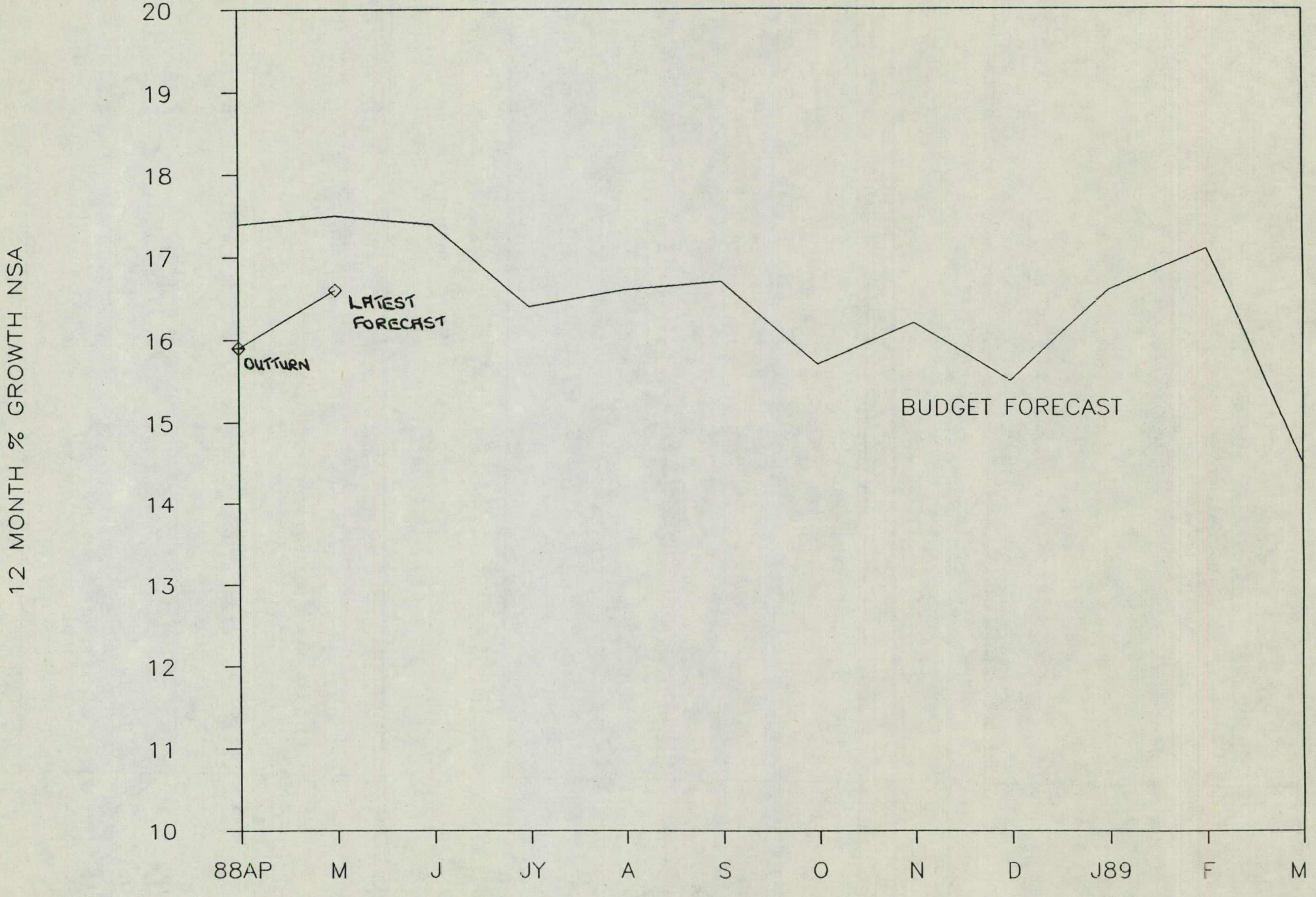


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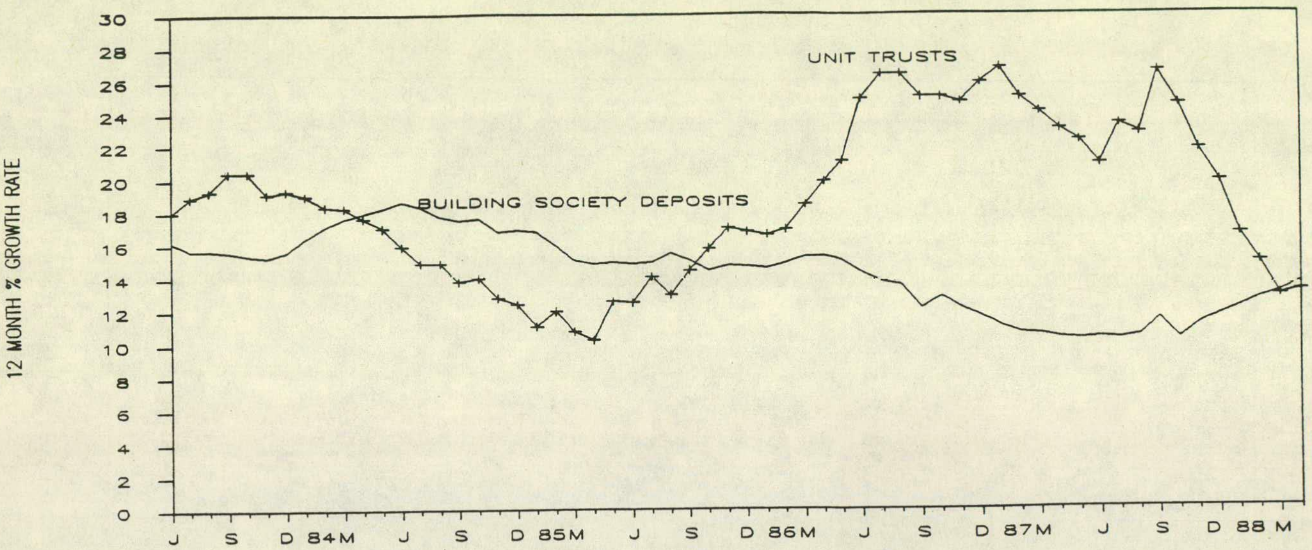
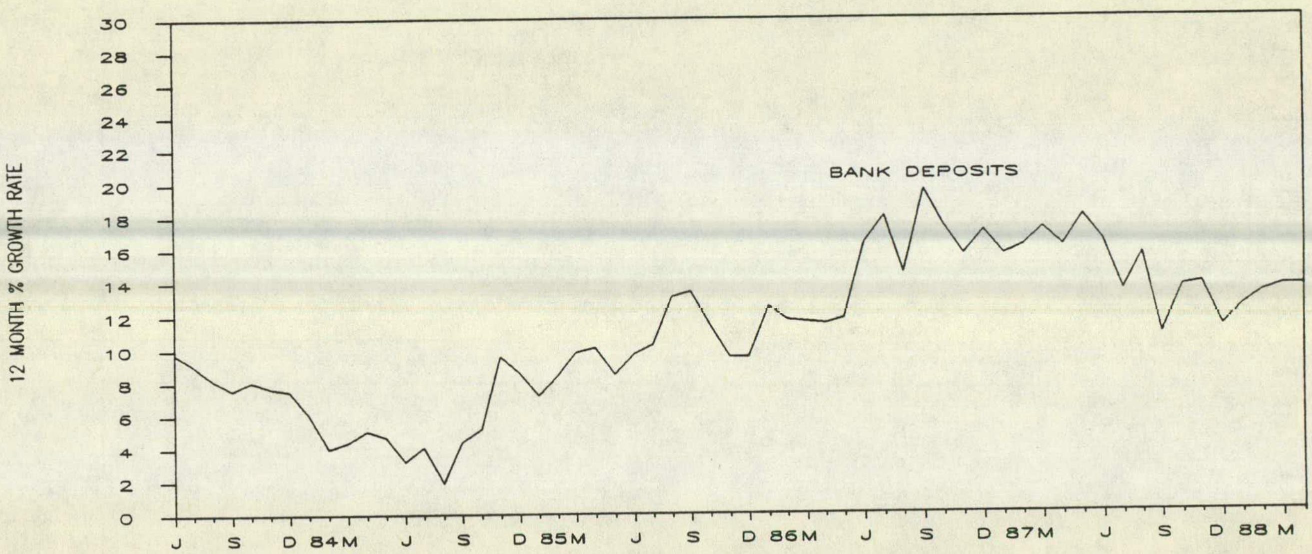
CHART VIII RETAIL DEPOSITS





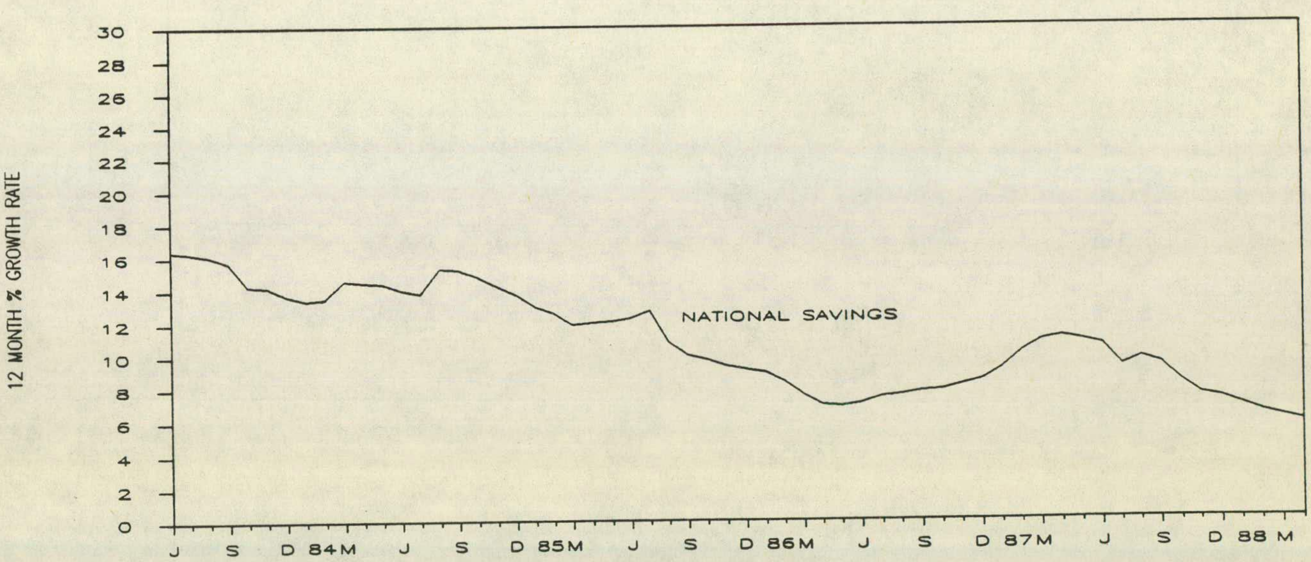


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CHART IX : BANK AND BUILDING SOCIETY LENDING

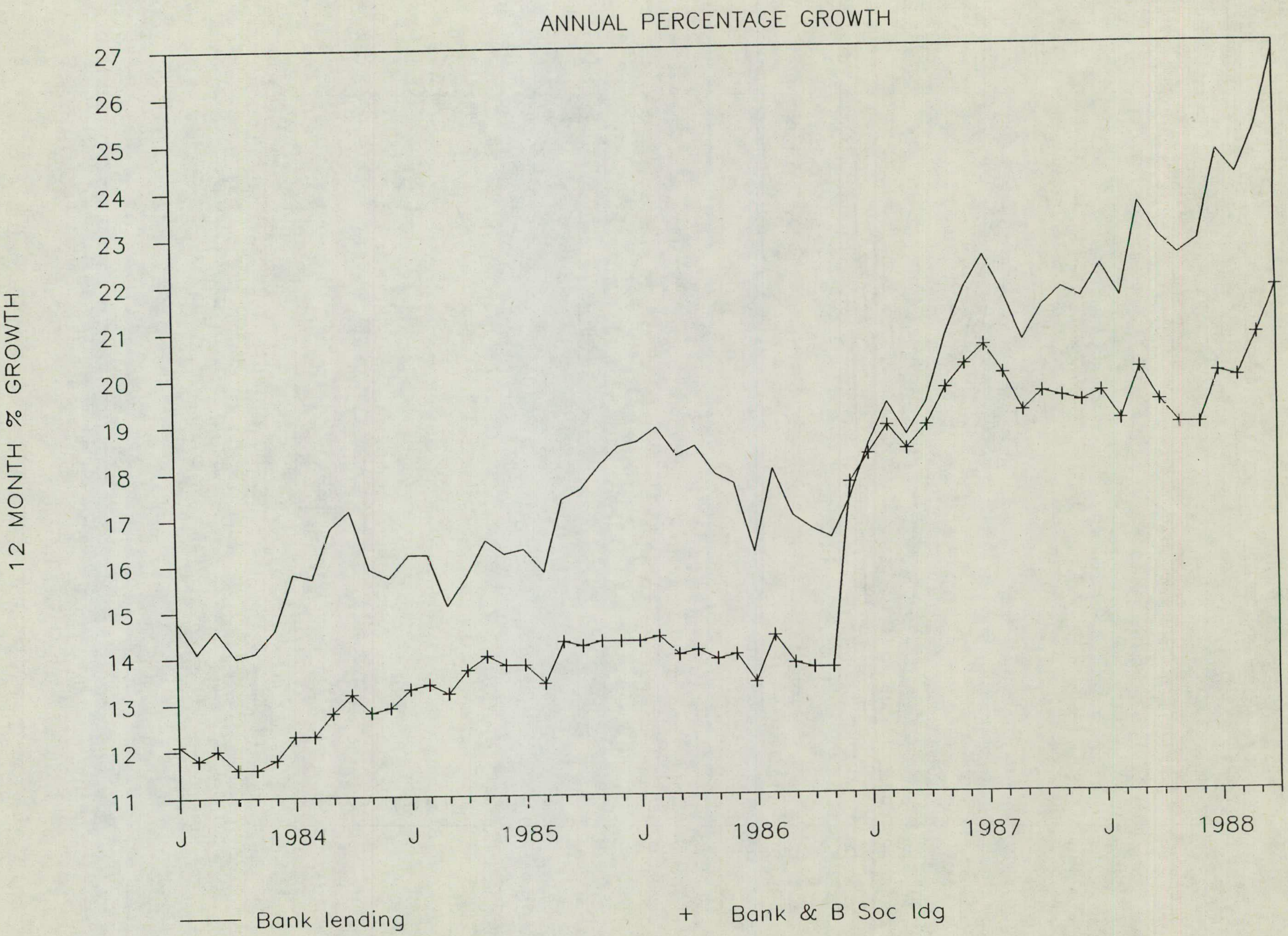

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CHART X : STERLING BOND ISSUES

(Domestic and Euro Markets)

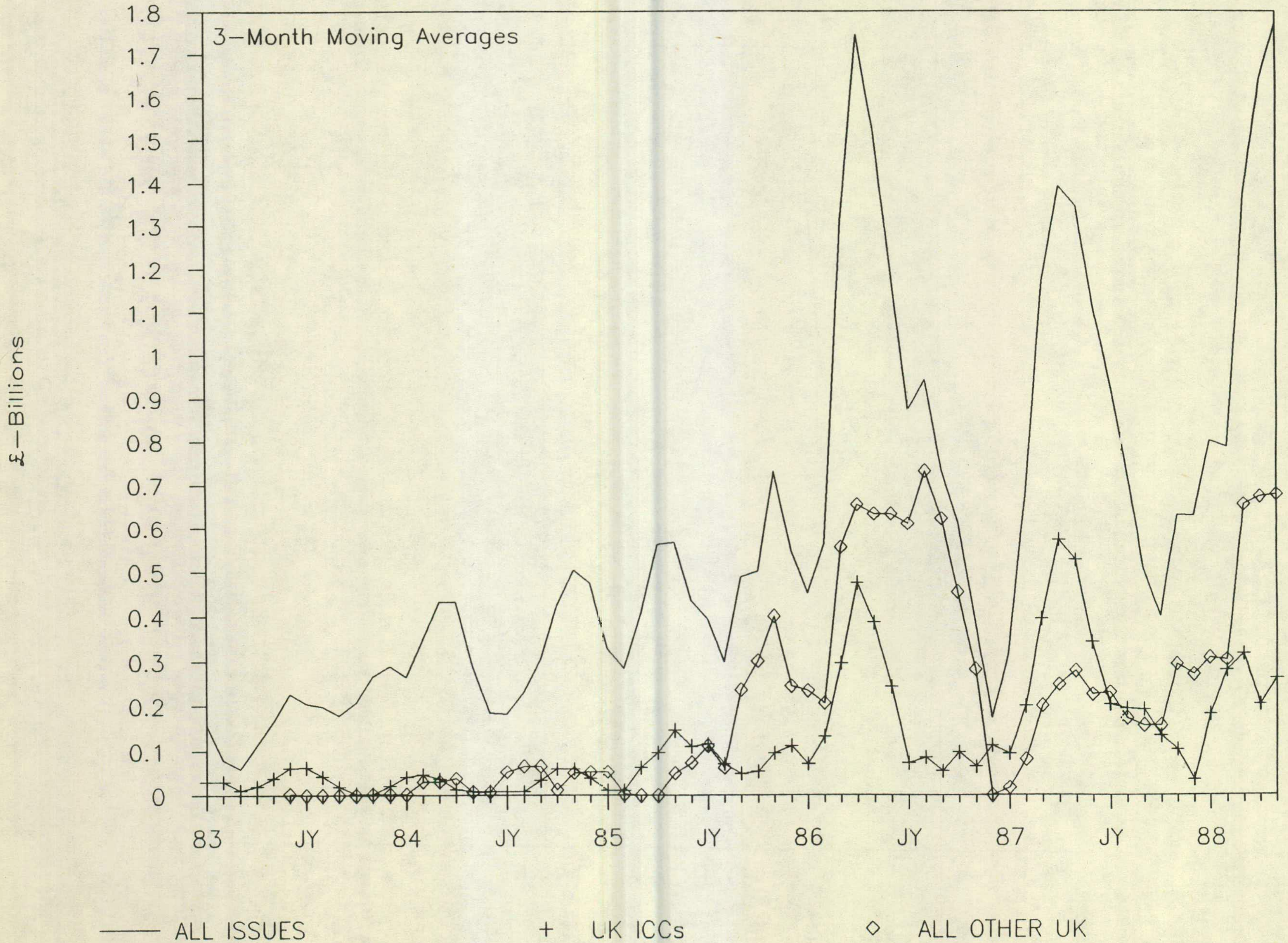

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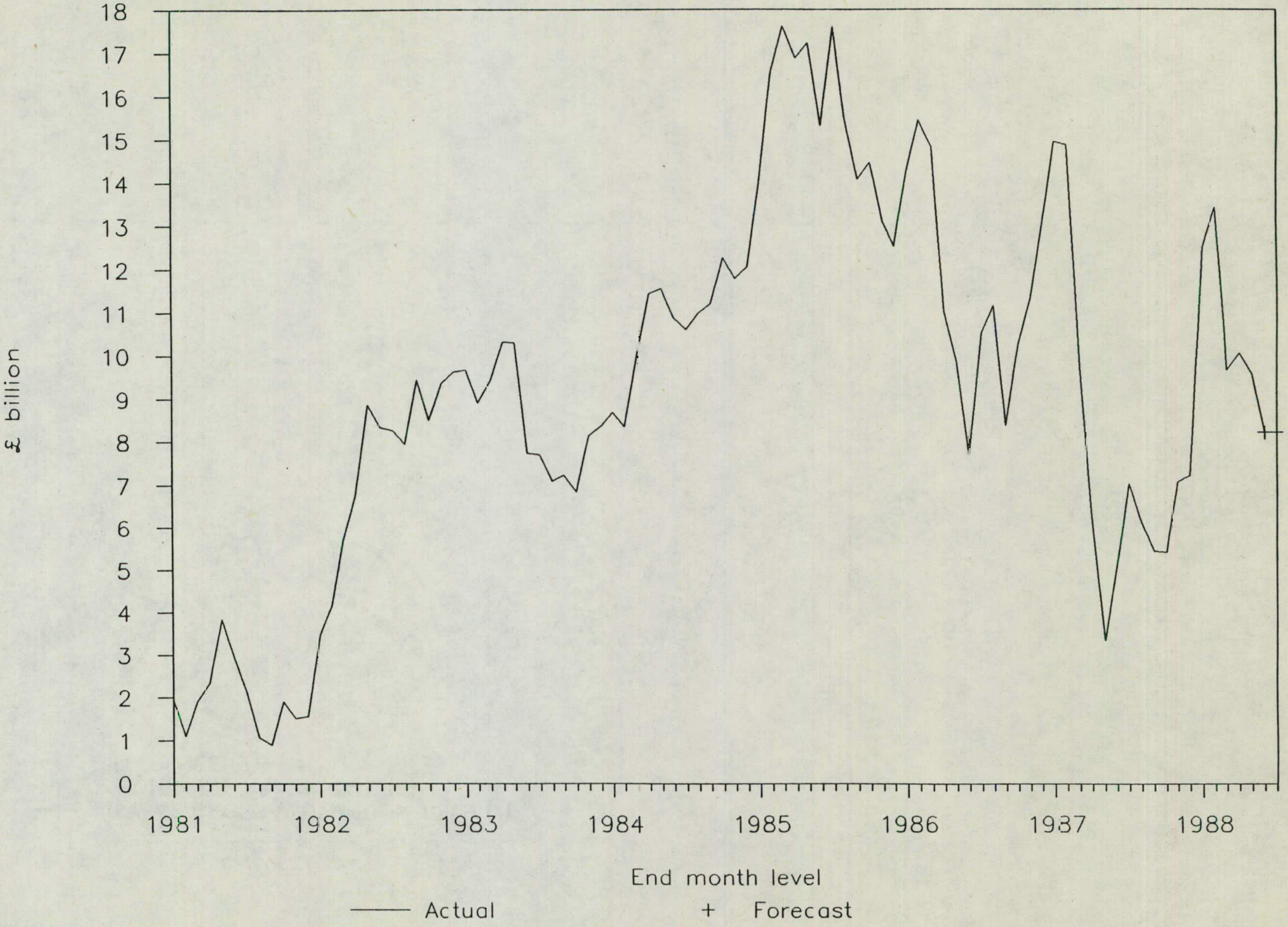
CHART XI – MONEY MARKET ASSISTANCE



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NOMINAL INTEREST RATES

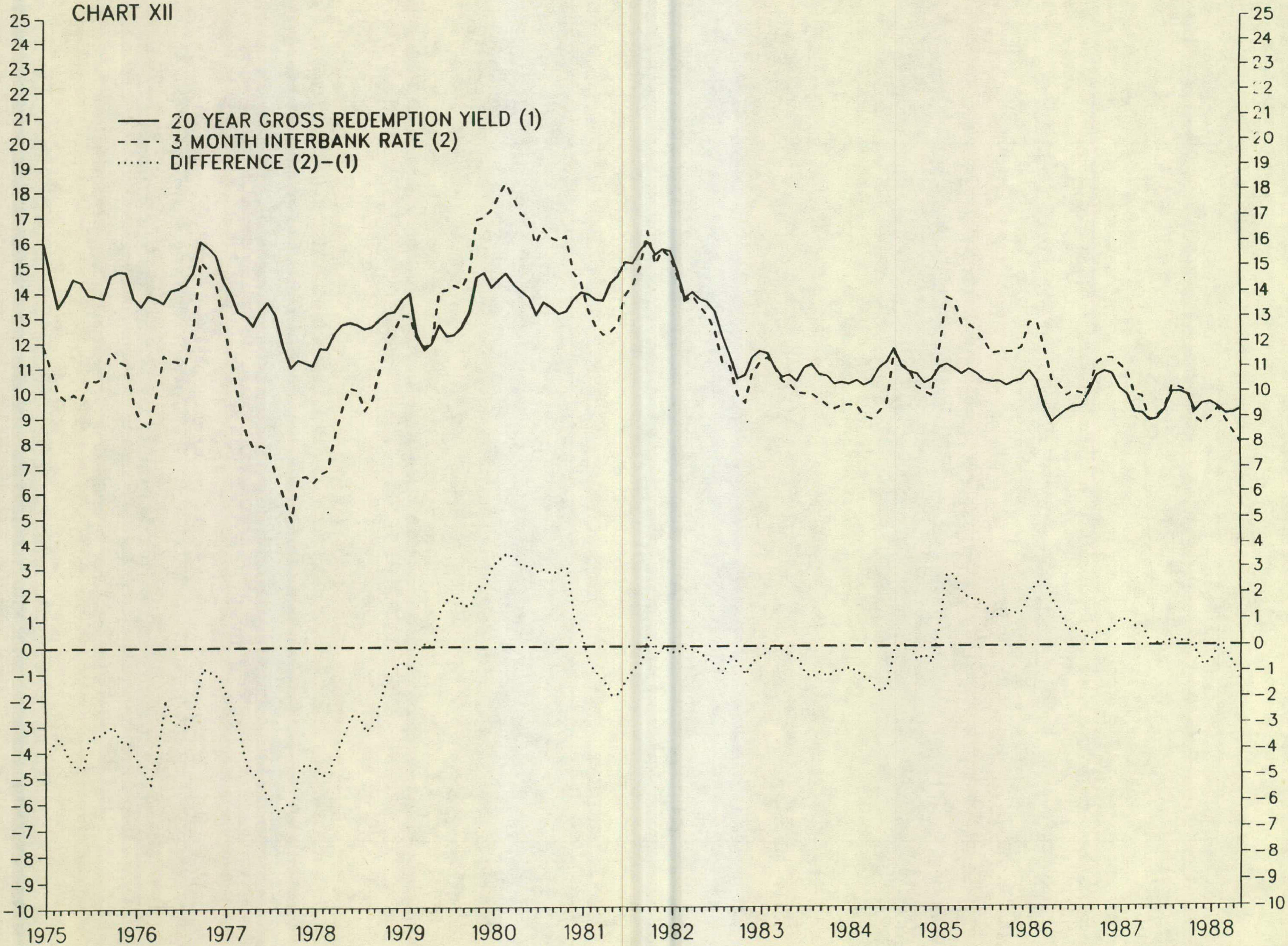

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CHART XIII

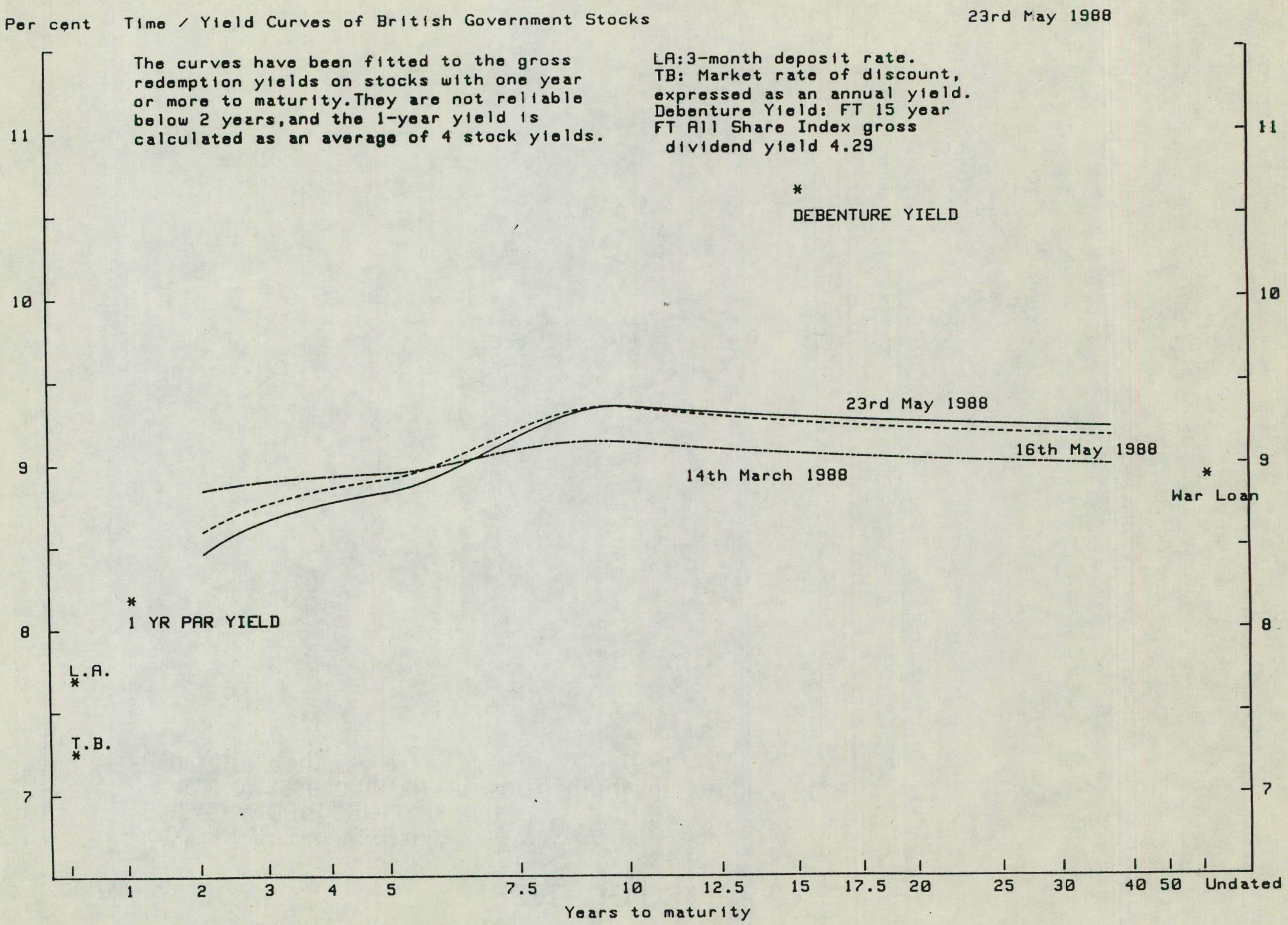

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CHART XIV

REAL YIELDS

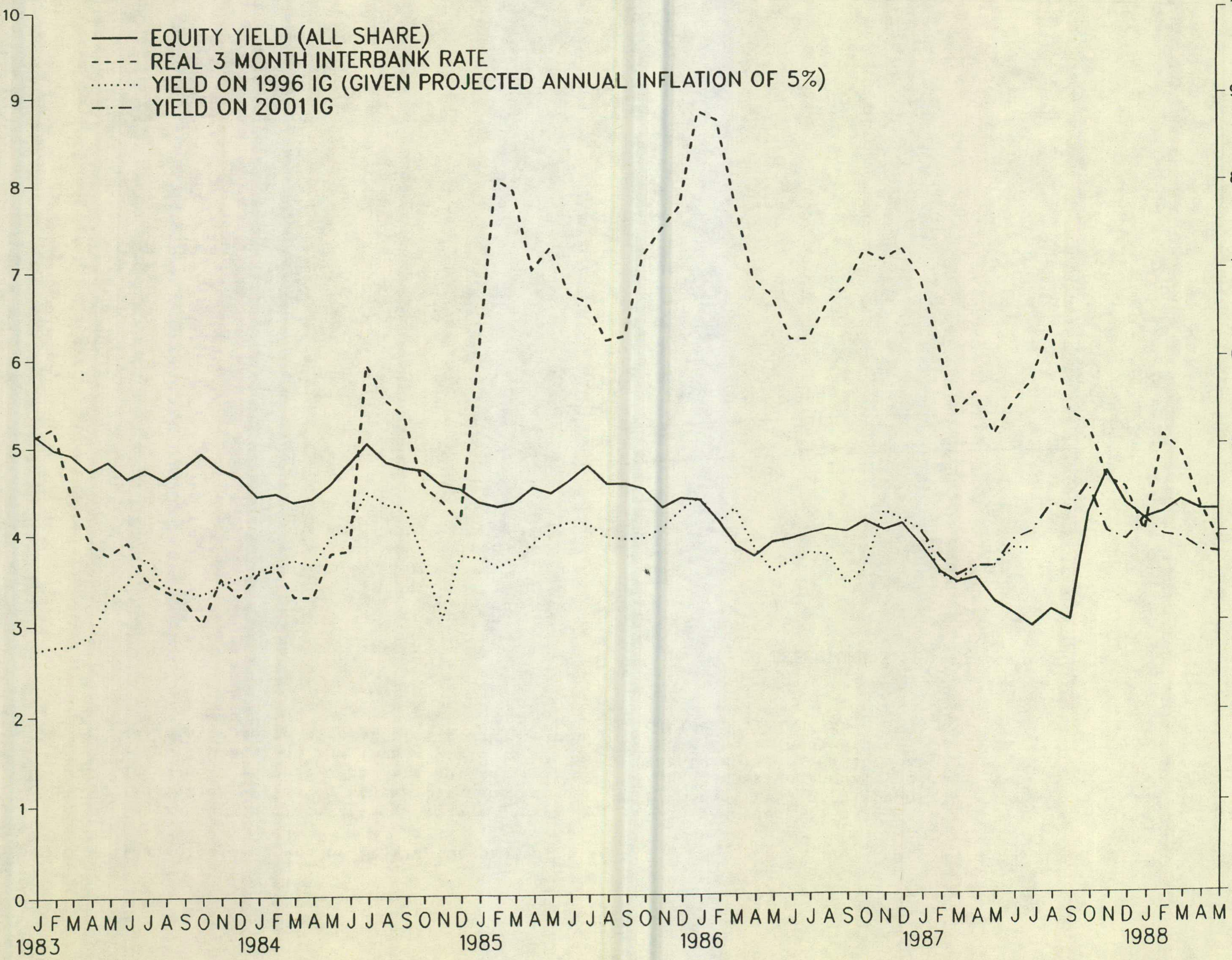

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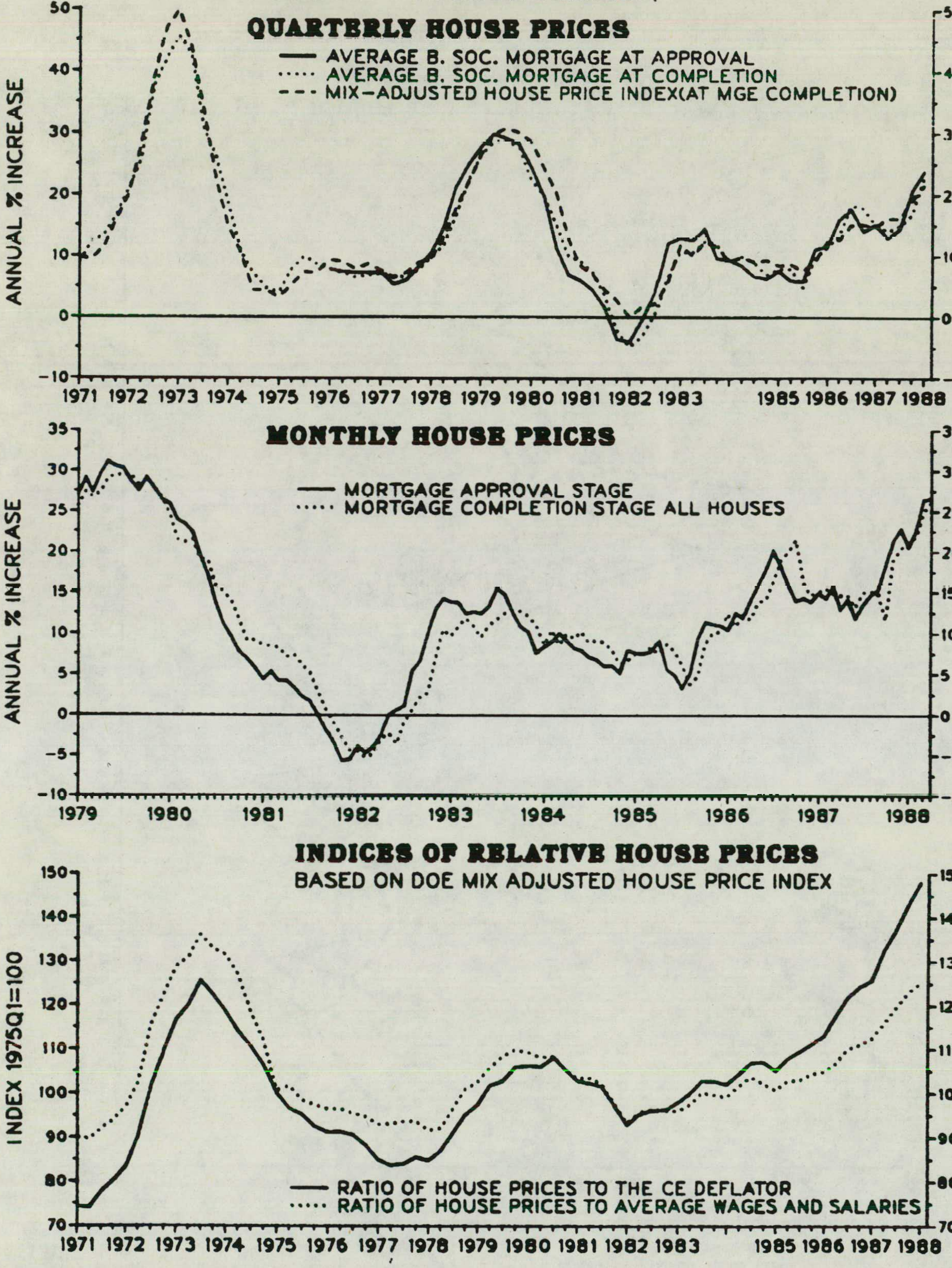
CHART XV : HOUSE PRICES: 1



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ANNUAL HOUSE PRICE INFLATION : 2

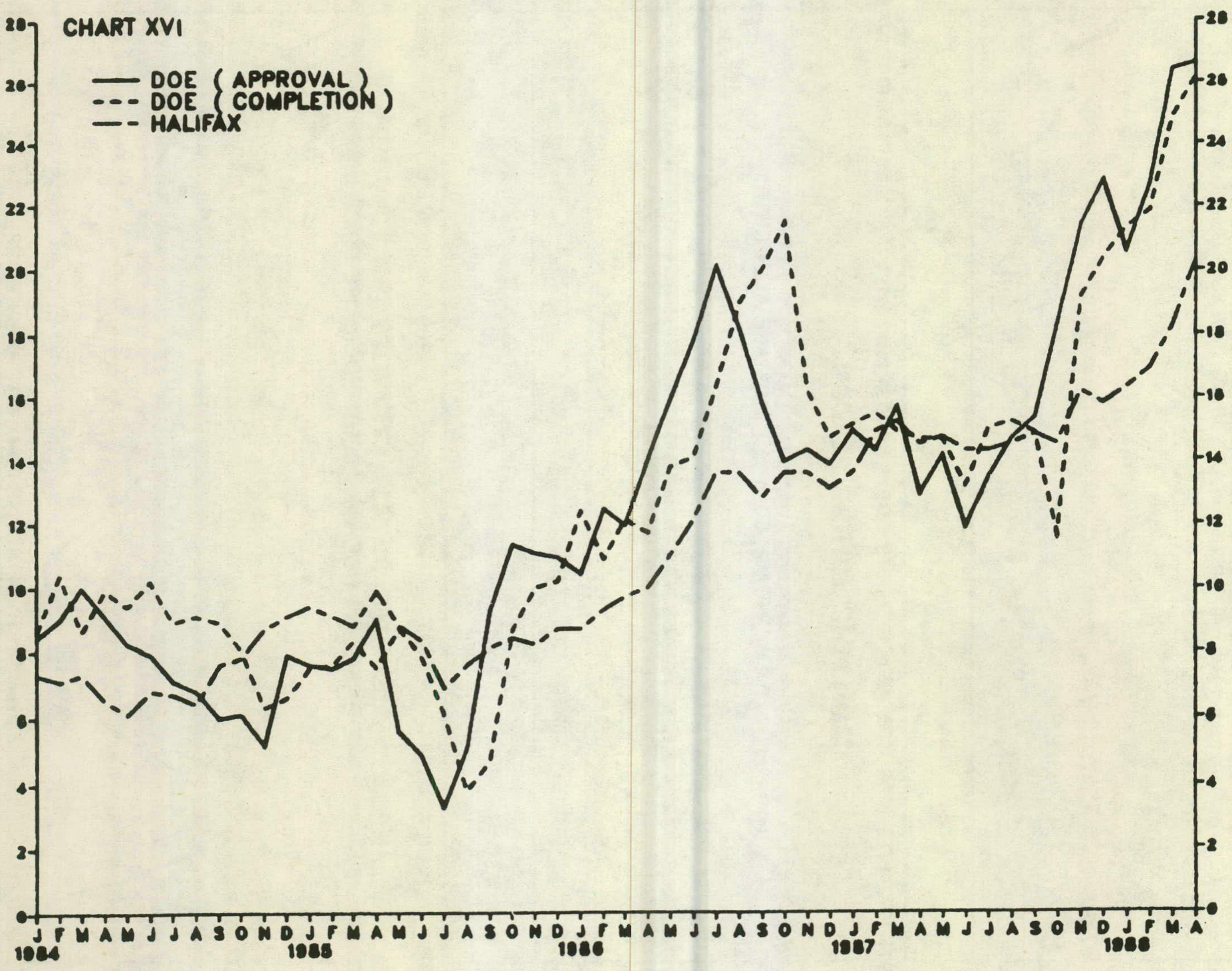

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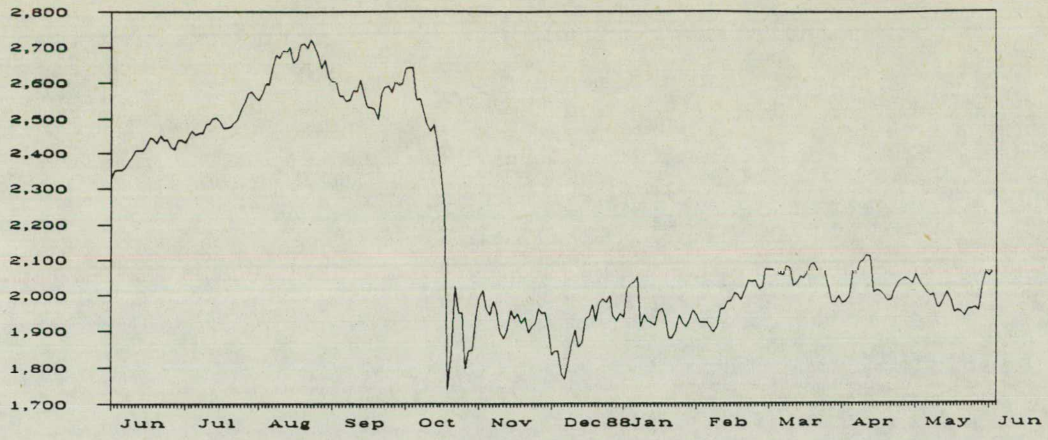
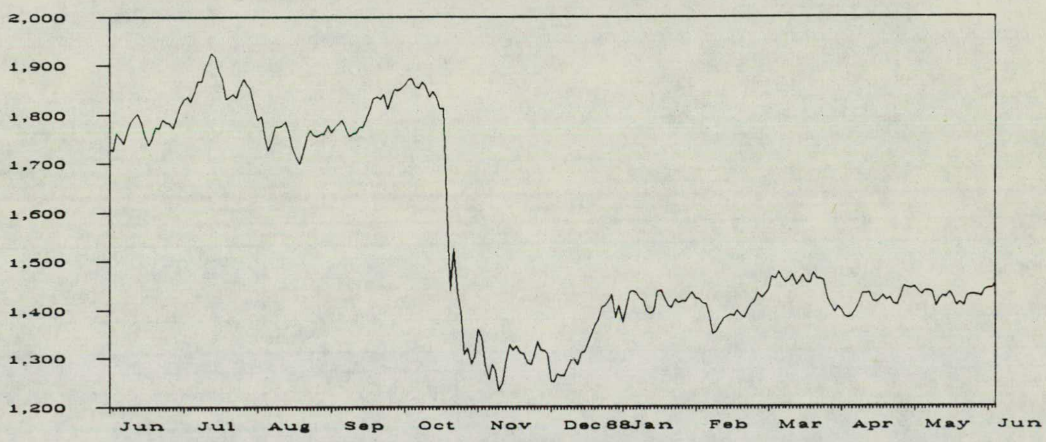
CHART XVII CAPITAL MARKETS

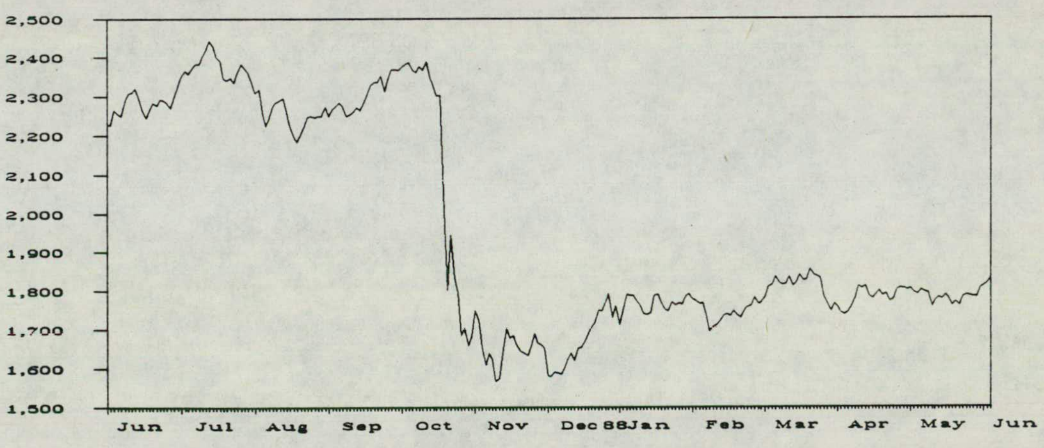
Dow Jones Industrial Average



FT Ordinary Index



FTSE 100



Gilt Index

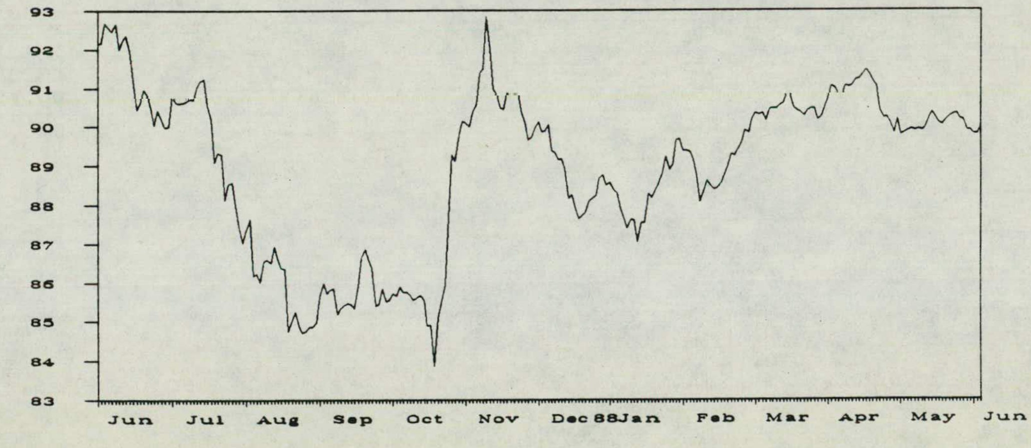


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Table 1: Developments in the G5 (including UK)*

	Activity			Money supply		Costs and prices		
	Nominal GNP	Real GNP	Industrial production	M1	M2/M3	Unit labour costs	Consumer prices	GNP deflator
1984	8.6	4.9	7.8	6.7	8.6	-0.6	4.1	3.6
1985	6.6	3.2	2.8	8.2	8.4	0.7	3.5	3.3
1986	5.7	2.7	1.0	11.0	8.3	1.0	1.5	2.9
1987	5.4	2.9	2.8	11.2	8.6	-1.0	2.5	2.4
1987 Q1	5.0	2.5	0.8	13.7	8.9	0.1	1.5	2.4
Q2	4.7	2.3	1.8	12.5	9.0	-0.7	2.5	2.4
Q3	5.6	3.2	3.4	10.1	8.3	-1.4	2.9	2.2
Q4	6.4	3.8	5.2	8.0	8.5	-2.1	3.0	2.4
1988 Q1	-	-		7.2+	8.5+		2.7	-
1987 Jul			2.8	10.9	8.5		2.6	
Aug			4.2	10.5	8.4		3.0	
Sep			4.0	9.6	8.1		2.9	
Oct			4.6	10.1	8.7		3.1	
Nov			5.3	8.4	8.5		3.0	
Dec			5.6	6.2	8.2		3.0	
1988 Jan			6.5	6.9	8.2		2.7	
Feb			5.7	7.4+	8.7+		2.7	
Mar				7.4+	8.7+		2.7	

* Percentage changes on a year before.

\+ Partly estimated.

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Table 2

GERMANY: KEY FIGURES

	INDUSTRIAL PRODUCTION*	index	CONSUMER PRICES*	TRADE SURPLUS** $bn	MONEY SUPPLY (M3)**
1984	3.4		2.4	1.7	3.3
1985	5.4		2.2	2.2	3.8
1986	2.1		- 0.2	4.5	4.2
1987	0.2		0.3	5.5	6.7
1987J	- 1.9	104	- 0.8	4.8 (4.5)	6.7
F	0.0	106	- 0.5	6.1 (4.7)	7.1
M	- 0.9	106	- 0.2	4.8 (4.9)	6.6
A	- 0.9	107	0.1	5.3 (5.0)	7.9
M	2.9	108	0.2	6.0 (5.2)	8.5
J	- 0.9	107	0.2	4.6 (5.1)	7.4
J	- 2.8	106	0.7	5.6 (5.1)	6.7
A	2.8	110	0.8	4.9 (5.1)	6.5
S	0.9	108	0.4	5.8 (5.2)	5.8
O	0.9	108	0.9	4.8 (5.2)	5.8
N	0.9	108	1.0	6.1 (5.3)	5.5
D	3.6	109	1.0	6.8 (5.5)	5.8
1988J	4.9	108	0.7	6.5 (5.6)	5.8
F	2.8	110	0.9	4.9 (5.4)	6.1
M	1.8	109	1.0		6.1
A			0.9		6.3

* Percentage changes on a year before.

** Yearly figures are monthly averages. Monthly figures in brackets are average of past 12 months.

TABLE 3

THREE MONTH INTEREST RATES IN THE G5 COUNTRIES*

	United States	Japan	Germany	France	UK
1983	9.1	6.5	5.8	12.5	10.1
1984	10.1	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	6.9	3.9	4.0	8.2	9.7
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	9.9
Nov	7.4	3.9	3.9	8.6	9.0
Dec	7.8	3.9	3.6	8.7	8.7
1988 Jan	7.0	3.9	3.4	8.3	8.9
Feb	6.6	3.8	3.4	7.6	9.2
March	6.7	3.8	3.4	8.0	8.8
April	6.9	3.8	3.4	8.1	8.3
May	7.3	3.8	3.6	7.9	8.0
June 7	7.5	3.8	3.6	7.4	8.7

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

3/5/3 lb 3567/002

EFFECTIVE EXCHANGE RATE INDICES (1975 = 100)

TABLE 4

	United States	Japan	Germany	France	UK	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
1987	101.2	219.6	147.6	71.8	72.7	144.7	1.80
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
Q4	97.0	227.4	149.4	72.3	75.2	134.0	1.71
1988 Q1	94.2	240.2	149.6	71.9	75.3	128.0	1.68
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	96.5	228.4	150.9	72.3	75.4	135.3	1.68
Dec	93.9	232.4	150.2	73.1	76.6	123.4	1.65
1988 Jan	93.0	239.5	150.4	72.5	71.9	127.8	1.65
Feb	95.0	239.5	149.1	71.8	74.3	129.2	1.70
March	93.6	241.6	149.3	71.5	76.8	127.1	1.68
April	92.7	245.0	148.9	71.3	78.2	124.9	1.67
May	93.0	246.2	147.9	71.1	78.4	124.8	1.69
June 7	93.6	245.7	147.4	71.0	76.5	125.7	1.72
% Change since dollar peak (Feb 85)	- 40½	+ 56½	+ 26	+ 14½	+ 9	- 48	- 50
% Change since Plaza (Sept 85)	- 33	+ 57	+ 17½	+ 5½	- 6½	- 47½	- 40
% Change since Louvre Accord (Feb 87)	- 10	+ 17½	- ½	- 1½	+ 10½	- 18	- 6
% Change since Stock market crash (16 Oct 1987)	- 6½	+ 10½	+ ½	- ½	+ 4	- 12	- 4½

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TABLE 5

Economist Commodity Price Indices 1985=100

	All items indices				SDR indices		
Annual	SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
1980	104.4	133.7	74.0	115.6	96.7	106.2	118.6
1981	99.3	115.2	73.5	105.3	93.7	104.7	106.2
1982	91.8	99.9	73.4	94.3	89.3	96.0	93.8
1983	107.2	112.7	95.7	110.4	102.0	116.6	110.1
1984	110.3	111.5	107.2	113.1	112.3	111.6	106.2
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	89.8	103.7	90.6	86.4	92.8	90.0	85.4
1987	87.4	111.5	87.1	82.3	101.7	103.2	100.5
Quarterly							
1986 Q2	93.2	106.8	90.8	90.6	97.7	92.1	87.3
Q3	84.6	100.2	86.2	81.8	85.1	85.5	83.1
Q4	84.2	100.1	89.5	80.2	82.2	91.0	82.8
1987 Q1	81.0	100.8	83.5	76.5	73.2	95.2	84.3
Q2	84.9	108.2	84.4	80.0	73.2	102.6	92.1
Q3	90.2	113.4	90.0	85.3	70.7	111.9	108.0
Q4	93.4	123.7	90.3	87.0	74.7	103.3	117.9
1988 Q1	99.8	134.6	95.9	93.3	77.6	105.5	133.4
Monthly							
June	86.7	109.7	86.3		73.4	105.9	95.7
July	89.3	111.5	88.9		71.9	109.4	104.4
August	91.4	114.2	91.8		69.6	115.0	111.7
September	90.1	114.5	89.3		70.7	111.4	107.9
October	93.5	119.3	92.3		74.2	106.8	117.0
November	91.3	121.3	88.1		74.2	101.4	113.3
December	94.8	129.1	90.5		75.6	102.1	122.4
January	97.4	132.2	94.1		78.1	102.7	126.6
February	98.2	131.2	95.6		78.0	106.5	126.7
March	103.8	140.3	98.0		76.8	107.3	147.0
April	106.4	144.9	99.1		77.3	110.5	152.8
May (prov)	113.4	153.7	105.7		80.9	114.0	168.2
Weekly							
March 8	101.3	136.9	95.2		76.9	106.3	139.0
15	100.5	136.7	94.5		75.7	106.7	138.2
22	107.5	144.7	101.4		76.6	108.0	159.5
29	109.8	149.6	102.5		77.6	108.6	165.4
April 5	110.9	151.6	103.4		77.0	109.2	169.6
12	106.6	144.3	99.9		77.6	110.4	153.3
19	103.1	140.8	95.3		76.9	110.6	142.0
26	105.0	143.0	97.8		77.6	111.8	146.5
May 3	104.9	142.6	97.7		77.0	111.2	147.7
10	109.6	149.2	101.6		79.0	111.3	160.5
17	116.6	158.3	108.9		81.4	112.4	179.4
24	115.7	156.8	107.6		82.8	115.7	171.5
31(prov)	120.2	161.6	112.7		84.1	119.2	182.1

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

TABLE 6

RECENT INDICATORS OF ACTIVITY AND INFLATION
(per cent changes on year earlier

	MONEY GDP
1985-86	9.7
1986-87	6.9
1986 2	6.5
3	6.6
4	7.0
1987 1	7.3
2	8.9
3	10.6
4	9.8
1988 1*	10.1
1987-88*	9.8
1988-89*	7.6

	OUTPUT AND ACTIVITY			PRICES AND UNIT LABOUR COSTS					
						Producer Prices***		Unit Wage Costs	
	GDP(O))	Manufacturing Output	Retail Sales	RPI	RPI excluding mortgage payments	Output	Input	Manufacturing	Whole economy
1986	2.9	0.3	5.3	3.4	3.6	4.3	-10.8	4.7	5.4
1987	4.8	5.5	5.9	4.1	3.7	4.5	5.3	n/a	n/a
1986 1	2.2	- 1.7	4.4	4.9	4.6	5.0	-11.9	8.7	6.4
2	2.2	- 1.3	4.7	2.8	3.3	4.3	-12.4	6.9	6.8
3	3.5	0.8	5.4	2.6	3.3	4.0	-13.0	3.7	4.7
4	3.9	3.8	7.3	3.4	3.4	4.0	- 5.6	1.4	5.1
1987 1	4.3	4.4	5.1	3.9	3.7	4.1	- 1.7	0.8	4.0
2	4.4	5.1	5.8	4.2	3.6	4.5	4.6	0.8	4.3
3	5.1	6.7	6.6	4.3	3.6	4.7	12.9	0.7	3.8
4	5.2	5.5	5.6	4.1	4.0	4.7	6.2	2.1	4.3
1988 1	-	-	7.8	3.4	3.7	4.9	4.6	-	-
1987 March		5.2	3.8	4.0	3.8	4.1	0.4	- 0.1**	
April		4.4	7.7	4.2	3.6	4.3	3.0	- 0.4	
May		5.8	5.0	4.1	3.8	4.5	3.4	0.0	
June		5.1	5.0	4.2	3.5	4.5	7.2	0.8	
July		5.8	7.0	4.4	3.7	4.7	13.4	1.2	
August		8.4	6.8	4.4	3.7	4.7	14.5	1.0	
September		6.2	5.9	4.2	3.5	4.7	10.8	0.7	
October		5.6	6.4	4.5	3.9	4.7	7.6	0.8	
November		5.3	5.1	4.1	4.0	4.8	4.8	1.8	
December		5.5	5.4	3.7	4.0	4.9	5.0	2.1	
1988 January[1]		8.9	9.1	3.3	3.7	4.8	4.6	1.1	
February		2.7	6.7	3.3	3.6	4.8	5.3	2.0	
March		-	7.5	3.5	3.8	4.9	4.4	-	
April		-	4.5	-	-	4.8	4.7	-	

1 Output and sales growth figures boosted by 2½-3 per cent on account of lower economic activity during exceptionally cold January of 1987.

* 1988 FSBR forecast

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

*** Excluding food, drink and tobacco.

\- Not yet available.

4515.025.

TABLE 7 UNDERLYING RETAIL PRICE INFLATION

% change on a year earlier

	RPI	RPI exc mortgages	RPI exc both mortgages and petrol
1983 Q1	4.9	6.3	6.2
Q2	3.8	4.6	4.4
Q3	4.6	5.0	4.9
Q4	5.0	4.6	4.6
1984 Q1	5.2	4.5	4.4
Q2	5.2	4.9	5.0
Q3	4.7	4.2	4.4
Q4	4.8	4.1	4.1
1985 Q1	5.5	4.8	4.6
Q2	7.0	5.3	4.9
Q3	6.3	5.4	5.2
Q4	5.5	5.2	5.3
1986 Q1	4.9	4.6	5.2
Q2	2.8	3.3	4.8
Q3	2.6	3.3	4.8
Q4	3.4	3.4	4.5
1987 Q1	3.9	3.7	4.3
Q2	4.2	3.6	3.6
Q3	4.3	3.6	3.5
Q4	4.1	4.0	4.1
1987 July	4.4	3.7	3.6
Aug	4.4	3.7	3.5
Sept	4.2	3.5	3.6
Oct	4.5	3.9	4.0
Nov	4.1	4.0	4.2
Dec	3.7	4.0	4.1
1988 Jan	3.3	3.7	3.8
Feb	3.3	3.6	3.9
March	3.5	3.8	4.1
April	3.9	4.2	4.4

TABLE 8 :INDICATORS OF FISCAL STANCE

(a) Annual data

	PSBR		PSBR EXCLUDING PRIVATISATION PROCEEDS		PSFD (1)	
	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	1.5	0.8	1.5	-0.2	-0.4
1971-72	1.0	1.6	1.0	1.6	0.7	1.1
1972-73	2.4	3.6	2.4	3.6	2.0	3.0
1973-74	4.3	5.8	4.3	5.8	3.5	4.6
1974-75	8.0	9.0	8.0	9.0	6.0	6.7
1975-76	10.3	9.3	10.3	9.3	8.1	7.3
1976-77	8.3	6.4	8.3	6.4	7.5	5.7
1977-78	5.4	3.6	5.9	3.9	6.6	4.4
1978-79	9.2	5.3	9.2	5.3	8.3	4.8
1979-80	10.0	4.8	10.4	5.0	8.0	3.9
1980-81	12.7	5.4	13.1	5.5	11.7	5.0
1981-82	8.6	3.3	9.1	3.5	5.2	2.0
1982-83	8.8	3.1	9.3	3.3	8.3	2.9
1983-84	9.7	3.2	10.9	3.5	11.5	3.7
1984-85*	10.2	3.1	12.3	3.7	13.1	4.0
1985-86*	5.7	1.6	8.5	2.3	8.1	2.2
1986-87	3.4	0.9	7.8	2.0	9.4	2.4
1987-88	-3.5	-0.8	1.6	0.4	2.8	0.7
Budget forecast 1988-89	-3.2	-3/4	1.8	1/2	1.4	1/4

*If adjusted for coal strike, PSBR and PSFD ratios to GDP roughly 0.9 per cent lower in 1984-85 and 0.2 per cent lower in 1985-86.

(b) Quarterly Data

£ billion		PSBR		PSBR excluding privatisation		PSFD	
		sa*	ua	sa*	ua	sa+	ua
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	2.2	3.2	3.3	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	1.5	0.0
1987	Q1	0.5	-0.8	1.6	0.4	2.5	1.5
	Q2	0.4	1.4	2.8	3.8	1.5	3.2
	Q3	0.0	0.5	1.6	2.1	0.9	1.8
	Q4	-2.3	-2.4	-1.1	-1.3	-0.2	-1.7

*financial year - constrained
+ Calendar year- Constrained

TABLE 10

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)
1985	(1)	72.1	80.1	0.908	1.12	3.63	95.2	+4.1	27.7
	(2)	78.9	88.9	1.001	1.26	3.88	102.3	+4.4	27.0
	(3)	82.1	93.3	1.040	1.38	3.92	103.8	+3.6	27.4
	(4)	79.8	91.6	1.001	1.44	3.71	98.7	+3.5	28.3
1986	(1)	75.1	88.3	1.037	1.44	3.38	90.9	+4.5	17.8
	(2)	76.1	92.1	1.101	1.51	3.39	91.4	+3.2	12.8
	(3)	71.9	88.2	1.049	1.50	3.10	84.9	+3.8	12.4
	(4)	68.3	84.0	0.970	1.43	2.87	79.0	+5.1	14.8
1987	(1)	69.9	86.9	0.967	1.54	2.83	78.8	+4.3	17.9
	(2)	72.8	90.9	0.996	1.64	2.96	82.6	+2.1	18.6
	(3)	72.7	90.7	0.992	1.62	2.97	83.0	+2.8	19.0
	(4)	74.9	94.0	1.030	1.76	2.99	83.8	+1.2	18.1
1988	(1)	75.2	95.6	1.057	1.78	3.01	84.5	+2.2	15.7
1987	May	73.3	91.7	1.002	1.67	2.98	83.1	+1.6	18.8
	June	72.7	90.7	0.991	1.63	2.96	82.6	+2.1	18.9
	July	72.8	90.8	0.985	1.61	2.97	82.9	+2.6	19.8
	August	72.3	89.8	0.988	1.60	2.97	82.8	+3.2	18.9
	September	73.1	91.2	1.004	1.65	2.98	83.2	+2.6	18.3
	October	73.6	92.0	1.006	1.66	2.99	83.5	+1.7	18.8
	November	75.4	94.6	1.040	1.78	2.99	83.9	+1.0	17.8
	December	75.7	95.5	1.045	1.83	2.98	84.0	+0.9	17.7
1988	January	74.8	95.0	1.038	1.78	2.98	83.5	+1.8	16.7
	February	74.3	94.4	1.047	1.75	2.98	83.7	+2.6	15.6
	March	76.5	97.7	1.087	1.82	3.06	86.4	+2.1	14.8
	April	78.4	99.9	1.097	1.88	3.14	88.3	+1.2	16.4
	May	78.3	100.3	1.094	1.87	3.17	89.0	+0.5	16.5
	June 6th	76.3	na	1.069	1.80	3.10	87.0	+1.2	16.3

-/ Oil price adjusted ERI of 1.0 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

@ Figures for latest months are tentative forecasts based on extrapolated producer price indices

TABLE 11: 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
	(4)	9.2	7.8	9.0	9.5	4.0	4.7	2.4	4.1	3.8
1988	(1)	9.0	6.9	8.7	9.4	4.1	4.8	2.2	4.0	4.0
1987	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	4.0	5.9	3.1	4.2	4.0
	October	10.0	8.3	9.5	9.8	4.2	5.6	3.1	4.5	4.3
	November	8.9	7.4	9.0	9.2	3.8	4.9	1.9	4.0	3.3
	December	8.7	7.8	8.5	9.5	3.9	4.6	2.3	3.9	3.9
1988	January	8.9	7.1	8.5	9.6	4.1	4.6	2.3	4.2	4.1
	February	9.3	6.7	9.0	9.4	4.2	4.9	2.2	4.0	3.9
	March	8.9	6.8	8.5	9.1	3.9	4.8	2.2	3.9	3.9
	April	8.4	7.2	8.0	9.1	3.9	4.3	1.7	3.8	3.8
	May	7.9	7.4	7.5	9.3	na	na	2.0	3.7	3.8
	June 6th	8.4	7.6	8.5	9.3	na	na	2.4	3.9	3.9

* Unweighted average of forecasts by Phillips and Drew, National Institute, LBS, James Capel, Wood MacKenzie and Goldman Sachs; 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 12 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	0.7	8.9	0.6	4480
1983	-0.6	10.1	-0.7	3753
1984	9.5	11.0	-2.0	2009
1985	6.8	4.1	1.8	3276
1986	2.3	5.8	-0.7	+46
1987	7.3	8.8	+1.1	-1679
1986 Q3	2.9	7.5	-2.4	-747
Q4	8.6	8.6	-4.9	-556
1987 Q1	10.0	3.8	-1.3	799
Q2	6.0	9.2	+1.9	-300
Q3	8.9	11.5	+1.2	-896
Q4	4.7	9.7	+3.0	-282
1988 Q1	-0.4	12.9	+4.8	-1909
1987 Jan	6.5	4.5	-2.7	-73
Feb	16.3	6.0	-2.0	430
Mar	7.1	0.7	+0.6	296
April	9.8	9.6	+1.7	208
May	5.3	13.8	-0.1	-387
June	4.3	5.1	+2.0	-121
July	7.6	10.6	+0.2	-253
Aug	8.7	13.4	+0.6	-687
Sep	10.8	10.5	+3.2	-43
Oct	4.0	10.7	+1.8	-353
Nov	3.6	7.4	+3.5	-488
Dec	6.4	11.1	+3.8	-441
1988 Jan	3.7	16.7	+3.1	872**
Feb	-8.0	11.0	+4.5	-752**
March	3.5	11.3	+3.8	-285**
April	5.6	15.9	+2.7	-525**

* Excluding oil and erratics.
**Includes invisibles projection from January 1988.

tables
25CurAcc

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TABLE 13

1988

Key Monetary Indicators

	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
MONETARY AGGREGATES 12 month % change (ua)													
M0	5.3	4.4	4.2	5.3	4.5	5.2	5.5	4.9	4.2	4.8	5.3	6.4	5.9
M3	20.5	19.0	19.2	21.0	22.2	19.6	22.4	21.5	22.8	22.3	20.3	20.7	19.3
M4	14.6	13.8	13.9	15.0	15.6	15.0	15.8	15.2	16.3	16.5	16.5	16.7	15.9
M5	14.1	13.4	13.5	14.4	15.0	14.4	15.2	14.7	15.8	16.3	15.5	16.6	15.6
STERLING LENDING 12 month % change (ua)													
Banks	21.4	21.8	21.6	22.3	21.6	23.6	22.9	22.5	22.8	24.7	24.3	25.2	26.8
Banks and building societies	19.5	19.4	19.3	19.5	18.8	20.0	19.3	19.0	18.8	20.0	19.9	20.8	21.8
OVER(-)/UNDER (+) FUNDING financial year to date:£mn	3,216	5,160	2,371	1,912	2,215	2,010	3,790	1,183	2,408	-4254	-5710	-19	-1663
MONEY MARKET ASSISTANCE Level outstanding £mn	6,126	3,340	5,132	7,078	6,114	5,421	5,403	7,073	7,221	12507	13425	9673	10074
INTEREST RATES													
3 month interbank	9.8	8.8	9.0	9.3	10.2	10.1	10.0	8.9	8.7	8.9	9.3	8.9	8.4
20 year par yield	9.2	8.8	8.9	9.3	10.0	10.0	9.8	9.2	9.5	9.6	9.4	9.1	9.2
EFFECTIVE EXCHANGE RATE	72.3	73.3	72.7	72.8	72.3	73.1	73.6	75.4	75.7	74.8	74.3	76.5	78.4

TABLE 14

S E C R E T (Until Publication) £ million

GROWTH RATES OF MONETARY AGGREGATES

			1987 MAY	JUNE	JULY	AUG	SEP	OCT	NOV	DEC	1988 JAN	FEB	MAR	APR
MO -	Monthly change	sa	68	24	189	39	120	99	49	139	-46	-18	133	139
	Monthly % change	nsa	0.3	-0.6	2.8	0.1	0.1	-0.2	0.3	7.0	-6.0	-1.0	1.8	1.7
	Monthly % change	sa	0.4	0.2	1.2	0.3	0.8	0.6	0.3	0.9	-0.3	-0.1	0.8	0.9
	6-month annualised % change	sa	2.9	0.2	4.0	6.2	7.0	7.3	7.0	8.5	5.3	4.5	4.6	0.0
	Annual % change	sa	4.4	4.2	5.4	4.7	4.9	5.6	4.9	4.3	4.6	5.3	5.8	6.2
M3 -	Monthly change	nsa	3293	1907	4262	2186	1704	5690	1256	2580	-2159	545	8967	1216
	Monthly % change	nsa	2.0	1.1	2.5	1.3	1.0	3.2	0.7	1.4	-1.2	0.3	4.9	0.6
	Monthly % change	sa	1.5	1.4	2.2	1.3	1.5	3.6	0.0	1.4	0.5	0.4	3.2	1.5
	6-month annualised % change	sa	22.0	24.2	26.5	25.2	21.9	25.5	21.8	21.7	17.7	15.6	19.5	14.6
	Annual % change	nsa	19.0	19.2	21.0	22.2	19.6	22.4	21.5	22.8	22.3	20.4	20.9	19.3
M4 -	Monthly change	nsa	3485	4042	5347	2645	3026	5367	1577	4899	295	1252	9971	1756
	Monthly % change	nsa	1.3	1.5	1.9	0.9	1.0	1.8	0.5	1.6	0.1	0.4	3.3	0.6
	Monthly % change	sa	0.9	1.5	1.6	1.3	1.2	2.2	0.3	1.3	0.3	1.0	2.3	1.0
	6-month annualised % change	sa	13.7	15.8	18.9	18.4	17.2	18.8	17.3	16.8	13.9	13.1	15.5	12.8
	Annual % change	nsa	13.8	13.9	15.0	15.6	15.0	15.8	15.2	16.3	16.5	16.0	16.8	15.9
M5 -	Monthly change	nsa	4101	4126	5481	2759	3089	5500	1531	5209	-25	977	10904	1461
	Monthly % change	nsa	1.4	1.4	1.8	0.9	1.0	1.8	0.5	1.7	0.0	0.3	3.4	0.4
	Monthly % change	sa	1.2	1.5	1.5	1.3	1.2	2.1	0.3	1.3	0.3	0.8	2.3	0.8
	6-month annualised % change	sa	13.2	15.2	18.5	17.9	17.0	18.8	16.7	16.3	13.7	12.7	15.3	12.3
	Annual % change	nsa	13.4	13.5	14.4	15.0	14.4	15.2	14.7	15.8	16.3	15.5	16.6	15.6
NIBM1 -	Monthly change	nsa	1148	1444	82	-93	384	184	493	391	-1523	874	2254	-97
	Monthly % change	nsa	2.8	3.4	0.2	-0.2	0.9	0.4	1.1	0.9	-3.3	2.0	5.0	-0.2
	Monthly % change	sa	2.1	4.2	0.2	0.3	0.7	3.4	-2.2	-0.2	3.3	1.5	1.4	-0.3
	6-month annualised % change	sa	7.9	15.3	9.9	9.7	13.3	24.1	13.8	4.3	10.8	13.3	14.9	6.9
	Annual % change	nsa	13.1	13.1	11.9	11.8	5.6	11.4	10.1	9.9	11.4	12.2	14.8	13.3
M1 -	Monthly change	nsa	2949	2102	1083	1069	1614	2864	508	-258	-1106	-416	5427	947
	Monthly % change	nsa	3.7	2.5	1.3	1.2	1.8	3.2	0.6	-0.3	-1.2	-0.5	6.0	1.0
	Monthly % change	sa	3.4	2.8	1.3	1.6	1.7	4.8	-1.0	-1.0	2.2	-0.6	3.9	1.0
	6-month annualised % change	sa	20.0	30.4	24.4	28.1	23.0	36.0	24.7	15.6	17.5	12.6	17.6	9.3
	Annual % change	nsa	23.5	23.6	22.6	23.7	20.4	24.7	21.7	22.7	21.7	20.5	20.7	20.9
WIDER £	Monthly change	nsa	5047	531	5243	1412	1828	7689	4	3505	516	187	8595	3657
AGGREGATE	Monthly % change	nsa	2.7	0.3	2.7	0.7	0.9	3.8	0.0	1.7	0.2	0.1	4.0	1.6
	Monthly % change	sa	2.2	0.5	2.4	0.8	1.3	4.1	-0.6	1.6	1.7	0.2	2.5	2.4
	6-month annualised % change	sa	23.5	22.4	23.5	21.9	20.2	24.9	18.2	20.9	19.2	17.8	20.7	16.7
	Annual % change	nsa					18.6	22.3	20.4	21.5	21.6	19.9	20.6	20.1

TABLE 15

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	9.8	9.3
1987-88	3.8	1.9	16.5	12.5	12.3
12 MONTH % CHANGES (ua except M0)					
1987 APRIL	3.6	1.2	16.3	10.6	10.1
MAY	3.8	0.6	14.6	9.6	9.2
JUNE	3.5	0.7	15.2	10.0	9.7
JULY	3.7	1.6	16.7	10.9	10.3
AUGUST	3.7	1.0	17.8	11.5	10.9
SEPTEMBER	3.5	1.4	15.6	11.1	10.5
OCTOBER	3.9	1.6	17.8	11.5	10.9
NOVEMBER	4.0	0.9	16.8	10.8	10.3
DECEMBER	4.0	0.3	18.1	11.8	11.3
1988 JANUARY	3.7	0.9	17.9	12.3	12.2
FEBRUARY	3.6	1.6	16.2	12.0	11.5
MARCH	3.8	1.9	16.5	12.5	12.3
APRIL	4.2	1.9	14.5	11.2	10.9

TABLE 16 CONFIDENTIAL (Until Publication)

M0 : THE WIDE MONETARY BASE

Monthly data	Level £ million (Change in brackets): Notes and Coin (nsa)	Notes and Coin (sa)		Bankers' Deposits	M0 (nsa)	M0 (sa)		Percentage change on previous month: Notes(sa) and Coin	M0 (sa)	6 month % growth annualised: Notes & Coin (sa)	M0 (sa)	Percentage change on previous year: Notes and Coin (nsa)	Notes and Coin (sa)	M0 (nsa)	M0 (sa)
1987 October	15299	15456	(80)	203	15501	15659	(98)	0.5	0.6	7.4	7.3	5.1	5.2	5.5	5.6
November	15365	15525	(69)	183	15548	15707	(48)	0.4	0.3	7.4	7.0	4.8	4.8	4.9	4.9
December	16447	15661	(136)	186	16633	15846	(139)	0.9	0.9	7.9	8.5	4.7	4.8	4.2	4.3
1988 January	15458	15620	(-41)	181	15638	15801	(-45)	-0.3	-0.3	6.1	5.3	4.7	4.5	4.8	4.6
February	15353	15659	(39)	124	15477	15783	(-18)	0.2	-0.1	5.3	4.5	5.7	5.7	5.3	5.3
March	15588	15753	(94)	162	15750	15916	(133)	0.6	0.8	5.0	4.6	6.9	6.4	6.4	5.8
April	15797	15826	(73)	229	16026	16055	(139)	0.5	0.9	4.8	5.1	5.8	6.1	5.9	6.2
May	15884	15968	(142)	178	16062	16146	(91)	0.9	0.6	5.8	5.7	6.1	6.6	5.8	6.3
June (1/5) a	16224	16104	(278)	215	16439	16319	(173)	0.9	1.1	5.7	6.1	8.6	6.8	9.0	7.3
Latest 4 weeks a	15945	15999	(136)	193	16138	16191	(126)	0.9	0.8	6.0	5.8	6.5	6.7	6.4	6.5

Weekly data	Level £ million (Change in brackets): Notes(sa) and Coin		Bankers' Deposits	M0 (sa)		Percentage change on previous week: M0 (sa)
May						
4th	15981	(119)	155	16136	(-23)	-0.1
11th	15945	(-36)	161	16106	(-30)	-0.2
18th	15985	(40)	247	16232	(126)	0.8
25th	15960	(-25)	148	16108	(-124)	-0.8
June						
1st	16104	(144)	215	16319	(211)	1.3

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

TABLE 17

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 *	1497	1226	244	(18.0)	27	621	497	205	174
1986 *	1593	1589	-19	(16.4)	23	553	508	498	34
1987 *	1621	1235	343	(16.9)	43	634	570	281	136
1986 Q1*	953	1271	-341	(17.5)	23	740	461	167	-415
Q2*	1518	1645	-150	(16.6)	23	478	521	321	198
Q3*	1740	1884	-165	(15.7)	21	56	402	1099	183
Q4*	2160	1556	581	(16.4)	23	938	647	403	172
1987 Q1*	1324	1120	126	(16.1)	78	484	523	279	38
Q2*	1573	1240	313	(16.2)	20	612	457	182	322
Q3*	1516	1272	200	(16.1)	44	410	515	364	227
Q4*	2069	1306	734	(16.9)	29	1028	785	299	-43
1988 Q1*	1666	1696	-80	(16.5)	50	1026	625	172	-157
Jan	1152	1526	-424	(16.5)	50	895	1373	68	-1184
Feb	1743	1297	396	(16.6)	50	1094	109	102	438
Mar	2368	2265	53	(16.4)	50	1090	394	347	537
Apr	2839	2126	663	(16.5)	50	1602	275	796	166
Forecast									
1988 May	2547	2237	260	(16.4)	50	914	212	600	821

* Monthly averages
Figures in ( ) are end period liquidity ratio, unadjusted

TABLE 18

THE COMPONENTS OF M3

	NOTES AND COINS	BANK DEPOSITS RETAIL NIB	BANK DEPOSITS RETAIL IB	BANK DEPOSITS WHOLESALE	M3
% CHANGES					
Financial years[1] (ua)					
1984-85	5.2	6.5	7.7	19.1	11.5
1985-86	3.7	4.5	16.8	26.1	16.7
1986-87	2.2	16.9	17.5	25.8	19.1
1987-88	13.7	15.6	12.4	29.2	20.9
Over 12 months (ua)					
1987 MAY	3.3	15.9	19.3	23.1	19.0
JUNE	3.6	17.5	15.7	25.4	19.2
JULY	6.0	14.8	12.5	32.6	21.0
AUGUST	4.0	15.7	15.6	33.0	22.2
SEPTEMBER	5.7	5.5	14.7	32.1	19.6
OCTOBER	4.5	14.7	12.9	35.3	22.4
NOVEMBER	1.3	14.3	13.5	33.5	21.5
DECEMBER	5.8	11.9	10.7	38.5	22.8
1988 JANUARY	5.1	14.5	11.1	35.8	22.3
FEBRUARY	2.5	16.9	10.9	30.9	20.4
MARCH	13.7	15.3	12.4	29.1	20.9
APRIL	8.2	15.7	12.3	26.5	19.3
Over 6 months (sa)					
1987 NOVEMBER	7.0	16.9	13.6	31.1	21.8
DECEMBER	11.3	1.4	8.3	40.4	21.7
1988 JANUARY	7.6	12.2	9.4	26.5	17.7
FEBRUARY	6.3	16.4	7.2	21.6	15.6
MARCH	12.4	16.0	11.0	26.9	19.5
APRIL	5.3	7.5	11.8	20.3	14.6
CHANGES £ MILLION					
Monthly average[1] (sa)					
1984-85	42	56	238	683	1017
1985-86	17	90	161	556	1565
1986-87	4	359	538	1255	2157
1987-88					
Over 1 month (sa)					
1987 OCTOBER	253	1239	179	4728	6399
NOVEMBER	-71	-939	612	329	-69
DECEMBER	217	-311	-611	3224	2519
1988 JANUARY	82	1384	936	-1486	916
FEBRUARY	-69	736	95	-20	742
MARCH	383	256	1335	3943	5917
APRIL	-188	53	358	2661	2884

[1] March on March

TABLE 19

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[3] (ua)							
1984-85	11.5	15.1				13.8	13.8
1985-86	16.7	15.3		94	-0.1	13.5	14.5
1986-87	19.1	10.8		50	-15.6	13.5	12.9
1987-88	20.9	13.6		39.5	16.8	12.6	16.6
Over 12 months (ua)							
1987 MAY	19.0	17.9	20.2	54.7	13.8	8.0	13.4
JUNE	19.2	16.4	27.8	63.7	13.9	7.3	13.5
JULY	21.0	13.4	47.6	64.2	15.0	4.6	14.4
AUGUST	22.2	15.6	26.5	63.2	15.6	4.1	15.0
SEPTEMBER	19.6	10.8	46.8	58.1	15.0	5.0	14.4
OCTOBER	22.4	13.6	29.7	58.3	15.8	5.8	15.2
NOVEMBER	21.5	13.8	7.8	66.0	15.2	5.3	14.7
DECEMBER	22.8	11.2	17.8	63.2	16.3	8.1	15.8
1988 JANUARY	22.3	12.4	30.2	57.0	16.5	11.1	16.3
FEBRUARY	20.4	13.2	34.0	47.8	16.0	7.8	15.5
MARCH	20.9	13.6	40.7	39.5	16.8	12.6	16.6
APRIL	19.3	13.6	32.4	41.2	15.9	10.3	15.6
Over 6 months (sa)							
1987 NOVEMBER	21.8	11.6	-0.0	21.0	17.3	6.1	16.7
DECEMBER	21.7	11.2	-0.1	31.3	16.8	6.5	16.3
1988 JANUARY	17.7	11.3	0.1	39.5	13.9	9.7	13.7
FEBRUARY	15.6	11.4	0.2	31.9	13.1	6.0	12.7
MARCH	19.5	13.9	0.5	43.2	15.5	11.9	15.3
APRIL	14.6	15.4	0.5	47.8	12.8	2.5	12.3
CHANGES £ MILLION							
Monthly average3 (sa)							
1984-85	984	1034	42	-28	139	2221	2090
1985-86	1565	1207	50	-362	-118	2480	2557
1986-87	2157	938	17	-372	51	2791	2975
1987-88							
Over 1 month (sa)							
1987 NOVEMBER	-69	2080	-355	-796	860	33	893
DECEMBER	2519	1221	325	-248	3817	249	4066
1988 JANUARY	916	1124	45	-1298	787	195	982
FEBRUARY	742	1557	7	596	2902	-183	2719
MARCH	5917	1805	-40	-630	7052	504	7556
APRIL	2884	1615	-123	-1161	3215	-612	2603

[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 20

RETAIL DEPOSITS

	BANKS	BUILDING SOCIETIES[1]	NATIONAL SAVINGS[2]	TOTAL
% CHANGES				
Financial years[3] (ua)				
1984-85	7.1	15.1	11.9	12.0
1985-86	11.6	15.3	7.5	12.9
1986-87	17.2	10.8	10.8	12.7
1987-88	13.6	13.0	6.0	11.2
Over 12 months (ua)				
1987 MAY	17.9	10.2	10.8	12.6
JUNE	16.4	10.3	10.5	12.2
JULY	13.4	10.2	9.2	11.1
AUGUST	15.6	10.4	9.7	11.9
SEPTEMBER	10.8	11.4	9.3	10.7
OCTOBER	13.6	10.2	8.2	10.9
NOVEMBER	13.8	11.1	7.4	11.3
DECEMBER	11.2	11.6	7.2	10.5
1988 JANUARY	12.4	12.1	6.8	10.9
FEBRUARY	13.2	12.6	6.4	11.1
MARCH	13.6	13.0	6.0	11.2
APRIL	13.6	13.6	5.8	11.4
Over 6 months (sa)				
1987 NOVEMBER	14.9	11.6	4.4	10.8
DECEMBER	5.6	11.2	4	8.3
1988 JANUARY	10.5	11.3	4.5	8.2
FEBRUARY	10.8	11.4	4.5	9.3
MARCH	13	13.9	4.9	11.2
APRIL	10.1	15.4	6	12.1
CHANGES £ MILLION				
Monthly average3 (sa)				
1984-85	42	1034	683	1759
1985-86	255	1207	1093	2555
1986-87	871	938	266	2075
1987-88				
Over 1 month (sa)				
1987 NOVEMBER	-327	2080	69	1822
DECEMBER	-922	1221	262	561
1988 JANUARY	2320	1124	307	3751
FEBRUARY	831	1557	240	2628
MARCH	1591	1805	197	3593
APRIL	411	1615	155	2181

NOTES

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

TABLE 21
Breakdown of Bank Lending by instrument

unadjusted

		Advances	Commercial Bills	Investment[1]	Other[2]	Total	Total s/a
% 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
Monthly changes							
1987	April	1726	-420	210	-398	1118	2190
	May	3622	-2068	295	497	2346	2560
	June	5144	771	3	-1206	4712	4009
	July	2139	1627	-57	890	4599	4486
	August	2847	-1544	119	-288	1134	2633
	September	5460	12	-19	66	5519	4329
	October	2509	-489	139	804	2963	2922
	November	2311	819	235	-62	3303	3276
	December	3956	1544	120	-166	5454	4987
1988	January	2570	2485	-205	241	5091	5588
	February	2078	392	-45	35	2460	2555
	March	5549	-503	264	696	6006	4891
	April	4964	-463	-33	-337	4131	5840

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

SECRET

TABLE 22

FUNDING : FINANCIAL YEAR 1988/89

20/5/88

£ million

	FORECAST	OUTTURN	RESIDUAL	
	Financial Year 88/89	April 88	May 88 - Mar 89	
PSBR AND FUNDING TARGET				
1 PSBR excl asset sales	1800	805	995	
2 Asset sales (sales-)	-5000	-1808	-3192	
3 PSBR	-3200	-1003	-2197	
FINANCED BY:				
4 OPS debt sales to M4ps (sales-)	600	116	484	
5 National Savings (sales-)	-1000	-157	-843 *	-77
6 CTDs sales to M4ps (sales-)	1000	37	963	
7 Treasury bills etc M4ps (sales-)	0	43	-43	
8 Intervention (reserves inc+)	0	207	-207	
9 Public sector externals excl intervention and gilts (inc-)	0	82	-82	
10 NET GILT SALES TO M4PS & OVERSEAS NEEDED FOR FULL FUND (sales+)	-2600	-675		
11 Adjustment for 1987/88 underfund	300			
12 OVER(-)/UNDER(+)FUNDING	-300	-1663	1363	
GILT SALES:				
13 Net purchases by M4ps and overseas (purchases+)	-2300	988	-3288	
14 Net purchases by banks/b socs & other public sector (purchases+)	-500	-788	288	
15 Maturities	8300	507	7793	
16 GROSS OFFICIAL SALES	5500	707	4793	
17 Monthly average gross gilt sales	458	707	436	

* average per month

Relationship between lines:

3 = 1 + 2
10 = 3+4+5+6+7+8+9
12 = 10 + 11 - 13
16 = 13 + 14 + 15

Table 23:- BORROWING BY PRIVATE SECTOR EXCLUDING BUILDING SOCIETIES (£ million)

		BANK/BUILDING SOC. STERLING BORROWING			OTHER STERLING BORROWING					ALL BORROWING		
		Banks	Build Societies	TOTAL	Sterling Commercial Paper	Ordinary Shares	Pref & Bonds	Euro-Sterling (*)	TOTAL	Sterling	Foreign Currency	TOTAL
Change in Quarter												
1984	Q1	5141	3007	8148		163	44	117	324	8447	1102	9549
	Q2	2781	4076	6857		429	75	30	534	7391	808	8199
	Q3	3285	4087	7372		288	59	298	645	7917	1047	8964
	Q4	4535	3402	7937		249	73	410	732	8459	1948	10407
1985	Q1	7093	3189	10282		924	170	235	1329	11376	3225	14601
	Q2	4158	3748	7906		1092	327	230	1649	9325	1382	10707
	Q3	4148	3560	7708		873	274	193	1340	8918	-806	8112
	Q4	4803	4232	9035		525	89	445	1059	9894	939	10833
1986	Q1	7431	3867	11298	0	471	209	750	1430	12378	2362	14740
	Q2	5465	5083	10548	0	1369	344	605	2318	12541	1575	14116
	Q3	5764	5592	11356	69	1431	290	448	2238	13363	3688	17051
	Q4	10433	4667	15100	65	2338	-52	281	2632	17451	591	18042
1987	Q1	7119	3619	10738	368	1553	-782	1546	2685	13108	7152	20260
	Q2	8692	4240	12932	651	2259	352	990	4252	16529	4717	21246
	Q3	10855	3889	14744	298	5950	732	991	7971	22145	-1191	20954
	Q4	10884	3746	14630	-89	3735	423	591	4660	19185	-128	19057
1988	Q1	13298	4948	18246	501	370	-115	1600	2356	19687	1855	21542
Average per quarter												
1984		3936	3643	7579	0	282	63	214	559	8054	1226	9280
1985		5051	3682	8733	0	854	215	276	1344	9878	1185	11063
1986		7273	4802	12076	34	1402	198	521	2155	13933	2054	15987
1987		9388	3874	13261	307	3374	181	1030	4892	17742	2638	20379
1988		13298	4948	18246	501	370	-115	1600	2356	19687	1855	21542
Change in Month												
1987	APRIL	1258	1590	2848	192	828	110	355	1485	3978	1234	5212
	MAY	2316	1295	3611	171	415	184	335	1105	4566	2703	7269
	JUNE	5118	1355	6473	288	1016	58	300	1662	7985	780	8765
	JULY	4403	1302	5705	131	1840	182	360	2513	8008	-2234	5774
	AUGUST	1023	1269	2292	9	2090	390	261	2750	4892	1023	5915
	SEPTEMBE	5429	1318	6747	158	2020	160	310	2648	9185	20	9205
	OCTOBER	2517	1510	4027	165	2535	195	256	3151	7133	3459	10592
	NOVEMBER	3209	1266	4475	-16	975	55	335	1349	5764	-1529	4235
	DECEMBER	5158	970	6128	-238	225	173	0	160	6288	-2058	4230
1988	JANUARY	4983	1466	6449	212	48	41	625	926	6925	723	7648
	FEBRUARY	2525	1385	3910	339	219	123	590	1271	4826	-968	3858
	MARCH	5790	2097	7887	-50	103	-279	385	159	7936	2100	10036
	APRIL	4233	2220	6453	139	235	13	450	837	7001	-2302	4699
	MAY					494	136	780				

*Gross Issues announced by U.K. ICC's and OFI's (excl. building societies).

Table 24:- 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	Ordinary Shares	Pref & Bonds	Euro-Sterling(*)		TOTAL	TOTAL	(o/w ICCs)
	ICC's	BSOC's	Currency					ICC's	BSOC's			
Change in Quarter												
1984												
Q1	2905	-86	-895	1924		163	44	25	0	232	2156	2242
Q2	559	-56	-193	310		429	75	0	0	504	814	870
Q3	1219	533	-74	1678		288	59	100	0	447	2125	1592
Q4	2312	408	1433	4153		249	73	210	0	532	4685	4277
1985												
Q1	3386	6	-352	3040		924	170	235	0	1329	4369	4363
Q2	747	248	207	1202		1092	327	230	0	1649	2851	2603
Q3	229	161	1371	1761		873	274	130	600	1877	3638	2877
Q4	874	343	1377	2594		525	89	200	475	1289	3883	3065
1986												
Q1	3807	346	108	4261	0	471	209	350	935	1965	6226	4945
Q2	-356	442	108	194	0	1369	344	325	1075	3113	3307	1790
Q3	28	1800	1128	2956	69	1431	290	231	1575	3596	6552	3177
Q4	5223	390	-21	5592	65	2338	-52	281	2632	5264	10856	7834
1987												
Q1	1185	353	2008	2294	368	1553	-782	1231	290	2660	4954	4311
Q2	710	-516	756	100	651	2259	352	655	50	3967	4067	4533
Q3	3747	397	-94	4826	298	5950	732	570	100	7650	12476	11979
Q4	4379	832	682	5211	-89	3735	423	105	0	4174	9385	8553
1988												
Q1	7148	257	2169	7405	501	370	-115	915	625	2296	9701	8819
Average per quarter												
1984	1749	200	68	2016	0	282	63	84	0	429	2445	2245
1985	1309	190	651	2149	0	854	215	199	269	1536	3685	3227
1986	2176	745	331	3251	34	1402	198	297	1554	3485	6735	4437
1987	2505	267	838	3610	307	3374	181	640	147	4649	8259	7846
1988	7148	257	2169	7405	501	370	-115	915	625	2296	9701	8819

Change in Month

		Sterling Commercial Paper	Ordinary Shares	Pref & Bonds	Euro-Sterling ICC's	Euro-Sterling BSOC's	TOTAL
1987	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	158	2020	160	210	100	2648
	OCTOBER	165	2535	195	45	0	2940
	NOVEMBER	-16	975	55	60	0	1074
	DECEMBER	-238	225	173	0	0	160
1988	JANUARY	212	48	41	450	50	801
	FEBRUARY	339	219	123	355	150	1186
	MARCH	-50	103	-279	110	425	309
	APRIL	139	235	13	150	150	687
	MAY		494	136	530	275	

* 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.

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Table 25

M0 FORECAST, 1988-89

Seasonally adjusted

	Levels (£ million)		6 month growth rate (%)		12 month growth rate (%)	
	Notes and Coin	M0	Notes and Coin	M0	Notes and Coin	M0
Actual						
1988 January	15 620	15 801	6.1	5.3	4.5	4.6
February	15 659	15 783	5.3	4.5	5.7	5.3
March	15 753	15 916	5.0	4.6	6.4	5.8
1987-88[1]	15 371	15 553	n/a	n/a	5.0	4.9
April	15 826	16 055	4.8	5.1	6.1	6.2
May	15 969	16 147	5.8	5.7	6.6	6.3
Forecast						
June	16 030	16 220	4.8	4.8	6.3	6.6
July	16 070	16 260	5.8	5.9	6.0	5.6
August	16 130	16 320	6.1	6.9	5.7	5.7
September	16 160	16 350	5.2	5.5	5.1	5.1
October	16 190	16 380	4.7	4.1	4.7	4.6
November	16 230	16 420	3.3	3.4	4.5	4.5
December	16 270	16 460	3.0	3.0	3.9	3.9
1989 January	16 310	16 500	3.0	3.0	4.4	4.4
February	16 370	16 560	3.0	3.0	4.5	4.9
March	16 440	16 630	3.5	3.5	4.4	4.5
1988-89[1]	16 167	16 359	n/a	n/a	5.2	5.2

[1]average of 12 months

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TABLE 26 : BROAD AGGREGATES COUNTERPARTS AND FORECAST

£ million

OUTTURN: APRIL 1988

	M3	M4
PSBR	-1003	-1003
LA and PC debt sales to NBPS (-)	177	116
CG debt sales to NBPS (-)	-838	-721
o/w Gilts	(-761)	(-644)
Treasury bills etc	(43)	(43)
National Savings	(-157)	(-157)
CTDs	(37)	(37)
Public sector external & fc finance (-)	-55	-55
OVER(-)/UNDER(+)FUNDING	-1719	-1663
Sterling lending to NBPS	4131	6456
(seasonally adjusted)	(5840)	(8185)
Banks'/B socs' externals	-1396	-1439
Banks'/B socs' £NNDLs	197	-1601
TOTAL	1213	1753
Monthly % growth nsa	0.6	0.6
sa	1.5	1.0
Annual % growth nsa	19.3	15.9
Annual % growth sa	19.9	15.8

FORECAST: MAY 1988

	M3	M4
PSBR	200	200
LA and PC debt sales to NBPS (-)	150	100
CG debt sales to NBPS (-)	775	700
o/w Gilts	(825)	(750)
Treasury bills etc	(0)	(0)
National Savings	(-100)	(-100)
CTDs	(50)	(50)
Public sector external & fc finance (-)	325	325
OVER(-)/UNDER(+)FUNDING	1450	1325
Sterling lending to NBPS	4300	6225
(seasonally adjusted)	(4320)	(6170)
Banks'/B socs' externals & £NNDLs	-1000	-1700
TOTAL	4750	5850
Monthly % growth nsa	2.4	1.8
sa	1.7	1.4
Annual % growth nsa	19.7	16.6
Annual % growth sa	20.3	16.3
BUILDING SOCIETIES: Retail inflows		1325
Interest credited		150
Wholesale inflows from NBPS		0
Holdings of M3 (-)		-375

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Table 27

Broad Money forecast

		OUTTURN 1988 APRIL		FORECAST MAY	
		M3	M4	M3	M4
(i)	Underlying increase	4013	4103	3450	4275
(ii)	Estimated Special Factors	- 2800	- 2350	1300	1575
	Unwinding of gilt redemption	- 500	- 500	-	-
	Arbitrage: bills against deposits	- 450	- 450	-	-
	Over(-)/Under(+)funding	- 1700	- 1650	1450	1325
	Liquidity rundown to replace equity issues	- 250	- 250	- 250	- 250
	Low unit trust inflows	100	500	100	500
(iii)	Total Increase	1213	1753	4750	5850
	Monthly % change	0.6	0.6	2.4	1.8
	Annual % change	19.3	15.9	19.7	16.6
	Annual % change expected at 1988 Budget time	22.0	17.4	21.4	17.5

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

91/G.LCLD.4501.062

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Table 28

Lending forecasts

		OUTTURN 1988 APRIL			FORECAST MAY		
		Bank lending	B Soc lending	M4 Counterpart	Bank lending	B Soc lending	M4 Counterpart
(i)	Underlying increase (sa)	5990	2090	8185	4075	2100	5775
(ii)	Estimated Special factors	- 150	150	-	250	150	400
	Arbitrage: Unwinding	- 500	-	- 500	-	-	-
	new	50	-	50	-	-	-
	Bill leak	150	-	150	- 300	-	- 300
	Bank borrowing to replace equity issues	300	-	300	300	-	300
	Bank/building society competition	- 150	150	-	- 150	150	-
	BAA call/Barclays rights issue				400	-	400
(iii)	Lending increase (sa)	5840	2240	8185	4325	2250	6175
	Lending increase (nsa)	4131	2220	6456	4300	2300	6200
	Annual % change (nsa)	26.8	14.3	21.8	27.5	14.9	22.4
	Annual % change expected at Budget time	26.0	13.4	20.9	26.3	13.5	21.1

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

TABLE 29: MONEY MARKET ASSISTANCE

£ million

	Outturn		Forecast	
	1988 APR	MAY	JUN	JUL
A. Money market influences				
(i) CGBR excl bank deposits (+)	-679	-146	1425	-50
(ii) Reserves etc (+)	183	402	-50	-25
(iii) Notes and coin (-)	233	60	-25	-625
(iv) National Savings (-)	-163	-89	-125	-50
(v) CTDs (-)	47	61	100	250
(vi) Gilts (-)	-200	758	25	500
(vii) Other Exchequer items etc	171	18	0	0
A. TOTAL MONEY MARKET INFLUENCES (Market surplus + / shortage -)	-408	1064	1350	0
B. Money market operations				
(i) Commercial bills (purchase +):				
Issue Department - outright	-1609	2330		
- repos	1797	-2955		
Banking Department	-266	-109		
(ii) LA bills (purchase +)				
Issue Department	120	-46		
Banking Department	-24	9		
(iii) Treasury bills (purchase +)	31	-210		
(iv) Market advances	362	290		
(v) Treasury bill Repos	21	-21		
(vi) Export Credit/Shipbuilding Repos	0	0		
(vii) Gilt Repos	0	0		
B. TOTAL MONEY MARKET OPERATIONS	432	-712	-1350	0
C. Change in bankers balances = A + B	24	352		
D. TOTAL ASSISTANCE OUTSTANDING	10074	9572	8225	8225
of which commercial bills	9451	8717		

91/G.LCLD.4515.015

TABLE 30

SECRET

GOVERNMENT SHARE SALES TIMING

1988/89

Gas debt	11 April
BGC III	19 April
BT Prefs	10 May
BAA II	19 May
BP II	30 August
BSC I	? 1 December

1989/90

BP III	27 April
BSC II	Undecided

psl/19A

RESTRICTED

pw

FROM: A C S ALLAN
DATE: 10 June 1988

PS/SIR P MIDDLETON

ANALYSIS PROGRAMME ON EUROPEAN MONETARY POLICY

You told me that the Deputy Governor was keen for the Bank to participate in this programme, adding that DTI had already agreed to do so. The Chancellor is content for the Bank to take part, but he feels that it is completely inappropriate for DTI to do so: the subject matter, described in Mr Segal's note of 20 May, is not within their responsibilities at all, and we should seek to stop them appearing.

ACSA

A C S ALLAN

90/G.jfw.4561.007

SECRET AND PERSONAL

COPY NO..1..OF 35 COPIES

FROM: J W GRICE

DATE: 30 June 1988

PEM 29/6

1. SIR PETER MIDDLETON

2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Sir T Burns
Sir G Littler
Mr Lankester
Mr Monck
Mr Scholar
Mr H P Evans
Mrs Lomax
Mr Odling-Smee
Mr Peretz
Mr Sedgwick
~~Mr R I G Allen~~ Mr Grieve
Mr Hibberd
Miss O'Mara
Mr Riley
Mr Pike
Mrs Ryding
Mr Cropper
Mr Tyrie
Mr Call

Mr Cassell - Washington

File: MAMC Fl

Thanks. NL

MONTHLY MONETARY ASSESSMENT: JUNE 1988

This note records the discussion at Sir Peter Middleton's monthly meeting on monetary conditions on 6 June. Attached is the usual Monthly Assessment.

28?

Sir Peter Middleton's Meeting

2. Sir Peter noted that the discussion was taking place immediately after the decision to raise interest rates by ½ per cent. It also followed completion of the June Internal Forecast which had a number of important implications.

3. Invited to open the discussion, Mr Scholar felt that for the first time, there was now unambiguous evidence of intensifying inflationary pressures:

(i) there was a growing disjunction between demand and output, manifested in the current account deficit. Both consumer spending and investment were increasing faster than we had expected;

(ii) money GDP looked likely to diverge steadily from its forecast path. Inflation by end-1988 seemed set to be above the rate at end-1987 which in turn would be above end-1986 levels, even adjusting for mortgage interest effects;

(iii) M0 was now expected to show 12 month growth of 7 per cent in June and was forecast to be barely within its target range at the end of the year. Broad money growth had moderated a little but growth remained rapid and the limited deceleration could well be due to special factors.

4. It was instructive to note that just before the exchange rate was uncapped, the effective index was broadly the same as that now prevailing and base rates were 9 per cent. We had thought at that stage that some tightening was necessary. But, with hindsight, it seemed likely that we had then underestimated the degree of tightening which was required. His feeling was that unless interest rates were able to be raised substantially - perhaps to around 11 per cent - by the summer break, there would be a serious risk that by the end of the year we would be clearly heading for an outcome above the Budget's figuring for money GDP, M0 and inflation.

5. Sir Terence Burns noted that the assessment was complicated, not least by data problems. Output and income measures of GDP showed faster growth than the expenditure measure. Nevertheless, it was clear that domestic demand was rising rapidly, though growth may have slowed somewhat from the exceptionally fast rates in the second half of 1987. It was particularly difficult to understand the buoyancy of consumer spending and the associated low savings ratio but again data deficiencies hampered analysis. But the demand pressures were so far being reflected only weakly in recorded inflation. By end-year, inflation might be around 5 per cent against the 4 per cent expected at Budget time. About half of the increase would derive from higher mortgage rate effects.

6. A more prominent change in the landscape was the deterioration in the prospects for the balance of payments. Several factors bore upon why the trade position had worsened:

(i) there had been some loss of competitiveness. Export growth this year had been poor relative to world trade after a period of above-par performance;

(ii) there may be some capacity effects, sucking in imports and diverting potential exports to the home market (though capacity constraints were most noticeable in the construction sector, still largely a non-traded one);

(iii) the supply performance of sectors such as cars and capital goods had been decidedly disappointing.

7. Sir Terence concluded that some interest rate rise was now needed, partly to take the steam out of the housing market, and it looked as if there would be some opportunity to engineer a tightening. But interest rate decisions had to be taken with regard to the monetary stance as a whole. At current levels, the exchange rate was already exerting some downward pressure on inflation; how much further interest rates needed to rise depended upon how the exchange rate reacted. He noted that the forecast had base rates rising to 10½ per cent by early 1989: this might now happen sooner.

8. Mr George felt that it had been clear for some time that tightening was required. The longer the situation was left unredressed, the greater had been the trouble stored up. He took a more pessimistic view of the strength of inflationary pressure than did Sir Terence Burns. But, like Sir Terence, he was puzzled by why demand should be growing so strongly. It was hard to relate the strength of consumer spending to fiscal policy, evidently very tight. His main concern was that the authorities may still be giving wrong signals about the strength of the commitment to defeat inflation. That was why the Bank had argued for a full 1 per cent rise in base rates that morning rather than the ½ per cent decided upon. Looking further ahead, he thought a rise to 12 per cent might prove necessary.

9. Mr Flemming added that the Bank forecast saw a stronger rise in inflation than the Treasury. Wage settlements were edging higher but the main pressures would come from slower productivity growth as output growth diminished.

10. Professor Griffiths accepted the assessment that domestic demand was excessive. This was clearer from the worsening current account deficit than from the inflation picture. He believed that several factors had contributed to this:

(a) the tax reduction in the Budget had been at the limits of what was fiscally prudent;

(b) on either narrow or broad measures, real money supply growth had become substantial since 1985. Chart V of the Assessment was instructive;

?? (a higher XR stimulates consumer demand)

(c) the operations to hold down sterling had given the private sector the impression that the exchange rate would not be used to act as a brake on demand.

11. He had been surprised that the morning's interest rate rise had been limited to half per cent. He felt a considerable increase was now needed, unconstrained by too much concern about the exchange rate, the guiding principle being the need to drive M0 firmly back into its target range quickly.

12. There followed some discussion of the merits of gradual increases in interest rates against more aggressive action to raise them. A number of points were made:

In favour of gradual steps:

(i) the aim was to choke off the inflationary pressures without jolting confidence or causing a collapse in activity. A gradualist approach was more likely to achieve this;

(ii) the impact of higher interest rates would depend upon the accompanying response of the exchange rate. Small steps in interest rates would give the opportunity of reassessing at each stage what further rise, if any, was required;

(iii) should a substantial rise in rates turn out to be necessary, proceeding by small steps would probably increase the political and exchange rate latitude for achieving it. It was important to avoid running into the exchange rate constraints which had reduced freedom of action on interest rates previously;

(iv) an abrupt change in interest rates would destroy confidence in the continuity of policy, for no good reason. We did not want to be wrongly understood to be reacting only to the trade figures.

In favour of a larger discrete rise:

(i) the market was clear that demand was excessive. It would improve confidence in the policy if the authorities acted decisively to correct the situation, with less regard to worries about exchange rate appreciation than in the recent past. Such action could reduce the increase in rates from what would otherwise be required;

(ii) it gave quite the wrong message for the authorities to be seen striving to hold down short rates from where the markets would otherwise take them.

13. Summing up, Sir Peter Middleton said that the meeting agreed in recommending that further interest rate increases were required if the Government's objectives were to be met. The Bank would clearly have preferred a bigger rise that morning but this was now history. Future tactics would need to be reviewed continously as events unfolded.

JWG

J W GRICE

cc: Governor)
Deputy Governor)
Mr George) Bank of England
Mr Flemming)
Mr Coleby)
Mr Plenderleith)

Professor Griffiths - No 10

mjd 2/181Jn

PMP

FROM: J M G TAYLOR
DATE: 11 July 1988

CHANCELLOR

Many thanks.

"MONETARY UNION"

I am sorry not to have responded more quickly to your question about the precise meaning of "monetary union".

2. I have spoken to EC, MG and to Mr Lavelle and his people. The short answer (surprise, surprise) appears to be that there is no formal definition of the phrase.

3. The original definition, in the 1979 Werner Report, reads:

> "Monetary Union requires the complete and irreversible convertibility of currencies, the elimination of exchange rate bands, irrevocably fixed parities and the complete liberalisation of capital movements."

As you pointed out in the context of the Prime Minister's use of this definition at her post - Hanover Press Conference, the third of these 'requirements' reads somewhat oddly (to say the least). More generally, although the whole definition has some totemic significance, it is certainly not enshrined in any agreed Community legislation.

4. "Monetary Union" did not, in fact,have any status in the Treaty until it was inserted into the preamble to the Single Eurpean Act. The relevant passage from this reads:

> "Whereas at their Conference in Paris from 19 to 21 October 1972 the Heads of State or of Government approved the objective of the progressive realisation of Economic and Monetary Union;"

This of course fails to provide any definition at all.

... 5. The attached collection of "major texts" provides some more clues. The third passage is the part of the 1972 communique to which the SEA preamble refers. Once again, this does not of itself provide an explicit definition, but instead refers back to other documents (ie "the instruments adopted by the Council and by the representatives of Member States on 22 March 1971 and 21 March 1972"). These <u>might</u> provide some clearer indication of what is meant by "monetary union" - or at least an implication of what it means. But I haven't had a chance to see them yet, and indeed no-one to whom I have spoken can immediately recall them or what they are about.

6. I have asked MG to delve further, and to report back post-haste. Since, however, the 1972 communique was (a) couched in terms of (later unfulfilled) intention, and (b) was pre-Accession, unless the "instruments" were part of the body of law to which we agreed as part of Accession, they would not be binding on the enlarged Community. So my preliminary conclusion is that the term "monetary union" is pretty elastic, and means what any Member State chooses it to mean. But I shall let you know more when MG have completed their further work.

J M G TAYLOR

CONFIDENTIAL

a

pay

(Can discuss @ TB bilateral)

AA

FROM: SIR T BURNS
DATE: 26 JULY 1988

CHANCELLOR

cc Sir P Middleton
Mr Scholar
Mr Odling-Smee
Mr Peretz
Mr S Davies
Miss O'Mara
Mr Grice

MONETARY POLICY INDICATOR

I attach some charts which try to combine interest rates and the exchange rate into one monetary policy indicator.

2. It uses the basic idea of a 4 to 1 trade-off between the exchange rate and interest rates. The exchange rate is measured relative to a 2-year-centred moving average. For the past 12 months we cannot compute the centred money average - it will depend on exchange rate movements over the next year. In the absence of this data we have simply held the moving average unchanged at its last recorded observation (12 months ago).

? (means recent rise is not shown as tightening monetary conditions

3. Chart 1 shows the observed 3-month interbank rate;

Chart 2 shows the effective exchange rate and its moving average;

Chart 3 shows the inflation rate (excluding the mortgage rate) and the exchange rate adjusted interest rate. The latter is computed by adding to the interest rate one quarter of the percentage deviation of the exchange rate from its centred moving average;

Chart 4 shows the exchange rate adjusted real interest rate.

4. We should not make too much of this. As we have often discussed, the 4 to 1 rule is very imprecise and depends on a host of assumptions.

CONFIDENTIAL

5. That said I do find the results interesting. The final observation for July is based upon recent figures and shows a marked tightening by comparison with earlier months. The adjusted figures do not show the dip in the early months of the year and have been relatively flat since early 1987. The adjusted interest rate series coincided closely with the movement of the inflation rate.

6. Finally we can see that on this basis we are still below the level reached in 1985-86 - by between 1 and 2 points.

TB

18/7

T BURNS

ENCS

CHART 1

THE 3-MONTH INTERBANK RATE

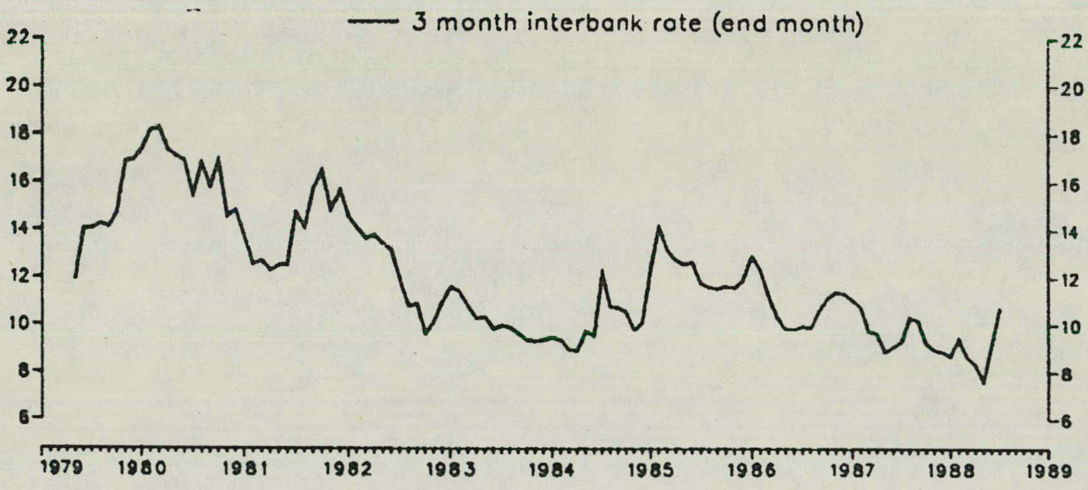
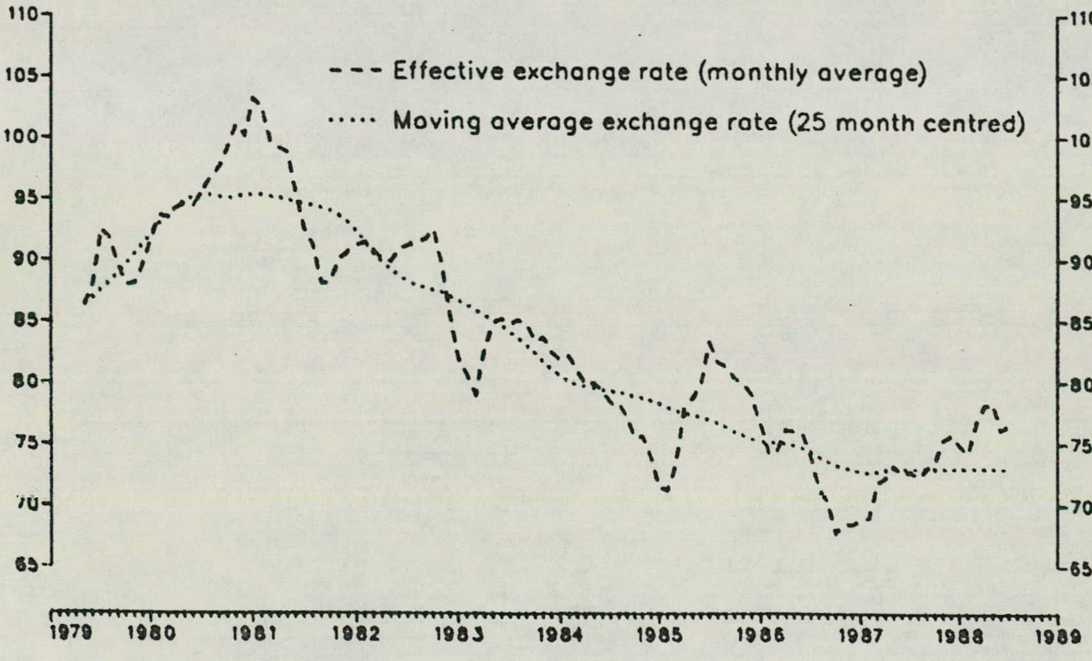


CHART 2

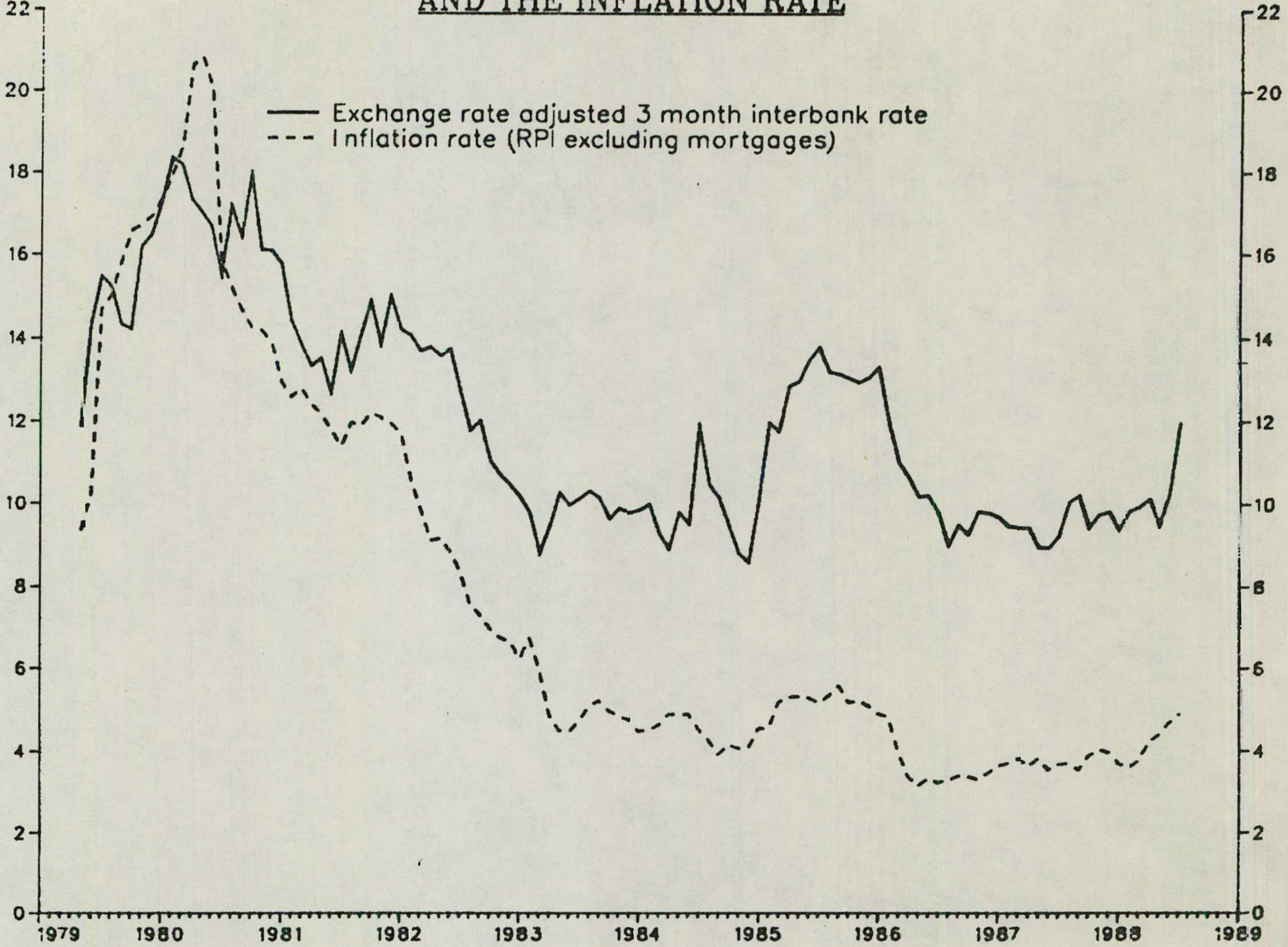
THE EFFECTIVE EXCHANGE RATE



WEIR.BRATE

CHART 3

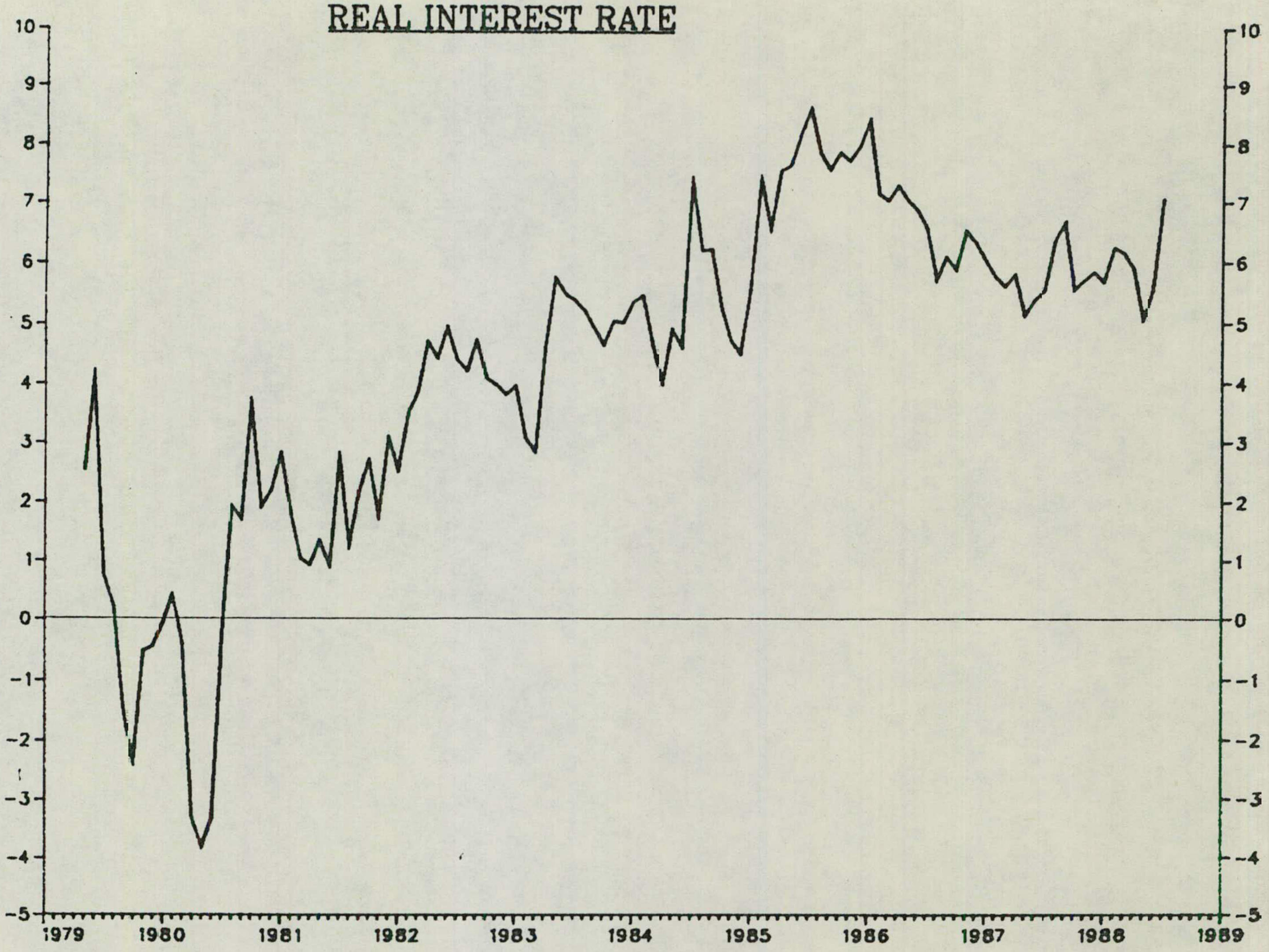
THE EXCHANGE RATE ADJUSTED INTEREST RATE AND THE INFLATION RATE



WEIR.EXRATE

CHART 4

THE EXCHANGE RATE ADJUSTED REAL INTEREST RATE

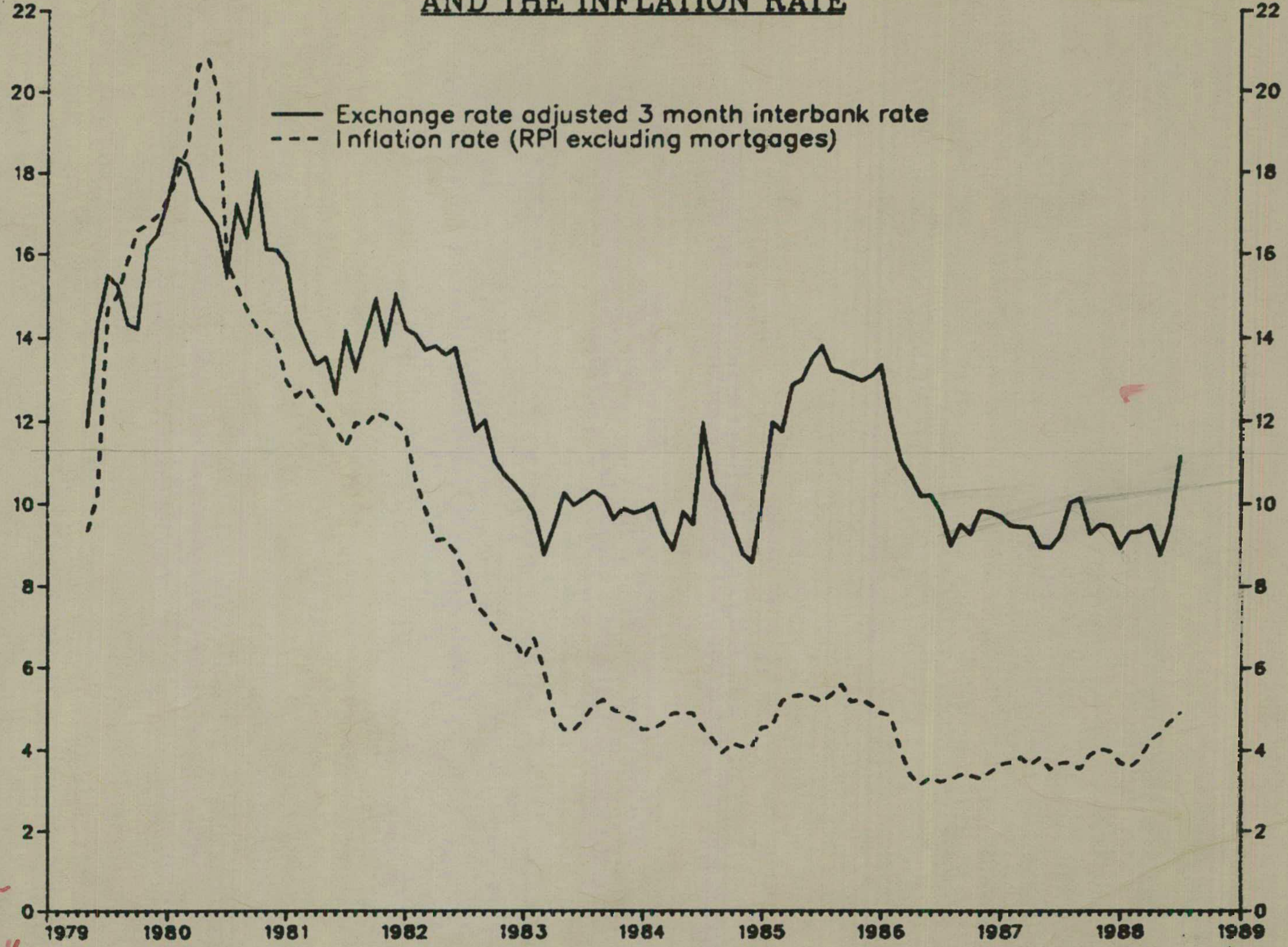


WEIR.RTB1

c. Mr Odling-Smee
Mr S. Davies
Mr A. Cooper

Alex:- I attach my up to date chart. The observation for July 1988 is based on yesterday's figures.

THE EXCHANGE RATE ADJUSTED INTEREST RATE AND THE INFLATION RATE



WEIR.EXRATE

Thanks. I shd v. much like to have this redone on a single graph - ie the real XR adjusted interest rate - & updated, ASAP.

mg2.jw.docs.mma.midmin

COPY NO. 1 OF 30 COPIES

SECRET AND PERSONAL

FROM: J W GRICE

DATE: 29 July 1988

1. SIR PETER MIDDLETON
2. CHANCELLOR OF THE EXCHEQUER

cc
Chief Secretary
Financial Secretary
Economic Secretary
Sir T Burns
Sir G Littler
Mr Lankester
Mr Monck
Mr Scholar
Mr H P Evans
Mrs Lomax
Mr Odling-Smee
Mr Peretz
Mr Sedgwick
Mr Gieve
Mr Hibberd
Miss O'Mara
Mr Riley
Mr Brooks
Mr Pike
Mrs Ryding
Mr Cropper
Mr Tyrie
Mr Call
Mr Cassell - Washington

File: MAMC F1

Thanks. Noted. Two points of detail: i) [illegible] ii) 2(iii) contains a non-sequitur. Given the nature of the tax system there has been [illegible] fiscal tightening.

MONTHLY MONETARY ASSESSMENT: JULY 1988

This note records the discussion at Sir Peter Middleton's monthly meeting on monetary conditions on 28 July. Attached is the usual Monthly Assessment.

Sir Peter Middleton's Meeting

2. Opening the discussion, Mr Scholar said that there was little fresh information about monetary conditions from the last month's indicators. But several developments were worth noting:

(i) in recent months, we had been increasingly concerned by the apparent widening gap between demand and output. But the combined evidence of the CBI Survey and the stronger export figures suggested that vigorous output growth was now matching that in demand. The gap was therefore probably no longer widening;

(ii) on the inflation front, there was some comfort to be drawn from the annual earnings growth's stabilising at 8½ per cent. April's figure had also been revised down from 8¾ per cent initially to 8½ per cent. Otherwise, inflation indicators were not encouraging. RPI inflation was edging up and house prices were still rising rapidly;

Special factor

(iii) although the PSDR was now expected to be some £4¼ billion higher in 1988-89 than forecast in the FSBR, this could all be explained by higher than published privatisation proceeds and the more buoyant activity, now being experienced and expected over the rest of the year. The fiscal stance was therefore no tighter than had been anticipated at Budget time;

Doesn't follow at all: figures ??

(iv) 12 month growth in M0 had declined in July, to around 7 per cent, from June's peak of 7¼ per cent. But it was not now expected to fall back within its target range before the end of the calendar year. M4's growth rate had accelerated only gently over the last 6 months. But the upward trend was more pronounced over a longer period.

3. Mr Scholar noted that there had been a significant tightening in the policy stance since the excchange rate had been uncapped early in March. The ERI had risen by some 2¾ per cent and 3 month interest rates were over 1½ per cent higher. There was a good case for waiting to see what impact this was having rather than acting again immediately on interest rates. It would, moreover, be risky to raise rates with the current pressures on sterling. At the same time, a further ½ per cent increase in base rates alone would probably not induce a rise in mortgage rates.

4. Mr George felt that speculative exchange rate pressures were mainly a tactical obstacle to policy, though nonetheless a real enough consideration. In the longer term, he still favoured an asymmetric attitude to interest rates. If the exchange rate rose,

he would be slow to counsel a reduction in interest rates but if exchange rate pressures allowed, he would welcome an upward movement. Having said that, it was important to note the change in the market's perception of policy. Earlier, there had been a feeling that the authorities intended to push down interest rates at all costs. Now the authorities' actions had convinced the markets that they were prepared to raise interest rates when necessary. This meant that we had to be sensitive to any signs of a deterioration in business confidence and conduct our policy with this in mind. The aim was to slow down the expansion of the economy but to produce a soft landing and not a crunch.

5. Sir Terence Burns agreed that the policy stance had tightened appreciably. Even so, the most recent indicators of activity looked even stronger than a month ago. He agreed with Mr Scholar that both demand and output were growing rapidly. Both the export figures and the CBI Survey suggested some relaxation of supply side constraints. The inflation picture, in the circumstances, was at least a good as could be expected - producer price inflation was fairly flat. But the RPI was an exception; taking out the mortgage rate effects, the RPI had risen surprisingly quickly.

6. It was instructive to compare the present situation with the temporary upturn in inflation in 1985. Tightening the policy stance then had been quickly effective in reducing inflation. Some further tightening might still be required now. There was no rush to do so but he favoured taking any opportunities that presented themselves.

7. Mr Flemming noted that the better than expected inflationary pressures could be linked to the apparent renewed strength in output. This was helping productivity and would be offsetting other upward pressures on inflation.

8. Summing up, Sir Peter Middleton said that the central task was to achieve the economy's slowing down to a sustainable growth rate without inducing a damaging shock.
Activity was clearly very buoyant and he, himself, would be happier when M0 showed signs of moving more closely to its target range. With this background, the agreed recommendations of the meeting were:

a) there was no immediate need to tighten policy further, given what had already been accomplished; but

b) the attitude should still be an asymmetric one, with a bias towards further tightening when opportunities arose. It was particularly important to stop interest rates falling again, a development which would give quite the wrong signals about the authorities' intentions.

JWG

J W GRICE

MONTHLY MONETARY ASSESSMENT: JULY 1988

Summary Assessment

Virtually all of the indicators - real and financial - point to an economy growing strongly. Producer and retail price inflation is edging up, though not very quickly. The rises in interest rates and the higher exchange rate over the last month will have tightened the monetary stance. But both real and money GDP for 1988-89 are likely to be well above what was expected at Budget time.

Main Points

Short term interest rates have increased by around 1 per cent since the last Assessment (28 June). But world rates have also increased and sterling's interest rate advantage has risen by only ½-¾ per cent (paras 3, 4, 21).

12 month growth of MO rose to 7¼ per cent in June from 6¼ per cent in May. It will fall back in July to around 6¾ per cent and is projected to fall within the 1-5 per cent target range around the turn of the year (paras 25-27, table 25).

M4 rose by 17 per cent in the year to June, from 16 per cent in the year to May. M4 growth has fluctuated in 1988 so far though a slight upward trend is emerging. Credit growth is a different matter. Bank and building society lending grew by 23 per cent in the year to June, compared to 22¼ per cent in May and 19 per cent at the end of 1987 (paras 28, 34).

Money GDP growth in 1988-89 is liable to be around 2 per cent above that expected at Budget time, split about evenly between prices and volumes (paras 7-10, 12, 16).

The PSDR for 1988-89 is now projected to be around £4¼ billion more than anticipated at Budget time. But this can be entirely explained by higher privatisation proceeds and the higher activity now expected. (Paras 17, 19).

Sterling's effective rate index has risen by about 2¼ per cent in July. But a rise in oil prices will have offset some of the downward pressure on inflation; the oil-adjusted ERI has risen by 1¼ per cent. (Paras 21-22).

House prices have continued to accelerate. The Halifax index rose by 24 per cent in the year to June (22 per cent for May) (paras 14-15).

MG2 DIVISION
29 July 1988

mg2.jw.mondevtab

SECRET

Monetary developments since last month's report

Latest outturns available at time of:

	Jan Report	June Report	July Report
Monetary aggregates (12 month % growth)	**(Dec)**	**(May)**	**(June)**
M0 (sa)	4.3	6.2	7.3***
M3	22.9	18.6	20.3
M4	16.3	16.1	16.8
M5	15.9	15.5	16.1
Bank lending	22.8	27.0	27.5
Bank & building society lending	18.8	22.3	22.8
Interest rates (%)	**3 Feb**	**28 June**	**28 July**
3 month interbank	9.0	9.8	10.8
20 year gilt-edged (par yield)	9.3	9.5	9.5
Yield gap	-0.3	0.3	1.3
UK real 3 month interbank	4.8	5.4	5.3
Equity dividend yield (all share)	4.2	4.2	4.2
IG yield (2001) assuming 5% inflation	4.0	3.9	3.9
3 month UK interest differential with;			
Germany	5.7	5.4	5.4
US	2.2	2.0	2.4
World basket	2.9	3.0	3.7****
Exchange rate			
$/£	1.77	1.72	1.73
Yen/£	226	225	228
DM/£	2.98	3.10	3.21
ERI	74.4	75.1	76.8
Oil adjusted ERI*	104.3	106.7	108.1
Asset prices			
FT-A Index (% pa)	-0.7	-16.7	-20.4
FT-A Level (July 1987 peak: 1239)	906	961	960
Halifax house index (% pa)	16.3	22.0	24.1

---

* The oil adjusted ERI shows whether the joint effect of oil price and exchange rate changes has been counter-inflationary or otherwise, relative to the base period Jan 1983-Nov 1985, on the assumption that the inflationary effect of a 4 per cent rise in oil prices is exactly offset by a 1 per cent rise in the exchange rate.

** figures are for January, May and June.

*** July outturn 6.9

****22 July

A. External Developments

1. The pace of economic expansion in the major countries, which was exceptionally rapid in the first quarter, may have slowed somewhat in the second. **Industrial production** in April-May was higher than in the first quarter in the United states but slightly lower in Japan and Germany (table 1).

2. **Commodity prices**, which had strengthened considerably in March-May, have weakened overall since early June (table 5). Food prices have continued to rise because of the US drought, but prices of agricultural raw materials have levelled out and prices of metals have fallen very sharply. The **inflation rate** in the major countries has remained about constant, at 2½-3 per cent, for over a year (table 1).

3. For three months running, the US trade figures have turned out better than expected. Although the **dollar** has appreciated since May, the Fed has tightened monetary policy because of concern over inflation. Short-term interest rates in the US have risen about a percentage point since the beginning of May. The Germans have taken the opportunity offered by a weaker currency to raise **interest rates**. Most other European countries, except France, have followed.

4. April and May figures for **industrial production in Germany** suggest that the 1½ per cent increase in GNP in the first quarter was partly a reflection of unusually mild weather (table 2). The **inflation rate** remains around 1 per cent. The trade surplus has fluctuated from month to month, but its underlying level has probably been about constant this year (in nominal dollar terms). **M3** continues to grow above the 3-6 per cent target range.

5. Assessment: the Americans may now feel they have tightened monetary policy enough to bear down on inflation; however a further rise in German (and European) interest rates is possible; and rates in Japan, which have hardly changed yet, could also rise.

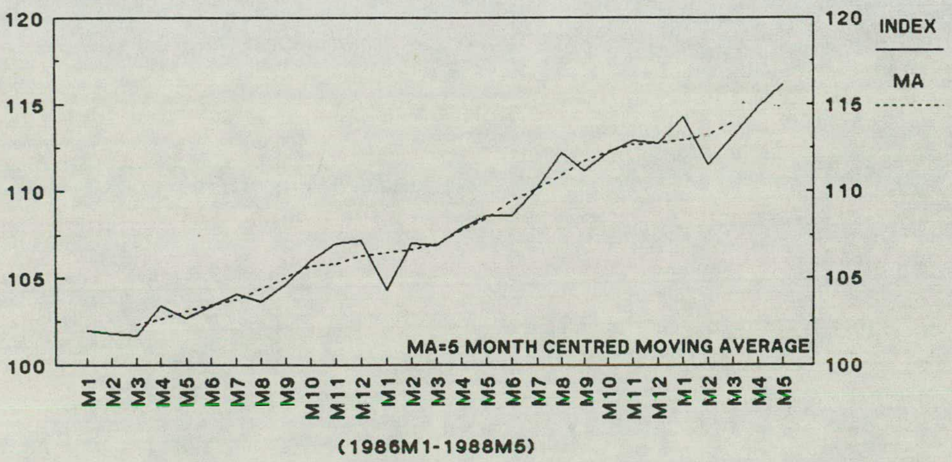
B. Activity and Inflation

6. Recent indicators of **activity and inflation** are summarised in table 6. Indicators available this month point to continued strong growth of domestic demand. Output in the manufacturing sector has resumed earlier rates of expansion after a sluggish first quarter. Indicators confirm some upward drift in both retail and producer price inflation.

Recent indicators of activity

7. **Manufacturing output** provisionally rose by a little over 1 per cent in May, after a 1½ per cent rise in April. Provisional figures for car and commercial vehicle production show further strong growth in June. The indicators confirm a return to strong manufacturing output growth after a relatively sluggish first quarter. (Latest, revised estimates, show a ¼ per cent increase in output in the first quarter, in contrast to earlier estimates of no change.) CSO's bias adjustment to the manufacturing output index contributes little to the latest monthly increase, but accounts for 1 per cent of the 7 per cent increase in the year to May.

INDEX OF MANUFACTURING OUTPUT (1980=100)



8. The latest CBI Quarterly Industrial trends survey shows a similar degree of capacity utilisation as last April's survey.

With 82 per cent of firms reporting capacity at least adequate to meet expected demand over the next twelve months, the CBI note few signs of overheating and do not expect anything more than a slight rise in inflation this year. The balances on output and order books questions show some slowing of the rate of growth of manufacturing output in recent months. Firms are markedly more optimistic about export prospects than they were three months ago.

9. **Retail sales** volumes provisionally rose 0.4 per cent in June, following a 0.3 per cent rise in May. There is little evidence of any slowdown in real consumer spending growth. So far this year the average monthly increase in retail sales volumes has proved slightly higher than in 1987. New car purchases, by contrast, have been relatively sluggish. In April new car registrations stood 9 per cent higher than a year earlier, but registrations have edged downwards since peak levels around the turn of the year. Preliminary estimates for **consumers' expenditure** in the second quarter show an increase of about ½ per cent over Q1 and nearly 6 per cent in the year to Q2. The Q2 estimate reflects the continued growth in retail sales, partly offset by lower expenditure on energy associated with the mild weather.

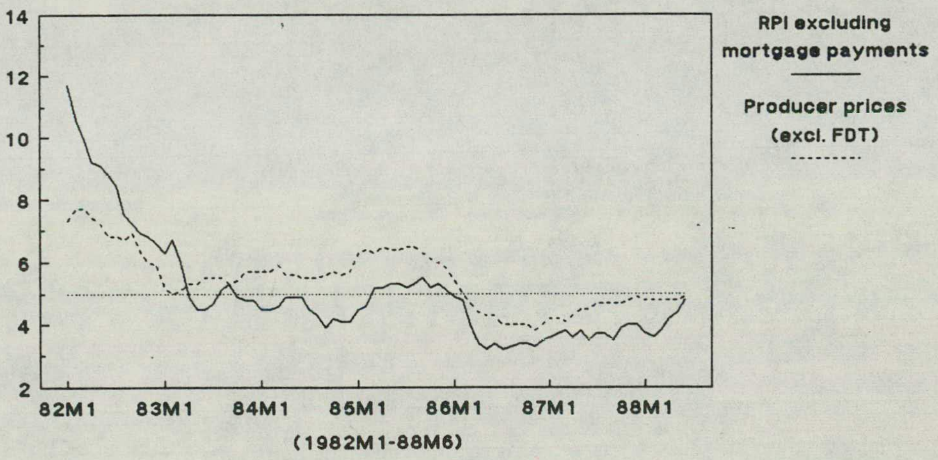
10. **Construction activity** in the housing sector appears to have remained strong in the second quarter. Although both private sector starts and completions showed provisional falls in May, initial estimates have recently proven consistently too low. Allowing for probable upward revision, activity in the recent month remains comparable with first quarter outturns and is well up on recorded activity in 1987.

11. **Labour market indicators** are consistent with the bullish message from other statistics. Unemployment fell 39 thousand in June, while vacancies remained broadly unchanged from May levels. Overtime worked in manufacturing rose slightly in May and, despite a slow downward drift since the start of the year, remains at a relatively high level.

Inflation

12. **Annual RPI inflation** rose from 4.2 per cent in May to 4.6 per cent in June, and from 4.4 to 4.7 per cent excluding mortgage interest payments (MIP). Price increases were fairly widely spread and the RPI (excluding MIPs) now stands a little over ½ per cent higher than expected at the time of the Budget forecast. Producer output price inflation (excluding food, drink and tobacco) rose marginally to 4.9 per cent in June, after five successive months at 4.8 per cent. Inflation on this measure has been in the range 4½ to 5 per cent for over a year. Producer input price inflation (also excluding FDT) fell from 8.5 per cent in May to 6.9 per cent in June. These relatively high figures, compared to outturns of 4½ and 5½ per cent in the early months of the year, reflect recent increases in electricity and commodity prices, including metals and petroleum products. Total input prices (including FDT) rose by 1.8 per cent in June, and by 5 per cent in the latest three month period, in contrast to little net change over the preceding three months.

RETAIL AND PRODUCER PRICE INFLATION



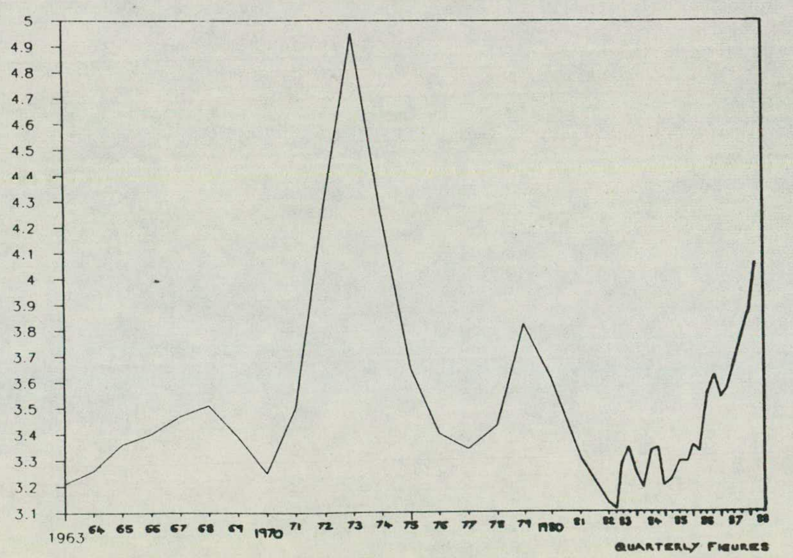
13. Underlying growth in **average earnings** remained unchanged at 8½ per cent for the sixth successive month in May. (The earlier estimate of an increase to 8¾ per cent in April has since been revised downwards.) An upward drift in the growth of underlying earnings in manufacturing, to 8¾ per cent in April and May, in part reflected high levels of overtime working in the

manufacturing sector, and has been dampened by relatively steady growth in underlying earnings in the service sector, at 8½ per cent in May for the seventh successive month.

14. The latest figures for the Halifax index show that **house prices** in the UK rose by 24% over the year to June, which continues the strongly rising trend. Latest figures for the ratio of house prices to average earnings show this to have reached over 4, the highest since the boom of 1973/74 when it approached 5. The Halifax believe that house price inflation could rise to around 25% during the next two to three months, falling back to about 20% by the year end, which is in line with Treasury's own forecasts for the end of the year.

15. The latest regional information from the Halifax continues to show house prices rising fastest in East Anglia, where house prices are now nearly 50% higher than a year ago and almost 15% higher than three months ago. The boom in house price inflation in the South West is confirmed, with average prices now rising by over 38% a year, and for the West Midlands there is a similar rise of 35%. On the Halifax figures, Greater London prices continue to rise by almost 25%, and the South East by 30%. (However, the Royal Institute of Chartered Surveyors' survey of estate agents, and earlier figures from the Nationwide Anglia point to a slowing down in London price increases.) In the Northern regions, the pick-up in house price inflation is to more modest levels.

HOUSE PRICE EARNINGS RATIO



Projections for money GDP

16. The June internal forecast showed a 10 per cent rise in **money GDP** in 1988-89, in contrast to the Budget forecast, which was for a 7½ per cent increase. This upward revision was to both activity (up from 3 to 4 per cent growth) and the GDP deflator (up from 4½ to 5¾ per cent growth). The June forecast projected a gradual rise in base rates (broadly a half point rise each quarter) to reach 10 per cent at the start of 1989. The more rapid rise in interest rates than anticipated is likely to have some downward pressure on money GDP and domestic activity. But since the difference, as yet, is largely of timing rather than scale, the effects on activity are likely to be small. Both real and money GDP growth may be around ¼ per cent lower in 1988-89 as a consequence. The effects on RPI inflation, however, are likely to be more significant. Mortgage rates are likely to rise by around 1¾ percentage from 1 August, adding around 0.6 per cent to the all-items RPI inflation rate.

C. Public Sector Finances and the Fiscal Stance

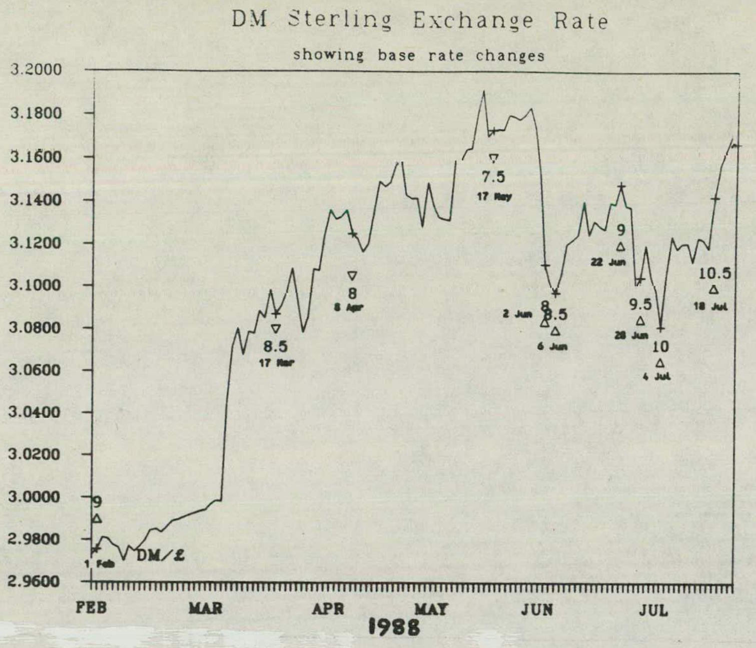
17. Table 5 gives the main indicators of the fiscal stance. The **PSBR** in June is close to zero. The cumulative total for the PSBR in the first three months of 1988-89 is a net repayment of £1.6 billion, compared to borrowing of £0.3 billion in the Budget profile. The CGBR(O) is £2.0 billion below profile, largely reflecting higher receipts (Inland Revenue by £0.8 billion) and lower expenditure than profiled.

18. Excluding privatisation proceeds, the PSBR in April to June 1988 is £1.1 billion, compared to £3.8 billion in the same period a year ago, and £3.2 billion in the Budget profile - the lower than profiled PSBR reflecting a lower CGBR(O). While three months' figures do not provide a reliable pointer for the year as a whole, the outturn for the PSBR for April to June suggests a higher public sector debt repayment (PSDR) for 1988-89 than the £3.2 billion forecast at Budget time. The figures are broadly consistent with the £7.4 billion PSDR projected in the June internal forecast.

19. Of the £4.2 billion increase in the 1988-89 PSDR between the Budget and June forecasts, almost £1 billion reflects higher than published privatisation proceeds, which have little effect on the economy. Detailed analysis suggests that the remaining £3.3 billion increase is more than fully accounted for by the higher June forecast for activity and inflation relative to the FSBR. On this basis it could be inferred that ex-ante fiscal stance (ie for given activity and prices) is no tighter than expected at Budget time. However the PSDR forecast itself is sufficiently uncertain at this stage of the year to rule out any firm conclusions.

SECRET AND PERSONAL

D. Exchange Rates and External Accounts



20. The **dollar** strengthened initially in July, as bond yields rose on inflation worries (prompted particularly by strong employment data) and May trade figures confirmed the improving trend in the US current account. Its rise from DM1.80 at the opening on 28 June to DM1.89 on 18 July was stemmed only periodically by concerted intervention. However, the second rise in the German repurchase rate in this period (by ¼% to 4%), combined with further concerted intervention and profit taking, led to a sharp reverse to DM1.83 on 22 July. Despite a ½% increase in German Lombard rate (to 4.5%) the mark lost further ground against all currencies and fell to DM1.86 against the dollar on 28 July. The Bundesbank sold $4 billion over the whole period. The dollar surrendered its early gains against the yen to finish just above Y132.

21. **Sterling** moved broadly in line with other currencies against the dollar, but its trend against the European currencies was slightly firmer. Three interest rate increases since 28 June were absorbed relatively quietly against a background of concern about the UK trade deficit and firmer German interest rates. After a spell of little net intervention, the Bank of England stepped up its operations as the easier dollar switched the market's focus to high interest rate currencies, particularly as sterling approached DM3.19 on 21 July. Sterling reached DM3.21 by close on 28 July. In total, the Bank bought $1.5 billion equivalent. Sterling rose from $1.72, DM3.10 and ERI 75.1 on 28 June to $1.73, DM3.21 and ERI 76.8 on 28 July.

SECRET AND PERSONAL

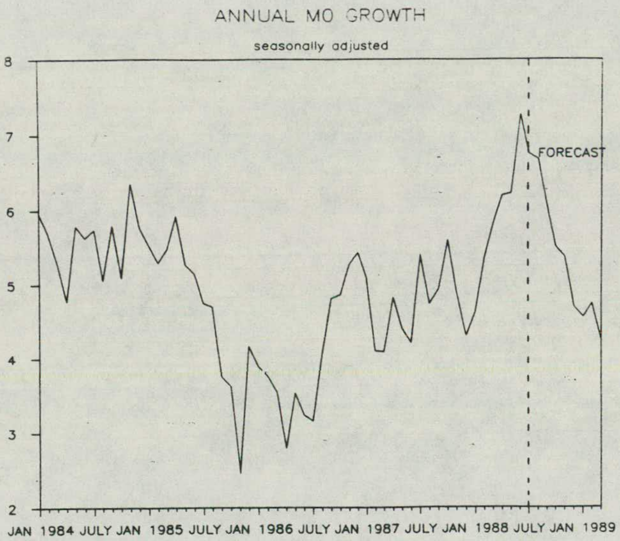
22. A rise in sterling's effective rate of about 2¼ per cent in July has been accompanied by a 7½ per cent rise in the oil price, from $14¾/SDR 11¼ on 28 June to about $16/SDR12 on 22 July. The combination of a higher exchange rate and higher oil prices over this period may itself have tightened monetary conditions slightly: the **oil adjusted ERI** has risen by 1¼ per cent.

23. The June trade figures, published on 27 July, showed a deficit on the current account of £1021 million compared with a revised deficit in May of £1144 million (previously £1205 million). The smaller deficit reflected an improvement in the terms of trade, while export and import volumes (including oil and erratics) both rose by 3 per cent. Analysis of the export volume figures remains difficult, but the underlying level now looks to have returned to roughly that of the fourth quarter. Import volumes (less oil and erratics) increased again in June and remain on an upward trend.

24. The July figures will be the first affected by the Piper Alpha accident. D.En estimate a loss of net exports of £300 million in 1988. In the current account this will be partly offset by lower profits of overseas companies. The net current account effect is expected to be -£250 million in 1988. The impact will be at its greatest in the third quarter.

E. Domestic Monetary and Financial Market Developments

Narrow Money



25. MO (seasonally adjusted) accelerated in June, the 12 month growth rate rising to 7¼ per cent, from 6¼ per cent in May. The nsa annual rate rose even more sharply, to 7¾ per cent from 5¾ per cent in May, but this reflects the distortionary effects of the timing of the end of May Bank Holiday on the June figures. (The end of May Bank Holiday boosted notes in circulation on the next

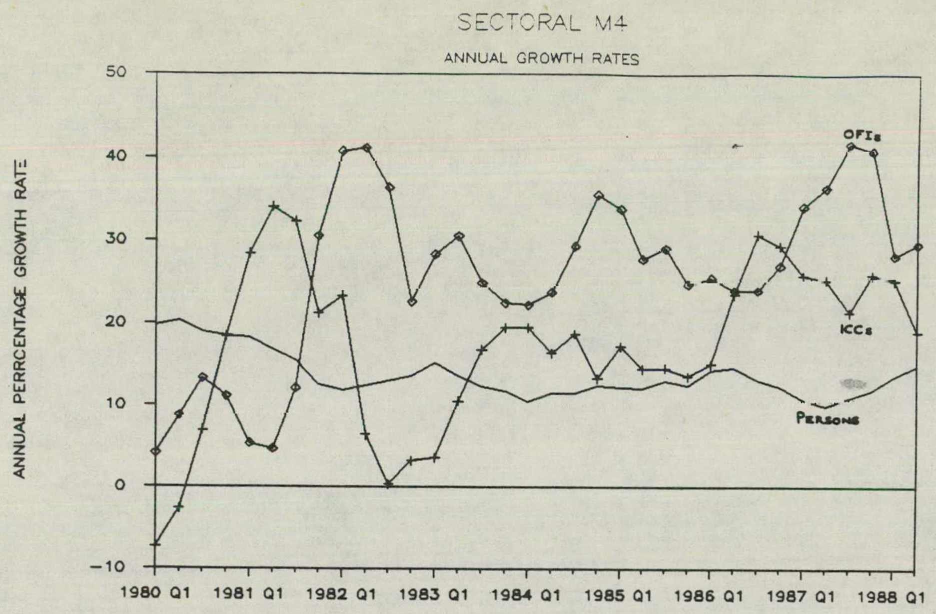
reporting Wednesday for MO - which was in June - whereas a year ago the following Wednesday was in May.)

26. Part of the acceleration in seasonally adjusted MO is explained by a low level of bankers' balances a year ago, so that annual growth of notes and coin rose less sharply, to 7 per cent from 6½ per cent in May. Comparisons with the Budget profile, which allows for erratic movements in bankers' balances a year ago, shows that MO growth is currently about 2¼ percentage points above its Budget profile. This probably reflects both higher money GDP growth in Q2 than projected at Budget time and a shift within money GDP towards domestic demand from net exports during 1988, the latter implying some reduction in the growth of MO velocity. This may have been accentuated by the effects of the Budget tax rebates during June.

27. Based on the weekly figures for July so far, the forecast has the 12 month growth rate of MO declining to 6¾ per cent in July. But this fall reflects the unwinding of erratic movements in bankers' balances - the annual growth rate of notes and coin is little changed at just over 7 per cent in July. As yet, MO has shown few signs of decelerating, but the 3% hike in interest rates since early June is projected to slow MO growth in the rest of 1988-89. The 12 month growth rate of MO is projected to fall back to under 5 per cent around December/January, falling further, to 4¼ per cent, by the end of 1988-89 (see table 25). The differential compared to the Budget profile is projected to remain at around 2¼ percentage points over the rest of the financial year. The projected slowdown of MO growth largely reflects the greater sensitivity of MO to interest rate changes than of money GDP, which is expected to be growing at a year-on-year rate of 9½ per cent at the end of 1988-89. Hence the projected decline of MO growth in the rest of the financial year would be consistent with a higher rate of increase of MO velocity than at present.

SECRET AND PERSONAL

Broad Money



28. Twelve month growth of M4 rose to 17 per cent in June, from 16 per cent in May, largely reflecting the rapid growth of interest-bearing retail deposits. Retail deposits are likely to have been boosted by the tax rebates during June, although the size of the increase in retail deposits means other factors must also have been at work. Because of the tax rebates, companies made higher than normal net wage payments in June, which will be offset in July when they make smaller tax payments to CG. This may have increased personal retail deposits by more than company deposits fell, particularly if companies temporarily increased their borrowing, so increasing broad money. There was another very high level of credit growth in June, largely reflecting both bank lending to companies and building society mortgage lending. These have been the main influences - particularly company borrowing - behind the acceleration of lending since the end of 1987.

29. **M4** grew by £6.9 billion (2.1 per cent) in June and the annual rate rose to 17 per cent, from 16 per cent in May; **M3** grew by £5.1 billion (2.6 per cent) and the annual rate increased to 20¼ per cent, from 18½ per cent in May. Annual growth of M4 has behaved erratically in 1988 so far, though a slight upward trend is emerging. This is in contrast to credit growth,

which has accelerated markedly over the period. The sectoral breakdown of M4 shows opposing trends since the equity crash: an increase in personal sector liquidity preference (reflecting switching out of unit trusts and equities); and a decrease in companies' liquidity preference (suggesting liquidity rundown as well as increased bank borrowing in substitution for equity finance).

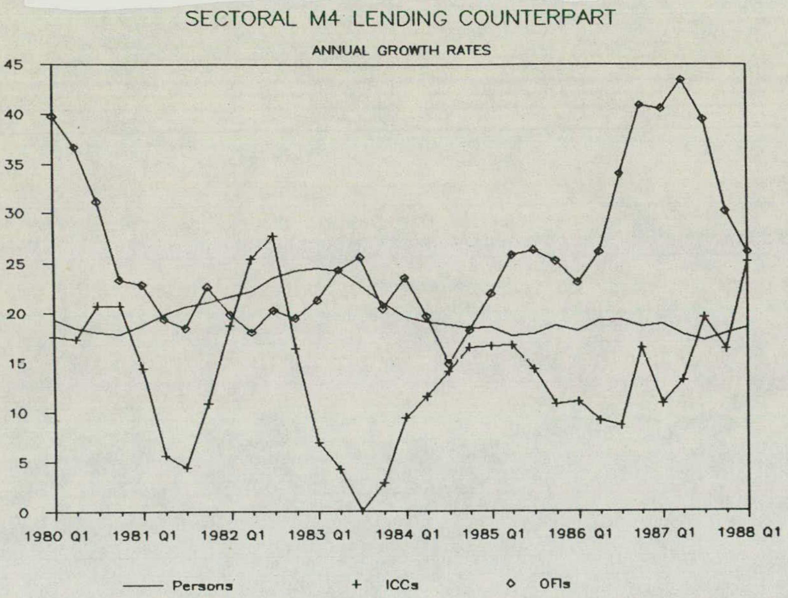
30. It had been argued that recent M4 annual growth rates were depressed by cumulative overfunding. Statistical analysis suggests, however, that overfunding is correlated with M4 only over 1-3 months, and that annual rates are unlikely to be distorted.

31. Within the **M4 components**, allowing for the reclassification of one bank's accounts, underlying bank and building society interest-bearing retail deposits increased by £3.9 billion (2 per cent) in June and underlying wholesale bank deposits increased by £2.4 billion (3 per cent). Building societies' wholesale deposits were negligible. Bank interest-bearing retail deposits grew particularly strongly in June, as banks raised their retail deposit rates but societies did not (see below). Banks' wholesale deposits may have been boosted by a gilt redemption of £0.8 billion in mid-June, which was responsible for the £0.6 billion underfund in the month.

32. **Building societies' retail inflows** rose by £1.2 billion in June (£2.0 billion including interest credited), which continues the strong growth seen since last November. Following the three base rate rises from 8.5% to 10% between 22 June and 4 July, the banks increased their deposit and high interest account rates, narrowing the competitive advantage of building societies from a normal level of 1% to the unusually low level of under ½%. The most recent rise in base rates to 10½% will see this competitive edge narrow even further. However, building societies will increase their retail deposit and mortgage rates from 1 August, so any effect on building society inflows is likely to be small and short-lived. Meanwhile, building societies will have benefited from the depositing of some of the arrears of tax reductions which were paid out in June.

33. **Building society wholesale inflows,** at £1.1 billion, were exceptionally strong in June, with strong inflows from Eurobonds (arranged earlier in the year) but also from CD's and time deposits. Consequently, liquid assets rose sharply. Possible explanations for such high wholesale funding are anticipatory funding of expected high mortgage lending in the Summer (when retail inflows are seasonally low) and anticipation of rising interest rates. Building society wholesale deposits were mostly from the overseas and monetary sectors and hence did not inflate M4.

<u>Credit</u>



ICC's borrowing has increased sharply post-crash, while growth rates of OFI's borrowing - as with their deposits - have fallen back post Big-Bang. Persons' borrowing has been relatively stable in the 1980's, but has recently accelerated, reflecting increased mortgage borrowing.

34. **Bank and building society lending** rose by £9.8 billion (2.7 per cent) in June and the 12 month growth rate rose to 23 per cent, from 22¼ per cent in May and 19 per cent at the end of 1987. (The one month growth rate is affected by interest charging.) Annual growth of sterling bank lending and building society lending in June were respectively 27½ per cent (27 per cent in May) and 16¼ per cent (15 per cent in May). Banks' foreign currency lending also rose strongly, by £2.6 billion, although currency lending typically behaves erratically and has been virtually flat in the 12 months to June.

35. Within **sterling bank lending,** CLSB figures - which covered about 85 per cent of total bank lending - indicate that non-financial companies continue to be the main borrower (£3¼ billion out of £6¼ billion in June). Takeover-related borrowing of £1 billion has been identified, although this will not necessarily have boosted total bank lending one-for-one as, for example, unsuccessful rival bidders or the recipients of the takeover proceeds may have correspondingly reduced their borrowing. Company borrowing may have been inflated temporarily to finance higher net wage payments arising from the tax rebates (see above). As in other recent months, lending was highest to manufacturing industry - which was mostly for takeovers - and to property companies (£1 billion and £½ billion respectively).

36. CLSB lending to persons for house purchase was £1¼ billion, which is higher than other recent interest charging months, but not exceptionally so. Taken together with the continued very high level of mortgage lending by building societies, this suggests that the banks' market share of new mortgage lending was around 29 per cent in June, compared with 37 per cent level at the end of 1987. CLSB lending to persons for consumption (£¾ billion) in June was in line with past seasonal patterns and the rate of CLSB consumer lending does not seem to have changed in the past year.

37. **Building society mortgage lending** grew by £2.5 billion (1.8 per cent) in June, similar to the high growth rates seen since March. Commitments figures have remained strong, and lending is expected to continue at current levels over the Summer. Lending figures from May until September or October may be swollen by joint purchasers rushing to beat the 1 August deadline for exchange of contracts. There is little firm evidence for this so far in the lending figures of the main mortgage lenders, but a few building societies report an increased proportion of loans with multiple mortgage interest rate relief, and there are anecdotal reports from estate agents about increased joint purchases.

Funding

38. There was a £0.6 billion underfund of M4 in June, mainly reflecting gilt redemptions of £0.8 billion. The banks made further disposals of gilts in June, making total disposals of £1¼ billion in the second quarter, while building societies have purchased about £0.4 billion gilts in Q2 - possibly reflecting their improved liquidity recently. Overfunding in the 12 months to May was £3¾ billion.

39. The overseas sector made further net sterling bank deposits in June (£1.3 billion, compared to a total of £2.9 billion in April/May) and also made small net purchases of CG debt (£0.2 billion). This latest accumulation of sterling assets by the overseas sector may reflect rising interest differentials in favour of sterling during June, but increased overseas demand for sterling assets is surprising given the steady fall in the sterling exchange rate during the month.

40. The **broad money forecast** for July shows the annual growth rate of M4 remaining unchanged, at about 16¾ per cent, and M3 growth falling by about ½ per cent to 19¾ per cent. Bank and building society lending is expected to remain at recent high levels, though lower than in June, as temporary borrowing by companies to finance tax rebates unwinds. Annual growth of bank lending is expected to fall by about ¾ per cent to 26¾ per cent but building society lending is expected to accelerate further to 17 per cent, leaving annual growth of lending within M4 little changed at 22¾ per cent.

Money Markets and Interest Rates

41. **Money market rates** began July ranging from 9.7 per cent at one month to 10.4 per cent at 12 months, with base rates at 9½ per cent. The two base rate rises of half a point each during July had generally been discounted by the markets, which were expecting larger rises because of inflation fears. Rates currently range from 10.4 per cent at one month to 10.8 per cent at 3 months and 10.9 per cent at 12 months.

42. The stock of **money market assistance** fell to £9 billion at the end of June, from £9½ billion in May. It is projected to rise again to about £9½ billion in July, partly reflecting a £¼ billion overfund, and to £10 billion in August, before falling to under £9 billion in September (see table 29).

Capital Markets

43. Markets have been very quiet during July, at the beginning of the Summer lull, with trading almost ceasing in the run up to the US trade figures for May, published on 15 July. The equity and bond markets have been restrained by rising interest rates and fears of inflationary pressures around the world.

44. **Gilts** ended June with the index at 88.3 and 5, 10 and 20 year par yields at 9.7, 9.8 and 9.6 per cent respectively. Base rates were raised on 4 July, but this had little effect on the market, which remained broadly steady, before the index fell in the middle of the month to around 87.5. Base rates were raised again on 18 July, and the long end of the market has improved. The index currently stands at 88.0, with par yields at 9.9, 9.8 and 9.5. The yield curve is therefore more strongly downward sloping.

45. Real yields on **index-linked stock** began July at 3.9 for medium, and 3.8 for the longest dated stocks, and are currently at around these levels. **Break-even inflation rates** for index-linked Treasury 1990 and 2006 are currently 4.9 and 5.7 per cent, compared with 4.6 and 5.8 per cent at the beginning of the month. The evidence is therefore generally consistent with some increase in inflation expectations in the short term, but not at the expense of the authorities' longer-term credibility. The **equity dividend yield** (based on the all-share index) stands at 4.2, unchanged since the start of July.

46. **Equity prices** (measured by the all share index) are unchanged since the end of June, but the market remains nervous both because of uncertainty surrounding the outlook for interest rates and inflation, and because of volatile stock markets overseas.

47. **Unit trust inflows** were £230 million (net) in June, the highest monthly figure since the crash. However, this compares with a monthly average of £660 million in 1987 before the crash, and by themselves the June figures would not suggest a reversal of the trend evident since the crash of a greater wish of the personal sector to hold liquidity.

48. Sterling commercial paper outstanding fell by £0.1 billion in June to £3.3 billion, having risen steadily by over £0.2 billion a month since December. ICC's issues were unchanged at £2.7 billion. Monetary sector holdings fell by £0.1 billion to £0.6 billion.

49. Issues in the fixed rate **eurosterling** and domestic bond markets fell back somewhat in June. At £0.7 billion, Eurosterling issues were £½ billion lower than in May, while domestic loan stock issues were unchanged. FRN issues were, however, exceptionally strong at £1.2 billion (of which £0.6 billion was by building societies) bringing total issues in Q2 to £2.2 billion, compared with £1.0 billion in Q1 and £1.3 billion in the whole of 1987.

MG2 Division
29 July 1988

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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
1984	8.6	4.9	7.8	6.7	8.6	-0.6	4.1	3.6
1985	6.6	3.2	2.8	8.2	8.4	0.7	3.5	3.3
1986	5.7	2.7	1.0	11.0	8.3	1.0	1.5	2.9
1987	5.4	2.9	2.8	11.2	8.6	-1.0	2.5	2.4
1987 Q1	5.0	2.5	0.8	13.7	8.9	0.1	1.5	2.4
Q2	4.7	2.3	1.8	12.5	9.0	-0.7	2.5	2.4
Q3	5.6	3.2	3.4	10.1	8.3	-1.4	2.9	2.2
Q4	6.4	3.8	5.2	8.0	8.5	-2.1	3.0	2.4
1988 Q1	6.2	3.4	6.1	7.2+	8.5+		2.7	2.7
1987 Jul			2.8	10.9	8.5		2.6	
Aug			4.2	10.5	8.4		3.0	
Sep			4.0	9.6	8.1		2.9	
Oct			4.6	10.1	8.7		3.1	
Nov			5.3	8.4	8.5		3.0	
Dec			5.6	6.2	8.2		3.0	
1988 Jan			6.5	6.9	8.2		2.7	
Feb			5.9	7.4+	8.7+		2.7	
Mar			5.7	7.4+	8.7+		2.7	
Apr			5.8	6.9+	8.5+		2.6	
May			5.9	6.1+	8.5+		2.6	

* Percentage changes on a year before.
\+ Partly estimated.

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Table 2

GERMANY: KEY FIGURES

		INDUSTRIAL PRODUCTION*	index	CONSUMER PRICES*	TRADE SURPLUS** $bn		MONEY SUPPLY (M3)*
1984		3.4		2.4	1.7		3.3
1985		5.4		2.2	2.2		3.8
1986		2.1		- 0.2	4.5		4.2
1987		0.2		0.3	5.5		6.7
1987	J	- 1.9	104	- 0.8	4.8	(4.5)	6.7
	F	0.0	106	- 0.5	6.1	(4.7)	7.1
	M	- 0.9	106	- 0.2	4.8	(4.9)	6.6
	A	- 0.9	107	0.1	5.3	(5.0)	7.9
	M	2.9	108	0.2	6.0	(5.2)	8.5
	J	- 0.9	107	0.2	4.6	(5.1)	7.4
	J	- 2.8	106	0.7	5.6	(5.1)	6.7
	A	2.8	110	0.8	4.9	(5.1)	6.5
	S	0.9	108	0.4	5.8	(5.2)	5.8
	O	0.9	108	0.9	4.8	(5.2)	5.8
	N	0.9	108	1.0	6.1	(5.3)	5.5
	D	3.6	109	1.0	6.8	(5.5)	5.8
1988	J	4.9	108	0.7	6.5	(5.6)	5.8
	F	2.8	110	0.9	4.9	(5.4)	6.1
	M	1.8	110	1.0	4.3	(5.5)	6.1
	A	2.0	109	0.9	6.5	(5.5)	6.3
	M	1.6	109	1.1			6.3

* Percentage changes on a year before.

** Yearly figures are monthly averages. Monthly figures in brackets are average of past 12 months.

TABLE 3

THREE MONTH INTEREST RATES IN THE G5 COUNTRIES*

	United States	Japan	Germany	France	UK
1983	9.1	6.5	5.8	12.5	10.1
1984	10.1	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	6.9	3.9	4.0	8.2	9.7
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	9.9
Nov	7.4	3.9	3.9	8.6	9.0
Dec	7.8	3.9	3.6	8.7	8.7
1988 Jan	7.0	3.9	3.4	8.3	8.9
Feb	6.6	3.8	3.4	7.6	9.2
March	6.7	3.8	3.4	8.0	8.8
April	6.9	3.8	3.4	8.1	8.3
May	7.3	3.8	3.6	7.9	8.0
June	7.6	3.8	3.9	7.4	8.7
July 28th	8.1	3.8	5.4	7.4	10.8

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

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TABLE 4

EFFECTIVE EXCHANGE RATE INDICES (1975 = 100)

	United States	Japan	Germany	France	UK	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
1987	101.2	219.6	147.6	71.8	72.7	144.7	1.80
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
Q4	97.0	227.4	149.4	72.3	75.2	134.0	1.71
1988 Q1	94.2	240.2	149.6	71.9	75.3	128.0	1.68
Q2	93.5	245.4	147.7	70.9	77.6	125.7	1.71
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	96.5	228.4	150.9	72.3	75.4	135.3	1.68
Dec	93.9	232.4	150.2	73.1	76.6	123.4	1.65
1988 Jan	93.0	239.5	150.4	72.5	71.9	127.8	1.65
Feb	95.0	239.5	149.1	71.8	74.3	129.2	1.70
March	93.6	241.6	149.3	71.5	76.8	127.1	1.68
April	92.7	245.0	148.9	71.3	78.2	124.9	1.67
May	93.0	246.2	147.9	71.1	78.4	124.8	1.69
June	94.8	244.9	146.2	70.4	76.2	127.4	1.76
July 28th	98.2	241.3	143.5	69.0	76.8	132.3	1.87
% Change since dollar peak (Feb 85)	- 38	+ 54	+ 22½	+ 11	+ 9½	- 49½	- 45½
% Change since Plaza (Sept 85)	- 29½	+ 54	+ 14½	+ 2½	- 6½	- 45	- 34
% Change since Louvre Accord (Feb 87)	- 5½	+ 15½	- 3	- 4½	+ 11	- 14	+ 2
% Change since Stock market crash (16 Oct 1987)	- 2	+ 8½	- 2½	- 3½	+ 4½	- 7½	+ 4

Table 5

ECONOMIST COMMODITY PRICE INDICES 1985=100

	All items indices				SDR indices		
Annual	SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
1980	104.4	133.7	74.0	115.6	96.7	106.2	118.6
1981	99.3	115.2	73.5	105.3	93.7	104.7	106.2
1982	91.8	99.9	73.4	94.3	89.3	96.0	93.8
1983	107.2	112.7	95.7	110.4	102.0	116.6	110.1
1984	110.3	111.5	107.2	113.1	112.3	111.6	106.2
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	89.8	103.7	90.6	86.4	92.4	89.9	85.4
1987	87.4	111.5	87.1	82.2	73.0	103.3	100.6
Quarterly							
1986 Q3	84.6	100.2	86.2	81.8	85.1	85.5	83.1
Q4	84.2	100.1	89.5	80.2	82.2	91.0	82.8
1987 Q1	81.0	100.8	83.5	76.5	73.2	95.2	84.3
Q2	84.9	108.2	84.4	80.0	73.2	102.6	92.1
Q3	90.2	113.4	90.0	83.8	70.7	111.9	108.0
Q4	93.4	123.7	90.3	88.4	74.7	103.3	117.9
1988 Q1	99.8	134.6	95.9	94.6	77.6	105.5	133.4
Q2	115.5	155.7	108.8	107.6	84.0	115.1	169.1
Monthly							
July	89.3	111.5	88.9		71.9	109.4	104.4
August	91.4	114.2	91.8		69.6	115.0	111.7
September	90.1	114.5	89.3		70.7	111.4	107.9
October	93.5	119.3	92.3		74.2	106.8	117.0
November	91.3	121.3	88.1		74.2	101.4	113.3
December	94.8	129.1	90.5		75.6	102.1	122.4
January	97.4	132.2	94.1		78.1	102.7	126.6
February	98.2	131.2	95.6		78.0	106.5	126.7
March	103.8	140.3	98.0		76.8	107.3	157.0
April	106.4	144.9	99.1		77.3	110.5	152.8
May	113.4	153.8	105.7		80.9	114.1	168.2
June	126.7	168.4	121.6		93.9	120.8	186.4
July(prov)	119.1	153.0	115.1		96.9	117.7	157.6
Weekly							
MAY 24	115.7	156.8	107.6		82.8	115.7	171.5
31	120.4	161.9	112.8		84.1	120.0	182.1
June 7	128.1	172.1	121.8		90.0	120.3	198.4
14	124.3	166.8	119.8		89.1	119.1	187.8
21	131.5	174.6	125.3		97.6	121.5	196.3
28	122.7	160.2	119.4		99.0	122.3	163.1
July 5	122.2	157.4	118.2		99.7	121.6	160.9
12	118.4	152.5	115.1		97.4	117.9	154.3
19	118.3	150.9	114.2		98.5	116.2	153.2
26(prov)	117.4	151	112.9		92.1	115.2	161.8
% ch. on one yr	+31.5	+35.7	+26.6		+30.5	+5.4	+51.7

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

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TABLE 6: RECENT INDICATORS OF ACTIVITY AND INFLATION
(per cent changes on year earlier)

	MONEY GDP		GDP(O))	Manufacturing Output	Retail Sales	RPI	RPI excluding mortgage payments	Producer Prices*** Output	Producer Prices*** Input	Unit Wage Costs Manufacturing	Unit Wage Costs Whole economy
			OUTPUT AND ACTIVITY			**PRICES AND UNIT LABOUR COSTS**					
1985-86	9.7	1986	2.9	0.2	5.3	3.4	3.6	4.3	-10.8	4.7	5.3
1986-87	6.8	1987	4.7	5.3	5.9	4.1	3.7	4.5	5.3	1.2	4.3
1987-88	9.9										
1986 2	6.4	1986 1	2.2	- 1.7	4.4	4.9	4.6	5.0	-11.9	8.8	6.3
3	6.5	2	2.2	- 1.3	4.7	2.8	3.3	4.3	-12.4	7.0	6.3
4	7.0	3	3.5	0.8	5.4	2.6	3.3	4.0	-13.0	3.7	4.2
1987 1	7.5	4	3.9	3.8	7.3	3.4	3.4	4.0	- 5.6	1.5	4.7
2	8.9	1987 1	4.3	4.3	5.1	3.9	3.7	4.1	- 1.7	0.9	3.8
3	10.7	2	4.2	5.0	5.8	4.2	3.6	4.5	4.6	0.9	4.5
4	10.2	3	5.2	6.8	6.6	4.3	3.6	4.7	12.9	0.8	4.2
1988 1	9.6	4	5.4	5.5	5.6	4.1	4.0	4.7	6.2	2.1	4.8
		1988 1	5.1	6.4	7.8	3.4	3.7	4.9	4.6	1.5	5.9
1988-89*	10.0	2				4.3	4.4	4.9	6.9		
		1987 May		5.8	5.0	4.1	3.8	4.5	3.4	0.5**	
		June		5.1	5.0	4.2	3.5	4.5	7.2	1.0	
		July		5.8	7.0	4.4	3.7	4.7	13.4	1.7	
		August		8.4	6.8	4.4	3.7	4.7	14.5	1.1	
		September		6.2	5.9	4.2	3.5	4.7	10.8	1.0	
		October		5.8	6.4	4.5	3.9	4.7	7.6	0.9	
		November		5.5	5.1	4.1	4.0	4.8	4.8	1.8	
		December		5.1	5.4	3.7	4.0	4.9	5.0	2.2	
		1988 January[1]		9.5	9.1	3.3	3.7	4.8	4.6	1.1	
		February		4.2	6.7	3.3	3.6	4.8	5.3	1.4	
		March		5.8	7.5	3.5	3.8	4.8	4.5	1.5	
		April		6.4	5.0	3.9	4.2	4.8	5.5	2.7	
		May		6.9	8.3	4.2	4.4	4.8	8.5	2.4	
		June				4.6	4.7	4.9	6.3		

1 Output and sales growth figures boosted by 2½-3 per cent on account of lower economic activity during exceptionally cold January of 1987.

* 1988 June forecast

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

*** Excluding food, drink and tobacco.

\- Not yet available.

TABLE 7 UNDERLYING RETAIL PRICE INFLATION

% change on a year earlier

		RPI	RPI exc mortgages	RPI exc both mortgages and petrol
1984	Q1	5.2	4.5	4.4
	Q2	5.2	4.9	5.0
	Q3	4.7	4.2	4.4
	Q4	4.8	4.1	4.1
1985	Q1	5.5	4.8	4.6
	Q2	7.0	5.3	4.9
	Q3	6.3	5.4	5.2
	Q4	5.5	5.2	5.3
1986	Q1	4.9	4.6	5.2
	Q2	2.8	3.3	4.8
	Q3	2.6	3.3	4.8
	Q4	3.4	3.4	4.5
1987	Q1	3.9	3.7	4.3
	Q2	4.2	3.6	3.6
	Q3	4.3	3.6	3.5
	Q4	4.1	4.0	4.1
1987	July	4.4	3.7	3.6
	Aug	4.4	3.7	3.5
	Sept	4.2	3.5	3.6
	Oct	4.5	3.9	4.0
	Nov	4.1	4.0	4.2
	Dec	3.7	4.0	4.1
1988	Jan	3.3	3.7	3.8
	Feb	3.3	3.6	3.9
	March	3.5	3.8	4.1
	April	3.9	4.2	4.4
	May	4.2	4.4	4.7
	June	4.6	4.7	4.9

TABLE 8 : INDICATORS OF FISCAL STANCE

	PSBR		PSBR EXCLUDING PRIVATISATION PROCEEDS		PSFD (1)	
	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	1.5	0.8	1.5	-0.2	-0.4
1971-72	1.0	1.6	1.0	1.6	0.7	1.1
1972-73	2.4	3.6	2.4	3.6	2.0	3.0
1973-74	4.3	5.8	4.3	5.8	3.5	4.6
1974-75	8.0	9.0	8.0	9.0	6.0	6.7
1975-76	10.3	9.3	10.3	9.3	8.1	7.3
1976-77	8.3	6.4	8.3	6.4	7.5	5.7
1977-78	5.4	3.6	5.9	3.9	6.6	4.4
1978-79	9.2	5.3	9.2	5.3	8.3	4.8
1979-80	9.9	4.8	10.3	5.0	8.0	3.9
1980-81	12.5	5.3	12.9	5.5	11.7	5.0
1981-82	8.6	3.3	9.1	3.5	5.2	2.0
1982-83	8.9	3.1	9.4	3.3	8.3	2.9
1983-84	9.7	3.2	10.9	3.5	11.4	3.7
1984-85*	10.1	3.1	12.2	3.7	13.1	4.0
1985-86*	5.7	1.6	8.4	2.3	8.2	2.3
1986-87	3.4	0.9	7.9	2.0	9.5	2.5
1987-88	-3.5	-0.8	1.6	0.4	2.2	0.5
Budget forecast						
1988-89	-3.2	-3/4	1.8	1/2	1.4	1/2

*If adjusted for coal strike, PSBR and PSFD ratios to GDP roughly 0.9 per cent lower in 1984-85 and 0.2 per cent lower in 1985-86.

(b) Quarterly Data

£ billion		PSBR		PSBR excluding privatisation		PSFD	
		sa*	ua	sa*	ua	sa+	ua
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	2.2	3.2	3.3	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	1.5	0.0
1987	Q1	0.4	-0.8	1.6	0.4	2.5	1.5
	Q2	0.4	1.4	2.8	3.8	1.5	3.2
	Q3	0.0	0.5	1.6	2.1	0.8	1.8
	Q4	-2.3	-2.4	-1.1	-1.3	-0.2	-1.7
1988	Q1	-1.6	-3.0	1.1	-0.2	-0.2	1.3

*financial year - constrained
+calendar year - constrained

Table 9: CGBR(O) April to June Comparison with 1988 Budget Profile

£ billion

Receipts	
Inland Revenue	+ 0.8
Customs and Excise	+ 0.2
National Insurance contributions	+ 0.2
Privatisation proceeds	- 0.1
Interest and dividends	+ 0.2
Other receipts	-
Total receipts	+ 1.4
Expenditure	
Interest payments	+ 0.1
Departmental expenditure (1)	- 0.7
Total expenditure	- 0.6
Net effect on CGBR(O)	- 2.0

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

\+ = higher receipts, higher borrowing and higher expenditure

\- = lower receipts, lower borrowing and lower expenditure

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TABLE 10

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)
1985	(1)	72.1	80.1	0.908	1.12	3.63	95.2	+4.1	27.7
	(2)	78.9	88.9	1.001	1.26	3.88	102.3	+4.4	27.0
	(3)	82.1	93.3	1.040	1.38	3.92	103.8	+3.6	27.4
	(4)	79.8	91.6	1.001	1.44	3.71	98.7	+3.5	28.3
1986	(1)	75.1	97.9	1.037	1.44	3.38	90.9	+4.5	17.8
	(2)	76.1	100.8	1.101	1.51	3.39	91.4	+3.2	12.8
	(3)	71.9	93.5	1.049	1.50	3.10	84.9	+3.8	12.4
	(4)	68.3	87.3	0.970	1.43	2.87	79.0	+5.1	14.8
1987	(1)	69.9	87.3	0.967	1.54	2.83	78.8	+4.3	17.9
	(2)	72.8	92.0	0.996	1.64	2.96	82.6	+2.1	18.6
	(3)	72.7	92.6	0.992	1.62	2.97	83.0	+2.8	19.0
	(4)	74.9	93.7	1.030	1.76	2.99	83.8	+1.2	18.1
1988	(1)	75.2	95.6	1.057	1.78	3.01	84.5	+2.2	15.7
1987	June	72.7	92.0	0.991	1.63	2.96	82.6	+2.1	18.9
	July	72.8	92.3	0.985	1.61	2.97	82.9	+2.6	19.8
	August	72.3	92.2	0.988	1.60	2.97	82.8	+3.2	18.9
	September	73.1	93.1	1.004	1.65	2.98	83.2	+2.6	18.3
	October	73.6	93.6	1.006	1.66	2.99	83.5	+1.7	18.8
	November	75.4	93.6	1.040	1.78	2.99	83.9	+1.0	17.8
	December	75.7	94.0	1.045	1.83	2.98	84.0	+0.9	17.7
1988	January	74.8	94.2	1.038	1.78	2.98	83.5	+1.8	16.7
	February	74.3	94.6	1.047	1.75	2.98	83.7	+2.6	15.6
	March	76.5	97.9	1.087	1.82	3.06	86.4	+2.1	14.8
	April	78.4	100.2	1.097	1.88	3.14	88.3	+1.2	16.4
	May	78.3	101.3	1.094	1.87	3.17	89.0	+0.5	16.5
	June	76.3	100·0	1.073	1.78	3.12	87.7	+1.3	15.8
	July 28th	76.8	na	1.081	1.73	3.21	90.1	+2.7	15.7

-/ Oil price adjusted ERI of 1.0 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

@ Figures for latest months are tentative forecasts based on extrapolated producer price indices wpu.sr1.4

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TABLE 11: 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
	(4)	9.2	7.8	9.0	9.5	4.0	4.7	2.4	4.1	3.8
1988	(1)	9.0	6.9	8.7	9.4	4.1	4.8	2.2	4.0	4.0
1987	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	4.0	5.9	3.1	4.2	4.0
	October	10.0	8.3	9.5	9.8	4.2	5.6	3.1	4.5	4.3
	November	8.9	7.4	9.0	9.2	3.8	4.9	1.9	4.0	3.3
	December	8.7	7.8	8.5	9.5	3.9	4.6	2.3	3.9	3.9
1988	January	8.9	7.1	8.5	9.6	4.1	4.6	2.3	4.2	4.1
	February	9.3	6.7	9.0	9.4	4.2	4.9	2.2	4.0	3.9
	March	8.9	6.8	8.5	9.1	3.9	4.8	2.2	3.9	3.9
	April	8.4	7.2	8.0	9.1	3.9	4.3	1.7	3.8	3.8
	May	7.9	7.4	7.5	9.3	3.9	4.5	2.0	3.7	3.8
	June	9.0	7.7	8.5	9.3	4.2	4.6	2.3	3.8	3.9
	July 28th	10.8	8.1	10.5	9.5	5.2	5.3	2.7	3.9	3.9

* Unweighted average of forecasts by Phillips and Drew, National Institute, LBS, James Capel, ~~Wood MacKenzie~~ Oxford Economic Forecasting and Goldman Sachs; 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 13 CONFIDENTIAL

KEY MONETARY INDICATORS

1987	June	July	Aug	Sept	Oct	Nov	Dec	Jan88	Feb	Mar	Apr	May	June
MONETARY AGGREGATES 12-month % change (u/a)													
M0	4.2	5.3	4.5	5.2	5.5	4.9	4.2	4.8	5.3	6.4	5.9	5.7	7.7
M3	19.3	21.0	22.2	19.7	22.5	21.5	22.9	22.5	20.6	20.9	19.4	18.6	20.3
M4	13.9	15.0	15.6	15.0	15.8	15.3	16.3	16.6	16.1	16.8	16.0	16.1	16.8
M5	13.6	14.4	15.0	14.4	15.3	14.7	15.9	16.3	15.7	16.6	15.7	15.5	16.1
STERLING LENDING 12-month % change (u/a)													
Banks	21.6	22.3	21.6	23.6	22.9	22.5	22.8	24.7	24.3	25.2	26.9	27.0	27.7
Banks & Building Societies	19.3	19.5	18.8	20.0	19.3	19.0	18.8	20.1	19.9	20.9	21.9	22.3	22.9
OVER(-)/UNDER(+) FUNDING Financial year to date: mn	2422	1982	2228	2066	3912	1297	2525	-3993	-5475	115	-1466	-1345	-522
MONEY MARKET ASSISTANCE Level Outstanding: mn	5132	7078	6114	5421	5403	7073	7221	12507	13425	9673	10074	9572	8877
INTEREST RATES													
3-Month Interbank	9.0	9.3	10.2	10.1	10.0	8.9	8.7	8.9	9.3	8.9	8.4	7.9	9.0
20-Year Par Yield	8.9	9.3	10.0	10.0	9.8	9.2	9.5	9.6	9.4	9.1	9.1	9.3	9.3
EFFECTIVE EXCHANGE RATE	73.3	72.7	72.8	72.3	73.1	73.6	75.4	75.7	74.8	74.3	76.5	78.4	76.3

tables/12curacct

TABLE 12 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		0.7	8.9	0.6	4480
1983		-0.6	10.1	-0.7	3753
1984		9.5	11.0	-2.0	2009
1985		6.8	4.1	1.8	3276
1986		2.3	5.8	-0.7	116
1987		7.3	8.8	+1.1	-1560
1987	Q1	10.0	3.8	-1.3	974
	Q2	6.0	9.2	+1.9	-218
	Q3	8.9	11.5	+1.2	-919
	Q4	4.7	9.7	+3.0	-1397
1988	Q1	-0.4	12.9	+2.4	-2776
	Q2	6.1	12.5	+0.1	-2832
1987	Dec	6.4	11.1	+3.8	- 480
1988	Jan	3.7	16.7	+1.7	-1159
	Feb	-8.0	11.0	+3.1	-1044
	March	3.5	11.3	+2.4	- 572
	April	6.8	15.9	+1.2	- 667**
	May	5.9	7.2	-0.8	-1144**
	June	5.8	14.9	0.0	-1021**

* Excluding oil and erratics.
**Includes invisibles projection from April 1988.

TABLE 14

S E C R E T (Until Publication) £ million

GROWTH RATES OF MONETARY AGGREGATES

			1987 JULY	AUG	SEP	OCT	NOV	DEC	1988 JAN	FEB	MAR	APR	MAY	JUNE
M0 -	Monthly change	sa	189	39	120	99	49	139	-46	-18	133	139	77	185
	Monthly % change	nsa	2.8	0.1	0.1	-0.2	0.3	7.0	-6.0	-1.0	1.8	1.7	0.1	1.2
	Monthly % change	sa	1.2	0.3	0.8	0.6	0.3	0.9	-0.3	-0.1	0.8	0.9	0.5	1.1
	6-month annualised % change	sa	4.0	6.2	7.0	7.3	7.0	8.5	5.3	4.5	4.6	0.0	0.0	0.0
	Annual % change	sa	5.4	4.7	4.9	5.6	4.9	4.3	4.6	5.3	5.8	6.2	6.2	7.3
M3 -	Monthly change	nsa	4268	2147	1658	5797	1206	2583	-2025	693	8688	1366	2551	5164
	Monthly % change	nsa	2.5	1.2	1.0	3.3	0.7	1.4	-1.1	0.4	4.7	0.7	1.3	2.6
	Monthly % change	sa	2.2	1.3	1.4	3.7	-0.1	1.4	0.6	0.5	3.0	1.6	0.6	2.4
	6-month annualised % change	sa	26.6	25.2	22.0	25.6	21.9	21.8	17.9	16.0	19.7	14.8	16.4	18.8
	Annual % change	nsa	21.0	22.2	19.7	22.5	21.5	22.9	22.5	20.6	21.0	19.4	18.6	20.3
M4 -	Monthly change	nsa	5353	2606	2980	5474	1527	4902	429	1400	9692	1938	4217	6871
	Monthly % change	nsa	1.9	0.9	1.0	1.9	0.5	1.6	0.1	0.5	3.2	0.6	1.3	2.1
	Monthly % change	sa	1.6	1.3	1.2	2.3	0.3	1.3	0.3	1.0	2.2	1.1	0.9	1.9
	6-month annualised % change	sa	18.9	18.4	17.3	18.9	17.3	16.9	14.0	13.3	15.6	12.9	14.4	15.8
	Annual % change	nsa	15.0	15.6	15.0	15.8	15.3	16.3	16.6	16.1	16.8	16.0	16.1	16.9
M5 -	Monthly change	nsa	5487	2720	3043	5607	1481	5212	109	1125	10631	1433	4131	6752
	Monthly % change	nsa	1.9	0.9	1.0	1.8	0.5	1.7	0.0	0.4	3.3	0.4	1.2	2.0
	Monthly % change	sa	1.5	1.3	1.2	2.2	0.3	1.3	0.3	0.9	2.3	0.8	0.9	1.8
	6-month annualised % change	sa	18.5	17.9	17.1	18.9	16.8	16.3	13.8	12.9	15.4	12.3	13.7	14.9
	Annual % change	nsa	14.4	15.0	14.4	15.3	14.7	15.9	16.3	15.7	16.6	15.7	15.5	16.1
NIBM1 -	Monthly change	nsa	88	-132	338	288	440	390	-1387	858	2150	1	1148	470
	Monthly % change	nsa	0.2	-0.3	0.8	0.7	1.0	0.9	-3.1	2.0	4.8	0.0	2.5	1.0
	Monthly % change	sa	0.2	0.2	0.6	3.7	-2.4	-0.2	3.7	1.4	1.2	-0.1	1.2	-0.2
	6-month annualised % change	sa	10.0	9.7	13.5	24.7	14.0	4.2	11.4	14.1	15.4	7.2	15.2	15.2
	Annual % change	nsa	11.8	11.8	5.5	11.6	10.2	10.2	11.8	12.6	15.2	13.8	13.4	10.7
M1 -	Monthly change	nsa	1089	1030	1568	2969	456	-258	-971	-267	5156	1080	2448	1731
	Monthly % change	nsa	1.3	1.2	1.8	3.3	0.5	-0.3	-1.1	-0.3	5.7	1.1	2.5	1.7
	Monthly % change	sa	1.4	1.5	1.6	5.0	-1.1	-1.0	2.3	-0.4	3.6	1.2	2.0	1.0
	6-month annualised % change	sa	24.6	28.2	23.2	36.4	24.9	15.6	17.9	13.4	17.9	9.6	16.4	21.2
	Annual % change	nsa	22.6	23.8	20.5	24.9	21.9	23.0	21.9	21.0	21.0	21.2	19.8	18.9
WIDER £	Monthly change	nsa	5249	1373	1782	7801	-41	3514	652	323	8316	3856	3090	6129
AGGREGATE	Monthly % change	nsa	2.7	0.7	0.9	3.8	0.0	1.7	0.3	0.2	3.9	1.7	1.4	2.7
	Monthly % change	sa	2.4	0.7	1.3	4.2	-0.6	1.6	1.7	0.2	2.4	2.5	0.8	2.5
	6-month annualised % change	sa	23.5	21.9	20.3	25.1	18.2	20.9	19.4	18.2	20.8	16.9	20.2	22.3
	Annual % change	nsa			18.6	22.4	20.5	21.6	21.7	20.1	20.7	20.3	18.8	21.6

TABLE 15

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	14.8	9.9	9.3
1987-88	3.8	1.9	16.5	12.5	12.3
12 MONTH % CHANGES (ua except M0)					
1987 JUNE	3.5	0.7	15.3	10.0	9.8
JULY	3.7	1.6	16.7	10.9	10.3
AUGUST	3.7	1.0	17.8	11.5	10.9
SEPTEMBER	3.5	1.4	15.7	11.1	10.5
OCTOBER	3.9	1.6	17.9	11.5	11.0
NOVEMBER	4.0	0.9	16.8	10.9	10.3
DECEMBER	4.0	0.3	18.2	11.8	11.4
1988 JANUARY	3.7	0.9	18.1	12.4	12.2
FEBRUARY	3.6	1.6	16.4	12.1	11.7
MARCH	3.8	1.9	16.5	12.5	12.3
APRIL	4.2	1.9	14.6	11.3	11.0
MAY	4.4	1.7	13.6	11.2	10.6
JUNE	4.7	2.5	14.9	11.6	10.9

TABLE 16 CONFIDENTIAL (Until Publication)

MO : THE WIDE MONETARY BASE

Monthly data — Level £ million (Change in brackets)

Monthly data	Notes and Coin (nsa)	Notes and Coin (sa)	(Change)	Bankers' Deposits	MO (nsa)	MO (sa)	(Change)	% change on previous month: Notes(sa) and Coin	% change on previous month: MO (sa)	6 month % growth annualised: Notes & Coin (sa)	6 month % growth annualised: MO (sa)	% change on previous year: Notes and Coin (nsa)	% change on previous year: Notes and Coin (sa)	% change on previous year: MO (nsa)	% change on previous year: MO (sa)
November	15365	15525	(69)	183	15548	15707	(48)	0.4	0.3	7.4	7.0	4.8	4.8	4.9	4.9
December	16447	15661	(136)	186	16633	15846	(139)	0.9	0.9	7.9	8.5	4.7	4.8	4.2	4.3
1988 January	15458	15620	(-41)	181	15638	15801	(-45)	-0.3	-0.3	6.1	5.3	4.7	4.5	4.8	4.6
February	15353	15659	(39)	124	15477	15783	(-18)	0.2	-0.1	5.3	4.5	5.7	5.7	5.3	5.3
March	15588	15753	(94)	162	15750	15916	(133)	0.6	0.8	5.0	4.6	6.9	6.4	6.4	5.8
April	15797	15826	(73)	229	16026	16055	(139)	0.5	0.9	4.8	5.1	5.8	6.1	5.9	6.2
May	15868	15952	(126)	178	16046	16130	(75)	0.8	0.5	5.6	5.5	6.0	6.5	5.7	6.2
June	16072	16142	(190)	174	16246	16316	(186)	1.2	1.2	6.2	6.0	7.5	7.1	7.7	7.3
July a	16411	16271	(129)	188	16599	16459	(143)	0.8	0.9	8.5	8.5	7.5	7.3	7.0	6.9

Weekly data — Level £ million (Change in brackets)

Weekly data	Notes(sa) and Coin	(Change)	Bankers' Deposits	MO (sa)	(Change)	Percentage change on previous week MO (sa)
June						
1st	16110	(166)	215	16325	(233)	1.4
8th	16072	(-38)	235	16307	(-18)	-0.1
15th	16131	(59)	90	16221	(-86)	-0.5
22nd	16177	(46)	87	16264	(43)	0.3
29th	16219	(42)	242	16461	(197)	1.2
July						
6th	16276	(57)	212	16488	(27)	0.2
13th	16230	(-46)	169	16399	(-89)	-0.5
20th	16273	(43)	112	16385	(-14)	-0.1
27th	16303	(30)	259	16562	(177)	1.1

a The latest weekly data include an estimate for coin.

TABLE 17

CONFIDENTIAL

BUILDING SOCIETY BALANCE SHEET FLOWS

Unadjusted # million

	Total Flow	ASSETS: Net Mortgage Advances & Unsecured Lending	ASSETS: Liquid Assets	ASSETS: Fixed Assets	LIABILITIES: Retail principal	LIABILITIES: Interest credited	LIABILITIES: Wholesale funds	LIABILITIES: Other (eg reserves)
1985 *	1497	1226	244 (18.0)	27	621	497	205	174
1986 *	1626	1628	-25 (16.4)	23	549	508	524	45
1987 *	1650	1268	339 (16.9)	43	630	570	194	256
1986 Q2*	1629	1685	-79 (16.6)	23	474	521	332	302
Q3*	1788	1930	-163 (15.7)	21	54	402	1144	188
Q4*	2097	1594	480 (16.4)	23	933	647	448	69
1987 Q1*	1406	1170	158 (16.1)	78	458	523	111	314
Q2*	1592	1282	290 (16.2)	20	615	457	108	412
Q3*	1547	1288	215 (16.1)	44	410	515	337	285
Q4*	2051	1330	692 (16.9)	29	1038	785	159	69
1988 Q1*	1870	1675	10 (16.5)	135	1026	625	113	106
Q2*	3251	2276	925 (17.0)	50	1337	418	718	778
May	2749	2168	531 (16.8)	50	1250	212	248	1039
June	3475	2533	892 (17.0)	50	1170	820	1075	410
Forecast								
1988 July	3034	2614	370 (16.9)	50	1598	765	500	171

* Monthly averages
Figures in ( ) are end period liquidity ratio, unadjusted

TABLE 18

THE COMPONENTS OF M3

	NOTES AND COINS	BANK DEPOSITS: RETAIL NIB	BANK DEPOSITS: RETAIL IB	BANK DEPOSITS: WHOLESALE	M3
% CHANGES					
Financial years[1] (ua)					
1984-85	5.2	6.5	7.7	19.1	11.5
1985-86	3.7	4.5	16.8	26.1	16.7
1986-87	2.2	16.9	17.5	25.8	19.1
1987-88	13.7	15.6	12.4	29.2	20.9
Over 12 months (ua)					
1987 JULY	6.6	14.8	12.5	32.6	21.0
AUGUST	4.3	15.7	15.6	33.0	22.2
SEPTEMBER	5.7	5.5	14.7	32.1	19.7
OCTOBER	5.3	14.7	12.9	35.3	22.5
NOVEMBER	1.6	14.3	13.5	33.5	21.5
DECEMBER	6.1	11.9	10.7	38.5	22.9
1988 JANUARY	6.0	14.5	11.1	35.8	22.5
FEBRUARY	3.3	16.9	10.9	31.1	20.6
MARCH	15.0	15.3	12.4	29.0	20.9
APRIL	9.4	15.7	12.3	26.5	19.4
MAY	5.5	16.9	11.9	25.2	18.6
JUNE	10.5	10.7	15.6	28.4	20.3
Over 6 months (sa)					
1988 JANUARY	9.6	12.2	9.4	26.5	17.9
FEBRUARY	8.6	16.4	7.2	22.1	16.0
MARCH	14.0	16.0	11.0	26.7	19.6
APRIL	6.5	7.5	11.7	20.4	14.8
MAY	7.8	18.4	9.5	20.7	16.4
JUNE	5.2	19.7	22.5	18.5	18.8
CHANGES MILLION					
Monthly average[1] (sa)					
1984-85	42	56	238	683	1017
1985-86	17	90	161	556	1565
1986-87	4	359	538	1255	2157
1987-88					
Over 1 month (sa)					
1987 DECEMBER	216	-311	-611	3228	2522
1988 JANUARY	218	1384	936	-1488	1050
FEBRUARY	-85	736	95	144	890
MARCH	279	256	1335	3719	5589
APRIL	-88	51	351	2765	3079
MAY	-48	608	131	498	1189
JUNE	63	-154	2251	2610	4770

1March on March

TABLE 19

THE COMPONENTS OF M4 AND M5

		BUILDING SOCIETIES					
	M3	RETAIL[1]	WHOLESALE	HOLDINGS OF M3	M4	MONEY MARKET INSTRUMENTS	M5
% CHANGES							
Financial years[3] (ua)							
1984-85	11.5	15.1				13.8	13.8
1985-86	16.7	15.3		94	-0.1	13.5	14.5
1986-87	19.1	10.8		50	-15.6	13.5	12.9
1987-88	20.9	13.6		39.5	16.8	12.6	16.6
Over 12 months (ua)							
1987 JULY	21.0	13.4	47.6	64.2	15.0	4.6	14.4
AUGUST	22.2	15.6	26.5	63.2	15.6	4.1	15.0
SEPTEMBER	19.7	10.8	46.8	58.1	15.0	5.0	14.4
OCTOBER	22.5	13.6	29.7	58.3	15.8	5.8	15.3
NOVEMBER	21.5	13.8	7.8	66.0	15.3	5.3	14.7
DECEMBER	22.9	11.2	17.8	63.2	16.3	8.1	15.9
1988 JANUARY	22.5	12.4	30.2	57.0	16.6	11.1	16.3
FEBRUARY	20.6	13.2	34.0	47.8	16.1	7.8	15.7
MARCH	20.9	13.6	40.7	39.5	16.8	12.6	16.6
APRIL	19.4	13.6	33.9	41.2	16.0	8.9	15.7
MAY	18.6	13.9	37.0	34.6	16.1	3.7	15.5
JUNE	20.3	13.6	45.6	45.5	16.8	2.3	16.1
Over 6 months (sa)							
1987 JANUARY	17.9	11.3	0.1	39.5	14.0	9.7	13.8
FEBRUARY	16.0	11.4	0.2	31.9	13.3	6.0	12.9
MARCH	19.6	13.9	0.5	43.2	15.6	12.0	15.4
APRIL	14.8	15.4	0.5	47.8	12.9	-0.2	12.3
MAY	16.4	14.5	0.3	39.1	14.4	1.4	13.7
JUNE	18.8	15.5	0.4	43.3	15.8	-1.7	14.9
CHANGES MILLION							
Monthly average[3] (sa)							
1984-85	984	1034	42	-28	139	2221	2090
1985-86	1565	1207	50	-362	-118	2480	2557
1986-87	2157	938	17	-372	51	2791	2975
1987-88							
Over 1 month (sa)							
1988 JANUARY	1050	1124	45	-1298	921	195	1116
FEBRUARY	890	1557	7	596	3050	-183	2867
MARCH	5589	1805	-40	-630	6724	510	7234
APRIL	3079	1615	-91	-1161	3442	-822	2620
MAY	1189	1731	205	-238	2887	155	3042
JUNE	4770	1913	67	-673	6077	12	6089

1Net in flow including Term sharesand SAYE.

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

3March on March.

TABLE 20

RETAIL DEPOSITS

	BANKS	BUILDING SOCIETIES[1]	NATIONAL SAVINGS[2]	TOTAL
% CHANGES				
Financial years[3] (ua)				
1984-85	7.1	15.1	11.9	12.0
1985-86	11.6	15.3	7.5	12.9
1986-87	17.2	10.8	10.8	12.7
1987-88	13.6	13.0	6.1	11.2
Over 12 months (ua)				
1987 JULY	13.4	10.2	9.2	11.1
AUGUST	15.6	10.4	9.7	11.9
SEPTEMBER	10.8	11.4	9.3	10.7
OCTOBER	13.6	10.2	8.2	10.9
NOVEMBER	13.8	11.1	7.4	11.3
DECEMBER	11.2	11.6	7.2	10.5
1988 JANUARY	12.4	12.1	6.8	10.9
FEBRUARY	13.2	12.6	6.4	11.1
MARCH	13.6	13.0	6.1	11.2
APRIL	13.6	13.6	5.9	11.4
MAY	13.9	14.2	5.5	11.7
JUNE	13.6	14.4	5.1	11.6
Over 6 months (sa)				
1988 JANUARY	10.5	11.3	4.5	8.2
FEBRUARY	10.8	11.4	4.5	9.3
MARCH	13	13.9	5	11.1
APRIL	10	15.4	6.1	12
MAY	12.9	14.5	6.3	12.5
JUNE	21.4	15.5	6.1	14.9
CHANGES MILLION				
Monthly average3 (sa)				
1984-85	42	1034	683	1759
1985-86	255	1207	1093	2555
1986-87	871	938	266	2075
1987-88				
Over 1 month (sa)				
1988 JANUARY	2320	1124	307	3751
FEBRUARY	831	1557	240	2628
MARCH	1591	1805	214	3610
APRIL	402	1615	165	2182
MAY	739	1731	71	2541
JUNE	2097	1913	161	4171

NOTES

1 Total retail funds, including terms shares and SAYE.

2 Total inflows.

3 March on March.

TABLE 21

BREAKDOWN OF BANK LENDING BY INSTRUMENT

	ADVANCES	COMMERCIAL BILLS	MEMO ITEM: BILL LEAK	INVESTMENTS[1]	OTHER[2]	TOTAL (u/a)	TOTAL (s/a)
Monthly Average[3]							
1983/84	979	n/a	n/a	n/a	n/a	1075	1075
1984/85	1150	n/a	n/a	n/a	n/a	1378	1378
1985/86	1490	n/a	n/a	n/a	n/a	1747	1747
1986/87	2045	n/a	n/a	n/a	n/a	2537	2537
1987/88	3145	-129	(36)	130	75	3221	3195
Monthly Changes							
1987 June	4436	771	(-179)	3	-498	4712	4009
July	2783	1627	(18)	-57	246	4599	4486
August	2791	-1544	(115)	119	-232	1134	2633
September	5378	12	(-150)	-19	148	5519	4329
October	2734	-489	(278)	139	581	2965	2924
November	2578	819	(-497)	235	-327	3305	3278
December	3433	1544	(-149)	120	371	5468	5000
January	2596	2484	(-312)	-195	215	5100	5597
February	2322	396	(-98)	-35	-225	2458	2553
1988 March	5875	-509	(445)	287	351	6004	4889
April	4809	-278	(-366)	-32	-133	4366	6075
May	2890	130	(492)	-36	127	3111	3128
June	8100	-1510	(163)	362	302	7254	6174

[1] Investment by banks in private sector.
[2] Market loans, shipbuilding repos, CD's and time deposits of building societies and commercial paper.

TABLE 22

SECRET

FUNDING : FINANCIAL YEAR 1988/89

25/7/88

£ million

	FORECAST Financial Year 88/89	OUTTURN April - June 88	RESIDUAL July 88 - Mar 89	
PSBR AND FUNDING TARGET				
1 PSBR excl asset sales	-2400	1108	-3508	
2 Asset sales (sales-)	-5000	-2758	-2242	
3 PSBR	-7400	-1650	-5750	
FINANCED BY:				
4 OPS debt sales to M4ps (sales-)	600	296	304	
5 National Savings (sales-)	-1000	-367	-633	* -70
6 CTDs sales to M4ps (sales-)	1000	180	820	
7 Treasury bills etc M4ps (sales-)	0	60	-60	
8 Intervention (reserves inc+)	0	631	-631	
9 Public sector externals excl intervention and gilts (inc-)	0	-63	63	
10 NET GILT SALES TO M4PS & OVERSEAS NEEDED FOR FULL FUND (sales+)	-6800	-913		
11 Adjustment for 1987/88 underfund	400			
12 OVER(-)/UNDER(+)FUNDING	-400	-630	230	
GILT SALES:				
13 Net purchases by M4ps and overseas (purchases+)	-6400	-283	-6117	
14 Net purchases by banks/b socs & other public sector (purchases+)	-500	-1098	598	
15 Maturities	8300	2263	6037	
16 GROSS OFFICIAL SALES	1400	882	518	
17 Monthly average gross gilt sales	117	294	58	

* average per month

Relationship between lines:

3 = 1 + 2
10 = 3+4+5+6+7+8+9
12 = 10 + 11 - 13
16 = 13 + 14 + 15

Table 23:- BORROWING BY PRIVATE SECTOR EXCLUDING BUILDING SOCIETIES (million)

		BANK/BUILDING SOC. STERLING BORROWING			OTHER STERLING BORROWING					ALL BORROWING		
		Banks	B Socs	TOTAL	Sterling Commercial Paper(*)	Ordinary Shares (*)	Pref & Bonds (*)	Euro-Sterling (**)	TOTAL	Sterling	Foreign Currency	TOTAL
Change in Quarter												
1984	Q1	5141	3007	8148		163	44	117	324	8472	1102	9574
	Q2	2781	4076	6857		429	75	30	534	7391	808	8199
	Q3	3285	4087	7372		288	59	298	645	8017	1047	9064
	Q4	4535	3402	7937		249	73	410	732	8669	1948	10617
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	3561	7709		873	274	193	1340	9049	-806	8243
	Q4	4294	4235	8529		525	89	445	1059	9588	939	10527
1986	Q1	7157	3967	11124	0	471	209	750	1430	12554	2362	14916
	Q2	5189	5220	10409	0	1369	344	605	2318	12727	1575	14302
	Q3	4877	5738	10615	23	1431	290	448	2192	12807	3688	16495
	Q4	10138	4782	14920	68	2338	-52	281	2635	17555	623	18178
1987	Q1	7147	3619	10738	416	1553	-782	1546	2733	13471	7142	20260
	Q2	8692	4240	12932	597	2259	352	990	4252	17184	4733	21917
	Q3	10855	3889	14744	259	5950	732	931	7872	22616	-1152	21464
	Q4	10906	3926	14832	-167	3735	423	591	4582	19414	-178	19236
1988	Q1	13313	4980	18293	892	387	-115	1600	2764	21057	1910	22967
	Q2	14187	7462	21649	527	969	303	1950	3749	25398	1506	26904
Average per quarter												
1984		3936	3643	7579	0	282	63	214	559	8137	1226	9364
1985		4923	3683	8607	0	854	215	276	1344	9951	1185	11136
1986		6840	4927	11767	23	1402	198	521	2144	13911	2062	15973
1987		9400	3919	13312	276	3374	181	1015	4846	18171	2636	20719
1988		13750	6221	19971	710	678	94	1775	3257	23228	1708	24936
Change in Month												
1987	JULY	4403	1302	5705	93	1840	182	360	2475	8180	-2215	5965
	AUGUST	1023	1269	2292	8	2090	390	261	2749	5041	1028	6069
	SEPT	5429	1318	6747	158	2020	160	310	2648	9395	35	9430
	OCTOBER	2521	1510	4031	122	2535	195	256	3108	7139	3421	10560
	NOVEMBER	3213	1441	4654	-43	975	55	335	1322	5976	-1530	4446
	DECEMBER	5172	975	6147	-246	225	173	0	152	6299	-2069	4230
1988	JANUARY	4992	1473	6465	379	48	41	625	1093	7558	728	8286
	FEBRUARY	2505	1396	3901	339	236	123	590	1288	5189	-971	4218
	MARCH	5816	2111	7927	174	103	-279	385	383	8310	2153	10463
	APRIL	4465	2050	6515	140	236	13	450	839	7354	-2524	4830
	MAY	2953	2495	5448	396	548	150	780	1874	7322	1426	8748
	JUNE	6769	2917	9686	-9	185	140	720	1036	10722	2628	13350

* UK ICC's only
** Announced issues by UK ICCs and OFIs
** Gross issues announced by UK ICC's and OFI's

Table 24:- FINANCE OF U.K. INDUSTRIAL AND COMMERCIAL COMPANIES AND BUILDING SOCIETIES (million)

	BANK BORROWING				OTHER BORROWING						ALL BORROWING	
	Sterling ICC's	Sterling BSOC's	Foreign Currency	TOTAL	Sterling Commercial Paper	Ordinary Shares	Pref & Bonds	Euro-Sterling(*) ICC's	Euro-Sterling(*) BSOC's	TOTAL	TOTAL	(o/w ICCs)
Change in Quarter												
1984												
Q1	2905	-86	-895	1924		163	44	25	0	232	2156	2242
Q2	559	-56	-193	310		429	75	0	0	504	814	870
Q3	1219	533	-74	1678		288	59	100	0	447	2125	1592
Q4	2312	408	1433	4153		249	73	210	0	532	4685	4277
1985												
Q1	3386	6	-352	3040		924	170	235	0	1329	4369	4363
Q2	747	248	207	1202		1092	327	230	0	1649	2851	2603
Q3	229	161	1371	1761		873	274	130	600	1877	3638	2877
Q4	874	860	1377	3111		525	89	200	475	1289	4400	3065
1986												
Q1	3807	363	108	4278	0	471	209	350	935	1965	6243	4945
Q2	-356	461	108	213	0	1369	344	325	1075	3113	3326	1790
Q3	29	1856	1128	3013	23	1431	290	231	1575	3550	6563	3132
Q4	5248	404	-21	5631	68	2338	-52	281	2632	5267	10898	7862
1987												
Q1	1189	355	2008	2306	416	1553	-782	1231	290	2660	4966	4321
Q2	710	-516	762	113	597	2259	352	655	50	3913	4026	4492
Q3	3746	397	-81	4771	259	5950	732	570	100	7611	12382	11885
Q4	4391	832	628	5223	-167	3735	423	105	0	4096	9319	8487
1988												
Q1	6897	257	2084	7154	892	387	-115	915	625	2704	9858	8976
Q2	4968	440	1822	5408	527	969	303	1000	1030	3829	9237	7767
Average per quarter												
1984	1749	200	68	2016	0	282	63	84	0	429	2445	2245
1985	1309	319	651	2279	0	854	215	199	269	1536	3815	3227
1986	2182	771	331	3284	23	1402	198	297	1554	3474	6758	4432
1987	2509	267	829	3605	276	3374	181	640	147	4619	8224	7810
1988	5933	349	1953	6281	710	678	94	958	828	3267	9548	8372

Change in Month

		Sterling Commercial Paper	Ordinary Shares	Pref & Bonds	Euro-Sterling(*) ICC's	Euro-Sterling(*) BSOC's	TOTAL
1987	JULY	93	1840	182	210	0	2325
	AUGUST	8	2090	390	150	0	2638
	SEPTEMBER	158	2020	160	210	100	2648
	OCTOBER	122	2535	195	45	0	2897
	NOVEMBER	-43	975	55	60	0	1047
	DECEMBER	-246	225	173	0	0	152
1988	JANUARY	379	48	41	450	50	968
	FEBRUARY	339	236	123	355	150	1203
	MARCH	174	103	-279	110	425	533
	APRIL	140	236	13	150	150	689
	MAY	396	548	150	530	275	1899
	JUNE	-9	185	140	320	605	1241

* 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 25

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M0 FORECAST, 1988-89

Note: Forecast assumes unchanged base rates from current levels (10.5 per cent)

seasonally adjusted

	Levels (£ million)		6 month a.r. (%)		12 month % growth rates	
	Notes & Coin	M0	Notes & Coin	M0	Notes & Coin	M0
Actual						
1987-88 *	15371	15553			5.0	4.9
1988-89						
April	15826	16055	4.8	5.1	6.1	6.2
May	15954	16132	5.6	5.5	6.5	6.2
June	16143	16317	6.3	6.0	7.1	7.3
Forecast						
July	16260	16430	8.4	8.1	7.2	6.7
August	16285	16475	8.2	9.0	6.7	6.7
September	16310	16500	7.2	7.5	6.1	6.0
October	16340	16530	6.6	6.0	5.7	5.6
November	16360	16550	5.2	5.2	5.4	5.4
December	16440	16630	3.7	3.9	5.0	4.9
January	16350	16540	1.1	1.3	4.7	4.7
February	16350	16540	0.8	0.8	4.4	4.8
March	16400	16590	1.1	1.1	4.1	4.2
1988-89 *	16252	16441			5.7	5.7

* average of 12 months

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TABLE 26 : BROAD AGGREGATES COUNTERPARTS AND FORECAST

£ million

OUTTURN: JUNE 1988

	M3	M4
PSBR	38	38
LA and PC debt sales to NBPS (-)	311	84
CG debt sales to NBPS (-)		
o/w Gilts	713	715
Treasury bills etc.	22	-18
National Savings	-134	-135
CTD's	33	29
Public sector external & fc finance	-160	-160
OVER(-)/UNDER(+) FUNDING	823	553
Sterling lending to NBPS : nsa	7254	9782
(sa)	(6174	8557)
Banks'/B Socs' externals	-2060	-2476
Banks'/B Socs' £NNDLs	-893	-1028
TOTAL M3/M4	5124	6831
Monthly % growth nsa	2.6	2.1
sa	2.4	1.9
Annual % growth nsa	20.3	16.8
sa	20.2	16.3

FORECAST: JULY 1988

	M3	M4
PSBR	-2000	-2000
LA and PC debt sales to NBPS (-)	50	0
CG debt sales to NBPS (-)		
o/w Gilts	1275	1275
Treasury bills etc.	0	0
National Savings	-125	-125
CTD's	100	100
Public sector external & fc finance	500	500
OVER(-)/UNDER(+) FUNDING	-200	-250
Sterling lending to NBPS : nsa	4225	6775
(sa)	(4450	6900)
Banks'/B Socs' externals & £NNDLs	-50	-450
TOTAL M3/M4	3975	6075
Monthly % growth nsa	2.0	1.8
sa	1.8	1.5
Annual % growth nsa	19.6	16.8
sa	19.8	16.3

BUILDING SOCIETIES: Retail inflows		2375
Wholesale inflows from NBPS		100
Holdings of M3 (-)		-375

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Table 27

Broad Money forecast

		OUTTURN 1988 JUNE		FORECAST JULY	
		M3	M4	M3	M4
(i)	Underlying increase	4274	5931	4725	6875
(ii)	Estimated Special Factors	850	900	- 750	- 800
	Tax rebate held on deposit	350	400	- 250	- 300
	Over/underfunding (gilt redemption)	500	500	- 500	- 500
(iii)	Total Increase	5124	6831	3975	6075
	Monthly % change	2.6	2.1	2.0	1.8
	Annual % change	20.3	16.8	19.6	16.8
	Annual % change expected at 1988 Budget time	21.8	17.4	20.2	16.4

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

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Table 28

Lending forecasts

		OUTTURN 1988 JUNE			FORECAST JULY		
		Bank lending	B Soc lending	M4 Counterpart	Bank lending	B Soc lending	M4 Counterpart
(i)	Underlying increase (sa)	6124	2522	8257	4600	2250	6750
(ii)	Estimated Special factors	50	250	300	- 150	300	150
	PSBR offset	- 150	-	- 150	350	-	350
	Bill leak	- 150	-	- 150	150	-	150
	Company borrowing to finance tax rebate	500	-	500	- 500	-	- 500
	Bank/building society competition	- 150	150	-	- 150	150	-
	Budget measures affecting mortgage lending	-	100	100	-	150	150
(iii)	Lending increase (sa)	6174	2772	8557	4450	2550	6900
	Lending increase (nsa)	7254	2917	9782	4225	2650	6775
	Annual % change (nsa)	27.5	16.2	22.8	26.8	17.1	22.8
	Annual % change expected at Budget time	25.0	13.5	20.2	23.7	13.7	19.6

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

TABLE 29: MONEY MARKET ASSISTANCE £ million

	Outturn 1988 JUN	Forecast JUL	AUG	SEP
A. Money market influences				
(i) CGBR (+) excl bank deposits (+)	1048	-1875	-450	1100
(ii) Reserves etc (+)	41	500	0	0
(iii) Notes and coin (-)	-38	-600	225	-175
(iv) National Savings (-)	-122	-125	-200	-150
(v) CTDs (-)	27	200	100	150
(vi) Gilts (-)	824	1275	-75	100
(vii) Other Exchequer items etc	-1188	0	0	0
A. TOTAL MONEY MARKET INFLUENCES (Market surplus + / shortage -)	592	-625	-400	1025
B. Money market operations				
(i) Commercial bills (purchase +):				
Issue Department - outright	-976			
- repos	-595			
Banking Department	1380			
(ii) LA bills (purchase +)				
Issue Department	12			
Banking Department	58			
(iii) Treasury bills (purchase +)	-79			
(iv) Market advances	-574			
(v) Treasury bill Repos	0			
(vi) Export Credit/Shipbuilding Repo	0			
(vii) Gilt Repos	0			
B. TOTAL MONEY MARKET OPERATIONS	-774	625	400	-1025
C. Change in bankers balances = A + B	-182			
D. TOTAL ASSISTANCE OUTSTANDING	8877	9500	9900	8875
of which commercial bills	8523			

SECRET

TABLE 30

GOVERNMENT SHARE SALES TIMING

1988/89

BP II	30 August
BSC I	30 November or 1 December

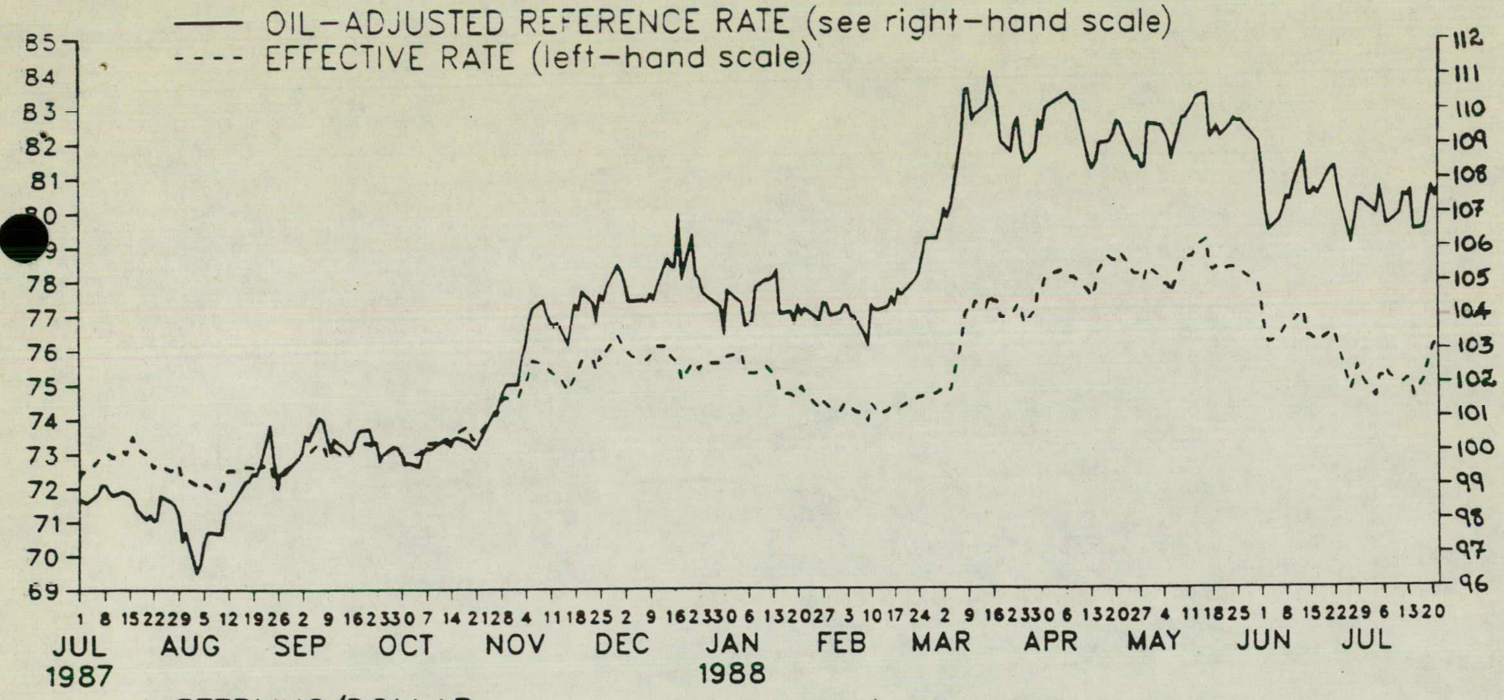
1989/90

BP III	27 April
BSC II	Undecided

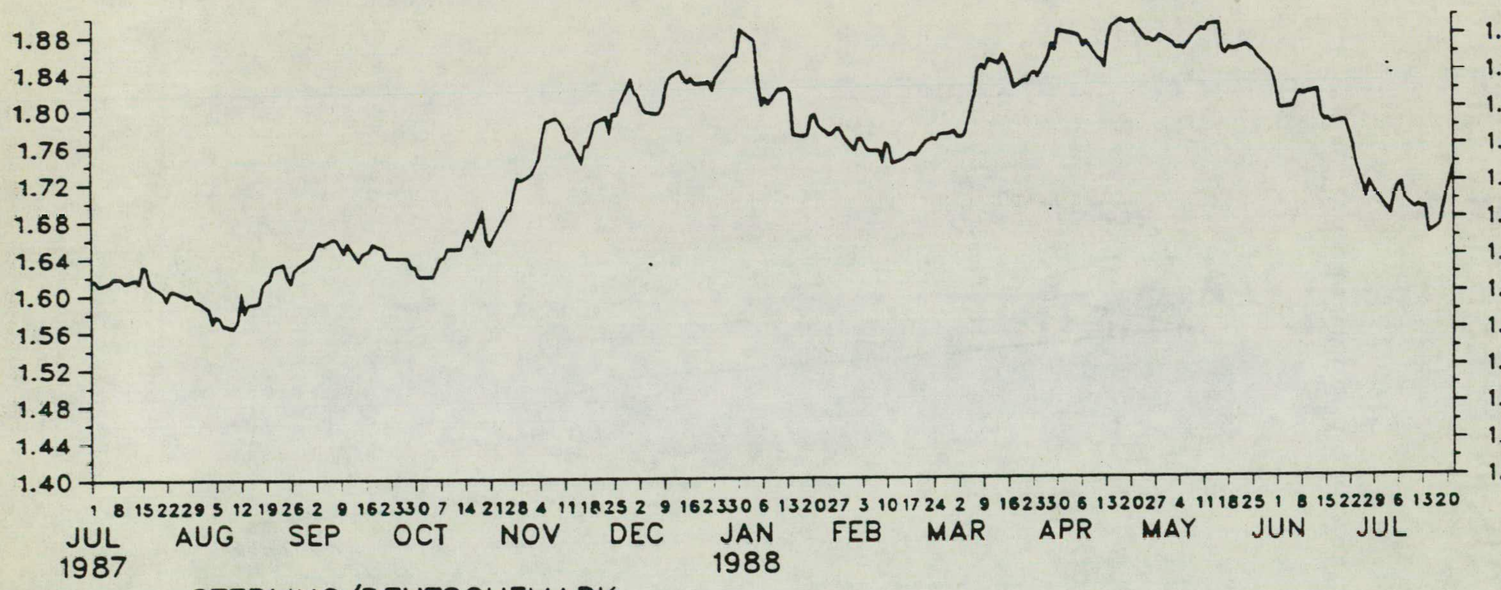
MONTHLY MONETARY REPORT : CHARTS

I	Exchange Rate Short Term
II	UK/US interest rate differential
III	Narrow money growth
IV	Broad money growth
V	Real M0 growth
VI	FSBR budget profile M0
VII	FSBR budget profile M4
VIII	Retail Deposits
IX	Bank and Building Society Lending
X	£ Corporate bond issues
XI	Money Market Assistance
XII	Nominal Interest Rates
XIII	Yield Curve
XIV	Real Yields
XV	House prices 1
XVI	House prices 2
XVII	Capital Markets

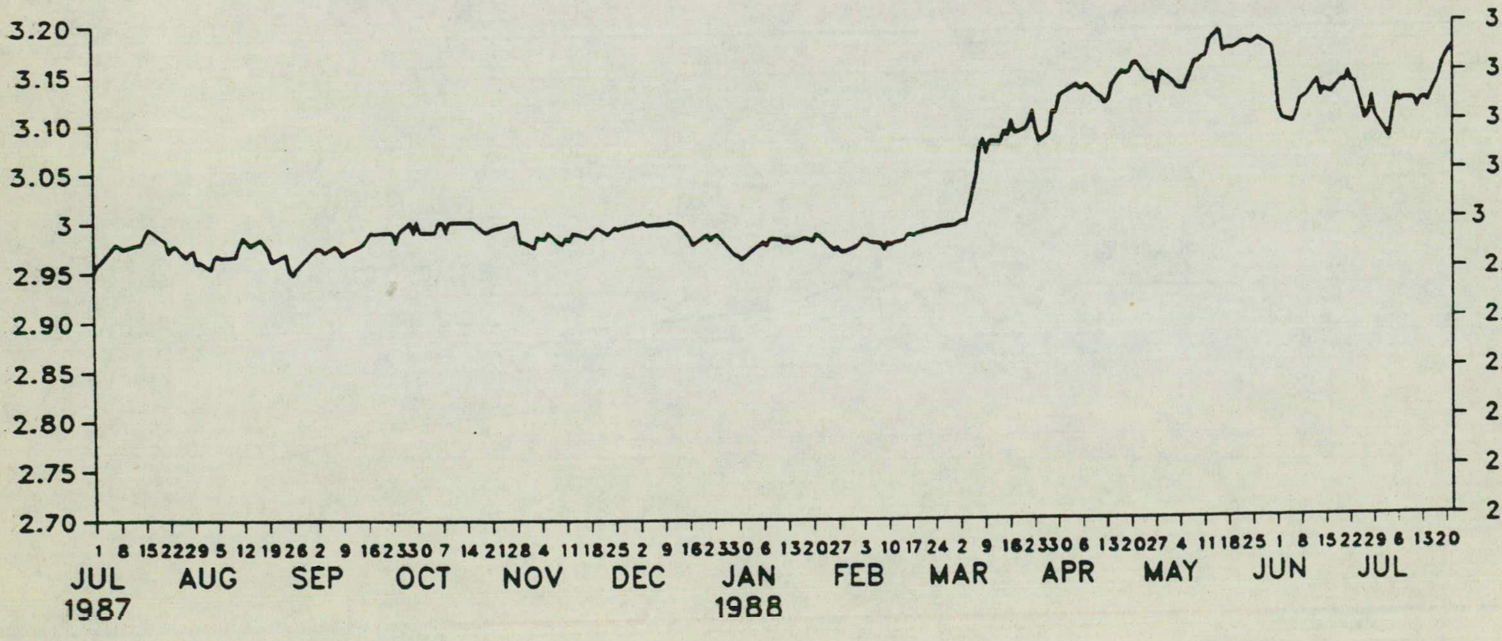
CHART I:EXCHANGE RATE



STERLING/DOLLAR



STERLING/DEUTSCHEMARK



UK/US INTEREST RATE DIFFERENTIAL

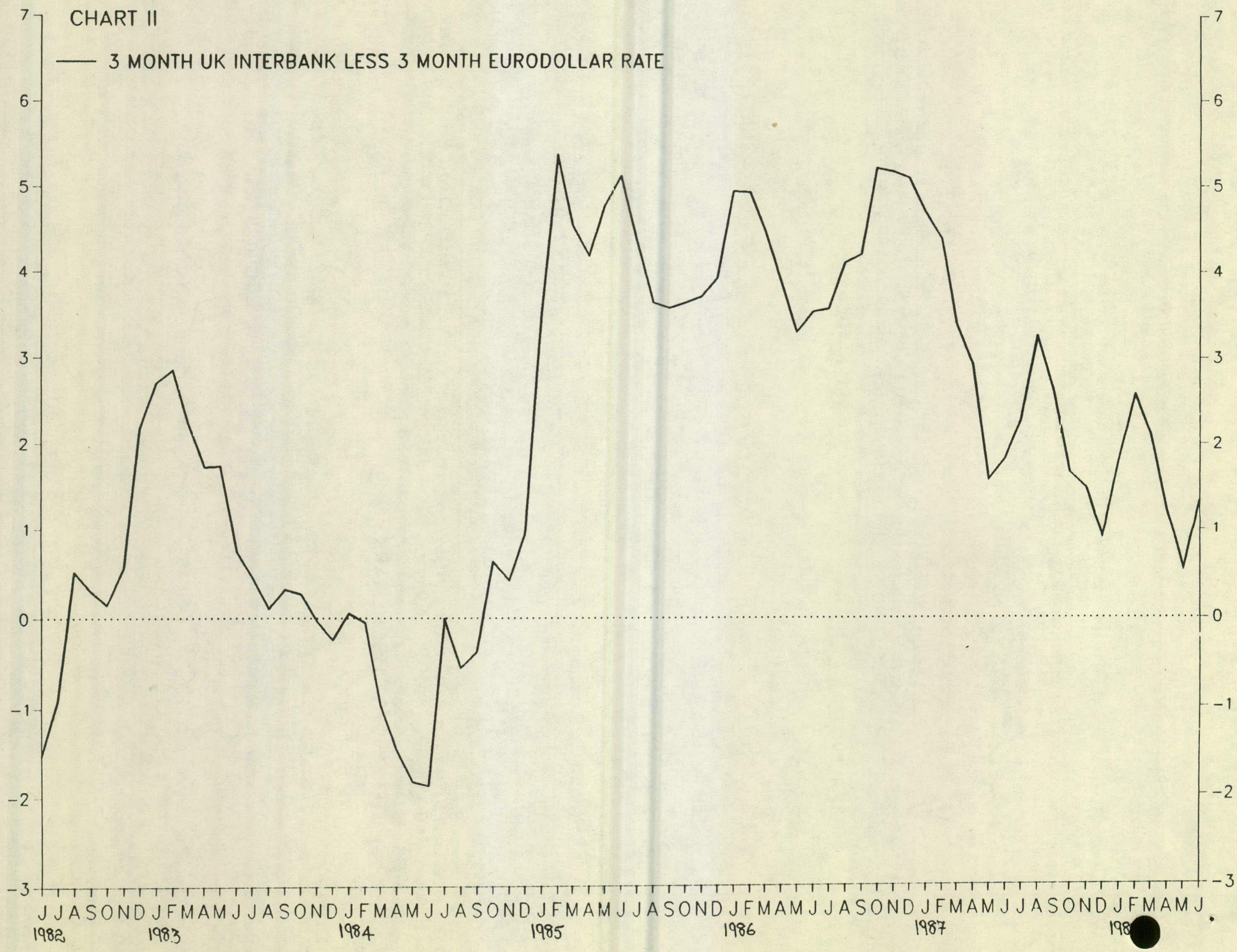


CHART III NARROW MONEY

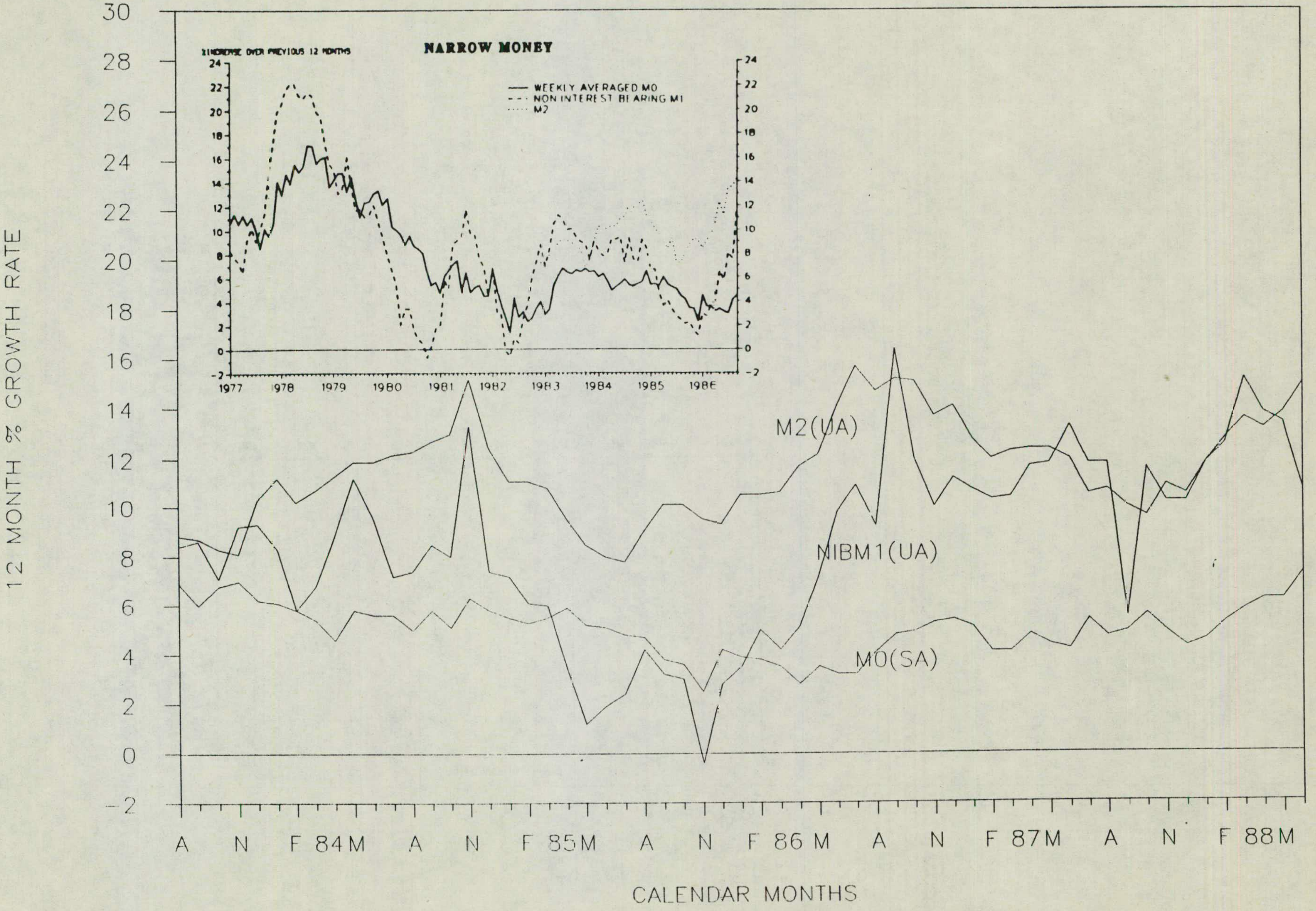
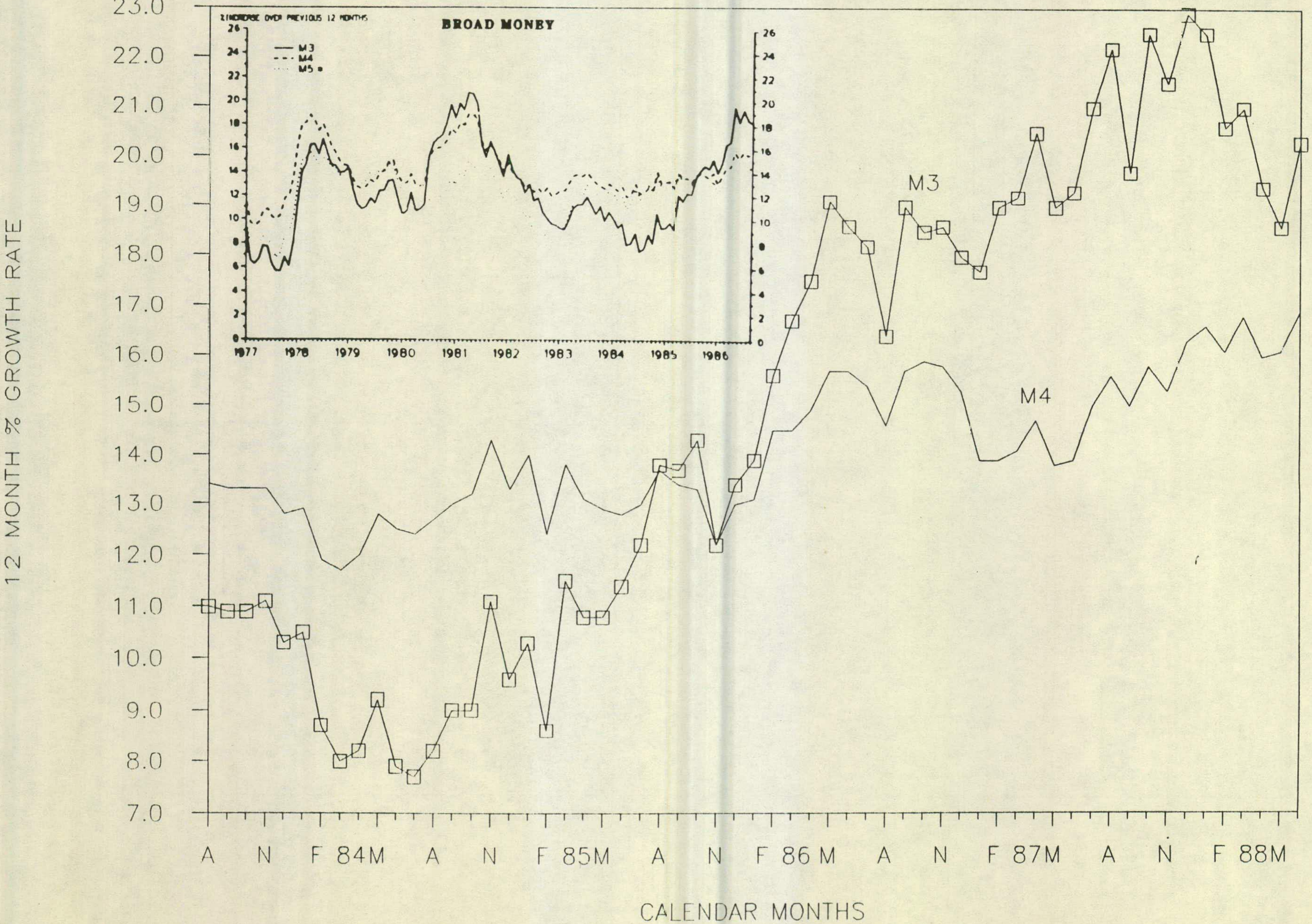


CHART IV BROAD MONEY

Annual percentage growth (ua)



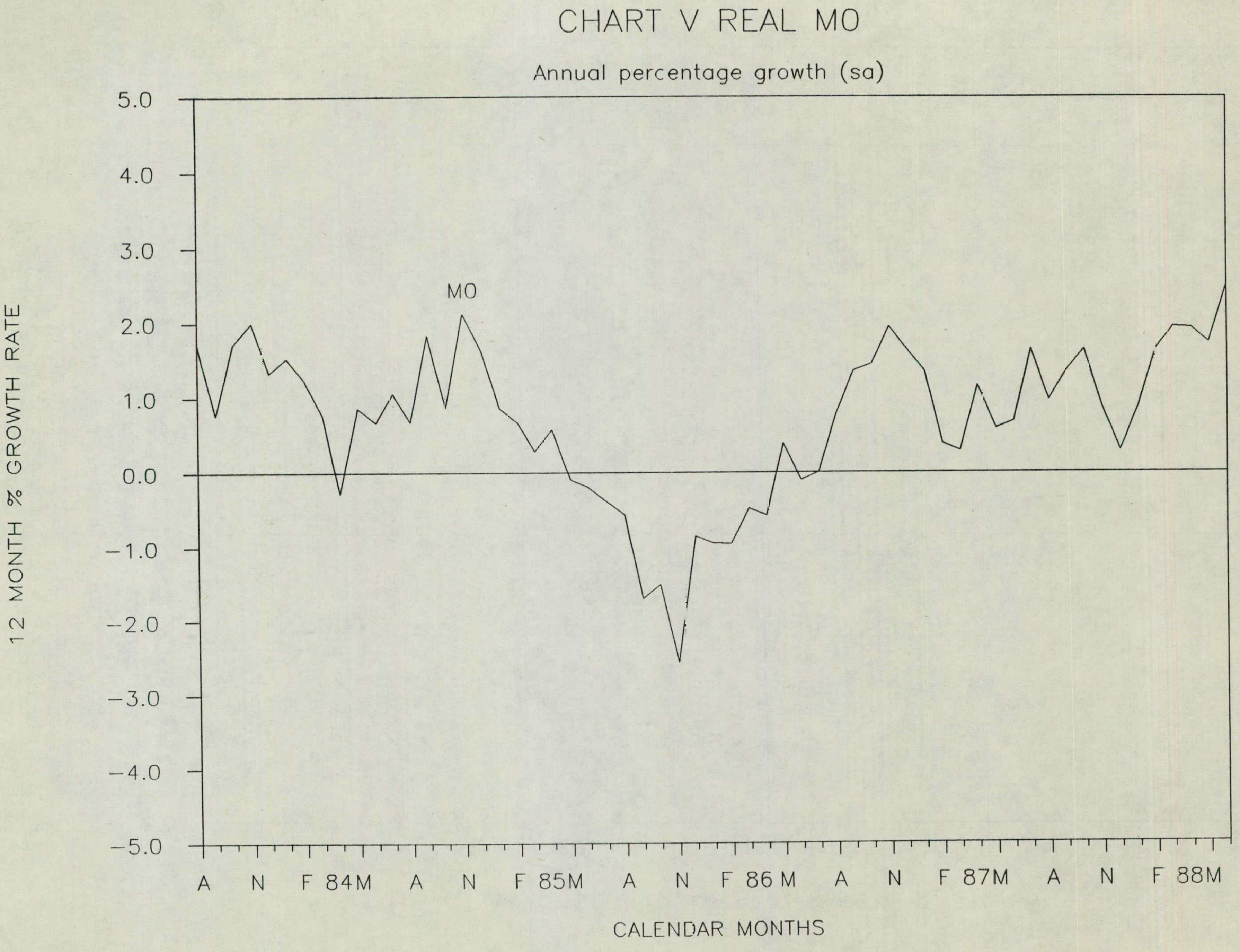
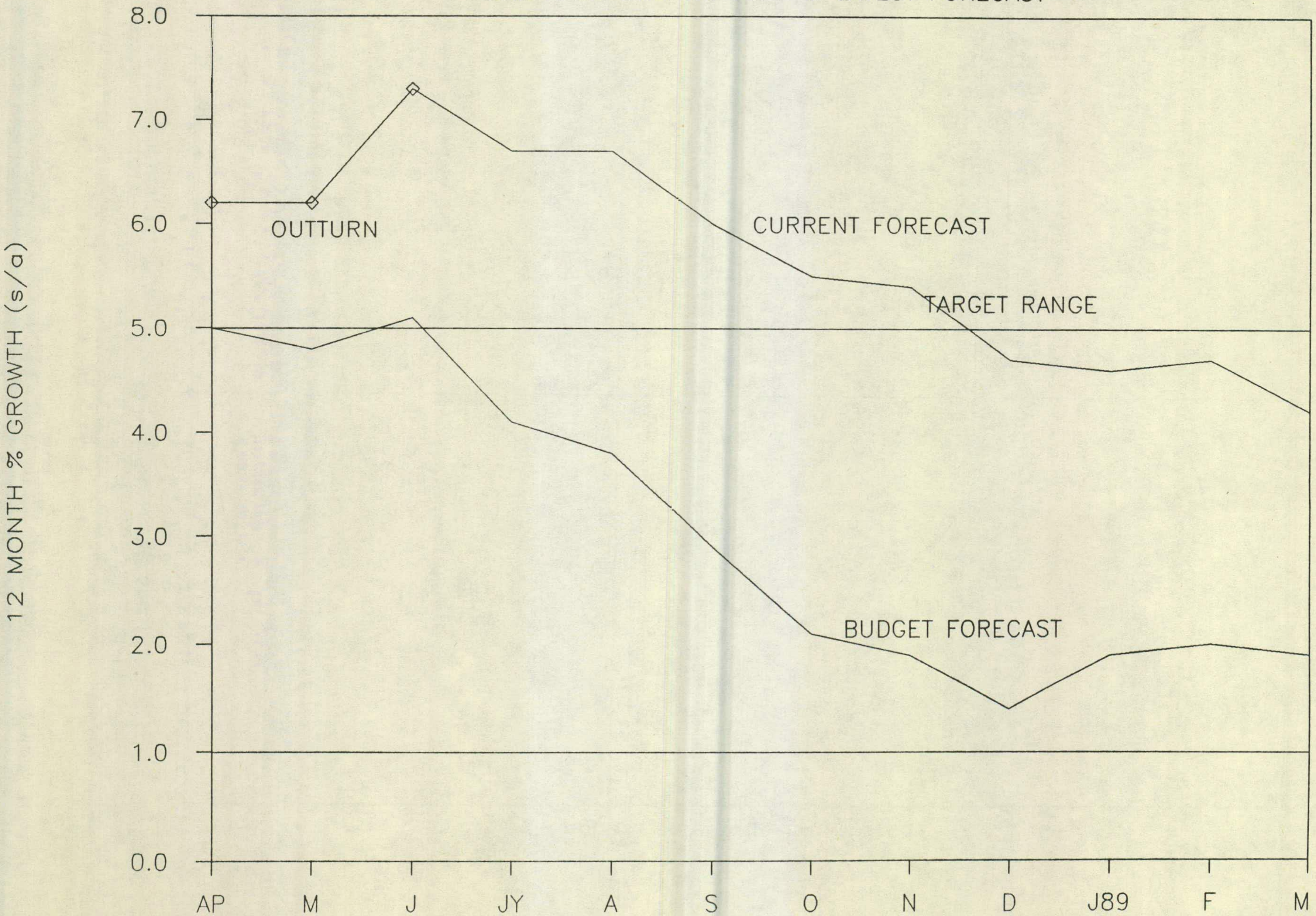


CHART V REAL MO
Annual percentage growth (sa)
MO
12 MONTH % GROWTH RATE
5.0
4.0
3.0
2.0
1.0
0.0
−1.0
−2.0
−3.0
−4.0
−5.0
A N F 84M A N F 85M A N F 86 M A N F 87M A N F 88M
CALENDAR MONTHS

CONFIDENTIAL (COVERING FORECAST)

Chart VI MO : 1988 BUDGET FORECAST

COMPARED WITH OUTTURN & LATEST FORECAST



CONFIDENTIAL (COVERING FORECAST)

Chart VII M4 : 1988 BUDGET FORECAST

COMPARED WITH OUTTURN & LATEST FORECAST

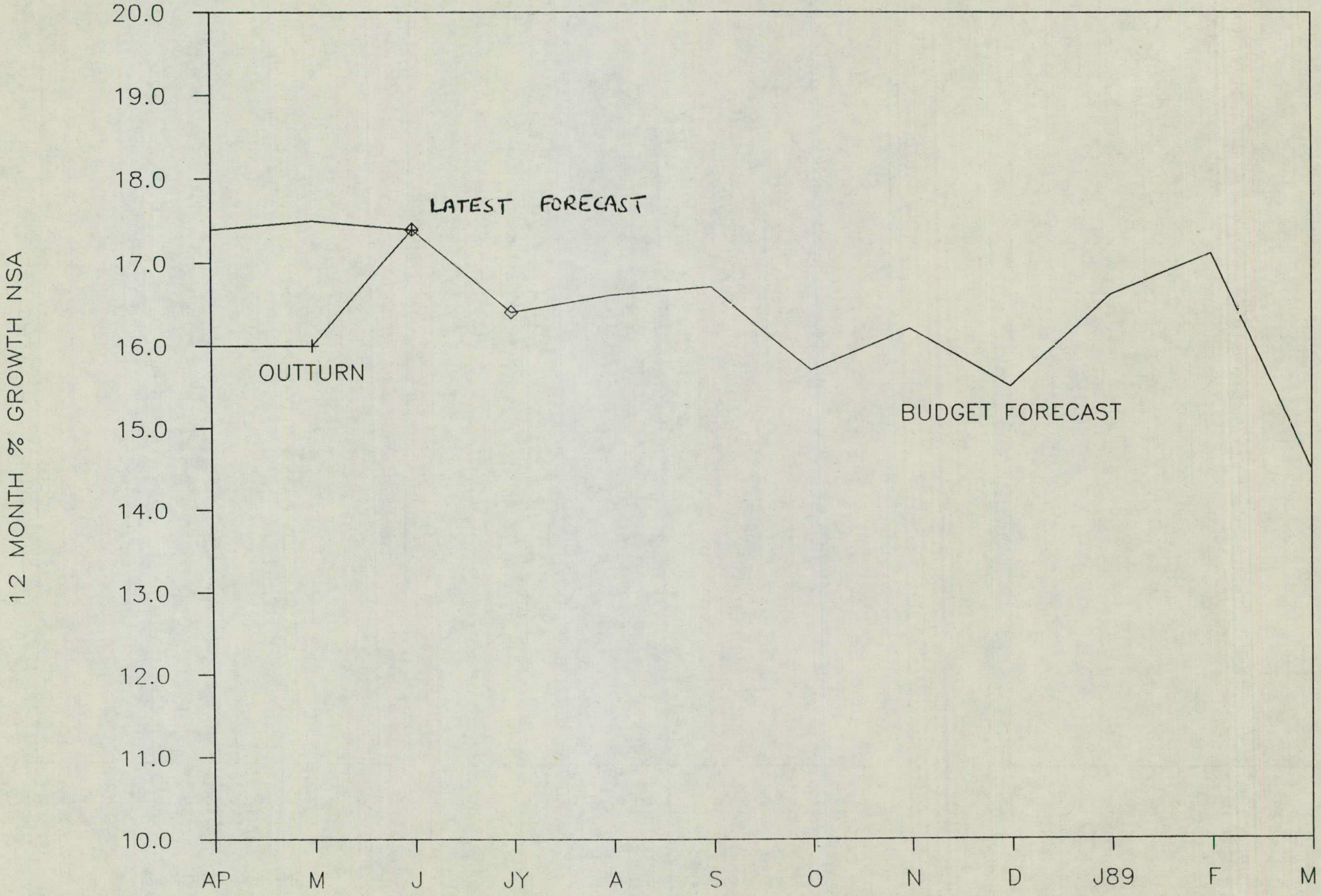
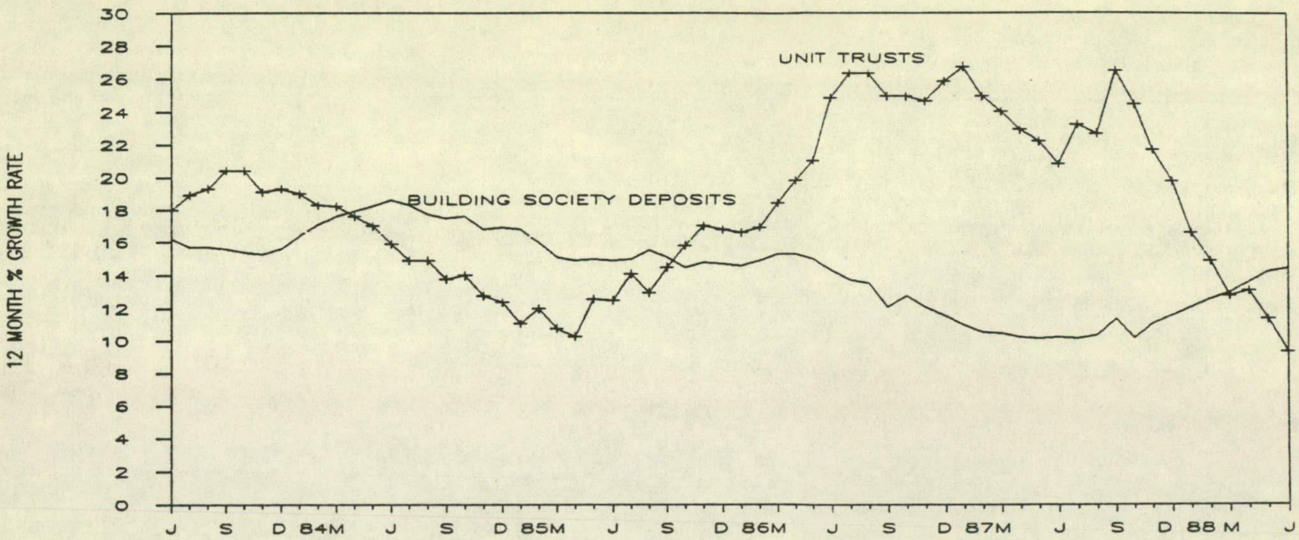
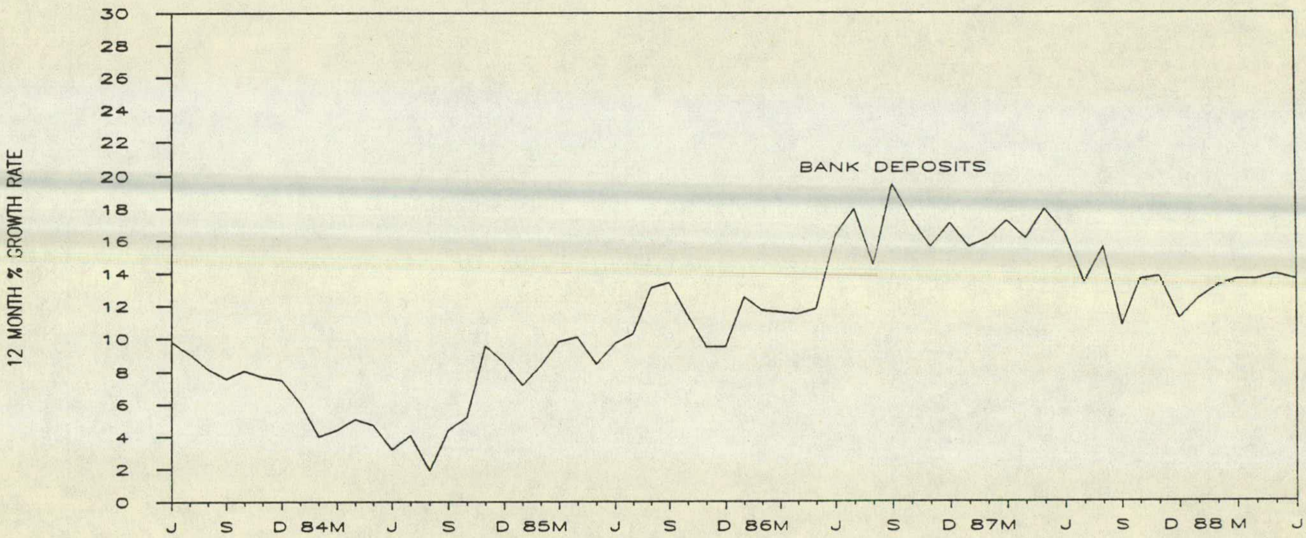


CHART VIII RETAIL DEPOSITS





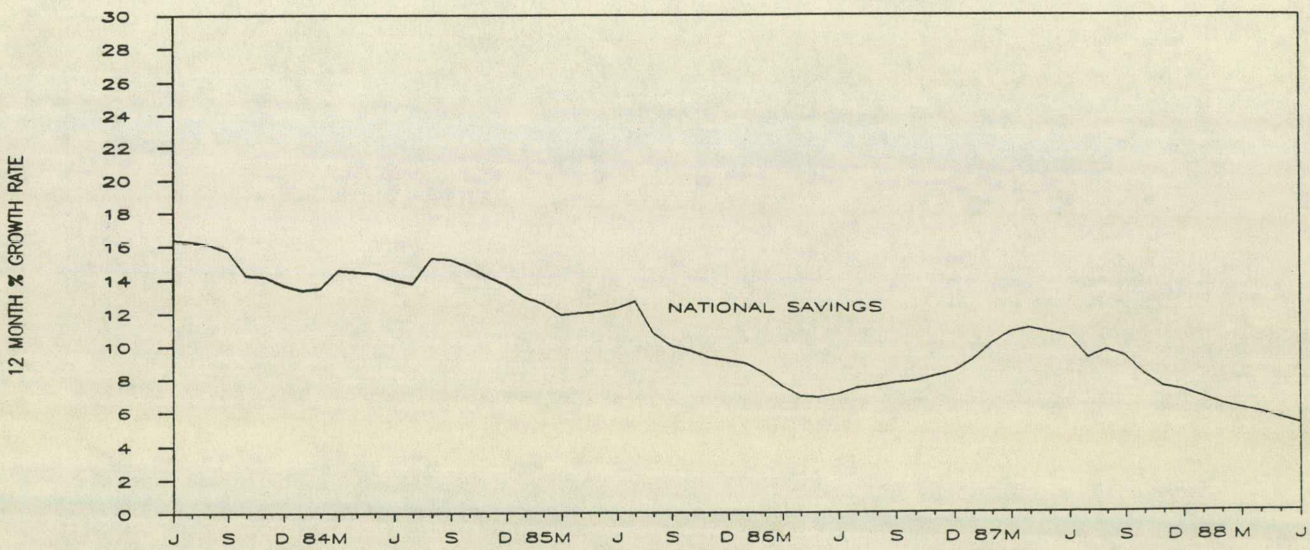
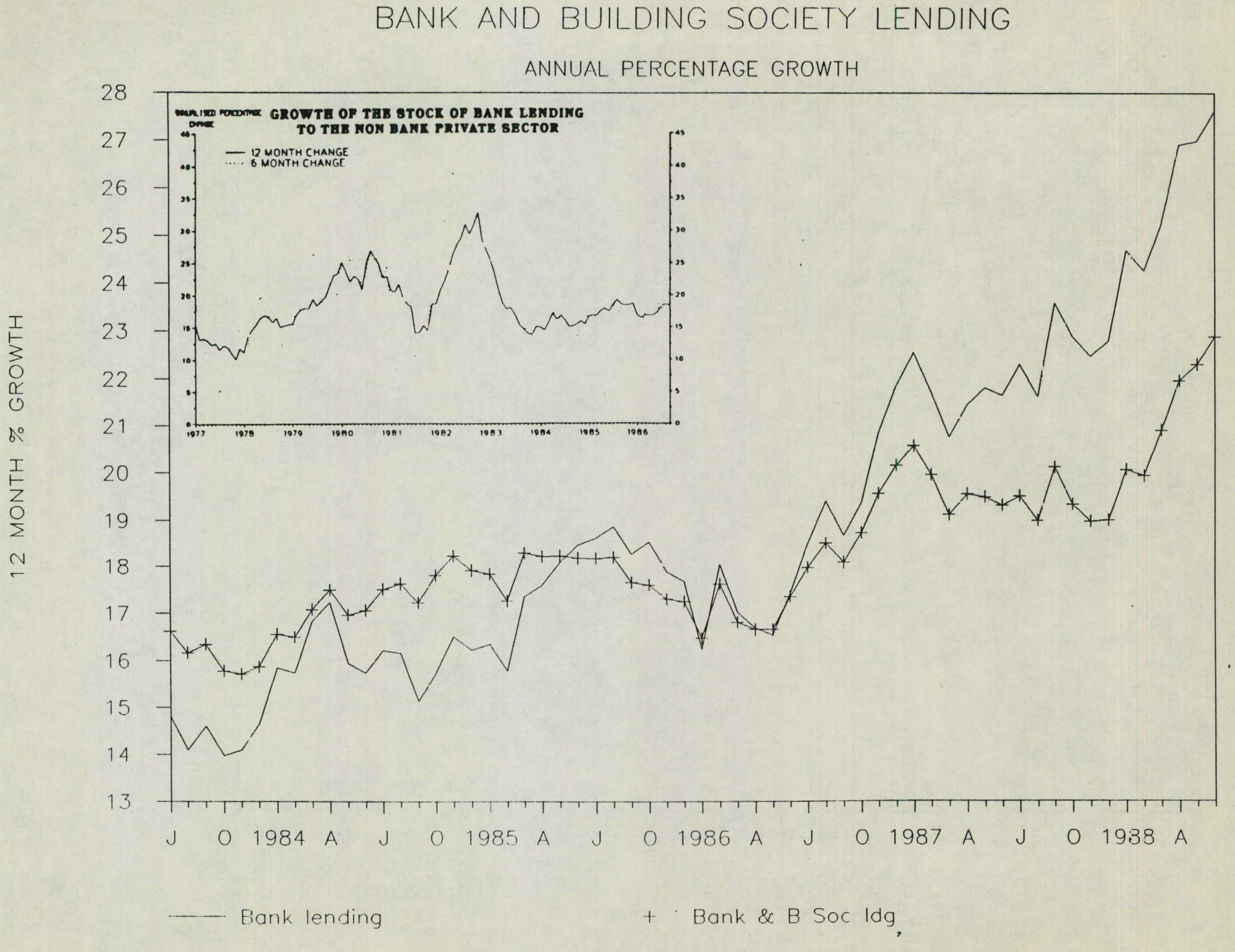


CHART IX



BANK AND BUILDING SOCIETY LENDING
ANNUAL PERCENTAGE GROWTH
12 MONTH % GROWTH
28
27
26
25
24
23
22
21
20
19
18
17
16
15
14
13
J O 1984 A J O 1985 A J O 1986 A J O 1987 A J O 1988 A
GROWTH OF THE STOCK OF BANK LENDING
TO THE NON BANK PRIVATE SECTOR
12 MONTH CHANGE
6 MONTH CHANGE
1977 1978 1979 1980 1981 1982 1983 1984 1985 1986
Bank lending
+ Bank & B Soc ldg

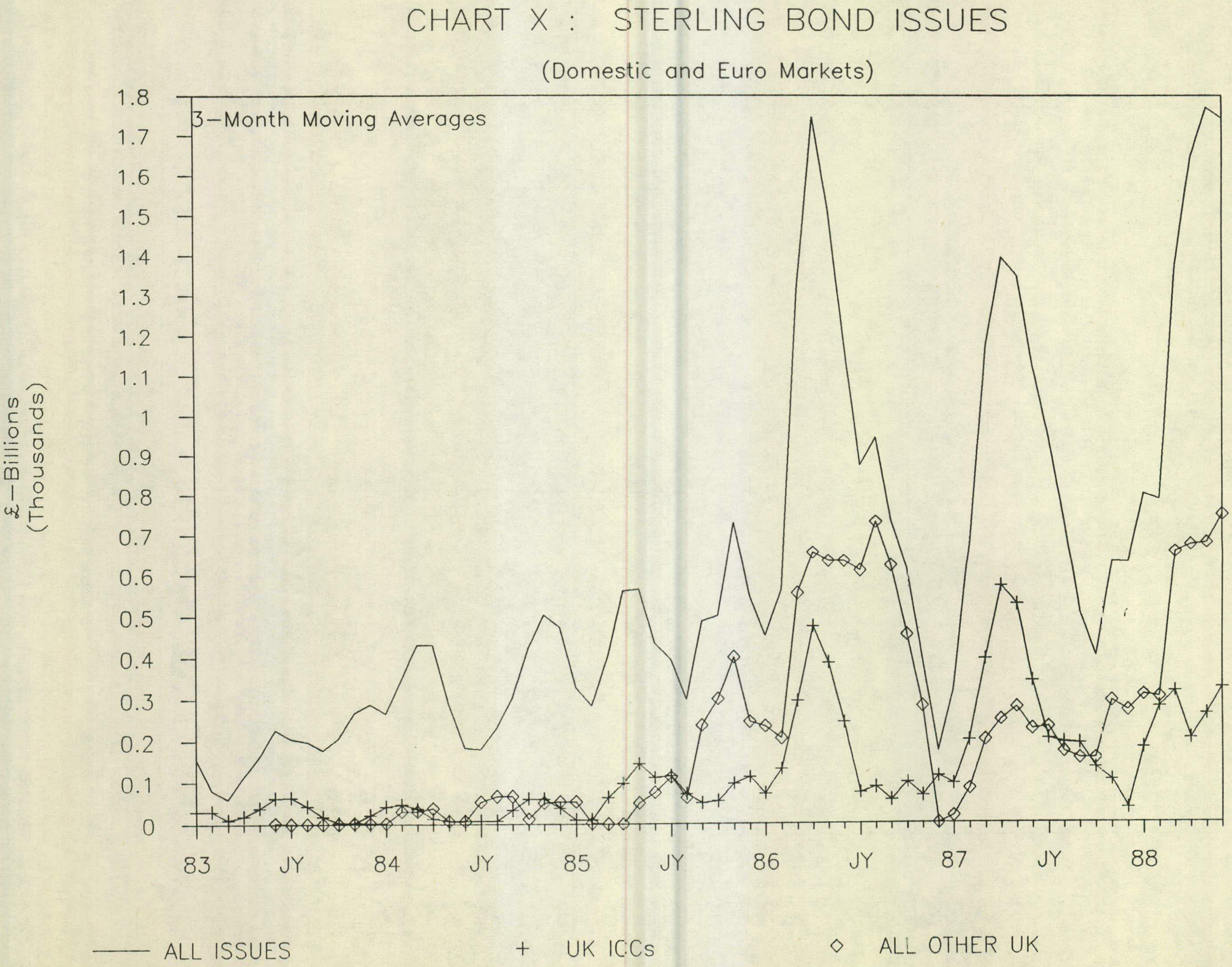


CHART X : STERLING BOND ISSUES
(Domestic and Euro Markets)
3–Month Moving Averages
£–Billions
(Thousands)
1.8
1.7
1.6
1.5
1.4
1.3
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
83
JY
84
JY
85
JY
86
JY
87
JY
88
ALL ISSUES
+ UK ICCs
◇ ALL OTHER UK

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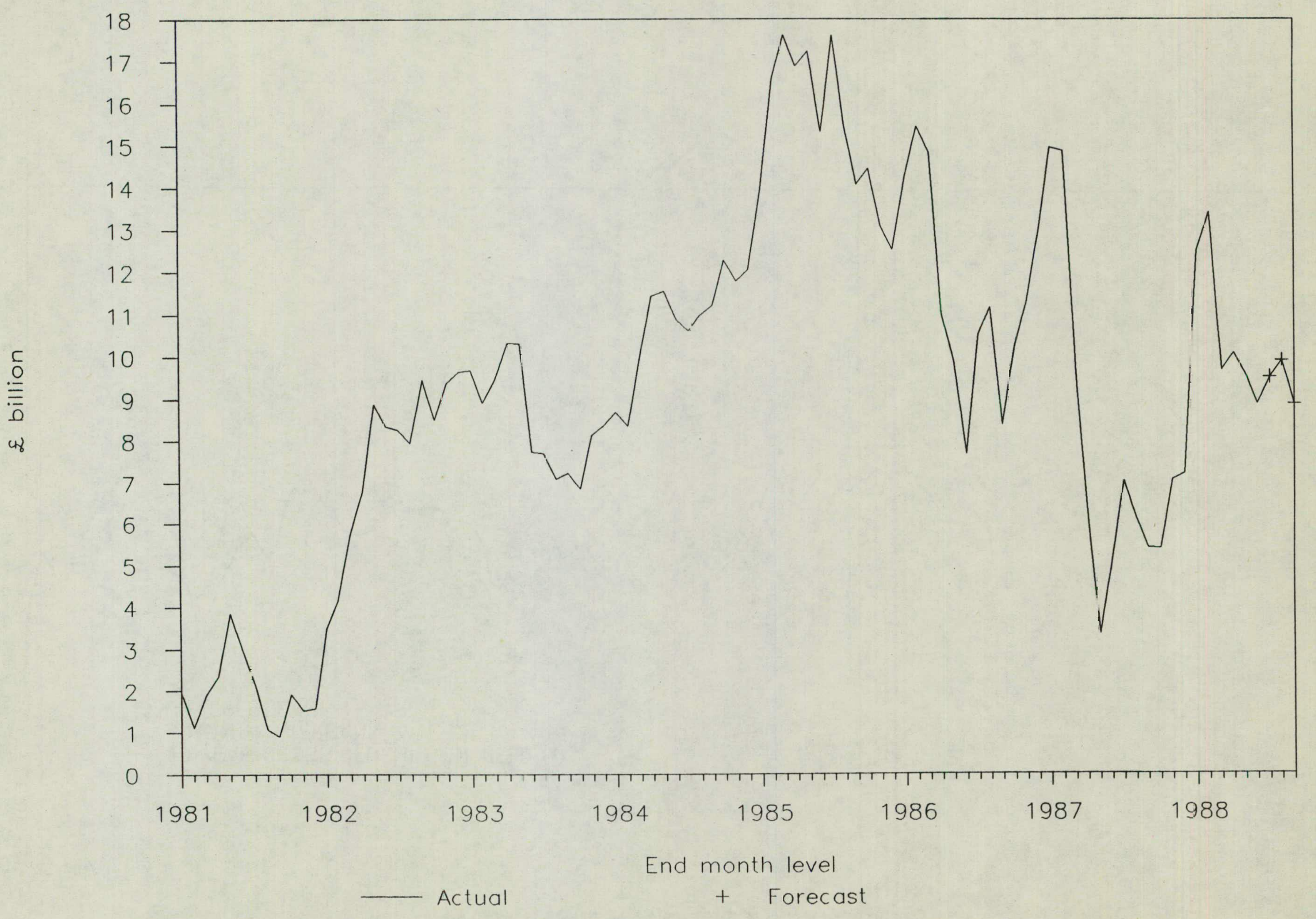
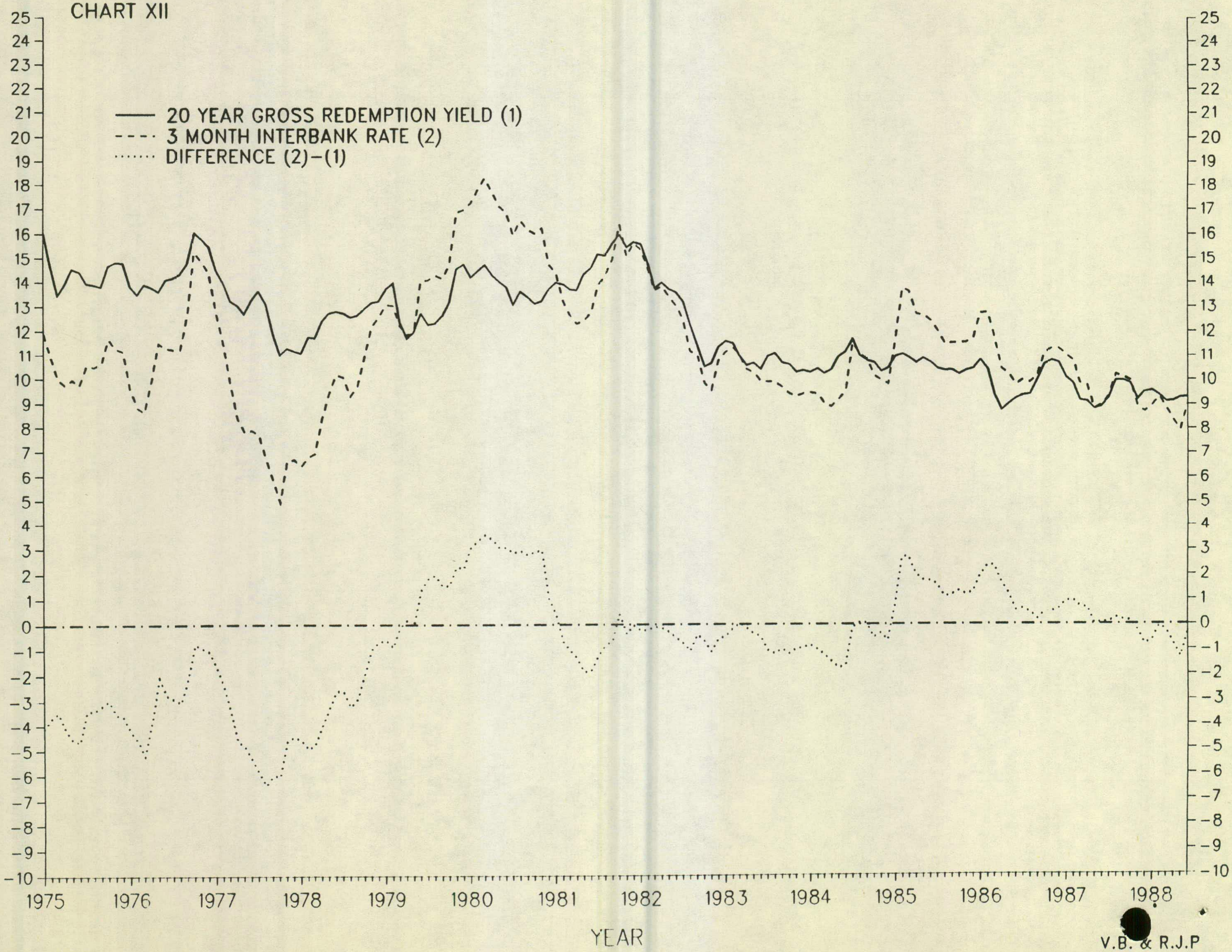
CHART XI – MONEY MARKET ASSISTANCE



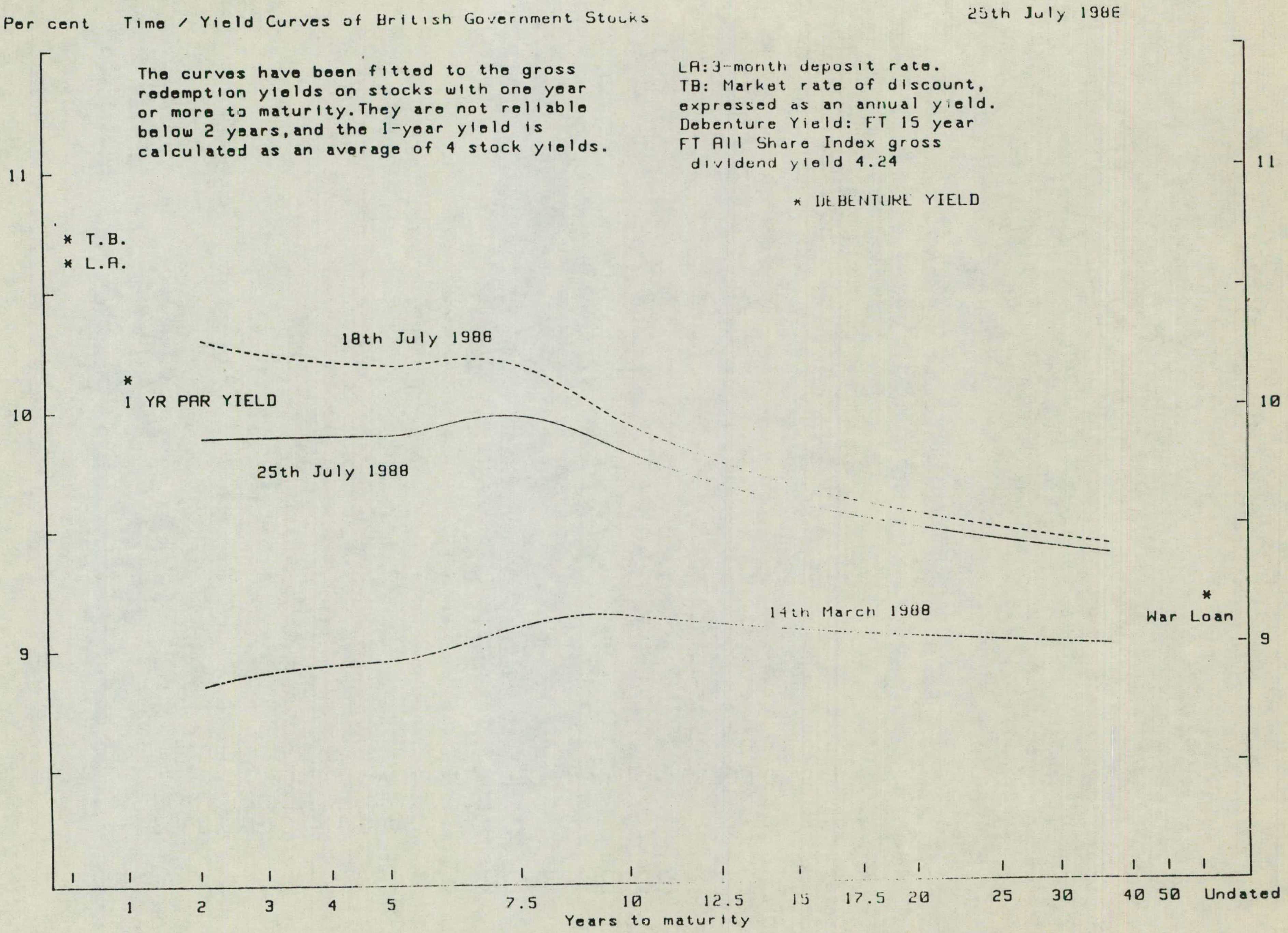
NOMINAL INTEREST RATES

CHART XII



V.B. & R.J.P

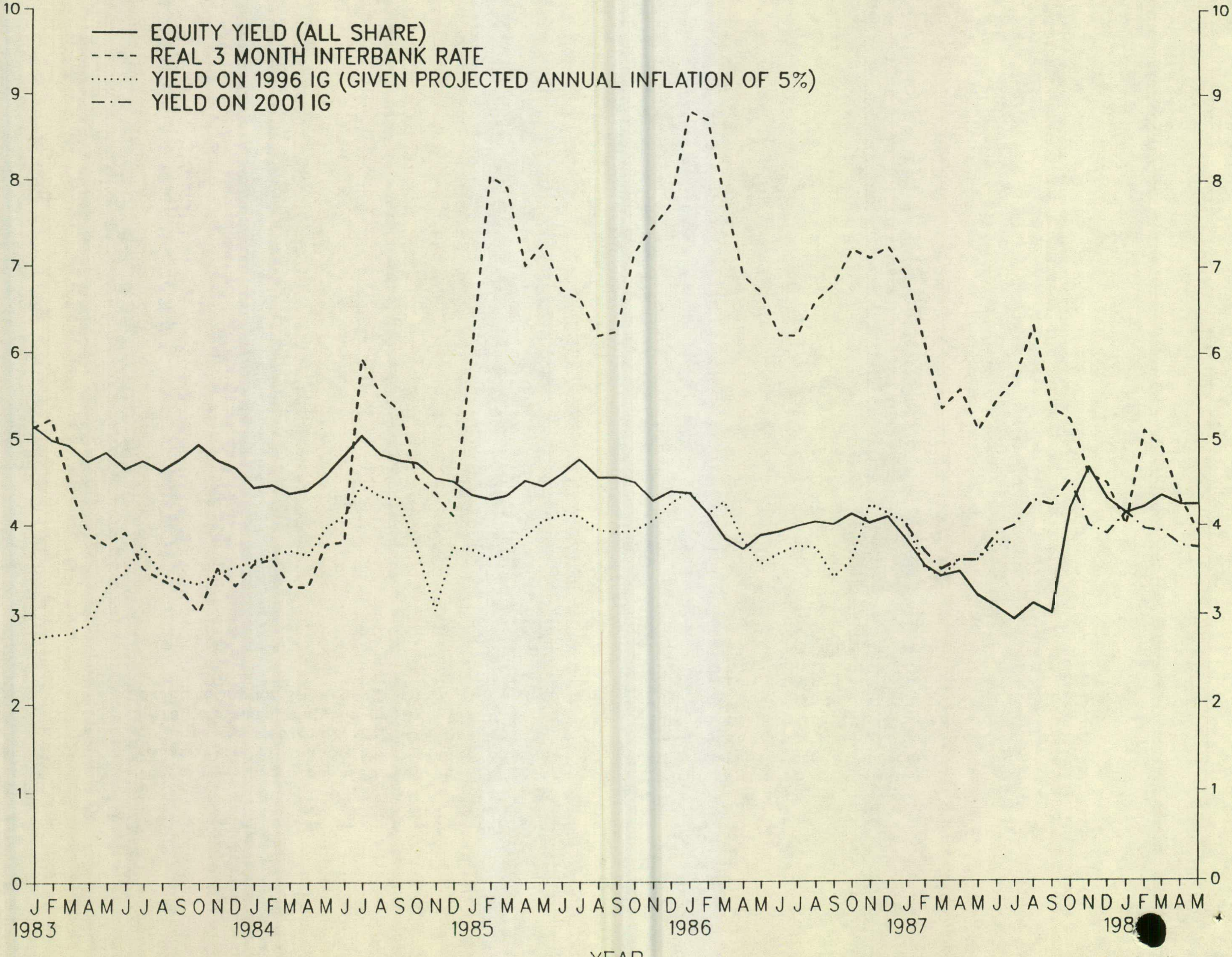
CHART XIII


Per cent
Time / Yield Curves of British Government Stocks
25th July 1988
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 4.24
* DEBENTURE YIELD
* T.B.
* L.A.
* 1 YR PAR YIELD
18th July 1988
25th July 1988
14th March 1988
* 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

UNCLASSIFIED

CHART XIV

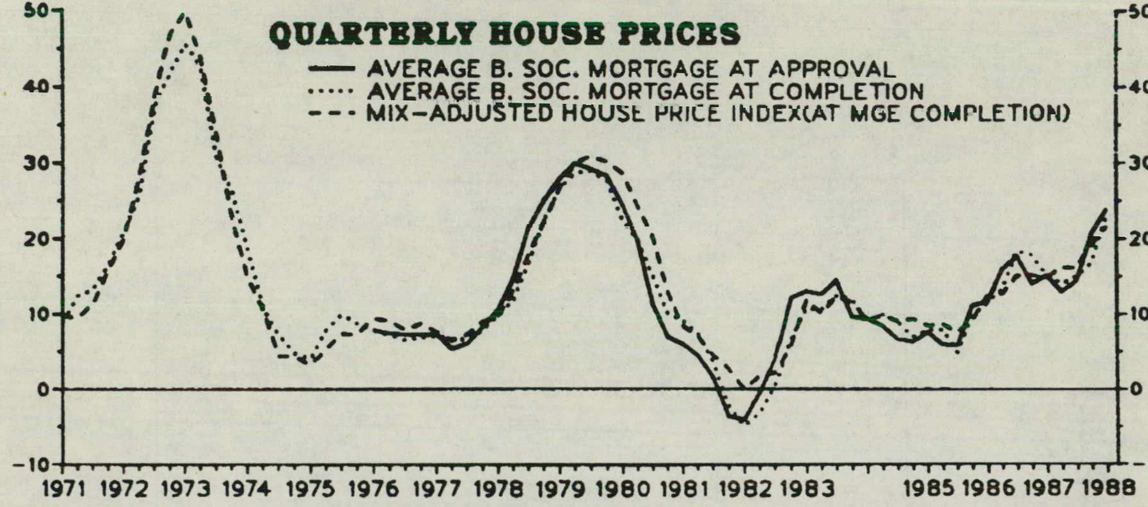
REAL YIELDS

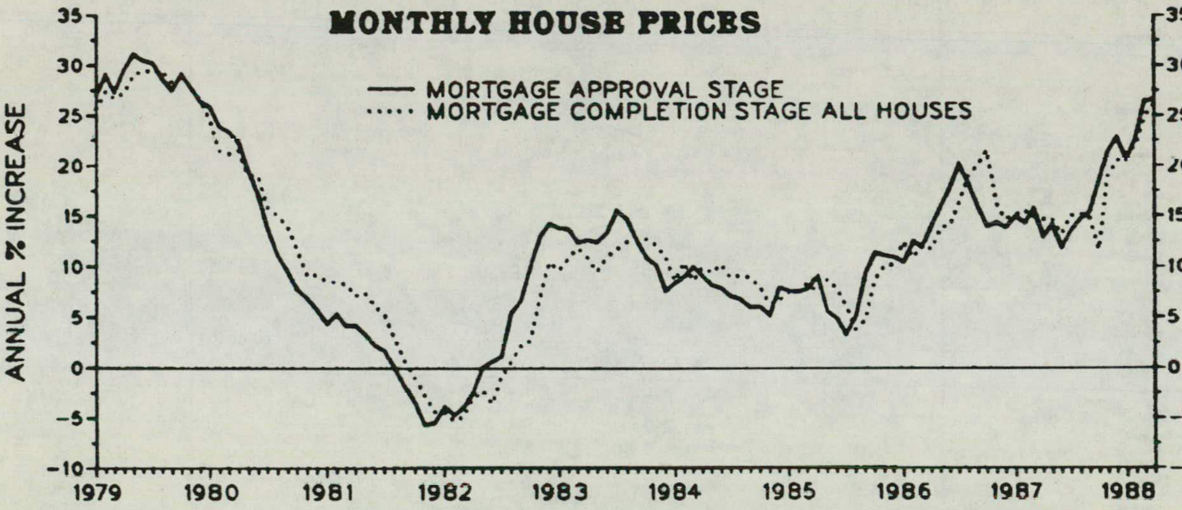


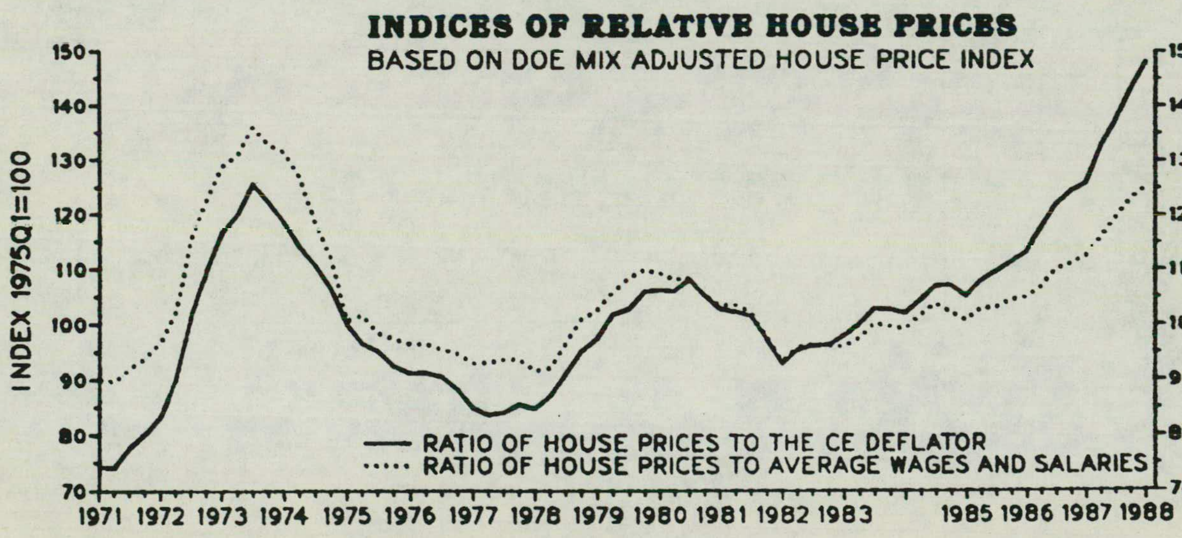
V.B & R.J.P

UNCLASSIFIED

CHART XV : HOUSE PRICES: I







ANNUAL HOUSE PRICE INFLATION : 2

CHART XVI

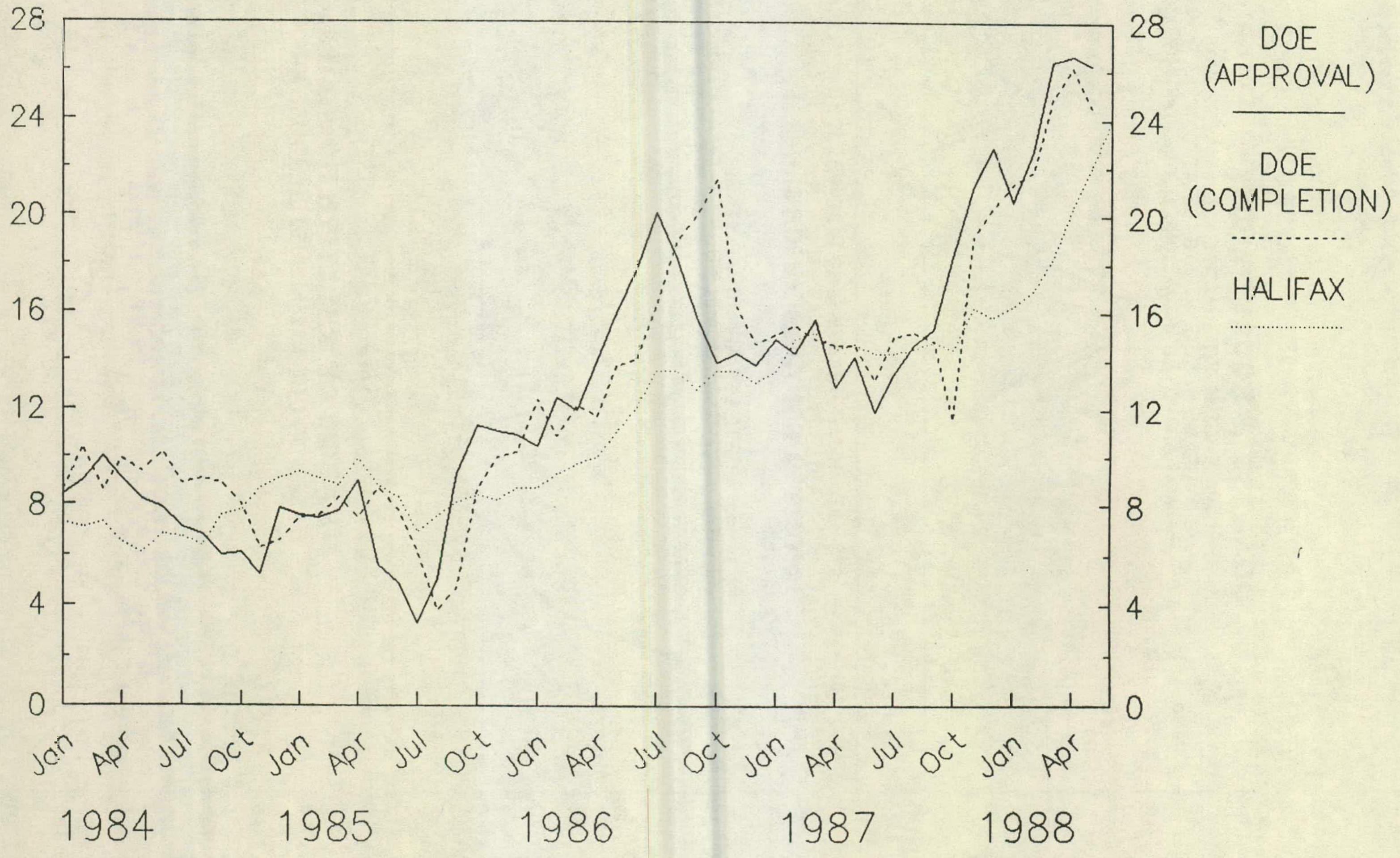
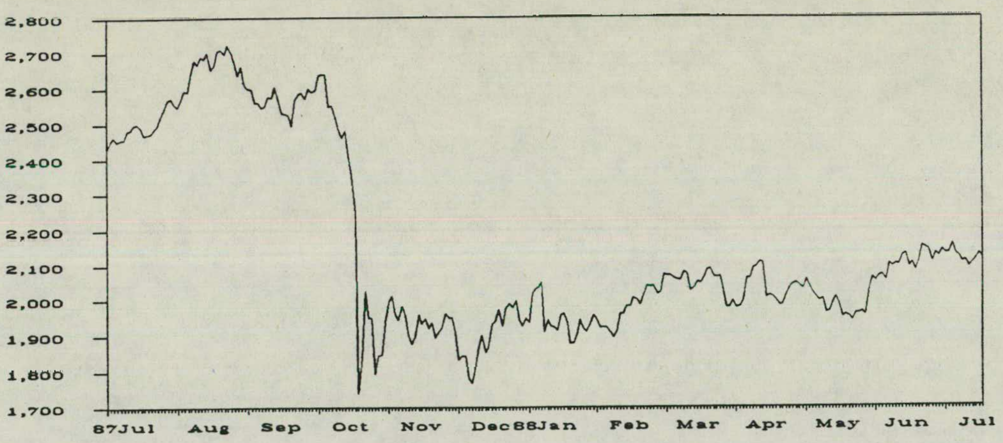
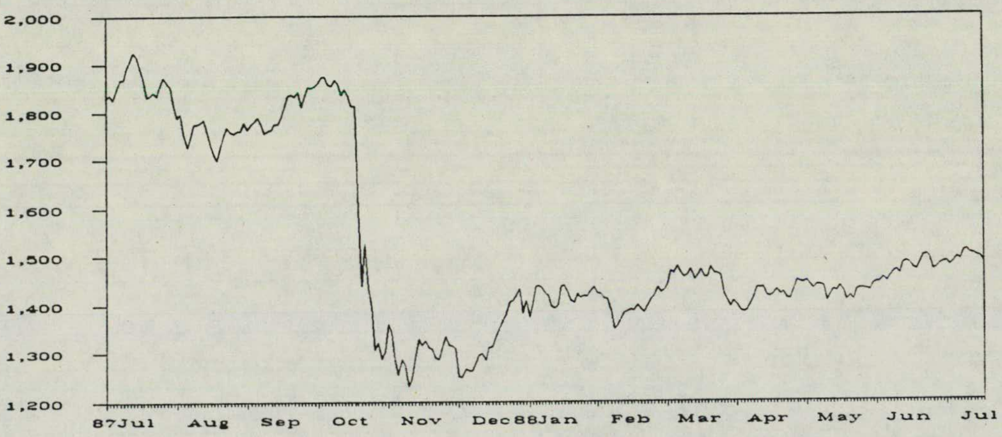


CHART XVII

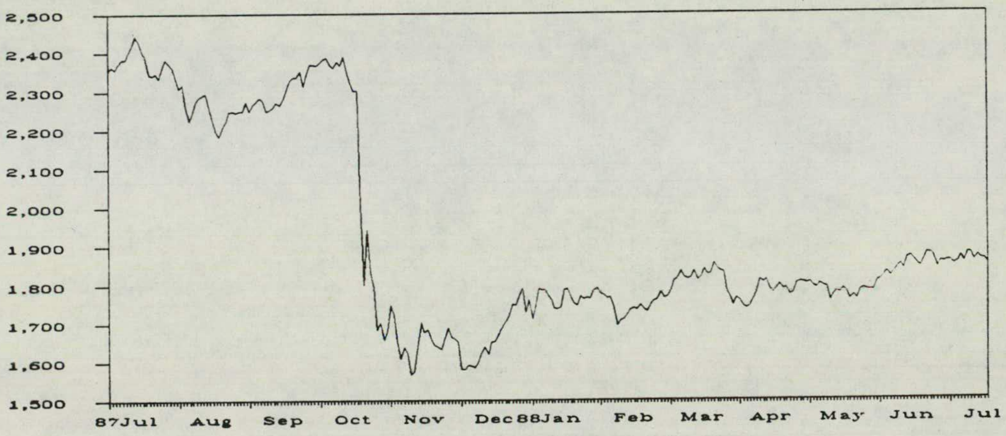
Dow Jones Industrial Average



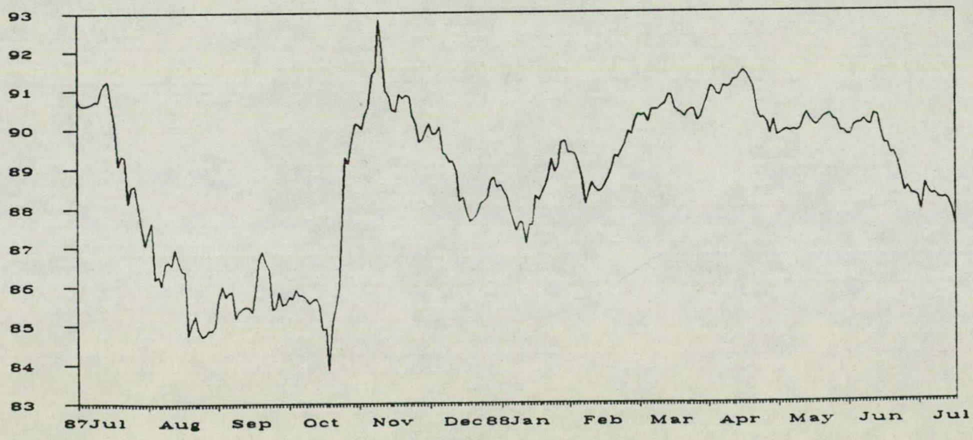
FT Ordinary Index



FTSE 100



Gilt Index



MAJOR TEXTS ON EMU/EMS

7 June 1971 (Conservative) - Chancellor of Duchy of Lancaster's statement in negotiations

We shall be ready to discuss after our entry into the Communities what measures might be appropriate to achieve a progressive alignment of the external characteristics of and practices in relation to sterling with those of other currencies in the Community in the context of progress towards economic and monetary union in the enlarged Community, and we are confident that official sterling can be handled in a way which will enable us to take our full part in that progress.

10 June 1971 (Conservative) - Prime Minister's statement to House of Commons

We have said three things to the Community. We have said that as members of the enlarged Community we should play our full part in the progress towards economic and monetary union. That was confirmed in my talk with President Pompidou and in my statement to the House. We have said that we are prepared to envisage a gradual and orderly rundown of official sterling balances after our accession. We have said that after accession we would discuss measures by which a progressive alignment of the external characteristics of sterling with those of other Community currencies might be achieved.

19, 20 October 1972 (Conservative) - Communique issued by the Heads of State of the enlarged Community, Paris

The Heads of State or of Government reaffirm the determination of the member states of the enlarged European

Communities irreversibly to achieve the economic and monetary union, confirming all the elements of the instruments adopted by the Council and by the representatives of Member States on 22 March, 1971 and 21 March, 1972.

The necessary decisions should be taken in the course of 1973 so as to allow the transition to the second stage of the economic and monetary union on 1 January 1974 and with a view to its completion not later than 31 December 1980.

April 1973 (Conservative)	- Extracts of the Regulation (EEC) N907/B of the Council; setting up the EMCF

Whereas the purpose of the Fund must be to contribute to the progressive establishment of an Economic and Monetary Union between the Member States of the European Economic Community, which, in its final stage as regards its monetary aspects will have the following characteristics:

- either the total and irreversible convertibility, at irrevocable parities, of Community currencies against each other,

- or the introduction of a common currency.

December 1974 (Labour)	- Meeting of the Heads of Government of the Community

The Heads of Government having noted that internal and international difficulties have prevented in 1973 and 1974 the accomplishment of expected progress on the road to EMU affirm that in this field their will has not weakened and that their objective had not changed since the Paris Conference.

LT5ADL/2

November 1976 - Hague: European Council
(Labour)

The achievement of Economic and Monetary Union is basic to the consolidation of Community solidarity and the establishment of European Union.

July 1978 - Bremen: European Council
(Labour)

Not later than two years after the start of the scheme, the existing arrangements and institutions will be consolidated in a European Monetary Fund.

December 1978 - Brussels: European Council
(Labour)

We remain firmly resolved to consolidate, not later than two years after the start of the scheme, into a final system the provisions and procedures thus created. This system will entail the creation of the European Monetary Fund as announced in the conclusions of the European Council meeting at Bremen on 6 and 7 July 1978, as well as the full utilization of the ECU as a reserve asset and a means of settlement. It will be based on adequate legislation at the Community as well as the national level.

December 1980 - Luxembourg European Council
(Conservative)

The European Council confirms its determination to continue strengthening the European Monetary System until its transition to the institutional stage at the appropriate time. It calls upon the Commission and the Council of Ministers to continue their work.

June 1983 - Solemn Declaration on European Union
(Conservative)

European Union is being achieved by deepening and broadening the scope of European activities so that they coherently cover, albeit on a variety of legal bases, a growing proportion of Member States' mutual relations and of their external relations.

February 1986 - Single European Act
(Conservative)

Preamble
Moved by the will to continue the work undertaken on the basis of the Treaties establishing the European Communities and to transform relations as a whole among their States into a European Union, in accordance with the Solemn Declaration of Stuttgart of 19 June 1983.

Resolved to implement this European Union on the basis, firstly, of the Communities operating in accordance with their own rules and, secondly, of European Cooperation among the signatory states in the sphere of foreign policy and to invest this union with the necessary means of action.

Article 1
The European Communities and European Political Cooperation shall have as their objective to contribute together to making concrete progress towards European unity.

LT5ADL/4

mjd 1/29A

SECRET AND PERSONAL

Py

FROM: A C S ALLAN

DATE: 1 August 1988

MR GRICE

cc PS/Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Scholar
Mr Odling-Smee
Mr Peretz
Mr Sedgwick
Mr Gieve
Mr Cropper

MONTHLY MONETARY ASSESSMENT: JULY 1988

The Chancellor was grateful for your minute of 29 July.

2. He had two points of detail:

(i) It is likely that house prices have been artificially inflated by the 1 August deadline for the abolition of multiple mortgage relief. It will be important to monitor closely house price trends post 1 August.

(ii) He thought Mr Scholar's point recorded in your paragraph 2(iii) contained a non-sequitur. Given the nature of the tax system, there <u>has</u> been a fiscal tightening.

ACSA

A C S ALLAN

5-29

BF 16/8

FROM: M C SCHOLAR
DATE: 2 AUGUST 1988

MR A C S ALLAN

Mr Grice o/r

SIR PETER MIDDLETON'S MONTHLY MONETARY MEETING

I cannot fail to rise to the charge that I have uttered a non-sequitur.

2. Mr Grice, I am sure, recorded what I said: indeed he must have done, because I approved his draft.

3. What I meant to say (ie what I wrote for myself in my notes for the meeting) was:-

> "The ex-post fiscal stance has again appeared to tighten, with higher tax receipts and lower public expenditure. But because all of this change can be explained by higher activity and higher inflation it does not seem right to say without qualification that the hold of the fiscal stance on the economy has tightened".

4. I suspect the Chancellor will say that this, too, takes insufficient account of the progressive nature of the tax system. But it would not, at least, be a non-sequitur.

MCS

M C SCHOLAR

Extract from draft Francis Maude speech. OK?

support - Ch

OK

MONETARY CO-OPERATION

Some have argued that because the UK has not leapt to support the idea of a Single European currency and a Central Bank, we ~~are~~ must therefore ~~automatically~~ be half-hearted Europeans. This is nonsense. The reality is, of course, the exact reverse. Because we are good Europeans, we have analysed carefully what the implications would be. There were some other Member States who did the enthusing first and the analysing later. Now that they have to do the analysing, they are increasingly coming to the conclusion that we reached some time ago. That is that the creation of a single currency and a European central bank would involve a massive cession of national sovereignty.

It could not be achieved by evolution, step by step. Each national government would have to give up its sovereignty over monetary policy, economic policy, and much of taxation policy. And there is no evidence that most Member States are ready to take such a step.

For example, the President of the German Bundesbank recently wrote that: "One does not have to be a defeatist about European integration to doubt whether there is really political scope for such fundamental decisions and the sacrifices of national sovereignty that would be required by the creation of a European Central Bank and currency."

That is a crucial point, which the Chancellor underlined strongly in his Mansion House speech recently. He also stressed the absurdity of the view that the creation of a common currency and a central bank is somehow necessary for the successful operation of the single market. This is, as the Chancellor said, "a view held only by politicians who know little about economics and promoted by economists who are oblivious to the realities of politics". So we must on no account let it distract us from the important practical steps necessary to complete the single market.

But the fact that a single currency and a central bank are not on the short or medium term agenda does not mean that we are against better monetary co-operation in the Community. As the Chancellor also made clear in his speech, we strongly favour ~~it.~~ that.

After all, there is already a European currency, and the British Government has led the way in fostering its development. We blazed a trail by issuing Treasury bills denominated and payable in ecus, and the first tenders have been a resounding success. If you visit the Chicago Mercantile Exchange, you will find an ecus futures contract being traded. Volumes may not yet be large, but certainly that hard-headed market reckons that the demand for ecu as a currency instrument is going to increase. And I have no doubt that businesses in the UK as well as in the rest of the Community will want to make greater use of it.

Alex
The Chancellor will be interested to see this.

Thanks. Interesting. A deliberate misrepresentation; &, in particular, is wholly untrue.

The Case for Returning to Mr. Lawson's 1987 Macroeconomic Strategy

John Williamson
Senior Fellow
Institute for International Economics

Last year it was possible to hope that Britain had finally embarked on the period of sustained catchup growth it has so badly needed since 1981. The economy grew by over 4 per cent, enough to reduce unemployment by some half a million. Inflation, while still unimpressively high by international standards, remained under control. The balance of payments, while in deficit on current account, could be easily financed; the presumed capital gains on Britain's foreign assets far exceeded the deficit.

Most encouraging of all, it seemed that macroeconomic policy was being determined by a sufficiently coherent strategy for the creditable performance to be sustained in the medium term. Fiscal policy was supposedly being guided by a target for the growth of nominal income sufficiently high to permit continued catchup growth but sufficiently taut to restrain any major acceleration of inflation. Monetary policy was devoted to targeting the exchange rate, and the actual target zone (if I may use the phrase) was defensible: the DM was the most sensible unit in terms of which to formulate a target, and a range of DM 2.70 to DM 3 was reasonably competitive without being inflationary.

The Chancellor's speech to the IMF Annual Meetings in September 1987 suggested that this strategy was a matter of intellectual conviction. He lauded exchange rate management and emphasized the importance of avoiding misalignments. He spoke of the need for a "nominal framework for policy," perhaps in terms of a target path for nominal GDP growth for the Group of Seven as a whole (a more promising approach to providing the G-7's indicators with a nominal anchor than Secretary Baker's commodity basket "including gold"). It made little sense to propose such ideas as a basis for international policy coordination if they were not already the government's chosen basis for national macroeconomic management.

By the time of the 1988 budget, it was clear that maintenance of last year's successful strategy required some policy adjustments. The growth of nominal income was well above target. The balance of payments was weakening further: while demand restraint would have helped limit this deterioration, the increasing deficit suggested that the target zone for the exchange rate was if anything a bit too high. Yet, impelled by high interest rates, the pound was threatening to break out of the top of its target zone.

The macroeconomic strategy enunciated and pursued successfully by the Chancellor in 1987 contains crystal clear implications as to the policies to be adopted in those circumstances. Interest rates should have been reduced, to keep the pound at a competitive level. And the budget should have been restrictive, to compensate for the more expansionary monetary policy and to keep the growth in demand down to a level that the economy could afford without reviving inflationary pressures or generating an excessive current account deficit.

Actual policy was very different. Most of the fiscal benefits of the year's rapid real growth were used up in increased public expenditure or reduced tax rates, leaving virtually no restrictive impulse from the fiscal side. (The latest OECD Economic Outlook estimates the 1988 change in the general government financial balance to be restrictive to the extent of just 0.1 per cent of GNP after adjusting for the business cycle and inflation.) The Bank of England, backed by the Chancellor but undermined by the Prime Minister, made a vain attempt to keep sterling within its target zone by massive intervention. It finally got around to doing something more effective, by cutting interest rates, only after the pound had broken through the DM 3 ceiling.

Subsequent trade figures revealed that the current account deficit was increasing much faster than had been expected. This had the desirable affect (according to the Chancellor's 1987 strategy, with which the reader may have detected a certain sympathy on my part) of inducing the market to push the pound down toward its target zone. But instead of welcoming the pound back to its more competitive level and proclaiming a victory for target zones with soft buffers, the authorities chose to resist its decline even to DM 3 by jacking up interest rates.

At one level, the explanation for this inconsistent behavior is apparent enough. The danger of renewed inflation is more imminent than the threat posed by inadequate competitiveness, and higher interest rates and a higher pound are the simplest way of combating inflation.

At a deeper level, however, this explanation is unsatisfying. After all, the possibility of such a conjunction of circumstances was not overlooked by the 1987 strategy. That strategy prescribed fiscal rather than monetary restraint, so as to control inflation in the short-run without jeopardizing the maintenance of competitiveness on which long-run performance depends. This demanded a between-budget rise in indirect taxes--use of the "regulator" from the heyday of Keynesian fiscal fine tuning in the 1960s.

X

One can only guess as to why the Chancellor abandoned his earlier strategy. Two possible explanations occur to me.

1. The Prime Minister never had any sympathy with the strategy and forced him to abandon it. He has slipped back into ad hoc policymaking based on the line of least political resistance.

2. The Chancellor wanted to prove his anti-Keynesian credentials by basing his budget judgment on a pre-Keynesian concern for budget balance rather than a Keynesian concern to manage the economy. He could not subsequently bring himself to admit the irresponsibility of his budget by employing a reviled Keynesian instrument like the regulator.

Neither explanation is encouraging for the prospect of maintaining catchup economic growth. Either makes one wish that the principles of the Chancellor's 1987 strategy had already been firmly built into the fabric of international economic policy coordination, as they would have been by adoption of the Williamson-Miller "Blueprint", and thus able to help prevent 1988's backsliding.

chex.ps/aa/14 **UNCLASSIFIED**

FROM: A C S ALLAN
DATE: 7 September 1988

SIR T BURNS

JOHN WILLIAMSON ON MACROECONOMIC STRATEGY

The Chancellor was grateful to you for showing him a copy of John Williamson's paper "The Case for Returning to Mr Lawson's Macroeconomic Strategy". He thought it was interesting, but a deliberate misrepresentation: in particular, Williamson's comment on page 4 that "[the 1987 strategy] prescribed fiscal rather than monetary restraint, so as to control inflation in the short run without jeopardising the maintenance of competitiveness on which long run performance depends" is wholly untrue.

A C S ALLAN

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SECRET AND PERSONAL

FROM: J W GRICE

DATE: 6 October 1988

PM 7/10

1. SIR PETER MIDDLETON

2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Sir T Burns
Sir G Littler
Mr Lankester
Mr Monck
Mr Scholar
Mr H P Evans
Mrs Lomax
Mr Odling-Smee
Mr Peretz
Mr Sedgwick
Mr Gieve
Mr Hibberd
Miss O'Mara
Mr Riley
Mr Brooks
Mrs Ryding
Mr Cropper
Mr Tyrie
Mr Call

Mr Cassell - Washington

File: MAMC F1

Thanks. NL

MONTHLY MONETARY ASSESSMENT: SEPTEMBER 1988

This note records the discussion at Sir Peter Middleton's monthly meeting on monetary conditions on 5 October. Attached is the usual Monthly Assessment.

Sir Peter Middleton's Meeting

2. Mr Scholar noted that, over the past month, markets had been steady and interest rates and exchange rates had not changed appreciably. There were two main questions:

(i) was there evidence that the tightening of policy was starting to take effect;

(ii) had there been developments arguing for a further tightening of the stance?

3. On the first question, several points were worth noting:

a) the hardest evidence was the fall in mortgage commitments since the beginning of August. The lower level seemed to have established itself in September;

b) less tangible was the evidence from consumer confidence surveys which suggested a definite falling off in confidence in July and August;

c) there was a possibility - but no more - that house price acceleration on a national basis had reached a peak. The DoE house price figures in the Assessment were consistent with this. Although the 12 month growth in the Halifax index had increased to 34 per cent in September from 31 per cent in August, this mainly reflected events a year ago. Monthly figures were increasing steadily - though rapidly - at around 3-4 per cent a month;

d) broad money growth had moderated slightly in September. But this was well within the range of normal fluctuation and ther was little to be inferred from this.

4. Some of these straws could turn into bricks in due course. But, currently, the picture remained one of a very strong economy, with inflationary pressures continuing to threaten - especially on the wages front as the new round gathers momentum.

5. As to the second question, the most disturbing indicator was M0. Its six month annualised growth rate was now 12¼ per cent and it had grown by 1½ per cent in September alone. But the September figure had been considerably distorted by the postal strike. Making due allowance for that, the underlying September growth was a more reasonable ½ per cent or so and the 12 month growth would have been about 7½ per cent in September, the same as in August.

6. So, overall, the policy response should be to continue to sit tight; resist any pressure for lower interest rates even if the exchange rate were to rise in consequence, and resist pressure for higher rates, too, though there would be a limit beyond which this resistance should not sensibly go.

7. Mr George agreed with this assessment but underlined the changes in sentiment which had become manifest:

a) the financial markets had rallied over the last month though the upward movement seemed to have run out of steam for the present. But the balance of speculation about the next move in interest rates had evened out. A month ago, most commentary had suggested that yet higher interest rates might be needed:

b) sentiment had also changed in the housing market, even if it were not yet reflected in prices. This was particularly welcome because a better tone in the housing market should feed through to household consumer spending which had been particularly strong. It was notable that credit enquiries to Infolink, one of the main credit reference agencies, had fallen away sharply.

8. Sir Terence Burns felt that we were still waiting for evidence on the effects on the policy tightening. Concrete data on the macroeconomic variables of primary concern were slow to appear and currently very suspect when they did. Inevitably, therefore, we had to look at the straws in the wind. He drew some comfort from housing market developments; there was evidence of a fundamental change, although the significance of the mortgage commitment figures was clouded by the change in tax treatment. So far commitments had not fallen back below pre-May levels.

9. Mr Scholar commented that the change in the housing market may be showing up first in lower turnover. There was anecdotal evidence for this but reliable overall figures were lacking. Mr Flemming added that lower turnover would also reduce opportunities for equity withdrawal and some of the spending on durables associated with moving house with implications for consumer spending.

10. Professor Griffiths felt that it was important to examine the inflation forecast implicit in the Assessment. The projection for money GDP growth in 1988-89 had been raised to 10½-11½ per cent and M0 growth was now not expected to fall below 5 per cent until 1989Q2. Chart XV of the Assessment - showing the relationship of

house prices to prices and wages - raised the possibility of rapid growth in house prices heralding more general inflation. So we needed to satisfy ourselves that inflation would not drift up well above 7 per cent; the story would be wages chasing up prices and demand underpinning both.

11. The following points were made in discussion of the inflation outlook:

(i) RPI inflation was expected to rise to 7 per cent early next year. But cxcluding mortgage interest payments the rise was from 5 per cent only to around 5¼ per cent. M0's behaviour was consistent with this projection. The main uncertainty stemmed from further mortgage interest payment rises should yet higher interest rates prove necessary;

(ii) the higher mortgage interest payments reflected in the RPI would unhelpfully strengthen the hand of wage negotiators as the new round got underway;

(iii) the stability of the exchange rate and the softness of commodity prices - especially oil - gave some assurance that greater than anticipated inflation would be avoided;

(iv) it was also reassuring that profit margins were now ample. There was some cushion for firms to absorb any increase in costs.

12. Sir Peter Middleton suggested that the meeting might also usefully consider what other threats to our objectives could arise. In discussion, the following candidates were identified:

a) the personal savings ratio might continue to fall, despite higher interest rates, leading to excessive demand pressures. This was felt to be improbable. It was noted that there were still interest rate effects to come when many mortgage lenders made annual reviews of monthly repayments, mainly in 1989Q1;

b) a more plausible threat could come from the exchange rate. Prospects for the dollar after the presidential election were far from certain and there could be implications for sterling. Beyond that almost any event or statistic could lead to exchange rate pressures. A sharp decline in the pound would be harmful for inflation, both directly and via its effects on expectations;

c) on the other hand, a strong rise in interest rates to prevent depreciation of sterling would risk a damaging collapse in both industrial and consumer confidence, possibly working through the housing market.

13. Summing up, Sir Peter Middleton said the meeting was agreed that we were waiting on better evidence of the effects of the policy tightening. There were signs of changes in sentiment and a certain number of welcome straws. But it would be reassuring when these were confirmed in more substantial indicators. In the interim, the meeting recommended sitting tight but could not rule out that higher interest rates might yet be needed.

JWG

J W GRICE

cc: Governor)
Deputy Governor)
Mr George) Bank of England
Mr Flemming)
Mr Coleby)
Mr Plenderleith)

Professor Griffiths - No 10

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SECRET AND PERSONAL

MONTHLY MONETARY ASSESSMENT: SEPTEMBER 1988

Summary Assessment

There is still no concrete evidence of activity responding to higher interest rates. But the straws in the wind are accumulating. Mortgage commitments remain at their lower level since the beginning of August and some lenders report even sharper declines in new enquiries. Latest surveys show some decline in consumer confidence. M0 continues to grow strongly but the postal strike makes its interpretation complicated.

Main Points

Money GDP growth is now expected to be 10½-11½ per cent in 1988-89 (June forecast 10 per cent). RPI inflation is expected to exceed 7 per cent early next year although excluding mortgage interest payments the rise is from 5 per cent in August to around 5¾ per cent. (Paras 18, 25)

M0's 12 month rate of growth accelerated to nearly 8½ per cent in September from 7½ per cent in August. But most, if not all, of the increase is probably attributable to the postal strike. Nevertheless, with the upward revision of money GDP growth, our projections are for M0 to exceed the target range by a greater margin over the rest of the financial year than previously seemed likely. (Paras 31-36, Table 25)

Sterling's effective exchange rate has hardly changed since the last Assessment (7 September). The oil adjusted ERI has risen a little. Day to day fluctuations in oil prices have been relatively large. (Paras 29-30)

M4 growth fell slightly to 17¼ per cent in August (July: 17½ per cent). The increase in bank lending to companies was erratically low, and is expected to be higher in September. The growth of building society lending remained high in August but should slow down in September. (Paras 37, 43-44, 48)

House prices increased by 34 per cent in the year to September according to the Halifax index (August: 31 per cent). Anecdotal evidence suggests the slowdown in house price inflation in London and the South-East is spreading to other areas. (Paras 22-24)

MG2 Division
6 October 1988

Monetary developments since last month's report

Latest outturns available at time of:

	March Report	August Report	September Report
Monetary aggregates (12 month % growth)	**(Feb)**	**(July)**	**(August)**
M0 (sa)	5.3	6.9	7.6*
M3	20.4	20.6	20.1
M4	16.0	17.4	17.3
M5	15.5	16.7	16.5
Bank lending	24.3	27.9	27.5
Bank & building society lending	19.9	23.6	23.8
Interest rates (%)	**28 March**	**7 September**	**5 October**
3 month interbank	8.8	12.1	12.0
20 year gilt-edged (par yield)	9.2	9.6	9.4
Yield gap	- 0.4	2.5	2.6
UK real 3 month interbank	4.4	6.2	5.8
Equity dividend yield (all share)	4.4	4.5	4.4
IG yield (2001) assuming 5% inflation	3.9	4.0	3.9
3 month UK interest differential with			
Germany	5.4	7.2	6.9
US	1.9	3.8	3.5
World basket	2.5	5.0	4.9(est)
Exchange rate			
$/£	1.85	1.70	1.70
Yen/£	231	228	225
DM/£	3.09	3.14	3.16
ERI	77.1	75.9	75.8
Oil adjusted ERI**	108.7	109.6	111.6
Asset prices			
FT-A Index (% pa)	-10.5	-20.6	-21.8
FT-A Level (July 1987 peak: 1239)	899	913	947
Halifax house index (% pa)***	16.9	28.0	30.7

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* September 8.4 (est)

** The oil adjusted ERI shows whether the joint effect of oil price and exchange rate changes has been counter-inflationary or otherwise, relative to the base period Jan 1983-Nov 1985, on the assumption that the inflationary effect of a 4 per cent rise in oil prices is exactly offset by a 1 per cent rise in the exchange rate.

*** 12 month growth rates shown are for February, July and August. September 34 per cent (not yet published).

A. External Developments

1. Latest figures confirm our view that **economic growth** in the major seven countries moderated in the second quarter of 1988. For the year as a whole growth is likely to be at least 4 per cent. In July and August industrial production growth in the US slowed down a little.

2. **Commodity prices** have fallen a little since the last Assessment. On 27 September, the Economist all-items commodity price index (in SDRs) was 6¾ per cent lower than at the end of August and was 16½ per cent below its June peak, though still 18¾ per cent higher than a year before. **Dollar oil prices** for Brent crude have fallen from $13.17 at the time of the last Assessment to $11.30 on 5 October (see also chart following para 30)..

3. During the fist half of 1988 the 12 month rate of inflation in the major countries has remained almost unchanged at just under 3 per cent but the annualised 6 month growth rate has increased to 3½ per cent.

4. **Short term interest rates** have not changed significantly this month, and a further substantial increase in US rates before the election remains unlikely. (Table 3)

5. The dollar finished the period at DM 1.88¼ and Y 134¼ above its levels at the time of the last Assessment (7 September, DM 1.84½ Y 133¾). After a period of weakness in the early part of the period as prospects of a further rise in US interest rates receded, the dollar appreciated on better than expected US trade figures published on 14 September, with the Fed intervening to hold the rate down. The strength of the dollar was maintained in the week preceding the G7 meeting of 24/25 September as the markets interpreted the latest published indicators as showing the US economy slowing down. Both the Fed and the Bundesbank intervened to stem the dollar's rise. Publication of the G7 communique reaffirming the Louvre accord on 26 September was accompanied by well publicised concerted intervention by central banks. Between 7 September and 29 September the Fed sold $330 million and the Bundesbank $217 million.

B. Activity and Inflation

6. Recent indicators of activity and inflation are summarised in table 6. We now have National Accounts estimates for the second quarter which on the whole confirm our earlier view of the underlying strength of the economy. The provisional estimate of the average measure of GDP in the second quarter shows relatively slow overall growth, reflecting an fall in GDP(E) produced by an implausibly low estimate of consumers' expenditure. RPI inflation rose sharply in August, entirely because of higher mortgage rates, but underlying retail and producer price inflation continues to drift upwards.

Activity and demand

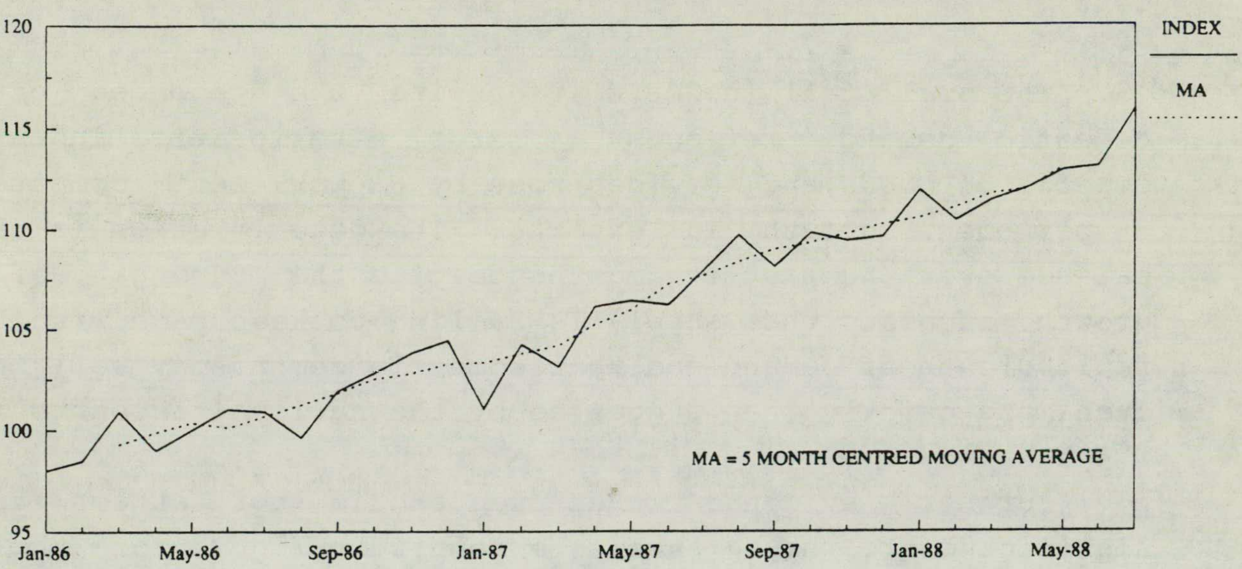
7. The average measure of GDP is estimated to have grown by ½ per cent in the second quarter, considerably less than the 1 per cent growth in the output measure (revised down from the preliminary estimate of 1¼ per cent growth). The CSO regard the output measure on the most reliable indicator of short term changes, and on this occasion it would seem to be the only measure giving a credible picture of recent activity. The income measure rose by ½ per cent but the expenditure measure fell by 0.1 per cent.

8. These latest figures further increase the already substantial divergence between the expenditure measure of GDP and the output and income measures, which now amounts to 4 per cent of GDP. The gap has widened particularly rapidly over the past year, with growth of 6 per cent in the output measure between the first halves of 1987 and 1988 compared with 2½ per cent for the expenditure measure. We would give more weight to the output measure, suggesting that the rise of 4¼ per cent in the average measure over this period may significantly understate growth in activity.

9. The strong growth in GDP(0) over the past year reflects rises in manufacturing, services and construction output. In the year to the first half of 1988 **manufacturing output** rose by 7 per cent,

and a further rise of 2½ per cent was recorded between June and July. **Service sector output** is now estimated to have grown by 6½ per cent over the past year, compared with the preliminary estimate of 5 per cent. The upward revisions are concentrated in distribution and financial services.

Chart: Index of manufacturing output



10. Estimates of **construction output** in the second quarter show a small fall (compared with the CSO projection, incorporated in last month's provisional GDP(0) figures, of a ¾ per cent rise). However growth in the year to the first half of 1988 remains exceptionally strong at around 11 per cent. Private sector housing completions and starts fell back slightly in the second quarter, but completions recovered very strongly in July.

11. The September **CBI monthly trends enquiry** provides further confirmation of strong growth in manufacturing output and demand. The balances on the volume of output and total orders questions fell slightly in September, but on a seasonally adjusted basis remain close to their highest levels since 1977. Export order books recovered a little in September.

12. Within the **expenditure measure** of GDP there was strong growth of nearly 4 per cent in total fixed investment, bringing growth in the year to 1988H1 to 9½ per cent. Over this period business

investment rose by around 14 per cent and private sector investment in dwellings rose by nearly 20 per cent. There was also a sharp rise in the level of stockbuilding in the second quarter. However the revised estimate of consumers' expenditure shows very weak growth of less than ½ per cent - this seems implausible. Despite this domestic demand rose by 1¼ per cent in the second quarter and annual growth in demand remains at 5½-6 per cent.

13. The small fall in GDP(E), despite the recorded growth in domestic demand, reflects a large deterioration in net trade: imports of goods and services rose by 6¾ per cent compared with 3½ per cent growth in exports. The deterioration in the trade balance over the past few months despite the strength of output growth suggests that supply is failing to keep pace with the very rapid growth of demand and that domestic demand may well be rising even more quickly than suggested by the national accounts figures.

14. Further evidence that we should not attach too much significance to the consumers' expenditure figure for the second quarter is provided by consumer confidence surveys. The EC survey (based on Gallup data) and an independent survey conducted by The Conference Board Inc., both show strong and rising confidence in the second quarter, following the Budget tax cuts and falls in interest rates. However, not surprisingly, there is evidence of a drop in confidence in July and August, presumably in response to interest rate rises. Results of recent CBI surveys indicate continued buoyancy of business confidence.

15. The slight drop in consumer confidence since June does not yet appear in consumer demand. Monthly indicators continue to point to a strong surge in demand in the third quarter. Retail sales rose by 2½ per cent in July and by a further ½ per cent in August. New car registrations in August were 17 per cent higher than a year earlier, and the cumulative total for the first eight months of the year was 12 per cent up on the same period last year.

16. The **August trade figures** show a current account deficit of £1.3 billion, much smaller than the July deficit of £2.2 billion, but still larger than the deficits recorded in the first half of this year. The August figure brings the deficit for the first eight months of the year to £9.2 billion, much the same as the June forecast deficit for the whole of 1988. The fall in the deficit between July and August was mostly on the imports side; import volumes fell by 10½ per cent while export volumes fell by 3 per cent and the terms of trade improved by 1 per cent. But the underlying trend in both import and export volumes is still upwards; non-oil export volumes (excluding erratics) grew by 5½ per cent in the three months to August compared with the same period a year ago, while import volumes (excluding oil and erratics) grew by 15 per cent.

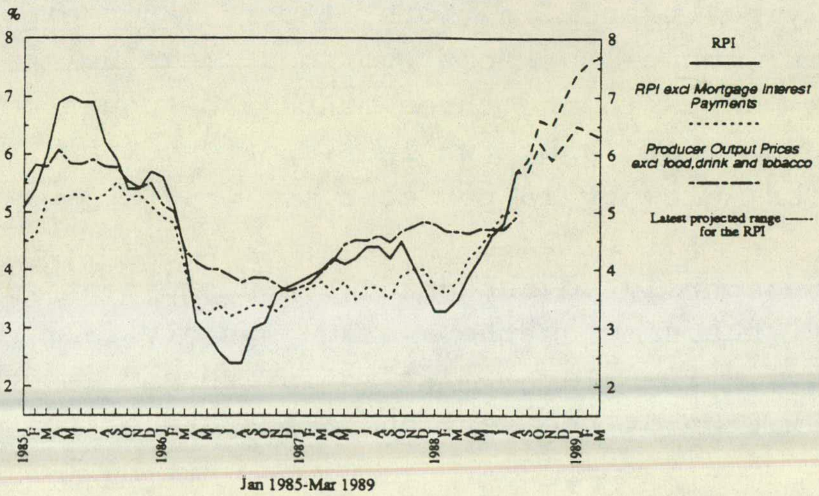
17. Seasonally adjusted adult **unemployment** fell by 45 thousand in August, the same as the average monthly fall over the past six months. The large falls in recent months provide further confirmation of the very buoyant state of the economy so far in 1988.

Inflation

18. **RPI inflation** has risen in every month since February and reached 5.7 per cent in August, as expected in the June forecast. It now at its highest level since December 1985. The increase in inflation in August was due to higher mortgage interest rates. The RPI excluding mortgage interest payments (MIPs) increased by 5.0 per cent in both July and August. Inflation (both for the RPI and RPI excluding MIPs) will probably increase slightly in September. A further increase in mortgage interest rates from October will again increase RPI inflation (by approximately ½ per cent). It is currently expected that RPI inflation will reach about 7 per cent by next January reflecting mainly the effect of higher mortgage rates. Excluding mortgage interest rates RPI inflation should increase only slightly from 5 per cent in August to about 5¼ per cent in January 1989.

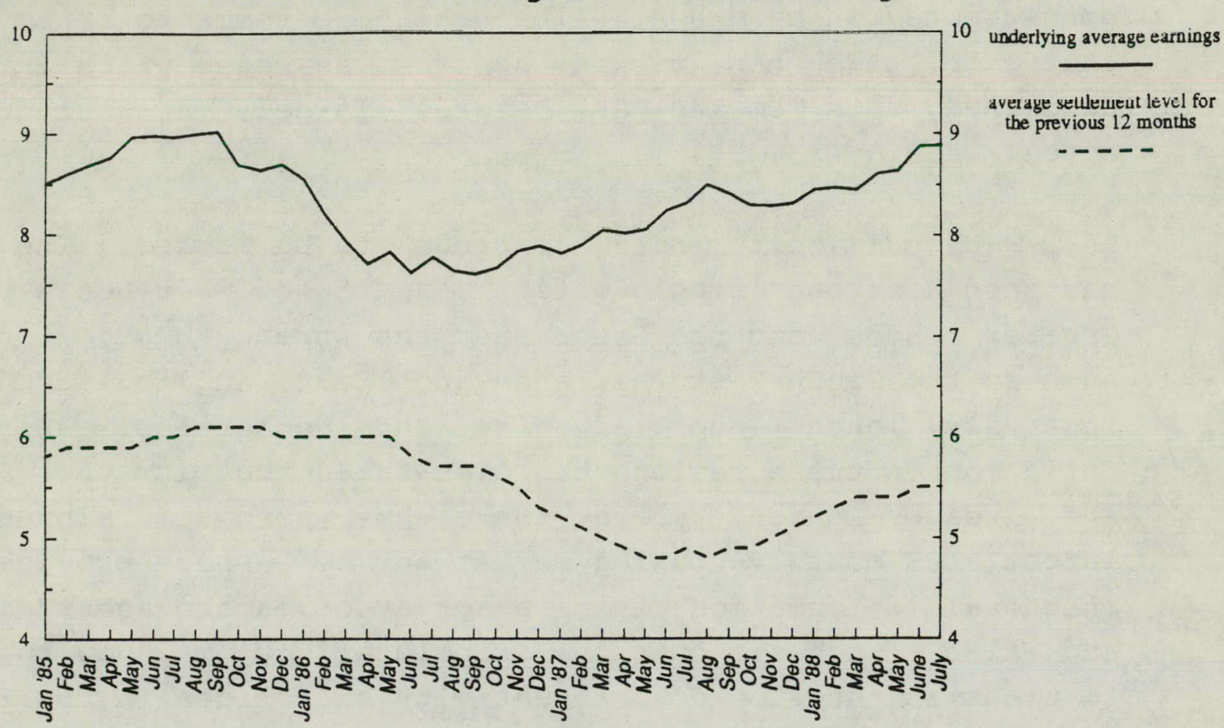
19. **Producer output price** inflation (excluding food, drink and tobacco) remained at 4.9 per cent in August. Inflation on this measure has been in the range 4½ to 5 per cent for over a year. **Producer input price** inflation (also excluding FDT) fell from 4.7 per cent in July to 3.9 per cent in August. This fall mainly reflected sharp increases in August last year which have now dropped out of the calculation of the annual change.

Chart: Retail and producer price inflation



20. In the private sector, **wage settlements** have risen this pay round. It now looks as if the average level of private sector settlements will be 5¾ per cent this year, up from 5¼ per cent in 1986/87. The rise in the manufacturing sector is likely to be slightly greater - up ¾ per cent to 5½ per cent. The underlying growth of average earnings rose by ¼ per cent to 9 per cent in July (the highest increase since July 1982). Underlying earnings growth in manufacturing remained at 9 per cent. Earnings drift has remained at a high level even though the contribution to earnings growth from overtime has fallen in recent months. This reflects a levelling out of overtime hours, following very strong growth during 1987. It suggests that overtime may be close to a peak and that, with manufacturing employment continuing to fall slowly, firms are responding to strong demand growth by achieving further improvements in productivity.

Chart: Settlements and earnings in manufacturing



21. The continued strong growth in productivity is largely offsetting the effect on **unit wage costs** of increases in manufacturing earnings. In the three months ending in July manufacturing productivity was 7.2 per cent higher than a year earlier.

22. **House prices** as measured by the Halifax index rose nationally by 30.7 per cent in the year to August (28 per cent over the year to July)*. But prices paid by first-time buyers rose by only 26.6 per cent, and there is some evidence of easing demand from first-time buyers during August, particularly in the South. The Halifax themselves believe this is likely to result in a more general downturn in the level of activity in the housing market.

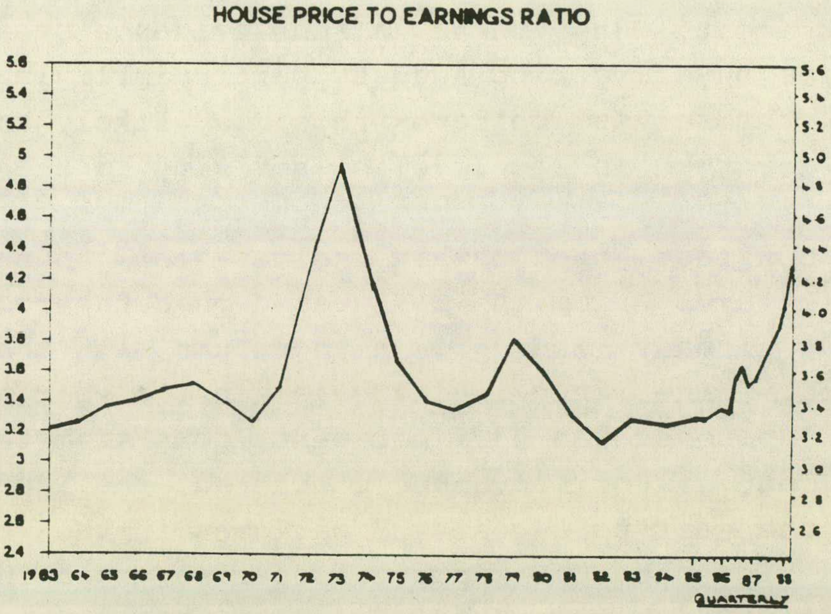
23. By contrast, the monthly indices for house prices at the national level from the DoE, based on data from building society advances, already indicate a downturn in the rate of house inflation. The annual increase in the year to August based on advances approved was 23.7 per cent, down from the July figure of 28 per cent. For advances completed, the increase was 26.3 per cent in the year to August (27 per cent in the year to July). The downturn in the DoE approvals series could indicate that house price inflation has reached a peak, but, as chart XVI shows,

* September 34 per cent (published on 6 October)

different series do not move so closely in line that unambiguous conclusions can be drawn. Although there seems to be a consensus that the tide has turned as far as house price inflation is concerned, this remains, as before, largely unsubstantiated by actual data.

24. Regional differences continue to be marked. The past year has seen a strong 'ripple effect', as the boom in house prices in Greater London and the South-East has spread to adjoining regions such as the South-West, Midlands and East Anglia - and, in the last six months, to Yorkshire and Humberside. House price inflation in these regions has over-taken that in the South-East and Greater London, where there has been some slow-down. The latest RICS monthly housing market survey - which provides mainly anecdotal information from a survey of estate agents in England and Wales - suggests that the 'ripple effect' may now be starting to transmit the slow-down in activity and prices in the South-East to those regions, such as South-West, where house price inflation has been highest this year. But there is as yet no actual data on house prices to confirm this. The RICS survey also suggests that house prices and market activity in the Northern region - only recently reached by the 'ripple' - are now rising strongly.

Chart: House prices to earnings ratio



Projections of money GDP

25. The June internal forecast showed a 10 per cent rise in money GDP in 1988-89, compared with the Budget forecast of 7½ per cent growth. Recent economic statistics, indicating faster growth and more rapid increases in the GDP deflator than we expected in June, suggest that the June forecast of money GDP growth was too low, despite the effect of higher than anticipated interest rates. The Autumn forecast is not yet completed but our preliminary view is that money GDP could rise by 10½-11½ per cent in 1988-89, with real GDP growth probably a little above the 4 per cent forecast in June and growth in the GDP deflator of 6-7 per cent. The upward revision to the forecast of the GDP deflator reflects, in particular, faster than expected growth of investment prices - especially construction prices. Money GDP growth in 1989-90 is likely to be lower this year but to remain well above the 6½ per cent growth in the MTFS.

C. Public Sector Finances and the Fiscal Stance

26. Table 8 gives the main indicators of the fiscal stance. The PSDR in August was £1.5 billion. Privatisation proceeds amounted to £2.2 billion (from the second call on BP), bringing privatisation proceeds for the first five months of 1988-89 to £4.9 billion, compared to the Budget forecast of £5 billion for the year as a whole. In the first five months of 1988-89, the PSDR at £4.6 billion is £4.1 billion higher than forecast in the Budget profile. The CGBR(O) is £3.6 billion below profile - due in roughly equal amounts to higher than expected receipts and lower than expected expenditure. PAYE, National Insurance Contributions and VAT account for most of the extra receipts. The undershoot on expenditure is partly accounted for by lower social security spending. The LABR is £0.6 billion below profile and the PCBR is close to profile. Excluding privatisation proceeds the PSBR in the first five months of the financial year is £0.3 billion, £4.7 billion below the same period of last year.

27. The PSDR in the first eight months of 1988-89 is forecast to be £6.2 billion, compared to borrowing of £0.3 billion forecast in the Budget profile and a PSDR of £0.7 billion in the first eight months of 1987-88. Current estimates suggest a PSDR of around £10 billion in 1988-89.

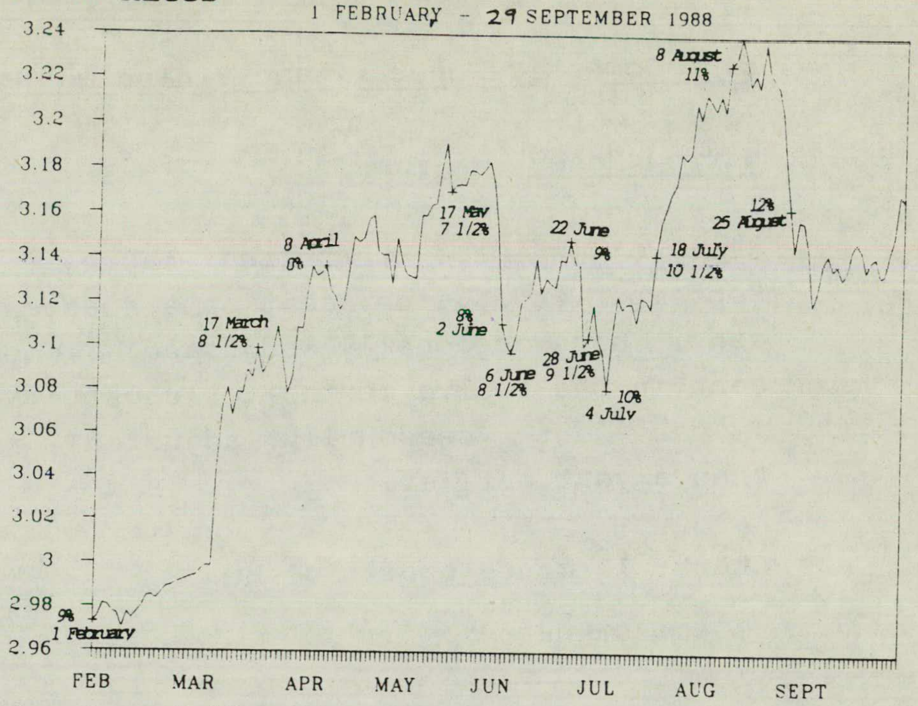
28. Excluding privatisation proceeds latest estimates suggest that the PSDR as a percentage of GDP in 1988-89 could be at least 1¼ points higher than the Budget forecast, which indicates considerable fiscal tightening. Much of this, of course, arises automatically from the upward revision to the forecast of money GDP growth. However our best guess at this stage - subject to revision as the Autumn report is completed - is that the higher forecasts of activity and prices will not quite explain the full extent of the increase in the PSDR forecast (excluding privatisation proceeds).

D. Exchange Rate

29. Sterling ended the period at $1.686 DM 3.1692 and ERI 75.9, slightly higher than its end August levels. In the early days of September the pound came under pressure and closed on 2 September at $1.6735 DM 3.1197 and ERI 75.2, with its value underpinned by heavy intervention. (The Bank sold $353 million that day.) Subsequently sterling appreciated a little when attention shifted to the dollar, and continued to trade in a fairly narrow range with not much effect from the publication of economic statistics. Although the exchange rate rose temporarily on the news of better than expected UK money figures on 20 September, the most significant boost came from the better than expected trade figures on 27 September whose publication was associated with a 1¼ cents and 2 pfennig rise. Over the month as a whole the Bank bought a net total of $261 million - with heavy purchases (mainly against the DM) on 20 September (money figures) and a 27 and 28 September (trade figures). On 26 September the Bank was active in concerted central bank intervention to hold back the dollar.

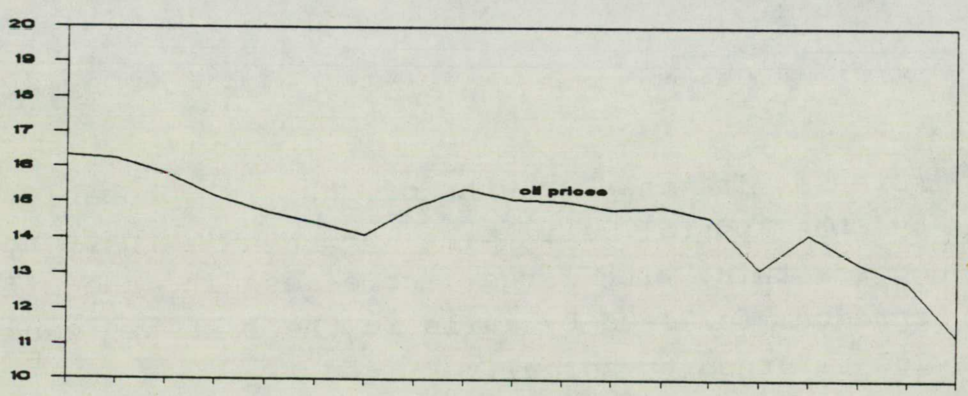
Chart: DM/£ and Interest Rates

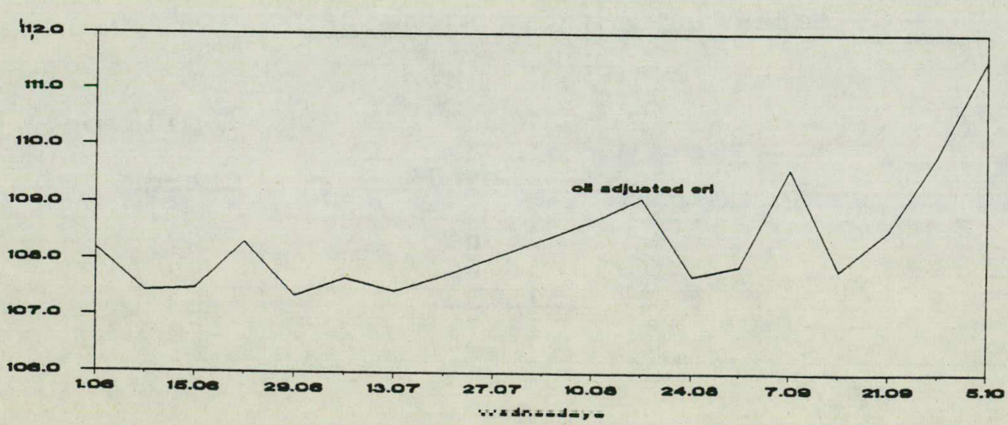
The DM/ rate is at about the same level as in mid-April to mid-May , when base rates where 8% .



30. The sterling index has fallen by only 0.1 per cent since the last Assessment. Oil prices have fallen 14 per cent over the same period so that the oil adjusted ERI increased by 1$\frac{3}{4}$ per cent. During the month the oil adjusted ERI has drifted with no clear direction in response to fairly large day to day changes in exchange rates and oil prices.

Chart: Oil prices and the oil adjusted exchange rate index



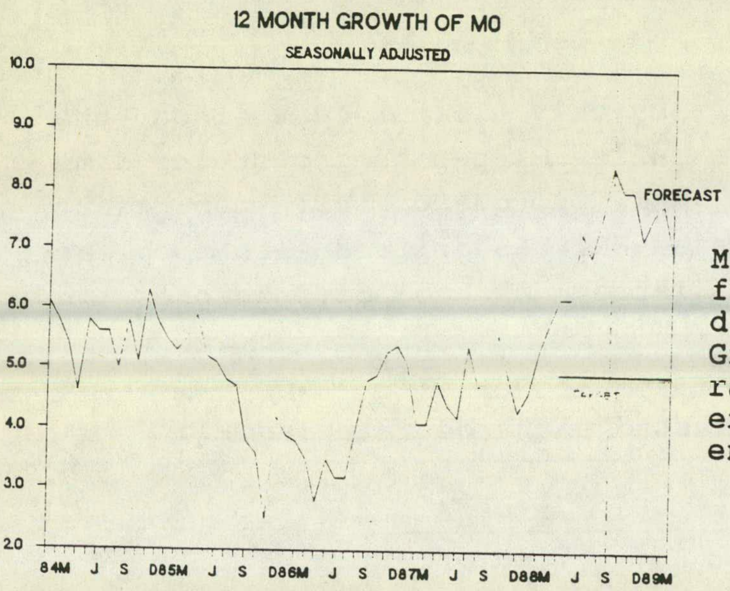


E. Domestic Monetary and Financial Market Development

Narrow Money

31. We estimate that the increase in MO in the 12 months to September was 8.4 per cent on a seasonally adjusted basis (8.1 per cent, not seasonally adjusted) compared with a rise of 7.6 per cent in the twelve months to August. Notes and coin increased by 1½ per cent (seasonally adjusted) and were 8.7 per cent higher than a year earlier.

Chart: 12 month growth of MO



M0 growth has been above its range so far in 1988-89, confirming other indicators of strong economic growth. Growth should slow as recent interest rate rises feed through, but is not expected to regain its range before end of the financial year.

32. The increase in the growth of M0 is probably largely explained by the postal strike. The weekly pattern itself strongly suggests this, with large increases in the first two weeks of September followed by falls in the last two weeks as the postal service returned to normal.

Notes and coin in circulation

	Level	£ million Change
Sept 7	16664	67
14	16756	92
21	16733	-23
28	16673	-60

33. The most significant distortion probably reflects the behaviour of the Post Office itself. The Post Office ran average daily cash balances of around £700 million during the strike compared to a figure of £500 million in normal circumstances. This was because the strike prevented them moving the money as they would have wanted. The effect will have been to distort the M0 figure upwards by about 0.8 per cent.

34. Any effects on the general public's holdings of M0 are harder to estimate. The note circulation rose substantially during the 1971 postal strike. But that strike was prolonged and counters were closed so that postal money transmission services were not available. In 1971, the main effect came from the increased use of cash to settle transactions which could not be settled by post. But this time there is no evidence of increased use of cash dispensers by the public. Cheque clearings were apparently below average though not unusually so. While any such effect is difficult to quantify, it seems likely that the distortion to the general public's M0 holdings was very small. In that case, the total upward distortion to M0 would be around ¾-1 per cent.

35. The recorded figure for 12 month M0 growth in September was 8.4 per cent. If we reckon the distortion was as above, then the underlying September figure would be close to the 7.6 per cent for August.

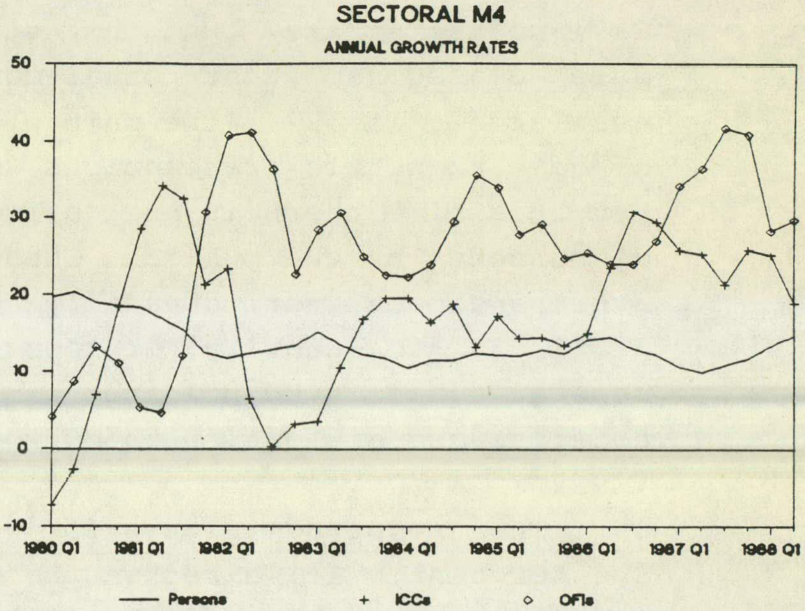
36. Notwithstanding the special factors which accounted for part of September's acceleration, our assessment is that the prospects for the rest of the financial year have worsened. With money GDP growth now expected to be 10½-11½ per cent, the 12 month rate of increase is anticipated to fall only to 7 per cent by March 1989 (table 25, chart VI). September is still expected to be the month with the highest growth rate.

Broad Money

37. The **12 month increase in M4** fell slightly in August to 17.3 per cent, compared with 17.5 per cent in July. M4 increased by 1.2 per cent (seasonally adjusted) in August, much more slowly than in the previous two months and a little below the average one month percentage change over the previous year.

Chart: Sectoral M4

Persons' liquidity has accelerated post-crash; OFIs' liquidity growth has fallen back to more normal levels after a Big-Bang related surge in 1986-87. ICCs' liquidity growth has slowed in 1988Q2, reflecting the effects of the crash on corporate finace.



38. On a seasonally adjusted basis, **building society retail deposits** increased by £2.3 billion (£1.6 billion in July) while banks' retail deposits increased by only £1.2 billion (£1.5 billion in July). It is worth bearing in mind that August is normally a month in which the increase in deposits is very small, and the seasonal adjustment increases the unadjusted figures very considerably. This year the unadjusted increase in deposits in August held up very well, while July's figure was, if anything on the low side. Overall, the 12 month increase to total bank and building society retail deposits was 15½ per cent. Wholesale deposits, which have increased by nearly 25 per cent since August 1987, increased by only 0.6 per cent (seasonally adjusted) between July and August this year, following a large increase between June and July.

Building Societies Inflows

39. Building societies' **net retail inflows** were £1.2 billion in August, the same as in June and July. This represents a surprisingly high figure for August, a month when net inflows are usually seasonally low. A rise in building societies deposit rates of 1.1 per cent (net) on 1 August temporarily restored their competitive edge versus the banks; this may have been a factor in offsetting the usual seasonal fall in retail inflows, although past experience does not support the view that investors respond so rapidly to relative interest rates. But further increases in banks' deposit rates on competing accounts, following the second rise in base rate for the month on 25 August, meant that by early September building societies' retail deposit rates were once more on average below those offered by the banks. There is evidence from weekly figures covering the largest 14 societies of a lower level of retail inflows in September.

40. Building societies' **wholesale inflows** in August were, at £0.4 billion, slightly below the July level. In contrast with July, Eurobond funding was low - the major part of the wholesale inflow for the month was accounted for by time deposits. Wholesale funding so far in September appears to have been relatively high. At over £3 billion in the eight months to August, wholesale funding in 1988 already exceeds the total for the whole of 1987 by more than 25 per cent.

Mortgage Lending

41. **Building societies' mortgage lending** in August was £2.8 billion - the highest monthly figure to date and the sixth consecutive month with lending of £2 billion or more. This compares with lending in the second half of 1987 which averaged £1.3 billion a month. However, new commitments in August were down by down by around 25 per cent on July, and weekly figures for the 14 largest societies for the first half of September show a further fall. This is a clear sign of a fall in mortgage demand from the high levels of the spring and early summer, but how much of the fall is due to the 1 August deadline for the ending of multiple tax relief and how much is due to higher interest rates

is uncertain. These lower commitments will take a month or two to feed through into lower mortgage lending.

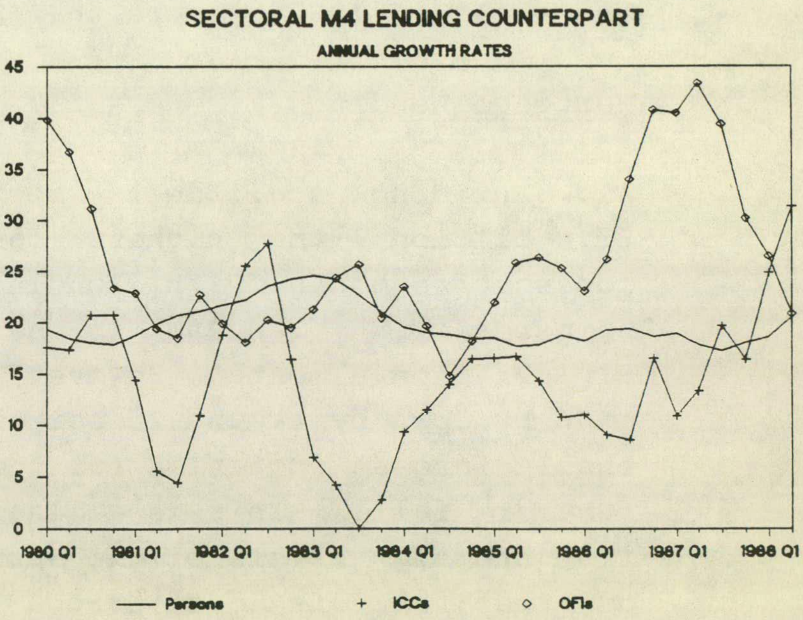
42. **Mortgage lending by CLSB banks** increased by £1.3 billion (not seasonally adjusted) in August, a new record. High mortgage lending contributed to the high share of personal sector borrowing in total borrowing from CLSB banks.

Total Bank and Building Society Lending

43. **Bank and building society lending** in August increased by £5.9 billion (seasonally adjusted), much less quickly than in June and July, and only a little above the average increase of the previous ten months. With building society mortgage lending remaining high, the slowdown in total lending reflected a smaller increase in bank lending, which grew by only £3.1 billion compared with £6.4 billion in July. Before seasonal adjustment total bank advances increased by £3.6 million in August, of which CLSB banks accounted for £2.2 billion. Lending for house purchase by CLSB banks was particularly strong in August so that only about £1 billion of the increase in advances was for other purposes. £0.4 billion of this was accounted for by personal sector borrowing other than for house purchase.

Chart: Sectoral M4 lending counterparts

ICCs' borrowing has grown sharply post-crash; OFIs' borrowing (and deposits) have fallen back post Big Bang. Persons' borrowing, fairly stable in the 80s, has accelerated recently reflecting higher mortgage borrowing.



44. Moreover the implied small increase in advances to the commercial and financial sectors was offset by falls in CLSB bill

holdings of £0.6 billion and of acceptances to UK resident of around £¾ billion. Manufacturers borrowing was more or less unchanged, with lower acceptances offsetting higher advances; retailers repaid £0.3 billion of acceptance credit (probably reflecting high retail sales and finance for stocks of new cars in July); other services borrowed a further £0.2 billion (and £0.2 billion of foreign currency); other financial sectors repaid £0.2 billion (and £0.2 billion of foreign currency); investment and unit trusts also repaid £0.2 billion (and also repaid £0.2 billion of foreign currency); and securities dealers repaid £0.1 billion. Overall it looks as if non-personal borrowers were repayers of debt to the CLSB banks in August by about £¾ billion. This was offset by an increase in advances of non-CLSB banks of £1.4 billion (most of which would have been to non-personal customers) and any other lending to non-personal sector borrowers by non CLSB banks. While it is impossible to be precise, it seems likely that new non personal sector borrowing in August was small.

45. It is not clear why non-personal borrowing should have been so low. Rover probably used its £½ billion CG grant to repay borrowing, and lending to motor dealers in July in advance of the new registration probably unwound. But these special factors can only account for a small part of the slowdown in lending.

46. It would be tempting to see the slow growth of lending as evidence that interest rate rises are having some effect. It is possible that firms rather than the personal sector will respond more quickly and more decisively than the personal sector. If this happens interest rates will in the first instance affect money GDP by restraining output. Personal sector demand would be reduced if lower output reduced wage and salary incomes (relative to what they would have been, not necessarily absolutely). But the speed of the slowdown in non-personal borrowing suggests an erratic movement rather than a systematic interest rate effect, and there is no indication from survey evidence of any sharp deterioration in business confidence. But surveys do suggest a downturn in consumer confidence. It seems most likely that we will see evidence of interest rate effects first in the housing market, where they will be hard to distinguish from the effects of the expiry of multiple tax relief on new mortgages.

Funding

47. The PSBR was overfunded by £0.7 billion in August taking the cumulative overfund for the first five months of the financial year to £1¼ billion. With the PSBR (net of other public debt sales) negative to the tune of £1½ billion, the non-bank non-building society private sector's holdings of CG debt fell by £0.6 billion. Holdings of gilts fell by £0.7 billion and certificates of tax deposit fell by £0.1 billion, while National Savings increased by £0.1 billion. The stock of external and foreign currency finance of the public sector fell by £0.1 billion, with the rise in reserves more than offsetting an increase in foreign holdings of gilts.

Broad Money Forecast

48. The broad money forecast shows an increase in M4 (both before and after seasonal adjustment) of slightly more than £6 billion in September, enough to take the 12 month rate of increase for September to 18¼ per cent. But there is particular uncertainty this month about both the speed of the decline in mortgage lending (following the end of the boom generated by the Budget measures, the interest rate rises of August and the announcement of further rises from October) and about the extent to which bank lending to the non-personal sector was erratically low in August. The forecast is consistent with the view that the increase building society lending will fall to around £2 billion (seasonally adjusted) after running at around £2½ billion in the last few months. It is anticipated that bank lending to the private sector will increase by £5½ billion (seasonally adjusted), much higher than the increase in August but lower than the increase in June and July. The 12 month growth of bank and building society lending may be around 24 per cent in September (23¾ per cent in August).

Interest Rates and Capital Markets

49. Money market interest rates increased by about 1½ percentage points at all maturities in August reflecting the rises in base rates, and ended the month at 12.1 per cent for one month and 12.4 per cent to 12 months. Money market rates have fallen back a

little this month and at close on 29 September stood at 11.7 for both one month and 12 months.

50. Markets have continued to experience low levels of trading during September and, with the exception of August trade figures which were received as good news, were mostly unaffected by the monthly economic statistics as these were within expected ranges. In general markets have rallied over the last month.

51. Gilts ended August with the index at 86.63 and 5, 10, and 20 year par yields at 10.5, 10.2, and 9.7 per cent respectively. The index remained broadly steady in the first half of the month but ended the period at its best level as the August M4 bank lending figure and the August trade figures pleased the market. All sectors of the markets have improved. The index currently stands at 87.89, with par yields at 10.1, 9.9, and 9.5 per cent.

52. Real yields on **index-linked stock** began the month at 3.9 per cent for medium dated and 3.8 per cent for the longest dated stocks, and are currently slightly higher than these levels. **Break-even inflation rates** for index-linked Treasury 1990 and 2006 are currently 5.8 and 5.6 per cent, compared with 5.8 and 5.9 per cent at the beginning of the month. The **equity dividend yield** (based on the all-share index) stands at 4.4, a little lower than at the end of August.

53. **Equity prices** fell in August. Since the last Assessment the FT-Actuaries All Share index has increased to 945 from 913, but day to day movements have been quite large compared with the overall change.

54. Net investment in **unit trusts** was less than £0.1 billion in Aúgust, a little below the post crash average in what is generally a quiet month. Net investment in the year to date has been a little less than 1 billion, 80 per cent down on the corresponding period last year. Neither the value of funds nor the number of unit holder accounts have changed much since immediately after the crash. Unit holders seem to be making the best of it - but their

numbers are not growing, in marked contrast to the pre-crash period.

55. **Sterling commercial paper** outstanding increased to £3.6 billion in August from £3.5 billion in July. ICCs' paper outstanding fell slightly in August. Their stock outstanding amounted to £2.7 billion.

56. Fixed rate **Eurosterling** issues by UK commercial borrowers amounted to less than £0.1 billion in August, with no issues so far in September. There has been virtually no activity in this sector of the market since June. Activity has been even less in the UK financial borrowers fixed rate sector where there have only been two issues since March (one in May and one in July). There has been more activity in the FRN sector with issues of £0.4 billion so far this month, following issues of £0.5 billion in August. So far this financial year £3½ billion of Eurosterling FRN's have been issued, virtually all by building societies and other mortgage lenders. Bond issues on the domestic market were negligible in August with nothing so far in September.

57 . ICCs' **foreign currency bond issues** are expected to have amounted to £95 million in September, much less than in August (£175 million) and July (£300 million). OFI's issues, which have been erratic this year, were probably £284 million in September while in August there were no issues at all. At £814 million, total foreign currency issues were lower than the monthly average so far this year of £1.1 billion. In 1988 to date UK issuers have raised over £10 billion in foreign currency issues, compared with £7.2 billion for the whole of 1987.

SECRET

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Table 1: Developments in the G7 (including UK)*

	Activity			Money supply		Costs and prices		
	Nominal GNP	Real GNP	Industrial production	M1**	M2/M3	Unit labour costs	Consumer prices	GNP deflator
1984	9.3	4.8	7.6	6.7	8.6	-0.2	4.5	4.2
1985	7.1	3.3	2.7	8.2	8.6	1.7	3.9	3.7
1986	6.2	2.7	1.1	11.0	8.3	1.4	1.9	3.4
1987	6.3	3.2	3.1	11.2	8.9	0.1	2.7	3.0
1987 Q1	5.8	2.4	1.1	13.7	9.0	0.5	1.7	3.4
Q2	5.8	2.6	2.1	12.5	9.3	0.1	2.7	3.1
Q3	6.4	3.6	3.6	10.1	8.8	-0.6	3.0	2.7
Q4	7.3	4.4	5.4	8.0	8.7	-1.4	3.2	2.8
1988 Q1	7.7	4.8	6.1	7.2	8.3	-0.8	2.9	2.7
Q2	7.4	4.3	5.5	6.7+	8.3+		2.9	
1987 Jul			2.7	10.9	8.9		2.8	
Aug			4.1	10.5	8.9		3.1	
Sep			3.9	9.6	8.5		3.1	
Oct			5.1	10.1	9.0		3.3	
Nov			5.7	8.4	8.7		3.2	
Dec			5.4	6.2	8.3		3.1	
1988 Jan			6.8	6.9	8.2		2.9	
Feb			5.8	7.3	8.4		2.9	
Mar			5.6	7.1	8.3		2.9	
Apr			5.8	6.9	8.3		2.8	
May			5.2	6.1	8.1		2.8	
June			5.4	7.1+	8.3+		2.9	
Jul				6.9+	8.4+		3.1	

* Percentage changes on a year before.
\+ Partly estimated.
** M1 figures for G5 (exclude Italy and Canada)

Table 2

GERMANY: KEY FIGURES

		INDUSTRIAL PRODUCTION*	index	CONSUMER PRICES*	TRADE SURPLUS** $bn		MONEY SUPPLY (M3)*
1984		3.0		2.4	1.7		3.3
1985		4.9		2.2	2.2		3.8
1986		1.7		- 0.2	4.5		4.2
1987		0.3		0.3	5.5		6.7
1987	J	- 2.8	104.0	- 0.8	4.8	(4.5)	6.7
	F	0.5	106.5	- 0.5	6.1	(4.7)	7.1
	M	- 0.6	106.6	- 0.2	4.8	(4.9)	6.6
	A	- 0.7	108.2	0.1	5.3	(5.0)	7.9
	M	1.9	108.0	0.2	6.0	(5.2)	8.5
	J	- 0.4	107.4	0.2	4.6	(5.1)	7.4
	J	- 2.4	106.4	0.7	5.6	(5.1)	6.7
	A	2.0	109.7	0.8	4.9	(5.1)	6.5
	S	0.8	107.7	0.4	5.8	(5.2)	5.8
	O	0.8	108.4	0.9	4.8	(5.2)	5.8
	N	1.6	108.5	1.0	6.1	(5.3)	5.5
	D	3.2	108.9	1.0	6.8	(5.5)	5.8
1988	J	4.2	108.4	0.7	6.5	(5.6)	5.8
	F	2.9	109.6	0.9	4.9	(5.4)	6.1
	M	3.2	110.0	1.0	4.3	(5.5)	6.1
	A	1.0	109.3	1.0	6.5	(5.5)	6.3
	M	1.5	109.6	1.1	5.7	(5.6)	6.3
	J	4.9	112.7	1.1	7.6	(5.8)	6.5
	J	4.0	110.7	1.0	5.9	(5.8)	6.2
	A			1.1			

* Percentage changes on a year before.

** Yearly figures are monthly averages. Monthly figures in brackets are 12 month moving averages.

TABLE 3

THREE MONTH INTEREST RATES IN THE G5 COUNTRIES*

		United States	Japan	Germany	France	UK
1983		9.1	6.7	5.8	12.5	10.1
1984		10.1	6.5	6.0	11.7	9.9
1985		8.1	6.6	5.5	10.0	12.2
1986		6.5	5.1	4.6	7.8	11.0
1987		6.9	4.2	4.0	8.2	9.7
1987	Jan	5.8	4.3	4.6	8.4	11.0
	Feb	6.1	4.2	4.0	8.5	11.0
	Mar	6.2	4.2	4.0	8.0	10.0
	Apr	6.5	4.1	3.9	8.0	9.8
	May	7.0	3.8	3.8	8.2	8.8
	June	7.0	3.9	3.7	8.2	9.0
	July	6.7	4.0	3.9	7.9	9.2
	Aug	6.8	4.0	4.0	7.9	10.1
	Sept	7.4	4.2	4.0	7.9	10.1
	Oct	8.2	4.8	4.8	8.2	9.9
	Nov	7.4	4.3	3.9	8.6	9.0
	Dec	7.8	4.5	3.6	8.7	8.7
1988	Jan	7.0	4.4	3.4	8.3	8.9
	Feb	6.6	4.3	3.4	7.6	9.2
	March	6.7	4.4	3.4	8.0	8.8
	April	6.9	4.2	3.4	8.1	8.3
	May	7.3	4.3	3.6	7.9	8.0
	June	7.6	4.4	3.9	7.4	8.7
	July	7.9	4.8	5.0	7.3	10.5
	Aug	8.4	4.9	5.4	7.6	11.3
	Sept 26	8.3	5.0	5.0	7.8	12.0

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

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TABLE 4

EFFECTIVE EXCHANGE RATE INDICES (1975 = 100)

	United States	Japan	Germany	France	UK	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
1987	101.2	219.6	147.6	71.8	72.7	144.7	1.80
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
Q4	97.0	227.4	149.4	72.3	75.2	134.0	1.71
1988 Q1	94.2	240.2	149.6	71.9	75.3	128.0	1.68
Q2	93.5	245.4	147.7	70.9	77.6	125.7	1.71
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	96.5	228.4	150.9	72.3	75.4	135.3	1.68
Dec	93.9	232.4	150.2	73.1	76.6	123.4	1.65
1988 Jan	93.0	239.5	150.4	72.5	71.9	127.8	1.65
Feb	95.0	239.5	149.1	71.8	74.3	129.2	1.70
March	93.6	241.6	149.3	71.5	76.8	127.1	1.68
April	92.7	245.0	148.9	71.3	78.2	124.9	1.67
May	93.0	246.2	147.9	71.1	78.4	124.8	1.69
June	94.8	244.9	146.2	70.4	76.2	127.4	1.76
July	98.1	239.2	144.2	69.5	75.6	133.1	1.85
August	99.5	240.6	143.1	68.6	76.5	133.7	1.89
Sept 27	99.7	239.4	143.9	68.5	75.6	134.5	1.88
% Change since dollar peak (Feb 85)	- 36½	+ 52	+ 23	+ 10½	+ 7½	- 48	- 45½
% Change since Plaza (Sept 85)	- 28½	+ 52½	+ 14½	+ 2	- 8	- 44	- 35½
% Change since Louvre Accord (Feb 87)	- 4	+ 14	- 3	- 5	+ 9	- 12	+ 2½

TABLE 5

ECONOMIST COMMODITY PRICE INDICES — 1985=100

	All items indices				SDR indices		
Annual	SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
1980	104.4	133.7	74.0	115.6	96.7	106.2	118.6
1981	99.3	115.2	73.5	105.3	93.7	104.7	106.2
1982	91.8	99.9	73.4	94.3	89.3	96.0	93.8
1983	107.2	112.7	95.7	110.4	102.0	116.6	110.1
1984	110.3	111.5	107.2	113.1	112.3	111.6	106.2
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	89.8	103.7	90.6	86.4	92.4	89.9	85.4
1987	87.4	111.5	87.1	82.2	73.0	103.3	100.6
Quarterly							
1986 Q3	84.6	100.2	86.2	81.8	85.1	85.5	83.1
Q4	84.2	100.1	89.5	80.2	82.2	91.0	82.8
1987 Q1	81.0	100.8	83.5	76.5	73.2	95.2	84.3
Q2	84.9	108.2	84.4	80.0	73.2	102.6	92.1
Q3	90.2	113.4	90.0	83.8	70.7	111.9	108.0
Q4	93.4	123.7	90.3	88.4	74.7	103.3	117.9
1988 Q1	99.8	134.6	95.9	94.6	77.6	105.5	133.4
Q2	115.5	155.7	108.8	107.6	84.0	115.1	169.1
Monthly							
July	89.3	111.5	88.9		71.9	109.4	104.4
August	91.4	114.2	91.8		69.6	115.0	111.7
September	90.1	114.5	89.3		70.7	111.4	107.9
October	93.5	119.3	92.3		74.2	106.8	117.0
November	91.3	121.3	88.1		74.2	101.4	113.3
December	94.8	129.1	90.5		75.6	102.1	122.4
January	97.4	132.2	94.1		78.1	102.7	126.6
February	98.2	131.2	95.6		78.0	106.5	126.7
March	103.8	140.3	98.0		76.8	107.3	157.0
April	106.4	144.9	99.1		77.3	110.5	152.8
May	113.4	153.8	105.7		80.9	114.1	168.2
June	126.7	168.4	121.6		93.9	120.8	186.4
July	119.1	152.9	115.1		96.9	117.7	157.6
August	116.9	148.9	112.5		91.0	113.5	163.1
Weekly							
August 2	113.6	145.7	109.2		89.9	114.8	153.0
9	117.4	149.4	113.5		92.8	114.9	160.9
16	117.2	149.5	111.5		91.4	115.0	162.4
23	118.4	149.8	114.4		90.2	111.6	171.0
30	117.8	150.1	113.8		90.8	111.4	168.1
Sept 6	116.5	148.8	112.0		93.1	112.1	159.2
13	114.9	147.2	111.2		92.1	112.1	155.4
20(prov)	112.0	142.9	108.6		89.3	110.1	152.1
% ch. on one yr	+23.5	+24.0	+20.8		+25.8	+1.0	+36.8

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

TABLE 6

RECENT INDICATORS OF ACTIVITY AND INFLATION
(per cent changes on year earlier)

	OUTPUT AND ACTIVITY					PRICES AND UNIT LABOUR COSTS					
	MONEY GDP		GDP(O)	MANUFACTURING OUTPUT	RETAIL SALES	RPI	RPI EXCL. MORTGAGE PAYMENTS	PRODUCER PRICES** OUTPUT	PRODUCER PRICES** INPUT	UNIT WAGE COSTS MANUFACTURING	UNIT WAGE COSTS WHOLE ECONOMY
1985-86	9.7	1986	2.9	0.9	5.3	3.4	3.6	4.1	-10.5	4.5	5.5
1986-87	6.9	1987	4.7	5.8	5.9	4.1	3.7	4.4	5.0	0.8	4.4
1987-88	9.8										
1986 Q1	8.1		2.3	-1.4	4.4	4.3	4.6	4.8	-11.3	8.2	6.1
1986 Q2	6.6		1.9	-1.0	4.7	2.8	3.3	4.0	-13.5	6.6	6.7
1986 Q3	5.9		3.2	0.7	5.4	2.6	3.3	3.8	-11.9	3.8	4.7
1986 Q4	7.3		3.9	5.3	7.3	3.4	3.4	3.7	-5.0	-0.1	4.6
1987 Q1	7.3		3.9	3.6	5.1	3.9	3.7	3.8	-0.7	1.4	4.1
1987 Q2	8.6		4.4	6.2	5.8	4.2	3.7	4.4	5.4	-0.3	4.4
1987 Q3	11.4		5.2	7.7	6.6	4.3	3.6	4.5	10.8	-0.1	4.2
1987 Q4	10.1		5.3	5.7	5.6	4.1	4.0	4.8	5.1	1.8	5.0
1988 Q1	10.0		6.3	8.3	7.8	3.4	3.7	4.7	3.6	-0.2	4.7
1988 Q2	10.1		5.7	6.1	6.3	4.2	4.4	4.7	6.3	2.2	
1988 Q3											
1988-1989*	10.5-11.5										
		1987 MAY		6.4	5.0	4.1	3.8	4.4	4.2		
		JUNE		5.1	5.0	4.2	3.5	4.5	8.1		
		JULY		6.9	7.0	4.4	3.7	4.5	12.4		
		AUGUST		10.1	6.8	4.4	3.5	4.6	11.5		
		SEPTEMBER		6.1	5.9	4.2	3.5	4.5	8.5		
		OCTOBER		6.8	6.4	4.5	3.8	4.7	7.1		
		NOVEMBER		5.4	5.1	4.1	4.0	4.8	4.6		
		DECEMBER		5.0	5.4	3.7	4.0	4.8	3.6		
		1988 JANUARY ^		10.8	9.1	3.3	3.7	4.8	2.8	-2.3	
		FEBRUARY		6.0	6.7	3.3	3.6	4.7	3.8	1.0	
		MARCH		8.1	7.5	3.5	3.8	4.7	4.1	0.8	
		APRIL		5.6	5.0	3.9	4.2	4.6	4.8	3.4	
		MAY		6.1	8.3	4.2	4.4	4.7	6.6	2.3	
		JUNE		6.5	5.8	4.6	4.7	4.7	7.4	0.9	
		JULY		7.4	6.5	4.8	5.0	4.9	4.7	0.2	
		AUGUST			6.6	5.7	5.0	4.9	3.9		

^ Output and sales growth figures boosted by 2.5-3 per cent on account of lower economic activity during exceptionally cold January of 1987

* Autumn preliminary view

** Excluding food drink and tobacco

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TABLE 7 UNDERLYING RETAIL PRICE INFLATION

% change on a year earlier

		RPI	RPI exc mortgages	RPI exc both mortgages and petrol
1984	Q1	5.2	4.5	4.4
	Q2	5.2	4.9	5.0
	Q3	4.7	4.2	4.4
	Q4	4.8	4.1	4.1
1985	Q1	5.5	4.8	4.6
	Q2	7.0	5.3	4.9
	Q3	6.3	5.4	5.2
	Q4	5.5	5.2	5.3
1986	Q1	4.9	4.6	5.2
	Q2	2.8	3.3	4.8
	Q3	2.6	3.3	4.8
	Q4	3.4	3.4	4.5
1987	Q1	3.9	3.7	4.3
	Q2	4.2	3.6	3.6
	Q3	4.3	3.6	3.5
	Q4	4.1	4.0	4.1
1987	July	4.4	3.7	3.6
	Aug	4.4	3.7	3.5
	Sept	4.2	3.5	3.6
	Oct	4.5	3.9	4.0
	Nov	4.1	4.0	4.2
	Dec	3.7	4.0	4.1
1988	Jan	3.3	3.7	3.9
	Feb	3.3	3.6	4.0
	March	3.5	3.8	4.2
	April	3.9	4.2	4.5
	May	4.2	4.4	4.7
	June	4.6	4.7	4.9
	July	4.8	5.0	5.3
	August	5.7	5.0	5.3

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TABLE 8

INDICATORS OF FISCAL STANCE

	PSBR		PSBR EXCLUDING PRIVATISATION PROCEEDS		PSDF(1)	
	Cash £ billion	Ratio to GDP (percent)	Cash £ billion	Ratio to GDP (percent)	Cash £ billion	Ratio to GDP (percent)
1970-71	0.8	1.5	0.8	1.5	- 0.2	- 0.5
1971-72	1.0	1.6	1.0	1.6	0.7	1.2
1972-73	2.4	3.6	2.4	3.6	2.0	3.0
1973-74	4.3	5.8	4.3	5.8	3.5	4.6
1974-75	8.0	9.0	8.0	9.0	6.0	6.7
1975-76	10.3	9.3	10.3	9.3	8.1	7.4
1976-77	8.3	6.4	8.3	6.4	7.5	5.8
1977-78	5.3	3.6	5.9	3.9	6.6	4.4
1978-79	9.2	5.3	9.2	5.3	8.3	4.8
1979-80	9.9	4.8	10.3	5.0	8.0	3.9
1980-81	12.5	5.3	12.9	5.5	11.7	5.0
1981-82	8.6	3.3	9.1	3.5	5.2	2.0
1082-83	8.9	3.1	9.4	3.3	8.3	2.9
1983-84	9.7	3.2	10.9	3.5	11.4	3.7
1984-85*	10.1	3.1	12.2	3.7	13.1	4.0
1985-86*	5.7	1.6	8.4	2.3	8.2	2.3
1986-87	3.4	0.9	7.9	2.0	9.5	2.5
1987-88	- 3.6	- 0.8	1.5	0.4	2.2	0.5
Budget forecast						
1988-89	-3.2	-¾	1.8	½	1.4	½

* If adjusted for coal strike, PSBR and PSFD ratios to GDP roughly 0.9 per cent lower in 1984-85 and 0.2 per cent lower in 1985-86.

(b) Quarterly Data

£ billion	PSBR		PSBR excluding privatisation		PSFD	
	sa*	ua	sa*	ua	sa+	ua
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	2.2	3.2	3.3	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	1.5	0.0
1987 Q1	0.4	- 0.8	1.6	0.4	2.5	1.5
Q2	0.4	1.4	2.8	3.8	1.5	3.2
Q3	0.0	0.5	1.6	2.1	0.8	1.8
Q4	- 2.3	- 2.4	- 1.1	- 1.3	- 0.2	- 1.7
1988 Q1	- 1.6	- 3.0	1.1	- 0.2	- 0.2	1.3
Q2	- 2.2	- 1.5	0.6	+ 1.3	+ 1.5	- 0.8

* financial year - constrained

\+ calendar year - constrained

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Table 9

CGBR(O) April to August Comparison with 1988 Budget Profile

	£ billion
Receipts	
Inland Revenue	+ 0.8
Customs and Excise	+ 0.6
National Insurance contributions	+ 0.3
Privatisation proceeds	+ 0.1
Interest and dividends	+ 0.3
Other receipts	- 0.1
Total receipts	+ 1.9
Expenditure	
Interest payments	+ 0.1
Department expenditure(1)	- 1.9
Total expenditure	- 1.7
Net effect on CGBR(0)	- 3.6

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

+ = higher receipts, higher borrowing and higher expenditure

- = lower receipts, lower borrowing and lower expenditure

TABLE 10

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)
1985 (1)	72.1	80.1	0.908	1.12	3.63	95.2	+4.1	27.7
(2)	78.9	88.9	1.001	1.26	3.88	102.3	+4.4	27.0
(3)	82.1	93.3	1.040	1.38	3.92	103.8	+3.6	27.4
(4)	79.8	91.6	1.001	1.44	3.71	98.7	+3.5	28.3
1986 (1)	75.1	88.3	1.037	1.44	3.38	90.9	+4.5	17.8
(2)	76.1	91.9	1.101	1.51	3.39	91.4	+3.2	12.8
(3)	71.9	88.0	1.049	1.50	3.10	84.9	+3.8	12.4
(4)	68.3	84.0	0.970	1.43	2.87	79.0	+5.1	14.8
1987 (1)	69.9	86.6	0.967	1.54	2.83	78.8	+4.3	17.9
(2)	72.8	90.6	0.996	1.64	2.96	82.6	+2.1	18.6
(3)	72.7	90.2	0.992	1.62	2.97	83.0	+2.8	19.0
(4)	74.9	93.4	1.030	1.76	2.99	83.8	+1.2	18.1
1988 (1)	75.2	94.8	1.057	1.78	3.01	84.5	+2.2	15.7
(2)	77.7	98.0	1.088	1.84	4.14	88.3	+1.0	16.2
1987 July	72.8	90.4	0.985	1.61	2.97	82.9	+2.6	19.8
August	72.3	89.5	0.988	1.60	2.97	82.8	+3.2	18.9
September	73.1	90.7	1.004	1.65	2.98	83.2	+2.6	18.3
October	73.6	91.5	1.006	1.66	2.99	83.5	+1.7	18.8
November	75.4	94.0	1.040	1.78	2.99	83.9	+1.0	17.8
December	75.7	94.7	1.045	1.83	2.98	84.0	+0.9	17.7
1988 January	74.8	94.1	1.038	1.78	2.98	83.5	+1.8	16.7
February	74.3	93.4	1.047	1.75	2.98	83.7	+2.6	15.6
March	76.5	96.8	1.087	1.82	3.06	86.4	+2.1	14.8
April	78.4	98.9	1.097	1.88	3.14	88.3	+1.2	16.4
May	78.3	99.0	1.094	1.87	3.17	89.0	+0.5	16.5
June	76.3	96.2	1.073	1.78	3.12	87.7	+1.3	15.8
July	75.5	95.4	1.071	1.70	3.14	88.2	+2.4	15.0
August	76.4	95.5**	1.085	1.70	3.20	90.1	+2.8	14.8
September 27	75.6	94.5**	1.097	1.68	3.15	88.8	+3.6	12.7

† Oil price adjusted ERI of 1.0 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

@ Figures for latest months are tentative forecasts based on extrapolated producer price indices

** Estimated figures

TABLE 11

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TABLE 11: 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
	(4)	9.2	7.8	9.0	9.5	4.0	4.7	2.4	4.1	3.8
1988	(1)	9.0	6.9	8.7	9.4	4.1	4.8	2.2	4.0	4.0
	(2)	8.4	7.4	8.0	9.2	4.0	4.5	2.0	3.8	3.8
1987	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	4.0	5.9	3.1	4.2	4.0
	October	10.0	8.3	9.5	9.8	4.2	5.6	3.1	4.5	4.3
	November	8.9	7.4	9.0	9.2	3.8	4.9	1.9	4.0	3.3
	December	8.7	7.8	8.5	9.5	3.9	4.6	2.3	3.9	3.9
1988	January	8.9	7.1	8.5	9.6	4.1	4.6	2.3	4.2	4.1
	February	9.3	6.7	9.0	9.4	4.2	4.9	2.2	4.0	3.9
	March	8.9	6.8	8.5	9.1	3.9	4.8	2.2	3.9	3.9
	April	8.4	7.2	8.0	9.1	3.9	4.3	1.7	3.8	3.8
	May	7.9	7.4	7.5	9.3	3.9	4.5	2.0	3.7	3.8
	June	9.0	7.7	8.5	9.3	4.2	4.6	2.3	3.8	3.9
	July	10.6	8.2	10.1	9.5	5.2	5.3	2.5	3.9	4.0
	August	11.4	8.6	11.1	9.4	5.6	5.5	2.9	3.9	3.9
	September 27	11.9	8.4	12.0	9.5	5.9	5.7	3.1	4.0	4.0

* Unweighted average of forecasts by Phillips and Drew, National Institute, LBS, James Capel, Oxford Economic Forecasting and Goldman Sachs; 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.

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TABLE 12 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	0.8	8.7	0.0	4685
1983	-0.6	10.3	-0.6	3831
1984	8.6	10.8	-1.1	2022
1985	6.8	4.0	1.6	3338
1986	2.3	6.0	-0.6	-198
1987	6.7	8.5	1.0	-2504
1987 Q1	9.4	3.1	-1.8	846
Q2	5.5	8.8	0.7	-354
Q3	8.7	11.5	1.4	-1103
Q4	3.7	10.0	3.1	-1893
1988 Q1	0.5	13.7	3.1	-2888
Q1	5.7	14.0	1.7	-2933
1987 Dec	3.3	11.0	3.0	-776
1988 Jan	7.4	17.8	3.0	-1023
Feb	-8.3	11.6	3.3	-1166
March	3.1	11.8	3.1	-654
April	6.1	17.9	3.4	-702
May	5.3	8.7	1.1	-1177
June	5.7	16.0	0.9	-1035
July	6.0	24.4	3.0	-2151**
August	4.2	5.8	4.3	-1313**

* Excluding oil and erratics.
**Includes invisibles projection from July 1988.

tables
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TABLE 13 CONFIDENTIAL

KEY MONETARY INDICATORS

1987	Aug	Sept	Oct	Nov	Dec	Jan88	Feb	Mar	Apr	May	June	July	Aug
MONETARY AGGREGATES 12-month % change (u/a)													
M0	4.5	5.2	5.5	4.9	4.2	4.8	5.3	6.4	5.9	5.7	7.7	7.0	7.8
M3	22.2	19.7	22.5	21.5	22.9	22.5	20.6	20.9	19.4	18.6	20.3	20.6	20.1
M4	15.6	15.0	15.8	15.3	16.3	16.6	16.1	16.8	16.0	16.1	16.8	17.5	17.3
M5	15.0	14.4	15.3	14.7	15.9	16.3	15.7	16.6	15.7	15.5	16.0	16.8	16.5
STERLING LENDING 12-month % change (u/a)													
Banks	21.6	23.6	22.9	22.5	22.8	24.7	24.3	25.2	26.9	27.0	27.6	27.8	27.9
Banks & Building Societies	18.8	20.0	19.3	19.0	18.8	20.1	19.9	20.8	21.9	22.3	22.8	23.5	24.0
OVER(-)/UNDER(+) FUNDING Financial year to date: mn	1900	1575	2690	149	1756	-5157	-6612	-1257	-1464	-1060	-447	-579	-1280
MONEY MARKET ASSISTANCE Level Outstanding: mn	6114	5421	5403	7073	7221	12507	13425	9673	10074	9572	8877	8141	7975
INTEREST RATES													
3-Month Interbank	10.2	10.1	10.0	8.9	8.7	8.9	9.3	8.9	8.4	7.9	9.0	10.6	11.4
20-Year Par Yield	10.0	10.0	9.8	9.2	9.5	9.6	9.4	9.1	9.1	9.3	9.3	9.5	9.5
EFFECTIVE EXCHANGE RATE	72.8	72.3	73.1	73.6	75.4	75.7	74.8	74.3	76.5	78.4	76.3	75.5	76.4

TABLE 14

S E C R E T (Until Publication) £ million

GROWTH RATES OF MONETARY AGGREGATES

			1987 SEP	OCT	NOV	DEC	1988 JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP
M0 -	Monthly change	sa	120	99	49	139	-46	-18	133	139	77	185	141	159	253
	Monthly % change	nsa	0.1	-0.2	0.3	7.0	-6.0	-1.0	1.8	1.7	0.1	1.2	2.2	0.8	0·4
	Monthly % change	sa	0.8	0.6	0.3	0.9	-0.3	-0.1	0.8	0.9	0.5	1.1	0.9	1.0	1·5
	6-month annualised % change	sa	7.0	7.3	7.0	8.5	5.3	4.5	4.6	5.1	5.5	6.0	8.5	10.8	12·3
	Annual % change	sa	4.9	5.6	4.9	4.3	4.6	5.3	5.8	6.2	6.2	7.3	6.9	7.6	8·4
M3 -	Monthly change	nsa	1657	5797	1206	2581	-2028	688	8630	1445	2582	5078	5762	1626	
	Monthly % change	nsa	0.9	3.3	0.7	1.4	-1.1	0.4	4.7	0.7	1.3	2.6	2.8	0.8	
	Monthly % change	sa	1.4	3.7	-0.1	1.4	0.6	0.5	3.0	1.6	0.6	2.4	2.7	0.9	
	6-month annualised % change	sa	22.0	25.6	21.9	21.8	17.9	16.0	19.6	14.8	16.4	18.8	23.9	24.9	
	Annual % change	nsa	19.7	22.5	21.5	22.9	22.5	20.6	20.9	19.4	18.6	20.3	20.6	20.1	
M4 -	Monthly change	nsa	2979	5474	1527	4900	433	1375	9665	2017	4248	6783	8048	2440	
	Monthly % change	nsa	1.0	1.9	0.5	1.6	0.1	0.5	3.2	0.6	1.3	2.1	2.4	0.7	
	Monthly % change	sa	1.2	2.3	0.3	1.3	0.3	1.0	2.2	1.1	0.9	1.9	2.2	1.2	
	6-month annualised % change	sa	17.2	18.9	17.3	16.9	14.0	13.3	15.6	13.0	14.4	15.8	20.1	20.5	
	Annual % change	nsa	15.0	15.8	15.3	16.3	16.6	16.1	16.8	16.0	16.1	16.8	17.5	17.3	
M5 -	Monthly change	nsa	3042	5607	1481	5210	113	1100	10604	1533	4186	6256	8708	2417	
	Monthly % change	nsa	1.0	1.8	0.5	1.7	0.0	0.3	3.3	0.5	1.3	1.9	2.5	0.7	
	Monthly % change	sa	1.2	2.2	0.3	1.3	0.4	0.9	2.2	0.8	0.9	1.7	2.2	1.1	
	6-month annualised % change	sa	17.1	18.9	16.8	16.3	13.8	12.9	15.4	12.3	13.8	14.7	19.0	19.5	
	Annual % change	nsa	14.4	15.3	14.7	15.9	16.3	15.7	16.6	15.7	15.5	16.0	16.8	16.5	
NIBM1 -	Monthly change	nsa	337	288	440	390	-1383	861	2152	2	1149	503	131	-163	
	Monthly % change	nsa	0.8	0.7	1.0	0.9	-3.1	2.0	4.8	0.0	2.5	1.1	0.3	-0.3	
	Monthly % change	sa	0.6	3.7	-2.4	-0.2	3.7	1.4	1.2	-0.1	1.2	-0.1	0.9	0.1	
	6-month annualised % change	sa	13.5	24.7	14.0	4.2	11.5	14.1	15.5	7.3	15.3	15.5	9.3	6.5	
	Annual % change	nsa	5.5	11.6	10.2	10.2	11.8	12.6	15.2	13.8	13.4	10.8	10.8	10.8	
M1 -	Monthly change	nsa	1567	2969	456	-258	-967	-264	5158	1081	2449	1539	612	-546	
	Monthly % change	nsa	1.8	3.3	0.5	-0.3	-1.1	-0.3	5.7	1.1	2.5	1.5	0.6	-0.5	
	Monthly % change	sa	1.6	5.0	-1.1	-1.0	2.3	-0.4	3.6	1.2	2.0	0.8	1.0	-0.2	
	6-month annualised % change	sa	23.2	36.4	24.9	15.6	17.9	13.4	17.9	9.6	16.5	20.8	17.6	17.9	
	Annual % change	nsa	20.5	24.9	21.9	23.0	21.9	21.0	21.0	21.2	19.9	18.6	17.9	15.8	
WIDER £	Monthly change	nsa	1781	7801	-41	3514	648	318	8313	3888	3127	6137	5055	1252	
AGGREGATE	Monthly % change	nsa	0.9	3.8	0.0	1.7	0.3	0.1	3.9	1.7	1.4	2.7	2.1	0.5	
	Monthly % change	sa	1.3	4.2	-0.6	1.6	1.7	0.2	2.4	2.5	0.8	2.5	2.0	0.6	
	6-month annualised % change	sa	20.3	25.1	18.2	20.9	19.4	18.2	20.8	16.9	20.3	22.3	23.0	23.8	
	Annual % change	nsa	18.6	22.4	20.5	21.6	21.7	20.1	20.7	20.3	18.8	21.6	20.9	20.7	

TABLE 15

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	14.8	9.9	9.4
1987-88	3.8	1.9	16.5	12.5	12.3
12 MONTH % CHANGES (ua except M0)					
1987 AUGUST	3.7	1.0	17.8	11.5	10.9
SEPTEMBER	3.5	1.4	15.7	11.1	10.5
OCTOBER	3.9	1.6	17.9	11.5	11.0
NOVEMBER	4.0	0.9	16.8	10.9	10.3
DECEMBER	4.0	0.3	18.2	11.8	11.4
1988 JANUARY	3.7	0.9	18.1	12.4	12.2
FEBRUARY	3.6	1.6	16.4	12.1	11.7
MARCH	3.8	1.9	16.5	12.5	12.3
APRIL	4.2	1.9	14.6	11.3	11.0
MAY	4.4	1.7	13.6	11.2	10.6
JUNE	4.7	2.5	14.9	11.6	10.8
JULY	5.0	1.8	14.9	11.9	11.2
AUGUST	5.0	2.5	14.4	11.7	11.0

TABLE 16 CONFIDENTIAL (Until Publication)

M0 : THE WIDE MONETARY BASE

Monthly data	Level £ million (Change in brackets)							Percentage change on previous month		6 month % growth annualised		Percentage change on previous year			
	Notes and Coin (nsa)	Notes and Coin (sa)		Bankers' Deposits	M0 (nsa)	M0 (sa)		Notes(sa) and Coin	M0 (sa)	Notes & Coin (sa)	M0 (sa)	Notes and Coin (nsa)	Notes and Coin (sa)	M0 (nsa)	M0 (sa)
1988 January	15458	15620	(-41)	181	15638	15801	(-45)	-0.3	-0.3	6.1	5.3	4.7	4.5	4.8	4.6
February	15353	15659	(39)	124	15477	15783	(-18)	0.2	-0.1	5.3	4.5	5.7	5.7	5.3	5.3
March	15588	15753	(94)	162	15750	15916	(133)	0.6	0.8	5.0	4.6	6.9	6.4	6.4	5.8
April	15797	15826	(73)	229	16026	16055	(139)	0.5	0.9	4.8	5.1	5.8	6.1	5.9	6.2
May	15870	15954	(128)	178	16048	16132	(77)	0.8	0.5	5.6	5.5	6.0	6.5	5.7	6.2
June	16073	16143	(189)	174	16247	16317	(185)	1.2	1.1	6.3	6.0	7.5	7.1	7.7	7.3
July	16411	16271	(128)	188	16599	16459	(142)	0.8	0.9	8.5	8.5	7.5	7.3	7.0	6.9
August	16576	16461	(190)	156	16732	16617	(158)	1.2	1.0	10.5	10.8	8.1	7.9	7.8	7.6
September(4/4) a	16628	16707	(246)	164	16792	16870	(253)	1.5	1.5	12.5	12.3	8.3	8.7	8.1	8.4

Weekly data	Level £ million (Change in brackets)					Percentage change on previous week
	Notes(sa) and Coin		Bankers' Deposits	M0 (sa)		M0 (sa)
August						
3rd	16376	(73)	217	16593	(31)	0.2
10th	16415	(39)	187	16602	(9)	0.1
17th	16428	(13)	176	16604	(2)	0.0
24th	16487	(59)	78	16565	(-39)	-0.2
31st	16597	(110)	122	16719	(154)	0.9
September						
7th	16664	(67)	153	16817	(98)	0.6
14th	16756	(92)	147	16903	(86)	0.5
21st	16733	(-23)	135	16868	(-35)	-0.2
28th	16673	(-60)	220	16893	(25)	0.1

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

TABLE 17

CONFIDENTIAL

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 *	1497	1226	244 (18.0)	27	621	497	205	174
1986 *	1626	1628	-25 (16.4)	23	549	508	524	45
1987 *	1650	1268	339 (16.9)	43	630	570	194	256
1986 Q2*	1629	1685	-79 (16.6)	23	474	521	332	302
Q3*	1788	1930	-163 (15.7)	21	54	402	1144	188
Q4*	2097	1594	480 (16.4)	23	933	647	448	69
1987 Q1*	1406	1170	158 (16.1)	78	458	523	111	314
Q2*	1592	1282	290 (16.2)	20	615	457	108	412
Q3*	1547	1288	215 (16.1)	44	409	516	337	285
Q4*	2063	1390	692 (16.9)	-19	1038	785	222	18
1988 Q1*	1870	1686	10 (16.5)	174	1027	626	113	104
Q2*	3176	2205	925 (17.0)	46	1349	415	697	715
June	3364	2533	891 (17.0)	-60	1179	796	1091	298
July	2986	2716	88 (16.7)	182	1241	734	549	462
August	2615	2768	-93 (16.4)	-59	1196	115	394	910
Forecast								
1988 September	2400	2042	413 (16.4)	-55	1045	1070	550	-265

* Monthly averages
Figures in ( ) are end period liquidity ratio, unadjusted

TABLE 18

THE COMPONENTS OF M3

	NOTES AND COINS	BANK DEPOSITS: RETAIL NIB	BANK DEPOSITS: RETAIL IB	BANK DEPOSITS: WHOLESALE	M3
% CHANGES					
Financial years[1] (ua)					
1984-85	5.2	6.5	7.7	19.1	11.5
1985-86	3.7	4.5	16.8	26.1	16.7
1986-87	2.2	16.9	17.5	25.8	19.1
1987-88	13.7	15.6	12.4	29.2	20.9
Over 12 months (ua)					
1987 SEPTEMBER	5.7	5.5	14.7	32.1	19.7
OCTOBER	4.9	14.7	12.9	35.3	22.5
NOVEMBER	1.5	14.3	13.5	33.5	21.5
DECEMBER	6.4	11.9	10.7	38.5	22.9
1988 JANUARY	6.0	14.5	11.1	35.8	22.5
FEBRUARY	3.4	16.9	10.9	31.1	20.6
MARCH	15.0	15.3	12.4	29.0	20.9
APRIL	9.5	15.7	12.3	26.5	19.4
MAY	5.6	16.9	11.9	25.2	18.6
JUNE	10.8	10.7	15.6	28.3	20.3
JULY	9.0	11.6	17.1	27.8	20.6
AUGUST	5.7	13.0	18.0	26.0	20.1
Over 6 months (sa)					
1988 MARCH	14.2	16.0	11.0	26.7	19.6
APRIL	6.6	7.5	11.7	20.4	14.8
MAY	7.9	18.4	9.5	20.8	16.4
JUNE	5.9	19.7	22.5	18.4	18.8
JULY	8.4	9.7	24.7	31.0	23.9
AUGUST	7.4	6.1	29.0	32.3	24.9
CHANGES MILLION					
Monthly average[1] (sa)					
1984-85	42	56	238	683	1017
1985-86	17	90	161	556	1565
1986-87	4	359	538	1255	2157
1987-88					
1988					
FEBRUARY	-82	736	95	136	885
MARCH	281	256	1335	3708	5580
APRIL	-87	51	351	2798	3113
MAY	-47	608	131	532	1224
JUNE	94	-154	2251	2533	4724
JULY	392	24	1515	3533	5464
AUGUST	-148	208	1032	705	1797

1March on March

TABLE 19

THE COMPONENTS OF M4 AND M5

	M3	BUILDING SOCIETIES RETAIL	BUILDING SOCIETIES WHOLESALE	BUILDING SOCIETIES HOLDINGS OF M3	M4	MONEY MARKET INSTRUMENTS	M5
% CHANGES							
Financial years[3] (ua)							
1984-85	11.5	15.1				13.8	13.8
1985-86	16.7	15.3		94	-0.1	13.5	14.5
1986-87	19.1	10.8		50	-15.6	13.5	12.9
1987-88	20.9	13.6		39.5	16.8	12.7	16.6
Over 12 months (ua)							
1987 SEPTEMBER	19.7	10.8	46.8	58.1	15.0	5.0	14.4
OCTOBER	22.5	13.6	29.7	58.3	15.8	5.8	15.3
NOVEMBER	21.5	13.9	7.8	66.0	15.3	5.3	14.7
DECEMBER	22.9	11.2	17.8	63.2	16.3	8.1	15.9
1988 JANUARY	22.5	12.4	30.5	57.0	16.6	11.1	16.3
FEBRUARY	20.6	13.2	33.5	47.8	16.1	7.8	15.7
MARCH	20.9	13.6	41.5	39.5	16.8	12.7	16.6
APRIL	19.4	13.6	34.7	41.2	16.0	9.0	15.7
MAY	18.6	13.9	37.8	34.6	16.1	4.0	15.5
JUNE	20.3	13.6	46.4	45.5	16.8	-0.1	16.0
JULY	20.6	15.0	31.7	40.3	17.5	3.4	16.8
AUGUST	20.1	16.0	19.3	38.3	17.3	2.5	16.5
Over 6 months (sa)							
1988 MARCH	19.6	13.9	0.5	43.2	15.6	12.0	15.4
APRIL	14.8	15.4	0.5	47.8	13.0	0.0	12.3
MAY	16.4	14.5	0.3	39.1	14.4	2.0	13.8
JUNE	18.8	15.5	0.4	43.3	15.8	-6.4	14.7
JULY	23.9	16.1	0.3	26.4	20.1	-2.6	19.0
AUGUST	24.9	17.0	0.3	32.7	20.5	-0.9	19.5
CHANGES MILLION							
Monthly average3 (sa)							
1984-85	984	1034	42	-28	139	2221	2090
1985-86	1565	1207	50	-362	-118	2480	2557
1986-87	2157	938	17	-372	51	2791	2975
1987-88							
Over 1 month (sa)							
1988 MARCH	5580	1805	-9	-630	6746	510	7256
APRIL	3113	1615	-91	-1161	3476	-801	2675
MAY	1224	1731	205	-238	2922	179	3101
JUNE	4724	1914	65	-673	6030	-396	5634
JULY	5464	1585	58	-39	7068	491	7559
AUGUST	1797	2211	-253	143	3898	-55	3843

[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 20

RETAIL DEPOSITS

	BANKS	BUILDING[1] SOCIETIES	NATIONAL SAVINGS»	TOTAL
% CHANGES				
Financial years[3] (ua)				
1984-85	7.1	15.1	11.9	12.0
1985-86	11.6	15.3	7.5	12.9
1986-87	17.2	10.8	10.8	12.7
1987-88	13.6	13.0	6.1	11.2
Over 12 months (ua)				
1987 SEPTEMBER	10.8	11.4	9.3	10.7
OCTOBER	13.6	10.2	8.2	10.9
NOVEMBER	13.9	11.1	7.4	11.3
DECEMBER	11.2	11.6	7.2	10.5
1988 JANUARY	12.4	12.1	6.8	10.9
FEBRUARY	13.2	12.6	6.4	11.1
MARCH	13.6	13.0	6.1	11.2
APRIL	13.6	13.6	5.9	11.4
MAY	13.9	14.2	5.5	11.7
JUNE	13.6	14.4	5.1	11.6
JULY	15.0	15.0	5.0	12.2
AUGUST	16.0	15.3	4.7	12.6
Over 6 months (sa)				
1988 MARCH	13	13.9	5	11.1
APRIL	10	15.4	6.1	12
MAY	12.9	14.5	6.3	12.5
JUNE	21.4	15.5	6.1	15
JULY	18.7	16.1	5.3	16.2
AUGUST	19.5	17.0	4.6	15.8
CHANGES MILLION				
Monthly average[3] (sa)				
1984-85	42	1034	683	1759
1985-86	255	1207	1093	2555
1986-87	871	938	266	2075
1987-88				
Over 1 month (sa)				
1988 MARCH	1591	1805	214	3610
APRIL	402	1615	165	2182
MAY	739	1731	67	2537
JUNE	2097	1914	160	4171
JULY	1539	1585	175	3299
AUGUST	1240	2211	-23	3428

NOTES

1 Total retail funds, including terms shares and SAYE.

» Total inflows.

3 March on March.

TABLE 21

BREAKDOWN OF BANK LENDING BY INSTRUMENT

	ADVANCES	COMMERCIAL BILLS	MEMO ITEM: BILL LEAK	INVESTMENTS[1]	OTHER[2]	TOTAL (u/a)	TOTAL (s/a)
Monthly Average[3]							
1983/84	979	n/a	n/a	n/a	n/a	1075	1075
1984/85	1150	n/a	n/a	n/a	n/a	1378	1378
1985/86	1490	n/a	n/a	n/a	n/a	1747	1747
1986/87	2045	n/a	n/a	n/a	n/a	2537	2537
1987/88	3145	-129	(36)	130	75	3221	3195
Monthly Changes							
1987 August	2791	-1544	(115)	119	-232	1134	2633
September	5378	12	(-150)	-19	148	5519	4329
October	2734	-489	(278)	139	581	2965	2924
November	2573	819	(-497)	235	-327	3305	3278
December	3433	1544	(-149)	120	371	5468	5000
January	2597	2484	(-312)	-195	215	5101	5598
February	2323	396	(-98)	-35	-225	2459	2554
March	5764	-509	(445)	287	351	5893	4778
April	4962	-277	(-366)	-45	-133	4507	6216
1988 May	2905	130	(493)	-37	127	3125	3142
June	8120	-1748	(-201)	377	302	7051	5971
July	5436	1006	(511)	270	-509	6203	6431
August	3014	-1181	(-79)	-270	65	1628	3131

1 Investment by banks in private sector.
2 Market loans, shipbuilding repos, CD's and time deposits of building societies and commercial paper.

SECRET

FUNDING : FINANCIAL YEAR 1988/89 29/9/88

million

	FORECAST	OUTTURN	RESIDUAL	
	Financial Year 88/89	April - August 88	Sep 88 - Mar 89	
PSBR AND FUNDING TARGET				
1 PSBR excl asset sales	-3800	320	-4120	
2 Asset sales (sales-)	-6200	-4927	-1273	
3 PSBR	-10000	-4607	-5393	
FINANCED BY:				
4 OPS debt sales to M4ps (sales-)	1000	479	521	
5 National Savings (sales-)	-1700	-638	-1062	* -152
6 CTDs sales to M4ps (sales-)	750	149	601	
7 Treasury bills etc M4ps (sales-)	0	65	-65	
8 Intervention (reserves inc+)	0	1669	920	
9 Public sector externals excl intervention and gilts (inc-)	0	92	-92	
10 NET GILT SALES TO M4PS & OVERSEAS NEEDED FOR FULL FUND (sales+)	-9950	-2791		
11 Adjustment for 1987/88 underfund	400			
12 OVER(-)/UNDER(+)FUNDING	-400	-1316	3505	
GILT SALES:				
13 Net purchases by M4ps and overseas (purchases+)	-9550	-1475	-8075	
14 Net purchases by banks/b socs & other public sector (purchases+)	-1500	-1446	-54	
15 Maturities	8300	3699	4601	
16 GROSS OFFICIAL SALES	-2750	778	-3528	
17 Monthly average gross gilt sales	-229	156	-504	

* average per month

Relationship between lines:

3 = 1 + 2
10 = 3+4+5+6+7+8+9
12 = 10 + 11 - 13
16 = 13 + 14 + 15

Table 23:- BORROWING BY PRIVATE SECTOR EXCLUDING BUILDING SOCIETIES (million)

		BANK/BUILDING SOC. STERLING BORROWING			OTHER STERLING BORROWING					ALL BORROWING		
		Banks	B Soc	TOTAL	Sterling Commercial Paper(*)	Ordinary Shares (*)	Pref & Bonds (*)	Euro-Sterl (**)	TOTAL	Sterling	Foreign Currency	TOTAL
Change in Quarter												
1984	Q1	5141	3007	8148		163	44	117	324	8472	1102	9574
	Q2	2781	4076	6857		429	75	30	534	7391	808	8199
	Q3	3285	4087	7372		288	59	298	645	8017	1047	9064
	Q4	4535	3402	7937		249	73	410	732	8669	1948	10617
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	3561	7709		873	274	193	1340	9049	-806	8243
	Q4	4294	4235	8529		525	89	445	1059	9588	939	10527
1986	Q1	7157	3967	11124	0	471	209	750	1430	12554	2362	14916
	Q2	5189	5220	10409	0	1369	344	605	2318	12727	1575	14302
	Q3	4877	5738	10615	23	1431	290	448	2192	12807	3688	16495
	Q4	10138	4782	14920	68	2338	-52	281	2635	17555	623	18178
1987	Q1	7147	3619	10738	416	1553	-782	1546	2733	13471	7142	20260
	Q2	8692	4240	12932	597	2259	352	990	4252	17184	4733	21917
	Q3	6452	2587	9039	259	5950	732	931	7872	16911	-1152	15759
	Q4	10906	3926	14832	-167	3735	423	591	4582	19414	-178	19236
1988	Q1	13196	4980	18176	892	370	-115	1600	2747	20923	1957	22880
	Q2	14230	7462	21692	527	996	331	1948	3802	25494	1558	27052
Average per quarter												
1984		3936	3643	7579	0	282	63	214	559	8137	1226	9364
1985		4923	3683	8607	0	854	215	276	1344	9951	1185	11136
1986		6840	4927	11767	23	1402	198	521	2144	13911	2062	15973
1987		8299	3593	11885	276	3374	181	1015	4846	16745	2636	19293
1988		13713	6221	19934	710	683	108	1774	3275	23209	1758	24966
Change in Month												
1987	JULY			0	93	1840	182	360	2475	8180	-2215	5965
	AUGUST	1023	1269	2292	8	2090	390	261	2749	5041	1028	6069
	SEPT	5429	1318	6747	158	2020	160	310	2648	9395	35	9430
	OCTOBER	2521	1510	4031	122	2535	195	256	3108	7139	3421	10560
	NOVEMBER	3213	1441	4654	-43	975	55	335	1322	5976	-1528	4448
	DECEMBER	5172	975	6147	-246	225	173	0	152	6299	-2067	4232
1988	JANUARY	4993	1473	6466	379	48	41	625	1093	7559	767	8326
	FEBRUARY	2506	1396	3902	339	219	123	590	1271	5173	-983	4190
	MARCH	5697	2111	7808	174	103	-279	385	383	8191	2173	10364
	APRIL	4604	2050	6654	140	235	13	450	838	7492	-2533	4959
	MAY	2978	2495	5473	396	528	150	780	1854	7327	1471	8798
	JUNE	6648	2917	9565	-9	233	168	718	1110	10675	2614	13289
	JULY	6315	2739	9054	76	296	202	183	757	9811	-177	9634
	AUGUST	1810	2663	4473	-12	297	162	315	762	5235	-333	4902

* UK ICC's only
** Announced issues by UK ICCs and OFIs
** Gross issues announced by UK ICC's and OFI's

Table 24:- FINANCE OF U.K. INDUSTRIAL AND COMMERCIAL COMPANIES AND BUILDING SOCIETIES (million)

	BANK BORROWING				OTHER BORROWING						ALL BORROWING	
	Sterling ICC's	Sterling BSOC's	Foreign Currency	TOTAL	Sterling Commercial Paper	Ordinary Shares	Pref & Bonds	Euro-Sterling(*) ICC's	Euro-Sterling(*) BSOC's	TOTAL	TOTAL	(o/w ICCs)
Change in Quarter												
1984												
Q1	2905	-86	-895	1924		163	44	25	0	232	2156	2242
Q2	559	-56	-193	310		429	75	0	0	504	814	870
Q3	1219	533	-74	1678		288	59	100	0	447	2125	1592
Q4	2312	408	1433	4153		249	73	210	0	532	4685	4277
1985												
Q1	3386	6	-352	3040		924	170	235	0	1329	4369	4363
Q2	747	248	207	1202		1092	327	230	0	1649	2851	2603
Q3	229	161	1371	1761		873	274	130	600	1877	3638	2877
Q4	874	860	1377	3111		525	89	200	475	1289	4400	3065
1986												
Q1	3807	363	108	4278	0	471	209	350	935	1965	6243	4945
Q2	-356	461	108	213	0	1369	344	325	1075	3113	3326	1790
Q3	29	1856	1128	3013	23	1431	290	231	1575	3550	6563	3132
Q4	5248	404	-21	5631	68	2338	-52	281	2632	5267	10898	7862
1987												
Q1	1189	355	2008	2306	416	1553	-782	1231	290	2660	4966	4321
Q2	710	-516	762	113	597	2259	352	655	50	3913	4026	4492
Q3	3746	397	-81	4771	259	5950	732	570	100	7611	12382	11885
Q4	4391	832	628	5223	-167	3735	423	105	0	4096	9319	8487
1988												
Q1	6897	257	2084	7154	892	370	-115	915	625	2687	9841	8959
Q2	4968	440	1822	5408	527	996	331	1000	1030	3884	9292	7822
Average per quarter												
1984	1749	200	68	2016	0	282	63	84	0	429	2445	2245
1985	1309	319	651	2279	0	854	215	199	269	1536	3815	3227
1986	2182	771	331	3284	23	1402	198	297	1554	3474	6758	4432
1987	2509	267	829	3605	276	3374	181	640	147	4619	8224	7810
1988	5933	349	1953	6281	710	683	108	958	828	3286	9567	8391
Change in Month												
1987 JULY					93	1840	182	210	0	2325		
AUGUST					8	2090	390	150	0	2638		
SEPTEMBER					158	2020	160	210	100	2648		
OCTOBER					122	2535	195	45	0	2897		
NOVEMBER					-43	975	55	60	0	1047		
DECEMBER					-246	225	173	0	0	152		
1988 JANUARY					379	48	41	450	50	968		
FEBRUARY					339	219	123	355	150	1186		
MARCH					174	103	-279	110	425	533		
APRIL					140	235	13	150	150	688		
MAY					396	528	150	530	275	1879		
JUNE					-9	233	168	320	605	1317		
JULY					76	296	202	48	360	982		
AUGUST					-12	297	162	0	200	647		

* 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.

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TABLE 25 M0 FORECAST, 1988-89

Note: Forecast assumes unchanged base rates from current levels (12 per cent)

	Levels (£ million)		6 month a.r. (%)		seasonally adjusted 12 month % growth rates	
	Notes & Coin	M0	Notes & Coin	M0	Notes & Coin	M0
Actual						
1987-88 *	15371	15553			5.0	4.9
1988-89						
April	15826	16055	4.8	5.1	6.1	6.2
May	15954	16132	5.6	5.5	6.5	6.2
June	16143	16317	6.3	6.0	7.1	7.3
July	16271	16459	8.5	8.5	7.3	6.9
August	16461	16617	10.5	10.8	7.9	7.6
Forecast						
September	16705	16868	12.5	12.3	8.6	8.4
October	16725	16917	11.7	11.0	8.2	8.0
November	16775	16967	10.6	10.6	8.1	8.0
December	16801	16993	8.3	8.5	7.3	7.2
January	16815	17007	6.8	6.8	7.7	7.6
February	16825	17017	4.5	4.9	7.4	7.8
March	16834	17026	1.6	1.9	6.9	7.0
1988-89 *	16511	16698			7.4	7.4

* average of 12 months

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TABLE 26 : BROAD AGGREGATES COUNTERPARTS AND FORECAST million

OUTTURN: AUGUST 1988	M3	M4
PSBR	-1455	-1455
LA and PC debt sales to NBPS (-)	465	-12
CG debt sales to NBPS (-)		
o/w Gilts	576	686
Treasury bills etc.	16	5
National Savings	-112	-112
CTD's	58	58
Public sector external & fc finance	129	129
OVER(-)/UNDER(+) FUNDING	-323	-701
Sterling lending to NBPS : nsa	1628	4473
(sa)	(3131	5864)
Banks'/B Socs' externals	375	341
Banks'/B Socs' NNDLs	-54	-1673
TOTAL M3/M4	1626	2440
Monthly % growth nsa	0.8	0.7
sa	0.9	1.2
Annual % growth nsa	20.1	17.3
sa	20.3	16.9

FORECAST: SEPTEMBER 1988	M3	M4
PSBR	1225	1225
LA and PC debt sales to NBPS (-)	-75	-125
CG debt sales to NBPS (-)		
o/w Gilts	50	125
Treasury bills etc.	0	0
National Savings	10	10
CTD's	100	0
Public sector external & fc finance	-300	-300
OVER(-)/UNDER(+) FUNDING	1010	935
Sterling lending to NBPS : nsa	6625	8525
(sa)	(5200	7300)
Banks'/B Socs' externals & NNDLs	-3175	-3275
TOTAL M3/M4	4460	6185
Monthly % growth nsa	2.1	1.8
sa	2.3	1.8
Annual % growth nsa	21.5	18.2
sa	21.4	17.6

BUILDING SOCIETIES:	
Retail inflows	2125
Wholesale inflows from NBNBSPS	50
Holdings of M3 (-)	-450

CHART III NARROW MONEY

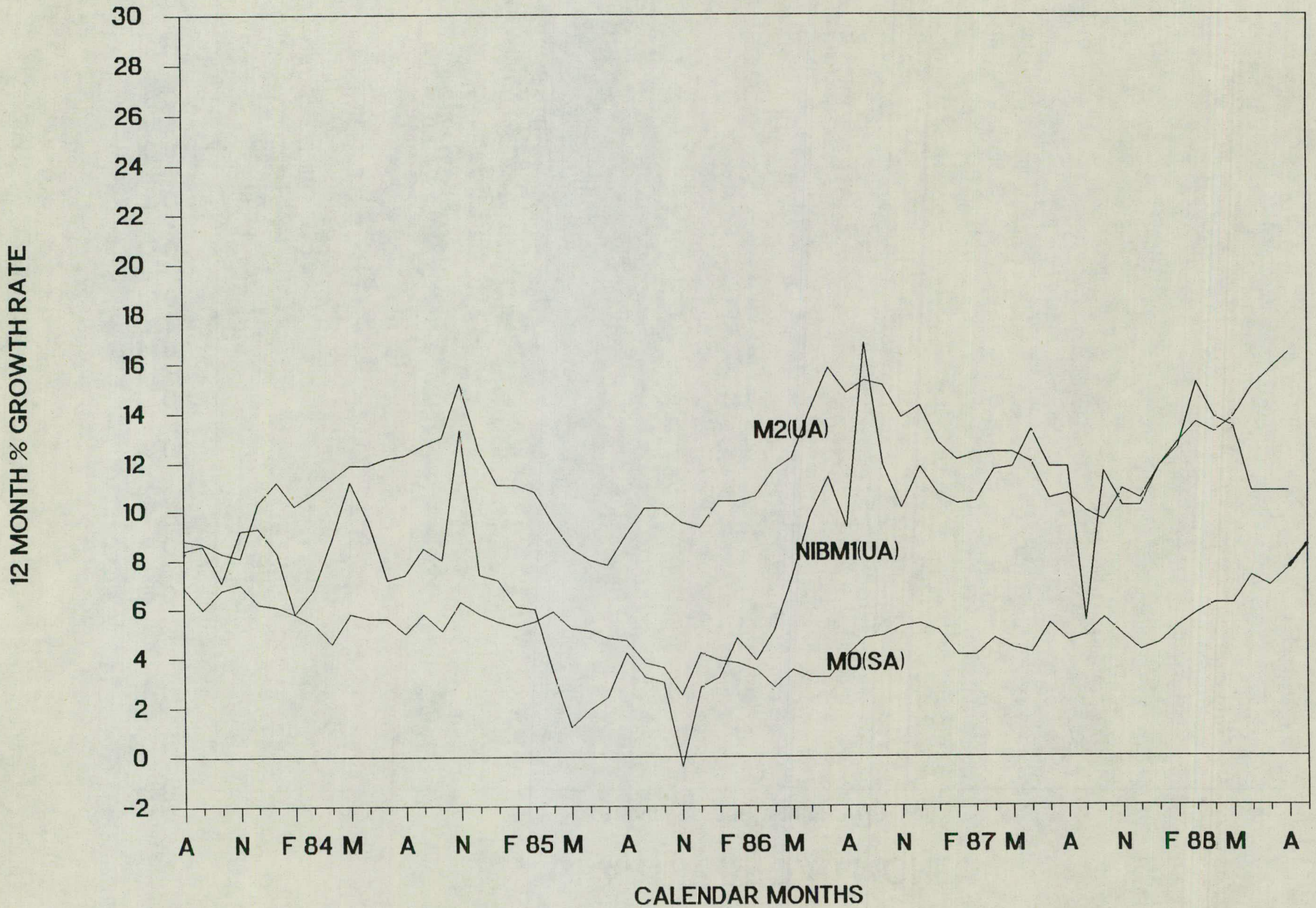


CHART IV BROAD MONEY

Annual percentage growth (ua)

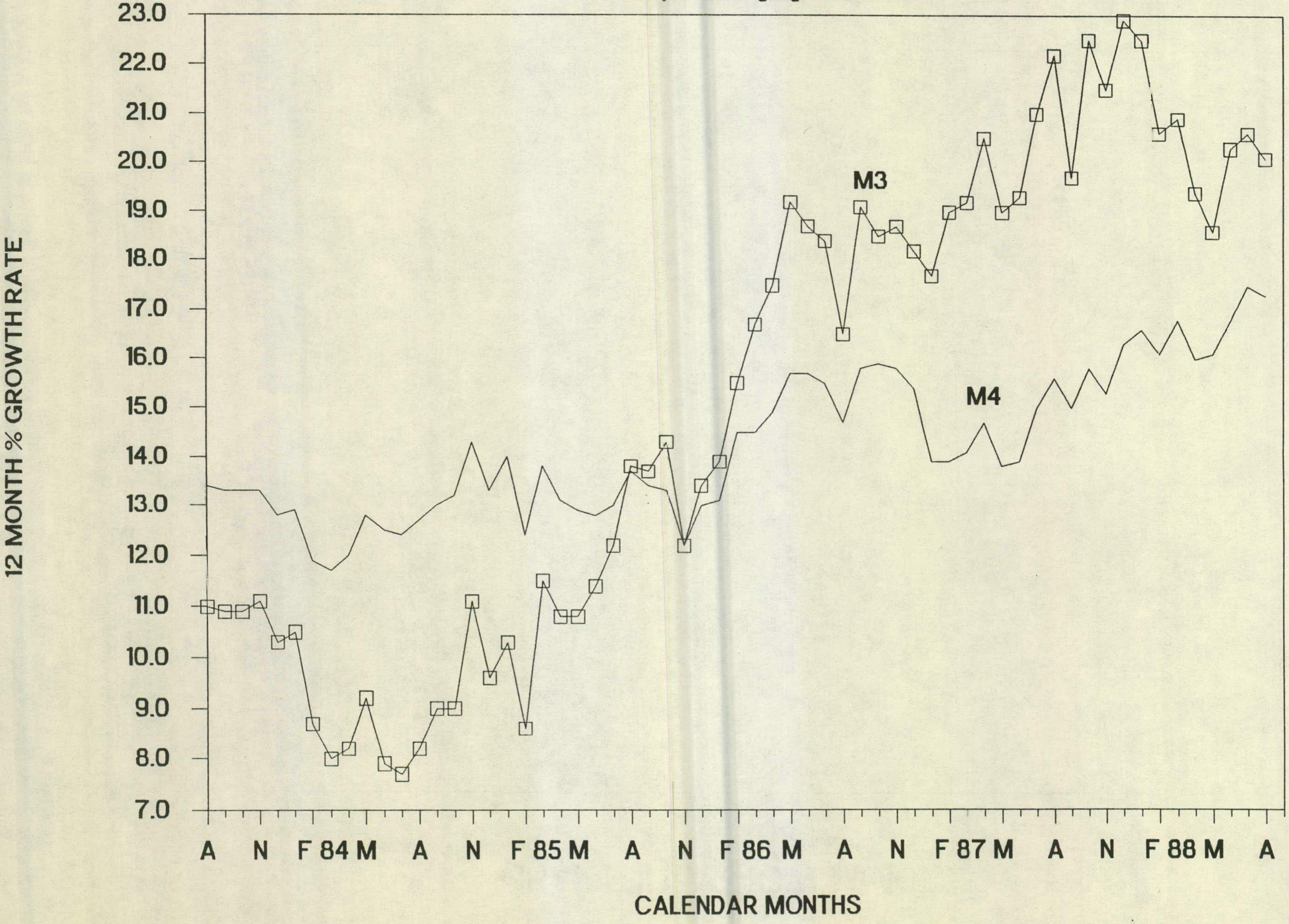


CHART V REAL M0

Annual percentage growth (sa)

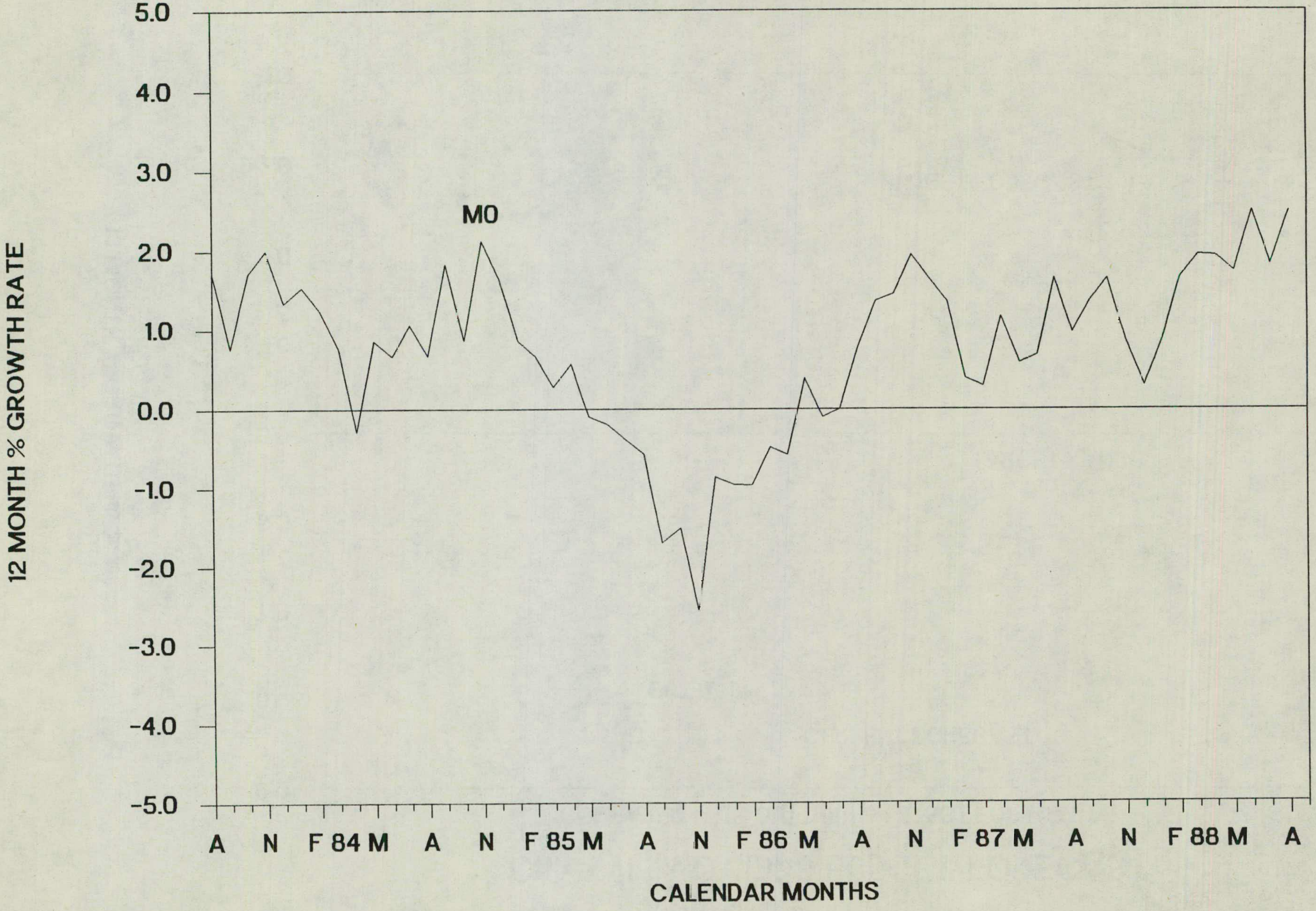


Chart VI MO : 1988 BUDGET FORECAST

COMPARED WITH OUTTURN & LATEST FORECAST

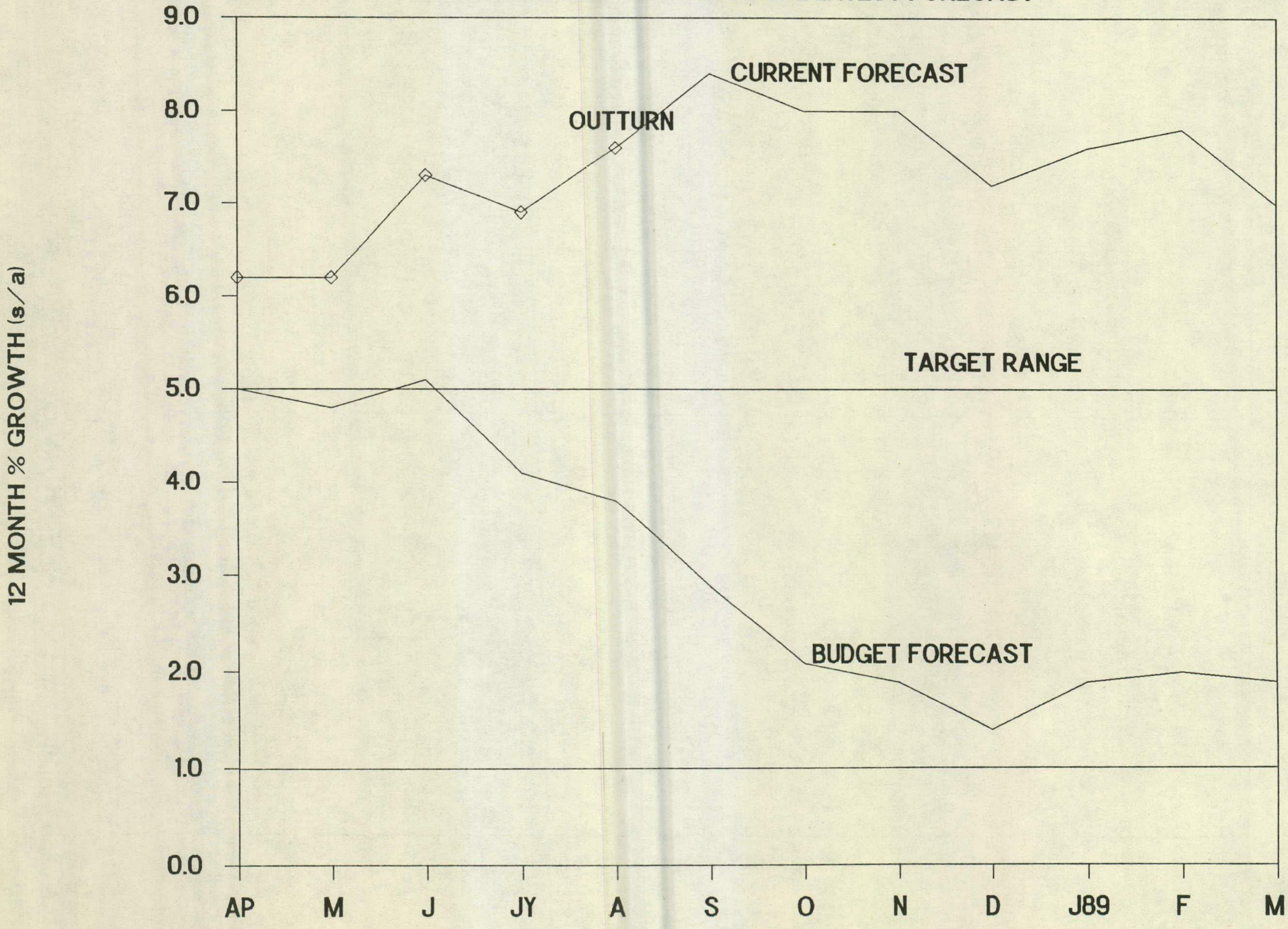


Chart VII M4 : 1988 BUDGET FORECAST

COMPARED WITH OUTTURN & LATEST FORECAST

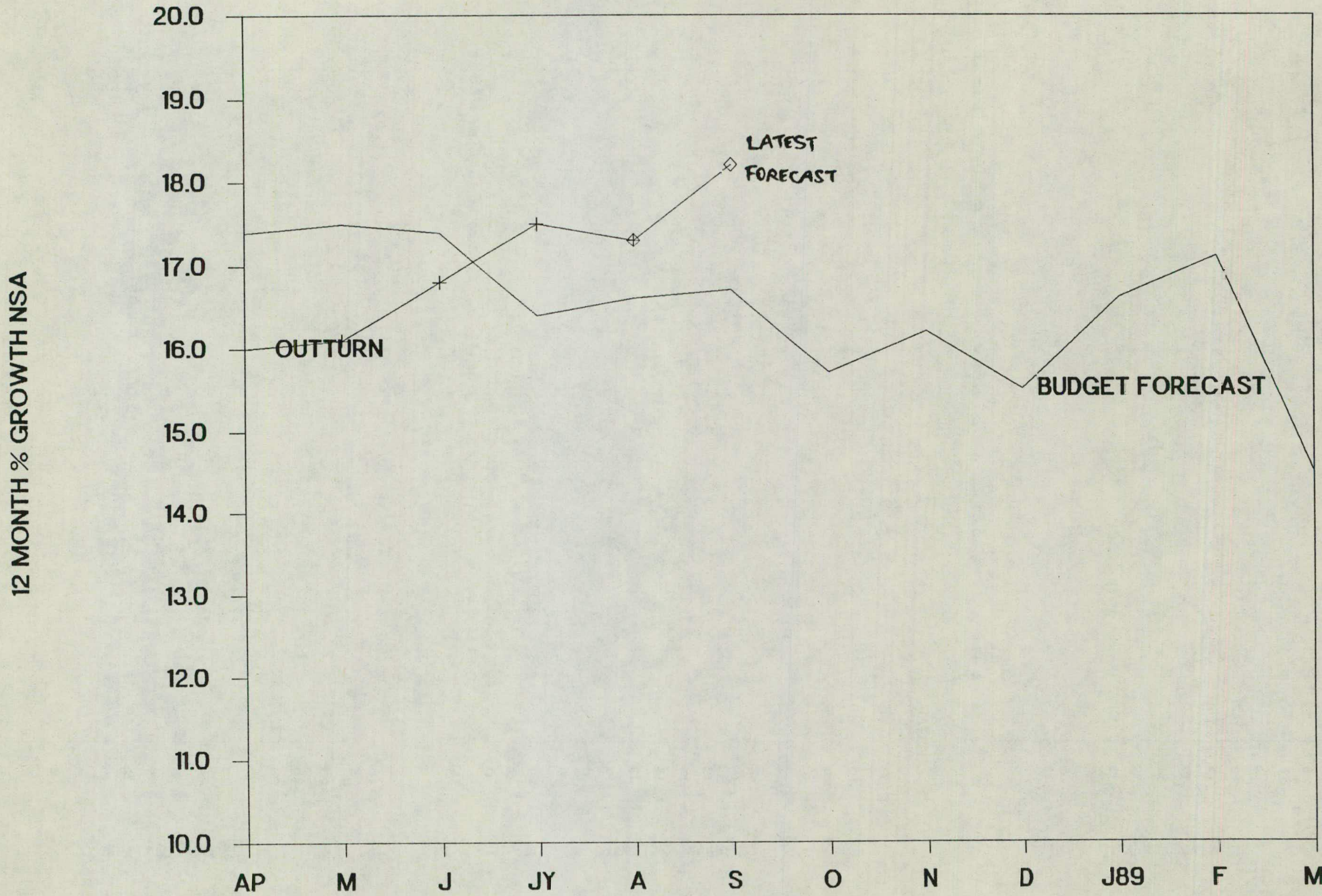
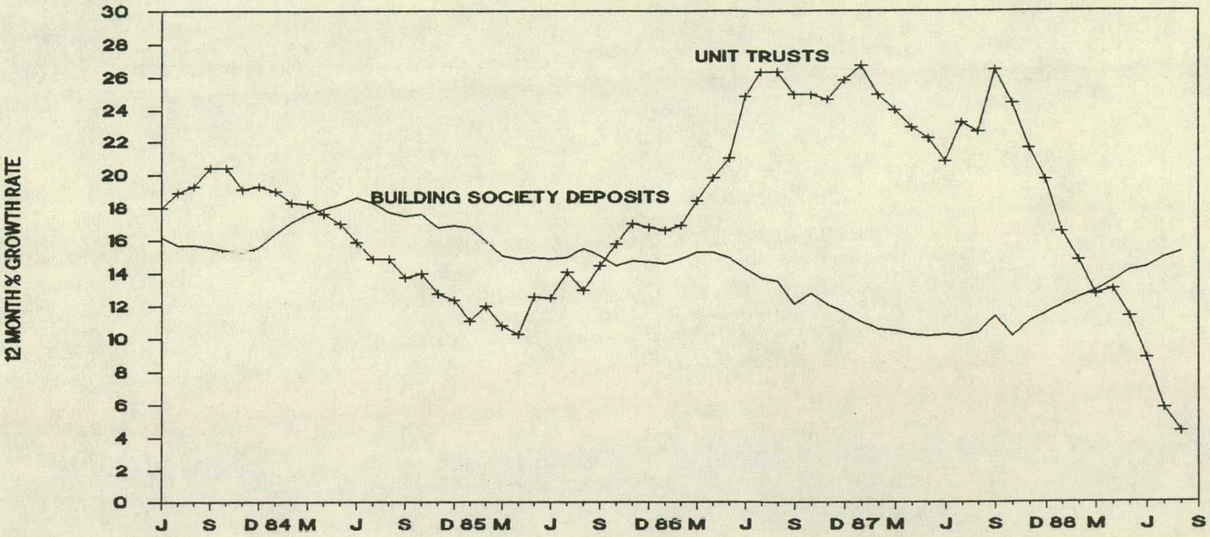
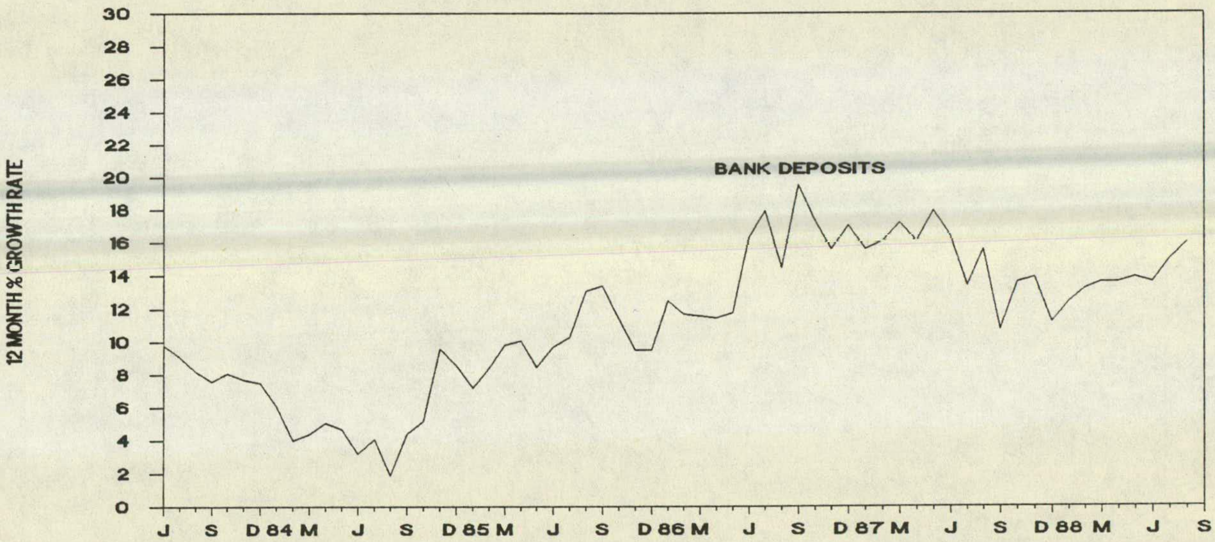


CHART VIII RETAIL DEPOSITS





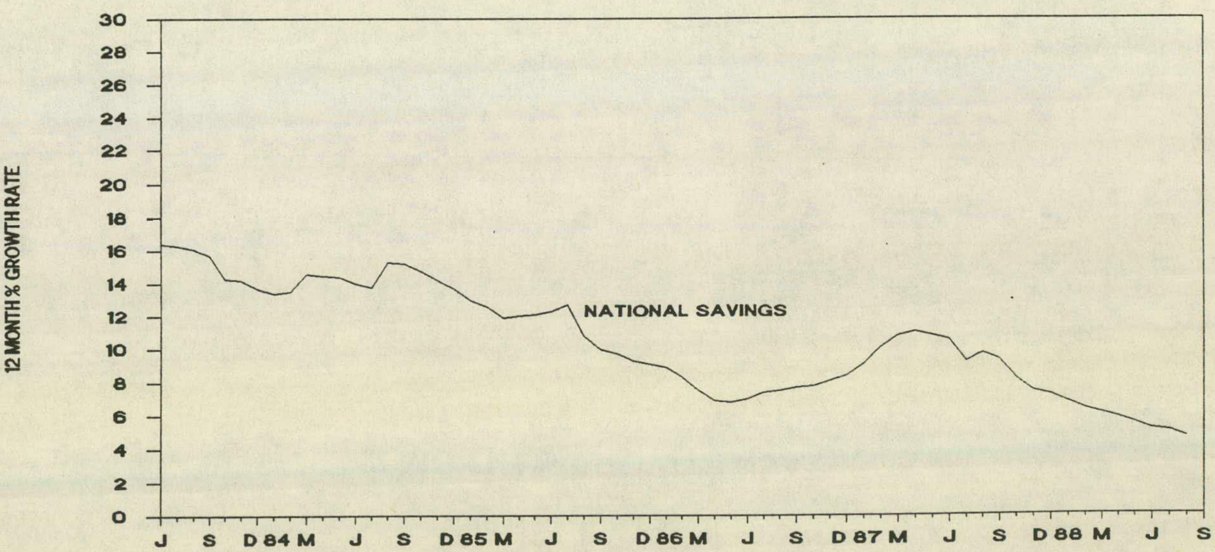
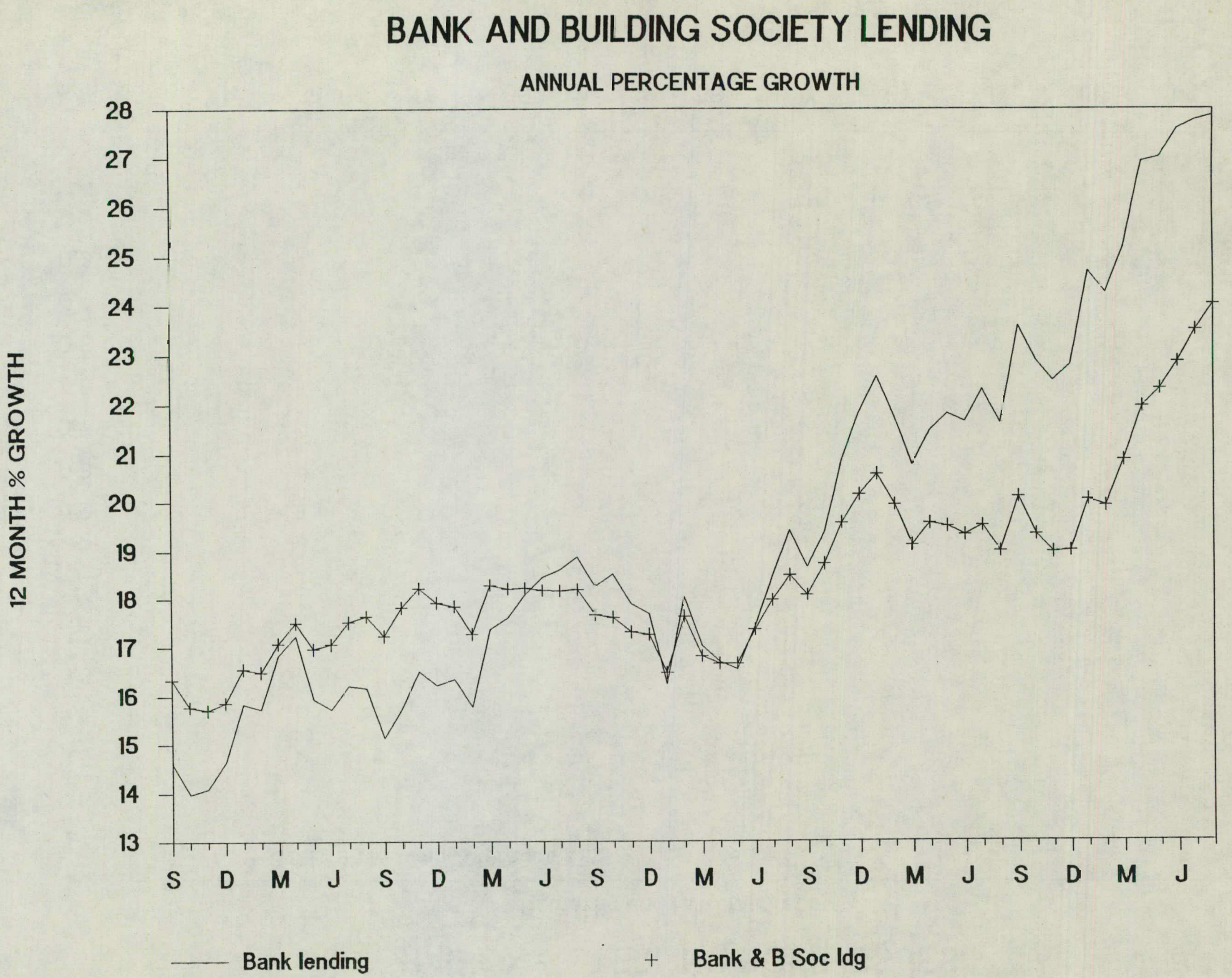


Chart IX



BANK AND BUILDING SOCIETY LENDING
ANNUAL PERCENTAGE GROWTH
12 MONTH % GROWTH
28
27
26
25
24
23
22
21
20
19
18
17
16
15
14
13
S D M J S D M J S D M J S D M J S D M J
Bank lending
Bank & B Soc ldg

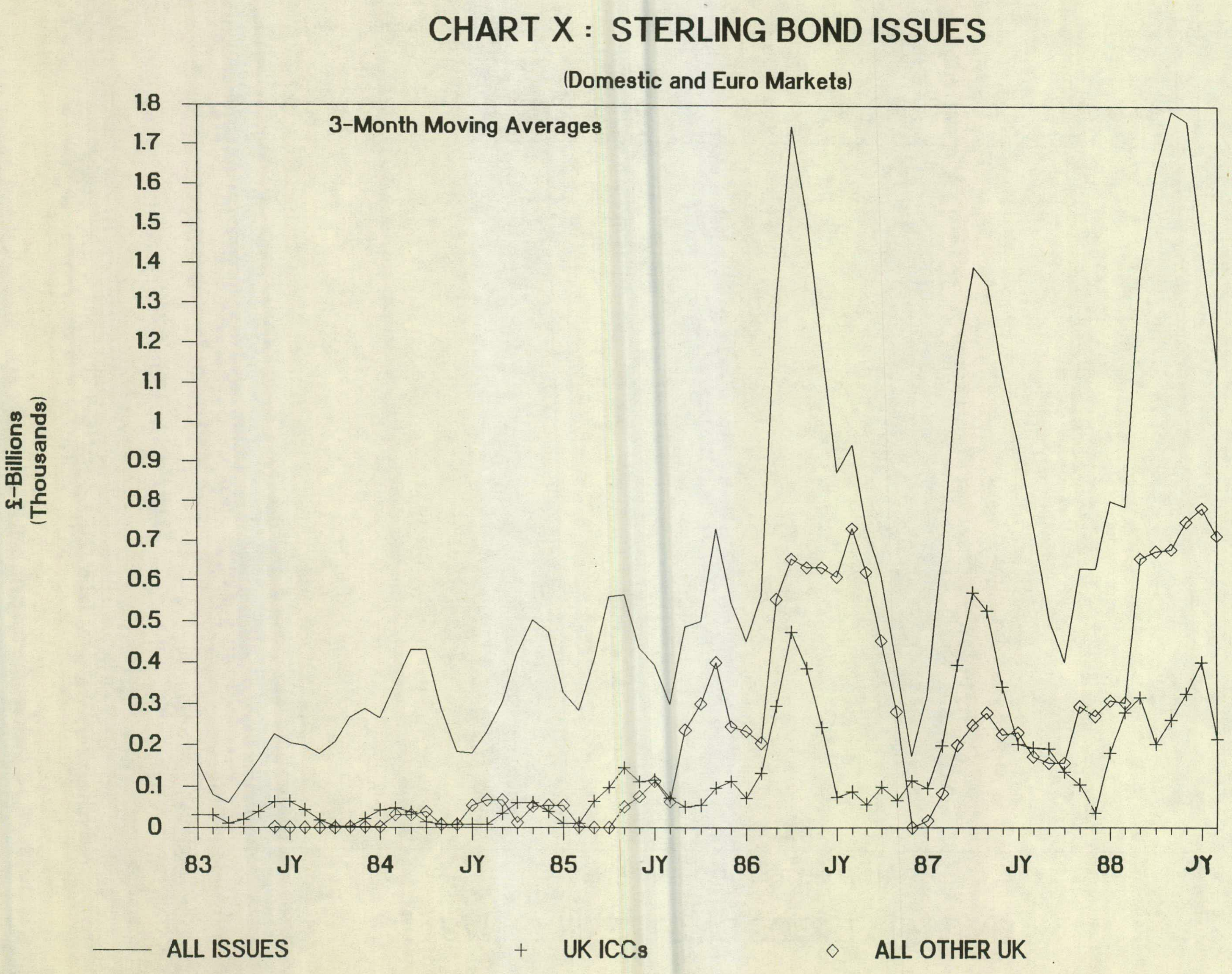


CHART X : STERLING BOND ISSUES
(Domestic and Euro Markets)
3-Month Moving Averages
£-Billions
(Thousands)
1.8
1.7
1.6
1.5
1.4
1.3
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
83
JY
84
JY
85
JY
86
JY
87
JY
88
JY
ALL ISSUES
UK ICCs
ALL OTHER UK

CHART XI - MONEY MARKET ASSISTANCE

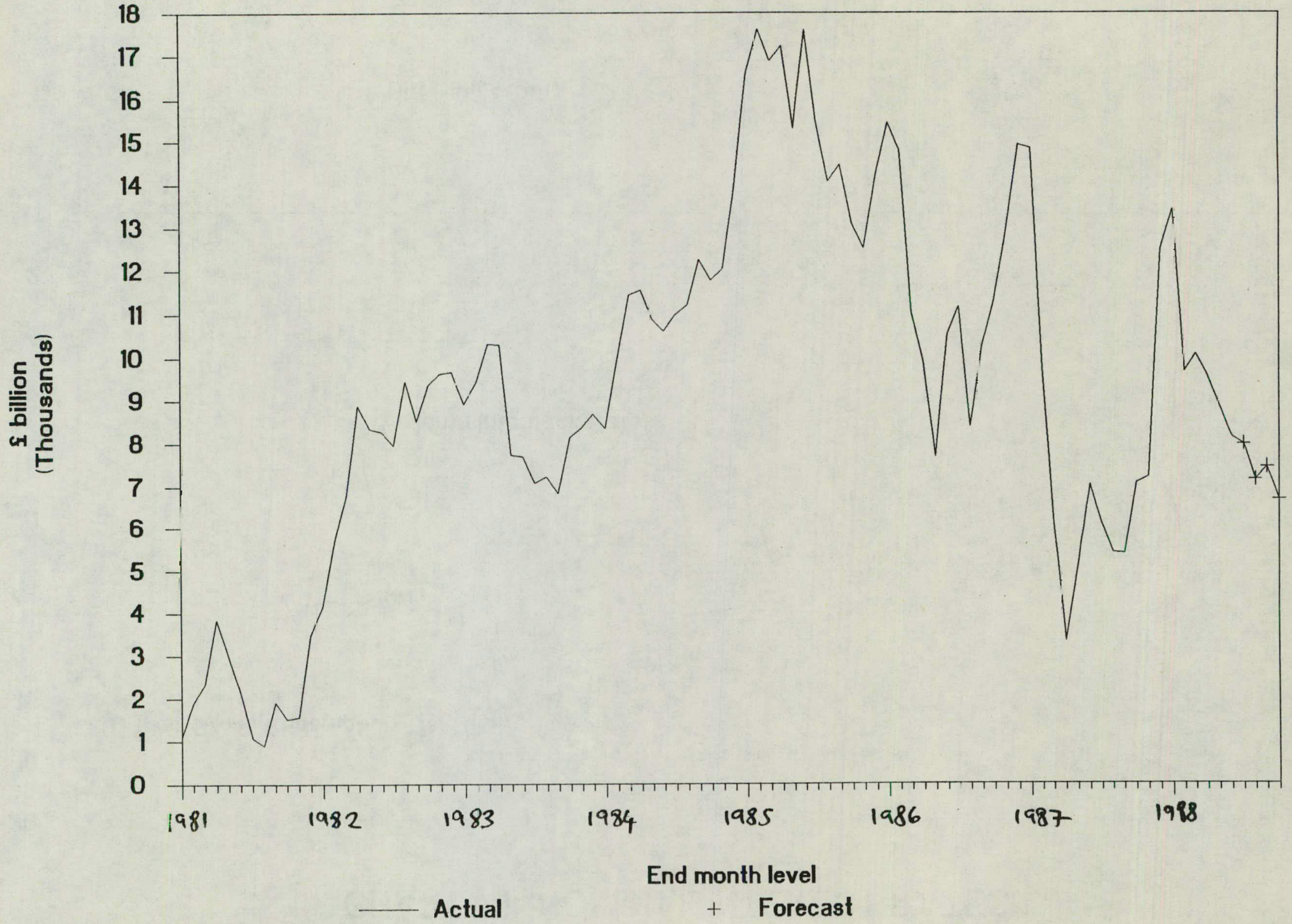


CHART XII :NOMINAL INTEREST RATES

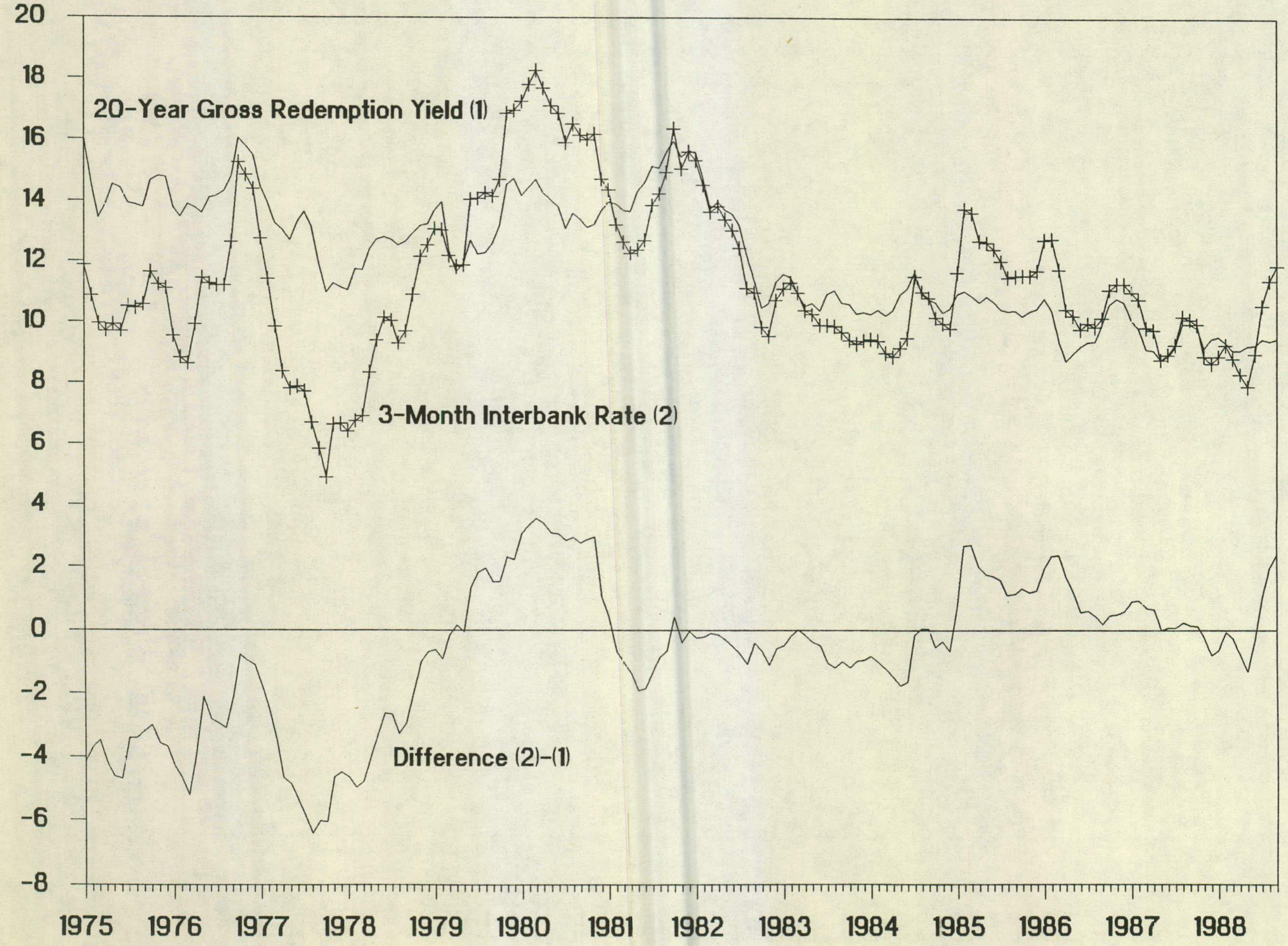


CHART XIII

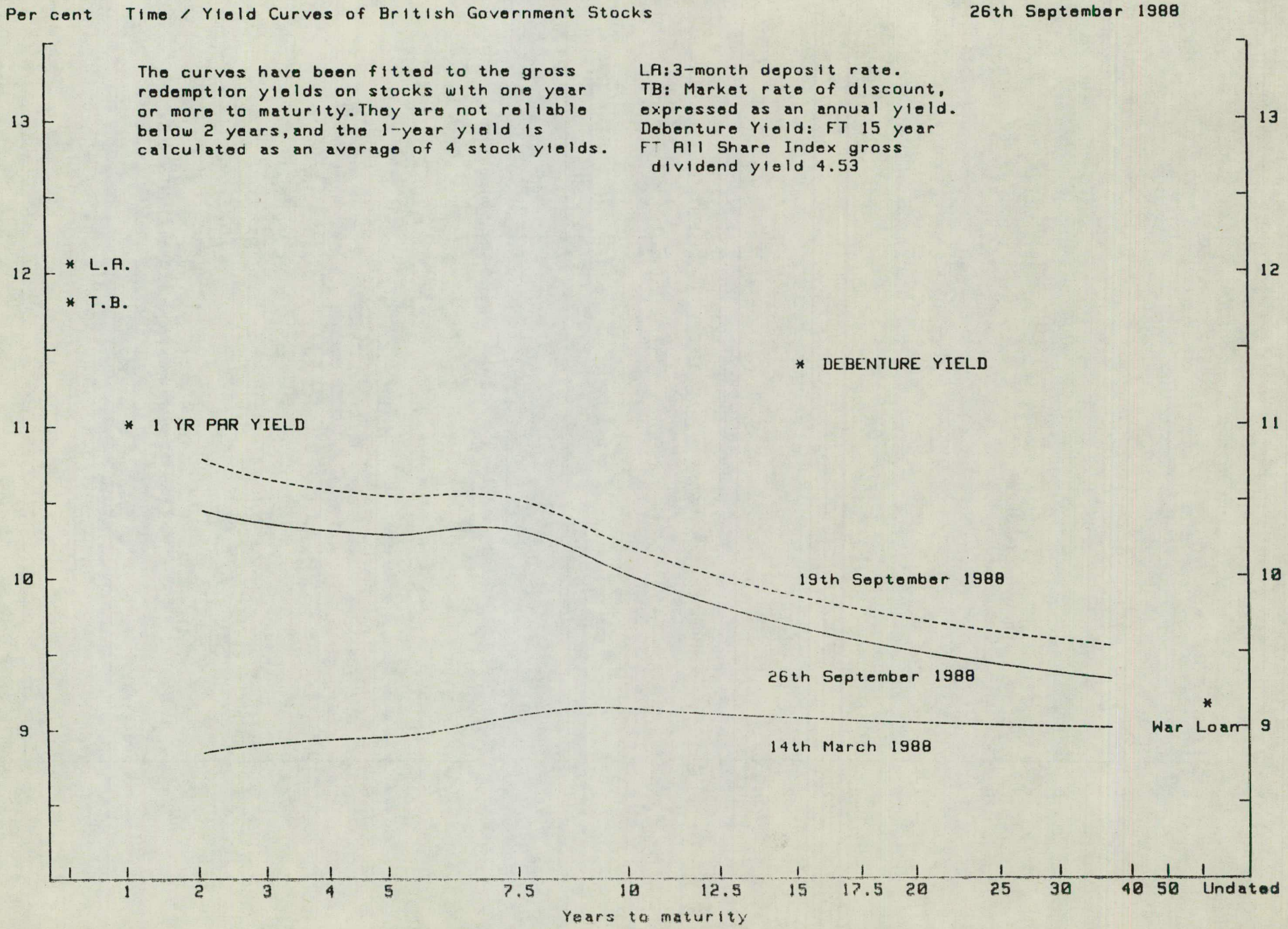
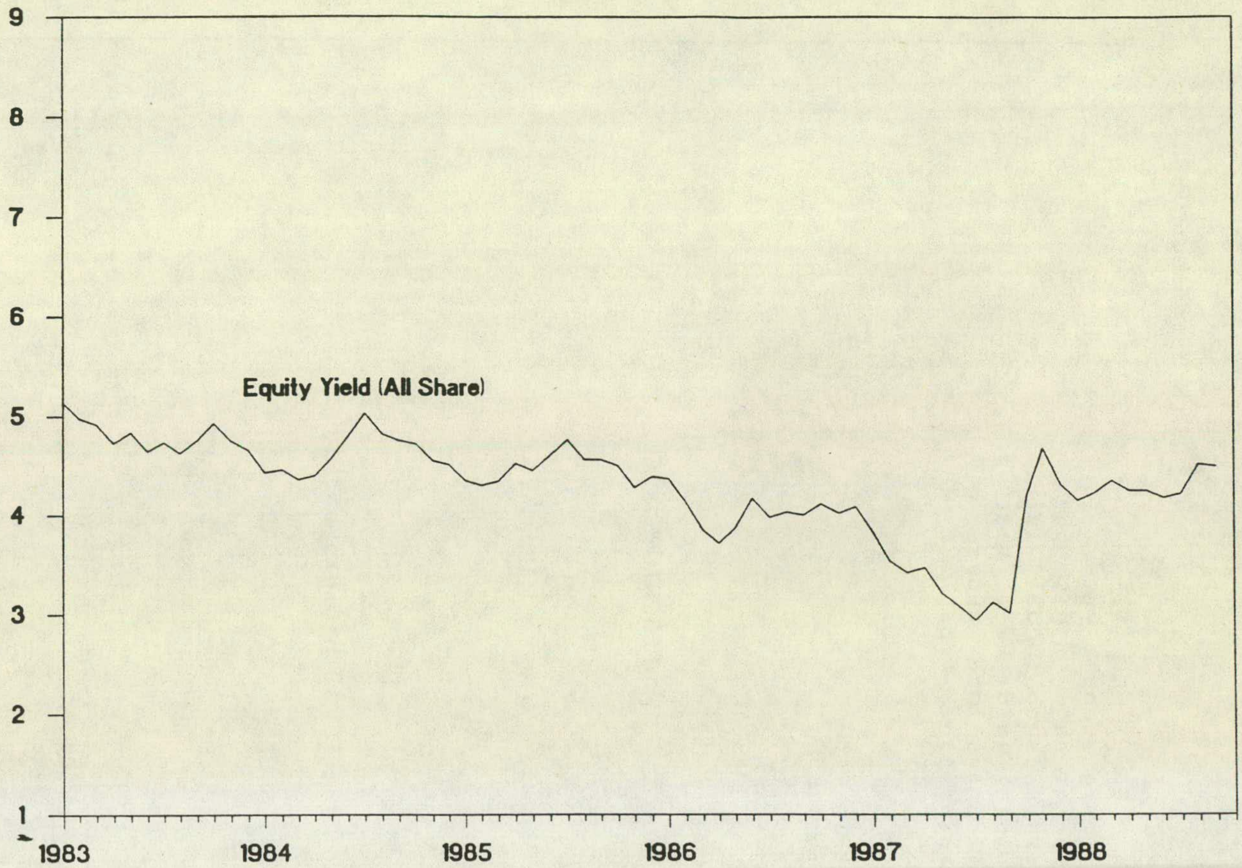

Per cent
Time / Yield Curves of British Government Stocks
26th September 1988
The curves have been fitted to the gross redemption yields on stocks with one year or more to maturity. They are not reliable below 2 years, and the 1-year yield is calculated as an average of 4 stock yields.
LA:3-month deposit rate.
TB: Market rate of discount, expressed as an annual yield.
Debenture Yield: FT 15 year
FT All Share Index gross dividend yield 4.53
* L.A.
* T.B.
* DEBENTURE YIELD
* 1 YR PAR YIELD
19th September 1988
26th September 1988
14th March 1988
* War Loan
13
12
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 XIV : REAL YIELDS



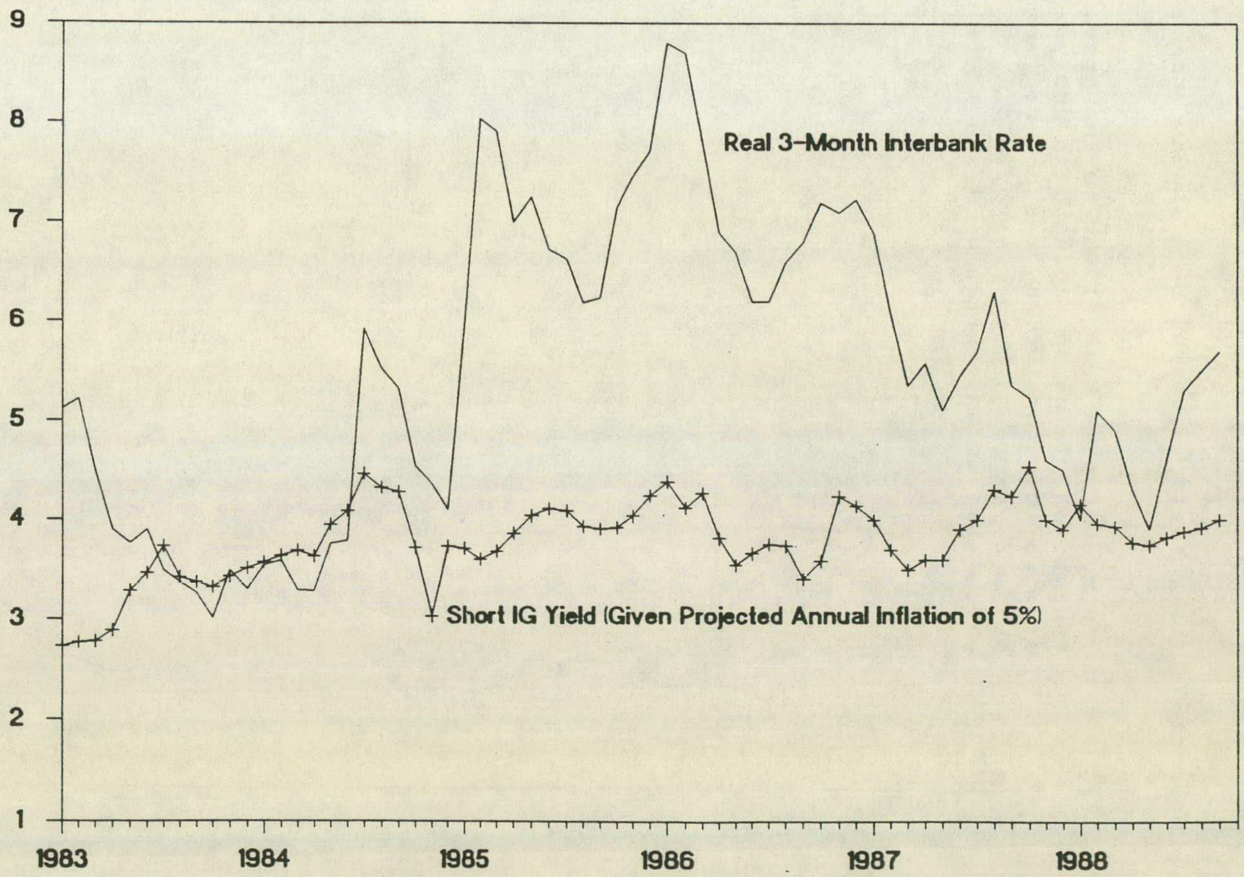
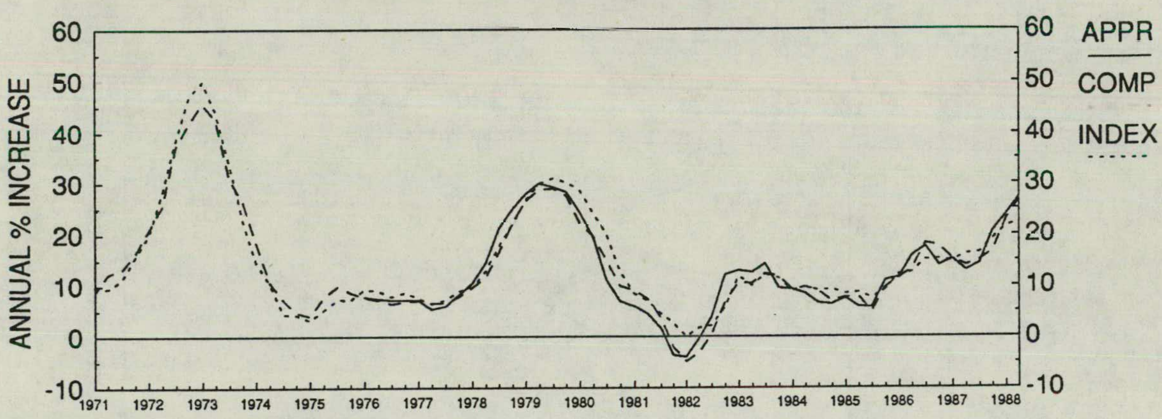


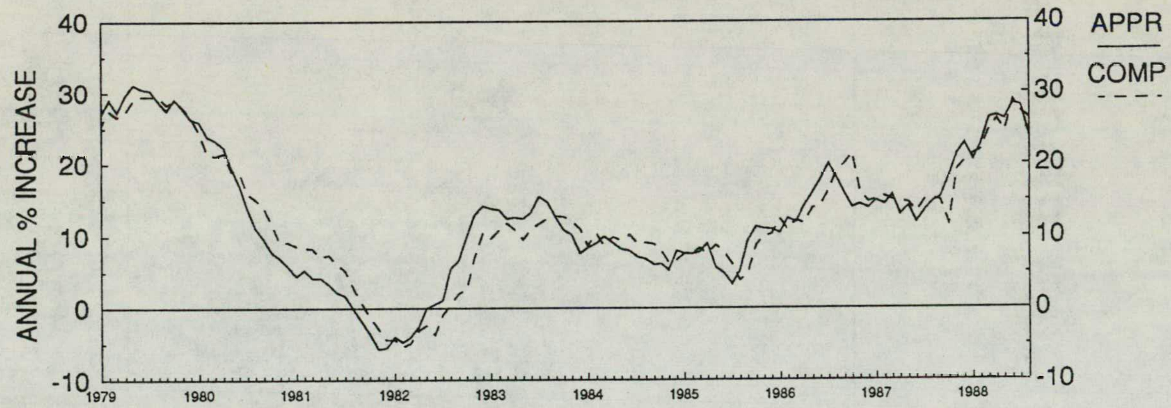
CHART XV : HOUSE PRICES

QUARTERLY HOUSE PRICES



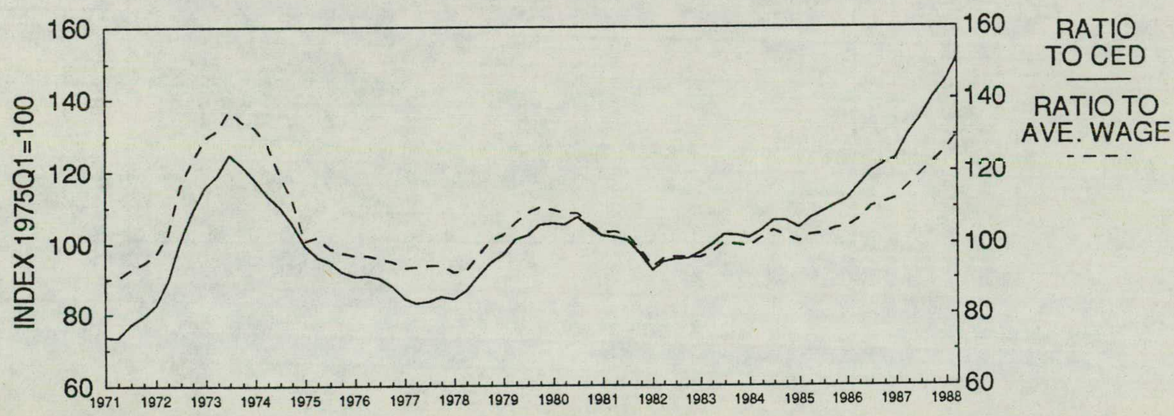
APPR = AVERAGE B. SOC. MORTGAGE AT APPROVAL
COMP = AVERAGE B. SOC. MORTGAGE AT COMPLETION
INDEX = MIX-ADJUSTED HOUSE PRICE INDEX

MONTHLY HOUSE PRICES



APPR = MORTGAGE APPROVAL STAGE
COMP = MORTGAGE COMPLETION STAGE ALL HOUSES

INDICES OF RELATIVE HOUSE PRICES BASED ON DOE MIX ADJUSTED HOUSE PRICE INDEX



RATIO OF HOUSE PRICES TO THE CE DEFLATOR
RATIO OF HOUSE PRICES TO AVERAGE WAGES AND SALARIES

ANNUAL HOUSE PRICE INFLATION : 2
CHART XVI

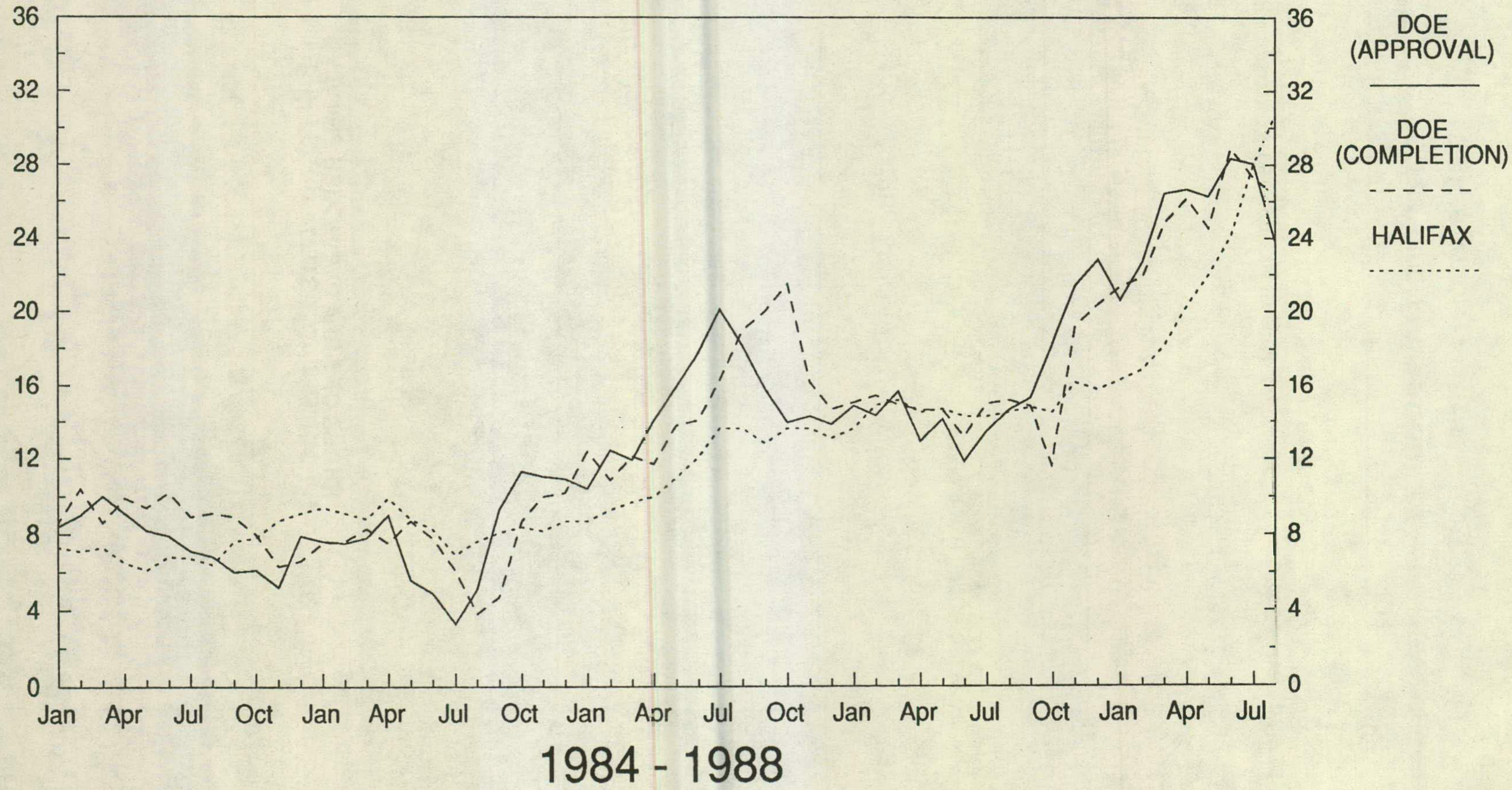


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Table 27

Broad Money forecast

		OUTTURN 1988 AUGUST		FORECAST SEPTEMBER	
		M3	M4	M3	M4
(i)	Underlying increase	1626	2440	4500	6200
(ii)	Estimated Special Factors	-	-	-	-
	Unwinding of tax rebate held on deposit	-	-	-	-
	Gilt redemption	-	-	-	-
(iii)	Total Increase	1626	2440	4500	6200
	Monthly % change	0.8	0.7	2.2	1.8
	Annual % change	20.1	17.3	21.5	18.2
	Annual % change expected at 1988 Budget time	20.2	16.4	20.1	16.6

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

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Table 28

Lending forecasts

	OUTTURN 1988 AUGUST			FORECAST SEPTEMBER		
	Bank lending	B Soc lending	M4 counterpart	Bank lending	B Soc lending	M4 counterpart
(i) Underlying increase (sa)	3895	2101	6178	6050	1850	7700
(ii) Estimated Special factors	- 764	450	- 314	- 650	250	- 400
PSBR offset	- 114	-	- 114	- 500	-	- 500
Rover repayment of bank borrowing	- 500	-	- 500	-	-	-
Bank/building society competition	- 150	150	-	- 150	150	-
Budget measures affecting mortgage lending	-	300	300	-	100	100
(iii) Lending increase (sa)	3131	2551	5864	5400	2100	7300
Lending increase (nsa)	1628	2663	4473	6600	2100	8500
Annual % change (nsa)	27.9	18.1	23.8	27.6	18.5	23.9
Annual % change expected at Budget time	23.7	13.7	19.6	24.7	13.9	20.3

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

TABLE 29: MONEY MARKET ASSISTANCE million

	Outturn	Forecast		
	1988 AUG	SEP	OCT	NOV
A. Money market influences				
(i) CGBR (+) excl bank deposits (+)	-332	1204	-2813	892
(ii) Reserves etc (+)	490	-260	112	-486
(iii) Notes and coin (-)	177	-192	474	261
(iv) National Savings (-)	-155	10	-208	-168
(v) CTDs (-)	58	100	200	50
(vi) Gilts (-)	304	-35	1941	200
(vii) Other Exchequer items etc	-404	0	0	0
A. TOTAL MONEY MARKET INFLUENCES (Market surplus + / shortage -)	138	827	-294	749
B. Money market operations				
(i) Commercial bills (purchase +):				
Issue Department - outright	-208			
- repos	0			
Banking Department	160			
(ii) LA bills (purchase +)				
Issue Department	35			
Banking Department	-12			
(iii) Treasury bills (purchase +)	-57			
(iv) Market advances	-141			
(v) Treasury bill Repos	0			
(vi) Export Credit/Shipbuilding Repo	0			
(vii) Gilt Repos	0			
B. TOTAL MONEY MARKET OPERATIONS	-223	-827	294	-749
C. Change in bankers balances = A + B	-85			
D. TOTAL ASSISTANCE OUTSTANDING	7975	7150	7440	6690
of which commercial bills	7255			

TABLE 30

GOVERNMENT SHARE SALES TIMING

1988/89

BSC I	1 December or 2 December

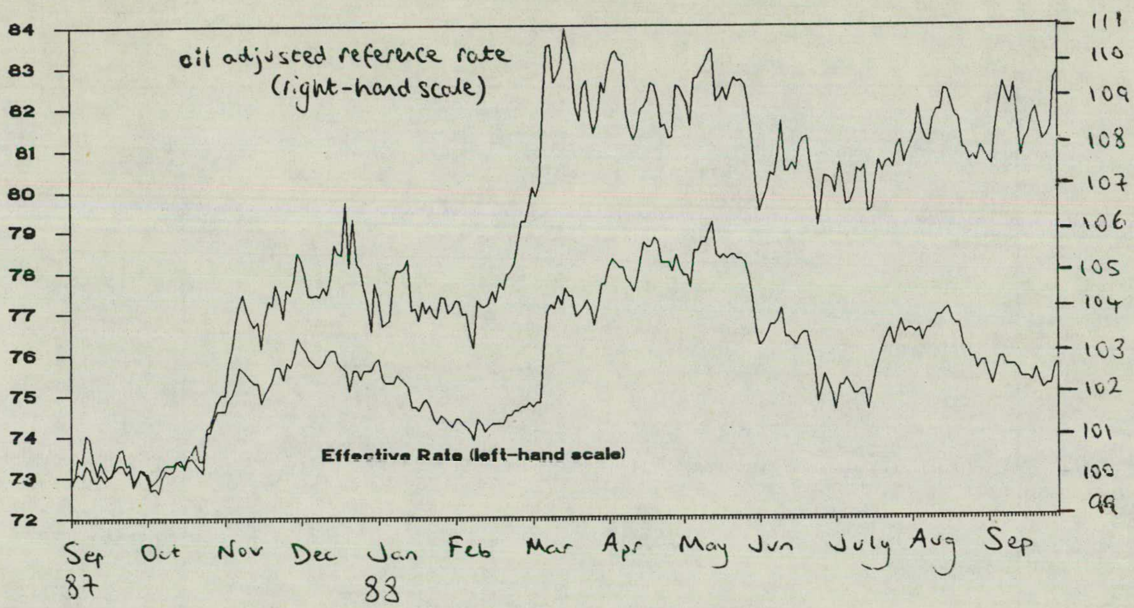
1989/90

BP III	27 April
BSC II	Undecided

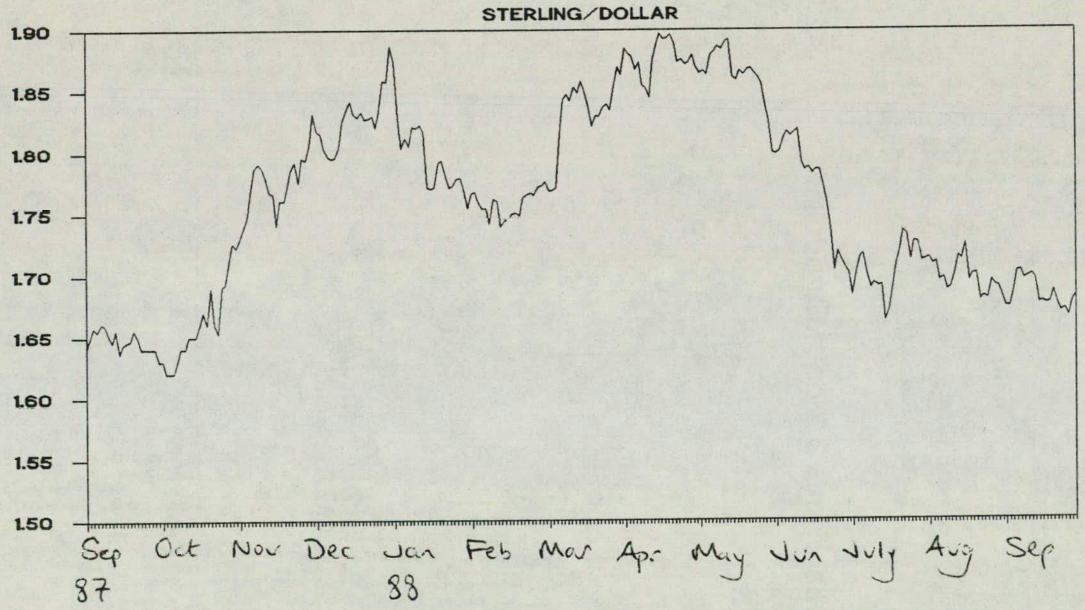
MONTHLY MONETARY REPORT : CHARTS

I	Exchange Rate Short Term
II	UK/US interest rate differential
III	Narrow money growth
IV	Broad money growth
V	Real M0 growth
VI	FSBR budget profile M0
VII	FSBR budget profile M4
VIII	Retail Deposits
IX	Bank and Building Society Lending
X	Corporate bond issues
XI	Money Market Assistance
XII	Nominal Interest Rates
XIII	Yield Curve
XIV	Real Yields
XV	House prices 1
XVI	House prices 2

CHART 1:EXCHANGE RATE



STERLING/DOLLAR



STERLING/DEUTSCHEMARK

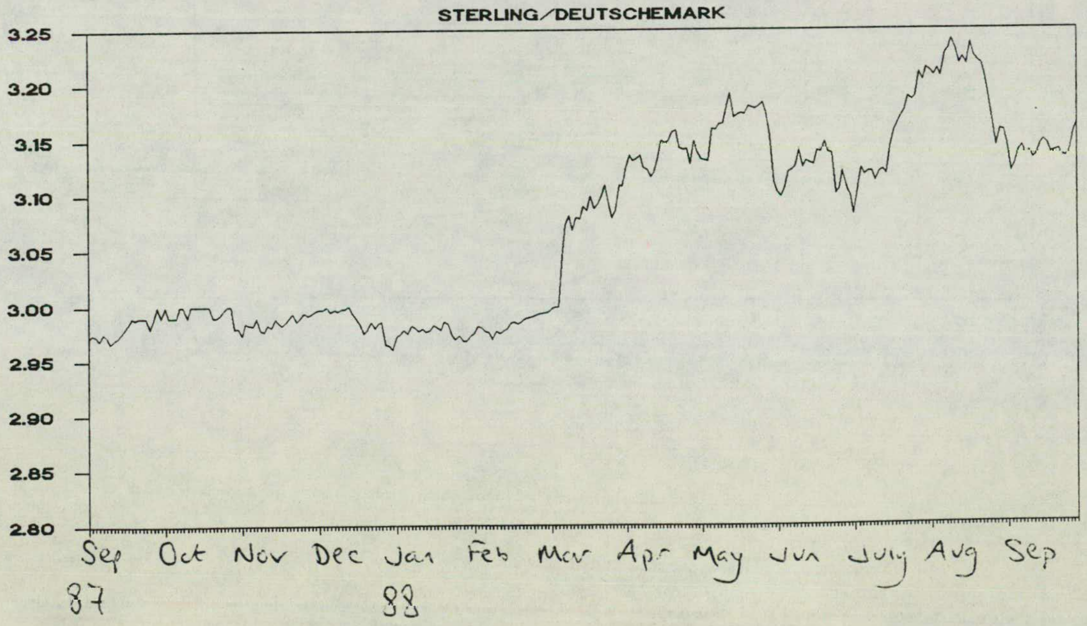


CHART II:UK/US INTEREST RATE DIFFERENCE