

cc Press Office*tran Pd*

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31 October 1980

T.P. Lankester, Esq.,
Private Secretary,
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MF

Dear Tim,

OCTOBER MONEY SUPPLY FIGURES

You asked me to let you have the Bank's provisional estimate of money supply growth based on all banks' returns for banking October. £M3 grew by 2.1 per cent bringing the annualised rate of growth since February to 24 per cent (or just over 20 per cent if allowance is made for reintermediation during the period of pre-February business). Evidence of reintermediation this month is slight.

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The counterparts of the growth in £M3 are shown in the attach table. As expected, the CGBR was relatively small this month (£400m). With Central Government debt sales of about £1 billion and a contribution to DCE by the rest of the public sector (£300m), the PSBR was over-funded by £350m. Bank lending to the private sector, at £1.1 bn, was roughly twice last month's level. Bank lending to overseas of £230m took DCE to just over £1 bn.

The big surprise is the positive external element (£450m). This has been negative for most of the year because of the outflows from the non-bank private sector; with hindsight it is best interpreted as a reversal of the unexpectedly large outflows last month.

The eligible liabilities and reserve assets figures are to be published on Tuesday 4 November and the Bank will indicate then that the preliminary estimate of money supply growth is "around 2 per cent". As this figure will doubtless disappoint the market, we should consider whether any additional guidance should be given.

There are certain positive points that can be made:

- (i) Some increase in bank lending was to be expected as October was a 'spike' month in the three-month cycle. But the figure is somewhat lower than recent spikes. This may indicate that the slight weakening in the growth of bank

/lending



lending evident in the last few months may still be occurring. Moreover, the figure again reflects a small amount of reintermediation - and possibly some round-tripping.

(ii) This month's figures for the Central Government's own borrowing (own-account transactions were actually in surplus by some £300 million) confirm the slowdown in the CGBR which we have been forecasting in recent months.

(iii) The externals may be the reversal of last month's large negative figure and, as such, should be regarded as erratic.

(iv) All other monetary aggregates rose by less than £M3 - M1 for instance by less than $\frac{1}{2}$ per cent.

yours

John

A.J. WIGGINS

S E C R E T

PRELIMINARY DCE, £M3 IN BANKING OCTOBER 1980

	£ million (seasonally adjusted)
CGBR	+ 409
of which	
own account	(- 302)
on lending to public corps. & local authorities	(+ 711)
Sales of debt to the non-bank private sector	-1070
Sterling lending to the UK private sector	→ +1130
overseas sector	+ 234
DCE	→ +1016
Net externals	+ 446
Non-deposit liabilities (inc -)	- 124
£M3	+1338
% increase	2.17

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