

S E C R E T

until 2.30pm, Thursday 19 May 1983

FROM: C H JUTSUM
DATE: 5 May 1983

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Mr Middleton
Mr Burns
Mr Cassell
Mr H Evans
Mr Kemp
Mr Monck
Mr Odling-Smee
Mr R I G Allen
Mrs Lomax
Mr Riley
Mr Peretz
Mr Sedgwick
Mr Page
Mr B Johnston
Mr Pickford
Miss Roach
Mr Willetts
Mr Ridley

PROVISIONAL MONETARY AGGREGATES: BANKING APRIL

The Bank's note on the provisionals and their draft press release are attached. Table 1 below summarises the data. The increases in M1, M3 and PSL2 will be published next Tuesday, 10 May along with the revised series incorporating the new seasonal adjustments.

Table 1

	(per cent, seasonally adjusted)								
	<u>MO</u>	<u>NIB</u>	<u>M1</u>	<u>M1</u> ⁽¹⁾	<u>M2</u> ⁽²⁾	<u>M3</u> ⁽¹⁾	<u>M3</u>	<u>PSL2</u> ⁽¹⁾	<u>PSL 2A</u>
Change in banking April	-0.5	+0.3	+1.1	+1.5	+1.9	+1.3	+1.9	+1.8	
Figure to be quoted in press release			1-1 $\frac{1}{2}$		1 $\frac{1}{2}$ -2		c2		
Rate of growth in 1982-83 target period	3.6	9.6	11.8	7.8 ⁽³⁾	11.4	13.6	11.1	13.5	
Rate of growth in 1983-84 target period	4	13 $\frac{1}{2}$	14 $\frac{1}{2}$	19 $\frac{1}{2}$	19	16	23	21	

(1) target aggregate

(2) not seasonally adjusted

(3) past 12 months

2. The first guess seems to have been unusually far from the provisional outturn this month: the figures have been revised upwards significantly. Among the counterparts to M3 , the main changes have been to bank lending, revised up as predicted to an increase of £125 million compared with our forecast of £785 million - still a very low figure; the externals have also been revised up to $+\text{£305 million}$, compared to the forecast of $-\text{£290 million}$; estimated gilt sales to the non-bank private sector have been revised up, but the negative other public sector contribution is now smaller, so overall the public sector position is broadly the same as in the 'first guess', $+\text{£1,390 million}$ compared with the forecast of $+\text{£555 million}$.

3. Table 2 (to follow) shows 3, 6 and 12 month growth rates in the main aggregates.

4. The proposed briefing line for use by the Press Office is as follows:

- i. the markets' expectations are of fairly large banking April increases in money: the outside M3 forecasts average around $1\frac{1}{2}\%$, though forecasts of up to $1\frac{3}{4}\%$ have been circulated, eg by Messels. The provisionals may however cause concern. The following points could be made:
 - a. we take a longer-term view of monetary growth than provided by just one month's figures;
 - b. the growth rates of all three target aggregates in the 14 months ending with banking April were within the 8-12% target range;
 - c. public sector borrowing was unusually high at the end of 1982-83 \sphericalangle NB the calendar April CGBR will probably be perceived as high when released the next day, 11 May 7;

ii. [the CLCB figure of the increase in lending by the clearing banks and their subsidiaries, also to be published on Tuesday, is £830 million.] The markets' expectations are of a moderate increase in total bank lending, not as low as the Bank's provisional figure. It seems unlikely that the large increase in £M3 will be blamed on an upsurge in bank lending, as the public sector will probably be perceived as the cause. This can be confirmed in background briefing;

iii. if asked about implications of large April increases in money for interest rates - our assessment of monetary conditions is based on more than one month's money figures: the recent firming of the exchange rate does not point to lax monetary conditions.

5. I would be grateful if any comments on the press notice or briefing could reach me by 11am on Monday, 9 May.

6. I am sending copies of this submission to Mr Scholar and Professor Walters at 10 Downing St.

C.H. Jutsum

C H JUTSUM

5 May 1983

PROVISIONAL MONETARY AGGREGATES FOR BANKING APRIL 1983

(£ mn, seasonally adjusted - using final new seasonals)

- 1 As usual at this stage, all figures are subject to revision.
- 2 The monthly figures show higher results for banking April than the weeklies. EM3 rose by 1,770 (+1.9%, or 11.4% pa in the full target period since mid-February 1982, or 19% pa in the two months since mid-February 1983). PSL2 is estimated to have risen by 2,910 (+1.9%, or 11.1% pa since February 1982, or 23% pa since February 1983). M1 rose by 440 (+1.1%, or 11.8% pa since February 1982, or 14½% pa since February 1983).
- 3 The wide monetary base fell by 60 (-0.5%, or +3.6% pa since February 1982, or +4% pa since February 1983). Notes and coin in circulation rose by 30, but banks' till money fell by 30 and operational bankers' balances fell by 60 following the increase of 90 in March. NIB sight deposits rose by 70 and NIBM1 rose by 90 (+0.3%, or 9.6% pa since February 1982, or 13½% pa since February 1983). IB sight deposits rose by 340 and M1 rose by 440 (as above), about 150 more than predicted by the weeklies, the differences being spread among all three elements (notes and coin, NIB sight deposits and IB sight deposits).
- 4 Private sector sterling time deposits rose by 1,180 and sterling CDs by 240 (about 360 and 250 respectively more than predicted by the weeklies). Public sector deposits fell by 90 (excluding the special NLF deposits with Banking Department which fell by 1,870 to zero). Thus, EM3 rose by 1,770 (as above).

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5 M2 (unadjusted) rose by 1,550 (+1.5%), or by 7.8% over the preceding 12 months (since April 1982). The rise includes 440 of building society deposits and 10 of national savings.

6 The private sector's holdings of bank bills rose unusually sharply, by 270, and their holdings of LA temporary debt rose by 40. Therefore, PSL1 rose by 2,140 (+2.2%, or 11.3% pa since February 1982, or 24% pa since February 1983). Building society net inflows have been revised up for March, and seem to have continued fairly strongly in April, with still rather low inflows into term shares, so shares and deposits in PSL2 in April are estimated to have risen by 650, whilst national savings inflows continued low (30). PSL2 is estimated to have risen by 2,910 (as above), and PSL2A by 2,990 (1.8%, or 13.5% pa since February 1982, or 21% pa since February 1983).

... stgy value of foreign currency
7 UK residents' foreign currency deposits fell by 420, estimated to be almost entirely due to revaluation. Total M3 therefore rose by 1,350 (1.3% , or 13.6% pa since February 1982, or 16% pa since February 1983).

8 The net effect of public sector transactions was sharply expansionary. Central government was in deficit on own account by 530, and the CGBR, including on-lending of 820 to the LAs and 560 to the PCs, was 1,910. Most of this of course occurred in the last week of the 1982-83 financial year. The direct contribution of the public sector was -60 (less contractionary than predicted by the weeklies, because of additional reported bank lending): LAs -360, of which banks sterling and £ lending -360, and PCs +300, of which bank sterling and £ lending +280. Net purchases of central government debt by the non-bank private sector are estimated at -470, of which gilts -310 and national savings -160. The second table attached shows a provisional sectoral analysis of gilt sales.

9 Sterling lending to the private sector is estimated to have risen by 130 (the difference from the fall predicted by the weeklies is largely in advances by the non-weekly banks). Advances, before seasonal adjustment or adjustment for transits, rose by 1,330, of

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which LCB parents 690. The bill market fell by 950: Banking Department's holdings fell by 2,040, Issue Department's rose by 30, Discount Market's holdings rose by 970, and other banks' holdings rose a little. The seasonal adjustment subtracted 480. The bill leak rose sharply (+230), and the estimate for March is increased to +180. Foreign currency lending to the private sector is estimated to have fallen in transactions terms by 400.

10 External and foreign currency finance is estimated to have been expansionary (+300), following a similar expansion in March (the latter is despite the new seasonal for March, which takes account of the estimated external finance used to pay PRT). The reserves fell (-120), and there were net overseas purchases of gilts (-170, mainly international organisations), but among other items the banks switched out of sterling (+430). The banks' total balance sheets expanded by £1 billion (following the relatively small expansion in March); the overseas sector's foreign currency deposits fell by £3 billion, nearly matched by a fall in currency lending to overseas (£2 billion), but these were more than offset by rises in the private sector's sterling deposits (£2½ billion), in lending to central government (£2¼ billion) and other items.

11 Net non-deposit liabilities are estimated to have changed little. There was a very sharp rise in capital and other funds (-1,130) but this was largely due to expected interest charging by the clearers and was therefore largely offset by the seasonal of +920. Other changes wiped out ^{most of} the remaining difference.

Financial Statistics Division HO-4
5 May 1983

Miss M E Peirson (4764)

01 601 4771

MAY 05 10:47 GMT BK ENGLAND LONDON 601 4771

P.001

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seasonally adjustedPROVISIONAL STERLING M3 ETC IN BANKING APRIL 1983

	<u>Preliminary</u>	<u>Forecast*</u>
<u>DOMESTIC COUNTERPARTS</u>		
CGBR: own account	+ 530	
on-lending to LAs	+ 825	
on-lending to PCs	+ 555	
	+1,910	+1,995
Net purchases of CG debt by non-bank private sector: (inc -)		
Gilts	- 305	- 560
Treasury bills	+ 30	0
National Savings	- 155	- 200
Certificates of tax deposit	-)
Other	- 30) 0
	- 465	- 760
Other public sector: Local Authorities	- 355	- 355
Public Corporations	+ 300	- 325
	- 55	- 680
Sub-total: "Overfunding" (-)	+1,390	+ 555
Sterling lending to the private sector:		
Bank lending to private sector	+ 100	..
Issue Department commercial bills	+ 25	..
	+ 125	+ 785
Sub-total: Domestic Counterparts	+1,515	+1,340
<u>EXTERNAL COUNTERPARTS</u>		
External and foreign currency finance:		
£ deposits net from banks abroad (inc -)	- 85	- 150
Other overseas £ deposits (inc -)	- 130	- 250
£ lending to overseas non-banks	+ 200	+ 250
Banks' net foreign currency liabs (inc -)	+ 425	- 135
External finance of public sector	- 235	- 150
Seasonal adjustment	+ 130	+ 145
	+ 305	- 290
Non-deposit liabilities (inc -)	- 50	- 250
	+1,770	+ 800
	(+ 1.9%)	(+ 0.9%)

* underlying H. Turnbull's 'monetary prospects' submission of 13 April 1983.

TRANSACTIONS IN GILTS

BANKING APRIL

£ mns purchases +

Gross sales*	+1,280
Net official sales*	+ 730
Purchased by:	
Banks*	+ 275
Discount Market	- 35
Public Corporations	+ 10
Overseas	+ 175
Non-bank private sector (residual)	+ 310

* Including repos of +165.

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DRAFT (5. 5.83)

PROVISIONAL ESTIMATES OF MONETARY AGGREGATES: BANKING APRIL 1983

1 Preliminary information suggests that, in the five weeks to 20 April, sterling M3 may have grown by $1\frac{3}{4} - 2\%$, PSL2 by about 2% and M1 by $1 - 1\frac{1}{2}\%$, after seasonal adjustment. Full money and banking figures will be published on 19 May.

Seasonal adjustments

2 It is usual at this time of year to recalculate the seasonal adjustments to the monthly money and banking figures in the light of new information. This exercise has now been completed, and seasonally-adjusted figures for changes in the main aggregates since January 1982, on the new and old bases, are given in the accompanying tables.

3 Last year's exercise was affected by data deficiencies and subsequent distortions resulting from the civil service strike in 1981. These problems have been largely overcome and data for 1981 and 1982 were included in the exercise just completed. In addition, as in previous years, certain modifications have been made to the way in which the seasonal adjustments are calculated: these modifications are outlined in the Note to Editors below.

4 The effects of the recalculation on the seasonally-adjusted rates of growth in the target monetary aggregates both in banking March 1983 and in the first 13 months of the former target period, from mid-February 1982 to mid-March 1983, are as follows:

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		Rate of growth in:	
		Banking March 1983	Mid-February 1982 to mid-March 1983
		%	% annualised
Sterling M3:	old series	0.9	10
	new series*	1.0	10½
PSL2:	old series	1.3	9½
	new series*	1.5	10
M1:	old series	0.8	11
	new series*	1.2	11½

* The new series include some minor revisions to the unadjusted data.

5 Revised figures for other aggregates, for more detailed banking figures and for earlier periods will be available when the full April figures are published on 19 May.

6 The estimated seasonal movements for banking April 1983 are:

	£ millions
Notes and coin	+ 70
Private sector sterling sight deposits	+ <u>860</u>
M1	+ 930
Other sterling deposits (including CDs) held by UK residents	+ <u>100</u>
Sterling M3	+ <u><u>1,030</u></u>
Bank lending in sterling to the private sector	+ 480

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

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Note to Editors

1 A full description of the methodology of seasonal adjustment of the monthly money and banking figures, as it was at the time, was given in the Bank's Quarterly Bulletin for June 1978. Certain subsequent modifications were described in later Bulletins, notably the Bulletin for June 1981.

2 This year, changes have been made to the weights used in applying balancing adjustments to the preliminary seasonal adjustments calculated for each series independently (ie, broadly speaking for each component and counterpart of sterling M3). These weights generally vary from year to year, but in addition this year certain counterparts which previously took no part in the balancing (in particular the CGBR and the external and foreign currency counterparts) have been given weights, whilst other series which had taken part were given none. This change improves the "smoothness" of the resulting series not only for sterling M3 but also for the individual components and counterparts affected by the change.

3 A further change this year, affecting the seasonal adjustments for 1982 and 1983 only, was to take account of information indicating that a significant proportion of Petroleum Revenue Tax paid in March 1983 was financed from external transactions and ^{from} borrowing in sterling from UK banks.

Month ended	CGBR (seasonally adjusted)		Bank lending to the private sector (seasonally adjusted)	
	Old Series	New Series*	Old Series	New Series*
1982 20 January	+ 304	- 402	+ 1,407	+ 1,988
17 February	- 53	+ 172	+ 1,967	+ 2,037
17 March	- 544	+ 148	+ 2,205	+ 1,931
21 April	- 742	- 347	+ 2,012	+ 1,574
19 May	+ 1,237	+ 1,069	+ 967	+ 1,078
16 June	+ 828	+ 1,109	+ 1,034	+ 1,033
21 July	+ 920	+ 723	+ 1,563	+ 1,398
18 August	+ 1,471	+ 1,107	+ 1,276	+ 1,519
15 September	+ 960	+ 1,342	+ 2,021	+ 1,629
20 October	+ 1,425	+ 1,027	+ 1,752	+ 1,890
17 November	+ 1,027	+ 777	+ 1,125	+ 1,127
8 December	+ 654	+ 52	+ 757	+ 1,032
1983 17 January	- 521	+ 212	+ 610	+ 1,158
16 February	- 707	+ 27	+ 1,447	+ 1,107
16 March	+ 711	+ 122	+ 1,025	+ 632

* The new series include some minor revisions to the unadjusted data.

> Including Issue Deposits' holdings of commercial bills.

EM3 (seasonally adjusted)

PSI2 (seasonally adjusted)

Month ended	Old series		New series*		Old series		New series*	
	Emns	(%)	Emns	(%)	Emns	(%)	Emns	(%)
1982 20 January	+ 969	(+1.2)	+ 1091	(+1.3)	+ 1,667	(+1.2)	+ 1528	(+1.1)
17 February	+ 82	(+0.1)	+ 336	(+0.4)	+ 748	(+0.5)	+ 1037	(+0.8)
17 March	+ 552	(+0.7)	+ 868	(+1.0)	+ 921	(+0.7)	+ 1368	(+1.0)
21 April	+ 443	(+0.5)	+ 446	(+0.5)	+ 1,457	(+1.1)	+ 1401	(+1.0)
19 May	+ 916	(+1.1)	+ 857	(+1.0)	+ 841	(+0.6)	+ 748	(+0.5)
16 June	+ 717	(+0.8)	+ 823	(+1.0)	+ 766	(+0.5)	+ 1050	(+0.7)
21 July	+ 681	(+0.8)	+ 132	(+0.2)	+ 157	(+0.1)	- 296	(-0.2)
18 August	+ 1,183	(+1.3)	+ 904	(+1.0)	+ 1,295	(+0.9)	+ 1048	(+0.7)
15 September	+ 1,036	(+1.2)	+ 1,139	(+1.3)	+ 1,673	(+1.2)	+ 1,623	(+1.2)
20 October	+ 1,476	(+1.7)	+ 228	(+0.2)	+ 1,839	(+1.2)	+ 1,655	(+1.0)
17 November	+ 10	(-)	+ 267	(+0.3)	+ 147	(+0.1)	+ 423	(+0.3)
8 December	+ 822	(+0.6)	+ 493	(+0.5)	+ 466	(+0.3)	+ 565	(+0.4)
1983 17 January	+ 343	(+0.4)	+ 327	(+0.4)	+ 1,135	(+0.8)	+ 1,247	(+0.9)
16 February	+ 323	(+0.4)	+ 625	(+0.7)	+ 1,570	(+1.1)	+ 2,016	(+1.4)
16 March	- 812	(+0.9)	+ 749	(+1.0)	+ 1,977	(+1.3)	+ 2,178	(+1.5)

M1 (seasonally adjusted)

Month ended	Old series		New series*	
	Emns	(%)	Emns	(%)
1982 20 January	+ 41	(+1.8)	+ 597	(+1.8)
17 February	- 51	(-0.1)	- 130	(-0.4)
17 March	- 225	(-0.7)	- 27	(-0.1)
21 April	+ 23	(+0.1)	- 84	(-0.2)
19 May	+ 197	(+0.6)	+ 170	(+0.5)
16 June	+ 674	(+2.0)	+ 875	(+2.5)
21 July	+ 302	(+0.9)	+ 158	(+0.4)
18 August	+ 440	(+1.2)	+ 545	(+1.5)
15 September	+ 462	(+1.3)	+ 382	(+1.1)
20 October	+ 1,058	(+2.7)	+ 956	(+2.6)
17 November	- 57	(-0.2)	- 46	(-0.1)
8 December	+ 354	(+0.9)	+ 416	(+1.1)
1983 17 January	+ 401	(+1.1)	+ 346	(+0.9)
16 February	+ 153	(+0.4)	+ 241	(+0.6)
16 March	+ 295	(+0.8)	+ 445	(+1.2)

*The new series include some minor revisions to the unadjusted data.