

SECRET AND PERSONAL UNTIL 2.30PM ON AUGUST 13

MR MIDDLETON

Amhurst

*Bad figures, though
the civil service
strike has inflated
them.*

ms
cc Chancellor
Financial Secretary
Sir D Wass
Mr Burns
Mr Monck
Mr Britton
Mr Turnbull o.r.
Mr H Davies
Mr Shields
Mr Lancaster - No 10.

MONEY SUPPLY IN JULY: FIRST GUESS

*T2
22/7*

I attach a note by the Bank giving a first estimate of monetary growth in banking July. £M3 is estimated to have increased by 2.2%, much in line with our forecast. After the surge in April, followed by a flat two months, M1 has again risen sharply by 3%. We will be investigating these figures further and reporting next week.

Dius Lennon

T LENNON
24 July 1981

MONTHLY AGGREGATES IN BANKING JULY - A FIRST ESTIMATE

£ millions, seasonally adjusted

Estimates based on the figures provided by the weekly reporting banks show a rise in £M3 of 1,570 (2.2%) in banking July. This increase is exactly in line with the rise predicted at the monthly forecast. If confirmed by the full banking figures next week it would indicate an annual rate of growth since February 1981 of 17.3%.

M1 is estimated to have risen by 920 (3.0%). The monetary base was flat this month and has risen at an annual rate of only 1.6% since February. Tentative figures for PSL1 and PSL2 show rises of 2.2% and 1.8% respectively.

The attached table compares changes in the counterparts and £M3 with the forecast. The CGBR at 2,280 was much in line with the forecast (HMT are estimating the strike effect at between 1,500 and 1,750, slightly higher than forecast). However, within the CGBR, on-lending was markedly different from the MRC Forecast with 460 extra borrowing by the rest of the public sector, mainly by public corporations. Underlying own-account borrowing appears to have been significantly less than expected. The higher on-lending is more than offset in the other public sector's direct contribution, which was contractionary by around 560 compared with the expansionary +300 that was forecast. Thus on the face of it the underlying PSBR seems to have been much lower than forecast. Net purchases of CG debt by the non-bank private sector, at 680, were 100 less than forecast. Within this, gilts raised 180 (240 less than forecast, but banks and discount houses appear to have bought heavily in the last week), National Savings raised 230 and there were sales of CTDs of 210.

Sterling lending to the private sector rose by 330, a little more than the forecast rise of 220; within the total, Issue Department sold 180 commercial bills. (The bill leak is estimated to have risen by 45.) Lending in sterling to overseas rose very sharply, by 490. Overseas sterling deposits also rose sharply, by 300, so this may reflect a further expansion of offshore inter-bank type transactions. The residual between DCE and EM3 was -290. Identified external items excluding switching by banks, account for -540 which suggests the residual may include a reversal of last month's erratic increase in NNDLs.

Financial Statistics Division
Money and Banking Aggregates Group HO-4
24 July 1981

A S Watson (4757)

SECRET

24. 7.81

£ millions
seasonally adjusted

	First Estimate (a)	Forecast
CGBR	+2,280	+2,220
CG Debt: Gilts	-175	-415
Treasury Bills	- 65	- 25
National Savings	-230	-150
CTDs etc	<u>-205</u>	<u>-190</u>
	- 675	- 780
Other public sector: LA	..	+140
PC	..	<u>+160</u>
	- 560	+ 300
Bank lending to:		
private sector (inc Issue bills)	+ 325	+ 215
overseas	<u>+ 485</u>	<u>+ 250</u>
DOMESTIC CREDIT EXPANSION	+1,855	+2,205
External and foreign currency)		- 515
finance)	- 290	
Non-deposits liabilities)		<u>- 125</u>
	<u>+1,565 (+2.2%)</u>	<u>+1,565 (+2.2%)</u>
Notes and coin	- 45	
Private sector sight deposits	<u>+ 965</u>	
M1	<u>+ 920 (+3.0%)</u>	

(a) Including some transactions which could not be attributed to individual weeks in Table 3W/1.