

MONTHLY MONETARY REPORT: DECEMBER-MARCHFile

SUMMARY

The main points from this month's report are:-

- the growth rates in M0 and £M3 were distorted in banking December by the effects of the BT sale, but in opposite directions. M0 was inflated by about 1% due to an increase in bankers' balances and £M3 depressed as part of the November increase was unwound
- 3 month interbank rates reached 10½% in early January before coming back to under 10% after the December money figures had been digested. Money market rates remained high relative to base rates until Friday morning, when the clearers increased base rates from 9½% to 10½%
- bank lending was unexpectedly high again in December; it has averaged £1½ bn a month (equivalent to an annual rate of 20%) since September, although the underlying trend is almost certainly lower. Round-tripping opportunities were available on a number of days around the turn of the year and may inflate bank lending in January
- the outlook for public sector borrowing is poor partly because the coal strike is now assumed to last longer and there are no significant asset sales: March in particular looks like being a month of heavy borrowing
- money market cash pressures are likely to intensify and the authorities will resort to repurchase arrangements. The stock of assistance may be around £15bn by the end of banking March and possibly higher still in the earlier part of that month
- National Savings inflows are likely to be modest over the next 3 months but the £3bn target should be achieved, (just)
- building society inflows were hit badly in banking December by the BT sale but have since recovered strongly; the PSL2-£M3 gap expanded through 1984
- M0 is expected to stay in the middle of its range, but £M3 may be above target throughout, with target period growth to March reaching 11%
- non-monetary indicators suggest that output and employment may be picking up. As a result of dollar strength and oil price uncertainties, sterling has fallen, particularly against the dollar.

SECRET (AND PERSONAL UNTIL 2:30 PM THURSDAY 17 JANUARY 1985)

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Monetary Aggregates

In banking December both the targetted monetary aggregates performed as expected. £M3 fell by $\frac{1}{2}$ per cent to stand just above its target range and M0 rose $1\frac{1}{2}$ per cent, staying a $\frac{1}{2}$ per cent within target. M2 and PSL2 were more or less flat. As in banking November, all of the aggregates were distorted by the BT issue.

TABLE 1 MAIN AGGREGATES : RECENT EXPERIENCE

	per cent, s.a			
	M0	M2*	£M3	PSL2
	---	---	---	---
<u>Monthly change</u>				
November	0.6	0.9	2.7	2.2
December	1.5	1.2	-0.5	0.1
<u>Growth to mid-December at an annual rate</u>				
over past :-				
3 months	12.3	*	10.3	14.4
6 months	8.3	*	7.2	12.1
12 months	6.6	11.8	9.2	14.5
Target Period	7.5	*	10.1	15.2

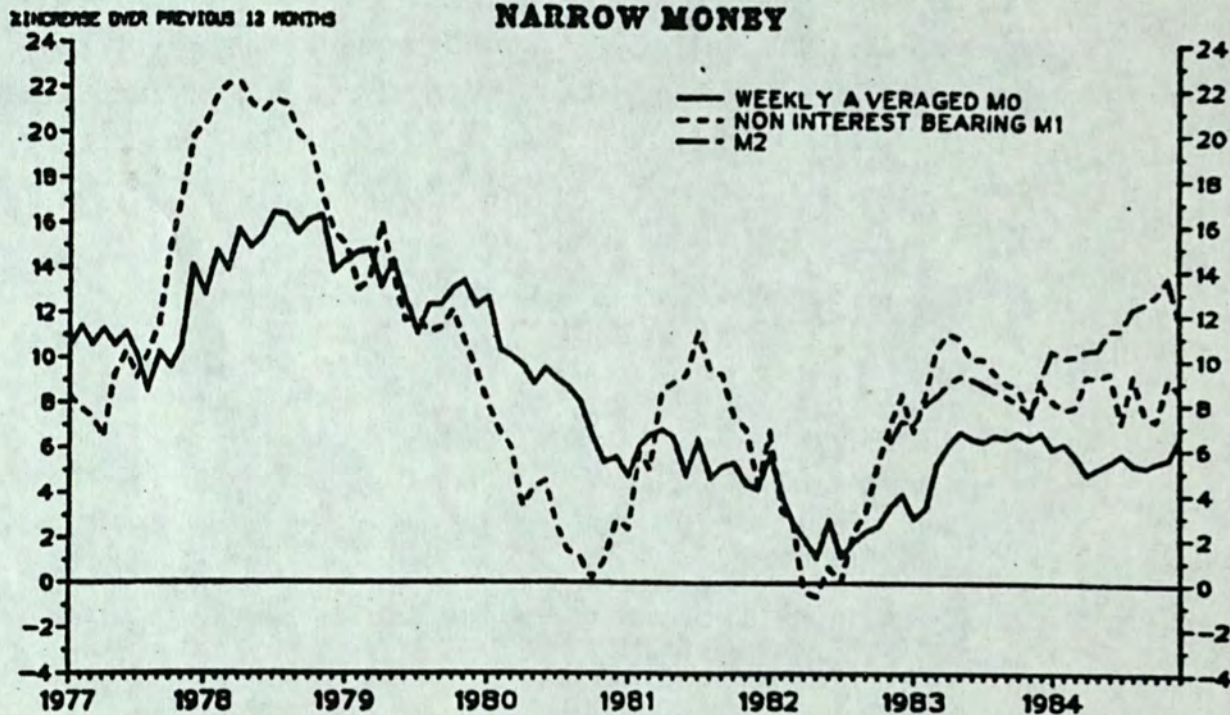
* not seasonally adjusted

Annex table 1 summarises the past behaviour of all the key aggregates, and of real M0 and real £M3. Other measures of money are shown in table 4.

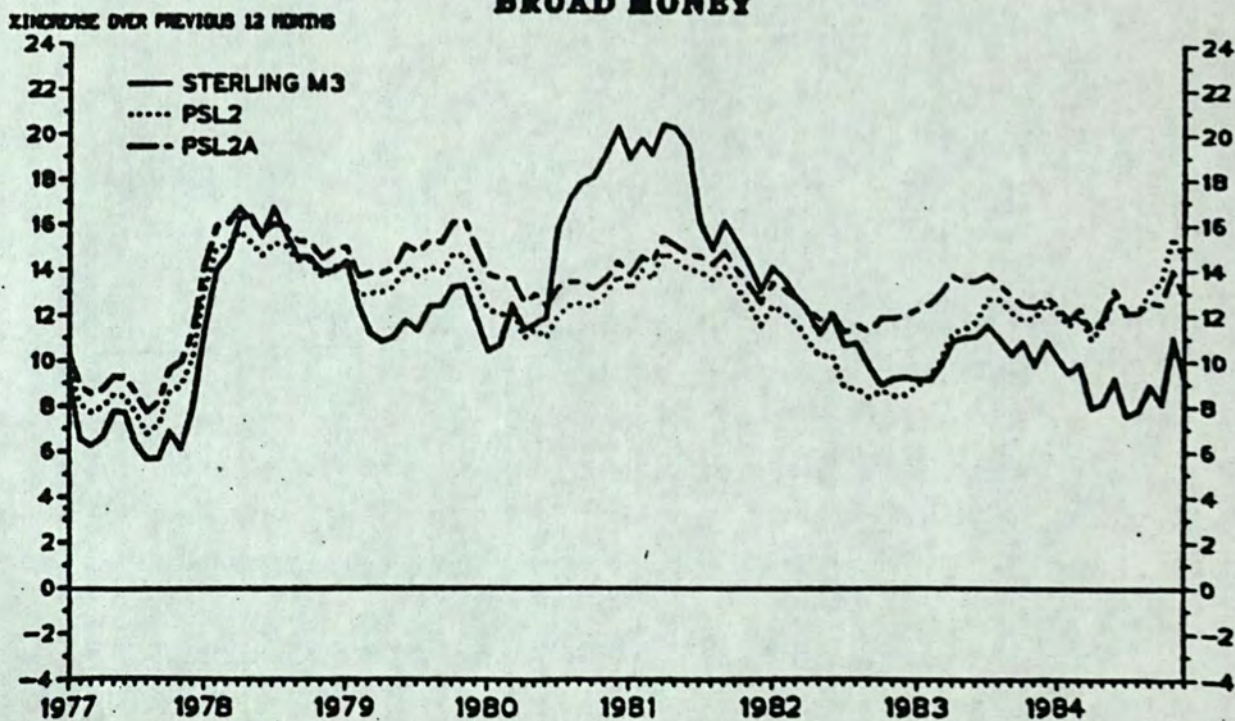
2. The unusually high growth in weekly averaged M0 was due largely to a sharp build-up of bankers' deposits at the Bank of England on BT impact day. End-month M0 rose only 0.4 per cent. Abstracting from this temporary effect the trend in growth of M0 is broadly unchanged. The three and six month growth rates are above the 12 month rate, which has been remarkably steady at around $5\frac{1}{2}$ per cent since last spring. Growth in the target period to date remains in the middle of the 4%-8% range. The growth of notes and coin in December was around half that for the last six months, causing the six and twelve month growth rates to fall below 5 per cent.

SECRET (AND PERSONAL UNTIL 2.30 PM THURSDAY 17 JANUARY 1985)

CHART I: ANNUAL GROWTH RATES OF MONETARY AGGREGATES
NARROW MONEY



BROAD MONEY



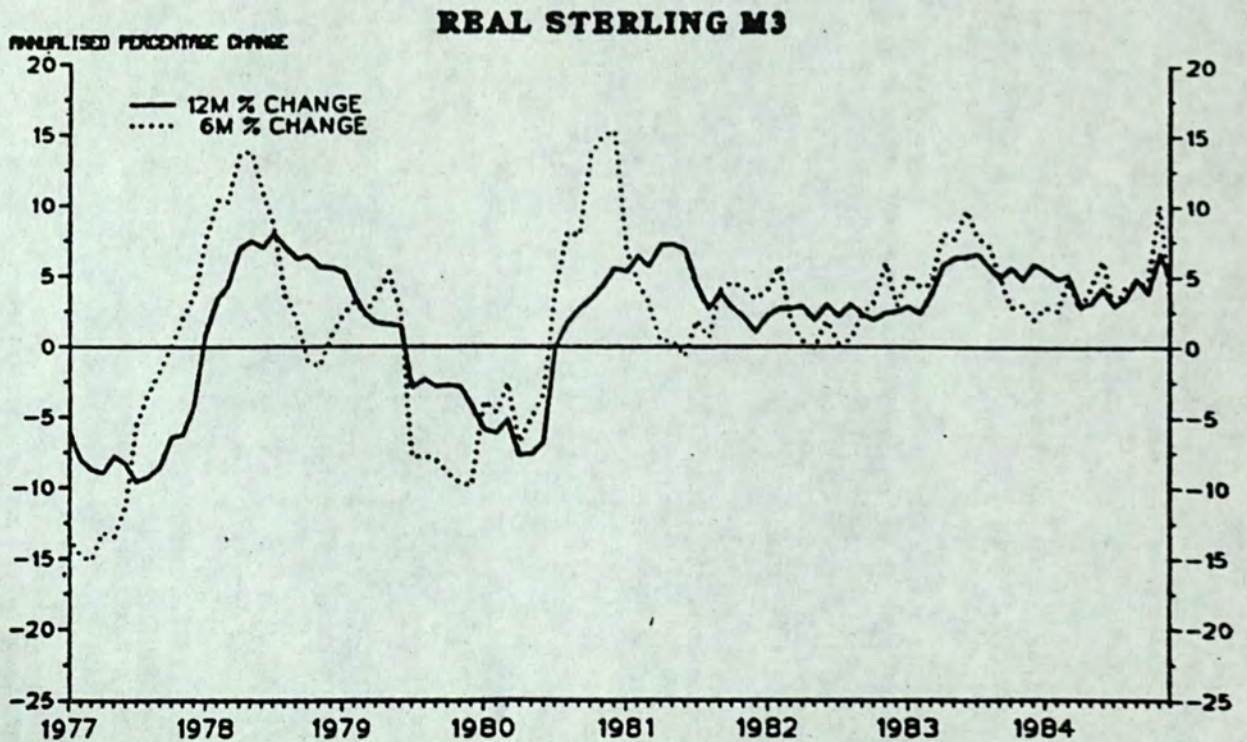
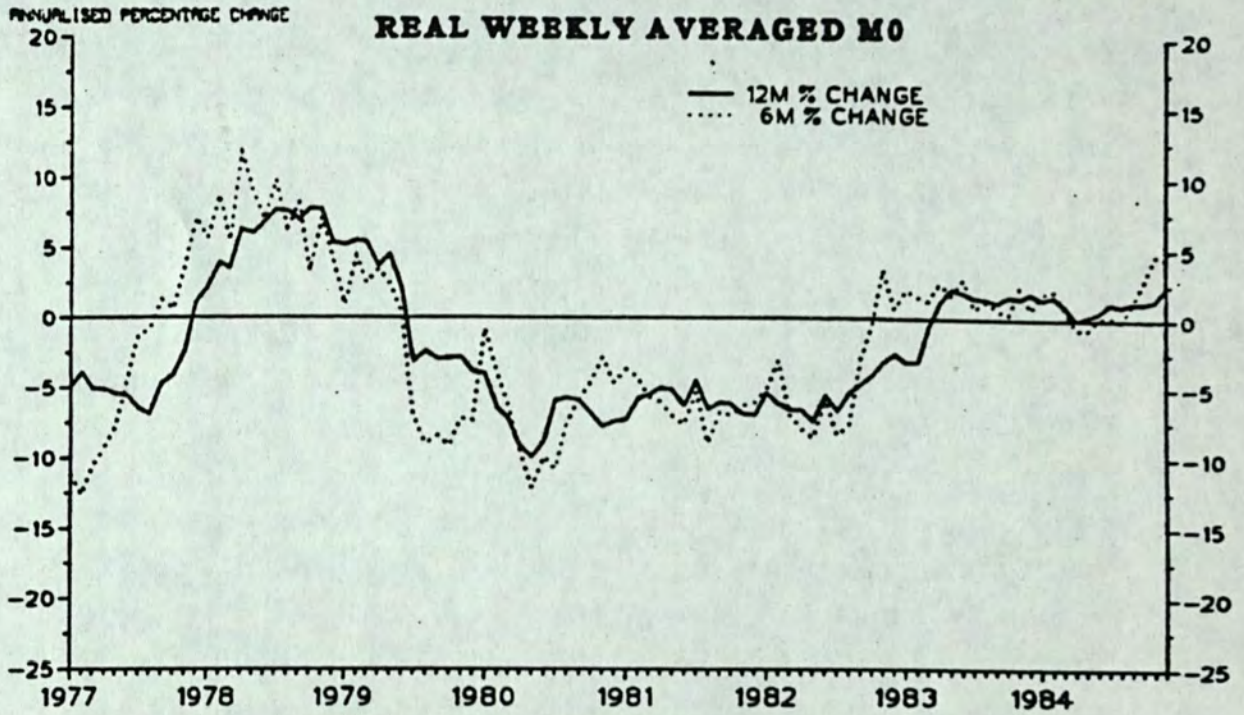
However weekly figures for banking January have subsequently shown some acceleration. This suggests that the seasonal trend in notes and coin has been unusual this year. This would fit in with anecdotal evidence that Christmas shopping began late.

3. The $\frac{1}{2}$ per cent decline in £M3 left it fractionally above target at the end of banking December, with the 12 month growth rate back under 10 per cent. As last month, the BT sale dominated the statistics and the view expressed then that the November figures were distorted was vindicated. Sight deposits, both interest-bearing and non-interest-bearing, recorded large increases in the first part of the banking month, which were largely, but not entirely, unwound in the latter part. M1 still rose by almost 1 per cent. Time deposits and CDs fell by just under £1 billion. Despite the decline in £M3, it is still not yet clear whether there is more of the BT effect still to unwind. We felt last month that with around £1 billion of over-subscription money still in suspense account at the end of the banking month it would not be until banking January that the full effect would be unwound. This still remains the most sensible judgement and the continued build-up, in particular, of non-interest-bearing sight deposits - £950 million in the last two months - reinforces this view.

4. As in November, it is not easy to reconcile the counterparts with the view that BT had distorted the statistics. There was a surplus of £1 billion on the PSBR, modest funding but continued high bank lending. Arithmetically the swing in the growth of £M3 (between November and December) can be accounted for by the swing in the PSBR. Nonetheless, even allowing for the BT receipts, it is not obvious why this swing should be associated with the unwinding of BT liquidity. Even so, taking the two months together, the PSBR outturns are consistent with the view that public borrowing is running ahead of the Autumn Statement forecast.

5. The continued strength of bank lending is puzzling. There were a number of special factors boosting bank lending in the autumn, noticeably roundtripping in September, the surge in imports perhaps in anticipation of accelerated VAT on imports and British

CHART II : GROWTH RATES OF REAL MONETARY AGGREGATES



REAL GROWTH RATES ARE CALCULATED BY DEFLATING BY THE GROWTH OF THE RPI
EXCLUDING THE MORTGAGE ELEMENT

Telecom. Nevertheless in the last four months recorded lending has been running at a rate of £1½ billion a month compared with £1 billion a month in the previous four months. The limited information we have on the sectoral split suggests that in banking December corporate borrowing slowed but personal borrowing was strong. However not too much should be read into these statistics.

6. Inflows into building societies slowed sharply in banking December, due almost certainly to the BT issue. Consequently with £M3 declining, PSL2 was essentially flat. The loss of deposits by building societies to the BT issue in banking December was probably around £½ billion, but some of that should come back in banking January. Indeed, the calendar December figures show buoyant inflows for building societies. The strength of building society inflows and maturing term shares helps explain the widening gap between the growth rates of PSL2 and £M3. Since the beginning of 1984 this gap, as measured by twelve month growth rates, has widened from 2 per cent to 5 per cent.

Other indicators of monetary conditions

7. Since there is reason to believe that the monetary aggregates were again distorted by the BT sale, the evidence of other indicators is particularly important.

8. Money market interest rates remained steady throughout banking December, with the 3 month interbank rate at around 9¾ per cent. Towards the end of calendar December sterling weakness, caused by oil price worries, together with a growing unease about domestic monetary growth, put upward pressure on market rates. In early January, 3-month interbank reached 10⁷/₁₆ before coming back to under 10 per cent on publication of the provisional December money figures. Sterling remains at close to its lowest levels, and any further fall would renew pressure on interest rates. The fall in sterling cannot be solely attributed to the dollar's strength as it has also fallen against other currencies, presumably reflecting worries about oil prices.

9. Real short term interest rates are about one percentage point higher than they were a year ago, while longer real rates are only up by about $\frac{1}{4}$ per cent. The widening gap between the real yields on short and long IGs implies a more pronounced downward sloping IG real yield curve.

10. There has been little change in the growth of prices and earnings, but there is some evidence from labour market indicators of increased buoyancy in the economy. Retail price inflation is expected to be lower in December, largely as a result of lower mortgage rates. House price inflation fell to 5.2 per cent in November (based on mortgage approvals) and has dropped to 6.3 per cent based on mortgage completions. Producers cost inflation continues to show considerable stability, with producers input prices still rising at around 9 per cent, a figure which reflects the recent depreciation of sterling. Commodity prices measured in SDR's has been broadly flat since July. Evidence on labour costs is somewhat contradictory: average earnings are rising more slowly than at the beginning of the year but the rate of change in unit wage costs has risen $2\frac{1}{2}$ per centage points since June (although this series is subject to considerable revision).

11. Other non-monetary indicators show some buoyancy, with manufacturing output, employment and average hours all rising recently. Total employment continues to grow, and the latest Gallup/CBI Survey suggests that this is likely to continue throughout 1985. This impression is strengthened by the recent increase in the stock of vacancies to around 170 thousand.

Three month forecast

12. The forecast was prepared assuming that interest rate differentials remained at the levels obtained prior to today's 1 per cent increase in base rates. It is assumed that the effect of the BT sale on the aggregates will have fully unwound by the end of banking January. The sharp rise in bankers' balances on account of BT unwound quickly so MO is expected to fall in banking January. Nevertheless, the weekly figures so far indicate underlying growth of around $\frac{1}{2}$ per cent in line with that earlier

in the target period. Growth in M0 in the target period to banking March is forecast at 6.2 per cent, almost exactly in line with the Winter overview forecast of 6.1 per cent.

13. £M3 growth in banking January is forecast at 0.7 per cent, bringing target period growth exactly to the top of its range. There were substantial opportunities for round-tripping in the month which may inflate sterling lending. The factors containing £M3 growth in January - notably the unwinding of the BT distortion and receipts from accelerated VAT on imports - have a one-off effect, and in February and March the full impact of higher public borrowing needs and buoyant sterling lending become apparent. The end year rush in public spending is expected to inflate the CGBR in the last two weeks of banking March.

14. Though the "PSBR" will be fully funded over the forecast period if the gross sales targets are achieved, this is not likely to be sufficient to dampen monetary growth, particularly in March when a large redemption exacerbates the problem. Thus target period growth in £M3 up to the end of banking March is forecast at 11 per cent, indicating a significant acceleration in £M3 since mid-October, when the last relatively distortion-free figures were available.

TABLE 2 MAIN AGGREGATES : SUMMARY OF FORECAST

	per cent. s.a			
	M0	M2*	£M3	PSL2
	---	---	---	---
Monthly change				
January	-0.3	-0.4	0.7	1.0
February	0.4	0.4	1.1	1.3
March	0.4	1.0	1.6	1.4
growth to mid-December at an annual rate				
Over Past :-				
3 months	12.3	*	10.3	14.5
6 months	8.3	*	7.2	12.1
12 months	6.6	11.8	9.2	14.5
Target Period	7.5	*	10.1	15.2
growth to mid-March at an annual rate				
Over Past :-				
3 months	2.0	*	14.2	15.9
6 months	7.0	*	12.4	15.2
12 months	6.2	10.3	10.6	14.8
Target Period	6.2	*	11.0	15.4

* not seasonally adjusted

Public Sector Borrowing

15. The £1 billion PSBR surplus in December was virtually on forecast. Within this total the CGBR was also close to forecast, but the other public sector contribution contained two large offsetting errors. Particularly surprising was the large LABR; following the deficit in November - a traditionally a surplus month - (confirmed by the calendar month figures) a surplus had been expected. It is now assumed that this will come in January.

16. Despite the deterioration for the year as a whole, the outlook for the PSBR for January and February has improved because of lower than expected expenditure already in banking January and higher than expected receipts from the North Sea oil licence sales. The 'PSBR' only totals £900 million in the two months, but the underlying rate (after VAT acceleration) is around £1 billion. In March a large deficit is forecast. This is partly the result of an end-year surge in the PSBR but also reflects the need to reconcile the banking month and daily forecast figures with the latest financial year forecast. The latter has higher figures than is implied by the daily forecast, and the difference, by assumption, has mainly fallen in March.

Table 3: Public Sector Borrowing

£ billions	Financial year* to mid-December	mid-December to mid-February
CGBR	6.3	3.1
on account	4.4	2.0
on lending	2.1	1.1
'PSBR' ^x	7.1	2.1
<hr/>		
of which:		
Asset Sales	1.7	0.1
Vat on imports	-	1.2
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* banking April is divided by two to obtain a (very rough) estimate from end March.

^x PSBR less non-bank private sector transactions in other public sector debt. (This is consistent with a PSBR of £10.1 billion.)

17. It is now assumed that the miners' strike finishes at the end of calendar March. The impact of this change in assumption (from end December) falls on the PCBR, and partly, through higher on-lending to the CGBR; the extra cost is around £½ billion. It is now accepted that there will be no sale of British Airways this financial year and the forecast assumes no further asset sale takes its place.

Debt Sales

(a) Gilts

18. Gross gilt sales fell short of the £0.5 billion target in the three weeks of banking December. Total sales were some £320 million: the second call on 9½% Exchequer 1998 A brought in some £338 million, but buying-in exceeded other sales. Nearly £200 million of next maturities, mainly 15% Treasury 1985, which is due for redemption in banking March, was bought in. The table excludes £283 million of repos by Issue Department on 5 December (for resale on 31 December). There were no new issues during the month, which was dominated by the BT offer.

TABLE 4 : GILT SALES *

	monthly averages .£m		
	Actual Banking Dec	mid-Dec 1983 -mid-Dec 1984	Forecast mid-Dec 1984 -mid-Mar 1985
Gross Sales	322	1151	1000
Redemptions	0	-292	-156
Next Maturities	-193	-94	-143
Net Sales	129	764	701
of which : -			
Monetary Sector	-338	27	0
Public Corporations	0	-1	0
Overseas	79	62	-67
Non-bank private sector	386	676	768

* excluding Repos

19. Table 4 compares the December outturn with performance over the target period so far and summarises the forecast for gilt sales in the forecast period. It assumes gross sales in each of January, February (both five week banking months) and March of £1 billion. Until the publication of the December provisionals the authorities had been net buyers, but the market reacted positively to the announcement and the tap was exhausted. The third call will bring in over £330 million in banking January, but there is still a good deal of leeway to make up in the last few days if the target is to be achieved.

(b) CTDs

19. Shell have again been significant net purchasers. We expect CTDs, after seasonal adjustment, to make a significant positive contribution of over £100 million to funding in banking January, but forecast that this will be largely reversed in banking February. March may well see a substantial outflow, in excess of £100 million, owing to heavy surrenders to meet PRT payments of around £2 billion due on 1 March.

(c) National Savings

20. National Savings contributed only £81 million (unadjusted) to funding in banking December (£87 million adjusted), slightly below forecast, as a result of timing factors. Accrued interest and the Income Bond were the major contributors to the net inflow, whilst the outflow from index-linked continued at £40 million in the month.

21. Over the forecast period we expect further outflows from index-linked certificates, an improved performance from the 29th Issue and a continuing contribution from the Income Bond and accrued interest. Invac shows no sign of recovery, despite its recent gain in competitiveness relative to building society rates. The forecast unadjusted inflow is £270 million for January declining slightly in February and March. This is reduced by large negative seasonals in each month.

22. It is possible that these seasonals derive less from the behaviour of savers than from the pattern of policy initiatives in previous years. Our forecast assumes no such initiatives are introduced, so the seasonally adjusted inflows are expected to average only £120 million a month. However, this is still enough to ensure that we meet the £3 billion target for the financial year.

The PSBR and Funding

	Actual	Forecast	
	mid-Feb 84 - mid-Dec 84	mid-Dec 84 - mid-Feb 85	mid-Feb 84 - mid-Feb 85
'PSBR'	8.3	2.5	10.8
Debt sales to nbps of which			
Gilts	-6.3	-1.9	-8.2
National Savings	-3.0	-0.4	-3.4
CTD's	-0.7	0.1	-0.6
Over (-)/Underfunding (+)	-1.8	0.3	-1.5
Unadjusted	(2.0)	(-3.7)	(-1.8)
External finance of the public sector	-0.5	-0.2	-0.7
Over (-)/Underfunding (+) alternative definition	-2.3	0.1	-2.2
Unadjusted	(1.5)	(-3.9)	(-2.5)

23. Table 5 summarises the net funding position over the target period so far and that implied by the forecast to mid-March. The large PSBR surplus in banking December meant that despite relatively modest gilt sales there was overfunding of £1.4 billion. However taking November and December together, there was only modest (£0.3 billion) overfunding seasonally adjusted.

24. In the target period to date there has been a £1.8 billion overfund on the conventional definition seasonally adjusted and a £2 billion underfund seasonally unadjusted. The forecast shows overfunding of £3.7 billion on an unadjusted basis, but much of this is due to seasonal factors. There is small underfunding on a seasonally adjusted basis.

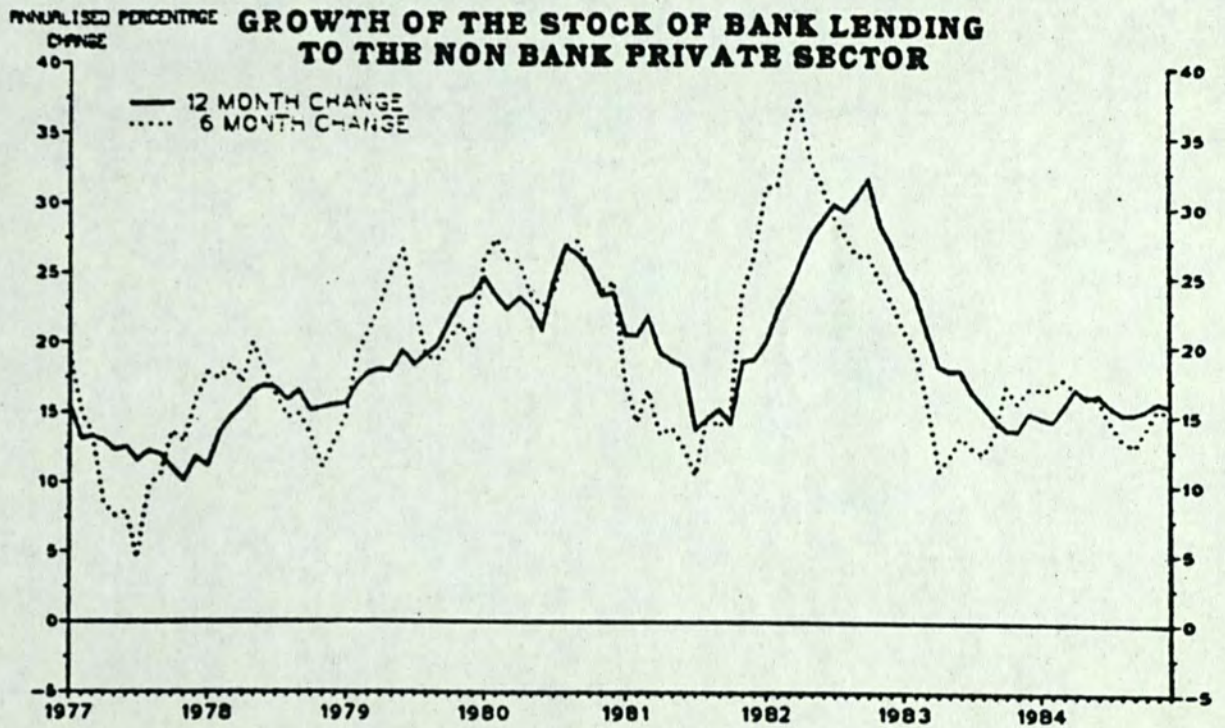
Money market influences

25. There was little change in the stock of money market assistance in banking December, although maturing assistance kept the market short by an average of £600 million a day, net of the BT share sale and the gilt repurchase operation undertaken on December 4. In January and February large seasonal tax payments and accelerated payment of VAT on imports, together with continued funding, will cause a large shortage of around £3 billion. Consequently, the Bank have announced another repurchase operation starting on January 15 and unwinding on February 14, of about £2 billion. By the end of banking March the stock of market assistance is forecast to reach £15.1 billion - a new record (see annex table 12).

Sterling Lending to the Private Sector

26. Bank lending once again grew faster than expected last month, rising by just under £1½ billion. Over the last four months lending has averaged around £1¼ billion a month, equivalent to an annual rate of increase of 20 per cent. Over the four month period there have been a number of upward distortions, such as round-tripping in September, the BT sale in November and the need to finance unusually high imports. This makes it difficult to discern the underlying trend. Table 6 shows various moving averages of lending in both £ million and percent terms. Underlying lending - that is the recorded figure adjusted to allow for the tendency of lending to be unusually high when the PSBR is above trend - seems to be running at between £1¼ and £1½ billion (or between 15 per cent and 18 per cent at an annual rate). Recorded lending has accelerated more sharply with the 3-month moving average at £1¼ billion in December, although the 6 and

CHART III : BANK LENDING AND FT INDEX



REAL FT ALL SHARE INDEX



TABLE 6

£ LENDING TO THE PRIVATE SECTOR

	UNDERLYING				RECORDED		
	MOVING AVERAGES OF LEVELS, £m, sa				MOVING AVERAGES OF LEVELS, £m, sa		
	3 MONTH	6 MONTH	12 MONTH		3 MONTH	6 MONTH	12 MONTH
1984M2	1056	1096	701	1984M2	1283	1278	805
1984M3	1093	1215	827	1984M3	1282	1348	943
1984M4	1621	1306	991	1984M4	1445	1320	1062
1984M5	1390	1223	1049	1984M5	1322	1302	1136
1984M6	1559	1326	1217	1984M6	1297	1290	1267
1984M7	882	1251	1140	1984M7	936	1190	1231
1984M8	1094	1242	1169	1984M8	884	1103	1190
1984M9	1029	1294	1254	1984M9	850	1074	1211
1984M10	1638	1260	1283	1984M10	1452	1194	1257
1984M11	1735	1414	1318	1984M11	1776	1330	1316
1984M12	1570	1299	1312	1984M12	1781	1315	1302

1985M1	1401	1519	1385	1985M1	1546	1499	1345
1985M2	1276	1506	1374	1985M2	1531	1653	1378
1985M3	1250	1410	1352	1985M3	1456	1618	1346

	MOVING AVERAGE OF PERCENTAGE CHANGES (%)				MOVING AVERAGE OF PERCENTAGE CHANGES (%)		
	3 MONTH	6 MONTH	12 MONTH		3 MONTH	6 MONTH	12 MONTH
1984M2	13.5	14.2	9.2	1984M2	16.5	16.7	10.6
1984M3	13.7	15.6	10.8	1984M3	16.1	17.4	12.3
1984M4	20.4	16.6	12.8	1984M4	18.0	16.8	13.8
1984M5	17.3	15.4	13.5	1984M5	16.3	16.4	14.7
1984M6	19.3	16.5	15.6	1984M6	15.7	15.9	16.3
1984M7	10.8	15.6	14.6	1984M7	11.1	14.6	15.7
1984M8	13.3	15.3	14.8	1984M8	10.4	13.4	15.0
1984M9	12.2	15.8	15.7	1984M9	9.8	12.8	15.1
1984M10	19.3	15.0	15.8	1984M10	17.1	14.1	15.4
1984M11	20.2	16.8	16.1	1984M11	20.7	15.6	16.0
1984M12	17.9	15.0	15.8	1984M12	20.5	15.2	15.5

1985M1	15.6	17.4	16.5	1985M1	17.3	17.2	15.9
1985M2	13.9	17.1	16.2	1985M2	16.9	18.8	16.1
1985M3	13.4	15.6	15.7	1985M3	15.8	18.2	15.5

12 month rates are nearer £1½ billion (or between 16 per cent and 17 per cent).

27. We have assumed that the underlying level during the forecast period will be more in line with its longer run trend at around £1½ billion a month. Recorded lending over the next 6 months is, however, likely to be affected by a number of special factors. There may be about £½ billion extra lending from the BT sale to be unwound in January. But this is more than offset by the need to finance accelerated VAT on imports, about two-thirds of which we expect to come from higher bank borrowing. Companies are also likely to increase their expenditure on investment as the date for the next reduction in capital allowance approaches.

28. The January recorded series may be further distorted by round-tripping, the conditions for which appear to have been favourable almost continuously from the 20 December to the 7 January (ie. 10 working days). The Bank take the view that market nervousness about base rate increases and the thin market over this period, may have dissuaded company treasurers from indulging in round-tripping, but it is possible that treasurers may not have been so timid. As usual it is almost impossible to quantify the effect at all precisely, but round-tripping may add around £150 million to lending in January. After allowing for these assumed distortions, recorded lending is forecast to average £1.4 billion over the next 3 months. This implies a 15½ per cent increase between 1983-84 and 1984-85.

29. New issues were as usual fairly rare in calendar December, with redemptions slightly above gross issues. But overall 1984 has been a particularly good year for raising money on the stock market, considering the unprecedented scale of the privatisations programme. The gross issues queue for equities is up by over £½ billion: almost half this increase relates to one financial institution.

Table 7: Net issues by Listed UK Companies

	Net Issues [♢]	(Calendar month averages, £M) Gross Issues Queue* (Equities)
1983	234	
1984	143	
1984 Q1	51	850
Q2	199	1510
Q3	218	1030
Q4	106	1215
October	222	919
November	125	1177
December	- 28	1550**

* Excluding privatisations (currently £1 billion, entirely accounted for by British Airways)

**As of Monday, 7 January

♢ Includes convertible loan stock.

30. The buoyancy of the new issues market makes it all the more difficult to explain why company borrowing appears to have been so high in the first three quarters of 1984. It is even more puzzling that in the last four banking months, bank lending in foreign currency (which is almost entirely to companies) have increased by over £½ billion a month compared to £200 million on average over the previous eight months.

Building Societies' Inflows

31. Retail inflows in banking December were about £80 million lower than forecast last month. The December figure was, of course, expected to be low as money that would have otherwise been deposited with building societies was submitted for BT shares. In the event it seems that about £½ billion was diverted from building societies to the BT offer; rather more than the £400 million assumed last month.

32. On the assumption of no change in interest rates, the broad picture for retail inflows over the forecast period is very similar to last month. It is expected that the underlying trend in retail

inflows will be just over £1.1 billion per month (including interest credited, s.a.). However, the actual profile is a little different, for the following reasons:-

(i) In banking January retail inflows are inflated by about £½ billion. This reflects unsuccessful money put up for BT shares returned to building societies (£190m) and realised profits from the sale of BT shares (£50m) deposited with building societies. Last month we assumed these two factors would inflate retail inflows by only £150 million in banking January, but since it now seems that the BT flotation reduced inflows in December by rather more than expected in last month's forecast, we assume that rather more is returned in banking January.

(ii) In banking February inflows are a little higher than trend; in March a little lower. Since banking February is longer, and March shorter, than usual this year, the seasonals tend to distort the profile.

33. Wholesale borrowing increased by over £200 million in banking December, with a large proportion coming from the banking sector, mainly due to depressed retail inflows. Wholesale borrowing may remain fairly buoyant over the forecast period as the tax gathering season comes around.

34. Net mortgage lending has remain fairly constant recently, though the latest figures for new commitments suggest mortgage lending may pick up in the latter half of the forecast period. This, coupled with the low level of retail inflows in December (only partly offset by higher wholesale borrowing), meant that liquid assets were built up by only £50 million in banking December. As a result the liquidity ratio probably declined to just over 17 per cent (s.a.) in banking December. The latest calendar month figures show the liquidity ratio falling from 17.5 per cent at end-October to 17.2 per cent at end-November.

35. With a revival of retail inflows and little change in mortgage lending, we expect a substantial build-up in liquid assets in

banking January which should push the liquidity ratio up. However, with composite tax payments assumed to be paid in banking February (this is consistent with the PSBR forecast), liquid assets are run down in that month before rising slightly in March. This picture is consistent with a slight decline in the seasonally adjusted liquidity ratio between the end of banking December and banking March.

Building Societies' contribution to PSL2 and M2

36. Table 8 below shows the societies' contribution to PSL2 and M2. The average monthly contribution to PSL2 over the forecast period is higher than between February and December. This reflects the fact that retail inflows are forecast to be higher than experienced so far this year (in part due to the buoyant January figure) and term shares (which are outside PSL2) are expected to be run down more quickly. The forecast contribution to M2 reflects the assumption that 70 per cent of retail inflows (the historical average) will be inside M2.

Table 8: Building Society Inflows

	monthly rate, £m, seasonally adjusted	
	mid-Feb to mid-December	Forecast: mid-November to mid-March
1. Total retail inflows (incl. interest credited)	1014	1210
2. of which: terms shares	- 62	- 150
3. Net issues of CDs and time deposits to NBPS	+ 55	+ 75
4. BS acquisitions of liquid assets (excl. gilts)	+ 14	+ 120
5. Building Societies' contribution to PSL2 (1-2+3-4)	+1117	+1315
6. Building Societies' contribution to M2	+ 742	+ 765

Total retail inflows

37. Table 9 below draws together the forecasts for retail inflows to building societies, National Savings and the banking sector. Over recent months we have been assessing our forecast for inflows to the three sectors against the background of the likely scale of the flow of retail funds in total. In banking December the total flows of retail funds was £830 million, £150 million above last month's forecast. Within the total, retail bank deposits were about £¼ billion higher than expected, and building societies' inflows were £80 million lower than forecast. We have assumed that the higher than expected inflow of retail bank deposits means that most of the rundown in bank deposits, as the BT effect unwinds will occur in banking January rather than, as assumed last month, being spread more evenly over banking December and January.

38. As a result, bank's retail inflows are forecast at £700 million below trend in banking January. (This feature is reflected in the forecast for bank lending.) Thereafter bank report inflows return to their trend levels. The resulting total inflow of retail funds is put at just over £1½ billion per month, in line with experience so far this year.

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TABLE 9

A BREAKDOWN OF RETAIL FUNDS

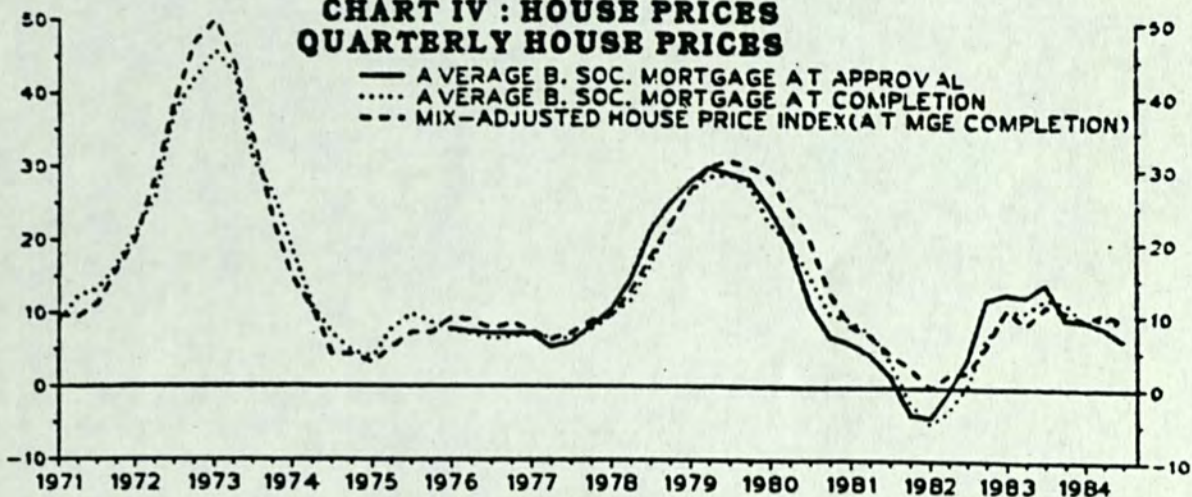
Seasonally adjusted
£ million

	<u>OUTTURN</u>		<u>FORECAST</u>			
	Average Monthly Increase since mid-June	Monthly Increase since mid-Feb	DECEMBER	JANUARY*	FEBRUARY*	MARCH*
Retail Bank Deposits						
Nib Sight	162	212	291)		
ib Chequable	79	156	59)	-400	300
ib Other	15	-23	-214)		300
Total Retail Bank	256	345	136	-400 (300)	300 (300)	300 (300)
Building Societies Shares and Deposits ^x	983	1014	609	1355 (1115)	1190 (1120)	1055 (1125)
National Savings	342	304	87	140 (205)	125 (200)	90 (195)
TOTAL	1581	1663	832	1095 (1620)	1615 (1620)	1445 (1620)

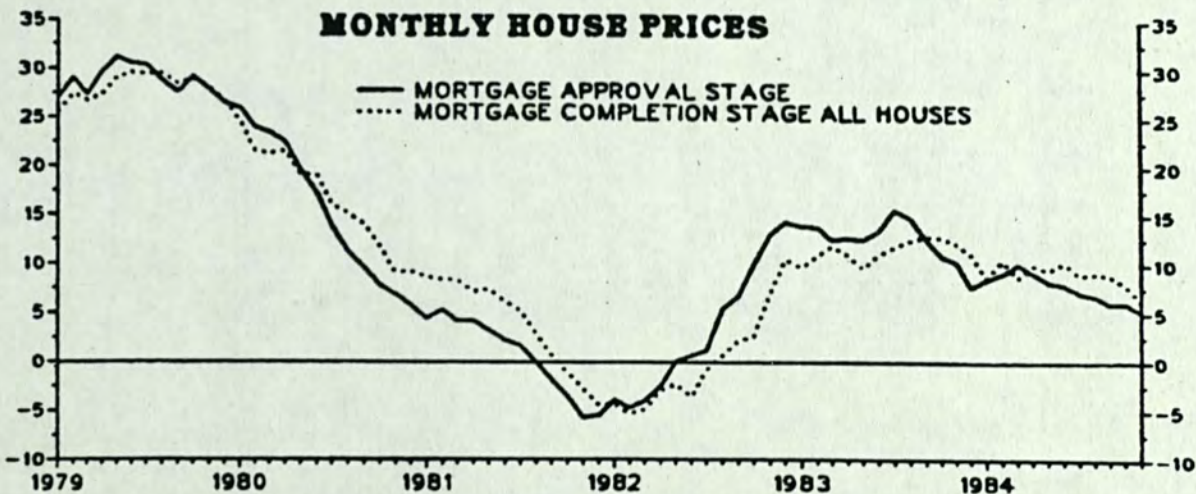
*Figures in brackets show underlying figures, ie adjusted for BT effects, and inappropriate seasonal factors.

^xIncluding Term Shares and SAYE

**CHART IV : HOUSE PRICES
QUARTERLY HOUSE PRICES**

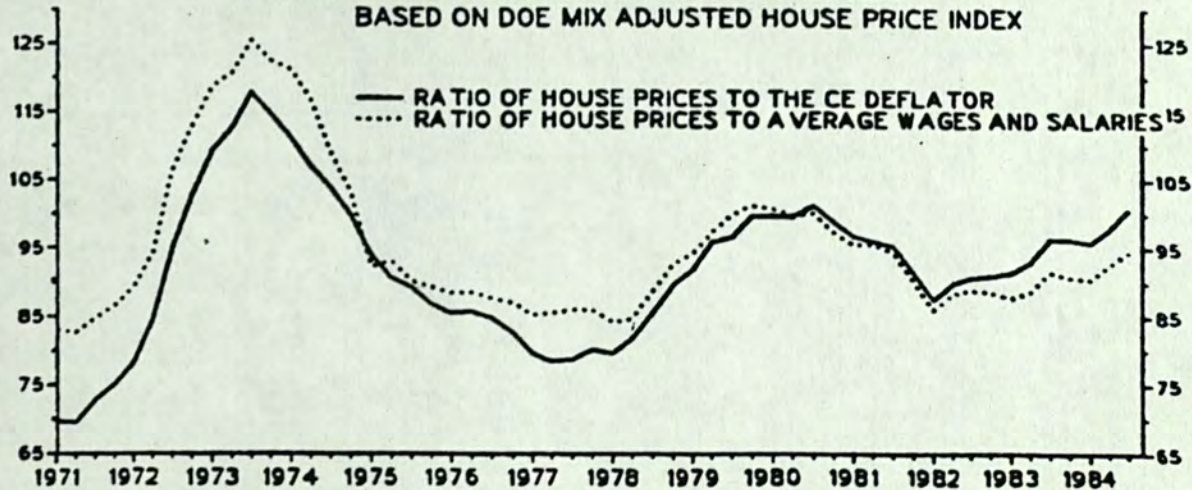


MONTHLY HOUSE PRICES



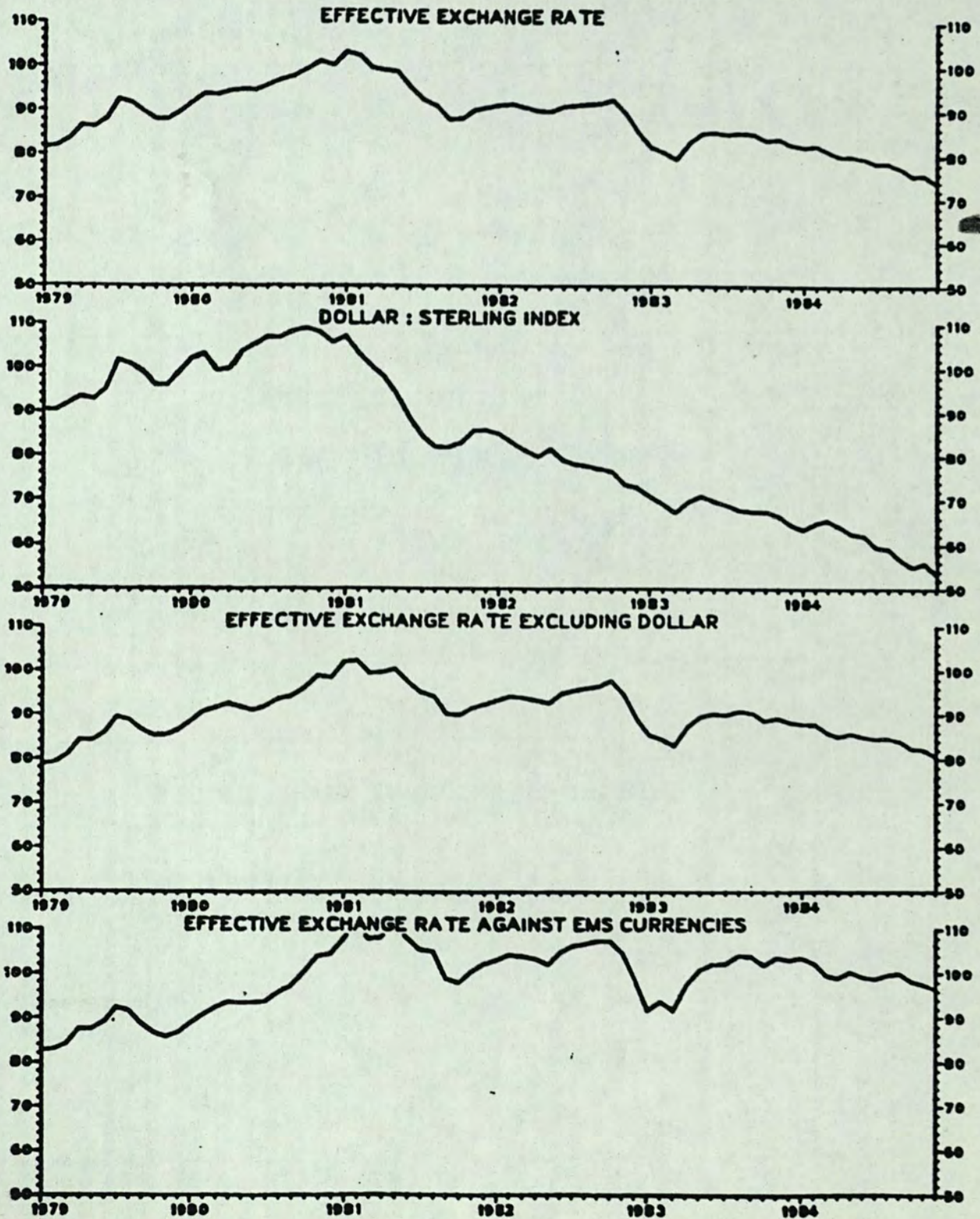
INDICES OF RELATIVE HOUSE PRICES

BASED ON DOE MIX ADJUSTED HOUSE PRICE INDEX



SECRET (AND PERSONAL UNTIL 2³⁰ PM 17 JANUARY 1985)

CHART V: EXCHANGE RATE INDICES (1975=100)



Monthly Monetary Report: Tables

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3. Counterparts to change in £M3: forecast summary
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 - (a) target aggregates
 - (b) other narrow aggregates
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5. (a) Components of £M3 : historical
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7. Retail deposits: historical

Other indicators of monetary conditions

8. Nominal and real interest rates
9. Prices and earnings

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11. Gilts: forecast summary
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TABLE 1: PERCENTAGE GROWTH RATES IN SELECTED MONETARY AGGREGATES

	Weekly averaged MO	M2	£M3	PSL2	Real* MO	Real* £M3	RPI less Mortgage Element	
(a) Financial Years (12 month changes to banking April)(%)								
	1980-81	6.8		20.4	14.8	-5.0	7.1	12.4
	1981-82	2.0		12.2	10.9	-6.6	2.8	9.1
	1982-83	6.1	8.9	10.9	11.4	1.2	5.7	4.9
	1983-84	4.9	10.4	7.9	11.0	0.0	2.9	4.9
(b) Changes in 12 months to (%)								
1984	January	6.0	10.4	10.2	12.2	1.4	5.4	4.5
	February	6.3	10.1	9.5	11.6	1.7	4.8	4.5
	March	5.7	10.1	9.9	12.0	1.0	5.0	4.6
	April	4.9	10.4	7.9	11.0	0.0	2.9	4.9
	May	5.2	10.4	8.1	11.6	0.3	3.1	4.9
	June	5.4	11.3	9.2	13.0	0.5	4.1	4.9
	July	5.8	11.3	7.6	12.0	1.2	2.9	4.5
	August	5.4	12.3	7.8	12.1	1.0	3.4	4.3
	September	5.2	12.5	8.8	13.0	1.3	4.8	3.9
	October	5.4	12.9	8.2	13.5	1.2	3.8	4.2
	November	5.6	13.6	11.0	15.5	1.4	6.6	4.1
	December	6.6	11.9	9.2	14.5	2.4	4.9	4.1
(c) Changes (at an annual rate) in 6 months to (%)								
1984	January	6.6	10.4	7.6	9.5	1.9	2.8	4.6
	February	6.3	11.4	6.7	9.0	2.1	2.5	4.1
	March	5.1	13.5	8.8	11.6	1.0	4.7	4.1
	April	4.1	14.9	7.6	12.2	-0.6	2.7	4.8
	May	4.0	15.7	9.2	14.0	-0.7	4.2	4.8
	June	4.9	15.6	11.2	17.0	0.2	6.1	4.7
	July	5.0	12.1	7.6	14.6	0.3	2.7	4.7
	August	4.4	13.0	8.9	15.3	0.0	4.3	4.5
	September	5.3	11.3	8.8	14.5	1.2	4.5	4.1
	October	6.8	10.7	8.7	14.8	2.7	4.6	3.9
	November	7.2	11.5	12.8	17.0	4.7	10.1	2.4
	December	8.3	8.2	7.2	12.0	4.5	3.5	3.6
(d) Changes (at an annual rate) in 3 months to (%)								
1984	July	6.8	10.7	7.6	15.2			
	August	4.6	10.7	7.1	13.8			
	September	4.4	7.1	4.2	9.8			
	October	6.7	10.8	9.8	14.3			
	November	9.9	12.3	18.8	20.3			
	December	12.3	9.3	10.3	14.2			
(e) Changes in month to (%) (£m figures in brackets)								
1984	October	0.8(105)	1.0(1256)	0.3(324)	1.1(1982)			
	November	0.6(83)	1.4(1801)	2.7(2871)	2.2(4131)			
	December	1.5(210)	-0.1(-109)	-0.5(-588)	0.0(76)			

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* Real rates of growth of the monetary aggregates are calculated by deflating the nominal money supply using the RPI less mortgage element.

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TABLE 1 : PERCENTAGE CHANGES IN MONETARY AGGREGATES

		per cent, s.a-							
		MO	NIB M1	M1	M2*	EM3	M3	PSL2	PSL2A
		--	--	--	---	---	---	---	---
Banking months									
(1)	In month								
	Dec	1.5	0.9	0.9	1.2	-0.5	0.2	0.1	0.0
	Jan	-0.3			-0.4	0.7		1.0	0.8
	Feb	0.4			0.4	1.1		1.3	1.1
	Mar	0.4			1.0	1.6		1.4	1.2
(2)	latest 3 months (a.r)				*	10.3	14.2	14.4	12.0
	Dec	12.3	16.1	26.1	*	12.1		14.1	11.6
	Jan	7.5			*	5.0		9.9	8.0
	Feb	6.7			*	14.2		15.9	13.4
	Mar	2.0							
(3)	latest 6 months (a.r)				*	7.2	12.7	12.1	10.1
	Dec	8.3	7.8	16.5	*	11.0		14.2	11.9
	Jan	7.1			*	11.7		14.9	12.5
	Feb	8.3			*	12.4		15.2	12.7
	Mar	7.0							
(4)	latest 12 months (a.r)					11.8(10.3)**	9.2	14.5	12.9
	Dec	6.6	8.6	18.2		10.2(10.2)**	9.3	14.4	12.6
	Jan	6.1				10.7(11.0)**	10.3	15.1	13.1
	Feb	6.3				10.3(10.9)**	10.6	14.8	12.7
	Mar	6.2							
(5)	target period (a.r)				*	10.1	11.1	15.2	13.3
	Dec	7.5	10.6	20.7	*	10.0		15.0	13.0
	Jan	6.5			*	10.3		15.1	13.1
	Feb	6.3			*	11.0		15.4	13.3
	Mar	6.2							

* not seasonally adjusted

** excluding reclassifications

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TABLE 3 : EM3 COUNTERPARTS

	DECEMBER		FORECAST			TARGET PERIOD	£ millions
	FORECAST	OUTTURN	JAN	FEB	MARCH	MID-MARCH 84 TO MID-MARCH 85	MID-APRIL 84 TO MID-MARCH 85
1. CGBR							
Own-account (u.a)	515	304	-1720	-625	-50	6920	3645
On-lending (u.a)	400	472	610	-245	710	3392	3133
Total (u.a)	915	776	-1110	-870	660	10312	6778
TOTAL CGBR (s.a)	-1045	-1185	890	590	1625	10781	8605
2. NET PURCHASES OF CG DEBT BY NBPS							
Gilts	-225	-387	-620	-775	-510	-8233	-7064
Treasury bills	-100	56	0	0	0	188	141
National Savings	-85	-87	-140	-125	-90	-3395	-2885
CTDs,etc	35	38	-115	75	145	-609	-357
TOTAL DEBT	-375	-380	-875	-825	-455	-12049	-10165
3. OTHER PUBLIC SECTOR							
Local Authorities	-400	123	-515	-285	-60	-439	-729
Public Corps.	450	33	-70	300	0	472	706
TOTAL OPS	50	156	-585	15	-60	33	-23
4. £ LENDING TO PRIVATE SECTOR	1020	1484	1450	1660	1000	17532	14455
5.NET EXTERNALS	80	122	160	45	0	313	1139
6.NET NON-DEPOSIT LIABILITIES	-330	-734	-330	-330	-330	-4624	-3762
CHANGE IN £M3 £m	-600	-537	710	1155	1780	11985	10248
(%)	(-0.6)	(-0.5)	(0.7)	(1.1)	(1.6)	(11.0)*	(10.5)*
"PSBR"	-995	-1029	305	605	1565	10814	8582
OVER(-)/UNDERFUNDING(+)	-1370	-1409	-570	-220	1110	-1235	-1583

* at an annual rate

1984-85 KEY AGGREGATES

Table ATARGET AGGREGATES

		APR	MAY	JUNE	JULY	AUG	SEP	OCT	NOV	DEC
<u>£M3</u>	(Exc. Public sector deposits)									
	Monthly change (£ millions)	+352	+855	+2,062	-1,030	+734	+1,380	+324	+2,825	-537
	Monthly % change	+0.3	+0.8	+2.0	-1.0	+0.7	+1.3	+0.3	+2.7	-0.5
	Three-monthly % change a.r.	+7.5	+10.8	+13.6	+7.6	+7.1	+4.2	+9.8	+18.6	+10.3
	Six-monthly % change a.r.	+7.6	+9.2	+11.2	+7.6	+8.9	+8.8	+8.7	+12.7	+7.2
	12 Monthly % change	+7.9	+8.1	+9.2	+7.6	+7.8	+8.8	+8.2	+10.9	+9.2
	% Change since Feb-83 a.r.	+9.7								
	% Change since Feb-84 a.r.	+10.9	+10.8	+14.7	+8.9	+8.9	+10.1	+9.2	+12.0	+10.1
<u>MO</u>	Averaged weekly									
	Monthly change (£ millions)	+11	+53	+137	+30	-17	+133	+105	+83	+210
	Monthly % change	+0.1	+0.4	+1.0	+0.2	-0.1	+1.0	+0.8	+0.6	+1.5
	Three-monthly % change a.r.	+3.2	+4.3	+6.2	+6.8	+4.6	+4.4	+6.7	+9.9	+12.3
	Six-monthly % change a.r.	+4.1	+4.0	+4.9	+5.0	+4.4	+5.3	+6.8	+7.2	+8.3
	12-monthly % change	+4.9	+5.2	+5.4	+5.8	+5.4	+5.2	+5.4	+5.6	+6.6
	% Change since Feb-83 a.r.	+5.9								
	% Change since Feb-84 a.r.	+3.9	+4.3	+6.4	+5.7	+4.4	+5.5	+6.1	+6.2	+7.5
<u>CROSS CHECKS</u>										
<u>PSL2</u>	Monthly change (£ millions)	+1,625	+2,164	+3,913	+138	+1,702	+2,404	+1,982	+4,085	+167
	Monthly % change	+1.0	+1.3	+2.2	+0.1	+1.0	+1.3	+1.1	+2.2	+0.1
	Three-monthly % change a.r.	+13.9	+16.8	+19.3	+15.2	+13.8	+9.8	+14.3	+20.1	+14.4
	Six-monthly % change a.r.	+12.2	+14.0	+17.0	+14.6	+15.3	+14.5	+14.8	+16.9	+12.1
	12-monthly % change	+11.0	+11.6	+13.0	+12.0	+12.1	+13.0	+13.5	+15.5	+14.5
	% Change since Feb-83 a.r.	+12.4								
	% Change since Feb-84 a.r.	+17.1	+16.8	+20.1	+16.0	+15.3	+15.6	+15.4	+16.9	+15.2
<u>M2</u>	Monthly change (£ millions)	+2,317	+615	+2,110	+1,431	+378	+488	+1,131	+1,133	+1,598
<u>unadjusted</u>	Monthly % change	+1.9	+0.5	+1.7	+1.1	+0.3	+0.4	+0.9	+0.9	+1.2
	12-monthly % change	+10.5	+10.5	+11.3	+11.4	+12.3	+12.6	+12.9	+13.6	+11.8
	(exc re-classifications)	(+8.0)	(+7.9)	(+8.5)	+8.7	+9.5	+9.8	+10.1	+10.8	+10.3
<u>Levels :</u>	£M3 (Exc. Pub Sec Deps)	101,497	102,330	104,416	103,406	104,121	105,467	105,800	108,658	108,526
	MO (Averaged weekly)	13,242	13,295	13,432	13,462	13,445	13,578	13,683	13,766	13,976
	PSL 2	172,589	174,723	178,653	178,799	180,458	182,828	184,814	188,933	189,502
	M2 (unadjusted)	125,202	125,857	128,017	129,448	129,826	130,314	131,445	132,578	134,278

Table B

OTHER NARROW AGGREGATES

		APR	MAY	JUNE	JULY	AUG	SEP	OCT	NOV	DEC
<u>NIB M1</u>	Monthly change (£ millions)	+581	+140	+281	-401	+668	-267	+221	+720	+305
	Monthly % change	+1.8	+0.4	+0.9	-1.2	+2.1	-0.8	+0.7	+2.2	+0.9
	Three-monthly % change a.r.	+15.0	+16.2	+13.3	+0.2	+6.9	-	+7.9	+8.4	+16.1
	Six-monthly % change a.r.	+10.7	+10.6	+9.4	+7.4	+11.5	+6.4	+4.0	+7.7	+7.8
	12-monthly % change	+9.3	+9.2	+9.4	+7.3	+9.3	+7.6	+7.3	+9.2	+8.6
	% Change since Feb-83 a.r.	+9.7								
	% Change since Feb-84 a.r.	+22.1	+16.2	+14.9	+8.5	+11.5	+8.3	+8.3	+10.5	+10.6
<u>M1</u>	Monthly change (£ millions)	+778	+687	+857	-318	+685	+507	+811	+1,601	+428
	Monthly % change	+1.8	+1.5	+1.9	-0.7	+1.5	+1.1	+1.7	+3.3	+0.9
	Three-monthly % change a.r.	+22.3	+28.0	+22.6	+11.3	+11.1	+7.7	+18.4	+27.1	+26.1
	Six-monthly % change a.r.	+16.3	+18.2	+20.0	+16.7	+19.3	+14.9	+14.8	+18.9	+16.5
	12-monthly % change	+13.6	+13.7	+13.7	+13.5	+14.3	+15.6	+15.5	+18.6	+18.2
	% change since Feb-83 a.r.	+14.0								
	% change since Feb-84 a.r.	+32.3	+28.0	+27.2	+19.3	+19.3	+18.5	+19.0	+21.9	20.7
<u>M2</u>	Partially seasonally adjusted									
	Monthly change (£ millions)	+1,513	+1,268	+1,804	+142	+1,326	+766	+1,256	+1,801	-110
	Monthly % change	+1.2	+1.0	+1.4	+0.1	+1.0	+0.6	+1.0	+1.4	-0.1
	Three-monthly % change a.r.	+13.6	+15.4	+15.7	+10.7	+10.7	+7.1	+10.8	+12.3	+9.3
	Six-monthly % change a.r.	+14.9	+15.7	+15.6	+12.1	+13.0	+11.3	+10.7	+11.1	+8.2
	12-monthly % change	+10.4	+10.4	+11.3	+11.3	+12.3	+12.5	+12.9	+13.6	11.8
	% Change since Feb-83 a.r.	+11.0								
	% Change since Feb-84 a.r.	+16.6	+15.4	+16.1	+13.0	+13.0	+12.2	+12.2	+12.8	+11.3
<u>Levels :</u>	NIBM1	32,267	32,406	32,689	32,288	32,986	32,703	32,922	33,668	34,057
	M1	45,220	45,910	46,770	46,460	47,170	47,660	48,470	50,100	50,620
	M2 (Partially S/A)	125,354	126,661	128,517	128,659	129,949	130,696	131,955	133,767	133,731

Table 4C

OTHER WIDE AGGREGATES

	APR	MAY	JUNE	JULY	AUG	SEP	OCT	NOV	DEC
<u>PSL1</u>									
Monthly change (£ millions)	+351	+907	+2,602	-1,165	+730	+1,472	+691	+2,891	-837
Monthly % change	+0.3	+0.9	+2.5	-1.1	+0.7	+1.4	+0.6	+2.6	-0.6
Three-monthly % change a.r.	+7.4	+11.9	+15.6	+9.2	+8.4	+3.9	+11.2	+20.1	+11.2
Six-monthly % change a.r.	+7.1	+8.4	+11.6	+8.3	+10.2	+9.6	+10.2	+14.1	+7.5
12-monthly % change	+7.2	+7.8	+9.4	+7.7	+7.8	+9.0	+8.7	+11.2	+9.5
% Change since Feb-83 a.r.	+9.3								
% Change since Feb-84 a.r.	+12.4	+11.9	+17.0	+10.5	+10.2	+11.2	+10.8	+13.4	+11.2
<u>PSL2A</u>									
Monthly change (£ millions)	+1,656	+2,136	+2,951	+169	+1,640	+2,278	+1,879	+3,822	+17
Monthly % change	+0.9	+1.1	+2.0	-	+0.8	+1.1	+0.9	+1.9	-
Three-monthly % change a.r.	+13.1	+15.2	+17.2	+13.4	+12.1	+8.3	+12.2	+10.9	+11.7
Six-monthly % change a.r.	+12.3	+13.4	+15.7	+13.2	+13.7	+12.6	+12.8	+14.5	+10.0
12-monthly % change	+11.3	+11.9	+13.1	+12.2	+12.1	+12.6	+12.5	+13.9	+12.8
% Change since Feb-83 a.r.	+12.4								
% Change since Feb-84 a.r.	+15.8	+15.2	+18.1	+14.3	+13.7	+13.8	+13.5	+14.7	+13.2
<u>M3</u>									
(Exc. Public Sector Deposits)									
Monthly change (£ millions)	+653	-1,001	+2,068	+222	+263	+2,772	+418	+3,415	+312
Monthly % change	+0.6	-0.8	+1.8	+0.2	+0.2	+2.3	+0.3	+2.8	+0.2
Three-monthly % change a.r.	+11.0	+4.4	+5.9	+4.4	+9.0	+11.3	+12.0	+23.8	+14.2
Six-monthly % change a.r.	+12.6	+9.6	+8.8	+7.7	+6.7	+8.6	+8.2	+16.2	+12.7
12-monthly % change	+10.6	+9.2	+10.0	+9.5	+9.2	+11.3	+10.4	+12.9	+10.8
% Change since Feb-83 a.r.	+11.8	-							
% Change since Feb-84 a.r.	+12.2	+4.4	+8.8	+7.5	+6.7	+9.9	+9.2	+12.1	+11.1

Levels :

PSL1	104,974	105,851	108,470	107,313	108,000	109,438	110,133	113,058	112,823
PSL2A	193,091	195,191	199,159	199,236	200,833	203,077	204,960	208,816	209,235
M3 (ex. Pub. Sec. Deps)	118,813	117,787	119,908	120,152	120,390	123,141	123,563	127,007	127,785

TABLE 5(a)

The Components of £M3

seasonally adjusted

	Notes and Coins	Banking Deposits			Change in £M3
		Retail		Wholesale	
		nib	lb		
<u>% change</u>	A	B	C	D	E
1982-83 ¹	7.1	13.9	6.3	16.2	11.2
1983-84	5.6	11.3	-1.8	15.2	7.9
over 12 months					
1984 January	5.5	11.1	3.4	16.7	9.9
February	4.3	10.1	2.0	16.8	9.2
March	4.0	9.7	0.0	19.8	9.5
April	5.6	11.3	-1.8	15.2	7.9
May	4.7	12.0	-3.0	17.5	8.1
June	5.3	12.0	-2.3	19.8	9.2
July	5.4	8.4	-1.7	16.5	7.6
August	5.5	11.6	-1.5	15.2	7.8
September	5.5	8.8	-0.7	18.8	8.9
October	5.5	8.4	0.2	15.9	8.2
November	5.4	11.4	1.1	21.6	10.9
December	4.8	10.9	2.9	15.3	9.2
over 6 month at annual rate					
1984 January	4.9	8.6	-6.4	20.9	7.6
February	4.3	8.8	-7.6	19.5	6.7
March	3.8	11.7	-7.1	24.1	9.1
April	6.5	13.2	-6.8	17.6	7.6
May	4.4	14.5	-6.7	23.9	9.2
June	4.9	12.2	2.1	21.5	11.2
July	5.9	8.3	3.1	12.4	7.6
August	6.7	14.4	4.8	11.2	8.9
September	7.1	6.0	6.1	13.8	8.8
October	4.5	3.7	7.6	14.5	8.7
November	6.5	8.4	9.6	19.4	12.7
December	4.6	9.6	3.7	9.5	7.2
<u>£m changes</u>					
1982-83 ¹	62	190	239	345	836
1983-84 ¹	56	183	-39	445	645
monthly change					
1984					
July	-7	-394	-84	-535	-1030
August	64	604	26	40	734
September	82	-349	196	1451	1380
October	63	158	217	-114	324
November	58	661	365	1740	2825
December	14	290	-155	-686	-537

¹ April on
April

TABLE 5(b)
Components of Broader Liquidity

	Seasonally adjusted							
	Money ¹	Building Societies			Other ²	PSL2	PSL2A	PSL2A and National Savings
		Retail ²	Wholesale	Liquid Assets (inc -1)				
<u>% Change</u>	F	G	H	I	J	K	L	
1982-83 ⁴	10.3	11.1	-	9.2	9.3	10.8	13.2	13.1
1983-84 ⁴	7.9	19.0	-	-46.8	5.2	11.0	11.8	11.8
Over 12 months								
1984 January	10.0	16.5		-5.6	12.4	13.0	13.2	13.0
February	9.3	17.6		-30.6	7.7	12.0	12.2	12.0
March	9.5	18.5		-44.2	8.7	12.2	12.5	12.3
April	7.9	19.0		-46.8	5.2	11.0	11.4	11.3
May	8.2	19.2	N/A	-44.1	7.5	11.7	12.0	11.8
June	9.3	19.7		-36.6	11.4	13.0	13.2	12.9
July	7.6	19.5		-28.1	9.7	12.1	12.2	12.0
August	7.8	19.4		-22.1	8.7	12.2	12.2	12.0
September	8.9	20.1		-26.2	9.7	13.1	12.6	12.7
October	8.2	21.6		-21.4	11.9	13.5	12.5	12.5
November	11.0	22.7		-14.8	11.1	15.5	14.0	13.7
December	9.2	22.3		-7.1	10.8	14.5	12.8	12.7
Over 6 months at annual rate								
June	11.3	23.1		9.6	15.2	17.0	15.7	16.1
July	7.7	21.9		13.5	14.0	14.6	13.2	12.7
August	9.0	20.2		26.4	16.6	15.3	13.7	13.3
September	8.8	19.1		22.8	11.2	14.5	12.6	13.1
October	8.7	20.4		6.2	16.1	14.8	12.8	13.3
November	12.7	22.6		-16.8	16.9	16.9	14.6	14.8
December	7.2	21.6		-27.7	6.8	12.1	10.0	10.6
£mn changes								
monthly average								
1982-83	781	447	-	36	-31	1295	1677	1849
1983-84	639	852	59	-100	38	1488	1711	1911
monthly change								
1984								
July	-1044	1013	131	162	-124	138	69	316
August	675	878	-3	121	31	1702	1640	1902
September	1391	1029	115	-212	91	2404	2278	3239
October	307	1473	104	-338	436	1982	1879	2045
November	2857	1568	-149	-300	109	4085	3822	4039
December	-541	769	75	-50	-80	167	17	94

1. £M3 less deposits of over 2 years maturity
2. Net inflow excluding Term shares, SAYE, CD's and Time deposits
3. Treasury bills, bank bills, LA temporary debt, CTD's and some national savings accounts.

⁴ April on April

TABLE 6: GROWTH RATES OF COMPONENTS OF WEEKLY AVERAGED MO

		Notes and Coins	Bankers Balances	Total MO
(a)	Financial Years (12 month change to banking April) (%)			
	1980-81	5.9	27.4	6.8
	1981-82	2.1	-0.2	2.0
	1982-83	6.6	-15.6	6.1
	1983-84	5.4	-23.4	4.9
(b)	Changes in 12 months to (%)			
1984	January	5.7	24.7	6.0
	February	5.9	39.3	6.3
	March	5.6	15.9	5.7
	April	5.4	-23.4	4.9
	May	5.2	5.3	5.2
	June	5.3	20.1	5.4
	July	5.4	57.1	5.8
	August	5.4	1.2	5.4
	September	5.4	-9.7	5.2
	October	5.4	7.2	5.4
	November	5.6	5.3	5.6
	December	5.1	129.7	6.6
(c)	Changes (at an annual rate) in 6 months to (%)			
1984	January	4.7		6.3
	February	5.7		6.3
	March	4.4		5.1
	April	4.3		4.1
	May	4.6		4.0
	June	4.6		4.9
	July	6.0		5.0
	August	5.1		4.4
	September	6.4		5.3
	October	6.5		6.8
	November	6.6		7.2
	December	5.6		8.3
(d)	Three month moving average change (£m) (% change at an annual rate in brackets)			
1984	July	71 (6.6)	3	73 (6.8)
	August	41 (3.8)	9	50 (4.6)
	September	62 (5.7)	-13	49 (4.4)
	October	69 (6.4)	4	74 (6.7)
	November	102 (9.5)	5	107 (9.9)
	December	60 (5.5)	72	133 (12.3)
(e)	Changes in the month to (£m) (% changes in brackets)			
1984	October	66 (0.5)	39	105 (0.8)
	November	81 (0.6)	2	83 (0.6)
	December	34 (0.3)	176	210 (1.5)

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TABLE 7: RETAIL DEPOSITS

(Seasonally adjusted)

		BANKS			Building ¹ Societies	National ² Savings
		interest bearing deposits	non-interest bearing deposits	Total		
<u>% Change</u>						
1982-83 ³		6.3	13.9	8.7	17.3	15.8
1983-84 ³		-1.8	11.3	3.2	18.7	14.3
Over 12 months						
1984	January	3.4	11.1	6.4	13.8	13.4
	February	2.0	10.1	5.1	17.5	13.3
	March	0.0	9.7	3.6	15.7	14.1
	April	-1.8	11.3	3.2	18.7	14.3
	May	-3.0	12.0	2.6	21.7	14.2
	June	-2.3	12.0	3.1	22.2	13.9
	July	-1.7	8.4	2.1	13.3	13.7
	August	-1.5	11.6	3.4	15.2	13.7
	September	-0.7	8.8	3.0	17.5	15.7
	October	0.2	8.4	3.4	17.6	14.9
	November	0.9	11.4	4.9	17.5	14.6
	December	3.7	10.9	6.5	16.6	14.0
Over 6 months at annual rate						
	June	2.1	12.2	5.9	18.8	11.7
	July	3.1	8.3	5.1	17.2	11.9
	August	4.8	14.4	8.5	15.3	12.0
	September	6.1	6.0	6.1	13.9	17.8
	October	7.6	3.7	6.0	14.5	17.4
	November	9.1	8.4	8.8	15.6	17.7
	December	5.4	9.6	7.0	14.5	16.3
<u>fmn changes</u>						
monthly average						
1982-83 ³		239	190	429	864	257
1983-84 ³		-39	183	144	1050	271
monthly change						
1984	June	681	163	844	973	232
	July	-84	-394	-478	933	244
	August	26	604	630	762	238
	September	196	-349	-153	919	971
	October	217	158	375	1353	221
	November	365	661	1026	1333	292
	December	159	290	449	609	87

Notes

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

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TABLE 8

NOMINAL AND REAL INTEREST RATES

		<u>NOMINAL RATES</u>				<u>REAL RATES</u>						
		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**				
								1988	1996	2011		
1982	(1)	14.3	15.1	14.1	14.7	10.3	4.0		3.0			
	(2)	13.4	15.1	12.8	13.7	9.2	4.1	3.5	3.4	3.0		
	(3)	11.5	12.6	11.4	12.2	8.0	3.4	3.6	3.3	3.0		
	(4)	9.9	9.9	9.7	10.8	6.3	4.8	2.7	2.6	2.7		
1983	(1)	11.1	9.2	10.8	11.5	6.3	4.8	2.7	2.6	2.5		
	(2)	10.2	9.4	10.0	10.5	6.2	4.0	3.7	3.2	2.7		
	(3)	9.8	10.1	9.5	10.9	6.3	3.5	4.2	3.6	3.1		
	(4)	9.4	9.9	9.0	10.4	6.0	3.4	3.7	3.5	3.0		
1984	(1)	9.2	10.1	8.9	10.3	5.8	3.4	4.1	3.6	3.2		
	(2)	9.3	11.4	8.9	10.9	5.6	3.4	4.8	3.8	3.3		
	(3)	11.1	11.7	11.0	11.2	5.5	3.7	5.6	4.4	3.7		
	(4)	10.1	9.8	10.0	10.6	5.6	4.5	4.7	3.8	3.2		
1984	March	9.0	10.4	8.7	10.3	5.7	3.3	4.4	3.8	3.3		
	April	8.9	10.9	8.6	10.4	5.6	3.3	4.4	3.6	3.2		
	May	9.6	11.6	9.0	11.0	5.4	4.2	4.8	3.8	3.3		
	June	9.5	11.8	9.2	11.2	5.7	3.8	5.1	4.0	3.5		
	July	11.6	11.7	11.5	11.7	5.6	6.0	5.7	4.4	3.7		
	August	10.9	11.8	10.9	11.0	5.5	5.4	5.5	4.4	3.7		
	September	10.8	11.6	10.5	10.8	5.5	5.3	5.5	4.4	3.6		
	October	10.6	10.7	10.5	10.8	5.6	5.0	4.7	3.9	3.2		
	November	9.9	9.6	9.9	10.4	5.6	4.3	4.7	3.7	3.2		
	December	9.8	9.0	9.5	10.5	5.7	4.1	4.8	3.7	3.1		
	1985	January	11***	10.8***	8.5***	10.5***	10.8	5.8	5.0***	5.1	3.8	3.2

* Unweighted average of forecasts by Phillips and Drew, National Institute and the London Business School; the expected rate of inflation for a given month is the change in the price level between six months earlier and six months ahead. This is assumed to approximate roughly to average inflation expectations over the three months immediately ahead.

** Average of yields calculated for each Friday of month or quarter. Assumes inflation averages 5 per cent per annum to redemption.

*** Rates starred are 11 January noon, other rates are closing rates on 10 January.

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TABLE 9: PRICES AND EARNINGS (% change on same period a year before)

	<u>Retail Prices</u>	<u>Producer Price Index</u> (All manufactured products)		<u>Underlying Average Earnings</u>	<u>Unit Wage Costs*</u>	<u>Commodity Prices***</u>
		<u>Output Prices</u> (home sales)	<u>Input Prices</u>			
1982 (1)	11.1	9.5	13.2	10.8	3.8	-4.4
(2)	9.3	7.7	7.6	10.1	5.2	-9.4
(3)	8.0	7.4	4.8	8.9	5.8	-12.4
(4)	6.2	6.5	4.0	8.4	6.1	-8.9
1983 (1)	4.9	5.3	5.6	7.9	3.4	-1.3
(2)	3.8	5.6	6.7	7.5	3.3	16.3
(3)	4.6	5.4	8.1	7.7	1.7	20.1
(4)	5.0	5.6	7.5	7.8	1.3	19.8
1984 (1)	5.1	6.0	7.2	7.8	3.3	15.5
(2)	5.1	6.3	8.4	7.8	3.2	-3.8
(3)	4.7	6.1	7.2	7.5	4.8	-13.8
(4)	(4.8)					-10.8
1984 March	5.2	6.5	7.0	7.8	4.6	11.8
April	5.2	6.6	8.7	7.8	3.6	3.8
May	5.1	6.3	8.5	7.8	3.1	-5.2
June	5.1	6.2	8.1	7.8	2.8	-10.0
July	4.5	6.3	8.4	7.5	4.3	-13.9
August	5.0	6.2	6.6	7.5	4.7	-13.2
September	4.7	6.0	6.6	7.5	5.3	-14.2
October	5.0	6.1	9.0	7.5	5.3	-12.3
November	4.9	5.9	9.3	7.3**		-9.7
December	(4.6)	5.8	8.8	7.3**		-10.4

* In manufacturing - percentage change of the latest 3 months on the same 3 months a year earlier.

** Department of Employment estimate.

*** Economist industrial (non-oil) commodity price index in SDRs.

SECRET (AND PERSONAL UNTIL 2.30PM, THURSDAY 17 JANUARY 1985)

Table 10 Sterling lending to the private sector

	<u>£ million</u> <u>Seasonally adjusted</u>					
	<u>Actual</u>			<u>Forecast</u>		
	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>JAN</u>	<u>FEB</u>	<u>MARCH</u>
<u>Adjusted lending</u>	1748	1623	1331	1250	1250	1250
Bills held by NBPS(-)	-128	-59	+37	+50	+150	+50
PSBR offset	+535	-660	+541	-	+60	-350
Round Tripping	-	-	-175	+75	-	-
VAT on imports	-	-	-	+5	+150	-
BT	-	+800	-250	-500	-	-
Capital Allowances	-	-	-	+50	+50	+50
Actual/forecast recorded lending	2155	1704	1484	1450	1660	1000
	====	====	====	====	====	====

Table 11 Gilts

	<u>£ million</u>					
	<u>Actual</u>			<u>Forecast</u>		
	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>JAN</u>	<u>FEB</u>	<u>MARCH</u>
Calls*	257	-	335	335 *		
Other gross sales	1146	1459		665	1000	1000
'GROSS' SALES	1403	1459	322	1000	1000	1000
Buying-in next maturities [†]	-4	-43		-380	-50	
Redemptions	-651	-2	-1	-		-467
TOTAL NET SALES	748	1414	128	620	950	535
Purchases (-) by:						
Overseas	163	-111	-79	-100	-100	
Banks	-105	-163	112) 100	-75	-25
LDMA	46	-105	226)		
Public Corporations	25	-	-	-		
NET SALES TO NBPS (+)	877	1018	387	620	775	510

* of which calls on : - 9¾% Exchequer 1988A

† of which, buying in of: - 15% Treasury 1985 to be redeemed on 22 February

Table 12 Money Market Influences

	£ million not seasonally adjusted			
	Actual	Forecast		
	<u>DEC</u>	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>
A. <u>Money market influences</u>				
CGBR (increase +)	583	-1110	-870	660
Reserves etc (+)	451	10	-5	10
Notes and coin (-)	-577	580	-25	-105
National Savings (-)	-81	-270	-230	-180
CTDs (-)	-90	150	400	100
Gilts (-)	-128	-620	-950	-535
Other Exchequer items etc	-218	-	-	-
	—	—	—	—
TOTAL MONEY MARKET INFLUENCES (Market surplus + / shortage -)	-60	-1260	-1680	-50
	—	—	—	—
B. <u>Money market operations</u>				
Commercial bills (purchase +)				
- Issue Department	-889			
- Banking Department	174			
LA bills (purchase +)				
- Issue Department	-87			
- Banking Department	-83			
Treasury bills (purchase +)	-199			
Market advances	48			
Other	<u>1112</u>	—	—	—
TOTAL MONEY MARKET OPERATIONS	<u>76</u>	<u>1260</u>	<u>1680</u>	<u>50</u>
Change in bankers' balances	+16	-	-	-
TOTAL ASSISTANCE OUTSTANDING*	12064	13324	15004	15054

* excluding Treasury bills