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MONTHLY MONETARY REPORT: MARCH-JUNESUMMARY

- £M3 grew erratically fast in April. With a 12 month growth rate of 12% £M3 is well above the top of its new target range. M0, with a 12 month growth rate of 6%, is above the centre of its range. Other indicators (exchange rate, real interest rates in particular) suggest that monetary conditions nevertheless remain tight.
- Bank lending in May was clearly affected by transactions (particularly leasing transactions) brought forward to benefit from the higher 1984-85 investment allowances. But the underlying level of company borrowing from banks remains remarkably strong, despite a record level of new issues.
- The forecast projects a slow decline in the underlying level of bank lending in response to high short term interest rates, a faster decline in the recorded level (as special factors for earlier months unwind), and a turnaround from the exceptionally high April figure for other counterparts. It assumes continued gross gilt sales of £1½bn a month
- On these assumptions, falls of 0.1% in both £M3 and M0 are forecast for May - giving 12-month growth rates of 11% and 5½% respectively. But a sharp increase in £M3 is projected for June with big redemptions and a high PSBR. A shortfall in gilts sales in May (which now seems highly likely) and the oversubscribed BAe offer could, however, add to £M3 growth.
- £M3 growth in April reflected an erratically large increase in wholesale deposits, as well as the erratic rise in lending. The past pattern of wholesale flows suggests months of rapid growth are succeeded by months of very low growth. That pattern would also suggest a fall in £M3 in May.

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MONTHLY MONETARY REPORT: APRIL-JULY

Monetary Aggregates

In banking April £M3 growth was 1.5 per cent above forecast, at 2.9 per cent, with M0 growth marginally below forecast at 0.7 per cent. The £M3 figure was clearly erratic. £M3 growth over the 14month 1984-85 target period as a whole has ended up at 11.9 per cent, well outside the target range. 12-month growth is similar, but 3 and 6-month rates are higher still. M0 ended the 1984-85 target period at 5.7 per cent, below the middle of its target range, with 3 and 6-month rates below this level, and 12-month growth at 6 per cent.

2. Now that the 1984-85 target period has ended future reports will not quote target period growth rates, but will concentrate on 3, 6 and 12-month growth rates, in line with Ministerial decisions on presentation and monitoring of the targets in 1985-86. Table 1 below shows recent growth in the main aggregates, and annex table 1 provides further detail, also covering real M0 and real £M3. Other measures of money are shown in annex table 4.

Table 1: Main Aggregates : Recent Experience

per cent, s.a.

	M0	£M3
<u>monthly change</u>		
March	0.4	1.0
April	0.7	2.9
<u>Growth to mid-April at an annual rate</u>		
over past:-		
3 months	5.4	19.0
6 months	5.2	15.5
12 months	6.0	12.0
Target period	5.7	11.9

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3. Though bankers' balances at the Bank of England did recover somewhat from their unusually low level at the end of the previous month, the recovery was not as marked as we had expected, accounting for only about 0.1 per cent of this month's rise in M0. Notes and coin grew slightly more quickly than forecast. As last month it seems that more £1 coins are being issued than £1 notes withdrawn. Information we have in the first 3 weeks of banking May suggests that the note issue may now be slowing down again, compensating for the £1 coin.

4. In contrast to M0 there has been clear signs of a deceleration of NIB M1 growth in the wake of the recent interest rate measures. This is illustrated in Chart 1. Econometric evidence suggests that non-interest bearing sight deposits are more interest sensitive than M0, as might be expected, while the phasing out of the £1 note could have temporarily boosted M0 as retailers and banks maintain stocks of both £1 notes and coin. Alternatively, it is possible that M0 has been affected recently by seasonal influences not properly allowed for in the seasonal adjustment.

5. Public sector transactions did not cause the exceptional April £M3 figure. On the usual counterparts analysis the public sector contribution was contractionary by £4bn, rather better than forecast. In contrast, sterling lending to the private sector was almost £1bn higher than forecast. Of this, the Bank have identified about £1bn that seems to represent borrowing to finance capital investment brought forward to get the benefit of higher capital allowances in 1984-85. Most of the £1bn represents leasing transactions. This leaves underlying lending at close to its forecast, uncomfortably high, level. The externals and net non-deposit liabilities, taken together were also unusually expansionary. Although we have no strong evidence, this could reflect, in the main, currency hedging by the non-bank private sector.

6. Even allowing for these special factors, growth in £M3 remains uncomfortably high, and shows little sign yet of turning down significantly in response to the rises in interest rates earlier in the year. One possibility is that, unusually, growth may be being driven by the rise in bank deposits, itself a reflection in part

of the downward sloping yield curve and in part, perhaps, of changed exchange rate expectations leading to reduced institutional flows out of sterling. But it is hard to see how this could be occurring if banks were not finding a reasonably receptive market for additional lending which, when set alongside the high level of capital market borrowing, would suggest a fairly strong growth in the real economy.

7. PSL2 grew by 2.2 per cent in April, for once substantially lower than £M3, since this month's extraordinary growth was limited to the banks. The building society contribution to PSL2, at £970m, was below the recent average of around £1.2bn, but inflows did pick up after the rise in building society deposit rates on 1 April. Recent inflows are still not sufficient however to maintain the societies' liquidity ratios.

Other indicators of monetary conditions

8. Inflation: The unexpectedly large rise in retail price inflation to 6.1 per cent in March, is likely to be followed by a further sharp increase. The annual growth of the RPI in the 12 months to April may exceed 6½ per cent, partly as a result of the buildings societies' decision to raise mortgage rates with effect from April 1. Better news was provided by producer input prices, which fell 2.5 per cent between March and April bringing their annual growth rate down to 6 per cent. This fall was attributable to a larger than usual seasonal fall in electricity prices and lower prices for petroleum products, and also reflects sterling's recovery since February. Producer output prices in April were 5.5 per cent higher than a year earlier. However the budget effect on this series is quite significant. The 12-month growth rate of producer output prices for manufacturing industries other than food, tobacco and drink, which is less distorted, has been 6¼-6½ per cent in the first four months of 1985 compared with 5½-5¾ per cent throughout most of 1984. The underlying growth rate of average earnings dipped slightly to 7¼ per cent in February, but wage settlements in the private sector are, on average, about ½ per cent higher now than in last year's pay round.

9. Asset prices: The DOE monthly house price series suggest that between February and March house price inflation increased from about 7½ per cent to 8 per cent.

10. Real interest rates: Real short term interest rates remain at high levels, though they have probably fallen recently, more than suggested in Annex Table 8, to the extent that the March RPI figure has increased short term inflationary expectations. Indexed gilt yields fell in the early part of April but, rather surprisingly, rose again following the RPI figure.

11. Exchange rate: Although there have been wide fluctuations in exchange rates recently, sterling has broadly maintained its gains of March throughout April. The exchange rate index against EMS currencies in April was at its highest monthly average since February 1984, as was the average D-mark/sterling exchange rate.

Three month forecast

12. As usual, it is assumed that there will be no change in interest rates over the forecast period; and it is assumed, formally, that gross gilts sales will run at £1.4bn a month. M0 is forecast to fall by 0.1 per cent in banking May. This low figure reflects information already available on the first 3 weeks of the month. For June and July M0 is forecast to grow at around 0.3 per cent, a moderate growth rate consistent with the current high level of interest rates. It is assumed that a continued increase in the (£1) coin issue will be offset by slower growth in the note issue. 12-month growth is expected to fall to 5.5 per cent by the end of this month, and to 4.8 per cent - ^{near} the mid-point of the 1985-86 target range - by the end of the forecast period.

13. £M3 is forecast to fall by 0.1 per cent in banking May, bringing 12-month growth down to 11 per cent. This improvement on last month's forecast reflects in part improved prospects for the "PSBR". We have also assumed the year-end surge in borrowing for leasing and investment brought forward transactions that would otherwise have occurred over the next 4 or 5 months. Some roundtripping is also expected to unwind this month. With our assessment of the underlying trend in bank lending unchanged, recorded lending is expected to be well below recent experience, at £1.1bn in both May and June. It is also expected that a small part of the April's abnormal increase in the banks' currency assets will unwind in May, while Barclays' rights issue will make nndls more contractionary than usual. The

forecast assumes the May gilt sales target of £1¼bn is reached. With only 3 days of the month left this now looks fairly unlikely. If, taking the extreme assumption, no more gilts sales took place this banking month after 9 May, £M3 would be projected to rise in May by nearly ½ per cent.

14. Projected £M3 growth over the forecast period is extremely uneven. May's fall is followed by an increase of almost 2 per cent in June and a further fall in July. This pattern of very bad months followed by very good months does of course tend to happen in practice. But so far as the forecast is concerned, it is the simple result of projected public sector transactions. Erratic movements in the private sector counterparts could ask to offset these; or could exaggerate the fluctuations. With a gross gilt sales target of £1¼bn assumed throughout the period a larger redemption makes gilt transactions an expansionary factor in June. The BT first call produces a substantially negative "PSBR" in July. The profile would be smoothed somewhat if higher gilt sales were achieved in June.

Table 2: Main Aggregates : Summary of Forecast

per cent, s.a.

	<u>MO</u>	<u>£M3</u>
<u>Monthly change</u>		
May	-0.1	-0.1
June	0.3	1.9
July	0.3	-0.4
<u>growth to mid-April at an annual rate</u>		
over past:-		
3 months	5.4	19.0
6 months	5.2	15.5
12 months	6.0	12.0
Target period	5.7	11.9
<u>growth to mid-July at an annual rate</u>		
over past:-		
3 months	2.3	5.6
6 months	3.8	12.1
12 months	4.8	11.5

15. The British Aerospace offer for sale closed on 10 May. The forecast assumes that the offer is fully subscribed but no more. In fact, the offer has been significantly oversubscribed (5 times or more) and this could inflate the growth of £M3 in May - though the extent of this will depend partly on when and if cheques are cashed or returned, and the mix of institutional and personal bids.

16. Table 2 summarises the forecast for the different aggregates, and Chart II shows past and projected movements in the 12 and 3-month growth rate for MO and £M3. The outturn for the 14-month 1984-85 target period is illustrated in chart 5 at the back of the report using the traditional cone presentation for the last time.

Public Sector Borrowing

17. In banking April the PSBR of £1bn was £0.3bn less than forecast due entirely to the contribution of the other public sector. The CGBR was more-or-less as forecast at £0.8bn.

18. The outlook for the next 3 months for the CGBR is very uneven. In particular, there is expected to be a large deficit of £1.8bn in June, mainly because of the unusually long banking month not being fully compensated in the seasonals, and a surplus of £0.8bn in July, when there is the BT second call of £1.2bn. Over the 3 months as a whole, the CGBR(0) only averages £0.3bn, which is low both in comparison with the expected monthly average and the corresponding period a year ago. However this deceleration is totally accounted for by the BT and British Aerospace asset sales, with the latter contributing £190m in banking May.

19. As to the rest of the public sector expect we are projecting a slightly higher borrowing profile than a year ago. The local authorities are almost certain to be facing a different profile of rate income in 1985-86 because of the new provision which allows large rate payers to pay monthly rather than semi-annually. In the forecast period this means less rate income in banking June but more in July. The net effect on May of this change is small but some extra borrowing is expected by those councils who have not yet set

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a rate. Also in May the Electricity Council have repaid market borrowing with a NLF loan and in the forecast period they are expected to repay more, perhaps by using the proceeds of a loan being arranged from the European Investment Bank.

Table 3: Public Sector Borrowing

£ million, monthly average

	mid Feb 84 - mid Apr 85	Forecast mid Apr 85 - mid July 85	mid Apr 84 - mid July 84
CGBR (O)	536	288	605
'LABR'	246	160	27
PCBR	77	14	-40
'PSBR'*	859	462	592

*PSBR less non-bank private sector transactions in other public sector debt

Debt Sales

(a) Gilts

20. Gross gilt sales in the 4 weeks of banking April totalled £1310m, compared to a target of £1.4bn. Net official sales were £1.1bn. The issue of 3% Treasury 1989 raised only £14m. Sales of the two new tranches issued on 24 March brought in some £480m and the tranches issued last banking month raised some £695m. There were net official purchases of index-linked stock of £175m. The redemption of 12% Exchequer Convertible 1985 on 22 March cost £138m and other buying-in cost £66m.

21. Table 4 compares the April outturn with performance over the previous forecast period and with the 3 month forecast for gilt sales. In April, overseas and discount house purchases, ^{were} as expected, rather higher than usual, net sales to the nbps reached only £700m. This was slightly lower than forecast, because banks appear to have sold Treasury bills to buy gilts this month.

Table 4: Gilt Sales*

Banking monthly averages fmn

	Actual		Forecast		Forecast	
	Feb 84 - Apr 85	April	May	June	July	mid April 85 - mid July 85
Gross sales	1247	1310	1250	1250	1250	1250
Redemptions	-264	-138	-	-1177	-810	-662
Next maturities	-103	-66	-13	-250	-20	-95
Net sales	880	1106	1237	-177	420	492
of which:						
Monetary sector	48	158	100	-50	-15	12
Public corporations	2	-4	-	-	-	-
Overseas	105	245	150	125	-115	53
Non-bank private sector	725	707	987	-255	550	427

* excluding repos.

22. The profile over the forecast period is very uneven indeed. This is a result of the combination of the formal assumption of gross sales of £1½bn in each month, and a very uneven pattern of redemptions. Superficially May looks a very good month, with no significant buying-in redemptions, but we are still about £740m short of the gross sales target, with only 3 days of the month to go. Over £2bn of stock will fall to be redeemed in June and July, with the bulk falling in June.

23. It may be possible to achieve higher gross sales in 3 months by attracting some of the cash fixed by the two redemptions back into gilts, but experience has shown that redemption outflows normally take a number of months before they are re-invested in gilts. If the assumed gross sales are achieved, but no more, then gilts' contribution to funding over the 3 month forecast period will be less than two-thirds of the average last year.

(b) CTDs

24. As expected CTDs contributed almost £4bn to funding in banking April, with purchases buoyant and surrenders negligible, perhaps reflecting expectations of falling interest rates. Purchases have slowed and surrenders accelerated so far in banking May, in which CTDs are now projected to be expansionary by £150m. In June and July purchases are expected to pick up somewhat in preparation for the heavy tax payments in the Autumn, but over the forecast period as a whole the impact of CTDs is expected to be mildly expansionary.

(c) National Savings

25. National Savings contributed £4bn (unadjusted, £220m seasonally adjusted) to funding in banking April; very much as forecast. The 30th Issue Certificate and Income Bond continued to do well, and as usual there was a useful contribution from accrued interest.

26. The forecast assumes that the only change in interest rates will be the ½ per cent rise in Income and Deposit Bond rates on 12 May. On this assumption, we expect the healthy inflows of the last two months to continue over the forecast period with the Income Bond continuing to perform well, though sales of the 30th Issue will probably decline as the initial surge of purchases wanes.

27. There is as yet no firm evidence that the extension of CRT rules to retail bank deposits has benefitted National Savings to any large extent. The Income Bond has performed well, but the other gross products (Deposit Bond and especially INVAC) have not.

The PSBR and Funding

28. Table 5 summarises net funding over the target period and that implied by the forecast. In the 1984/85 target period there was overfunding seasonally adjusted of £2.9bn on the conventional definition and £5.2bn on the alternative definition. In April there was modest overfunding and this is expected to continue in the forecast period. One notable feature in recent months has been substantial

external finance of the public sector. Indeed in the last 4 months it has totalled £1.4bn with gilts sales accounting for £1.1bn of this. In the forecast period, however, we expect some slowdown, partly due to gilt redemptions, with total external finance of only £0.3bn.

Table 5: The PSBR and Funding
£ billion, *seasonally adjusted*

	Actual mid April 1984 - mid April 1985	Forecast mid April 1985 - mid July 1985	mid July 1984 - mid July 1985
"PSBR"	9.8	1.4	9.4
Debt sales to nbps	-13.0	-2.2	-13.0
of which:-			
Gilts	- 9.0	-1.3	- 9.0
National Savings	- 3.1	-1.0	- 3.4
CTD's	- 1.0	0.1	- 0.8
Over(-)/Under funding (+)	- 3.2	-0.8	- 3.6
(Unadjusted)	(-3.1)	(-0.3)	(-3.6)
External finance of the public sector	- 1.8	-0.3	- 1.8
Over(-)/Under funding (+) alternative definition	- 5.0	-1.0	- 5.4
(Unadjusted)	(- 4.9)	(-0.6)	(-5.4)

Money market influences

29. The large unadjusted CGBR, and purchases of reserves, caused a surplus in the money markets in April of £1.1bn. In the forecast period there is again expected to be a small net surplus causing money market assistance to fall to £16.7bn at end July, compared with the end banking month peak of £17.6bn in March. However there are considerable differences between months with the large CGBR leading to a £3bn surplus in June and the BT issue helping to cause a £2.4bn shortage in July.

Sterling Lending to the Private Sector

30. Bank lending increased by £2.6bn in April, the largest ever recorded figure. The 3 and 6 month annualised growth rates are now over 20 per cent while the 12-month rate is at 17½ per cent. This unexpected increase is all the more surprising because new issues were exceptionally high in calendar March, the PSBR for the banking month was close to its trend level and the extra lending for accelerating VAT payments should have ended in mid-February.

31. There are however good reasons for treating the April figure as erratically high. About £1bn of the lending is probably due to increased leasing activity concentrated in the final week of the financial year to take advantage of the higher capital allowances available in 1984-85. This figure is supported by the direct evidence on the timing of the lending, and by the calendar quarter statistics which show increased OFI borrowing. Some of the extra lending may have been the result of companies borrowing directly from banks to finance accelerated investment. As yet, no data on fixed investment in Q1 are available but we know that imports of capital goods rose strongly in calendar March.

TABLE: 6 SECTORAL BREAKDOWN OF BANK LENDING⁺

	OFI's		ICCs		Unincorporated Businesses		Persons			Total		
	£m	%	£m	%	£m	%	Housing £m	Other £m	Total £m	%	£m	%
1984												
Q2	430 ¹	11	960	11	460	13	590	670	1270	18	3110 ¹	14
Q3	1330 ¹	37	1200	13	560	16	390	580	950	12	4040 ¹	17
Q4	1270	33	2200	26	30	1	790	930	1720	22	5210	22
1985 Q1*	1730	43	2900	33	1000	28	730	530	1260	15	6890	28

+ The percentage growth rates are obtained by annualising the seasonally adjusted flows divided by the unadjusted levels for the previous quarter.

* Provisional

¹ Adjusted for the special transaction between two clearers and their leasing subsidiaries

32. The sectoral breakdown of lending in Table 6 shows that ICC' and incorporated businesses' borrowing increased, as might be expected if the main factor were the phasing out of capital allowances. The increase in business borrowing may also reflect increased activity. The CBI April Survey indicated that the volume of new orders expected over the next 4 months was the highest since 1977. And exports of non-oil goods (excluding erratics) are 12 per cent up on a year ago. Some of the borrowing may also have been used to finance take-overs. Cash expenditure on mergers and acquisitions of industrial and commercial companies in 1984 was 3 times the 1980-83 average. And there is little sign of any slowdown in Q1. On the other hand, borrowing by persons for non-housing purposes seems to have decelerated in Q1 despite the 4½ per cent increase in the volume of retail sales compared to the same quarter last year.

Table 7: Issues by Listed UK Companies

Calendar month averages, £m

	Net Issues	Gross Issues Queue* (Equities)
1982	97	-
1983	234	-
1984	143	-
1984 Q1	51	850
Q2	199	1510
Q3	218	1030
Q4	106	1215
1985 Q1	400	
1985 Jan	275	1610
Feb	201	2943
Mar	723	4100**
Apr	989	

* Excluding privatisations, currently consisting of £1bn for British Airways and £½bn for British Aerospace.

** As of May 1985

TABLE 8

STERLING LENDING TO PRIVATE SECTOR

Seasonally adjusted

		Moving Averages of Underlying Lending						Moving Averages of Recorded Lending					
		3 months		6 months		12 months		3 months		6 months		12 months	
		£m	%*	£m	%*	£m	%*	£m	%	3m	%	£m	%
1984	Jan	1116	15.1	1117	14.9	1157	15.9	1195	15.6	1271	17.1	1084	14.9
	Feb	1076	13.7	1171	15.3	1158	15.6	1283	16.5	1278	16.7	1076	14.5
	Mar	1095	13.7	1303	17.0	1200	16.1	1282	16.2	1340	17.5	1161	15.5
	Apr	1627	20.9	1396	17.9	1268	17.0	1445	18.4	1320	16.9	1273	17.0
	May	1424	17.7	1250	15.7	1240	16.2	1322	16.4	1302	16.4	1230	16.1
	June	1563	19.2	1329	16.5	1262	16.5	1297	15.8	1290	16.0	1267	16.5
	July	882	10.4	1255	15.5	1186	15.3	936	11.1	1190	14.7	1231	15.9
	Aug	1098	12.9	1261	15.3	1216	15.3	887	10.3	1104	13.3	1191	15.0
	Sept	1028	11.9	1295	15.4	1299	16.3	850	9.81	1074	12.7	1207	15.1
	Oct	1637	19.4	1260	14.8	1328	16.3	1452	17.1	1194	14.0	1257	15.4
	Nov	1831	21.6	1464	17.1	1357	16.4	1785	21.0	1336	15.6	1319	16.0
	Dec	1788	20.8	1408	16.3	1368	16.3	1793	20.9	1321	15.2	1305	15.6
1985	Jan	1684	19.3	1660	19.3	1457	17.4	1748	20.1	1600	18.6	1395	16.7
	Feb	1614	18.1	1722	19.8	1492	17.5	1715	19.3	1750	20.1	1427	16.7
	Mar	1611	17.8	1699	19.3	1497	17.3	1821	20.3	1807	20.6	1440	16.6
	Apr	1671	18.2	1677	18.8	1468	16.7	2022	22.3	1885	21.2	1540	17.5
Forecast													
	May	1633	17.5	1624	17.8	1544	17.4	1857	20.1	1786	19.7	1561	17.6
	June	1593	16.8	1602	17.4	1505	16.8	1636	17.3	1729	18.8	1525	17.0
	Jul	1550	16.1	1610	17.1	1635	18.2	1306	13.4	1664	17.7	1632	18.1

* Based on stock of recorded lending

33. There is no evidence that the April figures were inflated by roundtripping to any appreciable extent. We estimate that there might have been around £300m arbitrage activity in one month bills but this should have been more than offset by unwinding of arbitrage in 1 month and 3 month bills issued in March and January. And there do not appear to have been any opportunities for base rate roundtripping in banking April.

34. Since there appears to have been little net arbitrage in April, and there is no reason to suppose that the increased buoyancy in real economy in the first quarter was concentrated in the last two weeks of calendar March, we are left with leasing as the only credible explanation of April's surge in lending.

35. Over the forecast period we expect bank lending to be unusually low, averaging around £1.4bn. Increases of this magnitude would leave the 6 and 12 month growth rates of lending at around 18 per cent (see Table 8). We are assuming that the extra borrowing brought forward in April would otherwise have occurred over the next four to five months. (It would probably not be worthwhile to bring forward investments any more than this because of the extra interest costs associated with earlier payments would outweigh the extra investment allowances). In banking May the picture is complicated because there may be some borrowing to come through as a result of leases that were signed before April 1 for which the lessors allowed for delayed payment. Against this we have allowed for some net unwinding of roundtripping in April in one month bills, although there were a few further profitable opportunities for 1 month bill arbitrage in banking May.

36. Lower lending levels over the next 3 months would be consistent with the high level of new issues in March and April which are likely to continue for some months judging by the size of the gross issues queue (see table 7).

Externals and net non-deposit liabilities (NNDLs)

37. In April there were large positive externals of £1.4bn partly offset by contractionary net non-deposit liabilities. Taken together,

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these counterparts were a positive influence on money of £0.8bn against an average contractionary influence of £0.4bn over the preceding 13 months of the target period. The main factor behind the extraordinary externals figure was a £0.9bn net switch into foreign assets by banks, caused by heavy UK private sector foreign currency borrowing. The externals are never easy to interpret, but one explanation for this would lie in currency hedging by UK companies and institutions in a month when the £/\$ rate appreciated by 10 per cent.

38 The forecast assumes some unwinding of the April externals - largely on the basis that the April figure looks erratically large. Apart from that, the forecast for both externals and nndls is much affected by the foreign currency perpetual issues announced by a number of banks in the last week or so. Although under standard assumptions they have no net effect on £M3 they boost externals and cause a larger contraction of nndls. Taken together nndls and externals are projected to be contractionary by around £½bn a month in the forecast period.

Building Societies

39 Retail inflows into building societies in banking April at £830 (adjusted) were slightly below forecast. Assuming no change in interest rates the underlying level of retail inflows is expected to rise in banking May (reflecting the first full month effect of the rise in societies' rates on 1 April, but thereafter remain little changed. However in banking June we assume inflows are reduced by £130m (and in July by £20m) as BT shareholders prepare and make their second payments for BT shares, the precise assumptions on the effect of the BT 2nd call on retail savings are discussed in paragraph below.

40. Table 9 shows our forecast for retail inflows and the other balance sheet flows over the next three months.

Table 9 : Building Societies' balance sheet flows

(unadjusted)

Flows

	Assets				Liabilities				Total Flow
	Mortgages	Liquid inside PSL2	other	Other Assets	Retail Inflows	Wholesale nbps other	Other Liabi- lities		
		*			*	*			
Banking: May	+1170	-	+147	+18	+929	+30	+149	+227	+1335
June	+1457	-	+16	+18	+831	+100	+156	+404	+1491
July	+1181	-	+57	+18	+967	+60	+30	+199	+1256

* These figures, together with net inflow of term shares, contribute to PSL2.

41 These figures, together with net inflow of term shares contribute to PSL2. The societies' balance sheet is forecast to expand by over £1½bn per month. With retail inflows fairly depressed and wholesale funding only expected to progress at a moderate rate (except in June where the effect of the BT second call on retail inflows forces the societies into the wholesale market), the relative strength of mortgage demand implies little room for accumulation of liquid assets. The forecast is consistent with a decline on the liquidity ratio (unadjusted) from 16½ per cent at the end of banking April to 16.1 per cent at the end of July. It is likely that the societies will view the level of liquidity with some concern, but we do not expect that concern to prompt societies to increase their interest rates, though premium share rates could edge up.

42 Overall the forecast implies the building societies' contribution to PSL2 will be about £1½bn per month (adjusted), much the same as the monthly average over the 1984-85 target period.

Retail Inflows

43 Table 10 below shows outturn and forecasts for retail savings. In Banking April building society and National Savings inflows were very much as expected. However retail bank deposits, and hence total retail savings, were much higher than forecast. Last month's forecast, however, was largely based on a very low initial estimate of retail

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TABLE: 10

A BREAKDOWN OF RETAIL FLOWS

Seasonally adjusted £ million

Average monthly increase since mid-February 1984	<u>OUTTURN</u>			<u>FORECAST</u>			
	MARCH		APRIL	MAY	JUNE	JULY	
	<u>initial</u>	<u>revised</u>					
RETAIL BANK DEPOSITS							
NIB SIGHT	+105	-133	-135	+186)		
IB CHEQUABLE	+185	+340	+488	+536)	+500	
IB OTHER	+27	+25	+267	-96)	+585	
						+95	
TOTAL BANK DEPOSITS	+317	+232	+620 $\overline{+590}$	+626 $\overline{+280}$ (+50)	+500 $\overline{+180}$	+585 $\overline{+160}$ (+130)	+95 (-380)
BUILDING SOCIETIES	+1055	+790	+856 $\overline{+860}$	+830 $\overline{+915}$	+935 $\overline{+1220}$	+890 $\overline{+1225}$ (-130)	+980 (-20)
NATIONAL SAVINGS	+261	+169	+163 $\overline{+150}$	+218 $\overline{+205}$	+265 $\overline{+250}$	+405 $\overline{+315}$	+305
TOTAL RETAIL	+1633	+1191	+1639 $\overline{+1600}$	+1674 $\overline{+1400}$ (+50)	+1700 $\overline{+1650}$ (-)	+1880 $\overline{+1700}$ (-)	+1380 (-400)

Notes: $\overline{\quad}$ $\overline{\quad}$ last months forecast

() assumed BT 2nd call effect

bank deposits in banking March, which has since been substantially revised upwards.

44. Our view of underlying inflows in May to July is of little change in building societies' and banks' retail inflows. National Savings' inflows are also little changed, though the forecast for June benefits from a large lump of accrued interest on index-linked certificates.

45. Our estimates of the effect of the second call for BT shares are based on the assumption that the personal sector will have to fund about £400m for the second payment. This is to be paid on 24 June, 2 working days into banking July.

46. The logistics of the payment, and its impact on retail savings are assumed to be as follows:-

(i) a notional £50m has already been deposited in bank accounts;

(ii) in banking June £130m is transferred from building society accounts into bank accounts in preparation for payment. Hence in that month building society inflows are below trend, bank deposits above trend. (The societies make good the shortfall through the wholesale market);

(iii) in banking July a further £20m leaves building society accounts in the form of cheques issued by societies direct to the Government;

(iv) bank deposits fall by £380m in banking July to finance the remainder of the payment. The £380m is made up of £180m already built up by banking June and a £200m once and for all run down in bank deposits in July.

47. Overall, therefore, the forecast assumes that the £400m payment will be financed from lower building society deposits (£150m) and bank deposits (-£250m). National Savings are assumed to be unaffected.

SECRET

The message from direct forecasting of the components of £M3

48 This month's forecast for £M3 growth is, as usual, largely based on projections of the counterparts to £M3. In recent ^{reports} we have also set out the prospects for retail bank deposits in the section on the retail savings market. We have been considering whether we could develop a similar approach for looking directly at wholesale inflows. This of course would be particularly important were there grounds for thinking the growth of £M3 were being driven as much or more by deposit growth than by the growth of lending (and other counterparts). There is one very simple but consistent feature of movements in wholesale deposits from month to month, illustrated by chart 4, attached, which shows the profile of wholesale deposits over the last 3 years. There is a clear negative correlation between wholesale deposits one month and the next. This suggests, as does some further econometric work in progress in HF3, that wholesale deposits could fall substantially in banking May. The broad message is that if we thought £M3 at present was being driven by the nbs' demand for bank deposits, rather than the counterparts, the fall in £M3 in May could be sharper than this forecast suggests.

MONTHLY MONETARY REPORT : TABLES

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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
	1984-85	6.0	9.1	12.0	16.0	(1.0)	(6.7)	(5.0)
(b) Changes in 12 months to (%)								
1984	May	5.2	10.5	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	11.4	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	12.1	8.8	13.1	1.3	4.7	3.9
	October	5.4	12.2	8.0	13.5	1.2	3.8	4.2
	November	5.6	12.9	10.9	15.6	1.4	6.6	4.1
	December	6.6	11.4	9.1	14.5	2.4	4.9	4.1
1985	January	5.4	10.2	9.2	14.7	0.8	4.5	4.5
	February	5.4	10.1	9.7	15.3	0.8	4.8	4.6
	March	5.3	9.6	9.3	14.6	0.1	3.9	5.2
	April	6.0	9.1	12.0	16.0	(1.0)	(6.7)	(5.0)
(c) Changes (at an annual rate) in 6 months to (%)								
1984	May	4.0	15.7	9.2	14.1	-0.7	4.2	4.8
	June	4.9	15.6	11.2	17.1	0.2	6.1	4.7
	July	5.0	12.2	7.6	14.6	0.3	2.7	4.7
	August	4.4	13.1	9.0	15.4	0.0	4.3	4.5
	September	5.3	10.5	8.8	14.5	1.2	4.5	4.1
	October	6.8	9.3	8.7	14.9	2.7	4.6	3.9
	November	7.2	10.1	12.7	17.2	4.7	10.0	2.4
	December	8.3	7.3	7.2	12.0	4.5	3.5	3.6
1985	January	5.9	8.2	10.8	14.9	1.1	5.9	4.7
	February	6.4	7.2	10.3	15.2	1.6	5.4	4.8
	March	5.3	8.6	9.8	14.8	-1.4	2.8	6.8
	April	5.2	9.0	15.5	17.1	(-1.3)	(8.3)	(6.6)
(d) Changes (at an annual rate) in 3 months to (%)								
1984	November	9.9	9.4	18.4	20.5			
	December	12.3	9.1	10.2	14.1			
1985	January	5.0	8.5	12.0	15.3			
	February	3.1	5.0	2.8	10.2			
	March	-1.3	8.2	9.3	15.3			
	April	5.4	9.5	19.0	19.0			
(e) Changes in month to (%) (£m figures in brackets)								
1985	February	0.1(20)	0.6(759)	0.5(531)	1.1(2133)			
	March	0.4(60)	0.9(1183)	1.0(1147)	1.1(2131)			
	April	0.7(103)	0.8(1119)	2.9(3173)	2.2(4269)			

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TABLE 2 : PERCENTAGE CHANGES IN MONETARY AGGREGATES

		per cent, s.a							
		MO	NIB M1	M1	M2*	EM3	M3	PSL2	PSL2A
		---	---	---	---	---	---	---	---
<u>Banking months</u>									
(1)	In month								
	Apr	0.7	0.6	3.2	1.4	2.9	0.9	2.1	1.9
	May	-0.1			0.4	-0.1		0.4	0.3
	Jun	0.3			0.4	1.9		1.7	1.4
	Jul	0.3			0.4	-0.4		0.5	0.4
(2)	latest 3 months (a.r)								
	Apr	5.4	2.4	22.2	*	19.0	7.9	18.6	15.9
	May	4.5			*	16.1		15.5	13.3
	Jun	4.0			*	20.1		18.2	15.6
	Jul	2.3			*	5.6		10.8	9.0
(3)	latest 6 months (a.r)								
	Apr	5.2	3.3	14.9	*	15.4	13.8	16.9	14.2
	May	3.8			*	9.3		12.8	10.7
	Jun	1.3			*	14.6		16.7	14.1
	Jul	3.8			*	12.1		14.6	12.4
(4)	latest 12 months (a.r)								
	Apr	6.0	3.6	14.9	9.2	12.0	11.1	15.9	13.5
	May	5.5			9.1	11.0		15.0	12.7
	Jun	4.7			7.8	10.8		14.3	12.0
	Jul	4.8			7.0	11.5		14.8	12.4

* not seasonally adjusted

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TABLE 3: £M3 COUNTERPARTS

	APRIL		FORECAST		
	FORECAST	OUTTURN	MAY	JUN	JUL
1. CGBR					
Own-account (u.a)	2895	2784	400	2990	-1820
On-lending (u.a)	-30	3	230	365	370
Total (u.a)	2865	2787	630	3355	-1450
TOTAL CGBR (s.a)	885	823	775	1875	-820
2. NET PURCHASES OF CG DEBT BY NBPS					
Gilts	-800	-707	-990	255	-550
Treasury bills	0	-63	0	0	0
National Savings	-205	-218	-285	-405	-305
CTDs,etc	-220	-245	150	-35	-10
TOTAL DEBT	-1225	-1233	-1125	-185	-865
3. OTHER PUBLIC SECTOR					
Local Authorities	180	-11	180	-105	-115
Public Corps.	275	158	-335	-20	-50
TOTAL OPS	455	147	-155	-125	-165
4. £ LENDING TO PRIVATE SECTOR	1750	2627	1145	1140	1635
5. NET EXTERNALS	160	1422	300	1085	440
6. NET NON-DEPOSIT LIABILITIES	-500	-613	-1070	-1630	-700
CHANGE IN £M3	1525	3173	-130	2160	-475
£m					
(%)	(1.4)	(2.9)	(-0.1)	(1.9)	(-0.4)
"PSBR"	1340	970	620	1750	-985
OVER(-)/UNDERFUNDING(+)	115	-263	-505	1615	-1810

1984-85 KEY AGGREGATES

Table 4 A

TARGET AGGREGATES

		AUG	SEP	OCT	NOV	DEC	JAN	FEB	MARCH	APRIL
<u>£M3</u>	(Exc. Public sector deposits)									
	Monthly change (£ millions)	+739	+1,365	+319	+2,809	-535	+760	+531	+1,147	+3,173
	Monthly % change	+0.7	+1.3	+0.3	+2.7	-0.5	+0.7	+0.5	+1.0	+2.9
	Three-monthly % change a.r.	+7.2	+4.2	+9.7	+18.4	+10.2	+12.0	+2.8	+9.3	+19.0
	Six-monthly % change a.r.	+9.0	+8.8	+8.7	+12.7	+7.2	+10.8	+10.3	+9.8	+15.5
	12 Monthly % change	+7.8	+8.8	+8.0	+10.9	+9.1	+9.2	+9.7	+9.3	+12.0
	% Change since Feb-83 a.r.									
	% Change since Feb-84 a.r.	+9.0	+10.1	+9.3	+12.1	+10.1	+10.0	+9.7	+9.9	+11.9
<u>MO</u>	Averaged weekly									
	Monthly change (£ millions)	-17	+133	+105	+83	+210	-125	+20	+60	+103
	Monthly % change	-0.1	+1.0	+0.8	+0.6	+1.5	-0.9	+0.1	+0.4	+0.7
	Three-monthly % change a.r.	+4.6	+4.4	+6.7	+9.9	+12.3	+5.0	+3.1	-1.3	+5.4
	Six-monthly % change a.r.	+4.4	+5.3	+6.8	+7.2	+8.3	+5.9	+6.4	+5.3	+5.2
	12-monthly % change	+5.4	+5.2	+5.4	+5.6	+6.6	+5.4	+5.4	+5.3	+6.0
	% Change since Feb-83 a.r.									
	% Change since Feb-84 a.r.	+4.4	+5.5	+6.1	+6.2	+7.5	+5.8	+5.4	+5.4	+5.7
<u>CROSS CHECKS</u>										
<u>PSL2</u>	Monthly change (£ millions)	+1,706	+2,409	+2,036	+4,244	-97	+2,601	+2,133	+2,074	+4,153
	Monthly % change	+1.0	+1.3	+1.1	+2.3	-0.1	+1.4	+1.1	+1.1	+2.1
	Three-monthly % change a.r.	+13.9	+9.9	+14.5	+20.7	+14.2	+15.4	+10.2	+15.2	+18.6
	Six-monthly % change a.r.	+15.4	+14.5	+14.9	+17.3	+12.0	+14.9	+15.3	+14.7	+17.0
	12-monthly % change	+12.1	+13.1	+13.5	+15.7	+14.5	+14.8	+15.3	+14.6	+15.9
	% Change since Feb-83 a.r.									
	% Change since Feb-84 a.r.	+15.4	+15.7	+15.5	+17.1	+15.2	15.5	+15.3	+15.2	+16.1
<u>M2</u>	Monthly change (£ millions)	+378	-16	+738	+1,142	+1,955	+228	-122	+1,179	+1,838
<u>unadjusted</u>	Monthly % change	+0.3	-	+0.6	+0.9	+1.5	+0.2	-0.1	+0.9	+1.4
	12-monthly % change	+12.3	+12.2	+12.1	+12.8	+11.3	+10.4	+10.2	+9.7	+9.2
	(exc re-classifications)	+9.5	+9.4	+9.3	+10.0	9.8	+9.8	+9.6	+9.3	+8.8
<u>Levels :</u>	£M3 (Exc. Pub Sec Deps)	104,171	105,547	105,870	108,678	108,607	109,368	109,898	111,019	114,186
	MO (Averaged weekly)	13,445	13,578	13,683	13,766	13,976	13,851	13,871	13,931	14,034
	PSL 2	180,547	182,968	185,002	189,245	189,632	192,233	194,366	196,407	200,559
	M2 (unadjusted)	129,827	129,811	130,549	131,691	133,748	133,976	133,854	135,033	136,871

Table 4B

OTHER NARROW AGGREGATES

	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MARCH	APRIL
<u>NIB M1</u>									
Monthly change (£ millions)	+668	-267	+221	+720	+271	-660	+59	-60	+203
Monthly % change	+2.1	-0.8	+0.7	+2.2	+0.8	-1.9	+0.2	-0.2	+0.6
Three-monthly % change a.r.	+6.9	-	+7.9	+8.4	+15.7	+4.1	-3.9	-7.6	+2.4
Six-monthly % change a.r.	+11.5	+6.4	+4.0	+7.7	+7.6	+6.0	+2.1	+3.4	+3.3
12-monthly % change	+9.3	+7.6	+7.3	+9.2	+8.5	+6.7	+6.7	+4.9	+3.6
% Change since Feb-84 a.r.	+11.5	+8.3	+8.3	+10.5	+10.4	+7.1	+6.7	+6.0	+6.1
<u>M1</u>									
Monthly change (£ millions)	+685	+507	+811	+1,598	+422	-1,068	-102	+1,020	+1,622
Monthly % change	+1.5	+1.1	+1.7	+3.3	+0.8	-2.1	-0.2	+2.1	+3.2
Three-monthly % change a.r.	+11.1	+7.7	+18.4	+27.1	+26.0	+8.1	-5.8	-1.2	+22.1
Six-monthly % change a.r.	+19.3	+14.9	+14.8	+18.9	+16.5	+13.1	+9.4	+11.6	+14.9
12-monthly % change	+14.3	+15.6	+15.5	+18.5	+18.2	+14.9	+14.2	+13.2	+14.9
% change since Feb-84 a.r.	+19.3	+18.5	+19.0	+21.8	20.7	+15.9	+14.2	+15.2	+17.2
<u>M2</u>									
Partially seasonally adjusted									
Monthly change (£ millions)	+1,332	+268	+869	+1,816	+188	+744	+709	+1,183	+1,119
Monthly % change	+1.0	+0.2	+0.7	+1.4	+0.1	+0.6	+0.5	+0.9	+0.8
Three-monthly % change a.r.	+10.8	+5.6	+7.9	+9.4	+9.1	+8.7	+5.0	+8.2	+9.3
Six-monthly % change a.r.	+13.1	+10.5	+9.3	+10.1	+7.3	+8.3	+7.2	+8.6	+9.0
12-monthly % change	+12.3	+12.1	+12.2	+12.9	+11.4	+10.2	+10.1	+9.6	+9.1
% Change since Feb-84 a.r.	+13.1	+11.5	+11.1	+11.8	+10.8	+10.4	+10.1	+10.2	+10.2
<u>Levels :</u>									
NIBM1	32,956	32,689	32,910	33,630	34,002	33,342	33,401	33,341	33,544
M1	47,140	47,650	48,460	50,060	50,590	49,520	49,420	50,440	52,060
M2 (Partially S/A)	129,991	130,240	131,112	132,939	133,201	133,022	134,704	135,875	137,066

Table 4C

OTHER WIDE AGGREGATES

	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MARCH	APRIL
<u>PSL1</u>									
Monthly change (£ millions)	+735	+1,458	+686	+2,932	-740	+752	+432	+1,289	+3,299
Monthly % change	+0.7	+1.4	+0.6	+2.7	-0.7	+0.7	+0.4	+1.1	+2.9
Three-monthly % change a.r.	+8.5	+3.9	+11.2	+20.2	+10.9	+11.1	+1.6	+9.0	+18.8
Six-monthly % change a.r.	+10.2	+9.6	+10.2	+14.2	+7.3	+11.1	+10.5	+9.0	+14.9
12-monthly % change	+7.8	+9.0	+8.5	+11.2	+9.5	+9.7	+10.4	+9.8	+12.6
% Change since Feb-84 a.r.	+10.2	+11.2	+10.8	+13.5	+11.1	+10.9	+10.4	+10.7	+12.6
<u>PSL2A</u>									
Monthly change (£ millions)	+1,639	+2,273	+1,933	+3,973	-225	+2,398	+1,943	+2,998	+4,030
Monthly % change	+0.8	+1.1	+1.0	+1.9	-0.1	+1.1	+0.9	+0.9	+1.9
Three-monthly % change a.r.	+12.2	+8.3	+12.3	+17.3	+11.7	+12.5	+8.1	+12.7	+15.9
Six-monthly % change a.r.	+13.7	+12.7	+12.9	+14.7	+9.9	+12.4	+12.6	+12.2	+14.2
12-monthly % change	+12.2	+12.6	+12.5	+14.1	+12.8	+12.8	+13.2	+12.4	+13.5
% Change since Feb-84 a.r.	+13.7	+13.8	+13.6	+14.9	+13.2	+13.3	+13.2	+13.1	+13.9
<u>M3</u>									
(Exc. Public Sector Deposits)									
Monthly change (£ millions)	+267	+2,788	+418	+3,387	+300	+2,130	+1,113	+153	+1,218
Monthly % change	+0.2	+2.3	+0.3	+2.7	+0.2	+1.7	+0.9	+0.1	+0.9
Three-monthly % change a.r.	+9.3	+11.4	+12.1	+23.7	+14.0	+20.2	+11.6	+11.0	+7.9
Six-monthly % change a.r.	+6.9	+8.8	+8.4	+16.2	+12.8	+16.0	+17.5	+12.6	+13.8
12-monthly % change	+9.4	+11.5	+10.4	+13.1	+10.9	+11.8	+12.1	+10.7	+11.1
% Change since Feb-84 a.r.	+6.9	+10.1	+9.3	+12.2	+11.2	+12.2	+12.1	+11.2	+11.2

Levels :

PSL1	108,050	109,520	110,205	113,136	112,880	113,632	114,064	115,305	118,603
PSL2A	200,913	203,198	205,130	209,102	209,361	211,759	213,702	215,667	219,696
M3 (ex. Pub. Sec. Deps)	120,640	123,451	123,863	127,247	128,076	130,202	131,314	131,449	132,674

TABLE 5 (a)

The Components of £M3

seasonally adjusted

		Banking Deposits				Change in £M3
Notes and Coins		Retail		Wholesale		
		nib	ib			
<u>% change</u>	A	B	C	D	E	
1983-84 ¹	5.6	11.3	-1.8	15.2	7.9	
1984-85 ¹	5.3	8.8	1.9	16.8	9.2	
over 12 months						
1984	May	4.7	12.0	-3.0	17.0	8.1
	June	5.3	12.0	-2.3	19.3	9.2
	July	5.4	8.4	-1.7	16.0	7.6
	August	5.5	11.6	-1.5	14.7	7.8
	September	5.5	8.8	-0.7	18.3	8.9
	October	5.5	8.4	0.2	15.5	8.1
	November	5.4	11.4	1.1	21.1	10.9
	December	4.8	10.7	2.9	14.9	9.2
1985	January	5.3	7.5	3.8	15.6	9.2
	February	5.8	7.2	5.9	15.0	9.6
	March	5.9	4.3	8.4	13.5	9.3
	April	4.2	3.3	9.5	21.0	12.0
over 6 month at annual rate						
1984	November	6.5	8.4	9.5	19.4	12.6
	December	4.6	9.3	3.8	9.6	7.2
1985	January	4.6	6.8	4.6	20.0	10.9
	February	4.9	0.5	7.1	20.1	10.4
	March	4.7	2.6	10.8	14.2	9.8
	April	3.9	2.9	12.2	28.3	15.4
<u>£mn changes</u>						
monthly average						
1983-84 ¹	56	183	-39	445	645	
1984-85 ¹	42	56	238	683	1017	
monthly change						
1984	November	58	662	365	1739	2809
	December	14	257	-137	-669	-535
1985	January	-6	-654	27	1393	760
	February	79	-20	400	72	531
	March	75	-135	755	452	1147
	April	17	186	440	2530	3173

¹ April on April

TABLE 5 (b)

Components of Broader Liquidity

Seasonally adjusted

		Building Societies							PSLZA and National Savings
		Money ¹	Retail ²	Wholesale	Liquid Assets (inc -)	Other ³	PSL2	PSLZA	
<u>% change</u>		F	G	H	I	J	K	L	M
1983-84 ⁴		7.9	19.0	-	-46.8	5.2	11.0	11.8	11.8
1984-85 ⁴		9.2	21.2	-	-18.3	10.6	13.8	12.8	12.6
Over 12 months									
1984	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		-28.0	9.7	12.1	12.2	12.0
	August	7.8	19.4		-22.1	8.7	12.1	12.2	12.0
	September	8.9	20.1		-26.1	9.7	13.1	12.6	12.7
	October	8.2	21.7		-20.1	12.0	13.5	12.6	12.5
	November	11.0	22.8		-12.6	11.1	15.6	14.0	13.8
	December	9.2	22.4		-6.6	10.0	14.5	12.8	12.6
1985	January	9.3	22.9		-12.7	11.4	14.7	12.8	12.6
	February	9.7	22.8		-1.01	12.8	15.3	13.1	12.9
	March	9.2	22.0	-	-2.7	11.3	14.6	12.4	12.2
	April	12.0	21.6	-	-6.7	11.4	15.9	13.5	13.2
Over 6 months at annual rate									
1984	November	12.7	22.8	N/A	-12.2	16.9	17.2	14.6	14.9
	December	7.2	21.7		-26.5	5.2	12.0	9.9	10.5
1985	January	10.9	23.9		-47.0	8.9	14.9	12.4	12.5
	February	10.4	25.5		-39.6	9.1	15.3	12.6	12.4
	March	9.6	24.9		-38.6	11.5	14.6	12.1	11.2
	April	15.4	22.7		-24.9	7.0	17.0	14.1	13.1
<u>£mn changes</u>									
monthly average									
1983-84		639	852	59	-100	38	1488	1711	1911
1984-85		1001	1156	44	-29	128	2300	1287	2420
monthly change									
1984	November	2841	1583	-98	-248	109	4187	3916	4133
	December	-545	778	-20	-128	-182	-97	-225	-154
1985	January	739	1767	200	-218	113	2601	2398	2472
	February	457	1466	-137	301	46	2133	1943	1936
	March	1095	984	25	-225	252	2074	1998	2140
	April	3171	955	-76	-50	153	4153	4030	4223

1. EM3 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.

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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
	1984-85	6.0	3.2	6.0
(b) Changes in 12 months to (%)				
1984	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
1985	January	6.2	-37.4	5.4
	February	5.7	-12.4	5.4
	March	5.8	-29.4	5.3
	April	6.0	3.2	6.0
(c) Changes (at an annual rate) in 6 months to (%)				
1984	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
1985	January	6.3		5.9
	February	6.3		6.4
	March	5.2		5.3
	April	5.5		5.2
(d) Three month moving average change (£m) (% change at an annual rate in brackets)				
1984	November	102 (9.5)	5	107 (9.9)
	December	60 (5.5)	72	133 (12.3)
1985	January	69 (6.3)	-13	56 (5.0)
	February	36 (3.2)	-1	35 (3.1)
	March	56 (5.0)	-71	-15 (-0.1)
	April	53 (4.8)	8	61 (5.4)
(e) Changes in the month to (£m) (% changes in brackets)				
1985	January	92 (0.7)	-217	-125 (-0.9)
	February	-18 (-0.1)	38	20 (0.1)
	March	93 (0.7)	-33	60 (0.4)
	April	85 (0.6)	18	103 (0.7)

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TABLE 7: RETAIL DEPOSITS

Seasonally adjusted

	BANKS				
	interest bearing deposits	non-interest bearing deposits	Total	Building ¹ Societies	National ² Savings
<u>% change</u>	C	B	O	P	R
1983-84 ³	-1.8	11.3	3.2	18.7	14.3
1984-85 ³	1.9	8.8	4.5	17.1	13.9
Over 12 months					
1984 May	-1.8	11.3	3.2	18.2	14.5
June	-2.3	12.0	3.1	18.6	14.1
July	-1.7	8.4	2.1	18.2	13.8
August	-1.5	11.6	3.4	17.9	13.8
September	-0.7	8.8	3.0	17.4	15.7
October	0.2	8.4	3.4	17.6	14.9
November	1.1	11.4	5.0	17.5	14.7
December	2.9	10.7	6.0	16.7	14.0
1985 January	3.8	7.5	5.3	16.6	13.7
February	5.9	7.2	6.4	16.1	13.0
March	8.4	4.3	6.7	15.2	12.5
April	9.5	3.3	7.0	14.8	12.3
Over 6 months at annual rate					
1984 November	9.5	8.4	9.0	15.6	17.7
December	3.8	9.3	6.0	14.6	16.3
1985 January	4.6	6.8	5.4	16.0	15.6
February	7.1	0.5	4.4	16.9	14.0
March	10.8	2.6	7.5	16.6	7.4
April	12.2	2.9	8.4	15.0	7.3
<u>£mn changes</u>					
monthly average					
1983-84	-39	183	144	1050	271
1984-85	238	56	294	1028	262
monthly change					
1984 November	365	662	1027	1343	292
December	-137	257	120	640	84
1985 January	27	-654	-627	1543	175
February	400	-20	380	1202	64
March	755	-135	620	856	163
April	440	186	626	830	218

Notes

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

TABLE: 8

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NOMINAL AND REAL INTEREST RATESNOMINAL RATESREAL 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
1985	(1)	12.8	8.9	12.9	10.9	5.7	7.1	5.0	3.7	3.2
1984	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	11.3	8.3	11.0	10.9	5.7	5.6	5.2	3.8	3.3
	February	13.4	9.1	14.0	11.0	5.7	7.7	4.9	3.8	3.2
	March	13.6	9.4	13.8	10.9	5.7	7.9	4.8	3.6	3.2
	April	12.7	8.7	12.8	10.7	5.7	7.0	4.8	3.9	3.3
	May	12.8	8.4	12.6	11.0	5.7	7.1	5.0	3.9	3.4

* 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.

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TABLE 9

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

	<u>Retail Prices</u>	<u>Producer Price Index Output Prices</u> (excludes food etc)	<u>Input Prices</u> (All manufactured products)	<u>Underlying Average Earnings</u>	<u>Unit Wage Costs*</u>	<u>Commodity Prices**</u>
1982 (1)	11.1	7.6	13.2	10.8	3.2	-7.1
(2)	9.3	7.1	7.6	10.1	4.3	-13.1
(3)	8.0	6.8	4.8	8.9	4.8	-13.7
(4)	6.2	6.1	4.0	8.4	5.1	-6.2
1983 (1)	4.9	5.1	5.6	7.9	2.6	3.1
(2)	3.8	5.4	6.7	7.5	2.8	23.5
(3)	4.6	5.4	8.1	7.7	1.2	27.1
(4)	5.0	5.6	7.5	7.8	1.2	23.6
1984 (1)	5.1	5.8	7.2	7.8	2.7	15.5
(2)	5.1	5.6	8.4	7.8	2.3	-3.5
(3)	4.7	5.5	7.3	7.5	3.7	-13.9
(4)	4.8	5.7	9.2	7.5	5.1	-10.4
1985 (1)	5.5	6.3	9.5			-9.5
1984 March	5.2	5.9	7.0	7.8	3.7	11.7
April	5.2	5.6	8.7	7.8	2.7	4.2
May	5.1	5.6	8.5	7.8	2.2	-5.1
June	5.1	5.5	8.1	7.8	2.1	-9.7
July	4.5	5.5	8.4	7.5	3.6	-13.7
August	5.0	5.5	6.6	7.5	3.6	-13.0
September	4.7	5.6	6.9	7.5	3.9	-14.9
October	5.0	5.7	9.4	7.5	4.3	-12.1
November	4.9	5.6	9.3	7.5	5.0	-9.4
December	4.6	5.7	9.0	7.5	5.8	-9.8
1985 January	5.0	6.2	9.0	7.5	5.8	-8.9
February	5.4	6.4	10.0	7.3	5.5	-9.2
March	6.1	6.3	9.6			-10.8
April	6½	6.5	6.1			-6.8

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

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

SECRET (AND PERSONAL UNTIL 2.30PM, THURSDAY 16 May 1985)

Table 10: Sterling lending to the private sector

	<u>£ million</u> <u>Seasonally adjusted</u>					
	<u>Actual</u>			<u>Forecast</u>		
	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUNE</u>	<u>JULY</u>
<u>Adjusted lending</u>	1715	1670	1630	1600	1550	1500
Bills held by NBPS(-)	-	-160	170	-50	150	-100
PSBR offset	-200	-110	65	95	-410	465
Capital allowances	50	100	1000	-250	-250	-250
Net round tripping	75	200	-100	-250	-50	-
British Telecom 2nd call	-	-	-	-	150	20
Error in clearing	-	140	-140	-	-	-
Actual/forecast recorded lending	1640	1840	2625	1145	1140	1635
	=====	=====	=====	=====	=====	=====

Table 11: Gilts

	<u>£ million</u>					
	<u>Actual</u>			<u>Forecast</u>		
	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUNE</u>	<u>JULY</u>
Calls*	435	611	-	-	-	-
Other gross sales	1879	1093	1310	1250	1250	1250
<u>'GROSS' SALES</u>	2314	1704	1310	1250	1250	1250
Buying-in next maturities [†]	-35	3	-66	-13	-250	-20
Redemptions	-1	-389	-138	-	-1177	-810
<u>TOTAL NET SALES</u>	2278	1318	1106	1237	-177	420
Purchases (-) by:						
Overseas	-407	-265	-245	-150	-125	115
Banks	-318	-252	36	-100	50	15
LDMA	61	-21	-194)))
Public Corporations	-62	10	4	-	-	-
<u>NET SALES TO NBPS (+)</u>	1552	790	707	987	-255	550

* of which calls on : -

† of which, buying in of: - 11½% Treasury to be redeemed on 15 July
 - 8¾% Treasury to be redeemed on 3 September

Table 12: Money Market Influences

	£ million not seasonally adjusted			
	Actual	Forecast		
		Apr	May	June
A. Money market influences				
CGER (increase +)	2670	680	3405	-1400
Reserves etc (+)	331	155	-20	-10
Notes and coin (-)	-207	-10	-105	-345
National Savings (-)	-263	-265	-325	-225
CTDs (-)	-308	315	-100	-50
Gilts (-)	-1106	-1235	177	-420
Other Exchequer items etc	-10	-	-	-
	—	—	—	—
TOTAL MONEY MARKET INFLUENCES (Market surplus + / shortage -)	<u>1107</u>	<u>-360</u>	<u>3032</u>	<u>-2450</u>
B. Money market operations				
Commercial bills (purchase +)				
- Issue Department	900			
- Banking Department	-1230			
LA bills (purchase +)				
- Issue Department	-191			
- Banking Department	-2			
Treasury bills (purchase +)	-247			
Market advances	-3			
Other †	<u>-201</u>	—	—	—
TOTAL MONEY MARKET OPERATIONS	<u>-974</u>	<u>360</u>	<u>-3032</u>	<u>2450</u>
Change in bankers' balances	133			
TOTAL ASSISTANCE OUTSTANDING*	16882	17242	14210	16660

* excluding Treasury bills

†	Export Credit Repo	36
	Gilt Repo	-237