

*Mr. Adda
May not be seen
PRCC 9/2
Prime Minister*

MONTHLY MONETARY ASSESSMENT : JANUARY 1988*

Summary Assessment

Although the economic indicators have been more mixed over the last month, this probably reflects reeaction from exceptionally strong indicators previously rather than pointing to any downturn. Money GDP in 1987-88 is now projected to grow by nearly 10 per cent compared to 8½ per cent growth projected in the Autumn Statement. The policy stance may also have eased over the last month; the oil adjusted exchange rate has fallen by ¼ point, mainly reflecting recovery in the dollar.

Main Points

M0 provisionally grew by 4.6 per cent in the year to January. The 12 month growth rate is projected to rise to around the top of the 2-6 per cent range in February and March (paras 26-28).

Broad money growth in December was moderate, despite some likely distortion from round-tripping. M4 grew by 1¼ per cent in December and the 12 month growth rate rose to 16¼ per cent from 15¼ per cent in November (paras 30-33).

Bank lending grew by 2.6 per cent in December. This was boosted by round-tripping and by arbitrage opportunities against dollar borrowing. But the underlying factor was probably companies' borrowing from banks to replace funds obtained from equity issues prior to the Stock Market fall. The same factor may have restrained monetary growth as firms drew on their liquidity (paras 30, 38-40, 52-53).

Sterling was broadly stable against the mark but fell against the dollar. The effective rate index fell by about 1½ per cent and the oil adjusted index by about ¼ per cent (para 21).

World economic growth quickened in the second half of 1987. Commodity prices resumed their rise in December after pausing in the previous two months (paras 1-2).

House price indicators give contradictory evidence. But the overall picture is of rapid inflation, concentrated in the region around London (para 15).

MG2 Division
5 February 1988

* This assessment was made before the ½ per cent base rate increase on 1 February.

A. External Developments

1. Overall in the major countries, economic growth quickened in the second half of 1987 (see table 1). Industrial production in November was over 10 per cent higher than a year earlier in Japan, while US GDP grew by 3.7 per cent over the year to the fourth quarter of 1987. There are few signs so far that the fall in **share prices** has weakened activity - although survey evidence points to a weakening of consumer confidence in the US. Growth is expected to remain strong in the first part of 1988, but weaken somewhat, in North America particularly, later in the year.

2. Inflation in the G5 countries has remained at about 3 per cent since August, following the rise earlier last year. Domestic cost pressures remain weak, with unit labour costs falling in most of the major countries last year (table 1). The rise in **commodity prices** was interrupted in late October and early November, following the share price falls, but has since been resumed. **Oil prices** fell in early December, but have since recovered.

3. Following concerted intervention, the **dollar** has risen since the beginning of the year, but is still lower, in effective terms, than at the time of the Louvre Accord (table 3b).

Conditions in West Germany

4. The differential between German and British consumer price inflation rates narrowed from almost 5 per cent to 3 per cent during 1987, as prices in Germany have gradually started to rise again. But German inflation is not expected to rise much beyond the current rate of 1 per cent; both unit labour costs and import prices (measured in DM) are barely rising. **Economic activity** remains sluggish, with real GDP rising by 1.7 per cent in 1987, and is expected to remain so in 1988.

5. Concern that fast growth in monetary aggregates might cause the Bundesbank to raise interest rates may have receded somewhat with the substitution of M3 for CBM as the targeted aggregate.

M3 growth has been close to the upper end of the 3-6 per cent target range, while CBM - which is more interest-elastic because of its large currency component - has been growing over 2 per cent above the range.

6. The Federal **borrowing requirement** in 1987 turned out at DM 27.5 billion - a DM 5 billion overshoot. For 1988, there is expected to be a DM 10 billion overshoot to DM 40 billion. This is due to the effects of a lower dollar on the DM value of Foreign exchange reserves, higher EC contributions and lower tax revenues due to sluggish growth. This estimate takes account of the tax cuts and public expenditure announcements made before Christmas. However, Stoltenberg has stated his intention to hold the deficit to DM 30 billion in 1989 despite his commitment "not to offset budget revenue losses arising from recent developments" in 1988 (G7 communique, 23 December). Further tax reductions are not scheduled until 1990.

B. Activity and Inflation

7. Table 4 summarises recent indicators of **activity and inflation**. This month's indicators of activity have been more mixed than last month's buoyant figures; this may reflect some moderation in economic activity following exceptionally strong growth through 1987. Inflation indicators showed little underlying change between November and December, much as anticipated.

Recent indicators of activity

8. Monthly figures for production industry output show a $\frac{1}{2}$ per cent fall in **manufacturing output** in November. The first quarter CBI survey of manufacturers, published on 26 January, showed total and export order books still strong and buoyant output expectations. But a sharp reduction in business optimism is also reported, perhaps reflecting increased uncertainty following the share price fall.

9. **Consumer spending** appears to have been particularly strong in November, both retail sales and new car registrations proved

very buoyant. Provisional figures for retail sales in December show a fall-back of around 1 per cent, to a level 5 per cent up on a year earlier. The first preliminary estimate of fourth quarter consumers' expenditure shows spending virtually unchanged from the third quarter, but 5¼ per cent up on a year earlier.

10. **Private housing starts** recovered somewhat in November after a low outturn in October. As yet, there are no signs of a significant downturn in housing construction activity.

11. **Labour market indicators** released this month remain strong, but may hint at a slight easing in labour market conditions relative to recent months. Figures for overtime in November showed no change from record October levels. But the 35,000 fall in unemployment in December, though possibly affected by seasonal variation in Special Employment Measures, represents the smallest reduction for six months. The 12,000 fall in vacancies in the same month, though coming after sharp increases in the preceding three months, represents the first fall since February 1987.

Inflation

12. **Retail price inflation** fell to 3.7 per cent in December compared with 4.1 per cent in November. This fall was in line with expectations, and primarily reflected the initial effect on the index of the latest reduction in mortgage interest rates. Excluding the mortgage interest component, the index shows little change in underlying inflation in December relative to recent months.

13. The 12 month increase in the **producer price index** (excluding food, drink and tobacco) in December was 4.7 per cent, down 0.1 per cent from November. CBI Survey responses relating to manufacturers' price expectations - adjusted for seasonal variation - picked up slightly in January. The annual rate of increase in producer input prices (also excluding FDT) was 5.6 per cent in December, up marginally from the (revised) 5.1 per cent November outturn.

14. **Underlying growth in average earnings** rose to 8¼ per cent in November, following outturns of 8 per cent in October and 7¼ per

cent in the preceding 6 months. Most of the increase in the underlying growth rate in October and November can be accounted for by the effects of the recent settlement of Local Authority Manual workers and the second stage of the teachers' award.

15. The latest indicators of house price inflation tell contrasting stories, but the overall picture remains one of rapid growth in house prices led more by the areas around London (East Anglia, the South East and the Midlands) than by London itself. The Halifax index shows annual growth in house prices of 16.3% in January - up from 15.8% in December and the highest 12 month growth rate since the index began in 1983 - and 15.5% in the year to Q4, significantly higher than the 14.6% in Q3. DoE figures also show a rising inflation rate to 16.7% in Q4 from 15.0% in Q3 for completions (20.7% from 14.4% for approvals). In contrast, the Nationwide index for Q4 shows annual growth of 16%, down from 19% in the year to Q3. Recent forecasts for 1988 also differ markedly, from below 10% (Nationwide and Woolwich building societies) to 15% (Halifax), although all forecasters expect a slowdown in the growth of house prices towards the end of 1988. The Royal Institute of Chartered Surveyors monthly report confirms demand recovering strongly in the South East and continuing buoyant elsewhere, but concludes that the outlook for 1988 is still uncertain.

Projections for money GDP

16. The Autumn Statement forecast for 8½ per cent growth in money GDP in 1987-88 is now likely to prove too low both because of upward revision to past data for the GDP deflator and faster than anticipated real activity through 1987. The average increase in money GDP in the years to the second and third quarters of 1987 is currently estimated at 9½ per cent; the winter forecast shows growth for 1987-88 as a whole at just under 10 per cent. The uplift relative to the Autumn Statement comprises similar increases to the forecasts for activity and the GDP deflator. The winter internal forecast projects slower money GDP growth through 1988-89 - to average around 7½ per cent for the financial year as a whole. The deceleration relative to 1987-88 primarily reflects slower growth in real activity, though the GDP deflator also rises slightly more slowly.

17. The latest set of indicators are likely to shift external comment from the risks of overheating to the possibility that we are now seeing the first sign of a slowdown after the share price fall. This would, however, be reading too much into one month's figures. Activity in October and November seems to have been exceptionally high and some deceleration was to be expected.

C. Public Sector Finances and the Fiscal Stance

18. Table 5 gives the main indicators of the fiscal stance. The PSBR in December was £0.2 billion, the buyback offer for BP shares, which closed on 6 January, having had a negligible impact. The April to November outturn for the PSBR has been revised up by £0.4 billion giving a PSBR surplus of £0.4 billion, for the first 9 months of 1987-88 - £5.6 billion below the Budget profile. If privatisation proceeds are excluded, borrowing in April to December has been £2.8 billion lower than for the same period in 1986-87.

19. Central government own account borrowing is £5.5 billion below profile - Table 6 gives details - and public corporations' borrowing £0.5 billion below profile, but local authorities' borrowing is £0.4 billion above profile.

20. The latest (Winter internal) forecast for the PSBR in 1987-88 is a surplus of about £2½ billion. This is appreciably further into surplus than expected in the Autumn (eg. the internal Autumn forecast pre-stock market fall was for a surplus of about £1½ billion). It is also over £6½ billion lower than the FSBR forecast (which was for a PSBR of about £4 billion). On the basis of the internal Autumn forecast the assessment was made that, even after allowing for a higher level of activity, fiscal stance was turning out considerably tighter than envisaged at Budget time. In qualitative terms there would not seem to be anything in the latest forecast to alter this conclusion: the forecasts of activity and inflation in 1987-88 have been revised upwards since the Autumn, but the PSBR forecast shows a higher surplus. Thus fiscal policy would not appear to be contributing directly to the higher than expected growth of output.

D. UK Exchange Rate and External Accounts

21. In January sterling stabilised against the DM at around 2.97 to 2.98, despite continued weakness in the oil market, but it has firmed a little following the half point rise in UK base rates in early February. As the dollar has recovered since early January the \$/£ rate has fallen back sharply, from 1.88 to around 1.77 now, and this largely accounts for the recent easing of the sterling index to around 74½.

22. UK three month interest rates, which fell by ¼ percentage point to 8¾ per cent during January, rose to 9 per cent following the base rate rise on 1 February. US rates have fallen by ½ point since early January, while German rates have edged down by about ¼ point. As a result the interest rate differential against German rates, which had fallen back to 5¼ per cent in the second half of January, has risen to 5¾ per cent.

23. The Brent oil price, which weakened sharply in mid-December following the failure of the OPEC meeting to agree on how to constrain production, rallied briefly around the turn of the year (because one large trader had managed to corner the market in January Brent cargoes) but has steadily fallen back in January to just over \$16 a barrel. But the fall in the exchange rate index since the beginning of January has reduced the oil adjusted ERI by around ¾ per cent.

24. In the absence of upward pressure on the DM/£ rate over the past month there has been little further official intervention.

25. The December trade figures, published on 28 January, showed a current account deficit of £582 million, broadly unchanged from November but at the pessimistic end of the range of City expectations. Total export volumes rose slightly more than import volumes in December but this was offset by a small deterioration in the terms of trade. In 1987 as a whole non-oil export volumes were 7½ per cent higher than in 1986 compared with a 9½ per cent

rise in non-oil import volumes. The current account deficit for 1987 is now estimated at £2.7 billion, close to the FSB and Autumn Statement forecasts of £2½ billion.

E. Domestic Monetary and Financial Market Developments

(see Tables 10 to 26)

Narrow Money

26. M0 growth has been below expectations since the last assessment, with the level of M0 falling back slightly in the month to January. On the assumption that this fall was erratic - possibly reflecting suspect seasonal factors - and that M0 growth resumes in February at recent levels, the 12 month growth rate of M0 is forecast to rise from 4½ per cent in January to around the top of its target range of 6 per cent in February and March, as the fall in M0 in February 1987 drops out of the annual comparison.

27. M0 (seasonally adjusted) provisionally fell by 0.3 per cent in January but the 12 month growth rate rose to 4.6 per cent, from 4.3 per cent in December, reflecting the sharp fall in the level of M0 in January 1987. The erratic falls in the level of M0 in both January 1987 and 1988 suggest suspect seasonal factors at this time of the year.

28. Assuming a resumption of the steady growth of M0 from its lower level in January, the forecast has the 12 month growth rate of M0 rising sharply in February and March, to around 5½ and 6 per cent respectively, before dropping back to under 6 per cent from July. The sharp increase in the annual rate forecast in February mainly reflects a fall in the level of M0 in February 1987. But the 12 month growth rate is unlikely to breach its 6 per cent target in February, as an abnormally low level of bankers' deposits in the first week of the month will depress the annual rate by about ¼ percentage point.

29. NIB M1 rose by £0.4 billion (a fall of £0.1 billion seasonally adjusted) in December and the annual growth rate was little changed

at about 10½ per cent. Interest-bearing sight deposits fell by £0.7 billion in December, partly reflecting the unwinding of an equity issue in September, the proceeds of which (£0.3 billion) were initially placed on retail deposit prior to investment during December. Together with the increase in NIB M1, this gives a £0.3 billion fall in M1. But the 12 month growth rate of M1 rose to 22¼ per cent in December, from 21¼ per cent in November, reflecting the effects of the British Gas sale on M1 a year ago.

Broad Money

30. The main features of the December money figures were moderate broad money growth - below the average increase over the past year - coupled with very high bank lending, over £5 billion. The private external counterpart was heavily negative, slightly outweighing the effects of heavy intervention, so that the externals were contractionary. A number of factors may help to explain this pattern (see especially para 38 below). But the underlying feature may be the predicament of companies after the stock market fall (see para 52 below). The evidence is broadly consistent with their turning both to bank borrowing and to accumulated liquidity to replace the finance formerly but no longer available from equity issues.

31. **M4** grew by £5.0 billion (1.7 per cent) in December and at an annual rate of 16¼ per cent, compared to 15¼ per cent in November. Seasonally adjusted M4 growth in the month to December was around its average level of recent months, the higher 12 month rate mainly reflecting the high growth of broad money in November 1986 before the British Gas sale, which depressed the 12 month comparison in November. **M3** rose by £2.7 billion (1.4 per cent) in December, slightly below the average of recent months, and the 12 month rate increased to 22¼ per cent, from 21½ per cent in November.

32. With respect to the **M4** components, holdings of M3 by the private sector excluding building societies rose by £1.7 billion, compared to an average of £2.2 billion over the previous 12 months. Private sector retail deposits with the building societies were £3.0 billion

in December, of which £1.9 billion was interest credited. Wholesale funding of the building societies by the private sector was £0.3 billion.

33. With respect to the **M3 components**, apart from the £0.4 billion increase in NIB M1, interest-bearing retail deposits fell by £1.0 billion - the first fall since August 1986 - and wholesale deposits including CD's rose by £3.3 billion, of which nearly £1.0 billion is accounted for by building societies. The large fall in retail deposits in December is largely unexplained, although a contributory factor may have been the higher than expected tax payments in December, including some Corporation tax paid early. Wholesale deposits may have been inflated - perhaps by up to £½ billion - by round-tripping (see paragraph 38), and by companies building up liquidity prior to their large Corporation tax payments in early January.

34. **Building societies' retail position** continued to benefit from the effect of the stock market crash on unit trust and equity investment, with a seasonally adjusted inflow of £¼ billion in December. This was considerably lower than the November figure, but that was distorted by inflows related to the BP privatisation and also reflected a competitive advantage, no longer present in December, over bank accounts. But societies also borrowed heavily (£¼ billion) on the wholesale markets. Some of this borrowing was probably related to the announcement of the raising of the limit on wholesale funding, which has also led to three societies setting up euro CD facilities for a total \$1.25 billion recently, but over £300 million consisted of increases in time deposits and was probably involuntary.

35. As a result of these retail and wholesale inflows, **societies' liquid assets** rose by over £1 billion, the largest increase of 1987 - this despite tax payments of £310 million. Within liquid assets, bank deposits (including CD's) rose by £1 billion; gilts rose by £0.2 billion, possibly as a delayed response to societies' large disposals in October; and holdings of bank bills fell by £0.2 billion.

36. The broad money forecast for January is dominated by the funding position: M3 and M4 are forecast to fall in January by £2½ billion (1½ per cent) and £1 billion (¼ per cent), respectively, because of the expected Central Government surplus of £5½ billion and consequent overfunding, in excess of that last year. 12 month growth rates of M3 and M4 are forecast to fall by about 1 per cent and ¼ per cent, respectively, to 22 per cent and 16 per cent in January.

Credit

37. Bank and building society lending rose by £5.9 billion (1.8 per cent) in December and at an annual rate of 18½ per cent, slightly below the 19 to 20 per cent range typical of 1987.

38. Sterling bank lending grew by 2.6 per cent in December and at an annual rate of 22¼ per cent, the 12 month rate being in line with recent months. Several factors may have contributed to the high growth in December:

(i) Takeover activity has been increasing lately and the slump in equity issues may have led to some substitution of bank borrowing to finance this, including the use of syndicated loans. The CLSB returns also suggest a high level of corporate borrowing, particularly amongst property companies (see paragraph 42);

(ii) Both anecdotal and statistical evidence suggest widespread round-tripping throughout the second half of December, as the Bank's money market operations put downward pressure on 3 month bill rates relative to interbank rates. Monetary sector holdings of bills rose by £1½ billion in December, with most purchases occurring throughout the second half of the month. Outside commentators have estimated that round-tripping may have been of the order of £½ billion in December;

(iii) A significant differential opened up in the second half of December between 3 month bill rates and US commercial

paper rates (adjusted for forward cover), making it profitable for companies to switch their borrowing out of US paper into domestic bills, swapping the proceeds into dollars. Anecdotal evidence suggests this occurred on a significant scale in December;

(iv) December is an interest charging month, accounting for about £1½ billion (0.6 percentage points) of the rise in bank lending, which is offset within NNDL's in the broad money counterparts.

39. Foreign currency lending fell by £1.9 billion in December after having fallen by £1.6 billion in November. It is possible that at least some of this further reduction in foreign currency borrowing by the private sector represents the unwinding of October's hedging activity, when the private sector increased its currency bank borrowing by £3½ billion. With the fall in stock markets - and hence a fall in the value of portfolios - institutions may still have been overhedged, giving rise to the repayment of some of their currency borrowing. Foreign currency deposits of the private sector fell by under £0.4 billion in December, so that if repayments of currency borrowing were largely financed by running down sterling deposits, this would have contributed to the below average growth of broad money in December.

40. Overall the private sector reduced its net foreign currency liabilities with the monetary sector by £1.5 billion, and increased its net sterling liabilities by £2.4 billion, in December. But it was probably not the same individuals engaging in these transactions. The quarterly industrial analysis to November and CLSB returns for December (see paragraph 42) confirm that investment and unit trusts have been the only group in which sterling and currency borrowing were usually inversely related during 1987.

41. Building societies' mortgage lending strengthened slightly in December to a seasonally adjusted £1.3 billion. This figure probably reflects the competitive position before the equity price crash and gives little indication of the effect of the crash on

mortgage demand. But commitments figures for the 15 largest building societies, with 86% of all societies' assets, show little evidence of downturn in mortgage demand.

42. Several analyses of recent bank lending figures - namely the CLSB banks' breakdown by industry for December, all banks' breakdown by industry in the quarter to November, and the sectoral breakdown in Q4 1987 - all point to a continuation of the pattern of lending seen in the previous quarter. Sterling borrowing by persons remained very buoyant, both for house purchase and consumption; sterling lending to industrial and commercial companies accelerated, with growth particularly concentrated in lending to property companies and lending to small businesses; and sterling lending to the financial sector moderated, driven in particular by continuing repayments of borrowing by securities dealers and gilt-edged jobbers and by building societies. There is, however, evidence of distress lending (of £0.3 billion) by the banks to their non-bank financial subsidiaries during Q4, following the stock market crash. (This lending was capitalised during December, with no net effect on total bank lending in December.) Repayments of foreign currency borrowing were again concentrated in the financial sector, with large repayments by unit trusts unwinding their hedging of overseas assets built up earlier in the year.

Other Broad Money Counterparts

43. A PSBR of £0.2 billion and an increase in the reserves of £1.9 billion were underfunded in December by £1.3 billion, with negligible debt sales to the overseas sector and debt sales to the private sector of £1.2 billion. Cumulative underfunding in 1987-88 to date is £2.4 billion. Assuming a full fund over the financial year with no further intervention (see Annex for details), there is expected to be overfunding of £6.2 billion in January and £0.7 billion in February, followed by underfunding of £4.1 billion in March. This implies gross gilt sales, excluding calls, of £1.6 billion over the remainder of the financial year. The building societies purchased £0.4 billion of public sector debt in December, giving a slightly more expansionary public sector

contribution to M4 of £1.7 billion, which is also the cumulative public sector contribution to M4 in 1987-88 so far. The residual counterparts to M4 were contractionary by £2.6 billion, nearly all of which was within the banks' external transactions.

44. External influences on money were mildly contractionary in December. This was against a background of a rising exchange rate in the first half of December - requiring spot market intervention of £2.6 billion to cap the DM/£ rate - but a weakening exchange rate thereafter (except against a weak dollar). The counterparties to the intervention seem to have been mainly banks and overseas residents: the banks switched into sterling by £1.8 billion and overseas residents increased their net sterling deposits by £0.5 billion. Hence it appears that the intervention has not fed through into money. Banks' £NNDL's in December were contractionary by £1.6 billion; banks' capital was boosted by the combined effects of interest charging and capital issues.

Money Markets and Interest Rates

45. **Money market rates** started January at a premium to base rates, ranging from 8.7 per cent at one month to 9.5 per cent at 12 months. The $\frac{1}{2}$ per cent increase in base rates to 9 per cent, announced on 1 February had little effect on rates, which currently range from 8.8 per cent at one month to 9.4 per cent at 12 months. 3 month yields on eligible bills - which were typically over $\frac{1}{4}$ percentage point below interbank rates in the second half of December - remained at a similar discount to interbank rates in the first half of January, with the gilt repo on 13 January having little effect. But the interest differential narrowed during the second half of the month and has now disappeared. Anecdotal evidence suggests that round-tripping occurred on a significant scale in the first half of January, which will have inflated the money figures.

46. The stock of **money market assistance** rose to a seasonal peak of £12 $\frac{1}{2}$ billion at the end of January from £7 $\frac{1}{4}$ billion at end December. Some £1 $\frac{1}{2}$ billion of Treasury bills sold in October and November matured in January, reducing the need for commercial bill

purchases accordingly. The need for bill purchases was further reduced by a £1½ billion gilt repo, although this was undertaken primarily in an attempt to influence money market rates (see para 45). The stock of assistance is expected to remain at about £12½ billion until the end of February, and to fall back in March, due to the seasonal CG deficit, to about £9½ billion.

Gilts

47. Gilts began January with the index at 88.4 and 5, 10 and 20 year par yields at 9.1, 9.6 and 9.5 per cent respectively. The rise in bank base rates at the beginning of February had some impact on gilt prices which fell immediately on the news, having risen slightly during January. These losses have since been recovered somewhat, and the gilt index currently stands at 89.3, with par yields at 9.2, 9.4 and 9.3, indicating a flattening of the yield curve since the beginning of January.

48. The third and final experimental gilt-edged auction was conducted on 13 January. The stock offered was a medium, 8¾ Treasury Stock 1987 "C". The auction was covered 1.07 times, and the stock was sold at a weighted average yield of 9.99%. The lowest price which stock was allocated was £91.50, implying a yield to redemption of 10.15%.

49. Real yields on **index-linked stock** began January at around 2.8 per cent at the short end, rising to 4.0 at the longer end, although very long issues were around 3.8 per cent. They subsequently moved up by around 0.1 per cent at all but the shortest maturities, before falling back to end January much as they began it. The base rate rise had little effect. Breakeven inflation rates for index-linked Treasury 1990 and 2006 are currently 4.5 and 5.4 per cent respectively, compared with 4.6 and 5.6 per cent at the end of December. Together with the easing of long gilt yields, this would be consistent with some reduction in inflation expectations over the past month, possibly related to the release of less buoyant statistics on the real economy recently which has

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reduced fears of overheating (see paragraph 17). The **equity dividend yield** (based on the all-share index) stands at 4.2 per cent, unchanged from the end of December.

Capital Markets and Corporate Finance

(see tables 20-21)

50. **Equity prices** (measured by the FT All Share Index) strengthened a little further during January, having risen by 9 per cent during December, but the market remains nervous. This is reflected in the scarcity of equity issues, see paragraph 52. The index currently stands at 906, 1 per cent down on a year ago and 27 per cent down on its July peak.

51. There were net inflows into **unit trusts** of £150 million in December, compared to a small net outflow in November. Gross sales of unit trusts have continued to fall, however, from £1.7 billion in October to £0.7 billion in December. The net inflow of £150 million in December compares to a monthly average of £1.00 billion in Q3 1987 and £0.5 billion in 1987 as a whole.

52. The short-term effects of the stock market crash on the pattern of **corporate finance**, and thus on the money figures, are beginning to emerge. With their equity issues having fallen from an average of £2½ billion per month in the third quarter of 1987 to just £¼ billion per month in December and January, UK industrial and commercial companies will have to turn to other sources of finance. While there have been signs of some resurgence in the eurobond market, issues by UK companies only picked-up during January and the rise in base rates has since depressed the market. Issues of sterling commercial paper were also depressed in December (see below). Hence the main counterparty to corporate financing is likely to have been the monetary sector.

53. Corporate bank borrowing may have been as high as £3½ billion in December, of which £1½ billion was bill finance - which may have been inflated by round-tripping. There also have been

announcements of considerable quantities of syndicated credit and multiple option facilities over the last month - some being takeover related. It seems probable that some of these facilities will be exercised, boosting bank lending.

54. Unpublished early estimates of life assurance companies' investments in the fourth quarter of 1987, which in the past have given a reasonable guide to the direction of flows, suggest that life companies sold overseas company securities heavily and acquired UK company securities, as well as accumulating liquid assets. The proportion of their assets held overseas may have fallen back sharply to mid-1983 levels, while the proportion invested in UK company securities fell only to the level in early 1987 and the gilts proportion recovered to the early 1987 level. Their liquidity proportion may have risen from about 2½ per cent to about 3¼ per cent.

55. The stock of sterling commercial paper (SCP) outstanding fell by £270 million in December, to £2.1 billion, with net redemptions by UK companies of £250 million reducing the stock to £1.2 billion. Monetary sector holdings of SCP fell by £200 million, to £0.5 billion. The fall in stocks in December mainly reflects lower issues, which in part could be seasonal - for example, retailers would curtail their SCP issues because of high seasonal revenues - and may also reflect the relative attractiveness of bill finance during December. But issues also fell in November and stocks of SCP outstanding are now back to their levels over the summer.

MG2 Division

5 February 1988

Monetary developments since last month's report

Latest outturns available at time of:

	July Report	Dec Report	Jan Report
Monetary aggregates (12 month % growth)	(June)	(Nov)	(Dec)
M0 (sa)	4.2	4.9	4.3(4.6 ⁺)
M3	19.1	21.4	22.8
M4	13.8	15.2	16.3
M5	13.5	14.6	15.7
Bank lending	21.5	22.5	22.7
Bank & building society lending (est)	19.3	19.0	18.8
Interest rates (%)	28 July	22 Dec	3 Feb
3 month interbank	9.3	8.9	9.0
20 year gilt-edged (par yield)	9.5	9.6	9.3
Yield gap	-0.2	-0.7	-0.3
UK real 3 month interbank	5.6	4.7	4.8
Equity dividend yield (all-share)	3.0	4.3	4.2
IG yield (2001) assuming 5% inflation	4.1	4.0	4.0
3 month UK interest differential with:			
Germany	5.4	5.2	5.7
US	2.4	1.0	2.2
World basket	3.0	2.2	2.9
Exchange rate			
DM/£	2.97	2.98	2.98
ERI	72.6	75.6	74.4
Oil adjusted ERI	98.4	105.1	104.3
(Oil-adjusted reference index)	(73.8)	(71.9)	(71.3)
Asset prices			
FT-A Index (% pa)	55.9	7.5	-0.7
FT-A Level (July peak: 1239)	1199	885	906
Halifax house index (% pa)**	14.3	15.8	16.3

⁺ January outturn (provisional)

* indicates what ERI would be if exchange rate simply responded to oil prices in the ratio 1:4. In determining the reference rate the base taken is the Jan '83 - Nov '85 average for the ERI and oil price.

** figures are for July, December and January.

BROAD MONEY FORECAST

1A. The broad money forecast for January is dominated by an expected Central Government surplus of £5½ billion, resulting in large overfunding and a fall in the level of broad money: M3 is forecast to fall by £2¼ billion (1½ per cent) and M4 by £1 billion (¼ per cent). The CG surplus is, of course, seasonal, with falls in both M3 and M4 also occurring in January 1987. The fall in 1987 is, however, less than is forecast for 1988 so that annual growth rates of M3 and M4 are expected to fall by about 1 per cent and ¼ per cent, respectively, to 22 per cent and 16 per cent. The seasonal adjustments should, in theory, smooth the CG surplus and its effect on money growth over the financial year. In practice, however, the adjustments are based on much lower forecasts of the CG surplus, so that even in seasonally adjusted terms money growth is expected to be low in January - a rise of only 0.1 per cent in M3 and a fall of 0.2 per cent in M4.

2A. The unadjusted annual growth rate of M3 is forecast to fall further to 21½ per cent in February and 20½ per cent in March, while annual growth of M4 is expected to remain at about 16 per cent.

3A. There are few other special factors affecting the money and bank lending forecasts (see tables 1 and 2). It is assumed that there will be no intervention during the forecast period, and that the PSBR and the reserves increase will be fully funded over the financial year (including an extra £0.4 billion of funding to compensate for the 1986-87 underfund). The impact of January's overfund on money is partly offset by an assumed boost of £¼ billion to bank lending - £¼ billion of it due to a fall in the bill leak associated with Bank of England purchases of commercial bills. In addition it is likely that bank lending may be boosted in the forecast period by increased use by companies of syndicated bank credits to replace equity issues. The magnitude of the switch is uncertain, since although a number of large credits are known to have been arranged recently, the draw-down dates for the facilities are not known and many of the loans are in foreign currencies. The forecast assumes a boost to sterling lending of £100 million per month.

4A. Building societies' retail inflows are forecast to remain extremely buoyant over the next few months at a level only slightly lower than that of December. But large tax payments will mean little growth in liquid assets and societies may therefore borrow small sums on the wholesale markets; at least one society is known to have issued eurobonds in January and the large recently arranged euro-CD facilities also point towards significant wholesale borrowing requirements in the near future. Within liquid assets, societies are likely to run down CTD holdings as tax payments fall due.

5A. The reasonably strong performance of mortgage commitments over the post-crash period points to moderate growth in societies advances over the next three months, although anecdotal reports of withdrawals from offers on houses, if true, may lower the number of completions relative to approvals. Whether the steady performance of building society commitments is a result of overall housing market conditions or reflects a growth in market share by societies is less easy to judge, but we do expect societies to gain share over the medium term at least.

ANNEX TABLE 1Broad Money Forecasts

	<u>£ million not seasonally adjusted</u>							
	<u>1987 DECEMBER</u>		<u>1988 JANUARY</u>		<u>FEBRUARY</u>		<u>MARCH</u>	
	<u>M4</u>	<u>M3</u>	<u>M4</u>	<u>M3</u>	<u>M4</u>	<u>M3</u>	<u>M4</u>	<u>M3</u>
(i) Underlying Increase*	4424	2106	-1875	3700	3275	2925	7125	6175
Special Factors:-								
Bank lending	550	550	900	900	100	100	-50	-50
(ii) Total Special Factors	550	550	900	900	100	100	-50	-50
(iii) Total Increase	4974	2656	-975	-2800	3375	3025	7075	6125
% Change on previous month	1.7	1.4	-0.3	-1.5	1.1	1.7	2.3	3.3
% Change on previous year	16.3	22.8	16.1	21.9	16.3	21.6	16.0	20.3
<u>Memo</u>								
Underlying % Change on previous year	14.9	20.3	14.3	18.8	14.5	18.5	14.3	17.4
% Change expected at Budget time	15.2	17.0	15.6	16.8	15.4	15.7	14.2	13.5

[Line (iii) = Line (i) + Line (ii)]

*Based on the following assumptions:

(a) Underlying bank lending rises by £3.6 billion per month and building society lending rises by £1.4 billion per month, both seasonally adjusted

(b) The public sector contribution to M4 and M3 is as follows:

	<u>December</u>	<u>January</u>	<u>February</u>	<u>March</u>
M4	1640	-6275	-775	3950
M3	1262	-6175	-675	4050

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ANNEX TABLE 2

Lending Forecasts

		£ million											
		1987 DECEMBER			1988 JANUARY			FEBRUARY			MARCH		
		Bank Lending	Build- ing Society Lending	Lending Counter- part to M4*	Bank Lending	Build- ing Society Lending	Lending Counter- part to M4*	Bank Lending	Build- ing Society Lending	Lending Counter- part to M4*	Bank Lending	Build- ing Society Lending	Lending Counter- part to M4*
(i)	Underlying Increase	4354	1068	5084	3600	1350	4900	3600	1400	4900	3650	1450	4900
	Special Factors												
	PSBR offset	500	-	500	-500	-	500	0	-	0	-150	-	-150
	Bill leak	-50	-	-50	300	-	300	-	-	-	-	-	-
	Take-overs	100	-	100	100	-	100	100	-	100	100	-	100
(ii)	Total Special Factors	550	-	550	900	-	900	100	-	100	-50	-	-50
(iii)	Total Increase (seasonally adjusted)	4904	1068	5634	4500	1350	5800	3700	1400	5000	3600	1450	4950
	Total Increase	5372	907	5941	4000	1150	5100	3600	1225	4725	2475	1475	3850
	% Change on previous year	22.7	13.2	18.8	24.0	12.8	19.5	24.2	12.9	19.7	23.3	13.0	19.2
	<u>Memo</u>												
	Underlying % Change on previous year	22.4	13.2	18.6	23.2	12.8	19.0	23.3	12.9	19.0	22.5	13.0	18.7
	% Change expected at Budget time	18.5	15.8	16.9	18.9	16.0	17.1	18.5	16.3	17.0	18.4	16.6	17.3

*Excludes bank lending to building societies (which is included under Bank Lending)

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ANNEX TABLE 3

BROAD AGGREGATES FORECAST

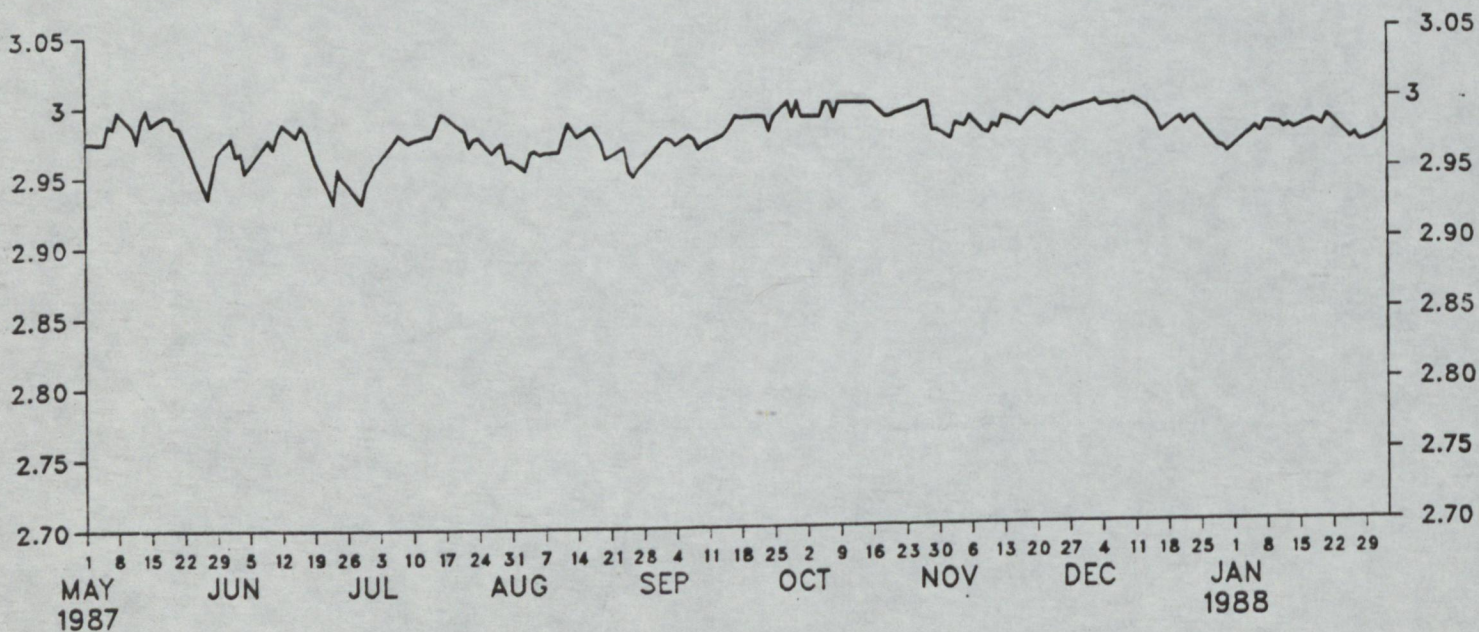
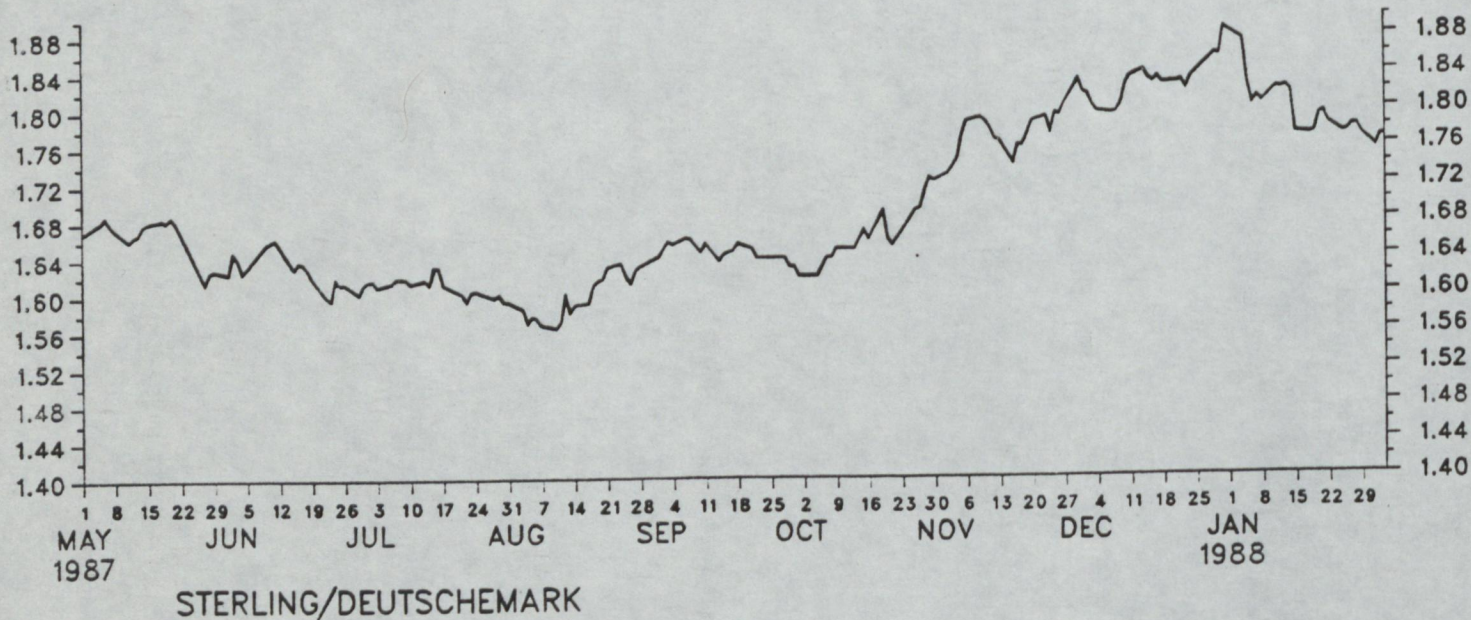
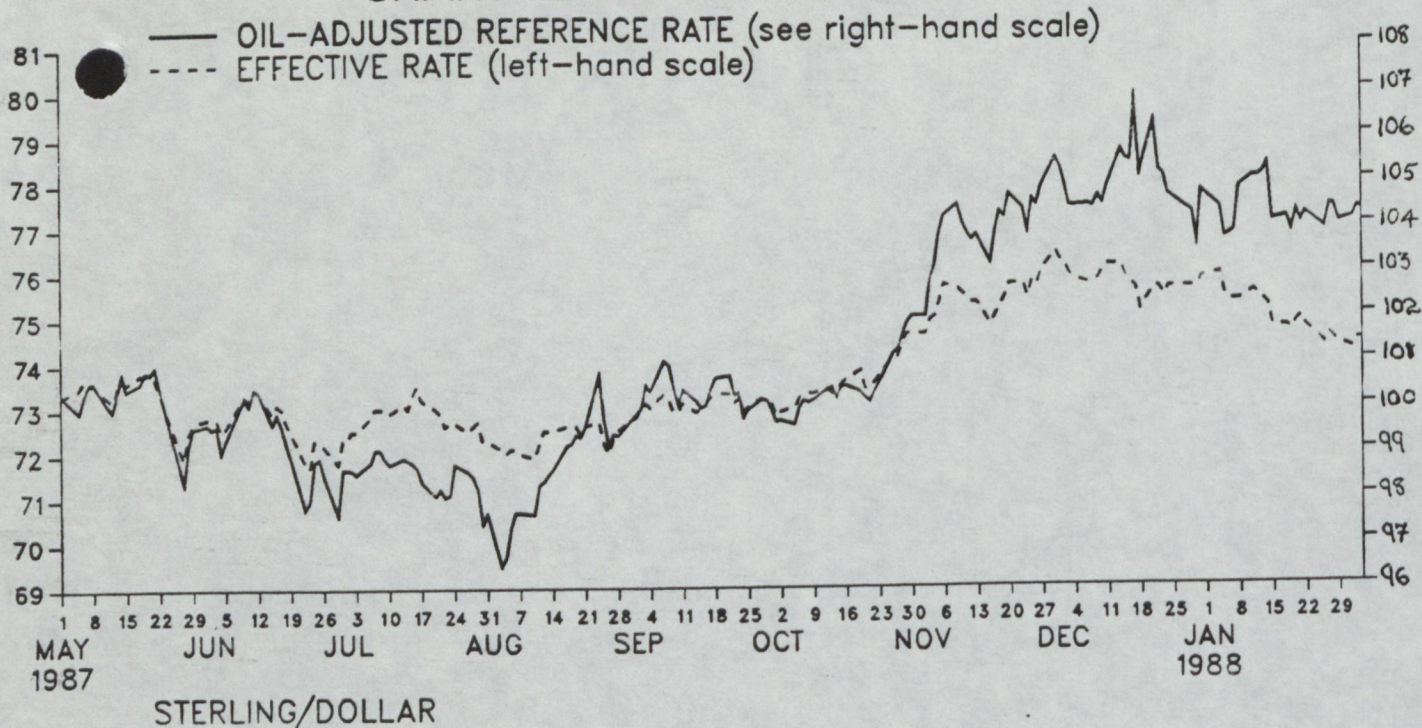
	£ mn u/a			
	OUTTURN 1987 DEC	FORECAST 1988 JAN	FEB	MAR
1. CG (OA) (SURPLUS-)	-536	-5725	375	3050
2. LABR	638	-300	-100	900
3. PCBR	94	-125	-300	-125
4. PSBR(1+2+3)	196	-6150	-25	3825
5. NET DEBT SALES TO NBPS (-)				
GILTS	-701	-625	-500	200
TREASURY BILLS etc	9	325	0	0
NATIONAL SAVINGS	-165	-225	-175	-200
CTDs	-18	400	75	25
OPS DEBT	-264	100	100	300
TOTAL	-1139	-25	-500	325
6. EXTERNAL FINANCE OF PUBLIC SECTOR (INC-)	2205	0	-150	-100
7. OVER (-)/UNDER (+) FUNDING (4+5+6)	1262	-6175	-675	4050
8. STERLING LENDING TO NON-BANK PRIVATE SECTOR	5372	4000	3600	2475
(seasonally adjusted)	(4904)	(4500)	(3700)	(3750)
9. PRIVATE NET EXTERNALS AND NET NON-DEPOSIT LIABILITES	-3978	-625	100	-400
10.M3 (7+8+9)	2656	-2800	3025	6125
BUILDING SOCIETIES:				
11. RETAIL DEPOSITS	2980	2325	800	825
12. WHOLESALE DEPOSITS NBPS	324	25	50	150
13. HOLDINGS OF M3 (-)	-986	-525	-500	-75
14.M4 (10+11+12+13)	4974	-975	3375	7025

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MONTHLY MONETARY REPORT : CHARTS

- I Exchange Rate Short Term
- II UK/US interest rate differential
- III Narrow money growth
- IV Broad money growth
- V Real M0 growth
- VII FSBR budget profile M0
- VIII FSBR budget profile M3
- X Retail Deposits
- XI Bank and Building Society Lending
- XII £ Corporate bond issues
- XIII Money Market Assistance
- XIV Nominal Interest Rates
- XV Yield Curve
- XVI Real Yields
- XVII House prices 1
- XVIII House prices 2
- XIX Capital Markets

CHART I: EXCHANGE RATE



UK/US INTEREST RATE DIFFERENTIAL

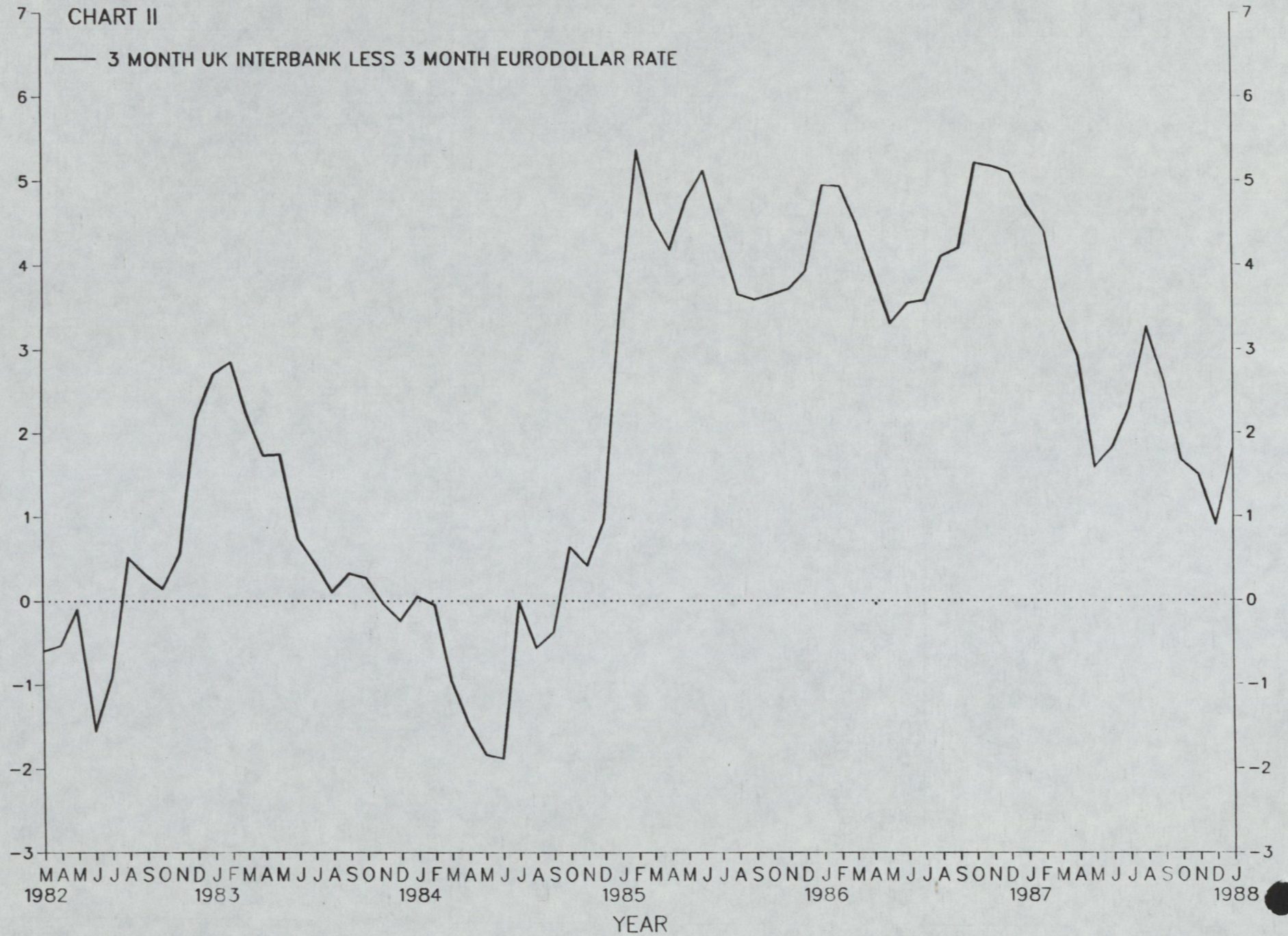


CHART III NARROW MONEY

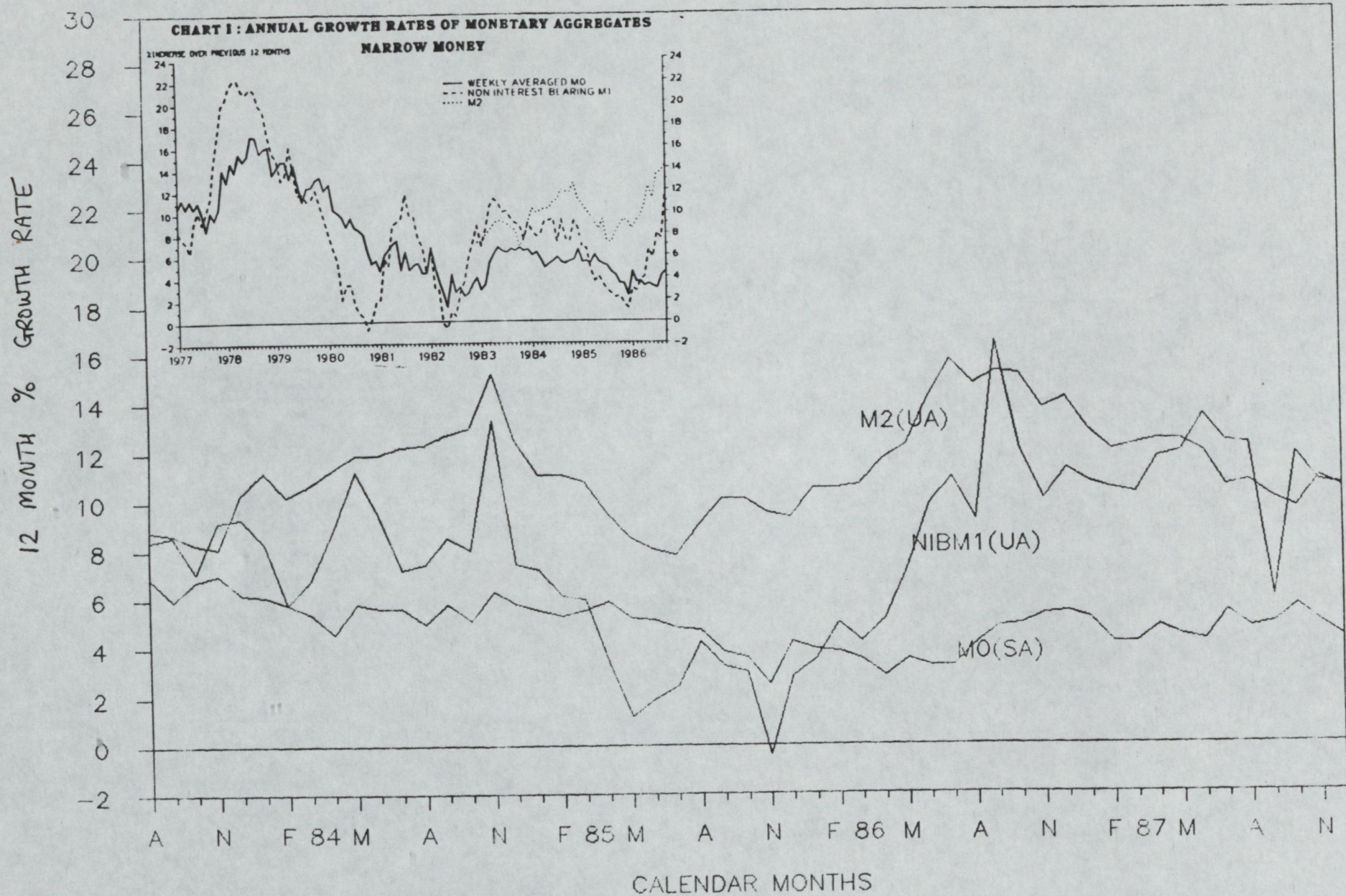


CHART IV BROAD MONEY

Annual percentage growth (ua)

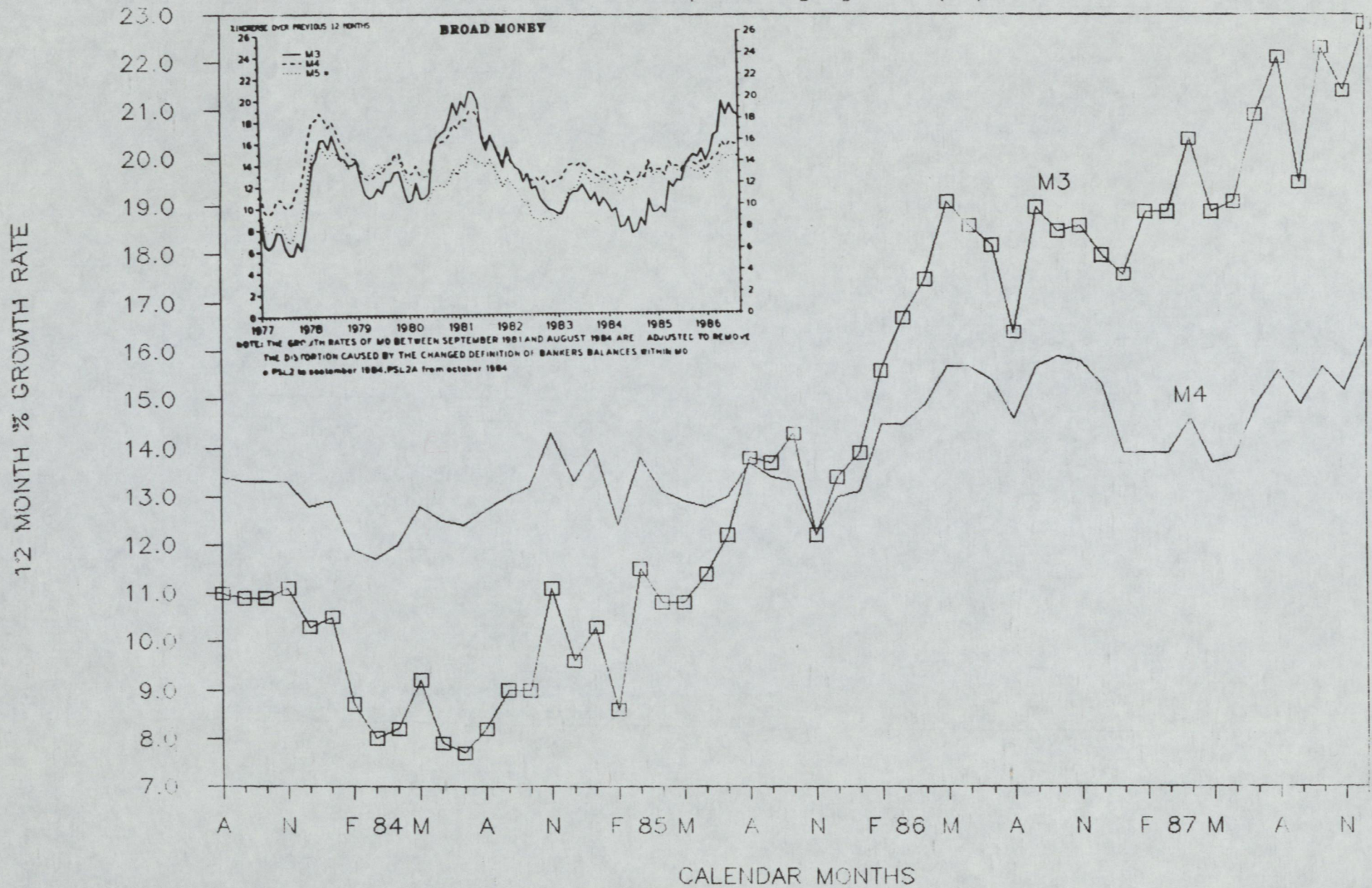


CHART V REAL MO

Annual percentage growth (sa)

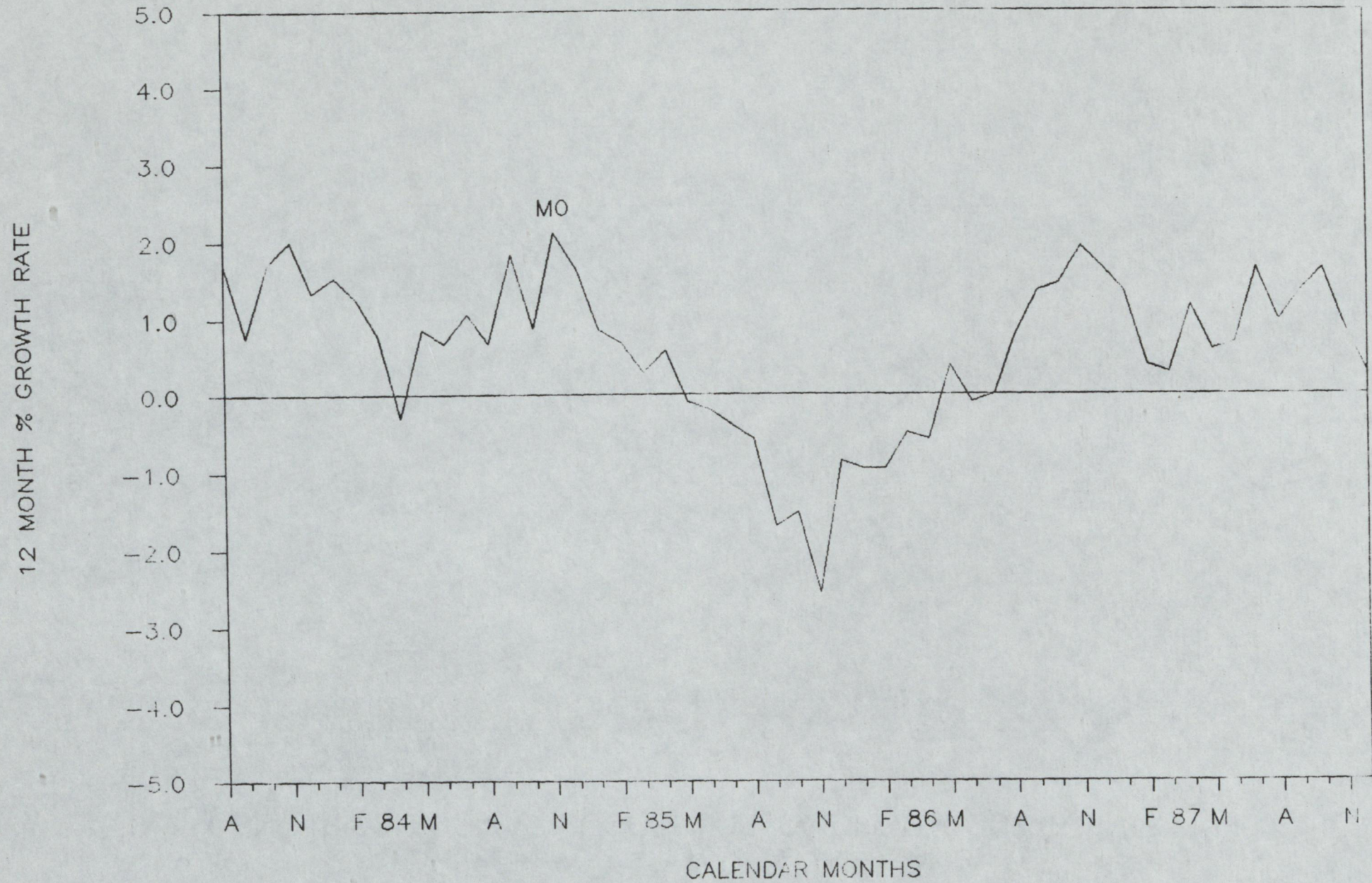


CHART VII

COMPARISON OF 1987 BUDGET FORECAST WITH OUT-TURN FOR MO

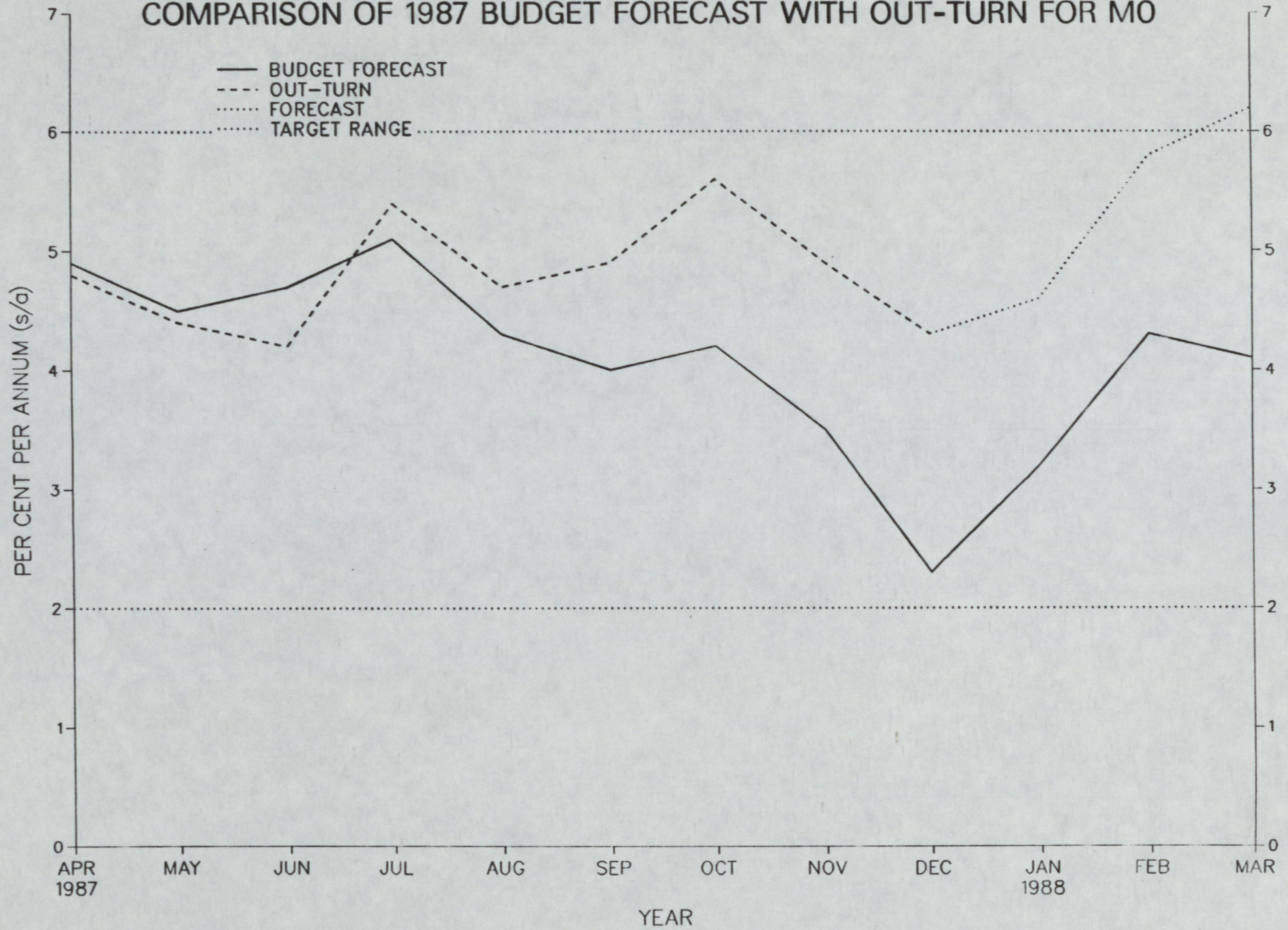


CHART VIII

COMPARISON OF 1987 BUDGET FORECAST WITH OUT-TURN FOR M3

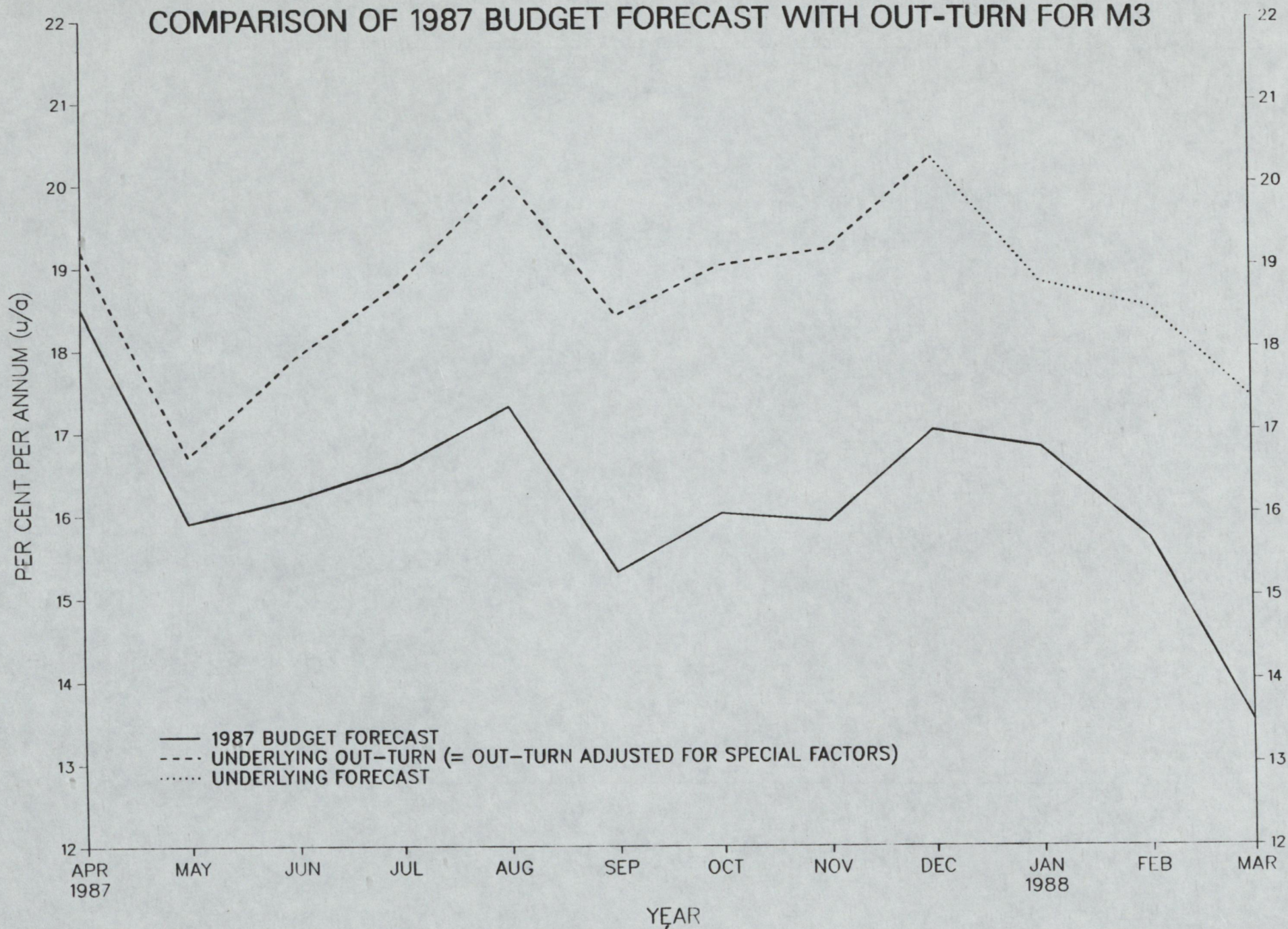
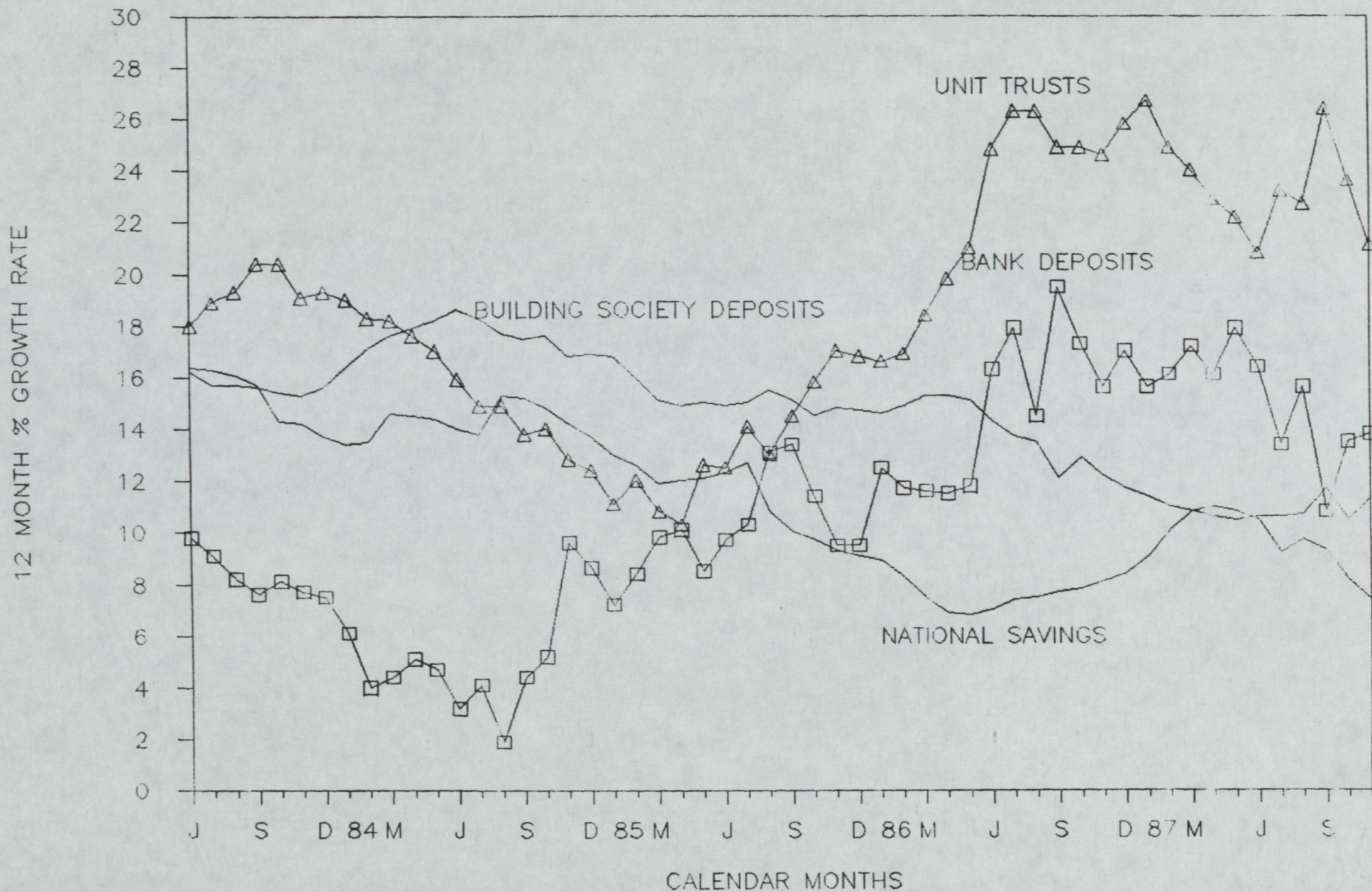
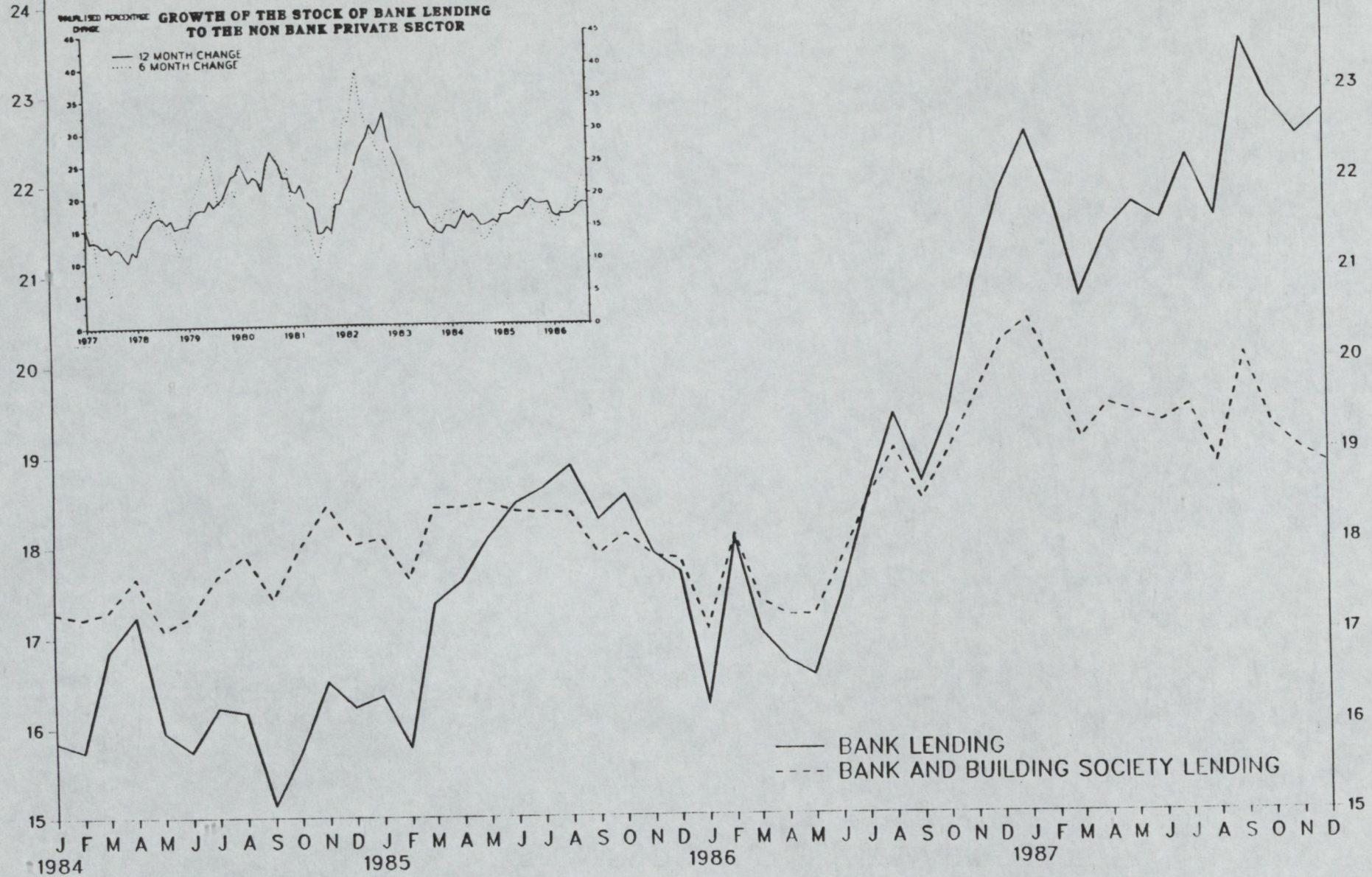


CHART X RETAIL DEPOSITS



ANNUAL GROWTH OF THE STOCK OF LENDING TO THE NON BANK PRIVATE SECTOR

CHART XI



STERLING BOND ISSUES BY UK AND OVERSEAS INSTITUTIONS (DOMESTIC AND EURO MARKETS)

CHART XII

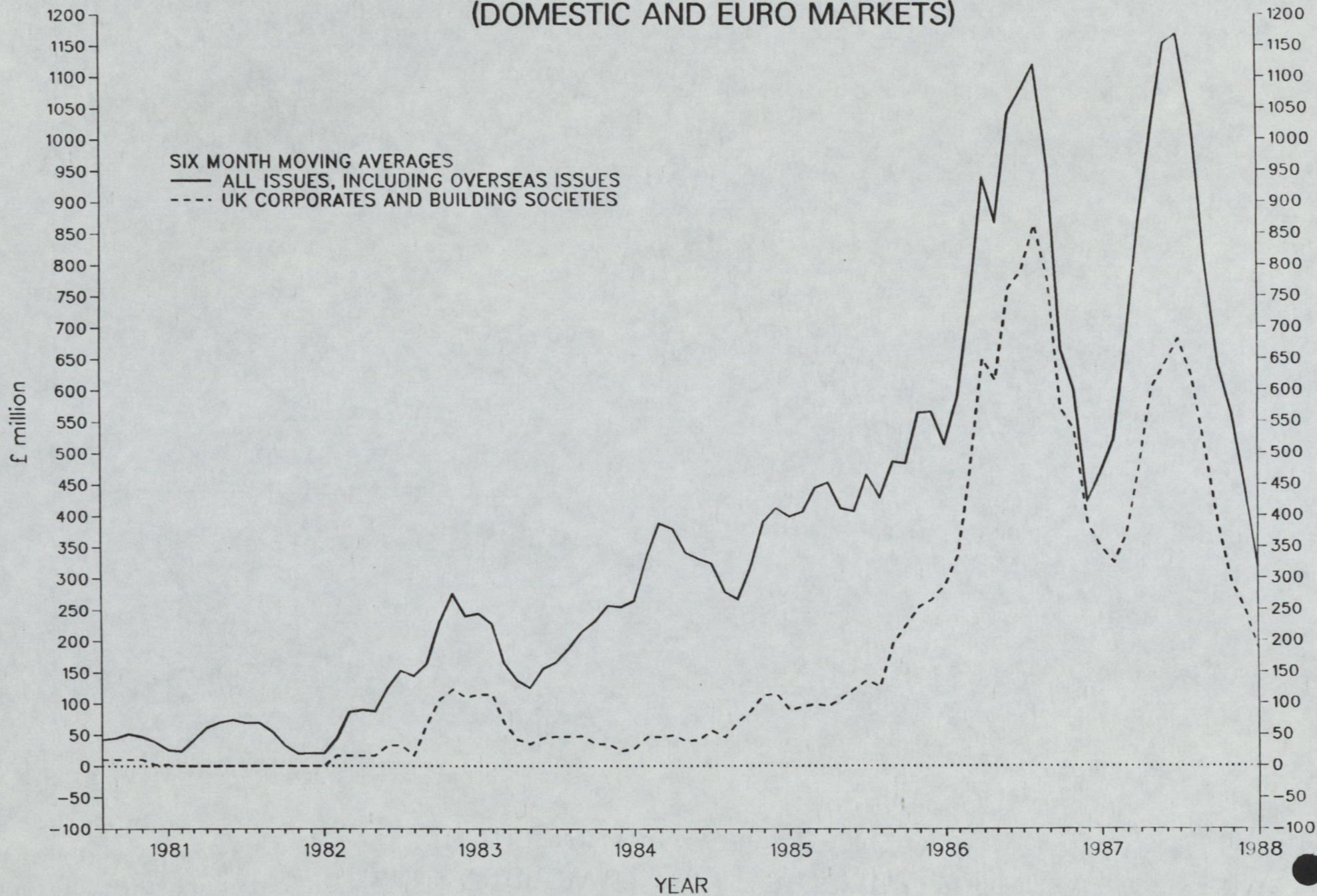
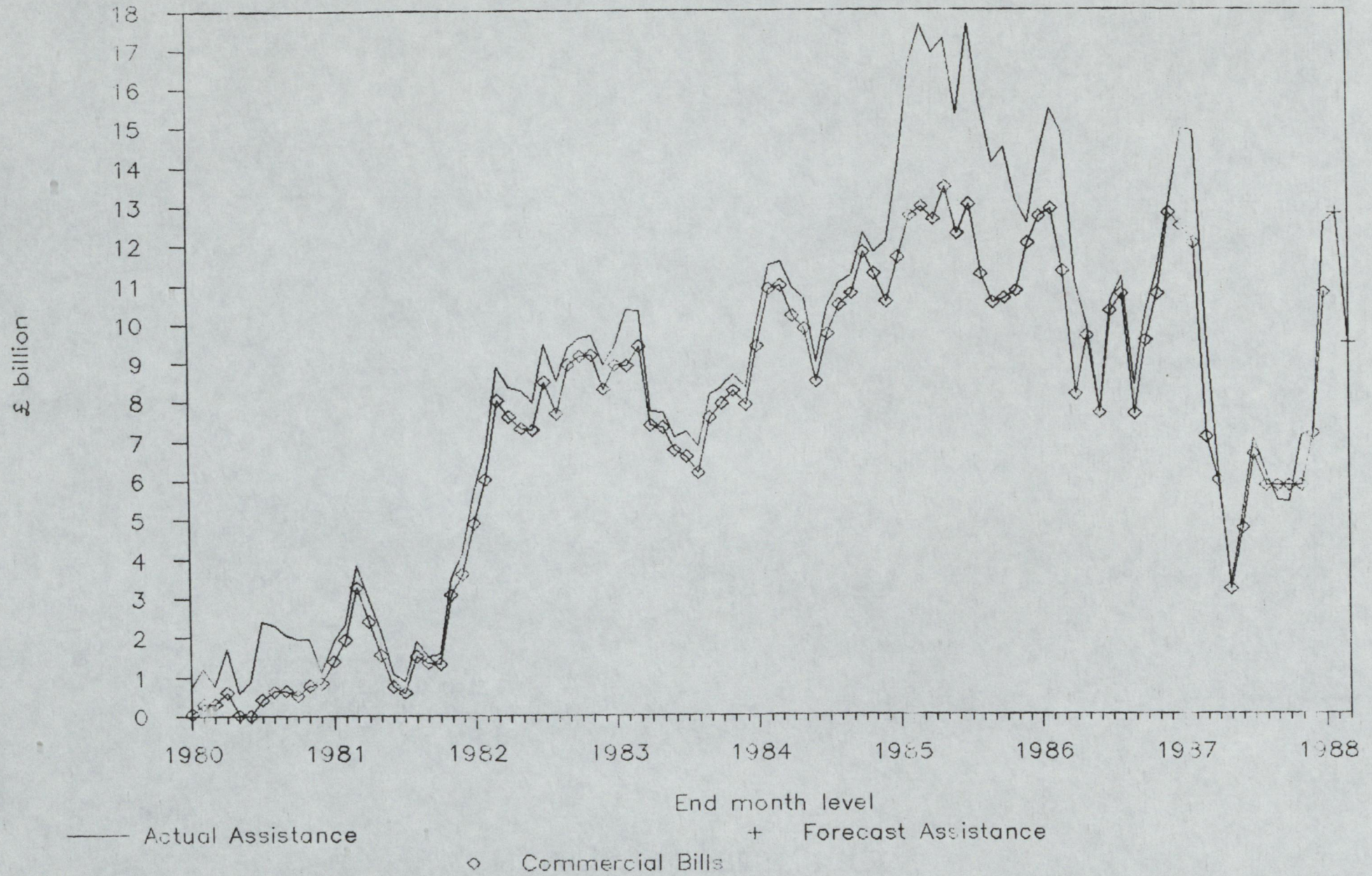
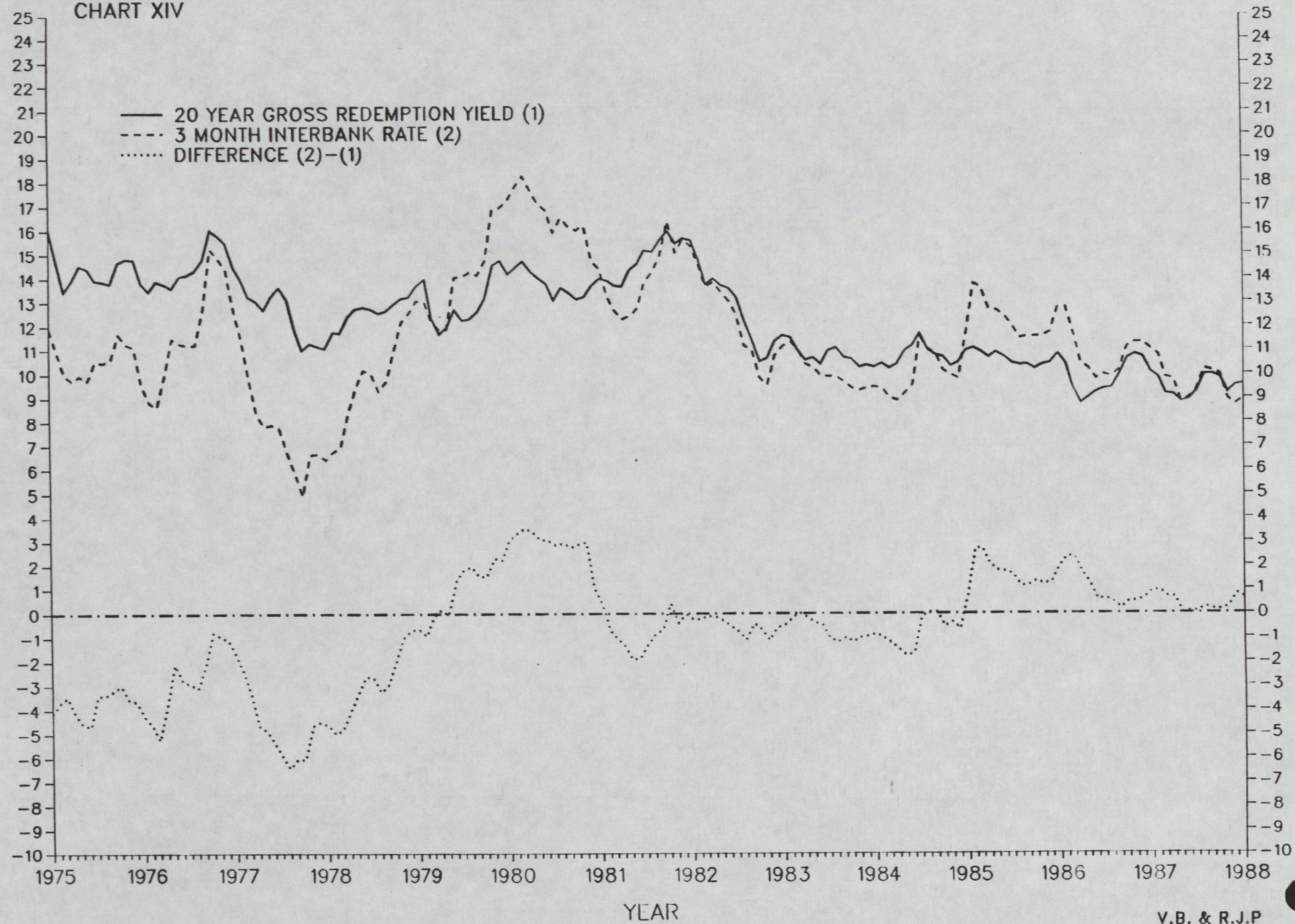


CHART XIII — MONEY MARKET ASSISTANCE



NOMINAL INTEREST RATES

CHART XIV



The curves have been fitted to the gross redemption yields on stocks with one year or more to maturity. They are not reliable below 2 years, and the 1-year yield is calculated as an average of 4 stock yields.

LA: 3-month deposit rate.
 TB: Market rate of discount, expressed as an annual yield.
 Debenture Yield: FT 15 year FT All Share Index gross dividend yield 4.15

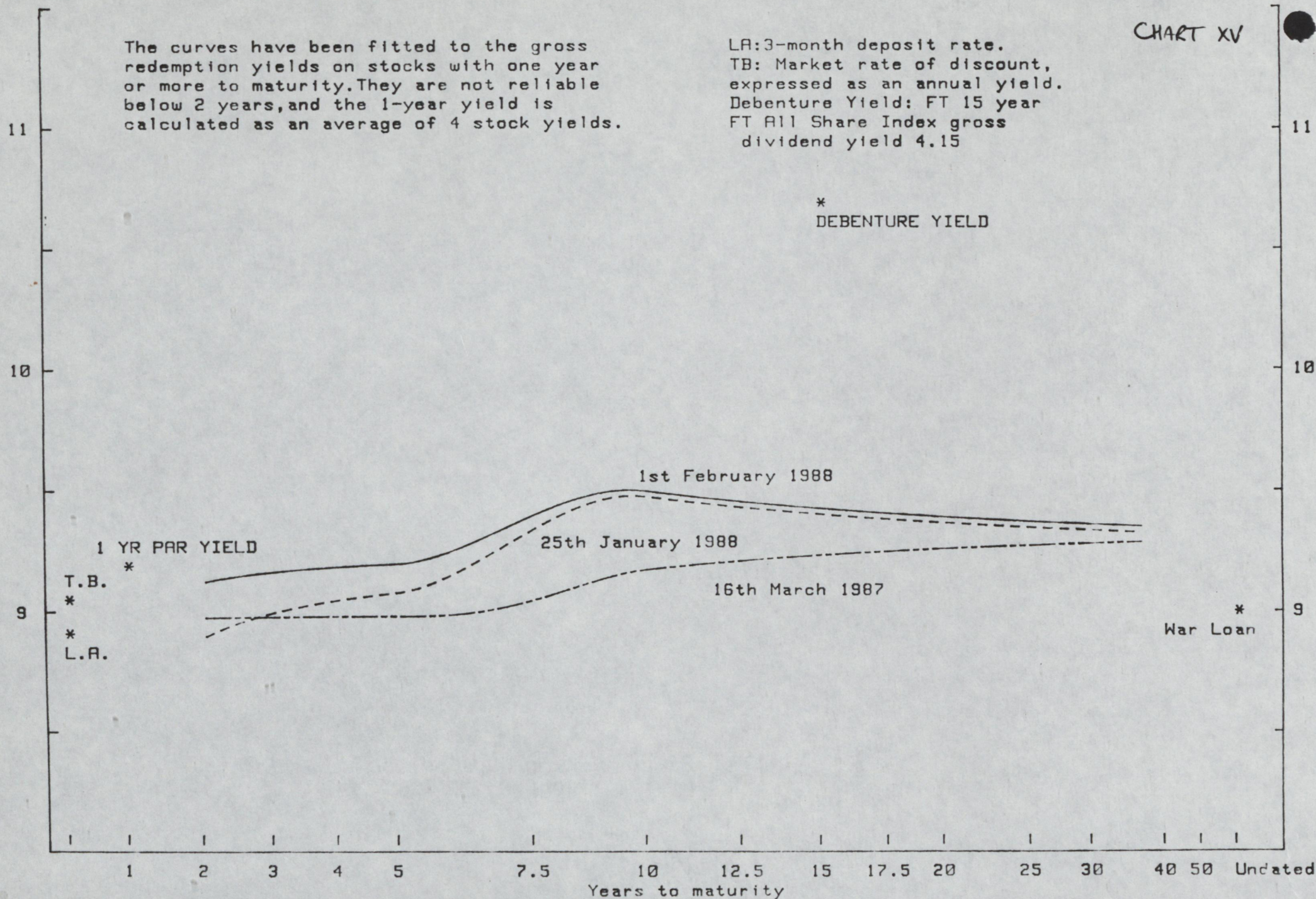
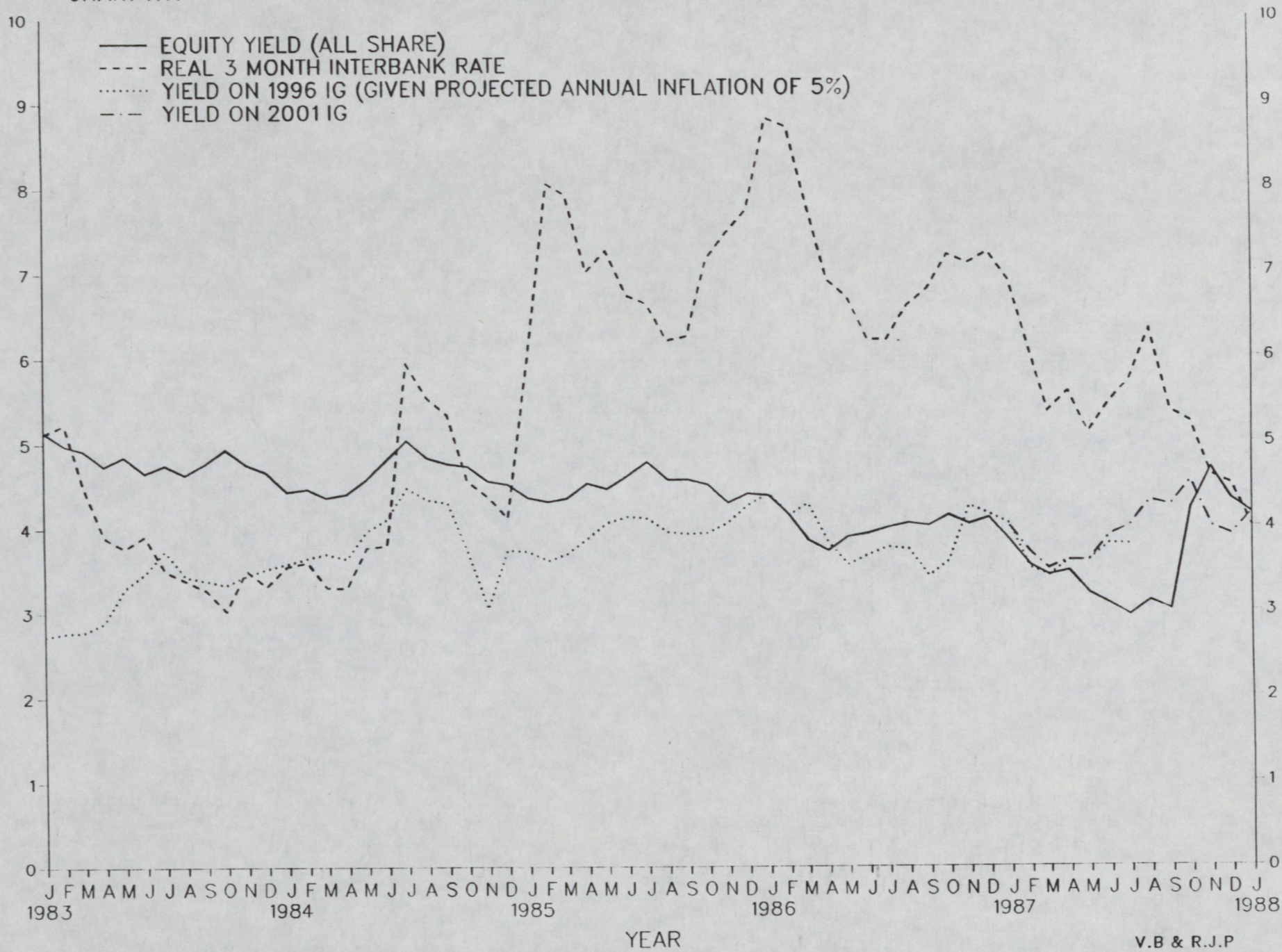


CHART XVI

REAL YIELDS



V.B & R.J.P

ANNUAL HOUSE PRICE INFLATION

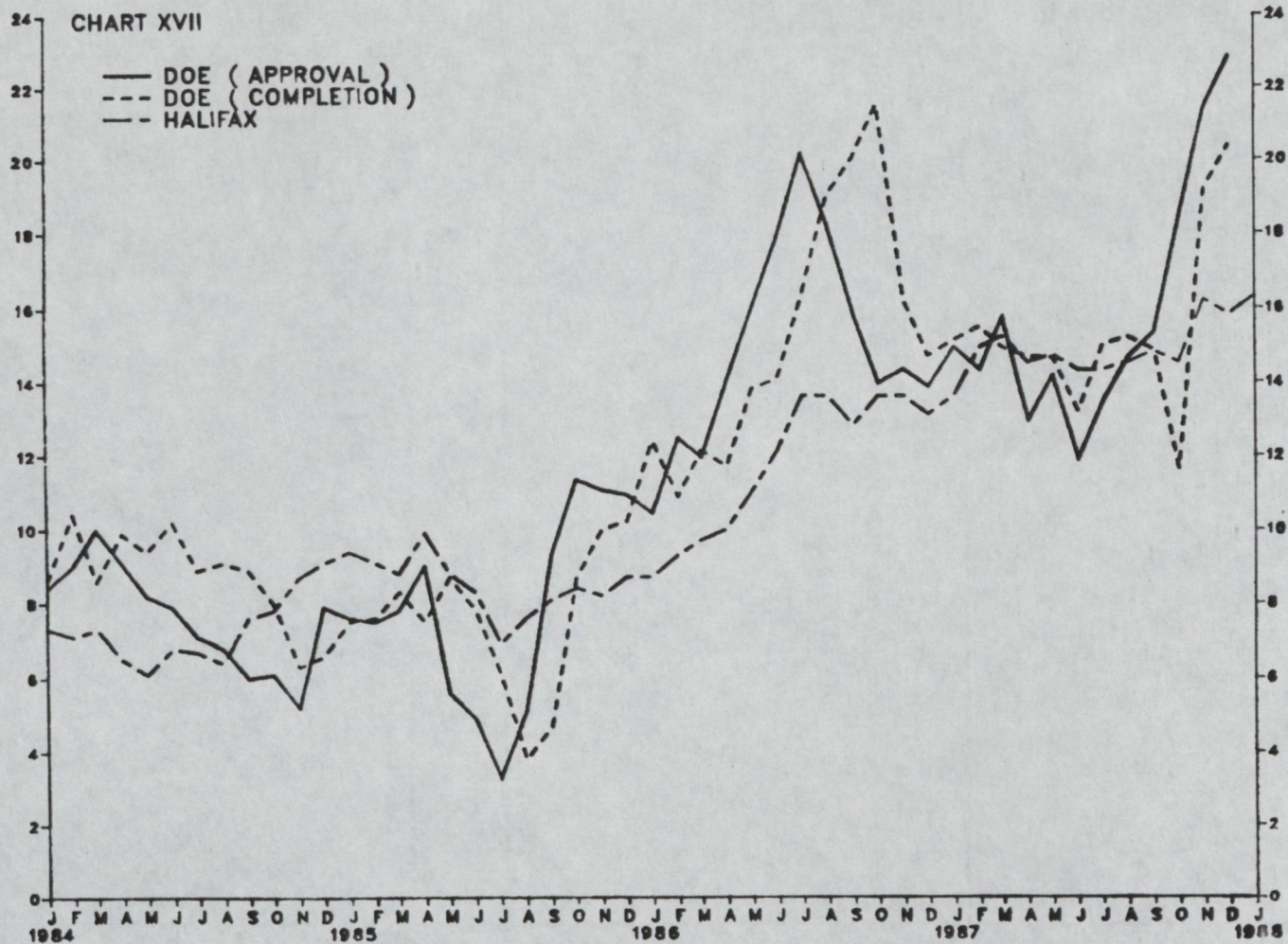
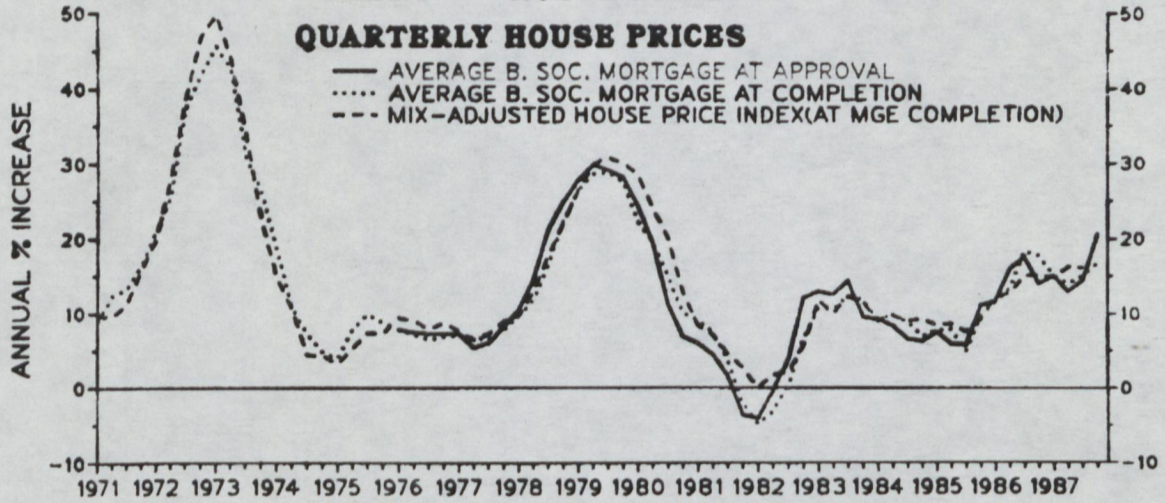
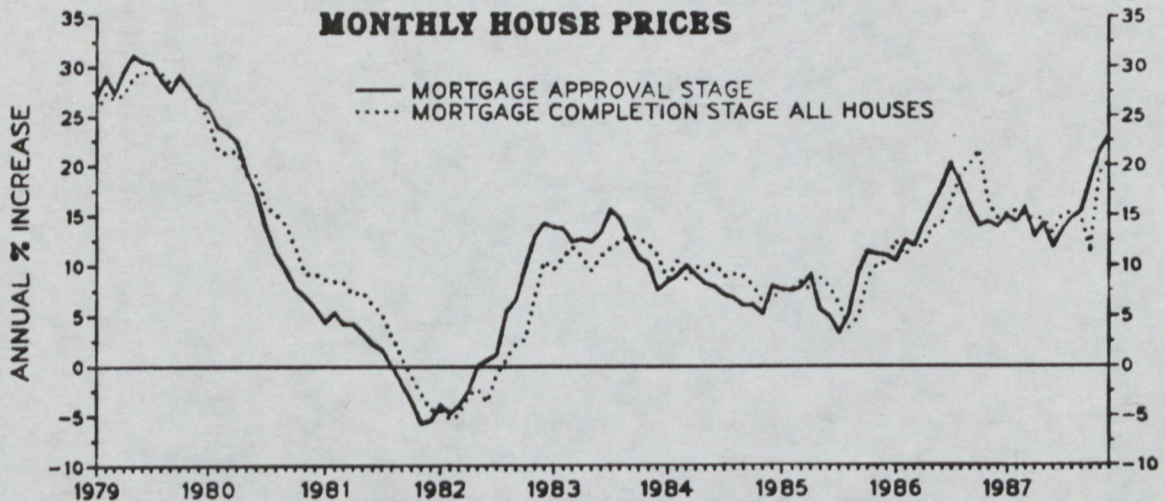


CHART XVIII HOUSE PRICES

QUARTERLY HOUSE PRICES

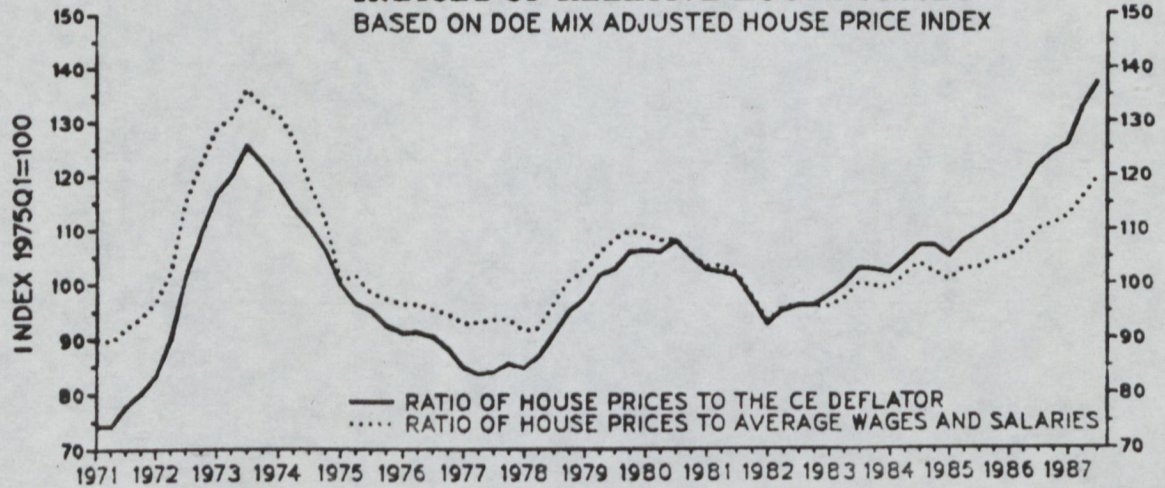


MONTHLY HOUSE PRICES

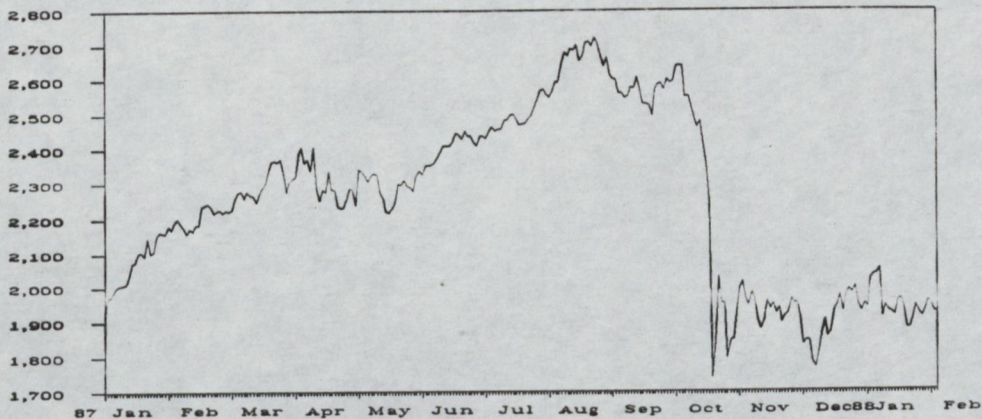


INDICES OF RELATIVE HOUSE PRICES

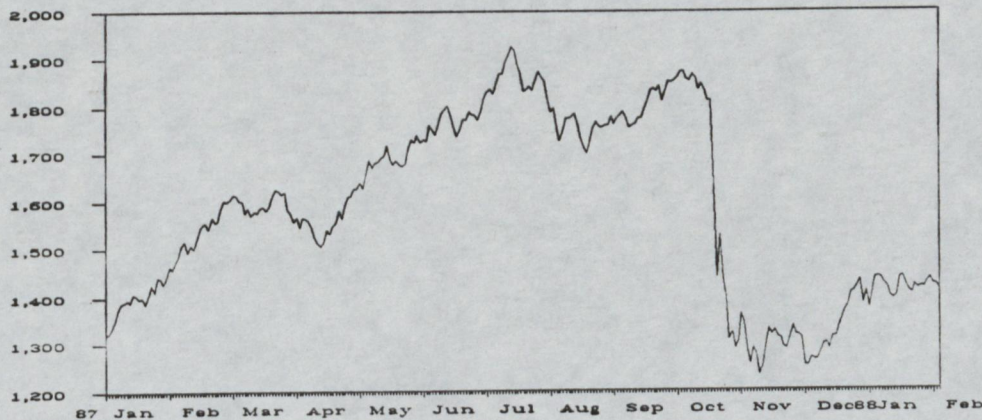
BASED ON DOE MIX ADJUSTED HOUSE PRICE INDEX



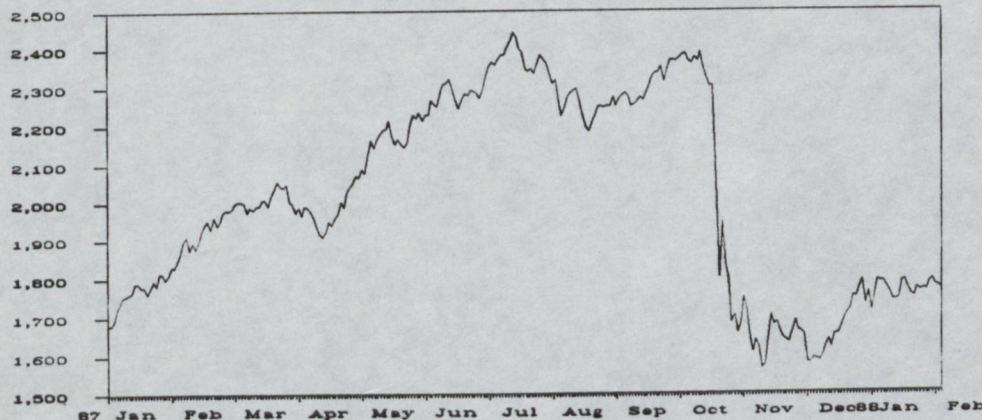
Dow Jones Industrial Average



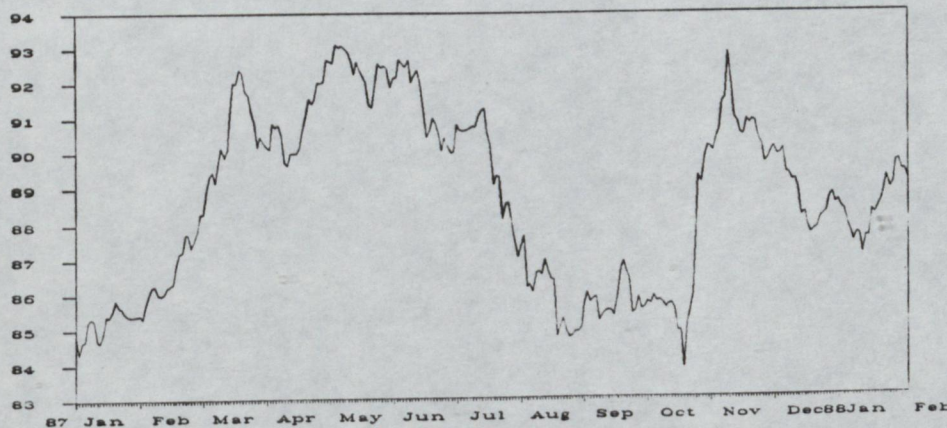
FT Ordinary Index



FTSE 100



Gilt Index



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MONTHLY MONETARY REPORT : TABLES

EXTERNAL

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- Table 2 -Economic Developments in W.Germany
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- Table 3b -Exchange rates in G5
- Table 3c -Commodity prices

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FORECAST

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Table 1: Developments in the G5 (including UK)*

	Activity			Money supply		Costs and prices		
	Nominal GNP	Real GNP	Industrial production	M1	M2/M3	Unit labour costs	Consumer prices	GNP deflator
1984	8.6	4.9	8.0	6.6	8.6	-0.7	4.1	3.5
1985	6.6	3.2	3.0	8.2	8.4	0.3	3.5	3.3
1986	5.6	2.7	1.0	11.5	8.1	1.4	1.5	2.8
1987 Q1	5.0	2.5	0.9	13.5	8.8	0.5	1.5	2.4
Q2	4.7	2.2	2.0	12.4	8.9	-0.8	2.5	2.5
Q3	5.5	3.2	3.6	10.2	8.5		2.9	2.2
1978 Jan			-0.2	14.4	9.0		1.0	
Feb			1.0	13.8	8.9		1.4	
Mar			2.0	12.4	8.6		2.0	
Apr			0.9	13.0	9.0		2.5	
May			2.5	12.8	9.0		2.5	
Jun			2.8	11.4	8.7		2.7	
Jul			3.0	10.6	8.5		2.6	
Aug			3.9	10.4	8.6		3.1	
Sep			4.0	9.5	8.3		3.0	
Oct			4.4	9.7+	8.8+		3.1	
Nov			5.4	8.1+	8.6+		3.1	

* Percentage changes on a year before.

+ Partly estimated.

TABLE 2

GERMANY: KEY FIGURES

	INDUSTRIAL PRODUCTION %pa	CONSUMER PRICES %pa	TRADE SURPLUS* \$bn	MONEY SUPPLY (M3) %pa
1984	3.4	2.4	1.7	3.3
1985	5.4	2.2	2.2	4.1
1986	2.1	- 0.2	4.5	4.0
1987 J	- 1.9	- 0.8	4.8 (4.5)	6.8
F	0.0	- 0.5	6.1 (4.7)	6.8
M	- 0.9	- 0.2	4.8 (4.9)	6.7
A	- 0.9	0.1	5.3 (5.0)	7.7
M	2.9	0.2	6.0 (5.2)	8.5
J	- 0.9	0.2	4.6 (5.1)	7.0
J	- 2.8	0.7	5.6 (5.1)	6.6
A	1.6	0.8	4.9 (5.1)	6.7
S	0.7	0.4	5.8 (5.2)	5.8
O	0.7	0.9	4.8 (5.2)	6.3
N	1.5	1.0	6.1 (5.3)	5.9

* Yearly figures are monthly averages. Monthly figures in brackets are averages of past 12 months.

TABLE 3a

THREE MONTH NOMINAL INTEREST RATES IN THE G5 COUNTRIES*

	United States	Japan	Germany	France	UK
1983	9.1	6.5	5.8	12.5	10.1
1984	10.4	6.3	6.0	11.7	9.9
1985	8.1	6.5	5.5	10.0	12.2
1986	6.5	5.0	4.6	7.8	11.0
1987	6.9	3.9	4.0	8.2	9.7
1987 Jan	5.8	4.3	4.6	8.4	11.0
Feb	6.1	4.0	4.0	8.5	11.0
Mar	6.2	4.0	4.0	8.0	10.0
Apr	6.5	3.9	3.9	8.0	9.8
May	7.0	3.8	3.8	8.2	8.8
June	7.0	3.7	3.7	8.2	9.0
July	6.7	3.7	3.9	7.9	9.2
Aug	6.8	3.7	4.0	7.9	10.1
Sept	7.4	3.8	4.0	7.9	10.1
Oct	8.2	3.9	4.8	8.2	9.9
Nov	7.4	3.9	3.9	8.6	9.0
Dec	7.8	3.9	3.6	8.7	8.7
Jan	7.0	3.9	3.4	8.3	8.9
Feb 2nd	6.7	3.9	3.3	7.6	9.0

* CD rate for US, Gensaki for Japan, Interbank rates for rest.

TABLE 3b

EFFECTIVE EXCHANGE RATE INDICES (1975 = 100)

	United States	Japan	Germany	France	UK	YEN/\$	DM/\$
1980	93.7	126.4	128.8	94.4	96.0	225.8	1.82
1981	105.6	142.9	119.2	84.3	94.8	219.5	2.25
1982	118.0	134.6	124.4	76.6	90.4	248.8	2.43
1983	124.8	148.1	127.1	70.0	83.2	237.1	2.55
1984	134.6	156.7	123.8	65.7	78.6	237.5	2.85
1985	140.7	160.5	123.6	66.3	78.2	238.4	2.94
1986	114.8	203.1	137.3	70.1	72.8	166.3	2.17
1987	101.2	219.6	147.6	71.8	72.7	144.7	1.80
1986 Q1	121.2	186.8	133.1	71.0	75.1	187.6	2.35
Q2	116.0	202.8	134.7	69.0	76.0	169.9	2.24
Q3	111.4	214.8	138.6	69.5	71.9	155.9	2.09
Q4	110.5	208.0	142.6	70.8	68.3	160.4	2.01
1987 Q1	104.2	210.1	147.7	71.9	70.2	155.2	1.81
Q2	101.1	222.9	146.9	71.6	72.7	142.6	1.81
Q3	102.5	218.0	146.4	71.4	72.7	147.0	1.84
Q4	97.0	227.4	149.4	72.3	75.2	134.0	1.71
1987 Jan	105.5	209.4	147.5	71.8	68.9	154.6	1.86
Feb	103.9	209.3	148.4	72.3	69.0	153.4	1.82
Mar	103.3	211.7	147.1	71.8	71.9	157.5	1.84
Apr	101.0	222.7	146.6	71.6	72.3	142.9	1.81
May	100.4	225.3	147.2	71.7	73.3	140.6	1.79
June	101.8	220.8	146.8	71.5	72.6	144.4	1.82
July	103.3	213.7	146.6	71.6	72.8	150.2	1.85
Aug	103.3	218.2	146.0	71.1	72.3	147.6	1.86
Sept	100.8	222.1	146.7	71.4	73.0	143.1	1.81
Oct	100.6	221.4	147.1	71.5	73.6	143.3	1.80
Nov	96.5	228.4	150.9	72.3	75.4	135.3	1.68
Dec	93.9	232.4	150.2	73.1	76.6	123.4	1.65
1988 Jan	93.9	239.5	150.4	72.5	74.9	127.8	1.65
Feb 2nd	94.6	240.4	149.4	72.0	74.4	128.1	1.68
% Change since dollar peak (Feb 85)	- 40	+ 53	+ 27½	+ 16	+ 6	- 51	- 51
% Change since Plaza (Sept 85)	- 32	+ 53½	+ 19	+ 7	- 9½	- 46½	- 41
% Change since Louvre Accord (Feb 87)	- 9	+ 15	+ 1	- ½	+ 7½	- 16½	- 1
% Change since Stock market crash (16 Oct 1987)	- 5½	+ 6½	+ 1.7	+ ½	+ 1	- 10½	- 6½

Table 3C

All items indices

SDR indices

	SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
Annual							
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982	87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983	102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984	105.7	83.4	144.9	97.8	116.1	105.1	89.5
1985	95.8	74.8	135.2	86.5	103.4	94.2	84.2
1986	86.9	77.7	124.0	74.5	97.3	85.0	70.5
1987	88.8	88.4	125.2	73.7	84.4	98.8	82.1
Quarterly							
1986 Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
Q2	91.0	81.1	125.0	79.5	104.9	86.9	71.8
Q3	81.4	75.2	117.4	70.3	88.8	80.1	68.3
Q4	82.4	76.4	123.9	70.1	87.4	86.5	68.4
1987 Q1	81.6	79.2	119.2	68.9	82.4	91.0	69.0
Q2	86.8	86.4	122.2	73.3	85.5	98.0	75.2
Q3	91.4	89.6	128.9	73.9	82.6	107.1	87.5
Q4	95.3	98.2	130.4	78.2	87.0	99.0	96.8
Monthly							
January	80.3	77.0	118.8		82.5	88.8	66.7
February	81.7	79.6	120.5		82.6	91.7	68.5
March	82.9	81.0	118.2		82.1	92.4	71.8
April	84.2	83.8	119.0		83.2	94.8	72.6
May	87.3	87.6	122.0		87.1	97.2	74.8
June	88.9	87.8	125.2		86.2	101.7	78.3
July	90.7	88.4	127.8		84.0	105.1	84.7
August	92.2	89.8	130.9		81.2	109.7	90.2
September	91.4	90.6	128.2		82.7	106.6	87.6
October	94.8	94.2	132.2		86.7	101.9	94.3
November	93.6	97.0	127.6		86.5	97.1	93.8
December	97.4	103.4	131.4		87.9	97.9	102.2
Weekly							
October 20	93.4	93.3	131.0		86.2	101.1	91.5
27	93.9	94.2	129.1		87.2	98.9	92.7
November 3	91.0	93.6	124.9		84.3	96.8	89.8
10	92.1	96.5	125.5		85.3	95.4	92.3
17	94.8	97.8	128.8		87.3	98.3	95.4
24	96.4	100.0	131.1		89.2	98.0	97.7
December 1	96.5	101.2	129.2		89.4	98.9	96.9
8	96.0	100.4	129.8		88.1	98.3	97.7
15	96.2	102.5	130.1		87.0	97.0	100.5
22	98.3	104.8	133.1		87.6	98.0	105.1
29	99.8	108.0	134.9		87.3	97.1	110.6
January 5	98.9	106.2	134.9		88.5	98.6	105.4
12 (prov)	99.0	105.2	134.2		89.0	97.8	105.4

* In relation to prices of manufactured exports. Recent figures are estimated.

** Non-food agriculturals

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TABLE 4: RECENT INDICATORS OF ACTIVITY AND INFLATION
(per cent changes on year earlier)

	MONEY GDP		OUTPUT		PRICES AND UNIT LABOUR COSTS					
			Manufacturing		RPI	RPI excluding mortgage payments	Producer Prices***		Unit Wage Costs	
			GDP(O)	Output			Output	Input	Manufacturing	Whole economy
1985-86	9.6	1986	3.1	0.8	3.4	3.6	4.3	-10.8	4.7	5.4
1986-87	6.7	1987	n/a	n/a	4.1	3.7	4.5	5.3	n/a	n/a
1986 2	6.3	1986 1	2.2	- 1.5	4.9	4.6	5.0	-11.9	8.2	6.0
3	6.5	2	2.3	- 0.6	2.8	3.3	4.3	-12.4	6.2	6.2
4	6.8	3	3.7	1.2	2.6	3.3	4.0	-13.0	3.3	4.4
1987 1	7.3	4	4.0	4.1	3.4	3.4	4.0	- 5.6	1.2	5.0
2	8.7	1987 1	4.6	5.3	3.9	3.7	4.1	- 1.7	0.1	4.0
3	10.3	2	4.3	5.2	4.2	3.6	4.5	4.6	0.8	4.6
4	10.2*	3	5.2	6.6	4.3	3.6	4.7	12.9	0.9	
1988 1	10.3	4			4.1	4.0	4.7	6.2		
1987-88	9.5									
		1987 January		4.1	3.9	3.7	4.2	- 2.5	1.2**	
		February		4.6	3.9	3.7	4.2	- 2.9	0.8	
		March		3.2	4.0	3.8	4.1	0.4	- 0.1	
		April		4.3	4.2	3.6	4.3	3.0	- 0.4	
		May		6.3	4.1	3.8	4.5	3.4	0.0	
		June		5.2	4.2	3.5	4.5	7.2	0.8	
		July		6.3	4.4	3.7	4.7	13.4	1.2	
		August		5.8	4.4	3.7	4.7	14.5	0.9	
		September		5.5	4.2	3.5	4.7	10.8	0.9	
		October		5.9	4.5	3.9	4.7	7.8	1.1	
		November		5.0	4.1	4.0	4.8	5.1		
		December			3.7	4.0	4.7	5.6		

* Winter internal forecast.

** Wage cost figures show averages for three months ending in month indicated.

*** Excluding food, drink and tobacco.

TABLE 5 : INDICATORS OF FISCAL STANCE

(a) Annual data

	PSBR		PSBR EXCLUDING PRIVATISATION PROCEEDS		PSFD	
	Cash	Ratio to	Cash	Ratio to	Cash	Ratio to
	£ billion	GDP (per cent)	£ billion	GDP (per cent)	£ billion	GDP (per cent)
1970-71	0.8	1.5	0.8	1.5	-0.2	-0.4
1971-72	1.0	1.6	1.0	1.6	0.7	1.1
1972-73	2.4	3.6	2.4	3.6	2.0	3.0
1973-74	4.3	5.8	4.3	5.8	3.5	4.6
1974-75	8.0	9.0	8.0	9.0	6.0	6.7
1975-76	10.3	9.3	10.3	9.3	8.1	7.3
1976-77	8.3	6.4	8.3	6.4	7.5	5.7
1977-78	5.4	3.6	5.9	3.9	6.6	4.4
1978-79	9.2	5.3	9.2	5.3	8.3	4.8
1979-80	10.0	4.8	10.4	5.0	8.0	3.9
1980-81	12.7	5.4	13.1	5.5	11.7	5.0
1981-82	8.6	3.3	9.1	3.5	5.2	2.0
1982-83	8.8	3.1	9.3	3.3	8.3	2.9
1983-84	9.7	3.2	10.9	3.5	11.5	3.7
1984-85*	10.2	3.1	12.3	3.7	13.1	4.0
1985-86*	5.8	1.6	8.5	2.3	8.2	2.3
1986-87	3.4	0.9	7.8	2.0	9.2	2.4
January forecast						
1987-88	-2.8	-3/4	2.2	1/2	3.0	3/4

*If adjusted for coal strike, PSBR and PSFD ratios to GDP roughly 0.9 per cent lower in 1984-85 and 0.2 per cent lower in 1985-86

(b) Quarterly Data

£ billion	PSBR		PSBR excluding privatisation		PSFD	
	sa*	ua	sa*	ua	sa+	ua
1985 Q2	1.2	2.6	2.5	3.9	2.9	4.6
Q3	1.9	2.9	2.4	3.4	1.5	1.9
Q4	1.5	2.1	2.1	2.6	2.1	0.7
1986 Q1	1.1	-1.9	1.5	-1.5	2.0	1.0
Q2	2.1	2.3	3.2	3.4	2.2	3.6
Q3	2.1	3.6	2.1	3.6	3.0	4.2
Q4	-1.3	-1.6	0.9	0.5	1.5	0.0
1987 Q1	0.5	-0.8	2.8	1.6	2.5	1.9
Q2	0.0	1.0	1.6	2.6	1.5	3.2
Q3	-0.1	0.4	1.1	1.5	0.8	1.7

*financial year - constrained

+calendar year - constrained

Table 6: CGBR(O) April-December Comparison with Budget Profile

	£ billion
<u>Receipts</u>	
Inland Revenue	+ 2.9
Customs and Excise	+ 0.4
National Insurance contributions	+ 0.2
Privatisation proceeds	+ 0.6
Interest and dividends	- 0.2
Other receipts	+ 0.5
Total receipts	+ 4.3
<u>Expenditure</u>	
Interest payments	- 0.2
Departmental expenditure (1)	- 1.0
Total expenditure	- 1.2
<u>Net effect on CGBR(O)</u>	- 5.5

(1) on a cash basis, net of certain receipts and on-lending
+ = higher receipts, higher borrowing and higher expenditure
- = lower receipts, lower borrowing and lower expenditure

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TABLE 7

EXCHANGE RATES

		Exchange Rate Index*	Real Exchange Rate @	ERI/(Oil Price Adjusted ERI)†	Dollar: Sterling exchange rate	D-Mark: Sterling exchange rate	Index against EMS currencies*	US-UK Interest rate differential	Brent spot price (\$/bl)
1985	(1)	72.1	80.1	0.908	1.12	3.63	95.2	+4.1	27.7
	(2)	78.9	88.9	1.001	1.26	3.88	102.3	+4.4	27.0
	(3)	82.1	93.3	1.040	1.38	3.92	103.8	+3.6	27.4
	(4)	79.8	91.6	1.001	1.44	3.71	98.7	+3.5	28.3
1986	(1)	75.1	88.3	1.037	1.44	3.38	90.9	+4.5	17.8
	(2)	76.1	92.1	1.101	1.51	3.39	91.4	+3.2	12.8
	(3)	71.9	88.2	1.049	1.50	3.10	84.9	+3.8	12.4
	(4)	68.3	84.0	0.970	1.43	2.87	79.0	+5.1	14.8
1987	(1)	69.9	86.9	0.967	1.54	2.83	78.8	+4.3	17.9
	(2)	72.8	90.9	0.996	1.64	2.96	82.6	+2.1	18.6
	(3)	72.7	90.7	0.992	1.62	2.97	83.0	+2.8	19.0
	(4)	74.9	94.0	1.030	1.76	2.99	83.8	+1.2	18.1
1987	January	68.9	85.3	0.950	1.51	2.80	77.8	+4.9	18.4
	February	69.0	85.9	0.960	1.53	2.78	77.4	+4.4	17.2
	March	71.9	89.4	0.991	1.59	2.92	81.2	+3.4	18.0
	April	72.3	90.3	0.994	1.63	2.95	82.1	+2.9	18.2
	May	73.3	91.7	1.002	1.67	2.98	83.1	+1.6	18.8
	June	72.7	90.8	0.991	1.63	2.96	82.6	+2.1	18.9
	July	72.8	90.8	0.985	1.61	2.97	82.9	+2.6	19.8
	August	72.3	90.0	0.988	1.60	2.97	82.8	+3.2	18.9
	September	73.1	91.3	1.004	1.65	2.98	83.2	+2.6	18.3
	October	73.6	92.1	1.006	1.66	2.99	83.5	+1.7	18.8
	November	75.4	94.6	1.040	1.78	2.99	83.9	+1.0	17.8
	December	75.7	95.3	1.045	1.83	2.98	84.0	+0.9	17.7
1988	January	74.8	94.5	1.038	1.78	2.98	83.5	+1.8	16.7
	February 3rd	74.4	n/a	1.043	1.77	2.98	83.7	+2.3	16.2

† Oil price adjusted ERI has roughly the same inflation implications as does an ERI of 80 given an oil price of \$29 (their average values for January 1983 - November 1985). The ratio shown therefore indicates whether movements in the ERI are inflationary or otherwise, relative to the period Jan-1983 - Nov 1985, having allowed for oil prices.

* 1975=100

@ Figures for latest months are tentative forecasts based on extrapolated producer price indices

TABLE 8 : NOMINAL AND REAL INTEREST RATES

		NOMINAL RATES				REAL RATES				
		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**		
								1990	2001	2011
1985	(1)	13.0	8.9	12.9	10.9	5.7	6.9	4.4	3.5	3.2
	(2)	12.6	8.2	12.6	10.8	5.6	6.6	4.3	3.8	3.4
	(3)	11.7	8.1	11.7	10.4	5.3	6.1	4.3	3.8	3.5
	(4)	11.6	8.1	11.5	10.3	4.2	7.1	4.1	3.9	3.6
1986	(1)	12.4	7.9	12.3	10.2	3.9	8.2	4.3	4.2	3.8
	(2)	10.2	7.0	10.4	9.0	3.6	6.5	3.6	3.6	3.4
	(3)	10.0	6.2	10.0	9.7	3.4	6.5	3.7	3.9	3.5
	(4)	11.2	6.1	11.0	10.7	4.1	6.8	3.7	4.1	3.8
1987	(1)	10.6	6.3	10.8	9.6	4.3	6.0	3.0	3.7	3.5
	(2)	9.2	7.1	9.4	9.0	3.8	5.2	2.4	3.8	3.6
	(3)	9.9	7.1	9.7	9.8	3.7	6.0	2.6	4.2	3.9
	(4)	9.2	7.8	9.0	9.5	4.0	4.7	2.4	4.1	3.8
1987	January	11.0	6.1	11.0	10.0	4.1	6.6	3.5	4.0	3.7
	February	10.8	6.4	11.0	9.8	4.3	6.2	3.0	3.7	3.5
	March	9.9	6.5	10.4	9.1	4.5	5.2	2.5	3.5	3.4
	April	9.8	6.9	10.0	9.2	4.2	5.4	2.6	3.6	3.4
	May	8.8	7.2	9.1	8.8	3.7	4.9	2.1	3.6	3.6
	June	9.0	7.1	9.0	8.9	3.5	5.3	2.3	3.9	3.7
	July	9.3	6.9	9.0	9.3	3.4	5.7	2.2	4.0	3.8
	August	10.2	7.0	10.0	10.0	3.9	6.1	2.6	4.3	4.0
	September	10.1	7.5	10.0	10.0	3.9	6.0	3.1	4.2	4.0
	October	10.0	8.3	9.5	9.8	4.0	5.1	3.1	4.5	4.3
	November	8.9	7.4	9.0	9.2	4.1	4.6	1.9	4.0	3.3
	December	8.7	7.8	8.5	9.5	4.0	4.5	2.3	3.9	3.9
1988	January	8.9	7.1	8.5	9.6	4.0	4.7	2.3	4.2	4.1
	February 3rd	9.0	6.8	9.0	9.3	n/a	n/a	2.0	4.0	4.0

* 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 and quarterly for last Friday in each month. Assumes inflation averages 5 per cent per annum to redemption.

TABLE 9 CURRENT ACCOUNT

percentage change on previous year				
	Export Volume less oil and erratics	Import Volume less oil and erratics	Terms* of Trade(AVI) 1980=100	Current balance fmn
1982	0.5	8.6	0.5	4035
1983	-1.1	9.5	-0.6	3338
1984	9.6	11.0	-1.9	1474
1985	6.8	4.2	1.8	2888
1986	2.4	5.7	-0.8	-944
1987	7.7	9.6	+1.0	-2692
1986 Q3	2.9	7.5	-2.4	-856
Q4	9.3	9.9	-4.9	-989
1987 Q1	11.2	5.4	-1.5	572
Q2	6.4	10.2	+0.9	-659
Q3	9.1	12.0	+1.6	-1146
Q4	4.6	10.7	+2.4	-1459
1987 Jan	7.3	6.4	-2.7	54
Feb	18.2	8.5	-2.0	366
Mar	7.9	1.0	+0.3	152
April	10.4	10.6	+1.2	48
May	5.6	14.5	-0.1	-532
June	4.6	5.6	+1.5	-174
July	7.7	11.2	+0.4	-291
Aug	8.8	13.7	+1.2	-873
Sep	10.9	11.0	+3.3	+17
Oct	4.7	11.8	+2.0	-282
Nov	3.5	8.2	+3.8	-595
Dec	5.8	12.1	+3.9	-582

* excluding oil and erratics.

SECRET

TABLE 10

Key Monetary Indicators

	1986-87					1987-88							
	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug</u>	<u>Sept</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>
<u>MONETARY AGGREGATES</u>													
12 month % change (ua)													
MO	5.2	4.1	4.1	3.5	5.3	4.4	4.2	5.3	4.5	5.2	5.5	4.9	4.2
M3	18.0	17.6	18.9	20.4	20.4	18.9	19.1	20.9	22.1	19.5	22.3	21.4	22.8
M4	15.3	13.9	13.9	13.9	14.6	13.7	13.8	14.9	15.6	14.9	15.7	15.2	16.3
M5	14.6	13.3	13.3	13.5	14.1	13.4	13.5	14.4	14.9	14.3	15.1	14.6	15.7
<u>STERLING LENDING</u>													
12 month % change (ua)													
Banks	21.8	22.5	21.7	20.7	21.4	21.7	21.5	22.2	21.6	23.5	22.8	22.5	22.7
Banks and building societies	19.6	20.4	19.8	19.1	19.5	19.4	19.3	19.5	18.8	20.0	19.3	19.0	18.8
<u>OVER(-)/UNDER (+) FUNDING</u>													
financial year to date: £mn													
	-1,577	-3,931	-3,969	395	3,216	5,144	2,345	1,883	2,188	1,988	3,771	1,153	2,415
<u>MONEY MARKET ASSISTANCE</u>													
Level outstanding £mn													
	12,970	14,948	14,873	9,742	6,126	3,340	5,132	7,078	6,114	5,421	5,403	7,073	7,221
<u>INTEREST RATES</u>													
3 months*	11.3	11.0	10.8	9.9	9.8	8.8	9.0	9.3	10.2	10.1	10.0	8.9	8.7
20 year ^φ	10.6	10.0	9.8	9.1	9.2	8.8	8.9	9.3	10.0	10.0	9.8	9.2	9.5
<u>EFFECTIVE EXCHANGE RATE</u>													
	68.5	68.9	69.0	71.9	72.3	73.3	72.7	72.8	72.3	73.1	73.6	75.4	75.7

* Inter bank

^φ par yield[†] banking months until August thereafter end calendar months

Table 11

MONETARY AGGREGATES 1987-88

		APR	MAY	JUNE	JULY	AUG	SEP	OCT	NOV	DEC
<u>MO</u>	Averaged weekly									
	Monthly change (£ million)	+325	+42	-93	+423	+13	+14	-32	+47	+1,085
	Monthly % change	+2.2	+0.3	-0.6	+2.8	+0.1	+0.1	-0.2	+0.3	+7.0
	12 Monthly % change	+5.3	+4.4	+4.2	+5.3	+4.5	+5.2	+5.5	+4.9	+4.2
<u>M3</u>	Monthly change (£ million)	+3,176	+3,239	+1,876	+4,314	+2,214	+1,629	+5,604	+1,378	+2,656
	Monthly % change	+2.0	+2.0	+1.1	+2.6	+1.3	+0.9	+3.2	+0.8	+1.4
	12 Monthly % change	+20.4	+18.9	+19.1	+20.9	+22.1	+19.5	+22.3	+21.4	+22.8
<u>M4</u>	Monthly change (£ million)	+3,528	+3,430	+4,011	+5,399	+2,673	+2,951	+5,280	+1,698	+4,974
	Monthly % change	+1.3	+1.3	+1.4	+1.9	+0.9	+1.0	+1.8	+0.6	+1.7
	12 Monthly % change	+14.6	+13.7	+13.8	+14.9	+15.6	+14.9	+15.7	+15.2	+16.3
<u>M5</u>	Monthly change (£ million)	+3,537	+4,102	+4,115	+5,459	+2,532	+3,046	+5,434	+1,580	+5,275
	Monthly % change	+1.2	+1.4	+1.4	+1.8	+0.8	+1.0	+1.8	+0.5	+1.7
	12 Monthly % change	+14.1	+13.4	+13.5	+14.4	+14.9	+14.3	+15.1	+14.6	+15.7
<u>NIBMI</u>	Monthly change (£ million)	+467	+1,160	+1,463	+102	-76	+401	+187	+514	+409
	Monthly % change	+1.1	+2.8	+3.4	+0.2	-0.2	+0.9	+0.4	+1.1	+0.9
	12 Monthly % change	+11.7	+11.9	+13.4	+12.3	+12.2	+6.0	+11.8	+10.6	+10.5
<u>M1</u>	Monthly change (£ million)	+672	+2,950	+2,093	+1,088	+1,100	+1,570	+2,858	+522	-276
	Monthly % change	+0.8	+3.7	+2.5	+1.3	+1.3	+1.8	+3.2	+0.6	-0.3
	12 Monthly % change	+23.1	+23.5	+23.6	+22.6	+23.7	+20.3	+24.6	+21.7	+15.7
	Net £ deposits from banks abroad									
	Overseas non-bank £ deposits									
	<u>WIDER £ AGGREGATE</u>									
	Monthly change (£ million)	+3,967	+4,084	+930	+4,694	+1,575	+2,542	+8,325	-1,204	+3,388
	Monthly % change	+2.1	+2.2	+0.5	+2.4	+0.8	+1.3	+4.1	+0.6	+1.6
	12 Monthly % change						+18.5	+22.2	+20.3	+21.4

NB Figures in brackets are seasonally adjusted.

TABLE 12

REAL PERCENTAGE GROWTH RATES OF MONETARY AGGREGATES

	RPI less Mortgage Element	Weekly Averaged M0	M3	M4	M5	
FINANCIAL YEARS (12 month % changes to calendar March)						
1981-82	9.8	-6.5	4.2	2.7	3.0	
1982-83	5.9	-0.6	5.4	7.9	8.0	
1983-84	4.6	0.8	3.3	6.8	6.1	
1984-85	5.2	0.3	6.0	8.2	8.2	
1985-86	4.0	-0.5	12.2	10.1	9.1	
1986-87	3.8	0.3	14.5	9.7	9.3	
12 MONTH % CHANGES (ua except M0)						
	DECEMBER	3.7	1.6	13.8	11.5	10.5
1987	JANUARY	3.7	1.4	13.4	9.8	9.3
	FEBRUARY	3.7	0.4	14.7	9.8	9.3
	MARCH	3.8	0.3	14.5	9.7	9.3
	APRIL	3.6	1.2	16.2	10.6	10.1
	MAY	3.8	0.6	14.5	9.5	9.2
	JUNE	3.5	0.7	15.1	10.0	9.7
	JULY	3.7	1.6	16.6	10.8	10.3
	AUGUST	3.7	1.0	17.7	11.5	10.8
	SEPTEMBER	3.5	1.4	15.5	11.0	10.4
	OCTOBER	3.9	1.6	17.7	11.4	10.8
	NOVEMBER	4.0	0.9	16.7	10.8	10.2
	DECEMBER	4.0	0.3	18.1	11.8	11.3

TABLE 13

CONFIDENTIAL

M0 : THE WIDE MONETARY BASE

Monthly data	Level £ million (Change in brackets)					Percentage change on previous month		Percentage change on previous year					
	Notes and Coin (nsa)	Notes and Coin (sa)	Bankers' Deposits	M0 (nsa)	M0 (sa)	Notes(sa) and Coin	M0 (sa)	Notes and Coin (nsa)	Notes and Coin (sa)	M0 (nsa)	M0 (sa)		
1987 July	15271	15166	(91)	235	15506	15401	(190)	0.6	1.2	4.7	4.7	5.3	5.4
August	15337	15258	(92)	182	15519	15440	(39)	0.6	0.3	4.3	4.6	4.5	4.7
September	15349	15376	(118)	185	15534	15561	(121)	0.8	0.8	5.3	5.0	5.2	4.9
October	15299	15456	(80)	203	15501	15659	(98)	0.5	0.6	5.1	5.2	5.5	5.6
November	15365	15525	(69)	183	15548	15707	(48)	0.4	0.3	4.8	4.8	4.9	4.9
December	16447	15661	(136)	186	16633	15846	(139)	0.9	0.9	4.7	4.8	4.2	4.3
January	15458	15620	(-41)	178	15636	15799	(-47)	-0.3	-0.3	4.7	4.5	4.8	4.6
1988 February (1 of 4) ^a	15363	15655	(35)	43	15406	15698	(-101)	0.2	-0.6	5.7	5.7	4.8	4.8
Latest 4 weeks ^a	15351	15640	(-34)	127	15478	15767	(-120)	-0.2	-0.8	4.7	4.7	4.6	4.5

Weekly data	Level £ million (Change in brackets)			Percentage change on previous week		
	Notes(sa) and Coin	Bankers' Deposits	M0 (sa)	M0 (sa)	M0 (sa)	
1988 January						
6th	15578	(-296)	248	15826	(-217)	-1.4
13th	15616	(38)	178	15794	(-32)	-0.2
20th	15647	(31)	146	15793	(-1)	0.0
27th	15640	(-7)	141	15781	(-12)	-0.1
February						
3rd	15655	(15)	43	15698	(-83)	-0.5

^a Weekly data for the current month so far include estimates for the unbacked note issue. The latest week also includes an estimate for coin. The percentage changes for the current month so far use as a base the previous full month and the full month a year ago. The latest four week changes use as a base the four week averaged level four weeks ago and a year ago.

TABLE 14

S E C R E T

BUILDING SOCIETY BALANCE SHEET FLOWS

Unadjusted £ million

	Total Flow	Net Mortgage Advances & Unsecured Lending	A S S E T S		L I A B I L I T I E S			
			Liquid Assets	Fixed Assets	Retail principal	Interest credited	Wholesale funds	Other (eg reserves)
1985 *	1497	1226	244 (18.0)	27	621	497	205	174
1986 *	1536	1589	-76 (16.4)	23	553	505	523	-45
1985 Q3*	1679	1188	460 (17.0)	31	618	385	153	523
Q4*	2183	1405	756 (18.0)	22	805	663	594	121
1986 Q1*	953	1271	-341 (17.5)	23	740	458	167	-412
Q2*	1518	1645	-150 (16.6)	23	478	519	321	200
Q3*	1740	1884	-165 (15.7)	21	56	401	1099	184
Q4*	2160	1556	581 (16.4)	23	938	643	403	176
1987 Q1*	1324	1120	126 (16.1)	78	484	670	279	-109
Q2*	1573	1240	313 (16.2)	20	612	457	182	322
Q3*	1516	1272	200 (16.1)	44	410	515	364	227
Oct	2168	1388	730 (16.4)	50	825	320	510	513
Nov	2076	1388	638 (16.6)	50	1130	113	-346	1179
Forecast								
1987 Q4*	2091	1306	735 (16.9)	50	1028	619	340	104
1988 Q1*	1512	1285	177 (16.7)	50	735	611	150	16
Dec	2028	1141	837 (16.9)	50	1130	1423	857	-1382
Jan	1415	1162	203 (16.9)	50	919	1361	100	-965
1988 Feb	1644	1215	379 (16.4)	50	781	97	150	616
Mar	1479	1479	-50 (16.7)	50	505	376	200	398

* Monthly averages

+ Estimated ; part data

Figures in () are end period liquidity ratio, unadjusted

TABLE 15

THE COMPONENTS OF M3

	BANK DEPOSITS				M3
	NOTES AND COINS	RETAIL		WHOLESALE	
		NIB	IB		
% CHANGES					
Financial years (ua)					
1984-85 ¹	5.2	6.5	7.7	19.1	11.5
1985-86 ¹	3.7	4.5	16.8	26.1	16.7
1986-87 ¹	2.2	16.9	17.5	25.8	19.1
Over 12 months (ua)					
1987 JANUARY	3.6	14.7	16.2	23.0	17.6
FEBRUARY	3.0	14.5	17.2	25.7	18.9
MARCH	-2.4	16.9	17.4	25.4	18.9
APRIL	6.2	14.5	17.1	27.9	20.4
MAY	3.3	16.4	19.0	23.1	18.9
JUNE	3.6	18.0	15.4	25.1	19.1
JULY	6.0	15.3	12.1	32.4	20.9
AUGUST	4.0	16.4	15.1	32.8	22.1
SEPTEMBER	5.7	6.1	14.2	31.9	19.5
OCTOBER	4.6	15.4	12.4	34.9	22.3
NOVEMBER	1.4	15.1	13.0	33.3	21.4
DECEMBER	5.9	12.7	10.1	38.4	22.8
Over 6 months (sa)					
1987 JULY	1.7	14.4	12.3	46.9	26.4
AUGUST	3.7	13.2	14.5	41.6	25.1
SEPTEMBER	8.7	16.0	12.7	32.3	21.8
OCTOBER	6.9	33.2	11.7	33.9	25.3
NOVEMBER	7.2	17.4	13.2	31.2	21.8
DECEMBER	11.6	2.0	7.9	40.8	21.9
CHANGES £ MILLION					
monthly average (sa)					
1984-85 ¹	42	56	238	683	1017
1985-86 ¹	17	90	161	556	1565
1986-87 ¹	4	359	538	1255	2157
Over 1 month (sa)					
1987 JULY	297	-178	660	2935	3714
AUGUST	13	150	533	1626	2322
SEPTEMBER	1	310	434	1701	2446
OCTOBER	258	1237	170	4648	6313
NOVEMBER	-65	-924	600	442	53
DECEMBER	222	-292	-630	3301	2393

¹March on March

TABLE 16

SECRET

THE COMPONENTS OF M4 AND M5

BUILDING SOCIETIES							
	M3	RETAIL ¹	WHOLESALE	HOLDINGS OF M3	M4	MONEY MARKET INSTRUMENTS	M5
% CHANGES							

Financial years (ua)							
1984-85 ^a	11.5	15.1				13.8	13.8
1985-86 ^a	16.7	15.3	52.6	94	-0.1	13.5	14.5
1986-87 ^a	19.1	10.8	11.4	50	-15.6	13.5	12.9
Over 12 months (ua)							
1987 JANUARY	17.6	15.6		38.5	13.9	3.2	13.3
FEBRUARY	18.9	16.1		59.7	13.9	3.8	13.3
MARCH	18.9	17.2		52.2	13.9	5.3	13.5
APRIL	20.4	16.1		50.3	14.6	5.0	14.1
MAY	18.9	17.9		54.7	13.7	8.9	13.4
JUNE	19.1	16.4		63.7	13.8	8.4	13.5
JULY	20.9	13.4		64.2	14.9	5.1	14.4
AUGUST	22.1	15.6		63.2	15.6	2.8	14.9
SEPTEMBER	19.5	10.8		58.1	14.9	4.0	14.3
OCTOBER	22.3	13.5		58.3	15.7	4.9	15.1
NOVEMBER	21.4	13.8		66.0	15.2	3.9	14.6
DECEMBER	22.8	11.1		63.2	16.3	6.7	15.7
Over 6 months (sa)							
JULY	26.4	12.3		45.1	18.8	12.0	18.4
AUGUST	25.1	12.9		48.3	18.4	5.9	17.7
SEPTEMBER	21.8	10.8		25.3	17.2	9.7	16.8
OCTOBER	25.3	9.7		23.4	18.7	16.0	18.6
NOVEMBER	21.8	11.6		21.0	17.3	1.5	16.5
DECEMBER	21.9	11.2		31.3	16.9	1.5	16.1
CHANGES £ MILLION							

monthly average (sa)							
1984-85 ^a	984	1034	42	-28	139	2221	2090
1985-86 ^a	1565	1207	50	-362	-118	2480	2557
1986-87 ^a	2157	938	17	-372	51	2791	2975
Over 1 month (sa)							
1987 JULY	3714	1006	268	-571	4417	-109	4308
AUGUST	2322	1434	23	12	3791	-174	3617
SEPTEMBER	2446	295	457	207	3405	108	3513
OCTOBER	6313	720	-1	-618	6414	89	6503
NOVEMBER	53	2080	-356	-796	981	-39	942
DECEMBER	2595	1221	324	-248	3892	240	4132

^aNet in flow including Term shares and SAYE.^bTreasury bills, bank bills, LA temporary debt, CID's and some national savings accounts.^cMarch on March.

TABLE 17

RETAIL DEPOSITS

	BANKS	BUILDING ¹ SOCIETIES	NATIONAL SAVINGS ²	TOTAL
% CHANGES				

Financial years (ua)				
1984-85 ³	7.1	15.1	11.9	12.0
1985-86 ³	11.6	15.3	7.5	12.9
1986-87 ³	17.2	10.8	10.8	12.7
Over 12 months (ua)				
1987 JANUARY	15.6	11.0	9.1	12.3
FEBRUARY	16.1	10.6	10.1	12.4
MARCH	17.2	10.5	10.8	12.6
APRIL	16.1	10.3	11.0	12.2
MAY	17.9	10.2	10.5	12.6
JUNE	16.4	10.3	10.5	12.2
JULY	13.4	10.2	9.2	11.1
AUGUST	15.6	10.4	9.7	11.9
SEPTEMBER	10.8	11.4	9.3	10.7
OCTOBER	13.5	10.2	8.2	10.9
NOVEMBER	13.8	11.1	7.4	11.3
DECEMBER	11.1	11.6	7.2	10.5
Over 6 months (sa)				
1987 JULY	13.1	12.3	8.6	13.6
AUGUST	13.9	12.9	7.8	13
SEPTEMBER	14	10.8	6.8	11.3
OCTOBER	19.7	9.7	5.3	10.7
NOVEMBER	14.8	11.6	4.3	10.8
DECEMBER	5.5	11.2	3.9	8.3
CHANGES £ MILLION				

monthly average (sa)				
1984-85 ³	42	1034	683	1759
1985-86 ³	255	1207	1093	2555
1986-87 ³	871	938	266	2075
Over 1 month (sa)				
1987 JULY	482	1006	202	1690
AUGUST	683	1434	90	2207
SEPTEMBER	744	295	83	1122
OCTOBER	1407	720	-64	2063
NOVEMBER	-324	2080	63	1819
DECEMBER	-928	1221	256	549

NOTES

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

TABLE 18

Breakdown of Bank Lending by instrument (banking months before 1986 October)

		unadjusted					
		Advances	Commercial Bills	Investment ¹	Other ²	Total	Total s/a
<u>1984-1986</u>							
<u>% change³</u>							
1984-85		15.5	27.7	18.0	n/a	17.5	17.5
1985-86		17.9	-7.4	81.3		16.9	16.8
<u>Monthly average³</u>							
1984-85		1131	186	25	91	1433	1452
1985-86		1438	56	157	11	1661	1692
Contributions to annual bank lending growth ⁴							
<u>Monthly changes</u>							
1987	January	905	562	104	-136	1435	1640
	February	2618	-426	69	345	2606	2705
	March	4642	-2026	339	420	3375	2471
	April	1726	-409	210	-398	1129	2201
	May	3622	-2125	295	497	2289	2503
	June	5144	751	-7	-1206	4682	3979
	July	2132	1679	-41	890	4660	4547
	August	2840	-1519	117	-288	1150	2649
	September	5456	13	-41	66	5494	4304
	October	2556	-499	152	823	3032	2991
	November	2321	845	237	-56	3347	3320
	December	3703	1524	299	-124	5372	4904

1. Investment by banks in private sector
2. Market loans, shipbuilding repos, CD's and time deposits of building societies, commercial paper, and transit items.
3. April on April
4. First four columns equal fifth column.

TABLE 19

S E C R E T

COUNTERPARTS TO BROAD MONEY

f million

	M3	M4
LATEST MONTH : DECEMBER 1987		
PSBR	196	196
Debt sales (-): Other Public Sector	-264	-115
Central Government	-875	-646
Public external & fc finance (-)	2205	2205
Over(-)/under(+)funding	1262	1640
f lending to private sector	5372	5941
Bank/bank & b society externals (-)	-2354	-2423
Bank/bank & b society fNNDLs (-)	-1624	-184
TOTAL	2656	4974

FINANCIAL YEAR 1987/88 TO DATE

PSBR	-473	-473
Debt sales (-): Other Public Sector	1283	614
Central Government	-3792	-3846
Public external & fc finance (-)	5397	5397
Over(-)/under(+)funding	2415	1692
f lending to private sector	31155	42342
Bank/bank & b society externals (-)	-4214	-5007
Bank/bank & b society fNNDLs (-)	-3270	-5083
TOTAL	26086	33944

FINANCIAL YEAR 1986/87

PSBR	3343	3343
Debt sales to private sector (-)	-1235	-5840
Public external & fc finance (-)	-1700	-1700
Over(-)/under(+)funding	408	-4197
f lending to private sector	30299	47406
Bank/bank & b society externals (-)	-676	-1553
Bank/bank & b society fNNDLs (-)	-4601	-8689
TOTAL	25430	32967

Table 20:- BORROWING BY PRIVATE SECTOR EXCLUDING BUILDING SOCIETIES (£ million)

	BANK/BUILDING SOC. STERLING BORROWING			OTHER STERLING BORROWING					ALL BORROWING		
	Banks	Building Societies	TOTAL	Sterling Commercial Paper	Equities	Bonds	Euro-Sterling (*)	TOTAL	Sterling	Foreign Currency	TOTAL
1984											
Q1	5141	3007	8148		163	44	25	232	8380	1102	9482
Q2	2781	4076	6857		429	75	0	504	7361	808	8169
Q3	3285	4087	7372		288	59	100	447	7819	1047	8866
Q4	4535	3402	7937		249	73	210	532	8469	1948	10417
1985											
Q1	7093	3189	10282		924	170	235	1329	11611	3225	14836
Q2	4158	3748	7906		1092	327	230	1649	9555	1382	10937
Q3	4148	3560	7708		873	274	130	1277	8985	-806	8179
Q4	4803	4232	9035		525	89	200	814	9849	939	10788
1986											
Q1	7431	3867	11298		0	471	209	680	12328	2362	14690
Q2	5465	5083	10548		0	1369	344	325	12586	1575	14161
Q3	5764	5592	11356		69	1431	290	231	13377	3688	17065
Q4	10433	4667	15100		65	2338	-52	281	17732	591	18323
1987											
Q1	7063	3619	10682		368	1553	-782	1231	13052	7355	20407
Q2	8608	4240	12848		651	2259	352	655	14745	4173	21443
Q3	10940	3889	14829		284	5950	732	570	22365	-1198	21167
Q4	10982	3683	14665		-255	3730	343	105	18588	-85	18503
Average per quarter											
1984	3926	3643	7579		0	222	63	84	8007	1226	9234
1985	5051	3682	8733		0	854	215	199	10000	1185	11185
1986	7273	4802	12076		34	1402	198	297	14006	2054	16060
1987	9398	3858	13256		262	3373	161	640	17693	2688	20380
1987											
JANUARY	1391	1459	2850		150	500	-67	110	3543	1369	4912
FEBRUARY	2603	980	3583		104	870	20	315	4892	2402	7294
MARCH	3069	1180	4249		114	183	-735	806	4617	3584	8201
APRIL	1272	1590	2862		192	628	110	355	4347	1236	5583
MAY	2258	1295	3553		171	415	184	150	4473	2693	7166
JUNE	5078	1355	6433		288	1016	58	150	7945	749	8694
JULY	4472	1302	5774		131	1840	182	210	8137	-2215	5922
AUGUST	1055	1269	2324		9	2090	390	150	4963	1019	5982
SEPTEMBER	5413	1318	6731		144	2020	160	210	9265	-2	9263
OCTOBER	2596	1510	4106		31	2535	195	45	6912	3461	10373
NOVEMBER	3352	1266	4618		-40	975	55	60	5668	-1646	4022
DECEMBER	5034	907	5941		-246	225	173	0	6093	-1900	4193
1988											
JANUARY						43	41	450			

Table 21:- NET FINANCE OF U.K. INDUSTRIAL AND COMMERCIAL COMPANIES AND BUILDING SOCIETIES (£ million)

	BANK BORROWING			OTHER BORROWING						ALL BORROWING	
	Sterling		Foreign	TOTAL	Sterling		Euro-Sterling(*)		TOTAL	TOTAL	
	ICC's	BSOC's	Currency		Commercial Paper	Equities	Bonds	ICC's			BSOC's
1984											
Q1	2905	-86	-895	1924		163	44	25	0	232	2156
Q2	559	-56	-193	310		429	75	0	0	504	814
Q3	1219	533	-74	1678		288	59	100	0	447	2125
Q4	2312	408	1433	4153		249	73	210	0	532	4685
1985											
Q1	3386	6	-352	3040		924	170	235	0	1329	4369
Q2	747	248	207	1202		1092	327	230	0	1649	2851
Q3	229	161	1371	1761		873	274	130	600	1877	3638
Q4	874	343	1377	2594		525	69	200	475	1289	3883
1986											
Q1	3807	346	108	4261	0	471	209	350	935	1965	6226
Q2	-356	442	108	194	0	1369	344	325	1075	3113	3307
Q3	28	1800	1128	2956	69	1431	290	231	1575	3596	6552
Q4	5275	390	-59	5606	65	2338	-58	281	2632	5264	10870
1987											
Q1	1047	353	2102	3502	368	1553	-782	1231	290	2660	6162
Q2	662	-508	739	893	651	2259	352	655	50	3967	4860
Q3	3513	364	-90	3787	284	5950	732	570	100	7636	11423
Q4	5305	769	718	6792	-255	3735	423	105	0	4008	10800
Average per quarter											
1984	1749	200	68	2016	0	222	63	84	0	429	2445
1985	1309	190	651	2149	0	854	215	199	269	1536	3685
1986	2189	745	321	3254	34	1402	198	297	1554	3485	6739
1987	2632	245	867	3744	262	3374	181	640	147	4604	8346
1987:-											
				JANUARY	150	500	-67	110	0	693	
				FEBRUARY	104	870	20	315	140	1449	
				MARCH	114	183	-735	806	150	518	
				APRIL	192	828	110	355	0	1485	
				MAY	171	415	184	150	50	970	
				JUNE	288	1016	58	150	0	1512	
				JULY	131	1840	182	210	0	2363	
				AUGUST	9	2090	390	150	0	2639	
				SEPTEMBER	144	2020	160	210	100	2634	
				OCTOBER	31	2535	195	45	0	2806	
				NOVEMBER	-40	975	55	60	0	1050	
				DECEMBER	-246	225	173	0	0	152	
1988:-				JANUARY		43	41	450	50		

* Gross Issues announced by U.K. ICC's and Building Societies

NOTE: Bank borrowings figures include temporary sector holdings of 'Other Borrowing' (mainly central bank deposits) which are not counted in the 'All Borrowing' figures.

TABLE 22

SECRET

FUNDING AND MONEY MARKET ASSISTANCE - FINANCIAL YEAR 1987/88

	APR-DEC 1987	£ million u/a
CGBR	2804	
Gilt sales to nbps and overseas (inc-)	-6470	
Other CG debt sales to nbps incl Treasury bills* (-)	-2035	
CG external and fc finance other than BGS(-)	9605	
Funding of the CGBR Over(-)/under(+)	3904	3904
		Other BGS sales (-) 1169
OPS net of on lending	-3277	Other CG debt sales (-) -520
OPS debt sales to nbps(-)	1283	Notes and coins (-) -1999
OPS currency finance(-)	505	Other incl exchequer (-) -395
Funding of OPS Over(-)/under(+)	-1489	CG bank deposits (+) 166
	-----	-----
Funding of PSBR Over(-)/under(+)	2415	Total influences* 2325
	-----	(surplus+,shortage-) -----
		Change in bankers deposits (-) 197
		Change in level of assistance (+) # -2522
		of which
		Issue Department bills -552
		Banking Department bills 1083
		Market advances -1449
		Repos -1604
		Level of assistance
		End March 1986 13317
		End March 1987 9742
		End December 1987 7221

* Treasury bills usually included below the line in the Money Market Assistance Table

Surplus on influences leads to a fall in assistance and vice versa

TABLE 23

SECRET

MONETARY AGGREGATES : FORECAST GROWTH RATES

percent

Not seasonally adjusted		M0	M3	M4
<hr/>				
1 MONTH % CHANGE TO:				
1987 OCT		-0.2	3.2	1.8
NOV		0.3	0.8	0.6
DEC		7.0	1.4	1.7
JAN	) *	-6.0	-1.5	-0.3
FEB	) FORECAST	n/a	1.7	1.1
MAR	)	n/a	3.3	2.3
12 MONTH % CHANGE TO:				
1987 OCT		5.5	22.3	15.7
NOV		4.9	21.4	15.2
DEC		4.2	22.8	16.3
JAN	) *	4.8	21.9	16.1
FEB	) FORECAST	n/a	21.6	16.3
MAR	)	n/a	20.3	16.0
Seasonally adjusted				
<hr/>				
1 MONTH % CHANGE TO:				
1987 OCT		0.6	3.6	2.2
NOV		0.3	0.0	0.3
DEC		0.9	1.4	1.3
JAN	) *	-0.3	0.1	-0.2
FEB	) FORECAST	0.3	1.7	1.7
MAR	)	0.8	2.4	1.8
12 MONTH % CHANGE TO:				
1987 OCT		5.6	23.0	16.1
NOV		4.9	21.9	15.5
DEC		4.3	22.9	16.3
JAN	) *	4.6	21.6	15.8
FEB) FORECAST	5.8	21.4	16.0
MAR)	6.2	21.1	16.2

* Provisional January outturn for M0

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TABLE 24: MO FORECAST

	LEVELS £ MILLION			SEASONALLY ADJUSTED			
	Notes and coin	Bankers' Deposits	MO	% CHANGE ON PREVIOUS MONTH		% CHANGE ON YEAR EARLIER	
				Notes and coin	MO	Notes and coin	MO
ACTUAL							
September	15,376	184	15,560	+0.8	+0.8	+5.0	+4.9
October	15,457	202	15,659	+0.5	+0.6	+5.2	+5.6
November	15,525	183	15,708	+0.4	+0.3	+4.9	+4.9
December	15,661	186	15,847	+0.9	+0.9	+4.8	+4.3
1988 January	15,620	178	15,798	-0.3	-0.3	+4.5(5.3)	+4.6(5.4)
FORECAST							
February	15,700	150	15,850	+0.5	+0.3	6.0(6.5)	5.8 (6.6)
March	15,790	190	15,980	+0.6	+0.8	6.6(6.9)	6.2(6.5)
April	15,850	190	16,040	+0.4	+0.4	6.3	6.1
May	15,910	190	16,100	+0.4	+0.4	6.2	6.0
June	15,970	190	16,160	+0.4	+0.4	5.9	6.2
July	16,020	190	16,210	+0.3	+0.3	5.6	5.3
August	16,070	190	16,260	+0.3	+0.3	5.3	5.3
September	16,120	190	16,310	+0.3	+0.3	4.8	4.8
October	16,170	190	16,360	+0.3	+0.3	4.6	4.5
November	16,220	190	16,410	+0.3	+0.3	4.5	4.5
December	16,290	190	16,480	+0.4	+0.4	4.0	4.0

* Last month's forecast in brackets.

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TABLE 25: MONEY MARKET INFLUENCES

£ million

	Actual		Forecast	
	1987 DEC	1988 JAN	FEB	MAR
A. Money market influences				
(i) CGBR excl bank deposits (+)	-205	-6136	375	4750
(ii) Reserves etc (+)	1936	-256	-150	-225
(iii) Notes and coin (-)	-1146	970	425	-950
(iv) National Savings (-)	-185	-292	-175	-200
(v) CTDs (-)	-16	363	75	25
(vi) Gilts (-)	-931	-1360	-800	150
(vii) Other Exchequer items etc	-727	-15	0	0
A. TOTAL MONEY MARKET INFLUENCES (Market surplus + / shortage -)	-1274	-6726	-250	3550
B. Money market operations				
(i) Commercial bills (purchase +):				
Issue Department - outright	1396	5243		
- repo terms	-534	-1512		
Banking Department	452	-129		
(ii) LA bills (purchase +)				
Issue Department	-79	60		
Banking Department	-5	80		
(iii) Treasury bills (purchase +)	1201	1396	0	-250
(iv) Market advances	-414	233		
(v) Treasury bill Repos	-668	0		
(vi) Export Credit/Shipbuilding Repos	0	979		
(vii) Gilt Repos	0	332		
B. TOTAL MONEY MARKET OPERATIONS	1349	6682	250	-3550
C. Change in bankers balances = A + B	75	-44		
D. TOTAL ASSISTANCE OUTSTANDING (excluding Treasury bills) = previous level + B - B(iii)	7221	12507	12750	9450
of which commercial bills	7133			

TIMING OF GOVERNMENT SHARE SALES

1988

BGC (III)

19 April

BAA (II)

19 May

BP (II)

30 August

1989

BP (III)

27 April