

SECRET AND PERSONAL

10

Price Misch
 Welcome signs of
 some moderation in growth.

FROM: MS V F BRONK

DATE: 10 March 1988

1. MR GRICE
2. CHANCELLOR

cc Economic Secretary
 Sir P Middleton
 Sir T Burns
 Mr Scholar
 Mr Peretz
 Miss O'Mara
 Mr Pike
 Mrs Ryding
 Mr Holgate
 Mr Gray No 10

There seems little doubt that the immediacy
 of arbitrage and round-tripping from December
 and January is partly responsible for the
 much lower total money and bank lending growth.

Even so, they are both well below what we expected. JWG 10.3.88

MONEY SUPPLY IN FEBRUARY: "FIRST GUESS" FOR M3 AND OUTTURN FOR M0

(All figures are unadjusted unless specified otherwise)

Table 1 summarises the Bank's "first guess" at the M3 figures for February, which are still subject to significant revision, and shows the confirmed outturn figures for M0 that were circulated on 25 February.

Table 1: Growth of Monetary Aggregates in February

	<u>M0</u>	<u>M3**</u>	per cent
Annual growth rate*	<u>5.3</u> (5.3)	<u>19.3</u> to <u>20.3</u>	
Change in month*	-1.0 (-0.1)	-0.6 to 0.2 (-0.5 to 0.3)	
Target range	2-6	-	

* Figures in brackets are seasonally adjusted

** The actual outturn has been within the range forecast on this basis in 14 of the last 16 months.

2. The low outturn for M3 suggested by these figures probably reflects unwinding of arbitrage undertaken in December and January.

3. The increase in sterling bank lending in February is likely to be in the range £1.3-3.3 billion (£1.4-3.4 billion seasonally)

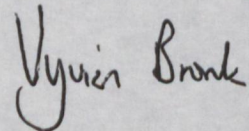
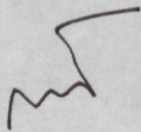
adjusted). This shows some slackening from recent rates and probably also reflects unwinding of arbitrage and round-tripping in December and January.

M3 components and counterparts

3. Table 2 (attached) compares the changes in M3 components underlying the "first guess" with the average monthly change over the previous 12 months. Table 3 (attached) provides a similar comparison for M3 counterparts.

Timetable

4. We expect to receive provisional February figures on Thursday 17 March. They will be published on Friday 18 March. Full money and banking figures for February will appear on Tuesday 29 March.



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TABLE 2: M3 COMPONENTS - FEBRUARY 1987

"First Guess" compared with average monthly change in the previous year.

		£ millions
	First Guess	Average monthly change in year to January
Notes and coins in circulation	- 271	60
Non-interest bearing sight	822	330
Interest bearing sight	-1079	960
Time deposits (including (CDs)	207	1450
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Change in M3	- 321	2800
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TABLE 3 : M3 COUNTERPARTS - FEBRUARY 1988

*First guess compared with average monthly change in the previous year

£ millions

	First Guess	Average change in year to January
CGBR (O) (ex bank deposits)	-256	-310
Other public sector:		
LABR)		
PCBR)	12	110
OPS debt sales)		
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Modified PSBR*	-244	-200
CG debt: Gilts	-685	-80
Treasury bills	10	-20
National Savings	-284	-190
CTD's etc.	168	20
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Total CG debt sales (-)	-791	-270
External and fc finance of public sector (-)	-365	480
	-----	-----
Wide over(-)/under(+)funding	-1400	10
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Sterling lending to nbps (incl Issue Dept commercial bills)	1406 #	3510
Net private externals **)		
Residual (includes NNDLS ** and reporting differences))	-327	-720
	-----	-----
Change in M3	-321	2800
	-----	-----
(Monthly percentage change)	(-0.2%)	(1.7%)
(12 month percentage change)	(19.8%)	(20.6%)

* Modified PSBR equals PSBR less OPS debt sales

** For the "first guess", Private Externals and NNDLS cannot be separately identified

£1501 million after seasonal adjustment.