

SECRET AND PERSONAL

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The provisional publication date is the day before the EPR comes out. The £M3 news below may be relevant to my monetary policy article in the EPR.

1. MR RICHARDSON

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2. CHANCELLOR

FROM: T TARKOWSKI
DATE: 30 MAY 1986

cc: Chief Secretary
Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Scholar
Mr Peretz o/r
Mr Sedgwick
Mr Walsh o/r
Mr Hannah
Mr Heath
Mr Ross Goobey

MONEY SUPPLY IN BANKING MAY : "FIRST GUESS"

I attach the Bank's monthly note setting out their "first guess" at the money supply figures for banking May, which ended on 21 May.

Summary

2. £M3 is estimated to have risen 2.4 per cent, compared with a forecast increase of 0.9 per cent. This suggests a final outturn in the range of $2\frac{1}{4}$ per cent to $2\frac{3}{4}$ per cent. On this basis the annual growth rate of £M3 to banking April would be in the range of $18\frac{1}{2}$ per cent to 19 per cent, remaining, as forecast, well above its 11-15 per cent target range. M0 rose by 0.1 per cent (forecast: 0.5 per cent). Annual growth remains in the bottom half of its target range, at 3.4 per cent. Table 1 below gives the implied growth rates in the target aggregates.

Table 1: Monetary Aggregates - First guess : banking May

Monthly percentage change	per cent	
	<u>M0</u>	<u>£M3</u>
First guess	0.1	2.4
Likely outturn	0.1	$2\frac{1}{4}$ - $2\frac{3}{4}$
3 month annualised rate	0.1	$35\frac{1}{4}$ - 38
6 month annualised rate	4.1	$20\frac{1}{4}$ - $21\frac{1}{2}$
Annual rate	3.4	$18\frac{1}{2}$ - 19

M0

3. The annual growth rate for M0 at 3.4 per cent is slightly up from last month (3.2 per cent), but remains comfortably in the bottom half of its target range. This is in line with the forecast which predicts that M0's annual growth rate remains close to 3 per cent throughout the forecast period.

£M3 components

4. In banking May £M3 is thought to have increased by £3,150 million, or 2.4 per cent, compared with our forecast increase of 0.9 per cent, circulated in Mr Walsh's monetary prospects submission of 14 May (which superseded the forecast reported in the Bank's note). Among the components, notes and coin rose by £110 million. The main surprise is in non-interest bearing sight deposits which rose unusually strongly by £1,290 million. Interest-bearing sight deposits rose £1,140 million, time deposits rose rather less strongly by £620 million.

5. We do not as yet know definitely that factors distorting the components have been at work, but the exceptional increase in NIB sight could well be associated with something of the kind. There was a large gilt redemption at the end of banking May, which could have inflated the figures for NIB sight. The last increase of comparable size happened last June in the run up to the Abbey Life oversubscription.

£M3 counterparts

6. Table 2 (attached) compares £M3 counterparts in the first guess with those in the forecast. £M3 is estimated to have risen by £3,150 million, about £2.0 billion above forecast. The main factor accounting for the difference is the very substantially expansionary externals (around £1.5 billion more expansionary than forecast).

7. The "PSBR" is estimated at £1,140 million, about £640 million above forecast. This is accounted for by the other public sector contribution, which was around £470 million more expansionary

than forecast, largely on account of the LAs. The CGBR was close to forecast.

8. Central Government net debt sales, at £70 million, were also on forecast, but the effects of the higher than expected "PSBR" on the funding position were largely offset by above-forecast external flows to the public sector, leaving underfunding - at £640 million - not significantly different from forecast (£470 million).

9. Sterling lending is estimated at £1,530 million, much as forecast. (The forecast assumed that ^{the capital allowances surge} began to unwind this month, though only very slowly.)

10. The main reason for the difference from forecast was the externals. At this stage, the division between NNDLs and externals is not on the same basis as that used in the forecast, and the position is further complicated by the treatment of the residual error, which is included in NNDLs. But the externals and NNDLs taken together are around £1.8 billion more expansionary than forecast, and it seems clear that the externals are largely responsible, even after allowing for the statistical difficulties in the way of interpretation at this stage. We understand, however, that there has been a reduction of around £1 billion in overseas residents' sterling deposits (an expansionary influence) and it is conceivable that this may be related to the recent substantial turn-around in the UK current account, though it is not possible to go beyond conjecture before we have more detailed figures.

Timetable

11. We will receive provisional April figures on Friday 6 June, and they will be published on Tuesday 10 June. Full money and banking figures will appear on Thursday 19 June.

12. I am sending a copy of this minute to Mr Norgrove at No 10 Downing Street.

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T TARKOWSKI

TABLE 2 : BANKING MAY 1986

"First guess" compared to forecast

£ millions, seasonally adjusted

FIRST GUESS

FORECAST*

COBR (ex bank deposits)	+1,640	+1,628
CG debt: Gilts	+470	+420
Treasury Bills	0	-
National Savings	-240	-215
CTD's	-160	-130
	-----	-----
	+70	+75
Other public sector: LA	-270	-885
PC	-240	-95
	-----	-----
	-510	-980
External and fc. finance of the public sector	-560	-250
Sterling lending to UK private sector (inc. Issue Dept. commercial bills)	+1,530	+1,600
Net private externals**	+1,220	-335
Residual (includes NNDLs** and reporting differences)	-230	-500
	-----	-----
£M3	+3,150	+1,240
	-----	-----
(Monthly percentage change)	(+2.4%)	(+0.9%)
Wide over(-)/underfunding(+)	+640	+470

* As circulated in Mr Walsh's "Monetary Prospects" submission of 14 May 1986.

** For the first guess, foreign currency NNDLs cannot be separately identified and are included with £NNDLs and the residual. In the forecast they are attributed to the Externals, in line with the convention used for the published figures.

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THE GOVERNOR'S SECRETARY (2)
THE DEPUTY GOVERNOR
MR LOEHINIS
MR GEORGE
MR WALKER
MR FLEMMING
MR COLEBY
MR WILLETTTS
MR PLENDERLEITH
MR TAYLOR
MR W A ALLEN

MR COLLINS
MR HOTSON
MR MIDGLEY/GROUP 7/2
MR PENNINGTON/GROUP 2/2
MR THORP
MR TOWNEND
MR M ST J WRIGHT/GROUP 2/4
MR McCONNACHIE
MR MANN
MR WALSH (HMT)
MR TARKOWSKI (HMT)

FROM: Miss R Borer / P A Bull

BANKING MAY 1986 - A FIRST ESTIMATE

£ millions, seasonally adjusted

The provisional estimates of the monetary aggregates for banking May will be published at 2.30 pm on Tuesday 10 June and the full money and banking figures will be published at 2.30 pm on Thursday 19 June. Even after 19 June, some of the information contained in this note remains confidential to the Bank, and group 2/3 should be consulted if there is doubt about its availability.

1 Figures received from the weekly reporting banks show an increase in £M3 of 3150 in banking May. An estimate of the monetary sector as a whole, based on these returns, would suggest a final outturn in the range of +2 1/4% to +2 3/4% (compared with a forecast increase of 0.8%) and a 12 month growth rate in the range of +18 1/2% to +19%, well outside the target range of 11-15% announced in the Budget.

2 Among the components of £M3, notes and coin are estimated to have risen by 110, and private sector non-interest-bearing sight deposits to have increased by 1290, an unusually large amount. Private sector interest bearing sight deposits are estimated to have risen by 1140. Private sector time deposits (including CDs) are estimated to have risen by 620: within this, time deposits rose by 410 and CDs by 200. Within the total increase of 1550 in interest bearing deposits, retail IB deposits rose by 740.

3 Our latest estimate for M0 for banking May is +0.1%, or +3.4% over the last twelve months, within the new target range of 2-6% announced in the Budget. This includes figures received from the Scottish note issuing banks and also revised estimates for coin. Information has not yet been received from the Northern Irish banks.

4 The table attached compares counterparts to £M3 with the forecast as circulated in the FR of 15 May. The estimated CGBR is +1640, ie 310 above forecast: within this, the CG own account was +480 while on-lending to LAs was +1380, and on-lending to PCs was -220. Net purchases of central government debt from the non-bank private sector are estimated to have been +70, compared to a forecast of net sales of 30. Gills contributed +470, ie a decrease of nbps holdings with two large redemptions, compared to the forecast decrease of +320. There were net purchases of CTDs of -160 and of National Savings of -240, while Treasury Bills showed no net change over the month.

5 The direct contribution of the rest of the public sector is estimated to have been contractionary by -510, (370 less contractionary than forecast). Local authorities were -270, (360 less contractionary than forecast), and PCs were -240, (10 less than forecast).

6 "Narrow overfunding" (ie the CGBR plus the direct contribution of the rest of the public sector, net of CG debt sales to the non-bank private sector) was +1200 (ie. an underfund). External and foreign currency finance of the public sector (EFCFPS) was -560. "Wide overfunding" (ie the sum of narrow overfunding and EFCFPS) was +640, (ie an underfund) compared with a forecast of +270.

7 Bank lending in sterling to the private sector is estimated to have increased by 1530, compared with a forecast rise of 1600.

8 Other identified external and foreign currency transactions (ie excluding EFCFPS) were +1220, very different from the forecast of -350; this may be a poor guide to the final outturn for the externals.

9 The residual (including NNDLs) was contractionary by 230, compared with a forecast of -500. A sterling capital issue by Standard Chartered contributed -150. The planned rights issue by National Westminster will not have affected the figures in banking May.

Financial Statistics Division

Money & Banking Aggregates Group BB-1

30 May 1986

MISS R BORER (4471) / P A BULL (4427)

