

Money growth update, February 2024

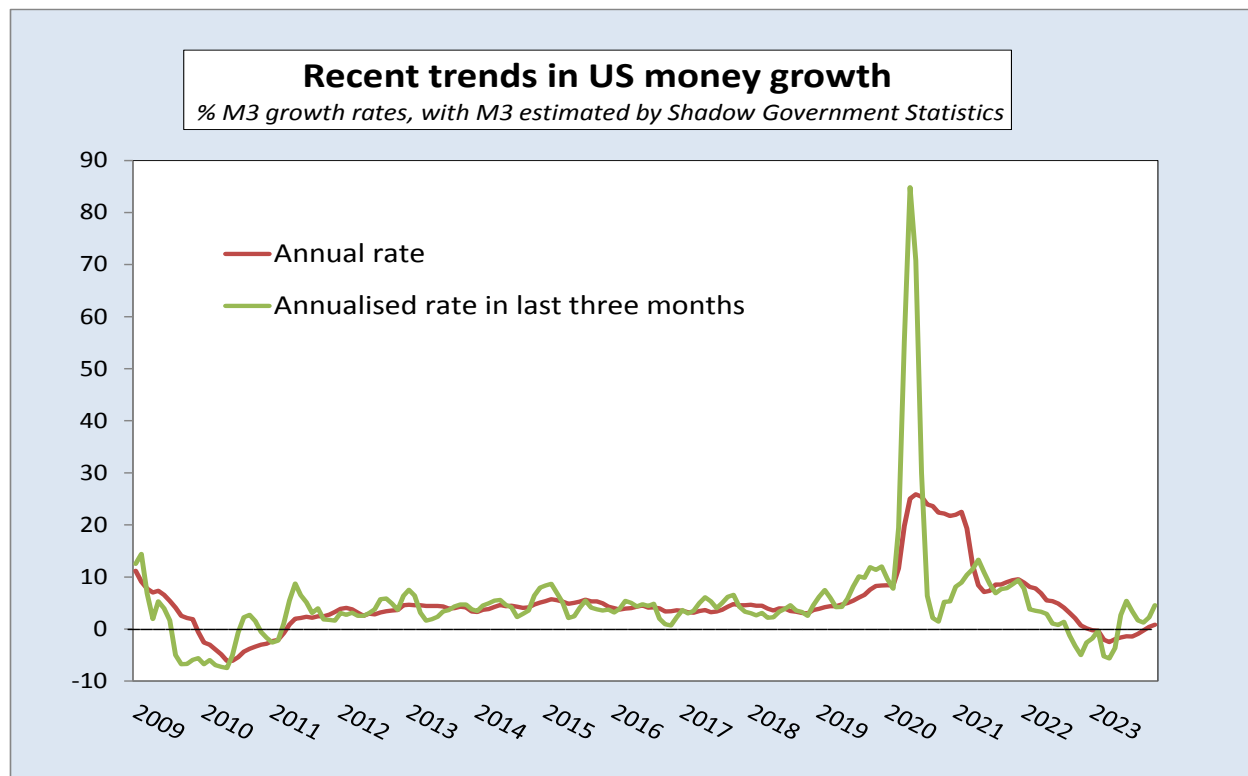
The USA saw a significant increase (0.6%) in M3 in December, reflecting monetisation of the enormous budget deficit. A feature was large purchases of short-dated US government paper by money market mutual funds. Broad money growth remains weak in Japan and continues to slow in China, where efforts by the authorities to stimulate the economy appear to be having little success. The Eurozone has also seen a modest pick-up in broad money growth, as has the UK. In the UK's case most of the growth is due to a probably erratic surge in borrowing by the financial sector, which tends to be repaid in the ensuing months. India continues to record strong broad money growth, driven by resilient demand for new bank credit. *(Tim Congdon and John Petley)*

Name of country/ jurisdiction	Share of world output in 2020		Growth rate of broad money		Comment
	In purchasing power parity terms, %	In current prices and exchange rates, %	In last three months at annualised rate, %	In last 12 months, %	
USA	15.7	24.2	4.6	0.9	Stronger broad money growth driven by MMMFs. Growth in bank credit remains very modest.
China	18.6	12.7	7.4	8.9	Money growth continues to slow as concerns about property market and shadow banks persist. Inflation still negative.
Eurozone	11.4	15.1	3.1	0.1	Money growth slightly higher but still weak, with little demand for new bank credit. Bond yield spreads remain fairly narrow.
Japan	3.7	5.1	1.7	1.8	Credit and money growth very low, but still positive and similar to last 30 years.
India	6	3.3	10.9	11	Robust demand for new bank credit is keeping money growth strong. Inflation likely to pick up.
UK	2.3	3.2	4.4	-0.3	Demand for new bank credit weak. The UK economy is now in recession.

USA

	% annual/annualised growth rate:	
	M3	Nominal GDP
1961 – 2022	7.6	6.5
Ten years to 2020	6.2	3.4
Year to December 2023	0.9	n.a
Three months to December 2023 at annualised rate	4.6	n.a.

Sources: Shadow Government Statistics research service for M3 after 2006 and US Bureau of Economic Analysis for GDP



In December, the quantity of broad money rose by \$162b., the most rapid growth since March 2022 and the eighth consecutive month of rising M3. An aspect of the increases is a boom in money market mutual funds, which are acquiring very short-dated (under one year to maturity) securities. These are being issued by the US Treasury to fund its vast deficit. A glance at the Fed's H8 data indicates that without these purchases, US broad money growth would be much weaker. Overall lending to the private sector declined in January. Lower bond yields nevertheless spurred a small revival in mortgage credit, with US house prices (as measured by the Federal Housing Finance Agency's index) up by 6.6% in the year to November. Consumer price inflation fell back from 3.4% in the year to December to 3.1% the following month, still above the Fed's 2% target. (Note by Tim Congdon and John Petley.)

China

	% annual/annualised growth rate:	
	M2	Nominal GDP
1991- 2020	18.4	14.5
2011 - 2020	11.7	10.0
Year to January 2024	8.9	n/a
Three months to January 2023 annualised rate	7.4	n/a

Sources: People's Bank of China for M2 and IMF for GDP

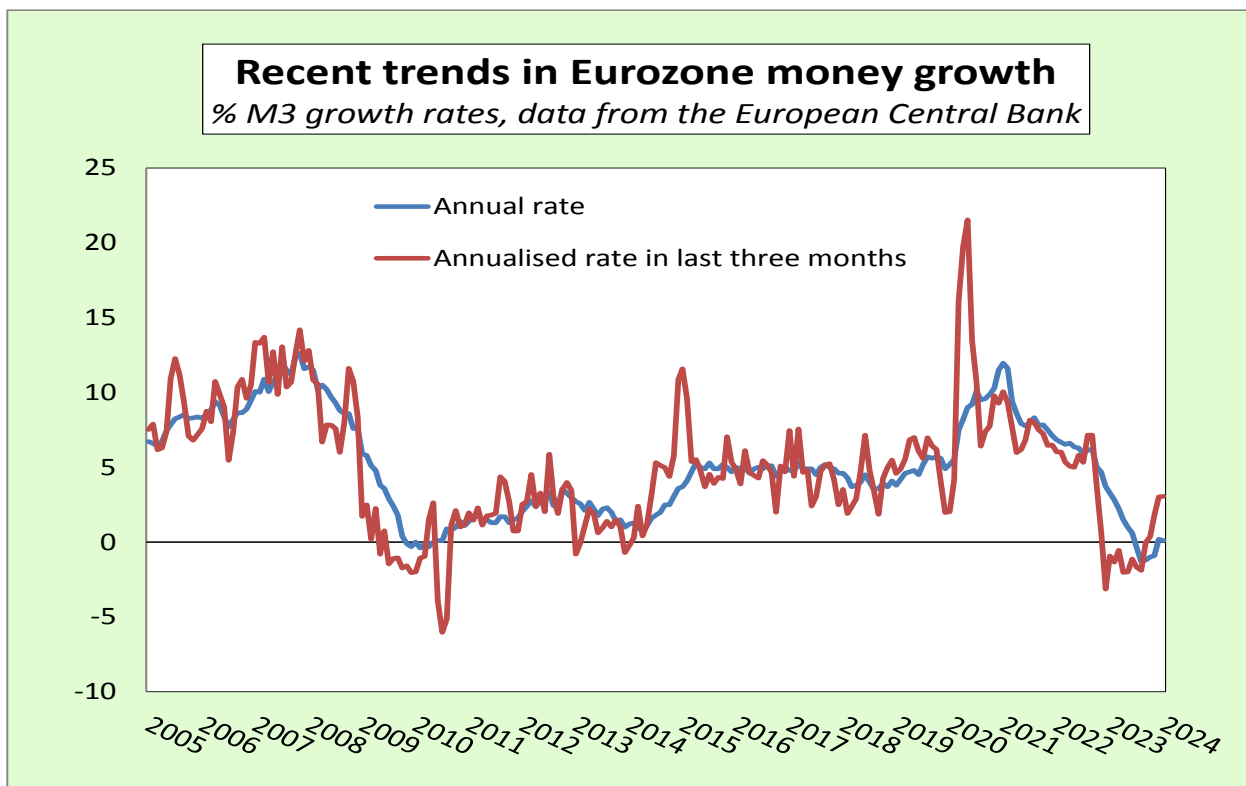


The annualised rate of Chinese broad money fell to a 2½-year low of 7.4% in the three months to January 2024. The annual rate also declined to a two-year low of 8.9%. This slowdown comes in spite of attempts by the Chinese authorities to stimulate the economy, especially the troubled property market. House prices have been falling on an annual basis for the last six months, with the rate of decline steepening in December. The People's Bank of China cut the cash reserve ratio for all banks by 0.5% on 5th February in response to the rate of growth of new bank credit falling to 10.4% in the year to January, a 25+ year low. Consumer prices declined at an annual rate of 0.8% in January, the fourth consecutive month of deflation and the lowest reading in 14 years. A 2.3% year-on-year increase in the value of Chinese exports in December is the most positive feature of the struggling Chinese economy at the moment. (Note by John Petley.)

Eurozone

	% annual/annualised growth rate:	
	M3	Nominal GDP
1996 – 2022	5.4	3.2
Ten years to 2020	4.6	1.6
Year to January 2024	0.1	n/a
Three months to January 2024 at annualised rate	3.1	n/a

Sources: European Central Bank for M3 and Eurostat for GDP

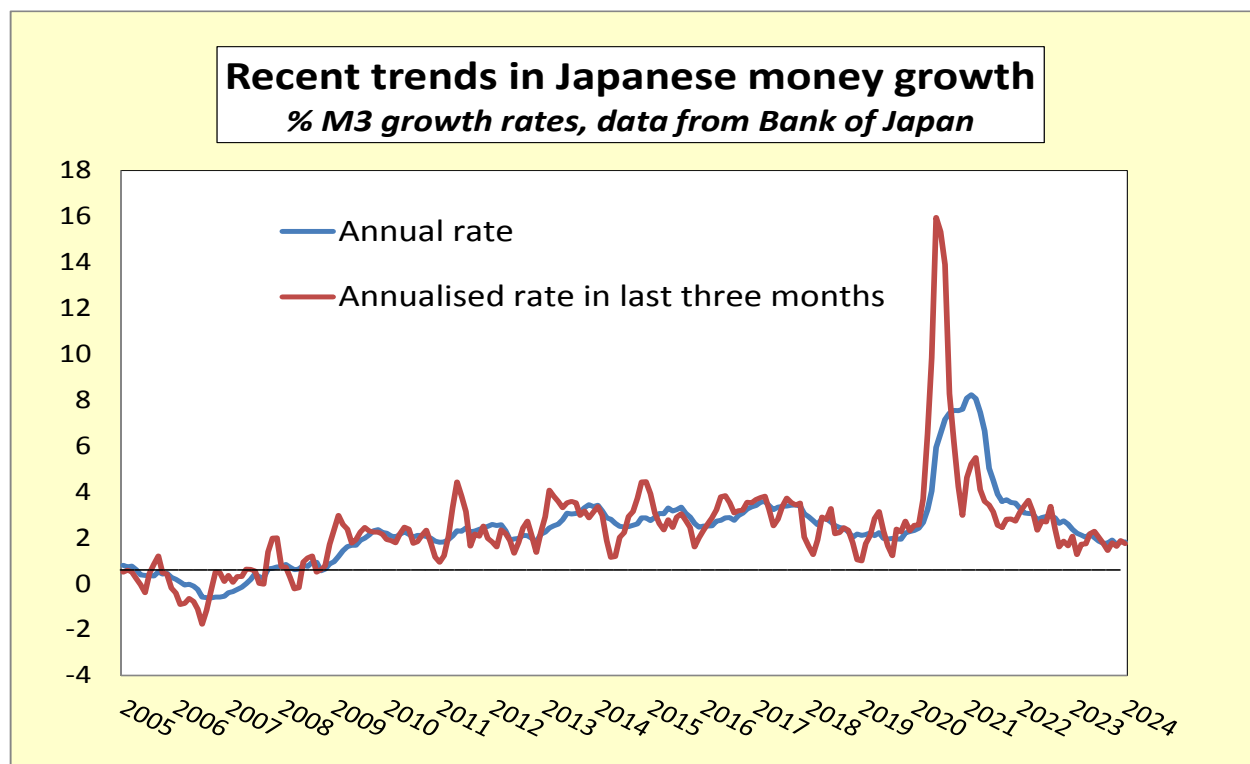


In December 2023 both the annual and the annualised quarterly rates of broad money growth in the Eurozone were positive for the first time since November 2022. Growth in the stock of new bank credit remains markedly weak. Corporate borrowing declined by 0.4% in the year to January, while the stock of bank credit to households fell by 0.1% in the same period, down from +0.5% in the year to December. Zero output growth in the final quarter of 2023 allowed the 20 nation bloc to escape recession, but only just. Industrial production picked up slightly in December. Inflation, which rose to 2.9% in December, fell back to 2.8% in January. Although this remains above the ECB's 2% target, ECB Council member Fabio Panetta stated that the time to reduce the cost of borrowing is "fast approaching". Average house prices in the Eurozone have been falling since June 2023. Given the delay between changes in the money supply and their effect on prices and GDP, the contractionary policies of 2022-3 will probably result in recession later this year, with inflation likely to fall faster and lower than the ECB currently predicts. (Note by John Petley.)

Japan

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2022	3.9	1.8
Ten years to 2020	3.2	0.3
Year to January 2024	1.8	n/a
Three months to January 2024 at annualised rate	1.7	n/a

Sources: Bank of Japan for M3 and IMF for GDP

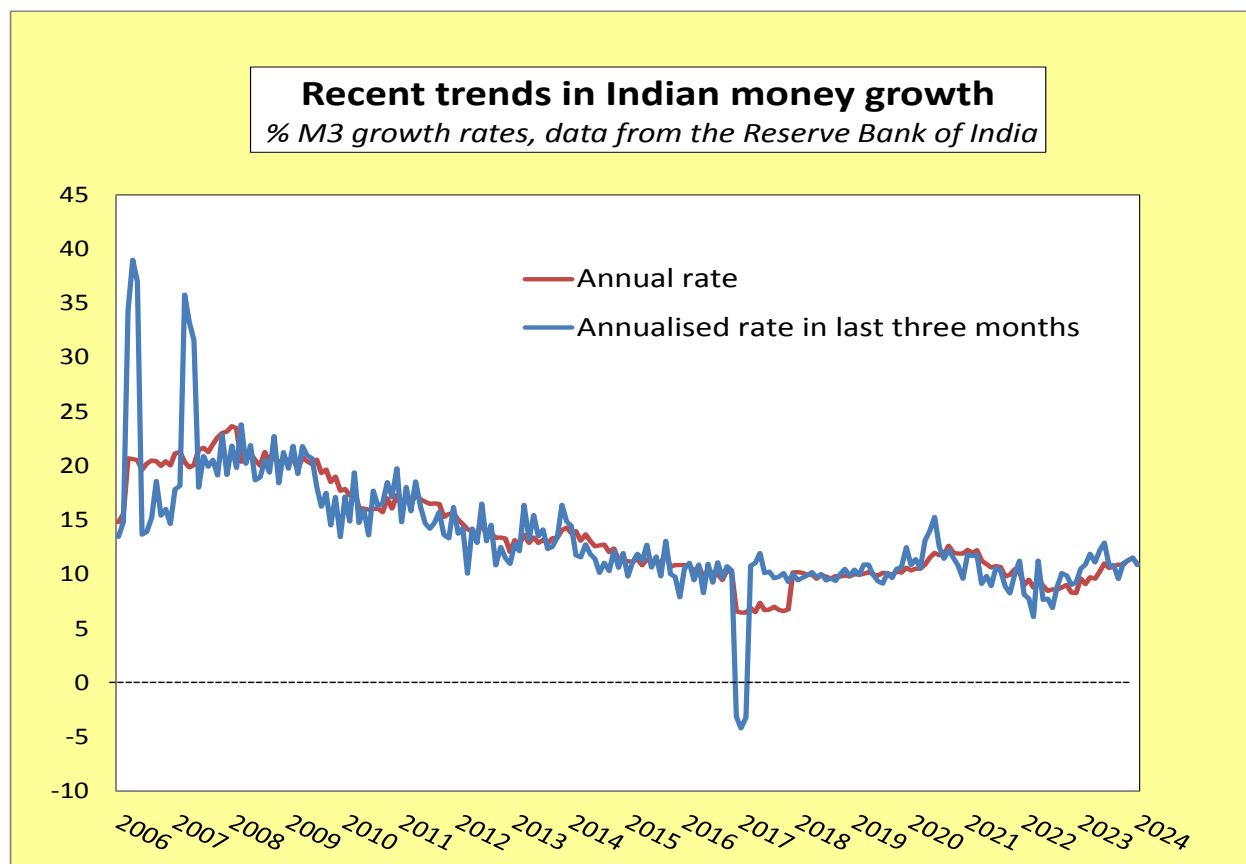


Japan's run of positive but very modest levels of broad money growth continues. Inflation is slowly edging down, falling from 2.8% in the year to November to a 17-month low of 2.6% a month later. The annual rate of growth of new bank credit continues on an upward trend, rising from 3.0% in December to 3.1% in January. This is towards the upper band of typical values over the last 25 years, but still feeble. In a speech on 7th February the Bank of Japan's Deputy Governor, Shinichi Uchida, hinted that the BoJ may end both its substantial purchase of government bonds and negative interest rates. Any move to tighten monetary policy could slow the growth of new bank credit and thus further reduce broad money growth at a time when the weak yen could result in the authorities intervening once again in the currency markets. This would also have a detrimental effect on broad money growth at a time when the economy is already sluggish. Japan had 1.9% real growth in output in 2023, after 1.0% in 2022. The overall message is stability, with money growth staying low. (Note by Tim Congdon and John Petley.)

India

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2022	15.4	13.2
Ten years to 2020	11.3	9.8
Year to January 2023	11.0	n/a
Three months to January 2024 at annualised rate	10.9	n/a

Sources: Reserve Bank of India for M3 and IMF for GDP

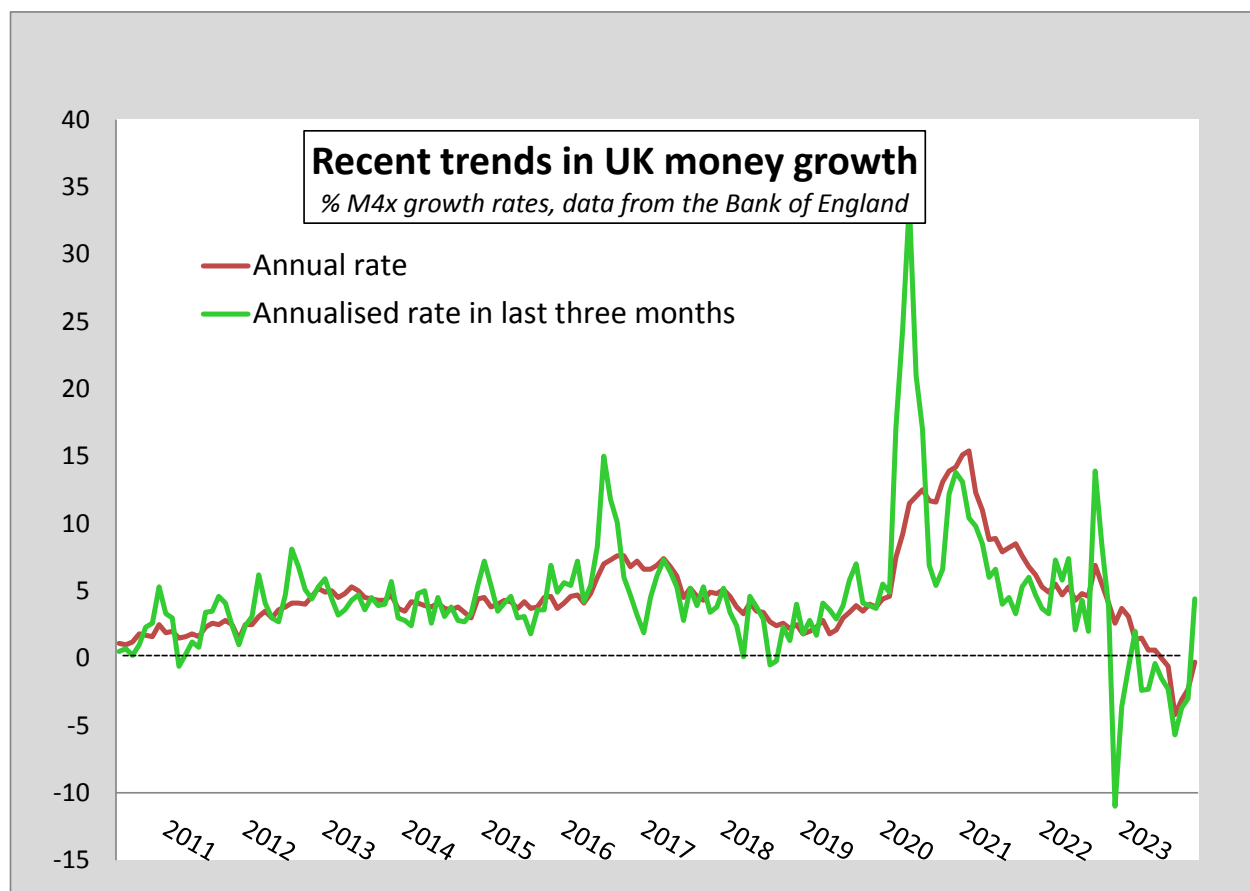


India continues to record strong M3 growth, even if January's figures were slightly down on December's. The surge in new bank credit continues, with January seeing a continuation of the recent remarkably high annual growth rate, currently over 20%. The rupee has strengthened moderately since hitting an all-time low against the US dollar in November, meaning that there has been no need to intervene in the currency markets recently. Consumer price inflation fell to 5.1% in the year to January, thanks to an easing of food price increases. This is now the fifth consecutive month in which inflation has remained within the Reserve Bank of India's target range. The high rate of broad money growth is likely to lead to more inflation, but only after the general election to be held in April and May. (John Petley.)

UK

	% annual/annualised growth rate:	
	M4x/M4 before 1997	Nominal GDP
1981 – 2022	8.3	5.5
Ten years to 2020	5.2	2.3
Year to December 2023	-0.3	n/a
Three months to December 2023 at annualised rate	4.4	n/a

Sources: Bank of England for M4X and Office for National Statistics for GDP



The UK is currently in recession according to figures published by the Office of National Statistics. A 0.1% contraction in 2023 Q3 was followed by a sharper 0.3% fall in the final three months of the year. Given the sharp contraction in UK M4x since October 2022, this should come as no great surprise. December saw UK broad money increase by over £19b., but most of this figure - £15.6b. to be precise – can be attributed to a probably erratic surge in new borrowing by financial institutions. The demand for new bank credit from businesses remains subdued. Inflation remained unchanged at 4.0% in the year to January. This is still some way above the Bank of England’s 2% target, but the April number – which will benefit from a big fall in energy bills – is likely to be close to 2%. (Note by Tim Congdon and John Petley.)