

Money growth update, January 2024

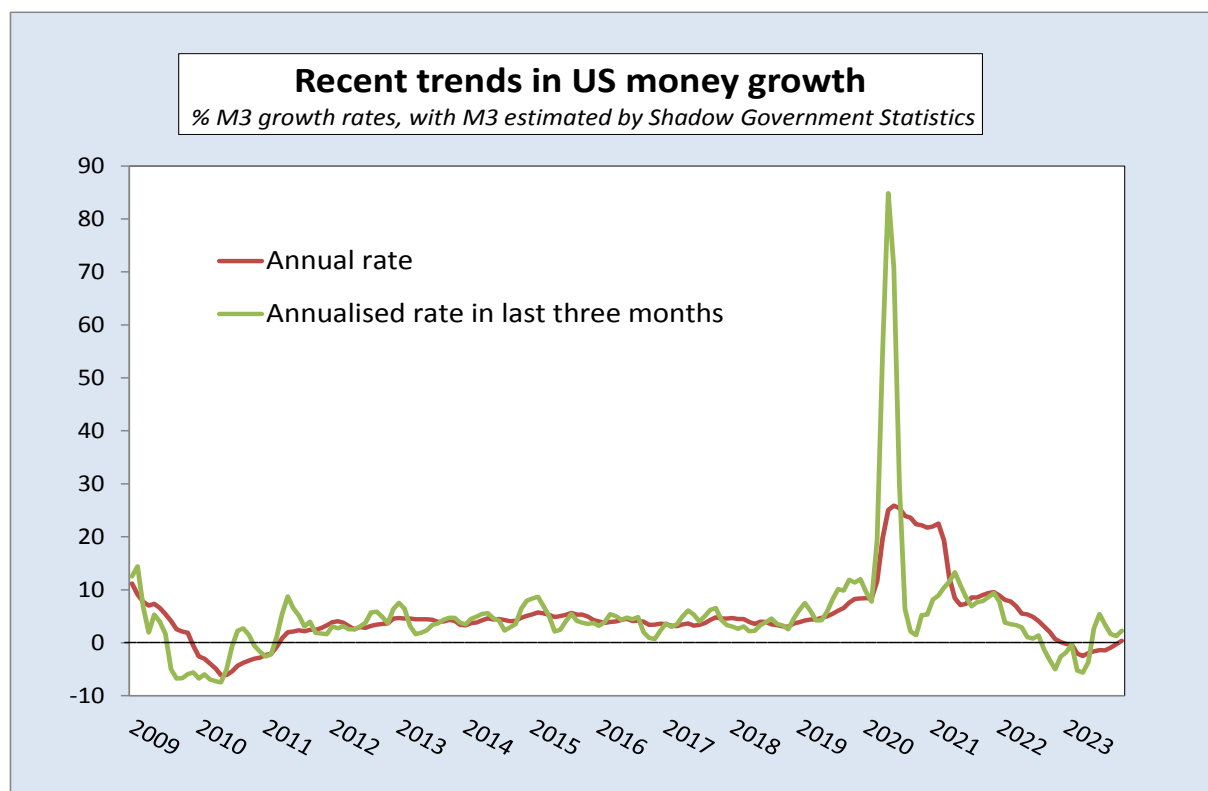
Broad money growth slowed – or stopped altogether – in 2022 in the USA, the Eurozone, the UK and Japan. Sharp falls in the rate of increase in nominal GDP ensued, with the 2023 split between real growth and inflation being more favourable than widely expected. All the same, inflation remains generally above the change in money, prolonging a squeeze on real money balances. This is a major negative for asset prices, balance sheets and aggregate demand, and it is surprising that business surveys are resilient. Notably, in the USA share prices remain strong, even if commercial real estate is very weak. Japan's M3 growth continues to be positive, but only just. By contrast, India has fast money growth, signalling an inflationary boom. Money growth in China has fallen. (*Tim Congdon*)

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	2.2	0.4	Slight uptick in new bank credit although growth remains very modest. M3 growth positive.
China	18.6	12.7	8.7	9.8	Money growth continues to slow as concerns about property market and shadow banks persist. Inflation still negative.
Eurozone	11.4	15.1	1.8	-0.9	Money growth remains weak, with little demand for new bank credit. Bond yield spreads remain at manageable levels.
Japan	3.7	5.1	1.9	1.8	Credit and money growth very low, but still positive and similar to last 30 years.
India	6	3.3	11.7	11.5	Robust demand for new bank credit is keeping money growth strong. Inflation likely to pick up.
UK	2.3	3.2	-2.7	-2.3	Money growth remains negative, with demand for new bank credit weak. No recession yet, but one looks likely soon.

USA

	% annual/annualised growth rate:	
	M3	Nominal GDP
1961 – 2022	7.6	6.5
Ten years to 2020	6.2	3.4
Year to November 2023	0.4	n.a
Three months to November 2023 at annualised rate	2.2	n.a.

Sources: Shadow Government Statistics research service for M3 after 2006 (IIMR estimate for October 2023) and US Bureau of Economic Analysis for GDP



In November, the quantity of broad money rose for the fifth consecutive month, taking the annual growth rate into positive territory for the first time since December 2022. Crucial to understanding the resumption of growth was a boom in money market mutual funds, which expanded mostly by acquiring very short-dated (under one year to maturity) securities issued by the US Treasury to fund its enormous deficit. MMMFs are included in the M3 aggregate, but not in M2. In the five months to November M2 dropped 0.4% from \$20,854.5b. to \$20,767.4b., whereas M3 rose almost 1% from \$27,504.2b. to \$27,764.3b. The liabilities of MMMFs climbed 8.4% in the six months to end-December from \$5,431.0b. to \$5,886.5b., i.e., with an annualised growth rate of 17.5%. If funds at MMMFs are regarded as money, this pattern amounts to monetization of the budget deficit and is a warning sign for the future. (Note by Tim Congdon.)

China

	% annual/annualised growth rate:	
	M2	Nominal GDP
1991- 2020	18.4	14.5
2011 - 2020	11.7	10.0
Year to December 2023	9.8	n/a
Three months to December 2023 annualised rate	8.7	n/a

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

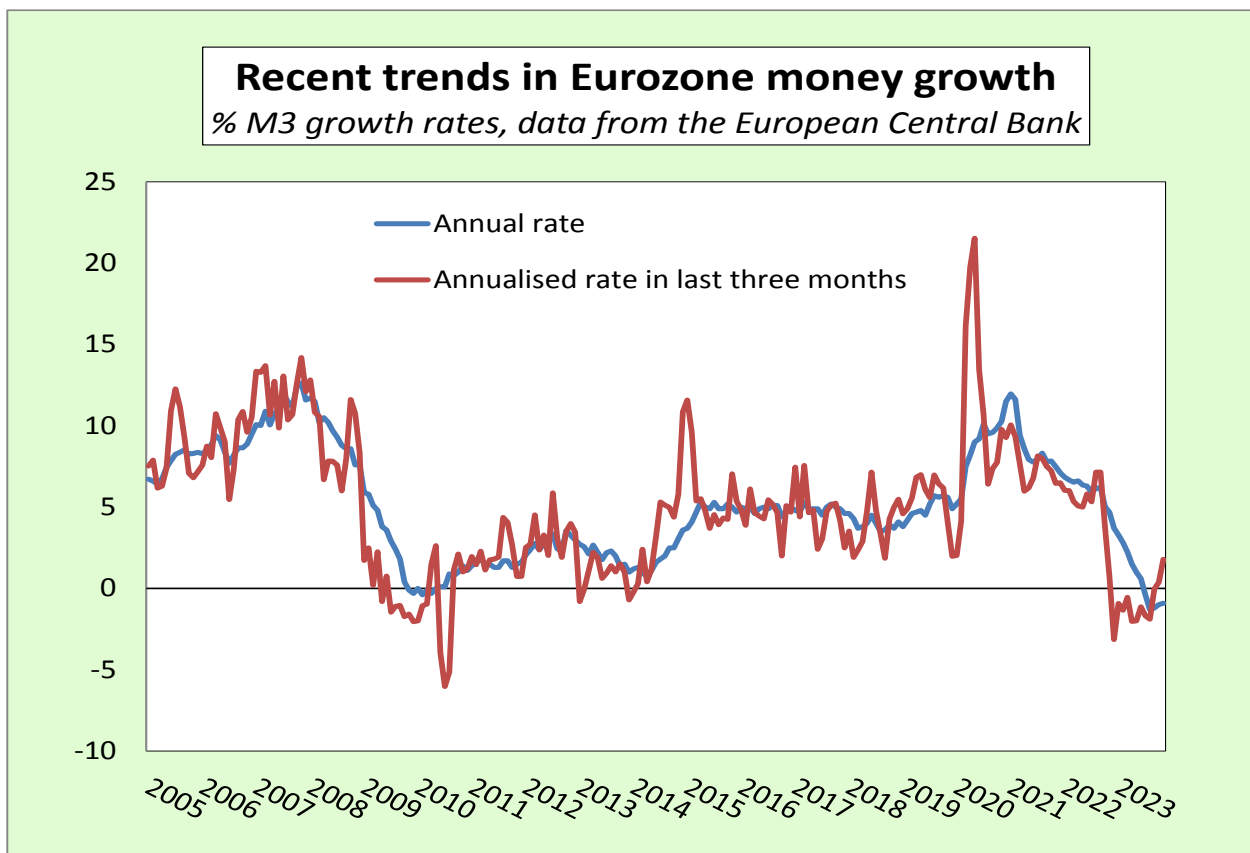


China's economy continues to struggle. Prices fell on an annual basis for the third consecutive month in December. The annual rate of M2 growth fell below 10% for the first time since March 2022 while the annualised quarterly growth rate fell to its lowest level since July 2021. Nonetheless, the PBoC did not, as widely anticipated, opt for a further cut to the reserve ratio to stimulate the economy as growth in new bank credit continues to decline, falling from 10.8% in the year to November to 10.6% a month later, equalling the figure for February 2002, the most sluggish growth rate since the start of the new century. The latest worries include Zhongzhi Enterprise Group – a shadow bank which filed for bankruptcy with its liabilities exceeding its assets by \$26b. Among Zhongzhi's customers was the troubled property group Evergrande and question marks still remain about Evergrande's future. (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 November 2023	-0.9	n/a
Three months to November 2023 at annualised rate	1.8	n/a

Sources: European Central Bank for M3 and Eurostat for GDP

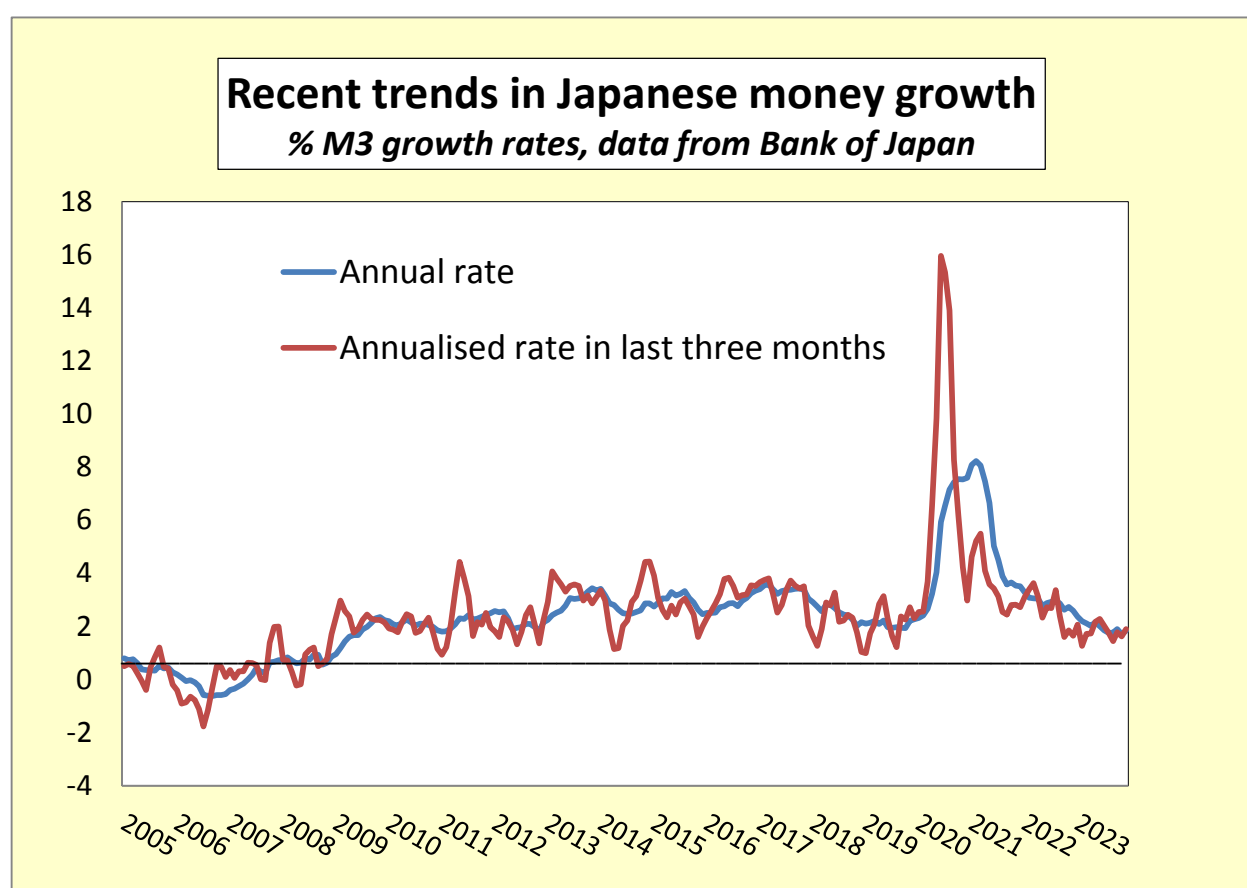


Broad money supply in the Eurozone has increased in two of the last three months, pushing the annualised M3 growth rate to its highest level in over a year by the end of November. Despite this, the overall growth rate remains very weak. Inflation, which has been on a steady decline for much of the year, picked up to 2.9% in December. This inflationary pressure coupled with ongoing global uncertainties, has prompted ECB official Robert Holtzmann to caution against expectations of interest rate reductions in 2024. Core inflation, which excludes food and energy prices, continues to decline. Growth in the stock of new bank credit remains markedly weak. Corporate borrowing fell in November compared with the previous 12 months, and the growth in new bank credit to households was a mere 0.2%. (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 December 2023	1.8	n/a
Three months to December 2023 at annualised rate	1.9	n/a

Sources: Bank of Japan for M3 and IMF for GDP

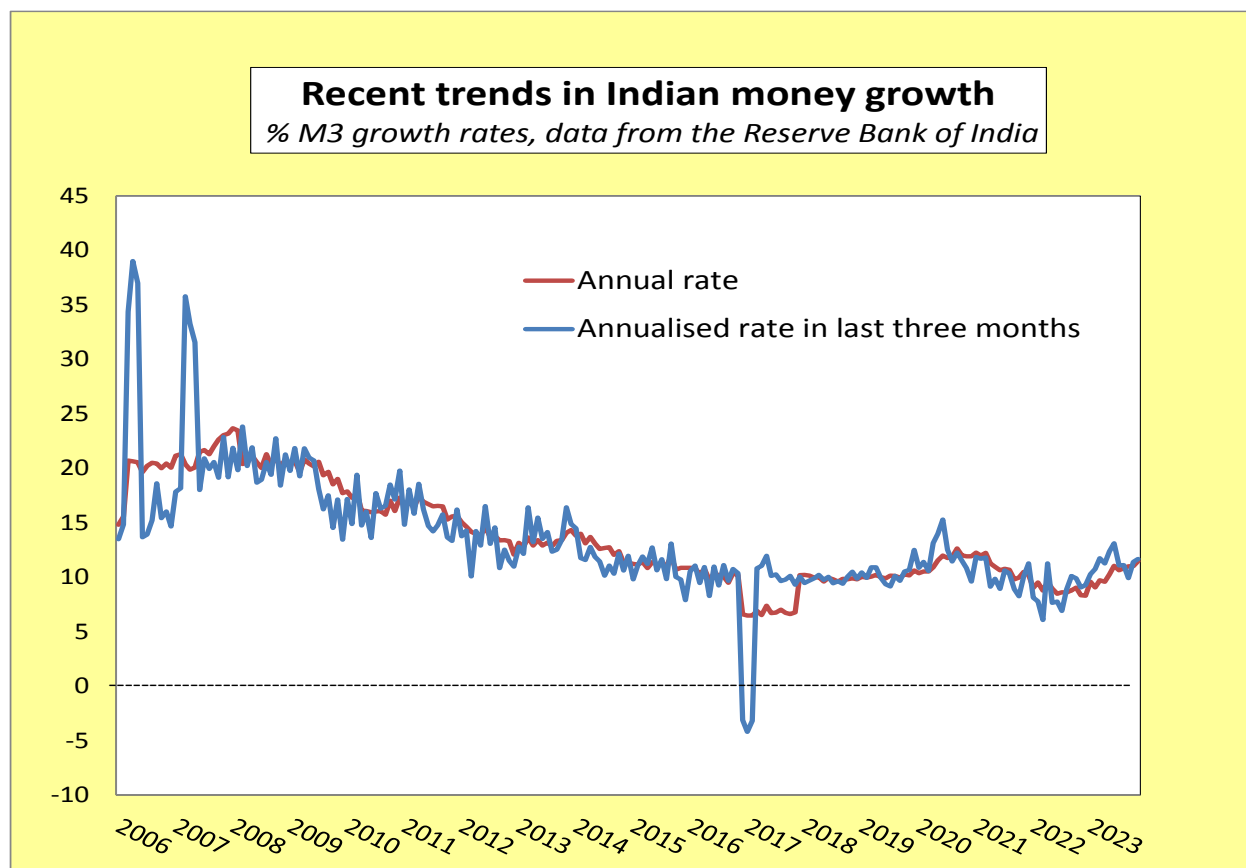


Japan's run of positive but very modest levels of broad money growth continues. Inflation is slowly edging down, falling from 3.3% in the year to October to a 16-month low of 2.8% a month later. The annual rate of growth of new bank credit picked up from 2.8% in November to 3.1% in December. This figure, like the M3 growth rate, is broadly similar to the typical values of the previous decade. With the yen strengthening in the final months of 2023, there have been fewer interventions on the currency markets, one factor which has weakened broad money growth recently. While the Japanese business sector has recently urged the Bank of Japan to end its ultra-loose monetary policy, Governor Ueda has not thus far offered any hint that he intends to raise the cost of borrowing any time soon. . (Note by 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 November 2023	11.5	n/a
Three months to November 2023 at annualised rate	11.7	n/a

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

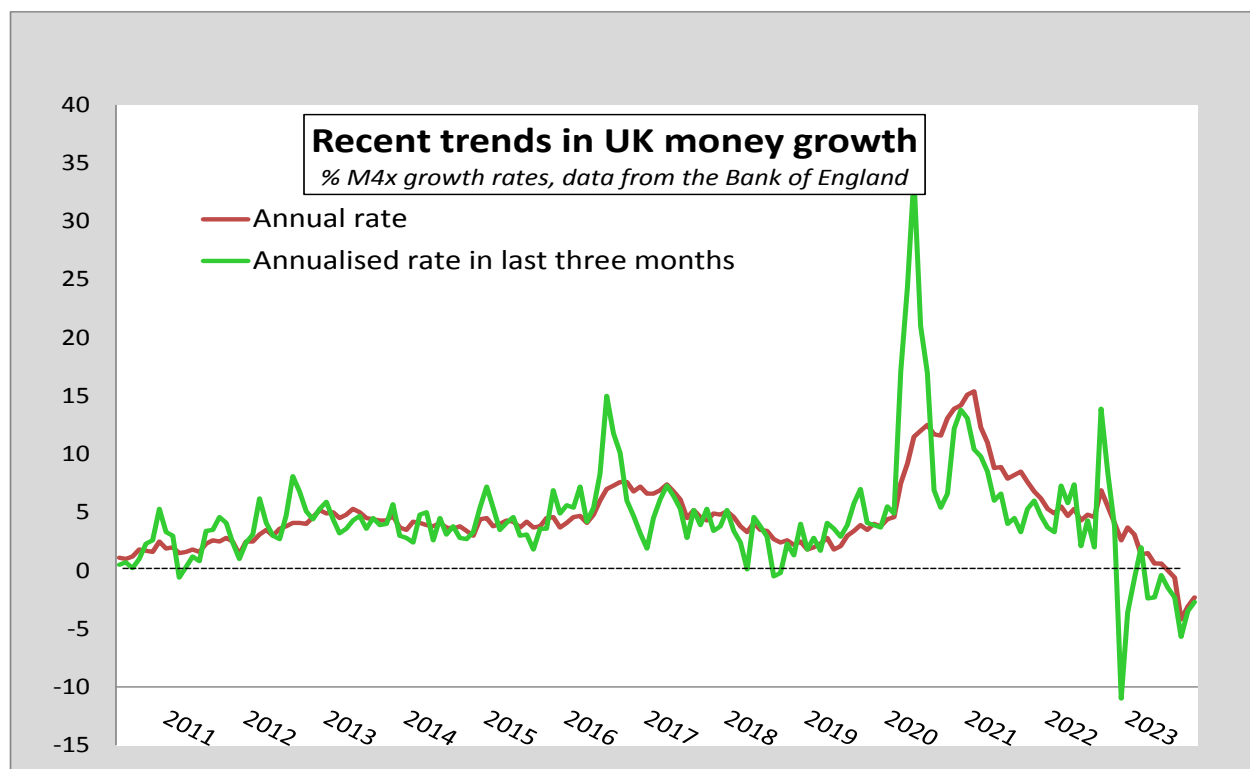


The recent acceleration in M3 growth in India continues. M3 increased at an annual rate of 11.7% in the three months to November while the annual rate of growth rose to a 32 month high of 11.5%. The surge in new bank credit has slowed slightly since hitting an all-time record 20.8% annual growth rate in the two weeks to December 1st, but demand remains strong and with the rupee strengthening since November, there have been no interventions in the currency markets recently. Inflation is ticking up towards 6% again, driven by higher food prices. If broad money growth continues at this elevated level, the Reserve Bank of India could find itself needing to consider increasing the cost of borrowing to dampen down the inevitable inflation that follows such rapid broad money growth. (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 November 2023	-2.3	n/a
Three months to November 2023 at annualised rate	-2.7	n/a

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



The UK economy grew by 0.3% in November, yet the prevailing money supply indicators strongly suggest an impending recession in 2024. A decline in M4x of over £3b. during the month, has resulted in both annual and annualised quarterly growth rates persisting in negative territory. The demand for new bank credit continues to be lacklustre across both households and businesses. This is exemplified by the reduced borrowing levels observed in both SMEs and larger companies compared to the previous year. In the housing sector, despite a slight upturn where new mortgage lending outstripped mortgage debt repayments for the first time in three months, and house prices registering an annual increase in December for the first time since March, the overall scenario remains sombre. Inflation continues its declining trend, standing at 4% in the year to December, albeit slight up from 3.9% observed in November. This is still some way above the Bank of England's 2% target, implying that the MPC will be in no hurry to reduce Bank Rate before the second half of the year. (John Petley.)