

Money growth update, June 2024

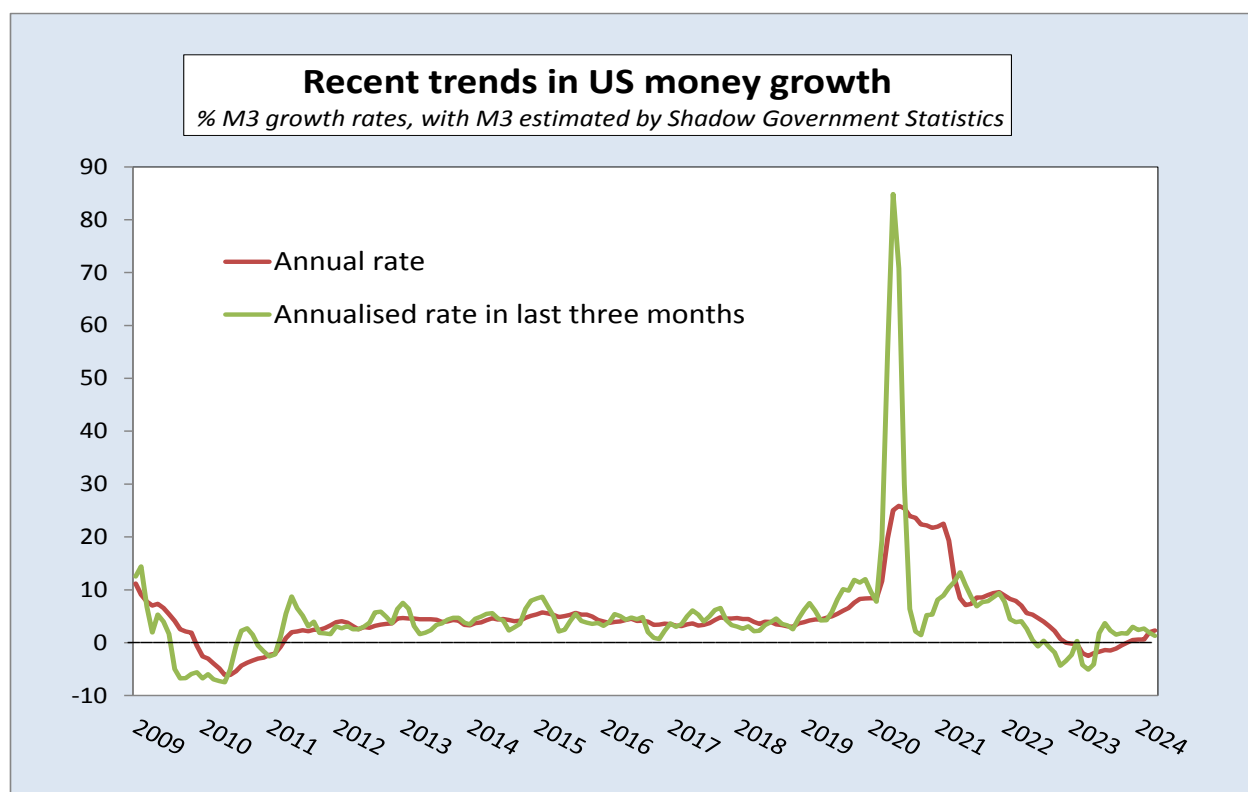
Broad money growth has touched record lows in China and has virtually stopped in Japan. By contrast, India continues to record strong money growth, driven by surging private sector demand for new bank credit. In the UK and the Eurozone money growth is sluggish, but at least it remains positive. In the USA, as in Japan, money growth has almost come to an end in recent months. Growth in new bank credit remains weak, perhaps because bank managements are concerned about a tightening of capital rules as the USA conforms to the Basel framework organized by the Bank for International Settlements. Inflation has fallen, but in some respects is proving stubborn, which has delayed reductions to the Fed funds rate. Apart from India, money trends in the main countries suggest mediocre, beneath-trend growth in demand and output in the rest of 2024 and early 2025, with central banks likely to react by cutting interest rates. *(Tim Congdon)*

Name of country/ jurisdiction	Share of world output in 2023		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	15.6	26.1	1.3	2.3	Negligible money growth in recent months, with credit to private sector hit by capital regulation fears.
China	18.7	16.9	5.9	7.4	Money growth down to record lows, as wider economy loses dynamism. Inflation positive but low.
Eurozone	11.2	14.8	2.8	1.3	Credit and money growth weak. ECB to increase asset run-off in July.
Japan	3.7	4.0	0.1	1.3	Money growth has almost stopped. Credit growth remains weak. Inflation still above target
India	7.6	3.4	10.9	10.9	Robust demand for new bank credit is keeping money growth strong. Inflation likely to pick up.
UK	2.2	3.2	4.6	0.4	Demand for new bank credit still very weak, especially from businesses. Inflation back to target.

USA

	% annual/annualised growth rate:	
	M3	Nominal GDP
1961 – 2022	7.6	6.5
Ten years to 2020	6.2	3.4
Year to April 2024	2.3	n.a
Three months to April 2024 at annualised rate	1.3	n.a.

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

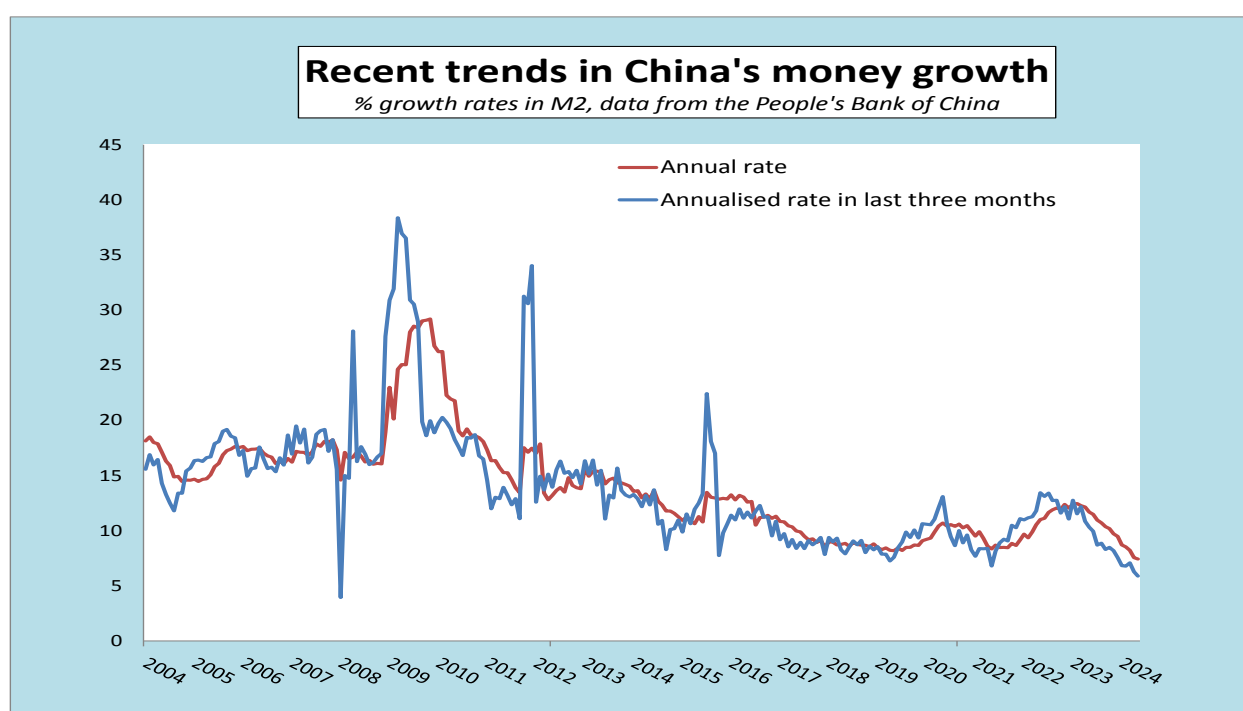


In the three months to April 2024 US M3 increased at an annualised rate of 1.3%, the lowest such reading since May 2023. The amount of money, broadly defined, did not increase in April and preliminary figures (in the Federal Reserve's weekly H8 release) for May suggest only a tiny increase. Demand for new bank credit from the private sector has remained weak, with householders and companies deterred by the high cost of borrowing, and banks worried about new capital regulation. Although inflation declined modestly from 3.4% in the year to April to 3.3% in May, it still remains above the Fed's 2% target. Real money balances are falling, which ought to be bad for asset prices. Amazingly, the stock market keeps on hitting new highs, whereas commercial real estate is deeply depressed. The Fed declined to follow the ECB's example by cutting the Fed funds rate at its most recent meeting in June. In contrast to one pattern in 2023, money market mutual funds have not been big buyers of short-dated government debt in recent months.

China

	% annual/annualised growth rate:	
	M2	Nominal GDP
1991- 2020	18.4	14.5
2011 - 2020	11.7	10.0
Year to May 2024	7.4	n/a
Three months to May 2024 at annualised rate	5.9	n/a

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

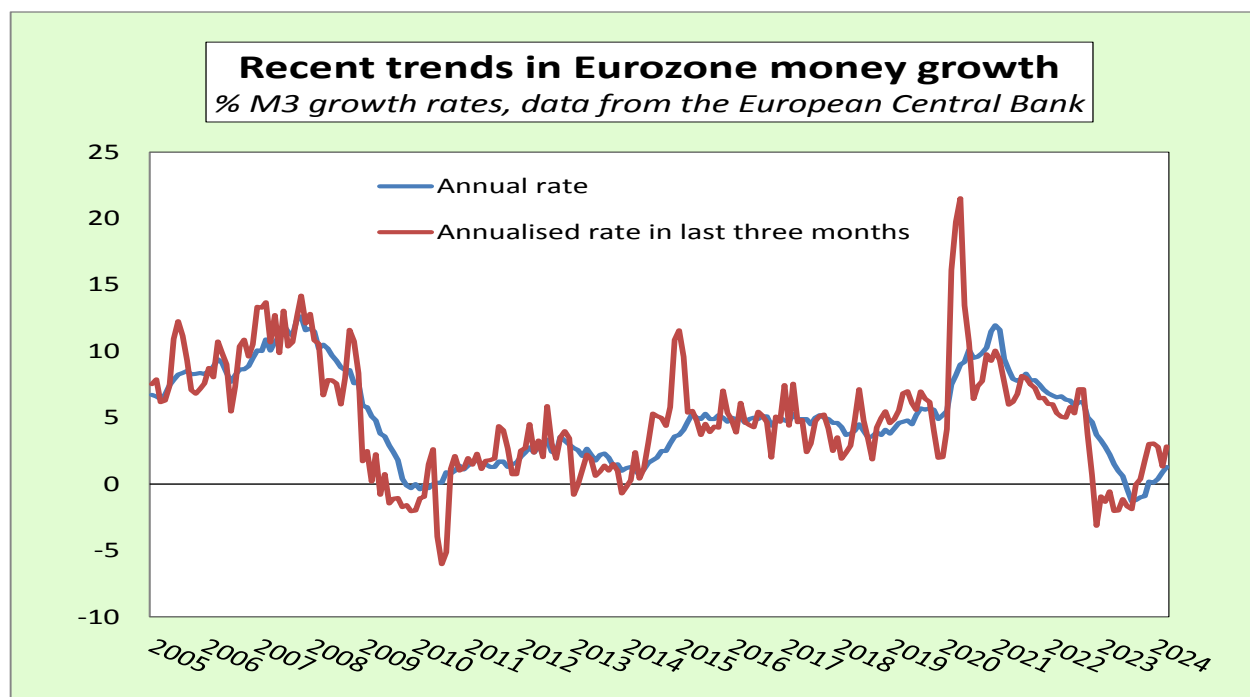


Chinese broad money growth continues to plumb new lows. In the three months to May the annualised rate of M2 growth dropped from 6.3% to 5.9%. The annual rate also continues to decline, from 7.6% in April to 7.4%. Both these figures are the lowest in their respective series for at least 20 years. The Chinese economy grew at an annual rate of 5.3% in the first quarter of 2024, but the housing market remains a cause for concern. House prices fell by 3.9% in the year to May 2024, the 11th consecutive month of decline and the steepest drop in almost nine years. This decline has continued in spite of a substantial real estate rescue package being launched last month. Apart from this move, the People's Bank of China has not initiated any other monetary loosening for several months, even though demand for new credit continues to weaken. New bank lending rose by 9.3% in the year to May, the most sluggish rate of growth on record. This will result in fewer bank deposits and thus still weaker broad money growth. Inflation remains in positive territory, but only just. Consumer prices rose by 0.3% in the year to May, the same rate as in April. In summary, the money numbers suggest that even the current modest GDP growth rate may not be sustained. (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 April 2024	1.3	n/a
Three months to April 2024 at annualised rate	2.8	n/a

Sources: European Central Bank for M3 and Eurostat for GDP

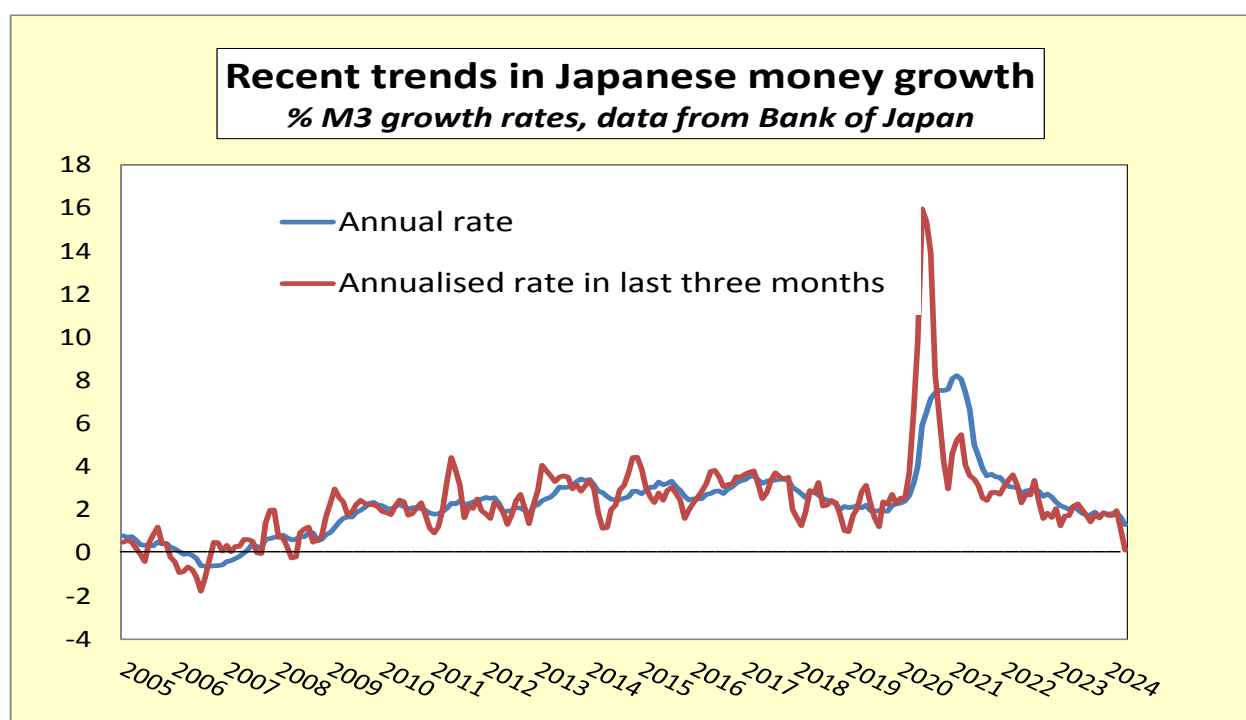


Eurozone M3 grew at an annual rate of 2.8% in the three months to April 2024. The annual growth rate rose to a 12-month high of 1.3%. These figures are still modest and below the 2% - 5% band probably consistent with the ECB's 2% long-run inflation target. Although inflation picked up in May, rising from 2.4% to 2.6%, the ECB's governing council decided to reduce the cost of borrowing, albeit only by a modest 0.25%, at its meeting on 6th June. In the ensuing press conference, ECB President Christine Lagarde struck a cautious note regarding further rate cuts. Indeed, in one respect ECB monetary policy will tighten next month will see the start of the run-off of assets purchased under the Pandemic Emergency Purchase Programme. But the average rate of €7.5b. per month is very low compared with M3's size, which was over €16,000b. in April. Growth in new bank credit, albeit positive, remains very weak, with lending to both households and businesses advancing by less than 0.5% during the last year. Broad money growth is likely to remain low, pointing to a modest growth at best in nominal GDP across the Eurozone for the rest of 2024. Political uncertainties in France may further dampen the economic prospects for the 20-nation bloc. (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 May 2024	1.3	n/a
Three months to May 2024 at annualised rate	0.1	n/a

Sources: Bank of Japan for M3 and IMF for GDP

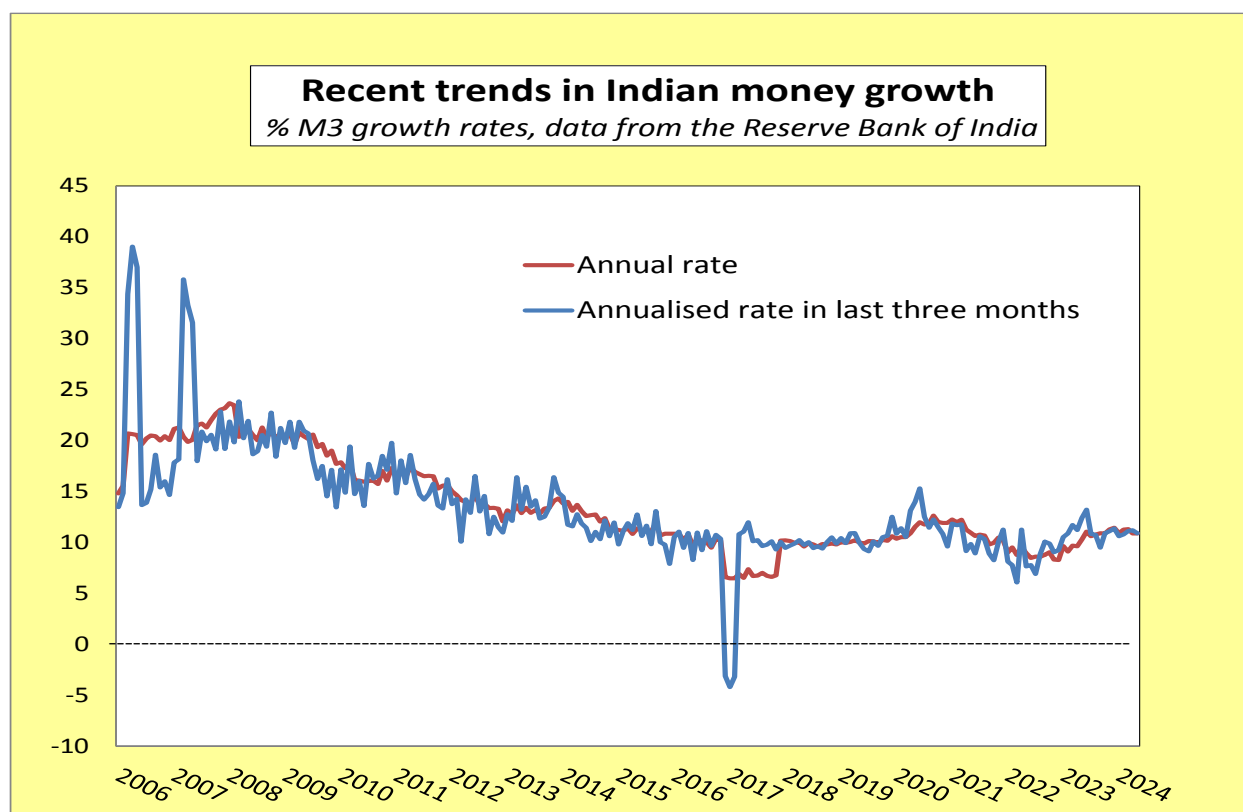


The amount of money, broadly defined, has declined in both the last two months. This has caused Japan's annualised quarterly M3 growth rate to fall to a 16-year low of 0.1%. Meanwhile, at 1.3%, the annual growth rate has dropped to its lowest value since February 2009. Growth in new bank credit has slowed, falling from 3.2% in the year to March to 3.0% two months later. This figure is nonetheless quite reasonable by recent Japanese standards. The principal reason why broad money growth is so feeble is the weakness of the yen. The authorities intervened in the foreign exchange markets to the tune of \$47b. in May. This did little to halt the slide of Japan's currency, which is approaching a 30-year low against the US dollar. At 2.8% in the year to May, inflation remains above target – indeed, it rose from April's reading of 2.5% - but the money numbers suggest that it will soon be back below 2%. Japanese GDP declined by 0.5% in the first quarter of 2024, thanks largely to a decline in private consumption. The latest M3 data imply that Japanese nominal national income will enjoy only a modest level of growth at best, despite the price rises due to the weak yen. (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 May 2024	10.9	n/a
Three months to May 2024 at annualised rate	10.9	n/a

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

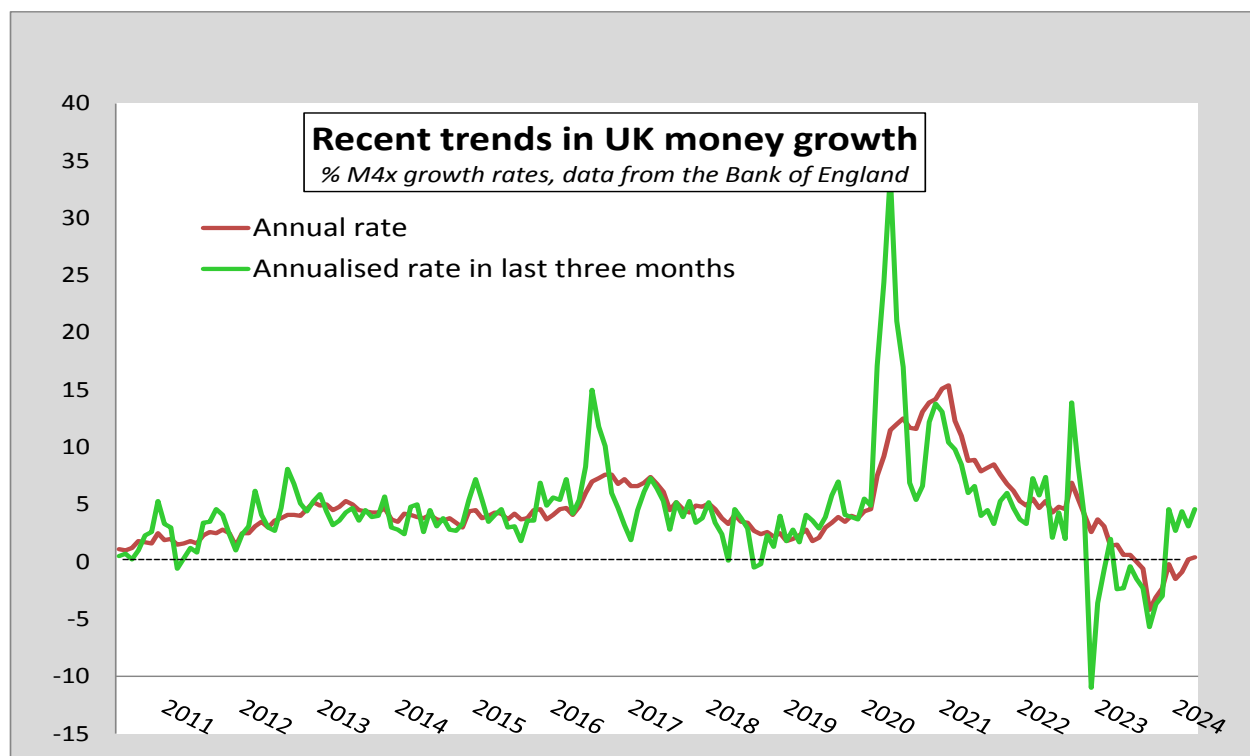


Indian M3 continues to grow at a strong yet steady rate. Broad money increased at an annualised rate of 10.9% in the three months to May. Strong demand for new loans continues to be the principal driver of M3 growth over the past year. Since peaking at 20.8% in December, growth in new bank credit has tailed off slightly, but it still remains very strong. (The most recent figure, covering the fortnight up to May 31st, was 19.8%.) Inflation stands at 4.7%, the lowest reading in a year and comfortably within the Reserve Bank of India's target range of 4% plus or minus a 2% permitted band in either direction. The rupee has recently weakened against the US dollar, although the high level of foreign exchange reserves at the present time suggests that the RBI has not been intervening to support the Indian currency. The money numbers continue to suggest that India's economy will continue to enjoy strong growth in coming quarters, but possibly higher inflation. (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 April 2024	0.4	n/a
Three months to April 2024 at annualised rate	4.5	n/a

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



UK M4x has enjoyed three months of relatively strong growth, which has pushed the annualised quarterly growth rate up to 4.7%, only seven months after this figure stood at -5.7%. The annual rate has now been positive for two consecutive months. 2023. Demand for new bank credit to businesses has now been declining for three consecutive months, falling by £1.1b. in April, with the SME sector in particular seeing a significant contraction in new credit allocations. In April, much of M4x growth was driven new bank lending to households. Demand for both new mortgages and consumer credit picked up, even though retail sales declined by 2.3% during the month. UK inflation fell back to the Bank of England's 2% target in the year to May, although the Bank of England's Monetary Policy Committee declined to reduce the Bank Rate at its meeting on 20th June, citing the need for stronger evidence that inflation will remain consistently at this level. While Prime Minister Rishi Sunak was keen to take the credit for the drop in inflation, in reality it was due to the Bank of England's monetary tightening and was not something for which a politician ought to have taken credit. (John Petley.)