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Money growth update, March 2024

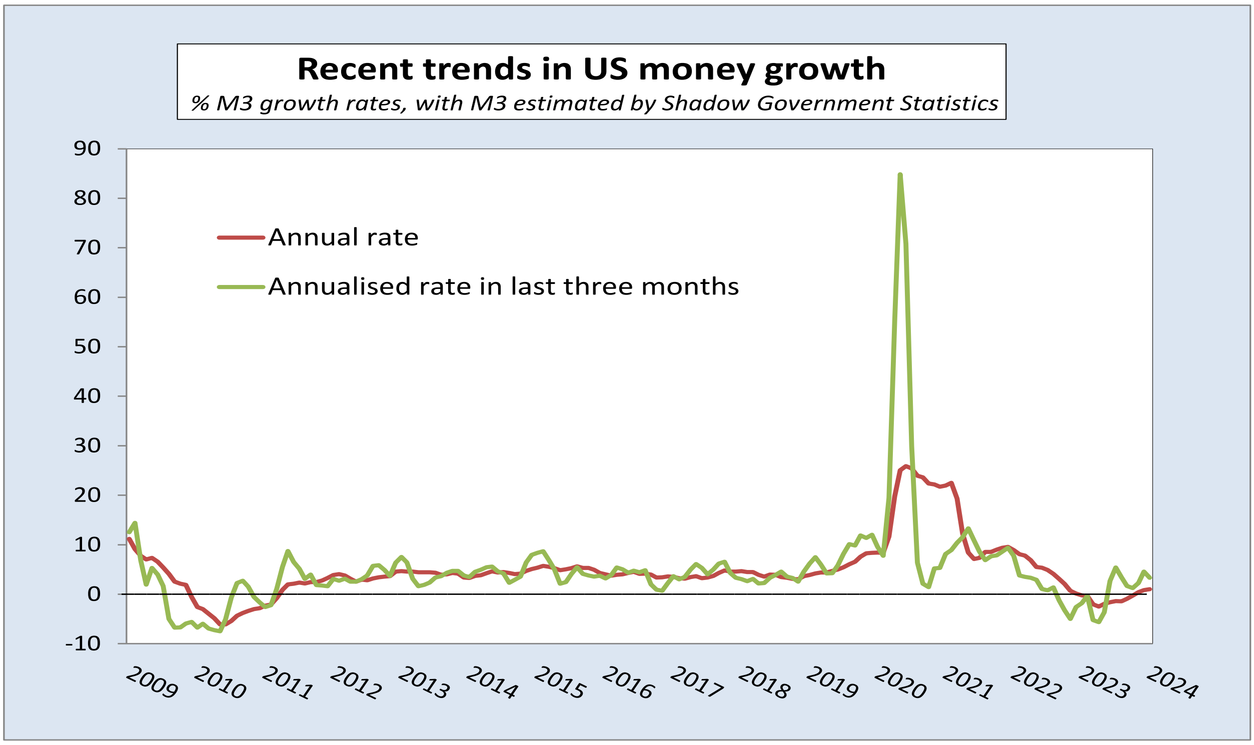
The overall picture has changed little since last month's summary note. Broad money growth remains weak in Japan and continues to slow in China, where efforts by the authorities to stimulate the economy appear to be having little success. By contrast, India continues to record strong broad money growth, driven by robust demand for new bank credit. In the UK and the Eurozone, growth in new bank credit remains weak and holds back money expansion. In the USA, broad money growth continues at a reasonable level. The effective monetization of the budget deficit – via money market mutual fund purchases of very short Treasury paper – remains a key feature. *(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	3.3	1	Broad money growth positive thanks to MMMFs and a modest pick up in new bank credit.
China	18.6	12.7	7.5	8.8	Money growth continues to slow as concerns about property market persist. Inflation has turned positive.
Eurozone	11.4	15.1	3.1	0.1	Money growth remains weak, with demand for new bank credit still declining. Bond yield spreads remain fairly narrow.
Japan	3.7	5.1	1.7	1.8	Credit and money growth very low, but still positive. Negative interest rates to cease.
India	6	3.3	10.9	11.4	Robust demand for new bank credit is keeping money growth strong. Inflation likely to pick up.
UK	2.3	3.2	2.2	-1.6	Demand for new bank credit still very weak. The UK economy is now in

USA

	% annual/annualised growth rate:	
	M3	Nominal GDP
1961 – 2022	**7.6**	**6.5**
Ten years to 2020	**6.2**	**3.4**
Year to January 2024	**1.0**	**n.a**
Three months to January 2024 at annualised rate	**3.3**	**n.a.**

Sources: Shadow Government Statistics research service for M3 after 2006 (IIMR estimate for January 2024) and US Bureau of Economic Analysis for GDP



In the three months to January 2024, US M3 increased at an annual rate of 3.3%. For much of the latter part of 2023 broad money growth was driven not by new bank credit to the private sector. Instead the key factor was the rapid expansion of money market mutual funds. They were ready purchasers of very short-dated paper issued by the US Treasury to finance its enormous budget deficit. (Notice that institutional MMMFs are included in the M3 aggregate, but not in M2.) The Fed's H8 data indicate that lending by US banks to the private sector has remained weak in recent months, but February was a little stronger. Consumer price inflation remains sticky, having subsequently failed to drop below the 3% level to which it fell in June 2023. The Fed has indicated that a reduction in its funds rate may not be implemented until inflation falls closer to its 2% target. While the US may avoid recession in 2024, its high structural budget deficit is unlikely to be tackled in the year of a Presidential election and remains a cause for profound concern. *(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 February 2024	8.8	n/a
Three months to February 2023 annualised rate	7.5	n/a

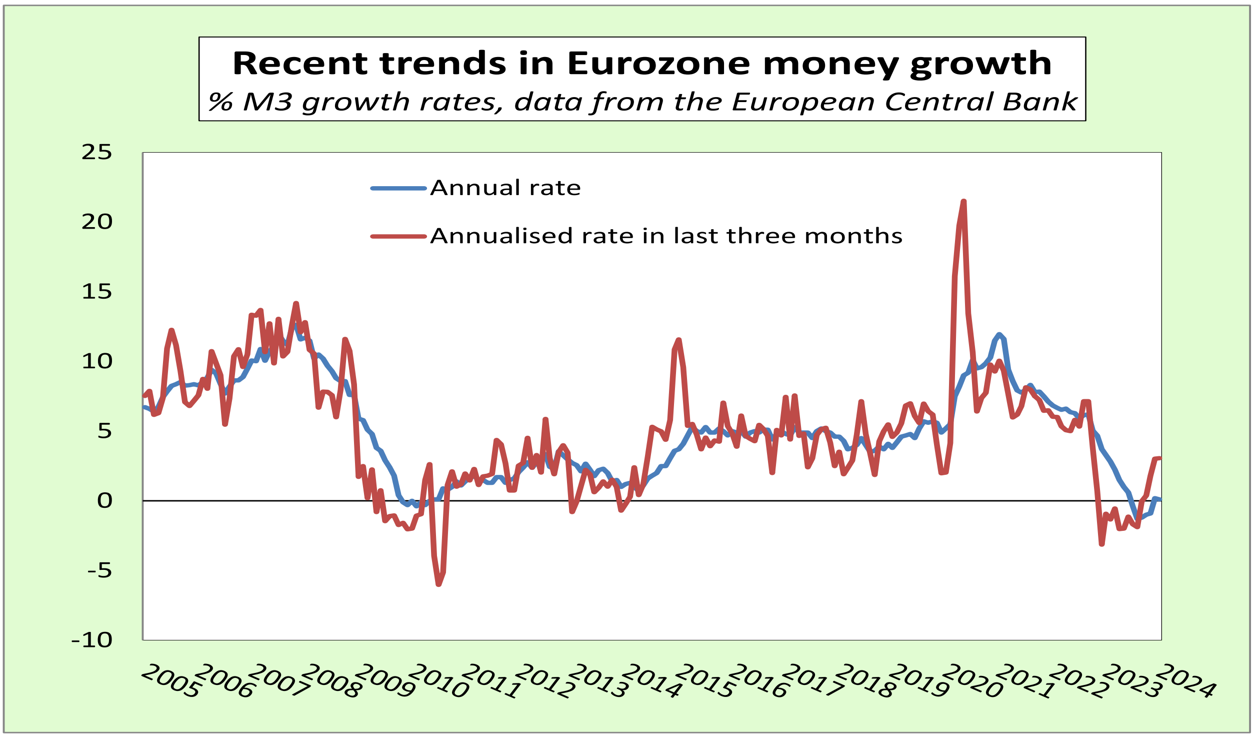
Sources: People's Bank of China for M2 and IMF for GDP

In the three months to February the annualised rate of Chinese broad money picked up slightly from its 2½-year low of 7.4% in January to 7.5%. The annual rate continues to decline, falling to a two-year low of 8.8%. These previous lows occurred when the authorities were still locking down large cities in an attempt to contain outbreaks of Coronavirus and the recent money numbers therefore indicate just how weak the recovery has been since the country first reopened. In spite of the People's Bank of China cutting the cash reserve ratio for all banks by 0.5% on 5th February, the rate of growth of growth of new bank credit fell to 10.4% in the year to February, the lowest reading since records began in 1998. Consumer prices rose by 0.7% in the year to February, ending four months of deflation. House prices continue to decline, falling by 1.4% in the year to February. As with last month's summary note, record volumes of exports in January and February 2024 remain the most positive feature of China's 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 2023 at annualised rate	**3.1**	**n/a**

Sources: European Central Bank for M3 and Eurostat for GDP

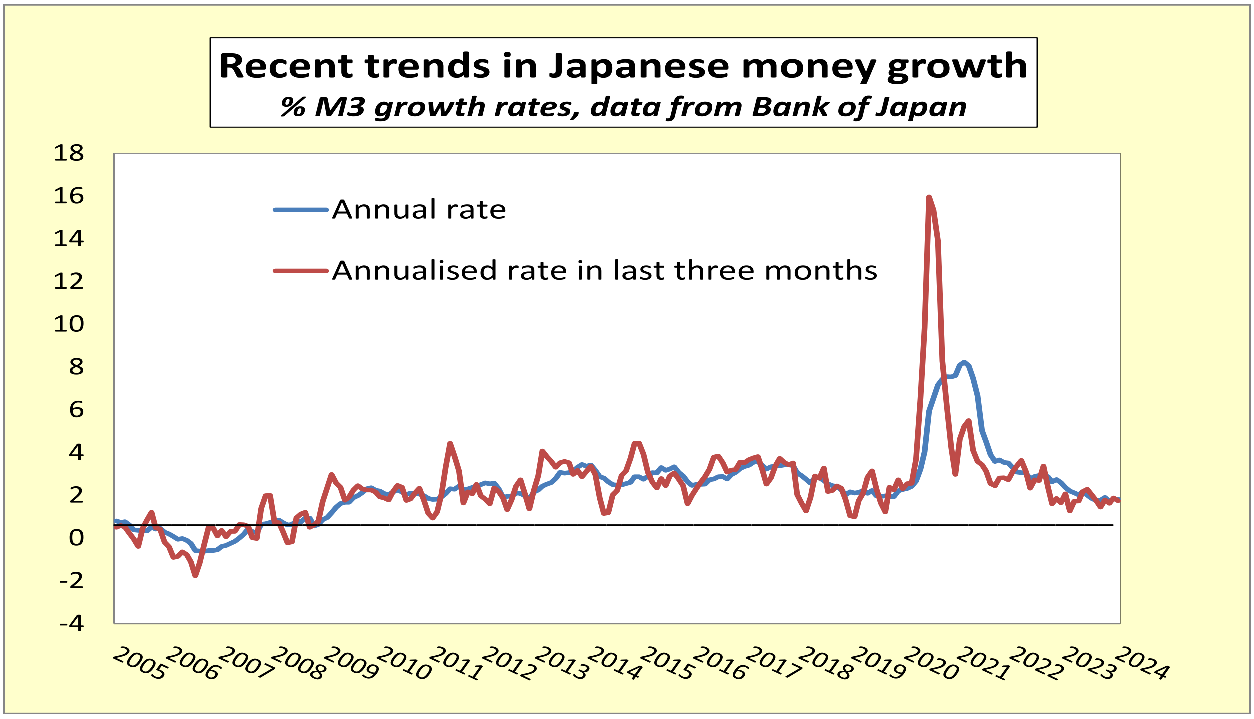


January 2024 saw the quantity of money, broadly defined, fall by $44b. in the Eurozone. Almost half (€20b.) of this decline can be attributed to a fall in German M3. Thanks to strong broad money growth in December, the annual growth rate remains fractionally above zero and the annualised quarterly growth rose to 3.1%, the highest reading since November 2022. Growth in the stock of new bank credit continues nonetheless to weaken. Corporate borrowing rose at an annual rate of 0.2% in January and the growth in new bank credit to households was a mere 0.3%, with new mortgage lending now declining on an annual basis. Consumer Price Inflation continues to slow, falling from 2.8% in the year to January to 2.6% a month later. This still remains above the ECB's 2% target. After the most recent meeting of the ECB's Governing Council on 7th March, President Christine Lagarde dropped strong hints that the cost of borrowing may be reduced, possibly within three months, but insisted that with wage settlements running well above the inflation rate, the ECB needed more confidence that inflation will continue on its downward path before cutting interest rates. (*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 February 2024	**1.8**	**n/a**
Three months to February 2024 at annualised rate	**1.7**	**n/a**

Sources: Bank of Japan for M3 and IMF for GDP

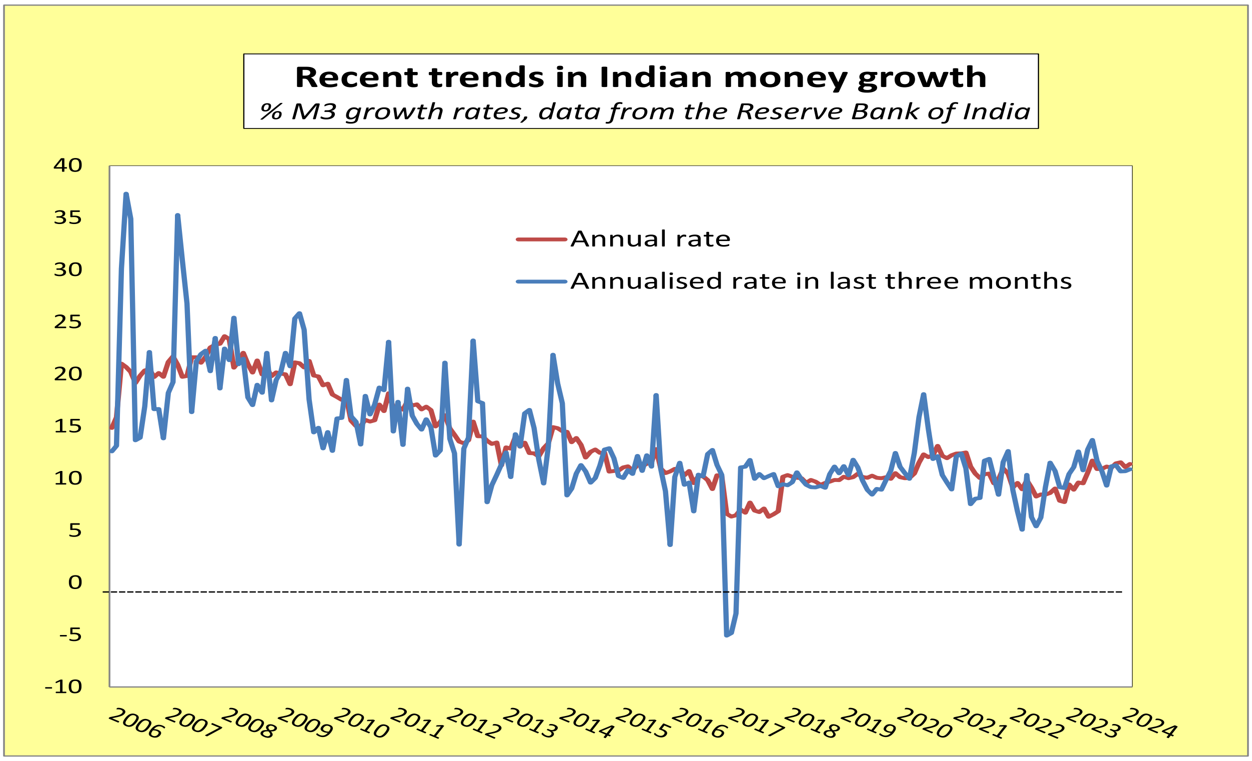


On 19th March, the Bank of Japan raised the cost of borrowing for the first time in 17 years. The Monetary Policy Committee concluded that "the policy framework of Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control and the negative interest rate policy to date have fulfilled their roles." The purchases of Japanese Government Bonds will continue and interest rates have only been modestly – from -0.1% to 0 – +0.1%. Inflation dropped to 2.2% in the year to January 2024 and the BoJ is concerned that it might soon drop below the 2% target. The money figures suggest that these concerns are well founded as they are similar to the typical values of the previous decade when deflation was only just kept at bay. With the markets not expecting this modest tightening to presage a significant change of monetary policy, the yen remains weak which suggests that further interventions in the currency markets may be a possibility. Growth in new bank credit stood at 3% in the year to February, a respectable figure by recent Japanese standards but broad money growth looks likely to continue at the current levels, suggesting the Japanese economy will enjoy only a modest level of growth. (*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 February 2023	**11.4**	**n/a**
Three months to February 2024 at annualised rate	**10.9**	**n/a**

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

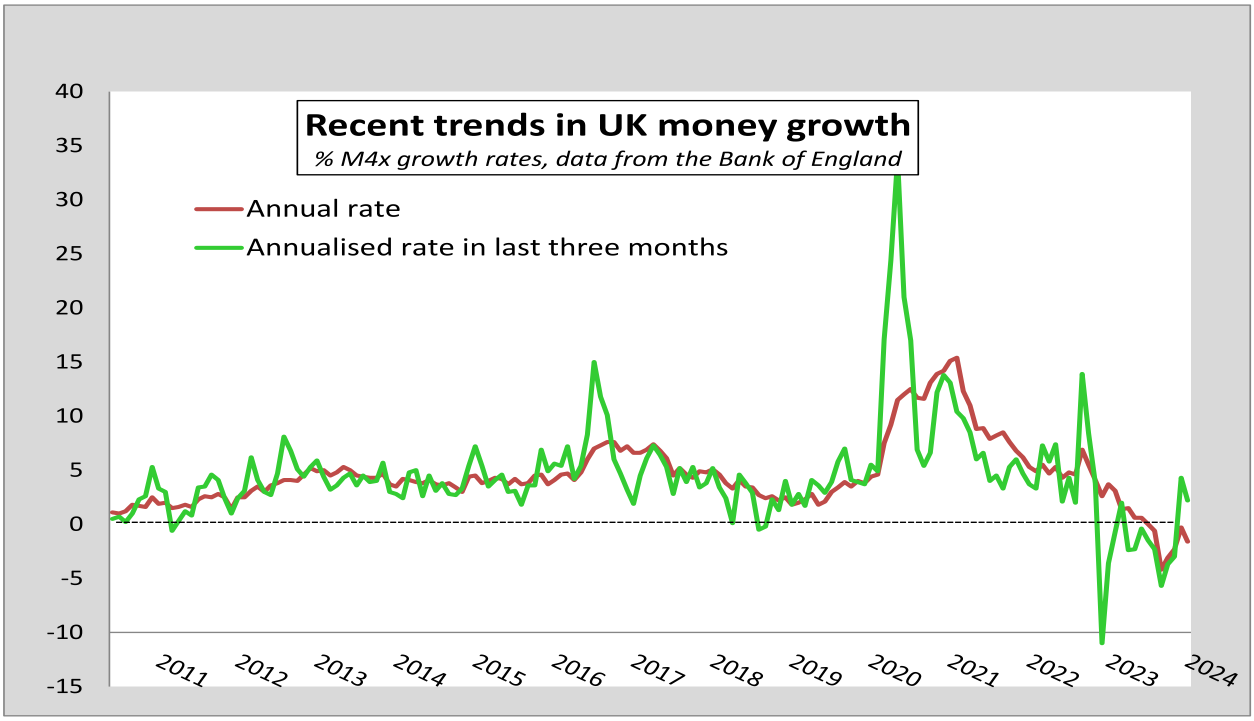


India's strong broad money growth continues, driven by new bank credit which, since the start of the year, has been consistently more than 20% higher than the corresponding period in 2023. Both the annual and annualised quarterly growth rates for M3 remain above 10% as they have done almost continuously since May 2023. At 5.1% inflation was little changed in the year to February (the Reserve Bank of India's target is 4%, with a 2% band in either direction) and it has remained below 6% for six consecutive months. Such a high level of broad money growth may however, result in an increased level of inflation in the future. The rupee fell to a new low against the US dollar in late March and while thus far, the RBI has refrained from intervening in the currency markets, any ongoing weakness with the Indian currency may result in a new round of selling, which could dampen broad money growth. As a major energy importer, India remains vulnerable to supply shocks such as the recent disruption in the Red Sea, but the money numbers suggest that India's economy will continue to enjoy strong growth in the coming quarters (*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 January 2024	**-1.6**	**n/a**
Three months to January 2024 at annualised rate	**2.2**	**n/a**

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



After increasing by over £19b. in December, UK broad money declined by £0.6b. in January. As is often the case, when financial institutions in the City of London borrow large amounts of money in connection with takeovers, much of this money is repaid in subsequent months. Non-intermediate Other Financial Corporations, the Bank of England's term for these institutions, in fact paid back in January £6.9b. of the £15b. they borrowed in December. The demand for new bank credit from businesses remains subdued. Companies borrowed an extra £0.3b. in January compared with December, although the decline in new loans to the SME sector continues. Homeowners meanwhile repaid £1.6b. more than they took out in new loans, although the number of new mortgage approvals rose to a 15-month high of 55,227 in January - still low by recent historical standards.. Consumer price inflation, which stood at 4% in the year to January, fell to 3.4% the following month, the lowest rate since September 2021. This is still some way above the Bank of England's 2% target, but Governor Andrew Bailey recently stated that the Bank Rate could possibly be reduced at some point this year. The UK may emerge from its shallow recession at the end of Q1 2024, but the money numbers do not suggest that a significant recovery is likely in the near future. (*John Petley*.)