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Monthly e-mail from Tim Congdon – 28th July, 2017

Global money round-up in summer 2017

Global financial “vulnerabilities” are “building” yet again. Or so we are told. According to a 25th June story in *The Daily Telegraph* by Ambrose Evans-Pritchard, based on the 87th Annual Report from the Bank for International Settlements, the next “financial crisis” is “to hit with a vengeance”. But **precisely when and how are the “vulnerabilities” to wreak havoc and exact vengeance?** The answers are not clear from either the *Telegraph* story or the BIS report, but the headline implies that big trouble is imminent. The BIS seems to be particularly worried about China, where debt is said to be rising much too rapidly in a thoroughly unsustainable fashion.

This is not the first time that the BIS has rung the alarm bells about “too much debt” or that Ambrose Evans-Pritchard has seen the Basel-based organization’s ruminations can be good journalism. **But “debt-ism” (as I call it) – the notion that excessive debt is the cause of “financial stress” and cyclical downturns in economic activity – is not derived from a recognised theory of national income.** According to the quantity theory of money, the equilibrium level of national is a function of the quantity of money. In the recently-published book on *Money in the Great Recession* edited by me, it is shown that – as with the USA’s Great Depression in the early 1930s – money growth needs to be identified and tracked to understand the macroeconomic trauma of late 2008 and 2009. Specifically, a sharp fall in the rate of growth of money occurred in all of the USA, the Eurozone and the UK, and then persisted for several quarters, at some point after mid-2007. If quantity-theory analysis is valid (and it is widely disputed, but so is the BIS’s “debt-ism”), **another big recession is unlikely unless major economies are on the verge of another marked deceleration in money growth. The following survey of money trends in the main countries argues that an early and marked deceleration of this sort is implausible. The best forecast for the world economy in 2018 is stable growth with low inflation.**

Money trends in spring 2017 in the main countries/jurisdictions

What are the latest money growth trends in the main countries? And what is the message for global economic activity over the next year or so, and for inflation/deflation over the medium term thereafter? The table below summarizes key numbers. For detail, it is recommended that the reader looks at the individual country comments below. Beneath the table I make an overall assessment. It is much the same as in recent months, with the overall message being “continued stability”. Let it be conceded that worries can legitimately be expressed that the regulatory attack on the banks (for promoting the growth of all that wicked new debt) may again lead to a money slowdown in 2018. But monetary policy could cause another recession, only if it were grossly incompetent.

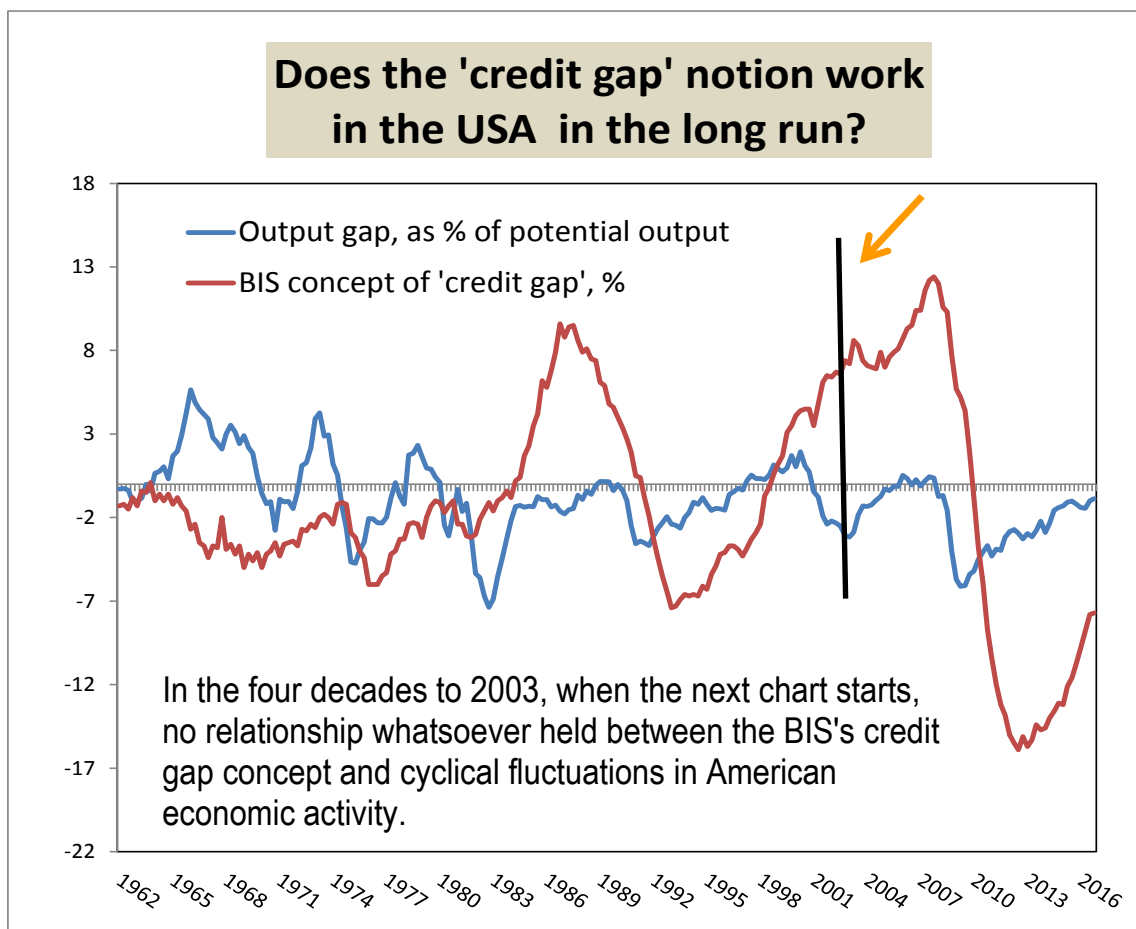
Name of country/ Jurisdiction	Share of world output, in purchasing-power-parity terms, %	Growth rate of broad money, in last three months at annualised rate, %	Growth rate of broad money, in last twelve months, %	Comment:
USA	16.1	5.1	3.1	Money growth has been weak, perhaps reviving
China	16.9	8.9	10.1	Money growth slowly a bit, in stable context.
Eurozone	11.9	4.8	5.0	Money growth has been at 5% rate ideal for recovery, but now to be slowed
India	7.1	11.5	7.0	November 2016 attack on cash ‘black economy’ fading from money data
Japan	4.3	2.8	3.3	Broad money growth slipping from rates high by Japanese standards
UK	2.3	5.6	6.7	Money growth a bit too high for comfort

The alarmism articulated in the latest BIS *Annual Report* is based on a set of ideas which I have labelled “debt-ism”. These turn on the notion that excessive debt will cause borrowers to retrench on their spending, leading to a downturn. The microeconomic foundations for the BIS’s propositions are less than obvious. Why do people and companies incur excessive debt from which they have to retrench, if they are rational and forward-looking, and presumably have some views of their own about their right indebtedness? How can they be so silly as to put themselves in an unsustainable position? If debt matters so much to behaviour, what is to be said about the role of much larger items in agents’ balance sheets, notably the value of their assets? Far better-established in standard theory is the idea that the equilibrium levels of national income (and indeed national wealth) are functions of the quantity of money. So a downturn “with vengeance” in 2018 is to be expected only if a sharp fall in the rate of money growth is to occur in the next few months/quarters.

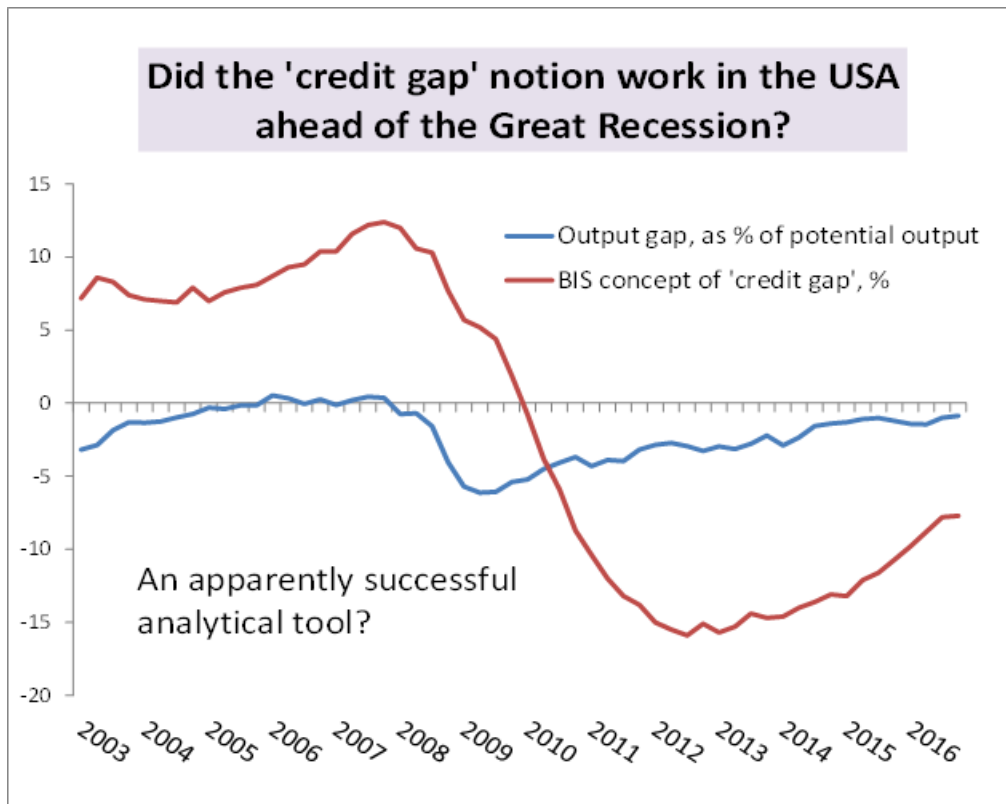
The following pages survey money growth patterns in the world’s six largest economies. Money growth has moderated somewhat in the USA and China since mid-2016, but the slowdown is far from dramatic. The Eurozone has seen faster money growth in the last two-and-a-half years than in the previous rather unhappy four years, because of the European Central Bank’s “quantitative easing” programme. The QE is now to be tapered, but here too the prospective money deceleration is not dramatic. Elsewhere the picture is mixed and defies easy generalisations, but it is difficult to understand the BIS’s pessimism. No one can exclude the possibility that – as in late 2008 – policy-

makers blunder once more and take decisions which will cause a sharp deceleration in money growth. (My contributions to the *Money in the Great Recession* collection argue that the mandating of large increases in banks' capital/asset ratios from October 2008 was one such decision, or group of decisions, by international regulatory officialdom.) Happily, the central case has to be that over the next few quarters current rates of money growth persist. These monetary trends are not indicating a huge swing upwards or downwards in 2018 world growth from its trend rate of about 3½ %.

The BIS has had a particular focus on China, where the corporate sector (much of it state-owned) has borrowed extensively from both banks (also largely state-owned) and non-banks in the last decade. BIS research cites its concept of the "credit gap" as justifying its anxiety. According to the BIS, the credit gap in China is far above acceptable levels, risking a severe downturn from the "vulnerabilities". ("Vulnerabilities" is a rather vague word much repeated in BIS publications. The credit gap is the divergence between debt growth in the recent past and the trend rate of debt growth, as calculated by means of a statistical technique known as the Hedrick-Prescott filter. "Debt" is the debt of the non-financial private sector.) China has reached middle-income levels of prosperity only in the twenty-first century, after the period of hyper-growth in the generation from 1980 to 2005. Analysts are of necessity still very much in the dark about the cyclical patterns of demand and output growth to be expected there, as the economy becomes more mature. They face problems not least because its governing party remains communist in principle, while widespread state ownership is still characteristic of its corporate and financial sectors. China's economy is unlikely to behave in the same way as those of the western advanced nations where private property is dominant and the rule of law prevails (more or less). Nevertheless, the validity of the BIS credit gap concept has to be assessed against evidence of some kind.



In the chart above I compare the BIS estimate for the credit gap in the USA with the “output gap” notion calculated from a Bureau of Economic Analysis series on potential US GDP, taking the numbers back to 1962. The BIS is to be commended for publishing its credit gap estimates, so that they can be scrutinized and tested. However, the verdict has to be the credit gap is useless at anticipating and/or predicting the American economy’s cyclical instabilities. The credit gap notion does reasonably well in the last major cyclical episode (that is, the episode of the Great Recession itself, see below), but it is hopeless in the preceding 40 years. If the BIS credit gap does not work in the USA, why should it receive any attention in the Chinese context? How can we be confident that it will work on the other side of the Pacific?



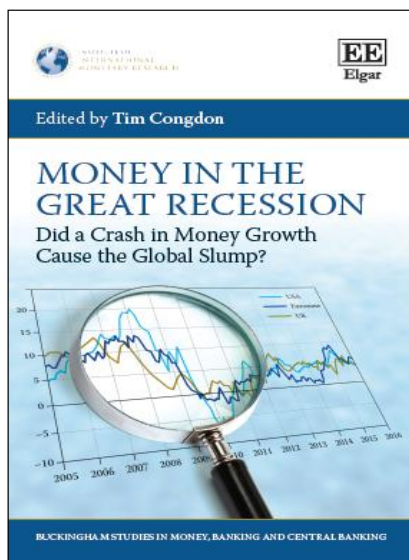
No, the BIS gramophone record of “increasing debt vulnerabilities” has a scratch. It is going round and round noisily and repeatedly, and has become irritating. The monetary approach to macroeconomic analysis is much superior. As of now, money trends in the leading countries are not signalling much trouble – from either recession or inflation – in 2018.

Tim Conger

30th June, 2017

P.S. As last month, I would like to bring to your attention to my new book.

Money in the Great Recession (edited by Tim Congdon) is being published by Edward Elgar Publishing in June



- The blurb on the back cover of *Money in the Great Recession* reads as follows,

No issue is more fundamental in contemporary macroeconomics than the causes of the recent Great Recession. The standard view is that the banks were to blame because they took too much risk, “went bust” and had to be bailed out by governments. But very few banks had losses in excess of their capital. **The counter-argument presented in this volume is that the Great Recession was caused by a collapse in the rate of change of the quantity of money.** The book’s thesis echoes that made on the causes of the Great Depression by Friedman and Schwartz in their 1963 classic *A Monetary History of the United States*.



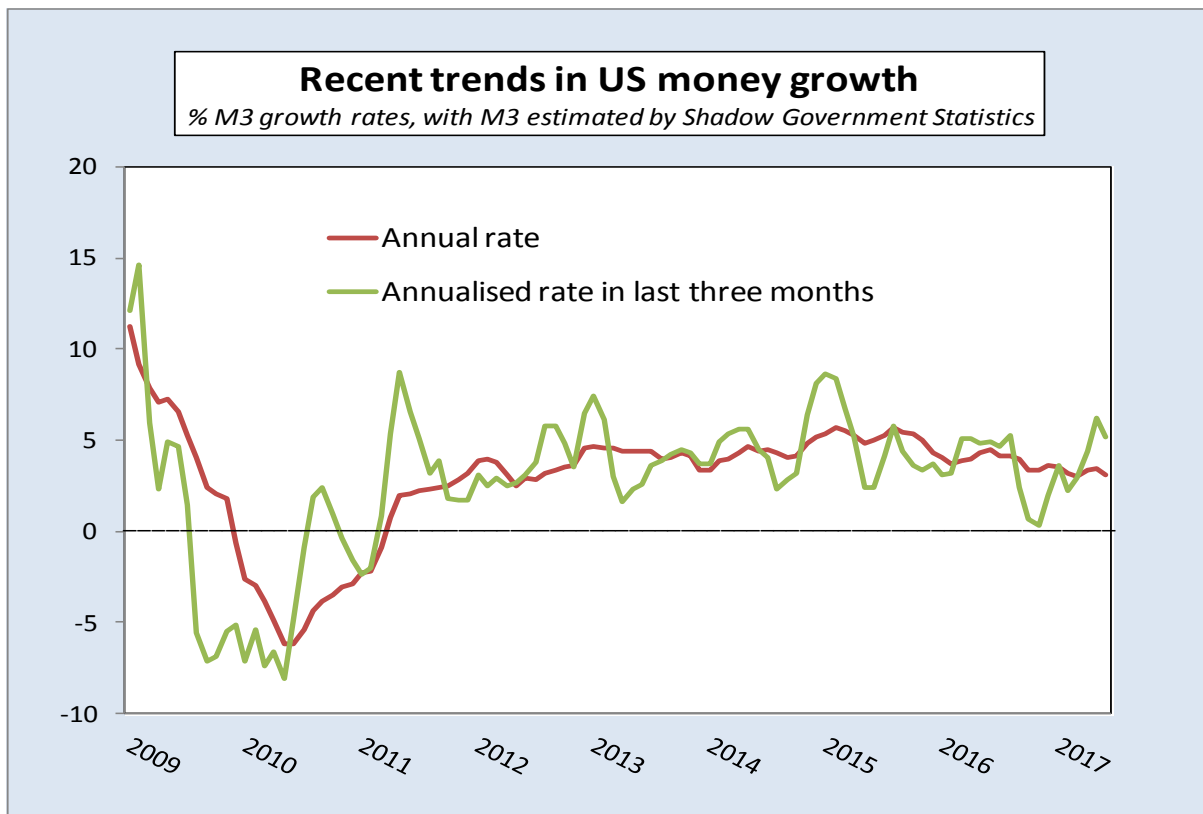
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USA

	% annual/annualised growth rate:	
	M3	Nominal GDP
1960 – 2016	7.5	6.5
Six years to 2016	4.0	3.7
Year to June 2017	3.1	n.a
Three months to June 2017 at annualised rate	5.1	n.a.

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



Better M3 growth compared with earlier this year, but for how long?

Summary: The US money slowdown – which began last summer – showed signs of coming to an end when May’s broad money figures appeared, with US M3 growing at an annualised rate of 6.5% over a three month period. This was the highest growth rate in over two years and well above the pace of increase in late 2016 and the opening months of 2017. The three months to June saw an annualised growth rate of 5.1%. This is still up on the early 2017 average, but the quantity of money only grew by \$25b. during June itself, the smallest growth since October 2016, when the M3 measure of money shrank. The Federal Reserve recently announced that the run-off of asset purchases bought during the “quantitative easing” programme will become official policy in September. A further rise in the Fed funds rate is a possibility later this year. (Our M3 data come from Shadow Government Statistics.)

“Quantitative tightening” and a rise in interest rates may dampen US money growth in late 2017 and 2018. In autumn 2016, without making any announcement and perhaps unintentionally, the Fed did not sustain banks’ cash reserves by buying other securities as existing securities in its portfolio were redeemed. As the graph above shows, this coincided with a slowing of broad money growth, even though the Fed Funds rate remained at historic lows. On 14th June it issued a statement that the rate of run-off of its holdings of Treasury and asset-backed securities would start in September at \$10b. a month and then rise, in \$10b.-a-month steps every three months to \$50b. a month in late 2018. The combination of further and more definite “QT”, higher interest rates and pressure on large banks (or “global systemically important banks”) to raise their capital/asset ratios will reduce money growth. Talk of a “Trump boom” looks implausible even into 2018. Big banks, facing new internationally enforced constraints on capital, are unlikely much to expand their loan assets and deposit liabilities.

Since 2011 broad money growth has been steady. The annual rate of M3 change has run consistently between 2½% and 5¾% from the start of 2012, with an average of 4.2%. The increase in nominal GDP has run at a similar rate, also with little fluctuation. Aided by the QE programme, the US economy has recovered well from the Great Recession. The stock of bank lending continues to increase, with mortgage lending up by 4.2% in the year to May, although business loans only grew by 0.9% in the same period. Unemployment in the US is under 4.5%. Inflation rose above the Fed’s 2% presumed internal target in December 2016, but fell back to 1.9% in May and 1.6% in June. Macroeconomic conditions are stable, arguing against radical monetary policy tightening. While stable non-inflationary growth remains the most likely prospect for the American economy in the next few quarters, the effects of “QT” on money growth will need to be watched in 2018.

John Petley
12th July, 2017

	% annual growth rate:	
	M3	Nominal GDP
1960 – 2016	7.5	6.5
1960 – 1970	7.7	6.8
1971 – 1980	11.4	10.3
1981 – 1990	7.7	7.7
1991 - 2000	5.6	5.6
2001 - 2010	7.1	3.9
Six years to 2016	4.0	3.7



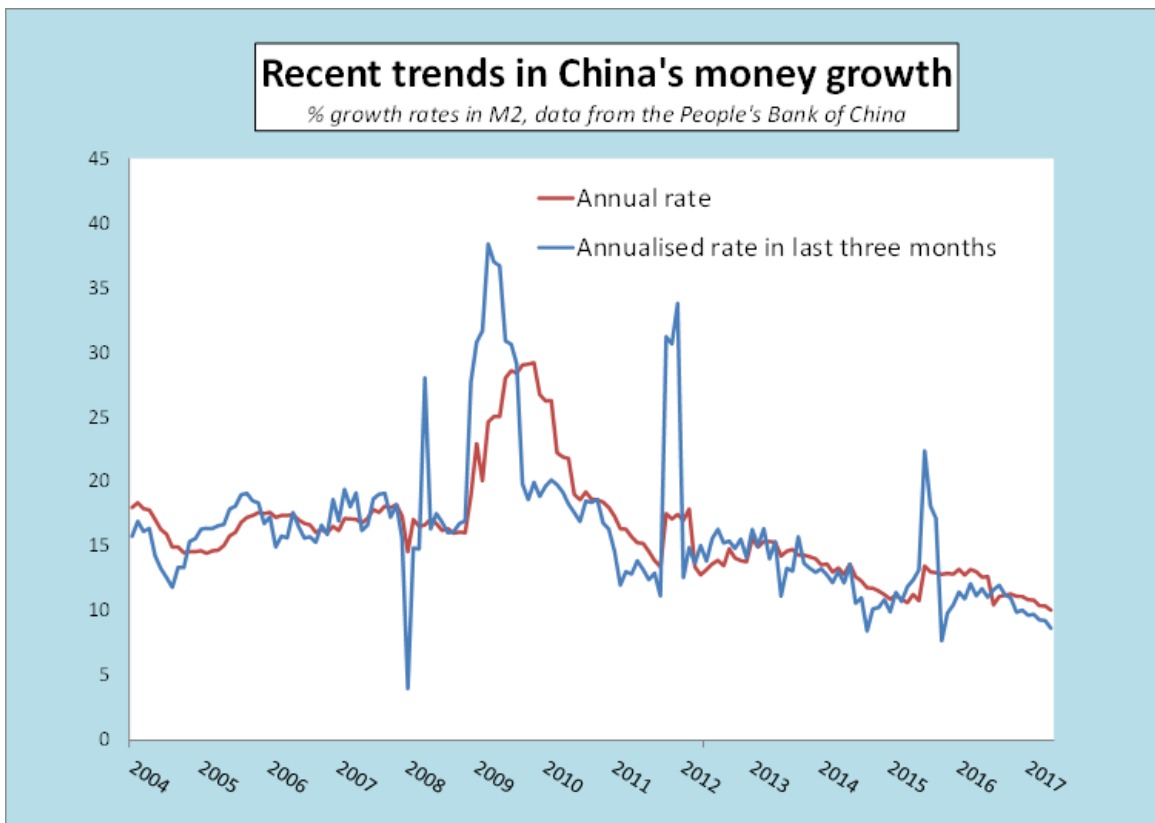
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China

	% annual/annualised growth rate:	
	M2	Nominal GDP
1991- 2016	19.7	15.4
2010 - 2016	14.4	11.6
Year to May 2017	10.1	n/a
Three months to May 2017 at annualised rate	8.9	n/a

Sources: People's Bank of China for M2 and International Monetary Research Ltd. estimates



Broad money growth continues to decline

Summary: In the three months to May 2017 China's M2 expanded by 2.2% or at an annualised rate of 8.9%. This is the lowest figure, seasonally adjusted, since October 2015 and the third lowest in over a decade. It is also the sixth consecutive month of declining broad money growth. The annual growth rate, seasonally adjusted, stood at 10.1%, the slowest in over a decade. As the graph above illustrates, Chinese broad money growth has not been experiencing the extreme fluctuations seen in previous years, but the last year has been characterised by a slow and steady decline.

At the start of 2017 the Chinese authorities set a target of 12% annual broad money growth for the coming year, hinting that 11% would not cause any worries. The government made it very clear that it was prepared to tolerate lower money growth in its desire to contain risks said to be associated with high debt. It remains to be seen how far the authorities will allow the growth rate to fall before intervening. China's new banking regulator, Guo Shuqing, is known to favour a tough line on bank portfolios, with their high ratios of non-performing loans. His appointment may signal a determination by the Chinese government to crack down on shaky loans. Official figures, which are disputed by some analysts, still claim that the level of non-performing loans is no more than 1.5% to 2% of banks' assets. The figure may be higher, but banks are being forced to take losses on past activities, which will cut into the capital that might otherwise support future expansion.

The government set a 6.5% GDP growth target for 2017 and managed to surpass this in the first quarter, hitting 6.9%. A serious recession looks unlikely. For one thing the People's Bank of China's lending rate, which has remained unchanged at 4.35% for 18 months, could be cut without fuelling inflation. Consumer price inflation remains very low, with prices only 1.5% higher at the end of June than a year earlier. This is the highest inflation rate this year, but still well below the government's 3% target. Even an uptick in the producer prices index in early 2017 was caused mostly by energy price increases which have now gone into reverse. The authorities also enjoy some success in cooling the housing market. The average year-on-year house price increase in China's 70 largest cities was 10.2% in the year to June, the slowest since August 2016. The Chinese authorities imposed tighter condition on housing loans in March. This has paid off particularly in Beijing and Shanghai, where annual house price inflation was topping 30% at one point, but is now in line with the average for all large cities.

The stock of bank lending rose by 12.9% in the year to June, unchanged from April's figure. For nine out of the last twelve months, annual loan growth has remained within a narrow band of 12.9% - 13.1%. As always, predictions abound of difficult times ahead for China's economy. Neither the bank lending statistics nor the chart above suggests that a major slowdown is imminent. Uncertainties remain, but the most likely scenario is that the Chinese government's determination to preserve stability should ensure that the current course of lower, but steady money growth will be maintained.

John Petley
8th July, 2017

	% annual growth rate:	
	M2	Nominal GDP
1991 - 2000	24.6	18.5
2001 - 2010	18.4	15.2
Six years to 2016	13.5	10.6



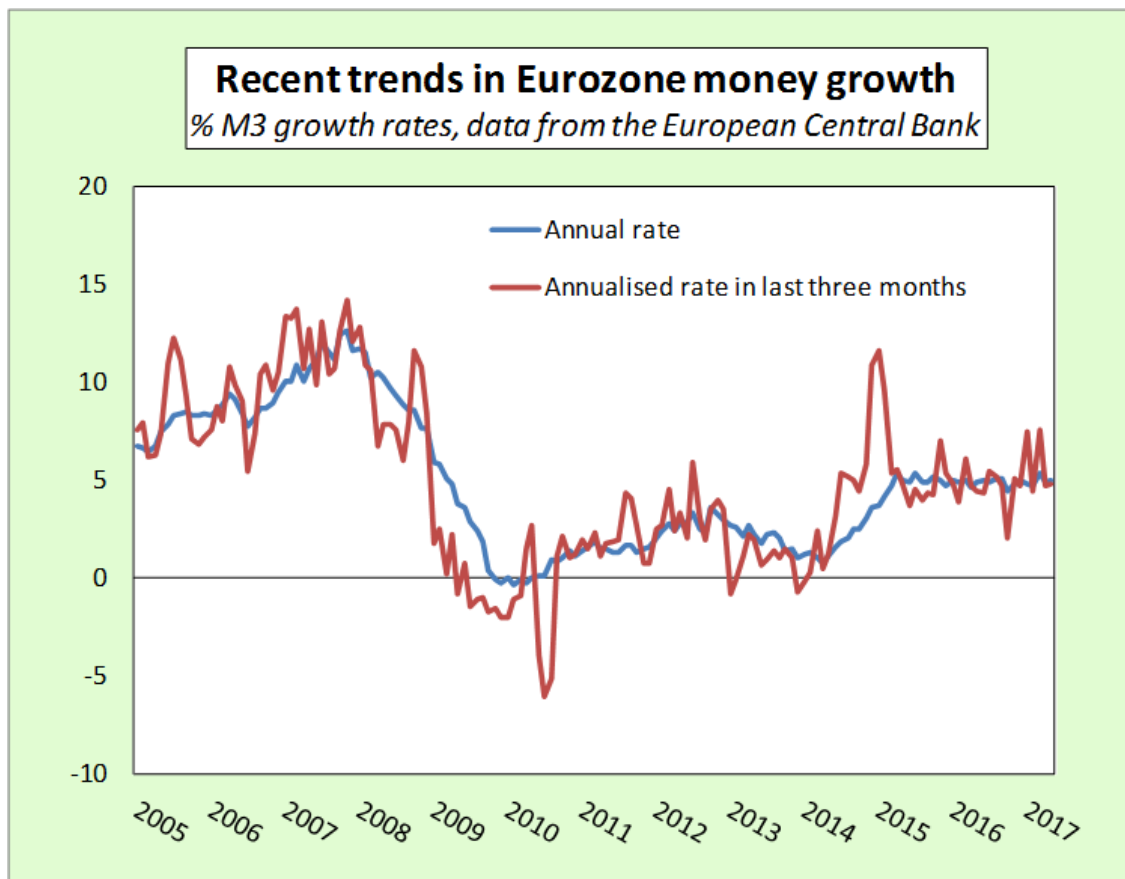
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Eurozone/Euroland

	% annual/annualised growth rate:	
	M3	Nominal GDP
1996 – 2016	5.3	3.0
Six years to 2016	3.4	2.0
Year to May 2017	5.0	n/a
Three months to May 2017 at annualised rate	4.8	n/a

Sources: European Central Bank and International Monetary Research Ltd. estimates



Money growth stable in spite of April's tapering

Summary: In the three months to May 2017 Eurozone M3 money grew at an annualised rate of 4.8%, little changed from the 4.7% recorded in the previous three months. Whereas the M3 quantity of money fell by €11b. in April, it rose by €47b. in May. The effect was to push annual broad money growth rate up from 4.9% to 5.0%. An annual money growth aim of around 5% was probably intended when the “quantitative easing” programme began over two years ago, implying that ECB objectives are being achieved. The chart above shows how the annual rate of broad money growth has been lifted from the 2% average during the disappointing 2009-2013 period. QE has strengthened asset prices, improving balance sheets and boosting demand.

In April, the monthly asset purchase programme was reduced from €80b. to €60b. May's money data indicate that this move has not caused any money slowdown so far. The minutes of the ECB's governing council for June made no announcement about tapering or ending the asset purchases, and did not rule out extending the programme. The caution may be attributable partly to the reluctance of inflation to stick consistently at the ECB's target of 2% or just below. In April, the consumer price index was up by 1.9% compared with a year earlier, but the increase dropped to 1.4% in May. Lower oil and energy prices will keep inflation down in the summer. No return to deflation anywhere in the single currency area is on the cards, however.

Money growth in Germany has typically been above that in the rest of the Eurozone in the last few years. But this feature has not persisted in recent months. In the year to May, annual M3 growth in Germany stood at 5.0%, identical to the figure for the full 19-nation bloc. In spite of the widely-reported increase in confidence among businesses and consumers in the Eurozone, growth in the stock of loans to the (non-financial) business sector is still rather weak, standing only 1.6% higher in May than 12 months earlier and unchanged from April's figure. This has to be seen, however, in the context of several previous years of contraction in bank lending to companies. The contraction has now stopped. Growth in the stock of mortgage lending is more robust. The annual rate of increase seems to have stabilised at about 3%.

When broad money was growing at an annualised rate of over 7% in the three months to March, a case for might have been pressed for winding up the QE programme before the end of the year. The slower money growth in April and May raises the question as to whether the Eurozone's banking system is sufficiently robust to maintain balance-sheet expansion without assistance from the ECB's asset purchases. An overall assessment must be the Eurozone still looks set to enjoy stable, even positive, macroeconomic conditions. Potential problems remain. The issue of Greece's possible insolvency will return to the agenda later this summer, but perhaps more worrying is Italy. Its banks have large borrowings from the Target 2 settlement system. Two Italian banks, Veneto Banca and Banco Popolare di Vicenza, were bailed out last month by the Italian government at a cost of €17b.

John Petley
8th July, 2017

	% annual growth rate:	
	M3	Nominal GDP
1996 - 2016	5.3	3.0
1996 – 2000	4.6	4.1
2001 – 2010	6.8	3.1
Six years to 2016	3.4	2.0



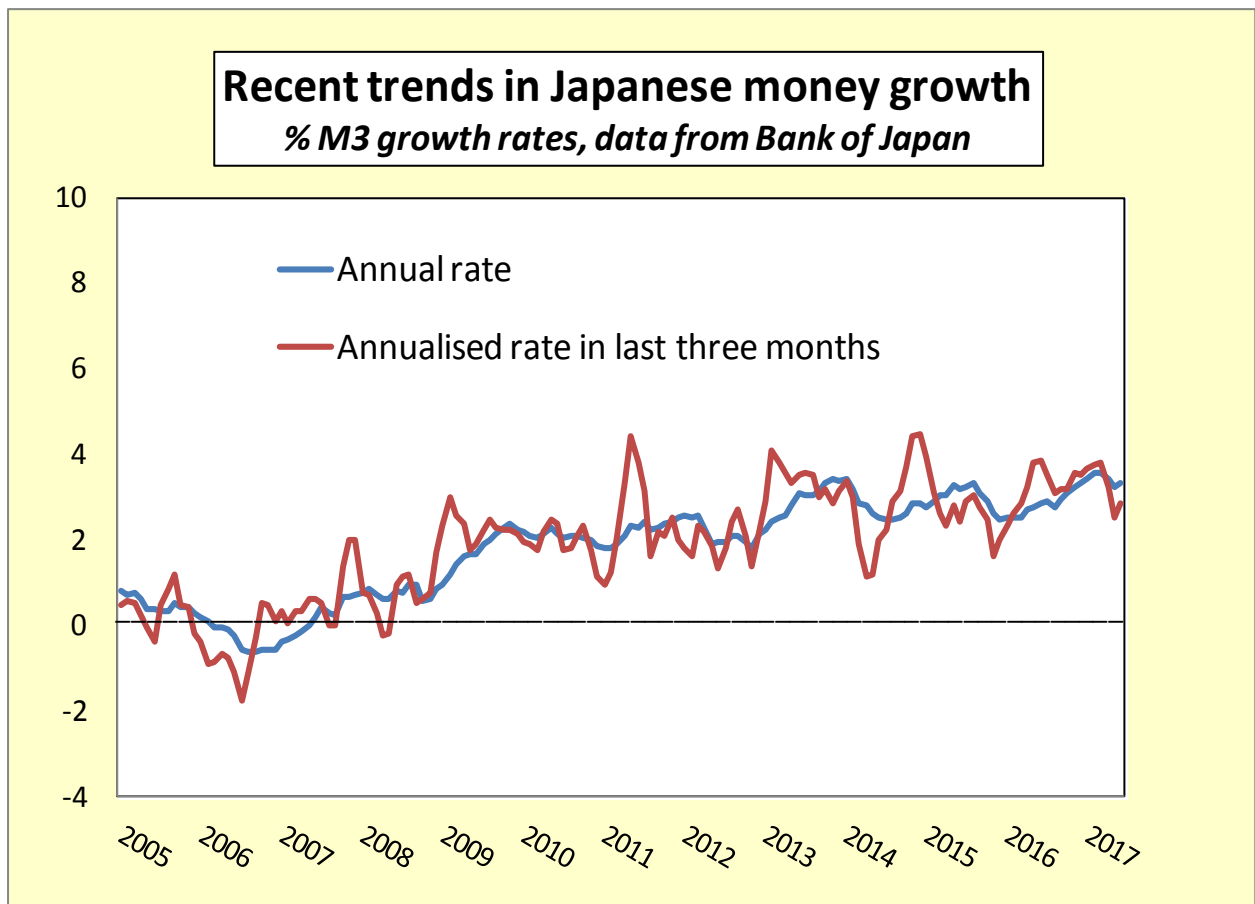
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Japan

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2016	4.0	1.9
Six years to 2016	2.9	0.6
Year to June 2017	3.3	n/a
Three months to June 2017 at annualised rate	2.8	n/a

Sources: Bank of Japan for M3 and IMF for GDP



Improvement in broad money growth falters

Summary: In the three months to June 2017, Japanese M3 broad money grew at an annualised rate of 2.8%. This is an improvement on the revised figure of 2.5% for the three months to May. Nevertheless, money growth may be decelerating, following over a year where the annualised three-month growth rate stood consistently at 3% or more. The annual growth rate stands at 3.3%. Until April, as the graph above indicates, Japanese broad money growth was running at its highest level in over a decade. The better broad money growth has been a consequence of the Bank of Japan's asset purchase programme, so-called "qualitative and quantitative easing". It has lifted the annual broad money growth rate from approximately 2% to 3% or higher. In spite of the recent slowdown, broad money growth still remains higher than it was before the "QQE" programme started.

The most recent meeting of the Bank of Japan's monetary policy board on 16th June decided to retain unchanged the current package of stimuli, consisting of central bank monthly asset purchases of 80 trillion yen (about \$6½b.), "negative interest rates" and "yield curve control" (whereby the BOJ buys as many 10-year government bonds as necessary to keep yields at their current level of 0%). The yield curve control in particular, which was introduced in September 2016, has been effective. It involves heavy purchases of government bonds from non-banks which boosts their bank deposits and the quantity of money. More money in the economy helps asset markets and economic activity.

The Bank of Japan's decision is no surprise. When the "QQE" programme was launched in 2013, its prime objective was to boost inflation. Four years later, annual consumer price inflation stood at a mere 0.4%, well short of the Government's 2% target. In January 2017 factory gate prices rose on an annual basis for the first time in 21 months, a trend which has continued in subsequent months, although the rate of increase has levelled off at 2.1%. This may presage higher consumer inflation in coming months, even though consumer spending in real terms remains soft.

Japan's economy continues to grow, albeit at a modest rate. In the first quarter of 2017, GDP was 1.3% higher than a year earlier. The country has enjoyed continuous expansion for nearly four-and-a-half years, the third longest period of uninterrupted output advance since 1945. Growth in exports has been the main driver of GDP growth so far in 2017. The value of exports increased particularly sharply - by 14.9% - in the year to May. The yen is trading at a weaker level than in late 2016, which is helping. Wage growth rose from 0.5% to 0.7% in May, the highest figure in 10 months, but pretty anaemic nonetheless. Unemployment rose from 2.8% to 3.1%, although this is still very low. The stock of bank lending to the private sector fell in May and only ticked up very moderately in June while the housing market remains weak. The money figures do not suggest that recession is looming and it is too early to determine whether M3 growth rate is reverting to a lower trajectory.

John Petley
16th July, 2017

	% annual growth rate:	
	M3	Nominal GDP
1981 – 1990	9.2	4.6
1991 - 2000	2.5	1.1
2001 - 2010	1.1	0.8
Six years to 2016	2.9	0.6



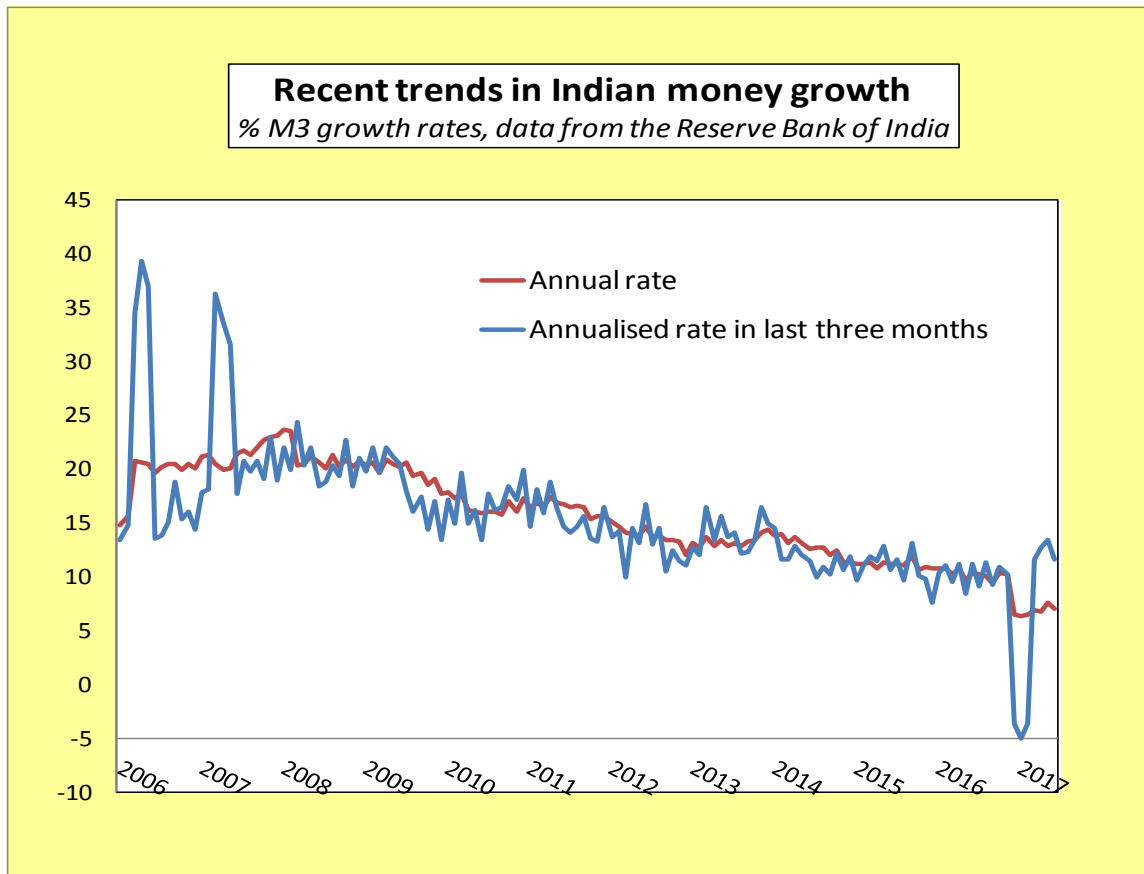
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India

	% annual/annualised growth rate:	
	M3	Nominal GDP
1991- 2016	16.1	13.5
2010 - 2016	12.6	12.8
Year to June 2017	7.0	n/a
Three months to June 2017 at annualised rate	11.5	n/a

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



Broad money growth still below its pre-monetisation levels

Summary: In the three months to June 2017, Indian M3 grew at an annualised rate of 11.5%, down from the figure of 13.4% for the three months to May. Although this figure is roughly in line with the annualised quarterly growth before India's demonetisation exercise in November (a mass withdrawal of 500 and 1,000 rupee banknotes from circulation), the unadjusted quantity of money actually fell during the month and as the graph above shows, annual broad money growth remains well down on the levels seen before last November.

The printing of the new banknotes to replace the old notes withdrawn in December seems to be more or less complete, as the total currency in circulation has remained fairly constant since the end of April. It is more than Rs. 3.5 trillion less than in early November when the withdrawal of the old notes was announced, but the total value of personal demand deposits have increased by a similar amount. One of the main objects of the demonetisation exercise was to reduce the amount of cash in circulation and encourage Indians to make greater use of banks. India's huge black economy has been predominantly cash-based and the government was keen to rein it in.

The timing of the demonetisation exercise was unfortunate as it came hot on the heels of a sharp fall in the growth of the stock of bank lending. As recently as October 2016, the annual growth rate stood at over 10%, but it fell to a mere 4.1% at the start of March. A modest recovery began in the second half of the month and annual loan growth now stands at 6%. After a surge at the end of 2016, the stock of bank deposits did not increase at all in the first ten weeks of the year and since March, the stock of time deposits has stayed more or less constant.

In the 12 months to June, India's consumer price inflation rose by only 1.5%. This is lowest rate of increase since the items used in calculating the index were revised in 2012. The Reserve Bank of India still took a cautious approach at its most recent monthly meeting and kept interest rates at 6.25%. With the increase in factory gate prices also falling, from an annual rate of 6% in March to 2.2% in May, there is little sign of any build-up in inflationary pressures.

The caution by the central bank centres on the perceived frailty of the commercial banking sector in India. Both the current Governor, Urjit Patel and his predecessor, Raghuram Rajan, have been attempting to bring the culture of Indian banking in line with developed nations, particularly with regards non-performing loans. A new bankruptcy code was introduced last year in an attempt to tackle a problem variously estimated to amount to between \$150b. and \$180b. The central bank is now empowered to force commercial banks to begin insolvency proceedings and last month, it started to use these powers. Previously, Indian banks adopted a very permissive attitude to bad debt, assuming that loans would eventually be repaid and taking little or no action against defaulters. The Modi government has pushed through a number of structural reforms that look set to reduce the complexity of regulation and taxation in India. This will boost growth, as indeed will a more resilient banking sector. In the short term, however, the pressure to tidy up banks' balance sheets is likely to result in broad money growth remaining subdued in the near future.

John Petley
12th July, 2017

	% annual growth rate:	
	M3	Nominal GDP
1991 - 2000	17.4	14.0
2001 - 2010	17.3	14.0
Six years to 2016	11.8	11.6



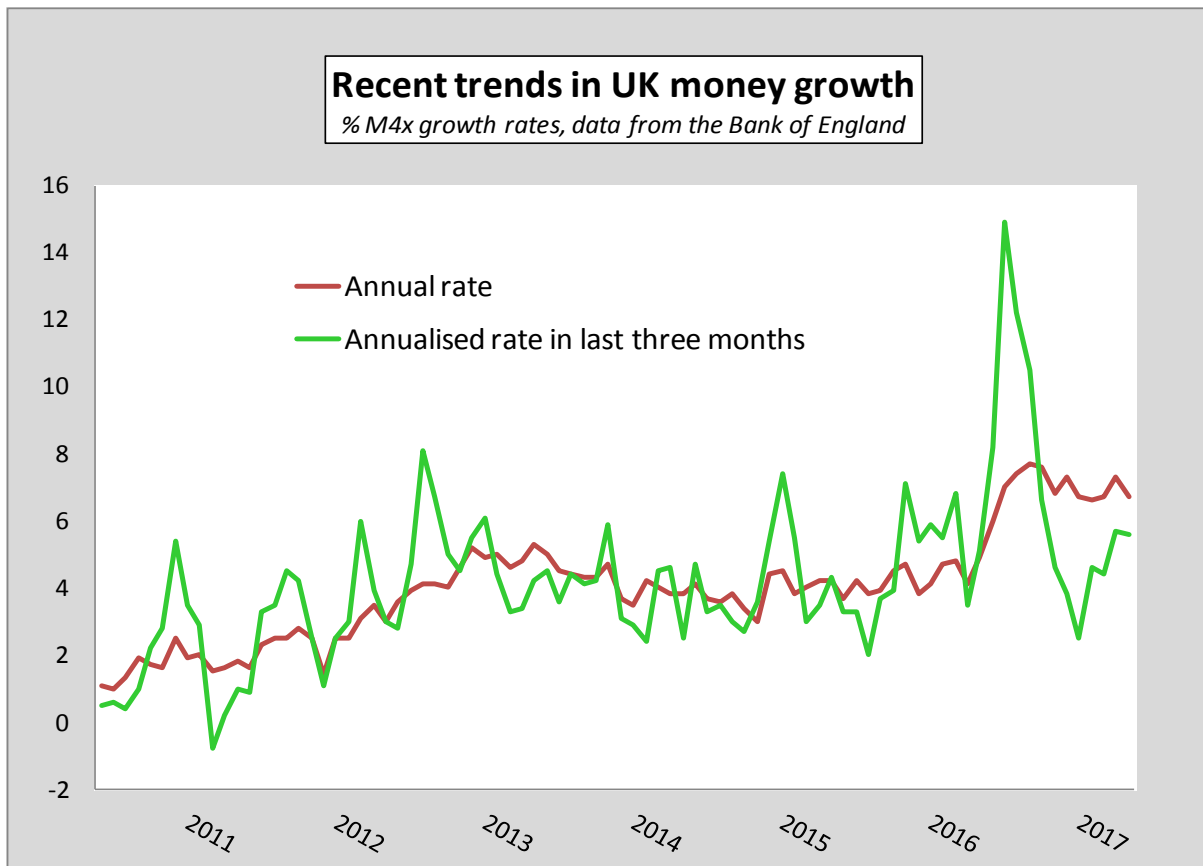
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UK

	% annual/annualised growth rate:	
	M4x/M4 before 1997	Nominal GDP
1964 – 2016	10.0	8.3
Six years to 2016	4.0	3.6
Year to May 2017	6.7	n/a
Three months to May 2017 at annualised rate	5.6	n/a

Sources: Bank of England and Office for National Statistics



M4x growth strong and inflation finally slows – for now

Summary: In the three months to May 2017, UK M4x grew at an annualised rate of 5.6%. During May, the M4x quantity of money grew by just under £8b. This is the slowest monthly growth since January, but still quite strong. The annual pace of expansion fell back to from 7.3% in April to 6.7%. It is likely to drop further, returning to the more typical levels (3% - 5%) seen in the last four years as the rapid growth in summer 2016 drops out of the calculations.

UK consumer inflation reached 2.9% in the year to May, the highest in almost four years. It fell back to 2.6% in June, although it may well rise to a slightly higher level in coming months. Global inflationary pressures are not particularly strong, as commodity prices remain subdued. However, the pound's fall following the Brexit vote has caused UK inflation to move ahead of that in comparable nations. Although sterling has recovered to around \$1.30 recently (from levels just above \$1.20 earlier this year), it remains down compared with a year ago and off significantly from the \$1.60 - \$1.70 level of mid-2014. The pound's weakness – partly explicable by money growth being higher in the UK than in other leading countries – will continue to generate inflation concerns. The decision by three members of the Bank of England's monetary policy committee to vote for a rise in interest rates at its monthly meeting on 15th June is unsurprising. An increase in base rates later this year cannot be ruled out. The MPC pays far more attention to current inflation cost pressures, particularly those that are evident in the labour market, than to the rate of money growth. The emphasis is disappointing, given that money growth is the ultimate driver of increases in nominal GDP and the price level. Wage growth is sluggish for the time being, but the tensions between Cabinet ministers about the rate of increase in public sector pay have been widely reported.

The Bank of England's latest survey of bank lending noted an improvement during May. The number of new mortgages approved rose slightly after four months of decline and growth in the stock of lending to businesses continued to recover. The annual growth rate of 4.8% in the stock of M4x loans is on the strong side. It is possible that banks are still restricting balance-sheet growth to meet regulatory restrictions, with worries about the implementation of the FRS9 accounting standard being a much-cited current headache for banks' management.

For all the media accounts of a slowing UK economy, the money figures do not point to a major downturn. The healthy growth in factory orders in the first half of the year paints a positive picture, with June being particularly strong. The retail sector and consumer spending held up well in the first quarter of 2017. New car registrations were also 4.8% down in June compared with the previous 12 months, but this follows a very strong first quarter. In summary, the current trend (or slightly beneath-trend) growth in the UK economy looks set to continue into the second half of 2017. Uncertainties continue to be voiced about the effects of Brexit, but the UK economy has thus far confounded the pessimists. Broad money growth may be higher than in other developed economies, due to the unnecessary boost to QE last year, but a drop to lower levels seems likely.

John Petley
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	% annual growth rate:	
	M4/M4x	Nominal GDP
1964- 2016	10.0	8.3
1991 – 2000	7.1	5.0
2001 – 2010	6.7	3.9
Six years to 2016	4.0	3.6