INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

Analysis and insight into trends in money and banking, and their impact on the world's leading economies

www.mv-pt.org

Monthly e-mail from Tim Congdon – 30th May, 2017

Global money round-up in spring 2017

France's new President, Emmanuel Macron, comes from the technocratic elite that has promoted his country's integration with the rest of Europe since the late 1940s. Consistent with that, he is urging other Eurozone member states to agree to the establishment of a federal finance minister and, eventually, a common tax-raising power in association with a European Banking Union. Since the 1963 Elysee Treaty France's key partner in European integration has been Germany. With a similarly-minded technocratic elite and persisting guilt for Nazi atrocities, Germany remains that partner in principle. However, because of Germany's strong financial position and low public debt, its politicians have resisted debt mutualisation since the early days of the EU's "economic and monetary union", in the late 1980s. Meanwhile much has gone wrong – and is still going wrong – in other Eurozone nations. Greece has been unable to honour its public debts in full, and its economy remains crippled by the need to bring costs and prices into line with other countries. Italy's ratio of public debt to GDP has risen since the introduction of the euro and is now roughly double that of Germany. In the run-up to the Italian general election (which must be held before May 2018), Eurozone tensions are likely to figure prominently in the headlines. The resumed closeness of policy approach in the two leading nations of Germany and France does not mean the Eurozone's problems are over.

Elsewhere not much has happened in recent weeks to alter last month's assessment that money trends in the world's largest economies are consistent with steady growth in 2017 and probably early 2018. The money slowdown in the USA from August 2016 continues to argue against a Trump boom, but in fact the last two months have seen somewhat faster growth of the banking system and broad money.

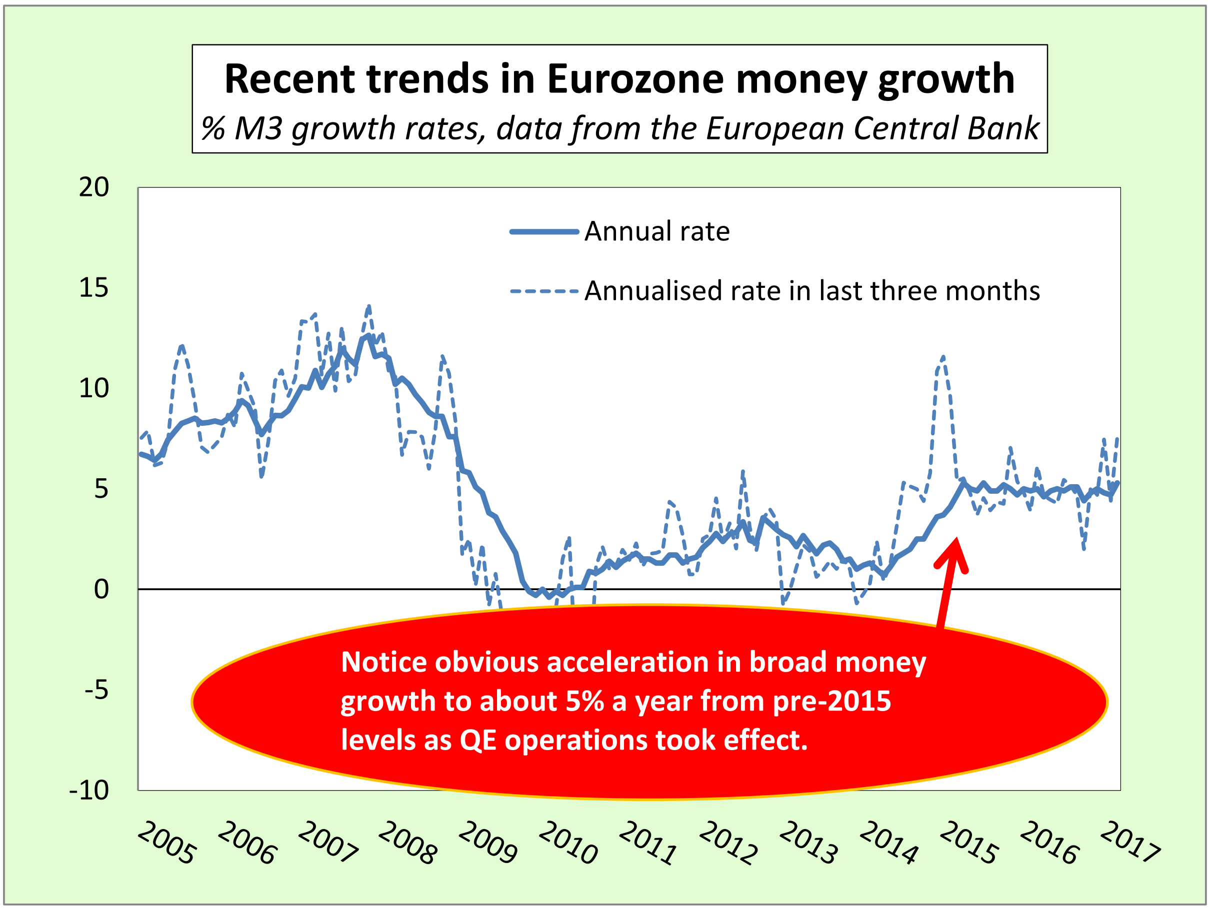
Money trends in spring 2017 in the main countries/jurisdictions

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 the 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 the late April assessment, but this month I spend some time discussing the persistent strains in the Eurozone.

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	4.0	3.3	Money growth has been weak, perhaps reviving
China	16.9	10.2	10.6	Money growth at moderate rate in stable context.
Eurozone	11.9	7.6	5.3	Money growth has been at idea 5% rate for recovery, but now to be slowed
India	7.1	13.2	6.9	November 2016 attack on cash 'black economy' fading from money data
Japan	4.3	4.1	3.6	Broad money growth at highest for years, but moderate cf. rest of world
UK	2.3	4.5	6.7	Money growth slowing, perhaps because of same anti-GSIB regulatory pressure as in USA

Money trends vary between the main "countries"/jurisdictions, but are generally satisfactory. A clear change compared with three years ago is that US broad money growth is lower than in the Eurozone, a pattern which reflects contrasting policy moves. Whereas further moves towards high capital/asset ratio in large banks (and some "quantitative tightening" [or QT], as the Fed lets its assets mature at redemption and does not replace them) has reduced money growth in the USA, the European Central Bank's "quantitative easing" programme has since early 2015 increased money growth. The power of monetary policy has been amply demonstrated by these developments. Early 2017 has been a bit disappointing for US demand growth, while the Eurozone has had the most buoyant period since the 2010 rebound from the Great Recession.

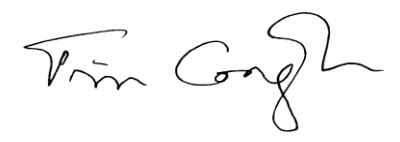
Anyhow both the American and Eurozone central banks are now tightening policy, although only with gentle nudges. The Fed's Open Market Committee is expected to raise its funds rate again at its next meeting (and 13th and 14th June) and QT will continue. (These Institute of International Monetary Research notes have identified since autumn 2015 that the Fed has been allowing the securities bought in earlier QE exercises to run off at redemption, which has the effect of reducing banks' cash reserve assets, their deposit liabilities and hence the quantity of money, broadly-defined. Despite denials that this was intended by Fed officials, it is now apparent that this was exactly what was happening. The policy seems to have become official, even though the Fed is in a serious intellectual muddle about the relationships between its open market operations and the money aggregates. Its defenders need to recognise that it is in a muddle about many things, a state of affairs that has chronic since its foundation in 1914 and to some extent is inherent in its decentralised make-up.)



On the other side of the Atlantic the ECB's QE programme is now widely viewed as having played a vital role in boosting broad money growth, helping an improvement in asset prices and balance sheets, and so driving a wider macroeconomic recovery. Output growth was 1.8% in 2016 and is forecast to be at a similar level in 2017, good numbers compared with those in the four years to 2014. (GDP rose 1.5% in 2011, fell by 0.9% in 2012 and 0.3% in 2013, and then rose by 1.2% in 2014. 2015's 2.0% growth owed something to QE, although its effects were then only beginning to be felt.) The trouble is that trend growth in the Eurozone is less than 2% a year, partly because of demographic constraints. German policy-makers are starting to nag about upward pressures on inflation. The ECB has reduced its monthly bond purchases from €80b. to €60b. This seems a sensible response to the latest figures. In the three months to March Eurozone M3 advanced at an annual rate of 7.6%, which is too high. Over the full years to March it increased by 5.3%, which may have been about right given the demand weakness before the inception of the QE programme, but is also rather high.

As mentioned in the boxed introduction above, Emmanuel Macron's election to the French Presidency seems unlikely soon to result in a period of renewed European integration, even though may be the wish of the political elites in both France and Germany. The video that accompanies this note shows that ratios of public debt to national output vary enormously across the Eurozone, while the differences are widening, not narrowing. Italy's potential tensions with other Eurozone countries may surface in coming months, ahead of the next general election, which must be held by May 2018. Greece is still in much trouble, with skilled workers leaving for more prosperous parts of Europe and so reducing the underlying level of national output.

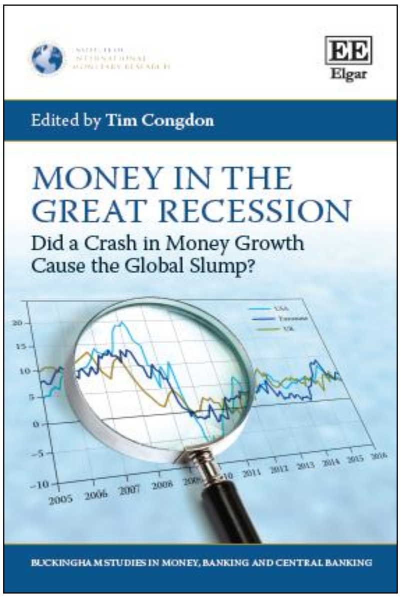
Despite all the problems, 2017 should see stable growth at around the trend rate (3% - 3½%) for the world economy as a whole. The Eurozone's internal ructions will be a talking point in coming months, but they have been so for several years. Two positive points need to be mentioned. First, Japan currently is enjoying the highest money growth for many years, even if that growth is only about 4% at an annual rate. Secondly, India's banks have expanded their balance sheets rapidly in the last few months. The resulting jump in Indian broad money growth has offset some of the damage from last November's note withdrawal and de-monetisation.



30th May, 2017

P.S. As last month, I would like to bring to your attention a new book on the causes of the Great Recession, as discussed in the slide below.

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.*

INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

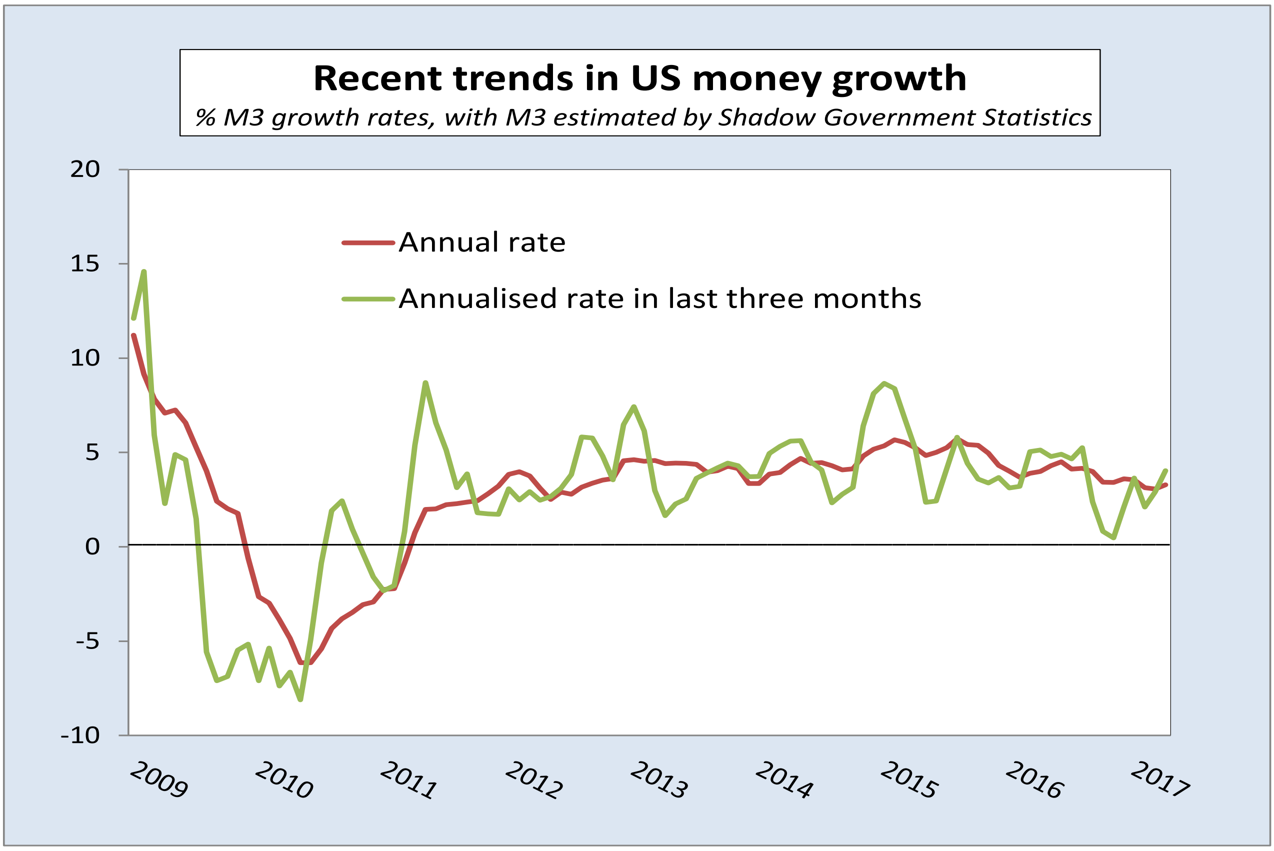
Analysis and insight into trends in money and banking, and their impact on the world's leading economies

www.mv-pt.org

USA

	% annual/annualised growth rate:	
	M3	Nominal GDP
1960 – 2016	**7.5**	**6.5**
Six years to 2016	**4.0**	**3.7**
Year to April 2017	**3.3**	**n.a**
Three months to April 2017 at annualised rate	**4.0**	**n.a.**

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



M3 growth improves, but will it last?

Summary: **In the three months to April 2017, US M3 grew at an annualised rate of 4.0%, the highest growth rate since August 2016. M3 grew by $89b. in April, a 0.5% increase and greater than March's $75b. (0.4%) increase. Over the previous six months *real* broad money growth (i.e., after allowing for inflation) was negligible. US consumer price inflation has been running at an annual rate of well over 2% since December while annualised quarterly broad money growth has often been lower than this. In the last two months, broad money growth has finally started to pick up. (Our M3 data are sourced from the Shadow Government Statistics research company.)**

A slowdown in US broad money growth began in the autumn of 2016 when the Fed allowed a further round of "quantitative tightening", as these notes have called the process of letting the bonds acquired during the QE programmes run off when they matured. QT was evidenced by US banks' cash assets, which fell from $2,427,6b. in August to $2,248,6b, three months later. By March 2017, they had recovered to $2,443.1b., but provisional figures for April suggest that a further fall has occurred. Not until an article in the *Financial Times* appeared on 20th January 2017 was there any suggestion that it was a deliberate policy to reduce the Fed's balance sheet. In early May separate statements from two of the regional Fed governors (Bullard of St Louis and Williams of San Francisco) indicate that they are keen to reduce the balance sheet further, and substantially. (Readers must note that the Fed does *not* base policy decisions on the behaviour of any quantity-of-money measure. The Fed is a large organization with key individuals having a wide diversity of views, and confusion reigns.)

In spite of the recovery in banks' cash assets in early 2017, sluggish money growth has continued. The explanation is to be sought in a notable pause in new bank lending. The stock of "loans and leases in bank credit" (a category which roughly corresponds to bank credit to the private sector) increased at an annual rate of 6.8% in 2014, 7.8% in 2015 and 7.0% in 2016. As new bank loans are associated with the creation of bank deposits, the buoyancy of bank credit was the key reason for the reasonably high rate of money growth in this three-year period. In the first quarter of 2017 large US banks began to *reduce* their "loans and leases" assets under regulatory pressure.

Donald Trump has set up a review of Dodd-Frank Act, with a view to repealing it. If full repeal were to happen (which seems unlikely), it would be a major reversal of the regulatory tightening which marked the post-Great Recession years. Without such a move, the Fed's plans for further "QT" will result in further stagnation in money growth. The much-vaunted Trump boom and hopes of above-trend growth look implausible, at least for 2017 and perhaps even early 2018.

John Petley
11th May, 2017

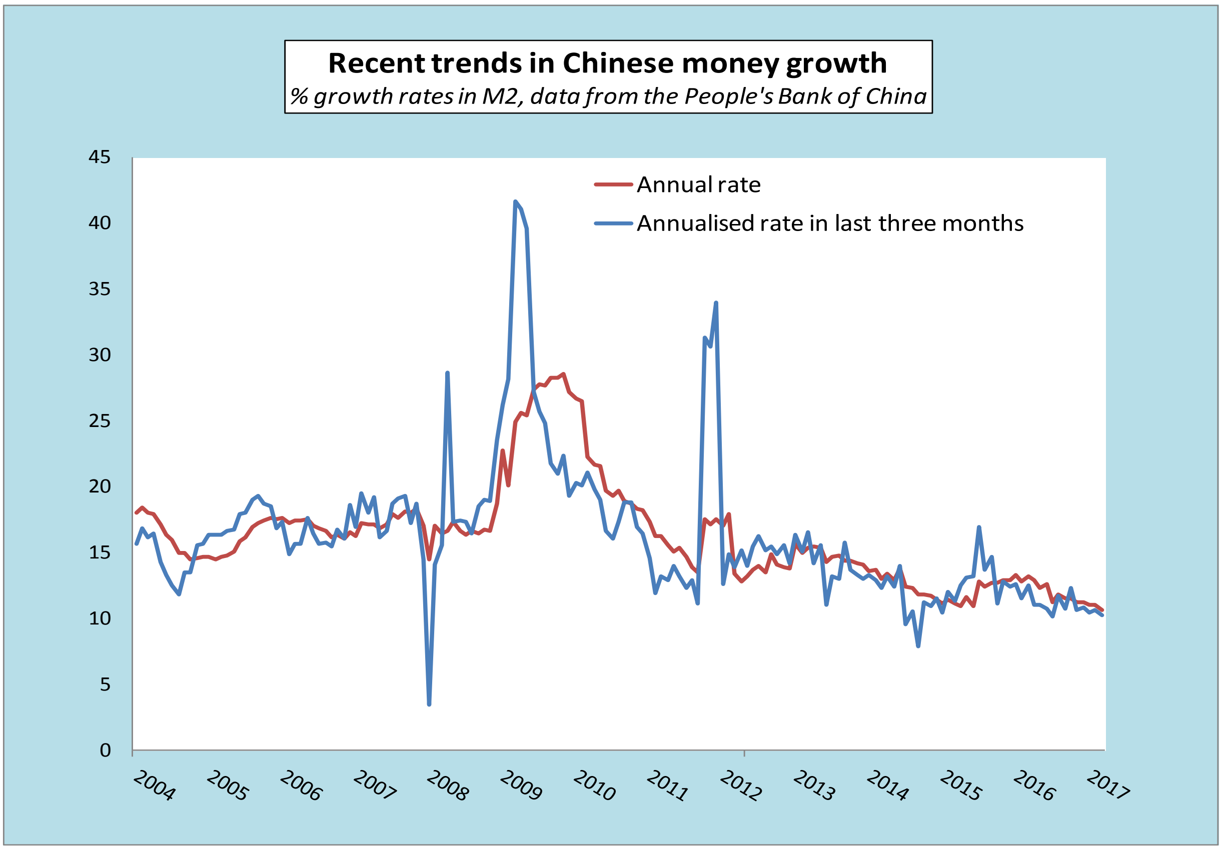
	% annual growth rate:	
	M3	Nominal GDP
1960 – 2016	7.5	6.5
1960 – 1970	7.7	6.8
1971 – 1980	11.4	10.3
1981 – 1990	7.7	7.7
1991 - 2000	5.6	5.6
2001 - 2010	7.1	3.9
Six years to 2016	4.0	3.7

INSTITUTE OF
INTERNATIONAL
MONETARY RESEARCH
Analysis and insight into trends in money and banking, and their impact on the world's leading economies
www.mv-pt.org

China

	% annual/annualised growth rate:	
	M2	Nominal GDP
1991- 2016	19.7	15.4
2010 - 2016	14.4	11.6
Year to March 2017	10.6	n/a
Three months to March 2017 at annualised rate	10.2	n/a

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



Broad money growth continues at a respectable level

***Summary*: In the first quarter of 2017 China's M2 expanded by 2.5% or at an annualised rate of 10.2%. This was the lowest figure in over two years and down on the 10.6% recorded in the year to February. The annual growth rate, seasonally adjusted, fell to 10.6%, the slowest in over a decade. As the graph above illustrates, Chinese broad money growth has entered a stable period, different from the fluctuations of recent years, even if growth is slowing.**

The Chinese authorities have set a target of 12% annual broad money growth for 2017, down from 2016's 13% target. In January an unnamed government source told Reuters "A money supply rise of 11% should be enough for supporting growth, but we probably need to have some extra space, considering risks in the process of deleveraging." No doubt the authorities will be watching closely to see if broad money growth falls further. Data from three large state-owned banks suggest that non-performing loans are increasing, although still at modest levels of around 1.5% to 2% of assets. However, there are also "special mention" loans, which are overdue but not yet considered non-performing. Shaky loans in total are estimated by some analysts to amount to 7% of GDP, or 15% of all bank lending. Claims that Chinese banks – or indeed, the whole Chinese economy – are facing major debt problems have been circulating for years. The government may now be emphasizing the containment of risk. But, without comprehensive official data, the true state of the country's banking system and the scale of the problem is hard to ascertain.

The government set a 6.5% GDP growth target for 2017. The economy managed to surpass this in the first quarter, with 6.9% being the figure reported. The money figures are consistent with a mild deceleration in growth compared with 2016, but do not suggest anything seriously untoward. Consumer inflation is very low, with the official index only 0.9% higher at the end of March than a year earlier. Admittedly, an uptick in the producer prices index has seen prices at the factory gate rising by more than 7% in the last year and these upward pressures on inflation are in the pipeline. On the other hand, the booming housing market is cooling, with prices rising by 11.3% in the year to March, a modest figure by Chinese standards. Restrictions on buying property have recently been extended as the government attempts to cool the market. They have already proved successful in the most sought-after cities, with annual house price growth in Shanghai falling from 31.1% last September to 16.8% six months later.

The stock of bank lending rose by 12.4% in the year to March, the lowest figure since May 2005 and a further indication of the government's relaxed attitude to slower growth. With inflation still low, the potential exists for reducing bank lending rates, but there has so far been no indication of any such move. Indeed, interest rates have been unchanged for over a year, although the PBoC raised the interest rate it charges on short-term open market operations by 0.1% on 3rd February. This move suggests that the next move in interest rates, whenever it comes, is likely to be upward. In conclusion, the Chinese government's determination to preserve stability should ensure that the country's current course of lower but steady money growth will be maintained.

John Petley
5th May, 2017

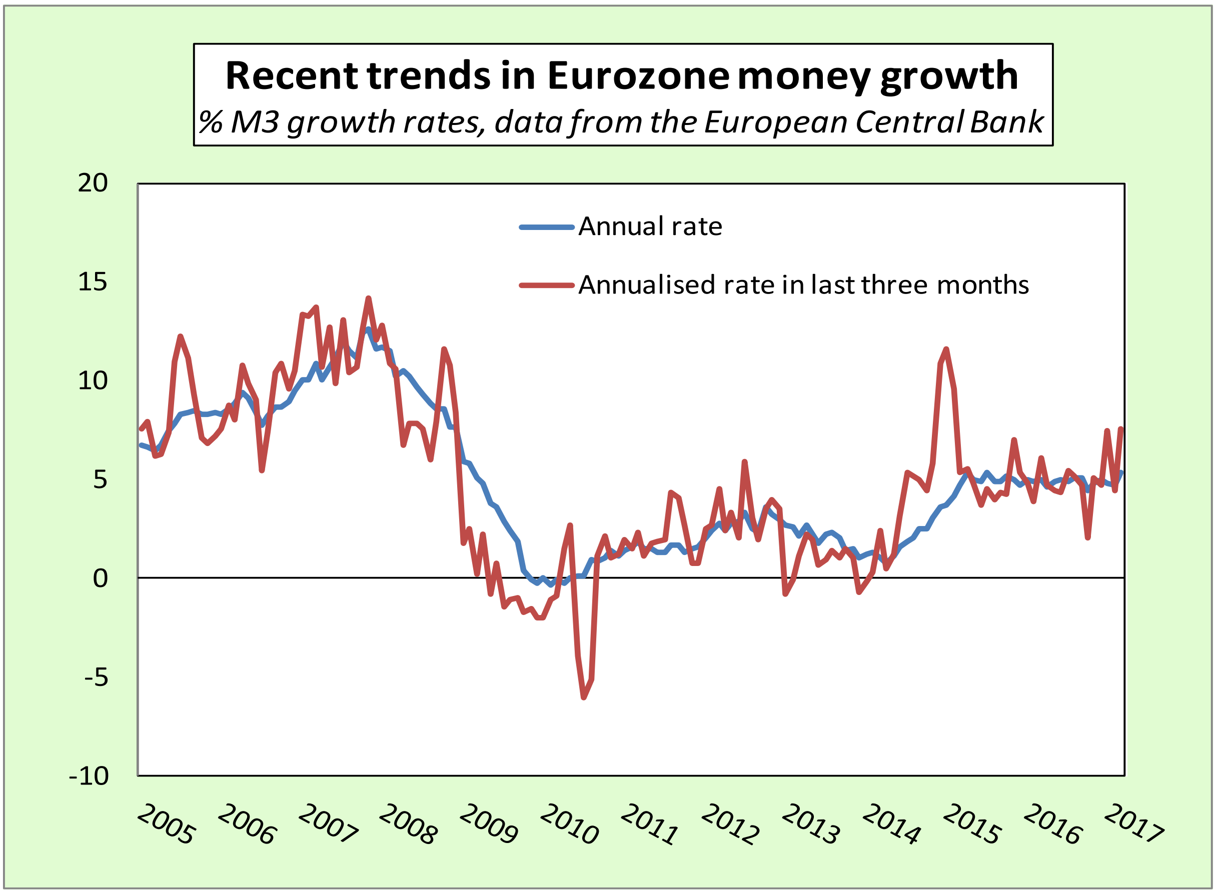
	% annual growth rate:	
	M2	Nominal GDP
1991 - 2000	**24.6**	**18.5**
2001 - 2010	**18.4**	**15.2**
Six years to 2016	**13.5**	**10.6**

INSTITUTE OF
INTERNATIONAL
MONETARY RESEARCH
Analysis and insight into trends in money and banking,
and their impact on the world's leading economies
www.mv-pt.org

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 March 2017	**5.3**	**n/a**
Three months to March 2017 at annualised rate	**7.6**	**n/a**

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



Money growth buoyant as inflation hovers near target

***Summary*: In the first quarter of 2017 the Eurozone's M3 money measure grew at an annualised rate of 7.6%, the highest figure in over two years. In March the quantity of money, broadly defined, grew by €113b., significantly up from February's figure of €35b. and pushing the annual broad money growth rate up from 4.7% to 5.3%. A target of around 5% was almost certainly intended when the "quantitative easing" programme began over two years ago. The ECB's QE programme has proved a success, strengthening asset prices and balance sheets, and thereby boosting aggregate demand. The chart above shows how it has lifted annual broad money growth from the 2% average during the 2009-2013 period to the current figure of over 5%.**

Annual consumer price inflation across the 19-member single currency area hit 2% in February before falling back to 1.5% in March. In April, it rose to 1.9%. Given that the ECB's official inflation target is defined as 2% or just below, the QE programme can claim to have worked. The pattern observed in last month's note of convergent inflation rates has continued, with most of the main Eurozone economies seeing consumer prices rising at an annual rate of between 1.5% and 2.5%.

Further, Germany is not the main driver of Eurozone broad money growth to the degree it was a few years ago. For instance, in April 2014, annual broad money growth stood at 3.6% in Germany but -0.2% in the other countries sharing the single currency. The latest figures are 6.0% and 5.1% respectively, far less divergent. Greece, sadly, remains an outlier. Although consumer prices rose by

1.7% in the year to March, much in line with the Eurozone average, Greek M3 has been falling for the last three months. There the annualised change in the last quarter stands at -6.7%.

Growth in bank lending picked up in March. Growth in the stock of loans to the (non-financial) business sector is still rather weak, standing only 1.6% higher than 12 months ago, but this has to be seen in the context of several years of a steady contraction in bank lending. The contraction has now stopped. Growth in the stock of mortgage lending is more robust. It rose from 2.8% in the year to February to 3.0% in the year to March. These figures will be watched closely by ECB Governor Mario Draghi and his colleagues. The monthly asset purchases were scaled down from €80b. to €60b. in April and are currently scheduled to wind up completely at the end of 2017. The currently modest rate of creation of new bank deposits will need to be weighed against the rising inflation rate in deciding whether QE will be extended into 2018.

Greece's ongoing problems continue to cause concern, but Greece is small. The situation in Italy, which has large borrowings from the Target 2 system, is more significant. Apart from the potential dangers from Italy, the Eurozone looks set to enjoy a stable, even positive macroeconomic phase in coming months.

John Petley
3rd May, 2017

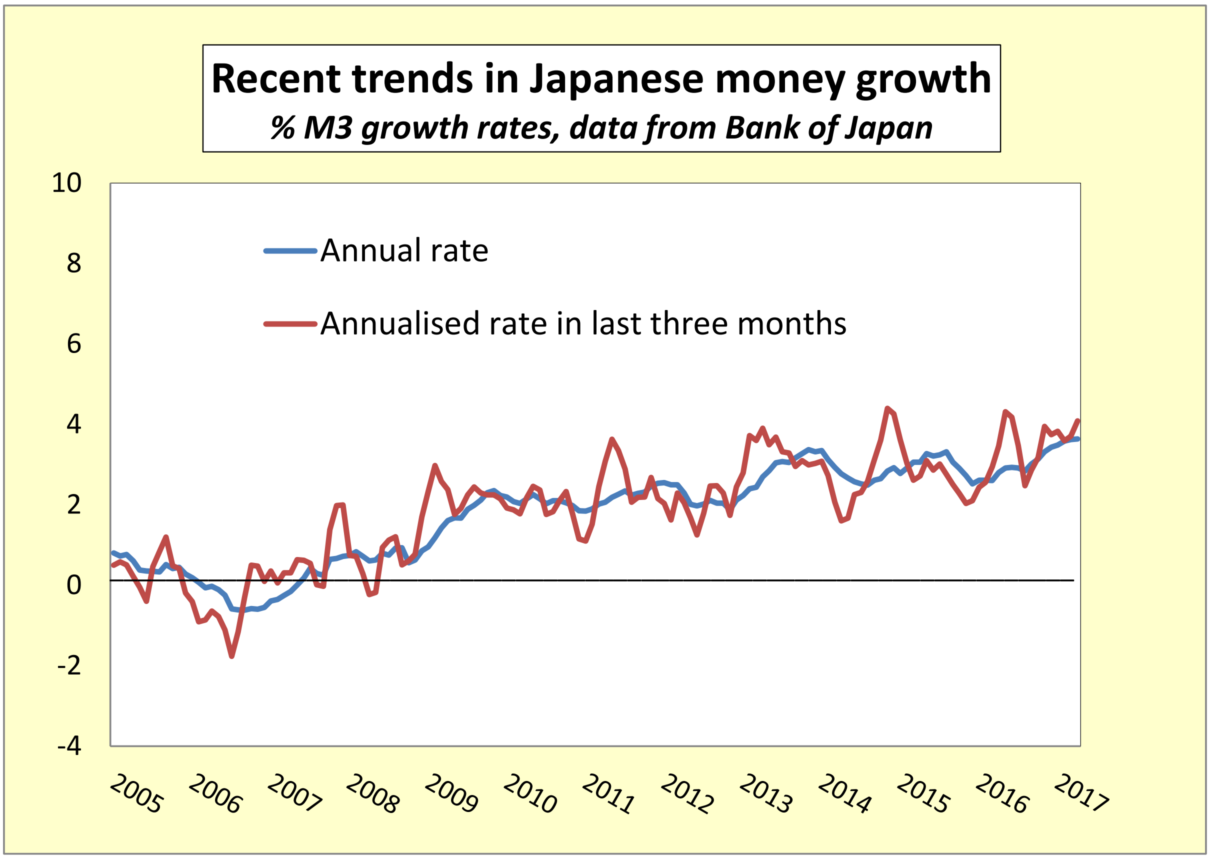
	% annual growth rate:	
	M3	Nominal GDP
1996 - 2016	**5.3**	**3.0**
1996 – 2000	**4.6**	**4.1**
2001 – 2010	**6.8**	**3.1**
Six years to 2016	**3.4**	**2.0**

INSTITUTE OF INTERNATIONAL MONETARY RESEARCH
Analysis and insight into trends in money and banking, and their impact on the world's leading economies
www.mv-pt.org

Japan

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2016	**4.0**	**1.9**
Six years to 2016	**2.9**	**0.6**
Year to April 2017	**3.6**	**n/a**
Three months to April 2017 at annualised rate	**4.1**	**n/a**

Sources: Bank of Japan for M3 and IMF for GDP



Broad money growth improvement continues

Summary: **In the 12 months to April 2017 the annual growth rate of Japanese M3 broad money was – at 3.6% - higher than the average of recent years. Indeed, it is now at its highest level in over a decade. Meanwhile the annualised rate of increase in the last three months is a fairly buoyant 4.1%. This not quite the highest annualised quarterly growth in recent years, but – by the standards of the last 20 years – both the annual growth rate and the three-month annualised rate are positive for the economy. Better broad money growth reflects the Bank of Japan's asset purchase programme, so-called "qualitative and quantitative easing". Since 2010 broad money has increased at an annual rate between 2% and 3½%, but the latest numbers are stronger.**

The central bank monthly asset purchases of 80 trillion yen (about $6½b.) are continuing. During 2016, they were supplemented by additional measures seeking to stimulate the economy (and inflation) further. These included "negative interest rates" at the start of the year and "yield curve control" (whereby the BOJ will buy as many 10-year government bonds as necessary to keep yields at their current level of 0%) from September. Although mistakenly targeting the monetary base rather than broad money, these measures are nonetheless having a beneficial effect. Yield curve control has involved heavy purchases of government bonds from non-banks in early 2017, boosting their bank deposits and the quantity of money, and so helping asset markets and economic activity.

The “QQE” programme was launched in an attempt to boost inflation and, on this front, has not been so successful. At the close of 2016, annual consumer price inflation stood at a mere 0.3%, well below the 2% target. In January 2017 the rate rose to 0.4% before falling back to 0.2% two months later. However, in January the annual change in the producer prices index turned positive for the first time in 21 months, a trend which has continued into February and March. Even so, the money figures do not point to a significant acceleration in inflation in the short term. They are consistent with at least trend demand and output growth in 2017, and a 2% increase in consumer prices in 2018 is possible.

Japan’s economy grew by 1.0% during 2016. Growth in exports was the main driver of GDP growth in the final quarter, aided by a fall in the value of the yen. Since the New Year, the Japanese currency has strengthened slightly, although export growth remains strong. Domestic consumption remains weak for the moment, with consumer spending declining by 1.3% in the year to February. Nevertheless, retail sales have picked up since November, with March recording the strongest growth in the last 12 months. The money figures suggest that this year could bring a further improvement to Japan’s economy. With its demographic issues, the country faces big challenges in the long run. But, if annualised money growth moves towards 5% in the next few months, which is possible, Japan could provide a cyclical surprise on the upside

John Petley
12th May, 2017

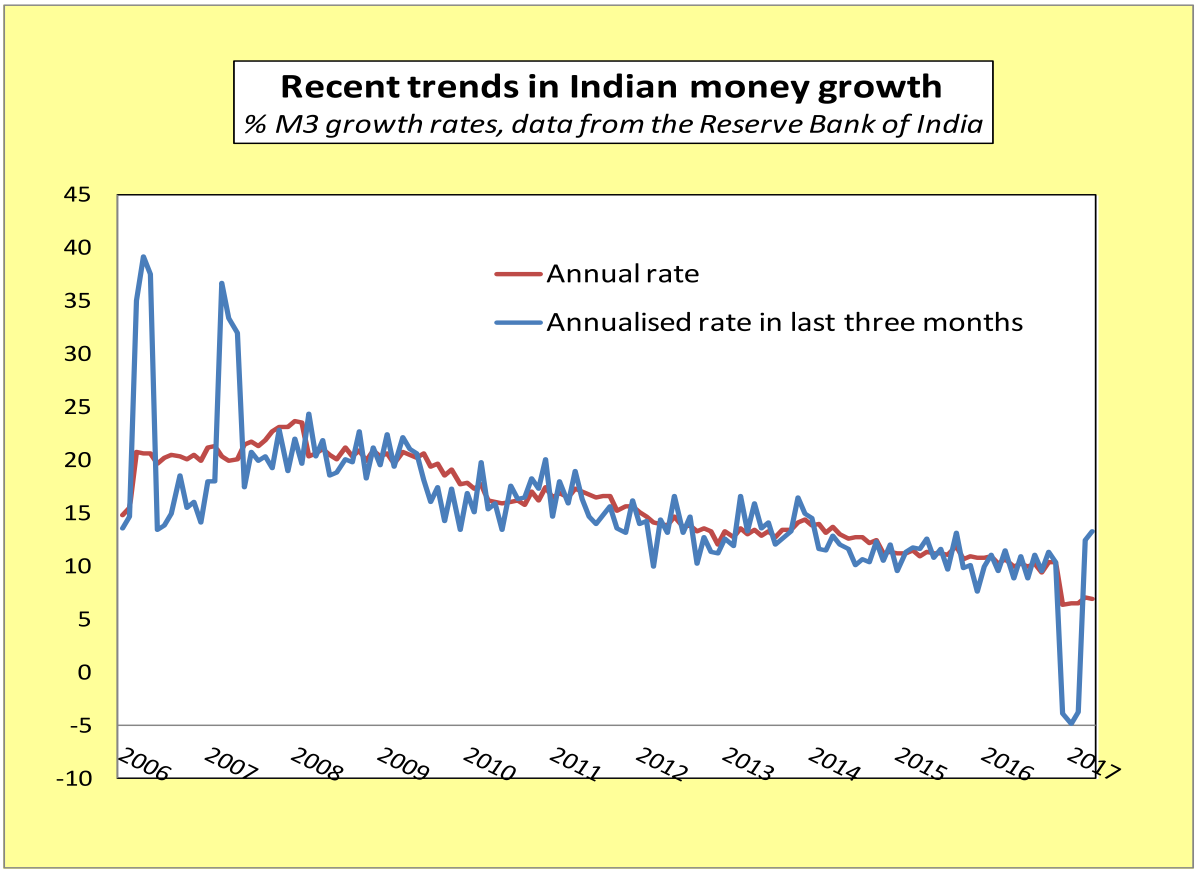
	% annual growth rate:	
	M3	Nominal GDP
1981 – 1990	**9.2**	**4.6**
1991 - 2000	**2.5**	**1.1**
2001 - 2010	**1.1**	**0.8**
Six years to 2016	**2.9**	**0.6**

India

	% annual/annualised growth rate:	
	M3	Nominal GDP
1991- 2016	**16.1**	**13.5**
2010 - 2016	**12.6**	**12.8**
Year to April 2017	**6.9**	**n/a**

Three months to April 2017 at annualised rate	**13.2**	**n/a**

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



Broad money growth continues its recovery after de-monetisation shock

Summary: **In the three months to April 2017 Indian M3 grew at an annualised rate of 13.2%, the highest figure in over three years. Indian broad money has recovered from the worst of the contraction seen in recent months and is now higher than it was last autumn, just before the plunge in November caused by the mass withdrawal of 500 and 1,000 rupee notes from circulation. The annual growth rate of broad money is still a mere 6.9%, but will recover to a figure closer to the 10%-11% level seen before the November shock.**

The withdrawal of old 500 and 1,000 rupee notes in November and December last year removed 86% of all cash from the system. *The Times of India* estimated that 97% of the old notes were deposited in Indian banks before the 30th December deadline. Less than two months later, 80% of the replacement banknotes had already been printed. The worst effects of the badly-handled changeover, intended to curb tax evasion and corruption, seem to be over, although the total currency in circulation at the end of April, Rs. 14.3 trillion, is still lower than it was before the de-monetisation announcement.

The sharp fall in the money supply was not caused entirely by de-monetisation, however. Growth in the stock of bank lending started to fall sharply at the same time. The annual growth rate stood at over 10% as recently as October 2016, 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 5.5%, still significantly down on six months earlier. The stock of bank deposits did not increase at all in the first ten weeks of the year and the growth rate since March has been disappointing. The Reserve Bank of India has made no attempt to reduce interest rates from the current level of 6.25%, despite the sluggish bank lending data. Annual consumer price inflation ticked upwards from 3.2% in January to 3.8% in March. These figures are much lower than the recent average for India, while a sharp increase in factory gate prices in the first two months of the year reflects one-off movements in energy prices, which began to subside in March.

Separately, Indian banking is plagued by non-performing loans, estimated to amount to $180 billion. It is believed that differences with the government over the approach to debt forgiveness was one reason for the departure of the previous governor of the RBI, Raghuram Rajan, who wanted to change the somewhat phlegmatic approach of Indian banks towards unpaid debt. Sources are not agreed on the percentage of bank loans which may never be repaid. The consensus is a minimum of 10%, with sources within the RBI itself suggesting a figure above 20% for some banks. Plans to create a “bad bank” to take over the banks’ bad loans have been rejected, but Rajan’s successor, Urjit Patel, has gained the support of India’s Prime Minister Modi. A banking regulation act was amended recently by India’s parliament to allow the RBI to push lender and borrowers to agree write-downs. A resolution of the NPL problem is widely viewed as imperative for India’s banks, but the resulting hit to banks’ capital would restraint new lending and money growth.

John Petley
8th April, 2016

	% 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**

INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

Analysis and insight into trends in money and banking, and their impact on the world’s leading economies

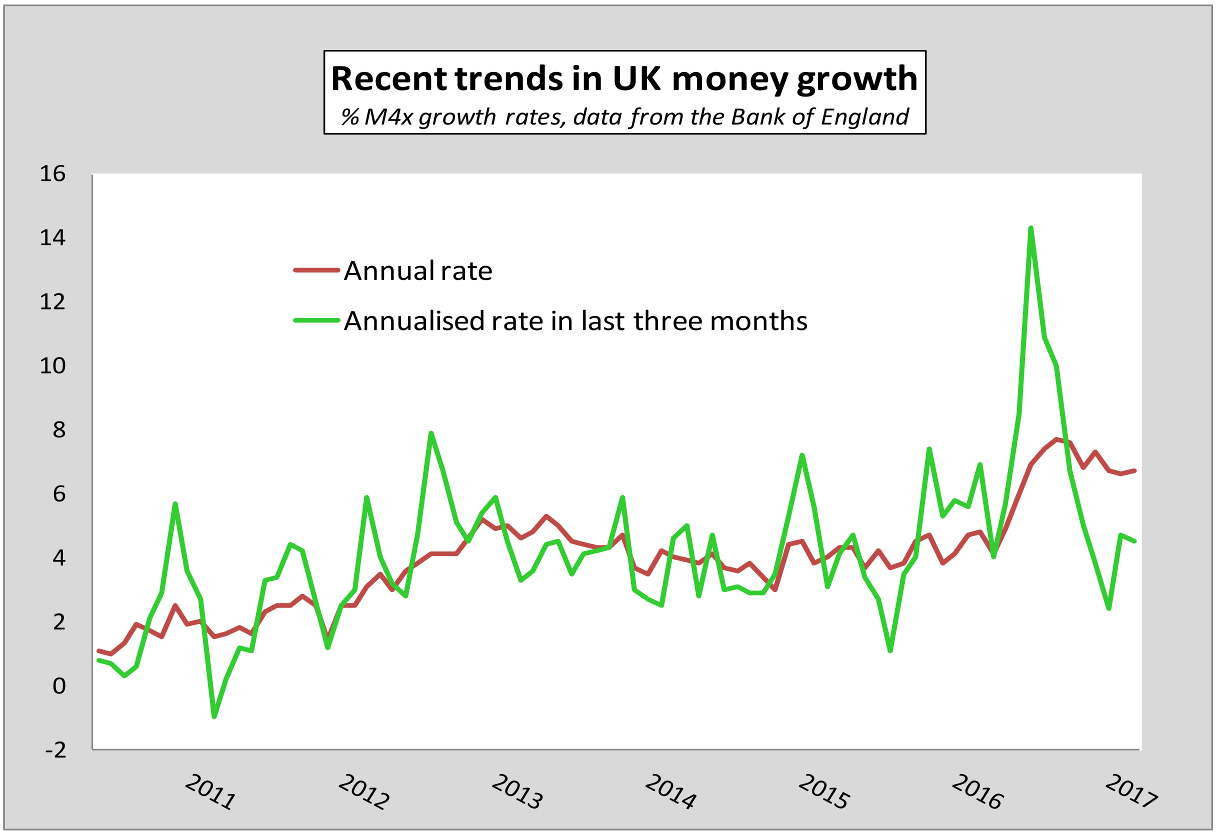
www.mv-pt.org

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 March 2017	6.7	n/a
Three months to March 2017 at annualised rate	4.5	n/a

Sources: Bank of England and Office for National Statistics.



M4x growth returns to a satisfactory level

***Summary*: In the first quarter of 2017 UK M4x grew at an annualised rate of 4.5%. During March itself the quantity of money, broadly defined, grew by £11.7b, the largest monthly increase since September. After a rather meagre increase of £3.6b. in January, UK broad money growth has returned to satisfactory levels. The annual pace of broad money expansion has fallen from 7.3% at the end of 2016 to 6.7%. It will return to the more typical levels (3% - 5%) seen in the last four years, once the rapid growth between April and July in 2016 drops out of the calculations.**

UK consumer inflation, on an upward trend in the year, remained steady at 2.3% in the year to March. This figure is the highest since September 2013 and is likely to increase further, thanks partly to the unnecessary quantitative easing last autumn. Recently, however, sterling has appreciated and commodity prices, including oil, have weakened, thus reducing inflationary pressures. The growth in factory gate prices, which stood at an annual rate of 3.7% in February, has also moderated slightly. The labour market remains strong, with unemployment falling to 4.7% in January. Wage growth, however, remains subdued, standing at 2.3% in the year to February.

The Bank of England's latest survey of bank lending does not indicate any noteworthy increase in borrowing. In March, growth in the stock of mortgage lending slowed, with the number of new mortgages approved falling or a second month in succession. The monthly total of 66,837 was the lowest since September 2016. Growth in the stock of lending to businesses, especially large companies, has also slowed since the start of the year, although March's figures are an improvement on those for the previous month. 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 another headache for banks' management.

The argument in favour of an early increase in bank base rates has weakened recently. It is too early to say that the UK economy is slowing, although the 0.3% GDP growth in the first quarter of 2017 is disappointing after the 0.5%-0.7% seen in the three previous quarters. Some factors, such as the record number of new car registrations in March or the healthy growth in factory orders in the first four months of the year, paint a positive picture. The retail sector and consumer spending held up well in the first quarter of 2017, although preliminary data point to a slowing in April. Brexit doomsayers continue to blame every slightest hint of a slowdown on last June's vote to leave the EU, but over ten months later, the UK economy has performed much better than many were expecting. The recent monetary data do not point to any imminent downturn, but, the figures caution against too optimistic a view on the UK's 2017 macroeconomic prospects. Modest growth looks to be the order of the day beyond next month's general election.

John Petley
10th May, 2017

	% 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**