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

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Monthly e-mail from Tim Congdon and John Petley – 20th September, 2021

Global money round-up in early autumn 2021

Our comment here is much the same as last month. The Delta variant of Covid-19 is causing another round of lockdown and social distancing measures in many countries. Hopes of a V-shaped recovery from the pandemic have been disappointed. All the same, vaccination programmes in developed nations are now far advanced. The evidence seems to be that – although vaccination does not give 100% protection against infection – it does offer virtual 100% protection against death from infection. In that sense, Covid-19 has been beaten. Unless the virus takes a dramatic, sinister and unexpected turn for the worse, medical normality should have been restored across the world by, say, late 2022.

In our research over the last 18 months, a key issue has been how economies adjust to and absorb the injection of extra money balances that was such a marked feature of most nations' policy response to the pandemic. We have identified large differences in the scale of these injections. The United States of America has had much the largest, with M3 broad money up by almost 35% in the two years to mid-2021. The increases in the same period in the UK, the Eurozone and Japan were 22%, 18% and 11% respectively. All these increases were well above those in the previous two years. However, the size of the USA's stimulus has been an outlier and it is now seeing the most severe intensification of inflation pressures. By contrast, money growth in the two largest developing economies – China and India – blipped upwards only a little in response to Covid-19. Another common pattern is that bank lending to the private sector has been flat during the medical emergency, with the unusually high money growth everywhere attributable to monetary financing of budget deficits and central bank asset purchases. Recent data still do not suggest a major rebound in bank lending to the private sector. As central bank asset purchases are halted, money growth seems likely to moderate to low single or mid-single digit annual rates.

Money trends in early autumn 2021 in the main countries/jurisdictions

The Institute of International Monetary Research focuses on the relationship between trends in the growth of the quantity of money, broadly-defined, and macroeconomic outcomes. Most of the last 18 months have been dominated by the Covid-19 medical emergency, but late 2022 should see medical normality. The inflation vs. disinflation debate of mid-2020 is over. The Institute's consistent analysis since spring 2020 – that money growth acceleration implied a significant upturn in inflation – has proved correct. The new area of debate is the duration of above-normal inflation, with normality seen as an annual increase in consumer prices of 2% a year. The key principles here are that,

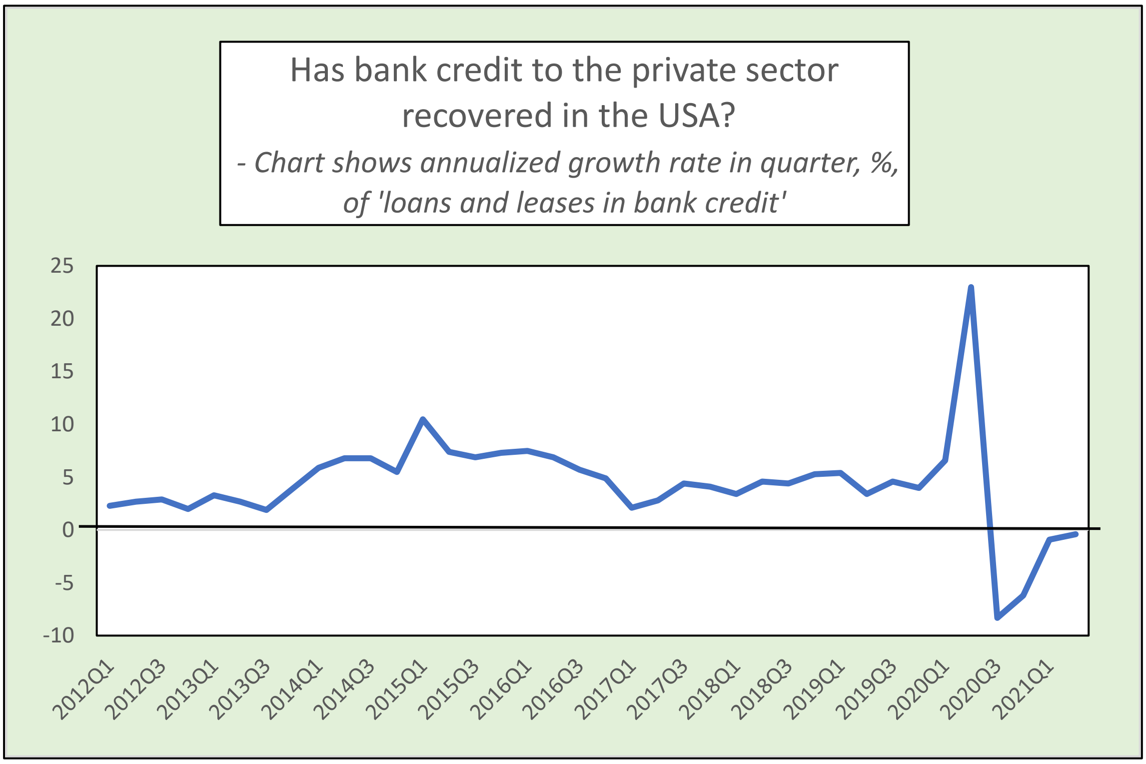
i. The rate of inflation is roughly equal to the rate of increase in nominal GDP minus that of real GDP, and
ii. Over the medium term, growth rates of broad money and nominal gross domestic product will be similar, although not identical.

Much will therefore depend on rates of broad money growth in coming months and quarters, with the table below summarizing recent patterns in the leading nations. The table shows that money growth slowdowns are now evident almost everywhere. In the USA, the Eurozone and the UK the three-monthly annualised numbers are still above the typical figures before the pandemic, but not much. If they were so minded, policy-makers could ensure that money growth, at an annual/annualised rate, is 5% or less. In Japan the latest three-monthly annualised number is under 3%.

Name of country/ jurisdiction	Share of world output		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 twelve months, %	
USA	15.1	23.3	**6.3**	**6.7**	Slowdown indicated by weak June and July money growth, but August stronger..
China	18.7	16.1	**8.4**	**8.3**	Money growth moderate, with authoritarian state clamping down on private sector finance.
Eurozone	10.6	16.4	**6.9**	**7.6**	Money growth boosted by ECB asset purchases, still above pre-Covid norms.
Japan	4.2	5.9	**2.8**	**4.0**	Money growth slowing after very high 2020 figures by Japanese standards.
India	7.7	3.3	**11.0**	**10.8**	Money growth in double digits % p.a., as banking system helps to finance budget deficit.
UK	2.2	3.4	**5.3**	**7.5**	Money growth decelerating, bank lending surge in June followed by weaker July.

Crucial will be the behaviour of bank lending to the private sector. In the last 18 months high or very high money growth has been almost entirely attributable to central bank asset purchases and monetary financing of budget deficits. As central bank asset purchases stop, money growth will decelerate unless bank lending to the private sector revives strongly.

In the USA some observers believe that bank lending to the private sector will soon rebound. On 3rd August the Fed published the latest *Senior Loan Officer Opinion Survey on Bank Lending Practices*, with respondents indicating "easier standards" among banks when considering loan applications, as well as reporting "stronger demand for commercial and industrial loans to firms of all sizes" relative to the second quarter. The big banks are well-capitalised and have far too much cash at present. They have made no secret that they do not want more cash, which inflates their balance-sheet size for regulatory purposes and yet contributes nothing to profits. Logically, they should be seeking to expand their profitable loan portfolios. However, the latest data do not suggest that bank credit is gaining momentum. Using the monthly figures, the trough in ""loans and leases in bank credit" (i.e., lending to the private sector, more or less) was in April. Between April and August this part of banks' assets did grow, but only from $10,351.1b. to $10,431.6b., or by 0.8%. The figure may be depressed downwards by pandemic-related loan losses and write-offs. The chart below shows that "loans and leases in bank credit" actually contracted for most of the pandemic period, admittedly after a big jump early on as companies drew down facilities to have ample cash ahead of the medical uncertainties.



If the Fed does stop asset purchases soon (and this seems certain, in view of the deterioration in inflation), the stock of bank lending to the private sector needs to be growing at roughly ¾% a month (i.e., at an annualised rate of over 9%) for the analyst to be confident that the annual rate of broad money growth will remain above 5%. Having said that, the Fed may continue to finance the budget deficit on a large scale. Annual broad money growth of 7% and above is well ahead of the level consistent with 2% inflation. The Fed needs money growth of about 4% a year to maintain 2% inflation in the medium and long runs. That is a necessary and sufficient condition of 2% inflation, whether the Fed is managing the quantity of money or not, and whether its research economists are interested in the quantity theory of money or not.

In the Eurozone the stock of credit to the private sector was 3.4% higher in July 2021 than a year earlier. So banks have still been expanding their loan books during the pandemic, in contrast to the US situation. Mortgage lending has been dominant. The stock of loans for house purchase was up by 5.7% in the year to July, whereas loans to non-financial corporations (i.e., industry and commerce) advanced a mere 1.2% in the same period. The buoyancy of mortgage credit may be influenced by the current strength of house prices in, for example, Germany. According to a 17th June story on the *Global Property Guide* website, “Germany’s house price boom continues unabated, as the economy recovers from its worst-ever recession caused by the coronavirus pandemic. The average price of apartments rose by a huge 9.6% during the year to Q1 2021, following year-on-year rises of 11.4% in Q4 2020, 12.1% in Q3, 10.9% in Q2, and 12.0% in Q1. On a quarterly basis, house prices increased 2.1% in Q1 2021.”

In the UK mortgage lending was extraordinarily heavy in June, at £43.5b., as home-buyers carried out transactions during the stamp duty holiday. In July, with that holiday over, mortgage lending crashed to £16.5b. However, mortgage approvals in July (£24.9b.) were little different from in June (£25.8b). (The data are all seasonally adjusted and from the Bank of England’s website.) If base rates stay close to zero, the housing market will continue to be active and lively, and hence a positive factor for consumer confidence and demand. The Bank of England also prepares a monthly series for “unused credit facilities”. In July this was 8.4% higher than a year earlier, which might be taken to signal somewhat higher lending in prospect. However, unused credit facilities fell quite markedly early in the pandemic in spring 2020.

The vigour – or lack of vigour – of bank credit to the private sector is important to interest rate prospects. The emerging market consensus is that interest rate rises will occur in most developed countries once the pandemic-related weakness in aggregate demand lies in the past, although only after the ending of the asset purchase programmes. A reduction in money growth is a condition of the return of moderate inflation, while robust bank lending to the private sector will make it more difficult to deliver the needed reduction in money growth. But – if bank lending to the private sector is, even at virtually zero interest rates, increasing at an annual rate of 5% or less – it will be easy for central banks to keep money growth under control. Pointers to future lending growth therefore deserve to be monitored carefully in the next few months.

20th September, 2021

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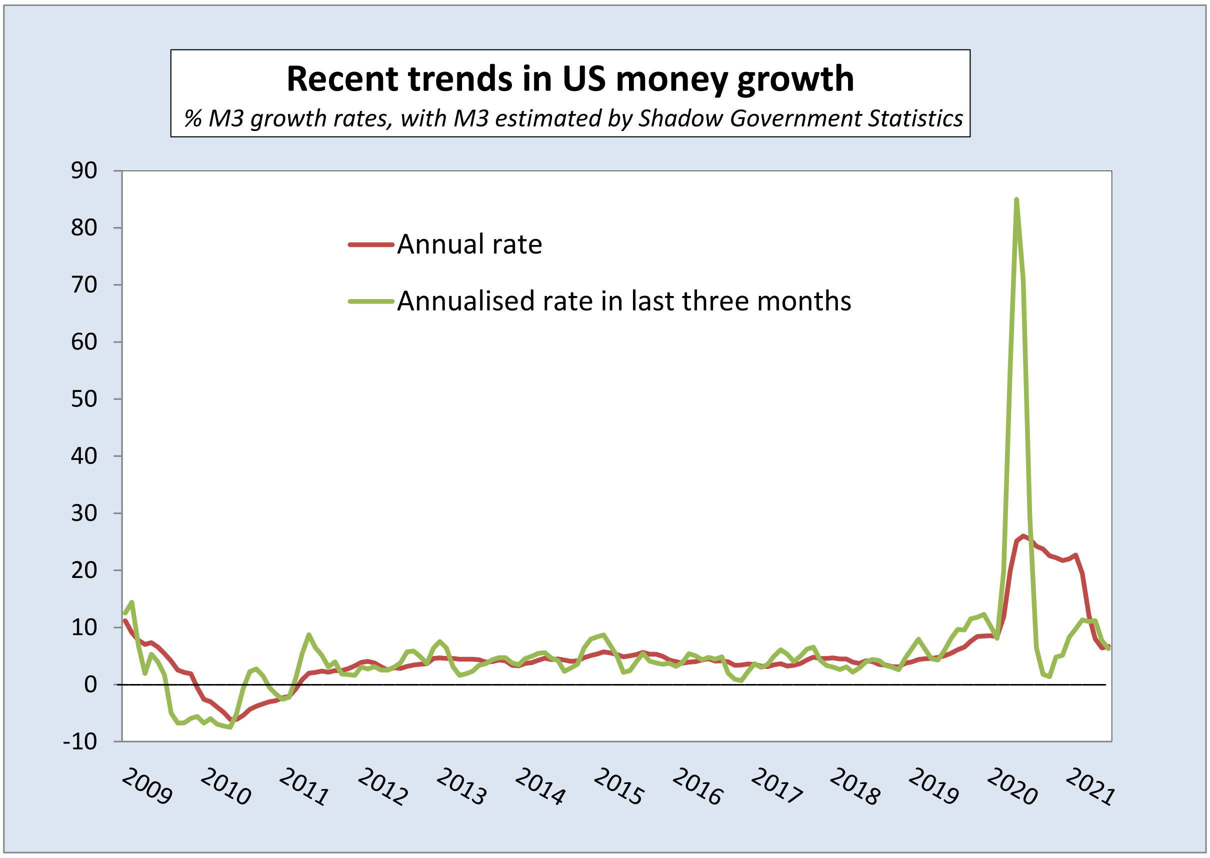
USA

	% annual/annualised growth rate:	
	M3	Nominal GDP
1961 – 2019	**7.4**	**6.5**
Nine years to 2019	**4.5**	**4.1**
Year to July 2021	**6.7**	**n.a**
Three months to July 2021 at annualised rate	**6.3**	**n.a.**

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



US broad money growth slows in recent months

Summary: **In the three months to July 2021 the annualized rate of growth of US M3 broad money stood at 6.3%, the lowest reading this year. In July M3 went up by $133b., with the monthly increase higher than June's reading of $21b. Money growth in both months was markedly weaker than in 2021's first five months, when the average monthly gain was just above $230b. (Our M3 data come from Shadow Government Statistics.) But weekly Fed data on their balance sheets shows that commercial banks' deposits rose almost 1¼% in August**

Consumer prices rose by 5.3% in the year to August, slightly down on July's reading of 5.4%, the highest number since August 2008. 5.3% is still well above the Fed's aim to allow inflation to run slightly above 2% for some quarters. The increase in producer prices over the same period was 8.3%, suggesting that retail inflation could rise even higher in coming months. The last few weeks may have seen re-assessment on inflation prospects within the US Federal Reserve. In spring 2020 Richard Clarida, the Fed's vice chair, was worried about multi-year deflation as the sequel to Covid-19. On 3rd August he said he would "support announcing a moderation in asset purchases later this year", adding that it may be appropriate to increase the Fed funds rate in 2023. The latest *Minutes* of the Federal Open Market Committee, published on 18th August, indicated disagreement about the future direction of the QE programme, if with a majority siding with Clarida.

Money growth in the 15 months to August was due to the Fed's asset purchases and monetary financing of the budget deficit and was evidenced in banks' balance sheets by a surge in cash reserves. In the year to 5th May 2021 US commercial banks' "loans and leases in bank credit" (i.e., lending to the private sector, more or less) *fell* from $10,858.5b. to $10,331.7b., or by 4.9%. Since May this asset category has started to increase again, but only from $10,351.1b. in May to $10,431.6b. in August. Indeed, in this May-August period the dominant driver of balance-sheet growth was still banks' cash reserves, which climbed from $3,731.2b. to $4,113.4b. By implication, if the Fed now stops asset purchases, money growth will drop back markedly to low single digits at an annualized rate. Of course a decline in money growth of this sort is needed to bring inflation under control, even if the Federal Reserve's economists and senior officials do not think in such terms. The link between money and inflation is subject to lags. If annual money growth does indeed fall back to low single digits in early 2022, inflation will continue to reflect the behaviour of money in previous quarters and may stay at well above a 5% annual rate.

Note however that deposits in the US commercial banks rose by almost 1 ¼ %, from $17,212.0b. in July to $17,425.2b. in August, which would be consistent with M3 growth in the month of at least ¾%. It may be too early to assume that money growth is back to a moderate single-digit annual rate.

Tim Congdon and John Petley
20th September, 2021

	% annual growth rate:	
	M3	Nominal GDP
1961 – 2019	**7.4**	**6.5**
1961 – 1970	**8.0**	**7.1**
1971 – 1980	**11.4**	**10.3**
1981 – 1990	**7.7**	**7.7**
1991 - 2000	**5.6**	**5.6**
2001 - 2010	**7.1**	**3.9**
Nine years to 2019	**4.5**	**4.1**

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China

	% annual/annualised growth rate:	
	M2	Nominal GDP
1991- 2019	**18.7**	**14.8**
2011 - 2019	**11.9**	**10.4**
Year to August 2021	**8.3**	**n/a**
Three months to August 2021 annualised rate	**8.4**	**n/a**

Sources: People's Bank of China for M2, IMF and Institute's own estimates

Broad money growth reverts to pre-pandemic levels

***Summary*: In the three months to August 2021 China's M2 grew by 2.0% or at an annualized rate of 8.4%. Both this reading and the figure for the annual rate of broad money growth (8.3%) are little changed from July. Chinese broad money growth has essentially reverted to the levels typical of 2018 and 2019, in sharp contrast to some of the other countries covered in these notes.**

China is still experiencing occasional outbreaks of coronavirus. But its "Zero Covid" strategy – introducing tight restrictions within the affected area – has enabled most of the country to continue life much as normal. Suspensions of trains and flights are however a key component of the authorities' approach which do have an effect on the economy. GDP grew by 1.3% in the second quarter of 2021, an improvement on the 0.4% growth of Q1. Exports continued to perform well, with August setting a new record of $294.3b., a year-on-year increase of 25.6%. Nonetheless, the People's Bank of China (the country's central bank) remains concerned about the economic consequences of further outbreaks of the Delta variant. On 1st September it announced that a 300b. yuan credit facility would be available at favourable rates to small businesses still affected by the pandemic. The move comes two months after the PBoC reduced the cash reserve requirement ratio by 0.5%, the first instance of monetary loosening in over a year.

At the same time, the authorities have intensified their attempts to cool the housing market. In July, the price of property in China's 70 biggest cities rose at an annual rate of 4.6% , the weakest increase since March. However, prices in some cities are still rising by more than 10% in spite of government-introduced measures to dampen demand. The authorities are particularly determined to clamp down on speculators. As far back as 2016 China's president Xi Jinping insisted that "property is for living in, not for speculation". Matters have come to a head with the revelation that property giant Evergrande is $300b. in debt and may not have the cash to complete some building projects. The Chinese government may not allow such a large company to suffer a disorderly default. The probable engineering of a "soft landing" for Evergrande and other troubled property developers is consistent with a return to a more authoritarian and centralised style of government. China is retreating from the market economy pioneered by Deng Xiaoping in the late 1970s.

The stock of bank loans grew by 12.1% in the year to August, the lowest figure in over a year. With annual consumer price inflation falling from 1.0% in July to 0.8% in August, there would appear to be scope for further monetary loosening if needed. But producer prices rose by no less than 9.5% in the same period, suggesting that higher retail inflation is likely. Indeed, the very low inflation is due in part to a fall in the cost of food, notably pork, which rose very steeply in price two years ago when the country was badly affected by an outbreak of African swine 'flu. Even so, China's money growth has been quite stable in the last few years ad it is unlikely to face the same inflationary pressures as some developed nations.

John Petley
14th September, 2021

	% annual growth rate:	
	M2	Nominal GDP
1991 - 2000	**24.5**	**18.4**
2001 - 2010	**18.5**	**15.2**
Seven years to 2017	**12.8**	**10.3**

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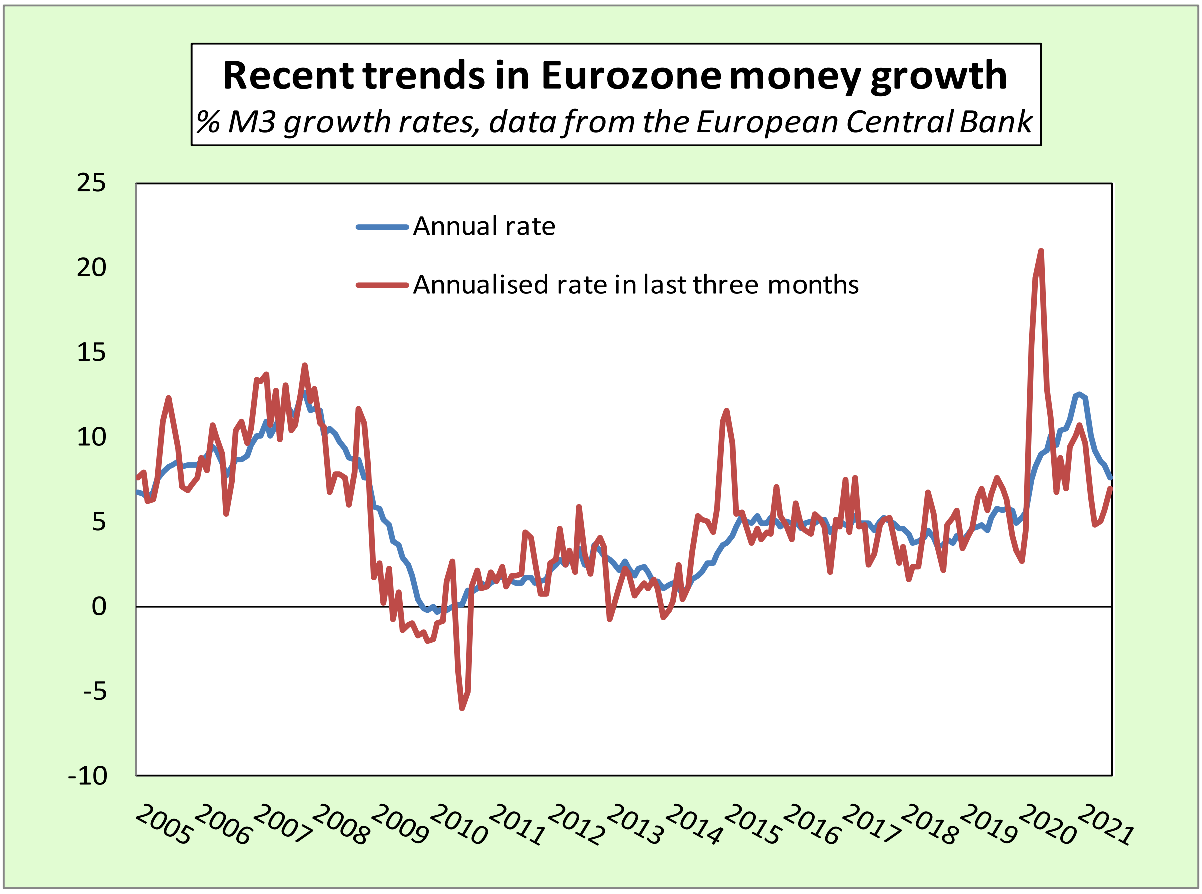
Eurozone

	% annual/annualised growth rate:	
	M3	Nominal GDP
1996 – 2019	**5.2**	**3.1**
Nine years to 2019	**3.8**	**2.5**
Year to July 2021	**7.6**	**n/a**
Three months to July 2021 at annualised rate	**6.9**	**n/a**

Sources: European Central Bank, Eurostat and the Institute's own estimates



Broad money growth picks up further

Summary**: In the three months to July 2021 the quantity of broad money in the Eurozone grew at an annualized rate of 6.9%. The pace of money growth has risen a little in the summer months, with the 6.9% for the three months to July comparing with 5.6% in the three months to June and 4.8% in the three months to April. But these numbers are well down on the remarkable money growth acceleration in spring and summer 2020. The annual growth rate fell from 8.3% to 7.6%, as the buoyant July 2020 increase left the twelve-month calculation.**

In the year to August, consumer prices rose by 3.0%, notably higher than July's reading of 2.2%. In Germany the inflation rate is 3.9%, the highest reading since December 1993. In France, by contrast, the figure is only 1.9% The most recent figures for producer prices in the Eurozone indicate that they rose by 12.1% in the year to July, the largest increase since the launch of the single currency. This suggests that consumer price inflation is likely to rise further. The European Central Bank's Governing Council decided at its meeting on 9th September to slow the rate of its asset purchases under the PEPP (Pandemic Emergency Purchase Programme).

ECB President Christine Lagarde, when questioned at the press conference following the meeting, did not specify the actual amount by which the purchases would be reduced. She merely stated that the purchases would be at a "moderately lower" rate. She acknowledged that inflation might rise higher still in the autumn, but reiterated the ECB's well-publicised belief that it would drop back below 2% in 2022 and 2023. She also brushed away concerns about a highly critical paper published by the German Centre for European Economic Research (ZEW) which claimed that ECB governors from the highly indebted "Club Med" states are exploiting PEPP in order to bail out their own governments, which are not credit-worthy.

The current level of broad money growth continues to be driven primarily by the ECB's asset purchases and new mortgage lending. Consumer credit and lending to businesses remain very weak. Despite an increase in coronavirus cases in some member states in July and August, Covid-related restrictions have been eased and the economy is picking up. Unemployment across the 19-nation bloc fell to 7.6% in July, the lowest level since May 2020. (The figure is much higher in some member states, notably Greece [14.6%] and Spain [14.3%], which have been particularly hard hit by the reduction in tourism.) Wage growth, however, is quite weak, with the rise in the year to Q2 2021 being only 2.2%. Furthermore, industrial production contracted in both May and June. The high levels of money growth continue has been a positive influence on European stock markets. The Eurostoxx 50 index is a third higher than last September, although only 5% or so above its pre-Covid peak in February last year.

John Petley
3rd September, 2021

	% annual growth rate:	
	M3	Nominal GDP
1996 – 2019	**5.2**	**3.1**
1996 – 2000	**4.6**	**4.1**
2001 – 2010	**6.8**	**3.1**
Nine years to 2019	**3.8**	**2.5**

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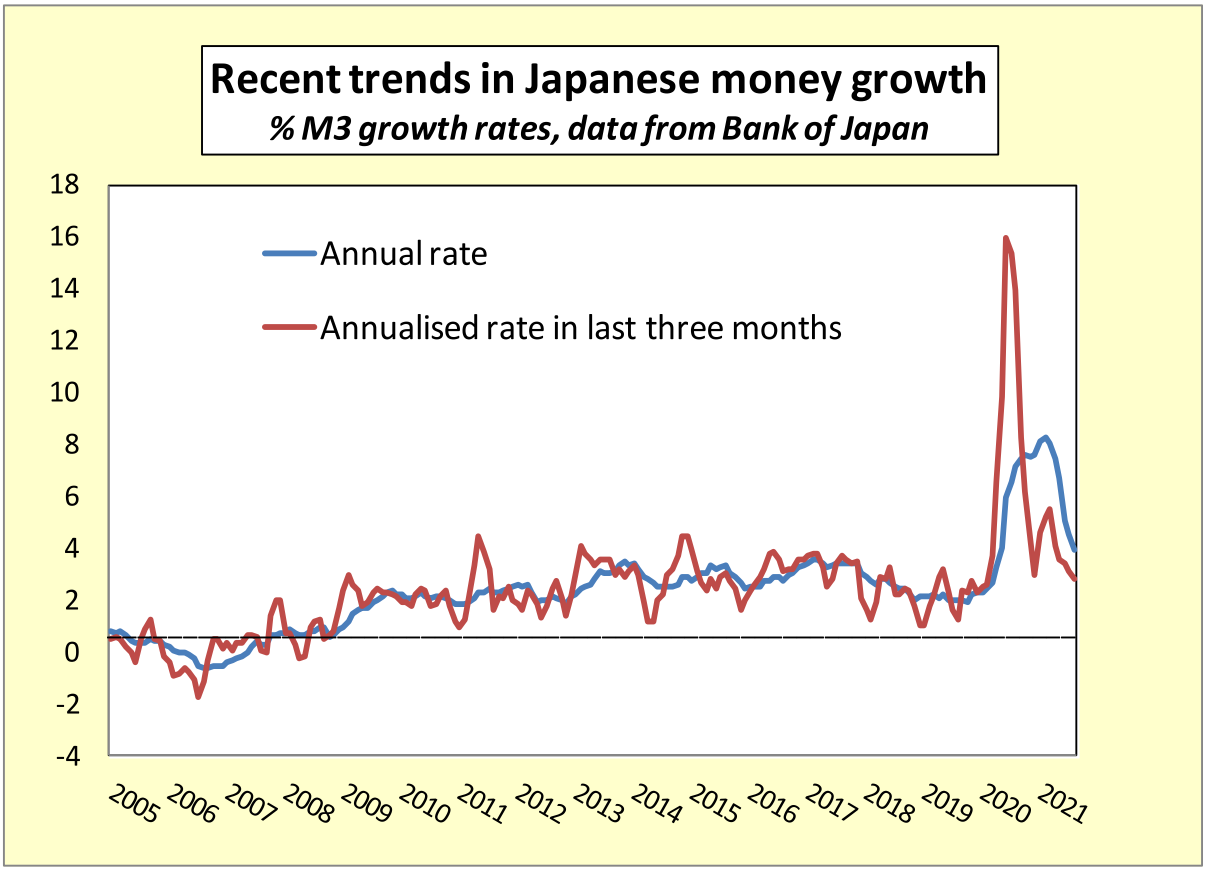
Japan

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2019	**3.9**	**1.9**
Nine years to 2019	**2.7**	**0.9**
Year to August 2021	**4.0%**	**n/a**
Three months to August 2021 at annualised rate	**2.8%**	**n/a**

Sources: Bank of Japan for M3 and IMF for GDP



Recent trends in Japanese money growth
% M3 growth rates, data from Bank of Japan

Broad money growth slowdown intensifies

Summary: **The three months to August 2021 saw Japanese M3 grow at an annualized rate of 2.8%. This was the lowest figure since February 2020, just before the coronavirus pandemic. As elsewhere, money growth blipped upwards in spring 2020, but not to the same degree as in other leading countries. The annual growth rate, which peaked at a 20-year high of 8.2% in February, continues its downward trend. In August it was a mere 4%.**

The surge in new virus cases during 2021 peaked after the Tokyo Olympics and numbers are now declining. However, discontent over the Japanese government's response to the pandemic has resulted in the resignation of the Prime Minister, Yoshihide Suga, after less than a year in office. All three of the candidates vying to succeed him, including the favourite, vaccine minister Taro Kono, are in favour of further fiscal stimulus packages. Kono is less enthusiastic about raising inflation than his two rivals Sanae Takaichi and Fumio Kishida. Consumer prices were still falling in the year to July, although producer prices rose by 5.6% over the same period and by 5.5% in August thanks to the sharp rise in commodity prices worldwide. This suggests that consumer inflation is likely to pick up eventually.

In the short term the Bank of Japan's monetary-policy settings are likely to remain loose, regardless of who becomes Prime Minister. Reuters has reported that the BOJ has been quietly retreating from the large-scale purchases of Japanese government bonds that for some years have been a feature of its response to low inflation. In March the BoJ agreed that it no longer would commit to a fixed programme of JGB purchases, although no formal announcement was made. Indeed, the BoJ has declined to comment on the Reuters story. However, there seems to be a growing consensus among the members of the BoJ's Monetary Policy Committee that the stimulus measures cannot continue indefinitely.

More to the point, the targeting of the monetary base, rather than broad money, was never going to boost the economy in the way the BoJ was hoping. There does not, however, appear to be any plan to raise interest rates in the short to medium term, and with good reason. Growth in the stock of bank lending fell to 0.6% in the year to August, the lowest reading for at least seven years. If the stock of bank loans starts to fall, then so will the quantity of money, broadly-defined. In qualification, during the pandemic, annual growth in bank lending rose above 6% as many companies took out precautionary loans to tide them through the pandemic. Some of these loans are now being repaid. With money growth back down to pre-Covid norms, it looks unlikely that the BOJ will face a serious inflationary surge.

John Petley
15th September, 2021

	% annual growth rate:	
	M3	Nominal GDP
1981 – 1990	**9.2**	**4.6**
1991 - 2000	**2.4**	**1.1**
2001 - 2010	**1.0**	**0.8**
Nine years to 2019	**2.7**	**0.9**

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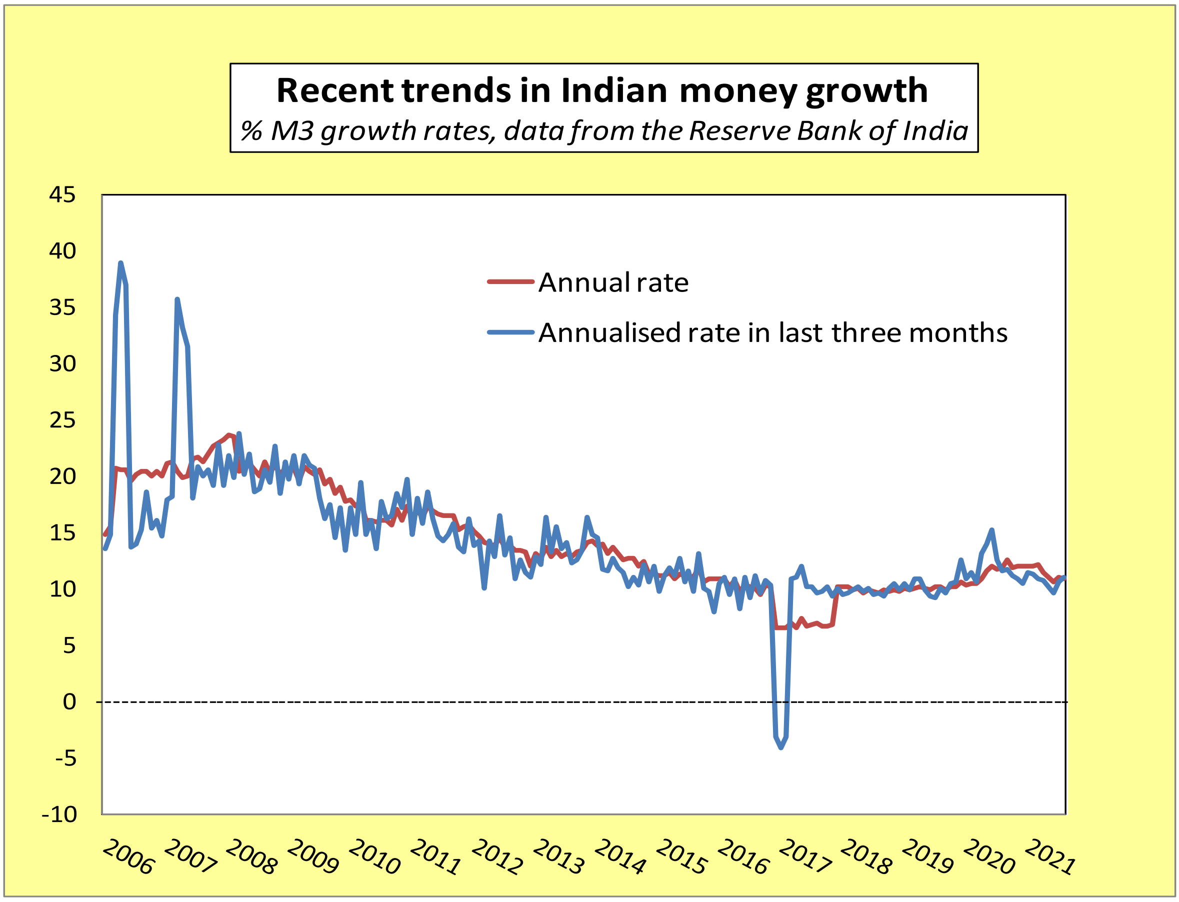
India

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2019	**15.8**	**13.4**
Nine years to 2019	**11.2**	**11.9**
Year to August 2021	**11.0**	**n/a**
Three months to August 2021 at annualised rate	**10.7**	**n/a**

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



Broad money growth picks up again

***Summary:* In the three months to August 2021 India's seasonally adjusted M3 grew by 2.6% (i.e., at an annualized rate of 11.0%), an increase on July's reading of 10.5% and the strongest three-month advance since the November-February period. The annual growth rate declined from 11.0% in July to 10.8%. In August itself, seasonally adjusted M3 rose by Rs. 1,518b., higher than the typical monthly growth amounts for the years up to 2019.**

Although the country is now recording declining numbers cases of and deaths from Covid-19, the legacy of the pandemic is likely to affect the economy for some time. When the first cases of coronavirus were reported, India's economy was already slowing. The country suffered from sectarian tensions, and concerns about bad corporate and state governance. The lack of confidence may have been one reason that companies have borrowed less from the banks in 2020 and 2021 than in 2019.

The Reserve Bank of India, the central bank, has faced a number of challenges in determining monetary policy. It reduced interest rates to 4% on 22nd May 2020 as part of a package of stimulatory measures to counteract the effects of the pandemic. However, inflation rose to almost 8% within a matter of months, well above the 4% target. Base rates have remained at 4% but there have been two 0.5% hikes in banks' cash reserve ratios during 2021, the most recent being in June. On the other hand, on 4th June, the bank announced a doubling of its asset purchase programme, while on 6th August the Monetary Policy Committee insisted that its accommodative stance would continue "for as long as necessary". Inflation has eased from 6.3% in June to 5.3% two months later, with food price inflation slowing in spite of a rather erratic monsoon. Prices at the factory gate have been rising at an annual rate of over 10% for five consecutive months, suggesting that inflationary pressures are unlikely to ease any time soon. India is a major net importer of energy and thus has been particularly vulnerable to the rise in energy prices this year.

The other problem facing the RBI is the fragility of the Indian banking system. Almost every month, concerns about substantial loan defaults hit the headlines. The SREI Group, an infrastructure financing company, is the latest high-profile business in serious financial trouble. It is struggling to service debts totalling 350 billion rupees (US$48b.). At the other end of the scale the small business sector has been particularly badly affected by the pandemic. Small traders also struggling to repay loans, which have largely been borrowed from small finance companies. With the RBI and the Indian government seeking to improve asset quality and some banks becoming risk averse, money growth is being driven not by lending to the private sector, but by the RBI's asset purchase programme and monetization of government debt. In the 2020-21 financial year the government deficit was 9.3% of GDP. The plan is for this to come down to 6.8% of GDP in 2021/22. Strong money growth has been a positive influence on the Indian stock market, which hit a record high September.

John Petley
15th September, 2021

	% annual growth rate:	
	M3	Nominal GDP
1981 - 1990	**17.1**	**14.7**
1991 - 2000	**17.4**	**14.1**
2001 - 2010	**17.3**	**12.9**
Nine years to 2019	**11.2**	**11.9**

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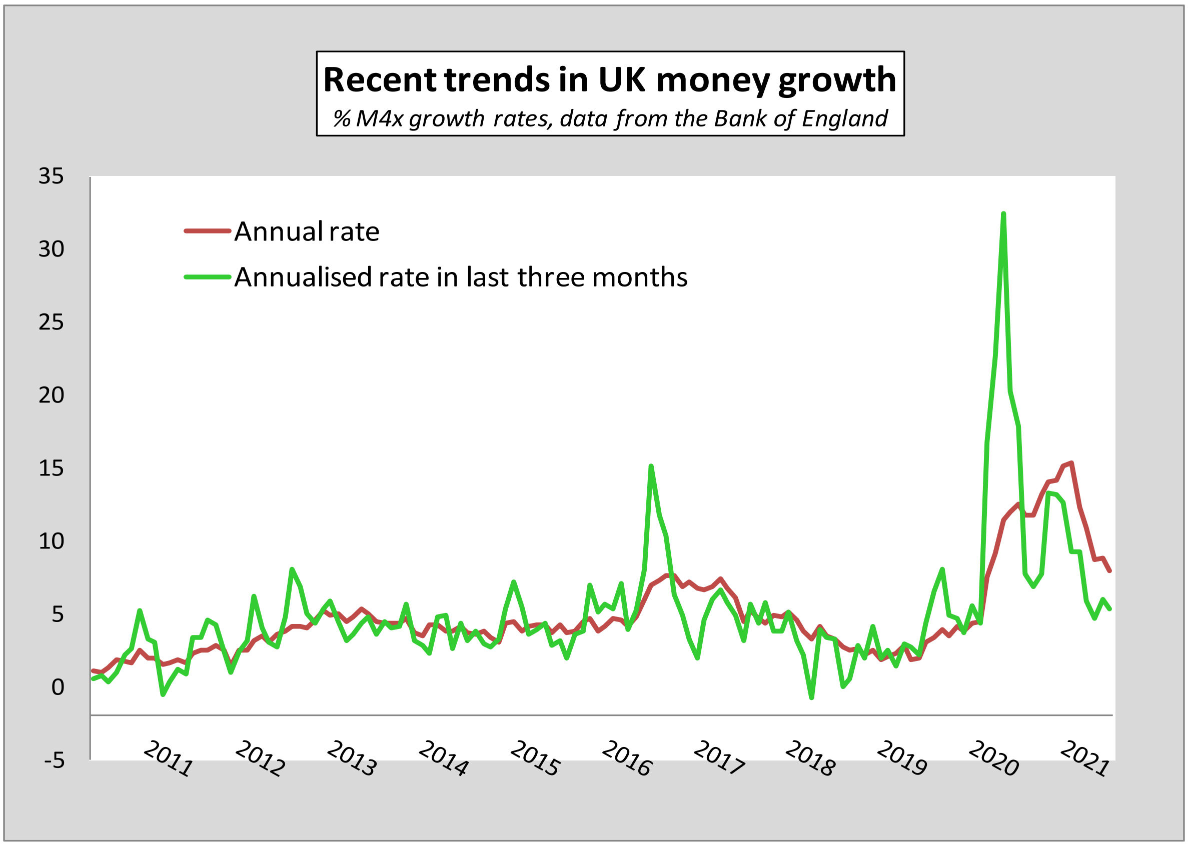
UK

	% annual/annualised growth rate:	
	M4x/M4 before 1997	Nominal GDP
1964 – 2019	**9.6**	**8.0**
Nine years to 2019	**4.0**	**3.7**
Year to July 2021	**7.5**	**n/a**
Three months to July 2021 at annualised rate	**5.3**	**n/a**

Sources: Bank of England and Office for National Statistics



Broad money growth slows

***Summary*: In the three months to July 2021 UK M4x grew at an annualized rate of 5.3%, down on June's figure of 5.9%. This was the second lowest reading since February 2020. In July itself UK broad money grew by £6.7b., much less than the £19.6b. figure in June. The contrast between the two months is explained largely by the bunching of mortgage loans in June, ahead of the end of the stamp duty holiday on 30th June. The annual growth rate of M4x fell 8.8% to 7.9%, the lowest since March 2020.**

July's decline in broad money growth is unsurprising, given the very high level of mortgage lending (and associate deposit creation) in June. The decision by the Chancellor to end the "stamp duty holiday" resulted in no less than £17.9b. net being loaned to home owners in June. The number of mortgage approvals in July was still above the 2015-19 average. The buoyancy of the housing market may have been an influence on the Monetary Policy Committee decision at its 6th May meeting to reduce weekly assets purchases from £4.4b. to £3.4b. Mortgage approvals in July were £25.9b. in value, bang in line with the average in the first seven months of the year. This was somewhat ahead of the £22.3b. average in the first seven months of 2019, ahead of Covid-19, but not dramatically so.

Andy Haldane, the outgoing Chief Economist at the Bank of England, had expressed concern that continuing the asset purchase programme would make it harder to meet the 2% inflation target. As his newly-appointed successor, Huw Pill, has been a critic of QE in general, he may support a speedy end to the asset purchases in forthcoming MPC meetings. Governor Andrew Bailey, giving evidence to the Treasury Select Committee on 8th September, revealed that at August's meeting, four out of nine members of the MPC felt that conditions had been met to tighten monetary policy. The Bank of England may announce some restrictive measures at its forthcoming meeting on 23rd September, most probably by further scaling back its asset purchase programme. UK consumer price inflation rose from 2.0% in the year to July to 3.2% in August, while producer prices rose by 5.9% in the same period, the highest reading since November 2011.

Consumers continue to repay more on credit cards than they are borrowing and the retail sector remained subdued in August, with volumes unchanged on July in spite of the end of restrictions. The SME sector is still rather cautious, but large businesses are now borrowing more. Of course new loans create deposits which are money. If this trend continues, this raises further doubts about the need to continue with the asset purchases at all, especially given that GDP grew by 4.8% in Q2.

John Petley
18th September, 2021

	% annual growth rate:	
,	M4/M4x	Nominal GDP
1964 - 2019	**9.6**	**8.0**
1991 – 2000	**6.4**	**6.0**
2001 – 2010	**6.5**	**3.9**
Nine years to 2019	**4.0**	**3.7**