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Monthly e-mail from Tim Congdon and John Petley – 21st August, 2019

Global money round-up in summer 2019

A large number of experts agree that a recession is likely/probable/possible in 2020, according to many media reports. President Trump is alleged to be "rattled" that it may lose him the next presidential election. Well, a large number of experts were agreed in 2016 that a recession was likely/probable/possible "soon"…and there wasn't one. Neither the top central banks nor governments in the main countries want a recession in 2020. Given that inflation almost everywhere is low, and will soon fall because of the recent energy price tumble, policy-makers have ample freedom to prevent a recession. **It would require extreme policy-making incompetence for a recession to occur in the next few quarters.**

Money growth data in the USA and the Eurozone remain positive about economic activity. The latest three-month annualized growth rate of broad money stands at 9.3% in the USA and 5.6% in the Eurozone. In the developing world China and India have, in recent quarters, enjoyed stable money growth at not far from a 10% annual rate. Admittedly, money growth is weak in Japan, the UK and Australia, and money growth weakness has been associated with asset price setbacks and poor business investment. But these countries do not weigh in the global picture as much as the USA, the Eurozone and China.

Given the remit of the Institute of International Monetary Research, these notes focus on money growth. But a cross-check is provided by leading indicator indices, which bring together survey information about future spending on big-ticket items. As mentioned in our monthly video, the Paris-based OECD prepares an index (looking ahead six/nine months) for the OECD area. It has dipped since mid-2018, but not much, and in much the same way as it did in 2012 and 2016. The safest forecast for the world economy in 2020 is roughly trend growth with low inflation.

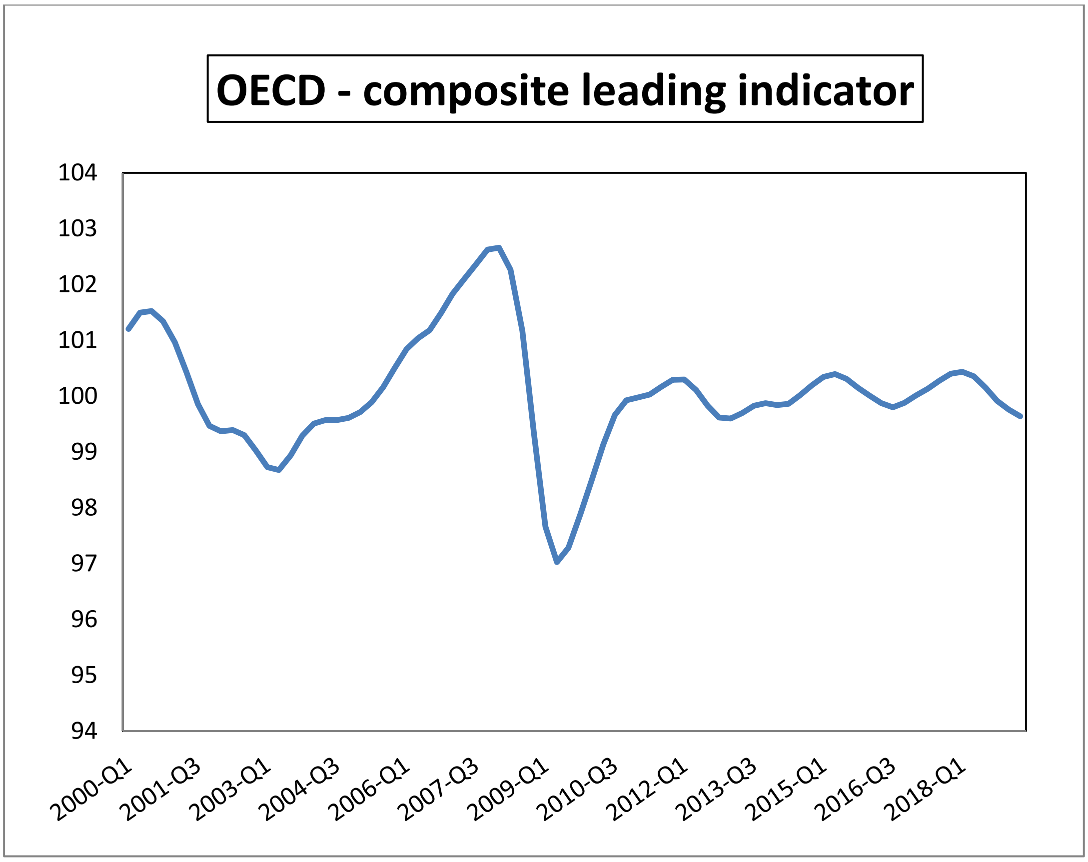
Money trends in mid-2019 in the main countries/jurisdictions

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 thereafter? The table below summarizes key numbers. The latest data show robust money growth in the USA and the Eurozone, refuting our worries in late 2018 that the Fed's asset sales and the European Central Bank's ending of its asset sales would lead to money growth decelerations. In the Eurozone the growth of money owes much to the Eurozone's external transactions rather than to domestic credit expansion (i.e., increased banking system claims on the domestic private and public sectors), and real-economy indicators in some countries (notably Germany) have been disappointing. It is also true that money growth is rather weak in the UK, Japan and Australia. But – overall – the message from the developed world is that money growth is positive for demand and output in the next few quarters. Trends in the developing nations are varied, but in the two big ones – China and India – banking systems' assets and their broad money liabilities continue to expand at rates not far from double digits.

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	**9.3**	**5.6**	Healthy credit expansion, with the Fed concerned – perhaps too concerned – to help growth.
China	18.7	16.1	**7.8**	**8.1**	Money growth steady & inflation under control, PBOC concerned to maintain steady growth.
Eurozone	10.6	16.4	**5.6**	**4.5**	Money growth strong, but owes much to external inflows. Domestic credit weak.
Japan	4.2	5.9	**1.9**	**2.0**	Credit and money growth down from the 3% figure seen for much of last decade, and very low.
India	7.7	3.3	**9.9**	**10.5**	Credit growth strong, but worries that re-elected BJP to pursue inefficient economic policies.
UK	2.2	3.4	**2.5**	**2.0**	Money growth weak, backdrop of Brexit uncertainty.

The implied conclusion is that money growth trends argue strongly against another global recession in 2020. Admittedly, policy-makers may blunder, as they did in late 2008 with their deflationary demands that banks maintain much higher capital-to-asset ratios than before. But the Fed and the ECB have shown a welcome pragmatism in responding to the current global slowdown, and have scope further to ease monetary policy. (The suggestion that – because short-term interest rates are close to zero – "central banks have run out ammo" is false. Central banks can at any time expand the quantity of money by borrowing from commercial banks and using the loan proceeds to purchase something/anything from the non-bank private sector. This power is unlimited. Equilibrium national income and wealth ought to rise – more or less proportionately – with the quantity of money.)

Money trends are not everything, even though the evidence is compelling that in the medium and long runs the growth rates of broad money and nominal national income are closely correlated. It is therefore often useful to supplement a survey of money trends with inspection of a so-called "leading indicator index". An index of this sort can bring together a range of survey and order information on committed or probable expenditure on what might be termed "big-ticket items" (houses, cars, corporate capital expenditure, corporate inventories, etc.). The Paris-based Organization of Economic Cooperation and Development prepares such an index for the OECD area, which accounts for over half of world output, and it looks ahead for the next two/three quarters. Below is a chart of the index for the current century.



Three observations can be made. First, the index identified the Great Recession of 2008 and 2009, although not far in advance. Perhaps the most important point is that the Great Recession was preceded by a boom in the world economy, and that too was anticipated by the index. Given that busts follow booms (and correct their excesses), it is good news for 2020 that the OECD leading indicator index is *not* very different at present from its "normal" value of 100. (Alternatively put, the world economy is not at present in a boom with excesses that need to be corrected.) Second, the index has gone sideways in a virtual straight line since 2010, and the post-2010 period has indeed been one of remarkable macroeconomic stability. Two dips were recorded in 2012 and 2016, but they did not lead to global recessions. (The 2012 dip was dominated by the Eurozone, which did in fact after the Great recession have a second recession very specific to it; the 2016 dip was accompanied by much recession hullabaloo at the Global Economic Forum in Davos, but in the end nothing much happened and the world economy had a rather strong 2017.) Third, the current dip is similar to the 2012 and

2016 dips, and – like them – it could be interpreted as giving a weak signal of continued beneath-trend growth in the immediate future, but with no definite message about mid- and late 2020.

What is the best summary of the evidence? As ever, all sorts of uncertainties can be cited, but the absence of serious upward pressure on inflation suggests that the key central banks will react to signs of recession by easing policy. The most plausible view is that current rather high money growth rates in the leading economies and the ability of central banks to ease policy imply that in 2020 the world economy will again enjoy roughly trend growth of demand and output, in the context of negligible or low inflation.

21st August, 2019

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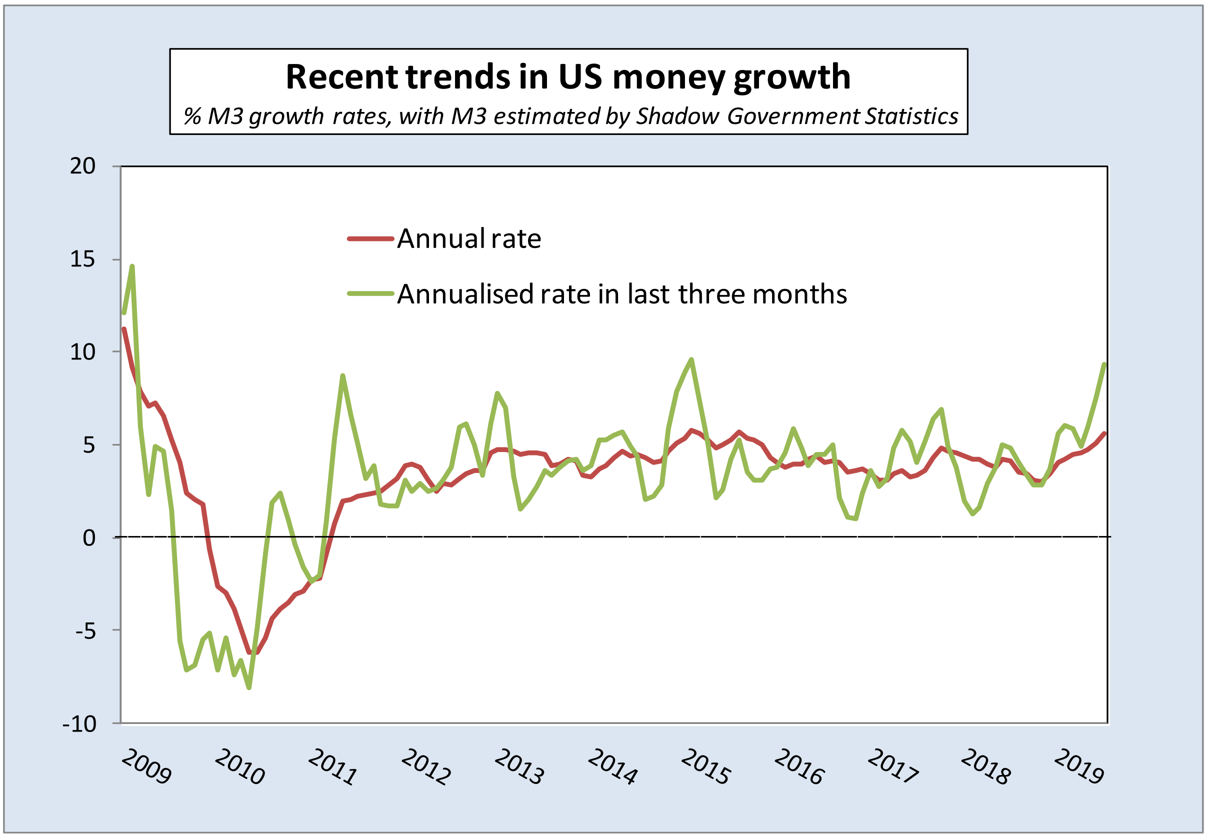
USA

	% annual/annualised growth rate:	
	M3	Nominal GDP
1960 – 2018	**7.4**	**6.5**
Eight years to 2018	**4.0**	**4.0**
Year to July 2019	**5.6**	**n.a**
Three months to July 2019 at annualised rate	**9.3**	**n.a.**

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



M3 growth accelerates, as the Fed cuts rates

Summary: **In the three months to July 2019 US M3 broad money grew at an annualised rate of 9.3%, a reading that has been exceeded only once in the last decade (in February 2015). Both June and July have seen remarkably strong M3 growth, of $183b. and $167b. (or 0.9%. and 0.8%) respectively. These are the strongest two consecutive months since the Great Recession and would translate into an annual growth rate of more than 10%. Robust money growth is occurring, despite the Fed's ongoing asset run-off. (Our M3 data come from Shadow Government Statistics.)**

When broad money growth in a developed economy (with entrenched low inflation expectations) reaches double-digit annualised levels, it tends to be associated with buoyant asset prices and to foreshadow a period of above-trend demand growth. It may be a signal that monetary policy needs to be tightened to avoid future high levels of inflation. However, on 31st July Jerome Powell, the Governor of the Federal Reserve, announced that the Fed funds rate would be reduced by 25 base points, the first cut since September 2008. The change is not a surprise, given that in early July he had stated that "monetary policy hasn't been as accommodative as we had thought." The decision was not unanimous, with the Presidents of the Kansas and Boston Feds, Esther George and Eric Rosengren, dissenting and expressing opposition to the rate cut. Powell stated that it was to be a "one-and-done" cut rather than the first of a series of cuts. In addition to the cut in the Fed funds rate, Powell also announced that the asset run-off would be terminated two months early, i.e., with immediate effect rather than at the end of September.

Of somewhat more benefit than the President's repeated criticism of the Fed has been his relaxation of restrictions introduced by the 2010 Dodd-Frank legislation. US banks have taken advantage of this to boost their portfolio of loans. "Loans and leases in bank credit" (which correspond to the UK notion of "bank lending to the private sector") grew by 3.2% in the year to July. This is not particularly strong growth, but it is not sufficiently weak to justify the rate cut. The stock of loans to the private sector increased by over 5% in the second part of 2018 and there has been no sign of banks losing their appetite for risk. The US labour market remains tight, with the unemployment rate standing at 3.7% in July, unchanged from June's figure, while wages are rising at an annual rate of 5.5%, well above the rate of inflation, which stood at 1.6%. Although the inflation data have been below the Fed's 2% target for five out of six months so far this year, the lowest figure has been 1.5%. Despite of ongoing trde tensions between the USA and China, the outlook for the US economy is positive, with at least trend growth during the remainder of 2019, and neither overheating nor a major slowdown look likely.

John Petley
12th August, 2019

	% annual growth rate:	
	M3	Nominal GDP
1960 – 2017	**7.4**	**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**
Seven years to 2017	**4.1**	**3.8**

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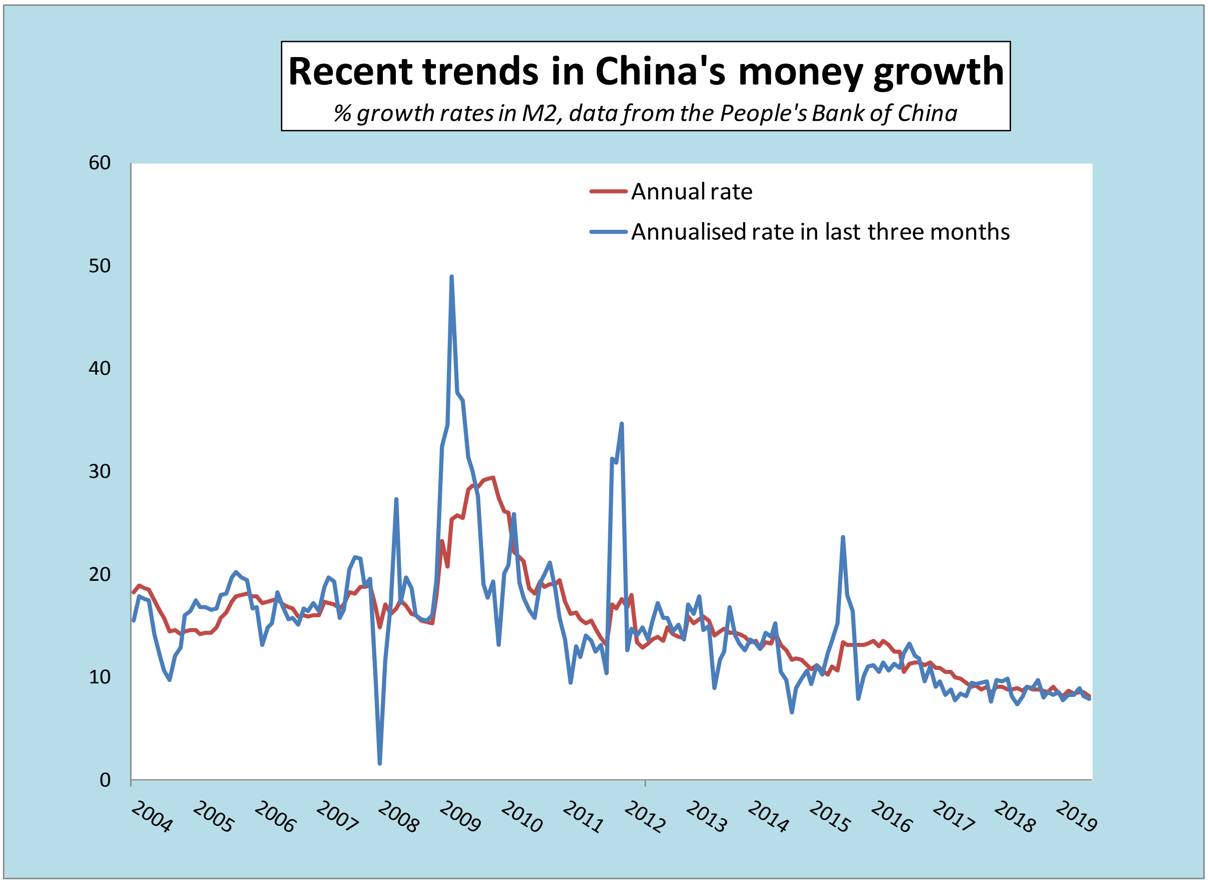
China

	% annual/annualised growth rate:	
	M2	Nominal GDP
1991- 2018	**19.2**	**15.1**
2010 - 2018	**13.6**	**11.2**
Year to July 2019	**8.1**	**n/a**
Three months to July 2019 at annualised rate	**7.8**	**n/a**

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



Broad money growth slows slightly

***Summary*: In the three months to July 2019 China's seasonally adjusted M2 grew by 1.9% or at an annual rate of 7.8%. This is less than June's figure of 8.1% and somewhat lower than 2018's average of 8.7%. The annual growth rate also fell, from 8.4% to 8.1%. Although the annual growth rate remains within the 8% - 10% band in which it has sat for more than two years. Without action by the authorities, money growth may fall further.**

The stock of lending by Chinese banks grew by 12.6% in the year to June, the lowest figure since May 2018 and the fifth consecutive month of slowing loan growth. One contributory factor for this slowing is a drying-up of liquidity following the government's take-over of the troubled Baoshang Bank in May, which resulted in larger banks being unwilling to advance loans to smaller banks. The government has been putting pressure on banks to boost lending, but banks claim that credit demand is weak. At the same time, however, the authorities remain concerned about the level of debt in the economy and are continuing their policy of reining in unregulated lending, the so-called "shadow banking " sector. With house prices rising at over 10% year on year in the 70 largest Chinese cities since the start of 2019, new measures have also been introduced to clamp down on property speculation. This has slowed the price rises slightly, but it does nothing to boost lending by China's banks. There have already been some targeted measures to boost lending, notably a cut in the reserve ratio requirements for smaller banks, and there is room for further monetary loosening if needed. Inflation remains below the government's 3% target, admittedly not by much. (Consumer prices rose by 2.8% in the year to July.), But underlying inflationary pressures are weak, with prices at the factory gate recording a year-on-year fall in July. The main reason for the apparently rather high consumer inflation figure is an outbreak of African swine fever, which has severely impacted China's huge pork industry. Prices were pushed up 27% in July alone, following a 21% increase in June. This has caused the overall cost of food to rise by 9.1% compared with 12 months ago.

Chinese exports fell by 3.3% year-on-year in July. Trade tensions with the USA are widely cited as an influence on the fall. The Trump administration has held back on a proposed 10% import tariff on an additional $300b. of Chinese goods planned from September, but global uncertainties may nevertheless cause a further fall in exports, although the fall in the value of the renminbi could help counteract this. Meanwhile, imports went down by 5.6% in the same period. Given the authorities' desire to see the country move from reliance on exports to a more consumer-driven economy, the ongoing high level of consumer confidence will be welcome. Retail sales were up by 9.8% year-on-year in June, despite the weakening of the Chinese currency, which makes imports – and hence imported goods in the shops - more expensive. The government will most likely ease monetary policy if money growth continues to slow. It has also announced structural reforms including a plan to ease restrictions on foreign ownership of insurance companies, securities and fund management firms, which will come into force in 2020. One way or other, the Chinese authorities will do everything they can, especially in the face of weakening global demand, to prevent any slowdown developing. Money growth has been quite stable in recent years.

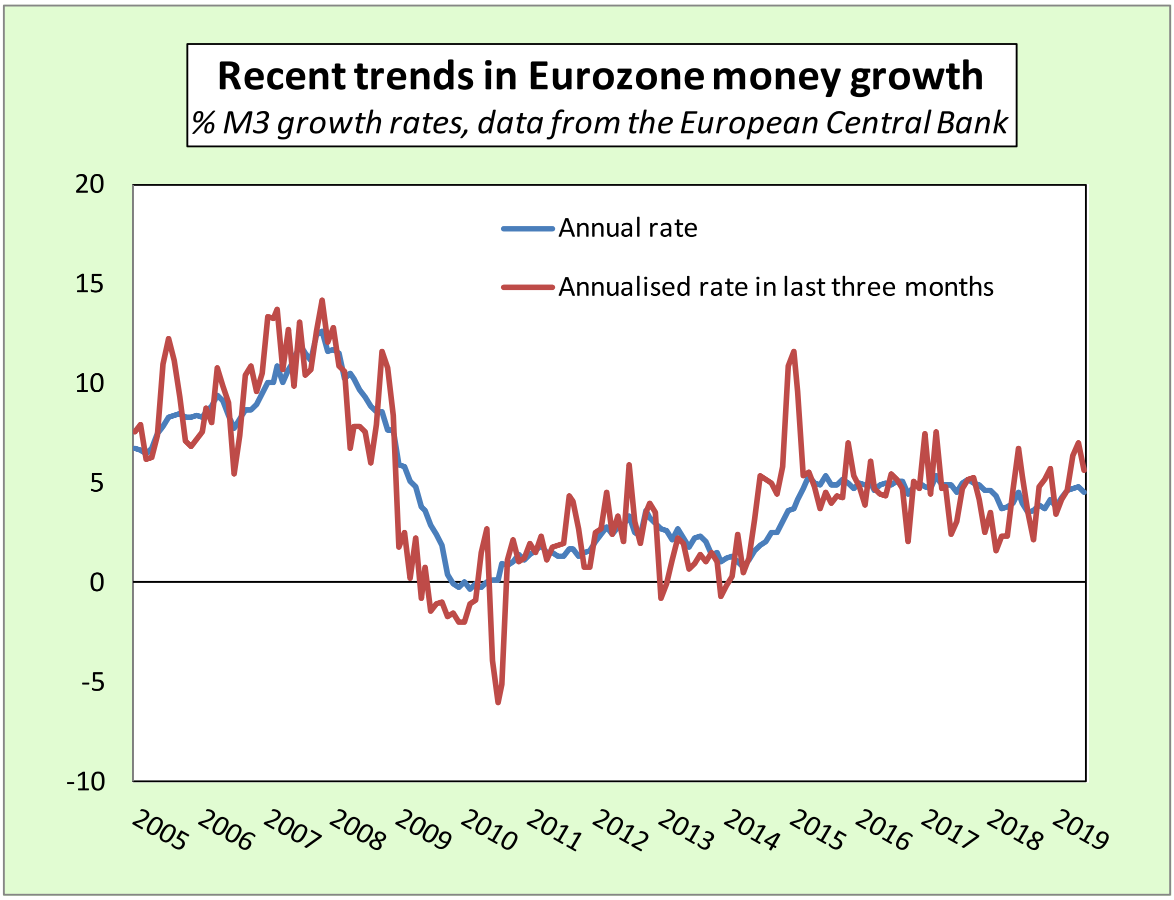
John Petley
13th August, 2019

	% 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**

Eurozone/Euroland

	% annual/annualised growth rate:	
	M3	Nominal GDP
1996 – 2018	**5.2**	**3.1**
Eight years to 2018	**3.7**	**2.5**
Year to June 2019	**4.5**	**n/a**
Three months to June 2019 at annualised rate	**5.6**	**n/a**

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



Money growth slows slightly as slowdown concerns intensify

***Summary*: In the three months to June 2019 Eurozone broad money (M3) grew at an annualised rate of 5.6%. Although this is less than May's figure of 7.0% (which was the fastest quarterly number since January 2017), it is still a respectable figure. June was the first month in 2019 in which M3 money did not increased by €50b. or more. Annual M3 growth fell back from 4.8% to 4.5%.**

Despite a slight slowing in June, the verdict on 2019 so far has to be that money growth in the single currency bloc has been higher than expected and seemingly resilient at the higher rate. June's monthly figure was less than in previous months of 2019, but well above the 2018 average. This contradicts forecasts (made by us, among others) that the halting of its asset purchase scheme by the European Central Bank would cause a deceleration in money growth. However, the growth of domestic credit (i.e., of the banks' claims on the Eurozone public and private sectors) has been weak in 2019, in line with our suggestions in late 2018. Money growth has held up largely because the Eurozone continues to attract money balances from abroad, partly because of the current account surplus on its balance of payments. (The stock of bank credit to both businesses and households has recorded modest growth throughout 2019. Mortgage lending has grown at an annual rate of 3.4% or 3.5% throughout, while in June the annual growth rate for loans to businesses rose from 2.7% to 3.3%. Banks' holdings of government securities have been falling in recent months.)

Mario Draghi, soon to retire as President of the ECB, hinted strongly at the end of July that stimulatory measures could be announced at September's meeting of the ECB's governing council. With interest rates already at zero, the most likely course of action would be a resumption of the asset purchase programme, only nine months after it was halted. More recently, Olli Rehn, governor of the central bank of Finland and a member of the ECB's governing council, is reported as favouring "substantial and sufficient" bond purchases as well as cuts to the bank's key interest rate. September anyhow sees the already-announced launch of a new series of targeted long-term refinancing operations (TLTRO-III). These will have a negative deposit rate, which should make them attractive to the banks. Renewed worries about the political situation in Italy and the uncertainties of Brexit are negatives, but they are not new developments.

Policy-makers are concerned that inflation across the 19-nation bloc remains well beneath the 2% upper bound to the target. At present the 12-month increase in consumer prices stands at 1.1%. Meanwhile prices at the factory gate are only 0.7% up over the same period, ahead of price cuts to arise from the recent tumble in energy prices. In the countries of southern Europe, inflation is much lower, with Spain, Italy, Greece, Cyprus and Portugal either in deflation or seeing prices rise at 0.5% or less per annum. Low inflation is not the only concern. In the second quarter of 2019 Eurozone GDP grew by a mere 0.2%, down from Q1's figure of 0.4%. German industrial production recorded a month-on-month fall of 1.2% in June and an annual decline of 5.2%. German GDP recorded a 0.1% decline in the Q2 2019, with the annual growth rate slumping to 0.4%, well below the Eurozone average of 1.1%.

John Petley
8th August, 2019

	% annual growth rate:	
	M3	Nominal GDP
1996 – 2017	**5.2**	**3.1**
1996 – 2000	**4.6**	**4.1**
2001 – 2010	**6.8**	**3.1**
Seven years to 2017	**3.6**	**2.4**

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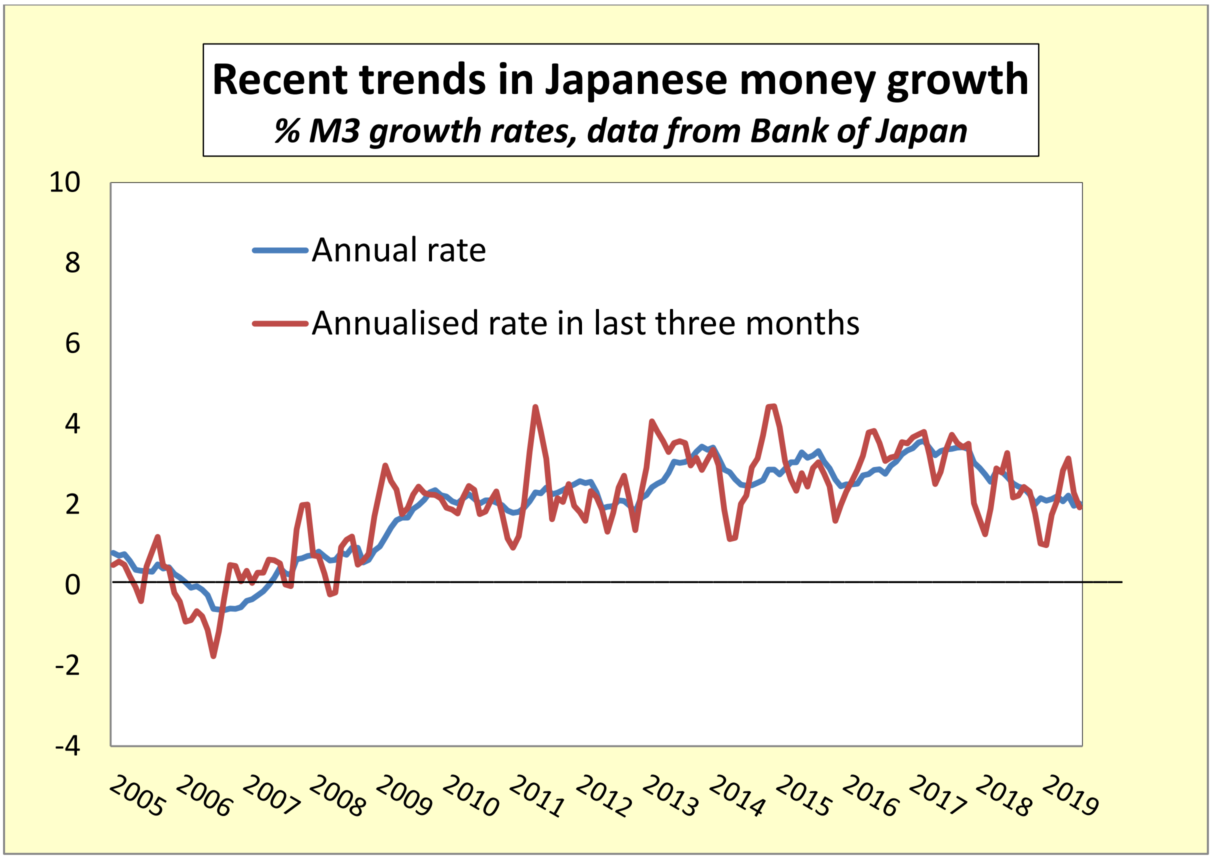
Japan

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2018	**4.0**	**1.9**
Eight years to 2018	**2.8**	**0.6**
Year to July 2019	**2.0**	**n/a**
Three months to July 2019 at annualised rate	**1.9**	

Sources: Bank of Japan for M3 and IMF for GDP



Broad money growth slows imperceptibly, again

Summary: **In the three months to July 2019 Japanese M3 broad money grew at an annualised rate of 1.9%, a further decline on June's figure of 2,3%. In June, the seasonally adjusted quantity of money, broadly defined, actually fell. Meanwhile July saw growth of only 3 trillion yen. Hopes had seemed justified in the spring that money growth might be reviving, but the latest figures have been disappointing. The annual M3 growth rate, unchanged at 2.0%, is the lowest reading since November 2012.**

Japan's GDP grew at an annual rate of 1.2% in the second quarter of 2019, an improvement on the 1.0% seen in the first quarter and higher than expected by many commentators. Mechanical extrapolations of money growth into GDP figures are unreliable in the short run. All the same, the slowing in money growth argues against any resurgence in demand and output in the next few quarters. The stock of lending by Japanese banks continues to grow, but for four out of the last six months, the annual growth rate has been stuck at a rather modest 2.3%. In June the Tankan survey of business confidence registered its lowest reading in three years. July saw consumer confidence falling to its weakest level in over five years. The planned 2% increase in sales tax is still scheduled for October. Prime Minster Abe has twice postponed this tax hike already, but is insisting that it will go ahead this time unless the global economic situation deteriorates drastically. A similar increase in 2014 saw a significant slump in consumer spending and with retail sales only growing by 0.5% in the year to June, there could be worries ahead for the retail sector. Inflation remains stubbornly below the Bank of Japan's 2% target, with consumer prices rising by a mere 0.7% in the year to June. With factory gate prices recording a fall of 0.1% in the year to July and the yen strengthening against the US dollar since May, inflation is likely to remain low at least until the effects of the sales tax kick in later in the year. Japan's exporters will not be welcoming the stronger yen after seven consecutive months of declining exports.

The sluggish macroeconomic growth predicated by the lacklustre money growth is supported by other data, including figures for the housing market and retail sector. In July the BOJ stated that it would act "without hesitation" if a global slowdown threatened the country's economy. However, the monthly report assessing the economic outlook, while acknowledging the slowdown globally, nonetheless remained optimistic about Japan's longer-term prospects, predicting increasing domestic demand once the effects of the sales tax have been absorbed. Inflation is expected to move upwards, eventually, as higher wage increases take effect. As elsewhere, such increases are viewed as the inevitable consequence of a tight labour market. The BOJ's programme of "QQE" and other associated measures have kept deflation and recession at bay, but the effect on broad money growth has been modest and therefore the wider macroeconomic effects have been correspondingly unimpressive. With no new initiatives announced, there is little reason to expect much change in coming months.

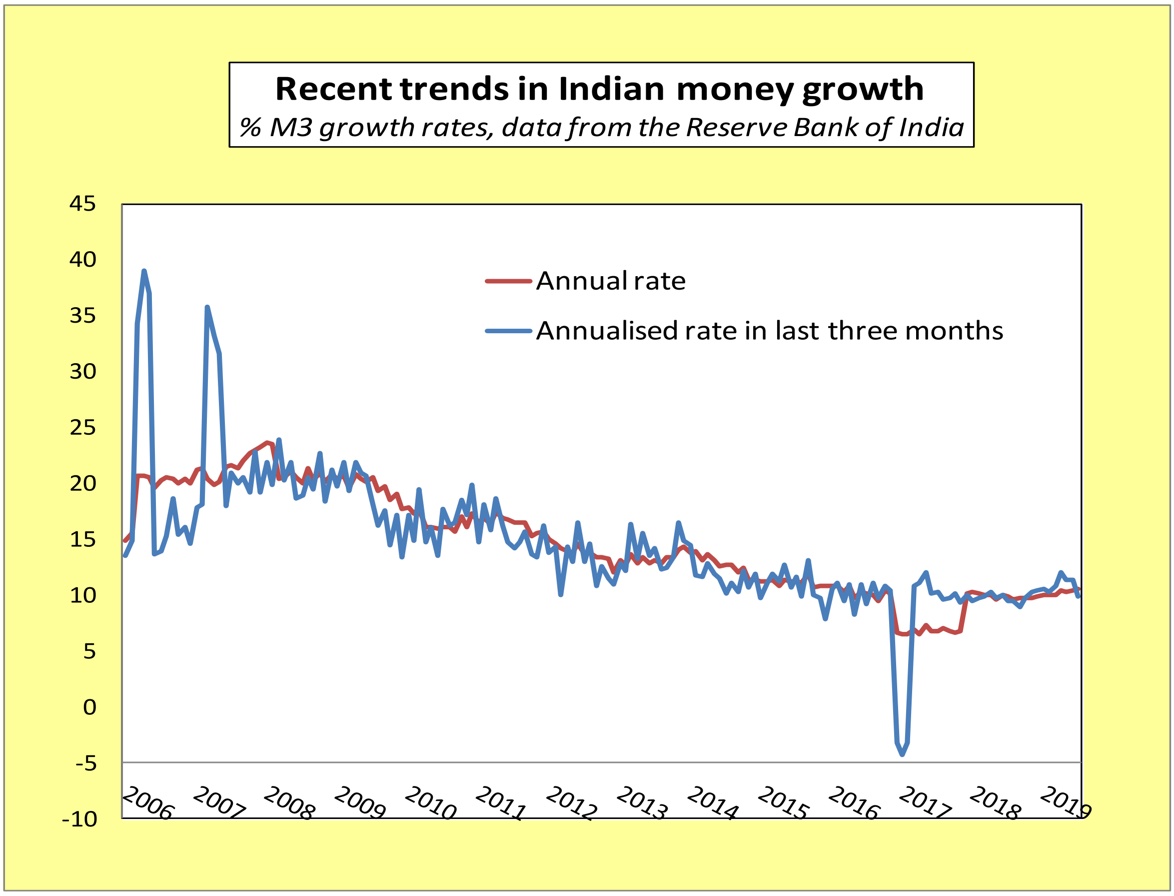
John Petley
12th August, 2019

	% annual growth rate:	
	M3	Nominal GDP
1981 – 1990	**9.2**	**4.6**
1991 - 2000	**2.5**	**1.1**
2001 - 2010	**1.1**	**0.8**
Seven years to 2017	**2.9**	**1.3**

India

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2018	**14.8**	**12.4**
Eight years to 2018	**11.2**	**6.9**
Year to July 2019	**10.5**	**n/a**
Three months to June 2019 at annualised rate	**9.9**	**n/a**

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



Broad money growth slows slightly, but remains strong

Summary: **In the three months to July 2019 India's seasonally adjusted M3 grew by 2.5% or at an annualised rate of 9.9%, significantly down on June's figure of 11.3% and the lowest reading since October 2018. The annual M3 growth rate rose slightly from 10.4% to 10.5%. As the graph above shows, however, broad money growth in India has been remarkably stable over the last two years, with neither the annual and annualised quarterly growth rates showing much deviation from the 9.5% - 11% band.**

The Reserve Bank of India (India's central bank) announced a further cut in base rates on 8th August, the fourth so far this year. The reduction of 0.35% takes interest rates down to 5.4%, the lowest figure in nine years. The move was prompted by concerns about sluggish growth. On the face of it, a year-on-year increase of 12% in the stock of loans by India's banks would not appear to point to a slowing economy, but at the start of the year, the figure was 14.5%. Furthermore, India's GDP grew at an annual rate of only 5.8% in the year to the first quarter of 2019, significantly down from the 6.6% recorded in the final quarter of 2018 and there are concerns that the figure for the second quarter is likely to be even lower. This cut comes in the wake of an announcement on 5th July by the RBI that it will extend a credit guarantee to banks which lend to the non-bank financial sector, yet another move to encourage bank lending. It remains to be seen how quickly, if at all, India's banks will pass on the rate cut by the central bank to their customers. They were distinctly slow off the mark in implementing the earlier rate cuts. At least the monetary easing should not cause any inflationary headaches. The consumer price index stood at 3.2% in July, slightly down on June's figure and comfortably below the RBI's 4% target. Food prices are still rising and renewed rupee weakness has pushed up the cost of imports (and India relies heavily on imported fuel) but there are few other inflationary pressures, with prices at the factory gate rising by only 1.1% in the year to July.

Besides worries about a global slowdown, there are two other concerns about India's economy. The first is the scale of non-performing loans. Besides big defaults by borrowers from the major banks, there are also concerns about the financial health of India's shadow banking sector – unregulated lenders which were responsible for a third of all new credit between 2015 and 2018. Infrastructure and property development companies have been the most vulnerable sectors, with another major defaulr reported last month - Bhushan Power and Steel Ltd declared itself insolvent with debts of RS. 17.8b. owing to the Allahabad Bank. The second concern revolves around the accuracy of macroeconomic data. In March, 108 economists signed an open letter claiming that statistics were being manipulated for political ends by the government. Several months later,. Arvind Subramanian, the chief economic advisor to the first government led by Narendra Modi claimed in a paper published by Harvard University that actual GDP growth between 2011 and 2016 was 2.5% lower than stated.

In spite of these concerns, India, with a young, well-educated and growing population, has considerable growth potential. Its banking system needs reform, but banks are continuing to lend and the Indian economy keeps on growing. In spite of growing concerns about a general slowdown worldwide, the country's macroeconomic prospects remain positive.

John Petley
14th August, 2019

	% annual growth rate:	
	M3	Nominal GDP
1991 - 2000	**17.2**	**14.0**
2001 - 2010	**17.3**	**14.9**
Seven years to 2017	**11.3**	**11.6**

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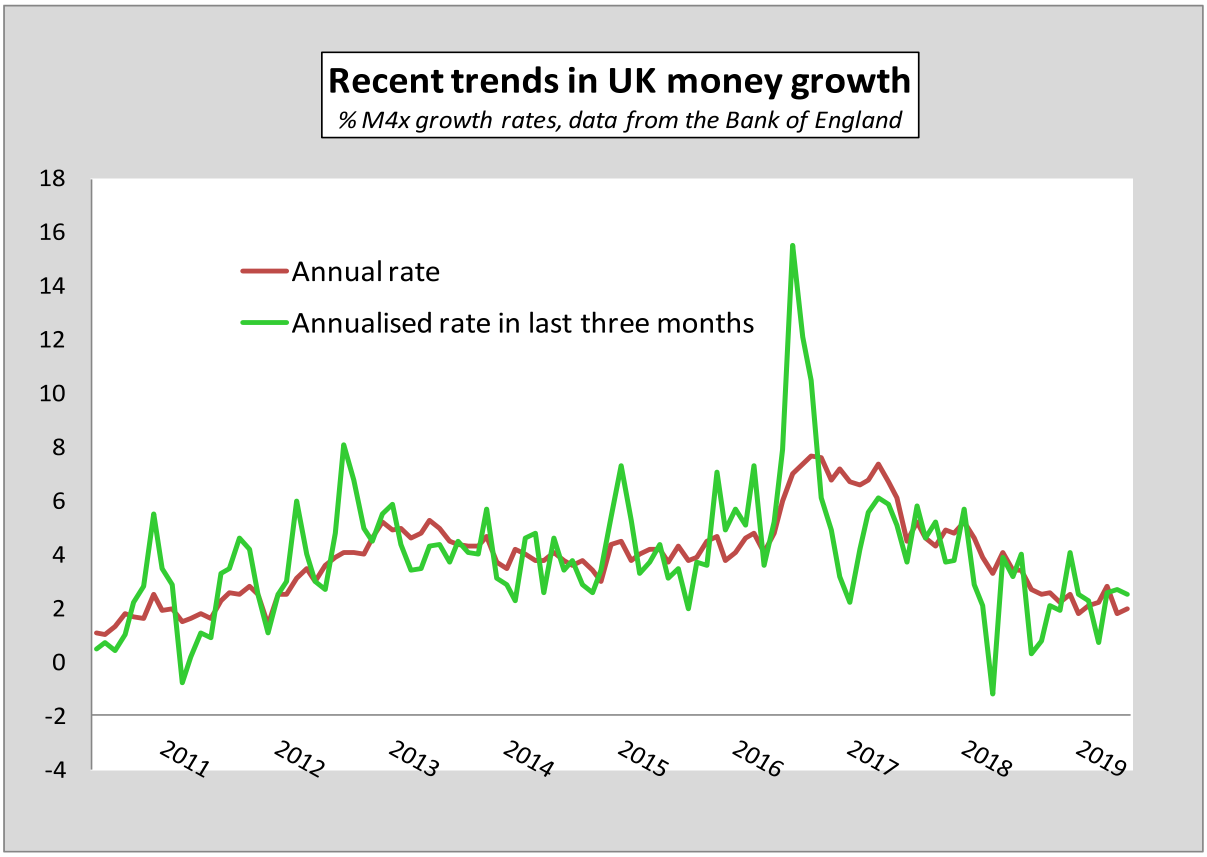
UK

	% annual/annualised growth rate:	
	M4x/M4 before 1997	Nominal GDP
1964 – 2017	**9.8**	**8.2**
Eight years to 2018	**4.1**	**3.7**
Year to June 2019	**2.0**	**n/a**
Three months to June 2019 at annualised rate	**2.5**	**n/a**

Sources: Bank of England and Office for National Statistics



Broad money growth remains weak, but may be stabilizing

***Summary*: In the three months to June 2019 UK M4x grew at an annualised rate of 2.5%, down on May's figure of 2.7%. In June, itself money growth was extremely weak – a meagre £0.6b. – by far the worst figure since January when the quantity of money actually fell. The annual growth rate of the M4x measure of broad money ticked up from 1.8% to 2%.**

With a number of central banks around the world cutting interest rates, the most recent meeting of the Bank of England's Monetary Policy Committee (on July 31st) saw an unanimous – and welcome - decision to maintain base rates at 0.75%. In recent months, three members of the Monetary Policy Committee, including Deputy Governors Ben Broadbent and Sir Dave Ramsden, had raised the possibility of a rise in base rates in the near future. It is unsurprising that there was no mention of such a move at July's meeting. These notes have repeatedly (and regretfully) pointed out how little notice is taken of the money supply in the decision-making processes of most central banks, including the Bank of England, but no other macroeconomic indicators can currently justify monetary tightening either, apart from the unemployment rate and even this figure ticked up slightly to 3.9% in June, following three consecutive months at a 44-year low of 3.8%.

The most recent money and credit statistics from the Bank of England suggest that the very modest growth in the stock of lending by banks to both households and businesses is continuing at similar levels. Although anecdotal evidence suggests that the housing market has cooled in recent weeks, the most recent statistics, which cover June, saw little change in the number of new mortgages compared with recent months while the actual amount borrowed rose by £3.7b, The amount of money lent to businesses in June was £2.6b. higher than May's figure - the largest increase in several months. All the same, given how weak money growth has been in recent months, it is unsurprising that real GDP shrank in the second quarter of 2019. It was up by only 1.2% on Q2 2018.

Consumer price inflation ticked up to 2.1% in the year to June, slightly above the official target, but not by much. Global inflationary pressures are weak, but the pound has been under pressure, having fallen by 9% against the US dollar since May. This decline has been driven by uncertainties over Brexit. Boris Johnson's unequivocal commitment to leave the EU, come what may, on October 31st has resulted in a further weakening of sterling. As in the run-up to the initial but abortive Brexit deadline of March 29th, an uptick in broad money growth is possible as companies draw on bank facilities to increases stocks ahead of possible supply disruptions. Of course the pound's weakness helps exporters. The retail sector remains reasonably buoyant, with the value of sales up by 3.9% (and volume by 3.3%) in the year to June. The money data are negative for balance-sheet strength and domestic demand growth in the second half of the year, regardless of the Brexit position.

John Petley
8th August, 2019

	% annual growth rate:	
	M4/M4x	Nominal GDP
1964- 2017	**9.8**	**8.2**
1991 – 2000	**6.7**	**5.3**
2001 – 2010	**7.1**	**4.1**
Seven years to 2017	**3.8**	**3.6**