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 and John Petley – 15th March, 2019

Global money round-up in early 2019

Consensus views on 2019 remain that the world economy will experience a "growth slowdown", but not a recession. The mood is one of caution rather than gloom, but central banks are increasingly worried about their ability to restore stronger growth. On 7th March the European Central Bank slashed its 2019 Eurozone growth forecast from 1.7% to 1.1%. It has also shifted its ground on the long-term refinancing operations which originated in the non-standard measures first implemented in 2007. Whereas at the end of last year the talk was of phasing out LTROs, the latest announcement is a renewal of so-called "targeted LTROs". As before, the TLTROs will ease the strains for those banks (many of them Italian) which have difficulty funding their assets from market sources. They reduce the pressure on these banks to shrink their loan assets and to that extent sustain the current level of money balances. But, in contrast to ECB asset purchases, they do not expand the quantity of money. Our concern is still – as it was through 2018 – that Eurozone money growth could slide towards zero in the next few months. Japan is challenged by a similar malady. In the three months to January its M3 measure increased at an annualised rate of a meagre 1.0%. The Bank of Japan has repeatedly committed itself to an increase in inflation to 2% and has just as repeatedly failed to deliver.

No one wants a recession and, given the absence of upward moves in inflation, no recession is necessary. Happily, both the ECB's TLTRO announcement and the Federal Reserve's preparedness to call off its asset rundown are signs of central bank flexibility. True enough, if macro forecasts deteriorate further, little scope exists in the Eurozone, Japan and the UK to cut short-term interest rates. But purchases of government bonds from non-banks can directly boost the quantity of money, even in the least dynamic developed economies. Meanwhile banks' balance sheets continue to expand at double-digit annual rates in China and India.

Money trends in early 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 over the medium term thereafter? The table on the next page summarizes key numbers. In January US money growth was only 0.3%, down from the surprisingly strong figures in both December and January. With the Fed indicating that it will halt is run-off of assets (i.e., of assets acquired in the "quantitative easing" exercises from 2008 to 2014) if necessary, the US prospect is another year of roughly trend growth and modest inflation. Elsewhere in the developed world money trends are negative for asset prices, balance-sheet strength and demand growth in the remainder of 2019. The annualised growth rates of broad money in the last three months with available data were 3.4% in the Eurozone, 1.0% in Japan and 2.4% in the UK; on the same basis the annual growth rates of broad money were 3.8% in the Eurozone, 2.1% in Japan and 1.7% in the UK. If money growth were to stabilize at numbers of this sort, 2019 might enjoy beneath-trend growth and nothing worse. But – certainly in the Eurozone – the danger is that money growth will slide towards the band of 0% - 2% annual growth. Between 2011 and 2014 similar rates of money growth were associated with persistent semi-recession.

Much of the trouble in the developed world stems from the widespread belief among central banks and regulatory agencies that strongly-capitalised banks are recession-proof, and hence that measures to boost banks' capital/asset ratios are desirable because they ought to prevent another Great Recession. The official wisdom overlooks that banks respond to demands for more capital by reducing assets and so destroying money balances, with immediate recessionary consequences. These notes do not normally cover Australia, which accounts for just under 1% of world output, measured on a purchasing-power-parity basis, and about 1.5% on a current-prices-and-exchange-rates basis. But recent developments there have been interesting – and alarming. The Australian Prudential Regulation Authority decided last November that banks ought to operate with much higher capital/asset ratios than before. Roughly speaking, from 2023 they are to maintain extra capital – relative to 2018 – equal to 5% of risk-weighted assets. Needless to say, banks are now in no rush to expand their assets and balance-sheet size. In the year to January 2019 the M3 measure of broad money was up by only 2.7%, compared with 4.3% in the year to January 2018 and 6.9% in the year to January 2017. To quote from *The West Australian* of 2nd December last year, "The national property market has slumped to its weakest point since the depths of the global financial crisis with values falling in the run-up to Christmas. House values [in November] tumbled by 0.8 per cent to be down 3.4 per cent through the year so far." Surprise, surprise. A link between weak money growth and sliding house prices is only to be expected.

Some comfort is given by money trends in the two big developing countries we cover, China and India. The Chinese authorities have curbed their shadow banking sector, but are keen to avoid a recession and want to promote growth in the formal, properly-regulated banking industry. India has been invited to join the Basel-based Bank for International Settlements, from which the minatory edicts on bank capital are issued. But in the rough and tumble of India's democratic politics, prime minister Narendra Modi has meddled with the central bank's independence and appointed a governor who seems determined to make life easy for the banks. Bank balance sheet expansion and broad money growth trundle along at double-digit annualised rates, and may even be accelerating ahead of this year's general election. Money growth patterns differ sharply between countries and vary over time. As I have said many times, there is no alternative to watching the data on a month-by-month basis. (As far as Australia is concerned, there was a time when broad money growth and house prices increases ran consistently at double-digit annual rates. The world changes so quickly…)

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	**7.1**	**4.7**	Easing of Dodd-Frank to boost credit expansion, with the Fed's asset sales perhaps to pause. .
China	18.7	16.1	**8.6**	**8.5**	Concern about excessive debt has not stopped the PBOC easing reserve requirements.
Eurozone	10.6	16.4	**3.4**	**3.8**	Broad money growth moderate, risk of stagnation now that ECB asset purchases have stopped.
Japan	4.2	5.9	**1.0**	**2.1**	Credit and money growth down from the 3% figure seen for much of last decade, and very low.
India	7.7	3.3	**10.7**	**10.0**	Robust high credit and money growth, while central bank independence threatened.
UK	2.2	3.4	**2.4**	**1.7**	Money growth weak, against worrying backdrop of Brexit uncertainty. ..

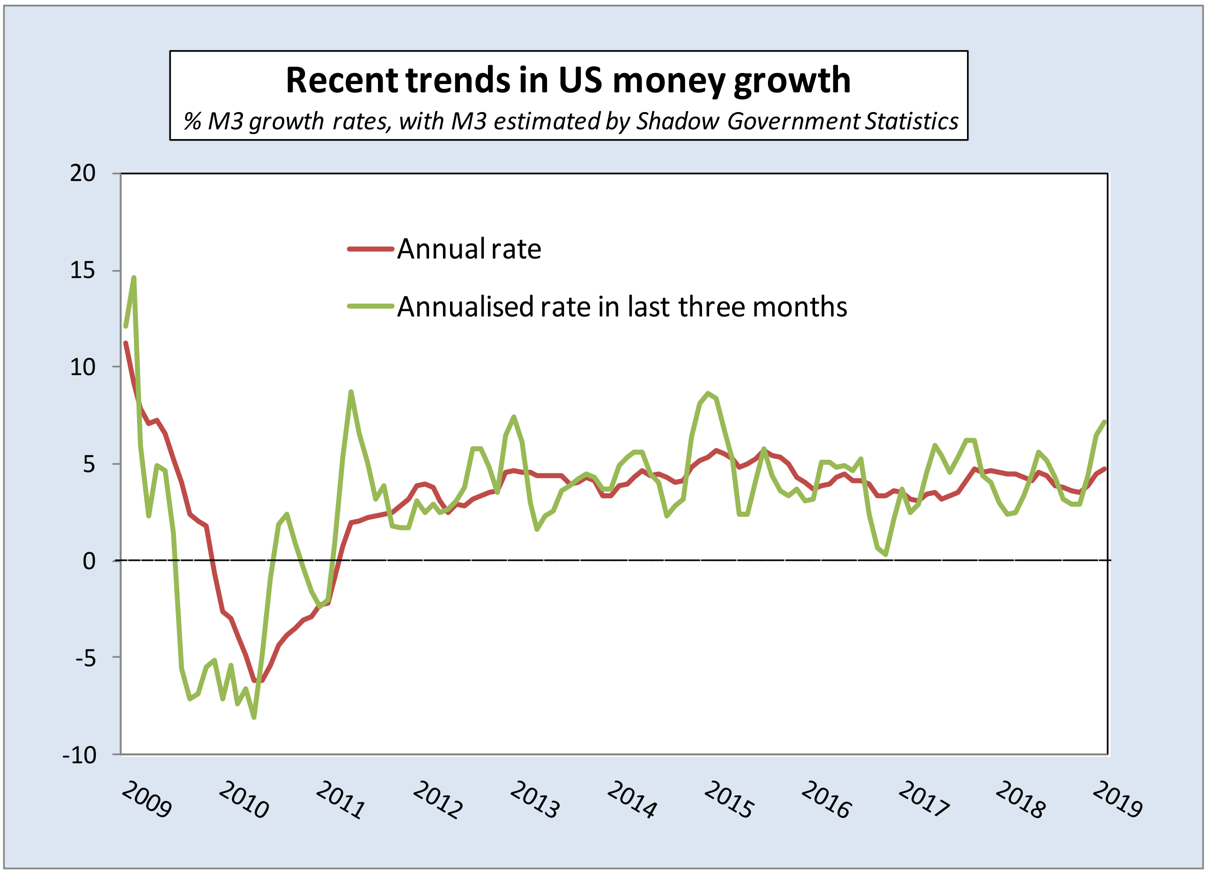
As remarked here last month, inflation is very low everywhere, and leading-economy inflation should be low or moderate until at least the end of 2020. A recession is unnecessary and ought to be avoided. Financial markets have now discounted the growth slowdown of 2019, but they are anxious and curious about how developed-country central banks will promote better demand conditions in 2020. As usual, many commentators are urging the case for fiscal expansion. That would be a bad mistake, as it always is. But the vacuum in understanding about how money affects the economy is so pervasive that many governments may be tempted into that approach. (Might I suggest that the authorities should leave budget deficits alone and finance them to a greater extent from the banking system? The effect on the quantity of money is the same as that from QE.)

15th March, 2019

USA

	% annual/annualised growth rate:	
	M3	Nominal GDP
1960 – 2017	**7.4**	**6.5**
Seven years to 2017	**4.1**	**3.8**
Year to February 2019	**4.7**	**n.a**
Three months to February 2019 at annualised rate	**7.1**	**n.a.**

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



M3 growth remains healthy, despite Fed asset run-off

Summary: **In the three months to February 2019 US M3 broad money expanded at an annualised rate of 7.1%. Although the quantity of money was up by only 0.3% in February itself, strong rises were recorded in both December and January. The upturn in money growth came as a surprise, as the Fed's asset run-off has been running at $50b. a month. The contractive effect of the Fed's asset run-off on the quantity of money is being offset by positive influences, with continued buoyancy in bank credit being part of the story. (Our M3 data come from Shadow Government Statistics.)**

The latest Fed signals suggest that the monthly asset run-off, currently supposed to be $50b., will end at some point later this year. After stating in December that the asset run-off was "on autopilot", the New Year saw a change of tone, with the Fed's chairman, Jay Powell, insisting on 4th January that its approach to monetary policy-making this year would be "patient". For the time being, however, US banks' cash assets continue to contract, having fallen by over 20% in the year to January. Preliminary figures for February suggest a further fall, but at a slower rate. The Federal Reserve has some justification in basing its decision on return to "normality", given that the US economy has now recovered from the Great Recession. The danger was – and remains – that contraction of its own balance sheet could be accompanied by excessive falls in deposits held by non-banks at the US commercial banking system, which are part of the quantity of money.

Robust growth in lending to the private sector by US commercial banks has thus far acted as a counterbalance. (When banks grant new loans, they create new deposits, which are money.) An increase in the pace of credit expansion began in October 2018, perhaps because of an easing of regulatory restraints on large banks. For much of 2018 credit extended from small banks was increasing most quickly, as they took advantage of favourable amendments to the Dodd-Frank legislation. Democrat Maxine Waters was recently appointed as chair of the House Financial Services Committee. Hence, further regulatory easing looks less plausible. Influential voices such those of former Fed chairperson Janet Yellen are against any easing of capital and other rules on the banks.

Inflation has eased since the start of the year, with consumer prices up by only 1.5% in the year to February, the lowest reading in over two years. Rises in the producer price index have also slowed, suggesting few upward pressures on prices in the near future and thus obviating the need for further hikes in the Fed Funds Rate. The unemployment rate has hovered around a level just under 4% for a year now, without causing a spike in wage growth or inflation. In summary, while concerns remain about the Fed's asset run-off, thus far in 2019 the money numbers for the US remain satisfactory.

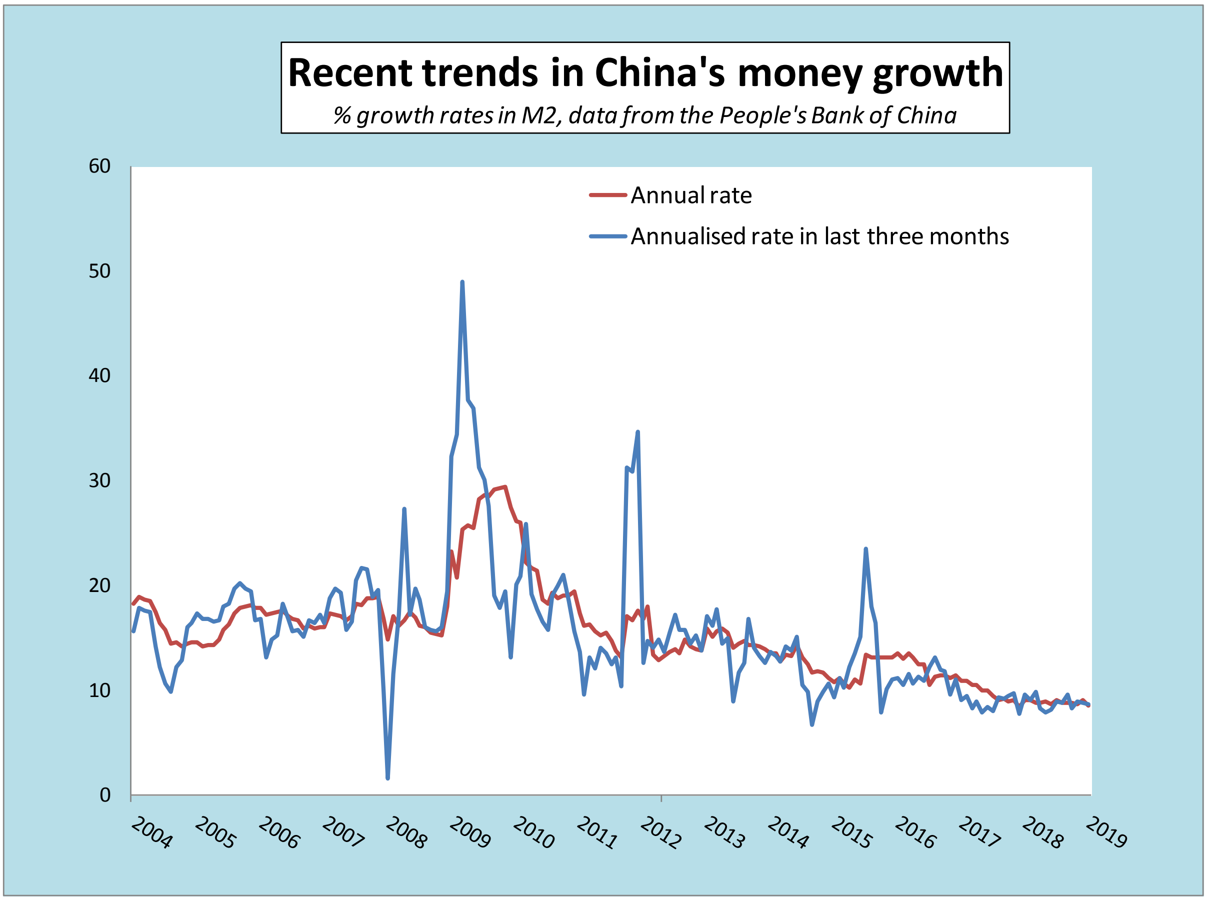
John Petley
12th March, 2019

	% 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**

China

	% annual/annualised growth rate:	
	M2	Nominal GDP
1991- 2018	**19.2**	**15.1**
2010 - 2018	**13.6**	**11.2**
Year to January 2019	**8.5**	**n/a**
Three months to January 2019 at annualised rate	**8.6**	**n/a**

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



Broad money growth begins 2019 on a stable note

***Summary*: In the three months to January 2019 China's seasonally adjusted M2 grew by 2.1% or at an annual rate of 8.5%, slightly down on December's figure of 8.6% but very much in line with the average for 2018. As the chart above shows, Chinese broad money growth has been remarkably stable since the middle of 2017. Both annual and annualised quarterly growth rates have consistently remained almost entirely within the 8% - 10% band. Given the tight control exercised by the Chinese authorities over the economy, the stability suggests that they are comfortable with these levels.**

Growth in the stock of lending by China's banks fell slightly from 13.5% in the year to December to 13.4% a month later. December's growth rate was the fastest for two years although still within the 12.5%-13.5% band observed since 2016. The positive data on bank lending comes against a backdrop of a crackdown on the shadow banking sector, which, according to the country's banking and insurance regulator, has achieved its target. The volume of unregulated lending has declined significantly. Measures have been taken to maintain stable growth in the volume of bank lending, especially to smaller companies, which were said to have been most reliant on shadow banking.

Interest rates have remained at 4.35% since 2016, but banks' cash reserve ratio requirements have been reduced in both January and February of this year, while on January 16th, the People's Bank of China made what is thought to be the largest ever injection of cash into the financial system, adding some 570b. yuan ($84b.) of liquidity via a reverse repurchase operation. In January, as usual, new credit allocations were made and the stock of loans to the private sector rose significantly, with a record 3.23 trillion yuan lent during the month. So far, the effect on seasonally adjusted broad money growth has been negligible, although February's figures will merit close scrutiny. The Chinese authorities have plenty of scope for further monetary loosening although instead they have opted for a fiscal stimulus, cutting VAT in March. Annual consumer price inflation fell to 1.7% in January, the lowest figure in a year and well beneath its 2018 inflation target of 3%. The slowdown in inflation at the factory gate was far more pronounced; prices were only 0.1% higher than in January 2018, which suggests that inflation is likely to remain subdued in coming months.

The Chinese housing market continues to surge outside those cities where tighter lending controls were imposed in the wake of the 2016/7 boom. The average price of a new home in China's 70 largest cities rose by 10% in the year to January, having only been increasing at an annual rate of 4.7% in May. So far, there has been no move to tighten up lending criteria. However, given the apparent success of similar measures in dampening house price growth in high-income cities such as Beijing and Shanghai, the authorities are likely to respond in a similar way if feel that prices are rising too steeply elsewhere. While talks continue between the USA and China in the hope of ending the trade war, February saw a dramatic fall in Chinese exports, which recorded a 20.7% year-on-year fall. The Chinese economy has slowed, but it is not in recession.

John Petley
8th March, 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**

INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

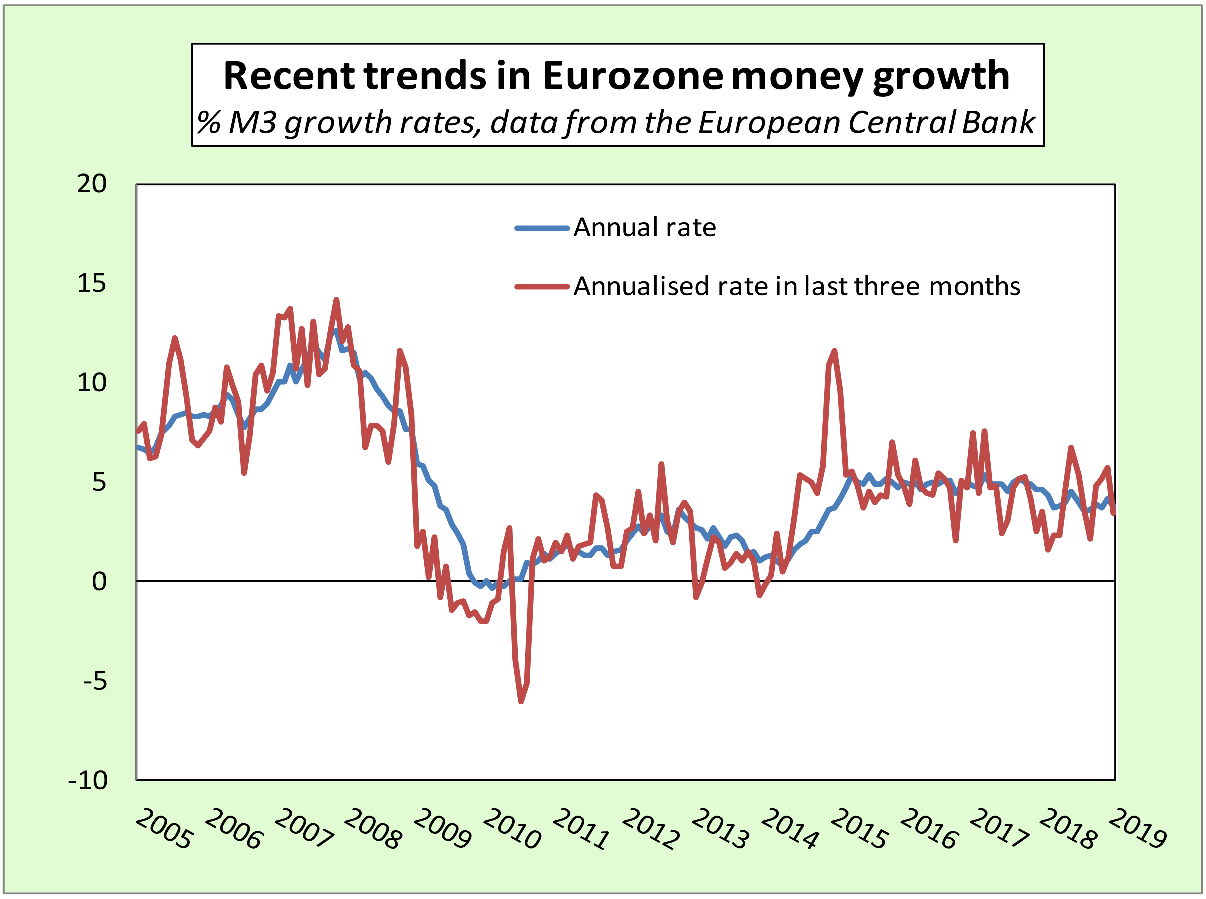
Analysis and insight into trends in money and banking, and their impact on the world's leading economies

www.mv-pt.org

Eurozone/Euroland

	% annual/annualised growth rate:	
	M3	Nominal GDP
1996 – 2017	**5.2**	**3.1**
Seven years to 2017	**3.6**	**2.4**
Year to January 2019	**3.8**	**n/a**
Three months to January 2019 at annualised rate	**3.4**	**n/a**

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



Money growth slows after end of ECB asset purchases

Summary**: In the three months to January 2019 broad money growth in the Eurozone fell back from an annualised rate of 5.7% to 3.4%, the slowest figure since September. In January itself the quantity of M3 money grew by a mere €5b,, a notable decline from December's figure of €70b. The annual M3 growth rate fell back from 4.1% to 3.8%.**

These figures are the first from the European Central Bank since it halted its asset purchase programme (or "quantitative easing") at the end of 2018. Three months earlier, the ECB reduced the monthly asset purchases from €30b. to €15b. and this resulted in a fall in the total value of banks' holdings of government securities for two out of the three final months of the QE programme. In December, the picture was very different, with the figure rising by €55b, but the downward trend resumed in January with a further fall of €11b. These notes have predicted a monetary slowdown in the periphery after the end of QE. The month of January saw a drop in the quantity of money, broadly defined, in Spain, Italy and Greece, nations on the so-called Eurozone periphery which were badly hit in the recession conditions from 2008 to 2014.. However, in January Germany also saw a fall in total M3, resulting in annualised quarterly growth falling from 4.7% to 2.6%, below the average for the Eurozone as a whole.

This slowdown in money growth has so far not been associated with a decline in bank lending to households, which grew by 3.2% in the year to January, an increase on December's figure of 3.0%. January also saw an increase in the stock of business loans, but a drop on lending the previous month resulted in the annual growth rate falling from 2.8% to 2.2%, with a particularly sharp fall in short-term loans. It is hard to find any evidence in support of the claim by ECB president Mario Draghi last year that, "M3 growth is increasingly supported by bank credit creation". In his own country, Italy, bank lending declined steadily throughout 2018, with December's reading being the worst since the Great Recession. Draghi launched the QE programme ostensibly to address deflation. On this score too the termination of the asset purchases in December seems premature. Across the currency bloc as a whole, prices rose by 1.4% in the year to January, rising to 1.5% in February, but still significantly below the ECB's target of "2% or just below" In some individual member states the figure is much lower. For example, in the year to January prices rose by only 0.9% in Italy and a mere 0.4% in Greece. Draghi has insisted that the ultra-loose monetary policy will continue at least until the summer, with the ECB committed to maintaining its balance sheet at the current level. After warning that long-term refinancing facilities for weak banks are to be withdrawn from mid-2019 on 7th March Draghi announced a new series of targeted long-term refinancing operations (TLTRO-III) which will begin in September 2019, although the terms for lending will be less favourable than the previous LTROs . Draghi was downbeat about the economic prospects for the Eurozone, downgrading predicted GDP growth to 1.1% for 2019.

January's figures show that, without further stimulus, broad money growth in 2019 will – almost certainly – be lower than in 2018. Italy is already in recession, having recorded two consecutive quarters of negative GDP growth, while the manufacturing sectors in both France and Germany are weak.

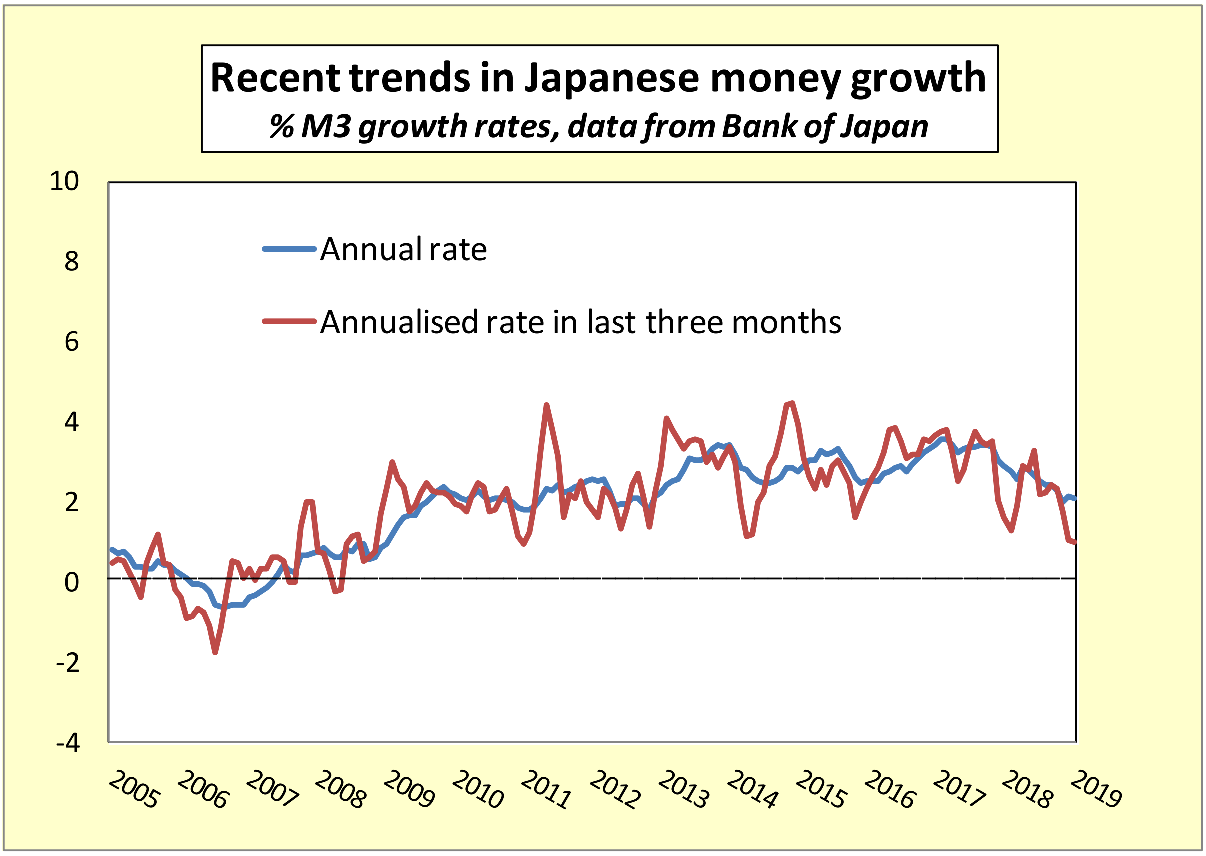
John Petley
6th March, 2019

	% 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**

Japan

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2017	4.0	1.9
Six years to 2017	2.9	0.5
Year to January 2019	2.1	n/a
Three months to January 2019 at annualised rate	1.0	n/a

Sources: Bank of Japan for M3 and IMF for GDP



Sluggish broad money growth continues into 2019

Summary: **In the three months to January 2019 Japanese M3 broad money grew at an annualised rate of a mere 1.0%. This was unchanged on December's figure, but was otherwise the slowest growth rate on this basis since January 2011. It was also markedly beneath the 2.8% average of the last five years. The deceleration in money growth comes after several years of apparently ultra-loose monetary policy by the Bank of Japan – notably its programme of "Qualitative and Quantitative Easing" – which began in 2013.**

In recent years substantial purchase of Japanese government bonds by the central bank did boost Japanese broad money growth relative to what might otherwise have occurred. But the effect was modest, relative to the huge expansion of the monetary base. Given the mediocre growth in Japan's economy since 2013, the Bank of Japan would have been better advised to pay more attention to broadly-defined money. Official data identify a better relationship between broad money and nominal GDP than between the monetary base and nominal GDP. In fact, the principal objective of the "QQE" programme was to end deflation and raise the annual rate of consumer price inflation to 2%. The latest data shows that this objective is not being accomplished. Prices rose by a mere 0.2% in the year to January, the lowest inflation rate since October 2017. Apart from a 12-month period in 2014 when an increase in the sales tax pushed inflation above 3%, the BoJ has never reached the 2% target.

Minutes from the BoJ's Monetary Policy Committee insist that the economy is moving in the right direction. Some figures which to some extent substantiate the MPC's claim are those for bank lending. The stock of loans grew by 2.4% in the year to January, unchanged from the previous month, which was the highest figure in 2018. Nonetheless, this is still a shade lower than the 2017 average of 2.6%. Consumer spending rose to its highest level since 2014 in the final quarter of 2018. There are few other figures which provide support for the MPC's optimism. After growing at an annual rate of only 0.1% in the third quarter of 2018, Japan's GDP recorded no year-on-year growth at all in the final quarter. The housing market remains in the doldrums and in January 2019, consumer confidence fell to its lowest level in more than two years. Wage growth is modest, and hopes that the tight labour market would push it higher have proven unfounded. The unemployment rate has remained within the 2.2% - 2.5% band for over a year without causing a sustained increase in salaries.

A degree of flexibility has been introduced to the BoJ's bond purchase programme, and the minutes confirmed that the stimulatory measures would continue for the foreseeable future. Haruhiko Kuroda, the BoJ's governor, told the Japanese Parliament in February that further QE might be considered if the yen continues to strengthen against the dollar and inflation remains low. The recent slowdown in broad money growth may or may not persist but on balance it looks likely that such growth is likely to be lower than the 3% annual rate typical of 2016 and 2017. Even so, Japan's economy is widely expected to grow in 2019, albeit only modestly. The dip in money growth argues that inflation will continue to be minimal, well under the BoJ target,

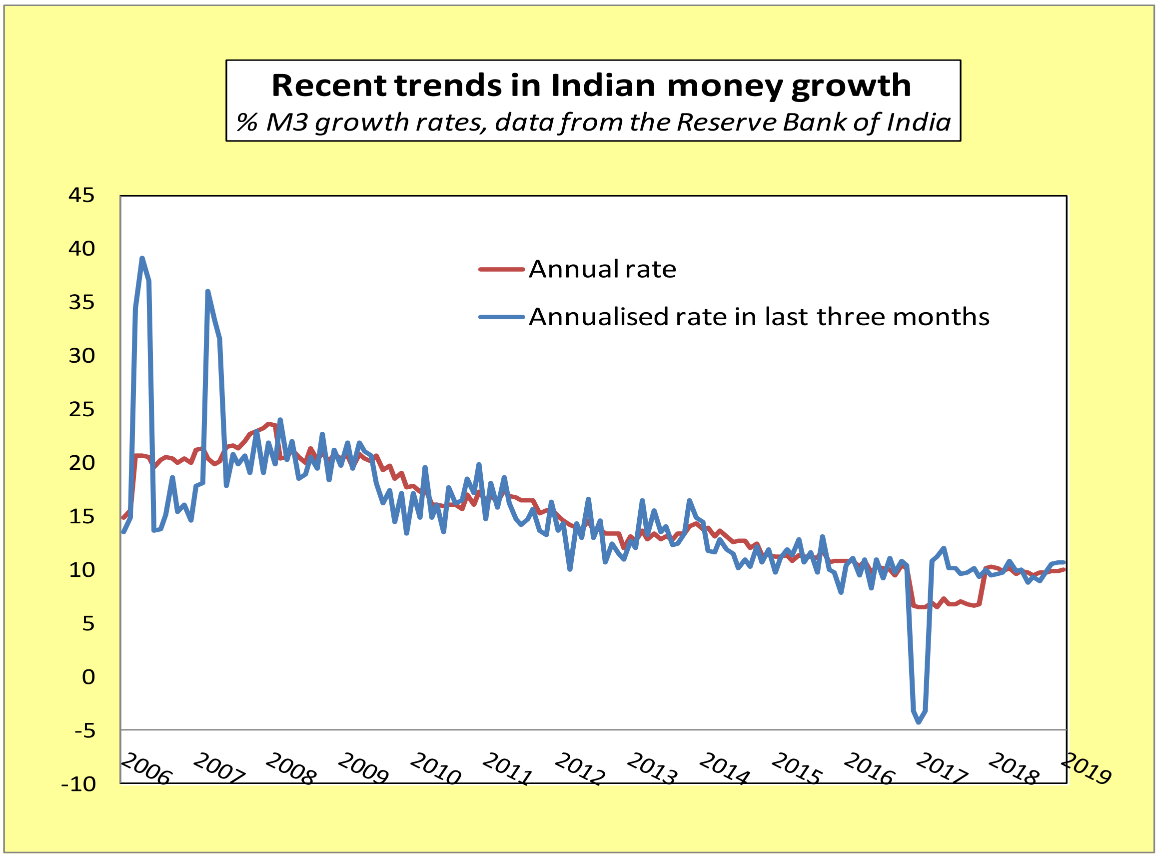
John Petley
19th February, 2019

	% 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
1991- 2017	**15.8**	**12.5**
2010 - 2017	**12.1**	**7.3**
Year to January 2019	**10.0**	**n/a**
Three months to January 2019 at annualised rate	**10.7**	**n/a**

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



Broad money growth continues at a healthy level

Summary: **In the three months to January 2019 India's M3 (seasonally adjusted) grew by 2.7% or at an annualised rate of 10.7%. This was unchanged on December's figure, which was the highest reading since June 2017. The annual M3 growth rate also ticked up from 9.9% to 10.0%. As the graph above shows, Indian broad money growth has been remarkably stable, showing little fluctuation within the 9.5% - 11% band since recovering from the de-monetisation exercise in November 2017.**

The Reserve Bank of India cut interest rates by 0.25% on 7th February, reversing the rate rise of 1st August. With inflation subdued, there was plenty of scope for a cut. India's official inflation target is 4%. For the last three months, consumer prices have been rising at an annual rate of less than 2.5%. Food prices continue to fall, despite an indifferent monsoon in 2018. With the increase in the producer price index also slowing and global inflationary pressures weak, inflation is likely to remain below 4% in coming months. Furthermore, the rupee's retreat on the foreign exchanges seems to have halted since the start of 2019, which should keep down the cost of imports. It is noteworthy that interest rates have been cut when bank lending continues to be buoyant. Since the start of the year, the stock of loans has been increasing at roughly 14.5% per year. While this is down on December's figure of 15.1% (the strongest pace of credit advance since 2012), it is still a strong number.

The interest rate cut may be linked with the forthcoming general election, due to be held in the spring. Following the resignation of Urjit Patel as governor of the Reserve bank of India (India's central bank), Shaktikanta Das, a close ally of India's current Prime Minister Narendra Modi was appointed in his place. Soon after taking office, Mr Das reversed his predecessors' policy on restructuring bad loans. As he also indicated that he has no intention of tightening monetary policy, the cut in the base rate is no surprise. Regrettably, the ruling BJP party appears to be compromising the independence of the central bank for political ends. The election campaign will not be launched against a backdrop of credit restraint and falling investment. (The final budget before the election also offered sweeteners to voters in the shape of substantial tax cuts and a boost to farm subsidies.) While the loan restructuring policy of Mr Das' predecessors was extremely strict, perhaps excessively so, some of India's banks had been engaging in politically-motivated and corrupt lending. A greater degree of rigour was needed when considering new loans. Only a month after the jailing of two former officials from the Mumbai-based Central Bank of India, (a large government-owned bank) for their part in a 12 million rupee fraud, another fraud, albeit not on quite such a large scale, has been unearthed by the municipal authority of Kolkata (Calcutta). These are unlikely to be the last scandals to affect India's banks.

In spite of blatant political interference in the economy, India's macroeconomic prospects remain positive for the first half of 2019. The money numbers are positive, while the country boasts one of the fastest-growing major economies in the world. With a burgeoning middle class and increasing numbers of well-educated young people, the current level of growth ought to be sustainable for several years to come. With per capita GDP less than one third than that of China, there is enormous scope for catch-up growth.

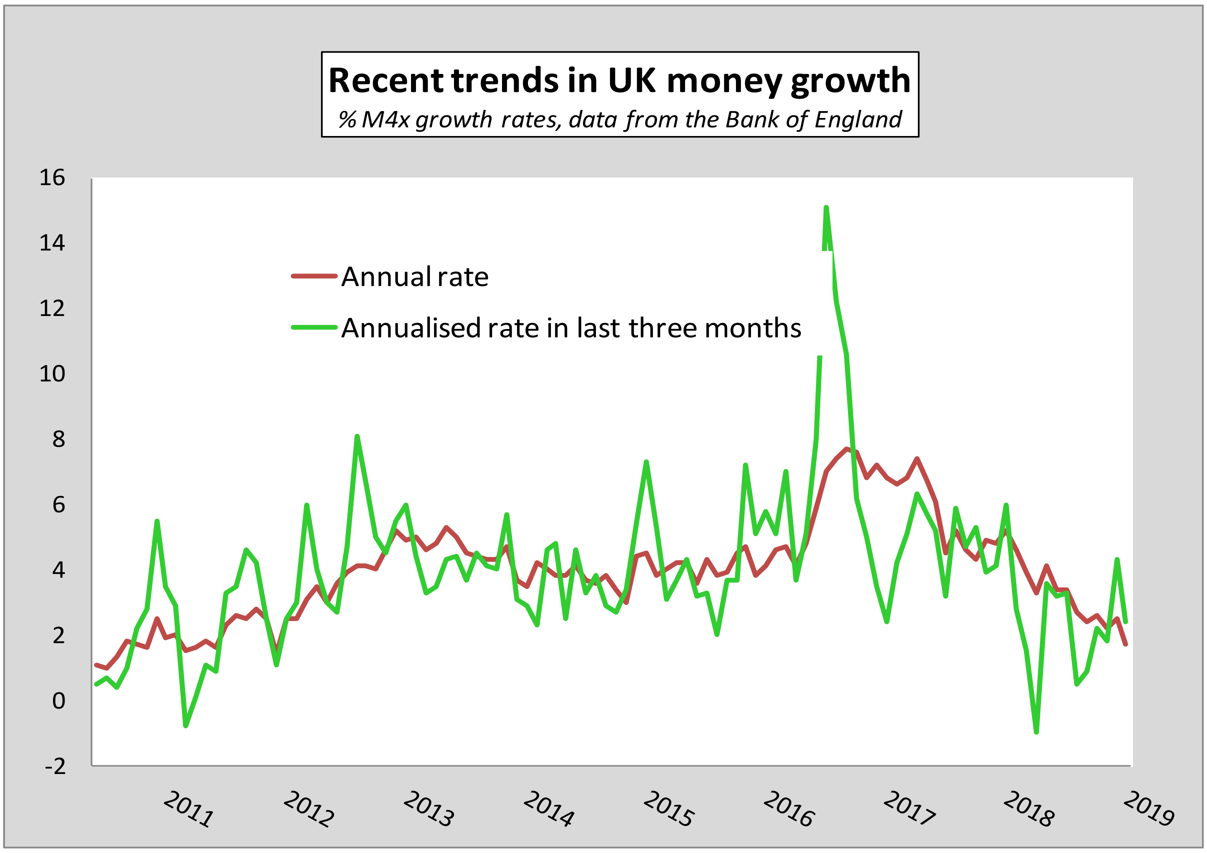
John Petley
20th February, 2019

	% 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**

UK

	% annual/annualised growth rate:	
	M4x/M4 before 1997	Nominal GDP
1964 – 2017	**9.8**	**8.2**
Seven years to 2017	**3.8**	**3.6**
Year to January 2019	**1.7**	**n/a**
Three months to January 2019 at annualised rate	**2.4**	**n/a**

Sources: Bank of England and Office for National Statistics



Broad money growth weakens

Summary: **In the three months to January 2019 M4x growth rose by 0.6% (or at an annualised quarterly rate of 2.4%), a notable drop from December 2018's comparable figure of 4.3%. In January itself the quantity of money fell by £3.7b, the biggest fall since February 2018 and the sixth month in the last twelve to have seen an outright fall in the M4x quantity of money. During 2018 only in May, when finance was being organized for several large takeovers, was a particularly strong money growth figure recorded. In January the annual growth rate fell from 2.6% to 1.7%, the lowest figure since December 2011.**

Money and credit have diverged in recent months. Bank lending both to individuals and businesses remained buoyant in January. In December, lending to small- and medium-sized enterprises recorded its first growth – on an annual basis – for many years. The trend has continued into January. There was also an uptick in the growth of the stock of loans by larger companies, which increased by 6.4% in the year to January. Lending in the housing sector also picked up, with the number of new mortgages agreed in January, 66,766, only surpassed once in the last twelve months. The (probably) inadvertent run-off of asset purchases in the third quarter of 2018 by the Bank of England seems to have come to an end, with the Bank's balance sheet increasing during the last two months.

In spite of these positive figures, the fall in the quantity of broad money is a cause for concern. The wider economy continues to send out mixed signals. The GDP growth rate in the year to the final quarter of 2018 was a mediocre 1.3%. Unemployment has remained at 4.0% or 4.1% since June, but the number of unemployed person rose above one million in January. Wage growth, which rose to 3.4% in November, (the highest figure in over a decade), was at the same figure in the year to December. Retail sales were up by 4.2% year-on-year during January with consumer spending remaining buoyant. Recent demand may owe something to pre-Brexit stock-building.

Inflation fell below the Bank of England's 2% target for the first time in two years, with prices rising at 1.9% in the year to January. UK exports continue to perform well, although slightly down from October's record volumes. Business confidence, however, is even lower than consumer confidence, thanks – allegedly – to a combination of Brexit uncertainties and signs of a slowdown in the Eurozone, an important trading partner. In view of the lack of clarity over Brexit, it is no surprise that the MPC voted unanimously to keep interest rates at 0.75% in both the January and February meetings and it can be taken as read that there will be no increase in March. Indeed, the next move in base rates could be downward, perhaps accompanied by a further round of "quantitative easing". Much depends on whether the economy slows suddenly in the immediate post-Brexit period, assuming the UK does indeed exit the EU on 29th March. The combination of disappointing money figures and uncertainties surrounding Brexit suggest that the best that can be expected from the UK economy is modest below-trend growth in the first half of 2019.

John Petley
8th March, 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**