



[The Institute of International Monetary Research is a research institute with charitable status. This note is being e-mailed to people and organizations interested in global money trends, and the relationships between money and banking on the one hand and macroeconomic outcomes on the other. It is not business or investment advice, and the Institute accepts no responsibility for decisions taken in the light of the analysis given.]

Monthly e-mail from Tim Congdon and John Petley – 27th October, 2020

Global money round-up in autumn 2020

Global economic prospects continue to hinge on the widespread availability of a Covid-19 vaccine. The latest reports are that the so-called “Oxford vaccine” (AZD1222) will be safe and effective for the elderly, the one group that is particularly vulnerable to the virus. **It is assumed below that medical normality will have returned by late 2021.**

According to the analyses made in these notes, the key issue in macroeconomic policy-making next year will be to meet the inflationary threat posed by the overhang of excess money balances created in spring 2020. The seriousness of the threat depends to some extent on the rates of money growth seen in the main economies in the second half of 2020. In the three months to September money growth came to a virtual halt in the USA, while elsewhere in the developed world money growth was more moderate than in the four months to June. These developments qualify forecasts that a significant rise in inflation is to be expected in 2021 and 2022, after – for example – the highest growth rate of US money since 1943. However, to stay with the USA, a big fiscal stimulus package is likely to follow the Presidential election. If the cost is \$2,000b. and the extra deficit is financed 100% from the banking system, M3 broad money will increase by 8%. In the Eurozone 2020’s money acceleration has been less dramatic, while no special further stimulus is to be envisaged. All the same, the European Commission was reported in the *Financial Times* of 20th October as estimating a combined 2020 budget deficit for the 19 Eurozone states of €976b., 10 times the 2019 figure. That, combined with the central bank asset purchases due under €1,350b. Pandemic Emergency Purchase Programme, surely means that money growth will remain in the next few quarters similar to or above the levels seen in 2018 (4% at end year) and 2019 (5%).

Money trends in mid-2020 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. The Covid-19 coronavirus outbreak continues to dominate the headlines, and demand and output have been influenced to an extraordinary extent by medical news rather than macroeconomic policy. The main points argued in the Institute's recent research are that

- the policy response to Covid-19 has resulted in marked accelerations in money growth in many nations, particularly in the world's leading economy, that of the USA,
- given an eventual return to normal levels of the velocity of circulation, reflecting the long-run stability of households' and companies' money-holding preferences (for which the evidence is overwhelming), the accelerations in money growth will be followed by similar accelerations in the growth of nominal national income, and
- given that the world's underlying productive capacity has not been helped by Covid-19 (and may indeed to a minor degree have been impaired by it), much higher growth of nominal national income must lead to faster inflation than has been standard in the last 20/30 years.

It has to be said in qualification that, if the big leap in money balances in spring 2020 were offset by an equally large drop in the second half of the year, the message would be wrong. The last three months have indeed seen a slowdown in money growth, as is evident from the table below.

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	0.9	23.5	Sharp recent months deceleration, but expected post-election fiscal stimulus likely to be monetised.
China	18.7	16.1	10.5	10.8	Money growth stable, after brief spurt due to pandemic-related stimulus measures..
Eurozone	10.6	16.4	6.7	9.5	Money growth slowing, but still – in high single digits – at annual levels above those in most recent years.
Japan	4.2	5.9	8.2	7.4	Stronger growth of bank credit to private sector part of reason for fastest money growth for 30 years.
India	7.7	3.3	12.9	12.8	Credit and money growth steady at high rates, with budget deficit hit by Covid-19 loss of tax revenues.

UK	2.2	3.4	7.0	11.6	Annual money growth off recent peaks in teens, but still above the norm since the Great Recession.
----	-----	-----	-----	------	--

However, only in the American case has the slowdown been particularly sharp. The latest three-month annualised rates in China (10.5%), the Eurozone (6.7%), Japan (8.2%), India (12.9%) and the UK (7.0%) are all somewhat above the typical annual money growth rates in the last five years. Moreover, a key question in the USA is the scale of the coming fiscal stimulus package and its financing pattern. Most commentary suggests that the cost of the stimulus (i.e., the increase in the budget deficit) will be between \$1,800b. and \$2,200b., while American policy-makers seem to be unconcerned if most or all of the deficit is financed from the banking system and results in monetary expansion. As has been pointed out in these notes several times, Federal Reserve statements in 2020 have not mentioned the quantity of money on any definition, even as – for all the aggregates tracked by economists – the recent annual increase has been the highest since 1943. It is entirely conceivable that the additional fiscal action will lead to another spurt in money growth. Analysts have no alternative to watching the data as they come out month by month.

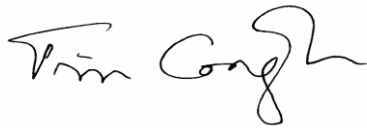
The overwhelming consensus of macroeconomic commentary and analysis - from national authorities, supranational bodies (such as the International Monetary Fund and the Organization for Economic Cooperation and Development) and mainstream media – is very different in theme and conclusion from our own. The consensus is that the output setbacks and job losses due to Covid-19 will have persisting effects over a few years, and that disinflationary forces are deeply entrenched. A debate has emerged about whether the Covid-19 pandemic and the policy response to it will lead to more inflation or less. But the debate is so far very one-sided, with the vast majority of influential economists siding with the disinflationary argument.

In fact, the evidence is mixed. A salient feature of the main economies at present is the resilience of asset markets. The major indices of US stock prices have hit new highs in 2020, despite the undoubted damage to the profitability of most companies that the lockdowns and associated restrictions have caused. In a recent blog (5th October) for the Project Syndicate website Professor Kenneth Rogoff of Harvard University observed a supposed “disconnect” between financial markets and economic reality. In his view, “The best explanation for why stock markets remain so bullish despite a massive recession is that major publicly traded companies have not borne the brunt of the pandemic’s economic fallout.” Instead unquoted smaller companies and service industries are said to have suffered most severely.

In my view, the best explanation for the “disconnect” is quite different. In the four months to June 2020 the quantity of money, on the broadly-defined M3 measure, jumped by about 15% in the USA, the largest increase in such a short period in modern American peacetime history. All investors have to balance money against non-money assets in their portfolios, and – contrary to the silly stereotypes in the Keynesian textbooks – the most important kind of balancing is between money and equities, not between money and bonds. With consumer inflation still being held back for the time being by, among other factors, over-supply in the oil market, money-holders generally have not needed extra “transactions balances”. Instead we have a situation, particularly in the USA, where “too much money is chasing too few assets”.

Milton Friedman warned several times in his long career that, although inflation was “always and everywhere a monetary phenomenon”, the short-run correlation between changes in the quantity of money and changes in the price level was often poor. Governments needed to understand that the

relationship between money and the price level was subject to “long and variable lags”. With the US Presidential election imminent, now is a particularly sensible time to recall the immortal conclusion of the famous Civil Service memo that all the uncertainties lie in the future. All the same, the behaviour of asset prices in 2020 is consistent with the claim that the leading economies suffer not from a chronic weakness of demand, but from monetary disequilibrium after the creation of too much money. Given the dominant position of New Keynesian economists in the top central banks and finance ministries, a reasonable surmise is that – if inflation does start to edge up in early 2021 – they will blame it on special factors in particular product and labour markets, and not on the extravagant response of fiscal and monetary policies to the challenges of the coronavirus pandemic. But every price rise is a reaction to supply and demand developments in particular markets, just as general inflation is – in the long run and on a significant scale – only to be ascribed to excessive monetary growth.

A handwritten signature in black ink, appearing to read "Tim Conger". The signature is fluid and cursive, with the first name "Tim" and the last name "Conger" clearly distinguishable.

27th October, 2020



INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

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

USA

	% annual/annualised growth rate:	
	M3	Nominal GDP
1961 – 2019	7.4	6.5
Nine years to 2019	4.5	4.1
Year to September 2020	23.5	n.a
Three months to August 2020 at annualised rate	0.9	n.a.

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



US money growth slows sharply, ahead of expected fiscal boost

Summary: In the three months to September the annualized rate of growth of US M3 broad money fell to 0.8%, dramatically different from the three months to June when M3 went up by almost 15% and the annualized rate of growth was an astonishing 71.3%. The quantity of money fell in July and August, while September saw a return to growth, with an increase of \$117b. or 0.5%. The annual growth rate fell slightly from 23.9% to 23.5%. (Our M3 data come from Shadow Government Statistics. The figures for July and August have been revised.)

Is the USA's epidemic-related fiscal and monetary spree of 2020 now over? This looks unlikely, although the most intense phase of the spree does seem to lie in the past. The key uncertainties are the size of the expected fiscal package and the extent to which it is financed from the banking system. Whatever the results of the presidential election, a big fiscal package is on the cards. Figures of between \$1,800b. - \$2,200b. are being mentioned in the press. One element is a possible second "stimulus check" (a direct payment to each US resident) of as much as \$1,200 per person. If the extra deficit were \$2,000b. and it were financed entirely from the banking system, that would add about 8% to M3 money. If the fiscal injection and 100% monetary financing were completed before the end of January 2021, the annual rate of M3 growth might approach 30%.

One reason for slowdown in broad money growth in the last three months is the reduction in asset purchases by the Fed, relative to the frenzy of late March and April. In the one week ending 1st April, \$362b. of Treasuries were purchased. The figure for the week ending 22nd July was a mere \$6b. The pattern is similar for mortgage-backed assets, where purchases have declined sharply from the \$178b. acquired in the week ending 14th May. US banks' cash assets fell by almost \$300b. in July. They have risen since then, but the most recent figure (\$2,965b.) from the Fed (for the week ending 14th October) are still over 10% below the 20th May peak of \$3,318.2b. (The stock of lending by US banks fell in September, although not much. Lending to businesses has been on a downward trajectory since May.)

No other developed economy has embraced fiscal stimulus on the American scale. Few economists and policy-makers in the USA pay much attention to money numbers when assessing the economy, but most of the indicators which are more closely studied point to the recovery continuing. Given the scale of the fiscal and monetary stimulus, this should be no surprise. The level of unemployment continues to fall, while retail sales are running higher than 2019 levels. Inflation remains below the Fed's 2% target, but - after falling to 0.1% in the year to May - consumer inflation is on a definite upward trend. The figure four months later is 1.4%. The full inflationary effects of the surge in broad money growth have not yet manifested themselves, and will do only in 2021 or 2022 after an upturn in demand and activity.

Tim Congdon and John Petley
23rd October, 2020

	% annual growth rate:	
	M3	Nominal GDP
1960 – 2018	7.4	6.5
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



INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

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

China

	% annual/annualised growth rate:	
	M2	Nominal GDP
1991- 2018	19.2	15.1
2010 - 2018	13.6	11.2
Year to September 2020	10.8	n/a
Three months to September 2020 annualised rate	10.5	n/a

Sources: People's Bank of China for M2 and Institute of International Monetary Research



Broad money growth remains above 2019 levels

Summary: In the three months to September 2020 China's M2 grew by 2.6% or at an annualised rate of 10.5%. This is a significant increase on August's figure of 9.1%, which was the lowest reading since June 2019. The annual rate of growth picked up from 10.5% to 10.8%, a number somewhat higher than 2018 and 2019 when it stayed mostly within a narrow band of 8% to 9%.

Unlike the other countries covered in these notes, the coronavirus is reportedly no longer impacting China's economy in any significant way. According to state-controlled media, no deaths have occurred since May and the daily average of new cases is less than 20. In the third quarter of 2020, China's GDP grew by 2.7% and the annual growth rate picked up from 3.2% to 4.9%. This is lower than the 6-7% annual growth rate of 2018-19, but still a respectable figure given the disruption caused by the pandemic. Exports are up on 2019 levels. Indeed, in September, exports grew at an annual rate of no less than 9.9%, while industrial production rose 6%.

Growth in the stock of lending by China's banks currently stands at 13%. This figure is higher than in the months preceding the virus and suggests that businesses are sufficiently confident to take on new loans. In July and August, broad money growth was more in line with the levels seen in 2019, and September's increase is not exceptional. It is possible that the stimulus measures announced earlier this year may now be in abeyance. The Chinese authorities have become less transparent about their intentions for money growth. No official target for M2 growth has been set since 2017. It is impossible to determine whether or not they now wish to see M2 levels return to the 8%-9% of the last two years.

Consumer price inflation fell back from 2.4% in the year to August to 1.7% a month later, comfortably below the government's 3% target. The outlook seems relatively benign, not least because food inflation is falling. A combination of an outbreak of African swine fever and severe flooding pushed up food prices by over 20% earlier in the year, but by September the figure had dropped to 7.9%. As with businesses, Chinese consumers have recovered their confidence in the last couple of months, with consumer credit hitting a record high in September. Retail sales have also rebounded. After a modest 0.5% annual increase in August, September's figure was 3.3%. Average house prices rose by only 4.6% in the 12 months to September, the slowest rate of increase in over three years and an indication that the 2019 housing boom may well be over. In common with many other economies, higher money growth has buoyed up the Chinese stock market. It has risen by over 25% since the start of the year, hitting a two-year high on 9th July. As the graph above shows, the increase in Chinese M2 growth in 2020 has been much more modest than some earlier spikes. Although the current money numbers point to a positive macroeconomic outlook for the coming months, the People's Bank of China has recently raised concerns about the level of non-performing loans on the books of China's banks. The country's five biggest banks have all reported a fall in their profitability, with increased loan write-offs caused by the pandemic.

John Petley
19th October, 2020

	% 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



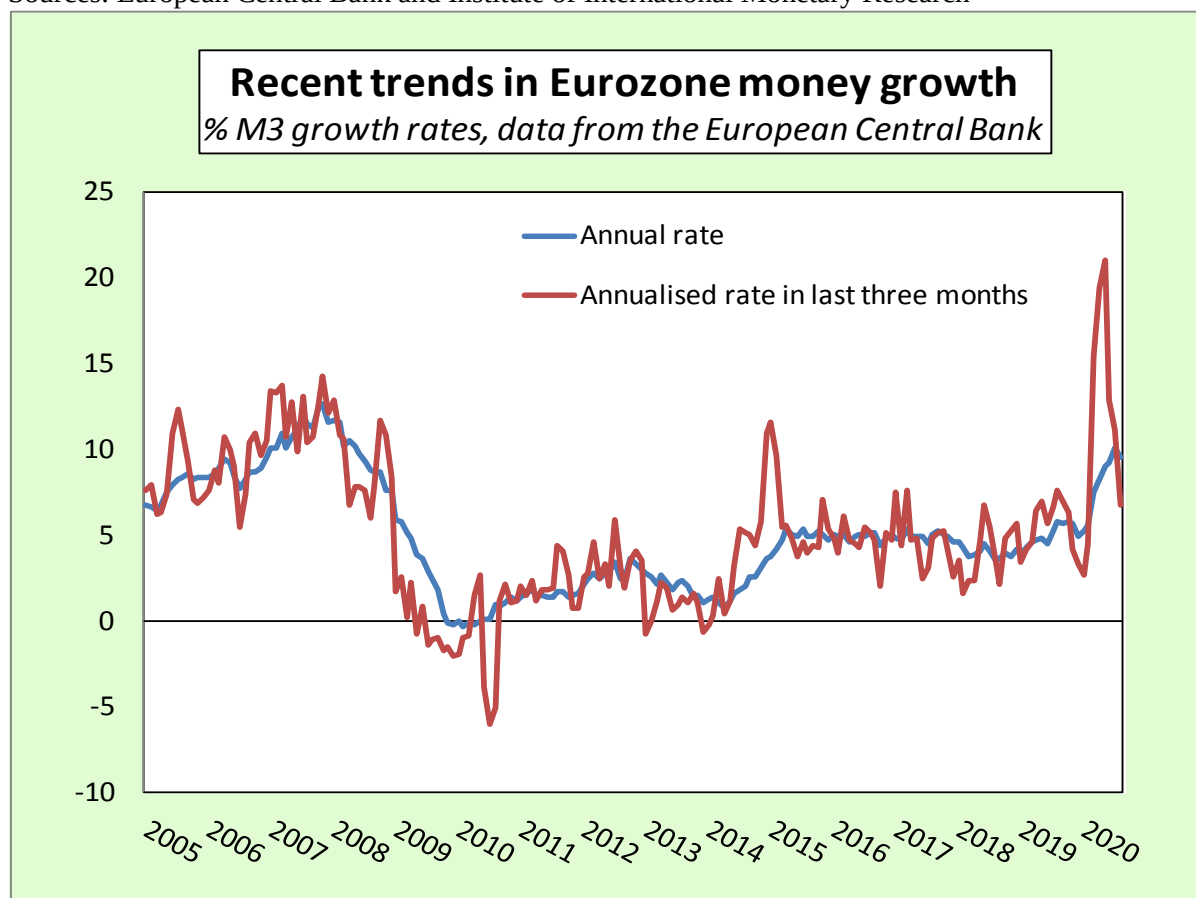
INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

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

Eurozone

	% annual/annualised growth rate:	
	M3	Nominal GDP
1996 – 2019	5.2	3.1
Nine years to 2019	3.8	2.5
Year to August 2020	9.5	n/a
Three months to August 2020 at annualised rate	6.7	n/a

Sources: European Central Bank and Institute of International Monetary Research



Money growth slows, but remains above the level of recent years

Summary: In the three months to August 2020 annualised M3 broad money growth in the Eurozone was 6.7%. M3 growth has been slowing on this metric since May, when it hit 21.0%. In August itself M3 grew by a mere €25b., a considerable reduction on July's figure of €201b. The annual growth rate fell from July's 12 year high of 10.1% to 9.5%.

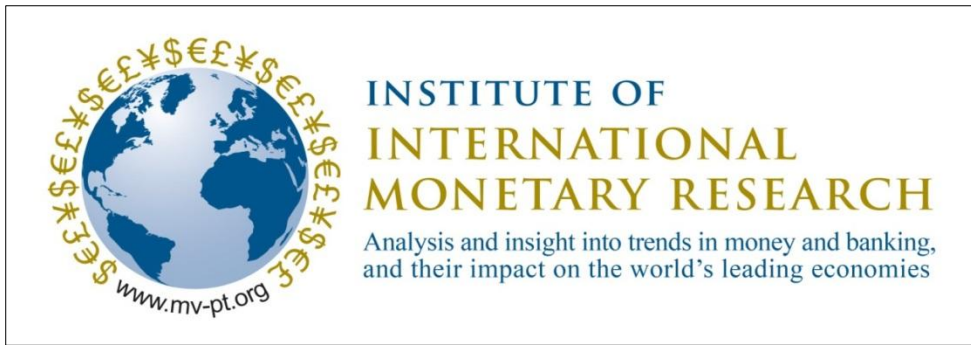
Current annual growth rates of the quantity of money, on the M3 broadly-defined measure, are over twice as high as those for the end of 2019. The acceleration reflects the fiscal and monetary initiatives launched in response to the coronavirus pandemic. Banks' purchases of government debt and central banks' purchase of assets, notably under the €1,350b. Pandemic Emergency Purchase Programme (PEPP), resulted in a sharp increase in money growth in spring 2020. More recently, money growth has moderated as ECB asset purchase have declined. At the end of September €567b. of assets had been purchased under the PEPP arrangement. The scheme is not scheduled to end until July 2021 at the earliest. If the asset purchases remain at current levels, they should be sufficient to boost the quantity of money by $\frac{1}{4}\%$ - $\frac{1}{2}\%$ a month. (In September itself PEPP purchases were €67b., about $\frac{1}{2}\%$ of M3, which was €14,017b. at the end of August. But various factors can cause money growth to be less than implied by the asset purchase figure.) Growth in the stock of loans to businesses stood at 6.6% in the year to August, while mortgage lending was up by a healthy 4.1%

The Eurozone's recovery from the pandemic continues. The much-reported "second wave" of Covid-19 infections, notably in France and Spain, may cause growth to slow in the third quarter of 2020. Consumer sentiment, however, continues to improve, with new car registrations returning to pre-pandemic levels. Industrial production rose by 0.7% in August.

The ECB continues to worry about low inflation. Consumer prices fell by 0.3% in the year to September, the second consecutive monthly fall. The appreciation of the euro against the US dollar has been an important factor in keeping prices down, although the euro has declined slightly since mid-September. The ECB president, Christine Lagarde, suggested in a speech on 30th September that, as part of the wide-ranging review of ECB strategy, she may argue for the ECB to follow the example set by the US Federal Reserve. (The Federal Reserve is moving to a target average inflation system, which would be lenient on inflation rates somewhat above 2%.) On 11th October, Philip Lane, the ECB's chief economist, added his support for higher inflation and suggested that the ECB may expand the PEPP. In a speech on 7th October, however, the Bundesbank's president, Jens Weidmann, argued strongly against this. (In these notes the Institute of International Monetary Research has argued that, because of the recent rapid growth in the quantity of money, current initiatives are likely to prove inflationary once businesses and consumers feel confident to operate with lower ratios of money to income and wealth. Thus far, only asset prices have responded in any significant manner to 2020's higher money growth. The Stoxx 50 share index, for example, rose by over 33% between a low on 17th March and the end of July, although it has moved down or sideways since then.)

Tim Congdon and John Petley
23rd October, 2020

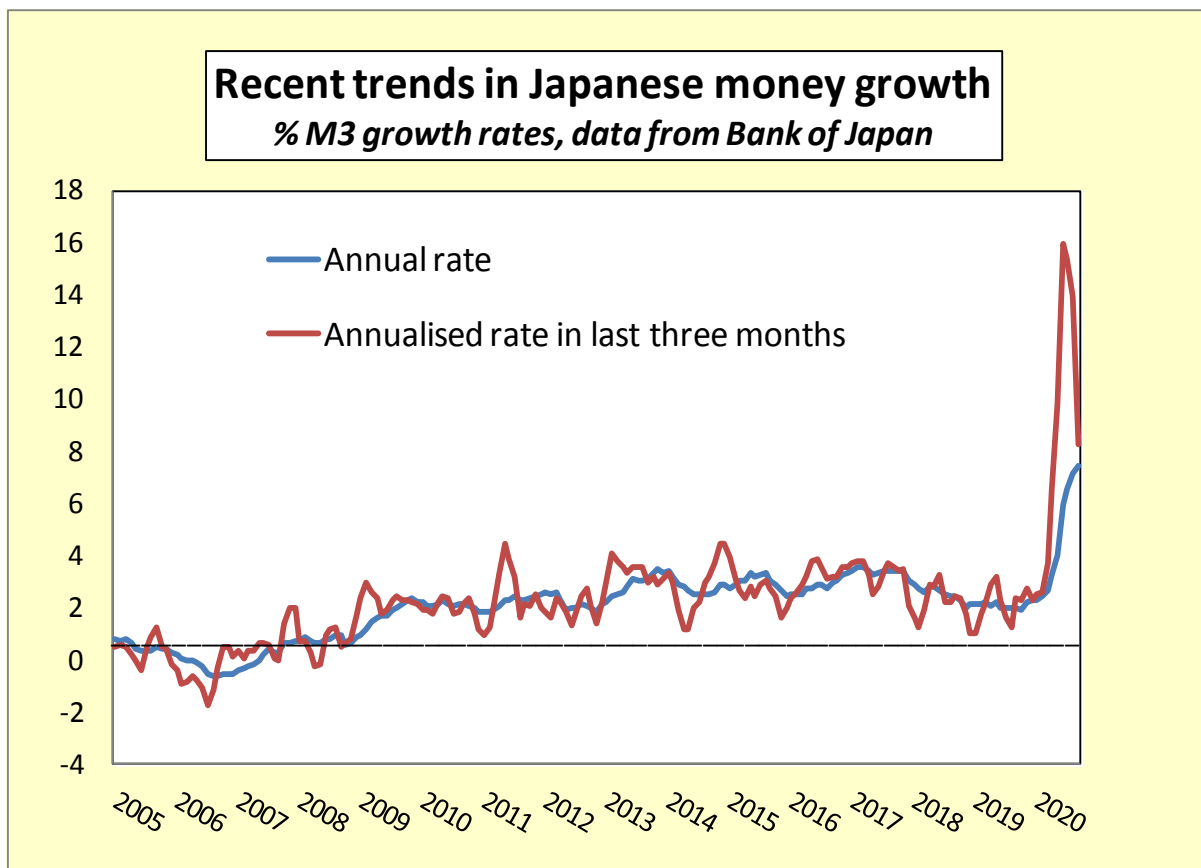
	% annual growth rate:	
	M3	Nominal GDP
1996 – 2018	5.2	3.1
1996 – 2000	4.6	4.1
2001 – 2010	6.8	3.1
Nine years to 2019	3.8	2.5



Japan

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2019	3.9	1.9
Nine years to 2019	2.7	0.9
Year to September 2020	7.4	n/a
Three months to September 2020 at annualised rate	8.2	n/a

Sources: Bank of Japan for M3 and IMF for GDP



Broad money growth slows, but remains high by Japan's standards

Summary: The three months to September 2020 saw Japanese M3 grow at an annualised rate of 8.2%. Since this metric reached 16.0% in June, broad money growth can be said to have slowed. But it still remains at a remarkably high level by Japan's standards in the last 30 years. The annual growth rate ticked up from 7.2% to 7.4%, the highest figure since 1989. In September itself M3 grew by 7.2 trillion yen. This is more than twice the 2019 average, but down from August's reading of 11.2 trillion and less than a third of June's record 25.2 trillion.

Japan's economy is showing minor signs of growth, after three consecutive quarters of contraction. The second quarter (Q2) of 2020, which saw a decline of 7.9%, is likely to be the worst reading, although the output fall was modest compared with that in other developed economies. Nevertheless, figures so far from Q3 are disappointing. Wages and retail sales remain lower than 12 months earlier, while the housing market recorded its 14th consecutive month of decline. September was the best month since March for Japanese exports, with a notable rise in car shipments to the USA, but the overall figure was still 4.9% lower than September 2019's. The level of unemployment remains low by international standards, but has risen from 2.2% at the end of 2019 to 3.0% in August. Only the stock market has seen much of a bounce-back. Thus, the Nikkei-225 index has returned to pre-Covid levels after falling by nearly a third in March. Japan has thus far suffered relatively few deaths from the coronavirus, perhaps surprising, given first, its large elderly population and, second, the country's avoidance of an official lockdown. Most businesses have remained open throughout 2020.

Even so, a series of expansionary fiscal and monetary initiatives have been launched since March. Their result has been a surge in broad money growth that is remarkable by the standards of Japan in the last 30 years. The fiscal stimuli have greatly increased Japan's public sector debt, with much of the recently issued debt having been bought by the Bank of Japan and Japan's commercial banks. Monetary policy was already loose before the virus. The Bank of Japan has been trying to raise the annual consumer inflation rate to 2% for much of the last decade, but with limited success. With inflation at a mere 0.2% in the year to August and falling to zero in September, however, the BoJ's Monetary Policy Committee unsurprisingly confirmed after its most recent meeting that monetary policy would remain very loose. Interest rates will be held at the current level of -0.1% and the special Covid-19 support measures, the enhanced asset purchases and yield curve control will remain in place for the time being. Significantly, one board member called for yet more monetary easing. The surge in broad money growth in recent months as a result of the fiscal and monetary initiatives may well push inflation significantly above the 2% target once the effects of the pandemic are over.

The rise in the growth rate of the stock of lending to the private sector, which stood at 6.4% in September may be due largely to companies affected by the virus needing extra cash to tide them over.

John Petley
14th October, 2020

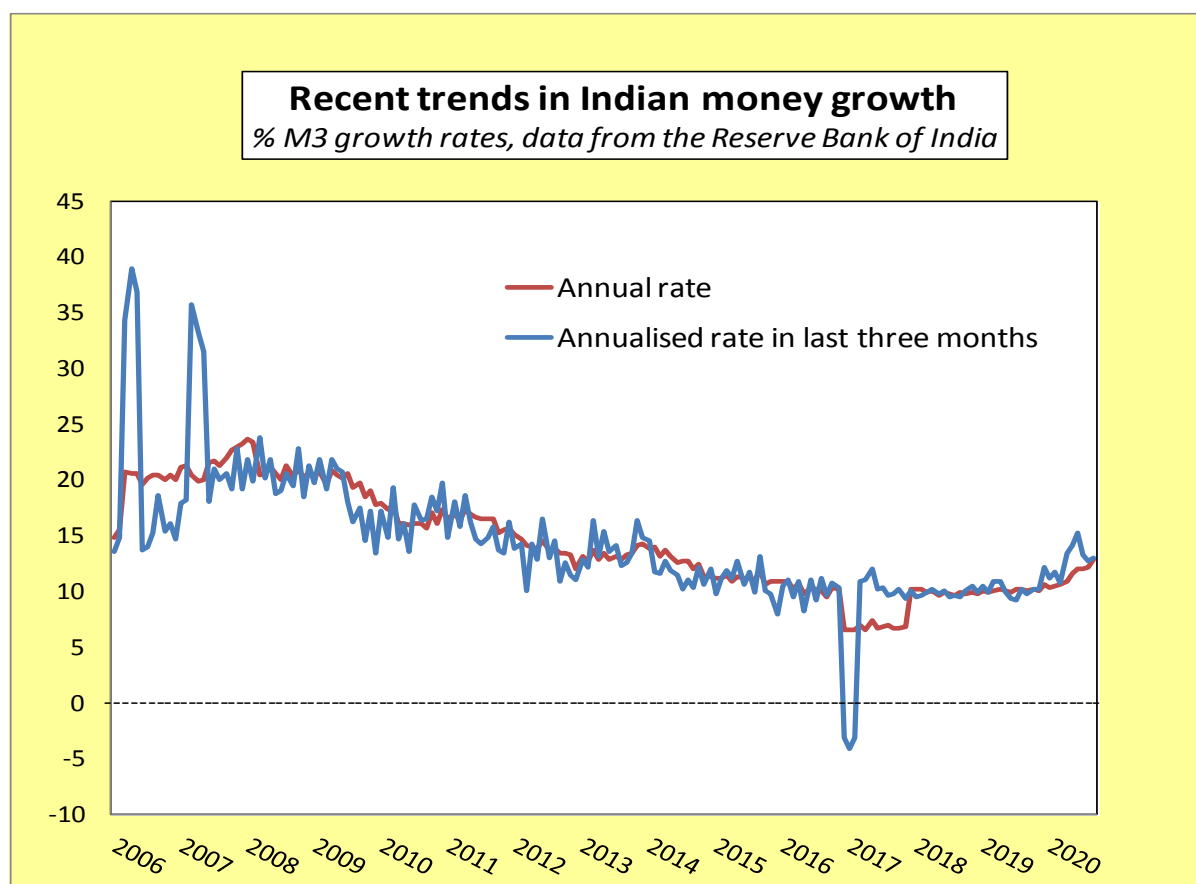
	% annual growth rate:	
	M3	Nominal GDP
1981 – 1990	9.2	4.6
1991 - 2000	2.5	1.1
2001 - 2010	1.1	0.8
Eight years to 2019	2.7	0.9



India

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2019	15.8	13.4
Nine years to 2019	11.2	11.9
Year to September 2020	12.8	n/a
Three months to September 2020 at annualised rate	12.9	n/a

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



Strong broad money growth continues

Summary: In the three months to September 2020 India's seasonally adjusted M3 grew by 3.2% (i.e., at an annualised rate of 12.9%), higher than August's reading of 12.7%, but lower than the figures for the months between April and July, which were all above 13%. Broad money growth remains above the levels of 2018 and 2019, but – as in other countries – the pace of expansion may be slowing. The annual growth rate rose from 12.2% in August to 12.8% the highest reading since May 2014. The upturn in money growth reflects an increase in the budget deficit and its financing from the banking system.

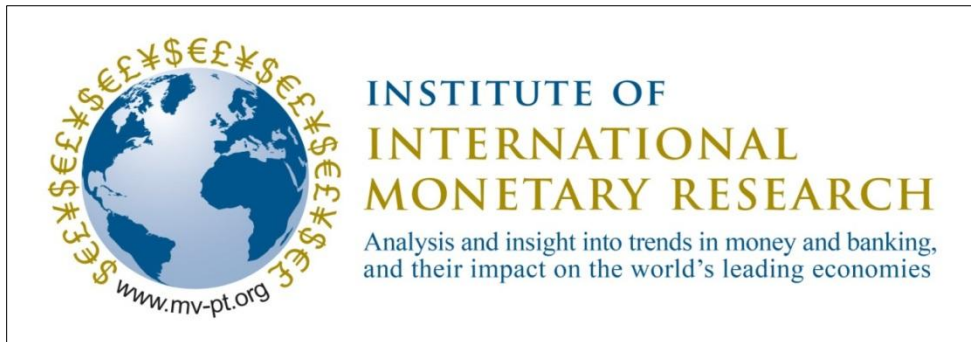
Although India has recorded the world's third highest total of Covid-19 deaths and the second highest number of infections, the fatality rate per head or population has been relatively low, perhaps reflecting the relative youth of the population. Both the infection and death rates are now slowing. In the months before the pandemic, India's economy was stagnating, while inflation was rising. The authorities introduced a very strict lockdown introduced on 24th March, but quickly eased it due to concern about the economic consequences. Businesses re-opened and the unemployment rate - which soared to 23.5% in May in the absence of a government-funded furlough scheme – began to fall and has now returned to pre-Covid-19 levels.

Government debt as a percentage of GDP has been rising over the past decade. Tax revenue plummeted as the economy contracted by 23.9% on an annual basis in the second quarter of 2020. As a result, the fiscal deficit is projected to be 7.6% in the 2020-21 financial year, more than double the 3.5% target. After a meeting on 8th October, the Reserve Bank of India's Monetary Policy Committee stated that it had chosen to "look through" the overshoot of the 4% inflation target in order to focus on growth. (Prices rose by 7.3% in the year to September.) Further monetary loosening looks unlikely, however. Base rates have remained at the record low of 4% for five consecutive months, following no fewer than eight rate reductions since late 2019.

Growth in the stock of lending by India's banks has slowed throughout the year in spite of the monetary easing and a special cheap loans scheme included in a government stimulus package. Loan growth fell to 5.1% at the start of October, the lowest reading since 2017. (2017 was affected by the de-monetization exercise of November 2016 - the mass withdrawal of 500 and 1000 rupee notes – which caused bank lending to plummet.) The Indian banking sector faces a number of problems. Shadow banks were hit by the RBI's announcement of a six-month moratorium on loan repayment by indebted non-banks in March. (These financial institutions are very dependent on the repayment of loans to finance new lending.) Moreover, some banks have not passed on RBI's base rate cuts to borrowers, because they wish to bolster profits, profit retentions and their capital reserves. The percentage of non-performing loans on the books of several large state-owned banks has climbed to over 10%. The RBI has calculated that this figure could rise as high as 15%, a symptom of past resource misallocation. But government borrowing from the banks will stay high for many months to come.

John Petley
19th October, 2020

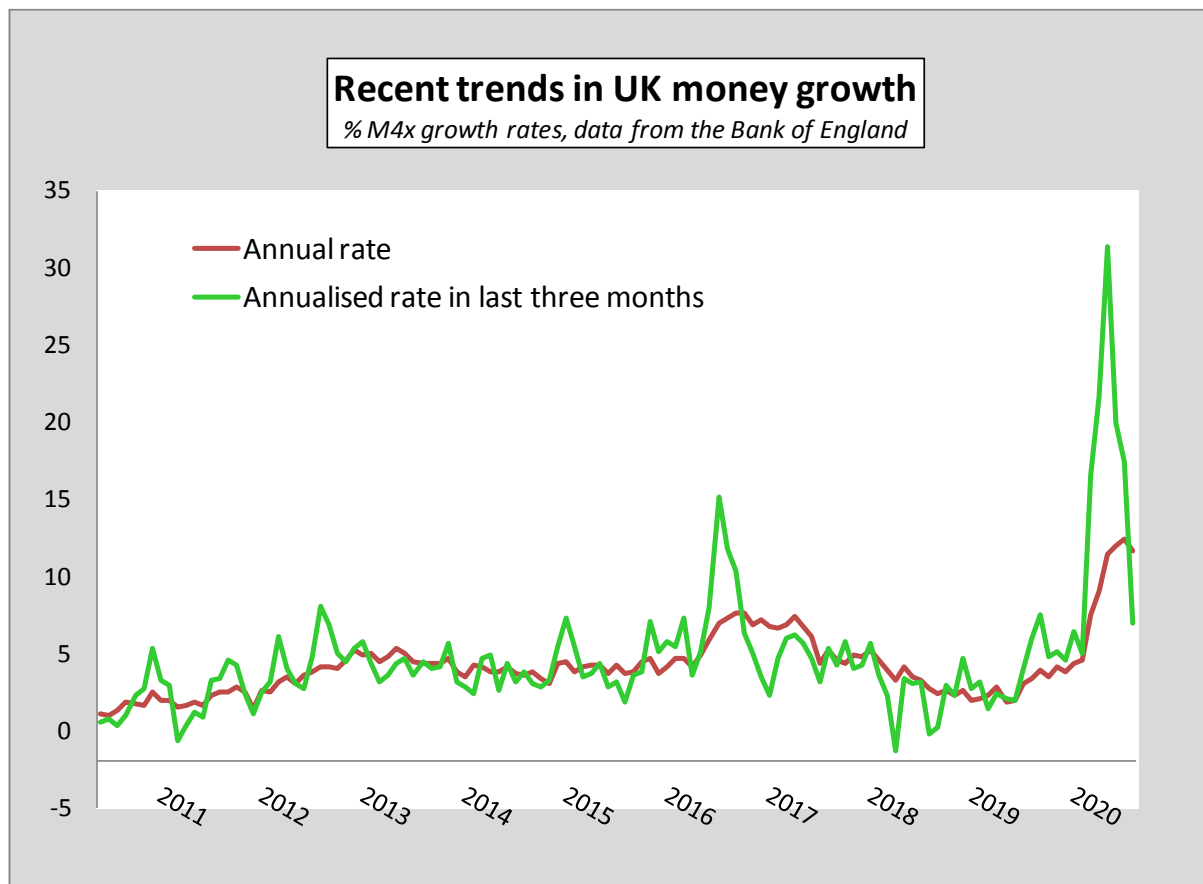
	% annual growth rate:	
	M3	Nominal GDP
1981 - 1990	17.1	15.5
1991 - 2000	17.4	14.0
2001 - 2010	17.3	14.8
Eight years to 2019	11.2	11.9



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 August 2020	11.6	n/a
Three months to August 2020 at annualised rate	7.0	n/a

Sources: Bank of England and Office for National Statistics



Broad money growth slows, after spring 2020 surge

Summary: In the three months to August 2020 M4x grew at an annualised rate of 7.0%. This is high by recent standards, but much lower than in the three months to July, when the annualised rate of increase was 17.4%. In August the quantity of money fell by £2.2b., the first monthly drop since January 2019. The annual M4x growth rate declined from August's 20-year peak of 12.5% to 11.6%.

The small drop in M4x in August contrasts sharply with the surge in money growth in the preceding six months. In March the dominant reason for the increase in M4x of £68.2b. (or 3.0%) was the Bank of England's purchases of corporate bonds, reflected in the money counterparts data as a leap in M4 lending of £67.3b. In the five following months bank lending was flat, with the M4 lending total being down by just under £4b. compared with a stock of over £2,600b. The rapid increase in the quantity of money in the five months to July was instead due to massive borrowing from the banking system by the government, which totalled £222.5b. in the period. (Given that M4x was just above £2,300b. at the end of March, the government borrowing explained – in an arithmetical sense – an increase in the quantity of money of virtually 10% in a mere five-month period.) In August bank lending to the private sector remained muted, while government borrowing from the banking system was less than in recent months (at about £10b.) and other influences on money growth (such as banks' capital retentions and external factors) outweighed the positive effect of the government's transactions.

Is the UK's 2020 money growth surge over? The housing market – badly hit by the lockdown – has recovered, with the number of mortgage approvals hitting a 13-year high in August. That should boost bank lending to the private sector in the next few months. Meanwhile lending both to large companies and to small- and medium-sized enterprises (SMEs) rose in August. Lending to SMEs has been particularly strong, with an artificial boost coming from the government's Bounce Back loan scheme. (The scheme effectively gives a long-term interest free loan to any business that has suffered from the coronavirus pandemic, as virtually all have in one way or another. It is open to abuse.) But vital to future money growth will be the scale of the budget deficit in coming quarters and the authorities' ability (and willingness) to finance it outside the banking system. The spike in Covid19 infections and the resultant new restrictions imposed by the government from late September onwards have forced the Chancellor of the Exchequer, Rishi Sunak, to bring in a job support subsidy amounting to roughly £12b. - £13b. to replace the furlough scheme, which expires at the end of this month. He also extended the deadline for applying for the government's special business loans to the end of November and extended the VAT cut to the hospitality sector. These moves will further push up government borrowing.

Inflation prospects depend on international developments, with global food output being disrupted by the pandemic. Forecasts that Covid-19 will be disinflationary received a shock from a 0.5% August rise in consumer prices. Second-hand car prices have been buoyant, as people avoid public transport.

Tim Congdon
23rd October, 2020

	% annual growth rate:	
	M4/M4x	Nominal GDP
1964 – 2019	9.8	8.2
1991 – 2000	6.4	5.0
2001 – 2010	6.5	3.9
Nine years to 2019	4.0	3.7