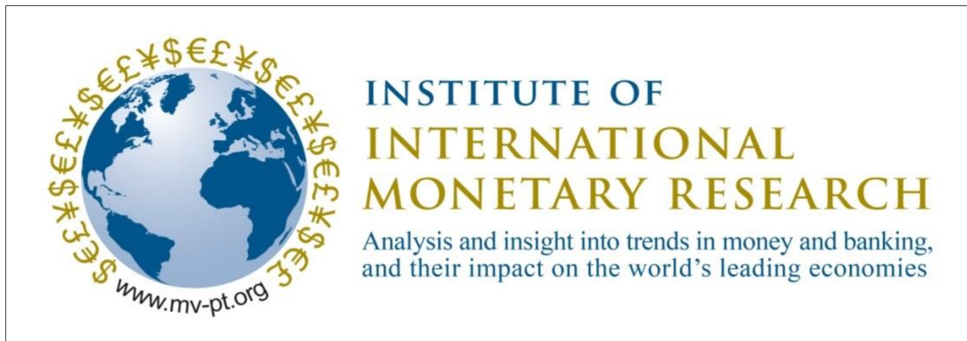

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Monthly e-mail from Tim Congdon and John Petley – 28th October, 2021

Global money round-up in autumn 2021

Vaccination programmes against Covid-19 around the world are now advanced. But the realisation is growing that the supply-side capacity of many economies has been impaired. In particular, the pandemic caused a collapse in oil prices and investment in the energy sector. With the recovery of aggregate demand towards normal levels, oil prices have risen strongly, and gas prices have soared. Shortages may be overcome in 2022, but the effect in coming months will be to add, say, ½% - ¾% to consumer price levels in the leading economies. US consumer inflation will approach – or even exceed – 7% by the end of 2021. Inflation of over 5% is also expected soon in the Eurozone and the UK.

The latest developments vindicate the concern about inflation expressed in spring 2020 by these notes from the Institute of International Monetary Research. As we have emphasized, 2% inflation – usually regarded as appropriate by modern central banks – can be restored only by a reduction in the rate of (broad) money growth to between 1% and 5%, at an annual rate. That has still not happened in any of the leading economies, apart from Japan. The annualised rate of M3 growth in the USA in the six months to August was just above 9%, much too high. Sure enough, central banks – including the Federal Reserve – are close to ending their asset purchase programmes. Given that bank credit to the private sector remains surprisingly feeble in most places, the ending of asset purchase programmes may result in much lower money growth and so eventually by a return to 2% inflation. However, business surveys remains buoyant and signal further above-trend output growth in the next two/three quarters. After that the drop in money growth to non-inflationary rates is likely to be accompanied by asset price weakness and beneath-trend growth or recessions. The adjustment problems, which reflect 2020's monetary excesses, imply unpleasant macro outcomes in late 2022 and 2023.

Money trends in autumn 2021 in the main countries/jurisdictions

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

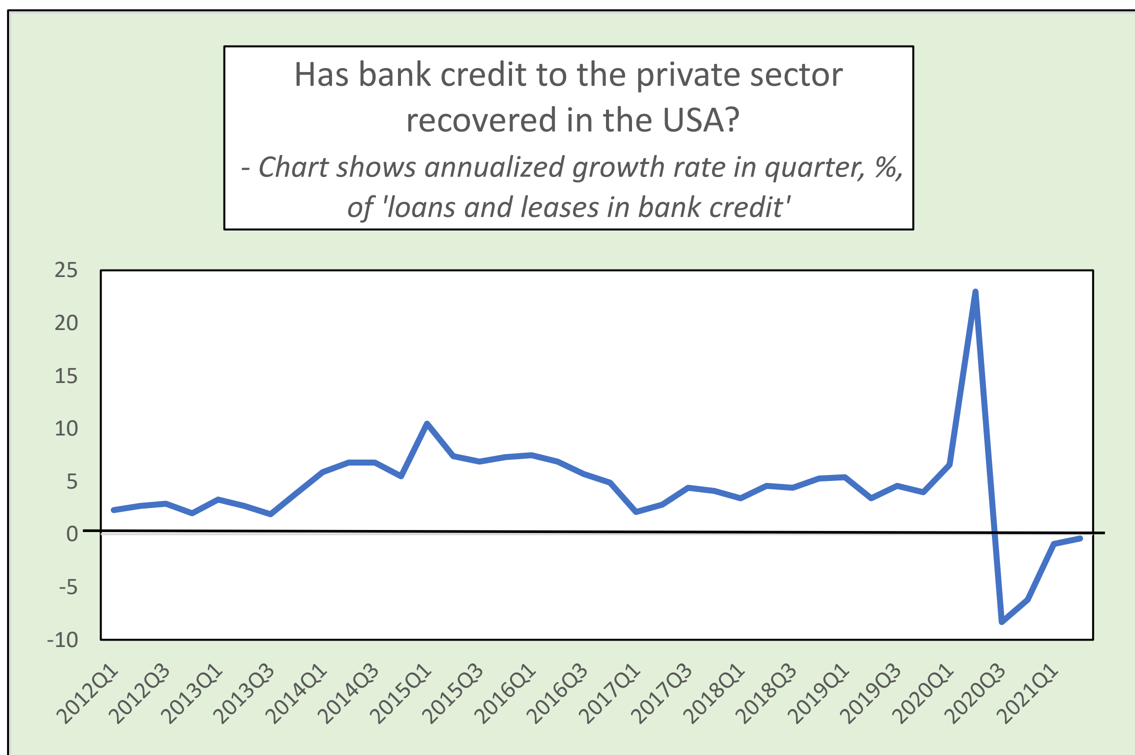
i. The rate of inflation is roughly equal to the rate of increase in nominal GDP minus that of real GDP, and
ii. Over the medium term, growth rates of broad money and nominal gross domestic product will be similar, although not identical.

Much will therefore depend on rates of broad money growth in coming months and quarters, with the table below summarizing recent patterns in the leading nations. The table shows that money growth slowdowns are now evident almost everywhere. In the USA, the Eurozone and the UK the three-monthly annualised numbers are still above the typical figures before the pandemic, but not much. If they were so minded, policy-makers could ensure that money growth, at an annual/annualised rate, is 5% or less, but central banks have no interest in money growth trends at present.

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	**7.0**	**8.1**	Money growth has slowed cf. spring 2020, but remains much too high for 2% Fed target. ..
China	18.7	16.1	**8.4**	**8.3**	Money growth moderate, with authoritarian state clamping down on private sector finance.
Eurozone	10.6	16.4	**6.9**	**7.6**	Money growth boosted by ECB asset purchases, still above pre-Covid norms.
Japan	4.2	5.9	**2.8**	**4.0**	Credit and money growth slowing sharply, implying continuing negligible inflation in medium term.
India	7.7	3.3	**11.0**	**10.8**	Money growth just in single digits, with banks restrained by bad debt experience and losses.
UK	2.2	3.4	**5.8**	**8.2**	Money growth decelerating, bank lending still growing at moderate rates. Talk of imminent interest rate rise.

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

In the USA some observers believe that bank lending to the private sector will soon rebound. On 3rd August the Fed published the latest *Senior Loan Officer Opinion Survey on Bank Lending Practices*, with respondents indicating "easier standards" among banks when considering loan applications, as well as reporting "stronger demand for commercial and industrial loans to firms of all sizes" relative to the second quarter. The big banks are well-capitalised and have far too much cash at present. They have made no secret that they do not want more cash, which inflates their balance-sheet size for regulatory purposes and yet contributes nothing to profits. Logically, they should be seeking to expand their profitable loan portfolios. However, the latest data still do not suggest that bank credit is growing strongly. Using the monthly figures, the trough in "loans and leases in bank credit" (i.e., lending to the private sector, more or less) was in April. Between April and August this part of banks' assets did grow, but only from $10,351.1b. to $10,431.6b., or by 0.8%. However, if we look at the three months to September the growth was from $10,355.5b. to $10,460.6b. or by just over 1.0% (i.e., at an annualised rate of 4.1%). Moreover, in the fortnight to 13th October, the "loans and leases" figure went from $10,476.5b. to $10,506.8b., which gives an annualised rate of increase in this very short and perhaps unrepresentative period of 7.8%. It is at least possible that bank credit to the private sector is gaining momentum.



With Dr Clarida's 12th October webcast indicating that the Fed will stop asset purchases by mid-2022, credit trends must be watched closely. To repeat the analysis given last month, the stock of bank lending to the private sector needs to be growing at roughly ¾% a month (i.e., at an annualised rate of over 9%) for the analyst to be confident that the annual rate of broad money growth will remain above 5%. Having said that, the Fed may continue to finance the budget deficit on a large scale. Annual broad money growth of 7% and above is well ahead of the level consistent with 2% inflation. The Fed needs money

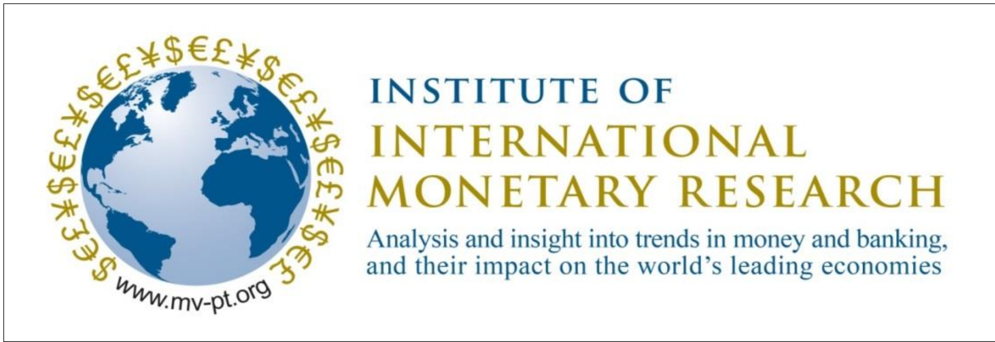
growth of about 4% a year to maintain 2% inflation in the medium and long runs. That is a necessary and sufficient condition of 2% inflation, whether the Fed is managing the quantity of money or not, and whether its research economists are interested in the quantity theory of money or not.

In the Eurozone the stock of credit to the private sector was 3.6% higher in August 2021 than a year earlier. So banks have still been expanding their loan books during the pandemic, in contrast to the US situation. Mortgage lending has been dominant. The stock of loans for house purchase was up by 5.8% in the year to July, whereas loans to non-financial corporations (i.e., industry and commerce) advanced a mere 1.0% in the same period. It is well-known that European governments are trying to persuade the Bank for International Settlements that further large increases in banks' capital requirements are unnecessary and would damage the ability of their financial systems to sustain the recovery. According to an article in the 8th June issue of the *Financial Times,* several EU states are fighting a last-ditch battle to thin down the bloc's most significant change in banking regulation for a decade, as Brussels prepares to set out long-awaited legislation. The proposed rules will introduce a new capital minimum, or floor….The European Commission is expected to propose the rules — part of the international Basel III banking reforms — in September or October. But capitals led by Paris, Berlin, Copenhagen and Luxembourg are trying to persuade the commission to moderate the minimum level imposed."

In the UK mortgage lending was extraordinarily heavy in June, at £43.5b., as home-buyers carried out transactions during the stamp duty holiday. In July, with that holiday over, mortgage lending crashed to £16.5b. However, mortgage approvals in July (£24.9b.) were little different from in June (£25.8b). (The data are all seasonally adjusted and from the Bank of England's website.) If base rates stay close to zero, the housing market will continue to be active and lively, and hence a positive factor for consumer confidence and demand. The Bank of England also prepares a monthly series for "unused credit facilities". In August this stood at £369.8b., somewhat higher than a year ago, but not much different from levels in late 2019 and early 2020 ahead of the pandemic.

The vigour – or lack of vigour – of bank credit to the private sector is important to interest rate prospects. The emerging market consensus is that interest rate rises will occur in most developed countries once the pandemic-related weakness in aggregate demand lies in the past, although only after the ending of the asset purchase programmes. A reduction in money growth is a condition of the return of moderate inflation, while robust bank lending to the private sector will make it more difficult to deliver the needed reduction in money growth. But – if bank lending to the private sector is, even at virtually zero interest rates, increasing at an annual rate of 5% or less – it will be easy for central banks to keep money growth under control. Pointers to future lending growth therefore deserve to be monitored carefully in the next few months. Despite very low interest rates, and indeed extremely negative real interest rates, a boom in private sector bank credit does not seem to be on the cards anywhere.

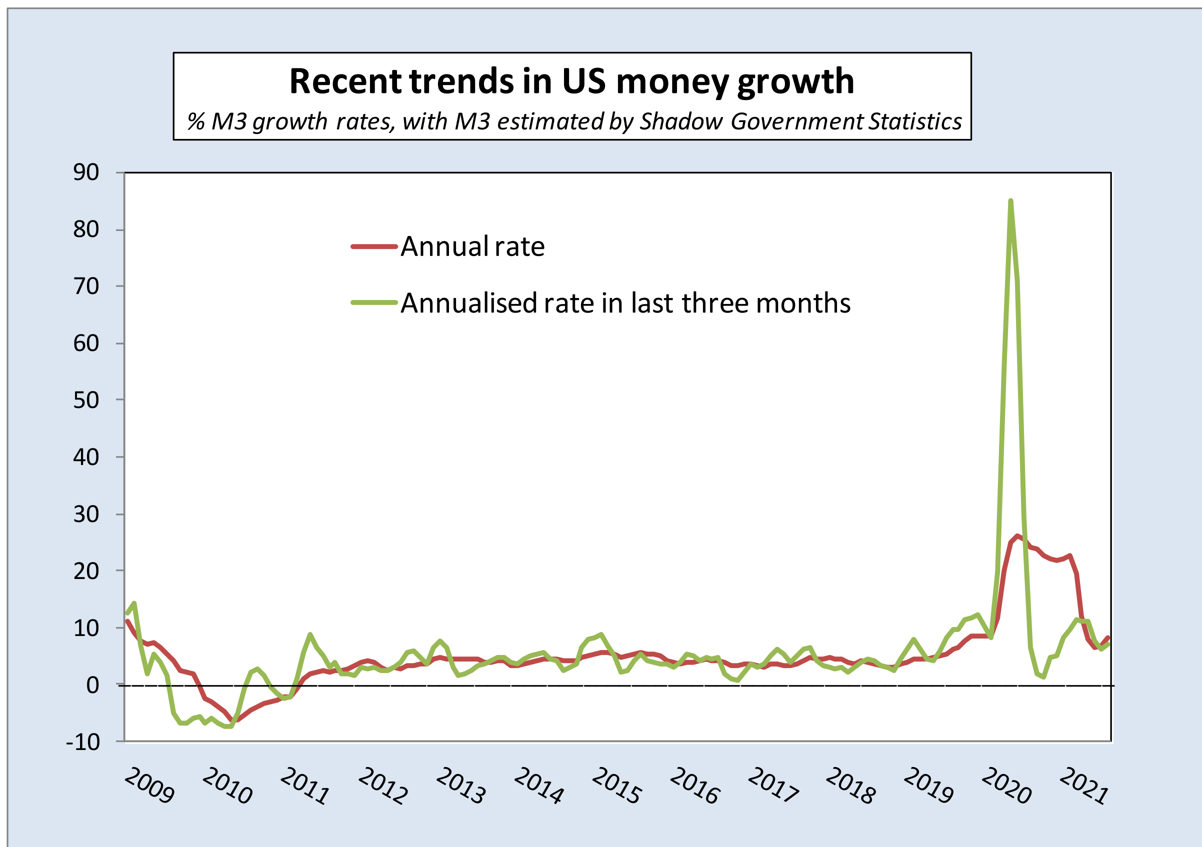
28th October, 2021



USA

	% annual/annualised growth rate:	
	M3	Nominal GDP
1961 – 2019	7.4	6.5
Nine years to 2019	4.5	4.1
Year to August 2021	8.1	n.a
Three months to August 2021 at annualised rate	7.0	n.a.

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



US broad money growth down from 2020 peaks, but still too high

Summary: **After falling to its lowest level thus far this year in July, the annualised quarterly rate of US M3 broad money growth rose to 7.0% in August. M3 increased by €298b. during the month, the highest figure this year and a substantial increase on July's reading of $133b. The annual growth rate also picked up from 6.7% to 8.1%. (Our M3 data come from Shadow Government Statistics.)**

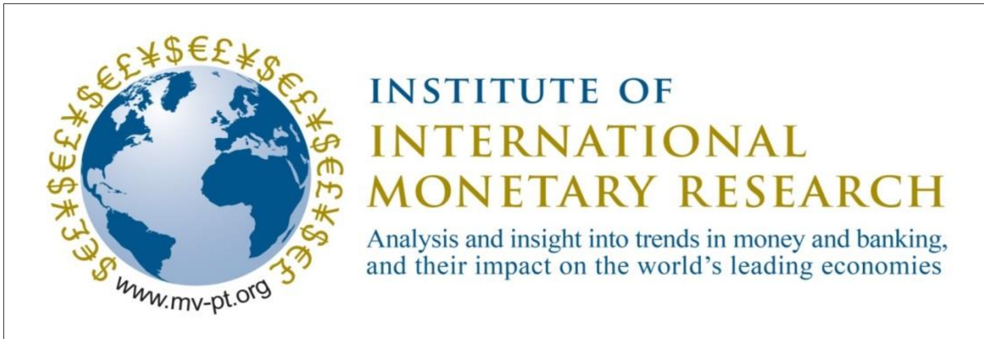
The US has now suffered five consecutive months of consumer price index inflation at 5% or more, while producer prices rose by 8.3% in the year to August, the highest surge in over a decade. The Federal Reserve will soon taper its asset purchases. According to Richard Clarida, Fed vice-chair, in a webcast of 12th October, "a gradual tapering of our asset purchases that concludes around the middle of next year may soon be warranted". He also insisted that the Fed remains committed to a 2% inflation long-run target and that, once "bottlenecks have unclogged", 2021's bad inflation numbers "will in the end prove largely transitory". He said that his view was shared by private sector economists, "such as those surveyed by Bloomberg and Blue Chip". The Fed's emphasis in its inflation analysis remains on the stability of inflation expectations, as shown – for example – by bond yield differentials. Clarida continues to ignore money growth.

One problem with the Fed's approach is that it has no explanation for the buoyant markets in US equities and residential real estate. The Nasdaq index has more than doubled from its low in March 2020 and, counter-intuitively, is well above its pre-Covid levels. Meanwhile the Federal Housing Finance Agency house price index rose 19.2% from July 2020 to July 2021. A plausible interpretation of the asset price strength is that it reflects the very high money growth recorded in the USA since late 2019.

On this basis the current and future rates of money growth are hugely significant. The high broad money growth has not been primarily attributable to strong bank lending to the private sector. The main drivers have been not only the Fed's asset purchases, but also the Biden government's fiscal stimulus, estimated to amount to more than $2 trillion over a number of years. The Federal deficit is being financed largely by the banking sector. There seems little likelihood of a fourth nationwide "stimulus check", but some individual states, notably California, have made payments to most households. Meanwhile benefits remain at enhanced levels compared with the pre-pandemic period. Many households are still holding substantial cash balances and thus show little inclination to borrow, except for house purchases. As US banks' cash assets have increased by almost 50% since August 2020, they have every incentive to encourage their customers to borrow. If bank lending takes off when the effects of the pandemic finally recede, money growth could accelerate still further and inflation rise higher in its wake.

Tim Congdon and John Petley
26th October, 2021

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



China

	% annual/annualised growth rate:	
	M2	Nominal GDP
1991- 2019	**18.7**	**14.8**
2011 - 2019	**11.9**	**10.4**
Year to September 2021	**8.2**	**n/a**
Three months to September 2021 annualised rate	**8.3**	**n/a**

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

Broad money growth now running at pre-pandemic levels

***Summary*: In the three months to September 2021 China's M2 grew at an annualised rate of 8.3%, in the same ballpark as August's reading of 8.8%. The annual growth rate fell from 8.5% to 8.2%, the second lowest figure since July 2019. Chinese broad money growth has now reverted to levels typical of the years prior to the pandemic.**

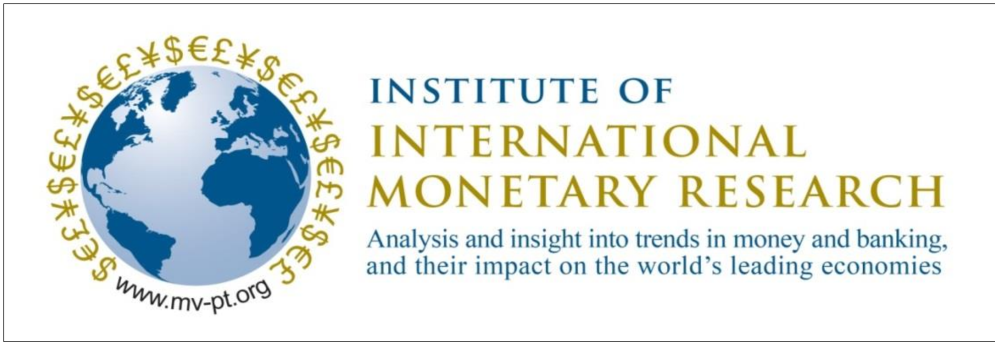
China's authorities seem comfortable with broad money growth at about current levels. Writing in September's issue of the *Journal of Financial Research*, a periodical owned by the People's Bank of China (the country's central bank), Governor Yi Gang insisted that there was no need to carry out a programme of quantitative easing. He claimed that it was only an option when a central bank "had no choice".

The macroeconomic picture in China is mixed. Export volumes continue to break records. September saw total Chinese exports rise to US$305.8b,. a 28.1% year-on-year increase. Chinese GDP grew by 1.4% in the second quarter of 2021, a notable improvement on Q1's modest 0.4% gain. The domestic scenario is not so positive, however. Retail sales rose by only 2.5% in the year to September, the weakest growth since 2020. Growth in the stock of new bank loans fell to 11.9% in the same period, the lowest increase since 2002. Although house prices recorded their smallest increase since January, this is due to a deliberate policy on the part of the authorities to cool the market. Demand has been strong, but the government is keen to stamp out property speculation, particularly given the ongoing worries about false accounting and resource misallocation. These worries have been given a recent focus by the collapse of property giant, Evergrande. At the end of June, when its woes first made the headlines, its debts were estimated to be two trillion yuan ($205b.). More recent estimates have suggested that the figure is more than $300b. The company was due to pay $148 million. to overseas creditors on 12th October, but did not do so. By implication, it will be unable to repay its debts in full and is bankrupt. Other developers have also indicated that they are facing difficulties, including Sinic Holdings, which said it would default on the repayment of bonds worth $250 million. (Sinic has debt of almost $36b.. but total liabilities of over $110b. and shareholders' equity of a mere $12b.)

In spite of rejecting QE, the PBoC continues to operate a loose monetary policy. On 1st September 1st it announced that 300b. yuan (over $45b.) would be available at favourable rates to small businesses, which have continued to be affected by the pandemic. This move comes two months after the cash reserve requirement ratio was reduced by 0.5% for all Chinese banks. Although inflation is low, there is less room for further monetary loosening than it may appear. The figures are being distorted by falling food prices following the end of the African swine flu outbreak of 2019 and 2020, which at its peak was raising food prices at an annual rate of more than 20%. The increase in consumer prices of only 0.8% in the year to August needs therefore to be viewed in the light of an increase in producer prices of 9.5% in the same period.

John Petley
14th October, 2021

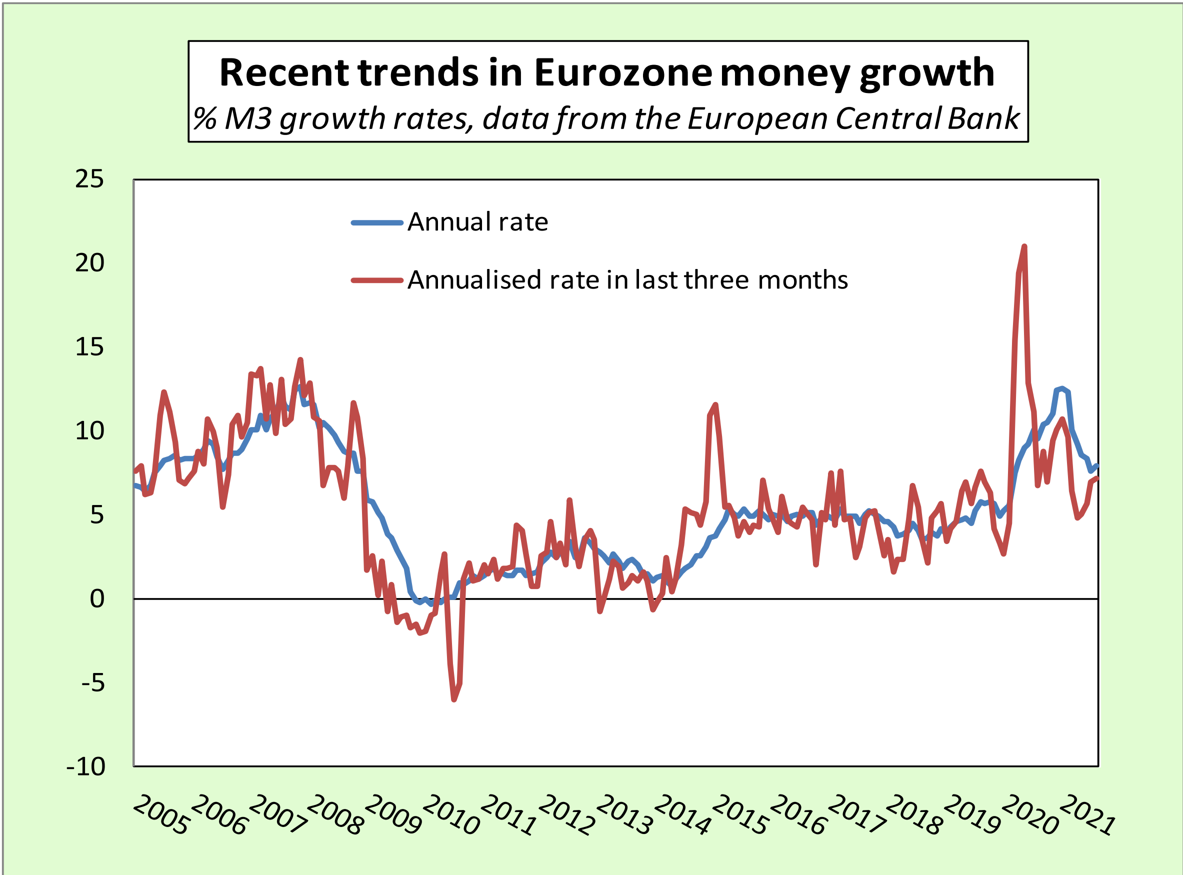
	% annual growth rate:	
	M2	Nominal GDP
1991 - 2000	**24.5**	**18.4**
2001 - 2010	**18.5**	**15.2**
Seven years to 2017	**12.8**	**10.3**



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 2021	**7.9**	**n/a**
Three months to August 2021 at annualised rate	**7.1**	**n/a**

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



Recent broad money growth on an upward trend

***Summary*: In the three months to August 2021 the quantity of broad money in the Eurozone grew at an annualized rate of 7.1%. The pace of money growth has now risen for four consecutive months after falling to 4.8% in the three months to April. M3 grew by an unremarkable €75b. in August, – well down on the extraordinary money growth acceleration in spring and summer 2020. But this was still sufficient to raise the annual growth rate from 7.6% to 7.9%.**

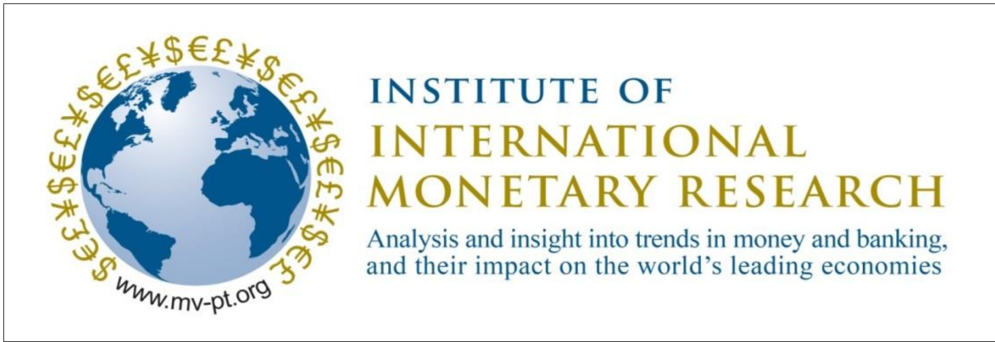
Inflation continues to rise. Apart from a slight dip in May, consumer inflation has been on a continuous upward trend since the start of 2021. The year to September saw an increase of 3.4%, the highest reading since 2008. With producer prices (i.e., prices "at the factory gates") increasing by no less than 13.4% in the year to August, there is a strong likelihood that the headline rate of consumer inflation will rise. The figures vary considerably between the different member states. Portugal saw prices increase by only 1.5%, below the ECB's target, whereas the figure for Estonia was 6.6%. More significantly, German inflation rose to 4.1%, the highest since December 1993. The Bundesbank is on record as forecasting 5% German inflation at the end of 2021, while cautioning that the high numbers would be transitory.

The minutes of the European Central Bank's Governing Council meeting on 9th September indicate that a minority of members argued for a more substantial cut in asset purchases. They expressed concern that inflationary risks are being under-estimated and that the ECB's forecast of prices rising by only 1.5% in 2023 could be too low. Nonetheless, at the ECB's annual monetary conference on 11th October, chief economist Philip Lane reiterated the central bank's familiar position that both the rise in fuel prices and the increase in wages would prove one-off transitory events. By extension, the current ultra-loose monetary-policy settings should continue for now. (ECB officials seem anxious that the Eurozone could find itself again stuck with "lowflation" once the pandemic is over.) "Our interest rate policy should not react to inflation shocks expected to fade away", he said. Absent from these statements is any mention of money. For eighteen months, these notes have been insisting that the significant growth of M3 since fiscal and monetary stimuli were introduced would ultimately prove inflationary - and so it has proved.

Furthermore, the views of Mr Lane and his colleagues are debatable. Broad money growth remains above the levels typical of the decade to the end of 2019. The key part of the explanation is that the ECB continues to purchase assets through the PEPP (Pandemic Emergency Purchase Programme). It announced in September that it would scale down its PEPP purchases, but September saw an €10b. increase in assets purchased compared with August. Although some reduction is likely in October, this could be offset by increased bank lending. The housing market is relatively strong, with mortgage lending up by 5.8% in the year to August. Although growth in both consumer credit and business lending remains weak, this may change as Covid anxieties fade. The stock of bank credit to the private sector rose by a mere 0.6% (i.e., at an annualised rate of 2.4%) in the three months to September.

Tim Congdon and John Petley
26th October, 2021

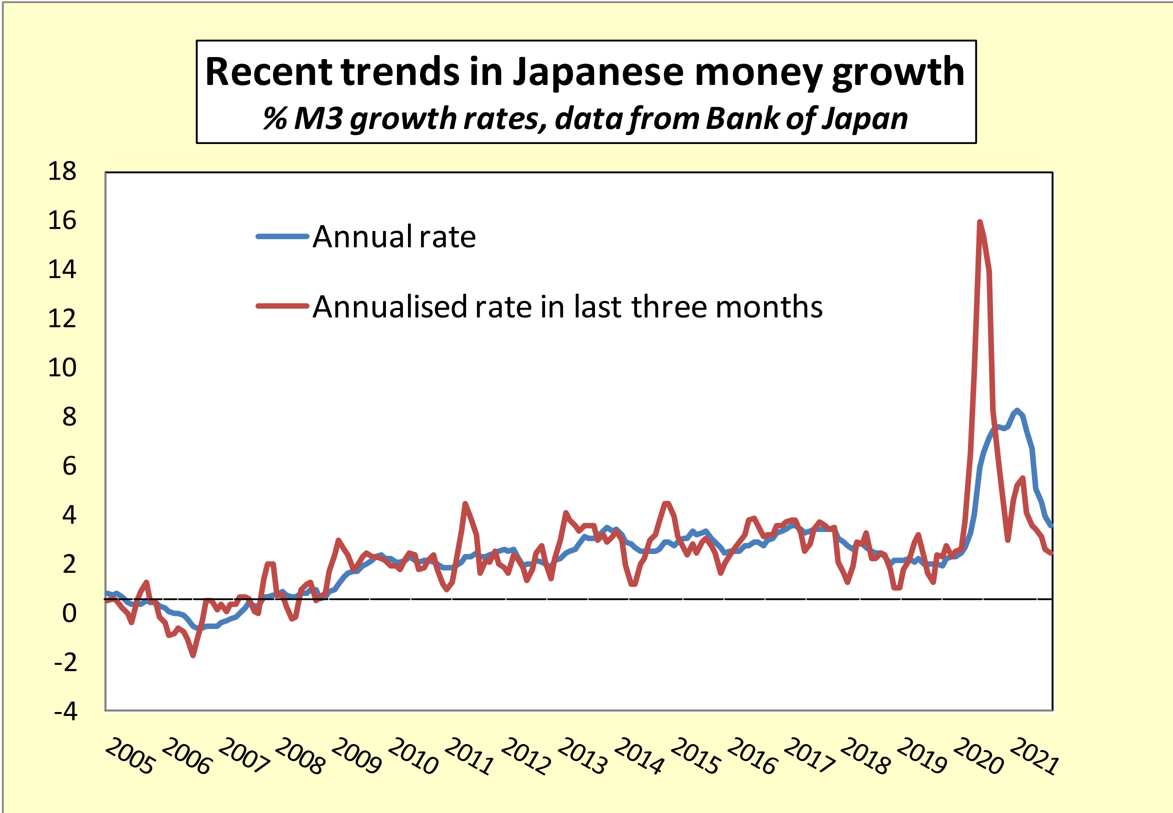
	% annual growth rate:	
	M3	Nominal GDP
1996 – 2019	**5.2**	**3.1**
1996 – 2000	**4.6**	**4.1**
2001 – 2010	**6.8**	**3.1**
Nine years to 2019	**3.8**	**2.5**



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 2021	3.6	n/a
Three months to September 2021 at annualised rate	2.4	n/a

Sources: Bank of Japan for M3 and IMF for GDP



Broad money growth almost coming to a halt

Summary: **The three months to September 2021 saw Japanese M3 grow at an annualised rate of 2.4%, the lowest pace of "expansion" since December 2019, before the arrival of the coronavirus pandemic in the country. The annual growth rate, which peaked at a 20-year high of 8.2% in February, continues its downward trend, with the September figure being only 3.6%. The money growth figures from the last three months look much like those from pre-Covid Japan.**

Japan has a new Prime Minister, Fumio Kishida. The speeches he has given since taking office suggest that he intends to rely on fiscal stimuli and structural reforms to revive Japan's economy, as well as continuing with an ultra-loose monetary policy. Last month Reuters reported that the Bank of Japan has been quietly retreating from its asset purchase scheme since March. The Bank of Japan's own accounts confirm this. The total value of Japanese government bonds on its books has flatlined in 2021 after several years of continuous growth.

Whether these purchases will be stepped up under the new Prime Minister remains to be seen, especially as there seems to be a growing consensus among the members of the BoJ's Monetary Policy Committee that the stimulus measures cannot continue indefinitely. They were initiated by a previous Prime Minister, Shinzo Abe, in 2013 and were designed to boost the monetary base, rather than broad money. Given the lack of correlation between the monetary base and nominal GDP, their failure to rejuvenate Japan's economy is unsurprising. All the same, they may have had a modest effect in boosting M3 growth, which was sufficient to keep deflation at bay for the majority of the period between 2013 and the onset of the coronavirus pandemic.

Inflation in Japan remains the lowest in the world. The consumer price index rose by 0.4% in the month of September and went up by a tiny 0.2% in the year to September. Upward pressures on prices may be in the pipeline, as in other countries, and the Bank of Japan may in 2022 finally reach its long-declared 2% inflation target. But there seems little danger of matching the inflation numbers – in the 5% - 10% band – being seen in the USA, the Eurozone and the UK. The modest inflation upturn in Japan reflects its relatively trivial money growth increase in spring 2020, which – although discernible in the data – was far less than in other advanced countries. The current deceleration in money growth seems to be largely the result of the repayment of bank loans by the private sector, notably the repayment of loans taken out last year by companies for precautionary reasons in response to Covid-19 and its related uncertainties. Loan growth stood at a mere 0.6% in the year to September, the lowest reading in nine years. Japan may indulge in some self-congratulation in that it seems certain to avoid the Covid-associated inflation increases elsewhere. But the longer-term danger is still persistent deflation, as the ageing population repays mortgage loans and restrict the growth of bank balance sheets.

Tim Congdon and John Petley
26th October, 2021

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

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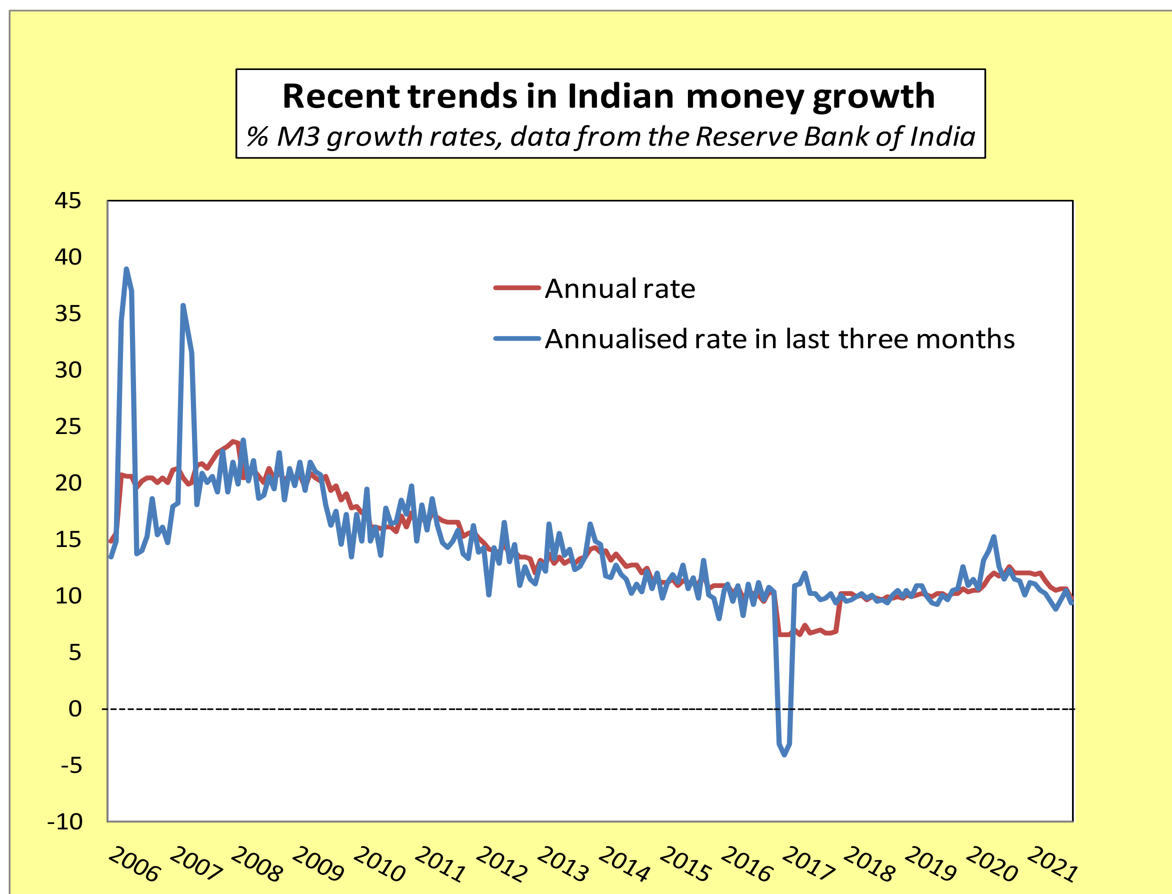
India

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2019	**15.8**	**13.4**
Nine years to 2019	**11.2**	**11.9**
Year to September 2021	**9.7**	**n/a**
Three months to September 2021 at annualised rate	**9.4**	**n/a**

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



Broad money growth slows

Summary: **In the three months to September 2021 India's seasonally adjusted M3 grew at an annualised rate of 9.4%, lower than August's figure of 10.4% and the second lowest reading since June 2019. The annual growth rate declined from 10.5% in August to 9.7%, the lowest value in over two years.**

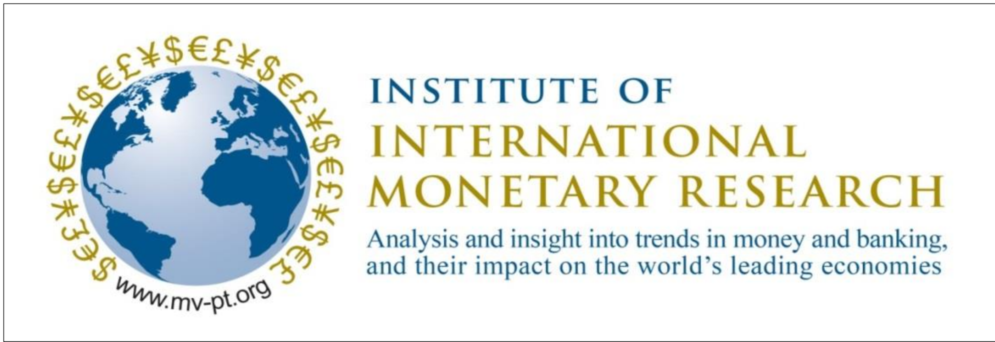
India now appears to be over the worst of the pandemic, with October seeing fewer infections than at any time since March 2020. Over 300 million people have been fully vaccinated, while over one billion injections have been made and imply that more comprehensive anti-Covid protection will soon have been achieved. In response to the improving situation, on 7th October Shaktikanti Das, the governor of the Reserve Bank of India (the central bank), announced a suspension of its asset purchase programme. This was first introduced in 2020 by the RBI. As the volume of asset purchases was doubled as recently as June 2020, the return of official confidence in the economy's prospects is clear. Mr Das stressed that asset purchases would be resumed if needed. By contrast, the fiscal stimulus, which includes substantial health care and infrastructure spending, is set to continue. Nirmala Sitharaman, the Finance Minister, confirmed this in a speech in New York on 19th October, but stressed her concerns about the effects of surging oil prices on the economy. (India is a major net importer of energy.)

Inflation is not currently an undue worry. Despite a rather erratic monsoon, food prices have dropped in recent months and the consumer price index rose by only 4.4% in the year to September. This is the fourth consecutive month in which the inflation rate has fallen, although producer prices rose by over 10% in the same period. September was indeed the sixth consecutive month of the 10% threshold being breached, which is one pointer arguing that consumer inflation may not necessarily remain at the current benign level.

Although consumer confidence is returning, there is little sign of any rebound in bank lending, especially to the business sector. Growth in the stock of bank loans stood at 6.7% in the year to September. This is an improvement on the increase of barely 5% recorded earlier in the year, but a significant decline on 2019's figures, which saw bank lending expanding by more than 15%. The RBI raised the cash reserve ratio for Indian banks twice earlier this year but continues to face a delicate balancing act due to the fragility of the banking system. The government has recently announced plans to set up a so-called "bad bank" which will buy non-performing loans worth $27b. in an attempt to improve the balance sheets of commercial banks. Some estimates put the value of loans at risk of default as high as $100b., so this new initiative will only be a partial solution to the long-standing problem of poor asset quality.

John Petley
18th October, 2021

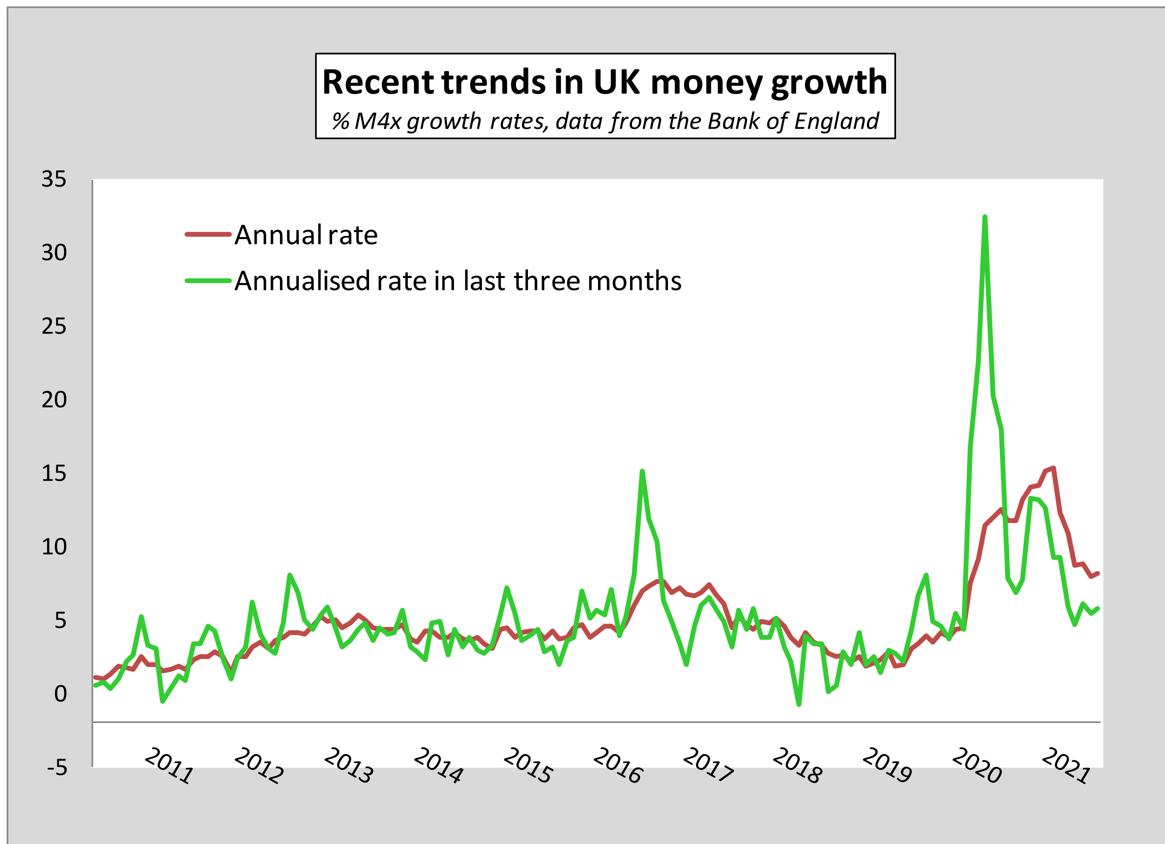
	% annual growth rate:	
	M3	Nominal GDP
1981 - 1990	**17.1**	**14.7**
1991 - 2000	**17.4**	**14.1**
2001 - 2010	**17.3**	**12.9**
Nine years to 2019	**11.2**	**11.9**



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 2021	**8.2**	**n/a**
Three months to August 2021 at annualised rate	**5.8**	**n/a**

Sources: Bank of England and Office for National Statistics



Broad money growth is moderate

***Summary*: In the three months to August 2021 UK M4x grew at an annualised rate of 5.8%, This is higher than July's reading of 5.4%, the lowest since February 2020. In August itself UK broad money grew by £10.1b., not an exceptionally high figure, but still much more than the £6.9b. average monthly increase for 2019.**

Once again, fluctuations in mortgage lending are impacting the rate of M4x growth. June saw no less than £17.9b. net being loaned to home-buyers seeking to complete their purchases ahead of the end of the "stamp duty holiday". In July, by contrast, home-buyers repaid £1.8b. more than they borrowed. This turned out to be nothing more than a pause for breath. In August, net mortgage borrowing rose to £5.3b. Moreover, the number of mortgage approvals remains above pre-pandemic levels and the housing market is active. According to Zoopla's latest house price index, "The UK housing market is on track to record its strongest year since 2007 both in terms of sales volumes and house price inflation." Zoopla also reports that Wales is in the lead of the UK regions, with a typical house price advance in the last year of 10%.

With annual consumer price inflation reaching 3.1% in September and an increasingly widely-held belief that it is set to exceed 5% in coming months, the continuation of the Bank of England's asset purchase programme has no clear justification. Nonetheless, at its meeting on 23rd September the Bank of England's Monetary Policy Committee voted not to change the volume of assets purchases and declined to provide any further details about the date when it would start "tapering". In a speech on 27th September, Governor Andrew Bailey stressed the need to wait and see what effect the end of the Chancellor's furlough scheme on 30th September would have on unemployment levels. However, he dropped a hint that an interest rate increase might be announced before the end of asset purchases. (It is estimated that some 1.6 million workers were being supported in the final days of the scheme's operation, which has prevented unemployment in the UK rising above 5.2%. Job vacancies rose above 1 million in August, the highest recorded level. The shortage of HGV drivers has been widely reported, but many unskilled posts are also unfilled.)

At the 23rd September meeting two members of the MPC did vote to stop the asset purchase programme forthwith. In a subsequent speech to a group of central bankers on 17th October, Bailey also indicated that monetary policy is about to be tightened. He insisted that the bank "will have to act and must do so" because the recent surge in energy prices has created a "risk, particularly to medium-term inflation and to medium-term inflation expectations". He stated that the action will take place in the MPC context, as usual. The next such meeting is scheduled for Thursday, 4th November, and at a bare minimum, a timetable for tightening should be announced. It is unclear whether a rise in base rates or the cessation of asset purchases will come first.

Tim Congdon and John Petley
26th October, 2021

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