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Monthly e-mail from Tim Congdon and John Petley – 23rd April, 2019

Global money round-up in spring 2019

Far too many commentators claim that the current global growth slowdown is to be blamed on Trump's trade war with China, Brexit uncertainties and the like. No recognised economic theory links cyclical fluctuations in demand growth to changes in the level of import protection. More plausible as an explanation of the growth slowdown are movements in variables known – from long experience and standard theory – to have a bearing on aggregate demand growth. In these notes the emphasis is on the quantity of money, given the well-attested long-run relationship between changes in the quantity of money and nominal GDP. In the short run that relationship implies that changes in the growth rate of real money need to be watched carefully. Indeed, it was exactly our fears that 2018 would see a reduction in real broad money growth that led us – in late 2017, ahead of the event – to warn about the growth slowdown we are now experiencing.

But what is to be said about 2020? One of the welcome surprises of early 2019 was the US Federal Reserve's change of gear, as it halted interest rate increases and put its asset run-off programme under review. In the USA some easing of the regulatory pressure on the banks (to operate with ever-higher capital-to-asset ratios etc.) may lead to faster growth in their risk assets and continued annual broad money growth in the 3% - 5% area. The Eurozone is more of a puzzle, but the European Central Bank's preparedness to extend its loan facilities to weak banks again shows a necessary pragmatism. A good result of the post-2017 money slowdown is that inflation will be very low everywhere in early 2020. Central banks will still have ample scope to ease policy if the slowdown persists. Money trends are variable and difficult to predict, and have constantly to be monitored, but – as of now – the safest forecast for 2020 is another year of roughly trend growth of world output in the context of modest inflation. (A financial blow-up in Italy is one conspicuous risk, admittedly.)

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 below summarizes key numbers. For over a year now these notes have expressed concern about likely money growth slowdowns in the USA and the Eurozone. In the USA the Federal Reserve seemed determined to reduce its holdings of securities acquired in the "quantitative easing" programmes from 2008 to 2014; in the Eurozone the ECB's announced plan to halt its asset purchases at end-2018 cast doubts on the persistence of positive money growth in 2019. Happily, our fears have so far been exaggerated and misplaced. The Fed may stop its asset run-off this autumn, while easing of regulatory pressure on US banks enables them to grow risk assets more quickly. The Eurozone remains a worry, but money growth has been better than expected in recent months and the ECB has maintained its cheap credit facilities to weak banks, including weak Italian banks. The Italian situation is nevertheless disturbing. Public debt is far too high, while the Greek default of 2012 demonstrated that – when the state fails to honour all its obligations – the banking system is one of its first victims.

As the table below shows, the lowest money growth numbers at present are in fact in Japan and the UK, not the USA and the Eurozone. At any rate, these two countries can take steps to boost money growth if necessary and in neither is a rise in inflation an immediate policy concern. Together they account for a not entirely trivial 6½% of world output (at current prices and exchange rates).

Name of country/ jurisdiction	Share of world output		Growth rate of broad money		Comment
	In purchasing-power parity terms, %	In current prices and exchange rates, %	In last three months at annualised rate, %	In last twelve months, %	
USA	15.1	23.3	**6.0**	**4.5**	Easing of Dodd-Frank to boost credit expansion, with the Fed's asset sales perhaps to pause. .
China	18.7	16.1	**8.8**	**8.5**	Concern about excessive debt has not stopped the PBOC easing reserve requirements.
Eurozone	10.6	16.4	**4.1**	**4.3**	Money growth moderate, ECB anxious about recession now asset purchases have stopped.
Japan	4.2	5.9	**2.1**	**2.0**	Credit and money growth down from the 3% figure seen for much of last decade, and very low.
India	7.7	3.3	**11.3**	**10.1**	Credit boomlet, with general election undermining central bank independence
UK	2.2	3.4	**2.3**	**2.0**	Money growth weak, against worrying backdrop of Brexit uncertainty. ..

A recurrent theme of the international policy debate in the last few years has been the alarmism of the International Monetary Fund and the Bank for International Settlements about supposed ever-worsening “debt vulnerabilities”. It is said that the ratio of debt to national income is reaching new peaks in country after country, and that – sooner or later, perhaps even next year – something cataclysmic will happen. (See the IMF’s latest April 2019 *Global Financial Stability Report,* by Tobias Adrian and Fabio Natalucci, for an illustration of this sort of thing.) But the debts are of course not to Venus or Mars; instead they are contracted between sensible agents all on planet earth, with the usual aim of borrowing to finance the acquisition of capital assets. A rise in the ratio of debt to income has been an associate of economic growth since the beginning of modern industrialism in the 18th century, and it is not at all obvious that something is wrong at present. In most nations the ratios of debt *interest* to income are far below previous peaks, because interest rates are so low. Anyhow the IMF and BIS have been wrong repeatedly. Tracking money growth trends has given far better insights into the future trajectory of economic activity and inflation than attempting to make sense of debt/income ratios.

Another refrain from the commentariat is that, with interest rates so low at present, policy-makers will have difficulty stimulating the economy if demand growth suddenly weakens. The doomsters need to understand that – as long as bank balance sheets and the quantity of money, broadly-defined, are growing steadily – there is no reason to expect demand growth suddenly to weaken. An example of muddled thinking came from David Lipton, the IMF’s first deputy managing director, in remarks to a December 2018 Bloomberg forum. Lipton proposed that – because interest rates cannot be cut much beneath zero – we must be concerned about the potential impotence of monetary policy in the next crisis. How many times must it be repeated that

i. An increase in the quantity of money affects the equilibrium prices of every asset (including quoted corporate equity and real estate in all its forms) and not just the equilibrium prices of bonds (as in Keynes’ over-egged 1936 *General Theory*), and
ii. The state can at any time increase the quantity of money – in principle without limit – by borrowing from the banking system and using the proceeds to buy something (indeed, anything) from non-banks ?

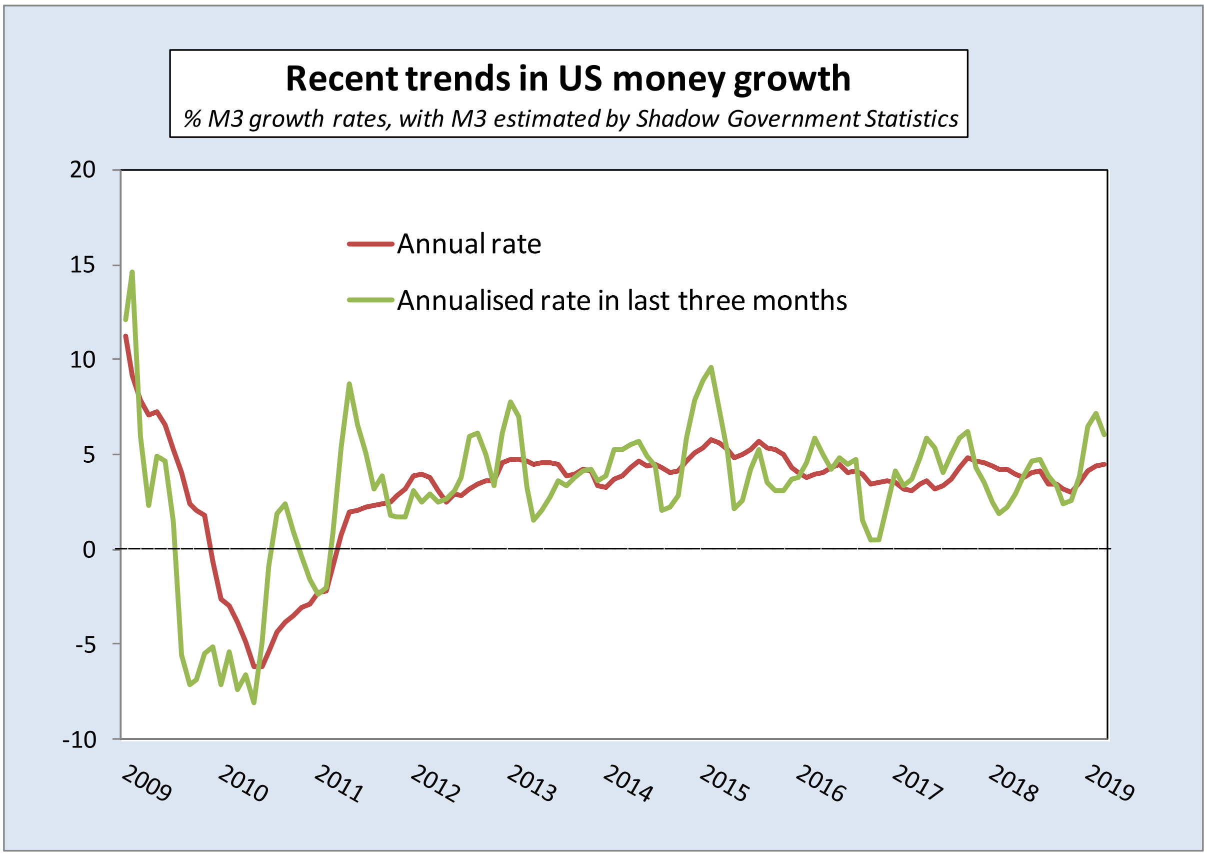
Pace the IMF, the BIS and their associates, monetary policy can *never* become impotent. Lipton and other IMF economists have also gone on from their critiques of monetary policy to recommend the virtues of fiscal reflation as a response to the next crisis. Can they learn nothing from the comparative experiences of, say, Germany and Italy, or Ireland and Greece, or Chile and Venezuela, over the last 20 years? Perhaps they – like so many others – would benefit from a careful reading of the Alesina, Favero and Giavazzi book on *Austerity*.

23rd April, 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 March 2019	**4.5**	**n.a**
Three months to March 2019 at annualised rate	**6.0**	**n.a.**

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



M3 growth continues at a healthy level

Summary: **In the first quarter of 2019 US M3 broad money grew at an annualised rate of 6.0%. In March itself, the quantity of money grew by just over 0.3%. The three-month annualised figure for April is likely to be lower as the strong growth in January will drop out of the calculations. The annual growth rate ticked up from 4.4% to 4.5%. These figures are satisfactory, especially given the ongoing run-off of asset purchases by the Fed, which depresses money growth. (Our M3 data come from Shadow Government Statistics.)**

The Fed indicated on 20th March that the monthly asset run-off will be reduced to €15b. in May and will cease altogether in September. In the past, these notes have expressed concern that the asset run-off would cause money growth to slow. Thankfully, strong growth in bank lending has largely offset the effects of this so-called "quantitative tightening". After raising the Fed Funds rate four times in 2018, the Fed has put any further increases on hold for now. (It has been concerned that the global growth slowdown will hit US business activity.) President Trump has demanded that the Fed should go further. In a speech on 4th April, he called for a cut in interest rates and the resumption of asset purchases, claiming that – if this were to happen – "you would see a rocket ship". He also stated his intention to nominate governors to the Fed who are sympathetic to a looser monetary policy.

Money growth has been less since end-2015 than in the three years before. Banks' cash assets have fallen significantly as a result of the run-off of Fed assets acquired in its QE programmes. The decline in cash assets seems to have moderated during March. If the asset run-off is to be trimmed in May and ended altogether later in the year, the hope must be that the growth of bank lending to the private sector is sufficient to keep the annual rate of broad money growth above 3% and perhaps even at close to 5%. The wider macroeconomic situation is benign. Unemployment is low, inflation is stable - albeit below the Fed's official target - and banks are continuing to lend. The justification given by the Fed for the rate rises in 2018 was that the US economy was now fully recovered from the Great Recession.

Crucial to money trends in coming months will be banks' ability to add risk assets. In the three months to March US commercial banks grew "loans and leases in bank credit" (which roughly corresponds to bank credit to the private sector) at an annualised rate of 5.8%. Despite the altercations between the President and the Fed, the number is more or less perfect to sustain growth without too much danger of higher inflation. So the money numbers continue to paint a positive macroeconomic picture for the USA. As long as banks continue to show an appetite for risk, with unemployment low, inflation subdued and the asset run-off being slowed and then terminated, there are no reasons why the US should not continue to enjoy a respectable level of growth during the coming months.

John Petley
9th April, 2019

	% annual growth rate:	
	M3	Nominal GDP
1960 – 2017	**7.4**	**6.5**
1960 – 1970	**7.7**	**6.8**
1971 – 1980	**11.4**	**10.3**
1981 – 1990	**7.7**	**7.7**
1991 - 2000	**5.6**	**5.6**
2001 - 2010	**7.1**	**3.9**
Seven years to 2017	**4.1**	**3.8**

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China

	% annual/annualised growth rate:	
	M2	Nominal GDP
1991- 2018	**19.2**	**15.1**
2010 - 2018	**13.6**	**11.2**
Year to January 2019	**8.5**	**n/a**
Three months to January 2019 at annualised rate	**8.8**	**n/a**

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

Stable broad money growth continues

***Summary*: In the three months to February 2019 China's seasonally adjusted M2 grew by 2.3% or at an annual rate of 8.8%. This was the same as January's figure and very much in line with the average for 2018. Chinese broad money growth continues to be remarkably stable. Both annual and annualised quarterly growth rates have consistently remained within the 8% - 10% band for almost two years. As the Chinese authorities try to maintain a tight control over the economy, the stability suggests satisfaction with these numbers.**

Although the annual rate of growth in the stock of loans by Chinese banks remained unchanged in February at 13.4%, the actual amount of money lent fell sharply compared with January. Given that new credit allocations are always made at the start of the calendar year, January often sees a significant rise in bank lending and this year saw loans hit a monthly record of 3.23 trillion yuan (about $400b.). February's figure was less than one third of this amount and the lowest value in over a year. Even so, given the very high figure in January, there is no cause for concern, as this is a standard seasonal pattern. However, a crackdown on unregulated lending – the so-called "shadow banking" on which small businesses in particular had been reliant – has probably had deflationary effects. Official spokesmen have said that the regulated banking system should tilt credit towards small businesses, to make good the shortfall in the availability of unregulated credit.

The government has recently expressed concern about the slowing economy. GDP growth in the fourth quarter of 2018 was 6.4%, the lowest figure since the Great Recession. The output growth target for 2019 has been set at 6% - 6.5%. Consumer price inflation has been on a downward trend for five months now, standing at a mere 1.5% in the year to February. Prices at the factory gate have barely risen in the first two months of the year, which points to inflation remaining below the government's 3% target for the coming months and thus offering scope for monetary loosening. There has been no move on interest rates since 2016, but banks' cash reserve ratio requirements have been reduced in both January and February of this year, while the government has embarked on a fiscal stimulus, cutting VAT in March and promising to cut corporate tax levels.

Amidst concerns of a slowing economy, the Chinese housing market continues its latest boom. In the 70 largest cities, prices rose by an average of 10.4% in the year to February, the strongest gain since May 2017. At the peak of the 2016 boom, the figure was 12.6%, with much higher figures in Beijing and Shanghai. The authorities responded by imposing tighter lending controls in the most sought-after cities. So far, there has been no extension of these restrictions, although media comment is that they were effective. 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. With a number of major economies slowing, China's exporters are likely to face difficult times in the coming months. Even so, the money numbers do not point to a recession, although the country may struggle to meet its growth target this year.

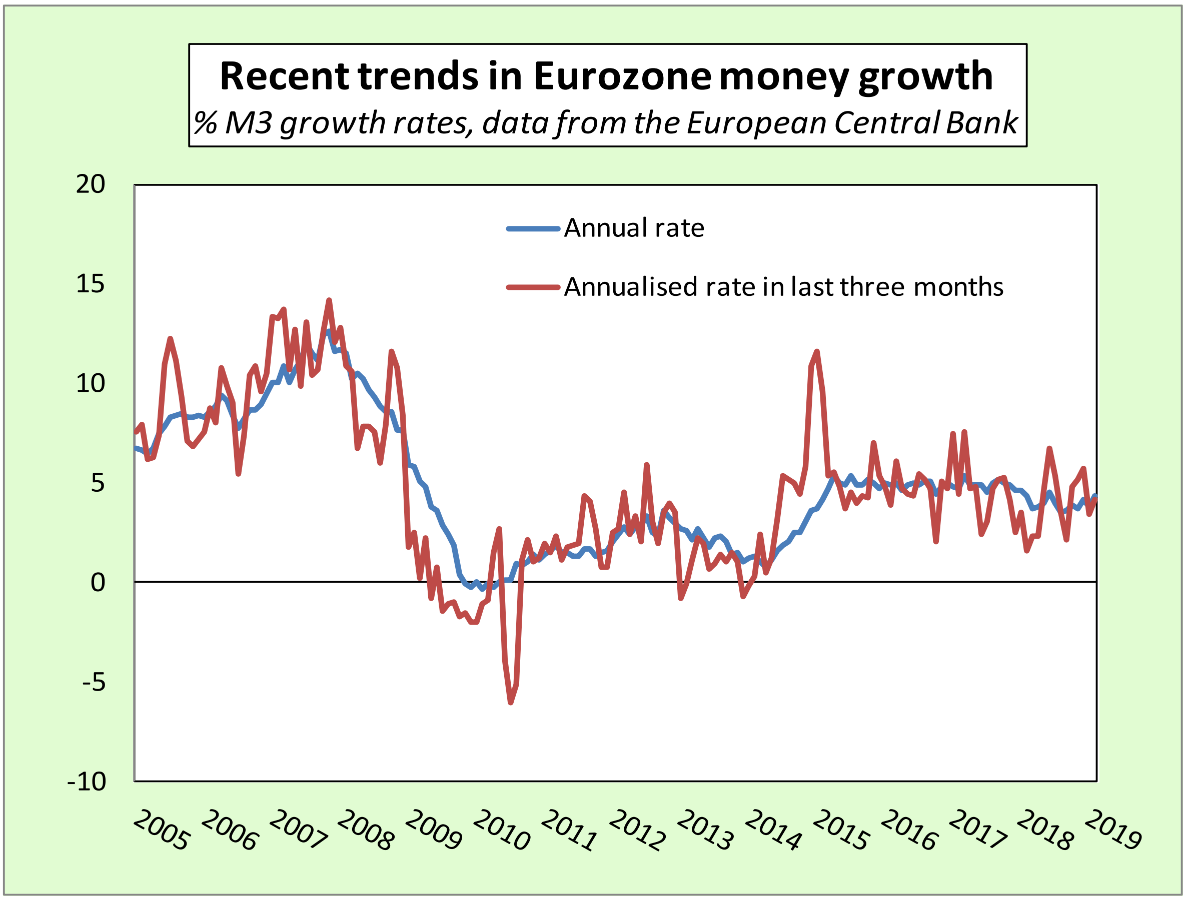
John Petley
23rd March, 2019

	% 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**

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 February 2019	**4.3**	**n/a**
Three months to February 2019 at annualised rate	**4.1**	**n/a**

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



Money growth picks up but concerns remain

Summary: **In the three months to February 2019 broad money growth in the Eurozone stood at 4.1%. This is an improvement on January's figure of 3.4%, although down from the annualised growth of over 5% seen in recent years. In February itself the M3 quantity of money grew by a respectable €67b., a significant advance on January's disappointing €8b.**

The European Central Bank halted its asset purchase programme (or "quantitative easing") at the end of 2018. January's disappointing money growth raised concerns that the ECB's actions could lead to a serious slowdown in broad money growth. Happily, February's figures are more positive. Banks' holdings of government securities, which fell in two out of the three final months of the QE programme and also in January, increased in February.

The figures for bank lending also give grounds for more optimism. Bank credit to the private sector grew by €8b. in December, €33b. in January and €45b. in February. As the stock of bank credit to the private sector was €13,416b. at the end of November, the annualised rate of increase in the three months to February was 2.6%. This was in line with the pattern for much of 2018. (The increase in bank credit to the private sector was 2.8% in the twelve months to December.) But clearly the pace of expansion was much higher in January and February by themselves. It remains to be seen if the better numbers in January and February can be sustained, but – if so – Eurozone money growth could be satisfactory in 2019 despite the ending of the ECB's asset purchases. (Credit to the private sector at end-February was almost three-quarters of all credit extended by the Eurozone's banks. Total credit on the assets side of their balance sheets exceeded their M3 liabilities by a ratio of 1.46.)

In spite of the better money figures this month, concerns about the Eurozone economy persist. In a speech in Frankfurt on 27th March, the ECB's President, Mario Draghi, emphasised his commitment to a loose monetary policy. He acknowledged worries about a possible downturn in the 19-nation bloc, and insisted that no run-off of the assets purchased under the QE programme was in prospect and appeared to rule out any increase in interest rates during 2019. Earlier in the month, he 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 round of LTROs. He also said that it will be some time before inflation across the entire Eurozone would stabilise at its target of 2% or just under. The annual increase in consumer prices ticked up from 1.4% in January to 1.5% in February, but there are few upward pressures on commodity prices. Annual wage growth has been rising since the start of 2018, but still stands at a modest 2.3%. With unemployment still standing at 7.8%, the labour market is far from tight. (Germany is a possible exception here, as it has an unemployment rate of only 3.2%.) Real-side statistics are mostly disappointing. Manufacturing has been weak in both France and Germany, the two largest economies in the Eurozone. Italy, meanwhile, is in recession, having recorded two consecutive quarters of negative GDP growth at the end of 2018. Its banks remain a cause for concern, while its public debt ratio is alarmingly high. Germany only just escaped recession in Q1.

John Petley
28th 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**

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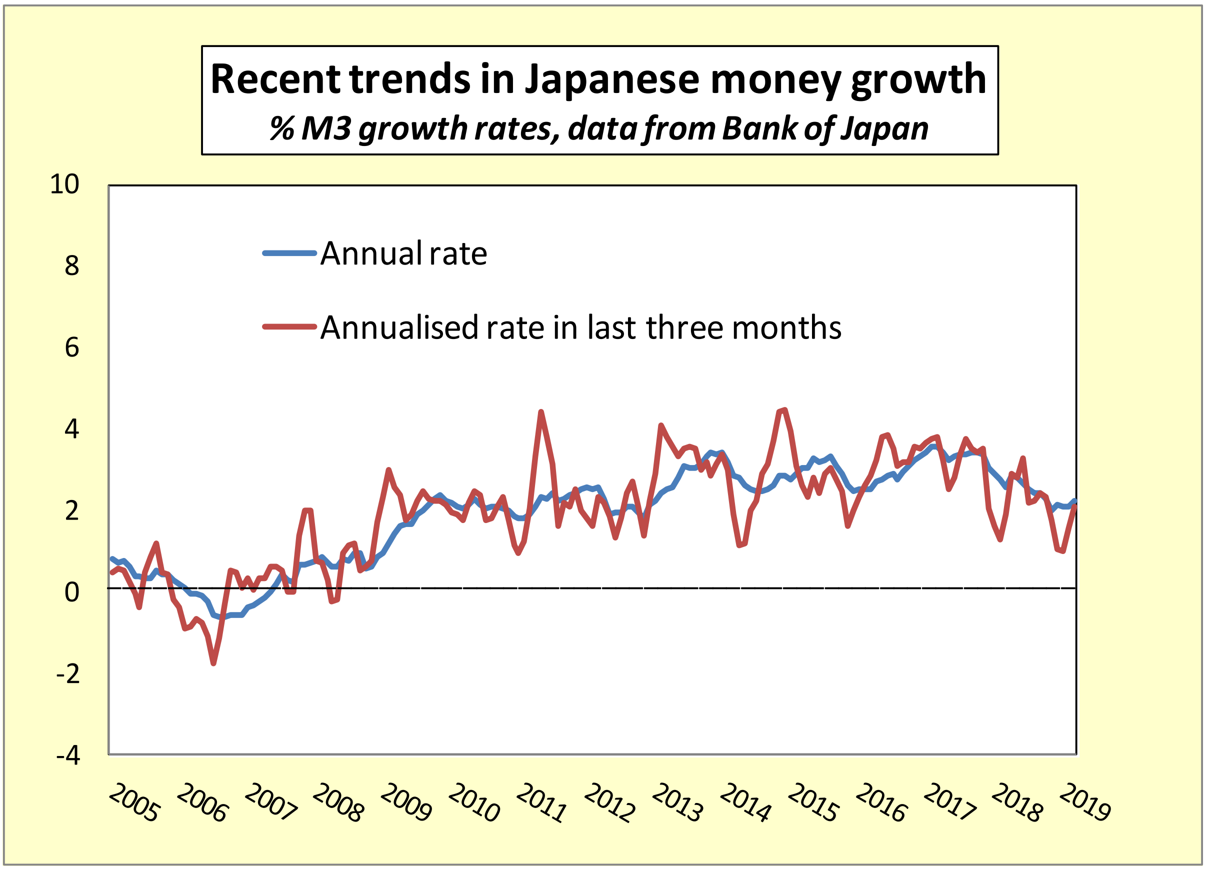
Japan

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2017	**4.0**	**1.9**
Six years to 2017	**2.9**	**0.5**
Year to March 2019	**2.2**	**n/a**
Three months to March 2019 at annualised rate	**2.1**	**n/a**

Sources: Bank of Japan for M3 and IMF for GDP



Broad money growth picks up, but remains sluggish

Summary: **In the three months to March 2019 Japanese M3 broad money grew at an annualised rate of 2.1%. This is an improvement on February's 1.6% and more so on the 1.0% seen in December and January. The 1.0% figure was the lowest three-month annualised growth rate since January 2011. The quantity of money grew by 28 trillion yen in March itself, the strongest growth since September 2018. This figure, however, is still below the average for 2018 and annualised quarterly growth likewise is considerably beneath the 2.8% average of the last five years. The annual growth rate picked up from 2.1% to 2.2%.**

Lacklustre money growth is being recorded, despite years of supposedly ultra-loose monetary policy. Various programmes of unconventional monetary stimulus have been in place since 2001. The annual rate of purchase of Japanese government bonds increased to 80 trillion yen ($760b. at the then prevailing exchange rate) in 2014. Short-term interest rates have been negative since 2016. "Yield curve control", whereby the BOJ will buy as many 10-year government bonds as necessary to keep yields at their current level of 0%, has been in effect for three years.

The asset purchases in particular have no doubt had a modest effect in boosting the quantity of money, broadly defined, but the BoJ has been targeting the monetary base rather than the quantity of money. Indeed, its statements often seem confused about the significance of these two very different monetary concepts. The monetary base is dominated by banks' cash reserves and banks' own spending is a tiny part of aggregate demand. The impact of changes in the base on the economy depends heavily on the response of changes in the quantity of money to changes in the base, but BoJ statements on the matter betray puzzlement. In spite of more than quadrupling the monetary base since the end of 2011, the effect of BoJ measures on the wider economy has been modest. After a year-on-year contraction in national output in the third quarter of 2018, an annual growth rate of 0.5% in the final quarter saved Japan from a technical recession. But the feeble macroeconomic growth in the last eight years illustrates clearly the lack of correlation between the monetary base and nominal GDP. Furthermore, there is little sign of the more immediate objective of the QQE programme being achieved, which is to ensure annual consumer price inflation rising to 2%. The figure for the year to February was a miserable 0.2%, the lowest number since October 2017.

The Minutes from the January meeting of BoJ's Monetary Policy Committee were published on 20th March. As usual, they strike an optimistic note that is hardly justified by the figures. The pet phrase "a virtuous cycle from income to spending" was repeated in these minutes, in spite of annual wage growth slowing to 1.2% in January and retail sales growing by a mere 0.6% year-on-year. Growth in the stock of bank lending fell from 2.4% in the year to January to 2.3% a month later. By comparison, in 2017, the annual growth rate topped 3%. The housing market has picked up slightly since the start of the year, but given Japan's demographics, no great growth can be expected here for the foreseeable future. In February 2019 consumer confidence fell to its lowest level since November 2016.

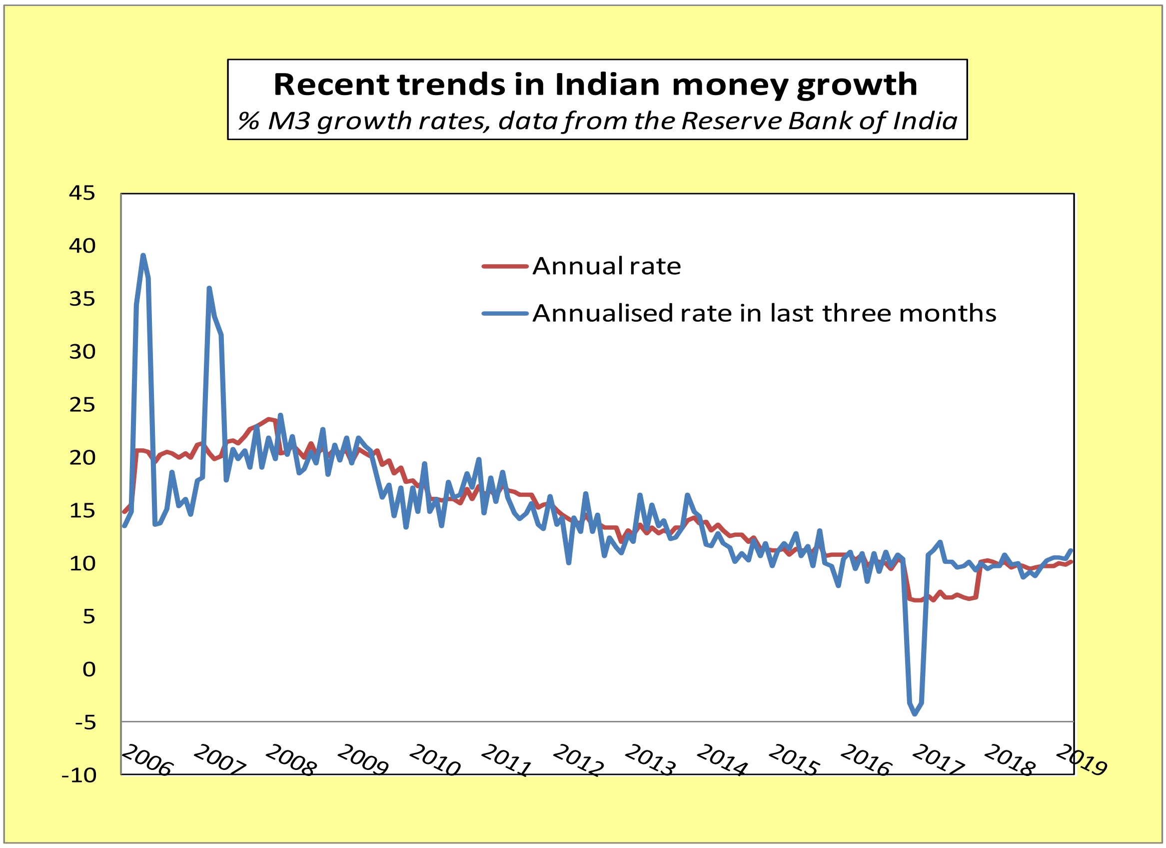
John Petley
11th April, 2019

	% 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 March 2019	**10.1**	**n/a**
Three months to March 2019 at annualised rate	**11.3**	**n/a**

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



Broad money continues to grow at a brisk pace

***Summary:* In the three months to March 2019 India's M3 grew by 2.8% or at an annualised rate of 11.3%, the highest reading since September 2015, which was well before the de-monetisation exercise of November 2017. The annual M3 growth rate also ticked up from 9.9% to 10.1%, the fastest growth since April 2018. This increase nonetheless shows little deviation from the 9.5% - 11% band in which broad money growth has remained forth past 18 months.**

The Reserve Bank of India cut interest rates for a second time this year, reducing rates by a further 0.25% on 4th April. Growth in lending by India's banks stood at 15.1% year-on-year at the end of 2018, but by the beginning of March, the figure had fallen to 14.4%, rising to 14.5% later in the month (The Reserve Bank of India reports bank lending figures on a bi-monthly basis.) With consumer prices rising by only 2.6% in the year to February – well below the RBI's 4% target – the RBI may believe that rates could be cut without fuelling inflation in the near term. But new credit creates extra money balances and excessive money growth causes inflation. At present a current credit boomlet seems to be under way. It is possible that real GDP growth of 6.6% year-on-year in the final quarter or 2018 - the lowest reading since June 2017 – may have been a factor in the decision to cut rates. (Indeed, Raghuram Rajan, the former governor of the RBI, has suggested that the true GDP growth figure may be lower. Rajan quoted an anonymous government minister who claimed that the low level of job creation in the Indian economy was incompatible with the official GDP growth level.)

Another possible reason for the interest rate cut is India's general election, due to be held in seven phases from 11th April to 19th May. The ruling BJP Party has been keen to ensure that it does not have to conduct its campaign against a backdrop of falling investment and sluggish growth, The new RBI governor, Shaktikanta Das, is a close ally of India's current Prime Minister Narendra Modi. Soon after taking office, Das reversed his predecessor's line and indicated that he has no intention of tightening monetary policy. The recent cuts in the RBI's repo rate are therefore no surprise.

However, the campaign instituted by recent RBI governors to tidy up the loan portfolios of India's banks has hit a major problem. A circular issued by the RBI in February of this year insisted that there were no plans to abandon the tough rules to reschedule non-performing loans brought in by Urjit Patel, the last governor before Das. Several Indian businesses took the RBI to court and the judgment delivered on 2nd April was that the RBI's actions were unlawful. Tough official action had succeeded in reducing the percentage of NPLs, following a sustained period where the percentage was rising. Some banks were prohibited from making new loans and others were placed under supervision of a new regulator. In February 2019 the government provided $7b. to recapitalise the most vulnerable banks, which are mainly state-owned. In spite of the suspicions about some banks' solvency, India's macroeconomic prospects remain positive. The money numbers are moderate, given that the country boasts one of the fastest-growing major economies. With a burgeoning middle class, increasing numbers of well-educated young people and a population expected to grow by over 16% between 2015 and 2030, the current level of growth ought to be sustainable for several years to come. India's per capita GDP is less than one third than that of China, so the growth potential is substantial.

John Petley
9th April, 2019

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

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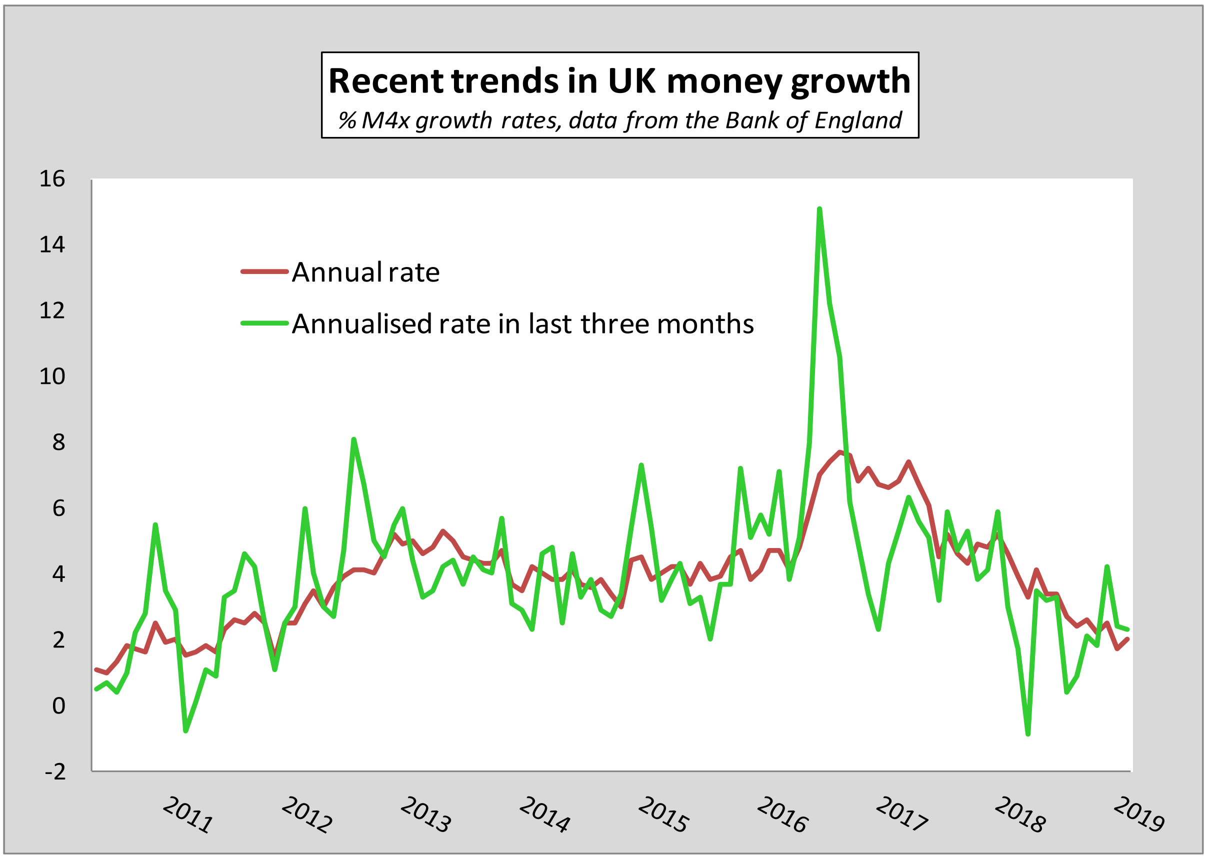
UK

	% annual/annualised growth rate:	
	M4x/M4 before 1997	Nominal GDP
1964 – 2017	**9.8**	**8.2**
Seven years to 2017	**3.8**	**3.6**
Year to February 2019	**2.0**	**n/a**
Three months to February 2019 at annualised rate	**2.3**	**n/a**

Sources: Bank of England and Office for National Statistics



Broad money growth is very weak

Summary**: In the three months to February 2019 M4x grew by under 0.6% (or at an annualised quarterly rate of 2.3%). After falling in January, the M4x quantity of money grew in February, albeit only by a modest £3.6b. (By contrast, in 2017 M4X grew at a monthly average of £8.3b.) The annual growth rate crept up from 1.7% to 2.0% as February 2018, when the quantity of money, broadly defined, fell, has dropped out of the calculations. February was one of no fewer than five months during that calendar year which recorded a drop in M4x money.**

Late 2016 and 2017 saw rather high growth rates of broad money, on the favoured measure of M4x, after the surprise Brexit referendum result in June 2016 stirred recession fears. Part of the explanation was that, just after June 2016, the Bank of England engaged in expansionary asset purchases. In the closing months of 2016 M4x was 8% up on a year earlier; even in January 2018 the backward-looking twelve-month increase in M4x was 5.2%. As everyone knows, the recession fears were unjustified, and growth in the two years after the referendum proceeded as if nothing much had changed.

However, money growth since February 2018 has been weak or very weak. In the 13 months February 2018 to February 2019 inclusive, M4x has fallen in three months, seen little change in four months and increased in only six months. The backward-looking twelve-month increase in February 2019 was down to 2.0%, near to the lowest figure since the Great Recession and in total contrast to the UK's typical experience in the decades from the Second World War to the Great Recession. (In these decades banks grew their balance sheets and their deposit liabilities commonly at double-digit annual rates per cent.) The sluggishness in money growth may be attributable to the withdrawal of artificial official schemes to help bank lending and also to an increase in banks' cyclical capital buffer, but the fundamental consideration – as has been true since the Great Recession – is that banks are under greater official pressure to maintain ample capital against the risks in their balance sheets.

Given this background, economic activity and asset prices have been more robust in recent quarters than might have been expected. It is striking, for example, that the money balances of mainstream non-bank financial institutions (i.e., financial institutions excluding intermediate "other financial corporations" or quasi-banks) fell by almost 5% in the year to February, but share prices enjoyed a recovery in early 2019. However, the last year has in fact been one of asset price weakness. The FTSE 100 index fell almost 15% between a peak in June 2018 and a trough in December 2018, while house prices are lower *at a national level* now than a year ago. (London house prices have been slipping for three years.) As the Eurozone is close to recession, the UK ought to have had a difficult first quarter of 2019. But the economy seems to have continued to make progress, with monthly gains in employment still being reported. One cause may have been a build-up of stocks ahead of the first Brexit deadline on 29th March, but that is not the whole story. Indeed, retail spending has been surprisingly resilient, with the general public indifferent to forecasters' pessimism about the economic consequences of Brexit. Consumer confidence remains low.

Tim Congdon
23rd April, 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**