

FROM: N I HOLGATE
DATE: 11 November 1987

1. MR KELLY ^{can} u.u. *ms*
2. CHANCELLOR

cc: Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Peretz
Miss O'Mara
Mr Grice
Mr Pike
Mrs Ryding
Ms Bronk
Mr Norgrove - No 10

Prime Minister

DN
11/11.

MONEY SUPPLY IN OCTOBER: "FIRST GUESS"

(All figures are unadjusted unless specified otherwise)

This note summarises the Bank's "first guess" at MO and M3 figures for October. As usual at this stage M3 figures are subject to significant revision.

Table 1: Monetary Aggregates (per cent)

	<u>MO</u>	<u>M3**</u>
Annual growth rate*	5.5 (5.6)	21.8-22.6
Change in month*	-0.2 (0.6)	2.7-3.5 (3.1-3.9)
Target range	2-6	-

* Figures in brackets seasonally adjusted

**The actual outturn has been within the range forecast on this basis in 10 of the last 12 months.

2. The increase in sterling bank lending in September is likely to be in the range £1.4-3.4 billion (also £1.4-3.4 billion seasonally adjusted). Lending in October will have been reduced by the repayment of the £0.5 billion takeover related loan (which had boosted the lending figures for September).

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3. Other main points of note in the "first guess" are that both the external and foreign currency finance of the public sector, and the residual are very expansionary. External and foreign currency finance increased by £2.9 billion, reflecting heavy intervention offset by overseas inflows of sterling bank deposits, gilts and Treasury bills. The residual ^S is expansionary by £1.4 billion which suggests that bank lending or others of the figures may turn out to be somewhat higher than suggested by the "first guess"^{range}%. Special factors may include a build-up of liquidity by potential BP investors and UK underwriters who were due to pay £1.5 billion to the government early in November; and an increase in BP's holdings of sterling bank deposits due to their receipt of £1.5 billion proceeds on the last day of October. In the M3 counterparts £0.9 billion of the £1.5 billion is part of the expansionary effect of the rise in reserves, because foreign underwriters paid foreign currency to the EEA and the equivalent in sterling was then paid to BP.

M3 components and counterparts

4. Table 2 (attached) compares the changes in M3 components in August underlying the "first guess" with the average monthly change over the previous 12 months. Table 3 (attached) provides a similar comparison for M3 counterparts.

Timetable

5. We expect to receive provisional October figures on Wednesday 18 November. They will be published on Thursday 19 November. Full money and banking figures for October will appear on Monday 30 November.

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TABLE 2: M3 COMPONENTS - OCTOBER 1987

"First Guess" compared with average monthly change in the previous year.

	<u>First Guess</u>	<u>Average monthly change in year to September</u>
Notes and coins in circulation	481	60
Non-interest bearing sight	-409	160
Interest bearing sight	2501	1030
Time deposits (including (CDs)	<u>2289</u>	<u>1140</u>
Change in £M3	<u>4862</u>	<u>2390</u>

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TABLE 3 : M3 COUNTERPARTS - OCTOBER 1987

"First guess compared with average monthly change in the previous year

£ millions

	First Guess	Average change in year to September
CGBR (O) (ex bank deposits)	-513	-20
Other public sector:		
LABR)		
PCBR)	-274	140
OPS debt sales)		
Modified PSBR*	-787	120
CG debt: Gilts	-107	10
Treasury bills	78	-30
National Savings	1	-250
CTD's etc.	-166	110
Total CG debt sales (-)	-194	-160
External and fc finance of public sector (-)	2867	20
Wide over(-)/under(+) funding	1886	-20
Sterling lending to nbps (incl Issue Dept commercial bills)	1571 #	3090
Net private externals **)		
Residual (includes NNDLS **) and reporting differences))	1405	-680
Change in M3	4862	2390
(Monthly percentage change)	(3.1%)	(1.5%)
(12 month percentage change)	(22.2%)	(19.3%)

* Modified PSBR equals PSBR less OPS debt sales

** For the "first guess", Private Externals and NNDLS cannot be separately identified

£1532 million after seasonal adjustment.