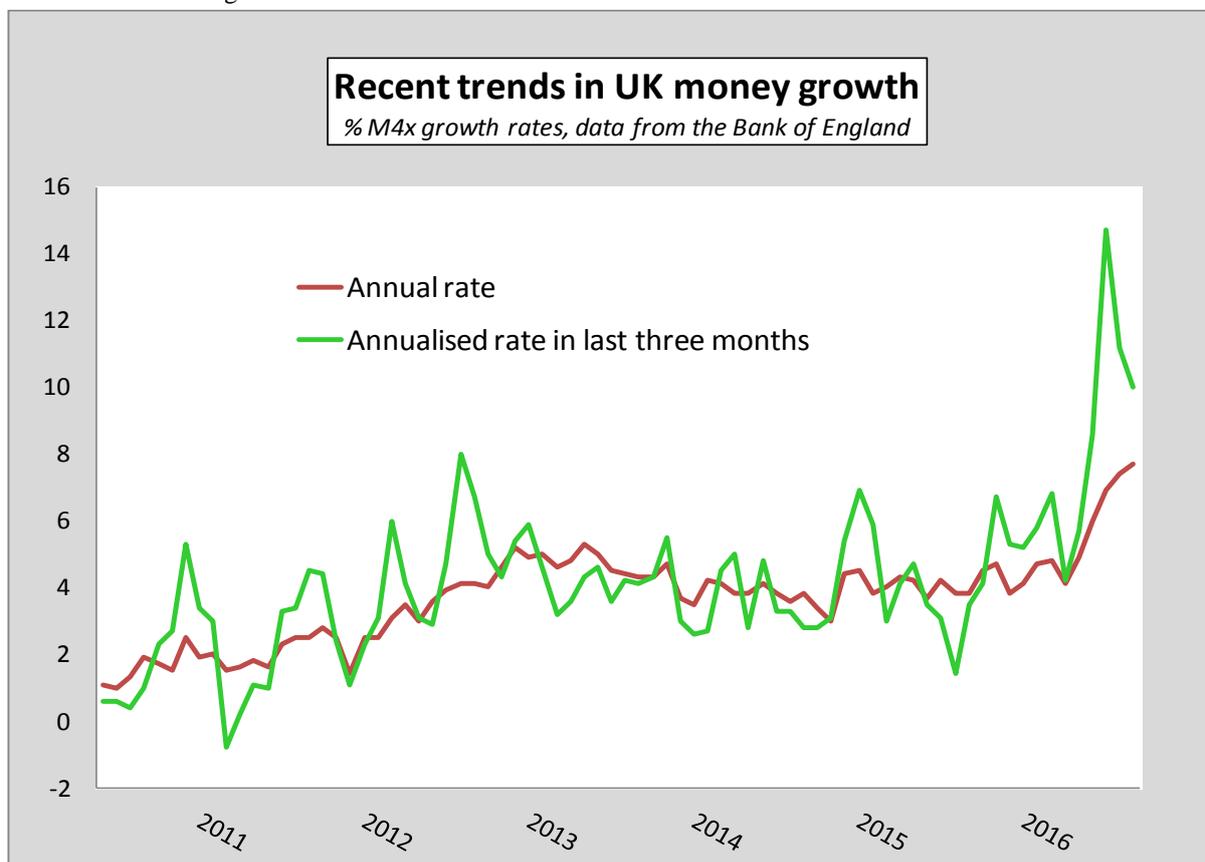


UK

	% annual/annualised growth rate:	
	M4x/M4 before 1997	Nominal GDP
1964 – 2015	10.0	8.2
Five years to 2015	3.7	3.6
Year to September 2016	7.7	n/a
Three months to September 2016 at annualised rate	10.0	n/a

Sources: Bank of England and Office for National Statistics.



Bank of England's 4th August monetary easing was a mistake

Summary: In the third quarter of 2017, UK broad money M4x rose by almost £48b. September's £17.5b. increase helped raise annual broad money growth to 7.7%, although the annualised quarterly rate fell to 10% due to June's £28b. dropping out of the calculations. Even so, as the graph above shows, UK broad money growth is running at a much higher level than at any period since the Bank of England began to use M4x as its key money gauge in 2009, in spite of August's modest M4x increase.

This significant pick-up in broad money growth, which began before the 23rd June referendum, was ignored by the Bank of England on 4th August, when it boosted its asset purchase programme by £60b. and cut base rates from 0.5% to 0.25%. The justification was concern that the Brexit referendum result vote would tip the economy into recession, although the precise mechanisms responsible for this drastic sequel were not spelt out.

The Brexit referendum fears have proved unfounded. The results of, for example, the latest Confederation of British Industry surveys (for July, August and September) contain no serious evidence of a slowdown in the economy. A conspicuous feature is that export order books were somewhat stronger than on average since 2010, reflecting the dip in the pound on 24th June. Given that the volume of retail sales jumped by 1.4% in July, and that retail sales constitute about 20% of aggregate demand, and given also that the unemployment rate has held steady at 4.9% since May, the numerous forecasts of a Brexit-related recession look silly.

The only sector of the economy which did show a slowdown in the immediate post-Brexit period was the housing market. Mortgage approvals slumped to 61,407 in July and 60,984 in August – down by over 15% on the figures for the start of the year. September saw a modest recovery here. There was also a pick-up in business lending during the month, with the stock of loans 3% higher compared with 12 months earlier. Contrary to some accounts in the media, UK businesses and banks have – on this basis – become less risk-averse in the period since the Brexit vote.

There was a well-publicised rise in inflation in September, with the CPI rising from 0.6% to 1%. The fall in the value of sterling will have been a factor here, but by no means the only factor. At this point in time, an annual inflation rate of 1% is no major cause for alarmism. The 4th August policy easing does, however, increase the risks of above-target inflation in 2017 or 2018, as the Bank's £60b. of extra asset purchases add about 3% to M4x. The extra money balances will boost asset prices and economic activity, with an impact on nominal GDP and the price level. Overall, however, the Bank of England's latest data on lending again underline the stability of the economy in the three months since the Brexit vote. The pessimists have been proven wrong.

John Petley
31st October, 2016

	% annual growth rate:	
	M4/M4x	Nominal GDP
1964- 2015	10.0	8.2
1991 – 2000	7.5	5.9
2001 – 2010	7.0	4.2
Five years to 2015	3.7	3.6