

File FEA/0000000099, Part B – Monetary Base
Control

Original reference FEA\C\650\1440\02 B

PART 14

15/4/1981 – 30/6/1981

Pages 250-269

The Narrow Aggregates

13. The paper sets out the implications of moving to the narrower aggregates:

- a. the narrow aggregates are not demonstrably inferior to £M3 in predicting long run trends in inflation.
- b. M1 would be easier to control by changes in interest rates than £M3 . Though it is more directly influenced by the level of short term interest rates, it does not have the same obvious links with expenditure and tax policy.
- c. M_0 , the monetary base, would be more difficult to control by changing interest rates than M1 and possibly more difficult to control than £M3 .
- d. It would be possible to base interest rate decisions primarily on movements in M1 over 6 monthly periods, while retaining the possibility of moving to M_0 at a later stage.
- e. A short term target for M1 would make it more difficult at the same time to meet an annual target for £M3 . There might also be some conflict with the medium term £M3 targets, which would cease to have much operational significance.
- f. The bands would probably be changed more frequently, and interest rates would be more effective in keeping the money supply under control.

£M3 Plus Other Factors

14. The paper explains how £M3 might be modified by other factors:

- a. It follows directly from the Budget Speech, and is more obviously consistent with the MTFs. It would not need a new announcement, though we might wish to give more explanation of how the various factors were to be taken into account.
- b. It provides a less clear guide to changes in the interest rate bands. £M3 responds to the structure of interest rates rather than to the level of short rates. It can be unpredictable in the short term, and can take a long time to respond.
- c. The additional factors to be taken into account are difficult to quantify.
- d. Decisions would be taken with a longer forward timescale

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in mind, and in practice are likely to be taken less frequently.

e. It appears to be more flexible because it gives the authorities greater discretion, whereas an M1 approach might look more rigid. This flexibility will however be seen as a disadvantage by those who want to give maximum weight to preventing shocks coming through on to the money supply.

15. We need to resolve these issues before the new arrangements come into operation. In one way or another a range of factors will be taken into account in arriving at decisions on interest rates; this has been stated repeatedly by Ministers since the Green Paper on Monetary Control. The choice between the two approaches is one of emphasis in determining the bands - primacy to M1 or primacy to £M3.

PEM
29.6.81

SETTING SHORT-TERM INTEREST RATES

Under the new arrangements, the authorities will set a relatively narrow band for short-term interest rates and the role of administered changes in MLR will be reduced or even eliminated. This change is intended to reduce the visibility of the guiding hand of the authorities and also to let the market play some part in the determination of interest rates of differing maturities.

2. It has also been established that the movement of £M3 relative to the target range is not the only factor to be taken into account in deciding the level of the interest rate band. The purpose of this paper is to describe the factors to which we should give attention and the circumstances in which an increase or reduction in the level of the band might be considered appropriate. We are not seeking a simple formula which will provide the correct response to all conceivable circumstances, but neither do we want to re-think our position each month from first principles.

3. We shall be operating within the framework of the medium-term strategy. This was designed with the intention that the deceleration of monetary growth should be achieved without relying on an excessive level of interest rates. In that sense, but only in that sense, we have an objective for the level of short-term interest rates themselves. This has been an important consideration in fiscal policy decisions, most notably in this year's budget. It cannot, however, be given much weight in setting short-term interest rates, month by month, unless it can be demonstrated that such a move is consistent with the overall strategy, and with a reduction in the growth rate of money and prices.

4. The new arrangements are designed, amongst other things, to remove a perceived bias towards delay in an administered MLR system. We shall not, therefore, wish to build any such bias into the new system, and should, indeed, consider a decision to keep the level of the band unchanged as needing just as much justification as a decision to raise or lower it.

5. The interest rate band will be relatively narrow, and its main purpose will be simply to allow for the imprecision of control. In general, the instructions to the market operators will be to keep rates towards the centre of the range. This does not mean, however, that we cannot, or should not, respond to market pressures. These will show up not only as movements within the band, but also as movements in rates at longer maturities which the authorities do not influence so directly. Thus, the first of the factors to be considered when setting rates is the experience of market conditions in the preceding period.

Market conditions

6. The authorities cannot be wholly passive in the market, since there would then be no reason why the outcome for any of the monetary aggregates should accord with our intentions. If, however, we make our intentions clear to the market, then we may find that market sentiment is useful as an indicator to us of future developments in the factors which govern our decisions. Thus, if the market believes that the rate of monetary growth or inflation is likely to accelerate, there will be upward pressure on interest rates - so long as the market believes that these are amongst the factors which influence the authorities in setting interest rates. If the market expects monetary growth or inflation to accelerate, and we have no reason to believe that view is incorrect, then we may well decide to make a move in interest rates immediately rather than wait for the monetary growth or inflation to manifest itself in fact. The situation has parallels in the management of an exchange rate: sometimes the market can see the "fundamentals" more clearly than the monetary authorities.

7. Money market conditions, especially in the longer maturities, will reflect such expectations, but more "technical" factors such as the flow of funds day-by-day into and out of the exchequer will also be important, especially at the very short end. Thus, last summer there was sustained and strong upward pressure on rates during periods when the PSBR was being overfunded. The system will work rather differently after the reserve assets requirement is abolished, but conditions of the same general kind can recur (for example, in the aftermath of the Civil Service dispute). Such "technical"

pressures are not, in general, likely to signal information relevant to the achievement of targets for the monetary aggregates, or the economy more generally. Typically, we will want to hold the line on interest rates in such circumstances and resist the pressure, whether up or down.

8. Market conditions, including the foreign exchange market and the gilts market as well as the money market, will necessarily influence the timing of some interest rate changes. An abrupt movement, or a movement in an unexpected direction, will always lead to a certain amount of confusion. Such inhibitions are difficult to reconcile with the "low profile" view of interest rate determination, but they are there, nevertheless. Even though we hope policy will be less visible than hitherto, this does not mean it should be mysterious or seem inconsistent. It will be necessary at some stage to make the basis on which interest rate policy is being conducted a good deal clearer in public than it is at present.

Sterling M3

9. The Budget Speech confirmed that the targets for £M3 will continue as the centrepiece of the economic strategy. There has, however, been a shift of emphasis from the relatively short-term to the relatively long-term in the timescale over which it is expected that the targets will be met. Experience suggests that the confidence of the markets need not be lost if the figures diverge from target on a month-by-month basis provided there is some assurance that a better trend can soon be re-established. We have also to recognise that we do not have the instruments to achieve very precise control if we wished it. This must influence the way in which we monitor movements in the target aggregate and respond to divergences in either direction.

10. The first stage of analysis must be, as always, to estimate the effects of known distortions to the outturn figures. Last year the after-effects of the corset scheme were important; this year it is the Civil Service dispute; round-tripping has also been a recurrent problem. The next stage is to look at identifiable factors influencing the short-term outlook. The result is a view of the current trend,

movement
based on the / over the past six months together with the prospect for the next three months. This trend is clearly one important input into an assessment of the appropriate level of interest rates, but it is not the only one.

11. The assessment also needs to look further ahead than the next three months. The short-term response of £M3 to changes in interest rates is, typically, quite small relative to the response in the longer-term. In these circumstances, there is clearly a danger of over-correction in response to deviations from the target path if the authorities attempt control over too short a period. We have never believed that it was possible to correct all deviations within a period as short as three months. A more realistic horizon would be about six to twelve months - in other words we should, even in the early months of the target year, direct our assessment towards the measures necessary to deliver the right level of £M3 at the end of the year and beyond. This suggests a need for a forecast which focuses on conditions nine months hence.

12. This forecast is designed to incorporate all the relevant information we now have that has clear implications for future monetary growth. If such information was ignored there would be occasions when interest rates were moved up or down to correct divergences which were believed to be transitory. This would tend to increase the volatility of the money supply as well as interest rates. It would also mean turning a blind eye to early warnings that conditions were likely to become too tight or too slack.

13. If interest rate decisions are to be based on forecasts of £M3 as well as outturns, it is important that the reasoning behind these forecasts is clear and convincing. Sometimes we can point to particular events in the future which can be predicted with reasonable confidence - the receipt of our EEC refund last year was a good example. Sometimes we can point to events in the recent past which will undoubtedly have implications for the future - a recent change in interest rates or the exchange rate would be a good example. We must also take account of the prospects for economic activity generally and for inflation, insofar as they are relevant to monetary developments, to the PSBR for example and to bank lending.

14. If the trend in \pounds M3 and the prospects nine months ahead diverge from the target path, then there must be a presumption that interest rates should change straightaway in the direction indicated. Normally one would expect to move the band in discrete steps of one percentage point, but there is no need to rule out steps of a half point or of more than one point. In principle, one should calculate the scale of the interest rate change that would bring \pounds M3 back to the centre of the target range within the nine-month forecast period.

15. A calculation of this kind cannot, in practice, be made with much certainty or precision. The effects of short-term interest rate changes on \pounds M3 are of three kinds:

(a) a rise in interest rates will eventually reduce bank lending, but this effect seems slow acting;

(b) a rise in interest rates, if it has effect at the long end as well as the short, will reduce private sector wealth, and hence the demand for money - but this also will take quite a time to be effective;

(c) a rise in interest rates will often create the expectation of capital gains on gilts and therefore cause investors to run down their cash holdings; this effect is especially unpredictable, but it could produce a substantial reduction in \pounds M3 almost immediately.

The latest estimates suggest that a rise in short-term interest rates of one percentage point will, on average, reduce \pounds M3 by about 1 per cent after 3 months and 2 per cent after 12 months. But these estimates keep changing; and the effects also depend on tactical decisions of the authorities in the gilt-edged market. There is no satisfactory way of replacing the process of forecasting and policy assessment by a purely mechanical procedure.

The Counterparts

16. Last year, faced with a serious over-run on the PSBR, we decided that an interest rate increase was not an appropriate response. Instead, some quite stringent fiscal measures were taken in this year's Budget. With short-term interest rates now at a lower level, we might take a different view if the same pattern recurred in 1981-82. There is no general presumption that the counterpart to tackle when the money supply is off target is the counterpart that is out of line with the forecast.

17. In earlier years monetary control has been threatened by periods of weakness in the gilt-edged market. Such conditions may reflect a market view that our objectives for the money supply or inflation cannot be achieved without a shift to a higher general level of interest rates, both long and short. If that is the market's view, and if we share it, then an increase in interest rates may indeed be the right response; but it is worth emphasising that this is not advocated in all circumstances simply as a means of getting the gilts market moving again. Sometimes a better response to a weak gilts market would be an issue of indexed debt, or else a tactical charge which allowed the shape of the yield curve to change.

18. If the growth of bank lending is persistently in excess of the money supply target, the structure of the banks' balance sheets will be changed progressively. They will hold more and more private sector debt and less and less public sector debt. Up to a point this development may be perfectly healthy both for them and for their customers, but sooner or later a problem will emerge. The public sector debt held by the banks is typically far more liquid than their private sector debt, up to a point commercial bills can take the place of liquid public sector debt, but the substitution cannot go on indefinitely. In the end, either bank lending to the private sector must slow down, or else the banks must actually borrow from the public sector.

19. It follows that "overfunding", selling more debt to the private sector than is necessary to cover the PSBR, cannot provide a permanent solution to the problem of persistently excessive growth in bank lending - although it may be the right response over a period of several months. If direct controls, like the corset, are ruled out, there is in the end no alternative but to allow interest rates on bank loans to rise to the point where demand is cut back.

The Narrow Aggregates

20. A separate paper, "The Role of the Narrow Aggregates", discusses M1 and M0 either as alternatives to a £M3 target or as elements in a system of multiple targets. The analysis of various periods in the past suggest that the narrow aggregates do contain information which should be taken into account in interpreting the movements of £M3 and in interest rate decisions. The paper suggests one procedure for making use of this information.

21. Each year a target is set for £M3. It would be possible at the same time to estimate the growth of M1 which was compatible, according to the information then available, with the achievement of the £M3 target. This would reflect medium-term trends in the velocity of circulation of the two aggregates, recent and prospective movements in interest rates and no doubt a variety of "special factors". The result of this calculation could then form the basis for a guideline relating to the movements in M1 in the following year. This procedure does not mean that we would adopt a target for M1. There might nevertheless be some merit in publishing the guideline, although we would undertake no public commitment in relation to it.

22. During the year we would then monitor the outturn and prospect for M1 over the same time span as we apply to £M3. Unexpected movements in M1, irrespective of what was happening to £M3, would be considered an important element in the interest rate decision. At a later stage a similar procedure might be applied to M0, but in the coming year its movements are likely to be distorted by the change in the cash ratio. The narrow aggregates should be especially valuable when £M3 is believed to be subject to serious distortion. Currently, for example, the growth of M0 is of particular interest as it is relatively undistorted by the Civil Service dispute.

External Considerations

23. Over the past year, intervention in the foreign exchange markets has been confined to short-term smoothing and it is assumed that this policy will continue, irrespective of whether the rate is rising or falling. It is appropriate, however, that external considerations should be given some weight in setting short-term interest rates. This does not mean that the Government has or should have an objective for the exchange rate, or that there is any need to take account of exchange rate prospects in their own right. On the other hand, the exchange rate will influence our judgements through its effects on the domestic economy.

24. Forecasts of the exchange rate have been unreliable and the way it is influenced by relative interest rates remains very uncertain. Nevertheless movement in overseas rates are relevant information when we are considering interest rate movements in the UK, since differentials do have some effect on the exchange rate and the exchange rate does have an effect on prices. As mentioned above, conditions in the exchange market may also on occasion be important to the timing of interest rate moves, especially when such a move could be misinterpreted as a change in the nature of our policy either towards the monetary targets or towards the exchange rate itself.

Nominal Incomes

25. The purpose of the monetary targets is to control nominal incomes and ultimately the price level. In interpreting movements in the monetary aggregates, it is always necessary to set them in that context. Last year it was partly the relatively slow growth of nominal incomes which led to the decision to permit some overshooting of the target for £M3. That decision is potentially reversible if the growth of nominal incomes were for any reason to speed up again.

26. We have made use on several occasions recently of the idea of a national cash limit. Within the framework of the monetary strategy there is, in effect, a constraint on gross domestic product as current prices, although no explicit target, or even forecast, has ever been announced for this total. The idea, without quantification, has been used in setting out the implications of public sector spending for the private sector, and the implications of pay settlements for employment. It is also relevant to the interpretation of monetary conditions and hence to the setting of short-term interest rates.

27. Quarterly figures for current price gdp are only available several months in arrears. There is normally however sufficient information in the monthly indicators to build up quite a good estimate for the movement of nominal incomes on a reasonably up to date basis, although some guesswork would undoubtedly be involved. We will aim to assemble enough information to give, month-by-month, an estimate of the growth of nominal income over the preceding six month period. This can then be set alongside the trend in the monetary aggregates calculated for the same months. In the same way we can look ahead at the prospect for nominal incomes over the next nine months consistent with the latest indicators and the latest view of the economic forecasters.

28. Outturn and prospect can then be compared with the growth rate of nominal incomes expected when the target was set for £M3. This growth rate, which would normally be based on a forecast published at Budget time, would then become a guideline for monitoring performance, similar to those proposed for M1.

29. The growth of nominal incomes is partly a real growth of output and partly inflation. Obviously our attitude to the two parts is not in the long run the same. Behind the idea of a constraint on^a nominal income is some view of the sustainable growth of real output. If we changed our view about that rate - the increase in effect of productive potential - then we might well wish to change our view of the appropriate growth in nominal

incomes, and even of the money supply. But unless we do change our view in this way, our response to deviations of nominal incomes from the guidelines would be much the same, whether they were deviations in volume or in price. It is not appropriate therefore to include output (or employment) as such amongst the factors taken into account in setting interest rates.

Real Interest Rates

30. The interest rate cut of November 1980 was largely a response to the decline in the rate of inflation. One line of argument linked this to the growth of nominal incomes, but there was another which was based on the consequent movement in real interest rates. As inflation slows down the stringency of a given nominal interest rate increases. It is plausible, although not at all well documented, that real rather than nominal interest rates influence private sector saving, investment and borrowing decisions.

31. There is no straightforward way of measuring real interest rates, since they depend on the rate of inflation in the future rather than the past. The best we can do is to examine the implications of our own inflation forecasts, which will in turn be heavily influenced by experience of inflation in the recent past.

32. In the past interest rates have not kept pace with actual changes in the rate of inflation; thus rapid rates of inflation have typically been associated with negative real interest rates and low inflation with positive real interest rates. As the rate of inflation slows down, therefore, it is not to be expected that the interest rate will necessarily keep pace. Much depends on the way inflationary expectations are now based; it cannot be assumed that the experience of the last few years has left perceptions unchanged. There does not seem to be a sufficient basis on which guidelines for real interest rates could be devised. But the presumption remains that short-term interest rates will, other things being equal, move down gradually as inflation abates.

Policy Decisions

33. This paper has reviewed the ingredients that go into the process of decision-taking but has so far avoided the issue of their relative weight. There will perhaps be times when all the evidence points in one direction: all the monetary aggregates below forecast, the exchange rate strong and inflation falling sharply, for example. Often there will be some conflict to resolve.

34. It would be both artificial and arbitrary to attach fixed mathematical weights to each factor. There is a general presumption that $\pounds M3$ has some primacy over the other indicators. The starting point, therefore, is ^a judgement of the level of interest rates needed to meet the target for $\pounds M3$ within a horizon of six to twelve months. The events of last year, however, suggest that short-term interest rates cannot always be guided by actual or prospective movements in $\pounds M3$ alone. At the least, those movements need to be interpreted in a wider context. We need an assessment of why $\pounds M3$ is growing (or expected to grow) faster or slower than intended. If that assessment shows that there is something odd about the behaviour of $\pounds M3$ relative to other indicators, we may be persuaded that the general presumption of its primacy has to be discarded in this case.

35. One source of such evidence is the narrow aggregates. We have no targets for either M1 or the monetary base, but we could have a guideline for M1 believed to be consistent with the achievement of the $\pounds M3$ target. If the relative movement of the aggregates diverged significantly from that predicted, we would regard that as justifying examination of the possibility that $\pounds M3$ was (as last year) giving a misleading signal.

36. We need also to look beyond the movements in $\pounds M3$, to try and see what they mean for the achievement of the ultimate objective of reducing inflation. There are exceptions to the rule that the relation of $\pounds M3$ to nominal incomes is stable and predictable even in the medium-term. We have to be on the look-out for changes in institutions (the relative importance of banks and other financial institutions as intermediaries for example) or in private

sector behaviour (the relationship of income to financial wealth for example) which will change the significance of the target aggregate. If changes of this sort occur, and are likely to be long-lasting, then the response must either be to change our intentions for £M3 or else to change the path of nominal incomes we expect as a consequence. We cannot keep both.

37. One way of interpreting the movements in monetary aggregates therefore is to set them alongside the behaviour of nominal incomes relative to a pre-set guideline. Usually this procedure will confirm the conclusions that would follow from looking at the money supply alone: excessive monetary growth will usually go with actual or prospective excess in nominal incomes, and vice versa. If it does not, we would want to look again at the judgements behind the forecasts of nominal incomes. Only when we are reasonably confident that those forecasts are well based would we wish to qualify the normal rule that monetary aggregates are the main influence on short-term interest rate decisions.

38. To summarise, the normal assessment of interest rate decisions might work to the following agenda:

- (i) Market conditions.
- (ii) The current trend in £M3, with adjustment for known distortions.
- (iii) The prospect for £M3 nine months hence.
- (iv) Any conflicting evidence from the narrow aggregates.
- (v) Movements in real interest rates.
- (vi) Any conflicting evidence from nominal incomes
- (vii) Implications for short-term interest rates.

29. 2. 81

Folder

MR MIDDLETON

Bank of England

- cc Mr Fforde
- Mr George
- Mr Goodhart
- Mr Foot

H M Treasury

- Mr Burns
- Mr Britton
- Mr Monck
- Mr Riley
- Mr Turnbull
- Mr Bennett
- Mr Walters (No. 10)

SIMULATING AN M1 TARGET OVER THE FORECAST PERIOD

At the last meeting of your group I undertook to look more closely at the implications of adopting an M1 target, given the prospects emerging from the new forecast. I have not incorporated the material in the new draft of my paper, but you may like a note of the main results in advance of Wednesday's meeting.

2. The simulation shows the effect of varying interest rates to achieve a gradually declining path for the growth in M1, starting from 8% pa, in 1981/82, and falling by 1% steps to reach 5% in 1984/85. The M1 path was chosen to be broadly consistent with the 7% inflation rate reached in the final year of the MTFS, on the basis of long term trends in velocity, and the reduced form relationship between M1 and prices. But we did not constrain prices in any way, and in the event, as the results show, prices are rather lower in the M1 target case than in the original MTFS. The precise path we have chosen is therefore best regarded as just a convenient working assumption. It is quite a stringent one: compared with the base forecast, the stock of M1 is 2½% lower in 1982, 6% lower in 1983 Q1, 9% lower in 1984 Q1, and 11% lower in 1985 Q1.

3. Both short and long term interest rates are, not surprisingly, significantly higher than in the base. So as a result is the exchange rate. Prices, as measured by the RPI are little different (because higher interest rates put up retail prices directly and offset the effect of a higher exchange rate), but earnings and other measures of prices are lower: the TFE deflator, for example is 1% lower by 1983 Q1, and earnings about $\frac{1}{2}$ - $\frac{3}{4}$ % lower. Real interest rates are, as expected, significantly higher, especially at the short end, though the precise amount depends on the measure of expected inflation used; using the TFE deflator suggests real short term rates might be about 1% higher by the end of 1981/82, and about 2% higher by end-1982/83 rising to around 4% higher by 1985 Q1. Since competitiveness is worse, real GDP is lower, by about $\frac{3}{4}$ % by 1983 Q1 - and thereafter. The stock of $\pounds M3$ is lower throughout the period, even though the return to money improves relative to gilts - this follows, I think, because, given the combination of unchanged fiscal policy a higher level of interest rates and lower savings, gross wealth is lower. The monetary base also falls, by more than $\pounds M3$, though not as much as M1.

4. The main changes from the base are summarised in table 1. In level terms, short term interest rates are around 16% in 1981/82, rising to 16 $\frac{1}{2}$ %, 17% and 18% in the three subsequent years. Long term rates, however, are significantly lower - about 14 $\frac{1}{2}$ % in the current financial year, falling gradually to just under 13% by the end of the period. This compares with a rate of inflation (measured by the RPI) of around 12% through 1981/82, 11% in 1982/83, falling to 7% in 1983/84, and 5 $\frac{1}{2}$ % in 1984/85. The MTFSS targets for $\pounds M3$ are undershot during most of the period - $\pounds M3$ grows by about 6% in 1981/82 and 1982/83, reaching a low of 5% in 1983/84, and rising again to nearly 8% in 1984/85.

5. These figures are, of course, only illustrative of orders of magnitude, but I do think they broadly confirm the story in the final sections of my paper on the narrow aggregates. A smooth,

declining path for M1, starting in single figures is likely to imply uncomfortably high real (and nominal) interest rates over the next few years. A similar target for the base would almost certainly have even more uncomfortable implications.

RL

RACHEL LOMAX
30 June 1981

M1 TARGET CHANGES

DIFFERENCE TABLE ONE

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	CONSUMERS EXPENDITURE	REAL PERSONAL DISPOSITION	GDP	EMPLOYMENT	UNEMPLOYMENT	AVERAGE EARNINGS	RPI	INTEREST RATES	INTEREST RATES	EXCHANGE RATE	CURRENT BALANCE	COMPANY PROFITS	COMPANY PROFITS	COMPANIES	PSRR
	%	%	%	000'S	000'S	%	%	3-MTH INTERBANK	20 YR GILTS	£M3	%	£M	(NET OF STK APP)	DISP	£M
1982	0.12	0.13	-0.43	-48.4	36.8	-0.40	-0.10	2.26	0.57	-2.46	2.56	-489	-1112	-963	931
1983	0.12	0.33	-0.67	-89.8	68.5	-0.62	0.01	4.13	1.15	-3.55	4.43	-769	-1990	-1216	2265
1984	0.29	0.52	-0.82	-113.9	86.9	-1.09	-0.06	5.56	1.60	-3.72	4.26	-1515	-3144	-1911	3268
1981/82	0.06	0.30	-0.33	-25.9	20.3	0.02	-0.02	2.14	0.61	-2.08	4.63	0	-985	-1080	498
1982/83	0.03	0.03	-0.54	-57.8	43.9	-0.53	-0.04	2.64	0.70	-2.60	2.76	-524	-1214	-794	1782
1983/84	0.19	0.41	-0.70	-96.8	73.9	-0.67	-0.00	4.70	1.31	-3.85	5.47	-803	-2223	-1384	2449
1984/85	0.30	0.47	-0.82	-118.6	90.5	-1.26	-0.06	5.63	1.65	-3.33	2.88	-1766	-3274	-1912	3526
1981 QTR 2	-0.25	-0.36	-0.29	-8.6	6.4	-0.03	0.14	2.94	0.91	-1.34	7.77	204	75	60	43
QTR 3	-0.23	0.03	-0.52	-24.7	18.7	0.07	0.17	3.28	1.00	-3.20	8.84	161	-195	-199	127
QTR 4	0.34	0.93	-0.27	-34.3	25.9	0.16	-0.13	0.64	0.12	-1.47	-0.13	-190	-516	-530	221
1982 QTR 1	0.36	0.58	-0.24	-39.8	30.2	-0.09	-0.24	1.70	0.39	-2.25	1.81	-176	-349	-410	108
QTR 2	0.18	0.28	-0.29	-42.4	32.2	-0.33	-0.29	0.94	0.17	-1.08	-0.55	-275	-361	-357	218
QTR 3	0.06	-0.08	-0.49	-48.5	36.8	-0.52	-0.03	3.12	0.84	-2.03	2.70	-54	-216	-113	278
QTR 4	-0.13	-0.29	-0.71	-63.0	47.9	-0.65	0.13	3.28	0.86	-4.43	6.34	16	-186	-83	327
1983 QTR 1	-0.00	0.21	-0.66	-77.2	58.8	-0.60	0.01	3.23	0.95	-2.78	2.62	-212	-451	-241	559
QTR 2	0.11	0.27	-0.72	-88.1	67.1	-0.59	0.02	3.80	0.98	-2.86	4.19	-189	-463	-287	530
QTR 3	0.13	0.31	-0.66	-94.8	72.3	-0.64	0.01	4.53	1.27	-4.70	5.57	-188	-484	-342	507
QTR 4	0.24	0.51	-0.65	-99.1	75.6	-0.66	-0.02	4.97	1.40	-3.83	5.33	-181	-592	-346	669
1984 QTR 1	0.26	0.54	-0.78	-105.4	80.4	-0.81	-0.02	5.51	1.57	-3.97	6.78	-245	-684	-409	743
QTR 2	0.28	0.61	-0.80	-111.3	85.0	-0.98	-0.08	5.08	1.46	-3.80	3.59	-398	-837	-541	803
QTR 3	0.33	0.54	-0.86	-115.9	89.1	-1.17	-0.10	5.70	1.64	-3.15	3.22	-425	-847	-515	844
QTR 4	0.30	0.36	-0.85	-122.2	93.2	-1.38	-0.05	5.94	1.74	-3.98	3.50	-447	-776	-446	879
1985 QTR 1	0.29	0.37	-0.77	-124.1	94.8	-1.52	-0.03	5.81	1.75	-2.41	1.26	-496	-814	-410	1001

NOTE: COLS 1-3, 6, 7, 10, 11 ARE PERCENTAGE CHANGES FROM BASE RUN
 COLS 4, 5, 8, 9, 12-15 ARE DIFFERENCES FROM BASE RUN

M1 TARGET LEVELS

M1 TARGET FORECAST
TABLE 1

		10. INTEREST RATES	
		(A) SHORT-TERM	1980/81 15.5
		AVERAGE FINANCIAL YEAR TOTALS	1981/82 16.0
			1982/83 16.4
			1983/84 17.3
			1984/85 18.1
		(B) LONG-TERM	1980/81 13.6
		AVERAGE FINANCIAL YEAR TOTALS	1981/82 14.5
			1982/83 13.4
			1983/84 13.1
			1984/85 12.8
		11. INDUSTRIAL & COMMERCIAL CO NAFA	1980 1980 -2.8
		£ BILLION	1981 1981 -0.3
		CALENDAR YEAR TOTALS	1982 1982 -4.2
			1983 1983 -2.7
			1984 1984 -3.7
		12. UNEMPLOYMENT	1980 Q4 2.0 (8.3)
		UK SA EXCLUDING SCHOOL LEAVERS MILLIONS	1981 Q4 2.7 (11.1)
		(% IN BRACKETS)	1982 Q4 3.0 (12.4)
			1983 Q4 3.1 (13.0)
			1984 Q4 3.1 (13.1)
		13. PRIVATE SECTOR WEALTH (EXCLUDING REVALUATIONS)	
		(A) GROSS WEALTH	1980 Q1 13.2
		% CHANGE ON PREVIOUS YEAR	1981 Q1 16.6
			1982 Q1 10.8
			1983 Q1 7.7
			1984 Q1 6.3
		(B) NET WEALTH	1980 Q1 10.9
		% CHANGE ON PREVIOUS YEAR	1981 Q1 25.1
			1982 Q1 10.9
			1983 Q1 7.2
			1984 Q1 7.0
1. MONEY SUPPLY (£'93)		1981 Q1 18.0	
		1982 Q1 6.1	
		1983 Q1 5.9	
		1984 Q1 4.7	
		1985 Q1 7.7	
2. PSBR £ BILLION		1980/81 13.28 (5.8)	
		1981/82 10.49 (4.1)	
		1982/83 7.45 (2.7)	
		1983/84 4.80 (1.6)	
		1984/85 0.83 (0.3)	
3. AVERAGE EARNINGS (PRIVATE SECTOR CYCLICALLY ADJUSTED)		1980 Q3 22.7	
		1981 Q3 12.3	
		1982 Q3 8.3	
		1983 Q3 7.0	
		1984 Q3 5.5	
4. RETAIL PRICES		1980 Q4 15.3	
		1981 Q4 11.9	
		1982 Q4 10.9	
		1983 Q4 7.0	
		1984 Q4 5.4	
5. EFFECTIVE EXCHANGE RATE AVERAGE 1975 = 100		1980 Q4 100.2	
		1981 Q4 94.1	
		1982 Q4 97.8	
		1983 Q4 98.4	
		1984 Q4 101.9	
6. LABOUR COST COMPETITIVENESS INCREASE IMPLIES WORSENING COMPETITIVENESS		1980 Q4 146.1	
		1981 Q4 144.9	
		1982 Q4 149.6	
		1983 Q4 148.4	
		1984 Q4 151.7	
7. CURRENT BALANCE £ BILLION CALENDAR YEAR TOTALS		1980 2.76	
		1981 5.08	
		1982 2.07	
		1983 3.72	
		1984 4.45	
8. MANUFACTURING OUTPUT		1980 -9.7	
		1981 -7.4	
		1982 0.8	
		1983 -1.9	
		1984 -0.3	
9. GDP VOLUME		1980 -2.1 (15.5)	
		1981 -2.2 (9.0)	
		1982 -0.4 (8.6)	
		1983 0.3 (8.3)	
		1984 1.5 (7.2)	