

Components of private sector liquidity

Introduction

Monthly statistics of the money stock have been published regularly for some time, but hitherto there have been no comparable regular statistical tables bringing together other liquid assets. Any definition of liquidity is inevitably arbitrary and will depend to some extent on the particular purpose for which the information is required. Whatever concept may be theoretically desirable, there are in any event deficiencies in the statistics that are likely to prevent it being measured precisely. It may nevertheless be helpful to assemble, as consistently as possible, those components for which monthly statistics are available or can be estimated, not to provide a unique liquidity aggregate but rather a spectrum of what are generally regarded as liquid assets.

The accompanying table shows a selection of short-term financial assets, arranged in blocks of items that may be viewed as alternatives by their main holders. In principle, the table is limited to sterling assets within one year of maturity, or realisable within a year without significant loss of interest or capital. In practice, it is necessary to depart from this definition on occasion because of inadequate statistics. In most cases, availability of statistics has meant that the limitation of one year on the length to maturity applies to the original maturity of the asset in question rather than to the remaining maturity, although for many purposes the latter might be more appropriate.

Only liquid assets held by the private sector other than banks are included. All public sector holdings have been omitted, as the public sector's economic behaviour is not affected by changes in its holdings of liquid assets. Accordingly, the more helpful concept of liquidity is one relating to the liquid assets of the private sector alone—that is, not distorted by the inclusion of such assets held by the public sector, perhaps temporarily and as a result of administrative decision.

The table of components

A 'Money'

Notes and coin in circulation
Sterling bank deposits:
Sight
Time
Certificates of deposit

Notes and coin held by the public are the most liquid of all assets, with sight deposits with banks close behind. These two items comprise M_1 . But the first block—'money'—also includes certificates of deposit, and time deposits apart from those of more than two years' original maturity (the only maturity breakdown

available). The total of the 'money' block thus differs from the usual wider measure of the money stock—sterling M_3 —which includes all time deposits as well as all public sector deposits.

B Other money-market instruments

Treasury bills
Bank bills
Deposits with local authorities
Deposits with finance houses
Total (gross)
less:
Finance houses' holdings of 'money'
Finance houses' holdings of other money-market instruments
Total (net)

Whereas the 'money' block clearly comes first, there is no natural order thereafter. The table shows next a block—named for convenience other money-market instruments—containing certain other types of deposits held by persons and companies, in particular deposits with finance houses and local authorities, together with some negotiable paper within one year of maturity held predominantly by the corporate sector. The latter group, which comprises Treasury bills and commercial bills accepted by UK banks, is restricted by the availability of statistics. For example, commercial bills other than bank acceptances, and various securities (particularly gilt-edged stocks) that are close to their maturity date might be included. However, no suitable statistics are available. Another consideration in the case of gilt-edged stocks is that their inclusion would mean that the series contained humps—as large amounts of stock moved to within one year of maturity—whereas the underlying change in liquidity, as it affects behaviour, is likely to be much smoother.

Because this block treats the finance houses as liquidity-issuing institutions, their own holdings of other money-market instruments need to be excluded in arriving at a net total. Similarly, if this block is added to block A as a measure of liquidity, the finance houses' holdings of 'money' should also be excluded. These adjustments are shown in the table.

C Savings deposits and securities

Shares and deposits with building societies
Deposits with trustee savings banks
Deposits with the National Savings Bank
National savings securities
Total (gross)
less:
Savings institutions' holdings of 'money'
Savings institutions' holdings of other money-market instruments
Building societies' deposits with other savings institutions
Total (net)

The next block contains deposits with savings institutions, and certain national savings securities. These are predominantly held by persons. Building society shares and deposits are about one and a half times as large as personal bank deposits and are overwhelmingly the most important constituent of this block. Term shares have been excluded, as have 'save as you earn' deposits with building societies, as these do not satisfy the criterion of being realisable within twelve months with no significant interest or capital loss. Deposits with trustee savings banks (new departments and ordinary accounts) and ordinary and investment accounts with the National Savings Bank are also included. National savings securities comprise British savings bonds, premium bonds, and savings stamps and gift tokens. The inclusion of British savings bonds is perhaps particularly debatable as there is a total loss of interest if a bond is surrendered within the first six months of its life, and as it approaches maturity the loss of the terminal bonus becomes significant; nevertheless, for much of their life the interest loss on surrender is small, so they have been included. As with the previous block, deductions from the gross total are needed to avoid double counting. Savings institutions' holdings of notes and coin, bank deposits and other money-market instruments are deducted, as are building society deposits with other savings institutions, to give the net total.

D Certificates of tax deposit

Certificates of tax deposit
less:
Holdings by building societies
Total (net)

Finally, the table includes certificates of tax deposit (CTDs) as a separate optional item. There are grounds for including CTDs, as they are a form of deposit which is sometimes used as a short-term investment alternative to items that are clearly part of liquidity. They will usually be bought against a known future tax liability, but, provided there are continuing tax liabilities, a company's decision on surrendering them will be affected by relative interest rates in the same way as would its use of other liquid assets to meet the tax bill. On the other hand, although CTDs can be encashed on demand, there are substantial interest penalties unless they are surrendered in payment of tax.

Statistical and other problems

The table includes only assets and does not net off short-term liabilities against them, even though for some purposes it might be desirable to do so. For example, if a company has several bank accounts, some of which are in credit and some are overdrawn, it could be argued that it is the net position on all accounts that contributes to the company's liquidity and affects its behaviour. But to attempt to net off short-term liabilities would create further problems of definition: although an overdraft may legally be repayable at short notice, many businesses regard it as a more permanent source of finance. This serves to emphasise the arbitrariness of any measure of liquidity and the caution that is needed in interpreting the statistics.

Some items cannot be included in the table because of lack of information, while others have been excluded deliberately. One of the most important of the latter, particularly for corporate liquidity, is foreign currency deposits with UK banks. These deposits have been excluded mainly because foreign currency deposits with banks abroad have to be excluded (for lack of information) even though, from the point of view of the holder, there is little difference between these and similar deposits with domestic banks. Moreover, changes in foreign currency deposits are more likely to reflect the holders' activities in other countries rather than in the United Kingdom.

Another area that has been excluded is unused overdraft and credit card facilities, which represent resources that can be converted into liquidity if required. In many cases, they are more likely to be used to supplement ready cash than are short-term assets. (Including facilities would be an alternative to netting off short-term liabilities in the case where a company increased its liquid assets by increasing its overdraft, thereby reducing its unused facility.) Suitable statistics on facilities, however, are not available, and the table is restricted to assets actually held.

While reasonably consistent estimates of liquidity can be assembled on a quarterly basis from existing published material, it is not possible to do this on a monthly basis because statistics are collected from banks on mid-monthly reporting dates and from most other financial institutions on the last day of the month. Because the banking statistics are more volatile than the figures for other liquid assets, and this volatility is particularly large around the end of the calendar month, it is difficult to estimate end-calendar month banking figures from statistics that relate to mid-month dates. The banking statistics have, therefore, been left unchanged and other series have been adjusted to mid-monthly dates. The volume of transactions in building society shares and deposits (the main non-bank component of liquidity) tends to be heavier in the first week or so of each month and to be spread more evenly over the rest of it; so that, by using weekly information from large building societies, adjustments can be made that provide a reasonably reliable guide to the mid-month position. The resulting figures are therefore in some cases only approximate, but it is nevertheless worth attempting to adjust figures towards a consistent date rather than simply adding together those for different dates.

Even more estimation is needed in the case of certain items for which no monthly figures are available and which therefore have had to be interpolated from a quarterly series. Estimates of deposits with local authorities are especially weak, and they are subject to revision for several months after the period to which they relate. Information about the holdings of liquidity (particularly cash and bank deposits) by those non-bank financial institutions which are deducted within blocks B and C is also particularly uncertain. The notes to the

table give more details of how the series have been compiled and of their quality. The statistics are still experimental, and it is hoped that they can be improved in time.

Seasonal adjustment presents another area of statistical difficulty. There are known to be strong seasonal influences on the monetary aggregates, and adjustments to these can be applied to the 'money' block of this table. For building society shares and deposits, the next largest item in the table, there are no seasonal adjustments available at mid-month dates, but it is possible to use the seasonal adjustments calculated for interest credited to building society accounts, because interest is generally credited early in the month. Seasonal influences on other components of the table are probably small, but more extensive work would be required before they could be identified.

Conclusion

The table provides components of liquidity in a form that emphasises the range of items and the similarities and differences between them. It may be appropriate

for some purposes to exclude certain items, and the table allows for this to be done. Items have been grouped into blocks of broadly similar liquid assets, and sub-totals of these blocks are shown; the sub-totals have also been added progressively. These totals relate to liquidity held by slightly different groups within the private sector because of the subtraction at each stage of holdings by liquidity-issuing institutions. For example, the total of all the blocks provides a measure of liquidity of the private sector other than banks, finance houses and other savings institutions. However, it must be stressed that there is no single correct measure and other ways of adding up and presenting the figures are possible.

It has already been explained that the table is experimental. Further work is needed to improve both statistical sources and methods of estimation; this will be attempted when resources permit and if—as the data become more numerous and familiar—the statistics can be shown to have relevance to the private sector's behaviour. The form of the table may need to evolve as experience is gained in using it. For the time being, updated figures for this table will be included in the statistical annex in future issues of the *Bulletin*.

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£ millions

	1975	1976	1977	1978								1979						
	May	May	May	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July
A 'Money'																		
Notes and coin in circulation	5,258	5,898	6,603	7,693	7,814	8,186	8,130	8,160	8,184	8,258	8,682	8,382	8,594	8,689	8,862	8,833	8,804	9,230
Sterling bank deposits:																		
Sight	9,752	11,437	12,723	16,165	15,732	16,122	16,314	16,421	16,876	16,841	17,406	17,158	16,725	16,933	18,276	18,119	17,744	18,090
Time	17,541	18,005	18,576	20,383	20,676	20,781	20,541	20,811	20,971	21,102	21,102	21,808	21,657	21,355	21,389	22,220	22,952	23,185
Certificates of deposit	941	793	961	1,131	1,059	1,113	1,111	989	992	1,013	982	946	906	870	886	800	807	769
Total	33,492	36,133	38,863	45,372	45,281	46,202	46,096	46,381	47,023	47,214	48,172	48,294	47,882	47,847	49,413	49,972	50,307	51,274
<i>Total (seasonally adjusted)</i>	<i>34,061</i>	<i>36,472</i>	<i>39,281</i>	<i>45,230</i>	<i>45,482</i>	<i>46,051</i>	<i>46,051</i>	<i>46,387</i>	<i>46,782</i>	<i>47,021</i>	<i>47,728</i>	<i>48,700</i>	<i>48,910</i>	<i>48,704</i>	<i>49,338</i>	<i>50,186</i>	<i>50,656</i>	<i>51,207</i>
B Other money-market instruments																		
Treasury bills	134	1,014	708	769	737	468	323	283	221	256	169	257	162	242	355	350	525	347
Bank bills	395	355	379	158	217	289	527	692	799	759	818	811	663	723	865	784	1,111	1,265
Deposits with local authorities	2,877	2,640	2,730	2,441	2,322	2,334	2,418	2,500	2,517	2,471	2,482	2,584	2,757	3,077	3,340	3,340	3,340	3,340
Deposits with finance houses	227	257	302	322	336	327	325	340	345	358	354	354	376	368	359	374	386	380
Total (gross)	3,633	4,266	4,119	3,690	3,612	3,418	3,593	3,815	3,882	3,844	3,823	4,006	3,958	4,410	4,919	4,848	5,362	5,332
<i>less:</i>																		
Finance houses' holdings of 'money'	30	28	31	44	50	55	59	61	59	53	46	42	42	54	65	65	65	65
Finance houses' holdings of other money-market instruments	5	16	21	9	8	8	7	7	8	11	10	10	11	16	14	17	22	22
Total (net)	3,598	4,222	4,067	3,637	3,554	3,355	3,527	3,747	3,815	3,780	3,767	3,954	3,905	4,340	4,840	4,766	5,275	5,245
C Savings deposits and securities																		
Shares and deposits with building societies	18,856	22,575	25,254	30,542	31,034	31,249	31,362	31,706	32,016	32,328	32,917	33,349	33,623	33,824	34,023	34,283	35,099	35,454
<i>Shares and deposits with building societies (seasonally adjusted)</i>	<i>19,023</i>	<i>22,770</i>	<i>25,516</i>	<i>30,739</i>	<i>31,023</i>	<i>31,206</i>	<i>31,447</i>	<i>31,814</i>	<i>32,226</i>	<i>32,638</i>	<i>32,917</i>	<i>33,288</i>	<i>33,719</i>	<i>33,946</i>	<i>34,269</i>	<i>34,660</i>	<i>35,128</i>	<i>35,384</i>
Deposits with trustee savings banks	3,724	4,154	4,324	4,754	4,771	4,809	4,822	4,882	4,937	5,006	4,939	4,989	5,073	5,134	5,179	5,208	5,214	5,242
Deposits with the National Savings Bank	2,125	2,195	2,410	3,333	3,337	3,121	2,971	2,971	3,006	3,014	3,002	3,060	3,106	3,152	3,187	3,231	3,245	3,262
National savings securities	1,910	2,018	1,977	2,137	2,145	2,152	2,147	2,157	2,166	2,178	2,175	2,184	2,180	2,183	2,185	2,188	2,185	2,168
Total (gross)	26,615	30,942	33,965	40,766	41,287	41,331	41,302	41,716	42,125	42,526	43,033	43,582	43,982	44,293	44,574	44,910	45,743	46,126
<i>less:</i>																		
Savings institutions' holdings of 'money'	635	745	615	917	932	1,040	1,095	1,165	1,253	1,351	1,406	1,405	1,314	1,120	982	978	987	992
Savings institutions' holdings of other money-market instruments	711	660	742	1,196	1,166	953	855	885	864	820	748	733	746	834	912	940	929	919
Building societies' deposits with other savings institutions	0	0	124	304	316	160	25	17	17	17	17	14	15	15	15	15	15	15
Total (net)	25,269	29,537	32,484	38,349	38,873	39,178	39,327	39,649	39,991	40,338	40,862	41,430	41,907	42,324	42,665	42,977	43,812	44,200
<i>Total (net; seasonally adjusted)</i>	<i>25,436</i>	<i>29,732</i>	<i>32,746</i>	<i>38,546</i>	<i>38,862</i>	<i>39,135</i>	<i>39,412</i>	<i>39,757</i>	<i>40,201</i>	<i>40,648</i>	<i>40,862</i>	<i>41,369</i>	<i>42,003</i>	<i>42,446</i>	<i>42,911</i>	<i>43,354</i>	<i>43,841</i>	<i>44,130</i>
D Certificates of tax deposit																		
Certificates of tax deposit	0	9	37	339	370	404	399	700	852	602	936	865	717	1,370	1,494	1,385	1,463	1,482
<i>less:</i>																		
Holdings by building societies	0	0	0	43	32	30	37	48	60	71	87	110	142	184	218	203	214	216
Total (net)	0	9	37	296	338	374	362	652	792	531	849	755	575	1,186	1,276	1,182	1,249	1,266
Totals																		
A	33,492	36,133	38,863	45,372	45,281	46,202	46,096	46,381	47,023	47,214	48,172	48,294	47,882	47,847	49,413	49,972	50,307	51,274
A+B (net)	37,090	40,355	42,930	49,009	48,835	49,557	49,623	50,128	50,838	50,994	51,939	52,248	51,787	52,187	54,253	54,738	55,582	56,519
A+B (net)+C (net)	62,359	69,892	75,414	87,358	87,708	88,735	88,950	89,777	90,829	91,332	92,801	93,678	93,694	94,511	96,918	97,715	99,394	100,719
A+B (net)+C (net)+D (net)	62,359	69,901	75,451	87,654	88,046	89,109	89,312	90,429	91,621	91,863	93,650	94,433	94,269	95,697	98,194	98,897	100,643	101,985
Totals (seasonally adjusted)																		
A	34,061	36,472	39,281	45,230	45,482	46,051	46,051	46,387	46,782	47,021	47,728	48,700	48,910	48,704	49,338	50,186	50,656	51,207
A+B (net)	37,659	40,694	43,348	48,867	49,036	49,406	49,578	50,134	50,597	50,801	51,495	52,654	52,815	53,044	54,178	54,952	55,931	56,452
A+B (net)+C (net)	63,095	70,426	76,094	87,413	87,898	88,541	88,990	89,891	90,798	91,449	92,357	94,023	94,818	95,490	97,089	98,306	99,772	100,582
A+B (net)+C (net)+D (net)	63,095	70,435	76,131	87,709	88,236	88,915	89,352	90,543	91,590	91,980	93,206	94,778	95,393	96,676	98,365	99,488	101,021	101,848

Notes on sources

Block A, 'Money'

Notes and coin in circulation and *private sector sterling sight deposits with banks* comprise the narrow monetary aggregate, M_1 (see Table 11.1 in the statistical annex). *Private sector sterling time deposits with banks* exclude deposits of an original maturity of more than two years; this is the only maturity breakdown available and is used here as the best approximation available for deposits of more than one year to maturity. On the other hand, *certificates of deposit* of all maturities are included, and are shown separately. The seasonal adjustments applied to the figures are those used in the adjustment of the private sector component of sterling M_3 ; deposits with a maturity of more than two years are assumed to have no seasonal pattern.

Block B, Other money-market instruments

Treasury bills are estimated as the residual of bills in market hands less the identified holdings of the banking sector, overseas residents and public sector bodies.

Bank bills are commercial bills accepted by a UK bank. They are estimated by deducting total holdings of bank bills by the banking sector and the Issue Department of the Bank of England from the outstanding total of acceptances made by listed banks.

Deposits with local authorities are currently estimated only at end-calendar quarters. The monthly series has been interpolated or projected from these quarterly figures, and is therefore subject to revision when the latest quarter's information becomes available. Consequently, of all the estimates these are perhaps the poorest in quality. Revenue bills issued by local authorities are almost entirely held by banks and official holders; there is no reliable information on the very small holdings by other sectors so these have been excluded.

Deposits with finance houses can be estimated at the banks' mid-monthly reporting dates from returns made by those finance houses subject to credit control (the largest ones). These appear to provide a reliable series for changes for all finance houses although the 'true' amount outstanding is probably understated by 10% or so. The figures are not grossed up to allow for this.

Finance houses' holdings of 'money' are interpolated or projected from end-quarterly figures and consequently are of poor quality.

Finance houses' holdings of other money-market instruments. Holdings of Treasury and bank bills at banks' mid-month reporting dates are known for those finance houses subject to credit control; the figures for bank bills include only those bills qualifying as reserve assets.

Block C, Savings deposits and securities

Shares and deposits with building societies exclude term shares of an original maturity of over one year and all SAYE deposits and (from July 1978) shares and deposits held by overseas residents. Building societies' figures as at the banks' mid-month reporting dates are estimated by adding, to the end-calendar month totals, changes calculated from weekly returns made by the largest societies (which currently account for some 75% of all building society activity), grossed up to represent all societies. It is assumed that interest is credited in the first week of the calendar month; although common, this practice may not be universal. Monthly estimates for SAYE deposits and overseas residents' shares and deposits are interpolated or projected from quarterly figures. No seasonal adjustments are available for mid-month estimates of shares and deposits; the seasonal adjustments applied here relate only to the pattern of interest credited to accounts.

Deposits with trustee savings banks are available at the banks' mid-month reporting dates and include new departments and ordinary accounts. The whole of net debit transit items etc. have been deducted from deposits.

Deposits with the National Savings Bank include ordinary and investment accounts. Figures are currently available only for end-calendar months; it is hoped that mid-monthly data will eventually become available, but these are not expected to make a material difference to the series as monthly changes are small and stable.

National savings securities comprise British savings bonds, premium savings bonds and national savings stamps and gift tokens: all three at present are measured at end-calendar months.

Savings institutions' holdings of 'money'. The trustee savings banks' holdings are available on the banks' mid-month reporting dates; building societies' holdings (which can be quite volatile) are interpolated or projected from end-quarterly figures and consequently are of poor quality.

Savings institutions' holdings of other money-market instruments. Holdings of Treasury bills by the trustee savings banks and the National Savings Bank are available as at the banks' mid-month reporting dates; building societies' holdings are interpolated or projected from quarterly data. Savings institutions' deposits with local authorities are interpolated or projected from quarterly information, with the exception of those of trustee savings banks, which are available as at the banks' mid-month reporting dates.

Building societies' deposits with other savings institutions presently comprise building societies' deposits with the National Savings Bank.

Block D, Certificates of tax deposit

Certificates of tax deposit are calculated by residual—total outstanding less holdings by banks—as at banks' mid-month reporting dates. Holdings by savings institutions, of which only building societies' holdings can be separately identified, are interpolated or projected from quarterly figures.