The £308 million was the largest monthly ... public company.

coming months as a substantial number of small investors will probably sell their

Bank lending up £7.5bn as recession bites

By Colin Narbrough, Economics Correspondent

BANK of England figures that showed a huge £7.5 billion rise in bank and building society lending in November caught the financial markets by surprise, arousing fears that credit is out of control again.

But, after second thoughts, the lending component of the money supply figures was read as further evidence of deepening recession, with companies forced into a degree of "distress borrowing".

This reinforced the message contained in M0, the narrow money supply measure targeted by the Treasury, which showed annual growth of 3.1 per cent in November, down from a seasonally adjusted 4 per cent in October. The figures reflect the dramatic slowdown in consumer spending. Weekly notes data pointed to M0 dropping into the bottom half of its 1-5 per cent target growth range this month. In the week to December 19, notes, the bulk of M0, were 2.6 per cent up on the equivalent week last year.

Although the deceleration in M0 would earlier have justified a cut in base rates, membership of the European exchange-rate mechanism has made sterling, still weak, the main guide for monetary policy. The bank and building society lending figure, so-called M4 lending, was far larger than the City's expectation of £4 billion. The original October rise of £4.6 billion has been adjusted to £6.8 billion. Adjustments have boosted the data.

Simon Briscoe, UK economist at Midland Montagu, said while the adjustment explained most of the lending surge, it left about £1 billion of the November increase unexplained. The adjusted series now showed M4 lending falling steeply from February to September, but starting to rise since in a "marked turn in trend". He attributed the underlying rise to distress borrowing by companies, singling out transport, property, hotels and food and drink as sectors borrowing most.

Separately, Banking Information Service figures showed total clearing bank lending to the private sector rising about £4 billion after seasonal adjustment in November, up from an upwards-revised £2 billion in October, which was initially given as a small fall. But the BIS was reluctant to interpret the underlying trend.

The unadjusted figures showed typically City sectors to be the biggest borrowers. Gerard Lyons, chief economist at DKB International, saw the data indicating that the banks are continuing to support troubled firms, but said he expected them to have to "pull the rug" from under their clients in the not too distant future.

Lending to leasing companies increased by £600 million in November, to securities firms by £190 million, and to other financial institutions by £238 million. Personal lending was up £188 million, after a small fall in October, with house purchases accounting for only £45 million of the total. Credit card borrowing, which showed a sharp increase in the latest consumer credit figures, was £48 million higher.

The gloomy picture of the economy seen in the official figures is not alleviated by a report from the Organisation for Economic Cooperation and Development, which urges the Chancellor not to cut taxes in the Budget for fear of stoking up inflation. It sees the economy stagnating through next summer, a 0.5 per cent decline in GNP in the second half this year being followed by a return to 0.8 per cent growth in the first half next year. Full-year growth of 0.7 per cent would be broadly in line with the Treasury's autumn statement.

In 1992, growth climbs back to 1.9 per cent, leaving Britain below the OECD average of 2.5 per cent. Unemployment is expected to rise from this year's 5.8 per cent to 6.2 per cent next year and 6.6 per cent in 1992. The report says it would seem desirable that the fiscal stance, steering the economy through the balance between public spending and taxation, should not be eased.

The OECD sees membership of the ERM offering potentially great benefits, but describes it as an "ambitious strategy" for Britain.

While the OECD predicts most European interest rates will rise sooner rather than later in response to inflationary pressure from dearer oil, it foresees economic weakness leading to rate cuts in Britain and Canada, with Italy on a downtrend too.

Despite the American Federal Reserve Board's decision to cut its key discount rate this week, David Henderson, the OECD chief economist, said it was assumed firm policies would resume in America. "Some modest increases in interest rates may prove necessary from 1991 to bear down on inflation as and when the economy begins to pick up."

The OECD expects strong demand in Germany to lead to only modest upward pressure on short-term interest rates by next year, but Mr Henderson said German developments would put strain on the European Monetary System.

● First National Bank of Chicago, one of America's largest commercial banks, became the country's first big lending institution to cut its prime lending rate in almost a year, after the cut in the Fed's discount rate (Susan Ellicott writes from Washington).

First National said it would immediately lower its prime rate to 9.5 per cent from 10 per cent. Financial analysts expect other big banks to follow suit.

The move followed a report from the Commerce Department showing that American business production is expected to increase by a revised marginal inflation-adjusted 0.4 per cent next year, the weakest annual rate in five years.

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THE POUND

US dollar
1.9080 (−0.0235)

German mark
2.8605 (+0.0071)

Exchange index
93.0 (−0.1)

STOCK MARKET

FT 30 Share
1687.2 (−19.9)

FT-SE 100
2158.8 (−19.9)

New York Dow Jones
2629.46 (+2.73)

Tokyo Nikkei Avge
24524.94 (−351.84)

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INTEREST RATES

London: Bank Base: 14%
3-month Interbank 14-13 15/16%
3-month eligible bills: 13⅜-13 5/16%
US: Prime Rate 10%
Federal Funds 7⅛%
3-month Treasury Bills 6.55-6.54%
30-year bonds 105 1/16-105¾

CURRENCIES