Feature article: Focus on "Financial statistics"

The MEI has always contained Financial Statistics, which for most countries include; Monetary Aggregates, Interest Rates, Share Price Indexes, Exchange Rates and External Finance.

In the 2004 year the MEI team reviewed the subject areas of Share Price Indexes, Immediate Interest Rates (overnight or less than 24 hour) and Long-Term Interest Rates (10-year government bonds) to provide better harmonised financial statistics, greater comparability and longer time series. This has been both in terms of the statistics provided (i.e. standardisation) and how they are presented.

For many countries (if not most) a reasonably good understanding of the economy and the country's economic direction can be derived from these financial statistics and their trends over time i.e. the growth of the monetary aggregate, the level of interest rates, the direction of the share market etc. A number of these statistics relate directly to the government's control over the economy and their policy decisions; for example, fluctuations in market interest rates are influenced by Central Banks inflation targeting via monetary policy and most prominently thought their setting of official cash rates.

One bonus that financial statistics can have over production and structural statistics is their almost immediate availability, which can provide the economic analyst with a truly up-to-date picture about an economy of interest. This is one reason why financial statistics are a major input into the Composite Leading Indicator (CLI) series, one of most used and quoted statistics in the MEI.

What follows in this short article on Financial Statistics in the MEI is a description of each financial statistic and a brief review of their movements in the last 10 years with particular focus given to the last four years.

Monetary aggregates

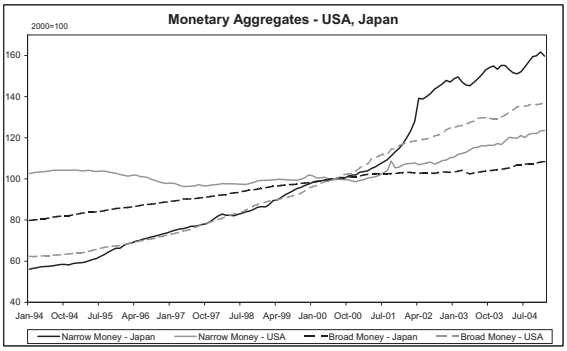
The MEI publishes both:

- » "Narrow Money" or M1: currency i.e. banknotes and coins plus overnight deposits
- » "Broad Money" or M3: M1 plus deposits with an agreed maturity up to 2 years, plus deposits redeemable at a period of notice up to 3 months, plus repurchase agreements, plus money market fund shares/units, plus debt securities up to 2 years.

For most countries the MEI has time series for monetary aggregate data back to 1980, (the US having the longest time series – 1959), with the exception of the new Eastern European member countries which understandably only have data back to 1990.

Analysis of differences in broad and narrow money growth within and across countries and comparing this to the OECD aggregate can provide analysts with an insight into developments of the country's money market and possibility what is driving any movements.

Broad money growth has been steady over the last four years with the OECD aggregate growing by 26%, the European Monetary Union (EMU) by 29% and the OECD-Europe by 35%. A good example of the differences between broad and narrow monetary growth that could interest analysts is the contrast between the United States and Japanese monetary aggregates. Japan has seen its broad money increase by just 7% in the last four years, whereas its narrow money statistic has increased by 56% in this period. Compared to this the United States narrow monetary aggregate increased by 21%, whereas its broad money has increased by 35% over the last four years.



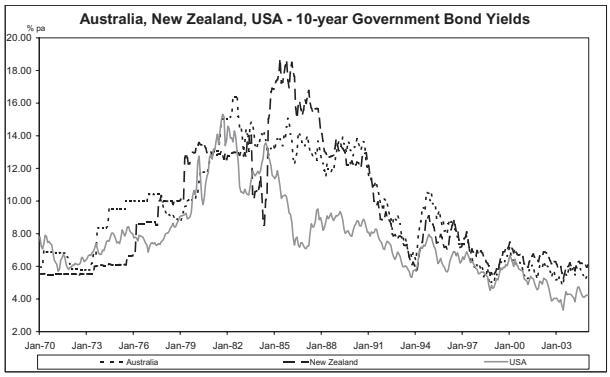
Interest rates

The MEI publishes three types of interest rates; overnight rates, short-term – which aims for three month rates, and long-term – which are normally the rate on 10-year government bonds. A good selection of countries have data back to 1970 with the USA having yield data on 10-year federal government securities back to 1953.

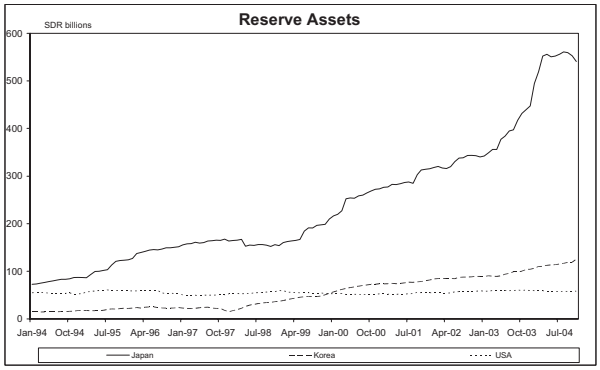
The last ten years have seen some historically low interest rates, and since 2000 a large number of countries have 10-year government bond rates not seen since the late sixties and early seventies. What is also interesting is the close relationship and convergence over the last 10 years in regards to long-term interest rates amongst OECD countries.

Charted together below are 10-year government bond rates for Australia, New Zealand and the USA from 1970. The graph shows that from around 1994 to 1997 when the three country rates converged, there

has been an ongoing strong correlation. It also suggests that although the USA has had reasonably lower short-term interest rates since late 2001, for example; (2.61% for January 2005) compared to both Australia (5.42%) and New Zealand (6.76%), this has not been reflected to such a degree in the 10-year rates.



Japan's and Korea's holdings of these assets, as seen in the graph below. From January 2000 to December 2004, Japan's reserve assets as measured in SDRs have increased by 321 billion SDRs and Korea's by 69 billion SDRs (for December 2004 the SDR/USD rate was 1.5530). As at the end of December 2004 these two countries, in total, now hold reserve assets worth 666 billion SDRs or $1034 billion US dollars.



Share prices

The MEI presents a share price index for every OECD country, with most major countries having data back to at least 1970. In the near future the MEI team will be investigate the possibility of providing an OECD total share price index, much like the European Central Bank (ECB) which presently provides an EMU share price index using market capitalisation as weights. This EMU index is published in the MEI and provides a useful point of comparison against the USA and Japanese share markets.

External finance and Exchange rates

The statistic measured under the External Finance heading is Reserve Assets (also known as Official Reserve Assets or Official Reserves). These are defined as external liquid assets under the control of Monetary Authorities (Central Banks) for direct financing of Balance of Payments imbalances through exchange rate intervention. They are seen as an essential part in the evaluation of a countries external position and its ability to manage this position.

The MEI tries to provide a measure of reserve asset statistics both in the country's currency and in Special Drawing Rights (SDRs – an International Monetary Fund determined currency unit composed of a weighted basket of the four major currencies). For most countries the Reserve Asset data series as measured in SDRs in the MEI have historical data back to the mid-fifties.

A notable change in reserve assets over the last four years has been the big increases seen in both

The significant picture for most OECD countries exchange rates against the US dollar since January 2002 has been the unilateral appreciation; however there are two clear exceptions – the Japanese Yen, and the Korean Won. The yen and the won have virtually the same currency cross against the US dollar in 2004 as in 2000.

The MEI database thus provides analysts with the opportunity to study relationships between the changes in financial statistics for countries and across countries using long time series and internationally comparable data. For the major currencies, MEI has monthly exchange rate data against the US dollar going back until 1957 on both a monthly average of daily spot rates and an end of month basis.