

Special e-mail for 6th July, on latest weekly US money growth and related matters

Dear fellow macroeconomists and monetary analysts,

In May the annual increase in M3 broad money in the United States of America was 25.5%, the highest figure in modern peacetime history. (My source here is the research company, Shadow Government Statistics (www.shadowstats.com), to whom I express thanks.) In June the number is likely to rise again, perhaps to 26% or above. The explanation is to be found in the Federal Reserve's weekly data on the US commercial banks' assets and liabilities. The latest release, relating to 24th June, came out last Friday and completed the month of June.

Recent % weekly increases in deposits at US commercial banks		
Week to	4th March	0.7
	11th March	0.2
	18th March	2.2
	25th March	2.5
	1st April	1.0
	8th April	-0.1
	15th April	2.6
	22nd April	2.0
	29th April	0.9
	6th May	1.0
	13th May	0.5
	20th May	0.5
	27th May	0.2
	3rd June	-0.1
	10th June	0.5
	17th June	0.6
	24th June	0.4
Cumulative increase in the 17 weeks		16.7%
Average weekly increase since February		0.9
Annualised rate, implied by 0.9% a week		59.3%

The latest figures enable the analyst to estimate the increase in bank deposits between May and June. In the USA the monthly change in a money aggregate is derived by comparing the average of the weekly values in one month with the average in the previous month. On this basis the increase in deposits between May and June was 1.3%, compared with 2.6% between February and March, 6.6% between March and April, and 4.7% between April and May. Bank deposits are not the only constituent of the quantity of money, broadly defined, but they dominate it. (Shadow Government Statistics has published an estimate of the increases in M3 in the three months, coming up with figures of 4.0%, 7.7% and 4.5% for March, April and May respectively.)

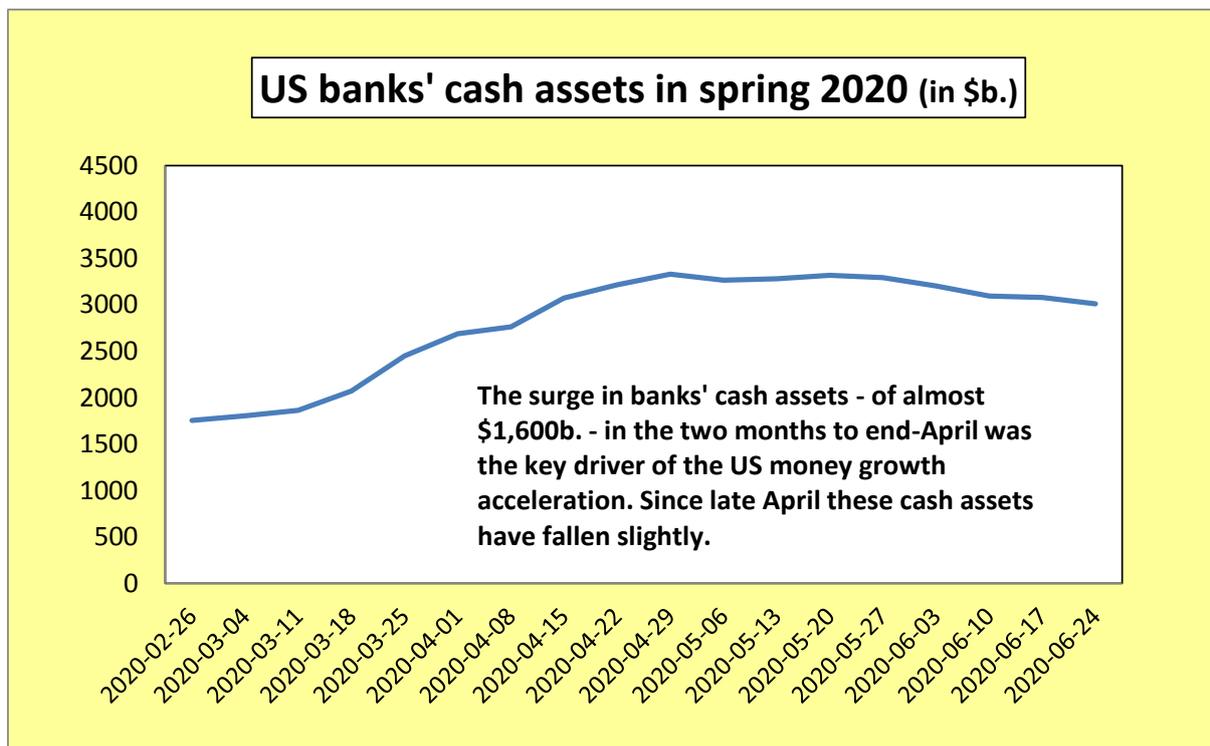
My surmise is that M3 went up by between 1% and 1½% in June. As the increase in June 2019 was 0.8%, the annual rate of growth will rise slightly, perhaps to 26% or above. This would be a new record for the USA in its modern peacetime history.

I have been expecting a slowdown in money growth to more normal levels, and the June figures agree with that view. However, I have to report some curious developments in recent weeks. These developments do not fit the continuing gung-ho expansionist rhetoric of the Trump administration and Jay Powell, the Fed chairman, and puzzle me.

Powell has said that the monthly pace of Fed asset purchases will be \$80b. of Treasury securities and \$60b. for mortgage-backed securities, making \$140b. in total. In addition, the Federal government continues to run a large budget deficit and has to finance it, and in recent months that finance has come almost exclusively from the banks. Further, the Federal Reserve has announced that it will

- lend “to Main Street” (i.e., to the private corporate sector) and
- assist state and local governments cover their deficits, which are soaring because of the crisis.

Logically, the cash assets of the US commercial banking system should still be expanding quite quickly, to reflect the Fed’s announced plans to grow its balance sheet. They certainly did so between February and April. The increase in cash assets in that mere two months was from \$1,762.1b. to \$3,330.7b., a staggering rise of almost \$1,600b. which accounted in a numerical sense for the greater part of the extraordinary acceleration in money growth seen in that period. **But the surge has not been maintained. On the contrary, between the last week of May and the last week of June banks’ cash assets dropped from \$3,295.0b. to \$3,011.6b.**



It is true that US banks’ deposit liabilities (i.e., the quantity of money) have carried on growing – and growing indeed at more or less the rate I suggested a few weeks ago. But the dominant influence on the deposit growth has *not* been continued expansion of banks’ assets. Instead the vital balance-sheet change has been that in the last few weeks foreigners have been repaying loans received from the USA and using their deposit claims on US banks for this purpose. (The “swap lines” extended to international banks – short of dollars in the crisis conditions of March and April – may have been paid back in part. I don’t know if these are the transactions responsible, but they may have been.) If foreigners pay sums of money to the US state (and/or the Federal Reserve) and the US state/the Fed then pays similar sums of money to its own non-bank citizens, the money balances of its own non-bank citizens increase. In effect, US banks fund their assets to a lesser extent by borrowings from

foreigners and to a greater extent from deposits held by US people and companies. This may be the story.

For the time being I am keeping to my view that money growth in the remaining months of 2020 will be faster – although not dramatically so – than in the same months of 2019. So the annual rate of M3 increase will be edging up toward 27% or even 28%. However, the numbers have to be watched from week to week, and from month to month. **Given the sort of noises coming out of President Trump and his administration, and even from Mr Powell and senior economists at the Fed, it is surely too early to be calling the end of 2020's fiscal and monetary spree. All the same, the most extreme phase of that spree does now seem to be over.**

With best wishes,

A handwritten signature in black ink that reads "Tim Congdon". The signature is written in a cursive, flowing style.

Professor Tim Congdon CBE

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