



INSTITUTE OF
INTERNATIONAL
MONETARY RESEARCH

Analysis and insight into trends in money and banking,
and their impact on the world's leading economies

More on the coronavirus pandemic, the quantity of money and asset prices

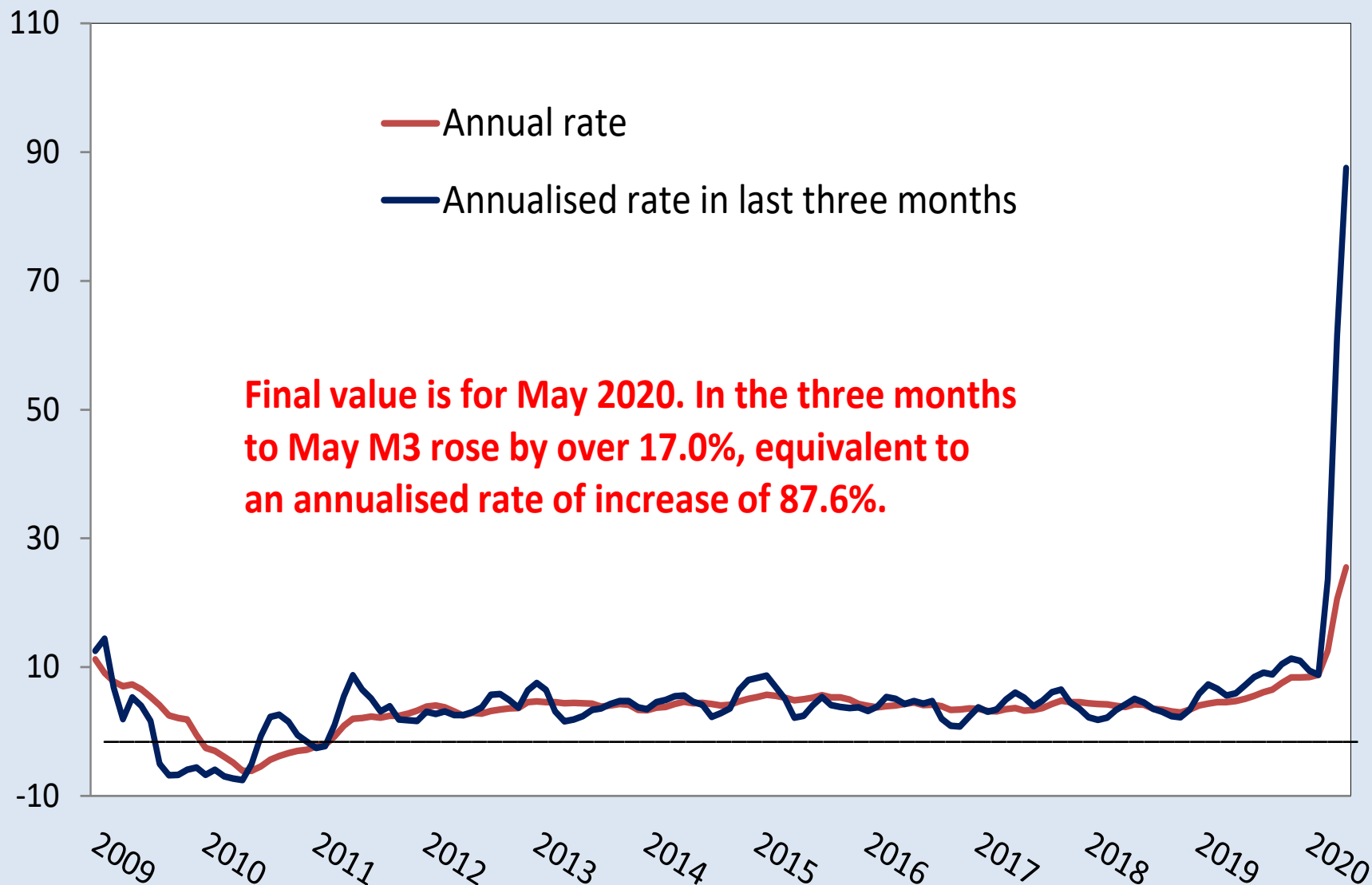
June 2020 presentation

by Professor Tim Congdon CBE,

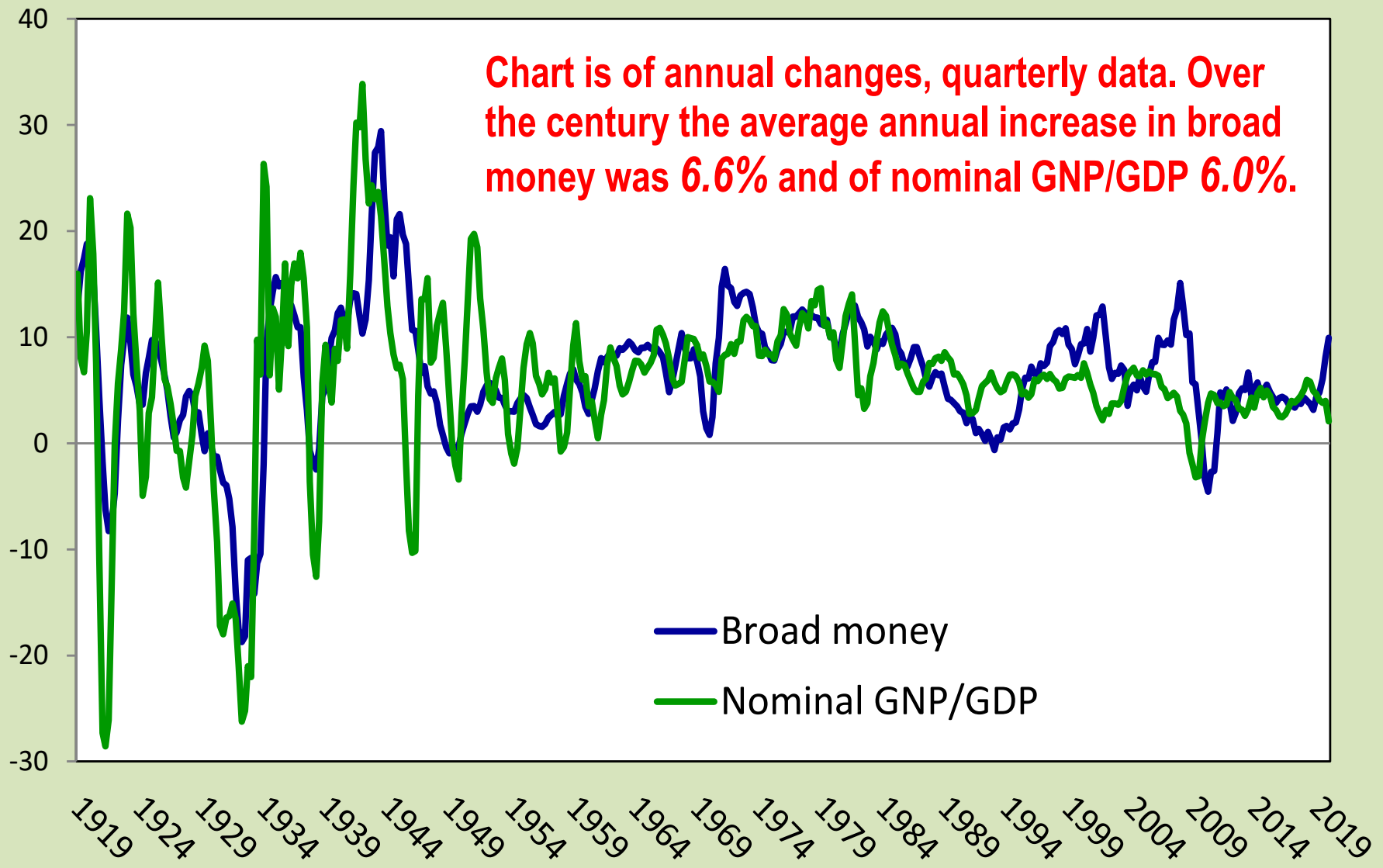
*Chairman of the Institute of International Monetary Research
at the University of Buckingham*

Recent trends in US money growth

% M3 growth rates, with M3 estimated by Shadow Government Statistics

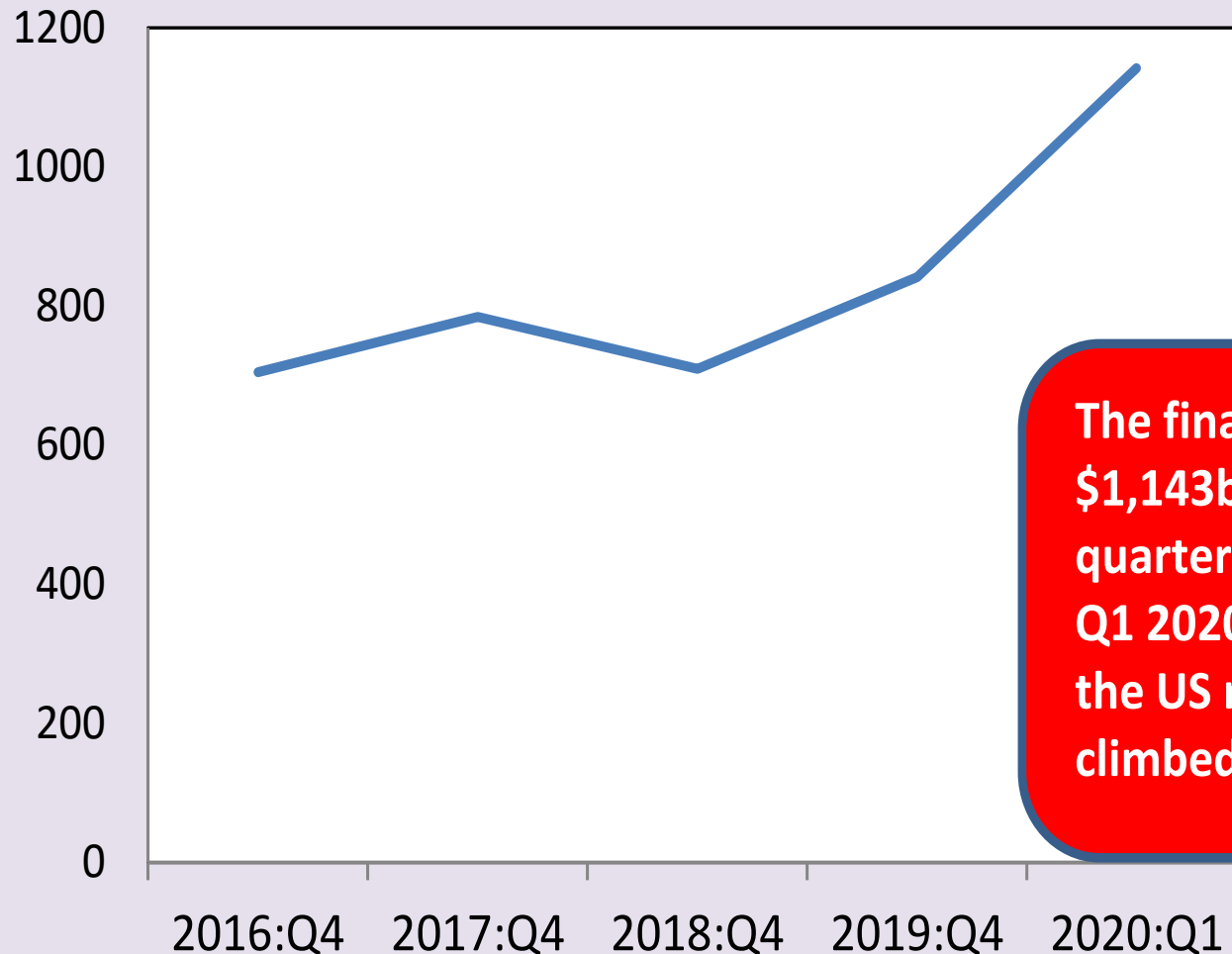


Money and nominal GNP/GDP in the USA since 1918



Bank deposits held by 'Domestic financial sectors' in the USA

- in \$m., from Fed flow-of-funds data



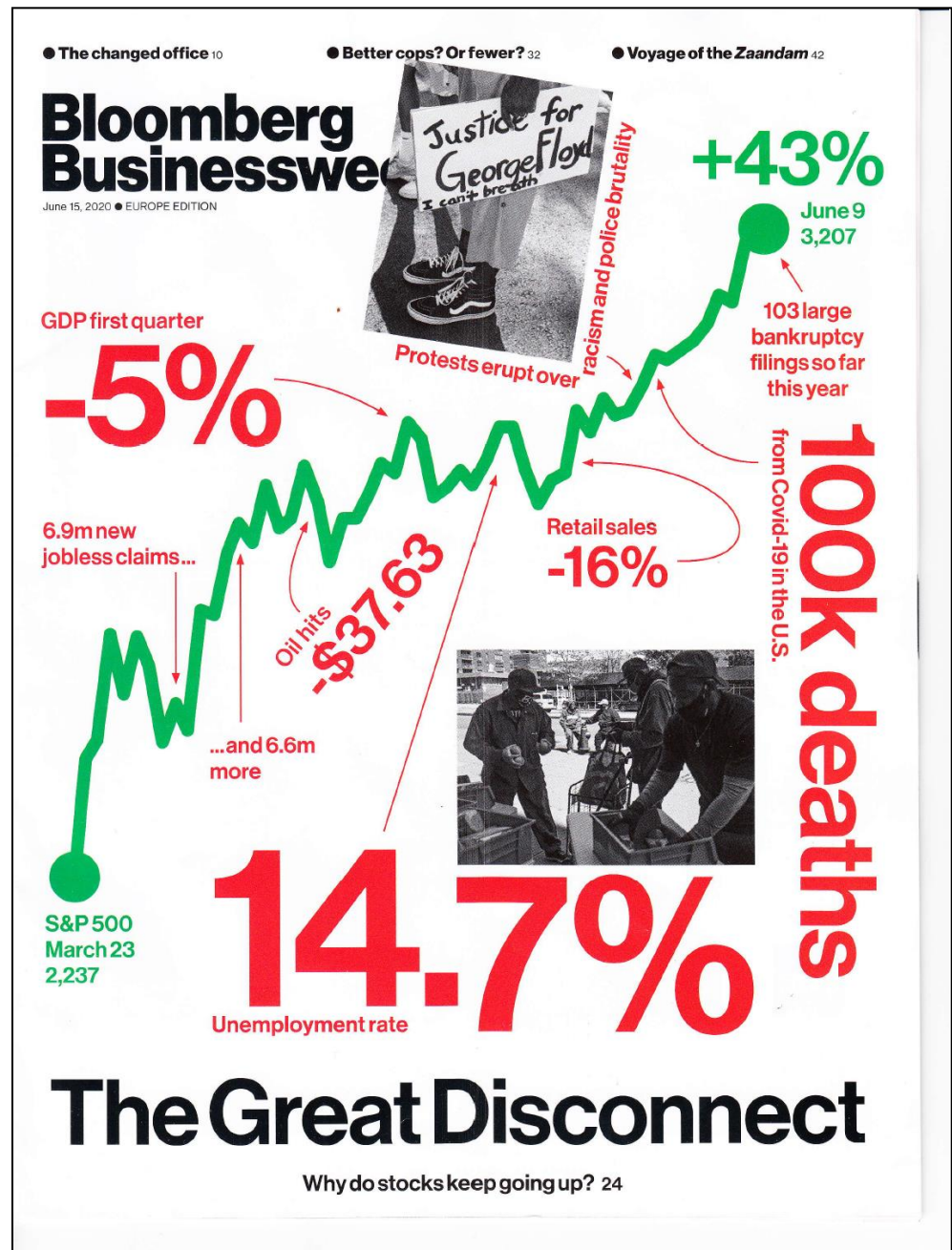
The final rise - of \$301b. to \$1,143b. - occurred in only one quarter. From the end of 2018 to Q1 2020 the money holdings of the US non-bank financial sector climbed by over 40%.

The quantity of money – and the stock market

- US money growth was higher in the year to February 2020 than in the previous year, but the extremely sharp money growth take-off has been since mid-March.
- **Money balances held by US 'domestic [non-bank] financial sectors' rose by 40% from Q4 2018 to Q1 2020, according to official data.**
- Given that the quantity of money rose by 12% in April and May combined, financial sector money probably grew by another 15% - 20%. **So financial sector money may now be perhaps 60% - 70% up on end-2018 levels.**

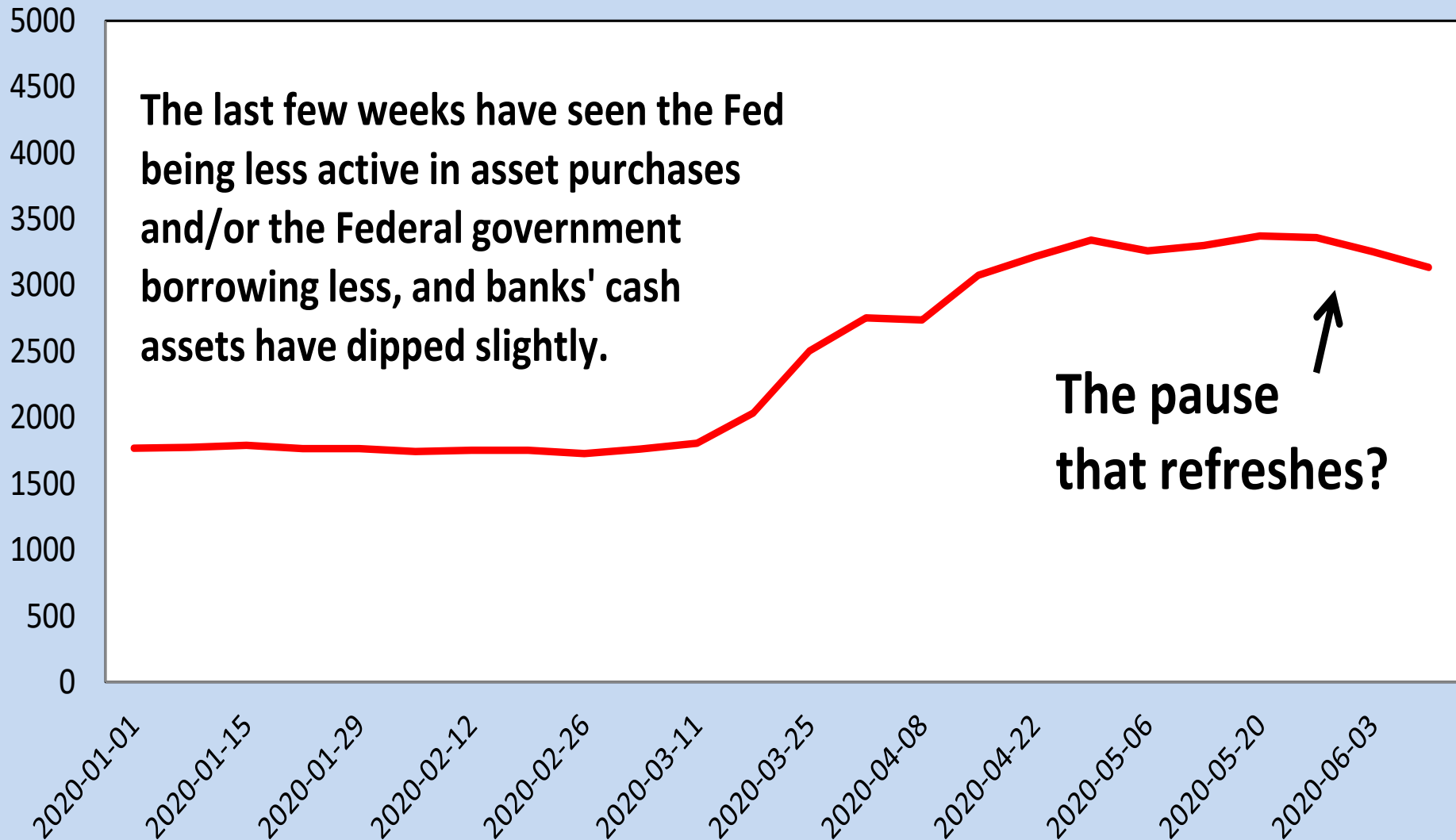
‘The Great Disconnect’
between a 5% fall in Q1
GDP and a 43% rise in
the stock market from
the 23 March low.

The economy and the
stock market will re-
connect. Don't assume
that the stock market
will adjust to the
economy. **The economy
may adjust to the stock
market!**



US commercial banks' cash assets in 2020

- Cash held, in \$b., mostly as reserves at the Fed; data are weekly

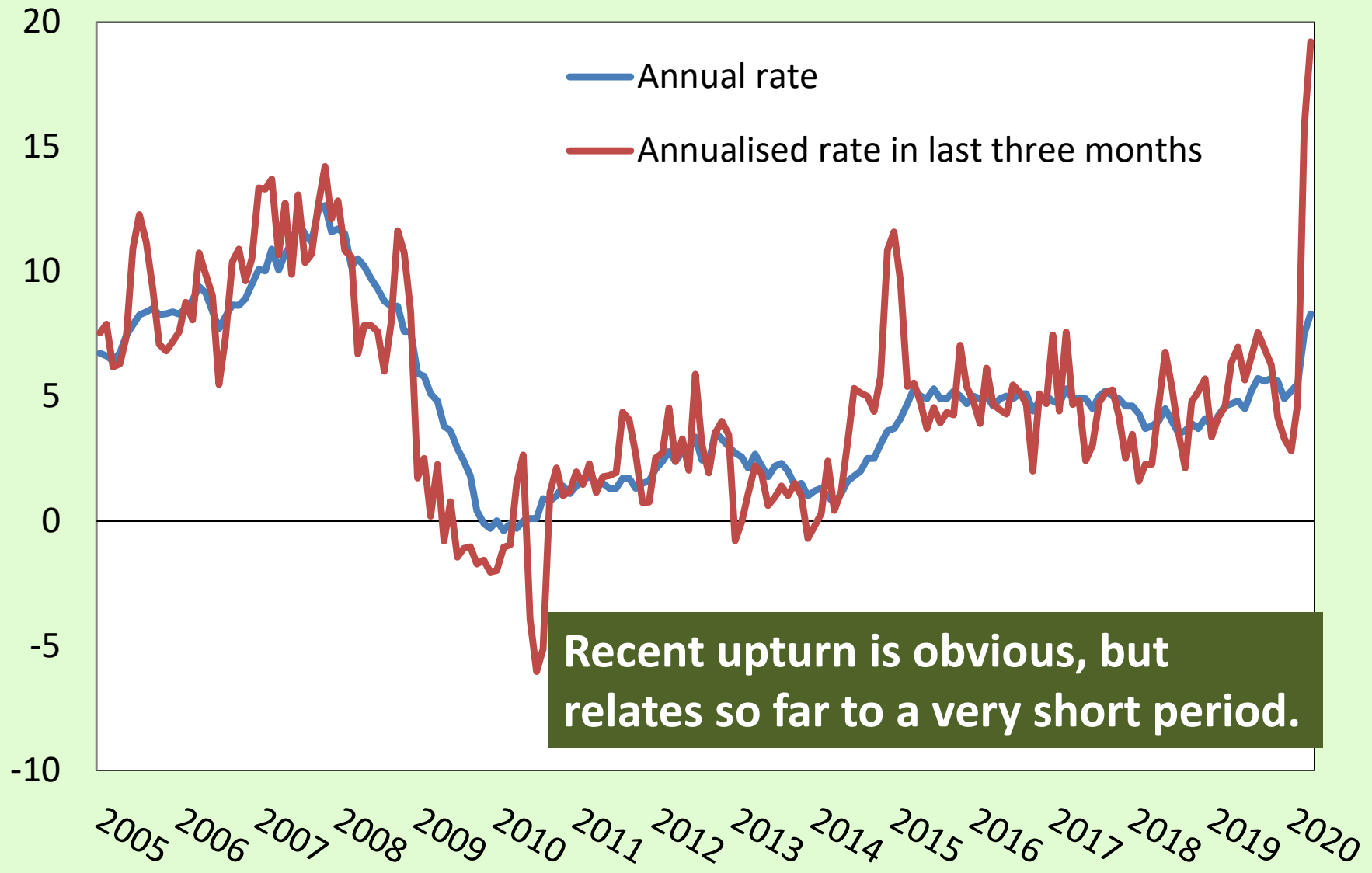


A hockey-stick pattern is common to all countries' money growth in 2020



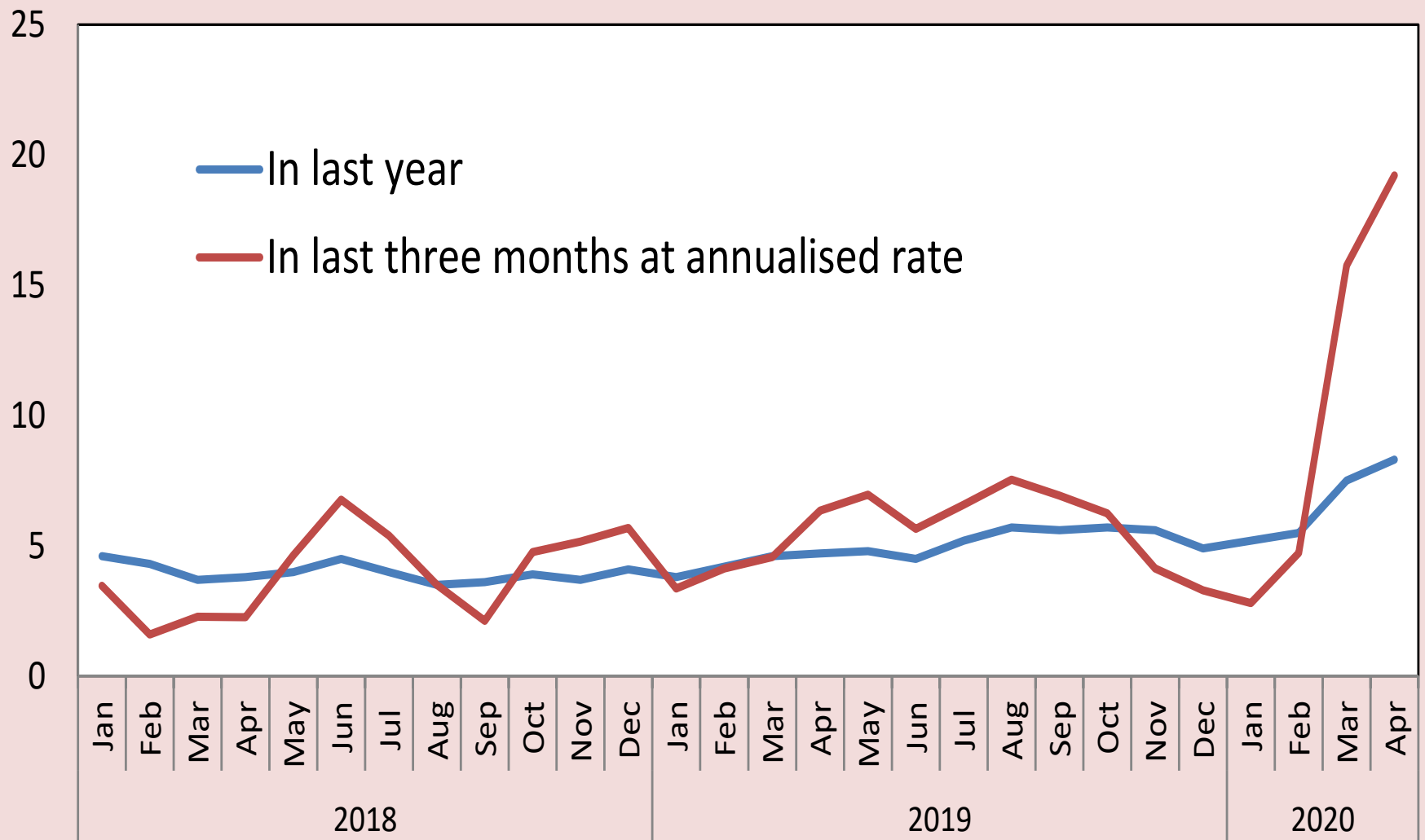
Recent trends in Eurozone money growth

% M3 growth rates, data from the European Central Bank



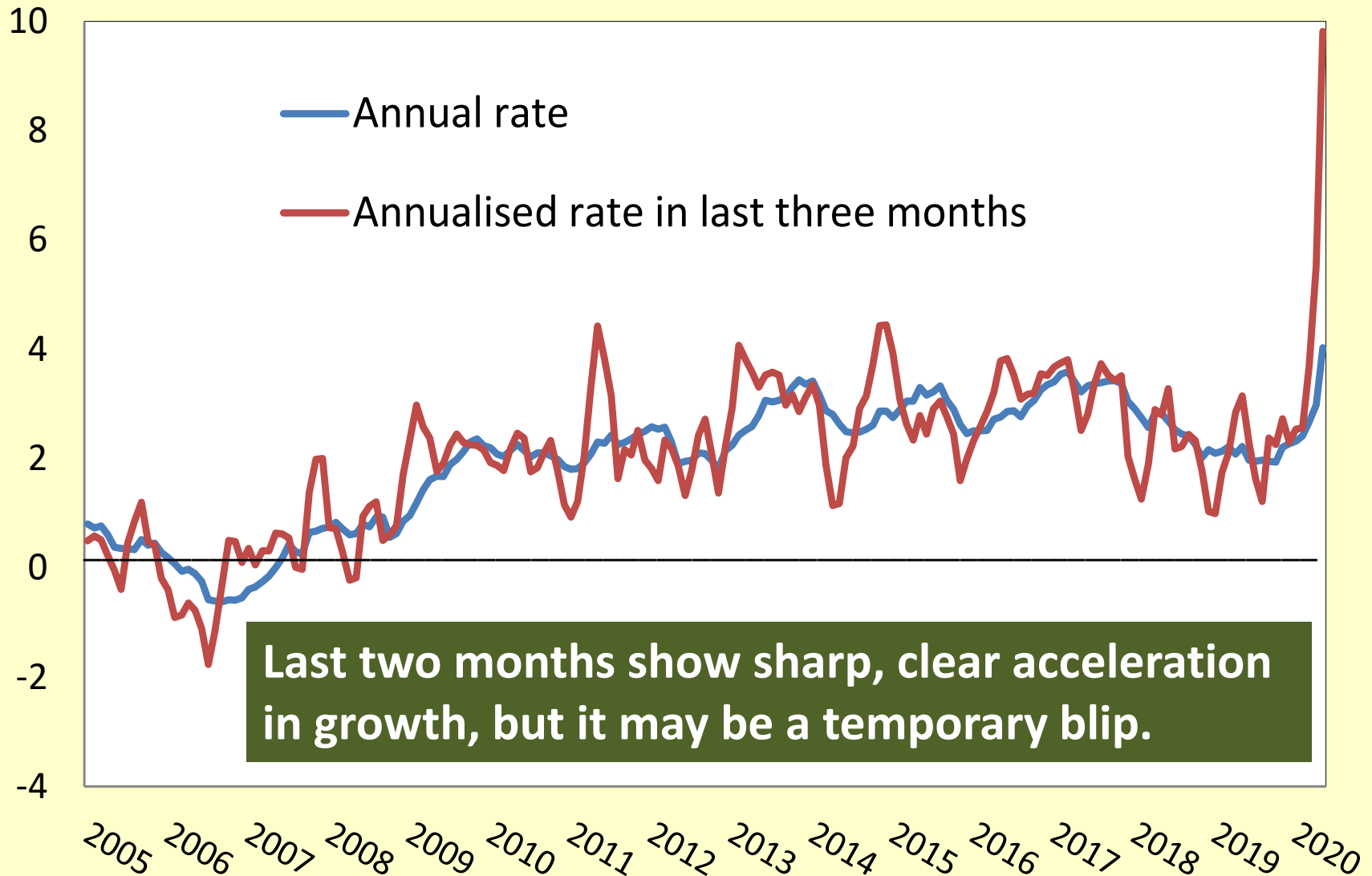
Acceleration in M3 growth in the Eurozone

- % rate of increase



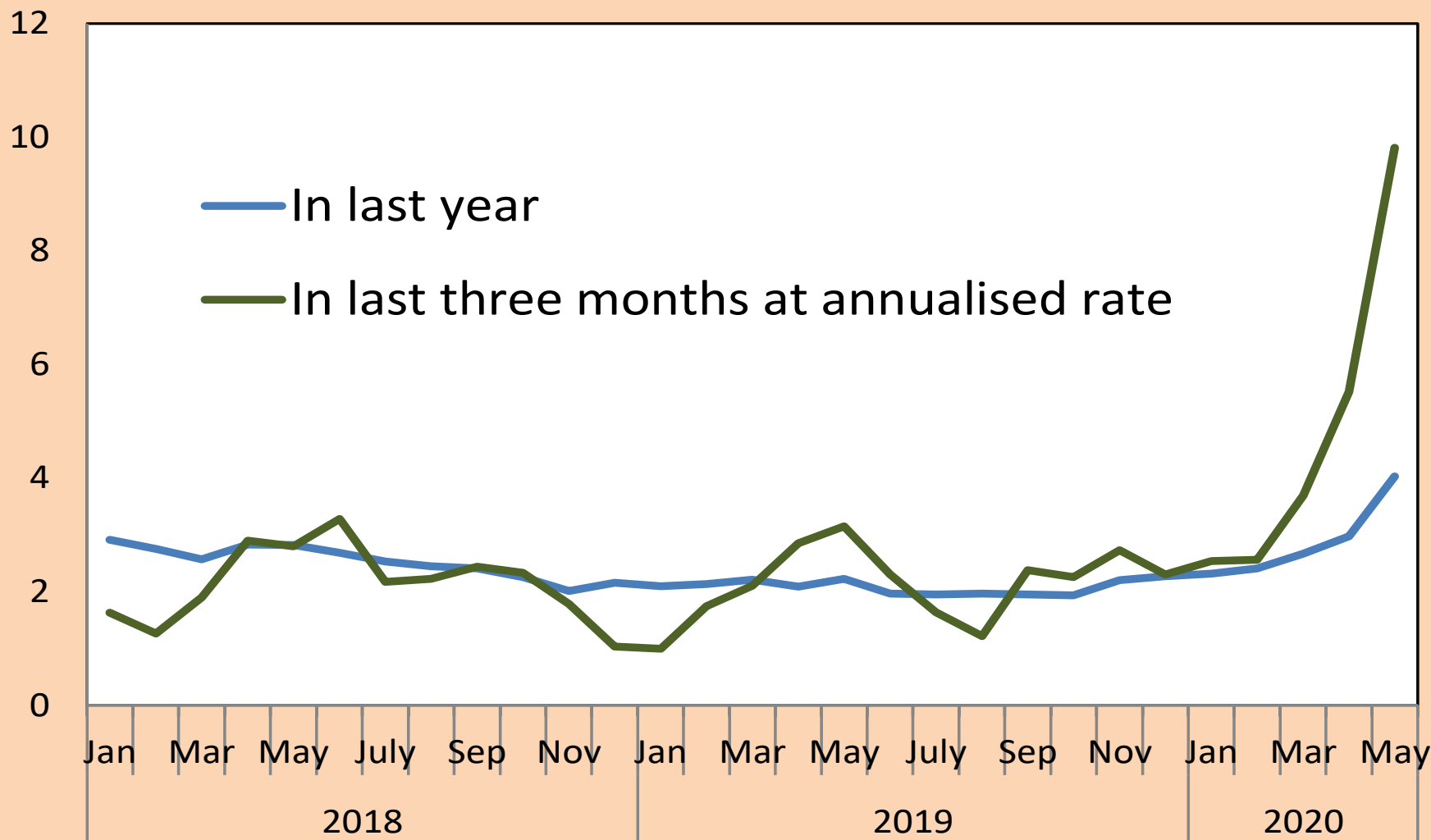
Recent trends in Japanese money growth

% M3 growth rates, data from Bank of Japan



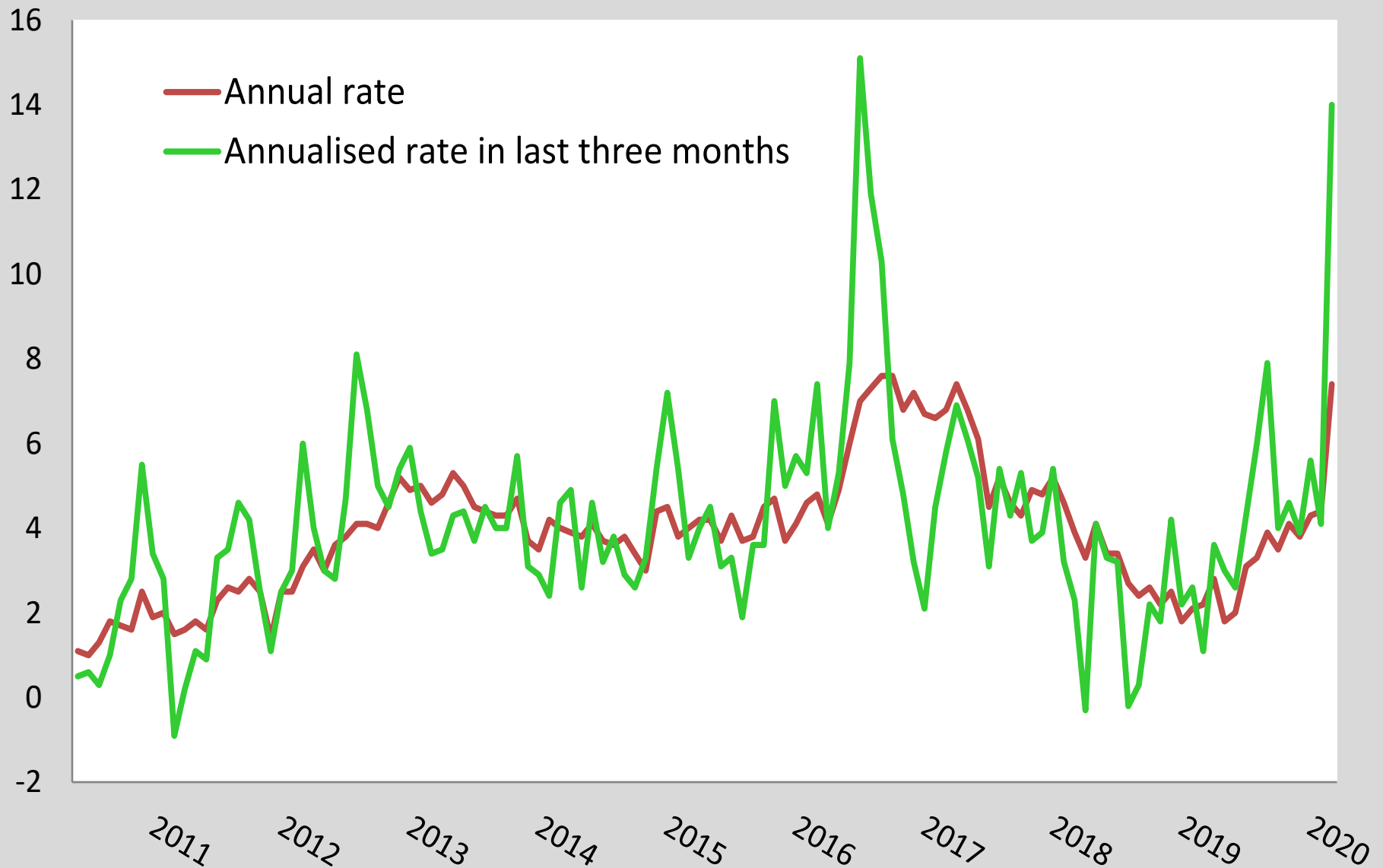
Acceleration in M3 growth in Japan

- % rates of increase



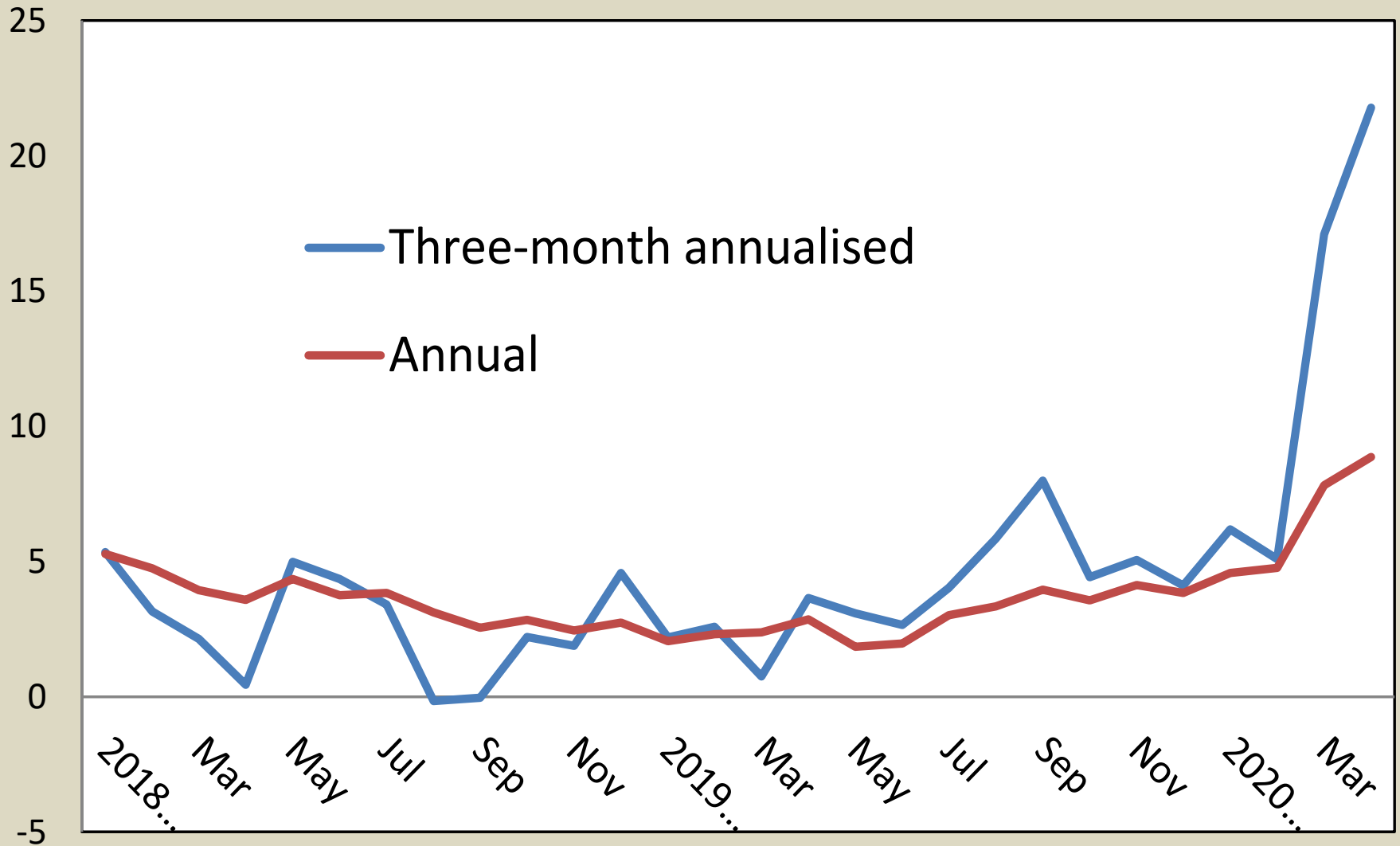
Recent trends in UK money growth

% M4x growth rates, data from the Bank of England

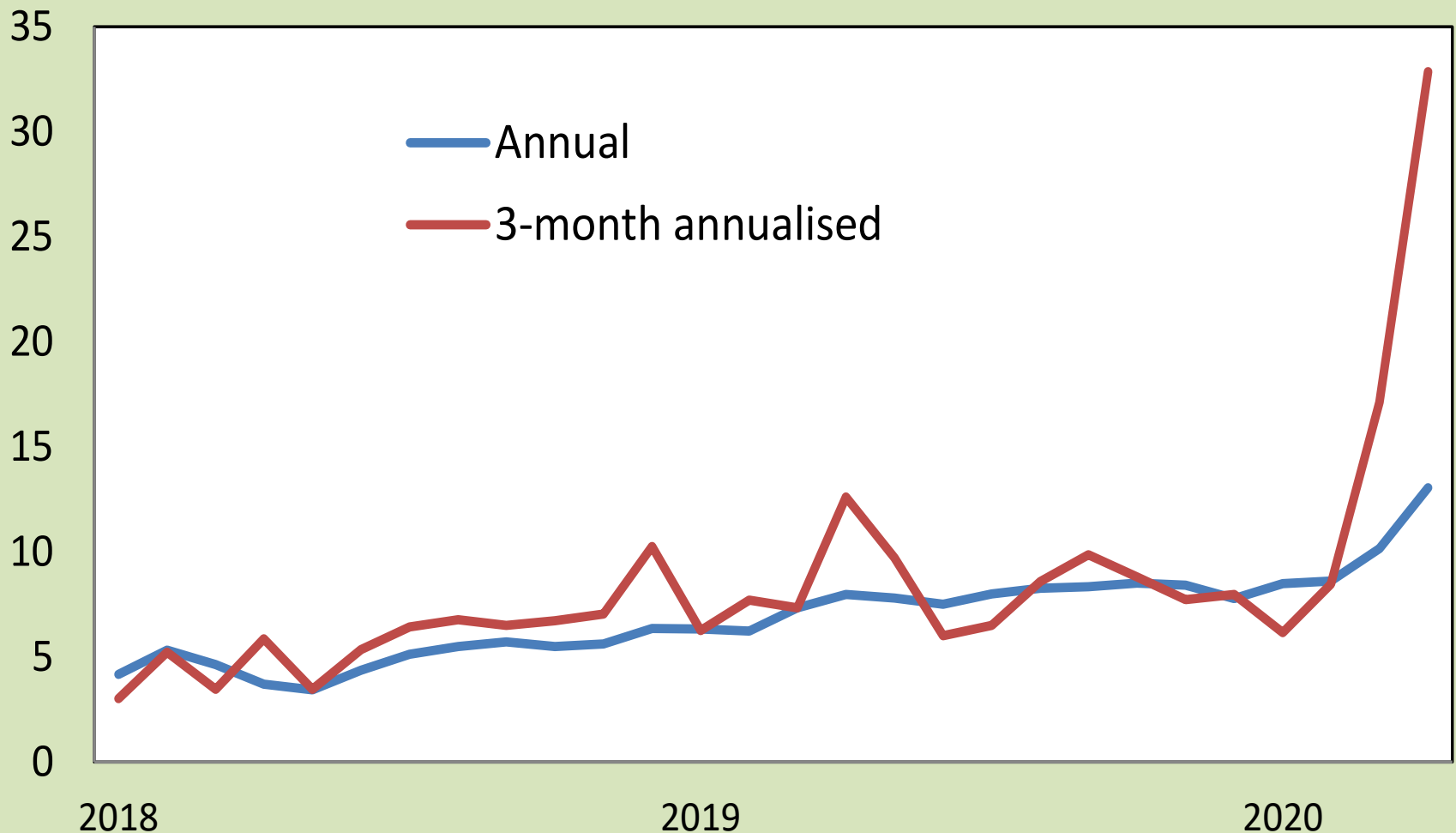


Acceleration in M4x growth in the UK

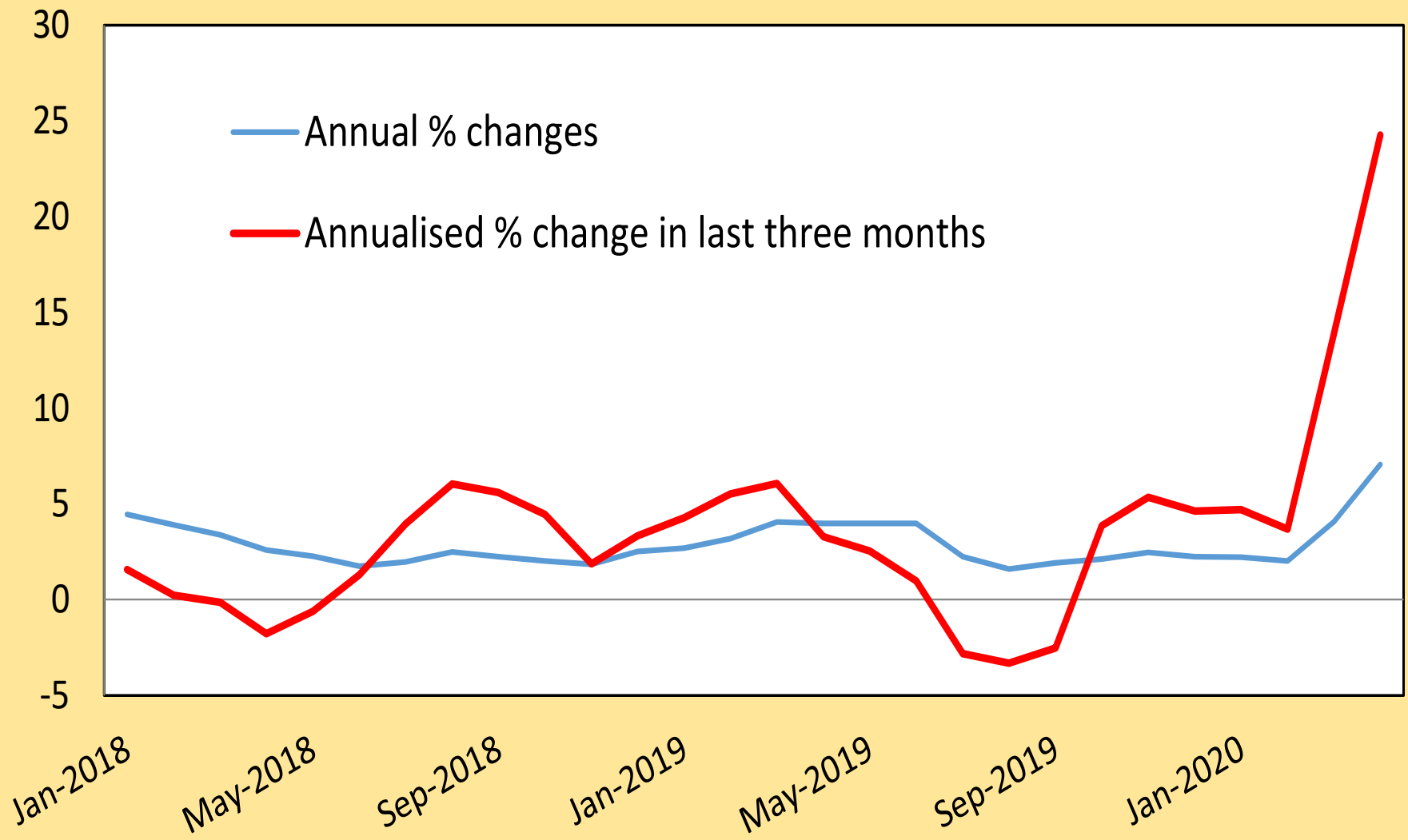
- % rates of increase



Acceleration in broad money growth in Canada - % rates of increase; last month April 2020



Acceleration in broad money growth in Australia - % rates of change



Conclusions of the analysis 1.

- **In the clear majority of the world's economies, governments and central banks have reacted in the same way to the Covid-19 pandemic.**
A. Budget deficits have increased and been financed from banking systems, even from the central bank itself, and B. the central bank has purchased assets from the private sector to stimulate the economy.
- **Money growth has accelerated everywhere, because of these policy actions.**

Conclusions of the analysis 2.

- Although the character of the official response has been the same everywhere, **the US policy has been – by some distance – the most helpful/adventurous (or ‘expansionary’ or ‘inflationary’, depending on your point of view).**
- The annual rate of US broad money growth has exceeded 25%, a record in modern peacetime. In the Eurozone and the UK the annual rates of increase are still under 10% with the latest numbers (for April), but 10% will almost certainly be exceeded in the summer months. Japan has also seen an acceleration in money growth (with the three-month annualised % increase reaching 10%), but it remains a slow coach compared with other countries.
- Such countries as Australia and Canada have also seen a marked money growth acceleration, but **in China and India the increase in money growth has been less obvious.**

Conclusions of the analysis 3.

- Very rapid money growth in the USA has been the driver of the remarkable recovery in the US stock market since late March. This is helpful for consumer confidence and expenditure. **The money balances of the financial sector (i.e., of institutional investors in equities and bonds) remain above-normal relative to total assets.**
- This is positive for asset prices in the rest of 2020, whatever the medical news.
- Once the pandemic is under control (and all pandemics in the past have come under control), **virtually all the world's economies will have excess money balances, implying a period of above-trend growth and upward pressure on inflation.**

Conclusions of the analysis 4.

- Once the pandemic is under control (and all pandemics in the past have come under control), **virtually all the world's economies will have excess money balances, implying a period of above-trend growth and upward pressure on inflation.**
- This may seem surprising today, but...
- ...**parallels can be drawn with the situation just after major wars.** (Wars – like the response to the pandemic – have typically led to monetary financing of increased budget deficits and money growth accelerations.)