



INSTITUTE OF
INTERNATIONAL
MONETARY RESEARCH

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

Money and inflation in the early 2020s: An analysis of velocity in the USA, the Eurozone and the UK

*A presentation by Professor Tim Congdon CBE,
Chair of the Institute of International Monetary Research,
in October 2024*

Olivier Blanchard in a 24 April 2020 column for the Vox CEPR Policy Portal



“Will falling commodity prices, stumbling oil prices, and a depressed labour market bring low inflation and perhaps even deflation, or will very large increases in fiscal deficits and central bank balance sheets bring inflation? This column argues that it is hard to see strong demand leading to inflation. Precautionary saving is likely to play a lasting role, leading to low consumption, and uncertainty is likely to lead to low investment. The challenge for monetary and fiscal policy is thus likely to be to sustain demand and avoid deflation rather than the reverse.”

- Olivier Blanchard ‘Is there deflation or inflation in our future?’, blog on Vox EU portal for 24 Apr 2020, available at <https://cepr.org/voxeu/columns/there-deflation-or-inflation-our-future> .

Richard Clarida in a speech on 21 May 2020 to the Economic Club of New York



“...[T]he COVID-19 contagion shock will be disinflationary, not just over the next few months but over the next few years.”

- i.e., presumably out to 2023 and 2024

Richard Clarida, vice-chair of the Federal Reserve, in remarks to the Economic Club of New York on 21 May 2020

Isabel Schnabel on 27 June 2020 in
speech given to Petersberger
Sommerdialog in Frankfurt

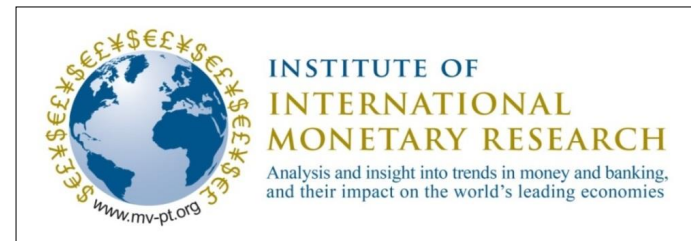


“Inflation could remain at close to 0 per cent well into the next year, and even negative inflation rates are possible... [C]ore inflation, which excludes food and energy prices, will remain below projections from us as recently as March, and will do so for a very long time...The Governing Council of the ECB unanimously agreed [at its latest meeting, on 3 – 4 June] that the danger of such low inflation taking hold and leading to lower wages, growth and investment was too high.”

Forward-looking comments made by Tim Congdon in a special e-mail of 6th April, 2020



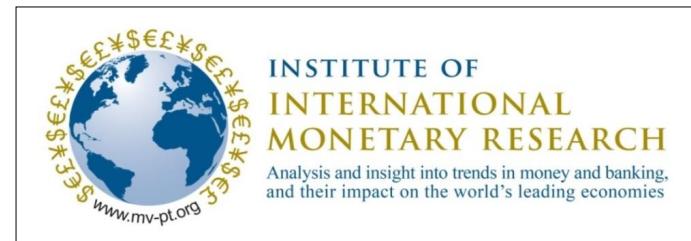
“Given that the trend growth rate of real output is not much more than 3 per cent a year, **a big resurgence in inflation is implied by our analysis**. The only way to prevent this is for the Fed not just to end its current stance as ready financier of the government deficit, but **to withdraw the money stimulus (that is, to cause the quantity of money to fall by the ‘excess over normal growth’ now being recorded)**. In a Presidential election year, that seems very unlikely.”



Forward-looking comments made by Tim Congdon in a special e-mail of 6th April, 2020

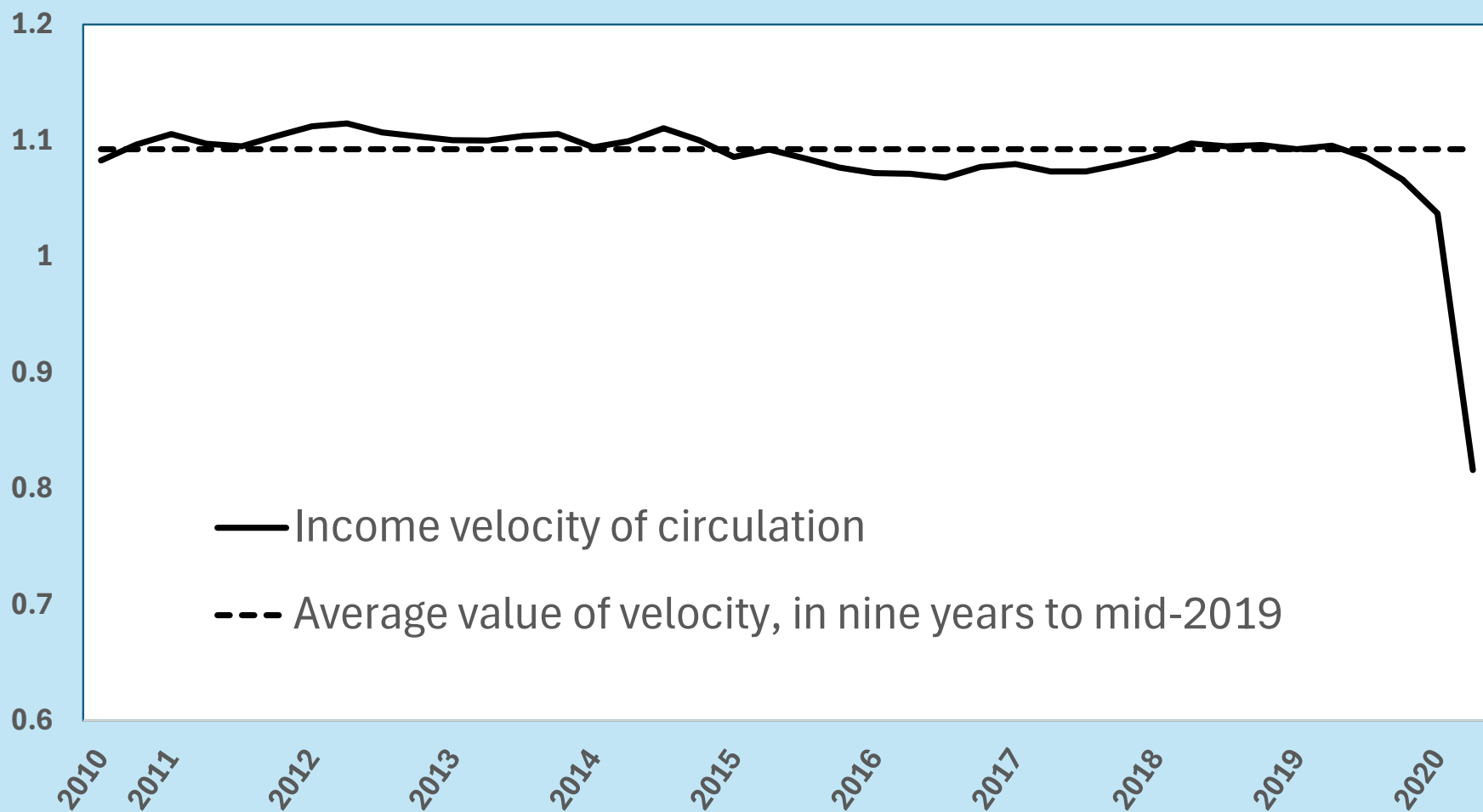


“Variations in the ratio of money to nominal GDP (or ‘velocity’) do occur, but large variations are unusual. In the medium term they are ironed out as the underlying stability of agents’ money holding behaviour takes over. **It follows from the latest money data that – at some point in the next two/three years – the growth rate of US nominal GDP will accelerate towards a figure in the teens per cent.**”

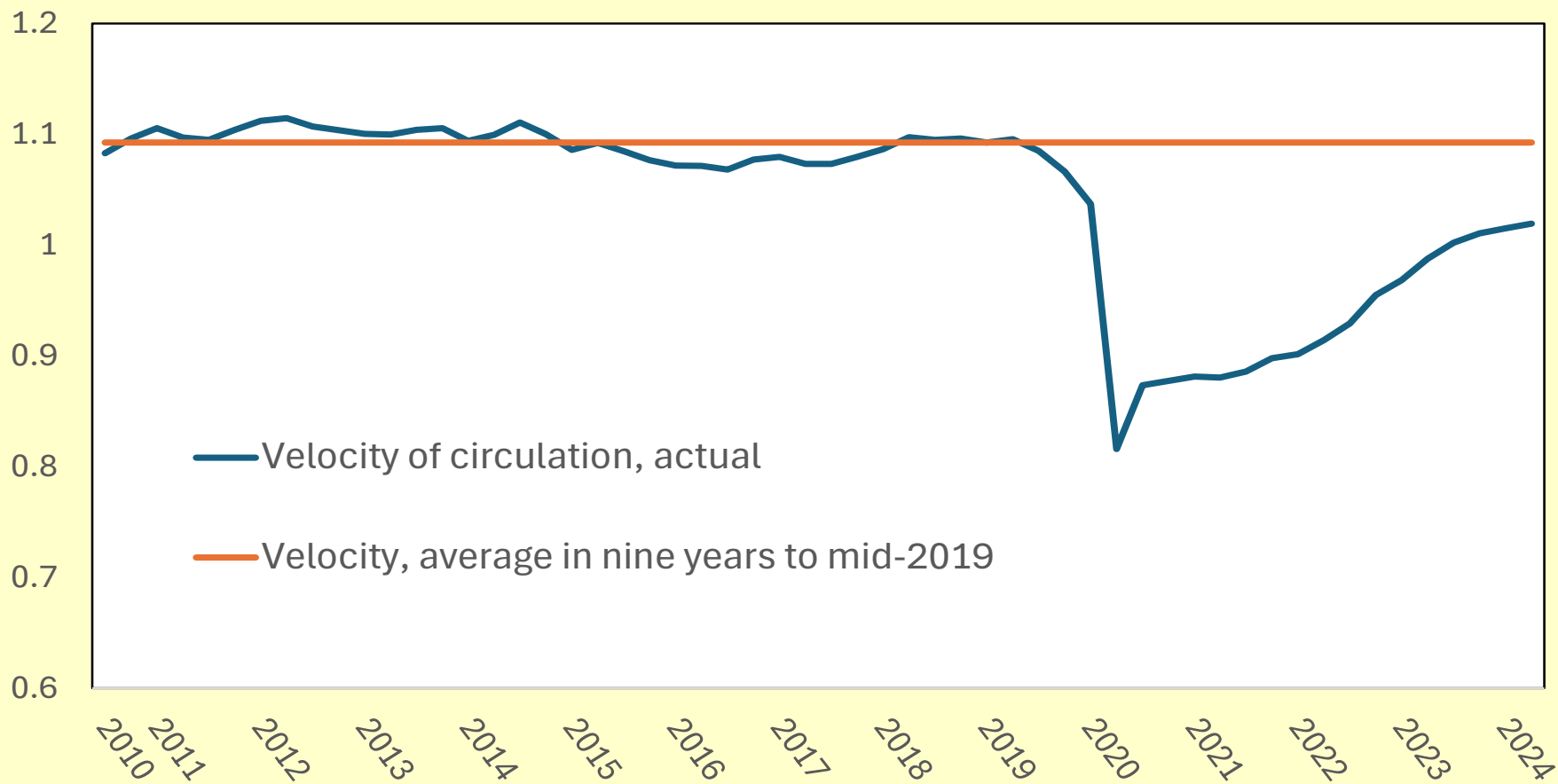


Income velocity of M3 broad money in the USA, 2010 to 2020

For sources, see text; final quarter is 2020 second quarter

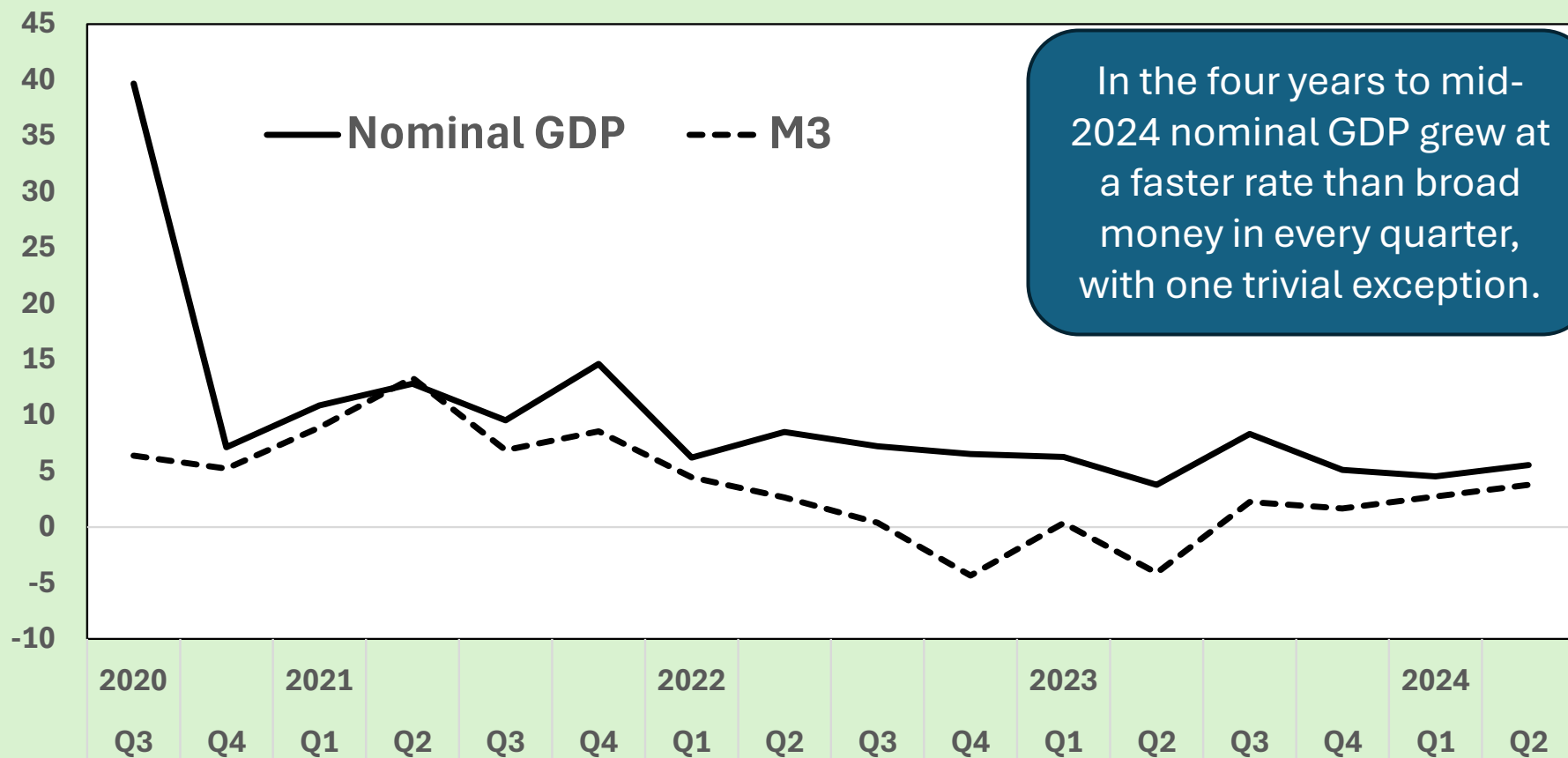


**Income velocity of the USA's M3 measure, in the 2010s
and the Covid-affected early 2020s**

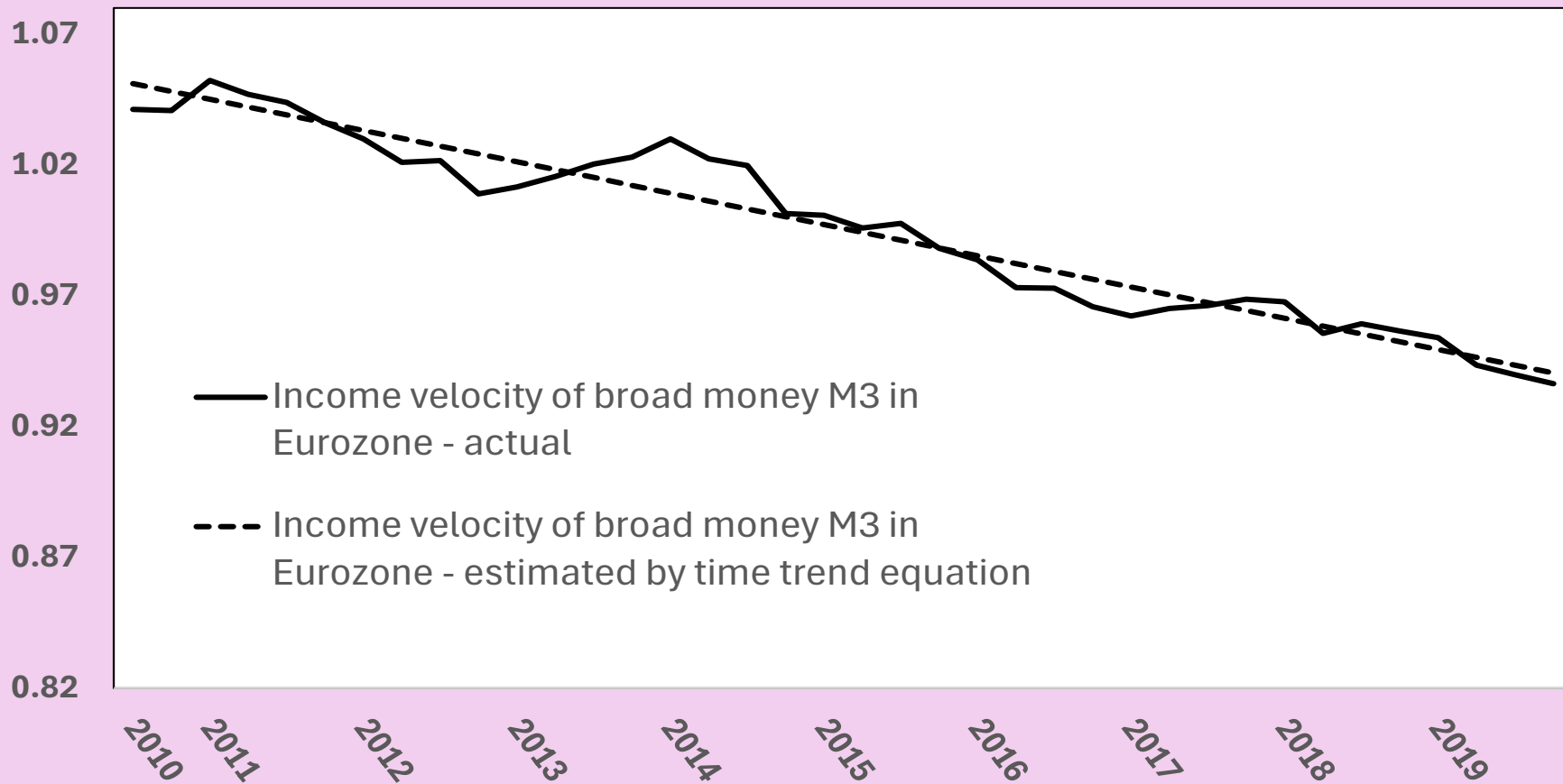


Nominal GDP and broad money in the USA since mid-2020

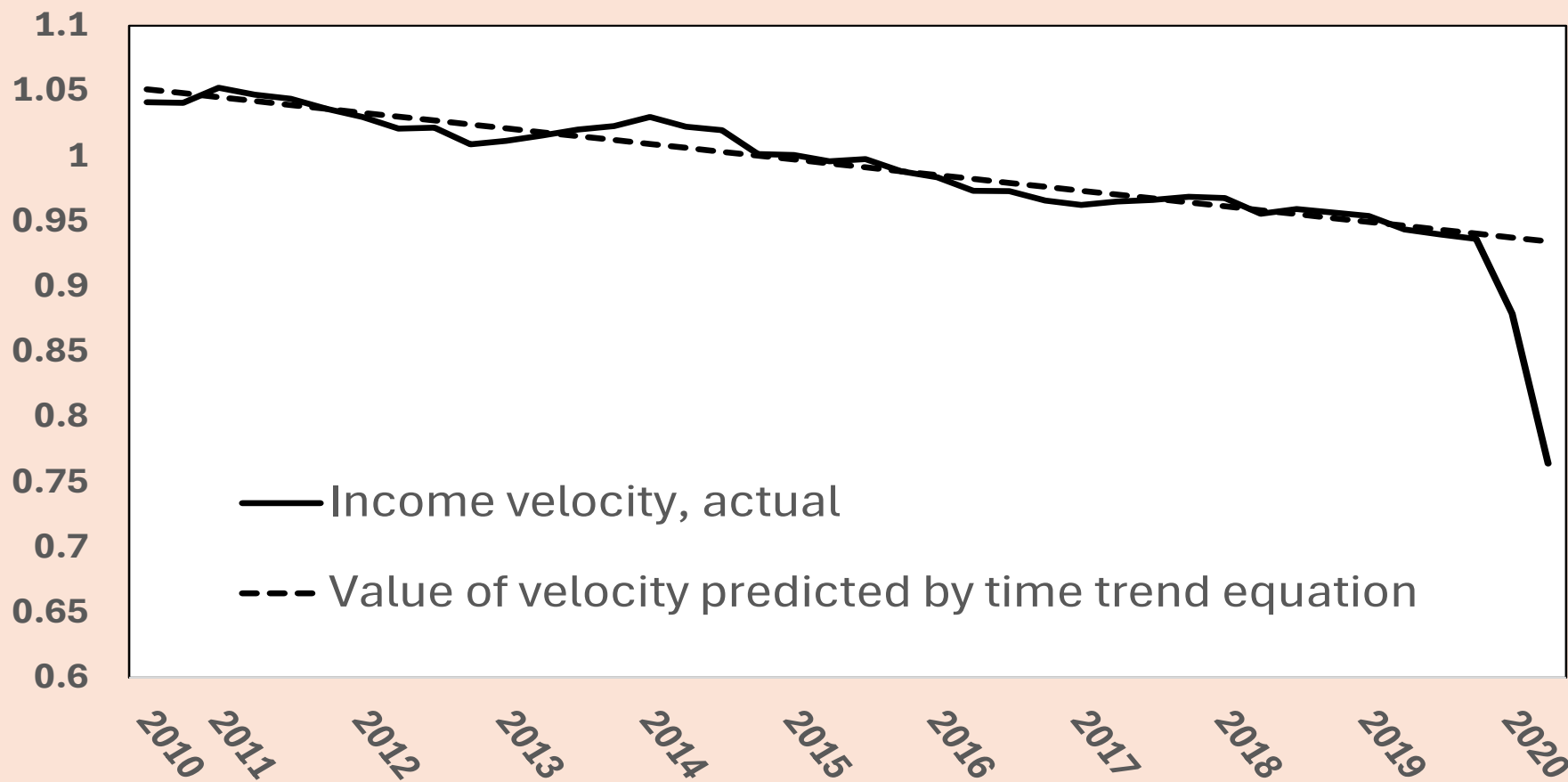
- % annualised rate of change in the quarter



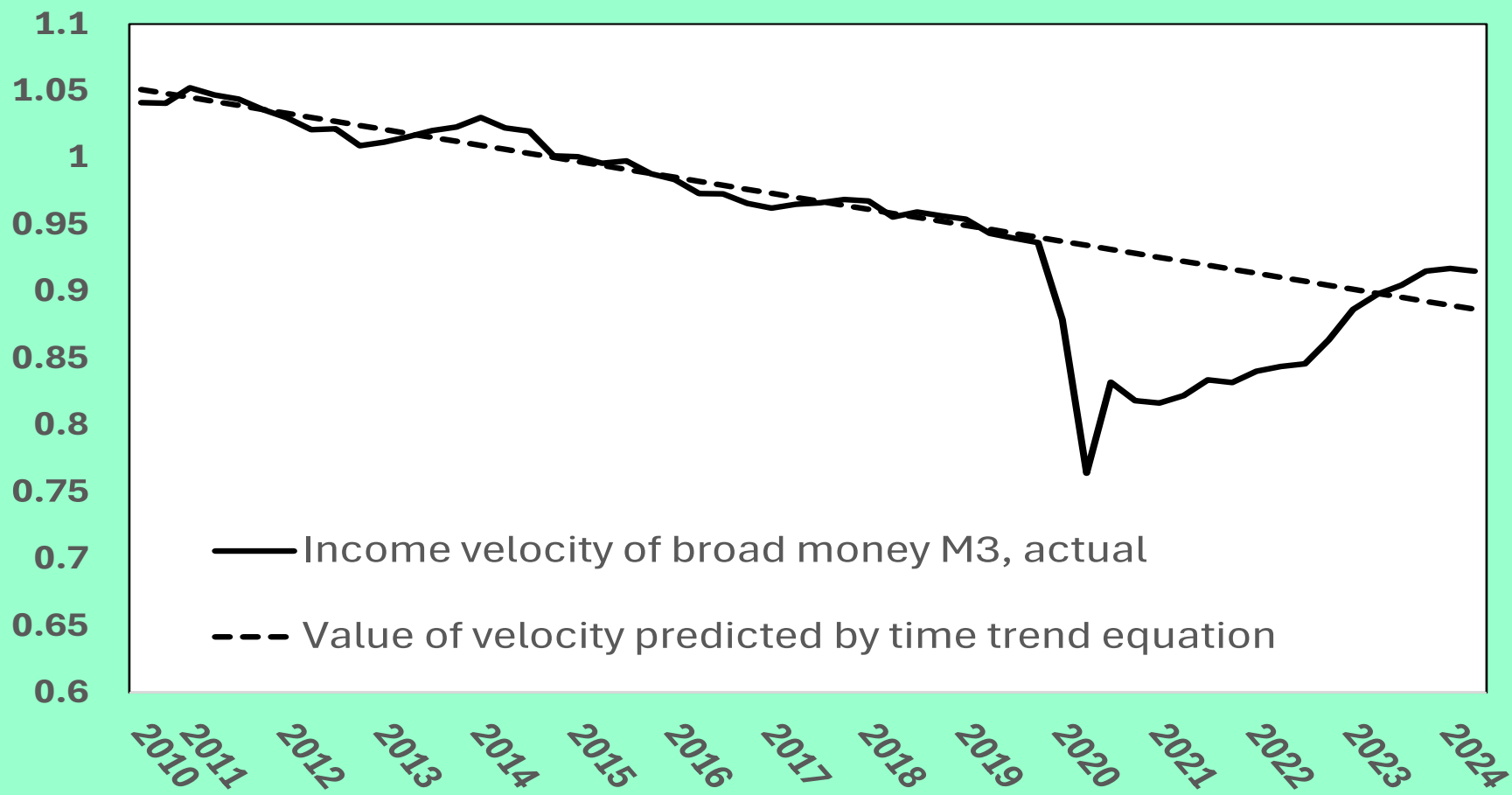
Income velocity of M3 broad money in the Eurozone before Covid



Income velocity of Eurozone M3 broad money,
showing the 2020 anomaly due to ECB asset purchases etc.

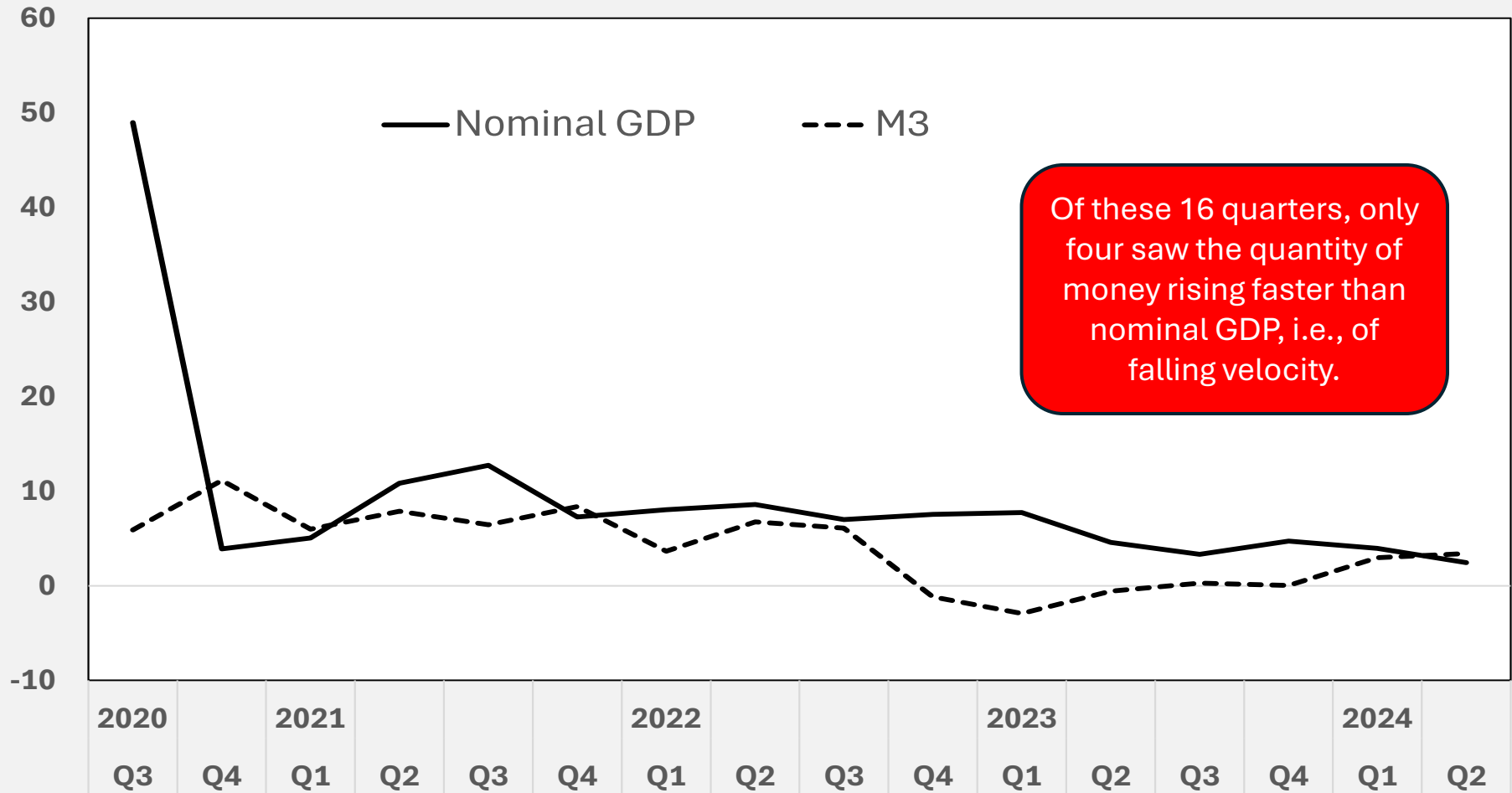


Income velocity of Eurozone M3 broad money,
in the 2010s and the Covid-affected early 2020s

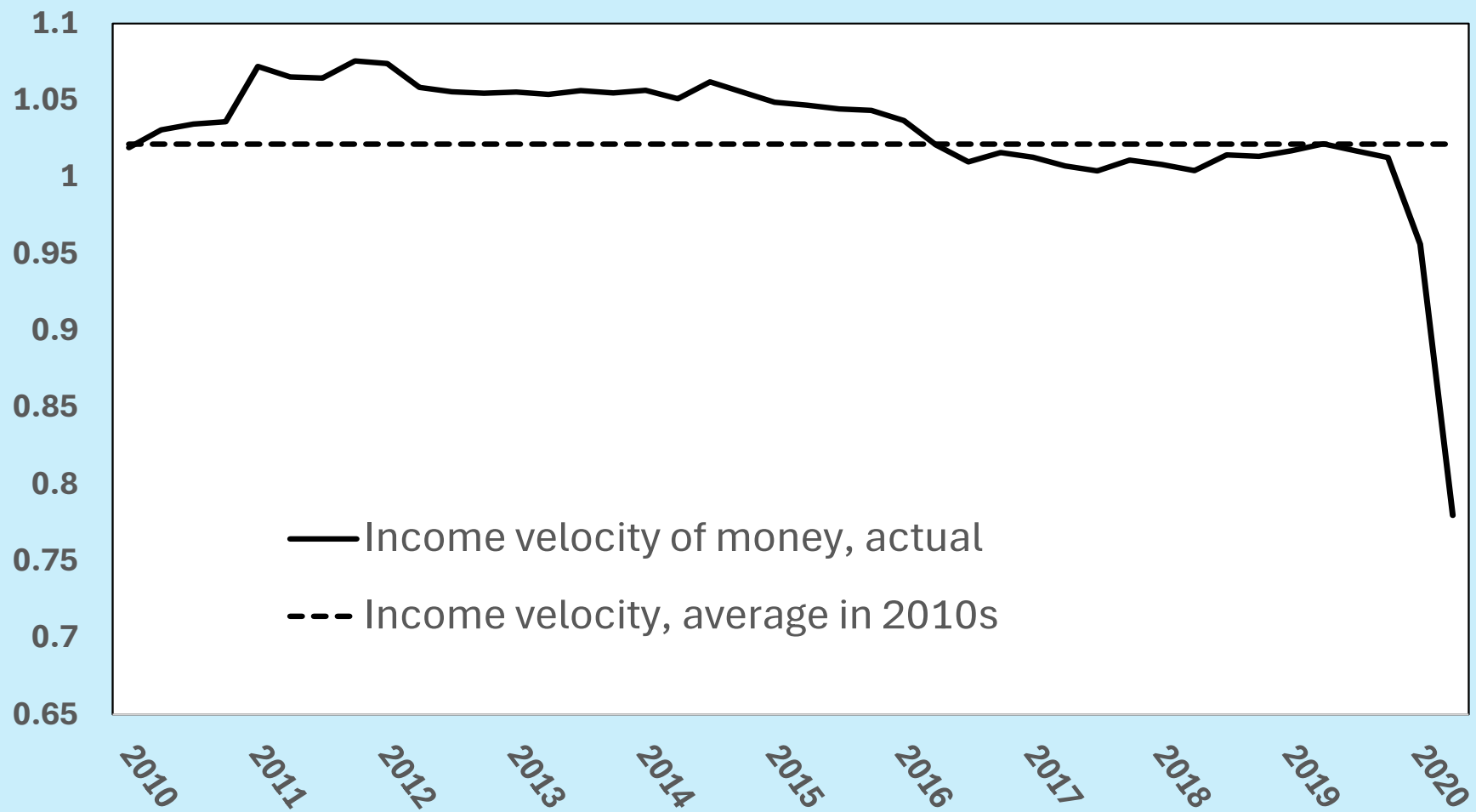


Nominal GDP and broad money in the Eurozone since mid-2020

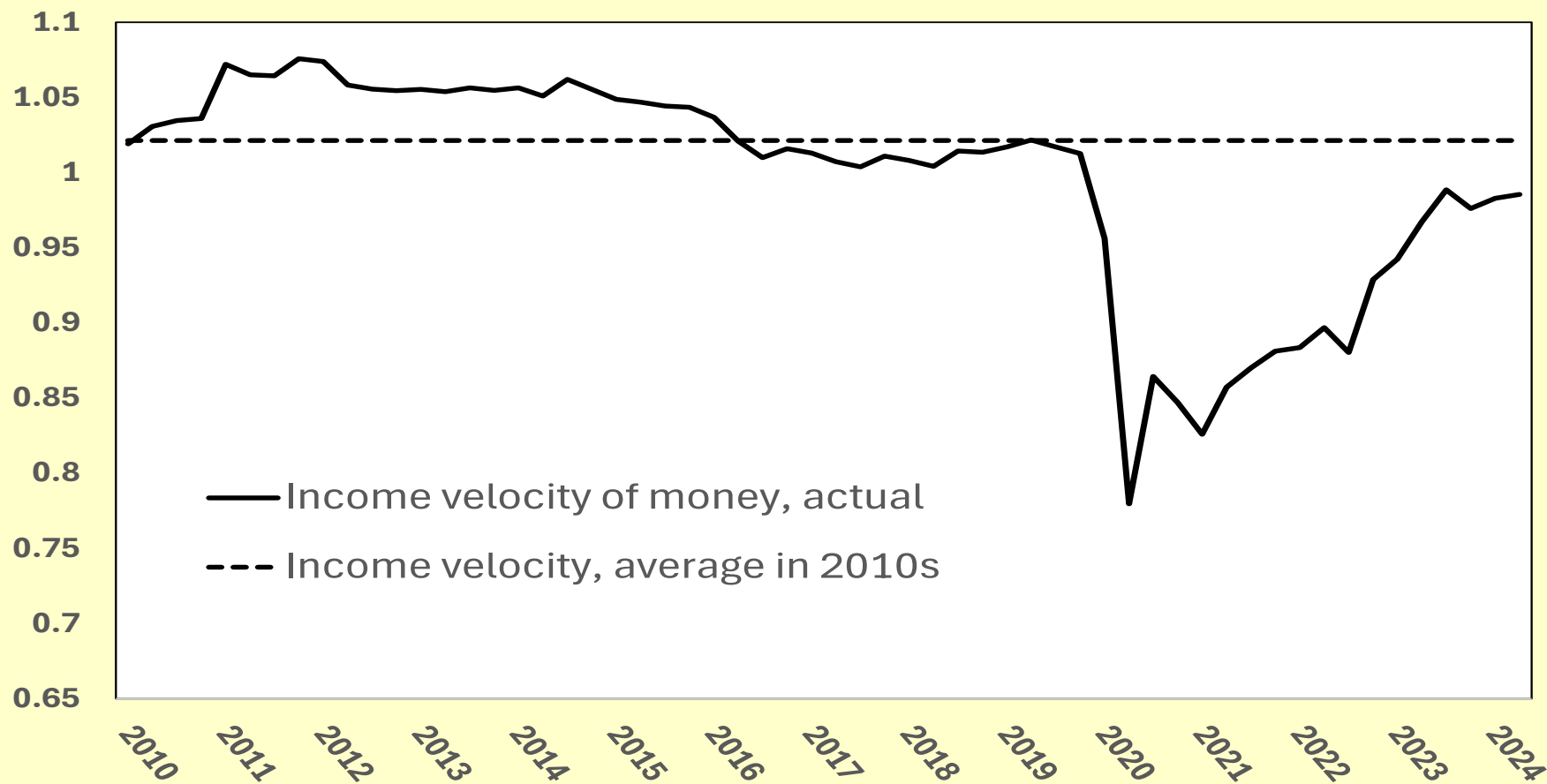
- % annualised rate of change in the quarter



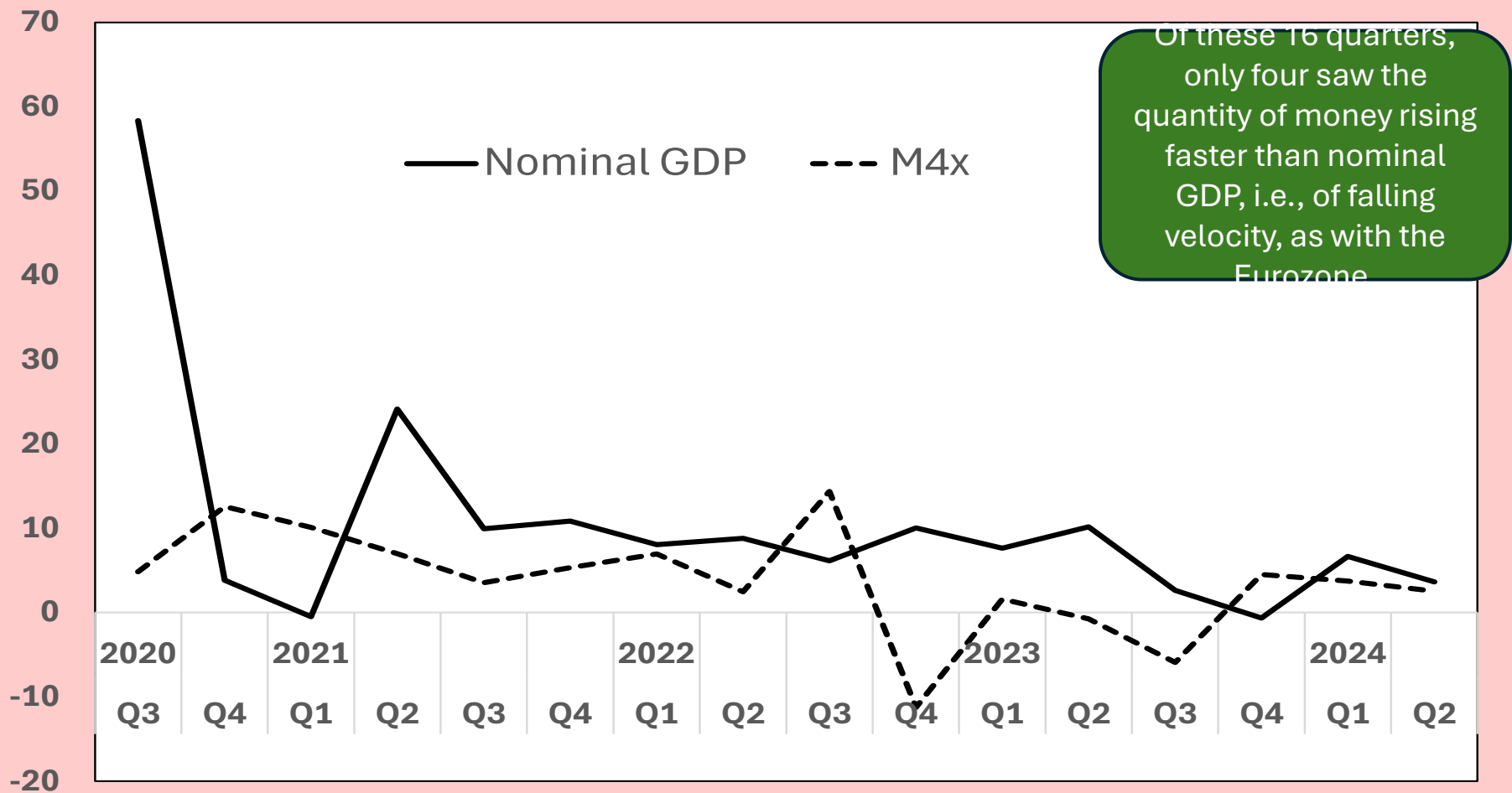
Income velocity of M4x broad money in the UK, 2010 to 2020














Income velocity of M4x broad money in the UK, 2010 to 2024



Nominal GDP and broad money in the UK from mid-2020
- % annualised rate of change in quarter



Changes in velocity in the four years from Q2 2020

		Velocity, actual, in quarter	Change in velocity on year earlier, %	Did velocity increase in the year?
USA	Q2 2020	0.82		
	Q2 2021	0.88	7.9	
	Q2 2022	0.91	3.8	
	Q2 2023	0.99	8.1	
	Q2 2024	1.02	3.2	
Eurozone	Q2 2020	0.76		
	Q2 2021	0.82	7.6	
	Q2 2022	0.84	2.7	
	Q2 2023	0.90	6.4	
	Q2 2024	0.92	1.9	
UK	Q2 2020	0.78		
	Q2 2021	0.86	9.9	
	Q2 2022	0.90	4.6	
	Q2 2023	0.97	7.9	
	Q2 2024	0.99	1.9	