



## CENTER FOR FINANCIAL STABILITY

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### HIGHLIGHTS

EMBARGOED UNTIL RELEASE AT 9:00 A.M. EDT, SEPTEMBER 19, 2012

## CENTER FOR FINANCIAL STABILITY NEW MONEY SUPPLY DATA; FISCAL DISTORTIONS AND FINANCIAL SYSTEM STRESS

DATA FOR AUGUST 2012

Today, Center for Financial Stability (CFS) [money supply data for August 2012](#) highlight distortions from fiscal policy and weakness in the financial system. CFS Divisia M4 (DM4) for August advanced by 3.4% on a year-over-year basis. However, the performance of the broadest money supply measure was clouded by large issuance of Treasury bills to fund the budget deficit. The broad money supply excluding Treasury bills (DM4-) gained a mere 2.6% on a year-over-year basis down from 3.6% one year earlier. Sluggish growth in the DM4 and DM4- suggests that the economy is expanding well below potential. Historical real trend GDP growth of 3¼% is typically associated with broad money growth of 6% to 6.5%.

Despite Quantitative Easing (QE) and Operation Twist, proprietary money supply data clearly illustrate that the financial system remains under stress. Growth in the broad money aggregates remains subdued as the issuance of commercial paper (-0.5%) and use of repurchase agreements (-0.5%) continue to serve as a drain on the monetary creation based on their weighted contributions to DM4.

Similarly, uncertainty surrounding money market fund rules and regulations continues to weigh on the expansion of banking system liabilities from this asset class. The contribution of institutional money market funds to broad money supply is beginning to stabilize after contracting on a year-over-year basis for the last 34 consecutive months

Economic uncertainty continues to drive growth in safer monetary liabilities as evidenced by the weighted contribution to DM4 from commercial banks' savings deposits (2.9%) and demand deposits (0.9%).

**Figure 1. Major CFS Monetary Aggregates and Monetary Base, % year-over-year**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Apr-12</u>	<u>May-12</u>	<u>Jun-12</u>	<u>Jul-12</u>	<u>Aug-12</u>
<b>CFS DM4</b>	7.3%	8.4%	-4.9%	-0.7%	0.9%	1.5%	0.7%	2.3%	2.9%	3.4%
<b>CFS DM4-</b>	7.3%	2.6%	-5.0%	-0.6%	2.8%	1.8%	0.5%	2.1%	2.6%	2.6%
<b>CFS DM3</b>	8.1%	3.0%	-2.3%	0.1%	3.6%	3.4%	1.9%	3.6%	3.6%	3.4%
<b>Monetary Base</b>	1.5%	100.7%	22.0%	-0.4%	29.9%	5.8%	1.9%	-1.1%	-1.2%	-0.1%

Source: Center for Financial Stability and Federal Reserve Board (for monetary base).

For more information about CFS Divisia please contact:

William A. Barnett (Methodology)

(212) 626-2660 / [wbarnett@the-cfs.org](mailto:wbarnett@the-cfs.org)

Lawrence Goodman (Policy and Market Application)

(212) 626-2660 / [lgoodman@the-cfs.org](mailto:lgoodman@the-cfs.org)

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Additional information:

[www.CenterforFinancialStability.org](http://www.CenterforFinancialStability.org)



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