HIGHLIGHTS
BASED ON DATA RELEASED AT 9:00 A.M. EST, FEBRUARY 20, 2013

GOODBYE LIQUIDITY TRAP:
CFS MONEY SUPPLY STATISTICS
DATA FOR JANUARY 2013

Today, CFS monetary and financial data reaffirm that the US economy is gaining momentum.¹

The broadest measure of money (CFS Divisia M4 or DM4) gained 6.1% in January 2013 on a year-over-year basis relative to a modest expansion on average of 3.2% during 2012. Growth of DM4 in January was slightly lower than the surprisingly high advance of 6.8% in December 2012.

Emergence from the Liquidity Trap

The latest CFS monetary and financial data demonstrate that the US economy is exiting from a liquidity trap and the financial system is beginning to expand.

Between 2008 and late last year, the enormous expansion of liquidity provided by the Federal Reserve had a limited impact on the banking system or money created by the private sector (Figure 1). This is beginning to change. The data release today represents the largest and healthiest expansion of the CFS monetary aggregates and components since before implementation of the extraordinary monetary policy operations. For instance, the last two observations exceed the 6% to 6.5% threshold typically associated with real trend growth of 3.25%.²

Figure 1. Monetary Policy Pushing on a String until Recently, year-over-year

For the economy, the monetary services created by the private sector of CFS DM4 matter, as they account for a stunning 85% of the nominal expenditure on the components of that broadest monetary aggregate. In contrast, the high powered money controlled by the Federal Reserve (or monetary base) accounts for a scant 15% of the total expenditure on the components of DM4.

The Markets

In the month since the last CFS monetary release, market expectations for a puncturing of the ceiling for the Federal funds rate range of 0 to 25 basis points as well as the next possible move to 50 basis points has moved forward by three months (Figure 2). So, stronger private sector growth is beginning to alter expectations. Going forward, bond and money market expectations coupled with CFS monetary aggregates and components should prove essential for future market moves.

Figure 2. Future Federal Funds Rate Implied by Futures Contracts

Figure 3. Major CFS Monetary Aggregates and Reserve Balances, % year-over-year

About CFS Money Supply

CFS Divisia monetary measures were developed under the direction of Professor William A. Barnett - one of the world’s leading experts on monetary and financial aggregation theory. CFS money supply

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3 Monetary base and total reserves are from the Federal Reserve Board’s statistical release H.3.
data are essential, especially since the Federal Reserve ceased production of M3 in 2006. Similarly, Divisia measures are superior, as they accurately weight various classifications of money from cash to leverage in the shadow banking system.

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Next release – March 20, 2013 at 9:00 A.M. EST

Additional information: www.CenterforFinancialStability.org