New World for
Money, Banking & the Economy

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Ideas

New uses of money and technology will reshape the banking industry and business cycle.

I. Challenges for the economy

II. The impact of Fed policy and markets on banks

III. Technology and Finance: Risks and Opportunities
Money and banking restraints on GDP growth

Getting better...but growth patterns in 2014 influenced by weather and oil.

Source: Bureau of Economic Analysis and Center for Financial Stability Inc.
It’s the Financial System that Matters: Monetary Ease and CFS Divisia Financial Data (y/y)

About money, banking and growth...today

Until banks and financial institutions grow the economy will be flying on one engine.

Total Money Supply in the US (Dec 2006)

- Monetary base: 5%
- Money Created by the Private Sector: 95%

Total Money Supply in the US (Feb 2015)

- Monetary base: 17%
- Money Created by the Private Sector: 83%

Source: Federal Reserve and Center for Financial Stability.
Fed influence on long-term interest rates: Community banks are more vulnerable

Net Interest Income, % net operating revenue

Community Banks: 80%
Noncommunity Banks: 67%

Source: FDIC.

“Demand for U.S. Debt Is Not Limitless”

The Wall Street Journal
March 28, 2012

http://online.wsj.com/articles/SB10001424052702304450004577279754275393064

Source: Federal Reserve Board and the Center for Financial Stability.
“Shadow-Credit Rise is Good Sign”

The Wall Street Journal
March 23, 2015

http://www.wsj.com/articles/shadow-credit-rise-is-good-sign-1427071556

Plunge in market finance (shadow banking): Vital for smaller institution assets too

Note: The CFS definition of market finance includes: money market funds, repurchase agreements, and commercial paper. Source: Federal Reserve Board, Bankrate, and the Center for Financial Stability.
Technology and Finance: Virtual Currencies and Bitcoin

I. Virtual Currency – doubt, enthusiasm, and intrigue.

II. Payment Systems – money, technology, and costs.

III. Risks – trust, network, tech, incentives, and regulatory.

IV. History and the long term – Ned Gramlich, airline miles, and League of Legends.
Conclusion

I. Policy response has restrained growth.

II. The future will be determined by evolution of the symbiotic relationship between banks and economy.

III. Revolutionary change in money and technology will reshape banks at an increased pace.
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