How should central banks assess and communicate risks around money growth?

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With thanks to William A. Barnett, Jeff van den Noort, and Liting Su.

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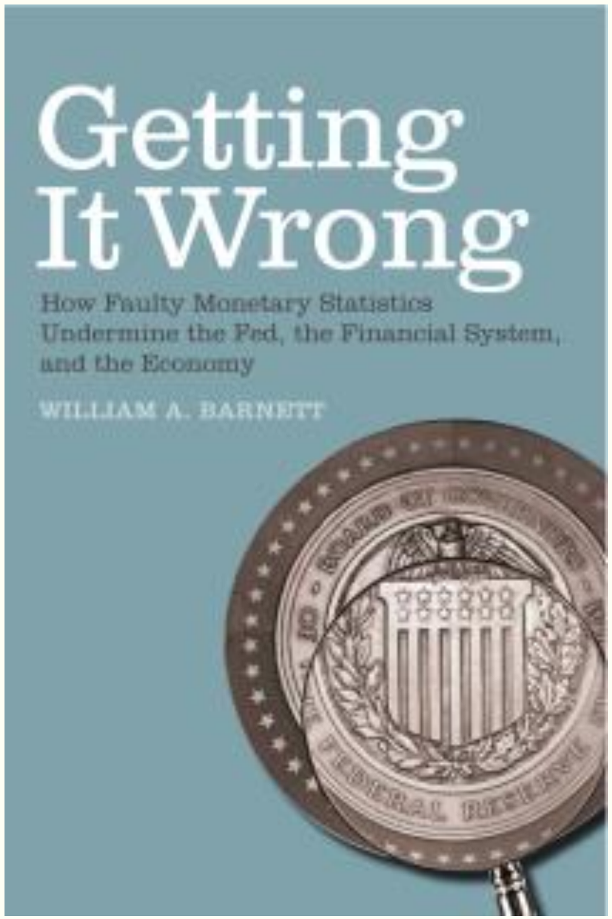
Figure 1. Advances in Monetary and Financial Measurement



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NEWS RELEASE

EMBARGOED UNTIL RELEASE AT 9:00 A.M. ET, MONDAY, MARCH 2, 2026.

CFS DIVISIA MONETARY DATA FOR THE UNITED STATES:[1]

JANUARY 2026

On February 23, 2021, the Federal Reserve Board enacted major changes to their H.6 Statistical Release which have impacted how the CFS Divisia Monetary Aggregates are calculated as well as our upcoming release schedule. See page 2 for more details.

The CFS Featured Broad Divisia Monetary Aggregates in January 2026

- CFS Divisia M4, including Treasuries (DM4) – the broadest and most important measure of money calculated by the Center for Financial Stability – grew by 5.0% in January 2026, on a year-over-year basis. In contrast, CFS Divisia M4 increased by 3.2% in January 2025 over the preceding year.
- The narrower version of the CFS Divisia M4, excluding Treasuries, (DM4-), grew by 5.1% in January 2026 over the year, relative to a year-over-year gain of 3.0% in January 2025.
- CFS Divisia M3 (DM3) advanced by 5.0% year-over-year, relative to an increase of 3.0% in January 2025.

The Narrow Divisia Monetary Aggregates in January 2026[2]

- CFS Divisia M2 (DM2) advanced by 4.4% year-over-year, relative to an increase of 2.6% in January 2025 over the preceding year.
- CFS Divisia M1 (DM1) advanced by 4.7% year-over-year, relative to an increase of 2.8% in January 2025 over the preceding year. Note that the composition of M1 changed in May 2020. See more below.

Most Significant Factors Influencing CFS Divisia M4 in January 2026

Positive Contributors to CFS Divisia M4 Growth

- The largest positive contributor to CFS Divisia M4 growth was demand deposits, contributing an increase of 5.3% in the last 12 months ending January 2026. Their growth-rate weight was 25.8%. Unweighted, they increased 21.8% in the last 12 months. This component is included in all of the aggregates.
- The second largest positive contributor to growth was repurchase agreements, contributing an increase of 0.4% in the last 12 months ending January 2026. Their growth-rate weight was 1.8%. Unweighted, they increased 29.0% in the last 12 months. This component is included in DM3, DM4-, and DM4, but not in the narrower aggregates (DM1 and DM2).
- The third largest positive contributor to growth was currency, contributing an increase of 0.3% in the last 12 months ending January 2026. Its growth-rate weight was 10.3%. Unweighted, it increased 3.3% in the last 12 months. This component is included in all of the aggregates.

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[1] The CFS Divisia indexes in this release were constructed under the direction of Professor William A. Barnett. Dr. Barnett is the originator of the Divisia monetary aggregates, which he has been developing and refining for decades, in accordance with modern advances in economic aggregation and index-number theory.

[2] The narrow aggregates are similar to the Monetary Services Index supplied by the St. Louis Federal Reserve until 2013. See page 15 for the relationship between the CFS narrow aggregates and MSI. No other source currently exists for broad Divisia monetary aggregates, DM3, DM4-, and DM4 which are available only from the CFS.

Source: MIT Press and the Center for Financial Stability.

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Figure 2. Policy Shift based on Lessons Learned in "Real-Time" and over Years

Money growth and other monetary measures offer central banks the opportunity to better incorporate the activities of financial institutions, markets, and innovation into its policy calculus. Hence, money should:

- Play a vital role in the formulation and communication of policy.
- Provide a complimentary analytic approach to traditional central bank assessment methods or a cross check on present strategies that are effective, yet have faltered over the last 25 years.
- Advise financial policy committees and / or regulatory and supervisor functions on a range of emerging financial stability risks – beyond simply a red early warning inflation hot button.

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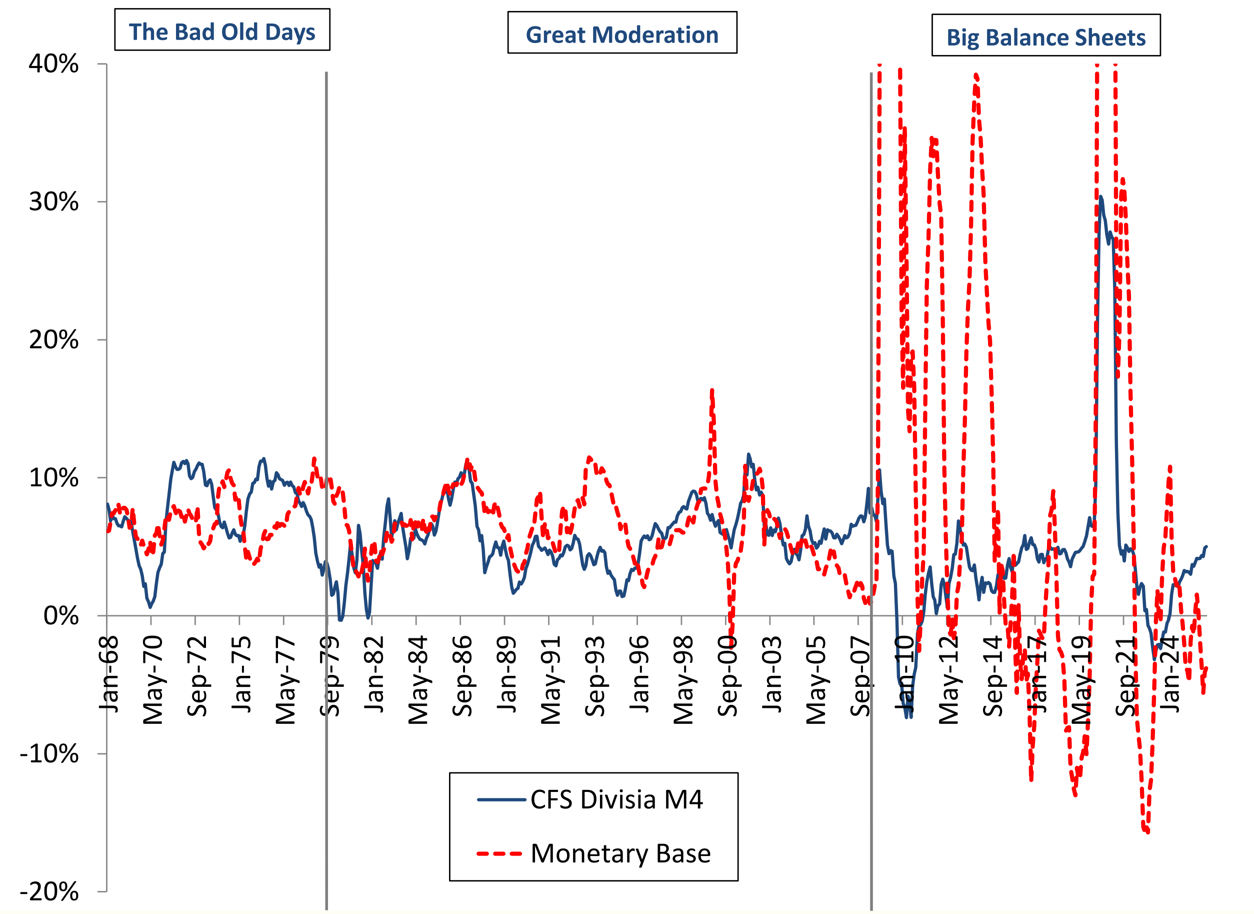
Figure 3. Assessment of the Role of Money in the Era of Big Balance Sheets



Source: Federal Reserve Board and Center for Financial Stability.

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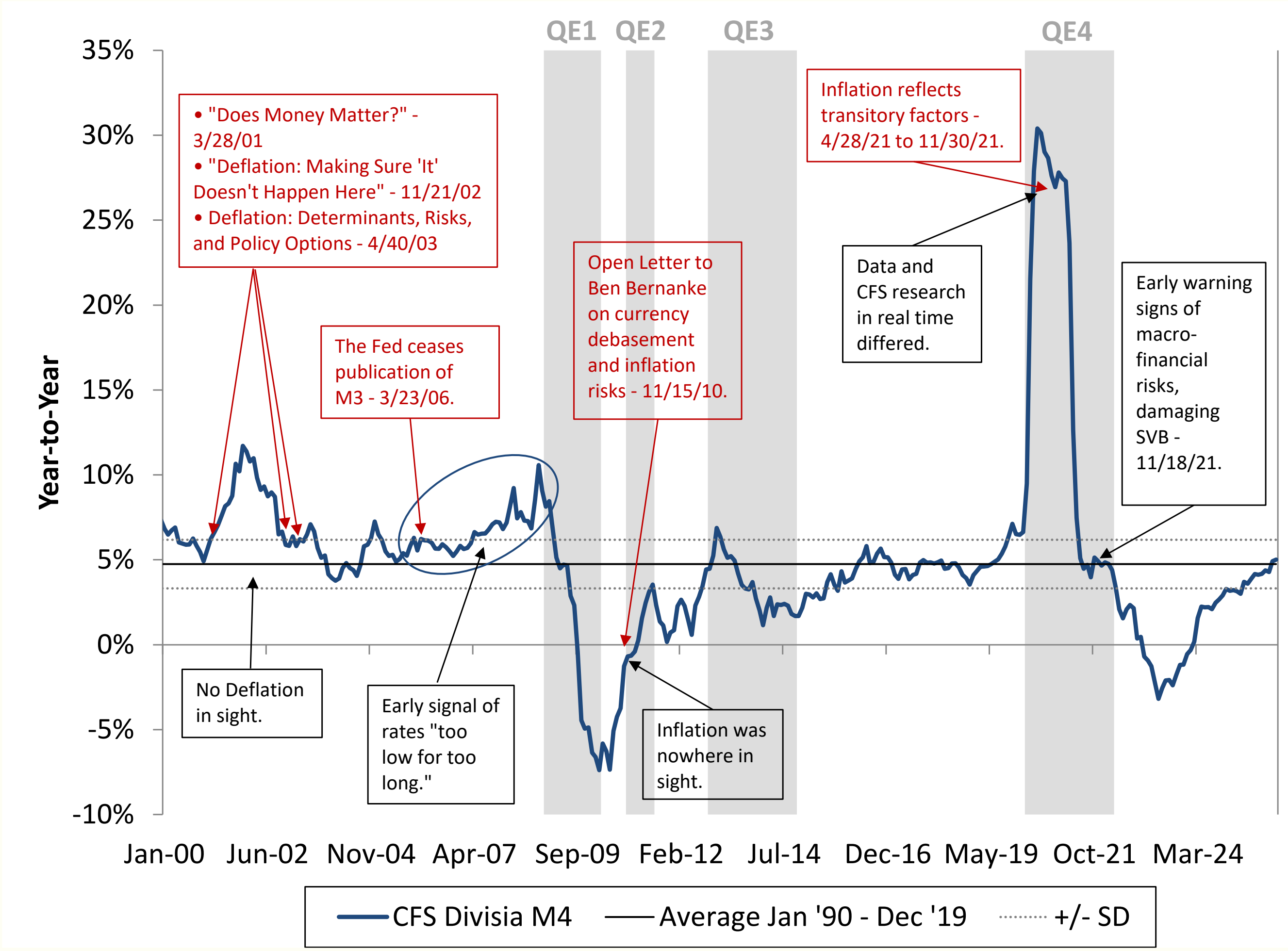
Figure 4. Assessment of CFS Divisia M4 Signals versus Conventional Wisdom



Source: Center for Financial Stability.

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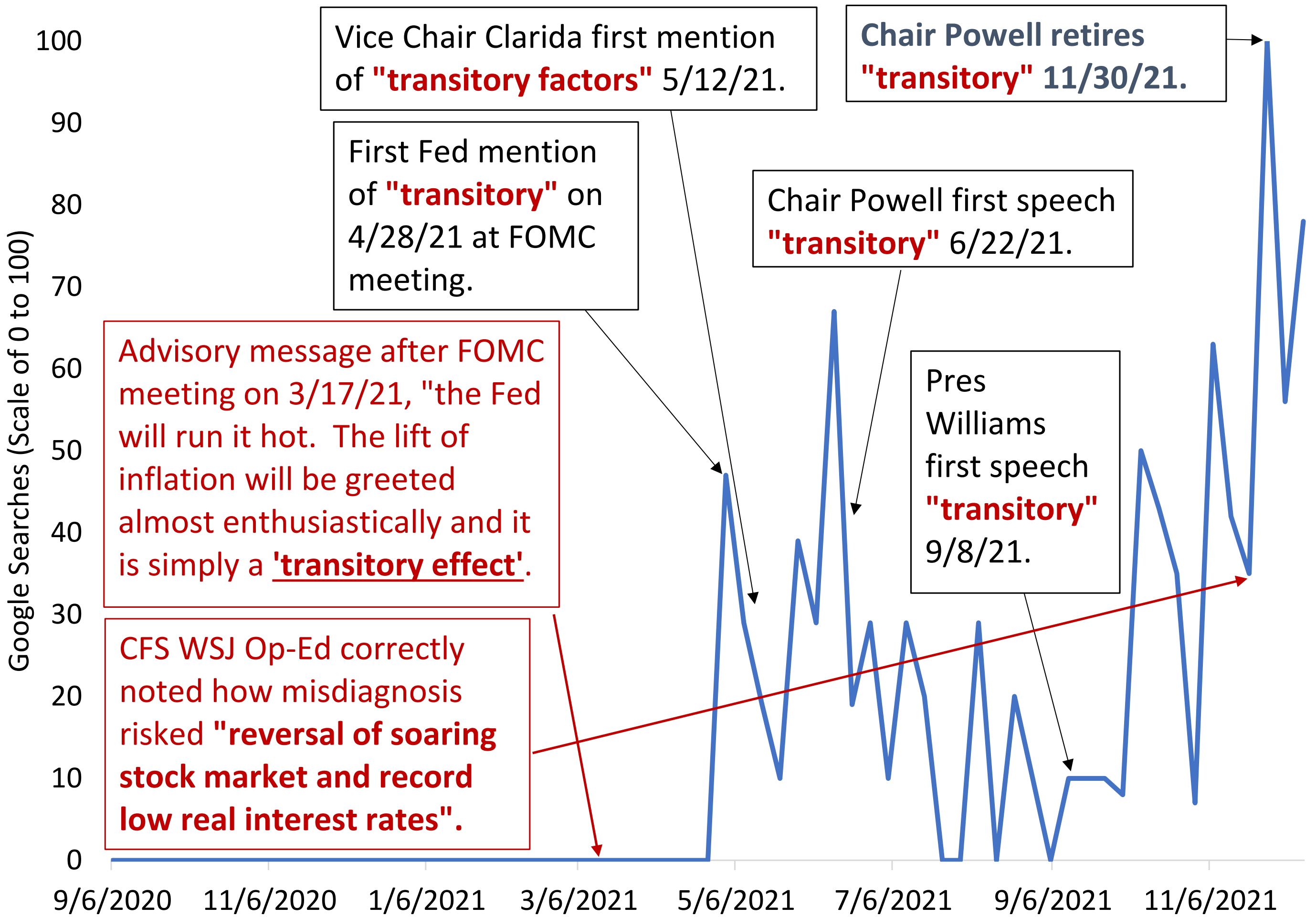
Figure 5. Communication of "Transitory" Despite Data Suggesting Otherwise



Source: Google Analytics, Federal Reserve Board and Center for Financial Stability.

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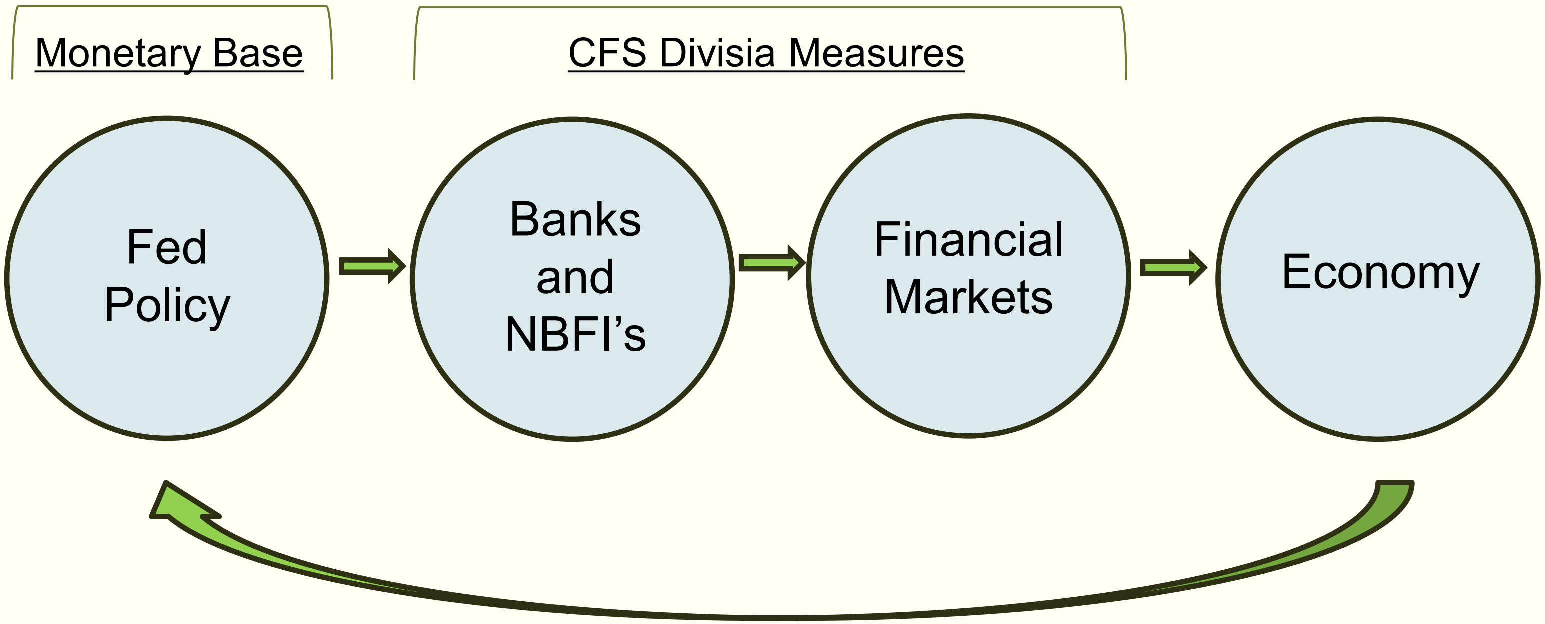
Figure 6. Communication and Assessment: What is missing from the policy framework?

Financial Institutions, Markets, and Innovations



Source: Center for Financial Stability.

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