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HIGHLIGHTS

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CFS NEW MONEY SUPPLY DATA; ECONOMIC SLIDE AND CLOGGED FINANCIAL SYSTEM

DATA FOR MAY 2012

Today, the Center for Financial Stability (CFS) releases the most current and broadest measure of the money supply available for the US. The new proprietary CFS data provide a crucial barometer to measure Fed actions and shadow banking in real time.

The most recent data for May 2012 illustrate that US economic growth is fading rapidly. CFS Divisia M4 (DM4) growth fell from a recent peak of 2.7% on a year-over-year basis in February 2012 to 0.2% in May 2012 (see Figure 1). According to CFS President Lawrence Goodman, “the present monetary policy twists-and-turns are failing to promote a sustainable recovery.”

“Our data show that the US financial system is clogged,” Goodman added. In 2011, quantitative easing unleashed a 29.9% surge in the monetary base of the Federal Reserve. In contrast, growth in the overall banking and financial system remained stalled as evidenced by DM4, which advanced a scant 0.9% during the same period (see Figure 1).

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 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.

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>Feb-12</u>	<u>Mar-12</u>	<u>Apr-12</u>	<u>May-12</u>
CFS DM4	7.3%	8.5%	-4.8%	-0.6%	0.9%	2.7%	2.4%	1.4%	0.2%
CFS DM4-	7.3%	2.7%	-5.0%	-0.4%	2.8%	3.9%	2.9%	1.7%	0.0%
CFS DM3	8.1%	3.1%	-2.3%	0.3%	3.7%	4.6%	4.0%	3.2%	1.3%
Monetary Base	1.5%	100.7%	22.0%	-0.4%	29.9%	21.9%	10.9%	5.8%	1.9%

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

“Leading up to the financial crisis, private economic agents, including Wall Street participants, did not have adequate data to make well informed decisions and as a result took excessive risks without recognition of the potential consequences,” according to Barnett, CFS Director of Advances in Monetary and Financial Measurement.

Barnett adds that “CFS produces information we hope will be helpful in the future for market participants and public officials to assess risk more accurately.” CFS provides the data on-line free of charge to promote and encourage deeper scrutiny of money and banking statistics.



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To obtain a copy of the May money supply numbers go to:

http://www.CenterforFinancialStability.org/amfm/Divisia_May12.pdf

More information can be found at the CFS Website:

www.CenterforFinancialStability.org