



# How Money Metrics Would Improve Fed Policy

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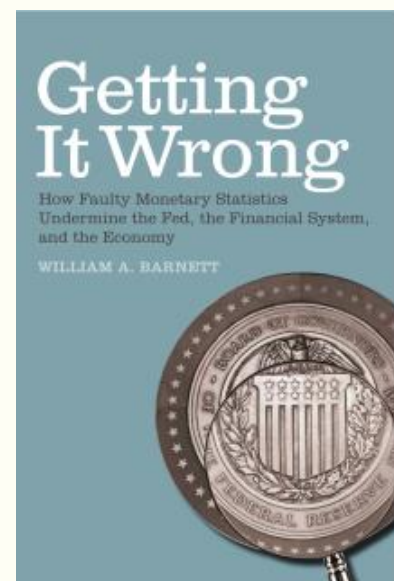


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## Figure 1. Advances in Monetary and Financial Measurement

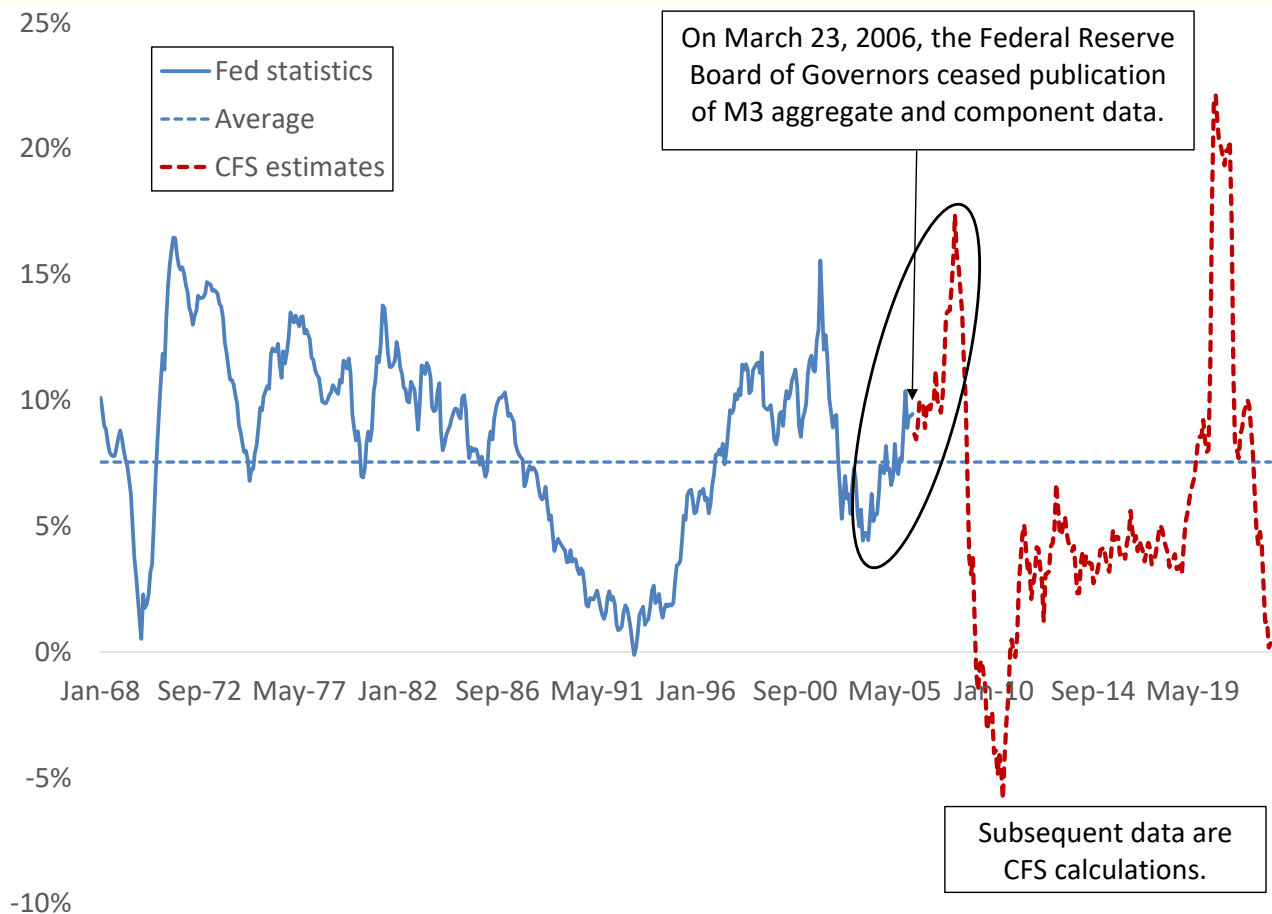
*CFS monetary **aggregates** and **components** provide an essential barometer to measure Fed actions, the economy, as well as bank and shadow banking liabilities in real time.*

- **CFS Director William A. Barnett** is “the world’s foremost authority in the study of monetary and financial aggregation using index number and aggregation theory,” according to **Nobel Laureate James Heckman**.
- Barnett’s ***Getting it Wrong: How Faulty Monetary Statistics Undermine the Fed, the Financial System, and the Economy*** provides the framework for CFS work.
- “Getting It Wrong” won the American Publishers Award for Professional and Scholarly Excellence for the **best book published in economics during 2012**.





## Figure 2. The Fed may have been more sensitive to market risks; but it halted M3 Production...

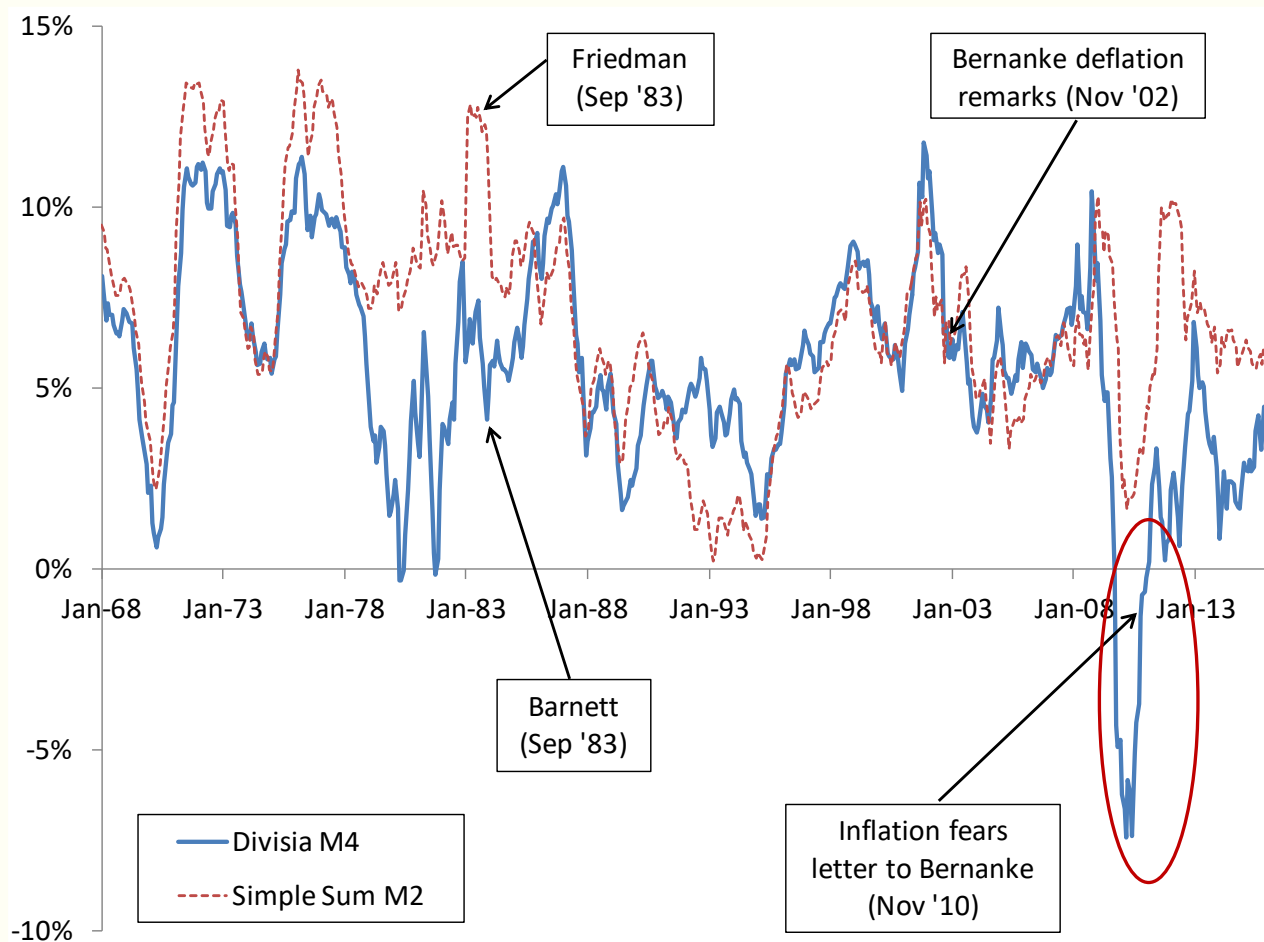


Source: Federal Reserve Bank of St. Louis and Center for Financial Stability.

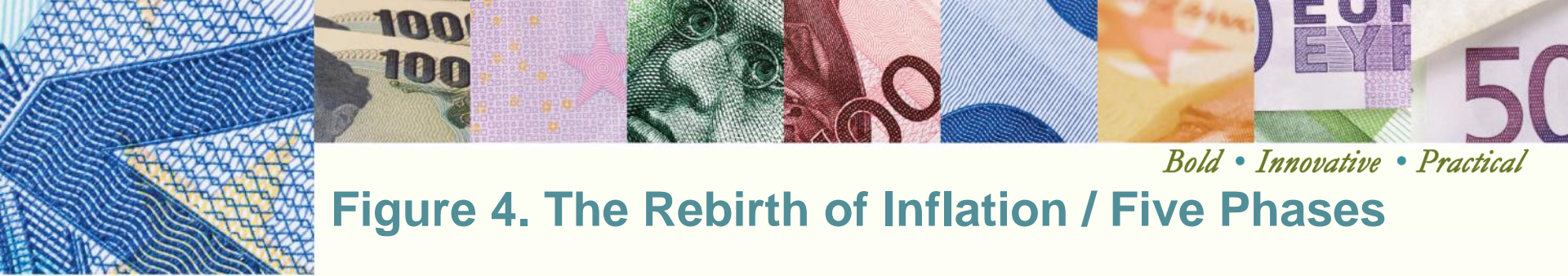




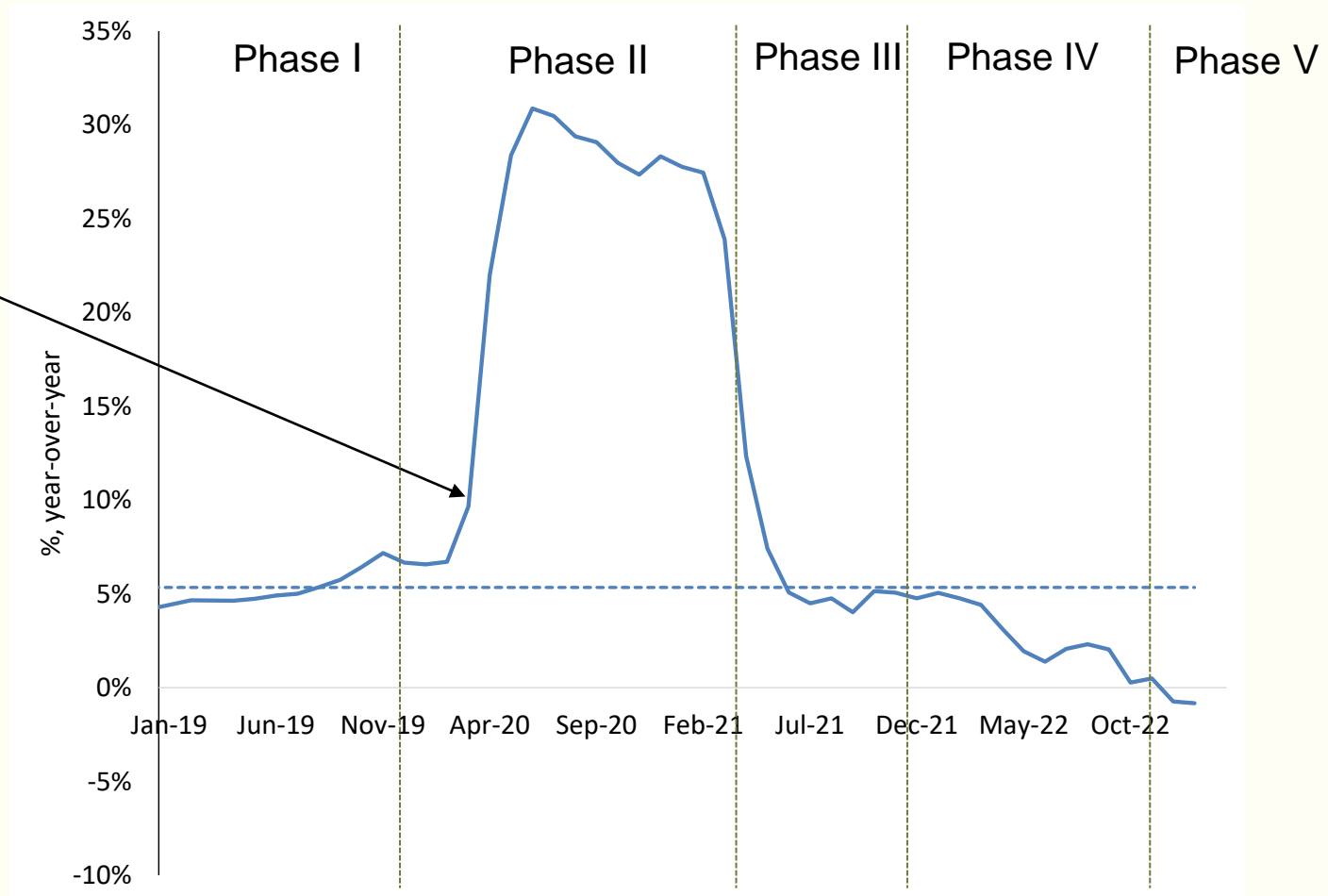
**Figure 3. Inflation was nowhere in sight; after QE1 and QE2**



Source: Federal Reserve Bank of St. Louis and Center for Financial Stability.



**Figure 4. The Rebirth of Inflation / Five Phases**



Message to  
CFS friends  
“CFS money  
growth soars  
to double  
digits” on  
April 22, 2020



## Figure 5. Warning: Inflation to follow Disinflation on April 22, 2020 (CFS DM4, year-to-year)

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**Figure 3 - CFS Divisia Monetary Aggregates Table, Year-Over-Year Percent Change**

Date	Divisia M4 Including Treasuries (DM4)	Divisia M4 Excluding Treasuries (DM4-)	Divisia M3	Divisia M2 (Sweeps Adjusted) *	Divisia M1 (Sweeps Adjusted) *
Jun-17	3.9%	3.2%	3.7%	5.8%	9.7%
Jul-17	4.1%	3.5%	3.9%	5.8%	10.3%
Aug-17	4.2%	3.9%	4.0%	5.5%	8.7%
Sep-17	4.9%	4.6%	4.6%	5.3%	8.0%
Oct-17	5.1%	5.1%	5.0%	5.2%	9.0%
Nov-17	4.9%	5.1%	4.9%	4.8%	9.2%
Dec-17	4.9%	4.9%	4.9%	4.9%	8.7%
Jan-18	5.0%	4.8%	4.7%	4.5%	8.5%
Feb-18	5.0%	4.5%	4.4%	4.1%	6.8%
Mar-18	5.1%	4.2%	4.1%	4.0%	6.5%
Apr-18	4.7%	4.0%	3.8%	3.8%	6.2%
May-18	4.6%	4.0%	3.8%	3.8%	3.7%
Jun-18	4.9%	4.2%	4.0%	4.0%	3.2%
Jul-18	4.8%	4.2%	4.0%	3.8%	2.9%
Aug-18	4.5%	3.7%	3.5%	3.6%	2.0%
Sep-18	4.0%	3.5%	3.4%	3.5%	2.9%
Oct-18	3.9%	3.3%	3.3%	3.1%	2.3%
Nov-18	3.5%	3.0%	2.9%	2.9%	0.8%
Dec-18	4.1%	3.6%	3.6%	3.3%	3.2%
Jan-19	4.2%	3.9%	3.9%	3.5%	1.7%
Feb-19	4.4%	4.1%	4.2%	3.5%	3.4%
Mar-19	4.4%	4.3%	4.3%	3.3%	1.0%
Apr-19	4.5%	4.4%	4.4%	3.3%	2.7%
May-19	4.6%	4.6%	4.6%	3.6%	3.3%
Jun-19	4.8%	4.8%	4.8%	4.0%	4.7%
Jul-19	5.0%	5.2%	5.1%	4.3%	4.9%
Aug-19	5.4%	5.6%	5.6%	4.4%	4.4%
Sep-19	5.8%	5.8%	5.8%	4.8%	5.5%
Oct-19	6.5%	6.4%	6.4%	5.6%	5.5%
Nov-19	7.1%	7.2%	7.2%	6.3%	7.0%
Dec-19	6.6%	6.7%	6.8%	6.0%	6.3%
Jan-20	6.9%	6.9%	6.9%	6.4%	6.4%
Feb-20	7.2%	7.2%	7.2%	6.8%	6.8%
Mar-20	10.0%	10.2%	10.4%	10.6%	15.1%

Note: Cells are shaded on a gradient from dark green (maximum) to dark red (minimum).

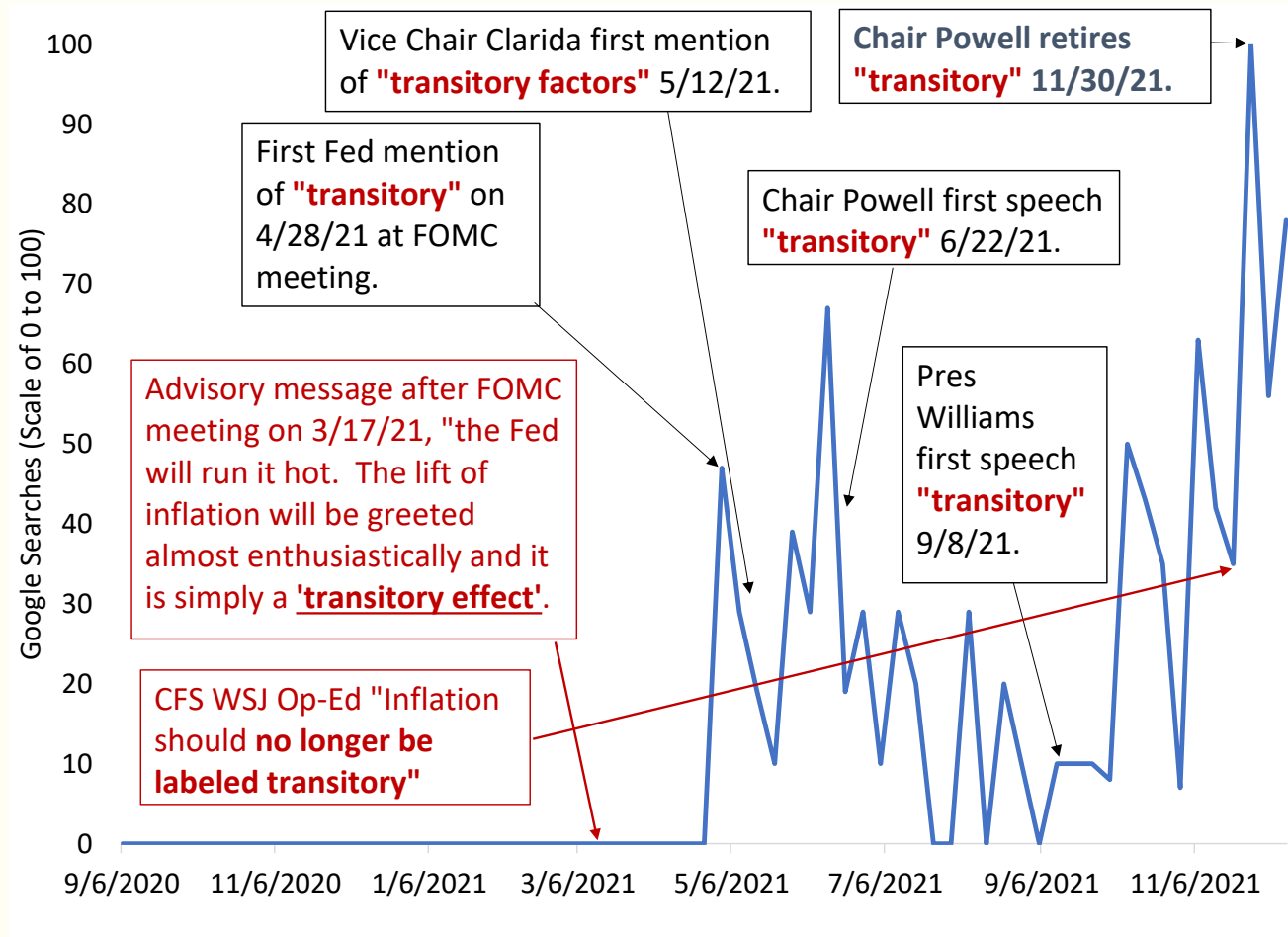
\* While the broadest Divisia monetary aggregates are best for most purposes, we provide the narrower CFS Divisia aggregates for comparison. The narrow aggregates shown here, DM1 and DM2, are similar to the MSI (monetary services index) Divisia aggregates, supplied by the St. Louis Federal Reserve Bank. For more information about the St. Louis Fed's MSI Divisia aggregates and their relationship to the CFS Divisia monetary aggregates, see p. 13.





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## Figure 6. The Evolution of **"Transitory"** Despite Data Suggesting Otherwise



Source: Google Analytics and Globalecon LLC.



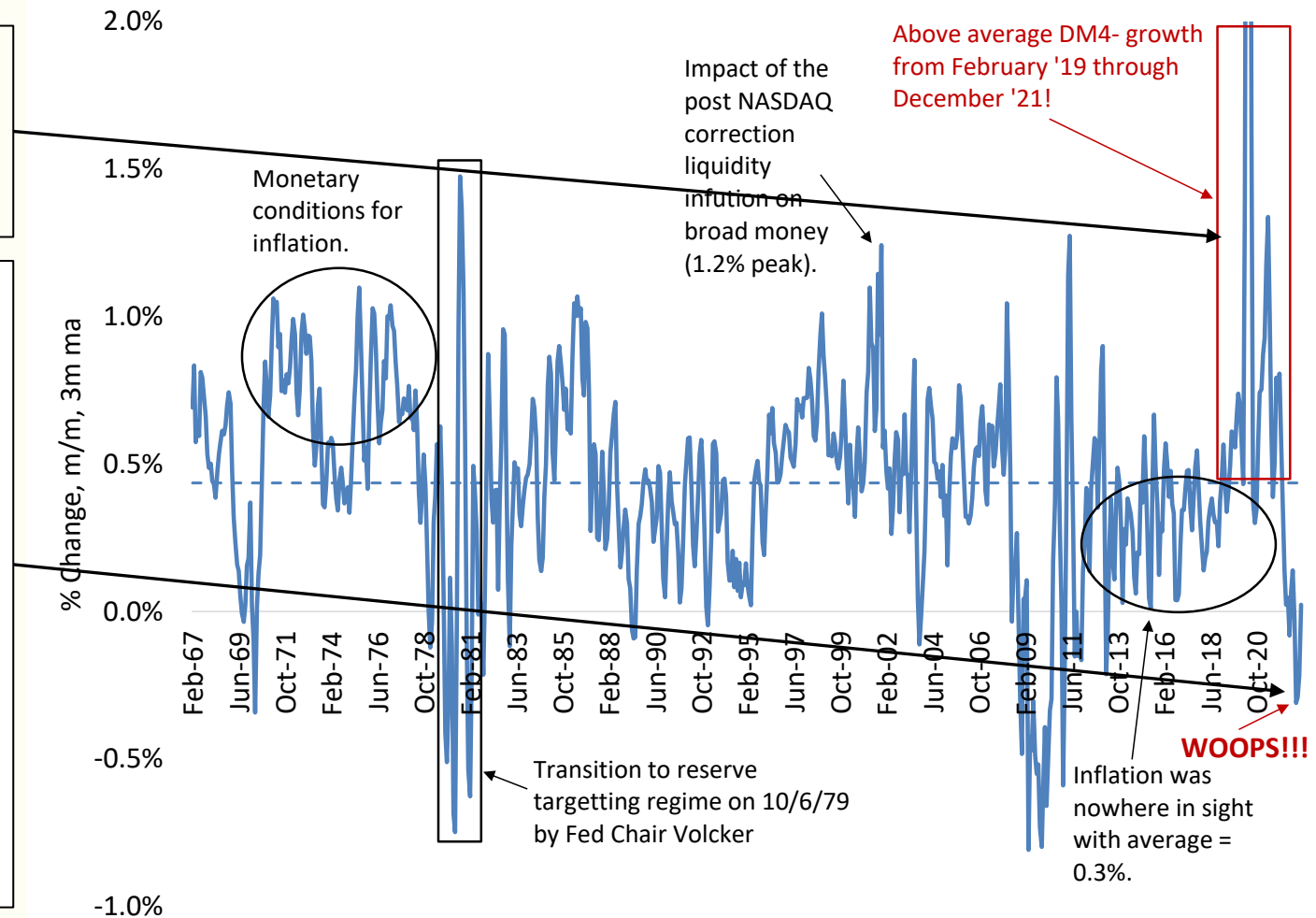
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## Figure 7. CFS DM4-, month-over-month

Easy money predated the COVID policy response.

Monetary tightening since 2022 has been impactful.

Rhetoric between Feb 2, 2023 and the Silicon Valley Bank rescue was too strong.



Source: Center for Financial Stability.



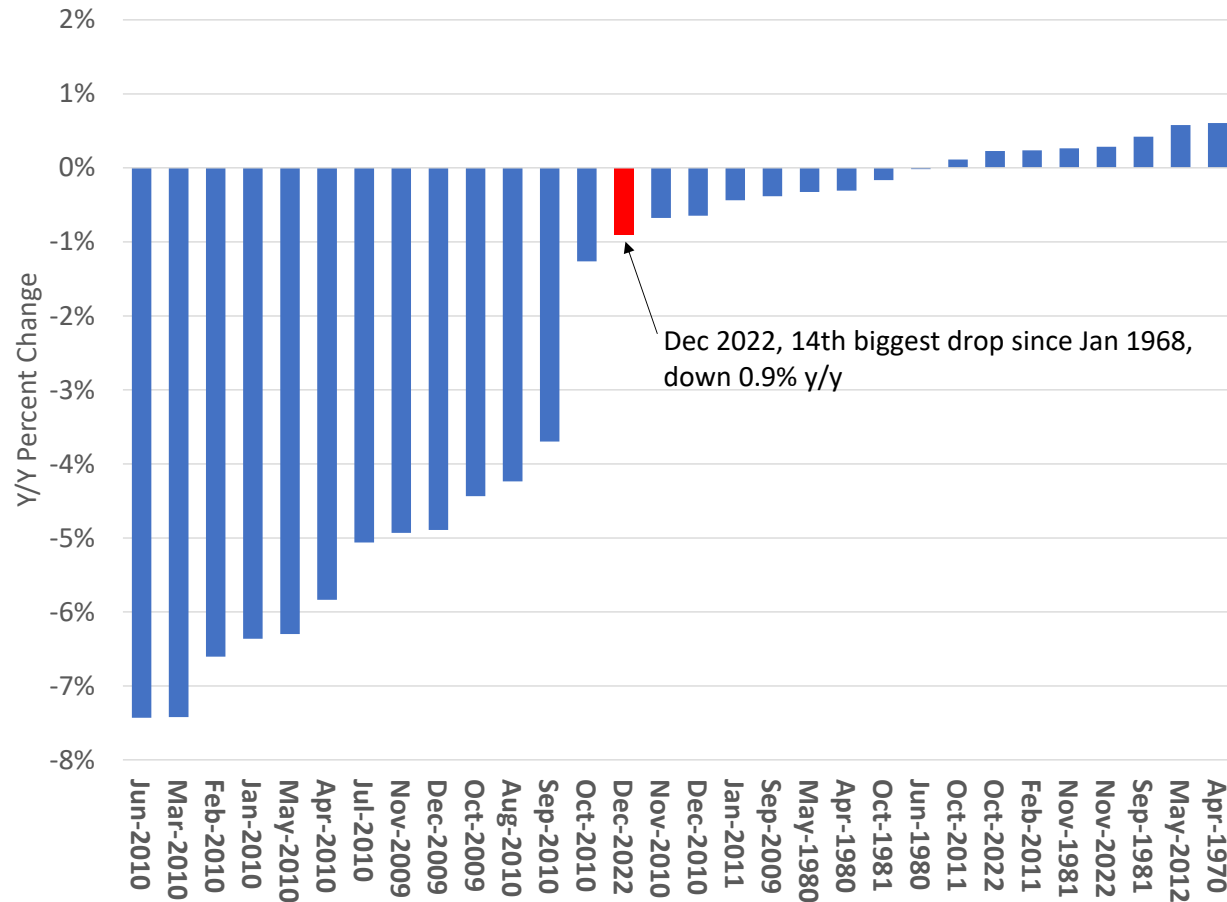


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## Figure 8. The Bottom 30 CFS Divisia M4 Growth Rate Months since January 1968...

Released on January 31, 2023, as ***Falling Money and the Fed.***

Two days later the Fed and markets overly shifted gears based bad data... from odd seasonal patterns and housing.



Source: Center for Financial Stability.



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## Figure 9. Components of CFS Divisia M4 – Highlights for December 2022

Released on January 31, 2023, as ***Falling Money and the Fed.***

Two days later the Fed and markets overly shifted gears based bad data... from odd seasonal patterns and housing.

Components in this table build from the narrowest aggregate at the top to the broadest at the bottom. For example, the darkest green in the left column includes components of DM1. The next tier shows the components included in DM2, but not within DM1.

	Weighted Contribution To DM4 Money Annual Growth Rate*	Divisia Growth-Rate Weights (Average of Last 12 Months)	Unweighted Year-Over-Year Percentage Growth Rate
<b>DM1</b> Currency	0.3%	8.4%	3.7%
Demand Deposits	1.4%	19.3%	7.9%
Other Liquid Deposits	-4.8%	48.7%	-8.8%
<b>Added into DM2</b> Retail Money-Market Funds	0.2%	1.8%	19.4%
Small-Denomination Time Deposits	1.2%	0.5%	311.6%
<b>Added into DM3</b> Institutional Money-Market Funds	-0.4%	5.7%	-5.3%
Large Time Deposits	1.0%	5.3%	19.0%
Repurchase Agreements	0.3%	3.7%	11.1%
<b>Added into DM4-</b> Commercial Paper	0.1%	1.2%	17.6%
<b>Added into DM4</b> T-Bills	-0.1%	5.5%	-1.7%

Source: Center for Financial Stability, December 2022 (EMBARGOED UNTIL RELEASE AT 9:00 A.M. ET, MONDAY, JANUARY 30, 2023).



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