



CENTER FOR FINANCIAL STABILITY

Bold • Innovative • Practical

New Money Growth and Inflation

Lawrence Goodman

June 4, 2021

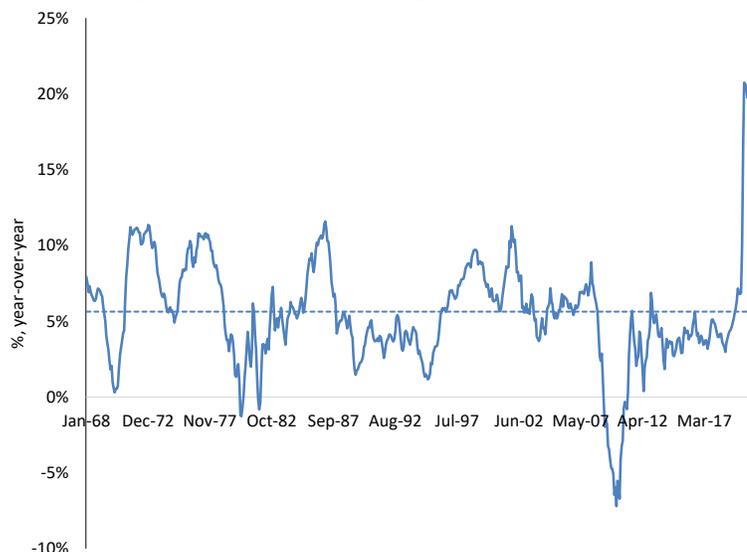
The Center for Financial Stability (CFS) message “Money Growth Falls – Inflation Threat Remains...” from earlier this week prompted many requests for charts. The message is updated and charts follow.¹

CFS broad money growth slowed to 12.1% on a year-over-year basis in the latest reading for April down from 23.8% in March.²

The initial response might be to assume that the large expansion of money is reaching an end. This would be a mistake. The "base effect" elevating monetary growth on a year-over-year basis began to end in March 2021 and fully finished in April 2021. A few issues include:

CFS Divisia monetary growth of 12.0% in April dwarfs average growth of 5.6% since 1967 (DM4-excluding Treasury bills).

Figure 1. Monetary Growth Remains High after Base Effect Vanishes, CFS Divisia M4-



Source: Center for Financial Stability.

A high frequency reading of CFS monetary data stretching back over 54 years portrays a radically different perspective regarding the performance of broad money and its implications

¹ Money Growth Falls – Inflation Threat Remains, CFS message sent to members and friends, June 2, 2021.

² NEWS RELEASE, CFS Divisia Monetary Data for the United States, June 2, 2021 - http://www.centerforfinancialstability.org/amfm/Divisia_Apr21.pdf.

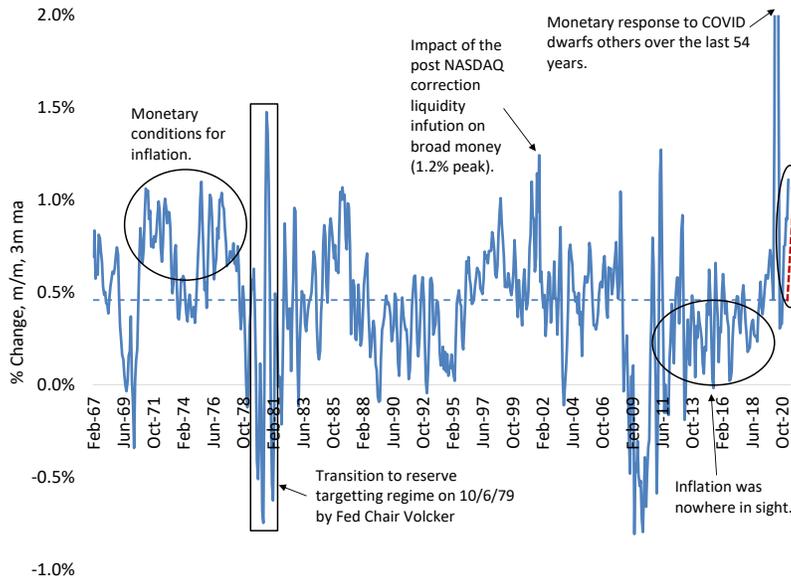


CENTER FOR FINANCIAL STABILITY

Bold • Innovative • Practical

for inflation. It highlights how broad money growth and inflation risks are actually beginning to accelerate.

Figure 2. Monthly Monetary Growth is Accelerating, CFS Divisia M4-, seasonally adjusted



Source: Center for Financial Stability.

On April 22, 2020, we were early and clear in our email message "CFS Money Growth Soars to double digits." The initial impulse embedded in the signal from CFS broad money would be a period of disinflation followed by inflation.

Going forward, inflation will likely continue its upward ascent and stretch beyond the Fed’s comfort zone.

The present global macro backdrop for investors and officials is one of the most challenging and complex in decades.

For more on CFS Divisia money and inflation:

Post-Pandemic Economic Risks

http://www.centerforfinancialstability.org/research/Post_Pandemic_Economic_Risks_050521.pdf

Inflation Fears Offers the Fed a Chance to Modernize with Money

http://www.centerforfinancialstability.org/research/Modernize_Money_042621.pdf

We look forward to any comments you might have.



CENTER FOR FINANCIAL STABILITY

Bold • Innovative • Practical

The Center for Financial Stability (CFS) is a private, nonprofit institution focusing on global finance and markets. Its research is nonpartisan. This publication reflects the judgments and recommendations of the author(s) only and not any of the institutions they represent. They do not necessarily represent the views of Members of the Advisory Board or Trustees, whose involvement in no way should be interpreted as an endorsement of the report by either themselves or the organizations with which they are affiliated.