

CHART OF THE WEEK

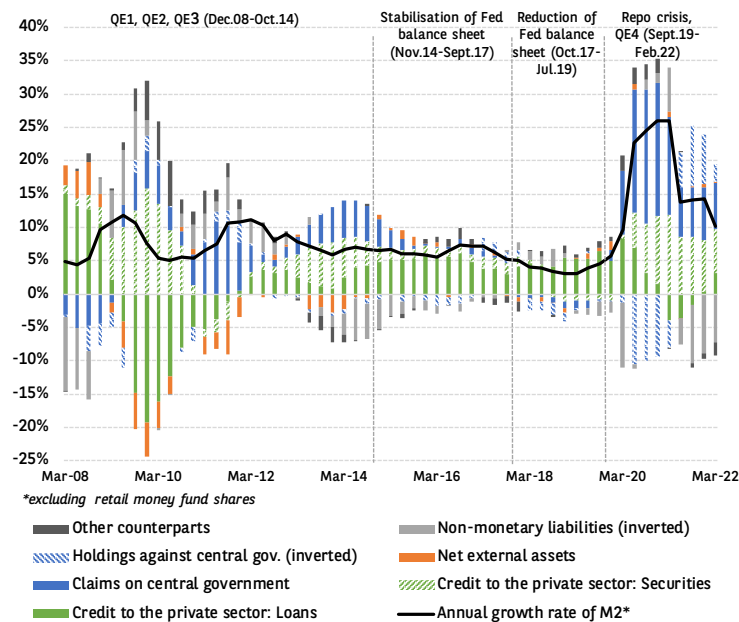


11 May 2022

UNITED STATES: MONEY SUPPLY LOSING STEAM

Céline Choulet

United States: counterparts' contributions to the annual growth rate of M2*



Source: Federal Reserve, BNP Paribas calculations

Over the past year, growth in the M2 measure of money supply in the USA¹ has slowed from 27.1% y/y in February 2021 to 9.5% y/y in March 2022. This has mainly been due to the moderation in purchases, by the Federal Reserve (Fed) and banks, of Treasuries (blue bars) and mortgage-backed securities (MBS, hatched green bars). With the Fed having ended its net purchasing at the end of February 2022, the effect of QE was even smaller in Q1 2022. Since Q2 2021, the Fed's repo arrangements with money market funds (light grey bars) have also resulted in the (temporary) destruction of money². Other factors have pulled in the opposite direction. The reduction in the Treasury's holdings at the Fed (hatched blue bars), as it financed economic support packages, served to increase deposits with commercial banks. Depressed by a substantial comparison effect in 2021 (97% of outstanding guaranteed loans to enterprises issued in 2020 were forgiven in 2021), bank lending (green bars), the traditional engine of money creation, came back to life in Q1 2022.

The normalisation of US monetary policy is likely to prolong this slowdown. On the one hand, the increase in policy interest rates could temporarily boost the attractiveness of the Fed's reverse repo facility and of term deposits³ for bank customers. Meanwhile, the rapid tightening of monetary policy could weaken the credit channel. On the other hand, from 1 June, the Fed will stop fully reinvesting all maturing debt in its securities portfolio. Some non-banking entities will acquire newly issued Treasuries and MBS, thus reducing their deposits.

¹ Our methodology for identifying money supply counterparties is set out in Choulet (2021), Inside the money creation in the United States, Conjoncture, June 2021. In the chart, the estimate for Q1 2022 is provisional (the financial accounts for the US economy not yet having been published).

² The cash withdrawn from a household's deposit account in order to subscribe to units in a money market fund is 'loaned' on an overnight basis by the fund to the Fed rather than invested in debt securities, thus preventing it from circulating in the economy.

³ Not included in the definition of money supply

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