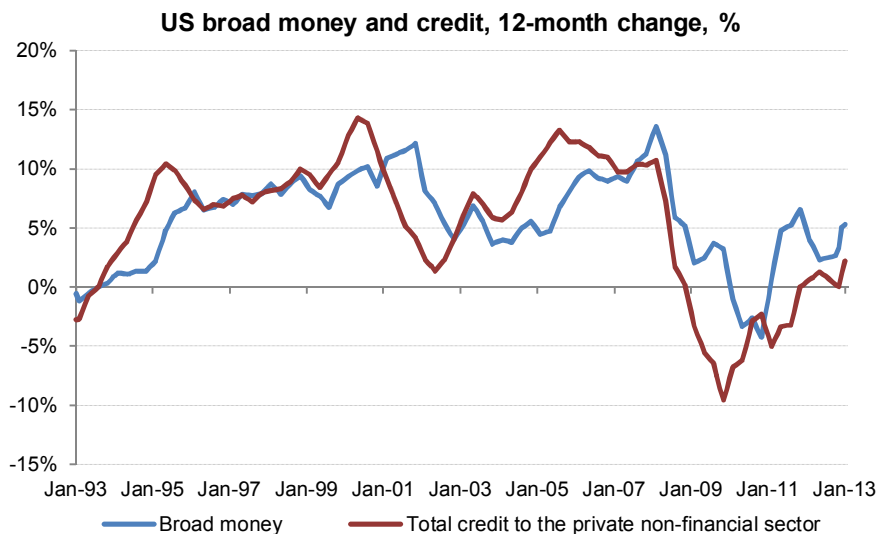


## US broad money growth accelerates

### January numbers show little 'cliff effect'

With the publication last Friday evening of monthly assets and liabilities of US commercial banks, we now also have broad money data for January. (This is a re-creation of the M3 series that the Fed ceased to publish in the spring of 2006. The series is based on quarterly Flow of Funds data, updated with the monthly percentage change in the deposit liabilities of US commercial banks and then adjusted each time the Flow of Funds are published. This has historically proven a satisfactory method.)

There is good news in the numbers. Broad money growth accelerated further in January, rising to a 13-month high of 5.3% from 5.1% in the year to December. On a six-month annualised basis, broad money is now growing at 9.9%, slightly down from 10.4% in December but the second-fastest rate since April 2008. The Fed will (or should, at least) also be pleased by the fact that credit growth accelerated for a second month, reaching 2.2%. While erratic, the trend of both money and credit growth does seem to be headed in the right direction.



The numbers are still weaker than would ideally be the case. Historically, the growth rate of broad money consistent with medium-term US trend output growth is around 7%. Moreover, this growth rate needs to be sustained, not just last for two or three months. However, the January numbers are still positive for a number of reasons.

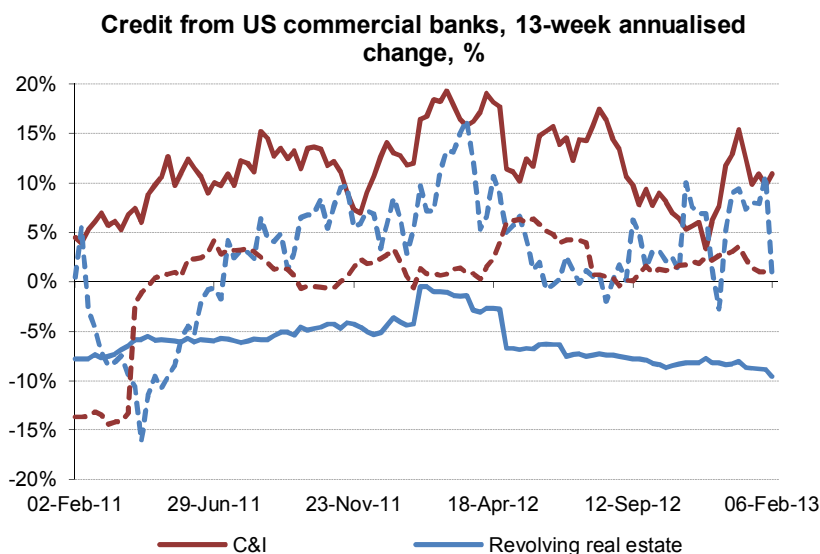
One is that this was the month when the much-heralded fiscal cliff was supposed to have hit the US economy. Of course, some of the measures were postponed; but others, eg, the rise in payroll taxes,

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were implemented. Nevertheless, broad money growth accelerated and the stock of broad money also rose in January. This means that deposit growth continued in January as well. (Broad money mainly consists of cash in circulation and deposits held by the non-bank private sector. Of these, cash amounts to slightly less than 1.1 trillion dollars, deposits amount to approximately 10 trillion dollars and broad money totals just under 13 trillion. Deposits are thus the by far most important component of broad money.) Significantly, although the overall growth rate of deposits in commercial banks has slowed somewhat after a surge around the New Year, deposit growth picked up again in the four weeks to 6<sup>th</sup> February. On a thirteen-week (ie, three-month) annualised basis, total deposit growth was then 10.5% compared with an average of 9.1% over the preceding 52 weeks. Moreover, large time deposits – ie, deposits in excess of \$100,000 – are growing at a thirteen-week annualised rate of 25.3%! Arguably, it is the movements in these deposits which are the most relevant for the future of risk asset prices.

A second reason for optimism concerns the credit counterparts to broad money growth. Again, a full analysis of credit counterparts data has to await the publication of Flow of Funds data, with the next set (Q4 2012) out on 7<sup>th</sup> March. However, weekly credit numbers show that although the growth of consumer credit from commercial banks slowed in January, it remained positive. Based on the monetary data, it does seem that the impact of the return to a higher payroll tax will indeed turn out to be minimal, as forecast in a previous comment (*Impact of US payroll tax hike likely negligible*, 4<sup>th</sup> February).



Overall therefore, the money numbers support the case for reasonable US output growth in 2013, as well as the case for attractive risk asset prices.

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## Postscript

Previous comments have noted the continued increase in Swedish household debt and the concerns of the Riksbank around this. As noted in these comments, the Riksbank would like to impose mandatory amortisation of housing loans, but lacks the authority to do this. That authority lies with Finansinspektionen (FI, the Finance Inspectorate). Mandatory amortisation is seemingly still not on the cards. But the FI previously introduced an 85% loan-to-value ratio which banks *de facto* circumvented. It now seems prepared to introduce a stricter LTV ratio, coupled with measures to force banks to set aside more capital for mortgage loans (something already done in Switzerland). Real estate loans grew by 4.6% in the year to December. Finance Minister Anders Borg has talked of a growth rate of 3-4% being desirable. High and rising household debt remains a main threat to Swedish prospects in 2013/14, which otherwise are beginning to improve. However, GDP in Q4 (out 1<sup>st</sup> March) will most likely have been weak.

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