HIGHLIGHTS

BASED ON DATA RELEASED AT 9:00 A.M. EST, APRIL 17, 2013

GROWTH STALLS AND SHADOW BANKING: CFS MONEY SUPPLY STATISTICS

DATA FOR MARCH 2013

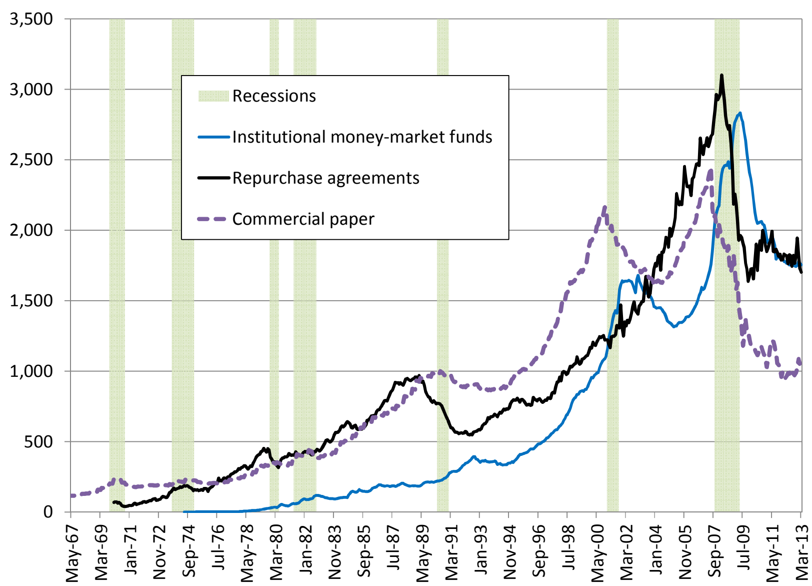
CFS Divisia M4 (DM4) growth in March slowed for the third consecutive month. DM4 growth drifted lower to 4.7% on a year-over-year basis in March 2013 from a recent peak of 6.8% registered in December 2012. Although the March advance is stronger than nearly every month last year, the deceleration suggests that the economic strength witnessed at the end of 2012 and early this year may be losing momentum.

Growth in the more narrow aggregates seems to be stronger and demonstrating more consistent gains than DM4. For instance, DM1 gained 12.2% year-over-year in December 2012 and 12.3% in March 2013. Ongoing growth in demand deposits suggests that liquidity exists in the financial system to fund low risk assets. However, the creation of riskier liabilities in the financial system may be stalling.

Shadow Banking Liabilities

Shadow banking liabilities such as repurchase agreements, institutional money market funds, and commercial paper are demonstrating divergent trends early in 2013.

Figure 1. Shadow Banking Components (Real, March 2013 Billions US$)



Source: Federal Reserve, Bloomberg LP and Center for Financial Stability.

Repurchase agreements represent an important funding vehicle for a variety of financial assets.[1] The funding of longer term less liquid assets via the short-term repo market was a significant contributor to

[1] "Repos: Nongovernment Assets Still Prominent" – Fitch Ratings, April 16, 2013.

the financial crisis. However, since the crisis, the repo market shriveled by 47% in real terms. Recovery and stabilization should be important for the longer term health of the financial system.
By the second half of 2012 through January, the CFS measure of fluctuations in the repo market suggested stabilization at new lower levels in real terms. However, in the last two months, the repo market is contracting modestly.

In contrast, institutional money market funds seem to be finally stabilizing. Similarly, the commercial paper market represents a bright spot with four months of consecutive growth.

Figure 2. Major CFS Monetary Aggregates and Reserve Balances, % year-over-year

	2007	2008	2009	2010	2011	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13
CFS DM4	7.4%	8.4%	-4.9%	-0.7%	0.9%	4.4%	5.1%	6.8%	6.1%	5.3%	4.7%
CFS DM4-	7.3%	2.6%	-5.0%	-0.6%	2.7%	3.9%	4.5%	6.7%	6.2%	5.0%	4.6%
CFS DM3	8.2%	3.0%	-2.3%	0.1%	3.6%	4.5%	4.9%	6.7%	5.9%	4.8%	4.5%
Reserves	0.0%	1802%	38.8%	-5.4%	48.2%	-6.9%	-2.8%	-1.8%	1.0%	4.4%	12.8%

Source: Center for Financial Stability and Federal Reserve Board (total reserves of depository institutions).

About CFS Money Supply

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.

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Additional information: www.CenterforFinancialStability.org