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Bloomberg Article on Velocity of Money

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Michael Goldberg Signature Track · 10 days ago

interesting read. Equating US low inflation to all time low rates of velocity of money due to expansionary monetary policy.

"With all the money the Fed has pumped into the economy, GDP would have to grow almost 10 percent annually for money velocity to keep pace with the money supply...this also explains why all that new money hasn't triggered inflation: if it's not getting spent, it's not raising prices."

Article also discusses different types of money which was from week #4.

http://www.businessweek.com/articles/2014-01-17/the-recovery-and-the-speed-of-money

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Christopher Bassett · 10 days ago

Thanks for posting. In my opinion this comment which is posted beneath the article sums it up.

"Lowest velocity since 1959 is a dire sign. The cause is concentration of wealth, globalization, declining wages, and lack of reinvestment in America by the private and public sectors. Deflation and depression are the results of low velocity. No matter how much the money supply is expanded, inflation is only latent until velocity picks up. Inflation will heal a lot of debt legally and practically without filling up the courts, but they can't make it happen until there is wage inflation and full employment."

There is too much money in the hands of too few who have no interest in investing in the US at this time. The off-shore profits made by multinational corporations from global expansion will not be invested domestically as long as those profits are taxed when brought back to the US and the cost of labor in the US exceeds that of foreign labor.

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Michael Goldberg Signature Track · 10 days ago

Yes Yes Yes. Agreed. Need to relax tax regulations on repatriated offshore cash US companies are holding.

However, the article does go on to talk about how Velocity, historically, has picked up ~5 years after each recession seen before. Time will tell.

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Darah Kehnemuyi · 10 days ago

Interesting article.

Money isn't turning over because the money the Fed pumped into the economy has stayed on investment banks' balance sheets...see Richard Koo talking about "balance sheet repair", various videos, INET and YouTube. The belief that the bank bailout would somehow result in increased lending was a "fantasy" (or fable?) of the Bush Administration which pushed TARP. The bailout continued under the current Administration and is still going on to the extent that the government is buying toxic assets (RMBS) from investment banks.

While I'm not sure how velocity is calculated, it seems to me that there is a difference between velocity of overnight borrowing from money markets by asset managers and investment banks on the one hand and then on the other hand money moving by dint of sales to households (i.e. consumption, previously 70% of GDP). Velocity as a symptom of household spending should be a sign of a healthy economy. That said the money lent by the US government so far has not been sufficient to resuscitate that productive economy, but again has gone to repair the balance sheets of banks holding over-valued toxic assets.

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 Andy · 10 days ago

@Michael

Thank you for the Bloomberg article and the timing is just right for the Week 5 topic of inflation.

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 Fan Li Signature Track · 10 days ago

Thanks for the article. It feels great to be able to correlate this article with what we learned from this course.

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Darah Kehnemuyi · 9 days ago

In today's Financial Times online:
“Less QE = less liquidity for EM corporations”, http://on.ft.com/1bLpack.

What is the connection, if any, between the "velocity" of money and liquidity for financial markets ? Sales of goods and services to households ? Financial markets to sales ?

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Christopher Bassett · 9 days ago

I don't have access to the article but it's possible that QE's effect on interest rates could result in changes in liquidity. The bond purchases reduce interest rates which results in a decrease in the value of the dollar and increases exports.

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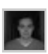
Simon Hovmark Jensen · 9 days ago

I think Irving Fisher explanation about what causes the velocity of money to go down is pretty solid. He argued that high debt causes velocity to fall because debt is an acceleration of future consumption. He also argued that depression comes with over-indebtness and deflation - much similarly to the situation in Japan.

Hoisington Mgt wrote about it in their quarterly review: http://www.hoisingtonmgt.com/pdf/HIM2013Q3NP.pdf

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John H. Seiler Signature Track · 17 hours ago

Thanks for the link Mike, much appreciated!

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Darah Kehnemuyi · 14 minutes ago

Interesting article. Point made is that Fed's purchase of investment bank assets (residential mortgage backed securities, asset-backed commercial paper, etc.) much of which is deemed to be toxic, does not stimulate the productive economy, and in fact represses growth in the productive economy. Question unanswered is why this happens, and how would we better encourage growth ? Let me shift the question: if I were an investment bank why would I put my "money" into long-term physical capital as opposed to short-term (daily) speculation and arbitrage ? The article makes this point in a slightly different way. So how do we move short-term speculative "money" into long-term investment in productive capital ?

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