Macro Roundup Article

Headline: How do Deposit Rates Respond to Monetary Policy?

Article Link: https://libertystreeteconomics.newyorkfed.org/2022/11/how-do-deposit-rates-respond-to-monetary-policy/

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Tweet: Researchers at @NewYorkFed evaluate the pass-through of the fed funds rate to deposit rates (that is, deposit betas) over the past several interest rate cycles, and discuss factors that affect deposit rates.

Summary: We can observe that the gap [between the deposit rate and the Fed funds rate] is negative when rates are near zero (and deposit levels are high) and positive when rates rise. As a consequence, post-GFC and before the 1994 tightening, deposits were more attractive to depositors, and deposit supply was high relative to loans. However, as rates rise, the gap increases, depositors move elsewhere, banks raise their rates, and cumulative deposit betas rise. Since the 1990s, the response of deposits to monetary policy has been attenuated. This can be explained by the growth in deposits over the post-crisis period relative to investment opportunities.

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Primary Topic: Savings Glut/Trade Deficit

Topics: Factoid, Monetary Policy, Op-Ed/Blog Post, Savings Glut/Trade Deficit

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