

A Look at a Road Seldom Used Anymore

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We have not looked at money supply for quite a while. Wall Street and CNBC hardly mention it anymore and the Monetarist oriented economists such as Milton Friedman, are currently out of favor. Thus, there is no leading figure to draw one's attention to the media concerning what is going on in this area. As we have said many times before, love may make the world go around, but it's money that greases the wheel. If that be true, and we believe it is, then the wheels are becoming difficult to move as the grease is dramatically slowing. This is an important part of the economic conditions that produce a recession.

Please note that the growth in year-over-year percentage change of money supply has been moving lower over the entire post stock market bubble. Through most if not all of this period, the Fed has been extremely stimulative – almost to the threatened throwing of money out of helicopters. Why then is this decline taking place? We thought the Fed could simply print money. Well . . . no it can't. They can make money available, but they don't make the loans – Fannie Mae, Freddie Mac, and the banking system do that. Over the last year, most of the increase in money supply has come from Fannie and Freddie, but no longer. The banks of late have been doing some lending to the industrial sector along with consumer loans. But on balance, money creation is slowing. That is not good news for the economy.

