Harry's Take

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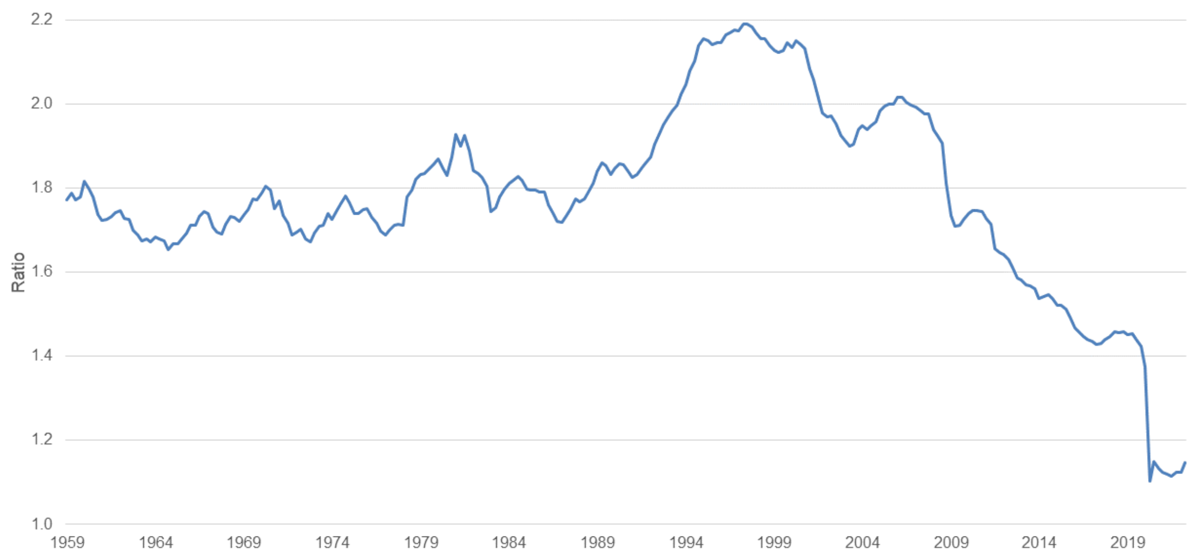
Mega Behind-the-Scenes Trend: Money Velocity Crashing Like From 1918 to 1932

The first economist to explain money velocity to me was Dr. Lacy Hunt. We've been having him speak at our conferences for more than a decade. He so simply and aptly explained it as "showing how productively we are investing our money" …and in total, across our consumer business and government sectors.

If you are investing productively, then the future should be better. If not, then the future likely will be worse down the road. Hence, the chart below holds a very stark warning:

Money velocity in the U.S. has crashed 50% from a peak in 1997 of 2.2 down to 1.1 currently. The only time this has happened before nearly as dramatically was from 1918–1932, when it fell 37.5%, from 2.0 to 1.25.

Velocity of Money Crashes Since Stock and Real Estate Bubbles Began



Source: Federal Reserve Bank of St. Louis, Velocity of M2 Money Stock.

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That last period saw the infamous Roaring '20s stock bubble, the 1929–1932 Dow crash of 89%, and the worst of the Great Depression from 1930 to early 1933, when unemployment peaked at 25%. So, wouldn't you think economists would be focused on money velocity in this very volatile and bubbly era? NOT!

The present period has seen the first stock bubble (1995–2000) and the first real estate bubble (2000–2006). The speculation in stocks simply switched to real estate after the massive 2000–2002 stock crash led by the Nasdaq, down 78%. And then, the unprecedented and massive stimulus after the 2008 downturn caused a second, larger stock and real estate bubble combined.

This cannot possibly end well!

Bubbles throughout history have always been a sign of speculative investments in stocks and real estate that are not productive! And money velocity is the best single indicator to track this. Back in the Roaring '20s, it was too hard to borrow easily, with 50% down and 5-year mortgage durations, to spawn a major real estate bubble. But this time, it's a "bubble in everything."

This is the reason central banks are fighting this bubble burst so hard after intentionally creating it by using non-stop, escalating monetary and fiscal stimulus after the Great Financial Crisis to never let the economy restructure debts and kill zombie companies.

But they blew it by overreacting to COVID. They've added $10T or 48% of GDP in combined monetary and fiscal stimulus just since 2020 and are now forced to tighten when money velocity is already collapsing even faster than from 1918 to 1932…

My best prediction now is that the economic collapse and debt restructuring will hit between late this year and mid-2024. Stocks already very likely peaked between November 22, 2021 (Nasdaq), and January 4, 2022 (S&P 500), and real estate is peaking NOW!

And yes, this means that money velocity is going down even farther just ahead, well below 1.0 this time, as in the crash of 1929–1932. This is your last chance to make some big decisions, especially about your real estate... as it takes longer to peak but also gets very illiquid and hard to sell fast!!!

Harry

Got a question or comment? You can contact us at info@hsdent.com.