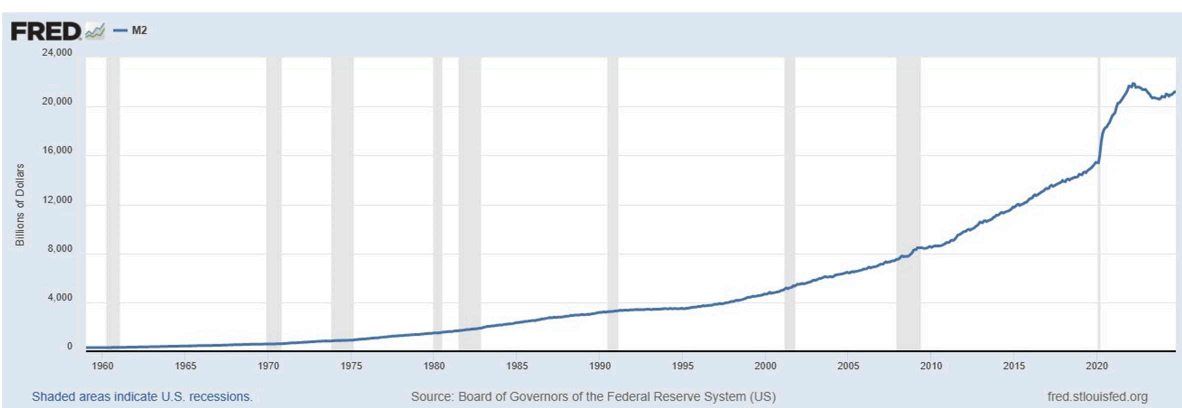
Harry's Take

December 10, 2024

M2 Falling Sharply for First Time Since 1930: Deflation = Depression!

M2 is the most used measure of money supply. As you would expect it expands the most when the economy is growing, but it rarely contracts. Money velocity is the turnover of money as people spend, and then the recipients of that spending turn around and spend, and so on. Money velocity measures how effectively we are investing our money, at all levels consumer, business and government. Bubbles always have falling money velocity as a sign that speculation and a general rise in debts and financial assets is not productive – and it leads to a depression and deflation in prices from the failing debts and asset bubble burst that ultimately follows. And this bubble has seen money velocity falling like a rock since 1997.

M2 Falling for First Time Since 1930: That Means a Depression!



Source: Board of Governors of the Federal Reserve System (US), M2 [WM2NS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/WM2NS, December 10, 2024.

This chart for M2 only goes back to 1959, but there is one especially ominous sign that we are seeing now for the first time since… you guessed it, 1930. M2 only contracts when the economy is going through such a period of failing debts and falling financial asset prices. In other words, deflation follows bubbles, and deflation creates depressions, not recessions. Recessions are merely times of slowing business growth, but they rarely turn into actual deflation in consumer prices. It's bubbles that are rare as they end in depressions, and the last bubble period was in the Roaring 20s followed by the very deflationary 1930s.

This era has seen two bubbles since 1995. The first one was just over 5 years for stocks, followed by 6 years in real estate. This one is 15 years going on 16 since early 2009 with both stocks and real estate bubbling together.

The central banks are going to fight deflation hard when it starts to set in. But, they also single-handedly created this longest and only totally artificial bubble in history – and they are very likely to be too slow to react. So, we will see ahead. But deflation is coming. That means all financial assets go down!

Harry

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