WEALTH MANAGEMENT INTERNATIONAL, LTD.
Proactive Investment Management & Financial Planning

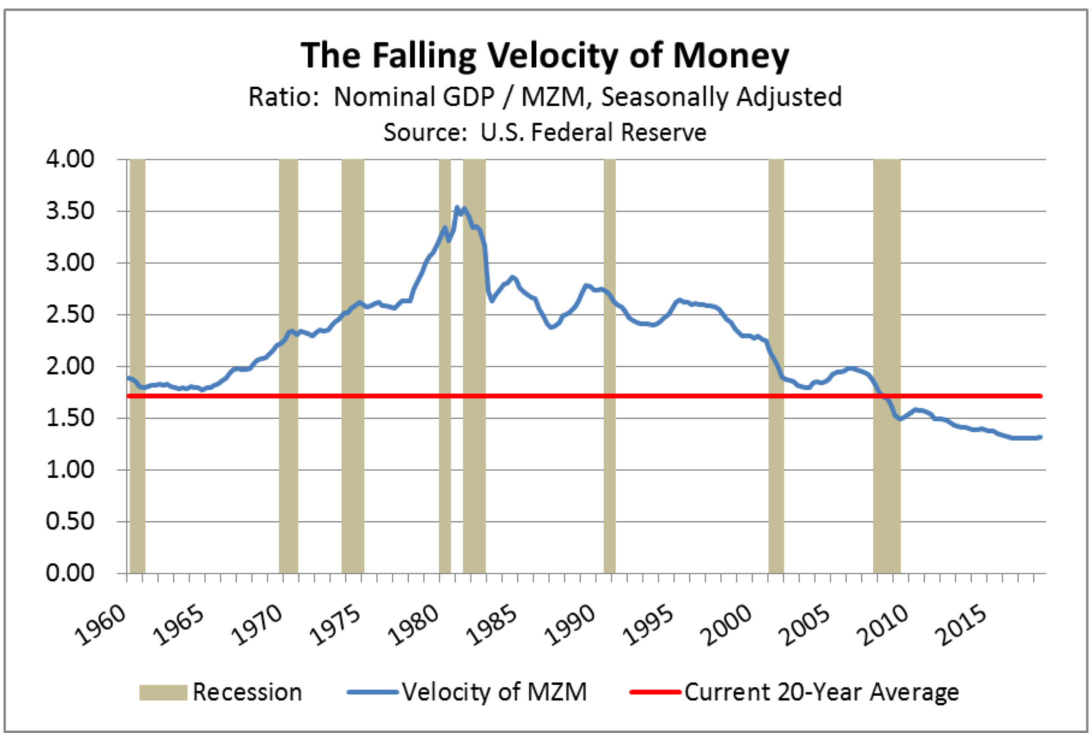
Economic Chart of the Week

September 19, 2018

To mark the tenth anniversary of the Housing Crisis, our chart last week showed that one apparent result of the crisis was to boost the U.S savings rate. Americans now save quite a bit more of their after-tax income than they did before the crisis, reflecting both the trauma of those difficult years and the fact that so many Baby Boomers are now saving in earnest to prepare for retirement.

Increased saving is probably a good thing in the long term, but it also means the economy is now less vigorous and dynamic than it was before. This week's chart provides additional evidence of that. The chart shows the "velocity of money," defined as the ratio of nominal gross domestic product (GDP) to the money supply (in this case, we use a broad measure called "MZM"). The velocity of money basically measures how many times a typical dollar is used in a transaction in a given year. The velocity of money has been trending downward for decades, but it kept falling in recent years even as the economy started to recover from the crisis. It reached a record low of 1.302 in mid-2017. In part, such low velocity reflects the big surge in the money supply over the last decade. To fight the crisis, the Federal Reserve pumped liquidity into the financial system, and ultra-low bond yields convinced many investors to leave their money in cash instead of buying expensive fixed income. We believe the low velocity also reflects the generally weak demand in the economy as people stay cautious and keep their savings high. The economy is finally on a strong upswing again, so we worry that the Fed may eventually hike interest rates too far and undercut the financial markets. Therefore, we have recently pared back risk in our various strategies. All the same, if the savings rate remains high and the velocity of money remains low, there's probably a good chance that inflation and interest rates won't get out of hand for at least a while yet.

Patrick Fearon, CFA
Chief Investment Officer



23131 North Lake Pleasant Parkway | Peoria, AZ 85383 | 623-875-5204 |1-888-91-ASSET