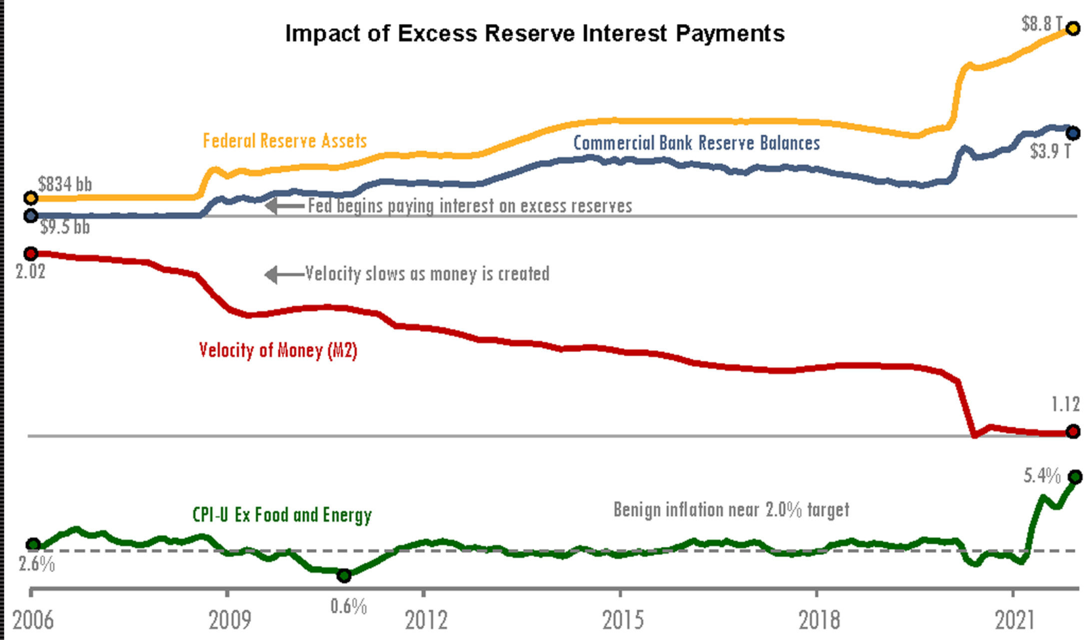
For Your Information…

Excess Reserve Interest Payments

Key Federal Reserve policy tool drives higher excess bank reserves.



Bellwether Consulting LLC
PO Box 31
Millburn, NJ 07041-0031

As a part of the Emergency Stabilization Act of 2008, the Federal Reserve began paying interest on balances held by or on behalf of depository institutions effective October 1, 2008. This explains a large part of why the Fed's balance sheet expansion has not made its way to consumers – commercial banks are incentivized by risk-free interest payments on excess reserves.

Velocity of money has fallen over the period and core inflation (ex-food and energy) remains low. Going forward, it will be key to monitor which policy tools the Fed uses as it manages its exit from unprecedented monetary stimulus.