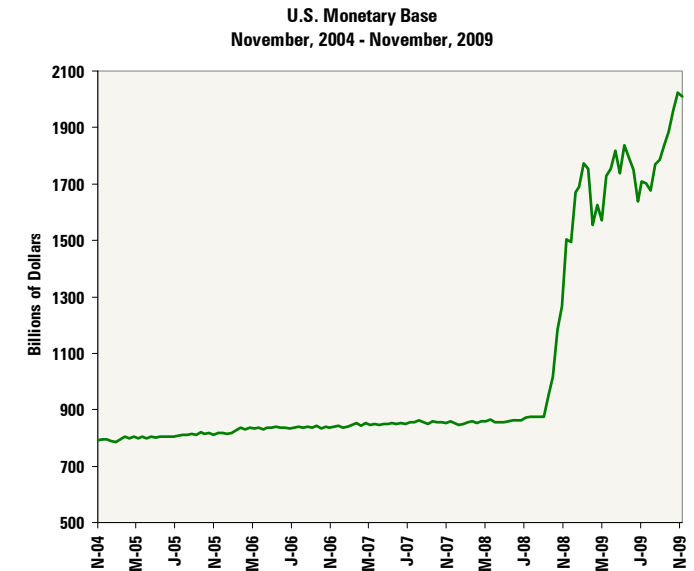
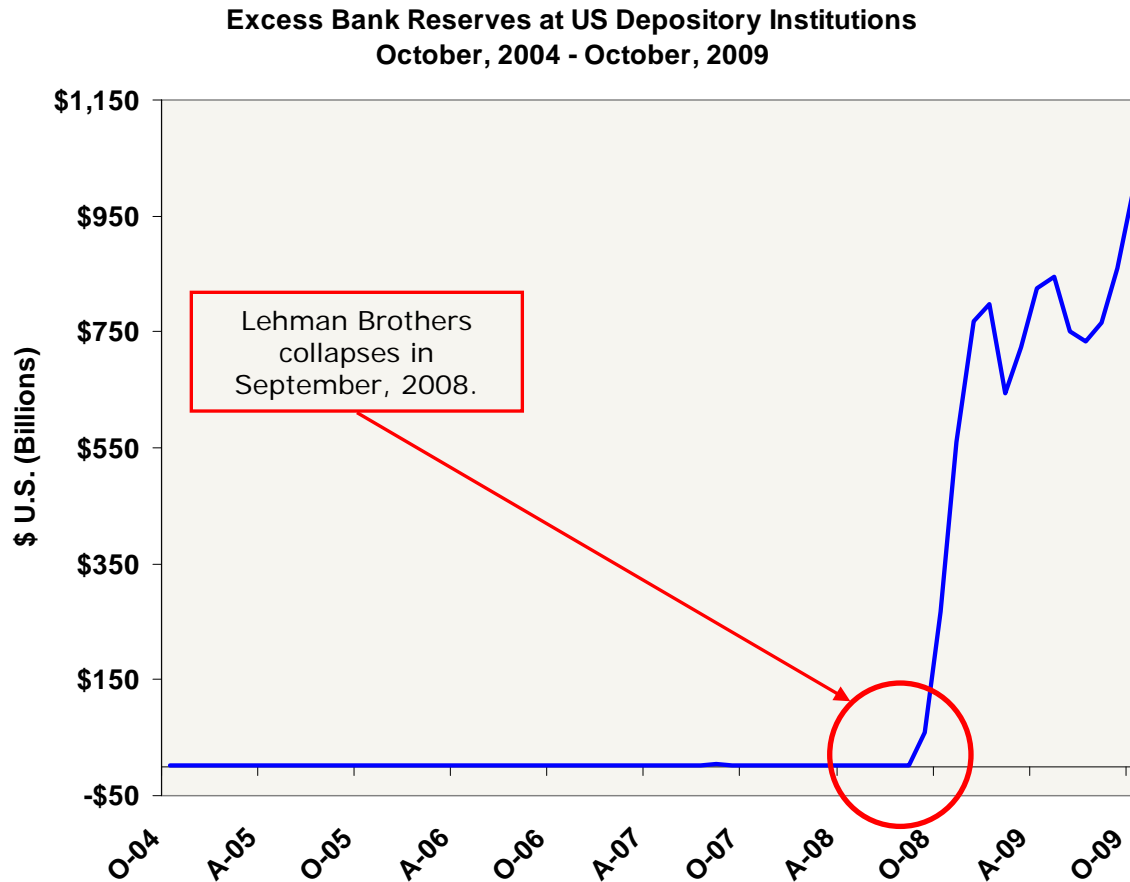


The Elephant in the Room Part I:

As expectations of inflation grow, banks hold the key to the floodgates.



- The extreme growth in the monetary base (above) in 2008 and 2009 was driven by banks holding much higher excess reserves relative to historical levels (left).
- If banks' risk aversion decreases and they begin lending, growth in money supply could exceed growth in GDP, resulting in an accelerated rate of inflation.

Data from <http://research.stlouisfed.org/fred2/>