Special Analysis

Impact of APY on transaction-account balances

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Implications
The findings of this analysis indicate that, **when rates are low, transaction accounts are used as a holding place for funds until such time that interest rates start to go up**. At that point, expect some of the transaction balances to shift to higher-paying deposits such as MM or CDs.

Analysis

- Balances of transaction accounts, which include Demand deposits, NOW accounts and Automated Transfer Service (ATS) accounts
- National average APY for transaction accounts, which includes regular and special rates
- March 2005 to March 2010, quarterly for both variables

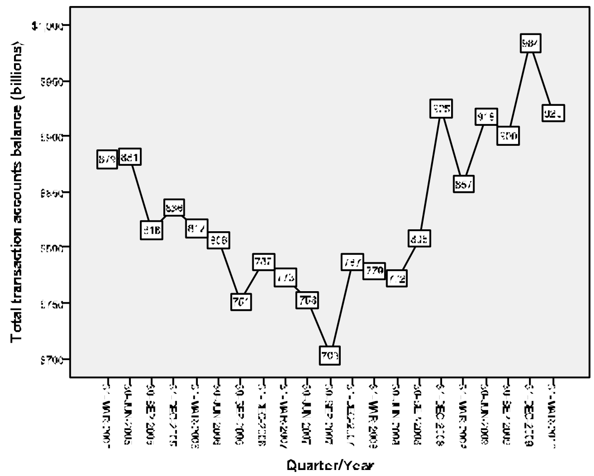
Findings
Balances of transaction accounts, which include Demand deposits, NOW accounts and Automated Transfer Service (ATS) accounts, have fluctuate mostly as a result of fluctuation in the average rate for checking accounts.

In the past five years, balances of transaction accounts fluctuated by as much as $281 billion, from a low of $702 billion in March 2007, to a high of $983 billion in December of 2009 (Figure 1).

At the same time, the national average rate for transaction accounts, which includes regular and special rates, fluctuated by as much as 1.19 percent (119 bps) from a high of 1.97 percent in June 2007 to a low of 0.78 percent in March 2010 (Figure 2).

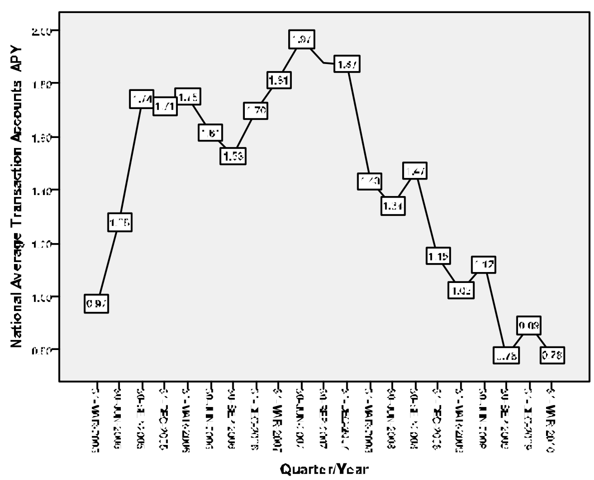
The analysis found that 69 percent of the variance in the balances of the transaction account can be explained by the variance in the national average rate of the transaction accounts. Moreover, there is a very strong and significant negative relationship (Beta -.817, Alpha <0.01) between the balances of transaction accounts and interest rates on these accounts, which causes them to move in opposite directions.

Figure 1
Transaction accounts balances 3/2005-3/2010



Source: FDIC

Figure 2
Transaction accounts APY 3/2005-3/2010



Source: Market Rates Insight