

Special Analysis

Shift in deposits from term accounts to liquid accounts

Dr. Dan Geller
February 1, 2010

Implications

- People are shifting deposit money from term accounts to liquid account at a rate of \$4.78 for every \$1 in new deposits.
- This shift is an indication of unease about the prospect of economic recovery and fear of hyper inflation.
- Nearly a quarter of a trillion dollars shifted to liquid accounts in the first nine months of 2009.

Overview

Overall deposits at FDIC insured institutions are rising despite declining interest rates on deposit accounts. Clearly, the rate of return is not a primary motivation for depositors, but rather the safety and security of the deposit insurance. Yet, considering the economic uncertainty and fear of rising inflation, the question remains – what type of deposit accounts are at the heart of this increase in demand.

Purpose

The purpose of this analysis is to examine whether the overall increase in deposits stems from liquid accounts, such as savings and money market, or CDs that require time commitment. The findings of this analysis will shade some light on the mood of depositors in terms of their deposit behavior. Liquid accounts are typically used for quick and easy withdrawal, while term accents denote longer-term commitment.

Analysis

- We analyzed the total amount of deposits in FDIC insured institutions from January 1, 2009 to September 30, 2009.
- We analyzed the amount of term deposits of \$100,000 or less, in FDIC insured institutions, from January 1, 2009 to September 30, 2009.
- We analyzed the amount of term deposits of over \$100,000, in FDIC insured institutions, from January 1, 2009 to September 30, 2009.
- We analyzed the amount of term deposits combined, in FDIC insured institutions, from January 1, 2009 to September 30, 2009.

Findings

- We found that the total deposits in FDIC institutions grow from \$9,035 billion to \$9,100 billion during the examined period. An increase of \$65 billion or 0.7 percent (Figure 1).
- We found that term deposits of \$100,000 or less declined from \$1,371 billion to \$1,235 billion during the examined period. A decline of \$136 billion, or 9.9 percent.
- We found that term deposits of over \$100,000 declined from \$1,222 billion to \$1,080 billion during the examined period. A decline of \$142 billion, or 11.6 percent.
- We found that term deposits combined declined from \$2,593 billion to \$2,315 billion during the examined period. A decline of \$278 billion, or 10.7 percent.
- We found that for every \$1 increase in total deposits, \$4.28 is shifted to liquid accounts.

Discussion

The findings of this analysis indicate that people are saving more, but they are less likely to tie their money in a term account, and increasingly are opting for deposit accounts that allow them to quickly and easily withdraw their money.

This type of “defensive” deposit practice may indicate that depositors are not confident about the prospects of an economic recovery, and possibly fearful of looming hyper inflation. As a result, depositors are placing their money in “quick-out” accounts in case they need the money right away, or to protect it against high inflation rate.

Table 1
Increase/decrease in total and term deposits (Billions)

Period	Total deposits	CD Less than \$100K	CD Over \$100K	Term deposits combined
Q4 2008	\$9,035	\$1,371	\$1,222	\$2,593
Q1 2009	\$8,953	\$1,339	\$1,189	\$2,528
Q2 2009	\$9,021	\$1,301	\$1,138	\$2,439
Q3 2009	\$9,100	\$1,235	\$1,080	\$2,315
Variance	\$65	-\$136	-\$142	-\$278

Source: FDIC Summary of Deposits

Figure 1
Decline in term deposits (Billions)

