



Cash Trends and Market Intelligence

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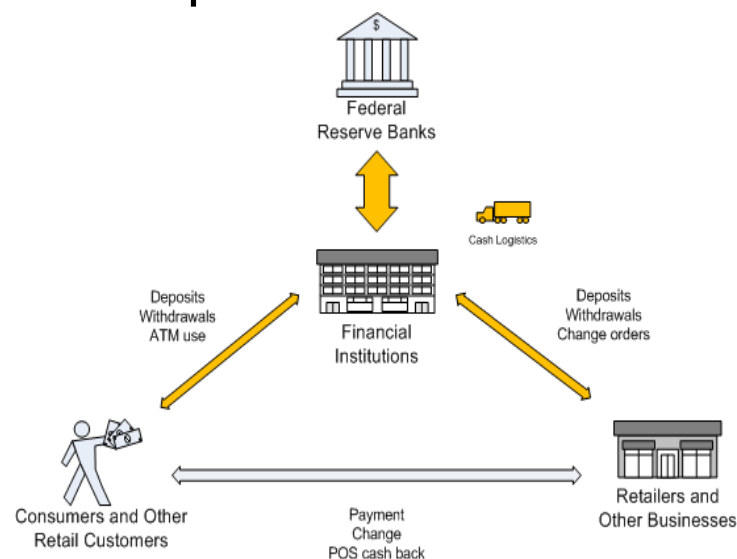
Overview

- Cash remains widely used, and CIC continues to grow
- Fed receipts diverging from payments, and falling relative to spending
- Consumers report similar cash use in 2010 versus 2009
- But the payments landscape is shifting
- Fed interviewed DIs, carriers, and merchants to gain intelligence on emerging and future payment trends
 - From cash cycle stakeholders, a diversity of views on trends in the future of cash
 - From merchants, some are seeing declining levels of cash, but there is also buzz about new cash technologies



The Fed's mission and role in the cash cycle

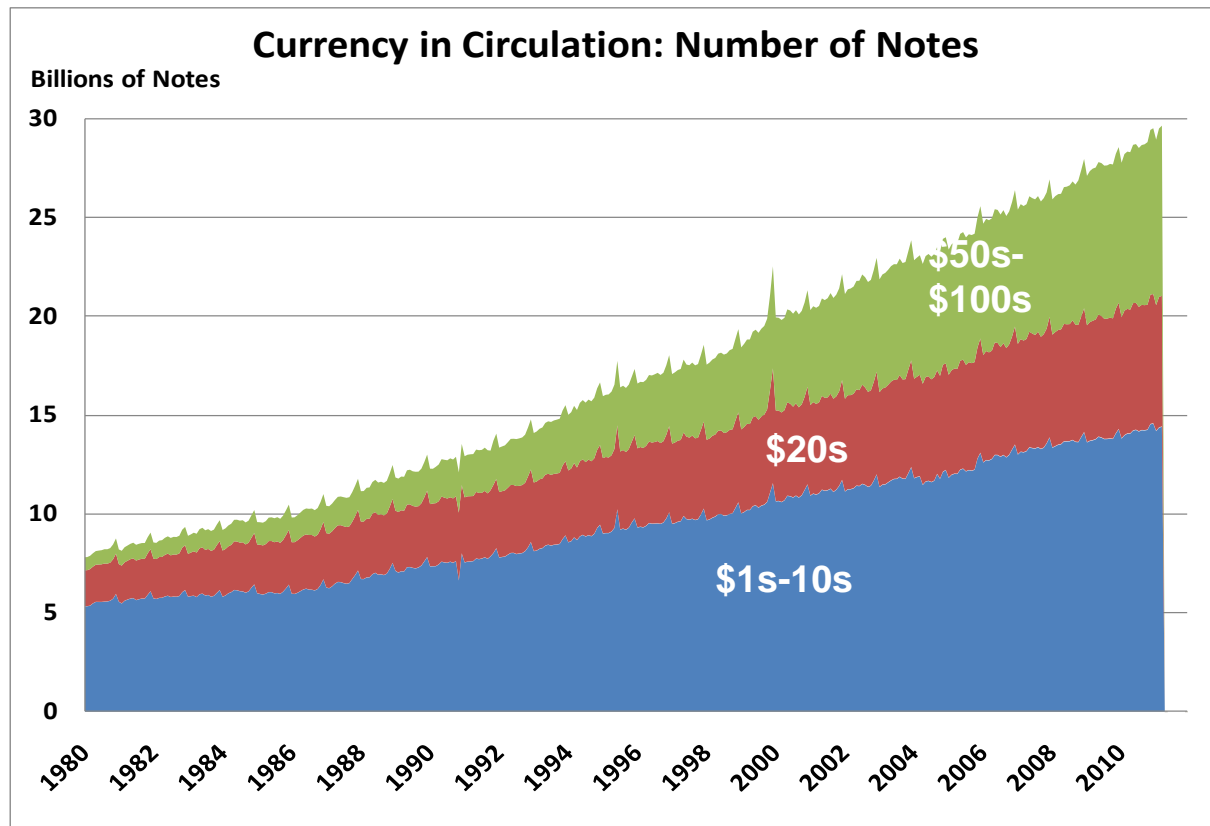
- The Fed's primary goals in Cash Services are to:
 - Maintain confidence in U.S. currency
 - Supply currency and coin to meet domestic and international demand through well controlled operations that have sufficient capacity to meet the needs of the marketplace on a daily basis and in times of stress
 - Maintain the quality and integrity of currency in circulation
 - Ensure depository institutions have ready access to cash services
- Our role entails both efficient and effective operations and an appropriate policy framework:
 - The Fed is only part of the supply chain
 - As such, safety, efficiency, and accessibility of cash as a payment instrument and store of value depends on all actors
 - Incentives to minimize costs of cash supply must be balanced against societal benefits and risks





Cash remains widely used...

- Currency in Circulation almost \$1 trillion
- \$100s (likely international) growing very quickly
- \$1s-\$20s also growing, but at a more measured pace



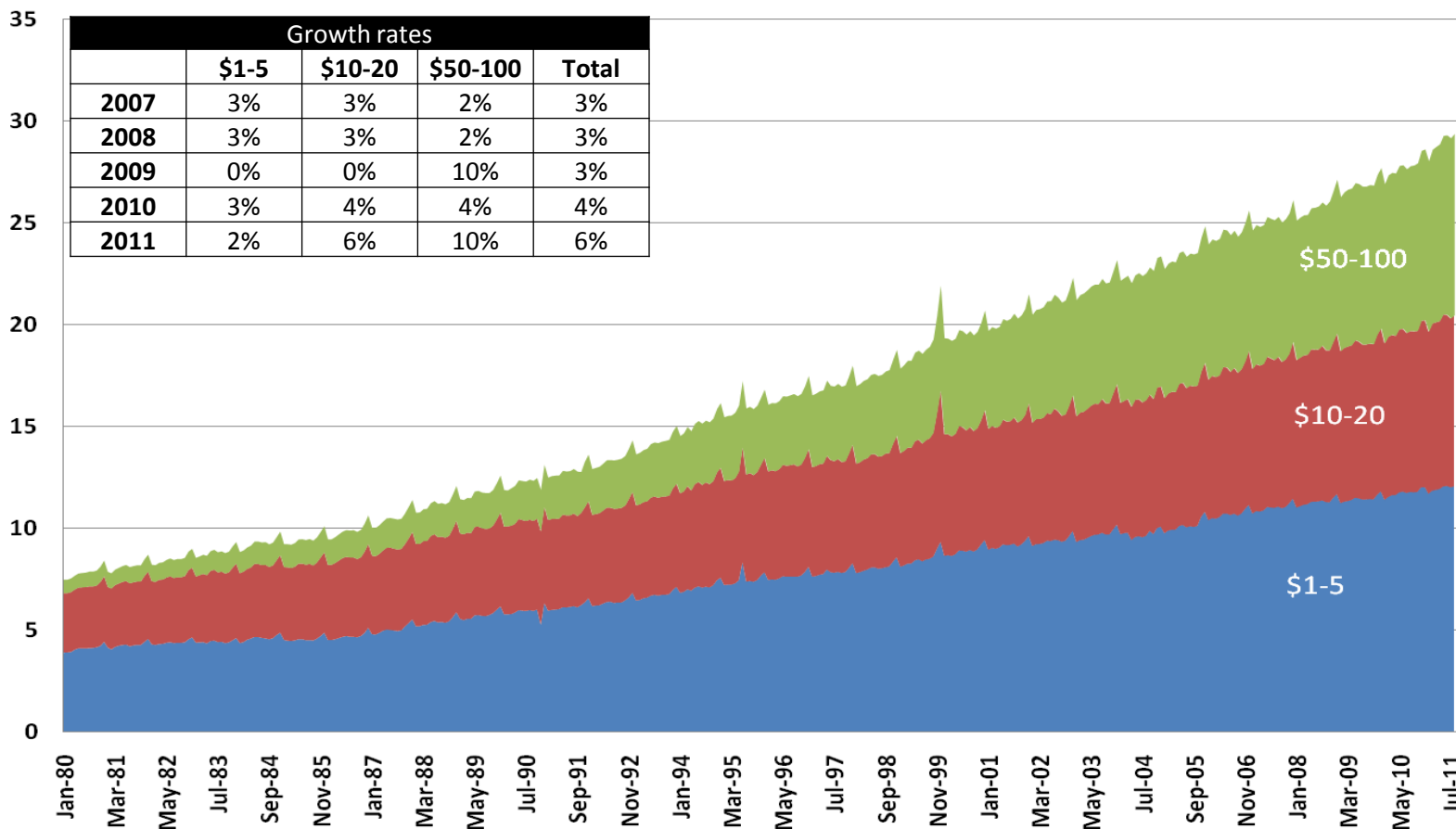
- Industry estimates show that cash continues to play a strong role in C2B and P2P
- Grew in recession: FRB Boston Survey suggests that consumers increased cash use from 22 to 28% between 2008 and 2009
- Absolute levels flat in recent years, so declining as share
- Forecasts vary: some showing decline, others showing little change



...with growth boosted by \$100s as well as \$20s.

Currency in Circulation: Number of Notes

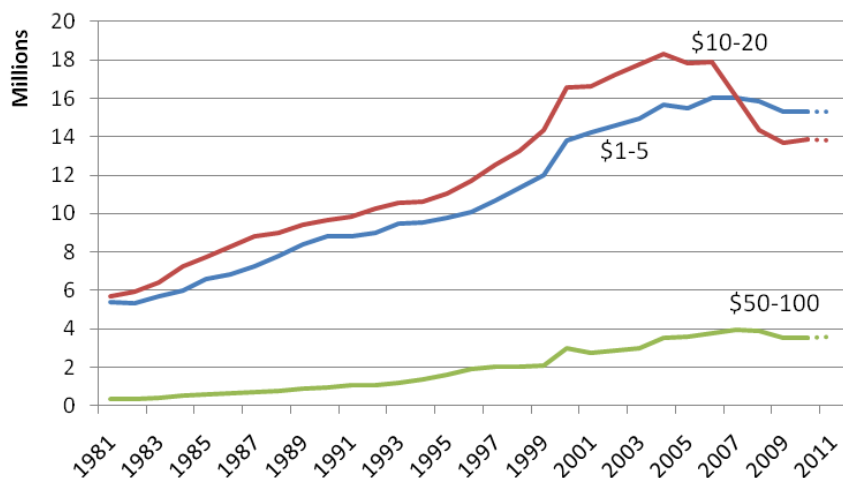
Billions of Notes





FRB payments are up while receipts are down.

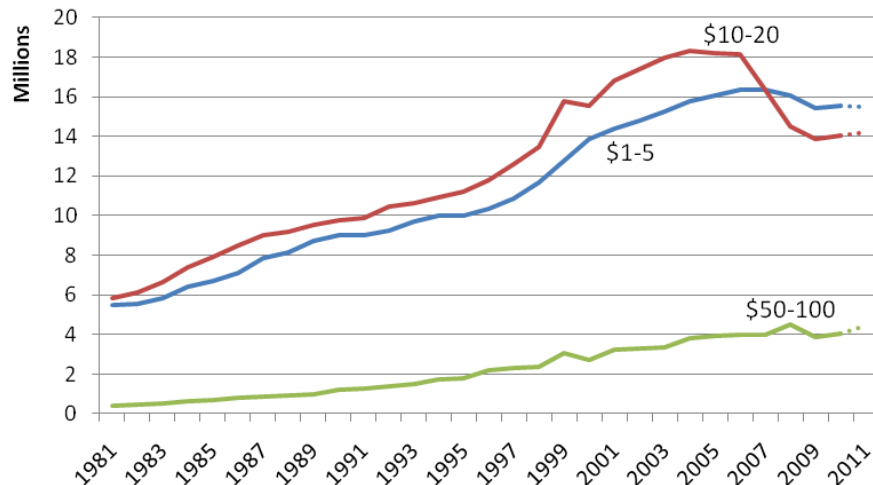
Annual Receipts - bundles



Growth rates

	\$1-5	\$10-20	\$50-100	Total
2007	0%	-10%	4%	-4%
2008	-1%	-11%	-1%	-5%
2009	-4%	-4%	-9%	-5%
2010	0%	1%	1%	1%
2011*	0%	-1%	1%	0%

Annual Payments - bundles



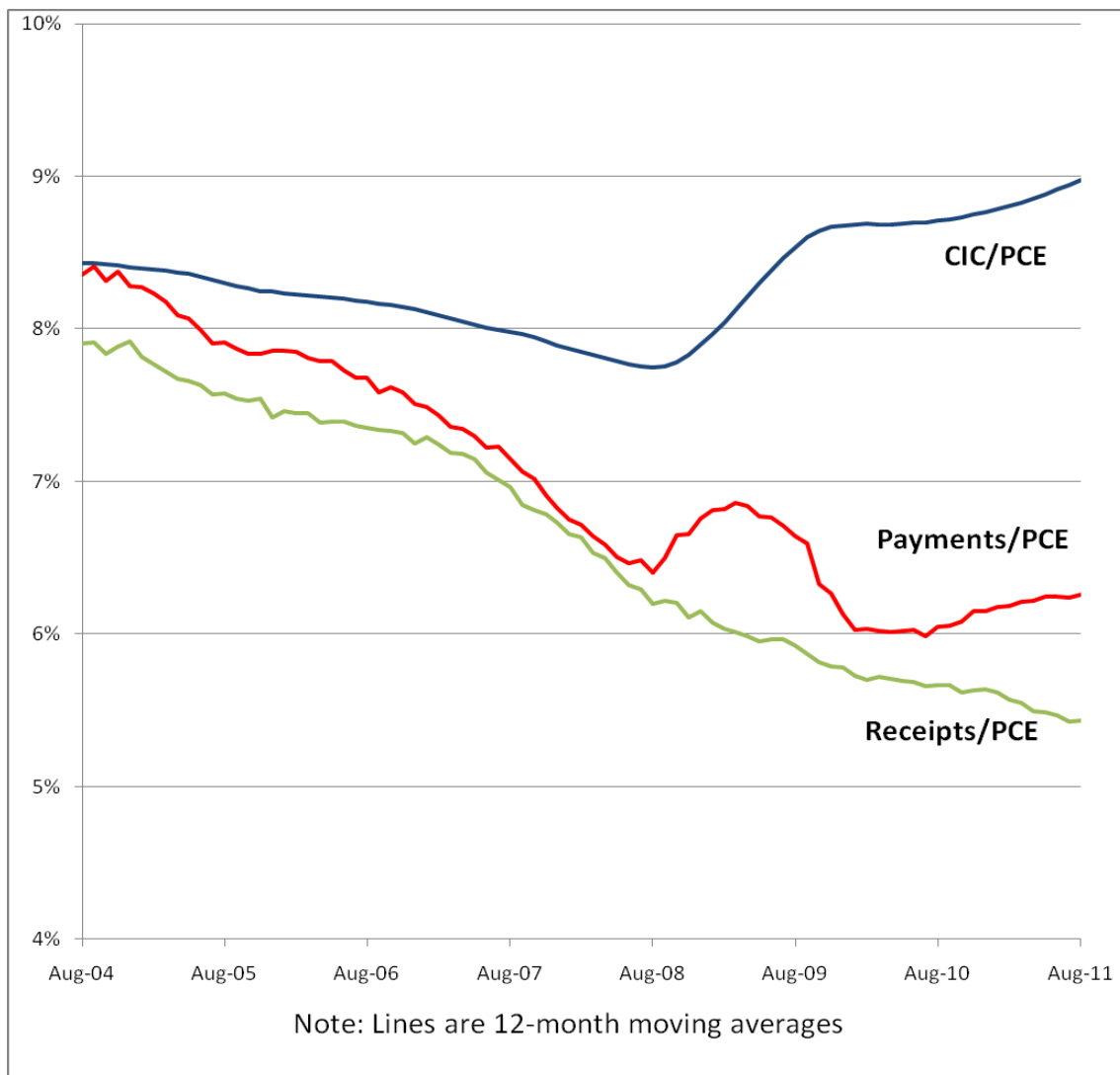
Growth rates

	\$1-5	\$10-20	\$50-100	Total
2007	0%	-10%	0%	-5%
2008	-2%	-11%	12%	-4%
2009	-4%	-5%	-14%	-6%
2010	1%	2%	5%	2%
2011*	0%	1%	10%	2%

* 2011 figures estimated based on January-September 2011 vs. January-September 2010 growth rates



Receipts continue to decline relative to the economy.



- Growth in CIC continues to outpace domestic personal consumption expenditures
- The total value of FRB receipts (annualized) continues to fall relative to PCE
- Return to divergence between FRB payments and receipts, reflecting CIC growth



Consumers' cash use remained elevated in 2010.

- The 2010 FRB Boston Survey of Consumer Payment Choice (SCPC) shows that consumers increased cash use from 21% to 28% between 2008 and 2009, and to nearly 29% in 2010

Cash's Share of Transactions			Change of shares	
2008	2009	2010	2008-2009	2009-2010
20.8%	28.2%	28.9%	7.4%	0.7%

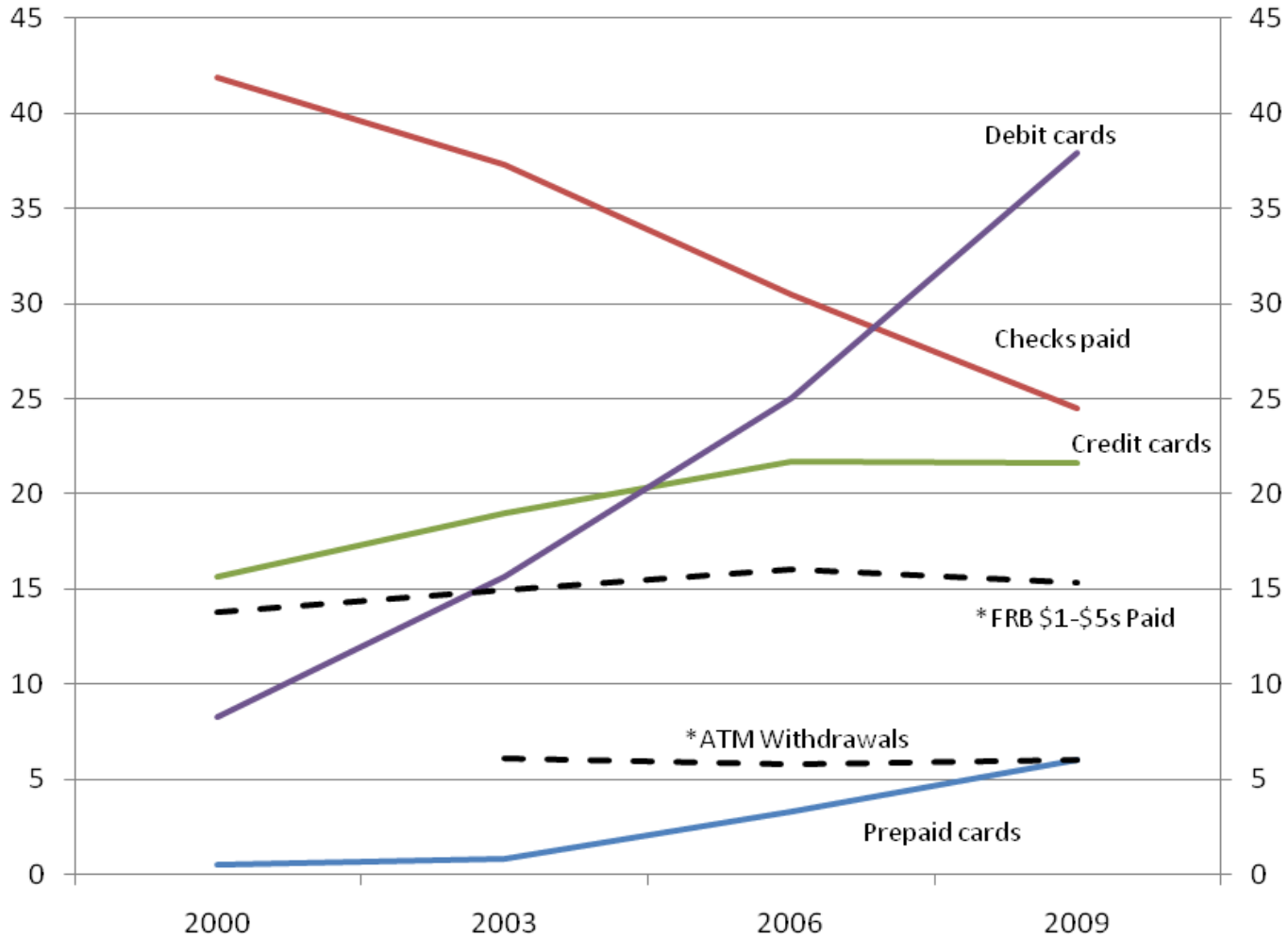
- The preliminary results of the pilot Diary of Consumer Payment Choice show cash to make up 43% of consumer transactions, demonstrating the importance of the diary

**Results are preliminary and subject to revision*



But the landscape is shifting dramatically

FR Payment Study: Number of Transactions





Outreach for FRB Strategic Planning for Cash

- Outreach to DIs, armored carriers and other stakeholders for their views about the current state of the cash cycle and possible “game changers”
 - Ice-breaking “quantifiable” questions: level of cash use in five years, the payment method expected to grow most and its impact on cash, the key attributes of cash, effects of the financial crisis on payment choice
 - Challenges and strengths within current cash system
 - Potential game changers and follow up: impact, signals, opportunities/challenges
- 31 interviews conducted
 - 12 banks and credit unions
 - 6 equipment, software and solution providers
 - 5 armored carriers
 - 8 others (merchants, researchers and alternative payment system providers)

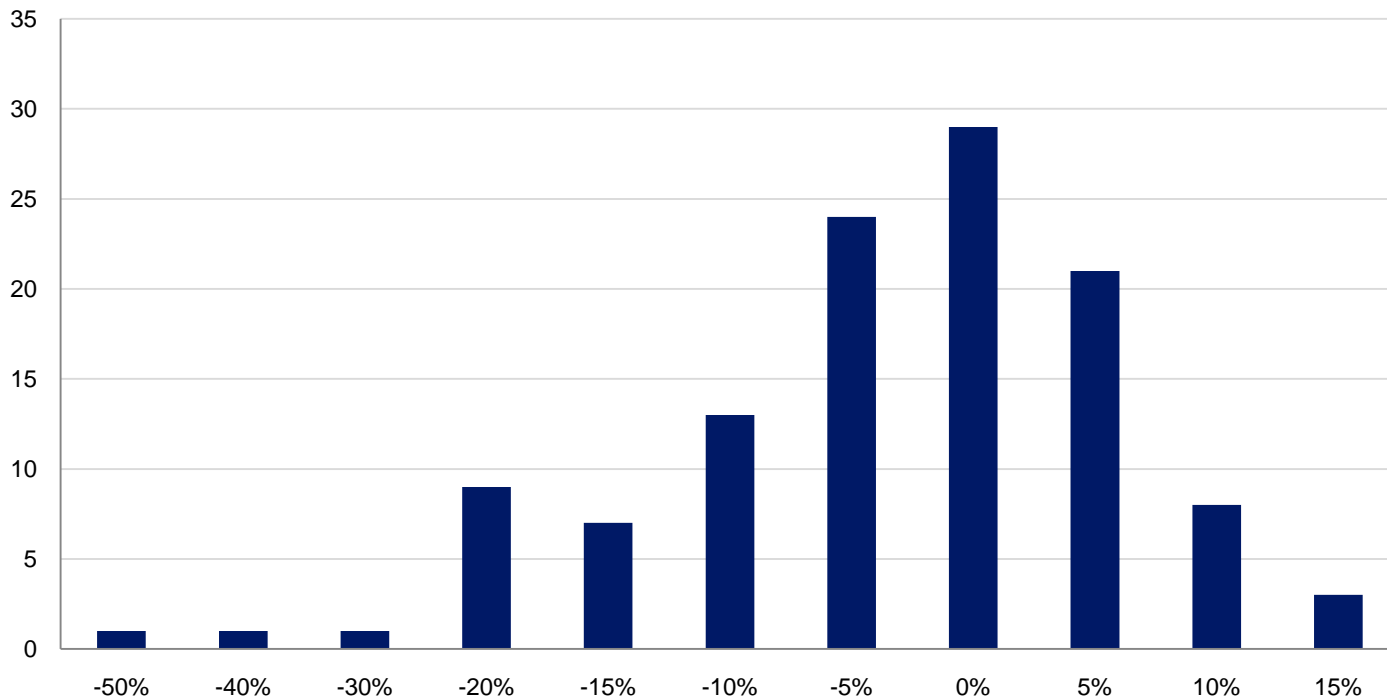


A significant diversity of views

Stakeholders were asked:

Think about the level of cash being used right now, for whatever purpose. In five years, by what percentage do you think the absolute level of cash use will have gone up or down?

Prediction of Cash Usage in Five Years
(in bins)

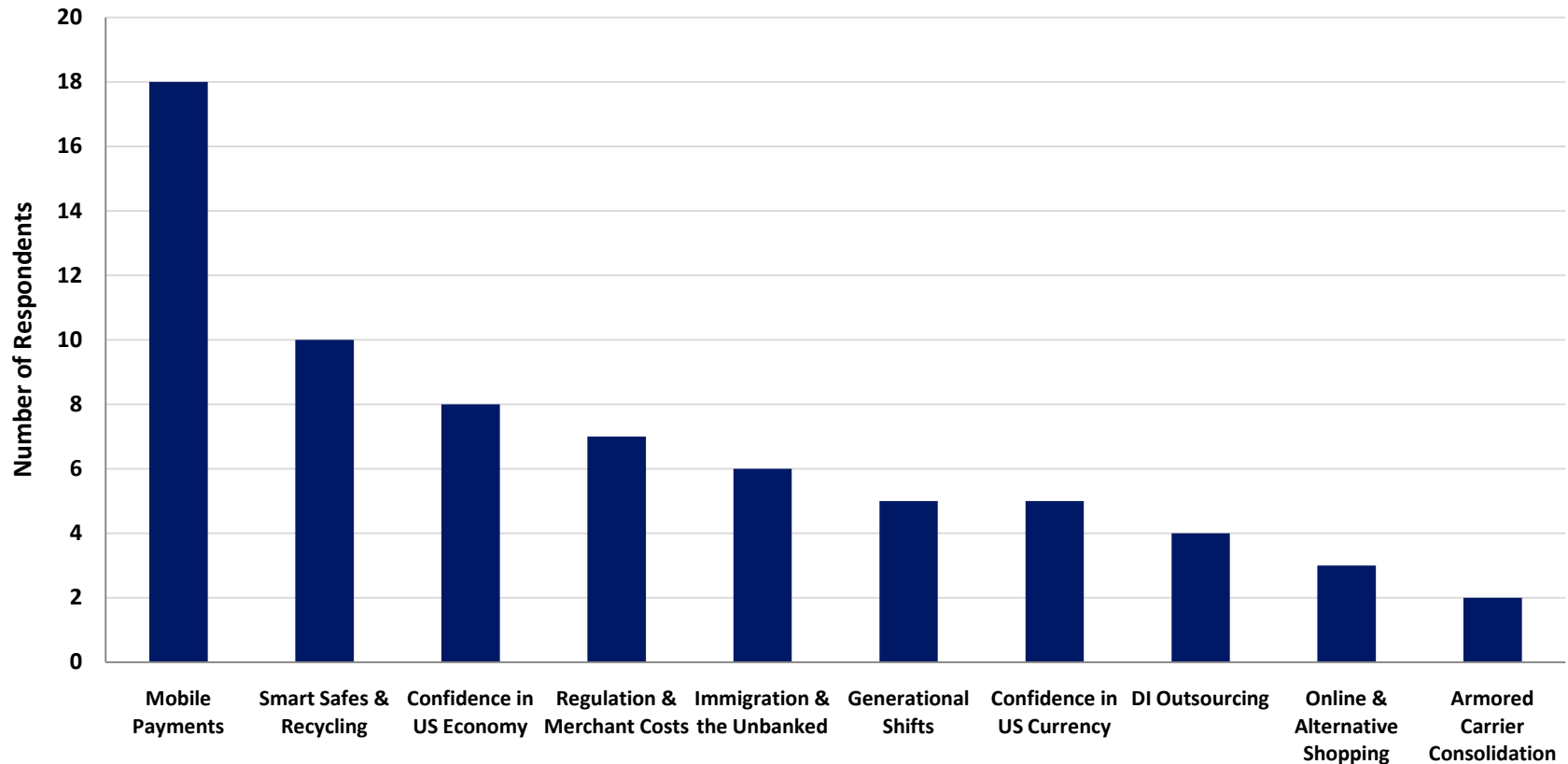




Many potential game changers were noted

All respondents were asked what factors would change cash usage – what will the future “game changers” be?

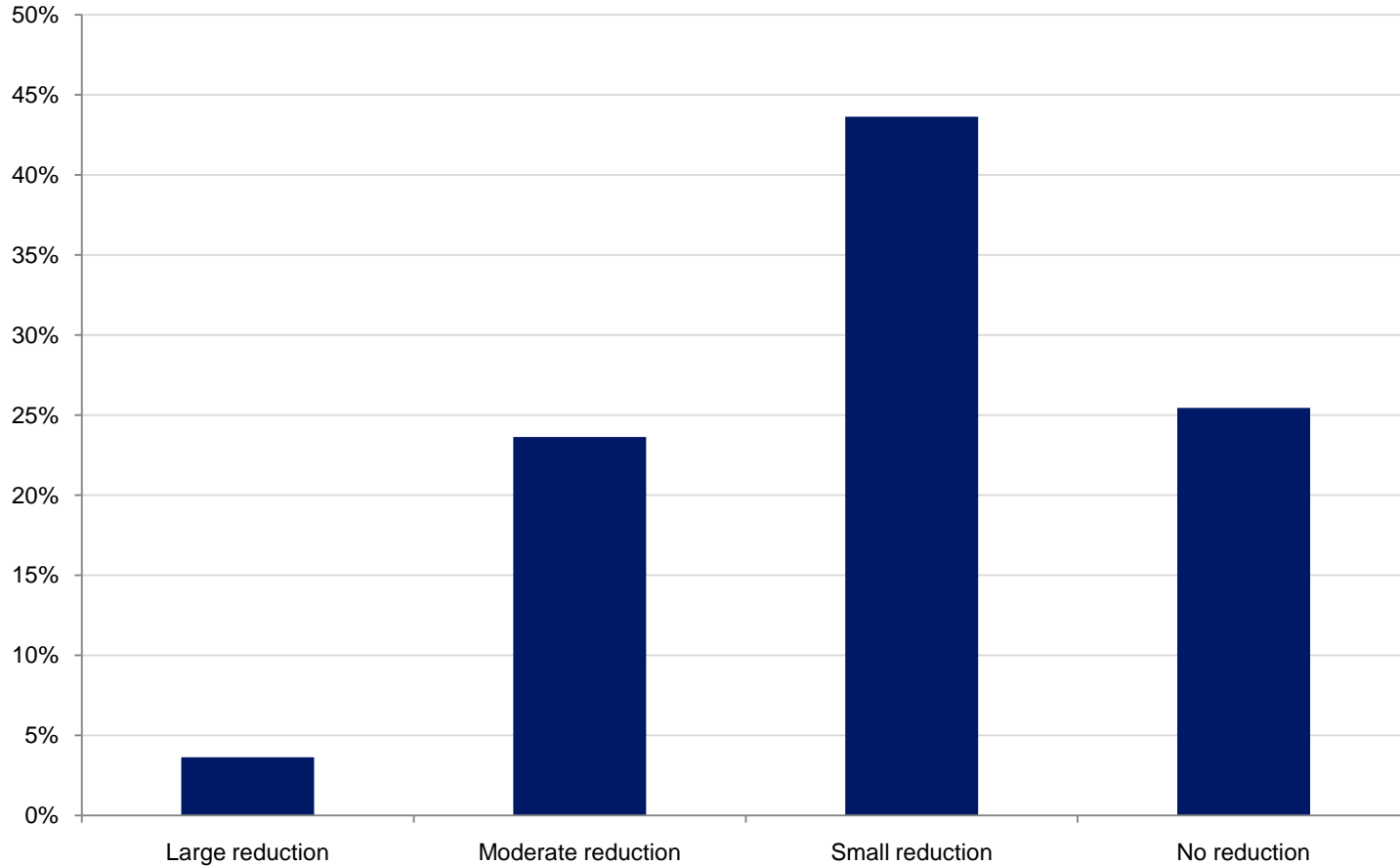
Most Frequently Mentioned "Game Changers"





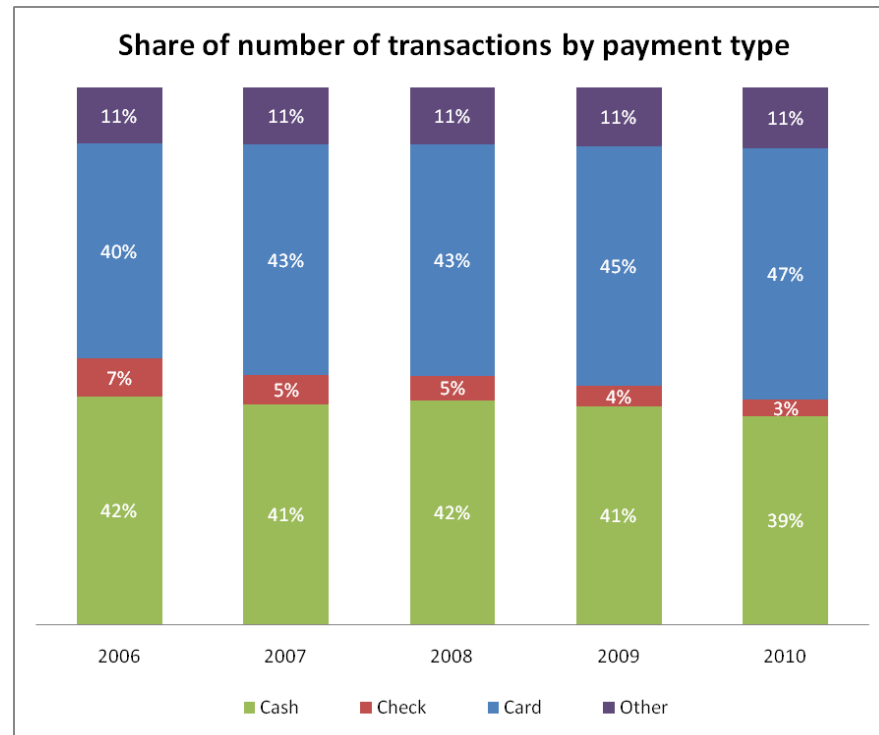
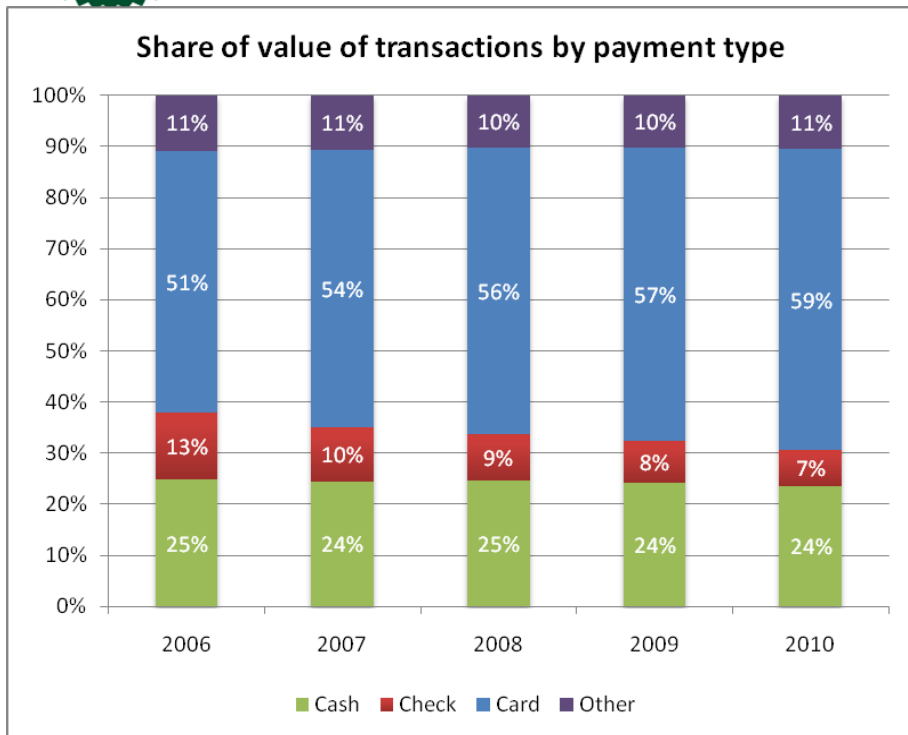
But, impact of mobile on cash may be modest

Effect of Mobile Payments on Cash Usage in 10 Years
(55 Total Respondents)





Merchant Interviews consistent with industry view



- Data from several large merchants indicates a continued decline in cash's share of transactions
- Moreover, a few large merchants are seeing the absolute number and value of cash transactions decrease, even as sales grow



Merchants changing their perspectives on equipment?

- Continued buzz regarding smart safe technology
 - Several merchants have pursued, or plan to pursue, pilot programs
 - Some merchants noted that they require smart safes that can handle higher volumes, and others noted a variety of logistical challenges
- New interest in cash recyclers
 - A few large merchants have piloted recyclers, primarily to automate cash handling, with a range of success
 - Some merchants have realized efficiency gains through cash recycler pilots, but the cost still makes widespread adoption unlikely in the near future
 - Some merchants unwilling to assume staffing cuts that could make business cases more worthwhile



Questions?

Thank You