Governments debt of the United States is typically issued in the form of U.S. Treasury securities. These securities—simply called Treasuries—are widely regarded to be the safest investments because they lack significant default risk. Therefore, it is no surprise that investors turn to U.S. Treasuries during times of increased uncertainty as a safe haven for their investments. This happened once again during the recent financial crisis. In fact, the increase in the demand for Treasuries was sufficiently large so that prices actually rose with an increase in the supply of government securities.

Supply of Government Securities

In the latter half of 2008, the Treasury auctioned a large amount of securities to cover the cost of the Emergency Economic Stabilization Act. After the act was passed, holdings of U.S. marketable Treasury securities continued to increase over the next year and a half, from $4.9 trillion in August 2008 to $7.4 trillion in February 2010. Figure 1 shows the levels of short- and long-term securities outstanding from 2006 to 2009.

Short-term securities are also known as Treasury bills; they have maturity dates of less than a year. In August 2008, approximately $1.2 trillion in T-bills was outstanding. By November 2008, that number had almost doubled, to about $2 trillion in outstanding short-term debt.

Long-term Treasury securities, which include Treasury notes, Treasury bonds and Treasury Inflation Protected Securities (TIPS), are defined as having a maturity date of over a year. Before the onset of the current financial crisis, there was a slight upward trend in the volume of these securities. Since October 2008, there has been a significantly large upward surge in the amount of T-notes issued, while the level of TIPS and T-bonds has remained relatively unchanged.

In summary, there has been a large expansion in the amount of Treasury security offerings while yields on Treasuries have actually declined. Stated differently, the prices on Treasury securities have actually increased in the face of a rapidly expanding supply of these securities. This anomalous behavior in the market for Treasuries can be explained by a significant increase in the demand for Treasuries—the flight to safety—in the event of a financial crisis. Evidently, the effect of the increase in the supply of securities in government auctions was more than offset by the increase in investors’ demands for safer investments.

Who Holds This Debt?

Figure 3 shows the quarterly flows of funds data on the holdings of U.S. Treasuries by various sectors of the economy. Prior to the crisis, the proportion of Treasury securities held by each sector of the economy was...
roughly unchanged over the early part of this decade. The largest shares of available Treasury securities have been held by the domestic financial sector and the rest of the world. Post-crisis, these two sectors saw the most dramatic increases in their share of Treasury securities holdings. Interestingly, it seems that although the U.S. was at the epicenter of the financial crisis, both foreign and domestic investors still sought the safety of U.S. government debt instruments. These data present evidence in support of the hypothesis that investors see U.S. Treasuries as relatively risk-free. However, it will be interesting to see how investors view U.S. securities in the future as debt levels continue to rise.  

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ENDNOTES

1 The Emergency Economic Stabilization Act was passed Oct. 3, 2008. It was a $700 billion program aimed at getting bad assets off the books of firms in the U.S. financial sector.

2 Treasury bills (T-bills) have maturities of about a month, three months, six months or a year. These are generally auctioned by the Treasury once a week.

3 Treasury bonds (T-bonds) have maturities from 20 to 30 years. Treasury notes (T-notes) have maturities that range between one and 10 years. TIPs have maturities between five and 30 years. The Treasury has various auctions of these securities throughout the year.

4 The yield (to maturity) is defined as the interest rate that makes the present value of a bond’s payments equal to its price. Therefore, the higher the price on the bond, the lower is its yield.