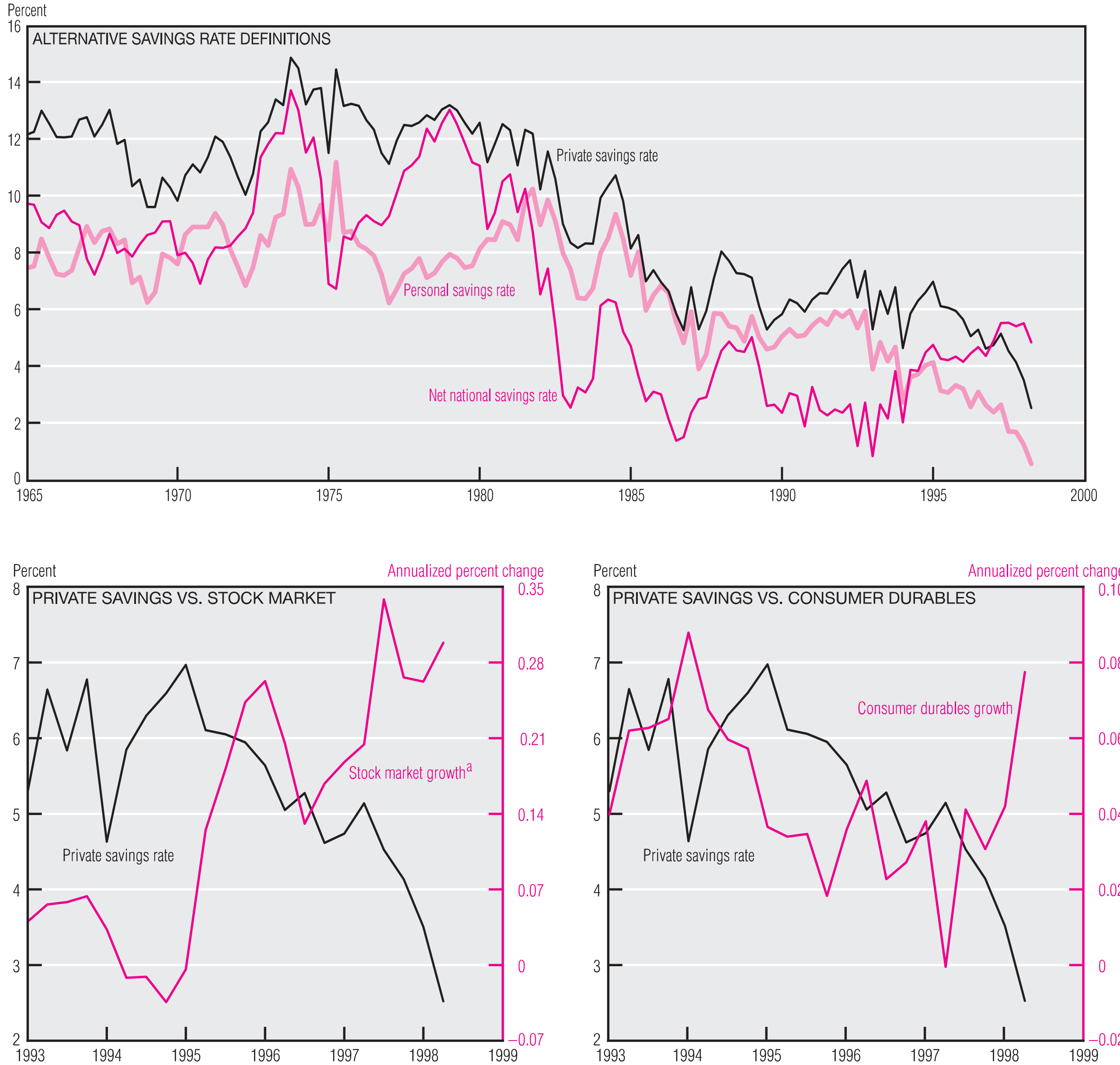
Savings Rates



NOTE: All data are quarterly and extend through 1998:IIQ.
a. S&P 500 stock index.
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and DRI/McGraw–Hill.

Since the beginning of the 1980s, the personal savings rate (the ratio of personal savings to disposable personal income) has steadily declined. Monthly estimates show this seemingly alarming trend continuing, with the personal savings rate falling to 0.1% in June, the lowest level on record. July's number (0.8%), though slightly better, is still paltry.

Before becoming too alarmed, however, we should consider how useful a measure the personal savings rate really is. People save, after all, to increase the stock of resources from which they or their heirs can enjoy future consumption. We traditionally think of this as setting aside a portion of money income in financial assets. There are other ways to save, however; one is to purchase durable goods. In fact, there has been a sharp rise recently in consumer expenditures on durable goods. These are counted as consumption in the official measure; therefore, to correctly account for savings, a fraction of durable goods purchased using disposable personal income should be added to the personal savings rate. Another way to save is to enjoy capital gains on existing assets. These gains, made greater (at least until recently) by the strength of the stock market, should be added to both income and savings, which would also raise the savings rate.

More fundamentally, the personal savings rate is just too narrow a measure to capture the source of capital accumulation in the U.S. A more relevant statistic is net national savings, which combines the savings behavior of households, businesses, and governments. In this case, the news is better, with the second quarter net national savings number maintaining a level comparable to what has been observed over the past 15 years.