Federal Reserve Bank *of* Atlanta

MACROBLOG

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The piggybank effect

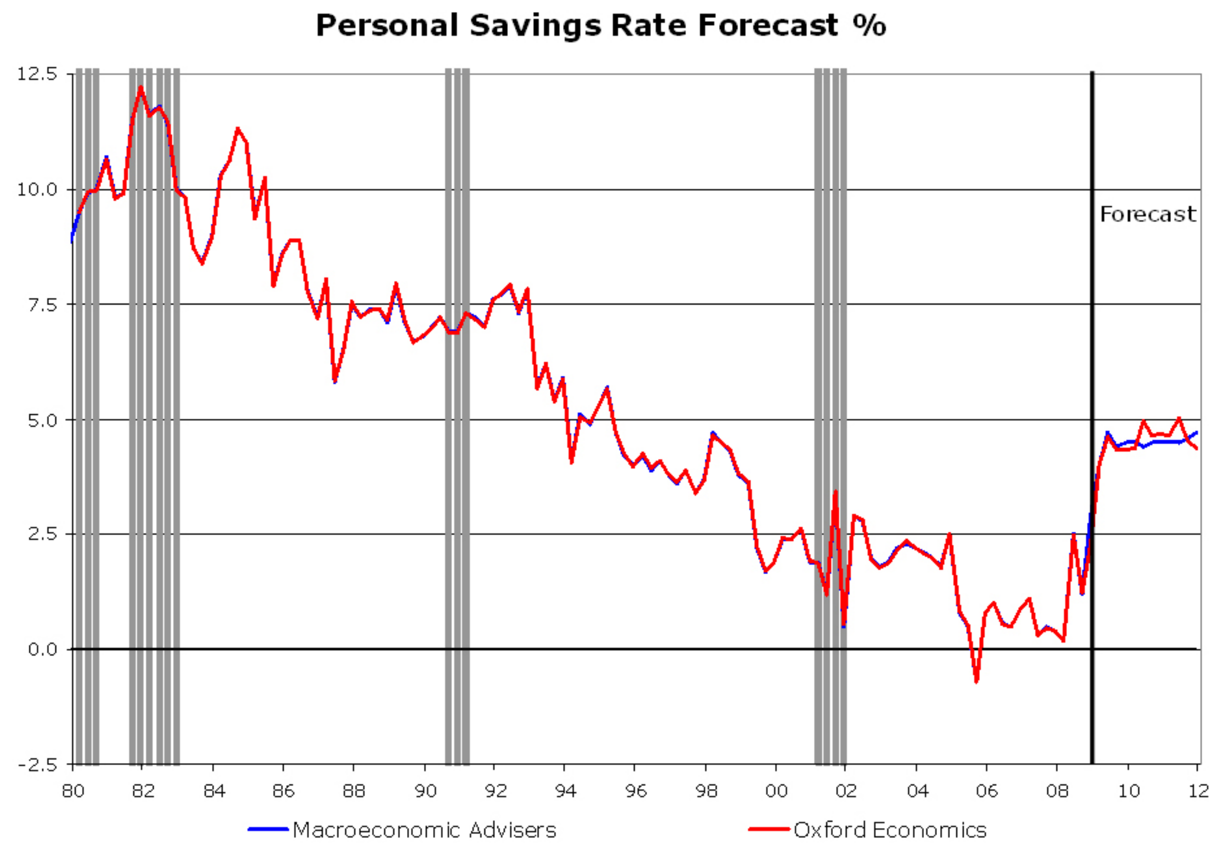
During the 2002–2007 economic expansion, the personal savings rate fell to below 1 percent of disposable income. The savings rate had declined steadily from over 12 percent in the 1980s' recession. What changed the way people allocated their budgets?

U.S. household wealth grew considerably as home prices and the stock market soared. According to the *Wall Street Journal*, "Starting in the late 1990s, soaring stocks made Americans feel richer…. Savings jumped for a bit following the 2001 recession, but plummeted afterwards as housing prices rose, again making Americans feel that it wasn't especially important to save."

Behavioral changes across generations may have also affected the attitude toward savings and debt. A study by McKinsey Global Institute shows that baby boomers' reduced savings is what accounts for most of the collapse in the U.S. household savings rate.

Some have been saying that over the past several years Americans had been "living beyond their means," saving little and shopping conspicuously. According to Merrill Lynch economists, the average household owns nearly $40,000 of nonhousing durable goods assets, a number that has tripled since the mid-1980s.

Since the economy slowed last year, consumers have become more cautious with their income. This fact is not surprising given record lows of consumer confidence, declining house prices, a sharply lower and still volatile stock market, and mounting job losses. Consumers now appear to be shifting toward saving. By November 2008, the personal savings rate rose to 2.8 percent. Many expect it to increase further. According to several forecasters, the savings rate is likely to reach nearly 5 percent by 2011, reducing spending relative to what it had been before the recession.



Source: Macroeconomic Advisers and Oxford Economics

But what will happen when the economy starts growing again? Will consumers behave the same as in the past, returning to lower savings and higher spending? Or will a more frugal mentality continue?

Some Merrill Lynch economists believe this time the rising savings rate is a secular trend. According to them, attitudes toward spending and debt have changed semi-permanently, and the United States is facing what they term a frugal future. However, Macroeconomic Advisers and Oxford Economics estimate the savings rate will begin to decline somewhat as the economy gathers steam in 2011, although it will still remain higher than in 2005–2007. The forecasters think Americans will save between 2.5 percent to 4.5 percent of their disposable income after this recession runs its course—hardly frugal, but perhaps not "beyond their means."

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