

# Spare Change:

## Is The U.S. Consumer Running Out Of Savings?

The U.S. personal savings rate fell to 4.1% in November from 4.2% in August and 5.3% in May.<sup>1</sup> Beyond the monthly data, personal savings have garnered substantial interest from global investors. Many are concerned that once savings run out, U.S. consumers will wilt, and so will the U.S. economy.

However, investors' misconceptions about personal savings may cause them to overstate consumer health concerns. Below, we detail how the "savings sausage" is made, present alternatives, and put savings into its proper context. In the end, U.S. consumers are currently better off than many would have you believe.

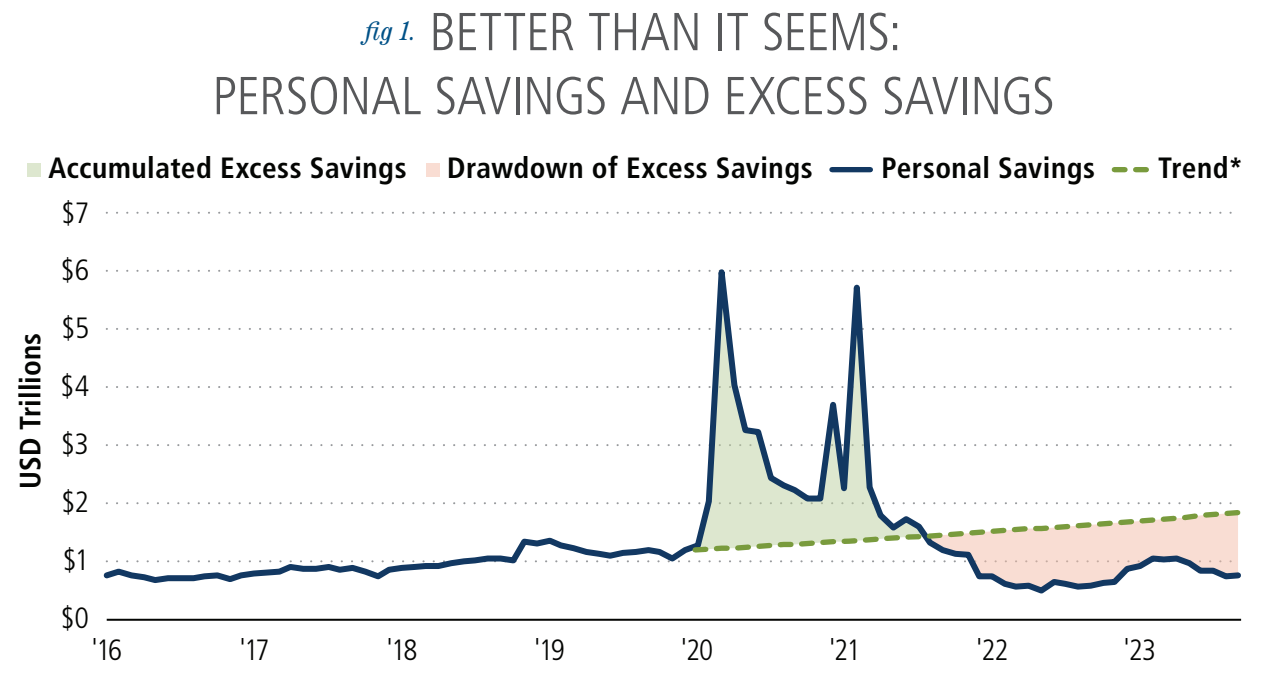
**«U.S. CONSUMERS ARE CURRENTLY BETTER OFF THAN MANY WOULD HAVE YOU BELIEVE.»**

### FLOW VERSUS STOCK: THE TRUTH BEHIND THE SAVINGS "RATE"

"Consumers' excess savings have been depleted," blared a recent headline.<sup>2</sup> But, contrary to popular belief, consumers' savings have not been depleted.

Investors confusion may stem, first and foremost, from how "savings" is calculated and presented. Many investors envision "savings" as a pile of cash consumers have squirreled away for a rainy day.

However, according to the Bureau of Economic Analysis (BEA), personal savings equal disposable income minus personal outlays. In layperson's terms, the after-tax income in each period



Source: Bureau of Economic Analysis, Payden Calculations

\*Pre-Covid trend is calculated by taking the average monthly growth rate in personal saving four years prior to Covid

after subtracting expenditures and net interest payments. In short, instead of summing up the rainy day funds of all American households, "savings" is a flow measure resulting from the tally of aggregate income less aggregate spending each month. "Savings" is then scaled against disposable personal income to calculate the "savings rate."

When aggregate income is boosted dramatically and/or outlays are sharply curtailed, "savings" — the residual amount—spikes. When would such a situation happen, you wonder?

During Covid-19, consumer savings spiked as government fiscal transfers boosted incomes while personal outlays tumbled. After all, consumers were locked in at home and unable to spend!

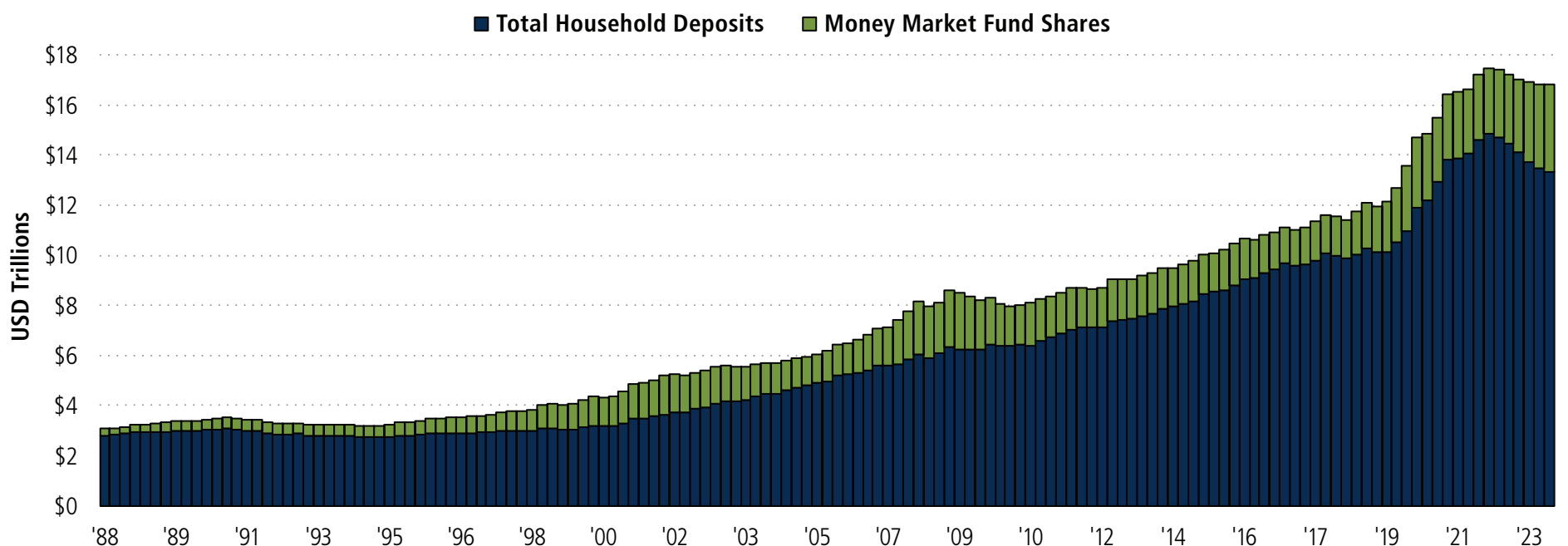
As the economy re-opened and emergency government transfers ended, consumers resumed

normal spending patterns. Consequently, residual "savings" fell in the aggregate.

However, rather than serving as a warning sign that the consumers will soon run out of money, the resumed spending patterns reflect the normalizing post-Covid economy (see Figure 1). Further, media reports touting depleted "excess savings" rely on charts like the one you see above, where "excess" is savings above/below a pre-set trend defined by the chart's creator (e.g., the pre-Covid trend).

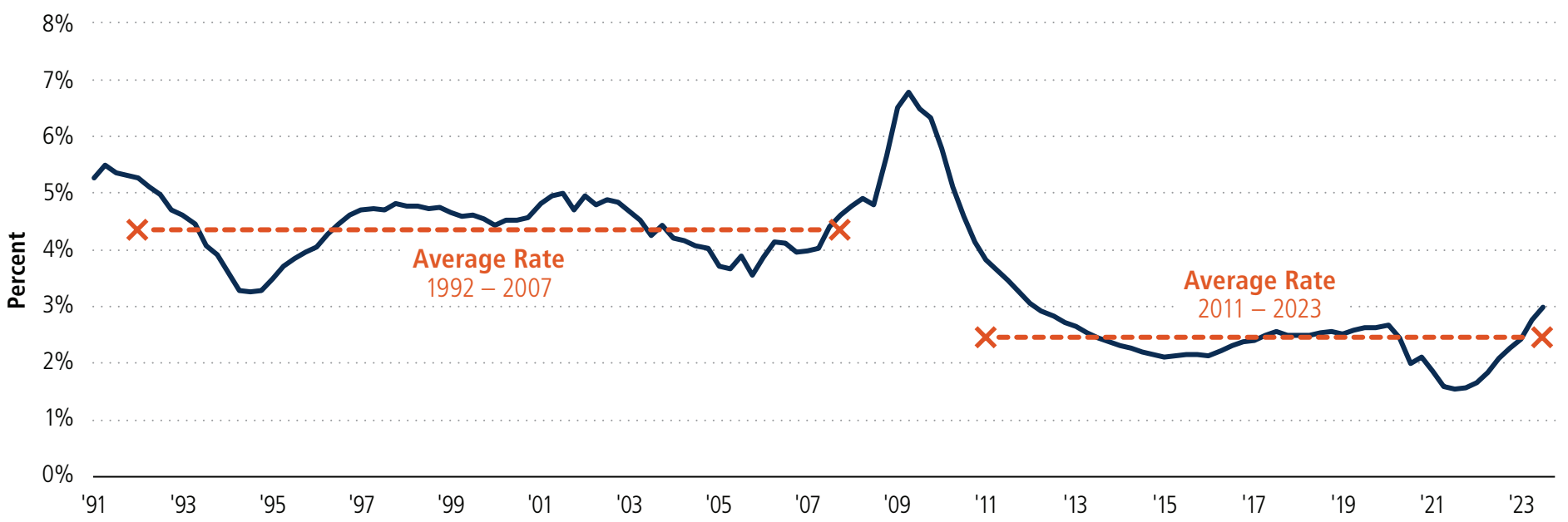
Importantly, even on the BEA savings measure, as of November 2023 (the latest available data release at the time of publication), personal savings equaled \$840 billion, or 4.1% of disposable income.<sup>3</sup> At 4.1%, the current savings rate is far from alarming, as a similar rate (~4.1% on average) prevailed through the 2010s economic expansion.

*fig 2.* ABUNDANT CASH RESERVES: HOUSEHOLD TOTAL DEPOSITS AND MONEY MARKET FUND SHARES



Source: Federal Reserve

fig 3. BEEN HIGHER, DONE WORSE:  
CREDIT CARD DELIQUENCY RATE, ALL COMMERCIAL BANKS



Source: Federal Reserve

To more closely approximate what many, if not most, investors think of as savings, we can use data from the Federal Reserve to add up all the checking deposits and money market fund shares held by households. Using this method, household "savings" total just over \$16 trillion, down from \$17.4 trillion at their peak in 2022 but still higher than *any other period* from 1989 to 2020 (see Figure 2 on page 1)!<sup>4</sup>

**BEYOND A SAVINGS STASH**

Moreover, other resources would still be available even if a household depleted its savings. Household net worth, for example, captures a broader array of assets not included in the personal savings category above, including all household deposits, savings accounts, and financial and capital investments. The total U.S. household net worth rose to a staggering \$142 trillion in Q3 2023—barely down from its peak of \$143 trillion in Q1 2022.<sup>5</sup> In a pinch, households could sell at least some of these assets.

Furthermore, households facing a cash crunch could borrow instead of selling assets. Despite the headlines on consumer credit card debt,

U.S. consumers still have room to increase their borrowing capacity. Total credit card debt balances remain around 5.1% of disposable income as of Q3 2023, lower prevailing credit card utilization rates before the pandemic.

Even if we account for student loan payments and auto loans, consumer debt is around 21% of disposable income, about the same as the average since 2003.<sup>6</sup> Overall, U.S. household debt as a percentage of GDP fell to 73% in Q2 2023, down from the all-time high of 100% in Q4 2007.<sup>7</sup>

What about the impact of higher interest rates? As a percentage of disposable income, total debt service costs are only 9.8% in Q2 2023, around the average during the 2010s.<sup>8</sup> Households' insulation to rate hikes is due to a large proportion of fixed-rate loans (e.g., mortgage and student debt loans), which allowed households to "lock in" rates for more extended periods. Some consumer loans, such as credit cards and auto loans, are more sensitive to rate changes and are refinanced more regularly; such loans account for just 21% of total outstanding household loans.

However, skeptical investors may wonder, "What about surging credit card delinquencies we keep hearing about in the media?" Well, "surging" may not be the right word. If we zoom out of the last few quarters, the delinquency rate is nowhere near a concerning level. With increasing credit card loans, delinquency rates only rose to 2.98% in Q3, which is close to the 2.4% average from 2011 to 2023 and well below the 4.3% average from 2000 to 2007 (see Figure 3).<sup>9</sup>

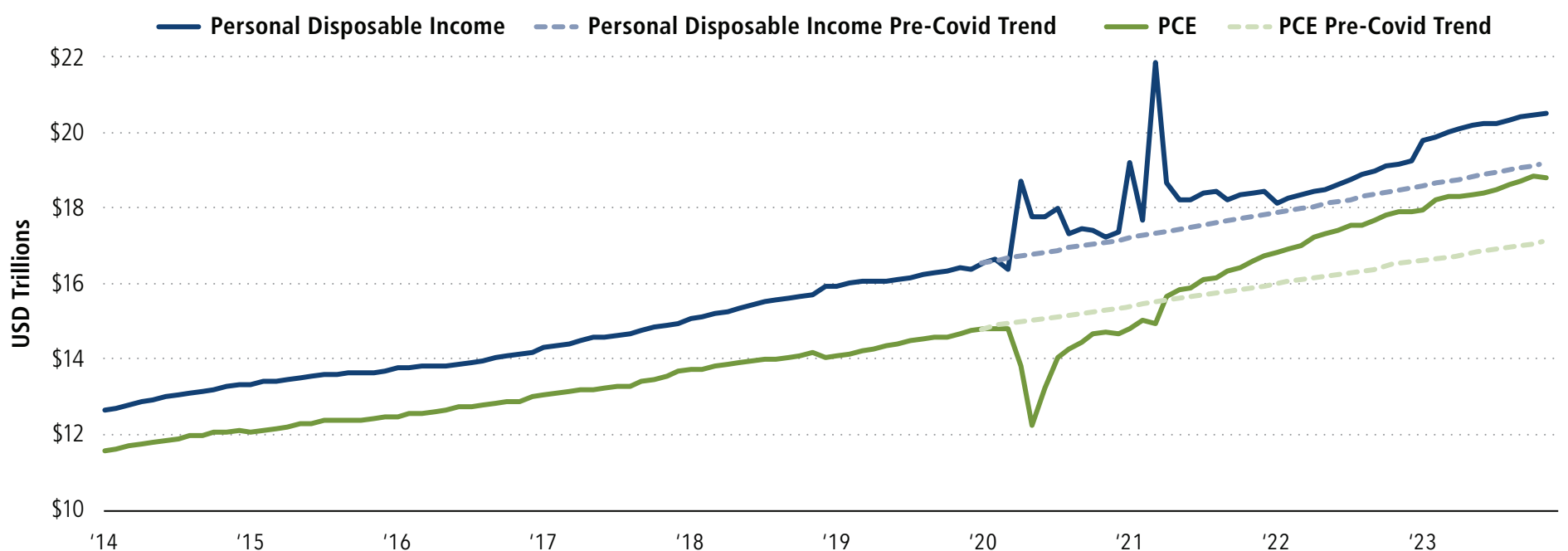
**INCOME GROWTH, NOT SAVINGS, DRIVES CONSUMER SPENDING**

Finally, lost in the discussion about savings is the answer to the most critical question, "What *really* drives consumer spending?" We can answer that with two words: "Income growth!"

If workers earn decent wages, consumer income, not savings, will drive spending. U.S. consumer disposable income is growing at 7% year-over-year through November 2023—the best sign that the consumer can continue to spend (see Figure 4).<sup>10</sup> Bonus points: In a "soft landing," the average consumer's "real"

fig 4. PAYCHECKS DO THE TALKING:

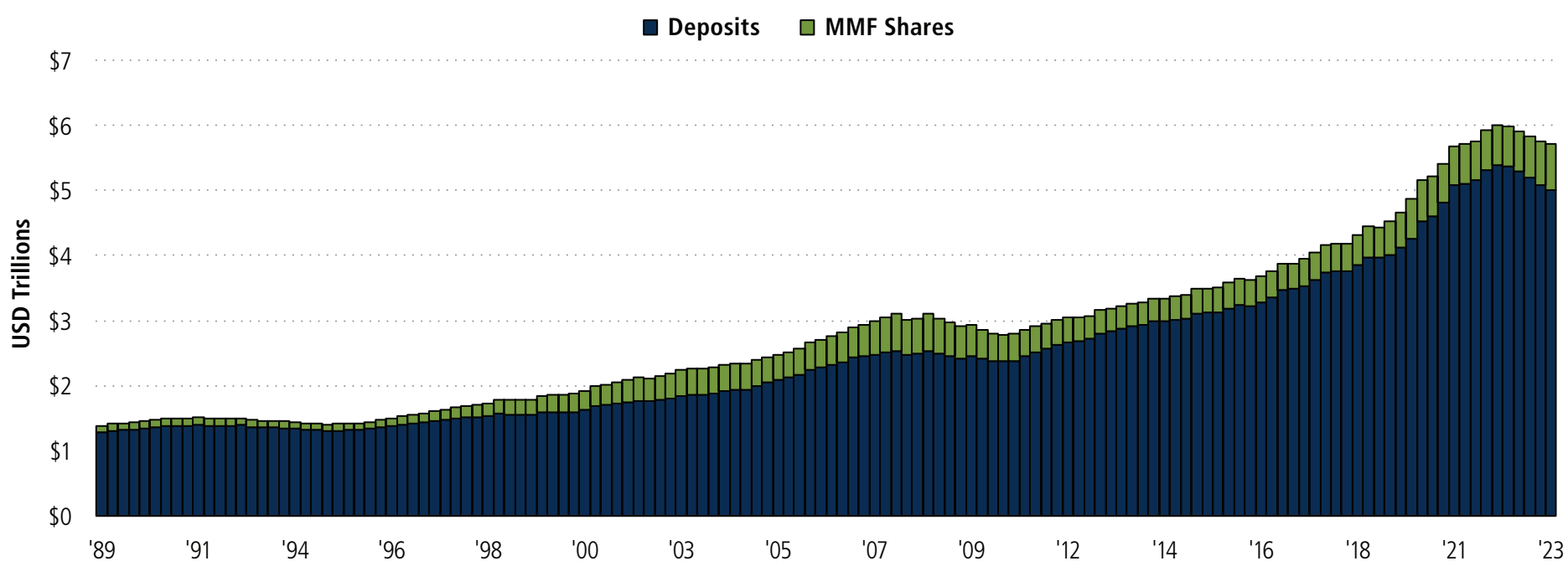
PERSONAL DISPOSABLE INCOME VERSUS PERSONAL CONSUMPTION EXPENDITURES (PCE)



Source: Bureau of Economic Analysis, Payden Calculations

fig 5. SO FAR, SO GOOD!

## DEPOSITS AND MMF\* SHARES HELD BY BOTTOM 90% OF WEALTH DISTRIBUTION



Source: Federal Reserve

\*Money market fund

(inflation-adjusted) disposable income should improve as inflation subsides.<sup>11</sup>

### WHAT ABOUT THE 99%?

Finally, skeptical investors might ask, “What if the richest 1% own all the savings?”


The top 20% of income earners receive about 50% of total personal income while only accounting for 36% of total spending.<sup>12</sup> So, the income and spending growth picture may differ once we exclude the top-income earners.

However, according to the alternative savings measure mentioned above, the average consumer still holds near-record-high cash deposits and money market funds. Excluding the top 10% of households by wealth changes the overall picture only slightly (See Figure 5).

Additionally, the bottom 90% of the wealth pyramid has *increased* money market fund holdings in Q2 2023—another sign that consumers can still spend.

### IT'S UP TO THE PAYCHECKS

So, should investors worry about savings? Yes. Ultimately, savings rates and recessions *are* related, albeit counterintuitively. Savings rates tend to *rise* during recessions as consumers cut back on spending. Conversely, during expansions, savings rates tend to *fall* as consumers, confident in their future income, are willing to spend more regularly.

A falling savings rate does not necessarily signal an economic slowdown. Instead, it usually indicates a strong economy with a tight labor market. A sharply rising savings rate might portend the opposite. So beware of the flashy headlines on the consumer “running out of gas.” Income, not savings, will likely determine the fate of the U.S. consumer in 2024. 

## DID YOU KNOW?

### IN CHINA, SAVINGS HAVE THE OPPOSITE PROBLEM

We mentioned the U.S. savings rate is 4.1%. Well, Chinese consumers save roughly one-third of their disposable income! According to the National Bureau of Statistics of China, the savings rate in China has been around 34% of disposable income since the Global Financial Crisis.<sup>13</sup> But, to investors studying the Chinese economy, rather than rejoicing at the abundant cash in consumers’ pockets, the high savings rate has curbed spending. As a country whose past growth has depended on investment, personal savings have been critical to the “investment-based growth model.” However, in recent years, high levels of investment have failed to sustain economic growth, and pessimistic consumers have reduced spending even more, further slowing growth in China. With the post-pandemic recovery stagnating, instead of acting as fuel to growth, the elevated savings rate is becoming a drag.

## ENDNOTES

1. Bureau of Economic Analysis (November 2023), *Personal Income and Outlays*.
2. Abdelrahman, H., & Oliveira, L. E. (2023, August 16). *Excess no more? dwindling pandemic savings*. San Francisco Fed. <https://www.frbsf.org/our-district/about/sf-fed-blog/excess-no-more-dwindling-pandemic-savings/>
3. Ibid
4. Federal Reserve (December 2023), *Z.1 Financial Accounts of the United States*.
5. Ibid
6. Federal Reserve Bank of New York (November 2023), *Household Debt and Credit Report*.
7. Bloomberg
8. Federal Reserve (December 2023), *Z.1 Financial Accounts of the United States*.
9. Federal Reserve (November 2023), *Charge-Off and Delinquency Rates on Loans and Leases at Commercial Banks*.
10. Bureau of Economic Analysis (November 2023), *Personal Income And Outlays*; Payden Calculations.
11. We define a “soft landing” as the scenario in which inflation subsides *without* a significant rise in unemployment.
12. Bureau of Economic Analysis (December 2022), *Distribution of Personal Income Prototype Statistics*; Bureau of Labor Statistics (December 2022), *Distribution of Personal Consumption Expenditures*.
13. National Bureau of Statistics of China (September 2023), *Households’ Income and Consumption Expenditure in China*.

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