National Economic Trends

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Personal Saving and Economic Growth

The U.S. personal saving rate increased to nearly 5 percent in the second quarter of 2009. Although saving has its advantages, many analysts fear that a rising saving rate could hamper the economic recovery: Consumer expenditures are such a large component of aggregate demand that even a small decline in consumption could have a noticeable effect, and more saving means less consumption. We look at the data on the U.S. personal saving rate and GDP growth since 1948 for some insight into how likely it is that increased personal saving will slow economic growth.

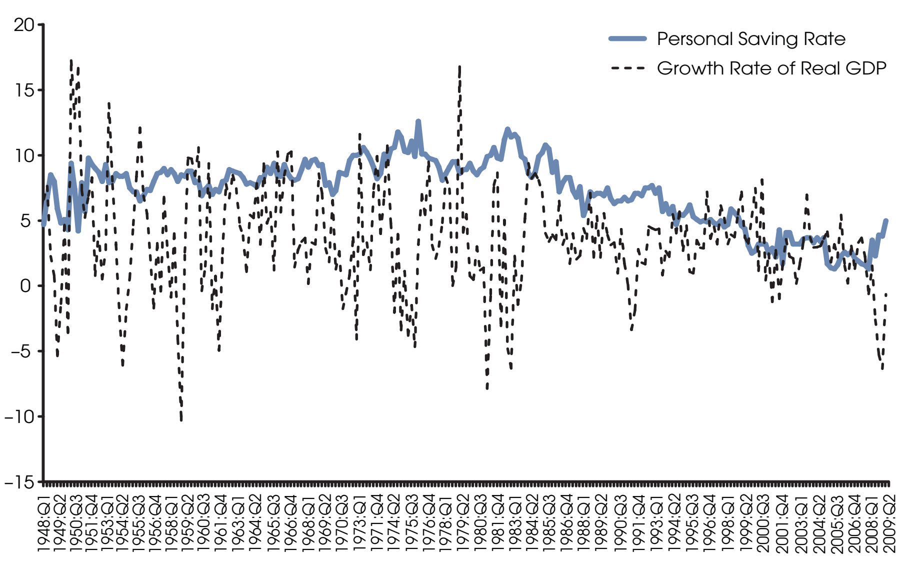
The chart shows both the quarterly U.S. personal saving rate (personal disposable income less personal outlays) and the annualized growth rate of real gross domestic product (GDP) over the period 1948:Q1–2009:Q2. The personal saving rate increased from about 6.0 percent in the late 1940s to a peak of 12.5 percent in 1975:Q2, then declined to 1.2 percent by 2007:Q4, and has since increased to 4.9 percent. Over these same periods, output grew at 3.8, 3.2, and –2.4 percent rates, respectively.

Most economists believe that long-run economic growth is directly linked to economic fundamentals such as the stock of capital, technological innovation, trade policies, government tax policies, and so on. A higher saving rate does mean less consumption, but it could also result in more capital investment and, ultimately, a higher rate of economic growth. In this respect, it is interesting that the growth rate of real GDP has been higher on average when the personal saving rate is rising than when it is falling. Of course, it would be incorrect to conclude that the higher saving rate was responsible for the faster economic growth, because many things that affect economic growth are not accounted for in such a simple observation. Nevertheless, the direction has been positive.

That personal saving and growth are likely to be positively related in the *long run* does not preclude the possibility that a higher saving rate can slow economic growth in the *short run*. To investigate this possibility, we calculate the simple percent correlation between the saving rate in the current quarter and the growth rate of output in the current quarter and in the next eight quarters. This is shown in the table.

The correlation is about 5.5 percent in the current quarter, increases monotonically to 15 percent six quarters ahead, and then declines. All correlations are positive, suggesting that a higher saving rate in the current quarter is associated with faster (not slower) economic growth in the current and next few quarters. However, these correlations are relatively small, suggesting that the relationship is rather weak. Again, it would be incorrect to infer a causal relationship here, but these correlations suggest that any possible negative effect of higher saving rates on short-run economic growth has been consistently offset by the positive effect of other factors. Hence, a simple analysis of these data does not support the view that the recent rise in the personal saving rate will impede the economic expansion that appears to be under way.

—Daniel L. Thornton



SOURCE: Bureau of Economic Analysis/Haver Analytics.

Percent Correlation

(current quarter) 0	1	2	3	4	5	6	7	8
5.54	5.75	6.20	8.73	8.90	13.13	15.00	13.13	12.05

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