

Note on the Personal Saving Rate

THE NIPA PERSONAL saving rate—personal saving as a percentage of disposable personal income—decreased to 0.5 percent in 1998 (and reached zero in the fourth quarter of 1998). These decreases, which continue a two-decade long downtrend, are not surprising in light of the large gains in household wealth, the steady growth in income, and the high levels of consumer sentiment (chart 1).¹

Another measure of the personal saving rate, the Federal Reserve Board (FRB) measure of household saving as a percentage of NIPA disposable personal income, is also shown in chart 1. This rate is conceptually equivalent to the NIPA rate, but because it is based on different source data, the estimated values of the two rates usually differ.² Nevertheless, whether saving is calculated in terms of flows (as in the NIPA's) or in terms of net change in assets (as in the FRB measure), it shows a clear downtrend. Moreover, in 1997 (the latest year for which the FRB measure is available), the FRB's rate was 1.5 percent, close to the NIPA rate of 2.1 percent, and the lowest rate since the beginning of the series in 1946.

Although the personal saving rate is low, total saving in the U.S. economy is not. The national saving rate—gross saving as a percentage of gross national product—was 17.3 percent in the third quarter of 1998, a little higher than the average rate for the past two decades and up from 13.8 percent in the fourth quarter of 1992.³ In recent years, as personal saving has fallen, saving by business (mainly in the form of retained earnings and consumption of fixed capital) and by government (in the form of the NIPA surplus

and consumption of fixed capital) have risen. Personal, business, and government saving are published in NIPA table 5.1 and are shown as a percentage of gross national product (GNP) in chart 2.⁴

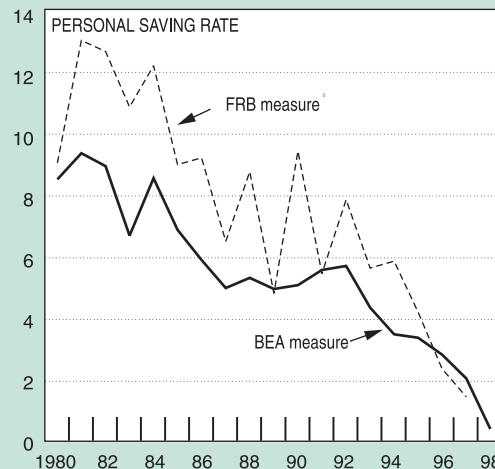
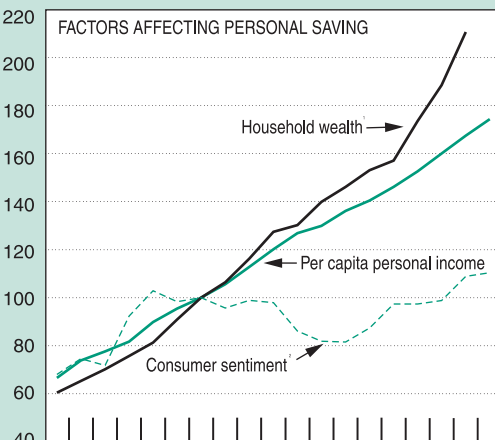
Gross saving combined with net foreign investment, which reflects the acquisition of U.S. assets by foreign residents, has been adequate to finance high levels of investment in recent years. From 1991 to 1997, real gross private domestic investment (shown in NIPA

4. A version of this chart is published monthly in the SURVEY (see page D-45 in this issue).

CHART 1

Perspectives on Personal Saving

1986=100



NOTE.—In the top panel, all series converted to indexes, 1986=100, by BEA

1. Net worth of households and nonprofit organizations. Data: Federal Reserve Board.

2. Data: University of Michigan, Survey Research Center.

3. Personal Saving (NIPA concept, "Flow of Funds" data). Data: Federal Reserve Board

U.S. Department of Commerce, Bureau of Economic Analysis

1. The personal saving rate was discussed in connection with the redefinition of dividend income in last year's annual revision in the box "Recent Trends in the NIPA Personal Saving Rate," in Eugene P. Seskin, "Annual Revision of the National Income and Product Accounts: Annual Estimates, 1995-97 and Quarterly Estimates, 1995:1-1998:1," SURVEY OF CURRENT BUSINESS 78 (August 1998): 30.

2. The NIPA measure is the difference between income and outlays; the FRB measure is the net increase in financial and tangible assets less the net increase in liabilities. The two measures are conceptually equivalent because every dollar of income not used for consumer outlays must be used to increase holdings of some financial or tangible asset or to reduce financial liabilities. In the FRB's flow of funds accounts, the featured measure of personal saving defines both residential structures and consumer durables as tangible assets and includes the credits and insurance and pension funds for government employees. The alternative measure shown in chart 1 is definitionally consistent with the NIPA measure; it excludes consumer durables and government-employee insurance and pensions, which are included in NIPA government saving. For additional information on the FRB measures, see *Guide to the Flow of Funds Accounts* (Washington, DC: Board of Governors of the Federal Reserve System, 1993).

3. Estimates of national saving and gross national product for the fourth quarter of 1998 (and for the year 1998) are scheduled to be released on March 31, 1999.

NOTE.—This note was prepared by Daniel Larkins.

table 5.3) increased at an annual average rate of 8.5 percent; net of consumption of fixed capital, the growth was even stronger, at 20.2 percent.

The NIPA's focus on the production of goods and services in the U.S. economy and on the income arising from that production. Changes in the value of existing assets play a role in that production, but these changes fall outside the scope of the NIPA's. Thus, gross domestic product, the featured NIPA measure of production, does not include income from the sales of existing assets—such as stocks or houses—or the capital gains and losses on those assets. Likewise, NIPA measures of income and saving do not include income from the sale of existing assets or changes in wealth that are associated with the revaluation of existing assets.

The NIPA's provide a consistent set of double-entry accounts in which output, income, and expenditures

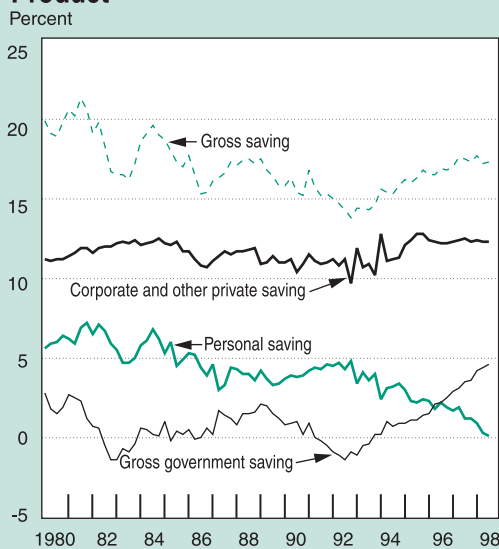
are equal and in which saving and investment are equal for the economy as a whole in each accounting period. These identities are central components of an analytical framework that facilitates the analysis of economic fluctuations and growth. For analyses of economic subjects that are affected by other influences, such as household spending being influenced by capital gains, additional information is useful. Nonetheless, the low NIPA personal saving rate is of analytical value in itself in that a low saving rate suggests a rate of spending that might not be sustained in the longer run.

The NIPA definitions of income and saving are not the only reasonable definitions, and they are not necessarily the best concepts to use in all circumstances. For instance, the NIPA measures of personal income and saving may be supplemented with information on various types of household wealth in order to obtain a broader measure of household ability to spend. These broader measures can provide useful additional information about the economy in general and about consumer spending in particular.

In fact, the NIPA's themselves provide information that can be used to construct alternative or supplementary measures of saving. For example, a measure of personal saving that treats purchases of consumer durables as a form of household saving can be compiled from data on stocks of these assets that are included in BEA's tangible wealth estimates. In addition, the NIPA treatment of private and government pensions has important implications for the income and saving estimates and for the interpretation of these estimates. As previously noted, the FRB measure of saving treats both private and government-employee pension plans symmetrically.⁵ BEA will be investigating a number of supplementary saving measures in the coming months.

CHART 2

Saving as Percentage of Gross National Product



U.S. Department of Commerce, Bureau of Economic Analysis

5. Data on employer contributions to private and government pension plans can be found in NIPA table 8.15. Benefit payments by these plans can be found in NIPA tables 6.11C (private) and 3.12 (government). Investment income of private plans, excluding capital gains and losses, is included in the line for imputed interest paid by life insurance carriers and private noninsured pension plans in NIPA table 8.18.