US MONEY MOTIONS- SAVINGS AND SHIFTS
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A famed proverb: "A penny saved is a penny earned."

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CONCLUSION

Since June 2011, United States personal saving as a percentage of disposable personal income has declined. Many observers believe a declining savings rate generally signals economic growth and thus is a reason for optimism. Though this sometimes may be true, it probably is not the case now. In today's worldwide economic theater, feeble personal savings- and especially a slumping level- indicate that US economic growth for the near term and perhaps longer probably will be weak. The savings rate in recent years, not just recently, has been low relative to long run history. Given this, in the context of the rather gloomy current and near-term economic horizon, further cuts in the savings rate will warn of or confirm an economic downturn.

THE US PERSONAL SAVINGS RATE

In "Material Girl", Madonna sings:
"'Cause the boy with cold hard cash
Is always Mister Right, 'cause we are
Living in a material world
And I am a material girl." (Lyrics by P. Brown and R. Rans)

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Movements in savings rates of course reflect numerous interrelated variables. Noteworthy leaps and dives in such rates enable observers to provide various theories regarding causes, trends, and implications.

Although the US consumer is not the only saver in the world, let's grab US personal savings statistics from the Bureau of Economic Analysis and place them in a long run perspective. Recession dates are from the National Bureau of Economic Research.

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From 1929 through 2010, average US personal savings as a percentage of disposable personal income is 7.4 percent. During the post World War Two period of 1946 to 2010, it is 7.1pc. WW2's 26.0pc is the record yearly high (1944; 1942-45 all exceeded twenty pc). With so many Americans away at war, it was "easier to save".

After 1945, the yearly peak was 1982's 10.9pc. Recessions often are associated with ascending savings rates. Thus in regard to the 1982 pinnacle, remember the long, 16 month downturn from July 1981 to November 1982 and the brief preceding one of January-July 1980. The 1982 savings peak rivaled the 10.7pc one in 1974 and 1975's 10.6pc. Recall the notable economic slump from November 1973 to March 1975.

From July 1990 to March 1991, the US endured an eight month downturn; consumer saving rose from 6.5pc in 1990 to 7.3pc in 1992. However, the 1992 level fell short of 1986's 7.6pc, and the 1986 rate exceeded the long run averages from 1929 and 1946 extending up to the present.

After 1992's 7.3 percent, personal savings as a percentage of disposable personal income gradually declined. This trend is important, for it reflects a secular decline in savings. The average yearly savings rate from 1993 to 2010 was 4.0pc.

As time passed, and in the context of the declining rate since 1992 (and even since 1982 and 1986), recall the eventual appearance and evolution of the Goldilocks Era, with seemingly endless prosperity for all (or almost all). Despite ups and downs, stock benchmarks such as the S+P 500 kept climbing up from the summer 1982 valley (8/9/82 at 102) and the 1987 crash low (10/20/87 around 217). Housing prices soared toward the heavens. Then arrived 2007 and the eruption of the worldwide economic crisis. The S+P 500 peaked at 1576 on 10/11/07 (almost exactly double the March 2003 low), with its final top 5/19/08 at 1440.

Yet briefly venture back before 2007 for a moment. Remember the stock marketplace highs of first quarter 2000 (S+P 500 3/24/00 at 1553) and the brief eight month recession of March-November 2001, as well as the S+P 500 final bottom on 3/12/03 at 789. The savings rate was 2.9 percent in 2000 and 2.7pc in 2001. It inched up only modestly to 2004's 3.6pc, a level well beneath the post World War 2 average of 7.1pc.

The average savings rate from 1993 to 2007 was 3.8pc. Personal saving as a percentage of disposable personal income slipped to its post-WW2 depth of 1.5 percent in 2005 (3Q05's 1.3pc was the low quarter). What was it just before the US stock marketplace's October 2007 plateau and several months before the 2008 acceleration of the worldwide financial crisis? At 2.1pc in 3Q07 (annualized), it remained very meager.

The recent US recession ran for 18 months, from December 2007 through June 2009. It was the longest slump since WW2. After savings rates of 2.6pc 2006 and 2.4pc in 2007, consumers put relatively more money in their pockets. The 2008 rate was 5.4pc, with 2009's 5.1pc and 2010pc at 5.3pc. This 2008-2010 lift in savings is consistent with rises of during/following the post World War 2 recessions discussed above. Highs from 2008 to the present time are the 6.2pc (annualized) of 2Q08, 4Q08, and 2Q09; this 2Q08-2Q09 frame surrounds the darker days of the international economic disaster. As the economy revived, lower highs in the savings rate followed- 5.6pc in 2Q10 and 3Q10.

Since June 2011's 5.3pc (annualized), the savings rate has dwindled further. July's was 4.5pc, August 4.1pc, and September at 3.6pc.

PROSPERITY OR PESSIMISM?

Fleetwood Mac sings in "Don't Stop":
"Don't stop, thinking about tomorrow,
Don't stop, it'll soon be here,
It'll be, better than before,
Yesterday's gone, yesterday's gone."

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Declines in the US personal savings rate may herald or coincide with economic growth. The period from 1993 to 2007, and especially the enthusiastic time of 2004-2007, evidences this. The down shift in America's personal savings rate from its 2008-2010 summits of 6.2pc/5.6pc indeed coincides with the current recovery. However, permanent prosperity probably has not returned. The further declines since June 2011, when interpreted alongside other indicators, probably indicate that a more ominous US economic future of sluggish growth and arguably a recession lies ahead.

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First, history shows that a very low or declining savings rate does not necessarily translate into (equal, represent) happy healthy times of growth and prosperity. Let's look back into the allegedly ancient landscape preceding World War 2. The Great Depression ran from August 1929 to March 1933 (43 months). Note that the savings rate collapsed during the downturn. The savings rate was 4.3pc in 1929 (the year of the stock marketplace peak), 4.0pc in 1930, and 3.7pc in 1931. It went negative in 1932 (-1.1pc) and 1933 (-1.7pc), with 1934 barely positive (.9pc).

A renewed downturn followed from May 1937 to June 1938. Personal savings fell from the 6.2pc of 1936 and 5.9pc in 1937 to 1.9pc in 1938, with 1938 the lowest yearly level until the 1.5pc of 2005.

Thus declines in the personal savings rate can occur during economic downturns, not just in upswings. The Depression shows that very low (even negative) savings rates can reflect fear and pessimism as well as joy and optimism. To interpret the current low savings rate and to make predictions regarding its future and implications, one must look at surrounding circumstances.

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Despite estimated US 3Q11 real GDP growth of 2.5pc (annualized) and the sharp stock marketplace rally from its October 2011 depth, numerous signs indicate that consumer resources are stretched rather thin and probably will remains so for some time. America's low savings rate suggests that many consumers now are fighting especially fervently to maintain a constant ("appropriate") standard of living ("lifestyle").

If households felt prosperous, wouldn't confidence measures show it? Wouldn't there be a lot of joyful commotion? According to the Conference Board (10/25/11), October 2011 US consumer confidence fell to 39.8 (1985=100), down yet again from February 2011's modest height of 72.0. Compare the timing of the February 2011 high in the confidence index and its subsequent drop with S+P 500 movements. After attaining its initial high at 1344 on 2/18/11, it made tops at 1371 on 5/2/11 and 1357 (7/7/11)/1347 (7/21/11). Moreover, the February 2011 consumer confidence level falls far below the July 2007 Goldilocks Era summit of 111.9 (S+P 500's initial high 1556 was 7/26/07, major peak 1576 10/11/07). The Conference Board index was merely about half of January and May 2000's 144.7.

The present consumer confidence trend points at the record depth of 25.3 of February 2009, achieved right around the S+P 500's major trough at 667 on 3/6/09. During the global economic disaster, the final S+P 500 top in 2008 was 5/19/08 at 1440; even at that substantial S+P 500 height, May 2008's consumer confidence was merely 58.1. Moreover, its current level wallows well beneath March 2003's 61.4, when the S+P 500 made its final major low (3/12/03 at 789). It droops mournfully beneath December 1974's dismal 43.2 bottom. Might consumers nowadays be "running hard to stay in place", thus keeping personal savings low despite an economic "recovery"?

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Review some net worth and income statistics alongside the confidence ones. Consumers have not repaired the severe damage to their net worth suffered during the dreadful downturn. Nominal US household net worth at end 2Q11 was $58.7 trillion. Although this marches up quite a bit from end 2008’s $51.5tr, it is many steps distant from the $64.3tr at end 2006 and 2007 (Federal Reserve, Z.1 “Flow of Funds”, 9/16/11). Plus consumers have endured some inflation since 2007.

Although 3Q11 (annual rate) disposable personal income is up about 3.8pc versus full year 2010, disposable personal income has been fairly flat over the three 2011 quarters, with 1Q11 at $11.48tr, 2Q11 $11.59tr, and 3Q11 $11.61tr.

According to the Census Bureau, median household income adjusted for inflation sagged 6.4 percent from 2007 to 2010 (“Income, Poverty, and Health Insurance Coverage in the United States: 2010”, Table A-2, p34; September 2011). The NYTimes (10/10/11, pA1) cites a study by two former Census Bureau officials. Their research indicates that from the onset of the US recession in December 2007 until June 2011, inflation-adjusted median household income slumped about 9.8 percent. From December 2007 to June 2009, the official recession period, it fell about 3.2pc. During the “recovery” from June 2009 to June 2011, it tumbled 6.7pc more.

We all know that for Americans, homes and their values are seen as a crucial sign of wealth, prosperity, and the achievement of “a better life” and “the good life”. Unfortunately, US house prices collapsed and remain weak. Owner’s equity in household real estate was a lofty $12.9 trillion in 2006, but only $6.2tr in 2Q11 (Federal Reserve, Z.1, Flow of Funds, 9/16/11). From their February 2011 lows, the median sales price of US existing homes edged up until June 2011. However, they resumed their decline in recent months, with the September 2011 price about 5.8pc down from June 2011’s. The mean sales price pattern for existing homes is similar. (National Association of Realtors). Compare this erosion since June 2011 with that in the personal savings rate.

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Unemployment levels have stayed stubbornly high, with October 2011’s headline rate at 9.0pc (a broader measure gives 16.2pc; Bureau of Labor Statistics).

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But haven’t consumers made significant progress in cutting their debt burdens, so that one can interpret their reduced savings rate as a sign of optimism and an omen of further real GDP advances? Despite some improvement regarding the debt load, it probably has not been substantially diminished. Plus one should look at this in the context of still dismal consumer confidence, household net worth levels, income trends, and other indicators.

The Federal Reserve provides a Financial Obligations Ratio of debt payments as a percentage of disposable personal income (data back to 1980). This ratio achieved its record of 18.9 percent in 3Q07. At the end of 1Q09, the FOR still was high, at 18.5pc. By 2Q11 (the most recent data), it shrank to 16.1pc, a bit above the low of 15.5pc of almost three decades earlier, in 4Q80. This shows some debt progress from the cash flow standpoint, but cash flow does not focus very directly on the overall debt burden. Also, the range of 15.5pc to 18.9pc is a narrow one. Hence the FOR is not a great indicator of the severe pressure placed on consumers by their debt loads.

Isn’t it hard to save much when you’ve got heavy debt baggage pressing on your back and your income isn’t growing all that much? Look at the current overall weight of US consumer debt in historic context. According to the “Quarterly Report on Household Debt and Credit” (Federal Reserve Bank of NY, August 2011), 2Q11 consumer debt was $11.4 trillion. This is about 75.5 percent of 2011 nominal US GDP of around $15.1tr. The 2Q11 debt dips $1.1tr (8.6pc) from 3Q08’s peak of $12.5tr (about 87.4pc of 2008 GDP). Yet this is almost three years later, so the removal of the load has been rather modest over time. In addition, the 2Q11 level still hovers about $2.5tr beyond the $8.9tr level at end 2004 (which was also about 75percent of nominal GDP), around when the happy days of the Goldilocks economy were beginning to smile.

Moreover, a look back to 2000 underlines the still-massive current burden on American consumers. At end 2000, it was $5.6tr, about half the 2Q11 level. Significantly, the 2000 consumer debt was only 56.3pc of nominal GDP.

The enormous boost in consumer indebtedness up to 2008- and especially in the upward shift in the indebtedness relative to nominal GDP percentage from to 2000 to 2008, were signs of great American faith in continued significant long run economic growth. Again, recall not only the shift downward in the savings rate during the 1993-2007 (and 1993-2010) period relative to the past, but also the lows of 2005-2007 (those three years averaged 2.2pc).

The current debt burden looks huge from another angle. US population in 2000 was just under 284 million, that in 3Q07 around 302 million (near the peak of the stock marketplace and just prior to the economic debacle), that in September 2011 about 313mm. Although nominal household debt at end 2Q11 still is more than double that of 2000, the US population in September 2011 grew only about ten percent versus 2000. What is a high, low, average, or tolerable debt burden is a matter of opinion. However, the current US per capita household debt burden of around $36,420 ($11.4 trillion divided by the September 2011 population) is about 85 percent above the 2000 level of $19,750 ($5.6tr/283.6mm).

US consumer price inflation over 2000-10 was about 2.2pc per year. The Fed indicates that 2011 core personal consumption expenditure (PCE) inflation will be about 1.8pc (11/2/11 projections). In September 2011, the consumer price index (CPI-U; less food and energy) advanced two pc year-on-year (all items rose 3.9pc over the past year). Thus cumulative consumer price inflation over the past decade or so has been much less than 85pc. Thus inflation has not eroded most of the weight of the current debt burden. Compare the 2000 and even the 2007 US consumer confidence summits with those of 2011 again.

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The US Congressional Budget Office estimated in August 2011 (and confirmed in October 2011) a fiscal 2011 federal budget deficit of $1.3 trillion, or 8.5pc of GDP, the third largest one in the past 65 years. Only the deficits of the prior two years exceeded it! It forecasts a sizeable 2012 deficit of $973bb (6.2pc of GDP). If the government is having trouble tightening its purse strings and saving money (as shown by recent and current deficit spending, as well as looming long run deficits), as this government is representative of the people, why be surprised that it is difficult for consumers to boost their savings?

Political pessimism parallels that of consumer confidence figures. The NYTimes reports that in October 2011 only nine percent of Americans approve of the way Congress is handling its job. Only ten percent of those polled believe they can trust the federal government to do what is right always or most of the time. Forty six percent of the public disapprove of how Obama is handling his work as President, the same as his approval rating. But 56.0pc disapprove of the President's methods of handling the economy. A 46 to 36pc majority (not everyone had an opinion) believes "the views of people involved in the Occupy Wall Street movement generally reflect the views of most Americans". (10/26/11, pp A1,20; October 19-24 telephone interviews).

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The declining savings rate trend that commenced (or sped up) around 1993, and especially the very low savings rate reached during the mid-2000s, reflect a less than thrifty period. The

Goldilocks Era years arguably were spendthrift ones. Such low rates, especially during 2005-2007, reflected many interrelated factors. However, these probably include growing faith in near-endless long run prosperity, eager embrace of debt, desire to achieve an appropriate lifestyle, and a growing sense of "entitlement" (without worrying too much who pays for this entitlement).

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If there are significant fears that life may become "fairly bad" sometime soon, savings rates may become (or remain) elevated. This displays displaying an increased effort to be prudent in the face of impending economic (and political) uncertainty and danger. Or, instead suppose things are already "fairly bad". Recent recessionary history suggests that there may be some boost in the savings rate. Many financial pilgrims will seek to repair damage to their net worth or "make their earnings go farther".

Admittedly the recent nasty recession was not as long or as terrible as that of the Depression. However, the US economy appears to be in "fairly bad shape" despite the "recovery". If the US economy turns "very bad", and especially if it becomes "really rotten", the Depression warns that the savings rate could decline. In some circumstances, a reduction in the personal savings rate (as may drawdowns from or liquidation of assets) can indicate desperation. It would show that many people are "running out of money". Americans, even with their low bleak consumer confidence, are not saving much now. And recall the lesson of 1937-38. During the Depression era, there was a second drop in GDP and the savings rate. Thus the descent in savings in recent months (from the 5.6pc of 2Q10 and 3Q10), and especially since June 2011, could mirror or portend the 1937-38 move.

Suppose the US economy grows less over a sustained period. Imagine that consumer net worth remains relatively weak alongside mediocre income growth and rather heavy debt loads. Then, and despite the experience of some past recessions, consumers probably will not be able to boost their savings much, if at all. And if someone doesn't have "enough" income, that person may elect to save less than usual (or run down its savings).

QE2 ended in June 2011. Despite the ongoing deficit debates and fiscal fiasco in Washington, for the near term there will not be a substantial new round of federal stimulus spending. So from where will substantial incremental US GDP growth come? Of course what happens in Europe, China, and elsewhere affects the American economy and its personal savings as a percentage of disposable personal income. Europe's sovereign/banking problem has not disappeared, and its economic outlook is weak. The International Monetary Fund warns: "Financial stability risks have increased substantially over the past few months." (Global Financial Stability Report, "Executive Summary", September 2011).

The Federal Reserve Board, with its beloved toolkit of easy money policies, has battled to support real GDP (and nominal GDP no matter what), reduce unemployment, propel the stock and real estate marketplaces upward, and lower consumer and commercial debt burdens. Nevertheless, on November 2, 2011, the Fed, despite its massive rounds of quantitative easing (money printing), despite having kept the Federal Funds rates on the floor for ages and indicating its plans to maintain it there into at least mid-2013, recently reduced its real GDP growth projections from its June 2011 ones. Using the midpoints of the central tendency, it gives 2011 at 1.65pc, a substantial drop from June's 2.80pc. It predicts real GDP growth in 2012 at 2.70pc (down from June's 3.5pc), 2013 at 3.25pc (versus 3.85pc), with 2014 at 3.45pc (no June forecast). Incidentally, the wizards predict "longer run" GDP growth at 2.55pc versus June's 2.65pc.

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The S+P 500 rocketed up since its 10/4/11 low at 1075, and remains rather high (over 1250 at the end of last week). Such bull moves help to fix damaged consumer balance sheets. If this stock marketplace jump generates (reflects) sufficient optimism (and future GDP growth), adequate to indicate the widespread reappearance of a faith in prosperity viewpoint, that might induce a decline in the savings rate. But does this rally, even if it continues, indicate upcoming notable US GDP growth and a return to something bordering the sunny times of the Goldilocks epoch? Given the background of other indicators, it probably does not. High US corporate profits (see "US Corporate Profits- Patterns and Perspectives", 11/1/11) and the current level of the S+P 500 do not entirely reflect (fully represent) actual overall American prosperity, merely that of many of its corporations. A continuation of the current low savings rate reflects the fairly bad economy, and a decline in personal saving probably will indicate worsening one.

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If there are debtors, there obviously are creditors. The US is a debtor nation. Although the US has at least some inflation (say around two percent or so), the Fed keeps the Fed Funds rate pinned close to zero. Picture a domestic US saver (not someone with troubling debts) holding some extra cash. Relative to inflation, generally speaking, the Fed rate policy penalizes these savers if they put their money in Treasury securities, especially short term ones. Flight to quality buying of US securities, whether by Americans or foreigners, may occur. Yet as the personal savings rate shows, Americans in recent years have not been saving a great amount. In the current situation (and especially if US fiscal problems are not adequately dealt with), how much longer will creditor nations with big savings happily and sufficiently finance large and ongoing American federal borrowing (deficits)? Keep an eye on US Treasury International Capital (TIC) statistics.