Saving can be time well spent

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The blend of spending and savings in the economy is a little like the flow of fuel and air that keeps your car running: The mix is critical.

Too much of one and you have an engine that struggles. Too much of the other and you're wasting fuel that you might need later.

So too with a $15.3 trillion-a-year economy that is creeping along in low gear. As consumers shift between spending and saving, their choices shape the future.

"There's a real trade-off," said economist Stephen Buckles of Vanderbilt University. "In the short run, an increase in savings means less spending, so the economy gets worse. In the long run, the more we save, the more resources we have for investment and the faster we will grow in the future."

We've been on both sides of that trade.

In the early 1980s, Americans were savers, often putting away 10 percent of their incomes for the future. But savings rates slid through the next two decades, hitting a generational low in 2005.

Then came the housing crash and a painful recession. Spurred by fear and foreclosures, savings climbed back to its early-'80s pace. Briefly.

As recession slowly relaxed its grip, American wallets have again grown loose.

For the short-term economy, the recent downturn in savings has been good news. Less savings means stronger spending, more demand for goods and services, which translates to more growth and more jobs.

The savings rate slipped through most of last year. As it did, the economy speeded up: GDP growth grew from 0.4 percent in the first quarter to a 2.8 percent pace in the fourth. Meanwhile, job growth picked up too, averaging 167,000 during the past six months.

The pace of both growth and hiring is modest by the standards of most post-recession booms, but it looks good compared to the grim numbers of 2008 through 2010.

If consumers keep spending, that growth should continue, most economists say.
But does that mean that Americans have returned to the debt-heavy days of extravagant over-spending, the fuel mix that threatened to use up our future investments on consumption today?

Maybe not --- unless consumers find themselves pushed by the same pressures of the last decade and lured by the same temptations.

"The low savings rate in the early 2000s could be explained by the rapid increase in home prices --- because people felt wealthy," said economist Sheila Tschinkel of Emory, former research director at the Atlanta Federal Reserve Bank.

At the same time, interest rates were relatively low.

"People looked at credit and it was so easy to get," said Emory economist Tom Smith. "People thought, 'There's no reason for me to save.' "

And mostly, they didn't.

But when the housing bubble burst in 2007, the economy plunged into recession with a shock that transformed attitudes about saving and spending, said Mark Cole, chief operating officer of CredAbility, a credit counseling agency.

"You can argue about chicken and egg, but people had too much debt and were not prepared," he said.

One of the transformed was Anita Bullock-Morley of Kirkwood.

She had been a retailer’s dream, spending at whim. A speech pathologist, she had founded Communication Interventions Inc., and the business was doing well. Her husband was working, too.

But she was $57,000 in debt. With CredAbility’s help, she finished paying it off last summer, but she didn't go back to being a freewheeling spender, she said.

"I realized that being materialistic and buying fancy-schmancy things was not necessary," Bullock-Morley said. "I can’t tell you the last time I went into a mall. No more trips to Costa Rica. No more designer handbags. No more designer shoes."

But savings can also turn on age --- where you are in your career, to be sure, but also your responsibility for tuitions and weddings.

Get over those very expensive humps and maybe you see retirement approaching over the horizon --- and you start thinking about how you are going to pay for it.

That calculation may be clouded if your last decade involved investments in the stock market or in residential real estate.

"At 55 years old, I've got an urgency to save," said tax attorney George Menden of Mountain Park. "I was investing aggressively in my 40s and I thought I had done very, very well. But the assets didn’t just perform badly, they went to zero."
He and his wife still visit Europe to visit a married daughter, but overall they are saving more than they used to, he said.

"A lot of people 10 years ago expected to have a second home," Menden said. "Now we are more inclined to rent a vacation property."

The dilemmas and decisions of a few Georgians echo the larger stories of the state and the nation.

While official data on savings are not broken down by state, the mix in Georgia before the recession was apparently a lot more spending-rich than average.

A study in 2007 by AG Edwards, the Nest Egg Index, showed Georgia ranked 45th among the states, said Swarn Chatterjee, professor of financial planning at the University of Georgia.

And a lack of savings is one reason that Georgia ranks dead last among the states for financial security of its residents, according to a study released earlier this month by the Washington-based Corporation for Enterprise Development.

When recession came, Georgia was among the hardest hit. One of every 13 jobs disappeared. Disposable income shrank by 2.3 percent, according to the Economic Forecasting Center at Georgia State University.

As the national economy also skidded into recession, consumer spending dropped and the savings rate climbed from 2.4 percent at the start of 2007 to 5.4 percent a year later.

Despite the economy's modest improvements and the end of unchained spending, for many Americans, the spending mix is still to rich: At CredAbility, the typical client last year had income each month that was $1,200 shy of expenses.

Rodney Tullie, a Cred-Ability counselor, said he advises people to sock away enough money to pay the bills for eight months.

"And when they get tax refunds, I tell them to take 50 percent of that and put it into your emergency fund," Tullie said.

In recent months, the state has seen its unemployment rate dip while adding jobs at a modest pace. That improvement comes with the balance tilting again toward spending: The savings rate --- steadily above 5 percent in 2010 and early 2011 --- slipped below 4 percent for three of the last four months. Consumers represent about 70 percent of the economy.

So if Americans spend nearly all their income --- buying things and services with every last penny in their paychecks --- they pump demand through the economy, paying each other's wages, powering business profits and propelling growth, said Vanderbilt economist Buckles.

"In the short run, spending is good," he said.

Whether it’s a good sign or not is harder to know. Optimistic consumers who feel less need to save for a rainy day would spend more. But so would people facing higher expenses on a stagnant income.
It may even be a combination of both. The economy is growing, but food and energy prices are up, while relatively few people are seeing raises.

"The lower savings rate could be a sign that the economy is improving and there is more optimism," said UGA’s Chatterjee. But "there are so many people with very little disposable income. We expect the savings rate to fall a little more."

U.S. savings rate

High point (1975)

14.6%

Post-World War II monthly peak caused by effect of recession

Low point (2005)

1%

Recent monthly low came at the height of housing and credit bubble

Great Recession (2008)

8.3%

Recent monthly high during the Great Recession

Note: The rate is based on the percentage of disposable income that is dedicated to savings.

Source: Bureau of Economic Analysis

June-December 2011

June 5.0 % July 4.3 %

August 4.1%

September 3.5 %

October 3.6 %

November 3.5 %

December 4.0 %

Note: The rate is based on the percentage of disposable income that is dedicated to savings.

Source: Bureau of Economic Analysis