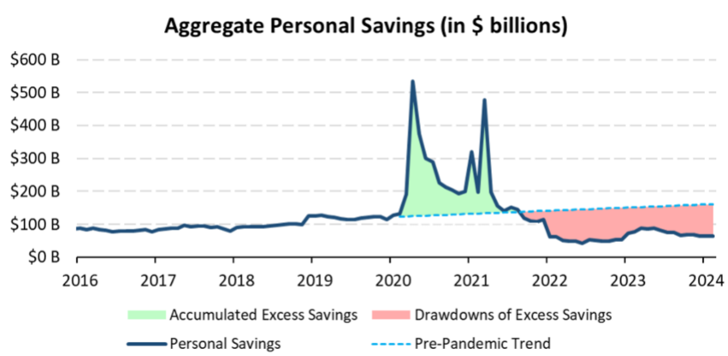
Save, Save, Spend! The American Excess Savings Rollercoaster

KEY HIGHLIGHTS:

- Record-setting stimulus packages during the pandemic allowed individuals to save in excess $2 trillion.
- These record liquidity levels fueled investment and consumption for consumers and businesses.
- Since mid-2021, excess savings has steadily declined and officially ran out at year-end.
- Personal Consumption Expenditures are currently $2 trillion above a normalized level using 2019 pre-pandemic trend lines.

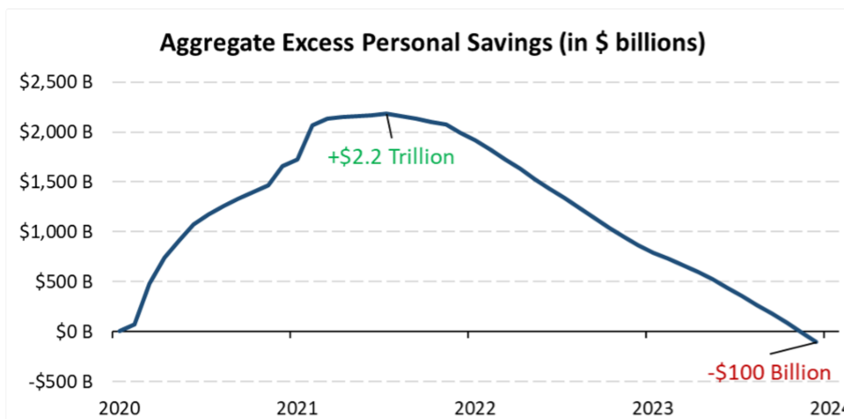
In our conversations with clients and leaders around our communities, we keep hearing the same question; where is all of this liquidity coming from?

In March and April 2020, the COVID-19 pandemic, and the efforts to contain it, resulted in historic job losses across the country. According to data from the U.S. Bureau of Labor Statistics (BLS), total nonfarm payroll employment in the United States declined by 9.4 million in 2020, the largest calendar-year decline in the history of the BLS employment survey. To assist the millions of Americans who lost jobs or faced other financial hardships due to the pandemic, the United States government issued several stimulus packages throughout 2020, totaling roughly $3.5 trillion. Over the next two years, the government injected another $3.8 trillion into the U.S. economy, resulting in the largest government relief effort in recorded history. In addition to the record setting government stimulus packages, lockdowns and restrictions brought on by the pandemic led to reduced spending on travel, dining out, and entertainment, which caused many individuals to save more than they otherwise would have.



In 2019, the average personal savings rate as a percentage of disposable personal income (DPI) was 7.4%, which at the time was the highest average annual rate since 2012. After the government stimulus and COVID-19 lockdowns took effect, the average personal savings rate as a percentage of DPI skyrocketed in 2020 to 15.2%. As a result, overall aggregate personal savings rose rapidly and far exceeded any normalized trendline, as the graph below outlines.

The immediate months following the onset of the pandemic saw individuals save approximately $2.2 trillion more than what they otherwise would have without pandemic related stimulus packages. These savings not only occurred from individuals receiving checks from the U.S. Government but it was also delivered through businesses that were recipients of COVID-19 relief programs. This generated significant amounts of excess liquidity for many businesses given how quickly the economy recovered.

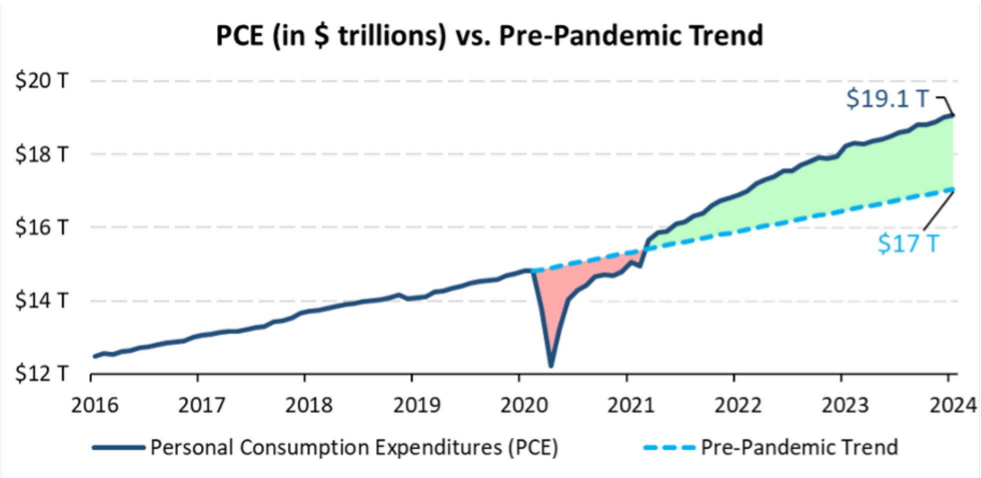


After accumulating excess savings for the first seventeen months following the onset of the pandemic, aggregate personal savings dipped below the pre-pandemic trendline in August 2021.

In July 2021, excess savings peaked at approximately $2.2 trillion and afterwards began steadily declining as consumers and businesses spent through their excess savings. After more than two years since the initial drawdown in aggregate excess savings, it appears that Americans are now out of excess savings brought on by stimulus and the pandemic.

Given the staggering amount of excess savings accumulated by Americans, and then subsequently spent in the economy, it is very important to understand the effect that excess savings has had on the economy, consumer spending, real estate values, capital markets activity and the equity market. As an example, 68% of the US economy is consumer spending. This level of pandemic driven excess savings has likely created the illusion of economic prosperity by fostering a false sense of economic growth, wealth, and confidence in a "soft or no landing".

An example of how excess savings can create economic prosperity is seen in the next graph. The graph below illustrates how current personal consumption expenditures (PCE) as of January 2024 differentiate from a pre-pandemic trend implied by a linear regression from the 48 months leading up to the pandemic. As seen in the graph, after an initial decline in spending, consumers have since recovered strongly as there is currently a $2.1 trillion difference between the current PCE and the expected PCE based on the pre-pandemic trend.



The excess savings from pandemic era stimulus programs have provided significant growth for the economy and lasted much longer than most anticipated. However, the decline in spending after excess savings has eroded can have very negative impacts on the economy. A lack of excess savings can constrain consumption and investment, reducing economic growth. With less disposable income available for spending and investment, businesses may experience reduced demand for their goods and services, leading to layoffs, decreased production, and overall economic stagnation. This can be exacerbated when investors and businesses make capital allocation decisions based on growth trends that were artificially inflated by stimulus. This creates greater consequences from the decline in spending because poor capital allocation will generate losses.

As 2024 progresses there remains a great deal of uncertainty surrounding both the U.S. and global economies. The margin of error for businesses and individuals continues to shrink as outstanding credit utilization grows and excess savings shrinks. This can lead to a cycle of financial insecurity and hinder both household prosperity and overall economic growth.

"Do not save what is left after spending, spend what is left after saving."
– Warren Buffett