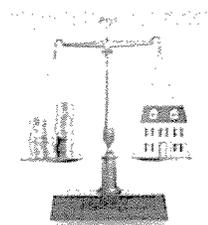


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Extra

U.S. savings rate falls to zero

The personal savings rate hits its lowest rate since 2001 as Americans put their faith in the rising value of their home.

By Christian Science Monitor

Americans have stopped saving for a rainy day.

Instead, they are living paycheck to paycheck, depending on credit cards to get them through emergencies, and hoping that the rising value of their homes will give them a retirement nest egg.

This personal economic chasm is showing up in the national savings rate, which has been declining for years. Tuesday, the Commerce Department reported that the personal savings rate fell to zero in June, the lowest since a one-month buying binge in the aftermath of the 9/11 attacks. The United States is on track to record a savings rate for the year below 1%, which would be the lowest since the depths of the Great Depression, when the rate turned negative.

Alarms

The nation's paucity of savings is raising alarms from the Federal Reserve to consumer watchdogs, who worry that the nation is counting on foreign savings to maintain a spendthrift lifestyle. Some groups are cranking up advertising campaigns to try to remind Americans that they don't need to participate in every sale.

And there are now high-level suggestions that the tax system needs to be changed to encourage savings instead of spending.

"In two generations it seems that we've lost the culture and habit of savings," says Nancy Register, of the Consumer Federation of America. "There's so much marketing pressure to spend and buy and have instant gratification. And if you can't buy it now, put it on your credit card."

Last week, Federal Reserve Chairman Alan Greenspan warned that the low savings rate is impairing the nation's long-term economic prospects. An improved savings rate would provide investment money for businesses, which would create jobs, he said.

Though Americans' savings are falling, their net worth is rising in large part because of soaring home prices and some improvement in the stock market, economists say.

Various calculations

People spend 6% of all housing market gains and 2% of their stock market gains, says Anthony Chan of JPMorgan Asset Management in Columbus, Ohio. "When you have massive capital gains, you get people spending more, pushing the savings rate down," he says. In fact, other analysts contend the situation may not be as dire as the official statistics indicate. That's because when the Commerce Department calculates the savings rate, it doesn't include things like capital gains and investments in pension plans.

Currently, there are about \$12 trillion dollars in various structured retirement accounts that are not included in the savings rate, says Dallas Salisbury, president and chief executive officer of the Employee Benefit Research Institute in Washington.

"Let's assume that you bought a home and you held it for some number of years and you had a large capital gain. That capital gain would not be calculated as savings and the taxes would be counted as an expense," says Salisbury. "So, even though you may look at it as though you have more savings than before, the Commerce Department does not."

That said, "a large proportion" of Americans are not saving and have never saved, Salisbury acknowledges. "That's largely a function of income. . . . They're just barely managing to survive as it is, and they don't have enough income to save."

A recent Consumer Federation survey found the lack of savings was especially troublesome to women. More than 70% said they worried about their finances in the last year, and two-thirds said that

unexpected expenses -- things like the furnace breaking or the car needing to be fixed -- were the cause of that worry.

That's because they had little or no money set aside. More than 40% of all women had less than \$500 in the bank. For those 25 to 34 years old, the percentage without a rainy day fund jumped to 55%.

Windfall mentality

One of those is Chris Campbell, a New York actress, who says she's got, "nothing, zip, zero" in the bank. Her parents were "Depression-era" and instilled in their children the importance of saving. But Ms. Campbell says a combination of factors have led to her current impecunious state. One is the nature of acting, which she says is like a lottery.

U.S. saving
rate since June
2004

MonthSavings rate

4-Jun 1.50%

4-Jul 1.10%

4-Aug 1.50%

4-Sep 1.00%

4-Oct 1.10%

4-Nov 1.30%

4-Dec 4.40%

5-Jan 0.90%

5-Feb 0.60%

5-Mar 0.50%

5-Apr 0.20%

5-May 0.40%

5-Jun 0.00%

Source: U.S. Department of Commerce; Christian Science Monitor staff

"Every once in a while you get a windfall, so you think 'When I get that national (commercial) and it runs all over the place I'll make \$65,000 in one pop, then I'll put half of that in my savings,' " she says. "But then you don't."

She's taken a second job in real estate to boost her savings.

However, for many consumers, there are just too many temptations. For example, last month, the automobile companies offered buyers the option to purchase a new car at an "employee discount rate." Americans flocked to the showrooms, which is one reason that consumer spending jumped a brisk 0.8% in June, outstripping the growth in income.

A surge in spending often takes place during "transitional periods" when, as now, interest rates are rising or about to rise, says Mr. Chan. Consumers "lock in purchases with all the promotions . . . They are more prudent than we give them credit for."

By Alexandra Marks and Ron Scherer, The Christian Science Monitor

The Christian Science Monitor is a general-interest newspaper with thoughtful, independent coverage for a changing world.