

Personal savings rates are dropping, while consumer debt is on the rise. What could this mean for the U.S. economy in the second half of the year?

# SHRINKING SAVINGS

Americans are saving less and spending more — with plastic.

## Overview

After experiencing robust growth in 2021, the U.S. economy began to falter in the first half of 2022. Gross domestic product (GDP) posted a 5.7% annual growth rate in 2021,<sup>1</sup> but it contracted by 1.5% in the first quarter of 2022.<sup>2</sup>

Why the shift? One significant contributor: consumers, who make up 70% of economic activity in the U.S.<sup>3</sup> Individual Americans have been feeling the financial pinch as rising prices on everything from gas to groceries take bigger bites of the budget. Meanwhile, households are no longer receiving stimulus payments or advance child tax credit payments.

As a result, many Americans are increasingly dipping into their savings and paying for essentials with credit cards. The personal savings rate — or how much each person saves as a percentage of income — spiked to 26.6% in March 2021, in conjunction with the third stimulus payment. By April 2022, the savings rate had plummeted to 4.4%.<sup>4</sup>

### Personal Savings Rate<sup>5</sup>

January 2021 – April 2022

Shown as a percentage of disposable personal income

January 2021	19.9	September 2021	8.1
February 2021	13.5	October 2021	7.5
March 2021	26.6	November 2021	7.6
April 2021	12.6	December 2021	8.7
May 2021	10.4	January 2022	6.0
June 2021	9.5	February 2022	5.9
July 2021	10.5	March 2022	5.0
August 2021	9.8	April 2022	4.4

The drop in savings coincided with a spike in credit card debt, as more families turned to plastic to cover essential purchases. The Federal Reserve's monthly credit report showed revolving credit rose nearly 20% in April year-over-year.<sup>6</sup> Credit card debt is back up to record levels after dipping during the pandemic.<sup>7</sup>



## Change in U.S. household revolving debt Q1 2021 vs. Q1 2022<sup>8</sup>

**-0.7%**

Change in total household revolving debt in Q1 2021

**+16.8%**

Change in total household revolving debt in Q1 2022

## Fighting Consumer Fatigue

Americans were eager to resume regular routines in 2021 — and as they did, they pumped money into the U.S. economy. However, spending slowed by the beginning of 2022, as high inflation rates and supply chain issues pushed prices higher.

The slowdown signaled looming consumer fatigue and was supported by lackluster first-quarter earnings reports by retail giants such as Walmart and Target.<sup>9</sup> Consumer sentiment — which looks at how people feel about their current finances, the short-term economy and potential longer-term economic growth — dropped to 58.4 in May, its lowest point since August 2011.<sup>10</sup>

What do all these things mean for the U.S. economy as we head into the second half of 2022? High prices will continue to be a challenge for consumers: Paying \$5 (or more) for a gallon of gas will keep many people at home. If they do go out, the rising cost of goods could make them more selective about what they buy. With ongoing supply chain issues and stubbornly high inflation, it could be several months before consumers begin to feel some relief.

Despite these headwinds, it's not all doom and gloom. Although GDP shrank in the first quarter, core economic activity (such as business investment and consumer spending) performed well. Economic analysts are still forecasting GDP growth of 2.1% in the second quarter, with a total of 2.3% growth for the year.<sup>11</sup> Although these numbers aren't as spectacular as those we saw in 2021, they are still moving in the right direction.

## Final Thoughts

Consumers may be feeling whiplash, as we've swung from economic highs to lows over the past six months. The key word for the second half of 2022 will be "patience" as we search for equilibrium. For now, it's best to follow your plan and focus on the long term as you invest and save for retirement. Focus on what you can control — and ignore what you can't. Talk to your advisor and make sure you're still on track to meet your goals.



<sup>1</sup> Bureau of Economic Analysis. Jan. 27, 2022. "Gross Domestic Product, Fourth Quarter and Year 2021 (Advance Estimate)." <https://www.bea.gov/news/2022/gross-domestic-product-fourth-quarter-and-year-2021-advance-estimate>. Accessed June 8, 2022.

<sup>2</sup> Bureau of Economic Analysis. May 26, 2022. "Gross Domestic Product (Second Estimate) and Corporate Profits (Preliminary), First Quarter 2022." [https://www.bea.gov/news/2022/gross-domestic-product-second-estimate-and-corporate-profits-preliminary-first-quarter#:~:text=Real%20gross%20domestic%20product%20\(GDP,real%20GDP%20increased%206.9%20percent](https://www.bea.gov/news/2022/gross-domestic-product-second-estimate-and-corporate-profits-preliminary-first-quarter#:~:text=Real%20gross%20domestic%20product%20(GDP,real%20GDP%20increased%206.9%20percent). Accessed June 8, 2022.

<sup>3</sup> Kimberly Amadeo. The Balance. Jan. 18, 2022. "Components of GDP explained." <https://www.thebalance.com/components-of-gdp-explanation-formula-and-chart-3306015>. Accessed June 8, 2022.

<sup>4,5</sup> Bureau of Economic Analysis. May 27, 2022. "National Income and Product Accounts." <https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=3&isuri=1&1921=survey&1903=76#reqid=19&step=3&isuri=1&1921=survey&1903=76>. Accessed June 8, 2022.

<sup>6</sup> Federal Reserve. June 7, 2022. "Consumer Credit - G.19." <https://www.federalreserve.gov/releases/g19/current/>. Accessed June 9, 2022.

<sup>7</sup> Jessica Dickler. CNBC. June 9, 2022. "Credit card balances spike to \$841 billion after stimulus checks helped reduce debt." <https://www.cnbc.com/2022/06/09/credit-card-balances-spike-after-stimulus-checks-helped-reduce-debt.html>. Accessed June 9, 2022.

<sup>8</sup> Federal Reserve. June 7, 2022. "Consumer Credit - G.19." <https://www.federalreserve.gov/releases/g19/current/>. Accessed June 9, 2022.

<sup>9</sup> Sanford Stein. Forbes. May 18, 2022. "Walmart and Target Miss Quarterly Earnings Estimates, Dramatically." <https://www.forbes.com/sites/sanfordstein/2022/05/18/walmart-and-target-miss-quarterly-estimates-dramatically/?sh=67848e660591>. Accessed June 8, 2022.

<sup>10</sup> Trading Economics. "United States Michigan Consumer Sentiment." <https://tradingeconomics.com/united-states/consumer-confidence>. Accessed June 8, 2022.

<sup>11</sup> The Conference Board. May 11, 2022. "The Conference Board Economic Forecast for the US Economy." [https://www.conference-board.org/research/us-forecast#:~:text=The%20Conference%20Board%20forecasts%20that,over%2Dyear\)%20in%202023](https://www.conference-board.org/research/us-forecast#:~:text=The%20Conference%20Board%20forecasts%20that,over%2Dyear)%20in%202023). Accessed June 8, 2022.

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