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## US savings rate sinks to lowest since Great Depression

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Americans spent \$42bn (£24bn) more than they earned last year, turning the annual US savings ratio negative for the first time since the Great Depression.

The official figures published yesterday, a day ahead of the retirement of the chairman of Federal Reserve Alan Greenspan, will be seen as a telling verdict on his 18 year reign at the US central bank.

Mr Greenspan is tonight expected to sanction the Fed's 14th consecutive interest rate rise - to 4.5 per cent - in part to temper the consumer boom and encourage saving again.

The savings ratio fell to minus 0.5 per cent last year, meaning Americans not only spent all of their after-tax income but also had to increase their borrowings or plunder their savings. This is the first time the ratio has gone negative for an entire year since 1932 and 1933, when the US was struggling to cope with the Great Depression.

The savings ratio is seen as a key economic indicator as it shows how vulnerable households are to a sudden shock such as a surge in interest rates or unexpected redundancy. Mark Zandi, an economist at the analysts' website Economy.com, said the low level of savings would become a problem only if interest rates continued to climb.

However, the markets are increasingly betting that the Fed will use its statement tonight to send a signal it is close to the end of its tightening cycle that began in 2004. Weak GDP figures for the final quarter of last year - showing that growth slowed from 4.1 to 1.1 per cent between the third and fourth quarters of the year - boosted that speculation.

But there is growing concern the housing bubble will burst, leaving millions of families nursing debts larger than their homes, or simply suffer a sudden slowdown - putting the brakes on the economy. It will be probably before some time before Mr Greenspan's 18-year legacy at the helm of the world's most central bank is set in stone, and he has fans and critics in equal measure.

His supporters point to his calm captaincy of the US economy through the Wall Street crash of 1987, just weeks after he took over, the Asia crisis in 1997, the Long-Term Capital Management affair the following year, and the aftermath of the September 11 attacks. He averted recession - other than a brief dip by historical standards in 2001 - by showing himself willing to support investor confidence by flooding the market with liquidity. However, his critics say this was a flawed policy, whose negative consequences may be felt by the coming generation.

Critics argue his willingness to protect investors from their own speculative excess created what they called the "Greenspan put" - a one-way bet that ensured they would never have to account for their gambles. At the same time he allowed a succession of asset price bubbles to build up, the latest of which is the spike in residential property prices.

The Fed chief plans to end his days at the central bank with little fanfare. After the leaving the Fed, Mr Greenspan plans to open his own economic consulting business. He also may show up on the speaking circuit and write a book.

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