GDP growth in 1999:IIQ has been revised downward from an advance estimate of 2.3% to a preliminary estimate of 1.8%, which primarily reflects a higher estimate of imports and a lower estimate of business inventories, factors that more than offset an upward revision of personal consumption expenditures.

Strong consumer spending has persisted from late 1998 into 1999 and has been a driving force of GDP growth. Final sales to domestic purchasers, a measure of total domestic demand, has outpaced GDP growth since 1997. In several quarters, including 1999:IIQ, final sales grew more than 6%, more than double its 30-year average.

The continued strength of consumer spending is also apparent in strong retail sales increases (roughly 8% over last year). Many retailers’ inventories are at record lows. In May, the inventory-to-sales ratio hit its lowest level in 15 years.

Since 1997, personal consumption expenditures have grown faster than personal disposable income, producing a negative personal saving rate. This suggests that people are consistently spending more than they earn. The definition of income used to measure the personal saving rate excludes capital gains, however, and payroll contributions to Social Security are treated as taxes rather than as a component of household savings. This may be inappropriate, since such contributions qualify the individual for additional retirement and other benefits.

In addition to personal savings, the U.S. total includes business and (continued on next page)
public savings. Business savings can be measured by the value of undistributed corporate profits (with adjustments for inventory valuation and capital consumption). Business savings and household savings combined equal private savings, which have declined slightly in 1998 and 1999. Public savings has been rising over the past six years, as federal, state, and local budgets have moved from deficits to surpluses. Large increases in public savings have offset moderate declines in private savings.

Thus, national savings, the sum of private and public savings, is increasing. Net national savings, which rose steadily from 1994 to 1998, have held constant around 7% since 1998.

Overall, the U.S. savings picture is less alarming than it might seem if one considered only the narrow measure derived from personal savings as a percent of disposable income. Other measures provide a more complete picture. One indicator of whether households are consuming or saving is the change in their net worth, which captures capital gains and losses. This measure of savings has increased substantially since 1995. A saving rate of 40% to 50% may seem extraordinary, but it includes the current value of new assets minus new liabilities, plus estimated capital gains and losses on both financial and nonfinancial assets. Capital gains can be substantial because the value of the underlying assets is easily many times the value of the net national product.