MACROECONOMIC ADVISERS
By IHS Markit

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Recently Asked Questions

Upward Revision to Personal Saving

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What accounts for the dramatic upward revision to the personal saving rate?

Most of the upward revision to personal saving was due to new source data on income and spending. Only a small fraction was due to definitional changes.

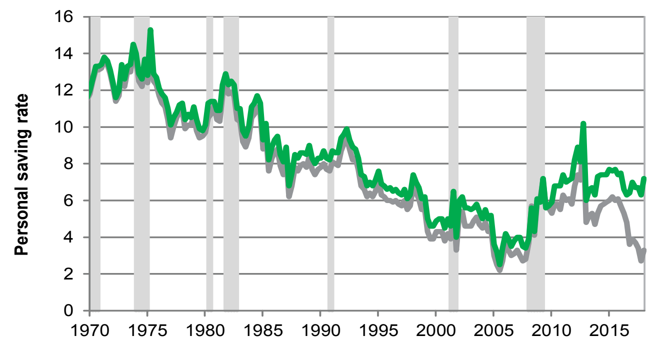
The 2018 Comprehensive Revisions to the National Income and Product Accounts (CR) showed a dramatic upward revision to the personal saving rate - defined as the percent of disposable income that is personal saving - over the last five years. Prior to the CR, issued on July 27, the saving rate had been thought to have declined sharply from a recent high of 9.2% in Q4 2012 to a low of 2.7% in Q4 2017. Approaching Q3 2005's record low of 2.2%, this figure was a growing cause for concern as the expansion progressed. Consumers were leaving less of a cushion of savings than at any point since the Great Recession, although, as we wrote early in the year, we did not view the low saving rate as an independent material risk to the outlook for personal consumption expenditures (PCE).[1]

The story was upended by the revised data, which, instead of showing a decline in the saving rate, characterized it as being roughly stable since 2013. In addition, it was more elevated than during most of the period from the mid-1990s to the Great Recession. The value for Q1 2018 was more than doubled, from 3.3% to 7.2%. These changes can be seen in the nearby charts.

The implications of this change for the economic outlook depend upon its causes, including the extent to which the shift was truly a result of new economic information, as opposed to changes to the BEA's methodology in classifying the components of income and PCE. We find that approximately 86% of the upward revision to

[1] See *Macroeconomic Advisers Recently Asked Question*, "Risk to PCE from Low Q4 Saving Rate", January 31, 2018.

Personal saving rate revision



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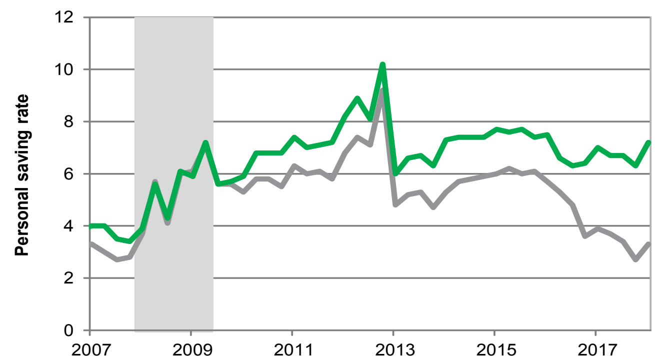
Personal saving rate revision



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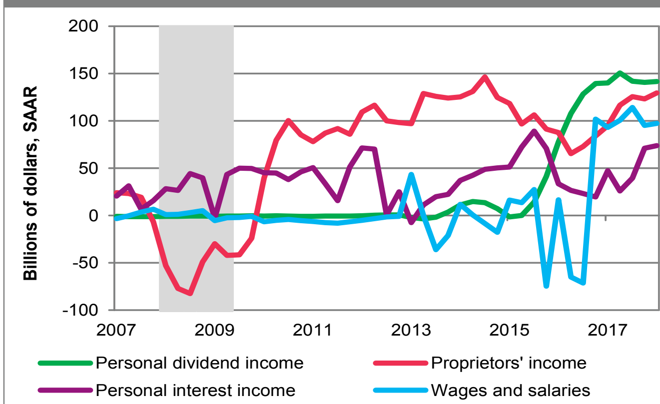
Revisions to personal income by source



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personal saving, one of the two key pieces of the saving rate, was a result of revised data as opposed to a methodological change. This implies that the majority of the revision was a reflection of the economic reality that Americans have saved a higher portion of their income than previously thought and alleviates the concern that consumers are spending beyond their means. To elaborate, we examine the nature of the changes. First, a few definitions:

Disposable personal income is defined as nominal personal income less personal taxes.

Personal saving is what remains after subtracting personal spending, outbound transfers, and interest payments from disposable personal income.

The **saving rate** is defined as the percent of disposable income that is personal saving.

The revisions to the components of personal saving for Q1 2018 are tabulated below.

Revisions to components of personal saving in Q1 2018	Revision ($ bn., ann. rate)	Contribution to difference in personal saving
Compensation of employees	100.9	16.5%
Wages and salaries	*97.1*	
Supplements to wages and salaries	*3.8*	
+ Proprietors' income	129.3	21.1%
+ Personal rental income	-12.7	-2.1%
+ Personal interest income	73.7	
State & local government interest payments	*84.5*	13.8%
Other interest payments	*-10.8*	-1.8%
+ Personal dividend income	141.4	23.1%
+ Personal transfer payments	23.0	3.7%
– Domestic contribution for social insurance	-12.6	2.0%
= **Personal income**	**468.2**	
– Personal current taxes	-47.7	7.8%
= **Disposable personal income**	**515.9**	
– Personal consumption expenditures	-89.5	14.6%
– Interest payments by persons to business	-6.5	1.1%
– Personal transfers to federal government	-1.6	0.3%
– Personal transfers to state & local government	-5.3	0.9%
– Personal transfers to rest of world	5.2	-0.8%
= **Personal saving**	**613.5**	**100.0%**

Note: Items in red are subtracted from the sum to arrive at totals, even if negatively signed

Items in italics are subcomponents not separately included in the major sums

The revisions to personal income and to PCE both contributed to the upward revision in the saving rate. Personal income in Q1 2018 was revised up by nearly $470 billion (annualized rate), whereas PCE was revised down by roughly $90 billion.

The four components of personal income subject to the largest changes, each of which accounted for more than 10% of the total change to personal saving, included:

- **23.1% - Personal dividend income** (distributions of corporate earnings to shareholders)
- **21.1% - Proprietors' income** (excess revenue of owner-operated businesses after subtracting production costs)
- **13.8% - State & local government interest payments**
- **16.5% - Compensation of employees** (wages and salaries, benefits)

The principal reasons for these revisions varied.

Personal dividend income (+$141.4 billion): Per BEA, the revision to this category primarily reflected the incorporation of newly available IRS Statistics of Income (SOI) data - particularly corporate tax returns. It implied a greater volume of personal dividends issued by companies than previously estimated.

Proprietors' income (+$129.3 billion): This revision primarily resulted from updated estimates of underreported income for nonfarm proprietors, based on newly available tax gap data produced by the IRS. It implied a higher level of income that was not reported to the IRS by business owners than previously estimated. In addition, proprietors' income was revised slightly up to reflect newly imputed returns on own-account investment.

State & local government interest payments (+$84.5 billion): This revision reflected a change in BEA's measurement of the benefits accrued by state and local government workers participating in employer-sponsored defined benefit pension plans. The value of these benefits had previously been calculated using the "accumulated benefit obligation" (ABO) accounting method; in this update, the method was changed to the "projected benefit obligation" (PBO) method. The new accounting method raises the value of imputed interest on plans' claims on employers, and thus the published value of state and local government interest payments to individuals.

Compensation of employees (+$100.9 billion): This revision was due to the incorporation of the newly-available preliminary Quarterly Census of Employment and Wages (QCEW) data for the first quarter. These data, compiled from state employment offices across the country, were available on an expedited schedule compared to previous years. They implied a recent upward revision in wages and salaries. This upward revision from new source data more than offset a downward revision to compensation that was also part of the new pension accounting discussed above.

Of these revisions to income, the only one whose major driver was a change in methodology rather than the introduction of new data was the increase to state & local government interest payments. Therefore, approximately 86% of the upward revision to personal saving, and hence the majority of the change in the saving rate, is a function of new source data.

Macro implications

At first blush, the revelation that Americans have been saving more than previously thought would seem to suggest a reassessment of their likely spending behavior. Indeed, we believe that the effects of the upward revisions to disposable personal income do provide support for the expectation of continued strong growth in real PCE. However, only about 17% of this increase came in the form of compensation of employees. The remainder - dividends, interest on pension plans, and proprietors' incomes - was from categories of income from which consumers are typically thought to spend less. Hence, we believe that households will exhibit a relatively low "marginal propensity to consume" from the extra income - and therefore that the implications to future consumption will be relatively modest.

Moreover, the recently-elevated saving rate shows that households have been more cautious, perhaps due to the experience of the Great Recession. Until we identify a reason to expect a change in that behavior, we will also be cautious in assuming that households will suddenly want to reduce savings and raise spending.

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