

Is Negative Savings Rate a Problem?

The savings rate is the difference between income and spending. It's a residual; it's what's left over. It's also a flow. On a monthly basis it looks at how much people earn from all income sources versus how much they spend.

The number-crunching folks at the U.S. Commerce Department's Bureau of Economic Analysis dished out some discouraging news recently, saying that Americans spent more than they earned in 2005 -- a negative savings rate of 0.5 percent for the year. That's the first time that's happened since the Great Depression.

A negative savings rate can't be good, but is it as dire as it sounds? Why are people seemingly so carefree about spending?

If your savings rate is negative, it doesn't necessarily mean that you don't have any savings. It means you're spending more than you earn, so you're dipping into your savings or you're borrowing to pay for purchases.

Our saving habits have been doing a gradual slide since May 1985 when we saved 11.1 percent of our disposable income. Here's a chart illustrating our choppy savings habits over the last 10 years.

People may engage in excessive spending for a number of reasons. It may be that they're not concerned about losing their jobs. Perhaps the rebounding stock market has boosted their portfolios, or they may be in line for hefty inheritances, or they may be assuming that the newly bloated value of their homes caused by the real estate boom will last forever.

In any case, the question remains: How serious a problem is the negative savings rate?

"I see a lot of people who have sacrificed everything for their children. The whole baby boomer generation has a tendency to overspend on their children. They put their kids through college and now they have a couple hundred thousand on their home equity line that wasn't there before college. They don't want their children to be burdened with debt to start their life, but it's ironic because they're burdening themselves with debt." Tony Proctor, certified financial planner, Wellesley, Mass.

"To some extent we're spending way beyond our means. We're drawing down on wealth that has come from equities or, more importantly, our homes. Economists worry because we've gone through an environment where housing prices have soared, and we've spent a lot of the wealth that was generated." Joel Naroff, economist, Holland, Pa.