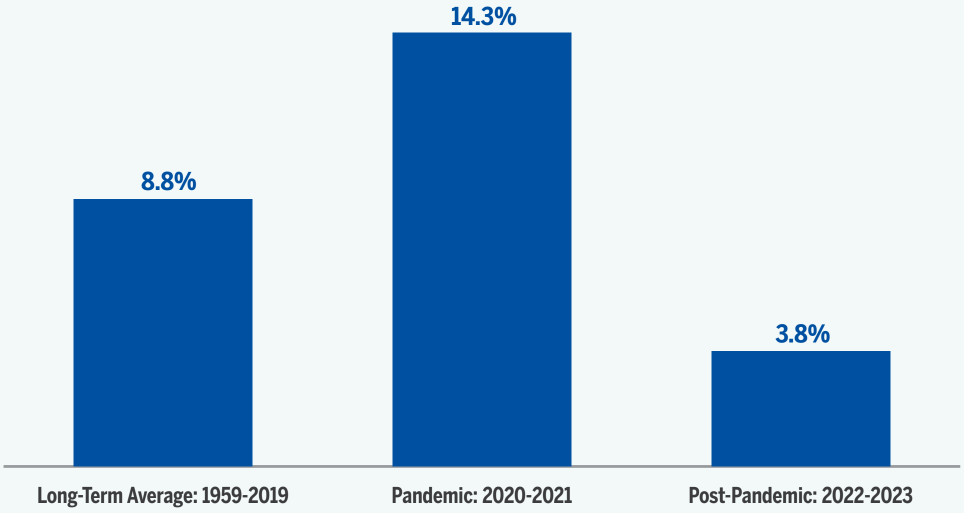
ALGER

Alger On the Money

Saving Up

Changes in consumption often deviate from changes in income. If consumers are feeling confident about their financial situation, they may increase spending faster than their income growth, thereby reducing their savings rate. On the other hand, if consumers are feeling anxious, they may opt to save more of their earned income. We believe that monitoring these changes in savings rates may provide some insight into potential shifts in consumer spending and how the broader economy may grow going forward.

U.S. Personal Savings as a Percentage of Disposable Income



Source: Federal Reserve Bank of St. Louis, as of July 2023. The personal savings rate is the amount of after-tax income that is saved, not spent, relative to that income.

- The long-term historical savings rate in the U.S. has averaged 8.8%, as shown in the chart above. However, the savings rate surged during the pandemic, driven in part by trillions of dollars of fiscal stimulus. Today, we believe that excess savings is drying up and is likely to be exhausted by the end of this year.
- The savings rate has averaged a relatively low 3.8% since the beginning of 2022 through July 2023. If the savings rate were to rise closer to the historical average of 8.8%, it would imply hundreds of billions of dollars in increased savings.
- If consumers begin increasing their savings rate and reducing their spending it may create a headwind to retail sales and economic growth and a large drag on the U.S. economy. In our view, such a scenario may be relatively difficult for cyclically oriented industries such as specialty retail and financial services. However, we believe market-share gaining companies with less exposure to cyclical end-markets, such as health care, e-commerce and application software providers, may be better positioned than economically sensitive value stocks.

Inspired by Change, Driven by Growth.

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