Appendix

Consumer Myths

The savings rate is far higher than conventional measures suggest. Methodological issues distort the NIPA savings rate. The most egregious being the exclusion of realized capital gains to disposable income and the inclusion of the corresponding capital gain tax to outlays.

Consumer debt ratios are rising, but not extraordinary versus levels of past 20 years. Balance sheets remain solid as a result of continued solid disposable income growth and large accumulated savings base. Since 1980 household net worth has expanded from $9.5 trillion to $41.4 trillion.

So despite high debt ratios on current income (but again but not extraordinary versus levels of past 20 years), consumers are feeling more comfortable with higher levels of debt given their increased net worth. Ratio of debt payments as a percentage of personal disposable income plus household financial assets is still near historical lows.

Correlation Coefficient of Real Consumer Spending with 1960 - 2000

Real disposable income 0.74
Employment 0.67
Stocks (S&P 500) 0.20

What ultimately drives consumer spending growth is income growth—not changes in stock prices.

Wealth Effect

Real Disposable Income and Consumer Spending
Year over year percent change

Disposable Income
Consumer spending

S&P 500 and Real Consumer Spending
Year over year percent change

Consumer spending, left scale  S&P 500, right scale