usBanker
Beyond Business as Usual

Will Higher Savings Help Banks?

U.S. Banker | Sunday, March 1, 2009

By Joseph Rosta

Americans have rediscovered savings. But will this help the banking sector? Not really, says Christopher Chand, an economist with the Jerome Levy Forecasting Center. The personal savings rate as measured by the BEA rose from 3.9 percent in December to 5 percent in January, a 13 year-high. “People may or may not be putting some of that money in banks,” notes Chand. “To the extent that they are, that may increase deposits.”

While that may sound like terrific news, increased savings “is a strong negative on the economy. This cash is being sucked out of gross domestic product, and that is in large part what’s making this downturn as bad as it is,” Chand says, and is creating a cascading rise in unemployment and higher default rates. Bank customers are losing access to affordable credit, he adds. The swelling ranks of the unemployed will be driven to “withdraw their savings, or reduce their savings rate to zero,” warns Chand, and the cumulative effect will be a further drain on capital flowing into the world economies. “Some people will feel that they cannot spend, while others may not qualify for credit.”

There’s no evidence that the sagging labor market is stabilizing, either: “the four-week moving average of continuing [unemployment] claims does not suggest any turnaround in labor,” Chand says. “I absolutely believe we need another stimulus package, and the sooner the better—by the end of the year would be better than next year.” For now the balance sheets of financial and non-financial firms continue to contract, consumer spending is dwindling, “and there’s no exports cushion,” the economist observes. “We need more government deficit spending.”

As for Speaker Pelosi’s wait-and-see-how-the-current-stimulus-works stance, Chand believes the American Recovery and Reinvestment Act signed into law with such fanfare last month will at best “be successful in cushioning a very bad economy.”