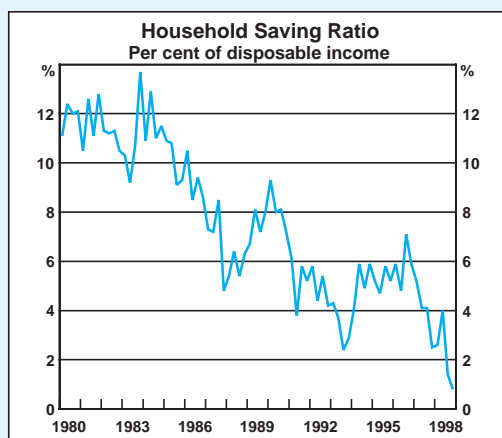


Box B: Developments in Household and National Saving

Australia's household saving ratio, as measured in the national accounts, has declined substantially over the past two decades. In the December quarter, it reached 0.8 per cent, its lowest recorded level and well below the average of around 12 per cent prevailing in the early 1980s (Graph B1). Despite the severity of this longer-term decline, movements in broader measures of saving have been much less pronounced. Much of the recorded drop in household saving in recent years has been offset by increased saving by enterprises and governments, with the result that total national saving has been relatively stable. This Box provides further details.

Graph B1



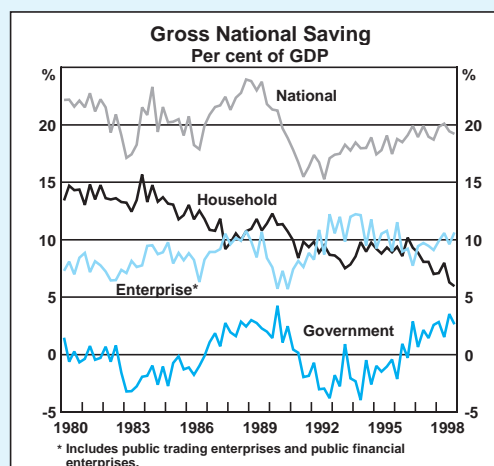
Household, enterprise and government saving

Saving can be defined either in *gross* or *net* terms (that is, before or after deduction of depreciation from the measure of income). Differences between the trends in saving derived from the two concepts arise because depreciation has generally accounted for an increasing proportion of gross saving over time; net saving measures have therefore declined by more than gross measures. The most commonly cited indicator of saving in

Australia, the household saving ratio shown in Graph B1, is a net measure. However, the difficulties of accurately estimating depreciation are such that gross measures are often used when making broader sectoral comparisons, as below.

Trends in the gross saving rates of the household, enterprise and general government sectors are summarised in Graph B2. Over the past two decades, gross household saving has approximately halved, from around 14 to around 7 per cent of GDP. After a period of relative stability during 1995 and 1996, the downward trend appears to have resumed in recent quarters. One of the contributing factors to the recent decline has probably been the impact of rising asset prices on household wealth. Since capital gains tend to stimulate consumption growth, but are not counted as income in the national accounts, a period of relatively strong growth in asset prices can contribute to a decline in recorded saving.

Graph B2



Enterprise saving (which represents the retained profits of businesses), has increased over the medium term, and has tended to move in a fashion that has partly offset

movements in household saving. To some extent, this is likely to reflect the ownership link between the two sectors: households are the ultimate owners of much of the enterprise sector, and increases in retained earnings of businesses may act as a stimulus to household spending. For many purposes, therefore, it makes sense to think of household and enterprise saving as an aggregate. The total of household and enterprise saving has declined gradually in recent years, with the recent pick-up in enterprise saving insufficient to offset declining saving in the household sector.

The third component of aggregate saving, that of the general government sector, has increased strongly in recent years, reflecting a combination of cyclical and structural improvements in government fiscal positions. This has more than offset the recent net decline in the overall saving of households and enterprises, so that total national saving has increased steadily since the trough reached in the early 1990s recession. National saving as a proportion of GDP nonetheless remains about 2 percentage points lower than the average of the 1980s.

Saving, investment and the current account

Movements in the current account deficit can in principle be attributed to movements

in the national saving-investment balance: a larger current account deficit results from a decline in aggregate saving relative to aggregate investment. The existence of statistical discrepancies in the accounts, however, means that an exact reconciliation of these concepts is not possible; in the recent period, this measurement problem has been quite severe. Australia's current account deficit as a proportion of GDP was about 1½ percentage points higher in the December quarter 1998 than its average in 1996 (Table B1), yet national saving is estimated to have shown little change over that period, while aggregate investment increased only modestly. The increase in the current account deficit is mainly accounted for, in these estimates, by the movement in the statistical discrepancy.

This result suggests an important point of caution in interpreting the recent trends in estimated national saving. Assuming the current account balance to be the most reliable component of these calculations, eventual reconciliation of the accounts would imply a larger net widening of the saving-investment gap over the recent period. This may mean that the underlying trend in national saving has been less favourable, or that investment has been higher, than is implied by current estimates. ↯

Table B1: Saving, Investment and Current Account

Per cent of GDP

	1996 average	December qtr 1998	Change
Investment	22.6	23.3	0.7
Saving	19.1	19.2	0.1
Statistical discrepancy	0.4	1.4	1.0
Current account deficit	3.9	5.4	1.5

Note: The change and statistical discrepancy are subject to rounding errors.