

The saver's dilemma

The Economist

2020/10/17

Low interest rate

- The one-year Treasury bill yields 0.13%
- Savers around the world face the same problem. Bank accounts, money-market mutual funds and other short-term instruments used to offer a decent return. Not any more.

Low interest rate



The Economist

Low interest rate

- Rates are lower in nominal terms than they were 30 years ago because of a long-term decline in inflation, but they are also lower in real terms

Three options

Savers are likely to respond to this situation in one of three ways.

- save less
- save more
- A third option would be to put more savings into risky assets, such as equities, which should deliver a higher return over the long run

Surprisingly little research

So what will savers actually do?

- The Federal Reserve and the Bank of England have done surprisingly little research into the subject
- The Bundesbank has found that the level of returns has become less important over time as a determinant of savers' behaviour

Social spending

- A study by Allianz (an insurer): The more money governments devote to social spending, for instance, the less people save, because they expect the state to help them in tough times
- People tend to save more as they near retirement
- But once retired, most live off their savings, so an increase in the number of retirees could cause the aggregate saving rate to fall

Cause and effect

- The Allianz study finds that, across Europe as a whole, for every one-percentage-point drop in interest rates, saving rates increased by 0.2 percentage points
- But cause and effect is hard to disentangle
- Central banks cut rates in response to bad economic news, and such news, rather than lower rates, may be the main reason that savers become more cautious

Cause and effect

- #1: 利率下降使儲蓄增加 (替代效果)
- #2: 利率下降 (央行政策) 表示景氣衰退, 家庭儲蓄增加 (預期未來所得減少)

Anxiety about the pandemic

- America's saving rate fell from more than 10% before 1985 to less than 5% in the mid-2000s.
- Anxiety about the pandemic helped push the saving rate in America to a record high earlier in the year; in August it was still relatively elevated, at 14.1%

- Andy Sieg, president of Merrill Lynch Wealth Management: “Fear came into discussions with clients”
- If you are worried about losing your job, then the return on your savings is a minor concern. The main thing is to have some.