

Savings Rate

Alberta GPI

Noteworthy:

- Savings rates in 1961 were 3.7% of after-tax income when the average Albertan saved \$351 per person (1998\$).
- In 1982, the savings rate had climbed to 16.2% or \$3,454 (1998\$) per Albertan. Since then, savings have declined and in 2003, the savings rate was 4.7% or \$1,033 per person (1998\$).
- Savings rates were the lowest in 1970, at 1.6%.
- Savings as a percentage of the Gross Domestic Product (GDP) is an indicator of a healthy economy.
- Savings rate as a percent of GDP fluctuated between 1961 and 2003 but was equal to 2.1% in 1961 and 2.5% in 2003.

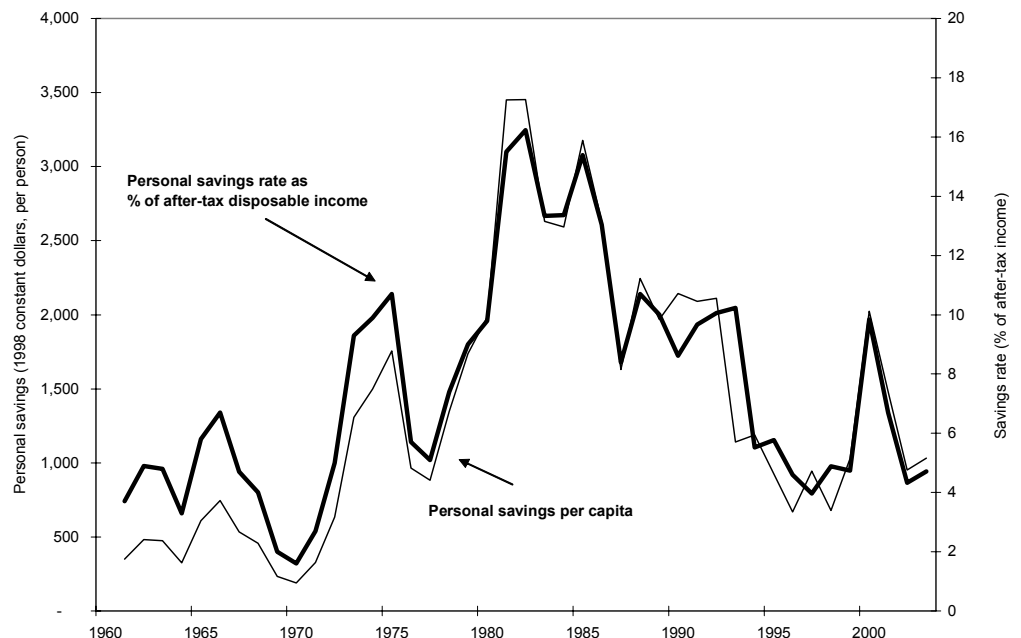
Savings in Alberta: How Much?

The amount of savings by households and governments is one indicator of financial well-being. Savings are what is set aside from disposable income after all living expenditures, including taxes, have been made. Based on Statistics Canada's data, the average savings rate per Albertan was 4.7% of after-tax disposable income in 2001. Savings rate rose from 3.7% in 1961, peaking in 1982 at 16.2% and it has been declining since

1982. With the exception of an increase in the savings rate in 2000, Alberta's savings rate has been relatively stable since 1994 varying between 4 and 6%. The lowest savings rate was recorded in 1970 at 1.6%. The graph below shows the roller-coaster nature of savings in Alberta since the 1960s. Savings may have declined since its peak in 1982 for several reasons. First, real disposable income and real weekly wages did not change

significantly through the 1980s and 90s. Second, household debt continues to increase. These factors have squeezed the average Albertan's capacity to save. This is in stark contrast to soaring Alberta government surpluses. However, the Alberta Government's practice of explicitly saving petroleum royalties for sustainable income options ceased in the mid 1980s.

Savings Rates in Alberta, 1961 to 2003



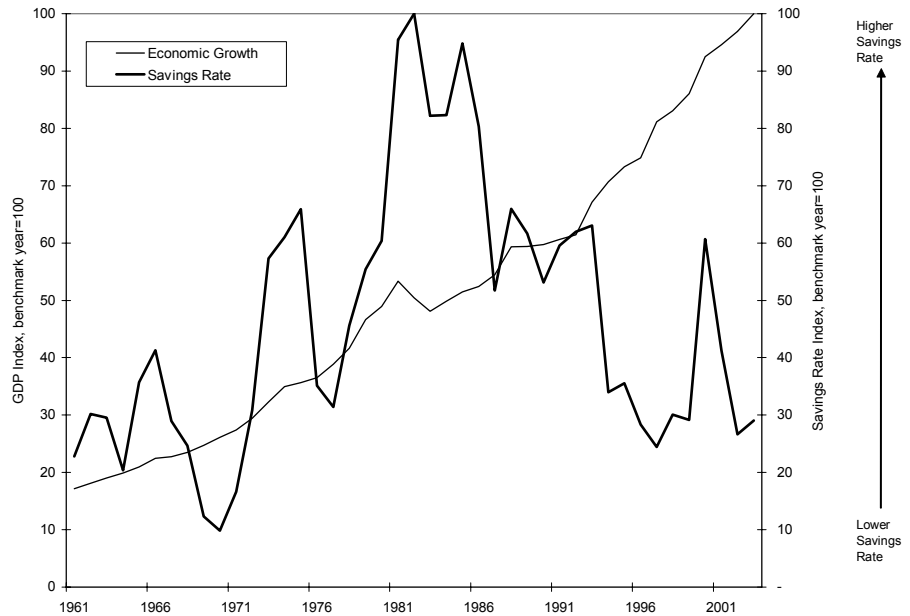
Source: Statistics Canada, CANSIM Table 384-0035 and Table 384-0012

So What?

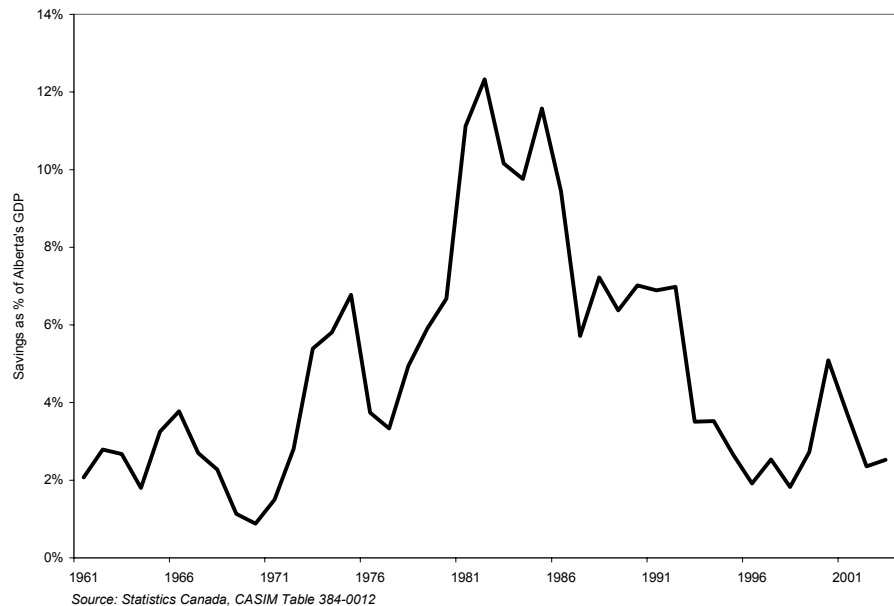
Are we saving enough as a province, country and as individuals to meet future consumption and well-being needs? The rate of personal savings and total savings as a percentage of Alberta's GDP has declined since the peak in 1982 (see figures). Lower savings may be causing individuals and households to finance consumption through borrowing and credit rather than from savings. Less is left over at the end of every month with real wages relatively stable and personal debt continually rising. This is causing some Albertans to report increasing levels of financial angst and personal stress about whether they can survive until the next pay cheque. Yet, the economy keeps booming according to the GDP. Many Albertans it would appear are "another day older and deeper in debt" and increasingly short on savings for old age, the kids and retirement.

While the net worth of the average Canadian and Albertan has risen, much of this gain has come from rising stock markets rather than from traditional assets. How stable is the net worth foundation of Canadians and Americans if stock markets continue to sag along with the U.S. economy? Will high levels of debt and falling net worth become problematic? Americans are already vulnerable with negative savings rates, a key indicator of the financial health of households. Low savings and high debt loads threaten the security of individuals and households. The Alberta government too should consider how it would sustain income from other forms of sustainable or renewable capital as the province runs down the non-renewable inventory of fossil fuels. While paying down the cumulated debt is prudent, long term sustainability will be achieved by investing petro-dollars into sustainable forms of capital.

Alberta Savings Index: Where are we today?



Savings as a Percentage of Alberta's GDP, 1961 to 2003



Total savings in 2003 were \$3,218 million or \$1,033 per capita (1998\$).

As an index, household and individual savings in 2003 scored 29 on a scale of 0 to 100, where 100 represents the greatest savings rate (in 1982) between 1961 and 2003 (see figure above).

