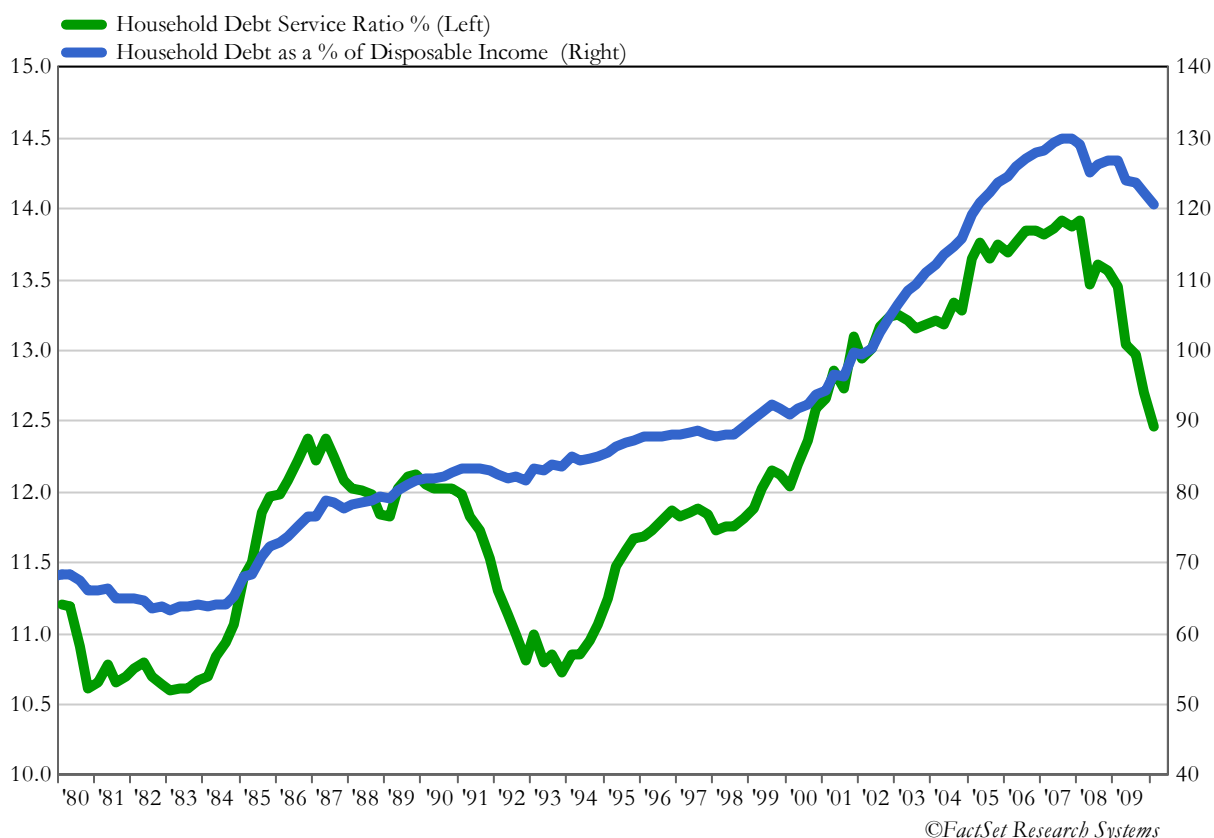


## Household Savings Lead to Healthier Balance Sheets

The U.S. economic recovery has been tepid so far, largely due to the unprecedented de-leveraging of the American consumer. Record debt and plunging asset values exposed the weak financial condition among consumers. However, an often overlooked and positive trend has been the rapid improvement in the consumers' financial condition.

The savings rate has increased to 6 percent during the economic recovery. A higher savings rate can create a near-term drag, yet a healthy consumer is key to the economy's health and long-term growth. Initially, most "savings" have gone to debt-reduction, but once the consumer reaches a comfortably lower debt level, savings will likely translate into investment – the fuel to economic growth.

As the once drastic headwind of consumer deleveraging diminishes, consumers will also be able to spend more of their income. We are encouraged by the American consumers' propensity to save and make rational choices that are resulting in healthier levels of household debt. The economy has slowly grown even as the savings rate has been adjusted higher. Looking forward, we are confident in the sustainability of this expansion. We expect Americans will adjust to their new savings rate, followed by more confident spending and investing.



*The Household Debt Service Ratio is an estimate of the ratio of debt payments (required payments on mortgage and consumer debt) to disposable personal income.*