The spendthrift economy

By Paul Krugman
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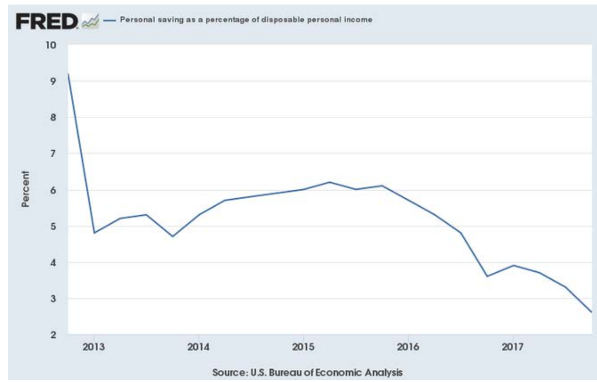
I haven't been paying a lot of attention to quarterly GDP numbers. For one thing, they do tend to bounce around a lot; for another, claims that a good number in a particular quarter somehow validates the Trumpian claim to be able to achieve high growth *for a decade* are almost too stupid to argue with.

But there are a couple of points I think are worth making about growth over the past year.

First, as Jason Furman notes, a good part of the 2.5% growth seems to be cyclical – the result of the economy moving closer to full employment, not a pickup in the underlying growth rate of potential output, which looks more like 1% than the 3% Trump et al need to make their numbers work.

Second, as Jason also notes, that cyclical expansion doesn't look too healthy when you look at it closely. It is *not* being driven mainly by rising business investment. Here's biz investment as a share of GDP in recent years: it bounces around some, largely because of the rise, fall, and partial recovery of fracking, but is not especially high:

What we see instead is a large decline in personal savings, which are now down to levels not seen since before the financial crisis:



Why is saving down? Maybe it's the stock market (which is starting to feel more like a bubble than it did even a few months ago), maybe it's eat, drink, and be merry, for tomorrow we have a constitutional crisis/a nuclear war/Skynet kills us all. Whatever: saving can't keep falling, and you wonder whether households are getting overstretched again.

I'm not predicting a crisis; this doesn't look nearly as bad as the U.S. economy in the housing bubble years. (And I'm trying extra hard, given my election night freakout, not to let my political dismay distort my economic judgment.) But as I said, this growth doesn't look very healthy.