The Evolving U.S. Economy and Household Debt

Remarks for Household Debt Tipping Points Research Symposium

Karen Dynan

Harvard University and Peterson Institute for International Economics

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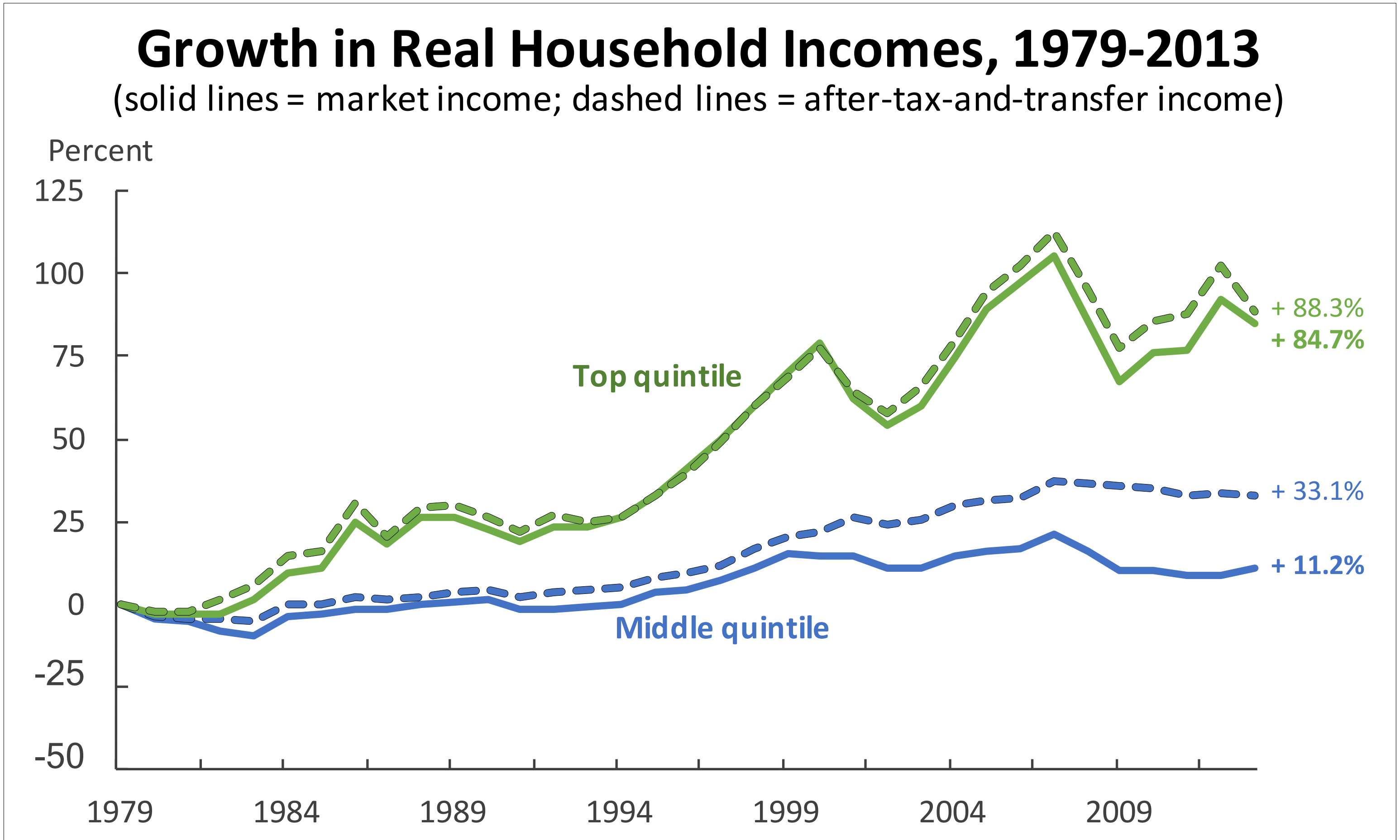
Notes for the slides can be found at the end of the presentation.

PART 1

MACRO TRENDS AND HOUSEHOLD DEBT TIPPING POINTS

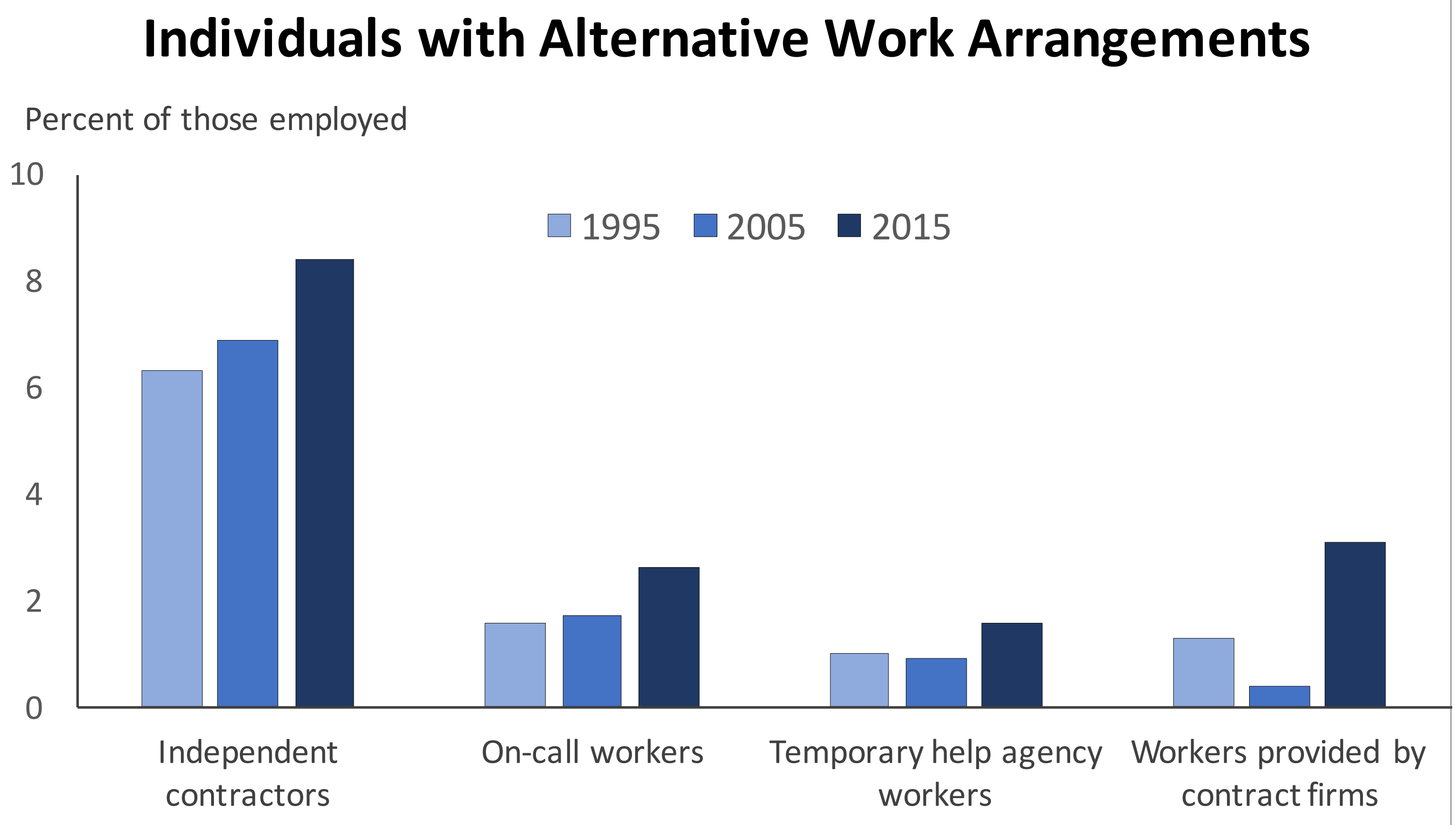
Some trends that may have made U.S. households more vulnerable to hitting tipping points

Income growth has been limited across much of the distribution



Source. Congressional Budget Office.

Changes in the workplace imply less predictable incomes



Source. Katz and Krueger (2016); 2015 figures are the "alternative weights" estimates.

More students are borrowing to attend colleges that tend to add little to earnings prospects

Where Student Loans are Going:

Colleges whose students owe the most, 2000 vs. 2014

For-Profit Non-Profit or Public

2000

	Institution	Total Debt (Billions)
1	New York University	\$2.2
2	University of Phoenix-Phoenix Campus	\$2.1
3	Nova Southeastern University	\$1.7
4	Pennsylvania State University	\$1.7
5	University of Southern California	\$1.6
6	Ohio State University-Main Campus	\$1.5
7	Temple University	\$1.5
8	Arizona State University	\$1.4
9	Michigan State University	\$1.3
10	University of Minnesota-Twin Cities	\$1.3
11	Boston University	\$1.3
12	The University of Texas at Austin	\$1.3
13	University of Florida	\$1.2
14	University of California-Los Angeles	\$1.2
15	University of Michigan-Ann Arbor	\$1.1
16	Columbia University in the City of New York	\$1.1
17	University of Pittsburgh-Pittsburgh Campus	\$1.1
18	Indiana University-Bloomington	\$1.1
19	Rutgers University-New Brunswick	\$1.1
20	University of Pennsylvania	\$1.0
21	University of Arizona	\$1.0
22	University of Wisconsin-Madison	\$1.0
23	Florida State University	\$1.0
24	Virginia Commonwealth University	\$1.0
25	University of Washington-Seattle Campus	\$1.0

2014

	Institution	Total Debt (Billions)
1	University of Phoenix-Phoenix Campus	\$35.5
2	Walden University	\$9.8
3	Nova Southeastern University	\$8.7
4	DeVry University-Illinois	\$8.2
5	Capella University	\$8.0
6	Strayer University-Global Region	\$6.7
7	Kaplan University-Davenport Campus	\$6.7
8	New York University	\$6.3
9	Argosy University-Chicago	\$6.2
10	Ashford University	\$5.9
11	Grand Canyon University	\$5.9
12	Liberty University	\$5.7
13	University of Southern California	\$5.3
14	Pennsylvania State University	\$5.3
15	Arizona State University	\$4.9
16	ITT Educational Services Inc System Office	\$4.6
17	Ohio State University-Main Campus	\$4.4
18	Temple University	\$4.3
19	DeVry University's Keller Graduate School	\$3.9
20	American InterContinental University-Online	\$3.7
21	University of Minnesota-Twin Cities	\$3.7
22	Michigan State University	\$3.6
23	Rutgers University-New Brunswick	\$3.4
24	Colorado Technical University-Colorado Springs	\$3.3
25	Indiana University-Purdue U.-Indianapolis	\$3.1

Source. Brookings (2015).

Why these trends potentially matter for households' vulnerability to tipping points

Limited income growth

More borrowing to "keep up with the Jones's"?

More political incentive to favor easy credit policies

Less predictable incomes

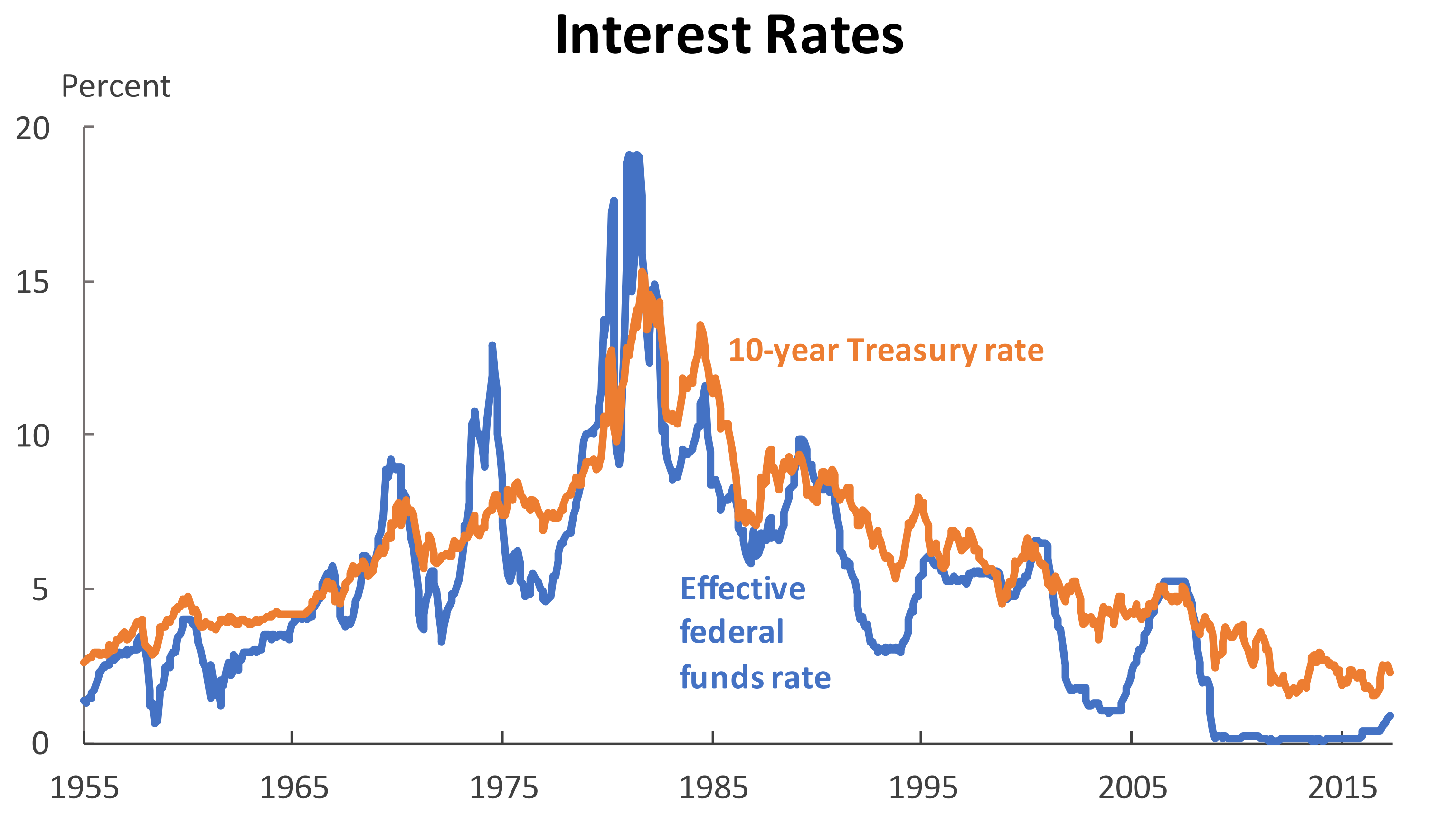
More dependence on short-term credit

Growth in enrollment at colleges with poor outcomes:

More people likely to struggle to pay off student debt

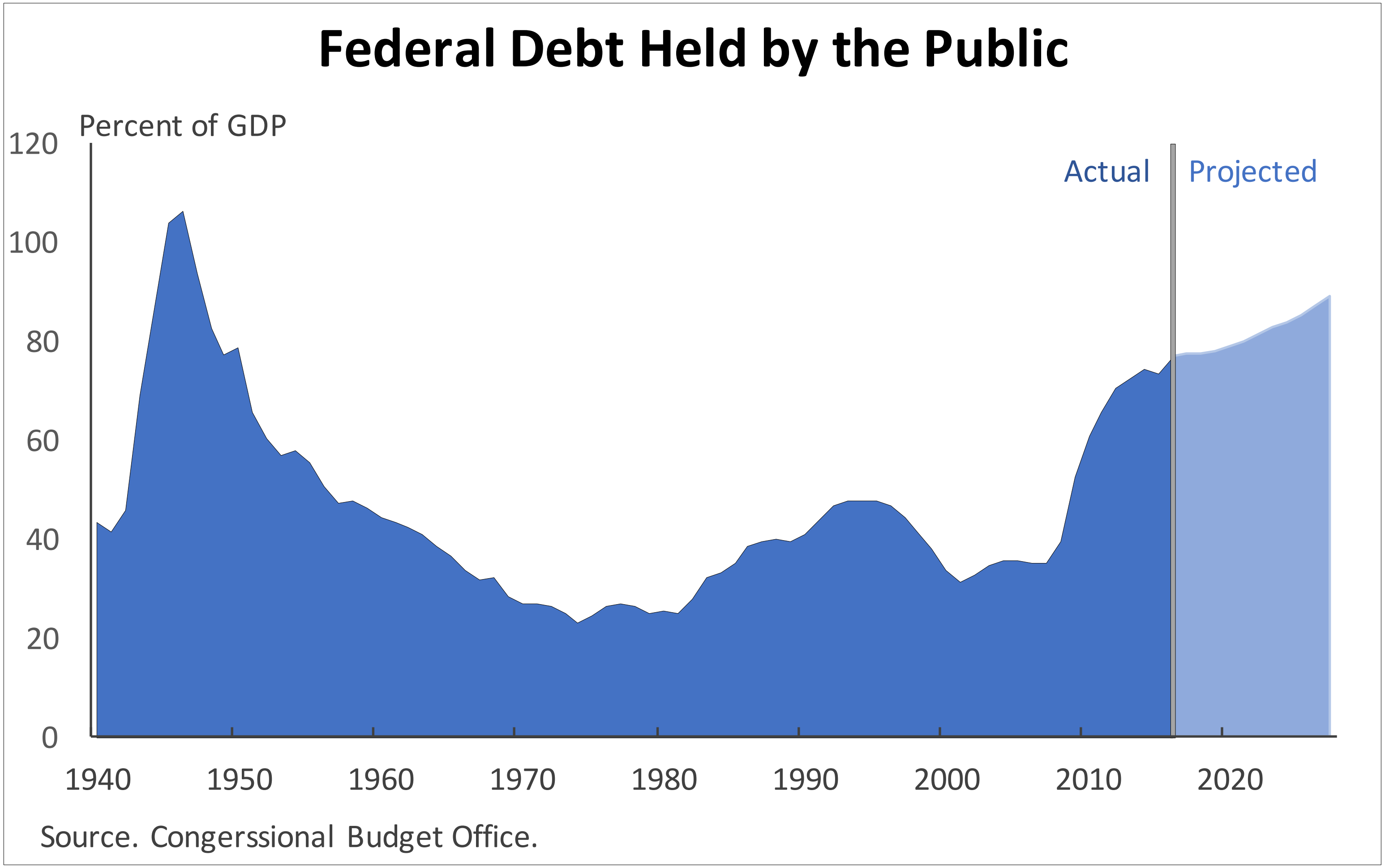
Some trends that make it more difficult for policymakers to mitigate the immediate macro fallout from reaching tipping points

Nominal interest rates have trended down



Source. Federal Reserve Board.

Government debt has risen (and is projected to rise further)



Why these trends make it harder to mitigate the short-run harms of reaching tipping points

Lower nominal interest rates

Fed will hit the zero lower bound more often

Inflation falls short of Fed target more often, so less scope for inflation to erode nominal debt burdens

High levels of government debt

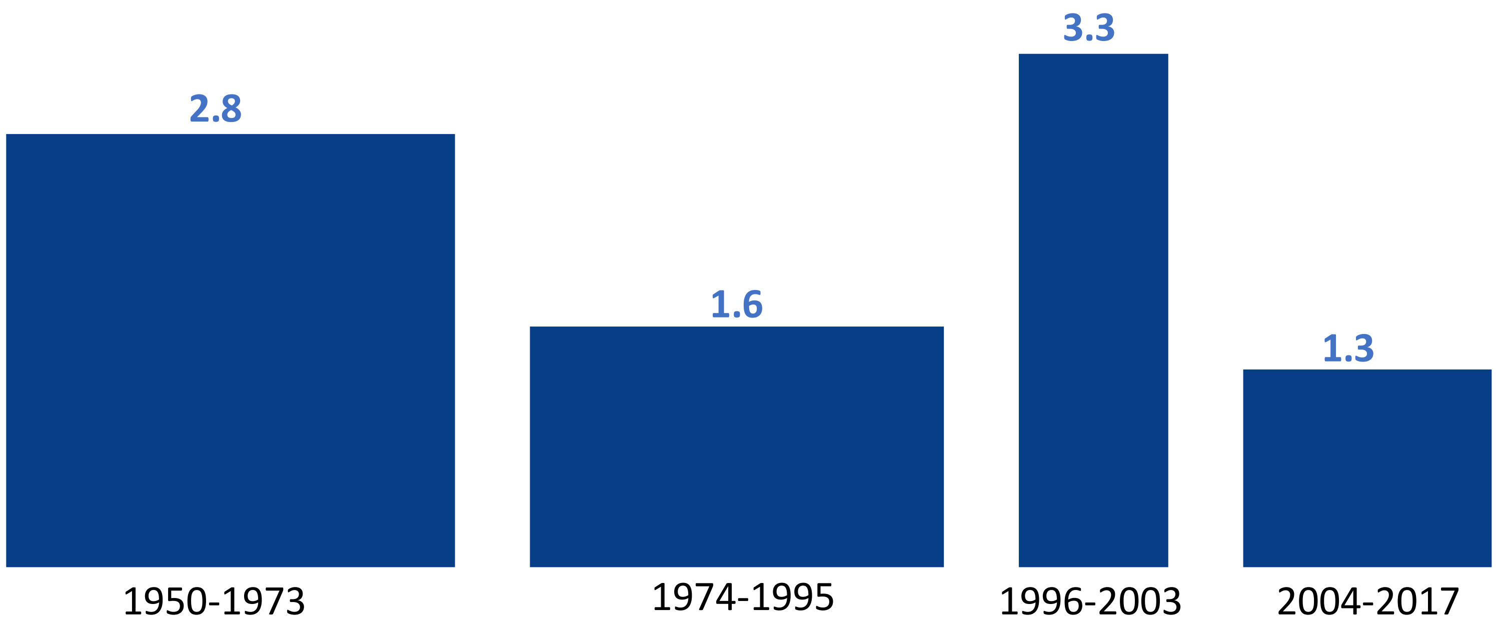
Limits scope for countercyclical fiscal policy

Some trends that mean the longer-term effects of hitting tipping points are more consequential than in the past

Productivity growth has been low

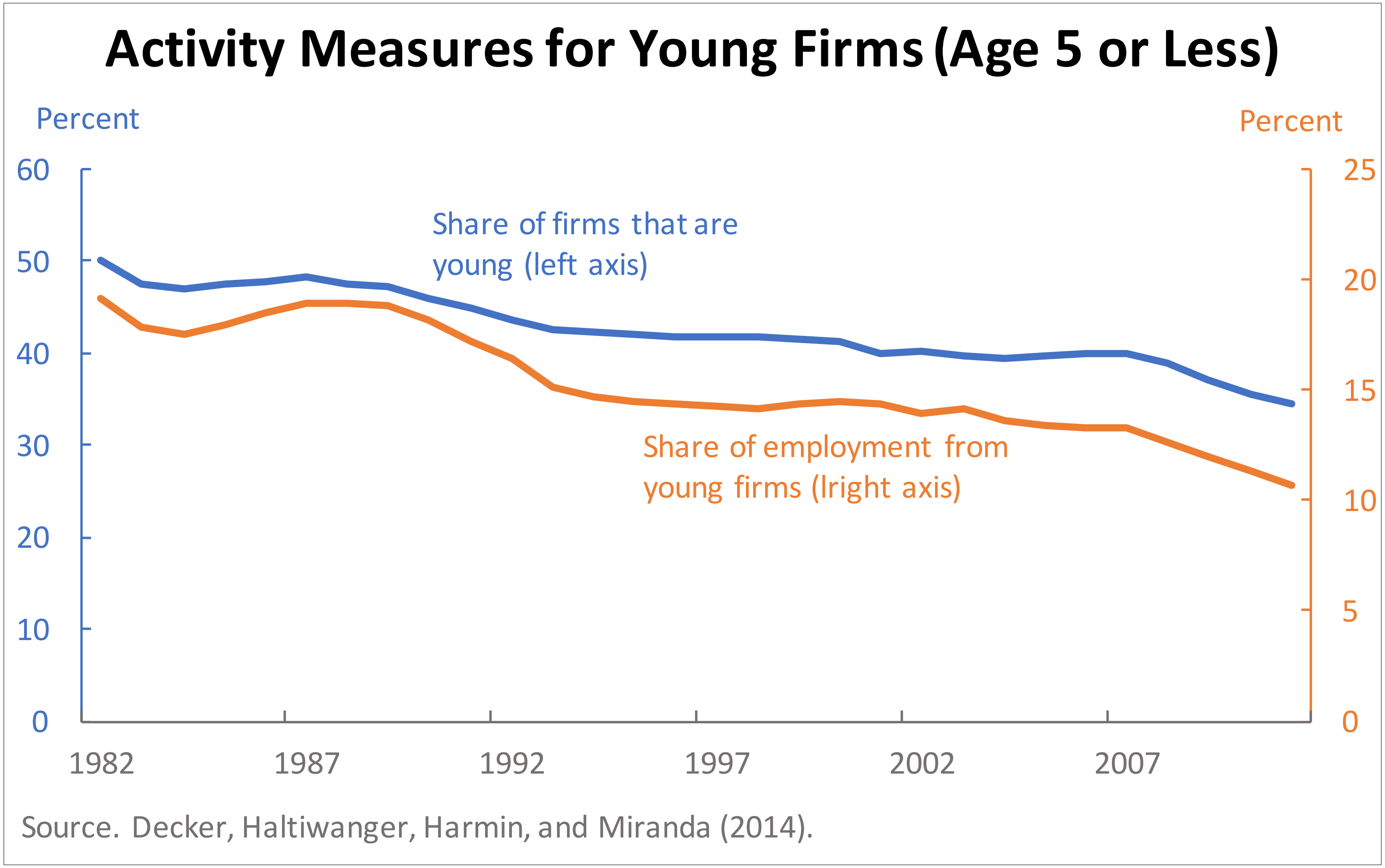
Productivity Growth

(percent change, annual rate)



Note: Nonfarm business sector. Time ranges correspond to different "eras" of productivity growth; width of each bar corresponds to the duration of time.
Source. Bureau of Labor Statistics.

Business dynamism has fallen



Why these trends mean that the longer-term effects of hitting tipping points are more consequential

Hitting tipping points causes households and businesses to lose access to credit

Access to credit is a key determinant of productivity growth and business dynamism

- People need to borrow to invest in human capital
- People need to borrow to invest in new businesses

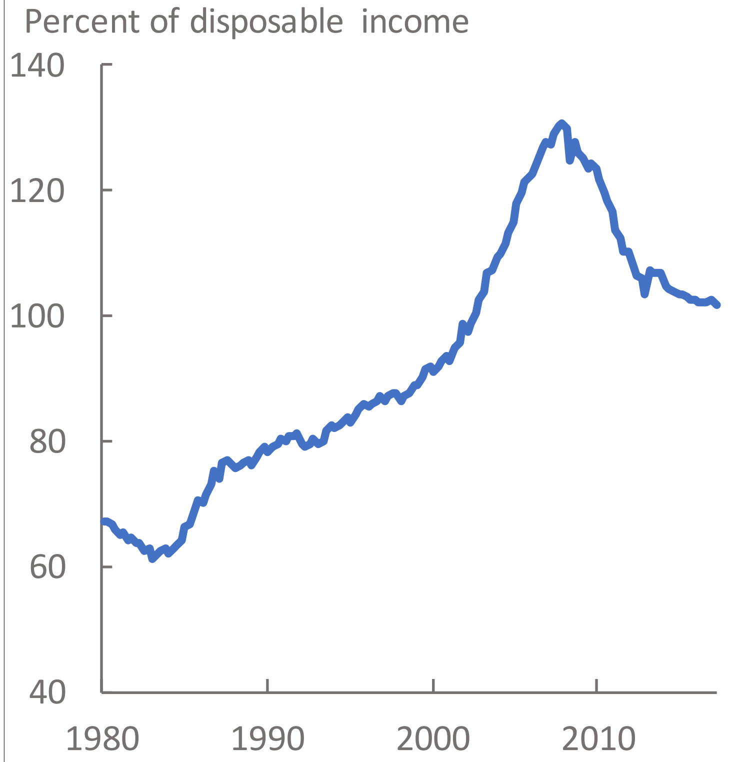
PART 2

SOME BETTER NEWS

The current state of household balance sheets

The traditional indicators show enormous improvement

Household Debt to Income Ratio

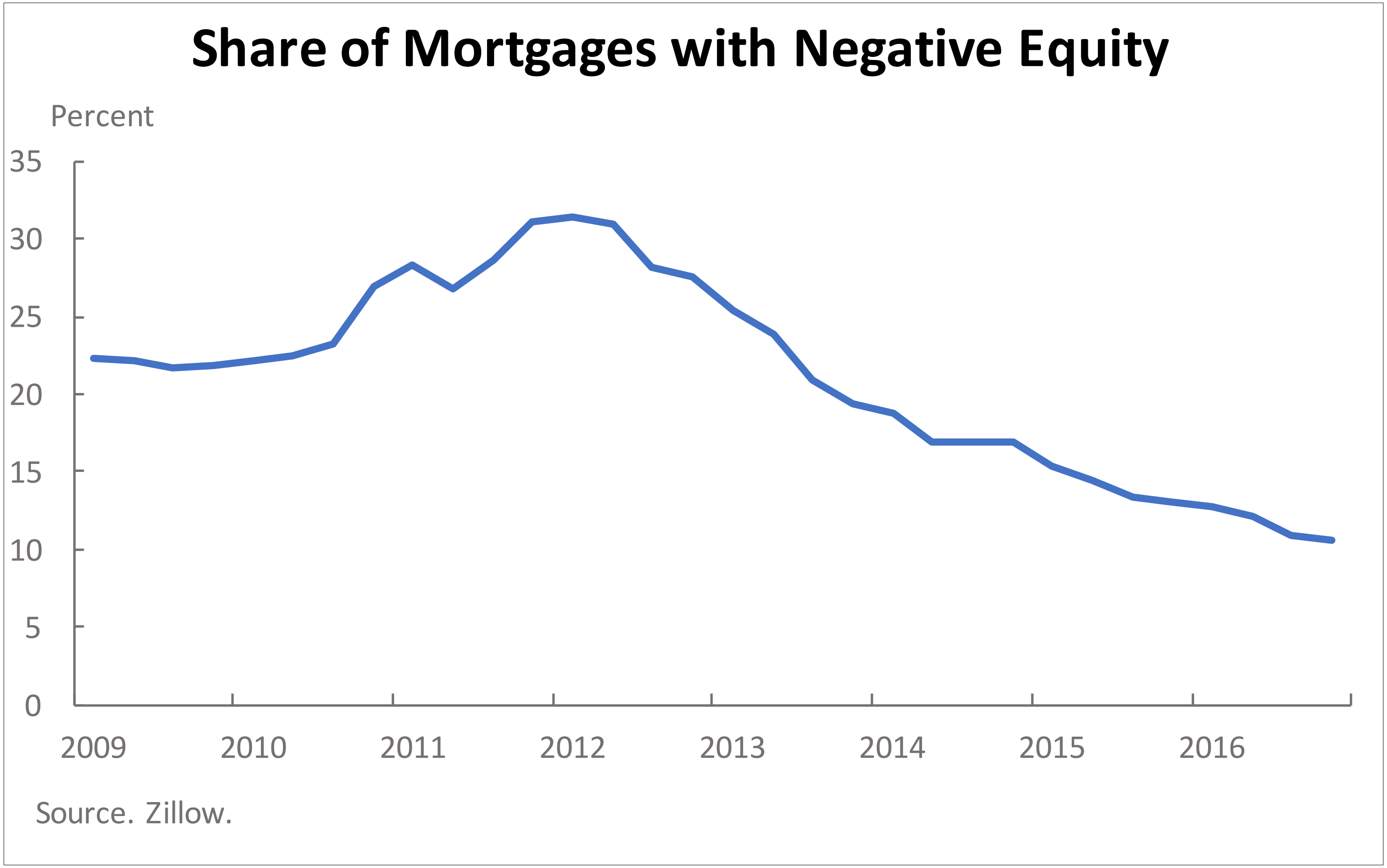


Source. Federal Reserve Board.

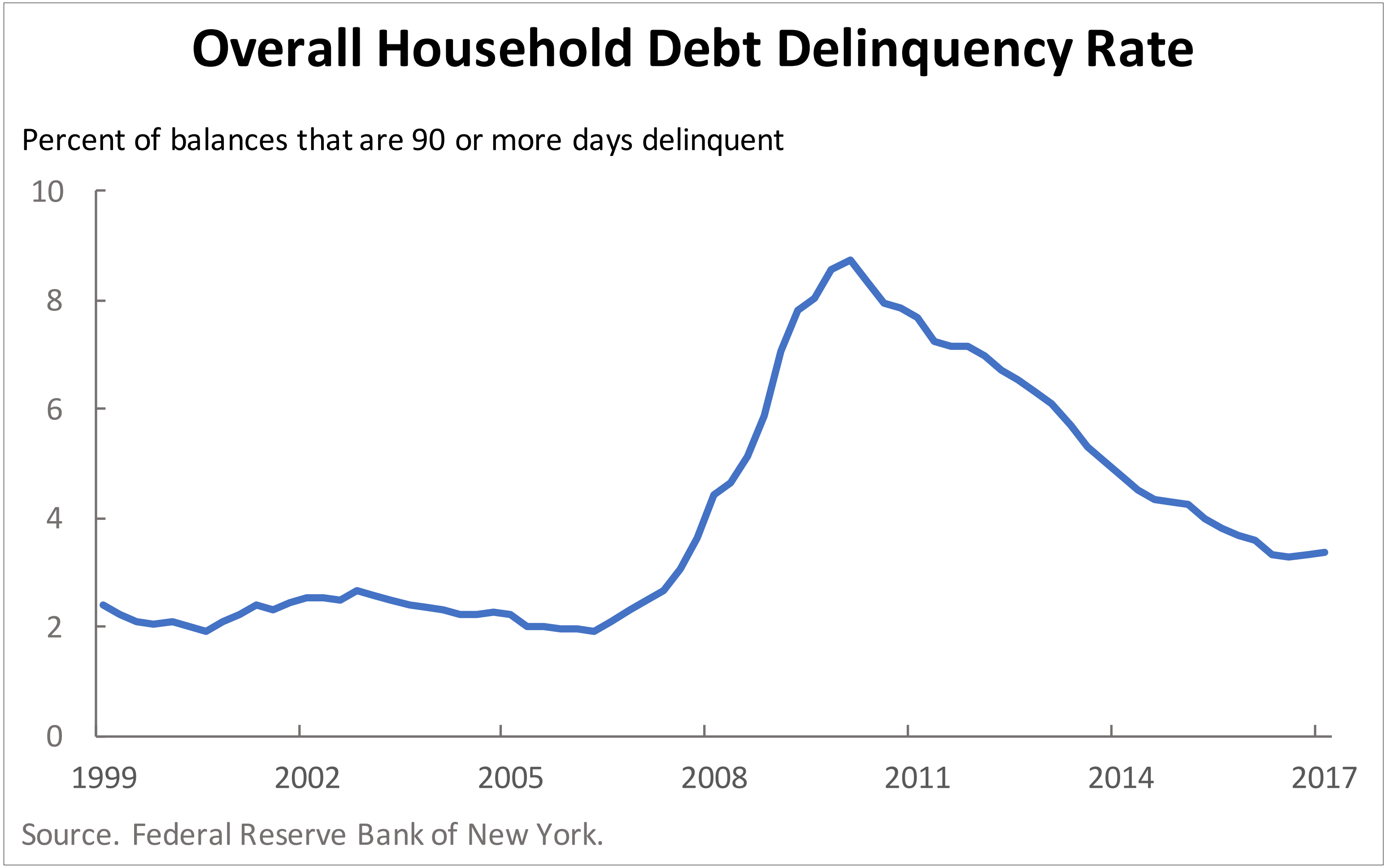
Household Debt Service Ratio

Source. Federal Reserve Board.

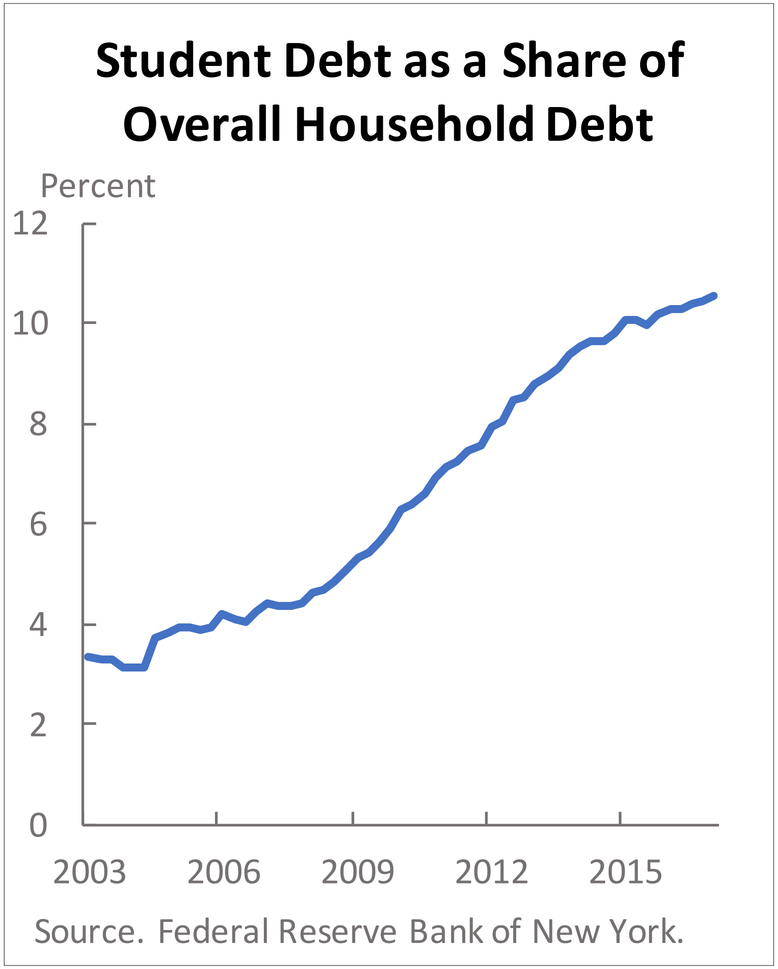
The share of underwater mortgages has fallen substantially

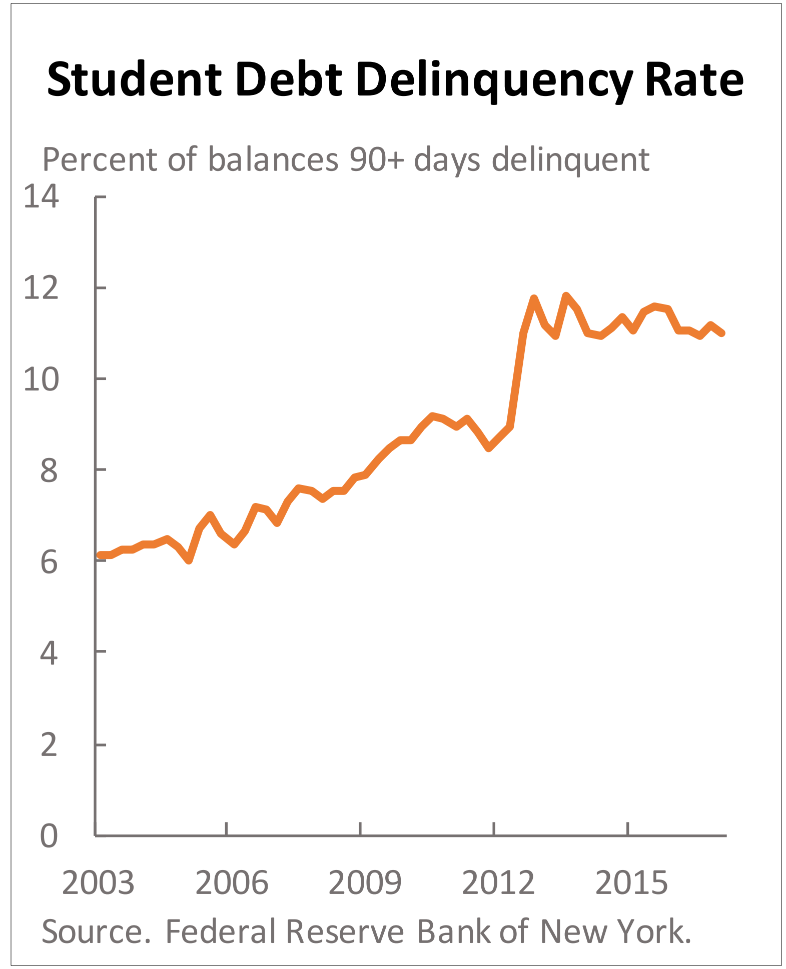


Delinquencies rates (broadly speaking) have largely normalized



But one area to watch is student loans





To summarize, the current state of household balance sheets is, on the whole, good

The odds of reaching a household debt “tipping point” in the near future are low

We should be concerned about some aspects of student loans, but the immediate risk to the macroeconomy is limited

There are a few problem areas (e.g. subprime auto lending) but they are not large by macro standards

More good news—there has been important progress in regulation and other areas

Banks are lending more prudently and they are better capitalized

The Consumer Financial Protection Bureau should better protect households from reaching debt tipping points

In conducting mortgage interventions in the last crisis, the federal government learned valuable lessons about how to best design such programs

CONCLUSION

AREAS WHERE MORE WORK NEEDS TO BE DONE

Important unfinished policy business

Mortgage finance reform

Better regulation for student loans: top priority should be taking steps to hold higher education institutions more accountable for the quality of the services they deliver

Other agenda items

Potential for “fintech” innovations to improve household debt management

Scope to develop new mortgage products that better protect households from tipping points

More publicly available data for researching and tracking household debt tipping points

Endnotes

Slide 3: Source—Congressional Budget Office, *The Distribution of Household Income and Federal Taxes, 2013*. Market income consists of labor income, business income, capital gains (profits realized from the sale of assets), capital income excluding capital gains, income received in retirement for past services, and other sources of income. Shaded vertical bars denote recessions.

Slide 4: Source—Data from table 2 of Katz, Lawrence F. and Alan B. Krueger (2016), "The Rise and Nature of Alternative Work Arrangements in the United States, 1995-2015," National Bureau of Economic Research Working Paper No. 22667,

Slide 5: Source—Brookings (2015) "Media Summary of 'Students loan debt a selective crisis; Majority of recent borrowers and defaulters attend for-profit and non-selective schools' by Adam Looney and Constantine Yannelis."

Slide 8: Source—Federal Reserve Board.

Slide 9: Source—Congressional Budget Office (2017), *The Budget and Economic Outlook: 2017 to 2027*.

Slide 12: Source—Bureau of Labor Statistics. Data for the last bar go through 2017:Q1.

Slide 13: Source—Data from figure 4 of Decker, Ryan, John Haltiwanger, Ron Jarmin, and Javier Miranda (2014), "The Role of Entrepreneurship in US Job Creation and Economic Dynamism," *Journal of Economic Perspectives* 28(3).

Slide 17: Source—Federal Reserve Board. The last data point for the household debt to income ratio is 2017:Q1, and the last data point for the household debt service rate is 2016:Q4.

Slide 18: Source—Zillow. The last data point is 2016:Q4.

Slide 19: Source—Federal Reserve Bank of New York. The last data point is 2017:Q1.

Slide 20: Source—Federal Reserve Bank of New York. The last data point is 2017:Q1.