



*Has the Great Recession Changed Our
Understanding and Teaching of Economics?*

What We've Learned About Household Financial Stability

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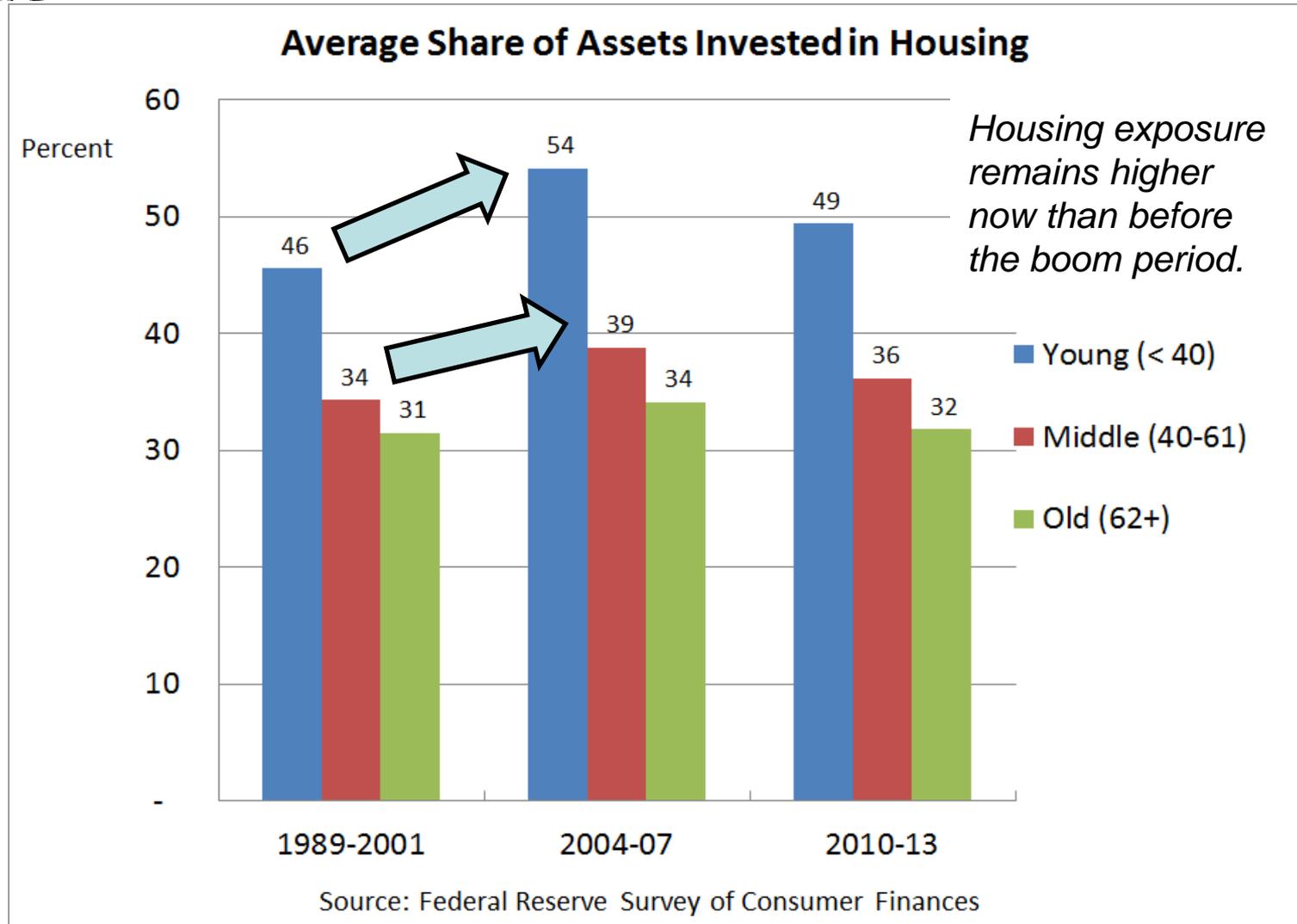


What We've Learned About Household Financial Stability

- **Household financial fragility was more widespread before the recession than we realized.**
 - Many families were heavily exposed to house-price declines.
 - Heavy debt burdens amplified income (job-market) and housing shocks.
 - Young, less-educated and families of color—already poor—suffered the greatest wealth losses in percentage terms.
- **Rebuilding households' financial strength will be slow—especially among vulnerable groups.**
 - Many families have riskier balance sheets now than before the housing boom—more housing exposure, more debt.
 - Slow economic growth will hamper saving and wealth accumulation.
 - Many forces make vulnerable families financially fragile.

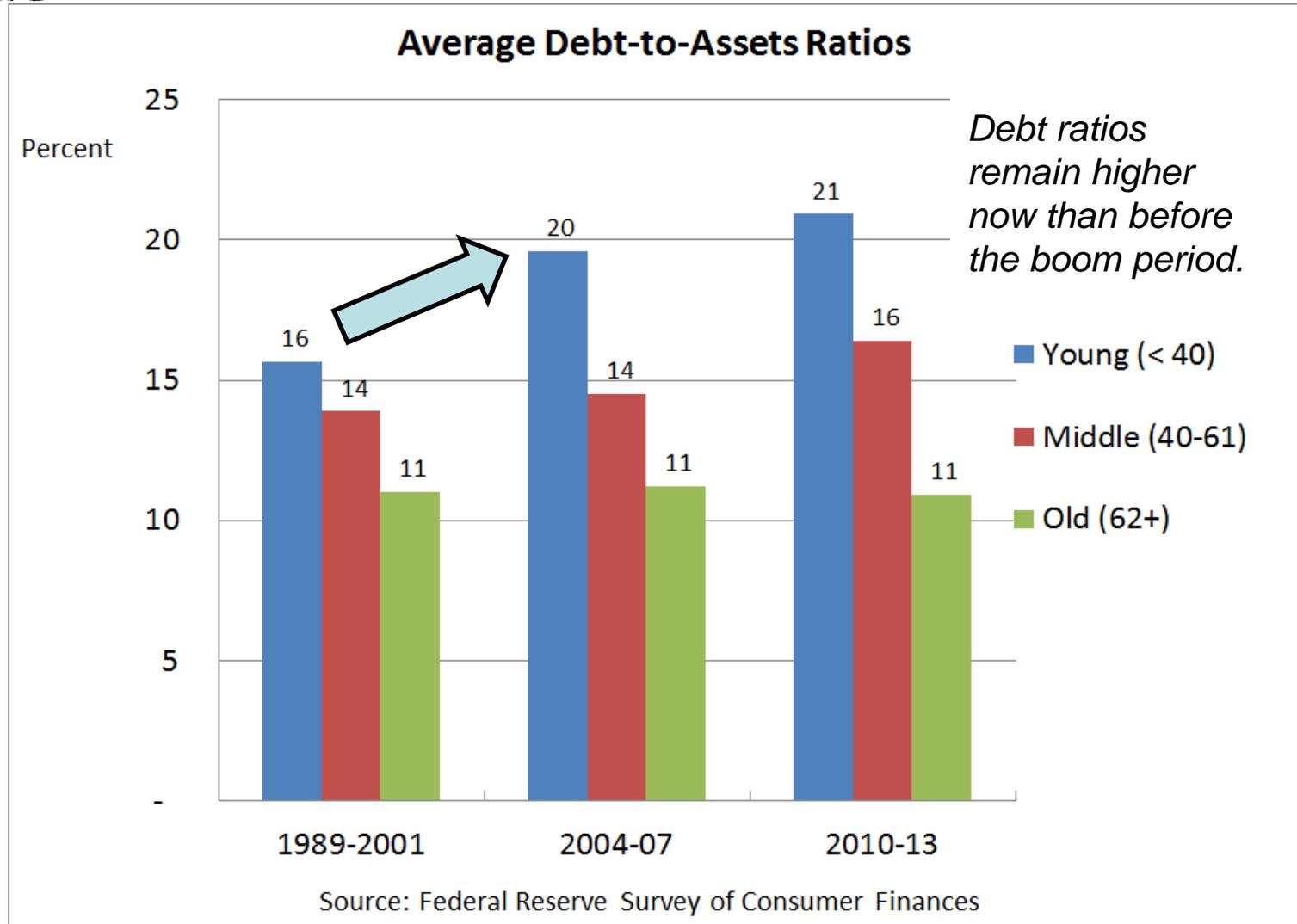


Young and Middle-Aged Families Increased Exposure to Housing the Most



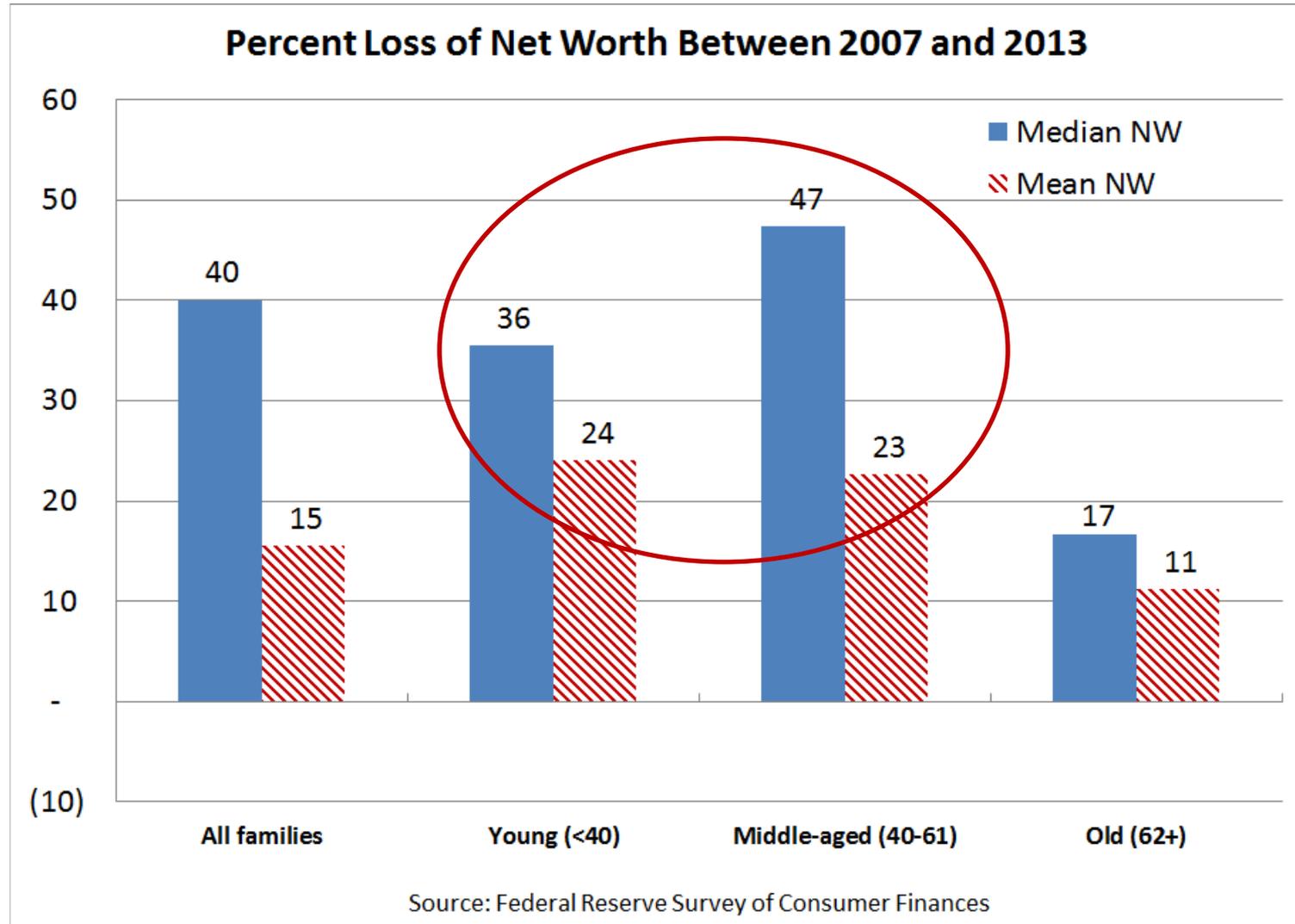


Young Families Increased Debt Loads More Than Middle-Aged or Older Families





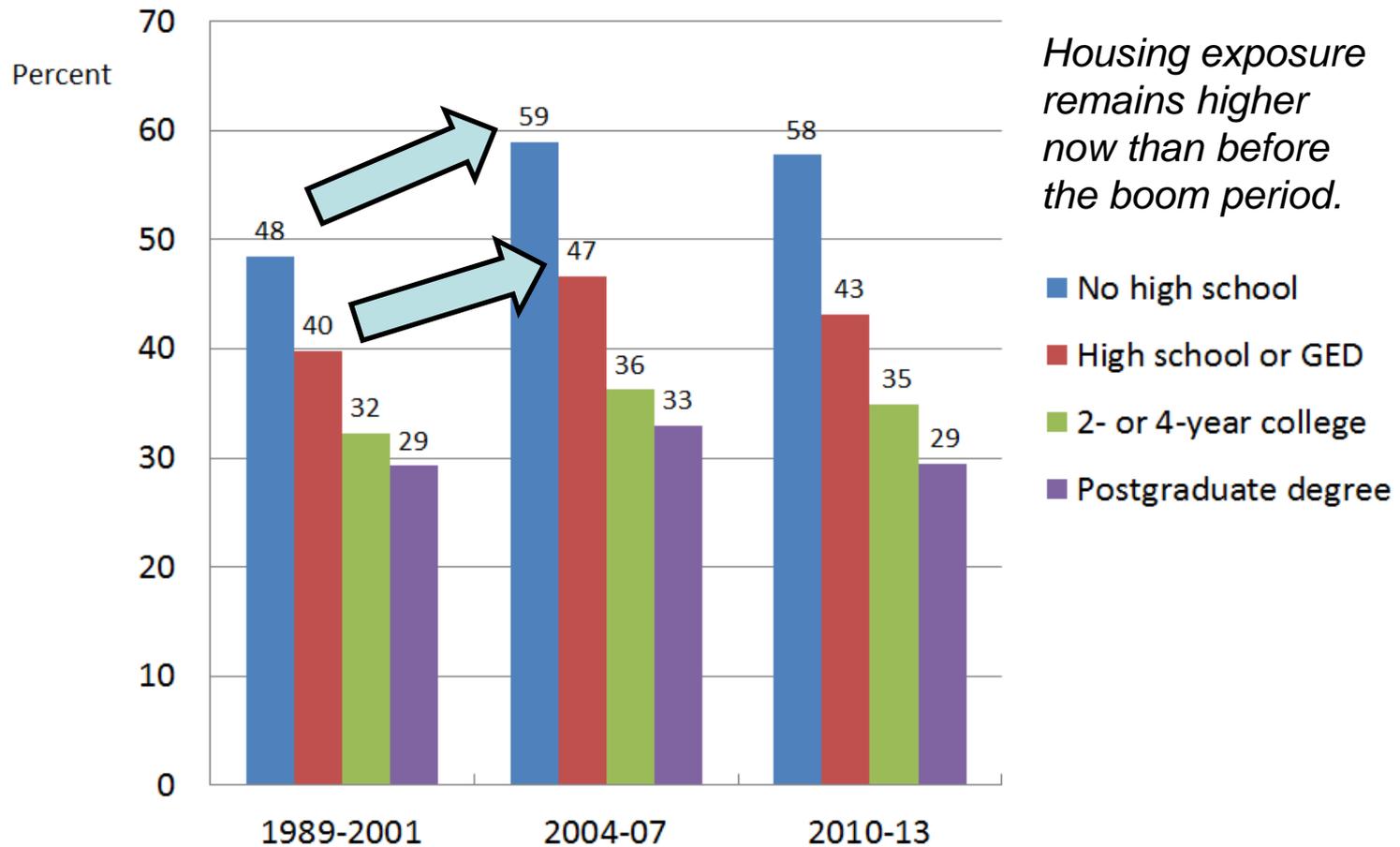
Result: Young and Middle-Aged Families Lost More Wealth Than Older Families





Housing Exposure Increased More Among Less-Educated Families

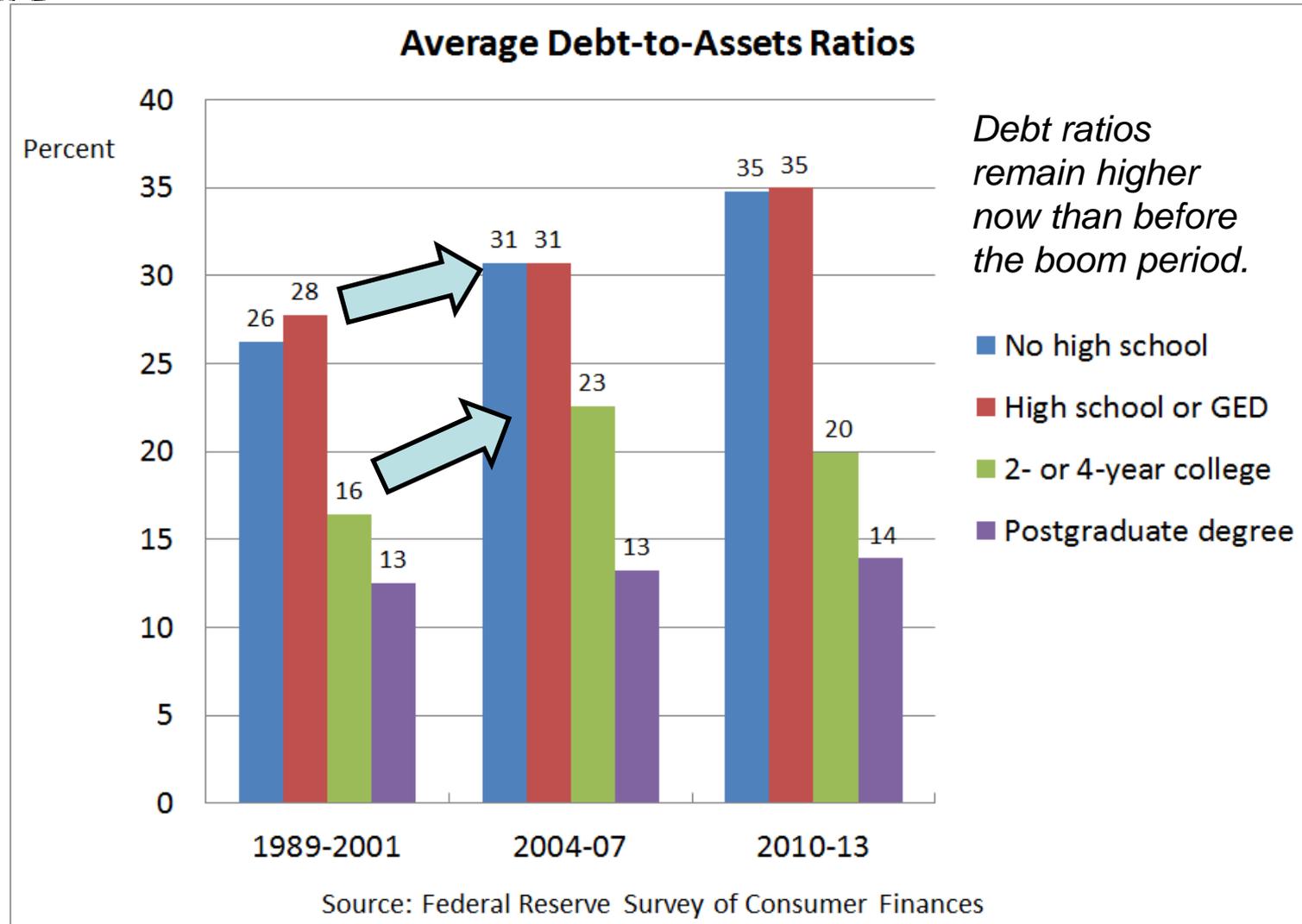
Average Share of Assets Invested in Housing



Source: Federal Reserve Survey of Consumer Finances

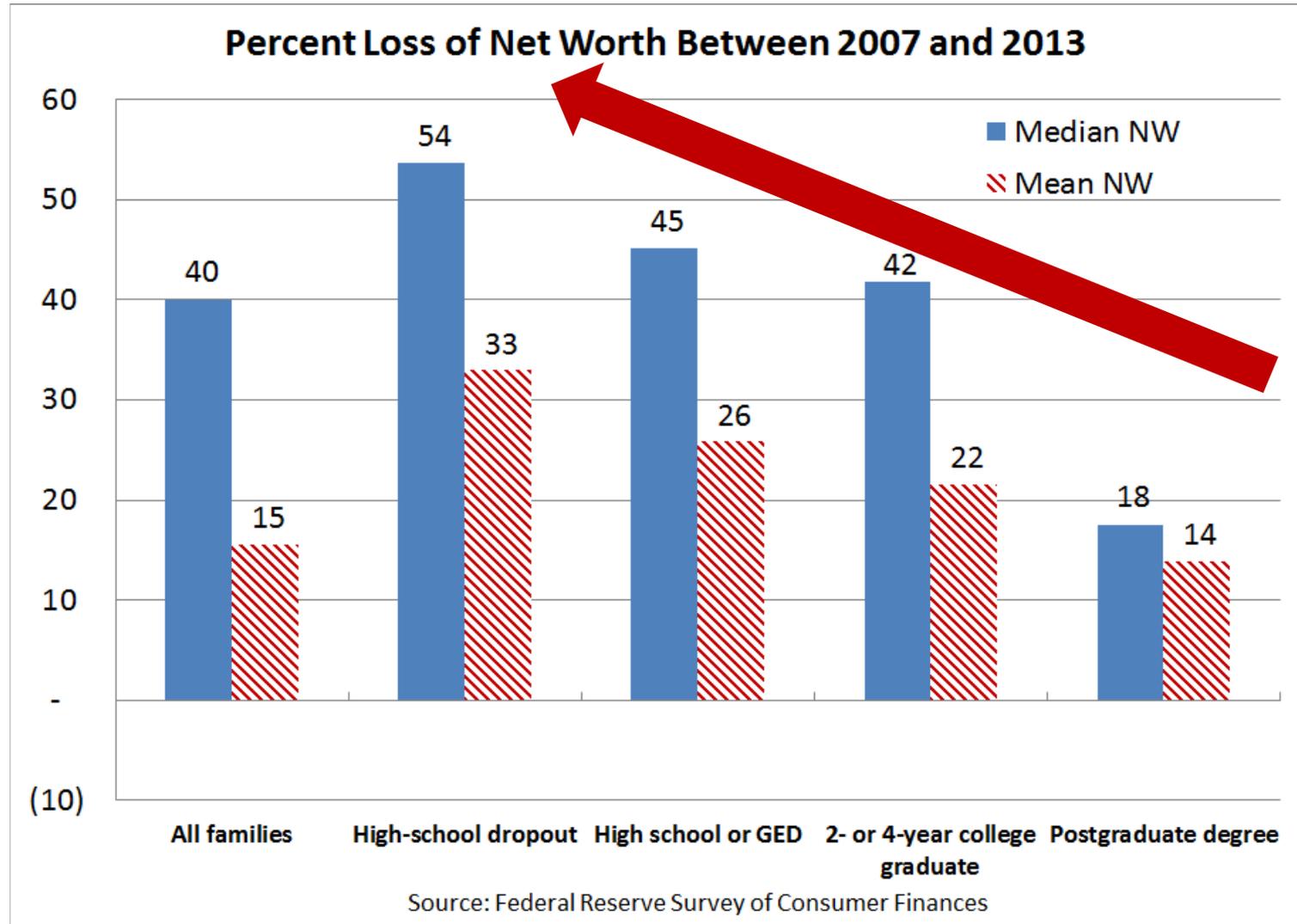


Debt Ratios Increased At All Education Levels Except Postgraduate



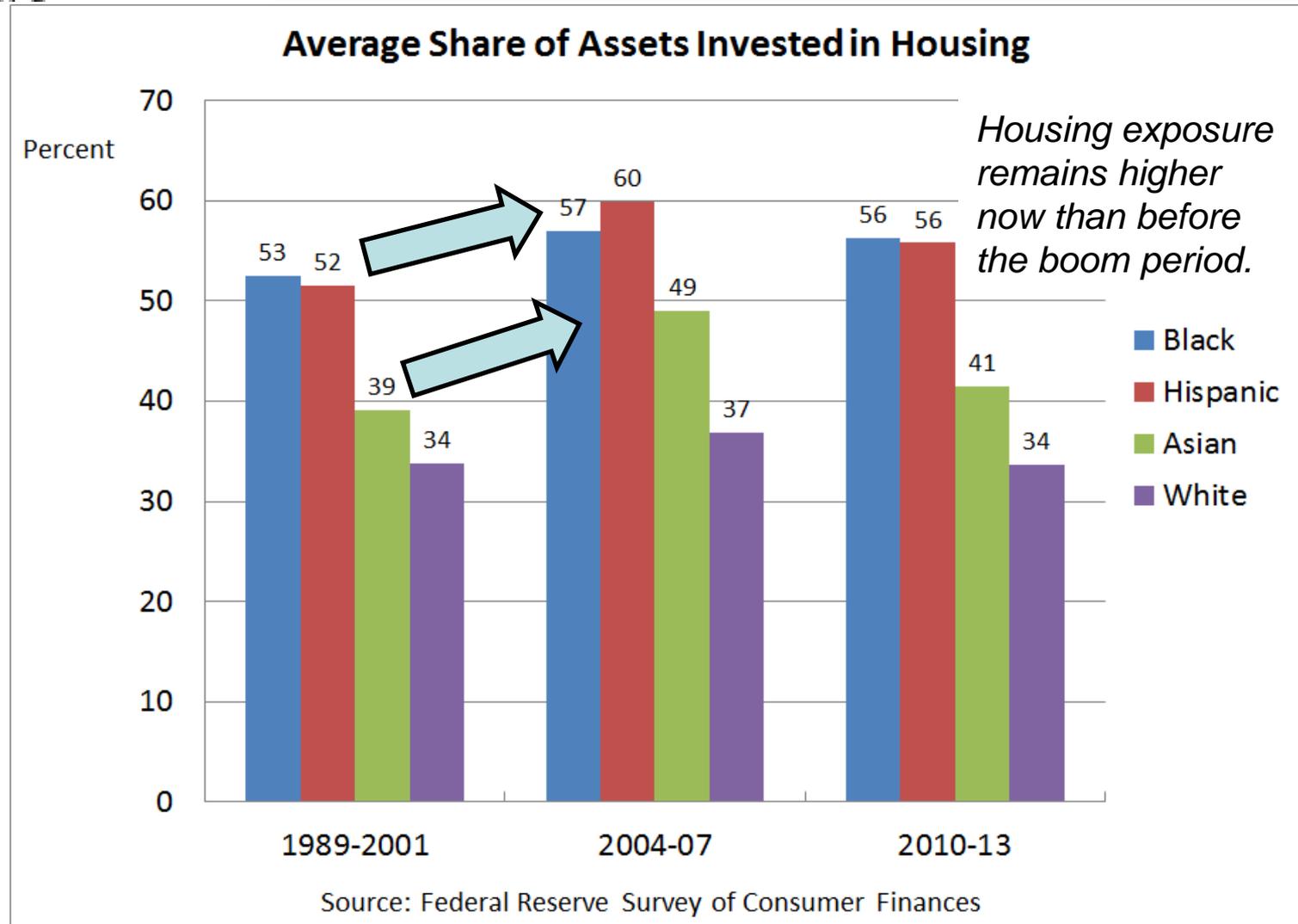


Less-Educated Families Lost More Wealth Than Better-Educated Families



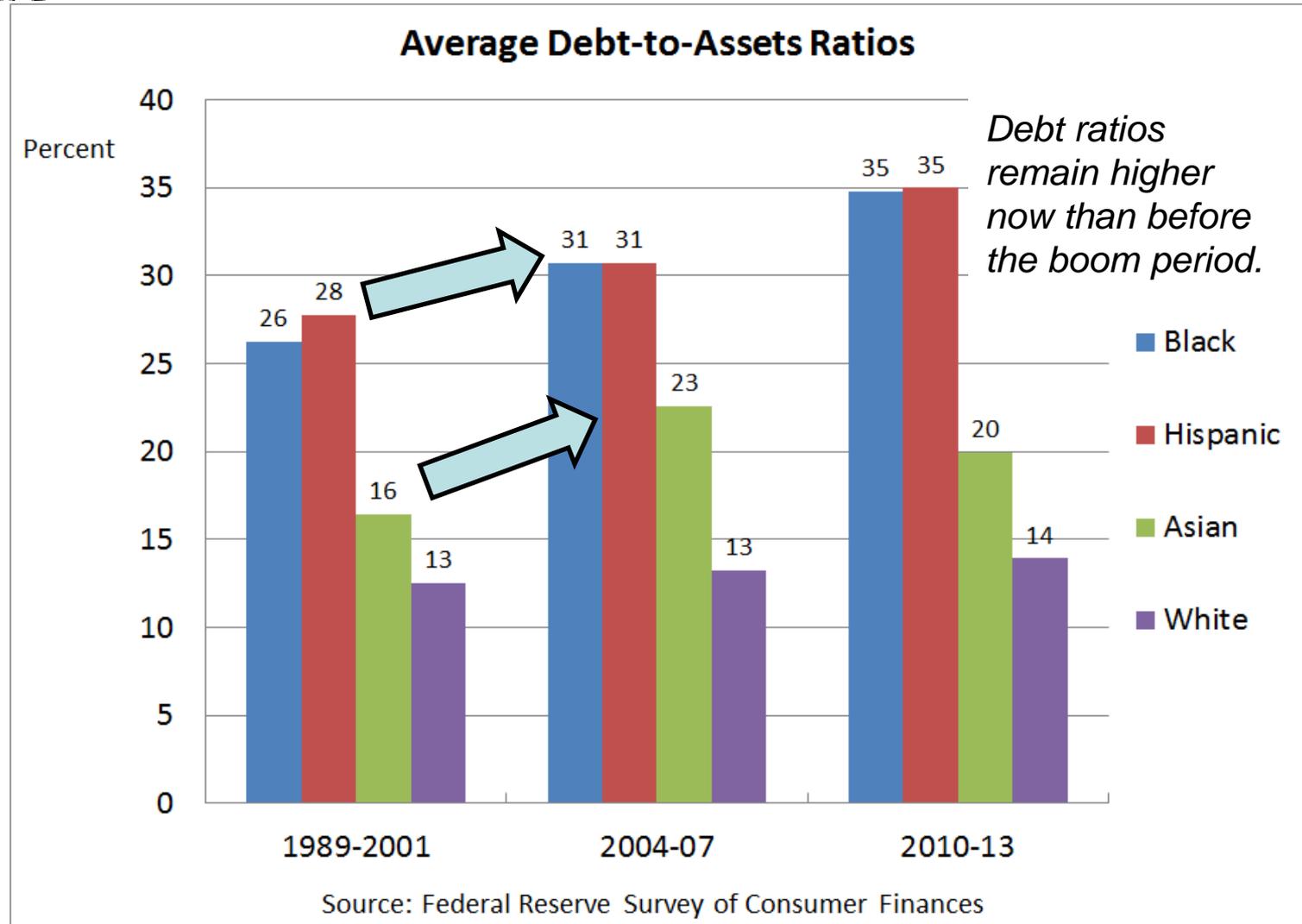


Non-White Families Increased Already High Housing Exposures



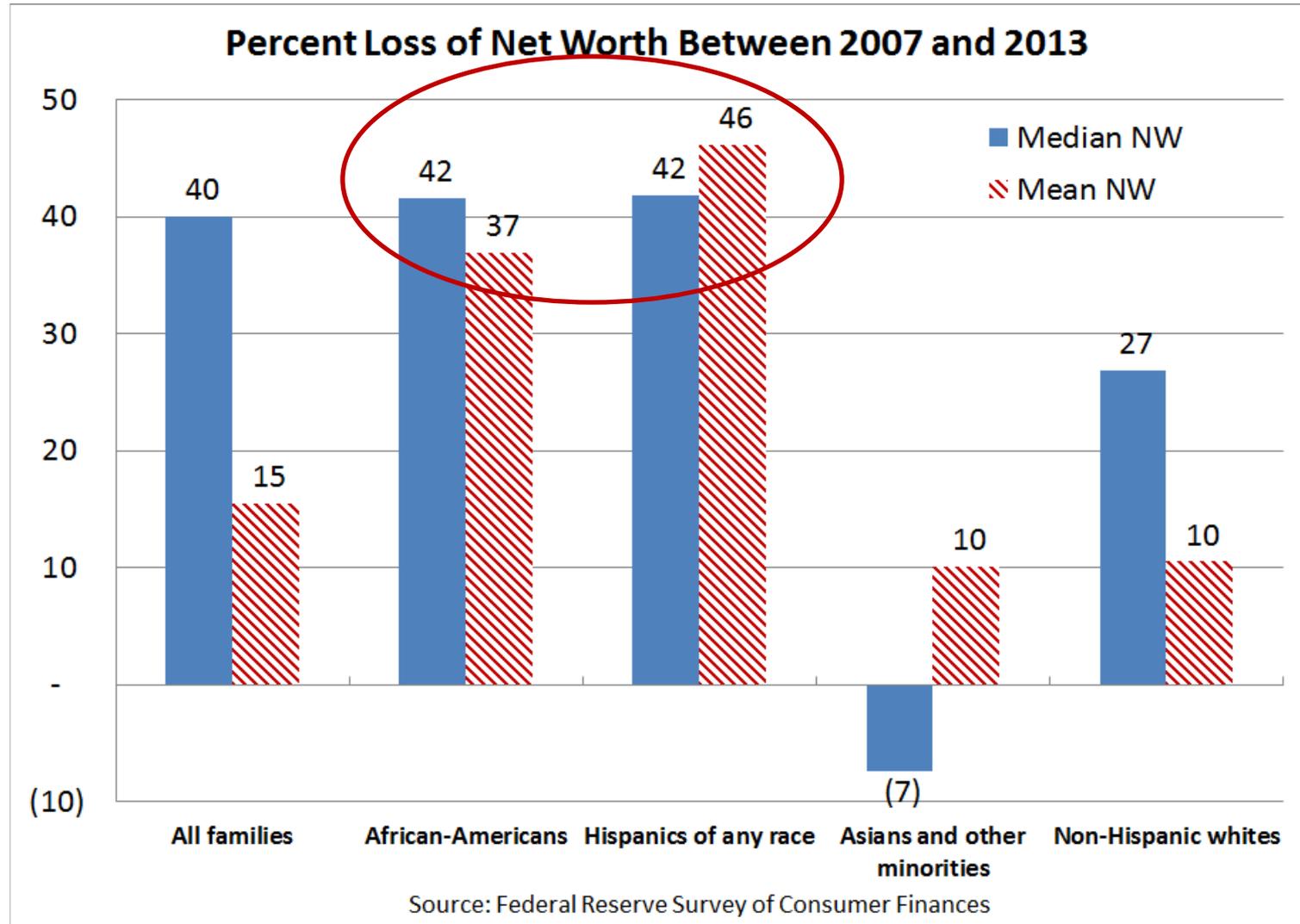


Non-White Families Increased Debt





Wealth Losses Were Much Higher Among Black and Latino Families





What the Recession Shows: Economic Vulnerability Predicts Financial Fragility

- **Families with certain demographic characteristics are more vulnerable to economic disruptions.**
 - Young
 - Less-educated
 - Families of color
- **We didn't fully realize how financially fragile these families had become.**
- **Income and wealth gaps between vulnerable families and stronger families have increased significantly.**
- **Our goal: Help economically vulnerable families become less financially fragile.**



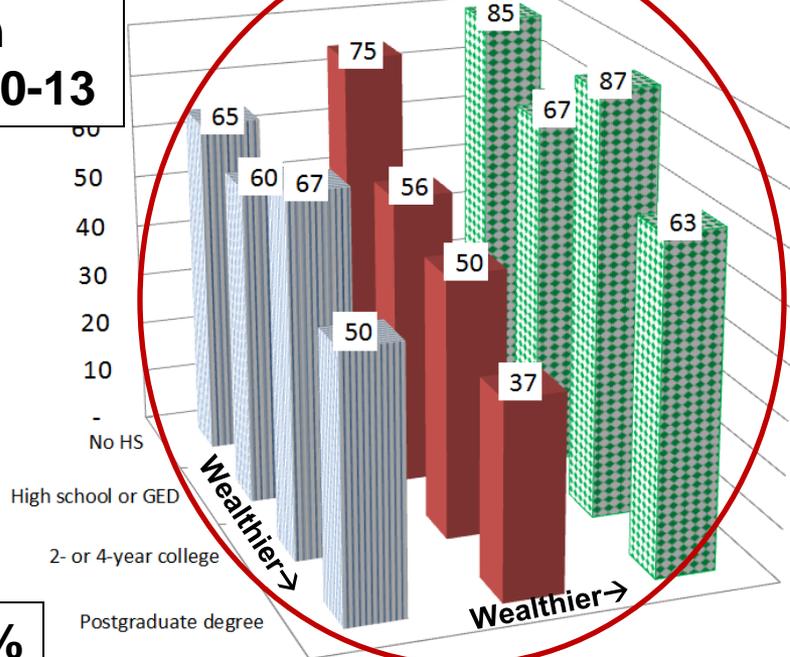
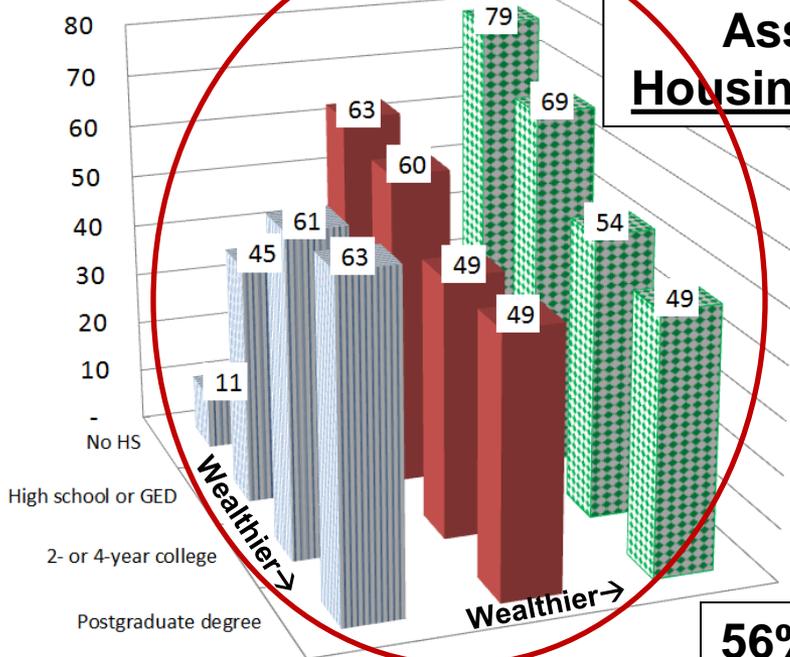
Rebuilding Household Financial Stability Will Be Slow

- **Many vulnerable families have riskier balance sheets now than before the housing boom.**
 - **Liquid assets**
 - **Housing**
 - **Debt**
- **Slow economic growth will hamper saving and wealth accumulation.**
- **Many forces are working against weak families.**
 - **Homeownership preferences**
 - **The “debt culture”**
 - **Downward pressure on incomes**

Non-Hispanic Black, 2010-13

Average % of Assets in Housing, 2010-13

Hispanic, 2010-13

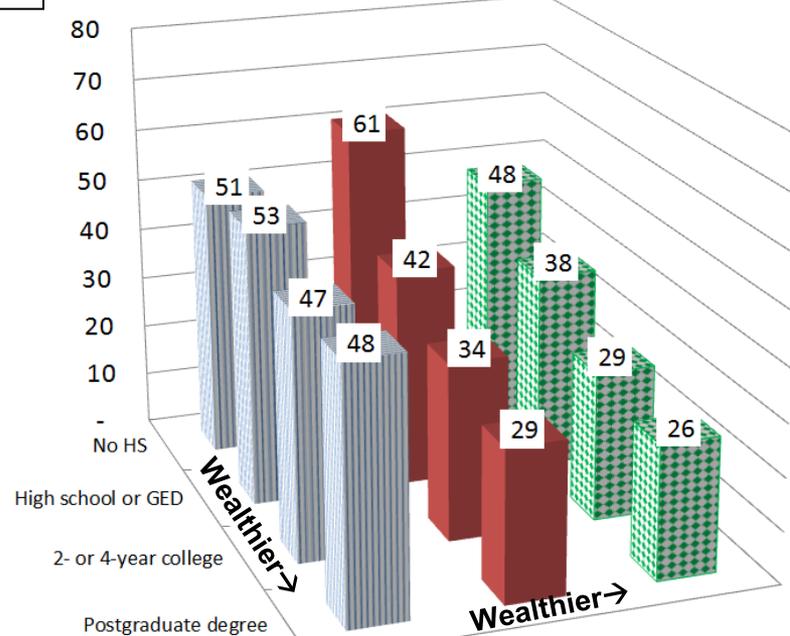
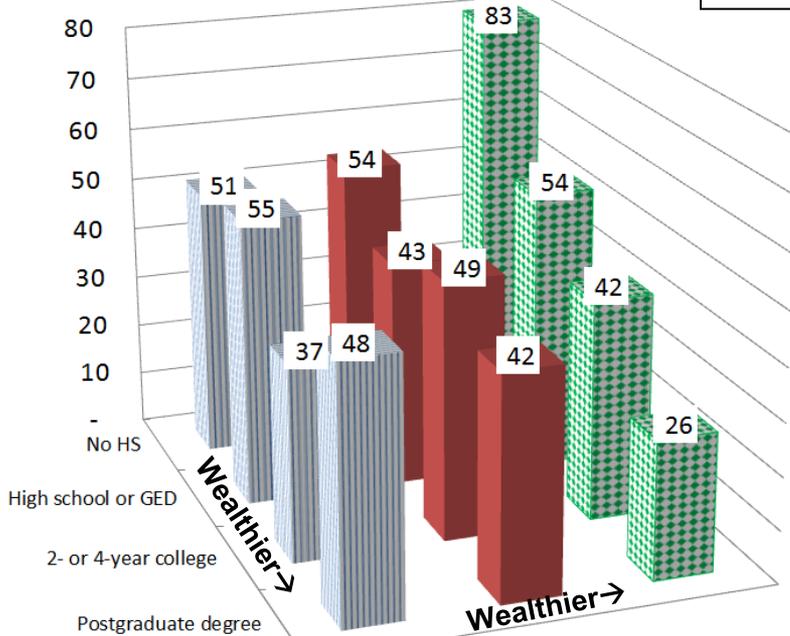


Young (<40)
Middle (40-61)
Old (62+)

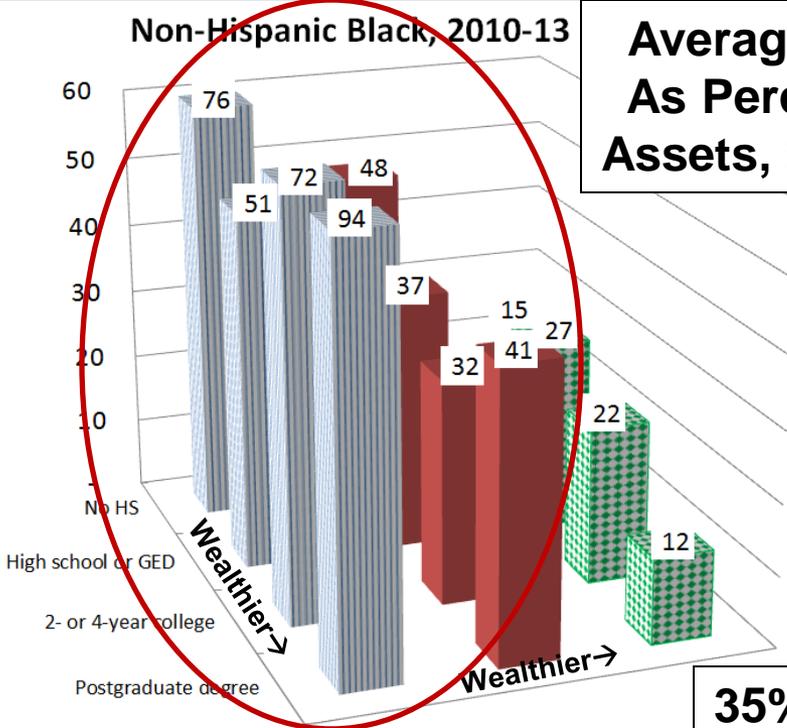
56% 56%
41% 34%

Non-Hispanic Asian, 2010-13

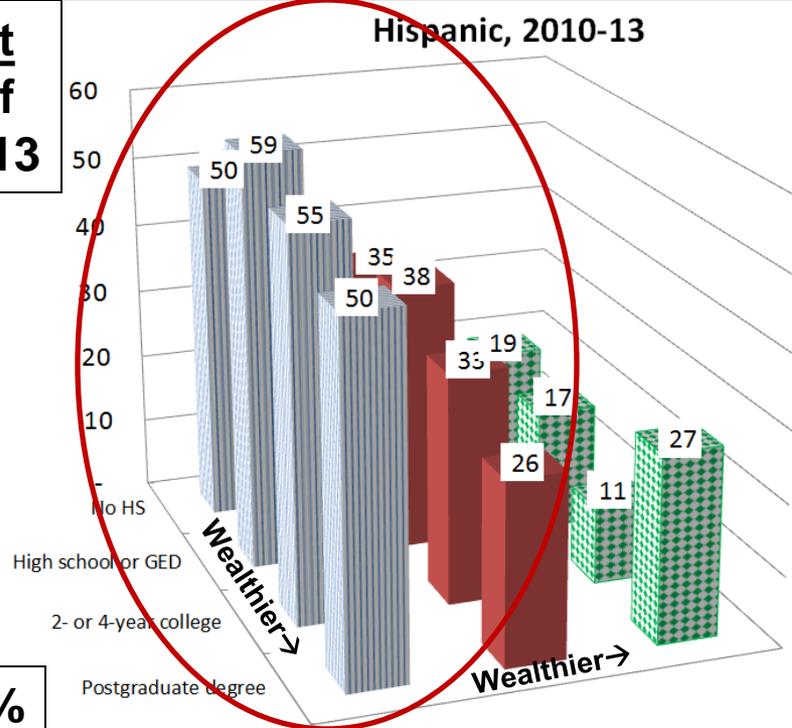
Non-Hispanic White, 2010-13



Young (<40)
Middle (40-61)
Old (62+)

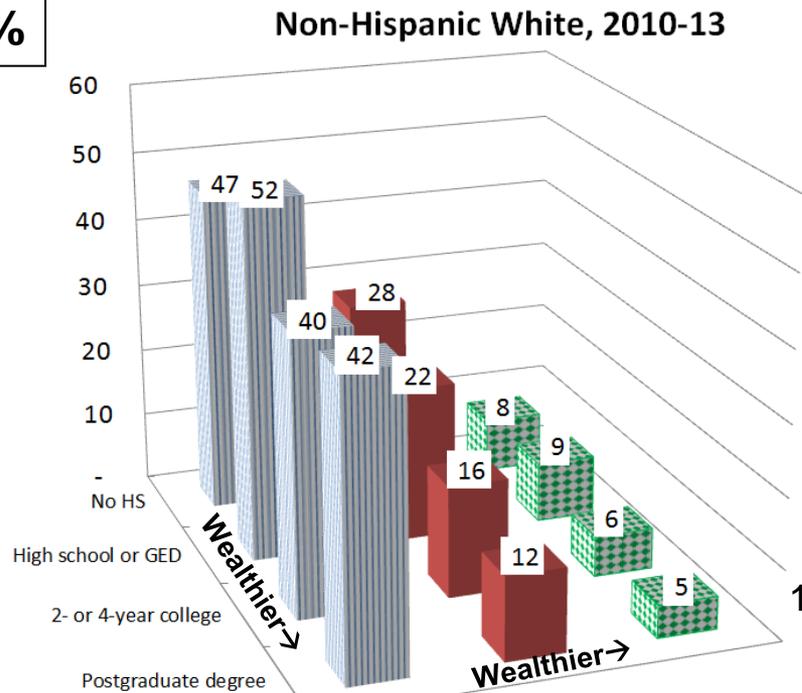
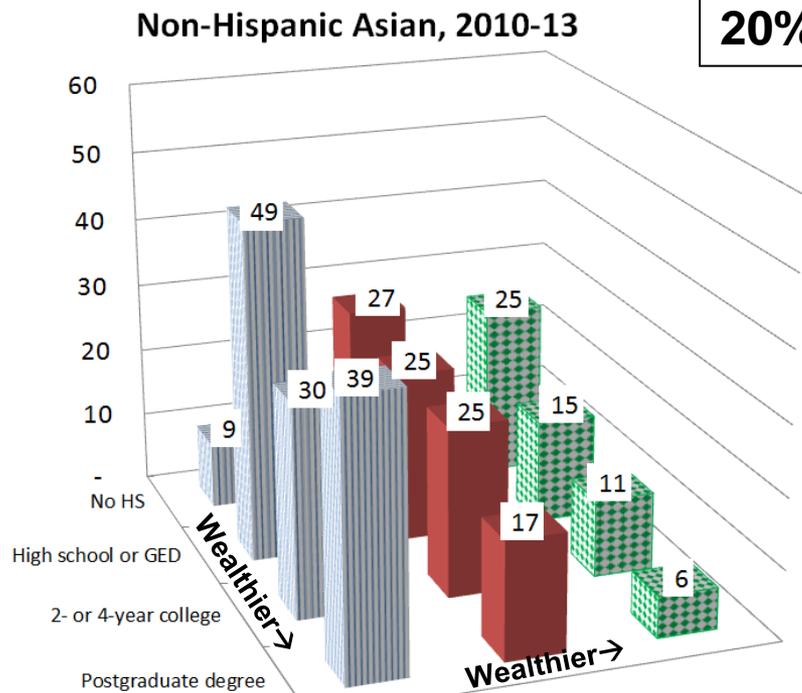


**Average Debt
As Percent of
Assets, 2010-13**



Young (< 40)
Middle (40-61)
Old (62+)

**35% 35%
20% 14%**



Young (< 40)
Middle (40-61)
Old (62+)

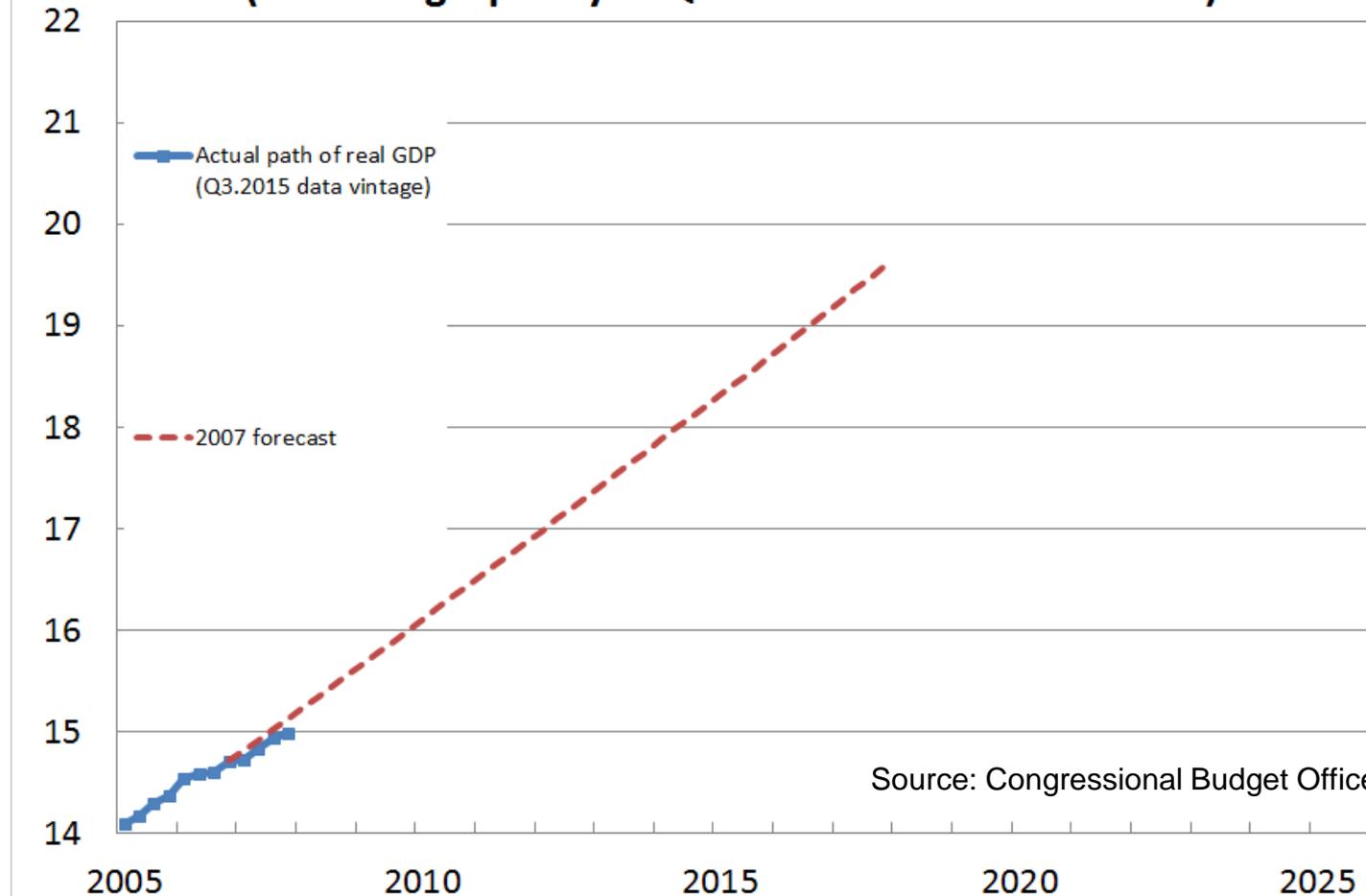
15



The Economy Isn't What It Used To Be: Lower Growth Slows Rebuilding

Trillions of
2009
chained
dollars

**Real GDP: Actual vs. CBO Forecast of Potential
(Assuming Equality in Q4.2006 and No Trend Break)**



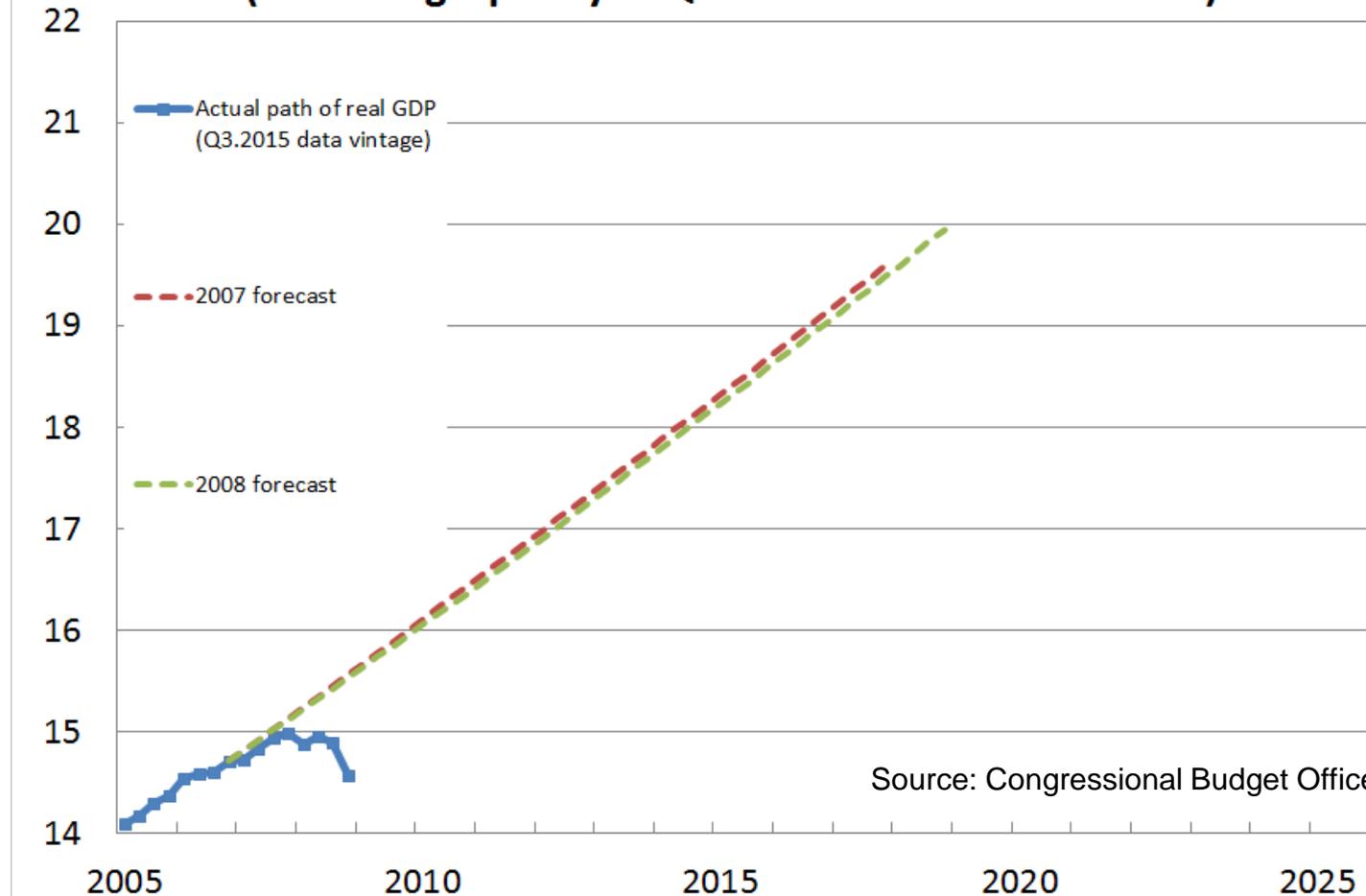
Source: Congressional Budget Office



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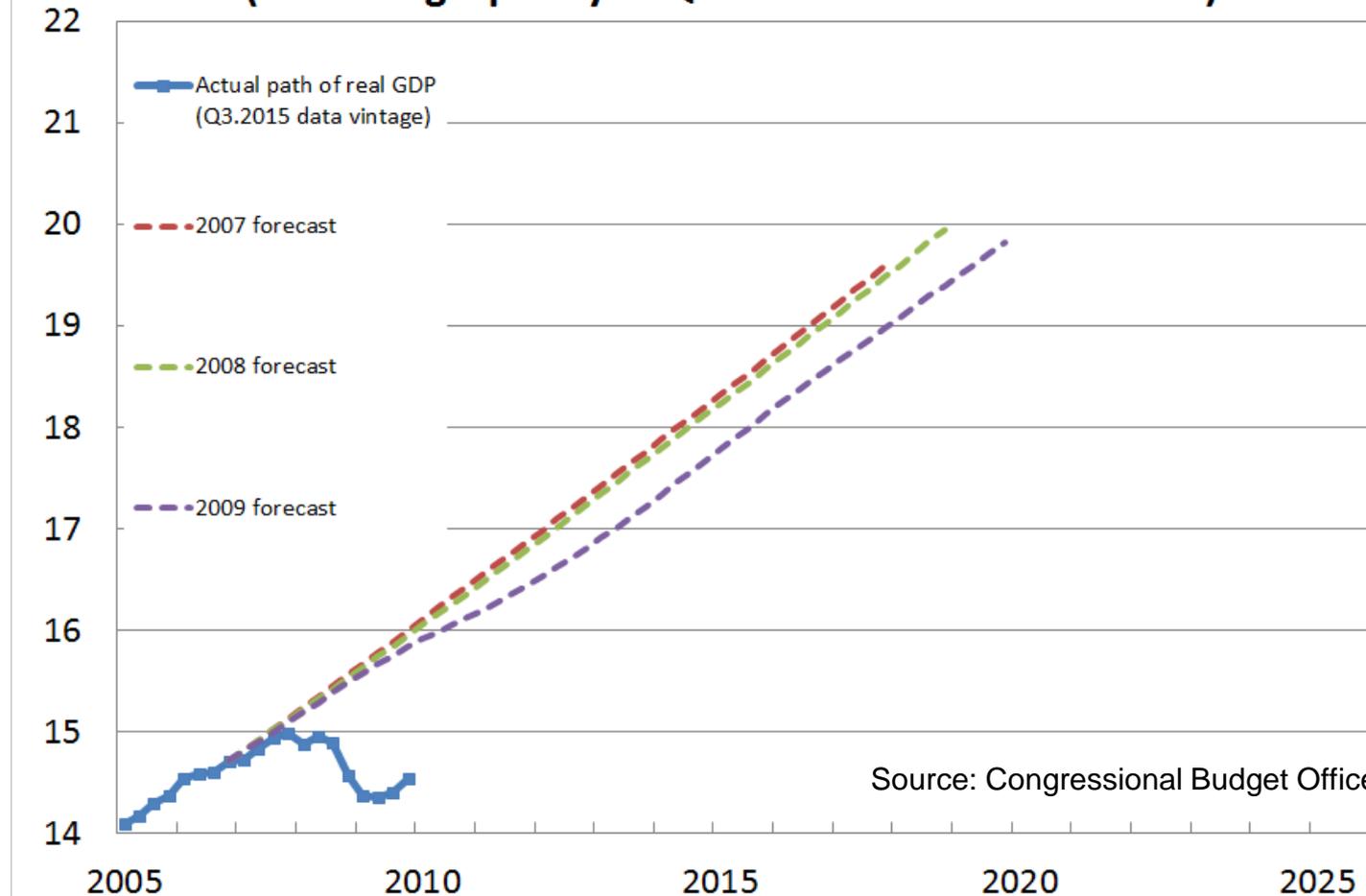
Source: Congressional Budget Office



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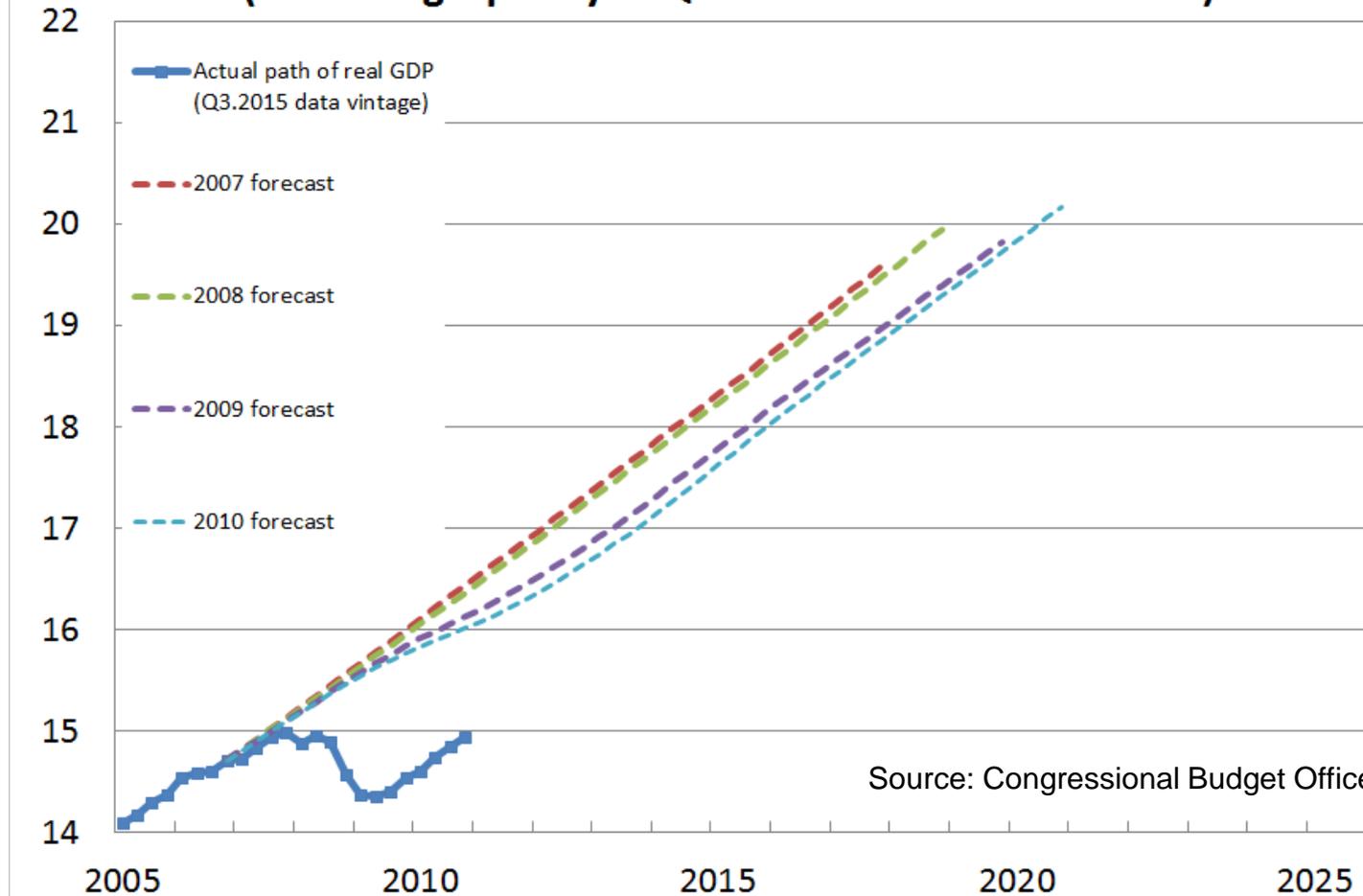
Source: Congressional Budget Office



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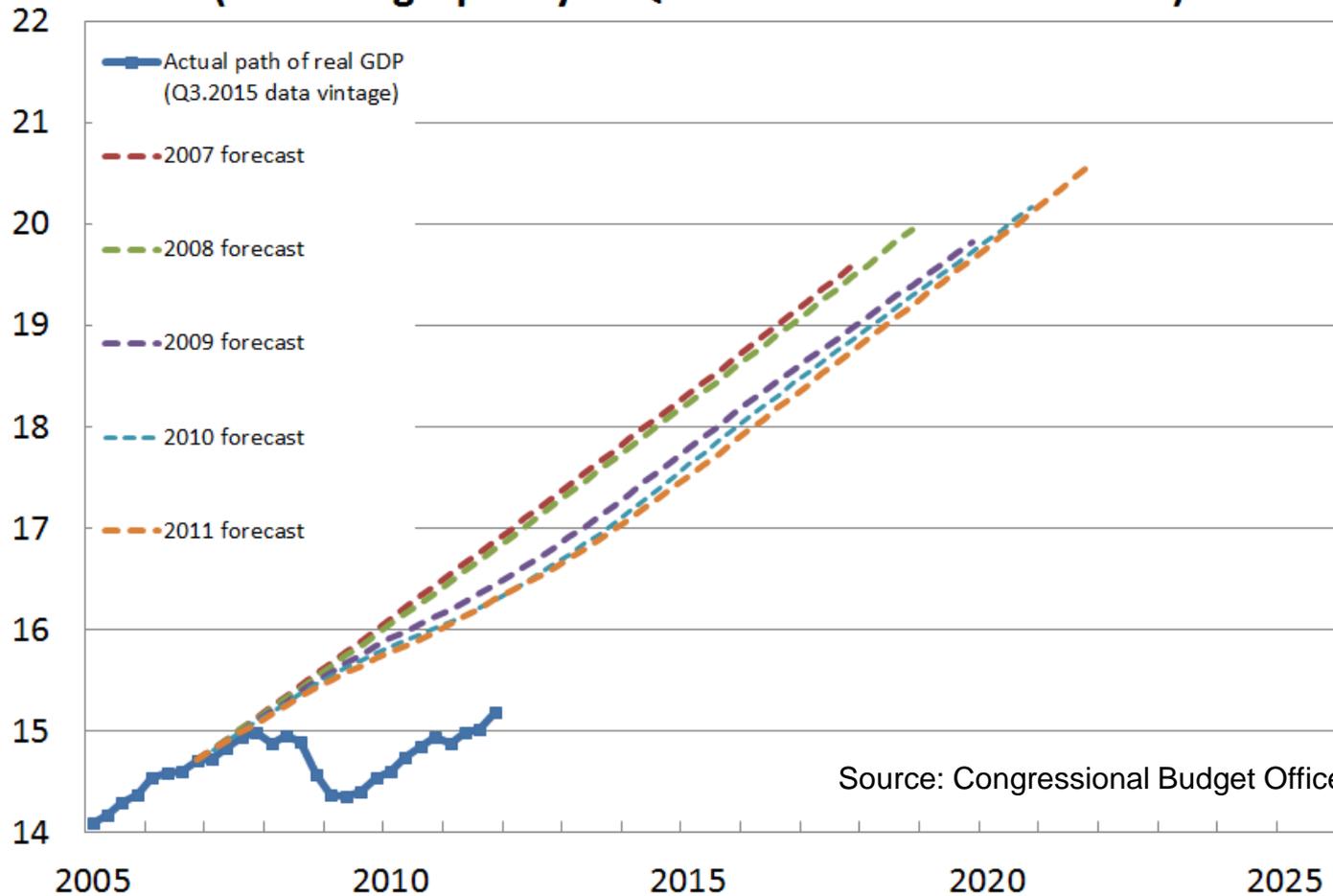




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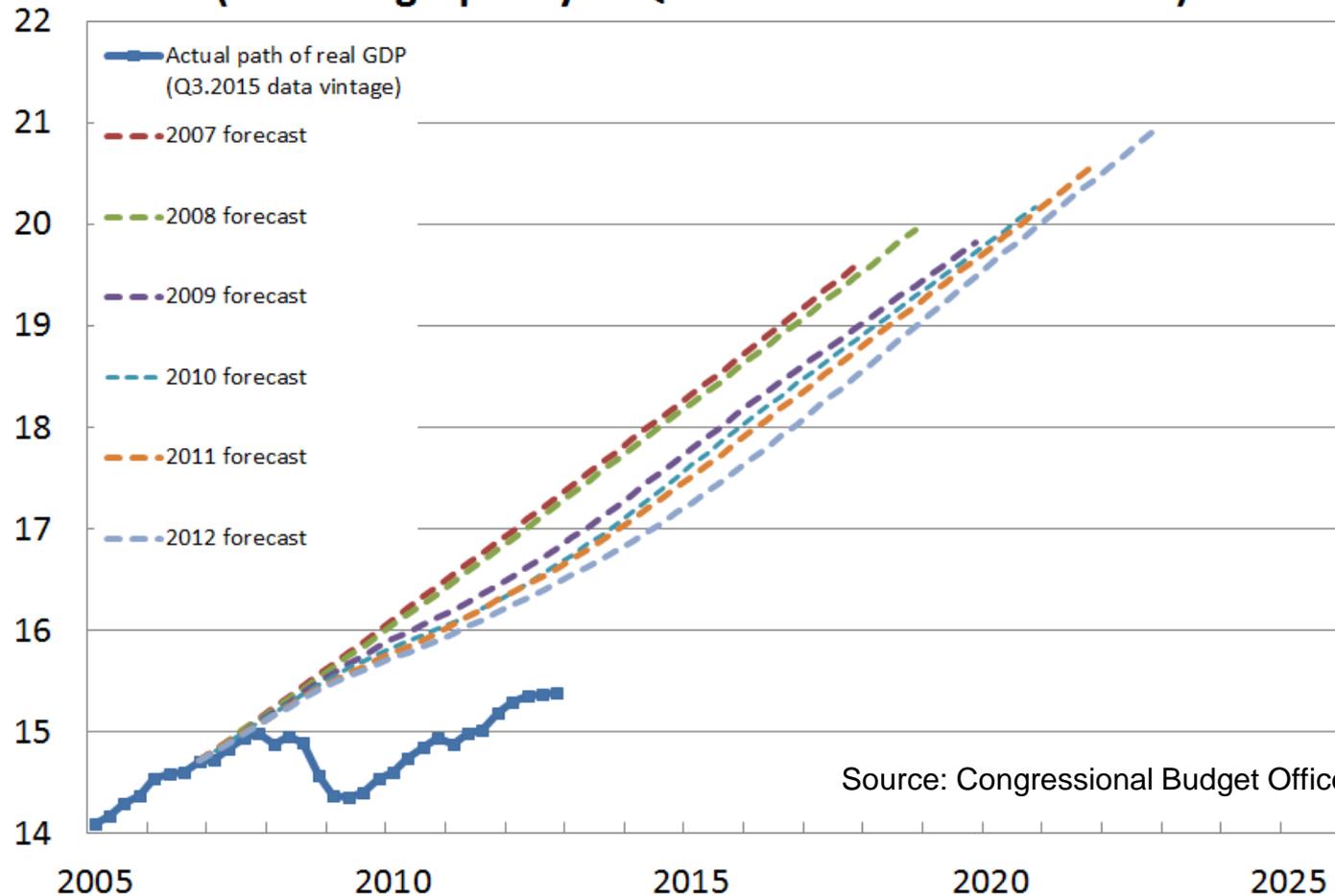
Source: Congressional Budget Office



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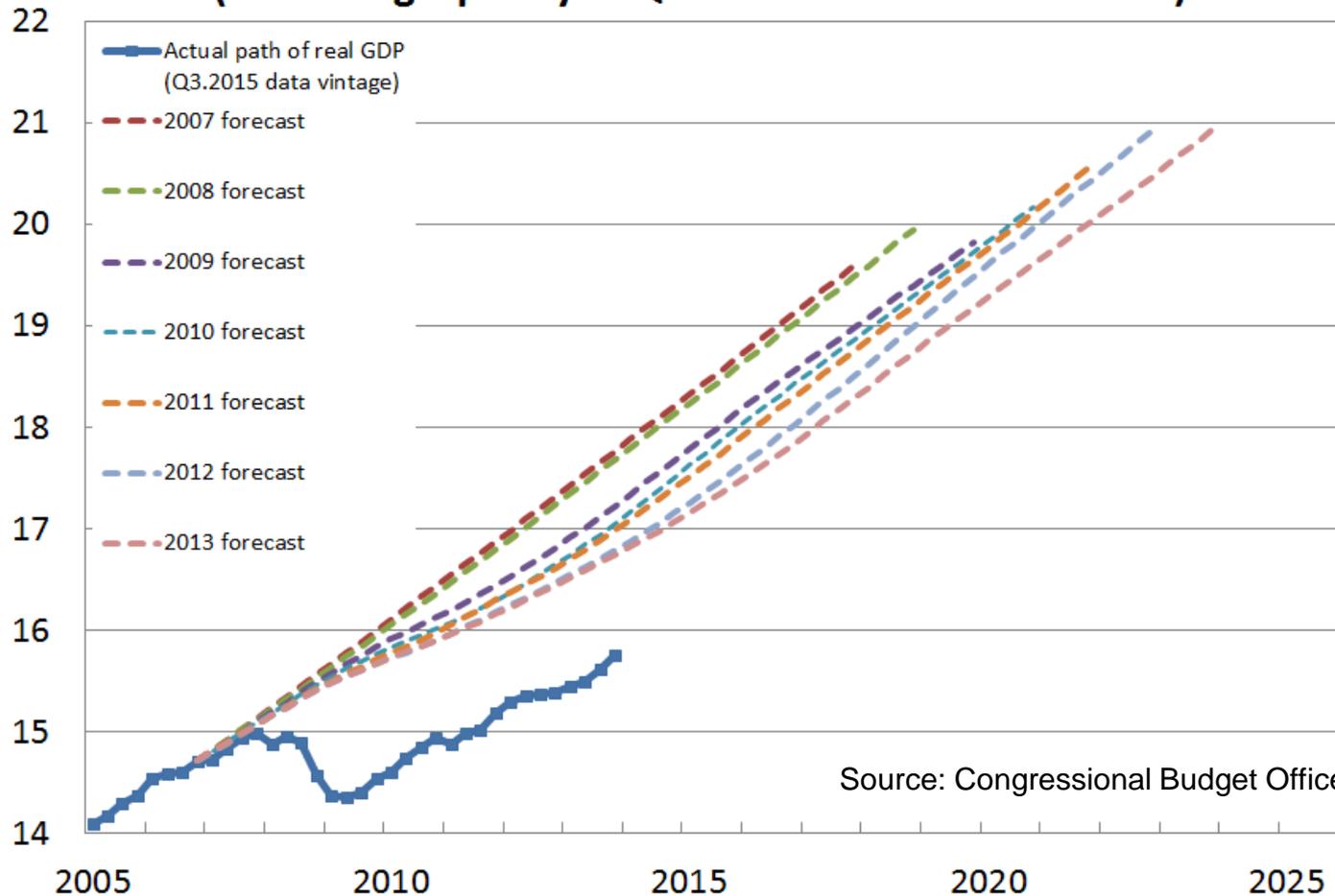
Source: Congressional Budget Office



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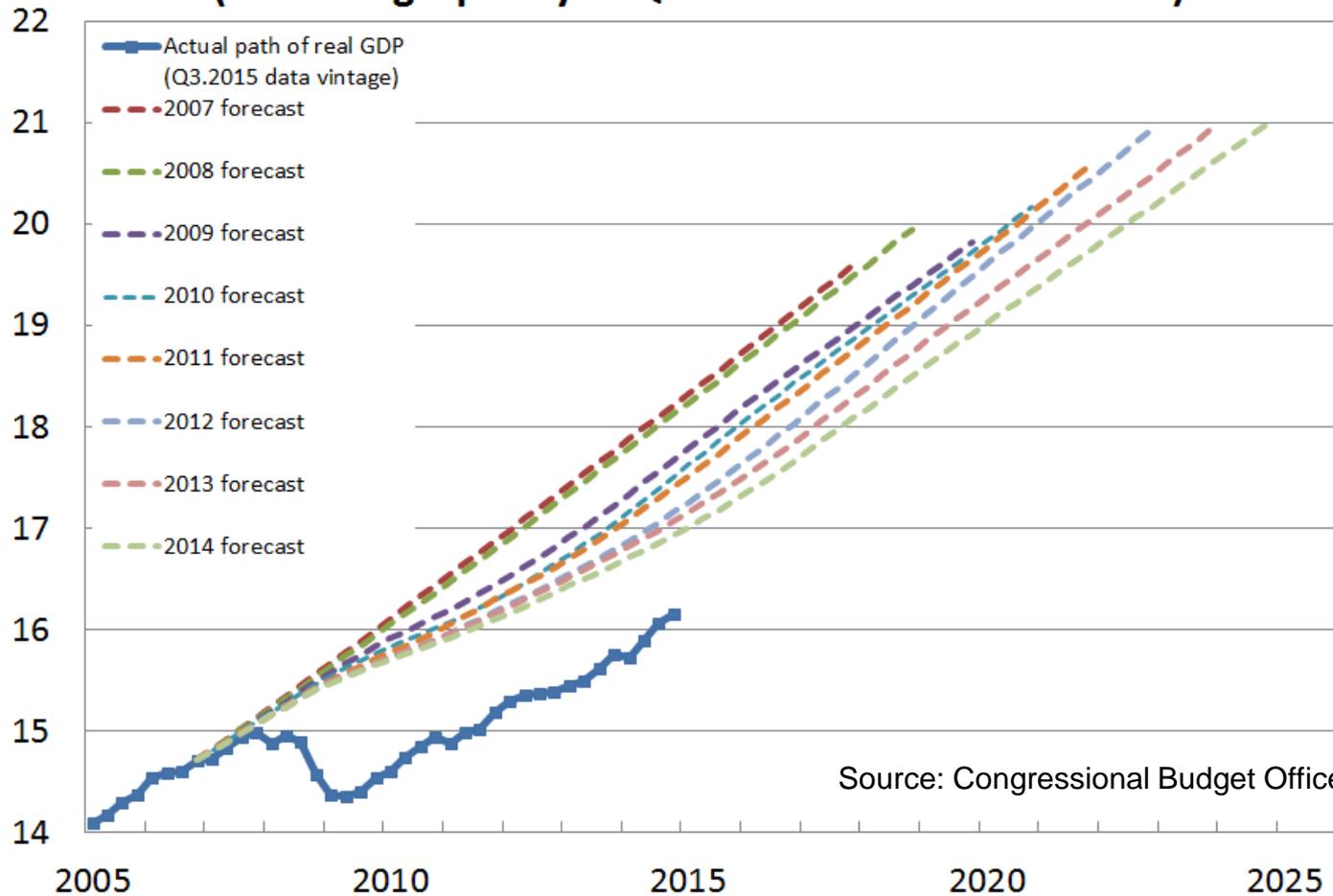
Source: Congressional Budget Office



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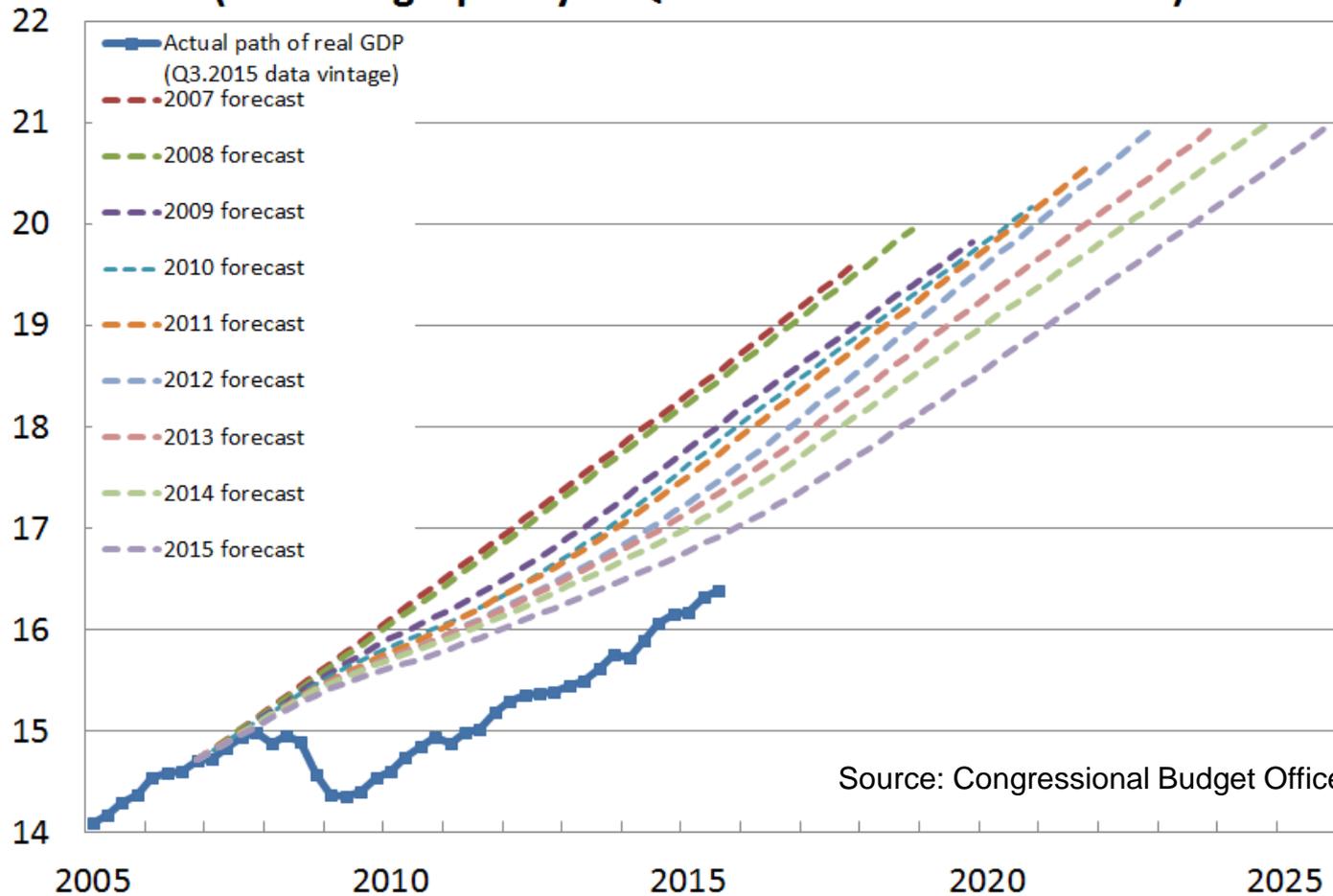
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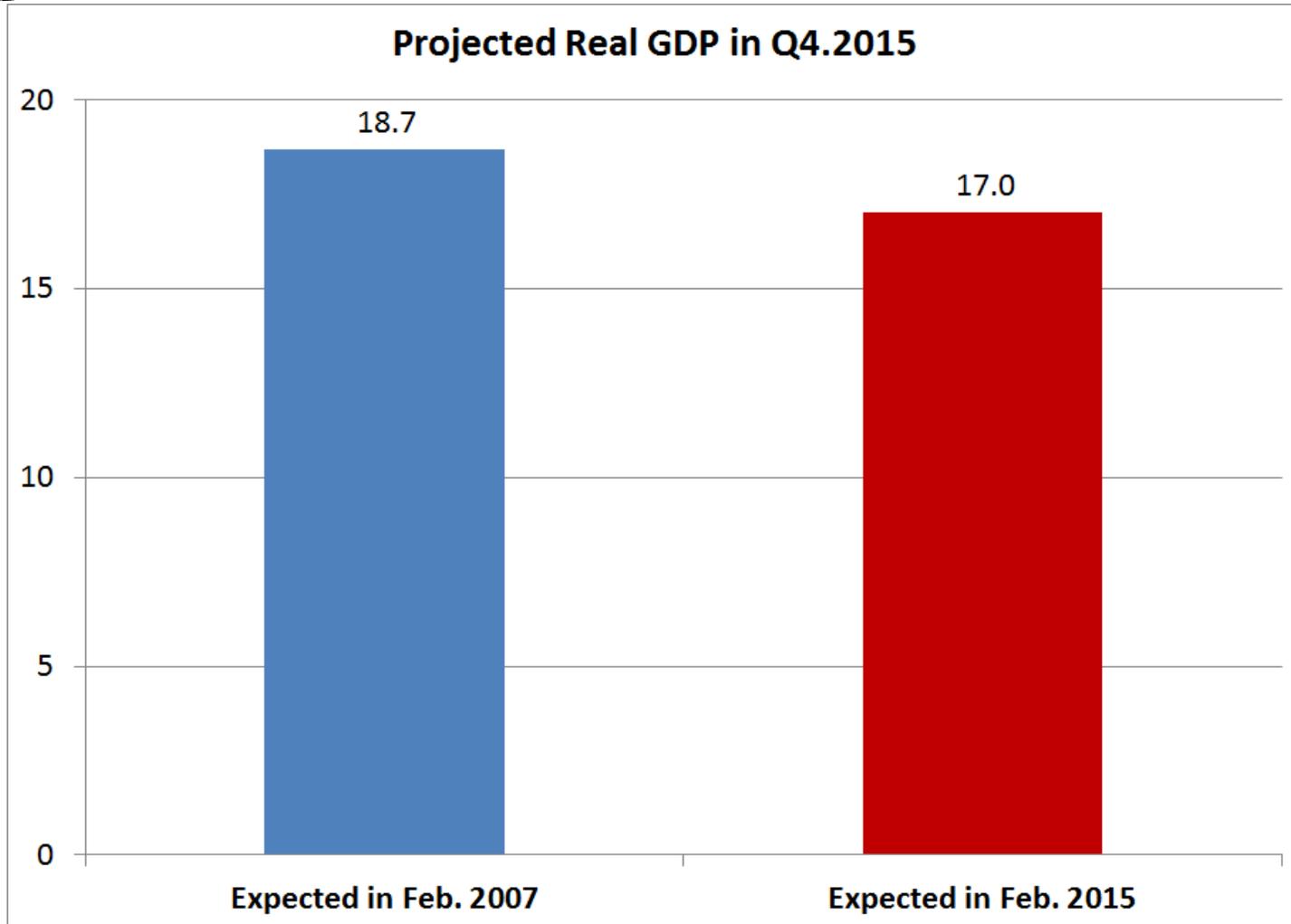


Source: Congressional Budget Office



The Economy Is \$1.7 Trillion (9%) Smaller Than We Thought It Would Be

Trillions of
2009
chained
dollars



Source: Congressional Budget Office

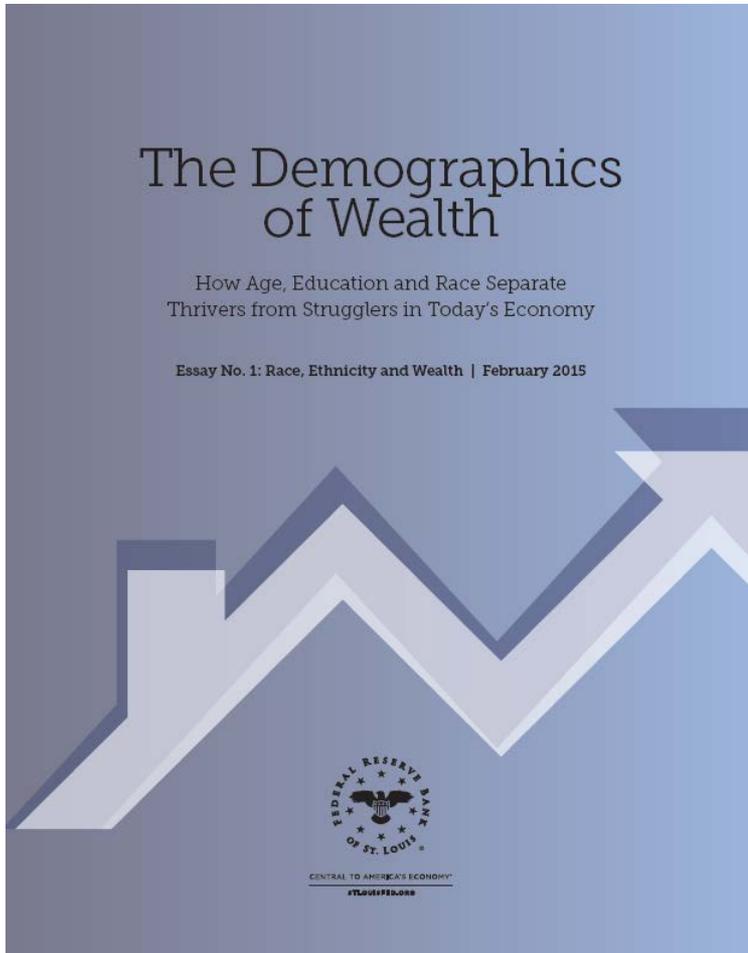


In Sum: What We've Learned About Household Financial Stability

- **The most economically vulnerable families had become very financially fragile before the recession.**
- **Many of these families suffered greatly and many remain very fragile.**
- **A smaller and slower-growing economy than we expected will make rebuilding harder for the weakest families.**



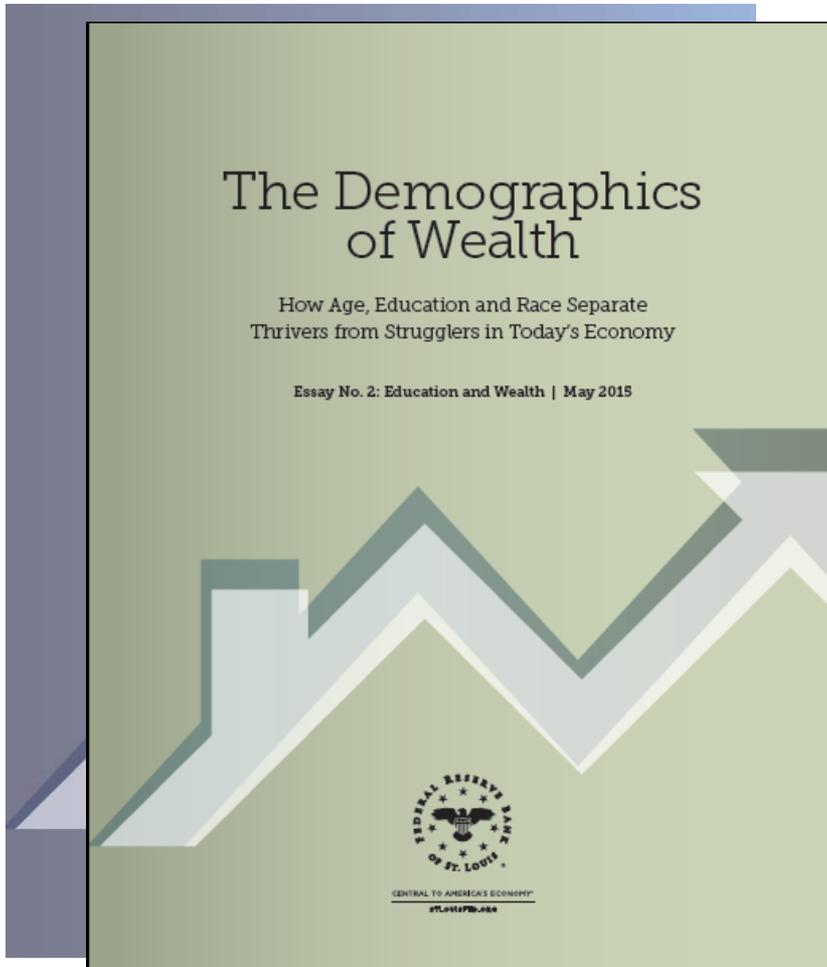
The Demographics of Wealth: An Essay Series



- www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth
- **Part 1: Race, Ethnicity and Wealth (Feb. 2015).**



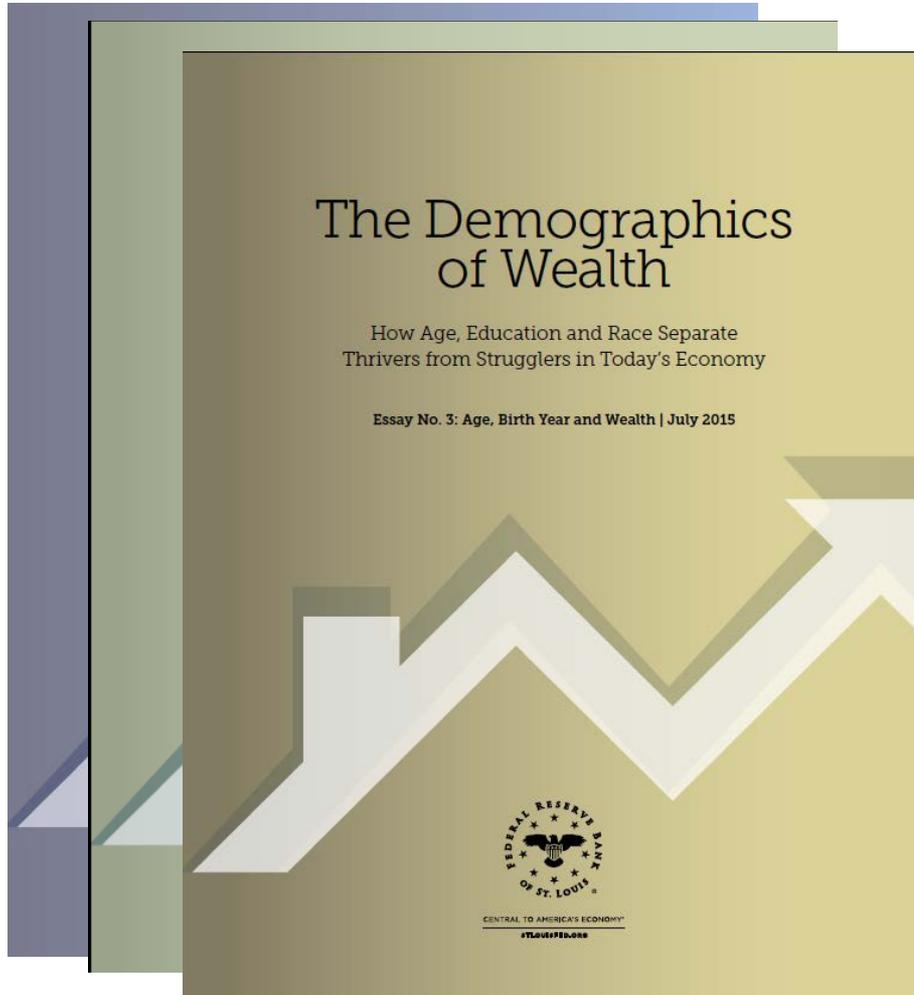
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- **Part 2: Education and Wealth (May 2015).**
- **Part 3: Age, Birth Year and Wealth (July 2015).**



For More Information

Center for Household Financial Stability

www.stlouisfed.org/household-financial-stability

In the Balance articles

www.stlouisfed.org/publications/in-the-balance

Demographics of Wealth series

www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth



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