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A National Outlook on Consumer Debt and The Demographics of Wealth

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These are my own views, and not necessarily the views of the Federal Reserve Bank of St. Louis, Federal Reserve System, or the Board of Governors.

Outlook on Consumer Debt

The Quarterly Debt Monitor



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The Quarterly Debt Monitor

Trends in Consumer Debt in St. Louis, Little Rock, Louisville, Memphis—and Beyond

Auto Debt Expansion Continues to Slow While Subprime Delinquencies Rise

By Lowell R. Ricketts

While real per capita consumer debt growth rose across the country in the fourth quarter of 2016, it declined or remained unchanged in most of the largest metropolitan statistical areas (MSAs) in the Eighth Federal Reserve District.¹ Declines in mortgage debt continued to temper overall debt growth. Lending in both the auto and student debt sectors rose, but was uniformly lower on a year-over-year basis when compared with our previous report for the nation and for the District MSAs of Little Rock, Ark., Louisville, Ky., Memphis, Tenn., and St. Louis.² Over the past few years, strong lending of auto and student debt has buoyed total debt, accounting for the majority of credit expansion. This report offers a closer look at auto lending, including the factors that contributed to the expansion in this sector.

This report uses the latest release of the Federal Reserve Bank of New York and Equifax Consumer Credit Panel with data as of the fourth quarter of 2016. The figures in this report help to provide a focused narrative of the latest developments in consumer debt across the District and nation. For a more extensive collection of figures updated each quarter, see the QDM appendix.³

Latest Developments in Consumer Debt

1. In the fourth quarter of 2016, real per capita mortgage debt declined across the United States and the four District MSAs. The steepest declines were in Louisville and Memphis, where per capita mortgage debt declined by 3.5 percent and 4.3 percent, respectively.
2. The serious delinquency rate for mortgage

Changes in Per Capita Debt Levels and Serious Delinquency Rates
Year-over-Year Percent Change from 2015:Q4 to 2016:Q4

2016:Q4	United States	St. Louis MSA	Little Rock MSA	Louisville MSA	Memphis MSA
% Change in Per Capita Consumer Debt					
Total	0.4	0	1.5	-1.5	-0.8
Mortgage	-0.9	-1.8	-0.5	-3.5	-4.3
HELOC	-5	-6.7	-11.5	-2.8	-6.8
Auto	5.1	4.2	4	5.4	5.5
Credit Card	2.9	1.4	3.8	0.9	3.4
Student	5.3	5.6	6.7	4.8	6.6
Change in Serious Delinquency Rate					
Mortgage	-0.5	-0.2	-0.6	-0.1	-0.7
HELOC	0.1	-0.2	0.1	0.1	0.2
Auto	0.4	0.1	0.6	0.5	1.2
Credit Card	-0.2	-0.1	0	-0.4	-0.1
Student	-0.2	0.4	0.1	0.1	-0.1

SOURCE: Federal Reserve Bank of New York/Equifax Consumer Credit panel.
NOTES: Serious delinquency rates are the shares of outstanding debt that is over 90 days past due. Changes to those rates are given in the annexes in percentage points. Figures are rounded.

debt fell both nationally and across the District MSAs, with the MSAs reaching their lowest levels since before the Great Recession. Meanwhile, although the national rate has fallen, it still remains above its pre-recession low.
3. Per capita HELOC or home equity line of credit, debt declined across the nation and all of the District MSAs. HELOC debt, an important source of consumer debt growth prior to the recession, continues to show a pattern of consistent deleveraging.⁴

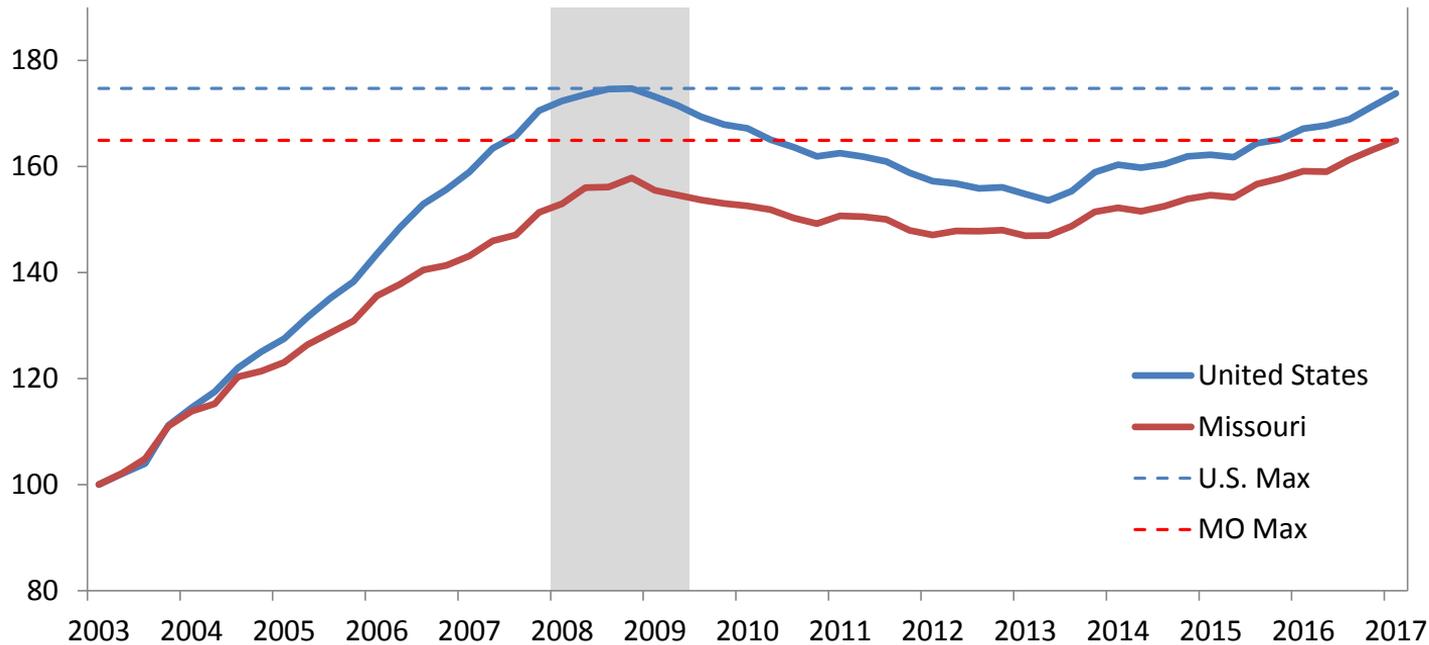


- Quarterly report on trends for consumer debt.
- Analysis at the national and regional level.
- Uses credit bureau data provided by Equifax for various types of consumer liabilities.

Consumer Debt Has Returned to Peak...

Total Nominal Consumer Debt

Indexed Value (Q1:2003 = 100)

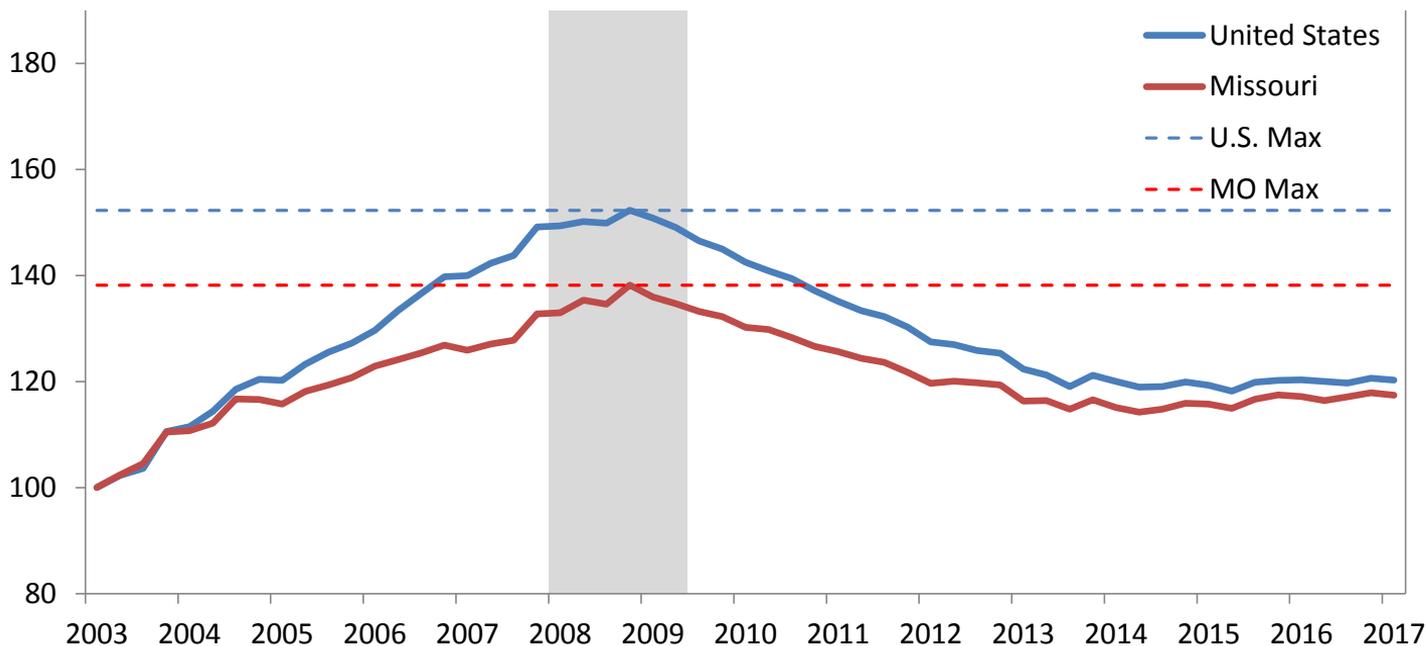


SOURCE: Federal Reserve Bank of NY/ Equifax Consumer Credit Panel. NOTE: Shaded region indicates recession.

Not So, After Adjusting for Inflation & Population

Total Real Per Capita Consumer Debt

Indexed Value (Q1:2003 = 100)

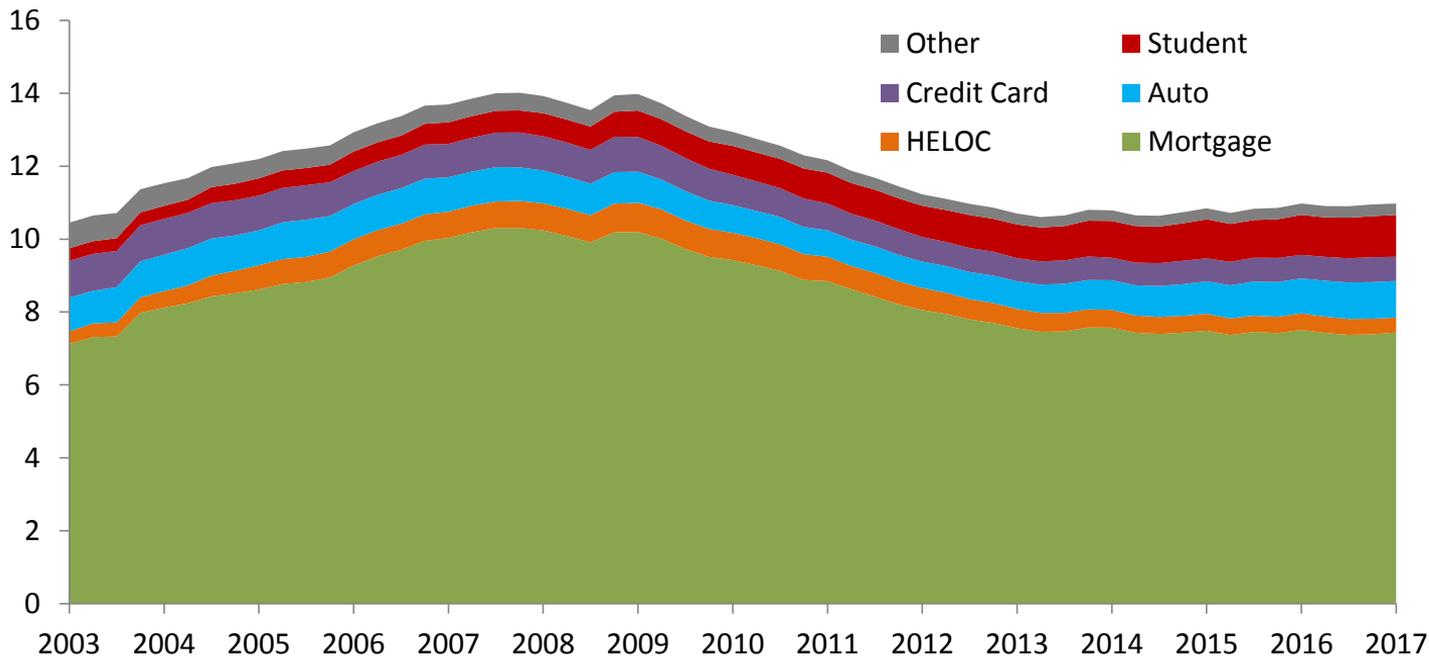


SOURCE: Federal Reserve Bank of NY/ Equifax Consumer Credit Panel, and BEA. NOTE: Shaded region indicates recession.

Mortgage Debt is the Lion's Share of Total Debt

Total Real Consumer Debt, by Type, United States

Trillions 2016 \$

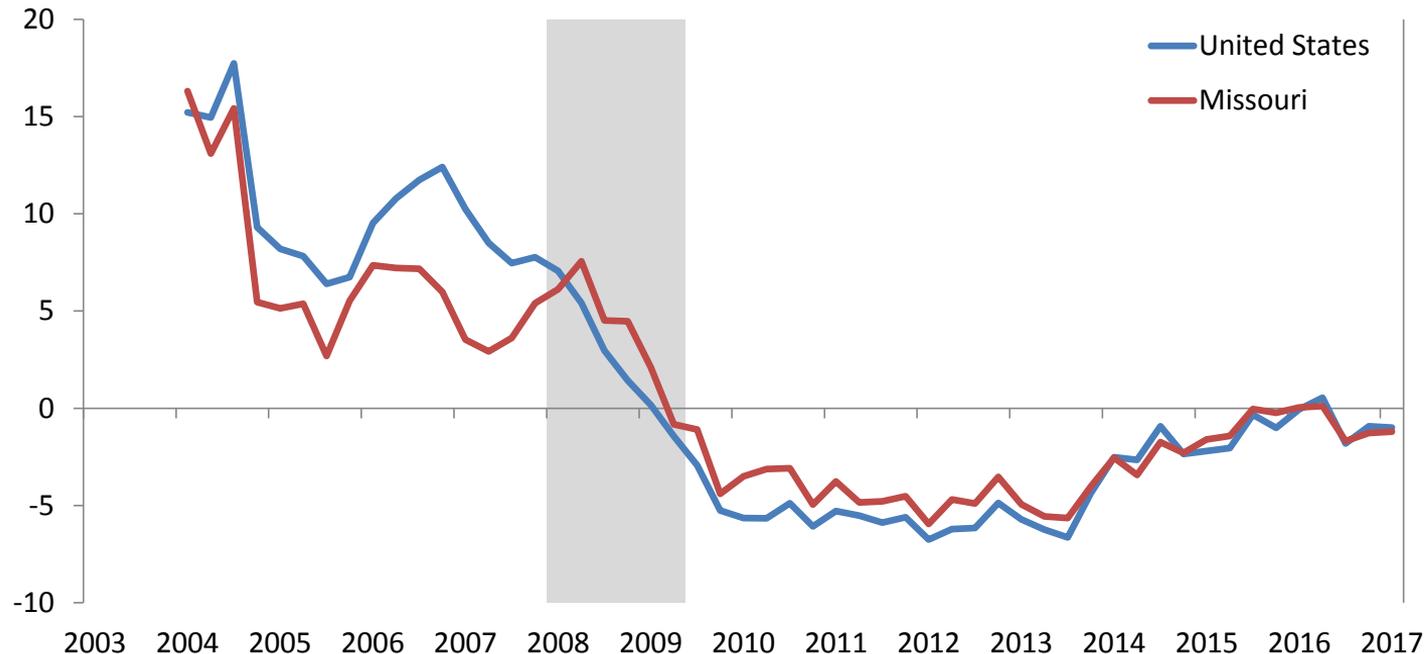


SOURCE: Federal Reserve Bank of NY/ Equifax Consumer Credit Panel, and Bureau of Economic Analysis.

Slight Deleveraging Continues for Mortgage Debt

Real Per Capita Mortgage Debt Growth

Year/Year Percentage Change

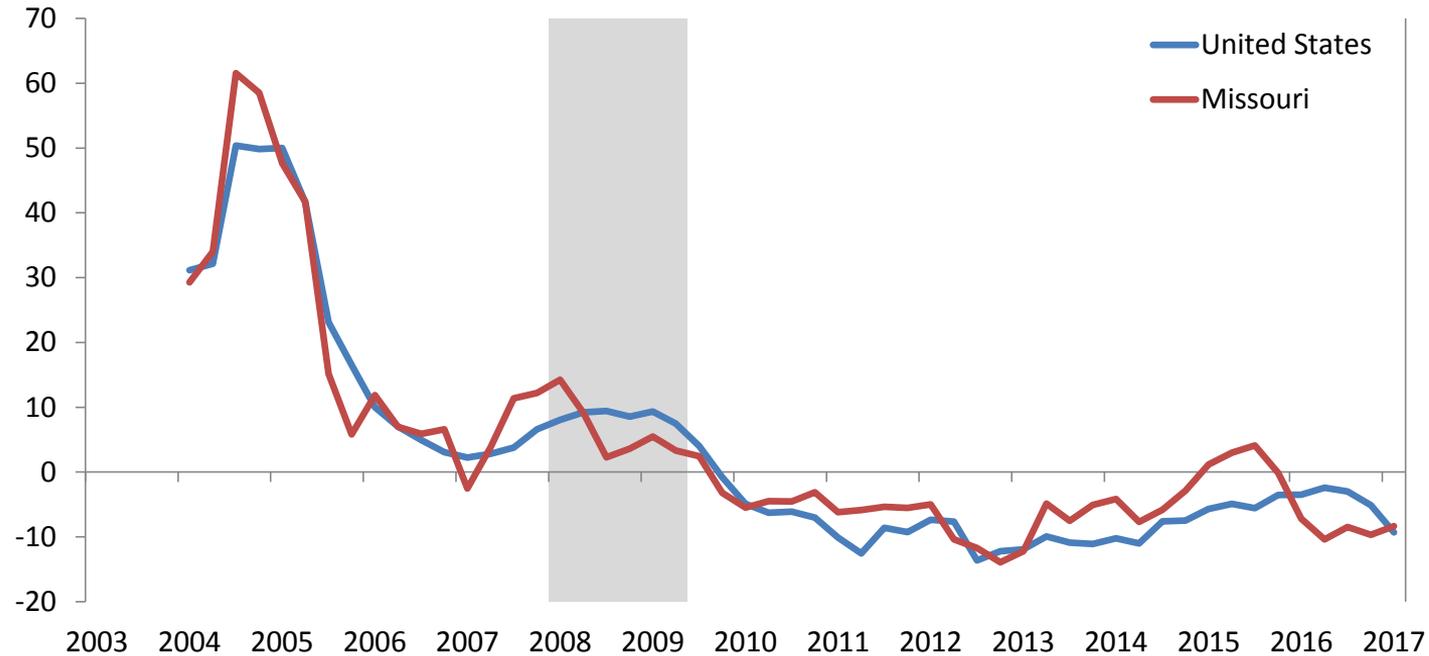


SOURCE: Federal Reserve Bank of NY/ Equifax Consumer Credit Panel, and BEA. NOTE: Shaded region indicates recession.

HELOC Borrowing Continues to Fall Out of Favor

Real Per Capita HELOC Debt Growth

Year/Year Percentage Change

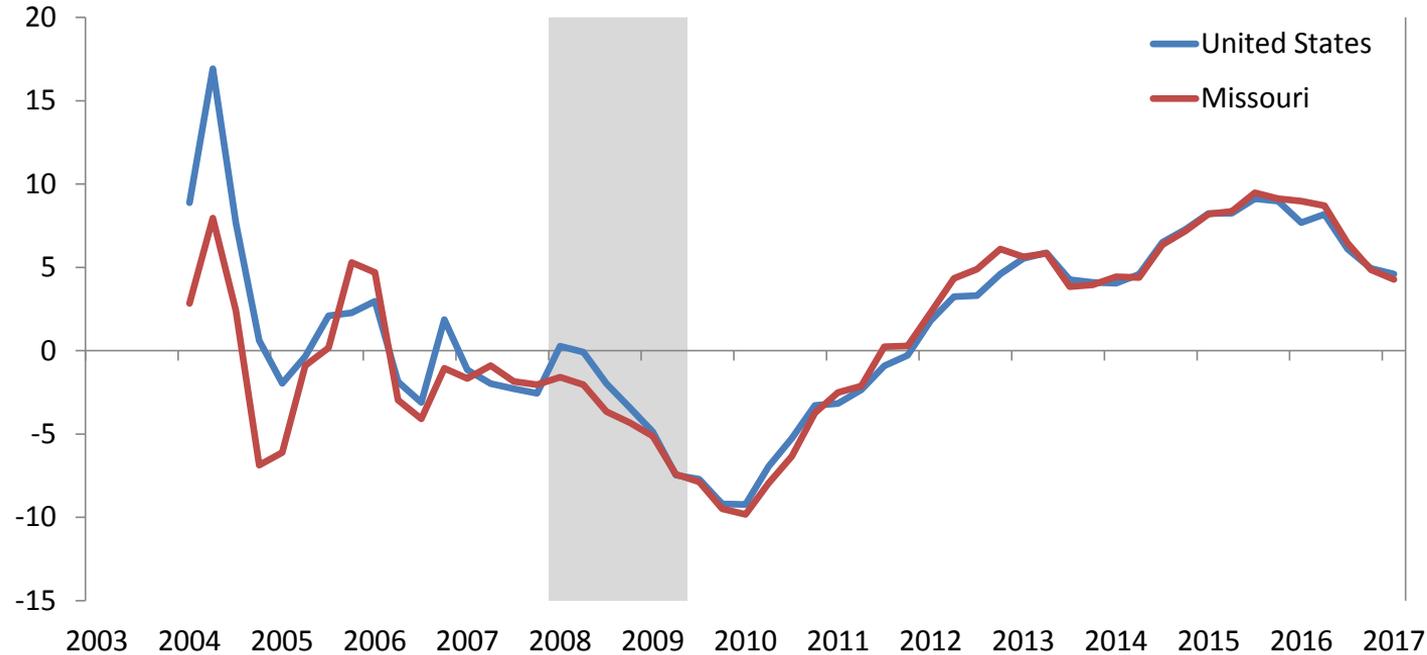


SOURCE: Federal Reserve Bank of NY/ Equifax Consumer Credit Panel, and BEA. NOTE: Shaded region indicates recession.

Auto Borrowing Has Seen Substantial Growth

Real Per Capita Auto Debt Growth

Year/Year Percentage Change

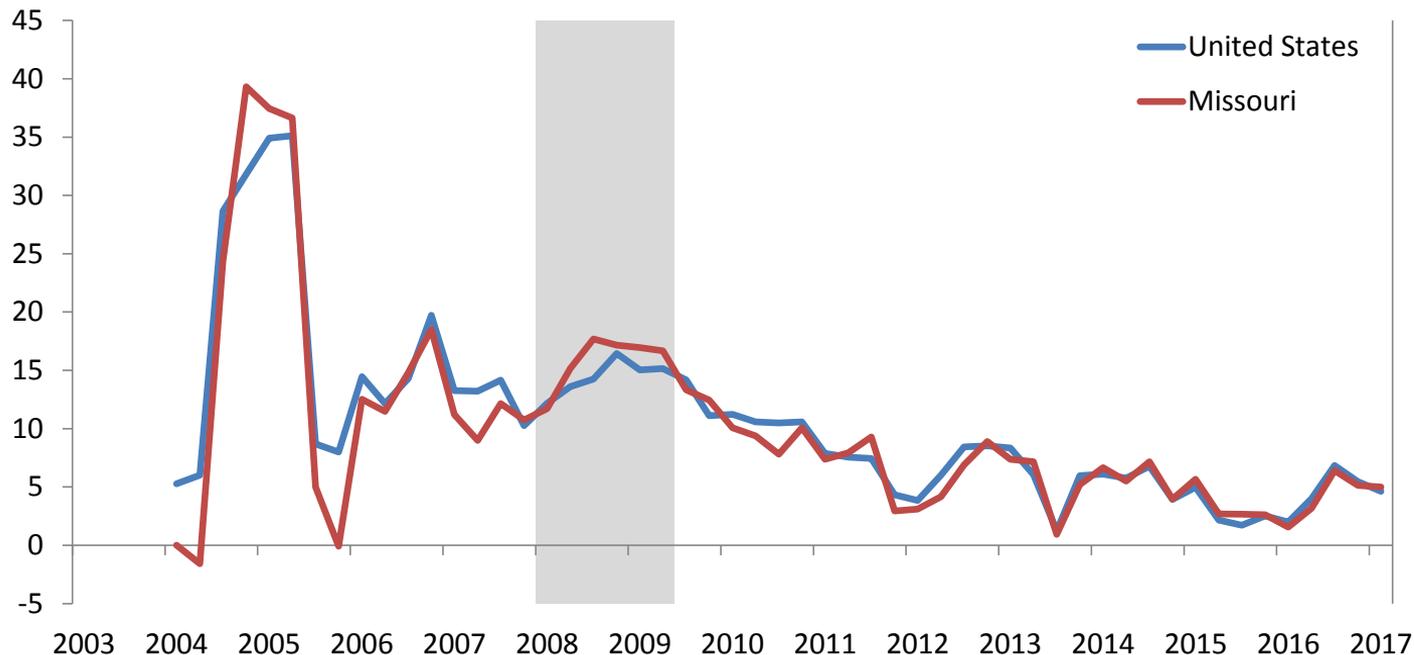


SOURCE: Federal Reserve Bank of NY/ Equifax Consumer Credit Panel, and BEA. NOTE: Shaded region indicates recession.

Along with Student Debt, Which Never Declined

Real Per Capita Student Debt Growth

Year/Year Percentage Change

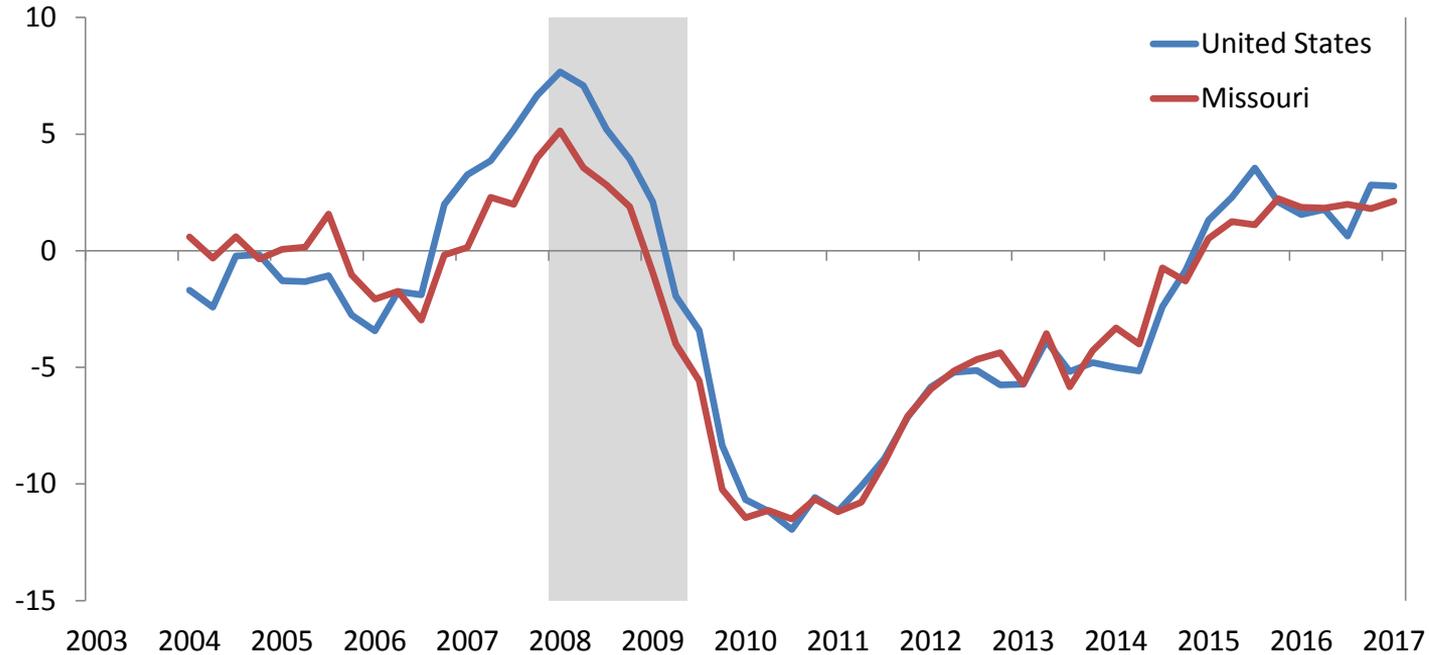


SOURCE: Federal Reserve Bank of NY/ Equifax Consumer Credit Panel, and BEA. NOTE: Shaded region indicates recession.

And Growth in Credit Card Debt has Returned

Real Per Capita Credit Card Debt Growth

Year/Year Percentage Change

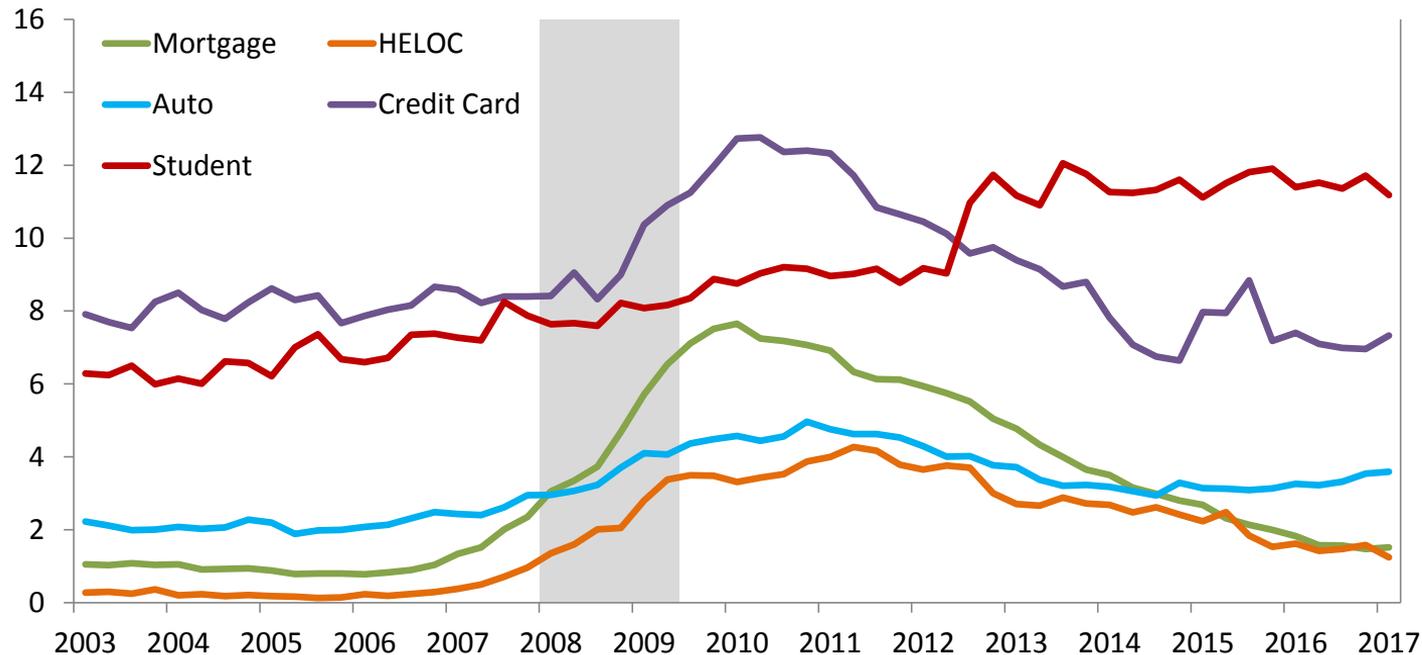


SOURCE: Federal Reserve Bank of NY/ Equifax Consumer Credit Panel, and BEA. NOTE: Shaded region indicates recession.

Student and Auto Sectors Show Signs of Distress

Serious Delinquency Rates, by Type, United States

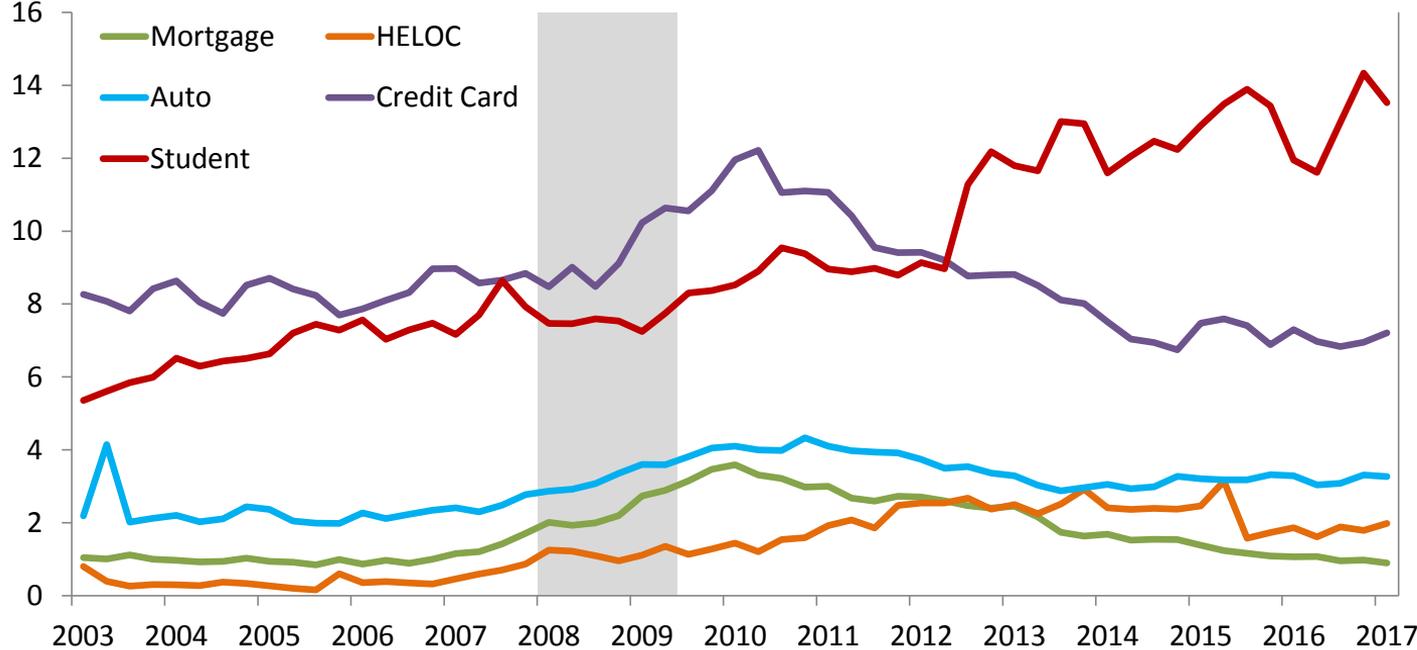
Percentage Share of Outstanding Debt Over 90 Days Delinquent



SOURCE: Federal Reserve Bank of NY/ Equifax Consumer Credit Panel. NOTE: Shaded region indicates recession.

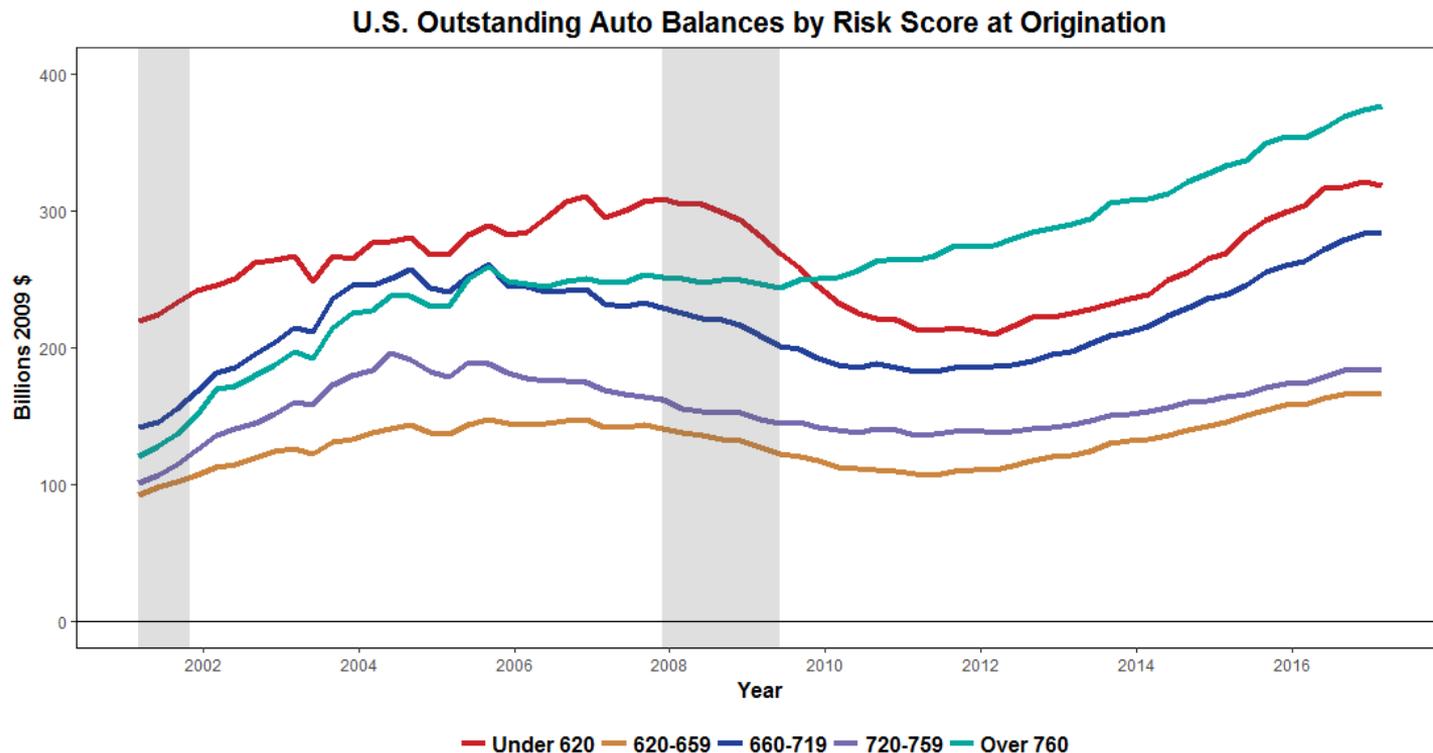
Missouri Fared Far Better During Crisis

Serious Delinquency Rates, by Type, Missouri
Percentage Share of Outstanding Debt Over 90 Days Delinquent



SOURCE: Federal Reserve Bank of NY/ Equifax Consumer Credit Panel. NOTE: Shaded region indicates recession.

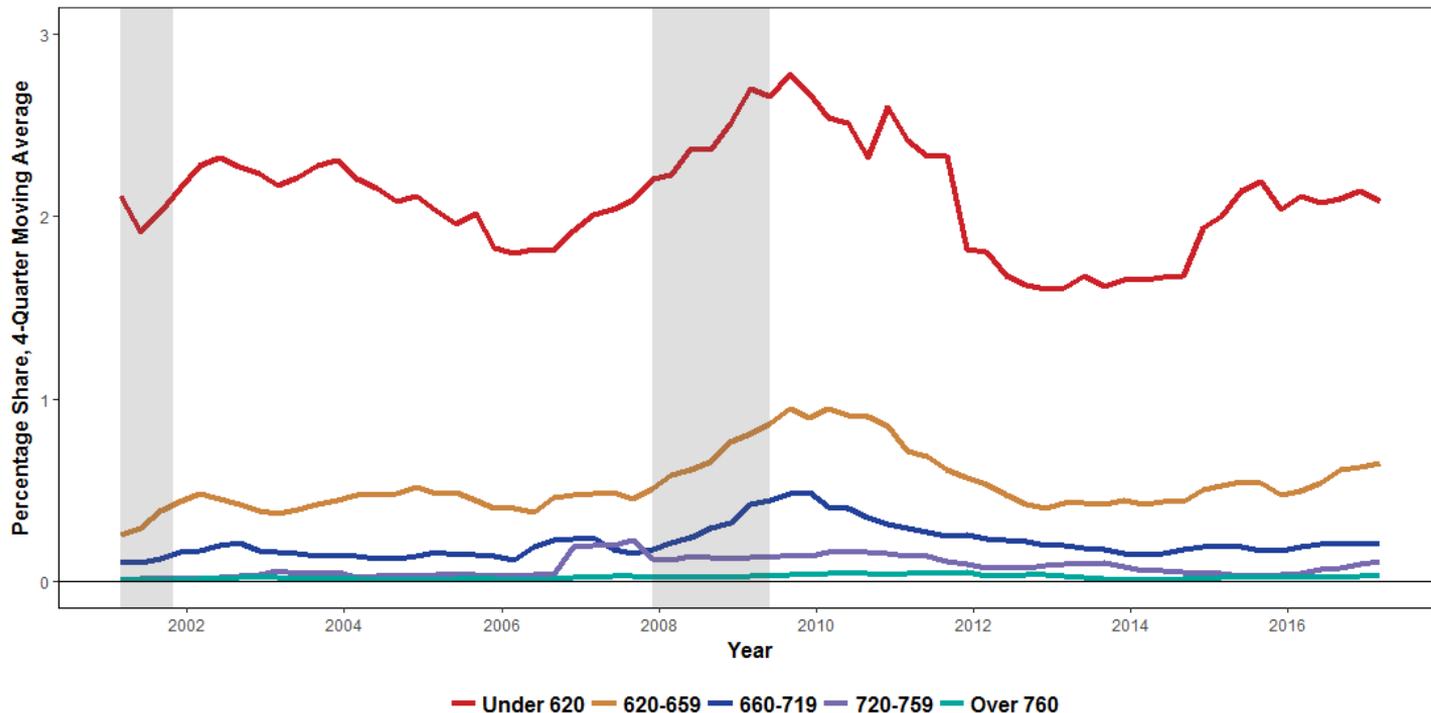
Subprime Big Part of Overall Auto Debt Growth



SOURCE: Federal Reserve Bank of NY/Equifax Consumer Credit Panel.

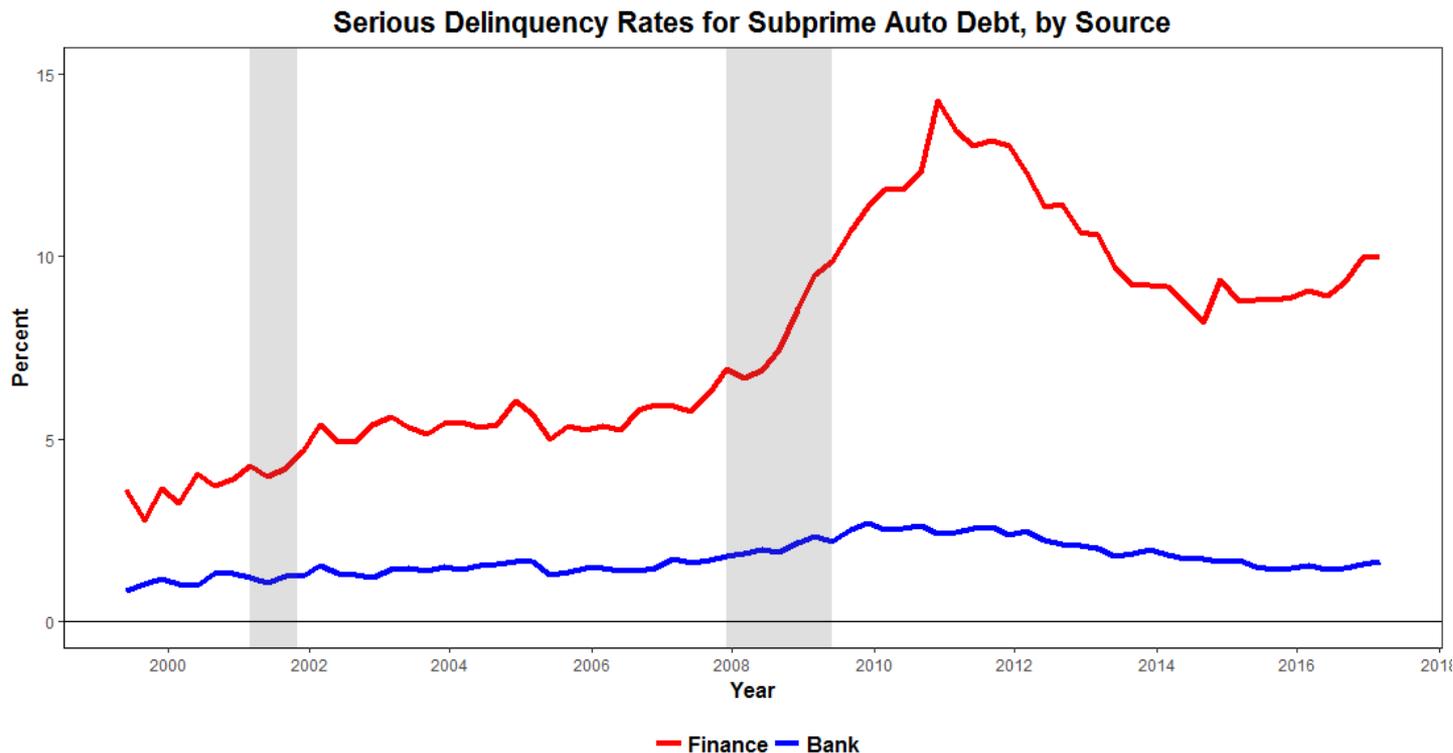
Repayment Trouble Concentrated in Subprime...

Serious Delinquency Rate for Auto Debt, by Risk Score at Origination



SOURCE: Federal Reserve Bank of NY/Equifax Consumer Credit Panel.

And Off Balance Sheets of Banks & Credit Unions



SOURCE: Federal Reserve Bank of NY/Equifax Consumer Credit Panel.

The Demographics of Wealth

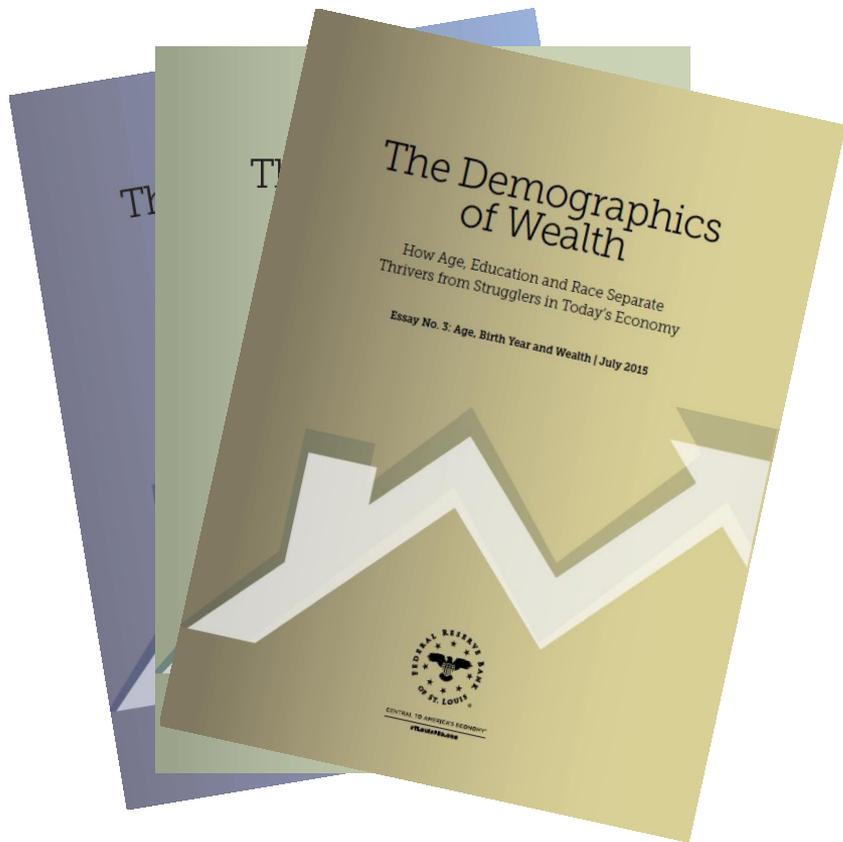
Who Does *Wealth* Inequality Matter?

- Wealth is key to financial stability and economic mobility.
- When confronted with a negative shock, asset-poor families are 2-3 times more likely to experience material hardship. (McKernan et al. 2009)
- Financial capital is among the three strongest predictors of upward economic mobility (Butler et al. 2008).
- Net worth is a key predictor of opportunity from one generation to the next (Conley 2009).

Why are Demographics Important?

- Much of the debate is framed with income and wealth distribution (e.g. the wealth of the 1%).
- However, there is considerable movement over time across the entire distribution.
- It's difficult to draw conclusions when the underlying groups have changed.
- Demographics serve as exogenous and stable identifiers.

The Demographics of Wealth



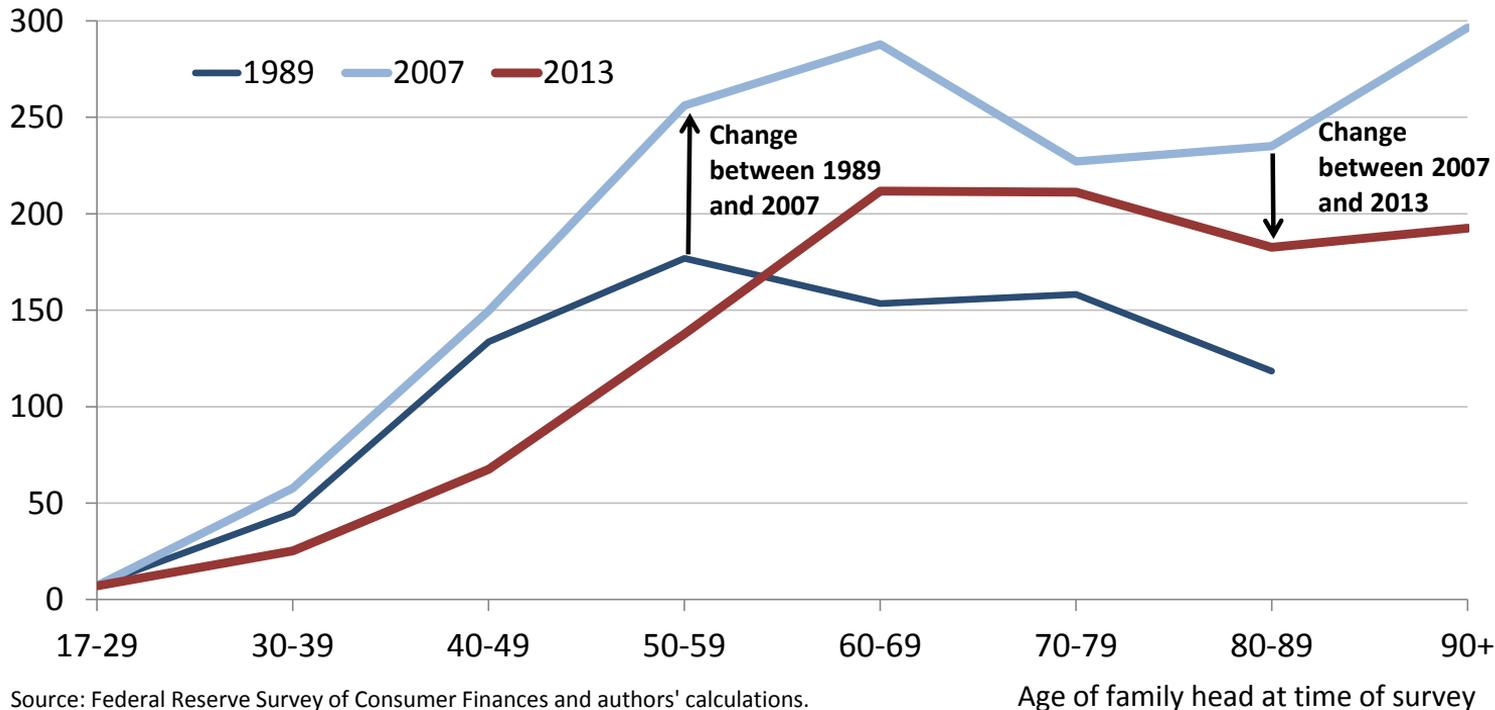
- Three essays written by Center staff in 2015.
- Explores connection between wealth and a person's race (or ethnicity), level of education and age.
- Wealth is distributed unequally across all three demographic categories.

Age and Birth Year

Wealth “Life Cycles” Differ by Birth Year

Median Family Net Worth by Age of Family Head

Thousands of 2013 Dollars



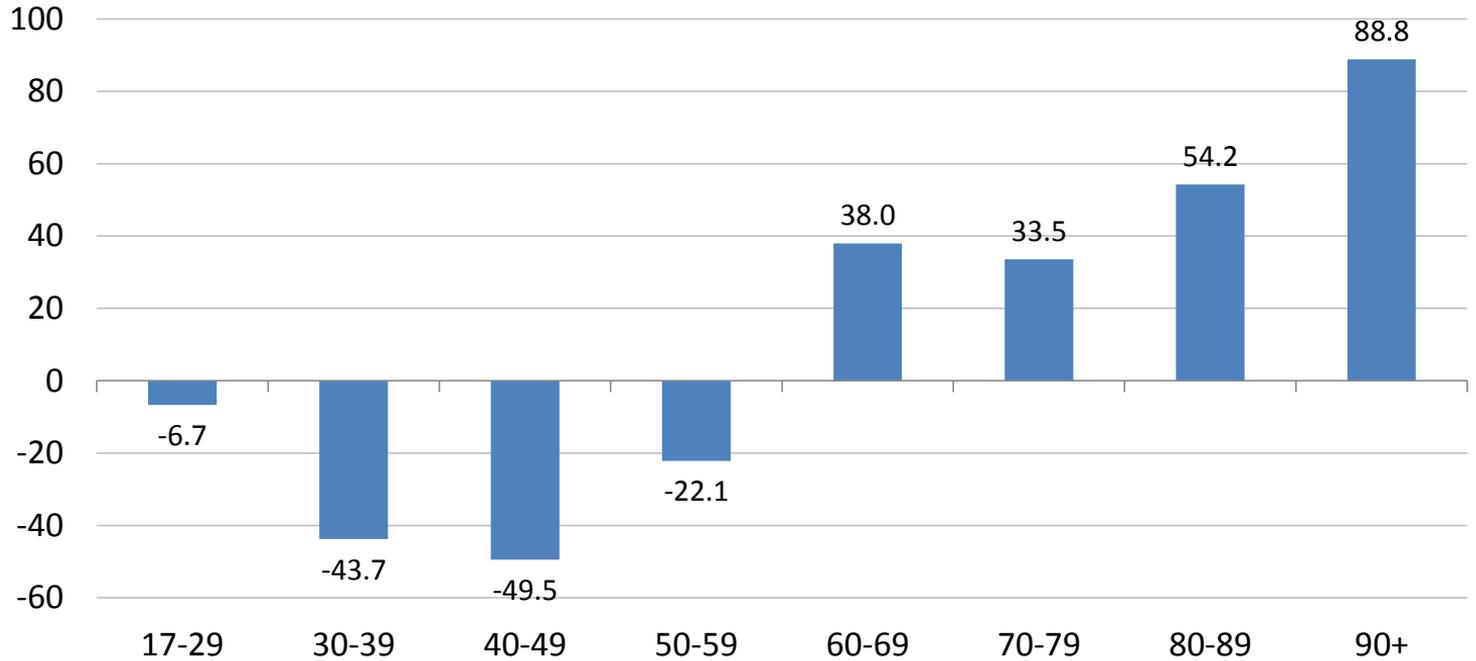
Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

Age of family head at time of survey

All Age Groups 60 + Are Richer; Under 60 Poorer

Change in Median Net Worth from 1989 to 2013, by Age of Family Head

Percent



Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

Age of family head at time of survey

The Generational Wealth Divide

- The life cycle is a source of natural wealth inequality.
- However, when you are born matters: Young and middle families suffered the most during the Great Recession.
- Those families had greater leverage, particularly in housing debt.
- It will be difficult—if not impossible—to recover that lost **potential** wealth during their lifetime.

Educational Attainment

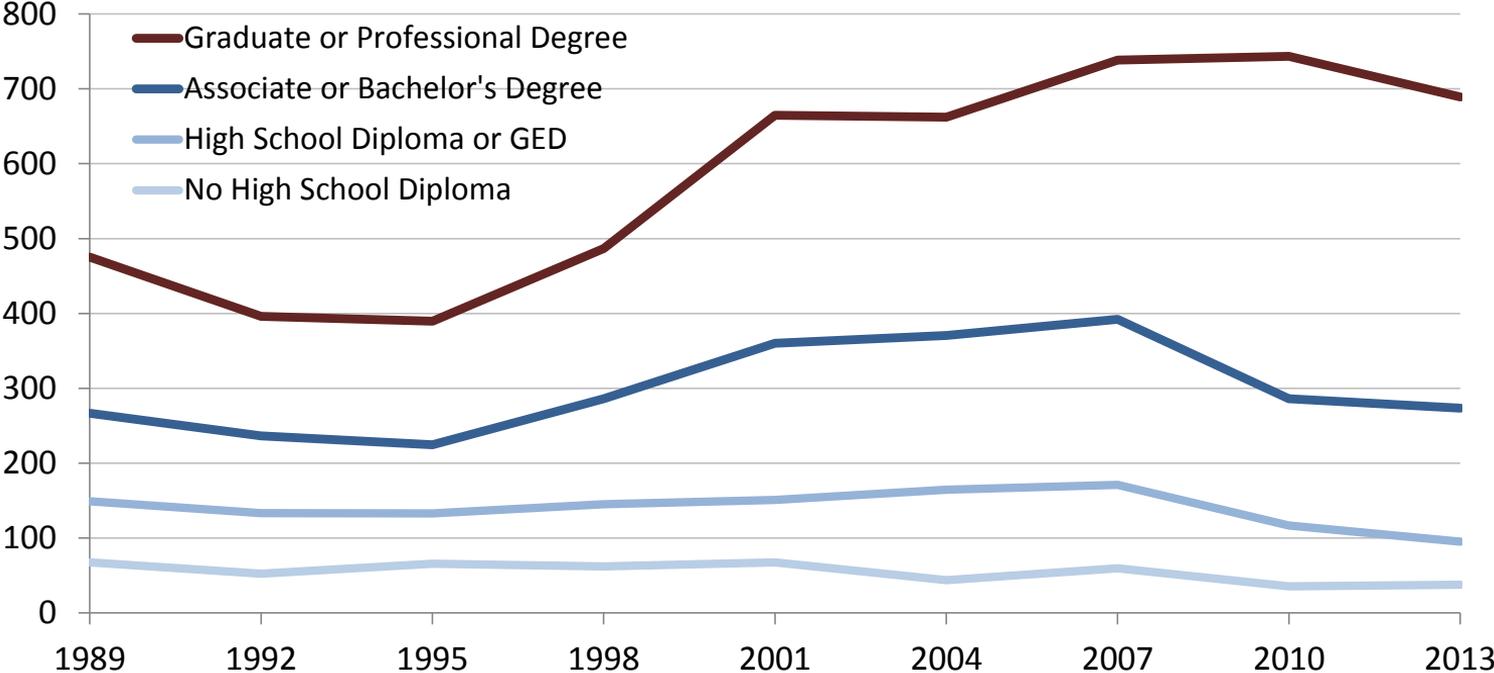
Important Considerations for Education

- Educational attainment is different than age/birth year and race/ethnicity in several ways.
- Most notably, it is not determined at birth.
- However, it is predetermined by early adulthood for almost everyone.
- Therefore, we can use it as a stable identifier when we restrict the sample to family heads 40 or older.

Expected Returns to Education Are Very High

Median Net Worth of Families Headed by Someone 40 or Older

Thousands of 2013 Dollars

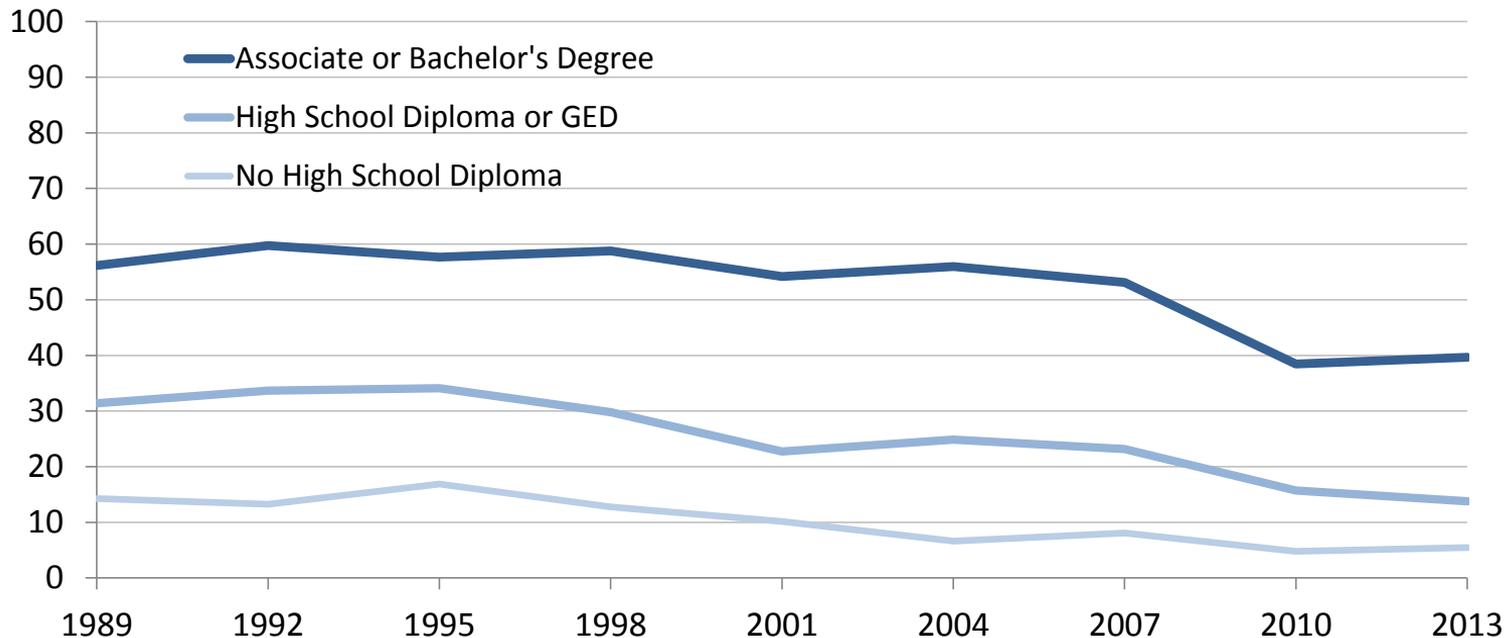


Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

Returns Increasing Faster for Graduate School

Median Net Worth of Families Headed by Someone 40 or Older Relative to Median Graduate- or Professional Degree Net Worth

Percent

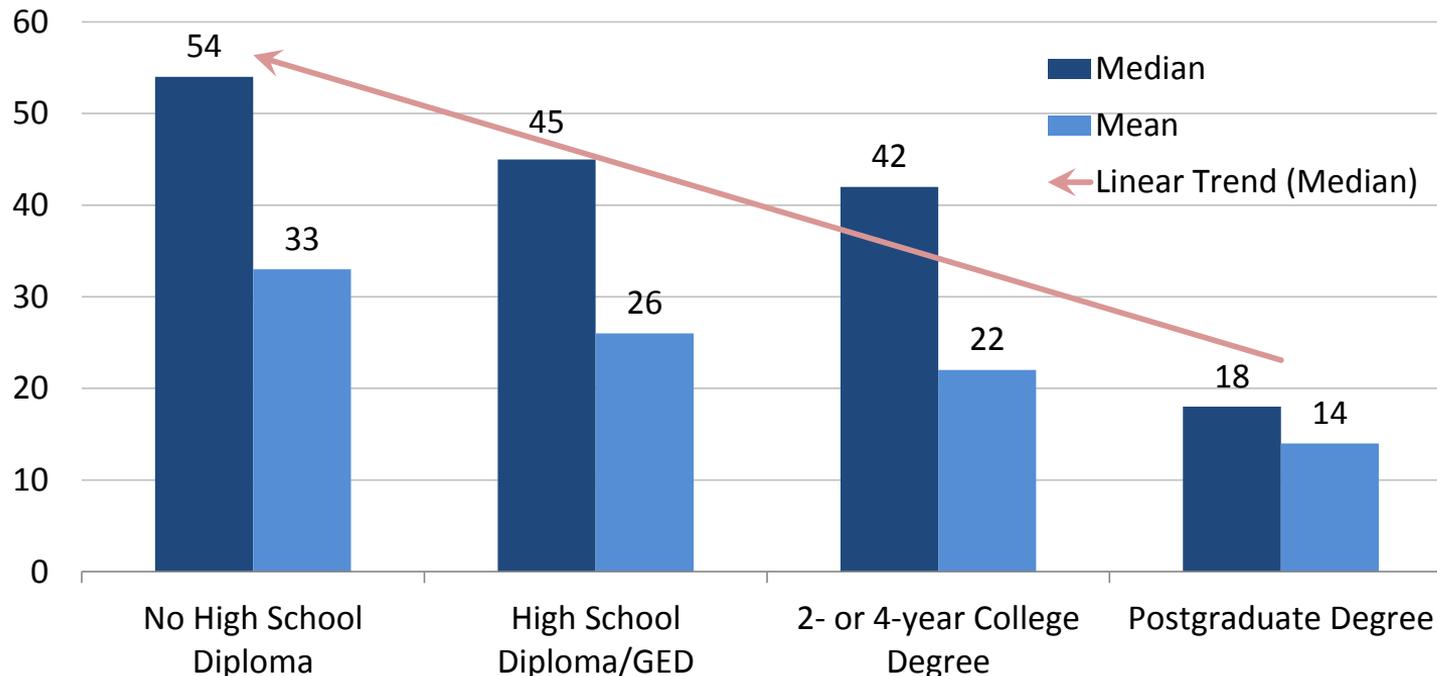


Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

More Education Suggests Greater Resiliency

Loss of Net Worth Between 2007 and 2013, by Education of Family Head

Percent



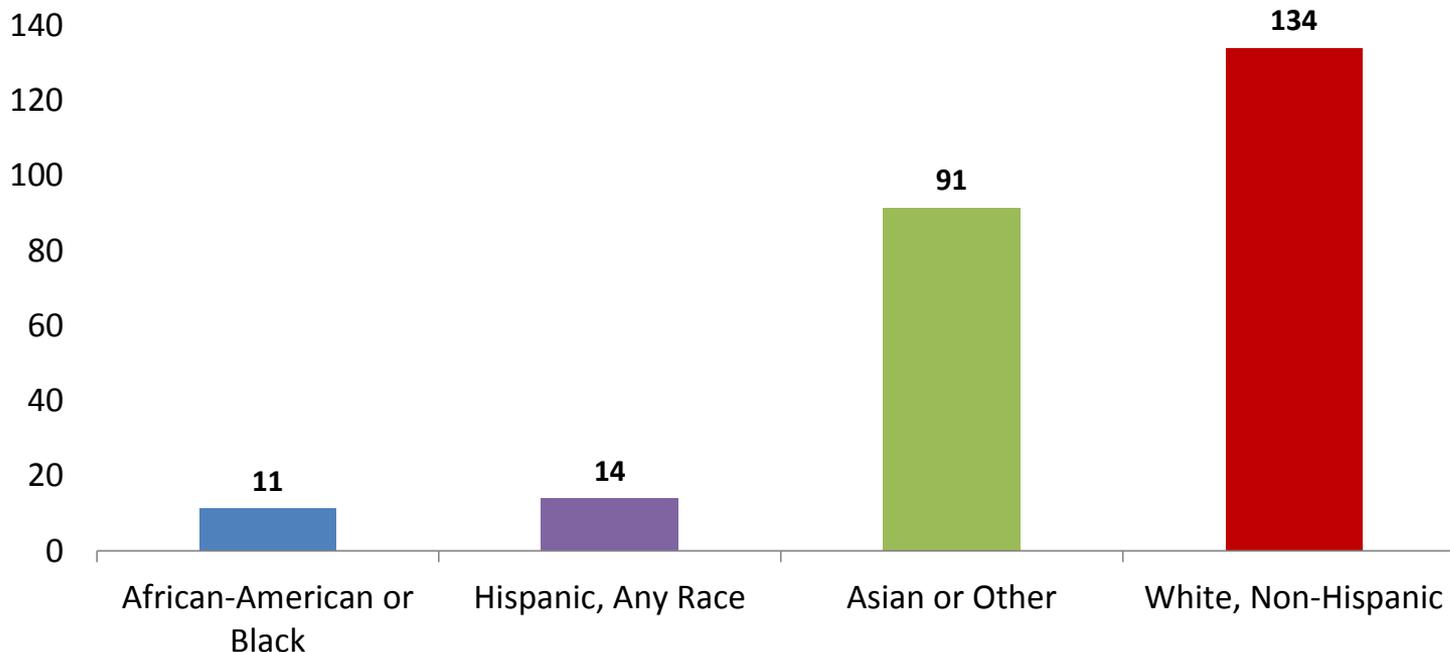
Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

Race or Ethnicity

Stark Wealth Gaps by Race or Ethnicity

Median Real Net Worth, by Race or Ethnicity

Thousands of 2013 Dollars

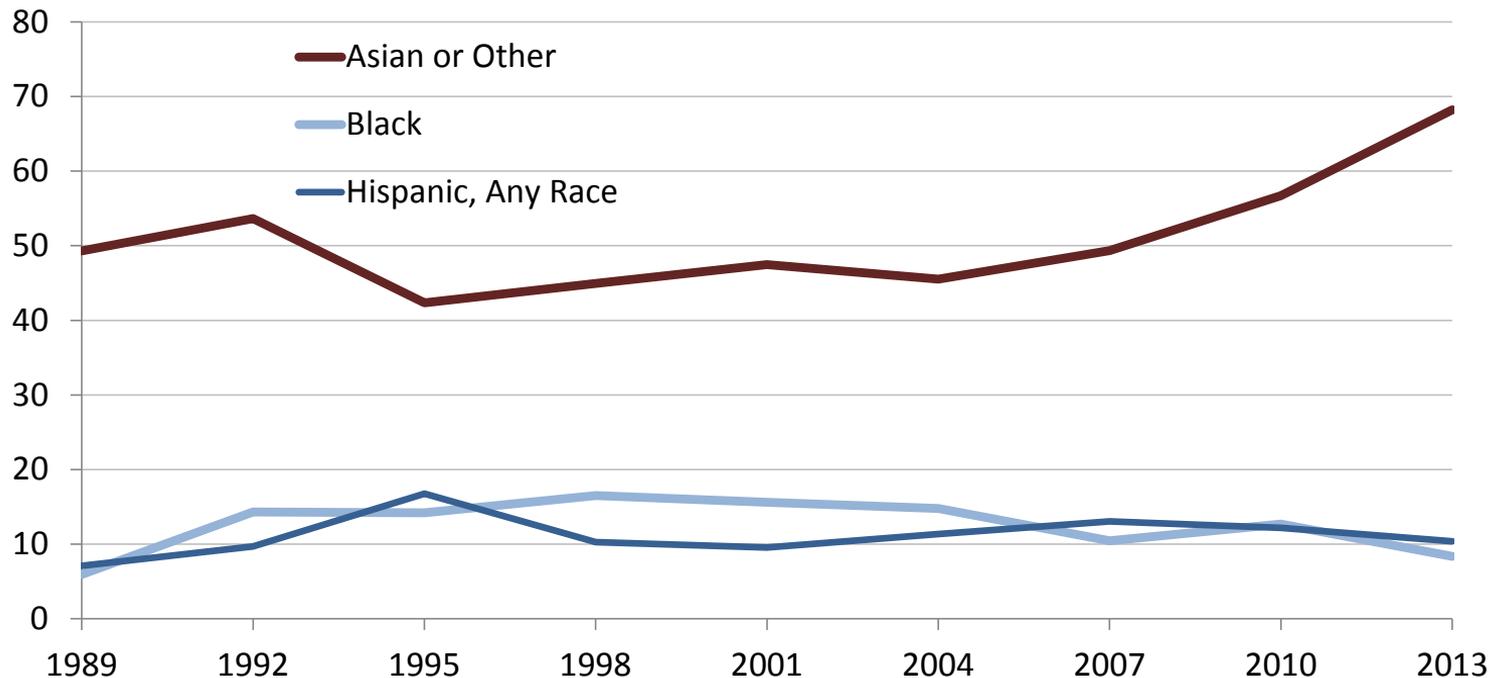


Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

Asian Families Have Seen the Greatest Gains

Median Family Net Worth Relative to Median White Family Net Worth

Percent

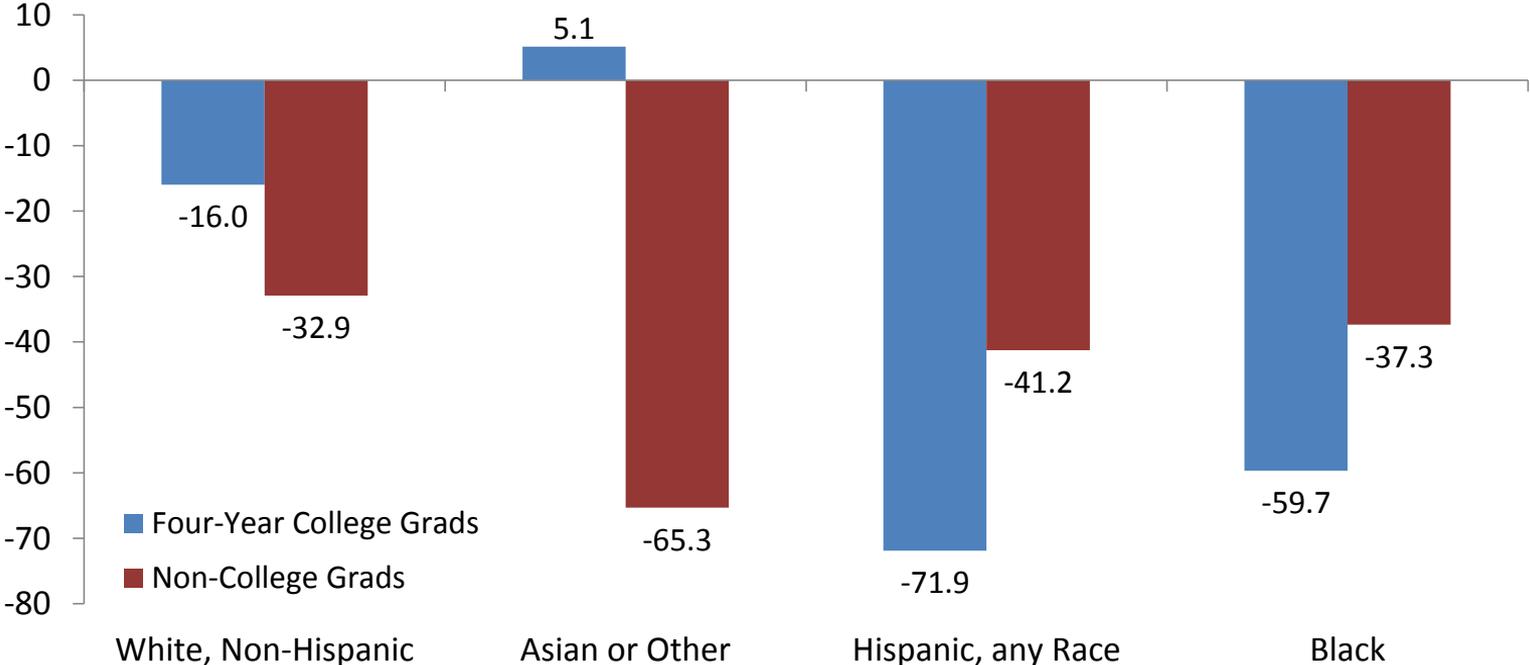


Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

Black, Hispanic *Grads* Fared Worst in Recession

Change in Median Real Net Worth between 2007 and 2013

Percent

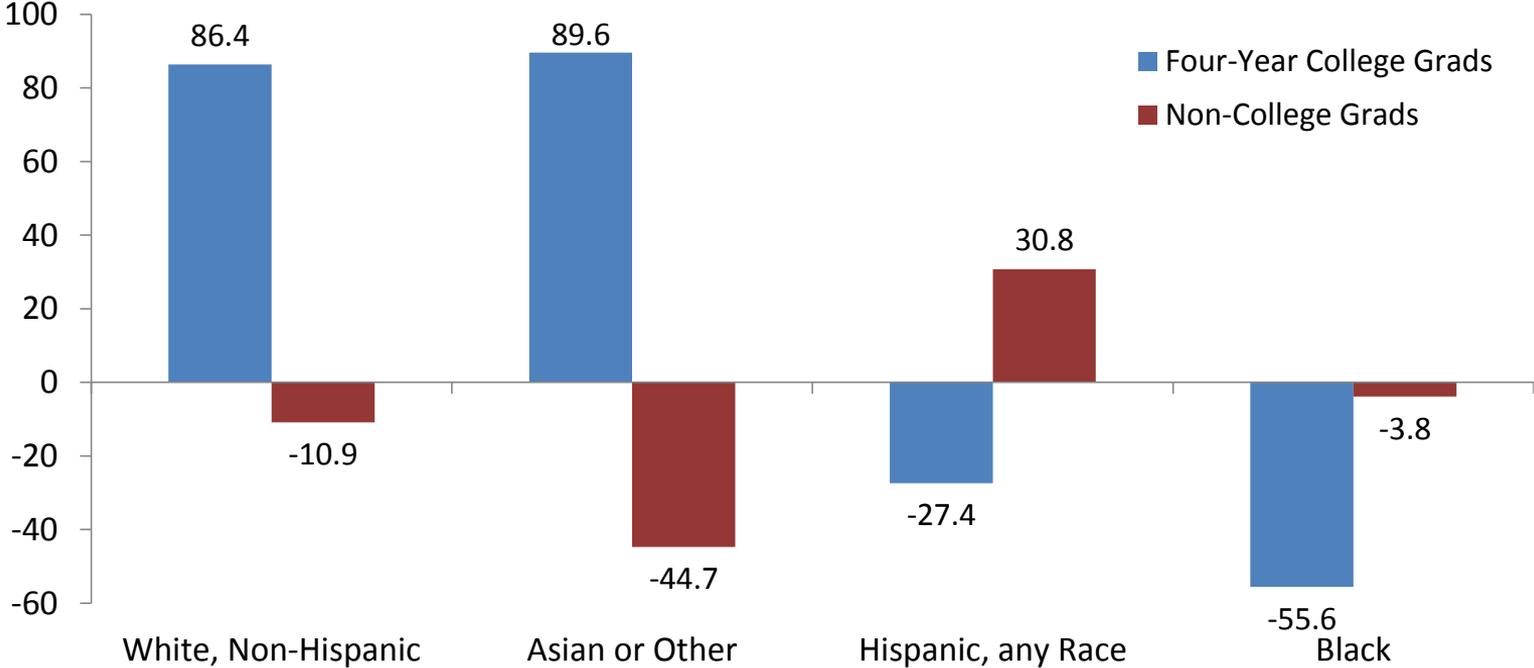


Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

Recession Erased Over a Decade of Gains

Change in Median Real Net Worth between 1992 and 2013

Percent



Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

Conclusion

- Growth in consumer debt remains subdued after accounting for inflation and population growth.
- While auto debt has buoyed overall growth, stresses in the sector suggest a turning point.
- Three demographic lenses reveal substantial wealth divides across American families.
- Families that are young, black or Hispanic, or lack a college degree face considerable headwinds to their financial stability and upward mobility.

Additional Information and HFS Work

Center for Household Financial Stability

stlouisfed.org/hfs

***In the Balance* Research Essays**

stlouisfed.org/publications/in-the-balance

***Housing Market Perspectives* Reports**

stlouisfed.org/publications/housing-market-perspectives