

IN THE Balance

Perspectives on Household Balance Sheets



CENTRAL TO AMERICA'S ECONOMY™

STLOUISFED.ORG

Wealth Recovery Still Not Complete, Remains Uneven Across Families and Locations

By William R. Emmons and Bryan J. Noeth

The Federal Reserve's latest snapshot of the aggregated balance sheet of all U.S. households showed that the recovery of household wealth has come a long way but remains incomplete.¹ Despite a \$21 trillion increase in household asset values since the low point in early 2009—including \$7.9 trillion during the past four quarters—the average household's inflation-adjusted net worth at the end of this year's third quarter stood at \$626,800, almost 2 percent below its prerecession peak of \$645,100 in early 2007. Measured in terms of the wealth decline suffered between the 2007 peak and the early 2009 trough level (a loss of about \$142,900), this gain of \$124,600 means the average household's recovery of inflation-adjusted wealth to date was only 87 percent complete as of the end of the third quarter.

As noted in the previous issue of *In the Balance*, the wealth recovery is proceeding at a very uneven pace across different families and in different parts of the country.² For example, the housing rebound has been much stronger in some states (such as California) than in others (such as Missouri). There are two aspects to this housing-wealth recovery. First, the average value of a house differs greatly depending on its location. As seen in the table, it was approximately \$554,000 in California versus about \$180,000 in Missouri at the end of the third quarter of 2013.³

Second, the rate of house-price appreciation has varied greatly across locations, too. From their low points at the end of the third quarter of 2011, the average house price in California appreciated about 32 percent through the end of the third quarter of 2013 versus about 11 percent

in Missouri. In current-dollar terms, this translates into an average increase of more than \$133,000 for a California homeowner versus about \$18,000 for a Missouri homeowner. The potential boost to household spending therefore is much greater in some parts of the country than others.

Regarding aggregate household net worth, the graph displays three measures for the past decade. The line marked "Net worth in nominal terms" represents the simple unadjusted value of all household assets minus all household liabilities reported by the Fed. Of the three measures, total nominal net worth showed the greatest household wealth recovery through the third quarter of 2013, reaching about 111.8 percent of the level achieved at its peak at the end of the third quarter of 2007. This represented the total amount of wealth owned by all households, expressed in current dollars.

The second line, labeled "Inflation-adjusted net worth," increased to about 101.3 percent of its peak level reached at the end of the first quarter of 2007.⁴ The difference between the nominal and inflation-adjusted measures of net worth reflects the deleterious effect of inflation over time, as it reduces the purchasing power of a dollar. This measure better reflects what American families' wealth can buy today.

The third line shows "Inflation-adjusted net worth per household."⁵ This line reflects the loss of purchasing power due to inflation as well as growth in the number of households. Clearly, a given amount of wealth shared among a larger number of households implies less pur-

(continued on Page 2)



Center for
**HOUSEHOLD
FINANCIAL
STABILITY**

Researching Family Balance Sheets to Strengthen Families and the Economy | stlouisfed.org/hfs

The Center for Household Financial Stability at the Federal Reserve Bank of St. Louis

focuses on family balance sheets. The Center's researchers study the determinants of healthy family balance sheets, their links to the broader economy and new ideas to improve them. The Center's original research, publications, public events and web-based data tools support researchers, practitioners and policy-makers seeking to rebuild and strengthen the balance sheets of all American households, but especially those harmed by recent economic and financial shocks. For more information, see the web site at stlouisfed.org/hfs.

(continued from Page 1)

chasing power per family than the total amount of wealth itself suggests. This measure reached \$626,800 at the end of the third quarter of 2013 and returned to 98.2 percent of (or \$18,300 below) its peak level of \$645,100 at the end of the first quarter of 2007.

If the values of financial assets and house prices continue to increase rapidly, all three measures of household wealth likely will exceed their prerecession peaks in the near future. When average inflation-adjusted net worth exceeds its 2007 high and reaches a new peak, this will mark the end of the longest stretch without reaching a new wealth peak in three decades. Average inflation-adjusted net worth reached a peak at the end of 1972 that was not surpassed until the end of 1984.

In the earlier case (between 1972 and 1984), a rapidly growing population and high rates of inflation combined to offset a near tripling of household net worth in nominal terms. Since 2007, inflation and growth in the number of households have been much more subdued, but nominal net worth took a much steeper dive than anything experienced since the 1930s. ■

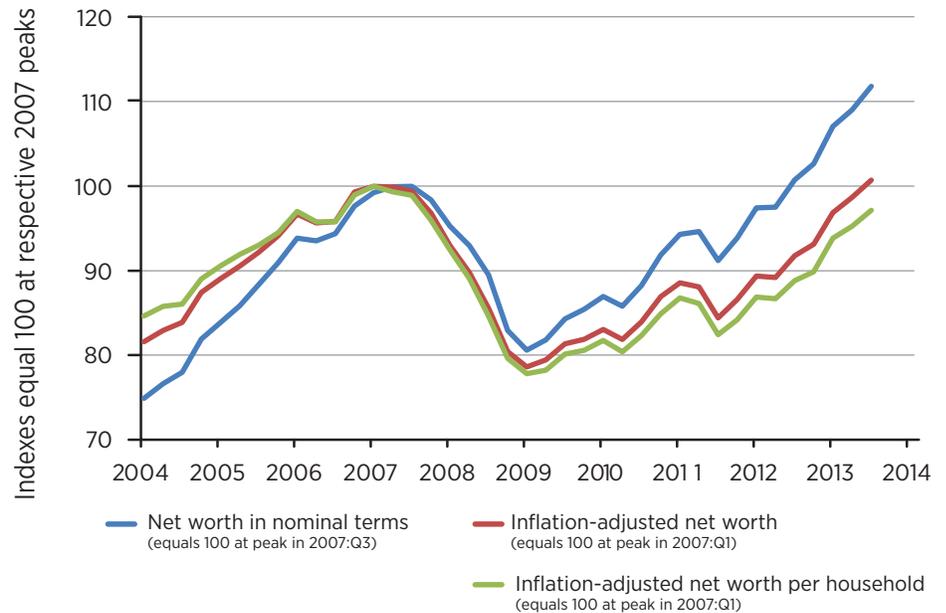
William R. Emmons is senior economic adviser at the Center for Household Financial Stability at Federal Reserve Bank of St. Louis. Bryan J. Noeth is a policy analyst at the Center.

Average House Values in Current Dollars

	2006:Q2	2011:Q3	2013:Q3
California	\$758,233	\$420,210	\$553,655
Missouri	\$173,882	\$161,607	\$179,454

SOURCES: Lincoln Institute of Land Policy, CoreLogic.

Measures of Household Wealth



SOURCES: Federal Reserve Board, Bureau of Economic Analysis, Census Bureau.

ENDNOTES

- 1 Financial Accounts of the United States, <http://www.federalreserve.gov/releases/z1/>.
- 2 See "Housing Rebound Broadens the Wealth Recovery But Much More is Needed," *In the Balance*, November 2013, www.stlouisfed.org/ITB-Issue5.
- 3 These figures were estimated by combining state-level house-price appreciation rates from CoreLogic (http://www.corelogic.com/research/hpi/corelogic_hpi_september_2013.pdf) and state-level house prices from the Lincoln Institute of Land Policy (<http://www.lincolnst.edu/subcenters/land-values/land-prices-by-state.asp>).
- 4 The figures are adjusted for inflation and are expressed in terms of 2009 purchasing power, measured by the personal consumption expenditures chain-price index.
- 5 Data for the number of households is available from the Census Bureau.



The September/October 2013 issue of *Review*, a Federal Reserve Bank of St. Louis bimonthly research journal, featured selected articles from the symposium "Restoring Household Financial Stability after the Great Recession: Why Household Balance Sheets Matter," held Feb. 5-7 at the St. Louis Fed.

Some of the topics featured in the issue include the current state of U.S. household balance sheets, economic vulnerability and financial fragility, the effects of health and wealth on retirement decisions, whether student debt is jeopardizing the short-term financial health of U.S. households, and the relationship between leverage and household spending behavior.

CDI326 12/13