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The Quarterly Debt Monitor

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

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Consumer Debt Growth Stalls Despite Strong Sectors

By Lowell R. Ricketts and Don E. Schlagenhauf

In the third quarter of 2016, the upward trend in per capita consumer debt slowed in the United States and in most of the large metropolitan statistical areas (MSAs) in the Eighth Federal Reserve District.[1] In fact, for the entire nation, total per capita consumer debt fell by a tenth of a percent. Mortgage, auto and credit card debt increased by less than they did in prior quarters. Serious delinquency rates largely improved, with the exception of auto debt.

The special section in the report for this quarter focuses on consumer debt trends in the smaller MSAs in the District. Included are Evansville, Ind.-Ky.; Fayetteville-Springdale-Rogers, Ark.-Mo.; Jackson, Tenn.; and Springfield, Mo.

This report uses the latest release of the Federal Reserve Bank of New York and Equifax Consumer Credit Panel with data as of the third quarter of 2016. The subset of figures in this report helps to provide a focused narrative of the latest developments in consumer debt across the District and nation. For a full set of updated figures, see the QDM appendix.[2]

TABLE 1

Changes in Per Capita Debt Levels and Serious Delinquency Rates

Year-over-Year Percent Change from 2015:Q3 to 2016:Q3

2016:Q3	United States	St. Louis MSA	Little Rock MSA	Louisville MSA	Memphis MSA
% Change in Per Capita Consumer Debt					
Total	–0.1	0.1	1.4	0	0.4
Mortgage	–1.7	–2.2	–1.8	–2	–2.7
HELOC	–2.9	–4.3	3.5	2.3	–6.5
Auto	6.2	5.5	5.9	6.9	6.1
Credit Card	0.7	1.9	4.9	0.4	3.6
Student	6.7	7.1	8.1	5.8	7.9
Change in Serious Delinquency Rate					
Mortgage	–0.6	–0.3	–0.3	0	–0.6
HELOC	–0.4	0	0.1	0.5	0
Auto	0.2	0	0.6	0.4	0.5
Credit Card	–1.8	–0.7	–0.2	–0.5	–0.5
Student	–0.4	–1	0.2	2.3	–0.3

SOURCE: Federal Reserve Bank of New York/Equifax Consumer Credit panel.

NOTES: Serious delinquency rates are the share of outstanding debt that is over 90 days past due. Changes to those rates are given as the differences in percentage points. Figures are rounded.

Executive Summary

1. In the third quarter of 2016, real per capita consumer debt for the nation declined after an extended period of positive growth. Across the major District MSAs, total per capita debt changed by less than a percent, with the exception of a 1.4 percent increase in Little Rock.
2. Per capita mortgage debt declined in the nation by 1.7 percent and across District MSAs by an average of 2.2 percent.
3. Auto debt grew at a rapid 8 percent rate across the nation in the prior quarter and slowed to a 6.2 percent growth rate in the third quarter. This trend was mirrored across the District MSAs with slower but still substantial growth.
4. Across the nation, credit card debt increased by a modest 0.7 percent. In Louisville, Ky., that type of debt increased at a rate similar to that observed for the U.S. Both Memphis, Tenn., and Little Rock, Ark., had percentage increases over 3.5 percent. St. Louis was in the middle of the pack with a moderate 1.9 percent growth rate.
5. Growth in per capita student debt exceeded the prior quarter for both the nation and in

Center for HOUSEHOLD FINANCIAL STABILITY®

Researching Family Balance Sheets to Strengthen Families and the Economy | stlouisfed.org/hfs each of the large MSAs. Growth in St. Louis and Little Rock surged by 3.9 and 4.8 percentage points, to 7.1 percent and 8.1 percent, respectively.

6. The serious delinquency rate for auto debt increased in the nation as well as in all major District MSAs, except for St. Louis. The rate for Little Rock now exceeds the peak that followed the Great Recession.
7. Consumer debt growth in the smaller District MSAs is much higher than in the larger MSAs. With the exception of Little Rock, total per capita debt was largely unchanged for the largest MSAs. In contrast, growth in Springfield, Fayetteville, and Jackson exceeded 1.1 percent. Growth of per capita auto debt averaged 10 percent in Springfield and Fayetteville. Large decreases in home equity lines of credit, or HELOC, debt were observed across all of the smaller MSAs.

Why Has Consumer Debt Growth Stalled?

In prior issues of the *Quarterly Debt Monitor*, the general theme was growth in consumer debt across the United States and the largest District MSAs. The latest data suggest that overall growth may have stalled, despite robust student and auto loan borrowing. Figure 1 presents the percentage change in per capita total debt as well as the contribution of types of debt. Across the nation, consumer debt actually declined by a tenth of a percent. Strong growth in auto and student debt wasn't enough to offset a considerable decline in mortgage debt.

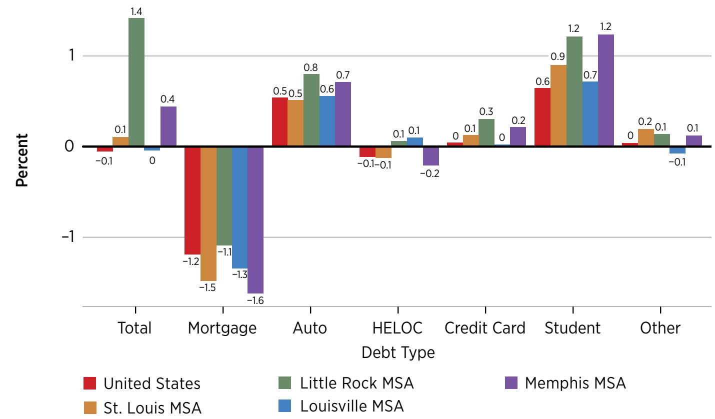
The story in the four largest metro areas in the District is very similar to that of the nation. Per capita total debt was largely unchanged in St. Louis and Louisville. Memphis had modest growth, while Little Rock exhibited the strongest overall growth. Auto debt and student debt continue to grow, especially in Little Rock and Memphis. These two metro areas had the largest increase in auto, student and credit card debt. Unlike Little Rock, Memphis had much of that growth canceled out by the largest declines in both mortgage and HELOC debt. In contrast, Little Rock had the smallest decline in mortgage debt of the four metro areas and positive growth in HELOC debt.

Developments for Auto and Credit Card Debt

The previous *Quarterly Debt Monitor* noted strong growth in auto and credit card debt for the nation and most of the District MSAs. Has this growth continued? Total credit card debt grew faster across all of the District MSAs and slower for the nation. Louisville swung from a 1 percent *decline* in the previous quarter to 0.4 percent growth. The growth rate in Memphis and Little Rock accelerated by 0.7 and 1.3 percentage points, respectively. Figure 2 breaks down the overall year-over-year growth of credit card debt into the contributions from various age groups.[3] While credit card debt increased for the majority of groups, the largest increases occurred in the 31-40 and 56-65 groups. In Memphis, these two age groups accounted for a large fraction of the overall increase. The implications of the faster growth of potentially

FIGURE 1

Contribution to Percent Change in Total Per Capita Debt

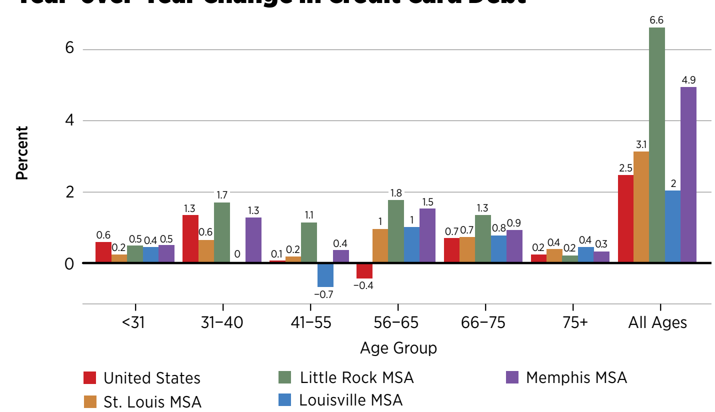


SOURCE: Federal Reserve Bank of New York/Equifax Consumer Credit panel.

NOTES: Growth in each type of debt is relative to total debt. All data labels have been rounded.

FIGURE 2

Year-over-Year Change in Credit Card Debt

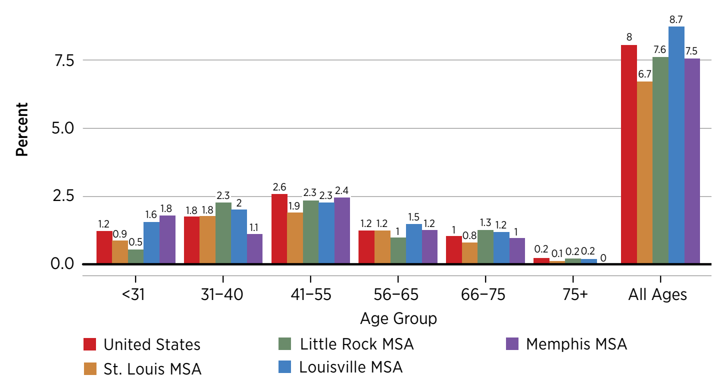


SOURCE: Federal Reserve Bank of New York/Equifax Consumer Credit Panel.

NOTE: Figures 2 and 3 are weighted with respect to the total by debt type and do not reflect per capita growth.

FIGURE 3

Year-over-Year Change in Auto Debt



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

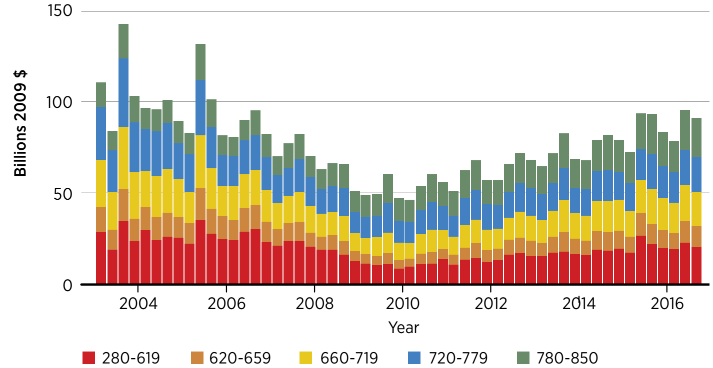
high-cost credit card borrowing may give some readers pause. However, the accelerated growth in credit card debt is not cause for alarm, given that balances and the serious delinquency rate are much lower than pre-recession levels for both the nation and the District MSAs.

Auto debt has the second-lowest average balance among debt types. Yet, auto debt has generated plenty of discussion in the media. Auto debt continued to grow at a relatively quick 6.1 percent average rate across the nation and the District MSAs. As Table 1 shows, the increase ranged from 6.9 percent in Louisville to a 5.5 percent increase in St. Louis. Figure 3 shows that much of the growth in auto debt comes from consumers in the 31-55 age range, although all groups increased their debt holdings.

Some concerns have been raised that subprime lending could be fueling much of the rapid growth seen in auto debt and that this could lead to repayment difficulties in the future. Subprime lending can be defined as lending to individuals with credit scores less than 620. Figure 4 shows that, while the share of subprime lending has increased since 2014, it is clear that this increase hasn't been drastic. However, the next section focuses on serious delinquency rates and suggests that repayment difficulties have started to materialize in the auto debt market.

FIGURE 4

Real Auto Loan Originations, by Equifax Risk Score, United States



SOURCE: Federal Reserve Bank of New York/Equifax Consumer Credit Panel.
NOTES: For inflation adjustment, 2009 dollars are used, in line with the Bureau of Economic Analysis' personal consumption expenditures chain-type price index. Equifax developed the score to measure lending risk. Typically, credit scores below 620 are considered subprime. A score below 500 would qualify as deep subprime. These lower scores indicate that the borrower is more likely to have problems repaying the loan.

Are Consumer Debt Levels and Growth Sustainable?

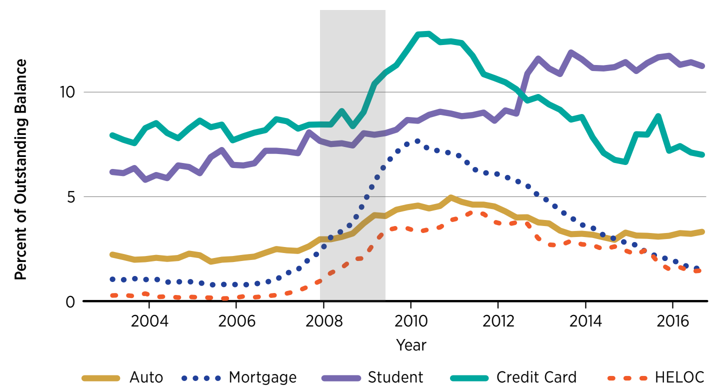
The Great Recession taught us that rising rates of serious delinquency are a warning sign for a possible crisis. With the growth in consumer debt, especially auto, credit card and student debt, it is natural to wonder if delinquency rates are increasing nationally or within the District. Figure 5 clearly shows the rapid and extensive increase in serious delinquency rates for most types of debt during and immediately after the Great Recession. Serious delinquency rates steadily declined shortly after the recession concluded. Student debt was the one exception where serious delinquency rates steadily increased since 2003.

Serious delinquency rates largely fell in the third quarter of 2016, with the exception of a gradual upward taper for auto debt. Rates increased for auto debt both nationally and in the District. As can be seen in Table 1, the largest increase occurred in Little Rock, where the serious delinquency rate for auto debt increased by 0.6 percentage points to 4.2 percent. That exceeds the 3.9 percent rate peak Little Rock experienced in the fourth quarter of 2010. Serious delinquency rates continued to fall for mortgage and credit card debt for the nation and across District MSAs. In fact, serious delinquency rates for mortgage and HELOC debt are less than 2 percent. Mortgage-related debt constitutes the largest share of consumer debt, and the associated rates are on a steady downward trend. This offers reassurance that another household balance sheet crisis is not on the horizon.

The steady increase in the serious delinquency rate for student debt over this period continues to concern. The overall serious delinquency rate on this type of debt exceeds 13 percent (Figure 5).

FIGURE 5

Serious Delinquency Rates for United States, By Debt Type



SOURCE: Federal Reserve Bank of New York/Equifax Consumer Credit Panel.
NOTE: Gray bar indicates the Great Recession.

While borrowers cannot default on this debt, the high debt overhang may restrict their spending choices and delay purchases of durable goods, such as housing. While many of the serious delinquency rates have fallen to low levels, the elevated rates for auto and student debt deserve continued monitoring.

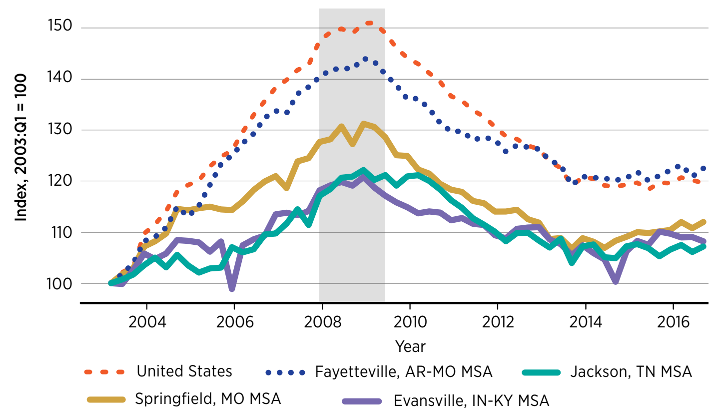
Credit Trends In Smaller District MSAs

Every issue of the *Quarterly Debt Monitor* focuses on a novel aspect of debt beyond our core focus. In this issue, debt developments in four smaller MSAs—Evansville, Ind.-Ky.; Fayetteville-Springdale-Rogers, Ark.-Mo.; Jackson, Tenn.; and Springfield, Mo.—are examined. Labor markets and housing activity showed robust signs of strength across these MSAs. As of September 2016, Fayetteville had the 19th lowest unemployment rate among all metropolitan areas nationally.[4] Between September 2013 and September 2016, employment increased by 16.3 percent and the unemployment rate decreased from 5.6 percent to 2.9 percent. The cost of living is about 10 percent below the national value.[5] Not surprisingly, house prices have increased by 13 percent since the second quarter of 2013, according to the Federal Housing Finance Agency (FHFA) house price index. The Zillow market health index for the Fayetteville metro area was 9.7 out of 10 at the end of September; this is considered "very healthy."[6] In Springfield, employment increased 9 percent and the unemployment rate fell from 5.7 to 4.4 percent between September 2013 and September 2016. Much of the employment growth was in the industries of leisure and hospitality and industries of education and health services. The cost of living in Springfield is 11.5 percent below the national cost of living. House prices have increased about 8.3 percent since the second quarter of 2013. The Zillow index for the Springfield metro area was 6.4, or "healthy."

Evansville and Jackson had much higher unemployment rates in September 2013. However, both areas have seen an increase in employment and a decline in the unemployment rate. In Evansville, employment growth was 4.7 percent. As a result, the unemployment rate declined from 6.7 percent to 4.5 percent. The Jackson labor market was in much worse shape in September 2013, with an unemployment rate of 8.1 percent. As of September 2016, the unemployment rate has declined to 5.2 percent and employment has increased by 4.5 percent. The cost of living in Evansville and Jackson was 10 percent and 17 percent lower than the nation's. House prices grew in Evansville and Jackson by 8.8 percent and 6.8 percent since the second quarter of 2013, suggesting a rate of appreciation similar to Springfield's. However, Zillow's index for Evansville and Jackson was 3.1 and 3.6, respectively. Both of those values are considered "less healthy."

FIGURE 6

Total Real Per Capita Consumer Debt



SOURCE: Federal Reserve Bank of New York/Equifax Consumer Credit Panel.
NOTES: "Real" data are inflation-adjusted. The gray bar indicates the Great Recession.

TABLE 2

Changes in Per Capita Debt Levels and Serious Delinquency Rates

Year-over-Year Percent Change from 2015:Q3 to 2016:Q3

2016:Q3	United States	Springfield MSA	Fayetteville MSA	Evansville MSA	Jackson MSA
% Change in Per Capita Consumer Debt					
Total	–0.1	1.7	1.2	–1.7	1.8
Mortgage	–1.7	–1	–1.2	–2.6	2.4
HELOC	–2.9	–9.3	–4	–8.3	–8.7
Auto	6.2	10.7	9.9	3	4.4
Credit Card	0.7	3.9	3.9	–1	6.7
Student	6.7	5.9	5.8	2	–0.8
Change in Serious Delinquency Rate					
Mortgage	–0.6	–0.1	–0.3	–0.7	–1.3
HELOC	–0.4	0.2	–0.4	–2.3	–1.6
Auto	0.2	–0.3	0.5	0.3	0.3
Credit Card	–1.8	–1.1	–0.4	–0.2	–0.6
Student	–0.4	–2.5	–1.1	–0.4	2.7

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

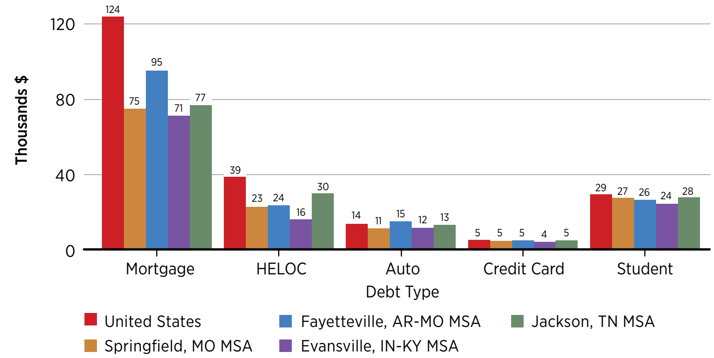
Figure 6 shows that the general trend for total per capita debt was similar across the nation and in these MSAs, although the apex of the relative debt levels varied substantially. The growth path seems to be correlated with the strength of the underlying MSA economies. Fayetteville reached the highest relative level of per capita debt, while Evansville and Jackson closely tracked each other at the lower end. The most notable difference between the nation and these MSAs is the stronger growth across the MSAs following 2014.

Figure 7 highlights the fact that mortgage debt encompasses the largest consumer liability. The average mortgage in Fayetteville is $18,000 to $24,000 more than in the other MSAs. This possibly is the result of a robust local economy and housing market. HELOC and student debt comprise the next highest liabilities. Consumers in Jackson had a much higher HELOC balance than consumers in the other MSAs. Given a slower economic recovery in Jackson, individuals potentially relied on equity lines to maintain their standard of living. The contrast among the average balances of the remaining debt types begins to fade after HELOC debt. Consumers have similar balances despite very disparate economies and geographic regions. Notably, the average auto debt balance in Fayetteville exceeded the balances of the nation and of the other MSAs. This is perhaps another correlate of the robust economic activity in that region.

In Figure 8, consumers aged 31-55 in Fayetteville account for 68 percent of the overall increase in total debt. Increasing balances for auto, credit card and student debt drove almost all of that growth, as Table 2 shows. These same age groups account for 74 percent of the increase in Springfield's debt. Much of the increase in this region was also concentrated in auto, credit card and student debt. However, the broad category of "other" debt contributed a nontrivial amount. Jackson and Evansville derived their debt growth from older age groups. In particular, consumers aged 41-65 and those over 75 were responsible for all of Jackson's debt growth. Overall growth was negative in Evansville, where consumers aged 66-75 were the only ones who increased their borrowing. Jackson was the only area covered in this report that had an increase in mortgage borrowing. In contrast, Evansville nearly matched Memphis, which had the largest decline in mortgage debt relative to total per capita debt.

FIGURE 7

Average Debt Balance, By Type, 2016:Q3

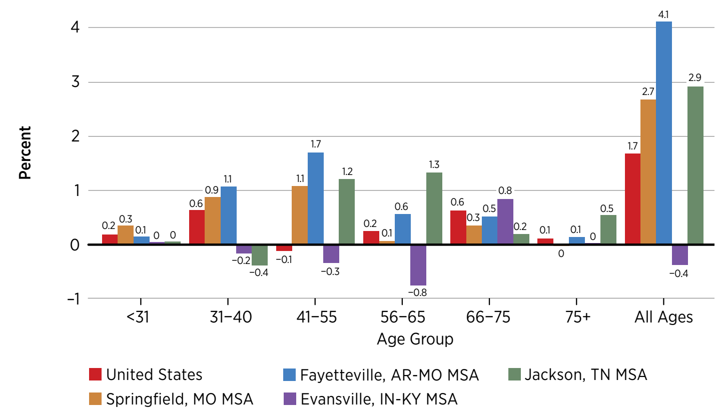


SOURCE: Federal Reserve Bank of New York/Equifax Consumer Credit Panel.

NOTE: All average balances are conditional on carrying that type of debt and are unadjusted for inflation.

FIGURE 8

Year-over-Year Change in Total Debt



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

NOTE: Figure 8 is weighted with respect to total debt.

Table 2 shows that the serious delinquency rate for auto debt increased for all of the smaller MSAs save Springfield. This is representative of an overall upward trend for auto debt in Fayetteville and Jackson. The serious delinquency rate for credit card debt in Jackson fell to 3.8 percent, which is well below its peak of 14.1 percent in the first quarter of 2010 and its pre-recession average. Similar to the rate trends in the largest MSAs, serious delinquency rates for student debt in the smaller metropolitan areas have continually increased since 2003, although the latest quarter showed declines for all except Jackson. The rates for mortgage debt declined in the latest quarter and have reached pre-recession levels. Serious delinquency rates are generally falling in the smaller MSAs, with the exception of auto debt. ■

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Endnotes

1 The Eighth Federal Reserve District comprises all of Arkansas and portions of Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee. Major MSAs are St. Louis, Little Rock, Louisville and Memphis. An MSA consists of multiple counties and includes the core urban area, as well as any adjacent counties that have a strong social and economic attachment to the urban core.

2 www.stlouisfed.org/~/media/publications/quarterly-debt-monitor/issue_3/2016_Q3_QDM_appendix.pdf

3 Growth numbers for total debt differ from the per capita breakdowns in Figure 1 and the two tables.

4 Bureau of Labor Statistics.

5 Bureau of Economic Analysis, data as of 2014.

6 Zillow's market health index is a score out of 10 possible points. The index illustrates the health of a region's housing market relative to other markets across the country. The index is based on up to 10 metrics, including those capturing the past and projected evolution of home values, the prevalence of foreclosures, sales of previously foreclosed homes, negative equity and delinquency, and whether homes are selling faster or slower than they did in the past.