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

- 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

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

<table>
<thead>
<tr>
<th>Year/Year Percentage Change</th>
<th>United States</th>
<th>Missouri</th>
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</thead>
<tbody>
<tr>
<td>2003</td>
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<td>2016</td>
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<tr>
<td>2017</td>
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</tr>
</tbody>
</table>

**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

- Mortgage
- HELOC
- Auto
- Credit Card
- Student

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

U.S. Outstanding Auto Balances by Risk Score at Origination

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

- Percentage Share, 4-Quarter Moving Average
- Year

SOURCE: Federal Reserve Bank of NY/Equifax Consumer Credit Panel.
And Off Balance Sheets of Banks & Credit Unions

Serious Delinquency Rates for Subprime Auto Debt, by Source

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

Change between 1989 and 2007

Change between 2007 and 2013
All Age Groups 60 + Are Richer; Under 60 Poorer

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

Percent

100 80 60 40 20 0

-6.7 -43.7 -49.5 -22.1 38.0 33.5 54.2 88.8

17-29 30-39 40-49 50-59 60-69 70-79 80-89 90+

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

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

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Percent Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>No High School Diploma</td>
<td>54</td>
</tr>
<tr>
<td>High School Diploma/GED</td>
<td>45</td>
</tr>
<tr>
<td>2- or 4-year College Degree</td>
<td>42</td>
</tr>
<tr>
<td>Postgraduate Degree</td>
<td>18</td>
</tr>
</tbody>
</table>

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

-16.0
5.1
-71.9
-59.7
-32.9
-65.3
-41.2
-37.3

White, Non-Hispanic
Asian or Other
Hispanic, any Race
Black

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

<table>
<thead>
<tr>
<th>Group</th>
<th>Change in Median Real Net Worth</th>
</tr>
</thead>
<tbody>
<tr>
<td>White, Non-Hispanic</td>
<td>86.4</td>
</tr>
<tr>
<td>Asian or Other</td>
<td>-10.9</td>
</tr>
<tr>
<td>Hispanic, any Race</td>
<td>-44.7</td>
</tr>
<tr>
<td>Black</td>
<td>-27.4</td>
</tr>
<tr>
<td>White, Non-Hispanic</td>
<td>89.6</td>
</tr>
<tr>
<td>Asian or Other</td>
<td>-44.7</td>
</tr>
<tr>
<td>Hispanic, any Race</td>
<td>30.8</td>
</tr>
<tr>
<td>Black</td>
<td>-55.6</td>
</tr>
</tbody>
</table>

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