The Demographics of Wealth and A National Outlook on Consumer Debt

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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
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)*

- United States
- Missouri
- U.S. Max
- MO Max

*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 2018 $

SOURCE: Federal Reserve Bank of NY/ Equifax Consumer Credit Panel, and Bureau of Economic Analysis.
Missouri Has Less Mortgage but More Student Loan Debt

Total Real Consumer Debt, by Type in Q1 2019

Billions 2018$

- United States:
  - Mortgage: 8,397
  - HELOC: 385
  - Auto: 1,158
  - Credit Card: 775
  - Student Loan: 1,339
  - Other Debt: 366

- Missouri:
  - Mortgage: 115
  - HELOC: 4
  - Auto: 20
  - Credit Card: 12
  - Student Loan: 26
  - Other Debt: 7

SOURCE: Federal Reserve Bank of NY/ Equifax Consumer Credit Panel, and BEA.
Mortgage Debt Returns to Positive Growth

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 Recent Growth in Credit Card Debt

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, CC & 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
Repayment Trouble Concentrated in Subprime…

![Chart: Serious Delinquency Rate for Auto Debt, by Risk Score at Origination](image)

**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
Why 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 Series

2018 Series

• HFS essay series links income, wealth and other socio-economic outcomes to a family’s:
  - Race/ethnicity
  - Education (own and parents’)
  - Age and birth year.

2015 Series

• Your race/ethnicity, education and birth year are strong predictors of your adult outcomes.

stlouisfed.org/hfs
Essay 1: The Financial Returns from College Across Generations: Large but Unequal

- A rising share of the population is attaining a four-year college degree
- Income and wealth differences between college grads and nongrads is a function of both the education and other characteristics
- Inherited traits play a strong role
Income and Wealth Shares Rising Quickly

Shares Among College Graduates

<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
<th>Income</th>
<th>Wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>23.1</td>
<td>44.5</td>
<td>50.1</td>
</tr>
<tr>
<td>2016</td>
<td>34.0</td>
<td>62.7</td>
<td>74.2</td>
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</tbody>
</table>

Source: Federal Reserve Board, Survey of Consumer Finances and authors' calculations
Education Wealth Differences in 2016

Real Median Household Net Worth, 2016

Source: Federal Reserve Board, Survey of Consumer Finances and authors’ calculations
Demographics Combined

Own Effort
• College income and wealth premiums – individual efforts to complete the degree and the benefits of the learning itself?

Inherited Traits
• Or – inherited demographic traits both in predisposing someone to complete a degree and in boosting later financial achievement?
The Head Start effect:
Families with “favorable” (white, middle-aged or older, college grad parents) inherited traits typically earn higher incomes and accumulate more wealth than families without them.

<table>
<thead>
<tr>
<th>Partition 3</th>
<th>Expected Income Based on Inherited Demographics</th>
<th>Own Education</th>
<th>Partition 4</th>
<th>Expected Income Based on Inherited Demographics and Own Education</th>
<th>Percentile Increase or Decrease from Addition of Own Education</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parents’ Education</td>
<td>$113,618 (30th percentile)</td>
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<td>$156,756 (67th percentile)</td>
<td>7</td>
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<tr>
<td></td>
<td>$65,659 (58th percentile)</td>
<td></td>
<td></td>
<td>$76,758 (65th percentile)</td>
<td>-15</td>
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<tr>
<td></td>
<td>$71,695 (62nd percentile)</td>
<td></td>
<td></td>
<td>$114,225 (80th percentile)</td>
<td>22</td>
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<tr>
<td></td>
<td>$41,518 (40th percentile)</td>
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<td></td>
<td>$52,657 (50th percentile)</td>
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<td>$102,681 (76th percentile)</td>
<td>14</td>
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<td>$43,417 (47th percentile)</td>
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<td>$70,479 (61st percentile)</td>
<td>21</td>
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<td></td>
<td></td>
<td>$35,240 (33rd percentile)</td>
<td>-7</td>
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</table>
Figure 6. Median Middle-Aged Family Net Worth by Inherited Characteristics and Own Education

Source: https://www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth
The Demographics of Wealth
2018 Series
How Education, Race and Birth Year Shape Financial Outcomes
Essay No. 2: A Lost Generation? Long-Lasting Wealth Impacts of the Great Recession on Young Families | May 2018

• The Great Recession of 2007-09 inflicted deep and widespread losses of wealth across the population.

• Younger families suffered the largest losses in percentage terms and have rebounded slowly.

• The Great Recession amplified a long-term trend of wealth redistribution from young to old.
The Old Are Getting Richer, The Young Are Getting Poorer

Change Between 1989 and 2016 in Predicted Wealth

Percentage Difference

Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.
Before the Crash (2007): Income and Wealth Were High

• Median family in each birth decade had greater income and wealth in 2007 than we would expect based on historical experience.

• Median wealth of 1940s, 1950s and 1960s families was far above normal.

• Median 1980s millennial family had high income (+17%) and wealth (+20%).

Source: Federal Reserve Board, Survey of Consumer Finances and authors’ calculations
As of 2016: Millennial Income and Wealth Below Norms

- Median millennial family income declined 20 percentage points relative to predicted levels, to -3% as of 2016.
- Median millennial family wealth plunged 54 %-age points relative to predicted levels, to -34% as of 2016.
- Wealth declined more than income for most cohorts.

Source: Federal Reserve Board, Survey of Consumer Finances and authors’ calculations
Is the 1980s a “Lost Generation”?  

- The high returns on housing and financial assets in recent years are unlikely to continue in future years.
- Thus, catching up to the wealth benchmarks set by earlier generations is possible – but no simple feat.
- Income and homeownership trends have been unexceptional for the 1980s cohort so far.
- The challenge faced by the typical 1980s family should not be underestimated.
Essay 3: The Bigger They Are, The Harder They Fall: The Decline of the White Working Class

1. Largest race/ethnicity by education subgroup

2. Outcomes have diverged from similar groups

3. Focus of intense scholarly and popular discourse
Race/Ethnicity Wealth Gap, Persistent Over Time

White/Black Wealth Gap

In 2016, the typical white family had 10 times the wealth of the typical black family.

Source: Federal Reserve Board, Survey of Consumer Finances and authors' calculations
Race/Ethnicity Wealth Gap, Persistent Over Time

White/Hispanic Wealth Gap

In 2016, the typical white family had 8 times the wealth of the typical Hispanic family.

Source: Federal Reserve Board, Survey of Consumer Finances and authors’ calculations
The Decline of the White Working Class

- White working class defined as white, non-Hispanic families lacking four-year college degree.

- Decline in total income and wealth share outpaced decline in population share.

- Aside from college-grad whites, most other groups experienced little change.

Source: Federal Reserve Board’s Survey of Consumer Finances
White Working Class Falling

Share of Families in Population

- White, No College: 42, 55%
- White, College: 20, 26%
- Black, No College: 11, 12%
- Hispanic, No College: 7, 9%
- Other, No College: 3, 3%
- Other, College: 2, 2%
- Black, College: 1, 4%
- Hispanic, College: 1, 2%

Source: Federal Reserve Board, Survey of Consumer Finances and authors’ calculations
Diverging Trends for Whites by Education

Share of Total Family Wealth in the U.S.

Source: Federal Reserve Board, Survey of Consumer Finances and authors’ calculations
White Working Class in the Eighth District

Source: 2013-2017 American Community Survey and authors’ calculations
Does Race or Education Explain the Decline?

- Our evidence suggests that neither race nor education in isolation explains the decline of the white working class.

- White college graduate families are doing very well, suggesting that disadvantages related to identifying as white are not a plausible explanation.

- As for education, Hispanic and black working classes, while still clearly disadvantaged in many respects, are making broad-based progress over time.
Conclusion
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.