Wealthbuilding Policies After the Recession

Household Wealth and the Economy

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Household Wealth and the Economy

- How much wealth did the average household lose? How much has been rebuilt so far?

- What assets contributed the most to wealth losses and subsequent gains?

- Did wealth losses and deleveraging slow the recovery?

- If households are still rebuilding wealth, why is the saving rate so low?
Average Real Household Wealth Hasn’t Returned to Peak of 2007

Index equals 100 at cyclical wealth peak

Peak in Q1.2007: $689,000 in today’s dollars
Trough in Q1.2009: $536,000 in today’s dollars
Latest in Q2.2013: $652,000 in today’s dollars

Sources:
Federal Reserve Board, Bureau of Economic Analysis, Census Bureau
Wealth Loss During 1968-75 Cycle Also Was Protracted

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Sources:
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Composition of Household Wealth
Losses and Recoveries

- Composition of gains and losses by asset type
  - Losses (from peak to trough for each; real dollars)
    - Publicly traded stocks: -$10.4 trillion
    - Household real estate: -$6.8 trillion
    - All other assets: -$14.4 trillion
  - Recoveries through Q2.2013
    - Stocks at 113% of pre-recession peak
    - Household real estate at 70% of peak
    - All other assets at 93% of peak
Case, Quigley, and Shiller (2013): Housing Wealth Effect Reduced Consumer Spending

Inflation-Adjusted Value of Household Real Estate
Billions of 2009 chained dollars

Real Personal Consumption Expenditures
Billions of 2009 chained dollars

Inflation-adjusted household real estate

Smaller gap created by loss of stock-market wealth

Gap created by loss of housing wealth: 3.5% of consumption

Sources: Federal Reserve Board, Bureau of Economic Analysis, Census Bureau

Quarterly through Q2.2013
Dynan and Edelberg (2013): Debt Overhang Slows Consumption of Deleveraging Households

Inflation-Adjusted Household Liabilities
Billions of 2009 chained dollars

Real Personal Consumption Expenditures
Billions of 2009 chained dollars

Sources:
Federal Reserve Board, Bureau of Economic Analysis, Census Bureau

Source: Haver Analytics
Quarterly through Q2.2013
Debt-to-Income Ratio Remains High

Household Liabilities as Percent of Disposable Personal Income

Sources:
Federal Reserve Board, Bureau of Economic Analysis

Source: Haver Analytics
Quarterly through Q2.2013
Much If Not All of Recession Output Loss Now Seen as Permanent

Actual Real GDP
Index level set to 100 in 1997 (when actual equaled potential)

CBO Estimate of Potential Real GDP
Index level set to 100 in 1997 (when actual equaled potential)

Index levels equal 100 in 1997

Sources: Bureau of Economic Analysis, Congressional Budget Office
Real House Prices May Not Return to 2006 Peak for Decades

- Inflation-Adjusted CoreLogic National Home-Price Index: Average level in 2000 equals 100
- Real Potential GDP Per Available Worker: Average level in 2000 equals 100

Sources: CoreLogic, Bureau of Economic Analysis, Congressional Budget Office

Projected ann. avg. growth rate, 2013-23: 1.7%

Potential real GDP per available worker
Inflation-adjusted home-price index
A Wealth Puzzle: If HHs are Rebuilding Wealth, Why Isn’t HH Saving Rate Higher?

Personal Saving Rate
Percent of disposable personal income

1968-75: Previous largest protracted loss of household wealth

Q2.2013: 4.5%

Quarterly through Q2.2013

Source: Bureau of Economic Analysis /Haver Analytics
Household Wealth and the Economy: Is Wealth Rebuilding Finished?

- Housing losses probably had the biggest effect on consumer spending and will be slow to recover.

- Household deleveraging continues.

- Slower projected economic growth suggests incomes and house prices unlikely to increase much.

- The typical family faces stagnant income and house prices, and still may have too much debt—it’s not easy to rebuild wealth!