

IN THE Balance

Perspectives on Household Balance Sheets



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Still Digging Out: Real Net Worth per Household Has Rebounded 63 Percent Since Hitting Bottom in Early 2009

By William R. Emmons and Bryan J. Noeth

Although aggregate current-dollar household net worth reached an all-time peak at the end of the first quarter of 2013,¹ the average level of household wealth adjusted both for inflation and population growth remained significantly below its highest point ever, which was reached at the end of the first quarter of 2007. Average inflation-adjusted net worth per household declined about 26.1 percent between the first quarter of 2007 and the first quarter of 2009, its lowest point during the recession; in the four years since, it has recovered about 62.8 percent of that decline. Thus, the recovery of household wealth remains incomplete.

Aggregate household net worth in current dollars. As reported by the Federal Reserve Board on June 6, the aggregate net worth of all U.S. households (total assets minus total liabilities) reached \$70.3 trillion at the end of the first quarter of 2013. This is an increase of about \$3 trillion from its year-end 2012 level, exceeding the previous all-time high by \$2.3 trillion, recorded at the end of the third quarter of 2007. Stock prices and house prices increased significantly during the first quarter of 2013, while household debt changed little. The latest figure (\$70.3 trillion) represents an increase of \$18.3 trillion from its lowest level reached during the recent recession, at the end of the first quarter of 2009. Expressed as a percent of the peak-to-trough decline in wealth, the

recovery so far represents 114.3 percent of the loss.

Inflation and population growth. These aggregate current-dollar figures do not reflect growth either of the price level or of the population. Increases in the price level—inflation—reduce the purchasing power of a dollar over time. Cumulative population growth implies that wealth is shared by more people. Adjusting aggregate net worth for inflation and population growth translates the figures into terms that are most relevant to, and representative of, an individual family.

Inflation: During the six years since inflation- and population-adjusted household net worth reached its peak (end of the first quarter of 2007), the Personal Consumption Expenditures (PCE) price

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The recently launched **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 and 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 center's web site at stlouisfed.org/hfs

Changes in Three Measures of Household Net Worth

	1) Nominal household net worth (current dollars)	2) Inflation-adjusted net worth (2005 chained dollars)	3) Inflation-adjusted net worth per household (2005 chained dollars)
Peak-to-trough change in dollars	-\$16,018 billion	-\$16,434 billion	-\$151,812
Trough-to-latest change in dollars	\$18,311 billion	\$12,126 billion	\$95,335
Percent of peak-to-trough loss recovered, trough-to-latest	114.3%	73.8%	62.8%
Latest as percent of peak level	103.4%	93.3%	90.3%

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

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index (a measure of inflation) increased by a cumulative total of 11.9 percent, or at an annualized rate of 1.9 percent.

Population: Over these same six years, the number of households reported by the Census Bureau increased by a total of 3.9 million (3.5 percent), or at an annualized rate of 0.6 percent.

Inflation-adjusted aggregate household net worth. Adjusting aggregate current-dollar net-worth figures for inflation only, aggregate household wealth at the end of the first quarter of 2013 had returned to 93.3 percent of its peak level, which was reached at the end of the second quarter of 2007. (See table.) As the chart shows, inflation-adjusted aggregate net worth first reached its 2013:Q1 level some 7¼ years ago, at the end of the fourth quarter of 2005.²

Inflation- and population-adjusted household net worth. Adjusting aggregate current-dollar net-worth figures both for inflation and population growth, average inflation-adjusted household net worth at the end of the first quarter of 2013 had returned to 90.3 percent of its peak level, which was reached at the end of the first quarter of 2007. Average inflation-adjusted net worth first exceeded this level 7¾ years ago, at the end of the second quarter of 2005.

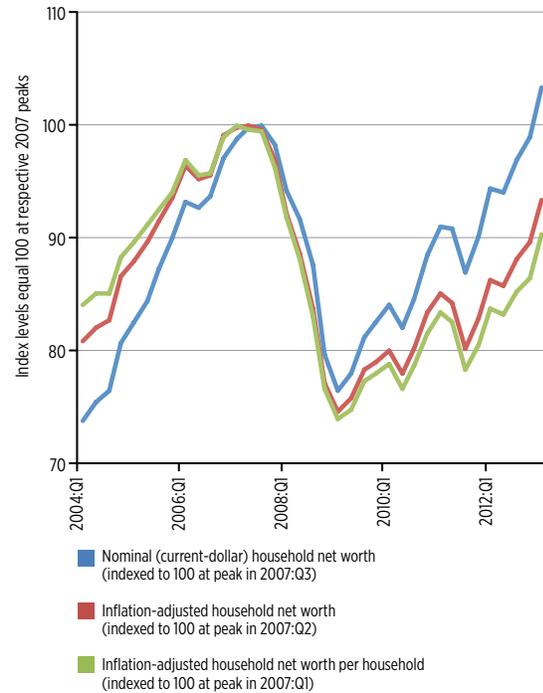
In inflation- and population-adjusted terms, average household net worth has recovered \$95,335 from its low point at the end of the first quarter of 2009. To return to its all-time high, average inflation-adjusted net worth would need to increase an additional \$56,476 plus an amount that reflected any cumulative inflation or population growth that occurred during that recovery period.

Expressed in terms of 2005 dollars, the level of average inflation-adjusted net worth was:

- \$582,299 at its all-time peak at the end of the first quarter of 2007,
- \$430,487 at its recent trough at the end of the first quarter of 2009 and
- \$525,822 at the end of the first quarter of 2013.³

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Measures of Household Net Worth



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

ENDNOTES

1. See the latest release of the Federal Reserve's Financial Accounts for the United States (formerly the Flow of Funds Accounts) at www.federalreserve.gov/releases/z1/Current/
2. Adjusted for population growth but not inflation, the average nominal net worth per household at the end of the first quarter of 2013 had returned to 100.3 percent of its peak level, attained at the end of the third quarter of 2007. These figures are not shown either in the table or the chart.
3. The latest available measures of median net worth—the wealth of the family exactly in the middle of a distribution—are from the 2010 Survey of Consumer Finances. For median measures of wealth for the population as a whole during the period 1989-2010, as well as for selected demographic subgroups, see William R. Emmons and Bryan J. Noeth, "Household Financial Stability: Who Suffered the Most From the Crisis?" Federal Reserve Bank of St. Louis' *The Regional Economist*, July 2012, <http://stlouisfed.org/publications/re/articles/?id=2254>