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IN THE Balance

Perspectives on Household Balance Sheets

Household Wealth is at a Post-WW II High: Should We Celebrate or Worry?

By William R. Emmons and Lowell R. Ricketts

Aggregate household wealth reached a new high of almost $93 trillion in 2016, measuring a post-World War II record 6.61 times annual disposable personal income (see Figure 1).[1] The previous record wealth-to-income year was 2006, at 6.59 times income. The global financial crisis and Great Recession followed soon thereafter, triggered in no small part by collapsing asset values that had inflated household balance sheets. Before that, household wealth had reached a new high in 1999, at 6.24 times income. The collapse of the dot-com bubble and a recession likewise followed in short order.

Does the recent peak in household wealth herald a renewed collapse in asset values and another recession? Only time will tell for sure, but the composition of today's record household wealth might give us some comfort. In particular, neither of the two large and volatile asset classes of equity shares and real estate, whose sharp declines triggered the last two recessions, is at an all-time high now compared to income or assets. Households' liabilities such as mortgage debts, which overwhelmed millions of U.S. families during the housing crash, also are substantially less worrisome than they were then.[2] Nevertheless, recent history shows that extremely high wealth levels like those of today are no guarantee of household financial stability or broader economic strength.

Post-WWII High in Household Wealth

The average ratio of net worth (or wealth, defined as assets minus liabilities) to disposable personal income for the entire period covered by the Federal Reserve's Financial Accounts of the United States (1952-2016) was 5.4. The combined wealth-to-income ratio of all U.S. households was 6.6 in 2016, and likely increased further in early 2017 as equity markets and broad house-price indexes moved notably higher.[3] Clearly, U.S. household wealth is very high now by virtually any measure.[4]

Equity shares represented about 24 percent of household assets in 2016, above the long-term (1952-2016) average of 16 percent but notably below the record share of 29 percent reached in 1999 (see Figure 2).[5] More recently, in 2014, equity shares constituted a slightly higher proportion of household assets than in 2016. Household holdings of equity shares were 1.84 times as large as disposable personal income in 2016, trailing only 1999's ratio of 2.08 times (Figure 1). Equity wealth today is far above its long-term average relative to both assets and income but, in both cases, is slightly less than two standard deviations above average—that is, not as extreme as net worth.

Real estate peaked both as a share of household income and assets in 2005, at 2.6 times income and 33 percent of total assets, respectively. Those levels were more than two standard deviations above their respective long-term means at that time (covering 1952-2005). In contrast, the ratio of real estate to income in 2016 was only slightly above the long-term average, while its share of assets was below the 1952-2016 average. Thus,

(continued on Page 2)

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(continued from Page 1)

housing does not loom particularly large on household balance sheets today.

Similarly, total liabilities in 2016 were much lower relative to both household income and assets than at these ratios' respective recent peaks. Households' liabilities in 2016 were slightly larger than disposable personal income, down from 2007, when liabilities were almost 1.4 times as large as personal income. Liabilities were equivalent to 14 percent of total assets in 2016, down from a high of over 20 percent in 2008.

Finally, all other assets—a category that includes a broad variety of assets other than equity shares and real estate—were near an all-time high in 2016 as a multiple of income but not as a share of total assets. Assets included here generally are less volatile than equity shares or housing.[6]

Spikes before Declines in the Recent Past

The previous two sharpest post-World War II increases in the ratio of household wealth to income preceded major asset-price declines and recessions. The third recent sharp increase in household wealth to historically high levels is underway now. Will this time be different?

As described above, the composition of the aggregate household portfolio today arguably is less worrying than at the 1999 or 2006 peaks. Neither equity shares nor real estate are at unprecedented levels compared with household income or assets. Household liabilities, which created huge problems after 2006, are much more moderate today. These factors may calm concerns that a collapse of either market is imminent. If one market crashed, household wealth might be buffered by resilience in the other, as occurred after 1999. However, diversification failed after 2006, as both equity and real estate markets fell sharply.

As always, the significance of a milestone such as a new post-WWII peak in household wealth will be clear only in retrospect. Supporting the argument against an interpretation of the 2016 peak as an ominous signal of imminent collapse is today's more benign composition of the aggregate household balance sheet. Also weighing against that reading: the possibility that factors unique to 1999 and 2006 other than the wealth peaks were important causes of those downturns. On the other hand, the only experiences we've had with wealth-to-income ratios far above previous historic norms both ended badly. Caution certainly is warranted. ■

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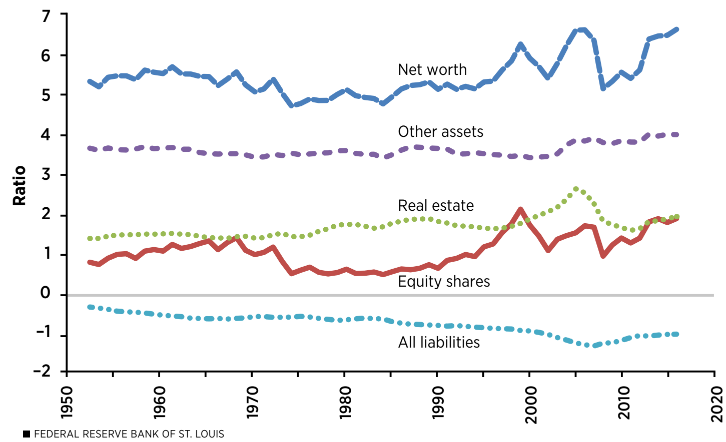
FIGURE 1

Ratios to Disposable Personal Income: Households and Nonprofits



SOURCE: Federal Reserve Board Financial Accounts of the United States.

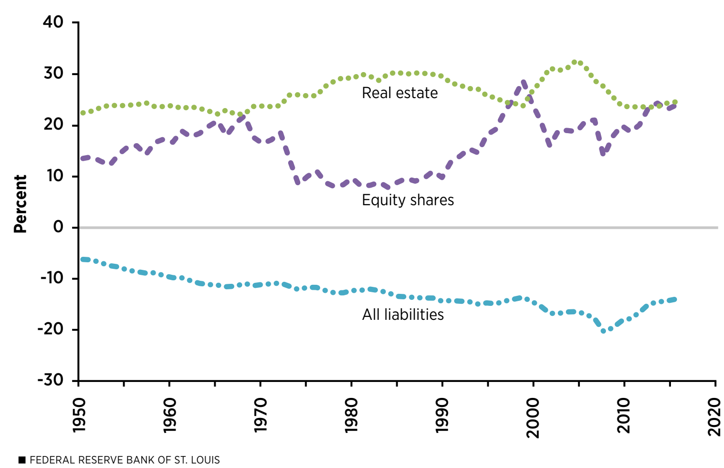
NOTES: Data, which are for net worth and its components, are annual. "Net worth" is assets minus liabilities, and includes figures for nonprofits as well as households. Liabilities are shown as a negative ratio to disposable personal income. The "other assets" category consists of the sum of nonfinancial and financial assets not shown separately. Nonfinancial assets include consumer durable goods and household real estate as well as nonprofit organizations' holdings of real estate, equipment and intellectual property products.

Financial assets include:
- deposits
- money market fund shares
- debt securities
- loans
- trade receivables
- life insurance reserves
- pension entitlements
- equity in noncorporate businesses.

Liabilities include:
- home mortgages
- consumer credit (including student debt)
- other loans and advances
- debt securities (municipal securities)
- commercial mortgages
- trade payables
- deferred and unpaid life insurance premiums.

FIGURE 2

Percentages of Total Assets: Households and Nonprofits



SOURCE: Federal Reserve Board Financial Accounts of the United States.

NOTES: Data are annual. All asset and liability categories are shown as a percentage of total assets. Liabilities are shown as a negative ratio to total assets.

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Assets, Liabilities and Net Worth of Households and Nonprofits in 2016:Q4

		(1) As-reported amount (trillions of $)	(2) Amounts per person 16 or older (thousands of $)	(3) Per-capita amount relative to record high (percent)	(4) Period of record high
Total assets		108	424	100	2016:Q4
	Real estate	27	104	81	2006:Q1
	Other tangible assets*	6	23	98	2009:Q1
	Equity shares at market value	26	101	100	2016:Q4
	Financial assets other than equity shares**	50	195	100	2016:Q4
Total liabilities		15	59	84	2008:Q1
	Home mortgages	10	38	74	2007:Q3
	Consumer credit***	4	15	100	2016:Q4
	All other liabilities****	2	6	98	2016:Q2
Net worth		93	365	100	2016:Q4

SOURCES: Financial Accounts of the United States; Bureau of Labor Statistics; Bureau of Economic Analysis.

NOTES: Data are adjusted for population growth (Columns 2 and 3) and inflation (Column 3). Figures are rounded. See Endnote 1 for information about what is included in the households and nonprofit organizations sector of the Financial Accounts of the United States.

* Other tangible assets include consumer durable goods and nonprofits' equipment and intellectual property products.

** Financial assets other than equity shares include bank deposits, currency, money market fund shares, debt securities, loans, mutual fund shares, trade receivables, life insurance reserves, pension fund reserves, equity in noncorporate businesses and miscellaneous assets.

*** Consumer credit includes most short- and intermediate-term credit extended to individuals, excluding loans secured by real estate. This includes revolving credit as well as nonrevolving loans for automobiles, mobile homes, education, boats, trailers or vacations.

**** All other liabilities include deferred and unpaid life insurance premiums, depository institution loans not elsewhere classified and other loans and advances, as well as nonprofits' municipal debt securities, commercial mortgages and trade payables.

ENDNOTES

1 The households and nonprofit organizations sector within the Federal Reserve Board Financial Accounts of the United States publication consists of individual households (including farm households) and nonprofit organizations such as charitable organizations, private foundations, schools, churches, labor unions, and hospitals. The sector is often referred to as the "household" sector, but nonprofit organizations are included because data for them are not available separately except for the years 1987 through 2000. Also, because of the residual nature of the household sector, assets of entities for which there is no data source, such as domestic hedge funds, private equity funds and personal trusts, are included in this sector.

2 See William R. Emmons, "The End is in Sight for the U.S. Foreclosure Crisis," Housing Market Perspectives, Issue 3, December 2016.

3 The 2016 figure is more than two standard deviations above the annual mean for the entire 1952-2016 sample period.

4 A related measure, the ratio of net national wealth to national income, may have been higher in the first half of the 20th century and earlier. This ratio has been estimated for several countries as far back as the 18th century; see Thomas Piketty, "Capital in the Twenty-First Century," Cambridge, Mass., and London, The Belknap Press of Harvard University Press, 2014; and William R. Emmons and Lowell R. Ricketts, "The Importance of Wealth is Growing," In the Balance, Issue 13, December 2015.

5 Equity shares include publicly traded corporate equity securities and closely held equity shares in both C and S corporations. These shares may be held directly by households or indirectly via life insurance companies, private pension funds, federal government retirement funds, state and local government retirement funds or in mutual funds.

6 See the notes to Figure 1 for a summary of the asset categories included here.