

# Deteriorating Household Finances Will Not Support Strong Spending

Wendy Edelberg and Sofoklis Goulas



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## MISSION STATEMENT

The Hamilton Project seeks to advance America’s promise of opportunity, prosperity, and growth.

We believe that today’s increasingly competitive global economy demands public policy ideas commensurate with the challenges of the 21st Century. The Project’s economic strategy reflects a judgment that long-term prosperity is best achieved by fostering economic growth and broad participation in that growth, by enhancing individual economic security, and by embracing a role for effective government in making needed public investments.

Our strategy calls for combining public investment, a secure social safety net, and fiscal discipline. In that framework, the Project puts forward innovative proposals from leading economic thinkers—based on credible evidence and experience, not ideology or doctrine—to introduce new and effective policy options into the national debate.

The Project is named after Alexander Hamilton, the nation’s first Treasury Secretary, who laid the foundation for the modern American economy. Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that “prudent aids and encouragements on the part of government” are necessary to enhance and guide market forces. The guiding principles of the Project remain consistent with these views.



# Deteriorating Household Finances Will Not Support Strong Spending

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## Introduction

In recent years, household finances have fluctuated amid large swings in federal income support and the stock market, a surge in inflation, and strong consumer spending. As documented by The Hamilton Project (Barnes et al. 2022), household balance sheets at the end of 2021 were stronger than would have been expected before the pandemic. However, this paper explains how household balance sheets have deteriorated in some respects since then. Moreover, an examination of household finances for different demographics (age, race and ethnicity, and income) shows that the deterioration in finances has been faster for nonwhite and lower income households. The current state of household finances does not support continued strong consumer spending, and leaves households at a crossroads if recent trends in finances continue: they can either moderate their spending or become more indebted.

Much has been made of the developments in household finances since 2020 relative to pre-pandemic trends, and indeed we explore some of that comparison here (Abdelrahman and Oliveira 2023; Aladangady et al. 2022; Barnes et al. 2022; Tekarli 2023). In earlier work we found that real income through summer 2021 was well above its pre-pandemic trend (Barnes et al. 2022); here we show that real income as of 2023 is well below its pre-pandemic trend.

Household wealth grew substantially in 2020 and 2021 as a result of reduced spending during the three-year COVID-19 pandemic (i.e., between the first quarter of 2020 and the first quarter of 2023), substantial income support from government transfers, and increases in asset values. But the extraordinary wealth that households accumulated in 2020 and 2021 had dissipated by the first quarter of 2023, largely as a result of stock market losses and low saving rates coupled with weak income growth. In addition, liquid wealth, meaning wealth held in checking and savings accounts, has fallen substantially since 2021. Nonetheless, relative to 2019, households have more wealth, and the burden of household debt is within recent historical experience in the aggregate.

Even so, the trends of strong spending that we see bear watching. If trends in real income and wealth remain roughly unchanged, households would have to moderate the pace of consumer spending to maintain healthy balance sheets. But if households were to sustain their current spending trends and increasingly finance spending with borrowing, financial health could deteriorate in a worrying way.

In addition to providing an update of the current state of household finances, this piece also compares these recent developments to what happened in the business cycles that started in 1960, 1969, 1973, 1981, 1990, 2001, and 2007. Comparing to prior business cycles highlights the differences between

typical dynamics and the possibly one-time effects of COVID and the attendant fiscal policy. Indeed, separating these effects out has been core to the work of The Hamilton Project for the past several years (take for example The Hamilton Project's and Hutchins Center's volume "Recession Remedies: Lessons Learned from the US Economic Policy Response to COVID-19). We show that, at this point in the cycle, the increases in household wealth and, in particular, liquid wealth are within the range of historical experience and thus should not be providing an unusually large boost to consumer spending. That fact, coupled with unusually weak growth in real income, suggests that spending will have to moderate going forward.

## Explaining the Increase in Aggregate Wealth and Comparing the Current Cycle to Previous Cycles

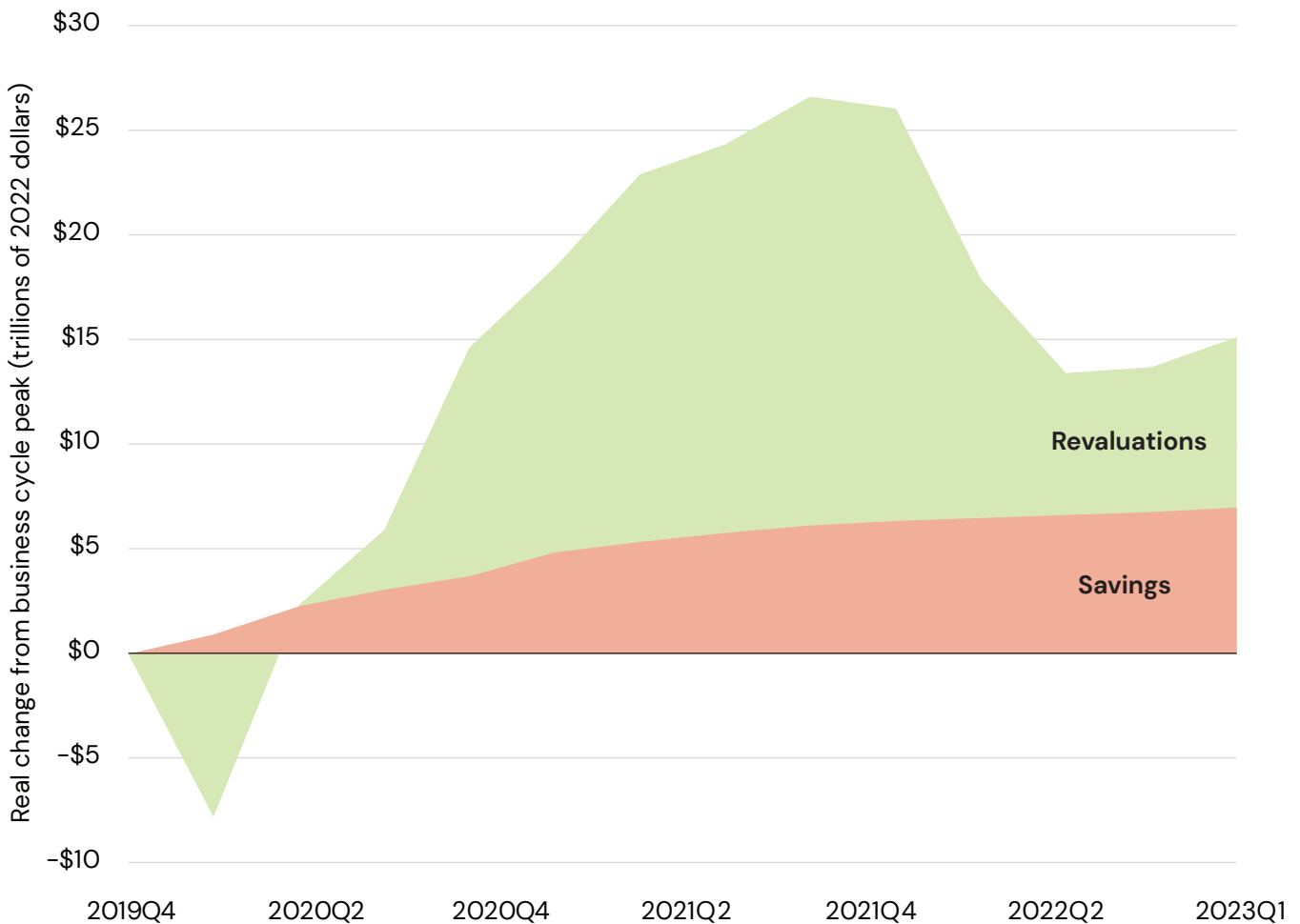
This section describes the overall trajectory of household wealth in the business cycle that began in early 2020, which we refer to as the 2020 cycle. Household wealth peaked at the end of 2019, and then, after an initial decline in the spring of 2020, increased due to improvements in the value of household assets and accumulated savings out of income. We explore how asset revaluations and savings contributed to wealth gains and how those gains compare to gains from past cycles. We discuss how changes in both consumption and income have led to changes in saving patterns. Finally, we investigate the recent trend in households' liquid financial assets and how it compares to that of past business cycles.

## Explaining the Increase in Aggregate Wealth

Figure 1 shows households' current-business cycle cumulative real wealth gains of roughly \$15 trillion (in real 2022 dollars) through the first quarter of 2023. That figure is down substantially from a peak gain of almost \$27 trillion at the end of 2021, with the swing reflecting in large part what turned out to be a temporary run-up in stock market prices. The gains in wealth from 2019 to early 2023 reflect, in roughly equal proportion, accumulated savings out of income and increases in stock market and real estate prices.

Another way to assess the trends in household wealth is to look at different asset categories. As shown in figure 2, the gains in wealth through 2021 were concentrated in equity wealth and real estate wealth as stock prices and housing prices rose sharply through the end of 2021. By the end of 2021, stock and real estate prices in real terms (so, after adjusting for inflation) had risen by more than 40 and 25 percent, respectively, relative to 2019 (Federal Housing Finance

**FIGURE 1**  
**Household Wealth Gains, 2019Q4–2023Q1**



Source: Board of Governors of the Federal Reserve System 2023a; authors' calculations.

Note: Figure 1 presents the cumulative net worth, or household wealth, contribution of savings and asset revaluations from the financial accounts of the United States for households and nonprofit institutions serving households. All values are in real 2022 dollars, deflated using the average personal consumption expenditures (PCE) price index.



Agency 2023, Standard & Poors Dow Jones Indices LLC 2023). Stock prices plummeted after that, falling 20 percent after adjusting for inflation from the end of 2021 through the first quarter of 2023. Real estate prices rose 2 percent after adjusting for inflation.

### Comparing the Current Cycle to Previous Cycles

Figure 3 shows to what degree the current cycle has been similar to previous cycles since 1960. Panel A shows gains in real household wealth for the 13 quarters since the fourth quarter of 2019 (green line), and the percent changes for 13 quarters after the previous business cycle peaks (dark purple to light pink lines). Panel B shows the contribution to the percent changes from asset revaluations, and Panel C shows

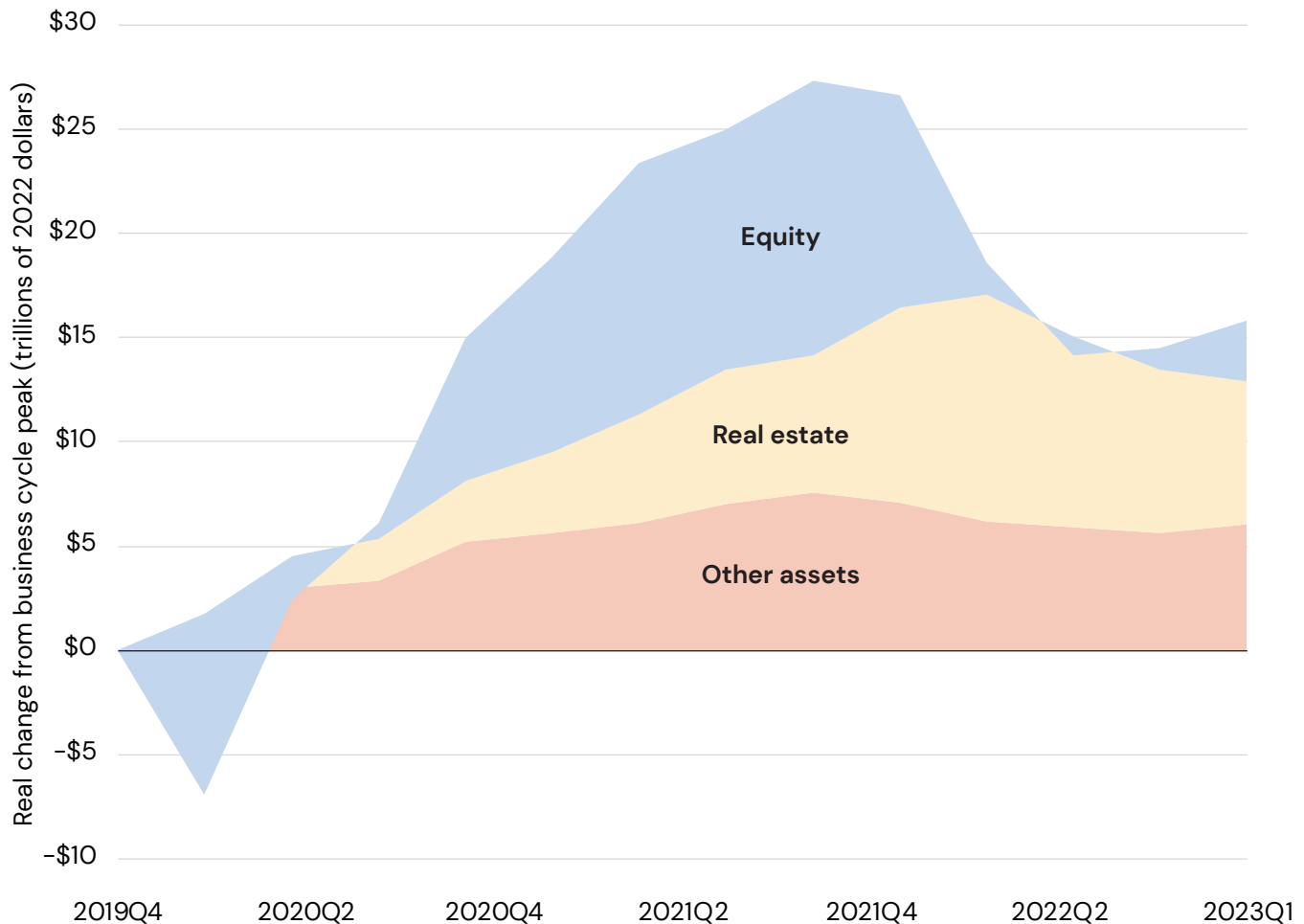
the contribution from accumulated savings gains during the same cycles.

The contribution of asset revaluations to wealth gains in 2021 since the previous business cycle peak was an extraordinary 16 percent, unlike any year following a peak in the business cycles we consider. Overall, asset revaluations have continued to contribute positively to wealth through early 2023.

In the first four quarters of the 2020 business cycle, household savings out of income were substantial, and the contribution of savings to wealth reached the upper boundary of the ranges in past cycles. After 2021, the contribution of savings to wealth gains decreased. This pattern of saving is unusual relative to previous cycles. The net effect of a rapid accumulation of savings in the first year and then roughly stable levels of saving since then is that, on the whole, savings out of household income have contributed to a

FIGURE 2

## Household Wealth Trends by Asset Category, 2019Q4–2023Q1



Source: Board of Governors of the Federal Reserve System 2023a; National Bureau of Economic Research 2023; authors' calculations.



Note: Figure 2 presents the cumulative wealth contribution of different asset categories to wealth gains from assets during the current 2020 business cycle. Other assets include the remainder of financial and non-financial assets after equity and real estate have been subtracted. All values are in real 2022 dollars, deflated using the average PCE price index.



5 percent gain in household wealth since the end of 2019. This contribution is lower than found in most previous business cycles we consider.

Given the extraordinary movements in real disposable personal income (DPI) and the saving rate in 2020 and 2021, it might seem puzzling that the contribution of saving to household wealth in 2020 and 2021 was about in line with that in the 1969 and 1973 business cycles. The explanation is that those previous cycles were also characterized by high saving rates and strong real income gains, and, also, that wealth to income ratios have increased over time.

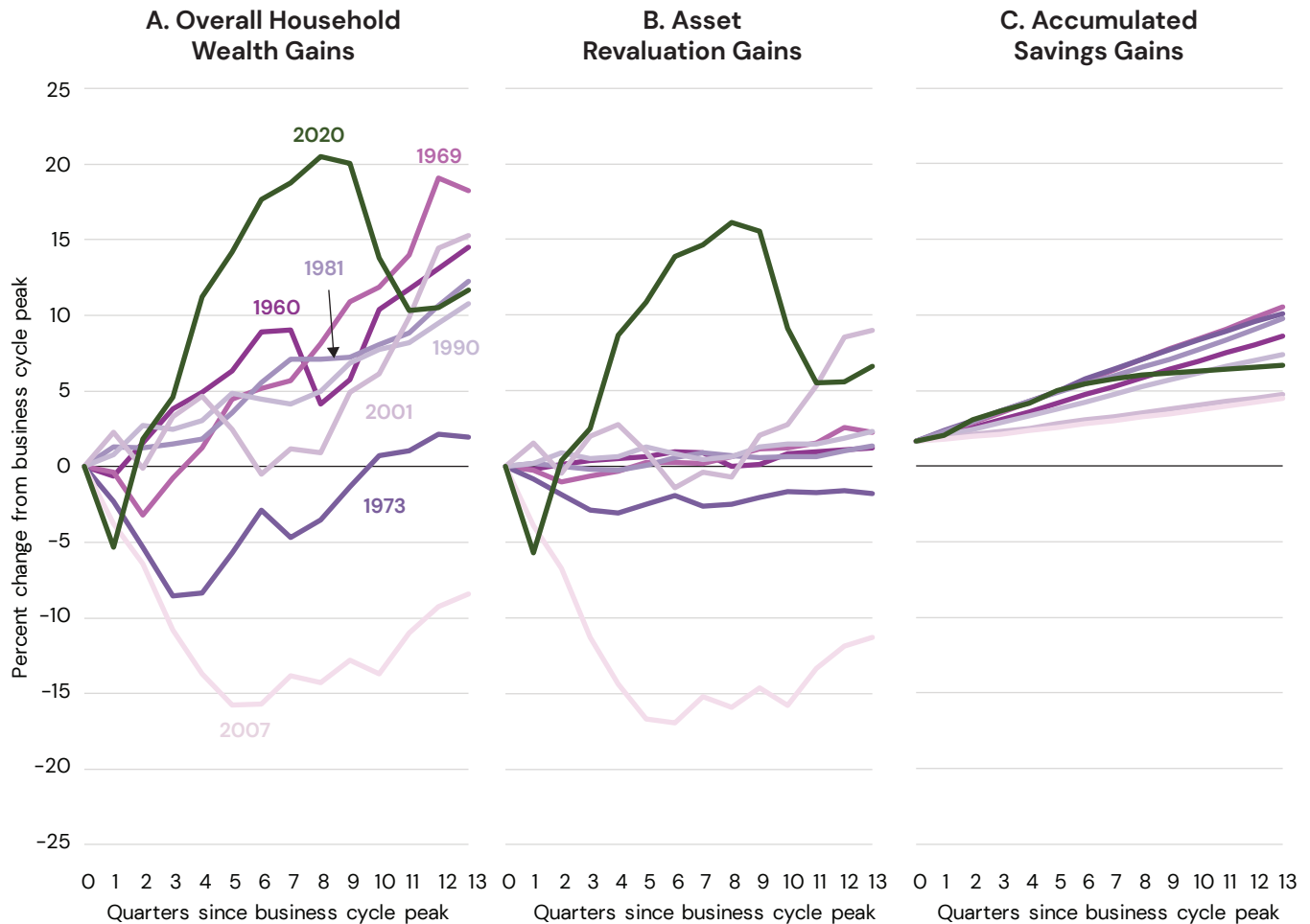
- The saving rate was above 10 percent from 1969 to the early 1970s. It did not spike as in 2020 and 2021, but, unlike in the current cycle, remained relatively high in the second and third years after the business cycle peaks.

- Real income growth was similarly robust, averaging 3.6 percent from 1969 to 1975 and even jumping to 6.2 percent in 1973. Compare that to the current cycle: real income growth was 6.2 percent in 2020 alone, while it averaged 4 percent between 2020 and 2021, when fiscal support was at its strongest.
- Finally, aggregate wealth was a much smaller fraction of income in those earlier cycles than it is now—wealth was roughly 5 times income in the early 1970s and 7 times income at the end of 2019. This means that a given saving rate had a larger effect on wealth in 1969 and 1973 than now.

Using a different point of comparison, the increase in accumulated savings out of income in 2020 and 2021 was well outside historical experience: the increase in savings relative to aggregate income five quarters after

FIGURE 3

## Household Wealth Gains and Contributions from Revaluations and Savings, by Business Cycle



Source: Board of Governors of the Federal Reserve System 2023a; National Bureau of Economic Research 2023; authors' calculations.

Note: Figure 3 presents the cumulative net worth, or household wealth, contribution of savings and asset revaluations during different business cycles from the financial accounts of the United States for households and nonprofit institutions serving households. Percent change is calculated using values in real 2022 dollars, deflated using the average PCE price index. Business cycle peaks are determined by the National Bureau of Economic Research Business Cycle Dating Committee.



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the recession started was more than 50 percent higher in the current cycle than it was in the 1969 and 1973 cycles. What squares these facts is that aggregate wealth was roughly seven times aggregate income at the end of 2019 and was a far smaller five times aggregate income in the earlier cycles. The increase in savings relative to wealth was boosted in the cycles 1969 and 1973 partly because wealth in those earlier cycles was a smaller component of households' financial resources.

Fast forwarding to 2023, the increase in savings has slowed dramatically. As a result, regardless of whether cumulative savings during the current cycle is compared to income or wealth, savings today are well within historical experience.

The cumulative change in savings is evident in the personal saving rate plotted in figure 4a and in household income and consumption relative to trends in figure 4b. The rate at which households saved out of income saw large fluctuations during the COVID-19 pandemic. In 2019 the saving rate hovered around 9 percent. After the saving rate spiked to unprecedented levels in 2020 and 2021, it fell dramatically in 2022. In June 2022 households saved less than 3 percent of DPI, which was close to a historically low level. As of May 2023, the saving rate remains low at 4.6 percent.

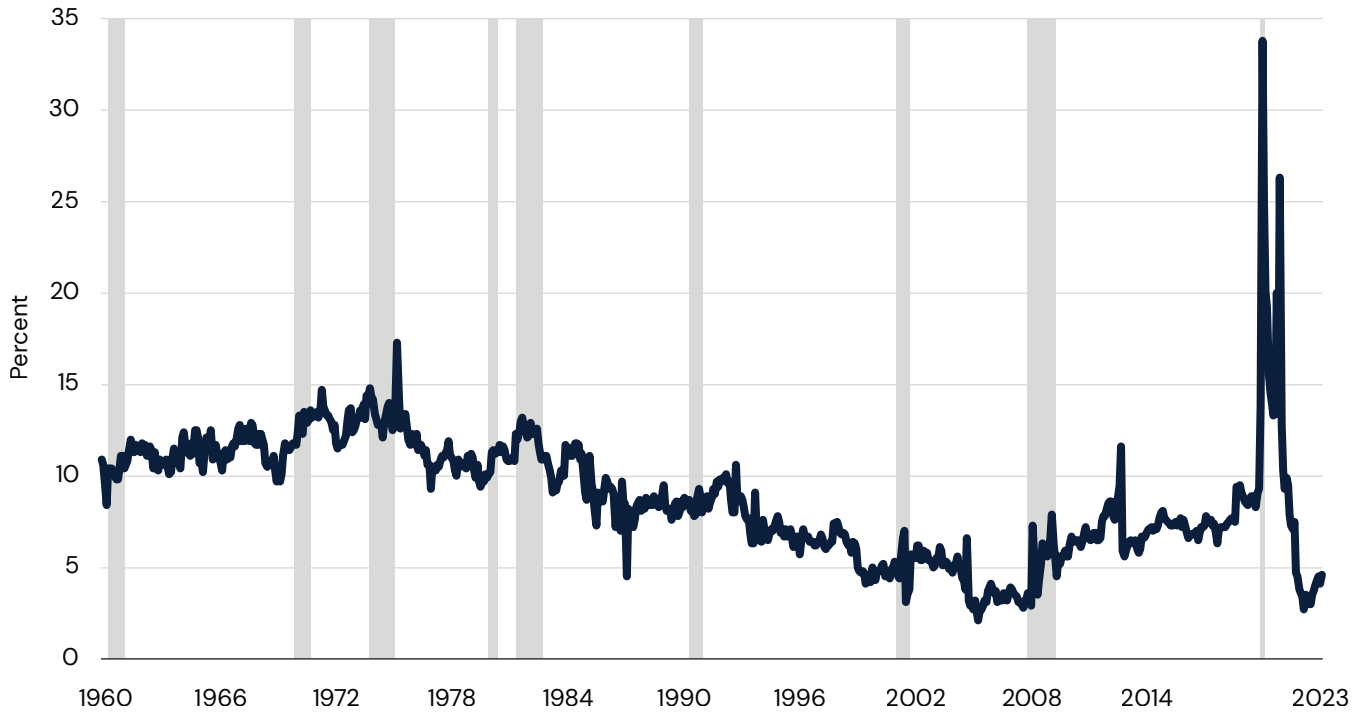
Figure 4b helps to unpack the degree to which income or consumption swings contributed to savings. This figure plots real DPI and real consumer outlays. We also show the corresponding trends estimated from



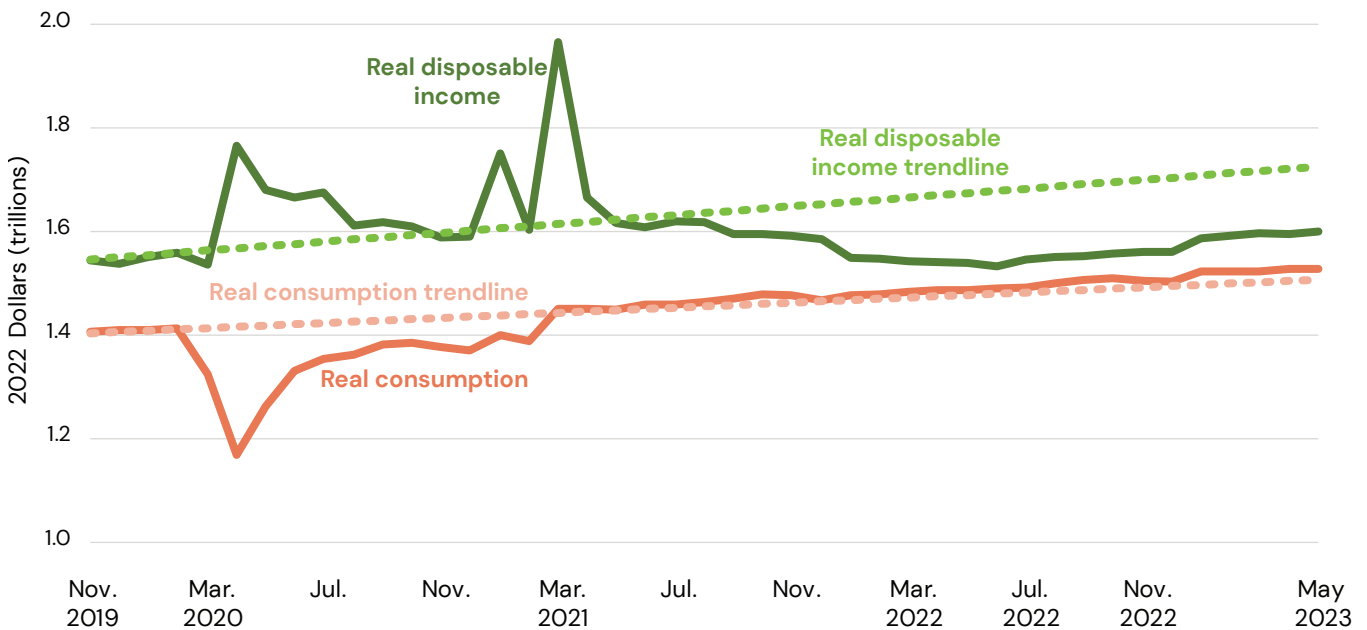
FIGURE 4

# Personal Saving Rate and Household Income and Consumption

## A. Personal Saving Rate, 1960–2023



## B. Household Income and Consumption, November 2019–May 2023



Source: Bureau of Economic Analysis 2023a; National Bureau of Economic Research 2023.

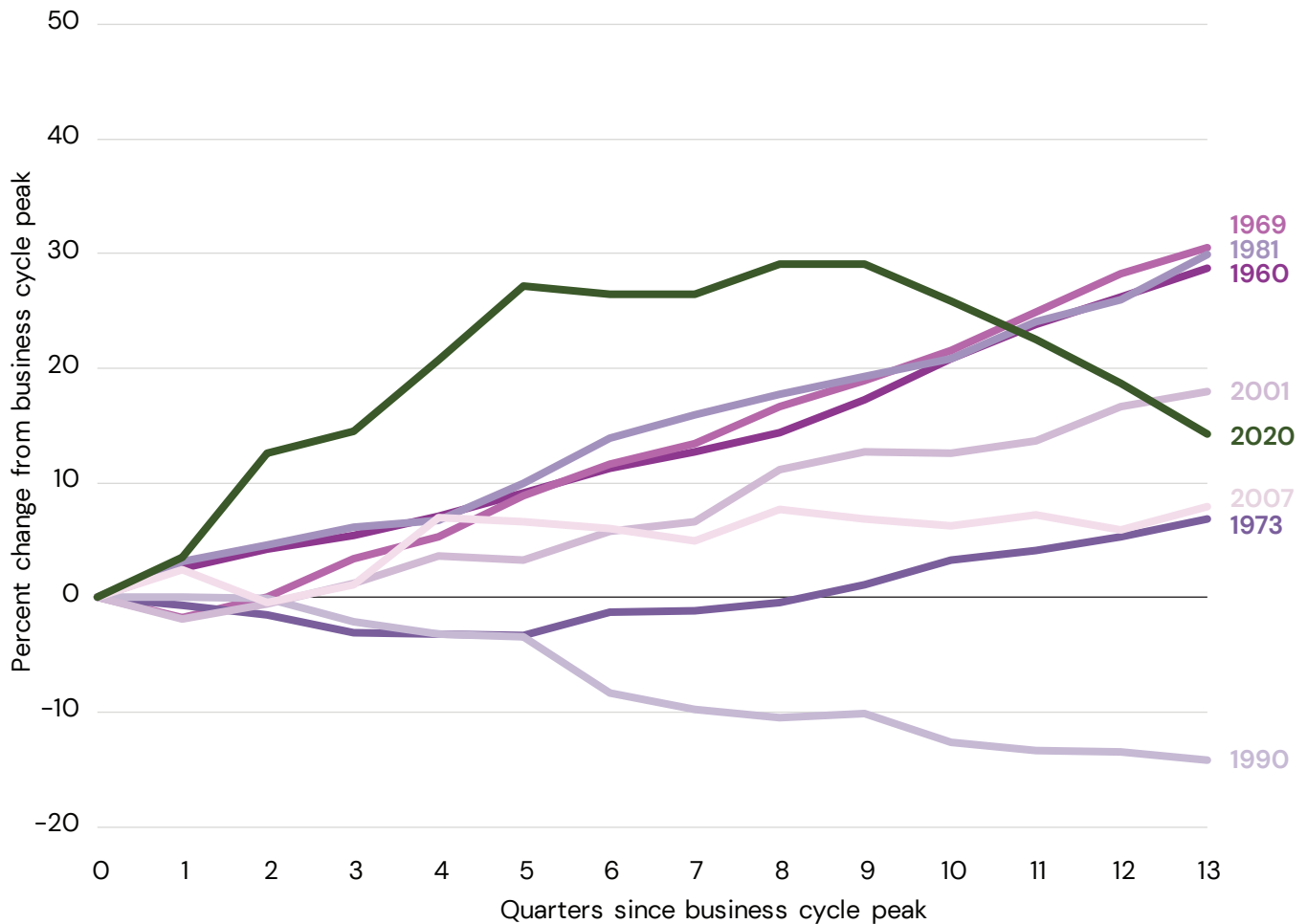
Note: Personal savings as a percentage of DPI, frequently referred to as the personal saving rate, is calculated as the ratio of personal savings to DPI. DPI and personal outlays are presented in 2022 dollars, deflated using the annual PCE price index; pre-pandemic trends of real income and real spending were estimated over the 2018–19 period. Recession dates are determined by the National Bureau of Economic Research Business Cycle Dating Committee.



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FIGURE 5

## Household Liquid Real Assets, Including Checking and Time Deposits, by Business Cycle



Source: Board of Governors of the Federal Reserve System 2023a; National Bureau of Economic Research 2023; authors' calculations.

Note: Figure 5 plots the cumulative growth during different business cycles of households' liquid assets as the sum of time and savings deposits, checkable deposits, and currency. Percent change is calculated using values in real 2022 dollars, deflated using the average PCE price index. Business cycle peaks are determined by the National Bureau of Economic Research Business Cycle Dating Committee.



income and consumption in 2018 and 2019. Early in the pandemic, real DPI jumped with substantial increases in government transfers while outlays fell as households reduced spending in response to the pandemic (Barnes et al. 2022). The result was a massive increase in the saving rate relative to pre-pandemic levels.

Since mid-2021 real consumer outlays have returned to trend, but real DPI has fallen well below trend because nominal income gains have not kept pace with inflation. The result has been a much lower saving rate. Moreover, the combination of a low saving rate and the relatively modest level of real income suggests that saving since mid-2021 has contributed little to real household wealth.

Gains in liquid real wealth were remarkable early in the current business cycle (figure 5). Holdings of currency, checking accounts, and time deposits jumped by more than 25 percent—as shown by the dark green line—far more than in the first 2 years of any other business cycle since 1960. However, with the increase in inflation having eaten away at the real value of those previous gains and a sharp reduction in the saving rate dampening how much new savings adds to those holdings, liquid real wealth has since returned to levels more consistent with some previous business cycles and considerably lower than in others. By the end of the first quarter of 2023, liquid real wealth was 14 percent higher than in the fourth quarter of 2019. That increase in liquid wealth through the 13 quarters after

the current business cycle began is roughly half the increase found in the business cycles of 1960, 1969, and 1981. Liquid wealth is a ready source of support for consumer spending; as a result, the initial surge and then relatively small increase through quarter 13 in the current cycle suggests that while liquid wealth was initially consistent with unusually strong consumer spending, that is no longer the case.

## Exploring the Distribution of Gains in Wealth by Race and Ethnicity, Age, and Income

Of course, not all households experienced the same gains in wealth from accumulated savings out of income or from the net increase in asset prices since the end of 2019 (Barnes et al. 2022). Nonetheless, analysis from the JPMorgan Chase Institute suggests that the initial gains and then more recent decreases in liquid assets has been broad-based across the income distribution (Wheat and Deadman 2023): The rise from mid-2019 to mid-2021 in inflation-adjusted balances in checking and savings accounts was about 60 percent for account holders in the bottom two income quartiles and 40 percent and 50 percent for account holders in the highest and second-highest income quartiles, respectively. As of the first quarter of 2023, accounts were only about 10 percent larger than they were in 2019 for all four quartiles because of declines in liquid assets since mid-2021.

The same analysis (Wheat and Deadman 2023) also finds that the extra savings accumulated during the early stages of the pandemic was depleted faster for Black and Hispanic account holders than it was depleted for Asian and white account holders. The net effect of initial gains and more recent decreases in liquid assets is that, by the first quarter of 2023, totals in checking and savings accounts across racial and ethnic groups were between 8 percent and 13 percent above levels in 2019.

Figures 6, 7, and 8 show average household net worth gains for different demographics (age, race and ethnicity, and income) given the distribution of asset holdings in 2019 and applying asset revaluations since then. While it seems a reasonable assumption that the distribution of assets such as real estate and corporate equities remained roughly unchanged from 2019 through early 2023, it seems much less reasonable in light of the extraordinary fiscal support to households that the distribution of checking and savings accounts remained roughly unchanged over those years. As a result, the distributional analysis in figures 6, 7 and 8 excludes deposits (for more detail on why deposits are excluded from this analysis, see Barnes et al. 2022).

Figures 6a and 6b show average net worth gains for households of different ages by level and percentage,

respectively. Real wealth gains were largest for households headed by people over the age of 40; that group saw an average increase in wealth of at least \$100,000. However, the gains for younger households were larger relative to their starting level. As a result, younger households' percentage change in wealth during the 2020 cycle is higher than that of older households. Households headed by people who are at least 55 years old experienced the smallest wealth gains in percentage terms.

Figures 7a and 7b show the distribution of wealth dollar and percentage increases by race and ethnicity in terms of level and percent change, respectively. The cumulative dollar increase in real net worth (less deposits) on average for households headed by Black and Hispanic adults was smaller than for other households. Nonetheless, the gains in wealth for households headed by Black and Hispanic adults were relatively large compared to starting values. In particular, the cumulative percentage increase in real net worth among Hispanic households was larger than among any other racial or ethnic group.

Figures 8a and 8b plot the cumulative gains in the current business cycle of the average wealth in each income quintile in terms of level and percent change, respectively. As of the first quarter of 2023, households in the top income quintile experienced the largest wealth gains compared with households in other income quintiles: The average household in the top income quintile had gained nearly \$300,000 in wealth cumulatively since the end of 2019 whereas households in the bottom income quintile gained a little over \$8,500. Given the significant inequality in wealth that households across the income distribution had in 2019, the changes of wealth in percentage terms across income quintiles were much more comparable than the corresponding changes in levels.

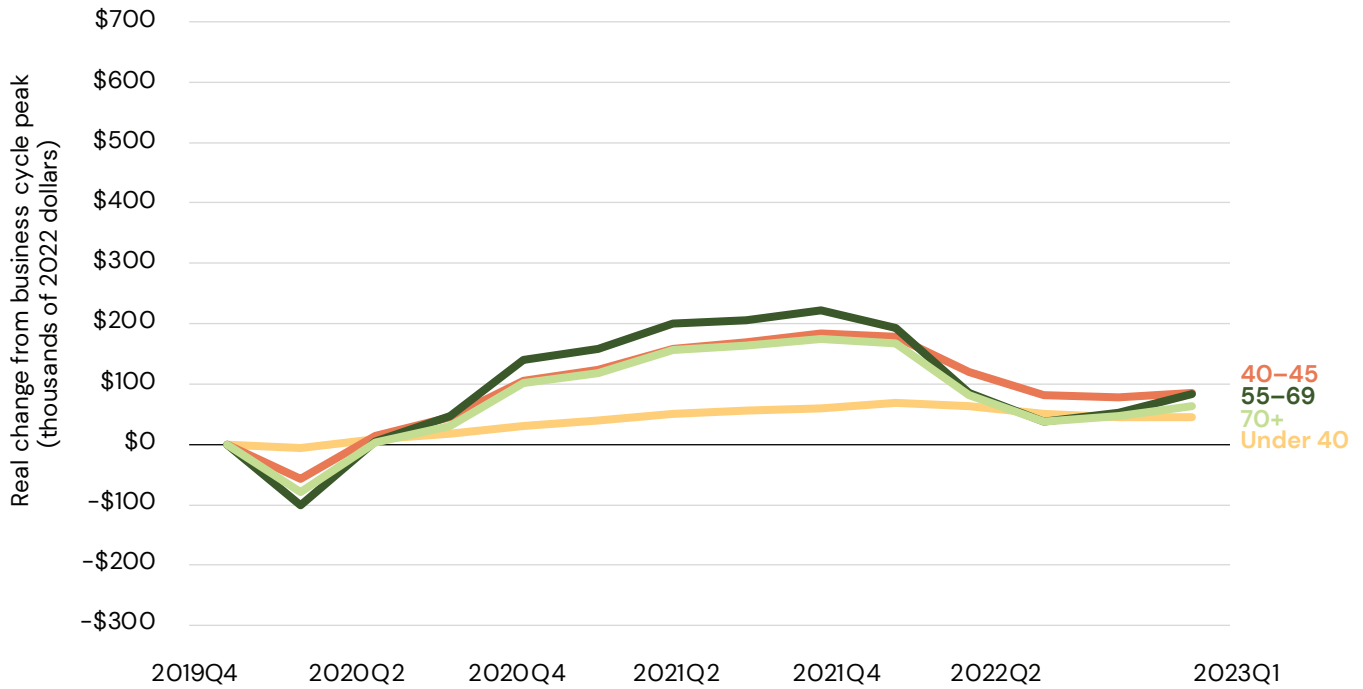
## Household Spending and Signs of Distress in Household Finances

As shown earlier, an initial drop in consumer spending contributed substantially to hefty savings accumulation, but subsequent strength in spending has meant saving out of income has largely stagnated. Several factors suggest spending may moderate going forward. First, spending on goods has been unusually strong since early in the pandemic, and, if historical relationships reassert themselves and households decide they are satiated in some regards, spending on consumer goods will fall. Second, an increase in inflation and near-term inflation expectations may have led households to accelerate some spending in advance of expected price increases; any spending impetus from that factor should wane as inflation falls. Third, the historical relationship between consumer

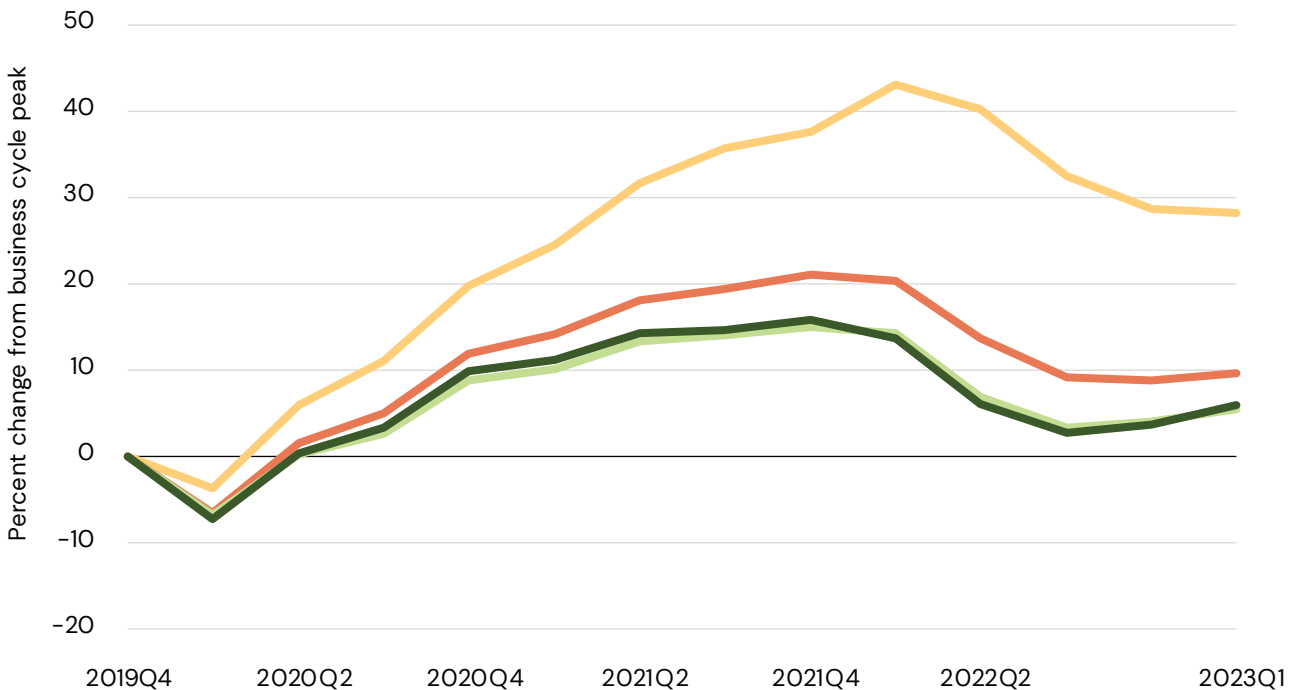
FIGURE 6

# Average Household Wealth Gains by Age Group, 2019Q4–2023Q1

## A. Level Change in Household Wealth, by Age Group



## B. Percent Change in Household Wealth, by Age Group



Source: Board of Governors of the Federal Reserve System 2023b; authors' calculations.

Note: We plot cumulative real change in net worth from business cycle peak divided by the number of households. Net worth excludes deposits. Deposits include checkable deposits, currency, time deposits, and short-term investments. All values are in real 2022 dollars, deflated using the average PCE price index. Business cycle peaks are determined by the National Bureau of Economic Research Business Cycle Dating Committee.



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FIGURE 7

## Average Household Wealth Gains by Race, 2019Q4–2023Q1



Source: Board of Governors of the Federal Reserve System 2023b; authors' calculations.

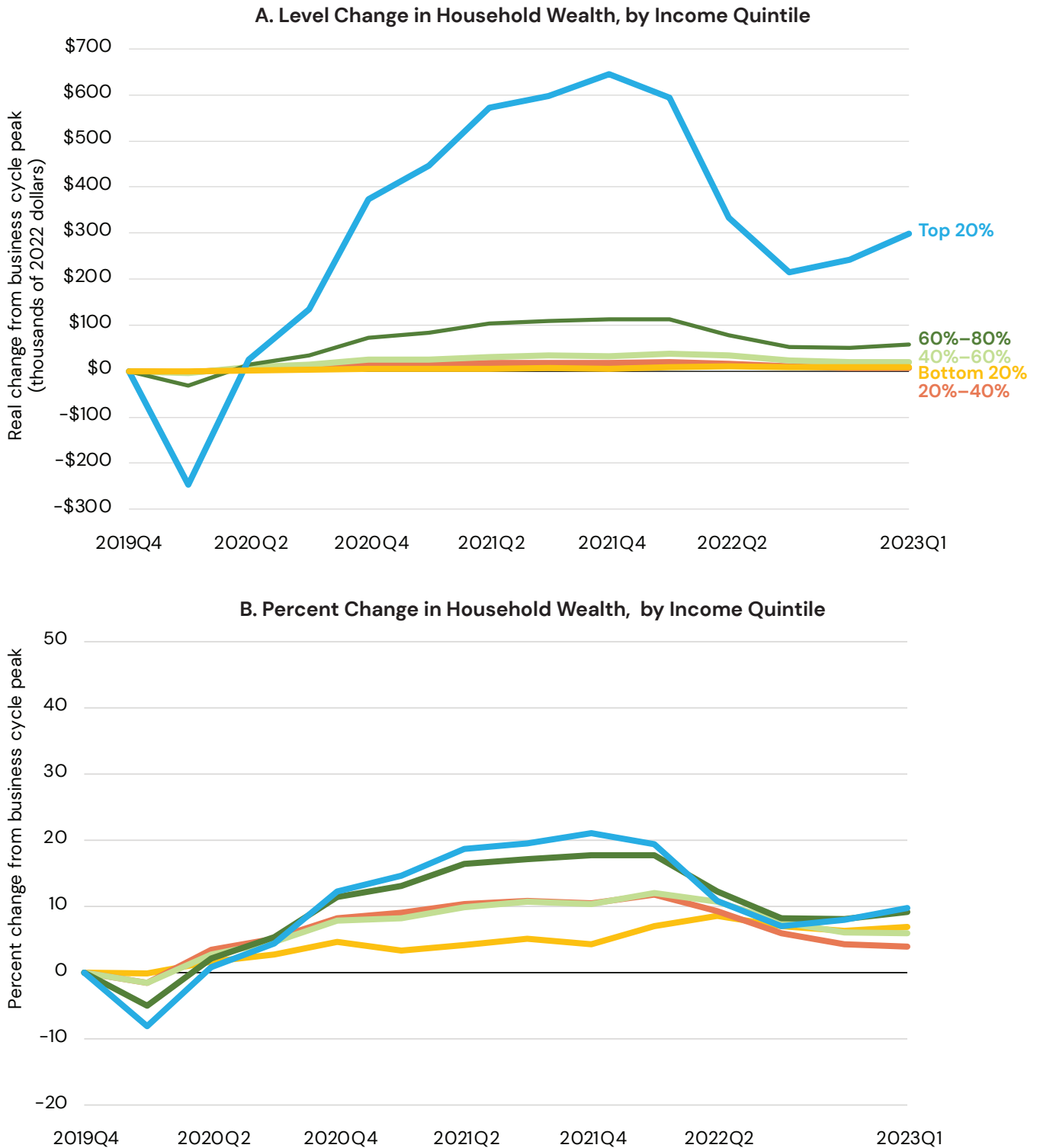
Note: We plot cumulative real change in net worth from business cycle peak divided by the number of households. We plot cumulative percent change in net worth from business cycle peak of the average household. Net worth excludes deposits. Deposits include checkable deposits, currency, time deposits, and short-term investments. All values are in real 2022 dollars, deflated using the average PCE price index. Business cycle peaks are determined by the National Bureau of Economic Research Business Cycle Dating Committee.



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FIGURE 8

## Average Household Wealth Gains by Income Quintile, 2019Q4–2023Q1



Source: Board of Governors of the Federal Reserve System 2023b; authors' calculations.

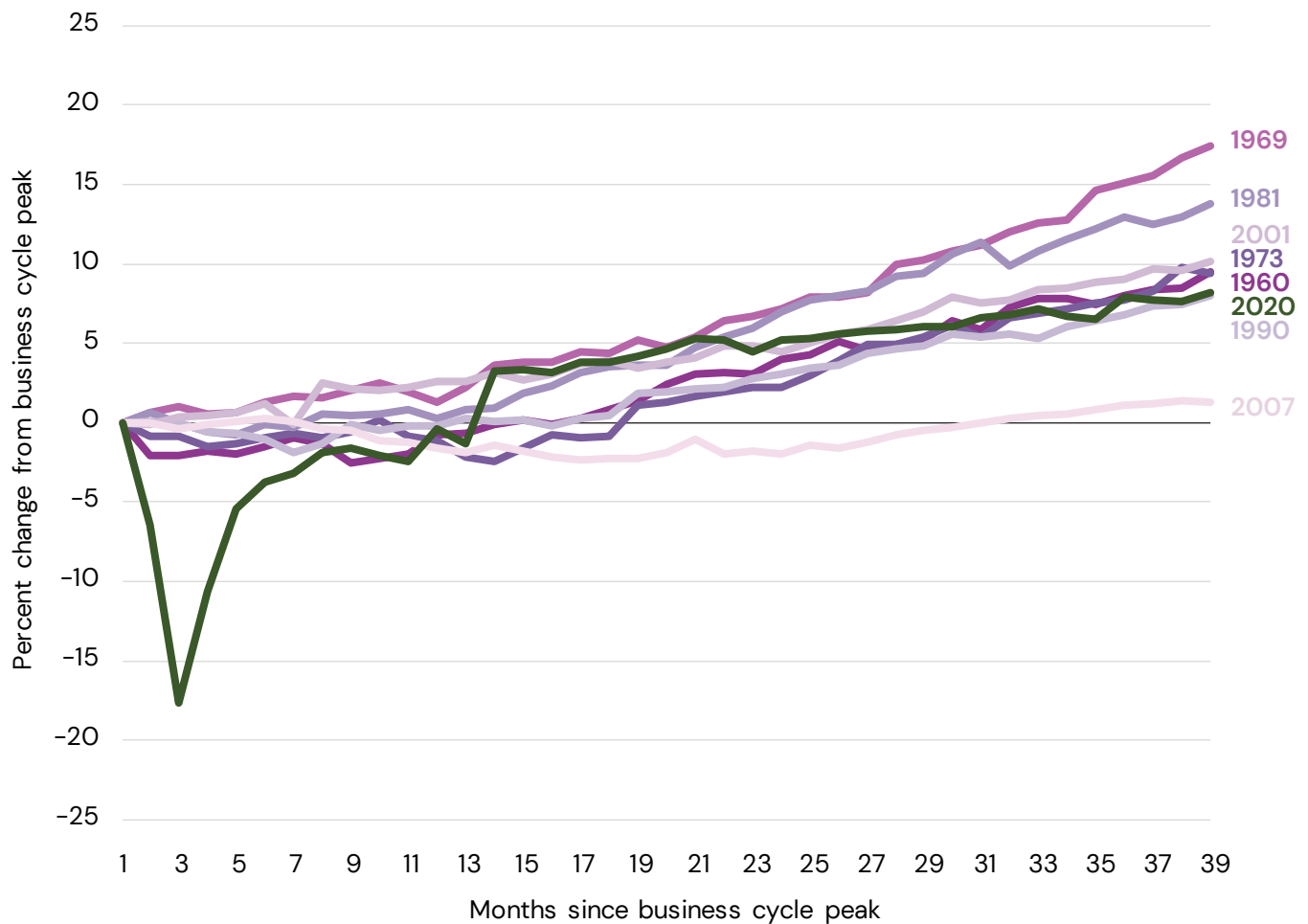
Note: We plot cumulative real change in net worth from business cycle peak divided by the number of households. We plot cumulative percent change in net worth from business cycle peak of the average household. Net worth excludes deposits. Deposits include checkable deposits, currency, time deposits, and short-term investments. All values are in real 2022 dollars, deflated using the average PCE price index. Business cycle peaks are determined by the National Bureau of Economic Research Business Cycle Dating Committee.



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FIGURE 9

## Total Real Personal Consumption Expenditures, by Business Cycle



Source: Bureau of Economic Analysis 2023a; National Bureau of Economic Research 2023; authors' calculations.

Note: Figure 9 shows the monthly percent change from the peak of a business cycle of personal expenditure on goods and services. Percent change is calculated using values in real 2022 dollars, deflated using the average PCE price index. Business cycle dates are determined by the National Bureau of Economic Research Business Cycle Dating Committee.



sentiment and consumer spending suggests weaker consumer spending, although that relationship has broken down in recent years.

In figure 9 we plot the percent change of total real consumer spending since the start of each business cycle since 1960. The sharp drop in spending in 2020 was completely unprecedented. What is less unusual is the overall increase in real spending through the more than three years since the pandemic began. However, as figures 10 and 11 show, the composition of the recovery in spending has been unusual.

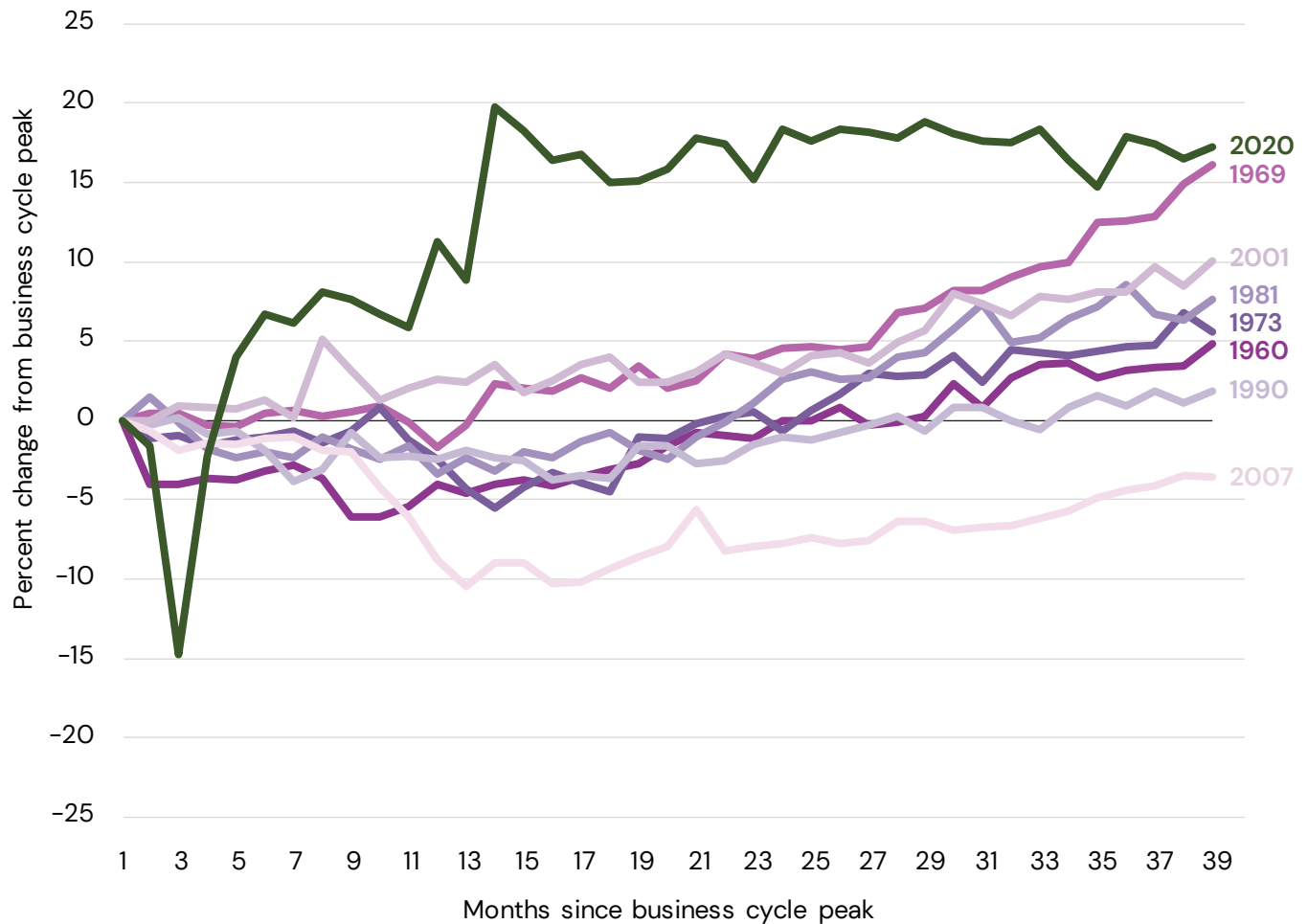
As figure 10 shows, both the decrease and subsequent increase in real spending on goods in the current cycle has been unprecedented. First, spending on goods decreased by 15 percent in the first three months of the 2020 cycle, a decline not seen in previous cycles. Then, a year later, goods spending rose

above its pre-recession level by an astonishing 20 percent. Real goods spending then moderated a little but has remained strong; roughly three years after the 2020 recession began, goods spending is 17 percent higher. Since 1960, only one previous cycle—the cycle in 1969—comes close to such a large increase over the same length of time.

Figure 11 shows the percent change in real spending on services in each business cycle since 1960. Here too, the current cycle has been largely unprecedented. Spending on services fell a dramatic 19 percent in the beginning of the 2020 cycle. Subsequently, services did not recover to their cycle start for 27 months. Currently, real spending on services is only 4 percent above its pre-recession level, a situation matched only by the slow growth trajectory in the three years following the start of the Great Recession.

FIGURE 10

## Real Personal Consumption Expenditures—Goods, by Business Cycle



Source: Bureau of Economic Analysis 2023a; National Bureau of Economic Research 2023; authors' calculations.

Note: Figure 10 shows the monthly percent change from the peak of a business cycle of personal expenditure on goods. Percent change is calculated using values in real 2022 dollars, deflated using the average PCE price index. Business cycle dates are determined by the National Bureau of Economic Research Business Cycle Dating Committee.



Spending may have been temporarily boosted by higher inflation expectations. On the one hand, higher inflation expectations can lead households to pull their spending forward in anticipation of price hikes (Burke and Ozdagli 2021). On the other hand, higher inflation expectations may make households feel poorer and so lead them to pull back on spending (Bachmann et al. 2015). To the degree the first mechanism dominated, spending may have been boosted as near-term inflation expectations rose substantially. Looking forward, measures of near-term inflation expectations have come down significantly since 2022 and will likely continue to decline if actual inflation declines.

One sign pointing to weaker spending going forward is consumer sentiment (i.e., a measurement of consumers' optimism about their own finances and the state of the economy). Spending has been remarkably strong given the low level of sentiment, and

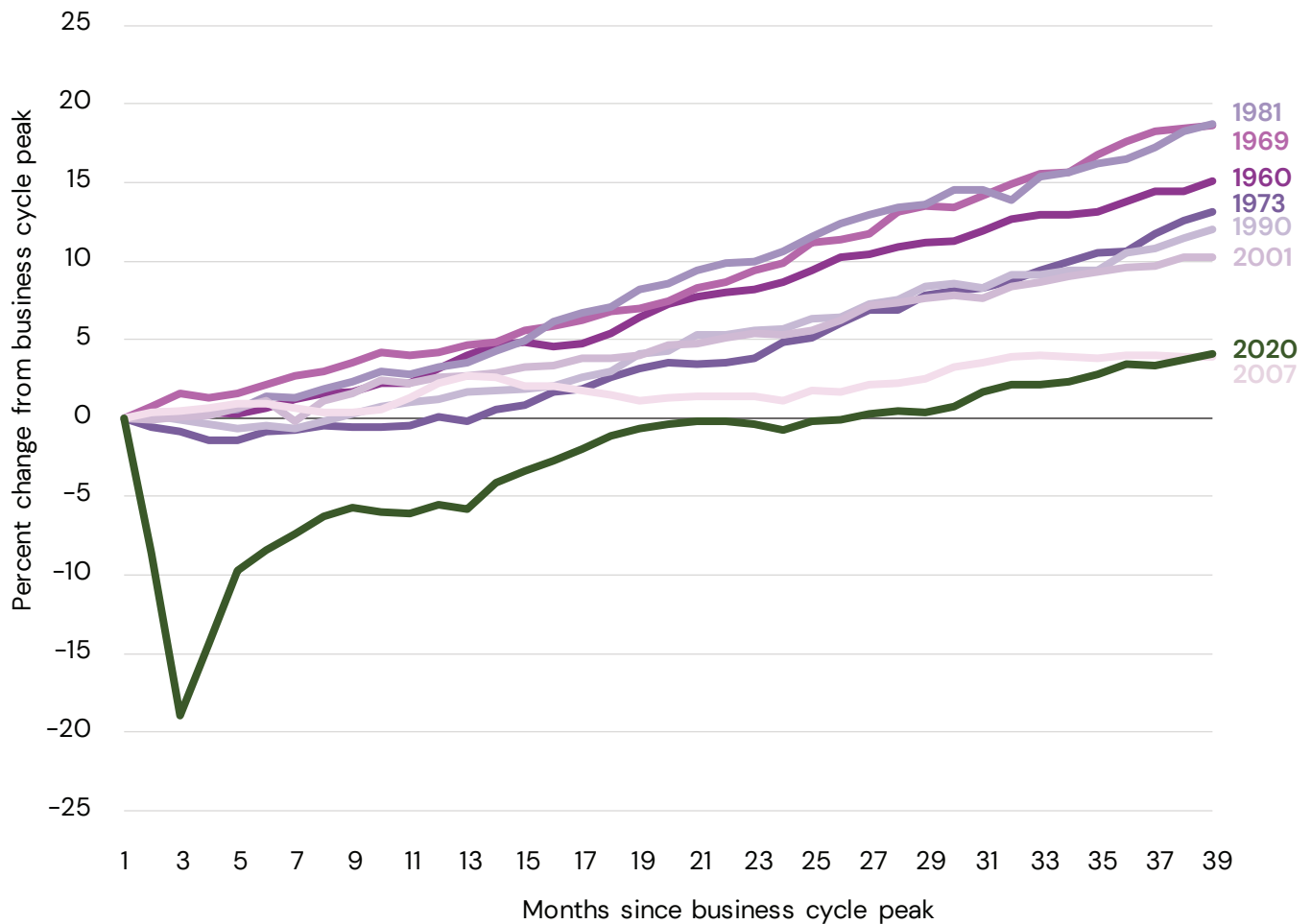
a reemergence of historical patterns suggests weaker spending. For example, the Michigan Consumer Sentiment Index plummeted in early 2020 but then partially recovered through spring 2021 (University of Michigan, Survey of Consumer 2018-2023). Since then, perhaps driven by consumers' responses to the run-up in gasoline prices, it has fallen to lows not seen since the Great Recession, when the unemployment rate reached a level that was 6 percentage points higher than its current level and real consumer spending was declining in most months. Even though gasoline prices have fallen substantially, the recovery in sentiment has been relatively modest. As consumer spending typically moves with consumer sentiment, the strength in consumer spending is hard to square with the depressed level of consumer sentiment (Mehra and Martin 2003).

Nonetheless, with moderate gains in real wealth and income, the generally strong consumer spending



FIGURE 11

## Real Personal Consumption Expenditures—Services, by Business Cycle



Source: Bureau of Economic Analysis 2023a; National Bureau of Economic Research 2023; authors' calculations.

Note: Figure 11 shows the monthly percent change from the peak of a business cycle of personal expenditure on services. Percent change is calculated using values in real 2022 dollars, deflated using the average PCE price index. Business cycle dates are determined by the National Bureau of Economic Research Business Cycle Dating Committee.



in recent quarters has been in part financed by an increase in consumer borrowing, which includes such borrowing as credit card debt and auto loans and excludes mortgages. Figure 12 shows that consumer credit as a share of gross domestic income first spiked at the start of the pandemic reflecting the dramatic drop in gross domestic income, but then the share fell notably as households paid down previous debts and took on less new debt. It started rising at the end of 2022, although it has not reached its pre-pandemic level as of mid-2023.

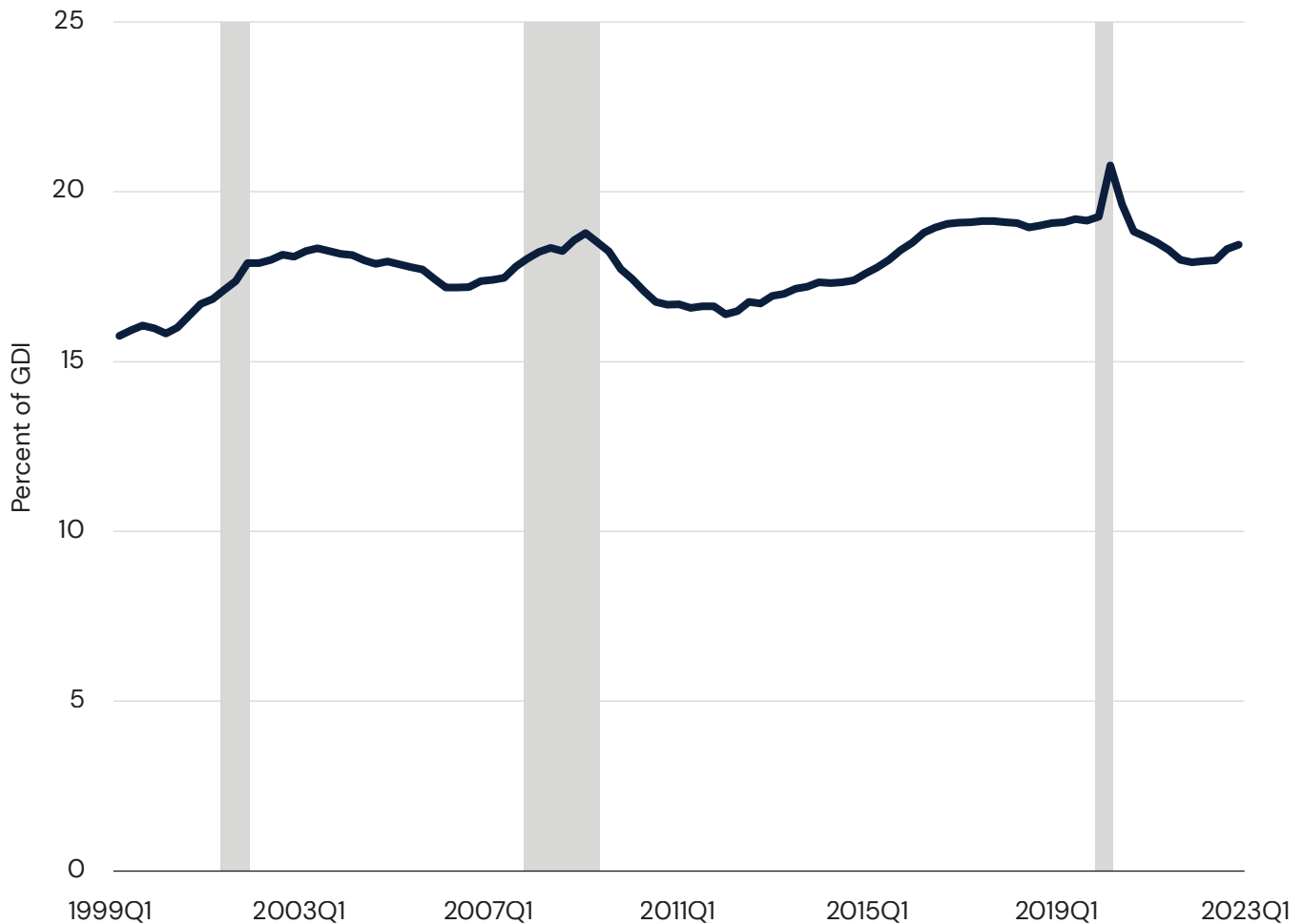
The combination of rising consumer credit and only moderate increases in households' financial resources has resulted in a moderate uptick in measures of financial distress. Figure 13a plots the share of delinquent debt across all households and debt types. We find that delinquent debt decreased substantially relative to pre-pandemic levels, especially when

compared with the 2007–10 recessionary period. Severely derogatory delinquencies—meaning debts that are 120 or more days late—still make up the bulk of total delinquencies, and remain consistently higher than less-severe forms of delinquency. All balances of delinquency have decreased, however, since their peak during the Great Recession of 2008, and remain at a lower proportion than even pre-2008. As of March 2023, 2.6 percent of outstanding debt was in some stage of delinquency and had experienced a 2.1 percentage point drop from the fourth quarter of 2019. In contrast, the aftermath of the Great Recession saw the share of outstanding balances in some stage of delinquency reaching 11.9 percent in the fourth quarter of 2009. It took four years for the share of delinquent balances to drop below 7 percent.

Figure 13b shows the four-quarter moving sum of the percent of outstanding balance of different types of

FIGURE 12

## Total Consumer Debt, 1999Q1–2023Q1



Source: Board of Governors of the Federal Reserve System 2023c; National Bureau of Economic Research 2023; authors' calculations.



Note: Figure 12 plots the break-adjusted total outstanding consumer debt as share of gross domestic income. Recession periods appear in light blue bars. Recession dates are determined by the National Bureau of Economic Research Business Cycle Dating Committee.



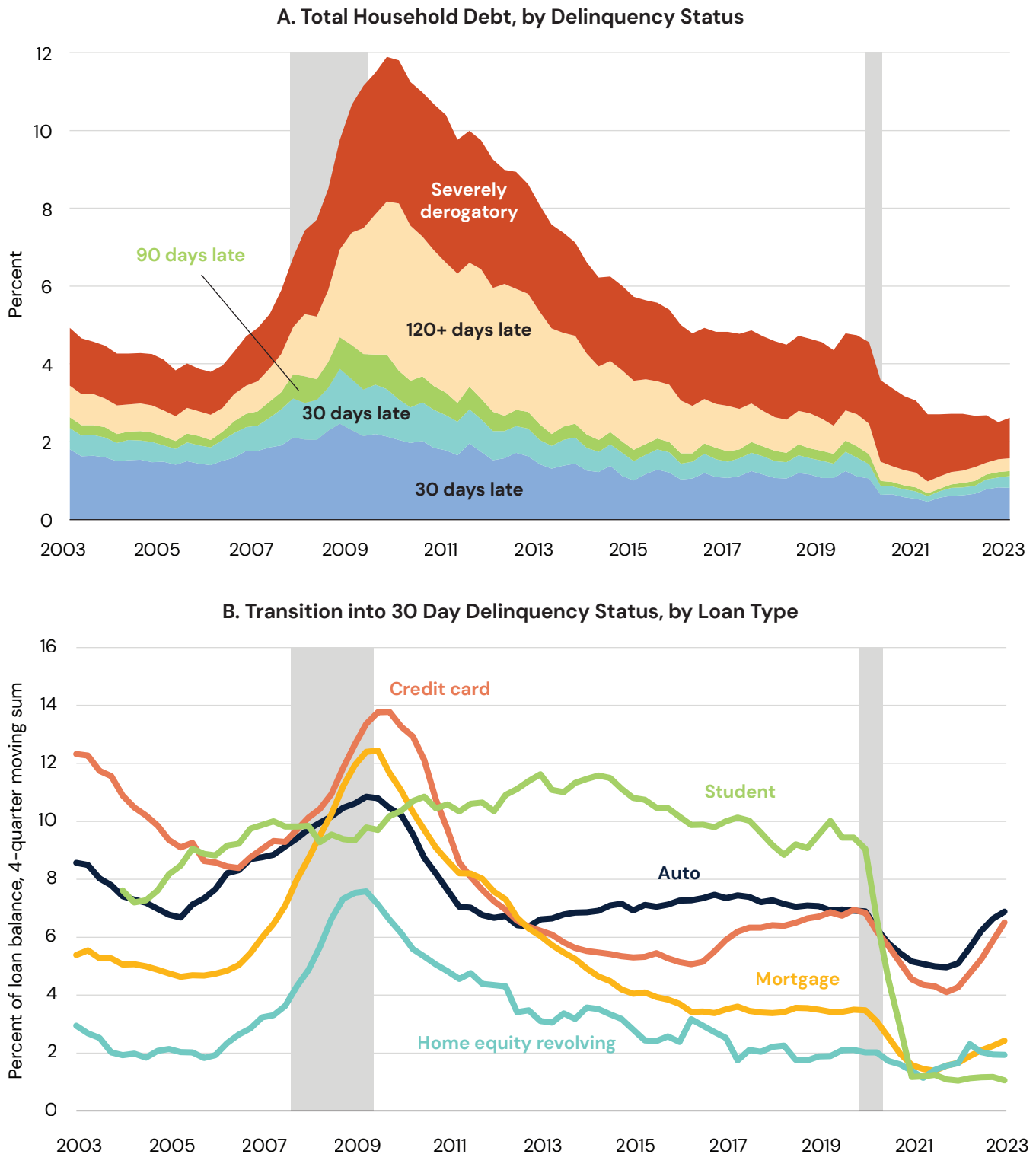
debt that became more than 30 days delinquent. Delinquency rates dropped when the COVID-19 pandemic started as a result of fiscal supports, an eviction moratorium, low interest rates, continued access to credit, and federal and private forbearance policies on many types of debt. Some of these effects on delinquency are mechanical. For example, availing oneself of forbearance in student loans and mortgages may convert prior delinquencies to being current. At the same time, fiscal supports, an eviction moratorium, low interest rates, continued access to credit, and federal and private forbearance policies on many types of debt provided households with the required additional resources to make progress. After 2021, the share of delinquent claims trends upwards for all types of debt except for student debt, which are still in forbearance until August

2023. In particular, credit and auto loan delinquency rates have returned to pre-pandemic levels.

Overall, the current state of delinquencies looks better than or at least as good as it was prior to the pandemic. Furthermore, despite the recent rise in delinquencies, the US Census Bureau's Household Pulse Survey shows that the share of household reporting difficulty in meeting usual expenses has been steady following the first half of 2022 (US Census Bureau (Household Pulse Survey 2023)). Nonetheless, if households' appetite for spending relative to income continues to be as strong as it has been, households are likely to increase their debt. Consequently, there is a likelihood of increased difficulties servicing debt and covering basic household needs.

FIGURE 13

## Delinquent Balances and Transition into 30 Day Delinquency, by Loan Type



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax, 2023.

Note: Debt includes credit card loans, student debt, auto loans, and loans backed by real estate. When delinquency status is severely derogatory, the lender has charged off, foreclosed, or repossessed the debt; this can occur at any stage of delinquency. The gray shading represents recession periods. Recession periods are determined by the National Bureau of Economic Research Business Cycle Dating Committee.



## Conclusion

The facts presented here help gauge current trends, anticipate future conditions, and identify emerging vulnerable spots for family finances. By assessing the status of household balance sheets, policymakers have early indicators of distress and sufficient runway to design and implement policies to protect and strengthen families' economic security moving forward.

What lies ahead for household finances as a cause and consequence of consumer spending is uncertain. The strength in spending, particularly for goods, is surprising given the weakness in real income, weak consumer sentiment, moderate gains in wealth since 2019, and increasing debt obligations.

While the run-up in liquid wealth was unusually large early in the pandemic, that has not been the case since the middle of 2022. Moreover, data from the JPMorgan Chase suggest that low- and high-income households alike have liquid wealth only moderately above levels in 2019 (Wheat and Deadman 2023). In this regard, liquid wealth does not seem to current be an unusually large factor behind the strength in spending.

Although households have increasingly financed spending out of borrowing, indicators of financial stress do not yet suggest cause for alarm. Some households may be on a precipice where real income and real wealth do not show marked improvement. To maintain relatively healthy balance sheets, such households can moderate the pace of consumer spending (particularly goods spending). Alternatively, households can maintain the current trends in spending, increasingly financing spending with borrowing, and financial health could deteriorate in a worrying way.

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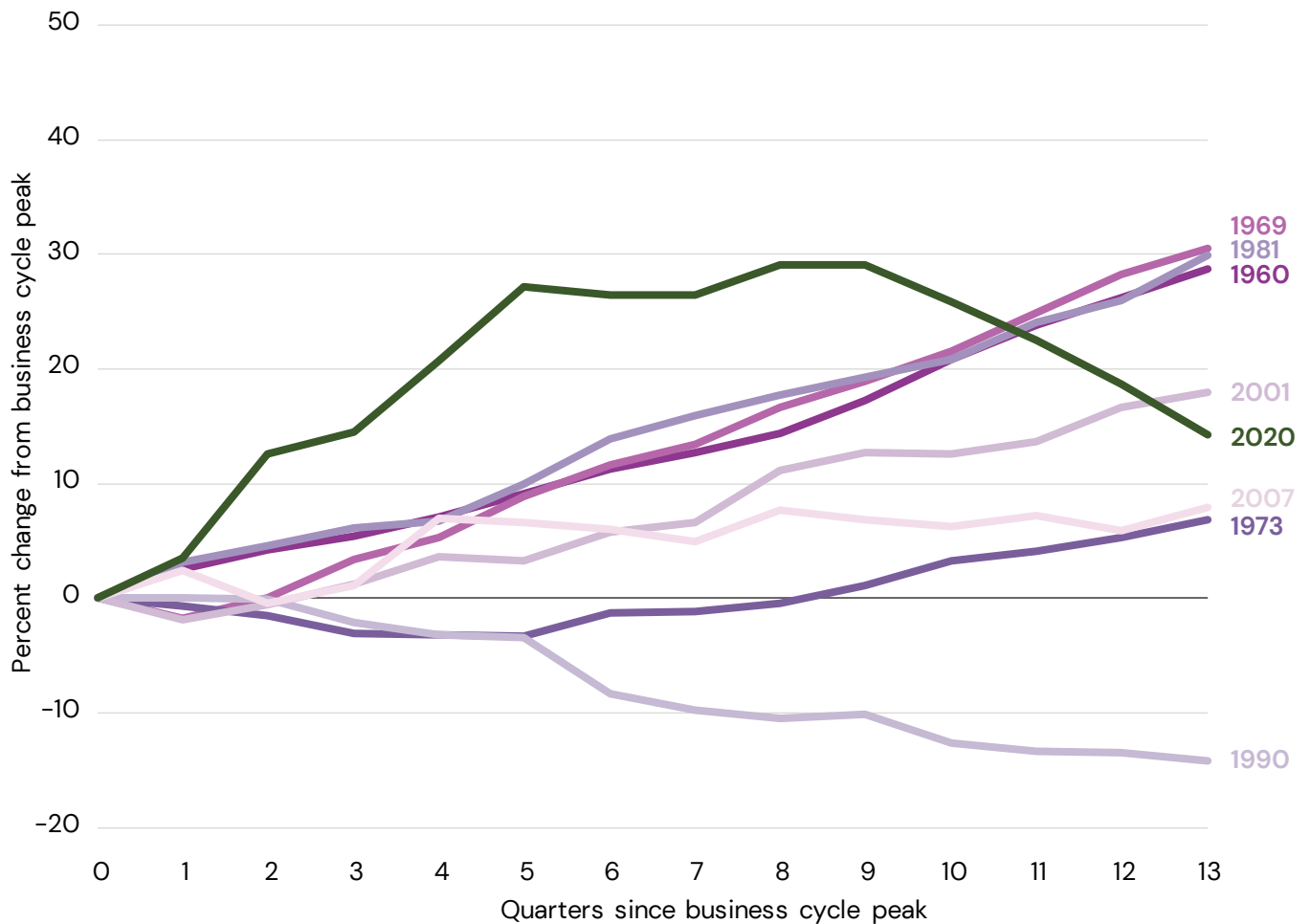
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Purchasing power in checking and savings accounts has fallen since 2021 and is no longer unusually high relative to 2019. Weaker gains in house and stock prices coupled with a slowdown in wealth gains from saving suggest less support for consumer spending going forward; if spending does not moderate, household finances will probably deteriorate further.

## Household Liquid Real Assets, Including Checking and Time Deposits, by Business Cycle



Source: Board of Governors of the Federal Reserve System 2023a; National Bureau of Economic Research 2023; authors' calculations.

Note: We plot the cumulative growth during different business cycles of households' liquid assets as the sum of time and savings deposits, checkable deposits, and currency. Percent change is calculated using values in real 2022 dollars, deflated using the average PCE price index. Business cycle peaks are determined by the National Bureau of Economic Research Business Cycle Dating Committee.

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