# Taking stock of US consumers

## Low- & moderate-income households are feeling the strain financially, pressuring spending
## Extra wealth from the pandemic-era depleted; signs of higher debt & delinquencies…
## …but a resilient labour market shall help contain delinquencies going forward

**Summary**

Statements and minutes from the latest FOMC meetings have flagged official's comments that low- and moderate- income households are facing strains financially recently and that consumer delinquency rates have increased. In our humble opinion, worries that consumer spending will ease and delinquency rates will continue to creep up is valid, but concerns, if any, that the latter will spiral upwards remain unwarranted at this juncture especially since the labour market has remained resilient, with low unemployment rate and layoffs.

**Extra pandemic-era liquid assets have run out; household debt have increased and so have delinquency rates**

- In our article "What's behind resilient consumer spending in the US?" dated 23 April, we have already highlighted that US stock markets have rallied significantly since pandemic era and wealth effect has boosted the US consumer similar to the housing boom in 2003-2008. We have also flagged concerns that a fall in equity markets and wealth effect could presage a downturn in consumer spending.

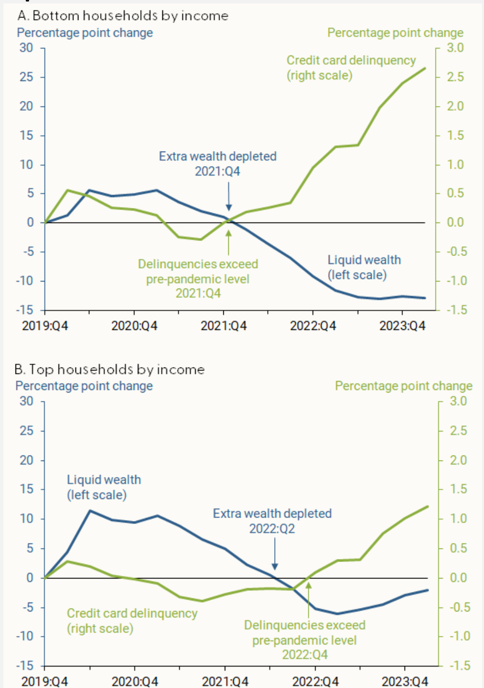
- As it is, the rally in the equity markets have mostly benefitted the top income earners. The latest study by San Francisco Fed, however, have showed that consumers have been drawing down this extra-pandemic wealth and their liquid assets (like saving). As seen in Figure 1, it is estimated that the ***extra pandemic-era wealth depleted at a faster pace for the bottom household by income (1Q of 2021) as compared with the top households (2Q of 2022).***

- This drawdown in liquid assets also coincided with the increase in household debt (Figure 2) to fund purchases, especially credit cards and home equity lines of credit (HELOC), as well as rise in delinquency rates for credit cards and consumer loans (Figure 3).

- Accordingly, ***total household debt has jumped 14.3% to $17.8tn as of 2Q of 2024 as compared to end-2021***. While mortgage and auto loans have increased 14.5% and 11.5% for the same period, home owners ramped up their home equity lines of credit by 19.5% to $0.4tn. Credit card loans also surged 33.4% to $1.1tn.

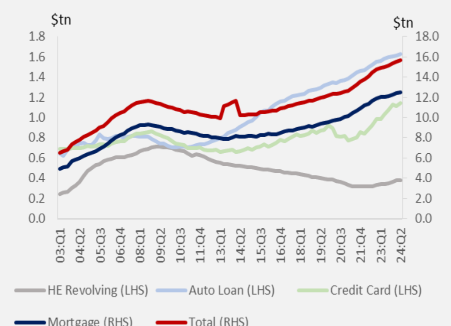
- While ***delinquency rates for most residential mortgages remained near pre-pandemic lows at 1.73%*** and considerably lower than at the height of the Global Financial Crisis (GFC) (above 10%), ***credit card and consumer delinquency rates have crept up to 3.25% and 2.74% respectively*** (4Q 2021: 1.57% and 1.53%). Likely contributing this could be low-income households skipping credit card payments to sustain their spending.

**Figure 1: Inverse relation between credit card delinquencies and pandemic-era liquid assets**




*Source: https://www.frbsf.org/research-and-insights/publications/economic-letter/2024/08/pandemic-era-liquid-wealth-is-running-dry/*

**Figure 2: Household debt has risen as pandemic-era liquid assets run dry**




*Source: New York Fed, HLBB Global Markets Research*

**But still not worrying, given the resilient labour market**

Despite the near doubling in delinquency rates for credit card and consumers in the span of 3 years, we remain unconcerned that these rates could spiral upwards and impede consumption or translate into any systemic risk.

- For one, the delinquency rates for these two categories remain below historical average of 3.73% and 3.02% since 1991.

- Secondly, the bulk of the household debt are tied to mortgages and auto loans, and the former has remained near pre-pandemic lows.

- Lastly but most importantly, the delinquency rate will likely stay low as long as the labour market remains resilient, layoffs and unemployment rates remained low.

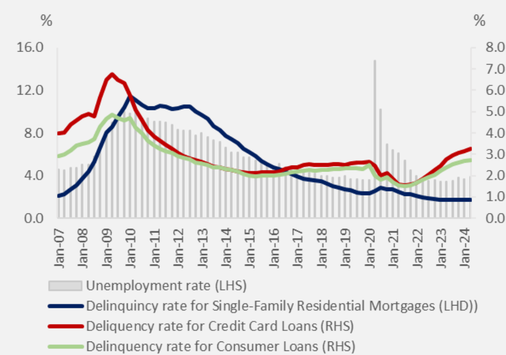
  In the GFC, the unemployment rate doubled from approximately 5% in 4Q of 2007 to 10% in 4Q of 2009. In the same time breath, delinquency rates for single-family residential mortgages, credit card and consumer loans jumped from 3.1%, 4.6% and 3.4% to 10.4%, 6.3% and 4.6% respectively.

  During the recent COVID-19 pandemic, the unemployment rate spiked from 3.6% in 1Q of 2020 to 14.8% in 2020, more than fourfold increase. However, unlike in the GFC, delinquency rates for single-family residential mortgages, credit card and consumer loans were much tamer and steady at 2.5%, 2.5% and 2.0% respectively (1Q of 2020: 2.4%, 2.7% and 2.5%), probably attributable to the forbearance and unemployment insurance programs, as well as government stimulus measures.

  With this, our calculation suggests that the unemployment rate has a 0.7 correlation with delinquency rates for single-family residential mortgages, 0.4 with credit card loans and 0.5 with consumer loans. Our calculation also suggests that for ***every 0.1ppt increase in unemployment rate could send delinquency rates for single-family residential mortgages and credit card loans higher by 0.1ppts each and lesser for consumer loans.*** Given that unemployment rate is low at 4.1% in September and the government is pencilling it to peak at 4.4% for 2024-2025, this suggests that the delinquency rates for single-family residential mortgages and credit card loans should peak at 2.0% and 3.6% respectively (latest available data: 1.7% and 3.3%).

  With no evident of significant stresses to consumers and banks at this juncture, this also supports ours and consensus view of more gradual rate cuts ahead.

**Figure 3: Delinquency rates for consumers have crept up but remains and should remain low, as long as the labour market is resilient**




*Source: Federal Reserve Bank of St. Louis, HLBB Global Markets Research*

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