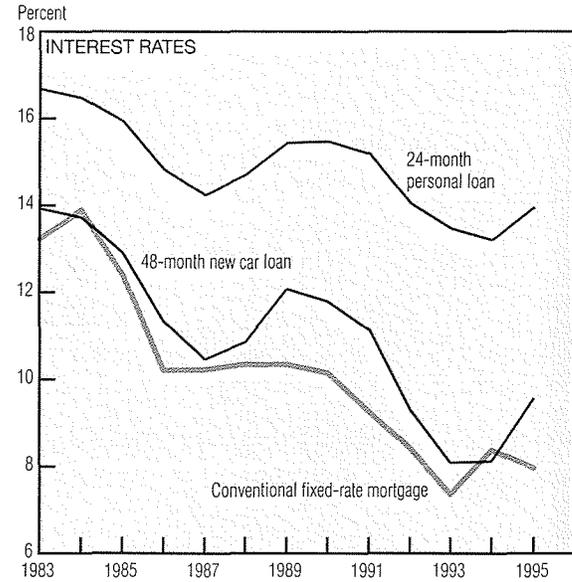
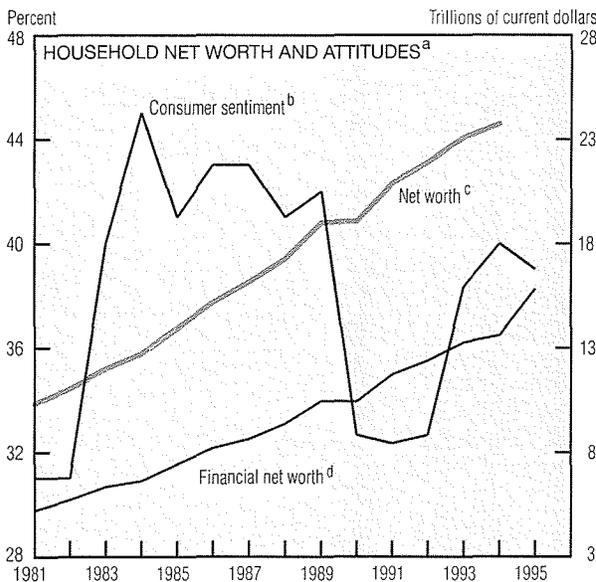
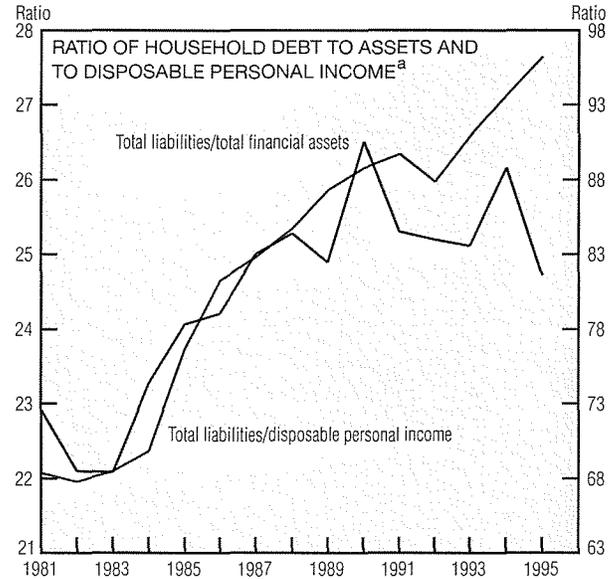
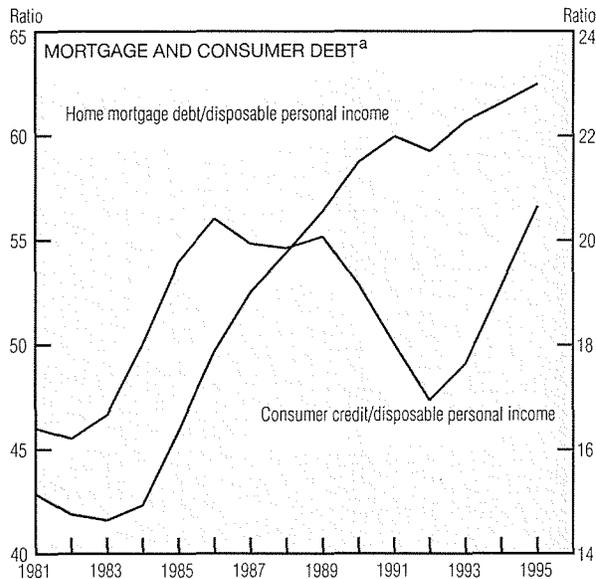


The Household Balance Sheet



a. All data are measured at end of year.

b. Percent of respondents reporting that their current financial position is better than their position last year.

c. Includes tangible assets. Latest available data are for 1994.

d. Total financial assets less total liabilities.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Board of Governors of the Federal Reserve System; Federal Home Loan Mortgage Corporation; and the University of Michigan.

Consumer debt as a share of income, which has risen sharply since 1992, has reached a historic peak. This development—together with a more gradual rise in the ratio of mortgage debt to income—has increased concerns that debt-burdened consumers might soon retrench and hinder the expansion. Though reasonable, such fears seem largely indifferent to historic consumer-debt patterns and to developments on the asset side of the household ledger.

In the short run, the household

sector's ability to service its debts depends on the amount of debt relative to household income and assets. The debt-to-income ratio, however, has been rising for at least the past 45 years—a trend more reflective of financial innovation and credit availability than the profligacy of consumers. The current cyclical increase does not appear exceptionally rapid compared to its pace in the previous expansion. The overall growth of household assets, moreover, has exceeded the growth of liabilities. Primarily due to a rise in

equities, household debt-to-asset ratios fell in 1995.

In the long term, the household sector's ability to pay off its debts depends on its solvency, or net worth. Last year, financial net worth (less tangible assets) rose sharply.

The delinquency rate for consumer loans increased in 1995, but remains low. The uptick in interest rates on standard consumer loans could increase the difficulty of servicing them. Nevertheless, serious consumer liquidity problems are not imminent.