2. Because the data in the charts aggregate all
income and, therefore, differ from the average.
Risks in Consumer Balance Sheets
Recent Changes
New Single-Family Homes
The current weakness in the housing market may be an important constraint for many consumers. Unit sales of new and existing single-family homes are very weak; such sales in June were just over one half of their 1979 rate. This weak demand has lowered selling prices and, consequently, housing values. For example, after increasing at an annual rate of 11.9 percent from 1974 through 1979, the median sales price of new single-family homes grew only 4.8 percent from 1979 through 1981, to $199,000. During the first six months of 1982, the median sales price actually fell to an average of $168,600. The median sales price of existing single-family homes grew only at a 1.0 percent annual rate during the first nine months of 1982, after growing at an annual rate of 11.7 percent from 1974 to 1979 and 9.2 percent from 1979 to 1981. The fall in home prices is not a problem if consumers expect the actual decline. The convenience of debt undoubtedly shifts the time pattern of spending from the future to the present and may promote more borrowing than would be true in a world without available debt. The real burden of debt repayments experienced by consumers depends on the BULK RATE
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additions to the consumer wealth assets owned by con- sumers to curtail their spending.
Consumers rationally adjusted their financial status. In the past two years, they have reduced consumer spending and the associated demand for consumer credit. As shown in charts 1 and 2, the consumer debt/asset ratio has remained at 0.49 for the past two years and debt payments have fallen to about 20 percent of disposable per- sonal income. At the same time, however, there has been a marked deterioration in markets for housing, equities, and, consequently, purchased bonds; coupled with the signifi- cantly lower interest rates in these forms, this deterioration has offset some of the improvement on the liabilities side. Although the current strength on the liabilities side of the balance sheet suggests recovery in consumer spending later this year, the weakness on the asset side is likely to persist.

Other homeowners may cut back their spending plans simply because the actual declines when concessions are offered, for example, the number of refrigerators that a consumer currently owns. The real burden of debt repayments on consum- er behavior over the next several quarters in several respects the improvement in consumer balance sheets has been more dra-
matic since the end of 1979 than in previous recessions. Indeed, this improve- ment is a key factor underlying improvements in consumer-lended economic recovery in the past. However, there have been some market changes in the composition of con- sumer assets in recent years and in the values of these assets in the past year. These changes could affect consumer behavior in ways that may moderate the recovery in consumer outlays. This Economic Commentary discusses the significance of the recent changes in the composition of con- consumer balance sheets and speculates on the possible impact of these changes on con- consumer spending in the next several quarters.

The convenience of debt undoubtedly shifts the time pattern of spending from the future to the present and may promote more spending over time than would be true in a world without available debt. The real burden of debt repayments experienced by consumers depends on the inflation rate. If the inflation rate is greater

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Asset Characteristics

The value of an asset at some point in time is the maximum amount of cash that would be realized by selling or otherwise liquidating the asset at that time under the most favorable conditions and with all useable prior preparation for its disposal. The value of an asset can vary considerably with its age or across the business cycle. For example, equity prices fall during recessions, and depreciation continuously lowers the value of tangible assets. In addition, the real values of tangible assets tend to remain unchanged with inflation, whereas those of financial assets tend to fall.

The liquidity of an asset is the ease and speed with which its value can be realized and depends on the market in which the asset is traded. Currency is the most liquid asset, since it is a medium of exchange. Consumer durables and pension funds are illiquid assets; resale markets for durables do not exist. Some assets, such as consumer durables, houses, and land, tend to be less predictable than their liquid counterparts, since any denomination of a Federal Reserve note can be expressed in an equivalent number of pennies. An automobile is indivisible: a whole car must be owned to obtain its transportation services. Equities and bonds must be purchased in integer multiples of their unit prices, unless they are held in mutual funds.

The reversibility of an asset refers to the discrepancy between the value an owner can realize and the contemporaneous cost of possessing the asset. Perfect reversibility is impossible, as every asset exchange involves transactions costs. These costs include, for example, the time and trouble required for a trip to the bank, brokerage fees, or advertising in the classified ads. Some assets, such as nonmarketable U.S. government savings bonds, do not, as they can break down with time and may not be sold to someone else.

The yield of an asset over an interval of time consists of all receipts and costs entailed by ownership over the interval. The value of a money market mutual fund (MMMF) during a given time period equals the interest receipts minus the fund's management fees and other transactions costs and any taxes on the income received. The yield of a refrigerator over some time period equals the value of its services (the refrigeration of food) minus the electricity and repair costs that it requires.

Finally, the return of an asset over some time interval equals the increment in value of the asset plus the yield of the value. The return on an equity over a certain interval, for example, equals the after-tax capital gain or loss on the price of the equity plus its yield. The variance of the return is one measure of an asset's riskiness.

Equity securities are generally difficult to liquidate tangible assets quickly at their current values, although they may serve very well as collateral for loans against future income. There is, however, the possibility that the current values of these assets and those of equities and bonds may differ significantly from their expected values at a time when these assets need to be sold. Consequently, consumers whose assets are primarily tangible or risky may find their spending plans limited at certain times by a fall in their asset values. This is especially true during recessionary periods of sluggish or negative real income growth and high real interest rates. During such periods, the demand for most tangible assets and risky financial assets falls, making quick sales of these assets particularly difficult without lowering their prices, sometimes significantly. In turn, these lower asset prices reduce the collateral values of loans. Thus, when a consumer's assets are concentrated in tangible or risky financial assets, he/she may have considerable trouble weathering income declines. Instead of

drawing down assets or acquiring additional debt, the consumer may have to reduce his spending or shift consumption in the future. Any capital losses from their sales act to reduce future spending further.