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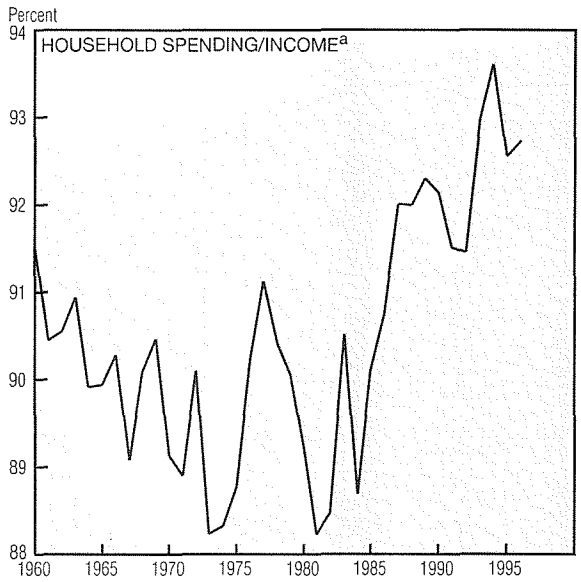
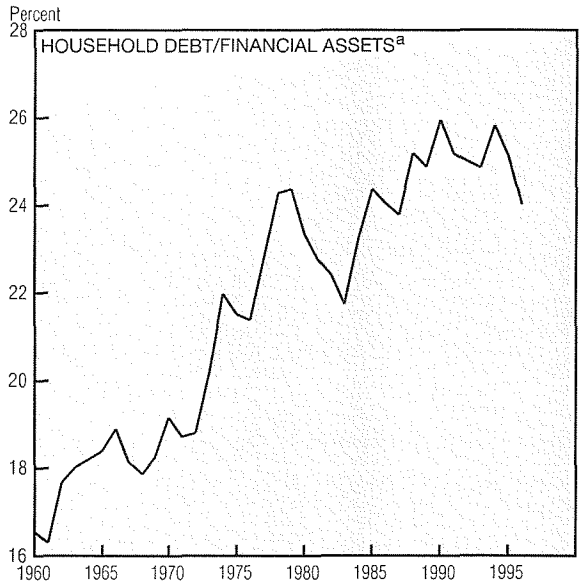
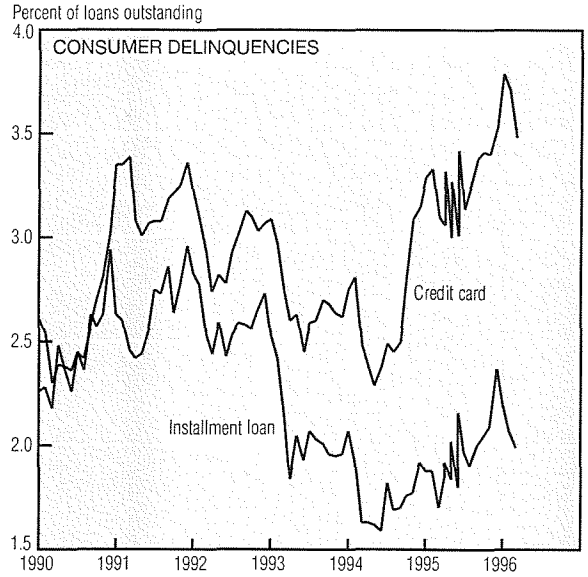
Consumer Indebtedness







a. 1996 data are based on second-quarter estimates.
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Board of Governors of the Federal Reserve System; and American Bankers Association, *Consumer Credit Delinquency Bulletin.*

Consumer spending relative to income has been on an upward trend since the early 1980s. Over the past 15 years, households have increased the share of their income that they spend by four percentage points—to about 92.5%.

Higher levels of spending relative to income have generally been funded with increased debt. Indeed, while spending relative to income has moved higher in the past 15 years, the ratio of debt to income has climbed about 25 percentage points over the same period—a remarkable rise. The prolonged accumulation of debt by U.S. households is a source of concern to many business analysts. Higher debt levels, if poorly managed, may affect the health of the economy.

Upon closer inspection, however, the credit position of U.S. households may not be as dire as the broad statistics would suggest. Much of the run-up in household debt has been in the mortgage credit area, which means it may be largely financing investments that promote economic growth. Consumer debt relative to income has trended only marginally higher over the past decade or so. Furthermore, the ratio of debt to assets, perhaps a better indicator of households' balance-sheet health, has been holding fairly constant for the past 10 years.

Perhaps the best sign that U.S. household debt levels are, on average, sustainable, is the relatively low rate of credit delinquencies. While the delinquency of credit card debt has been on the rise in recent years, delinquencies for most other types of consumer credit—including installment debt—remain quite low by historical standards.