Attention has been lavished on the recent rise in consumer debt levels, and in fact, household debt of all types has increased rapidly throughout the 1990s. For example, mortgage debt has grown more than 50% since the beginning of the decade (to $3.75 trillion by the first quarter of 1996), while revolving credit has increased a whopping 127% (to $456 billion by September).

Perhaps more troubling, however, is that the ratio of consumer debt to personal income has risen dramatically over the last several years, from a low of 14.10% in December 1992 to a high of 18.11% last July. High ratios of debt to personal income can foreshadow future defaults. Indeed, the rate of credit card delinquencies, although highly volatile, typically follows the debt-to-income ratio with a lag. Considering that we have yet to see a decrease in this ratio, we may reasonably expect the consumer delinquency rate to continue rising in the near future.

Despite these indicators, it may be premature to raise the alarm for overburdened households. Because interest rates, particularly for mortgages and home equity loans, are at historically low levels, households can manage higher debt levels at any given income.