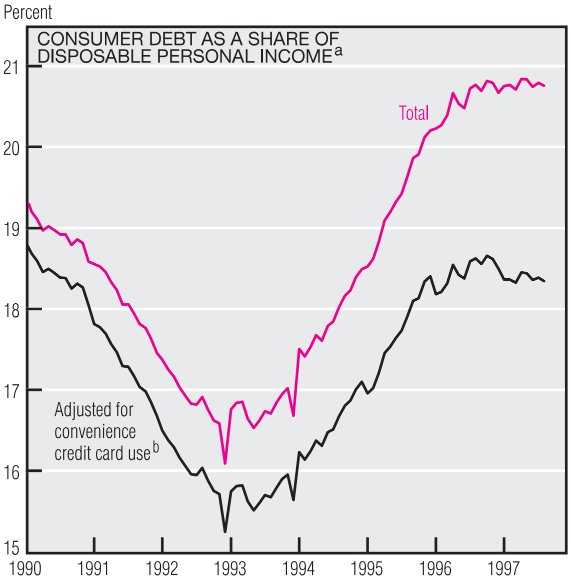
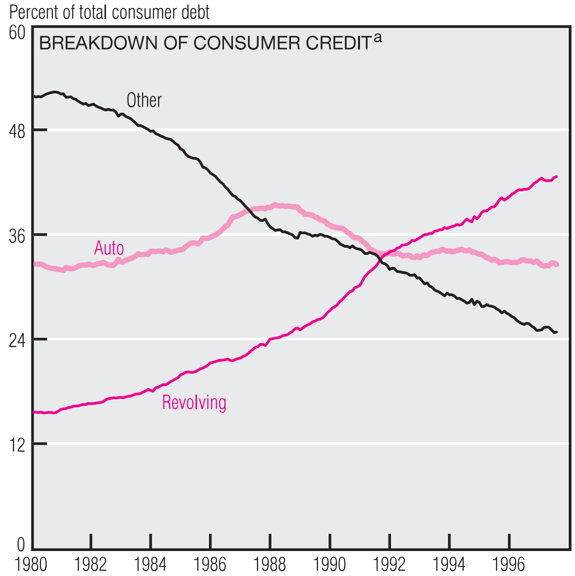
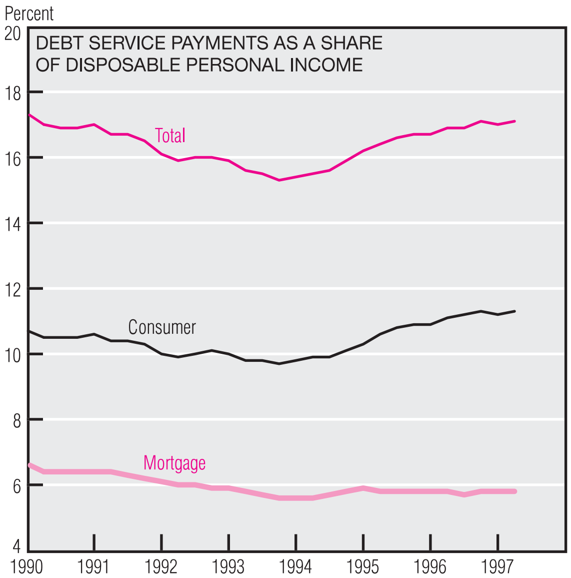
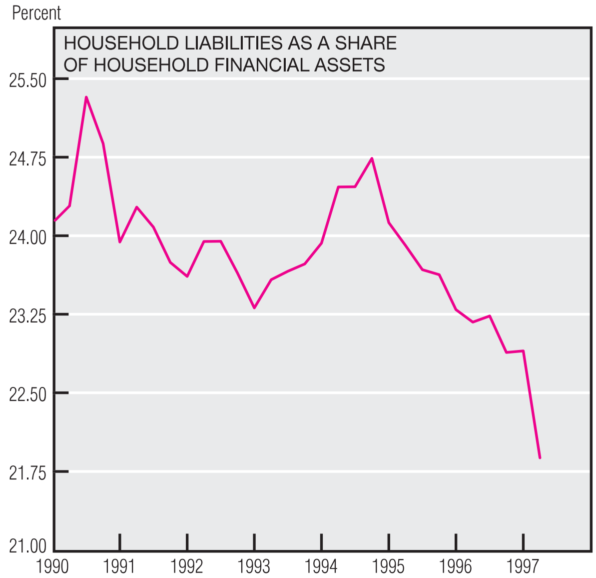
# Consumer Debt and Delinquency




a. Seasonally adjusted.
b. Adjusted consumer debt as a share of disposable personal income. Includes only the estimated portion of bank card debt accruing finance charges.
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Board of Governors of the Federal Reserve System; and *Bankcard Update/ Bankcard Barometer*.

In recent months, historically high levels of consumer debt have drawn considerable attention. Although the debt-to-income ratio has leveled off in recent months (reaching 20.76% in August), it is still virtually unchanged from its record high of 20.84% attained last April.

Some of the concern about high consumer debt levels may be misplaced, however. Credit card balances are a large component of consumer debt. Over the course of this decade, an increasing fraction of credit card balances has been paid in full every month (up from 9.8% in 1990 to 25.0% in 1996), indicating that much of the rise in these balances results from the convenience of this payment method rather than from a true increase in consumer debt levels. Indeed, after adjustment for convenience credit card use, the debt-to-income ratio shows a decline for most of the year (to 18.35% in August), never having exceeded its 1990 high of 18.78%.

Moreover, comparing households' debt levels to their total financial assets, we see that this measure of the consumer debt burden has been dropping since late 1994, and plunged sharply in the early months of 1997. Of course, much of this is likely due to the stock market's strong performance during the first half of this year.

In any event, it is worth asking whether consumer debt levels are a good predictor of upcoming economic activity. Contrary to popular belief, these levels do not seem to

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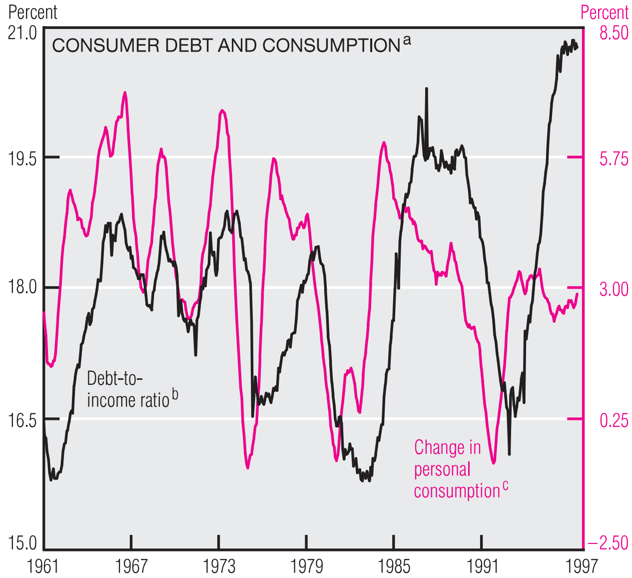
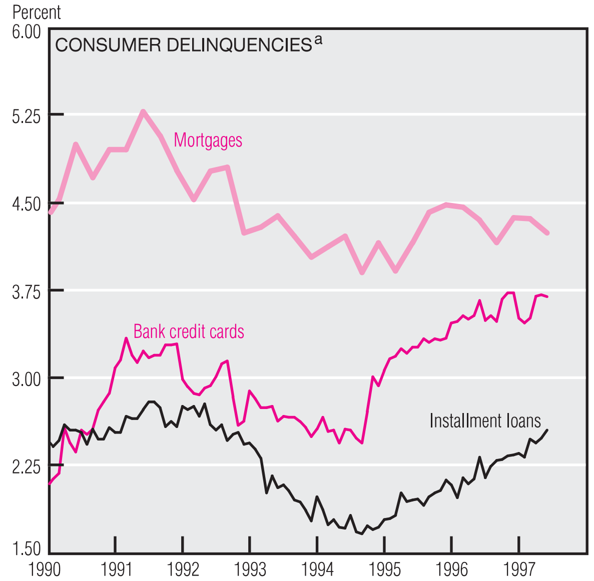
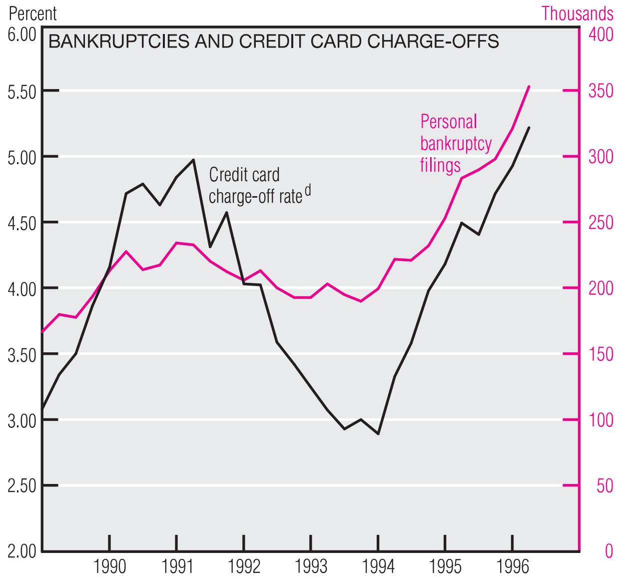
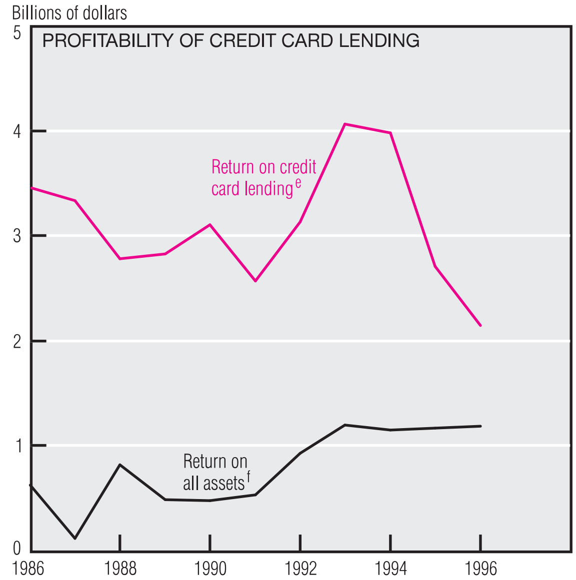
# Consumer Debt and Delinquency (cont.)




a. Seasonally adjusted.
b. Total consumer debt as a share of disposable personal income.
c. 12-month moving average of year-over-year percent change.
d. Annualized net charge-off rate.
e. Net before-tax earnings as a percentage of outstanding balances for major credit card banks, as defined in the Board of Governors' report on the profitability of credit card lending, August 1997.
f. All FDIC-insured commercial banks.
SOURCES: Board of Governors of the Federal Reserve System; Administrative Office of the U.S. Courts; American Bankers Association, *Consumer Credit Delinquency Bulletin*; Federal Deposit Insurance Corporation, *Quarterly Banking Profile*; and Mortgage Bankers Association of America, *National Delinquency Survey.*

predict future patterns of personal consumption expenditures, which typically rise or fall well in advance of the debt-to-income ratio. As a result, personal consumption figures appear to predict future debt levels, not the other way around.

Another recent concern has been the growing number of personal bankruptcy filings and the rising delinquency rates on various types of personal loans. Over the last several years, delinquency rates on bank credit cards and installment loans have been on a steady upward track, with credit card delinquencies showing the most dramatic rise. In contrast, mortgage delinquency rates have been more stable.

Most striking, personal bankruptcies continue to reach ever-higher levels, with more than 353,000 filings in the second quarter of 1997 alone. Not surprisingly, credit card charge-off rates mirror movements in personal bankruptcy filings, reaching a high of 5.22% of outstanding balances in the second quarter of this year.

Despite these concerns, credit card lending continues to be highly profitable. Although the return on this type of lending has declined dramatically since the early 1990s, it is still well above commercial banks' overall return on assets.