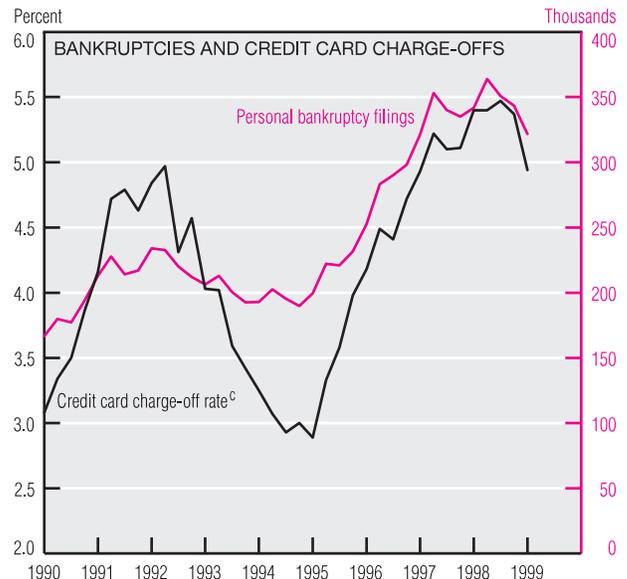
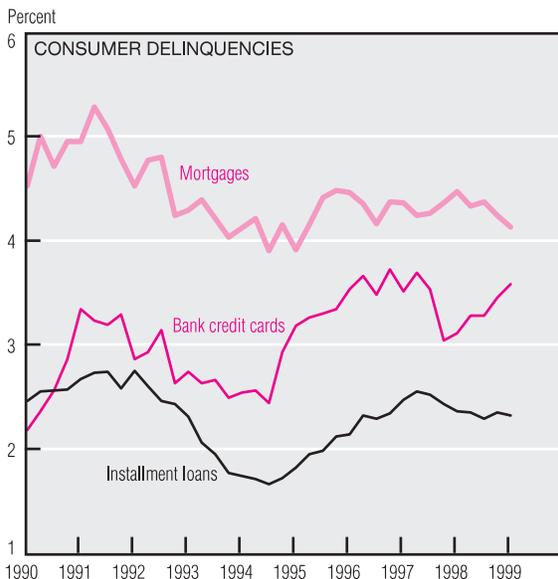
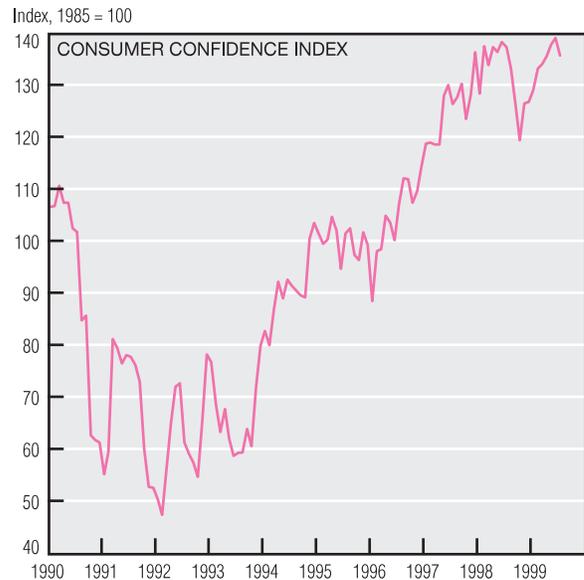
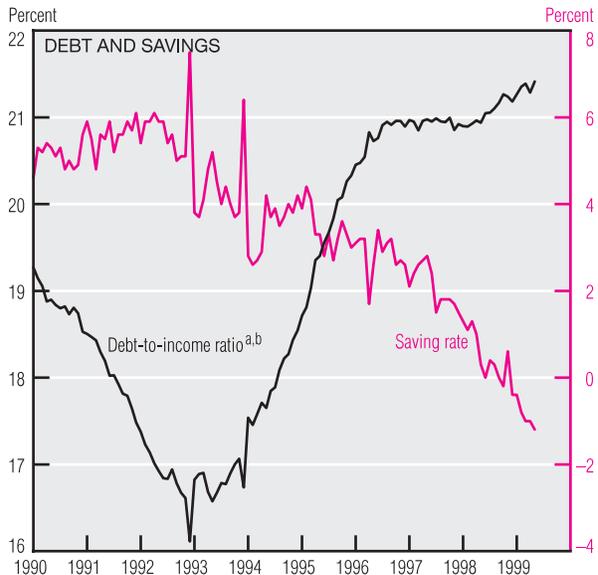


# Household Financial Conditions



a. Ratio of total consumer credit to disposable personal income.

b. Seasonally adjusted.

c. The net charge-off rate is the percentage of total credit card debt that banks remove from their balance sheets because of uncollectibility, less the amount of credit card debt charged off but subsequently recovered, expressed as an annual rate.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Board of Governors of the Federal Reserve System; Federal Deposit Insurance Corporation, *Quarterly Banking Profile*; American Bankers Association, *Consumer Credit Delinquency Bulletin*; American Bankruptcy Institute; Mortgage Bankers Association of America, *National Delinquency Survey*; and The Conference Board, Inc.

After holding steady since 1996, household consumer debt levels resumed their upward trend last year. In May (the latest month for which data are available), the ratio of outstanding consumer credit to disposable personal income climbed to 21.41%, the highest level in this decade. Meanwhile, the dissaving pattern of 1999 persists, with a negative 1.2% saving rate in May.

Do these numbers indicate

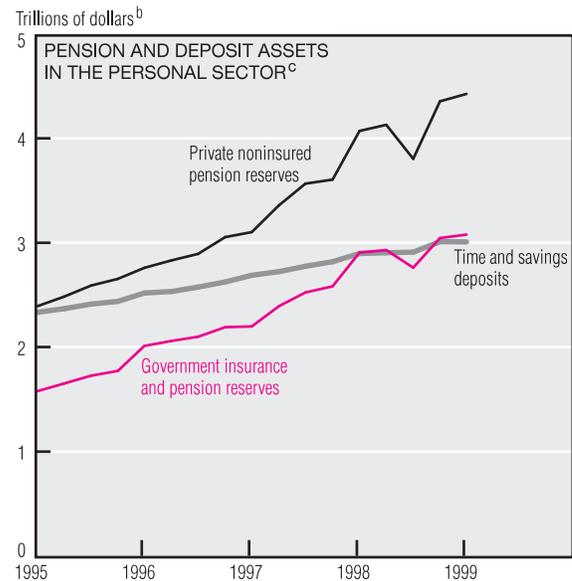
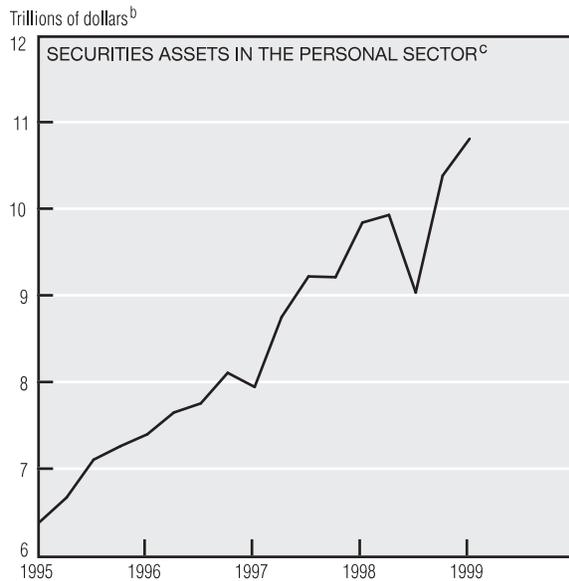
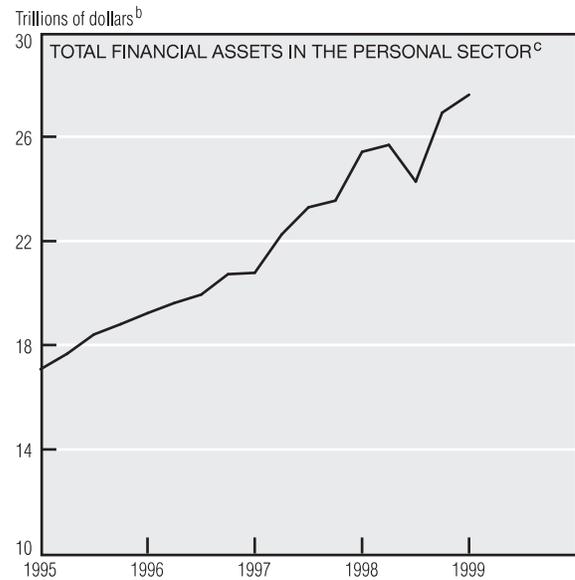
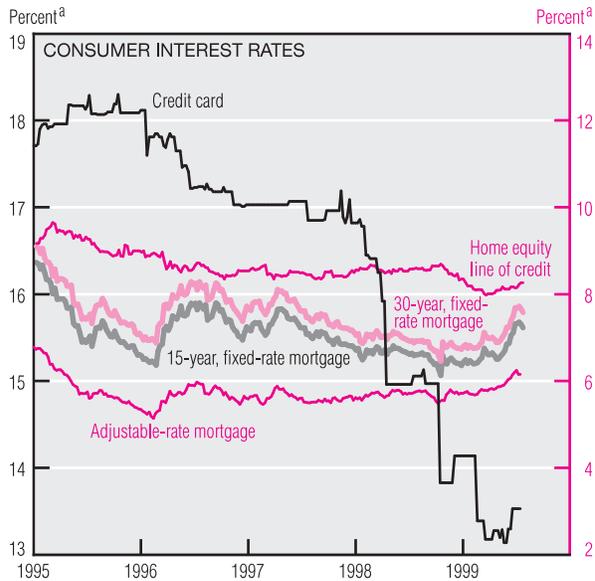
impending doom—or consumers' continued confidence in the resiliency of today's economy? After all, the Consumer Confidence Index, which measures households' optimism about the economy, stayed on the rise from last November through this June. Although the index dipped slightly in July, the representative household is still quite confident about the future.

Other measures of household

financial conditions seem to support this view. Delinquency rates on installment and mortgage loans are stable or declining, and although credit card delinquencies have risen over the last 18 months, their levels are still lower than they were in 1996. Similarly, personal bankruptcy filings and credit card charge-offs are showing their first substantial declines in more than five years.

(continued on next page)

## Household Financial Conditions (cont.)



a. Weekly data.

b. Quarterly data.

c. Combined statement for household sector, nonfarm noncorporate business, and farm business.

SOURCES: Board of Governors of the Federal Reserve System, *Flow of Funds Accounts of the United States*; and *Bank Rate Monitor*.

Another possible explanation for the recent rise in consumer indebtedness is that households simply took advantage of historically low interest rates earlier this year. With these lower rates, the fraction of household income devoted to debt service may hold steady or even fall, despite higher overall debt levels. If this explanation is correct, we would expect to see debt levels taper off in the coming months as a result of the recent increase in borrowing costs.

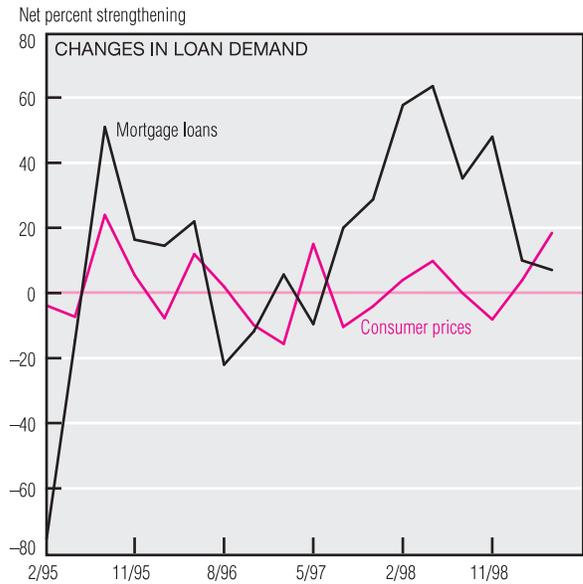
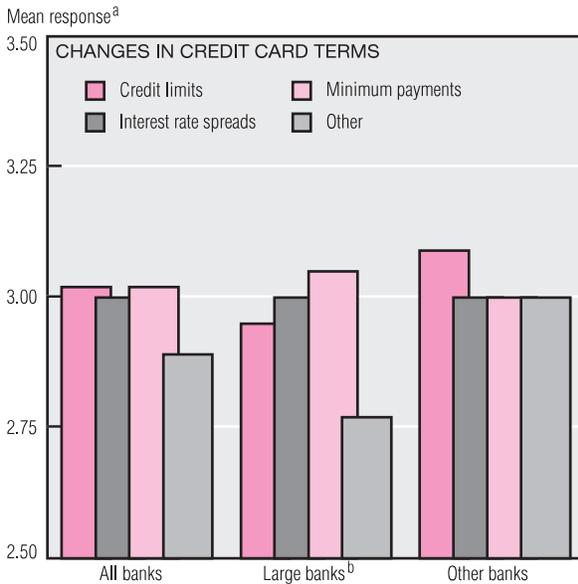
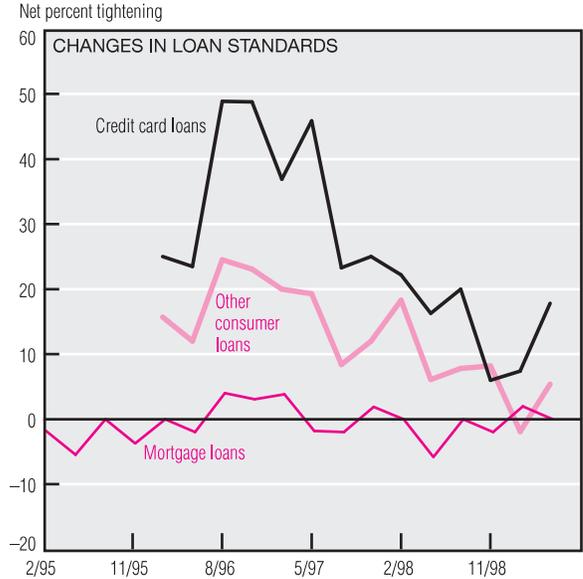
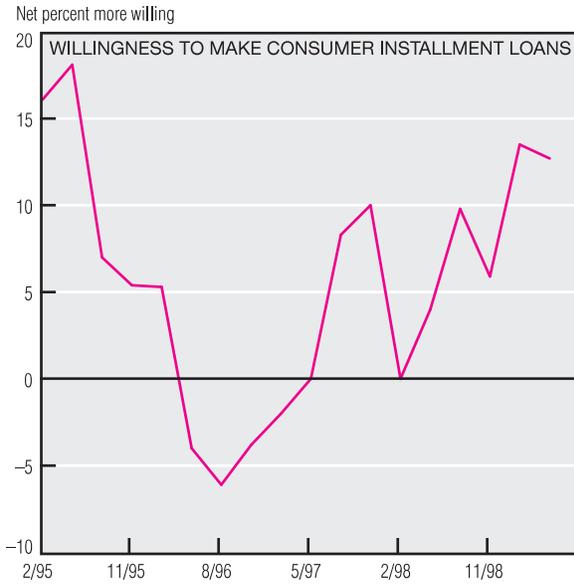
Of course, one cannot get a complete view of household financial conditions without looking at both debt burdens and the assets that complement that debt. Total financial assets in the personal sector (including households, nonfarm noncorporate businesses, and farm businesses) has continued its strong upward trend. In large part, this reflects the spectacular performance of the stock market, which, after its brief dip late last summer, has continued the hectic growth of recent

years. Total personal financial assets have doubled since the first quarter of 1995, providing solid evidence of strong household balance sheets.

What conclusions can we draw from looking at households' debts and assets side by side? Is it safe to assume that households' ongoing debt binge is innocuous, given the spectacular growth in their assets? Before we become too sanguine about the current situation, we

*(continued on next page)*

# Household Financial Conditions (cont.)



a. Mean response of banks where: 1 = tightened considerably, 2 = tightened somewhat, 3 = remained basically unchanged, 4 = eased somewhat, 5 = eased considerably.

b. Total domestic assets over \$15 billion.

SOURCE: Board of Governors of the Federal Reserve System, *Senior Loan Officer Opinion Survey on Bank Lending Practices*.

should remind ourselves that the households owing the liabilities are not guaranteed to be the same as those owning the assets. As a result, some caution is necessary when working with aggregates.

An alternative perspective on household financial conditions can be gathered from the Federal Reserve's quarterly *Senior Loan Officer Opinion Survey on Bank Lending*

*Practices*. Banks surveyed most recently (in May) seem similarly unconcerned about households' rising debt levels, with a strong majority of respondents indicating increased willingness to make consumer installment loans. Some tightening is evident in the terms of credit card loans (not surprising, given the recent rise in credit card delinquencies), but other types of consumer credit have seen very little or no

tightening. As to changes in credit card terms, minimum payment requirements have become more favorable, whereas interest-rate spreads are virtually unchanged. Credit limits are easing with the exception of large banks, which tightened their limits slightly. On the whole, the survey suggests that creditworthy borrowers currently enjoy ready access to credit.