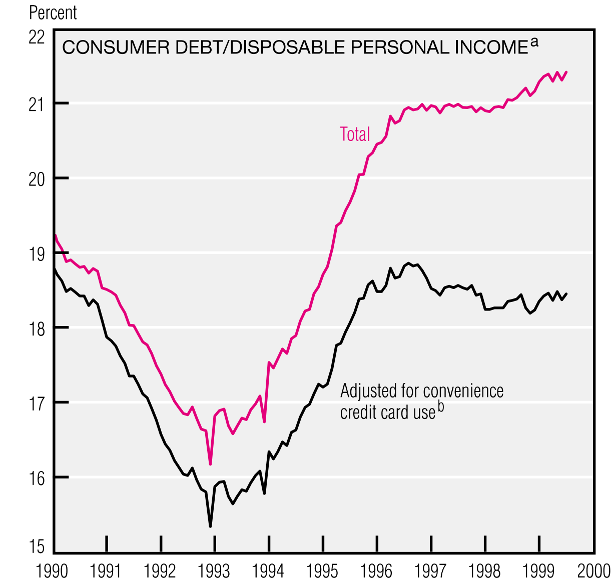
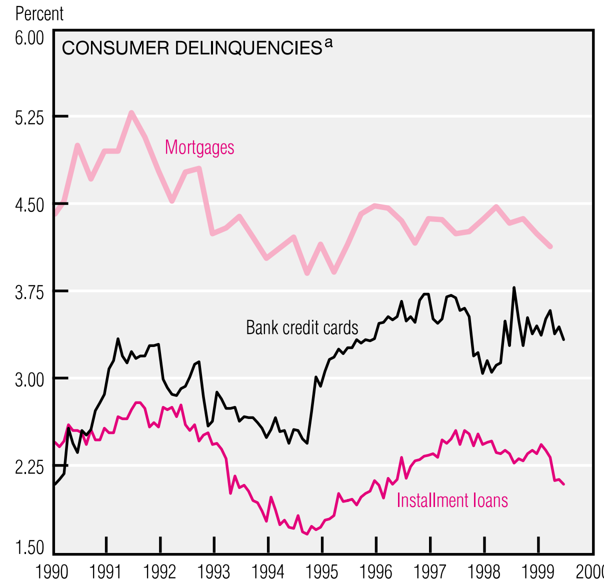
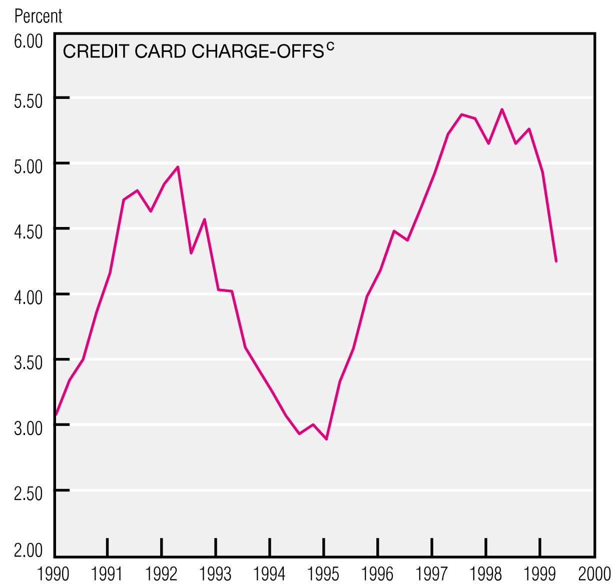
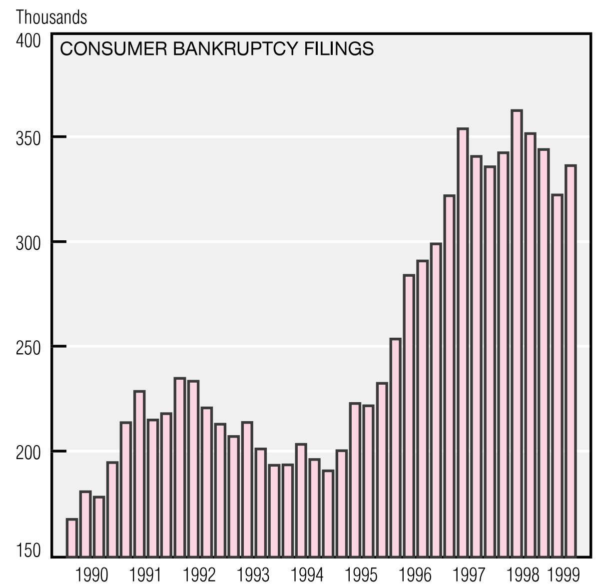
Regional Conditions









a. Seasonally adjusted annual rates.

b. Adjusted consumer debt as a fraction of disposable income is calculated using an estimate of bank card debt actually accruing financial charges.

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 amounts recovered on credit cards previously charged off, expressed as an annual rate.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Board of Governors of the Federal Reserve System; Administrative Office of the U.S. Courts; Federal Deposit Insurance Corporation, *Quarterly Banking Profile*; American Bankers Association, *Consumer Credit Delinquency Bulletin;* Mortgage Bankers Association of America, *National Delinquency Survey*; and *Bankcard Update/Bankcard Barometer.*

From the beginning of 1993 through the end of 1995, consumer indebtedness relative to income accelerated rapidly. It then stabilized for about two years before resuming an upward climb. This reacceleration of debt growth, topping levels that were already high by historical standards, is one of the few negatives in a long-running economic expansion.

However valid the fears that high debt-to-income ratios undermine economic strength, a closer look at households' financial positions through 1999:IIQ seems to mitigate such concerns considerably. For example, the recent increase in measured consumer indebtedness can be traced to temporary use of credit card balances to finance normal transactions. Through 1995, debt-to-income ratios, adjusted for convenience credit card use, mimicked the behavior of the unadjusted ratio. During the past year's expansion, however, the unadjusted ratio has had no counterpart in the adjusted one. In fact, while total debt has risen since July 1996 from 20.9% to 21.4% of disposable personal income, adjusted debt has fallen from 18.9% to 18.5% of income.

Other obvious measures of consumer finances likewise provide scant evidence of weakness in household balance sheets. The trend in consumer delinquencies—whether associated with mortgage

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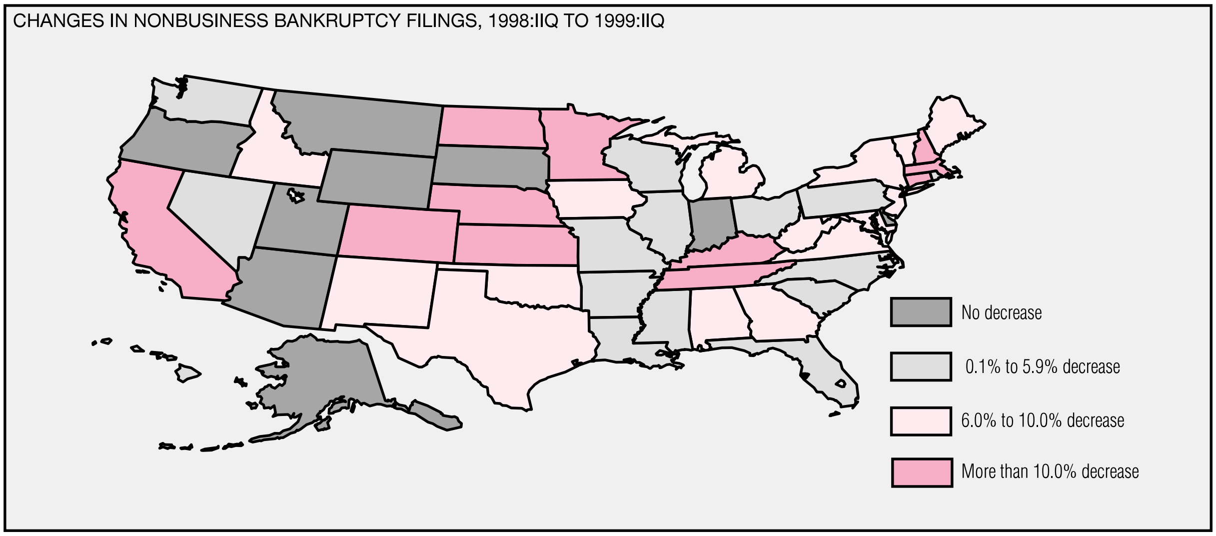
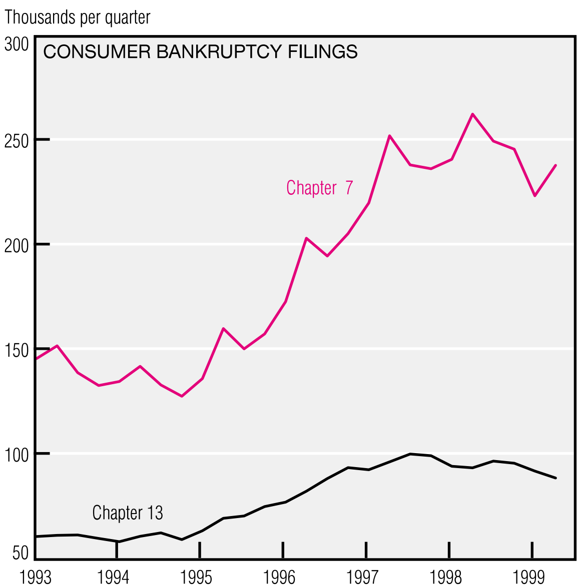
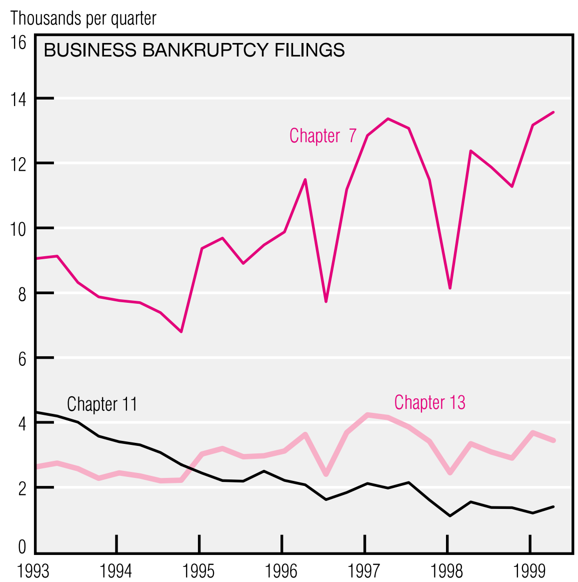
Regional Conditions (cont.)







SOURCES: Administrative Office of the U.S. Courts; and American Bankers Association, *Consumer Credit Delinquency Bulletin.*

debt, credit card liabilities, or installment loans—has been benign. Credit card charge-off rates have, in fact, dropped precipitously between 1998:IIQ and 1999:IIQ.

Like these other measures, consumer bankruptcy filings have revealed no sign that household balance sheets are deteriorating relative to the previous three years. Indeed, the 1998 spike in filings has moderated somewhat. Furthermore, a state-by-state comparison shows no remarkable regional pattern. Only eight states failed to register decreases in nonbusiness filings between 1998:IIQ and 1999:IIQ (interestingly, however, five of these were the contiguous states of Arizona, Utah, Wyoming, Montana, and South Dakota). Nonetheless, consumer bankruptcies remain at quite high levels, and the disproportionate increase of Chapter 7 filings—designed primarily for use by individuals who wish to free themselves of debt simply and inexpensively—has yet to be reversed.

The story does not really change with a shift from the household to the business sector. Chapter 11 business bankruptcy filings, which require court-monitored reorganization, have continued the downward drift experienced over the course of this expansion. Chapter 13 filings, which can be used by sole proprietorships, have been more or less stable since 1995. On the other hand, Chapter 7 business filings have increased sharply since the start of 1998. Chapter 7 filings are fairly volatile, however; thus the latest readings, although high, are not wildly out of line with recent experience.