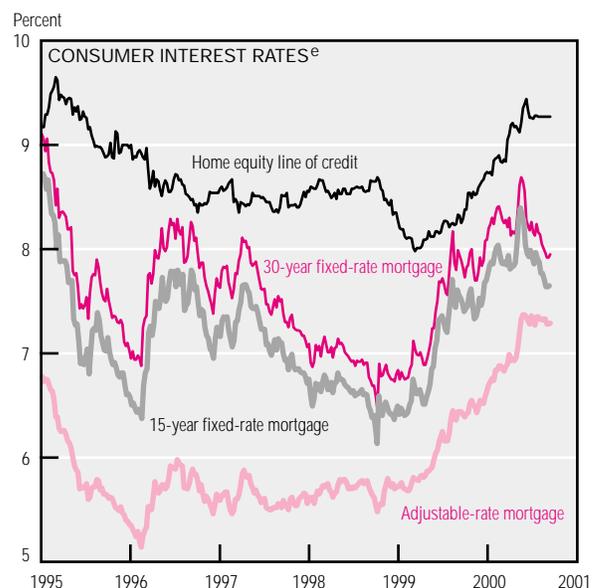
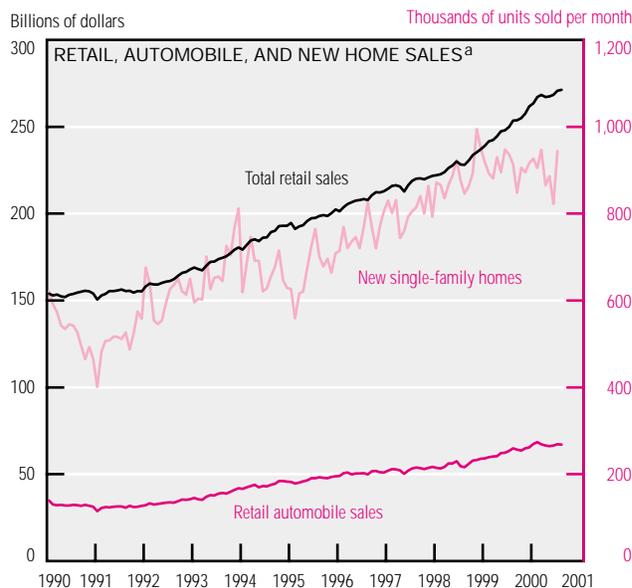
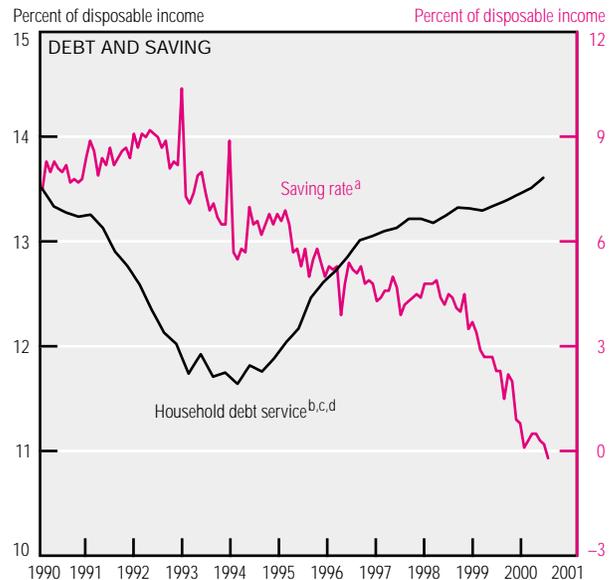
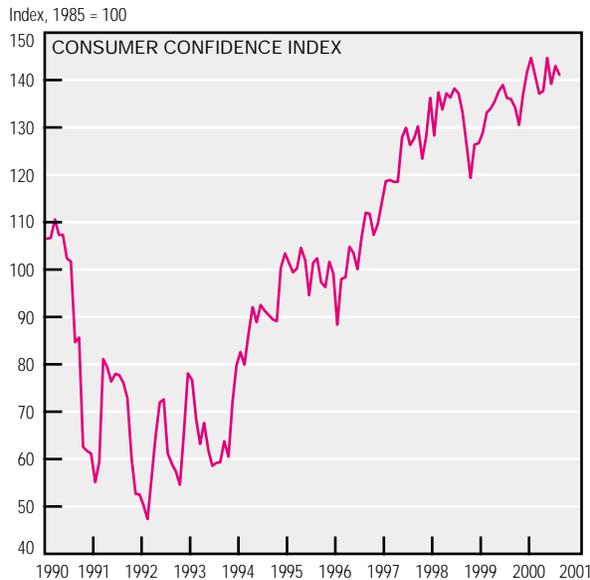


Household Financial Conditions



- a. Monthly data.
 b. Ratio of debt service payment to disposable personal income.
 c. Seasonally adjusted.
 d. Quarterly data.
 e. Weekly data.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Confidence Survey*; U.S. Department of Commerce, Bureau of Economic Analysis and Bureau of the Census; Board of Governors of the Federal Reserve System; The Conference Board; and Mortgage Bankers Association of America, *Bank Rate Monitor*.

Consumer spending fuels about two-thirds of the U.S. economy, so the health of the household sector interests policymakers keenly. In 2000, households have sent mixed signals. Although the Consumer Confidence Index has leveled off since the year began, it remains high, a sign that consumers expect the country's strong economic performance to continue.

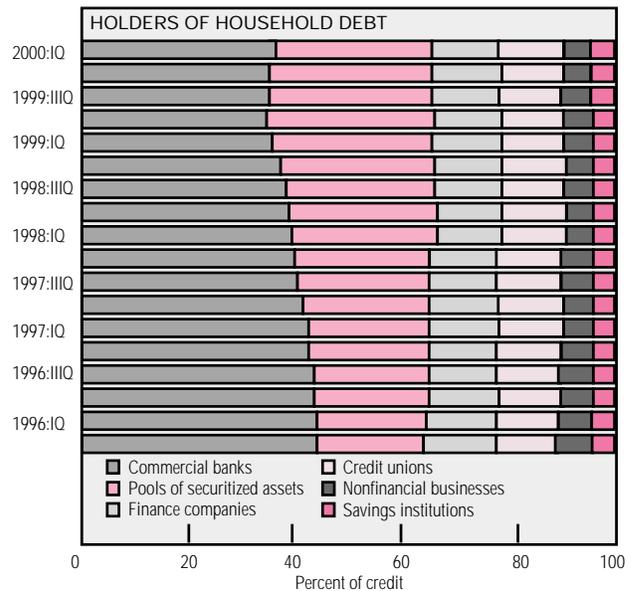
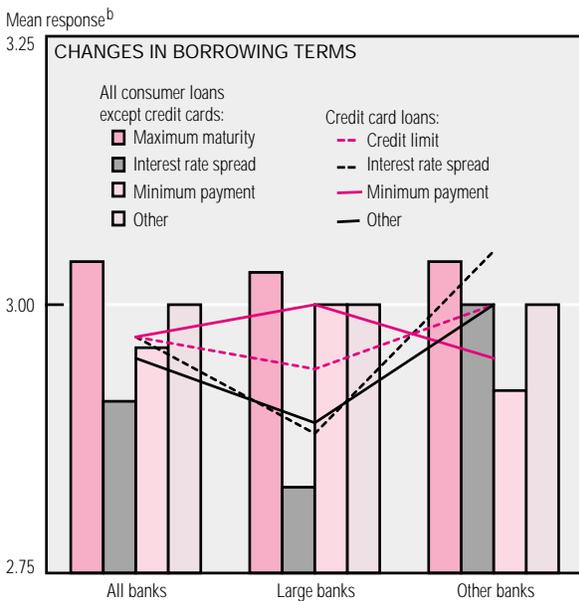
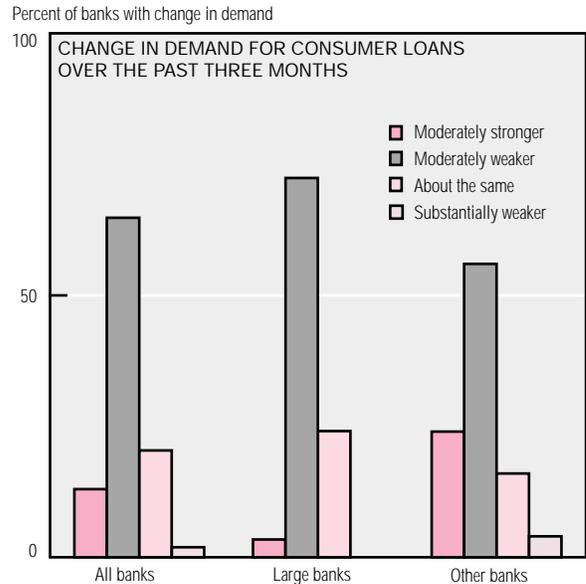
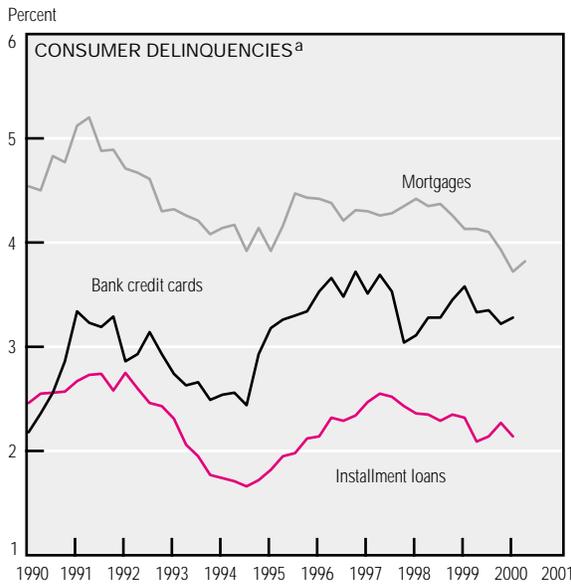
At the same time, the saving rate has hovered around zero for most of

2000, suggesting that consumers may be overextending themselves. The personal saving rate hit 0.0% in July and posted a record low of -0.4% in August, as consumers financed current spending by dipping into their savings or taking on more debt. Although personal income rose a faster-than-expected 0.4% in August, it failed to keep pace with personal consumption, which rose 0.6%.

Underlying the low saving rate is strong growth in outstanding credit

(8.5% for 2000:IQ and 9.3% for 2000:IIQ), which easily outpaced growth in disposable personal income for this period. Some analysts predict that consumption spending will cool, restoring the saving rate to a still-meager 1%. Any major economic downturn would find consumers straining under the debt burden amassed in the last five years. The ratio of household debt service to disposable income, which has risen steadily from an already high (continued on next page)

Household Financial Conditions (cont.)



a. Quarterly data.
 b. Mean response of banks where 1 = tightened considerably; 2 = tightened somewhat; 3 = remained basically unchanged; 4 = eased somewhat; and 5 = eased considerably.
 SOURCES: Board of Governors of the Federal Reserve System, *Senior Loan Officer Opinion Survey on Bank Lending Practices*; American Bankers Association, *Consumer Credit Delinquency Bulletin*; and Mortgage Bankers Association of America, *National Delinquency Survey*.

level since the beginning of 1997, now stands at 13.6%.

Although retail sales increased only 0.2% in August, sales of new single-family homes rose an unexpected 15% (from 823,000 in June to 944,000 in July), bucking the downward trend of the last 18 months. Lower fixed-rate mortgages, for terms of both 15 and 30 years, are at least partly responsible for this rebound. Auto sales, however, have eased over the last nine months.

Fixed mortgage rates have declined some since spring, but other interest rates that are important to consumers

remain higher than in the recent past. Adjustable-rate mortgages have not dropped significantly and are still near their highest levels since the early 1990s. The average rate for home equity lines of credit has fallen from its peak earlier in the year, but is still higher than at any time since 1995.

Although the household debt burden is at a historical high, it has not yet been accompanied by rising delinquency rates. Mortgage delinquencies generally have been falling since late 1997, although the latest data showed a slight uptick. Bank credit card delinquencies overall have

been dropping since late 1998. Installment loan delinquencies have been trending downward since mid-1997.

The demand for consumer loans has moderated in the last three months, although the decline was felt mainly at large banks. The terms on new and existing credit card accounts have tightened slightly. Commercial banks and pools of securitized assets continue to provide most consumer credit. Securitized assets' share has ceased to rise, however, holding at about 30% for the last year.