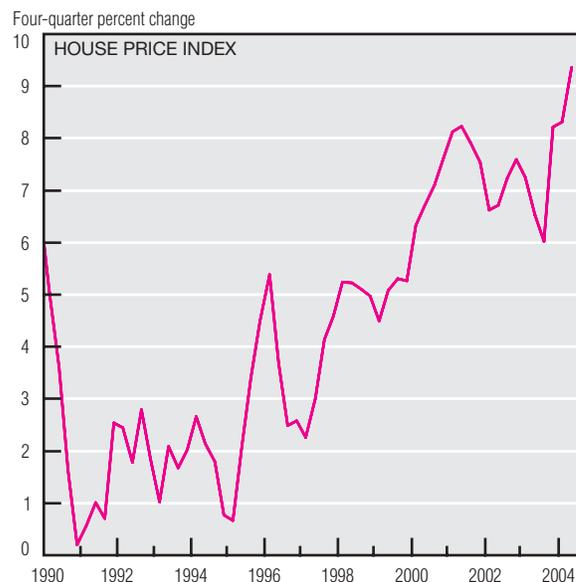
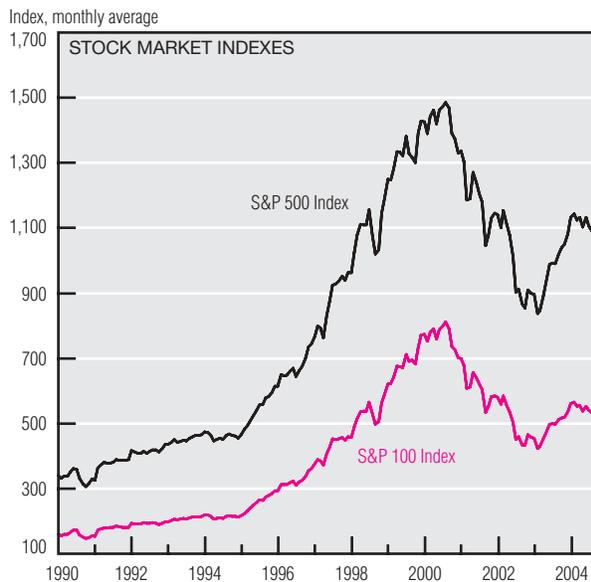
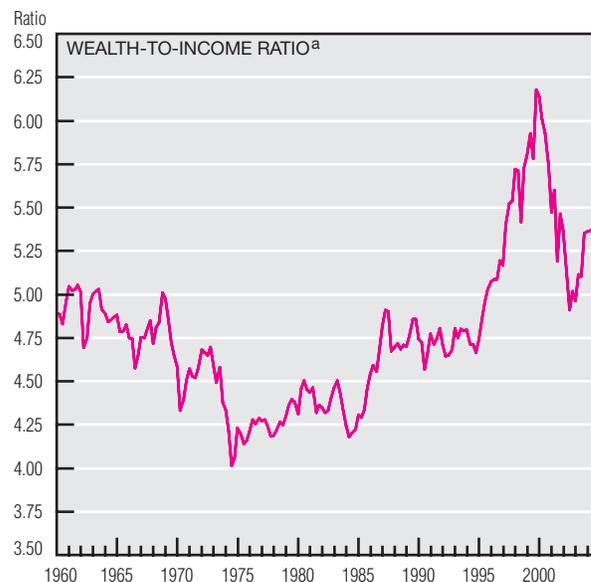
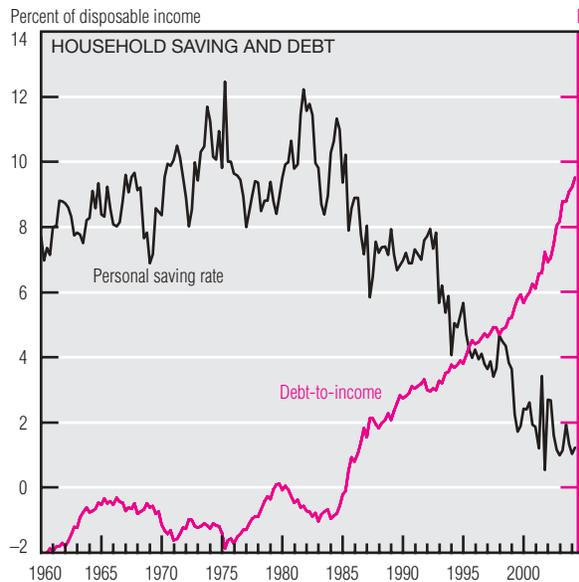


# Household Saving and Debt



a. Wealth is defined as net worth; income is defined as personal disposable income. Data are not seasonally adjusted.  
 SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Office of Federal Housing Enterprise Oversight; Board of Governors of the Federal Reserve System, "Flow of Funds Accounts of the United States," *Federal Reserve Statistical Releases*, Z.1; and *Wall Street Journal*.

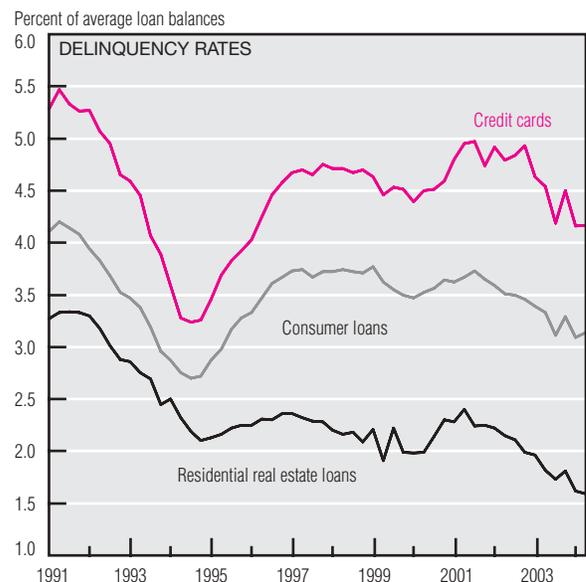
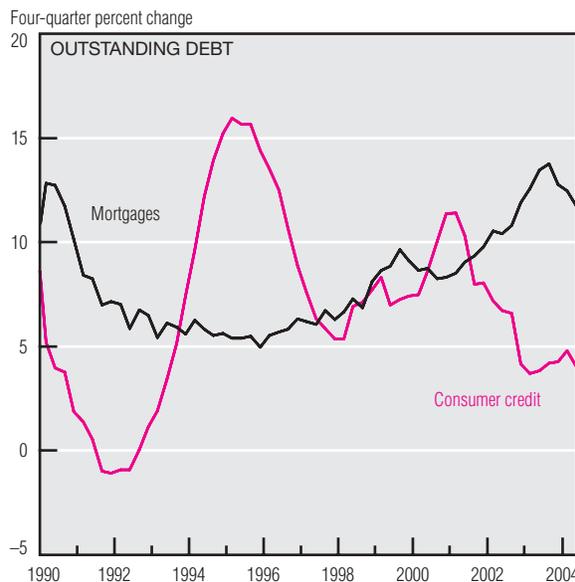
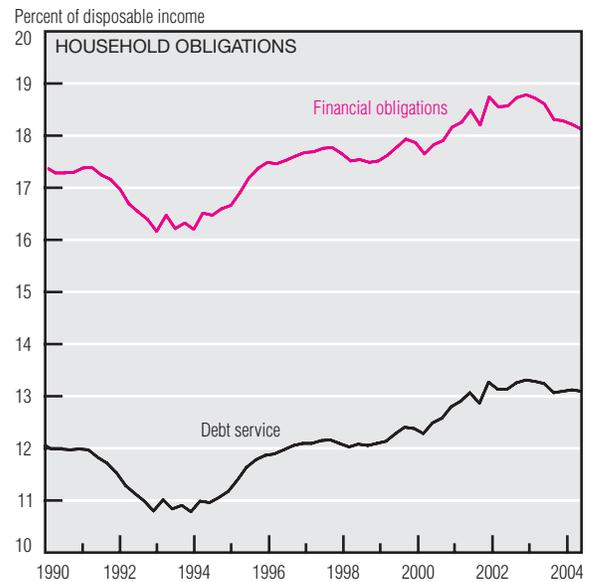
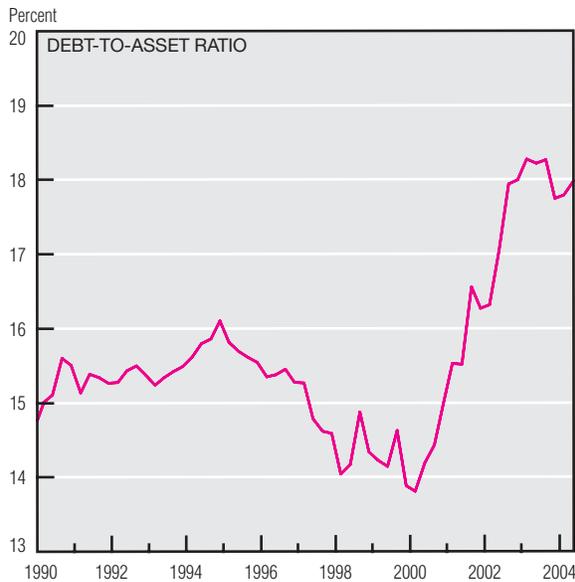
Over the past two decades, the personal saving rate in the U.S. has declined from about 10% to 1.2%. Meanwhile, the debt-to-income ratio has nearly doubled, reaching a record of almost 1.2. Several explanations exist for at least the recent drop in the personal saving rate. Some suggest that because of the significant productivity gains made in recent years, households have increased expectations for their long-run future income and so have increased their current spending. Another explanation suggests that households save less relative to their current income because of their rising

net worth, which is attributed to large capital gains in such assets as equities and residential real estate.

Indeed, households' net worth has increased significantly, largely because of stock market gains and home price appreciation. Since 1990, the S&P 500 Index has appreciated nearly  $3\frac{1}{2}$  times ( $4\frac{1}{2}$  times at its peak in late 2000), while average housing prices have almost doubled and continue to accelerate. In a recent speech, Federal Reserve Chairman Alan Greenspan said, "Despite the recent high debt-to-income ratios... taking into account this higher level of assets, all in all, the

household sector seems to be in reasonably good financial shape with only modest evidence of an increased level of household financial strain." However, he cautioned that "ratios of household debt to income appear to imply somewhat more stress than is likely to be the case... household debt has been rising faster than income as ever-higher levels of discretionary income have increased the proportion of income spent on assets partially financed with debt." While the debt-to-income ratio may be an indicator of household financial stress, Chairman  
*(continued on next page)*

## Household Saving and Debt (cont.)



SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and Board of Governors of the Federal Reserve System, "Charge-Off Delinquency Rates on Loans and Leases at Commercial Banks," and "Flow of Funds Accounts of the United States," *Federal Reserve Statistical Releases*, Z.1.

Greenspan also pointed out that the ratio reflects a rise in home ownership, improved information technology that enables lenders to reach more households, and increased home equity loans resulting from home price appreciation.

The debt-to-asset ratio suggests that household debt is, most recently, growing at a faster pace than household assets. However, the household debt-service ratio (the ratio of required payments on outstanding mortgage and consumer debt to disposable income) has moderated over the past couple of years but remains high

compared to levels over the past 24 years. Similarly, household financial obligations, a broader measure that includes debt service as well as contractual payments for such things as automobile leases, rents, homeowners' insurance, and property taxes, is relatively high at nearly 18% of disposable income. Chairman Greenspan attributed these measures' recent stability to historically low mortgage rates. The resulting wave of mortgage refinancing reduced monthly payments directly and indirectly by extracting equity to repay more expensive consumer debt. Moreover,

recent tax cuts may also have contributed to the moderation in measures of household debt service and financial obligations.

Growth of both consumer credit and home mortgage debt has slowed in recent quarters although growth in home mortgage debt remains historically high. Delinquency rates continue to decline despite rising interest rates. Although delinquency rates on credit card loans and consumer loans have stopped falling, rates on residential real estate loans recently fell to 1.6%, the lowest level in more than 10 years.