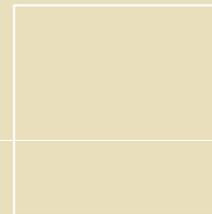


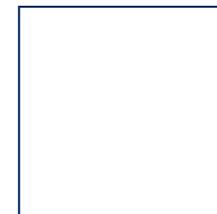
Are Consumers Tapped Out? Household Deleveraging and the Outlook for Consumer Spending



R. Andrew Bauer, Ph.D.
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Research Department



Afternoon at the Fed
April 4, 2011



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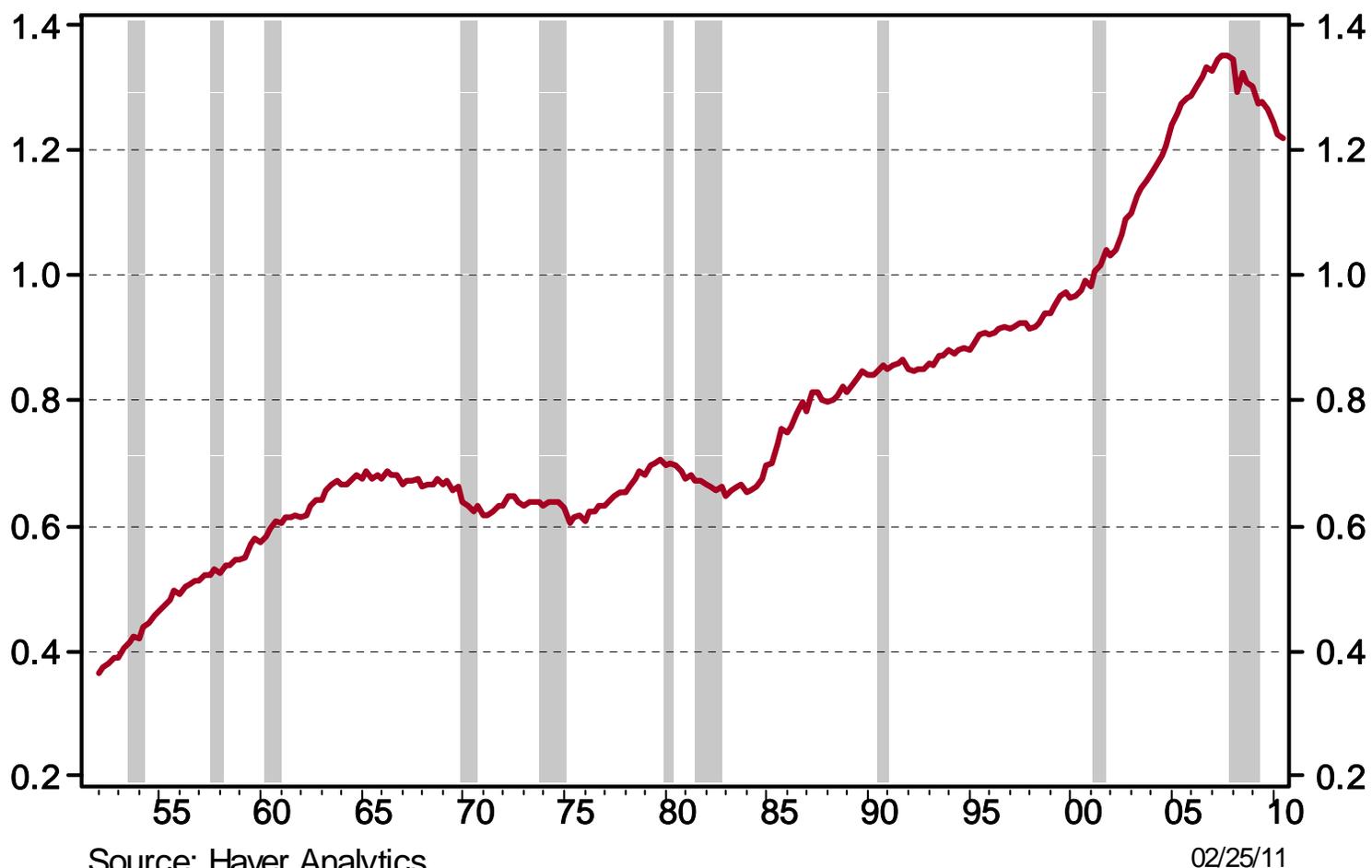
The views expressed here are those of the author, and do not necessarily represent those of the Federal Reserve Bank of Richmond or the Federal Reserve System.





The Great Leveraging

Household Debt Relative to Disposable Personal Income



Source: Haver Analytics

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The Great Deleveraging

- Consider three main reasons net borrowing can decrease
 - Less new borrowing
 - Paying down existing debt
 - Defaulting on existing debt
- Clearly all three have been taking place since the onset of the recession
 - Auto & home purchases – newly originated installment loan balances for autos and mortgages fell sharply
 - Accelerated payments on existing balances likely less of a factor—typically households tend to repay credit balances at slower rate when economic activity is weak
 - Enormous wave of mortgage defaults and a sharp increase in defaults on credit cards and other consumer loans





Financial position of households improving

- Indications that suggest improvement in credit conditions
 - Consumer credit has turned positive in recent months
 - Auto sales picked up sharply at the end of 2010
 - Survey of Senior Loan Officers indicate greater demand for consumer loans & greater willingness to make new loans
 - Charge-off and delinquency rates on consumer credit improving
 - Some of the balance sheet indicators suggest significant progress in repairing household balance sheets
 - Increase in net worth over 10% since 2009 (\$4 trillion)
- However, rate of seriously delinquent mortgages remains elevated and it will take time to work through these loans
 - Default rates will remain elevated in the near-term

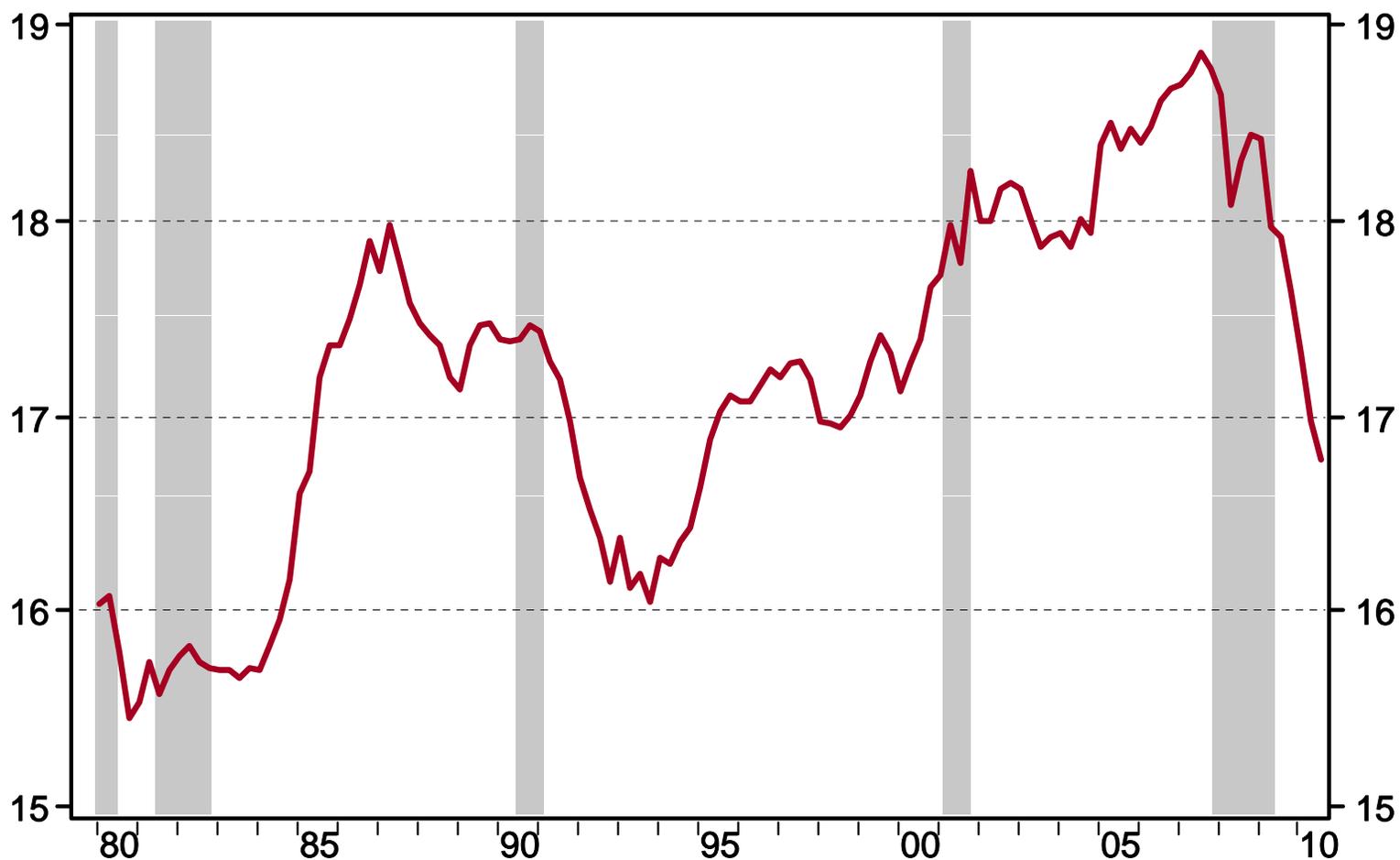




Indications of improving credit conditions

Household Financial Obligation Ratio

SA, %



Source: Federal Reserve Board /Haver Analytics

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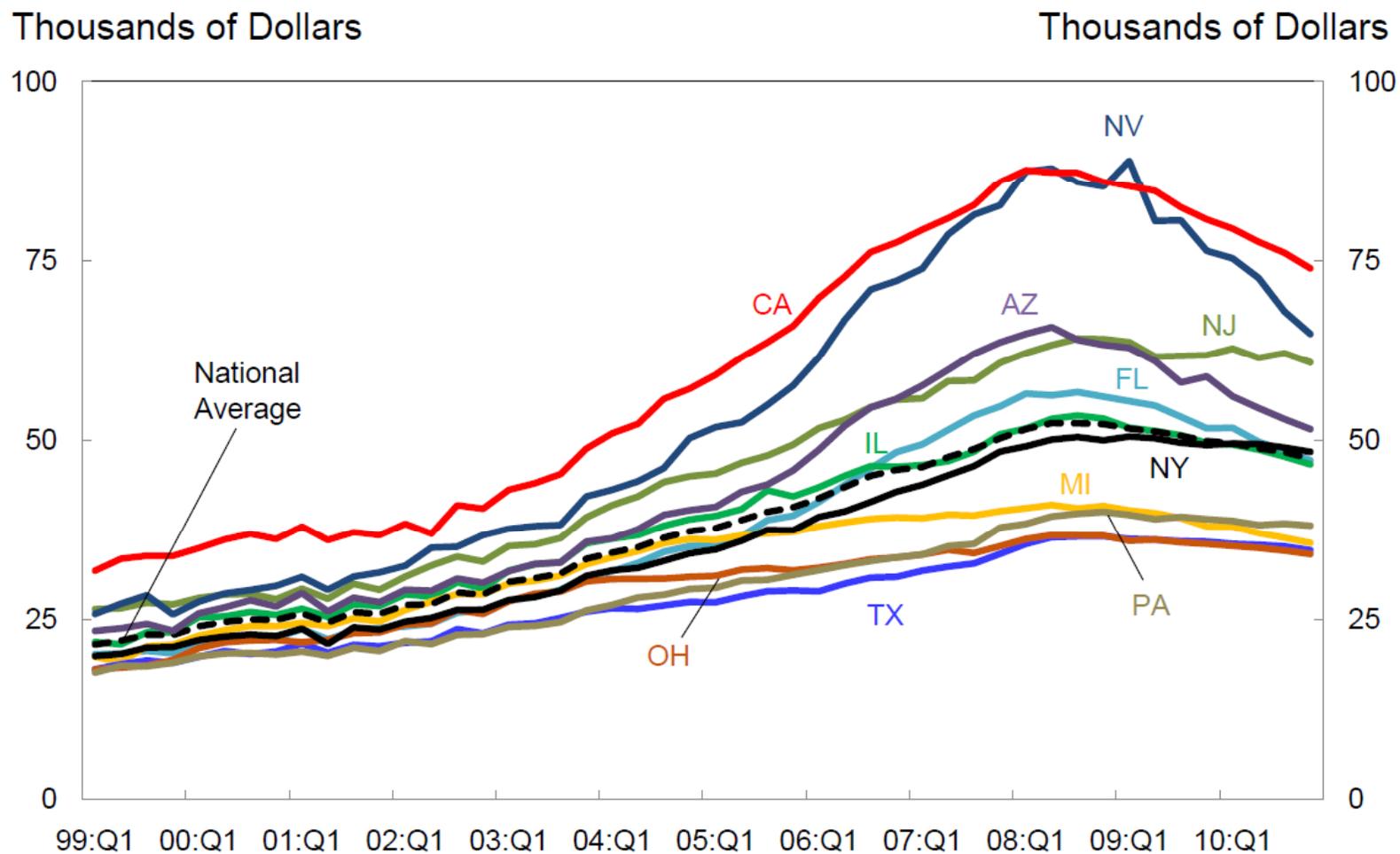
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Conditions vary considerably by state

Total Debt Balance per Capita* by State

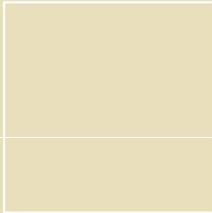


Source: FRBNY Consumer Credit Panel

* Based on the population with a credit report

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