The State of US Households

Robert G. Kahl, CFA, CPA, MBA
https://SabinoIM.com

US household consumption represents 70.3% of GDP, so economists evaluate the financial health of US consumers when they make their forecasts. A 2023 Forbes Advisor survey indicated that 40% of respondents were “living paycheck to paycheck” and another 29% reported that their income didn’t cover their standard expenses. While the aggregate numbers don’t look too bad, there are some signs of weakness.

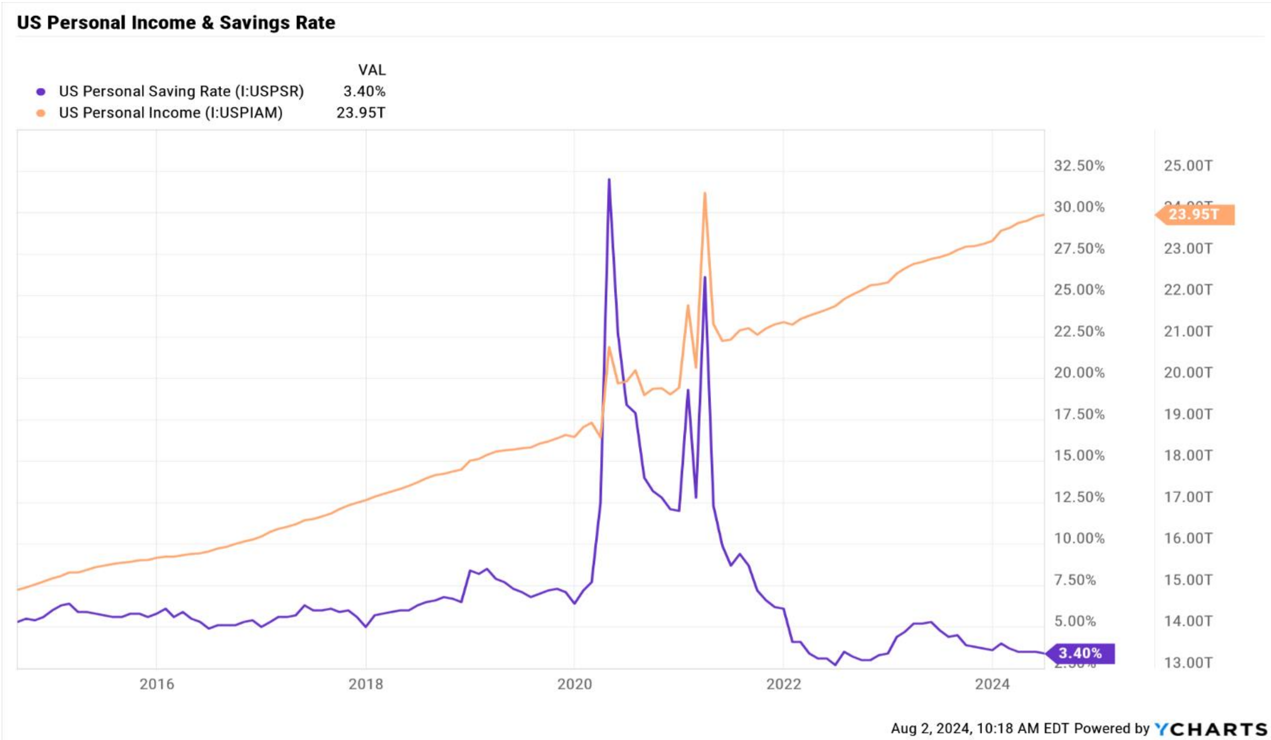
This morning, the Bureau of Labor Statistics (BLS) reported that 114,000 people were added to non-farm payrolls in July. This was lower than the consensus estimate of 175,000, and the monthly numbers have been trending lower during the last two years. Recession fears quickly emerged along with expectations of a reduction in the Federal Reserve’s target range for the federal funds rate from the current level of 5.25 to 5.5%. As a result, stock prices declined, while bond prices got a boost. Precious metal prices were up early in the morning and remained in positive territory by a small margin at the market close.

Generally, the Federal Open Market Committee (FOMC) changes the fed funds target rate only at their scheduled meetings. Their next scheduled meeting will be on September 17-18. The financial markets may have to wait six weeks before they get the anticipated rate cut unless the Fed takes decisive action.

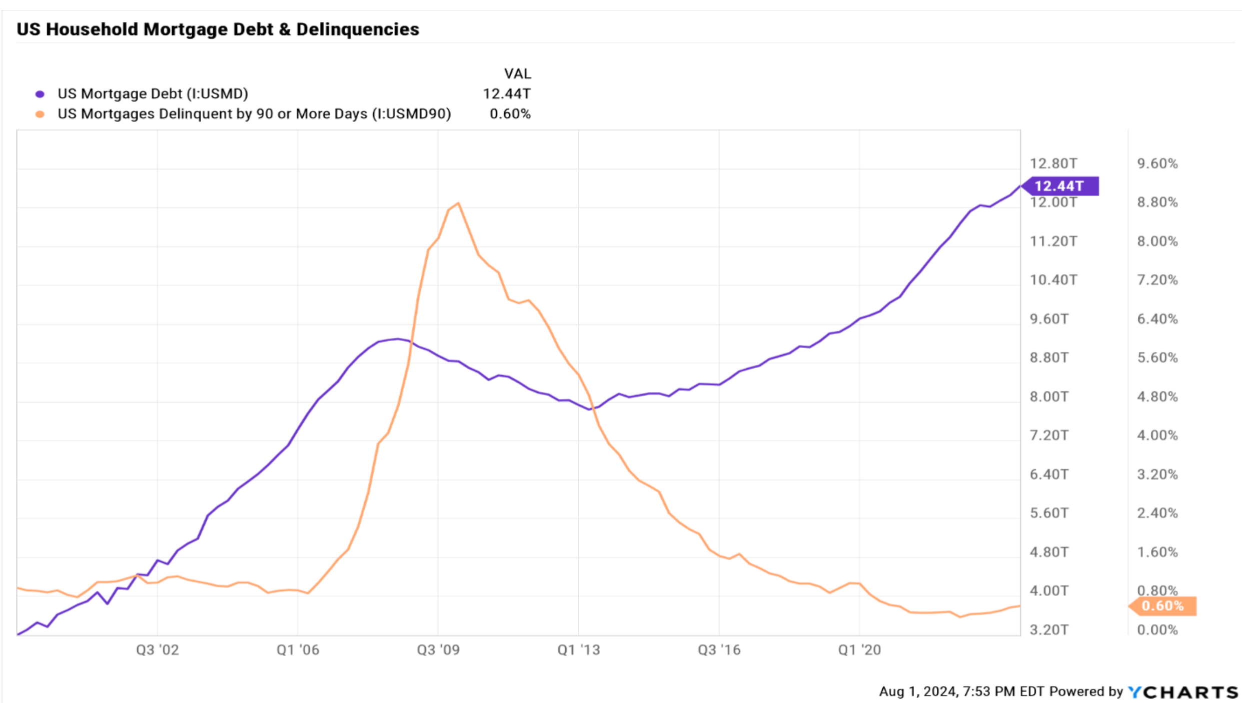
At the end of the first quarter of 2024, US household debt reached $17.69 trillion according to the New York Federal Reserve Bank. This consisted of the following categories:

- Mortgage debt $12.44 trillion
- Auto loans $1.62 trillion
- Student loans $1.59 trillion
- Credit cards $1.11 trillion
- Other $ 0.54 trillion

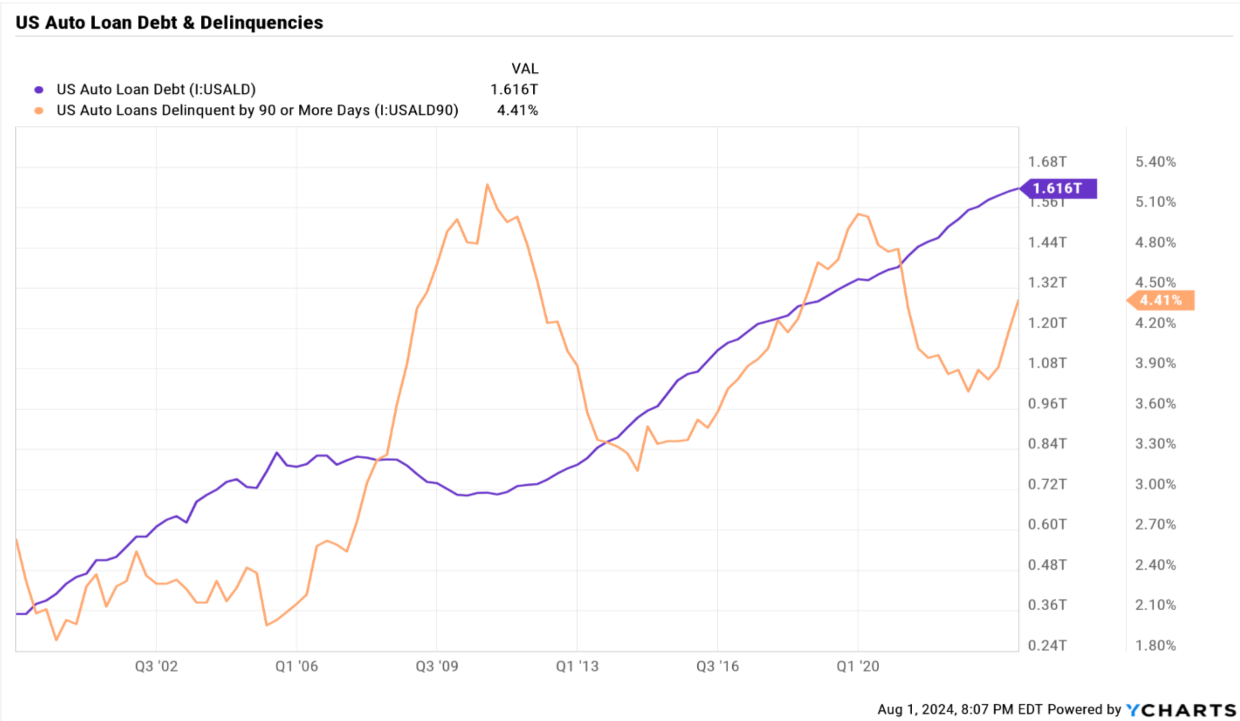
During the COVID years of 2020 and 2021, both US personal income and the savings rate spiked up due to government subsidies. Since then, personal income has resumed its course on an upward trend line. The personal savings rate, however, has dropped to a lower level. Prior to COVID, the personal savings rate was in a 5-8% range. Since 2022, the personal savings rate has been in a 2.5-5% range.



US mortgage debt has increased steadily since 2013, but delinquencies have remained low.



Delinquencies on US auto loans have increased to a tolerable level of 4.4%.



In Mid-July, a federal appellate court blocked the Biden administration's SAVE program, a student loan forgiveness and repayment plan based on income which affected eight million borrowers. The US Department of Education will place these borrowers into an interest-free forbearance plan for now. According to Forbes, millions of other student loan borrowers are already in forbearance programs where no payments are due. The delinquency rate on student loans is now dramatically lower than it was in 2020 because the federal government is not attempting to collect on the loans. How long these policies will continue remains to be seen.

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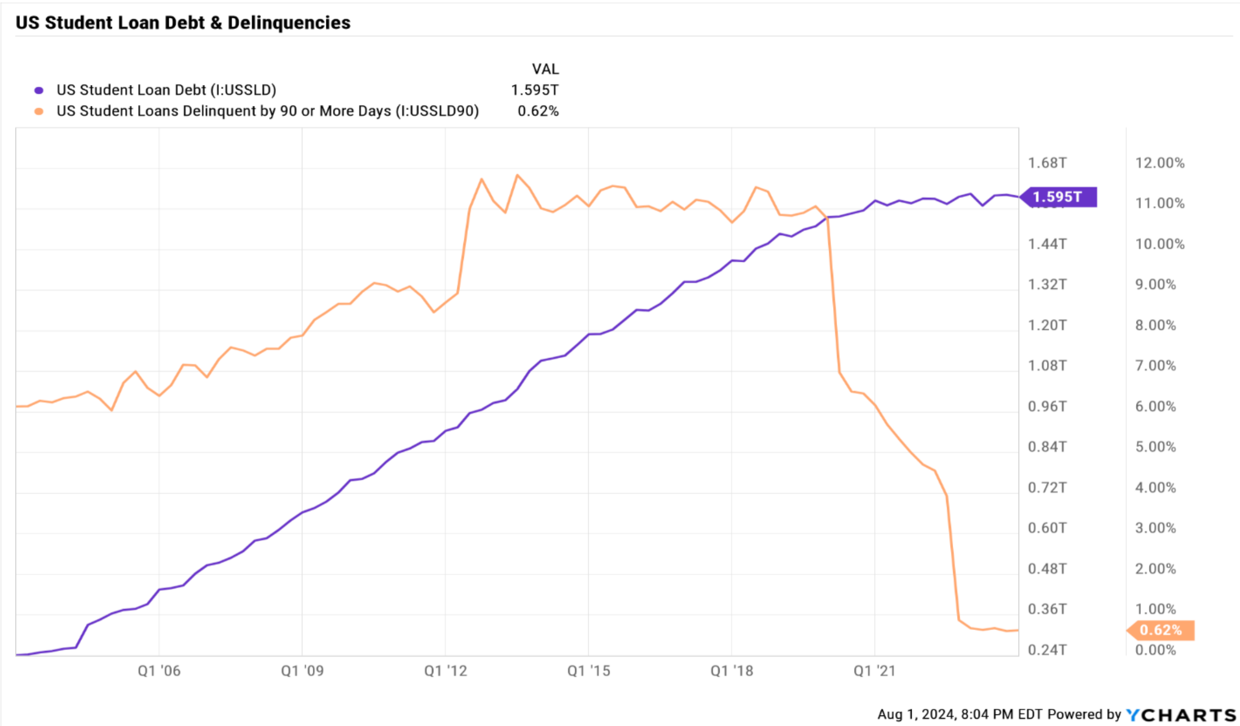
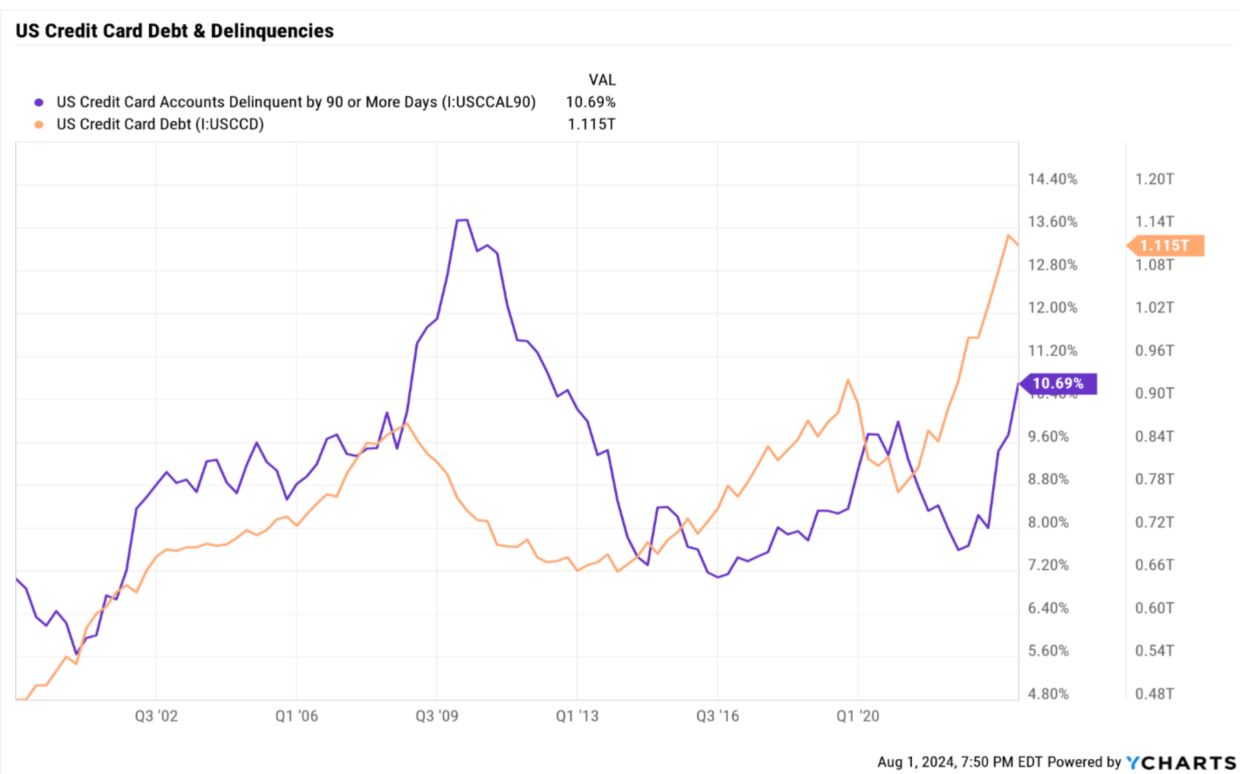


Unfortunately, some households have relied on credit card debt to pay expenses. The delinquency rate on US credit card debt now stands at 10.7%.



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Stephanie Pomboy, economic and market analyst and proprietor of MacroMavens.com, summed it up by saying that consumers are “spent up and lent up.” Given the low savings rate, the impact of the resumption of collections on student loans, and some curtailment of credit card debt, it is difficult to make a case for the US consumer being a source of economic expansion.

If you have any questions or comments, please contact me.

Sincerely,
Robert G. Kahl
CFA, CPA, MBA