

## US: LARGE GAINS IN HOUSEHOLD NET WORTH BOOST SPENDING

Large gains in household net worth: The value of financial assets up \$1.4 trillion and non-financial assets up \$0.5 trillion in Q3

**The Fed's report on U.S. Financial Accounts (Flow of Funds) showed household net worth increasing by \$1.7 trillion in Q3, the fifth consecutive quarter exceeding \$1.2 trillion (Chart 1).** The \$7.2 trillion gain in household net worth over the last year is primarily due to the equity market rally and strong home price appreciation.

*This equity-led boost to net worth is fueling optimism and boosting the propensity to spend. Chart 2 shows consumer confidence and net worth tracking each other closely, especially since the financial crisis. This has fed through to real consumption, which has maintained solid growth despite relatively sluggish gains in real disposable income.*

The ratio of net worth to disposable personal incomes rose to 673% in Q3, an all-time high, while the rate of personal saving receded to a cyclical low of 3.3% — evidence of the wealth effect (Chart 3). The personal saving rate is near 2005–07 lows and signals **improving confidence but suggests a smaller buffer for “rainy days.”** Successful new tax legislation would provide a modest lift to real disposable income growth, supporting consumption even if the boost from net worth fades.

The value of nonfinancial assets, largely real estate, has grown more slowly than financial assets, but its strong 6% rise in Q3 reflects the renewed acceleration in home prices (Chart 4). This trend in part reflects the strong demand for housing and a chronic shortage of homes for sale.

### Loan growth up 4% yr/yr in Q3, fastest in the recovery

*The Flow of Funds data also showed increased reliance on consumer credit for consumer everyday purchases while the pace of growth of credit for autos and student loans has slowed from earlier rapid paces (Chart 5).*

Student loans outstanding rose 6% yr/yr in Q3, its slowest pace in years, but total outstanding student debt of \$1.5 trillion continues to raise debt service costs of younger people and inhibit their access to mortgage credit for home purchases.

Auto loan growth has slowed this year: demand is peaking and some lenders have tightened credit standards, particularly in the subprime auto market where delinquencies have risen significantly. The median credit score on auto loans is now above 700 but the portion of auto loans that are seriously delinquent continues to increase (Chart 6).

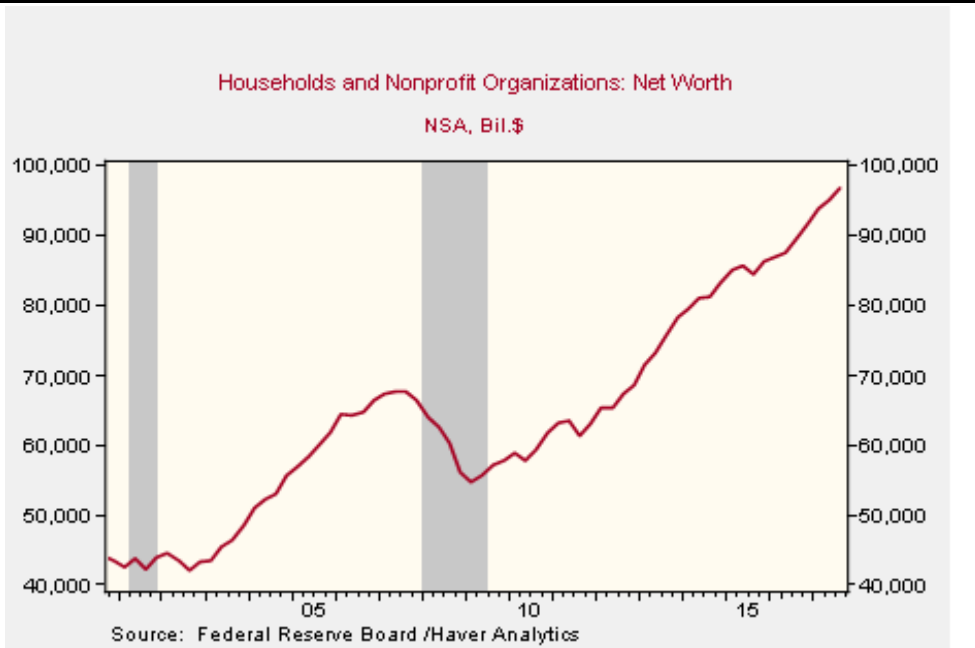
Mortgage loans outstanding has increased for ten consecutive quarters but remains well below the crisis levels, reflecting the slower pace of new originations and amortization of principal. We expect mortgage credit outstanding to continue to increase as home ownership rises, but with low interest rates, debt service costs will remain low relative to rising disposable incomes.

Bottom line: The consumer balance sheets are in fairly good shape, reflecting rising disposable incomes, moderate increases in debt, and low interest rates that are

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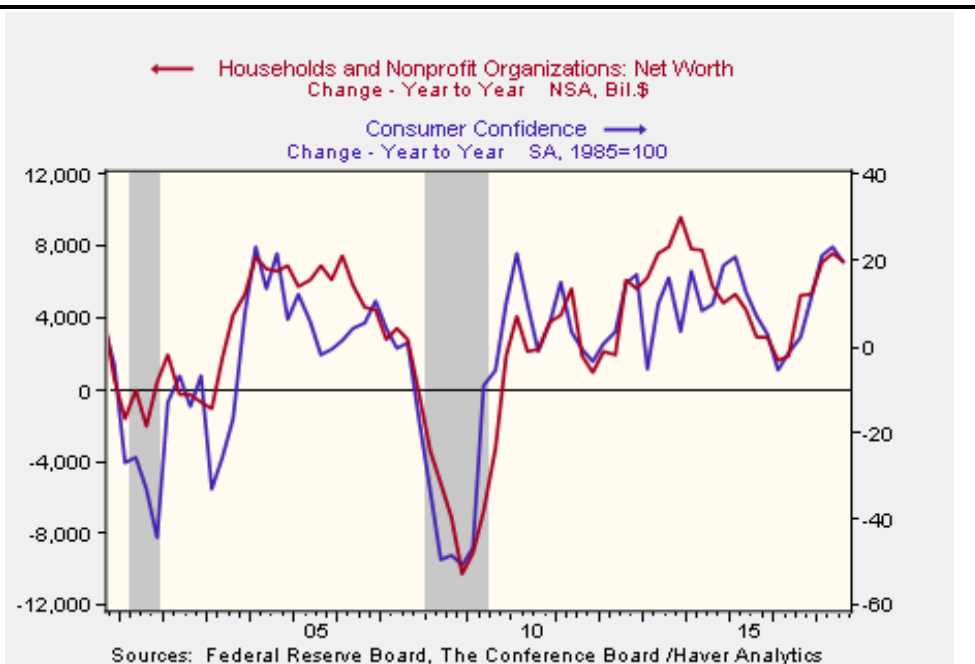
constraining debt service burdens (see Chart 7). Nonperforming student loans and delinquencies in subprime auto loans are definitely a problem, but not sufficiently large to be considered a threat to macro financial stability. Individual income tax cuts in 2018 and a lower corporate tax rate will lift incomes and enable consumption to make a sizable contribution to economic growth in 2018. Continued equity market rally would of course provide an additional boost.

Chart 1: Household Net Worth



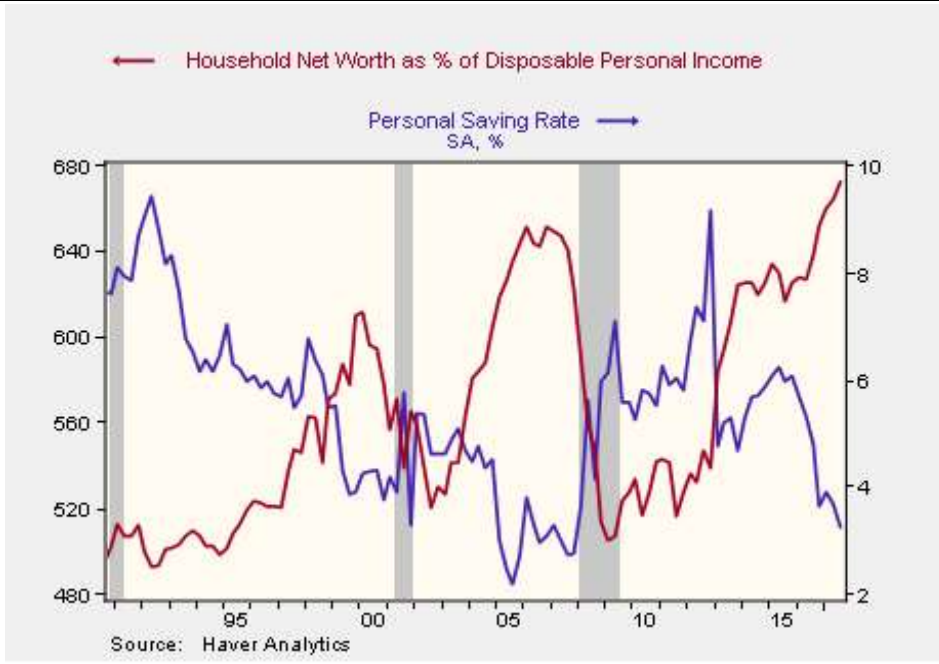
Source: Quarterly data. Source: Federal Reserve Board and Haver Analytics

Chart 2: Consumer Confidence and Household Net Worth (year-over-year)



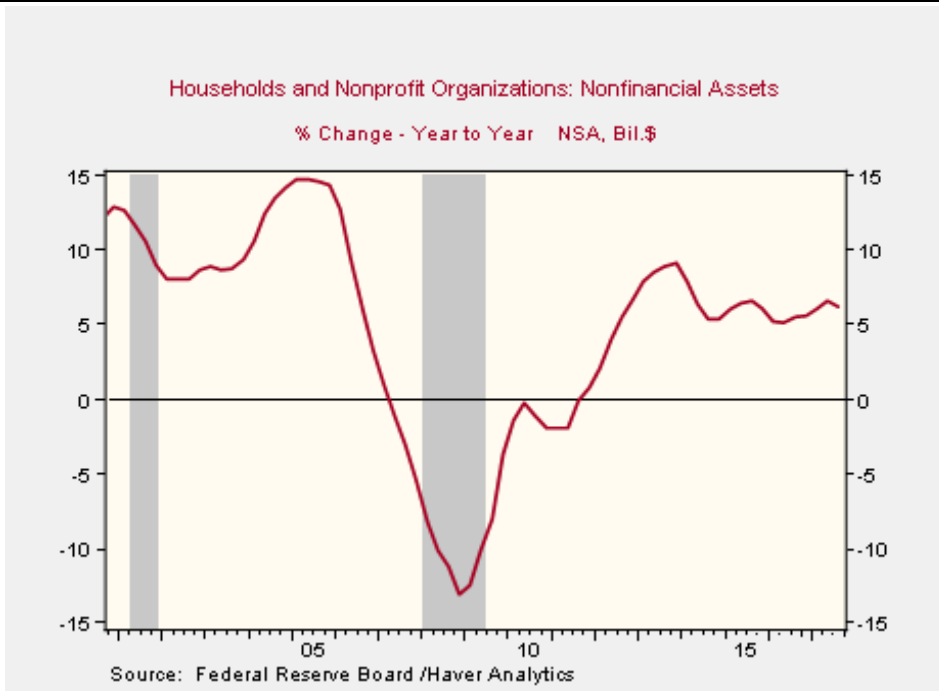
Source: Quarterly data. Source: The Conference Board, Federal Reserve Board and Haver Analytics

Chart 3: Household Net Worth as Share of Disposable Personal Income and Personal Saving Rate



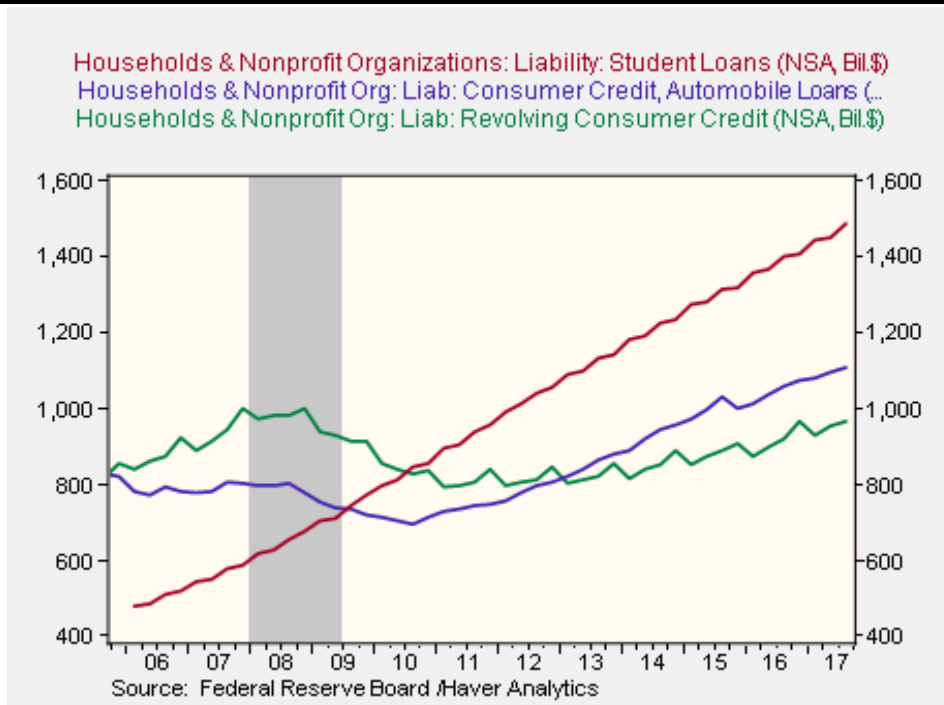
Source: Quarterly data. Source: Federal Reserve Board, Bureau of Economic Analysis and Haver Analytics

Chart 4: Growth in Household Nonfinancial Assets (year-over-year, %)



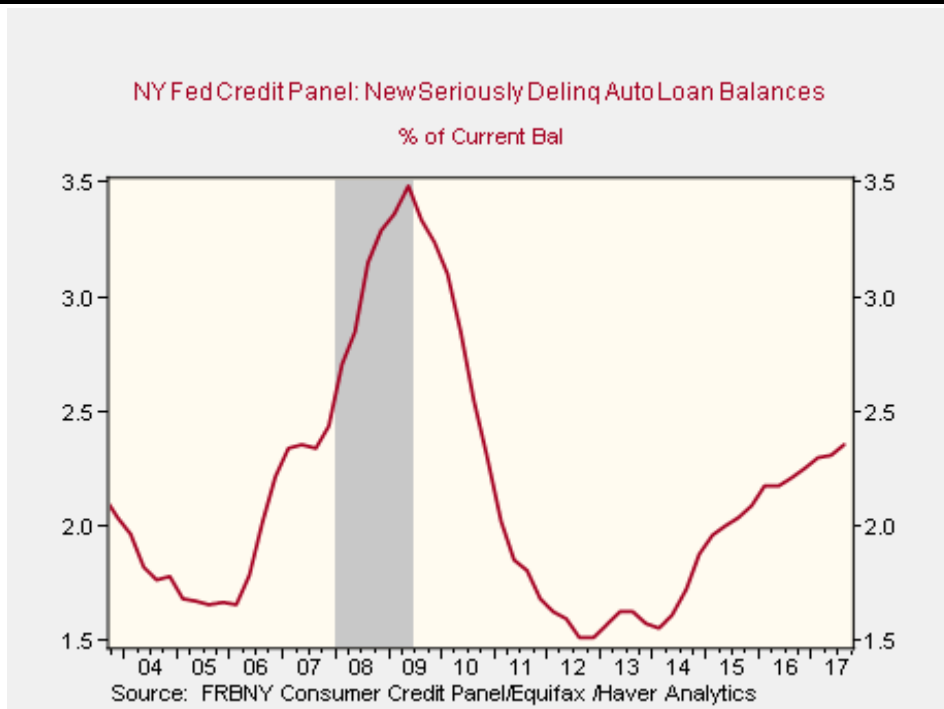
Source: Quarterly data. Source: Federal Reserve Board and Haver Analytics

Chart 5: **Households'** Student and Auto Loans, and Consumer Credit



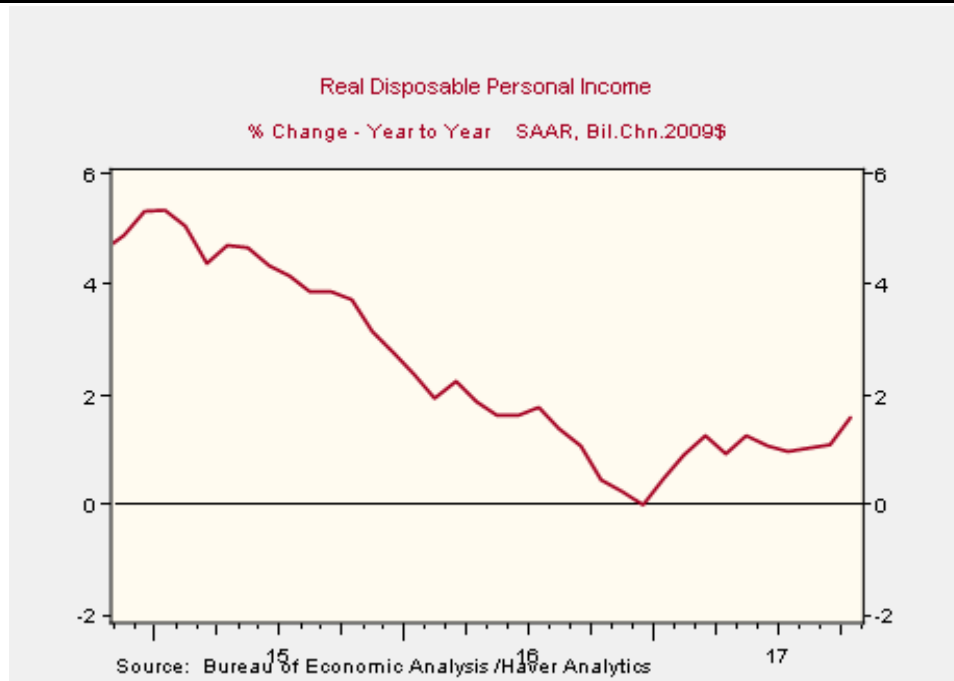
Source: Quarterly data. Source: Federal Reserve Board and Haver Analytics

Chart 6: New Seriously Delinquent Auto Loans



Source: Quarterly data. Source: Federal Reserve Bank of New York Consumer Credit Panel, Equifax and Haver Analytics

Chart 7: Real Disposable Personal Income Growth (year-over-year, %)



Source: Quarterly data. Source: Bureau of Economic Analysis and Haver Analytics

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