

FEDERAL RESERVE BANK OF ST. LOUIS



CENTRAL TO AMERICA'S ECONOMY

STLOUISFED.ORG

The State and Future of U.S. Family Balance Sheets

Presentation at the
Bridging Financial Opportunities Conference
Federal Reserve Bank of Philadelphia
July 17, 2014

Ray Boshara*
Federal Reserve Bank of St. Louis
www.stlouisfed.org/hfs

**These are my own views, and not necessarily the views of the Federal Reserve Bank of St. Louis, Federal Reserve System, or the Board of Governors.*

Why Balance Sheets?

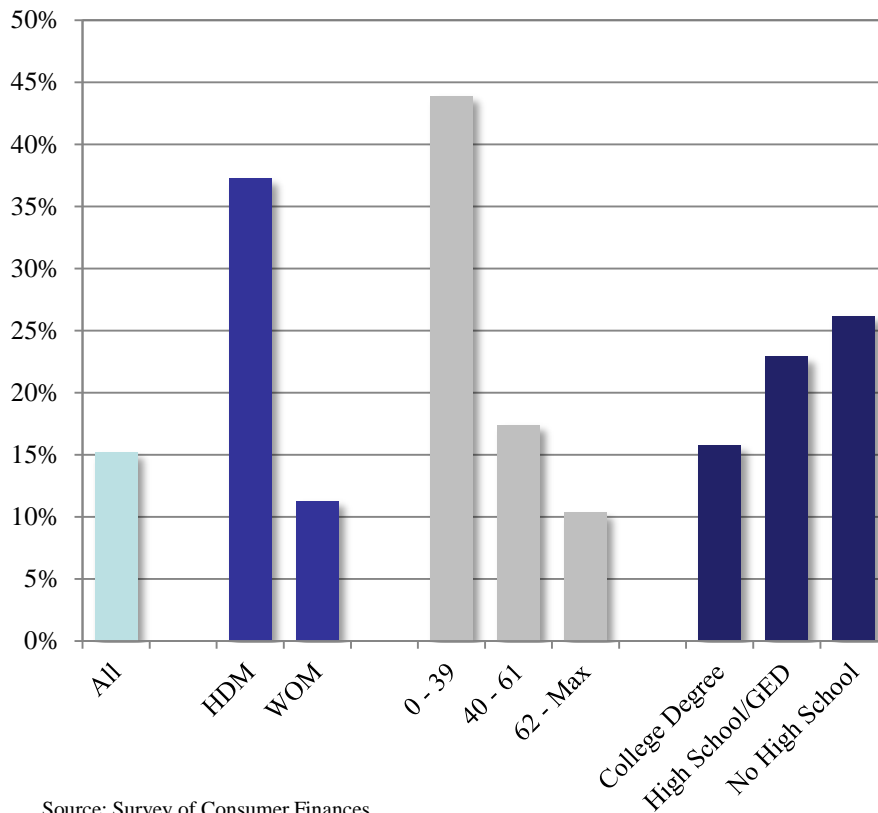
- * Balance sheets offer new insights into the financial health of families and performance of the U.S. economy – balance sheets matter in ways that income and wages may not.
- * The Great Recession was a “balance sheet recession.” Four balance sheet “failures” over the last decade:
 - Highest rate of homeownership ever recorded—69% in 2004
 - Highest concentration of wealth in homeownership since at least 1952, when data began—33% in 2005
 - Highest personal debt-to-income ratio since at least 1952, when data began—132% in 2007
 - Lowest personal saving rate since 1934—1.5% in 2005

Who Lost Wealth in the Great Recession?

Net Worth by Age, Race and Education

(Emmons and Noeth, 2013)

Percentage Losses In Mean Net Worth 2007-2010



Source: Survey of Consumer Finances
HDM: Historically Disadvantaged Minorities
WOM: White or Other Minority

➤ Less-educated families

- Less than high school degree: - 26.1%
- High school grads: -22.9%

➤ Historically disadvantaged families

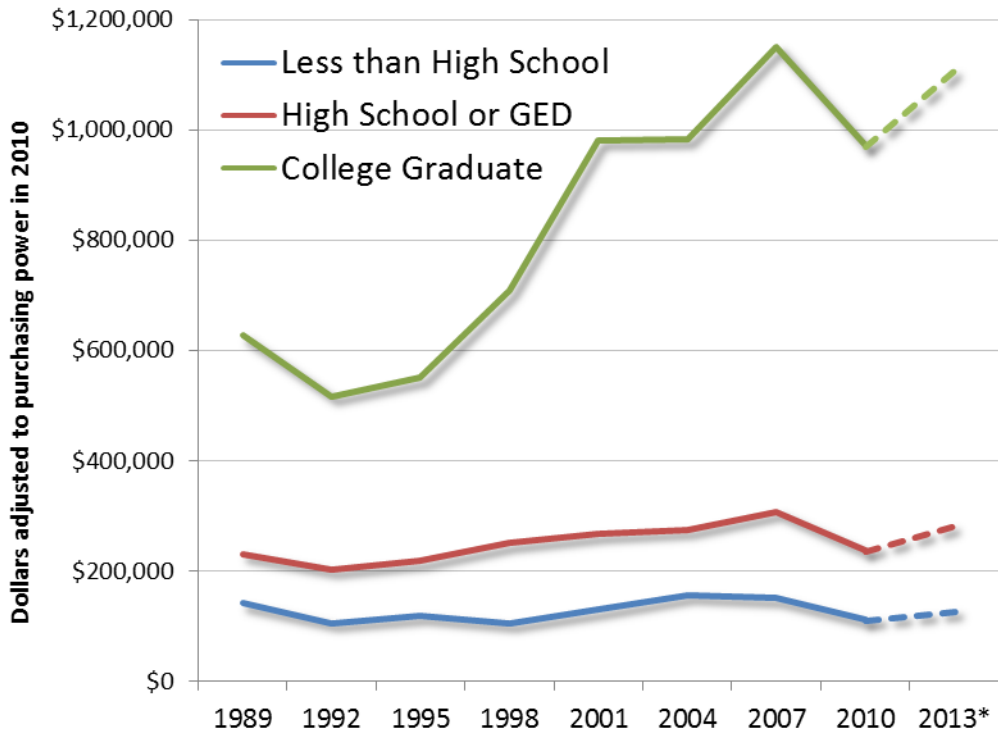
- African-American and Hispanic (HDM): -37.2%
- Whites, Asians and other minorities (WOM): -11.2%

➤ Younger families

- Under 40: -43.9%
- Age 40-61: -17.4%

Education

Average Real Net Worth by Education of Family Head



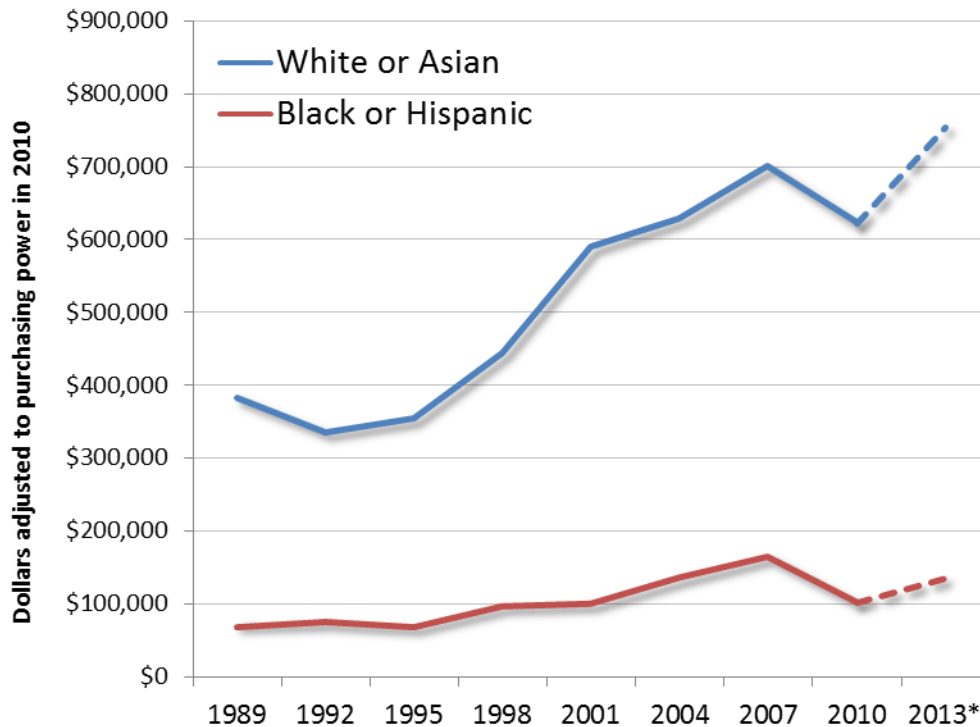
Source: Survey of Consumer Finances, Census Bureau, FRBNY Credit Panel / Equifax, and the Financial Accounts of the United States based on authors' calculations

*2013 are Q3 estimates

➤ Bullet Points

Race and ethnicity

Average Real Net Worth by Race/Ethnicity of Respondent



➤ Bullet Points

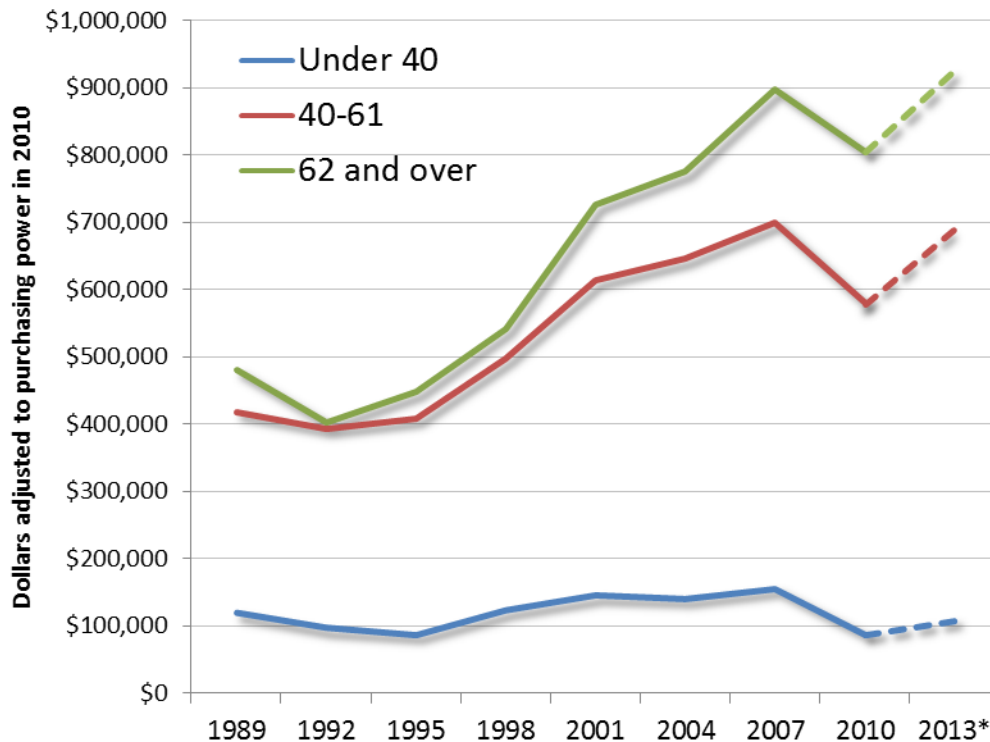
Source: Survey of Consumer Finances, Census Bureau, FRBNY Credit Panel / Equifax, and the Financial Accounts of the United States based on authors' calculations

*2013 are Q3 estimates

Age

(Emmons and Noeth, 2013, 2014)

Average Real Net Worth by Age of Family Head



Source: Survey of Consumer Finances, Census Bureau, FRBNY Credit Panel / Equifax, and the Financial Accounts of the United States based on authors' calculations

*2013 are Q3 estimates

Why do younger families have relatively weak balance sheets?

- Over investment in homeownership
- Greater reliance on student loans
- Happen to follow the “luckiest” generations

Thrivers vs. Strugglers Since 1989

(Emmons and Noeth, 2013)

	Share of Population Since 1989	Share of Net Worth Since 1989
Thrivers (Older, white/Asian, better educated)	Increased from 14.6% to 23.3%	Increased from 44.5% to 67.2%
Strugglers (Younger, non-white/Asian, less educated)	Decreased from 85.4% to 76.7%	Decreased from 55.5% to 33.8%

Takeaways

- Massive shift of wealth
- Recession exacerbated longer term trends; the seeds of growing wealth inequality were planted one or two generations ago.
- Is demography destiny? Demographic drivers are more stable than income, but for that very reason are harder to influence.

The Future: Major Trends and Challenges Affecting Family Balance Sheets

- Increasing income and expense volatility (U.S. Financial Diaries; Dynan *et al.*)
- Debt overhang and prolonged recovery (Sufi and Mian; Emmons and Noeth)
- Family structure, especially the rise of single-parent households (Putnam; Wilcox)
- Returns to capital v. returns to labor; growing income and wealth inequality (Piketty; Stiglitz; Chetty, Saez; Krueger, etc.)
- Managing downside risk at both the family and public policy levels (Boshara)

The Future: Strategies to Strengthen Family Balance Sheets

- * New framework: *From asset building to balance sheets*

- * Overall public policy goal: *Broaden or “democratize” capital ownership*

- * Overall family balance sheet goal: *Diversify*
 - Reduce debts that do not lead to productive assets.
 - Build emergency savings.
 - Invest in college and retirement accounts; own a stake in the growing parts of the economy.
 - Start saving and investing as early in life as possible.
 - Lead up to buying a home; do not start there.