

Global Economic Research

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U.S. Consumers Are Getting Credit

Delinquency on consumer credit is rising from record lows.

By Ryan Boyle



Comedian Jerry Seinfeld **joked** about the discomfort of restaurants giving patrons their bill after they have eaten. “When we’re hungry, money has no value....But then after the meal, we

ask: We're not hungry now, why are we buying all this food?" U.S. consumers may now be facing a similar reckoning as their credit card bills arrive following a binge of heavy spending. Consumers entered the year well-equipped to spend. Employment was strong and growing. Positive flows from stimulus payments, advanced **child tax credits** and higher wages all added to household balance sheets. Limited opportunities to spend meant more people were **saving money**. Investments in most financial assets earned rapid returns.

How quickly our fortunes have changed. Inflation is proving persistent, weighing down consumers' real incomes and depressing sentiment. The Ukraine invasion unexpectedly pushed up **energy** and **food** prices. Savings buffers are depleting, with the lowest earners most likely having no excess savings remaining; wealth effects from last year's high returns have also faded. Interest rates are rising rapidly, limiting affordability of major purchases like homes.

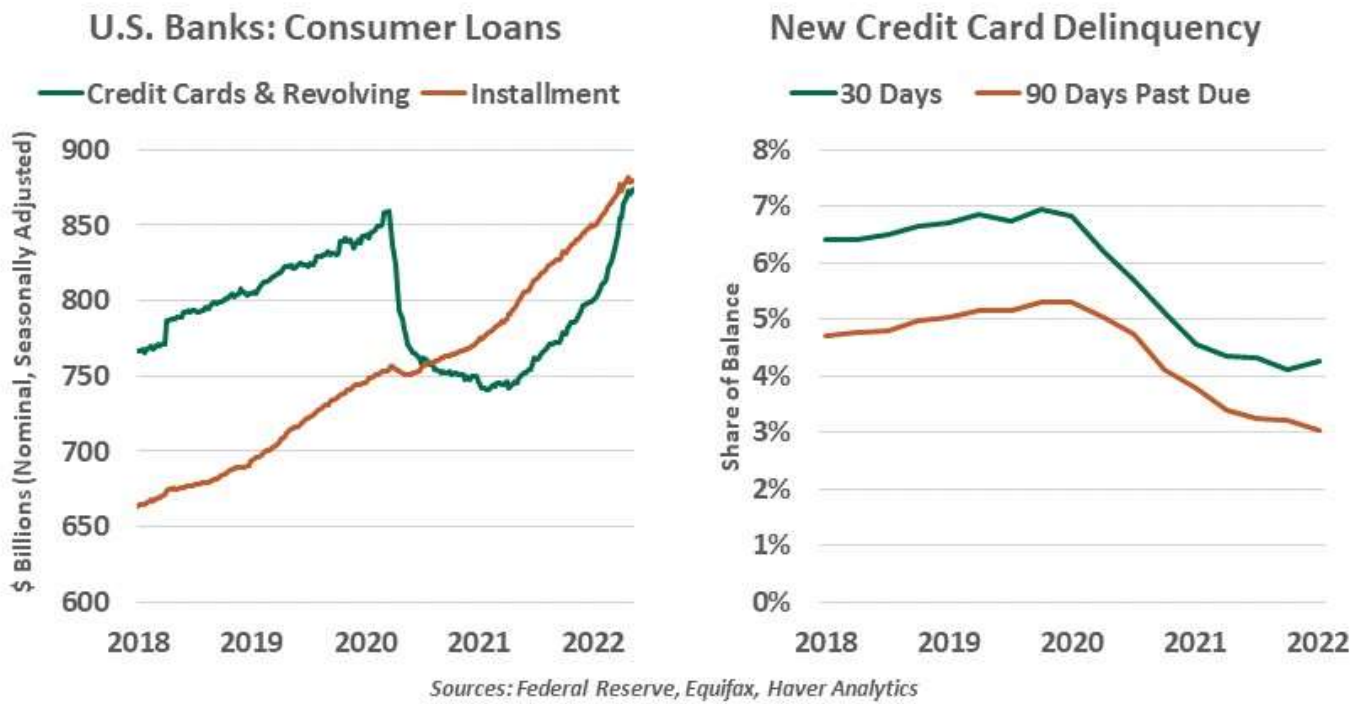
This shift is readily apparent in households' use of credit. Paying down loans was a leading use of stimulus payments. In the year 2020, outside of mortgages, consumer credit products showed a decline or slower than typical rates of growth. Last year, credit card use rose again, but balances still held below their pre-crisis levels. Now, aggregate data reported by banks to the Federal Reserve shows that over the past two months, credit card balances have suddenly returned to their former levels.

As shown in the chart below, the increase in credit card balances, rising about 10% year to date, is startling, almost mirroring the rapid paydown in 2020. Inflation alone cannot explain the rise, as the consumer price index has risen only 3% over the same interval. Consumers remain eager to spend, and they are using their credit cards to do so.

The rise in credit card balances is not necessarily evidence of a problem. Aggregate data reflects only total statement balances. It does not differentiate consumers who pay their balances in full every month (transactors) from those who carry a balance from month to month (revolvers). These are two distinct types of behavior with very different risk profiles. Through 2021, the American Bankers Association **estimated** that the share of transactors reached a record high, while fewer consumers revolved a balance.

To estimate risk, we will monitor whether consumers are keeping up with their payments. A few cracks are already emerging. Extra cash pushed delinquency rates down during the crisis, but they have begun to rise this year. In the first quarter, the share of credit card accounts starting to fall behind rose for the first time since 2019. However, severe (90+ days) delinquency has not yet risen. We will track whether this quarter's minor past-due balances become next quarter's severe delinquency.

Pandemic stimulus helped borrowers get ahead of their debts, but those programs are over.



Auto loans are also showing some strain, particularly among subprime (highest risk) borrowers. For this group, delinquency rates reached an **all-time high in February**. This is not where we would expect to see stress. When money is tight, consumers usually prioritize their vehicle payments, as their cars are essential for work and family commitments. The surge in vehicle prices likely pushed high-risk borrowers into larger auto loans that they could not afford.

A theme for the year 2022 has been a return to normal: fewer disruptions and more predictability. But “normal” can include developments that may be less welcome at first glance, like higher leverage and more past-due loans. Defaults should be expected from subprime borrowers, and their loans are priced to reflect that risk. Today’s trends are not yet a problem, but if they continue, they could bring about substantial indigestion.

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