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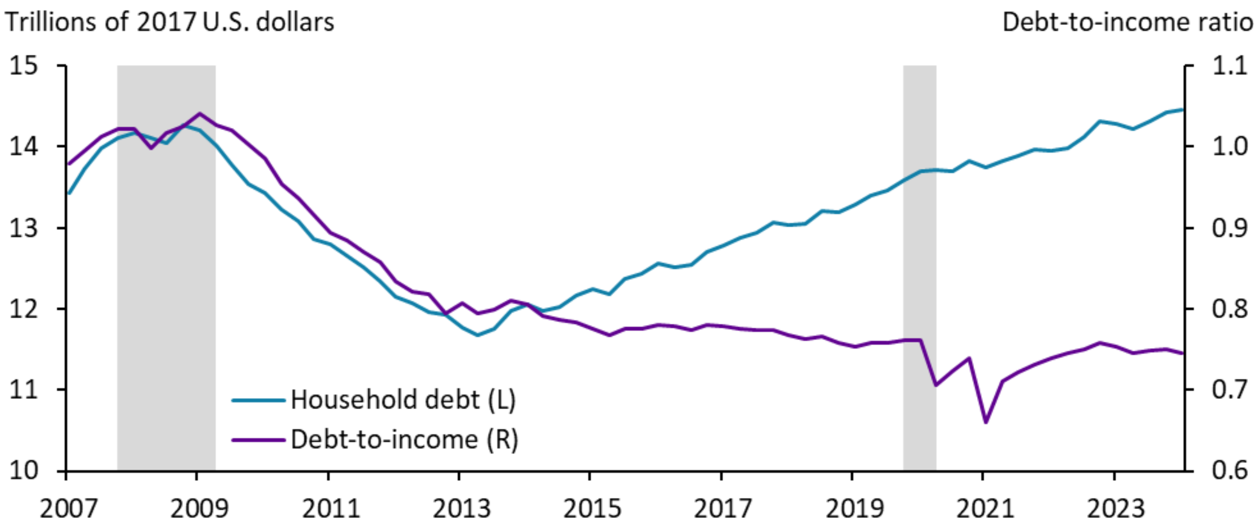
Consumer Debt Is High, but Consumers Seem to Have Room to Run

By Jason P. Brown and Colton Tousey

Real consumer debt is now higher than its prior peak during the global financial crisis, driven in part by increases in credit card debt. Although the share of credit card debt transitioning into delinquency has risen, it remains below levels seen during the global financial crisis. Moreover, debt-to-income measures remain historically low, suggesting that consumers in aggregate may have more room to run up debt before experiencing further financial stress.

Total consumer debt continues to break records, raising concerns about financial stress and the overall outlook for consumer spending. The New York Fed recently reported that consumer debt reached $17.7 trillion in 2024:Q1. However, this number does not account for the role inflation may play in driving up consumer debt. Chart 1 shows that in real terms, consumer debt reached $14.5 trillion in 2024 (blue line), $0.9 trillion higher than its pre-pandemic level and $0.3 trillion higher than its prior record, set in 2009 during the global financial crisis (GFC).

Chart 1: Total consumer debt is now past its prior peak, but debt-to-income remains historically low

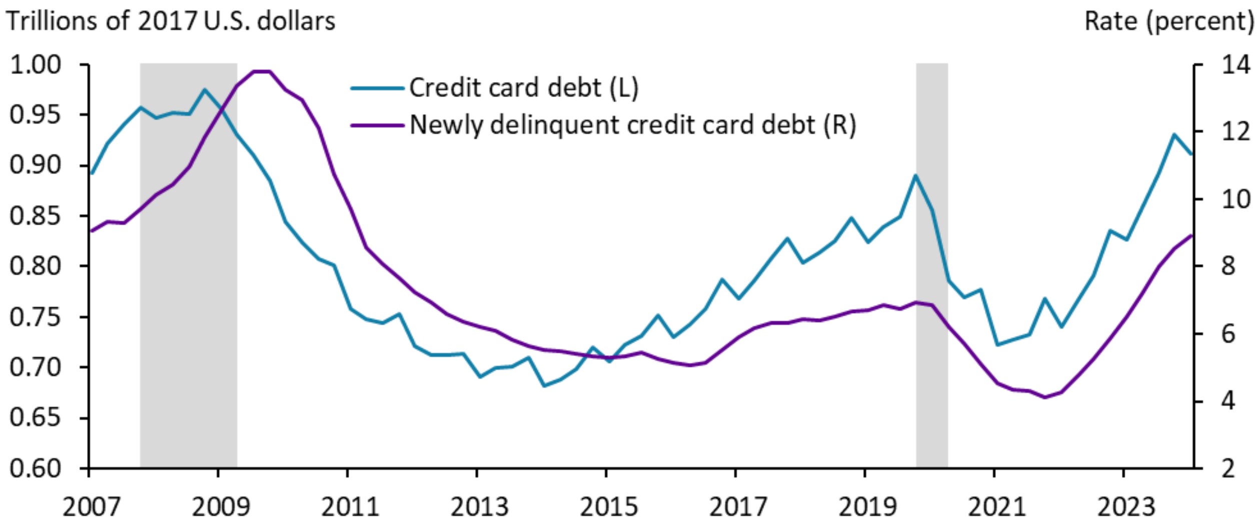


Notes: Shaded areas denote National Bureau of Economic Research (NBER)-defined recessions. Debt-to-income is the ratio of real total consumer debt to real personal income in the economy.
Sources: New York Fed Consumer Credit Panel/Equifax, U.S. Bureau of Economic Analysis, and NBER (Haver Analytics).

Even as consumer debt continues to increase, aggregate measures of debt relative to income (purple line) remain historically low, suggesting consumers can take on additional debt. The debt-to-income ratio exceeded 1.0 during the 2007–09 global financial crisis, indicating that consumers in aggregate had borrowed more than their available income. Consumers paid down their debt in the following years, but in 2013, consumer debt in real terms began to increase again. In contrast, consumers' debt-to-income ratio continued to decline over the same period and has remained relatively flat at around 0.75 in recent quarters.

One of the main contributors to the rise in consumer debt over the past two years has been credit card debt. Chart 2 shows that credit card debt has increased by almost $0.2 trillion since 2021 (blue line). Over the same period, the share of credit card debt transitioning into delinquency (purple line) has also risen, from about 4 percent to almost 9 percent. Although not shown in the chart, the share of credit card debt transitioning into delinquency among subprime borrowers (those with an Equifax Credit Score below 620) has also increased from 38 percent in 2021 to 63 percent in 2023. These transition rates remain below their prior peaks during the GFC, but the rapid increase over the past two years indicates some borrowers are likely experiencing financial stress. Borrowers who may be carrying over credit card debt from month to month are most likely to experience stress, as the average interest rate on credit cards increased from 15 percent in 2021 to 21 percent in 2023. Prior research has shown that at the individual level, most financial distress events are primarily accounted for by a small proportion of consumers in persistent trouble (Athreya and others 2019).

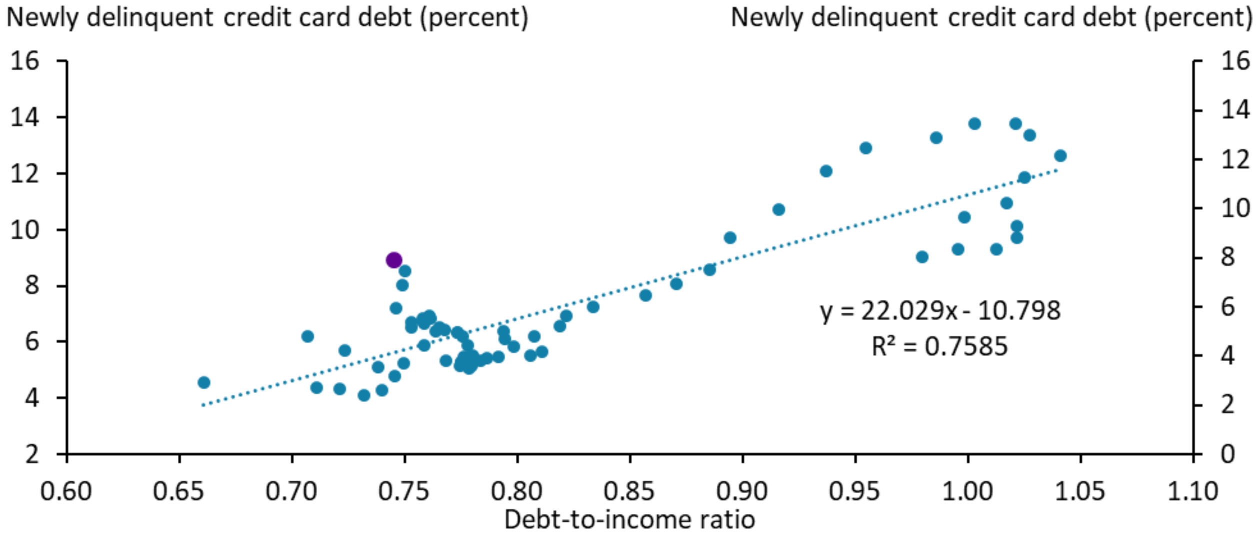
Chart 2: Credit card debt and its transition into delinquency have increased sharply over the past year



Notes: Shaded areas denote NBER-defined recessions. Delinquency transition rates measure the share of debt newly transitioning into delinquency (30+ days).
Sources: New York Fed Consumer Credit Panel/Equifax and NBER (Haver Analytics).

Although delinquency rates have risen, they would likely be higher if the debt-to-income ratio were not so low, indicating that consumers have income to cover their debt obligations. Chart 3 shows that the debt-to-income ratio and credit card delinquency transition rate have historically had a strong positive relationship. As the debt-to-income ratio increases, delinquency transition rates tend to rise. The purple dot, which represents the most recent quarter of data, shows that the rate of credit card debt transitioning into delinquency (8.9 percent) is currently higher than would be predicted by the historical relationship (5.7 percent when the debt-to-income ratio is 0.75). The higher-than-predicted delinquency rate offers additional evidence that some consumers are likely experiencing financial stress.

Chart 3: Lower debt-to-income is typically associated with lower delinquency transition rates



Notes: Chart shows the relationship between debt-to-income ratios and credit card delinquency transition rates over the 2007:Q1–2024:Q1 period. The purple dot represents the most recent quarter of data.
Sources: Federal Reserve Bank of New York Consumer Credit Panel/Equifax and U.S. Bureau of Economic Analysis (Haver Analytics).

If growth in personal income keeps pace with debt, consumers will likely continue to borrow. Recent analysis by Abdelrahman and Oliveria (2023) suggests that the amount of pandemic-era excess savings still available in the U.S. economy may be larger than previously estimated—and that consumers' savings may last into the first half of 2024. Strong wage growth has also helped keep delinquency rates low (Brown and Tousey 2023). Despite higher interest rates, increased consumer debt remains supported by excess savings, low debt-to-income ratios, and a strong labor market. As a result, consumers appear to have the capacity to increase debt and boost spending more broadly.

References

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