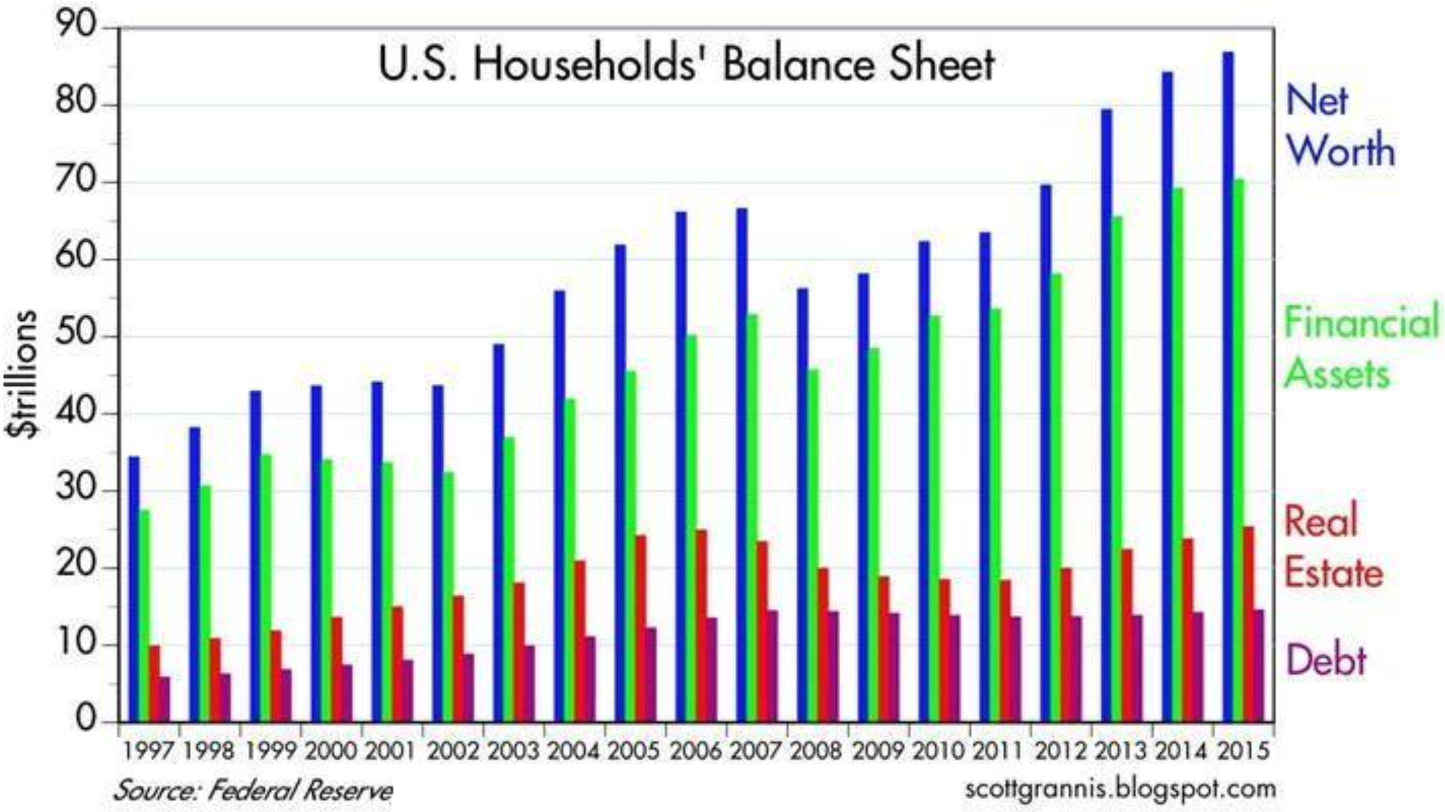
Chart of the Month

March 2016



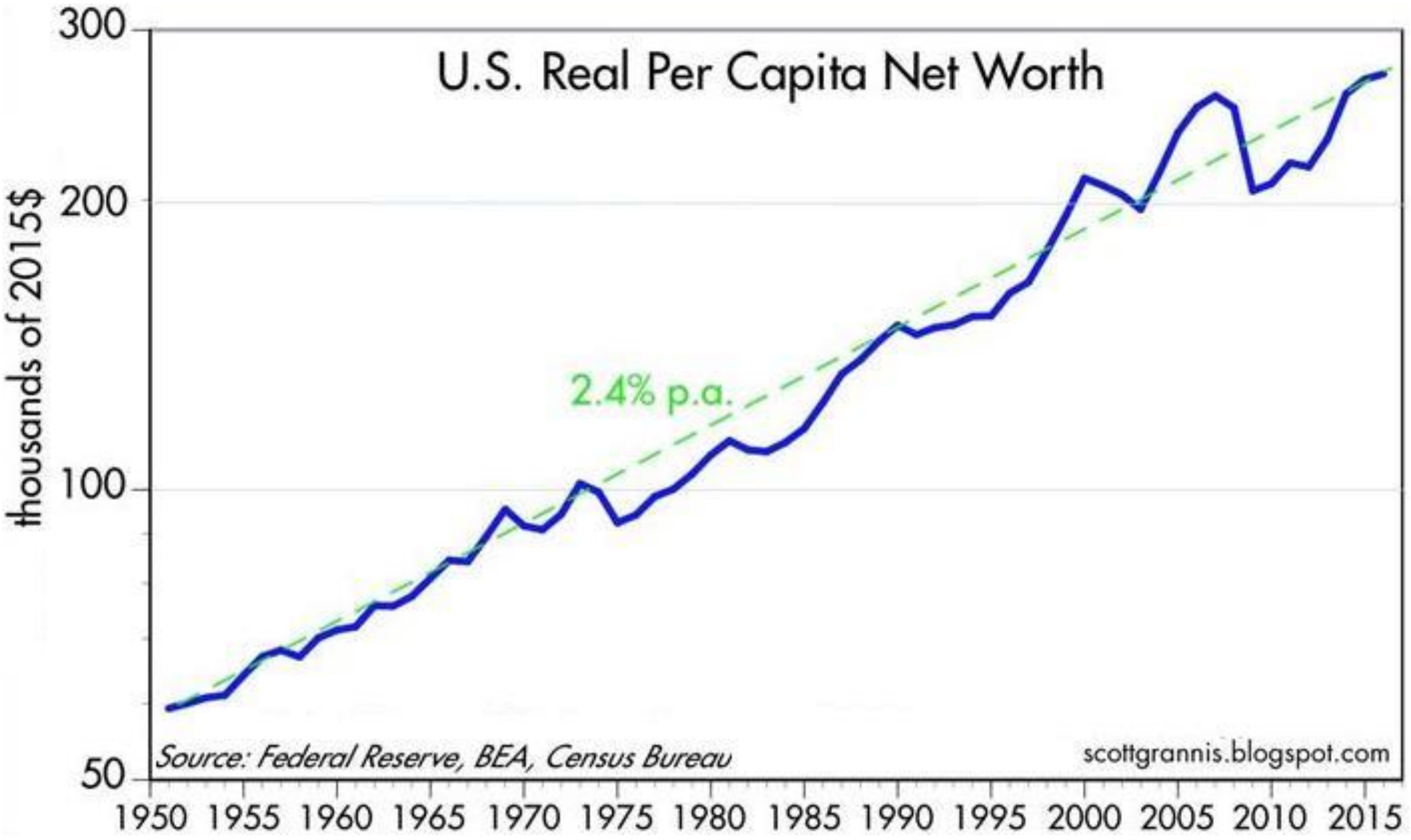
The Federal Reserve recently released its estimate of the balance sheet of U.S. households as of the end of the year. The key takeaway in the bar chart above is that the net worth of households and nonprofits rose to a record high of $86.8 trillion. The increase in net worth has been fueled by a combination of rising asset values and foregoing the consumption of new debt.

With respect to the latter, household debt, at $14.2 trillion, has remained virtually flat since the peak in 2007. Households accumulated more debt (which includes mortgages) during 2001-2007 than in the previous 45 years combined. By 2007, the amount of household debt exceeded our Gross Domestic Product for the first time ever. The ratio of household debt to GDP has receded over the past eight years as the former has stabilized and the latter has grown more than 23% (from $14.5 trillion in 2007 to $17.9 trillion in 2015).

Importantly, the average household has not only deleveraged its balance sheet meaningfully since the Great Recession, it has increased its financial assets by roughly 50% due to substantial gains in stocks as well as further commitments to bonds and savings deposits. In addition, real estate values have recovered from their lows in 2011 and pierced the prior peak levels in 2006.

As displayed in the graph below, the net worth of the average person living in the U.S. reached a record $270,000 at year end. This measure of wealth has been rising at an average rate of 2.4% per year net of inflation since records were first kept beginning in 1951.

Given that consumer spending represents about 70% of GDP, strong and improving household balance sheets are the foundation to the country's economic health. Make no mistake about it, households are better off financially than ever before. Now, if our federal government can get its debt under control, we will be able to say the same about our nation as a whole.



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