

U.S. Watch

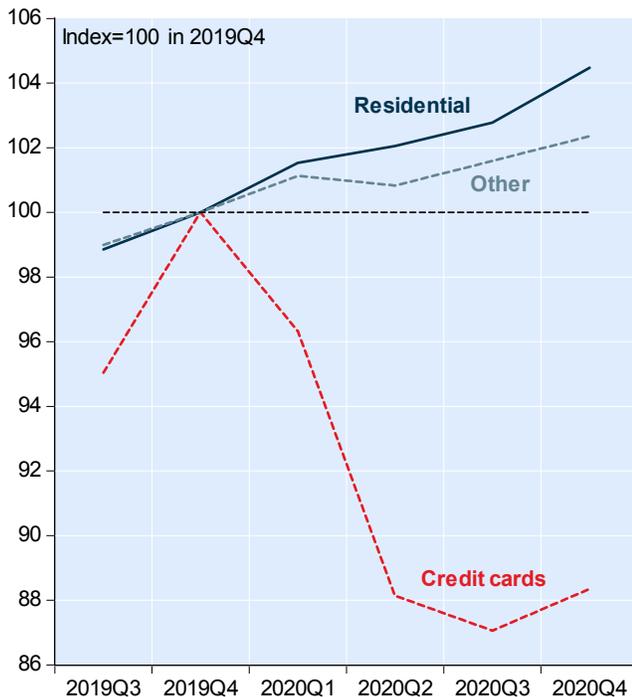
By Jocelyn Paquet and Matthieu Arseneau

Are American households using the money they receive from the federal government to pay down debt? The general idea that this is the case seems at least partially wrong judging from the most recent data released by the Federal Reserve. Indeed, total household debt increased 1.4% in the last quarter of the year (the fastest pace recorded since 2018Q3), capping a year in which total borrowing rose 3.3%, a number roughly in line with the average for the 2014–2019 period (+3.5%). These figures contrast with the sizeable deleveraging process that took place following the Great Recession. Recall that total household credit fell at an average pace of 2.2% between 2009 and 2013. This speaks to the effectiveness of Fed policy in the current crisis and the smooth transmission of monetary policies to the real economy in a context where the banking system has been little affected by the pandemic.

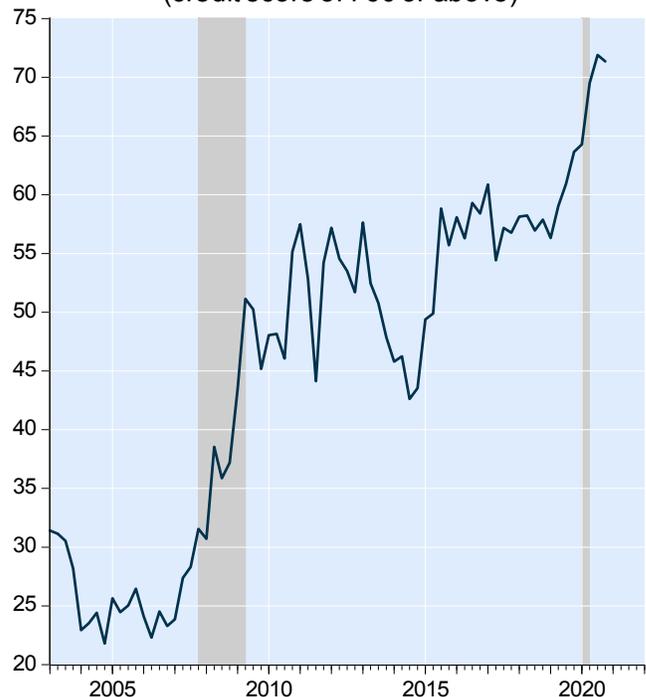
If household debt continues to rise, its composition is slowly being altered. Since the beginning of the crisis, credit card balances have shrunk no less than 11.7% (-108 billion) but this decrease has been more than offset by a 4.5% rise in residential credit (+445 billion), which includes mortgage debt and HELOCs. As a result, credit card balances now account for just 5.6% of total household credit (the lowest share on record) while residential debt accounts for 71.4% of the total (the highest ratio since 2017Q1). This transfer of debt towards the residential sector is a good thing for households, as mortgage interest rates are much lower than those paid on credit card balances. And for those worried of seeing past mistakes being repeated in the United States, keep in mind that mortgage loans are now being directed towards the most creditworthy individuals. Case in point, 72% of mortgage loans originated in 2020Q3–Q4 were for people with a credit score of 760 or above. A sharp contrast with the 26% observed during the formation of the real estate bubble (2003–2005).

U.S.: Are Americans using stimulus cheques to pay down debt?

Household debt
Last observation: 2020Q4



Share of mortgage loan originations directed towards most creditworthy individuals (credit score of 760 or above)



NBF Economics and Strategy (data via Federal Reserve)

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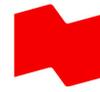
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