

IN THE Balance

Perspectives on Household Balance Sheets



CENTRAL TO AMERICA'S ECONOMY™

STLOUISFED.ORG

Shifting Fortunes: Wealth Trends in the Federal Reserve's Survey of Consumer Finances

By William Emmons, assistant vice president and economist, and Bryan Noeth, policy analyst, Federal Reserve Bank of St. Louis

The Federal Reserve's 2010 Survey of Consumer Finances revealed a large decline in the wealth of many Americans between 2007 and 2010.¹ Among the middle decile (10 percent) of all families, the average net worth in 2010 was \$78,300, falling 38 percent from the 2007 level of \$127,072.² (All figures are expressed in terms of 2010 purchasing power.)

Comparisons of income and wealth trends over short and long periods for a number of subgroups lead us to conclude that some types of families have been doing noticeably better than others.³ In particular, white and Asian families and those headed by someone 55 or older and those

with college degrees have gained ground in terms of balance-sheet strength compared to families from historically disadvantaged minorities, those headed by someone under 55, and those without a college degree.

This is true both of the recent period that encompasses the financial crisis and recession and of a longer period of time that reaches back to the early 1990s.

Dramatic Wealth Changes, Both Absolute and Relative

Large wealth losses between 2007 and 2010 were widespread, with declines of

(continued on Page 2)

HOUSEHOLD FINANCIAL STABILITY

—A Research Initiative



This analysis of the Federal Reserve's Survey of Consumer Finances is but one aspect of a recently launched research initiative now under way at the Federal Reserve Bank of St. Louis. Through research, publications, web-based data tools and public events, the HFS initiative aims to help rebuild the balance sheets of struggling American households. For more information, see the Household Financial Stability site at www.stlouisfed.org/hfs

TABLE 1

Average net worth of the middle decile of families ranked by net worth in 2010 dollars

| | A | B | C | D | E |
|--|-----------------|-----------|----------|--------------------------|--|
| | 1992-95 average | 2007 | 2010 | Percent Change 2007-2010 | Percent Change 1992-95 average to 2010 |
| 1 All families | \$78,876 | \$127,072 | \$78,300 | -38.4 | -0.7 |
| 2 Historically disadvantaged minority (African-American or Hispanic origin) | 14,910 | 22,311 | 15,628 | -30.0 | 4.8 |
| 3 White, Asian or other minority | 103,669 | 171,857 | 120,154 | -30.1 | 15.9 |
| 4 Young (family head under 40) | 23,441 | 20,718 | 12,961 | -37.4 | -44.7 |
| 5 Middle-aged (between 40 and 54) | 108,822 | 159,477 | 91,948 | -42.3 | -15.5 |
| 6 Old (55 or older) | 151,057 | 246,864 | 198,697 | -19.5 | 31.5 |
| 7 No college degree | 57,402 | 72,353 | 44,675 | -38.3 | -22.2 |
| 8 College degree (two-year or four-year degree) | 149,212 | 299,318 | 198,124 | -33.8 | 32.8 |
| Addendum: | | | | | |
| 9 Middle-aged and college degree and white, Asian or other minority | 212,398 | 365,631 | 287,700 | -21.3 | 35.5 |
| 10 Old and college degree and white, Asian or other minority | 408,509 | 671,943 | 570,504 | -15.1 | 39.7 |

SOURCE: Federal Reserve Survey of Consumer Finances and authors' calculations.

(continued from Page 1)

30 percent or more among all major subgroups identified here except one—families headed by someone 55 years old or older. See Table 1, column D, rows 1-8.⁴ The typical family's wealth decline was 38.4 percent.

Stark divergences among longer-term trends in wealth accumulation are evident in column E. Historically disadvantaged minority families or families with heads of households who were under the age of 40 or who did not have a college degree, fared noticeably worse than their otherwise similar counterparts between the early 1990s and 2010 (rows 2, 4 and 7).

Meanwhile, families that were white, Asian or other minority, whose household heads were at least 40 years old and had college degrees, experienced very large wealth increases since the early 1990s, even taking recent losses into account (rows 9 and 10).

Table 2 shows not only how concentrated wealth is among certain population subgroups, but how dramatically the recent period accentuated these patterns. Rows 2 and 3 in column C show that, as of 2010, typical families from historically disadvantaged minorities had a net worth of only about 13 percent (20 divided by 153.5) of white, Asian and other minority families. Young families had only about 7 percent (16.6 divided by 253.8) as much wealth as older families. And families without a col-

lege degree had a net worth of only about 23 percent (57.1 divided by 253) of the families with a college degree.

Column D shows that white, Asian and other minority families (row 3), older families (row 6), and college-educated families (row 8) improved their standings relative to the population as a whole between 2007 and 2010. These same groups increased their relative standing even more dramatically when compared with the early 1990s (column E).

Rows 9 and 10 provide stark evidence that households of white, Asian and other minority families whose heads of households were 40 years old or older, with college degrees, have become much wealthier relative to the rest of the population both in the short term and the longer term. Families with heads of households 55 years or older (row 10) experienced a dramatic increase of 210.7 percentage points in wealth relative to the overall population (column E). Most of this accrued during the 2007-10 period, as the wealth of these families declined much less than typical families in other groups.

Increasing Wealth Concentration Among Older, College-Educated White or Asian Families

Already in the early 1990s, families who were older, college-educated and

white or Asian were much wealthier than other groups. The absolute and relative net worth of typical families in these categories then increased significantly through 2010. Thus, the financial crisis and recession after 2007 do not appear to have altered the longer-term trend toward increasing concentration of wealth among certain groups in the population. **ITB**

ENDNOTES

1. See Jesse Bricker et al, "Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances", *Federal Reserve Bulletin*, June 2012, www.federalreserve.gov/pubs/bulletin/2012/PDF/scf12.pdf for a detailed description of the survey and results.
2. The median is the middle value in an ordered group, greater than half and less than the other half of all values. Medians are not additive, but they are a more robust measure of central tendency than means (arithmetic averages) in skewed distributions such as income and wealth. Net worth, or wealth, is defined as the total value of a family's assets minus the total value of its liabilities.
3. See Issue 2 of *In the Balance* and William R. Emmons and Bryan J. Noeth, "Household Financial Stability: Who Suffered the Most from the Crisis?" *The Regional Economist*, July 2012, www.stlouisfed.org/publications/re/articles/?id=2254
4. We use the mean value of the middle decile—that is, families ranked between the 45th and 55th percentiles—to represent a typical family.

TABLE 2

Relative net worth of the middle decile of families, ranked by net worth in percent of all families

| | A | B | C | D | E |
|--|-----------------|-------|-------|-----------------------------------|---|
| | 1992-95 average | 2007 | 2010 | Percentage Point Change 2007-2010 | Percentage Point Change 1992-95 average to 2010 |
| 1 All families | 100 | 100 | 100 | - | - |
| 2 Historically disadvantaged minority (African-American or Hispanic origin) | 18.9 | 17.6 | 20.0 | 2.4 | 1.1 |
| 3 White, Asian or other minority | 131.4 | 135.2 | 153.5 | 18.2 | 22.0 |
| 4 Young (family head under 40) | 29.7 | 16.3 | 16.6 | 0.2 | -13.2 |
| 5 Middle-aged (between 40 and 54) | 138.0 | 125.5 | 117.4 | -8.1 | -20.5 |
| 6 Old (55 or older) | 191.5 | 194.3 | 253.8 | 59.5 | 62.3 |
| 7 No college degree | 72.8 | 56.9 | 57.1 | 0.1 | -15.7 |
| 8 College degree (two-year or four-year degree) | 189.2 | 235.5 | 253.0 | 17.5 | 63.9 |
| Addendum: | | | | | |
| 9 Middle-aged and college degree and white, Asian or other minority | 269.3 | 287.7 | 367.4 | 79.7 | 98.2 |
| 10 Old and college degree and white, Asian or other minority | 517.9 | 528.8 | 728.6 | 199.8 | 210.7 |