

# IN THE Balance

*Perspectives on Household Balance Sheets*



CENTRAL TO AMERICA'S ECONOMY™

STLOUISFED.ORG

## Despite Aggressive Deleveraging, Generation X Remains “Generation Debt”

By William R. Emmons and Bryan J. Noeth

The average inflation-adjusted wealth of U.S. households increased \$12,193 during the first quarter of 2014 and is \$60,383 (or 9.3 percent) higher than its year-ago level.<sup>1</sup> Real average household wealth now exceeds its prerecession peak by 2.6 percent. The recovery of average household wealth since the first quarter of 2009 reflects both rapid gains in the value of assets—about \$154,454 (or 23 percent)—and a historically unusual, albeit modest, deleveraging (decrease in debt) of about \$17,133 (or 12.5 percent).

The overall trends of record growth in family asset holdings and modest deleveraging conceal important differences between individuals and families of different ages and generations. This article examines recent trends in household debt by age and year of birth, or cohort.<sup>2</sup> In particular, members of Generation X (born between 1965 and 1980) were the most aggressive borrowers prior to the financial crisis, and their cumulative debt increases to date remain the largest in percentage terms among all age groups.

### A Life Cycle View of Debt and Deleveraging

The amount of debt a family owes typically depends on a host of factors. We focus here on the dimensions of age and year of birth. Figure 1 shows the average inflation-adjusted amounts of household debt owed in the first quarters of 2000, 2008 and 2014 according to the age of the oldest person in the household at each date.<sup>3</sup> We highlight birth years every 10 years between 1926 and 1986 to illustrate how individual cohorts can be identified in these life cycle profiles.

To judge whether the debt of a particular birth-year cohort is unusually high or low at any time, we used a life cycle benchmark: how much debt the average family of a given age owed in some benchmark year. The levels shown in Figure 1 for 2000 and for 2008 serve as our benchmarks. To quantify cohort effects, we calculate the deviation of a given birth-year cohort's average real household debt in a given year from the level of an earlier cohort's real debt observed at the same age in an earlier benchmark year. For example, we subtract the 1970 birth year's average inflation-adjusted household debt in 2008 from the average real household debt in 2000 of households in the 1962 birth year, when that cohort was 38 years old. For comparability, we express all deviations from benchmarks in percentage terms.

### Generation X = Generation Debt

Using our framework of percent deviations from benchmark levels, members of Gen X were the most aggressive borrowers during the years leading up to the financial crisis. Borrowing was primarily in the form of mortgage debt. On average by 2008, members of Gen X had accumulated about twice as much total debt at a given age as birth-year cohorts observed at the same age in 2000 (Figure 2). Of course, greater debt accumulation was not limited by the artificial construct of a generation as conventionally defined. Each birth-year cohort of the baby-boom generation (born between 1946 and 1964) increased its

*(continued on Page 2)*



Researching Family Balance Sheets to Strengthen Families and the Economy | [stlouisfed.org/hfs](http://stlouisfed.org/hfs)

### The Center for Household Financial Stability at the Federal Reserve Bank of St. Louis

focuses on family balance sheets. The Center's researchers study the determinants of healthy family balance sheets, their links to the broader economy and new ideas to improve them. The Center's original research, publications and public events support researchers, practitioners and policy-makers seeking to rebuild and strengthen the balance sheets of all American households, but especially those harmed by recent economic and financial shocks. For more information, see the web site at [www.stlouisfed.org/hfs](http://www.stlouisfed.org/hfs).

(continued from Page 1)

debt level at least 60 percent relative to its life cycle benchmark in 2000. Early members of Generation Y (born after 1980 and sometimes called millennials) also borrowed aggressively.<sup>4</sup>

After 2008, the birth-year cohorts that deleveraged most were those born in the 1970s and 1980s—that is, the later waves of Gen X and early members of Gen Y (Figure 3). Relative to a life cycle benchmark, lower debt levels can reflect higher principal repayments, more defaults or slower acquisition of new debt than the reference group’s experience. It is interesting to note that members of Gen Y reduced average debt even more in percentage terms relative to the 2008 benchmark year than did members of Gen X, even though millennials were very young during the housing boom and presumably had more limited access to borrowing than members of Gen X.

Taking the entire 2000-14 period into account, the single birth-year cohort with the greatest net increase in real average household debt relative to the life cycle patterns observed in 2000 was the one born in 1970 (Figure 4). The average household debt of the 1970 Gen X cohort was \$142,077 in the first quarter of 2014 (that is, approximately at age 44), while the average household debt of the 1956 baby-boomer cohort was \$88,553, adjusted for inflation, in the first quarter of 2000 (when this cohort would also have been age 44). This represents about 60 percent more debt for the 1970 cohort compared to the 1956 cohort. Meanwhile, average real household income of the 1970 cohort was only about 5 percent higher than that of the 1956 cohort in the most recent data.<sup>5</sup>

### Relative Deleveraging Likely To Continue for Gen X and Gen Y

As of the first quarter of 2014, every birth-year cohort between 1930 and 1995 had higher average real debt than its same-age counterpart had in 2000, led by members of Gen X with as much as 60 percent higher debt levels. This was true even though members of Gen X and Gen Y reduced debt very aggressively after 2008, with declines of 15 percent to 25 percent relative to their 2008 life cycle benchmarks.

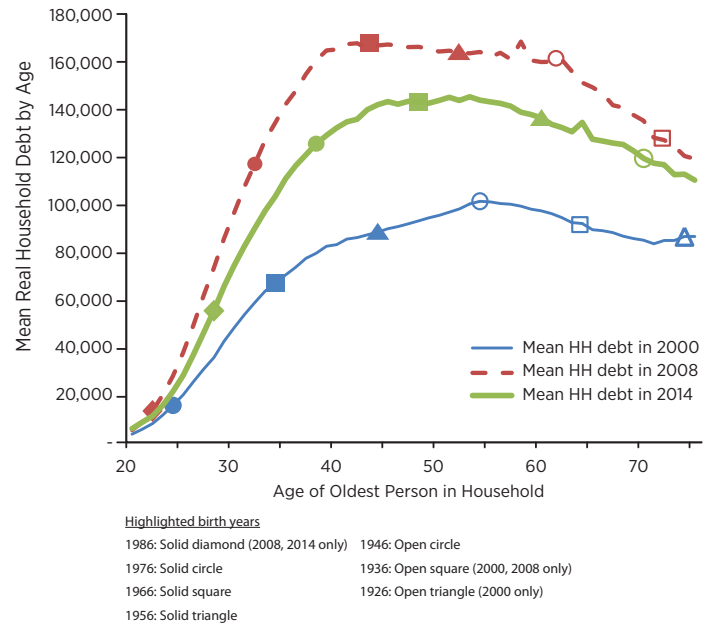
Virtually all birth-year cohorts born in 1975 or later reduced their average real debt relative to their corresponding 2000 benchmark levels during the year ending in the first quarter of 2014. Families that are reducing their debt are, by definition, not spending all of their income. Given the evidence discussed here of widespread ongoing debt declines among younger families, overall economic growth will be damped for some time.

Debt levels remain high relative to 2000 levels for most birth-year cohorts despite weak income growth in recent years. Lending standards remain tighter than before the crisis, and average real homeowners’ equity—the value of housing less mortgage debt—remains only about two-thirds of its peak level in early 2006.<sup>6</sup> Therefore, deleveraging may continue for some time, at least in the sense of returning toward historical benchmarks. Thus, the legacy of the boom and bust in credit markets continues to affect household balance sheets, especially those of young families. ■

William R. Emmons is senior economic adviser at the Center for Household Financial Stability at Federal Reserve Bank of St. Louis. Bryan J. Noeth is a policy analyst at the Center.

FIGURE 1

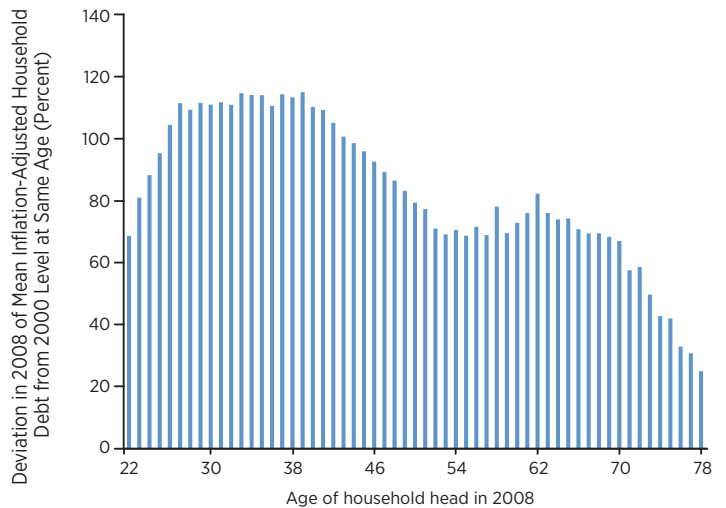
### Average Household Debt across the Life Cycle in 2000, 2008 and 2014



SOURCES: Federal Reserve Bank of New York Consumer Credit Panel/Equifax, Bureau of Economic Analysis.

FIGURE 2

### Household Debt in First Quarter 2008 by Age Relative to Debt of Cohort Born 8 Years Earlier Observed at Same Age in First Quarter of 2000

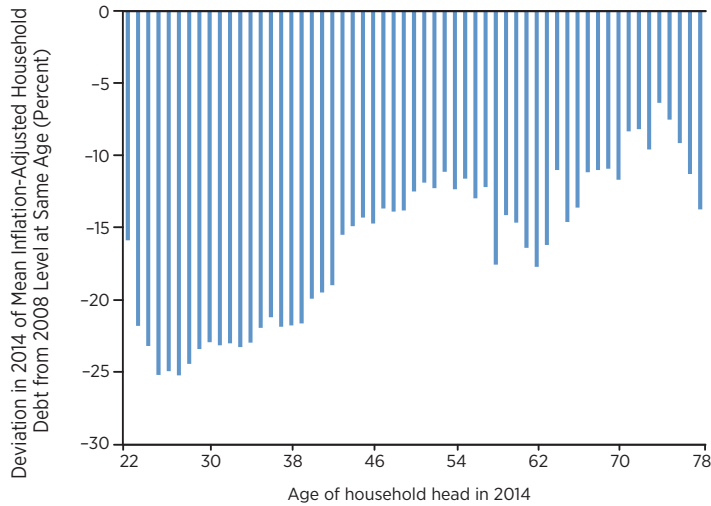


SOURCES: Federal Reserve Bank of New York Consumer Credit Panel/Equifax, Bureau of Economic Analysis.

(continued from Page 2)

FIGURE 3

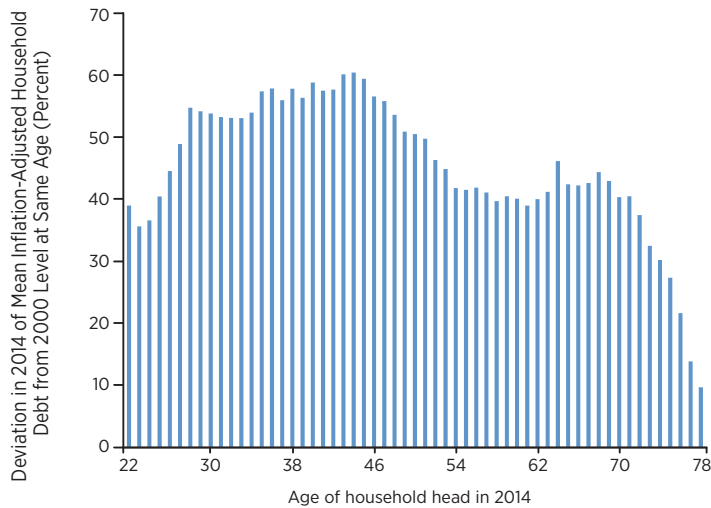
### Household Debt in First Quarter 2014 by Age Relative to Debt of Cohort Born 6 Years Earlier Observed at Same Age in First Quarter of 2008



SOURCES: Federal Reserve Bank of New York Consumer Credit Panel/Equifax, Bureau of Economic Analysis.

FIGURE 4

### Household Debt in First Quarter 2014 by Age Relative to Debt of Cohort Born 14 Years Earlier Observed at Same Age in First Quarter of 2000



SOURCES: Federal Reserve Bank of New York Consumer Credit Panel/Equifax, Bureau of Economic Analysis.

#### ENDNOTES

1. Financial Accounts of the United States, <http://www.federalreserve.gov/releases/z1/>. The inflation adjustment uses the personal consumption expenditures chain-weighted deflator benchmarked to the first quarter of 2014, <http://research.stlouisfed.org/fred2/tags/series?t=inflation%3Bpce>. The household adjustment uses census data, <http://www.census.gov/hhes/families/data/households.html>.
2. A previous issue of *In the Balance* discussed overall wealth trends by age group and how age-specific patterns of asset holdings contributed to young families falling behind middle-aged and older families. [www.stlouisfed.org/in-the-balance-issue-7](http://www.stlouisfed.org/in-the-balance-issue-7).
3. Data are from the Federal Reserve Bank of New York Consumer Credit Panel/Equifax.
4. People born after 1982 were under 18 in 2000, so we do not include them here. For more generational perspectives on household balance sheets, visit the website of the St. Louis Fed's recent conference, [www.stlouisfed.org/hfs-symposium-2014](http://www.stlouisfed.org/hfs-symposium-2014).
5. Data are from the March Supplement to the Current Population Survey. The most recent data are for 2013, so we compare the two cohorts when they were each 43 years old.
6. Financial Accounts of the United States. Total homeowners' equity was \$10.8 trillion at the end of the first quarter of 2014, compared to \$13.4 trillion eight years earlier. Subsequently, the price level has increased by 15 percent, and the number of households has increased by 4 percent. As of the first quarter of 2014, average real homeowners' equity was 67.5 percent of its level in the first quarter of 2006.