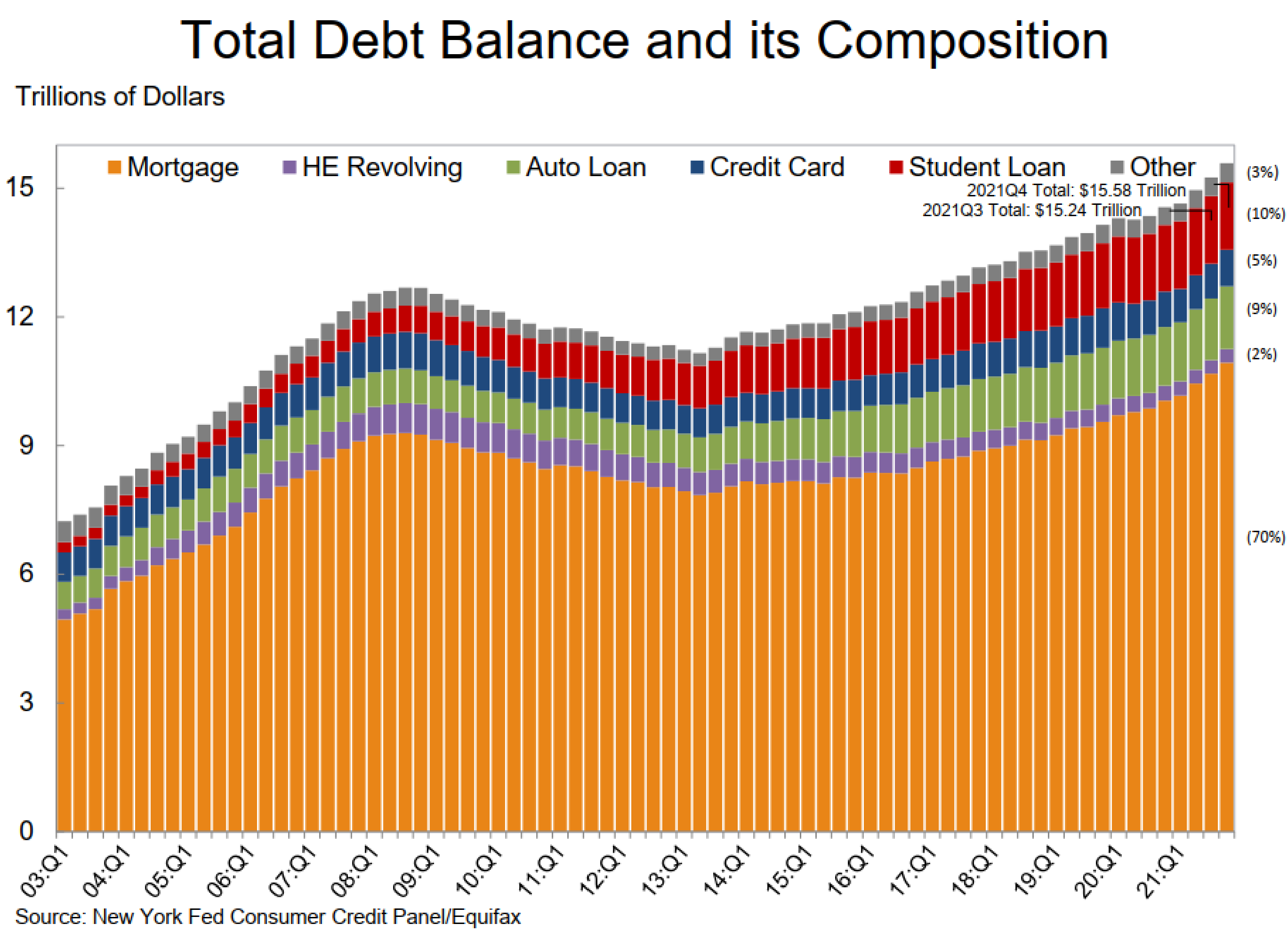
Drilling Down on Consumer Debt: A Closer Look at the $52 Billion Increase in Credit Card Debt

Hon. Kevin R. Anderson

The New York Fed just released its consumer debt report for the period ending December 2021. One of the headlines to come from this report is that credit card debt increased by $52 billion in the 4th Qtr. 2021—the largest increase in 22 years.[1]

This is statistically true, but it does not tell the whole story of the pandemic's impact on consumer debt. For example, did you know that since the pandemic, consumers have paid down over $169 billion in credit card debt? The ebb and flow of debt during the pandemic is interesting and telling.

First, here is the most recent report showing the total consumer debt balance of $15.58 trillion at the end of 2021. The highest ever. Of course, the largest component is mortgage debt at $10.93 trillion followed by student loan debt at $1.58 trillion; car loans at $1.46 trillion; and then credit card debt at $856 billion.

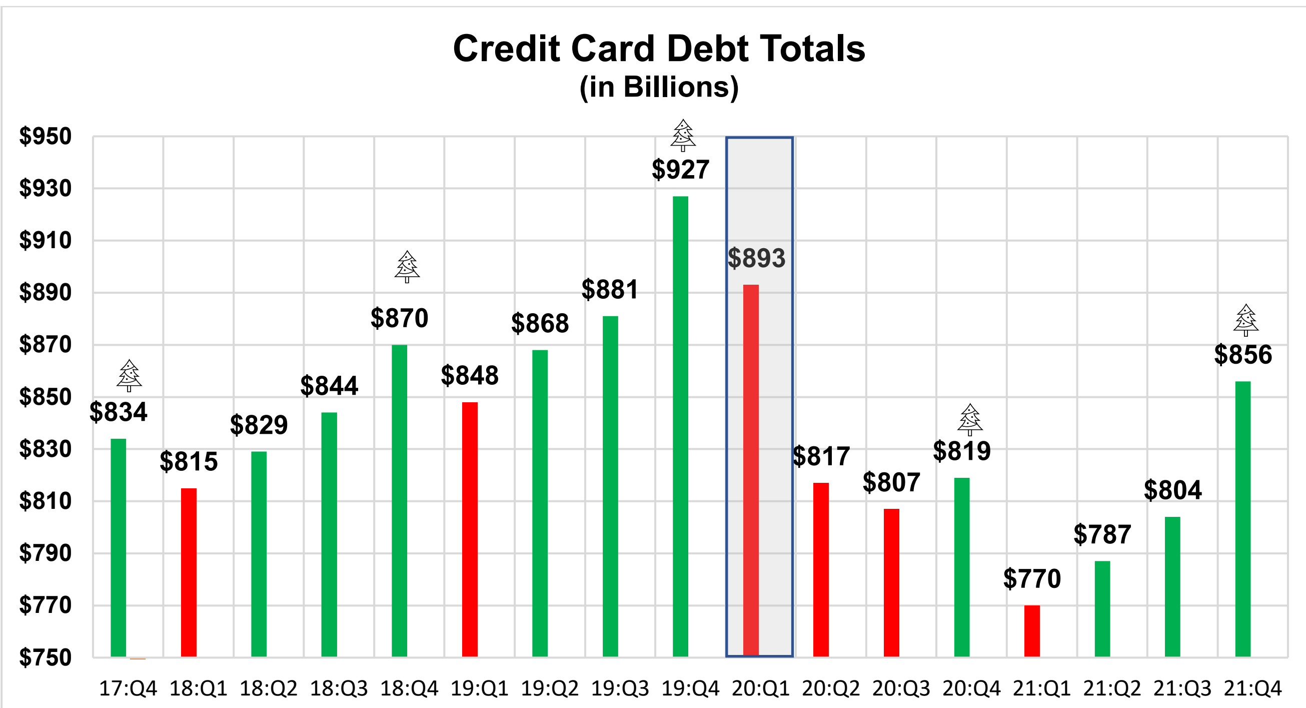


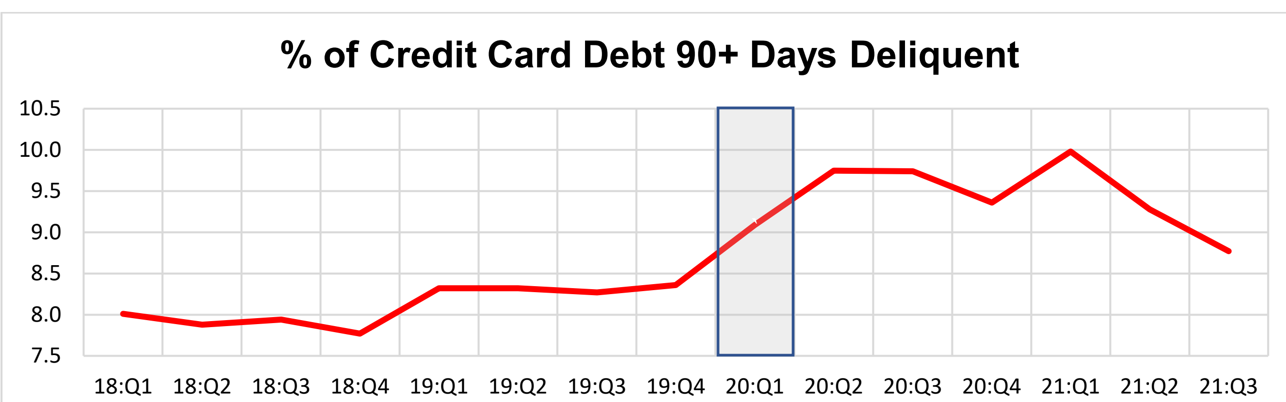
[1] See e.g., https://fortune.com/2022/02/08/credit-card-debt-fastest-growth-22-years-holiday-shopping-new-york-fed/

Drilling down, this chart shows the rise and fall of credit card debt starting in 4th Qtr. 2017. Green bars are increases in debt and red are decreases. Observe that there is always in increase in the 4th Qtr. due to Christmas, and then a decrease in the 1st Qtr. as folks pay down their credit cards.

Note however that when the pandemic started (highlighted in gray), credit card debt continued to decline in a big way for the next two quarters. There was an increase in 4th Qtr. 2020 due to Christmas and then another big paydown in 1st Qtr. 2021. Since then, credit card debt levels have increased, with the greatest occurring in 4th Qtr. 2021—a gain of $52 billion. As observed in the headlines, this is the largest increase since 2007. Nonetheless, credit card debt levels are presently $71 billion less than the peak of $927 billion in 4th Qtr. 2019, which was just before the pandemic.

However, for bankruptcy professionals, it is also important to look at credit card delinquency rates. They unsurprisingly increased at the start of the pandemic, but they have since declined to 8.7%, which is in line with the ten-year average of 9%. This suggests that consumers are presently not experiencing any unusual financial difficulties—at least in regard to credit card debt.

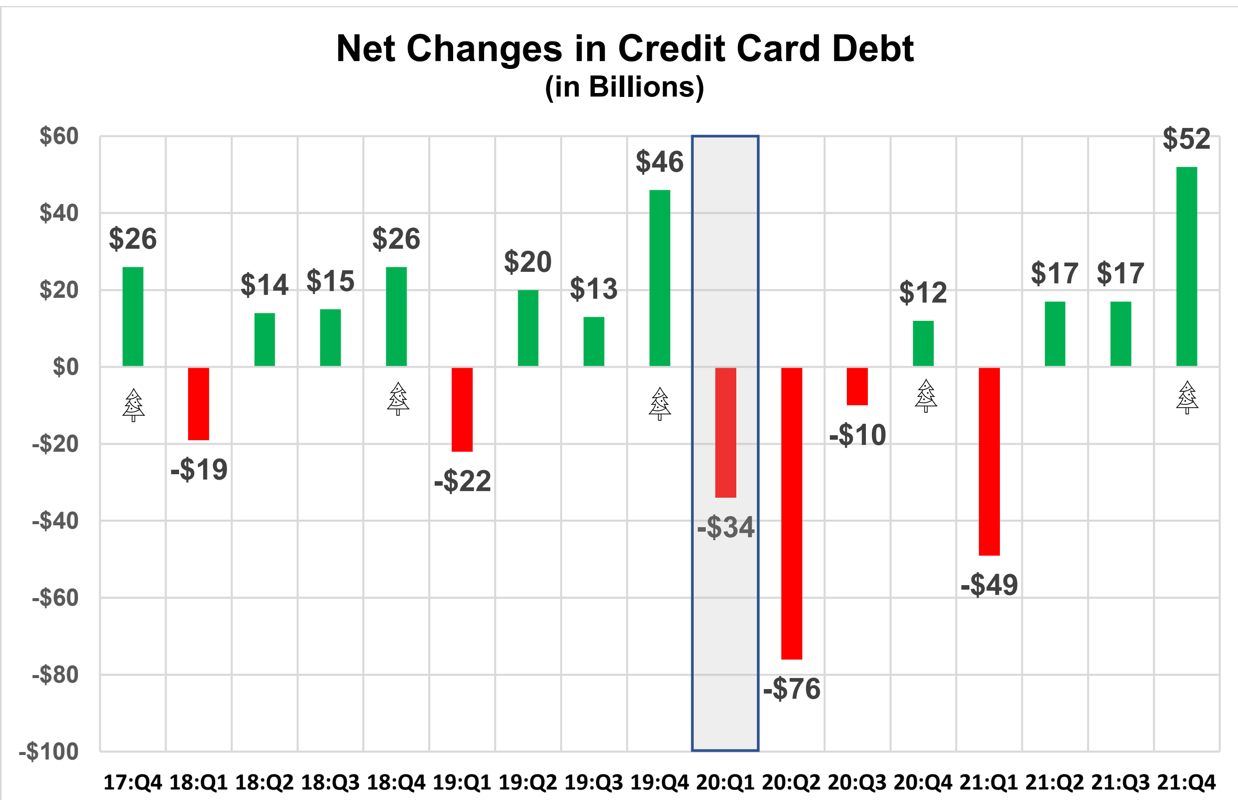




This chart shows the net changes in credit card debt in a way that better evidences the significant paydowns during the pandemic. Starting in 1st Qtr. 2020 (highlighted in gray) and going through the end of 2021, consumers paid down a total of $169 billion in credit card debt while incurring $98 billion in charges. This is a net decline in credit card debt of $71 billion since the pandemic.

The likely explanation for this phenomenon is (1) consumers had learned lessons from the 2008 Recession and took quick action to reduce expenses and debt; and (2) consumers wisely used at least some of their stimulus payments to reduce their debt.

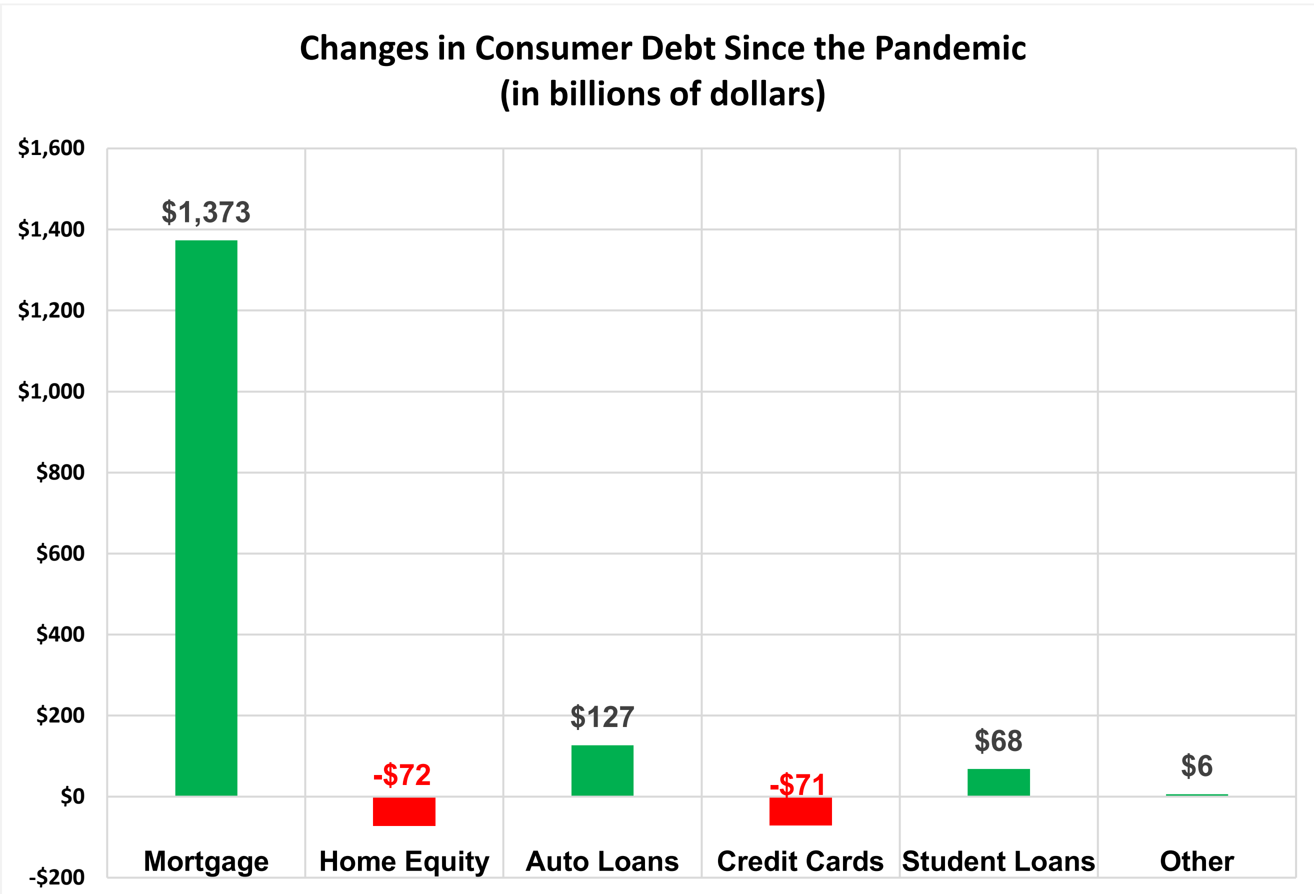
However, the stimulus payments are over and spent, consumers are learning to live with the pandemic, and inflation is increasing the cost of living. These factors suggest that credit card debt will continue to grow, but there is nothing all that unusual about an increase in credit card debt in the 4th Qtr. The more telling statistic will be if credit card debt sees only a minimal decline, or even an increase, in 1st Qtr. 2022. This will telegraph that with the loss of stimulus, coupled with inflation, things are not as rosy for consumers as they may now seem.



This last chart tracks the net change in credit card debt since the end of 2019, with the COVID recession starting two months later in Feb. 2020. This shows that credit card debt is actually down by $71 billion since its peak in Dec. 2019. But the real attention-getter is the jump in mortgage debt.

Observe that home equity loans are down, but this is because folks took advantage of low interest rates and rolled their home equity loans into a mortgage refinance. Indeed, the majority of new mortgage debt was from refinances, with consumers tapping the recent appreciation in home equity. Further, home prices accelerated at a record pace, which resulted in larger mortgage debt for new home buyers. The growth in mortgage debt from both increased home prices and refinancing (driven by a desire to convert home equity into cash), results in a situation similar to what occurred just prior to the 2008 Recession. As long as home prices do not decline, many homeowners will have access to an equity cushion to smooth out the bumps in their financial situation. So keep an eye on home prices and mortgage delinquency rates, which are presently at only .46%—the lowest level for data going back to 2003. If home prices decline and delinquency rates climb, as they did in 2008, then we may be in for a repeat of the Great Recession.

Lastly, historic inflation in new and used car prices contributed to an increase in auto loan debt. And while the 90+day delinquency rate for auto loans grew to 5% during the pandemic, it has since declined to a 4%. Not a great rate, but the improvement suggests consumers are managing this debt.



In summary, consumer debt has increased to historic levels during the pandemic, but the present economic indicators contributing to low bankruptcy filings (low unemployment, appreciating home values, low delinquency rates), suggest everything is copacetic—at least for the time being. But the bellwether of any coming increases in bankruptcy filings will be a negative shift in delinquency rates as to mortgages, car loans, or credit card debt. And as we saw with the Great Recession and the COVID Recession, a change in the U.S. economy, with a significant negative impact on consumers, can occur very quickly—in a few weeks or even days. Stay tuned.