# ECONOMIC UPDATE

REGIONS

February 21, 2025

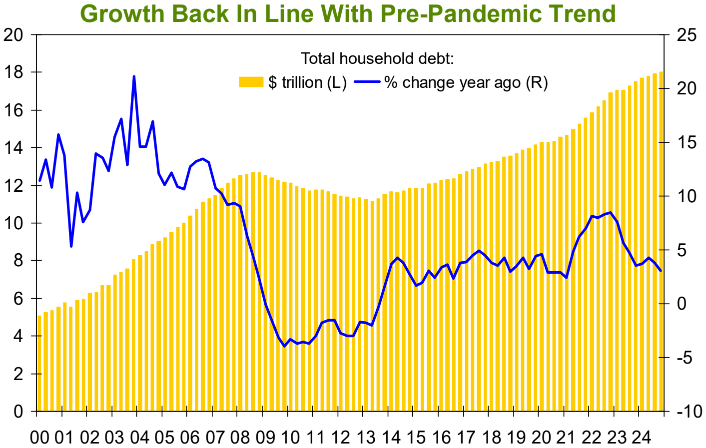


## Q4 2024 Household Debt and Credit: A "New Record High," And Stuff That Actually Matters

- Total household debt rose to $18.036 trillion in Q4 2024, an increase of $93 billion from Q3
- Outstanding credit card balances rose by $45 billion, while mortgage loan balances rose by $11 billion
- As of Q4, 3.58 percent of outstanding household debt was in some stage of delinquency, up slightly from 3.54 percent in Q3

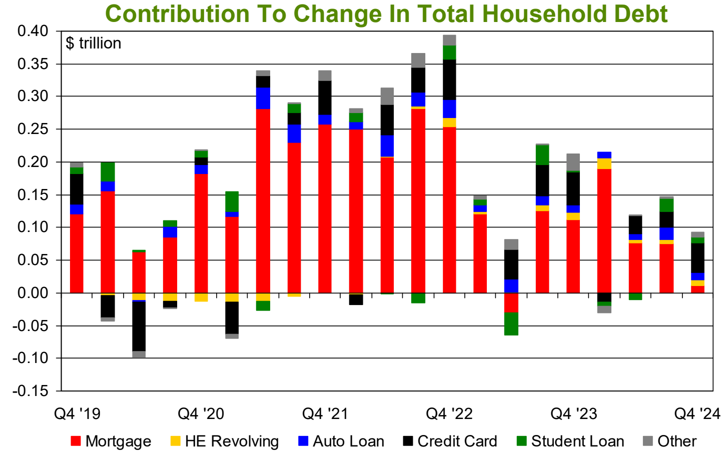
The Federal Reserve Bank of New York (New York Fed), in conjunction with Equifax, has released their latest quarterly report on trends in household debt, which shows total household debt rose to $18.036 trillion in Q4 2024 from $17.943 trillion in Q3, an increase of $93 billion. Other than Q2 2023, when a decline in outstanding mortgage debt negated increases in other categories, Q4's increase in total household debt was the smallest quarterly increase since Q1 2021. Growth in outstanding credit card debt accounted for roughly one-half of growth in total household debt in Q4, in part reflecting the typical seasonal spike in credit card debt but also reflecting a marked slowdown in growth of outstanding mortgage debt, which rose by $11 billion in Q4. Outstanding balances on home equity lines of credit (HELOC) rose by $9 billion, marking the eleventh consecutive quarterly increase after what had been a lengthy run of contracting balances in this segment. Total household debt was up 3.05 percent year-on-year in Q4, the smallest such increase since Q1 2021 but one which leaves growth in line with the pre-pandemic trend rate of growth. While that may be true of the overall level of household debt, the drivers of debt growth have clearly shifted. Growth in mortgage debt outstanding, far and away the largest single component of total household debt, continues to lag the pre-pandemic trend rate, with a year-on-year increase of 2.88 percent in Q4, the smallest such increase since Q4 2018. In contrast, growth in outstanding credit card debt remains meaningfully faster than the pre-pandemic trend rate, with year-on-year growth of 7.26 percent in Q4. The overall delinquency rate on household debt was little changed in Q4, rising to 3.58 percent from 3.54 percent in Q3.

Growth Back In Line With Pre-Pandemic Trend




Source: Federal Reserve Bank of New York; Equifax; Regions Economics Division

Contribution To Change In Total Household Debt




Source: Federal Reserve Bank of New York; Equifax; Regions Economics Division

Though decelerating, growth in credit card debt remains meaningfully higher than the trend rate that prevailed prior to the pandemic, as was noted above. Recall that the data on household debt are reported on a not seasonally adjusted basis, and that there are clear seasonal patterns in credit card debt. For instance, outstanding balances typically spike in the fourth quarter of any given year, and that is typically followed by a decline in the first quarter of the following year, which simply reflects holiday season shopping patterns. It is interesting that the increase in credit card balances in Q4 2024, 3.86 percent, was the smallest Q4 increase since 2020 and is closer to the average Q4 increase in the five years prior to the onset of the pandemic. At the same time, however, holiday season sales were surprisingly strong in 2024, topping our forecast and every other forecast we track. This seeming dichotomy could reflect a number of factors. For instance, growth in aggregate labor earnings continuing to easily run ahead of inflation, thus providing consumers greater wherewithal to spend without taking on as much credit card debt. That the personal saving rate declined in Q4 2024 could indicate households having opted to dip into savings as opposed to taking on as much credit card debt to facilitate holiday season shopping. Alternatively, it could be that higher income households accounted for a greater share of overall holiday season spending as lower-to-middle income households continue to struggle with the cumulative effects of high prices and elevated interest rates engaged in less

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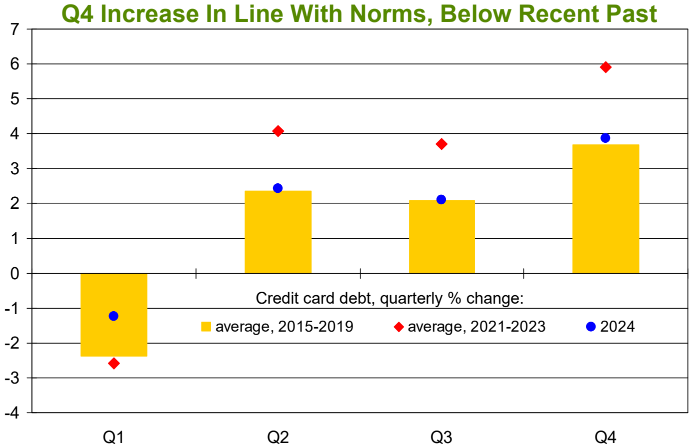
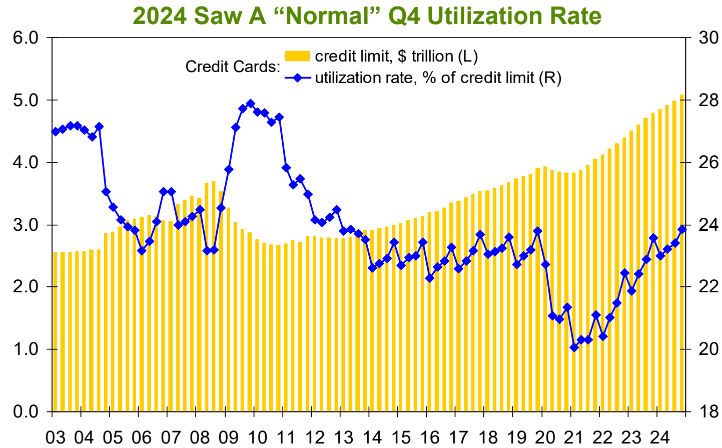
discretionary spending during the holiday sales season. That the Q4 increase in credit card debt was the smallest since 2020 is also interesting given that the increase in credit card limits seen in Q4 was larger than that seen in Q4 2023 and larger than the average Q4 increase over the five years prior to the onset of the pandemic. As such, the increase in the (aggregate) credit card utilization rate in Q4 was smaller than the typical Q4 increase, but this left the Q4 utilization rate right in line with pre-pandemic Q4 utilization rates.



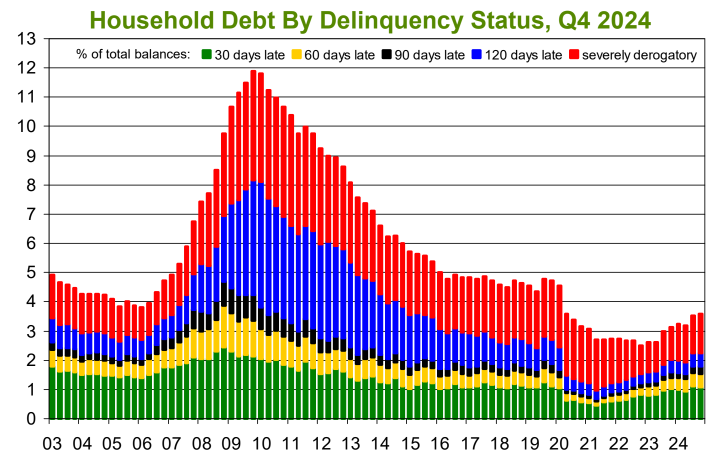
Source: Federal Reserve Bank of New York; Equifax; Regions Economics Division



Source: Federal Reserve Bank of New York; Equifax; Regions Economics Division

It will be interesting to see the magnitude of the decline in credit card debt in Q1. As can be seen in the first chart above, the drop in Q1 2024 was significantly smaller than the average Q1 decline, both pre-and post-pandemic, on the heels of an above-average increase in outstanding credit card debt in Q4 2023. That at least to some extent reflected an increased degree of financial stress amongst certain segments of the household sector, and to the extent that increases in credit card debt over the past few fourth quarters reflected necessity, not holiday season, spending, it would follow that the subsequent Q1 declines would have been smaller than typical. That was indeed the case in 2022, 2023, and 2024.

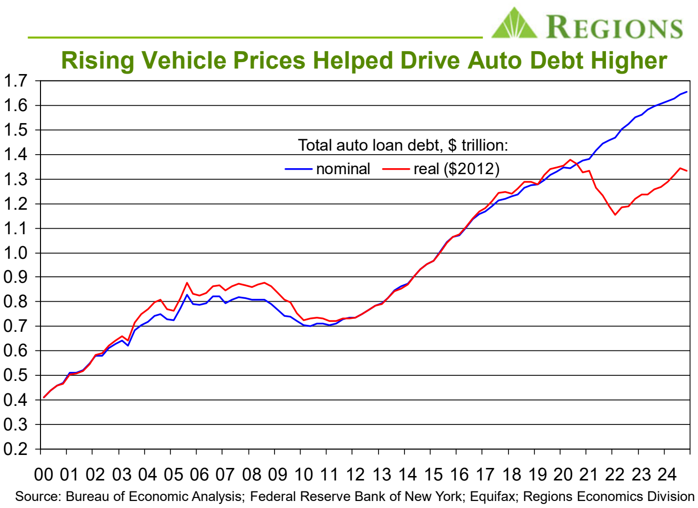
As of Q4 2024, 3.58 percent of total household debt was in some stage of delinquency which, as seen in the chart to the side, is still meaningfully below pre-pandemic norms. That, however, is a function of later-stage delinquency rates and the "severely derogatory" rate (debt in any stage of delinquency on which there has also been a repossession, a foreclosure, or a charge-off to bad debt) still being well below pre-pandemic norms, as 30-day and 60-day delinquency rates are back in line with pre-pandemic norms. That the 30-day delinquency rate has been flat over the past two quarters does not necessarily mean it will not rise further over coming quarters, particularly if labor market conditions take a decided turn for the worse. Additionally, it would follow that with the increases in early-stage delinquencies already in hand, later-stage delinquency rates will continue to push higher over coming quarters and come closer to aligning with pre-pandemic norms than has thus far been the case.



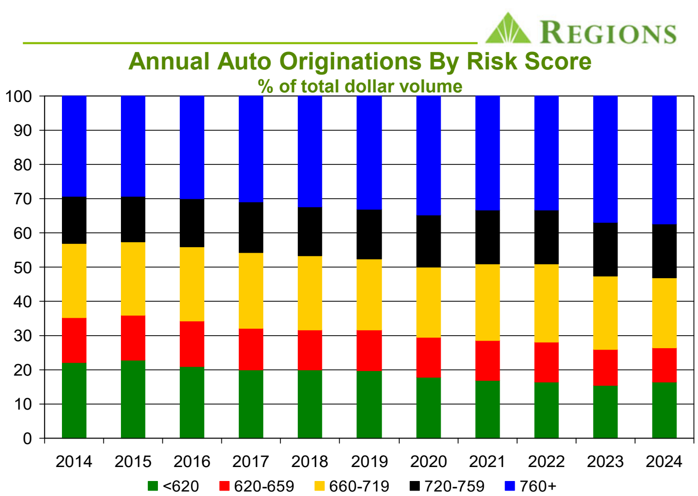
Source: Federal Reserve Bank of New York; Equifax; Regions Economics Division

Delinquency transition rates were steady in Q4 across all categories of household debt save for a slight increase in credit card debt that nonetheless leaves the 30-day transition rate below what, at least thus far, was the peak rate in Q2 2024. Transitions into serious delinquency, or, delinquent ninety or more days, did increase further for auto loans, credit cards, and HELOC balances in Q4 but were unchanged for mortgage loans. To the earlier point, transitions into serious delinquency are likely to rise further over coming quarters even with no further increases in early-stage delinquency rates. In general, higher delinquency rates have been concentrated amongst younger borrowers and lower-income borrowers, though there is some degree of overlap between the two groups. One exception to this general pattern, however, is that rising delinquencies on auto loan debt have been spread across income and credit score cohorts, though the increases have been more pronounced amongst those with credit scores below 680 and those in the lowest two income quartiles. Researchers at the New York Fed also note a clear divergence in loan performance across lender types, i.e., banks and credit unions, captive lenders (for instance, the finance arms of manufacturers), and non-captive auto finance companies. The increase in auto loan delinquencies has been more pronounced in loans made by non-captive auto finance companies, with delinquency rates on such loans well above pre-pandemic norms. In general, non-captive auto finance loans are more likely to extended to borrowers with lower credit scores and are more likely to be used to finance purchases of used vehicles rather than purchases of new vehicles.

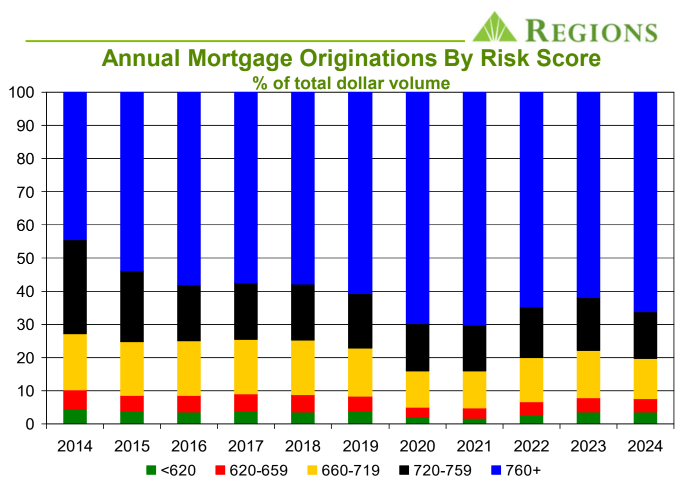
The combination of elevated interest rates and higher vehicle prices, particularly used vehicles given the extent to which prices for them have risen since the onset of the pandemic, is making it harder for many borrowers to keep up with monthly payment obligations. This is one reason the increase in delinquencies has been more broadly based across income and credit score buckets than has been the case with other forms of debt. The chart to the side shows the path of nominal auto loan debt, i.e., the amount of auto loan debt actually outstanding not adjusted for price changes, and the path of real auto loan debt. As of Q4 2024, the level of real auto loan debt was still below the pre-pandemic level while the level of nominal auto loan debt was higher than would have been the case had the pre-pandemic trend remained in place. The drop in real auto loan debt from mid-2020 through mid-2022 coincides with declining unit sales over much of this span but note that over this time the level of nominal auto loan debt continued to rapidly increase. Though the past couple of years have seen a slight shift in the credit quality of auto loan originations, as seen in the first chart below, that there has thus far been little relief on either prices or on financing costs suggests many borrowers will continue to face challenges in keeping current on their auto loans. Presumably, though, the upward shift in credit quality should help stem inflows into early delinquency.



Source: Bureau of Economic Analysis; Federal Reserve Bank of New York; Equifax; Regions Economics Division

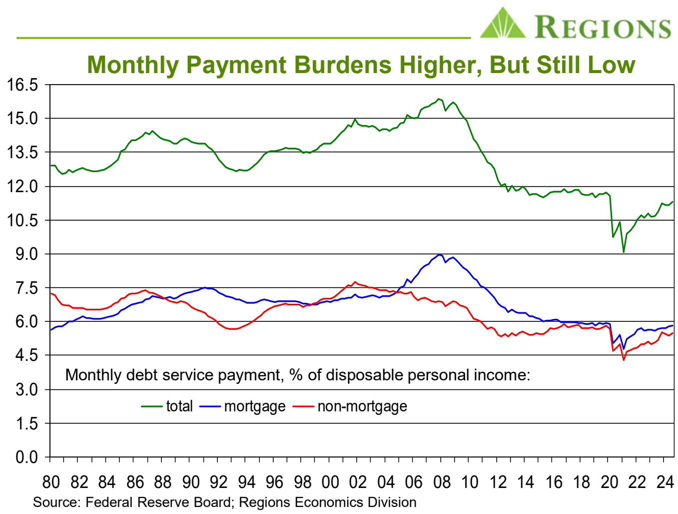


Source: Federal Reserve Bank of New York; Equifax; Regions Economics Division

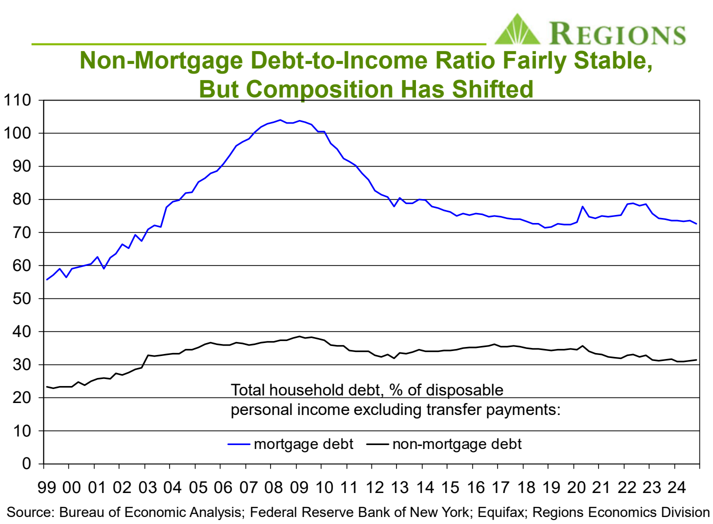


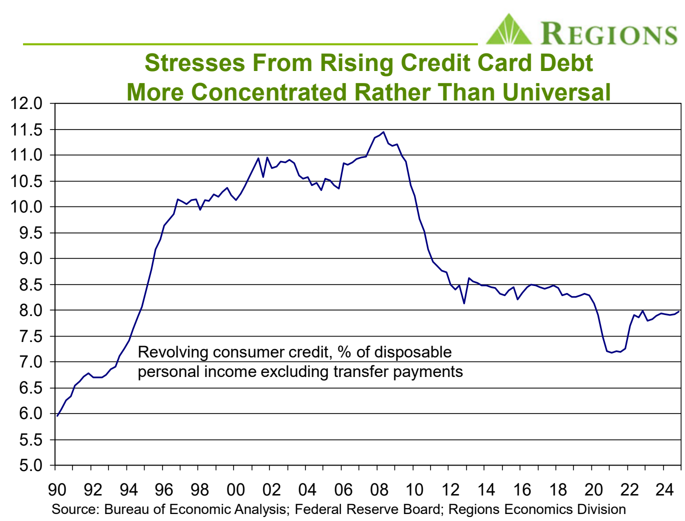
Source: Federal Reserve Bank of New York; Equifax; Regions Economics Division

In 2024, 37.5 percent of auto originations (dollar balances) went to borrowers with credit scores at or above 760, up from 36.8 percent in 2023 and the highest share in the life of the data. At the same time, the percentage of originations going to borrowers with credit scores below 660 rose modestly to 26.4 percent from 25.9 percent in 2023, while the share of originations going to those with credit scores between 660 and 759 dipped slightly. Note that the share of originations going to those in the lowest two credit score buckets remains far below pre-pandemic norms; prior to the 2007-09 recession it was common for at least forty percent of auto loan originations to go to those in the lowest two credit score buckets. Lending standards for mortgage loans have also become more stringent, but to a much greater degree, as shown in the second chart above. In 2024, 66.8 percent of the dollar volume of mortgage originations went to borrowers with credit scores of 760 or higher, more than in the prior two years and easily above the pre-pandemic years. Problems with mortgage loan performance are heavily concentrated amongst FHA loans, on which lending standards tend to be more lenient than on prime loans. The quarterly data from the Mortgage Bankers Association show 30-day mortgage loan delinquency rates declined in each of the last two quarters of 2024, which is one reason we expect there is a limit to how much more upside room remains for inflows into later-stage delinquency rates.




Despite there having been little, if any, relief on the interest rate front, continued solid growth in after-tax personal income has helped keep a lid on monthly debt service obligations. As seen in the chart to the side, debt service burdens have risen from the post-pandemic lows, which were largely a function of sizable financial transfers to the household sector, but nonetheless remain below pre-pandemic norms, which at the time were the lowest in the life of the data. To be sure, aggregate measures mask what can be meaningful variances across income cohorts, and that rising delinquencies on most forms of household debt have been concentrated amongst specific age and income cohorts speaks to the degree of financial stress being felt by many lower-income households. That said, debt service burdens remain highly manageable for most households. The clear downside risk is that a deterioration in labor market conditions more pronounced than our baseline forecast anticipates would heavily weigh on income growth, thus putting growth in after-tax (disposable) personal income on a much lower trajectory than we now anticipate.




As we've discussed in prior editions, while disposable personal income is the common standard on which estimates of debt-to-income ratios and debt service burdens are based, we prefer to set the bar higher by stripping out transfer payments from disposable income. We think ex-transfers disposable income to be a more realistic measure of the pool from which debt service obligations are fulfilled. On this basis, debt-to-income ratios have been little changed over recent quarters, which reflects sturdy growth in aggregate labor earnings, the largest single component of personal income. Similarly, despite rapid growth in outstanding credit card debt, interest payments on revolving consumer credit as a percentage of ex-transfers disposable income have also been notably stable. Again, these are aggregate measures, but they do suggest that debt service obligations remain manageable for most households. We expect growth in household debt will slow further, in part reflecting our expectation of slowing growth in consumer spending over coming quarters, but do not hold out much hope of lower interest rates easing debt service burdens for lower-income households. Our biggest concern at present is that a pronounced deterioration in labor market conditions would lead to heightened financial stress across a wider swath of the household sector which, in turn, would trigger a more broadly based deterioration in credit performance.