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ECONOMY: Consumer survey showed growing debt preceded crash

By CHRIS BAGLEY - Staff Writer

Most families' incomes haven't kept up with rising prices in recent years, and large increases in their wealth have been accompanied by unusually high levels of debt, according to a recent survey by the nation's central bank.

On average, inflation-adjusted personal incomes in the U.S. rose by nearly 9 percent during the 2004-07 period, the Federal Reserve Board reported this month in its triennial Survey of Consumer Finances. But that increase came mostly in the form of capital gains on the sale of stocks and other assets, reaped mainly by the wealthiest 10 percent of Americans, the Fed reported.

Income also rose by about \$600 a year for Americans in the second wealth quintile, a statistical slice of the population who are less wealthy than 60 percent of other Americans but have more than the poorest 20 percent.

Middle- and some working-class families made out much better in terms of wealth because of a booming real estate market in those years. The typical household's net worth rose by 18 percent. The average increase in net worth ---- 13 percent ---- was less, a possible indication of a narrowing gap between the middle class and the wealthy, according to the Fed.

Other data in the Fed's report suggested that those gains may have been short-lived. An unusually large portion of the increase ---- 36 percent ---- were paper gains on real estate, stocks and other assets that hadn't been sold, according to the report. Most stocks and homes have declined sharply in value since late 2007, when the Fed collected the data in a series of 4,422 extensive interviews.

And Americans' mortgage debt and credit card balances grew dramatically, according to the report. In the West, families' debts grew more quickly than their assets on a percentage basis.

The debt and income data are more than a year old, but they provide a broad view of the spending habits that many economists blame for the current recession, still deepening in its 15th month.

Americans with large debts and relatively little savings are cutting spending much more sharply than in earlier downturns. Personal spending was long the engine of the American economy but shrank by \$475 billion, 3.5 percent, from May to December, dwarfing previous declines in terms of dollars, percentage, and duration, according to Commerce Department figures. The inevitable but unusually sharp cuts are fueling the economy's downward spiral, economists say.

"The problem in the U.S. economy is that we weren't saving," Christopher Thornberg, an economist and partner with Beacon Economics in Los Angeles. "Now we're doing it Big Bang-style."

In related news Tuesday, the New York-based Conference Board said its Consumer Confidence Index, which was down slightly in January, stunned economists by plunging more than 12 points in February to 25, the lowest level since its creation in 1967. A year ago, the consumer confidence reading stood at 76.4.

The "Present Situation" component of the index, which measures consumers' assessment of current economic conditions, fell to 21.2 from 29.7 last month. The Expectations' Index, which is consumers' outlook during the next six months, sank to 27.5 from 42.5.

Consumers' gloomy mood has frozen business for consumer-oriented companies in Southern California and nationwide, and particularly in many suburban areas. Economists have said such areas' higher rates of homeownership led their economies to expand more dramatically along with booming real estate markets and to crash more painfully when real estate imploded.

Taxable retail sales, a large chunk of consumer spending, fell by 6 percent in northern San Diego County and 10 percent in southwestern Riverside County last summer, before the worst of the economic downturn.

At the national level, retail sales rebounded in January, a bounce that many analysts attributed to steep discounts in the wake of a dismal holiday shopping season.

And the discounts continue: At A & D Oriental Rugs on Vista Way in Oceanside, for example, a going-out-of-business sale has drawn a swarm of customers this week.

The dour mood follows 15 years of increasingly frenetic, debt-based spending, a departure from the frugality of the generation that emerged from the Great Depression and World War II.

Commerce Department figures show Americans having saved 6 percent and 11 percent of their disposable income from 1959 through the 1980s.

But the savings rate dipped below 5 percent in the recession of the early 1990s and

continued to fall as the economy expanded. Savings averaged just 1.3 percent in the seven-year expansion that ended in December 2007.

The typical credit-card balance was \$3,000 in 2007, up from \$2,400 in 2004, according to the Fed's survey this month.

The typical American family with a mortgage owed \$107,000 in 2007, up from \$104,000 in 2004 and \$81,900 in 2001, according to the survey.

The savings rate rose above 1 percent in September, and to 3.6 percent in December, with dramatic effects on consumer-focused businesses. Money that used to pour into cash registers was instead deposited into savings accounts and sent to credit-card companies. Thornberg called that a step in the right direction but said he believes the rate will have to return to a range of 7 to 10 percent before spending can resume an upward trend.

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[Federal Reserve Board's Survey of Consumer Finances](#)

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