



Consumer Federation of America

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FINANCIAL CONDITION OF TYPICAL AMERICAN HOUSEHOLD IMPROVES LITTLE, ACCORDING TO NEW FEDERAL RESERVE DATA

Fed Data Makes Low, Declining Household Saving Rates More Worrisome

Washington, DC—According to Survey of Consumer Finance (SCF) data and analysis made available by the Federal Reserve Board today, the financial condition of the typical American household improved little between 2001 and 2004. Moreover, according to the data, the financial condition of low- and moderate-income households actually deteriorated during this period. That compares to significant improvements, according to earlier SCF surveys, in household financial conditions from 1995 to 2001.

“The modest increases in typical household income and assets make low, declining household saving rates even more worrisome,” said Stephen Brobeck, Executive Director of the Consumer Federation of America (CFA). “We were a lot less concerned about falling savings rates when both homes and securities were appreciating in value. While home prices continued to rise from 2001 to 2004, so did home indebtedness, and stock prices were not increasing appreciably,” he added.

FINANCIAL CONDITION OF TYPICAL HOUSEHOLD

From 2001 to 2004, median income rose only from \$42.5k to \$43.2k (1.6 percent) while median net worth rose only from \$91.7k to \$93.1k (1.5 percent). By comparison, from 1995 to 2001 according to the Fed data, median income rose from \$37.8k to \$42.5k (12.4 percent), while median net worth rose from \$70.8k to \$91.7k (29.5 percent).

Federal Reserve Board researchers explained the modest increase in net worth largely in terms of “three key shifts”: first, the strong appreciation of house values and rise in the homeownership rate”; second, a decline in stock ownership and the typical amount held; and third, a substantial increase in debt relative to total assets.

The changes in home values and debt are particularly striking. From 2001 to 2004, the median value of primary residences rose from \$131.0k to \$160.0k. Yet during the same period, the median value of mortgage debt on these residences rose from \$74.6k

to \$95.0k. As a result, of this latter increase together with increases in consumer debt, for debtors, debt payment to income ratios increased from 16.7 percent to 18.0 percent.

“During this three-year period, Middle American families were moving neither forward nor backwards financially,” said Brobeck. “But if their homes had not appreciated significantly in value, they would have moved backwards,” he added.

FINANCIAL CONDITION OF LESS AFFLUENT HOUSEHOLDS

“While the typical American household basically ran in place, less affluent households actually lost ground,” said Brobeck.

The Fed data is broken down by income quintile (as well as other demographic variables) with the lowest quintile typically being referred to as low-income households and the second lowest quintile as moderate-income households.

From 2001 to 2004, the median income for low-income households increased from \$10.9k to \$11.1k, while that of moderate-income households fell from \$26.0k to \$25.7k. Significantly, during this period the median net worth of low-income households fell from \$8.4k to \$7.5k (10.7 percent), while that of moderate-income households fell from \$39.6k to \$34.3k (13.1 percent).

SCF data is widely considered to be the most useful information on the financial condition of American households. The 2004 data is based on interviews with more than 3000 representative households and an additional 1000-plus affluent households.

For nearly a decade, CFA has worked to help consumers reduce unaffordable debt and build savings and personal wealth. For example, it initiated and manages the America Saves campaign, which now involves more than 1000 nonprofit, business, and government organizations (www.AmericaSaves.org).

Consumer Federation of America is a non-profit association of 300 consumer groups, with a combined membership of more than 50 million people. CFA was founded in 1968 to advance the consumer's interest through advocacy and education.