U.S. HOUSEHOLDS HAVE LOST $6.8 TRILLION SINCE 2021

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(10Dec2022) ... U.S. household wealth fell by $489 billion in the third quarter as a drop in U.S. stock prices outpaced gains in real estate values.

HOUSEHOLD WEALTH ... Household net worth declined to $135.3 trillion at the end of September from $135.8 trillion at the end of June. It was the third consecutive quarter household wealth has declined. During that period, an index that covers 95% of the market capitalization of U.S. stocks lost almost $2 trillion in value on worries about stubbornly high inflation and the Fed's outsized interest rate increases to try and bring it to heel.

The Federal Reserve policy-makers raised interest rates to 3.00-3.25% from 1.50-1.75% from June through September. At the same time, the pace of home price growth slowed, with the interest-rate sensitive housing sector bearing the brunt of the Fed's aggressive moves (reaching 3.83% before their December meeting) to dampen demand across the economy.

The Fed is relying on consumers to pull back on spending to help lower inflation. U.S. households have lost nearly $7 trillion in net worth this year, almost entirely due to the stock market's 2022 swoon. But that's after a jump in household wealth to a record $150.1 trillion at the end of last year juiced by government financial relief during the worst of the COVID-19 pandemic.

DECLINE IN HOUSEHOLD DEPOSITS ... But those relief funds - that resulted in higher-than-usual household savings - have begun to dwindle, but remain above pre-pandemic norms.

The report showed that household cash stockpiles - as measured by the sum of balances in checking accounts, savings and time deposits and money market funds - were effectively unchanged in the third quarter at nearly $18.4 trillion. But these household deposits are down about $134 billion from its peak in the first quarter.

Consumer checking account and money market balances both ticked higher but were offset by a drop in savings and time deposits.

All of the three major groups of assets - cash, real estate and consumer durable goods - have held their ground this year although with wage growth (5.0%) continuing to trail consumer infation (7.7%), consumers are experiencing a dilution in purchase power and the elevated pace on inflation is causing many to dig deeper into their bank accounts to cover everyday expenses.

PACE OF DEBT DECLINES ... While consumers are using more of their cash reserves, the pace of household debt growth slowed to a 6.3% annual rate from 7.4% in the April to June period, while business and federal government debt also rose at a slower pace. State and local government debt contracted in the third quarter.