Households Losing Big in the Great Recession

Household wealth (net worth) is the difference between household assets and liabilities. Household assets are collections of tangible assets like real estate and durable goods, and financial assets such as bank deposits and stock and bond holdings. Household liabilities include, among others, home mortgage loans and consumer loans.

The Great Recession, which began December 2007 and officially ended June 2009, has cut deeply into household wealth. The net worth of American households is now $10 trillion less than its peak in 2007. Household wealth propelled from $52.8 trillion in 2004 to $64.2 trillion in 2007, before sinking $12.8 trillion (or 19.9 percent) to reach $51.4 trillion in 2008. It has rebounded to $53.1 trillion in 2009 and $54.3 trillion in the first half of 2010.

Major sources of such substantial loss in household wealth were twofold. Firstly, there was a massive decline in the value of tangible assets fueled by the burst of the “housing bubble” and the resulting loss in home equity. The value of tangible assets climbed from $24.6 trillion in 2004 to $29.5 trillion in 2006. It plummeted three consecutive years to arrive at $23.2 trillion in 2009. In the first half of 2010, the value of tangible assets grew 1.7 percent to reach $23.6 trillion.

Secondly, there was a sizable loss in the value of financial assets led by the near collapse of stock prices as the Dow Jones Industrial Average plunged 97.2 percent from a peak of
13,930 on October 1, 2007 to a trough of 7,063 on February 1, 2009. The value of financial assets rose from $39.2 trillion in 2004 to $50.7 trillion in 2007, before falling $9.3 trillion (or 18.2 percent) to attain $41.4 in 2008. It then gradually recovered to $42.4 trillion in 2009 and $44.6 trillion in the first half of 2010.

To compensate for the loss of assets, households reduced their liabilities. The bulk of liabilities reduction included declines in mortgage debt from its pre “housing-bubble” peak due to loan defaults and housing foreclosures. All together, household liabilities rising from $11.0 trillion in 2004 to $14.4 trillion in 2007 declined $1.9 trillion (or 13 percent) in two years to reach $12.5 trillion in 2009. Liabilities, however, rose to $13.9 trillion in the first half of 2010.

The net worth per household climbed from $468,400 in 2004 to $556,100 in 2006. It then declined over the following three years to reach $444,600. In the first half of 2010, wealth per household rose to $450,900, which is $17,500 less than its initial value in 2004 and $105,200 short of its peak value in 2006.

Households tend to spend according to how wealthy they feel. By and large, their spending behavior exerts a profound impact on the economy since personal consumption expenditure accounts for about two-thirds of the GDP. During the Great Recession, sinking home equity and stock prices made consumers skittish. Spending per household rising from $75,700 in 2004 to $79,500 in 2007 declined to $76,600 in 2009. More than a year after the recession is ended, the housing market is still depressed and the stock market remains fragile. As a result, households are not spending as much as they typically do after recessions. Spending per household rose to $76,900 in the first half of 2010, which is still $2,600 lower than its peak in 2007.
The key to sustained economic growth is for American households to gain confidence in keeping jobs, making income, and accumulating wealth. In particular, households need to regain their equity with the recovery of the housing market and growth of the stock market. With near double-digit unemployment rates and depressed housing prices, households are somewhat optimistic about their financial investment as stock prices have rebounded gradually since July 1, 2009. The road to full recovery, however, is going to be long and tiring.

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