World Economic Situation and Prospects

Weekly Highlight

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An examination of changes in household net worth

In December 2013, the United States Federal Reserve (Fed) released the latest "Financial Accounts of the United States" (previously titled the "Flow of Funds Accounts of the United States"). According to this release, the net worth for households and non-profit organizations has expanded by about 38 per cent from the recent trough of the first quarter of 2009, and reached the level of 77.3 trillion dollars at the third quarter of 2013 (table). This level is about 12 per cent higher than the previous peak value observed in the third quarter of 2007.

The main contribution to the recovery in net worth was the higher value of total assets held by households. Of the 8.2 trillion dollar increase from the previous peak, 7.7 trillion came as a result of the increase in total assets. For total assets, the more than 9.4 trillion dollar increase in the value of financial assets was offset by the 1.7 trillion dollar losses in non-financial assets. Across all types of financial assets, the two most important contributors to the increase were pension entitlements and currency and deposits. Those were subject to effects from the Great Recession to a much lesser extent than other types of financial assets, and contributed to about 65 per cent of the increase. The third important contributor, corporate equities held by households, had lost almost half of its value in the six quarters following the third quarter of 2007. However, equities have since recovered all of the losses and subsequently reached a level of about 13 per cent higher than the previous peak.

Table
Net worth of households and non-profit organizations in the United States

Billions of United States dollars										
		Assets					Liabilities			
			Financial assets	Non-financial assets						
End of period	Net worth	Total	Total	Total	Real estates	Other	Total	Home mortgages	Consumer credit	Other
2004	56618	67613	42596	25017	20840	4177	10996	7858	2220	917
2005	62825	74987	46402	28584	24178	4406	12162	8912	2321	930
2006	67476	80937	51318	29619	24996	4622	13461	9909	2463	1089
2007Q3	69094	83281	54490	28792	24020	4772	14188	10506	2562	1119
2007	67990	82384	54111	28273	23450	4823	14394	10610	2617	1167
2008	57319	71595	46744	24851	19899	4952	14276	10576	2651	1049
2009Q1	55710	69803	45917	23886	18942	4945	14093	10574	2585	934
2009	59040	73091	49414	23677	18699	4978	14051	10416	2553	1081
2010	63485	77260	53919	23340	18348	4992	13775	9907	2648	1220
2011	64881	78449	55170	23279	18124	5155	13568	9678	2757	1133
2012	70927	84526	59522	25005	19709	5295	13599	9437	2924	1238
2013Q1	73975	87518	61663	25856	20506	5350	13543	9389	2924	1230
2013Q2	75337	88900	62398	26502	21109	5393	13563	9363	2968	1232
2013Q3	77259	90938	63894	27044	21611	5433	13679	9373	3040	1266

Source: United States Federal Reserve.

The devaluation in the non-financial assets was caused by losses in the market value of real estate. Since the previous peak, the value of all real estate has dropped by about 5.9 trillion dollars in the span of four years. Although it started to increase in mid-2011, the current value is still about 2.4 trillion dollars lower than it was at its peak. The lower market value of real estate has triggered deleveraging behavior in households. The total value of household mortgages started to decline in 2008. The current level is about 1.1 trillion dollars lower than the peak value. However, the pace of the decline has slowed recently; the amount of home mortgage liabilities has actually increased slightly in the latest quarter from the previous one. Household deleveraging has driven the ratio of outstanding mortgages to market value of real estate to a level closer to the long-run trend (figure).

Figure

Home mortgages as a percentage of real estate market value

Source: DESA/DPAD, based on data from United States Federal Reserve.