Market Commentary

Lower-Income Households Show Signs of Stress

We've been constructive on the economy in the post-COVID era, but economic goldilocks can't last forever. The New York Fed's Q1 Household Debt and Credit Report shows that nearly 11% of credit card balances have transitioned into serious delinquency (90+ days delinquent), which is the highest percentage since the global financial crisis (Fig. 1). Should we see it as a sign that cracks are forming in the growth story?

Fig. 1: Credit card delinquencies are rising

Source: Bloomberg, Mill Creek.

To answer this question we have to look at which borrowers are delinquent. New credit card delinquencies are currently concentrated in maxed-out borrowers and maxed out borrowers are mainly lower-income households. Lower income households are hitting a breaking point due to a combination of elevated inflation, higher debt service costs, and falling inflation-adjusted wages. The average credit card interest rate is now over 24%, which is an impossible rate to keep up with for families that were only paying the minimum to start with.

While the current environment is clearly challenging for lower-income households, increased credit card delinquencies are not a harbinger of broader economic problems – right now. Most households are not getting hit by higher debt costs and overall debt service as a percentage of income is near historic lows for US households.

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