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Investment Perspectives

A Closer Look at U.S. Consumer Trends

Examining consumer debt levels may provide insight into future economic growth prospects.

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Representing over 70% of the economic activity of the largest economy in the world, the U.S. consumer is key to the direction of the global economy. On top of its importance, there is a good deal of uncertainty around the consumer because the events of the last few years have been so unusual. After a substantial decline in consumer debt and delinquency rates as a result of COVID-19-era stimulus, these measures have been on the rise recently.

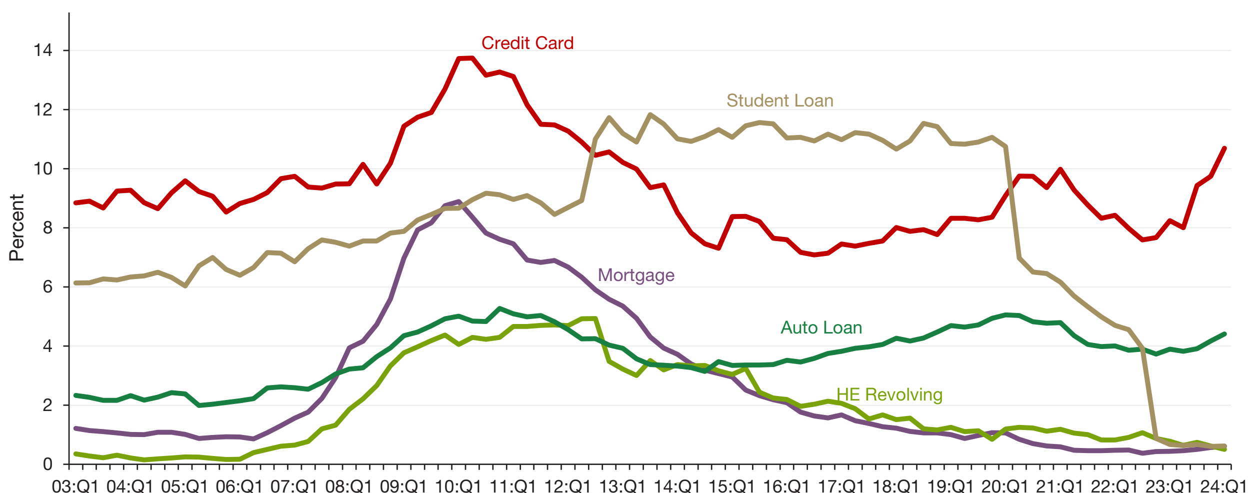
The following analysis examines these recent trends in consumer debt in the context of financial conditions and inflationary trends. We believe that a more holistic view reveals a sound consumer balance sheet as well as a potential inflection point toward stronger loan performance in the near term.

Uncovering Payment Delinquency Trends

Payment delinquencies have risen most significantly for domestic credit card accounts (see Figure 1). Compared to other types of loan obligations, this increase may suggest that credit card payments are toward the bottom of the debt payment priority list. But examining the distribution of delinquency rates among credit card issuers may also provide insight into recent revolving debt delinquency trends.

Figure 1.

Percent of loan balances 90+ days delinquent by loan type, March 31, 2003–March 31, 2024



Source: Federal Reserve Bank of New York. Data as of March 31, 2024. Most recent quarterly data available. HE=home equity. The historical data shown in the chart above are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett.

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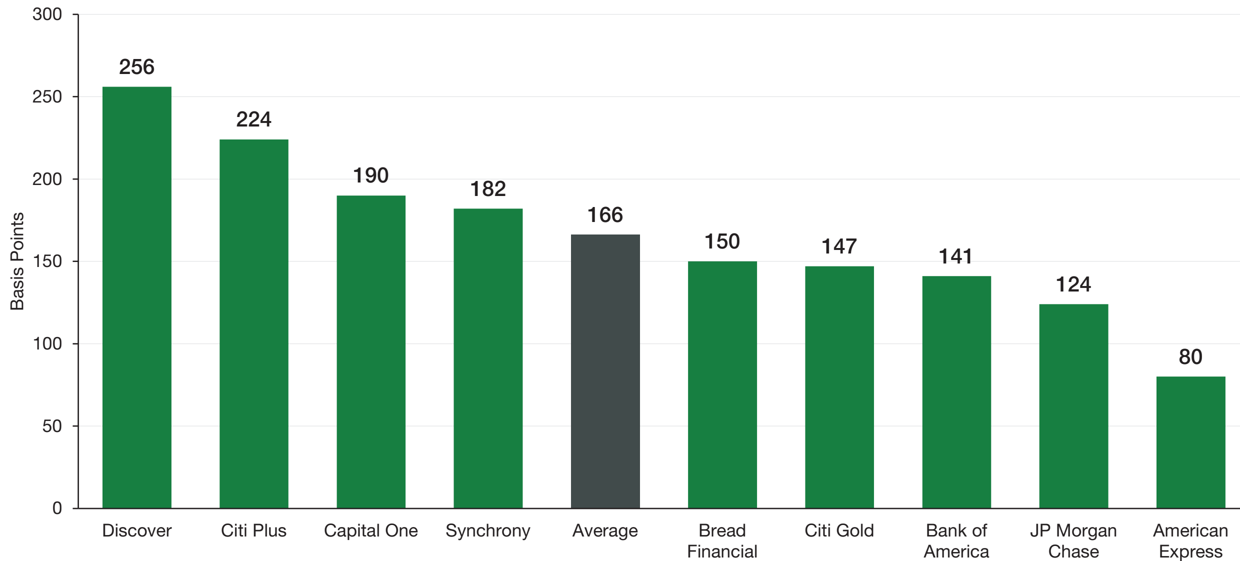
Although loss rates remain elevated on a year-over-year basis across many card types (see Figure 2), there is clear differentiation between conservative and lenient card issuers. We think this illustrates a key driver of the observed loan performance. The dispersion between card issuer performance is wide currently, with a nearly 180-basis point (bp) gap between the best-performing and worst-performing card issuer in terms of year-over-year rise in delinquency. We believe that the increase in variance in card issuer risk tolerance over the last five years has driven these results.

Figure 2. Large Dispersion in Loan Performance Among Credit Card Issuers

Year-over-year change in net charge-offs as of March 31, 2024



Source: Goldman Sachs Global Investment Research. Data as of March 31, 2024. Net charge-off is the difference between gross charge-offs and any recovery of delinquent debt. The historical data shown in the chart above are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett.

Changing risk tolerance and underwriting standards can also provide insight into future trends in delinquency rates. Lending standards shown in the Senior Loan Officer Survey began to loosen in the second quarter of 2021 and continued for six consecutive quarters (see Figure 3, left panel), despite rising inflation and the start of the Federal Reserve hiking cycle. This episode of credit loosening was followed by seven quarters of credit tightening and includes the conservative lending standards of today.

An additional indicator of recent tighter lending conditions is direct mail credit card marketing, which is the largest form of marketing credit cards to prospective account holders. From mid-2020 until mid-2022, monthly direct credit card mail volume significantly increased, suggesting a greater willingness for customer acquisition (see Figure 3, right panel). Since then, mail volume has continued to trend lower as lending standards tightened.

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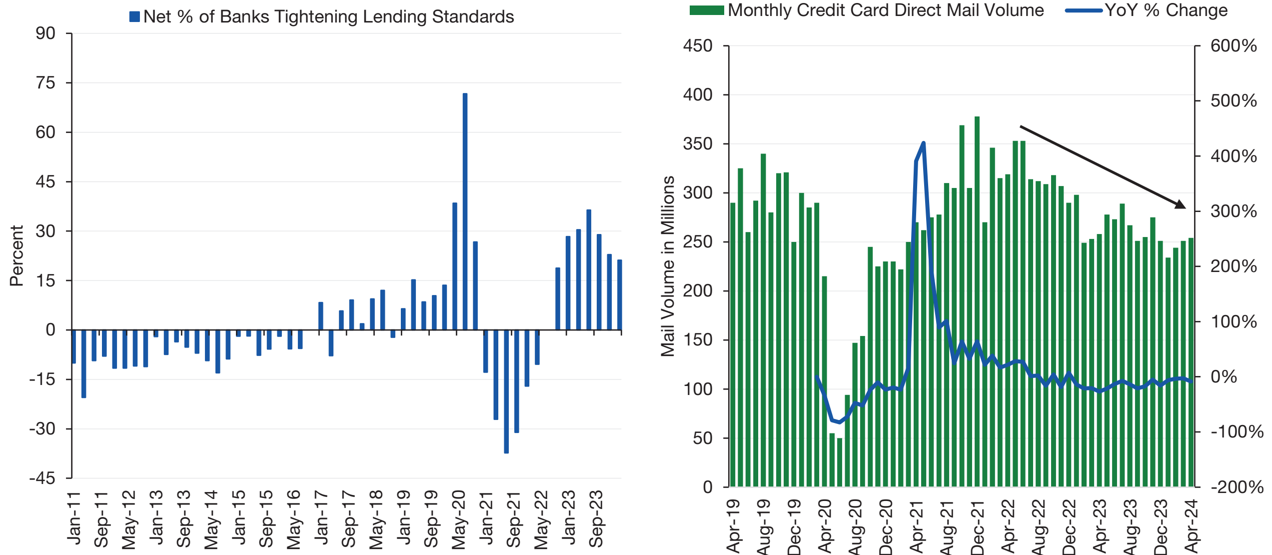
Figure 3.

Net percentage of U.S. domestic banks tightening standards for credit card loans, December 31, 2000–March 31, 2024 (left panel), and monthly credit card direct mail volume, April 30, 2019-April 30, 2024 (right panel)



Source: Board of Governors of the U.S. Federal Reserve System Senior Loan Officer Opinion Survey on Bank Lending Practices (left panel), and TD Cowen, Mintel (right panel). Data as of May 6, 2024 (left panel) and April 30, 2024 (right panel). The historical data shown in the chart above are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett.

Interestingly, credit card issuers that originally had stricter lending standards have significantly increased their year-over-year volume, whereas the issuers who generally had a greater risk appetite have decreased their year-over-year direct mail marketing (see Figure 4). This suggests that underwriting effects pertaining to vintage of origination—the time at which the loan began—are driving today's loan performance, as well as the differentiation across issuers. With lending standards now in net tightening mode and direct mail activity lower for most issuers, we believe it is reasonable to expect that the lagging effects of tighter loan standards should begin to be reflected in improved loan performance in the near term.

Figure 4.

Top-ten direct credit card marketing volume by mail, April 30,2023-April 30, 2024

In millions	Citibank	Capital One	Chase	American Express	Discover	Bank of America	Barclays	Credit One Bank	US Bank	Wells Fargo	Top Ten Mailers	Total Mailings
4/30/2023	42	36	13	16	30	27	6	6	4	16	197	258
5/31/2023	35	55	21	23	31	23	4	5	6	14	216	278
6/30/2023	40	54	20	12	36	21	5	5	4	16	214	273
7/31/2023	37	67	20	6	36	24	4	6	9	17	227	298
8/31/2023	41	54	20	8	31	28	6	4	5	13	209	267
9/30/2023	42	49	17	6	35	14	4	6	8	13	192	251
10/31/2023	38	51	20	10	32	28	5	7	6	11	207	255
11/30/2023	41	54	30	17	33	15	6	6	6	10	219	275
12/31/2023	40	54	24	23	28	19	6	8	4	11	215	251
1/31/2024	34	49	14	16	35	21	5	6	6	10	195	234
2/28/2024	33	44	27	29	37	18	4	6	5	13	218	244
3/31/2024	32	47	20	37	32	20	5	5	6	9	212	251
4/30/2024	31	47	25	30	32	27	6	6	5	13	221	254
% change YoY	-26%	31%	85%	86%	7%	-2%	-2%	-5%	6%	-19%		
% change MoM	-4%	1%	21%	-17%	0%	35%	21%	14%	-17%	48%		

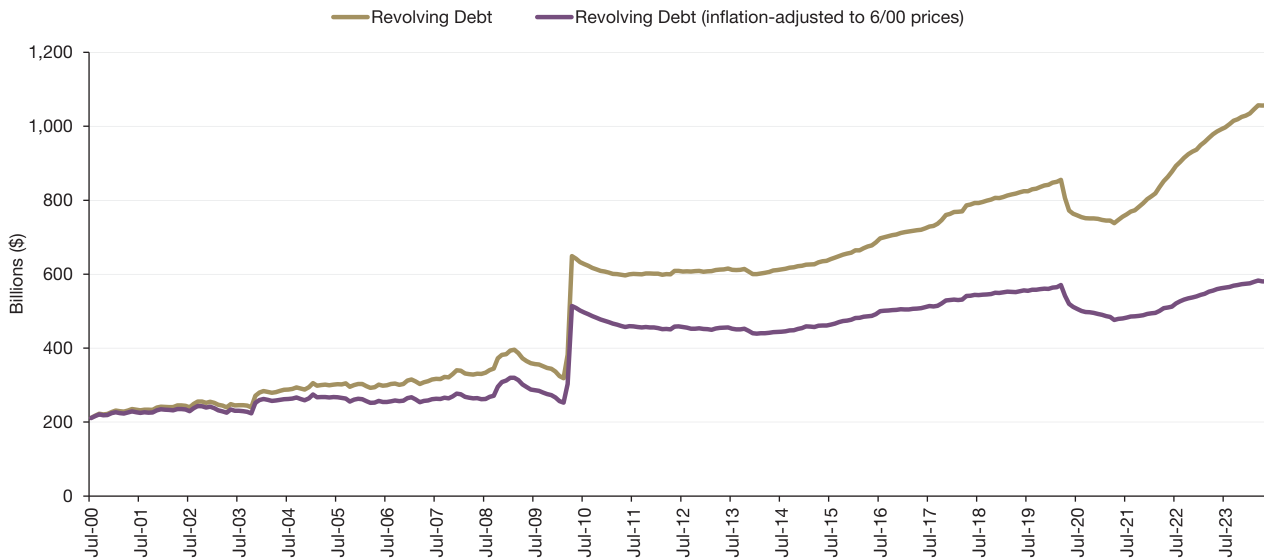
Source: TD Cowen and Mintel. Data as of April 30, 2024. Named credit card issuers represent the top-ten direct mail marketing volumes. The historical data shown in the chart above are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett.

Nominal Versus Inflation-Adjusted Debt Balances

Outstanding credit card balances have increased starkly over the past two years (see Figure 5). One factor driving this is the number of credit card accounts increasing by approximately 100 million since the third quarter of 2019, according to the Federal Reserve Bank of New York, reflecting more households with credit card accounts and more accounts per household. Further, indexing card balances to the significant influence of inflation shows the real value of that outstanding debt has actually remained in a tight range since the Great Financial Crisis.

Figure 5.

Consumer credit card and other revolving plans, all U.S. commercial banks, nominal and inflation adjusted to June 2000 prices, June 30, 2000–May 31, 2024



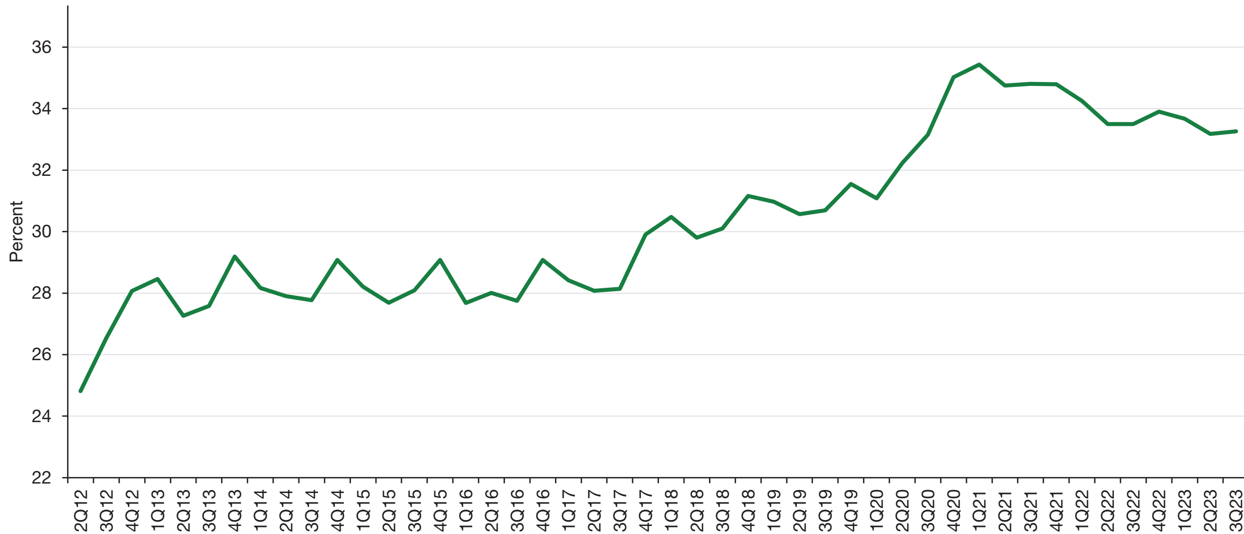
Source: Bloomberg and the Federal Reserve Bank of New York as of May 31, 2024 (right). The historical data shown in the chart above are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett.

Convenience Use of Revolving Debt

In recent years, there has been an increase in the convenience use of credit cards. This type of credit card borrower is likely to pay off their balance each month, which may be reflected in the upward trend in the share of card accounts paying the full balance (see Figure 6). Even though this amount is only held for a short period, it is still included in headline revolving debt shown in Figure 5, which is a snapshot in time. As a result, the increase in revolving debt may at least be partially attributed to a combination of high inflation and the increased adoption of the convenience use of credit cards and is not necessarily symptomatic of a cash-constrained consumer.

Figure 6.

The share of credit card accounts paying the full account balance, June 30, 2012—September 30, 2023



Source: Federal Reserve Bank of St. Louis. Quarterly data as of September 30, 2023. Most recent data available. The historical data shown in the chart above are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett.

Revolving Debt and Economic Growth

Another useful metric for determining consumer stress, in our view, is to compare debt levels to the size of the U.S. economy, which has been growing along with rising consumer incomes and inflation. Figure 7 shows that the ratio of consumer credit card debt to gross domestic product (GDP) has fallen over the last 20 years and remains below pre-COVID-19 levels.

Figure 7.

Consumer credit card and other revolving plans, all U.S. commercial banks, as a percent of U.S. GDP, December 31, 1999–March 31, 2024

Source: Board of Governors of the U.S. Federal Reserve System and U.S. Bureau of Economic Analysis. Quarterly data as of March 31, 2024. The historical data shown in the chart above are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett.

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Takeaways

Rising consumer debt levels merit close monitoring. The increase in revolving debt can be partially attributed to new account openings, rising convenience use of credit cards, and the effects of inflation on nominal figures. The rise in year-over-year delinquency rates is also important to highlight, but we expect these rates to decrease over time, given recent, more conservative lending standards. Though this tightening persists among lower- to middle-tier consumer banks, lending may expand for higher-quality credit card issuers based on increased mail marketing volume. Economic growth has led to a revolving credit-to-GDP ratio that remains lower than pre-pandemic levels, suggesting some room for further expansion as underwriting and vintage impacts normalize.

We expect consumer health to remain strong through 2024. As such, we remain constructive on high-quality asset-backed securities in the consumer space and expect the consumer to continue to fuel economic growth, creating a favorable environment for risk assets, even in the context of continued inflationary pressures.

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Revolving credit is a type of credit that does not have a fixed number of payments, in contrast to installment credit. Credit cards are an example of revolving credit used by consumers.

Underwriting is the process by which the lender decides whether an applicant is creditworthy and should receive a loan. An effective underwriting and loan approval process is a key predecessor to favorable portfolio quality, and a main task of the function is to avoid as many undue risks as possible.

The Federal Reserve (Fed) is the central bank of the United States. The federal funds (fed funds) rate is the target interest rate set by the Fed at which commercial banks borrow and lend their excess reserves to each other overnight.

A **basis point** is one hundredth of 1 percentage point.

Asset-backed security (ABS) is a financial security backed by a loan, lease or receivables against assets other than real estate and mortgage-backed securities. For investors, asset-backed securities are an alternative to investing in corporate debt.

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