Consumer Spending and Debt in New Hampshire

While labor market growth has slowed in recent months, income and consumer spending growth suggest that the U.S. economy remains strong overall. Adjusted for inflation, per capita disposable personal income (after-tax income) increased 2.6 percent over-the-year in August 2024. Personal consumption expenditures (PCE), the value of all goods and services purchased by consumers, increased 2.9 percent over-the-year. PCE accounts for more than two-thirds of Gross Domestic Product (GDP) and is a popular metric for gauging the overall strength of the economy.

Consumer spending data for New Hampshire is only available through 2023, but shows spending in New Hampshire closely following the national trend. Consumer spending increased more in New Hampshire than in the U.S. in 2023 (8.9 percent annual growth compared to 7.5 percent in the U.S., not adjusted for inflation), but since 2019, overall growth was essentially the same (30 percent compared to 31 percent nationwide).

Consumer Spending Trends

The largest expenditure for U.S. consumers is health care, which accounts for 17 percent of all expenditures over the first eight months of 2024. Other large expenditures include housing and utilities (16 percent), food and beverages (13 percent, between groceries and restaurants), motor vehicles (four percent) and pharmaceutical products (four percent).

In New Hampshire, housing is the largest expenditure, accounting for 18 percent of all consumer spending in 2023. Housing accounted for a larger share of expenditures than in 2019, when it accounted for 16.9 percent of expenditures, reflecting the increase in local housing costs. However, for many New Hampshire residents, housing accounts for a much larger share of expenditures. In 2023, 51 percent of renters were cost burdened, meaning they spent at least 30 percent of their income on housing expenses. An additional 28 percent of homeowners were cost burdened.[1]

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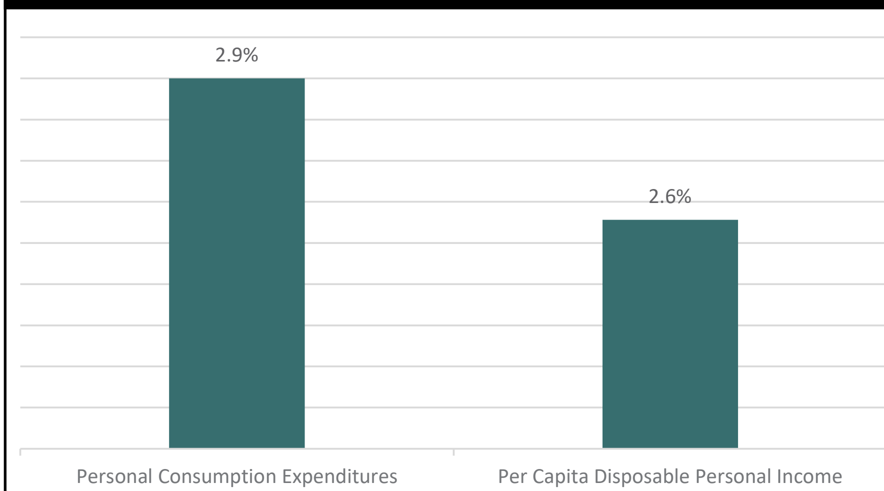
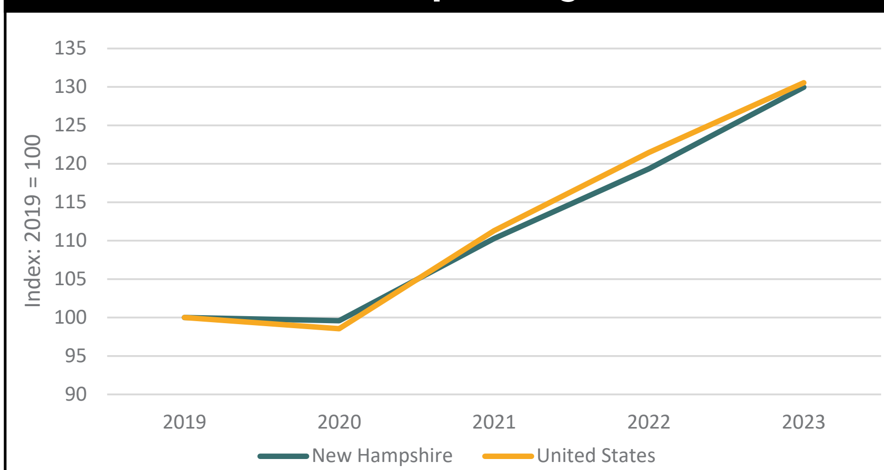
Inflation-Adjusted Annual Growth



Source: U.S. Bureau of Economic Analysis, Personal Consumption Expenditures

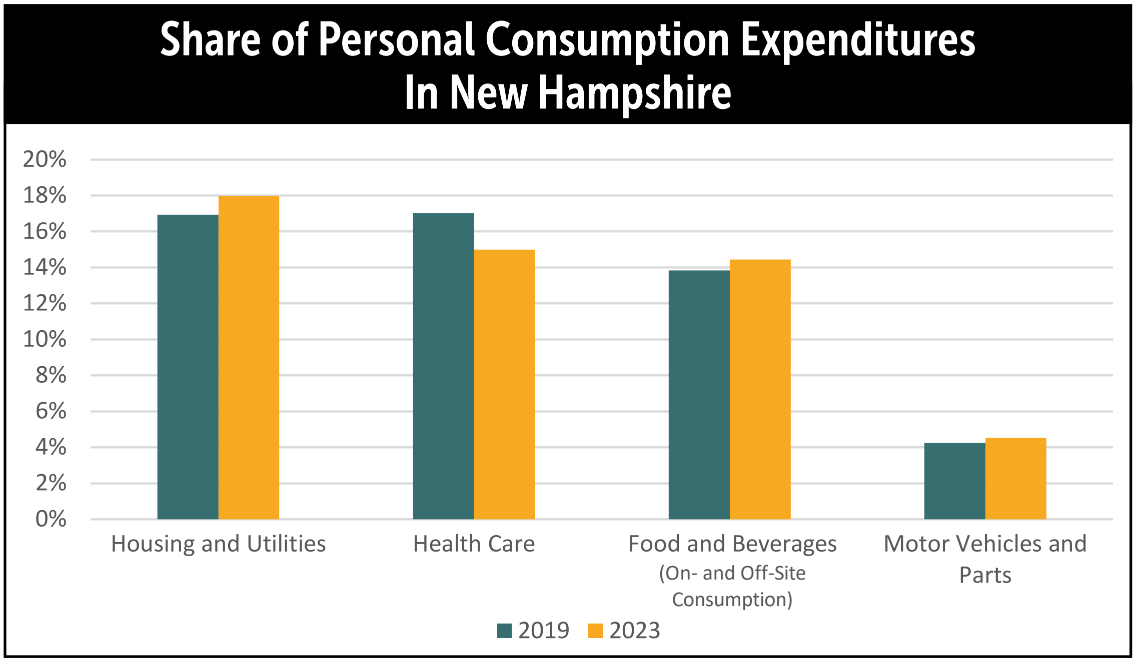
Consumer Spending Index



Source: U.S. Bureau of Economic Analysis, Personal Consumption Expenditures

1 New Hampshire Fiscal Policy Institute, "New Hampshire Renters Were Cost-Burdened by Housing at Higher Rates than Homeowners in 2023," September 23, 2024. https://nhfpi.org/blog/new-hampshire-renters-were-cost-burdened-by-housing-at-higher-rates-than-homeowners-in-2023/#:~:text=In%202023%2C%20 approximately%2051%20percent,owner%20households%20without%20a%20mortgage.

Spending in two other categories, food and beverages[2] and motor vehicles, increased between 2019 and 2023, reflecting the dramatic price increases these products experienced between 2021 and 2023. Spending on food and beverages increased from 13.7 percent of expenditures to 14.4 percent, while expenditures on motor vehicles increased from 4.2 percent to 4.5 percent.



Source: U.S. Bureau of Economic Analysis, Personal Consumption Expenditures

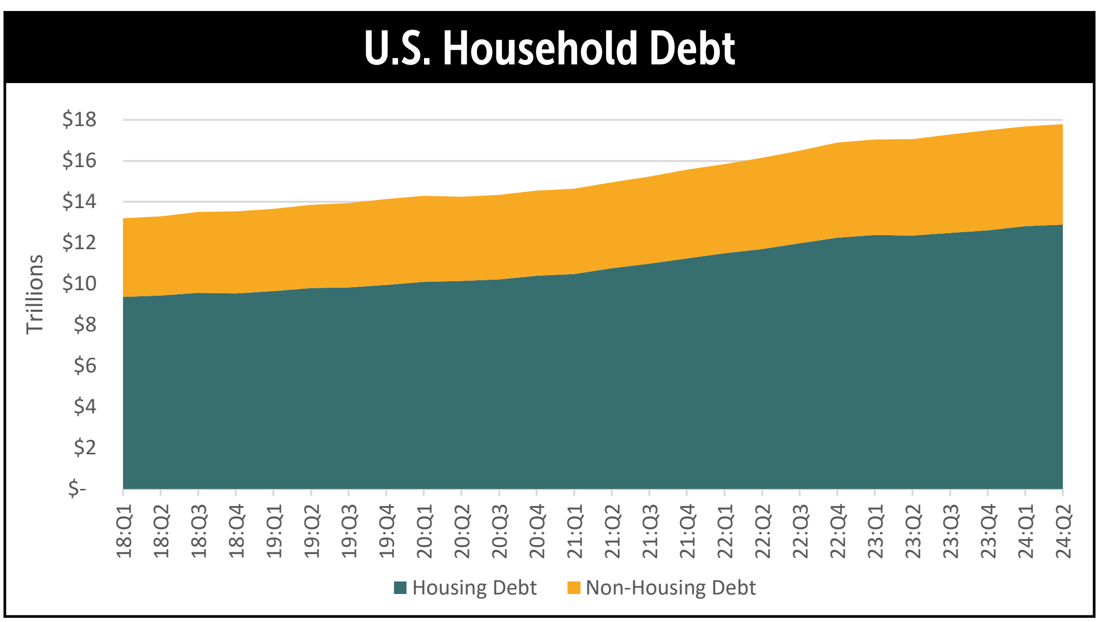
The share of consumer spending on health care declined from 17.0 percent in 2019 to 15.0 percent in 2023. Total spending on health care increased over that time, but at a slower rate than overall consumer spending. Not adjusted for inflation, health care spending increased 18.9 percent over that time, compared to 33.9 percent for all consumer spending. While historically health care prices have increased at a faster rate than overall inflation, they increased at a slowed rate during and after the pandemic, which contributed to their smaller share of overall consumer spending. Medical care prices increased 10.2 percent between 2019 and 2023, compared to 19.2 for the total Consumer Price Index.

Consumer Debt

While consumer spending is largely supported by income, some spending is financed by debt, particularly large purchases like houses, cars and college tuition. Housing is the largest source of consumer debt, accounting for $12.9 trillion of U.S. household debt in the second quarter of 2024, nearly three quarters of all household debt.

Auto loans and student loans for U.S. consumers both totaled $1.6 trillion, while credit card debt totaled $1.1 trillion. Auto loans have been the fastest-growing source of consumer debt since 2020, likely because of the substantial increase in car prices during the pandemic. Student loan debt has plateaued since the start of the pandemic, as college enrollment in the U.S. declined, offsetting tuition increases.

Credit card debt fell during the first year of the coronavirus pandemic, from $930 billion in the fourth quarter of 2019 to $770 billion in the first quarter of 2021. A decline in overall spending during the pandemic, combined with pandemic-era programs such as stimulus checks and supplemental unemployment benefits allowed some residents to increase their savings and pay down debt. This decline was temporary, and as spending increased again, credit card debt increased as well, reaching $1.14 trillion in the second quarter of 2024. This was a 48 percent increase, the fastest-growing type of debt over that time.



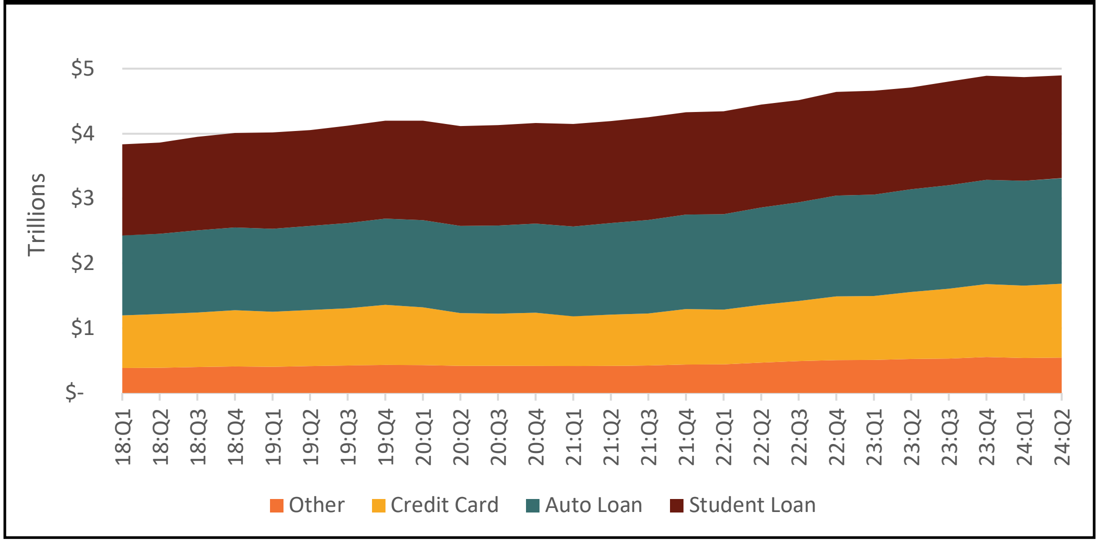
Source: Federal Reserve Bank of New York, Household Debt and Credit Report

2 In state-level data, food services and accommodations are not reported separately. Nationally, accommodations spending accounted for essentially the same share of total spending in 2023 as it did pre-pandemic, just over one percent.

Delinquent Debt

Adjusted for inflation and income growth, the debt-to-income ratio has remained fairly constant since 2022, at around 0.75, meaning total debt was approximately three-quarters of total income.[3] Overall, consumers are not overly burdened by debt. Consumer debt as a percentage of disposable personal income remains low by historical standards, although increasing rates of debt delinquency, especially among lower income households, suggest that an increasing number of consumers are struggling.

Non-Housing Debt



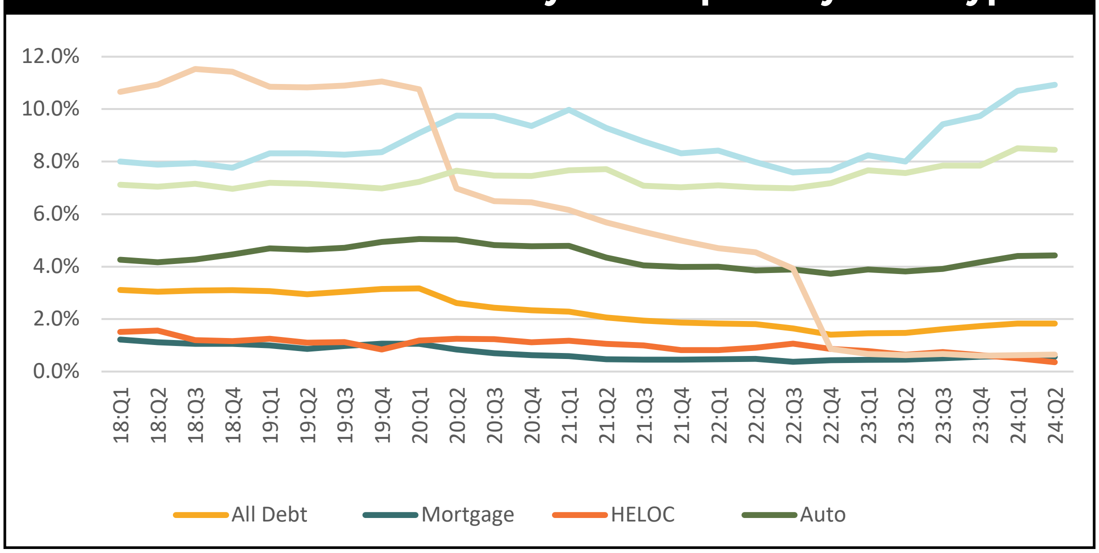
Source: Federal Reserve Bank of New York, Household Debt and Credit Report

In the second quarter of 2024, 1.8 percent of U.S. consumer debt was considered seriously delinquent (more than 90 days delinquent), compared to approximately three percent of loans prior to the pandemic.[4] Seriously delinquent loans have increased slightly since the fourth quarter of 2022, when 1.4 percent of loans were seriously delinquent.

Credit card debt was the fastest-growing type of delinquent debt. The percentage of credit card debt that was seriously delinquent increased from 8.0 percent in the second quarter of 2023 to 10.9 percent in the second quarter of 2024. This surpassed 2019 levels, when 8.3 percent of credit card debt was seriously delinquent. Credit card holders from New Hampshire had a lower rate of credit card delinquency (8.6 percent) than in the U.S. overall (12.2 percent) in the fourth quarter of 2023.[5]

Serious delinquencies for mortgages and home equity lines of credit (HELOC) were below one percent, although mortgage delinquencies trended up over the past year. Several pandemic-era programs assisted mortgage holders during the pandemic, including a moratorium on foreclosures for mortgages from government-sponsored mortgage lenders and homeowner assistance funds. In addition to high home sale prices and mortgage rates, the expiration of these programs has likely contributed to the increase in foreclosures.

Percent of Balance 90+ Days Delinquest by Loan Type



Source: Federal Reserve Bank of New York, Quarterly Report on Household Debt and Credit

Through the first half of 2024, foreclosure activity was up slightly over the same period in 2023, but well below pre-pandemic levels.[6] New Hampshire's foreclosure rate of 0.07 percent was approximately half of the U.S. rate, although it followed the same national trend; foreclosures were up six percent compared to 2023, but six percent below 2022 levels.

3 Jason P. Brown and Colton Tousey, "Consumer Debt Is High, but Consumers Seem to Have Room to Run," Federal Reserve Bank of Kansas City, May 17, 2024. https://www.kansascityfed.org/research/economic-bulletin/consumer-debt-is-high-but-consumers-seem-to-have-room-to-run/.
4 Federal Reserve Bank of New York, Household Debt and Credit Report. https://www.newyorkfed.org/microeconomics/hhdc.
5 Federal Reserve Bank of Philadelphia, Consumer Credit Explorer. https://www.philadelphiafed.org/surveys-and-data/community-development-data/consumer-credit-explorer.
6 ATTOM, Foreclosure Activity in First Half of 2024 Down from Previous Year https://www.attomdata.com/news/most-recent/mid-year-2024-foreclosure-market-report/.

Delinquency rates for student loan debt fell drastically during the pandemic, from 11 percent in 2019 to under one percent in 2023 and the first half of 2024. This decline was due to several policies enacted by the federal government during the pandemic.[7] Payments on federally backed student loans were paused during the pandemic, with payments resuming in October 2023. There was an additional one year "on-ramp" period, when student loan servicers did not report late, missing and partial payments to credit bureaus. The end of this period will be a challenge for many consumers with student loan debt, and the percentage of seriously delinquent student loans is likely to increase in the future.

Summary

While income and spending continued to grow steadily in 2024, consumer debt creates a more mixed picture of consumer spending and finances. Total debt has increased steadily, and although it remains at reasonable levels relative to income, rising rates of delinquent debt suggest an increase in the number of consumers who face financial stress.

Research from the U.S. Federal Reserve found that increased spending by middle- and high-income households (annual income of more than $60,000) has fueled consumer spending growth since mid-2021, while retail spending by lower-income households has increased at a lower rate.[8] The authors hypothesized that the expiration of pandemic-era programs had a disproportionately large impact on lower-income households. Additionally, middle- and high-income households benefitted from increases to the value of investments and homes.

Housing has been a major source of increased wealth for many New Hampshire households, particularly those who purchased homes prior to the pandemic. These households have gained equity from rising home prices and had an opportunity to refinance existing mortgages at historically low interest rates.

For New Hampshire homeowners who purchased in recent years, housing is more likely to cause financial strain, as these homeowners purchased at high prices with high mortgage rates. While this will be an ongoing challenge, falling mortgage rates may offer an opportunity to refinance, lowering monthly mortgage payments.

– Greg David, Economist

7 U.S. Department of Education, Restarting Student Loan Payments. https://studentaid.gov/manage-loans/repayment/prepare-payments-restart.
8 Sinem Hacıoğlu Hoke, Leo Feler, and Jack Chylak, "A Better Way of Understanding the US Consumer: Decomposing Retail Spending by Household Income," Board of the Governors of the Federal Reserve System, October 11, 2024. https://www.federalreserve.gov/econres/notes/feds-notes/a-better-way-of-understanding-the-u-s-consumer-decomposing-retail-spending-by-household-income-20241011.html.