

From the desk of Chief Economist Beth Ann Bovino

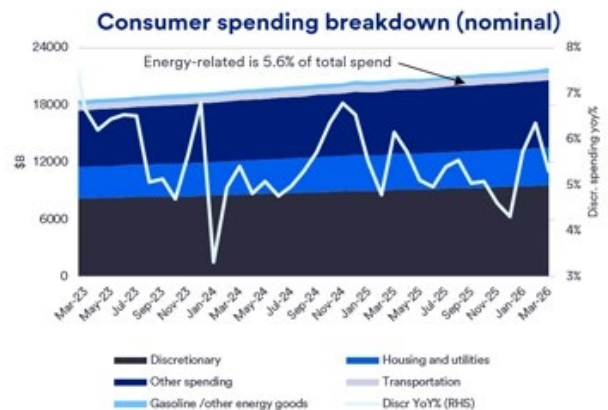
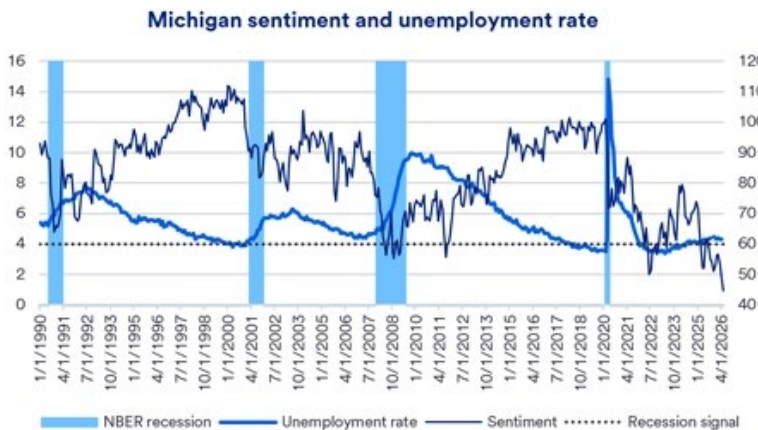
Household financial health: Beware the averages!

The U.S. economy still appears to be running on all cylinders despite the war with Iran. The low unemployment rate seems firmly entrenched (almost eternal) with average wage gains growing at around 3.6% year-over-year (YoY) in April. Consumer spending has held strong (even discretionary spending, usually sacrificed for essentials like gasoline). This includes signs that retailers were able to pass through costs and still report a profitable season.

The University of Michigan consumer sentiment still signaled recession, 60 or less, since August 2025 (65 or less, the stress zone, since February 2025). But, given the healthy spending and paychecks, I did not yet consider that a sign of doom. I called the spending ‘retail therapy.’

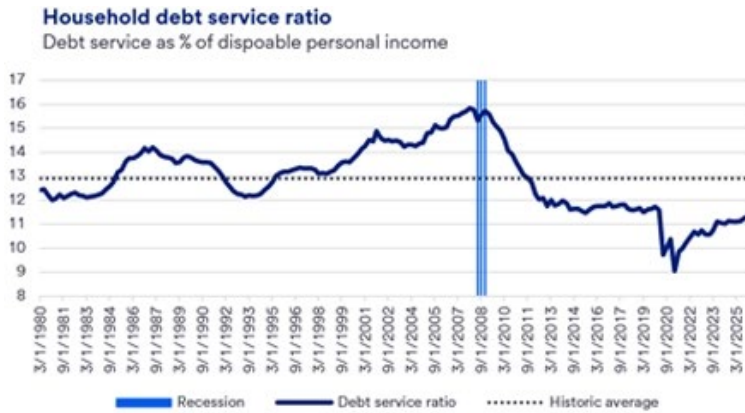
“For higher-income households with larger monthly incomes and balance sheets, debt is still cheap. But low- and middle-income borrowers have a greater need and a greater burden.”

Beth Ann Bovino, chief economist, U.S. Bank



Sources: Bloomberg, U. S. Bank Economics calculations

The unemployment rate, at 4.3%, is near historic lows. Average disposable personal income is healthy, at 4.0% YoY, in March. The household debt servicing ratio is comfortably below its historic average, which explained why consumers were still spending, despite the jump in energy prices and lousy moods. People are now more fuel efficient. The share of energy-related spending is modest, at 5.7% of average disposable personal income, and significantly below its rate in 1980.



Sources: Bloomberg, U. S. Bank Economics calculations

Cracks in the foundation

Yet, some disturbing signals have appeared. A record share of Vanguard 401k participants took hardship withdrawals in 2025, 3x pre-pandemic levels. Fidelity reported that “hardship withdrawals are also up.” These withdrawals were reportedly used to cover medical expenses and to avoid eviction or foreclosure. The housing market recently saw a small increase in 90+ day delinquencies and loans in the foreclosure process. Auto delinquencies in Q4 2025 climbed to the highest rate since 2010. And MacroX’s measure of consumer financial anxiety, which tracks affordability concerns, is close to all-time high anxiety levels. It makes no sense!

While averages don’t lie, they can be misleading. They fooled me!

So, instead of “The Law of Averages,” the new maxim could now be “Beware the Averages.”

Consider:

- The low unemployment rate measures conditions for the average worker. Even the Fed recognized that it didn’t capture job conditions for different demographics when it developed its Monetary Policy Framework in 2020. But while households are now more fuel efficient, low-income households still spend between 15-18% of their income on energy. Higher-income households spend less than 2%.
- The average debt servicing ratio is well below its historic rate. But while debt servicing is low for the hypothetical average household, it masks a wide dispersion.
- On the face of it, mortgage delinquencies are still historically low. But that masks underlying stress in lower income/FHA borrowers, which are around 11 to 12% delinquent and up to 4x higher than delinquencies for conventional rate mortgages.

For higher-income households with larger monthly incomes and balance sheets, debt is still cheap. But low- and middle-income borrowers have a greater need and a greater burden. The debt service ratio can be upwards to 18% or over of the monthly income for lower-income borrowers. And the highly levered middle-

class homeowner's monthly debt service is upwards to 16% of their monthly income. (USB Economics approximate estimates, sources: SCF/NY Fed)

I still see the economy in expansions territory. But it will not feel that way for some.

Consumers are spending more to buy the same amount. And those relying on credit to pay their bills are now left with more debt to carry as real wages trend negative. These households suffer more from both the 'disease' (inflation) and the 'cure' (high interest rates from the Federal Reserve). Let's hope the 'cure' is fast.

Sources: St Louis FRED, Bloomberg, Univ. of Michigan, Federal Reserve, Fed Survey of Consumer Finances

Disclosures

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