USA, fund flows - household wealth hit new record highs at the end of 2021. Exceptionally solid household and business balance sheets will help mitigate the effects of the slowdown induced by the inflation shock.

16h March 2022

Data on financial flows collected by the Federal Reserve (Financial Accounts) outlined ongoing, strong household wealth growth in 2021, and in 4Q in particular. At the end of 2021, net wealth had exceeded pre-Covid levels by as much as 33 trillion dollars, marking new record-high levels also in relation to disposable income.

The decline of stock indices in 1Q will curb financial wealth, but the correction will be limited, and from extremely high starting levels .

The US economy is tackling the inflation shock with exceptionally solid household and business balance sheets.

The savings accumulated by households (increased wealth and available cash on deposit accounts) will help mitigate the effects of the slowdown of the recovery resulting from the Ukrainian crisis and from the initial fed funds rate hike.

Household wealth protecting consumption

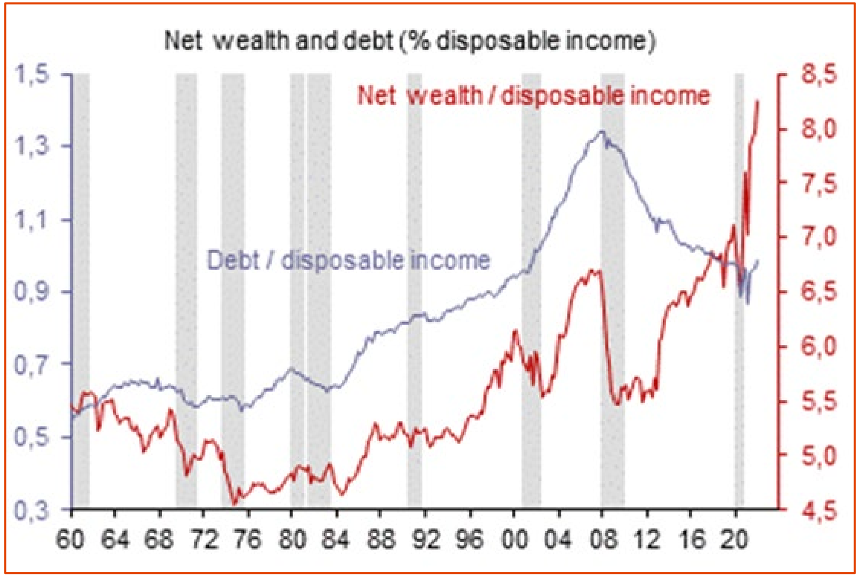
Net household wealth (wealth - debt) in 2021 as a whole increased by a hefty 18.9 trillion dollars, accelerating upwards in 4Q (5.3 trillion), thanks to the strong trend of the stock markets and to the ongoing increase in the value of property**. This has driven the net wealth/disposable income ratio to new record-breaking levels.**

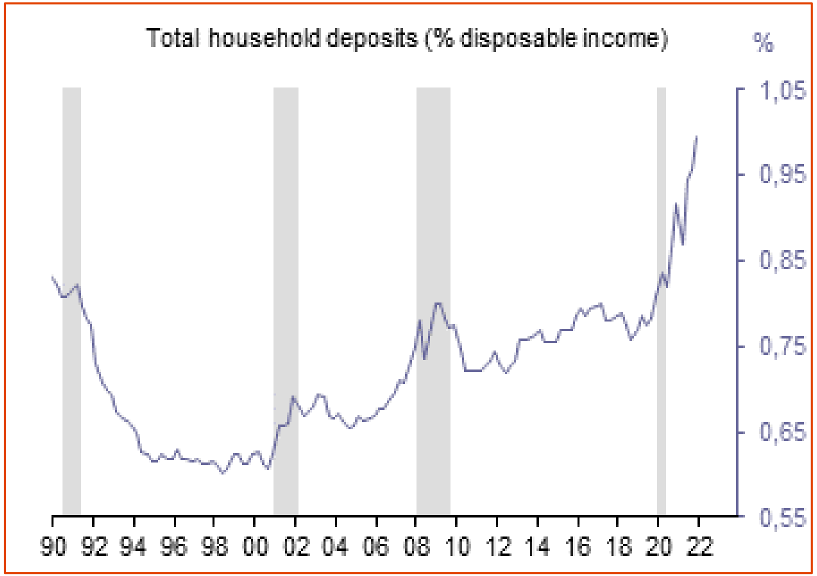
The correction of the stock markets in 1Q 2022 will curb financial wealth, albeit from extremely high levels.

In the exit from the pandemic crisis, the situation of households is the opposite to what it was after past recessions (especially in 2008): rather than decreasing, **net household wealth compared to pre-Covid levels** (4Q 2019) **has actually increased (by 33.5 trillion dollars)**, whereas **debt in relation to disposable income**, while on the rise in 2021**, is close to pre-Covid levels.**

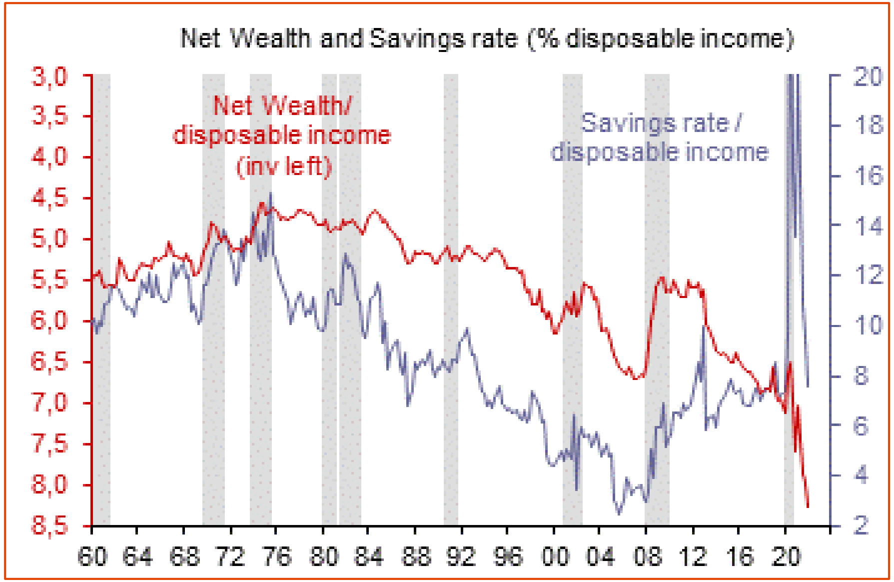
The savings rate has returned to pre-Covid levels, helping support consumption over the past few months. **Savings cumulated over the past quarters, however, still represent a useful buffer to support consumption in the next few months.** The level of wealth seems consistent with **a further deterioration of the savings rate, useful to attenuate the loss of purchasing power incurred by incomes due to already elevated inflation,** exposed to further upside pressures due to the conflict in Ukraine.

Household wealth protecting consumption





Household wealth protecting consumption



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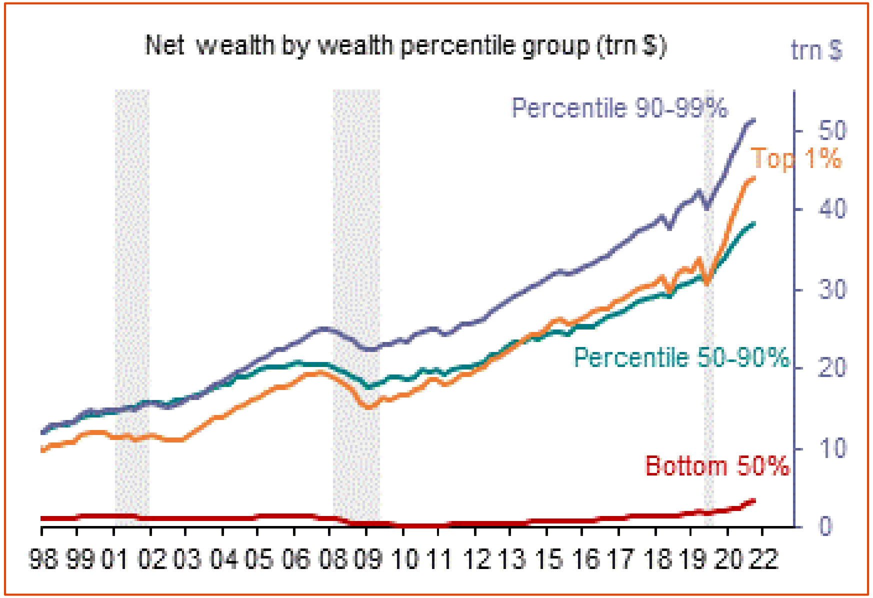
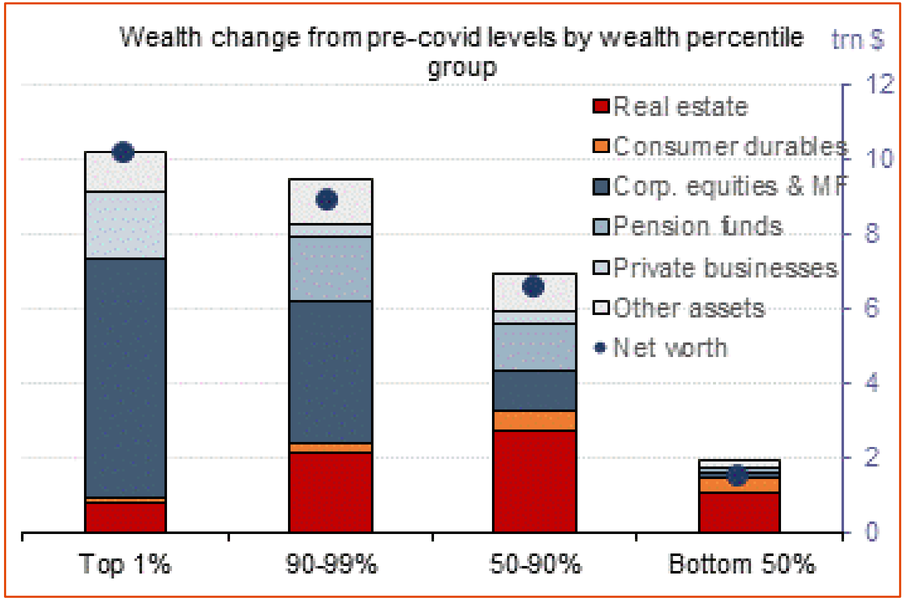
Distribution of household wealth

The increase of net wealth, as has been the case in past post-recession recovery phases, is once again concentrated in the already more affluent portion of the population, that own stocks and real estate. The latest Fed data on wealth distribution, however, show that **balance sheets are proving more resilient compared to past recessions, for households as well, with lower wealth levels** (50% of the population).
When subdividing the US population in wealth percentiles (top 1%, 90-99% percentile, 50-90% percentile, and bottom 50%), **wealth emerges as having increased at a faster debt than debt across groups**. In previous recessions, on the other hand, the pace at which net wealth recovered in the lowest percentile (bottom 50%) was very slow indeed, and held back by high debt.
The solidity of the balance sheets of households, also in terms of distribution, should allow for greater resilience of the consumption trend, even in a phase in which real income is slowing.

Distribution of household wealth





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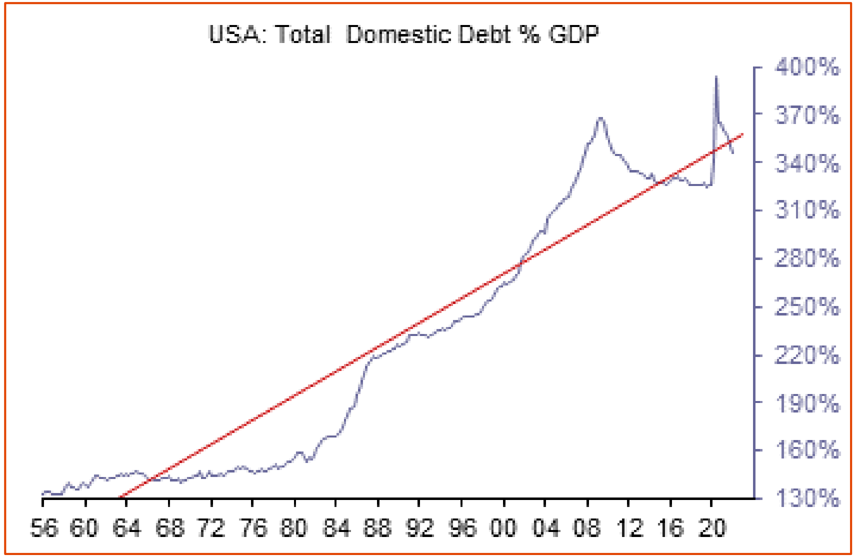
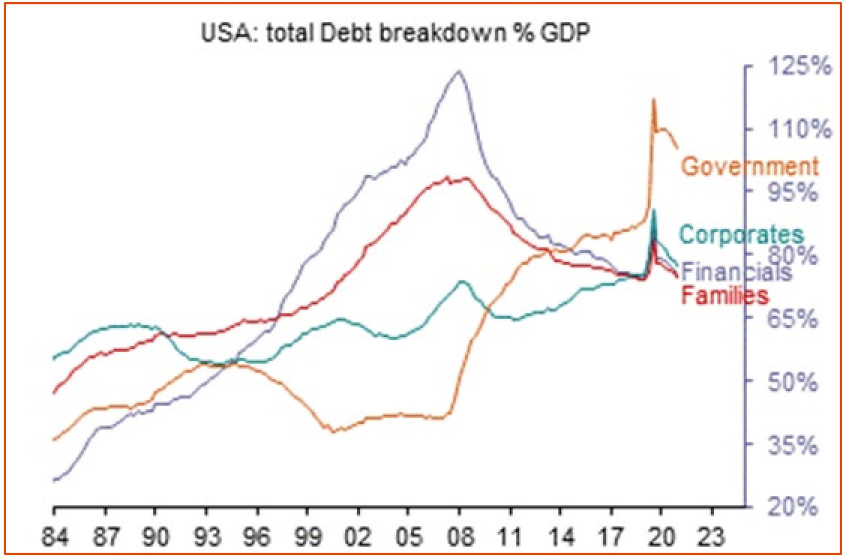
Debt/GDP: the decline from the pandemic peak continues

Overall debt growth in the US accelerated at the end of 2021 (8.2% q/q annualised). **In relation to nominal GDP, debt continued to drop, to 346% from a peak of 393% in 2Q 2020,** while staying 20 percentage points above pre-pandemic values (when debt was at its lowest in 12 years).
In the quarter, debt growth was solid across sectors. The strongest increase was marked by **Federal government** (11%), followed by households (8%), driven in particular by new mortgages, but also buy consumer credit.
Debt in the non-financial sector (6.7%) increased in line with pre-Covid rates: the level of debt in relation to GDP is returning towards pre-Covid levels (75%).

Public debt in relation to GDP is still pulling back form the peak hit in 2Q 2020, while staying at high levels as a result of the strong fiscal measures put in place to contain the effects of the pandemic. The ratio of Treasuries (marketable) and GDP, at 94%, is down from a peak of 102%, but sill well above pre-Covid levels (77%).
The largest holders of debt are foreign investors (34%), the Fed (with a share of 27%, set to decrease soon), followed by investment funds and pension funds, banks and households.

Debt/GDP: the decline from the pandemic peak continues





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Businesses: financial leverage below pre-Covid levels thanks to earnings

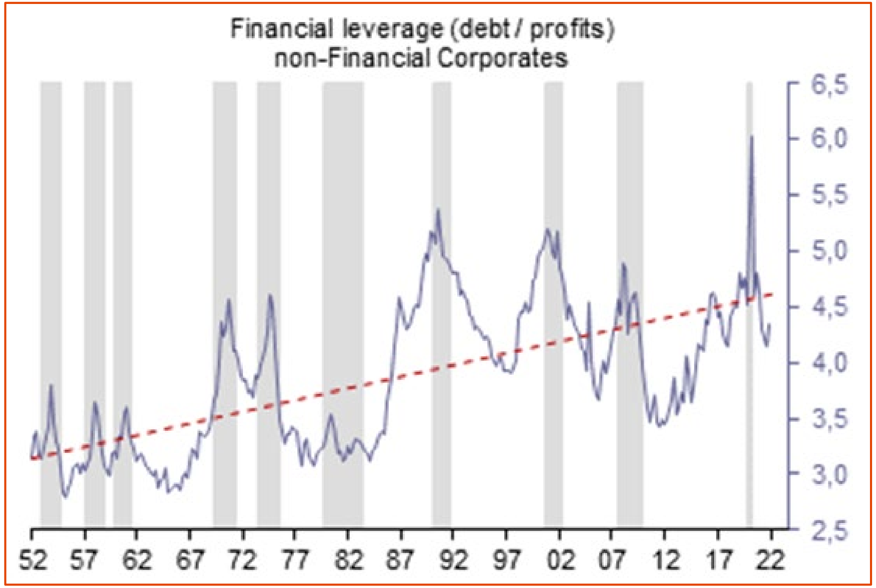
Corporate debt resumed growing at a sustained pace in 2H 2021. However, financial leverage (debt/earnings ratio) **dropped to below-trend levels and below pre-pandemic values**. This was made possible by the **acceleration of earnings growth.**

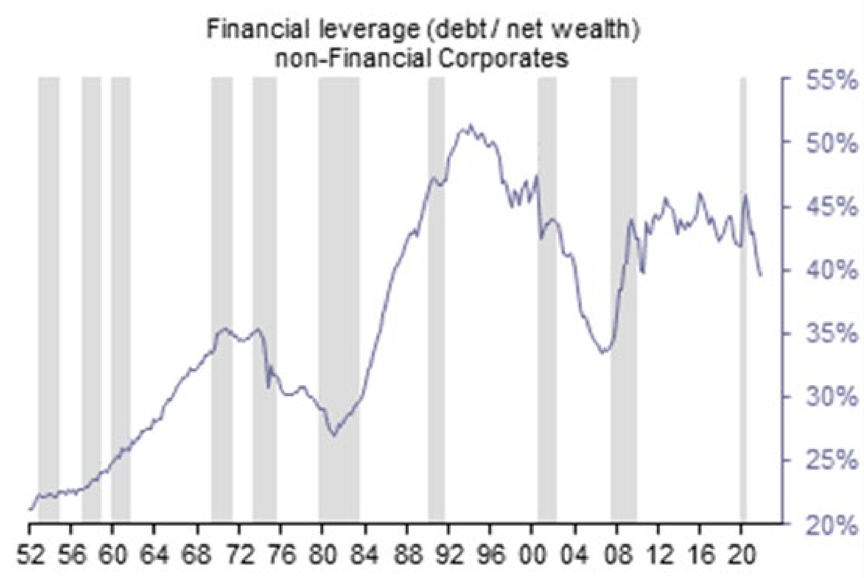
Indications of the balance sheet solidity of businesses are also provided by the **comparison between debt and net wealth:** the ratio has dropped into the lower end of the range outlined in the past 12 years.

Debt remains historically high in absolute levels; it was high already before the pandemic and is even higher now in the post-Covid phase. However, this is offset by strong wealth and earnings growth.

The recent increase in the cost of debt is a restrictive factors for businesses, after two years in which interest rates were extremely low. However, **the solidity of corporate balance sheets is a shielding element. Businesses are potentially in the position to finance new investments drawing entirely from their own means:** the financing gap (that measures the need businesses have to resort to external financing) rose back in 4Q but stayed in negative territory.

Businesses: financial leverage below pre-Covid levels thanks to earnings





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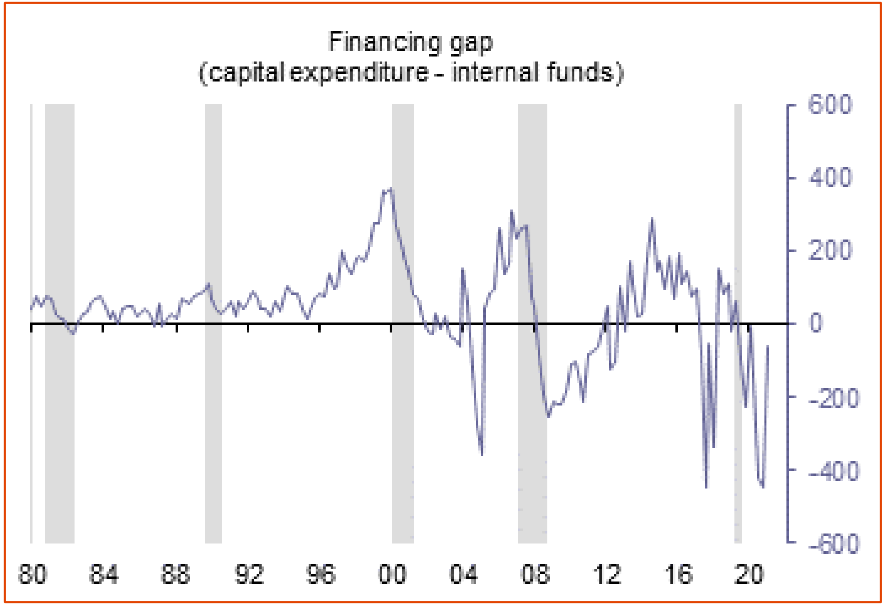

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