Bolstered Balance Sheets: Assessing Household Finances since 2019

A Hamilton Project analysis on how household balance sheets have evolved since the onset of the COVID-19 pandemic finds that, in aggregate, households' financial positions in 2022 are remarkedly improved relative to 2019.

The improvements to household finances stand in stark contrast to the years following the Great Recession. This is a testament to the support households received through robust federal benefits, to the strength of the housing and stock markets, and in more recent months, to the recovery of labor-market income. Despite the overall strength of aggregate households' financial positions, significant challenges remain due to rising inflation and long-standing inequities.

Savings, Income, and Wealth

Overall savings increased significantly during the pandemic, attributed to the unique combination of policies helping to boost incomes and to pandemic-constrained consumer spending. The authors estimate that households accumulated $2.5 trillion in excess savings (inflation-adjusted to 2020 dollars) between March 2020 and December 2021.

Much of the extraordinary strength in income since March 2020 is owed to government social benefits. As those benefits have waned in recent months, the level and growth of real disposable personal income has returned to its pre-pandemic trend.

Despite elevated household savings, the majority of the $24 trillion dollar real wealth gain from the end of 2019 through the fourth quarter of 2021 has been driven by increases in the prices of stocks and real estate.

Debt and Borrower Distress

New savings and asset gains, coupled with federal and private forbearance programs on debt payments, helped many households avoid delinquency on their debt obligations and lower their debt burdens. Although total household debt has risen since the end of 2019, low-risk mortgage borrowers constitute much of the increase while elevated incomes helped to push the ratio of total household debt to disposable income to its lowest level since the mid-1990s. Declines in riskier debt, like credit cards and home equity credit lines, have also been striking, particularly when compared to post-2008 activity.

Policy support so far has muted a wave of delinquencies and bankruptcies. For example, delinquencies briefly increased in the beginning of the pandemic but fell in the months that followed. While the collection of pandemic policies, including the eviction moratorium, have left households better off, the result of the phase out of many of these programs remains to be seen—particularly for households that entered the pandemic with very little wealth.

Persistent Disparities and Future Challenges

The improvements in aggregate savings and wealth have not been dispersed equally. The analysis breaks out the distribution of household wealth changes by income, race and ethnicity, education, and age. After excluding pandemic-affected deposit accounts, the authors find that nearly all groups have seen gains since 2019, but people with lower incomes and lower levels of education took the longest to recover. In fact, the top 1 percent's real cumulative increase in net worth was nineteen times that of the bottom 20 percent.

As pandemic-related fiscal support winds down, challenges lay ahead. Many households were in a precarious financial situation before the pandemic and will exit the pandemic in much the same position. Policymakers should be watchful of the ongoing headwinds from the pandemic and higher inflation, ensure that the labor market recovery reaches the most vulnerable households, and prioritize policies that will make household finances more resilient in the long term.