US household net worth increased $19tn, or 16%, between the end of 2019 and the first quarter of 2021. The increase was the largest 15-month wealth boost since 2004 – a remarkable gain as it occurred during a global pandemic and deep recession.

The latest Fed data on household balance sheets confirm that households accumulated a large $2.6tn stockpile of excess savings during the pandemic. According to our analysis, households in the top income quintile account for more than 80% of the excess savings, whereas households in the bottom income quintile saved less than implied by their pre-pandemic behavior.

Based on the distribution of excess savings among households, we estimate that 14% will be used to finance spending over the next six quarters, supporting 9% growth in consumer spending in 2021 and a solid 5% increase in 2022.

Growth in the value of equities, mutual funds, real estate, and retirement accounts also made significant contributions to increased net worth during the pandemic. The rise in household liabilities was a modest 5%, leaving household finances relatively healthy in aggregate.

Inequality worsened during the pandemic, as the increase in wealth was skewed toward upper-income households. Those in the top 1% of the income distribution saw their wealth increase 23% while those in the bottom income quintile experienced only a 2.5% gain in net worth.

Figure 1: Components of growth in net worth during the pandemic

Equities, real estate, and liquid savings like checking accounts and money market funds drove the increase in wealth during the pandemic.

Contact: Nancy Vanden Houten | nvhouten@oxfordeconomics.com
Gains in equities, real estate, and liquid excess savings drove gains in wealth

The Federal Reserve’s quarterly Financial Accounts report shows household net worth increased $19tn, or 16%, between the end of 2019 and the first quarter of 2021, the largest 15-month wealth gain since 2004.

Household assets (Figure 1) rose $20tn, or 15%, from Q4 2019 to Q1 2021 driven by gains in holdings of equities, real estate, retirement accounts, and liquid savings. Many asset classes in the report are recorded at market value and price fluctuations can have a significant impact on changes in household wealth.

More than 90% of the gain in households' holdings of real estate, equities, and mutual funds since Q4:19 reflect price appreciation, with the small remaining balance coming from new investments. Similarly, about 70% of the gain in households’ retirement accounts reflected price appreciation. In contrast, increases in holdings of liquid assets, including bank accounts and money market mutual funds, reflect actual savings, as these assets don’t fluctuate in value based on changes in financial markets.

Households’ combined holdings of these liquid assets increased $3.7tn from Q4 2019 to Q1 2021 (Figure 2), or about $2.6tn more than would have been expected based on growth trends over the past five years. As we’ve previously discussed, these excess savings reflect a variety of factors including savings of stimulus checks and constraints on spending, particularly on services, which are now receding.

Who built up the savings?

We find that households in the top income quintile accounted for 70% of the $3.7tn gain in holdings of liquid savings, with those in the top 1% of the income distribution accounting for $1.2tn or just over 30% of the gain (Figure 3).

Allocating excess savings among households is trickier. If we assume that households saved at the same pace that prevailed in 2019, we find that households in the top income quintile explain more than 80% of $2.6tn in excess savings, with those in the top 1% accounting for 42% of the total. Meanwhile, households in the bottom income quintile saved less than implied by their pre-pandemic behavior (Figure 4).
How much of the savings will get spent?

Using recent estimates of the marginal propensity to consume by income and our calculation of the distribution of excess savings across income quintiles, we expect households will draw down $360bn, or about 14% of their accumulated savings to finance consumption over the next six quarters. That percentage is very much in line with our previous estimates based on the top-down analysis of personal income and spending trends, supporting 9% growth in real consumer spending in 2021 and above-average growth of 5% in 2022.

Importantly, there are upside and downside risks to this forecast. Should consumers spend as much as 45% of their excess savings and splurge on services over the next 18 months, real GDP could be 2.5% higher than in our baseline in 2022. Conversely, households at all income levels could become more cautious about spending with concerns about the spread of the coronavirus becoming top of mind. If those funds are considered as wealth, the marginal propensity to spend would be lower and 2022 GDP would be 0.5% lower than our current baseline.

Wealth inequality worsened

Upper income households accounted for the vast bulk of the $19tn gain in household net worth during the pandemic. Households in the top 1% of the income distribution saw a 23% jump in net worth from Q4 2019 to Q1 2021, while households in the bottom 20% eked out just a 2.5% gain in net worth (Figure 6).

Households in the top income quintile benefited most from gains in the value of equities and mutual funds, while gains in holdings of real estate and retirement accounts have been less lopsided (Figure 7).

On the other side of household balance sheets, liabilities grew 5%, or $823bn, over the same period. Household mortgage debt and consumer credit—which combined make up close to 90% of liabilities—rose 5% and fell 1%, respectively, while other remaining household liabilities rose 5% (Figure 8).

We know from the Fed’s monthly consumer credit reports that, within consumer credit, revolving credit contracted sharply during the pandemic, although that has begun to reverse, while non-revolving credit has continued to grow at healthy pace, due to faster growth in auto loans and slower but still healthy growth in student loans.
Households in all income categories saw growth in mortgage debt. Still, the relatively sharp 12% rise in outstanding mortgage debt for those in the bottom quintile likely reflects the growing balances of those who have opted for mortgage forbearance during the pandemic.

All income quintiles saw declines in their consumer credit during the pandemic, except those in the bottom quintile, who saw a 5% increase (Figure 9).

**Healthier household balance sheets support consumption recovery**

Households in the aggregate ended the first quarter with their balance sheets healthier than at the start of the pandemic, reflecting strong gains in the value of their holdings of equities and real estate, a huge buildup in liquid savings, and only a modest increase in household debt. The improvement in balance sheets was heavily skewed toward upper-income households, however. Households in the lowest income quintile didn’t accumulate excess savings and saw larger increases in debt. The accumulation of excess savings by upper income households will support a solid pace of consumer spending that is just getting underway and that is expected to continue throughout 2022 (Figure 10).