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Research Briefing | US

Surging household wealth… for higher-income families

Economist

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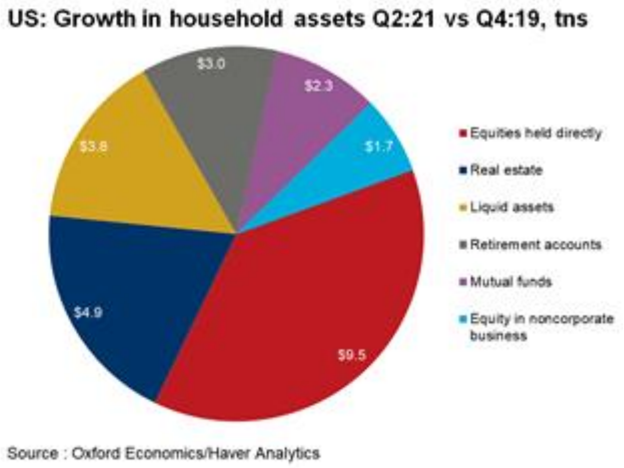
- **US household wealth rose $5.9tn, or 4%, to a new record-high $141.7tn in Q2. Households at all income levels saw increases in wealth, but the gains continue to be heavily skewed toward upper-income households, with those in the top income quintile accounting for 72% of the total wealth gains.**
- **With wealth boosted by sharp increases in the value of real estate and stocks, household net worth has increased by a staggering $24.8tn, or 21%, during the pandemic. Households in the top income quintile account for nearly three-quarters of the total wealth accumulated, while those in the bottom income quintile account for just 1% of the gain.**
- **Households continued to boost their excess liquid assets in Q2, but the $20bn increase in excess savings was the smallest of the pandemic and driven by increased savings by the top 1% of households. Households in the bottom income quintile continued to save less than pre-pandemic.**
- **We still expect households to use 10%-15% of their excess savings through the end of 2022 to smooth outlays in the absence of additional fiscal transfers. Higher prices and improving health conditions should drive greater spending from upper-income families, while lower-income households will need to tap savings now that most forms of federal assistance have ended.**

Aggregate household net worth increased $5.9tn to a record $141.7tn in Q2, with gains in the market value of real estate, equities, mutual funds, and retirement accounts explaining more than 75% of the gain. Households' liquid savings rose $20bn, the smallest increase since Q3 2019. During the pandemic, net worth has increased by $24.8tn, with an accumulation of $26.0tn in assets **(Figure 1)** slightly offset by a $1.2tn rise in liabilities.

Figure 1: Growth in household assets during the pandemic



Equities, real estate, and liquid savings account for two-thirds of households' asset growth since the start of the pandemic.

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Wealth gains still skewed to the top earners

The gains in household wealth continue to be heavily skewed toward upper-income households **(Figure 2)** – a trend that was in place prior to the pandemic. Households in the top income quintile accounted for 72% of the gain in total household net worth in Q2, with those in the top 1% accounting for 37% of the gain. Similarly, the households in the top income quintile have enjoyed 73% of the total net worth accumulated over the course of the pandemic, with 36% going to the top 1%. Meanwhile, those in the bottom income quintile accounted for 5% of household net-worth growth in Q2 and just 1% during the pandemic.

Gains in the value of real estate following the massive runup in home prices over the past year account for a disproportionate share of the gains in wealth for lower-income households **(Figure 3)**, while the gains in net worth for upper-income households have been dominated by increases in the value of other assets, including equities and liquid savings like bank accounts and money-market mutual funds.

Topping off excess savings

Based on our analysis of the Federal Reserve's distributional accounts data for Q2, we estimate that households accumulated an additional $2.7tn in cash-like, liquid assets from Q4:19 through Q2:21 relative to how much they would have saved if pre-pandemic savings rates prevailed. The largest increases in excess savings occurred in Q2 2020 and Q1 2021 – when most stimulus checks were sent to households **(Figure 4).**

In Q2 2021, households increased their excess savings by $20bn, the smallest increase since the start of the pandemic. The increase didn't occur for all income groups. The top-earning 1%, which holds 39% of excess liquid savings, added $63bn to their stockpile of cash and cash-like assets (such as money-market mutual funds) in Q2. Other households in the top income quintile started to reduce their excess savings in Q2 **(Figure 5).**

Meanwhile, households in the bottom income quintile only boosted their savings in the early stages of the pandemic. Since Q3 2020, those households have saved less than their pre-pandemic rate, accumulating a $47bn savings shortfall relative to what would have occurred had they maintained pre-pandemic savings rates **(Figure 5)**.

Figure 2: Gains in wealth are heavily skewed toward upper-income households

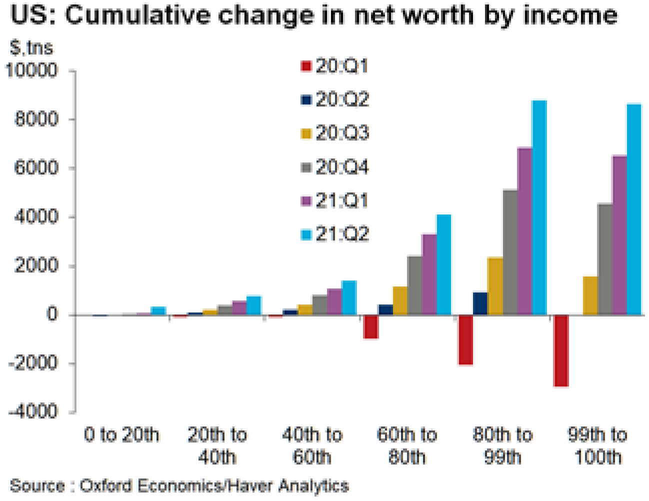


Figure 3: Real estate's share of household wealth increase rises as income falls

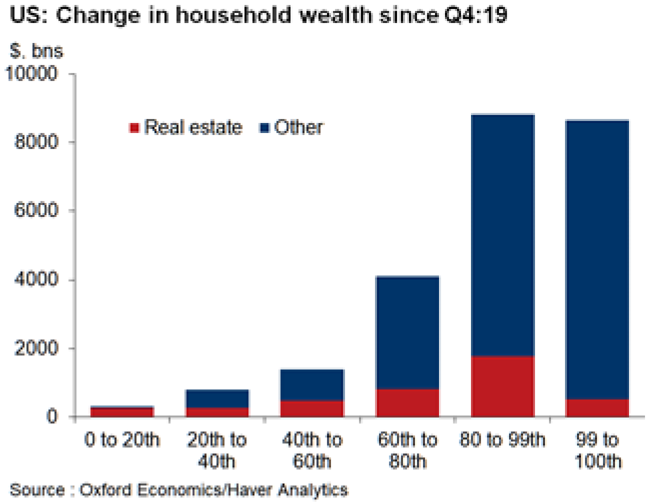
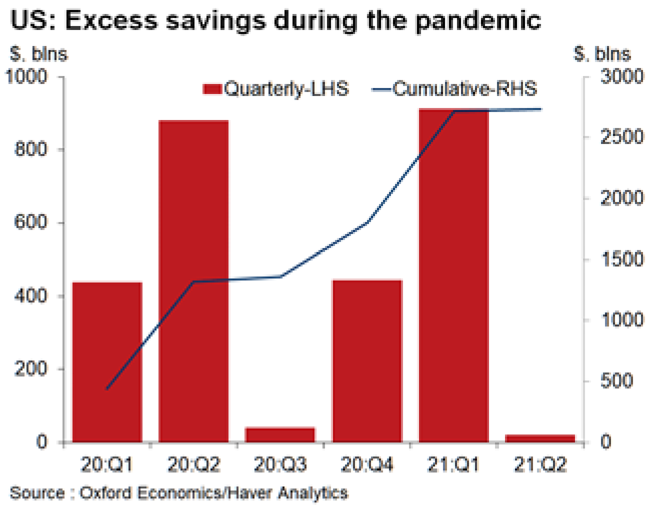


Figure 4: Excess savings are leveling off



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How long will households sit on their stash of cash?

Theur baseline view is that household will draw 10%-15% of the cumulative excess savings from H2 2021 through 2022. While there were only preliminary signs of some households tapping into their savings in Q2, there are signs that use of excess savings has accelerated since the end of Q2.

More recent data from the Census Bureau's Household Pulse survey show that since Q2 more individuals across all but one income category – those earning $25k to $35k – are using savings to finance spending **(Figure 6)**.

For instance, in early October, 28% of respondents with incomes between $50k and $75k – which includes the median income household – reported using savings to finance spending in early October, up 4ppts from late June and 6ppts from late April. In early October, 17% of respondents with incomes above $150k (19% of those earning $150k-$200k and 15% of those earning more than $200k) (**Figure 6),** which would roughly correspond to the top income quintile, used savings to finance spending, up 4ppts from June and 5ppts from April.

Higher inflation caused by the pandemic may prompt all households to dip into savings, as wage growth lags the rise in prices for goods and services. But individuals at different income levels will have different reasons for tapping into their savings. Households at the top of the income distribution are more likely to have accumulated excess savings because of constraints on their spending during the pandemic.

Spending by these households in Q3 was likely still tempered by supply-chain disruptions that have limited the supplies of some goods and the late-summer resurgence in Covid cases that may have also restricted their spending on services. We expect these upper-income households to draw down a small amount of their excess savings as opportunities to spend open up.

Lower- and middle-income households are more likely to draw down savings because of a decline in income due to fading government support. These households got a much larger boost to their income from the American Rescue Plan **(Figure 7)** and prior Covid-relief measures than upper-income households, and the largest sources of support have ended.

Figure 5: Some households have stopped accumulating excess savings

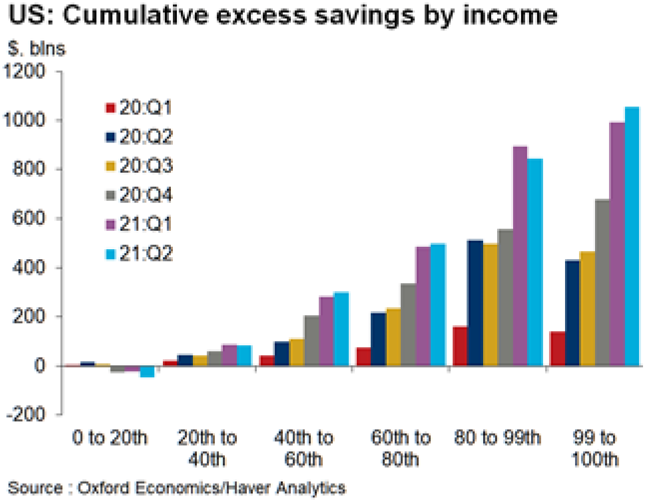


Figure 6: Spending from savings by income

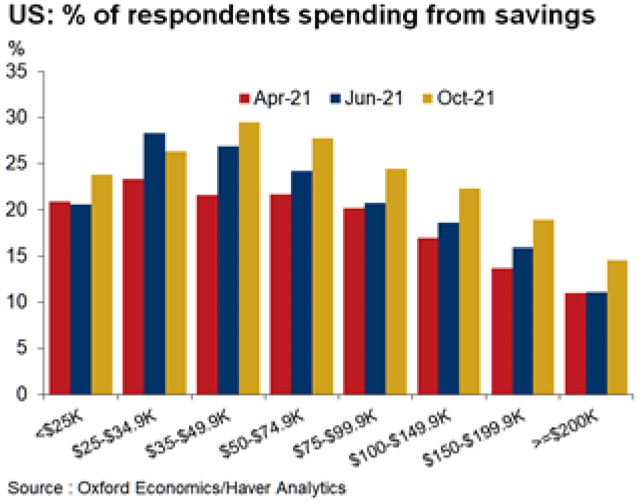
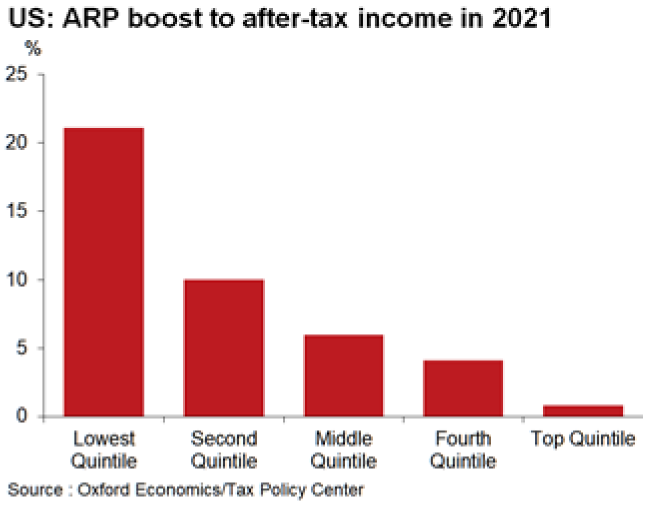


Figure 7: Lower-income households got the biggest boost to income from Covid relief



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Monthly Child Tax Credit payments have offset some of the falloff in federal assistance, but those payments are relatively small – averaging about $15bn per month – compared to the boost to income provided by stimulus checks and enhanced unemployment benefits **(Figure 8)**. The enhanced Child Tax Credit is set to expire at the end of the year. An extension is likely to be part of any reconciliation bill passed by Democrats in Congress, but it is unlikely to be a permanent extension.

Figure 8: The biggest chunks of federal support for households are in the rearview mirror