First Trust
Monday Morning OUTLOOK

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Don't Fear Consumer Debt

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For decades, the issue of debt has often dominated discussions of economics. It's especially true these days with a $19 trillion federal debt and the fact that home loans were at the heart of the Panic of 2008. Lately, some analysts have fretted about student loans and many think economic growth in this recovery has been driven by borrowing.

Both of these fears are overblown. Consumer credit bottomed in mid-2010 after the recession. Since then it's up nearly $1.1 trillion, easily the largest increase for any 66-month period on record. Is this a credit binge? We don't think so.

Consumer credit funded by the federal government primarily through student loans has exploded, up 274% since mid-2010, accounting for two-thirds of the increase. Taking out federal loans, consumer credit is up a much more modest $355 billion in the past 66 months, similar to the increase in 1991-96, which isn't remembered as a period of financial froth. Also, the economy is much larger than it was 20 years ago.

More importantly, for every borrower, there must be a saver. In other words, the economic expansion is not due to credit growth. Total personal income is up $3.2 trillion in the past 66 months, which is much more than the growth in credit. And consumers' monthly financial obligations – for mortgages, rent, cars, and credit cards – have been hovering at the lowest share of income since the early 1980s.

Some pessimistic analysts might tout the recent increase in auto loan delinquencies: the amount of autos loans seriously delinquent (90+ days) is up $7.4 billion since 2013, an increase of 26%. But these analysts are focused on a molehill, not the mountain. And the mountain of all seriously delinquent debt is down more than $150 billion over that same timeframe and down $600 billion since 2010. (This includes mortgages, auto loans, student loans, and credit cards.) Even though you can find a micro-issue in one category, macro credit stress doesn't really exist right now.

If the US does have a recession, credit stress will increase, it always does. But that recession will not be *caused* by the overall debt burden itself.

What's most worrisome in the debt arena is that the government is pushing students into more and more debt to pay for education. Young borrowers don't think as clearly about the return on that education as older, more cautious borrowers.

Compare this to the subprime boom, when borrowers overpaid for homes. Government said this was fueled by Wall Street greed. Well, now, student borrowing is being fueled by Academics, Professors and College Administrations who want to be paid to teach. Think of student loans as a jobs program for the "intellectual" class.

And just like housing in the early 2000s, this tsunami of credit is resulting in higher prices for college. The colleges are capturing the benefits that are supposed to go to students. The US economy would be much better off using student loan money to cut tax rates, which increases the returns to intellectual capital.

So, it's not the debt that is a problem, it's what the debt is paying for. Student loans won't bring down the economy. But they have created a bubble in education. Outside of this, the consumer and economy are doing just fine.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-15 / 7:30 am	Retail Sales – Feb	-0.2%	**-0.3%**		+0.2%
7:30 am	Retail Sales Ex-Auto – Feb	-0.2%	**-0.4%**		+0.1%
7:30 am	PPI – Feb	-0.2%	**-0.2%**		+0.1%
7:30 am	"Core" PPI – Feb	+0.1%	**+0.1%**		+0.4%
7:30 am	Empire State Mfg Survey - Mar	-10.5	**-12.5**		-16.6
9:00 am	Business Inventories – Jan	0.0%	**0.0%**		+0.1%
3-16 / 7:30 am	CPI – Feb	-0.2%	**-0.2%**		0.0%
7:30 am	"Core" CPI – Feb	+0.2%	**+0.2%**		+0.3%
7:30 am	Housing Starts – Feb	1.150 Mil	**1.175 Mil**		1.099 Mil
8:15 am	Industrial Production – Feb	-0.3%	**-0.3%**		+0.9%
8:15 am	Capacity Utilization – Feb	76.9%	**76.8%**		77.1%
3-17/ 7:30 am	Initial Claims – Mar 12	268K	**266K**		259K
7:30 am	Philly Fed Survey – Mar	-1.5	**-3.0**		-2.8
3-18/ 9:00 am	U. Mich Consumer Sentiment- Mar	92.2	**92.0**		91.7