DAILY CALLER

Americans Are In More Debt Than Ever Before — And It May Get Even Worse

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The amount of personal debt Americans collectively held hit another new high in the fourth quarter of 2023 as households struggle to pay for everyday expenses amid rising prices and high interest rates.

Household debt increased by $212 billion in the fourth quarter, bringing the overall total to $17.5 trillion, according to the Federal Reserve Bank of New York. The increase in debt is due to Americans' need to fund their everyday expenses as inflation and high interest rates increasingly raise costs on consumers, which could get even worse as more debt piles up, experts told the Daily Caller News Foundation

"Americans are taking on record levels of debt because their purchasing power is rapidly falling," Peter Earle, an economist at the American Institute for Economic Research, told the DCNF. "Although the rate of inflation is falling, prices are still rising. And by virtually every measure, prices in the US are still rising faster than they were before the pandemic. Various indices show the year-over-year rate of inflation at between 3% and 4%, but those indices are weighted averages of the prices of thousands of goods."

Inflation peaked under President Joe Biden at 9.1% in June 2022, moderating to 3.3% as of December, according to the Federal Reserve Bank of St. Louis (FRED). In total, prices have risen 17.6% since Biden first took office in January 2021, with real wages having declined around 4% in that time when hours worked per week are taken into account.

Americans increased their credit card debt by $50 billion in the fourth quarter and $143 billion for the year, totaling $1.129 trillion, according to the New York Fed. The increase in credit card debt was second only to mortgage debt, which rose $112 billion in the quarter to around $12.3 trillion, making up the majority of total debt held.

"But by taking on credit card debt to pay for groceries and fuel costs, Americans are swapping one set of rising prices for a higher, possibly more damaging price," Earle told the DCNF. "Interest rates on credit card debt are the price for borrowing money. And that price has been rising too — it's now approaching 23% in most cases — and is likely to generate even greater financial pain down the road."

Average interest rates on credit cards have recently spiked, rising from 14.56% in February 2022 to 21.47% as of November 2023, according to FRED.

“Large, debt-financed consumer purchases such as homes and cars have actually been falling due to rising rates that increase the cost of borrowing,” Jai Kedia, a research fellow for the Center for Monetary and Financial Alternatives at the Cato Institute, told the DCNF. “As a result, increases in debt are likely due to the increased interest payments faced by consumers who are already locked into debt contracts. The number varies, but roughly 10% of mortgage loans are adjustable rates; these consumers will have increased interest payments due to increased mortgage rates.”

Interest rates are facing upward pressure from hikes in the federal funds rate, which the Federal Reserve has set in a range of 5.25% and 5.50%, the highest level since 2001, in an effort to combat high inflation. Consequentially, the average rate for a 30-year mortgage spiked to nearly 8% in October 2023, up from a recent low of around 2.6% at the start of 2021, according to the FRED.

“The same can be true of credit card debt holders who are subject to year-over-year changes in their [annual percentage rate],” Kedia told the DCNF. “It is worrying for the economy inasmuch as consumers may not have budgeted for such a sudden rise to their monthly debt payments, causing a lot of them to default. This is clearly true in the delinquency data. However, it does not seem like new borrowers are borrowing beyond their means, so it is unlikely to have a catastrophic effect on the overall economy as what happened in 2008.”

Credit card debt had the greatest increase in serious delinquencies, meaning those that have not been paid in at least 90 days since their due date, from 4.01% in the fourth quarter of 2022 to 6.36% one year later, according to the New York Fed. Across all forms of debt, the serious delinquency rate rose to 1.42% in the fourth quarter of 2023, compared to just 1.03% one year earlier.

“Federal debt is fundamentally different from consumer debt, so it should be treated to a very different conversation,” Kedia told the DCNF. “The concern with such debt is primarily long-term and the belief in the federal government’s ability to repay its bondholders. Two bad things might happen (albeit with a very low probability) — either the US government defaults or it prints money to pay off the debt. The first case is fairly obvious—the US declares bankruptcy; the second means a rapidly devalued dollar and severe inflation.”

The U.S. government is also in more debt than ever before, owing almost $34.2 trillion, according to the Treasury Department. Over $800 billion was added to the deficit in just the fourth quarter of 2023.

“High government debt is likely to result in higher interest rates on that debt as the likelihood of paying off that debt becomes increasingly questionable,” Earle told the DCNF. “That can push interest rates up broadly and generally. Also, as the mountain of debt gets higher, governments may be forced to either raise taxes or rely on expansionary monetary policies to make ends meet, both of which are injurious to citizens.”

Interest rate payments on the federal debt are expected to increase to $870 billion in fiscal year 2024, up from $659 billion in FY 2023, increasingly taking away funds that could be spent on government programs or reducing taxes. The interest payments are projected to exceed the federal government’s expenses on defense and Medicare in the coming year.

“The actual prices of goods on store shelves, as opposed to the static, sterile price indices concocted in Washington, D.C., make the reasons for which Americans are getting progressively deeper in debt perfectly clear,” Earle told the DCNF.

The White House declined to comment on the record to the DCNF.