Consumer Debt Rising Just Like in 2008

November 26, 2022 - It appears that history is repeating itself. Credit markets started to have difficulty in the summer of 2007. Over the next few months consumers ran up a huge amount of debt. They didn't do this because they wanted to. They did it to make ends meet when their incomes were dropping and their jobs going away. By the end of 2008, financial markets were in chaos. Ultimately, the housing market collapsed, taking banks and brokerage houses with it. Now, 14 years later, we're seeing the same kind of behavior we saw back then. And the outcome of this is likely to be very similar.

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The Federal Reserve Bank of New York has issued a statement that households have taken on more than $350 Billion in new debt in the last fiscal quarter alone. And they say total household debt now stands at $16.5 Trillion. That amounts to about $50,000 in debt for every man, woman and child in the United States and it's the fastest that household debt has grown since... wait for it... 2008.

The two largest sources of debt were from home mortgages and credit cards. Because interest rates have soared, it is quite likely that trend has plateaued now. But credit card debt is another story. The balances that people are carrying on their credit cards has increased by 15% when compared to the same time last year. And that trend can be expected to accelerate due to inflation and job losses.

It was announced today that one of the largest furniture manufacturers in the United States - United Furniture Industries - laid off its entire workforce of 2,700 people. They haven't given a reason for it but companies just don't do that in a healthy economy. All of those employees are being let go without any benefits or severance pay. How much are you willing to bet that they won't turn to credit cards to make ends meet in the short term?

Unfortunately, using credit to stay afloat isn't a long-term strategy for anything other than financial disaster. Again, we saw this in 2008. People used up all of their available credit and then they stopped paying their bills. Many of them lost their homes in the process.

What's about to happen in 2023 is completely predictable, and as previously mentioned the history lesson for it is only 14 years old. But you don't hear anyone talking about it on the news or in Washington. This isn't something that will go away if we ignore it. In fact, the FED and the federal government ignoring the issue of inflation is how we've arrived at this

point. Continuing to ignore the issue is only going to make things worse.
by Jim Malmberg
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