

Credit Scores Drop for the First Time in a Decade - A Bad Sign for the Economy

March 11, 2024 - The United States is witnessing a decline in national average credit scores for the first time in over a decade. According to recent findings from FICO, the average credit score dropped from its peak of 718 in early 2023 to 717. Ethan Dornhelm, Vice President of Scores and Predictive Analytics at FICO said, "It's a notable milestone. "

This shift in credit scores is set against a backdrop of economic challenges including rising interest rates and inflation. Consumers are dealing with these financial strains by using more credit. This is reflected in FICO's report which shows both higher credit card balances and an uptick in missed payments.

The average credit card utilization rate for consumers has risen to 35% and over 18% of borrowers are having difficulty making their payments on time.

The implications of lower credit scores extend beyond individual financial health to broader economic issues. In a climate where credit scores are pivotal in securing loans and favorable interest rates, the decline may hinder individuals' ability to access financing for essential needs such as housing, education, and small business ventures. Additionally, when financing is available, lower credit scores translate to higher interest rates and potentially lower lending limits. Average credit card interest rates have already surpassed 20%, and they are higher for those with lower scores.

In terms of the overall economy in the US, lower credit scores may signal challenges ahead, potentially dampening consumer spending and economic growth. As households grapple with financial strains, they are far less likely to spend their money on anything they consider to be unnecessary.

by Jim Malmberg

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