The American Consumer: Reforming, or Just Resting?

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Household Net Worth and Its Components

Figure: Wealth Components as a Ratio to Disposable Income
A Simple Buffer Stock Model

**Figure:** Consumption Function and Target Wealth Ratio

\[
\hat{c} \quad \text{sustainable } c \\
\hat{c} \quad \text{target } c \\
\hat{m} \quad \text{m - m}
\]
A Wealth Shock

Figure: Consumption Function and Target Wealth Ratio

\[ c(t) \rightarrow c(m) \]

\( \tilde{c} \) 

Sustainable \( c \)

Target

Wealth Shock

\[ m_t \rightarrow \tilde{m} \]
Unemployment Expectations

Figure: Household Expectations Of Improving Unemployment Conditions

Source: University of Michigan Survey of Consumers
Unemployment Expectations – Theory

Figure: Consumption Function Drops When \( u \) Risk Rises

\[
\text{Sustainable } c \rightarrow \text{Target}
\]

\[
c(m) \rightarrow \leftarrow c(m) \text{ after unemployment rate increase}
\]
Debt Growth

Figure: Growth of Household Net Borrowing (as a % disposable income)
A Relaxation of Borrowing Constraints – Theory

Figure: Effect on Consumption Of A Relaxation of Borrowing Constraints
Figure: Fraction of Banks Tightening Mortgage Lending Terms

Source: Federal Reserve Survey of Senior Loan Officers
The Effect

Figure: Retail Sales, Current and Previous Recessions

Note: Historical Range includes all recessions since November 1948
Estimating Wealth and $E[\Delta u]$ Effects

Sluggishness of C Growth


$$\Delta C_t = \chi E_{t-2} \Delta C_{t-1} + \varepsilon_t$$

$\chi \approx 0.75$

MPC out of Wealth

- $\partial C_t = \alpha_0 + \alpha \partial B_{t-1}$
- Immediate MPC: $\alpha/\chi$
- Eventual MPC: $\bar{\kappa} = \frac{\alpha}{\chi (1 - \chi)}$
- $\bar{\kappa} \approx 0.06$ for total $B$, 0.05 for financial, 0.09 for housing
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**Forecasting Assumptions—2 Models × 3 Scenarios**

**Models**

- **Total Net Worth**
- **Housing and Financial Wealth Separately**

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<tr>
<th>Scenario</th>
<th>Variable</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<td><strong>Baseline</strong></td>
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Assumptions about Wealth Components

![Graph showing wealth components over time](image)

- **Tot W Base**
- **Tot W Pess**
- **Tot W Opt**
- **HW Base**
- **HW Pess**
- **HW Opt**
- **FW All**

**Forecasting period**

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<th>Year</th>
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<th>2010</th>
<th>2011</th>
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</tbody>
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**Year 2000 thousand dollars**

- 0
- 50
- 100
- 150
- 200

**Time**

- 2007
- 2008
- 2009
- 2010
- 2011
Projected Saving Rates

![Projected Saving Rates Graph](image-url)

- **Year 2000 thousand dollars**
- **Time**
- **Consensus**
- **Tot W Base**
- **Tot W Pess**
- **Tot W Opt**
- **H&F W Base**
- **H&F W Pess**
- **H&F W Opt**
- **Consensus**


