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ECONOMIC Synopses

How Recessions Have Affected Household Net Worth, 1990-2017: Uneven Experiences by Wealth Quantile

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The Survey of Consumer Finances, from the Board of Governors of the Federal Reserve System, tracks household balance sheets and other characteristics. Plotting the data allows us to compare the evolution of the net worth of households during and after the past three recessions (that is, *before* the current recession).[1] Here, households are divided into quantiles according to wealth: the top 1%, the next 9%, the next 40%, and the bottom 50%. These quantiles were affected differently, which can be explained by the asset composition of household wealth,[2] most notably during and after the "Great Recession."

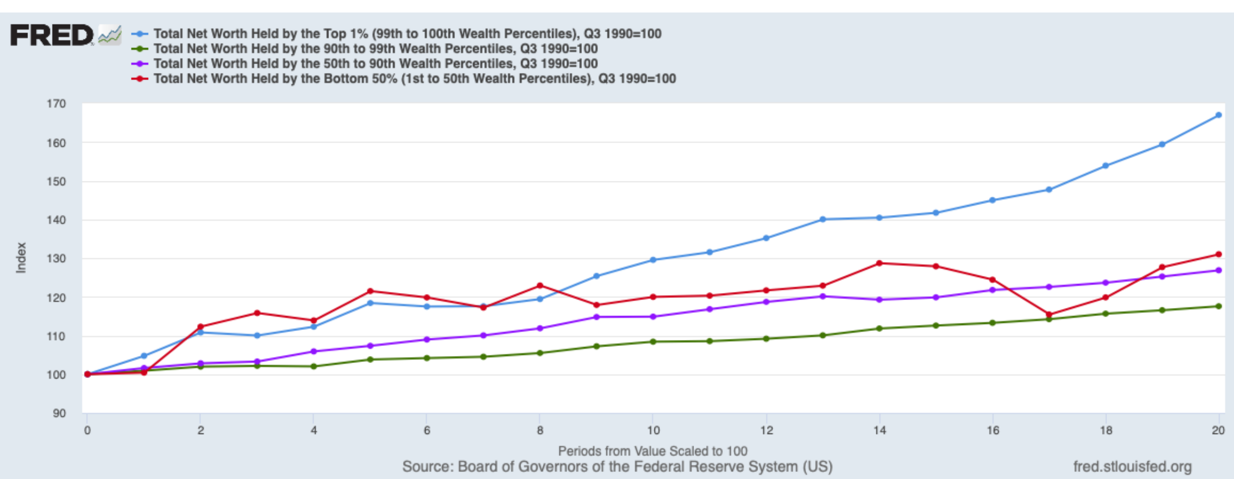
Figure 1 shows gains in the nominal household net worth of all wealth quantiles during the eight-month recession from July 1990 to March 1991. By the time that recession ended, the top 1% and the bottom 50% of households had gained slightly more than 10% in their net worth. All of the wealth quantiles gained some net worth out to 20 quarters (5 years) after the business cycle peak, although the gains for the bottom 50% of households were uneven.

Figure 2 covers the eight-month recession from March 2001 to November 2001. The top 1% and the bottom 50% wealth quantiles lost net worth, although soon after the recession ended both of these wealth quantiles had recouped those losses. By 20 quarters after the business cycle peak, however, both the top 1% and the next 9% of households had large gains in net worth (60%) while the bottom 50% of households had only small gains.

> The asset composition of wealth can explain the uneven impact of recessions on household net worth.

Figure 3 covers the Great Recession of 2007-2009, which was longer than the previous two, lasting the 18 months from December 2007 to June 2009. Its impact on nominal household net worth was most marked for the bottom 50%

Figure 1
Changes in Net Worth by Wealth Quantile between 1990:Q3 and 1995:Q3

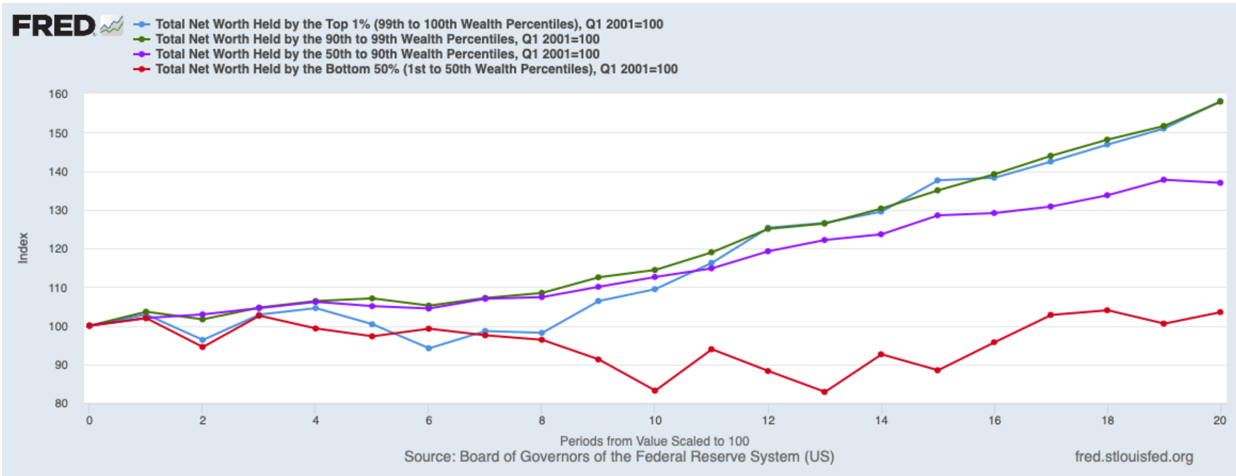


NOTE: Date $t = 0$ represents the peak of the business cycle at 1990:Q3. The household net worth of each wealth quantile (top 1%, next 9%, next 40%, and bottom 50%) is indexed at 100 on that date. The end of the sample is 20 quarters out, ending in 1995:Q3.

SOURCE: FRED©, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/graph/?g=sX1d; and Board of Governors of the Federal Reserve System.

Figure 2

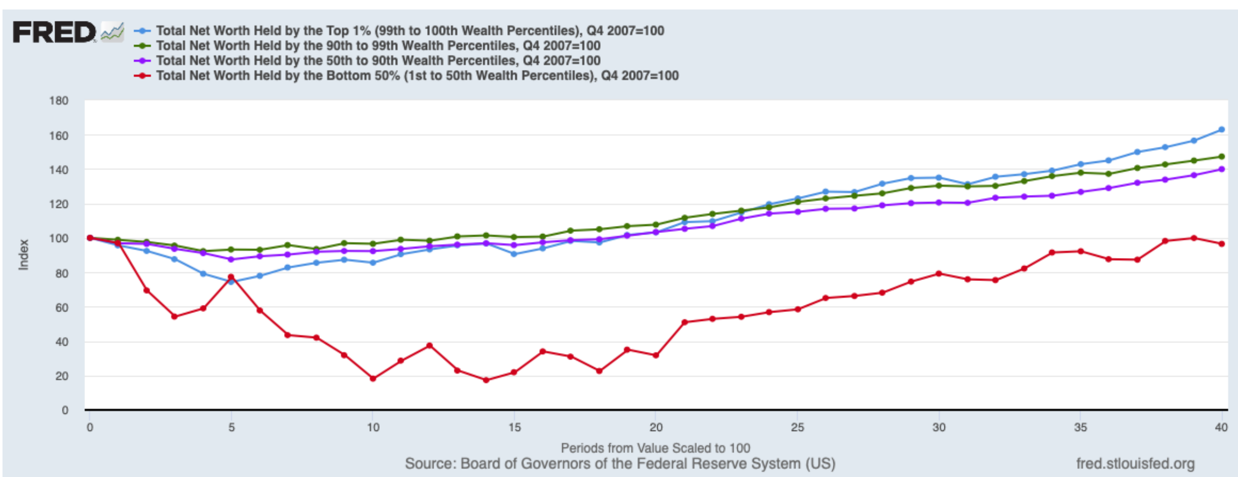
Changes in Net Worth by Wealth Quantile between 2001:Q1 and 2005:Q1



NOTE: Date $t = 0$ represents the peak of the business cycle at 2001:Q1. The household net worth of each wealth quantile (top 1%, next 9%, next 40%, and bottom 50%) is indexed at 100 on that date. The end of the sample is 20 quarters out, ending in 2005:Q1.
SOURCE: FRED©, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/graph/?g=sX0o; and Board of Governors of the Federal Reserve System.

Figure 3

Changes in Net Worth by Wealth Quantile between 2007:Q3 and 2017:Q3



NOTE: Date $t = 0$ represents the peak of the business cycle at 2007:Q3. The household net worth of each wealth quantile (top 1%, next 9%, next 40%, and bottom 50%) is indexed at 100 on that date. The end of the sample is 40 quarters out, ending in 2017:Q3.
SOURCE: FRED©, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/graph/?g=sZnE; and Board of Governors of the Federal Reserve System.

wealth quantile, whose net worth decreased as much as 42% during that recession.

Differences in the asset composition of wealth across quantiles can explain these differences: The wealthiest households hold most of their wealth in the form of financial vehicles or stakes in businesses, while the least wealthy hold assets mostly in the form of housing and consumer durables.[3] Thus, the dot-com stock bubble crash of 2001 and the bearish stock market between late 2007 and early 2009 reduced the net worth of the wealthiest households. Conversely, the real estate market collapse associated with the Great Recession most markedly impacted the net worth of the least wealthy. While average housing prices increased after the previous two recessions, they decreased by as much as 18% after 2007, with the largest percentage reductions recorded among lower-tier homes.[4] This was an unprecedented decline in U.S. home prices.

Figure 3 also illustrates the varying speeds of recovery in wealth after the Great Recession. Within 4 to 5 years (16 to 20 quarters) after the recession started, the top 1%, next 9%, and next 40% of households had built their nominal net worth back to pre-recession levels. The bottom 50%, however, did not see this level of recovery until almost 10 years after the economic downturn had begun. ■

Notes

[1] The National Bureau of Economic Research dates business cycle peaks and troughs, and the period from a peak to a trough is a recession.

[2] See William T. Gavin's "Household Wealth: Has It Recovered?" for an earlier discussion of this topic; https://research.stlouisfed.org/publications/economic-synopses/2013/06/12/household-wealth-has-it-recovered/.

[3] See Christian Zimmermann's "Who holds what wealth?" for a breakdown of the distribution of total household assets across wealth quantiles; https://fredblog.stlouisfed.org/2019/10/who-holds-what-wealth/.

[4] See Michelle T. Armesto and Carlos Garriga's "Examining the Housing Crisis by Home Price Tier" for a breakdown of housing prices across price tiers; https://research.stlouisfed.org/publications/economic-synopses/2009/08/03/examining-the-housing-crisis-by-home-price-tier/.

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