

## Are you going to pay all those bills?

*Consumers have high hopes and low net-worth for the New Year*

Zdravka Todorova Dec . 29 . 2003

"Consumers usually underestimate their willingness to take on debt and overestimate their ability to repay it quickly," said Jordan Goodman, spokesperson/financial analyst for the Cambridge Consumer Credit Index.

The Cambridge Consumer Credit Index asked consumers who plan to use credit cards this season whether they expect to pay them off in full when the bills arrive in January.

Consumers already burdened with credit card debt have expressed high hopes of paying off their balances in full when the bills arrive in January. 60% say they expect to pay off their balance in full, up from 58% a year ago and 55% in 2001.

Will households be able to implement in practice their plans, taking into account the current macroeconomic settings that too shape during the past few years?

"The growth of private expenditure relative to income required growing net credit, which implied a growing ratio of debt to income," wrote Godley and Izurieta, economists at the Levy Economics Institute.

"Growing ratio of debt to income is an intrinsically unsustainable process that has made the private sector increasingly vulnerable to negative shocks such as a downturn in income, employment, asset prices, profits, or investment," warned Godley and Izurieta

"During the boom era people saw their net worth climbing as a result of speculation in the stock market," said Dr. William Williams, a research scholar in the Social Science Consortium at UMKC. "They felt it was OK to go into debt because they were 'controlling for' their perceived net worth," he continued. "Consumers felt that their net worth was growing - even when they were building up debt. I suspect now there is a shift in people's expectations."

"Now, after the boom has become a bust, households cannot count upon market speculative gains to increase their net worth. They would like to save in order to increase their net worth, so as to match the plan regarding what they want their net-worth to be," said Dr. Williams.

These New Year wishes for increasing savings and paying off bills in full are, however, unlikely to come true. Given the current depressed situation of households' balance sheets, it is not possible for the majority of households to save more, and pay off their debts at the same time, without substantially decreasing their consumption.

In order to pay their bills in full, some households will have to drain their already decreased savings. For others, these savings do not exist, as their net-worth has been negative (positive debt to income ratio). These households will have to just rely on decreasing their consumption expenditures for the time being.



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