

*Dan Hamilton  
June 10, 2010*

The net wealth of United States households and non-profit institutions rose a bit in the first quarter of 2010, the Federal Reserve reported today. This data release shows that net wealth (assets minus liabilities) increased by about a trillion dollars, from \$53.5 trillion to \$54.5 trillion. From an asset-class point of view this gain was driven mostly by equity gains and real estate deleveraging.

Assets increased by 965 trillion dollars while liabilities fell by about 100 billion dollars from the last quarter of last year to 2010 quarter one.

The asset increase was driven by gains in bonds (about \$200 billion), equities (about \$330 billion), mutual funds (\$167 billion), and pensions (about \$400 billion). Most mutual funds have a 60/40 split equities to bonds, and many pensions are likely to be close to that allocation share as well. Cash assets decreased by about \$200 billion.

The liability decrease was driven by reductions in home mortgages of \$94 billion and in consumer credit of \$57 billion. Offsetting these declines was a \$50 billion increase in other bank loans. Liabilities have been falling fairly consistently since the first quarter of 2008.

I see some good news here. One of the driving mechanisms from the bursting of the housing bubble was, and still is, a deleveraging process. This is particularly true for the household sector. What the household sector needs to especially do is deleverage in housing asset class. In the last two quarters the liability-side of residential real estate fell faster than the declining asset-side. This is painful, but it is good. The housing deleveraging accelerated this quarter, which is nicer yet.

While it is true that the modest net wealth increase should not imply strong consumption growth in the near term, the deleveraging will rebuild the household sector's balance sheet, better enabling future economic recovery.