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U.S. Household Net Worth: Wealth Grows, Underpinnings Still in Question

The Federal Reserve's stimulative effort since the "Great Recession" of 2008-2009 has had mixed outcomes. Household net worth reached \$81.3 trillion during the third quarter of 2014, up from \$56.5 trillion in 2008, according to the Federal Reserve. However, household disposable income is not keeping pace with household net worth growth. The chart below suggests some changes may be in the offing.

As noted in last month's Investment Update, the pace of income growth has improved since the Great Recession, yet more is needed. Disposable personal income, for example, rose 0.9 percent in real terms in January 2015. This follows a modest 2.5 percent increase in 2014. On the other hand, equity returns and real estate returns, both part of household net worth, have grown disproportionately. The Standard and Poor's 500 Index, a gauge for equity returns, rose 13.7 percent for calendar 2014, and the U.S. National Home Price Index, which covers all nine U.S. census divisions, rose at an annualized rate of 4.6 percent in December 2014.

To the extent we see further income growth and productive infrastructure investments boosting GDP, we will feel more comfortable about both current and future financial asset valuations. Otherwise, we question the stability and durability of current asset valuations.

