

Special Commentary — October 7, 2025

Give This Consumer Some Credit

Summary

In a week of limited data flow due to the federal government shutdown, we provide an update on the state of household finances and consumer reliance on credit. Consumers keep spending and they may soon increasingly tap credit to do so.

Where Credit Is Due

Consumers increasingly relied on credit to spend in the wake of the pandemic, but borrowing has slowed over the past few years. Total consumer credit expanded at the slowest pace in six months in August keeping the overall growth trend rather tame ([Figure 1](#)). The weaker take up during the month was due entirely to *revolving* credit (mostly credit cards), which has been volatile, slipping at a 5.5% annualized rate during the month after jumping north of 10% in July. *Nonrevolving* credit, which covers things like auto, student and personal loans, expanded at a 2.0% annualized rate, in line with its pace registered over the past six months.

The lackluster trend in borrowing has coincided with consumer spending that continues to show strength. Upward revisions to GDP growth released mid-September revealed a stronger pace of consumption in Q2 and monthly spending data through August suggests spending is on track to grow at an even stronger clip in Q3 (~3% annualized pace). While consumers are worried about their job prospects and tariff-induced price pressures, they have continued to spend. The question now is to what extent consumers will again rely on borrowing to fund purchases amid slower growth in disposable income.

Economist(s)

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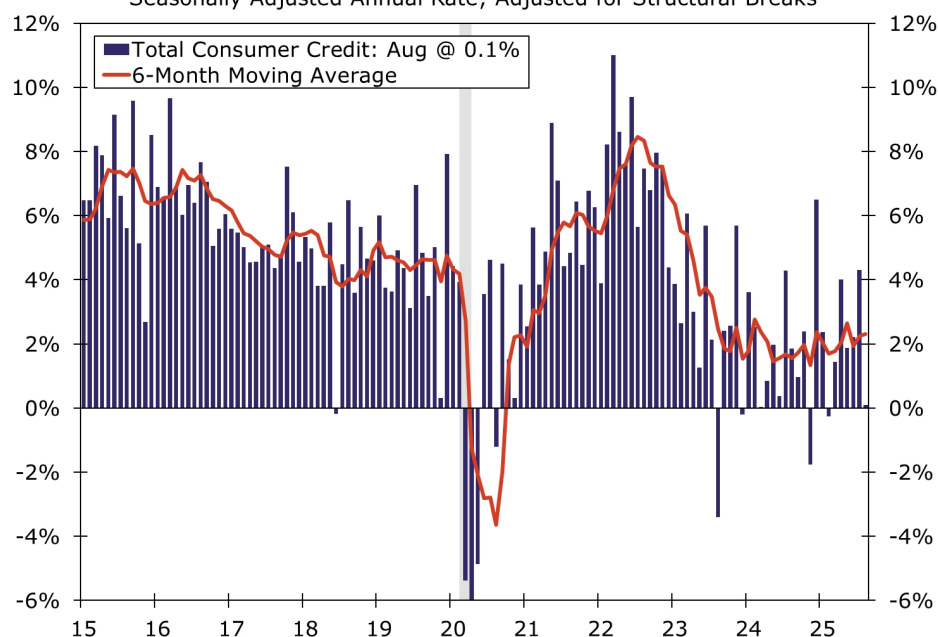
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Growth in Consumer Credit

Seasonally Adjusted Annual Rate; Adjusted for Structural Breaks



Source: Federal Reserve Board and Wells Fargo Economics

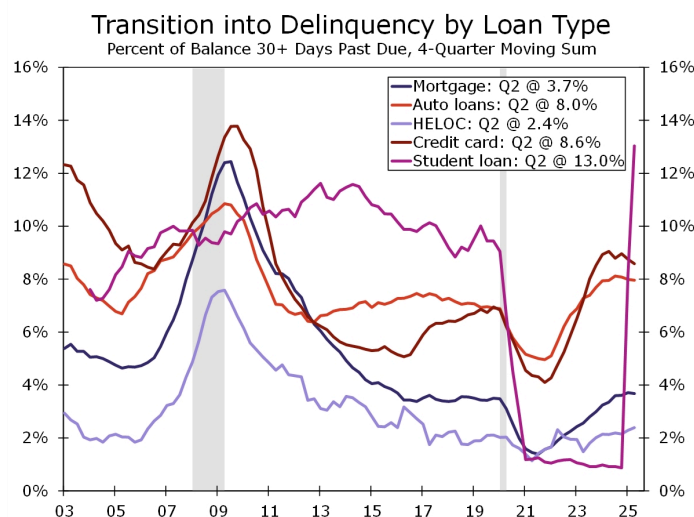
Taking Stock

The good news is when you step back to evaluate the health of household balance sheets, the sector as a whole is still in good financial shape. Overall household net worth expanded by just over 4% in the second quarter, or the most in four years, to \$176 trillion and total household debt as a share of disposable income has continued to trend lower sitting just around 82%, a multi-decade low outside temporary pandemic-related distortions. Part of this healthy read on leverage is admittedly owed to the current sturdy position of the U.S. mortgage market, where homeowners own a near-record share of equity in the single-family housing stock and are locked in at ultra-low mortgage rates. But even looking through mortgages, the level of household debt looks manageable in the context of aggregate income.

It is servicing these outstanding debts that is the bigger challenge this cycle. Elevated interest rates mean more income must be earmarked toward servicing previous credit card and auto loan purchases. This is evident in high delinquency rates for these products as households struggle to stay current on payments.

While a historically elevated level of balances continue to transition into early delinquency each quarter, transitions have stalled and even declined over the past year suggesting the trend is no longer deteriorating ([Figure 2](#)). The latest consumer credit data shows the average annual percentage rate (APR) on credit cards inched up in Q3 to 21.4% and the average rate on a 48-month auto loan came down to around 7.5%, suggesting borrowing costs are still largely restrictive for consumers despite the Fed's recent slash to rates.

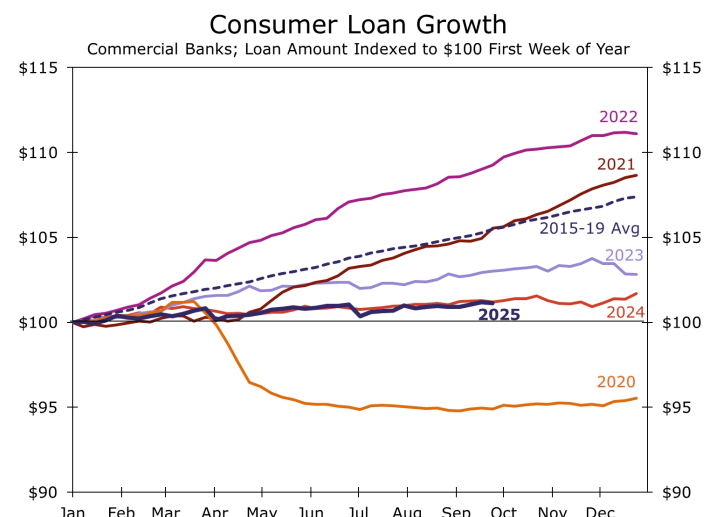
Banks' lending standards ultimately remain mixed signaling caution among lenders. The Fed's latest Senior Loan Officer Opinion Survey on banks lending practices show a small net share of banks still *tightening* standards across credit card and other consumer loans. Consumer loan origination at commercial banks also remains fairly muted this year amid tepid consumer demand ([Figure 3](#)). That said, banks are reporting increased willingness to make consumer installment loans, which is a leading indication of revolving credit growth.



Source: Federal Reserve Bank of New York and Wells Fargo Economics

Even as households continue to spend, economic concern is manifesting in choosier purchase behavior and a potential trade-down effect as households search for value. We highlighted a [bifurcation in consumer spending](#) earlier this year, which we expect is still at play today and influencing consumers. Nevertheless, the sound financial footing of the household sector at large has remained supportive of continued spending and helps explain why firms haven't shed workers in droves.

Early on we said that tariffs would be a mild stagflationary shock to the U.S. economy, and so far that's essentially what they have been--employment growth has slowed to a crawl and inflation is slowing picking up again. Consumers have largely sidestepped a lot of the fallout thus far partly because firms are absorbing some of the inflation hit. But that won't last forever.



Source: Federal Reserve Board and Wells Fargo Economics

In some ways, it feels like an economic "golden hour". Consumers are still spending, companies aren't broadly laying off workers and consumer inflation appears contained. Yet there is still some tough sledding ahead. Tariffs will inevitably have more of an impact and whether businesses continue to absorb costs or pass them onto the end-consumer, both scenarios could lead to reduced spending, either through slower income growth or consumer fatigue from rising prices. In reality, a mix of both is most likely, which aligns with what we're hearing anecdotally from most companies we meet with today. Importantly, no one is telling us consumers are willingly taking price.

As some of these pressures take hold, households will likely increasingly tap credit to keep spending. Encouragingly, help is on the way with both fiscal and monetary policy offsets coming. Stimulus from the One Big Beautiful Bill is set to flow through to households in 2026 and borrowing costs should also come down as the Fed eases rates further into early next year.

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