February 02, 2018

Economics Group

WELLS FARGO SECURITIES

Special Commentary

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The Rich Get Richer: Ownership Drives Net Worth

Diverging Trends in Median and Mean Net Worth

Key indicators associated with household wealth might give the impression that balance sheets should be in much better shape than they actually are. Home prices, for example, are at or near their pre-recession peak in many markets. Stock prices are more than 80 percent above their pre-recession peak. Yet, in inflation-adjusted terms, median household net worth is still about 30 percent below where it was back in 2007 (Figure 1). Only the wealthiest American families have fully recovered from the financial crisis (Figure 2).

Only the wealthiest American families have fully recovered from the financial crisis.

The outsized wealth gains recorded in recent years by high-net-worth families are reflected in the disparity between median and mean net worth, which have de-coupled since 2007. This is because "mean" net worth is calculated by taking the average net worth of all families, and is pulled up by very high values at the top of the distribution. Meanwhile, "median" net worth is that of the middle family (50th percentile), and is therefore not lifted by extreme values at the top of the net worth distribution, or impacted by changes isolated at either end of the distribution.

What Figure 1 shows is that before the financial crisis, net worth for the median American family was growing on a similar trend as net worth across all families. However, after 2007, high-net-worth families experienced much larger gains (or smaller declines) in net worth than middle-wealth families. As a result, the mean – pulled up by wealthy families – did not show the same precipitous decline as median net worth post-financial crisis.

Figure 1

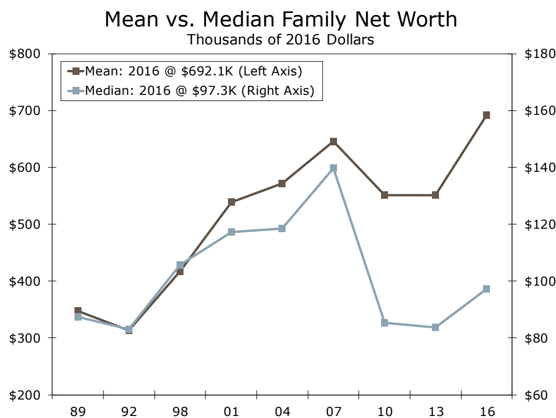
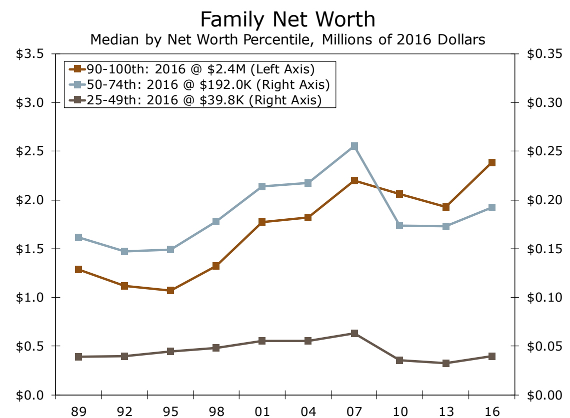


Figure 2



Source: Federal Reserve Board and Wells Fargo Securities

In this report, we explore the reasons behind divergence in net worth growth between the median family and the wealthiest American families. Our analysis uses data from the triennial Survey of Consumer Finances (SCF), released most recently for 2016 by the Federal Reserve Board. This publication reports on debts and assets by net worth percentile groups, or buckets within the net worth distribution. The same families do not necessarily fall in the same buckets from year to year,

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so the data does not track net worth growth of individual families. Rather, data from the SCF reflects how the distribution debt and asset ownership changes across society over time.

Fewer and Smaller Mortgages Reduces Debt

Middle- and high-net-worth families have reduced the quantity of debt on their balance sheets.

Changes in net worth occur because of growth (or decline) in debt and asset values. In the years after the Great Recession, middle- and high-net-worth families have reduced the quantity of debt on their balance sheets, contributing positively to net worth (Figure 3). The median family with debt owed $59,800 in 2016, which is $18,200 less than in 2007 in real dollars. Mean family debt has similarly declined, down $22,500 since 2007 to $123,400.

Figure 3

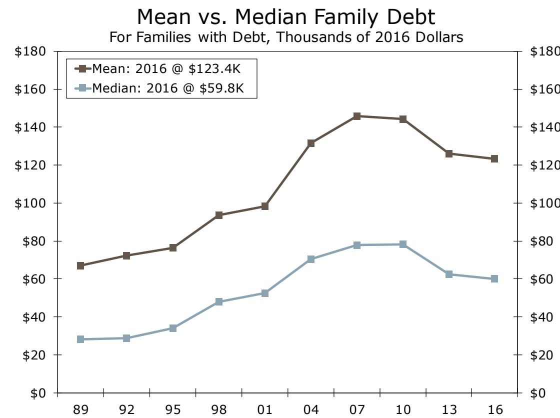
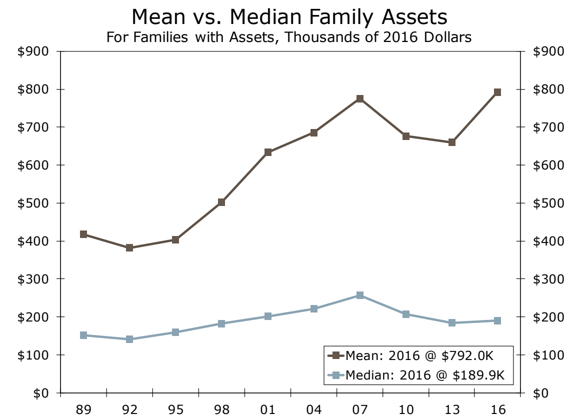


Figure 4



Source: Federal Reserve Board and Wells Fargo Securities

Residential debt is the most commonly-owned type of debt after credit card debt, and makes up the largest share of debt that families hold. Therefore, trends in mortgage debt have a large influence on trends in overall family debt. A main contributor to debt reduction since the Great Recession is fewer, smaller mortgages. For mortgage owners, median and mean mortgage debt have both declined by about $13,500 since 2007. In addition, fewer families have mortgages: 40 percent of families in 2016, compared to 46.3 percent in 2007.

Lower debt among families is not just as a result of paying down mortgage balances, but also because fewer families are participating in the real estate market. The homeownership rate has declined from 69 percent in 2007 to less than 64 percent today. Whether by choice (preference for renting) or circumstance (tighter regulatory standards), fewer Americans have a piece of the American Dream in this expansion.

It's Not What You Owe, it's What You Own

The source of the divergence in median and mean net worth is asset values more than quantity of debt. Whereas the median family which holds assets owned about $256,500 worth in 2007 (in 2016 dollars), this has since dropped to $189,900 (Figure 4). In contrast, the mean family with assets now values these at about $792,000, up from $775,900 just before the financial crisis.

The decline in homeownership is concentrated at lower percentiles of wealth.

This story has to do with the mix of assets that families of different wealth levels own, and trends in ownership rates. When looking at homeownership by net worth percentile, we see that the decline in homeownership is concentrated at lower percentiles of wealth. From 2007-2016, the share of families in the second quartile of net worth (25th-49th percentile) owning homes declined 14.1 percentage points to 58.1 percent, compared to a 2.2 percentage point decline in homeownership to 94.6 percent for families in the top decile of wealth (Figure 5).

The share of middle-wealth families owning other types of assets has also fallen at a faster rate versus high-net-worth families. Fewer families in the second quartile of the net worth distribution are owning vehicles (-1.5 points), retirement accounts (-5.5 points) and stocks (-4.3 points). Meanwhile, families in the top decile of net worth own stocks at a slightly lower rate (-1.8 points),

but more own retirement accounts (+3.8 points) and about the same percentage own vehicles. Lower asset ownership subtracts from net worth, since the value of asset holdings declines.

Even for middle-net-worth families who own assets, they have not added as much to their holdings since 2007.

Even for middle-net-worth families who own assets, they have not added as much to their holdings since 2007. Families in the second quartile saw retirement account and stock median values decline 13.8 percent and 5.7 percent, respectively. For families in the top decile, retirement accounts gained 71.3 percent and stocks 38.1 percent over the same period. This has exaggerated the pre-existing disparity in the value of asset holdings between middle and high-net-worth families (Figure 6).

Figure 5

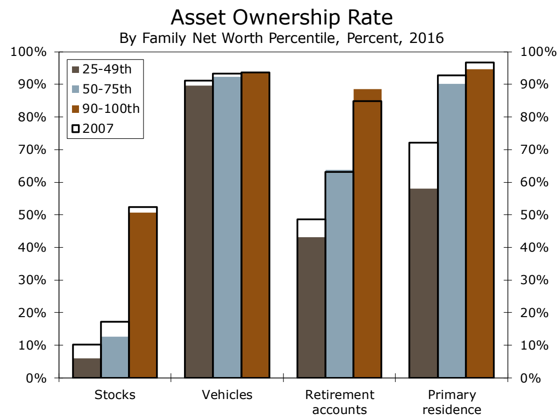
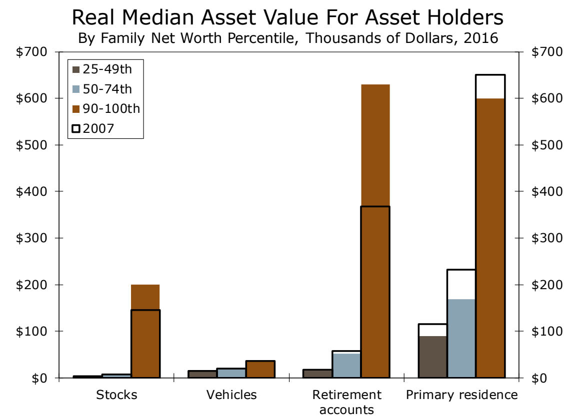


Figure 6



Source: Federal Reserve Board and Wells Fargo Securities

The CoreLogic home price index has gained about 45 percent since its trough in February 2012. Meanwhile, the S&P 500 is up about 250 percent since its 2009 recession-low. The combination of lower asset ownership rates and smaller holdings for middle-wealth families, therefore, is a major reason that explains why mean family net worth has recovered since the Great Recession while median family net worth has languished.

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