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PRESS RELEASE

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Private Sector Debt up $1.4 trillion in the COVID-19 Crisis

The debt of US households and businesses was up a record $1.4 trillion from December 31, 2019 through August 31, 2020. That compares to $873 billion in the same period in 2019. $1.1 trillion of this 2020 increase came from business debt, and $315 billion from household debt. Private sector debt now stands at 158 percent of GDP, up sharply from the 148 percent level at year-end 2019 and the second highest peak on record since reaching 168 percent leading up to the Great Recession.

"While in many cases debt has been necessary for survival, households and businesses are nevertheless taking on debt in this crisis in a way that will make the recovery far more difficult," stated Dan McShane of Tychos Analytics Group, a not-for-profit data firm focusing on trends in private sector debt. $525 billion of that increase was due to the SBA's Payroll Protection Program (PPP) loans, a portion of which will be forgiven.

As seen in prior crises, specific economic sectors that show overly rapid growth over several years often experience higher credit losses and thus warrant closest attention regarding potential risk.

AREAS OF HIGHEST CURRENT CONCERN

Areas of highest sector growth through the June Quarter and thus of highest concern are in debt to consumer discretionary companies, at $1.66 trillion, up an annualized 16.9 percent in 2020 and up a conspicuous 71 percent in the last five years; debt to information technology companies at $1.24 trillion, up an annualized 13 percent since the crisis, and 80 percent in the last five years; debt for multifamily residential mortgages, at $1.67 trillion, up an annualized 6.7 percent and up 57.8 percent in the last five years; and debt to automotive companies, at $578 billion, up an annualized 20.6 percent, and up 66.5 percent in the last five years. For derivatives, the area of highest concern is equity-linked derivatives, at $3.57 trillion, down slightly from December 2019, but up a striking 51.2 percent over the last five years.

A RESURGENCE OF MORTGAGE LENDING

Loan totals for residential mortgages, the largest single category of loans and the primary factor in Great Recession, have been benign since that crisis. After reaching $10.6 trillion in 2007, and dipping as low as $9.4 trillion in 2014, they have now returned to a level close to the 2007 peak. However, measured in ratio to GDP, they are still down significantly, from 74 percent in 2007 to only 49 percent in 2019. Nevertheless, growth has notched up a brisk $330 billion from December 2019, and now stand at an estimated $10.8 trillion. In keeping with this, sales of new and existing homes climbed to 6.99 million in August, up sharply from the 6.14 million sold in the same month of the previous year, and the Case-Schiller home price index is now up 4 percent from the previous year.

Mortgage loans continued to trend toward greater concentration in the GSEs, with loans at GNMA, FNMA and other GSEs up $432 billion to $8.25 trillion.

KEEPING AN EYE ON HIGH-YIELD DEBT

High yield debt, which had shown no growth from the period of December 2014 to December 2019, has increased $276 billion during 2020 to $1.8 trillion, up an annualized 37 percent, a level which merits increased scrutiny. As always, these high yield securities are better understood on a sector specific basis rather than as an aggregate.

OTHER KEY OBSERVATIONS

Certain areas of previously high growth have posted lower recent growth rates, including student loans, consumer staples, energy, and margin debt.

Cross border lending continues to rise sharply, with US holdings of foreign loans up by $253 to $740 billion, and foreign banks loans to US companies up by an especially notable $505 billion to $881 billion.

Federal government debt is up $3.5 trillion in this same COVID-crisis period.

Additional details are available at www.tychosgroup.org.