Household Wealth Hit New Record $108.6 Trillion in 1Q

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Overview

The Federal Reserve reported last Thursday that US household wealth hit a new high of $108.6 trillion in the 1Q. As I reported two weeks ago, we knew the number hit a new high, but we didn't know exactly how high until last week. As we now know, the increase in household wealth in the 1Q was the largest ever recorded. I'll give you the details below.

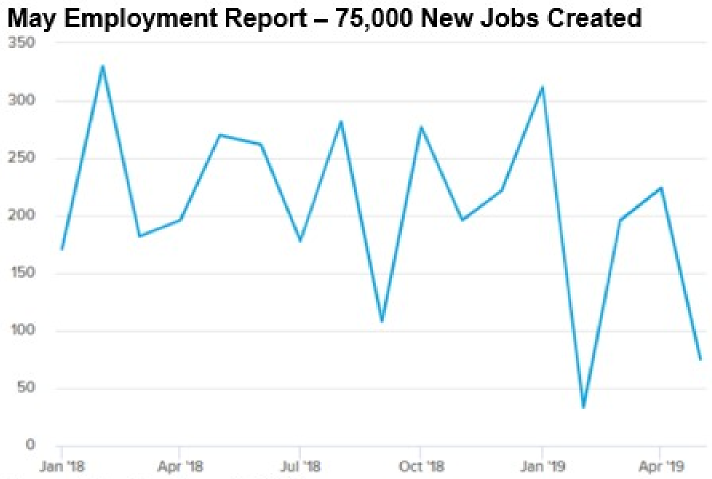
The most interesting thing I read recently was that 84% of US stocks are owned by the wealthiest 10% of Americans. I knew the number was high but not that high. A related report found that over 50% of US households own no stocks at all. Surprising? I'll bet!

But before we get to that discussion, let's take a look at last Friday's very disappointing jobs report for May. New jobs created last month were less than half of what was expected, even though the headline unemployment rate remained unchanged at a 50-year low.

As you probably heard, the US and Mexico reached some kind of agreement on trade late last week, and President Trump announced over the weekend that he was holding off on the tariffs that were to go into effect yesterday. I'm not convinced that this issue is behind us, so I'll withhold comments until we have more details.

Jobs Report For May Was a Big Disappointment

Job creation decelerated sharply in May, with nonfarm payrolls up by just **75,000** even as the unemployment rate remained at a 50-year low, the Labor Department reported Friday. The decline was the second in four months when payrolls increased by less than 100,000. Economists surveyed by Dow Jones had been looking for a gain of 180,000 in May, so the report was a big disappointment



Source: Labor Department, CNBC

In addition to the weak total for May, the previous two months' reports saw substantial downward revisions. March's count was revised down from 189,000 previously reported to 153,000, and the April total was taken down to 224,000 from 263,000, for a total reduction of 75,000 jobs for the two previous months.

Fortunately, the headline unemployment rate remained at **3.6%**, in line with forecasts and the lowest since December 1969. A broader measure that encompasses discouraged workers and the underemployed holding part-time jobs for economic reasons, sometimes called the real unemployment rate, fell further, from 7.3% to 7.1%, its lowest reading since December 2000.

Wages gains also slowed a bit in May. Average hourly earnings year-over-year were up **3.1%**, one-tenth of a point lower than expectations. The average work week held steady at 34.4 hours.

Job growth came primarily from professional and business services, which saw 33,000 new hires. Health care expanded by 16,000 while construction added 4,000 and manufacturing contributed 3,000. Retail lost 7,600 jobs.

Interestingly, the stock markets rallied strongly just after the weaker than expected employment rate report for May last Friday. Why? Investors felt the weak jobs report might cause the Fed to cut interest rates just ahead. This was a case of wishful thinking or, put differently, ***bad news is good news***. What else is new?

Now on to our headline topic for today.

Household Wealth Rose at a Record Pace in the 1Q

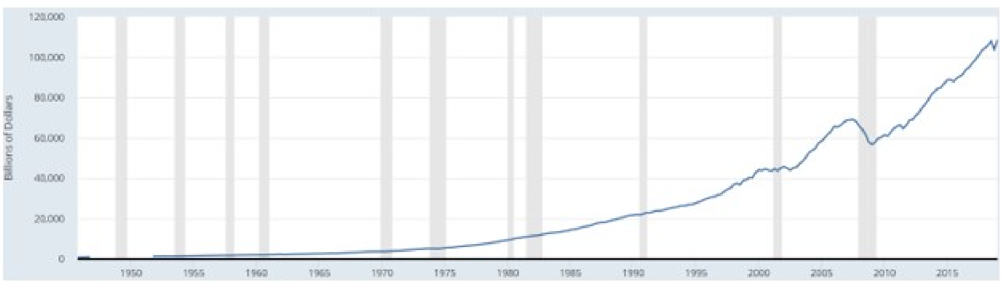
Two weeks ago, I reported in these pages that household debt rose to a record high in the 1Q, but also that household balance sheets improved to the best level in years, according to the Federal Reserve. Well, new Fed data came out last Thursday with some specific numbers I can share today.

In the 4Q of last year, household wealth declined at an annual rate of **3.7%**, thanks in large part to the decline in the stock markets, which were rattled by Fed interest rate hikes and trade war threats. But as you know, stocks rebounded strongly in the 1Q as the Fed paused interest rate hikes and before President Trump threatened trade tariffs on *both* China and Mexico.

According to the latest Fed *"Flow of Funds"* report last week, in the 1Q wealth of households and non-profit groups increased by **$4.69 trillion**, or a 4.5% annual rate, to **$108.6 trillion**. The Fed said it was the largest quarterly increase in household wealth since records have been kept.

The increase in household wealth was once again attributed largely to the rise in the stock markets in the 1Q. In the chart below on the far right, you can see the 4Q decline and the 1Q rebound in household wealth.

Fed: Net Worth of Households & Nonprofit Organizations



Source: Federal Bank of St. Louis

Here are some highlights from the Fed's report on the rise in household wealth:

* Wealth rebounded in the 1Q along with US stocks, which rallied by the most in a quarter since 2009. The increase was fueled by the Fed signaling it would hold off on raising interest rates further and signs the trade war was cooling. Of course, President Trump has since reignited trade tensions, now threatening trade tariffs on not only China but also Mexico.

* The value of equities directly and indirectly held by households and nonprofit groups increased $3.23 trillion in the 1Q from the prior quarter, while the value of real estate rose by $387 billion.

* Corporate debt growth soared by 7.6% in the 1Q, the fastest pace in three years and more than double the prior quarter. Fed Chair Jerome Powell said last month: ***"We take the risks from business debt seriously but think that the financial system appears strong enough to handle potential losses."***

* Non-mortgage consumer credit increased at a 4.3% pace in the 1Q, slower than the prior two quarters but still signaling Americans are willing to borrow as interest rates remain relatively low.

* Federal government debt rose at an 8.6% annual rate in the 1Q, the second-fastest of Trump's tenure, after 2.5% in the previous quarter. State and local government debt saw a fifth-straight contraction, falling 0.8%.

The bottom line is, household wealth on average rose at the fastest rate since records have been kept in the 1Q to a record **$108.6 trillion**, buoyed by the stock market which also rallied to record highs in the first three months of this year. But here's something very interesting…

84% of US Stocks Are Owned by the Wealthiest 10%

As we can see in the chart above, household wealth has been rising for a very long time. Not only that, the rate of increase in household wealth has been accelerating more and more rapidly since the mid-1970s. The only significant decline occurred during the Great Recession of late-2007 to early 2009 – when the stock market declined over 50%.

For as long as I have been in the investment business (over 30 years), the pundits largely attribute increases in household wealth to a rising stock market. And that's a big part of it for sure. But here's an interesting fact: Most American households own no stocks at all.

That's right: A whopping **84%** of all stocks owned by Americans belong to the **wealthiest 10%** of households according to a recent study by New York University. And that includes everyone's stakes in pension plans, 401(k)'s and individual retirement accounts, as well as trust funds, mutual funds and college savings programs like 529 plans. Let that sink in.

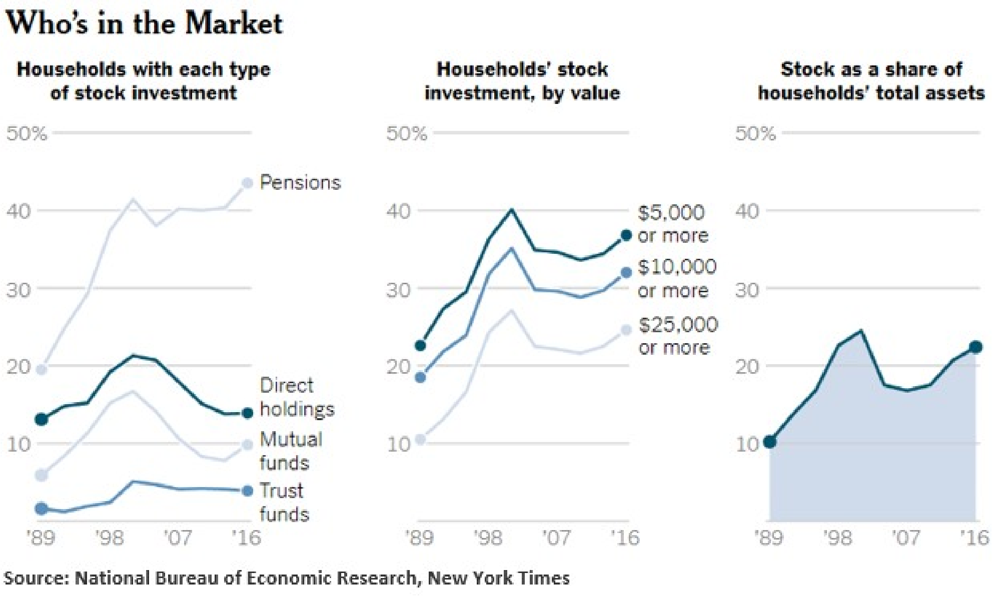
Over 50% of American Households Own No Stocks at All

Both Republicans and Democrats have promoted the idea that a rising stock market broadly lifts Americans' fortunes. Yet for the vast majority of Americans, fluctuations in the stock market have **relatively little or no effect** on their wealth, or well-being, for that matter.

That's because over **50%** of American households own **no stocks at all**, according to data from the Fed and other sources.

There was a serious move to increase stock ownership more broadly in the 1980s and 1990s, with the advent of individual retirement accounts, but the stock market busts of 2001 and 2007-09 scared off many middle-class investors who have never returned.

As a result, the day-to-day impact of stock market gyrations on most people's overall wealth is minimal. As noted above, roughly half of all US households don't have a cent invested in stocks. Even among those that do invest in stocks, the average household had less than $5,000 invested based on a study in 2016. For many families, it is far less.



This chart is a little dated, but you get the picture: most Americans are not invested in stocks.

And if you break it down by age, race, education and parental education, you'll see the disparities are even larger.

For example, parents who lack a four-year college degree are much less likely to own stocks; and later on, their children are much less likely to have a direct stake in the stock market than college graduates. Unfortunately, blacks and Hispanics are much less likely to own stocks than are whites.

The bottom line is, the rise in stock prices has little to no effect on household wealth for over 50% of American households. So, what can explain the increase in household wealth for those families that own no stocks? **It's the rise in the values of their homes** (for those who own their homes). Home prices have risen significantly for decades. I wish the pundits would point this out when they attribute rising household wealth to the stock markets.

Best regards,
Gary D. Halbert