

Unemployment rates & Consumer Debt

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Some Background Information

- ▶ Common knowledge that interest rates effect consumer debt
 - ▶ Low interest rates stimulate debt
 - ▶ High interest rates discourage borrowing
- ▶ Economy after 2007-2008 financial crisis doesn't follow this pattern
- ▶ Possible effect of unemployment rates?

What's Been Written?

- ▶ Understudied topic, search resulted in few leads
- ▶ Recent interest to study debt has spiked
 - ▶ Many only describe the decrease in debt



What's Been Written?

- ▶ Few articles analyze specific debt measures and unemployment
 - ▶ Unsecured household debt (credit card debt)
 - ▶ Home Equity Lines of Credit (HELOC)
- ▶ Is this enough.....



Hypothesis at Hand

- ▶ H_0 : Unemployment rates and interest rates influence consumer debt with the same magnitude.
- ▶ H_A : Unemployment rates exhibit a higher association with consumer debt than interest rates.

The Methodology

Variables

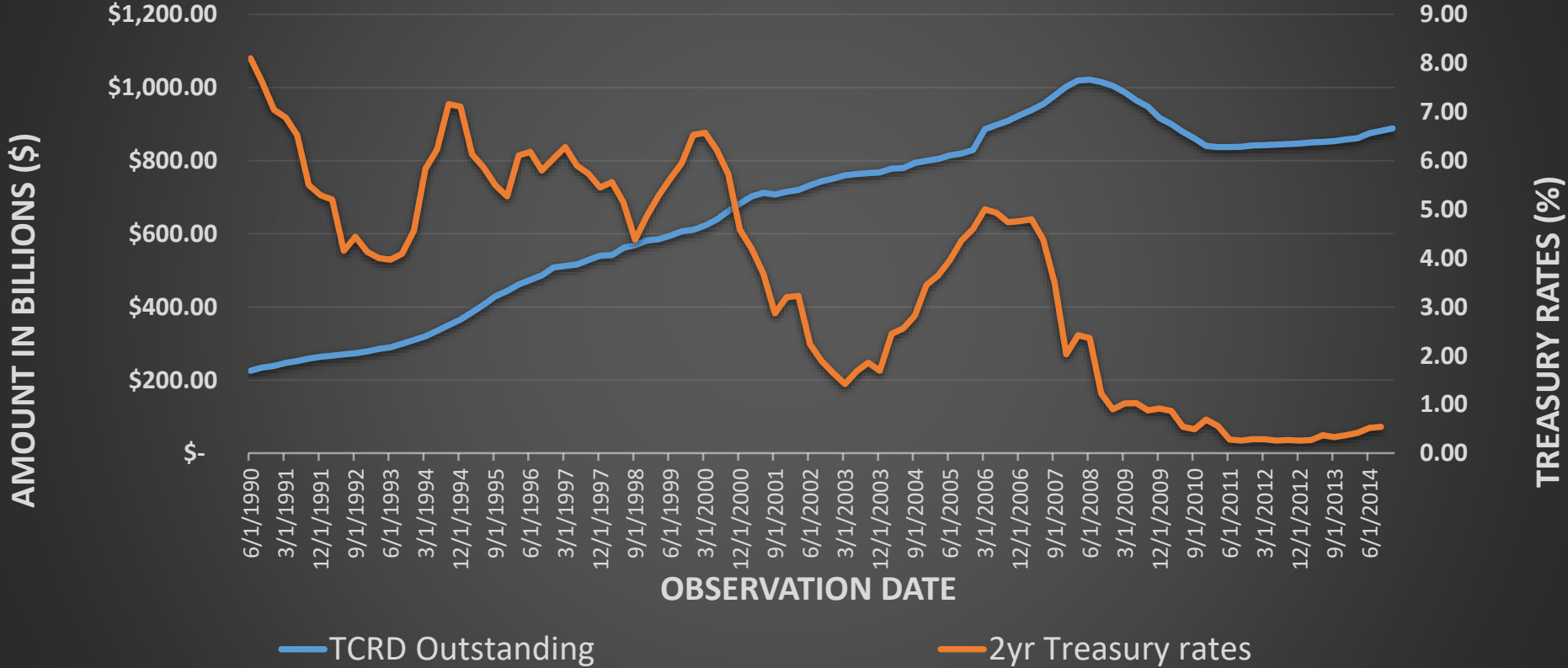
- ▶ 2yr Treasury bonds
- ▶ Unemployment rates
- ▶ Charge-off rates
- ▶ Calculated trend

Debt Measurements

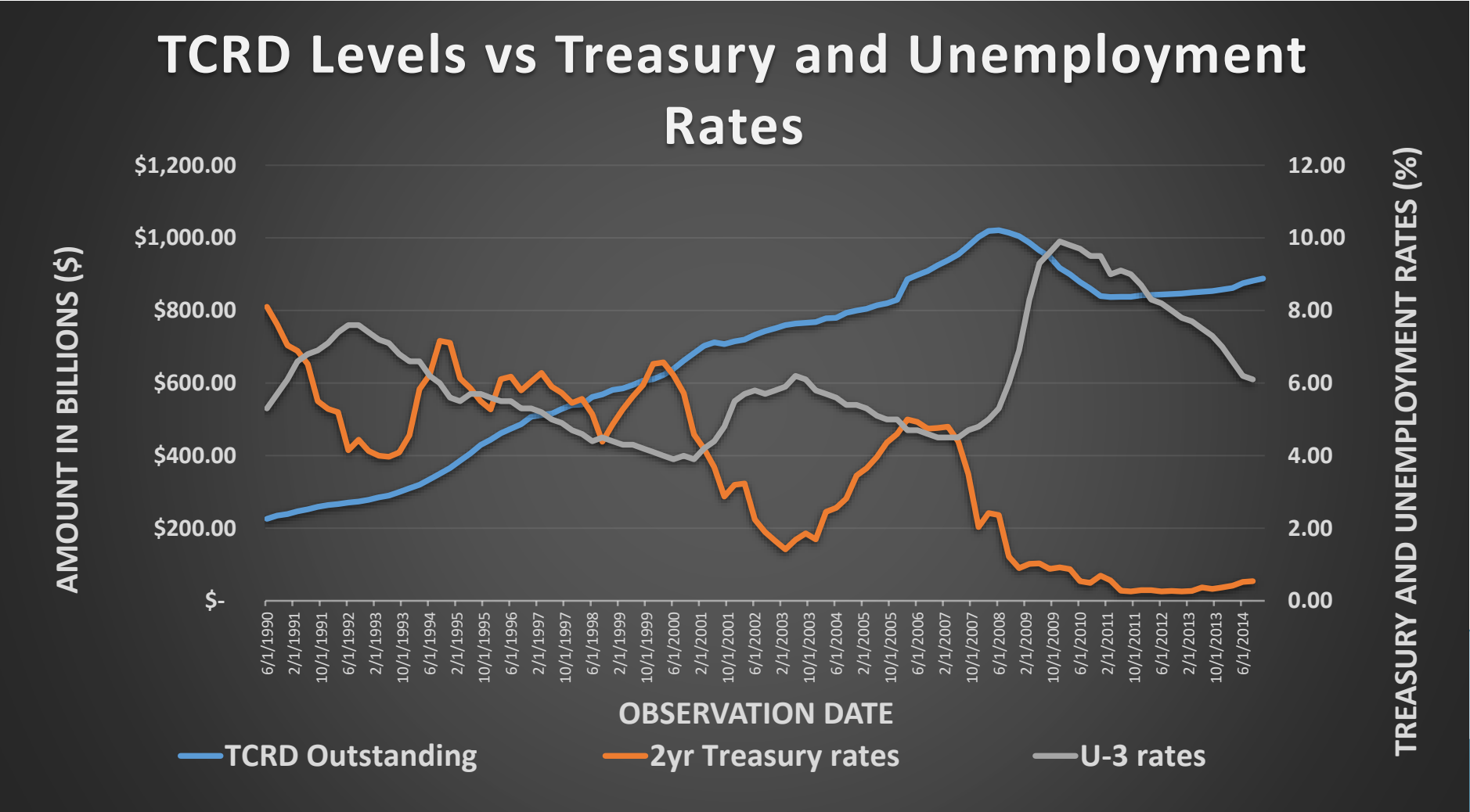
- ▶ Total Consumer Debt (TCD)
- ▶ Total Consumer Revolving Debt (TCRD)
- ▶ Total Credit Card Debt (TCCD)
- ▶ Total Mortgage Debt (TMD)
- ▶ Total Non-credit Card Debt (TNCD)

Preliminary Findings

TCRD Levels vs 2yr Treasury Rates

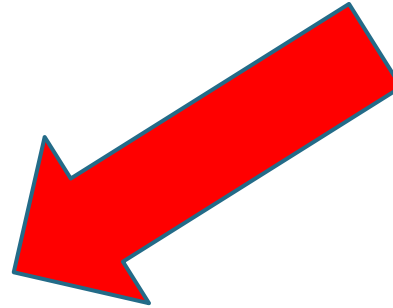


Preliminary Findings



Results

Regression Statistics	
Multiple R	0.983
R Square	0.967



	Coefficients	Standard Error	t Stat	P-value
Intercept	509.691	52.183	9.652	1.112E-15
Interest Rates	-9.346	4.990	-1.873	6.422E-02
Unemployment Rate	-58.460	4.309	-13.568	9.012E-24
Charge-off Rates (consumer debt)	68.932	5.268	13.084	8.375E-23
Trend	7.268	0.340	21.354	1.260E-37

Conclusion

- ▶ Higher association between unemployment rates and revolving debt than interest rates
- ▶ Doesn't prove causality but it's a helpful start!

References

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Questions and Answers

Thank you!