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Grace Broadbent

Why Gen Z's credit card activity is raising red flags

Article

The news: Gen Zers are racking up credit card debt faster than older generations, per Credit Karma data.

- **Gen Z's average credit card balance increased 3.2%** from Q1 to Q2 2024.
- Comparatively, millennials' credit card balances grew by 2.4%, and Gen Xers' grew by 2%. Baby boomers' grew by 1.6%.

Why this matters: Concerns about credit card debt are not unique to Gen Z. US **credit card debt topped a record $1.17 trillion** in Q3 2024. And delinquency rates remain elevated: The 30-day delinquency rate fell from 9.1% in Q2 to 8.8% in Q3 2024, per the Federal Reserve—far above prepandemic levels.

But what sets Gen Z apart and raises red flags is the fact that they already have more credit card debt than previous generations did at their age.

- **The average credit card balance for consumers ages 22-24 was $2,834** in Q4 2023, compared with an inflation-adjusted $2,248 in 2013, per TransUnion.

And many face worsening credit scores as a result of this credit behavior.

- **The average Gen Z credit score dropped from 671 in Q1 2024 to 659 in Q2**, per Credit Karma.
- And between March 2022 and February 2024, the share of Credit Karma's Gen Z users with subprime credit (below 600) jumped up 8 points to 33%. The share of millennials with subprime credit increased by 6 points.

Why this is happening: Part of these debt trends have to do with where Gen Zers are at in their financial lives.

- They've had fewer earning years and therefore also likely have less money saved.
- Many are also prioritizing fun (like spending on travel and entertainment) over financial discipline.

Loosened credit limits during the pandemic also made it easier for young consumers to open up lines of credit who may not have been approved otherwise. And stubbornly high interest rates are making the balances they've racked up harder to pay down.

Should issuers be concerned? Only a segment of Gen Z should be cause for concern.

- The majority of the generation is adequately managing their credit card debt: **Almost 85% of adults ages 18 to 29 utilize less than 90% of their limits**, per the Federal Reserve.
- And for the other 15%, lower credit limits keep them from spiraling too far. The median credit limit for this age group was only $4,500.

Our take: While most Gen Zers are on relatively stable ground in terms of their credit card debt right now, developing a reliance on credit cards so early in their financial lives could create problems for Gen Zers.

Issuers need to monitor their debt levels and unpack why certain demographic groups have higher balances to inform better underwriting decisions moving forward.

Dig deeper: *To learn more about Gen Z's credit card use and their other payment habits, read our Gen Z Consumer Payment Habits 2024 report.*

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