FEB 21
Adriana Nunez

Credit card debt climbs to nearly $1 trillion as consumers contend with economic headwinds

Article

The news: US credit card debt reached nearly $1 trillion in the fourth quarter, according to data from the New York Federal Reserve. Debt grew by $61 billion from the prior quarter—

the biggest jump since 1999—and by a record $130 billion annually.

What fueled the jump in debt?

- **Inflation.** Higher prices at checkout meant consumers spent more on a dollar-for-dollar basis. While inflation began to cool by late 2022, prices in December still increased 6.5% year over year, per the Consumer Price Index.
- **Higher interest rates.** The Federal Reserve's aggressive interest rate hikes made carrying a balance more expensive for cardholders. The average APR for all credit card accounts was 19.07% in Q4, compared with 14.51% the same quarter a year ago, per Fed data.
- **Revolving balances.** Consumers have also been carrying balances longer—which may be a sign of financial strain. **Sixty percent of US respondents with credit card debt have carried it for more than a year**—up from 50% a year ago, according to an October CreditCards.com survey. Last year, consumers could not rely on government stimulus to pay down debt like many did in 2020 and 2021.
- **Seasonality.** Holiday shopping likely also played a role, with many consumers likely leaning on credit cards to fund their gift purchases. **US holiday sales hit $1.297 trillion**, according to our Retail & Ecommerce Holiday Season Sales forecast.

Why it matters: Card issuers are tracking increases in delinquency rates.

- The percentage of **Discover's** loans that were delinquent 30 or more days reached 2.67% in January, compared with 1.75% a year ago, per a Securities and Exchange Commission (SEC) filing.
- The bank's net principal charge-off rate was 2.81% last month, up from 1.76% a year earlier.
- **Bank of America** and **JPMorgan Chase** reported similar increases.

But many issuers have already started preparing for the worst—**American Express** and **Capital One**, for example, have set aside reserves in case consumers can't pay back their loans.

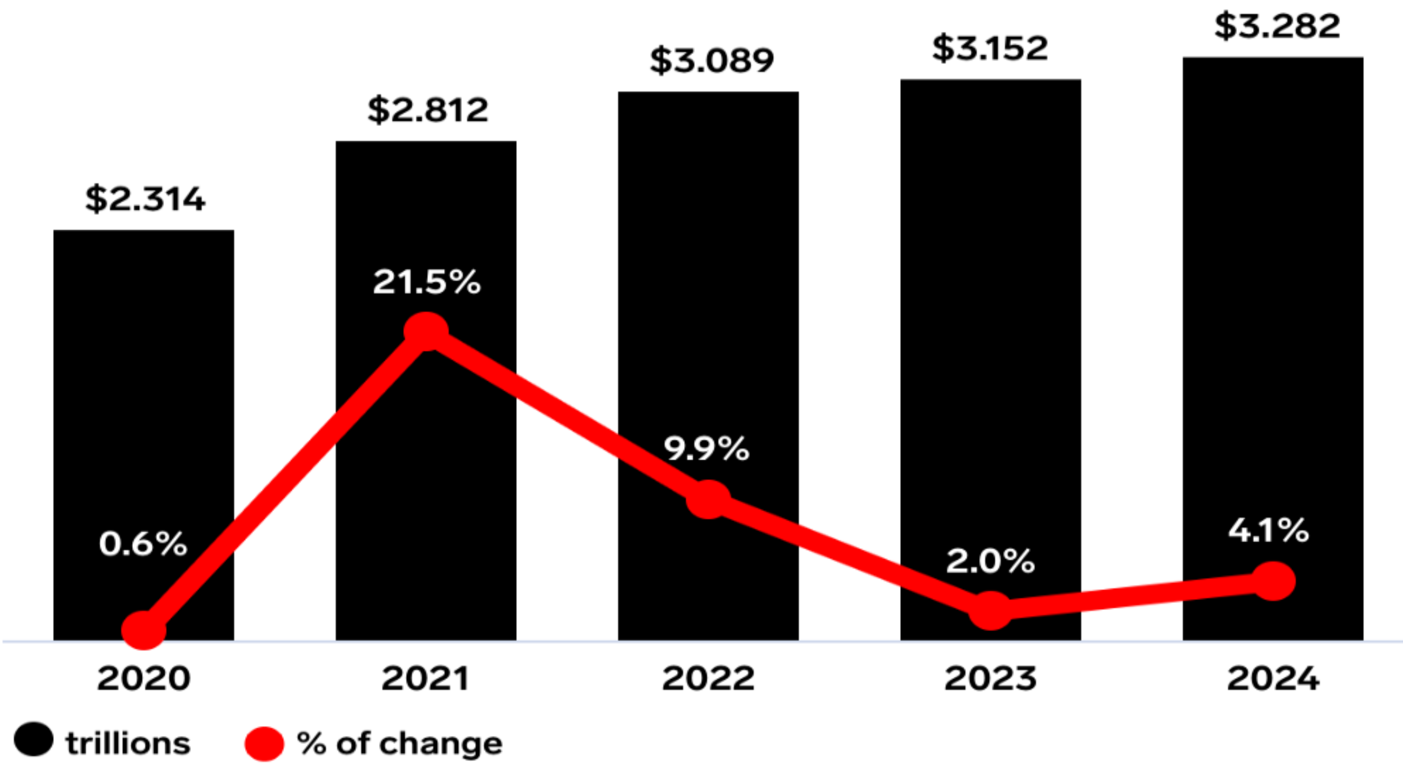
The bottom line: While the increase in debt on its own isn't a sign of immediate concern, the rise in delinquencies and charge-offs could be an early sign that some consumers are feeling financially strained. However, delinquencies and charge-off rates still haven't exceeded pre-pandemic levels.

Issuers should keep an eye on how these two metrics progress to understand how consumers are faring. They should also maintain tighter lending standards and keep reserves to preserve their bottom lines in the long term.

Related content: *Check out [The Era of Uncertainty: Credit Cards](#) report to learn about the short- and long-term challenges affecting the general-purpose credit card sector.*

Total Credit Card Transaction Value

US, 2020-2024



Note: includes point-of-sale (POS) transactions made in-store and over the internet using credit cards; includes food services and drinking places sales; includes sales tax; excludes travel and event tickets, payments (such as bill pay, taxes, or money transfers), mail orders, gambling, and other vice goods sales; includes desktop/laptop, mobile and tablet purchases
Source: eMarketer, August 2022

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