MAY 16
Grace Broadbent

Credit card debt shows limits of consumer resilience

Article

The news: **US household credit card debt totaled $986 billion in Q1 2023**, unchanged from Q4 2022 but a $145 billion increase year over year (YoY), per the Federal Reserve Bank of New York's Quarterly Report on Household Debt and Credit.

Consumers' **serious delinquency rate (90 days or more) reached 4.57%**, up from 3.04% the year before.

How we got here: Credit card debt is stuck at a record high.

- After paying off record amounts of debt early in the pandemic, consumers backslid as inflation strained budgets. While April's 4.9% consumer price index reading is a dramatic improvement from the nearly 9% peak in June 2022, it's still well above the Federal Reserve's 2% target.
- And the **average interest rate for credit cards is near 21%**—the highest rate since the Fed began tracking this figure three decades ago—making it more expensive for consumers to pay off their debt.
- This was the first quarter in at least 20 years that the credit card balance didn't go down after holiday spending.

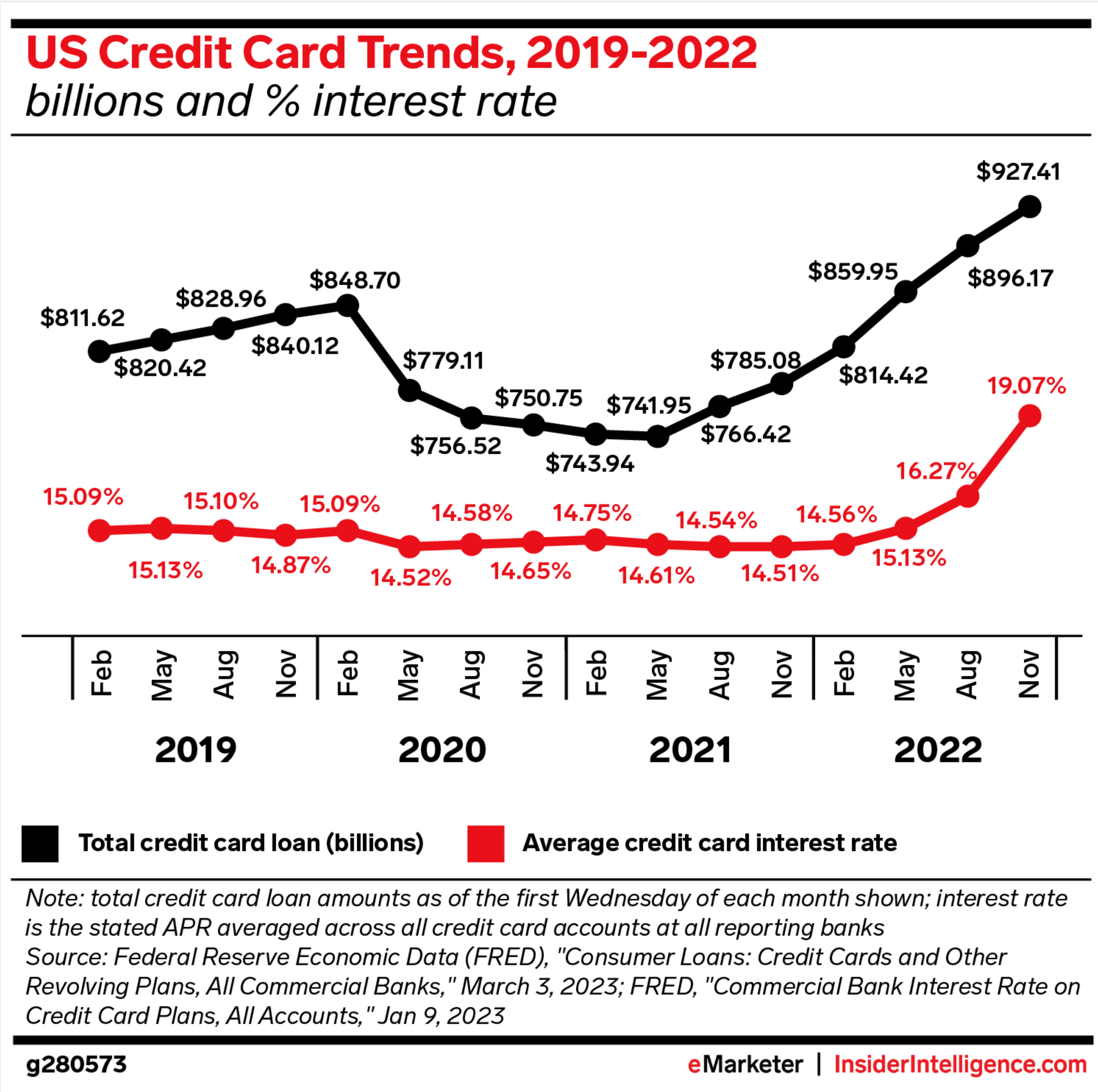
The consequences: Thirty-one percent of the US population faced a form of credit insecurity in the past twelve months, per a study from PYMNTS and **Sezzle**. And even credit-secure consumers are at risk: **57% of credit-secure consumers experienced a life event that hurt their finances in the past year**, resulting in things like missed payments and lowered credit scores.

And this has shown up in earnings reports:

- **Capital One's** 30+ day performing delinquency rate was 3.7% in Q1, up from 2.4% the year prior. This is slightly lower than the pre-pandemic 3.88% rate from February 2020.
- **Discover's 30-day delinquency rate** for its credit card loans was 2.8%, up from 1.8% last year. That's higher than the 2.64% from February 2020.

What's next? Consumers, especially higher spenders, may seek credit card alternatives to avoid racking up more credit card debt.

They could turn to buy now, pay later (BNPL) plans to seek short-term funding for lower or no interest. Personal loans from platforms like **SoFi** may also attract users as a way to consolidate credit card debt and pay it down at less expensive rates.



Digging deeper: *Check out our Credit Card Trends to Watch for 2023 report for more on how issuers and networks are tackling inflation.*

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