



# Understanding Consumer Debt in a Two-Speed Economy

**Stephanie McElheny, CFP®, EA, CMSA®, CHSNC™, PFPS™, CFC™ | President of Financial Planning & Wealth Advisor**

April 28, 2025

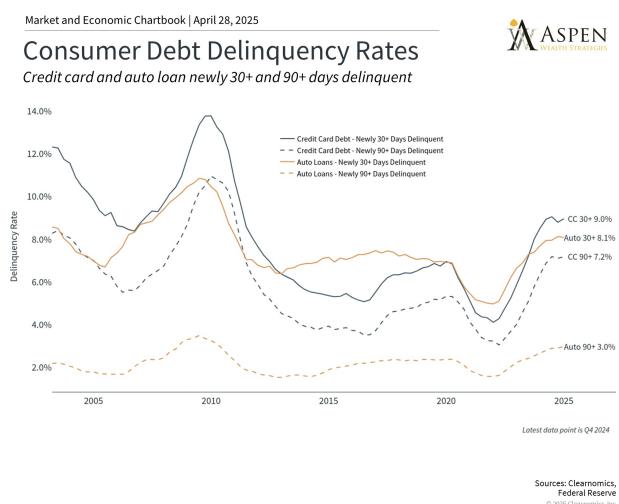
The financial health of consumers is an important indicator of the broader economy. Consumer spending represents about 70% of all spending across the economy, and steady purchases are one reason economic growth has exceeded expectations over the past few years. However, recent consumer weakness is a concern among investors worried about a possible recession.

Recent headlines paint a picture of rising debt levels and late payments amid worries of inflation and slowing growth. At the same time, other economic data shows strong consumer balance sheets, record-high household net worth, and manageable monthly payments. This apparent contradiction has left many investors wondering which narrative to believe, and whether cracks are forming beneath the surface.

The answer lies in understanding what economists sometimes call a “two-speed economy,” where financial situations vary across consumer segments based on income, wealth levels, credit scores, and more.

While the financial challenges to large parts of the country should not be taken lightly, it’s important to separate what affects individuals and households from what impacts the stock market and portfolios. Consumer health indicators should be viewed as part of a more comprehensive picture that includes savings rates, debt service ratios, and overall net worth. This broader view helps explain why financial markets have remained relatively resilient despite these challenges.

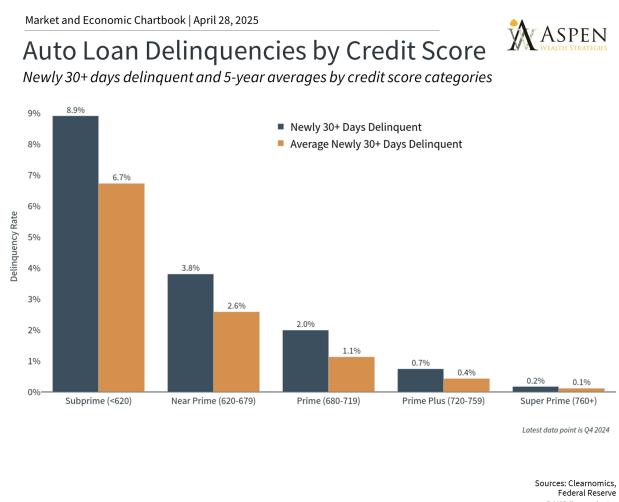
## Late payments are on the rise



since it captures consumers who have recently begun struggling with payments. The fact that 90+ delinquencies for credit card loans have increased suggests that some consumers face ongoing financial difficulties.

Auto loan delinquencies are particularly telling because consumers tend to prioritize the repayment of these debts, even during periods of financial difficulty. This is because having a car is essential for commuting to work and maintaining daily activities. This was especially true during the housing bubble when many mortgages were “underwater” - i.e., homeowners owed more on their mortgages than their homes were worth.

## Delinquencies vary significantly by credit quality



the difference in delinquency rates between subprime and prime borrowers is significant both in absolute terms and relative to their historical averages. Other data suggest the same pattern can

One of the most closely watched indicators of consumer stress is the delinquency rate on various types of loans. Delinquencies occur when a consumer is late on their debt payments, which can occur for many reasons. Over the past two years, credit card and auto loan delinquencies have increased significantly, as shown in the accompanying chart.

Delinquencies are typically tracked in stages based on the number of days a payment is past due. A loan enters early-stage delinquency when payment is 30 days late, with severity increasing at 60 and 90+ days. The transition to new delinquencies is particularly important

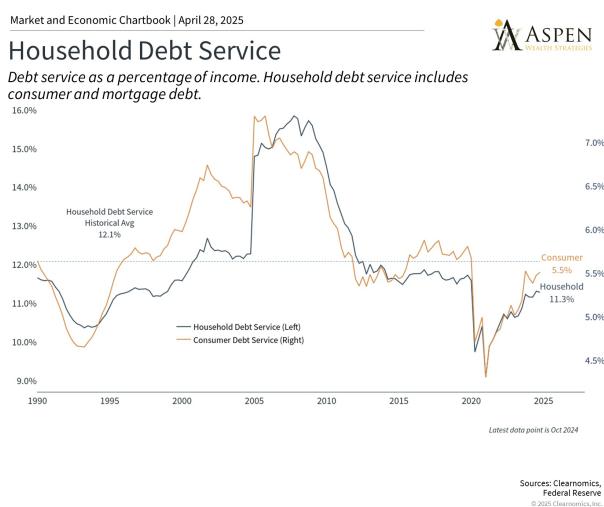
What explains rising delinquencies and the divergence among types of loans? Recent data shows that these factors are driven primarily by varying credit quality. Credit quality is typically categorized along a spectrum, from subprime (borrowers with weaker credit histories) to prime (those with stronger credit profiles). Prime borrowers generally present lower default risk to lenders, while subprime loans often command higher interest rates due to a lower likelihood of being repaid in full.

Recent figures suggest that the overall rise in auto loan delinquencies is concentrated heavily among borrowers with lower credit scores. As the accompanying chart shows,

be found in credit card delinquency rates.

This pattern also explains why major banks have not signaled broader concerns about the financial health of consumers. During recent earnings calls, bank executives noted the continued resilience of their consumer portfolios. This is true despite tariff fears, poor consumer confidence, heightened inflation concerns, and other worries.

## Overall debt service levels remain manageable



of their paychecks, although this remains below the historical average. Household net worth remains near record levels despite the market and economic uncertainty of the past few years. Together, these factors provide a strong foundation for the financial health of many consumers.

It's important to acknowledge that these aggregate statistics can mask significant variation across demographic and economic groups. The challenges faced by subprime borrowers in this "two-speed economy" are a real and concerning development. However, from a macroeconomic and market perspective, the broader indicators of consumer finances remain healthy.

What does this mean for investors? While tariffs and market volatility have led to heightened inflation and recession concerns, overall consumer trends are still strong. This is positive for investors with portfolios that can withstand short-term market swings as markets stabilize from economic and policy uncertainty.

**The bottom line? The two-speed economy explains why the overall consumer picture looks resilient despite pockets of financial stress. For investors, it's important to focus on the longer-term trends to stay invested and achieve financial goals.**

The reality is that debt levels tend to rise over time as the economy grows. To properly assess consumer financial health, it's important to consider debt levels in relation to income and savings. For instance, the ratio of consumer debt payments to household income currently stands at 5.5%. While this figure is moving toward its long-term average, it remains low by historical standards. This suggests that the average consumer is still in a healthy position when it comes to managing their monthly payments.

Similarly, household savings rates have stabilized in recent months, with Americans now saving approximately 4.6%

Aspen Wealth Strategies, LLC ("Aspen") is a registered investment advisor. Advisory services are only offered to clients or prospective clients where Aspen and its representatives are properly licensed or exempt from licensure.

The information provided is for educational and informational purposes only and does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your attorney or tax advisor.

The views expressed in this commentary are subject to change based on market and other conditions. These documents may contain certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected. Any projections, market outlooks, or estimates are based upon certain assumptions and should not be construed as indicative of actual events that will occur.

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

Copyright (c) 2025 Clearnomics, Inc. All rights reserved. The information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness, or correctness of the information and opinions contained herein. The views and the other information provided are subject to change without notice. All reports posted on or via [www.clearnomics.com](http://www.clearnomics.com) or any affiliated websites, applications, or services are issued without regard to the specific investment objectives, financial situation, or particular needs of any specific recipient and are not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Past performance is not necessarily a guide to future results. Company fundamentals and earnings may be mentioned occasionally, but should not be construed as a recommendation to buy, sell, or hold the company's stock. Predictions, forecasts, and estimates for any and all markets should not be construed as recommendations to buy, sell, or hold any security--including mutual funds, futures contracts, and exchange traded funds, or any similar instruments. The text, images, and other materials contained or displayed in this report are proprietary to Clearnomics, Inc. and constitute valuable intellectual property. All unauthorized reproduction or other use of material from Clearnomics, Inc. shall be deemed willful infringement(s) of this copyright and other proprietary and intellectual property rights, including but not limited to, rights of privacy. Clearnomics, Inc. expressly reserves all rights in connection with its intellectual property, including without limitation the right to block the transfer of its products and services and/or to track usage thereof, through electronic tracking technology, and all other lawful means, now known or hereafter devised. Clearnomics, Inc. reserves the right, without further notice, to pursue to the fullest extent allowed by the law any and all criminal and civil remedies for the violation of its rights.

