# America's Response to the Housing Collapse and the Great Recession of 2007/ 08

**Professor John Gawryk MS.**

**Megan Ringwelski**

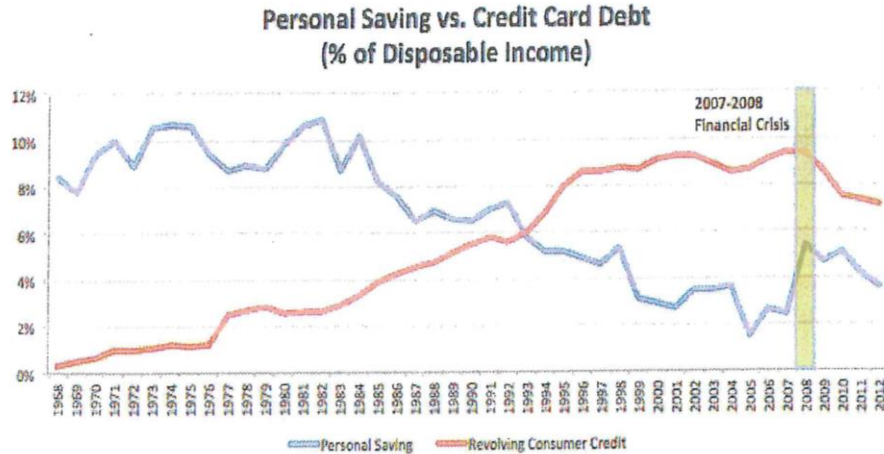
Central Michigan University
Department of Finance
1200 S. Franklin St, Mt Pleasant, MI 48859, USA

After the 2007- 08 recession, Americans have undergone several financial ups and downs, but where do they stand today? Following the crash in the housing market and stock market, families have adjusted and made lifestyle changes some for the better others which could have long term effects on the U.S. economy. Today Americans are saving more of their disposable income while decreasing household credit card debt.

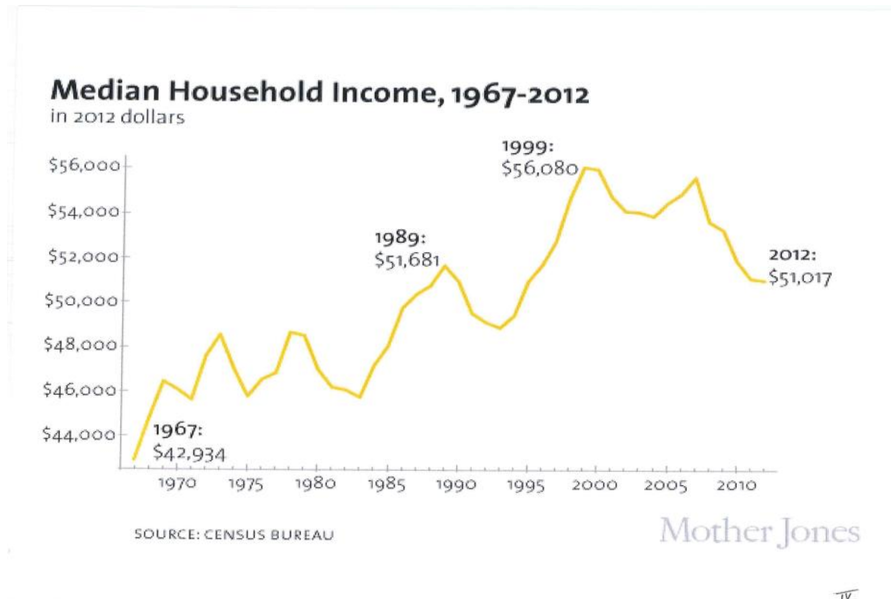
Two areas in the United States that are currently contracting is the housing market and birth rates. These two outcomes could impact the United States economy in several ways and could negatively impact it for years to come. In order to fully understand the housing crash and the recession that followed, it's important to fully understand the reasoning that caused such distress. To understand the crash of 2007-08 one needs to go back to 1971 and the Death of Brenton Woods (the end of the gold standard in the United States). The United States abandoned the gold standard taking away the financial restraints that once governed our banking system.

The price of housing in the U.S. was on the rise in 2000 due to banks lowering interest rates and reserve rates. In order to keep the housing market alive and money flowing into the economy banks began to offer consumers sub-par loans, interest only loans, and loans given to consumers without requiring proof of income. In other words, were loans given to households that require them to only pay interest every year for a set period of time rather than a traditional fixed rate amortized loan. This created two issues, the banks made a number of bad loans and people were buying homes they realistically could not afford. As interests rates grew, Americans found it harder and harder to make the interest payments on their mortgages. There came a point in which homeowners could no longer pay the interest that they owed on their home loans, leading to numerous foreclosures across the United States. Today, America has $8.36 trillion in outstanding mortgages.

In reaction to the market crash of 2007-08, households today are saving higher amounts of disposable income than in 2007, averaging to about 8.33%. However, this average is less than half of the 17% that Americans saved back in 1970's. At the same time, credit card purchases are down as a percentage of disposable income to 7% from their high in 2008 of around 9.5%. This trend shows that the American people realize they have made mistakes in the past and how easy it was to lose almost everything they have worked for; from their job, homes, and even their life savings. Today America has $729 billion in outstanding credit card debt.

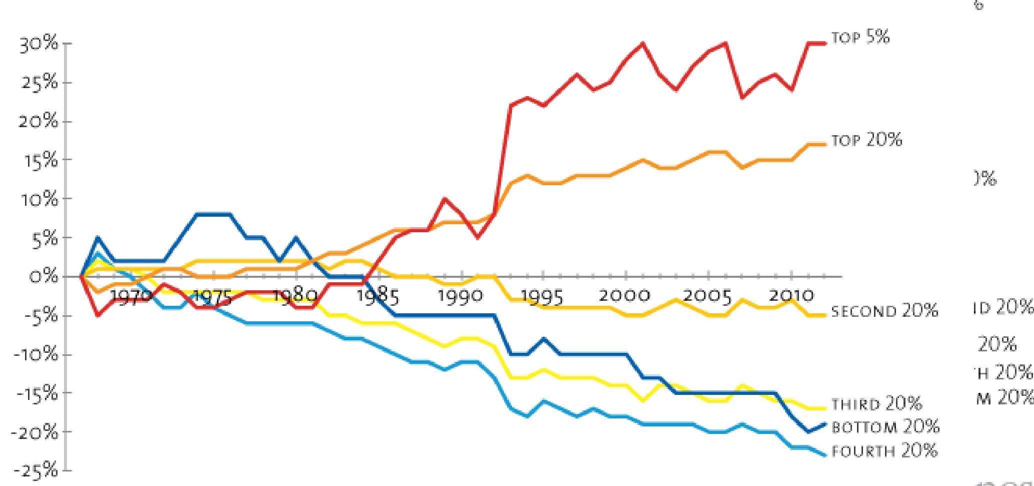



Since the crass of 2007 / 08 consumer spending in the United States is down across the board for two reasons. First the down turn in credit card spending and higher savings rates. Second, the median household income level today is below the high of 1999 income levels. The median household income in 1999 was $56,080; compared to $51,017 in 2012.




In 1989 the median household income was higher than it was in 2012. Factoring in inflation, households now are living below 1989 income levels while paying 2016 prices for goods and services. This is just one of the reasons why businesses in the United States are seeing declining sales revenues since 2007-08.

Although the decline in the median household income has been going on for some time now, the loss of real income hasn't affected all households equally. For the top 25% of earners, they saw the greatest gains in real household income since 1985. The rest of the households saw their income remain relatively flat for the past four decades. When factoring in inflation 75% of families saw their real incomes decline. (Mother Jones)




Even with the disproportion of income in the United States, Americans are saving more today than in 2007-08 and credit card debt is on the decline. The decline in household income over the years has had negative effects on households as well. Today household ownership is down to 1960's levels. Millennials (people between the ages of 20 – 36) are living at home longer than the generations before them. While grown children living at home longer has its benefits, there are also negatives impacts on the economy. Housing sales are down and without home ownership, consumption is down causing further financial distress on the economy. Millennials are also delaying marriage and having children. Millennials are waiting until they are in their mid-30 and 40's to have children. Placing both the mother and child at risk. Today there are 1.9 births per women, when America needs to be at 2.1 births per women to maintain a current population and our economy. This is relevant because the U.S. depends on a strong family unit to keep their population and economy flowing.

After the crash of 2007-08, the U.S. emerged with two economies in place. One supported by the Federal Reserve through quantitative easing with the infusion of money into such areas as finance, medical, and education. The rest of the U.S. economy has stalled.

After the 2007-08 recession, Americans were forced to adjust their spending habits to a more conservative way as well as consuming less at the same time. Household incomes have been on the decline since 1999 and the top 25 percent of household individuals saw real increases while the remaining 75% saw their real incomes decline. In 2015, 51% of federal tax returns filed with the IRS showed W2's of $30,000 or less. With a decline in household income and student loan debt (average student loan balance is $48,591) millennials are living at home longer, which is one of the reasons why we are seeing a decline in the housing market and birth rates. I believe 2017 will mark the start of more layoffs and store closings within the United States. Over next few years the U.S. will experience higher amounts of unemployment, another housing crash if interest rates begin to rise, and an increase in bankruptcies across the board. All of this will place further financial distress on the U.S. economy and households across the nation, therefore extending the recession of 2007-08 for years to come.