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Economic Watch: U.S. sees record credit card defaults, slower consumption may weigh on economic outlook

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WASHINGTON, Jan. 1 (Xinhua) -- U.S. credit card defaults have surged to their highest level since 2008, reflecting mounting financial pressure on low-income households amid persistent inflation and high interest rates, with analysts warning of further economic strain in 2025.

"Defaults on U.S. credit card loans have hit the highest level since the wake of the 2008 financial crisis ... a sign that lower-income consumers' financial health is waning after years of high inflation," the Financial Times reported.

Credit card lenders had to write off 46 billion U.S. dollars in delinquent loans during the first nine months of 2024, a whopping 50 percent surge from a year earlier and the highest since 2010, said the report, citing data analyzed by BankRegData.

Capital One Financial Corporation, a major U.S. credit card issuer, recently said that as of November 2024, its credit card loans marked as unlikely to be repaid have reached 6.1 percent, up from 5.2 percent in the same period last year.

Collectively, Americans now owe a record 1.17 trillion dollars on their credit cards with credit card balances rising by 24 billion dollars in the third quarter of 2024, 8.1 percent higher than a year ago, according to a new report on household debt from the Federal Reserve Bank of New York.

Due to years of high inflation and high interest rates, low-income consumers have been hit the hardest, and "the credit card debt bubble is popping," the Kobeissi Letter, an X account run by financial analyst Hussein Kobeissi, reported.

Mark Zandi, chief economist of Moody's Analytics, also noted the impact of credit card defaults on low-income groups. "High-income households are fine, but the bottom third of U.S. consumers are tapped out," he told the Financial Times. "Their savings rate right now is zero."

Credit card spending is expected to increase this holiday season. In a recent article, Forbes noted that in 2024, U.S. consumers will rely more on credit cards to pay for Christmas and other holiday expenses, primarily because inflation pressures are forcing U.S. households to take on more debt.

With credit card spending going up, experts believe default rates could further rise. "I think the default rate will continue to rise during the next six months. By the second half of 2025 ... consumer spending will be cut back as financial distress spreads among low-income households," Gary Clyde Hufbauer, a nonresident senior fellow at the Peterson Institute for International Economics, told Xinhua. The rising credit card default reflects the worsening economic situation of low-income consumers with some institutions forecasting that the growth momentum of U.S. consumption may weaken.

Ernst & Young, a major accounting firm, foresaw a gradually cooling consumer spending growth from 2.7 percent in 2024 to 2.2 percent in 2025 as slower employment growth weighs on income trends and prices and rates remain generally elevated.

"December's holiday shopping season was probably the last 'hurrah' before consumers pull back in early 2025," **Bernard Baumohl**, chief global economist at The Economic Outlook Group, told Xinhua, adding that the economy will "face some domestic headwinds in the New Year."

"High-income households are fine. It's the bottom third of households that are experiencing financial hardships, having little if anything left in their savings," **Baumohl** said.

"My guess is that the economy will slow in the second half of 2025," said Hufbauer when asked how the 14-year high in credit card debt will impact the economy in 2025.

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