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Credit card debt and consumption: evidence from household-level data

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Abstract

This research uses household-level data to examine the relationship between credit card debt and consumption. The study finds that credit card debt is positively related to consumption, and that the relationship is stronger for households with higher income and higher credit card usage. The study also finds that credit card debt is more likely to be used for discretionary spending, such as entertainment and dining out, rather than for essential needs. The study concludes that credit card debt is a significant component of household consumption, and that it is important to understand the relationship between credit card debt and consumption in order to better understand household financial behavior.

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Notes

¹ The average credit card balance among revolvers was \$5100 according to the 2004 SCF and \$9205 according to Bankrate.com

² See Dunn et al. ([2006](#)) for sample characteristics. The SCF has been widely used in this literature, but the SCF appears only once in 3 years and is thus not suitable for this research.

³ The Federal Reserve has recently undertaken revisions to the DSR to make the process used in its calculation more in line with recent changes in financial markets and consumer behaviour, and a Financial Obligations Ratio has been developed (Dyner et al., [2003](#); Johnson, [2005](#)).

⁴ A detailed comparison is available from the authors upon request.

⁵ The omitted month is April 2002.

⁶ It is conventional to use the variables in W in order to control for changes in household preferences. See Lusardi ([1996](#)) and Souleles ([2004](#)).

⁷ The results in this step conform to the previous literature. The results are available from the authors upon request.

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¹⁴ Sample selection was done in accordance with the conventions set in the previous literature that has used CEX data.

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