Shrinking home equity inhibits spending

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WASHINGTON — Falling home prices have shrunk the equity Americans have in their homes to nearly the lowest percentage since World War II.

Average home equity plunged from more than 61 percent at the start of 2001 to 38 percent in the January-March quarter this year, the Federal Reserve said in a report Thursday. That drop comes as home prices in big metro areas have reached their lowest level since 2002.

The Fed's quarterly report shows how much wealth, or net worth, Americans have gained or lost. Net worth is the value of assets such as homes and stocks, minus debts like mortgages and credit cards.

Americans' overall net worth grew 1.65 percent in the January-March period, to $58.06 trillion, because of stock market gains. Stock values as measured by the Dow Jones U.S. Total Stock Market Index gained $970 billion last quarter. But since then, they've lost $651 billion.

Average household wealth rose to $517,614 last quarter. It's risen nearly 19 percent from its early-2009 bottom. But it's still about 11.5 percent below its peak in mid-2007.

Normally, greater wealth would spark consumer spending. But their shrunken home equity is making many people reluctant to spend freely. That's holding back growth, because consumer spending accounts for 70 percent of the economy.